CareEdge GLOBAL RATINGS
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CareEdge Global

Sovereign Credit Outlook 2026

January 2026

In a Fragmented World, Fiscal Discipline and External Buffers to Define Resilience

Global Backdrop as Countries Enter 2026

- Global landscape is marked by complexity: high yields, elevated debt, trade fragmentation, and persistent geopolitical risks.
- Of the 41 sovereigns we cover, 32 have stable outlooks; four are negative; one is positive; and for four, the outlook is not applicable.

Asia Pacific:
Structural Strengths Balancing the Cyclical Headwinds

- 2026 growth to moderate
- Exports face pressure from China's competition
- Private consumption subdued for few
- Inflation broadly within target; Fiscal discipline holds

Africa:
Cautious Optimism

- Medium term growth to improve on reform momentum
- Debt stabilising, but interest costs elevated
- Inflation moderating; exchange-rate volatility a lingering risk

Europe:
Walking a Tightrope – Debt Concerns Amid Emerging Tailwinds

- Diverging debt trends: France & UK above EU average; Greece & Portugal improve
- Rising defense, ageing, and interest costs
- Services sector and EU funds to support Southern economies

Americas:
Stable Ex-US, Though Resilience Is Being Tested

- 2026 growth to moderate slightly across most economies
- Fiscal pressures in the US; debt dynamics ex-US largely stable
- Inflation to ease but remain above target
- US trade and institutional risks rising

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CareEdge Global Portfolio: Overview

CGIL Portfolio of 41 Countries is Well Spread Across the Ratings

Long Term Foreign Currency Ratings*

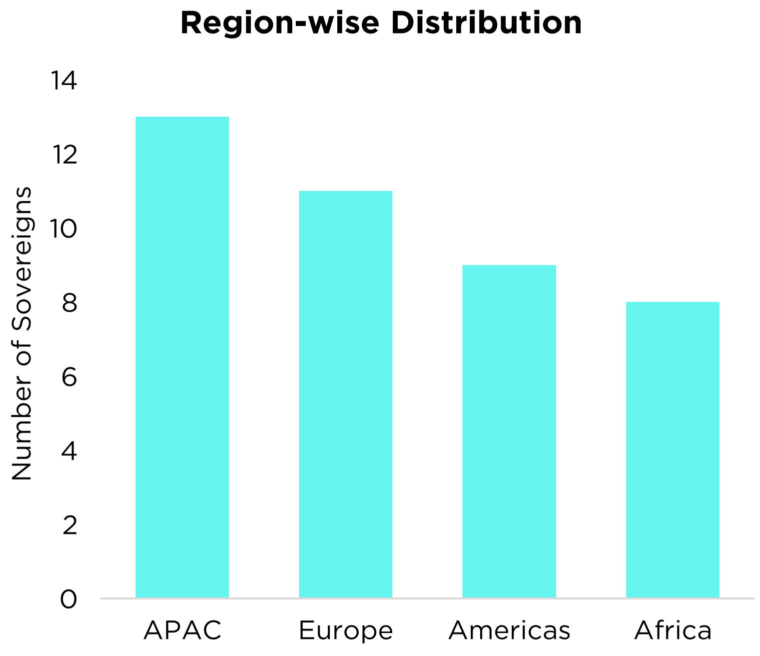
AAA	AA+	AA-	A+	A	A-
Germany	Australia	Japan	Portugal	China	Chile
Netherlands	Canada	S. Korea	France	Spain	Malaysia
Singapore	US	UAE			Thailand
Sweden		UK			

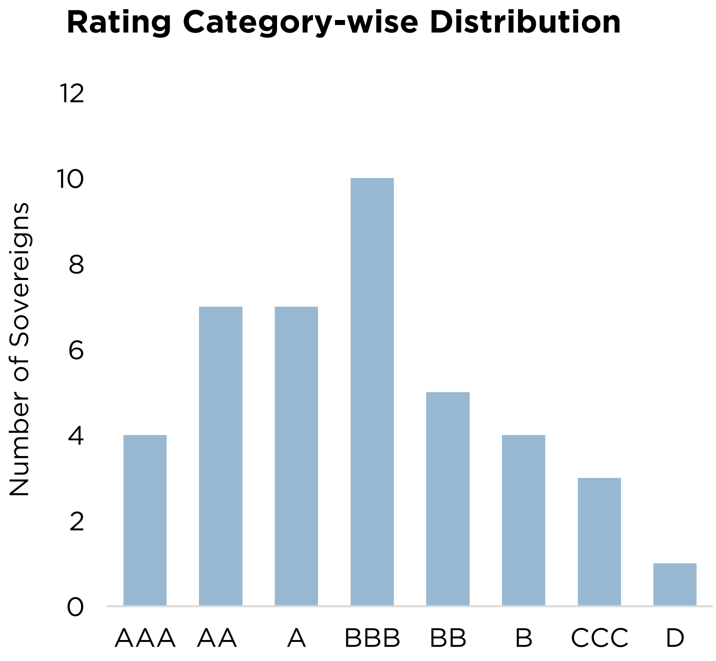
BBB+	BBB	BBB-	BB+	BB	B+
Botswana	Indonesia	Mexico	Brazil	South Africa	Türkiye
Cyprus	Italy	Morocco	Colombia		
India	Mauritius	Peru	Greece		
Philippines			Vietnam		

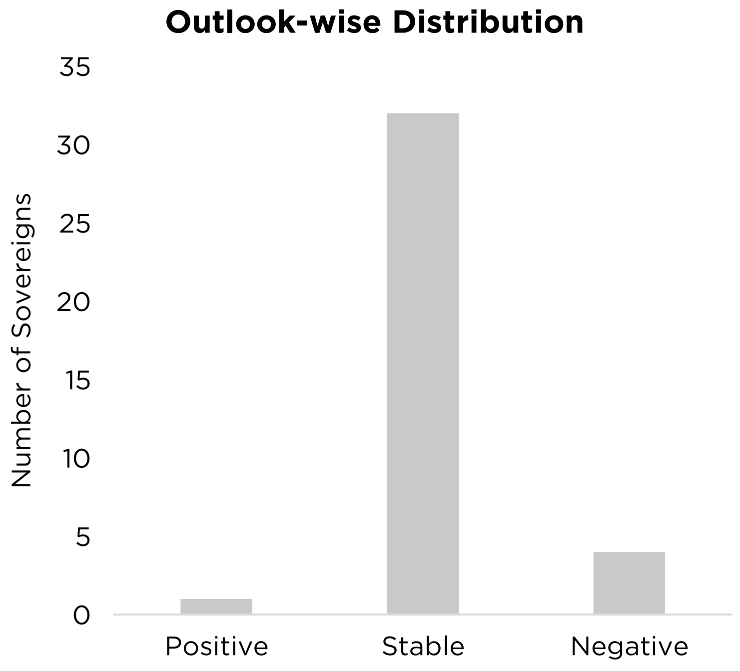
B	B-	CCC+	D
Nigeria	Egypt	Bangladesh	Ethiopia
Kenya		Ecuador	
		Argentina	

*Note: As on Jan 22, 2026; Unsolicited Ratings
Rating Outlook – Positive | Stable | Negative
Outlook not applicable for CCC Category and D

CGIL Portfolio Summary







Note: (1) Basis portfolio as on Jan 22, 2026. (2) Outlook not applicable for CCC Category and D.

