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Global Economy Update: All eyes on the Middle East

March 2026

Contents

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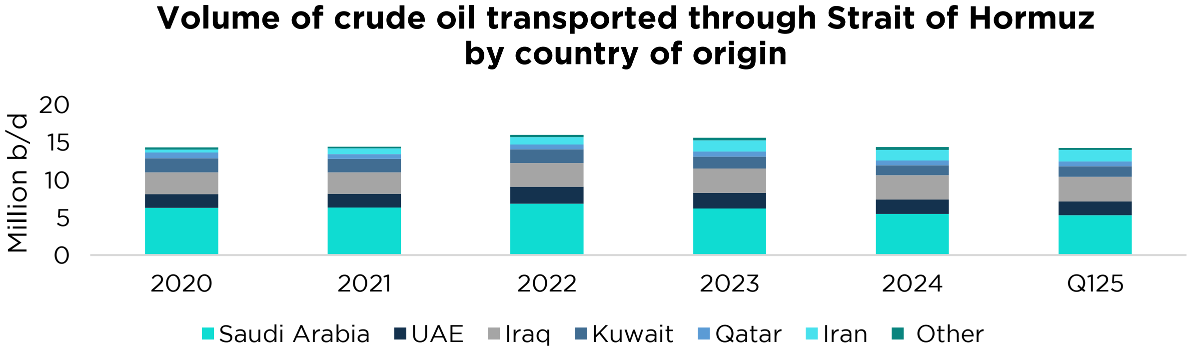
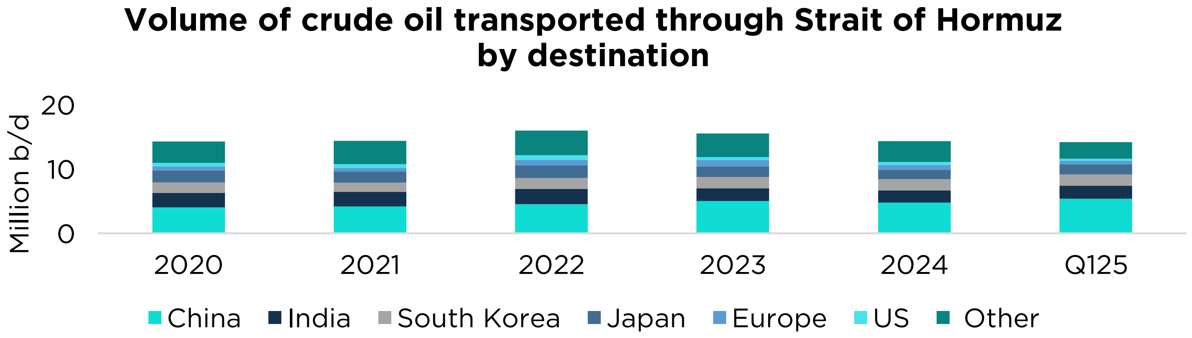
International landscape

Strait of Hormuz: A critical choke point

Source: EIA

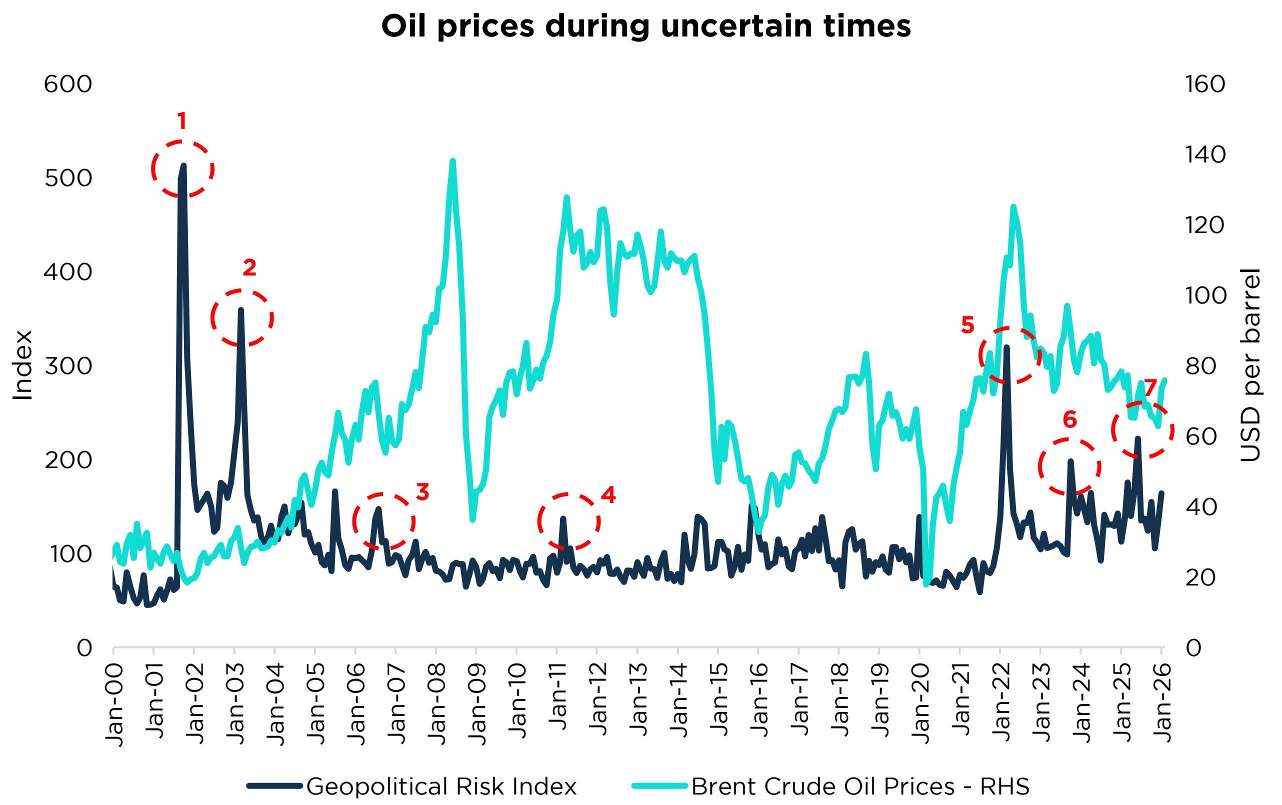


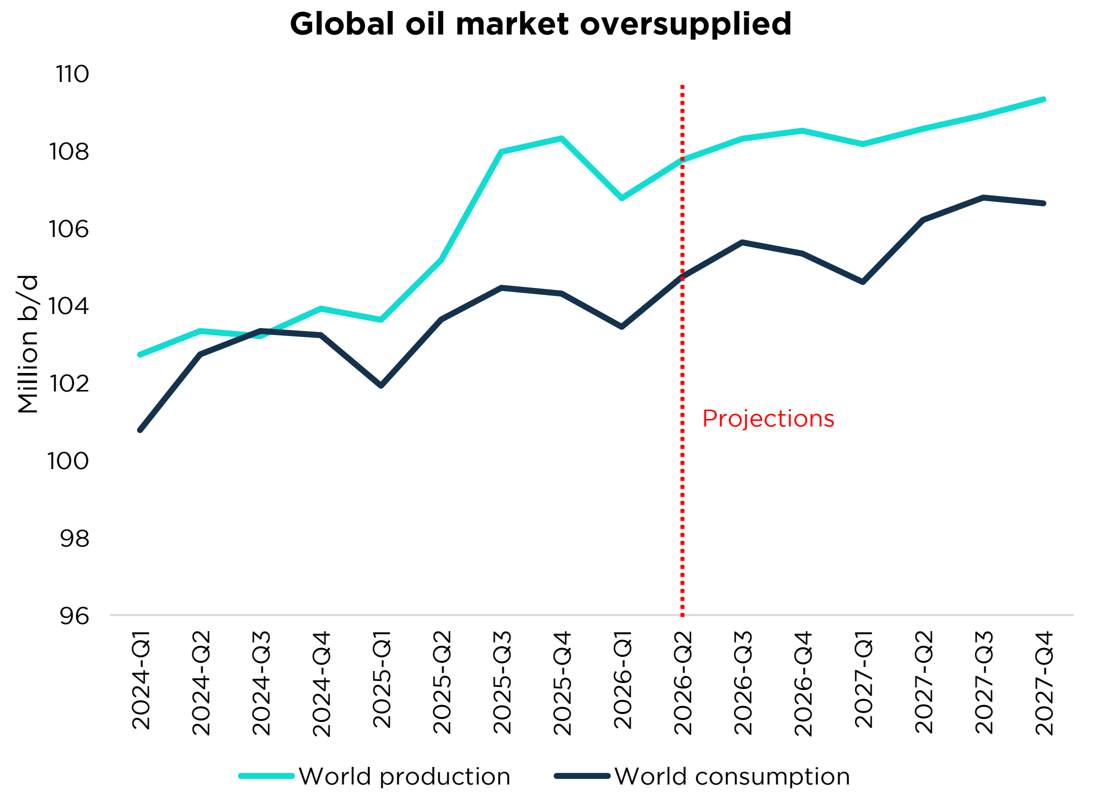


Source: EIA, CGIL

- The Strait of Hormuz accounts for one-fifth of global supply for oil and liquefied natural gas (LNG).
- Saudi Arabia and the UAE are key oil transporters through the Strait. However, they have developed alternative infrastructure to bypass it but with limited capacity.
- Asia remains the most exposed region, as 84% of crude and condensate and 83% of LNG transiting the Strait of Hormuz in 2024 were destined for Asian markets.
- China, India, Japan, and South Korea are the largest recipients, leaving them highly sensitive to supply shocks and price volatility.

Global oil oversupply provides buffer





Source: Policy Uncertainty, Refinitiv, EIA, CGIL
Note: The numbered peaks refer to the following geopolitical events: (1) 9/11 terrorist attack, (2) US-led invasion of Iraq, (3) Lebanon war, (4) Arab Spring and civil war in Libya, (5) Russia-Ukraine war, (6) Israel-Hamas war, (7) high tensions in the Middle East

- The global oil market was oversupplied with oil inventories amounting to 8.3 billion barrels in 2025. This trend is expected to continue in 2026 and 2027.
- Iran’s absence in the oil market, which produces 3.5 million b/d of crude oil, accounting for a sizeable 4% of global oil supply in 2025, should be offset by oversupply.
- Of the 20 million b/d transported through the Strait of Hormuz, only 4.2 million b/d can be rerouted via the existing spare pipeline capacities, implying that around 16 million b/d of oil flow is at risk if a full closure occurs.

