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# Emerging Markets Economic Outlook & Strategy

## The Widening AI vs Non-AI Wedge

Flagship

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**CITI'S TAKE**

The US-led AI capex boom appears to be widening growth differentiation across EMs, and recent upward growth forecast revisions (Israel, Taiwan, Vietnam, Korea, Mexico) reflect this even as the tech cycle momentum moderates from its feverish pace. Most other non-AI EMs face tighter funding conditions without commensurate boost from AI-related demand. Moreover, we think China's investment/production-biased policies, a byproduct of its own tech competition drive with the US, are further adding pressure to traditional manufacturing sectors. Cascading supply shocks and competition for capital are likely to leave EM spreads vulnerable and EM Central Banks more hawkish, in turn challenging growth prospects and debt dynamics.

**The AI capex boom seems to be producing a narrow group of EM winners, while imposing higher funding costs on the rest.** Taiwan, Korea and Singapore benefit through semiconductors, while Vietnam, Malaysia, Mexico, Thailand and Israel gain from electronics, software/IP and/or data center buildout. Recent growth upgrades are largest in Israel, Vietnam and Taiwan, but even Mexico got a small bump up. For most EMs, however, competition for capital and "higher-for-longer" dominate.

**AI investment should remain strong, but slowing momentum could further pose questions over capex returns and repricing of risk.** Citi's AI industry model points to peak nominal capex growth in 3Q26, and tech-exports and production momentum are already moderating among Asia's AI bellwethers. Short of an economic relief, if we see a significant resolution of energy shock, we doubt that endogenous drivers within EM outside of the AI story could be large enough as a whole to have a meaningful EM growth tailwind.

**China's technology ambitions could push consumer rebalancing further into the backburner.** The capital intense US-China AI compeftition continues to skew China's policy bias towards investment-led stabilization. Resilient exports have reduced the urgency to support consumption, but this strategy reinforces profit/margin pressures and could make China's 2027 growth target harder to achieve.

**Trade pushback against China may broaden, but likely to remain targeted rather than escalate into a full-blown trade conflict, containing the pressure for China to shift course.** Practical concessions may contain China-EU tensions but are unlikely to resolve Europe's competitive challenges. China's strong non-tech exports are intensifying competitive pressure across the Global South, with Taiwan, India and Turkey showing large number of sectoral overlap if we exclude the tech sectors.

**Cascading supply shocks and competition for capital could leave EM spreads vulnerable and Central Banks more hawkish.** Substitution and inventory drawdowns have limited growth damage, but at higher cumulative costs and thinner buffers. China's scale efficiencies, inventories and redundancies should strengthen its relative cost competitiveness vs. EU & Asia peers during these supply shocks. With competition becoming intense as AI investment drives up cost of capital, EM sovereign spreads and central bank policies look more challenged going into 2027.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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# The Widening AI vs Non-AI Wedge

## AI Capex Drives EM Growth Differentiation…

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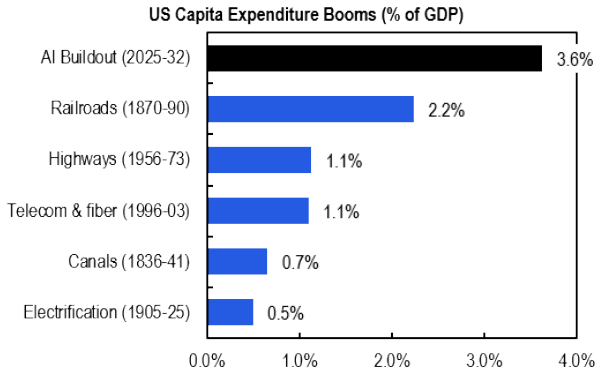
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**The AI capex story continues to be a major theme driving EM's relative growth performance.** There is growing recognition that this **US-led AI capex boom is huge**, given the capital intensity of combining computing hardware, electricity infrastructure, cooling systems and the warehouse structures involved, all of which add to aggregate demand. Citi's AI industry model assumes cumulative ~$8trn for the US hyper-scalers and neoclouds from 2025-30, while a recent Brookings paper peg it at $10.3 trillion for US from 2025-2032.[1] The latter is deemed to be the **largest US capex boom in history** –far larger than the railroad boom in the late 19th century, and about 3x the size of the IT and fiber buildout of (**Figure 1**)

**The significance of this AI narrative seems to be playing out across EM now**, where positive growth surprises are concentrated across a just a **handful of AI supply chain winners we've identified earlier** –semiconductor players (Taiwan, Korea, Singapore), downstream electronics supply chain and/or remote data center hubs (Vietnam, Malaysia, Mexico, Thailand), and in the IP/software space (Israel) even though most of these economies (bar Malaysia) are net energy importers. Last month alone, upward growth revisions for *2026-27 average growth* have been particularly pronounced in **Israel** (+1.7ppts) and **Vietnam** (1.5ppts ave), beyond the "routine" upward growth revisions in **Taiwan** (1.3ppts), and to a lesser extent, **Korea** (+0.2ppts). Even **Mexico** (+0.25ppts) proved to be a Latam standout.

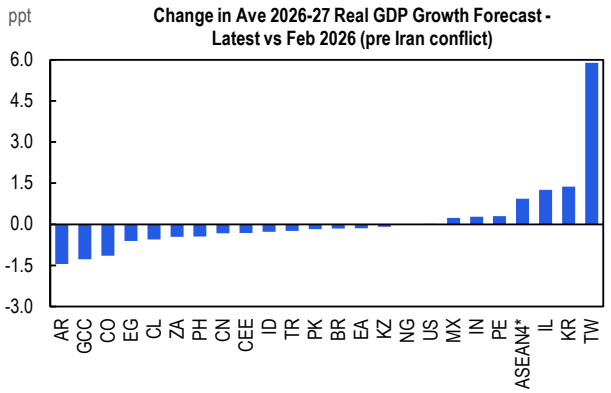
**However, the majority of EM do not seem to be directly benefiting from the AI supply chain in a meaningful way, and thus, the more dominant AI spillover comes from "higher for longer" core (US) rates / funding competition**, and its impact on capital flows and EM financial conditions. This theme is superimposed on the still unresolved Mideast crisis, Super El Niño (effects were initially most felt in Asia, but is now spreading to parts of Latam), differentiated net commodity terms of trade/inflation pass thru implications, and other idiosyncratic factors. Last month alone, the biggest downward growth revisions for 2026-2027F were from single-B names: **Egypt** (-0.7ppts in 2027F) and **Argentina** (-0.6ppts).

**Figure 1. Comparing the US capital expenditure booms**




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Source: See footnote 1, Citi Research

**Figure 2. A narrow group of AI-exposed EM economies is pulling ahead of the broader EM universe**




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Source: Citi Research Forecasts

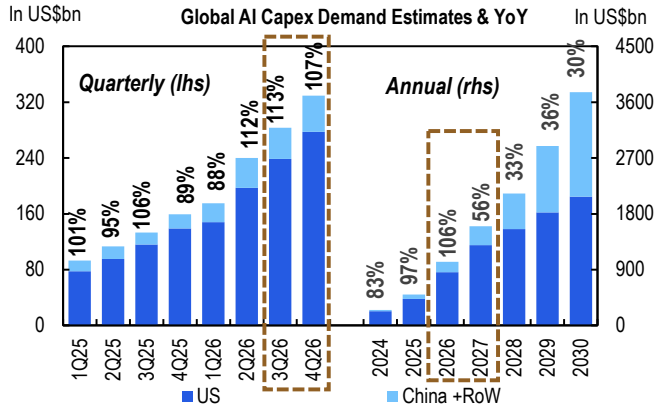
[1] Stijn Van Nieuwerburgh. "Financing the AI Buildout." *Brookings Papers on Economic Activity* (BPEA) Conference Draft, Fall (Sep 2026). Read here.

## ...even though the AI-led Tech Cycle may be slowing

**After such a strong capex surge, we believe we are now entering a phase of slowing momentum** (though we maintain that this investment theme will still remain strong, and continue until (at least) well into the next decade, with anticipated productivity gains gradually becoming apparent over time). Citi's latest AI industry model shows peak *nominal* growth in 3Q26, and factoring in price effects (e.g. DDR5 DRAM YoY price peaked in August), imply sharper volume slowdown, with our annual forecasts projecting slowing further going into 2027F (**Figure 3**).

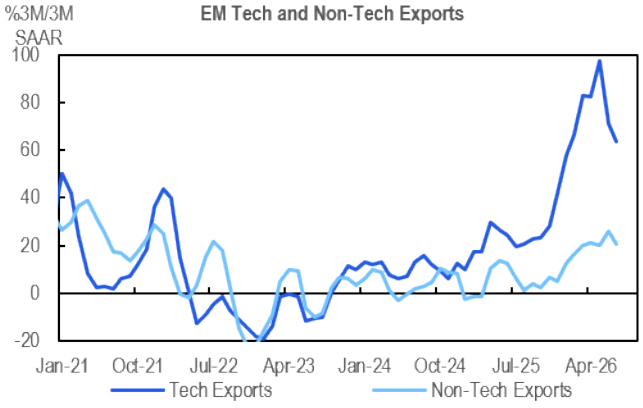
**This sequential tech exports and production slowdown are starting to show in the data**. We see it in the seasonal adjusted tech exports (vs non tech) across major manufacturing EM economies (**Figure 4**). Non-tech EM export momentum seems more stable, though upon disaggregation, we find it to be *very resilient in China*, while weaker elsewhere. Asia's bellwethers are also showing signs of tech sequential slowdown –chip production has come off the highs (Figure 2 of KR report), likely more to do with capacity constraints,[2] and even in China, recent data show some slowdown in chips and industrial robot output. Another curious development is Singapore MAS's surprising decision to remain on hold in Oct meeting (vs Citi/market expectations of a "very slight" SGD NEER steepening), which we believe was significantly influenced by its forecasted narrowing of the positive output gap in 2027 on moderation in AI-related cycle and higher rates.

**Figure 3. Global AI Capex Demand – US, China & RoW – Citi AI Industry Model updates as of 3 Sep 2026**




Source: Citi Research: Tech & Comms Super Sector

**Figure 4. EM – Comparing AI-related tech exports – SAAR momentum coming off the highs in 3Q26**




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Source: Citi Research, Haver, CEIC

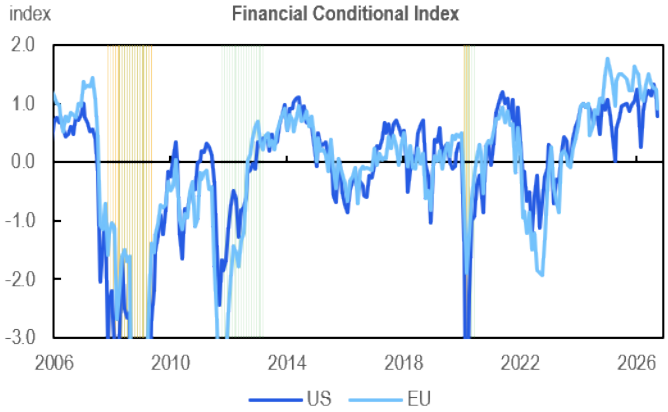
**More recently, financial conditions appear to be in a marginally tightening mode from historically accommodative levels (Figure 5),** given the rates, equity volatility and widening spreads. Also, risk seems skewed to remaining vulnerable towards year-end on a combination of concerns over AI debt financing, France's fiscal problems and high energy prices (Middle East being a big uncertainty). After missing the 2% inflation target for over 5.5 years, and broadening inflation in the last CPI print, we think it is hard to imagine the Fed would (prematurely) play a material role in easing financial conditions anytime soon. This financial backdrop in itself could reinforce the AI capex momentum slowdown as investors

[2] We are still bullish Korea growth, having upgraded real GDP growth in 2026 and 2027F by 0.1 and 0.3ppts, respectively, to 3.8% and 3,3%, respectively.

increasingly scrutinize capex spend, on top AI safety concerns and rising US political backlash.

**For now, short of a significant resolution of the energy shock, we doubt that endogenous drivers within EM outside of the AI story could be large enough as a whole to have a meaningful impact.** Both US and Euro Area (which together accounts for 41% of global GDP) reveal trade patterns symptomatic of a dramatic wedge between AI- and non-AI related manufactured goods, and this divergence is more dramatic in the US, where imports of AI-related tech stack surged, in contrast to non-AI tech stack related goods that, up until recently, had been contracting on a 3MMA YoY. The AI vs non-AI manufactured goods import divergence is also stark, though not as dramatic, in the Euro Area (**Figure 6**).

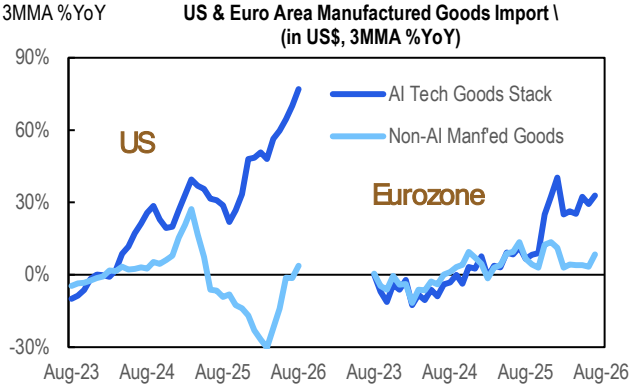
**Figure 5. US and EU financial conditions indices**




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Source: Bloomberg, St Louis Fed, EABCN, Citi Research; Note: Shaded areas are the recession dates – orange for US, green for Euro Area

**Figure 6. US and Euro Area Manufactured Goods Imports – AI tech goods vs non-AI Mf'ed goods Imports - 3MMA %YoY**




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Source: CEIC, Citi Research: Note: * AI tech stack consists of compute & storage systems (HS codes 8471, 8473), networking equipment (8517), semiconductors, semiconductor devices (8541, 8542), circuit boards & storage devices (8523, 8534, 8532, 8533) and power infrastructure & connectors (8504,8507,8536,8544)

## China's policy choices amplifying the AI vs. Non-AI Wedge

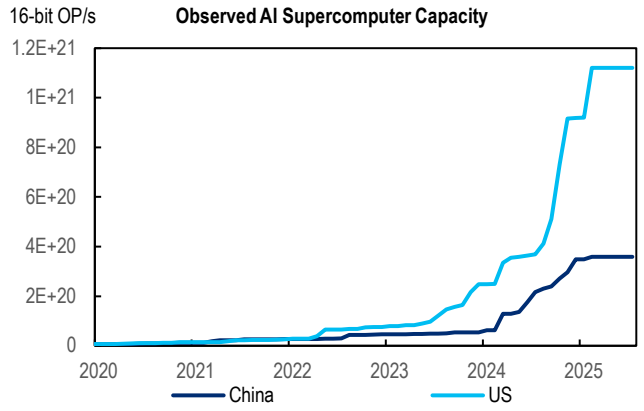
**China consumer rebalancing is nowhere in sight** We have seen a significant departure from the Sep 2024 policy pivot well over two years ago, with the latest policy skewed towards investment-led stabilization, primarily for two reasons:

- First, US-China tech competition intensified following the "DeepSeek moment" in January 2025, heralding a **global AI race**. With extensive use of export controls by the US, we think there's a lot at stake for China both economically and geo-politically, to sustain tech self-sufficiency and competitiveness, which in turn requires significant amount of capital (e.g. the "Six Networks" plan is estimated to cost RMB25trn through 2030 or ~3% of GDP). Thus, financial repression of household savings may be viewed as a necessary tradeoff to ensure sufficient low-cost capital. One critical component China still arguably lags vs US is compute capacity (**Figure 7**) though estimating the latter is muddled by China's "remote access" options through data centers in Southeast Asia. One recent estimate posits US's compute advantage over China at over 10x (China at 2.8mn H100 equivalents vs US upwards of 30mn H100 equivalents).[3] Perhaps, this explains China's RMB4trn in funding support for

[3] J. Schneider, A Zakaria & P. Chow. The Lithography Lever: The case for cutting China off from DUV". *China Talk* (20 Oct 2026).

computing power networks (Gov.cn, 31 July). The US-China compute gap could widen if the US/ allies (Netherlands, Japan) restrict deep ultraviolet immersion (DUVi) lithography machines and servicing to China (**Figure 8**) via the bipartisan **MATCH** (Multilateral Alignment of Technology Controls on Hardware) **Act**, in an attempt to secure US chipmaking advantage vs China through at least 2035.[4]

**Figure 7. The US vs China Global AI race – Compute capacity proxied using supercomputing capacity**




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Source: Epoch AI, Federal Reserve (see here), Citi Research

**Figure 8. Lithography technology system capabilities – current and proposed US export restrictions on China**

| Lithography technology | ASML tools | Relevant capabilities | Example AI chip | Current export restrictions | Proposed export restrictions |
|---|---|---|---|---|---|
| EUV | NXE:3100 and more advanced | Leading-edge logic (3nm and below); HBM4 and better | NVIDIA Rubin (e.g. R100) | Banned China-wide | Banned China-wide |
| DUVi | Most advanced: NXT:2000i–2150i | 5nm logic; HBM4 | NVIDIA Hopper (e.g. H100) | | |
| | Advanced: NXT:1980i, 1970i | 7nm logic; HBM2e/HBM3 | NVIDIA Ampere (e.g. A100), Huawei Ascend 910C, 950DT | License required China-wide, but many licenses granted | |
| | Less advanced: XT:1700i–NXT:1965i | 16/14nm logic; HBM2 | Groq LPU, NVIDIA V100 | No license required | |
| Dry DUV | NXT:1470 and less advanced | Legacy production nodes | Google TPUv1 | | No license required |

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Source: See Footnote 4

- Second, the accelerated AI-led export driven growth model (**Figure 9**) helped lift China's real GDP growth towards the (low) end of their 4.5%-5.0% this year, reducing the need to boost domestic demand. However, this may be an increasingly harder challenge to going into 2027F if we assume Chinese leadership continue to target "around 4.5%" growth in a politically heavy calendar year (21st Party Congress). But unless the AI capex competition slows down meaningfully, China may keep deferring consumer rebalancing to prioritize its tech-led investment push, leading it to eventually undershoot its growth target (we recently downgraded our 2027F China growth to 4.1% from 4.5%).

**China-EU trade frictions are likely to remain targeted, non-discriminatory, averting a full out trade conflict, and thus, unlikely to meaningfully change China's policy choices in the short term.** We estimate that the recent EU–China deal to cap imports of Chinese hybrid and plug-in hybrid electric vehicles at 350,000 units annually (vs 2025 levels) could more than halve projected hybrid exports over four years, but the overall impact on the trade balance will likely be limited as combined BEV and HEV account for only 3.2% of China's exports to EU.[5] We expect that further EU trade measures could remain targeted (e.g. chemicals and plastics could be the next target for safeguard measures (Reuters, Sep 10), and country-agnostic (i.e. doesn't single out China), which also applies to the "Diversify EU" efforts, due for presentation in December (European Commission, Oct 21).

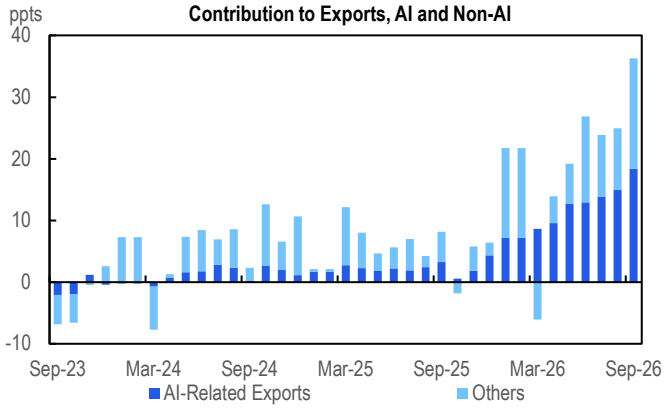
But China's faster than expected concession on hybrids underly our view that China is open to reasonable, practical concessions (we outline more of these possible concessions in this report), recognizing the political-economic dynamics

[4] N. Brown & S. Khan. "DUV Immersion Lithography: The Foundation of the US AI Advantage: Closing gaps in export controls to China. *Center for Technology & Statecraft* (26 Sep 2026)

[5] China can tap into EU-domiciled factories (e.g. in Spain and Hungary) to expand sales to EU outside of the quota, or utilize a separate quota in facilities in Turkey (which has a custom union with EU)

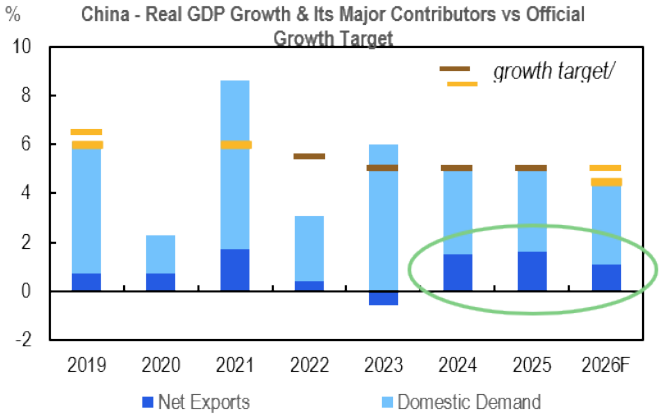
of its mounting goods surplus with the EU bloc (**Figure 11**). Beyond the importance of the EU market, perhaps China also sees tactical advantage in making concessions on autos to strengthen ties with the German bloc. Nonetheless, we don't think it meaningfully changes EU's challenges in competitiveness (**Figure 12**), both within its domestic market (except those protected by "Buy EU" provisions) and in third markets, with lingering supply chain dependencies (e.g. in critical minerals).

**Figure 9. China's export growth – contribution from AI-related goods and others**



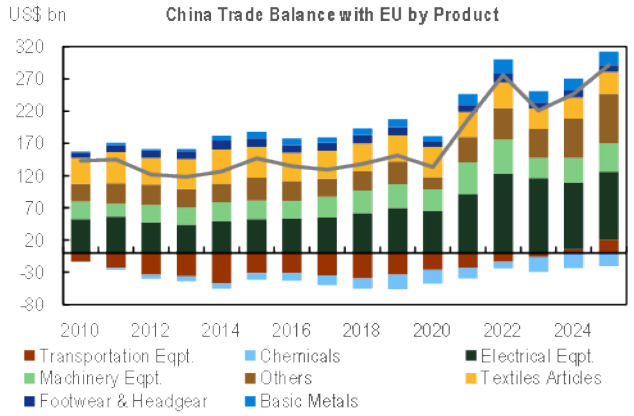

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Source: China Customs, Wind, Citi Research

**Figure 10. ...and China's resilient export growth allowed it to achieve its growth target despite weak domestic demand**




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Source: CEIC, Citi Research

**Figure 11. China's trade balance with EU on the rise, with transport equipment turning to a surplus**




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Source: China Customs, Haver, Citi Research

**Figure 12. Similarities in export commodities and structure between China and the EU have been rising**

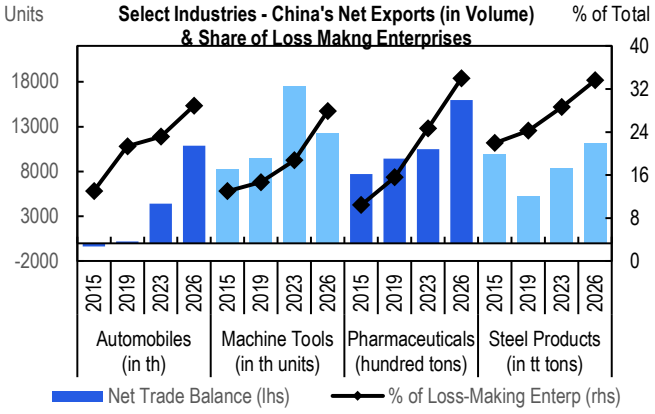



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Source: UN Comtrade, Citi Research

**The lack of any consumer rebalancing, and doubling-down on investment, will likely only elevate ongoing anxieties about China's spillovers to manufacturing industries elsewhere.** This is a topic we've written about repeatedly (here and here), and we see no material signs that these trends are abating (in fact, China's goods trade surplus is on track to exceed last year's $1.2bn). Growth in China non AI- related goods exports remain robust, contributing a "more balanced" 44% share to the overall strong export growth this year (**Figure 9**). In sharp contrast, semiconductors *alone* accounted for ~75% Korea's export growth this year.

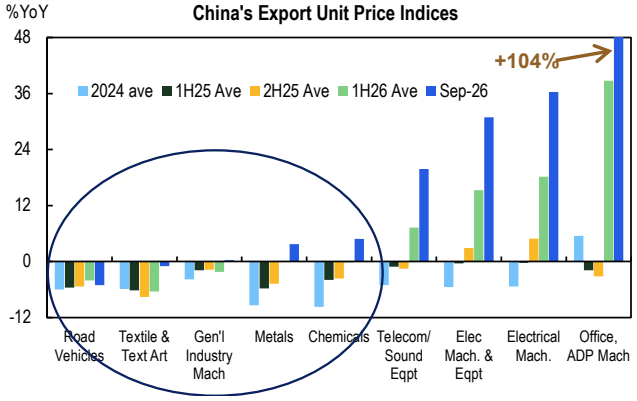
One challenge for global imbalances is China's apparent lack of default mechanisms for loss-making, and worse, zombie firms (where EBITDA doesn't even cover interest) to exit, weighing on global capacity as they continue to secure financing, and whose incentives are more geared towards generating cash to keep covering interest and other operating expenses rather than turning into a profit.[6] In fact, the share of loss making firms in China continue to rise to 30% of enterprises from 16% a decade ago, and have been accompanied by greater net export volume gains (**Figure 13**), but at persistently lower/low prices outside of tech (**Figure 14**)

**Figure 13. China – A rising net exports in key products even as the share of loss-making firms rise**




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Source: CEIC, Citi Research

**Figure 14. China's export price indices continue to diverge between tech and tech-related products**




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Source: UN Comtrade, Bloomberg, Citi Research

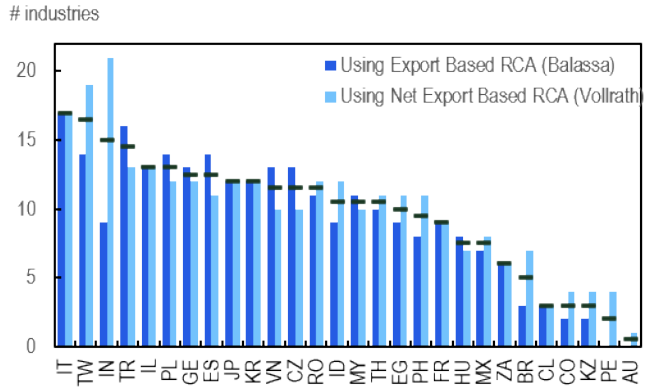
**We update our earlier analysis assessing EM spillovers of China's "excess" manufacturing capacity by looking *more specifically* in the non-tech sector**; i.e. we strip out tech-related SITC codes 75-77 given the influence of structural AI demand cycle, and look at the number of overlapping industries to which China and a counterpart economy exhibit high revealed comparative advantage (RCA). Once we strip out the electronics sector, the overlapping industries of ASEAN and China diminishes, but is still relatively elevated **Taiwan** (may partly CBC's relatively dovish bias on rates and FX) alongside **India** and **Turkey** (**Figure 15**), the latter's economy is already slowing, with the recent move to accelerate TRY depreciation unlikely to meaningfully alleviate its competitive pressures. In contrast, India has seen pronounced REER depreciation but how that translates to meaningful manufacturing competitiveness is still weighed by overall weak labor-intensive shipments, commodity price pressures, and sharply rising bilateral goods trade deficit with China— in fact, we've recently revised India's CAD higher.[7]

While we were distracted by recent EU-China trade tensions/negotiation, we've also seen a growing trade backlash against China increasingly from the "Global South", with more (targeted) trade action in recent months (**Figure 16**). This illustrates the pressures in more traditional manufacturing sectors, which get concealed by topline growth and global PMI figures significantly lifted by tech.

[6] Three other factors propagating China's zombie firms: 1) weak bankruptcy framework; 2) local government incentivized to keep them alive for tax and employment reasons; and 3) state asset sales at below book value are treated a criminal offense, preventing realistic asset write-downs

[7] See: *India Economics - FY27 BoP: From FCNR-Led 1H Surplus to 2H Deficit Amidst Uncertainty*

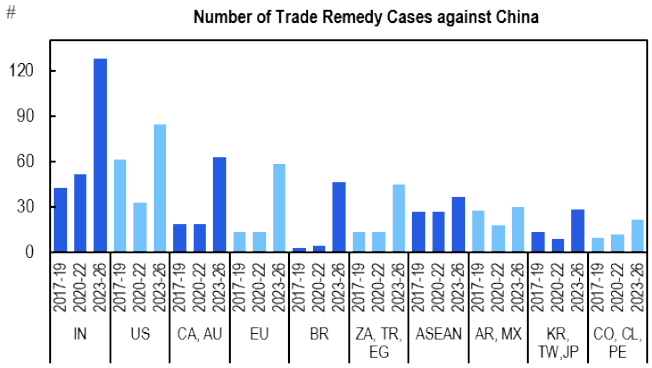
**Figure 15. Number of Industries that Overlap with China in Having High RCA Reading excluding Electronics Sector***




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Source: UN Comtrade, Citi Research, Note: Where Balasa RCA >1.0, Vollrath RCA >0.0

**Figure 16. China has seen a sharp uptick in protectionist backlash across AE & EM in recent years**



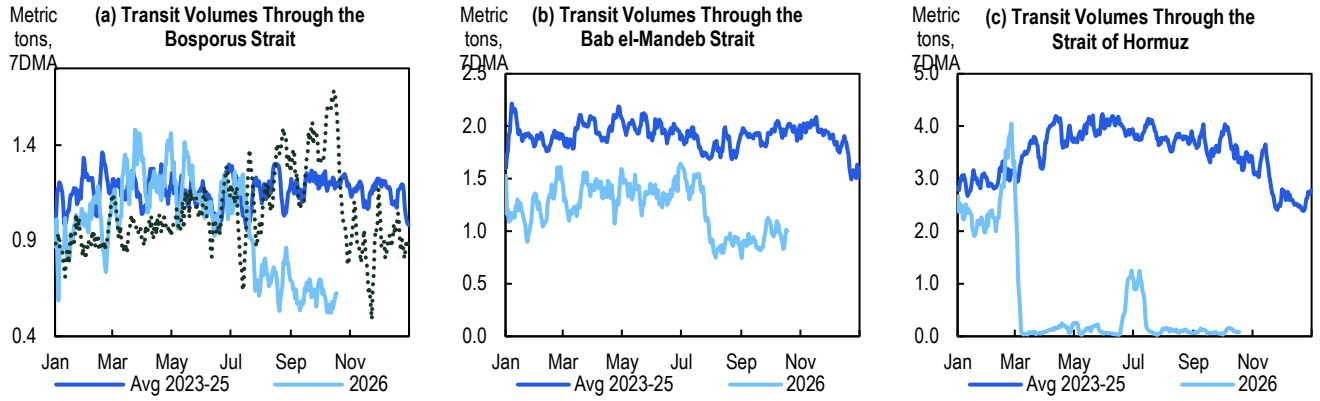

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Source: China Ministry of Commerce, Citi Research, Note: As of 26 Oct 2026

## EM Resilience tested by Cascading Supply Shocks

**The global economy has been relatively resilient to repeated supply shocks, aided by substitution effects and the running down of inventories , but this is coming at the expense of cumulatively higher costs and erosion of buffers.** All eyes are on whether we see another US-Iran conflict escalation post-US midterms (WSJ, 28 Oct) Regardless, path for a sustained resolution remains unclear, highlighting the increasingly disruptive nature of geopolitical shocks in a multipolar world where: 1) Inexpensive drones and missiles are enabling smaller powers to wield larger damage with sufficient precision; 2) Energy/ transport infrastructure including diesel refineries have become conflict targets[8]; and 3) Perception of US's ability (or willingness) to defend an open maritime order has collapsed, with at least three disrupted maritime chokepoints, adding to global logistic costs (**Figure 17**).

**Figure 17. Maritime Chokepoints - Collapse of transit volumes through key waterways**

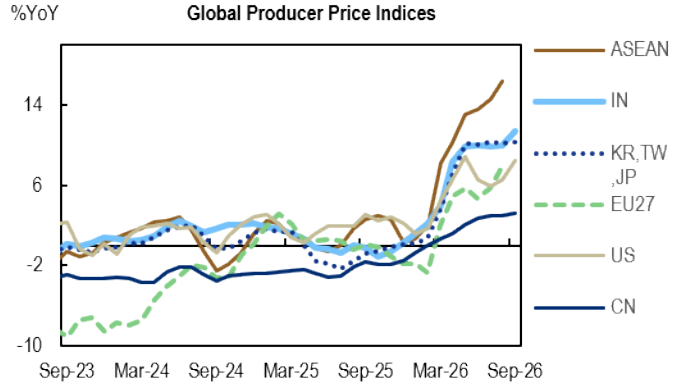



Source: IMF Portwatch, Citi Research

[8] A recent WSJ article estimates that ~ 12% of the world's fuel refining capacity is now estimated to be offline due to attacks in Russia and the Middle East ; WSJ, 26 Oct

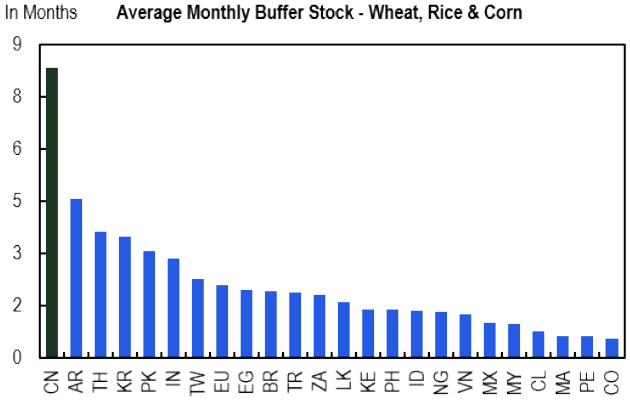
**During these shock episodes, we find that China's more built-in resilience,** with inventories and redundancies confer it greater cost competitiveness vis-à-vis peers when looking at PPI differentials among manufacturing players in EU and Asia (**Figure 18**) China's inventory building capacity is also seen in how it manages grain stocks, where buffers look far higher than others as Super El Niño gathering steam.

**Figure 18. Comparing producer price inflation trends**




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Source: Haver, Citi Research

**Figure 19. Estimate grain stock buffers in MY 2026/27**

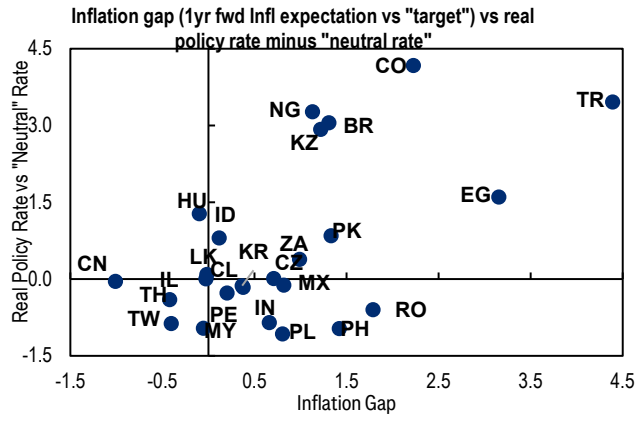



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Source: USDA Grain and Feed updates and annual reports

## EM Sovereigns Spreads are likely to be under Pressure

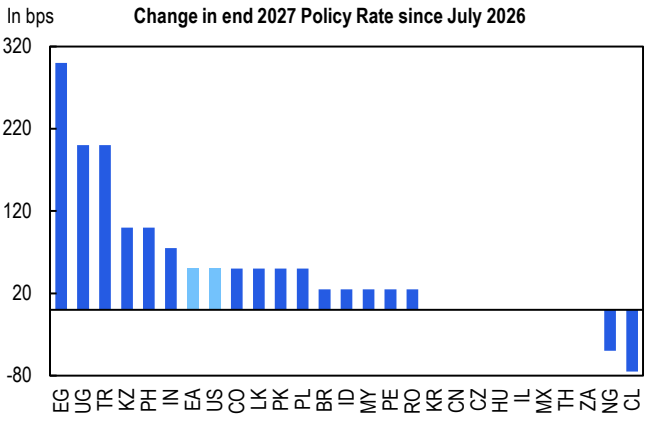
**While EM growth resilience is continuing to power in this past quarter, the AI vs non AI divergences are becoming more apparent.** As the effects of massive AI-related financing are sparking volatility in HY credit markets, this re-pricing would likely put pressure on still relatively tight EM spread valuations as competition for capital lingers. Fundamental drivers for further EM spread compression are now lacking where persistent supply shocks and "higher for longer" theme is pushing up cost of EM external borrowings (emanating mostly from "non-AI" EM countries), driving up hurdle rates for capital flows into EM including FDI flows, tilting central bank biases hawkishly amid persistently positive inflation gaps (**Figure 20, Figure 21**), in turn challenging medium-term growth prospects and debt dynamics.

**Figure 20. Many EM countries still have large inflation "gaps", with a few still having relatively low real rate buffer**




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Source: Haver, CEIC, Citi Research, ;Note: *Indonesia, Malaysia, Thailand

**Figure 21. EM Central Banks are increasingly tilting more hawkishly extending into 2027F in recent months**




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Source: Citi Research Forecasts

# EM Strategy – EM under crosscurrents – Oil, AI, El Nino

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**Emerging markets continue to face competing macro crosscurrents, with oil, AI sentiment, and the emerging El Nino cycle likely to remain key drivers of market direction. Energy risks remain skewed to the upside, as concerns over a potential re-escalation in the Middle East following US midterm elections could delay the full normalization of Middle East oil supply. The AI outlook remains mixed: While SK Hynix reported a sharp profit increase and reaffirmed its expectations of continued HBM shortages, intensifying equity outflow risks are undermining the positive AI narrative and clouding the currency markets, with credit risk remaining the key near-term concern. Meanwhile, a super El Nino cycle is taking shape, with food price inflation accelerating across EM Asia, Nigeria, and Chile. We see limited evidence that El Nino-related risks are adequately priced by markets, leaving EM assets vulnerable to a further repricing as these pressures build.**

**Asia —** We assess the drivers behind RMB resilience and examine the market implications of the CBC's NCD issuance cuts in Taiwan.

**CEEMEA —** Following meetings in Budapest, we see the National Bank of Hungary (NBH) maintaining an orthodox, "steady as it goes" stance, with cautious policy aimed at guiding markets toward lower risk premia to create larger room for easing later.

**LatAm —** BCCh kept rates on hold, but its messaging tilted hawkish as inflationary risk rises. Given the implied inflation forward path, inflationary surprises could be as high as 40bps over the next few months.

**Please see:** Emerging Markets Strategy Weekly - EM under crosscurrents – Oil, AI, El Nino for a detailed discussion on each of the above topics and for our latest EM trade ideas.

# Monetary Policy Watch

**Figure 22. Asia: Policy Rates and Forecasts**

| | | | Last Move | | | Likely Next Move | End-2026 |
|---|---|---|---|---|---|---|---|
| | | Spot (%) | Date | Amount (bp) | Date | Amount (bp) | Forecast |
| China | 7D Reverse Repo | 1.40 | May-25 | -10 | Q1 27 | -10 | 1.40 |
| India | Overnight Repo Rate | 5.50 | Oct-26 | 25 | Dec 26 | +25 | 5.75 |
| Indonesia | 7-Day Reverse Repo Rate | 5.75 | Jun-26 | +25 | - | - | 5.75 |
| Korea | BOK Policy Rate | 3.00 | Aug-26 | +25 | Nov 26 | +25 | 3.25 |
| Malaysia | Overnight Policy Rate | 2.75 | Jul-23 | -25 | Jan 27 | +25 | 2.75 |
| Philippines | Overnight Policy Rate | 5.50 | Oct-26 | +50 | Dec 26 | +25 | 5.75 |
| Taiwan | Discount Rate | 2.000 | Mar-24 | +12.5 | Dec 26 | +12.5 | 2.125 |
| Thailand | Overnight Repo Rate | 1.00 | Feb-26 | -25 | - | - | 1.00 |

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Source: Citi Research estimates, Bloomberg

**Figure 23.CEEMEA: Policy Rates and Forecasts**

| | | | Last Move | | | Likely Next Move | End-2026 |
|---|---|---|---|---|---|---|---|
| | | Spot (%) | Date | Amount (bp) | Date | Amount (bp) | Forecast |
| Czech Republic | 2 Week Repo Rate | 3.75 | Jun-26 | +25 | Nov-26 | +25 | 4.00 |
| Egypt | Overnight Deposit Rate | 19.00 | Feb-26 | -100 | Feb-27 | -200 | 19.00 |
| Hungary | Base Rate | 5.50 | Aug-26 | -25 | Mar-27 | -25 | 5.50 |
| Israel | Base Rate | 3.25 | Sep-26 | -25 | Nov-26 | -25 | 3.00 |
| Kazakhstan | Refinancing Rate | 15.75 | Oct-26 | -50 | Dec-26 | -25 | 15.50 |
| Nigeria | Monetary Policy Rate | 23.00 | Sep-26 | -350 | May-27 | -300 | 23.00 |
| Poland | 7-Day Repo Rate | 3.75 | Mar-26 | -25 | Mar-27 | +25 | 3.75 |
| Romania | 1 Week Repo Rate | 6.50 | Aug-24 | -25 | Apr-27 | -25 | 6.50 |
| S. Africa | Average Repo rate | 7.25 | Sep-26 | +25 | May-27 | -25 | 7.25 |
| Turkey | Average funding rate | 36.00 | Oct-26 | -100 | Dec-26 | -100 | 35.00 |
| Ukraine | Discount Rate | 16.00 | Sep-26 | +50 | Oct-26 | +50 | 16.50 |

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Source: Citi Research estimates, Bloomberg

**Figure 24. Latin America: Policy Rates and Forecasts**

| | | | Last Move | | | Likely Next Move | End-2026 |
|---|---|---|---|---|---|---|---|
| | | Spot (%) | Date | Amount (bp) | Date | Amount (bp) | Forecast |
| Brazil | SELIC | 13.75 | Sep-26 | -25 | Jul-27 | -25 | 13.75 |
| Chile | CAMARA (Overnight) | 4.50 | Dec-25 | -25 | Sep-27 | +25 | 4.50 |
| Colombia | Central Bank Repo Rate | 12.25 | Sep-26 | +25 | Oct-26 | +25 | 12.50 |
| Mexico | Official Overnight Rate | 6.50 | May-26 | -25 | - | - | 6.50 |
| Peru | Reference Rate | 4.25 | Sep-25 | -25 | Jan-27 | +25 | 4.25 |

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Source: Citi Research estimates, Bloomberg

# FX Views

**Figure 25. Asia: Exchange Rates and Forecasts**

| | | Dec-26 | | | Mar-27 | | | Jun-27 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 29-Oct | Forecast | Forward | Returns | Forecast | Forward | Returns | Forecast | Forward | Returns |
| **vs USD** | | | | (%) | | | (%) | | | (%) |
| China yuan | 6.66 | 6.61 | 6.63 | 0.3 | 6.58 | 6.58 | -0.1 | 6.56 | 6.53 | -0.5 |
| Hong Kong dollar | 7.84 | 7.84 | 7.83 | -0.1 | 7.83 | 7.80 | -0.4 | 7.83 | 7.78 | -0.6 |
| India rupee | 95.2 | 96.3 | 96.2 | -0.1 | 97.0 | 97.3 | 0.3 | 97.8 | 98.3 | 0.5 |
| Indonesia rupiah | 18,184 | 18,277 | 18,224 | -0.3 | 18,352 | 18,333 | -0.1 | 18,427 | 18,432 | 0.0 |
| Korea won | 1,333 | 1,296 | 1,331 | 2.7 | 1,285 | 1,328 | 3.3 | 1,273 | 1,324 | 3.8 |
| Malaysia ringgit | 4.07 | 4.04 | 4.06 | 0.5 | 4.02 | 4.05 | 0.7 | 4.01 | 4.04 | 0.9 |
| Philippines peso | 63.8 | 64.6 | 64.0 | -0.8 | 64.8 | 64.3 | -0.6 | 64.9 | 64.6 | -0.5 |
| Singapore dollar | 1.28 | 1.27 | 1.28 | 0.1 | 1.27 | 1.27 | -0.4 | 1.27 | 1.26 | -1.0 |
| Taiwan dollar | 32.5 | 32.4 | 32.5 | 0.1 | 32.2 | 32.4 | 0.6 | 32.1 | 32.4 | 1.1 |
| Thailand baht | 33.7 | 33.5 | 33.7 | 0.4 | 33.6 | 33.5 | -0.3 | 33.7 | 33.4 | -1.1 |

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Note: Returns are calculated as ratios of forwards to our forecasts.

Source: Citi Research estimates, Bloomberg

**Figure 26. CEEMEA: Exchange Rates and Forecasts**

| | | Dec-26 | | | Mar-27 | | | Jun-27 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 29-Oct | Forecast | Forward | Returns | Forecast | Forward | Returns | Forecast | Forward | Returns |
| **vs EUR** | | | | (%) | | | (%) | | | (%) |
| Czech Republic koruna | 24.4 | 24.5 | 24.4 | -0.3 | 24.4 | 24.5 | 0.1 | 24.4 | 24.5 | 0.5 |
| Hungary forint | 367 | 367 | 369 | 0.4 | 365 | 371 | 1.8 | 363 | 373 | 2.9 |
| Poland zloty | 4.40 | 4.41 | 4.41 | 0.0 | 4.39 | 4.43 | 0.8 | 4.38 | 4.45 | 1.6 |
| **vs USD** | | | | | | | | | | |
| Israel shekel | 3.12 | 3.07 | 3.11 | 1.2 | 3.04 | 3.08 | 1.4 | 3.01 | 3.07 | 1.8 |
| Turkey new lira | 49.84 | 51.86 | 52.46 | 1.1 | 54.07 | 57.89 | 6.6 | 56.31 | 62.26 | 9.6 |
| S. Africa rand | 16.6 | 16.1 | 16.7 | 3.5 | 16.0 | 16.8 | 5.1 | 15.8 | 16.9 | 6.5 |

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Note: Returns are calculated as ratios of forwards to our forecasts.

Source: Citi Research estimates, Bloomberg

**Figure 27. Latin America: Exchange Rates and Forecasts**

| | | Dec-26 | | | Mar-27 | | | Jun-27 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 29-Oct | Forecast | Forward | Returns | Forecast | Forward | Returns | Forecast | Forward | Returns |
| **vs USD** | | | | (%) | | | (%) | | | (%) |
| Brazil reais | 5.35 | 5.41 | 5.42 | 0.0 | 5.45 | 5.51 | 1.1 | 5.49 | 5.62 | 2.3 |
| Chilean peso | 988 | 990 | 988 | -0.2 | 977 | 987 | 1.0 | 964 | 986 | 2.2 |
| Colombia peso | 3,164 | 3,165 | 3,200 | 1.1 | 3,137 | 3,264 | 3.9 | 3,109 | 3,328 | 6.6 |
| Mexico peso | 18.7 | 18.6 | 18.7 | 0.5 | 18.7 | 18.8 | 1.0 | 18.7 | 19.0 | 1.4 |

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Note: Returns are calculated as ratios of forwards to our forecasts.