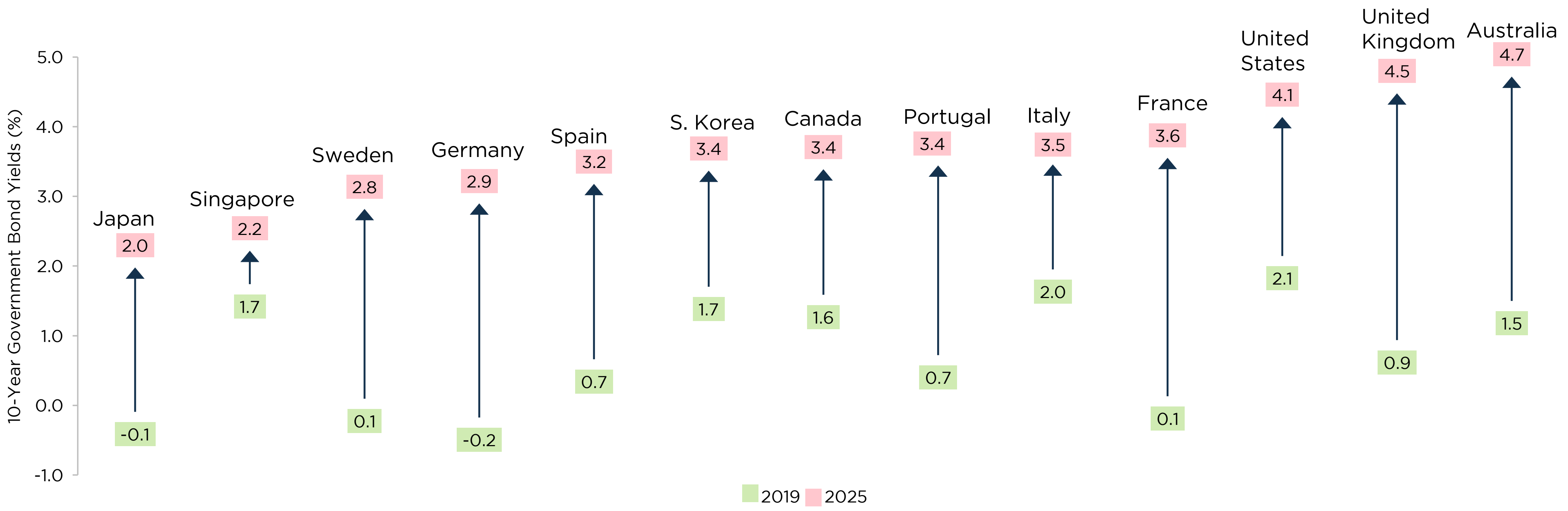
- Coverage of 41 sovereigns spans regions.
- 68% of sovereigns are investment grade and 32% sub-investment grade.
- Most have stable outlooks, while four (Thailand, Colombia, US, and Botswana) are negative and one (Nigeria) is positive.

Rating Changes in 2025

	Sovereign	Previous Rating	Current Rating
Rating Upgrade	Argentina	CCC	CCC+
Rating Downgrade	Ecuador	B-	CCC+
	France	AA-/Negative	A+/Stable
Outlook Revision	Thailand	A-/Stable	A-/Negative

Global Economy in Context

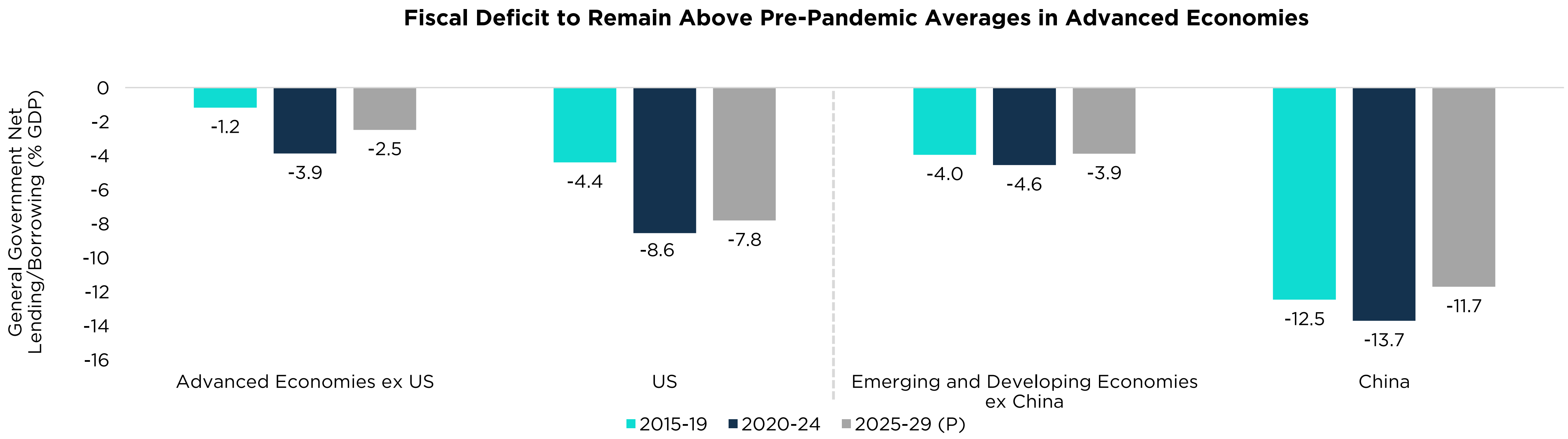
High Yields Reflect Fiscal Pressures for Advanced Economies



Source: Haver Analytics, CGIL

- During an extended period of monetary tightening, sovereign borrowing costs rose sharply. Although policy rates have since begun to ease and most countries have entered easing cycles, this has not translated into a meaningful decline in long-term sovereign yields.
- Persistently high yields reflect underlying fiscal concerns faced by advanced economies.
- For emerging economies too, interest burden has remained high, limiting the fiscal space for necessary spending.

Fiscal Strains to Persist, Especially in Advanced Economies & China

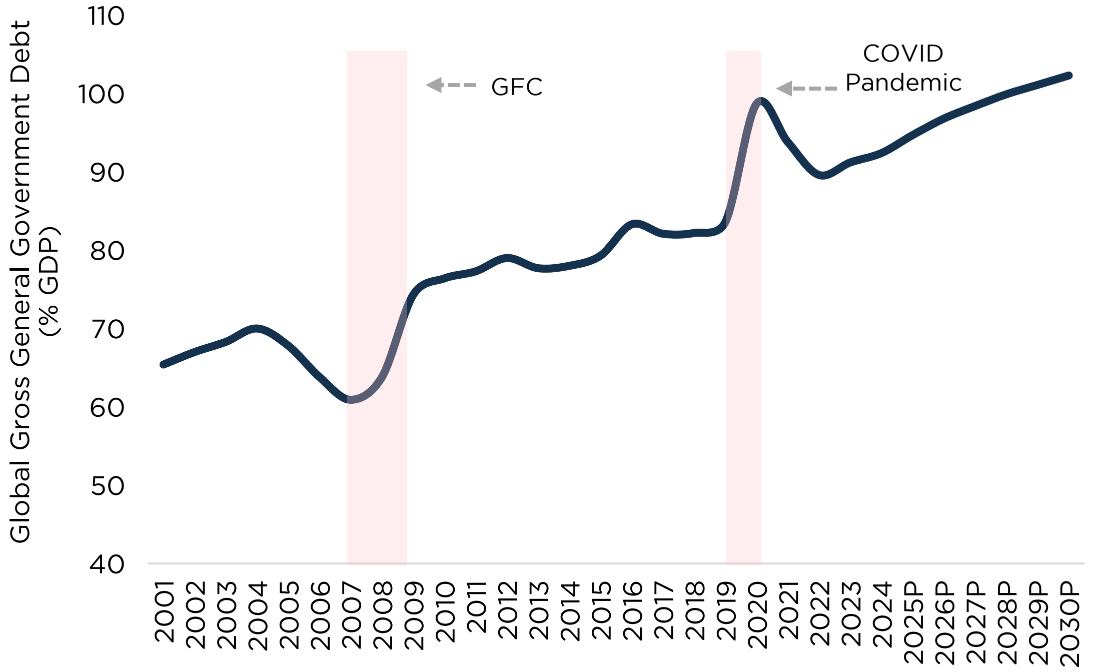


Source: IMF, CGIL
Note: (1) P= Projections (2) China's numbers cover off-budget local government borrowing

- Structural challenges for advanced economies, such as ageing population and defence pressures, to keep fiscal deficit above pre-pandemic average.
- For the US, rising debt servicing costs are weighing on the fiscal deficit.
- For emerging economies excluding China, the fiscal deficit is expected to remain broadly stable. China's fiscal deficit is higher mainly on account of high off-budget local government borrowing.

