

## EMERGING ECONOMIES

THIS ISSUE WAS COMPLETED ON 27 FEBRUARY 2026 AND DOES NOT TAKE INTO ACCOUNT THE IMPACT OF THE MILITARY ATTACKS THAT HAVE TAKEN PLACE SINCE THEN IN THE MIDDLE EAST.

“ EMERGING COUNTRIES WITH STRATEGIC RESOURCES, SUCH AS CRITICAL METALS AND SEMICONDUCTOR PRODUCTION CAPACITIES, HAVE BECOME KEY PLAYERS IN THE RISE OF ARTIFICIAL INTELLIGENCE. THOSE THAT ARE WELL POSITIONED IN AI SUPPLY CHAINS HAVE BOTH A GROWTH ENGINE AND A MAJOR GEOPOLITICAL ADVANTAGE. ”

ECONOMIC RESEARCH



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# TABLE OF CONTENTS

2

## EDITORIAL

**3** The rise of artificial intelligence: strategic opportunities for emerging countries

## THEMATIC REPORT

**6** Emerging countries: artificial intelligence and electricity

## REGIONAL OUTLOOK

**8** Economic outlooks

## KEY INDICATORS

**10** Key indicators of emerging countries

## CHINA

**11** Innovation and AI driving economic development

## INDIA

**13** Robust growth, but AI poses challenges for employment

## MALAYSIA

**15** Strong growth, high exposure to the semi-conductor sector

## HUNGARY

**17** Good growth prospects despite the electoral uncertainty

## POLAND

**19** The region's powerhouse

## TÜRKIYE

**21** Slightly less unbalanced growth

## ARGENTINA

**23** Looking for renewed momentum

## BRAZIL

**25** Caught between two currents

## CHILE

**27** Political transition and structural challenges in the mining sector

## MEXICO

**29** Waiting for the USMCA

## SAUDI ARABIA

**31** Staying the course on diversification despite twin deficits

## SOUTH AFRICA

**33** Resilience in the face of US tariffs



## THE RISE OF ARTIFICIAL INTELLIGENCE: STRATEGIC OPPORTUNITIES FOR EMERGING COUNTRIES

Emerging countries with strategic resources, such as critical metals and semiconductor production capacities, have become key players in the rise of artificial intelligence (AI). Those that are well positioned in AI supply chains have both a growth engine and a major geopolitical advantage. Asia's industrialised economies, which account for over 85% of the world's exports of electronic chips, are best placed to benefit from the increasing demand for AI. However, this advantage also exposes them to a potential correction in the technology boom. Latin American countries that extract minerals critical to AI have strategic leverage, but they will need to forge partnerships and attract foreign investment to strengthen their position in supply chains. Regardless of whether they supply minerals or chips, these countries are all exposed to the risks associated with the concentration of the main AI players amid heightened geopolitical tensions. Finally, Central Europe is relying on a skilled workforce and ambitious plans to leverage AI for economic development.

### EMERGING COUNTRIES AND AI: VARIED POSITIONS

Emerging countries' positions regarding AI vary greatly, whether in terms of their ability to innovate, finance and adopt technologies; their exposure to AI's impact on productivity and employment; or their position within supply chains. In 2026, as in 2025, these supply chains will serve as the primary channel for transmitting the effects of the AI boom to emerging economies. In fact, in 2025, the sharp increase in technology investments, particularly in AI, fuelled global demand for electronic products and other goods associated with AI development. This has significantly bolstered exports and economic growth in countries that produce critical raw materials and, above all, high value-added manufactured goods. This is an important factor explaining the strong average growth performance of emerging economies in 2025 (estimated at 4.3%, stable compared to 2024).

Currently, the impact of AI expansion on the growth of emerging economies (excluding China) therefore primarily occurs through the spillover effects of investment in physical AI infrastructure. Although AI is expected to be adopted more quickly than previous innovations, its impact on productivity will only become evident after a period of diffusion of the new technology, contingent upon investments in both physical and human capital that facilitate its adoption (equipment upgrades, reorganisation of production processes, training, etc.).

Among emerging economies, the most developed Asian countries, China, the Baltic states and Central European countries are best positioned to deploy and use AI, according to the IMF's AI Preparedness Index (AIPI). Following them are Türkiye and the countries of the Middle East. The average capacity of Latin American countries and, above all, sub-Saharan Africa (SSA) to use AI is much more limited (the average AIPI for SSA is 0.34). See *Chart 1*.

### A CLEAR ADVANTAGE IN SUPPLY CHAINS

Overall, while emerging economies are not as well positioned as advanced economies to take advantage of the adoption and diffusion of AI (the average AIPI for G7 countries is 0.72), they are better positioned within AI supply chains. These encompass activities related to the chip industry (design, manufacturing and assembly), equipment and other electronic materials, as well as AI infrastructure (such as supercomputers and data centres). These sectors are extremely capital-intensive and energy-intensive (see *page 6*), as well as demanding in terms of water and minerals. They have also become highly strategic.

As a result, countries that are well positioned within AI supply chains – primarily producers of critical metals, electricity and advanced semiconductors – have both a growth engine and a geopolitical advantage.

This advantage is expected to strengthen in the short term, assuming that the surge in investment in data centres and other AI infrastructure continues. Currently, the four major players in the sector in the United States (Amazon, Microsoft, Meta, Google) are planning to invest USD 620 billion in 2026, four times the amount invested in 2023 and a 60% increase on 2025. These investments will drive global demand for semiconductors, with the market projected to grow by 26% in 2026 (following a 22% increase in 2025), according to forecasts from World Semiconductor Trade Statistics.

To assess countries' positioning within supply chains, we use export data for "AI-enabling goods" or "AI-related goods", as estimated by Oxford Economics and based on the WTO nomenclature. This results in a broad estimate of exports of AI-related goods. It includes raw materials, chemicals, equipment, semiconductors and other electrical and electronic equipment used in AI, as well as those that are "likely to be used" in AI (and potentially in other applications as well). In 2025, total exports of "AI-related goods" are estimated at USD 3.3 trillion, or around 12% of global merchandise exports. Semiconductors and other electronic components account for around 70% of the total, equipment for 25%, and raw materials and chemicals make up less than 5%. This last figure, which may seem surprising, contrasts with the strategic importance of the critical materials required for AI, but can be explained by the very small quantities that are ultimately used.

### CHINA IS HOT ON THE HEELS OF THE UNITED STATES IN THE AI RACE

AI has become a battleground of intense competition between China and the United States. For Beijing, the AI sector is central to its strategy of enhancing China's technological supremacy globally and strengthening its national security. On the domestic front, AI is also a key element of the authorities' economic strategy (see *note on China in this issue of EcoPerspectives, page 11*). Innovation, the development of AI and its widespread deployment in the country are expected to boost productivity gains and support growth at a time when China is adjusting its economic engines (expansion of the export manufacturing sector against reduced reliance on the real estate sector and debt-financed investment) and facing demographic challenges. The country is also relatively well-positioned to adopt AI. The IMF's AI preparedness index confirms this position: it stands at 0.64 for China, compared with 0.46 for emerging economies and 0.68 for advanced economies.

In the race for AI, China has been rapidly closing the gap with the United States in recent years, thanks to huge investment and innovation efforts. The United States maintains its lead in computing power and the design of the most advanced chips (Nvidia) and controls the export of these chips to China. For its part, China is developing increasingly sophisticated models and has become a leader in open-source



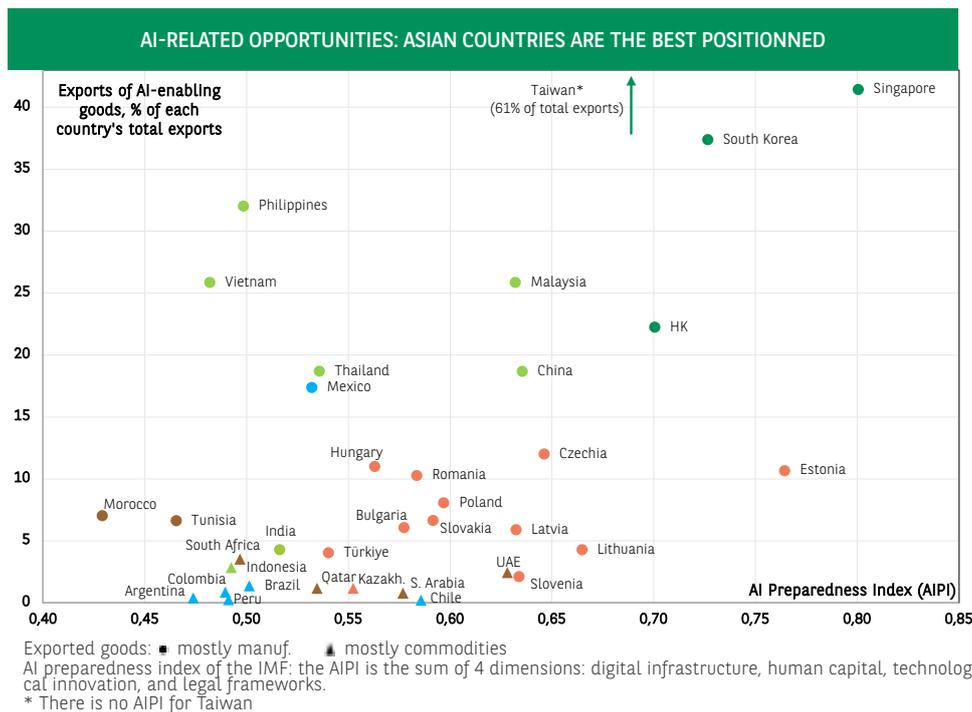


CHART 1

SOURCES : IMF (ITG AND AIPI DATA), OXFORD ECONOMICS, BNP PARIBAS

models as well as data collection. It is involved in almost the entire AI value chain and, most importantly, controls the supply of critical materials. The rivalry and race for technological supremacy between China and the United States will be determining factors in the evolution and decoupling of AI production chains in the medium term.

### INDUSTRIALISED ASIAN COUNTRIES: PRIMARY BENEFICIARIES

Industrialised Asian countries occupy a prominent place in the AI supply chain, owing to the specialisation of their export base in semiconductors and other high-tech goods. Over 85% of global exports in the semiconductor sector<sup>1</sup> and 65% of global exports of “AI-related” goods<sup>2</sup> come from Asian countries. See *Charts 2 and 3*.

This specialisation has provided them with considerable advantages in recent months. While global trade experienced robust growth in 2025 (with total exports estimated to have risen by 5% in volume), Asia registered even greater export growth (+14.8% in volume for the most advanced countries<sup>3</sup>, +8.5% for China and +6.4% for other countries in the region). The technology sector has accounted for over 80% of the growth in exports from Asia, excluding China, since April 2025, and nearly 60% of the growth in Chinese exports (IMF estimate, WEO Update, January 2026).

China accounts for 21% of all AI-related goods exported worldwide. Taiwan’s position is also highly strategic as it lies at the core of the semiconductor supply chain, which is vital to the AI sector. This strategic importance is based on the high degree of openness and specialisation of its economy (61% of its exports are AI-related goods, the highest percentage worldwide) and its significant technological advantage.

Taiwan supplies 11% of the goods needed for AI and 15% of the semiconductors exported worldwide, and it manufactures almost all of the most advanced chips specialised for AI, (these chips are notably designed by Nvidia in the United States and manufactured by TSMC in Taiwan). In 2025, Taiwan’s total exports jumped by 35% in value and 34% in volume, including a 79% increase to the United States. This leadership role also provides security for the island<sup>4</sup> and is a strategic asset that Taiwan emphasises in its negotiations with the United States and its other trading partners.

After China, Taiwan (and the United States), the countries that are best positioned within AI supply chains include South Korea, Singapore, Vietnam and Malaysia, which are ahead of Germany, the Netherlands and Mexico (see *note on Mexico, page 29*). These countries account for between 3% and 8% of global exports of AI-related goods in 2025, again according to the WTO nomenclature.

In the semiconductor sector, the value chain is characterised by significant fragmentation<sup>5</sup>, which is reflected in the organisation of production in Asia. China is involved in various stages of production. Taiwan, South Korea and Japan specialise in the manufacture of silicon wafers, which are essential for etching integrated circuits. Together with China, these three countries accounted for 80% of wafer production capacity in 2025. Further along the supply chain, Malaysia, Vietnam and the Philippines specialise in the assembly, testing and packaging (OSAT) of chips to make electronic components. Although the contribution to GDP is relatively modest, the dynamism of the sector in 2025 has significantly driven the economic growth of these countries (see *note on Malaysia, page 15*).

<sup>1</sup> BNP Paribas calculations for 2024–2025, ITC/COMTRADE data.

<sup>2</sup> Estimate for 2025 based on Oxford Economics data.

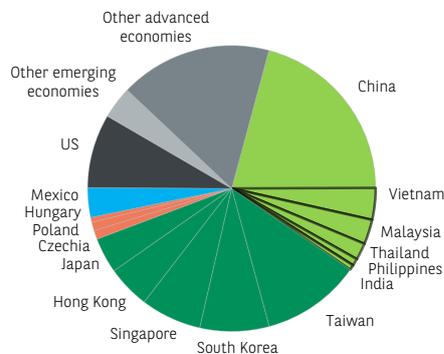
<sup>3</sup> South Korea, Taiwan, Hong Kong (99% of whose exports are re-exports of goods originating mainly from China and other Asian countries), Singapore (75% of whose exports are re-exports or exports of petroleum products).

<sup>4</sup> In 2025, Taiwan announced substantial investments in the US as part of the trade agreement negotiated with Washington. Since October 2025, TSMC and Nvidia have commenced joint production of their first chips (silicon wafers) on US soil, in a factory in Phoenix. However, Taiwan continues to hold a monopoly on product finalisation for the time being, as the last stage of manufacturing (encapsulation) is carried out on the island, enabling it to maintain its “silicon shield”.

<sup>5</sup> See OECD, “Vulnerabilities in the semiconductor supply chain”, No. 2023/05, <https://doi.org/10.1787/6bed616f-en>.

**ASIA'S DOMINANCE IN SUPPLY CHAINS**

**Total world exports of AI-enabling goods, market shares (% of total)**

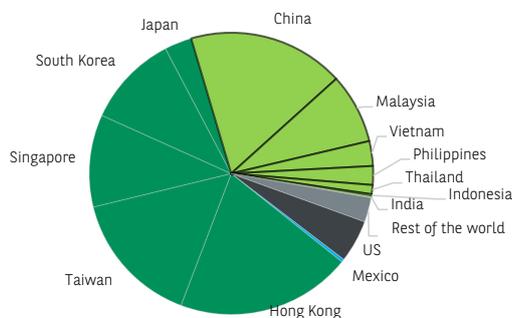


Total exports 2025 = USD 3300 bn

CHART 2

SOURCE: OXFORD ECONOMICS, WTO, BNP PARIBAS

**Total world exports of semiconductors, market shares (% of total)**



Total exports 2025 = USD 1500 bn

CHART 3

SOURCE: ITC, UN COMTRADE, BNP PARIBAS

**PRODUCERS OF CRITICAL MATERIALS: A STRATEGIC POSITION**

Raw materials account for only 2% of global exports of AI-related goods (again according to the WTO nomenclature). However, they hold strategic significance. The leading suppliers are located in the Middle East (particularly the United Arab Emirates), Asia (particularly Indonesia) and Latin America.

Global demand for raw materials essential for AI (specifically for chips and data centres) is projected to rise considerably in the coming years. The International Energy Agency (IEA) estimates, for example, that the demand for copper from data centres could more than double by 2030. This would represent around 2% of current global copper consumption. All these materials (including copper, aluminium, gold, silicon, palladium, germanium, gallium, etc.) are considered "critical" due to their low substitutability, their importance in generating value for global industry, and the geographical concentration of supplier countries (for raw or refined products).

The processes of exploring, extracting and processing minerals are difficult, time-consuming and expensive, but the quantities required for their end use are small. Consequently, significant supply challenges directly related to production issues or bottlenecks do not pose the greatest risk in the short term. On the other hand, the critical nature of these materials and the challenges posed by AI confer upon them a strategic role as tools in international relations and trade negotiations. The number of export restrictions on these metals has increased in recent years, and ongoing geopolitical tensions are amplifying the vulnerability of AI supply chains to the risk of supply disruptions.

China has the most powerful means of exerting pressure, thanks to its largely dominant role in the production of critical materials. Advanced countries are taking steps to reduce this vulnerability<sup>6</sup>, but it will take them years to meet domestic demand, while China is implementing a development plan that was drawn up several years ago. Consequently, the growth of AI could potentially heighten, at least in the short term, the world's dependence on China, alongside Sino-American rivalry and geopolitical tensions.

In this context, the boom in the AI sector is creating opportunities for emerging countries with reserves of critical minerals. Although the export of these materials currently has a modest impact on their eco-

economic growth, these countries have a strategic advantage in forging partnerships, attracting foreign investment, developing new mining projects and capitalising on the expansion of AI. The environmental challenge will also pose a significant hurdle for these countries (see notes on Argentina, Brazil and Chile, pages 23, 25, 27).

**CENTRAL EUROPE AND THE GULF COUNTRIES: AMBITIOUS PLANS**

At first glance, Central European countries may not seem to have any comparative advantages in AI supply chains. However, they do have a well-educated workforce and infrastructure that will facilitate the integration of AI throughout the economy and its adoption by the populace. Furthermore, the governments of Central European countries are not shying away from launching ambitious plans aimed at using AI as a catalyst for development (see notes on Poland and Hungary, pages 17 & 19). These plans are based on several components: defining a strategy and ambitious medium-term objectives; providing public support for businesses to innovate, invest and adopt AI; constructing data centres (essential for the local development of AI); incorporating relevant training into education programmes; and adjusting regulations accordingly.

The Gulf countries have also drawn up highly ambitious plans. Saudi Arabia, for example, aims to develop the entire AI value chain and become a global leader in this sector within a few years (see page 31). The Gulf countries enjoy major comparative advantages: abundant, cheap energy and vast desert areas, which allow for the establishment of large data centres at relatively low cost. Energy is mainly carbon-based, but the number of solar projects is increasing. In addition, governments are able to mobilise large sums of money from sovereign wealth funds to finance technology partnerships and infrastructure, as well as to invest in education. Political will, natural resources and available capital are factors that favour the development of AI hubs in the region.

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<sup>6</sup> See BNP Paribas, EcoInsight, [European Union: low-carbon transition and energy sovereignty, a path fraught with pitfalls](#), February 2026.



# EMERGING COUNTRIES, IA & ELECTRICITY

6

## THE ENERGY FACTOR: A CONSTRAINT ON AI DEVELOPMENT IN EMERGING COUNTRIES

The development of artificial intelligence (AI) depends largely on the availability of abundant and reliable electricity. The sector currently accounts for 4.5% of electricity demand in the United States, 2% in Europe and around 1% in Asia (including China), where the vast majority of data centres are located. In contrast, this figure is less than 0.5% in the rest of the world, but is set to increase in the coming years. To attract investment in the AI sector, emerging countries must therefore consider significantly increasing their electricity generation capacity and establishing networks capable of continuously powering data centres. Massive investments in infrastructure, along with the use of flexible energy sources (gas, renewables), are assets for attracting AI projects. China, together with India, the Middle East and Eastern Europe, appear to have a better position.

### AI ELECTRICITY CONSUMPTION: THE IMPORTANCE OF LOCATION

The availability of sufficient electricity and the ability to transport it are key factors in the establishment of local data centres, which are essential for the deployment and adoption of AI. Data centres are typically evaluated based on the electrical power required to operate them. Their energy consumption can exceed one gigawatt or GW (by way of comparison, the average output of a reactor in the French nuclear fleet is 0.9 GW). More generally, in light of the rapid expansion of data centres in recent years, the issue of facility location is of paramount importance. The growth of the sector depends – in addition to the availability of electricity – on a favourable combination of factors primarily associated with the presence of adequate skills, developed technological infrastructure, and political will. These conditions regarding location and the rapid growth of AI are resulting in a significant geographical concentration of development hubs, which is exerting considerable pressure on local electricity markets in many countries. This is fuelling sharp rises in electricity prices, especially in certain US states<sup>1</sup>, and may even lead to moratoriums on the future establishment of data centres. In Ireland and the Netherlands, for example, the establishment of new data centres has been suspended (until 2028 in Ireland).

In 2025, 82% of global AI application development capacity, measured in terms of electricity consumption, was concentrated in the United States, the European Union and China. This trend towards geographical concentration is expected to continue, with around 85% of the new capacity expected by 2030 to be located in these three regions, according to the International Energy Agency (IEA). Approximately two-thirds of new projects are being planned in regions where clusters already exist. In China, the electricity consumption of data centres has increased by 15% per year over the last decade, which is double the annual growth rate of other sectors of the economy. The consumption of these centres is currently equivalent to that of the country's electric vehicle fleet.

The predominance of advanced economies and China in terms of installed capacity leaves little room for emerging countries in this AI landscape. As a result, the impact of AI development on the electricity markets of emerging countries remains marginal. While the sector accounts for around 4.5% of electricity demand in the United States, 2% in Europe and around 1% in Asia (including China), this figure is less than 0.5% in the rest of the world. This very low figure is not surprising, as the increase in electricity demand in emerging and developing countries is mainly driven by industrial development and improving living standards. This is particularly evident in the huge rise in electricity demand for air conditioning, set against a backdrop of rising average temperatures.

<sup>1</sup> See Ecoweek, [Electricity prices in the United States: an economic and electoral issue in the run-up to the midterms](#), 10 February 2026.