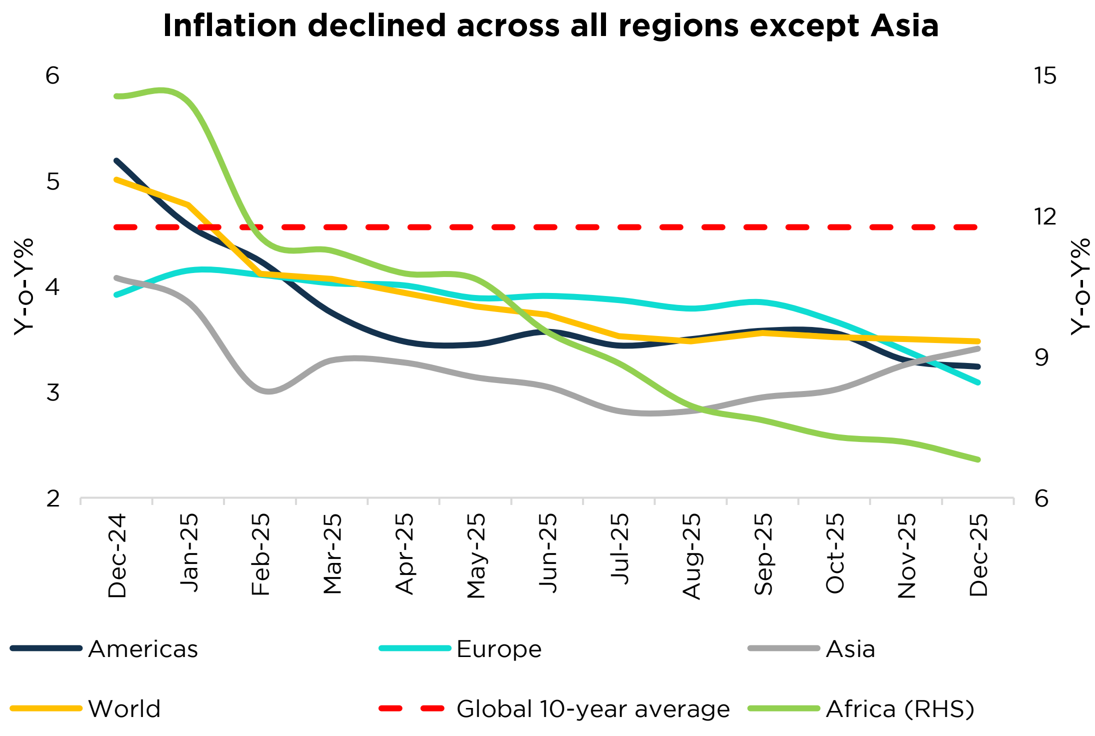
Global Composite PMI expands but divergence persists

		Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
	World													53
Advanced Economies	Australia													56
	Canada													46
	Japan													53
	South Korea*													51
	UK													54
	US													53
Euro Zone	Euro Area													52
	France													52
	Germany													49
	Italy													51
	Spain													53
Emerging Markets	Brazil													50
	China													52
	India													60
	Indonesia*													53
	Mexico*													46
	Philippines *													53
	South Africa													50
	Turkiye*													48

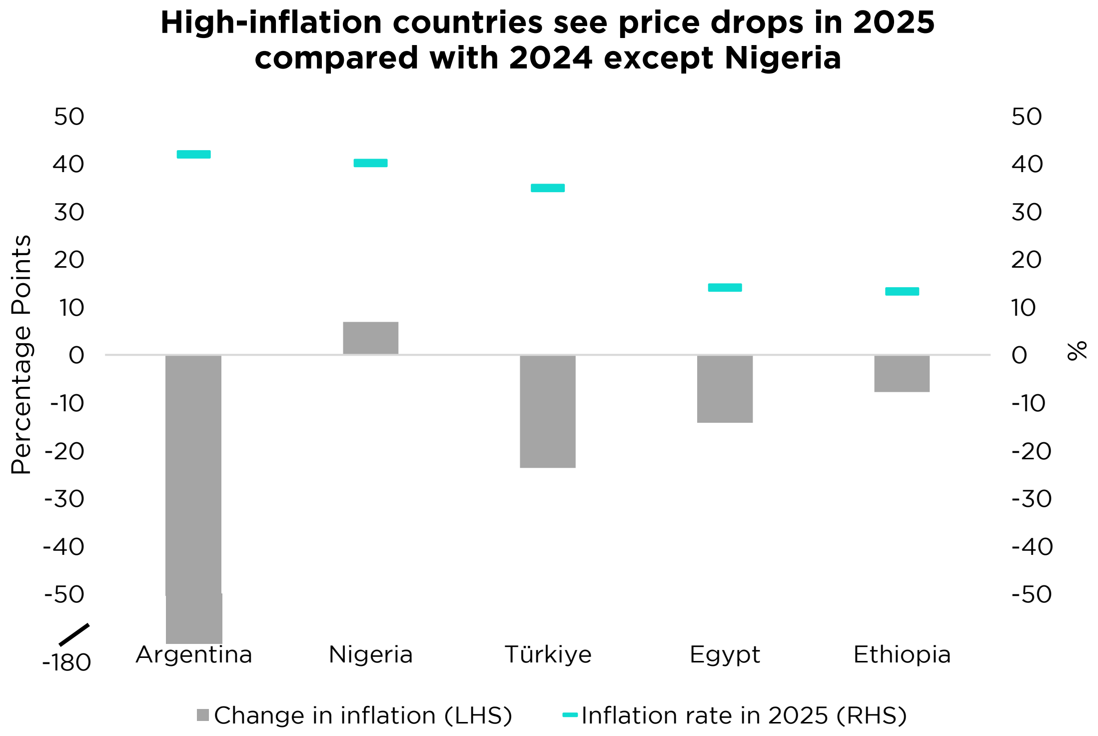
Source: Haver Analytics, CGIL; **Note:** *Manufacturing PMI for select countries ; **Red** denotes contraction, **Yellow** denotes no expansion/contraction and **Green** denotes expansion

- Economic activity remains resilient across several economies, supported primarily by services-led growth and relatively firm domestic demand.
- In contrast, countries experiencing contraction or only a gradual recovery are largely reflecting manufacturing-sector weakness & subdued external demand.

Global inflation steady in Q4 2025



Source: IMF, CGIL



Source: IMF, Haver Analytics, CGIL

- Global inflation stabilised at around 3.5% in the final quarter of 2025, after falling below the 10-year average.
- Inflation in Asia rose after August 2025 due to high food prices and the impact of currency depreciation on import costs.
- Much of the recent spike in Nigeria's inflation is statistical rather than economic, driven by a shift in the base year from 2009 to 2024.
- Recent geopolitical conflicts are likely to exert upward pressure on inflation, especially in import-dependent economies, by driving up oil prices and, in turn, increasing production, transportation, and consumer costs.

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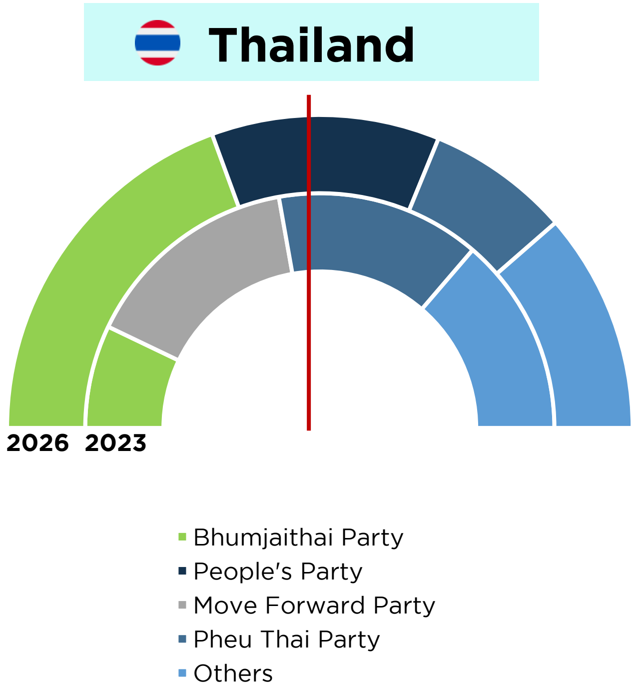
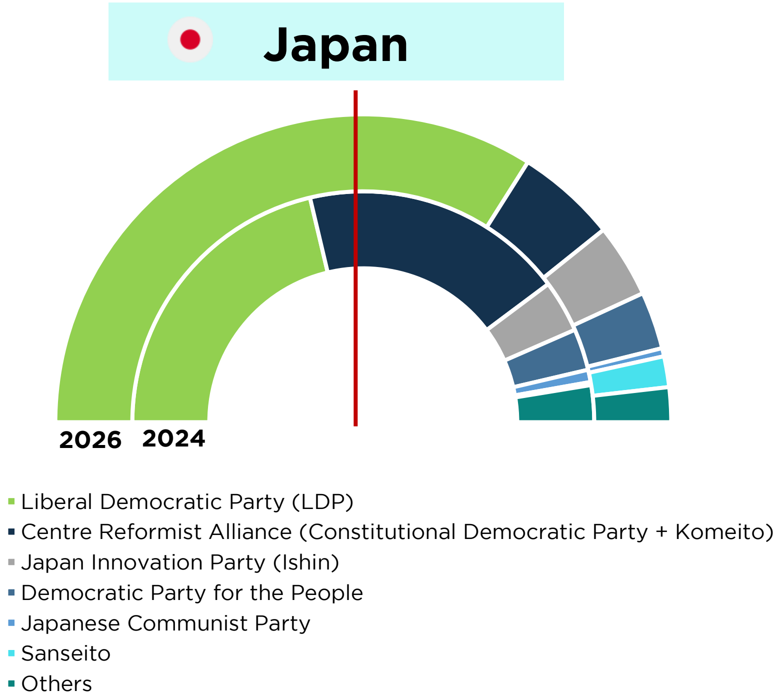
APAC

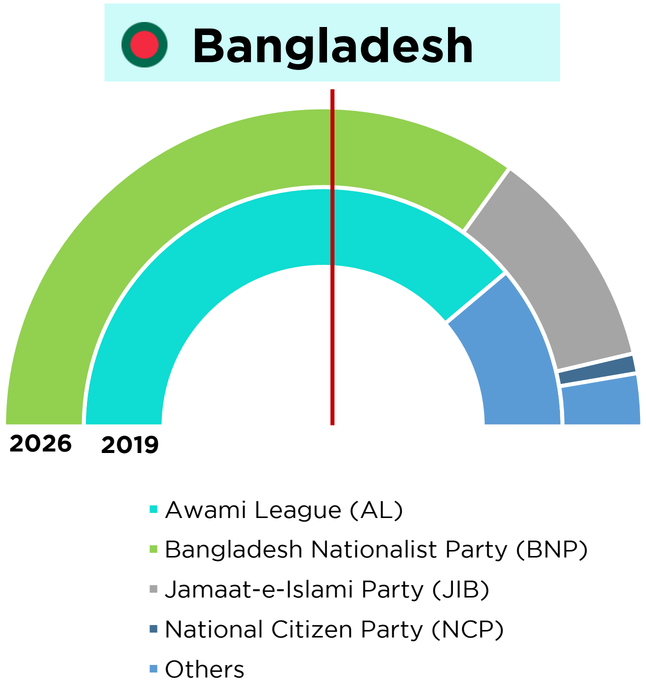
Singapore	AAA
Australia	AA+
Japan	AA-
UAE	AA-
S. Korea	AA-
China	A
Malaysia	A-
Thailand	A-
India	BBB+
Philippines	BBB+
Indonesia	BBB
Vietnam	BB+
Bangladesh	CCC+

Positive Outlook
Negative Outlook
Stable Outlook
No Outlook

APAC: Election outcomes







Source: National sources, CGIL

- Thailand's election eased policy concerns, with the Bhumjaithai Party winning about 40% of seats and forming a coalition with the Pheu Thai Party.
- Japan's election in February improved political stability as the Liberal Democratic Party secured a clear majority.
- Bangladesh's election marked a major shift, with the Bangladesh Nationalist Party winning a two-thirds majority.
- CareEdge Global expects reform progress and credible reforms to guide future credit profile across all three countries.