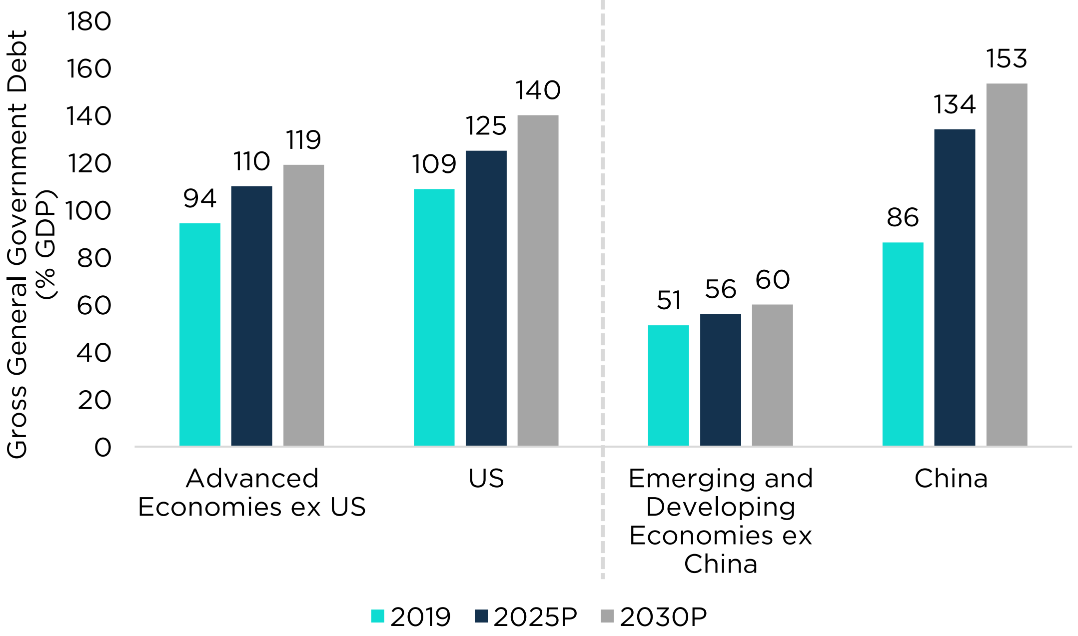
Global Debt to Surge, Primarily Led by US and China

Global Debt to GDP to Surpass Pandemic Peak by End of Decade



Source: IMF, CGIL
Note: P= Projections

General Government Debt to Continue to Rise

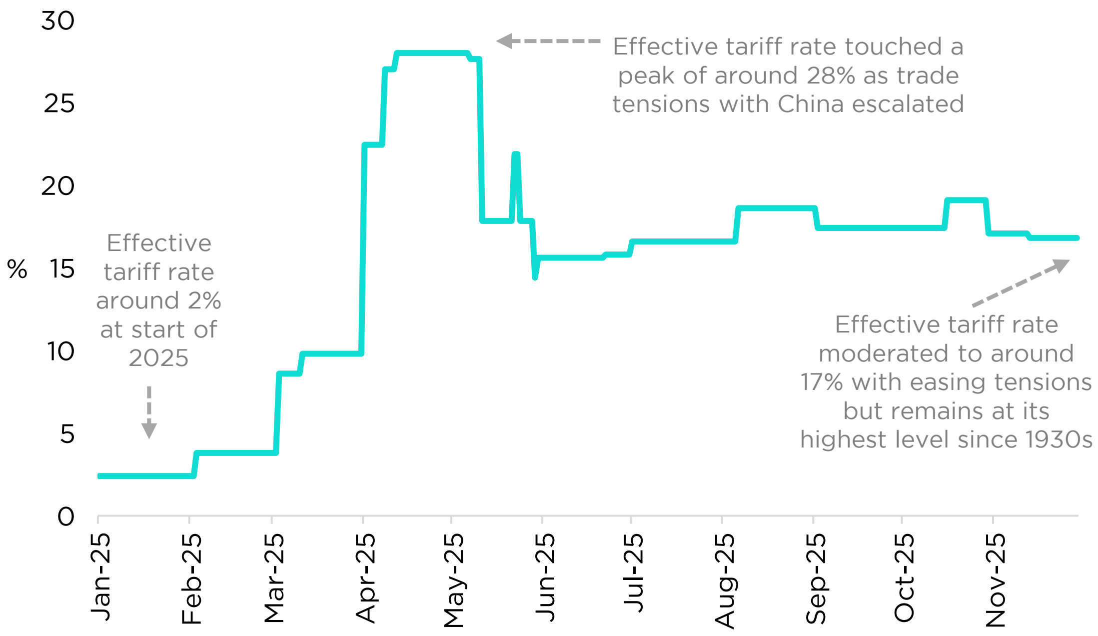


Source: IMF, CGIL
Note: (1) P= Projections (2) China's numbers cover off-budget local government borrowing

- Global government debt is expected to be above 100% by the end of the decade.
- US and China are the key drivers, contributing more than 50% of the increase in global government debt.

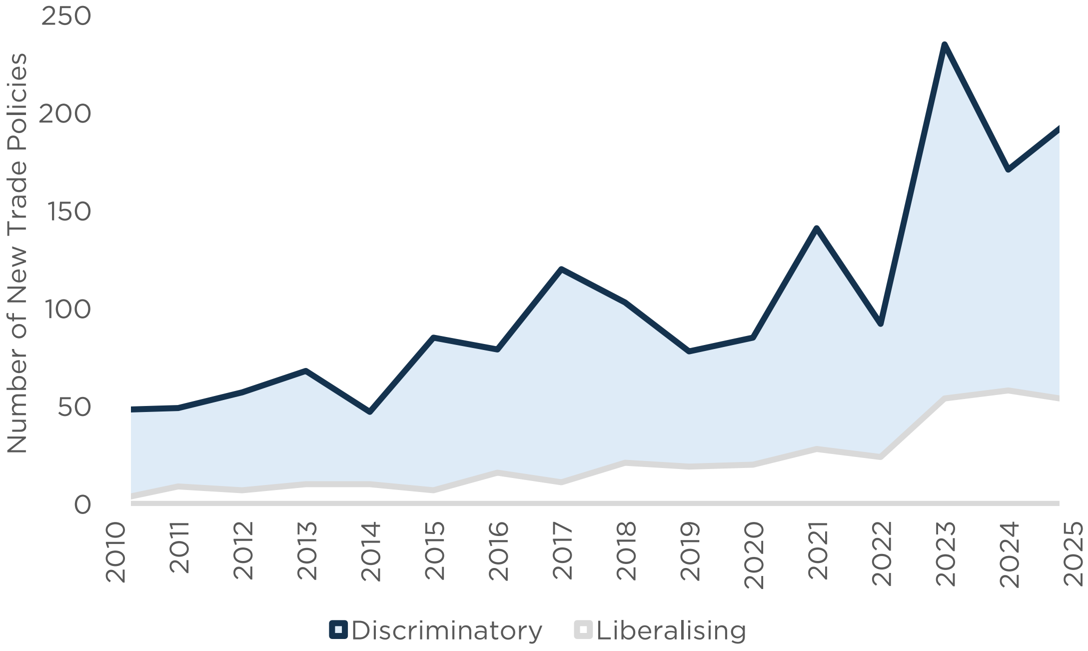
Trade Barriers on the Rise

Despite Some Easing, US Average Effective Tariff Rate Remains Elevated Relative to Historical Norms



Source: The Budget Lab at Yale, CGIL

Discriminatory Trade Policies have Increased

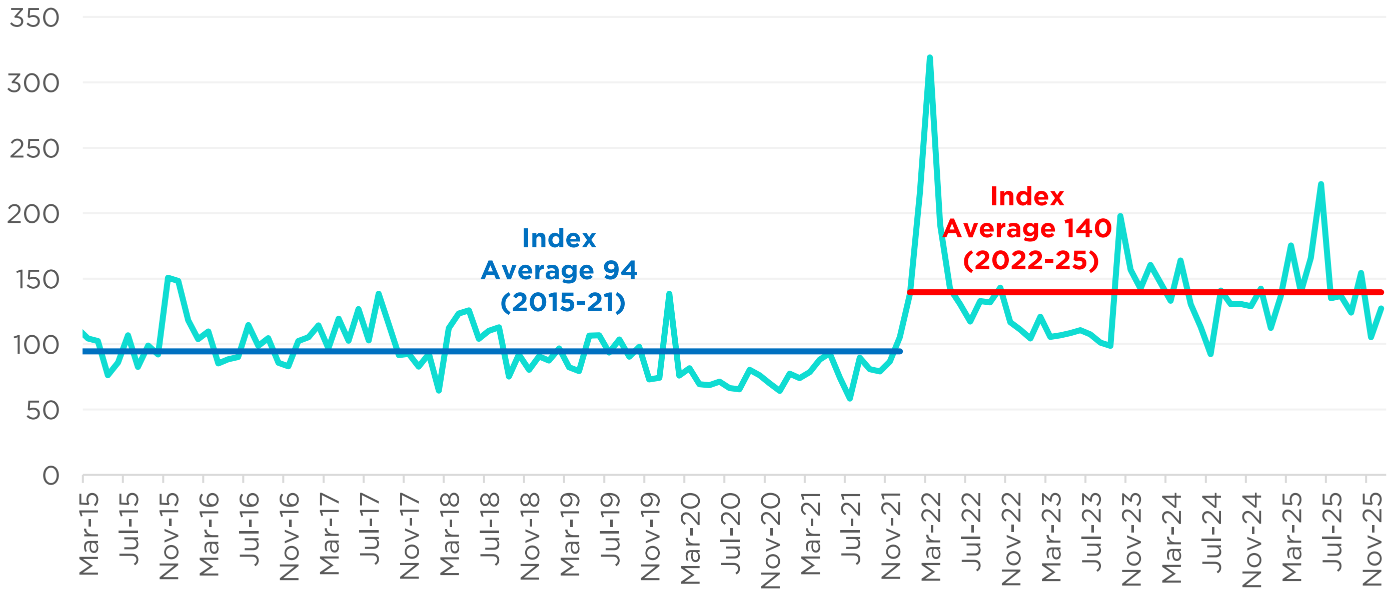


Source: Global Trade Alert
Note: Discriminatory trade policies create barriers for international competitors, while liberalising trade policies enhance market access.