Source: Citi Research estimates, Bloomberg

# Global Assumptions

### Figure 28. Citi's Global Macroeconomic Forecasts

| | GDP Growth (% YoY) | | | CPI Inflation (% YoY) | | | Current Account (%GDP) | | | Fiscal Balance (%GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F |
| **Global** | 2.9 | 2.7 | 2.8 | 2.8 | 3.4 | 3.0 | 0.4 | 0.7 | 0.7 | -4.5 | -4.8 | -4.5 |
| **Industrialized Economies** | 1.9 | 1.7 | 1.7 | 2.5 | 3.1 | 2.8 | -1.2 | -1.0 | -1.2 | -4.7 | -5.2 | -5.1 |
| **US** | 2.3 | 2.3 | 1.9 | 2.6 | 3.4 | 2.6 | -3.8 | -3.4 | -3.9 | -6.8 | -7.4 | -7.4 |
| **Japan** | 1.2 | 0.9 | 0.8 | 3.2 | 1.8 | 2.1 | 4.6 | 5.4 | 5.1 | -1.3 | -2.2 | -2.7 |
| **Euro** | 1.5 | 1.1 | 1.4 | 2.1 | 3.1 | 3.4 | 1.7 | 1.1 | 0.8 | -2.9 | -3.3 | -3.7 |
| **Germany** | 0.3 | 1.1 | 1.3 | 2.3 | 2.7 | 2.7 | 4.4 | 4.4 | 3.7 | -2.7 | -3.9 | -4.3 |
| **UK** | 1.2 | 1.6 | 1.8 | 3.4 | 3.2 | 3.8 | -2.3 | -2.1 | -2.1 | -7.7 | -8.6 | -3.1 |

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Source: Citi Research estimates, Haver Analytics

### Figure 29. G3 Exchange Rates and Interest Rate Forecasts (End of Period, Unless Specified)

| | Current | 1Q 26 | 2Q 26 | 3Q 26 | 4Q 26F | 1Q 27F | 2Q 27F | 3Q 27F | 4Q27F |
|---|---|---|---|---|---|---|---|---|---|
| United States: Federal Funds | 4.00 | 3.75 | 3.75 | 4.00 | 4.25 | 4.25 | 4.00 | 3.75 | 3.50 |
| -10-Yr. Treasuries (Avg.) | 5.00 | 4.32 | 4.47 | 5.28 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Euro Area: US$/€ | 1.11 | 1.16 | 1.14 | 1.13 | 1.13 | 1.13 | 1.13 | 1.13 | 1.13 |
| -Euro Depo Rate | 2.50 | 2.00 | 2.25 | 2.50 | 2.75 | 3.00 | 3.00 | 3.00 | 3.00 |
| -10-Yr. Bunds (Avg.) | 3.37 | - | - | 3.22 | 3.40 | 3.40 | 3.40 | 3.35 | 3.35 |
| Japan: ¥/US$ | 157.83 | 158.72 | 161.58 | 157.42 | 154.86 | 153.38 | 151.77 | 148.76 | 145.74 |
| -Policy Rate | 1.25 | 0.75 | 1.00 | 1.25 | 1.50 | 1.75 | 1.75 | 2.00 | 2.00 |
| -10-Yr. JGB (Avg.) | 2.83 | 2.18 | 2.55 | 2.85 | 2.95 | 3.05 | 3.00 | 2.95 | 2.85 |

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Source: Citi Research estimates, Bloomberg

### Figure 30. Industrialized Economies 10-Year Yields Spreads (Period Average)

| | vs US | | | | | | | | vs EA (Germany) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | 2Q 26 | 3Q 26 | 4Q 26F | 1Q 27F | 2Q 27F | 3Q 27F | 4Q 27F | Current | 2Q 26 | 3Q 26 | 4Q 26F | 1Q 27F | 2Q 27F | 3Q 27F | 4Q 27F |
| US | - | - | - | - | - | - | - | - | 170 | 151 | 213 | 166 | 166 | 166 | 171 | 171 |
| Japan | -224 | -197 | -250 | -211 | -201 | -206 | -211 | -221 | -54 | -46 | -37 | -45 | -35 | -40 | -40 | -50 |
| Euro | -170 | -151 | -213 | -166 | -166 | -166 | -171 | -171 | - | - | - | - | - | - | - | - |
| UK | 36 | - | -21 | 21 | 15 | 5 | 0 | -26 | 206 | - | 192 | 187 | 182 | 171 | 171 | 146 |

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Source: Citi Research, Bloomberg

### Figure 31. Commodities Price Outlook

| | | 0-3M | 6-12M | Q3 2026 | Q4 2026E | Q1 2027E | Q2 2027E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|
| **Precious Metals** | | | | | | | | | |
| Gold | US$/oz | 4800 | 5000 | 4,263 | 4,600 | 5,000 | 5,000 | 4,560 | 5,000 |
| Silver | US$/oz | 75.0 | 90.0 | 62.8 | 72.0 | 80.0 | 80.0 | 73.0 | 80.0 |
| Platinum | US$/oz | 1950 | 2100 | 1,730 | 1,900 | 2,000 | 2,000 | 1,935 | 2,000 |
| **Energy** | | | | | | | | | |
| Brent Oil | US$/bbl | 75 | 70 | 91 | 85 | 70 | 65 | 88 | 66 |
| WTI Oil | US$/bbl | 71 | 66 | 86 | 79 | 66 | 61 | 83 | 62 |
| Henry Hub Gas | US$/Mmbtu | 2.8 | 2.5 | 2.9 | 3.3 | 3.2 | 2.7 | 3.1 | 2.8 |
| JKM LNG | US$/MMBtu | 19.2 | 14.1 | 21.0 | 19.6 | 18.0 | 15.6 | 17.9 | 14.6 |
| TTF Natural Gas | US$/MMBtu | 18.7 | 13.6 | 20.4 | 19.1 | 17.4 | 15.0 | 17.2 | 14.0 |

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Source: Citi Research estimates

# EM: Key Macroeconomic Forecasts

**Figure 32. EM Key Macroeconomic Forecasts (click here for our detailed forecasts by country)**

| | GDP Growth (% YoY) | | | CPI Inflation (% YoY) | | | Current Account (%GDP) | | | Fiscal Balance (%GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F |
| **Asia** | **5.1** | **5.2** | **4.6** | **0.8** | **1.9** | **1.7** | **3.9** | **4.6** | **4.9** | **-4.0** | **-3.7** | **-3.5** |
| China | 5.0 | 4.6 | 4.1 | 0.1 | 0.9 | 0.5 | 3.8 | 3.7 | 3.3 | -4.0 | -4.0 | -3.8 |
| Hong Kong | 3.5 | 4.3 | 4.0 | 1.5 | 1.8 | 2.1 | 12.3 | 9.2 | 11.2 | -3.0 | 0.6 | 0.2 |
| India | 7.3 | 7.7 | 7.0 | 2.2 | 4.5 | 4.9 | -0.5 | -1.5 | -0.4 | -7.4 | -7.1 | -7.3 |
| Indonesia | 5.1 | 5.2 | 4.9 | 2.4 | 3.3 | 3.4 | -0.1 | -1.9 | -1.5 | -2.9 | -2.8 | -2.9 |
| (South) Korea | 1.1 | 3.8 | 3.3 | 2.1 | 2.7 | 2.4 | 6.5 | 21.2 | 22.4 | -1.7 | 0.4 | 1.6 |
| Malaysia | 5.2 | 5.2 | 4.8 | 1.4 | 1.9 | 2.2 | 1.6 | 2.1 | 1.7 | -3.7 | -3.6 | -3.3 |
| Mongolia | 6.9 | 7.0 | 6.6 | 8.6 | 10.6 | 10.4 | -8.4 | -3.9 | -8.0 | -1.4 | -1.9 | -2.0 |
| Pakistan | 3.1 | 3.7 | 3.6 | 4.5 | 7.1 | 9.5 | 0.5 | 0.0 | -0.6 | -5.3 | -3.0 | -3.6 |
| Philippines | 4.4 | 3.3 | 5.8 | 1.7 | 6.0 | 5.9 | -3.4 | -4.8 | -3.6 | -5.6 | -5.4 | -5.1 |
| Singapore | 5.0 | 5.5 | 3.6 | 0.9 | 1.9 | 2.0 | 17.6 | 16.3 | 16.8 | 1.9 | 1.0 | 0.8 |
| Sri Lanka | 5.0 | 4.3 | 4.7 | -0.5 | 6.0 | 4.6 | 1.6 | -0.5 | 0.2 | -2.3 | -5.1 | -3.7 |
| Taiwan | 8.8 | 12.5 | 8.8 | 1.3 | 2.1 | 2.2 | 20.0 | 24.0 | 25.7 | 0.1 | -0.1 | -0.1 |
| Thailand | 2.4 | 2.3 | 1.9 | -0.1 | 2.0 | 1.7 | 2.8 | -0.4 | 3.1 | -4.8 | -4.4 | -4.0 |
| Vietnam | 8.0 | 9.2 | 9.4 | 3.3 | 4.8 | 3.3 | 6.8 | -0.5 | 0.6 | -3.3 | -4.0 | -4.0 |
| **Latin America** | **2.1** | **2.0** | **2.1** | **8.1** | **7.0** | **6.5** | **-1.5** | **-0.9** | **-1.3** | **-5.1** | **-5.6** | **-5.2** |
| Argentina | 4.4 | 1.8 | 2.6 | 41.9 | 30.5 | 27.0 | -1.1 | 0.7 | 0.5 | 0.2 | 0.0 | 0.0 |
| Brazil | 2.3 | 1.8 | 1.4 | 5.0 | 4.5 | 4.7 | -2.9 | -2.5 | -2.5 | -8.3 | -9.3 | -8.5 |
| Chile | 2.5 | 0.6 | 3.0 | 4.2 | 3.7 | 3.1 | -1.2 | -0.3 | -1.5 | -2.5 | -1.5 | -1.5 |
| Colombia | 2.6 | 2.1 | 1.8 | 5.1 | 6.0 | 4.8 | -2.4 | -2.4 | -2.4 | -6.4 | -7.2 | -7.4 |
| Costa Rica | 4.6 | 3.2 | 3.4 | -0.1 | -0.7 | 2.1 | -0.5 | -0.7 | -0.9 | -2.7 | -2.5 | -2.5 |
| Dominican Rep. | 2.1 | 4.5 | 4.4 | 3.9 | 5.0 | 4.5 | -1.4 | -0.6 | -0.9 | -3.3 | -3.5 | -3.3 |
| El Salvador | 3.9 | 3.7 | 3.2 | 0.3 | 2.5 | 2.3 | -3.5 | -4.5 | -3.8 | -2.9 | -2.8 | -8.2 |
| Mexico | 0.5 | 1.9 | 2.0 | 3.8 | 3.7 | 3.8 | -0.5 | -0.2 | -0.6 | -4.3 | -4.4 | -4.0 |
| Panama | 4.4 | 4.7 | 3.8 | 0.0 | 1.8 | 1.6 | -1.2 | 0.2 | -0.8 | -3.7 | -3.3 | -3.0 |
| Peru | 3.4 | 3.1 | 3.3 | 1.5 | 3.8 | 2.6 | 3.5 | 4.2 | 2.5 | -2.2 | -1.5 | -1.5 |
| **Europe** | **2.6** | **2.1** | **2.5** | **12.5** | **11.3** | **9.9** | **-0.8** | **-1.3** | **-1.2** | **-3.9** | **-4.0** | **-3.9** |
| Czech Republic | 2.7 | 1.9 | 2.5 | 2.5 | 2.1 | 2.9 | 0.7 | -0.7 | -0.3 | -2.1 | -2.7 | -3.5 |
| Hungary | 0.5 | 2.0 | 3.2 | 4.4 | 1.9 | 2.9 | 1.6 | -0.1 | 1.5 | -4.7 | -7.0 | -4.6 |
| Kazakhstan | 6.5 | 4.5 | 4.4 | 11.4 | 10.4 | 9.1 | -4.0 | -0.3 | -3.1 | -2.5 | -2.5 | -2.3 |
| Poland | 3.6 | 3.6 | 3.1 | 3.6 | 3.2 | 4.7 | -0.9 | -1.6 | -1.9 | -7.3 | -7.1 | -7.3 |
| Romania | 0.7 | -0.9 | 2.6 | 7.3 | 8.5 | 5.0 | -7.8 | -7.8 | -7.0 | -7.9 | -6.5 | -5.8 |
| Serbia | 2.0 | 3.4 | 3.3 | 3.9 | 3.2 | 4.0 | -4.7 | -4.3 | -4.7 | -2.4 | -3.0 | -3.0 |
| Turkey | 3.7 | 2.5 | 3.1 | 34.9 | 31.1 | 24.2 | -1.9 | -2.6 | -2.6 | -2.8 | -3.3 | -4.3 |
| Ukraine | 1.8 | 0.6 | 2.0 | 12.8 | 8.8 | 9.8 | -13.5 | -19.1 | -16.8 | -18.6 | -15.1 | -12.7 |
| **Africa/Mid East** | **4.2** | **0.6** | **6.9** | **4.7** | **4.9** | **4.3** | **2.8** | **1.8** | **1.9** | **-4.4** | **-4.9** | **-4.1** |
| Bahrain | 3.5 | -5.2 | 5.3 | -0.1 | 2.1 | 2.5 | 5.8 | -2.2 | 3.0 | -9.6 | -12.4 | -11.2 |
| Egypt | 5.1 | 5.0 | 5.4 | 14.1 | 13.9 | 10.3 | -3.4 | -5.8 | -3.9 | -6.1 | -5.1 | -5.1 |
| Ghana | 6.0 | 5.8 | 5.3 | 14.6 | 4.6 | 7.7 | 8.2 | 5.4 | 3.4 | -1.4 | -2.2 | -3.2 |
| Israel | 3.5 | 5.4 | 6.4 | 3.0 | 1.8 | 1.7 | 2.0 | 2.4 | 2.4 | -4.7 | -3.7 | -3.5 |
| Kenya | 4.6 | 5.2 | 4.3 | 4.1 | 6.1 | 6.4 | -2.1 | -2.7 | -2.3 | -6.2 | -6.0 | -6.1 |
| Kuwait | 2.7 | -12.2 | 16.0 | 2.4 | 2.4 | 2.3 | 22.7 | 13.5 | 16.4 | -14.8 | -22.0 | -20.0 |
| Nigeria | 4.3 | 4.6 | 5.2 | 23.0 | 14.9 | 11.9 | 4.5 | 6.8 | 5.0 | -2.9 | -2.9 | -2.8 |
| Oman | 2.3 | 4.7 | 1.9 | 1.0 | 2.9 | 2.0 | -1.1 | 8.9 | -0.7 | -1.1 | 3.2 | -1.0 |
| Qatar | 1.8 | -13.5 | 12.0 | 0.6 | 2.9 | 2.4 | 14.8 | 3.3 | 4.7 | -1.0 | -8.0 | -4.1 |
| Saudi Arabia | 4.6 | -2.0 | 9.3 | 2.0 | 1.8 | 2.1 | -2.6 | -1.5 | -1.1 | -5.8 | -7.2 | -5.0 |
| South Africa | 1.1 | 1.2 | 1.4 | 3.2 | 4.2 | 4.4 | -0.5 | 0.4 | 0.1 | -4.3 | -3.1 | -2.7 |
| Tanzania | 5.9 | 6.1 | 5.9 | 3.3 | 4.1 | 3.9 | -2.2 | -2.8 | -2.3 | -3.2 | -3.1 | -3.3 |
| UAE | 6.2 | 0.2 | 6.6 | 1.3 | 5.6 | 2.7 | 13.3 | 8.8 | 9.5 | - | - | - |
| Uganda | 6.8 | 6.7 | 7.2 | 3.6 | 4.0 | 5.4 | -6.5 | -5.8 | -4.5 | -6.9 | -5.8 | -4.6 |
| Zambia | 5.6 | 5.9 | 4.0 | 14.0 | 6.7 | 8.0 | -3.5 | 2.6 | 3.8 | -3.9 | -4.4 | -3.2 |
| **EM** | **4.3** | **4.0** | **4.2** | **3.1** | **3.8** | **3.3** | **2.5** | **2.9** | **3.1** | **-4.2** | **-4.2** | **-3.9** |

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Source: Citi Research estimates, Haver Analytics, National Authorities

# Sovereign Bond Ratings Summary

**Figure 33. Sovereign Bond Ratings**

| | S&P | Moody's | Fitch |
|---|---|---|---|
| AAA/Aaa | Australia (Stable); Singapore (Stable); | Australia (Stable); New Zealand (Negative); Singapore (Stable); | Australia (Stable); Singapore (Stable); |
| AA+/Aa1 | Hong Kong (Stable); New Zealand (Stable); Taiwan (Stable); | | New Zealand (Negative); |
| AA/Aa2 | South Korea (Stable); Qatar (Stable); UAE (Stable); | South Korea (Stable); Qatar (Stable); UAE (Stable); | Taiwan (Stable); Qatar (Negative); |
| AA-/Aa3 | Czech Republic (Positive); Kuwait (Stable); | Hong Kong (Stable); Taiwan (Stable); Czech Republic (Stable); Saudi Arabia (Stable); | Hong Kong (Stable); South Korea (Stable); Czech Republic (Stable); Kuwait (Stable); UAE (Stable); |
| A+/A1 | China (Stable); Japan (Stable); Saudi Arabia (Stable); | China (Stable); Japan (Stable); Kuwait (Stable); | Saudi Arabia (Stable); |
| A/A2 | Chile (Stable); Croatia (Stable); Slovakia (Stable); Israel (Stable); | Chile (Stable); | China (Stable); Japan (Stable); Israel (Negative); |
| A-/A3 | Malaysia (Stable); Poland (Stable); | Malaysia (Stable); Croatia (Stable); Poland (Stable); Slovakia (Stable); | Chile (Stable); Croatia (Stable); Poland (Negative); Slovakia (Stable); |
| BBB+/Baa1 | Uruguay (Stable); Philippines (Stable); Thailand (Stable); | Peru (Stable); Uruguay (Stable); Thailand (Stable); Kazakhstan (Stable); Israel (Stable); | Malaysia (Stable); Thailand (Stable); |
| BBB/Baa2 | Mexico (Negative); India (Stable); Indonesia (Stable); Kazakhstan (Stable); | Indonesia (Negative); Philippines (Stable); Bulgaria (Stable); Hungary (Negative); | Peru (Stable); Uruguay (Stable); Indonesia (Negative); Philippines (Negative); Hungary (Negative); Kazakhstan (Stable); |
| BBB-/Baa3 | Panama (Stable); Peru (Stable); Bulgaria (Negative); Hungary (Negative); Romania (Negative); Serbia (Stable); Oman (Stable); | Colombia (Stable); Mexico (Stable); Panama (Negative); India (Stable); Romania (Negative); Oman (Stable); | Mexico (Stable); India (Stable); Romania (Negative); Oman (Stable); |
| BB+/Ba1 | Guatemala (Stable); Vietnam (Stable); | Brazil (Stable); Guatemala (Stable); | Guatemala (Stable); Panama (Stable); Vietnam (Stable); Serbia (Positive); |
| BB/Ba2 | Brazil (Stable); Costa Rica (Stable); Dominican Republic (Stable); South Africa (Positive); | Costa Rica (Stable); Dominican Republic (Stable); Vietnam (Positive); Serbia (Stable); South Africa (Positive); | Brazil (Stable); Colombia (Stable); Costa Rica (Positive); South Africa (Stable); |
| BB-/Ba3 | Colombia (Stable); Mongolia (Stable); Turkey (Stable); | Turkey (Stable); | Dominican Republic (Stable); Turkey (Stable); |
| B+/B1 | | Mongolia (Stable); Tanzania (Stable); | Mongolia (Stable); Tanzania (Positive); |
| B/B2 | Ecuador (Stable); Pakistan (Stable); Bahrain (Stable); Egypt (Stable); Kenya (Stable); Nigeria (Stable); | Bahrain (Negative); | Bahrain (Stable); Egypt (Stable); Ghana (Positive); Nigeria (Positive); Uganda (Stable); |
| B-/B3 | Argentina (Stable); El Salvador (Stable); Ghana (Stable); Uganda (Positive); | Argentina (Positive); El Salvador (Positive); Pakistan (Stable); Egypt (Positive); Ghana (Stable); Kenya (Stable); Nigeria (Positive); Uganda (Stable); | Argentina (Stable); Ecuador (Stable); El Salvador (Stable); Pakistan (Stable); Sri Lanka (Stable); Kenya (Stable); Zambia (Stable); |
| CCC+/Caa1 | Sri Lanka (Stable); Ukraine (Stable); Zambia (Stable); | Ecuador (Stable); Sri Lanka (Stable); | |
| CCC/Caa2 | | Zambia (Positive); | Ukraine (NA); |
| CCC-/Caa3 | | | |
| CC+/Ca1 & Below | | Ukraine (Stable); | |

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Source: Citi Research, S&P, Moody's, Fitch, Bloomberg

# Asia

# China

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- **Summary view** – China's cyclical stabilization is playing out as we expected. We expect the policymakers to stay in execution mode and keep our growth forecast at 4.6%YoY for 2026E. This near-term stabilization doesn't alleviate our concerns about 2027 and beyond, and a "9.24"-style policy pivot could be inevitable.

**A cyclical stabilization we had anticipated is playing out.** GDP growth picked up to 4.5%YoY in 26Q3 from 4.3%YoY in 26Q2, with sequential growth improving to 1.2%QoQ SA from 0.9% previously, per NBS. Nominal growth held steady at 6.0%YoY, the highest since 22Q1, as PPI hit a new high in September.

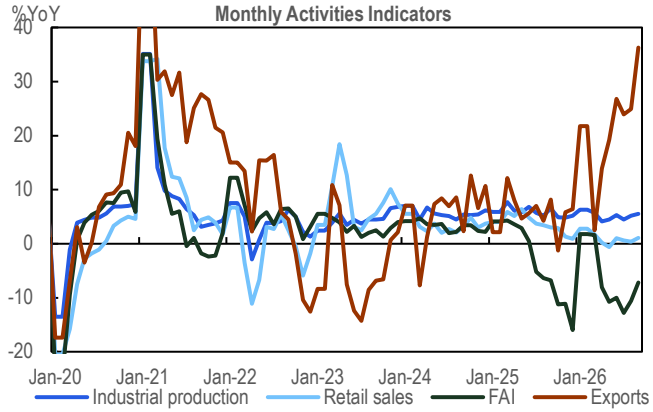
**September numbers pointed to somewhat better-than-expected domestic demand.** The supply side and the new economy remained supportive, unsurprisingly, with exports growth running at 36.3%YoY and industrial production at 5.5%YoY – high-tech IP continued expanding at 15.3%YoY. We had argued that August could mark the cyclical bottom of this year, and domestic demand indeed improved from September: retail sales rose to 1.1%YoY, the highest reading since April, and investment growth also appeared to have bottomed, with monthly FAI growth estimated at -7.2%YoY vs. -10.6%YoY in August.

**We expect policymakers to stay in execution mode given the latest data.** Cumulative growth reached 4.6% YoY in 26Q1-3, comfortably within this year's 4.5–5% target range. A 4.3% print in 26Q4 – aided by a low base from 25Q4 – would be enough to secure the full-year number, so new stimulus such as an outright rate cut or budget revision is off the table, in our view. Despite September's stabilization, the long-awaited reversal of fiscal austerity has yet to materialize, with general government spending contracting -3.7%YoY in September. Infrastructure investment – a more likely immediate fiscal beneficiary – stayed weak at -4.2%YoY Ytd vs. -4.0%YoY in Jan-Aug, but we expect the contraction to narrow as policy efforts come through. We maintain our GDP growth forecast at 4.6%YoY for both 26Q4E and 2026E.

**This cyclical stabilization doesn't alleviate our concerns about 2027 and beyond** (see: Approaching Inflection). Consumer confidence remains weak, with the urban household savings rate elevated at 39.2% in 26Q1-3 vs. 36.2% in pre-pandemic 19Q1-3. Property prices showed further signs of stabilization, while contractions in investment and sales both widened in September; the shift toward completed-home sales could weigh further on activities into 2027. Despite currently robust readings, early signs of peaking in the new economy may be emerging – chip output growth eased to 18.4%YoY in September, a six-month low, while industrial robot output slowed to 18.9%YoY, the weakest reading this year. The government may be pressed to **"protect 4" (保四) in 2027** amid all the headwinds.

**A "9.24"-style pivot looks inevitable in 2027, if not sooner, in our view.** Pressure seems to be building from growth slowdown, elevated unemployment, widening fiscal gaps, and resurfacing deflation risks. We expect the augmented fiscal deficit to increase ~RMB2trn – RMB1trn on-budget plus RMB500bn each in special CGB and LGB quotas – partly offsetting ~RMB1trn decline in land revenue following home-sales reform. As conventional measures show diminishing impact, it's time for more direct household transfers, in our view. Risk-resolution efforts may also shift toward clearing payment arrears as local debt swap winds down. We pencil in two 10bp policy rate cuts following a hold in 2026. Against such a backdrop, China rates are set to stay lower for longer. FX is caught between record-high trade surplus and record-high yield differential. We expect managed RMB appreciation toward 6.5 per US dollar in 2027E.

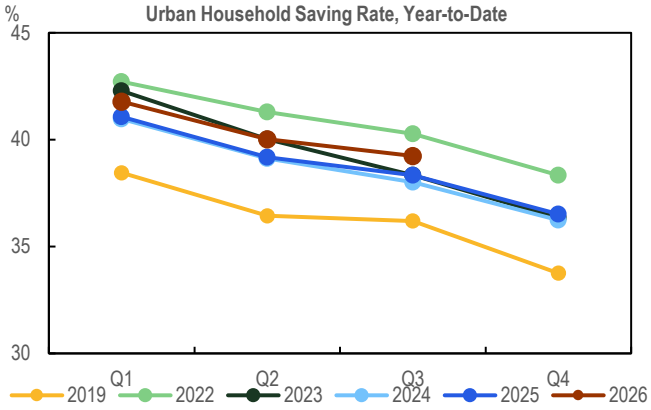
**Figure 34. GDP growth rebounded as expected and September data confirmed further a cyclical stabilization**




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Source: NBS, Wind, China Customs, Citi Research

**Figure 35. We tend not to extrapolate the recovery in retail sales given elevated household saving rate**




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Source: PBoC, Wnd, Citi Research

**Figure 36. China Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 14,338 | 14,863 | 17,754 | 18,333 | 18,271 | 18,720 | 19,483 | 22,006 | 23,723 |
| Population, mn | 1,410.1 | 1,412.1 | 1,412.6 | 1,411.8 | 1,409.7 | 1,408.3 | 1,404.9 | 1,401.7 | 1,398.5 |
| Real GDP, yoy avg | 6.0 | 2.2 | 8.6 | 3.1 | 5.4 | 5.0 | 5.0 | 4.6 | 4.1 |
| Private consumption growth % yoy | 5.7 | 0.2 | 7.8 | 0.0 | 8.1 | 4.3 | 5.0 | 4.8 | 4.8 |
| Real investment growth % yoy | 3.9 | 4.2 | 3.8 | 3.5 | 3.5 | 3.2 | 2.0 | 3.0 | 2.8 |
| Net export contribution to growth | 0.7 | 0.6 | 1.7 | 0.5 | -0.4 | 1.4 | 1.6 | 1.1 | 0.5 |
| Unemployment, % of labour force | 3.8 | 3.6 | 4.1 | 5.6 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 90.3 | 223.7 | 297.4 | 404.1 | 257.0 | 462.3 | 735.0 | 814.2 | 782.9 |
| % of GDP | 0.6 | 1.5 | 1.7 | 2.2 | 1.4 | 2.5 | 3.8 | 3.7 | 3.3 |
| Trade balance | 421.1 | 524.0 | 636.6 | 837.9 | 822.1 | 992.2 | 1,180.5 | 1,248.3 | 1,216.4 |
| FDI, net | -50.3 | -99.4 | -165.3 | 19.8 | 174.3 | 149.6 | 74.8 | 60.0 | 60.0 |
| External debt | 2,070.8 | 2,400.8 | 2,746.6 | 2,481.5 | 2,605.6 | 2,735.9 | 2,872.7 | 3,016.3 | 3,167.1 |
| Short-term debt | 1,205.3 | 1,316.4 | 1,316.4 | 1,355.6 | 1,354.9 | 1,422.6 | 1,493.8 | 1,568.5 | 1,646.9 |
| International reserves | 3,203.3 | 3,334.8 | 3,363.3 | 3,244.9 | 3,386.2 | 3,393.7 | 3,643.3 | 3,613.2 | 3,533.2 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.8 | -3.6 | -3.2 | -2.8 | -3.8 | -4.0 | -4.0 | -4.0 | -3.8 |
| Consolidated gov primary balance | -2.3 | -3.1 | -2.7 | -2.3 | -3.8 | -3.0 | -4.0 | -4.0 | -4.0 |
| Public debt | 80.5 | 91.7 | 96.1 | 102.2 | 104.2 | 106.2 | 107.2 | 108.2 | 109.2 |
| External public debt | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 4.3 | 0.1 | 1.8 | 1.8 | -0.3 | 0.1 | 0.8 | 0.5 | 0.7 |
| CPI, % yoy, avg | 2.9 | 2.5 | 0.9 | 2.0 | 0.2 | 0.2 | 0.1 | 0.9 | 0.5 |
| CNY/US$, eop | 6.96 | 6.53 | 6.36 | 6.90 | 7.10 | 7.30 | 6.99 | 6.61 | 6.53 |
| CNY/US$, avg | 6.91 | 6.90 | 6.45 | 6.73 | 7.08 | 7.20 | 7.19 | 6.75 | 6.55 |
| Policy Interest Rate, % eop | 2.50 | 2.20 | 2.20 | 2.00 | 1.80 | 1.50 | 1.40 | 1.40 | 1.20 |
| 10-Year Government Bond, %, eop | 3.14 | 3.14 | 2.77 | 2.83 | 2.56 | 1.85 | 1.85 | 1.85 | 1.85 |
| Nominal wages, % yoy | 7.96 | 3.38 | 13.93 | 5.63 | 5.38 | 4.59 | 4.44 | 6.57 | 5.10 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 4.5 | 5.0 | 4.3 | 4.5 | 4.6 | 4.3 | 4.1 | 3.9 | 4.0 |
| CPI, % yoy, avg | 0.6 | 0.8 | 1.1 | 0.7 | 1.0 | 0.8 | 0.3 | 0.7 | 0.0 |
| CNY/US$, eop | 6.99 | 6.90 | 6.77 | 6.70 | 6.61 | 6.58 | 6.56 | 6.54 | 6.53 |
| Policy interest rate, %, eop | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.30 | 1.30 | 1.20 | 1.20 |

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Note: Public debt includes debt of central, local govt and Ministry of Railway; since 2015, more general government debt methodology (including the LGFV) is adopted. External debt is based on the residency of the holder of the debt (not by currency denomination). ** We refer to 7d Reverse Repo Rate as Policy Rate from Q1'16. 1y Deposit Rate was quoted before this date. Positive net FDI refers to inflow of investment into an economy.

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research Estimates

# Hong Kong

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- **Summary view** – HK's recovery remains supported by tourism and AI-driven trade, but growth is uneven. The HK 5-Year Plan should bolster investment and potential growth, while labour-market softness, elevated global rates and energy risks pose challenges despite a constructive 2027 property outlook.

**HK's recovery remained intact into 3Q26, but downside risks have become more visible.** Growth continued to be supported by resilient tourism and AI-related external sectors. Retail sales value rose 5.6%yoy in August, extending growth to a 16th consecutive month, while tourist arrivals during the Oct Golden Week remained robust. AI-related merchandise exports have become a key driver of HK's re-export performance and should remain an important growth pillar into 2027E. Domestic demand remains uneven, but public and private investment could increasingly support growth, while higher global rates, weak equity sentiment and geopolitical uncertainties suggest the recovery should remain moderate.

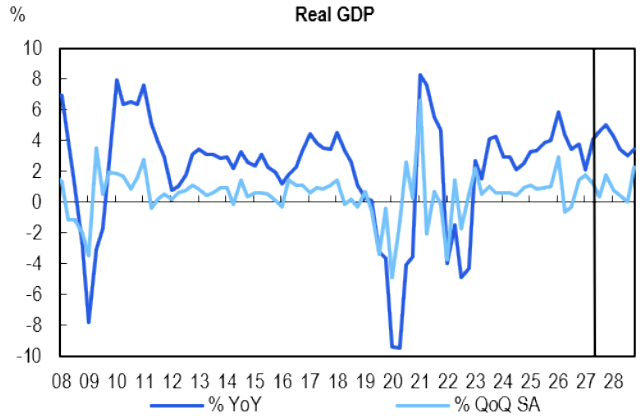
**HK 5 Year Plan (FYP) guides investment support to economy in 2027E.** We view HK's first FYP as providing a clearer framework for capital allocation, infrastructure planning and industrial development, helping anchor medium-term investment expectations. Policy emphasis on the Northern Metropolis, innovation and technology, advanced manufacturing, logistics connectivity and offshore RMB development should support public and private investment. Successful implementation could gradually lift HK's potential growth beyond 2028 by broadening economic drivers beyond property and financial services. While the direct macro impact in 2027 should remain modest, progress on infrastructure and land development could support confidence, construction activity and fiscal revenues.

**Jobless rate edged up to 3.9%sa, reflecting weakness in retail, F&B and logistics-related sectors.** The rise in unemployment highlights the uneven nature of the recovery. Consumption-facing sectors continue to face pressure from outbound travel and structural changes in the retail landscape. Logistics-related employment has been affected by elevated transportation costs. We expect labour-market improvement to lag the broader recovery through much of 2027.

**Citi expects home prices and rents to rise 6% in 2027E, supported by tight rental supply despite fading price momentum in 2H26.** Residential market conditions have softened since mid-2026 after a strong first-half rally, but we remain constructive on medium-term fundamentals. Supply additions remain limited relative to underlying housing demand, while population inflows, talent programmes and a healthy leasing market continue to tighten vacancy conditions. We expect rents to remain on a sustained upward trajectory into 2027, improving rental yields and gradually underpinning home-price recovery.

**Global risks, including higher rates and energy shocks, also pose risks to HK financial stability and property-market recovery.** Persistent increases in global long-end yields remain the most important external risk. Under the HK Linked Exchange Rate System, higher US yields are transmitted into local financing conditions, putting upward pressure on HIBOR and funding costs despite weak domestic credit demand. We think, for now, banks are likely to keep prime rates unchanged as local loan demand remains soft, but a more hawkish Fed hiking cycle could alter this. Higher borrowing costs could slow residential and commercial property recovery, suppress land-sale revenues and raise financing costs for large-scale projects such as the Northern Metropolis. Meanwhile, re-escalation of Mid-East tensions and elevated energy prices could lift inflation through fuel, transportation and utility costs. While inflation should remain manageable, sustained energy-price pass-through would weigh on logistics profitability and household purchasing power.

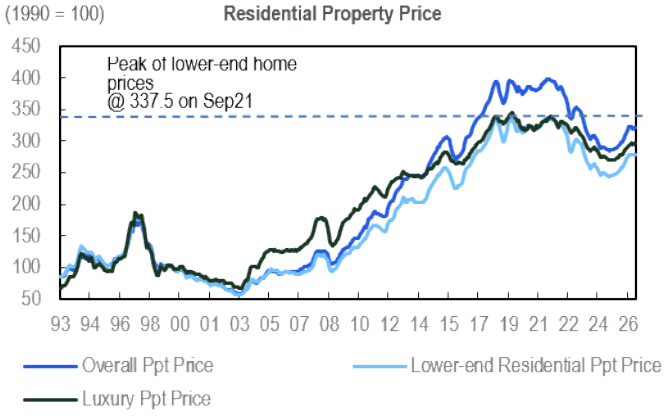
**Figure 37. 3Q26 GDP likely points to further recovery, but base effect will turn less favourable in 2H**




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Source: CEIC, Citi Research

**Figure 38. Home prices improved notably in 1H26, despite recent slower momentum, Citi sees 6% price rise in 2027E**




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Source: HKMA, CEIC, Citi Research

**Figure 39. Hong Kong Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 363 | 345 | 369 | 359 | 381 | 408 | 427 | 451 | 485 |
| Population, mn | 7.5 | 7.4 | 7.4 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Real GDP, yoy avg | -1.7 | -6.5 | 6.5 | -3.7 | 3.2 | 2.6 | 3.5 | 4.3 | 4.0 |
| Private consumption growth % yoy | -0.8 | -10.6 | 5.6 | -2.2 | 6.8 | -0.2 | 1.7 | 3.4 | 2.5 |
| Real investment growth % yoy | -17.2 | 0.3 | -2.9 | -12.7 | 11.8 | 3.4 | 15.9 | 22.7 | -1.7 |
| Real export growth, % yoy | -6.1 | -6.8 | 17.0 | -12.6 | -6.7 | 5.1 | 11.2 | 19.8 | 7.6 |
| Real import growth, % yoy | -7.3 | -6.7 | 15.9 | -12.3 | -5.3 | 3.9 | 11.6 | 21.3 | 6.6 |
| Net export contribution to growth | 2.4 | -0.2 | 2.6 | -1.2 | -2.8 | 2.1 | -0.4 | -2.5 | 2.2 |
| Unemployment, % of labour force | 2.9 | 5.8 | 5.2 | 4.3 | 2.9 | 3.0 | 3.7 | 3.8 | 3.6 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 21.2 | 24.1 | 43.7 | 36.5 | 32.1 | 53.6 | 52.3 | 41.6 | 54.3 |
| % of GDP | 5.9 | 7.0 | 11.8 | 10.2 | 8.4 | 13.1 | 12.3 | 9.2 | 11.2 |
| Trade balance | -54.5 | -44.1 | -44.7 | -50.5 | -59.7 | -48.7 | -57.3 | -51.8 | 35.6 |
| FDI, net | -20.5 | -34.0 | -43.7 | -3.4 | -25.8 | -10.0 | -10.0 | -20.0 | -20.0 |
| External debt | - | - | - | - | - | - | - | - | - |
| Short-term debt | - | - | - | - | - | - | - | - | - |
| International reserves | 441.2 | 491.6 | 496.7 | 423.9 | 425.4 | 421.3 | 427.9 | 430.0 | 425.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -0.6 | -9.2 | 0.0 | -6.6 | -5.7 | -5.8 | -3.0 | 0.6 | 0.2 |
| Consolidated gov primary balance | -0.6 | -9.2 | 0.0 | -6.6 | -5.7 | -5.8 | -3.0 | 0.6 | 0.2 |
| Public debt | 1.3 | 4.1 | 6.2 | 9.5 | 11.4 | 13.4 | 15.6 | 15.8 | 16.0 |
| External public debt | 1.0 | 1.4 | 1.8 | 2.9 | 3.9 | 3.9 | 4.2 | 4.2 | 4.2 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 2.9 | 0.3 | 1.6 | 1.9 | 2.1 | 1.7 | 1.4 | 1.8 | 2.1 |
| CPI, % yoy, avg | 2.9 | -0.9 | 2.4 | 2.0 | 2.4 | 1.4 | 1.5 | 1.8 | 2.1 |
| HKD/US$, eop | 7.79 | 7.75 | 7.80 | 7.81 | 7.81 | 7.77 | 7.78 | 7.84 | 7.81 |
| HKD/US$, avg | 7.84 | 7.76 | 7.77 | 7.83 | 7.83 | 7.80 | 7.80 | 7.84 | 7.83 |
| Policy Interest Rate, % eop | - | - | - | - | - | - | - | - | - |
| 10-Year Govt Bond, %, eop | 1.80 | 0.75 | 1.50 | 3.63 | 3.23 | 3.74 | 3.04 | 4.00 | 4.10 |
| Nominal wages, % yoy | 3.49 | 1.35 | 1.28 | 2.17 | 3.59 | 3.68 | 3.43 | 4.00 | 4.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 4.0 | 5.9 | 4.3 | 3.5 | 3.7 | 2.1 | 4.1 | 4.6 | 5.0 |
| CPI, % yoy, avg | 1.3 | 1.6 | 1.9 | 1.7 | 1.9 | 1.9 | 2.3 | 2.2 | 2.1 |
| HKD/US$, eop | 7.78 | 7.84 | 7.84 | 7.85 | 7.84 | 7.83 | 7.83 | 7.82 | 7.81 |

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Note: Public debt is general government debt. Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

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- **Summary view** – We retain FY27 real GDP forecast at 7.3%YY but with upside risk. We see FY27 average headline inflation at 5.1%YY. We expect 2x25bps rate hikes in December and February. Expect BoP to be in deficit in 2HFY27 ($12bn) as and still see USDINR at 98 on the 6-12m horizon.

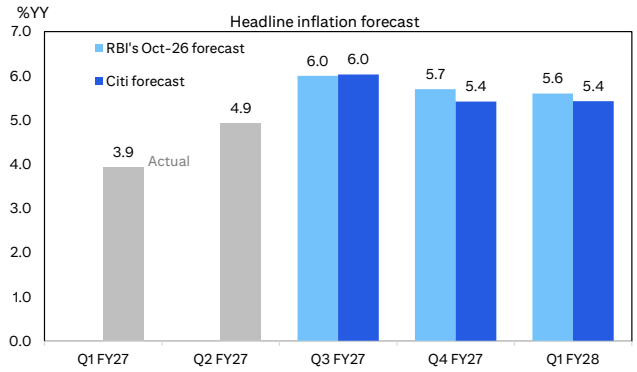
**Resilient growth despite uncertainties**: High-frequency data continues to remain resilient, with two-thirds of indicators in our Growth Activity Tracker for India (GATI) consistent with at least 7.5% growth in 2QFY27, above our forecast (7.3%). Stronger investment trends are offsetting some signs of weakness in consumption. Both Rural and Urban Consumption GATI have weakened somewhat in 2QFY27, although the latter remains high in level terms. Early trends for festive season demand are mixed, but not particularly weak. We have built in somewhat slower growth in 2H (7.0%) vs 1H (7.6%), given both El Nino/weak monsoon and Mid-East-related uncertainties. However, current data suggests some further upside to our FY27 real GDP growth forecast (7.3%YY). We will closely monitor how the lingering impact of El Nino/weak monsoon and Mid-East tensions influence domestic demand in 2HFY27.

**Rising inflation but in-line with estimates**: September CPI hit 33-month high of 5.54%, primarily led by rising food prices. But October MTD trends indicate partial relief as sugar and onion prices stabilize. Core CPI ex-precious metals rose to 3.2% YoY with momentum hitting a four-year high (0.53% MoM, sa). Generalization risks increased, with ~46% of the CPI basket exceeding 4% inflation and CPI core goods showing early signs of uptick. September CPI was broadly in-line with RBI forecast and we also retain our FY27 average inflation view at 5.1%YY.

**BoP to return to deficit in 2HFY27**: External balance remains in a challenging phase as concessionary swap-driven surpluses mask underlying pressures. While the headline goods trade deficit remained stable, export growth is heavily concentrated in machinery and electronics. Moreover, services exports are showing signs of slowdown. FCNR(B) adjusted BoP remained close to deficit in 2QFY27 despite better FPI/FDI trends. We expect BoP to be in deficit in 2HFY27 ($12bn) as exceptional FCNR(B) swap inflows fade and global uncertainty persists. We revised our full-year FY27 BoP surplus forecast down to $50bn (from $94bn). Compounded by elevated crude prices widening the trade gap, we see FY27 CAD at 1.5% of GDP (vs 1.2% earlier). We still see USDINR at 96.0 on 3-month horizon and 98.0 on the 6-12m horizon.

**Monetary policy:** In our base case, we continue to see 2x25bps rate hikes in December and February, taking the terminal repo rate to 6.00% (link). For the RBI to hike more aggressively or beyond February, further upside risks from oil prices (if Brent remains above $100/bbl) and food inflation (weather uncertainties and El Niño) would have to materialize. If these risks play out, headline CPI staying above 6% for three consecutive quarters could prompt more tightening measures by the April policy meeting; otherwise, a steep rate hike cycle remains unlikely given historically shallow tightening cycles. Additionally, the RBI is likely to continue separating inflation targeting via interest rates from exchange rate management using other tools. Pressure on the currency would need to be far more acute to move beyond this framework, making an inter-meeting interest rate defense unlikely. Furthermore, current October inflation trends suggest the risk of an outsized move in December is low.

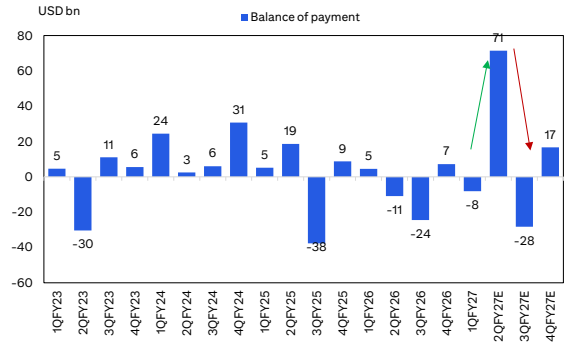
**Figure 40. Headline CPI could average ~6.0%YY in 3QFY27**




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Source: RBI, Citi Research

**Figure 41. Expect BoP deficit in 2HFY27**




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Source: RBI, Citi Research

**Figure 42. India Economic Indicators**

| | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27F | FY28F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 2,760 | 2,604 | 3,083 | 3,257 | 3,512 | 3,760 | 3,909 | 4,018 | 4,319 |
| Population, mn | 1,341 | 1,355 | 1,369 | 1,383 | 1,395 | 1,408 | 1,417 | 1,429 | 1,440 |
| Real GDP, yoy avg | 3.9 | -5.8 | 9.7 | 7.6 | 7.3 | 7.2 | 7.8 | 7.3 | 7.1 |
| Private consumption growth % yoy | 5.2 | -5.3 | 11.7 | 7.5 | 6.2 | 6.4 | 7.2 | 6.9 | 7.3 |
| Real investment growth % yoy | -6.0 | -10.6 | 25.4 | 3.5 | 8.7 | 6.1 | 7.7 | 12.4 | 6.9 |
| Real export growth, % yoy | -3.4 | -7.0 | 29.6 | 10.3 | 1.1 | 4.9 | 6.4 | 8.0 | 5.8 |
| Real import growth, % yoy | -0.8 | -12.6 | 22.1 | 8.9 | -0.2 | 5.7 | 4.6 | 2.6 | 5.8 |
| Net export contribution to growth | -0.5 | 2.0 | 0.6 | 0.2 | 0.3 | -0.3 | 0.3 | 1.1 | 0.0 |
| Unemployment, % of labour force | - | - | - | - | - | - | - | - | - |
| **External (US$bn)** | | | | | | | | | |
| Current account | -24.7 | 23.9 | -38.8 | -67.1 | -26.1 | -23.1 | -27.5 | -61.0 | -16.4 |
| % of GDP | -0.9 | 0.9 | -1.3 | -2.1 | -0.7 | -0.6 | -0.7 | -1.5 | -0.4 |
| Trade balance | -157.5 | -102.2 | -189.5 | -265.3 | -244.9 | -286.9 | -337.3 | -382.5 | -355.8 |
| FDI, net | 43.0 | 44.0 | 38.6 | 28.0 | 10.1 | 1.0 | 6.7 | 26.1 | 25.0 |
| External debt | 558.4 | 573.7 | 619.1 | 623.9 | 668.9 | 736.4 | 762.8 | 870.7 | 931.9 |
| Short-term debt | 113.4 | 118.4 | 123.4 | 128.4 | 133.4 | 138.4 | 143.4 | 163.7 | 175.2 |
| International reserves | 475.6 | 579.3 | 617.6 | 578.4 | 645.6 | 665.4 | 688.1 | 732.9 | 756.6 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -7.4 | -13.5 | -9.7 | -9.1 | -8.3 | -7.8 | -7.4 | -7.1 | -7.3 |
| Consolidated gov primary balance | -2.4 | -7.9 | -4.3 | -3.7 | -2.8 | -2.5 | -1.9 | -1.6 | -1.8 |
| Public debt | 77.2 | 91.7 | 86.5 | 85.1 | 84.7 | 84.1 | 84.8 | 83.1 | 82.4 |
| External public debt | 4.1 | 4.0 | 4.2 | 4.1 | 4.2 | 4.5 | 4.3 | 4.3 | 4.3 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 5.8 | 5.5 | 7.0 | 5.7 | 4.9 | 3.3 | 3.4 | 5.4 | 3.9 |
| CPI, % yoy, avg | 4.8 | 6.2 | 5.5 | 6.7 | 5.4 | 4.6 | 1.9 | 5.1 | 4.5 |
| INR/US$, eop | 71.36 | 73.05 | 74.49 | 82.74 | 83.22 | 85.58 | 89.87 | 96.27 | 98.34 |
| INR/US$, avg | 70.40 | 74.12 | 73.94 | 78.60 | 82.57 | 83.67 | 87.14 | 95.40 | 97.82 |
| Policy Interest Rate, % eop | 4.40 | 4.00 | 4.00 | 6.50 | 6.50 | 6.25 | 5.25 | 6.00 | 6.00 |
| 10-Year Gilt, %, eop | 6.37 | 6.21 | 6.77 | 7.39 | 7.06 | 6.73 | 7.04 | 7.40 | 7.30 |
| Nominal wages, % yoy | - | - | - | - | - | - | - | - | - |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 7.7 | 8.6 | 7.8 | 7.3 | 7.2 | 6.9 | 7.2 | 7.1 | 6.8 |
| CPI, % yoy, avg | 0.8 | 3.1 | 3.9 | 4.9 | 6.0 | 5.4 | 5.4 | 4.7 | 4.2 |
| INR/US$, eop | 89.87 | 93.48 | 94.33 | 95.99 | 96.27 | 97.02 | 97.77 | 98.14 | 98.34 |
| Policy interest rate, %, eop | 5.25 | 5.25 | 5.25 | 5.25 | 5.75 | 6.00 | 6.00 | 6.00 | 6.00 |

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Note: Public debt is general government debt and based on the residency of the holder of the debt (not by currency denomination). India Fiscal year runs from April-March. Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# Indonesia

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- **Summary view** – We keep our forecast of a growth slowdown in 2027 as conflicting forces emerge. FX pressure will likely increase, driven by equity outflows during the MSCI consultation. This risks exerting upward pressure on SRBI rates as well as bond yields in 1H27 despite BI rate likely being held steady.

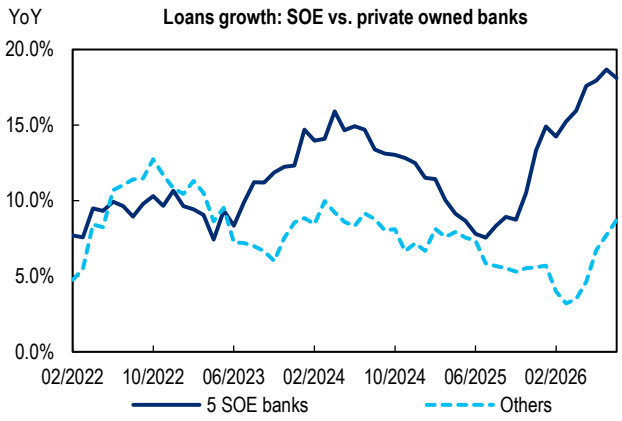
**We maintain our expectation of slowing GDP growth in 2027.** We see conflicting forces at work affecting the growth outlook in 2027. On one hand, investment growth could see a modest pick-up with quasi-sovereign capex likely accelerated, especially in the energy and mineral sectors (amid still robust long-term export demand). On the other hand, private sector capex may not fire on all cylinders. Policy uncertainty remains elevated, and FDI is expected to be resilient in narrow set of industries e.g. datacenters. On the consumption side, higher inflation from the energy shock may constrain household purchasing power. Budget stimulus will also be weaker. Low-base effects should wear off and a larger portion of the budget will likely be allocated for servicing debt (to state-owned banks) that was raked up for projects implemented in 2026, thereby reducing spending to the real economy.

**We forecast a rising inflation trajectory driven by imported inflation and an expected El-Nino shock.** Although retail fuel prices have been held steady and remain unlikely to be raised in the foreseeable future, higher global petroleum prices and trade-weighted IDR depreciation in 1H26 have led to higher inflation at the wholesale level. CPI inflation on both services and goods (excluding gasoline and gold) subcomponents have also increased in recent months. We think the upward trend still has legs as energy and petrochemical prices have resurged since Sep, pushing up manufacturing input costs. Separately, below average Java rainfall in Sep is also expected to continue into Oct, based on government climate forecasts. This may delay the 4Q rice planting season and push up rice prices in 1Q27. Overall, we see headline inflation breaching BI's 3.5% upper bound towards 4% in 1Q27, before coming down in 2H27 as the supply shock abates.

**Following MSCI's Indonesia equity downgrade consultation, the reversion of OMO rates has likely run its course.** SRBI rates still managed to go lower in early Oct despite higher UST yields, as BI continued to reduce the amount of outstanding bills. Bank liquidity placements have been redirected towards shorter tenor money market instruments, likely to prevent a spike in money market rates ahead of the MoF's deposit withdrawal from state owned banks. Yet following the launching of MSCI's consultation to downgrade Indonesia equities to a Standalone market, FX market pressure has increased and could remain elevated due to active fund equity outflows. BI did not hike in the Oct policy meeting but SRBI rates did cease to decline in the 23-Oct OMO auction that followed.

**Looking ahead, BI seems likely to continue adopting a strategy which we refer to as "interest rate policy segmentation",** i.e., keeping interest rates low for the domestic economy to support growth while raising the carry for non-residents via discounts on BI-issued hedging instruments. Looking ahead, we expect balance of payments deficits in the next three quarters. But as our base-case remains for Indonesia to stay in EM, we do not expect cumulative FX market pressure to reach double digit levels and trigger policy rate hikes. That said the likelihood of SRBI rates increasing in 1Q27 is growing, which we believe should also be factored into the risk premium for government bonds.

