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Global Economic Outlook & Strategy

Prospects for 2026 — "Goldilocks" Performance, but Risks Linger

Flagship

CITI'S TAKE

As we look to 2026, the global economy continues to show impressive resilience. For four years running, the economy has shaken off prevailing challenges, and growth has remained in the neighborhood of its 3% trend. In 2022, the headwinds were from the onset of the Russia-Ukraine conflict. In 2023 and 2024, it was pressures from rapid central bank rate hikes. And this year it was Trump administration's tariffs. In each instance, global growth has continued at a solid, if not spectacular, pace. With these thoughts in mind, we expect global growth to continue on a similar track through the next two years, with the economy expanding 2.7% in 2026 and 2.8% in 2027. We anticipate that pressures from the tariffs will take a further bite out of growth next year, but the overall effects look manageable.

Global PMIs signal that growth remains on solid footing as we approach 2026— Recent readings for both manufacturing and services are in the upper part of the range seen in recent years. That said, the services sectors continue to outperform manufacturing, consistent with the contours of performance seen in recent years.

Global inflation remains well contained—Over the past year, headline inflation has hovered near 2%. Core inflation has run a notch higher at around 2½%, as global services inflation has slowed only gradually. *The more interesting story is the divergence between the United States and China.* US inflation has exceeded the Fed's target for five consecutive years, fueled most recently by tariffs and sticky non-shelter services inflation. In contrast, China struggles with persistently low inflation.

Our discussion of Trump administration's tariffs leads to three broad conclusions— First, the tariffs have had some notable effects on the contours of global trade, inflation, and spending. Second, these effects have been meaningful, but they have also been less severe than feared. Third, while the tariffs are likely to generate further headwinds, we are doubtful that they will—at this stage—deal a disruptive blow to global growth or inflation.

Global central banks have eased policy this year—Going forward, we see some central banks holding rates stable—but many others look poised to cut further. These easing cycles are generally taking rates back toward neutral, rather than into outright accommodative territory. Central banks are unwinding the restrictive policies they implemented to counter the post-pandemic inflation upsurge, but they are typically leaving rates higher than pre-pandemic settings.

The combination of resilient global growth and generally restrained inflation points to "Goldilocks" performance—*While optimism may be too strong a word, we at least feel a degree of comfort about the 2026 outlook, which contrasts sharply with our dourer assessments in recent years.*

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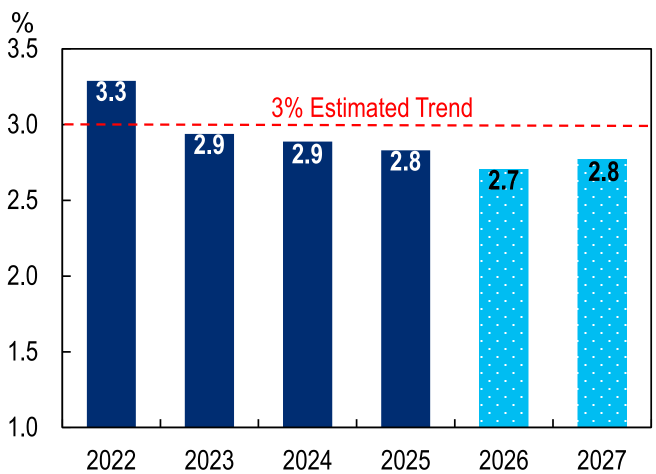
Prospects for 2026 — "Goldilocks" Performance, But Risks Linger

As we look to 2026, the global economy continues to show impressive resilience. For four years running, the economy has shaken off prevailing challenges, and growth has remained in the neighborhood of its 3% trend (Figure 1). In 2022, the headwinds were from the onset of the Russia-Ukraine war. In 2023 and 2024, it was pressures from rapid central bank rate hikes. And this year it was Trump administration's tariffs. In each case, global growth has continued at a solid, if not spectacular, pace.

Candidly, we have consistently underestimated the global economy's resilience. Even in retrospect, there were good reasons to expect growth to slow appreciably. Fully understanding the drivers of this resilience remains a task for future research, but the supply-side of the economy has shown flexibility and a capacity to respond rapidly and smoothly to even sizable shocks. In tandem, as seen in Figure 2, global labor markets have remained firm, which has supported consumer spending.

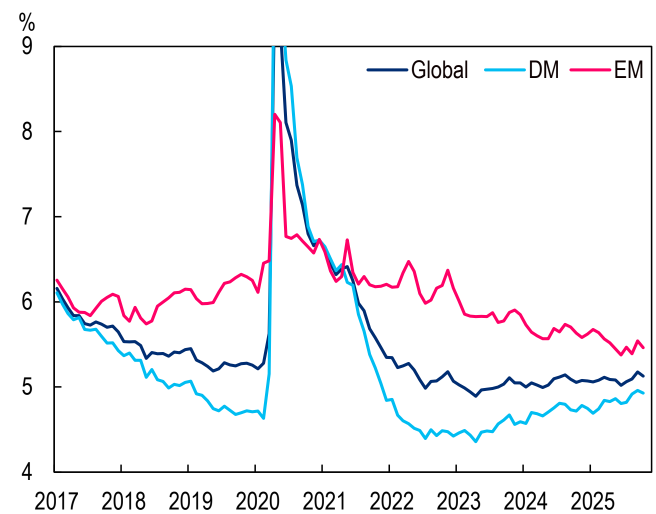
Figure 1. Global Real GDP Growth (Annual Average) *



*Dotted bars indicate Citi forecasts.

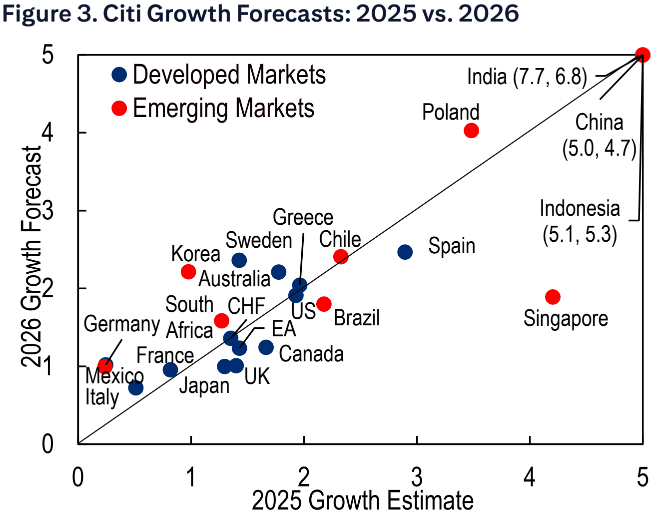
Source: Citi Research

Figure 2. Global Unemployment Rate



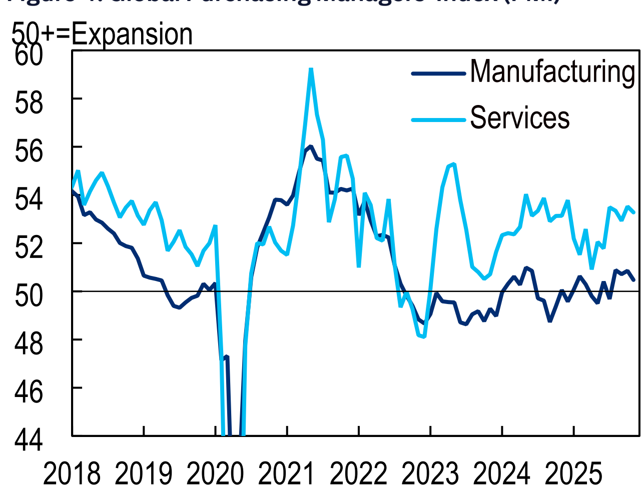
Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 3. Citi Growth Forecasts: 2025 vs. 2026



Source: Citi Research

Figure 4. Global Purchasing Managers' Index (PMI)



Source: Citi Research, S&P Global, Haver Analytics

With these thoughts in mind, we expect global growth to continue on a broadly similar track during the next two years, with the economy expanding 2.7% in 2026 and 2.8% in 2027. We anticipate that pressures from the tariffs will take a further bite out of growth next year, but the overall effects look manageable.

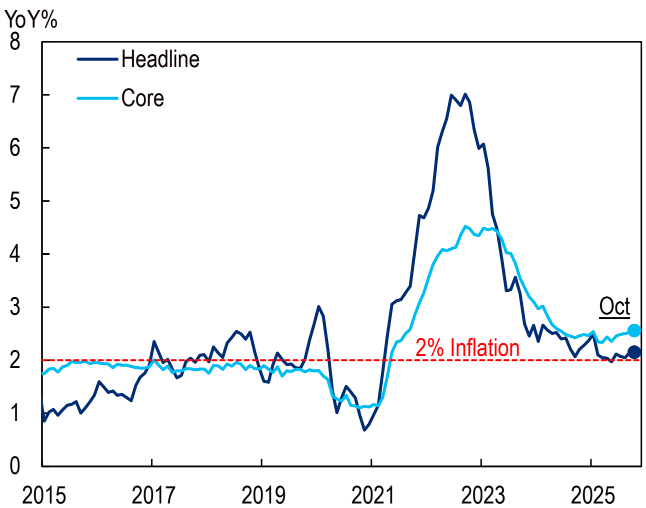
At a country level, we see performance in 2026 picking up a notch in Korea, Australia, Sweden, and Poland (Figure 3). Growth in Germany and Mexico will also rise but remain subdued. In contrast, we see somewhat softer outcomes next year in India, China, Singapore, Spain, and Brazil. In aggregate, we expect growth to ease modestly, in DMs from 1.7% to 1.6% and in EMs from 4.2% to 4.0%.

We have found the global PMIs to be a useful window into economic performance over the past few years (Figure 4). These indicators have highlighted the sustained strength of the services sectors relative to manufacturing. Over this period, services-intensive economies like the United States and Spain have outperformed manufacturing-intensive economies like Germany.

We're also struck by two observations about the more recent evolution of the PMIs. First, these measures show little imprint from Trump administration's tariffs—their performance over the past year has continued along a trajectory broadly similar to the previous few years. Second, recent readings for both manufacturing and services are in the upper part of the range seen in recent years. *This signals that the global economy is on solid footing as it enters 2026.*

The story for aggregate global inflation has remained uneventful (Figure 5). Over the past year, headline inflation has hovered at—or near—2%. Core inflation has also been subdued, but it has run a notch higher at around 2½%, as global services inflation has declined only gradually.

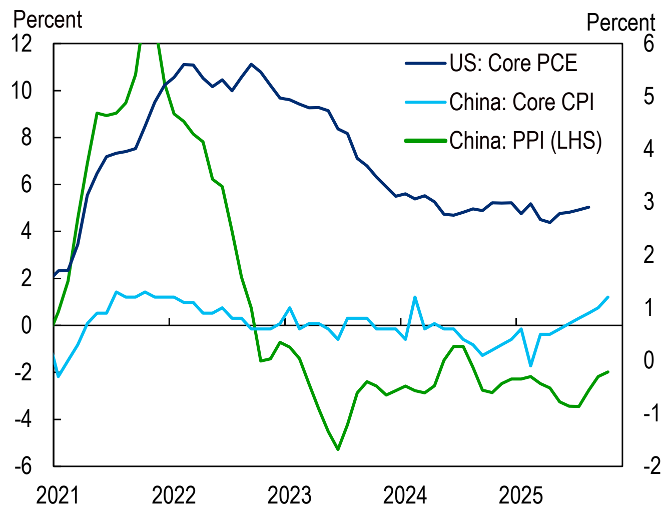
Figure 5. Global Inflation*



*Headline & core inflation cover 15 economies.

Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 6. China vs. US Inflation



Source: Citi Research, BLS, CNBS, Haver Analytics

The more interesting story is the divergence between the United States and China (Figure 6). The US continues to struggle with above-target inflation, which reflects both the signature of Trump administration's tariffs and sticky non-shelter services inflation. The slow descent of inflation has been a factor constraining the pace of Federal Reserve rate cuts. In contrast, China has struggled with persistently low inflation. The demand side of the economy has struggled to keep up with the supply side's rapid expansion.

Taken together, the combination of resilient global growth and generally restrained inflation points to "Goldilocks" performance. While optimism may be too strong a word, we at least feel a degree of comfort about the 2026 outlook, which contrasts sharply with our dourer assessments in recent years.

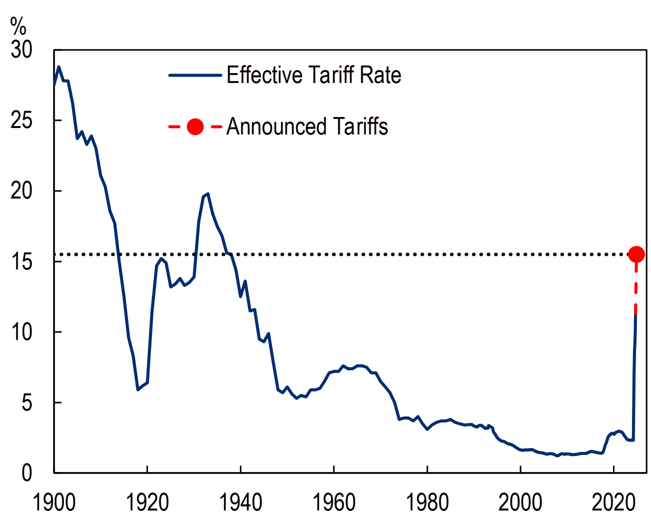
We come to this view with full awareness of the continued challenges facing the global economy. The jury is still out on how painful the bite from the tariffs will ultimately be; investors are showing increased apprehension about the sustainability of recent AI investment and the valuation of major AI producers;[1] the US labor market is clearly softening; and outside the United States, demand in many major economies remains lackluster. These challenges loom large in our thinking. Even so, they are no more imminent or severe than those faced in recent years, which the global economy has successfully shaken off.

The remainder of our essay is organized as follows. We first take a detailed look at the global economy's ongoing adjustment to President Trump's tariffs. We then examine the recent trajectory of central bank policies and the prospects for global monetary policy. We conclude with a discussion of some key risks that plague the outlook. Notably, our essay is followed by a series of brief snapshots that summarize the 2026 outlook for major economies and regions around the world.

Assessing the Bite from US Tariffs

Trump administration has surprised us this year with its aggressiveness of his tariff campaign. At present, the overall US tariff rate is running near 15%, up from 2½% when he took office in January (Figure 7). One clear takeaway is that US tariffs are now at their highest levels in over 80 years, and we are learning in real time how modern economies adjust to abrupt changes in goods prices.

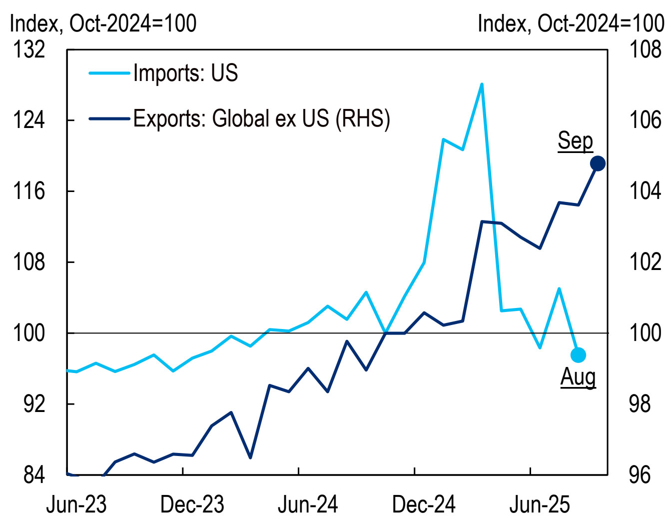
Figure 7. US Effective Tariff Rate on Goods Imports*



*Calculated using 2024 import shares.

Source: Citi Research, Bureau of the Census, Haver Analytics

Figure 8. US Imports & Global ex US Exports (Volumes)



Source: Citi Research, Bureau of the Census, CPB, Haver Analytics

[1] For more details, see Productivity & the AI Revolution: Implications for the Economy and Markets.

Before diving into the economics of the tariffs, it's worth noting that the trajectory of the tariffs through the year ahead remains an open issue. On the upside, Trump administration has threatened tariffs on electronics and pharmaceuticals, but these have not yet been implemented. Thus, further tariffs may still be in the offing, especially for the pharmaceutical sector, where the administration views US dependence on foreign production as a security threat. More broadly, President Trump clearly sees tariffs as one of his signature policy initiatives. For this reason, we think high tariffs are likely to remain a fact of life.

Even so, the tariffs could still move lower. First, President Trump faces increasing political pressures regarding "affordability." In response, he recently exempted a range of food products from the tariffs. As the November 2026 midterms approach, these pressures on the administration could lead to further carve-outs. Second, US officials remain engaged in trade negotiations with a range of countries to bring down tariff rates. For example, ongoing discussion between India and the US could lead to a deal to reduce India's 50% reciprocal tariff, which would be significant. Third, many observers expect the Supreme Court to reject those tariffs that the Trump administration imposed using the International Emergency Economic Powers Act (IEEPA). If this occurs, the Administration is likely to bring the tariffs back under other legal authorities, but it would also provide an opportunity for the Administration to soften the blow on products that are sensitive for consumers.

Even as the US tariffs have been larger than we expected a year ago, the economic effects have been relatively contained. A key reason is that frontloaded US spending, as households and firms sought to get ahead of the tariffs, has supported US imports and global exports through much of the year (Figure 8). The US trade data for August suggested that we were finally starting to see some payback for this spending, but the government shutdown has since stunted the flow of data. In any event, we anticipate that further payback is likely in the months ahead, and this will generate some headwinds for global trade.

As a related point, the tariffs have triggered a marked rebalancing of US trade. As shown in Figure 9, China's share of US imports has fallen 5ppts over the past year and over 10ppts since 2018. Alternatively, the share of US imports from China, which peaked in 2018 at over 20%, has now fallen to just 8%. The two economies are clearly decoupling.

As China has lost US market share, Taiwan, Vietnam, Mexico, and Thailand have been winners. For Taiwan, we see this as mainly reflecting surging AI investment. But the other three countries look to be picking up share at China's expense. That said, some of these gains likely manifest China's efforts to re-export through these countries, despite the Trump Administration efforts to police such behavior. For example, the US trade deal with Vietnam includes a more stringent tariff rate for goods that are high in Chinese value added. But determining the share of Vietnamese versus Chinese value added in any given product is difficult.

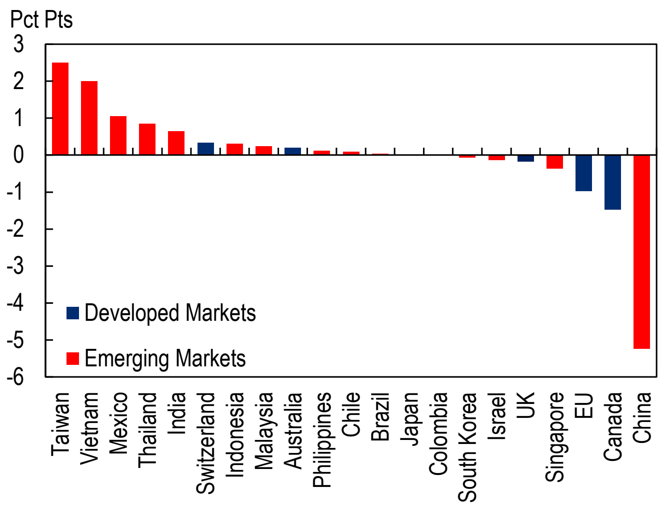
Mexico's gains highlight its geographical proximity to the United States and favorable access to the US market under USMCA. As such, Mexico looks well positioned to compete against China. In contrast, Canada has seen a significant decline in its share of US imports, as US firms—particularly in the auto sector—have found ways to move production to the US side of the border. Finally, we expect that the renegotiation of USMCA will be an issue of increasing focus through the year ahead. Overall our sense is that the deal is likely to be renewed. That said, we judge that Mexico enters the negotiations holding better cards than

Canada, due in large part to President Sheinbaum dexterous handling of the US relationship.

Despite sharply reduced access to the US market, China's overall exports this year have shown surprising strength (Figure 10). Lost US share has been more than offset by stronger exports to ASEAN, the European Union, and elsewhere. The key question regards the sustainability of this reorientation. Was it mainly echoing the upsurge in trade driven by US frontloading? Alternatively, to what extent will Europe allow China to expand its footprint in its markets? That said, a competing narrative is that China is successfully diversifying its export markets, including increased South-South trade and less concentrated supply chains.

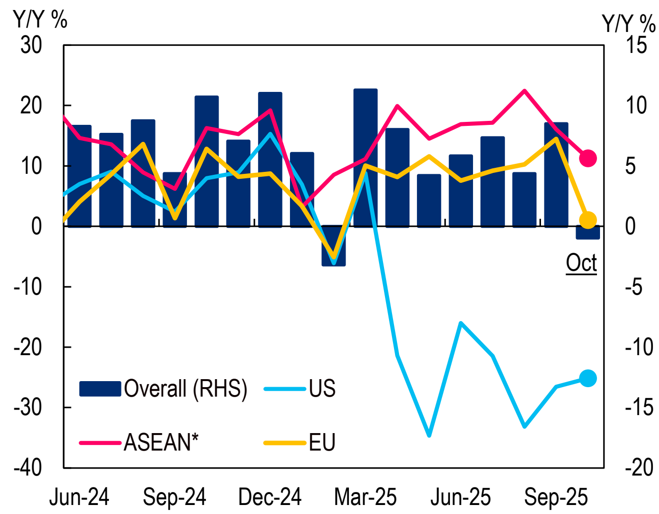
In this context, the recent fall-off in Chinese exports in October is notable. A major question for the coming year is whether Chinese exports can maintain the robust growth performance recorded in recent years.

Figure 9. US Imports Shares: 2025 less 2024 (May-August)



Source: Citi Research, Census, Haver Analytics

Figure 10. China Exports by Trading Partner



*Data are seasonally adjusted by Citi using Haver's toolkit.

Source: Citi Research, China Customs, Haver Analytics

The tariffs are also leaving a mark on global inflation—pushing up goods inflation in the United States versus roughly unchanged performance in the rest of the world (Figure 11). This divergence is consistent with our view that the tariffs act as an adverse supply shock for the US economy, which raises US inflation. In contrast, for other countries, the tariffs are a negative demand shock, which tends to restrain inflation.

More specifically, core goods inflation in the United States has risen significantly this year, by roughly 1 to 2ppts depending on whether measured by the CPI or PCE. At a product level, goods including audio equipment, furniture & bedding, appliances, and tools & hardware have seen particularly sizable gains (Figure 12).

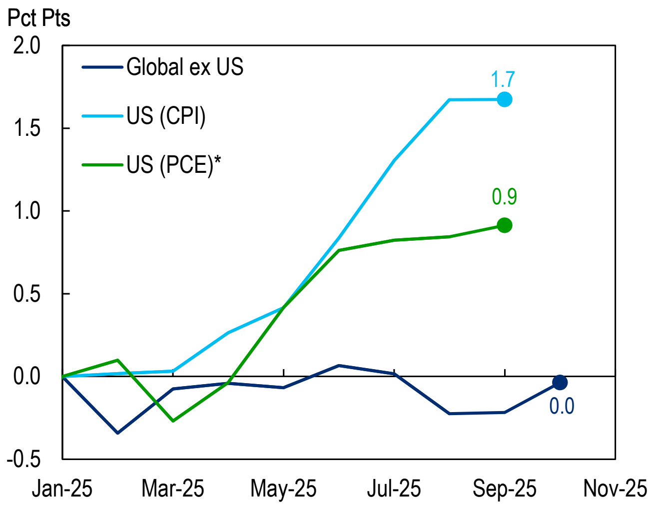
Even so, there have been some important surprises. Given the size of the tariffs, the pass-through to US inflation has been slower and less pronounced than we would have expected. By our reckoning, well under half of the tariffs have been passed through to consumers, with much of the burden absorbed by US firms. While large US corporates have not signaled inordinate pressures on their margins, we judge that there are greater tensions among small and medium-size firms

(Figure 13). These firms report a significant increase in business uncertainty, and their hiring has fallen off sharply in recent months.