China: Prominent leaders head to Beijing

5	8 years	12	8
Prominent western leaders visited China in January-February	Since a UK prime minister last visited China	UK–China cooperation documents signed	Canada–China cooperation documents signed

Key visits to Beijing so far this year

Jan 4–7	Jan 4–8	Jan 14–17	Jan 25–28	Jan 28–31	Feb 25–26
Lee Jae Myung **President** **South Korea**	Micheál Martin **Prime Minister** **Ireland**	Mark Carney **Prime Minister** **Canada**	Petteri Orpo **Prime Minister** **Finland**	Keir Starmer **Prime Minister** **UK**	Friedrich Merz **Chancellor** **Germany**

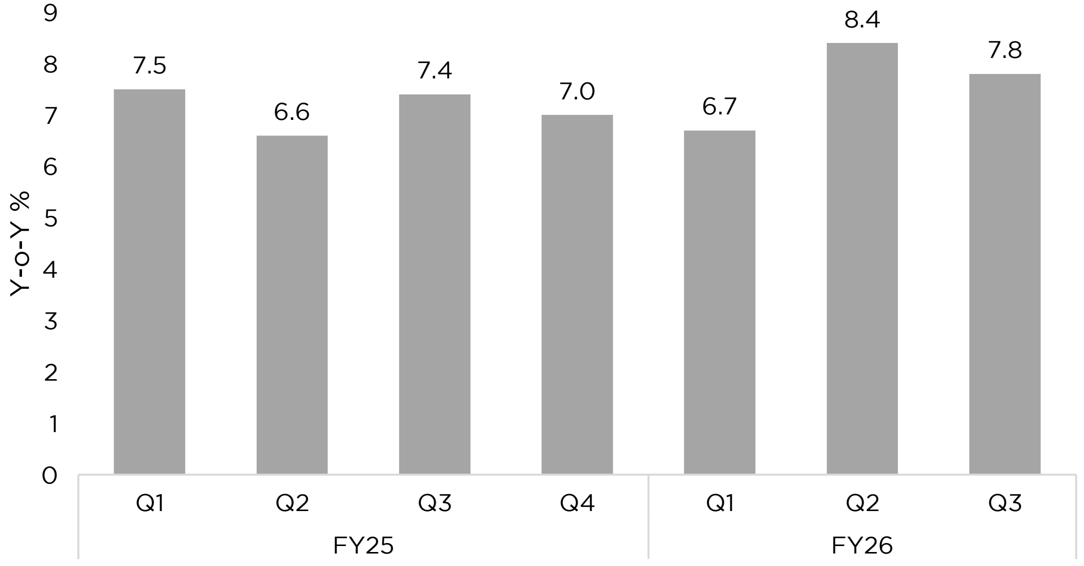
Source: Ministry of External Affairs, CGIL

- Rising US policy unpredictability is prompting countries to diversify strategic exposure, deepen engagement with China, and reduce over-reliance on one pole.
- The recent engagements signal multipolar positioning by countries in a shifting world order.

India: Q3 GDP growth at 7.8%

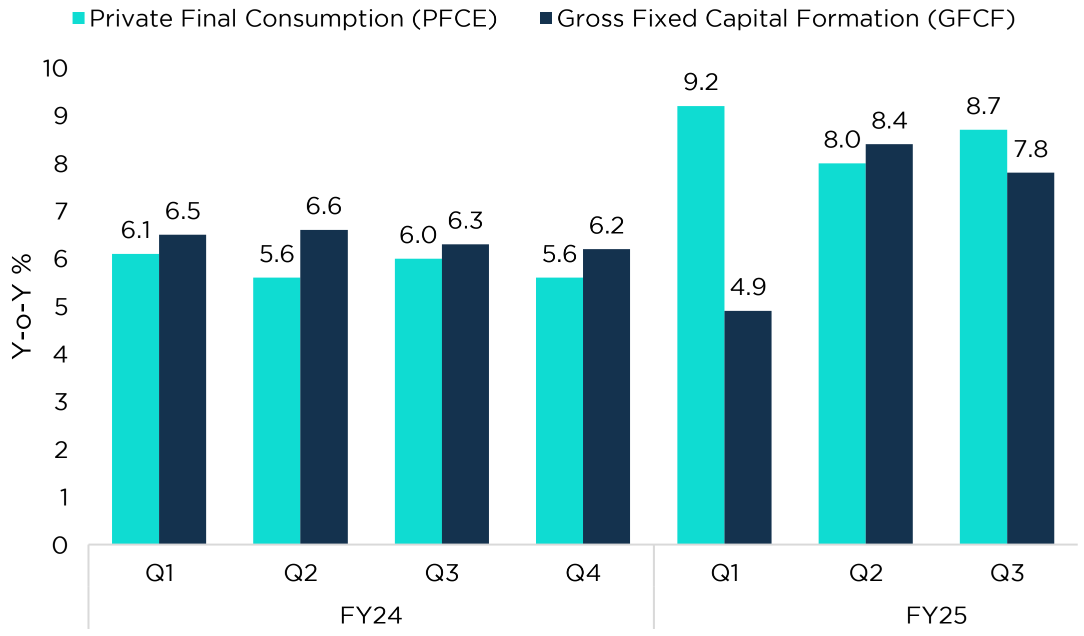
Quarterly GDP growth

Full-year FY26 growth revised to 7.6% (Second Advance Estimate) vs the earlier estimate of 7.4%. This follows high growth of 7.1% in FY25



Source: MOSPI, CGIL

Growth in private consumption & investment healthy
GDP: by expenditure



Source: MOSPI, CGIL

- GDP growth was recorded at 7.8% in Q3 as per the revised GDP series. GVA growth printed at 7.8% in Q3 (vs 8.6% in Q2).
- The new series shifts the base from 2011-12 to 2022-23, while making several enhancements to address the shortcomings of historical data.
- Consumption growth accelerated to 8.7% in Q3 FY26 (vs 8% in Q2 FY26); Investment growth remained healthy at 7.8% in Q3 FY26, despite some moderation.
- Manufacturing growth averaged 11.9% in the previous five quarters based on the new series, much higher than the average of 6.3% in the previous four quarters as per the old series. Services sector growth also remained healthy at 9.5% in Q3 FY26 vs 9.3% in Q2 FY26.
- We project 7.2% growth in FY27. The evolving geopolitical situation and trade policy shifts are monitorables.

Korea: Reserve decline reflects FX intervention amid Won weakness

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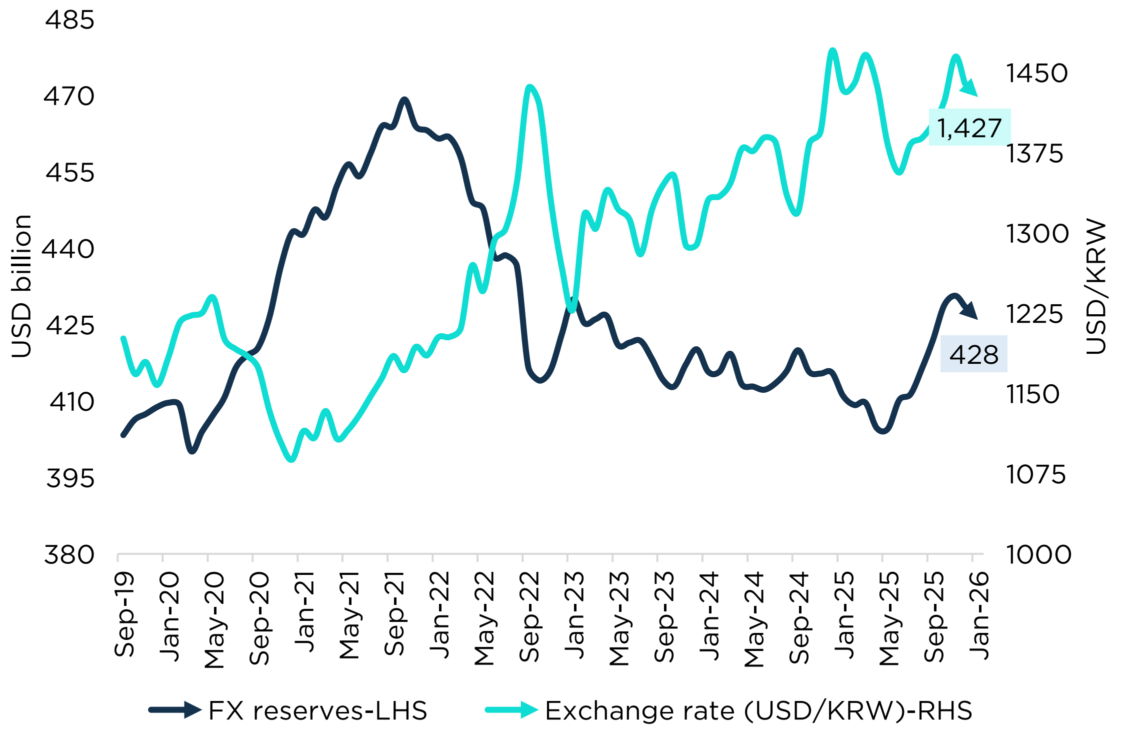
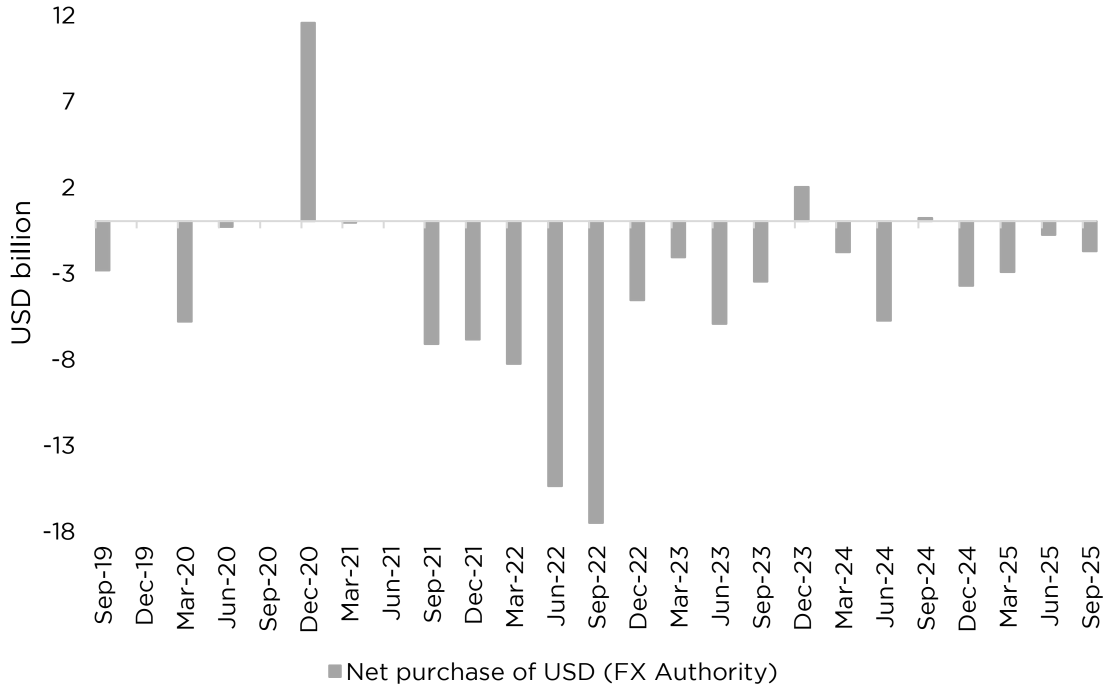
FX reserves fall for second month