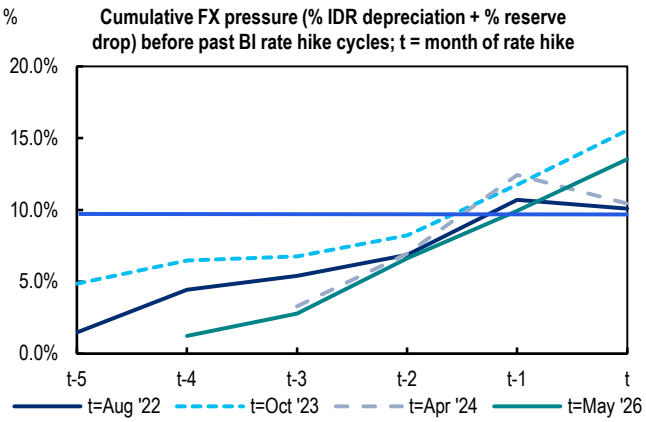
**Figure 43. Growth has largely relied on govt initiatives**




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Source: CEIC, Citi Research

**Figure 44. FX pressure exceeded 10% prior to past rate hikes**




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Source: CEIC, Citi Research Estimates

**Figure 45. Indonesia Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 1,119 | 1,059 | 1,186 | 1,319 | 1,371 | 1,396 | 1,446 | 1,497 | 1,550 |
| Population, mn | 266.9 | 270.2 | 272.7 | 275.8 | 278.7 | 281.8 | 284.9 | 288.0 | 291.2 |
| Real GDP, yoy avg | 5.0 | -2.1 | 3.7 | 5.3 | 5.0 | 5.0 | 5.1 | 5.2 | 4.9 |
| Private consumption growth % yoy | 5.2 | -2.7 | 2.0 | 5.0 | 4.9 | 5.1 | 5.0 | 5.2 | 4.1 |
| Real investment growth % yoy | 2.4 | -6.9 | 4.1 | 4.0 | 5.2 | 7.5 | 4.0 | 5.0 | 5.0 |
| Real export growth, % yoy | -0.5 | -8.4 | 18.0 | 16.2 | 1.7 | 6.9 | 7.0 | 5.3 | 4.2 |
| Real import growth, % yoy | -7.1 | -17.6 | 24.9 | 15.0 | -1.2 | 8.1 | 4.8 | 6.7 | 1.6 |
| Net export contribution to growth | 1.4 | 1.5 | -0.4 | 0.8 | 0.7 | 0.0 | 0.7 | 0.0 | 0.7 |
| Unemployment, % of labour force | 5.2 | 7.1 | 6.5 | 5.9 | 5.3 | 4.9 | 4.9 | 4.1 | 4.3 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -30.3 | -4.4 | 3.5 | 13.2 | -2.0 | -8.6 | -1.5 | -29.1 | -23.6 |
| % of GDP | -2.7 | -0.4 | 0.3 | 1.0 | -0.1 | -0.6 | -0.1 | -1.9 | -1.5 |
| Trade balance | 3.5 | 28.3 | 43.8 | 62.7 | 46.3 | 39.8 | 49.8 | 22.3 | 30.1 |
| FDI, net | 20.5 | 14.1 | 17.3 | 18.1 | 14.4 | 15.9 | 14.1 | 12.0 | 12.9 |
| External debt | 403.6 | 416.9 | 412.0 | 394.8 | 406.7 | 425.1 | 433.2 | 450.6 | 480.6 |
| Short-term debt | 43.4 | 43.2 | 47.2 | 47.7 | 50.1 | 61.8 | 61.9 | - | - |
| International reserves | 129.2 | 135.9 | 144.9 | 137.2 | 146.4 | 155.7 | 156.5 | 142.7 | 142.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.2 | -6.1 | -4.6 | -2.4 | -1.7 | -2.3 | -2.9 | -2.8 | -2.9 |
| Consolidated gov primary balance | -0.5 | -4.1 | -2.5 | -0.4 | 0.4 | -0.1 | -0.7 | -0.6 | -0.6 |
| Public debt | 30.7 | 40.7 | 40.8 | 37.3 | 38.5 | 39.4 | 39.3 | 39.4 | 39.5 |
| External public debt | 4.9 | 5.6 | 4.8 | 11.0 | 11.1 | 12.1 | 11.7 | 12.0 | 12.0 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 2.6 | 1.7 | 1.9 | 5.4 | 2.8 | 1.6 | 2.7 | 3.3 | 3.3 |
| CPI, % yoy, avg | 2.8 | 2.0 | 1.6 | 4.1 | 3.7 | 2.3 | 2.4 | 3.3 | 3.4 |
| IDR/US$, eop | 13,883 | 14,050 | 14,253 | 15,568 | 15,397 | 16,095 | 16,675 | 18,277 | 18,126 |
| IDR/US$, avg | 14,141 | 14,540 | 14,295 | 14,851 | 15,233 | 15,845 | 16,463 | 17,756 | 18,306 |
| Policy Interest Rate, % eop | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 6.00 | 4.75 | 5.75 | 5.75 |
| 10-Year Government Bond, %, eop | 7.26 | 6.18 | 6.55 | 7.01 | 7.01 | 7.07 | 6.17 | 7.50 | 7.50 |
| Nominal wages, % yoy | 3.44 | -6.90 | -0.37 | 3.00 | 5.00 | 5.00 | 4.00 | 5.50 | 5.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 5.4 | 5.6 | 5.3 | 5.2 | 4.9 | 5.0 | 4.9 | 5.0 | 4.9 |
| CPI, % yoy, avg | 2.6 | 3.7 | 2.9 | 3.2 | 3.4 | 3.6 | 3.4 | | |
| IDR/US$, eop | 16,675 | 16,995 | 17,780 | 17,875 | 18,277 | 18,352 | 18,427 | | |
| Policy interest rate, %, eop | 4.75 | 4.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | | |

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Note: Public debt is central government debt and based on the residency of the holder of the debt (not by currency denomination). Fo
to 7d reverse repo rate from Q3'16 onwards. We quote the FasBI rate before that. Positive net FDI refers to inflow of investment into a

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# Malaysia

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- **Summary view** – We have brought forward our expected timing of the OPR hike to Jan-27 (from May-27) as early signs of growth broadening, wage recovery and and fiscal expansion warrants continued vigilance over inflation.

**Advance Estimates for 3Q GDP again surprised on the upside and slowed less than expected to 5.3%.** Growth resilience was led by a rebound in agriculture (+1.3%, 2Q: -3.7%), and stronger manufacturing (+7.5%, 2Q: 7.3%), which in turn cushioned against slower growth in services (5.4%, 2Q: 5.9%), construction (6%, 2Q: 6.5%) and a contraction in mining (-4.9%, 2Q: 9.2%). Our seasonal adjustments sequential GDP growth remained slightly above trend at 1.5% QoQ SA (vs trend of 1.2-1.3%). Ex mining GDP growth accelerated to 6% YoY (2Q: 5.8%) which matters insofar as mining GDP is highly volatile and driven by maintenance schedules. With 9M26 growth at 5.5% YoY, we raised our 2026 GDP forecast to 5.2% (from 5.1%), assuming 4Q26 growth slows sharply to 4.2% YoY, 0% QoQ SA. Risks are to the upside if the slowdown is gentler than expected.

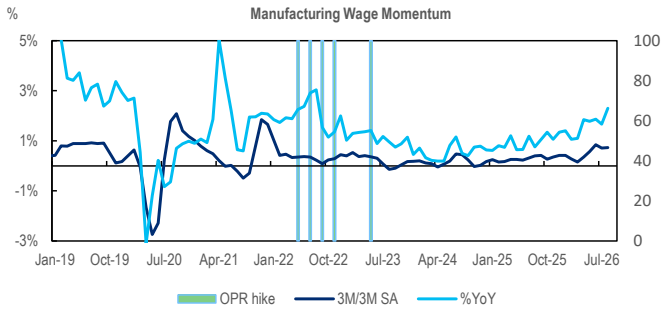
**Key growth driver for Malaysia and regional peers remains AI related tailwinds,** which have manifested in E&E exports, which accelerated further in Sep to 69.2% YoY (Aug: 66.5%) after slowing in Jun (51%) and Jul (57%, May: 70%), and our Electronics Leading Indicator suggest E&E export momentum remain robust into 4Q26.

**While the capital-intensive nature of AI led growth had previously meant muted spillover into jobs and wages, some of the recent data suggests this may changing.** Manufacturing wage growth rose to 2.3% YoY in Aug (Jul: 1.7%), the first time since Dec-22 that it had exceeded 2% - an early indication that labour demand has strengthened sufficiently to absorb the excess supply from earlier labour hoarding. The Aug unemployment rate fell to 2.9% after edging up to 3% in Apr-Jul, amidst a new high in labour force participation rate of 71%, suggesting labour demand has strengthened, while employment growth also picked up, amidst a sharp increase in new job postings in Oct**. The tentative improvement in the labour market data has for now, not yet translated into stronger consumer spending, with retail sales volumes slowing more sharply into Aug**

**We expect overall inflation to average 1.9% in 2026, rising to 2.2% in 2026.** The Sep CPI number is probably reassuring and seen as contained on two counts. **First,** headline CPI inflation unexpectedly slowed to 1.8% (Aug: 1.9%), on larger than expected impact from the expanded subsidy protection threshold for electricity tariffs. **Second,** sequential inflation pervasiveness, fell to around 47.7%, after rising above 50% the last two months. Still, rising core inflation momentum and continued strong PPI inflation, including in finished goods PPI point to hawkish risks.

**These dynamics are likely to be reinforced by Budget 2027,** where the 2027 fiscal deficit of 3.3% of GDP (2026: 3.6%) relies on strong nominal GDP growth and oil revenues to press ahead with fiscal consolidation in a likely election year, with a stronger reliance of NFPEs to spur growth. Cash transfers and subsidies, and income tax cuts for the middle class could cushion the current softness in consumer spending, while comprehensive wage reforms could also reinforce any cyclical acceleration in wages. Against this backdrop, we have brought forward our OPR hike expectations to Jan-27 (from May-27), but stress that the precise timing will be highly data dependent, especially on wage, consumption and CPI inflation data.

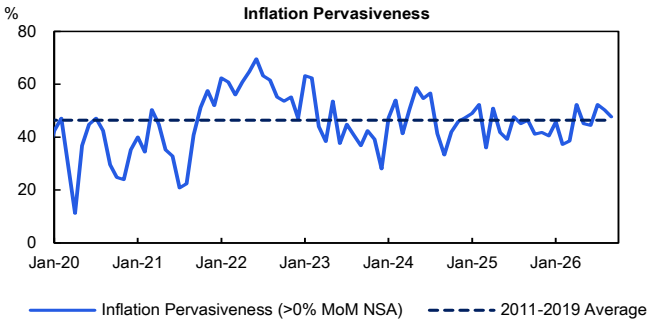
**Figure 46. Average manufacturing wage growth has gradually picked up and reached 2.3% YoY in Aug (Jul: 1.7% YoY) reaching the >2% thresholds seen around the 2022 hiking cycle**




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Source: CEIC, Citi Research

**Figure 47. Sequential inflation pervasiveness rose above historical averages of ~46%, in Jul-Aug, but fell in Sep, and still lower vs 55-70% levels prior to the Jul 2014, Jan 2018 and 2022 hiking cycle**




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Source: Ministry of Finance, Citi Research

**Figure 48. Malaysia Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 365 | 338 | 374 | 411 | 401 | 423 | 493 | 562 | 610 |
| Population, mn | 32.4 | 32.4 | 32.6 | 32.7 | 33.4 | 34.1 | 34.2 | 34.7 | 35.0 |
| Real GDP, yoy avg | 4.4 | -5.5 | 3.3 | 9.0 | 3.6 | 5.2 | 5.2 | 5.2 | 4.8 |
| Private consumption growth % yoy | 7.7 | -3.9 | 1.8 | 11.4 | 4.6 | 4.8 | 5.3 | 4.7 | 6.2 |
| Real investment growth % yoy | -3.8 | -12.1 | 8.4 | 7.6 | 6.9 | 6.3 | - | - | 3.8 |
| Real export growth, % yoy | -1.0 | -8.6 | 18.5 | 14.5 | -7.9 | 8.6 | 4.9 | 11.7 | 9.5 |
| Real import growth, % yoy | -2.4 | -7.9 | 21.2 | 16.0 | -6.8 | 8.7 | 6.3 | 11.7 | 10.8 |
| Net export contribution to growth | 0.7 | -1.0 | -0.3 | -0.1 | -1.2 | 0.3 | -0.6 | 0.4 | -0.6 |
| Unemployment, % of labour force | 3.3 | 4.5 | 4.7 | 3.8 | 3.4 | 3.2 | 3.0 | 3.0 | 3.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 12.8 | 14.1 | 14.5 | 13.0 | 4.4 | 6.0 | 7.7 | 12.0 | 10.1 |
| % of GDP | 3.5 | 4.2 | 3.9 | 3.2 | 1.1 | 1.4 | 1.6 | 2.1 | 1.7 |
| Trade balance | 30.1 | 32.7 | 42.9 | 42.6 | 28.7 | 24.6 | 24.6 | 27.0 | 24.0 |
| FDI, net | -1.6 | -0.7 | 7.5 | 2.9 | 1.9 | 2.4 | 12.5 | 5.0 | 5.0 |
| External debt | 228.5 | 236.4 | 256.5 | 259.8 | 271.5 | 263.4 | 290.0 | 295.0 | 298.0 |
| Short-term debt | 93.9 | 90.6 | 96.0 | 109.4 | 116.1 | 116.0 | 120.0 | 122.0 | 122.0 |
| International reserves | 103.6 | 107.6 | 116.9 | 114.7 | 113.5 | 116.2 | 125.5 | 129.0 | 135.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.4 | -6.2 | -6.4 | -5.5 | -5.0 | -4.1 | -3.7 | -3.6 | -3.3 |
| Consolidated gov primary balance | -1.2 | -3.7 | -3.9 | -3.2 | -2.5 | -1.5 | -1.1 | -1.0 | -0.7 |
| Public debt | 52.4 | 62.0 | 63.3 | 60.1 | 64.2 | 64.5 | 65.2 | 64.0 | 63.7 |
| External public debt | 1.9 | 2.0 | 1.9 | 1.6 | 1.6 | 1.4 | 1.4 | 1.5 | 1.5 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 1.0 | -1.4 | 3.2 | 3.8 | 1.5 | 1.7 | 1.6 | 2.4 | 2.1 |
| CPI, % yoy, avg | 0.7 | -1.1 | 2.5 | 3.4 | 2.5 | 1.8 | 1.4 | 1.9 | 2.2 |
| MYR/US$, eop | 4.09 | 4.02 | 4.17 | 4.41 | 4.60 | 4.47 | 4.06 | 4.04 | 3.95 |
| MYR/US$, avg | 4.14 | 4.20 | 4.14 | 4.40 | 4.56 | 4.58 | 4.28 | 4.06 | 3.99 |
| Policy Interest Rate, % eop | 3.00 | 1.75 | 1.75 | 2.75 | 3.00 | 3.00 | 2.75 | 2.75 | 3.00 |
| 5-year MGS, %, eop | 3.18 | 2.12 | 3.15 | 3.86 | 3.57 | 3.62 | 3.25 | 3.70 | 3.60 |
| Nominal wages, % yoy | 3.55 | 0.31 | 1.98 | 2.00 | 1.06 | 0.55 | 1.60 | 2.30 | 3.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 6.2 | 5.4 | 6.0 | 5.3 | 4.2 | 5.0 | 5.2 | 4.6 | 4.3 |
| CPI, % yoy, avg | 1.4 | 1.6 | 1.7 | 1.9 | 2.1 | 2.2 | 2.0 | 2.2 | 2.2 |
| MYR/US$, eop | 4.06 | 4.05 | 4.14 | 4.08 | 4.04 | 4.02 | 4.01 | 3.98 | 3.95 |
| Policy interest rate, %, eop | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 | 3.00 | 3.00 | 3.00 | 3.00 |

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Note: Wage is based on Citi Research estimates of average manufacturing sector wage. Public debt is general government debt and based on the residency of the holder of the debt (not by currency denomination). Positive net FDI refers to inflow of investment into an economy

Source: : CEIC Data Company Ltd, Fitch, IFS, Moody's, Citi Research

# Philippines

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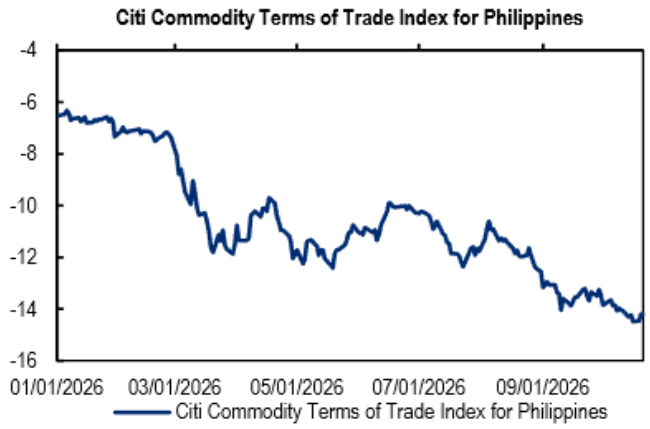
- **Summary view** – GDP growth likely bottomed in 2Q but the recovery does not appear broad-based. That said, BSP remains largely focused on tackling broadening inflation and FX pass-through has become a concern. We expect 50bps more rate hikes by 1Q27 to a terminal rate of 6.0% (link).

**We maintain our relatively conservative path for GDP recovery.** GDP growth likely bottomed in 2Q and signs of public investment recovery are visible. Public Works disbursements in Jul-Aug have normalized vs. the YoY contraction seen in 1H26. Export growth (of electronics) also remains resilient. That said, the investment recovery does not yet stand on solid ground in our view, given ongoing political dynamics involving the President and the VP, as well as arrests pertaining to the flood control corruption investigations. Household consumption growth is likely still subject to headwinds. The unemployment rate has stayed elevated in the 5% handle, while remittance inflows—as a pillar for consumption growth—stabilized at a lower rate of 2%, below the longer-term average of 3%. Even though low base-effects may help prop up the YoY growth of GDP growth in 4Q26 and 1H27, the output gap will likely stay negative. BSP expects the negative output gap to only narrow gradually by end-2027.

**Following the resurgence of fuel prices, inflation has broadened again and could rise further into early 2027.** The near-term trajectory is being shaped by a confluence of supply-side shocks—resurging global oil prices, rising transport fares, and the lingering effects of El Niño on food supply—which together risk keeping headline and core inflation elevated well into next year. Critically, the inflation narrative has taken on an additional dimension: FX pass-through is now amplifying price pressures. The BSP is increasingly alert to the non-linear nature of this channel as the peso faces sustained depreciation. Recall that the resurgence of oil prices has led to a double-dip of PH's terms of trade, which will likely lead to the trade deficit rebounding in coming months. Beyond energy and food, we also expect to see price-list adjustments across a broader range of goods and services after the New Year. Overall our base-case is for headline to rise the 8% handle before YE26, and then reverting lower due to base effects in April 2027. Thereafter the downward momentum could accelerate as supply shocks eventually dissipate.

**Expecting the BSP rate to peak at 6.0%, before declining by early 2028.** The BSP's decision to hike by a larger-than-expected 50bps in October signals a clear shift toward prioritizing inflation control over near-term growth support—a stance we believe will be sustained in the coming months. The central bank itself characterised current policy as restrictive but insufficiently so, signaling intention to tighten further. We expect at least one additional 25bps hike in December, followed by another in February 2027, bringing the terminal rate to 6.0%. Elevated geopolitical risks and persistently high oil prices, which now feed into inflation not only through traditional first- and second-round effects but also via terms of trade deterioration and FX pass-through, justify this additional tightening in our view. The risk is skewed toward a more aggressive 50bps move in December should peso depreciation accelerate materially. Beyond February, however, we do not anticipate further hikes. Once energy-driven inflation peaks and monthly prints begin returning toward the 3% target band, the conditions for an eventual easing cycle—likely in late 2027 or early 2028—should gradually take shape.

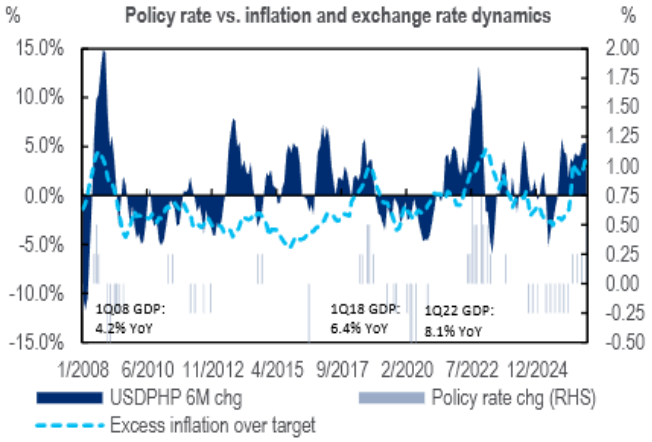
**Figure 49. PH terms of trade may have been hit harder in 3Q**




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Source: CEIC, Citi Research

**Figure 50. FX depreciation has likely hit BSP's thresholds**




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Source: CEIC, Citi Research

**Figure 51. Philippines Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 377 | 362 | 394 | 393 | 438 | 456 | 479 | 518 | 544 |
| Population, mn | 108.3 | 109.9 | 111.6 | 113.2 | 114.7 | 116.4 | 117.9 | 119.4 | 120.9 |
| Real GDP, yoy avg | 6.1 | -9.5 | 5.7 | 7.6 | 5.5 | 5.7 | 4.4 | 3.3 | 5.8 |
| Private consumption growth % yoy | 5.9 | -8.0 | 4.2 | 8.3 | 5.5 | 4.9 | 4.5 | 3.8 | 5.3 |
| Real investment growth % yoy | 3.5 | -34.2 | 20.0 | 13.7 | 6.3 | 7.7 | -1.7 | -3.9 | 6.6 |
| Real export growth, % yoy | 2.6 | -16.1 | 8.0 | 11.0 | 1.3 | 3.2 | 8.2 | 8.6 | 4.3 |
| Real import growth, % yoy | 2.3 | -21.6 | 12.8 | 14.0 | 1.0 | 4.3 | 5.0 | 6.8 | 4.9 |
| Net export contribution to growth | -0.2 | 4.0 | -2.3 | -2.2 | 0.0 | -0.7 | 0.3 | -0.2 | -0.6 |
| Unemployment, % of labour force | 5.1 | 10.4 | 8.0 | 5.5 | 4.6 | 4.3 | 4.7 | 4.3 | 4.3 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -3.0 | 11.6 | -5.9 | -18.3 | -12.4 | -18.6 | -16.3 | -25.1 | -19.8 |
| % of GDP | -0.8 | 3.2 | -1.5 | -4.7 | -2.8 | -4.1 | -3.4 | -4.8 | -3.6 |
| Trade balance | -49.3 | -33.8 | -52.8 | -69.7 | -66.0 | -68.9 | -66.7 | -72.6 | -67.6 |
| FDI, net | 5.3 | 3.3 | 9.7 | 5.6 | 5.4 | 6.7 | 6.2 | 6.0 | 7.0 |
| External debt | 83.6 | 98.5 | 106.4 | 111.3 | 125.4 | 137.6 | 150.0 | 164.0 | 178.0 |
| Short-term debt | 17.2 | 14.2 | 15.1 | 16.6 | 17.1 | 20.9 | 20.0 | 21.0 | 22.0 |
| International reserves | 87.8 | 110.1 | 108.8 | 96.1 | 103.8 | 106.3 | 110.8 | 102.8 | 103.8 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.4 | -7.6 | -8.6 | -7.3 | -6.2 | -5.7 | -5.6 | -5.4 | -5.1 |
| Consolidated gov primary balance | -1.5 | -5.5 | -6.4 | -5.0 | -3.6 | -2.8 | -2.5 | -2.4 | -2.1 |
| Public debt | 42.1 | 57.1 | 62.6 | 62.7 | 61.6 | 62.0 | 64.4 | 64.1 | 63.5 |
| External public debt | 14.5 | 18.4 | 19.5 | 20.0 | 19.6 | 19.7 | 19.0 | 19.9 | 19.7 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 2.4 | 3.3 | 3.1 | 8.1 | 3.9 | 2.9 | 1.8 | 7.8 | 4.3 |
| CPI, % yoy, avg | 2.4 | 2.4 | 3.9 | 5.8 | 6.0 | 3.2 | 1.7 | 6.0 | 5.9 |
| PHP/US$, eop | 50.66 | 48.02 | 51.00 | 55.68 | 55.40 | 58.09 | 58.86 | 64.57 | 61.59 |
| PHP/US$, avg | 51.78 | 49.61 | 49.29 | 54.50 | 55.63 | 57.29 | 57.50 | 62.33 | 63.72 |
| Policy Interest Rate, % eop | 4.00 | 2.00 | 2.00 | 5.50 | 6.50 | 5.75 | 4.50 | 5.75 | 6.00 |
| 5-Year T Bond, %, eop | 10.75 | 8.59 | 6.54 | 7.40 | 7.20 | 5.95 | 5.43 | 7.30 | 7.00 |
| Nominal wages, % yoy | 0.00 | 0.00 | 0.00 | 6.15 | 7.02 | 5.74 | 7.75 | 5.00 | 5.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 3.0 | 2.8 | 2.3 | 3.3 | 4.4 | 5.2 | 6.9 | 5.9 | 5.4 |
| CPI, % yoy, avg | 1.7 | 2.8 | 6.8 | 6.5 | 8.1 | 8.1 | 5.4 | 5.8 | 4.3 |
| PHP/US$, eop | 58.86 | 60.63 | 61.33 | 62.67 | 64.57 | 64.75 | 64.94 | 63.60 | 61.59 |
| Policy interest rate, %, eop | 4.50 | 4.25 | 4.75 | 5.00 | 5.75 | 6.00 | 6.00 | 6.00 | 6.00 |

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Note: Public debt is central government debt. Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# Singapore

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- **Summary view** – MAS decision to stay on hold on Oct 14th likely pre-empted the slowdown in Sep core CPI, and risk of a further steepening has likely fallen, though not eliminated given expected rebound in 1Q27 core to a new peak.

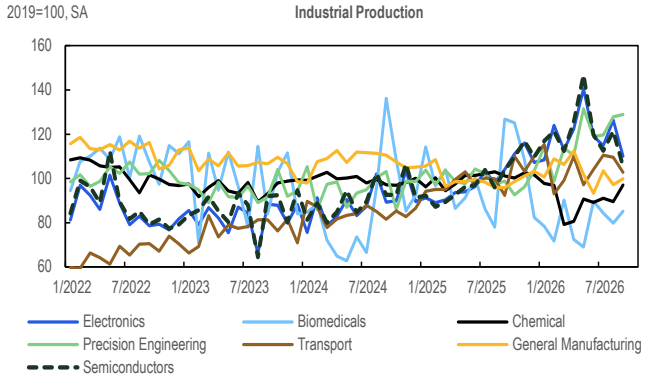
**MAS's surprise decision to stand pat on Oct 14th reflects three over-arching factors that led to a less hawkish assessment vs Jul. First**, the upside growth surprise *on aggrega*te were arguably less persistent and smaller heading into the Oct MPS vs the Jul MPS, with 3Q GDP Advance Estimates pointing to an implied softening in Sep. This was confirmed by the softer Sep IP print of 3.4% YoY, -3.9% MoM SA (Aug: +15.4% YoY, -1% MoM SA), though still stronger than the +1.2% YoY, -5.1% MoM SA implied in the GDP Advance Estimates. Alongside the sharp sequential pick up in wholesale trade activity and improvements in sea freight, a small upward revision in 3Q GDP is likely in Nov. **Second**, the *composition* of growth was not seen as inflationary**,** on (a) higher capital intensity of production, (b) strong IT related demand matched by an increased flexibility in supply, (c) repatriation of export earnings by MNCs limiting spillovers from exports to consumption.. **Third,** the expected near term downward inflation *trajectory* differs materially from the sharp upward trajectory in July.

**Indeed, the surprise slowdown in Sep core CPI to 2% YoY, and was likely pre-empted by MAS's Oct policy decision.** The slowdown in Sep core CPI came on the back of broad based sequential declines led by transport, even though food, healthcare and education services inflation remain high, with pervasiveness indicators mixed. We now see 2026 core averaging 1.7% (2027F: 2%), slowing in 4Q26 but rebounding in 1Q27 to a new peak. Notwithstanding hawkish risks from our expected renewed upward trajectory and higher core inflation peak in 1Q27, the magnitude of upside revisions we expect are still below the 30-40bps upward revision seen across all past slope steepening episodes since the early 2000s.

**A recent MAS speech (20 Oct) signals higher hurdle for further tightening, and leaves open possibility of easing further out.** To summarize, the speech noted that (a) for now AI driven growth may be more about factor accumulation than productivity increases, (b) as and when productivity gains occur, they might diffuse more quickly to the non-tradables sector, such that the non-tradables prices may not necessarily increase (or could even decline), along with the equilibrium REER path and E*. (c) it is thus premature to conclude that either R* or E* has increased at this stage, although it eventually will once productivity growth is more entrenched, but even then (d) if gains from AI be unevenly distributed, the resulting labour displacement could raise precautionary savings and exert downward pressure on the natural interest rate (and possibly also the equilibrium exchange rate) (e) Most importantly, the speech concluded that ***"Monetary policy should be appropriately restrictive in the initial stages of the boom, while demand effects dominate. It may then turn more accommodative as productivity gains demonstrably take hold, and the "stars" shift.***

**On balance, while not eliminated, risk of a further (final) steepening in 1H27 has likely fallen.** To the extent that Sep core reduces the magnitude of any future upward revisions in inflation projections vs MAS Oct MPS forecasts, it also reduces likelihood of a further steepening. Taken in conjunction with signalling from the recent speech, the risk of a final slope steepening in 1H27 has fallen, in our view. Still, should our forecasts for 1Q27 core inflation to re-accelerate to higher peak be correct, risk of another final move has not been fully eliminated, especially if 4Q26-1Q27 growth remains above trend, amidst signs of growth broadening.

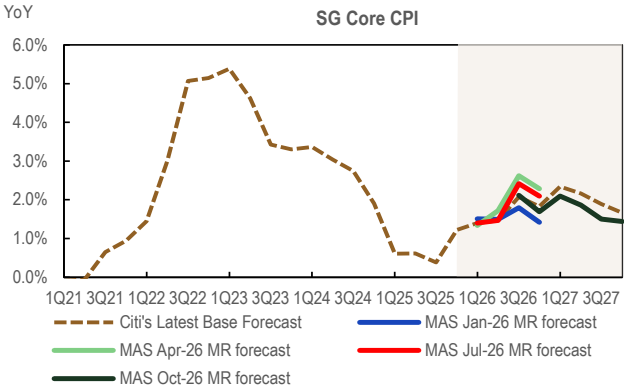
**Figure 52. Sep IP fell 3.9% MoM SA on slower electronics/semiconductor output, even as precision engineering and chemicals output stayed strong**




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Source: Haver, Citi Research

**Figure 53. We now see Oct-26 core at 1.6%, , and our 4Q26 core forecasts of 1.83% 14bps higher than MAS's forecasts, with 1H27 forecasts 27bps higher**




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Source: Haver, Citi Research

**Figure 54. Singapore Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 377 | 352 | 441 | 514 | 527 | 572 | 627 | 680 | 719 |
| Population, mn | 5.7 | 5.7 | 5.5 | 5.6 | 5.9 | 6.0 | 6.1 | 6.2 | 6.2 |
| Real GDP, yoy avg | 1.2 | -3.6 | 10.1 | 4.0 | 1.5 | 5.3 | 5.0 | 5.5 | 3.6 |
| Private consumption growth % yoy | 3.6 | -13.7 | 7.7 | 10.2 | 3.7 | 5.8 | 3.9 | 3.3 | 4.1 |
| Real investment growth % yoy | -0.4 | -11.7 | 23.2 | 0.9 | -9.9 | 14.1 | 4.1 | 9.0 | 4.5 |
| Real export growth, % yoy | 0.2 | -0.6 | 8.4 | 5.3 | 4.4 | 5.7 | 10.8 | 14.1 | 8.3 |
| Real import growth, % yoy | 0.2 | -2.1 | 8.4 | 6.2 | 4.1 | 6.7 | 11.9 | 15.1 | 9.0 |
| Net export contribution to growth | 0.1 | 2.1 | 2.6 | 0.2 | 1.8 | -0.1 | 1.3 | 2.3 | 1.3 |
| Unemployment, % of labour force | 2.2 | 3.0 | 2.7 | 2.1 | 1.9 | 2.0 | 2.1 | 2.1 | 2.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 58.2 | 62.2 | 84.9 | 97.3 | 83.8 | 98.5 | 110.2 | 110.6 | 121.1 |
| % of GDP | 15.5 | 17.7 | 19.3 | 18.9 | 15.9 | 17.2 | 17.6 | 16.3 | 16.8 |
| Trade balance | 93.1 | 102.0 | 119.9 | 161.5 | 161.1 | 171.8 | 156.2 | 157.2 | 168.2 |
| FDI, net | 37.0 | 36.6 | 66.4 | 79.1 | 74.6 | 71.5 | 100.0 | 95.0 | 100.0 |
| External debt | 1,615.4 | 1,774.4 | 1,882.6 | 1,964.4 | 2,105.8 | 2,261.0 | 2,460.2 | - | - |
| Short-term debt | - | - | - | - | - | - | - | - | - |
| International reserves | 279.5 | 362.3 | 417.9 | 289.5 | 351.0 | 371.4 | 409.3 | 415.0 | 420.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | 0.2 | -10.5 | 0.2 | 0.3 | -0.4 | 0.9 | 1.9 | 1.0 | 0.8 |
| Consolidated gov primary balance | -0.2 | -3.9 | -2.0 | -2.0 | -0.3 | 0.5 | 0.8 | -0.3 | -0.2 |
| Public debt | 124.7 | 145.4 | 131.3 | 152.3 | 167.6 | 165.4 | 174.0 | 175.0 | 177.0 |
| External public debt | - | - | - | - | - | - | - | - | - |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 0.8 | 0.0 | 4.0 | 6.5 | 3.8 | 3.0 | 1.2 | 2.1 | 1.8 |
| CPI, % yoy, avg | 0.6 | -0.2 | 2.3 | 6.7 | 6.2 | 2.4 | 0.9 | 1.9 | 2.0 |
| SGD/US$, eop | 1.34 | 1.32 | 1.35 | 1.34 | 1.32 | 1.37 | 1.29 | 1.27 | 1.26 |
| SGD/US$, avg | 1.36 | 1.38 | 1.34 | 1.38 | 1.34 | 1.34 | 1.31 | 1.28 | 1.27 |
| Policy Interest Rate, % eop | - | - | - | - | - | - | - | - | - |
| 10-Year SGS, %, eop | 1.74 | 0.84 | 1.67 | 3.09 | 2.71 | 3.11 | 2.22 | 2.60 | 2.60 |
| Nominal wages, % yoy | 2.56 | 1.44 | 3.61 | 6.77 | 5.28 | 5.39 | 3.10 | 3.20 | 4.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 5.7 | 6.4 | 6.2 | 5.4 | 4.3 | 3.7 | 3.2 | 3.4 | 4.1 |
| CPI, % yoy, avg | 1.2 | 1.5 | 1.8 | 2.3 | 2.2 | 2.5 | 2.0 | 1.8 | 1.7 |
| SGD/US$, eop | 1.29 | 1.29 | 1.29 | 1.28 | 1.27 | 1.27 | 1.27 | 1.27 | 1.26 |

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Note: Public debt is central government debt. Singapore's government issues domestic debt securities primarily to develop the domestic debt market and to meet the investment needs of the Central Provident Fund (CPF), Singapore's national pension fund, rather than to finance the government's fiscal needs. Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# South Korea

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- **Summary view** – We expect South Korea's chip-led economic expansion to persist for longer, underpinned by a prolonged memory upcycle.

**We expect the 2026E-2028E current account surplus to stay at an average of 22% of GDP (vs. the 2016-2025 average: 4% of GDP).** In September, semiconductor exports rose to another record high in seasonally adjusted terms. We expect chip exports to rise +46% YoY in 2027E, following +189% in 2026E (vs. +22% in 2025). We forecast semiconductor export growth to stay at around 200%YoY in 4Q26 (vs. 219%YoY in 3Q26) before moderating to 105%YoY in 1Q27 and 54%YoY in 2Q27 due to base effects from the prior year.

**Price-driven chip export expansion should add +3.6ppt to 2026E real GDP and +16.6ppt to nominal GDP, by our estimates.** The semiconductor driven improvement in terms of trade (GDI) is likely to generate large ripple effects on domestic demand with time lag. Strong semiconductor exports price has substantially raised the trends of GDI (via terms of trade), GDP deflater, and nominal GDP. We recently raised our 2026E nominal GDP growth forecast to 25.0%, the strongest since 1981.

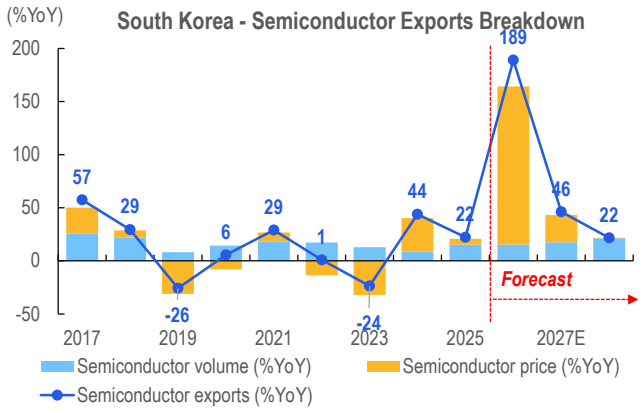
**We recently raised our annual real GDP growth forecast by 0.1ppt to 3.8% for 2026E and by 0.2ppt to 3.3% for 2027E.** For 1Q27E-2Q27E, we see even stronger real GDP growth trends (around 0.9%~1.0%QoQ), driven by three factors: (1) the semiconductor sector's large bonus payment, likely at around 2% of GDP by early February, (2) the semiconductor sector's large corporate tax-fueled 2027 budget's strong fiscal spending, and (3) tech CAPEX.

**In our view, Long-Term Agreements (LTAs) should lift sustainability of exports and the current-account surplus, potentially raising BoK's estimates for potential economic growth and neutral rates for 2026-2028.** LTAs sustain investment via advance payments and preserve elevated operating margins, likely boosting capital stock accumulation and productivity growth. We believe BoK could revise potential growth up to 2.2%-2.4% for 2026-2028 (vs. around 2.0% for 2024-2026 previously). We also see upside risk to the nominal neutral rate, potentially rising to 2.7%-3.0% over 2H26-2H28 (vs. around 2.5% previously), driven by structurally higher investment and government spending.

**We maintain our view of BoK hiking 25bps each in November 2026 and February 2027, toward a 3.5% terminal rate.** At the October 22nd MPB meeting, the BoK delivered a hawkish hold following its preemptive back-to-back hikes to 3.00%. While there was no hawkish dissent, the Governor sent clear signals for further rate hikes. [1] The Governor highlighted that the BoK's outlooks for economic growth and inflation have been revised upward. [2] The Governor stressed that the BoK will maintain a tight monetary policy stance until inflation converges toward the target. [3] The Governor sees upside risks to the neutral rate. [4] On the terminal rate, the Governor stated that monetary policy will be conducted with an open mind and a data-dependent approach. [5] The Governor reiterated that, in assessing the real economy, monitoring actual memory prices is far more crucial than tracking memory equity prices.

**The 2027 budget aims to strengthen government-led industrial investment using excess tax revenue from the semiconductor upcycle.** The Future Response Fund will be financed through windfall and surplus tax revenue. The 2027 budget proposal would suggest expansionary fiscal policy stance.

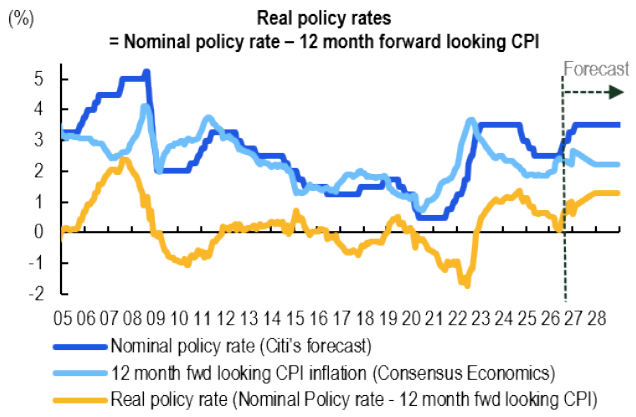
**Figure 55. We expect semiconductor export growth to moderate to +41%YoY in 2027E, following +175% in 2026E**




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Source: Citi Research, The Bank of Korea, Consensus Economics

**Figure 56. We keep our view of the BoK rate hiking cycle towards a 3.5% terminal rate**




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Source: CEIC, Citi Research

**Figure 57. South Korea Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 1,751 | 1,744 | 1,943 | 1,802 | 1,844 | 1,880 | 1,882 | 2,375 | 2,874 |
| Population, mn | 51.8 | 51.8 | 51.8 | 51.7 | 51.7 | 51.8 | 51.7 | 51.6 | 51.5 |
| Real GDP, yoy avg | 2.3 | -0.7 | 4.7 | 2.9 | 1.5 | 2.2 | 1.1 | 3.8 | 3.3 |
| Private consumption growth % yoy | 2.4 | -4.6 | 3.7 | 4.2 | 2.1 | 1.3 | 1.5 | 1.9 | 1.4 |
| Real investment growth % yoy | -1.4 | 0.8 | 4.4 | 0.4 | -1.5 | -1.5 | -2.2 | 3.4 | 4.0 |
| Real export growth, % yoy | -0.2 | -1.7 | 11.8 | 4.0 | 3.5 | 7.6 | 4.3 | 10.0 | 8.2 |
| Real import growth, % yoy | -2.0 | -3.3 | 11.2 | 4.0 | 2.2 | 3.8 | 3.3 | 7.5 | 7.6 |
| Net export contribution to growth | 0.6 | 0.5 | 0.6 | 0.1 | 0.6 | 1.6 | 0.6 | 1.4 | 0.0 |
| Unemployment, % of labour force | 3.8 | 4.0 | 3.7 | 2.9 | 2.7 | 2.8 | 2.8 | 2.8 | 2.9 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 59.7 | 76.3 | 83.9 | 23.2 | 32.5 | 100.0 | 123.1 | 503.9 | 643.4 |
| % of GDP | 3.4 | 4.4 | 4.3 | 1.3 | 1.8 | 5.3 | 6.5 | 21.2 | 22.4 |
| Trade balance | 38.9 | 44.9 | 29.3 | -47.8 | -10.3 | 51.8 | 77.4 | 380.9 | 495.9 |
| FDI, net | -25.6 | -26.1 | -43.9 | -40.8 | -13.1 | -36.9 | -25.4 | -32.0 | -29.6 |
| External debt | 470.7 | 550.6 | 630.7 | 673.3 | 677.3 | 677.8 | 770.2 | 835.7 | 919.3 |
| Short-term debt | 135.5 | 160.1 | 165.1 | 174.0 | 141.5 | 146.8 | 179.4 | 183.4 | 205.0 |
| International reserves | 408.8 | 443.1 | 463.1 | 423.2 | 420.1 | 415.6 | 428.1 | 478.4 | 542.8 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -0.6 | -3.5 | -1.4 | -2.8 | -1.5 | -1.7 | -1.7 | 0.4 | 1.6 |
| Consolidated gov primary balance | 0.2 | -2.6 | -0.5 | -1.9 | -0.5 | -0.6 | -0.6 | 1.4 | 2.8 |
| Public debt | 39.7 | 45.9 | 47.9 | 49.7 | 50.6 | 49.6 | 52.3 | 44.5 | 43.2 |
| External public debt | 5.3 | 6.4 | 7.8 | 8.5 | 9.2 | 9.4 | 11.2 | 8.5 | 8.2 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 0.7 | 0.6 | 3.7 | 5.0 | 3.2 | 1.9 | 2.3 | 2.6 | 2.1 |
| CPI, % yoy, avg | 0.4 | 0.5 | 2.5 | 5.1 | 3.6 | 2.3 | 2.1 | 2.7 | 2.4 |
| KRW/US$, eop | 1,155 | 1,086 | 1,189 | 1,262 | 1,295 | 1,478 | 1,441 | 1,296 | 1,263 |
| KRW/US$, avg | 1,166 | 1,179 | 1,145 | 1,292 | 1,306 | 1,364 | 1,422 | 1,430 | 1,272 |
| Policy Interest Rate, % eop | 1.25 | 0.50 | 1.00 | 3.25 | 3.50 | 3.00 | 2.50 | 3.25 | 3.50 |
| 10-Year Treasury, %, eop | 1.66 | 1.72 | 2.26 | 3.74 | 3.18 | 2.87 | 3.39 | 4.25 | 4.10 |
| Nominal wages, % yoy | 3.30 | 0.69 | 5.02 | 3.20 | 1.91 | 5.01 | 2.86 | 11.75 | 8.62 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 1.6 | 3.8 | 3.7 | 3.4 | 4.4 | 3.5 | 3.8 | 3.2 | 2.8 |
| CPI, % yoy, avg | 2.4 | 2.1 | 3.0 | 2.9 | 2.7 | 2.8 | 2.2 | 2.3 | 2.1 |
| KRW/US$, eop | 1,441 | 1,507 | 1,533 | 1,357 | 1,296 | 1,285 | 1,273 | 1,267 | 1,263 |
| Policy interest rate, %, eop | 2.50 | 2.50 | 2.50 | 3.00 | 3.25 | 3.50 | 3.50 | 3.50 | 3.50 |

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Note: Public debt is central government debt and external debt is based on the residency of the debt holder (not by currency denomination). Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# Taiwan

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- **Summary view** – Broadening AI-driven expansion should sustain resilient growth into 2027E, supporting our call for three 12.5bp CBC hikes to 2.375%. We view local elections as market neutral. Near-term TWD weakness reflects FINI outflows and USD strength, while medium-term appreciation remains likely.

**Exceptional resiliency extending into 2027E.** We remain constructive on Taiwan's outlook and expect above-trend growth to extend into 2027E despite tougher base effects. Growth is becoming broader and less reliant on a narrow group of semiconductor exporters, with AI demand spreading across the AI ecosystem, benefiting foundries, advanced packaging, servers, networking and related supply chains from cooling, thermal to electricity generating. Both tech and non-tech exports continue to strengthen (our calculations indicate that Sep tech and non-tech exports surged by 71.1%yoy and 33.3%yoy, respectively), while rising capex and working-capital requirements should support corporate borrowing. We expect another strong 3Q26 GDP print, supported by net exports and investment. Looking ahead, solid AI infrastructure demand, expanding order backlogs and continued private-sector investment should allow Taiwan to sustain high single-digit GDP growth in 2027E, even as growth normalizes from exceptional 2026 levels.

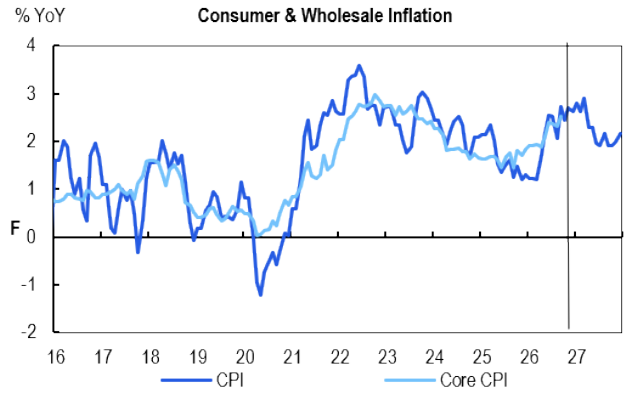
**Inflation and funding tightness support our rate hike call.** We continue to view monetary policy normalization by the CBC as the most likely outcome. Robust growth, healthy labour markets and positive equity wealth effects should support domestic demand, while inflation is shifting from imported price pressure to increasingly service-led and therefore more persistent. Credit growth remains firm, particularly in longer-tenor corporate lending linked to investment and working-capital needs. The CBC has already adjusted its liquidity operations by reducing refinancing of negotiable certificates of deposit, while also smoothing short-end funding conditions to avoid unnecessary market volatility. We maintain our forecast for a 3x12.5bp hiking cycle starting in Dec26, followed by Jun27 and Dec27, taking the policy rate to 2.375%. Risks remain skewed toward a more consolidated tightening path in 2027E should global central banks stay hawkish, local inflation remains sticky (esp. residential electricity tariff hike materialize in Mar27).

**We see the Nov 28 local mayor elections having limited implications for Taiwan's economic, policy or geopolitical trajectory.** Local elections do not directly determine cross-strait policy, defense strategy or national economic priorities. While Taipei and New Taipei remain important political battlegrounds ahead of the 2028 presidential election, we believe the link between local and national election outcomes has weakened over recent cycles. The macro backdrop remains broadly supportive for the incumbent DPP, though local races will likely be shaped primarily by candidate appeal and local govt issues. Markets are likely to pay attention to the nuclear energy referendum given its implications for power security and long-term industrial development. Overall, AI investment, semiconductor demand, earnings growth and global financial conditions should remain important drivers of Taiwan assets.

**TWD appreciation is more a medium-term story.** We maintain a constructive medium-term view on the TWD, supported by AI export outperformance, resilient growth and a gradually tightening monetary policy stance. Our 6-12M USDTWD forecast is at 32.0. Near term, however, FINI portfolio outflows and USD strength remain the dominant driver. Ongoing foreign investor profit-taking, concerns around AI capex sustainability and broad USD strength have generated sizeable equity-related outflows and weighed on the currency. Together with US election-related political noise and Mideast geopolitical uncertainty, these factors are likely to keep USD/TWD volatile in coming months. We therefore forecast 0-3M forecast

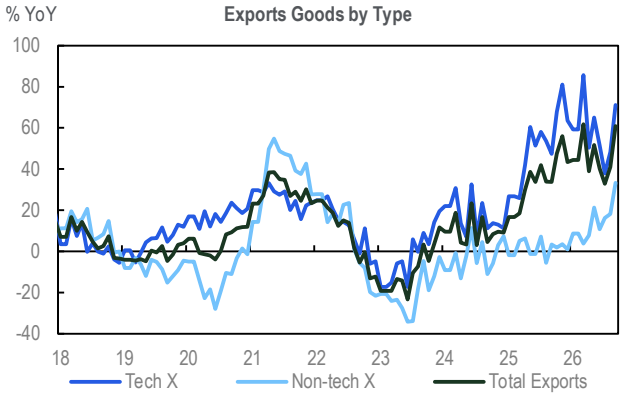
at 32.5, while expecting medium-term appreciation pressures to re-emerge as equity flows stabilize and Taiwan's macro outperformance persists.

**Figure 58. CPI likely to stay elevated till 1H27E, pending March electricity tariff review**




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Source: CEIC, Citi Research

**Figure 59. Renewed acceleration in exports growth in Sep despite increasingly tougher base effects**




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Source: CEIC, Citi Research.

**Figure 60. Taiwan Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 614 | 680 | 779 | 766 | 758 | 802 | 921 | 1,044 | 1,167 |
| Population, mn | 23.6 | 23.6 | 23.4 | 23.3 | 23.4 | 23.4 | 23.3 | 23.3 | 23.3 |
| Real GDP, yoy avg | 3.1 | 3.4 | 6.7 | 2.7 | 1.1 | 5.3 | 8.8 | 12.5 | 8.8 |
| Private consumption growth % yoy | 2.5 | -2.4 | -0.1 | 4.0 | 7.9 | 3.2 | 1.4 | 4.3 | 3.4 |
| Real investment growth % yoy | 7.3 | 8.2 | 18.8 | 3.4 | -10.3 | 14.9 | 4.0 | 4.0 | 4.0 |
| Real export growth, % yoy | 0.0 | -0.5 | 15.1 | 2.8 | -4.1 | 8.7 | 32.1 | 26.4 | 15.1 |
| Real import growth, % yoy | -0.2 | -5.2 | 16.1 | 5.2 | -5.5 | 11.6 | 27.1 | 22.2 | 11.1 |
| Net export contribution to growth | 0.1 | 2.2 | 1.6 | -0.8 | 0.2 | -0.2 | 6.4 | 6.4 | 6.4 |
| Unemployment, % of labour force | 3.7 | 3.9 | 4.0 | 3.7 | 3.5 | 3.4 | 3.3 | 3.3 | 3.2 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 65.7 | 97.6 | 116.9 | 101.4 | 106.3 | 114.6 | 184.4 | 250.2 | 299.7 |
| % of GDP | 10.7 | 14.3 | 15.0 | 13.2 | 14.0 | 14.3 | 20.0 | 24.0 | 25.7 |
| Trade balance | 43.5 | 59.0 | 64.4 | 51.3 | 80.8 | 80.6 | 154.9 | 237.5 | 287.2 |
| FDI, net | -3.5 | -5.4 | -5.9 | -4.2 | -18.3 | -20.9 | -34.3 | -17.0 | -17.0 |
| External debt | 184.7 | 189.9 | 213.6 | 202.1 | 206.5 | 219.9 | 244.0 | 274.0 | 294.0 |
| Short-term debt | 174.7 | 175.3 | 197.4 | 186.8 | 191.2 | 200.8 | 222.2 | 222.2 | 222.2 |
| International reserves | 483.2 | 535.3 | 554.0 | 560.5 | 570.6 | 576.7 | 602.6 | 605.0 | 615.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | 0.1 | -1.0 | -0.2 | 0.2 | -0.6 | 0.4 | 0.1 | -0.1 | -0.1 |
| Consolidated gov primary balance | 0.8 | -0.4 | 0.4 | 0.9 | 0.0 | 1.0 | 0.5 | 0.5 | 0.5 |
| Public debt | 32.6 | 32.0 | 30.1 | 29.5 | 29.0 | 26.8 | 23.9 | 21.0 | 19.0 |
| External public debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 0.6 | -0.2 | 2.0 | 2.9 | 2.5 | 2.2 | 1.7 | 2.6 | 2.2 |
| CPI, % yoy, avg | 1.2 | 0.0 | 2.6 | 2.7 | 2.7 | 2.1 | 1.3 | 2.1 | 2.2 |
| TWD/US$, eop | 29.9 | 28.1 | 27.7 | 30.7 | 30.7 | 32.8 | 31.3 | 32.4 | 31.4 |
| TWD/US$, avg | 30.9 | 29.5 | 27.9 | 29.8 | 31.2 | 32.1 | 31.2 | 32.0 | 31.9 |
| Policy Interest Rate, % eop | 1.375 | 1.125 | 1.125 | 1.750 | 1.875 | 2.000 | 2.000 | 2.125 | 2.375 |
| 10-Year Government Bond, %, eop | 0.68 | 0.32 | 0.72 | 1.39 | 1.30 | 1.60 | 1.34 | 1.96 | 2.10 |
| Nominal wages, % yoy | 2.36 | 0.88 | 3.03 | 4.05 | 0.66 | 4.43 | 3.90 | 8.30 | 5.00 |

| Quarterly Economic Indicators | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
|---|---|---|---|---|---|---|---|---|---|
| GDP, % yoy | 13.0 | 15.4 | 12.9 | 13.4 | 8.9 | 8.3 | 9.6 | 8.9 | 8.3 |
| CPI, % yoy, avg | 1.3 | 1.2 | 2.2 | 2.4 | 2.6 | 2.8 | 2.2 | 2.0 | 2.0 |
| TWD/US$, eop | 31.3 | 32.0 | 31.7 | 31.9 | 32.4 | 32.2 | 32.1 | 31.7 | 31.4 |
| Policy interest rate, %, eop | 2.000 | 2.000 | 2.000 | 2.000 | 2.125 | 2.125 | 2.250 | 2.250 | 2.375 |

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Note: Public debt is central government debt and external debt is based on the residency of the holder of the debt (not by currency denomination). Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's , Citi Research

# Thailand

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- **Summary view** – With the economy more resilient than expected, consumption stimulus extended into 4Q26 amidst a pickup in employment, and inflation likely to climb >3% YoY from Oct, and staying >1% into 2028, we tentatively pencil in 2 X 25bps hikes in 1H28, with risk skewed towards an earlier hike.