Accordingly, we'll be watching closely for increased signs of tariff pass-through to consumer prices. Given that many firms operate on annual pricing cycles, with increases typically assessed early in the year, this issue will be especially front and center during Q1:2026.

What's clear is that the tariffs are not being borne by foreign suppliers. Given that US import prices are measured at the foreign dock, a decline in suppliers' margins would manifest itself as lower US import prices (Figure 14). Instead, aggregate US import prices have remained roughly flat this year. The main exception is in the auto sector where Japanese producers have shown a willingness to narrow their margins to maintain market share.

Figure 11. Core Goods Inflation: Change Since Jan 2025



*September value reflects estimate based on CPI & PPI.

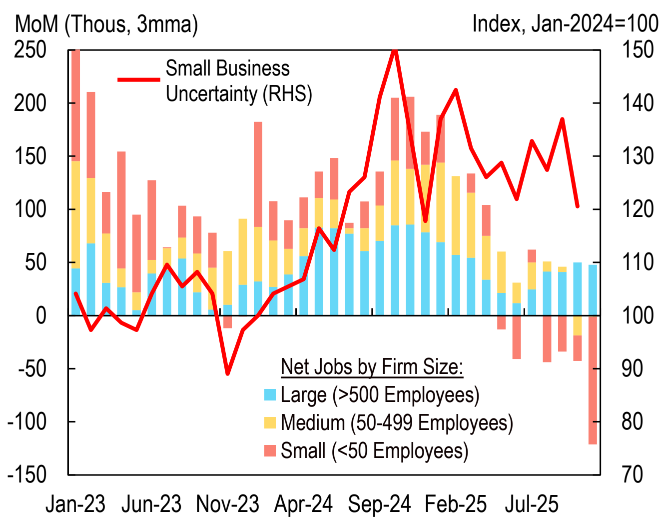
Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 12. Core Goods Inflation: Select Categories (CPI)

	Feb 2025	Sep 2025	Change
Core Goods	**-0.1**	**1.5**	**1.7**
Of Which:			
Audio Equipment	-3.1	13.6	16.8
Furniture & Bedding	-2.1	3.8	5.9
Appliances	-3.1	1.3	4.4
Tools & Hardware	0.2	4.3	4.1
Televisions	-8.7	-6.0	2.7
Toys	-1.9	0.2	2.1
Vehicle Parts	1.2	3.1	1.9

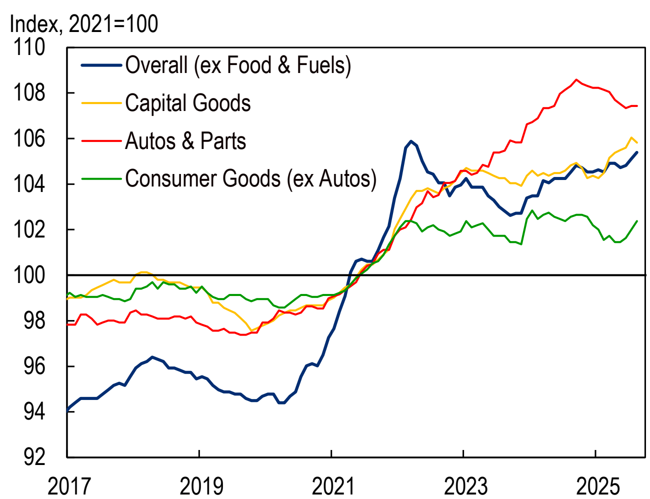
Source: Citi Research, BLS, Haver Analytics

Figure 13. ADP Private Jobs & Small Business Uncertainty



Source: Citi Research, ADP, NFIB, Haver Analytics

Figure 14. US Import Prices: Overall & Select Products



Source: Citi Research, BLS, Haver Analytics

In sum, our analysis leads to three broad conclusions. First, the tariffs have had notable effects on the contours of global trade, inflation, and spending. And the effects are likely to continue to be felt through at least the first part of next year. Second, while these effects have been significant, they have also been less severe than we had anticipated. The global economy has adjusted along multiple dimensions to absorb the blow. Third, given the experience over the past year, we are doubtful that the tariffs will—at this stage—deal a disruptive blow to global growth or inflation. We envision some further headwinds through the months ahead, but we anticipate that global growth will remain close to trend, and we judge that recession risk is low.

Global Central Banks

With global inflation now well contained and most countries anticipating disinflationary pressures from the tariffs, central banks have generally been on an easing trajectory this year (Figure 15). Brazil and Japan are the only countries that have seen rate hikes—their central banks tightened policy early in the year but soon went on hold.

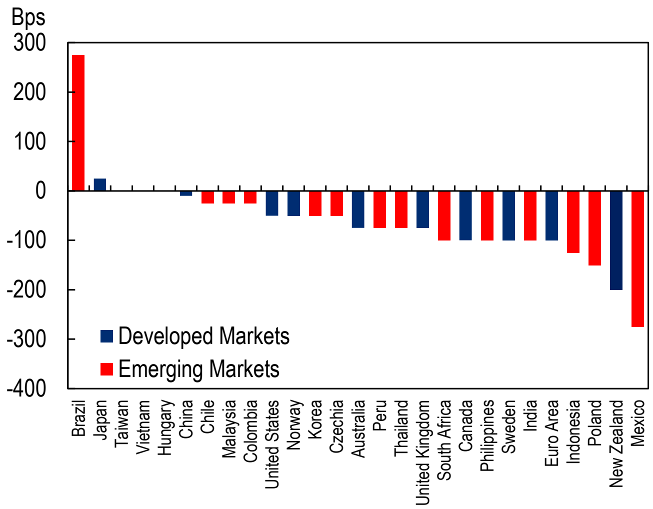
Going forward, we see some central banks holding rates stable—but many others look poised to cut further (Figure 16). As a general rule, these easing cycles are taking rates back toward neutral, rather than into outright accommodative territory. Central banks are unwinding the restrictive policies they implemented to counter the post-pandemic inflation upsurge, but they are typically leaving rates higher than pre-pandemic settings (Figure 17).

The coming year promises to be an eventful one for the Federal Reserve. From a policy standpoint, the markets have largely priced in a December cut, and we're expecting two further cuts next year (Figure 18). The FOMC is seeking to balance concerns about persistent above-target inflation—it has now missed its inflation target for five consecutive years—against the reality of a gradually softening labor market. Chairman Powell has emphasized that there is no "risk free" path for monetary policy. However, a working majority of Fed members have signaled that the labor market poses worrisome challenges and, accordingly, they feel it's appropriate to move rates closer to 3%, the Fed's estimate of neutral.

In addition, Jerome Powell's term as Chairman expires in May. President Trump has indicated that he has determined Powell's successor, which suggests that an announcement is forthcoming. A key question is the priority that the new Chairman will put on preserving the Fed's independence. Historically, politically driven central banks have delivered less favorable economic outcomes than those that seek to operate independent of politics.

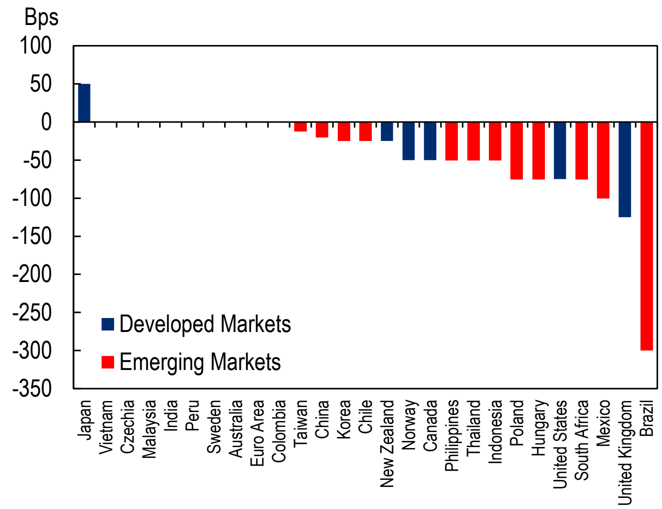
Elsewhere among the DM economies, we see the ECB as likely to be on hold through the coming year, with growth sufficiently strong—propelled by German fiscal stimulus—to keep the Governing Council on the sidelines. In contrast, we expect the Bank of England to cut 125bp through the end of next year, as declining inflation and lackluster growth provide scope to take the policy rate below 3%.

Figure 15. Policy Rate Changes in 2025*



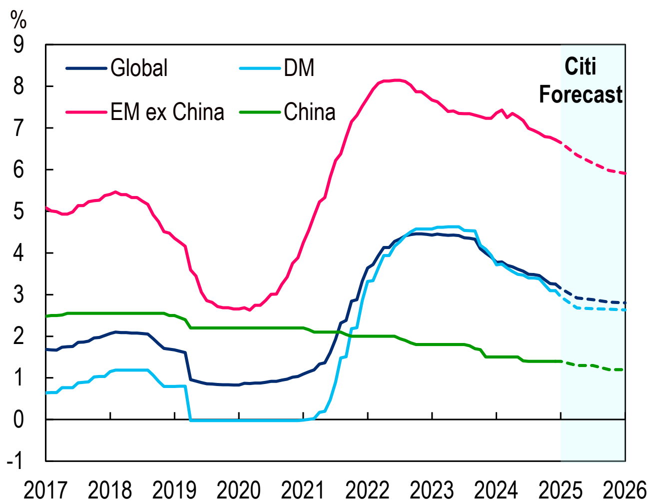
*2025 year-end less current rate.
Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 16. Policy Rates: 26Q4 Less Current (Citi Forecast)



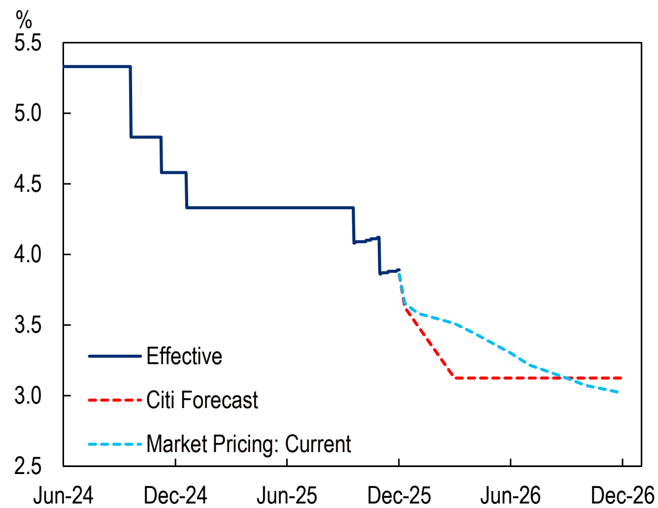
Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 17. Nominal Policy Rate



Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 18. Fed Funds Market Pricing



Source: Citi Research, Bloomberg

The Bank of Japan is the only central bank that we see raising rates through the end of 2026, with 25bp hikes expected at the meeting later this month and in July. With inflation running above target and real wages remaining in positive territory, the central bank has scope to further normalize rates. The case for BoJ action is reinforced by the renewed weakness of the yen. Market participants harbor some doubts as to whether Prime Minister Takaichi will countenance such action, but we expect that she will acquiesce.

Among the EMs, we have built in 300bp of easing by Brazil's central bank, more than reversing the 2025 rate hikes. The Bank of Mexico is seen to cut another 100bp, following 275bp of easing this year. But other EM central banks are likely to be on hold next year, including Vietnam, Czechia, Malaysia, India, Peru, and Colombia. Central banks in China, Korea, and Chile are seen to cut only modestly further. Growth in many of these EM countries is expected to remain solid, which offers only limited scope for additional rate cuts.

Risks to the Outlook

We conclude with a discussion of some key challenges and risks that the global economy could face during the coming year. To be clear, our expectation that global growth will remain close to trend reflects our convictions regarding global resilience, rather than an absence of challenges. The risks below are concerning, and we will continue to monitor them closely.

A larger than anticipated bite from tariffs. The global economy has shown impressive resilience in the face of the tariffs. In response, we've significantly reduced the tariffs' estimated hit on economic activity. However, it's possible that more severe effects are still in the pipeline. Next year could bring a sharper and more sustained softening in US spending as this year's frontloading is paid back. Such a scenario could also involve more pronounced inflation pass-through, as firms seek to restore their margins. Such an outcome would push up inflation and complicate the Fed's efforts to ease policy.

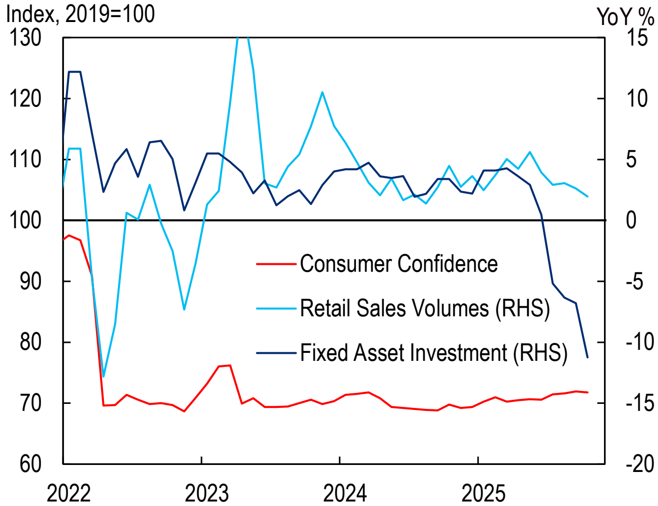
A sharp deterioration in the US labor market. Historically, when the labor market begins to soften, it tends to keep softening—and often abruptly. This is the key insight embedded in the "Sahm Rule."[2] Even so, our expectation is that any further deterioration is likely to be gradual. Consistent with our view, the broader US economy has remained solid. Consumers put in a favorable spending performance on Black Friday, and real GDP growth has stayed strong. Also, the Fed has been easing policy mainly with the goal of supporting the labor market. Bottom line, the risk of a sharper labor market softening is at the center of our radar screen, and it will need to be watched closely through the coming year.

Downside risks to AI investment and valuations. This year the AI sector has been an important driver of global economic activity, especially in the United States and Asia. This positive impulse has reflected both the rapid pace of AI investment and strong wealth effects, as the share prices of major AI-producers have surged. But more recently, the market has manifest concerns about the sustainability of this AI investment and the associated valuations. While we remain confident in the underlying technology—and expect it to bring productivity gains in the years ahead—the path to adoption is unlikely to be smooth. The internet was ultimately transformative, but it brought a bubble and significant examples of ill-advised investment along the way. As such, a meaningful retrenchment in the AI sector is not our expectation for the year ahead, but we see it as an important risk.

Weaker than expected private spending in China. Our baseline forecast is for China's economy to continue to grow at nearly a 5% clip during the coming year. China's export machine, while facing headwinds from the US tariffs, has continued to perform well. As we discussed above, one risk involves the ongoing sustainability of these burgeoning exports. But the outlook for private demand strikes us as an even more threatening concern. In particular, the growth of Chinese fixed asset investment has turned down sharply and consumer sentiment has shown sustained weakness (Figure 19). Key headwinds include the still-depressed property sector, as well as the anti-involution campaign, which is policing aggressive competition and expansion of capacity. We assume that the authorities will provide stimulus as necessary to ensure solid ongoing growth, but the deeper challenge is jumpstarting China's lagging consumer sector.

[2] The Sahm rule states that when the three-month moving average of the unemployment rate increases by ½ ppt or more from its twelve-month low, a recession typically ensues.

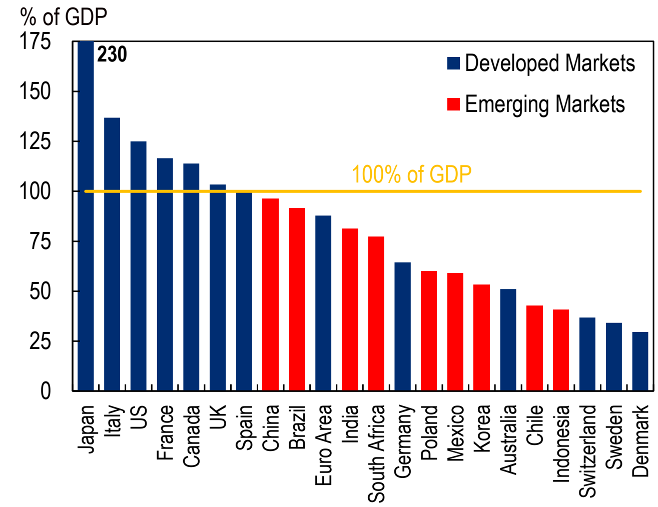
Figure 19. China Economic Indicators*



*Retail sales are nominal retail sales deflated by headline CPI.

Source: Citi Research, CNBS, Haver Analytics

Figure 20. General Government Debt: Share of GDP (2025)



Source: Citi Research, IMF, Haver Analytics

High public debt levels in many countries. A broad set of countries are pushing the traditional boundaries of debt sustainability. Among the DMs, Japan, Italy, the United States, France, Canada, the UK, and Spain all have public debt levels at or exceeding 100% of GDP. Similarly, debt levels in China, Brazil, India, and South Africa are a notch lower but still exceptionally high by conventional EM metrics. Elevated debt levels—and the associated deficits—may lead to a broad range of challenges. They can result in higher government financing costs as investors require additional incentives to hold the debt, and this puts increased pressure on debt-service capacity. They may also create uncertainties, including fears of higher rollover risk, financial repression, or monetization. These concerns may, in turn, weigh on confidence and private spending. As a related issue, the rising debt levels may constrain fiscal space and the government's scope to respond aggressively to adverse developments. To date, major countries have generally escaped the most severe manifestations of these challenges, but their high (and rising) debt levels leaves them vulnerable.

Overview of December Projections

For our forecasts, click here.

Figure 21. Selected Economy GDP and CPI Inflation Forecasts

	GDP GROWTH					CPI INFLATION				
				Differences from last GEOS					Differences from last GEOS	
	2025	2026	2027	2026	2027	2025	2026	2027	2026	2027
Global	**2.9**	**2.7**	**2.8**	**0.1**	**0.1**	**2.8**	**2.5**	**2.5**	**-0.1**	**-0.1**
Global ex US	**3.2**	**3.0**	**3.2**	**0.1**	**0.2**	**2.8**	**2.6**	**2.6**		**-0.1**
Industrial Economies	**1.7**	**1.6**	**1.7**	**0.1**	**0.1**	**2.5**	**2.1**	**2.0**		**-0.1**
United States	1.9	1.9	1.8			2.6	2.5	2.2		-0.1
Canada	1.7	1.2	1.8	0.3		2.1	2.3	2.2		
Euro Area	1.4	1.2	1.5	0.4	-0.1	2.1	1.6	1.7	0.2	-0.1
Germany	0.2	1.0	1.5	-0.1	-0.2	2.3	1.9	2.1	0.2	
France	0.8	1.0	1.3	0.2	0.1	0.9	1.2	1.9	-0.1	0.1
Italy	0.5	0.7	1.0	0.1	-0.2	1.7	1.2	1.8		-0.1
Spain	2.9	2.5	2.1	0.4	0.3	2.7	2.6	2.3	0.7	0.1
United Kingdom	1.4	1.0	1.4		0.3	3.4	2.2	2.1	-0.2	0.1
Japan	1.3	1.0	1.3	0.2		3.2	1.7	2.0		
Emerging Markets	**4.2**	**4.0**	**4.1**		**0.2**	**3.1**	**3.0**	**3.0**	**-0.1**	**-0.1**
Emerging Asia	5.0	4.7	4.6	0.1	0.2	0.8	1.4	1.8	-0.2	-0.4
China	5.0	4.7	4.6	0.1	0.1	0.0	0.6	1.0	-0.2	-0.5
India	7.7	6.8	7.0			2.2	3.5	4.0	-0.3	-0.6
ASEAN-5	4.3	3.9	4.3			1.5	2.0	2.4	-0.1	-0.1
Emerging Europe	1.6	1.4	1.3			5.9	4.7	4.4		
Poland	3.5	4.0	3.1	0.4	-0.1	3.6	2.4	2.7	0.1	0.1
Turkey	3.7	2.6	3.5	0.2	0.3	35.3	25.6	20.4	1.7	4.2
Latin America	2.0	2.0	2.3	-0.1		7.9	5.9	5.1		0.2
Brazil	2.2	1.8	1.8			5.0	3.6	3.9	-0.4	0.1
Mexico	0.2	1.0	2.0	-0.4		3.8	4.4	3.8	0.2	0.1
Middle East/Africa	3.9	4.5	4.4		0.2	4.6	4.0	3.6	0.1	
Egypt	5.1	5.6	6.1			14.2	8.9	6.8	0.9	
Nigeria	4.3	4.6	5.2			20.7	16.4	11.0	-0.2	
Saudi Arabia	4.4	4.5	3.7	0.1	0.1	2.0	1.9	2.0		
South Africa	1.4	1.6	2.0		0.1	3.3	3.3	3.3		

Source: National Sources, Citi Research

Figure 22. Selected Economy Policy Rate Forecasts (%)

	Current	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
United States	4.00	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Japan	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50
Euro Area	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Canada	2.25	2.25	1.75	1.75	1.75	1.75	2.00	2.25	2.50
Australia	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
United Kingdom	4.00	3.75	3.75	3.50	3.00	2.75	2.75	2.75	2.75

Euro Area is Deposit Rate

Source: Citi Research, Bloomberg

Figure 23. Selected Economy Forecasts

		Central Bank Policy Rate (%)			Current Account % GDP			Fiscal Balance % GDP			Gov debt % GDP		
		2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
Global		3.82	3.36	3.15	0.4	0.4	0.3	-4.5	-4.6	-4.5	96.5	97.3	98.3
	Industrial Economies	2.86	2.58	2.64	-0.9	-0.7	-0.8	-4.6	-5.0	-5.1	114.9	116.4	118.1
	United States	3.75	3.25	3.25	-3.7	-2.9	-2.8	-6.9	-7.1	-7.1	123.7	125.5	127.7
	Canada	2.56	1.75	2.31	-1.6	-2.5	-3.3	-2.4	-2.1	-2.0	100.8	101.4	101.9
	Euro Area	2.00	2.00	2.00	1.9	1.4	1.2	-2.9	-3.4	-3.6	88.1	89.0	89.6
	Germany	-	-	-	4.8	4.4	3.9	-3.0	-4.0	-4.0	63.6	65.8	67.4
	France	-	-	-	-0.6	-0.4	-0.4	-5.4	-5.2	-5.1	116.2	118.5	120.1
	Italy	-	-	-	1.5	1.2	0.9	-3.0	-2.8	-2.9	136.3	136.5	136.4
	Spain	-	-	-	3.0	2.5	2.1	-2.8	-2.3	-2.4	99.2	96.9	95.0
	United Kingdom	4.00	2.75	2.75	-	-	-	-4.3	-3.6	-3.0	94.5	93.9	93.9
	Japan	0.75	1.00	1.50	4.8	4.2	4.1	-1.3	-2.2	-2.7	229.6	226.8	224.5
	Emerging Markets	4.97	4.27	3.74	2.1	1.7	1.6	-4.3	-4.1	-3.8	74.4	74.9	75.7
	Emerging Asia	2.45	2.37	2.30	3.4	3.0	2.7	-4.1	-4.0	-3.8	91.8	92.2	93.0
	China	1.40	1.30	1.20	2.7	2.5	2.3	-4.0	-4.0	-3.8	107.2	108.2	109.2
	India	5.50	5.50	5.50	-1.0	-0.6	-0.4	-7.4	-7.1	-7.0	83.9	83.3	82.3
	ASEAN-5	3.21	3.05	3.07	3.2	2.8	2.6	-2.9	-2.8	-2.6	72.7	72.8	72.9
	Emerging Europe	12.33	9.60	7.33	-0.6	-1.1	-1.1	-4.1	-3.8	-3.3	35.4	36.3	36.8
	Poland	4.00	3.50	3.50	-0.9	-1.6	-1.9	-6.8	-6.1	-5.9	48.7	51.5	54.6
	Turkey	38.50	28.00	20.00	-1.3	-2.3	-2.8	-4.0	-3.7	-3.8	22.5	21.8	21.3
	Latin America	8.83	7.59	7.08	-1.8	-1.9	-2.0	-5.2	-5.0	-4.5	64.2	66.3	60.7
	Brazil	15.00	12.00	10.50	-3.4	-3.2	-3.0	-8.1	-7.8	-7.4	79.6	83.7	87.6
	Mexico	7.00	6.25	6.25	-0.1	-1.0	-1.1	-4.5	-4.3	-3.6	53.5	54.0	53.7
	Middle East/Africa	5.89	4.66	3.72	1.7	1.3	2.4	-4.1	-3.3	-2.5	22.8	22.7	22.2
	Egypt	20.00	13.00	9.50	-3.5	-3.0	-2.8	-6.1	-5.0	-4.5	51.7	49.0	46.8
	Nigeria	27.00	20.00	13.00	2.6	0.6	0.7	-3.0	-2.4	-2.7	27.9	25.0	24.6
	Saudi Arabia	-	-	-	-3.6	-2.8	-0.8	-5.3	-4.3	-2.9	-	-	-
	South Africa	6.75	6.00	5.50	-0.8	-1.1	-1.2	-4.3	-4.2	-4.1	79.4	80.7	81.6

Source: National Sources, Citi Research

Figure 24. Selected Economy 10-year yields (%)

	Current	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
United States	4.06	4.10	3.98	3.90	3.83	3.75	3.75	3.75	3.75
Japan	1.89	1.73	1.90	1.90	2.00	2.00	2.05	2.05	2.10
Euro Area (bunds)	2.75	2.65	2.70	2.70	2.85	3.00	3.00	3.00	3.10
Canada	3.22	3.37	3.37	3.37	3.37	3.37	3.37	3.37	3.37
United Kingdom	4.45	4.50	4.45	4.45	4.25	4.15	4.15	4.25	4.35

Source: Citi Research, Bloomberg

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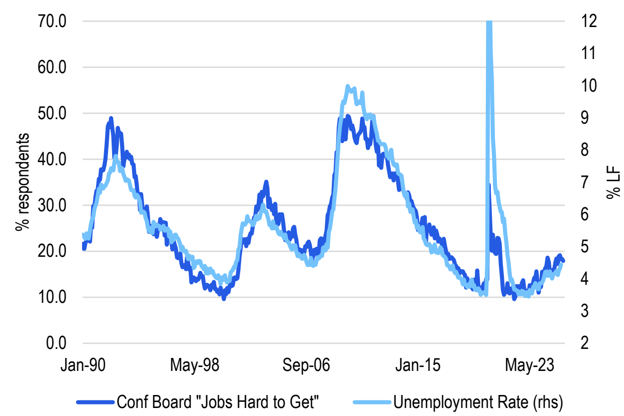
Investors are divided into two distinct camps regarding the 2026 US economic outlook. In one view, the economy is entering a period of reacceleration led by business investment and AI-led productivity gains, with stronger growth fueling risk of stickier inflation and higher yields (whether through fewer Fed cuts or higher long-end yields amidst the risk of more dovish Fed leadership). But in the alternative view, which we share, a slowly weakening labor market and deteriorating consumer health poses downside risk for growth, with upside risks to inflation limited by extension and further Fed rate cuts on the horizon.