Source: Bank of Korea, CGIL

Fourth consecutive quarter of net USD sales to stabilise the currency



Source: Bank of Korea, CGIL

- FX reserves fell for a second consecutive month, dropping USD 4.8 bn to USD 425.9 bn in January, reflecting efforts to smooth volatility in the foreign exchange market amid a sustained rise in the USD/KRW rate.
- FX authorities recorded net sale of USD 1.7 billion in Q3 2025, marking the fourth consecutive quarter of net sales amid elevated exchange rate pressures.

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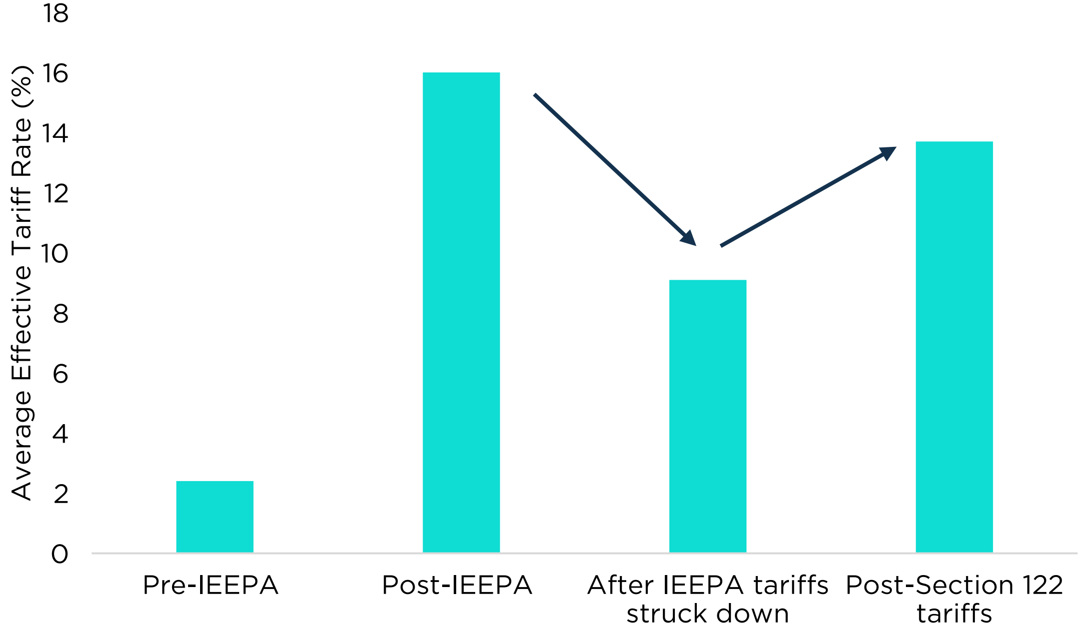
The Americas

Canada	AA+
United States	AA+
Chile	A-
Mexico	BBB-
Peru	BBB-
Brazil	BB+
Colombia	BB+
Ecuador	CCC+
Argentina	CCC+

- Positive Outlook
- Negative Outlook
- Stable Outlook
- No Outlook

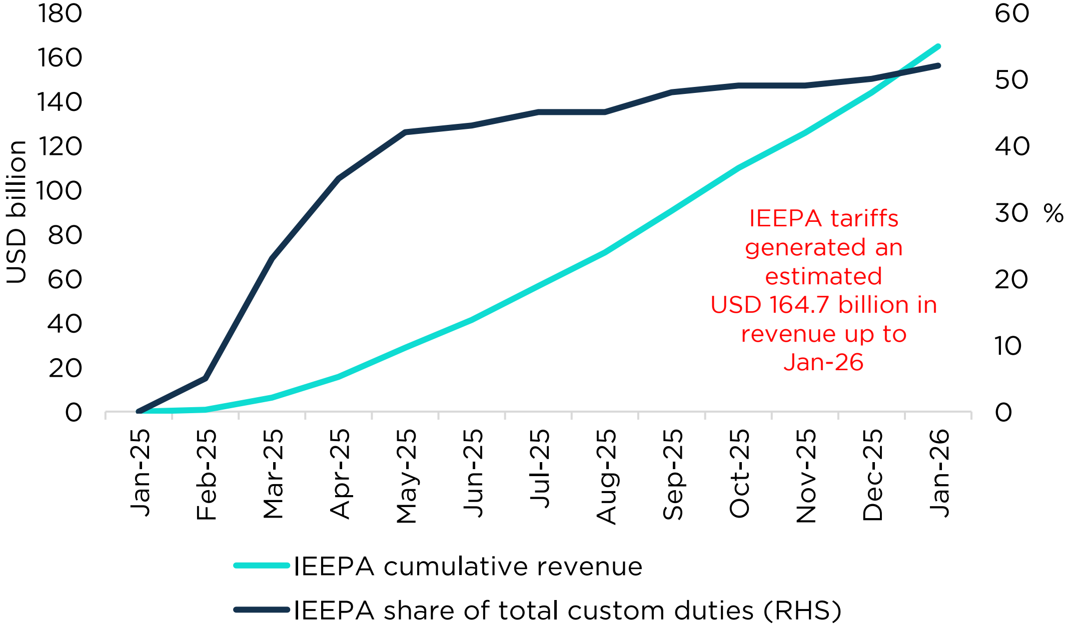
US: SCOTUS invalidates POTUS' IEEPA tariffs

Alternative legal routes keep US effective tariff rate elevated despite SCOTUS ruling



Source: The Budget Lab at Yale, CGIL
Note: IEEPA stands for International Emergency Economic Powers Act

IEEPA tariffs became a key source of US government revenue

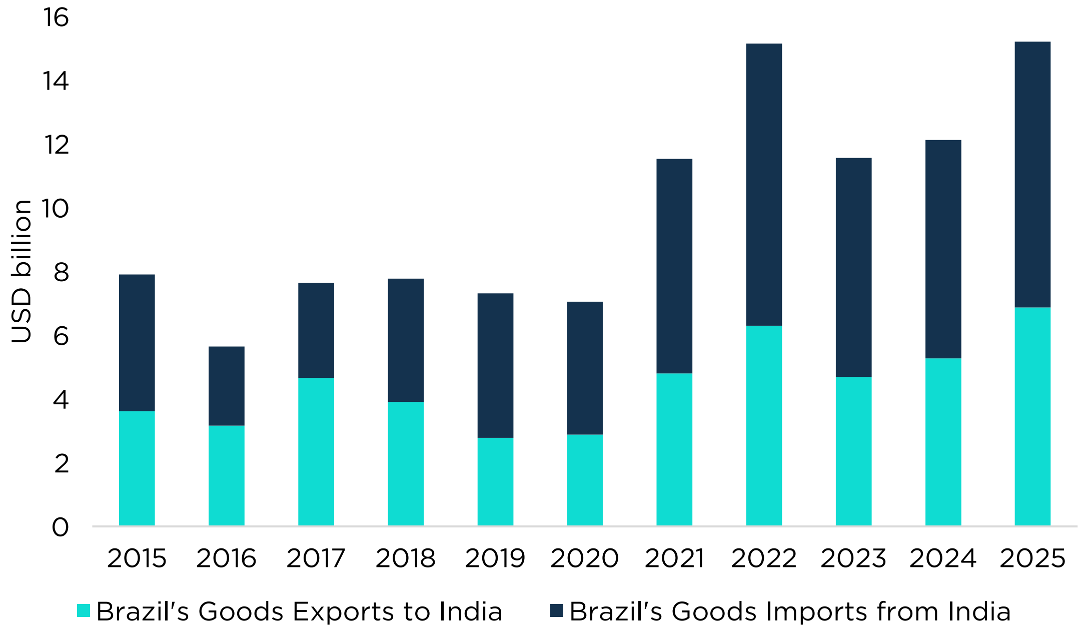


Source: Penn Wharton Budget Model, CGIL

- The effective US tariff rate rose sharply from 2.4% to around 16% within a year, driven by IEEPA tariffs imposed by President Trump.
- In February 2026, the Supreme Court ruled these IEEPA-based tariffs unlawful, reducing the effective rate to 9.1%. However, President Trump quickly imposed a 150-day global tariff under Section 122, pushing the rate back up to 13.7% - still high by historical standards.
- While the ruling highlights checks and balance in the US, policy uncertainty has risen over the post 150-day path with the threat of tariffs under other provisions.