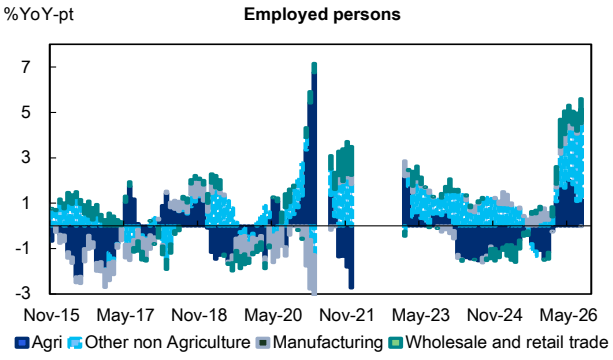
**We nudge up our 2026 GDP forecast to 2.3% (prev: 2.2%) and our 2027 forecast to 1.9% (prev: 1.7%).** We still see growth rebounding to 3.1% YoY in 3Q26 on the economy's resilience to the energy shock, support from AI-related investments, and fiscal stimulus. With the co-payment scheme extended to Oct-Nov, we nudge up our 4Q26 forecast to 1.2% YoY/0.2% QoQ SA (prev: 1.1% YoY/0% QoQ SA). Risks are likely tilted to the upside, as recent upward revisions in the manufacturing production index could result in historical GDP data.

**Incoming data show a broad-based YoY acceleration in activity in Aug, though consumer spending likely slowed into Sep on floods.** YoY comparisons accelerated across most indicators in Aug vs Jul, and almost doubled in Jul-Aug vs 2Q for farm incomes, BOT's private consumption index and manufacturing production index. Private consumption index may soften temporarily in Sep due to flood related disruptions, but could recover into early 4Q26 on (a) renovation/repair works, (b) extension of the co-payment scheme to Oct-Nov, and (c) likely jump in visitor arrivals into Oct alongside the IMF-WB meetings in Bangkok, after a pullback in Sep. **More broadly, the continued rebound in BOT's Leading Index into Aug point to continued near term growth momentum, which strengthens the case for inflation vigilance.**

**Notwithstanding the continued strength in employment growth, BoT does not consider the labour market as strong for now, likely because of high under-employment and sluggish wage growth.** For example, while total employment grew 5.1% YoY in 9M26 and is becoming increasingly broad based, those working <29 hours a week grew a much faster 12% YoY. Consequently, growth in average in monthly wages remained sluggish at just 0.8% YoY as of 1H26, vs 2.2% in 2025. Although the slower labour productivity growth resulted in a concurrent pick up in ULC growth, BOT is unlikely to see this as generating inflationary pressures, insofar as weak wage growth will likely be seen limiting demand and thus pricing power of firms, such that any increase in ULC will have to absorbed in profit margins for now.

**While BOT still saw policy rate as "appropriate to support the recovery" we think risks to our base case of 2 X 25bps hikes in 1H28 are skewed towards an earlier hike.** As in Aug, the MPC downplayed export led growth resilience at the Oct MPC on the basis that *"overall growth remains below potential and benefits remain concentrated"*. Our base case is predicated on the view that a continued growth recovery to above trend at 2.9% in 2028 is likely to *eventually* tighten the labour market via stronger employment growth and reduced underemployment, generate stronger wages and ultimately keep inflation within target (at 1.1%). While the current 1% nominal policy rate would still be deemed "neutral" and "slightly positive" in real terms vs the BOT's 2028 inflation forecast of ~0.56%, it would likely be overly accommodative if inflation were seen to rise to 1.1% in 2028 as we forecast, warranting 2X25bps of hikes to restore policy neutrality. **Risks to our call are likely skewed towards an earlier hike in 2027 from a few factors**. **First**, if financial stability risks from low rates are seen to increase. **Second,** if BOT feels the need to rebuild monetary policy space so that it can cut later to offset the inevitable negative fiscal impulse in FY27 from fiscal consolidation. **Third**, if upside surprises prompt BOT to significantly revise its current assessment of below potential and narrowly concentrated growth.

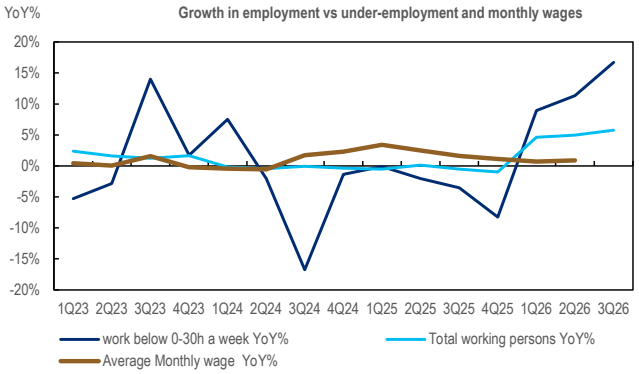
**Figure 61. Employment growth remained strong at >5% YoY in Aug, broadening into other non-agricultural sectors**




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Source: BoT, Citi Research

**Figure 62. Those working <30 hours a week have grown at a much faster pace of 17% YoY, with the larger share of underemployed likely keeping wage growth subdued**




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Source: MOF, CEIC, Citi Research

**Figure 63. Thailand Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 544 | 500 | 506 | 496 | 517 | 530 | 577 | 597 | 611 |
| Population, mn | 69.1 | 69.3 | 69.5 | 69.6 | 69.8 | 69.9 | 70.0 | 70.1 | 70.2 |
| Real GDP, yoy avg | 2.1 | -6.1 | 1.6 | 2.6 | 2.2 | 2.9 | 2.4 | 2.3 | 1.9 |
| Private consumption growth % yoy | 4.0 | -0.8 | 0.6 | 6.3 | 6.7 | 4.4 | 2.7 | 2.7 | 2.4 |
| Real investment growth % yoy | -3.2 | -4.2 | 9.1 | 0.1 | -7.4 | -7.0 | 1.0 | 22.9 | 2.9 |
| Real export growth, % yoy | -3.0 | -20.0 | 11.1 | 6.4 | 2.7 | 7.5 | 9.3 | 13.1 | 8.0 |
| Real import growth, % yoy | -5.2 | -13.9 | 17.9 | 3.4 | -2.5 | 5.7 | 6.8 | 20.3 | 8.6 |
| Net export contribution to growth | 1.4 | -5.3 | -3.7 | 1.9 | 3.6 | 1.5 | 2.2 | -4.2 | -0.3 |
| Unemployment, % of labour force | 1.0 | 1.7 | 1.9 | 1.3 | 1.0 | 1.0 | 0.8 | 1.0 | 1.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 38.3 | 20.7 | -10.8 | -17.0 | 8.5 | 11.6 | 15.9 | -2.6 | 19.2 |
| % of GDP | 7.0 | 4.1 | -2.1 | -3.4 | 1.6 | 2.2 | 2.8 | -0.4 | 3.1 |
| Trade balance | 26.7 | 40.4 | 31.9 | 13.5 | 19.2 | 21.4 | 23.3 | 1.9 | 21.7 |
| FDI, net | -4.6 | -22.7 | -3.9 | 4.2 | -3.4 | 6.9 | 9.5 | 3.0 | 4.0 |
| External debt | 172.7 | 190.1 | 196.9 | 201.4 | 196.5 | 195.4 | 211.3 | 201.3 | 204.3 |
| Short-term debt | 59.8 | 74.8 | 75.4 | 81.2 | 81.2 | 86.5 | 92.2 | 76.5 | 77.6 |
| International reserves | 224.3 | 258.1 | 246.0 | 216.6 | 224.5 | 237.0 | 281.9 | 270.0 | 280.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.0 | -5.2 | -4.7 | -3.5 | -3.3 | -4.0 | -4.8 | -4.4 | -4.0 |
| Consolidated gov primary balance | -2.1 | -4.2 | -3.7 | -2.4 | -2.3 | -2.9 | -3.7 | -3.2 | -2.8 |
| Public debt | 41.1 | 49.4 | 58.4 | 60.5 | 62.2 | 62.9 | 68.3 | 68.8 | 73.0 |
| External public debt | 1.3 | 0.9 | 1.1 | 1.0 | 0.9 | 0.7 | 1.4 | 1.4 | 1.5 |
| **Prices** | | | | | | | | | |
| CPI, % yoy, eop | 0.9 | -0.3 | 2.2 | 5.9 | -0.8 | 1.2 | -0.3 | 3.4 | 0.6 |
| CPI, % yoy, avg | 0.7 | -0.8 | 1.2 | 6.1 | 1.2 | 0.4 | -0.1 | 2.0 | 1.7 |
| THB/US$, eop | 29.77 | 30.05 | 33.24 | 34.62 | 34.38 | 34.33 | 31.50 | 33.53 | 33.84 |
| THB/US$, avg | 31.04 | 31.29 | 32.00 | 35.05 | 34.80 | 35.29 | 32.87 | 33.32 | 33.74 |
| Policy Interest Rate, % eop | 1.25 | 0.50 | 0.50 | 1.25 | 2.50 | 2.25 | 1.25 | 1.00 | 1.00 |
| 10-Year Government Bond, %, eop | 1.56 | 1.33 | 1.92 | 2.62 | 2.81 | 2.29 | 1.70 | 1.68 | 1.35 |
| Nominal wages, % yoy | 2.02 | 2.21 | - | 5.83 | -0.19 | 0.50 | 1.00 | 2.00 | 2.00 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3 | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 2.5 | 2.8 | 1.9 | 3.1 | 1.2 | 0.8 | 1.9 | 2.3 | 2.6 |
| CPI, % yoy, avg | -0.3 | -0.5 | 2.7 | 2.4 | 3.3 | 3.6 | 0.9 | 1.5 | 0.7 |
| THB/US$, eop | 31.50 | 32.59 | 32.88 | 33.57 | 33.53 | 33.63 | 33.72 | 33.78 | 33.84 |
| Policy interest rate, %, eop | 1.25 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

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Note: Public debt is central government debt and external debt is based on the residency of the debt holder (not by currency denomination). Positive net FDI refers to inflow of investment into an economy

Source: CEIC Data Company Ltd, Fitch, IFS, Moody's, Citi Research

# Frontier

## Mongolia

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**2026 Budget amended deficit to (MNT2trn) 2% of GDP as expected.** High public-sector wage increases and expanded subsidies for the agricultural and energy sectors place pressure on fiscal accounts. The fiscal loosening comes against growing divergence between Mongolia's external strength and domestic fiscal position. The amendment reflects the government's efforts to cushion households from elevated inflation and energy-market disruptions, while maintaining social and political support ahead of the next election cycle. Financing of the larger deficit is expected to come from a combination of domestic borrowing and external debt issuance, while the deficit remains manageable and comply to FSL.

**2027 Budget is still being deliberated, with usage of OT dividend being the focus.** While we remain constructive on Mongolia's GDP and export outlook for 2027E, higher election-related spending appears increasingly likely. Debate has centered on the allocation of expected dividends from Oyu Tolgoi (OT), including an earlier proposal to direct MNT400bn toward the 300MW CHP-6 project and MNT508bn toward heating infrastructure across ten provinces. GoM later retreated this proposal. We expect future dividend receipts to be deployed toward strategic infrastructure investments and contributions to the sovereign wealth fund. The recent OT debt restructuring, which reduced government obligations owed to the project and potentially accelerates future dividend receipts, is a significant positive for fiscal flexibility. Combined with a supportive medium-term copper market and expanding underground production, the development strengthens Mongolia's export diversification story.

**Maintaining tight monetary policy with elevated inflation.** Sep CPI rose by a further 0.5ppt to 13.0% YoY, driven by food and transportation costs. While our base case remains for CPI to moderate gradually during 2027, persistent fuel shortages and prolonged energy-cost pass-through risks could keep price pressures elevated and raise the probability of another policy-rate increase before year-end. **Modest MNT depreciation even as international reserves broke record to US$8.9bn in Sep26.** MNT weakened a further 0.5%MoM in Sep (or YTD 1.3%).

**Figure 64. Mongolia Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Summary Data** | | | | | | | | | |
| Nominal GDP, US$ bn | 14.0 | 13.1 | 15.3 | 15.8 | 20.5 | 23.7 | 25.2 | 29.5 | 34.8 |
| GDP per capita, US$ | 4,245 | 3,913 | 4,483 | 4,577 | 5,846 | 6,678 | 7,014 | 8,132 | 9,587 |
| Real GDP, % yoy | 5.5 | -4.4 | 1.6 | 5.0 | 7.2 | 5.1 | 6.9 | 7.0 | 6.6 |
| CPI, % yoy, eop | 5.3 | 2.7 | 13.7 | 13.3 | 7.7 | 8.3 | 7.5 | 11.7 | 9.6 |
| CPI, % yoy, avg | 7.3 | 3.8 | 7.4 | 15.2 | 10.4 | 6.2 | 8.6 | 10.6 | 10.4 |
| Policy interest rate, % eop | 11.00 | 6.00 | 6.00 | 13.00 | 13.00 | 10.00 | 12.00 | 12.50 | 11.50 |
| Long term yield, % eop | 16.89 | 14.75 | 14.29 | 15.72 | 16.74 | 16.91 | 17.27 | 17.77 | 17.27 |
| lc/US$, eop | 2,735 | 2,848 | 2,860 | 3,444 | 3,441 | 3,423 | 3,560 | 3,603 | 3,531 |
| lc/US$, avg | 2,664 | 2,814 | 2,853 | 3,138 | 3,477 | 3,403 | 3,548 | 3,585 | 3,558 |
| Current account (US$ bn) | -2.2 | -0.7 | -2.1 | -2.3 | 0.1 | -2.5 | -2.1 | -1.1 | -2.8 |
| % of GDP | -15.4 | -5.1 | -13.8 | -14.6 | 0.6 | -10.5 | -8.4 | -3.9 | -8.0 |
| Trade balance (US$ bn) | 1.5 | 2.3 | 2.4 | 3.8 | 5.9 | 4.2 | 4.4 | 8.3 | 6.7 |
| Exports (US$ bn) | 7.6 | 7.6 | 9.2 | 12.5 | 15.2 | 15.8 | 15.8 | 22.1 | 24.6 |
| Imports (US$ bn) | 6.1 | 5.3 | 6.8 | 8.7 | 9.3 | 11.6 | 11.4 | 13.8 | 17.9 |
| FDI, net (US$ bn) | 2.3 | 1.7 | 2.1 | 2.4 | 2.2 | 2.7 | 2.7 | 2.4 | 1.8 |
| International reserves (US$ bn) | 4.3 | 4.5 | 4.4 | 3.4 | 4.9 | 5.5 | 7.0 | 9.2 | 9.0 |
| Consolidated government balance (% of GDP) | -2.0 | -11.9 | -7.7 | -1.9 | 1.1 | -1.1 | -1.4 | -1.9 | -2.0 |
| Public debt (% of GDP) | 66.8 | 83.4 | 67.7 | 64.5 | 45.9 | 44.5 | 46.0 | 47.0 | 50.5 |
| External debt (% of GDP) | 205.2 | 233.7 | 211.7 | 210.7 | 168.7 | 157.3 | 159.9 | 139.2 | 119.5 |

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Source: Citi Research Estimates, Positive net FDI refers to inflow of investment into an economy, CEIC Data Company Limited, IFS, IMF, Haver Analytics, Moody's

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## Pakistan

**The escalation of geopolitical volatility in the Middle East posts bigger macroeconomic risks for Pakistan.** The supply shocks are compounding, not only with the Bab El-Mandeb disruption, but also threats to Gulf infrastructure, especially if US President Trump escalates post Mid-term, which would add to inflationary pressure at a time when food inflation is intensifying. We pare down our FY27 growth forecast to 3.6% with already slightly weaker than expected 4Q (Apr-Jun). High frequency indicators in 1Q FY27 are holding up, but growth risks are skewed to the downside the longer the geopolitical shock lasts with elevated inflation posing risks to consumption amid protracted tight macro policies.

**SBP hiked 50bps to 12% in October, a bit earlier than expected, but we sense they might pause from here barring further intensification of supply shocks.** The post MPC analyst briefing comments sounded more neutral, citing muted second round effects from energy price-pass through with core inflation being contained, and growth in monetary aggregates slowing. Despite uptick in consumer and professional forecaster inflation expectations, business inflation expectations came off, and they still expected inflation to return to 5-7% target despite some delay. SBP also noted "already positive in real terms" and that it would become "increasingly positive as inflation falls", helping bring inflation back to the target. If we assume inflation expectations closer to 8-9%, we estimate ex-ante real rate is around 350bps.

**Pakistan's FX reserves remain at the all-time high range of $21.5bn (3M of imports), which would get further boost from our expected IMF Board approval for $1.2bn disbursal.** Officials have confirmed that Saudi financing has been extended. Following frontloaded commercial borrowings, Pakistan's external liquidity position remains buffered by a narrow current deficit, thanks to buoyant remittances, and only $5bn in repayments over the course of 8M FY27 (Nov-Jun) as the bulk have been either repaid or rolled over. This has allowed SBP to keep FX stable, in turn, anchoring inflation expectations. Notwithstanding IMF's advice for a greater exchange rate flexibility, we sense no big shift in FX policy.

**Figure 65. Pakistan Economic Indicators**

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26F | FY27F |
|---|---|---|---|---|---|---|---|---|---|
| **Summary Data** | | | | | | | | | |
| Nominal GDP, US$ bn | 318.5 | 299.4 | 350.3 | 372.7 | 331.9 | 372.4 | 408.4 | 453.2 | 503.2 |
| GDP per capita, US$ | 1,437 | 1,324 | 1,519 | 1,585 | 1,385 | 1,524 | 1,637 | 1,780 | 1,937 |
| Population, mn | 221.6 | 226.1 | 230.6 | 235.1 | 239.8 | 244.4 | 249.5 | 254.6 | 259.8 |
| Real GDP, % yoy | 3.1 | -0.9 | 5.8 | 6.2 | -0.3 | 2.6 | 3.1 | 3.7 | 3.6 |
| CPI, % yoy, eop | 8.0 | 8.6 | 9.6 | 21.3 | 29.4 | 12.6 | 3.2 | 12.2 | 7.8 |
| CPI, % yoy, avg | 6.8 | 10.7 | 8.9 | 12.2 | 29.2 | 23.4 | 4.5 | 7.1 | 9.5 |
| Policy interest rate, % eop | 12.25 | 7.00 | 7.00 | 13.75 | 22.00 | 20.50 | 11.00 | 11.50 | 12.00 |
| Long term yield, % eop | 14.10 | 8.55 | 9.74 | 12.85 | 15.13 | 14.07 | 7.55 | 7.89 | 8.23 |
| lc/US$, eop | 155.0 | 160.4 | 176.2 | 226.6 | 281.1 | 278.4 | 280.0 | 279.0 | 285.0 |
| lc/US$, avg | 150.0 | 161.8 | 162.6 | 202.8 | 279.2 | 278.6 | 281.8 | 281.4 | 282.0 |
| Current account (US$ bn) | -13.4 | -4.4 | -2.8 | -17.5 | -3.3 | -2.1 | 1.8 | -0.1 | -3.2 |
| % of GDP | -4.2 | -1.5 | -0.8 | -4.7 | -1.0 | -0.6 | 0.5 | 0.0 | -0.6 |
| Trade balance (US$ bn) | -27.6 | -21.1 | -28.6 | -39.1 | -24.8 | -22.2 | -26.8 | -38.8 | -48.8 |
| Exports (US$ bn) | 24.3 | 22.5 | 25.6 | 32.5 | 27.9 | 31.0 | 32.3 | 30.4 | 32.8 |
| Imports (US$ bn) | 51.9 | 43.6 | 54.3 | 71.5 | 52.7 | 53.2 | 59.1 | 69.2 | 81.7 |
| FDI, net (US$ bn) | 1.4 | 2.7 | 1.6 | 1.7 | 0.7 | 2.1 | 2.5 | 1.3 | 2.0 |
| International reserves (US$ bn) | 7.3 | 12.1 | 17.3 | 9.8 | 4.4 | 9.4 | 14.5 | 18.4 | 24.0 |
| Consolidated government balance (% of GDP) | -7.8 | -7.0 | -6.0 | -7.8 | -7.7 | -6.8 | -5.3 | -3.0 | -3.6 |

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Source: CEIC Data Company Limited, IFS, IMF, Haver Analytics, Moody's, Citi Research Estimates, Note: Pakistan Fiscal year runs from July-June. Positive net FDI refers to inflow of investment into an economy

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## Sri Lanka

**What we learned from CBSL's Governor session at IMF/WB meetings: (1)** The CBSL maintains a higher-than-expected hurdle for additional rate hikes following its preemptive 100bps May increase. CBSL might think that supply side shocks can't be addressed by rate hikes, and the view that inflation expectations are still relatively well anchored. The two major metrics that could make CBSL recalibrate policy tighter are material FX pressures and spike in credit growth. **(2)** Fiscal performance has strengthened substantially, with tax-to-GDP doubling from 8.2% in 2022 to 16.6% in 2025 and interest-to-revenue falling to approximately 45%. This created fiscal space for a record LKR 2 trillion capex allocation in the 2027 budget alongside plans to transition from uniform to targeted QR-based fuel subsidies by 1H 2027. **(3)** Consensus exists to secure a successor IMF program after the current facility concludes in April 2027. The need is to balance foreign reserve rebuild requirements against signaling post-crisis stability via funded or unfunded options. **(4)** No decision yet on the timing of returning to the global bond market, with the initial approach being to tap domestic dollar-denominated bond issuance. **(5)** The government expressed hope for positive movement on the ratings from S&P and/or Moody's by early 2027. **(6)** MLB buybacks remain under evaluation against refinancing cost dynamics.

**Macro forecast: (1)** We retain our 2026 real GDP growth at 4.3% YoY. **(2)** Headline inflation is likely to hover around 7.5–8% over the next two quarters amid global energy pressures and El Niño/SoH risks. **(3)** With oil prices remaining elevated, we further revise higher our 2026 current account deficit forecast to 0.6% of GDP (vs 0.4% earlier). **(4)** Given CBSL's somewhat dovish tilt, we plan to review our rate hike call (50bps hike in November) based on the October inflation print and developments in the Middle East over the next month. The latter will be particularly important as renewed hostilities/major escalations related to energy infrastructure could reignite pressure on FX.

**Figure 66. Sri Lanka Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Summary Data** | | | | | | | | | |
| Nominal GDP, US$ bn | 89.0 | 84.4 | 88.5 | 73.7 | 83.9 | 99.6 | 108.8 | 112.1 | 118.8 |
| GDP per capita, US$ | 4,083 | 3,852 | 3,997 | 3,324 | 3,747 | 4,403 | 4,762 | 4,866 | 5,116 |
| Real GDP, % yoy | -0.2 | -4.6 | 4.2 | -7.3 | -2.0 | 5.0 | 5.0 | 4.3 | 4.7 |
| CPI, % yoy, eop | 4.8 | 4.2 | 12.1 | 54.5 | 4.0 | -1.7 | 2.1 | 8.0 | 2.8 |
| CPI, % yoy, avg | 4.3 | 4.6 | 6.0 | 45.2 | 17.4 | 1.2 | -0.5 | 6.0 | 4.6 |
| Policy interest rate, % eop | 8.00 | 5.50 | 6.00 | 15.50 | 10.00 | 8.00 | 7.75 | 9.25 | 8.00 |
| Long term yield, % eop | 10.07 | 7.55 | 11.71 | 26.18 | 13.10 | 11.27 | 10.70 | 12.25 | 11.30 |
| lc/US$, eop | 181.4 | 185.3 | 202.9 | 367.5 | 323.9 | 293.1 | 309.6 | 332.0 | 340.0 |
| lc/US$, avg | 178.7 | 185.4 | 198.5 | 308.7 | 326.9 | 301.7 | 300.8 | 325.5 | 336.0 |
| Current account (US$ bn) | -1.8 | -1.2 | -3.3 | -1.4 | 1.4 | 1.2 | 1.7 | -0.6 | 0.2 |
| % of GDP | -2.1 | -1.4 | -3.7 | -2.0 | 1.7 | 1.2 | 1.6 | -0.5 | 0.2 |
| Trade balance (US$ bn) | -8.0 | -6.0 | -8.1 | -5.2 | -4.9 | -6.1 | -7.9 | -11.5 | -11.3 |
| Exports (US$ bn) | 11.9 | 10.0 | 12.5 | 13.1 | 11.9 | 12.8 | 13.6 | 14.1 | 14.8 |
| Imports (US$ bn) | 19.9 | 16.1 | 20.6 | 18.3 | 16.8 | 18.8 | 21.5 | 25.7 | 26.1 |
| FDI, net (US$ bn) | 0.7 | 0.4 | 0.6 | 0.9 | 0.7 | 0.6 | 0.9 | 0.9 | 1.2 |
| International reserves (US$ bn) | 7.6 | 5.7 | 3.1 | 1.9 | 4.4 | 6.1 | 6.8 | 7.4 | 10.4 |
| Consolidated government balance (% of GDP) | -9.0 | -10.7 | -11.7 | -10.2 | -8.3 | -6.8 | -2.3 | -5.1 | -3.7 |
| Public debt (% of GDP) | 88.3 | 105.0 | 112.0 | 123.8 | 115.3 | 103.7 | 101.1 | 100.1 | 96.9 |
| External debt (% of GDP) | 61.6 | 58.1 | 74.5 | 105.6 | 76.8 | 55.6 | 46.3 | 45.1 | 41.7 |

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Source: CEIC Data Company Limited, IFS, IMF, Haver Analytics, Moody's, Citi Research Estimates, Note: Positive net FDI refers to inflow of investment into an economy

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## Vietnam

**We expect an extended growth cycle in VN vs. previously anticipated, underpinned by a surge in public investments.** State capital expenditure accelerated sharply through 2026, preceded by meaningful structural reforms. This lays the foundation for what we expect to be a multi-year expansion cycle rather than a transitory upturn. Beyond infrastructure, VN continues to deepen its integration into regional supply chains—particularly within the China-ASEAN corridor—with electronics components manufacturing leading the way. FDI itself is becoming increasingly diversified beyond traditional manufacturing as income levels rise, further broadening the economy's growth base. On inflation, the near-term picture is more challenging. Both headline and core inflation have risen above the 4.5% target, driven primarily by the resurgence in global oil prices and supply disruptions stemming from Middle East tensions. While increased petroleum imports from China have helped cushion the energy shock, second-round effects on domestic core inflation should not be ruled out. Against this backdrop of strong domestic demand and energy supply shock, interest rates should continue to see upward pressure, stemming from high bank credit demand and lingering domestic liquidity constraints. That said, strong capital inflows in the past few months have helped ease— though not fully resolve—the tightening in funding conditions. This is even though the SBV's application of broader prudential ratios continues to shape the liquidity landscape. Despite a weaker terms-of-trade due to the oil price rebound, VN's robust export growth and capital inflow prospects support a broadly stable USDVND outlook in our view. This is while acknowledging that a potential narrowing of Vietnam-US interest rate differentials may limit the room for further VND appreciation.

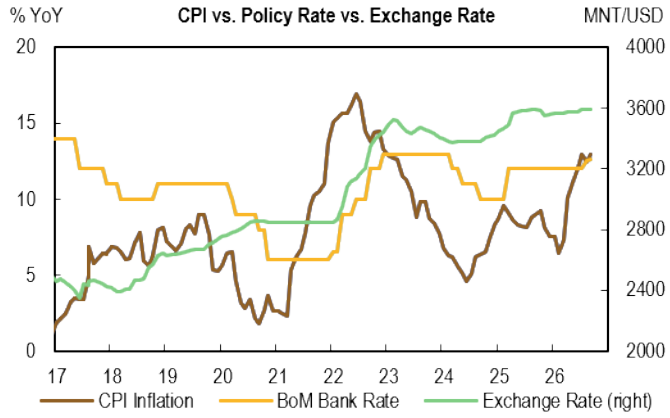
**Figure 67. Vietnam Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Summary Data** | | | | | | | | | |
| Nominal GDP, US$ bn | 331.8 | 346.4 | 370.7 | 411.6 | 432.1 | 457.5 | 490.5 | 559.7 | 629.1 |
| GDP per capita, US$ | 3,439 | 3,550 | 3,763 | 4,138 | 4,308 | 4,530 | 4,808 | 5,432 | 6,045 |
| Population, mn | 96.5 | 97.6 | 98.5 | 99.5 | 100.3 | 101.0 | 102.0 | 103.0 | 104.1 |
| Real GDP, % yoy | 7.4 | 2.9 | 2.6 | 8.5 | 5.0 | 7.0 | 8.0 | 9.2 | 9.4 |
| CPI, % yoy, eop | 5.2 | 0.2 | 1.8 | 4.5 | 3.6 | 2.9 | 3.5 | 5.2 | 4.0 |
| CPI, % yoy, avg | 2.8 | 3.2 | 1.8 | 3.2 | 3.3 | 3.6 | 3.3 | 4.8 | 3.3 |
| Policy interest rate, % eop | 6.00 | 4.00 | 4.00 | 6.00 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| Long term yield, % eop | 4.40 | 2.07 | 1.90 | 4.80 | 2.27 | 2.70 | 3.75 | 4.90 | 5.00 |
| lc/US$, eop | 23,173 | 23,080 | 22,855 | 23,635 | 24,270 | 25,485 | 26,300 | 26,060 | 26,480 |
| lc/US$, avg | 23,227 | 23,236 | 22,936 | 23,391 | 23,831 | 25,050 | 26,003 | 26,136 | 26,270 |
| Current account (US$ bn) | 12.5 | 15.1 | -8.1 | 1.4 | 25.8 | 30.5 | 33.1 | -2.8 | 4.0 |
| % of GDP | 3.8 | 4.3 | -2.2 | 0.3 | 6.0 | 6.7 | 6.8 | -0.5 | 0.6 |
| Trade balance (US$ bn) | 21.2 | 30.7 | 15.7 | 29.4 | 44.0 | 43.4 | 34.0 | -4.9 | -0.4 |
| Exports (US$ bn) | 264.2 | 282.6 | 336.2 | 371.7 | 354.7 | 406.5 | 474.9 | 549.8 | 596.1 |
| Imports (US$ bn) | 243.0 | 251.9 | 320.5 | 342.3 | 310.7 | 363.1 | 440.9 | 554.7 | 596.5 |
| FDI, net (US$ bn) | 15.7 | 15.4 | 15.3 | 15.2 | 20.1 | 19.7 | 21.3 | 23.0 | 20.0 |
| International reserves (US$ bn) | 78.8 | 95.5 | 110.0 | 87.1 | 92.9 | 81.8 | 86.9 | 85.1 | 90.1 |
| Consolidated government balance (% of GDP) | -3.3 | -5.8 | -4.1 | -4.4 | -4.3 | -3.5 | -3.3 | -4.0 | -4.0 |
| Public debt (% of GDP) | 41.0 | 41.3 | 39.2 | 34.9 | 34.3 | 31.2 | 30.3 | 29.8 | 29.0 |
| External debt (% of GDP) | 47.1 | 47.9 | 38.1 | 35.9 | 32.7 | -- | -- | -- | -- |

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Source: CEIC Data Company Limited, IFS, IMF, Haver Analytics, Moody's, Citi Research Estimates, Positive net FDI refers to inflow of investment into an economy

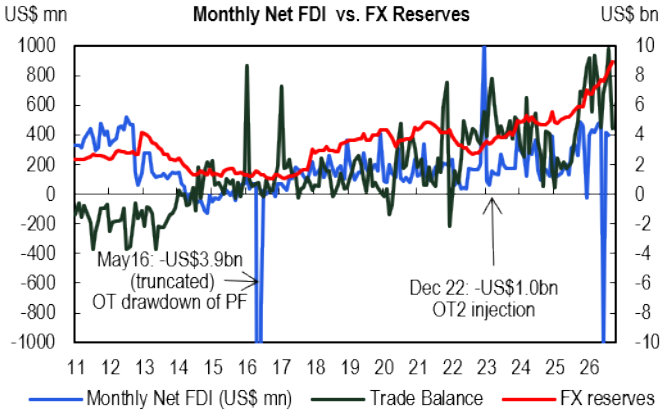
**Figure 68. Mongolia – BoM has been vigilant on inflation via policy rate tightening**




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Source: CEIC, Citi Research

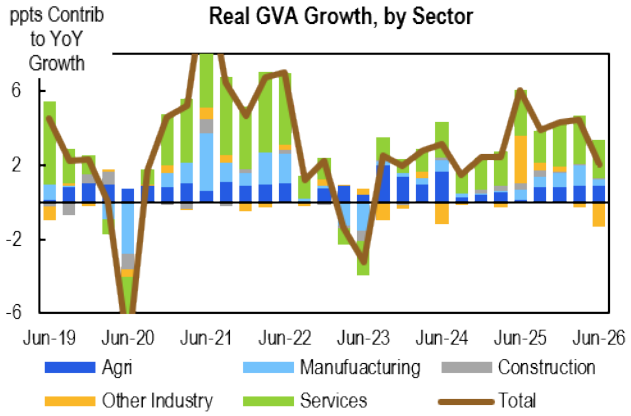
**Figure 69. Mongolia – YTD trade surplus remains supportive to FX reserves**




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Source: CEIC, Citi Research

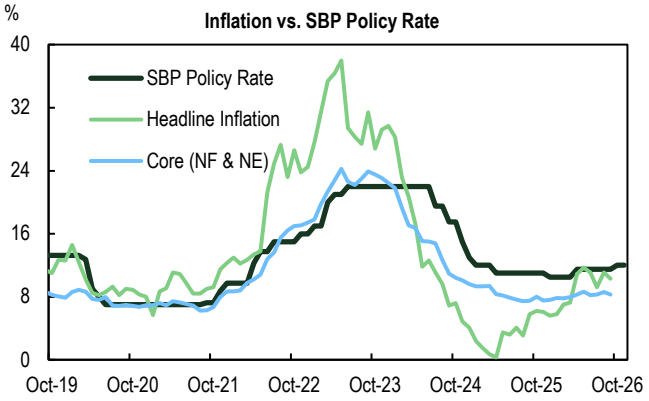
**Figure 70. Pakistan - Real GDP growth in 4QFY26 (Apr-Jun) clearly show the economic toll of the Mideast war shocks**




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Source: CEIC, SBP, Citi Research

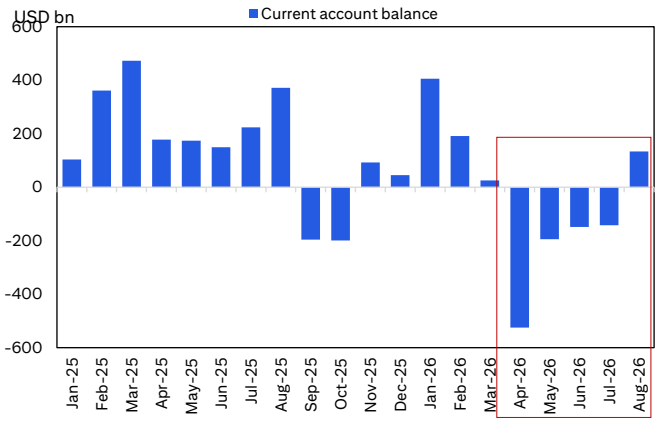
**Figure 71. Pakistan - Barring intensified supply shocks, SBP's 50bps hike to 12% in October may be the last one**




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Source: CEIC, Finance Ministry documents, Citi Research

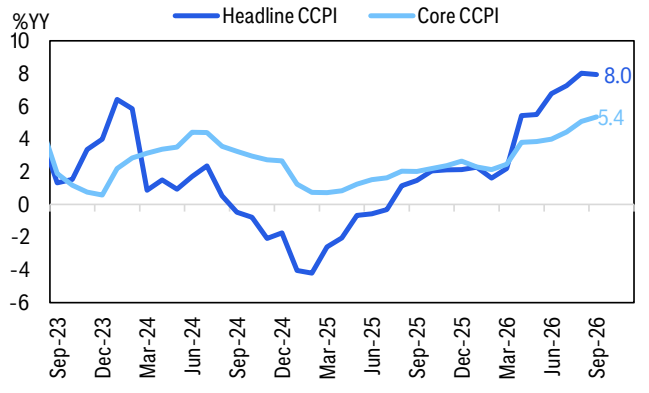
**Figure 72. Sri Lanka - Current account could worsen again**




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Source: DCS, Citi Research

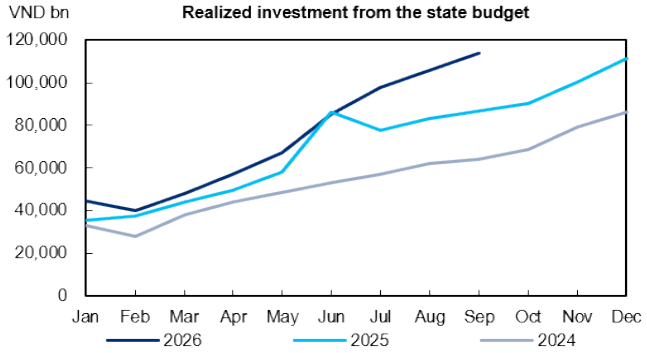
**Figure 73. Sri Lanka - Headline inflation at 3-year high**




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Source: RBI, Citi Research

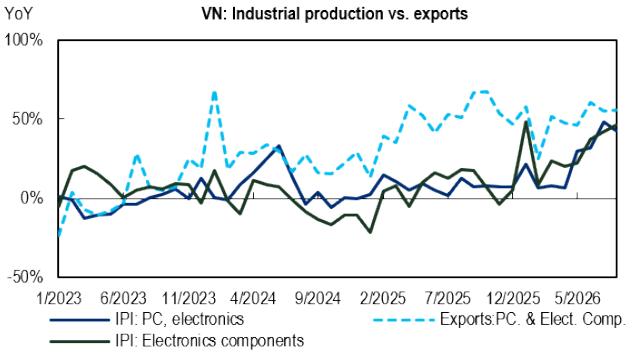
**Figure 74. Vietnam – Public investment spending up 32% YoY**




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Source: Haver, Citi Research

**Figure 75. Vietnam - Surge of electronics components production**




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Source: CEIC, Citi Research

# CEEMEA

# Czech Republic

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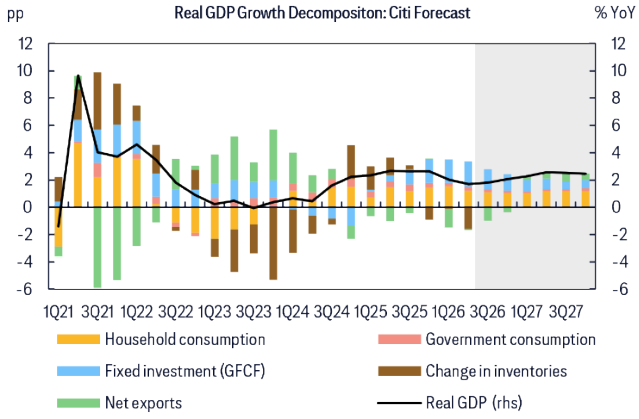
- **Summary view –** Economic growth is slowing, but its composition remains heavily supported by strong domestic demand, which continues to generate inflationary pressures. The return of core inflation above 3% and a more elevated inflation outlook reinforce our forecast of a further 25bp CNB rate hike to 4.0% at the November meeting (link).

**Domestic demand remains the key pillar of the Czech economy, even as overall growth momentum gradually moderates**. Final data for Q2 showed real GDP growth of 1.8% YoY, below the CNB's 2.2% YoY forecast, mainly due to an inventory correction related to heightened geopolitical uncertainty and higher production costs rather than any weakening in domestic demand. On the contrary, the structure of the national accounts confirmed the solid condition of households, with real disposable income per capita rising by 3.1%, real consumption by 2.5%, and real wages by 4.2% YoY. Economic activity continues to be supported by a tight labor market, rising real incomes, and a more expansionary fiscal stance. That said, October confidence surveys pointed to some cooling in sentiment. Overall, however, the data continues to portray an economy driven primarily by domestic demand, which remains strongly inflationary. Citi expects real GDP growth of 1.9% in 2026, accelerating to 2.5% in 2027 as the current negative supply shock fades and external demand gradually strengthens against the backdrop of a more growth-supportive fiscal policy.

**Inflationary pressures are intensifying and represent the key macroeconomic risk.** Headline inflation accelerated to 2.5% YoY in September from 1.9% in August, exceeding the CNB's 2.2% YoY forecast. The increase was driven primarily by higher fuel and energy prices, alongside a slower decline in food prices. More importantly, core inflation returned above the 3% threshold, reaching 3.1% YoY for the first time since December 2023. The data confirms that domestic inflationary pressures remain significant, supported by strong wage growth, robust consumer demand, ongoing credit expansion, and persistent services inflation. The inflation outlook from January 2027 onwards is further complicated by the expiry of this year's energy-support measures, which are estimated to add roughly 0.4pp to inflation, as well as by the traditional repricing of energy and services at the start of the year. Citi expects average headline inflation of 2.1% in 2026 and 2.9% in 2027, while core inflation is projected to average 2.9% this year and 2.6% next year. We also expect headline inflation to temporarily rise significantly above the CNB's 3% upper tolerance band in early 2027.

**In our view, the combination of resilient domestic demand and strengthening inflationary pressures further strengthens the case for a November CNB rate hike.** The September Board meeting already identified the balance of risks as inflationary, and subsequent inflation data have reinforced that assessment. The meeting minutes confirmed the Board's readiness to raise rates should inflationary pressures persist, while several policymakers have since acknowledged that the November decision is likely to be finely balanced. Our base case therefore remains a 25bp increase in the two-week repo rate to 4.0% at the November meeting. The key argument is not only the current inflation rate but also the fact that core inflation remains above 3%, domestic demand continues to prove resilient, and the inflation outlook for early 2027 has deteriorated, partly due to the renewed surge in oil and natural gas prices. Following the possible November hike, however, we expect a prolonged period of policy rate stability, similar to the pattern observed after the June increase. Although the CNB's new forecast will likely imply the need for a more pronounced tightening of monetary policy, we believe the Board will view the November move primarily as a fine-tuning of the restrictiveness of monetary conditions rather than the beginning of a broader tightening cycle, preferring to keep rates at a restrictive level for an extended period.

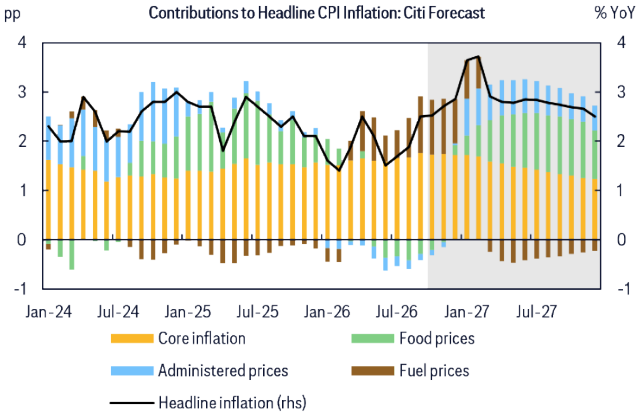
**Figure 76. Growth slows in 2026 due to external headwinds, while resilient domestic demand remains inflationary**




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Source: Citi Research Forecasts, CZSO

**Figure 77. Inflation is expected to surge in the coming months, rising well above 3% in early 2027**




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Source: Citi Research, CNB, CZSO

**Figure 78. Czech Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 257 | 251 | 291 | 302 | 345 | 348 | 391 | 413 | 444 |
| Population, mn | 10.7 | 10.7 | 10.5 | 10.8 | 10.9 | 10.9 | 10.9 | 10.9 | 10.9 |
| Real GDP, yoy avg | 3.5 | -5.3 | 4.0 | 2.9 | 0.2 | 1.1 | 2.7 | 1.9 | 2.5 |
| Private consumption growth % yoy | 3.0 | -6.6 | 4.3 | 0.5 | -2.7 | 2.5 | 2.6 | 2.7 | 2.5 |
| Real investment growth % yoy | 5.6 | -9.2 | 18.4 | 10.2 | -6.0 | -4.4 | 4.3 | 4.0 | 2.6 |
| Real export growth, % yoy | 1.1 | -8.5 | 9.5 | 5.2 | 2.8 | 1.8 | 3.5 | 3.5 | 5.2 |
| Real import growth, % yoy | 1.2 | -8.5 | 14.4 | 6.0 | -0.8 | 0.7 | 4.7 | 5.0 | 4.9 |
| Net export contribution to growth | 0.1 | -0.6 | -2.8 | -0.3 | 2.5 | 1.0 | -0.6 | -0.5 | 0.2 |
| Unemployment, % of labour force | 2.0 | 2.6 | 2.8 | 2.4 | 2.6 | 2.8 | 2.9 | 3.2 | 3.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 0.9 | 4.5 | -6.0 | -13.6 | -0.4 | 6.1 | 2.8 | -2.8 | -1.2 |
| % of GDP | 0.4 | 1.8 | -2.0 | -4.5 | -0.1 | 1.7 | 0.7 | -0.7 | -0.3 |
| Trade balance | 10.5 | 12.2 | 5.1 | -0.9 | 13.0 | 18.0 | 23.3 | 20.1 | 22.0 |
| FDI, net | 6.0 | 6.4 | 1.3 | 3.5 | 3.4 | 1.9 | 3.1 | 3.4 | 3.5 |
| External debt | 193.8 | 202.0 | 209.3 | 206.2 | 215.0 | 217.5 | 245.2 | 232.6 | 234.9 |
| Short-term debt | 111.3 | 112.0 | 123.1 | 113.9 | 107.5 | 108.2 | 121.9 | 115.7 | 116.8 |
| International reserves | 149.9 | 166.1 | 173.6 | 140.0 | 148.4 | 146.3 | 159.8 | 166.3 | 172.8 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | 0.3 | -5.8 | -5.1 | -3.1 | -3.7 | -2.0 | -2.1 | -2.7 | -3.5 |
| Consolidated gov primary balance | 1.0 | -4.9 | -4.2 | -2.0 | -2.4 | -0.7 | -0.9 | -1.0 | -1.1 |
| Public debt | 29.6 | 36.9 | 40.7 | 42.5 | 42.2 | 43.2 | 44.2 | 45.3 | 47.1 |
| External public debt | 4.0 | 4.0 | 3.6 | 3.3 | 3.0 | 2.8 | 2.7 | 2.6 | 2.4 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 3.2 | 2.3 | 6.6 | 15.8 | 6.9 | 3.0 | 2.1 | 2.9 | 2.5 |
| CPI, %yoy, avg | 2.8 | 3.2 | 3.8 | 15.1 | 10.7 | 2.4 | 2.5 | 2.1 | 2.9 |
| CZK/EUR, eop | 25.4 | 26.2 | 24.9 | 24.2 | 24.7 | 25.2 | 24.2 | 24.5 | 24.3 |
| CZK/EUR, avg | 25.7 | 26.5 | 25.6 | 24.6 | 24.0 | 25.1 | 24.7 | 24.4 | 24.4 |
| Policy Interest Rate, % eop | 2.00 | 0.25 | 3.75 | 7.00 | 6.75 | 4.00 | 3.50 | 4.00 | 3.75 |
| Long-term yield, %, eop | 1.63 | 1.30 | 2.86 | 5.10 | 3.82 | 4.22 | 4.66 | 4.90 | 4.95 |
| Nominal wages, % yoy | 7.9 | 4.6 | 5.8 | 4.3 | 7.2 | 6.6 | 6.6 | 6.2 | 5.9 |

| **Quarterly Economic Indicators** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 2.8 | 2.1 | 1.8 | 1.8 | 2.1 | 2.3 | 2.5 | 2.5 | 2.5 |
| CPI, %yoy, avg | 2.2 | 1.6 | 2.0 | 2.0 | 2.8 | 3.4 | 2.8 | 2.8 | 2.6 |
| CZK/EUR, eop | 24.17 | 24.55 | 24.27 | 24.44 | 24.49 | 24.45 | 24.41 | 24.37 | 24.33 |
| Policy interest rate, %, eop | 3.50 | 3.50 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |

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Source: Citi Research, National Sources

# Egypt

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- **Summary view** — Egypt is close to the current conflict in the Middle East, but still on the periphery which means that the economic fallout seems contained.

**High inflation prints in Q1 20026 saw inflation rise back to 15.2% YoY in March, but since then it has declined at a slow steady pace.** This rise and slow fall, coupled with the uncertain global macroeconomic backdrop, means that the CBE paused its path of monetary policy easing and it is unlikely to make further cuts to Overnight Deposit Rate (ODR) this year. Instead, we think it will wait until next year when it potentially can act much more decisively due to the inflation rate potentially falling into single digits in 2H 2027.

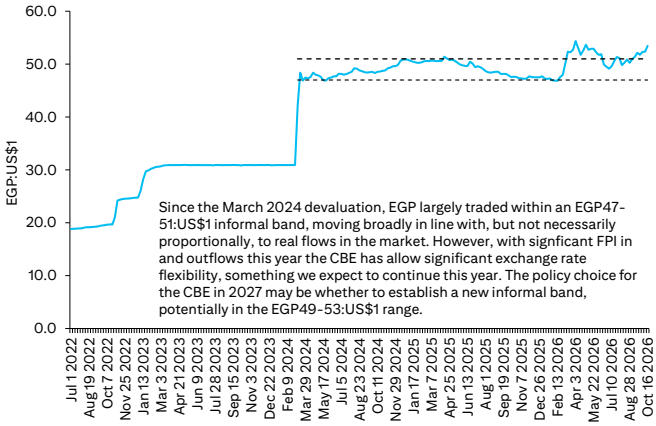
**There was also a major change in the Central Bank of Egypt's (CBE) exchange rate policy in 2026**. Instead of trying to maintain nominal exchange rate stability as a policy anchor, it has responded to FPI in-and-outflows due to the conflict in the Middle East by allowing the Egyptian pound (EGP) to move to lows of around US$54:US$1 and a high of around EGP49:US$1, clearly indicating a stronger commitment to a flexible exchange rate than historically. This volatility looks set to continue for the rest of the year, given the uncertainty surrounding the direction of the conflict, but as this potentially fades in 2027 we will be looking to see whether the CBE potentially seeks to re-anchor the exchange rate in a new informal band which could possibly range from EGP49-53:US$1, a slightly weaker range than seemed the case after the March 2024 devaluation.