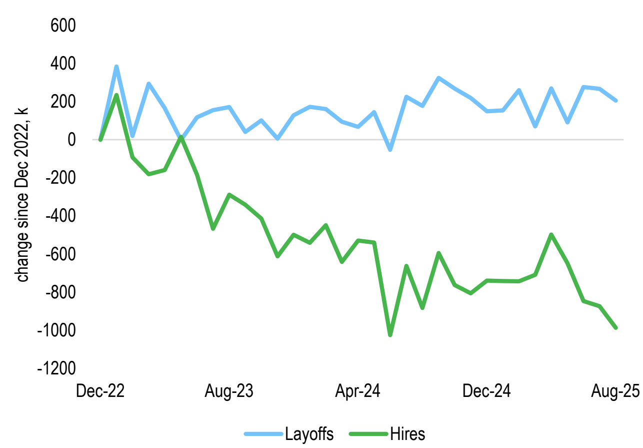
Further structural slowing in the economy after years of restrictive rates also keeps the risk of even weaker outcomes (i.e. recession) still on the table. We continue to expect further Fed cuts in 2026 to a 3-3.25% policy rate range, with risks tilted towards even lower policy rates.

Figure 25. The unemployment rate has gradually moved up from its low two years ago



Source: Citi Research, BLS

Figure 26. Hiring continues to decline while layoffs move sideways



Source: Citi Research, BLS

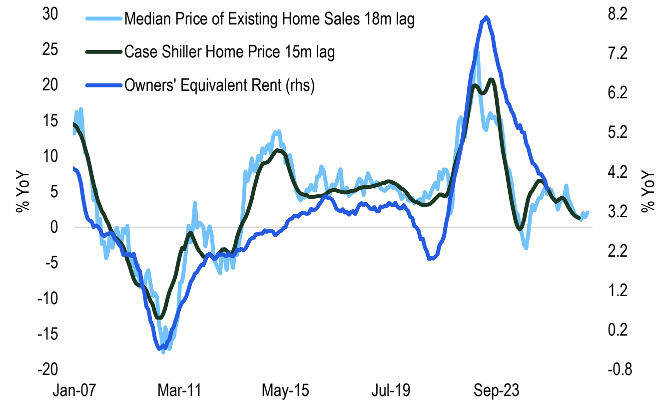
The loosening labor market should be the primary source of concern for the broader economy. But the gradual nature of this loosening may be creating a false sense of security among some Fed officials and investors. Fluctuations in labor supply due to immigration changes and various seasonal adjustment issues have also made interpreting labor market data more difficult than usual.

But as of September, the unemployment rate at 4.44% has risen a full percentage point from its cycle low of 3.4% in April 2023 and in our view is the best indication that labor demand has weakened even more than labor supply. The consistently low-hiring backdrop alone should put further upward pressure on the unemployment rate into 2026. The fundamentals of low hiring (low demand for new workers) also keep the chance of larger layoffs higher than usual.

Figure 27. Services inflation is highly correlated to wage growth, which is slowing

Source: Citi Research, BEA, BLS

Figure 28. Shelter inflation should slow in 2026 based on easing in home prices that has already occurred

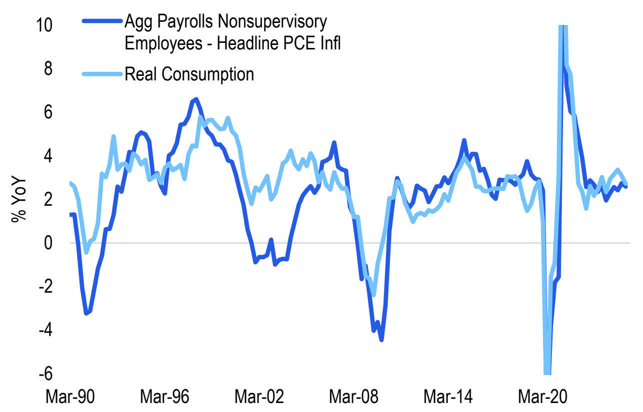


Source: Citi Research, BLS

Demand for workers weakening more than labor supply has also led to wage growth to gradually slow. Inflation data in the next few months may exhibit some of the start-of-year strength that has become a feature of inflation data post-pandemic. Some of this could be a result of continued tariff pass through to consumer goods prices.

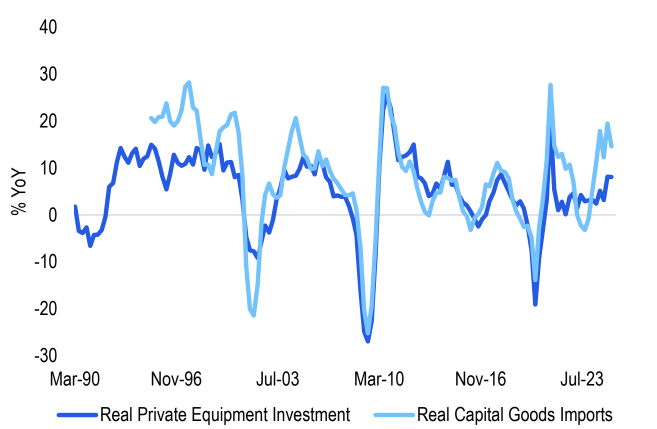
But fundamentally, a weaker labor market should mean little risk of sustained inflation reacceleration, especially in core non-shelter services prices that account for ~50% of the Fed's preferred core PCE. We also expect a continued slowing in shelter inflation in 2026 regardless of the demand backdrop. Shelter (i.e. housing) components in consumer inflation measures are very lagged to reflect housing market trends, and leading signals like home prices and new rents have been abnormally soft for a year already.

Figure 29. Consumption should slow as aggregate incomes do



Source: Citi Research, BEA

Figure 30. Slowing imports are a headwind to investment

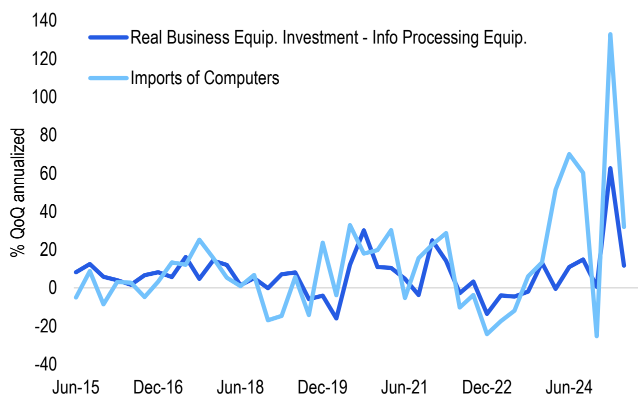


Source: Citi Research, BEA

Arguments for a reacceleration in growth into 2026 include a boost to business investment new tax incentives, larger household tax refunds in Q1, and continued demand for AI-related investment and the resulting productivity boost. Indeed, these factors should be supportive of growth (though not necessarily the labor market) and are an important reason why our forecasts do not include a more substantial slowdown in activity.

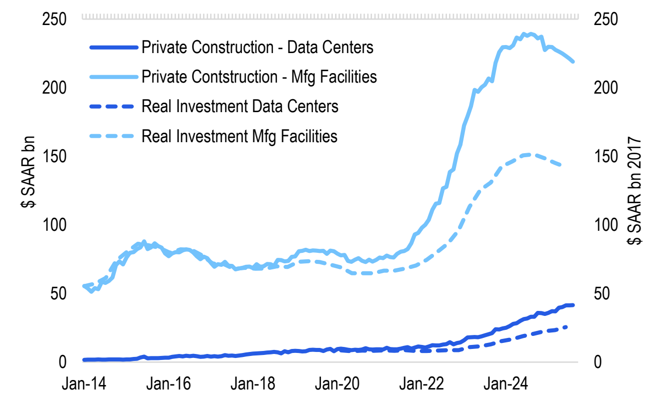
But ultimately, we think it would be hard for stronger business investment to durably support aggregate activity if consumption, which is still 70% of GDP, slows more notably. While some spending of higher income consumers could remain strong, by far the largest determinant of aggregate spending will still be take-home labor incomes. Even if the recent slowing in payroll job growth were only a result of a smaller labor force, aggregate incomes (and by extension consumption) should slow.

Figure 31. Some investment may have been front loaded ahead of trade uncertainty



Source: Citi Research, BEA

Figure 32. The path of aggregate investment is unclear as a pickup in AI investment is offset with slowing elsewhere



Source: Citi Research, BEA

And while some pockets of investment are likely to remain strong, the degree of upside in aggregate investment is limited. Some strength in investment in H1-2025 may have already been a consequence of front-loading ahead of tariff-related uncertainty that could mechanically slow with imports in coming quarters.

Increased construction of datacenters and other AI-related investment may also reflect some shifting demand away from other areas of investment. For example, construction of structures like manufacturing facilities has been slowing due to the fading impact of CHIPS act and other fiscal measures over the past few years. Growing AI investment but slowing in other sectors implies a more modest path for aggregate investment, which we do not think will be strong enough to keep the economy sustainably growing at a +3% rate.

Figure 33. United States — Economic Forecasts

					2025		2026				2027			
		2025F	2026F	2027F	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	SAAR				3.0	0.4	2.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8
	YoY	1.9	1.9	1.8	2.0	1.6	2.3	1.8	1.6	1.9	1.8	1.8	1.8	1.8
Domestic Demand	SAAR				1.8	-0.7	2.2	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	YoY	2.2	1.5	1.9	2.1	1.2	1.4	1.3	1.3	2.0	1.9	1.9	1.9	1.9
Consumption	SAAR				2.7	0.6	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1
	YoY	2.4	1.8	2.1	2.4	1.6	1.9	1.8	1.6	2.0	2.1	2.1	2.1	2.1
Business Investment	SAAR				1.6	-2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	YoY	3.6	1.4	1.9	3.5	4.0	2.1	0.8	0.9	1.9	1.9	1.9	1.9	1.9
Housing Investment	SAAR				-7.0	-4.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	YoY	-2.4	-0.4	3.0	-2.3	-4.5	-3.6	-1.6	1.0	3.0	3.0	3.0	3.0	3.0
Government	SAAR				0.2	-3.6	3.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
	YoY	1.0	0.6	0.7	0.6	-1.1	0.1	0.3	0.4	1.5	0.7	0.7	0.7	0.7
Exports	SAAR				3.6	-0.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	YoY	1.0	2.1	3.0	0.2	0.3	1.0	2.2	2.1	3.0	3.0	3.0	3.0	3.0
Imports	SAAR				-7.1	-9.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	YoY	1.8	-3.2	3.0	-2.5	-4.8	-11.6	-2.8	-0.3	3.0	3.0	3.0	3.0	3.0
PCE Deflator	YoY	2.6	2.5	2.2	2.7	2.8	2.6	2.6	2.4	2.2	2.2	2.2	2.2	2.2
Core PCE Deflator	YoY	2.8	2.6	2.1	2.9	2.9	2.8	2.7	2.6	2.4	2.2	2.1	2.1	2.1
Unemployment Rate	%	4.3	4.4	4.2	4.3	4.7	4.6	4.4	4.3	4.2	4.2	4.2	4.2	4.2
Policy Rate Upper Bound EoP	%	3.75	3.25	3.25	4.25	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Federal Gov't Balance (Fiscal Year)	US$bn	-1775	-1920	-2000										
	% of GDP	-5.9	-6.1	-6.1										
General Gov't Balance (Cal Year)	% of GDP	-6.9	-7.1	-7.1										

Source: Citi Research, Bureau of Economic Analysis, Bureau of Labor Statistics, Department of Treasury

Euro Area: Substituting domestic demand to external demand?

Arnaud Mares

More than usual perhaps, we believe that to properly assess the outlook for the European economy in 2026, one has to approach it from the perspective of the structural changes that Europe's growth model is undergoing, largely as a consequence of the redrawing of the geopolitical global order. Europe's performance in 2026 is unlikely to be determined primarily by cyclical considerations. It is doubtful that Europe is going through a cycle, in the classical sense of a demand and credit cycle. Europe's outlook is also somewhat less likely than in the past to be driven by the economic performance of its main trading partners, be it China (which often led the German investment cycle because it was a primary source of demand for German capital goods) or the US. Rather, the emphasis has moved to Europe's ability to substitute domestic demand, via in particular German fiscal deployment, to a less sustainable external demand. We believe that rotation in Europe's growth engine to be a structural change rather than a temporary one. We also believe that it may raise Europe's performance meaningfully over coming years, though perhaps not much in 2026. In this brief section, we summarise the rationale behind those assertions.

Following the euro crisis of 2010-12, most euro area countries, with the notable exception of France, had followed Germany's example in adopting a model of economic development essentially export-driven, which has been reflected in the rising external surpluses of the euro area. We consider those mercantilist policies to be partly responsible for the lowflation environment of the 2010s, because a trade surplus is an excess of supply over domestic demand, and a current account is an excess of savings over domestic investment, so actively pursuing surpluses implies exerting downward pressure on both inflation and real rates.

This policy mindset is being challenged from several directions: China's export structure has converged towards that of Germany, which is another way to say that China has become over the past years more of a competitor than a client for Germany's manufacturing sector; US trade policy through 2025 reflects an intent to rebalance bilateral trade relations, which implies that the US is not a plausible source of marginal demand for Europe's excess supply.

If net external demand is no longer a credible driver of growth, Europe must seek to boost its own domestic investment and consumption to replace it. We read the German turnaround on fiscal policy in 2025 as essentially an acknowledgement of this new reality. We are tempted to interpret the relatively generous wage increases granted to German workers over the past two years as another sign of an emerging consensus – consciously or not - that domestic consumption must play a greater role in supporting aggregate demand. We find it difficult indeed to explain those increases merely by the tightness of the labour market, given that past instances of fairly tight labour conditions had not produced similar wage adjustments.

More emphasis placed on domestic demand would have, in our view, positive implications for Europe from a political point of view, because it would realign the economic interests of European countries with the political interests that bind them. For many years, governments in Europe were entirely committed to keeping the European Union and the euro area together as political entities, but showed less interest in whether they partners exhibited much growth. We think this may now be changing. The less net demand from outside Europe is forthcoming, the more important it is to each country that it immediate neighbors grow, as they become the marginal source of demand. Given the successful experience of NGEU, this can make various governments – first of all that of Germany – more constructive on joint EU funding and investment, which we already see signs of and which we would look at positively.

In this context, we do believe that the renewed interest of most European countries in defence investment is meaningful and consequential. We attribute this emphasis on defence first and foremost to an evolving geopolitical environment that forces Europe to revise its defence doctrine, developed in the immediate aftermath of the Second World War, towards one that implies more self-reliance and less reliance on the United States. That would require that Europe fills the “gaps” in its defence system by building up capacity in areas such as nuclear dissuasion, intelligence, and other dimensions of defence currently “outsourced” to the United States. Doing so implies not years but decades of large-scale expenditure. For the sake of illustration, the construction of a strategic nuclear submarine takes approximately ten years, and the amount budgeted by the UK government for the replacement of its four such submarines is GBP 41 bn (a GBP 31 bn core budget and a GBP 10 bn contingency fund). So, if Europe were to expand its nuclear arsenal, as we believe it will, investment in defence will be very large and sustained. The same applies to other areas of defence.

We highlight this point because it means in our mind that the geopolitical and security challenges, which Europe is now facing, provides motive and opportunity to accelerate the rotation of Europe’s growth model from an export-driven one to a more domestic-demand drive approach. Germany’s intent to invest in infrastructure participates to the same movement. In both cases, we expect that multipliers of public investment can surprise on the upside, both in the short term (because expenditure will be essentially domestic) and in the medium-term (because infrastructure investment generates positive externalities, and defence investment has a relatively high research and innovation component).

So, from a structural perspective, the consequences of the ongoing reshaping of the geopolitical and geo-economic global order strikes us as constructive for Europe’s economic performance over years and decades to come, or at least more constructive than we were one year ago.

We remain however of the view that the boost to demand is more likely to materialise from 2027 onwards than in 2026, because the deployment of infrastructure investment is backloaded almost by construction and because before defence investment can really be increased, there has to be a clarification of what Europe's new defence doctrine will be. This clarification will inevitably slow by Europe's confederal political structure, by France's political uncertainty in the near term, and by heterogenous degree of acknowledgement by various countries of the urgency of the matter. In addition, we still expect that US trade policy in 2025 generated marginal headwinds for the European economy, which may have been slow to materialise, but will do so nonetheless.

So while we have a more positive medium-term view, and while we expect Europe's emergence from a mercantilist economic model will eventually raise growth somewhat, will keep inflation and inflation volatility above pre-pandemic levels, and will keep pushing real rates upwards, this may not be much noticeable yet in 2026.

Japan: Tailwind and Risk Brought by Sanaenomics

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Global inflation did not only destabilize politics but also brought about favorable Domar condition, i.e., nominal growth > nominal yields. This along with challenging security environment has driven the new administration led by first female and conservative PM Takaichi to seek "proactive but responsible" fiscal policy while constrained by high debt/GDP ratio and bond markets freed from QE regime. Therefore, we think the upcoming fiscal impulse will be moderate and upgraded 2026 growth forecast by 0.2ppt to the above trend +1.0% based on the economic measure recently announced although it will still slow from +1.3% growth for 2025 due to some lingering effect of US tariffs.

Component wise, consumer spending will likely get modestly stronger the next year as real wage growth will finally turn to be positive with inflation slowing. As labor unions and managers are aiming for steady increase in wages for the upcoming spring negotiation, we expect base pay hike to be at least 3%. While manufacturers are likely to have suffered from US tariffs, it is unlikely for them to cut the size of their wage hikes significantly in terms of still historically high level of corporate profits and human resource competition. Income tax cuts and subsidies to energy prices that are included in the economic package would also help. Lastly, the wealth effect on consumption cannot be ignored. Property income like stock dividend has accounted for a non-negligible part of recent increase in households' income.

Capex will likely remain resilient backed by structural demands such as labor-saving and digitization investment. It is notable that despite tariff shocks Japanese firms have been proactive in investing in growth areas this year to keep up with global competition, which will continue while some slowing in manufacturers' capex early next year due to their reduced profits. Exports are expected to rebound along with the global economy from the middle of the next year.

We see upside risk to external demands coming from Japan's pledge to invest $550bn in the US. The Japan-US trade agreement prescribes that Japanese products will be given priority in procurement for constructing power facilities and data centers in US although the commitment to these projects remains uncertain. Overall, this implies that Japan may be more exposed to AI related risks over the medium term. Meanwhile, the recent tension between Japan and China puts downside risk to service exports. Inbound demand from Chinese tourism accounts for 0.4% of GDP, which implies a 0.1ppt curb on growth if we were to see a repeat of the drop in tourist numbers (25%) seen in 2012. Although this looks unlikely, we do see some risk of further escalations such as a boycott of Japanese products or restrictions on rare earth exports from China.

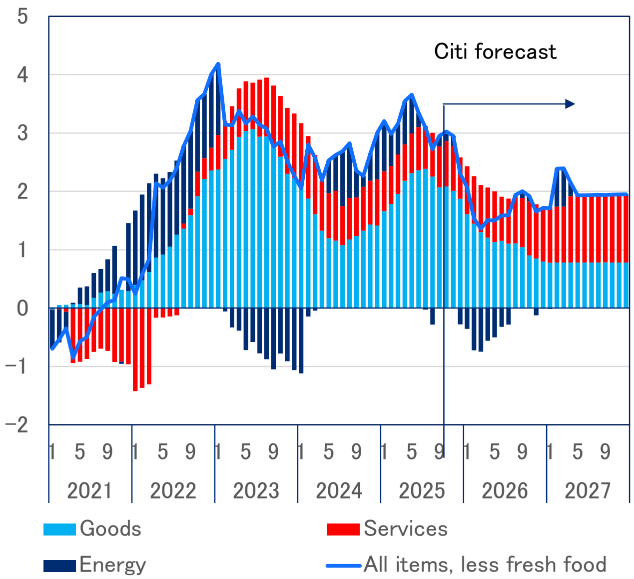
Inflation in Japan remains elevated by international standards, but this is largely due to rising labor costs caused by labor shortages, as well as a delayed increase in rice prices this year. As the latter cost-push factor fades away along with the government's effort to lower energy prices, we expect core inflation excluding only fresh foods to slow to +1.7%, a bit below 2% next year (see Figure 34). Meanwhile, we expect consumer purchasing power to recover as inflation in food and energy slows, leading to a pass-through of labor costs to discretionary service prices. While headline inflation will likely slow, we expect a moderate acceleration in service inflation, a component of the BoJ's underlying inflation, which should support a rate hike next year.

However, two years ago, Japan avoided inflation on a par with those in US and Europe, but this may have been because companies were cautious about passing on cost increases under the zero-inflation norm. Now that the norm has changed with households more receptive to price hikes, we must be aware of the risk that past cost increases will continue to be passed on for some items, as was the case with rice prices this year.

The BoJ will likely resume a rate hike process in December this year, urged by recent yen weakness. We maintain our forecast for a rate hike in July of next year, following the December hike with policy rates reaching a terminal rate of 1.5% in 2027. The governor Ueda stated this week that even if policy rates are raised, financial conditions will remain accommodative given deeply negative real yields and that adjusting the degree of accommodation without being too late or too early is necessary to achieve a long-term growth through price stabilization. All these comments are not only in line with our outlook but also suggest the BoJ may have gained the PM Takaichi's understanding about future rate hikes. In any case, we believe the BoJ could not keep rates on hold. Otherwise, that could lead to a weaker yen and higher prices, which would be politically prohibited.