- Global trade protectionism is intensifying and will continue shaping the global order.

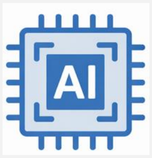
Geopolitical Risks & Strategic Rivalry at the Forefront

Geopolitical Risk Index



Source: Dario Caldara and Matteo Iacoviello, Federal Reserve Board, CGIL
Note: The index is computed basis the number of newspaper articles mentioning phrases related to geopolitical tensions.

Areas of Strategic Rivalry



AI & Tech
Leadership in AI and advanced technology drives productivity and economic strength.

Semi-conductors
Dominance in semi-conductor manufacturing is key to technological supremacy.

Critical Minerals
Control over critical mineral supply chain supports green technologies and future industries.

- Elevated geopolitical risk is driving higher defence spending and is posing a fiscal challenge amidst an ageing population and elevated borrowing costs.
- Strategic rivalry among nations to dominate future industries is also intensifying.
- Key 2026 flashpoints: Russia-Ukraine war, Middle East conflict, US engagement in LatAm & Greenland, China-Taiwan tensions, US-China tech rivalry.

Asia Pacific: Structural Strengths Balancing the Cyclical Headwinds

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

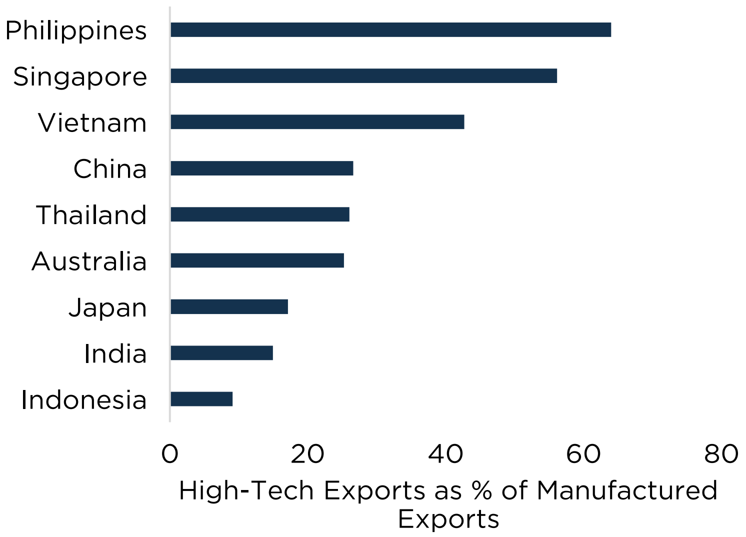
Negative Outlook

Stable Outlook

No Outlook

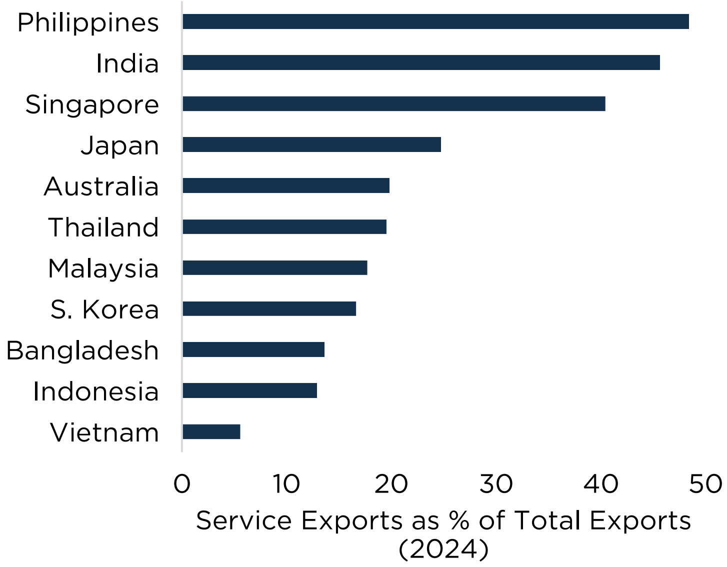
Stable Environment Supported by Structural Strengths

High Share of Tech Exports Reflects High Competitiveness of APAC Economies



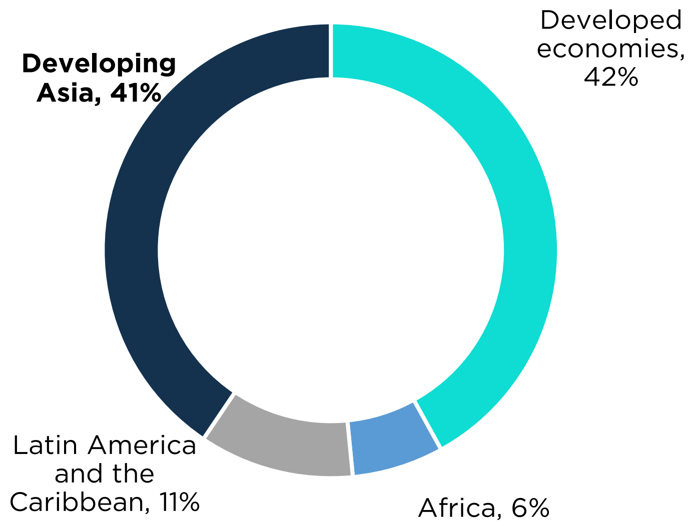
Source: World Bank, CGIL
Note: Data not available for Bangladesh & S. Korea

High Service Exports Support Diversification



Source: World Bank, CGIL

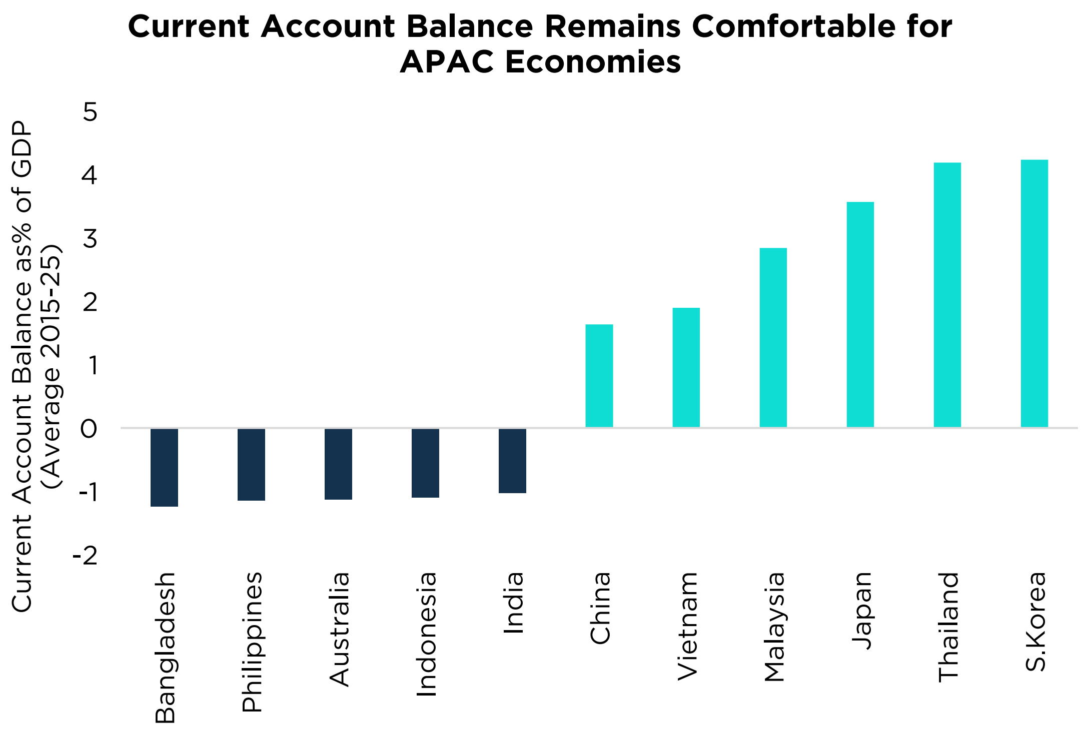
Developing Countries in APAC Attract a Third Of Global Investment (2024)