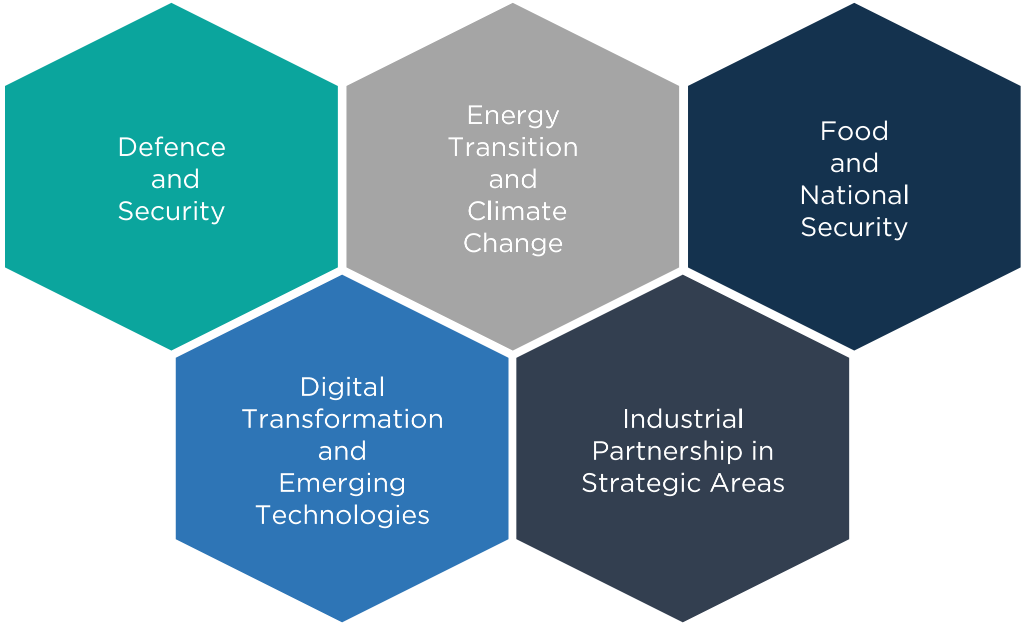
Brazil: Presidential delegation visits India

Brazil-India goods trade doubled to USD 15 billion (2015-25)



Source: Min Desenvolvimento, Industria Comercio, Haver Analytics, CGIL

Five key pillars shaping Brazil-India bilateral cooperation

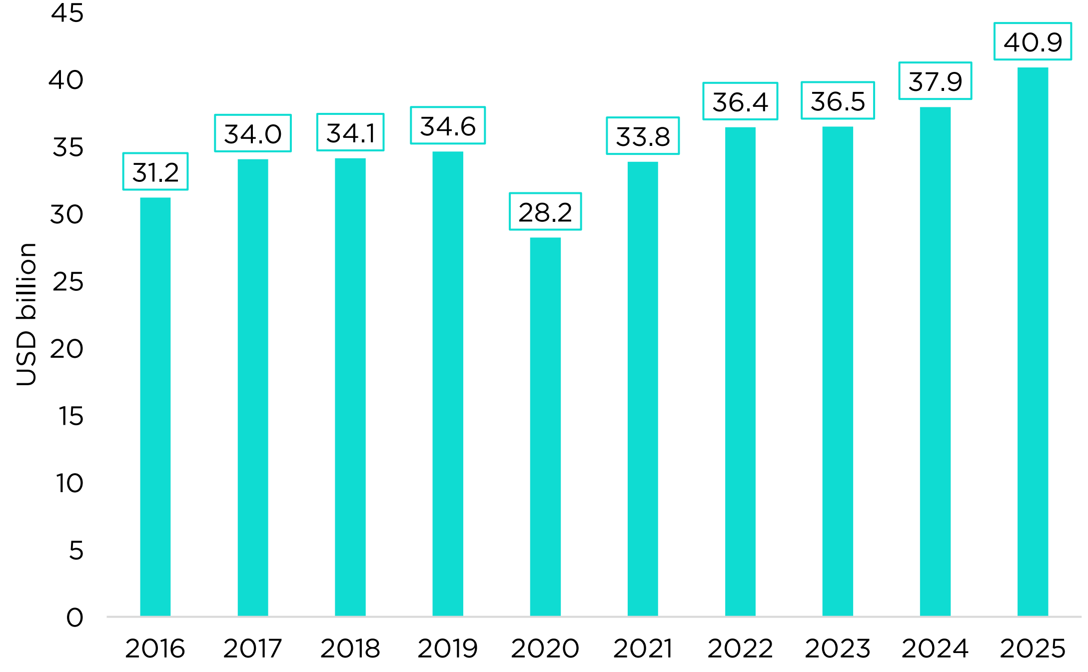


Source: Ministry of External Affairs, GoI, CGIL

- President Lula visited India in February 2026 and reaffirmed the Brazil–India Strategic Partnership established in 2006.
- Both sides committed to reducing non-tariff barriers, expanding the India–MERCOSUR PTA, and targeting bilateral trade of USD 30 billion by 2030, alongside signing an MoU on cooperation in rare earths and critical minerals, and extending multiple-entry tourist and business visas from 5 to 10 years (reciprocal basis).
- The visit comes at a crucial time amidst tariff shocks and supply chain disruptions as protectionist policies rise globally.

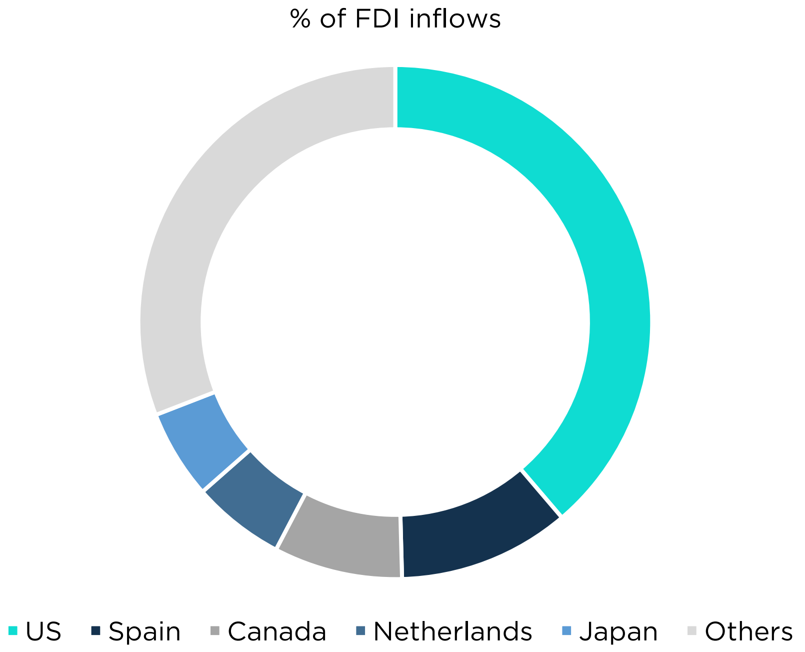
Mexico: Sustained rise in gross FDI inflows in 2025

Fifth consecutive year of upward trend in FDI inflows



Source: Banco de México, CGIL

US remains the biggest investor in 2025

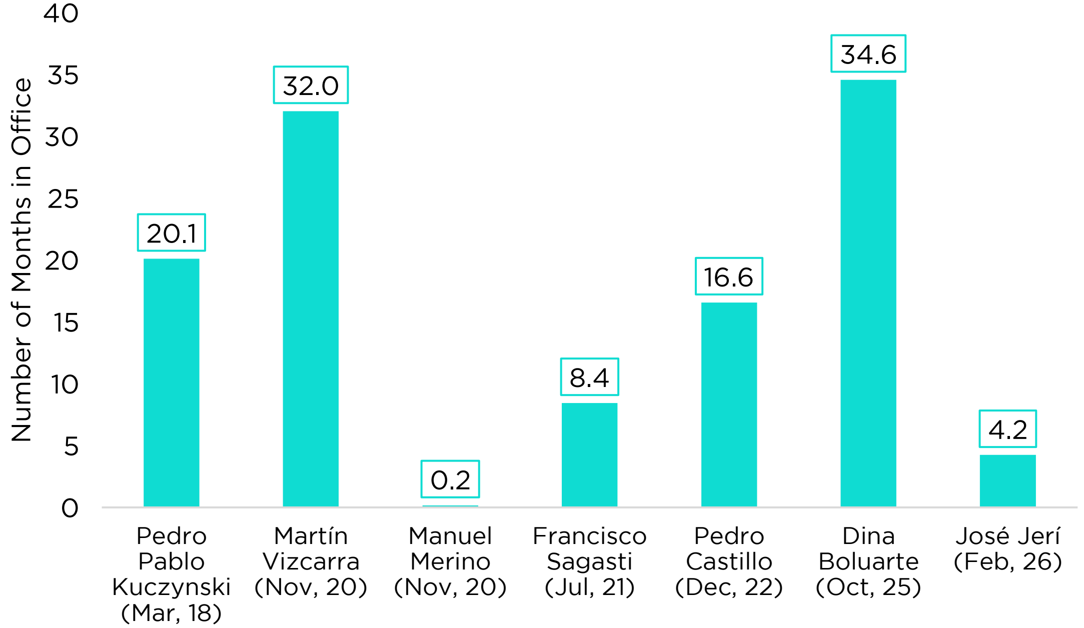


Source: Secretaria de Economia, CGIL

- Mexico attracted USD 40.9 billion in gross FDI in 2025, up 7.7% Y-o-Y.
- The US accounted for 39% of inflows, while the top five source economies (the US, Spain, Canada, the Netherlands, and Japan) collectively contributed ~69% of the total FDI.
- As a member of the US-Mexico-Canada Agreement (USMCA), Mexico's preferential access to the US market reinforces its position as a cost-effective manufacturing hub and nearshoring destination. In this context, the forthcoming USMCA review will be critical for future FDI trends.

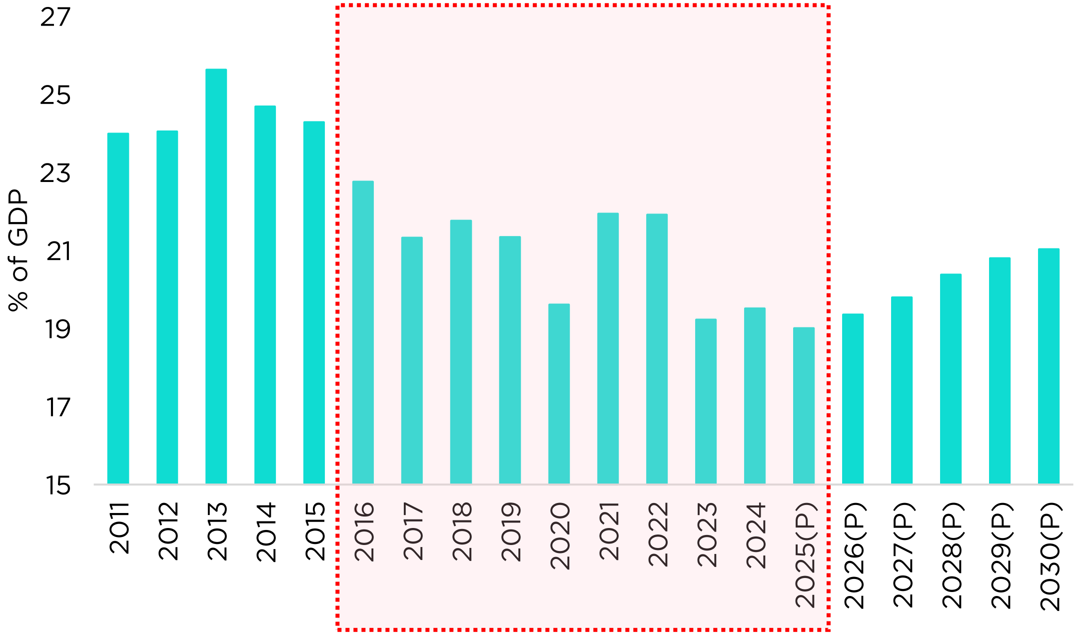
Peru: President Jeri impeached after four months in office

Heightened political instability in Peru



Source: National Sources, CGIL
Note: Dates in parentheses indicate the month and year the president demitted office

Investment weakens



Source: IMF, CGIL
Note: (P) – Projections

- President José Jerí was impeached on February 17, marking the seventh president to leave office in the past decade. Prolonged political instability has significantly weakened internal security, investments as well as investor sentiment.
- José María Balcázar, a former judge and left-leaning lawmaker, has been appointed as the interim president. However, his tenure will be brief, as the general elections are scheduled for April 12, 2026, and the next president is expected to assume office in July this year.
- To understand how this impeachment could affect Peru's credit rating, please refer to our latest Credit Update.