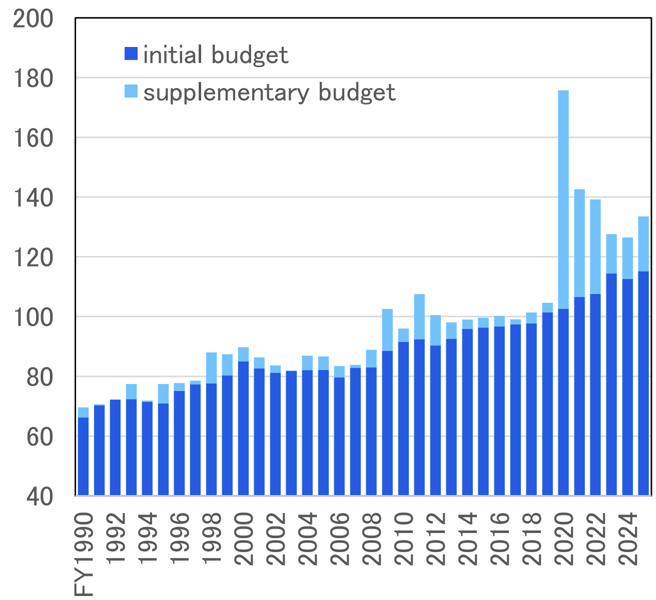
Markets will continue to pay attention to fiscal policy under the new administration that seeks to lower debt/GDP through investment on economic security areas like AI and high-end chips to boost growth along with private investment. As this year's supplementary budget focused more on the short-term measures to combat rising prices, the PM Takaichi's style may begin to emerge in the FY2026 initial budget whose draft will come out at this year-end. The government now mulls front-loading expenditure in initial budget rather than backloading in supplementary budget (see Figure 35). As a result, the FY2027 initial budget may be expanded in size, potentially including investments in the field of economic security. However, it will take more time beyond the next year to assess whether these investments are successful enough to raise potential growth. Finally, there are no major elections scheduled next year, but the risk of a snap election will remain if the current high cabinet approval rating is maintained.

Figure 34. Core CPI inflation will be pushed lower by the government's measure (YoY, %)



Source: Citi Research, Ministry of Internal Affairs and Communications

Figure 35. Japan has recently been backloading discretionary fiscal expenditure in supplementary budget (general account expenditure, trn yen)



Source: Citi Research, MoF

Figure 36. Japan — Economic Forecasts

					2025				2026				2027
		2025F	2026F	2027F	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
GDP	YoY	1.3	1.0	1.3	0.5	0.5	0.4	1.3	1.5	1.6	1.4	1.1	1.0
	SAAR				0.7	0.8	1.9	2.0	1.5	1.1	1.0	1.0	1.0
Domestic Demand	YoY	1.5	1.1	1.1	1.3	0.8	0.8	1.3	1.4	1.3	1.2	1.0	1.0
	SAAR				1.1	1.2	1.6	1.5	1.2	1.0	0.9	0.9	0.9
Private Consumption	YoY	1.2	1.1	1.0	1.0	1.0	1.0	1.1	1.2	1.2	1.1	1.0	1.0
	SAAR				0.7	1.1	1.3	1.4	1.0	0.9	0.9	1.0	1.0
Business Investment	YoY	2.9	2.2	2.3	3.0	2.3	2.3	1.9	2.3	2.6	2.3	2.2	2.1
	SAAR				0.9	0.9	3.3	2.5	2.3	2.5	2.0	1.9	2.0
Housing Investment	YoY	-1.6	-0.1	0.4	-4.5	-4.4	-4.0	6.2	2.5	1.0	0.4	0.1	0.1
Public Investment	YoY	0.4	1.0	1.0	0.4	0.2	0.7	1.2	2.1	1.8	1.4	0.8	0.1
Exports	YoY	3.2	1.3	3.7	-0.3	0.3	-0.8	1.8	3.9	4.4	4.0	3.4	3.1
	SAAR				-4.1	0.9	5.0	5.6	4.1	3.1	3.1	3.1	3.1
Imports	YoY	4.1	2.1	2.9	3.6	1.7	1.3	2.2	3.0	3.1	2.9	2.9	2.9
	SAAR				-0.4	2.6	3.5	3.2	2.9	2.9	2.9	2.9	2.9
CPI	YoY	3.2	1.7	2.0	2.7	1.7	1.6	1.9	1.8	2.2	2.0	1.9	1.9
Core CPI	YoY	3.1	1.7	2.0	2.8	1.7	1.5	1.8	1.8	2.2	2.0	1.9	1.9
Nominal GDP	YoY	4.3	2.9	3.3	3.2	2.4	2.2	3.3	3.7	3.8	3.4	3.0	2.9
Current Account	¥tn	30.6	27.7	27.4	29.4	28.0	27.7	27.7	27.4	26.6	25.9	25.2	24.5
	% of GDP	4.8	4.2	4.1	4.6	4.4	4.3	4.2	4.1	4.0	3.9	3.7	3.6
Unemployment Rate	%	2.5	2.5	2..5	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Industrial Production	YoY	1.0	2.1	2.6	0.3	0.7	1.6	2.8	3.3	3.6	2.8	2.1	2.0
Corporate Profits (Fiscal Year)	YoY	5.2	12.1	9.4									
General Gov't Balance (Fiscal Year)	% of GDP	-1.3	-2.2	-2.7									
General Gov't Debt	% of GDP	230	227	224									

Note: Corporate profits are TSE-I consolidated recurring profits.
Source: CEIC Data Company Limited, Haver Analytics, Citi Research

EM Asia ex-China – Mild slowdown with limited countercyclical easing

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EM Asia's growth has been remarkably resilient in the past year fueled by stronger than expected trade growth, but momentum should slow in 2026F even as we expect that the worst of tariff volatility is now behind us. We argue that a flexible private sector has been able to mitigate the severity of the productivity shock from rising US trade protectionism and ongoing US-China tensions by re-shuffling production and trade through a network of "connector" countries, key ones being in ASEAN countries led by Vietnam.

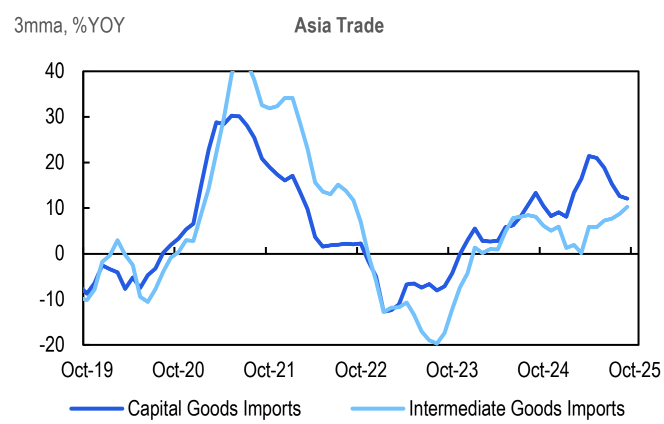
However, we think the bigger factor driving Asia's exports/ manufacturing resilience is the US-led AI capex boom, which is driving up demand for high-end chips, servers and other related equipment. This has also been compounded by AI inference creating exponential data, driving demand for memory chips. We also saw surprisingly modest export payback effects from the tariff front-loading, which is also indicative of resilience in growth in more traditional consumer electronic products. The tech cycle's impact on East Asia *very significant* – electronic products account for an average of 41% of exports (excluding Japan and Indonesia) and is particularly high relative to GDP for **Taiwan, Singapore, Vietnam and Malaysia**.

We still expect Asia's growth to slow next year not only on some slowing global demand, but also the very high base of AI-related activity this year. While not expected to be as volatile as the Liberation Day, trade policy uncertainties will likely persist going into next year –e.g. a pending Supreme Court IEEPA decision and the likely remedial tariff measures that will follow if it is overturned; ASEAN's risks from a possible transshipment lev— which will continue to have lagged effects on capex activity. This is already showing up in the slowdown in Asia's capital goods imports, as well as decelerating real GFCF figures. While Citi's equity team remains bullish over prospects of AI infrastructure buildout, they foresee a slower 57% increase in AI-related capex in 2026F vs a 79% increase in 2025, and a possible sharp stock market correction or binding resource constraints (e.g. electricity or chip capacity shortages) could pose downside risks.

Figure 37. Asia - Electronics exports surged well above the overall export trend

Source: Citi Research, Bloomberg

Figure 38. Asia – Capital goods imports are slowing while intermediate goods have held up

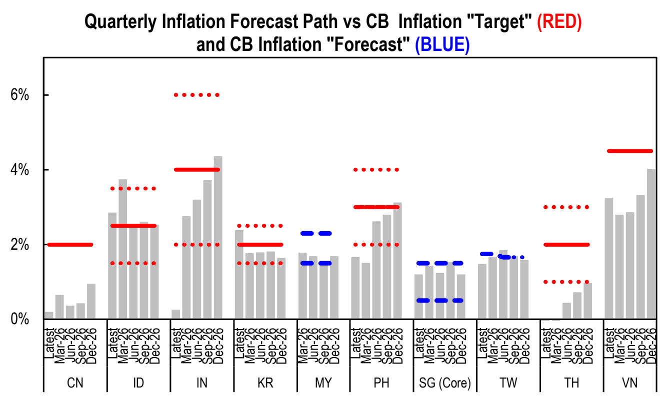


Source: Haver, CEIC, Citi Research,

We expect India to see a US tariff breakthrough by early next year which could help boost exports and investor sentiment. As India takes steps to reduce Russian oil purchases, increase US LNG imports, and open up its agriculture market to US imports, we expect this to pave way for a "deal" that lowers reciprocal tariffs from the punitive 50% rate possibly to around 20%. Such a breakthrough should help support exports and revive medium-term prospects for incorporating India as a production diversification destination. In the meantime, we think what has gone somewhat under-the-radar is how much the unanticipated shock from Trump administration policies has galvanized domestic reforms, including GST cuts, and more recently, various RBI regulatory easing policies and historic labour reforms that are aimed at easing the cost of doing business.

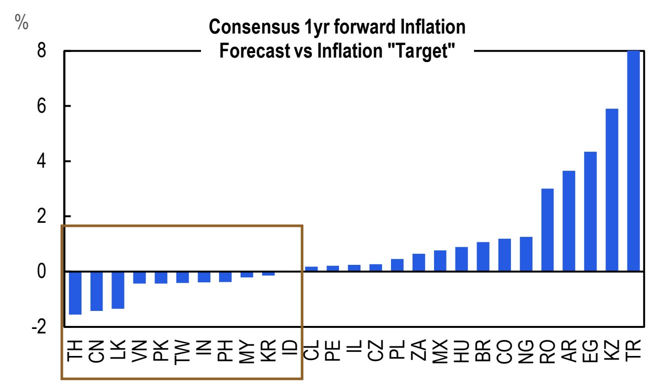
We don't see significant inflationary risks evolving in Asia next year. Slowing growth suggests limited business-cycle fueled reflationary forces. The underwhelming nature of anticipated rebalancing in China suggests that its deflationary spillovers will likely persist, though possibly with less intensity. We also don't envision major food and energy shocks in 2026F, but with the price of Asia's major food staple, rice, having plunged to a near 10-year low, we could see an amplification of the reverse base effect if prices were to rebound. We also expect the magnitude of any oil price decline to be smaller in 2026, barring a potential Russia-Ukraine ceasefire, and thus, oil-led disinflation may be more modest in 2026 than this year. Our inflation forecasts suggest the best of disinflation is now behind us, and in fact, inflation readings in some cases are likely to rise on the back of very low base effect, most dramatic in India, Philippines, Thailand and China. This doesn't mean that monetary easing is over and indeed, inflation still remains well within (or below) the mid-point of their targets, but that the risk of having to counteract a sudden rise in ex-ante real rates has waned.

Figure 39. Difference in 1yr Rolling Forward Looking Consensus Inflation Expectations vs. "Target"



Source: Citi Research, CEIC; Note:

Figure 40. Difference in 1yr Rolling Forward Looking Consensus Inflation Expectations vs. "Target"



Source: Citi Research, Focus Economics; Note: For economies where central banks do not have an explicit inflation target, we assume some implicit target, which in some cases are guided by central bank forecasts.

Nonetheless, despite subdued inflation that remains well anchored at or below target, we think Asian central banks are at the mature phase of their easing cycle. While we still have room for a few central banks to ease a bit further – another 50bps cuts in Philippines, Thailand and Indonesia (the first two have risks tilted to more than that if growth continues to disappoint), all the other Asian central banks are expected to have only very residual to no more easing next year. We think Asian central banks will generally resist bringing policy rates below neutral in 2026 for four main reasons: <u>First</u>, **we see a *huge premium* attached to**

"**policy space**" as this is needed to build resilience for future demand shocks, without which, countries can face real risks of hysteresis.[3] **Second, the "zero lower (nominal rate) bound" tends to be well above-zero and is getting uncomfortably too close for China and Thailand**, even though deflationary pressures for both have put ex-ante real rates are still well above "neutral". In China's case, PBOC is particularly constrained by wanting to protect bank profitability, with net interest margins at an all-time low,[4] while in Thailand's case, legal impediments to having negative rates or pursuing QE may have led to a more guarded approach to lowering rates too quickly below 1%. **Third, adverse side effects of easing in** fueling asset price (especially on housing) and ratcheting up of debt is particularly binding constraint for Korea; **Lastly**, **Indonesia is a special case of an FX stability-focused central bank** where rate differentials with the Fed is close to historic lows, constraining its perceived scope to ease. .

With limited election calendar on the horizon, we see limited urgency for major fiscal policy support next year, though all eyes are on Indonesia. EM Asia's generally prudent fiscal stance is likely to carry on next year as governments aim to bring post-pandemic debt ratios lower and build fiscal buffers to withstand future growth or political shocks. **India, Malaysia** and the **Philippines** are in a fiscal consolidation mode, with the latter's ongoing flood control corruption scandal (Bloomberg, 19 Nov 2025) leading to an abrupt slowdown in public spending, which may recover somewhat next year. **Thailand** is the only one facing a general election, but this is unlikely to have a significant fiscal implications given rating concerns and broad support for a recently proposed medium term fiscal framework calling for fiscal consolidation, regardless of who wins. **Korea's** political shift to the left this year resulted in an expansionary fiscal impulse which is expected to marginally reverse next year with the economy on the mend. Despite President Lai's push for a steep rise in defense spending in **Taiwan**, his party's lack of majority in the Legislative Yuan could mean opposition parties are able to dilute the magnitude and pace of spending increase. All eyes are on whether **Indonesia** will amend the 3% of GDP fiscal deficit cap given that revision of the Law on State Finances has been included in the legislative agenda, but we sense no urgency to revise this given market sensitivities, and thus, the more populist fiscal stance of President Prabowo may still be bounded by this 3% fiscal rule, alongside the slow roll-out of investment projects of the newly established sovereign wealth fund, Danantara.

China 2026: A Year of Continuation or Breakthrough?

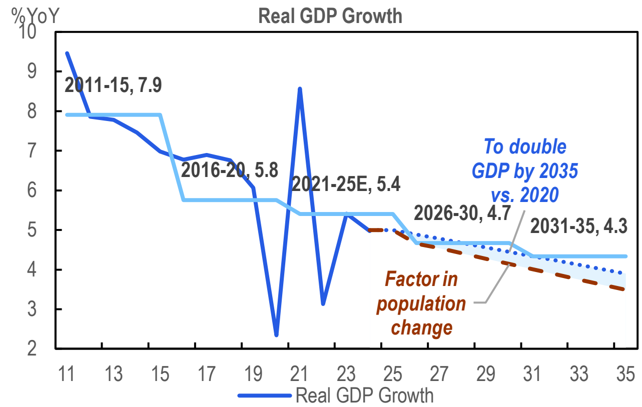
The 15th Five-Year Plan (2026-30) will seek policy recalibration, not course change. As a staging point toward the 2035 objective of GDP per capita across the US$20k threshold, the new FYP focuses more on economic development following the progress in risk resolution made in recent years. We believe the government is determined to keep headline growth within the range of 4.5-5.0% in 2026-30E (Figure 41). The first priority area for further development will still be "tech self-reliance", per the 15th FYP's guide, which is no surprise amid elevated geopolitical uncertainties. Consumption rebalancing is also gaining traction, with the FYP explicitly pledging to "lift household consumption ratio significantly", but it is easier said than done. Without bazooka-style policies, it could take years, if not decades, for consumer behavior to change meaningfully.

[3] See ex- BoT Governor Sethaput Suthiwartnarueput's remarks at the IMF's *26th Annual Research Conference,* "A World in Transition: Are We Ready to Adapt" (6 Nov 2025); watch here

[4] This is related to the concept of the "reversal rate" below which monetary policy no longer becomes stimulative if bank profits get squeezed to the extent that we a reduction in credit supply.

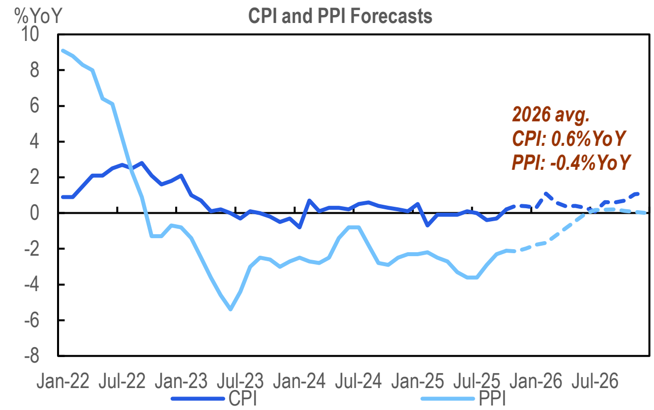
2026 is for a steady start to the new FYP. We expect policymakers to keep the GDP growth target at "around 5%" next year. We also see a case for them to start setting a numeric target for the consumption ratio, likely as "up one percent" in 2026E. An explicit mandate to end deflation is not our base case, anticipating the CPI target unchanged at "around 2%". On the policy front, supply-side efforts are set to continue but will perhaps turn more selective. We reckon the government will double down on "new productive forces", especially tech & innovation, while still pursuing "anti-involution" in sectors with overcapacity and overcompetition. Demand stimulus could step up in a restrained manner, but we do not see an end to the property downcycle within a year with piecemeal policy responses. Together, we forecast GDP growth to slow from 5.0% in 2025E to 4.7% in 2026E in real terms but recover from 3.9% to 4.7% in nominal terms on easing deflation (Figure 42). **From the market perspective, nominal stabilization is perhaps more important than real slowdown.**

Figure 41. Policymakers may aim to keep headline growth within the range of 4.5-5.0% in 2026-30E



Source: NBS, Wind, Citi Research

Figure 42. Easing deflation could help stabilize nominal GDP growth in 2026E

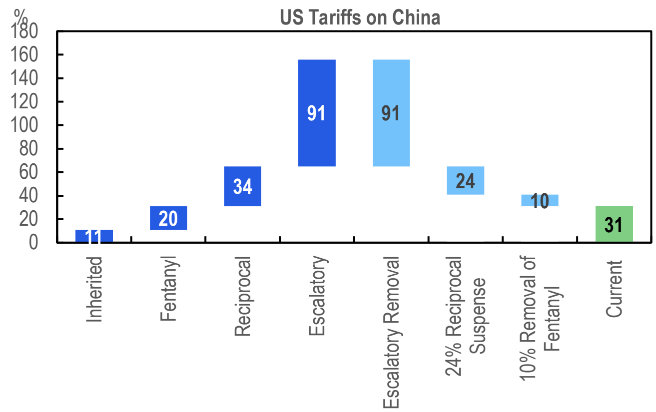


Source: NBS, Wind, Citi Research Forecasts

Domestic policies should stay reactive to external factors, which we assess to be more stable ahead. In our base case, the US-China trade truce will be sustained through 2026 despite being fragile (Figure 43). The risk is that the US tariff rates are more likely to be cut than hiked, especially if President Trump and Xi are to meet four times next year (Bloomberg, Nov 25th). The recent tariff de-escalation should foster a natural recovery of China's direct exports to the US, which dropped -25.6%YoY in April-October 2025. That said, the net impact may not be large – China's export diversion could reverse the course. In our view, **external demand is more a source of uncertainty than trade policy for Chinese exports next year.** Based on our Global Prospects, we expect China's exports growth to slow from 4.1% in 2025E to 2.0% in 2026E. After being a strong boost to headline growth for two years, net exports' GDP contribution will narrow from 1.3ppts to 0.8ppts accordingly. Should external tensions escalate and data weaken, the government could adopt a more aggressive package to offset the headwinds.

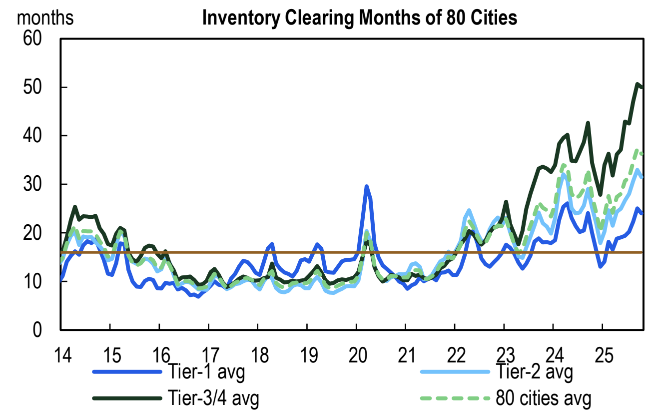
We see a restrained expansion of stimulus package in our base case. Normal monetary policy space has narrowed with banks' NIM at a record low of 1.42%. We pencil in a 20bps rate cut and a 50bps RRR cut in 2026E, with January as the first likely window for move. The PBoC may increasingly use its balance sheet to provide liquidity and boost lending, via MLF and reverse repo tools. **Fiscal policy will take the driver's seat and expand –** we estimate pro-growth government borrowings at 7.9% of GDP in 2026E or up RMB1trn from 2025. Housing policy could be caught between a rock and a hard place, the rock being the unwillingness to reflate a bubble and the hard place being the need to stabilize domestic demand. This dilemma is likely to yield reactive and piecemeal measures that manage the property downturn but do not to end it decisively (Figure 44).

Figure 43. Our base case is that the US-China trade truce will be sustained through 2026 despite being fragile



Source: USITC Dataweb, White House, Citi Research

Figure 44. We see reactive and piecemeal measures to manage the property downturn



Source: CRIC, China Property Team, Citi Research

Fiscal spending should be tilted towards consumer support and social welfare. We judge that trade-in subsidies for durables from the central government will be kept at RMB300bn in 2026E, but tax benefits for EV purchases may start to fade out. Targeted cash transfer such as childcare subsidies would continue, and we see it likely that policymakers expand free pre-school education, elderly care coupons and further raise rural pension payouts in 2026E. In general, **services should benefit more than goods.** Since anti-involution has already proved to weigh on manufacturing investment, infrastructure spend could still be a key countercyclical tool to keep headline growth on track. As a secular theme, we expect AI+ capex to remain buoyant partly on continued policy support.