**The conflict has also reversed the narrowing of the current account deficit seen in 2025, in 2026.** In this case, the main impact is through higher oil and gas imports, but at this point in time remittances, tourism arrivals and Suez Canal earnings all seem to be holding up well, while we are also seeing new FDI into the hydrocarbons sector. We also think the fiscal deficit will be marginally higher in 2026 than we had expected early this year even though the authorities quickly opted to raise the petrol price in March. However, it remains subsidized, while the slower rate of interest rate cuts has a fiscal cost, and revenue growth, although holding up well, is likely to be somewhat constrained. Again, assuming a lower oil price in 2027 we expect both deficits to narrow marginally.

**What is less clear to us is whether the conflict changes the relationship with the IMF.** We still expect that the current programme will not be renewed when it ends in December 2026, but the fallout from the conflict could also change diplomatic relations with the GCC states, which in turn could impact the speed with which the private sector driven GCC state supported land development projects move ahead, and the extent to which they are a source of FDI. This, in turn, highlights the need for ongoing economic reform and alternative sources of finance, such as from the planned privatization programme, which the authorities may feel is helped by remaining on a programme.

**Egypt has been through three clear growth cycles since 1980, with growth peaking in 1983, 1998 and 2008.** It is now in the fourth, and although growth bounced around in the 2020-24 period due to the Covid-19 pandemic, the fallout from the Russia-Ukraine war and economic policy indecisiveness, the current growth upswing has been maintained so far in 2026. For it to gain momentum in 2027-28, however, it will be important that the government picks up its reform efforts, notably to push ahead with privatization to boost FDI and help finance the twin deficits. A bigger question, however, is whether a key element of the Egypt story going forward should also be export-led growth, which requires continuous exchange rate flexibility going forward? An important step in this direction has played out this year which is a clear positive.

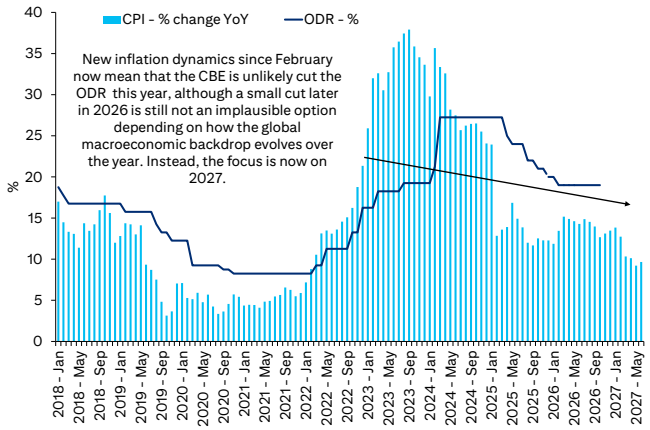
**Figure 79. The CBE has allowed EGP to adjust to FPI outflows and inflows in 2026, a welcome move**




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Source: Citi Research, Haver Analytics

**Figure 80. Recent inflation prints mean we do not expect the CBE to ease monetary policy further in 2026**




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Source: Citi Research, Haver Analytics

**Figure 81. Egypt Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 393 | 446 | 505 | 487 | 417 | 375 | 407 | 468 | 539 |
| Population, mn | 105.6 | 107.5 | 109.5 | 111.6 | 113.7 | 115.8 | 117.8 | 119.8 | 121.9 |
| Real GDP, yoy avg | 5.6 | 1.4 | 7.2 | 4.2 | 2.9 | 3.1 | 5.1 | 5.0 | 6.1 |
| Private consumption growth % yoy | 3.9 | 8.7 | 6.7 | 0.8 | 5.8 | 2.2 | 0.7 | 4.1 | 5.2 |
| Real investment growth % yoy | 6.1 | -28.3 | 26.2 | 2.7 | -16.0 | 1.7 | 21.7 | 8.5 | 7.8 |
| Real export growth, % yoy | -10.9 | -35.5 | 32.4 | 45.4 | 8.5 | 7.3 | 10.6 | 5.3 | 6.4 |
| Real import growth, % yoy | -12.1 | -20.6 | 25.3 | 9.6 | 2.8 | 2.6 | 1.7 | 3.3 | 2.9 |
| Net export contribution to growth | 1.2 | -1.0 | -1.2 | 3.7 | 0.9 | 0.8 | 1.6 | 0.4 | 0.7 |
| Unemployment, % of labour force | 7.9 | 7.9 | 7.4 | 7.3 | 7.1 | 7.4 | 6.9 | 7.2 | 7.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -10.2 | -14.2 | -18.6 | -10.5 | -12.6 | -22.1 | -13.9 | -20.2 | -20.4 |
| % of GDP | -2.6 | -3.2 | -3.7 | -2.2 | -3.0 | -5.9 | -3.4 | -4.3 | -3.8 |
| Trade balance | -37.5 | -37.0 | -44.6 | -37.2 | -34.3 | -48.4 | -55.3 | -65.6 | -65.3 |
| FDI, net | 8.6 | 5.5 | 4.8 | 11.1 | 9.5 | 46.1 | 14.8 | 15.2 | 15.7 |
| External debt | 112.7 | 129.2 | 145.5 | 162.9 | 168.2 | 152.3 | 148.5 | 161.0 | 176.0 |
| Short-term debt | 11.3 | 12.0 | 12.8 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 |
| International reserves | 45.4 | 40.1 | 40.9 | 34.0 | 35.2 | 44.9 | 48.9 | 49.9 | 50.7 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -6.4 | -6.5 | -5.9 | -4.8 | -6.4 | -6.2 | -6.1 | -5.6 | -4.6 |
| Consolidated gov primary balance | 1.2 | 1.2 | 1.2 | 1.1 | 8.9 | 5.7 | 7.3 | 6.4 | 5.2 |
| Public debt | 72.6 | 72.3 | 74.0 | 74.0 | 75.5 | 74.5 | 74.7 | 66.7 | 60.9 |
| External public debt | - | - | - | - | - | - | - | - | - |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 7.0 | 5.4 | 5.9 | 21.3 | 33.6 | 24.1 | 12.3 | 12.1 | 10.0 |
| CPI, %yoy, avg | 9.2 | 5.1 | 5.2 | 13.9 | 33.9 | 28.3 | 14.1 | 13.5 | 9.4 |
| EGP/US$, eop | 16.05 | 15.74 | 15.71 | 24.76 | 30.90 | 50.84 | 47.70 | 50.50 | 51.25 |
| EGP/US$, avg | 16.80 | 15.81 | 15.70 | 18.85 | 30.66 | 44.02 | 49.23 | 50.74 | 50.90 |
| Policy Interest Rate, % eop | 12.25 | 8.25 | 8.25 | 16.25 | 19.25 | 27.25 | 20.00 | 19.00 | 11.00 |
| Long-term yield, %, eop | 14.02 | 14.03 | 14.09 | 18.33 | 25.41 | 24.71 | 20.80 | 21.00 | 20.00 |
| Nominal wages, % yoy | 16.21 | -28.68 | 8.00 | -15.00 | -8.00 | 3.00 | 5.10 | 7.20 | 5.20 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 5.4 | 5.0 | 4.5 | 5.1 | 5.2 | 5.8 | 6.1 | 6.4 | 5.9 |
| CPI, %yoy, avg | 12.4 | 13.5 | 14.6 | 14.1 | 11.9 | 10.9 | 8.4 | 8.8 | 9.5 |
| EGP/US$, eop | 47.70 | 54.53 | 49.72 | 51.94 | - | - | - | - | - |
| Policy interest rate, %, eop | 20.00 | 19.00 | 19.00 | 19.00 | 19.00 | 17.00 | 15.00 | 11.00 | 11.00 |

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Source: Citi Research, National Sources

# Hungary

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- **Summary view –** The new fiscal plan presented by the government assumes significant fiscal tightening in 2027, delivered in a relatively growth-friendly way. Taking into account the high level of energy prices we expect the central bank to stay on hold for next several meetings.

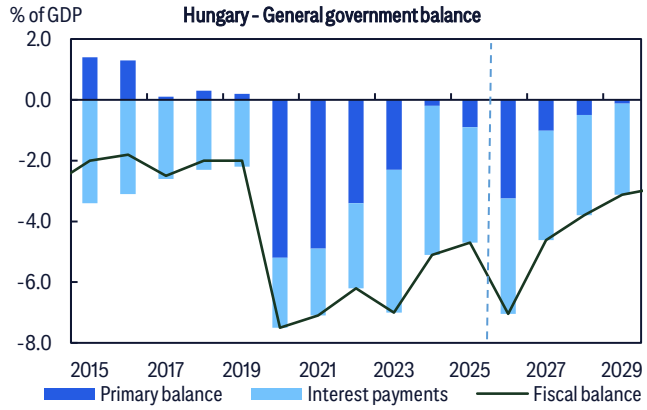
**The much-anticipated 2027 draft budget confirms that Hungary remains on track to meet euro adoption criteria.** The document projects the fiscal deficit narrowing to 4.9% of GDP in 2027 from the 7.5% targeted for this year. In our view, the structure of the planned fiscal consolidation makes it politically sustainable. On the one hand, the government is leaning on deficit-reduction measures with relatively low fiscal multipliers - higher corporate taxation, a wealth tax, cuts to public-sector operating expenditure and a review of contracts signed under the previous administration. On the other hand, the budget introduces higher minimum pensions and targeted wage hikes for select public-sector workers, which should provide a boost to growth. Taken together, this balanced approach minimizes the risk that fiscal tightening could derail euro convergence by stalling economic activity or fueling public discontent.

**While some revenue and savings measures could underdeliver against expectations, potential shortfalls should be offset elsewhere in the budget.** First, the Finance Ministry's growth and inflation assumptions are conservative, leaving room for higher nominal GDP to generate revenue upside. Furthermore, the 2026 deficit could land closer to 7%, providing a more favorable starting point for next year's fiscal effort. Overall, we expect the deficit to maintain a steady downward trajectory, bolstering the credibility of Hungary's euro roadmap. Over the medium term, the fiscal framework targets bringing the deficit slightly below 3% of GDP by 2030.

**With the fiscal plans now unveiled, market attention is shifting back to inflation and monetary policy.** Hungary currently boasts the most favorable inflation profile in the region, supported by past forint appreciation and a persistent negative output gap as key disinflationary factors. However, our concerns over the medium-term inflation outlook have risen in recent weeks. The disinflationary impulse from earlier FX strength is set to fade in the coming months, while elevated energy prices are beginning to filter through into producer costs. Recent HICP prints in Czechia and Poland revealed an uptick in goods prices, which could foreshadow similar pressures in Hungary. We see a risk of headline CPI approaching 3.5% by mid-2027, with the balance of risks tilted to the upside. This creates a demanding backdrop for the central bank as it tries to follow the path toward its newly lowered target.

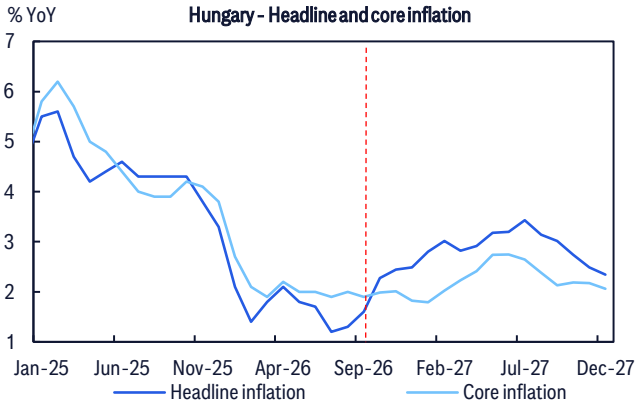
**In our view, rate cuts by the National Bank of Hungary remain off the table for now as long as energy prices stay elevated.** We expect the policy rate to remain on hold throughout 2026, with the door opening to gradual easing in 2027 (in total 75bps delivered in three steps), contingent on softer oil prices and a stable HUF. Symmetrically reflecting our upside CPI risks, we also see upside risks to our interest rate trajectory. While the negative output gap and ongoing fiscal tightening should prevent the NBH from hiking rates, the road to monetary easing will likely prove narrow and challenging.

**Figure 82. Significant fiscal tightening planned for 2027 will likely benefit from the improvement in GDP growth**




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Source: Citi Research Estimates, Eurostat

**Figure 83. Inflation is set to rise towards the upper end of the central bank's target in 1H27**




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Source: Citi Research Estimates, KSH

**Figure 84. Hungary Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 165 | 159 | 183 | 177 | 213 | 223 | 265 | 292 | 318 |
| Population, mn | 9.8 | 9.7 | 9.7 | 9.7 | 9.7 | 9.7 | 9.6 | 9.6 | 9.6 |
| Real GDP, yoy avg | 5.1 | -4.3 | 7.2 | 4.2 | -0.8 | 0.7 | 0.5 | 2.0 | 3.2 |
| Private consumption growth % yoy | 5.2 | 0.2 | 5.2 | 6.6 | -2.2 | 7.3 | 3.1 | 4.0 | 2.6 |
| Real investment growth % yoy | 12.2 | -7.7 | 13.1 | 1.6 | -15.7 | -11.4 | 0.5 | 5.5 | 1.5 |
| Real export growth, % yoy | 5.5 | -6.1 | 8.2 | 10.7 | 1.8 | -0.5 | -1.1 | 1.7 | 5.0 |
| Real import growth, % yoy | 8.2 | -3.6 | 7.7 | 10.8 | -3.4 | -1.4 | 1.2 | 5.1 | 4.1 |
| Net export contribution to growth | -1.7 | -2.2 | 0.5 | 0.1 | 4.3 | 0.7 | -1.9 | -2.6 | 0.8 |
| Unemployment, % of labour force | 3.3 | 4.2 | 4.1 | 3.7 | 4.1 | 4.4 | 4.4 | 4.3 | 4.1 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -1.0 | -1.7 | -8.0 | -15.8 | 0.0 | 4.1 | 4.3 | -0.2 | 4.8 |
| % of GDP | -0.6 | -1.1 | -4.4 | -9.0 | 0.0 | 1.8 | 1.6 | -0.1 | 1.5 |
| Trade balance | -4.3 | -2.1 | -6.0 | -16.6 | -1.2 | -1.1 | -2.1 | -5.6 | -1.5 |
| FDI, net | 0.8 | 2.4 | 4.0 | 4.7 | 0.6 | 0.0 | 1.2 | 1.1 | 2.3 |
| External debt | 107.5 | 112.1 | 133.7 | 155.3 | 169.9 | 176.7 | 192.8 | 193.2 | 195.7 |
| Short-term debt | 12.9 | 17.4 | 25.5 | 30.4 | 28.2 | 28.1 | 32.0 | 27.7 | 28.2 |
| International reserves | 31.3 | 40.9 | 40.4 | 38.4 | 39.5 | 38.0 | 49.3 | - | - |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.0 | -7.5 | -7.1 | -6.2 | -7.0 | -5.1 | -4.7 | -7.0 | -4.6 |
| Consolidated gov primary balance | 0.3 | -5.1 | -4.7 | -3.4 | -2.3 | -0.2 | -0.9 | -3.2 | -1.0 |
| Public debt | 65.0 | 78.7 | 76.2 | 74.1 | 73.3 | 73.5 | 74.6 | 76.0 | 75.0 |
| External public debt | 14.7 | 18.5 | 18.0 | 18.6 | 18.4 | 18.4 | 18.7 | 19.1 | 18.8 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 4.1 | 2.8 | 7.4 | 25.0 | 5.5 | 4.8 | 3.3 | 2.5 | 2.3 |
| CPI, %yoy, avg | 3.4 | 3.4 | 5.2 | 15.3 | 17.0 | 3.7 | 4.4 | 1.9 | 2.9 |
| HUF/EUR, eop | 331 | 363 | 369 | 400 | 383 | 412 | 384 | 367 | 360 |
| HUF/EUR, avg | 325 | 351 | 359 | 391 | 382 | 395 | 398 | 368 | 362 |
| Policy Interest Rate, % eop | 0.90 | 0.60 | 2.40 | 13.00 | 10.75 | 6.50 | 6.50 | 5.50 | 4.75 |
| Long-term yield, %, eop | 2.01 | 2.08 | 4.51 | 8.98 | 5.86 | 6.55 | 6.79 | 5.52 | 5.02 |
| Nominal wages, % yoy | 11.8 | 9.1 | 8.6 | 17.6 | 14.1 | 13.1 | 9.0 | 9.5 | 7.0 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 0.8 | 1.8 | 1.7 | 1.9 | 2.5 | 2.6 | 3.0 | 3.5 | 3.5 |
| CPI, %yoy, avg | 3.8 | 1.8 | 1.9 | 1.4 | 2.4 | 2.9 | 3.1 | 3.2 | 2.5 |
| HUF/EUR, eop | 384 | 384 | 356 | 366 | 367 | 365 | 363 | 361 | 360 |
| Policy interest rate, %, eop | 6.50 | 6.25 | 6.00 | 5.50 | 5.50 | 5.25 | 5.00 | 4.75 | 4.75 |

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Source: Citi Research, National Sources

# Israel

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- **Summary view** – Despite *being* at the core of the conflict, Israel's economy seems to weather the shock reasonably well.

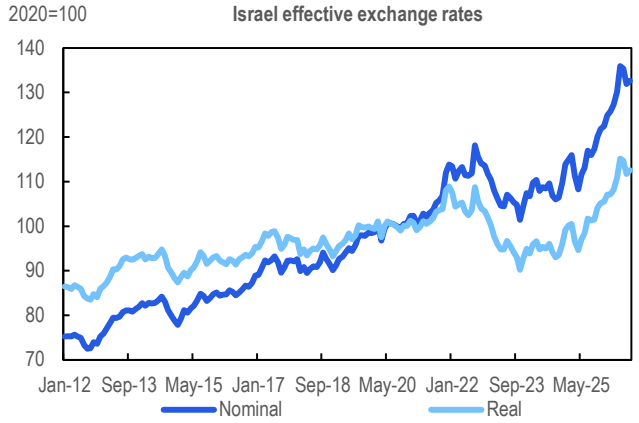
**Growth in Israel is proving even more resilient than already expected, though some important caveats apply.** GDP grew by 3.5%QQ in seasonally adjusted terms in Q2. A bounce back from the conflict-disrupted first quarter was expected, but not on this magnitude. Private consumption at 3.5%QQ rebounded by more than pencilled in and government expenditure accelerated strongly as well, by 5.1%QQ. However, the domestic demand recovery fell to an extent on imports, which increased by 7% compared to the first three months of the year. A 5.8% surge in exports helped to drive up growth, yet this item requires caveating. A share of the export growth does not reflect current economic activity as such, but royalty payments related to chips production, which occurs abroad, that relies on Israeli intellectual property. Since then, incoming data have reinforced the picture of a highly resilient economy. The Bank of Israel has revised up its growth forecasts and now expects headline GDP growth of 5.6% in 2026 and 7.5% in 2027. However, policymakers have also increasingly emphasized that headline growth is overstating underlying domestic momentum because of multinational technology activity booked in Israel but produced overseas. Excluding this component, growth is expected at a still-solid 3.4% this year and 5.1% next year, suggesting that while the economy remains strong, domestic demand conditions are somewhat less exceptional than the headline figures imply.

**Inflation is low and expected to remain benign.** All inflation prints this year were in the lower half of the 1-3% target range, with inflation remaining comfortably contained despite strong economic activity. The latest readings have remained around the middle of the lower half of the target range and price pressures continue to be restrained by a stronger shekel and easing supply-side pressures. We expect inflation to remain close to the 2% midpoint over the coming quarters, with only limited pass-through from higher energy prices and ongoing geopolitical developments. The Bank of Israel's latest forecasts also point to inflation remaining within target throughout the forecast horizon. Our assumption for year-average inflation remains broadly unchanged at 1.8% this year and 1.7% next.

**Monetary policy is in the vicinity of neutral.** The Bank of Israel held the policy rate at 3.25% at its October meeting, in line with our expectation that policymakers would prefer to remain on hold amidst elevated geopolitical uncertainty and ahead of the election. With growth continuing to outperform expectations, wage growth remaining solid and the labour market still tight, the hurdle for further easing has risen. While one additional cut cannot be ruled out should inflation continue to undershoot the midpoint of the target range, the BOI is under no pressure to ease further and could remain on hold for an extended period. Current guidance suggests policymakers are comfortable with maintaining a broadly neutral policy stance while assessing the durability of the current growth upswing.

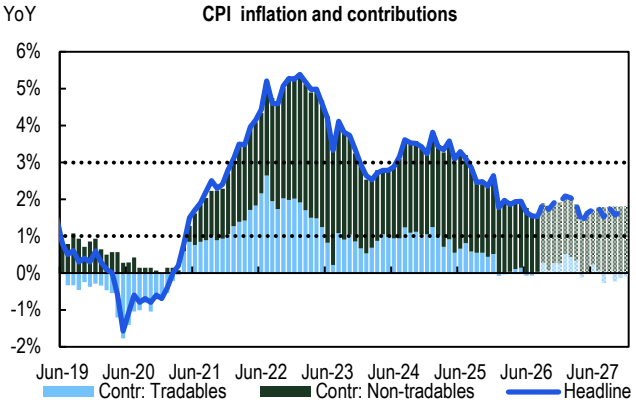
**Israel's parliamentary elections returned an inconclusive result that, on balance, benefits prime minister Netanyahu. (**Reuters, 28 Oct**).** As most polls predicted, neither the governing coalition nor the 'change-bloc' managed to receive the 61 seats necessary for a majority. (The NY Times, 28 Oct). At the time of writing, the final seat distribution is not settled yet, with postal votes not counted. However, the prime minister's Likud party emerged as the single largest party and the governing coalition looks on track for a larger vote share than the change bloc. This could make it politically very difficult for the latter to rely on the support from Arab parties, even though it would yield a majority in the Knesset. We expect a protracted period of attempts to form a government during which the current government remains in office as caretaker. New elections at the end of failed attempts are a plausible outcome.

**Figure 85. The shekel has appreciated considerably**




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Source: Citi Research

**Figure 86. Inflation outlook is accordingly lower**




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Source: Citi Research

**Figure 87. Israel Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 398 | 409 | 486 | 520 | 506 | 542 | 617 | 766 | 857 |
| Population, mn | 9.1 | 9.2 | 9.4 | 9.6 | 9.8 | 9.9 | 10.1 | 10.3 | 10.5 |
| Real GDP, yoy avg | 3.6 | -1.9 | 9.0 | 6.1 | 2.0 | 1.7 | 3.5 | 5.4 | 6.4 |
| Private consumption growth % yoy | 3.9 | -7.5 | 11.1 | 7.2 | -0.5 | 4.2 | 2.9 | 3.7 | 4.7 |
| Real investment growth % yoy | 4.0 | -2.5 | 13.4 | 11.3 | -2.0 | -4.8 | 7.7 | 9.8 | 5.4 |
| Real export growth, % yoy | 3.1 | -3.9 | 14.4 | 8.2 | -1.4 | -3.0 | 8.1 | 16.8 | 14.9 |
| Real import growth, % yoy | 3.2 | -7.6 | 20.1 | 11.5 | -7.3 | -0.6 | 9.0 | 15.7 | 7.7 |
| Net export contribution to growth | 0.0 | 0.9 | -0.9 | -0.7 | 1.6 | -0.7 | 0.0 | 0.6 | 2.4 |
| Unemployment, % of labour force | 3.8 | 4.3 | 5.0 | 3.8 | 3.4 | 3.0 | 3.2 | 3.3 | 3.3 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 11.4 | 15.6 | 13.7 | 11.4 | 12.6 | 16.7 | 12.5 | 18.5 | 20.4 |
| % of GDP | 2.9 | 3.8 | 2.8 | 2.2 | 2.5 | 3.1 | 2.0 | 2.4 | 2.4 |
| Trade balance | -15.1 | -11.3 | -21.5 | -26.6 | -21.5 | -22.7 | -24.8 | -25.0 | -26.1 |
| FDI, net | 8.7 | 16.4 | 8.6 | 11.9 | 8.5 | 4.5 | 14.0 | 13.0 | 11.0 |
| External debt | 103.2 | 129.9 | 160.3 | 155.2 | 144.5 | 147.3 | 167.6 | 207.9 | 232.8 |
| Short-term debt | 43.3 | 47.1 | 68.9 | 67.9 | 67.0 | 69.0 | 71.0 | 71.0 | 71.0 |
| International reserves | 126.0 | 173.3 | 213.0 | 194.2 | 204.7 | 214.6 | 234.8 | 251.5 | 268.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.6 | -11.3 | -4.3 | 0.6 | -4.1 | -6.8 | -4.7 | -3.7 | -3.5 |
| Consolidated gov primary balance | -1.0 | -8.7 | -1.7 | 3.0 | -1.9 | -4.7 | -2.6 | -1.5 | -1.3 |
| Public debt | 59.2 | 71.5 | 68.0 | 60.5 | 60.8 | 64.6 | 64.7 | 62.3 | 60.3 |
| External public debt | 7.9 | 11.5 | 12.7 | 11.0 | 11.7 | 12.4 | 13.3 | 11.9 | 11.7 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 0.6 | -0.7 | 2.8 | 5.3 | 3.0 | 3.2 | 2.6 | 1.9 | 1.7 |
| CPI, %yoy, avg | 0.8 | -0.6 | 1.5 | 4.4 | 4.2 | 3.1 | 3.0 | 1.8 | 1.7 |
| ILS/US$, eop | 3.45 | 3.21 | 3.11 | 3.52 | 3.61 | 3.64 | 3.18 | 3.07 | 2.93 |
| ILS/US$, avg | 3.56 | 3.44 | 3.23 | 3.36 | 3.69 | 3.70 | 3.45 | 3.07 | 2.99 |
| Policy Interest Rate, % eop | 0.25 | 0.10 | 0.10 | 3.25 | 4.75 | 4.50 | 4.25 | 3.00 | 3.00 |
| Long-term yield, %, eop | 0.84 | 0.77 | 1.01 | 3.59 | 3.98 | 4.48 | 3.91 | 3.73 | 3.73 |
| Nominal wages, % yoy | 2.9 | 6.9 | 2.2 | 2.8 | 6.1 | 5.8 | 3.0 | 3.3 | 3.0 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 3.9 | 2.8 | 7.2 | 5.6 | 6.3 | 8.2 | 6.1 | 5.8 | 5.5 |
| CPI, %yoy, avg | 2.5 | 1.9 | 1.8 | 1.6 | 1.9 | 2.0 | 1.6 | 1.7 | 1.7 |
| ILS/US$, eop | 3.18 | 3.14 | 3.00 | 3.07 | 3.07 | 3.04 | 3.01 | 2.97 | 2.93 |
| Policy interest rate, %, eop | 4.25 | 4.00 | 3.75 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

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# Kazakhstan

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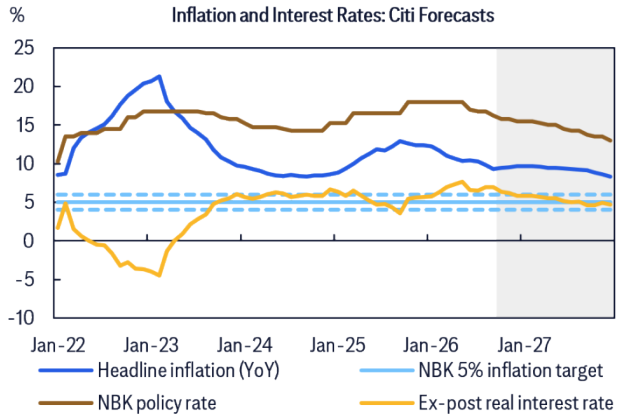
- **Summary view** – Economic growth remains robust, supported by strong domestic demand, investment activity, and fiscal stimulus. Disinflation continues, but its pace is expected to slow, with inflation remaining well above the NBK's 5% target. Despite persistent inflation risks, high real interest rates continue to create room for further cautious monetary easing, and our forecast expects the NBK to cut its policy rate by 25bp to 15.50% in December.

**Economic growth remains robust, although its composition is increasingly shifting away from the extractive sector toward domestic demand, investment, and non-oil sectors.** Real GDP expanded by 4.2% YoY in the first nine months of 2026, supported primarily by construction, manufacturing, transportation, and trade, while the extractive sector continued to face oil production disruptions. NBK data show that the non-extractive economy grew by 5.4% YoY, underscoring the increasing importance of domestic sources of growth. Additional support is coming from an expansionary fiscal stance, including planned transfers from the National Fund and large-scale infrastructure investment projects, which should continue to support both investment activity and domestic demand over the coming quarters. External fundamentals also remain supportive, benefiting from elevated commodity prices, a strong trade surplus, and sustained foreign capital inflows. Citi expects real GDP growth of 4.5% in 2026, followed by only a modest slowdown to 4.4% in 2027, with the economy continuing to benefit from investment activity and fiscal support.

**The disinflation process that began earlier this year is expected to slow noticeably in the coming months, while inflation remains well above the NBK's 5% target.** Headline inflation eased to 9.3% YoY in September, supported by relatively restrictive monetary conditions. A strong tenge has also helped curb imported inflation, particularly for food imports from Russia. However, significant upside risks remain in the form of elevated inflation expectations, increases in administered prices, resilient domestic demand, and planned fiscal and quasi-fiscal stimulus measures. Citi expects inflation to accelerate modestly to 9.6% YoY by the end of 2026 before declining only gradually to 8.3% YoY by end-2027. The inflation outlook is further complicated by the expected depreciation of the tenge during 2027, with USD/KZT projected to move back above 520 by the end of next year.

**Despite the NBK's increasingly cautious communication, the combination of high real interest rates and ongoing disinflation remains consistent with further gradual monetary easing.** Since the beginning of the year, the NBK has reduced its policy rate by a cumulative 225bp to 15.75%, although monetary policy remains restrictive. With the neutral real rate estimated at 3-4%, the current ex-post real policy rate still exceeds 6%, suggesting room for further calibrated easing. The main constraints on a faster easing cycle are expanding fiscal stimulus, planned transfers from the National Fund, and uncertainty surrounding future food-price developments. Nevertheless, we believe that progress on disinflation and the still-restrictive monetary stance will allow the central bank to continue easing policy cautiously. Citi therefore expects a further 25bp rate cut to 15.50% at the December meeting, followed by a significantly slower pace of monetary easing during the first half of 2027.

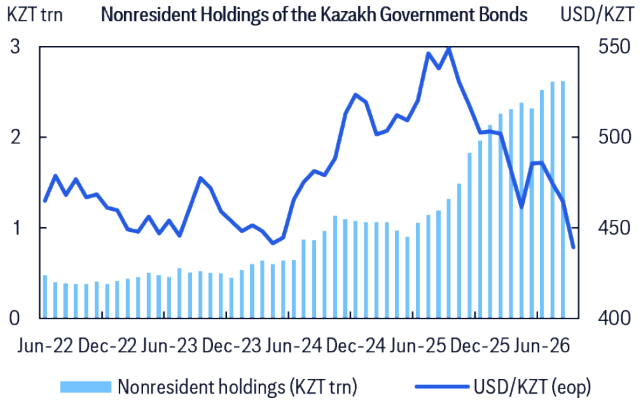
**Figure 88. According to our forecast, the current rapid disinflation process is set to come to a halt**




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Source: Citi Research Forecasts, Haver Analytics

**Figure 89. Tenge appreciation has coincided with rising foreign demand for Kazakh government bonds**




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Source: Citi Research Forecasts, Bloomberg

**Figure 90. Kazakhstan Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 176 | 169 | 193 | 225 | 260 | 284 | 298 | 361 | 383 |
| Population, mn | 18.5 | 18.8 | 19.0 | 19.6 | 19.9 | 20.2 | 20.4 | 20.6 | 20.8 |
| Real GDP, yoy avg | 4.5 | -2.5 | 4.0 | 3.2 | 5.1 | 5.0 | 6.5 | 4.5 | 4.4 |
| Private consumption growth % yoy | 6.1 | -3.7 | 6.3 | 4.0 | 7.6 | 9.6 | 5.9 | 5.1 | 4.5 |
| Real investment growth % yoy | 12.2 | -1.0 | 1.5 | 2.1 | 16.4 | 5.4 | 5.4 | 5.0 | 4.7 |
| Real export growth, % yoy | 2.0 | -11.3 | 2.3 | 9.6 | 1.8 | 0.0 | 5.5 | 8.9 | 5.3 |
| Real import growth, % yoy | 14.9 | -9.0 | -0.3 | 13.1 | 15.6 | 5.8 | 5.0 | 6.5 | 5.9 |
| Net export contribution to growth | -4.7 | -0.2 | 0.8 | -1.8 | -5.5 | -2.5 | -0.5 | 0.0 | -0.9 |
| Unemployment, % of labour force | 4.8 | 4.9 | 4.9 | 4.9 | 4.7 | 4.7 | 4.6 | 4.6 | 4.6 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -7.0 | -11.1 | -2.7 | 6.4 | -8.3 | -6.8 | -11.9 | -1.1 | -11.9 |
| % of GDP | -4.0 | -6.6 | -1.4 | 2.9 | -3.2 | -2.4 | -4.0 | -0.3 | -3.1 |
| Trade balance | 18.4 | 6.0 | 24.2 | 35.0 | 20.2 | 17.5 | 14.2 | 23.8 | 13.0 |
| FDI, net | 5.9 | 5.9 | 1.9 | 7.9 | 2.6 | 3.9 | 5.0 | 6.0 | 6.5 |
| External debt | 59.2 | 61.4 | 67.9 | 67.5 | 70.7 | 73.5 | 76.5 | 79.5 | 82.5 |
| Short-term debt | 8.8 | 9.5 | 12.0 | 16.3 | 19.4 | 19.5 | 19.5 | 19.5 | 19.5 |
| International reserves | 28.2 | 34.8 | 32.1 | 32.9 | 33.7 | 43.6 | 36.7 | 30.8 | 25.2 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Central government balance | -1.3 | -2.5 | -2.8 | -1.8 | -2.1 | -2.6 | -2.5 | -2.5 | -2.3 |
| Central gov primary balance | -0.3 | -1.4 | -1.6 | -0.5 | -0.6 | -1.0 | -0.8 | -0.6 | -0.5 |
| Public debt | 19.0 | 23.9 | 22.8 | 21.3 | 21.0 | 22.6 | 22.4 | 22.0 | 21.8 |
| External public debt | 8.6 | 9.9 | 9.0 | 7.6 | 6.0 | 6.2 | 5.6 | 5.5 | 5.4 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 5.4 | 7.5 | 8.4 | 20.3 | 9.8 | 8.6 | 12.3 | 9.8 | 8.2 |
| CPI, %yoy, avg | 5.2 | 6.8 | 8.0 | 14.9 | 14.8 | 8.7 | 11.4 | 10.4 | 9.1 |
| KZT/US$, eop | 383 | 421 | 435 | 463 | 455 | 525 | 507 | 481 | 522 |
| KZT/US$, avg | 383 | 413 | 427 | 460 | 456 | 468 | 521 | 480 | 504 |
| Policy Interest Rate, % eop | 9.25 | 9.00 | 9.75 | 16.75 | 15.75 | 15.25 | 18.00 | 16.00 | 13.00 |
| Long-term yield, %, eop | - | - | - | - | - | - | - | - | - |
| Nominal wages, % yoy | 14.9 | 13.3 | 17.9 | 23.4 | 17.3 | 11.1 | 10.3 | 9.5 | 8.1 |

| **Quarterly Economic Indicators** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 6.5 | 3.0 | 4.1 | 4.3 | 4.5 | 4.7 | 5.0 | 4.8 | 4.4 |
| CPI, %yoy, avg | 12.4 | 11.6 | 10.5 | 9.9 | 9.7 | 9.7 | 9.4 | 9.1 | 8.4 |
| KZT/US$, eop | 507 | 477 | 480 | 440 | 481 | 482 | 500 | 511 | 522 |
| Policy interest rate, %, eop | 18.00 | 18.00 | 17.00 | 16.25 | 16.00 | 15.25 | 14.50 | 13.75 | 13.00 |

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Source: Citi Research, National Sources

# Nigeria

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- **Summary view** — Nigeria continues to be relatively isolated from ongoing conflict in the Middle East given it is an oil and gas exporter, and has both new refining capacity and a large fertilizer facility to meet domestic demand.

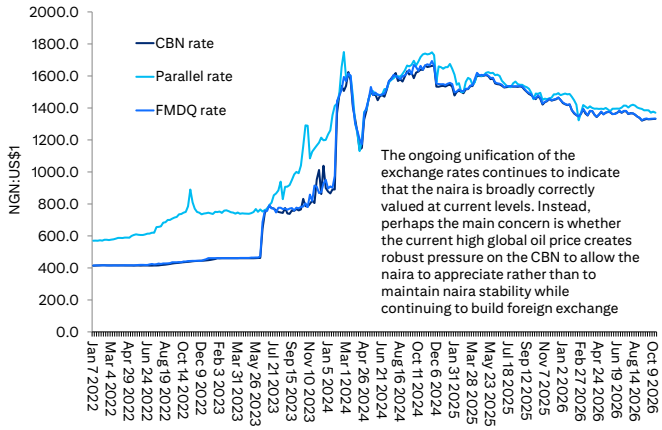
**However, ongoing problems with agricultural production have kept inflation elevated in 2026 given that food accounts for just over 40% of the consumer price index**. While inflation is set to ease in the coming months as a delayed domestic harvest hits the market, it may well pick up in early 2027 due to base effects. All this means that although the Central Bank of Nigeria (CBN) cut its Monetary Policy Rate (MPR) by 350 basis points to 23% in September –normalizing policy to some extent - it may now be reluctant to cut significantly again until inflation starts to decline more significantly from Q2 2027; although it is possible that it can continue with a cautious reduction of the MPR towards the end of this year and early next, for example by continuing to make 50 basis points cuts to signal the overall direction of monetary policy. Meanwhile, with a relatively high global oil price and with Nigeria continuing to run a large current account surplus we think ongoing concerns about excess domestic liquidity means that a cut in the very high Cash Reserve Ratio (CRR) is unlikely any time soon.

**With a high global oil price a broad positive for the Nigerian naira (NGN) we have seen considerable exchange rate stability this year**. In fact, the more important policy concern for the CBN has been to limit appreciation, although in recent months it has allowed some modest appreciation potentially to help support low imported food price inflation. In addition, a range of other factors have helped support the naira, notably improved market liquidity following the introduction of the CBN's B Match platform in 2024 and the introduction of the 2026 foreign exchange manual which clarifies the status of many transactions. Moreover, the CBN has also moved closer to fully paying down its foreign exchange swops, while the flow of foreign exchange through the NNPC to the CBN has also picked up following the ending of the petrol price subsidy and with modest rises in oil production. In the light of these broad trends, we expect the CBN to continue to actively build gross foreign exchange reserves in the rest of 2026, which has seen them rise from US$45.5bn at the end of 2025 to US$54.9bn at the end of September.

**Higher global oil prices will also boost Federal government revenue although overall we do not expect a significant narrowing of the Federal government fiscal deficit**. However, it is also unlikely that the government has the capacity to embark on any major spending in a pre-election year given its substantial capacity constraints. Instead, rising revenue transfers to the states caused by the high global oil price will boost their financial position, and the CBN's concerns about excess liquidity, and is probably the most likely area where spending is increased significantly in the run up to the polls.

In addition to broad exchange rate stability and falling inflation, the recently revised GDP data now shows that economic growth has gained some momentum since 2025. Largely real GDP growth has been in a 3.5-4.5% range during this time. Moreover, arguably this combination of macroeconomic trends creates a relatively positive economic backdrop for the incumbent president, Bola Tinubu, as Nigeria heads to national elections currently scheduled for mid-January 2027. However, as politics becomes increasingly important, it also means that structural economic reform efforts are likely to wane, especially now the CBN has completed its current banking exercise but should pick up again following the election in 2H 2027.

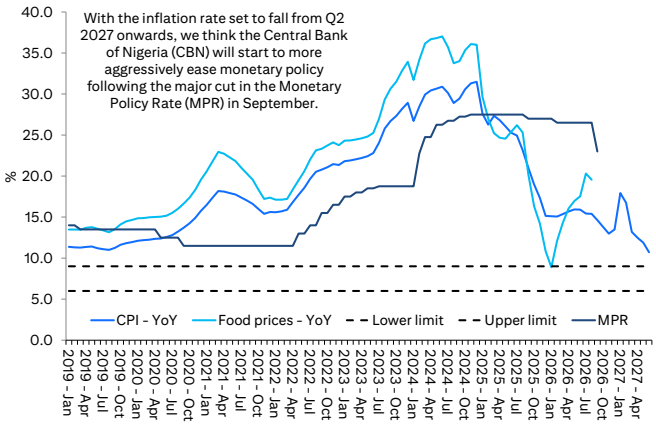
**Figure 91. High global oil prices means that the naira is set to remain broadly stable in 2026 and into 2027**




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Source: Citi Research, Haver Analytics

**Figure 92. We now expect the CBN to more aggressively cut the Monetary Policy Rate (MPR) in 2027**




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Source: Citi Research, Haver Analytics

**Figure 93. Nigeria Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 448 | 429 | 441 | 477 | 488 | 252 | 313 | 419 | 488 |
| Population, mn | 201.0 | 206.2 | 211.5 | 216.9 | 222.3 | 227.9 | 233.4 | 239.2 | 244.9 |
| Real GDP, yoy avg | 2.2 | -1.8 | 3.6 | 3.3 | 3.3 | 4.1 | 4.3 | 4.6 | 5.2 |
| Private consumption growth % yoy | -1.0 | -1.7 | 26.4 | -3.5 | -10.2 | - | - | - | - |
| Real investment growth % yoy | 6.0 | -14.0 | 4.5 | 3.5 | 5.0 | - | - | - | - |
| Real export growth, % yoy | 15.3 | -31.4 | -34.8 | 67.4 | 30.4 | - | - | - | - |
| Real import growth, % yoy | 27.6 | -62.0 | 44.4 | 53.7 | -18.4 | - | - | - | - |
| Net export contribution to growth | 1.4 | -1.7 | -9.9 | 5.5 | 8.7 | - | - | - | - |
| Unemployment, % of labour force | - | - | - | - | - | - | - | - | - |
| **External (US$bn)** | | | | | | | | | |
| Current account | -13.7 | -16.0 | -3.1 | 3.7 | 5.6 | 19.2 | 14.0 | 28.3 | 24.6 |
| % of GDP | -3.1 | -3.7 | -0.7 | 0.8 | 1.2 | 7.6 | 4.5 | 6.8 | 5.0 |
| Trade balance | 2.9 | -16.4 | -4.6 | 6.0 | 8.1 | 13.2 | 14.5 | 30.0 | 26.9 |
| FDI, net | 2.0 | 0.9 | 1.5 | -1.9 | 1.6 | 1.2 | 2.8 | 3.1 | 4.1 |
| External debt | 27.7 | 33.3 | 38.4 | 41.7 | 42.5 | 45.8 | 48.5 | 56.8 | 58.1 |
| Short-term debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International reserves | 38.6 | 36.5 | 40.2 | 37.1 | 32.9 | 40.9 | 45.5 | 60.2 | 66.6 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.4 | -2.9 | -3.7 | -3.4 | -3.8 | -3.3 | -2.9 | -2.9 | -2.8 |
| Consolidated gov primary balance | -1.2 | -1.4 | -1.9 | -1.4 | -1.3 | -0.5 | -0.1 | -0.2 | -0.3 |
| Public debt | 9.9 | 12.1 | 13.1 | 13.5 | 19.1 | 30.5 | 28.5 | 24.7 | 22.9 |
| External public debt | - | - | - | - | - | - | - | - | - |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 12.0 | 15.8 | 15.6 | 21.3 | 28.9 | 15.4 | 15.2 | 13.5 | 10.8 |
| CPI, %yoy, avg | 11.4 | 13.2 | 17.0 | 18.8 | 24.7 | 31.4 | 23.0 | 14.9 | 11.9 |
| NGN/US$, eop | 307 | 381 | 412 | 448 | 882 | 1,544 | 1,445 | 1,315 | 1,390 |
| NGN/US$, avg | 307 | 356 | 400 | 423 | 593 | 1,439 | 1,519 | 1,353 | 1,361 |
| Policy Interest Rate, % eop | 13.50 | 11.50 | 11.50 | 16.50 | 18.75 | 27.50 | 27.00 | 23.00 | 17.00 |
| Long-term yield, %, eop | 11.75 | 5.59 | 12.47 | 14.28 | 15.05 | 21.44 | 16.34 | 16.50 | 14.00 |
| Nominal wages, % yoy | - | - | - | - | - | - | - | - | - |

| **Quarterly Economic Indicators** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 4.0 | 3.9 | 4.5 | 4.7 | 4.6 | 4.1 | 5.8 | 5.0 | 5.2 |
| CPI, %yoy, avg | 20.1 | 15.2 | 15.8 | 15.1 | 13.4 | 15.9 | 11.7 | 9.6 | 10.5 |
| NGN/US$, eop | 1,445 | 1,386 | 1,367 | 1,329 | 1,315 | 1,330 | 1,365 | 1,380 | 1,390 |
| Policy interest rate, %, eop | 27.00 | 26.50 | 26.50 | 23.00 | 23.00 | 23.00 | 20.00 | 17.00 | 17.00 |

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Source: Citi Research, National Sources

# Poland

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- **Summary view –** Inflation is likely to hover around 4% YoY throughout 4Q26 and could rise even above 5% in early 2027 should the government not try to limit fuel or energy prices. Monetary policy is heading towards tightening, though the rate-setters may want to wait for further developments to assess the near-term inflation prints against the medium-term expectations. Economic activity likely held strong in 3Q26 and we see upside risks to our full-year GDP growth forecasts of 3.6%.

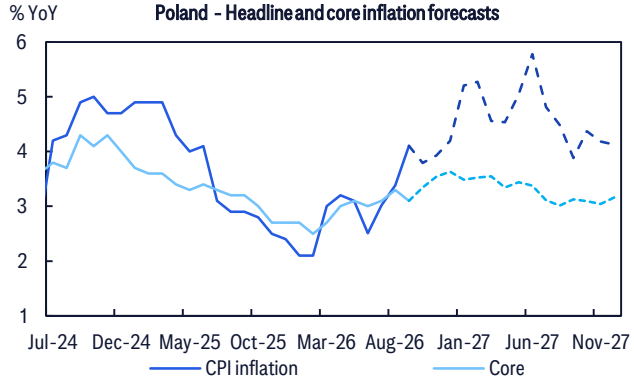
**Headline inflation in Poland increased above 4% YoY target in September, but further upwards move may be stalled as in October government re-introduced measures to limit fuel prices.** Until year-end we expect the headline inflation to hover around 4% YoY as the government measures (lower VAT and excise tax on fuel as well as mechanism of setting maximum retail prices) are supposed to last until the end of December. The unknown part is the future of government measures from January 2027 onwards, which likely depends on prevailing situation in the commodities market as well as concerns of impact over public finances (with 4Q27 programme being financed by windfall tax on oil firms). Additionally, the rise in natural gas prices may affect the energy regulator's decision on energy tariffs. Should there be no freeze of tariffs and the measures on fuel prices will expire, the headline inflation could rise even above 5% in January. As far as core inflation is concerned, we see the indicator excluding food, energy and fuel hovering around 3.5% YoY in the next couple of months, though broader measures of core inflation are experiencing strong rise in momentum, exceeding 10% 3MMA SA annualized.

**Although the Monetary Policy Council opted to present a cautious stance at its October meeting, we believe that monetary policy tightening is a matter of time.** Governor Glapinski suggested in October that MPC is in a wait-and-see mode and the introduction of fuel tax cuts gave the policymakers more room to maneuver. Some policymakers are still seeing room for rate hikes before year-end, with the upcoming inflation releases as well as NBP's November update of macroeconomic projections being key points in the rates decisions. We perceive the November meeting as a close call with the outlook presented at October MPC meeting being the main argument for keeping rates on hold. Nevertheless, we believe that inflation outlook as well as actions by other central banks should provide further justification for policy tightening, as we see at least 50bps worth of rate hikes by 1H26.

**Economic activity in Poland remains resilient as we expect GDP growth in 3Q26 remain robust, at around 3.5% YoY.** Our nowcast based on monthly frequency data is suggesting a growth close to 3.5% YoY in Q3, where weakness in construction sector was somewhat countered by robust industrial output. Consumer confidence is holding well and retail sales (excluding fuel, where government measures are the driving force lately) are reflecting strong private demand. Trend in wages growth is holding close to 6% YoY with little signs of underlying weakness in the labour market so far. The full year GDP growth may prove, however, higher than our current forecast of 3.6% (even close to 4%) following the most recent revision of quarterly GDP growth profile, where growth in each quarter from Q1 2025 to Q2 2026 was raised by 0.2pp.

**Fiscal outlook remains the key risk in near- and medium-term.** The general government deficit is running close to 7% of GDP and the most recent data is providing little hope for significant improvement (other than stemming from nominal GDP growth or lack of increase in personal income tax brackets). Given the tense budget stance, we believe the room for fiscal stimuli ahead of parliamentary election next year is very small.