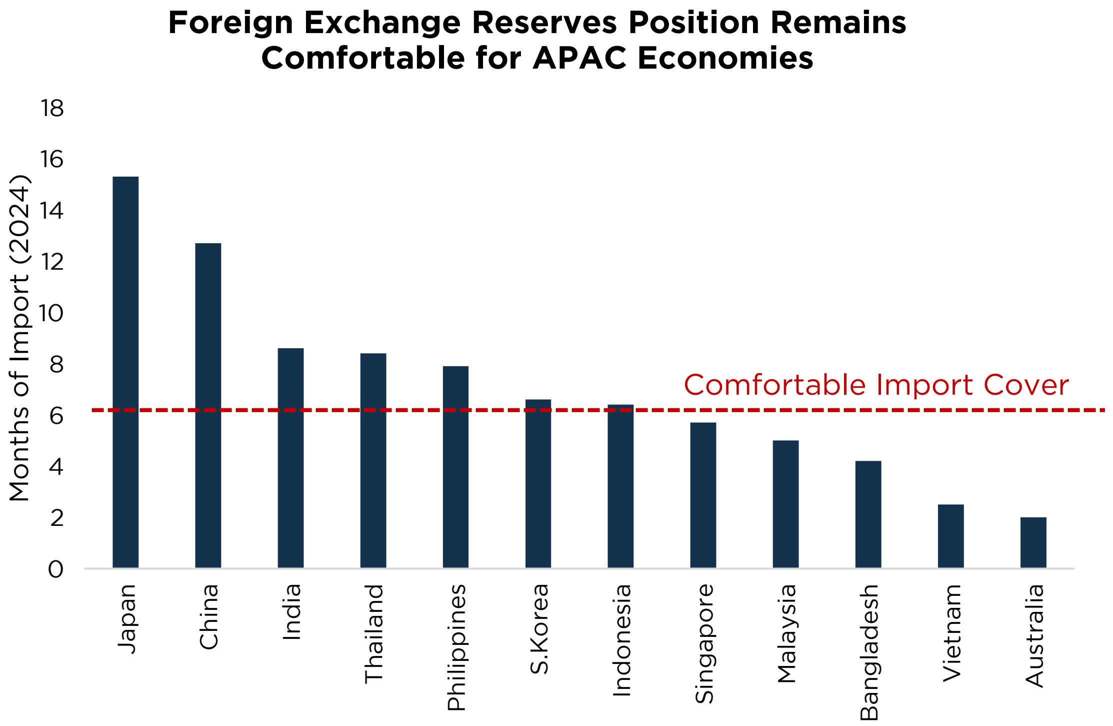
Source: UNCTAD, CGIL
Note: Developing economies broadly comprise Asia without Japan, South Korea, Australia and New Zealand

- Many APAC economies are deeply integrated in global manufacturing supply chains and have a significant presence in high-tech exports.
- Service exports could be a key stabiliser for many APAC economies, providing external stability amid global trade uncertainties.
- APAC economies continue to attract global investment in technology & strategic sectors, supporting medium-term growth prospects.

External Buffers Add to Support



Source: Haver Analytics, IMF, CGIL

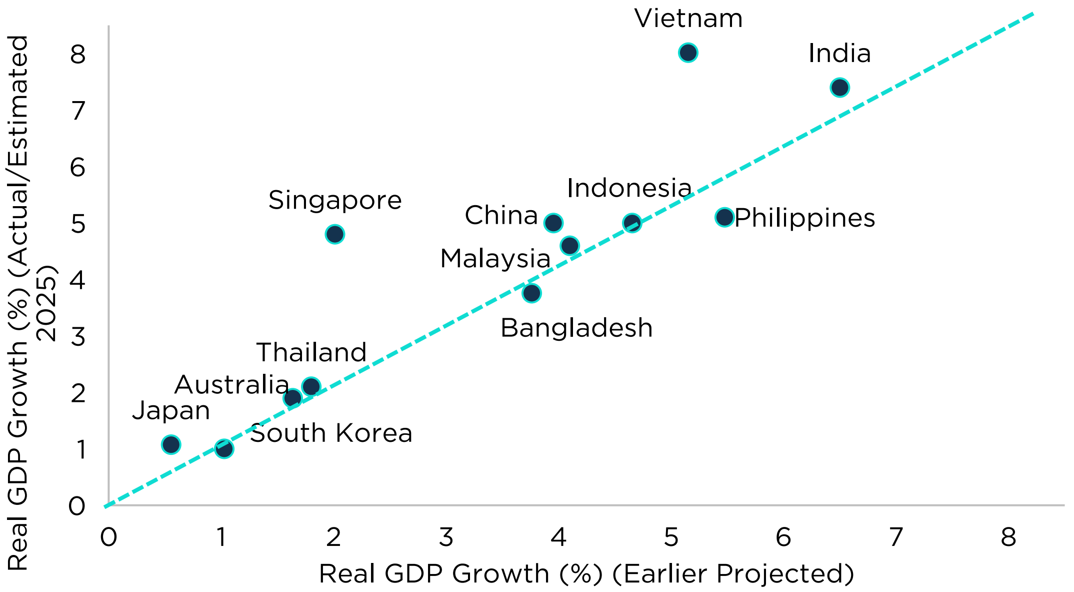


Source: IMF, CGIL

- Many APAC economies continue to maintain current account surpluses, reflecting their strong external balances. Current account deficits in other economies within the region remain contained and manageable, except for Bangladesh.

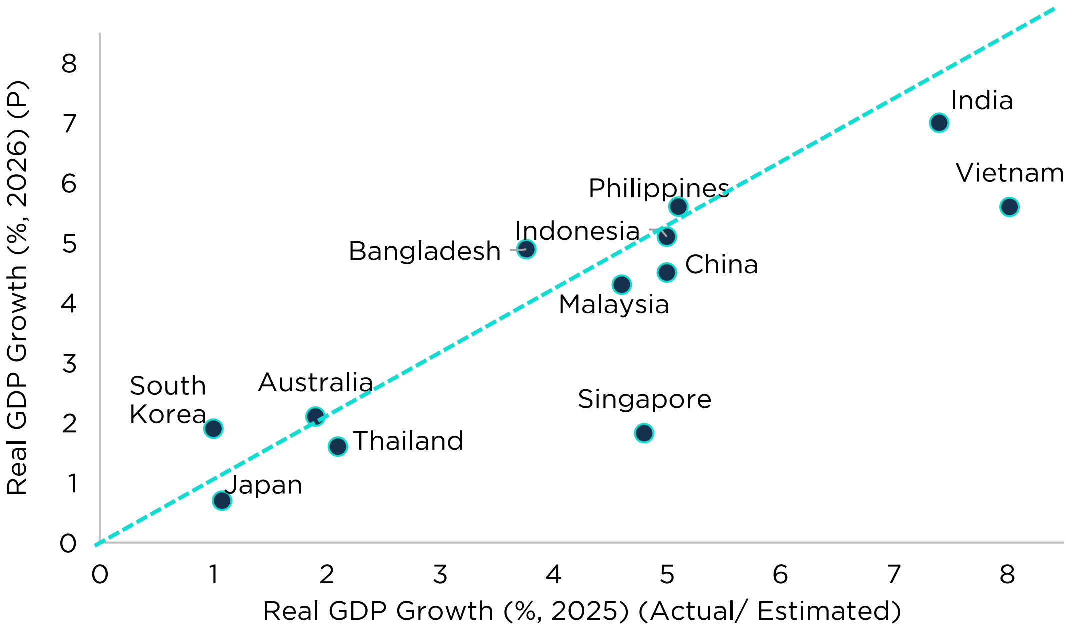
Frontloading Lifted Growth in 2025; Moderation Expected in 2026

Actual Growth in 2025 Higher than Earlier Expected for Most of APAC Economies



Source: Haver Analytics, IMF, National Sources, CGIL
Note: Countries above the diagonal indicate positive movement & vice versa

Moderation in Growth Expected In 2026



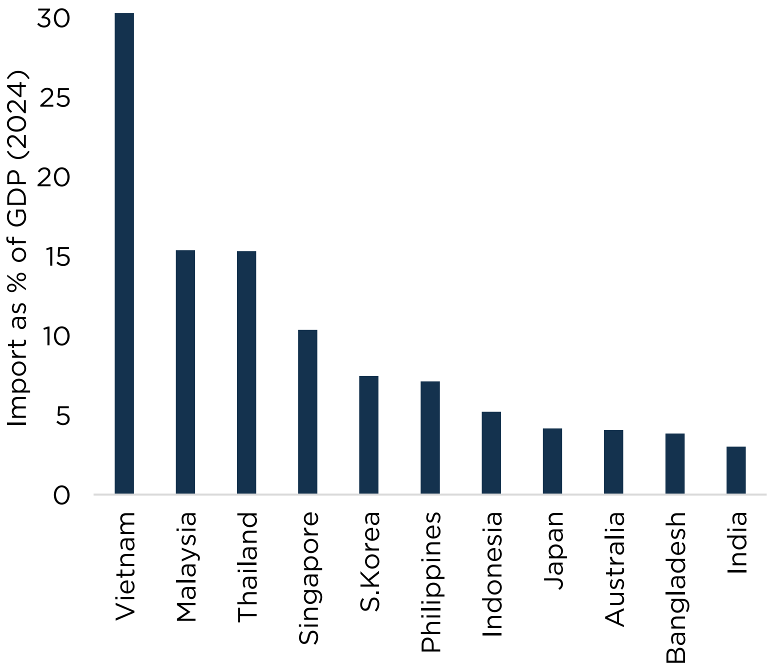
Source: Haver Analytics, IMF, National Sources, (P) IMF Projections; CGIL
Note: Countries above the diagonal indicate positive movement & vice versa

Key reasons for moderation include:

1. **On external front:** China's export-led strategy, broader tariff implications and uncertain currency outlook are likely to have an impact on the region.
2. **On domestic front**: Private consumption has been subdued for a few APAC economies as reflected in lower consumer confidence, with evolving labour market conditions and high household leverage adding further pressure.