Figure 45. We see a restrained expansion of stimulus package in 2026E

	Unit	2024	2025	2026F
Targets				
GDP Growth	%YoY	Around 5%	Around 5%	Around 5%
New Urban Employment	mn ppl	Above 12mn	Above 12mn	Above 12mn
CPI	%YoY	Around 3%	Around 2%	Around 2%
Consumption Ratio	% of GDP			1ppt increase
Monetary Policies				
Rate Cut	bps	30bps	10bps	20bps
RRR Cut	bps	100bps	50bps	50bps
Fiscal Policies				
Pro-growth borrowing	**RMB trn (% of GDP)**	***8.7 (6.4%)***	***10.8 (7.5%)***	***11.8 (7.9%)***
Budget deficit	RMB trn (% of GDP)	3.06 (3%)	5.66 (4%)	5.92 (4%)
Special CGB	RMB bn	1,000	1,300	1,600
Trade-in subsidies	RMB bn	*150*	*300*	*300*
Equipment upgrade	RMB bn	*150*	*200*	*200*
Key projects	RMB bn	*700*	*800*	*1,100*
New special LGB	RMB bn	3,100	3,600	4,100
Unused LGB quota	RMB bn		200	200
Risk-resolution borrowing	**RMB trn (% of GDP)**	***3.2 (2.4%)***	***3.6 (2.5%)***	***3.6 (2.4%)***
CGB for bank recapitalization	RMB bn		500	500
New special LGB	RMB bn	800	800	800
Unused LGB quota	RMB bn	400	300	300
Swap bonds	RMB bn	2,000	2,000	2,000
Quasi-Fiscal				
Policy-finance tool	RMB bn (leverage)		500 (10x)	500 (10x)

Source: MoF, NBS, PBoC, Wind, Citi Research

Deflation may ease but not end in 2026. We estimate that GDP deflator could turn positive towards end-2026E, with its full-year reading close to 0. The supply side factors look to be turning favorable. The reversal of pork cycle into 2026 would support headline CPI. Anti-involution, being a stop-and-go process, is to cap the downside of PPI especially for upstream sectors. Yet decisive reflation may still be absent without a stronger demand push.

2026 is to brace for bigger RMB moves. Such a macro backdrop can be benign for China assets. The RMB has been stable against the US dollar for a prolonged period despite the REER depreciation. The PBoC could have exerted its impact on the exchange rate partially to anchor market expectations amid external volatilities. Such a strategy may not be necessary further into 2026, in our view. Long-term goals such as RMB internationalization and easing trade tensions with the RoW may also need a stronger RMB. FX settlement flows look to be getting supportive for the currency as well. **We see an appreciation bias of the currency in 2026E**, with the next point for test for USDCNY at 7.0.

Figure 46. China — Economic Forecasts

					2025	2026				2027			
		2025F	2026F	2027F	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	5.0	4.7	4.6	4.6	4.6	4.7	4.7	4.7	4.5	4.7	4.6	4.6
Final Domestic Demand	YoY	3.9	4.0	4.0									
Consumption	YoY	5.0	5.2	5.1									
Fixed Capital Formation	YoY	2.5	2.5	2.6									
Industrial Production	YoY	4.5	4.4	4.3	5.2	4.5	4.5	4.6	4.7	4.4	4.6	4.5	4.4
Exports	YoY	4.1	2.0	2.5	-1.3	0.0	-0.2	3.8	4.5	3.4	3.1	-0.3	4.0
Imports	YoY	-0.4	2.0	3.0	1.4	4.5	1.9	1.5	0.4	1.7	2.8	1.7	5.7
Merchandise Trade	$bn	1,152	1,176	1,192	277	245	299	317	316	263	310	302	318
FX Reserves	$bn	3,623	3,530	3,450	3,503	3,469	3,450	3,430	3,530	3,510	3,490	3,470	3,450
Current Account Balance	% of GDP	2.7	2.5	2.3									
General Government Balance	% of GDP	-4.0	-4.0	-3.8									
General Government Debt	% of GDP	107.2	108.2	109.2									
Urban Unemployment Rate	YoY	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
CPI	YoY	0.0	0.6	1.0	0.3	0.7	0.4	0.4	1.0	0.9	1.1	1.2	0.8
Policy interest rate (end period)	%	1.40	1.30	1.20	1.40	1.30	1.30	1.20	1.20	1.10	1.10	1.10	1.10

Note: General Govt. Debt includes the debt of central, local government and Ministry of Railway; since 2015, more general government debt methodology (including the LGFV) is adopted; We refer to 7d Reverse Repo Rate as Policy Rate.

Source: CEIC Data Company Limited, Haver Analytics, Citi Research

CEEMEA

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There is a lot to consider for domestic politics and geo-politics.

In **CEE**, we see **Hungary** move into parliamentary election in April 2026, which will shape economic policies going forward; current opinion polls suggest the opposition is likely to win but ultimately, the impact of the elections is thereafter, if Hungary can then unblock EU funds, then faster economic growth, a lower fiscal deficit, and stronger FX would mean more space for rate cuts.

For **Czechia**, the new government from the October 2025 parliamentary elections will be appointed in the second half of December 2025 but in our view, will likely not manage to approve the 2026 budget and thus 2026 begins under a provisional budget with restricted expenditure. We don't expect this regime to last beyond Q1 26 so any negative impact to the economy is expected to be relatively limited; from Q2 26 the new government is likely to implement pro-growth measures. All in all, the politics of the situation means fiscal policy will likely be a major source of uncertainty with near-term downside risks however, may contribute to stronger growth over the medium term. **Poland** only goes to elections again in 2027 however, its 2026 'goldilocks' situation of strong growth and low inflation is still a concern in our view, given how accommodative fiscal policy already is. The 2027 elections may mean the government avoid fiscal tightening, making the economy more susceptible to external shocks. This is a key reason why we expect a ratings downgrade in Poland in 2026. For **Ukraine** a key theme will remain the cease-fire negotiations.

In the **middle east,** we note that geopolitics will understandably remain significant in **Israel** but our baseline assumption is for a much lower level of disruptions from security events than in 2025. That said, the temperature around domestic politics will rise as the country heads into its legislative elections in October 2026. For **GCC,** geopolitical risk is a key factor dominating the outlook. Our commodities team continues to see Brent crude oil prices averaging USD62/bl for most of 2026 due to China's continued stockpiling and a lower share of visible inventories across OECD hubs. This is despite the large headline oil market surpluses driven by OPEC+ returning oil capacity to the market. Geopolitical de-escalation in Russia/Ukraine is not our base case but is the major downside risk for oil prices, in our view. Upside risk for oil prices could arise if there were European and US tariffs/sanctions on India and China, which is also not our base case, plus any Israel-Iran confrontation. For domestic politics, we explain later on the difficulty of balancing between reforms and macroeconomic stability.

South Africa has a sound macroeconomic outlook ahead of it for 2026, but this may conclude with a rise in uncertainty in domestic politics as the country heads into highly-contested local government elections. While only municipal in nature, the results across the major parties will matter greatly for the stability of the coalition government.

Growth and fiscal outlooks across CEEMEA

In **Czechia**, a key risk to 2026 economic growth remains the continued weakness in industry from subdued foreign demand as recovery among major trading partners—especially euro area economies led by Germany—remains uncertain. Economic growth in **Poland** is expected to improve to 4.0% in 2026, from around 3.5% in 2025, with private consumption the likely driving force. But the fiscal situation is one of the major concerns **for 2026, with the** fiscal deficit forecasted to decline only slightly, from close to 7% of GDP in 2025 to above 6% in 2026. As mentioned previously, politics suggests that fiscal tightening is unlikely in 2026, and the narrowing in the deficit will be determinant almost entirely by economic growth. This is not a risk to its borrowing requirement with bond issuance remaining firm in our view.
In **Hungary** economic growth is only expected to reach 0.4% YoY, continuing the underperformance over the past two years. Private consumption is growing robustly however fixed investment is also contracting sharply, with a shrinking manufacturing sector. Looking ahead, the fact that economic policy initiatives have not proved sufficient, and consumption lacks a sustainable variables (it is currently driven by double-digit minimum wage increases and pre-election fiscal measures), the sustainability of the growth is in question.

Romania is expected to continue its focus on fiscal reforms, and we are cautiously optimistic that the government will achieve its pledged expenditure cuts. This would reduce the budget gap by about 1.3pp of GDP in 2026. Combined with higher revenues, the budget deficit is expected to narrow to about 6.5% of GDP in 2026, from an estimated 8.5% in 2025.

For **Israel,** growth will largely supply-led, and hence a disinflationary recovery. Still, many structural features and salient variables (such as potential output or equilibrium unemployment) remain unknown, adding to the uncertainty about post-conflict structural characteristics. Fortunately, further fiscal consolidation is likely alongside a fall in the debt-to-GDP ratio, which suggests a strong likelihood of positive outlooks from credit rating agencies, and potential upgrade too.

In addition to geopolitical risks, oversupply concern in the oil market is another factor that will dominate the outlook for **GCC** in our view. We forecast an acceleration in GDP growth, from 4.1% in 2025 to 4.4% in 2026, driven by rising crude output and healthy non-oil activity (oil GDP growth is forecasted to climb from 4.7% in 2025 to 6.0% in 2026). But there is upside risk to our growth forecasts thanks to higher oil production, accelerated reforms and investment. Downside risks would however emerge if there were a downward oil output adjustment (in the event of softer oil prices) which in our view would also affect the pace of reform implementation. Striking a balance between ambitious reform implementation and macroeconomic stability is going to be crucial to ensure sustainable economic diversification. The growth backdrop will allow for a narrowing in the budget deficit from 4.8% of GDP in 2025 to 3.8% in 2026.

South Africa is set to enjoy incremental improvement in its GDP growth rate, rising from 1.2% in 2025 to 1.6% in 2026, with upside risk in our view. This is thanks to both cyclical and structural factors, with the former coming down to firm household consumption thanks to lower inflation and more rate cuts, and the latter coming down to reforms progressing further allowing for more private sector investment. This, coupled with strong commodity prices will help support fiscal revenues at the start of 2026, and the fiscal discipline implemented by government suggests lower financing costs for longer. We expect a fiscal anchor to be introduced in 2026 in the form of a legislated fiscal framework, which may help offset any potential downside from the local municipal elections that will take place at the end of 2026.

CEEMEA will mostly experience a cutting cycle in 2026

In **CEE** we note that which **Czechia** may enjoy a path of gradual disinflation, underlying core pressures remain persistent thanks to strong wage growth, services prices and imputed rents. As a result, both headline and core inflation are forecasted to remain well above 2%. Inflation persistence is necessary to monitor given it is driven by both cyclical factors and deeper structural imbalances. As mentioned above, **Hungary** stands to enjoy lower inflation and more rate cuts (via stronger Fx) if it managed to unblock EU funds after its April 2026 election. And for **Poland**, its ‘goldilocks’ setting means that inflation is currently low and stable. If, however, fiscal concerns rise quicker than expected and a ratings downgrade occurs, a more pessimistic view on the economy may trigger inflationary pressures.

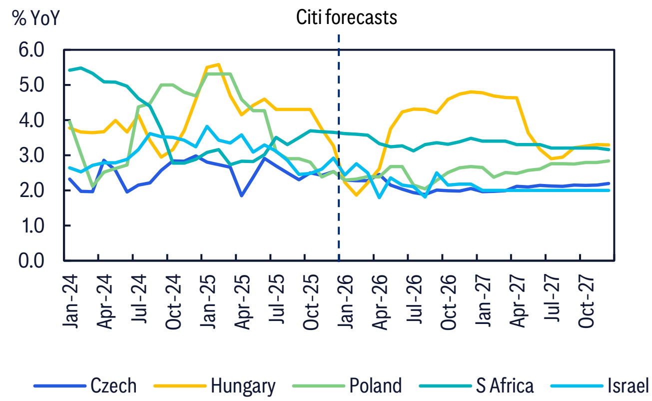
Disinflation should be expected in **Israel** but monetary policy decisions will also be shaped by how the economy’s post-conflict structural characteristics evolve.

Turkey also enjoys a path of disinflation in 2026, however slower-than desired. The CBT faces a difficult policy dilemma amid an emerging stagflation-like environment. On one hand, lower growth expectations and a soft labor market makes a restrictive stance challenging to sustain. On the other hand, the un-anchoring of inflation expectations and re-dollarization risks suggests a more prudent easing cycle. As a result, the performance of Turkish assets in 2026 will very much be decided by policymakers’ success in navigating this complex backdrop.

A cautious stance is expected by the NBR in **Romania** for at least the first half of the year due to a material risk of inflation expectations becoming unanchored; that said, we project a decline in inflation from July onwards, allowing the NBR to start cutting rates from Q3 26. We forecast the policy rate at 5.75% by year-end.

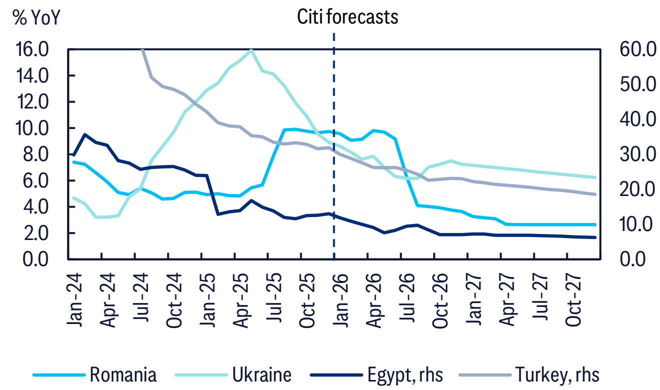
For **South Africa**, a disinflationary path is also to be expected thanks to a structural shift in inflation expectations now that the SARB is targeting a lower 3%-point target (with +/- 1pp tolerance band). So long as expectations converge steadily, the SARB will be able to reduce the policy rate by a further 75bp through 2026 in our view, ending the year at 6.00%.

Figure 47. CEEMEA CPI plus forecasts



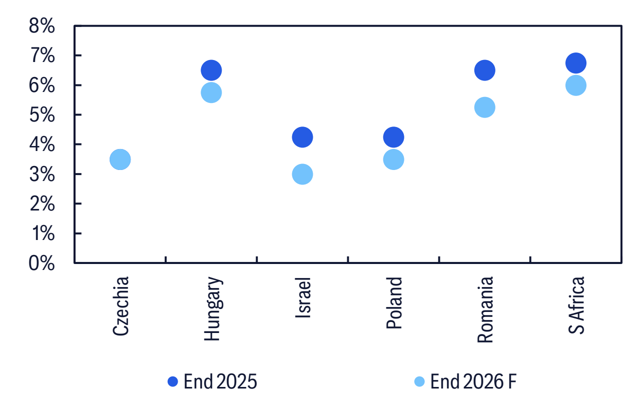
Source: Citi Research, Haver

Figure 48. CEEMEA CPI plus forecasts



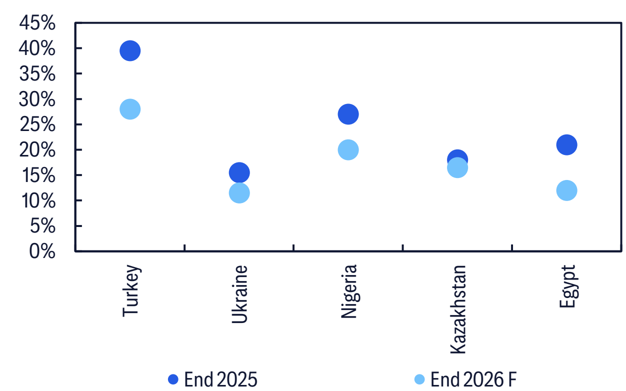
Source: Citi Research, Haver

Figure 49. CEEMEA policy rates: End-2025 vs end-2026 forecasts



Source: Citi Research, Haver

Figure 50. CEEMEA policy rates: End-2025 vs end-2026 forecasts



Source: Citi Research, Haver

LatAm: Well-positioned for an uncertain 2026

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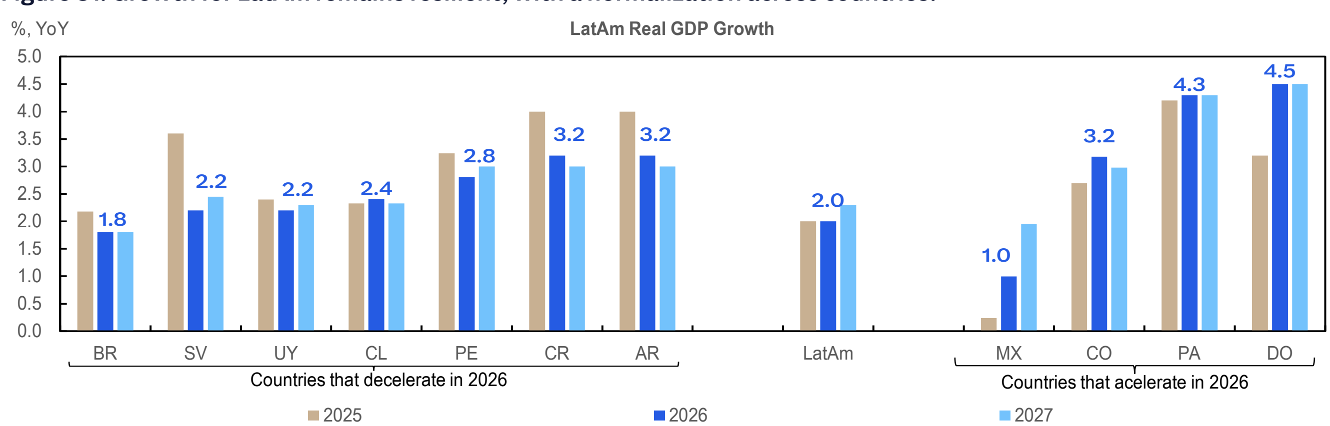
Latin America glides into 2026 with surprising resilience, macro tailwinds, a favorable political cycle, and well positioned for potential external volatility. In 2025, Latin America performed better than expected considering significant geopolitical and trade reconfiguration in the global economy, as well as policy uncertainty disruption coming from the US. Prospects for 2026 are constructive, with GDP growth expected to be similar to 2025 (2.0%), inflation continuing to come down, and currencies still supported by a weak USD and attractive carry. The political cycle is expected to be favorable for market and business sentiment, with a shift in the political pendulum to the right in most elections.

The global macro background is favorable for the region into 2026, with resilient growth expected in the US (1.9% for 2025 and 2026) and China (5.0% in 2025, 4.7% in 2026). The Federal Reserve is anticipated to deliver three additional 25bp cuts in December 2025 and 1Q26, and commodity prices are expected to remain relatively higher than their pre-pandemic historical average (excluding coffee). While growth for the region as a whole remains stable from 2025 to 2026, there will be a reconfiguration of growth among countries towards a normalization. Mexico is projected to have the lowest growth in the region at 1.2% in 2026, and Brazil will continue slowing to 1.8%. Conversely, Colombia, Dominican Republic, and Panama are expected to accelerate on the back of investment normalization, while Argentina will normalize to 3.2% after a strong rebound in 2025.

Figure 51. Growth for LatAm remains resilient, with a normalization across countries.

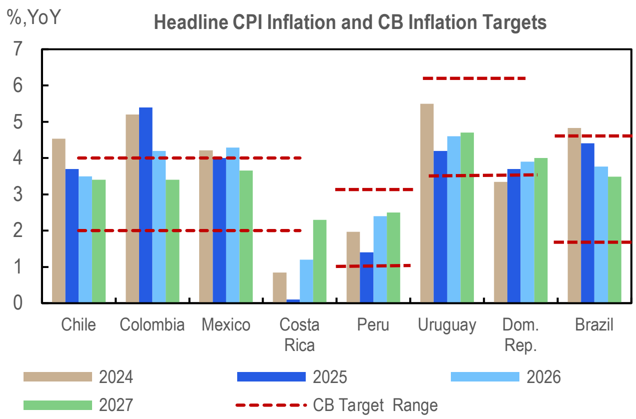


Source: Citi Research

Inflation will likely converge to the target range in Brazil, but not yet in Mexico and Colombia, six years after the pandemic. In 2026, inflation is expected to come down in big economies (Brazil, Argentina, Colombia, Chile), move sideways in Mexico (above the target range), and increase towards more normal levels in countries where it is currently too low (Costa Rica, El Salvador, Panama). A persistent theme is inflation remaining above targets in many places, attributed to strong labor markets, minimum wage increases, supply side shocks, fiscal slippage, and persistently high services inflation.

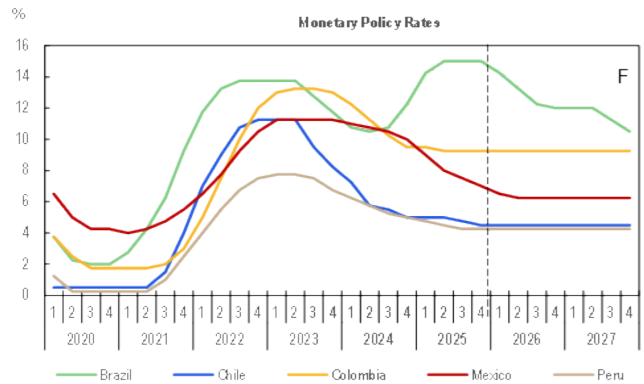
A big question and theme for 2026 is on the bias of monetary policy rates outside the base scenario. Our base scenario for 2026 calls for a significant cutting cycle in Brazil of 300bp, 100bp in Mexico, 75bp in Uruguay, and single cuts of 25bp in Chile and Dominican Republic. The bias for rates, however, would be on the upside, implying smaller cuts, holds, or potentially hikes if inflation reaccelerates. Colombia could be a candidate for hikes, but a longer hold is deemed more probable. Mexico could also experience a longer hold due to sideways inflation and the inflationary effect of an increase on excise taxes and tariffs for 2026.

Figure 52. 'Last mile' in post pandemic inflation in Colombia, Mexico, and Brazil.



Source: Central banks, Citi Research

Figure 53. We expect Brazil to have a significant easing cycle ahead in 2026, with marginal changes in other countries.

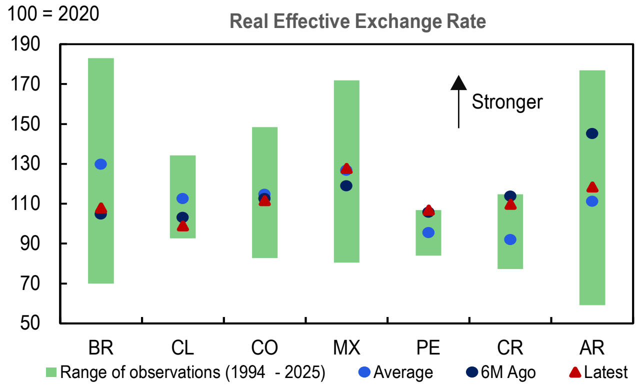


Source: Citi Research

Currencies are well positioned for another year of stability, though the direction of the broad US dollar remains the biggest uncertainty. We anticipate a slight depreciation trend for LatAm currencies in 2H6, but they are expected to remain comparatively stable and fairly priced in real effective exchange rate levels. The region's fundamentals provide buffers against changes in external conditions or volatility, with a well-behaved current account and abundant international reserves, except in Argentina where external vulnerability is the weakest aspect.

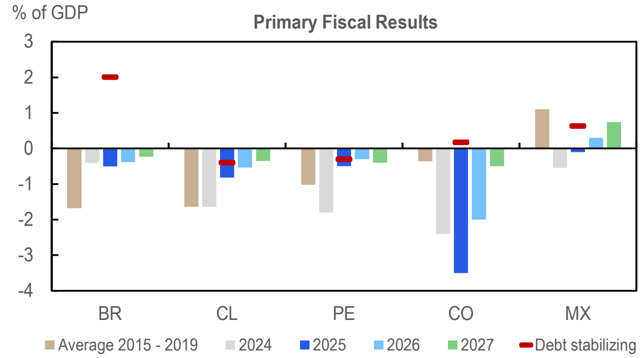
Fiscal risks are currently secondary for market participants but can resurface depending on election outcomes or changes in risk-aversion. For 2026, the most concerning fiscal deficits remain in Colombia and Brazil, with primary balances well below debt-stabilizing levels, requiring consolidation. The political pendulum in Latin America is expected to shift to the right, setting the stage for improved sentiment and reforms, with recent elections in Bolivia, Argentina, and Chile demonstrating this trend. A heavy electoral cycle is ahead for 2026 and 2027, with significant elections in countries like Colombia, Brazil, and Peru, which are expected to influence fiscal plans and investor sentiment.

Figure 54. LatAm currencies seem fairly priced in real terms.



Source: BIS, BCRA, BCCR, Citi Research

Figure 55. Primary balances still below debt-stabilizing levels in some countries.



Source: Citi Research

Select Country Discussion

North America

Canada

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We expect real GDP growth to slow further in 2026 as the labor market weakens and uncertainty around trade with the US continues. Q3 2025 GDP growth was stronger than expected but it was boosted by volatile net exports while final domestic demand declined modestly as consumption was soft. We expect consumption growth to remain softer into 2026 as population growth has been slowing and the labor market weakens further.