**Figure 94. Inflation may decline slightly in 4Q26, but is likely to rise in early 2027**




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Source: Citi Research Forecasts, Statistics Poland

**Figure 95. GDP growth is holding strong, with full year growth likely heading for the upper band of 3.5-4% range**




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Source: Citi Research Estimates, Statistics Poland

**Figure 96. Poland Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 596 | 600 | 690 | 697 | 813 | 918 | 1,038 | 1,099 | 1,169 |
| Population, mn | 38.4 | 38.1 | 37.9 | 37.8 | 37.6 | 37.5 | 37.4 | 37.4 | 37.4 |
| Real GDP, yoy avg | 4.4 | -2.0 | 6.9 | 5.3 | 0.2 | 3.0 | 3.6 | 3.6 | 3.1 |
| Private consumption growth % yoy | 3.5 | -3.6 | 6.2 | 5.0 | -0.3 | 2.9 | 3.7 | 2.7 | 2.6 |
| Real investment growth % yoy | 0.5 | -7.5 | 19.4 | 7.7 | -16.6 | 4.7 | 4.8 | 5.6 | 1.7 |
| Real export growth, % yoy | 5.3 | -1.1 | 12.3 | 7.4 | 3.7 | 2.0 | 4.5 | 7.2 | 4.2 |
| Real import growth, % yoy | 3.2 | -2.4 | 16.3 | 6.8 | -1.5 | 4.5 | 5.6 | 7.1 | 3.2 |
| Net export contribution to growth | 1.7 | 0.8 | -1.9 | 0.8 | 4.1 | -1.7 | -0.5 | 0.6 | 1.1 |
| Unemployment, % of labour force | 5.2 | 6.8 | 5.8 | 5.2 | 5.1 | 5.1 | 5.7 | 5.8 | 5.7 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -1.6 | 14.4 | -9.2 | -15.7 | 12.5 | 2.8 | -8.9 | -17.2 | -22.1 |
| % of GDP | -0.3 | 2.4 | -1.3 | -2.2 | 1.5 | 0.3 | -0.9 | -1.6 | -1.9 |
| Trade balance | -4.9 | 7.9 | -9.1 | -23.2 | 5.1 | -6.7 | -15.2 | -24.5 | -28.8 |
| FDI, net | 13.7 | 14.8 | 27.3 | 29.3 | 23.3 | 10.6 | 12.6 | 13.0 | 13.0 |
| External debt | 355.8 | 378.1 | 367.0 | 375.2 | 432.1 | 461.4 | 544.2 | 590.3 | 635.3 |
| Short-term debt | 57.0 | 61.3 | 62.4 | 66.6 | 74.9 | 82.1 | 78.8 | 83.0 | 88.0 |
| International reserves | 128.4 | 154.2 | 166.0 | 166.7 | 193.8 | 223.1 | 271.1 | 286.7 | 300.8 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -0.7 | -6.9 | -1.7 | -3.4 | -5.2 | -6.5 | -7.3 | -7.1 | -7.3 |
| Consolidated gov primary balance | 0.6 | -5.6 | -0.6 | -1.8 | -3.1 | -4.3 | -4.8 | -4.2 | -4.2 |
| Public debt | 42.8 | 47.1 | 43.2 | 39.0 | 38.9 | 43.9 | 48.9 | 55.1 | 57.4 |
| External public debt | 21.8 | 22.3 | 17.4 | 17.1 | 17.5 | 17.9 | 24.0 | 25.9 | 27.3 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 3.4 | 2.4 | 8.6 | 16.6 | 6.2 | 4.7 | 2.4 | 4.2 | 4.1 |
| CPI, %yoy, avg | 2.3 | 3.4 | 5.1 | 14.3 | 11.5 | 3.6 | 3.6 | 3.2 | 4.7 |
| PLN/EUR, eop | 4.25 | 4.56 | 4.59 | 4.69 | 4.34 | 4.28 | 4.22 | 4.41 | 4.36 |
| PLN/EUR, avg | 4.30 | 4.44 | 4.57 | 4.68 | 4.54 | 4.31 | 4.24 | 4.34 | 4.37 |
| Policy Interest Rate, % eop | 1.50 | 0.10 | 1.75 | 6.75 | 5.75 | 5.75 | 4.00 | 3.75 | 4.25 |
| Long-term yield, %, eop | 2.07 | 1.25 | 3.71 | 6.88 | 5.25 | 5.89 | 5.18 | 6.10 | 5.30 |
| Nominal wages, % yoy | 6.5 | 4.7 | 8.8 | 13.0 | 11.9 | 11.0 | 8.1 | 5.9 | 5.5 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 4.3 | 3.7 | 4.1 | 3.5 | 3.3 | 3.3 | 3.1 | 3.0 | 3.0 |
| CPI, %yoy, avg | 2.6 | 2.4 | 2.9 | 3.5 | 4.0 | 5.0 | 5.1 | 4.4 | 4.2 |
| PLN/EUR, eop | 4.22 | 4.29 | 4.23 | 4.36 | 4.41 | 4.39 | 4.38 | 4.36 | 4.36 |
| Policy interest rate, %, eop | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 | 4.00 | 4.25 | 4.25 | 4.25 |

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Source: Citi Research, National Sources

# Romania

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- **Summary view** — A deteriorating inflation outlook, recent currency depreciation, and uncertainty in the global environment will likely keep the NBR's policy rate unchanged until 2Q27

**Following more than five months of political impasse, a new government has been formed under the leadership of Luca Niculescu, a politically unaffiliated diplomat, which we view as modestly positive for sentiment.** (Politico, 20 Oct). His cabinet combines technocrats with ministers from the Social Democrats, and continuity is preserved with Finance Minister Alexandru Nazare remaining in his post. In his governing program, Niculescu committed to stick to the plan agreed with Brussels to bring the deficit down to below 3% of GDP by 2030, mostly via measures to reduce tax fraud and improve revenue collection.

**The near-term catalyst to watch is the 2027 budget and its execution.** We expect the 2027 budget deficit target to be set at around 5.7% of GDP, consistent with the government's medium-term fiscal plan agreed with the European Commission — a target we view as credible and within reach. On execution, we anticipate a moderate acceleration in expenditures in the coming months; however, strong budget overperformance in the first four months of the year has created fiscal space for some expansionary measures through year-end without jeopardizing the headline target.

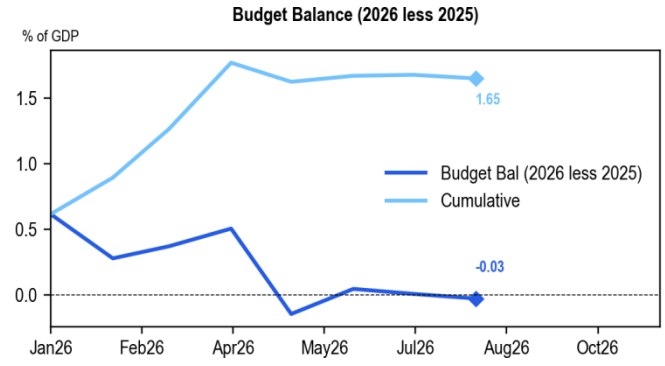
**We believe the new government's actions could be viewed as sufficient by rating agencies in early 2027.** Reducing the deficit to 5.7% of GDP in 2027 looks achievable without additional revenue measures, provided policy execution remains strong and real GDP growth rebounds above 2%. Nonetheless, we believe that narrowing the deficit further to around 5% of GDP in 2028 will be considerably more challenging without new measures, posing a key medium-term risk. Combined with 2028 being an election year, this raises the potential for renewed political volatility, particularly in the second half of 2027 — a factor worth monitoring for positioning in Romanian assets.

**Growth data point to a slight rebound in 3Q after a flat 1H**. Industrial production growth averaged 0.2% MoM in the first two months of 3Q, versus a 0.8% MoM average decline in 1H, while retail trade growth averaged 1.5% MoM over the same period, reversing a 0.6% MoM average drop in 1H. Investment activity should remain a key growth driver going forward, supported by rising EU fund inflows. We expect QoQ growth to recover to about 0.5% QoQ in both Q3 and Q4 from roughly zero in 1H, and we maintain our full-year growth forecast at -0.9% YoY.

**Inflation accelerated from 6.17% in August to 6.61% YoY in September amid relatively elevated non-food goods (7.06%) and services (11.12%), and benign food inflation (3.0%)**. The diffusion index points to an improving inflation outlook amid a negative output gap and easing cost-push pressures. However, recent currency depreciation and elevated energy inflation could slow disinflation. Against this backdrop, we forecast year-end inflation at around 6.7% YoY, with risks tilted to the upside amid continued energy-price uncertainty.

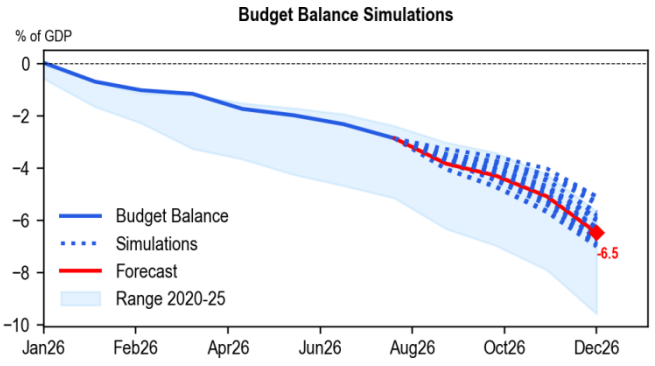
**The current account deficit widened to €19.9bn in the first eight months of the year, from €19.0bn over the same period in 2025**. The deterioration reflected weaker income and merchandise balances, partly offset by an improvement in services. We maintain our full-year current account deficit forecast at 7.8% of GDP. (link). On the currency, we expect EURRON to remain broadly stable through year-end, closing at around 5.38.

**Figure 97. Strong budget execution to date has created....**




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Source: Citi Research, Haver Analytics

**Figure 98. ... room for moderate expansionary policies**




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**Figure 99. Romania Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 248 | 249 | 284 | 294 | 348 | 383 | 438 | 456 | 473 |
| Population, mn | 19.5 | 19.4 | 19.4 | 19.2 | 19.0 | 19.1 | 19.1 | 19.0 | 18.9 |
| Real GDP, yoy avg | 4.0 | -3.6 | 5.6 | 4.2 | 2.3 | 0.9 | 0.7 | -0.9 | 2.6 |
| Private consumption growth % yoy | 3.1 | -3.6 | 7.0 | 5.4 | 2.5 | 5.7 | 0.6 | -1.0 | 2.5 |
| Real investment growth % yoy | 14.9 | -0.5 | 4.0 | 5.4 | 12.3 | -2.5 | 4.1 | 3.7 | 3.8 |
| Real export growth, % yoy | 5.4 | -9.5 | 12.6 | 9.3 | -1.3 | -2.5 | 3.9 | 1.5 | 2.7 |
| Real import growth, % yoy | 8.8 | -5.2 | 14.6 | 9.3 | -1.5 | 4.0 | 4.8 | 1.8 | 2.5 |
| Net export contribution to growth | -1.5 | -1.5 | -1.4 | -0.5 | 0.2 | -3.0 | -0.5 | -0.3 | -0.1 |
| Unemployment, % of labour force | 4.9 | 6.0 | 5.6 | 5.6 | 5.6 | 5.5 | 6.1 | 6.5 | 6.5 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -12.2 | -12.8 | -20.6 | -28.2 | -23.3 | -31.1 | -34.3 | -35.6 | -33.1 |
| % of GDP | -4.9 | -5.1 | -7.3 | -9.6 | -6.7 | -8.1 | -7.8 | -7.8 | -7.0 |
| Trade balance | -20.0 | -21.6 | -27.4 | -33.7 | -31.5 | -35.5 | -37.4 | -41.5 | -41.1 |
| FDI, net | 5.4 | 3.4 | 10.5 | 9.8 | 6.9 | 5.1 | 8.7 | 7.8 | 9.5 |
| External debt | 127.1 | 149.6 | 167.9 | 160.9 | 198.3 | 220.2 | 263.8 | 271.3 | 280.8 |
| Short-term debt | 40.8 | 40.9 | 44.2 | 48.0 | 51.4 | 49.2 | 56.6 | 51.5 | 49.5 |
| International reserves | 42.0 | 52.2 | 51.9 | 55.6 | 73.4 | 73.5 | 90.5 | 86.7 | 88.5 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -4.4 | -9.3 | -7.2 | -6.5 | -6.6 | -9.3 | -7.9 | -6.5 | -5.8 |
| Consolidated gov primary balance | -3.2 | -7.9 | -5.7 | -4.4 | -4.7 | -7.2 | -5.3 | -4.0 | -3.3 |
| Public debt | 35.1 | 46.7 | 48.5 | 47.5 | 48.8 | 56.2 | 58.4 | 62.0 | 63.4 |
| External public debt | - | - | - | - | - | - | - | - | - |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 4.0 | 2.1 | 8.2 | 16.4 | 6.6 | 5.1 | 9.7 | 6.7 | 4.0 |
| CPI, %yoy, avg | 3.8 | 2.6 | 5.0 | 13.7 | 10.5 | 5.6 | 7.3 | 8.5 | 5.0 |
| RON/EUR, eop | 4.79 | 4.86 | 4.95 | 4.94 | 4.97 | 4.97 | 5.10 | 5.38 | 5.48 |
| RON/EUR, avg | 4.75 | 4.84 | 4.92 | 4.93 | 4.95 | 4.97 | 5.04 | 5.25 | 5.44 |
| Policy Interest Rate, % eop | 2.50 | 1.50 | 1.75 | 6.75 | 7.00 | 6.50 | 6.50 | 6.50 | 5.50 |
| Long-term yield, %, eop | 4.41 | 2.97 | 5.14 | 8.19 | 6.23 | 7.37 | 6.72 | 6.86 | 6.38 |
| Nominal wages, % yoy | 14.9 | 6.7 | 7.1 | 12.2 | 15.4 | 13.4 | 6.5 | 4.5 | 6.3 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | -1.0 | -1.9 | -1.9 | -1.3 | 0.9 | 2.1 | 2.4 | 2.7 | 3.0 |
| CPI, %yoy, avg | 9.7 | 9.6 | 10.7 | 7.0 | 6.8 | 6.1 | 5.5 | 4.7 | 3.9 |
| RON/EUR, eop | 5.10 | 5.10 | 5.25 | 5.27 | 5.38 | 5.41 | 5.43 | 5.46 | 5.48 |
| Policy interest rate, %, eop | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.00 | 5.50 | 5.50 |

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# Serbia

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- **Summary view** — We expect the NBS to keep the policy rate unchanged through 1H'27, given the above-target inflation outlook and considerable uncertainty surrounding global economic conditions.

**Preliminary results show the Student List winning Serbia's parliamentary elections with 52.5% of the vote, versus 39.3% for Vucic's United Serbia list (B92, October 26, 2026).** We think there could be some uncertainty over policy visibility during the transition, as the Student List has no clear leader, decision-making is opaque, and the process for forming a cabinet remains undefined. Its agenda centers on anti-corruption and anti-monopoly reform, including a review of major contracts from the Vucic era, which could create near-term uncertainty for state-linked concessions and contracts. Foreign policy, however, is likely to remain broadly unchanged, with the Student List opposing sanctions against Russia and continuing Serbia's refusal to recognize Kosovo's independence, limiting the prospect of a material near-term shift in the country's geopolitical risk profile (Bloomberg, October 25, 2026).

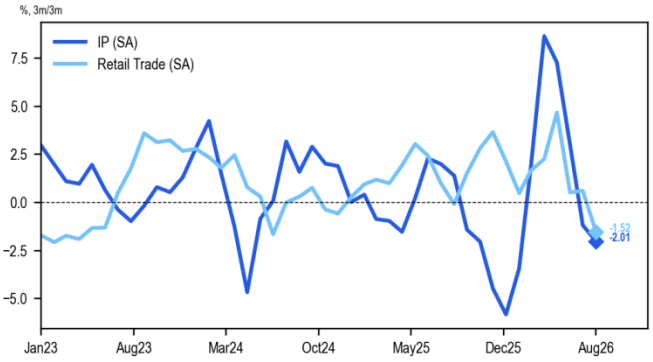
**Leading indicators support our view that growth will moderate in Q3 amid drought and lower water levels, following robust 1.5% QoQ growth in Q2.** Industrial production fell 2.3% (3m/3m) in August, versus a 2.1% rise in Q2, while retail trade fell 1.5% (3m/3m), versus a 0.5% rise in Q2. Subdued employment growth, down 0.5% (3m/3m) in August, reinforces this outlook. On a more positive note, the broad-based recovery in sentiment indicators in recent months, together with continued robust lending activity despite some moderation from recent highs, points to an improving outlook. This, coupled with stronger investment underpinned by the government's "Leap into the Future: Serbia Expo 2027" program, this could keep growth on a solid footing into early 2027. Against this backdrop, we maintain our 2026 full-year GDP growth forecast at 3.4%

**Inflation rose sharply to 4.1% YoY in September from 2.2% YoY in August, due mainly to unfavorable base effects stemming from the decree capping trade margins in September 2025.** A closer look at monthly price developments in September points to an above-norm MoM increase in food and transportation, amid relatively benign inflation readings in services categories such as health and restaurants/accommodation. It is worth noting that, as also highlighted by the NBS, the reduction in excise duties on petroleum products and the use of available energy reserves have helped mitigate more pronounced effects on petroleum product prices. Looking ahead, we project inflation to close the year at 4.4% YoY, remaining at or above 4.0% YoY through the first half of 2027.

**The current account deficit narrowed to EUR 2.1bn in the first eight months of the year, from EUR 2.5bn over the same period in 2025, marking a meaningful improvement**. The adjustment was primarily driven by a EUR 0.4bn improvement in the goods balance, supported by stronger motor vehicle exports, and a EUR 0.5bn increase in remittances, partially offset by a EUR 0.6bn widening in the primary income deficit. Against this backdrop, we slightly revise our 2026 current account deficit forecast to 4.3% of GDP, from 4.5% of GDP previously, and narrower than the 4.7% recorded in 2025. On the financing side, portfolio investments remained the dominant source of external financing in the first eight months, at EUR 4.4bn, followed by FDI at EUR 1.3bn.

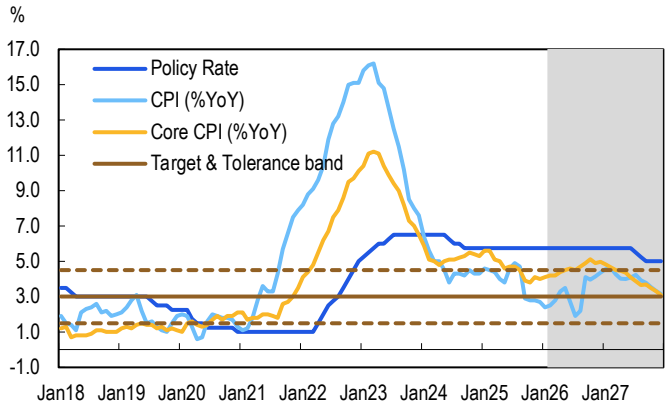
**We maintain our view that the NBS will keep its key policy rate on hold through the first half of 2027.** This stance is underpinned by an above-target inflation outlook and considerable uncertainty surrounding global economic conditions.

**Figure 100. Following 1.5% QoQ (SA) growth in 2Q, high-frequency indicators point to a deceleration in activity in 3Q**




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Source: Haver Analytics, Citi Research

**Figure 101. The NBS is likely to hold rates steady, primarily on account of an above-target inflation outlook**




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Source: Haver Analytics, Citi Research

**Figure 102. Serbia Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| Nominal GDP, USD bn | 53.9 | 55.9 | 66.2 | 66.8 | 81.4 | 90.1 | 95.3 | 104.6 | 113.2 |
| GDP per capita, USD | 7,765 | 8,087 | 9,615 | 9,749 | 11,919 | 13,256 | 14,070 | 15,456 | 16,726 |
| Real GDP, yoy avg | 4.8 | -1.0 | 7.9 | 2.7 | 3.7 | 3.9 | 2.0 | 3.4 | 3.3 |
| CPI, %yoy, eop | 1.9 | 1.3 | 7.9 | 15.1 | 7.6 | 4.3 | 2.7 | 4.4 | 3.1 |
| CPI, %yoy, avg | 1.9 | 1.6 | 4.1 | 11.9 | 12.5 | 4.7 | 3.9 | 3.2 | 4.0 |
| Policy Interest Rate, % eop | 2.25 | 1.00 | 1.00 | 5.00 | 6.50 | 5.75 | 5.75 | 5.75 | 5.00 |
| RSD/EUR, eop | 118 | 118 | 118 | 117 | 117 | 117 | 117 | 118 | 118 |
| RSD/EUR, avg | 118 | 118 | 118 | 117 | 117 | 117 | 117 | 117 | 118 |
| Current account, US$bn | -3.5 | -2.2 | -2.7 | -4.4 | -2.0 | -4.1 | -4.5 | -4.5 | -5.3 |
| Current account, % of GDP | -6.6 | -3.9 | -4.1 | -6.6 | -2.4 | -4.5 | -4.7 | -4.3 | -4.7 |
| Consolidated government balance (% of GDP) | -0.2 | -7.7 | -3.9 | -3.0 | -2.1 | -2.0 | -2.4 | -3.0 | -3.0 |

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# South Africa

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- **Summary view** – GDP growth looks marginally higher this year at 1.2% with an inflation profile that remains high relative to target. Fiscal and monetary policy could create higher potential for a credit ratings upgrade in coming months.

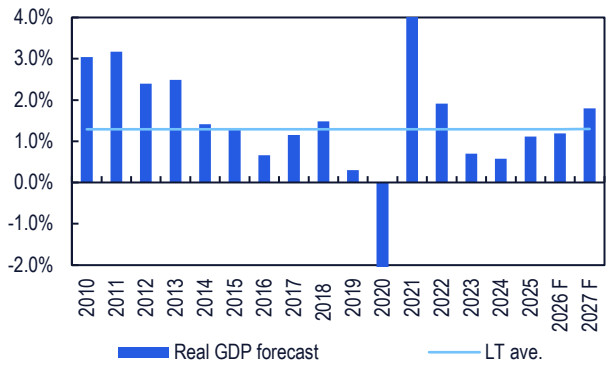
**It was necessary to downgrade our real GDP forecast after the Middle East conflict persisted, pushing inflation higher and causing lower confidence. This leaves 2026 GDP growth forecasted only slightly higher than 2025, at 1.2%, rising into 2027.** A key reason for the downgrade was higher inflation owing to first- and second-round effects from rising oil prices, the larger diesel spreads impacting fuel prices in supply chains further, and the threat of El-Nino. Any inflation shock means that economics variables such as household consumption lose the cyclical tailwind it would otherwise have enjoyed. We also believe that until geopolitical uncertainty subsides more, some structural factors will likely take longer, which places the private sector investment environment on hold. This is despite the reform story in South Africa remaining constructive in our view.

**Oil prices remain volatile, layering and amplifying supply side shocks.** This means that on top of the fuel inflation already experienced, CPI will likely peak in Q4 26, at 4.9%, given second round effects emerging. A secondary concern is the sudden rise in the refined fuel crack that passes to end fuel prices given South Africa has to import both oil and refined fuel products. Add to this an additional upside risk in food inflation from both the possibility of a harsh El Nino in Q4 26 and concerns from producers about meat supply. A substantial maize crop carry-over together with significant economies of scale among domestic food retailers means that food prices remain only an upside risk to the outlook however, we are monitoring these prices carefully. Overall, we forecast inflation averaging 4.2% in 2026 – up from 3.2% in 2025. By 2027 we should see CPI back on a downward trajectory with a year-end in 2027 of 3.6% as CPI heads towards target. The new lower inflation target of 3.0% with a +-1pp tolerance band means the SARB will struggle to tolerate a sustained breach leaving our baseline view of no more hikes with upside risk. The pause in the fuel price levy in November and December helps to ease off a more hawkish stance for now, however.

**Treasury has now provided fuel price levy relief twice this year, and importantly, contained fiscal risk in a credible manner.** Both fuel price levy pauses have been budget-neutral given areas of revenue and expenditure that can compensate for the cost. National Treasury has built up significant credibility over the years, resulting in a recent S&P ratings upgrade and positive outlook, and Moody's positive outlook. Treasury maintains a continued focus on debt stabilization with a legislated fiscal anchor being tabled. The objective that debt to GDP peaked in FY25/26 remains and continued fiscal discipline and a shift to infrastructure in the spending mix suggests another ratings upgrade is coming. We place a 35%-40% probability on an upgrade by end-November and a 60% probability on an upgrade by May next year.

**Year-end municipal elections in focus.** That said, we are not overly concerned that the election will result in any credibility issues around the GNU. Instead, the outcome will be important for the 2027 year-end ANC leadership election and ultimately, the 2029 national elections. After the election results from 4 November, the municipalities have two weeks to create coalitions and elect mayors. The DA is leading according to polls. (Reuters, 26 Oct)

**Figure 103. Real GDP growth held by domestic reforms**

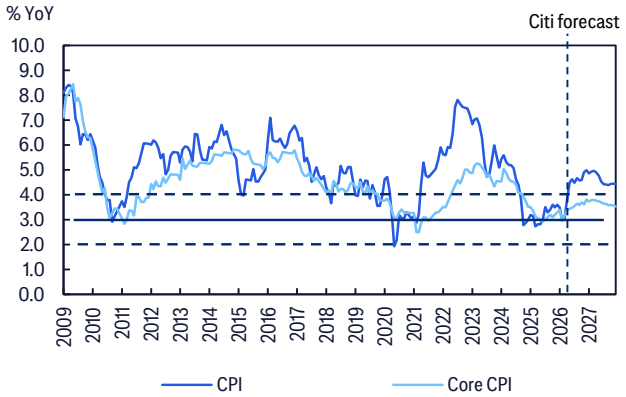



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2020: -6.2%; 2021: +5.0%

Source: Citi Research, StatsSA

**Figure 104. Inflation will likely rise owing to oil prices**




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Source: Citi Research, National Treasury

**Figure 105. South Africa Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 389 | 338 | 420 | 407 | 381 | 401 | 425 | 440 | 463 |
| Population, mn | 59.6 | 60.6 | 61.5 | 62.4 | 63.2 | 64.0 | 64.7 | 65.1 | 66.1 |
| Real GDP, yoy avg | 0.3 | -6.2 | 4.9 | 2.1 | 0.8 | 0.5 | 1.1 | 1.2 | 1.4 |
| Private consumption growth % yoy | 1.3 | -6.1 | 6.0 | 2.6 | 0.2 | 1.0 | 3.6 | 1.9 | 1.4 |
| Real investment growth % yoy | -0.2 | -25.8 | 8.3 | 17.9 | -1.8 | -9.3 | 0.7 | 0.4 | 4.6 |
| Real export growth, % yoy | -3.3 | -12.0 | 9.7 | 7.8 | 5.1 | -2.8 | -2.5 | 0.1 | 2.0 |
| Real import growth, % yoy | 0.6 | -17.6 | 9.7 | 15.0 | 3.9 | -6.4 | 1.1 | 2.0 | 2.3 |
| Net export contribution to growth | 1.1 | 1.8 | 0.0 | -1.9 | 0.3 | 1.1 | -1.0 | -0.6 | -0.1 |
| Unemployment, % of labour force | 28.7 | 29.2 | 34.3 | 33.5 | 32.4 | 32.6 | 32.4 | 32.0 | 32.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -10.1 | 6.7 | 15.7 | -1.3 | -4.1 | -2.6 | -2.0 | 1.6 | 0.6 |
| % of GDP | -2.6 | 2.0 | 3.7 | -0.3 | -1.1 | -0.7 | -0.5 | 0.4 | 0.1 |
| Trade balance | 2.5 | 17.6 | 30.5 | 14.2 | 7.6 | 11.7 | 11.8 | 10.5 | 8.9 |
| FDI, net | 2.0 | 5.0 | 40.0 | 6.9 | 6.7 | 3.6 | 1.7 | - | - |
| External debt | 153.9 | 145.6 | 136.1 | 140.6 | 134.1 | 145.1 | 176.4 | 179.5 | 188.1 |
| Short-term debt | 34.5 | 27.8 | 27.2 | 34.1 | 31.9 | 36.7 | 49.2 | 38.8 | 41.2 |
| International reserves | 48.9 | 47.4 | 50.3 | 53.3 | 54.2 | 54.9 | 58.4 | 61.5 | 65.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -6.1 | -9.8 | -5.1 | -4.6 | -4.5 | -4.5 | -4.3 | -3.1 | -2.7 |
| Consolidated gov primary balance | -2.7 | -5.9 | -1.2 | -0.3 | 0.3 | 0.5 | 0.9 | 2.3 | 2.9 |
| Public debt | 58.0 | 70.8 | 68.9 | 71.5 | 74.7 | 77.4 | 74.9 | 74.6 | 77.0 |
| External public debt | 6.9 | 7.1 | 6.6 | 8.3 | 8.4 | 8.2 | 8.2 | 8.2 | 8.8 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 4.0 | 3.0 | 5.9 | 7.6 | 5.2 | 2.9 | 3.6 | 4.9 | 3.5 |
| CPI, %yoy, avg | 4.1 | 3.2 | 4.6 | 7.0 | 6.1 | 4.4 | 3.2 | 4.2 | 4.4 |
| ZAR/US$, eop | 14.00 | 14.70 | 16.00 | 17.01 | 18.30 | 18.87 | 16.57 | 16.10 | 15.70 |
| ZAR/US$, avg | 14.45 | 16.46 | 14.79 | 16.37 | 18.45 | 18.33 | 17.88 | 16.46 | 15.82 |
| Policy Interest Rate, % eop | 6.50 | 3.50 | 3.75 | 7.00 | 8.25 | 7.75 | 6.75 | 7.25 | 6.50 |
| Long-term yield, %, eop | 8.26 | 8.74 | 9.35 | 10.19 | 9.77 | 9.05 | 8.21 | 8.80 | 8.80 |
| Nominal wages, % yoy | 4.0 | 0.7 | 7.5 | 4.0 | 4.5 | 4.5 | 104.5 | 4.5 | 4.5 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 0.8 | 1.9 | 0.9 | 0.9 | 1.3 | 1.9 | 0.7 | 1.2 | 1.9 |
| CPI, %yoy, avg | 3.6 | 3.2 | 4.5 | 4.4 | 4.9 | 4.8 | 4.7 | 4.4 | 3.6 |
| ZAR/US$, eop | 16.57 | 16.94 | 16.54 | 16.42 | 16.10 | 15.97 | 15.84 | 15.76 | 15.70 |
| Policy interest rate, %, eop | 6.75 | 6.75 | 7.00 | 7.25 | 7.25 | 7.25 | 7.00 | 6.50 | 6.50 |

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Source: Citi Research, National Sources

# Turkey

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- **Summary view** — Slowing growth, elevated underlying inflation pressures and a deteriorating external balance present the CBT with an increasingly challenging policy backdrop, leaving limited room for further easing.

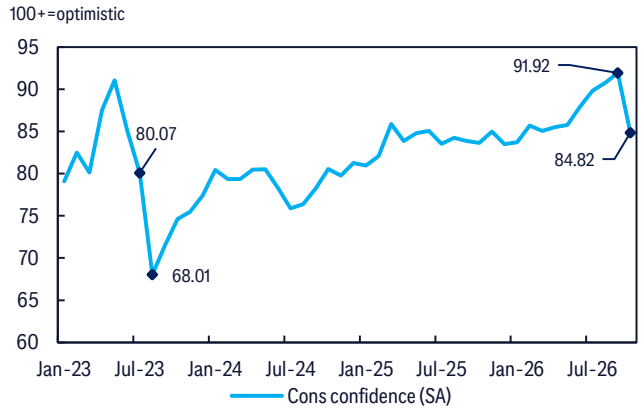
**Growth expectations for this year continue to soften.** The CBT's survey of expectations marked 2026 GDP growth down for seven consecutive months, from 3.84% in March to 2.9% in October, consistent with the weakening signal from high-frequency indicators. Consumer confidence fell sharply from 91.92 in September to 84.82 in October, its second-largest monthly decline since 2004, pointing to growing downside risks to domestic demand amid recent capital market volatility. The PMI also slipped from 48.1 in August to 47.9 in September and has remained below the critical 50 threshold since March 2024. Concurrently, the sub-8% unemployment rate in August overstates labor-market strength, as the decline largely reflected lower participation, while broader remained elevated at 31%. Given this backdrop and elevated geopolitical uncertainty, we expect GDP growth to moderate from 3.7% in 2025 to 2.5% in 2026.

**At 29.73% YoY, September inflation came in softer-than-expected (30.26%).** The downside surprise largely reflected weaker-than-expected food inflation, particularly fruit and vegetables, alongside softer transport and communication prices. The outturn was also below the roughly 31.5% implied by the CBT's latest Inflation Report. Core and services inflation nevertheless remain elevated at around 29% and 38% YoY, respectively, although seasonally adjusted measures point to some moderation in headline inflation momentum. Given the secular deterioration in price dynamics and elevated energy prices, we believe that the outlook hinges on weaker demand restraining services inflation, favorable food prices persisting and October clothing repricing remaining contained. We expect year-end inflation of 30%, modestly below the 30.9% recorded at end-2025, with underlying price pressures remaining elevated.

**The CBT's 100bp cut to 36% at the October MPC meeting marks a cautious resumption of monetary easing.** Greater confidence in underlying disinflation and weakening domestic demand provided room for the move, while the reference to the "size and timing" of future steps signals that further cuts remain under consideration but will be data dependent. However, elevated inflation expectations, geopolitical risks, high energy prices and uncertainty over the degree of monetary restrictiveness reinforce the case for a prudent pace of easing. The CBT's recent decision to accelerate FX depreciation is unlikely to meaningfully alleviate mounting competitiveness pressures. Looking ahead, we see limited scope for further easing this year and expect the policy rate to end 2026 at 35%, with capital inflows and dollarization shaping the rate path and weaker-than-expected growth representing the main dovish risk.

**The current account posted a US$4.1bn surplus in August, slightly above the US$3.8bn consensus forecast.** However, the year-to-date deficit widened sharply to US$31.5bn, driven mainly by a weaker core balance and a larger energy deficit. Despite stronger non-reserve financial inflows, sizeable unidentified outflows left financing short of requirements, resulting in a US$10.9bn reserve drawdown in the first eight months of the year. We expect the deficit to widen from 1.9% of GDP in 2025 to 2.6% in 2026, with risks skewed toward a larger gap amid elevated energy prices. The official medium-term path remains more favorable than consensus and may prove difficult to reconcile with the projected recovery in growth unless accompanied by stronger competitiveness gains and lower import intensity.

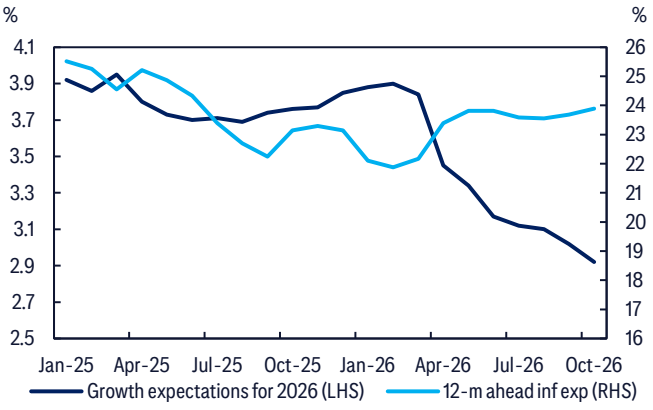
**Figure 106. Consumer confidence drops sharpy ...**




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Source: Citi Research, Haver Analytics

**Figure 107... as growth expectations continue to soften**




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Source: Citi Research, Haver Analytics

**Figure 108. Turkey Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 775 | 733 | 838 | 925 | 1,141 | 1,362 | 1,602 | 1,821 | 1,936 |
| Population, mn | 82.6 | 83.4 | 84.1 | 85.0 | 85.3 | 85.5 | 85.8 | 86.4 | 87.0 |
| Real GDP, yoy avg | 1.3 | 1.8 | 11.8 | 5.4 | 5.0 | 3.5 | 3.7 | 2.5 | 3.1 |
| Private consumption growth % yoy | 1.4 | 3.6 | 15.6 | 16.2 | 10.5 | 4.7 | 4.1 | 2.5 | 2.6 |
| Real investment growth % yoy | -12.1 | 6.9 | 7.2 | 4.4 | 7.3 | 2.7 | 7.3 | 0.2 | 3.3 |
| Real export growth, % yoy | 4.7 | -16.4 | 25.1 | 10.5 | -2.3 | 0.4 | -0.6 | -5.0 | 4.4 |
| Real import growth, % yoy | -5.4 | 6.8 | 2.1 | 8.3 | 12.1 | -4.1 | 4.6 | -4.4 | 1.5 |
| Net export contribution to growth | 2.4 | -5.8 | 5.0 | 0.9 | -3.0 | 1.0 | -1.1 | -0.2 | 0.6 |
| Unemployment, % of labour force | 13.8 | 13.2 | 12.0 | 10.5 | 9.4 | 8.7 | 8.4 | 8.8 | 8.9 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 15.0 | -31.0 | -7.1 | -46.7 | -41.8 | -13.6 | -30.3 | -47.6 | -49.6 |
| % of GDP | 1.9 | -4.2 | -0.8 | -5.0 | -3.7 | -1.0 | -1.9 | -2.6 | -2.6 |
| Trade balance | -31.2 | -48.9 | -47.1 | -107.0 | -106.9 | -83.9 | -95.5 | -100.8 | -105.9 |
| FDI, net | 6.5 | 4.3 | 6.5 | 9.8 | 4.5 | 5.1 | 3.1 | 1.8 | 7.5 |
| External debt | 398.5 | 390.8 | 378.5 | 388.6 | 432.6 | 461.2 | 522.7 | 563.3 | 579.8 |
| Short-term debt | 95.5 | 111.5 | 118.2 | 148.4 | 175.0 | 173.0 | 167.2 | 178.1 | 197.8 |
| International reserves | 105.7 | 93.6 | 111.2 | 128.7 | 140.9 | 155.2 | 184.0 | 157.5 | 147.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.8 | -3.4 | -2.7 | -0.9 | -5.1 | -4.7 | -2.8 | -3.3 | -4.3 |
| Consolidated gov primary balance | -0.6 | -0.8 | -0.3 | 1.1 | -2.6 | -1.9 | 0.4 | 0.0 | -0.7 |
| Public debt | 31.2 | 38.3 | 38.9 | 29.4 | 28.3 | 23.6 | 23.7 | 22.8 | 23.9 |
| External public debt | 13.0 | 14.6 | 19.2 | 13.9 | 13.0 | 9.6 | 8.7 | 7.5 | 7.2 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 11.8 | 14.6 | 36.1 | 64.3 | 64.8 | 44.4 | 30.9 | 30.0 | 23.4 |
| CPI, %yoy, avg | 15.2 | 12.3 | 19.6 | 72.3 | 53.9 | 58.5 | 34.9 | 31.1 | 24.2 |
| TRY/US$, eop | 5.95 | 7.44 | 13.32 | 18.69 | 29.48 | 35.34 | 42.96 | 51.86 | 60.07 |
| TRY/US$, avg | 5.68 | 7.02 | 8.90 | 16.57 | 23.78 | 32.85 | 39.55 | 48.00 | 57.18 |
| Policy Interest Rate, % eop | 11.43 | 17.03 | 14.00 | 9.04 | 42.50 | 48.13 | 38.00 | 35.00 | 29.00 |
| Long-term yield, %, eop | 12.21 | 12.90 | 24.32 | 9.83 | 26.75 | 29.04 | 28.96 | 34.50 | 29.75 |
| Nominal wages, % yoy | 18.4 | 6.9 | 39.5 | 88.1 | 113.5 | 91.2 | 41.2 | 33.8 | 27.6 |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 3.5 | 2.6 | 2.3 | 2.4 | 2.9 | 1.8 | 3.3 | 3.3 | 3.6 |
| CPI, %yoy, avg | 31.6 | 31.0 | 32.4 | 31.0 | 29.9 | 26.6 | 23.9 | 23.0 | 23.2 |
| TRY/US$, eop | 42.96 | 44.45 | 46.49 | 49.01 | 51.86 | 54.07 | 56.31 | 58.26 | 60.07 |
| Policy interest rate, %, eop | 38.00 | 40.00 | 40.00 | 37.00 | 35.00 | 33.00 | 31.00 | 29.00 | 29.00 |

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Source: Citi Research, National Sources

# Ukraine

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- **Summary view —** The inflation outlook means that central bank will likely retain hawkish bias. Inflow of international aid allows the central bank to be active in the foreign exchange market, thus smoothing the currency adjustment.

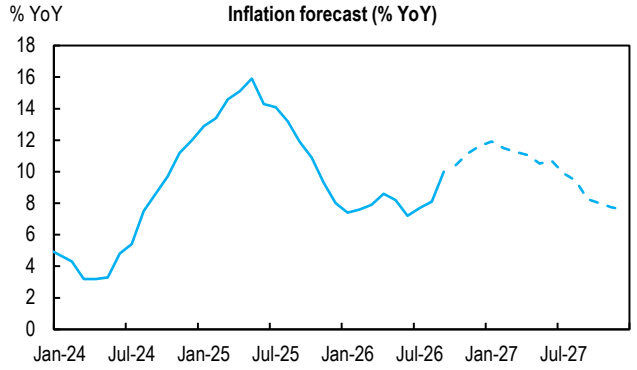
**Economic activity remains heavily affected by the ongoing war.** Industrial output deteriorated significantly over the last couple of months and the year-on-year growth entered negative territory with -6.1% recorded in August. Energy capacity remains important for the performance of the economy where repairs are difficult amid ongoing airstrikes. Amid major risks we also highlight the difficulties of agriculture exports given the Black Sea routes are disrupted by the war with Russia with alternative solutions being either costly or not fully effective.

**In September the headline inflation increased to 10% YoY from 8.1% in August**. The key driver of the renewed pressure in inflation was an increase in food prices by 1.9% MoM, whereas in the preceding three months in month-on-month terms the food prices were declining. Fuel prices increased by 5.2% MoM, slightly decelerating from 8.1% recorded previously. Increase in core inflation was more modest than in headline, but it still moved to 8.8% YoY in September vs. 8.1% in August. Going forward, we see headline inflation rising further, achieving close to 12% in its peak in 1Q27, whereas core inflation may exceed 10%. The scenario does not assume renewed pressure on commodities prices, thus further increase in oil prices could pose risks to the upside for headline inflation. Thus, the outlook is heavily dependent on external factors, especially developments in the Middle East.

**We expect that central bank will likely retain its hawkish bis given the inflation outlook.** The NBU already embarked on the policy tightening cycle in response to renewed inflation pressure. We expect the key policy rate to be raised to 17% in 1Q27, to keep real rates well in the positive territory. Should the central bank's tightening measures allow inflation to decline throughout 2027 there could be some space for rate cuts in 2H27.

**The currency depreciation trend that started in 4Q25 was renewed in early September.** The overall FX adjustment was gradual but the FX move reflects uncertainty. In our view, gradual and orderly currency depreciation is a welcome phenomenon, given the large current account deficit. The continued inflow of international aid allows the NBU to be active in the FX market. Over the past four weeks the average weekly net sale of hard currencies by the central bank exceeded USD 1.2bn vs. less than 0.6bn in the corresponding period of 2025.

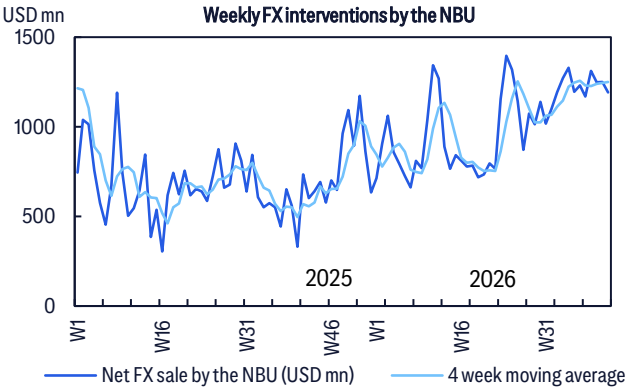
**Figure 109. Rise in inflation is likely to lead to further rate hikes by the NBU**




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Source: Haver Analytics, Citi Research Forecasts

**Figure 110. In recent months the central bank has become more active in the FX market**




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Source: Citi Research, Haver Analytics

**Figure 111. Ukraine Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 154 | 157 | 200 | 162 | 181 | 191 | 214 | 223 | 232 |
| Population, mn | 41.7 | 41.4 | 41.0 | 34.5 | 34.0 | 33.3 | 33.3 | 33.3 | 33.3 |
| Real GDP, yoy avg | 3.2 | -3.8 | 3.4 | -28.8 | 5.5 | 3.2 | 1.8 | 0.6 | 2.0 |
| Private consumption growth % yoy | 10.9 | 1.7 | 6.7 | -27.5 | 4.3 | 8.5 | 7.5 | 2.1 | 2.0 |
| Real investment growth % yoy | -6.9 | -34.3 | 64.4 | -38.3 | 45.8 | 16.8 | 15.5 | 10.0 | 12.0 |
| Real export growth, % yoy | 7.3 | -5.8 | -8.6 | -42.0 | -5.9 | 10.3 | -12.8 | 4.0 | 6.8 |
| Real import growth, % yoy | 5.7 | -6.4 | 14.2 | -17.4 | 8.9 | 12.5 | 8.3 | 7.2 | 7.2 |
| Net export contribution to growth | 1.1 | -0.2 | -9.3 | -9.8 | -6.3 | -3.2 | -8.6 | -3.1 | -2.6 |
| Unemployment, % of labour force | 8.2 | 9.5 | 9.8 | 20.6 | 18.2 | 13.1 | 11.5 | 10.0 | 9.5 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -4.1 | 4.2 | -5.5 | 6.2 | -10.8 | -15.9 | -28.8 | -42.7 | -39.0 |
| % of GDP | -2.7 | 2.7 | -2.7 | 3.8 | -5.9 | -8.4 | -13.5 | -19.1 | -16.8 |
| Trade balance | -14.3 | -7.8 | -8.2 | -15.3 | -30.3 | -32.0 | -46.8 | -42.0 | -39.4 |
| FDI, net | 5.2 | -0.1 | 7.5 | 0.0 | 4.4 | 3.7 | 1.7 | 9.8 | 13.8 |
| External debt | 121.7 | 125.7 | 129.7 | 131.1 | 161.6 | 180.6 | 236.7 | 327.0 | 0.0 |
| Short-term debt | 15.9 | 16.5 | 16.3 | 8.1 | 9.5 | 10.9 | 13.6 | 19.5 | 0.0 |
| International reserves | 25.3 | 29.1 | 30.9 | 28.5 | 40.5 | 43.4 | 49.3 | 38.3 | 38.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.2 | -5.3 | -3.4 | -16.1 | -20.1 | -17.6 | -18.6 | -15.1 | -12.7 |
| Consolidated gov primary balance | 0.8 | -2.4 | -0.6 | -13.0 | -16.3 | -13.7 | -14.6 | -10.7 | -8.0 |
| Public debt | 50.2 | 60.4 | 49.0 | 77.7 | 83.3 | 91.1 | 101.3 | 112.5 | 119.4 |
| External public debt | 29.2 | 36.0 | 28.6 | 49.8 | 58.3 | 65.9 | 77.4 | 88.8 | 96.4 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 0.0 | 0.0 | 0.1 | 0.3 | 5.1 | 12.0 | 8.0 | 11.6 | 7.6 |
| CPI, %yoy, avg | 0.1 | 0.0 | 0.1 | 0.2 | 13.2 | 6.4 | 12.8 | 8.8 | 9.8 |
| UAH/US$, eop | 23.70 | 28.34 | 27.28 | 36.92 | 38.15 | 42.01 | 42.18 | 46.42 | 50.25 |
| UAH/US$, avg | 25.75 | 26.91 | 27.26 | 32.19 | 36.82 | 40.14 | 41.69 | 44.55 | 48.26 |
| Policy Interest Rate, % eop | 13.50 | 6.00 | 9.00 | 25.00 | 15.00 | 13.50 | 15.50 | 16.50 | 15.00 |
| Long-term yield, %, eop | - | - | - | - | - | - | - | - | - |
| Nominal wages, % yoy | 18.5 | 10.4 | 20.9 | 6.0 | 17.1 | 15.6 | 12.4 | 9.0 | - |
| **Quarterly Economic Indicators** | | | | | | | | | |
| | 2025 Q4 | 2026 Q1 | 2026 Q2F | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GDP, % yoy | 2.8 | -0.6 | 0.4 | 0.4 | 0.2 | 1.2 | 1.8 | 2.3 | 2.8 |
| CPI, %yoy, avg | 9.3 | 7.6 | 8.0 | 8.6 | 11.1 | 11.6 | 10.8 | 9.2 | 7.8 |
| UAH/US$, eop | 42.18 | 43.78 | 44.84 | 44.69 | 46.42 | 47.35 | 48.30 | 49.26 | 50.25 |
| Policy interest rate, %, eop | 15.50 | 15.00 | 15.00 | 16.00 | 16.50 | 17.00 | 17.00 | 16.00 | 15.00 |

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Note: Forecasts for many variables have been suspended due to the military conflict.

Source: Citi Research, National Sources

# GCC

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**The prospect of renewed US-Israeli military action against Iran has become an increasingly important source of uncertainty for Gulf states** (Euronews, October 22, 2026). Iran has warned that Gulf military, energy and civilian infrastructure could face retaliation, while continuing Houthi attacks underscore the region's immediate exposure (WSJ, October 23, 2026; Gulf News, October 24, 2026). Developments to date suggest to us that diplomatic prospects remain constrained ahead of the November 3 US midterms (Bloomberg, October 12, 2026). Gulf governments are therefore reinforcing their defenses through substantial US arms purchases and broader external support, while Saudi-led operations near Bab el-Mandeb seek to protect a vital alternative export route (Al Arabiya, October 5, 2026; BBC, October 20, 2026 ;MEE, October 23, 2026). In our view, these developments point to greater Gulf security self-reliance amid receding US protection and continued diplomatic efforts to avert further escalation.

**Against a backdrop of elevated geopolitical tensions and challenging oil-market conditions, Saudi Arabia's FY2027 Pre-Budget Statement has attracted considerable attention**. The authorities' revised projections provide important insights into how the regional conflict and weaker oil-market dynamics are shaping the Kingdom's economic and fiscal trajectory. The Minister of Finance stressed that the estimates were prepared in an unusually uncertain environment and could change as conditions evolve. The statement provides a preliminary framework ahead of the FY2027 Budget Statement, expected in December and the 2027 borrowing plan, due by year-end. The most significant revision relative to the FY2026 Budget Statement concerns growth. The Ministry of Finance now expects real GDP to contract by 3.6% in 2026, compared with the previous projection of 4.6% growth. It then forecasts a strong rebound of 12.8% in 2027, followed by growth of 3.9% in 2028 and 5.7% in 2029. Despite the sharp downgrade to 2026, the projected level of real GDP in 2027 is slightly higher than previously envisaged, suggesting that the authorities expect the output loss to be largely reversed, presumably through a strong recovery in oil production. Inflation is projected to remain around 2% throughout the forecast period.

**The weaker outlook is accompanied by wider fiscal deficits.** The 2026 deficit is now estimated at SAR245bn, or 4.9% of GDP, compared with SAR165bn, or 3.3% of GDP, in the FY2026 Budget Statement. The revision is primarily expenditure-driven: spending is estimated at SAR1,435bn, SAR122bn above the previous projection, partly offset by a SAR43bn upward revision to revenue to SAR1,190bn. The starting position was also weaker than estimated. The final 2025 deficit reached SAR277bn, or 5.8% of GDP, rather than the preliminary SAR245bn, as expenditure was SAR52bn higher, partly offset by a SAR21bn revenue overperformance.

**The revisions extend beyond 2026.** The FY2027 Pre-Budget Statement projects a deficit of SAR191bn, or 3.6% of GDP, in 2027, compared with 2.3% previously. The 2028 deficit is projected at 3.1% of GDP, versus 2.2% in the FY2026 Budget Statement, followed by 3.3% in 2029. The new trajectory therefore implies persistent deficits and slower fiscal consolidation. Revenue remains between 22% and 24% of GDP over 2026–29, while expenditure declines from around 29% in 2026 to approximately 26% from 2027. The projected adjustment is thus driven principally by lower expenditure relative to GDP.

**In our view, achieving the official 2026 deficit estimate would require a marked moderation in second-half expenditure.** Spending reached SAR760bn in the first half, implying SAR675bn in the second half to meet the annual estimate. This would be 11% below the first-half level and around 7.5% lower than in the second half of 2025. Such an outcome would depart from the historical pattern: the fiscal

balance has deteriorated in the second half of every year since 2016, while expenditure has exceeded the budget envelope in eight of the past nine years. The implied reduction would fall mainly on goods and services and capital expenditure, but the necessary measures have not been specified. Moreover, spending under "General Items" rose by 44% year on year in the first half, largely reflecting compensation payments to public companies, which may be difficult to reverse quickly.

**In our view, the medium-term expenditure path is also challenging.** Nominal spending is projected at SAR1,392bn in 2027, rising to SAR1,544bn in 2029. The 2027 and 2028 projections are respectively SAR42bn and SAR60bn above those in the FY2026 Budget Statement. In real terms, expenditure is expected to rise by 1.2% in 2026, decline by 4.8% in 2027 and increase by 4.3% and 2.4% in 2028 and 2029. By 2029, real expenditure would be only around 3% above its 2025 level, compared with cumulative real GDP growth of approximately 19%. The decline in the expenditure-to-GDP ratio therefore depends heavily on the anticipated output recovery. If oil production or prices fall short of the underlying assumptions, deficits would remain wider than projected.