External Moderating Factors: China's Export-led Strategy & Tariff Implications

Dumping Risks From China, Particularly for Highly Import Dependent Economies

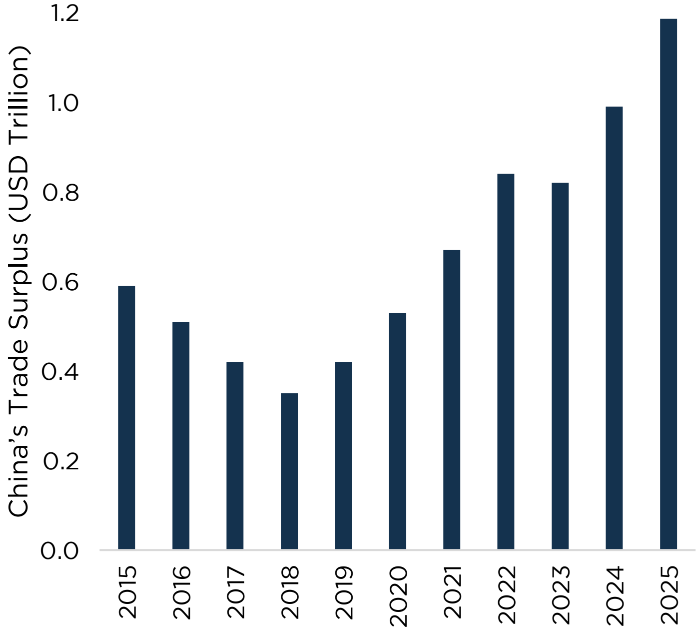


Reduced Tariff Gap Could Enhance China's Export Competitiveness to US

APAC Economies	Current Tariffs Imposed (%)
Australia	
Singapore	
Japan	
South Korea	
Philippines	
Malaysia	
Indonesia	
Thailand	
Vietnam	
Bangladesh	
China	
India	

High Tariffs — Low Tariffs

China Relying on Exports to Support Growth

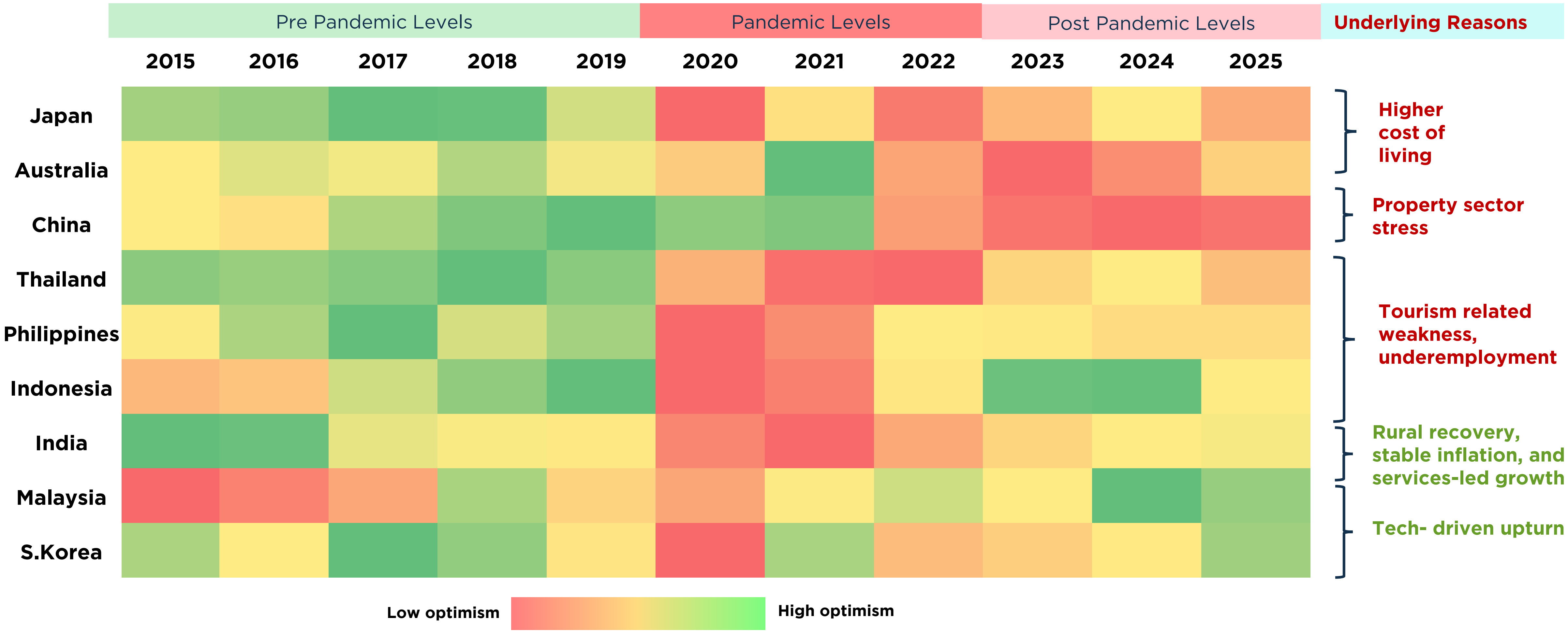


Source: China's General Administration of Customs, US White House; CGIL

- Amid domestic weakness, China is pivoting towards external demand with upgradation along the value chain. With the recent reduction in tariffs on China, the differential between China & other countries has reduced, which could enhance export competitiveness.
- This could expose economies to dumping risks, particularly for economies with high import dependence.
- In addition, tariff uncertainty & uncertain currency outlook remain key risks for APAC economies on the external front.

Internal Moderating Factors: Slowing Private Consumption In Few APAC Economies (1/3)

A. Consumer Confidence in Parts of APAC Remains Below Pre-Pandemic Levels



Source: Haver Analytics, CGIL

Note: Consumer confidence refers to the degree of optimism or pessimism households have about the economy and their own financial situation, which influences their willingness to spend rather than save.

Internal Moderating Factors: Slowing Private Consumption In Few APAC Economies (2/3)

B. Labour Market Conditions Weighing on Private Demand

Thailand

- Rising competition from China eroding manufacturing
- Private investment subdued due to weak business sentiment & elevated production costs
- Unfavourable demography

Philippines

- Elevated underemployment constraining disposable incomes
- Concentrated sectoral growth- signal rising inequalities
- Household leverage rising

China

- Youth unemployment amidst domestic woes

Indonesia

- Large informal employment
- Youth underemployment and skills gaps persist despite headline job creation
- Government yet to take effective steps to address it