Employment has been stronger in the last couple of months but the 6m average remains slow. In general labor demand has weakened, and the unemployment rate has risen to 6.9% close to cycle highs. Wage growth has been around 4.0%, modestly stronger than the pre-pandemic pace. We expect the unemployment rate to increase further in H1 2026 as labor demand continues to weaken despite slower population growth putting downward pressure on the unemployment rate.

The 3-month annualized run rate of the core inflation measures has returned within the BoC's 1-3% target range in the last few months, but annual core measures remain somewhat sticky. The BoC has increasingly shifted focus away from CPI-trim and CPI-median. Home prices and forward-looking indicators for home prices have generally been soft. CFIB price plans remain a bit elevated relative to the 2% target but have moderated recently, and forward-looking demand signals suggest much softer inflation. Details of recent inflation data do not leave us more concerned about fundamental stickiness in core inflation, particularly as shelter inflation should continue to ease. We expect core inflation measures to ease in 2026 based on leading signals like the share of firms indicating significant difficulty meeting demand in the BoC's Business Outlook Survey.

The Bank of Canada has lowered the policy rate to 2.25%, the lower end of their estimated neutral range. We expect the Bank of Canada will cut policy rates to a terminal rate of 1.75% in January and March of 2026 as activity, labor market and core inflation data weaken, but with risk of a later restart to rate cuts.

Figure 56. Canada – Economic Forecast

Metric		Annual			2025	2026				2027			
		2025	2026	2027	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.7	1.2	1.8	0.8	0.5	1.4	1.3	1.8	1.9	1.9	1.8	1.7
	SAAR				0.2	1.3	1.5	2.0	2.3	1.7	1.7	1.7	1.7
Final Domestic Demand	YoY	1.9	1.6	1.9	1.1	1.6	1.1	1.7	1.9	2.0	2.0	1.9	1.8
	SAAR				1.5	1.5	1.6	2.2	2.4	1.8	1.8	1.8	1.8
Private Consumption	YoY	2.1	1.0	1.5	1.3	1.3	0.5	1.0	1.2	1.4	1.5	1.5	1.5
	SAAR				0.6	0.8	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Government Spending	YoY	2.4	2.5	2.1	1.6	2.4	1.9	2.6	3.0	2.6	2.2	1.9	1.5
	SAAR				1.5	3.0	3.0	3.0	3.0	1.5	1.5	1.5	1.5
Private Fixed Investment	YoY	0.7	2.1	3.4	-0.4	1.3	1.8	2.5	2.7	3.2	3.5	3.6	3.2
	SAAR				3.8	1.4	1.7	3.2	4.5	3.2	3.2	3.2	3.2
Exports	YoY	-3.2	-0.7	2.7	-6.9	-6.9	0.8	1.2	2.7	2.7	2.7	2.7	2.7
	SAAR				-3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Imports	YoY	-0.5	1.1	3.0	-1.2	-1.1	-0.3	2.7	3.0	3.0	3.0	3.0	3.0
	SAAR				2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Consumer Price Index	YoY	2.1	2.3	2.2	2.2	2.1	2.4	2.5	2.3	2.2	2.2	2.2	2.2
Unemployment Rate	%	7.0	6.9	5.7	7.3	7.5	7.2	6.7	6.3	6.0	5.8	5.5	5.5
Net Exports Contribution		-0.8	-0.5	-0.2	-1.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Inventories Contribution		0.6	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Citi Research, Statistics Canada

Euro Area

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We revise up our 2026 GDP growth forecast from 0.8% to 1.2%, while our 2027 forecast remains close to 1.5%. We see growth increasingly driven by domestic demand in Europe. Moderate but steady investment growth is set to continue, aimed at transitioning the existing capital towards a greener, more digitalized, more AI-intensive one, rather than at expanding capacity. This will help support manufacturing despite ongoing export weakness, due to US tariffs and slowing external demand. Private consumption is unlikely to be a growth-driver but should not be a headwind either, as real income growth should stay positive, and a high saving rate represents a buffer for demand in case of negative shocks.

Domestic growth will be supported by diminishing headwinds from economic policies. We see the biggest change in the fiscal stance in Germany, but fiscal policy should remain supportive also in the periphery, as we see NGEU spending accelerating as it approaches its end-date. We forecast the euro area aggregate fiscal stance moving from marginally restrictive in 2025 to marginally expansionary (+0.3pp of GDP) in 2026. At the same time, the monetary policy stance is also becoming progressively less restrictive, as past rate cuts support the most interest rate sensitive sectors sectors/regions (housing, construction, Spain).

Slightly higher GDP growth does not mean 'reflation". We still see slower wage growth and imported disinflation driving core inflation lower from here in 2026 and 2027 (to ca. 1.7% by 4Q-26, from 2.4% at present). Assuming the ETS2 is delayed 2027 to 2028, we forecast inflation undershooting the ECB target both in 2026 (1.6%) and in 2017 (1.8%), but to rebound above 2% in 2028 (on ETS2).

We now expect the ECB policy rate on hold at 2.0% for the foreseeable future, at least until end-2027. Growth is unlikely to weaken enough relative to the recent trend to force the ECB to contemplate moving below 2%, but we still see the balance of risks skewed towards cuts in the near term. Large fiscal spending may justify a tighter monetary policy eventually, and hence we tentatively pencil in 50bp hikes in 2028.

Figure 57. Euro Area -- Economic Forecasts

					2025	2026				2027			
		2025F	2026F	2027F	2027F	2025 Q4F	2026 Q1F	2026 Q2F	2026 Q3F	2026 Q4F	2027 Q1F	2027 Q2F	2027 Q3F
Real GDP	YoY	1.4	1.2	1.5	1.2	0.9	1.2	1.3	1.5	1.6	1.6	1.5	1.3
	SAAR	-	-	-	1.1	1.2	1.4	1.7	1.7	1.5	1.6	1.1	1.1
Final Domestic Demand	YoY	1.6	1.3	2.0	1.1	0.7	1.3	1.4	1.7	1.9	2.0	2.1	2.0
Private Consumption	YoY	1.1	0.9	1.1	0.7	0.8	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Government Consumption	YoY	1.7	1.6	1.3	1.4	1.9	1.7	1.4	1.4	1.4	1.3	1.3	1.2
Fixed Investment	YoY	2.4	1.8	5.0	1.9	-0.6	2.1	2.2	3.5	4.6	5.1	5.3	4.9
— Business Equipment	YoY	3.5	1.5	6.9	1.7	-2.7	1.8	2.3	4.5	6.5	7.1	7.4	6.6
— Construction	YoY	1.3	2.1	2.9	2.1	1.7	2.4	2.1	2.3	2.7	3.0	3.0	3.0
Stocks (Contrib to YY GDP Growth)	pp	0.4	0.4	-0.5	0.5	0.8	0.3	0.3	0.2	0.8	0.3	0.3	0.2
Exports	YoY	1.9	0.3	1.7	2.4	0.1	0.5	0.0	0.5	1.1	1.7	1.9	2.1
Imports	YoY	3.3	1.2	1.7	3.5	1.4	1.6	0.6	1.1	1.5	1.7	1.8	1.8
HICP	YoY	2.1	1.6	1.7	2.1	1.6	1.8	1.6	1.6	1.8	1.8	1.8	1.8
CPI Ex Energy and Food	YoY	2.4	1.7	1.5	2.4	2.1	1.8	1.6	1.6	1.7	1.7	1.7	1.7
Unemployment Rate	YoY	6.4	6.6	6.4	6.6	6.6	6.7	6.7	6.6	6.6	6.5	6.4	6.2
Current Account Balance	EUR bn	302.7	224.5	207.3									
	% of GDP	1.9	1.4	1.2									
General Government Balance	EUR bn	-462.4	-549.3	-603.1									
	% of GDP	-2.9	-3.4	-3.6									
Government Primary Balance	% of GDP	-0.9	-1.2	-1.4									
General Government Debt	EUR bn	14,011.8	14,561.1	15,164.2									
	% of GDP	88.1	89.0	89.6									

Source: Citi Research, Eurostat

Germany

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Next year sees likely a continuation of the two key themes for Germany: the extent to which the manufacturing decline has to be accepted as a lasting characteristic and the impact of the fiscal package. While we expect a more backloaded spending profile than pencilled into official plans, the pace of implementation will need to gather pace for stakeholders in the German economy to maintain faith in the narrative of a lasting transformatory effect.

France

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2026 risks being simultaneously very eventful and a lost year for France. Political turmoil remains and, at least in the early months of the year, there is still a chance for yet another round of Parliamentary elections. That risk probably subsides as the 2027 Presidential election approaches, but political paralysis will if anything likely deteriorates. We should thus not expect any significant budget consolidation before the 2028 draft at the earliest.

Italy

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We see a moderate acceleration in 2026-27 GDP on diminished headwinds from nationally-financed fiscal policy (Superbonus) and from tight monetary policy, coupled with accelerating NGEU spending. Weak exports remain a headwind, with US tariffs a main drag, but Italy is well placed to benefit from the German fiscal stimulus. We expect the government fiscal conservatism to continue, and demand for BTPs staying buoyant, with potential for further credit rating upgrades.

Spain

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Growth outperformance should continue, supported by NGEU spending, large immigration inflows and falling structural unemployment. We expect inflation in Spain to settle above the eurozone average. Fiscally, we see the deficit/GDP ratio falling towards 2 ¼% and the debt/GDP declining below 100%, both supported by strong nominal growth.

Figure 58. Germany, France, Italy and Spain – Economics Forecasts

		Germany			France			Italy			Spain		
		2025f	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	0.2	1.0	1.5	0.8	1.0	1.3	0.5	0.7	1.0	2.9	2.5	2.1
Final Domestic Demand	YoY	1.0	1.2	2.0	1.6	1.0	1.3	1.1	1.5	1.4	3.5	3.2	2.4
Private Consumption	YoY	1.0	0.7	1.2	0.3	0.8	0.9	0.5	0.4	0.5	3.3	2.5	2.0
Government Consumption	YoY	2.1	1.9	1.8	1.5	1.3	1.1	0.4	1.0	0.9	1.7	1.8	0.8
Fixed Investment	YoY	-0.6	1.7	4.6	-0.1	1.5	2.4	3.0	4.5	3.8	5.6	6.2	4.9
Exports	YoY	0.0	0.1	1.1	0.9	2.6	2.2	0.3	-1.7	2.1	3.8	2.2	2.5
Imports	YoY	3.6	1.3	2.5	2.9	2.2	2.2	2.3	0.4	2.4	5.8	4.0	3.2
HICP	YoY	2.3	1.9	2.1	0.9	1.2	1.9	1.7	1.2	1.8	2.7	2.6	2.3
Unemployment Rate	YoY	3.8	4.2	4.1	7.4	7.6	7.5	6.1	6.0	5.8	10.6	9.8	9.0
Current Account Balance	EUR bn	214.9	199.9	184.3	-16.4	-13.7	-13.6	33.1	29.1	21.1	51.2	44.7	38.0
	% of GDP	4.8	4.4	3.9	-0.6	-0.4	-0.4	1.5	1.2	0.9	3.0	2.5	2.1
General Government Balance	EUR bn	-132.0	-184.0	-189.7	-159.7	-160.5	-161.3	-66.9	-64.9	-68.8	-46.3	-41.3	-43.8
	% of GDP	-3.0	-4.0	-4.0	-5.4	-5.2	-5.1	-3.0	-2.8	-2.9	-2.8	-2.3	-2.4
Government Primary Balance	% of GDP	-1.8	-2.8	-2.7	-3.1	-2.9	-2.6	1.0	1.3	1.2	-0.3	0.1	0.1
General Government Debt	EUR bn	2,820.9	3,004.9	3,194.5	3464.9	3625.5	3786.8	3076.6	3181.6	3271.6	1666.9	1708.2	1752.0
	% of GDP	63.6	65.8	67.4	116.2	118.5	120.1	136.3	136.5	136.4	99.2	96.9	95.0

Source: Citi Research, Destatis, INSEE, Istat, INE

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We think the main themes in the United Kingdom in 2026 will be a cyclical slowdown, again the interaction between monetary and fiscal policy, the uncertain political outlook and the policy opacity that results from it.

We expect growth to decelerate from 1.4% this year to 1% in 2026. Private consumption has been lacklustre for much of 2025 and we forecast this to continue into next year. In our assumptions, the tailwinds from looser monetary policy and the increase in benefits for certain households will be largely offset by the increase in unemployment, slower wage growth and the fact that the increase in the household savings rate has, we think, a more permanent element to it. Our forecasts also pencil in a more pronounced slowdown in business investment, though there is perhaps the potential for upside risks here; investment, possibly driven by AI-related expenditure has proven more resilient that implied by the cyclical position in many economies lately. The growth deceleration also goes hand in hand with further labour market softness and we project a tear-average unemployment rate of 5.2% in 2026, up from 4.7% this year.

Inflation will likely slow next year, dropping to 2% towards the second half of the year. We expect a large base effect, alongside a level shift in energy bills, to cause a sharp drop in April next year. From there, we expect that further slack in the labour market, alongside weaker consumption, will help bring inflation back to target. The risks around the probability of hitting 2% next year though are relatively two-sided, and we remain conscious of the growing cost of employment as business are forced to digest another above-inflation settlement for the national living wage and the upcoming employment rights bill. In a more dovish scenario, which we assume as base case, higher costs feeds into softer labour market while deteriorating real wages - above the national living wage – both see a fall in household consumption. However, there remains the possibility that business seek to pass on higher costs through prices and ultimately a stickier services inflation.

Fiscal adjustment might be less of a topic next year than it was in 2025, but political risk could take its place as a theme. The increase in headroom, the buffer between the fiscal rules and the macroeconomic projections, to £23bn means that the Chancellor is less likely to be forced into making significant adjustments in 2026. Yet with much of the planned adjustment kicking in only later in the decade, close to the next scheduled general election, uncertainty about the path of tax and spending in subsequent years remains high, plausibly already weighing on investment decisions now. This is particularly true compared to a more optimistic, counterfactual path with significant growth-enhancing reforms, which now look less and less likely. Stakeholders in the UK economy are likely to increasingly factor a government, in current or changing composition, beholden to their backbenchers into their assumptions about the operating environment.

Monetary policy will likely be seeking to lean against the cyclical tailwinds while scoping out the structural parameters in the current environment. With inflation falling and unemployment increasing, it might become increasingly visible that the Bank of England is, we think, somewhat behind the curve when it comes to policy loosening. As such, further rate cuts this and next year are in order. How many is however still very uncertain. Salient variables such as potential growth and equilibrium unemployment are by definition unknown, but likely even less so after the repeated shocks and structural changes of recent years. The debates about further restricting immigration (i.e. labour supply) and the backloaded profile of fiscal adjustment, with an initial increase in spending and borrowing, will do little to alleviate concerns that a neutral monetary policy stance requires noticeably higher rates than it used to. We acknowledge those risks, yet we think that – in the short-term – a lack of inflationary pressures and further labour market softness will outweigh concerns and discussions about the state of salient variables. As a result, we project further gradual rate cuts all the way to a trough rate of 2.75%.

Figure 59. UK -- Economic Forecasts

					2025	2026				2027			
		2025	2026F	2027F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP	YoY	1.4	1.0	1.4	1.6	1.1	1.0	1.1	0.8	1.1	1.3	1.6	1.6
	SAAR	-	-	-	2.4	0.6	0.6	0.7	1.4	1.6	1.6	1.6	1.7
Domestic Demand (inc. inventories)	YoY	1.9	1.4	1.5	1.6	1.3	1.4	1.7	1.3	1.4	1.5	1.6	1.6
Private Consumption	YoY	0.8	0.8	1.3	0.6	0.7	0.8	0.8	1.0	1.0	1.2	1.4	1.4
Government Consumption	YoY	1.9	1.4	1.2	1.6	2.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Investment	YoY	3.6	3.0	3.0	4.6	3.2	3.4	2.4	2.8	3.1	3.1	3.0	3.0
Exports	YoY	3.0	0.9	2.7	1.7	0.7	0.5	1.0	1.6	2.2	2.6	3.0	3.0
Imports	YoY	3.8	2.0	2.9	1.4	0.9	1.7	2.7	2.9	2.9	2.9	2.9	2.9
Unemployment Rate	YoY	4.7	5.3	5.1	5.0	5.1	5.2	5.4	5.3	5.1	5.0	4.9	4.8
CPI	YoY	3.4	2.2	2.1	3.5	3.1	2.2	1.8	1.7	2.0	2.0	2.0	2.0
Current Account	£bn	-70.6	-65.9	-70.1									
	% of GDP	-	-	-									
PSNB	£bn FY	-131.7	-113.2	-99.7									
	% of GDP	-4.3	-3.6	-3.0									
General Govt Balance	% of GDP	-4.3	-3.6	-3.0									
Government Primary Balance	% of GDP	-2.3	-1.5	-0.6									
Public Debt	% of GDP	94.5	93.9	93.9									
Gross Nonoil Trading Profits	YoY	-	-	-									

Source: Citi Research, ONS

Scandi and Swiss

Sweden

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The recovery has been gathering speed already in 2025, despite a still-soft job market and we expect rising fiscal support and a recovery in rate-sensitive sectors (eg construction) to push growth close to 2.5% next year. Sweden should be well placed to benefit from AI-related investment, green investment and defense spending. We expect the Riksbank to keep rates at 1.75% until end-2027 given the fiscally-induced inflation undershooting in 2026-27.

Norway

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Growth has accelerated in 2025 on a more supportive fiscal stance and less sensitivity to global trade. Slowing inflation and rate cuts abroad have allowed 50bp rate cuts so far and we expect the normalization to neutral to continue in 2026, landing at 3.50% (50bp cuts). However, we acknowledge this may be too aggressive if the fiscal stimulus turns out to be larger than we currently pencil in.

Figure 60. Sweden, Norway and Switzerland -- Economic Forecasts

		Sweden			Norway		
		2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	1.4	2.4	2.3	1.7	1.6	2.0
Final Domestic Demand	YoY	1.3	2.4	2.0	1.3	1.8	1.7
Private Consumption	YoY	1.5	1.7	1.7	2.4	2.1	1.6
Government Consumption	YoY	0.9	1.3	1.4	1.5	1.7	2.0
Investment (ex stocks)	YoY	1.4	4.7	3.7	-1.6	1.3	2.5
Exports	YoY	4.4	3.0	2.5	4.4	2.0	1.9
Imports	YoY	4.8	2.9	3.5	2.3	1.7	1.9
CPI	YoY	2.7	1.2	1.7	3.0	2.1	2.2
Unemployment Rate	YoY	9.3	9.0	8.6	4.6	4.4	4.2
Current Account Balance	% of GDP	5.6	5.5	4.6	14.9	14.5	12.5
General Government Balance	% of GDP	-1.4	-2.5	-1.5	11.2	9.7	7.7
General Government Debt	% of GDP	32.8	34.2	34.7	-	-	-

Source: Citi Research, National Statistical Offices

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Australia

The October employment data recovered strongly from the surprise September miss, in-line with our view that the labour market remains tight. When combined with the stronger October CPI data that included stickiness in labour sensitive goods and services, it reinforced our view that the RBA will keep the cash rate on-hold at 3.60% in 2026. We estimate that neutral nominal is around 3.50%, so at 3.60% the cash rate is arguably slightly restrictive. But this is likely to be appropriate given our view of GDP growth next year of 2.2%. We estimate this is slightly above potential, which we calculate at no more than 2%. So the cash rate target probably needs to be calibrated such that policy is leaning slightly against activity. Productivity growth remains weak, the unemployment rate at or below NAIRU, house price growth adding to positive wealth effects, supporting household consumption while business investment looks set to accelerate. The policy risk is that the cash rate could be more likely to rise next year than fall again. We wouldn't be surprised if the market sustainably priced an increase in monetary policy from late Q1 to early Q2 for the RBA to lift the cash rate target by at least 25bps before the end of 2026.

New Zealand

The MPC has effectively ruled out any further OCR cuts in this cycle, removing guidance that the Committee remained open to further reductions. Instead, the RBNZ believes enough stimulus has been provided to the economy, although the staff forecasts continue to show a negative output gap out to 2028 and a higher unemployment rate. We expect the economy will need further stimulus given our view of a lower nominal neutral rate, the need to close the negative output gap and ensure that the labour market can sustainably improve. Unlike Australia, New Zealand does not have positive wealth effects from housing, wages growth is slowing and household savings low. With New RBNZ Governor Anna Breman, the RBNZ's reaction function may change. She could alter the RBNZ's charter, which may lead to personnel changes including to the make-up of the MPC. Therefore, the shelf-life of the current OCR view may be short-lived. Over the next six months, either the output gap estimates close quicker than what the RBNZ has anticipated, or policy rates will need to be lower than what is guided by the OCR track.

Figure 61. Australia and New Zealand – Economics Forecast

	Australia			New Zealand		
	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP[a]	1.8	2.2	2.4	0.2	2.3	3.0
Real GDP (4Q versus 4Q)	1.9	2.3	2.4	1.1	3.0	3.2
Private Consumption	1.9	2.4	2.2	1.6	3.3	3.7
Govt. Current & Capital Spending[b]	3.5	1.6	1.7	1.2	-0.6	1.6
Housing Investment	4.6	3.3	3.8	-4.8	3.9	4.9
Business Investment[C]	1.1	4.1	5.2	-2.0	1.0	3.6
Exports of Goods & Services	1.1	1.6	1.2	2.1	-0.2	-0.3
Imports of Goods & Services	2.2	2.2	2.4	0.7	1.1	1.8
CPI	2.9	3.1	2.7	2.5	2.2	1.9
CPI (4Q versus 4Q)	3.7	2.6	2.7	2.3	2.4	1.9
Unemployment	4.3	4.5	4.7	5.4	5.3	5.2
Merch. Trade, BOP (Local Currency, bn)	54.3	71.9	82.3	-1.6	-7.0	-10.9
Current Account (Local Currency, bn)	-50.0	-23.2	-16.9	-9.7	-12.8	-16.3
Percent of GDP	-1.8	-0.8	-0.5	-2.2	-2.8	-3.5
Budget Balance (Local Currency, bn)[d]	-7.7	-32.8	-31.5	-16.1	-14.9	-10.9
Percent of GDP	-0.3	-1.1	-1.0	-3.6	-3.3	-2.3
General Govt. Debt (% of GDP)[e]	55.1	54.5	54.4	46.6	51.4	54.9

Note: F Citigroup forecast. NA Not available. a, Averaged-based GDP in Australia and New Zealand. b, In New Zealand excludes capital spending. c, In New Zealand includes government capital spending. d, Fiscal year ending June. Australia's underlying cash balance. e, Australia and New Zealand Budget definition and forecasts.

Source: Citi Research, Haver Analytics

India

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Growth resilience: Real GDP growth has consistently surprised on the upside with FY26 expected at 7.5%YY. However, nominal GDP growth at ~8.1%YY (FY26E) has caused markets to worry about earnings growth. Some rebound in deflator could reduce the divergence in FY27 with nominal GDP seen at ~10% and real GDP at ~7%. Expect sustained rural consumption (high rural wage growth, decent Agri activity) and some recovery in urban consumption (bottoming of nominal wage growth and low inflation). Weaker labor market trends in IT services remains the key headwind. On investment, limited fiscal space for public capex would put focus back on private capex, where conditions remain mostly favorable. A trade deal with US might help in recovery of exports and capex sentiments.

Inflation – Pickup from historical lows: Inflation is set to be at 35-year low of ~2%YY in current fiscal year FY26, while GDP deflator will be at 50-year low. That said, vegetable alone account for 210bps of 270bps fall in inflation in FY26E vs FY25. Apart from unfavorable base effects, following drivers will impact inflation in FY27 – [1] Food inflation is expected to recover from low base. [2] Commodity prices remain subdued, but urban demand recovery might put some pressure on core inflation. [3] Citi's lower gold price assumption suggests ~40bps downward pressure on FY27 inflation. Overall, we expect average FY27 inflation at 3.8%YY.