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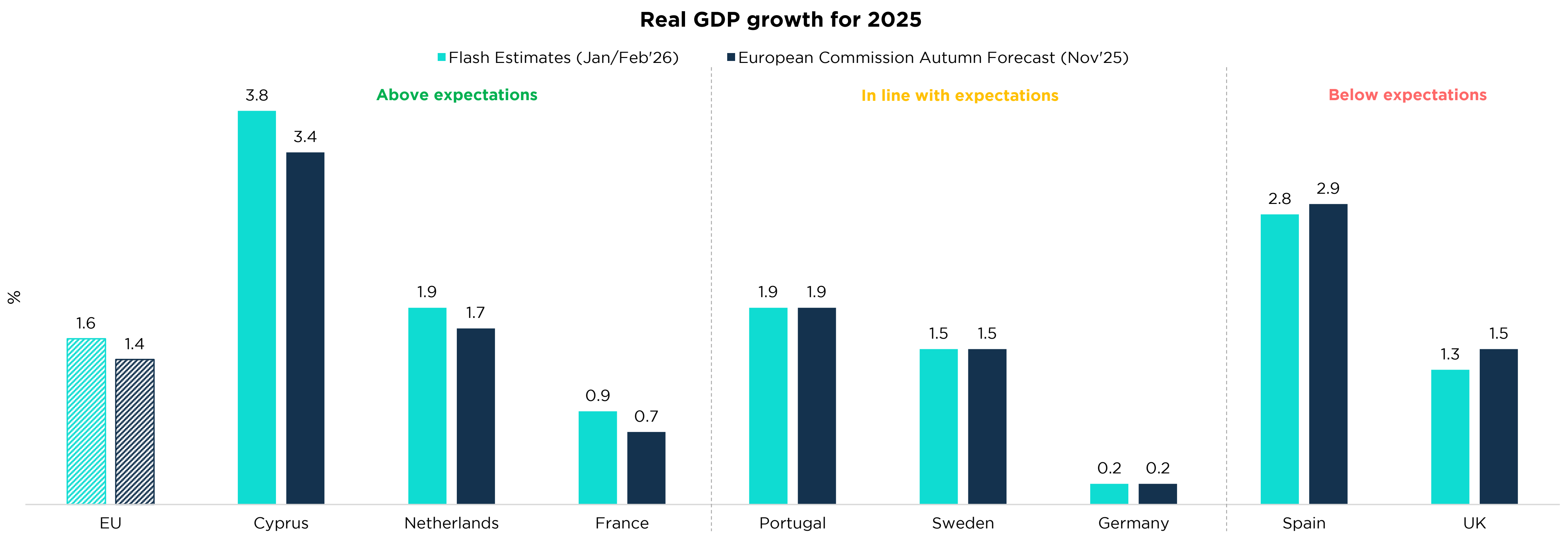
Europe

Germany	AAA
Netherlands	AAA
Sweden	AAA
United Kingdom	AA-
Portugal	A+
France	A+
Spain	A
Cyprus	BBB+
Italy	BBB
Greece	BB+
Türkiye	BB-

- Positive Outlook
- Negative Outlook
- Stable Outlook
- No Outlook

Europe: Growth surpasses expectations

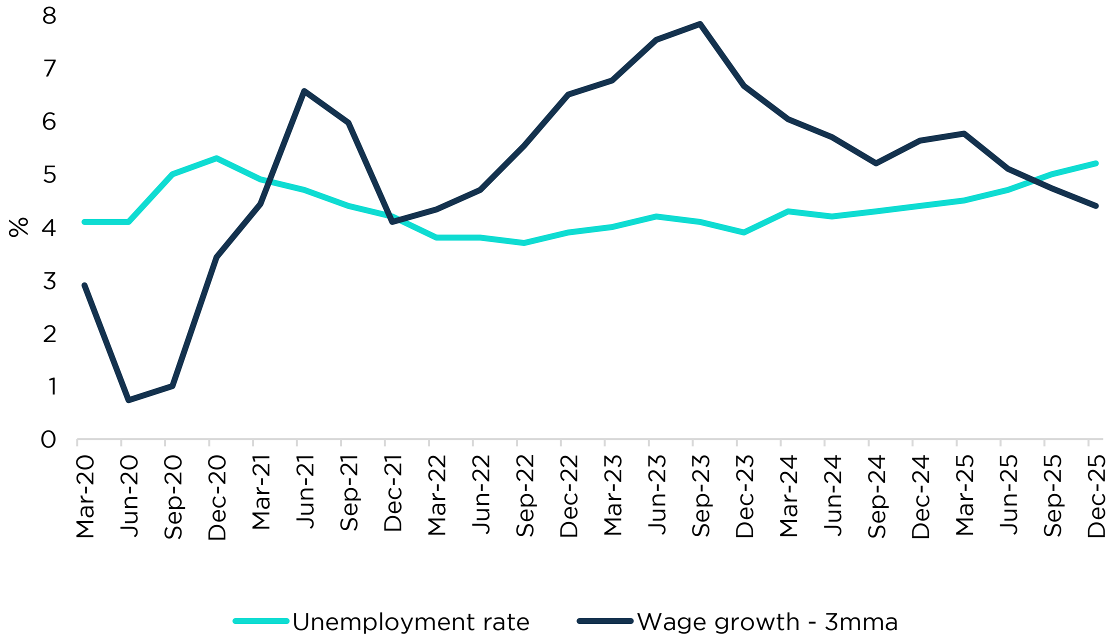


Source: National Sources, EuroStat, CGIL
Note: For the UK, the November forecast was given by OBR

- The European Union (EU) expanded by 1.6%, outperforming the Autumn forecasts.
- Among individual economies, Cyprus, the Netherlands, and France exceeded expectations, supported by robust tourism in the former and stronger-than-anticipated export performance in the latter two.
- Most of the other economies broadly met projections, while the UK underperformed, reflecting weak business investment and subdued consumer spending.

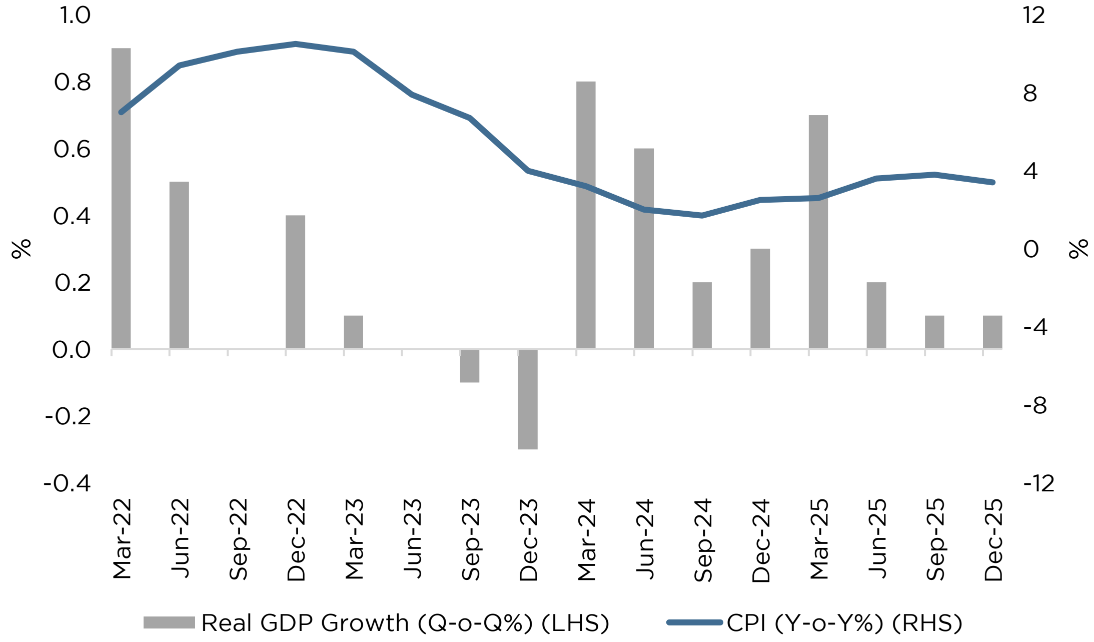
UK: Signalling a 25 bps rate cut In March meeting

Wage growth slows while unemployment approaches five-year peak



Source: Haver Analytics, CGIL

Inflation has fallen to its lowest level since March 2025 while growth remains stagnant

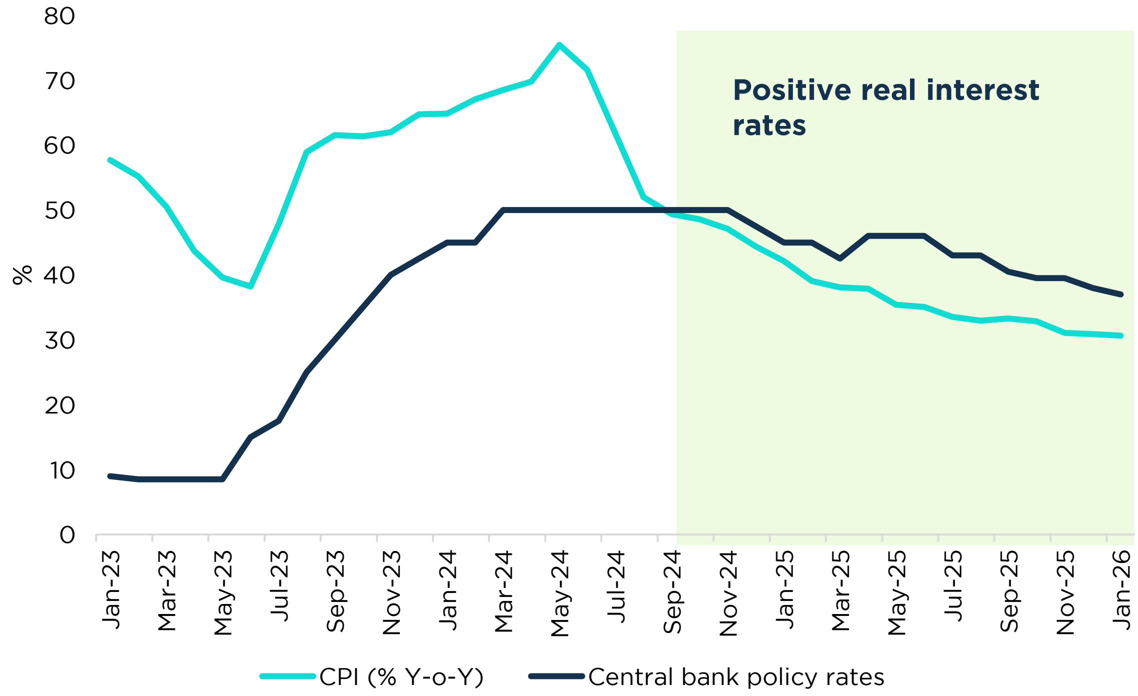


Source: Haver Analytics, CGIL

- Last month, the BOE kept rates on hold in a surprisingly close decision, with four of the nine MPC members voting for an immediate reduction.
- Softer economic data, cooling wages and inflation, and a rise in unemployment have boosted expectations of a 25 bps rate cut at the MPC meeting in March.