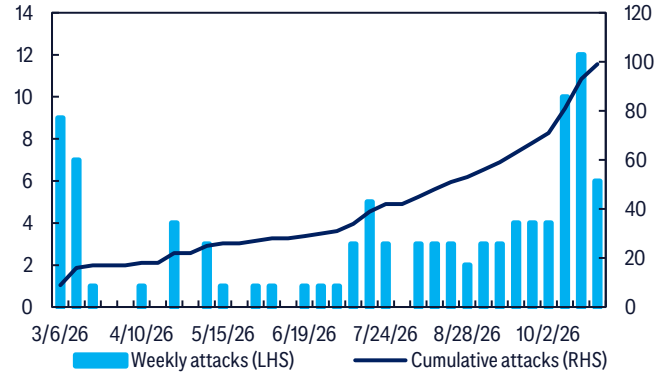
**As we discussed previously, revenues have so far proved relatively resilient.** Oil revenue increased by 9% year on year in the first half of 2026, as higher prices more than offset lower production. Brent averaged US$87 per barrel between January and August, 23.9% higher year on year, while crude supply fell from 9.2mn to 7.9mn barrels per day. Revenue is projected at SAR1,202bn in 2027, SAR28bn below the FY2026 Budget Statement projection, before rising to SAR1,351bn by 2029. Vision 2030 reforms have increased non-oil revenue from SAR166bn in 2015 to SAR505bn in 2025, enabling it to finance 36% of expenditure, although overall revenue remains sensitive to oil-market developments.

**Reflecting this uncertainty, the FY2027 Pre-Budget Statement presents three 2027 revenue scenarios, ranging from SAR1,134bn to SAR1,261bn**. With expenditure fixed at SAR1,392bn, the corresponding deficits range from 4.8% to 2.5% of GDP. However, the underlying assumptions for oil prices, production and revenue composition are not disclosed. Our base-case revenue-to-GDP lies between the official baseline and the highest scenario It assumes that crude production recovers to 10.25mb/d in 2027, while oil prices fall from US$88 per barrel in 2026 to US$66, limiting the revenue benefit from higher output.

**We expect the deficit to widen to 7.2% of GDP in 2026, reflecting a more gradual adjustment in expenditure.** Our second-half spending projection of SAR785bn explains most of the SAR132bn difference from the official estimate. We project the deficit to narrow to 5.0% of GDP in 2027 as the expenditure ratio falls by around 3pp. In our view, the third-quarter fiscal outturn will be critical: *a clear reduction in spending would support the official estimate, whereas spending continuing near its first-half pace would point to a wider deficit.*

**Public debt is estimated to reach SAR1,733bn, or 34.8% of GDP, at end-2026, compared with 32.7% projected in the FY2026 Budget Statement.** Scheduled redemptions amount to SAR73bn in 2027 and SAR105bn in 2028. Overall, we believe that front-loading consolidation while the economy contracts would be procyclical. In our view, phasing the adjustment alongside the expected 2027 recovery could achieve a similar medium-term expenditure level at a lower cost to growth. The FY2027 Budget Statement and the borrowing plan should clarify the composition of fiscal adjustment, financing mix and debt trajectory.

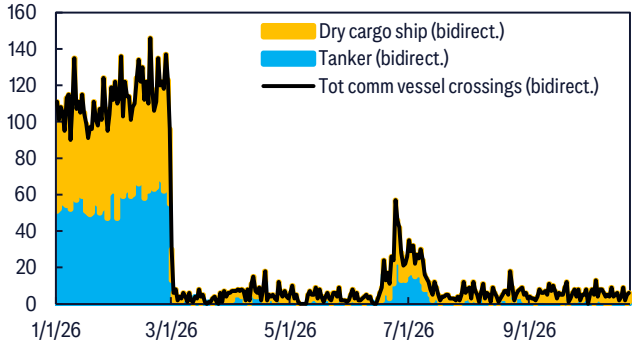
**Figure 112. Attacks on shipping have accelerated...**




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Source: Citi Research, UKMTO

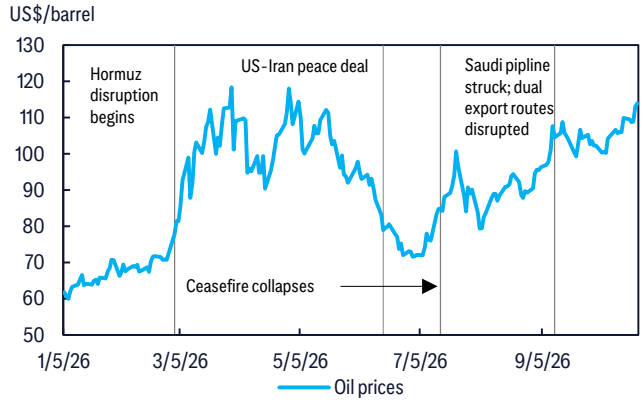
**Figure 113. ... as Hormuz crossings remain restricted...**




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Source: Citi Research, Bloomberg

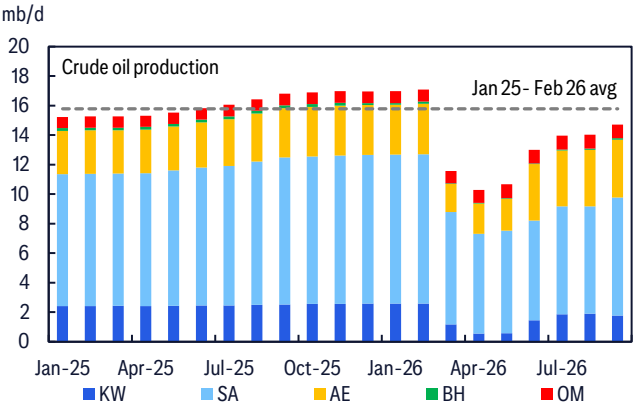
**Figure 114. ...keeping oil prices elevated.**




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Source: Citi Research, Bloomberg

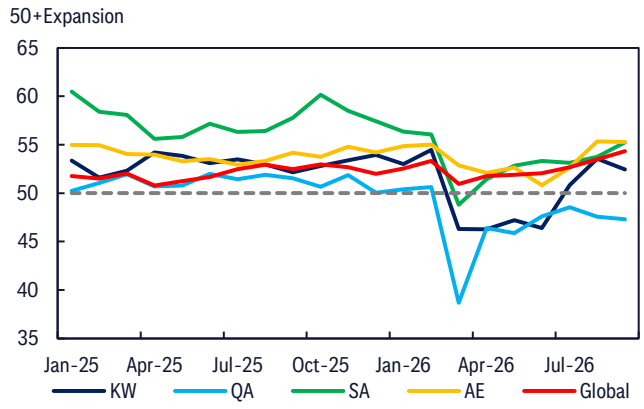
**Figure 115. Crude output remains below pre-conflict levels...**




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Source: Citi Research, Haver Analytics

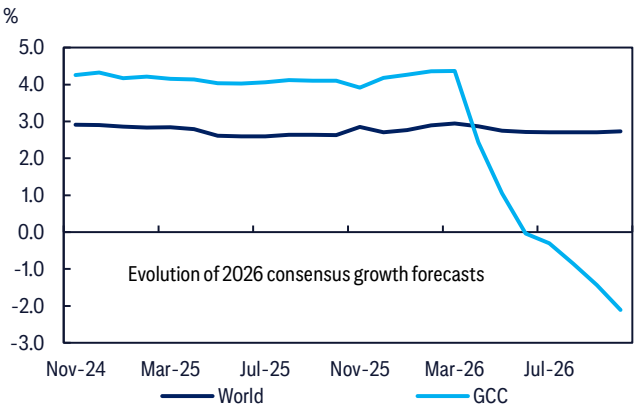
**Figure 116. ...while non-oil activity partly recovers...**




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Source: Citi Research, Haver Analytics

**Figure 117. ... amid a shock concentrated in the GCC**




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Source: Citi Research, FocusEconomics

**Figure 118. GCC Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **BAHRAIN** | | | | | | | | | |
| Nominal GDP, USD bn | 40.4 | 35.8 | 40.8 | 46.5 | 46.2 | 47.2 | 49.0 | 49.7 | 50.3 |
| GDP per capita, USD | 27,260 | 24,343 | 27,148 | 30,471 | 29,290 | 29,717 | 30,541 | 30,384 | 30,243 |
| Real GDP, yoy avg | 2.1 | -5.9 | 4.4 | 6.2 | 3.9 | 2.9 | 3.5 | -5.2 | 5.3 |
| CPI, %yoy, avg | 1.0 | -2.3 | -0.6 | 3.6 | 0.1 | 0.9 | -0.1 | 2.1 | 2.5 |
| BHD/US$, avg | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 |
| Current account | -0.8 | -3.2 | 2.6 | 6.8 | 2.7 | 2.3 | 2.8 | -1.1 | 1.5 |
| % of GDP | -2.0 | -9.1 | 6.4 | 14.7 | 5.8 | 4.8 | 5.8 | -2.2 | 3.0 |
| Consolidated government balance | -4.5 | -12.4 | -6.2 | -1.1 | -4.5 | -5.8 | -9.6 | -12.4 | -11.2 |
| **KUWAIT** | | | | | | | | | |
| Nominal GDP, USD bn | 140.9 | 111.0 | 148.3 | 183.5 | 165.5 | 160.9 | 157.2 | 157.6 | 161.7 |
| GDP per capita, USD | 29,490 | 23,774 | 32,054 | 38,746 | 34,048 | 32,258 | 30,017 | 29,647 | 30,031 |
| Real GDP, yoy avg | 2.3 | -4.8 | 1.7 | 6.8 | -1.6 | -1.5 | 2.7 | -12.2 | 16.0 |
| CPI, %yoy, avg | 1.1 | 2.1 | 3.4 | 4.0 | 3.6 | 2.9 | 2.4 | 2.4 | 2.3 |
| KWD/US$, avg | 0.30 | 0.31 | 0.30 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 |
| Current account | 17.9 | 4.8 | 37.4 | 63.1 | 51.4 | 46.7 | 35.7 | 21.3 | 26.6 |
| % of GDP | 12.7 | 4.4 | 25.2 | 34.4 | 31.1 | 29.0 | 22.7 | 13.5 | 16.4 |
| Consolidated government balance | -9.2 | -31.7 | -6.7 | 11.4 | -3.1 | -2.1 | -14.8 | -22.0 | -20.0 |
| **OMAN** | | | | | | | | | |
| Nominal GDP, USD bn | 88.1 | 75.9 | 87.3 | 109.9 | 106.2 | 107.1 | 109.7 | 129.1 | 121.7 |
| GDP per capita, USD | 19,069 | 16,940 | 19,290 | 22,264 | 20,553 | 20,327 | 20,471 | 23,341 | 21,461 |
| Real GDP, yoy avg | -1.1 | -3.4 | 2.6 | 8.0 | 1.4 | 1.6 | 2.3 | 4.7 | 1.9 |
| CPI, %yoy, avg | 0.5 | -0.4 | 1.7 | 2.5 | 1.0 | 0.6 | 1.0 | 2.9 | 2.0 |
| OMR/US$, avg | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 | 0.38 |
| Current account | -4.3 | -12.6 | -4.8 | 4.0 | 2.2 | 3.7 | -1.2 | 11.5 | -0.9 |
| % of GDP | -4.9 | -16.6 | -5.5 | 3.7 | 2.0 | 3.4 | -1.1 | 8.9 | -0.7 |
| Consolidated government balance | -7.7 | -15.2 | -3.6 | 2.7 | 2.3 | 1.3 | -1.1 | 3.2 | -1.0 |
| **QATAR** | | | | | | | | | |
| Nominal GDP, USD bn | 176.4 | 145.8 | 181.3 | 237.8 | 218.8 | 218.4 | 215.6 | 210.8 | 212.0 |
| GDP per capita, USD | 63,008 | 51,464 | 65,988 | 81,089 | 71,439 | 69,492 | 67,089 | 64,428 | 63,823 |
| Real GDP, yoy avg | 0.7 | -2.7 | 1.7 | 4.2 | 1.5 | 2.9 | 1.8 | -13.5 | 12.0 |
| CPI, %yoy, avg | -0.9 | -2.5 | 2.3 | 5.0 | 3.1 | 1.2 | 0.6 | 2.9 | 2.4 |
| QAR/US$, avg | 3.64 | 3.65 | 3.65 | 3.66 | 3.65 | 3.65 | 3.65 | 3.64 | 3.64 |
| Current account | 4.3 | -3.0 | 26.3 | 63.1 | 36.5 | 37.9 | 31.9 | 7.0 | 10.0 |
| % of GDP | 2.4 | -2.0 | 14.5 | 26.5 | 16.7 | 17.3 | 14.8 | 3.3 | 4.7 |
| Consolidated government balance | 1.1 | -2.0 | 0.2 | 10.3 | 5.4 | 0.7 | -1.0 | -8.0 | -4.1 |
| **SAUDI ARABIA** | | | | | | | | | |
| Nominal GDP, USD bn | 888.9 | 768.0 | 982.7 | 1,239.1 | 1,218.6 | 1,254.1 | 1,273.6 | 1,344.9 | 1,382.6 |
| GDP per capita, USD | 29,567 | 24,339 | 31,921 | 38,510 | 36,157 | 35,528 | 35,448 | 36,796 | 37,199 |
| Real GDP, yoy avg | 1.7 | -3.8 | 6.5 | 12.0 | 0.5 | 2.6 | 4.6 | -2.0 | 9.3 |
| CPI, %yoy, avg | -2.0 | 3.2 | 3.1 | 2.5 | 2.5 | 1.5 | 2.0 | 1.8 | 2.1 |
| SAR/US$, avg | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| Current account | 32.4 | -34.7 | 44.9 | 145.3 | 25.9 | -16.3 | -32.7 | -19.7 | -14.6 |
| % of GDP | 3.6 | -4.5 | 4.6 | 11.7 | 2.1 | -1.3 | -2.6 | -1.5 | -1.1 |
| Consolidated government balance | -4.0 | -10.2 | -2.0 | 2.2 | -1.8 | -2.5 | -5.8 | -7.2 | -5.0 |
| **UNITED ARAB EMIRATES** | | | | | | | | | |
| Nominal GDP, USD bn | 433.9 | 357.2 | 422.4 | 511.4 | 522.6 | 581.0 | 614.4 | 630.1 | 639.1 |
| GDP per capita, USD | 45,615 | 38,449 | 42,840 | 49,704 | 48,941 | 51,439 | 52,870 | 53,148 | 53,082 |
| Real GDP, yoy avg | 1.3 | -8.7 | 4.6 | 7.5 | 4.3 | 6.6 | 6.2 | 0.2 | 6.6 |
| CPI, %yoy, avg | -1.9 | -2.1 | 0.2 | 4.8 | 1.6 | 1.7 | 1.3 | 5.6 | 2.7 |
| AED/US$, avg | 3.67 | 3.67 | 3.67 | 3.67 | 3.67 | 3.67 | 3.67 | 3.67 | 3.67 |
| Current account | 37.3 | 21.1 | 48.0 | 66.5 | 72.8 | 86.9 | 81.7 | 55.4 | 60.8 |
| % of GDP | 8.6 | 5.9 | 11.4 | 13.0 | 13.9 | 15.0 | 13.3 | 8.8 | 9.5 |

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Source: Citi Research, National Sources

# Other Africa

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## Ghana

**We expect the overall macroeconomic picture in Ghana to remain positive in the coming years in due to major positive external terms of trade boost, notably from ongoing high global gold prices.** As shown in 2026, this has meant, despite ongoing global economic uncertainty, growth has remained robust and the current account in a large surplus. Moreover, the current government has also implemented an impressive degree of fiscal discipline. As such, the ongoing policy focus into 2027 is likely to be on monetary policy, and the extent to which the Bank of Ghana (BoG) will continue with its current cutting cycle. In this respect, the Prime Lending Rate (PLR) has already been reduced to 14% since the March MPC meeting, but with inflation now trending around the 5% YoY level, even if it picks up into 2027, further cuts in the PLR are still possible.

**In addition, there will be ongoing focus on the BoG's evolving exchange rate regime and its ability to build foreign exchange reserves**. Overall the policy goal is to engage in "market-neutral intermediation", or to channel foreign exchange inflows from gold sales onto the market in a transparent way without influencing the currency's fundamental directional trend. At this point in time, we think the directional trend is still one of depreciation to levels of around GHS12:US$1.

## Kenya

**We think that given its current range of financing options, the government will not agree a new IMF programme prior to the August 2027 elections.** This is because it is unlikely to be willing to make significant concessions to the IMF over the securitized lending arrangements which it is developing to build out new infrastructure given that it has struggled to cut the fiscal deficit in recent years and this is unlikely to change with the elections looming.

**Kenya is exposed to higher global oil and fertilizer prices, with oil accounting for around 25% of the country's import bill**. Moreover, tourist arrivals, exports and remittances can potentially be impacted by events in the Middle East. Although the government delayed raising the petrol price initially, it did react, which we think reinforces our view that inflation will likely pick up into 2H 2026 and into 2027, in fact close to the upper end of the CBK target range of 2.5% to 7.5%. Coupled with the uncertain global macroeconomic backdrop we think this means that the Central Bank of Kenya (CBK) will make no further cuts to Central Bank Rate (CBR) for some time, but it is also unlikely to be forced into raising the CBR. However, this may also depend on whether the Kenyan shilling (KES) comes under some pressure as the year progresses as the current account deficit widens, but at this point in time it has continued to remain stable and the current account deficit contained.

## Tanzania

**During 2H 2026 we have seen increased signs of the Tanzanian shilling stabilizing in a TZS2,600-650:US$1 level**. Moreover, we think further weakness this year should be limited by a constrained post-election fiscal deficit, while the high global gold price should support the current narrowing of the current account deficit that has started to emerge even with a higher oil price. Perhaps the bigger question is whether we will see some appreciation towards the end of 2026 and into 2027 as the increasingly important cashew nut harvest earnings hit the foreign exchange market (see Africa Weekly:Tanzania: The re-emergence of shilling seasonality and unanswered questions).

**Although inflation remains low, the Bank of Tanzania (BoT) opted to raise its new policy rate, the Central Bank Rate (CBR), in July 2026 to 6.25%; the last move was a modest cut to 5.75% in July 2025**. This reversal probably does not reflect concerns about a significant rise in inflation but rather a policy decision to reverse an overly loose monetary policy in recent years.

## Uganda

**The ongoing high global oil price and some outflows of foreign portfolio investment in 2H 2026 has put pressure on the Uganda shilling (UGX)**. This pushed it to levels over UGX4,000:US$1 level, which forced the Bank of Uganda (BoU) to raise the Central Bank Rate (CBR) by 225 basis points to 12% at an emergency meeting in October and to intervene in the foreign exchange market. We think this should be sufficient to stabilize the currency in the short run (see Africa Weekly: The Uganda shilling and Zambian kwacha under pressure), but going forward there will have to be fiscal consolidation to underpin the currency.

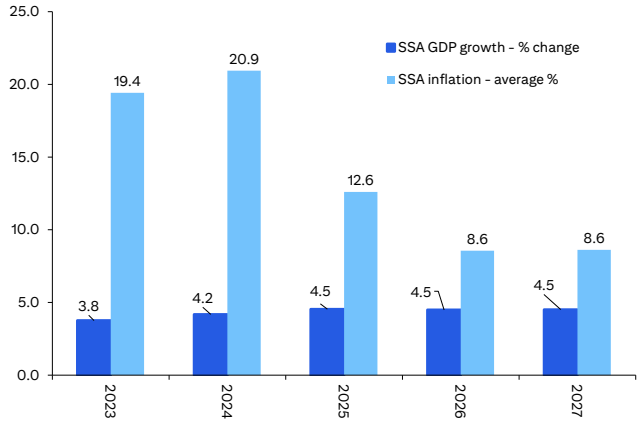
**This would be helped if the government was to reach a new agreement with the IMF to support fiscal consolidation along with the boost to revenue potentially provided by the start of oil production, probably in early 2027.** In addition, a new Funding programme should crowd in new external finance, notably from multilateral lenders, which should mean that the government can significantly reduce domestic borrowing levels which should help drive down its current high interest bill and help re-enforce fiscal consolidation. However, it is also possible that start of oil production could complicate the negotiations and domestic politics, given the potential boost revenue and the significant impact it will have on real GDP growth this year and next.

## Zambia

**With the re-election of President Hakainde Hichilema in August, we now expect policy continuity in the coming years**. Central to this is a new IMF programme which looks set to be formally approved in the coming months and based around post-election fiscal consolidation in 2027. Policy continuity should also drive further rises in copper production, which against the background of high global copper prices, could more than offset the recent rises in the oil price, meaning that the move into a current account surplus in 2026 is likely to be maintained in the coming years. This combination should also help to underpin considerable Zambian kwacha stability – we now think could be in a prolonged period of broad stability, with volatility, somewhat similar to that last seen in 2016-18 - and continue to support GDP growth.

**However, the policy complexities could rise over potentially poor rains in early 2027 due to El Niño induced climate trends**. If this does undermine agricultural production after the record harvest in 2026, it could push up inflation, although to what level is clear. We currently think it could rise back into high single digits from current levels of around 6% YoY. This may in turn put Bank of Zambia (BoZ) monetary policy in the spotlight after it has chosen to significantly ease monetary policy in 2026 due to a rapid fall back in the inflation rate. The BoZ cut its Monetary Policy Rate (BoZ) in three steps from 14.25% to 10.75% this year, so the question may be whether it has to reverse this in 2027, or whether it feels able to look through a rise in inflation driven by an external shock and leave the policy rate unchanged. This in turn may depend on whether the kwacha comes under further pressure next year, which also has negative implications for inflation dynamics.

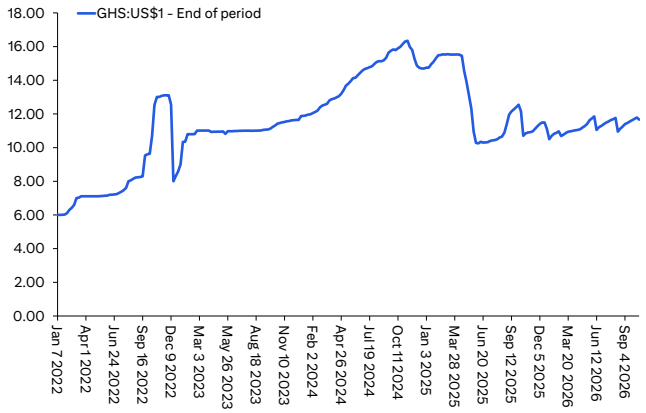
**Figure 119. We expect SSA growth to remain relatively robust in 2027, but the fall in inflation is likely to be limited**




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Source: Citi Research, Haver Analytics

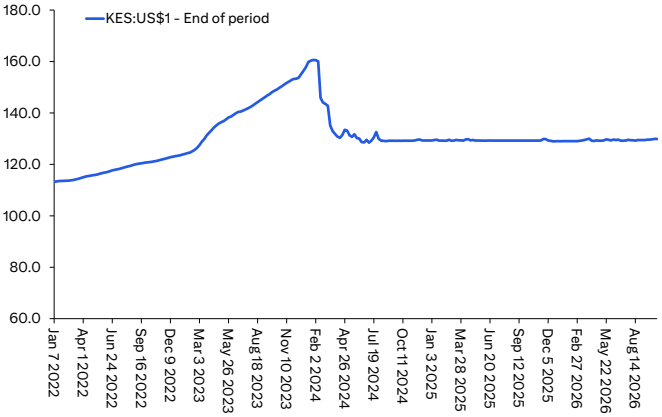
**Figure 120. We the cedi appreciation in 2025 was too aggressive, as shown by ongoing pressure to depreciate**




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Source: Citi Research, Haver Analytics

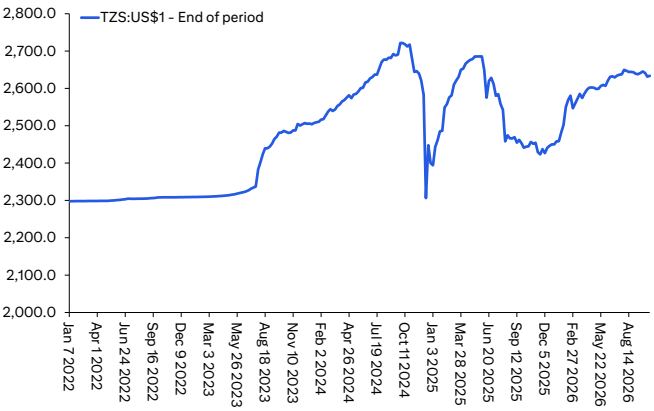
**Figure 121. We expect ongoing Kenyan shilling stability into 1H 2027**




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Source: Citi Research, Haver Analytics

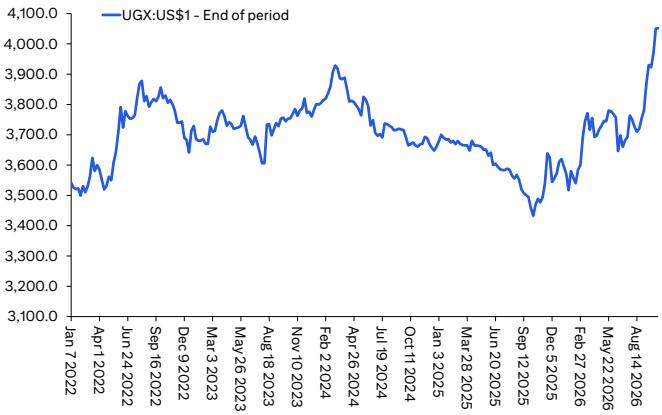
**Figure 122. Despite recent Tanzanian shilling volatility, we expect more stability going forward into 2027**




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Source: Citi Research, Haver Analytics

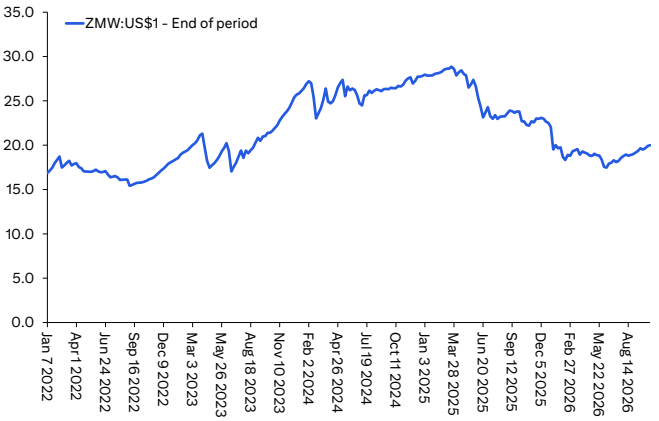
**Figure 123. There has pressure on the Uganda shilling in 2H 2026, but we think it will ease into early 2027**




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Source: Citi Research, Haver Analytics

**Figure 124. Moving into a current account surplus should be kwacha supportive into 2027, but with volatility**




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Source: Citi Research, Haver Analytics

**Figure 125. Other Africa Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **GHANA** | | | | | | | | | |
| Nominal GDP, USD bn | 68.3 | 70.0 | 79.5 | 73.8 | 76.2 | 83.4 | 114.2 | 140.0 | 149.8 |
| GDP per capita, USD | 2,168 | 2,177 | 2,422 | 2,204 | 2,232 | 2,399 | 3,223 | 3,877 | - |
| Real GDP, yoy avg | 6.5 | 0.5 | 5.1 | 3.1 | 3.1 | 6.0 | 6.0 | 5.8 | 5.3 |
| CPI, %yoy, avg | 7.1 | 9.9 | 10.0 | 31.3 | 38.1 | 22.9 | 14.6 | 4.6 | 7.7 |
| Policy Interest Rate, % eop | 16.00 | 14.50 | 14.50 | 27.00 | 30.00 | 27.00 | 18.00 | 14.00 | 13.00 |
| GHS/US$, avg | 5.34 | 5.73 | 5.92 | 8.47 | 11.66 | 14.34 | 12.24 | 11.31 | 11.94 |
| Current account | -1.9 | -2.1 | -2.5 | -1.5 | -0.7 | 1.6 | 9.4 | 7.6 | 5.1 |
| % of GDP | -2.7 | -3.0 | -3.2 | -2.1 | -1.0 | 1.9 | 8.2 | 5.4 | 3.4 |
| Consolidated government balance | -4.3 | -10.9 | -9.2 | 11.8 | -3.4 | -6.2 | -1.4 | -2.2 | -3.2 |
| **KENYA** | | | | | | | | | |
| Nominal GDP, USD bn | 100.4 | 100.7 | 109.7 | 113.4 | 107.3 | 120.4 | 136.0 | 151.1 | 167.1 |
| GDP per capita, USD | 1,970 | 1,936 | 2,070 | 2,099 | 1,947 | 2,142 | 2,372 | 2,585 | 2,803 |
| Real GDP, yoy avg | 5.1 | -0.3 | 7.6 | 4.8 | 5.7 | 4.7 | 4.6 | 5.2 | 4.3 |
| CPI, %yoy, avg | 5.9 | 5.3 | 6.1 | 7.7 | 7.7 | 4.5 | 4.1 | 6.1 | 6.4 |
| Policy Interest Rate, % eop | 8.50 | 7.00 | 7.00 | 8.75 | 12.50 | 11.25 | 9.00 | 8.75 | 8.75 |
| KES/US$, avg | 102.0 | 106.4 | 109.6 | 117.8 | 139.3 | 134.1 | 129.3 | 129.4 | 129.6 |
| Current account | -5.3 | -3.3 | -5.0 | -4.8 | -3.0 | -2.1 | -2.9 | -4.1 | -3.9 |
| % of GDP | -5.3 | -3.3 | -4.6 | -4.2 | -2.8 | -1.8 | -2.1 | -2.7 | -2.3 |
| Consolidated government balance | -7.4 | -8.1 | -7.2 | -5.8 | -5.5 | -5.5 | -6.2 | -6.0 | -6.1 |
| **TANZANIA** | | | | | | | | | |
| Nominal GDP, USD bn | 58.2 | 62.8 | 67.5 | 73.2 | 77.0 | 79.2 | 90.7 | 97.5 | 105.3 |
| GDP per capita, USD | 973 | 1,018 | 1,062 | 1,118 | 1,142 | 1,141 | 1,270 | 1,327 | 1,394 |
| Real GDP, yoy avg | 7.0 | 4.8 | 4.9 | 4.7 | 5.2 | 5.5 | 5.9 | 6.1 | 5.9 |
| CPI, %yoy, avg | 3.5 | 3.3 | 3.7 | 4.4 | 3.8 | 3.1 | 3.3 | 4.1 | 3.9 |
| Policy Interest Rate, % eop | 7.00 | 5.00 | 5.00 | 5.00 | 5.00 | 6.00 | 5.75 | 6.50 | 6.00 |
| TZS/US$, avg | 2,307 | 2,315 | 2,315 | 2,326 | 2,420 | 2,612 | 2,557 | 2,600 | 2,643 |
| Current account | -1.3 | -1.5 | -2.4 | -5.4 | -3.0 | -2.4 | -2.0 | -2.7 | -2.4 |
| % of GDP | -2.3 | -2.3 | -3.5 | -7.4 | -3.8 | -3.0 | -2.2 | -2.8 | -2.3 |
| Consolidated government balance | -1.5 | -4.1 | -3.6 | -4.7 | -4.2 | -3.5 | -3.2 | -3.1 | -3.3 |
| **UGANDA** | | | | | | | | | |
| Nominal GDP, USD bn | 37.9 | 38.1 | 42.7 | 48.2 | 52.0 | 57.2 | 66.2 | 70.2 | 77.1 |
| GDP per capita, USD | 881 | 858 | 931 | 1,019 | 1,071 | 1,146 | 1,291 | 1,333 | 1,426 |
| Real GDP, yoy avg | 7.6 | -1.2 | 5.6 | 6.3 | 4.9 | 6.0 | 6.8 | 6.7 | 7.2 |
| CPI, %yoy, avg | 2.1 | 2.8 | 2.2 | 7.2 | 5.4 | 3.3 | 3.6 | 4.0 | 5.4 |
| Policy Interest Rate, % eop | 9.00 | 7.00 | 6.50 | 10.00 | 9.50 | 9.75 | 9.75 | 12.00 | 11.00 |
| UGX/US$, avg | 3,705 | 3,717 | 3,585 | 3,687 | 3,725 | 3,756 | 3,601 | 3,753 | 3,848 |
| Current account | -2.6 | -3.6 | -3.6 | -4.1 | -3.6 | -4.6 | -4.3 | -4.1 | -3.5 |
| % of GDP | -7.0 | -9.4 | -8.5 | -8.4 | -7.0 | -8.0 | -6.5 | -5.8 | -4.5 |
| Consolidated government balance | -5.8 | -8.3 | -8.2 | -6.0 | -5.1 | -4.2 | -6.9 | -5.8 | -4.6 |
| **ZAMBIA** | | | | | | | | | |
| Nominal GDP, USD bn | 23.3 | 18.2 | 22.2 | 29.2 | 27.6 | 25.3 | 28.7 | 42.7 | 47.1 |
| GDP per capita, USD | 1,266 | 960 | 1,141 | 1,459 | 1,341 | 1,197 | 1,323 | 1,914 | 2,058 |
| Real GDP, yoy avg | 1.4 | -2.8 | 4.6 | 4.7 | 5.3 | 3.7 | 5.6 | 5.9 | 4.0 |
| CPI, %yoy, avg | 9.2 | 15.7 | 22.0 | 11.0 | 10.9 | 15.0 | 14.0 | 6.7 | 8.0 |
| Policy Interest Rate, % eop | 11.50 | 8.00 | 9.00 | 9.00 | 11.00 | 14.00 | 14.25 | 10.25 | 12.50 |
| ZMK/US$, avg | 13 | 18 | 20 | 17 | 20 | 26 | 25.05 | 19.15 | 19.44 |
| Current account | 0.2 | 2.1 | 2.6 | 1.1 | -0.8 | -1.1 | -1.0 | 1.1 | 1.8 |
| % of GDP | 0.6 | 11.8 | 11.8 | 3.7 | -3.0 | -4.4 | -3.5 | 2.6 | 3.8 |
| Consolidated government balance | -9.4 | -13.8 | -8.1 | -7.7 | -5.5 | -3.5 | -3.9 | -4.4 | -3.2 |

| Quarterly Economic Indicators | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025 Q4 | 2026 Q1 | 2026 Q2 | 2026 Q3F | 2026 Q4F | 2027 Q1F | 2027 Q2F | 2027 Q3F | 2027 Q4F |
| GHS/US$, eop | 10.50 | 10.97 | 11.33 | 11.71 | 11.60 | 11.80 | 12.00 | 12.00 | 12.10 |
| KES/US$, eop | 129.00 | 129.95 | 129.40 | 129.65 | 129.45 | 129.45 | 129.55 | 129.70 | 129.60 |
| TZS/US$, eop | 2,460 | 2,595 | 2,630 | 2,640 | 2,615 | 2,640 | 2,645 | 2,650 | 2,650 |
| UGX/US$, eop | 3,620 | 3,756 | 3,702 | 3,920 | 4,050 | 3,950 | 3,900 | 3,825 | 3,815 |
| ZMK/US$, eop | 22 | 19 | 18.24 | 19.77 | 19.60 | 19.50 | 19.50 | 19.40 | 19.30 |

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Source: Citi Research, National Sources

# Latin America

# Argentina

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- **Summary view** – Argentina faces a likely Q3 technical recession amid mixed signals: record September exports (US$10.1B) and a strong trade surplus contrast with weak annual activity, rising unemployment, and inflation at 33.4% YoY. GDP growth is expected at 1.8% in 2026 and 2.6% in 2027, below the government's 4% Budget target, while Brazil's political and currency shifts add external risk.

**Industrial activity rose 1.9% MoM in August but fell 3.2% YoY, down 2.7% in 2026 and 7% below November 2023 levels**; furniture, metals, and food led gains while rubber/plastics and textiles declined. Construction grew 0.4% MoM but fell 4.4% YoY, 24% below November 2023, with mortgage-driven demand expected to support recovery in 2027. Unemployment rose to 7.9% in Q2 (+0.1pp QoQ), affecting 1.83 million people, amid growing informality.

**El Niño-related storms and uneven rainfall are forecast across the agricultural belt during corn planting**, heaviest in the Litoral, NOA, Chaco, and Mesopotamia, though added humidity should benefit soybean crops.

**September exports reached a record US$10.1 billion, with falling imports producing a US$2.9 billion surplus**; fuel and energy exports rose nearly 90% YoY, led by China. Nine-month exports totaled US$77.3 billion (+21.6%), with a US$21.2 billion surplus, US$13 billion above 2025. The U.S. and Argentina also announced the Andes-Atlantic Corridor, modernizing infrastructure linking Vaca Muerta to Atlantic ports, backed by up to US$7 billion in U.S. financing, including a non-binding US$6 billion EXIM proposal for Argentina LNG.

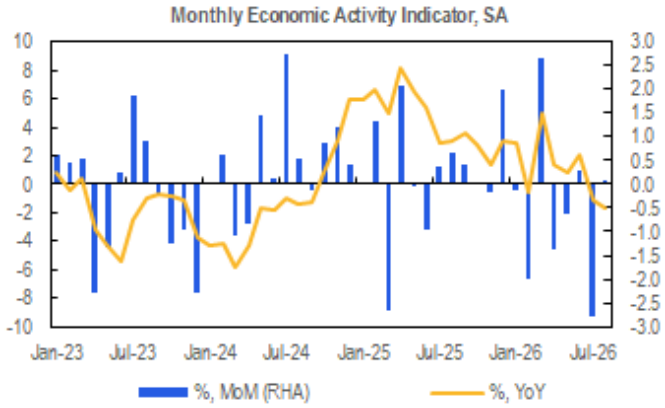
**September inflation accelerated to 1.9% (+0.2pp vs. August)**, lifting annual inflation to 33.4% and YTD to 23.6%, while core inflation eased to 1.7%. Regulated (+2.3%) and seasonal (+2.9%, vegetables) prices drove the increase, with housing/electricity and education posting the largest gains.

**The government presented and secured approval for its 2027 Budget**, projecting 4% GDP growth, a fourth consecutive fiscal surplus (1.3% primary, 0.2% financial), 21.1% average inflation, 25.4% wage growth, exports above US$130 billion, and an exchange rate of Ar$1,847 by year-end. Tax revenue grew 38.3% YoY in September, a near 4% real gain versus 33% inflation, led by Income Tax (+63.3%) and Export Duties (+99.2%), though VAT lagged inflation.

**The Di Tella Government Confidence Index (ICG) rose to 1.95 points in October (+0.9% MoM)**, though it remains down 20.7% since year-end and 7.0% YoY, hovering near 2.00 since April. At month 34, the ICG trails Néstor Kirchner (2.70) but exceeds Macri (1.76), both Cristina Kirchner terms (1.70/1.65), and Fernández (1.28). The administration's average ICG stands at 2.33, its lowest on record, below Macri's (2.45) and Fernández's (1.85) averages.

**President Lula's reelection in Brazil and the real's depreciation pose headwinds for Argentina's trade and investment outlook**, given Brazil's weight as a regional partner and bilateral exports' sensitivity to exchange-rate shifts.

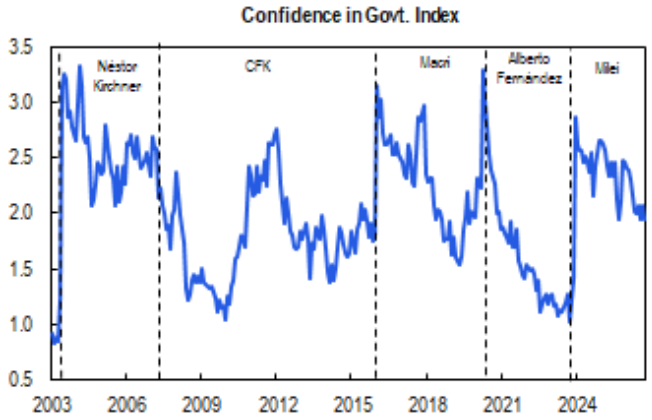
**Figure 126. Economic activity has weakened in recent months.**




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Source: Citi Research, INDEC, Haver Analytics

**Figure 127. Confidence in government remains in low levels.**




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Source: Citi Research

**Figure 128. Argentina Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 446 | 386 | 486 | 633 | 652 | 638 | 681 | 751 | 775 |
| Population, mn | 44.4 | 44.9 | 45.4 | 45.9 | 46.4 | 46.9 | 47.4 | 47.9 | 48.4 |
| Real GDP, yoy avg | -2.0 | -9.6 | 10.5 | 6.0 | -1.8 | -1.3 | 4.4 | 1.8 | 2.6 |
| Private consumption growth % yoy | -5.9 | -11.8 | 9.7 | 9.4 | 0.9 | -2.6 | 8.6 | 1.2 | 1.9 |
| Real investment growth % yoy | -15.5 | -12.5 | 38.6 | 10.6 | -2.0 | 9.0 | 16.2 | -9.8 | 11.4 |
| Real export growth, % yoy | 9.9 | -16.9 | 8.9 | 4.9 | -9.4 | 19.7 | 8.1 | 21.3 | 6.7 |
| Real import growth, % yoy | -18.1 | -16.8 | 19.5 | 18.1 | 1.9 | -9.6 | 28.0 | -7.5 | 11.0 |
| Net export contribution to growth | 4.1 | -0.7 | 0.5 | -1.8 | -2.4 | 4.2 | -3.8 | - | - |
| Unemployment, % of labour force | 9.8 | 11.5 | 8.8 | 6.8 | 6.1 | 7.1 | 7.4 | 7.9 | 7.5 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -3.5 | 2.7 | 6.6 | -4.0 | -20.8 | 5.7 | -7.2 | 5.0 | 3.8 |
| % of GDP | -0.8 | 0.7 | 1.4 | -0.6 | -3.2 | 0.9 | -1.1 | 0.7 | 0.5 |
| Trade balance | 18.2 | 14.6 | 18.7 | 12.4 | -2.8 | 22.4 | 11.3 | 27.5 | 28.6 |
| External debt | 278.5 | 270.7 | 266.5 | 276.2 | 287.8 | 276.1 | 320.0 | 308.0 | 314.0 |
| International reserves | 45.2 | 39.3 | 39.1 | 44.2 | 23.1 | 31.5 | - | - | - |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -4.9 | -8.0 | -3.6 | -3.8 | -4.4 | 0.3 | 0.2 | 0.0 | 0.0 |
| Consolidated gov primary balance | -3.5 | -6.4 | -2.1 | -2.0 | -2.7 | 1.8 | 1.5 | 1.3 | 1.2 |
| Public debt | 71.9 | 87.1 | 75.0 | 62.9 | 56.9 | 73.7 | 68.9 | 61.7 | 64.1 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 53.8 | 36.1 | 50.9 | 94.8 | 211.4 | 117.8 | 31.5 | 29.5 | 25.5 |
| CPI, %yoy, avg | 52.2 | 36.4 | 51.4 | 91.8 | 172.8 | 154.4 | 41.9 | 30.5 | 27.0 |
| ARS/US$, eop | 59.87 | 84.09 | 102.69 | 176.75 | 808.48 | 1031.00 | 1451.50 | 1640.00 | 2050.00 |
| ARS/US$, avg | 46.58 | 69.92 | 94.90 | 127.34 | 261.41 | 910.82 | 1226.35 | 1550.00 | 1710.00 |
| **Quarterly Economic Indicators** | **2025 Q4** | **2026 Q1** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 4.4 | 3.5 | -1.6 | -0.4 | 1.8 | 2.0 | 2.3 | 2.4 | 2.6 |
| ARS/US$, eop | 1451.50 | 1382.50 | 1481.25 | 1525.00 | 1640.00 | 1720.00 | 1840.00 | 1990.00 | 2050.00 |

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Source: Citi Research, National Sources

# Brazil

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- **Summary view –**President Lula was reelected with a significant margin of votes. The market sell-off following the electoral result should keep exchange rate at weaker levels in the near term, pushing the BCB to interrupt the interest rate cutting cycle. Fiscal policy will be closely monitored by market participants.

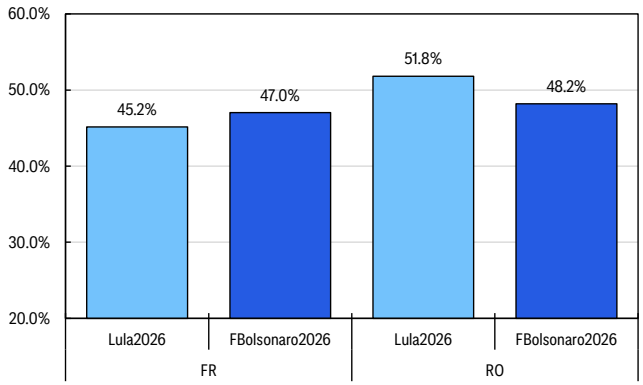
**President Lula surprises and is reelected for his 4th mandate until 2030.** The runoff of the Presidential Elections on Oct 25th showed a quite surprising victory of President Lula over Senator Flavio Bolsonaro by a significant margin of 3.6p.p. of valid votes, contrasting not only with the 1st round outcome, but also with the results suggested by fifteen polls released on Oct 24th. The voting difference was also larger than the one seen in the 2022 Presidential Election, when President Lula beat former President Jair Bolsonaro by 1.8p.p. of valid votes. Senator Flavio Bolsonaro has not recognized the electoral result and mentioned that he will contest it. The relatively significant voting difference of 3.6p.p. and the confirmation of the electoral result by the President of the Electoral Court (TSE), Justice Kassio Nunes Marques, suggest low likelihood for a potential reversion of the electoral result. From a market standpoint, the electoral result already implied a significant market sell-off of domestic assets (FX, rates, stocks, etc).

**We see Copom on hold from now on**. Regarding the economic outlook, the weaker exchange rate is likely to push Copom to interrupt the interest rate cutting cycle in the next MoP meeting on Nov 4th, keeping the Selic rate at 13.75%. This scenario becomes even more likely in case the medium/long term inflation expectations de-anchor further. In the meantime, the weaker currency should drive the 2026 CPI inflation estimate to 5.1% (from 4.8%), moving further away from the target band. Looking ahead, conditioned on the strengthening of fiscal fundamentals, we still see room for Copom to resume a gradual interest rate cutting cycle as of 2H27.

**Economic slowdown continues taking place**. Monthly indicators for August reinforced the evidence toward a roughly unchanged 3Q26 GDP (0.1% QoQ from 0.5% QoQ in the 2Q26). Looking ahead, with the monetary policy still in the contractionary terrain, we see the economy growing slightly below its potential, supporting our 2026-2027 GDP growth forecasts of 1.8% and 1.4%, respectively. Our activity outlook also assumes that the fiscal anchor is more likely to be strengthened (see the following paragraph), otherwise, the higher interest rate environment would suggest a weaker GDP performance compared to our forecasts.

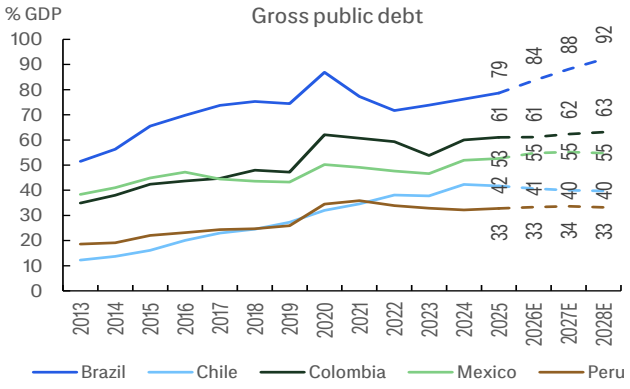
**We expect the fiscal anchor to be strengthened in the near term**. Given the fragile fiscal fundamentals, market analysts will turn even more sensitive to any development on the conduction of fiscal policy. Thus, the incentives for President Lula to announce a new Minister of Finance in coming weeks as a strategy to recover some fiscal credibility are not negligible, especially considering that some easing measures were announced during the Presidential campaign. On this issue, the press is already suggesting some names like the BCB President Gabriel Galípolo, Senator Camilo Santana, Piauí State Governor Rafael Fonteles, or even Vice President Geraldo Alckmin, as potential candidates to head the Ministry of Finance. It's worth mentioning that this appointment might contribute to signaling a shift toward a more austere fiscal policy, but the real signpost from a market standpoint is not the MoF name, but President Lula's willingness to move on this direction.

**Figure 129. President Lula surprises and is reelected.**




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Source: TSE, Citi Research

**Figure 130. Fiscal policy remains unsustainable.**




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Source: Citi Research

**Figure 131. Brazil Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 1,871 | 1,451 | 2,452 | 1,962 | 2,195 | 2,152 | 2,286 | 2,622 | 2,717 |
| Population, mn | 205.2 | 206.5 | 207.9 | 209.2 | 210.1 | 210.9 | 213.4 | 214.2 | 215.0 |
| Real GDP, yoy avg | 1.2 | -3.3 | 4.8 | 3.0 | 3.2 | 3.4 | 2.3 | 1.8 | 1.4 |
| Private consumption growth % yoy | 2.6 | -4.6 | 3.0 | 4.1 | 3.2 | 5.1 | 1.3 | 1.1 | 1.4 |
| Real investment growth % yoy | 1.2 | -3.3 | 23.1 | -4.0 | -6.8 | 12.6 | 4.5 | 0.3 | 1.0 |
| Real export growth, % yoy | -2.6 | -2.3 | 4.4 | 5.7 | 8.9 | 2.8 | 6.2 | 4.0 | 3.1 |
| Real import growth, % yoy | 1.3 | -9.5 | 13.8 | 1.0 | -1.2 | 15.6 | 4.5 | 2.5 | 1.4 |
| Net export contribution to growth | -0.6 | 1.2 | -1.4 | 0.7 | 1.5 | -2.0 | 0.2 | 0.2 | 0.3 |
| Unemployment, % of labour force | 12.0 | 13.7 | 13.2 | 9.3 | 8.0 | 6.8 | 5.9 | 5.3 | 5.7 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -64.0 | -24.2 | -39.4 | -42.0 | -27.0 | -65.3 | -67.4 | -65.2 | -68.7 |
| % of GDP | -3.4 | -1.7 | -1.6 | -2.1 | -1.2 | -3.0 | -2.9 | -2.5 | -2.5 |
| Trade balance | 29.6 | 35.7 | 42.3 | 51.5 | 92.3 | 65.8 | 59.7 | 71.0 | 66.9 |
| FDI, net | 46.4 | 41.7 | 30.2 | 42.1 | 37.6 | 47.8 | 49.1 | 52.4 | 56.9 |
| External debt | 446.8 | 434.7 | 456.7 | 440.1 | 470.2 | 473.0 | 456.7 | - | - |
| International reserves | 356.9 | 355.6 | 362.2 | 324.7 | 355.0 | 329.7 | 358.2 | 367.6 | 367.6 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -5.8 | -13.3 | -4.3 | -4.6 | -8.8 | -8.5 | -8.3 | -9.3 | -8.5 |
| Consolidated gov primary balance | -0.8 | -9.2 | 0.7 | 1.2 | -2.3 | -0.4 | -0.4 | -0.5 | -0.2 |
| Public debt | 74.4 | 86.9 | 77.3 | 71.7 | 73.8 | 76.3 | 78.6 | 83.5 | 88.0 |
| External public debt | 9.4 | 10.8 | 10.7 | 9.0 | 8.8 | 10.2 | 10.7 | 0.0 | 0.0 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 4.3 | 4.5 | 10.1 | 5.8 | 4.6 | 4.8 | 4.3 | 5.1 | 4.3 |
| CPI, %yoy, avg | 3.7 | 3.2 | 8.3 | 9.3 | 4.6 | 4.4 | 5.0 | 4.5 | 4.7 |
| BRL/US$, eop | 4.02 | 5.19 | 5.57 | 5.29 | 4.85 | 6.18 | 5.48 | 5.41 | 5.50 |
| BRL/US$, avg | 3.95 | 5.16 | 5.40 | 5.16 | 5.00 | 5.39 | 5.59 | 5.23 | 5.48 |
| Policy Interest Rate, % eop | 4.50 | 2.00 | 9.25 | 13.75 | 11.75 | 12.25 | 15.00 | 13.75 | 12.75 |
| Nominal wages, % yoy | 3.7 | 6.8 | -1.5 | 14.6 | 7.8 | 9.3 | 9.7 | 8.0 | 5.0 |
| **Quarterly Economic Indicators** | **2025 Q4** | **2026 Q1** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 1.8 | 1.8 | 2.0 | 1.8 | 1.7 | 1.3 | 1.2 | 1.5 | 1.7 |
| CPI, %yoy, avg | 4.5 | 4.8 | 4.6 | 4.4 | 4.5 | 4.8 | 4.8 | 4.9 | 4.7 |
| BRL/US$, eop | 5.48 | 5.18 | 5.18 | 5.17 | 5.41 | 5.45 | 5.49 | 5.50 | 5.50 |
| Policy interest rate, %, eop | 15.00 | 14.75 | 14.25 | 13.75 | 13.25 | 13.25 | 13.25 | 12.75 | 12.25 |

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# CCA

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- **Summary view –**CCA enters the final months of 2026 with growth remaining resilient, but regional differentiation is increasingly being driven by domestic constraints rather than external shocks. Panama's hydrological risks, Costa Rica's competitiveness challenges, the Dominican Republic's fiscal execution, and El Salvador's external adjustment are becoming more important drivers of country outcomes even as tourism, remittances, and services exports continue to support activity across the region.