### CHINA DRIVING THE INCREASE IN ELECTRICITY PRODUCTION CAPACITY

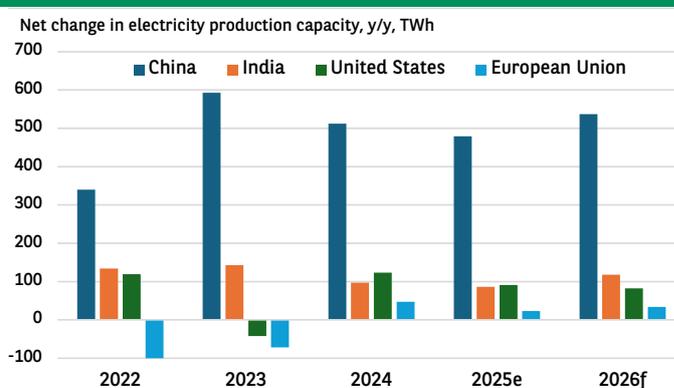


CHART 1

SOURCE: AIE

Nevertheless, even if it remains relatively concentrated in specific geographic regions, the impact of AI on national electricity systems is set to increase. According to the IEA, the development of AI accounted for 4.4% of the increase in electricity demand between 2020 and 2025. This figure is projected to increase to 8.6% during the period 2025-2030. However, this will still be lower than the expected contribution from the growth in demand associated with air conditioning on a global scale (around 10% by 2030).

### IN EMERGING COUNTRIES, WHAT ENERGY COMPETITIVENESS CRITERIA SHOULD BE USED TO FOSTER THE DEVELOPMENT OF AI?

- The expected increase in electrical capacity and/or the availability of abundant energy

The demand for electricity driven by AI is likely to compete with other sources of demand, even though it is currently growing at a slower pace. In this scenario, countries and regions that invest heavily in energy production capacity, as well as those with abundant energy resources, will be best placed to meet the energy needs of AI. China has a decisive advantage in this regard, owing to the significant increase in its energy production capacity in recent years (*Chart 1*). According to BloombergNEF, China has installed more new energy capacity in the past four years than the total capacity installed in the United States (1,515 GW versus 1,373 GW).



Similarly, the new capacity installed in 2025 exceeds that the total available in India. The increase in Chinese production capacity is expected to remain substantial, growing by around 4% per year between now and 2030.

For various reasons, the Middle East also has certain advantages, notably its abundant, flexible and rapidly mobilisable carbon-based energy. Indeed, given the importance of continuous energy availability for the operation of AI systems, the controllability (i.e. flexibility) of the energy supply is crucial. The gas resources of all the Gulf countries are a major asset. Apart from Qatar and, to a lesser extent, the United Arab Emirates, which export part of their gas output, a large proportion of gas resources remains unexploited. Saudi Arabia, for example, aims to develop the use of these resources for domestic consumption in order to reduce the share of oil in its electricity mix.

Another example is India, whose electricity mix is still predominantly carbon-based and largely reliant on coal (74%), yet it aims to significantly increase the share of renewable energy sources. By 2030, this share is projected to increase to around 27% of the mix (compared to 20% currently). At the same time, the total capacity of installed data centres is expected to double to nearly 5 GW. More generally, India's production capacity is expected to grow at a sustained average rate of 4.8% between now and 2030. However, these ambitions can only be realised if the electricity grid is developed alongside.

• **Necessary investment in the electricity grid**

The need to invest in improving electricity grids is a global issue due to the growing electrification of various applications and the structurally more decentralised nature of renewable energy production. The development of AI aligns perfectly with this issue. Indeed, it is responsible for a sharp increase in electricity consumption, which in many countries is expected to be bolstered by an increase in renewable energy production capacity.

There is currently no satisfactory measure to assess how effectively national electricity grids are adapting to new demands. The SAIDI (System Average Interruption Duration Index) metric, calculated by the World Bank, assesses the reliability of the grid for its users (*Chart 2*). This represents a national average that does not provide information on the capacity to deliver sufficient quantities of electricity. However, it is an important indicator for the operation of data centres, which must remain free of power cuts. Among emerging countries, China, the Middle East and Eastern Europe have the highest reliability, whereas sub-Saharan Africa has the longest power outages. Asia (excluding China) and Latin America occupy a middle ground.

Investment in network expansion and improvement is primarily led by advanced economies and China, which together accounted for 80% of total global investment in 2024, according to the IEA. Chinese investment accounted for around 20% of the total. In addition, major investment plans are under way in certain Latin American countries (Brazil, Chile) and India (USD 110 billion in investments planned between now and 2032).

**MORE RELIABLE ELECTRICITY GRIDS IN CHINA, THE MIDDLE EAST AND EASTERN EUROPE**

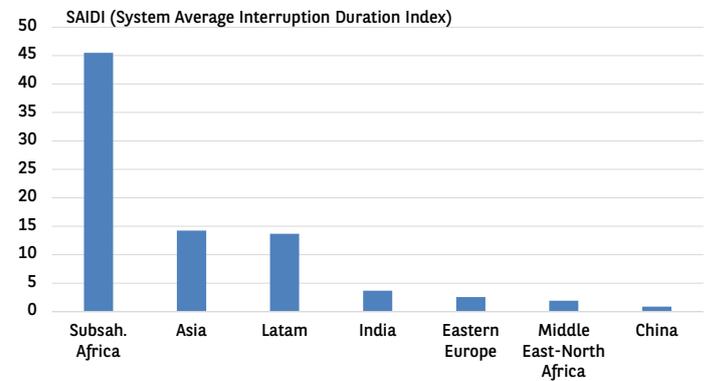


CHART 2

SOURCE: WORLD BANK

While electricity is essential for the deployment of AI, the necessary investments in energy infrastructure could also benefit the economic development of the countries concerned. Given the energy-intensive nature of AI and its rapid expansion, it is becoming increasingly urgent to step up the deployment of low-carbon energy sources to ensure that the rise of AI and decarbonisation can coexist harmoniously.

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# REGIONAL OVERVIEWS

Article completed on 27 February 2026

8

## CENTRAL EUROPE: GAINING MOMENTUM

In Central Europe, economic growth accelerated slightly to 2.3% for 2025 as a whole, after recording 1.9% in 2024 and 0.7% in 2023. This growth was driven by the dynamism of the Polish economy (+3.6% in 2025) and the Czech economy (+2.5%). The Czech economy demonstrated unexpected resilience, given its significant reliance on foreign trade and the automotive sector. Conversely, Hungarian growth was disappointing, with only marginal positive growth in 2025. Romania faced electoral uncertainties in the first half of 2025 and the introduction of fiscal austerity measures in the second half.

The growth outlook remains favourable for 2026 (2.7% according to our forecasts), with Poland continuing to drive growth. Furthermore, the electoral uncertainties in Hungary and Bulgaria are not expected to hurt their growth markedly. The expected uptick in the Hungarian economy will be partly based on pre-election measures taken by the authorities to support consumption. Bulgaria, which joined the Eurozone in January 2026, should also record robust growth. Meanwhile, growth in Romania is expected to be modest, held back by an ongoing restrictive fiscal policy.

Inflation returned to target levels in 2025 for Poland, Hungary and the Czech Republic. In 2026, it is expected to continue declining across the region. However, in Romania and Slovakia, inflation may remain above the central bank's target. The monetary easing cycle that began last year is set to continue in Poland and the Czech Republic, albeit at a more moderate pace. In Hungary and Romania, only very cautious easing measures are expected this year. In Hungary, the gap between households' inflation expectations and current inflation calls for a cautious approach, while in Romania, inflationary pressures continue to be a concern.

Central European exports held up well in 2025, driven by Poland, the Czech Republic, Slovakia and Romania. Hungary and the Czech Republic have current account surpluses. Conversely, Romania has been grappling with a significant current account deficit for years, a situation that is not expected to change. In Poland, the current account deficit is marginal (less than 1% of GDP in 2025) and is expected to remain so in the short term.

However, external liquidity in the region is strong, with foreign exchange reserves continuing to rise (EUR 563.9 bn, or EUR +37.9 bn in 2025). Central Europe is attracting foreign investment owing to nearshoring activities and rapidly developing sectors such as AI and defence. In addition, bond yields remain attractive. Despite the tariff shock and geopolitical uncertainties, capital flows to the region remained steady in 2025, with a relatively balanced distribution between FDI and portfolio investment flows (totalling EUR 36.4 bn in Q1-Q3 2025, or 1.7% of regional GDP). FDI flows mainly benefited Poland, Romania and the Czech Republic, while Hungary and Slovakia experienced negative flows. Portfolio investment flows were driven primarily by Poland and Romania, with Hungary contributing to a lesser extent. Romania stood out with a spectacular rebound in portfolio investment inflows over the past three years.

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## ASIA: STRONG PERFORMANCE

In 2025, economic growth in Asia weathered the rise in US tariffs much better than expected. It even accelerated to 7.6% in India and jumped to 8% in Vietnam and 8.7% in Taiwan. Growth averaged 5% for the ASEAN-6 (vs. 5.1% in 2024) and remained steady at 5% in China. South Korea and Thailand lagged behind, with economic growth rates of 0.9% and 2.4% respectively.

The region's export performance was very strong, boosted in particular by increased demand for electronic products linked to the AI boom. The ASEAN-6's share of the global market increased slightly, and this increase was most pronounced in the US market. Consequently, the trade surplus of ASEAN countries with the United States increased by USD 8.9 bn (to USD 25 bn), while their deficit with China widened by USD 10.4 bn (to USD 18.2 bn).

Domestic demand was also a key driver of activity in Southeast Asia and India, supported by expansionary fiscal and monetary policies. Conversely, in China, weak consumer demand and private investment worsened in the last few months of the year, and support measures from the authorities remained limited.

India and Indonesia recorded significant net outflows of portfolio investments at the end of the year, while FDI inflows slowed across the region as a whole. The Thai baht and the Malaysian ringgit appreciated by 10% against the USD in 2025, while the currencies of India and Indonesia depreciated by 5% and 3% respectively. In 2025, China consolidated its position as a net external creditor, bolstered by rising current account surpluses, although foreign capital inflows remained constrained. The yuan has appreciated slightly in recent months but remains at a very low level. At the end of 2025, the RMB/USD reference rate was 2% lower than it was at the end of 2024, and the CFETS index (effective exchange rate) was down 4%.

In 2026, growth is expected to slow moderately. The cycle of interest rate cuts has concluded in most countries. Inflation is expected to stay within the targets set by the monetary authorities, making it unlikely for them to raise their key rates. Fiscal policies are likely to become somewhat more restrictive. The main risks to short-term growth are external, linked to geopolitical risks, ongoing uncertainties over US trade policy and the risk of a downturn in the global electronics market. In India, rising oil prices could weigh on economic performance, particularly if the country halts its oil purchases from Russia. In Indonesia, the Prabowo administration is raising concerns about its governance, its less orthodox fiscal policy compared to its predecessor, and the lack of clarity surrounding its economic strategy.

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# REGIONAL OVERVIEWS

Article completed on 27 February 2026

9

## NORTH AFRICA/MIDDLE EAST: VULNERABLE TO GEOPOLITICAL RISKS

The economies of North Africa/Middle East saw a rebound in growth in 2025. It reached 3.4% compared with 2.5% in 2024. Regional GDP is expected to grow by 4.1% in 2026.

The Gulf Cooperation Council (GCC) is expected to remain the main driver of regional growth, thanks to oil exports and strong domestic demand. These countries' ability to finance their diversification programmes remains strong, primarily due to sovereign wealth funds, whose assets exceed twice the GDP of the GCC. Furthermore, the region's enhanced appeal to foreign capital (debt and direct investment) largely mitigates the impact of reduced oil export revenues, thereby averting the need for governments to make drastic cuts to public spending. The ongoing recalibration of Saudi Arabia's Vision 2030 initiative is a good illustration of this. Inflation is also under control, and policy rate cuts in Q4 2025 are expected to bolster credit demand, which is already strong in several countries. The depreciation of the US dollar, to which the GCC currencies are pegged, should help these countries to develop their non-hydrocarbon exports and tourism sector.

For oil-importing countries, economic growth is also sustained, thanks to the strong performance of Egypt and Morocco. With minimal exposure to the tightening of US tariff policy, both countries are reaping the benefits of a rebound in tourism and investment. The scale of infrastructure projects currently underway in Morocco, along with the macroeconomic stabilisation efforts in Egypt, suggest that this momentum is likely to continue in 2026.

Rising regional tensions are a major cause for concern. So far, the impact on countries not directly involved in a conflict has been limited. However, the situation in Iran presents a potentially greater threat. It could lead to various outcomes in the event of US military attacks, including the closure of the Strait of Hormuz, through which almost all trade from the GCC countries passes. Given the region's importance in the global energy market, the repercussions would extend beyond the Middle East.

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## SUB-SAHARAN AFRICA: ENCOURAGING OUTLOOK

The economic outlook for the region has been positively adjusted in recent months. Real GDP growth is estimated at 4.4% in 2025 and is projected to stabilise at 4.6% in 2026. Overall, sub-Saharan Africa has been resilient in the face of the double shock of US tariffs and declining official development assistance. This decline is mainly due to a significant drop in USAID funding (data available as of 16 February indicate a 28% decrease in USAID disbursements in value terms in 2025). Inflation eased in 2025 after two years of intense pressure, and this decline is expected to continue in 2026, enabling some economies to continue their cycle of monetary easing (notably South Africa, Kenya and Nigeria).

The prices of non-oil commodities exported by the continent (including gold, copper, energy transition minerals and platinum) are expected to remain buoyant in 2026. The current account deficit for the region is expected to remain manageable, despite a rise in import growth, particularly from China. Meanwhile, the external accounts of the CEMAC zone countries, where oil accounts for the vast majority of exports, will need to be monitored: the widening of the zone's current

account deficit in 2026 is likely to affect foreign exchange reserves, which have already contracted by 13% in 2025.

In addition, developments in external financing sources are causing some concern. According to UNCTAD, in 2025, foreign direct investment received by sub-Saharan Africa (USD 42 bn) contracted by more than 6%. With the rise of AI, which is capturing an increasing share of global capital flows, sub-Saharan Africa risks being further marginalised from FDI unless it increases its integration into value chains and promptly adopts a sectoral strategy for its regional deployment.

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## LATIN AMERICA: SLOW GROWTH

In 2025, Latin American countries experienced slower growth, from nearly 3% y/y in H1 to less than 2% in H2. The rise in US customs tariffs does not seem to be the underlying factor; on the contrary, exports accelerated sharply in H2, and not only because of soaring metal prices (copper, aluminium) and rising prices for certain agricultural commodities (soya, maize). Brazil's exports of manufactured goods, despite being heavily taxed, also performed well. The notable increase in Mexico's exports is partially attributed to the AI boom.

Growth in the region is being held back by weak domestic demand due to diminished disinflation benefits, deteriorating labour markets (Argentina) and limited fiscal flexibility (Brazil, Mexico, Argentina). Central banks have kept key interest rates high in real terms: this is evident in Brazil, but also in Colombia and Mexico, where real rates exceed potential growth.

Growth in the region is expected to slow in 2026. For the main countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru), it is expected to slow to an annual average of 1.8%, compared with an estimated 2.3% in 2025. Domestic demand is projected to remain constrained. The cycle of monetary easing is coming to an end in Mexico and Chile. Only Brazil retains some flexibility regarding monetary policy; the central bank is expected to begin a cycle of easing in March. Fiscal policy will remain restrictive in Argentina, and in several other countries, increasing debt ratios or debt servicing requirements will necessitate adjustment measures. A decline in copper prices poses a downside risk for Chile and Peru. Elections are a potential source of financial instability for Colombia (with parliamentary elections in March and presidential elections in May), and Brazil (with general elections in October).

With the exception of Peru, the main countries have a current account deficit (moderate as a % of GDP). The highest deficit – that of Brazil – is expected to represent only 3% of GDP in 2025. With the exception of Argentina, net FDI inflows in each of these countries cover at least 70% of the current account deficit. Apart from Colombia, portfolio investment balances are in deficit, which does not mean that these countries no longer attract non-resident investors. Rather, it indicates that residents are diversifying their portfolios. With the exception of Peru, currencies have appreciated against the US dollar since early 2026. Colombia presents higher market risks than the other countries due to the sharp deterioration in its public finances.

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# KEY INDICATORS

## REAL GDP

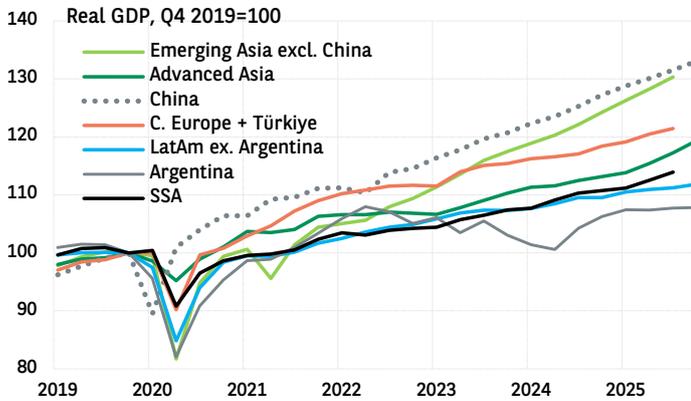


CHART 1

SOURCE: MACROBOND, BNP PARIBAS

## INFLATION

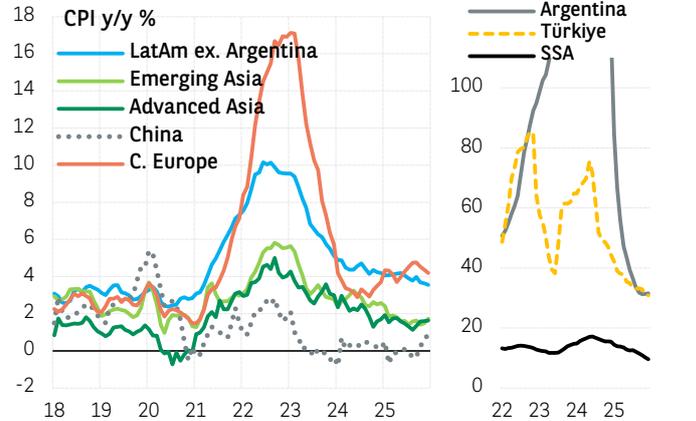


CHART 2

SOURCE: MACROBOND, BNP PARIBAS

## DOMESTIC BANK CREDIT

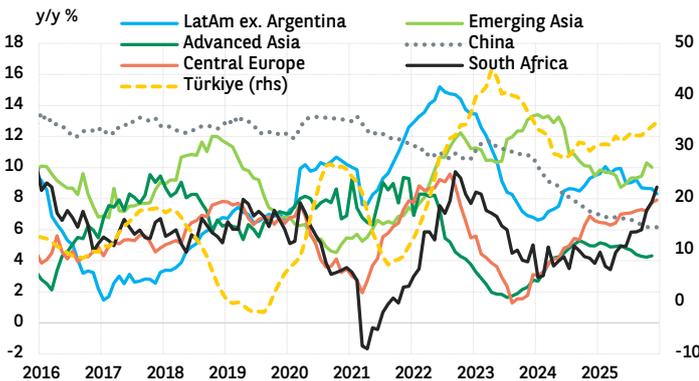


CHART 3

SOURCE: CENTRAL BANKS, BNP PARIBAS

## CURRENT ACCOUNT BALANCE

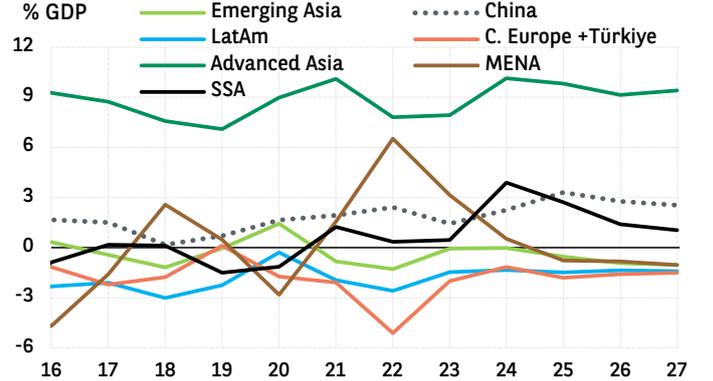


CHART 4

SOURCE: IMF (WEO), BNP PARIBAS

## GENERAL GOVERNMENT NET BALANCE

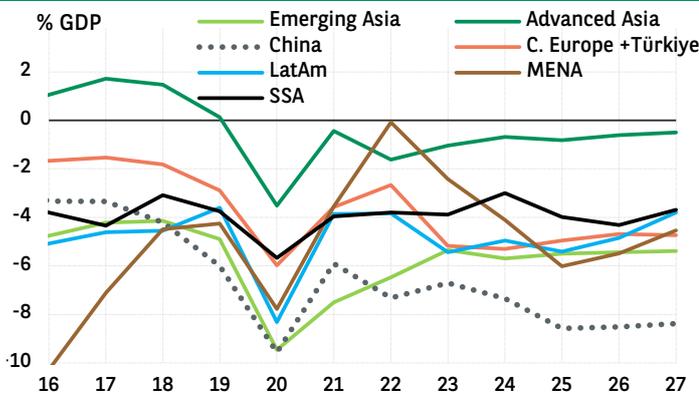


CHART 5

SOURCE: IMF (WEO), BNP PARIBAS

## GENERAL GOVERNMENT GROSS DEBT

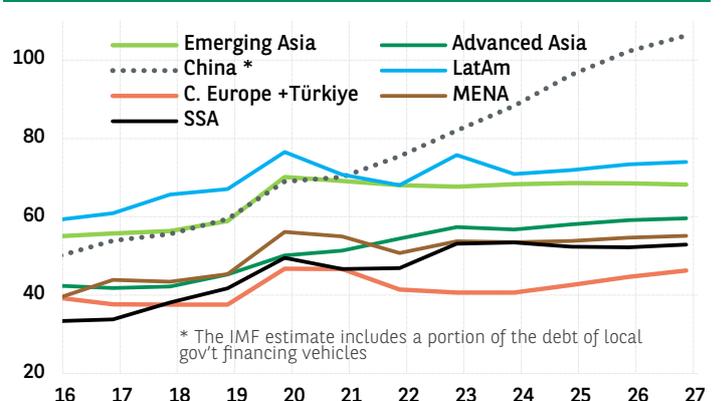


CHART 6

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 Rep., Hungary, Poland, Romania, Slovákia **Latin America:** Argentina, Brazil, Chile, Colombia, México, Peru **MENA:** Middle East-North Africa **SSA:** Sub-Saharan Africa: Angola, Kénya, Nigeria, South Africa.