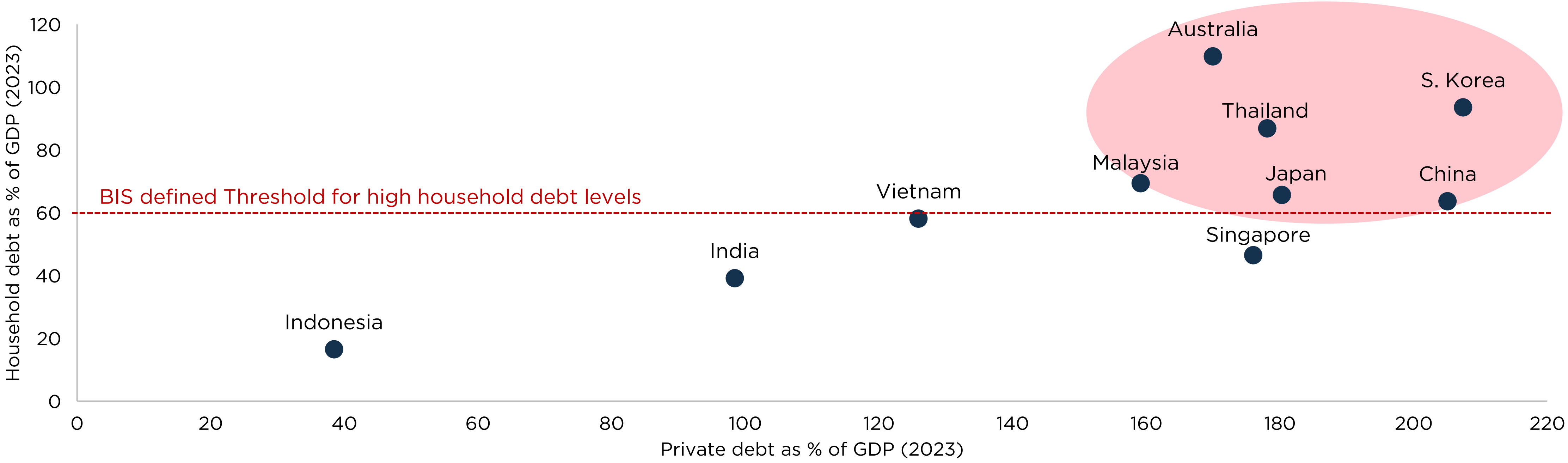
Bangladesh

- Low formal job creation outside the ready-made garments (RMG) sector
- Labour unrest weigh on competitiveness and investor confidence

Source: CGIL

Internal Moderating Factors: Slowing Private Consumption In Few APAC Economies (3/3)

C. Growth Constrained by Overleveraged Households for Few Economies



Source: IMF, BIS, CGIL

- Households remain leveraged for a few APAC economies (China, Thailand, Malaysia, and South Korea).
- Income gains have been slow for a few economies, thus keeping the debt servicing burden higher than pre-pandemic.

Monetary Policy Largely Effective in Containing Inflation

Significant Policy Rate Cuts Over Last Two Years

Country	2023	2025	Change in basis points
Singapore	3.62%	0.89%	273 ↓
Philippines	6.50%	4.50%	200 ↓
India	6.50%	5.25%	125 ↓
Indonesia	6.00%	4.75%	125 ↓
Thailand	2.50%	1.25%	125 ↓
South Korea	3.50%	2.50%	100 ↓
Australia	4.35%	3.60%	75 ↓
China	3.45%	3.00%	45 ↓
Malaysia	3.00%	2.75%	25 ↓
Vietnam	3.00%	3.00%	0
Japan	-0.10%	0.75%	90 ↑
Bangladesh	7.80%	10.00%	225 ↑

Source: Haver Analytics, IMF, CGIL

Inflation Around Target For Most Of The APAC Economies

Country	2025	2026 (P)	Target
Thailand	0.60%	0.80%	1-3%
China	0.54%	0.84%	2.0%
Philippines	1.50%	2.80%	2-4%
Singapore	1.10%	1.30%	2.0%
South Korea	1.88%	1.94%	2.0%
Malaysia	2.36%	2.00%	1-3.5%
Indonesia	2.58%	2.58%	1.5-3.5%
Vietnam	3.39%	3.16%	3.3%
India	3.28%	4.37%	2-6%
Australia	3.22%	2.83%	2-3%
Japan	2.83%	2.00%	2.0%
Bangladesh	8.48%	8.42%	7-8%

Source: Haver Analytics, IMF, CGIL

Inflation expected to be around the target
Inflation higher than target
Inflation lower than target

- With inflation broadly near target across most APAC economies, monetary policy adjustments are likely to diverge, reflecting variations in growth momentum, financial stability considerations, and the effectiveness of policy transmission.
- China & Thailand are expected to see marginal increase in inflation, though it is likely to remain below target amid concerns over weak demand.
- Japan's inflation remains stubborn, mainly driven by cost-push factors, which could prompt a further increase in policy rates.

Broad Fiscal Discipline Expected Across Economies; Except for Few

	Country	Fiscal Deficit for 2026 vs. 2025	GGG Debt as % of GDP (2025)	Change in Debt over the Medium Term (2025 vs. 2030)
Category 1: Elevated fiscal risks due to expansionary fiscal stance along with high current & projected debt	**Japan**			-7.4
	China			19.4
	Thailand			4.0
Category 2: Managed fiscal risk with disciplined management and gradual adjustments under watch	**South Korea**			10.9
	Vietnam			-1.4
	India			-4.5
	Malaysia			0.3
	Philippines			-2.4
	Indonesia			3.9
	Bangladesh			0.7
Category 3: Comfortable fiscal position with low debt or budget surpluses	**Australia**			-1.7
	Singapore			3.1

Comfortable | Consoldation | Expansion

Source: Haver Analytics, IMF, CGIL

- Japan's recent expansionary stimulus of ~3.5% of GDP, is centred on tax cuts and subsidies. Though supportive in the near term, this stance could increase fiscal risks, given Japan's already high debt burden of ~229% of GDP (2025).

- China's augmented government debt, which includes off-budget borrowings of local governments stands almost double the level of official general government debt, and thus, remains a monitorable.

Key Monitorables

External

Impact of tariffs and uncertain currency outlook
Export-oriented economies face credit risks from trade disruptions and protectionism

China's evolving trade strategy
China's pivot towards exports could impact import dependent economies

Comfortable current account position & exchange reserves
External buffers offset the external risks

Internal

Private consumption revival
Economies with labour market pressure or high household debt face risk

Fiscal discipline to be adhered for most economies
Japan's fiscal concerns & China's rising debt levels

Inflation expected around target
Japan's high inflation remains a concern

Structural buffers could offset risks
APAC economies hold significant investment potential with strong mfg. & service sectors

Geopolitical & Institutional

Rising social discontent
Cost-of-living pressures and labour market mismatches add risk of social unrest. (Elections in Japan, Thailand, Bangladesh)

Rising geopolitical frictions
China & Japan, Thailand & Cambodia, South China sea, Taiwan etc.

Weakening security hedge by the United States
Any dilution in US security due to inward focus could impact geopolitical risks in region

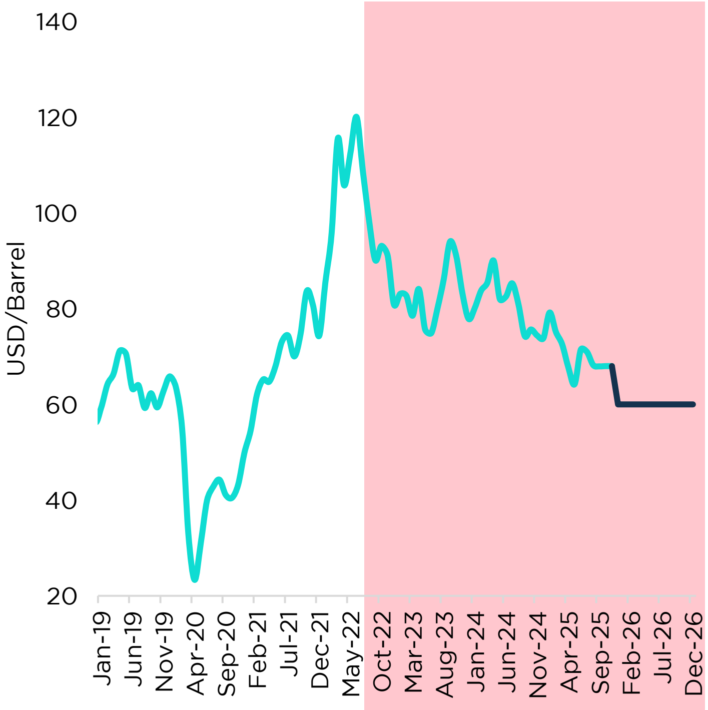
UAE: Oil & Geopolitical Issues Critical Concerns in Middle East

United Arab Emirates: Resilient Non-Oil Sector to Keep Growth Strong in 2026

Better Growth Expected for GCC economies in 2026 (Real GDP Growth %)			
Country	**2024**	**2025P**	**2026P**
UAE	4.0	5.0	5.2
Saudi Arabia	2.6	4.3	4.5
Qatar	2.4	2.9	6.1
Kuwait	-2.6	2.6	3.9
Oman	1.7	2.9	4.0
Bahrain	2.6	2.9	3.2

Source: CBUAE, IMF, CGIL; P= IMF Projections
Note: GCC- Gulf Cooperation Council is the regional bloc of six Gulf countries in Middle East formed to promote economic, political, and security cooperation.