Twin deficit risks: Cuts in personal income tax and GST rates are likely to weigh down Centre+State revenues by ~0.5-0.6% of GDP in FY26. While higher RBI dividend and fuel excise duty hikes are offsets, central govt spending is higher by 0.1% of GDP. Expenditure compression could still FY26 Centre fiscal deficit at budgeted 4.4% of GDP, but risk tilts towards slippage. This along with likely ~$13bn BoP deficit in FY26 is offsetting the goldilocks of high growth and low inflation. Expect continued focus on fiscal consolidation in FY27 despite pressure on revenues. Pencil BoP surplus in FY27 (lower oil imports, better FDI).

Rates, INR and risks: Assuming Dec pause, RBI will enter 2026 retaining cut rate space as CPI stays below 4%. GDP data strength could keep MPC on a pause, with OMOs to offset yields pressure. RBI seems comfortable with USDINR levels, but we do expect the pace of depreciation to be lower than other currencies given valuation misalignment. We expect a move towards 91 by 2H-2026, with an earlier move possible due to aberration in twin deficit. There are two key risks to our macro forecast – **[1]** New GDP and CPI series will be released in Feb-2026, and it is difficult to predict the direction of net revision. Risk of significant change in growth-inflation picture in the official data increases level of uncertainty around our macro forecast and RBI view. **[2]** Further delay in US-India trade deal could put pressure on exports orders, labor intensive manufacturing and FPI sentiments.

Figure 62. India - Economic Forecasts

		2025/26 F	2026/27 F	2027/28 F
Real GDP	YoY	7.5	7.1	6.8
Private Consumption	YoY	7.4	7.2	7.0
Fixed Capital Formation	YoY	7.2	7.3	6.9
Exports	YoY	5.2	6.1	5.8
Imports	YoY	10.8	6.1	5.6
Consumer Price Index	YoY	2.0	3.8	4.1
Current Account Balance	% of GDP	-1.0	-0.6	-0.4
Consolidated Government Balance	% of GDP	-7.4	-7.1	-7.0
Centre Fiscal Balance	% of GDP	-4.5	-4.3	-4.2

Source: Citi Research, CEIC Data Company Limited, Haver Analytics

South Korea & Indonesia

South Korea

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We expect goldilocks economic conditions, with 2026E GDP growth likely to rise 2.2%, moderately above potential economic growth (1.8%) – neither too hot nor too cold. We assume stable 2026E inflation at 1.8% (likely below the 2% inflation target) and accommodative financial conditions. On our estimates, the strong current-account surplus will continue in 2025E (6.5% of GDP) and 2026E (7.1% of GDP) as upside from strong semiconductor exports and soft energy prices should outweigh downside risks from the 'payback' effect of front-loaded trade activities. In our view, the BoK's rate-cutting cycle has effectively ended at 2.50% for the near-term as the November MPB statement substantially toned-down rate cut guidance to one of the possible options. We believe BoK is unlikely to hike rates in 2026 given its concerns on the negative GDP output gap as well as semiconductor-driven economic growth. In our base case, the BoK's rate-cutting cycle may resume with a 25bps cut each in November'26 and May'27 towards a 2.00% terminal rate, assuming potential slowdown of exports as well as a gradual stabilization of financial imbalance risk factors in 4Q26. In our view, BoK could consider a gradual rate-hiking cycle in 2H26-1H27 only if both 2026E GDP and 2026E CPI are estimated to rise substantially above 2.5% trends.

Indonesia

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As monetary policy becomes more countercyclical and the fiscal stance more relaxed, we anticipate a modest cyclical boost to GDP growth and inflation in 2026. Enhanced support for middle-low-income household consumption is expected and interest rate-sensitive sectors should also see a breath of fresh air. Risks to our base-case come from poor implementation of government programs and / or failure to kickstart structural reforms, both of which could either dampen or shorten the expected recovery of the private capex cycle. Potential upward pressure on USDIDR, amid Citi's expectation of a rising DXY and medium-term domestic fiscal concerns, also risks dampening business confidence. Regarding the policy rate, we see room for a further 2x25bps of cuts to a terminal rate of 4.25% by March. Yet timing will likely be capital-flow dependent as policymakers refocus on FX stability, marked by a re-steepening of the OMO curve in late Nov. Bond supply dynamics seem unfavorable into early 2026, as supply resets higher and BI possibly holds back on secondary market purchases.

Figure 63. Korea and Indonesia – Economic Forecasts

		South Korea			Indonesia		
		2025	2026F	2027F	2025	2026F	2027F
Real GDP	YoY	1.0	2.2	1.6	5.1	5.3	5.0
Domestic Demand ex. Inventories	YoY	0.1	1.5	1.2	4.7	5.8	4.6
Private Consumption	YoY	1.1	1.3	1.0	5.0	5.0	4.5
Fixed Investment	YoY	-3.0	1.3	0.9	4.7	6.7	5.2
Exports	YoY	4.4	3.2	1.8	7.8	4.7	3.1
Imports	YoY	3.9	1.5	0.8	4.4	6.2	0.3
CPI	YoY	2.1	1.8	1.6	2.4	2.8	3.2
Unemployment Rate	YoY	2.8	3.0	3.1	4.9	4.1	5.0
Current Account	$bn	121.1	139.6	152.3	-0.2	-7.8	-24.4
	% of GDP	6.5	7.1	7.5	0.0	-0.5	-1.5
General Government Balance	% of GDP	-2.3	-1.8	-1.9	-2.7	-2.7	-2.8

Source: Citi Research, CEIC Data Company Limited, Haver Analytics

Hong Kong, Singapore & Taiwan

Hong Kong

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Broadening recovery and structural adjustments to both continue in 2026E. Liquidity/low interest rate supported financial market upgrades, expected multi-year property up-cycle (Citi forecast '26E home price +3% ('25E +3%)) and tourism improvements likely to support consumption recovery. Government infrastructure works likely to pick up pace for both public housing and I&T developments, and will be funded by higher net govt. bond issuances. Domestic demand recovery likely will alleviate the tempered external demand (on tough YoY comparison base) in 2026E. Mass consumption and mass goods & services prices likely remain suppressed by competition across-the-border. Geopolitical and global trade risks persist for 2026E, but HK to benefit from steady push ahead of economic transitioning in Mainland.

Singapore

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Post Oct IP, we see upside risks to our 2025 GDP forecast of 4.1%, but expect a slowdown to 1.9% in 2026, assuming a QoQ SA contraction in 1Q26 GDP on pharmaceuticals led payback. Semiconductor demand from the AI boom remains vulnerable to equity market pullbacks, while impending semiconductor tariffs weigh on chip equipment manufacturing. Consumer facing sectors could slow on diverted spending abroad, and tepid job market. We see MAS staying on hold in 2026 for now, on below average 2026 core at 1.3% and closing positive output gap. Still, risks of a 50bps slope steepening have risen on upside growth surprises, with odds favoring steepening if (a) QoQ SA growth is seen averaging at or above trend of 0.6-0.7% in 2026, implying continued positive output gap (b) broad based growth drives a recovery in jobs and wages, and (c) 2026 or 2027 core is averages within the historical average of 1.5-2%.

Taiwan

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Macro resilience maintains into 2026E, with AI supply tightness across upstream AI applications to continue despite tough YoY effects. High base effects could pressure the unbalanced economy next year, warranting fiscal support for non-AI segment and SMEs. With local elections in Nov26, the Government likely focus on domestic policies. Inflation likely to remain modest, with government subsidy to state utilities companies. Mass home prices appear to have plateau at elevated levels, giving an option for CBC to turn accommodative when needed. We still see risk of a 1Q 12.5bps rate cut if data weakens more noticeably. Section 232 semiconductor tariffs remain a risk to Taiwan's economic outlook. TWD movements likely to be driven by the dollar trend, given explicit commitment to US Treasury on TW FX policy.

Figure 64. Hong Kong, Singapore and Taiwan – Economic Forecasts

		Hong Kong			Singapore			Taiwan		
		2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	3.3	2.5	3.1	4.2	1.9	2.7	6.1	2.7	3.2
Domestic Demand ex Inventory	YoY	1.8	2.6	2.2	3.8	2.1	2.9	3.9	3.9	3.9
Private Consumption	YoY	1.5	1.8	1.6	3.7	3.2	3.8	0.9	2.9	2.6
Fixed Investment	YoY	3.1	5.0	3.9	5.3	0.5	1.8	12.6	4.1	3.2
Exports	YoY	10.2	3.1	2.7	8.3	2.9	2.7	28.7	-1.4	6.8
Imports	YoY	9.9	3.0	2.2	8.6	3.0	3.1	27.6	-0.9	6.7
CPI	YoY	1.4	1.6	1.8	0.9	1.5	1.7	1.7	1.7	1.9
Unemployment Rate	YoY	3.6	3.4	3.0	2.1	2.2	2.0	3.4	3.4	3.4
Current Account	$bn	156.3	103.5	80.0	110.2	110.6	121.1	151.9	161.9	145.1
	% of GDP	36.7	23.2	17.0	18.0	17.4	18.2	17.3	16.8	14.5
General Government Balance	% of GDP	-1.7	-0.8	-0.5	0.9	0.7	0.8	0.1	-0.1	-0.1

Source: Citi Research, CEIC Data Company Limited, Haver Analytics

Czech Republic, Hungary & Poland

Czech Republic

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The Czech economy expanded in Q3 at its fastest pace in three years (2.8% YoY), with growth still driven primarily by household consumption supported by rising real incomes. The outlook is, however, partly tempered by the uncertain recovery in external demand and continued weakness in industry. For 2025 we expect real GDP growth of 2.5% YoY, slowing slightly to 2.2% YoY in 2026 and 2027. Inflation is gradually normalizing, yet underlying price pressures persist, fueled by strong wage growth, brisk services inflation, and elevated imputed rents. The return of headline and core inflation to 2% will be very gradual, as the disinflation process is constrained not only by cyclical factors but also by structural imbalances. These dynamics prolong the need for a cautious CNB stance, implying a more extended period of policy rates remaining at the current restrictive level of 3.50%.

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Economic activity in Hungary remains muted, but it is gradually picking up and we expect GDP growth to exceed 2% in 2026. Private consumption is likely to remain the crucial contributor to growth, supported by high real wage growth and accommodative fiscal policy. The outcome of April 2026 parliamentary elections remains the key source of uncertainty, mainly through its possible impact on availability of EU funds and eventually also on HUF exchange rate. Even, without that factor we think the already observed strengthening of the forint should help lower the CPI path in the coming months, creating space for some rate cuts. We expect in total 75bps of rate cuts in 2026, starting probably already around March. We expect that elections may be followed by a period of fiscal tightening to bring the general government deficit back to more acceptable levels.

Poland

The Polish economy continues to grow at a strong pace and the growth is likely to reach approximately 4% in 2026. We expect the coming quarters to see a significant improvement in fixed investment, as the inflow of EU funds (cohesion funds, RRF, SAFE instrument) will help finance increased spending. After reaching ~7% of GDP in 2025 the fiscal deficit is likely to narrow only modestly in 2026, as the ability to tighten fiscal policy is constrained by political constraints (risk of presidential veto) and the election calendar. Inflation returned to the central bank's target already in late 2025 and we expect it to stay relatively low in the coming months. The impact of rate cuts delivered so far will become visible in late 2026 or 2027, when the CPI is likely to rise again. Before it happens, the central bank may deliver some additional rate cuts – we see the terminal rate at around 3.5%.

Figure 65. Czech Republic, Hungary, Poland — Economic Forecasts

		Czech Republic			Hungary			Poland		
		2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	2.5	2.2	2.2	0.4	2.2	2.3	3.5	4.0	3.1
Domestic Demand ex. Inventories	YoY	2.9	2.6	2.0	1.4	3.3	2.6	3.6	4.6	2.4
Private Consumption	YoY	2.8	2.6	2.5	3.9	4.6	2.5	4.1	3.6	2.9
Fixed Investment	YoY	0.3	3.1	2.5	-8.0	-0.7	3.0	3.0	7.8	0.6
Exports	YoY	4.0	4.2	4.9	0.2	3.3	4.6	3.2	6.0	5.8
Imports	YoY	5.4	5.4	5.1	2.3	4.0	4.8	4.7	5.9	5.5
CPI	YoY	2.5	2.1	2.1	4.4	3.8	4.1	3.6	2.4	2.7
Unemployment Rate	%	3.0	2.8	2.6	4.3	4.0	-	5.4	5.3	5.2
Current Account	$bn	3.1	2.5	2.7	5.3	4.3	4.4	-10.0	-17.4	-22.3
Current Account	% of GDP	0.8	0.6	0.6	2.1	1.7	1.6	-0.9	-1.6	-1.9
General Government Balance	% of GDP	-2.0	-2.5	-2.4	-4.7	-5.3	-4.5	-6.8	-6.1	-5.9

Sources: Haver Analytics and Citi Research

Source: Citi Research, Haver Analytics

Turkey

Turkey

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We concur that policy normalization and a significant tightening of the monetary stance since mid-2023 have yielded tangible gains. With tailwinds from the normalization bonus dissipating and the CBT set to deliver further easing next year, however, there is very little room for policy slippage. We expect GDP growth to decelerate from an estimated 3.7% this year to 2.6% in 2026 amid a challenging disinflation process. The outlook is further complicated by the growing divergence between headline data and underlying trends. While we expect the CBT to continue to keep a close eye on the currency next year, we believe that carry trade investors will pay a greater attention to the credibility of the disinflation process, while also closely monitoring domestic depositor behavior. To be sure, the presence of numerous regulatory measures and the current monetary policy framework, which relies on multiple tools, may enhance the CBT's ability to maintain control over the currency. However, the sharp reserve losses and the weakening of the currency following the developments in March demonstrate that there is no room for complacency.

Figure 66. Turkey — Economic Forecasts

		Turkey		
		2025F	2026F	2027F
Real GDP	YoY	3.7	2.6	3.5
Domestic Demand ex. Inventories	YoY	-	-	-
Private Consumption	YoY	3.0	2.5	3.1
Fixed Investment	YoY	7.6	6.2	4.2
Exports	YoY	1.3	3.4	3.1
Imports	YoY	2.5	-3.8	2.3
CPI	YoY	35.3	25.6	20.4
Unemployment Rate	%	8.6	8.8	8.9
Current Account	% of GDP	-1.3	-2.3	-2.8
General Government Balance	% of GDP	-4.0	-3.7	-3.8

Source: Citi Research, Haver Analytics

Nigeria, Saudi Arabia & South Africa

Nigeria

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The downward trend in inflation that started in early 2025 has started to accelerate in recent months. And while we expect a "technical kink" in the data in early 2026 caused by the introduction of the new CPI basket early this year, we expect the downward trend in inflation to continue steadily in 2026. This in turn should allow the Central Bank of Nigeria (CBN) to start to more aggressively cut the Monetary Policy Rate (MPR), although initially it will continue to make modest cuts along the lines of the 50 basis points made at the September meeting which lowered the MPR to 27%. In addition, ongoing concerns about excess liquidity also mean that it is unlikely to cut the very high Cash Reserve Ratio (CRR) quickly (also see Africa Weekly: Nigeria: Inflation and naira dynamics).

Saudi Arabia

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Following the projected economic expansion of about 4.5% in 2025, driven mainly to the surge in crude output, a similar growth performance is projected for 2026. Oil production for the coming year is projected to average 10.12-m b/d, which is likely to result in a strong oil GDP growth of 6.5% in 2026 after an estimated expansion of about 6.0% in 2025. Projected at 4.5%, non-hydrocarbon activity—supported by strong consumption spending, accelerated project implementation and ongoing structural reforms—is expected to grow at a healthy pace in 2026. Concurrently, we expect the budget deficit to narrow from an estimated 5.3% of GDP this year to 4.3% in 2026. In our view, Saudi Arabia's Vision 2030 reforms have bolstered its economic resilience to external shocks. The authorities' recalibration exercise, which aims at reassessing and reprioritizing projects/investments outlined in their reform program, will be pivotal in balancing transformative ambitions of the Vision 2030 agenda with macroeconomic stability.

Figure 67. Egypt, Nigeria, Saudi Arabia & South Africa — Economic Forecasts

		Egypt			Nigeria			Saudi Arabia			South Africa		
		2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	5.1	5.6	6.1	4.3	4.6	5.2	4.4	4.5	3.7	1.4	1.6	2.0
Domestic Demand ex Inventory	YoY	3.3	5.2	5.4	-	-	-	-	-	-	1.3	1.6	2.2
Private Consumption	YoY	0.7	4.8	5.1	-	-	-	-	-	-	2.5	2.0	2.6
Fixed Investment	YoY	21.7	8.5	7.8	-	-	-	-	-	-	-2.1	1.8	1.9
Exports	YoY	10.6	5.3	6.4	-	-	-	-	-	-	0.0	1.2	1.9
Imports	YoY	1.7	3.3	2.9	-	-	-	-	-	-	0.8	1.2	1.9
CPI	YoY	14.2	8.9	6.8	20.7	16.4	11.0	2.0	1.9	2.0	3.3	3.3	3.3
Unemployment Rate	%	6.9	7.2	7.0	-	-	-	-	-	-	31.8	32.0	32.0
Current Account	$bn	-14.2	-13.1	-13.5	8.0	2.4	2.9	-45.8	-38.1	-12.0	-3.2	-4.6	-5.3
Current Account	% of GDP	-3.5	-3.0	-2.8	2.6	0.6	0.7	-3.6	-2.8	-0.8	-0.8	-1.1	-1.2
General Government Balance	% of GDP	-6.1	-5.0	-4.5	-3.0	-2.4	-2.7	-5.3	-4.3	-2.9	-4.3	-4.2	-4.1

Source: Citi Research, Haver Analytics

Brazil & Mexico

Brazil

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The improvement in the inflation outlook is becoming increasingly more evident. On the one hand, the significant appreciation of the exchange rate (USDBRL5.3 from 6.2 in 2024YE) is driving a tradable price deflation that is likely to spill over into 1Q26. On the other hand, the signs of economic slowdown are abounding, contributing to reduce the pressures over non-tradables. Overall, we see CPI inflation at 3.8% in 2026E from 4.4% in 2025E, amid GDP growth of 1.8% and unemployment rate roughly stable at around 6.0%. This outlook is consistent with an interest rate cutting cycle of around 300bps, beginning in Jan-26 with a Selic rate at 12.0% at 2026 year-end. We see the 2026 President Election and the global environment as the two most important risks that might constrain the interest rate cutting cycle next year, given the well-known fragile domestic fiscal situation. Regarding the former, given the Pres. Lula's better approval ratings and the expected more favorable economic cycle (lower inflation/interest rate) than the one faced by former Pres. Bolsonaro in 2022, we believe re-election is the most likely outcome. In our scenario, we are not assuming that the electoral campaign will affect materially the perception about the public debt path in coming years.

Mexico

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We see GDP growth of 0.2% and 1.0% for 2025 and 2026, respectively. The expected 2025 expansion reflects the release of a weak GDP growth in the 3Q25 (-0.3% QoQ/SA) dragged by construction and manufacturing sectors and downside revisions to previous quarters. While our base case is for a USMCA trade deal in 1H 2026, we see delayed investment decisions returning gradually, resulting in a still below potential activity next year. Inflationary pressures will likely remain next year, with core inflation reaching 4.4% (headline inflation at 4.3%) pressured by the effect from adjustments in the excise taxes and the implementation of tariffs to countries where Mexico doesn't have a trade deal, besides persistence in core inflation driven by a high nominal wage growth. Nominal wage growth is likely driven by tight labor market conditions and hikes to the minimum wage. November's monetary policy statement and corresponding minutes confirmed a less dovish tone, in our view. The statement suggested that rate cuts after the December meeting (a 25-bps rate cut to 7.00% is expected) would be more data dependent: "Looking ahead, the Board will evaluate reducing the reference rate." The minutes seem to confirm this view. While our base case is for Banxico to take the policy rate to 6.25% in May 2026, we have less conviction on our call considering inflationary pressures next year amid the less dovish narrative of some board members. On the fiscal side, the Ministry of Finance announced further support for the state oil company of MXN 254 billion. Increasing support to the state oil company poses a risk to the fiscal accounts outlook if the oil company's financial situation does not improve. Our nominal fiscal deficit estimate for 2025 and 2026 stands at 4.5% of GDP and 4.3% of GDP, respectively.

Figure 68. Brazil and Mexico — Economic Forecasts

		Brazil			Mexico		
		2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	2.2	1.8	1.8	0.2	1.0	2.0
Domestic Demand ex. Inventories	YoY	2.1	1.8	2.3	-0.9	2.1	2.1
Private Consumption	YoY	1.8	1.9	2.2	0.3	2.0	2.0
Fixed Investment	YoY	3.9	2.1	3.7	-5.4	2.5	2.2
Exports	YoY	2.7	1.6	1.5	7.9	3.0	3.9
Imports	YoY	5.0	1.7	2.9	0.5	5.3	4.9
CPI (Avg)	YoY	5.0	3.6	3.9	3.8	4.4	3.8
Unemployment Rate	YoY	5.9	6.0	6.0	2.7	3.1	3.3
Current Account	$bn	-77.8	-76.4	-77.5	-1.9	-19.7	-20.2
	% of GDP	-3.4	-3.2	-3.0	-0.1	-1.0	-1.1
General Government Balance	% of GDP	-8.1	-7.8	-7.4	-4.5	-4.3	-3.6

Source: Citi Research

Argentina, Chile & Colombia

Argentina

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After the triumph of the mid-term elections on October 26th, expectations have significantly changed in Argentina. Surprisingly for consensus, local society extended to the government the mandate to reform Argentina after a fiscal adjustment of more than 5 GDP pp, empowering it to execute the structural reforms that recover lost competitiveness and thus enable investment. The uncertain global context and its consequences increased the attractiveness of investment in infrastructure, mining, oil and gas, agricultural products, and the knowledge industry (AI). All the above, while opening the capital market for private projects, is not yet fully open for the government, and to achieve this, analysts suggest that an increase in international reserves, structural reforms, and the end of exchange controls, are required.

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We expect growth to accelerate on the margin to 2.4% in 2026, with risks skewed to the upside under a market-friendly electoral outcome. Stable growth and changes to energy prices should keep inflation on target, leading us to expect headline at 3.5% YoY at yearend 2026. BCCh should deliver one more cut in Dec-25 and stay on hold in 2026. A Kast administration should be well received by markets though fiscal adjustment would be limited.

Colombia

Growth momentum should continue in 2026 with a 3.2% YoY expansion, while inflation should adjust stubbornly, still ending 2026 above the target band ceiling at 4.2% YoY. We don't expect Banrep to hike in the short term, but risks are skewed in that direction. The field of presidential hopefuls is wide open and currently no candidate is a shoo-in to win, hence the May-26 election is bound to be tight, but ultimately result in a more market friendly administration. Fiscal consolidation will take center-stage but remain complicated in any electoral outcome.

Figure 69. Chile and Colombia — Economic Forecasts

		Argentina			Chile			Colombia		
		2025F	2026F	2027F	2025F	2026F	2027F	2025F	2026F	2027F
Real GDP	YoY	4.0	3.2	3.0	2.3	2.4	2.3	2.7	3.2	3.0
Domestic Demand ex Inventory	YoY	-	-	-	3.9	2.8	2.5	4.3	3.4	3.1
Private Consumption	YoY	-	-	-	2.6	2.2	2.1	3.7	3.4	3.1
Fixed Investment	YoY	-	-	-	8.2	3.7	2.8	3.1	3.2	3.0
Exports	YoY	-	-	-	5.0	5.2	3.3	1.8	3.3	2.9
Imports	YoY	-	-	-	10.9	5.3	3.5	9.7	4.3	3.4
CPI (Avg)	YoY	41.9	25.5	18.0	4.2	2.9	3.8	5.2	4.5	3.8
Unemployment Rate	YoY	-	-	-	8.6	8.6	8.5	8.5	7.6	7.5
Current Account	$bn	-9.6	-8.6	-8.4	-8.9	-7.8	-9.3	-9.7	-12.8	-13.8
	% of GDP	-1.5	-1.4	-1.3	-2.5	-2.2	-2.4	-2.1	-2.5	-2.5
General Government Balance	% of GDP	-	-	-	-2.0	-1.7	-1.5	-7.0	-6.4	-4.5

Source: Citi Research, National Sources

Multi-Asset Views

Global Equity Strategy

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- Global equities pulled back from all-time highs last month, led by Nasdaq and AI-related stocks. One culprit for recent volatility has been narrowing in market performance, with a small number of stocks delivering an outsized share of index-level gains over the past three months. We could be setting up for a choppier phase of the ongoing equity bull market, but we remain constructive over the medium-term, targeting c5% upside for the MSCI AC World to mid-26. For more, see: European/Global Equity Strategy - When Markets Narrow & Wobble.