## INNOVATION AND AI DRIVING ECONOMIC DEVELOPMENT

China's economic growth model is based on imbalances, characterised by sluggish domestic demand, excess production capacities, strong exports and the pursuit of self-sufficiency, which have implications for its trading partners. While the IMF has recently reiterated the urgent need to boost private consumption, Beijing continues to give the priority to industrial policy and maintains moderately accommodative fiscal and monetary policies. It places cutting-edge sectors, innovation, AI and technological autonomy at the heart of its development strategy. This strategy aims to foster productivity gains and economic growth, while also consolidating China's dominance in global industry and its commitment to "national security".

### GROWTH (INCREASINGLY) DEPENDENT ON EXPORTS

Chinese economic growth held steady at 5% in 2025, the same as in 2024. Quarterly data indicates a slight upturn in Q4 (+1.2% q/q), driven by exports. The imbalances inherent in the growth model have, in fact, intensified since last summer and are expected to continue in 2026.

On the domestic demand front, signs of weakness have worsened, with total investment contracting and household consumption remaining sluggish.

Real estate investment has been declining steadily for four years, while investment by local governments has been constrained by shrinking land sales proceeds and tighter fiscal management rules imposed by Beijing. In the manufacturing sector, companies have been scaling back their investments in recent months as a result of a deteriorating demand outlook, low capacity utilisation rates (averaging 75.2% in Q4), falling prices and profits, and the government's anti-involution directives aimed specifically at reducing production overcapacity. Consequently, the contribution of total investment to real GDP growth reached a record low in 2025 (Chart 1). It could recover slightly in 2026: although the decline in real estate investment is expected to continue (with unsold inventories remaining high), manufacturing investment could see an uptick in "strategic" sectors, spurred on by government policies.

As far as consumers are concerned, the impact of government support diminished in H2 2025, and retail sales growth slowed (from 4.7% y/y in real terms in June to just 0.1% in December). However, this was offset in Q4 by a recovery in demand for services, which was also boosted by fiscal measures. Total consumption (both private and public) saw a slight increase in its contribution to growth in 2025, but it is less vigorous than before the Covid pandemic. Its average growth was estimated at between 4% and 4.5% per year in real terms in 2024-2025, compared with 7.7% during the period of 2015-2019. The short-term outlook is uncertain, still overshadowed by the property crisis, a lack of dynamism in the labour market and low household confidence. Public policies aimed at durably boosting private consumption are likely to remain insufficient.

### RECORD HIGH SURPLUSES IN THE TRADE AND CURRENT ACCOUNT BALANCES

On the external demand front, growth in merchandise exports remained robust until the end of the year. The decline in sales to the United States since April (-23% y/y) was more than offset by an increase in exports to other regions of the world, bolstered by the strong price and non-price competitiveness of Chinese goods. The yuan's real effective exchange rate (REER), which was already weak in 2024, lowered further in 2025 (it depreciated by 5.8% in H1, and then appre-

FORECASTS					
	2023	2024	2025e	2026e	2027e
Real GDP growth, %	5.4	5.0	5.0	4.7	4.5
Inflation, CPI, year average, %	0.2	0.2	0.0	0.9	1.0
Official budget balance / GDP, %	-3.8	-3.0	-4.0	-4.3	-4.0
Official general government debt / GDP, %	54.7	60.9	68.4	74.5	77.4
Current account balance / GDP, %	1.4	2.3	3.8	3.6	3.3
External debt / GDP, %	13.4	12.9	12.3	11.3	10.5
Forex reserves, USD bn	3 450	3 456	3 744	3 844	3 924
Forex reserves, in months of imports	13.3	12.7	13.9	13.8	13.5

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### CHINA: EXPORTS REMAIN A KEY DRIVER OF GROWTH

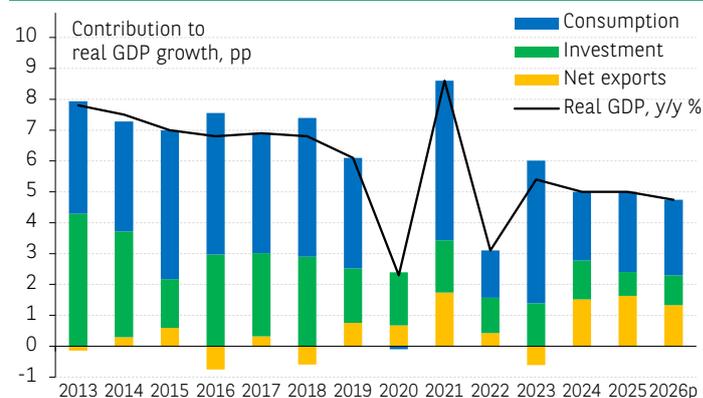


CHART 1

SOURCE: NBS, CEIC, BNP PARIBAS

ciated by 3.6% in H2). The average REER index in 2024-2025 was about 10% below its average for the previous five years (based on BIS data). The average export price in USD fell by -2.9% in 2025, following a -6.8% decline in 2024. In volume terms, exports rose by +9% in 2025 (+12% in 2024), while imports remained virtually unchanged (after a +2% rise in 2024), reflecting sluggish domestic demand and Beijing's self-sufficiency targets.

Consequently, on the one hand, the contribution of net exports to growth, which had rebounded strongly in 2024, strengthened further. In 2025, it accounted for one-third of real GDP growth, the highest share since the early 2000s. On the other hand, China's trade surplus



increased by 20% in 2025 and reached a record high of USD1189 bn (based on General Administration of Customs data). The current account surplus also expanded significantly, rising from USD424 bn in 2024 to USD735 bn in 2025. It exceeded 3% of GDP for the first time in fifteen years (3.8%).

These recent dynamics have strengthened China's position as a global export power. They have also allowed China to increase its investment overseas (including direct investment, credit and portfolio investment flows) and strengthened its position as a net foreign creditor. Large trade imbalances, the risk of a persistent competitive pressure from Chinese goods, and the stagnation of Chinese imports are expected to continue to fuel severe tensions with most trade partners, including Europe.

### DEFLATIONARY PRESSURES, A SYMPTOM OF IMBALANCES

Weak domestic demand and excess production capacities are fuelling deflationary pressures as well as competitive pressures of Chinese goods on export markets. CPI inflation did pick up slightly in Q4 (to +0.6% y/y vs. an average of -0.1% over the first nine months of 2025) and core inflation rose back above +1%. However, these developments are mainly due to temporary factors and the anti-inflation campaign. The latter is likely to remain modest, especially if the authorities revise their production reduction targets for fear of negative effects on growth. Without a resurgence in demand, the alleviation of deflationary pressures will remain limited in the short term.

### MONETARY AND FISCAL SUPPORT REMAINS MODERATE IN 2026

Recent statements from Beijing indicate a degree of confidence in the economy's growth prospects – confidence reinforced by the recent reduction in US tariffs<sup>1</sup>. At the annual session of the National People's Congress (NPC) from 5 to 11 March, Beijing is expected to announce its growth target (expected to be 4.5%-5%) and inflation target (expected to be capped at 2%) for 2026, and is likely to affirm its commitment to a moderately accommodative economic policy.

On the monetary front, new measures are likely to be implemented in the very short term in response to the ongoing slowdown in domestic credit growth. This is being held back in particular by the near stagnation in outstanding household loans (+0.4% y/y at the end of 2025, with a 1% contraction in housing loans). In 2026, as in 2025, easing measures will remain cautious and targeted, with, in particular, a slight reduction in policy rates (-20bp expected over the year).

On the fiscal front, the "official" deficit target may be raised (4.3% of GDP projected for 2026, up from 4% in 2025), signalling increased support for growth. However, support from extra-budgetary entities (such as local government financing vehicles) is expected to continue to decline. With regard to the property sector, no new support measures (aside from the purchase of unsold homes by local governments and the relaxation of rules governing home loans and purchases) are expected this year.

Beijing is set to release the full text of the 15th Five-Year Plan for 2026-2030 at the end of the NPC meeting. The Plan's main economic objectives are well known; in particular, they aim to strengthen a "modern industrial system", global leadership and technological autonomy, as well as strengthening the domestic market. With regard to the latter, the authorities are keeping the development of private consumption high on their list of priorities. However, they are not contemplating the far-reaching reforms needed to significantly improve incomes and

<sup>1</sup> Since 24 February, the US tariffs imposed on China, which previously included "reciprocal" tariffs of 10% (with exemptions) and "fentanyl" tariffs of 10% (without exemptions), have been replaced by the new 10% tax (with exemptions). The effective tariff on US imports of Chinese goods has thus been lowered (to 19% from 31%) and is now more aligned with those of neighbouring countries (e.g. 13% for Vietnam).

### CHINA LEADS THE RACE FOR LARGE AI MODELS ALONGSIDE THE US

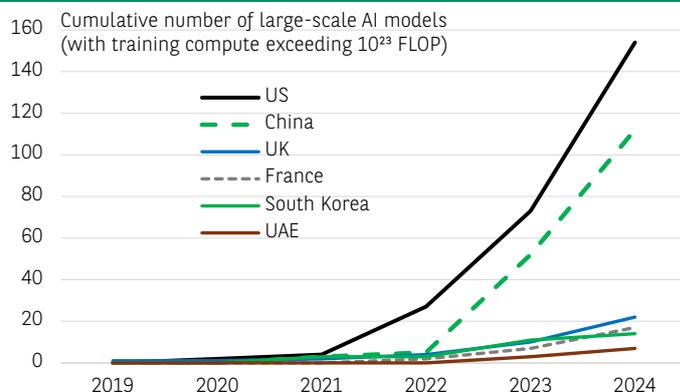


CHART 2

SOURCE: EPOCH AI (2025) – WITH MAJOR PROCESSING BY OUR WORLD IN DATA, BNP PARIBAS

the social protection system. The assistance programmes introduced in 2025, which include subsidies for the replacement of consumer goods, allowances for parents of young children, and pension increases, could simply be extended in 2026. These programmes account for less than 0.5% of GDP, and their impact has been small. In 2025, household consumption accounted for just 40% of GDP (compared to an average of 57% worldwide), and the household savings rate remained very high (estimated at 37% of disposable income, and 35% in 2019).

### INNOVATION AND AI AT THE HEART OF THE NEW FIVE-YEAR PLAN

Instead of focusing on the domestic market and consumers, China's strategy will continue to prioritise the export manufacturing sector, green energy and advanced technologies. Industrial policy will remain a key tool, and exports will continue to serve as both a vital growth engine and a strategic asset for China in its rivalry with the United States and its quest for global dominance in strategic sectors. R&D, innovation and artificial intelligence (AI) play a central role in this strategy. The "AI+" initiative, unveiled last August, reaffirmed these objectives, and the 15th Five-Year Plan is expected to underscore the significance of AI in developing "new quality productive forces".

Internationally, China occupies a dominant position in the AI sector (see the Editorial in this issue of EcoPerspectives). China is involved in nearly the entire AI value chain and is developing some of the most powerful computing models (Chart 2). In the AI supply chain, China accounts for 21% of the total "AI-related goods" exported worldwide and controls the supply of critical materials. On the domestic front, AI development and widespread deployment across the country should boost productivity gains and foster growth. Thanks to its highly developed digital infrastructure, its own LLM models and its education system, the country is well-positioned to adopt AI. China therefore has the strategy, infrastructure, energy resources, critical materials and capital to pursue the development of AI in the next five years.

Article completed on 27 February 2026

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## ROBUST GROWTH, BUT AI POSES CHALLENGES FOR EMPLOYMENT

India's economic growth is projected to be +7.6% for FY 2025/26, ranking among the highest in Asia. Monetary easing and VAT cuts have bolstered domestic demand. The medium-term outlook remains favourable. The reduction in US tariffs and the gradual rollout of new free trade agreements (FTAs)—including with the US, EU, UK and EFTA—should bolster exports. After decades of protectionism, India is opening up its economy to attract FDI, develop industry, and create high-quality jobs. The government acknowledges the risks that AI poses to employment in the IT services sector.

### ROBUST GROWTH DESPITE THE RISE IN US TARIFFS

The Indian economy has demonstrated remarkable resilience to US tariff increases, supported by expansionary monetary and fiscal policies. According to preliminary estimates from the National Statistical Office (MOSPI), growth could reach 7.6% for the entire 2025/2026 fiscal year (FY) (ending March 2026) compared to 7.1% one year earlier, making it one of the highest growth rates in Asia, following Vietnam (+8%).

This economic growth rate aligns with average of the previous five years (excluding the pandemic year) and exceeds the IMF's estimated potential growth rate of 6.5%. Economic activity in 2025 was primarily driven by domestic demand, which benefited from three key factors: lower interest rates amid declining inflationary pressures, favourable agricultural output, and the VAT reductions implemented in September.

For the FY2026/2027, growth is projected to moderate slightly but remain robust, bolstered by sustained household consumption, rising public investment, and a recovery in exports facilitated by the significant reduction in US tariffs (from 50% in August 2025 to 10% as of February 24, 2026, following the US's Supreme Court's invalidation of reciprocal tariffs).

The primary immediate risk to growth stems from significant rising oil prices (especially if India stops buying oil from Russia) and the adoption of new US sectoral tariffs if India fails to sign the trade agreement negotiated in February (the signing of which was suspended after the reciprocal tariffs were struck down).

### EMPLOYMENT CHALLENGES PERSIST

Labour market conditions continue to represent a structural weakness for India. While unemployment remains high, particularly among young people, the labour market has shown signs of improvement since late 2024. However, job creation is still concentrated in low-value-added sectors, especially agriculture. Informal employment, despite declining by 2 percentage points (pp) over the last five years, still accounts for 88.4% of total employment according to ILO data. The implementation of labour market reforms adopted in 2020, which are taking effect since the start of the year, may help promote formal job creation and raise household incomes.

Data from the Center for Monitoring Indian Economy (CMIE) indicates that the unemployment rate averaged 6.8% during the first nine months of the FY2025/2026, compared to 8.1% in the same period of the previous year. Evidence of improved job creation includes a 15.3% reduction in applications for agricultural work under the MGNREGA programme in rural areas, and a 7.1% increase in the NAUKRI Job Index between April and December 2025 in urban areas. However, the unemployment rate has fallen most significantly in rural areas, where the quality of jobs remains comparatively poor.

### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, % (1)	7.2	7.1	7.6	7.0	6.8
Inflation, CPI, year average, % (1)	5.4	4.6	2.1	4.1	4.3
General gov. balance / GDP, % (1)	-9.2	-8.2	-8.0	-7.9	-7.7
General gov. debt / GDP, % (1)	84.9	84.0	84.3	83.6	81.7
Current account balance / GDP, % (1)	-2.3	-0.8	-0.6	-1.2	-1.3
External debt / GDP, % (1)	16.8	19.8	20.1	20.0	19.8
Forex reserves (excl. gold), USD bn	551	547	553	575	580
Forex reserves, in months of imports	7.5	6.8	6.7	7.0	7.0

(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

### RUPEE: THE WORST PERFORMANCE AGAINST THE USD AMONG ASIAN COUNTRIES IN 2025

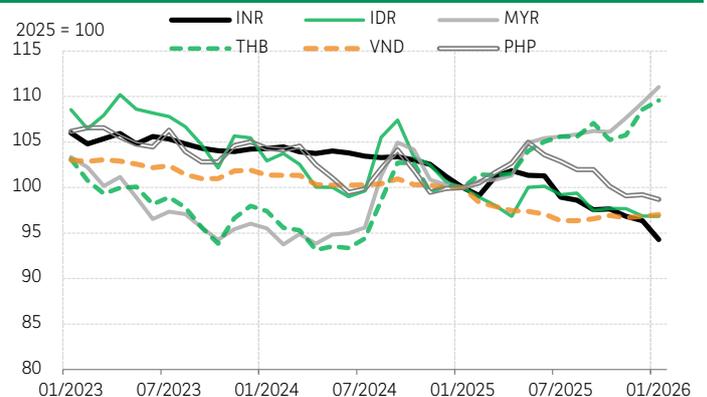


CHART 1

SOURCE: RBI

### END OF THE MONETARY POLICY EASING CYCLE

In 2025, the Reserve Bank of India (RBI) reduced its policy rates by 125 basis points. Inflation decelerated to 2.2% from 4.9% in 2024, primarily due to a decrease in food prices (-0.2% in 2025 compared to +8.4% in 2024). Monetary policy easing supported a recovery in bank lending, which grew by 14.5% year-on-year in December 2025, up from 11.2% in the previous year.



Despite inflation remaining well within the central bank's target range of 4% +/- 2pp, policymakers are expected to maintain policy rates at current levels over the next twelve months. This cautious stance reflects both robust growth and concerns about potential downward pressure on the rupee.

## EXTERNAL ACCOUNTS WEAKENED IN 2025

In 2025, India's external accounts deteriorated slightly, although they remain sound. As of mid-February, the country held substantial foreign exchange reserves amounting to USD573.6 billion, which provide coverage for 6.7 months of imports and fulfil all short-term financing requirements. The deterioration in external accounts was attributed three main factors: a widening current account deficit, net portfolio investment outflows, and a decline in foreign direct investment during the fourth quarter, which were insufficient to offset the current account deficit. Consequently, the rupee depreciated by 4.8% against the US dollar between the end of 2024 and the end of 2025, and by 8% in nominal effective terms, marking one of the weakest performances among emerging Asian currencies (see Chart 1).

Unlike Southeast Asian countries, which saw an average export growth of 12.7% in current dollar terms during 2025, Indian exports grew by just 0.6% over the same period. The strong export performance in the first half of 2025 was reversed in the second half, with exports declining by 3.6% compared to the first half. This reversal followed the US' implementation of a 25% surcharge on tariffs for imports from India in response to India's purchases of Russian oil. The tariff increases effectively raised the average tariff rate on Indian goods from 2.4% in 2024 to 35.1% in August 2025 (compared to 19% for Vietnamese products and 16.2% for Thai products). As a result, India's exports to the United States contracted by 22.1% in the second half of 2025 compared to the first half.

Moreover, India has not benefited from the strong global demand for electronic products driven by the artificial intelligence boom, as it lacks a significant presence in this segment. While India's electronics exports have grown rapidly, they remain concentrated in smartphones. Consequently, India's share in global goods exports declined by 0.1 percentage points in the first ten months of 2025, falling to just 1.7% according to IMF data, while Southeast Asian countries increased their market share.

Throughout FY2025/2026 as a whole, the current account deficit is projected to widen by 0.6 percentage points to 1.2% of GDP. However, this deficit is unlikely to be entirely covered by FDI inflows. While net FDI has increased from the previous year due to strong inflows in the first half of 2025, it is expected to remain below 1% of GDP, which is significantly lower than the levels observed in Southeast Asian economies (1.4% of GDP in Malaysia, 1.6% in Thailand, and 3.9% in Vietnam).

The country has also experienced significant portfolio investment outflows, which can be attributed to both the decline in bond yields associated with monetary easing and concerns regarding US tariff policies.

Although India's external position remains stable, the structurally low level of FDI is a cause for concern. India's limited integration into global value chains and its pressing need for foreign technology to develop its industrial sector and create high-quality jobs (requiring 12 million new jobs annually to absorb the workforce) suggest that attracting FDI would improve both productivity and household incomes.

After decades of protectionist policies, government initiatives to strengthen ties with numerous countries of all sizes and the proliferation of free trade agreements over the past year (with the United Kingdom in July 2025, Oman in December 2025, and the European Union in January 2026), demonstrates the Modi government's commitment to accelerating India's integration into global trade.

## INDIA'S AI READINESS: FALLING BEHIND REGIONAL PEERS

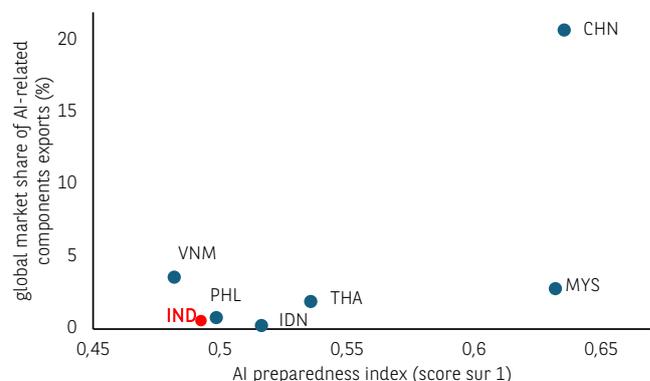


CHART 2

SOURCE: IMF, OXFORD ECONOMICS

From a geopolitical perspective, this trade strategy reflects Indian government's multi-alignment approach but also its willingness to shield its economy from potential tensions with the United States and/or China.

## AI DEVELOPMENT PRESENTS EMPLOYMENT CHALLENGES

The development of artificial intelligence (AI) currently poses more challenges than opportunities for India. The country's comparative advantage in AI-related products remains minimal, accounting for just 0.6% of global exports in 2024 according to WTO definitions. Although India maintains a strong position in IT services exports (accounting for 10.6% of global exports in 2024), its ability to deploy AI technologies nationally lags behind that of Thailand and Malaysia (see Chart 2).