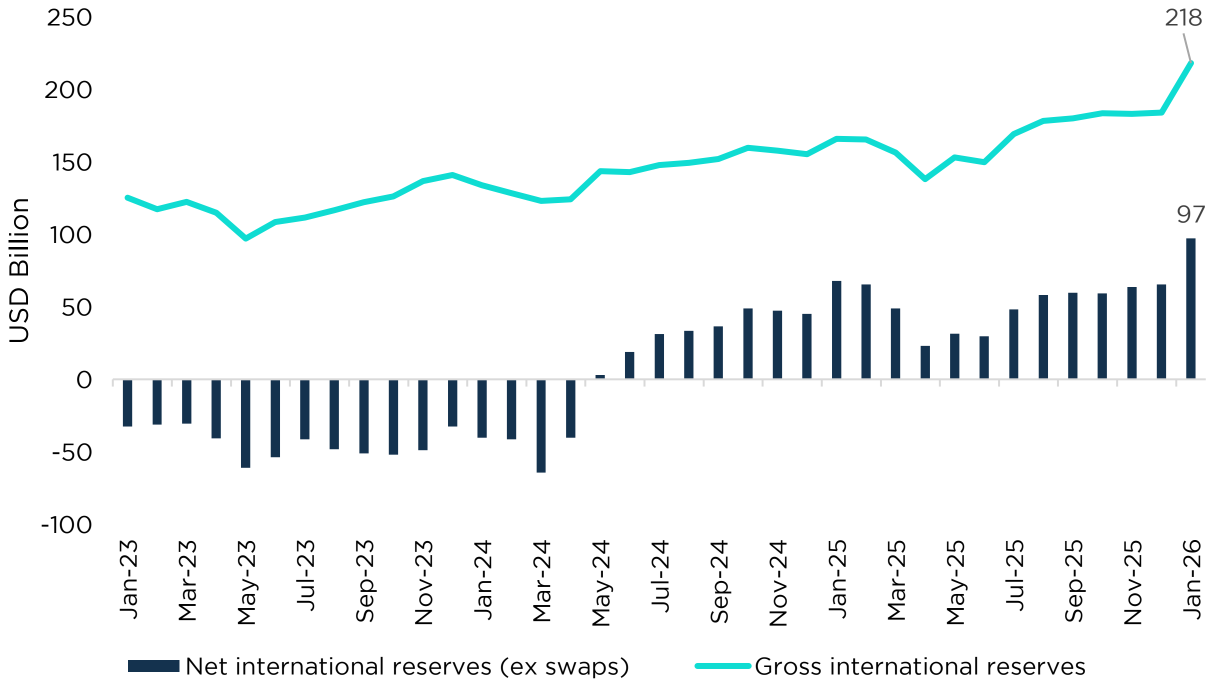
Türkiye: Positive momentum continues

Inflation falls, real rates continue to be positive



Source: TCMB, BIS, CGIL

Gross and net reserves reach record high



Source: TCMB, CGIL

Note: Net international reserves is gross reserves excluding short-term foreign liabilities and foreign currency swaps

- Türkiye's inflation continues to moderate, supported by tight monetary policy and easing food and energy prices. We expect the policy rate to decline to 25%, with inflation falling to around 20% by year-end.
- Both gross and net international reserves have risen to record highs, reaching USD 218 billion and USD 97 billion, respectively, indicating improved external buffers.

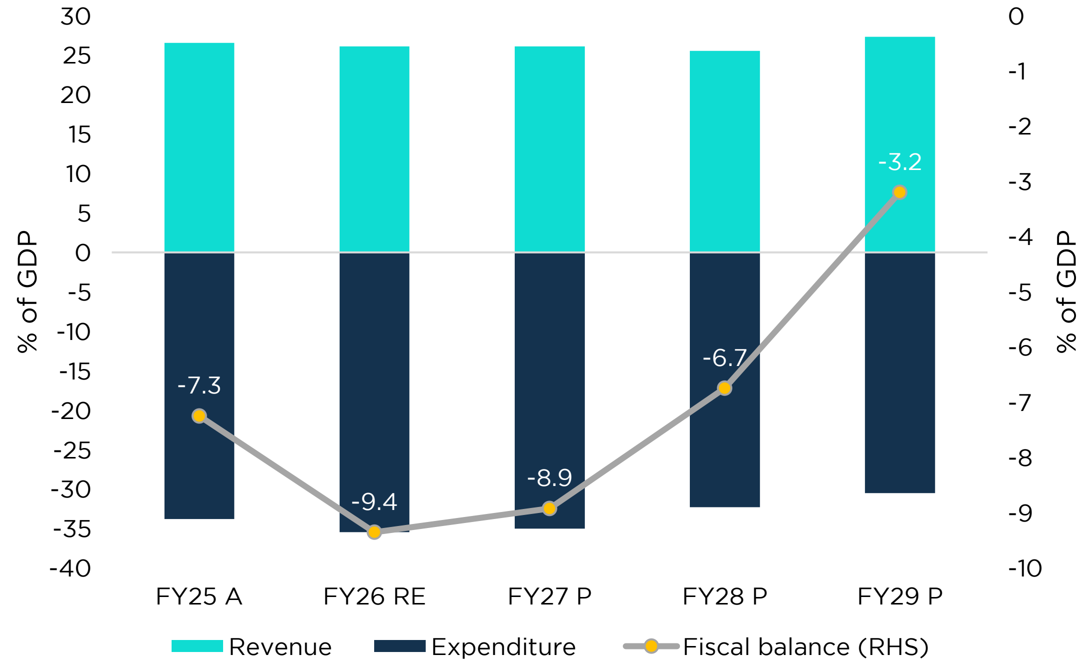
Africa

Botswana	BBB+
Mauritius	BBB
Morocco	BBB-
South Africa	BB
Nigeria	B
Kenya	B
Egypt	B-
Ethiopia	D

- Positive Outlook
- Negative Outlook
- Stable Outlook
- No Outlook

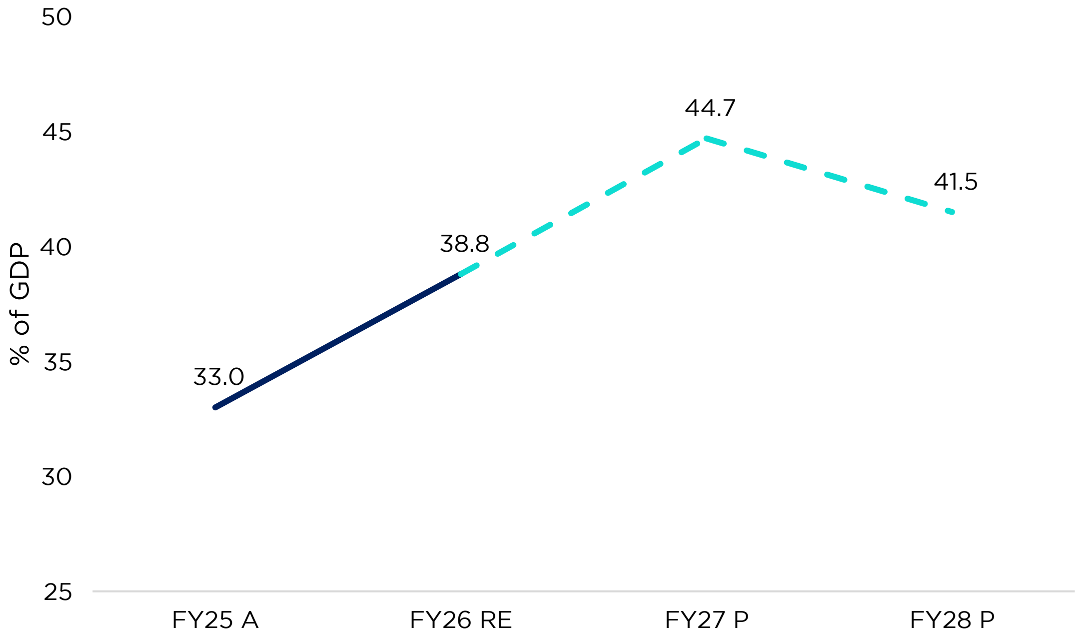
Botswana: Medium-term consolidation hinges on diamond sector recovery

Botswana budget indicators



Source: Ministry of Finance, CGIL
Notes: FY27 refers to 2026/27 ; FY represents April to March; (A=Actual; RE=Revised Estimate; P=Projection)

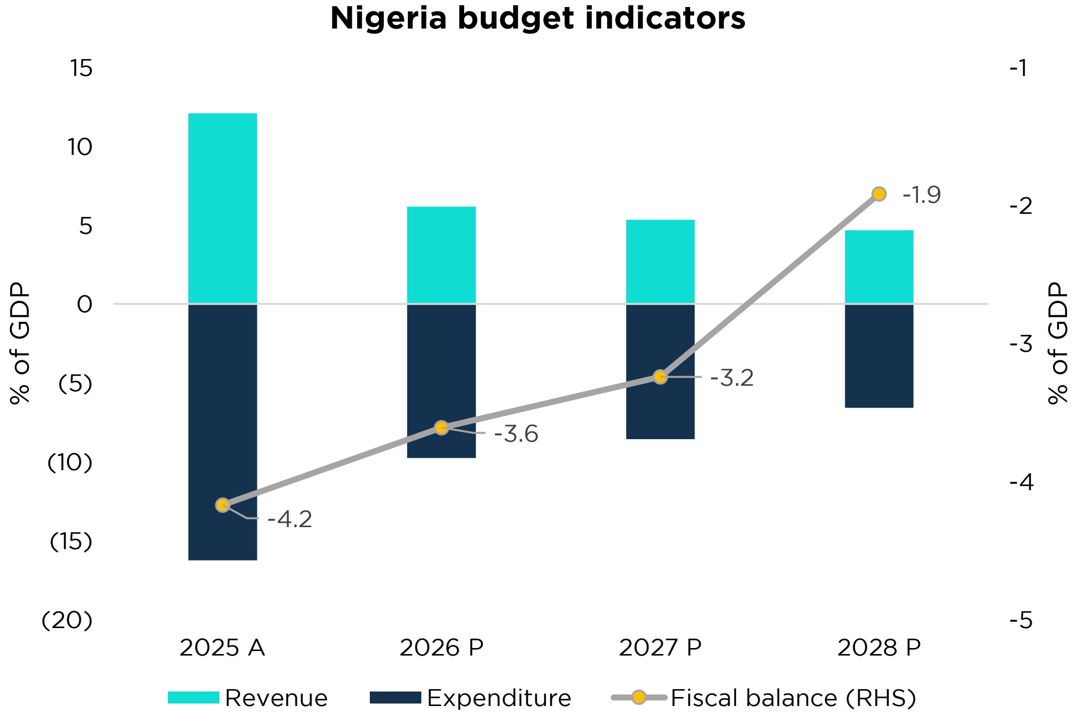
Debt to continue on an upward trajectory before moderating