**Growth performance remains relatively strong, although the sources of growth are becoming increasingly uneven across countries**. Activity continues to benefit from tourism, services exports, remittances, and infrastructure investment, while higher oil prices and tighter external financial conditions have proven manageable so far. Panama and the Dominican Republic continue to lead the region, supported by Canal activity, logistics, tourism, and strong domestic demand. We now forecast growth of 4.7% and 4.5%, respectively, in 2026. El Salvador has also surprised to the upside, with security improvements, investment, and tourism supporting activity well above recent historical trends. By contrast, Costa Rica's slowdown has become more evident as weakness in free-trade-zone activity and tourism increasingly weighs on growth, while Guatemala faces a less supportive backdrop as remittance growth moderates. Across the region, activity remains resilient, but domestic drivers are becoming more important than the broad external tailwinds that characterized recent years.

**Inflation pressures remain elevated across much of the region, although recent developments continue to reflect imported cost pressures more than overheating domestic demand.** Higher fuel costs continue to influence inflation dynamics in the Dominican Republic, Honduras, El Salvador, and Panama, while Costa Rica remains the regional outlier with inflation still well below target despite a recent return to positive readings. Oil-related passthrough remains particularly relevant for the Dominican Republic and Honduras, while dollarized economies have little ability to offset imported price shocks through monetary policy. More broadly, the steady disinflation story that dominated much of the past two years has largely run its course. Inflation remains manageable across most of the region, but energy costs and climate-related disruptions continue to pose upside risks into year-end.

**Monetary policy flexibility is becoming increasingly constrained by external conditions, even as domestic inflation dynamics vary considerably across countries.** The Fed's renewed tightening cycle and higher US rates have reduced room for policy easing across the region. Costa Rica presents the strongest domestic case for lower rates given subdued inflation and slowing activity, but currency dynamics and external considerations continue to argue for caution. Honduras has already resumed tightening, while the Dominican Republic delivered a 25bp hike in September, though we do not foresee this becoming an extended hiking cycle. Across the region, policymakers remain focused on preserving policy credibility and managing external vulnerability rather than providing additional support to growth.

**Fiscal execution and sovereign credibility are more important drivers of the regional outlook than external-financing concerns.** The Dominican Republic continues to post some of the region's strongest growth dynamics, but widening fiscal deficits, energy subsidies, and rising debt-service costs are becoming more visible constraints. Costa Rica's fiscal position remains comparatively strong, but concerns surrounding government accounts and public-sector liabilities continue to weigh on the medium-term discussion. In El Salvador, the IMF program remains the central macro anchor, supporting policy credibility even as the government

navigates slower remittance growth and wider external deficits. Importantly, the large deterioration expected in the 2027 NFPS balance largely reflects the accounting recognition of previously accrued pension liabilities rather than a new financing requirement, as the underlying fiscal position continues to improve despite the expected deterioration in the headline balance.

**Panama remains the region's most important sovereign story, with hydrological conditions increasingly shaping the macro outlook.** Growth remains robust, fiscal performance has improved, and external accounts are considerably stronger than previously estimated. However, water availability continues to represent the principal constraint on the outlook given its implications for Canal operations, fiscal revenues, and external balances. We continue to expect the main economic effects of El Niño to emerge during the next dry season, making hydrological developments the key variable to monitor over the coming quarters. Attention is increasingly turning toward sovereign-credit developments as Moody's maintains Panama at its lowest investment-grade rating with a negative outlook, and any rating action in coming months would carry important implications for sovereign financing conditions and investor sentiment.

**Remittances remain an important stabilizing force across Central America, although the pace of support has slowed.** Guatemala, Honduras, and El Salvador continue to benefit from sizable inflows, but growth rates have moderated from the exceptional levels observed in recent years. That moderation has become particularly important in El Salvador, where slower remittance growth has contributed to wider current-account deficits even as tourism and investment remain supportive. While remittances continue to underpin household consumption and external stability, they now provide less incremental support than they did during the post-pandemic period.

**The regional outlook remains constructive, but attention is increasingly shifting toward a handful of country-specific risks that will shape the final months of 2026**. Panama's hydrological conditions remain the most important macro variable for assessing Canal-related risks ahead of the 2027 dry season, while the Dominican Republic continues to balance strong growth against rising fiscal and inflation pressures. Costa Rica's competitiveness challenges remain a key constraint on activity, and Honduras's policy framework will continue to be closely linked to progress toward a successor IMF arrangement. Across the region, tourism, remittances, and services exports continue to support growth, but fiscal execution, energy costs, and climate-related developments are becoming more important drivers of macro differentiation through year-end.

**Figure 132. CCA Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Costa Rica** | | | | | | | | | |
| Nominal GDP, USD bn | 64.8 | 62.8 | 65.6 | 71.0 | 87.5 | 96.7 | 102.9 | 115.1 | 122.3 |
| GDP per capita, USD | 12,896 | 12,434 | 12,917 | 13,908 | 17,040 | 18,726 | 19,821 | 22,057 | 23,328 |
| Real GDP, yoy avg | 2.7 | -4.1 | 8.2 | 5.5 | 4.8 | 4.1 | 4.6 | 3.2 | 3.4 |
| CPI, %yoy, eop | 1.5 | 0.9 | 3.3 | 7.9 | -1.8 | 0.8 | -1.2 | 0.9 | 1.5 |
| Policy Interest Rate, % eop | 2.75 | 0.75 | 1.25 | 9.00 | 6.00 | 4.00 | 3.25 | 3.00 | 3.00 |
| CRC/US$, avg | 586.6 | 584.3 | 621.3 | 643.5 | 541.4 | 515.6 | 503.8 | 461.4 | 458.4 |
| CRC/US$, eop | 571.0 | 610.4 | 642.0 | 591.7 | 519.6 | 509.7 | 497.5 | 460.0 | 456.7 |
| Current account | -0.8 | -0.6 | -2.2 | -1.9 | -1.2 | -0.8 | -0.5 | -0.8 | -1.1 |
| % of GDP | -1.2 | -1.0 | -3.3 | -2.6 | -1.4 | -0.9 | -0.5 | -0.7 | -0.9 |
| Consolidated government balance | -6.4 | -8.0 | -5.0 | -2.5 | -2.7 | -3.2 | -2.7 | -2.5 | -2.5 |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
| **Dominican Republic** | | | | | | | | | |
| Nominal GDP, USD bn | 89.1 | 78.5 | 94.9 | 113.5 | 120.5 | 124.3 | 127.4 | 134.5 | 143.1 |
| GDP per capita, USD | 8,606 | 7,518 | 9,003 | 10,683 | 11,246 | 11,512 | 11,689 | 12,230 | 12,895 |
| Real GDP, yoy avg | 4.9 | -7.9 | 14.0 | 5.3 | 2.2 | 5.0 | 2.1 | 4.1 | 4.4 |
| CPI, %yoy, eop | 3.7 | 5.6 | 8.5 | 7.8 | 3.6 | 3.3 | 5.0 | 3.9 | 4.0 |
| Policy Interest Rate, % eop | 4.50 | 3.00 | 3.50 | 8.50 | 7.00 | 6.00 | 5.25 | 5.00 | 5.00 |
| DOP/US$, avg | 51.3 | 56.4 | 57.0 | 54.9 | 56.0 | 59.4 | 61.6 | 63.8 | 65.1 |
| DOP/US$, eop | 53.0 | 58.2 | 57.5 | 56.3 | 58.0 | 61.1 | 63.1 | 63.9 | 65.9 |
| Current account | -1.2 | -1.3 | -2.7 | -6.5 | -4.4 | -4.2 | -4.0 | -4.2 | -4.3 |
| % of GDP | -1.3 | -1.7 | -2.8 | -5.8 | -3.7 | -3.4 | -3.1 | -3.1 | -3.0 |
| Consolidated government balance | -2.3 | -7.6 | -2.5 | -2.7 | -3.1 | -3.2 | -3.2 | -2.9 | -2.5 |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
| **El Salvador** | | | | | | | | | |
| Nominal GDP, USD bn | 26.9 | 24.9 | 29.0 | 31.9 | 33.6 | 34.9 | 36.7 | 39.0 | 41.2 |
| GDP per capita, USD | 4,257 | 3,943 | 4,591 | 5,034 | 5,295 | 5,492 | 5,766 | 6,113 | 6,433 |
| Real GDP, yoy avg | 2.4 | -7.9 | 11.9 | 2.9 | 3.4 | 2.6 | 3.9 | 3.7 | 3.2 |
| CPI, %yoy, eop | 0.0 | -0.1 | 6.1 | 7.3 | 1.2 | 0.3 | 0.9 | 3.6 | 2.0 |
| SVC/US$, avg | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| SVC/US$, eop | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Current account | -0.1 | 0.3 | -1.3 | -2.1 | -0.6 | -1.0 | -1.3 | -1.8 | -1.6 |
| % of GDP | -0.4 | 1.1 | -4.3 | -6.7 | -1.7 | -2.8 | -3.5 | -4.5 | -3.8 |
| Consolidated government balance | -2.9 | -10.0 | -5.5 | -2.7 | -4.7 | -4.6 | -2.9 | -2.8 | -8.2 |
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
| **Panama** | | | | | | | | | |
| Nominal GDP, USD bn | 69.8 | 57.1 | 67.4 | 76.5 | 83.8 | 86.6 | 90.7 | 96.6 | 101.9 |
| GDP per capita, USD | 16,343 | 13,175 | 15,368 | 17,222 | 18,642 | 19,029 | 19,724 | 20,802 | 21,720 |
| Real GDP, yoy avg | 3.1 | -17.8 | 16.5 | 11.0 | 7.2 | 2.8 | 4.4 | 4.7 | 3.8 |
| CPI, %yoy, eop | -0.1 | -1.6 | 2.6 | 2.1 | 1.9 | -0.2 | 0.4 | 2.4 | 2.0 |
| PAB/US$, avg | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| PAB/US$, eop | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Current account | -3.3 | -0.2 | -0.8 | 0.0 | -2.7 | 0.4 | -1.1 | 0.2 | -0.8 |
| % of GDP | -4.8 | -0.3 | -1.2 | 0.0 | -3.2 | 0.4 | -1.2 | 0.2 | -0.8 |
| Consolidated government balance | -2.7 | -9.7 | -6.4 | -4.0 | -3.9 | -6.2 | -3.7 | -3.3 | -3.0 |

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# Chile

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- **Summary view** –Chile's macro outlook remains constrained by weak investment and mining-sector , while persistent inflation keeps the BCCh on hold despite increasing signs of economic slack. Growth expectations have deteriorated further over recent months, but inflation remains sufficiently above target to prevent any meaningful shift toward policy easing. Fiscal and external buffers continue to provide stability even as domestic demand and investment remain weak.

**Growth has become the binding constraint on the outlook, with mining weakness and delayed investment execution pushing the recovery into 2027.** Recent activity data confirmed a weaker-than-expected year, with mining disruptions weighing heavily on output and reinforcing a sharp slowdown in investment. We now forecast GDP growth of 0.6% in 2026, down from 1.1% previously. Labor-market conditions remain soft, confidence indicators subdued, and private investment decisions continue to be delayed despite progress on permitting reforms. While recently approved investment initiatives support the medium-term outlook, their contribution increasingly appears concentrated in 2027 rather than providing support this year. As a result, investment remains the principal constraint on growth.

**Inflation remains above target, although recent pressures continue to reflect supply-side factors rather than stronger domestic demand.** Higher fuel prices, electricity-related pressures, and exchange-rate passthrough have slowed convergence toward the BCCh's 3% target and contributed to a modest rise in inflation expectations. However, underlying demand conditions remain weak and core inflation continues to behave more favorably than headline measures. We maintain our end-2026 inflation forecast at 4.1%, with inflation gradually returning toward target thereafter. While we still see disinflation ahead, it is proceeding more slowly than previously expected.

**The BCCh remains on hold, balancing above-target inflation against a deteriorating growth backdrop.** Policymakers have increasingly acknowledged weaker activity, but inflation remains elevated enough to prevent any meaningful discussion of easing. We continue to expect the policy rate to remain unchanged through much of 2027. While our baseline still incorporates a modest normalization cycle thereafter, the immediate policy discussion is centered on the duration of the hold rather than the timing of future rate increases. The combination of weak growth and above-target inflation remains consistent with an extended period of policy stability.

**Fiscal credibility remains a relative strength, although slower growth complicates the consolidation process.** The government continues to pursue gradual fiscal adjustment, supported by strong institutions and favorable commodity revenues. However, weaker activity makes debt stabilization and compliance with fiscal targets more challenging over the medium term. The approval of investment-related reforms shifts attention toward execution rather than legislation. The central question is whether approved projects can translate into higher investment and stronger growth quickly enough to support revenues and improve the macro trajectory.

**External accounts remain supported by elevated copper prices, although domestic growth weakness continues to dominate the outlook.** Favorable terms of trade continue to underpin exports, fiscal revenues, and external balances, even if weaker mining volumes have limited the benefits. We expect a broadly stable USDCLP profile through year-end 2026. External vulnerabilities remain limited given strong reserve buffers and access to external financing. External vulnerabilities remain limited given strong reserve buffers and access to external financing.

**Figure 133. Chile Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 279 | 255 | 315 | 302 | 336 | 329 | 358 | 391 | 395 |
| Population, mn | 19.1 | 19.5 | 19.7 | 19.8 | 20.0 | 20.1 | 20.2 | 20.3 | 20.4 |
| Real GDP, yoy avg | 0.6 | -6.1 | 11.3 | 2.1 | 0.7 | 2.8 | 2.5 | 0.6 | 3.0 |
| Private consumption growth % yoy | 0.7 | -7.4 | 20.8 | 1.6 | -4.7 | 1.1 | 2.7 | 1.8 | 2.7 |
| Real investment growth % yoy | 1.3 | -17.8 | 28.2 | 1.5 | -4.7 | 0.5 | 8.9 | -2.0 | 5.1 |
| Real export growth, % yoy | -2.5 | -0.9 | -1.5 | 0.8 | 0.3 | 7.2 | 4.6 | -3.0 | 3.0 |
| Real import growth, % yoy | -1.7 | -12.3 | 31.9 | 1.3 | -11.1 | 2.1 | 10.5 | -1.6 | 2.3 |
| Net export contribution to growth | -0.8 | 6.1 | -5.5 | -3.2 | 4.9 | 2.7 | 0.7 | 1.8 | 0.3 |
| Unemployment, % of labour force | 7.2 | 10.8 | 8.9 | 7.9 | 8.7 | 8.5 | 8.6 | 8.6 | 8.5 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -14.5 | -5.0 | -23.0 | -26.7 | -10.4 | -3.8 | -4.3 | -1.2 | -6.1 |
| % of GDP | -5.2 | -2.0 | -7.3 | -8.9 | -3.1 | -1.2 | -1.2 | -0.3 | -1.5 |
| Trade balance | 3.0 | 18.9 | 10.3 | 3.6 | 13.8 | 20.8 | 23.8 | 34.3 | 30.6 |
| FDI, net | 3.2 | 5.0 | 0.6 | 4.7 | 10.8 | 9.1 | 5.8 | 6.5 | 6.6 |
| External debt | 198.4 | 208.5 | 235.4 | 231.5 | 243.3 | 245.0 | 277.4 | 296.8 | 299.9 |
| Short-term debt | 20.0 | 18.3 | 22.7 | 21.7 | 24.1 | 23.6 | 25.7 | 28.9 | - |
| International reserves | 40.7 | 39.2 | 51.3 | 39.2 | 46.4 | 44.4 | 49.5 | 53.5 | 53.5 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.4 | -7.3 | -7.4 | 1.2 | -2.1 | -2.5 | -2.5 | -1.5 | -1.5 |
| Consolidated gov primary balance | -1.9 | -6.3 | -6.9 | 2.1 | -1.3 | -1.6 | -0.8 | -0.5 | -0.3 |
| Public debt | 28.3 | 32.4 | 36.4 | 37.9 | 39.4 | 41.7 | 41.5 | 42.7 | 42.5 |
| External public debt | 5.2 | 6.2 | 7.6 | 11.7 | 13.9 | 14.1 | 14.3 | 14.1 | 14.7 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 3.0 | 3.0 | 7.2 | 12.8 | 3.4 | 4.5 | 3.4 | 4.1 | 3.2 |
| CPI, %yoy, avg | 2.3 | 3.0 | 4.5 | 11.6 | 7.5 | 3.9 | 4.2 | 3.7 | 3.1 |
| CLP/US$, eop | 752.0 | 710.5 | 852.0 | 848.3 | 881.0 | 993.9 | 900.7 | 990.2 | 948.1 |
| CLP/US$, avg | 703.3 | 791.8 | 760.6 | 873.6 | 840.4 | 944.1 | 951.0 | 953.3 | 961.1 |
| Policy Interest Rate, % eop | 1.75 | 0.50 | 4.00 | 11.25 | 8.25 | 5.00 | 4.50 | 4.50 | 5.00 |
| Long-term yield, %, eop | 2.26 | 1.51 | 5.40 | 7.64 | 7.07 | 6.50 | 6.50 | 6.25 | 6.25 |
| Nominal wages, % yoy | 4.5 | 4.2 | 6.8 | 10.9 | 7.7 | 7.5 | 2.7 | 1.5 | 0.0 |
| **Quarterly Economic Indicators** | **2025 Q4** | **2026 Q1** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 1.6 | -0.3 | -0.2 | 2.0 | 0.9 | 2.8 | 3.9 | 2.3 | 2.9 |
| CPI, %yoy, avg | 3.4 | 2.7 | 4.1 | 3.9 | 4.2 | 3.9 | 2.8 | 2.8 | 3.0 |
| CLP/US$, eop | 900.65 | 926.27 | 914.28 | 972.53 | 990.23 | 977.21 | 964.05 | 955.11 | 948.08 |
| Policy interest rate, %, eop | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.75 | 5.00 |

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# Colombia

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- **Summary view –**Colombia's macro outlook is increasingly defined by the interaction of persistent inflation and fiscal adjustment, with the forthcoming *Ley de Rescate* emerging as the key test of policy credibility. Growth continues to expand, but activity remains dependent on public-sector support at a time when the government is attempting a significant fiscal correction. Inflation persistence, meanwhile, continues to limit policy flexibility and keep monetary conditions restrictive.

**Growth remains positive but has softened following the earthquake shock, reinforcing an already uneven recovery.** While 2Q GDP surprised to the upside, more recent activity indicators point to slower momentum. August ISE contracted following the disruptions associated with the earthquake, while investment and several productive sectors continue to face headwinds from elevated financing costs, energy uncertainty, and weak confidence. Reconstruction spending should provide support through 2027, but growth remains increasingly dependent on public demand rather than a broad-based recovery in private investment. We now forecast GDP growth of 2.1% in 2026 and 1.8% in 2027, reflecting both the near-term impact of the earthquake and a slower recovery in private-sector activity.

**Inflation persistence remains the dominant macro constraint, with services inflation, energy costs, and weather-related pressures continuing to slow convergence toward target.** While headline inflation has moderated from its recent highs, underlying price pressures remain elevated and inflation expectations continue to sit well above Banrep's target. Electricity tariffs have moved higher as El Niño conditions intensify, while services inflation remains supported by indexation and labor-cost dynamics. Upcoming minimum-wage negotiations add another source of uncertainty for the 2027 inflation outlook. We maintain our end-2026 inflation forecast at 6.5% and have revised our 2027 forecast higher to 4.7%, reflecting a slower normalization process than previously anticipated. We expect inflation to continue declining, but the pace of convergence remains gradual.

**Monetary policy remains geared toward preserving inflation credibility in an environment where price pressures continue to exceed target by a wide margin.** Banrep raised the policy rate by 25bp in September to 12.25% and recent communication from board members, including Governor Villar, has reinforced concerns around inflation expectations, fiscal imbalances, and the risk of additional cost shocks. We continue to expect a final 25bp increase at the October meeting, taking the policy rate to 12.5%. Even if the tightening cycle is nearing its conclusion, policymakers appear likely to maintain restrictive conditions for an extended period as they seek clearer evidence that inflation is moving sustainably toward target. This supports our view of a shallower easing cycle than previously anticipated.

**Fiscal consolidation remains the administration's central objective, but credibility now depends on implementation.** The government spent October advancing expenditure cuts, enacting the 2027 budget, and continuing discussions aimed at reinforcing the fiscal framework. Moreover, questions surrounding the fiscal impact of the pension reform remain under review following recent court decisions. Attention is increasingly centered on the forthcoming *Ley de Rescate*, which should provide the legal framework supporting the adjustment strategy. As of this writing, the proposal had not yet been published. The administration has made a more transparent diagnosis of Colombia's fiscal challenges, but market confidence will increasingly depend on how Congress receives proposed adjustments and how much of the adjustment actually translates into durable fiscal improvement.

**External accounts remain manageable, making fiscal credibility a more important driver of risk sentiment than traditional balance-of-payments concerns.** The current-account deficit remains moderate and continues to be mostly financed by FDI inflows, helping limit external vulnerabilities. At the same time, stronger imports, softer hydrocarbon exports, and rising energy dependence have reduced some of the improvement seen earlier in the external accounts. Despite some deterioration in the current-account balance, services exports and remittance inflows continue to provide support, leaving fiscal consolidation and next year's financing needs as the more relevant risk factors.

**Figure 134. Colombia Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 323 | 271 | 318 | 346 | 369 | 420 | 459 | 591 | 680 |
| Population, mn | 49.3 | 50.4 | 51.1 | 51.6 | 52.1 | 52.6 | 53.1 | 53.4 | 53.7 |
| Real GDP, yoy avg | 3.2 | -7.2 | 10.8 | 7.3 | 0.8 | 1.5 | 2.6 | 2.1 | 1.8 |
| Private consumption growth % yoy | 4.1 | -5.0 | 14.7 | 10.8 | 0.5 | 1.6 | 3.5 | 2.4 | 1.5 |
| Real investment growth % yoy | 3.0 | -20.7 | 11.6 | 16.0 | -16.1 | 2.4 | 1.2 | 1.8 | 4.3 |
| Real export growth, % yoy | 3.1 | -22.5 | 14.6 | 12.5 | 3.1 | 0.4 | 1.9 | -0.5 | 2.0 |
| Real import growth, % yoy | 7.3 | -20.1 | 26.7 | 24.0 | -10.0 | 1.2 | 8.6 | 8.4 | -1.2 |
| Net export contribution to growth | -1.2 | 1.2 | -3.4 | -3.8 | 3.0 | -0.2 | -1.7 | -2.1 | 0.6 |
| Unemployment, % of labour force | 11.2 | 18.6 | 15.2 | 11.4 | 10.4 | 10.1 | 8.5 | 8.8 | 9.7 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -14.8 | -9.3 | -17.9 | -20.9 | -8.3 | -7.1 | -11.1 | -14.4 | -16.7 |
| % of GDP | -4.6 | -3.4 | -5.6 | -6.0 | -2.3 | -1.7 | -2.4 | -2.4 | -2.4 |
| Trade balance | -9.9 | -8.9 | -14.0 | -12.2 | -6.8 | -9.2 | -14.8 | -23.1 | -30.3 |
| FDI, net | 10.8 | 5.7 | 6.4 | 13.8 | 15.5 | 9.2 | 5.1 | 11.8 | 10.6 |
| External debt | 159.9 | 177.3 | 193.5 | 204.9 | 220.0 | 221.0 | 246.8 | 287.1 | 330.4 |
| Short-term debt | - | - | - | - | - | - | - | - | - |
| International reserves | 53.2 | 59.0 | 58.6 | 57.3 | 59.6 | 62.5 | 66.4 | 67.3 | 67.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.5 | -7.8 | -7.0 | -5.3 | -4.2 | -6.7 | -6.4 | -7.2 | -7.4 |
| Consolidated gov primary balance | 0.4 | -5.0 | -3.6 | -1.0 | -0.3 | -2.4 | -3.5 | -3.3 | -2.5 |
| Public debt | 50.3 | 65.0 | 63.0 | 60.8 | 56.3 | 61.3 | 64.4 | 60.5 | 65.4 |
| External public debt | 16.0 | 23.0 | 24.5 | 24.8 | 19.3 | 21.0 | 19.1 | 13.8 | 15.8 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 3.8 | 1.6 | 5.6 | 13.1 | 9.3 | 5.2 | 5.1 | 6.5 | 4.7 |
| CPI, %yoy, avg | 3.5 | 2.5 | 3.5 | 10.2 | 11.8 | 6.6 | 5.1 | 6.0 | 4.8 |
| COP/US$, eop | 3,287 | 3,422 | 4,070 | 4,848 | 3,875 | 4,406 | 3,771 | 3,186 | 3,296 |
| COP/US$, avg | 3,283 | 3,693 | 3,749 | 4,261 | 4,324 | 4,073 | 4,051 | 3,385 | 3,211 |
| Policy Interest Rate, % eop | 4.25 | 1.75 | 3.00 | 12.00 | 13.00 | 9.50 | 9.25 | 12.50 | 11.00 |
| Long-term yield, %, eop | 6.33 | 3.83 | 5.08 | 14.08 | 15.08 | 11.58 | 11.33 | 0.00 | 0.00 |
| Nominal wages, % yoy | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 | 5.5 | 5.6 | 5.7 | 5.8 |
| **Quarterly Economic Indicators** | **2025 Q4** | **2026 Q1** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 2.1 | 2.2 | 3.5 | 0.9 | 1.9 | 1.8 | 0.9 | 2.4 | 2.1 |
| CPI, %yoy, avg | 5.3 | 5.4 | 5.9 | 6.2 | 6.5 | 5.5 | 4.7 | 4.5 | 4.6 |
| COP/US$, eop | 3,771 | 3,669 | 3,413 | 3,294 | 3,186 | 3,167 | 3,155 | 3,226 | 3,296 |
| Policy interest rate, %, eop | 9.25 | 11.25 | 12.00 | 12.25 | 12.50 | 12.50 | 12.00 | 11.50 | 11.00 |

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Source: Citi Research, National Sources

# Mexico

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- **Summary view -** Improved recent activity data led us to estimate GDP growth at 1.9% for 2026, expect Banxico to keep rates at 6.50% with an easing bias, and see progress toward an interim USMCA understanding despite continued negotiation noise, while fiscal outlook remains challenging.

**Activity has surprised to the upside in 3Q26, leading us to estimate our 2026 GDP growth forecast at 1.9%.** Recent data suggest the economy entered the second half of the year with stronger momentum than expected, supported by broad-based gains across industry and services. Looking ahead, manufacturing should continue to benefit from the strength of computing and electronics sectors linked to the AI investment cycle, while the outlook for the auto sector will depend importantly on the terms of a potential interim USMCA agreement. In addition, recent evidence from fiscal accounts and investment indicators suggests the infrastructure plan is gradually gaining traction, although greater private-sector participation remains key for sustaining stronger growth. Against this, household consumption remains more moderate, reflecting softer labor-market determinants.

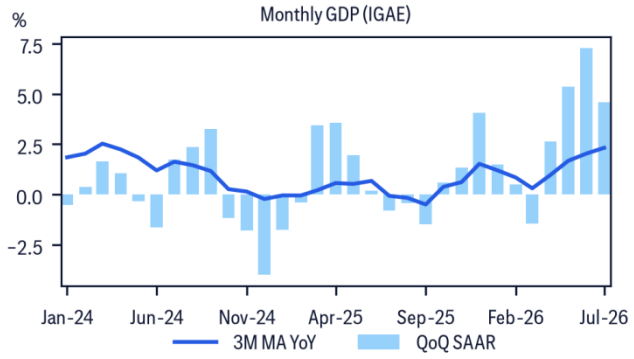
**While near-term inflation prints remain well-behaved, the medium-term trajectory points to a gradual acceleration driven by a reversal in non-core food disinflation and rising global commodity prices.** We expect headline and core end-2026 forecasts at 3.8% and 3.9%, respectively, implying both a rebound from the observed levels. The projected acceleration reflects the volatile non-core food component, which recently provided disinflationary relief, is poised to reverse—a trend that could intensify considering El Niño weather conditions. Elevated global commodity prices for key agricultural inputs like soybeans, corn, and wheat are expected to filter into domestic supply chains, driving a projected rebound in core food inflation throughout 2026 and 2027. Conversely, core services inflation should continue its gradual easing path, while the exchange-rate pass-through remains limited.

**Our base case remains for Banxico to keep its policy rate stable at 6.50% but with a bias of additional rate cuts considering the dovish board.** The recent monetary policy minutes reinforced a dovish bias as most members kept the door open for future easing, although the Board remains highly data-dependent. Most members downplayed concerns around the narrowing US-Mexico rate differential, arguing that Banxico should not mechanically follow the Fed and emphasizing domestic inflation conditions. While our base case remains that Banxico will keep the policy rate unchanged through year-end, the bias toward considering lower rates has increased following the dovish signals from board members.

**Mexico's fiscal consolidation path remains challenging,** as budget outperformance through August 2026 continues to rely on temporary expenditure under-execution (except for infrastructure spending acceleration of 22.3% YoY in August in real terms) rather than revenue growth which remains soft. We continue to view the fiscal consolidation process as challenging given ongoing pressures from social spending, state oil company support and moderate growth prospects.

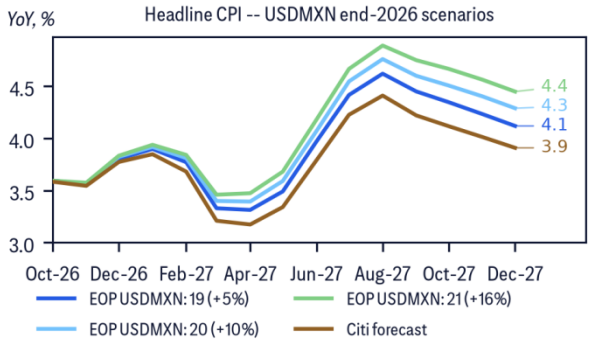
**USMCA negotiations appear to be progressing gradually.** Over the past few weeks, discussions have increasingly focused on reducing U.S. tariffs on Mexican autos, steel and aluminum, with reports suggesting both sides have been working toward a possible framework for tariff relief, although news flow remains noisy (Wall Street Journal, Oct-15; El Economista, Oct-16). While uncertainty remains regarding the timing of a final trade deal extension, we continue to believe an interim understanding on tariffs and related trade issues is possible at the end of this year or beginning of next.

**Figure 135. Activity momentum remained in 3Q26**




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Source: Citi Research, INEGI

**Figure 136. Limited FX pass through on inflation.**




*Note: EOP = end-2026 USDMXN level per scenario; % vs. last actual spot (08-Oct-2026: 18.17).*

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Source: Citi Research, INEGI

**Figure 137. Mexico Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 1,304 | 1,129 | 1,317 | 1,468 | 1,798 | 1,839 | 1,839 | 2,138 | 2,207 |
| Population, mn | 125.5 | 126.9 | 128.0 | 128.9 | 129.6 | 130.3 | 131.0 | 132.9 | 133.9 |
| Real GDP, yoy avg | -0.4 | -8.4 | 6.0 | 3.7 | 3.1 | 1.5 | 0.5 | 1.9 | 2.0 |
| Private consumption growth % yoy | 0.9 | -9.8 | 8.4 | 4.8 | 4.2 | 2.8 | 1.0 | 1.7 | 2.0 |
| Real investment growth % yoy | -4.2 | -18.3 | 11.4 | 7.3 | 12.7 | 4.4 | -6.3 | 2.1 | 3.2 |
| Real export growth, % yoy | 1.2 | -7.0 | 7.1 | 9.5 | -7.1 | 3.5 | 6.9 | 11.4 | 6.0 |
| Real import growth, % yoy | -1.1 | -12.0 | 15.7 | 8.6 | 4.8 | 3.8 | 3.7 | 11.8 | 5.0 |
| Net export contribution to growth | 0.9 | 2.1 | -3.3 | 0.2 | -5.2 | -0.4 | 1.0 | -0.9 | 0.1 |
| Unemployment, % of labour force | 3.5 | 4.4 | 4.1 | 3.3 | 2.8 | 2.7 | 2.6 | 2.8 | 3.0 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -3.9 | 26.9 | -4.5 | -15.0 | -10.2 | -16.8 | -9.4 | -4.3 | -13.2 |
| % of GDP | -0.3 | 2.4 | -0.3 | -1.0 | -0.6 | -0.9 | -0.5 | -0.2 | -0.6 |
| Trade balance | 5.2 | 34.2 | -10.7 | -28.3 | -12.4 | -18.4 | 0.2 | 5.0 | -6.0 |
| FDI, net | 24.0 | 26.6 | 35.9 | 21.8 | 29.9 | 32.5 | 31.6 | 40.6 | 41.9 |
| External debt | 621.6 | 628.5 | 602.1 | 582.6 | 594.0 | 590.0 | 641.5 | 647.5 | 667.3 |
| Short-term debt | 55.5 | 46.4 | 47.0 | 54.8 | 60.2 | 62.9 | 62.1 | 62.2 | 70.9 |
| International reserves | 180.7 | 195.7 | 202.4 | 199.1 | 212.8 | 228.8 | 252.1 | 257.2 | 274.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -2.3 | -3.8 | -3.7 | -4.3 | -4.3 | -5.8 | -4.3 | -4.4 | -4.0 |
| Consolidated gov primary balance | 1.6 | 0.2 | 0.2 | 0.0 | 0.4 | -0.5 | 0.9 | -0.1 | 0.4 |
| Public debt | 43.3 | 50.2 | 49.1 | 47.6 | 46.6 | 52.0 | 52.6 | 55.1 | 56.1 |
| External public debt | 14.8 | 18.0 | 16.5 | 14.0 | 11.2 | 13.1 | 11.9 | 14.8 | 15.1 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 2.8 | 3.2 | 7.4 | 7.8 | 4.7 | 4.2 | 3.7 | 3.8 | 3.9 |
| CPI, %yoy, avg | 3.6 | 3.4 | 5.7 | 7.9 | 5.5 | 4.7 | 3.8 | 3.7 | 3.8 |
| MXN/US$, eop | 18.93 | 19.89 | 20.50 | 19.49 | 16.97 | 20.82 | 18.01 | 18.64 | 18.80 |
| MXN/US$, avg | 19.25 | 21.48 | 20.29 | 20.11 | 17.74 | 18.32 | 19.20 | 18.03 | 18.73 |
| Policy Interest Rate, % eop | 7.25 | 4.25 | 5.50 | 10.50 | 11.25 | 10.00 | 7.00 | 6.50 | 6.50 |
| Long-term yield, %, eop | 6.89 | 5.53 | 7.56 | 9.02 | 8.94 | 10.42 | 9.11 | 9.43 | 9.50 |
| Nominal wages, % yoy | 6.7 | 7.3 | 7.2 | 10.8 | 10.9 | 9.6 | 7.3 | 6.8 | 7.1 |
| **Quarterly Economic Indicators** | **2025 Q4F** | **2026 Q1F** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 1.7 | 0.2 | 2.1 | 3.0 | 2.1 | 2.9 | 1.9 | 1.5 | 1.9 |
| CPI, %yoy, avg | 3.7 | 4.1 | 3.9 | 3.3 | 3.6 | 3.6 | 3.4 | 4.3 | 4.0 |
| MXN/US$, eop | 18.01 | 17.94 | 17.61 | 18.07 | 18.64 | 18.67 | 18.69 | 18.74 | 18.80 |
| Policy interest rate, %, eop | 7.00 | 6.75 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |

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# Peru

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- **Summary view –**Peru's macro backdrop remains constructive, supported by strong investment, favorable commodity prices, and one of the strongest external positions in the region. However, inflation remains above target and *El Niño*-related disruptions are becoming more visible across several sectors, complicating the outlook even as the BCRP maintains a cautious policy stance and the government signals greater willingness to use fiscal space.

**Growth continues to be supported by investment, increasingly offsetting weakness in weather-sensitive sectors.** Mining investment remains strong, major projects continue to advance, and the administration has made project execution and permitting a central part of its economic strategy. We maintain our 2026 and 2027 GDP forecasts at 3.1% and 3.3%, respectively, with fixed investment emerging as the principal driver of the expansion. Conversely, El Niño-related disruptions have become more visible. The cancellation of the second anchovy season, weaker fisheries activity, and softer performance in several primary sectors are likely to weigh on export volumes into 2027. Even so, continued strength in mining and infrastructure investment should provide sufficient support to keep growth above most regional peers.

**Inflation remains above target, although recent pressures continue to reflect supply shocks more than broad-based demand dynamics**. Headline inflation rose to 4.55% in September, extending the period above the BCRP's target range and reflecting higher fuel costs, electricity tariffs, transportation prices, and weather-related pressures. Inflation expectations have also moved higher and now sit modestly above the target band. However, underlying inflation dynamics remain considerably more stable than headline inflation, and domestic demand does not appear to be generating significant additional price pressures. We maintain our end-2026 inflation forecast at 3.9% and expect inflation to continue moderating thereafter, although the path back toward target is likely to remain gradual.

**The BCRP continues to prioritize inflation credibility, with recent developments reinforcing the case for an extended, albeit shorter, period of policy stability.** Policymakers have consistently characterized recent inflation pressures as temporary and have emphasized the stronger performance of core inflation measures. We continue to expect the policy rate to remain unchanged at 4.25% through the remainder of 2026. However, inflation above target, rising expectations, and continued supply-side pressures limit the scope for dovishness. Our baseline continues to incorporate a gradual tightening cycle during 2027, with the policy rate reaching 5.25%, as policymakers seek to ensure inflation converges sustainably toward target.

**Fiscal fundamentals remain among the strongest in the region, although the government appears willing to use part of that flexibility.** Strong mining revenues, low public debt, and favorable financing conditions continue to provide Peru with substantial fiscal space relative to regional peers. This comes at a time when spending associated with *El Niño* preparedness, infrastructure investment, and broader development priorities is becoming increasingly important. The administration has also signaled its intention to run somewhat wider deficits than previously envisioned, suggesting fiscal consolidation may proceed more gradually than implied by earlier plans. Even so, we expect debt dynamics to remain favorable and fiscal credibility to remain well supported.

**External accounts remain Peru's strongest macro anchor, supported by elevated mineral prices and rising mining investment.** We now forecast a current-account surplus of 4.2% of GDP in 2026, reflecting strong export prices and continued external-sector outperformance. While weather-related disruptions are likely to

weigh on some export volumes, elevated prices for copper and other metals continue to provide substantial support to export revenues, fiscal receipts, and FX inflows. As investment-related imports recover, we expect the surplus to narrow over time. Nonetheless, strong reserves, favorable terms of trade, and sustained investment inflows leave Peru entering 2027 from a position of considerable external strength

**Figure 138. Peru Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 237 | 210 | 230 | 249 | 272 | 296 | 342 | 390 | 403 |
| Population, mn | 32.1 | 32.6 | 33.0 | 33.4 | 33.7 | 34.0 | 34.4 | 34.7 | 35.0 |
| Real GDP, yoy avg | 2.2 | -10.9 | 13.4 | 2.8 | -0.4 | 3.5 | 3.4 | 3.1 | 3.3 |
| Private consumption growth % yoy | 3.2 | -9.9 | 12.5 | 3.5 | 0.1 | 2.8 | 3.6 | 3.6 | 3.0 |
| Real investment growth % yoy | 0.7 | -17.2 | 25.6 | 0.7 | -8.1 | 9.2 | 13.1 | 10.0 | 6.2 |
| Real export growth, % yoy | 1.0 | -19.9 | 12.8 | 5.5 | 4.0 | 6.7 | 4.7 | 0.5 | 2.0 |
| Real import growth, % yoy | 3.1 | -13.6 | 15.3 | 3.7 | 0.9 | 8.5 | 12.6 | 6.9 | 4.8 |
| Net export contribution to growth | -0.5 | -1.7 | -0.9 | 0.4 | 0.8 | -0.5 | -2.3 | -1.9 | -1.0 |
| Unemployment, % of labour force | 6.6 | 12.8 | 11.3 | 7.7 | 6.9 | 7.3 | 7.4 | 6.8 | 7.3 |
| **External (US$bn)** | | | | | | | | | |
| Current account | -1.7 | 1.3 | -5.2 | -10.1 | 1.3 | 7.0 | 12.0 | 16.3 | 10.1 |
| % of GDP | -0.7 | 0.6 | -2.3 | -4.0 | 0.5 | 2.4 | 3.5 | 4.2 | 2.5 |
| Trade balance | 6.9 | 8.1 | 14.9 | 10.1 | 17.0 | 24.1 | 35.4 | 44.1 | 37.7 |
| FDI, net | -5.2 | -0.9 | -7.1 | -11.4 | -4.4 | -6.7 | -10.4 | -11.6 | -8.5 |
| External debt | 97.3 | 106.2 | 119.1 | 119.8 | 122.5 | 125.8 | 133.0 | 140.4 | 145.1 |
| International reserves | 68.4 | 74.9 | 78.5 | 72.2 | 71.3 | 79.2 | 90.3 | 92.3 | 92.3 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -1.6 | -8.7 | -2.5 | -1.7 | -2.8 | -3.5 | -2.2 | -1.5 | -1.5 |
| Consolidated gov primary balance | -0.2 | -7.1 | -1.0 | -0.1 | -1.1 | -1.8 | -0.6 | 0.0 | 0.0 |
| Public debt | 26.2 | 34.0 | 35.3 | 33.3 | 32.3 | 32.0 | 30.1 | 27.8 | 28.2 |
| External public debt | 8.3 | 14.6 | 19.1 | 17.3 | 15.6 | 15.2 | 12.9 | 11.7 | 11.9 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 1.9 | 2.0 | 6.4 | 8.5 | 3.2 | 2.0 | 1.5 | 3.9 | 3.3 |
| CPI, %yoy, avg | 2.1 | 1.8 | 4.0 | 7.9 | 6.3 | 2.4 | 1.5 | 3.8 | 2.6 |
| PEN/US$, eop | 3.31 | 3.62 | 3.99 | 3.81 | 3.71 | 3.76 | 3.36 | 3.45 | 3.55 |
| PEN/US$, avg | 3.34 | 3.49 | 3.88 | 3.83 | 3.74 | 3.75 | 3.56 | 3.41 | 3.50 |
| Policy Interest Rate, % eop | 2.25 | 0.25 | 2.50 | 7.50 | 6.75 | 5.00 | 4.25 | 4.25 | 5.25 |
| Long-term yield, %, eop | 4.30 | 2.30 | 4.55 | 9.55 | 8.80 | 7.05 | 6.30 | 6.30 | 7.05 |
| Nominal wages, % yoy | 5.1 | 5.1 - | | - | - | - | - | - | - |
| **Quarterly Economic Indicators** | **2025 Q4** | **2026 Q1** | **2026 Q2F** | **2026 Q3F** | **2026 Q4F** | **2027 Q1F** | **2027 Q2F** | **2027 Q3F** | **2027 Q4F** |
| GDP, % yoy | 3.3 | 3.6 | 2.6 | 3.0 | 3.3 | 3.1 | 4.2 | 2.9 | 3.0 |
| CPI, %yoy, avg | 1.4 | 2.6 | 4.0 | 4.4 | 4.3 | 3.0 | 2.0 | 2.4 | 2.9 |
| PEN/US$, eop | 3.36 | 3.50 | 3.38 | 3.43 | 3.45 | 3.47 | 3.50 | 3.52 | 3.55 |
| Policy interest rate, %, eop | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.50 | 4.75 | 5.00 | 5.25 |

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# Uruguay

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- **Summary view -** Uruguay faces a transitory slowdown in 2026 (1.1% expected growth) due to industrial contraction and agricultural drought, though 2027 prospects point to a modest recovery (+1.8%) led by private consumption and normalizing exports. Transitory supply shocks will elevate inflation before it converges to the 4.5% target, supporting a restrictive monetary policy rate (6.0%). While currency stability persists, real appreciation strains competitiveness, and pension reform debates heighten fiscal risks. Additionally, President Lula's surprise reelection introduces regional impacts that remain to be fully priced in.

**INE's August Manufacturing Index (IVFIM) grew 4.8% YoY (+0.4% MoM SA), but underlying activity was weaker:** output excluding petroleum refining rose just 1.0% YoY, while core manufacturing—excluding food, beverages, and pulp—contracted 1.8% YoY (-1.6% MoM SA), cutting YTD growth to 0.9%. Gains in petroleum refining, food (+5.4%), and paper (+4.4%) were outweighed by sharp declines in beverages (-30.5%), meat processing (-9.7%), and rice oil (-20.6%).

**On October 15, the BCU released its Q3 2026 Monetary Policy Report (IPOM), revising its 2026 average GDP growth projection down to 1.1%—**aligned with market consensus—while projecting a rebound to 1.8% in 2027. The downgrade reflects the Q2 contraction driven by drought conditions in agriculture. Over the policy horizon, recovery is expected to be led by private consumption, supported by real wage gains and credit expansion, alongside agricultural normalization restoring net exports as a growth driver.

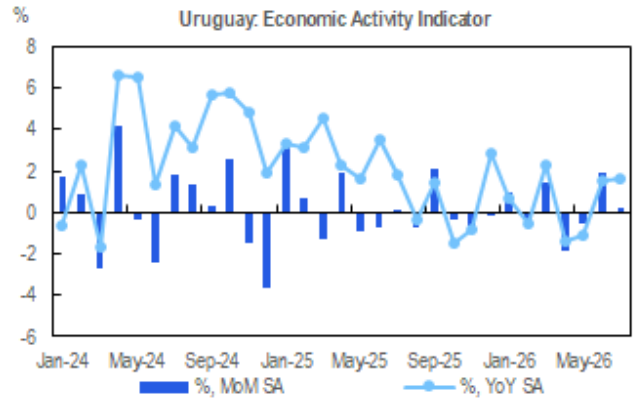
**Uruguay's high trade dependency on Brazil means President Lula's unexpected reelection carries market repercussions**, given the Brazilian real's depreciation and investor pullback, particularly for Uruguayan firms with substantial commercial exposure there.

**Headline inflation is projected to exceed 5.0% in early 2027** due to geopolitical and climate supply shocks before converging to the 4.5% target in 2H27, with core inflation well-contained. Near-term upside risks—Middle East tensions, El Niño, and USD strength—are balanced by anchored expectations (4.71%) and a negative output gap. Consequently, policy rate simulations project gradual adjustments following COPOM's rate hike to 6.0%.

**In the third week of October, the Uruguayan peso appreciated modestly to around UY$40.1 per USD** (+0.22% weekly, +0.17% over 30 days), though it remains 2.70% weaker year-to-date. Since this nominal depreciation trails domestic inflation, real dollar-denominated inflation stays positive, pressuring tradable-sector competitiveness. Still, these dynamics reflect the peso's structural resilience to external shocks, including geopolitical conflicts and the Fed's tightening cycle.

**The parliamentary debate on pension reform has weighed on market sentiment, though Uruguay's institutional stability offers a predictable policy-formation framework that tempers these concerns.** Market attention centers on AFAP pillar adjustments—commission restructuring and competitive bidding for affiliates to boost efficiency—alongside the proposed retirement-age reduction, viewed as a key fiscal risk given its lack of actuarial viability.

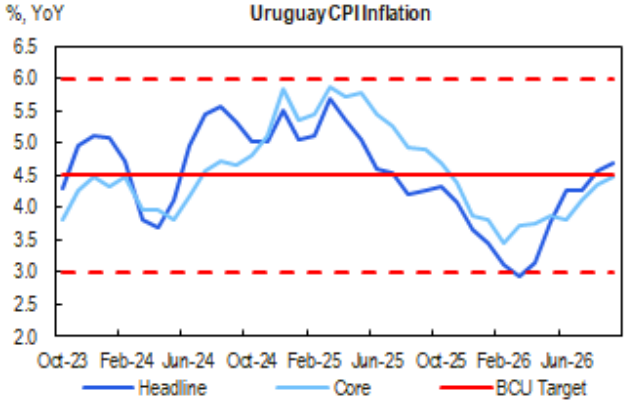
**Figure 139. Uruguay faces a transitory slowdown in 2026.**




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Source: Citi Research, BCU, Haver Analytics

**Figure 140. Inflation continued to be above the BCU midpoint target.**




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Source: Citi Research, INE, Haver Analytics

**Figure 141. Uruguay Economic Indicators**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F | 2027F |
|---|---|---|---|---|---|---|---|---|---|
| **Activity** | | | | | | | | | |
| Nominal GDP, USD bn | 62.1 | 53.7 | 61.4 | 71.2 | 77.9 | 81.0 | 84.2 | 89.9 | 92.8 |
| Population, mn | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Real GDP, yoy avg | 0.7 | -6.3 | 5.3 | 4.9 | 0.7 | 3.1 | 2.1 | 1.1 | 1.8 |
| **External (US$bn)** | | | | | | | | | |
| Current account | 0.9 | -0.4 | -1.5 | -2.5 | -2.4 | -0.6 | -1.0 | -1.4 | -1.9 |
| % of GDP | 1.5 | -0.8 | -2.5 | -3.5 | -3.1 | -0.7 | -1.2 | -1.6 | -2.0 |
| **Public Finances, % of GDP** | | | | | | | | | |
| Consolidated government balance | -3.2 | -5.2 | -3.5 | -3.2 | -3.7 | -4.1 | -4.3 | -4.2 | -3.9 |
| Public debt | 60.0 | 74.3 | 69.1 | 67.8 | 68.6 | 67.4 | 75.2 | 7.2 | 75.5 |
| **Prices** | | | | | | | | | |
| CPI, %yoy, eop | 8.8 | 9.4 | 8.0 | 8.3 | 5.1 | 5.5 | 3.6 | 4.6 | 4.7 |
| CPI, %yoy, avg | 7.9 | 9.7 | 7.8 | 9.2 | 5.9 | 4.8 | 4.8 | 4.7 | 4.7 |
| UYU/US$, eop | 37.33 | 42.36 | 44.72 | 39.98 | 39.06 | 43.68 | 39.06 | 40.50 | 42.30 |
| UYU/US$, avg | 35.15 | 41.90 | 43.56 | 41.11 | 38.83 | 40.12 | 41.06 | 40.80 | 41.40 |
| Policy Interest Rate, % eop | - | 4.50 | 6.50 | 11.50 | 9.25 | 8.75 | 7.50 | 6.10 | 6.50 |

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# Appendix A-1

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**The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.**

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Helmi Arman, Economist, holds a long position in the securities of Indonesia.

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