India's implementation of AI faces several limitations, including inadequate infrastructure (ranked 68<sup>th</sup> out of 83 countries in the Global AI Index) and a lack of IT equipment (87<sup>th</sup> out of 173 in the ICT component of the IMF's AI Preparedness Index). The country's education and training systems are insufficient to facilitate widespread AI adoption, as evidenced by its low score of 0.4 out of 1 in the skills sub-component of the Technology Readiness Index. Given the nature of its labour market and current government policies, India is poorly equipped to rapidly adapt to AI technologies, ranking 85<sup>th</sup> out of 173 countries in the human capital and labour policies sub-component of the AI Preparedness Index - well behind most Southeast Asian nations (with the exception of Vietnam).

The high rate of informal employment within the Indian labour market and the limited capacity for large-scale workforce retraining make it particularly vulnerable to AI-driven disruption. The advantages of AI development may only benefit a small segment of the population, potentially worsening inequality. According to the Stanford AI Index Report, AI poses significant risks, particularly to low-skilled IT service jobs, which accounted for 1.4% of total employment in 2024.

Article completed on 27 February 2026

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# MALAYSIA

15

## MALAYSIA: STRONG GROWTH, HIGH EXPOSURE TO THE SEMICONDUCTOR SECTOR

Malaysia's economic growth continues to be robust and is projected to remain resilient over the next two years, underpinned by vigorous domestic demand and sustained global consumption of electronic goods. Unlike other ASEAN economies, however, Malaysia has derived little benefit from the decline in Chinese exports to the US market. Moreover, its imports of Chinese products have risen sharply, putting pressure on the manufacturing sector. Like its regional peers, Malaysia is actively expanding its trade and financial partnerships to diversify its exports and attract investment—critical steps to ascending the value chain in artificial intelligence (AI) components.

### STRONG ECONOMIC GROWTH

In 2025, Malaysia's growth was strong, as in other ASEAN countries. It rebounded in Q4 2025 (+6.3% year-on-year compared to +4.6% in the first three quarters), driven by a sharp increase in manufacturing output (along with demand for electronic products, as illustrated in Chart 1), services and agriculture. Growth in production for export (+5.7%) outpaced that of the domestic market (+4.9%).

Over 2025 as a whole, economic growth reached 5.2%, slightly higher than in 2024 (5.1%) and over the period 2011–2024 (excluding the pandemic). By way of comparison, growth in Indonesia reached 5.1% in 2025, 8% in Vietnam and 2.4% in Thailand.

In 2026, Malaysian economic growth is expected to remain strong (4.8%), although below its potential (5%) and the pace expected in other ASEAN countries (excluding Thailand). Economic activity will be bolstered by increased government support for the most disadvantaged households (+15%), a buoyant labour market (the unemployment rate stabilised at just 3% at the end of 2025, an unprecedented level, and real wages rose by 2.4% year-on-year in Q3 2025), an increase in public investment, and a tourism sector that is expected to remain dynamic. In 2025, the number of tourists exceeded that of 2019 for the first time since the COVID-19 pandemic. Furthermore, demand in the electronics sector is expected to remain strong.

The main downside risks to growth are: i) a downturn in the electronics market (which constitutes 36.8% of Malaysia's total exports), ii) the implementation of new tariffs on electronic products by the US, iii) a significant slowdown in Chinese demand (Malaysia's third largest export partner, accounting for 12.4% of its exports), iv) a sharp downturn in the property market (sales fell by 1.8% y/y in the first three quarters of 2025 and house prices rose by only +0.1% in Q3 2025), v) an influx of low-cost Chinese products onto the domestic market.

### CAUTIOUS MONETARY EASING

Despite the slowdown in inflation (from +1.8% in 2024 to +1.4% in 2025) driven by lower prices for household capital goods, the central bank (BNM) has adopted a very cautious approach to its monetary easing policy. Its key rates were reduced by only 25 basis points (bp) over the whole of 2025, whereas the central banks of Indonesia and Thailand reduced theirs by 125 bp and 100 bp respectively. The BNM's cautious stance can be attributed, on the one hand, to US trade policy, which has resulted in considerable instability in the financial markets, and, on the other hand, to the structurally high volatility of the ringgit. This currency is more exposed to capital outflows from foreign investors than other Asian currencies such as the Thai baht, due to a larger stock of foreign portfolio investments (35.5% of GDP in Malaysia compared to 23.5% of GDP in Thailand). In 2026, the BNM is expected to maintain its policy rates unchanged.

### FORECASTS

	2023	2024	2025	2026e	2027e
Real GDP growth, %	3.5	5.1	5.2	4.8	4.4
Inflation, CPI, year average, %	2.5	1.8	1.4	1.5	1.9
General gov. balance / GDP, %	-6.7	-4.1	-3.8	-3.5	-3.2
General gov. debt / GDP, %	64.3	63.9	63.4	63.3	62.9
Current account balance / GDP, %	1.1	1.4	1.9	1.9	1.9
External debt / GDP, %	69.3	69.9	69.4	69.1	68.8
Forex reserves, USD bn	101	103	111	115	118
Forex reserves, in months of imports	4.6	4.8	4.6	4.7	4.7

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### MALAYSIA: ECONOMIC GROWTH BOOSTED BY STRONG DEMAND OF ELECTRONIC GOODS

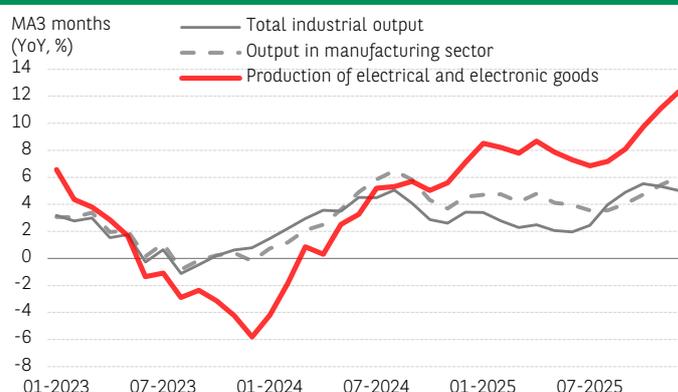


CHART 1

SOURCE: BNM, CEIC

### ROBUST EXTERNAL ACCOUNTS

In 2025, external accounts remained solid. The country maintained a stable and very moderate net debtor position (-0.5% of GDP). The current account surplus increased by 0.2 percentage points (pp) to 1.6% of GDP, compared to 0.1% of GDP in Indonesia, 4% in Thailand and 6.7% in Vietnam. This figure is below its long-term average of 2.8% over the last ten years. This increase was the result of higher tourism revenues. The trade surplus experienced a slight decline, as the contraction in imports was more than offset by that in exports. Dividends paid to foreign companies remained high (2.9% of GDP).


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Malaysia's exports of goods saw only a modest increase in comparison with other Southeast Asian countries (+6.5% in 2025 compared to +12.9% in Thailand and +16.7% in Vietnam) and, relative to GDP, even fell by 1.3 points. This is not simply a price effect, as export volumes slowed significantly. However, exports of electrical and electronic products increased by 18.4% over the year as a whole.

Singapore remains Malaysia's leading export partner (15.8% of total exports), ahead of the United States (14.1%) and China (11.7%), but the Malaysian government is striving to diversify its export markets. In 2025, its trade surplus with the United States increased by 45.3%, while its deficit with China widened further (+62%, as illustrated in Chart 2). Malaysia is the Southeast Asian country with the largest increase in its trade deficit with China, after Indonesia. Furthermore, Malaysia is one of the Southeast Asian countries that has benefited least from China's loss of market share in the US market, despite having a lower effective tariff rate than other Southeast Asian countries (excluding Singapore). In 2025, its market share in the United States increased by just 0.1 pp, representing just 1.7% of total US imports (compared to +1.5 pp and +0.7 pp for Vietnam and Thailand respectively, whose market shares stood at 5.7% and 2.7% respectively). Malaysia, on the other hand, was severely affected by competition from Chinese products on its domestic market. Its imports from China increased by 26%, with the sharpest increases occurring in computers (+147%) and vehicles (+40.6%), leading to a decline in domestic vehicle production (-5.9%).

In 2025, net FDI flows increased by 1.6 pp to 2.3% of GDP, a level never before reached in the last ten years (0.9% of GDP on average over the period 2020-2024), reflecting the country's strategy of openness. Investments from Singapore increased by nearly 20%, following the establishment of a partnership between the two countries in the Johor Special Economic Zone in January 2025. In contrast, European investments declined (-5.1%), while those from the United States remained stable. FDI from Singapore accounts for 27% of Malaysia's FDI stock compared to 10.3% for US FDI. By sector, foreign investment accelerated significantly in services, particularly IT services (+41.5% y/y). Nearly 55% of foreign investment is concentrated in services, compared to 38.3% in manufacturing.

Despite a cautious monetary policy, Malaysia has not been immune to the capital outflows that have affected Asian countries. However, unlike India and Indonesia, foreign investment inflows picked up in Q4 2025. Thus, unlike the Indian and Indonesian currencies, in 2025 as a whole, the Malaysian ringgit appreciated by 9% against the USD and by 5.7% in nominal effective terms, while foreign exchange reserves increased by USD 7 billion to USD 111 billion (4.6 months of imports of goods and services).

### AI: WELL POSITIONED BUT NEEDS TO ASCEND THE VALUE CHAIN

Malaysia is the twelfth largest exporter of products used by the artificial intelligence sector, as defined by the WTO (including raw materials), with a 2.8% share of the global market, ahead of Thailand but trailing behind Vietnam. It is recognised as one of the countries with a strong presence in the assembly, packaging and testing (OSAT) sector. Malaysia mainly exports integrated electronic circuits, which have seen a market share increase of 2 percentage points over the last five years (7.3% of global exports in 2024). Its sales are concentrated in Asia (78.7% of its exports), particularly Singapore, Hong Kong and China.

### MALAYSIA: THE BILATERAL TRADE DEFICIT WITH CHINA HAS WIDENED

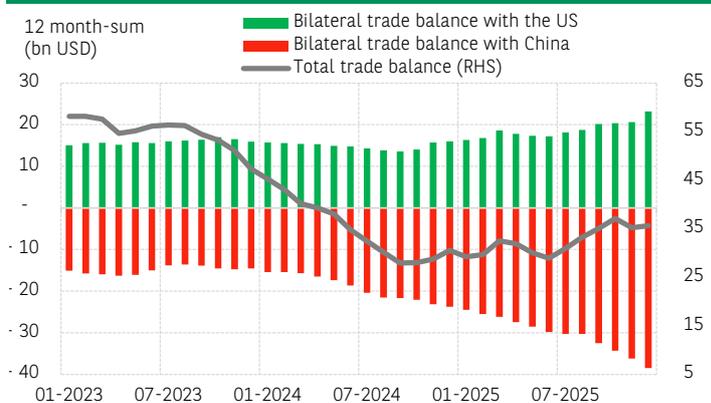


CHART 2

SOURCE: BNM, CEIC

In the first eleven months of 2025, Malaysia benefited from strong growth in demand for semiconductors. Its exports of components used by the AI sector (integrated electronic circuits, printed circuits and components for semiconductor manufacturing) increased by 54.7% y/y, now accounting for 37.1% of its total exports. Exports to the United States increased the most (+41.8% to reach 13.1% of total exports).

However, given Malaysia's position in the value chain (OSAT activities), the value added generated by the electronics sector remains modest (4.8% of GDP in 2024) and the share of employment in the sector is limited (4% of total employment according to UNCTAD). Malaysia aims to ascend the value chain and, in particular, to become a strategic player in the production of silicon wafers on which integrated electronic circuits are engraved. However, this activity, dominated by Taiwan and South Korea, requires attracting FDI and increasing the level of skills for workers. However, FDI are currently declining in favour of services.

Nevertheless, the signing of a free trade agreement with South Korea in October 2025 could stimulate Korean investment in the country. In terms of AI use, Malaysia stands out as the Southeast Asian country (excluding Singapore) with the most advanced human and logistical capabilities for leveraging this technology. According to the IMF's AI preparedness index, it ranks 20th out of 173 countries in the human capital and labour policies sub-component, and 45th for the quality of its digital infrastructure, ahead of other Southeast Asian countries.

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# HUNGARY

17

## GOOD GROWTH PROSPECTS DESPITE THE ELECTORAL UNCERTAINTY

All eyes are on the general elections on 12 April which will encapsulate the key issues facing Hungary. Regardless of the outcome of the election, Hungary's economic growth is expected to recover in 2026 and 2027, driven by more favourable export and consumption prospects. One cloud on the horizon, however, is the continued uncertainty around the trajectory of investment, as it hinges on European funds being released. Inflation is expected to remain within its target range in the short term, paving the way for a cycle of moderate monetary easing. Artificial intelligence is a promising sector and will play an important role in the coming years.

### A PICK-UP EXPECTED IN 2026

In 2025, the Hungarian economy was the weakest performer in the region, with barely positive GDP growth (+0.3% y/y compared to +0.6% in 2024 and -0.7% in 2023). By contrast, Poland and the Czech Republic recorded more dynamic growth despite the US tariff shock. This performance is particularly remarkable for the Czech economy, which is highly dependent on foreign trade and the automotive sector.

In Hungary, growth was hampered for several quarters by declining investment, although this was less pronounced in Q3 2025 (Chart 1). Exports also weighed on growth in 2025, with a negative contribution in the first three quarters. Meanwhile, household consumption was a key driver of growth. It grew by an average of 3.2% y/y in the first three quarters of last year. In Q4 2025, the economic indicators did not point to this trend reversing. Retail sales and new vehicle registrations held up well, while confidence indices rebounded over the same period.

The outlook for 2026 is expected to improve significantly owing to a recovery in exports, induced by the German recovery plan. Similarly, pre-election government measures ahead of the April general election will strengthen household consumption. These measures include an increase in the minimum wage (+11% on 1 January 2026), a lifetime income-tax exemption for mothers with two children and a fourteenth month's salary for pensioners (paid in February 2026). For the rest of the year, consumption is expected to remain solid, buoyed by strong wages and a healthy labour market. However, the outlook for investment remains uncertain in the short term, as it depends on European funds being released.

### INFLATION IS WITHIN ITS TARGET LEVEL

The year-on-year change in consumer prices has been within its target range of 3% ± 1 percentage point since November. Inflation slowed again to 2.1% y/y in January, thanks in particular to a slowdown in food and energy prices. The contribution of the goods segment to overall inflation declined (0.7 pp in January, after 1.5 pp in December). Similarly, inflation in services also eased, with a contribution of 1.3 pp.

A slight increase in consumer prices, particularly in the food segment, is expected after the elections, as the cap on corporate profits is likely to be removed. This measure, which was introduced in March 2025 and then extended until February 2026 with an expansion of the products covered, had contributed to significant disinflation in the agri-food sector. However, the upward effect on inflation is expected to be temporary, and inflationary pressures are likely to continue to ease gradually.

Over the next two years, inflation is expected to remain within its target range. Slower wage growth should lead to a more pronounced slowdown in inflation in services.

### CAUTIOUS MONETARY EASING

This year, the Central Bank began a cycle of easing in the first quarter, bringing an end to a prolonged monetary policy pause (with a 25-ba-

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	-0.7	0.6	0.3	2.3	2.8
Inflation, CPI, year average, %	17.6	3.7	4.5	3.2	3.0
General gov. balance / GDP (%)	-6.8	-5.0	-5.0	-5.5	-5.0
General gov. debt / GDP (%)	73.2	73.5	75.2	76.7	77.6
Current account balance / GDP, %	-0.0	1.6	1.8	1.4	1.2
External debt / GDP, %	86.1	85.4	87.2	82.2	80.7
Forex reserves, EUR bn	41.4	44.6	49.0	53.0	56.0
Forex reserves, in months of imports	3.5	3.9	4.2	4.4	4.6

e: ESTIMATES &amp; FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

#### SUBDUED INVESTMENT IN HUNGARY BUT LESS PRONOUNCED DECLINE IN Q3

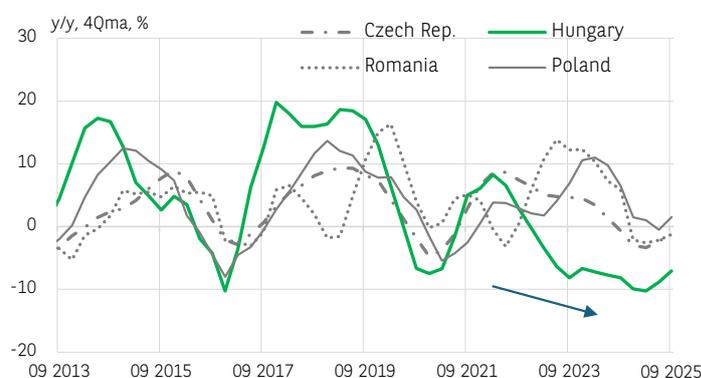


CHART 1

SOURCE: EUROSTAT, BNP PARIBAS

sis-point cut to 6.25%). The fact that inflation has come back down to its target is providing some leeway for the monetary authorities. However, the cut in the policy rate is likely to remain moderate in the short term. Household inflation expectations (around 20% since 2024) remain well above current inflation, which would encourage a degree of caution. The gap was larger in 2024 and 2025 than in previous years. According to our forecasts, the policy rate could stand at 5.50% at the end of 2025, then at 4.75% at the end of 2026.

### WHAT IS AT STAKE POST-ELECTIONS?

All eyes are on next April's general elections. The outcome is expected to be particularly close with a battle between Fidesz, the party


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in power since 2010 and Victor Orban's current government, and Tisza, the opposition led by Peter Magyar. Although opinion polls currently show the opposition as being slightly ahead, this could change between now and the election.

On a macroeconomic level, significant pre-election measures to support households and businesses have been put in place (around 2% of GDP) but have resulted in a deterioration in public finances. The budget deficit has been revised upwards to 5% of GDP in 2025 and is expected to worsen in 2026 (forecast of 5.5%). In addition, further support measures are expected in the coming weeks. Public debt (75.2% of GDP) is already the highest in Central Europe and is expected to increase further over the next two years. Indeed, the short-term budget deficit forecast far exceeds the threshold of 4% of GDP needed to stabilise debt. Corrective measures will be needed in the coming years to comply with EU budgetary rules.

European funds, which are still awaiting transfer since 2022, represent a significant challenge, regardless of the election results. The total amount is EUR 19 billion, or about 10% of GDP. The recovery and resilience funds alone account for EUR 10.4 billion (4.8% of GDP) and must be released almost in their entirety before December 2026, otherwise they will be permanently lost to Hungary. The full release of European funds will be conditional on the future government's commitment to implementing institutional reforms quickly to meet European standards on the rule of law.

## RESILIENCE OF EXPORTS

External accounts remain strong. In 2025, the current account balance is expected to show a surplus, which is expected to continue in 2026 and 2027. Both the services balance and the trade balance show a surplus. Exports of goods have held up well despite the tariff shock. They even grew by 1.7% in 2025, after falling by 3.5% in 2024. However, this trend varies across sectors. The sluggish picture in the automotive sector (which accounts for 13% of total exports) weighed on sales of vehicles and spare parts abroad. They fell by 7.5% y/y last year. Conversely, exports were buoyed by the beverages and tobacco, energy, oil products and machinery segments. With import growth remaining moderate and close to growth in exports (+2% in 2025 compared with -4.1% in 2024), the trade balance remained in surplus, at a level close to previous years (EUR 8.3 billion, 3.9% of GDP).

Hungary also remains an attractive destination for net foreign direct investment (FDI) flows and portfolio flows (EUR 4.5 billion expected for 2025, or 2.1% of GDP). In the short term, the outlook remains favourable, particularly for FDI, driven by nearshoring activities and Chinese investment.

## AI: A PROMISING SECTOR FOR STIMULATING INVESTMENT

The use of AI in Hungarian companies is currently less widespread than in most European countries (as is the case in other Central European countries). In 2025, only 6.7% of companies were using it, whereas the percentage was much higher in the EU (14.8% on average, Chart 2). The difference with the Nordic countries is even more striking (32.1% in Denmark, 23.7% in Sweden and 22.8% in Norway in 2025). Furthermore, the use of AI in these countries has been rising sharply since 2023, while it has been increasing relatively slowly in Hungary.

### THE USE OF AI IN COMPANIES IS LOW IN HUNGARY

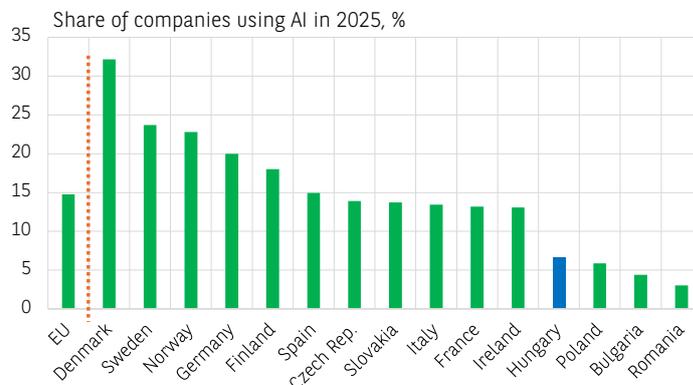


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

AI-related products currently account for a relatively high share of Hungarian exports (15.7% of the total) and a marginal share globally. It accounts for less than 1% of global exports of AI-related products (as is the case for many other countries). This figure is expected to increase in the near future, however.

The country is aiming to become an AI strategic hub in the region, following a similar approach to Poland. In September 2025, Hungary published a new strategic plan for the 2025–2030 period, aimed at supporting growth and revitalising competitiveness. Research and innovation, the development of the AI industry and the development of government services and regulations around AI are at the heart of this strategy. In order to achieve these objectives, a dedicated AI research centre will be established in 2026, while training in this sector will be integrated into study programmes. The necessary infrastructure (such as data centres) to support the development of AI is already under construction<sup>1</sup>.