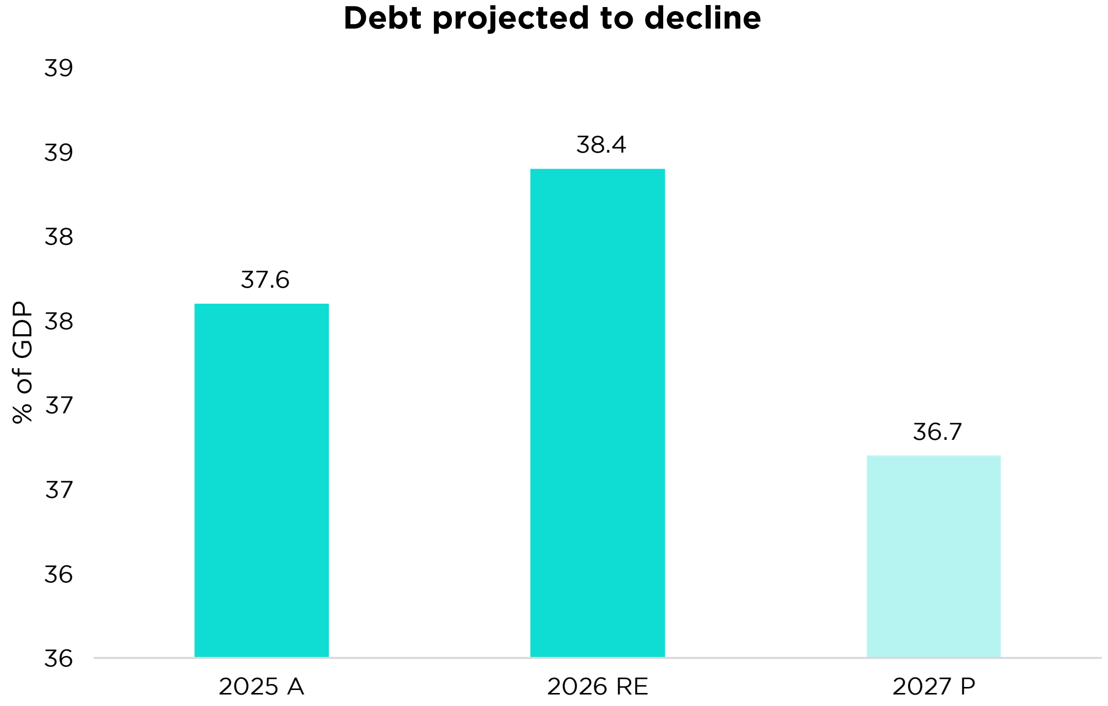
Source: Ministry of Finance, CGIL
Notes: FY27 refers to 2026/27 ; FY represents April to March; (A=Actual; RE=Revised Estimate; P=Projection)

- Botswana's fiscal deficit and debt are projected at 8.9% and 44.7% of GDP in FY27 versus 9.3% and 38.8% in FY26, respectively.
- Revenue is expected to increase 8% YoY in FY27, mainly due to an increase in customs and excise revenue (35% of total revenue).
- Expenditure is expected to grow 7%. Spending priorities are geared towards the manufacturing sector to rehabilitate exports as well as infrastructure.
- Mineral revenues are projected to increase 14.5% YoY and 68% in FY28 and FY29 respectively, due to a rebound in the diamond sector. This will lead to a fiscal deficit of 3.2% by FY29.

Nigeria: 2026 fiscal projections remain at risk of execution



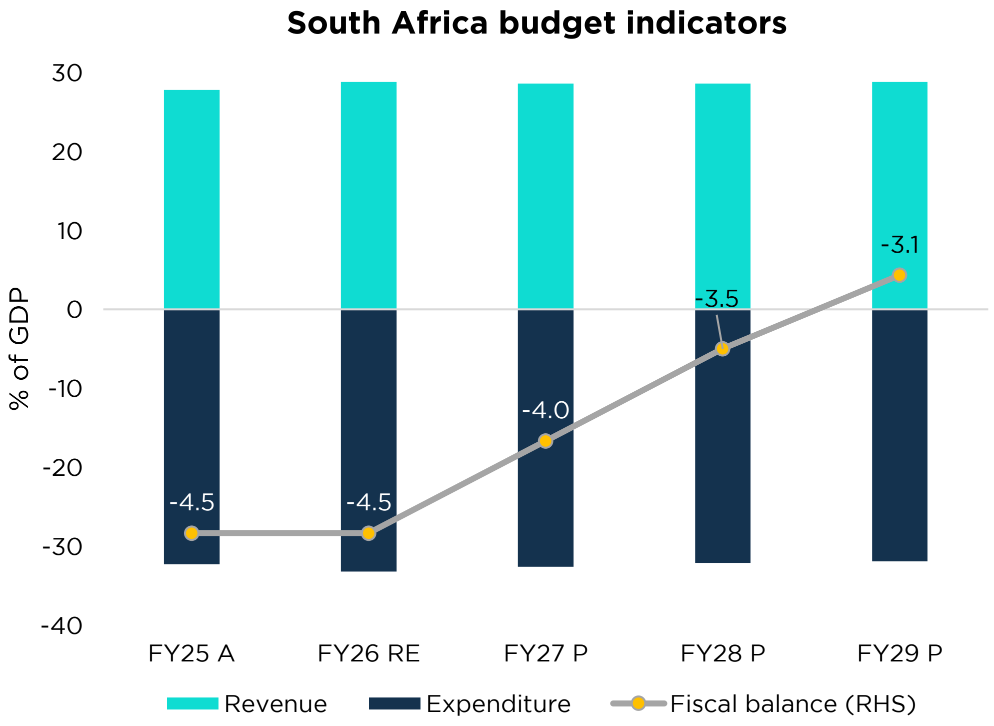
Source: Ministry of Finance (Nigeria), CGIL
Note: A=Actual; P=Projection



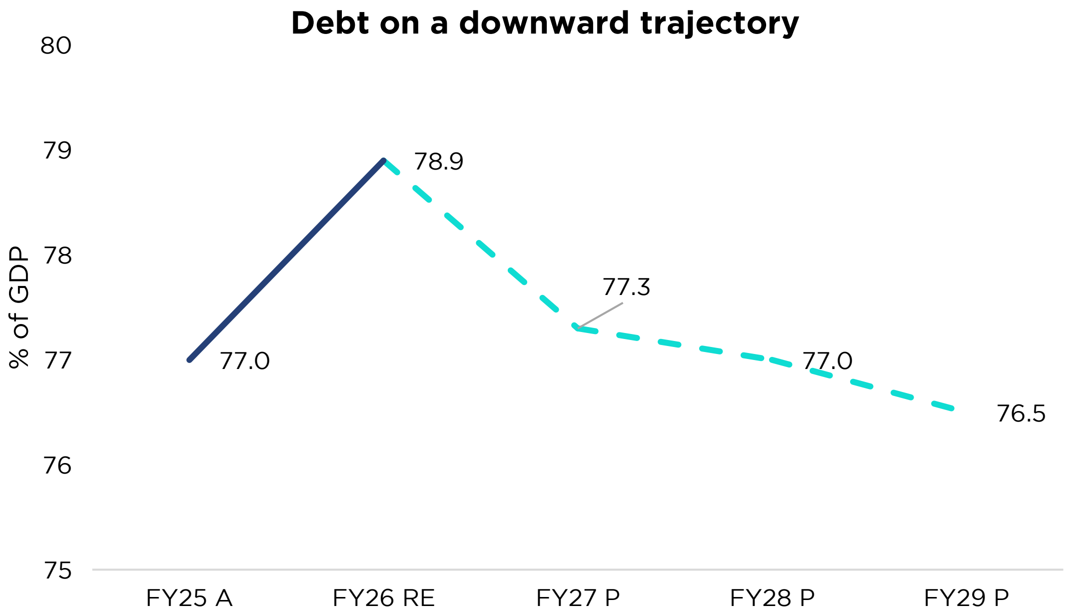
Source: Ministry of Finance (Nigeria), CGIL
Note: A=Actual; RE=Revised Estimate; P=Projection

- Nigeria's fiscal deficit and debt are projected at 3.6% and 38.4% of GDP in 2026 vs 4.2% and 36.7% in 2025, respectively.
- For 2026, oil revenue is based on assumptions of oil prices at USD 64.85 per barrel and oil production at 1.84 million b/d. Non-oil revenue is expected to increase due to the introduction of new tax laws.
- Recurrent expenditure will be driven by spending on security, debt-servicing, personnel costs, and 2027 election expenses. Capital expenditure has been allocated 40% of total expenditure.
- History of low tax collections and under-execution of capital projects may risk execution of desired fiscal outcomes.

South Africa: Structural shift in fiscal discipline, sustainability is key



Source: National Treasury, CGIL
Note: FY represents April to March; FY27 refers to 2026/27; (A=Actual; RE=Revised Estimate; P=Projection)



Source: National Treasury, CGIL
Note: FY represents April to March; FY27 refers to 2026/27; (A=Actual; RE=Revised Estimate; P=Projection)

- South Africa's fiscal deficit and debt are projected at 4.0% and 77.3% of GDP in FY27 vs 4.5% and 78.9% in FY26, respectively.
- Tax collection growth is expected to moderate in FY27, due to modest growth in PIT and VAT, although various indirect tax increases have been initiated.
- Expenditure growth is expected to slow down in FY27, due to lower growth in debt service costs and the public sector wage bill.
- The FY27 budget reflects the government's tangible efforts towards fiscal consolidation. Looking ahead, the sustainability of fiscal discipline remains key.

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CareEdge Sovereign Ratings

CareEdge Global: Long-Term Foreign Currency Ratings*

Rating	Countries
AAA	Germany, Netherlands, Singapore, Sweden
AA+	Australia, Canada, USA
AA-	Japan, S. Korea, UAE, UK
A+	Portugal, France
A	China, Spain
A-	Chile, Malaysia, Thailand
BBB+	Botswana, India, Philippines, Cyprus
BBB	Indonesia, Italy, Mauritius
BBB-	Mexico, Morocco, Peru
BB+	Brazil, Colombia, Greece, Vietnam
BB	South Africa
BB-	Türkiye
B	Nigeria, Kenya
B-	Egypt
CCC+	Bangladesh, Ecuador, Argentina
D	Ethiopia

*Note: As on March 3, 2026; Unsolicited Ratings
Outlook – Positive | Stable | Negative
Outlook not applicable for CCC Category and D

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