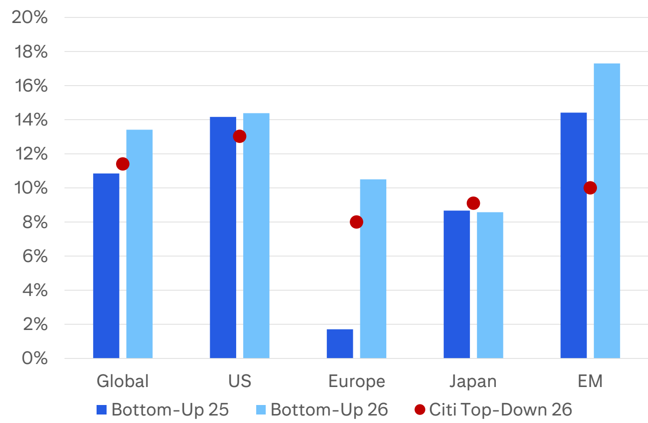
- **Themes: Key** themes likely to shape equity market performance include: (1) the broadening thesis: improving EPS growth across regions/sectors should favor Cyclicals; (2) Fed cuts: policy easing has been a meaningful tailwind for equities, especially in "soft landings"; (3) AI: while valuations have expanded, solid fundamentals could further support the AI trade, including outside the US. For more, see: Global Equity Quarterly - Is Broadening Back? and Thematic Equity Strategy - Riding A More Volatile Bull.

- **Fundamentals:** Consensus 25E EPS forecasts have been trimmed YTD but still point to solid +11% growth. Next year, global earnings growth is expected to both accelerate (to +13%) and broaden, with all major regions and global sectors contributing positively. Meanwhile, the MSCI AC World has rerated more than c15% since April and now trades on a 12m fwd PE of c19x (90th percentile vs. 25Y history). The US at 22x (91st percentile) and the EM at 13.4x (93rd percentile) are the most expensive markets. Our key worry is that stretched valuations could cap future upside if EPS doesn't deliver.

- **Sentiment & Positioning:** UK and EM markets have most bullish positioning across major equity markets. Also, positioning on the US is back on the rise, but with muted levels of activity. Citi's Levkovich Index, a gauge of US market sentiment, remains euphoric. Our Bear Market Checklist (8/18 red flags globally) would recommend buying into dips.

- **Global Recommendations:** We maintain a Cyclical tilt in our global equity strategy (Overweight Europe ex-UK, EM, Financials) coupled with Growth (O/W Tech). **Utilities is our favorite Defensive. We see the S&P 500 reaching 6,900, the Stoxx 600 reaching 600, and the Topix reaching 3,500 by mid-26.**

Figure 70. Bottom-up Consensus 2025-26E EPS Growth Forecasts



Source: Citi Research, MSCI, FactSet

Figure 71. Global Recommendations (Upgrade, Downgrade)

Overweight	Neutral	Underweight
	Regions	
Europe ex-UK	US	UK
EM	Japan	Australia
	Sectors	
IT	Cons Discr	Energy
Financials	Real Estate	Cons Staples
Utilities	Comm Svc	
	Materials	
	Industrials	
	Health Care	

Source: Citi Research

Developed Markets Rates Strategy

US Rates

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Heading into 2026, we are biased for the Treasury curve to lightly bull steepen against forwards and the belly to outperform, roughly in line with our views over the past two months (see US Rates Weekly - Pausing the pause? and US Rates Weekly - Hedging our bull steepener view). We think the market is underappreciating the risk of a non-linear market response to a more dovish Fed chair along with the risk of a light increase in the unemployment rate. Specifically, we see an asymmetry where there is little to no upside risk for future Fed hikes but there are multiple paths for further cuts to be priced, with most of these catalysts materializing in the second half of 2026/early 2027. To be clear, we do not expect rates to trend only one way in 2026. Increased fiscal stimulus and growth on the back of AI adoption, combined with somewhat more challenging inflation prints in H1-26, will add turbulence to the rates path next year. We like hedging our core positions for short-term higher yields in Q1-26 due to sharp seasonality but even then, a soon to be announced Fed Chair and two jobs reports over the next six weeks will drive most uncertainty. Our base case YE2026 10y UST forecast is 3.75%, and we assume that 1y Fed funds swaps will move down to ~2.5%, with forwards for 1y1y currently ~3%. Mechanically this can be accomplished via more Fed cuts vs forwards for H2-26, or a combination of rate cuts in 2026 to 3% or 2.75% and an additional cut for 2027, for a trough of around 2.5%. Our base case assumes a lightly steeper curve than forwards, this is driven by historical relationships combined with increased risks for term premium to move higher.

Core Europe

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The ECB appear comfortable to hold back policy space in case of a shock and ignore moderate inflation undershoots, even if persistent. While the chance of a cut is still more likely than a hike in 2026, the house view is changing such that the ECB is on hold at 2% depo for the next two years (previously it anticipated a trough of 1.5% depo). The prospect of a hike still feels distant given the policy setting is not obviously loose, and the impact of the fiscal spend will likely take time to assess. This may underpin hawkish premium further out – and the house view pencils in 2x25bp hikes in 2028 - but the base case suggests € rates should be somewhat pinned for now by the lack of a policy cycle. In response to the new ECB profile, as well as anticipating some modest cheapening in swap spreads, we raise our 4Q26 yield forecast for 10yr Bunds to 3% to reflect a mild, bearish bias for 2026. Our forecast sits a little above the implied forward rate of 2.9% and a Bloomberg median of 2.93%. The bullish risk is that incoming data provides the ECB doves with sufficient argument to push for a cyclical tweak to 1.5%, but even then, Bunds likely end the year around 2.5-2.6%, so not much lower than current levels. On the bearish side, should modest rate hikes come into play in H2 2026 then Bunds could end the year around 3.1-3.2%, but we don't think it will be much higher given policy rates are starting from near neutral (and the depo rate only reached 4% during a generational inflation shock). In our base case of 3% in Q426, the vast bulk of the sell-off is real yield driven with inflation premium relatively stable next year.

EMU spreads

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2026 is likely to see further tightening in EGB spreads supported by the last year of NGEU disbursements and German fiscal impulse. Periphery vs semi-core spreads are likely to converge further driven by strong periphery growth and low deficits (also driving a sharp decline in net issuance) and the reverse for the semi-core. Finland will join France, Belgium and Austria in EC's EDP while Italy will likely exit one year sooner. Ratings have started to reflect this new reality, and Moody's will likely catch up with Fitch and S&P. For OATs, the key risk will be the approaching presidential election in Q2-27, with RN emerging as the poll favorite. We expect all EGB spreads to widen into the event but with declining beta to OATs. Net, we expect BTPs to trade through OATs and Bonos to trade through RAGB and RFGB. Within the core space, DSLs are likely to emerge as a fiscally prudent substitute for Bunds, especially with far-right likely out of the next government. Within the semi-core, the Belgian budget agreement with a deficit approaching 4% of GDP by 2029 alleviates near-term political risk and shifts the credit from France towards Austria/Finland, and we expect some convergence. Within the periphery, we are most bullish on Bonos given the dual support from strong growth and now-declining budget deficit. The risk of a snap election lingers in Spain but should be Bono-positive in case of a shift from left-wing minority government to a right-of-centre majority government.

UK

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The outlook for gilts in 2026, we think, is likely to be a story of two halves. For H1, we suspect gilt yields to be sticky around current levels. The event risk of the Budget has passed, but it did little to address long-term fiscal concerns. Indeed, the rally on the day was likely driven by the gilt issuance update (including the possibility of expanding the Treasury bill market and thereby reducing future gilt issuance) rather than a declining fiscal risk premium. Moreover, fiscal uncertainty (dampened by greater headroom and a move to annual scoring of the fiscal rules) is just likely to be replaced by political uncertainty into the May elections, which will be the first opportunity for voters to show their response to a rising tax burden. Furthermore, the BoE may remain cautious over the next 6 months awaiting further evidence on pay developments for 2026 and watching inflation expectations. The BoE's debate on terminal rates will then likely dictate what happens in H2. The Citi house view looks for Bank Rate to trough at 2.75% by year-end compared with market pricing between 3.25-3.5%. We suspect the BoE will be more comfortable accelerating cuts later in 2026 as falling spot inflation (from both base effects and the one-offs announced at the Budget) lowers the bar to respond to lackluster growth (dampened by the real economic impact of persistent fiscal/political uncertainty and with the latest Budget doing little to boost growth) as well as labour market weakness. Combined with lower issuance pressure in from April, this translates into a bullish H2 view for gilts, targeting 4.15% in 4Q26 (compared with an implied forward of 4.73% and a Bloomberg consensus of 4.34%), with 2s10s bull-steepening. This timeline suggests that gilts should outperform Bunds significantly over the year (forecasting a 10yr gilt-Bund spread of 115bp by 4Q26) but it may be back-loaded given it relies mainly on central bank divergence with relative fiscal considerations as a kicker.

Japan

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The rate hike pace priced in by the OIS market is close to every six months, which seems reasonable for the yen rates. The risk to see an accelerated rate hike will be when the yen depreciates aggressively in the January-March period. We continue to expect the terminal rate to be 1.5%. Given the inflation rate for mid-2026 will face downward pressure with government spendings, the risk is skewed to see a slower pace of hikes.

Investors have generally viewed 2% as the soft target for the 10y JGB yield. As the fiscal spendings swelled more aggressively under the Prime Minister Takaichi government, investors may not actively accumulate duration risks. Focuses will be on FY2026 budget for the January-March period, followed by "Basic Policy on Economic and Fiscal Management and Reform" in June for the April-June period.

Lifers demand for superlong bonds may remain sluggish. Moreover, there may be increased selling demand into fiscal year-end related to reinsurance programs. Regional financial institutions may also look to liquidate existing ASW positions. We are likely to see underperformance of off-the-run papers in coming months.

GC repo rates have started to fix above IOER level with excess dealer inventories. TDBs have especially relied on foreign demand so tighter XCCY basis may increase the risk of soft supply/demand when issuance size is increasing. We may see the rate fixed at around 53bp if the market starts relying on arbitrage demand at domestic banks. We remain negative on ASWs.

Commodities

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- **We reiterate our view for oil markets to find support around $60s (with a trading range of $55-65 for 2026) from strong China buying, OPEC+ pause/cuts and US SPR buying.** 2025 saw crude oil prices fall from ~$80 to ~$60 as OPEC+ unwound oil cuts rapidly, with occasional spikes on major geopolitical risks in Mideast and FSU, amid non-OPEC+ supply growth and modest demand growth. 2026 should see long-awaited oversupply, but continued strong Chinese buying can cushion the downside. Russia-Ukraine dealmaking and US-Venezuela escalation can eventually turn bearish for prices but they can start bullish. The White House prefers low gasoline prices before the midterms, while Iran/Libya/Iraq risks remain. Amid a looming oversupply, OPEC+ could hold or cut output to prevent a price collapse. Thus, supposed bearish fundamentals can see counteracting developments.

- **After having been bullish for the vast bulk of this bull market, we do not think gold is a great bullish trade at $4.2k/oz, though it must be said that gold is very tough to call from current price levels (as such, our base case gets a 50% indicative probability)**. Our base case scenario (50% indicative probability) is a grind lower in 2026 as we think lower tariff related growth fears and lower inflation fears will broadly offset lower rates (as the Fed moves to neutral) and wider budget deficit concerns in the near term, with the prospect of goldilocks US economic environment in 2026 ultimately winning out. That said, US fiscal deficit, US and China economy, and geopolitical concerns remain elevated one way or another over the next few months, limiting the downside in gold for now. Our bull case scenario (30% indicative probability) is a gradual increase in prices to $5/k by end of 2026, and $6k/oz by the end of 2027, driven by either an allocation shift out of wealth or by sustained strong investor demand out of savings, reflecting ongoing concerns about US fiscal sustainability, cyclical, and geopolitical factors.

- **We remain bullish copper and aluminium next year. We suggest consumers and investors with longer-term horizons look to maintain or accumulate bullish exposure to both metals**. Both have bullish exposure to structural energy-transition and AI/datacenter demand trends and are leveraged to any pickup in global growth. Constrained supply is also a common bullish theme and regional arbitrage dynamics are also supportive. During 2026, dovish Fed prospects (especially under new leadership by mid-2026), related lower US real interest rates, and prospect of US fiscal easing mean US and global growth risks are skewed to the upside, while China continues to pursue metals-intensive growth. In 1H'26 we could see a rerun of the Jan-2023 and Jan-Apr 2024 bull markets where investors put on a FOMO global recovery trade in copper and aluminium, and they rallied sharply. We have seen this play out to some extent already in recent months.

Figure 72. Citi Research commodity price forecasts*

			Price Targets									Annual Forecasts			LT Price
		Spot*	0-3M	%chg vs spot	6-12M	%chg vs spot	Q4 2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2025E	2026E	2027E	$2,025
Energy															
ICE Brent	USD/bbl	63	**60**	-4%	**62**	-1%	63	60	62	62	62	68	62	64	70
NYMEX WTI	USD/bbl	59	**57**	-3%	**59**	0%	60	57	59	59	59	65	59	61	67
Henry Hub Natur	USD/MMBtu	4.9	**4.0**	-19%	**3.5**	-29%	3.7	3.9	3.3	3.7	4.0	3.6	3.7	3.6	3.9
JKM LNG	USD/MMBtu	11.0	**11.0**	0%	**8.1**	-26%	11.6	11.0	9.2	9.0	8.6	12.4	9.5	7.4	6.0
TTF Natural Gas	USD/MMBtu	9.6	**10.0**	5%	**7.5**	-22%	10.7	10.0	8.5	8.5	8.0	12.0	8.8	6.8	5.0
EUA Carbon	EUR/t	82	**95.0**	16%	**115.0**	41%	N/A	N/A	N/A	N/A	N/A	80	115	115	N/A
Precious Metals															
Gold	USD/t.oz	4198	**4200**	0%	**3700**	-12%	4125	4,200	4,000	3,800	3,700	3,435	3,930	3,600	3,200
Silver	USD/t.oz	58.3	**62.0**	6%	**48.0**	-18%	53.0	60.0	56.0	53.0	50.0	39.5	54.8	44.0	30.0
Platinum	USD/t.oz	1661	**1700**	2%	**1800**	8%	1600	1,700	1,675	1,650	1,625	1,260	1,665	1,600	1,400
Palladium	USD/t.oz	1452	**1450**	0%	**1300**	-10%	1425	1,400	1,375	1,350	1,325	1,140	1,365	1,300	1,100
Industrial and Other Metals															
LME Copper	USD/MT	11572	**12000**	4%	**13000**	12%	10900	12,000	13,000	13,000	13,000	9,900	12,750	12,000	11,000
LME Aluminum	USD/MT	2873	**2950**	3%	**3000**	4%	2800	2,900	2,900	3,000	3,300	2,620	3,025	3,500	3,000
LME Lead	USD/MT	1964	**1950**	-1%	**2000**	2%	1970	2,000	2,000	2,000	2,000	1,960	2,000	2,100	2,000
LME Zinc	USD/MT	3155	**3000**	-5%	**2800**	-11%	3050	2,900	2,900	2,800	2,800	2,850	2,850	2,800	2,700
LME Nickel	USD/MT	14706	**14500**	-1%	**15000**	2%	14800	14,500	14,500	14,500	14,500	15,150	14,500	15,000	17,000
CME Lithium Hyd	USD/MT	10260	**10500**	2%	**11000**	7%	10000	10,500	11,000	10,000	11,000	9,300	10,600	12,000	20,000
Uranium	USD/lb	76	**80**	5%	**100**	32%	77	85	90	95	100	72	93	110	63
Bulk Commodities															
Iron Ore (TSI)	USD/MT	108	**100**	-7%	**90**	-16%	105	100	95	90	95	102	95	90	85
Thermal Coal (Ne	USD/MT	109	**105**	-3%	**110**	1%	109	105	110	105	110	107	108	110	100
Coking Coal (Aus	USD/MT	207	**195**	-6%	**200**	-3%	196	190	195	195	200	187	195	200	200
Agriculture															
CBOT Corn	USd/bu	432	**450**	4%	**460**	7%	450	460	460	460	460	450	460	N/A	N/A
CBOT Soybeans	USd/bu	1116	**1150**	3%	**1250**	12%	1100	1150	1200	1250	1250	1,052	1,213	N/A	N/A
CBOT Wheat	USd/bu	538	**550**	2%	**525**	-2%	525	550	525	525	525	531	531	N/A	N/A
ICE Sugar	USd/lb	14.9	**15.5**	4%	**17.0**	14%	15.6	16.5	17.0	17.0	17.5	17.1	17.0	N/A	N/A
ICE Coffee	USd/lb	404	**360**	-11%	**300**	-26%	400	375	350	325	300	371	338	N/A	N/A
ICE Cocoa	USD/MT	5453	**5500**	1%	**5750**	5%	5850	5500	5600	5700	5800	8,205	5,650	N/A	N/A

Source: Citi Research, *As of Dec 2025, subject to revision. Please visit this site for our latest commodities forecasts

Global Foreign Exchange Outlook

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Despite narratives of a structurally weaker USD, our bearish USD view since this past April has been driven more by cyclicality. We expected a weaker USD in H2 2025 as we saw labor market weakness materializing – allowing for dovish repricing of Fed expectations – along with headwinds to growth as the economy digested trade policy. However, we expected a USD bottoming process would also develop, which remains underway. Our base case is while cyclical headwinds for USD can persist over the near-term, tailwinds will emerge as 2026 unfolds. We maintain our out-of-consensus view for a USD rebound and forecast EURUSD to 1.10-1.11 around mid-2026.

Our bullish USD thesis is driven by three main pillars. First, we expect US growth to rebound as the policy mix turns more friendly into the November midterms. This includes marginal stimulus from OBBBA, potential wage pressures from immigration policy, preservation of Fed independence via court decisions, and diminishing policy uncertainty from historic levels. Second, a lot of good news is already priced into EUR, in our view. This includes revisions to Eurozone growth expectations on fiscal spend intentions – where peak multiplier effects are likely more of a 2027 story – and ECB repricing following more hawkish signaling. Third, the AI-driven rally has more room to go, which could support USD via earnings/multiple expansion in US equities vis-à-vis peers, increases in productivity for the broader US economy, and wealth effects for the US consumer.

The structural versus cyclical argument will remain crucial to the path of the USD, and over the long-term some of those structural dynamics (e.g., increased central bank diversification, greater variety in invoicing currencies, rising term premium, hedge ratio adjustments, and greater fragmentation in global trade) could very well weigh on the USD. However, these factors may take years to reflect in FX trends. We remain of the view cyclical drivers are more important for the USD – at least for the moment.

Figure 73. Global Foreign Exchange Forecasts

		Market data*			Forecasts			Returns***		WERM
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term	3 mos rtn	12 mos rtn	2025 Q3
G10										
Euro	EURUSD	1.168	1.173	1.186	1.17	1.10	1.13	0.1%	-7.3%	1.09
Japanese yen	USDJPY	155	154	151	152	145	132	-1.2%	-3.7%	99
British Pound	GBPUSD	1.34	1.34	1.33	1.34	1.22	1.30	0.2%	-8.4%	1.36
Swiss Franc	USDCHF	0.80	0.79	0.77	0.79	0.85	0.84	-0.2%	9.8%	0.91
Australian Dollar	AUDUSD	0.66	0.66	0.66	0.67	0.67	0.70	1.2%	1.0%	0.76
New Zealand Dollar	NZDUSD	0.58	0.58	0.58	0.58	0.59	0.63	0.2%	1.2%	0.60
Canadian Dollar	USDCAD	1.39	1.39	1.38	1.41	1.39	1.39	1.2%	1.0%	1.20
Dollar Index**	DXY	98.85	98.35	97.23	98.19	102.74	98.97	-0.2%	5.7%	94.98
G10 Crosses										
Japanese yen	EURJPY	181	180	179	179	160	149	-1.0%	-10.7%	108
Swiss Franc	EURCHF	0.93	0.93	0.91	0.93	0.93	0.95	-0.1%	1.8%	0.99
British Pound	EURGBP	0.87	0.88	0.89	0.88	0.90	0.87	-0.1%	1.2%	0.80
Swedish Krona	EURSEK	10.94	10.93	10.94	10.90	10.65	10.50	-0.3%	-2.7%	8.92
Norwegian Krone	EURNOK	11.75	11.81	11.98	11.68	11.83	11.54	-1.0%	-1.3%	7.70
Norwegian Krone	NOKSEK	0.93	0.93	0.91	0.93	0.90	0.91	0.7%	-1.4%	1.16
Australian Dollar	AUDNZD	1.14	1.14	1.13	1.15	1.12	1.12	1.0%	-0.2%	1.26
Australian Dollar	AUDJPY	102	102	99	102	96	92	0.0%	-2.7%	75
Asia										
Chinese Renminbi	USDCNY	7.06	7.03	6.94	7.05	7.10	6.90	0.3%	2.4%	6.49
Hong Kong Dollar	USDHKD	7.78	7.76	7.73	7.77	7.78	7.80	0.1%	0.7%	6.52
Indonesian Rupiah	USDIDR	16622	16659	16838	16500	17000	16000	-1.0%	1.0%	14089
Indian Rupee	USDINR	90.2	90.8	92.6	89.5	91.0	92.5	-1.5%	-1.7%	82.3
Korean Won	USDKRW	1467	1460	1447	1450	1430	1400	-0.7%	-1.2%	1214
Malaysian Ringgit	USDMYR	4.12	4.11	4.10	4.05	4.20	4.30	-1.5%	2.5%	3.63
Philippine Peso	USDPHP	58.9	59.2	59.7	58.0	59.3	55.0	-2.0%	-0.7%	66.1
Singapore Dollar	USDSGD	1.29	1.29	1.26	1.29	1.32	1.30	0.4%	4.4%	1.36
Thai Baht	USDTHB	31.9	31.8	31.3	31.5	33.0	34.0	-0.9%	5.4%	35.3
Taiwan Dollar	USDTWD	31.3	31.1	30.6	31.0	32.0	31.0	-0.3%	4.6%	n/a
Vietnam Dong	USDVND	26373	26663	27068	26400	26900	27300	-1.0%	-0.6%	n/a
EMEA										
Czech Koruna	EURCZK	24.1	24.2	24.4	24.3	24.6	24.3	0.5%	0.7%	30.0
Hungarian Forint	EURHUF	381	385	397	385	375	380	0.0%	-5.6%	415
Polish Zloty	EURPLN	4.23	4.25	4.31	4.25	4.20	4.25	0.0%	-2.5%	4.80
Israeli Shekel	USDILS	3.23	3.23	3.22	3.25	3.15	3.15	0.6%	-2.1%	4.48
Turkish Lira	USDTRY	42.44	45.62	56.04	43.50	48.00	56.00	-4.6%	-14.3%	37.49
South African Rand	USDZAR	17.04	17.16	17.55	17.15	16.95	16.50	-0.1%	-3.4%	11.35
LATAM										
Brazilian Real	USDBRL	5.31	5.42	5.76	5.35	5.50	5.45	-1.3%	-4.5%	5.42
Chilean Peso	USDCLP	919	919	921	925	950	925	0.6%	3.1%	802
Mexican Peso	USDMXN	18.3	18.5	19.0	18.40	18.80	21.00	-0.3%	-1.2%	18.63
Colombian Peso	USDCOP	3764	3817	4016	3800	3900	3850	-0.5%	-2.9%	2856

* market data including spot as of 2:23 PM NY time on 03-Dec-2025

** The DXY forecasts are implied from the forecasts of the constituent crosses. *** Returns are relative to forwards

Source: Citi Research

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Appendix A-1

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