Hungary has many assets in the region that will help it to develop its AI strategy. This is evidenced by a relatively good score of 0.56 on the IMF's AI Preparedness Index (0.66 for the EU and 0.77 for the United States), driven in particular by its existing digital infrastructure. In addition, the country has a skilled workforce in the region. The proportion of the population with higher education is 33%, slightly below the EU average. This proportion rises to 90% if people who have completed secondary school are included.

Foreign direct investment and investment in AI are expected to increase in the coming years. Investment in intellectual property has been on the rise since 2021 (+6.4% above the 2021 level), while other types of investment are declining overall. Similarly, net turnover, which is growing strongly in AI-related sectors, reflects this dynamic, including computer programming (+24.2% between 2021 and 2024), telecommunications and professional and scientific activities (+17.4%).

Article completed on 26 February 2026

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<sup>1</sup> For example, the partnership signed with German company ParTec AG in July 2025 covers the construction of a new AI dedicated data centre and a solar park (to increase energy storage capacity), which should be operational by 2027.



# POLAND

19

## THE REGION'S POWERHOUSE

Poland's economy is impressively dynamic. In 2025, the country posted the highest growth rate in Central Europe and one of the highest in the European Union. This growth pattern should, yet again, be observed in 2026. Inflation is projected to remain within its target range in 2026 and 2027. However, the cycle of monetary easing is coming to an end. Public finances have deteriorated, but the Polish government can still easily secure financing on the bond market, and sovereign risk remains limited. The artificial intelligence sector, while still in its infancy, is set to become a key driver of growth.

### DYNAMIC ECONOMIC GROWTH

Polish economic growth remained robust in 2025. In Q4, real GDP grew by 3.6% year-on-year (+1.0% quarter-on-quarter) compared to 4.0% y/y in Q3 2025, resulting in an annual growth rate of 3.6%. Detailed national accounts data for Q4 2025 have not yet been released. However, economic indicators point to a recovery in consumption after the slight decline observed in Q3. Investment, bolstered by European funds, has undoubtedly grown at a faster pace. Exports likely experienced a more marked recovery in Q4. The improvement in new export orders (PMI) and the resurgence in industrial production point in this direction.

The outlook is favourable in the short term. Industrial confidence has improved over the last six months. Poland is once again expected to post the strongest growth in Central Europe and one of the most dynamic in the EU in 2026 and 2027 (Chart 1). In 2026, according to our estimates, it should be above its potential growth rate of 3.0%. Investment should continue to benefit from European funding, with transfers under the Recovery and Resilience Facility due to end in August 2026. At present, a significant portion of these funds is yet to be disbursed: EUR 28 billion out of the EUR 55 billion allocated (51% of the total). Moreover, the German recovery plan and planned investments in the defence sector in Poland are expected to boost investment.

Consumption, which has been the main driver of growth, remains buoyant in the short term. It should benefit from improved household confidence, a rebound in credit and a dynamic labour market. The unemployment rate is expected to remain close to historic lows, at around 3% (according to the International Labour Office definition). Furthermore, although wage growth is slowing, it remains high, and the ongoing decline in inflation should facilitate an increase in real wages. Fiscal policy will also remain supportive due to the extension of generous social benefits. Nevertheless, the rise in the savings rate since mid-2025 indicates a certain degree of caution on the part of households. There are also signs of a recovery in external demand, as the growth outlook for Germany is expected to improve. In 2027, however, growth is projected to slow slightly as European funds become less available.

### INFLATION HAS RETURNED TO ITS TARGET

Inflation, as measured by the CPI index, has been in line with the Central Bank's target since last July. It stood at just 2.2% year-on-year in January 2026. Excluding food and energy, inflation remained slightly higher at 2.7% y/y in December, reflecting wage pressures. Wage growth in the corporate sector remains strong (8% in 2025), although lower than in previous years (11.9% in 2023; 11.2% in 2024).

In the short term, inflation is expected to remain within the Central Bank's target range. According to our forecasts, it should continue to decline in 2026 before rising very modestly in 2027.

The cycle of monetary policy easing that began in May 2025 has been significant but is coming to an end. The monetary authorities have

### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	0.1	3.0	3.6	3.7	3.2
Inflation, CPI, year average, %	11.4	3.8	3.6	2.3	2.5
Gen. Gov. balance / GDP, %	-5.2	-6.5	-6.9	-6.5	-5.5
Gen. Gov. debt / GDP, %	49.5	55.1	58.2	61.4	63.5
Current account balance / GDP, %	1.5	0.3	-0.7	-1.0	-1.2
External debt / GDP, %	49.8	51.8	49.6	49.5	48.0
Forex reserves, EUR bn	175.4	214.2	226.0	231.0	2.4
Forex reserves, in months of imports	6.1	7.3	7.4	7.2	7.1

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### POLAND: OUTPERFORMANCE OF THE ECONOMY

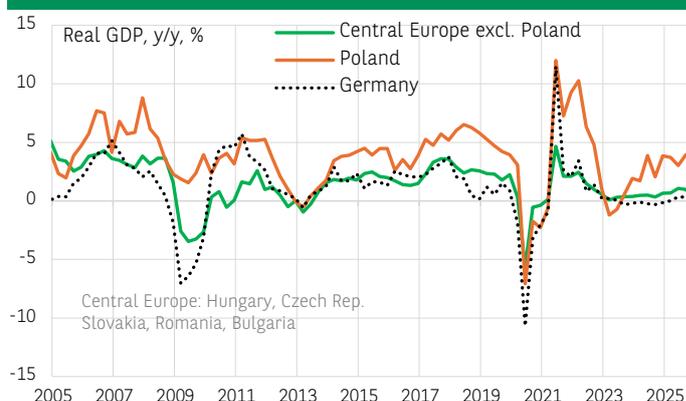


CHART 1

SOURCE: EUROSTAT, BNP PARIBAS

already reduced their key interest rate by a total of 175 basis points (bp), lowering it to 4.0% at the end of 2025. This rate is close to the neutral interest rate according to IMF estimates. Two further 25 bp cuts are expected this year, including one by March. The key interest rate is projected to reach 3.50% at the end of 2026 and to remain at that level in 2027.

### EXPORTS HAVE HELD UP WELL, BUT THE TRADE BALANCE IS IN DEFICIT

Despite the tariff shock, Polish exports held up well in 2025 and ended the year slightly up (+2% after -5.6% in 2024). This growth was driven


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by food, chemicals and “other manufactured goods”, which saw year-on-year increases of 8.0%, 2.0% and 2.9% respectively over the first eleven months. Imports, meanwhile, rebounded by 3.9% in 2025. As a result, the trade balance returned to a slight deficit (less than 1% of GDP) after the surpluses observed in 2023 and 2024.

The trade deficit is not expected to disappear over the next two years, as the positive investment outlook will coincide with an increase in imports of capital goods. At the same time, imports of military goods, which have risen sharply since the start of the war in Ukraine (EUR 5 billion in 2024; EUR 4.7 billion in the first 10 months of 2025), will remain strong in the medium term. Poland plans to maintain its defence spending at 5% of GDP.

Nevertheless, Poland’s external accounts remain robust. In 2025, the current account deficit was low (-0.7% of GDP) and is expected to remain so in 2026-2027. The services balance, which is structurally in surplus, should offset a large part of the trade deficit and the income balance deficit. Capital inflows are more than sufficient to cover the current account deficit. Poland continues to be an attractive destination for both foreign direct investment and portfolio flows, which could reach 1.4% and 1% of GDP respectively in 2025.

### SIGNIFICANT PUBLIC FINANCING NEEDS

The budget deficit is likely to have widened in 2025 (to -6.9% of GDP according to our estimates, compared to -6.5% in 2024). It is unlikely to decrease significantly in the short term, despite the government’s commitment to consolidating public finances. Defence spending, at close to 5% of GDP, and social spending, will put pressure on the government budget in the short term. In this context, the public debt-to-GDP ratio is expected to exceed the 60% threshold, reaching 61.4% of GDP in 2026 according to our estimates. Our calculations indicate that the budget deficit must fall below 3.5% of GDP to stabilise the debt ratio.

At present, sovereign risk is not a major concern. The apparent interest rate, estimated at 3.5% in 2026, remains lower than the nominal GDP growth rate. The interest burden relative to government revenue is moderate, even though this ratio has increased in recent years. In the meantime, the Polish government may save PLN 25 billion (EUR 5.9 billion) over two years due to the fall in the key interest rate.

However, the government’s financing needs, which include the budget deficit and maturing debt, are considerable. The Treasury estimates these needs at PLN 688.5 billion for 2026, or 16.6% of GDP. To date, around 30% of this amount has been financed mainly on the domestic market. At the same time, Poland has turned to international capital markets, issuing EUR 3.25 billion in euros and EUR 1.2 billion in yen since the beginning of this year, and is planning to issue in US dollars in the near future. Poland is not facing any major difficulties in financing its foreign currency debt. However, foreign currency issues are expected to remain below 25% of outstanding debt, which is the limit set by the government.

### AI: A TOOL FOR BECOMING A REGIONAL HUB

In Poland, the integration of AI into economic activities is still at an early stage, but the country intends to leverage it to move up the value chain and continue its economic convergence with the more developed EU countries.

Poland aspires to become a regional hub for AI investment. To this end, in 2020, the government launched a national initiative to support companies in the development of artificial intelligence through public funding programmes. In October 2024, the Polish government

### EXPORTS OF AI-RELATED PRODUCTS ARE STABLE AS A PERCENTAGE OF GDP



CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

unveiled a new digital strategy aimed at strengthening activities in this field and achieving a 50% adoption rate of AI in companies. It also announced the creation of a EUR 235 million AI fund. The country is focusing on the construction of interconnected data centres, in addition to a EUR 3 bn “AI gigafactory” built in partnership with the Baltic countries. Several AI research centres are already operational, with more set to bolster this system in the coming years.

Poland can also count on European aid to realise its ambitions: around 20% of the recovery and resilience funds are earmarked for digital transformation initiatives. In addition, the defence industry, which is expected to grow in the coming years, will also stimulate the deployment of AI.

Poland has several strengths, including its digital infrastructure and highly skilled workforce. In the PISA mathematics rankings, Poland is among the top countries in both Europe and globally. Likewise, the percentage of jobs held by people with higher education is relatively high (43% of total employment among 24-64 year olds). This is reflected in the relatively satisfactory score of 0.6 on the IMF’s AI Preparedness Index, which is close to the EU average (0.66) and the euro area average (0.67).

At present, the adoption of AI in businesses is limited, with only 5.9% of businesses reporting their use of this technology in 2025. However, foreign direct investment related to AI in the “computer, electronic and optical product manufacturing”, “ICT” and “scientific, technical and professional activities” segments is promising. Overall, FDI related to these sectors doubled between 2018 and 2024, particularly in professional and scientific activities. The share of exports of AI-related products (Chart 2), estimated at EUR 31.3 billion in 2025<sup>1</sup> (3.4% of GDP, 8.5% of total exports), has been more or less stable since 2021. However, these figures should be interpreted with caution, as the exported products may not be exclusively designated for the AI sector.

Article completed on 26 February 2026

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<sup>1</sup> Calculations based on the product classification provided by the WTO in its World Trade Report (2025) “Making trade and AI work together to the benefit of all”, Annex A.



## SLIGHTLY LESS UNBALANCED GROWTH

The Turkish economy has experienced a moderate deceleration despite a flat labour market since 2024 and a reduction in exports in the second half of 2025. Concerns linked to political tensions in March 2025 have dissipated. Consumption is slowing but remains buoyant thanks to renewed disinflation and the use of credit. Investment has recovered after a slump in 2024. Growth is expected to strengthen slightly in 2026, in contrast to the previously expected slowdown scenario. Consumption is expected to moderate further, influenced by tighter controls on credit card use. However, monetary policy is likely to remain accommodative, and fiscal policy will also adopt a more supportive stance. The overvaluation of the lira continues to be the main risk to growth. While AI is likely to contribute only marginally, the country is demonstrating surprising potential in this area, particularly in terms of its available skilled labour force.

### A DOMESTIC DEMAND-LED GROWTH TOGETHER WITH A RESUMPTION OF DISINFLATION

In Q2 and Q3 2025, real GDP growth averaged slightly above 4% q/q at a seasonally adjusted annualised rate, exceeding its potential as estimated by the IMF. It slowed in Q4 (+1.6% in saar) but held up very well for 2025 as a whole, at 3.6%.

Household consumption has been the main driver of growth, averaging +4.2% year-on-year, despite a deceleration since 2022. This growth has been bolstered by wage purchasing power and the use of credit. Disinflation continued in the last quarter, although it slowed in H2 compared to H1. In January, the year-on-year inflation rate stood at 30.7%, down from 35% in June 2025 and 44% in December 2024. However, employment has not increased since 2024, and the unemployment rate has been rising slightly since early 2025, reaching 8.6% in November. Household confidence has been stable since spring 2025, albeit at a lower level than before 2018, when inflation was in single digits and much less volatile. Until the end of 2025, households continued to make extensive use of their credit cards for consumption, with real-term spending financed in this way growing at a rate of 12% year-on-year.

In 2025, total investment picked up again (+7%) after experiencing a dip in 2024. Investment in equipment remained buoyant (+5%) and is 80% higher than in 2018. Investment in construction has been recovering steadily since 2024 (+9.8%), but remains 20% below its 2018 level.

The contribution of net exports of goods and services to growth was negative, primarily due to the weakness of exports (-0.3% in 2025), especially in the second half of the year, rather than the increase in imports. Imports rose by 4.9%, following a contraction in 2024 at the same rate. Furthermore, headline elasticity to growth remains relatively low (1.4).

In Q4 2025, industrial production and service sector activity remained largely unchanged, while the capacity utilisation rate in the manufacturing sector continued to decline, falling below its 2007-2024 average. Fortunately, activity in construction and retail sales remained buoyant during this period.

Overall, growth remained unbalanced (Chart 1), but slightly less so than in 2024, a year marked by a slowdown in equipment investment, which is crucial for potential growth.

### OUTLOOK: FRAGILE CONSOLIDATION DUE TO A POTENTIALLY OVERVALUED LIRA

Several factors point to a consolidation of growth in 2026 and 2027. First, as in 2024, the carry-over effect is expected to be significant,

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	5.0	3.3	3.6	3.8	4.0
Inflation, CPI, year average, %	53.9	58.5	34.9	26.1	19.0
Central gov. balance / GDP, %	-5.1	-4.7	-2.9	-3.5	-3.0
Gen. Gov. debt / GDP, % (EU standards)	24.9	20.8	21.7	21.9	22.4
Current account balance / GDP, %	-3.6	-0.8	-1.5	-2.0	-2.4
External debt / GDP, %	43.1	38.1	36.2	34.7	34.8
Forex reserves, USD bn	92.7	90.9	77.0	87.6	89.3
Forex reserves, in months of imports	2.9	3.0	2.3	2.5	2.4

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

#### ECONOMIC GROWTH SUPPORTED BY CONSTRUCTION & SERVICES

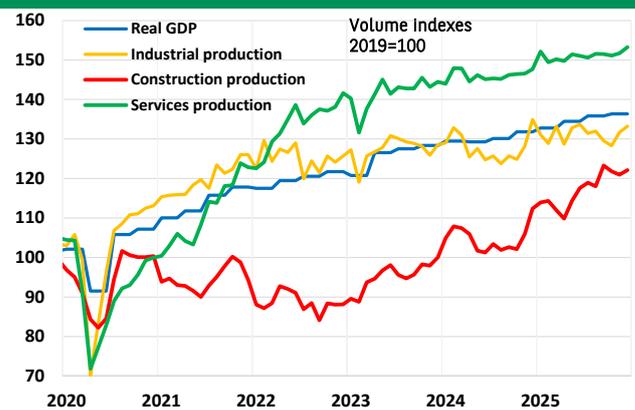


CHART 1

SOURCE: TUIK

contributing just over 1 percentage point to GDP. Second, disinflation is anticipated to continue, especially in the services sector, characterised by a lower rate of administered price adjustments and ongoing disinflation in rents. The central bank has maintained its inflation target at 16% for the end of 2026 but has revised its range upwards from a previous target of 13%-19% to 15%-21%. This adjustment is the result of a revision of the CPI index weightings, which is estimated to impact growth by 1 percentage point. However, it is mainly due to the central



bank's revised expectations regarding a fall in import prices. Despite this, monetary policy is expected to continue to ease, albeit cautiously, ensuring that the central bank maintains a positive real policy rate. Third, fiscal policy is expected to be more accommodative than in 2025 (see below). The official target for the primary balance is still a zero deficit after a year of surpluses. However, in 2027, fiscal policy may be deliberately relaxed, as the presidential elections scheduled for May 2028 are likely to be brought forward to November 2027.

However, there are downside risks. Household consumption should continue to bolster growth, but it could also slow down as real wages have been stable since mid-2025. In addition, the minimum wage increase at the beginning of 2026 was lower than inflation, and rising unemployment could result in a higher savings rate. Furthermore, the percentage of non-performing loans on personal loans, particularly credit cards, has doubled from 3% to 6% since the end of 2023, prompting the central bank to impose stricter conditions on credit card financing.

There is even greater uncertainty regarding the contribution of net exports to growth. The real exchange rate, as measured in terms of producer prices, has appreciated by nearly 30% since 2022, returning to levels seen in the mid-2010s. For manufacturers exporting products with relatively low added value, such as textiles, the Turkish lira is perceived as overvalued. However, the trade deficit, excluding oil and gold products, is still low and, overall, Turkish companies continued to gain market share in the European market until 2025, increasing from 3.5% in 2019 to 4.1%, compared to 2.5% in the early 2000s, according to the Ministry of Finance. In addition, exports of medium- and high-tech products now account for 43.5% of total exports, marking an increase of 10 percentage points over the last five years. In any case, the consolidation scenario assumes that Türkiye will maintain its market share in Europe despite fierce competition from China.

## FINANCIAL APPEAL DUE TO CURRENT AND BUDGET DEFICITS UNDER CONTROL

In 2025, public finances continued to improve. The central government's primary budget balance (excluding interest payments) recorded a surplus of 0.4% of GDP, following a deficit of 1.9% in 2024. This was largely driven by increased revenues, which accounted for two-thirds of the improvement. Although the interest burden rose to 3.3% of GDP from 2.8% in 2024 as a result of higher bond yields in the second half of the year, the overall deficit fell to just under 3% of GDP. Central government debt increased marginally, with the deficit offset by real exchange rate appreciation (foreign currency debt accounted for 53% of total debt at the end of 2025).

In 2026, the government's objective is to maintain a balanced primary budget. Fiscal policy will therefore be more accommodative<sup>1</sup>. Interest payments on domestic debt are expected to rise compared to 2025, but the Treasury's financing plan remains secure with a lower domestic debt renewal rate than in previous years. In addition, the Treasury has already issued USD 5.9 billion in international bonds and lease certificates since the beginning of the year, which is almost half of the annual target of USD 13 billion. External debt servicing between March and December 2025 amounts to USD 14 billion and is expected to be managed without drawing on cash reserves.

The country's external vulnerability has diminished compared to a year ago, but continues to be an area of concern. The current account deficit has worsened significantly, rising from USD 10.4 billion in 2024 to USD 25.2 billion in 2025. However, it remains moderate as a percentage of GDP (1.5%). The central bank's international reserves exceed USD 200 billion, with gold reserves (60% of the total) rising sharply in value. Including gold, these reserves represent six months of imports. At the beginning of February 2026, net reserves, as defined by the IMF, stood at a satisfactory level of USD 90 billion (as a reminder, they were negative in spring 2023).

The concerns arising from political tensions in March 2025 have subsided. Portfolio managers are once again favouring the bond market, with significant inflows from non-resident investors, both on the bond market and the Istanbul Stock Exchange, which have surged since the beginning of the year. Risk premiums demanded on euro and dollar Eurobond issues in early February were at historic lows (240 basis points for 7-8 year maturities).

However, the risk of exchange rate volatility remains high. The central bank has also strengthened its prudential measures to limit corporate foreign currency debt (the ratio of corporate foreign currency debt to exports has been rising since 2024).

## AI: AN ADVANTAGE IN TERMS OF HUMAN RESOURCES

AI contributes only marginally to overall GDP growth, but the country is making notable strides in this area. According to Stanford University's Artificial Intelligence Index, it ranks just behind Switzerland in terms of public sector engagement. A survey conducted by the National Institute of Statistics indicates that the rate of AI adoption had already reached 24% in companies with over 250 employees in 2025.

According to projections from Oxford Economics, exports related to artificial intelligence amounted to USD 10.8 billion in 2025. This figure is higher than that of major emerging countries such as Brazil, and Indonesia, and is on a par with certain European Union countries, including Portugal and Romania. However, these exports constitute a small fraction of total merchandise exports (4%). Furthermore, it is important to note that export statistics may be considerably inflated<sup>2</sup>.

The number of data centers in Türkiye is low (35) compared to other similar countries such as Poland, which has four times as many. However, according to the Global AI Index compiled by the British information company Tortoise Media, Türkiye's score for access to and reliability of energy sources and IT infrastructure is comparable to that of Poland.

Türkiye's strength lies in the quality of its engineering training. Since the early 2010s, the cumulative number of AI-related patents per capita has been significantly higher than in several countries with a similar level of development. According to the Global AI Index, Türkiye ranks highest in Central Europe for the availability of skilled labour necessary for developing AI solutions.

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<sup>1</sup> The primary balance would deteriorate by 0.4 percentage points of GDP, whereas it improved by 2.3 pp in 2025.

