

# REGIONAL PANORAMAS

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## CENTRAL EUROPE: RESILIENCE

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

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

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

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

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

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## ASIA: EXPORTS REMAIN BUOYANT

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

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

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

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

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## NORTH AFRICA/MIDDLE EAST: CAUTIOUS OPTIMISM

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

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

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

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

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

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

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

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

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