<sup>2</sup> The estimate is based on the WTO nomenclature, which covers components explicitly used to run AI programmes, but also raw materials and electrical and electronic equipment that may be used by AI programmes (but not exclusively). The WTO scope therefore overestimates exports related solely to AI. For Türkiye, 78% of exports correspond to items in the nomenclature that do not explicitly refer to AI.



# ARGENTINA

23

## LOOKING FOR RENEWED MOMENTUM

The Argentine economy has avoided recession due to strong exports. Fiscal policy is restrictive and will remain so, while inflation has picked up again in recent months. Growth is expected to slow in 2026 before rebounding in 2027. Empowered by his party's gains in the October 2025 mid-term elections, President Milei aims to push through his structural reforms swiftly. With backing from the IMF, the US Treasury and major international banks, foreign exchange reserves have been replenished, and the risk premium has fallen significantly. However, reserves remain low in view of the dollar-denominated debt servicing obligations for the next two years. Although the AI sector has yet to make a significant impact on growth, it is contributing to the development of the mining industry. Environmental protection could suffer as a result.

### AGRICULTURAL EXPORTS AND THE MINING INDUSTRY HELPED AVERT RECESSION

The Argentine economy ultimately avoided the recession that economic indicators had suggested was likely. The supply-side activity indicator from the national statistics institute (INDEC), which serves as an excellent proxy for GDP, jumped sharply by 1.8% in December compared with November, after declining over the previous two months. However, the growth rate of this index halved, falling from 6.1% year-on-year in H1 2025 to 2.7% in H2 2025.

For 2025 as a whole, real GDP increased by 4.4%, driven by robust growth in the agricultural sector (+10.6%) and financial services (+26.8% following a decline of -3.3% in 2024). The latter's vigorous performance is likely linked to the lifting of exchange controls. Industrial activity grew by a modest 1.6%, while the construction sector grew by 5.5%, benefiting from a positive carry-over effect at the end of 2024 and the beginning of 2025.

In the second half of last year, industrial production declined and construction activity stagnated. Household consumption, which had recovered between April and September, probably contracted, as year-on-year real retail sales returned to negative growth. Inflation accelerated on average from 1.7% per month between May and August 2025 to 2.5% between September and January. Year-on-year, it rose slightly to 32.4% in January. Only exports remained buoyant (+16% year-on-year in volume terms in Q4). Exports of unprocessed primary agricultural products, which account for 25% of total exports, showed a spectacular increase of over 47% in H2 2025 compared to H2 2024 (in current dollars and in volume). This increase was attributed to a good harvest, price stabilisation and the ongoing reduction in export taxes on key agricultural commodities. Additionally, exports of mining products, accounting for 12% of total exports, also played a role in bolstering trade growth. Without the contribution of exports, GDP would have contracted in the second half of the year.

### VERY OPTIMISTIC OFFICIAL FORECASTS

A slowdown in growth in 2026 is the most likely scenario, followed by a resurgence in 2027, subject to a resumption of disinflation, the de-dollarisation of savings held by Argentine corporations and households, and greater direct investment in the real economy.

There are four primary factors contributing to this outlook: first, nominal wages have not yet fully caught up with the cumulative inflation experienced since the end of 2024, which is likely to continue to weigh on household consumption. Second, fiscal policy is expected to

<sup>1</sup> The parliament's rejection of specific budget cuts, the electoral setback suffered by La Libertad Avanza, the president's party, during the by-elections in the Buenos Aires region in early September, and uncertainty over the outcome of the October mid-term elections also played a role.

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	-1.9	-1.3	4.4	2.5	3.5
Inflation, CPI, year average, %	133.5	219.9	41.9	28.0	14.0
General gov. balance / GDP, %	-4.4	0.3	0.2	-0.5	-0.3
General gov. debt / GDP, %	155.4	82.9	78.2	70.9	66.9
Current account balance / GDP, %	-3.2	0.9	-2.2	-1.7	-2.1
External debt / GDP, %	44.6	43.7	46.6	49.5	51.6
Forex reserves, USD bn	19.0	24.4	32.6	43.0	44.5
Forex reserves, in months of imports	2.5	3.7	3.7	4.6	5.6

e: ESTIMATES &amp; FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

#### ARGENTINA: ACTIVITY MAINTAINED BY EXPORTS

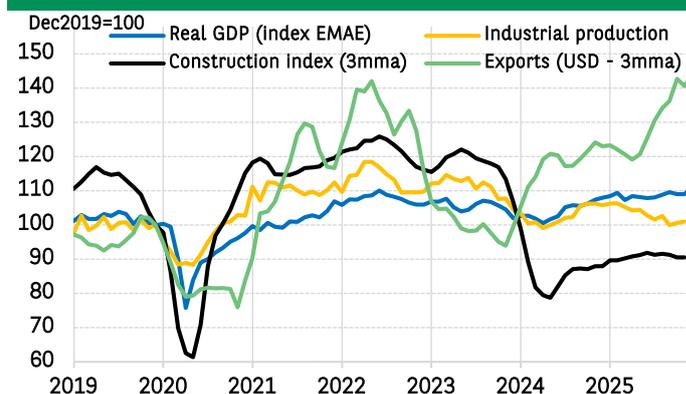


CHART 1

SOURCE: INDEC - ISAC - BNP PARIBAS

remain restrictive. Third, the shift from interest rate management to exchange rate pegging in the monetary and exchange rate policy may lead to significant fluctuations in interbank interest rates, similar to what happened in the second half of 2025<sup>1</sup>. Fourth, despite the easing of the exchange rate regime and robust export performance, the deterioration in the balance of payments suggests that the real exchange rate is overvalued and therefore poses a risk of peso depreciation that could fuel inflation.


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Nevertheless, both the IMF and the World Bank remain very optimistic about growth prospects, anticipating a growth rate of 4% in 2026 and 2027. This optimism can likely be attributed to two factors. First, the strengthening of J. Milei's party in the October 2025 mid-term elections provided the president and his government with renewed momentum. They successfully passed the 2026 budget in December (for a feat not achieved with the previous two budgets) and implemented the labour market reform.

Second, financial backing from the US Treasury and major US banks allayed concerns about the repayment of Argentina's dollar-denominated Treasury bond debt, enabling the country to meet its critical January deadline. As a result, the country risk premium, as measured by the CDS spread or EMBI spread, fell to 530 basis points for the 5-year CDS spread, marking its lowest level since 2018.

However, official forecasts anticipate a sharp acceleration from Q1 2026 onwards, although this remains uncertain at this stage.

### FISCAL ORTHODOXY MAINTAINED

Fiscal orthodoxy continued in 2025, with the government budget posting a new primary surplus (+1.4% of GDP), albeit slightly lower than in 2024. The reduction in primary expenditure, which accounted for 18.1% of GDP in 2025, was somewhat less drastic than in 2024 (-0.4 percentage points of GDP compared with nearly -7 pp in 2024). At the same time, revenues (15.9% of GDP) fell by 1 percentage point of GDP due to the abolition of the PAIS tax<sup>2</sup> and the reduction/suspension of export taxes. With interest charges falling to just 1.2% of GDP, the total budget balance showed a very modest surplus.

For 2026, the government's objective is to maintain the primary surplus at least at the same level as in 2025, which implies additional spending cuts to offset the increase in disability pensions and transfers approved by parliament, as well as the possible reduction in corporate taxes as part of labour market reform. However, any fiscal slippage will be limited<sup>3</sup>.

Following the IMF's second review, a tranche of USD 1.1 billion could be disbursed. J. Milei and his finance minister contend that the current risk premium remains far too high in view of budgetary developments. The issuance of international bonds in US dollars has therefore been suspended for the time being. An improvement in the balance of payments is still needed.

### EXTERNAL FINANCIAL SUPPORT STILL NEEDED

The current account balance returned to deficit in 2025, at around USD 15 billion. At the same time, net capital outflows from households and non-financial companies amounted to a cumulative USD 33 billion between April and December, partly due to the lifting of exchange controls (Cepo) for households and partially for companies. Despite this, foreign exchange reserves have nearly doubled from their mid-April 2025 low, reaching almost USD 46 billion in early February. However, this increase is gradual, aided by financial support from the IMF (USD 14 billion released in April 2025, followed by USD 2 billion at the end of the first review of the plan, and an SDR drawdown in early 2026) and international banks (USD 3 billion loan in early January 2026).

The IMF is expected to once again grant a waiver for non-compliance with the target for increasing net international reserves. Foreign exchange reserves remain low in relation to the dollar-denominated debt servicing obligations of the federal government and the central bank (USD 15 billion between now and the end of the year, and USD 29 billion in 2027).

Due to interventions by the US Treasury and the decision in early 2026 to peg the peso to inflation, the currency has stabilised and is now hovering around the lower end of its fluctuation band. However, despite the slowdown in growth in 2026, the current account is expected to remain in deficit, fuelling the debate on the overvaluation of the exchange rate. Despite a 16% depreciation against the US dollar in 2025, the real effective exchange rate remains at the same level as before the December 2023 devaluation.

### AI: FUTURE SUPPORT FOR GROWTH BUT A RISK TO THE ENVIRONMENT

According to projections from Oxford Economics, the share of exports related to artificial intelligence is minimal (approximately USD 300 million out of a total of USD 87 billion in goods exports in 2025) and is probably overestimated<sup>4</sup>. The number of data centres is still low (29 compared to 197 in Brazil) and, relative to the population, the number of patents concerning AI since the early 2010s is three times lower than in Brazil. Compared to Brazil, the number of data centres is limited by factors such as electricity generation. The relative shortfall in patents reflects both a shortage of skilled labour in the AI sector and, again in relation to Brazil, a less proactive government strategy to foster development in this sector.

The growth of the mining industry is expected to be the primary avenue through which AI will contribute to bolstering growth in Argentina in the next few years, especially in response to the increasing demand for copper and critical metals such as lithium. Exploratory investments in the extraction of copper and lithium have surged among leading companies in the industry, including Rio Tinto, Glencore, McEwen Copper and Galan Lithium. Argentina is home to 71 lithium-related projects and 35 copper-related projects, all at various stages of development. Mining projects have been revived by the Large Investment Incentive Programme (RIGI), launched by the government at the end of 2024. It is within this framework that OpenAI, in partnership with Argentine investors, announced the Stargate project, which aims to establish a large-scale artificial intelligence data centre in Patagonia. The total investment is expected to exceed USD 25 billion.

However, the development of the mining sector poses environmental risks. A proposed government bill to amend the 2010 law that protects glaciers has been submitted to the parliament.

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<sup>2</sup> The tax for an inclusive and supportive Argentina was abolished in November 2024, which involved a deposit on imports.

<sup>3</sup> The interest burden does not include capitalised interest on short-term securities denominated in pesos. If this were included, the interest expense would amount to approximately 2.4% of GDP, resulting in a budget deficit of around 1% of GDP.

<sup>4</sup> This estimate is based on the WTO nomenclature, which covers components specifically used to run AI programmes, as well as raw materials and electrical and electronic equipment that may be used by AI programmes (though not exclusively). Therefore the WTO scope tends to overstate exports that are solely related to AI. In Argentina, 87% of exports pertain to items classified in the nomenclature that do not explicitly refer to AI.



# BRAZIL

## CAUGHT BETWEEN TWO CURRENTS

The Brazilian economy is navigating between two currents: on the one hand, signs of a cyclical slowdown are mounting under the effects of monetary tightening; on the other hand, rebalancing mechanisms are emerging: disinflation is ongoing, interest rates cuts are in sight, the labour market is adjusting gradually to a more sustainable equilibrium, and economic growth is moving closer to its long-term potential. The current account deficit is resisting rebalancing, though it stays comfortably covered by steady inflows of foreign capital. The country's positioning in AI value chains reflects its comparative advantages: abundant natural and energy resources and a vibrant startup ecosystem. Unlocking AI into a productivity lever, however, faces structural obstacles including strong fiscal constraints and a large informal sector.

### ECONOMIC SLOWDOWN CONFIRMED

After a spell of resilience, the effects of monetary tightening (initiated in the fall of 2024) are having a more noticeable impact on activity. The Brazilian economy was close to stagnating in Q3 2025; and growth is anticipated to have remained weak in Q4 perhaps even turning negative. The trend continued into early 2026 with the BCB's GDP proxy slipping 0.6% m/m in January. The breakdown of the national accounts shows a decline in domestic demand and a reversal in growth drivers with external demand making a stronger contribution to growth since Q2.

In the second half of the year, the effects of the economic slowdown on prices, the labour market and credit risks were more visible. In December, households' non-performing loans reached 6.9%, their highest level since 2012 (vs. 5.2% in December 2024). Job losses in the formal sector reached a peak not seen since the end of the pandemic and the decline in employment has also been pronounced in the informal sector. On a seasonally adjusted basis, this segment has been destroying jobs since May 2025. The decline in unemployment in H2 2025 (to 5.2% in November, its lowest level since 2012) should therefore be interpreted with caution – as it largely reflects a decline in labor force participation rates rather than robust job creation.

On the price front, the disinflationary momentum is ongoing: at 4.3%, inflation ended 2025 within the official target range, a first in four years. Inflation benefited from lower energy prices, especially electricity. Core inflation remained above the BCB's 3% target, as service-sector price pressures stayed elevated, underpinned by the resilience of the labour market.

In 2026, growth is expected to converge towards its potential rate (1.8%), marking a slowdown compared to recent years (2.4% anticipated in 2025 and a pace close to 3% per year between 2022 and 2024). Inflation is set to ease further, reaching its lowest level since the pandemic (3.8%). Several factors could however bolster private consumption and provide some upside risks to the growth: (a) the reallocation of unused discretionary budget funds toward social programmes, (b) gains in purchasing power stemming from slower inflation, and (c) increased disposable income, especially for the middle class, following recent income tax reforms. Additionally, structural reforms introduced in 2025 destined to expand access to payroll-backed consumer loans in the private sector and open up subsidized housing to middle-income households could improve credit availability until monetary conditions ease more broadly. We expect the SELIC rate to reach 12% at the end of 2026, reflecting a 300 bp cut from current levels.

### DESPITE FORMAL COMPLIANCE WITH FISCAL RULES, DEEP IMBALANCES PERSIST

In 2025, the central government formally managed to comply with its fiscal rule – the primary balance stood at -0.48% of GDP (the target

	FORECASTS				
	2023	2024	2025e	2026e	2027e
Real GDP growth, %	3,2	3,6	2,4	1,8	1,4
Inflation, CPI, year average, %	4,6	4,4	5,0	3,8	3,8
Public sector fiscal balance / GDP, %	-8,8	-8,5	-8,3	-8,8	-8,4
Gross public debt / GDP, %	74	77	79	83	87
Current account balance / GDP, %	-1,2	-3,0	-3,0	-2,8	-2,7
External debt / GDP, %	33	33	35	36	33
Forex reserves, USD bn	355	329	358	360	365
Forex reserves, in months of imports	13	10	11	11	12

TABLE 1

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

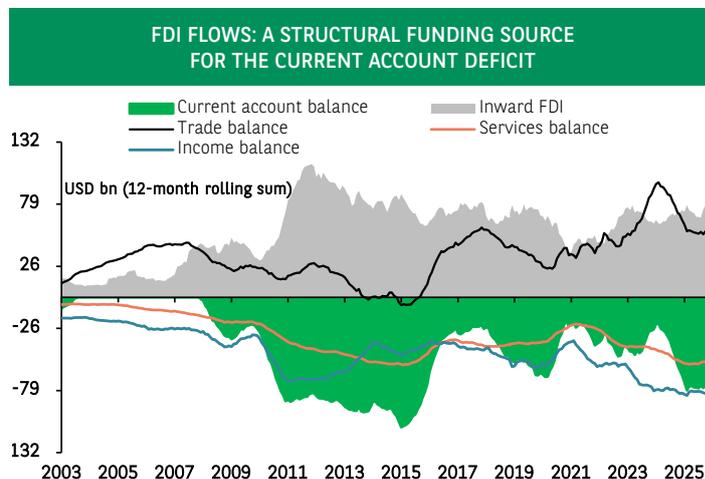


CHART 1

SOURCE: BCB, BNP PARIBAS

being 0% with a tolerance of ± 0.5% of GDP). The nominal deficit remains elevated (-8.3% of GDP) driven by a heavy interest burden (BRL1000 bn, 7.8% of GDP). However, formal compliance with the fiscal rule obscures a worsening fiscal reality: according to the Independent Fiscal Institute (IFI), the government relied on the exclusion of certain expenditures from the deficit and drew on exceptional revenues to help meet its targets. For example, the significant appreciation of the real (+12% against the dollar; its strongest annual increase since 2016, helping to partly offset the 21% decline suffered in 2024) helped limit the nominal deficit through gains generated from foreign exchange



swaps (affecting the result of the BCB). Without this, interest payments would have reached 8.6% of GDP, and the headline deficit would have approached 9% of GDP.

To prevent its public debt ratio (79% of GDP at end-2025) from spiraling further, Brazil must generate sustained primary surpluses – a challenge given the soaring cost of its debt (the cost of refinancing public debt reached its highest level in 20 years with real rates close to 8% in 2025). Even the modest 2026 surplus target (+0.25% of GDP) faces risks, given election-year spending pressures and the government's optimistic growth assumptions (2.3%). The path set by the fiscal rule – a surplus of 1.25% of GDP by 2029 – is likely to be out of reach judging by the increase in spending in recent years.

## EXTERNAL SECTOR RESILIENCE PERSISTS AMIDST A DETERIORATING CURRENT ACCOUNT BALANCE

In 2025, the deterioration of the current account intensified (+4% increase relative to 2024) reaching a deficit of USD 68.8 bn (3% of GDP) – its highest level since 2014. This result stemmed primarily from a shrinking trade surplus. Exports – despite record sales volumes – suffered from adverse global prices. Meanwhile, imports – despite the economic slowdown – remained surprisingly robust, fueled by strong demand for low-cost Chinese goods (in particular industrial inputs and equipment) owing to supply constraints in the manufacturing sector. The US surcharge on Brazilian products ultimately had a limited impact on the trade balance owing to the rerouting of trade flows, in particular towards China. Looking ahead, the Supreme Court's partial repeal of President's Trump tariffs is set to reduce the average tariff on Brazilian exports to 15% in 2026, a decline of 11 percentage points<sup>1</sup>. For 2026, the current account deficit is forecast to narrow (moderation of domestic demand, increase in oil exports) but will likely remain above its historical average (USD 42.5 bn between 2016-2025).

The deterioration of the current account balance poses no immediate threat given the country's robust external buffers: foreign exchange reserves are high compared to the country's external liabilities (USD 358 bn in 2025, *i.e.* more than 11 months of imports of goods and services), its sources of financing are diversified and stable<sup>2</sup>, and the country has a continuous access to international financial markets, with contained spreads. In 2026-27, Brazil is poised to maintain a strong appeal for foreign capital. The Mercosur-EU treaty and the Brazil-India agreement on access to rare earths should help boost foreign direct investment (FDI). In addition, portfolio investment flows will likely stay dynamic supported by high real interest rates on local debt instruments and solid prospects in the equity market on the back of: (a) attractive valuations, (b) the diversification of international portfolios towards emerging markets outside the United States, and (c) the lagged monetary cycle (Brazil has not yet started its easing cycle unlike most of its Latin American peers). By February 20<sup>th</sup>, foreign investors had already poured nearly USD 6 bn into Brazilian equities since the start of the year (compared to USD 4.6 bn recorded in all of 2025).

## AI: RICH IN RAW MATERIALS AND DATA, POOR IN TECHNOLOGY

In the global value chain of artificial intelligence and digital technology, Brazil appears mainly at three levels: (1) upstream – in the supply of critical minerals and rare earths<sup>3</sup>, essential in manufacturing chips

and other electronic components; (2) in the construction of data centers (nearly 200 sites, *i.e.* nearly 40% of data centers in Latin America but only 2% worldwide<sup>4</sup>); and (3) the development of AI-based products and services through its dynamic ecosystem of startups, particularly in AgroTech, FinTech, EdTech (according to the 2023 *District AI report*, amongst the ~ 500 AI startups active in Latin America, nearly 75% were in Brazil). On the other hand, the country has very little presence in the manufacturing of advanced components or software, in part a reflection of insufficient R&D investment (0.6% of GDP, compared to 2–3% in the leading countries). In 2025, exports of AI-related products represented USD 4.7 bn (*i.e.* 0.14% of the world total).

Aware of the economic and sovereignty-related challenges associated with AI, the authorities have adopted an AI plan (2024-28) around five strategic pillars – infrastructure, training, improvement of public services, entrepreneurial innovation, regulation/governance – and four short-term priority sectors (healthcare, industry, agro-food and the environment). Amongst others, the plan aims (a) to modernize the *Santos Dumont* supercomputer (with an objective to integrate the top 5 in the world within 5 years), (b) develop a national sovereign cloud infrastructure and (c) create a large language model (LLM) in Portuguese. Due to severe fiscal constraints, however, the country has limited room to jumpstart public investment (only USD 4 bn was allocated to the plan over 4 years). To help address these constraints but also to reduce the country's technological dependence and boost R&D and local innovation, the authorities have sought to: (i) strengthen collaboration between public, private and academic actors, (ii) provide financial support to innovative startups in the sector, (iii) stimulate private investment in digital infrastructure with appropriate incentive mechanisms<sup>5</sup>.

In a context where productivity has been broadly stagnant for close to twenty-five years, the effective diffusion of AI technologies across the economy is yet another major issue at stake for the authorities. While mainstream adoption is well under way – Brazil ranks as the second-largest user of generative AI in emerging markets behind India, according to Cisco – corporate adoption of AI solutions, particularly amongst SMEs and technology transfers to industry remain more limited. These gaps reflect structural constraints including unequal access to digital technology and infrastructure, a high prevalence of informal employment (informal structures have more limited access to finance and technology), and insufficient domestic savings to finance massive investments. According to the IMF's AI Readiness Index – which measures a country's ability to adopt and implement AI in a way that benefits its economy and society – Brazil ranks 66<sup>th</sup> out of 174, behind Chile and Uruguay. According to a study by the Federal University of Sao Paulo, under a scenario of moderate AI adoption in production processes (55% by 2030 vs. 70% in advanced countries), the net annual impact on GDP (*i.e.* actual annual gain after accounting for the costs related to initial investments, training, restructuring, etc.) would amount to +0.6% of GDP per year vs. +3.2% of GDP in advanced economies.

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<sup>1</sup> Average tariff peaked to 35% in September, but came down to 26% in November after a new round of exemptions.

<sup>2</sup> Over the period 2015–2025, FDI inflows (3.4% of GDP on average) ensured a comfortable financing of the current account deficit (–2.4% of GDP on average).

<sup>3</sup> Examples: silica, copper, niobium, graphite, nickel, scandium, bauxite, neodymium, dysprosium.

<sup>4</sup> But there isn't yet infrastructure capable of supporting the training of LLMs models.

<sup>5</sup> For example, the Redata bill, currently under review, introduces a special tax regime for data center services. The draft legislation provides for the temporary suspension and subsequent exemption of federal taxes on the purchase of machines, servers, and technological components intended for data center infrastructure.



## POLITICAL TRANSITION AND STRUCTURAL CHALLENGES IN THE MINING SECTOR

Chile's economic growth will slow very slightly in 2026 but will remain close to its potential, while inflation will fluctuate around the 3% target. The mining sector continues to be an important driver of growth: high copper and lithium prices are bolstering exports and investment projects. The pace of fiscal consolidation and the investment outlook will largely depend on the new government's ability to implement the economic measures announced during the presidential campaign. Despite the proliferation of initiatives aimed at developing the AI sector, its contribution to growth remains low. Mining resources are an asset and projects are multiplying, but environmental and social constraints will have to be addressed.

### NEW GOVERNMENT TAKES OFFICE

On 11 March, José Antonio Kast's government, elected last December, will take office. According to initial announcements, the president intends to reverse several policies enacted by the previous administration. He is expected to propose fiscal consolidation measures and reforms aimed at reducing State involvement in several mining projects, particularly those involving lithium. A number of social and environmental regulations are also expected to be relaxed. The aim is to encourage foreign investment, especially in the artificial intelligence (AI), renewable energy and critical materials sectors.

In the very short term, we do not anticipate any sudden changes in economic policy. The results of the parliamentary elections, which were held on the same day as the presidential election, did not allow any single party to obtain an absolute majority in Congress. Consequently, Congress will remain divided, and the new government will have to negotiate with multiple parties to advance its policies and likely form various coalitions based on the projects proposed.

Finally, the change in government is bound to have geopolitical ramifications. According to initial announcements, Mr Kast aims to improve bilateral relations with the United States, which could translate into stronger trade ties between the two countries (currently, 17% of Chile's total exports go to the United States) and increased US investment, particularly in the mining sector. In terms of FDI flows, the United States is the second largest investor (accounting for nearly 10% of the total), behind Canada (15% of the total) and far ahead of China (1%). At the same time, President Kast has acknowledged that China is too important a partner to jeopardise trade relations between the two countries (China is Chile's largest trading partner, accounting for nearly 40% of total exports). However, relations are likely to be more strained compared to those under the previous administration.

### ECONOMIC GROWTH CLOSE TO ITS POTENTIAL

Following a growth rate of 2.3% in 2025, real GDP growth is expected to slow only slightly in 2026, to 2.2%. Historically high copper prices and favourable trade conditions have bolstered exports and have at least partially mitigated the temporary decline in copper production seen in 2025 as several sites were forced to close due to mechanical and maintenance issues (Chart 1).

Domestic demand will remain robust. Controlled inflation, together with the recent increase in the minimum wage, will bolster household consumption. Outgoing President Gabriel Boric has raised the minimum wage several times, resulting in a total rise of around 55% during his term in office.

For the mining sector, which accounts for around 50% of exports and 10% of GDP, the outlook for 2026 is similar to that for 2025: copper prices are expected to remain high, thereby bolstering exports. How-

	FORECASTS				
	2023	2024	2025e	2026e	2027e
Real GDP growth, %	0.2	2.6	2.3	2.2	2.4
Inflation, CPI, year average, %	7.6	3.9	4.2	3.0	3.0
Central Gov. balance / GDP, %	-2.5	-2.8	-2.6	-2.0	-1.8
Public debt / GDP, %	39.4	41.7	43.0	42.8	42.4
Current account balance / GDP, %	-3.5	-2.5	-1.8	-2.0	-2.4
External debt / GDP, %	71.9	74.4	73.3	73.0	72.5
Forex reserves, USD bn	46.3	44.4	46.3	48.0	49.7
Forex reserves, in months of imports	7.0	7.3	7.5	7.6	7.8

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### COPPER SECTOR SUPPORTED BY SOARING PRICES

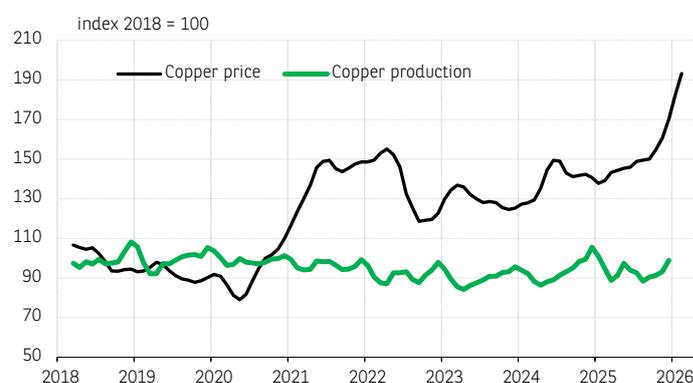


CHART 1

SOURCE: NATIONAL STATISTICS INSTITUTE, COCHILCO, BNP PARIBAS

ver, significant structural challenges persist. The recovery in copper production will be weak again this year. The national copper company CODELCO forecasts production of 5.6 million metric tonnes, representing an increase of just 0.8% in 2026 due to ongoing delays following maintenance operations at several sites.

While investment in the mining sector remains strong, it is largely focused on replacement and maintenance rather than expanding production capacity and innovation. However, the entry into force of the outgoing government's latest reform, which simplifies the licensing system, should help attract new investment and improve the business



climate. New projects identified in the mining sector (mainly copper and lithium) could also stimulate construction and transportation.

In a study published last January, CODELCO announced that the expected peak in production (set at 6mt) would not be achieved until 2034 (previously 2027). The growth trajectory of production is being hampered by structural constraints: the gradual deterioration of ore grades, which complicates extraction, and the ageing of large historical deposits are contributing to a rising trend in associated production costs. In addition, difficulty in accessing water and increasingly frequent periods of prolonged drought are complicating water management, which is essential for mining activities.

### DISINFLATION PERSISTS, ALBEIT WITH GREATER DIFFICULTY

Disinflation resumed in mid-2025 after a hiatus of several months caused by sharp rises in electricity prices. In January, inflation stood at 2.8% year-on-year and is expected to remain below the central bank's 3% target for most of the year, thanks to favourable base effects and exchange rates, and a projected decline in fuel prices. However, core inflation is expected to hover slightly above 3% in the first half of the year, due to higher labour costs stemming from recent labour market reforms, which include a reduction in weekly working hours and reform of the pension system. These measures are likely to continue to put pressure on inflation in labour-intensive service sectors. Following a 25bp reduction at the December meeting, the key interest rate remained unchanged at 4.5% during the last meeting at the end of January. According to the press release, a further rate cut cannot be ruled out, but the council wants to wait until the disinflation process is confirmed as sustainable.

### PUBLIC FINANCES: GRADUAL CONSOLIDATION

Over the past two years, the fiscal deficit has exceeded the 2% of GDP target set in the medium-term fiscal rule. The 2026 budget, which was presented last September by the outgoing government, included consolidation measures and a target of reducing the fiscal deficit to 1.5% of GDP. The new government's stated objective is to further reduce public spending by around 1.5pp of GDP over the next 18 months, with the intention of lowering the corporate tax rate to 23% by 2029 (currently 27%). This commitment seems optimistic, but if the spending adjustment is successfully implemented, the deficit could indeed be reduced to 2% of GDP.

Upon taking office, the government will have 90 days to establish a medium-term fiscal framework, publish a decree setting out the structural balance trajectory for the duration of its term of office, and define a macroprudential debt limit.

That said, despite deficits exceeding the targets set for 2023-2025, public debt has remained under the 45% of GDP threshold, and the sovereign risk premium remains very low in Chile (the 5-year CDS spread is only 43 bp). Public debt is expected to decline slightly in 2026 (to 42.8% of GDP, following 43% in 2025).

### AI: INSTITUTIONAL RATHER THAN INDUSTRIAL LEADER

Chile is a leader in the region when it comes to AI adoption. Since the beginning of 2021, the government has announced several major development initiatives, resulting in increased infrastructure, training, and incentives to attract investment in the sector. According to ECLAC data, while per capita spending remains low on a global scale, it is higher in Chile (USD 8 per capita) compared to other countries in the region (USD 4 on average).

### INVESTMENT IS SOLID

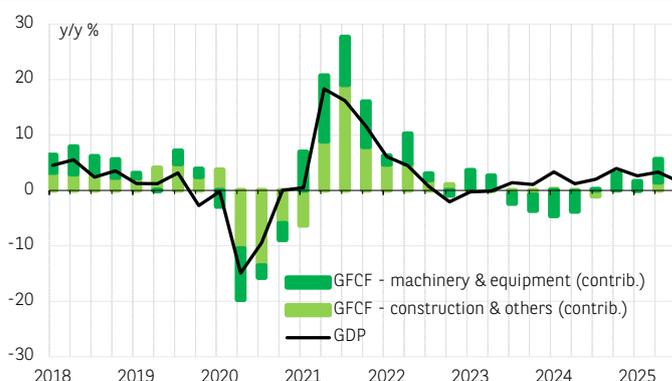


CHART 2

SOURCE: CENTRAL BANK, BNP PARIBAS

In February 2026, Chile announced the introduction of Latam-GPT, the first open-source language model designed for Latin America, with the aim of creating AI development capabilities specific to the region (particularly in terms of linguistic specificity).

The direct economic effects of these policies are still limited. Chile's share of trade directly attributable to AI is minimal, and the number of data centres is still low (59 at the end of 2025, compared to 173 in Mexico and 197 in Brazil). Furthermore, according to ECLAC estimates, the region attracts only around 1% of global investment in AI, despite accounting for nearly 7% of global GDP.

Nonetheless, Chile enjoys a major benefit from its copper and lithium resources, which are essential for energy storage in lithium-ion batteries, which are needed for electrical infrastructure and data centres. Currently, Chile mainly exports minimally processed lithium, while the industrial added value is captured by industries in Asian countries. The medium- and long-term challenges will be to reconcile moving up the value chain (by developing local battery industries) and maintaining an innovative position in the region, all while addressing environmental and social constraints.

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# MEXICO

29

## WAITING FOR THE USMCA

Strong exports helped the Mexican economy to avoid recession in 2025, despite geopolitical tensions. Sluggish investment is a structural weakness in the country, and the outlook is not favourable. However, driven by household consumption, activity is expected to rebound in 2026, and Mexican growth could reach its potential. Nevertheless, the short- and medium-term outlook hinges largely on the outcome of the USMCA negotiations. The same is true in the AI sector, as the sharp increase in exports of AI-related products to the United States masks a structural weakness in the local industry, which is still primarily a low value-added assembly platform. Here again, the outlook hinges on future USMCA negotiations, which could introduce new regulatory requirements.

### ECONOMIC RECOVERY, WITH GROWTH APPROACHING ITS POTENTIAL

In the end, the Mexican economy held up slightly better than expected in 2025. Exports remained buoyant and GDP grew by 0.5%. However, new US tariffs, growing political uncertainty, geopolitical tensions and fiscal consolidation weighed heavily on investment, while private consumption stalled. In real terms, private investment fell by nearly 5% during the first three quarters of 2025 compared to the first three quarters of 2024, and public investment decreased by more than 20% (Chart 1).

Uncertainty around bilateral relations with the United States, as well as planned or ongoing far-reaching constitutional reforms, will continue to weigh on the outlook for investment (both domestic and foreign). In terms of reforms to the judicial system (and the abolition of seven autonomous agencies, including the national antitrust commission) or the energy sector, regulatory uncertainty is increasing and becoming more dependent on political will. Some private projects could be renegotiated or more tightly regulated, and the organisation of the electricity market could be changed.

That being said, activity is expected to rebound, leading to real GDP growth of 1.5% in 2026, in line with the growth potential estimated by the IMF. Private consumption will be supported by a less restrictive fiscal policy than in 2025 (as the mid-term elections scheduled for June 2027 approach) and a 13% increase in the minimum wage (in place since 1 January). This increase is part of the "purchasing power catch-up" policy initiated by the previous government in 2018 and continued by president Sheinbaum. Since then, the minimum wage has increased by nearly 150%.

However, risks to growth remain on the downside. The renewal of the trade agreement with the United States and Canada (the USMCA) is scheduled for July. Negotiations have begun and the Mexican government is sending out signals of appeasement towards the United States, announcing protectionist trade measures (imposing customs duties on imports from countries with which Mexico has no trade agreement, including China) and non-trade measures (stepping up the fight against drug trafficking). Our base-case scenario is that the USMCA agreement will be renewed, but negotiations will undoubtedly prove difficult.

Provisions on rules of origin (a minimum proportion of a good's value must be produced in one of the three countries to be exempt from customs duties) and wage requirements<sup>1</sup> could be tightened. Trade and investment links between China and Mexico could be reviewed, reduced and strictly monitored.

<sup>1</sup> In the automotive sector in particular, for a vehicle to be exempt from customs duties, 40 to 45% of its value must be produced by workers paid at least USD 16 per hour.

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	3.2	1.5	0.5	1.5	1.8
Inflation, CPI, year average, %	5.6	4.2	3.8	4.0	3.6
Budget balance / GDP, %	-3.3	-5.1	-3.9	-3.8	-3.5
Public debt / GDP, %	46.5	49.1	51.5	53.1	54.0
Current account balance / GDP, %	-0.3	-0.9	-0.4	-0.5	-0.5
External debt / GDP, %	33.3	31.0	32.0	33.0	33.1
Forex reserves, USD bn	207.0	221.0	239.0	245.0	258.0
Forex reserves, in months of imports	4.1	4.3	4.5	4.2	4.1

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

#### MEXICO : CONTRACTION IN PRIVATE AND PUBLIC INVESTMENT

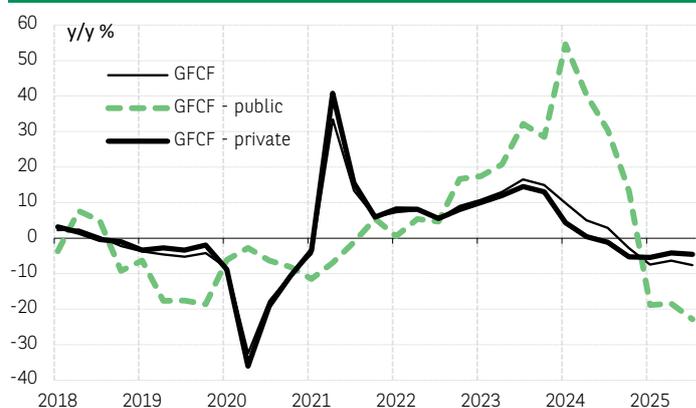


CHART 1

SOURCE: INEGI, BNP PARIBAS

#### PAUSE IN THE MONETARY EASING CYCLE

After a pause in December, inflation accelerated again in January (to 3.8%, after 3.7% y/y). Core inflation also rose (4.5% y/y, after 4.3% in December), moving away from the central bank's 4% target. Inflationary pressures remain moderate and targeted, due to new excise taxes (on sugary drinks and cigarettes), as well as new customs duties entering into force and the minimum wage increasing.


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Against this backdrop, the central bank left its key rate unchanged (at 7%) at its February meeting, marking a pause after 11 consecutive cuts. Geopolitical tensions, the “potential escalation” of trade tensions and persistent inflationary pressures were its main grounds for doing so. The central bank also revised its inflation forecasts upwards (3.7% and 3.8%, respectively, for the total and core indices, compared with 3.2% and 3.3% previously). The target date for convergence towards the inflation target (3%) has been pushed back from Q3 2026 to Q2 2027. Against this backdrop, although the central bank has not signalled its intention to end its easing cycle, we believe that a prolonged pause is likely.

## EXTERNAL ACCOUNTS: INCREASED VULNERABILITY TO THE RELATIONSHIP WITH THE UNITED STATES

Total exports grew by nearly 8% in value terms in 2025, after 3.5% in 2024, partly thanks to advance purchases by US companies (which brought forward their orders due to concerns about a possible escalation in US customs duties and the future of the USMCA). In addition, tariff exemptions under the USMCA also enabled Mexican exports to benefit from more favourable tariffs than other US trading partners, including China. Strong exports helped to reduce the current account deficit to 0.4% of GDP (after 0.9% in 2024).

Capital flows are more sensitive to political and geopolitical pressures. FDI stood at 2.5% of GDP, close to the 2024 level, but up from 1.7% of GDP in 2023. Net FDI strengthened slightly between January and September 2025, but investment in greenfield projects remains disappointing, with prospects hampered by the government’s strategy of prioritising domestic investment (particularly in the oil and gas, electricity and mining sectors).

## AI: HUGE POTENTIAL, BUT MANY OBSTACLES

The level of AI adoption is still very low in Latin America, and Mexico is no exception. According to ECLAC estimates, public spending on AI<sup>2</sup> in Mexico accounted for only 0.04% of GDP in 2023 (the leading countries, Brazil and Chile, spent 0.05% of GDP). This figure underestimates the actual amounts committed to the technology sector (only expenditure directly identified as AI is counted, not the entire digital transformation or IT investments). However, it is still low and illustrates both the lack of structural investment in the Mexican economy and the technological backwardness of the region as a whole.

From a foreign trade perspective, the outlook is different. Mexican exports accounted for only 3.3% of total global exports related to artificial intelligence in 2024 (Oxford Economics estimates). However, if we focus on trade with the United States, we see that exports of Mexican AI-related products to the United States have tripled since the beginning of 2024. According to US-ITC data, these products now account for around 15% of total US imports from Mexico (around 5% at the beginning of 2024). At the end of 2025, the level was close to imports of automotive parts, one of the main products imported by the United States from Mexico.

The surge in US imports of AI-related products coincides with an increase in the construction of data centres in the United States (Chart 2). The outlook appears favourable, but there is one caveat.

### AI: AN ASSEMBLY SECTOR FOR MEXICO

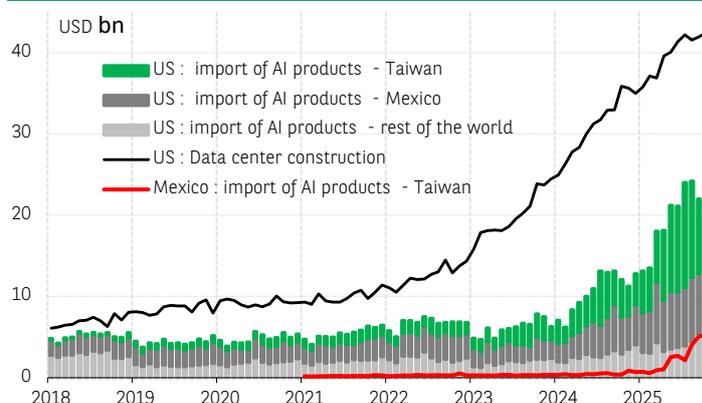


CHART 2

SOURCE: US-ITC, INEGI, BNP PARIBAS

Mexico is the second largest source of imports of these products to the United States, behind Taiwan, but it was the leading supplier until early 2024. Over the same period, Mexican imports from Taiwan increased significantly.

This example perfectly illustrates the structural weakness of Mexican industry (which also applies to other sectors), as, partly due to a lack of investment and innovation, Mexico tends to be at the lower end of the value chain. AI and associated servers depend on sophisticated semiconductors, mainly manufactured in Taiwan, while Mexico is still an assembly platform. The added value of the AI sector in the Mexican economy has not increased as much as recent export figures suggest.

Moving up into higher value-added segments of the semiconductor industry is viewed a priority by the Mexican government. However, here again, there are several obstacles to consider, including access to electricity, water and skilled labour. Furthermore, AI products have so far been exempted from US customs duties (as they are automatically treated as compliant under the USMCA and covered by general exemptions for imports of electronic products). However, the threat of new tariff barriers remains, and the issue will be part of the negotiations for renewing the USMCA. To date, the USMCA does not contain any specific AI clause. The review scheduled for this year provides an opportunity to do so, particularly by addressing the facilitation of cross-border flows, the modernisation of the digital services framework and regulatory coordination.

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<sup>2</sup> The AI expenditures included in the study are investments in servers used to host AI models, applications, and platforms; payments for the acquisition of AI tools from IT service providers; and “other software tools.”



# SAUDI ARABIA

31

## STAYING THE COURSE ON DIVERSIFICATION DESPITE TWIN DEFICITS

Economic growth remains strong, with a positive short-term outlook fuelled by the rebound in oil production and the performance of the private sector. However, this growth coincides with widening twin deficits. The investment requirements of the Vision 2030 transformation initiative are straining public finances and external accounts, both of which are currently in deficit, while also affecting the banking sector. The authorities are adjusting their diversification strategy, but the anticipated drop in oil prices is expected to continue to exert pressure on public finances in 2026. The country still has ample financial leeway, and its ambitions remain intact. In fact, priority is now being accorded to developing strategic sectors, particularly artificial intelligence.

### ECONOMIC GROWTH IS RESILIENT

Real GDP grew by 4.5% in 2025, Saudi Arabia's fastest growth since 2022. Despite signs of weakness, the outlook remains positive.

The oil sector remains a key driver of growth. After two consecutive years of contraction, oil GDP grew by 5.6% in real terms in 2025. Saudi Arabia reaped significant benefits from the decision by OPEC+ members to expedite the return of previously withheld oil supplies to the market - supplies that had been deliberately reduced between late 2022 and late 2024 to bolster prices. Consequently, its crude oil production increased from 8.9 million barrels per day (mbd) to just over 10 mbd within a year. The outlook remains uncertain. Faced with a global market characterised by overproduction, OPEC+ opted to stabilise production in Q1 before potentially increasing output. However, downward pressure on prices (excluding geopolitical risk premiums) could pose challenges to this strategy. For Saudi Arabia, the repercussions would be limited. Maintaining production at current levels throughout 2026 (10.1 mbd) would still represent a 6.7% increase compared to 2025.

Outside the oil sector, activity is expected to remain robust despite increasing indications of a slowdown. Faced with significant financial pressures, the authorities are compelled to revise the Vision 2030 initiative, scaling back several major infrastructure projects and tightening fiscal policy. Nevertheless, the economy's fundamentals remain robust. The unemployment rate stood at 3.4% in Q3 2025 - a record low - thanks to sustained job creation (1.3-1.6 million jobs annually since 2022, with over 80% originating from the private sector), while both investment and household consumption continue to exhibit dynamism.

Low inflation constitutes another supportive element for the economy. Measures implemented in 2025 to control real estate prices (the primary inflation driver in recent years) have begun yielding results. From 10.8% at the end of 2024, the rise in rents moderated to 5.3% by the end of 2025. In Q4, the real estate price index even recorded its first year-on-year contraction (-0.7%) since 2019. This trend is expected to continue, bringing the growth of the Consumer Price Index down to 1.7% in 2026, compared with 2% in 2025.

All in all, the vitality of the non-oil private sector, bolstered by the emergence of new sectors such as tourism, and strong domestic demand, largely mitigates the negative impacts of fiscal tightening on the economy. Non-oil GDP growth fell from 5.3% in 2024 to 4.1% in 2025, which is still high. It is expected to maintain a similar rate over the next two years, barring any further significant external shocks. Coupled with sustained growth in oil GDP, this momentum should bring real GDP growth to 4.6% in 2026. In 2027, growth is projected to fall back to 3.3%, mainly due to weaker support from oil production.

### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth (%)	0.5	2.7	4.5	4.6	3.3
Inflation, CPI, year average, %	2.3	1.7	2.0	1.7	2.0
Gen. Gov. balance / GDP (%)	-1.8	-2.5	-5.3	-5.0	-4.4
Gen. Gov. debt / GDP (%)	23.0	25.9	31.6	35.2	37.3
Current account balance / GDP (%)	2.1	-1.3	-3.1	-3.2	-2.9
External debt / GDP (%)	24.6	29.5	34.3	37.5	39.9
Forex reserves (USD bn)	437	437	460	473	479
Forex reserves, in months of imports	17.2	15.5	15.3	14.9	14.4

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### GROWTH DRIVEN BY OIL ACTIVITY AND THE PRIVATE SECTOR

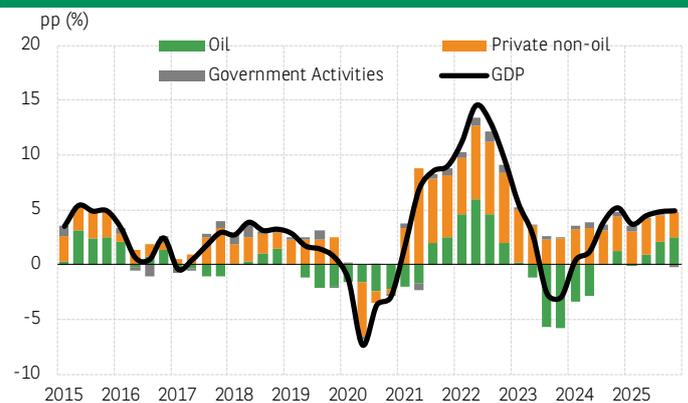


CHART 1

SOURCE: GASTAT, BNP PARIBAS

### FISCAL PRESSURES PERSIST DESPITE ADJUSTMENTS

The 2026 budget projects a 1.7% reduction in expenditures, following a 2.8% contraction in 2025, with capital spending bearing the brunt of these cuts. After three consecutive years of considerable growth in public spending (2022-2024), the authorities have implemented corrective measures to address deteriorating public finances.



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The budget deficit widened from -1.8% of GDP in 2023 to -5.3% in 2025—more than double the original target. The current objective is to reduce the deficit to -3.3% of GDP in 2026, a target that is also unlikely to be met.

The government anticipates a 5% increase in budget revenues in 2026, which is predicated on the assumption that the Brent price will average USD 68-70 per barrel. However, according to our forecasts, the price is likely to settle at around USD 60 this year. Furthermore, fiscal flexibility remains constrained. The economic transformation programme, although scaled back and primarily financed by the sovereign wealth fund (PIF), is still ongoing, coinciding with several major upcoming events (World Expo 2030, FIFA World Cup in 2034). In addition, current expenditures account for 86% of government spending. In this context, the budget deficit is expected, at best, to stabilise at around 5% of GDP in 2026 before gradually declining in 2027.

Government debt is therefore expected to continue to rise rapidly. It could reach 37.3% of GDP in 2027, up from 31.6% in 2025 and just 21.3% in 2022. The Saudi government’s ability to borrow is not a cause for concern. Even though it is rising, government debt remains at a moderate level and its structure is favourable. However, the rise in financing needs is accompanied by greater reliance on international financial markets, which introduces additional risks. After issuing a record USD 20 billion in Eurobonds in 2025, the government has announced its intention to reduce borrowing. It plans to raise USD 15-18 billion in 2026 through Eurobond debt, while the remainder of its financial requirements will be covered by domestic financing or private channels such as syndicated loans. However, given the expected budget deficit slippage, Eurobond issuance may once again surpass previous records this year.

### EXTERNAL ACCOUNTS: STRUCTURAL SHIFT UNDER WAY

The current account balance has been in the red since Q3 2024, which is another sign of the macroeconomic pressures facing Saudi Arabia. In the first nine months of 2025, the current account deficit widened by over USD 20 billion compared to the same period in 2024. The underlying factors contributing to this deterioration are set to continue: a decline in oil exports (in value terms) and sustained growth in imports. The current account deficit increased from 1.4% of GDP in 2024 to -3.1% in 2025 and is expected to reach -3.2% in 2026.

The consequences are manifold. This shift has transformed Saudi Arabia from a traditional net capital exporter to a net importer with growing financing needs<sup>1</sup>. At USD 109.2 billion, capital inflows in Q3 2025 had already exceeded the total for 2024. Only 18% of these inflows were foreign direct investment, while external financing needs were largely covered by debt.

Beyond the central government, Saudi banks are particularly active in international financial markets. Their total foreign currency debt issuance (including sukuk) more than tripled in 2025, reaching USD 40 billion. With loans continuing to grow faster than deposits and a loan-to-deposit ratio above 100%, it is clear that they will need to continue seeking external financing to bolster economic development. This should not pose too many difficulties given the strength of the banking system.

Saudi Arabia’s net external credit position still accounted for 58% of GDP in Q3 2025. However, it is gradually eroding (71.6% of GDP at the end of 2021). In fact, it has already reversed for banks (see chart 2).

### AI: AMBITIOUS GOALS

Saudi Arabia is at an important stage in its transformation project. While resilient growth reflects the progress already made, staying the

## BANKS SHIFT TO EXTERNAL FUNDING TO SUSTAIN CREDIT GROWTH

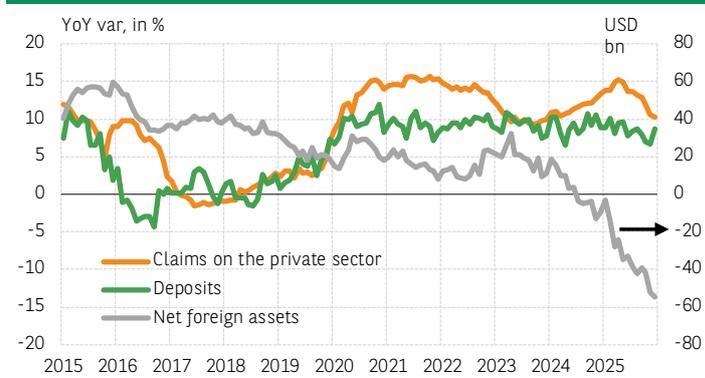


CHART 2 SOURCE: SAMA, BNP PARIBAS

course on economic diversification requires stepping up reform efforts, particularly with a view to enhancing the Kingdom’s attractiveness for foreign direct investment. The ongoing recalibration of the Vision 2030 programme also represents a necessary adjustment to address macroeconomic imbalances. The authorities’ adoption of a more pragmatic and selective approach is encouraging. Notably, strategic ambitions remain intact, with particular emphasis now placed on developing key sectors, especially artificial intelligence.

Despite currently accounting for just 0.1% of global AI-related product exports in 2025, Saudi Arabia aims to position itself among the world’s leading AI players within the next decade. The national strategy focuses on developing the entire AI value chain. To achieve this, the country has several comparative advantages: an abundance of low-cost, carbon-based energy, a central geographical location, ample space, and significant investment capacity. A pivotal step in this direction was the establishment of the company Humain in May 2025, which is owned by the PIF (USD 1.187 trillion in assets under management). The fact that a public entity is spearheading this strategy is not a drawback. On the contrary, it should streamline decision-making at the highest levels of government, thereby ensuring a regulatory and operational environment conducive to the development of AI.

Furthermore, Saudi Arabia is well-positioned in various assessments regarding its ability to leverage AI. According to the World Bank, its adoption could add an extra 0.6 percentage points to annual GDP growth in the medium term. Likewise, AI could account for up to 12% of nominal GDP by 2030, according to PwC, provided that the numerous investment projects already announced or under consideration are completed.

At this stage, however, the potential impact remains highly uncertain. Furthermore, the development of AI in Saudi Arabia could be hampered by its dependence on foreign technology, particularly high-tech chips, access to which could be affected by the geopolitical landscape and tensions between the United States and China. However, the positive relations between US and Saudi leaders are currently helping to overcome this obstacle.

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<sup>1</sup> See our Chart of the week, [Gulf: the GCC is investing heavily abroad despite a falling current account surplus](#), 28 January 2026.

# SOUTH AFRICA

33

## RESILIENCE IN THE FACE OF US TARIFFS

The South African economy has shown resilience in the face of the shocks that marked 2025. Despite severe protectionist measures taken by the United States, the deterioration in external accounts has been moderate thus far, thanks to a strong performance in raw-material exports. From a low point in 2024, economic growth rebounded in 2025 and is expected to accelerate gradually over the next two years. Therefore, the outlook is encouraging, even if potential growth remains too weak to improve GDP per capita. Moreover, with high public debt and many reforms still to be implemented, in order to harness the potential of AI in particular, vulnerabilities persist and caution is warranted.

### GROWTH: HEADING FOR A SOFT TAKE-OFF

Economic growth is expected to reach 1.3% in 2025 (vs. 0.5% in 2024), after climbing to 1.2% year-on-year (YoY) in the first three quarters. It was strongly driven by household consumption (+3.1% YoY), while government consumption contracted (-0.7%) due to fiscal consolidation efforts. Tensions with the United States and uncertainty over global trade weighed heavily on investment (-2.7%), a long-standing weakness in the economy.

GDP growth is expected to continue to accelerate in 2026. It will be supported in particular by continued monetary easing. In 2025, the South African Reserve Bank (SARB) cut rates four times (-100 bp), bringing the key rate down to its current level of 6.75%. This easing stimulated private sector credit, which gradually rebounded from a low of 3.9% YoY in February 2025 to reach 7.8% last December, its highest level since April 2023. This recovery was driven by growth in corporate credit (+11.7% in December).

Inflation, standing at 3.6% YoY in Q4 2025, is also expected to continue to fall in the coming months. Despite the SARB's lowering of its inflation target last summer (from a corridor of 3-6% to 3% +/-1%), the central bank still has room to lower its key rate in 2026.

In addition, reforms aimed at raising potential growth to around 2% per year are expected to continue through 2026-2027. They will focus primarily on the logistics sector, where bottlenecks persist: despite the rebound in rail-freight volume in 2025 (+4.2%), it remains 24% below its 2015 level. Reforms in the electricity sector will also be crucial: although power cuts have ceased since March 2024, the cost of electricity, which is expected to rise by a further 9% per year over the next two years, remains a major obstacle to growth. However, the economic outlook could be adversely affected by a deterioration in the local political environment: the November 2026 municipal elections, which are likely to increase friction between the parties in the coalition government, could cause delays in the roll-out of future reforms.

### UNDERLYING RECONFIGURATION OF TRADE FLOWS

Since 1 August 2025, the United States has applied a 30% tariff on imports of goods from South Africa. In addition, with the expiry of AGOA from October 2025 to January this year<sup>1</sup>, a large number of South African goods have lost their preferential access to the US market. Nevertheless, exports to the United States (the second largest export destination after China) are doing well overall. Between August and December, they rose by 10% in value terms YoY. The United States' share of total South African exports declined only marginally to 7.5% (vs. 7.7% in 2024).

<sup>1</sup> On 4 February 2026, the AGOA Law was extended until the end of 2026. However, uncertainty surrounding its extension beyond that date and the possible exclusion of South Africa from the list of beneficiary countries could weigh on AGOA-specific export volumes in 2026.

#### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	0.7	0.5	1.3	1.7	1.9
Inflation, CPI, year average, %	5.9	4.4	3.2	3.1	3.4
Fiscal balance / GDP, % (1)	-4.6	-4.5	-4.5	-3.7	-3.3
Public debt / GDP, % (1)	73.2	77.1	78.9	77.3	77.0
Current account balance / GDP, %	-1.1	-0.7	-1.2	-1.0	-1.4
External debt / GDP, %	40.9	42.2	42.5	41.9	42.1
Forex reserves, USD bn	62.5	65.4	75.9	74.6	75.2
Forex reserves, in months of imports	4.6	5.1	5.8	5.7	5.5

TABLE 1

(1): Fiscal year from April 1st of year N to March 31st of year N+1

ESTIMATES &amp; FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

#### EXPORTS TO THE US AND CHINA ARE DRIVEN BY METALS & MINERALS

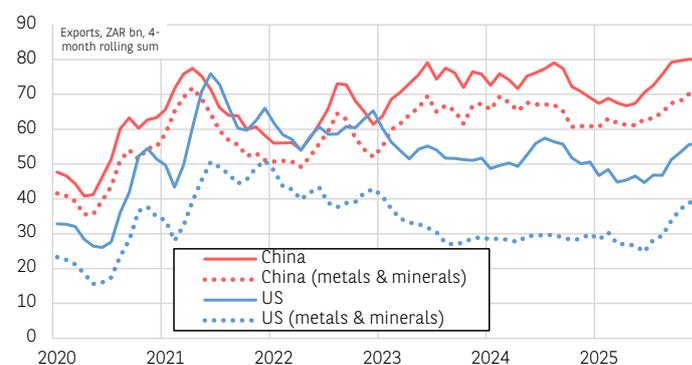


CHART 1

SOURCE: DEPARTMENT OF TRADE, INDUSTRY &amp; COMPETITION, BNPP

Behind this strong performance lies a significant sectoral reconfiguration. Growth in exports to the United States (in value terms) is strongly driven by exports of metals and minerals (+35% in August-December in YoY terms; see Chart 1), some of which benefit from customs-tariff exemptions. As a result, the United States captured a larger share of South Africa's total exports of metals and minerals (10%, vs. 7.9% in 2024). However, it remains far behind China, whose share of metal and mineral exports rose to 18.5% of the total (vs. 17.5% in 2024).


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Conversely, other exports to the United States contracted by 24.8% in value terms over the same period. Automotive exports (22% of exports to the United States in 2024) and agricultural exports (7%), which are most vulnerable to US protectionist measures<sup>2</sup>, contracted by 21% and 36% YoY in August–December, respectively. However, the decline in automotive and agricultural exports to the United States was more than offset by the strong performance of exports from these sectors to the rest of the world. Automotive exports to six European countries<sup>3</sup> rose by 23%. They also more than doubled to China (less than 1% of automotive exports) and could continue to grow in 2026 with the full opening of the Chinese market to all imports from Africa starting from May.

Therefore, on the whole, disruptions to global trade in 2025 had a moderately negative effect on external accounts. The trade deficit with China barely increased compared to 2024. The trade surplus with the United States halved<sup>4</sup>. Over the first three quarters, the current account deficit reached 1.3% of GDP (vs. 0.7% of GDP in 2024), due to the decline in the trade surplus to 2.4% of GDP (-0.5 pp). The South African rand appreciated by 15.1% against the US dollar between January 2025 and January 2026. The current account deficit is expected to remain around 1% of GDP over the coming quarters. However, it could widen if there is a downturn in the prices of the commodities that South Africa exports<sup>5</sup>. In addition, the current account deficit continues to be financed by debt. In the first three quarters of 2025, net FDI inflows fell to just 0.2% of GDP, weighed down by uncertainties about the outlook for the South African economy and the tense geopolitical environment, which is likely to persist in 2026.

## FISCAL CONSOLIDATION CONFIRMED

The 2026 budget, presented on 25 February, confirms the government's fiscal consolidation path, even though fiscal deficit targets for the 2026 to 2028 fiscal years (FY) have been revised slightly upward (Chart 2). For the current fiscal year (April 2025–March 2026), the government is expected to achieve a primary fiscal surplus for the third consecutive year (0.9% of GDP). Over the 2026–2028 fiscal years, fiscal consolidation is expected to be achieved through primary-expenditure control (nominal growth of just 3.5% per year on average). The prospects for fiscal consolidation and the cut in the key rate have enabled the yield on ten-year sovereign bonds in local currency to fall steadily since April 2025, reaching 8.2% mid-February.

Despite fiscal consolidation efforts, the central government's debt trajectory remains a concern, as it reached a record high of 78.9% of GDP in September 2025. The Ministry of Finance expects it to decline only very slowly to 76.5% of GDP in FY28/29, supported by a gradual acceleration in real growth. Interest payments on public debt, which are expected to absorb more than 20% of government revenue over the next three years, will leave little fiscal room for manoeuvre in the event of a shock. The adoption of a fiscal anchor rule from 2026, as promised by the Minister of Finance, would limit the risk of slippage, but has not been announced yet.

## AI: CHALLENGES PRECEDE OPPORTUNITIES

South Africa is not particularly integrated into artificial intelligence (AI) value chains. In 2025, the country exported USD 4 billion worth of AI-related goods<sup>6</sup>, i.e. 0.1% of the global total. Nationally, this accounted for less than 4% of its exports and less than 1% of its GDP.

### THE GOVERNMENT MAINTAINS ITS FISCAL CONSOLIDATION FORECASTS

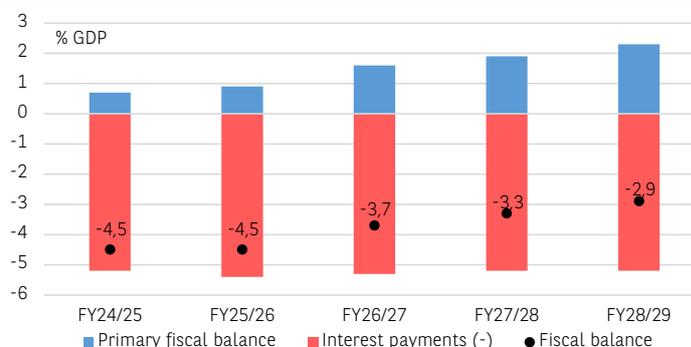


CHART 2

SOURCE: MINISTRY OF FINANCE, BNP PARIBAS

More than 60% of its AI-related exports are made of palladium. However, palladium is used mainly (80–90%) by the automotive sector, where demand is expected to decline gradually with the rise of 100% electric vehicles. Therefore, South Africa is not particularly exposed to the risk of an AI bubble bursting which would lead to a fall in the prices of raw materials used by the sector.

According to the IMF's AI preparedness index, South Africa is ranked 68th (out of 174 countries) for its capacity to adopt AI, slightly above the average for emerging countries and at the top of the African continent.

However, there are many challenges associated with adopting AI, particularly in terms of infrastructure. Its growth, which would involve a significant increase in electricity and water consumption, would require massive investment in both sectors. However, these are the sectors that have suffered most from chronic underinvestment by the government over the past decade, which has come atop adverse weather conditions. A significant and rapid rebound in the investment rate, which has stagnated at 14% of GDP for the past five years (vs. 32% of GDP on average in emerging and developing countries), is unlikely against the backdrop of fiscal consolidation. Finally, the adoption of AI would also require an overhaul of the education system. In 2024, 43% of 25–34-year-olds did not have an upper secondary education qualification (vs. 13% on average in the OECD). Rapid adoption of AI without the dissemination of knowledge to the entire population could lead to an increase in the unemployment rate, which is already structurally high (32% on average over the last two years).

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<sup>2</sup> See: South Africa | [On a bumpy road](#)

<sup>3</sup> Germany, Spain, France, Italy, Portugal and United Kingdom.

<sup>4</sup> And it could rebound in 2026, with customs tariffs on South African imports falling back to 10% following the recent Supreme Court ruling.

<sup>5</sup> Prices for gold and platinum (18% of exports in 2025) are currently at historically high levels.

<sup>6</sup> According to the [WTO](#) nomenclature.



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