Expectation of Lower Oil Prices Could Impact Revenues



Source: World Bank, CGIL

Monitorables

Oil prices & decision of OPEC plus
Any additional production expansion by OPEC plus could partially offset the impact of lower oil prices in 2026

Rising geopolitical frictions
Tensions across Israel, Iran along with potential supply chain disruptions

UAE's Strong Credit Fundamentals
Current account surplus, stable fiscal metrics, and sovereign wealth buffer underpin a strong credit position amid global uncertainties

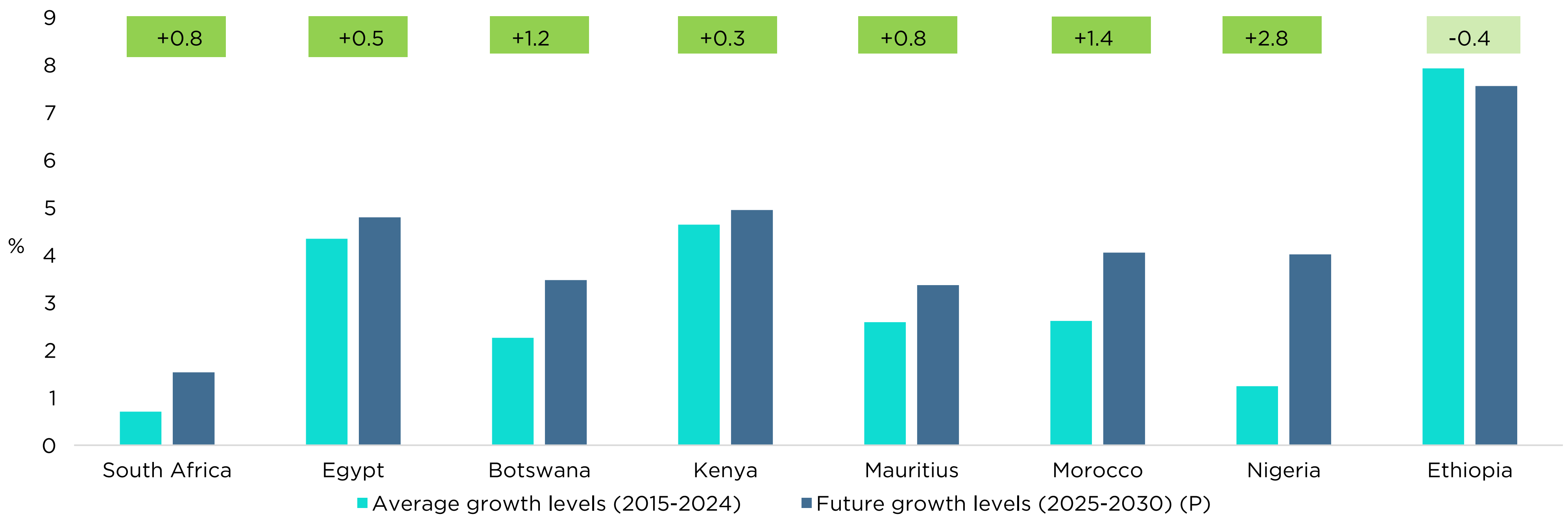
Africa: Cautious Optimism

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

Improving Growth Prospects Supported by Reform Momentum

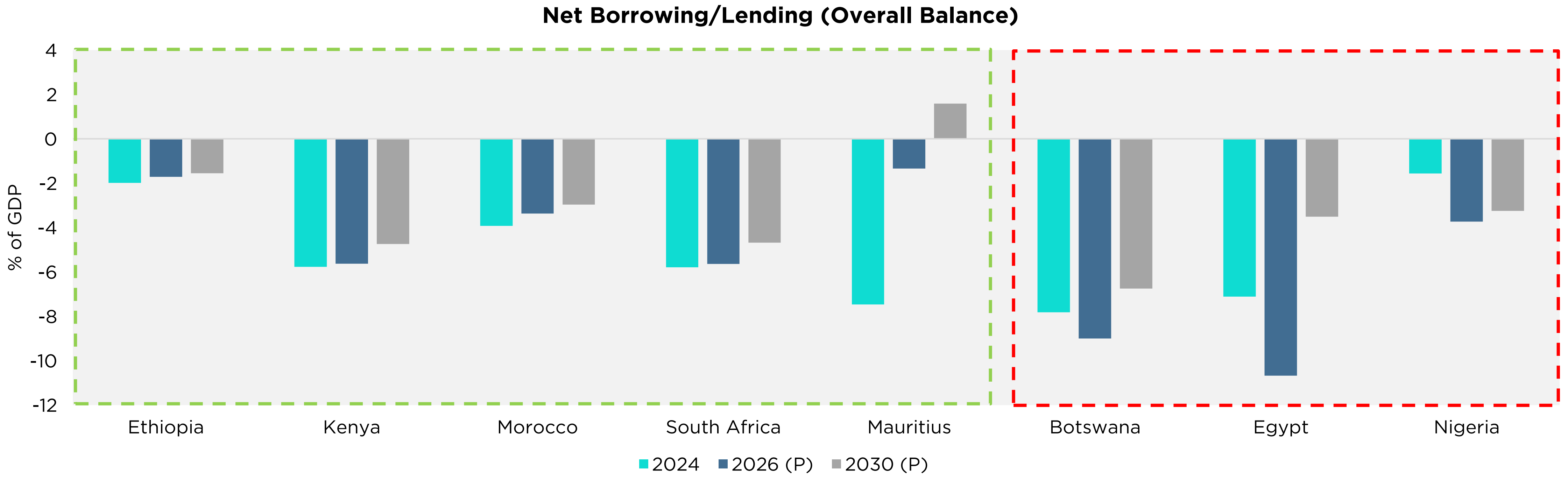
Real GDP Growth



Source: IMF, CGIL
Note: (1) P = IMF Projections (2) Numbers in the boxes indicate the percentage-point change in growth

- Medium-term growth potential is improving across most African economies, driven by structural reforms and economic diversification.
- Post-pandemic normalization and ongoing monetary and fiscal reforms are expected to sustain stronger growth outcomes over 2025-2030.
- Key risks: geopolitical tensions, commodity price volatility, fiscal pressures, and high debt levels could dampen growth in some economies.

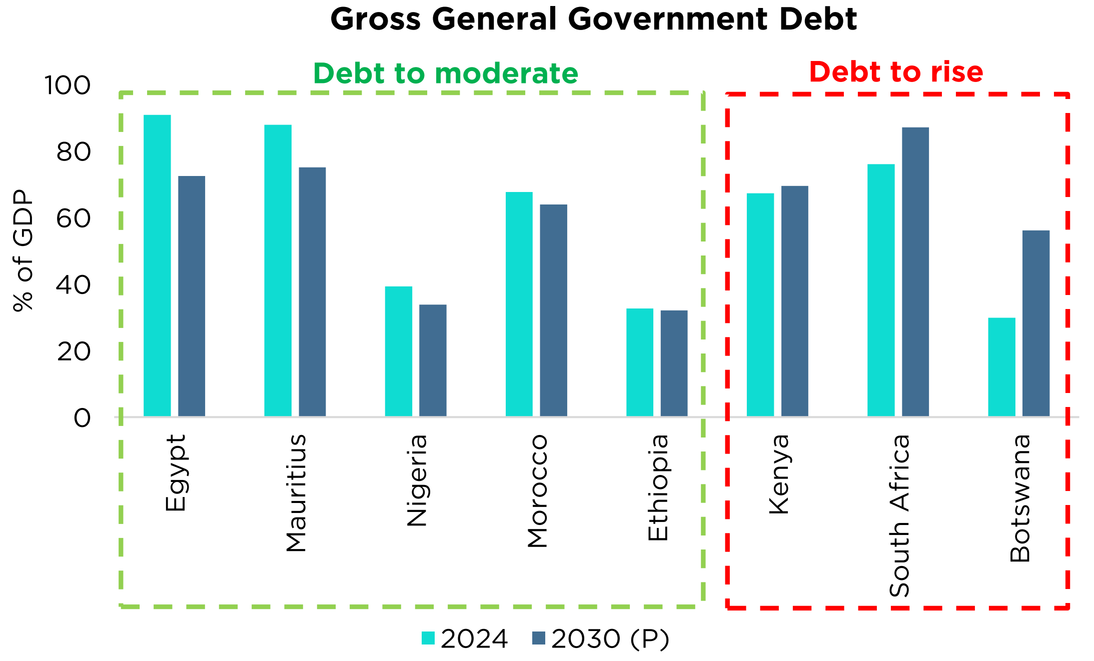
Short-Term Fiscal Pressures Persist Despite Expected Long-Term Deficit Moderation



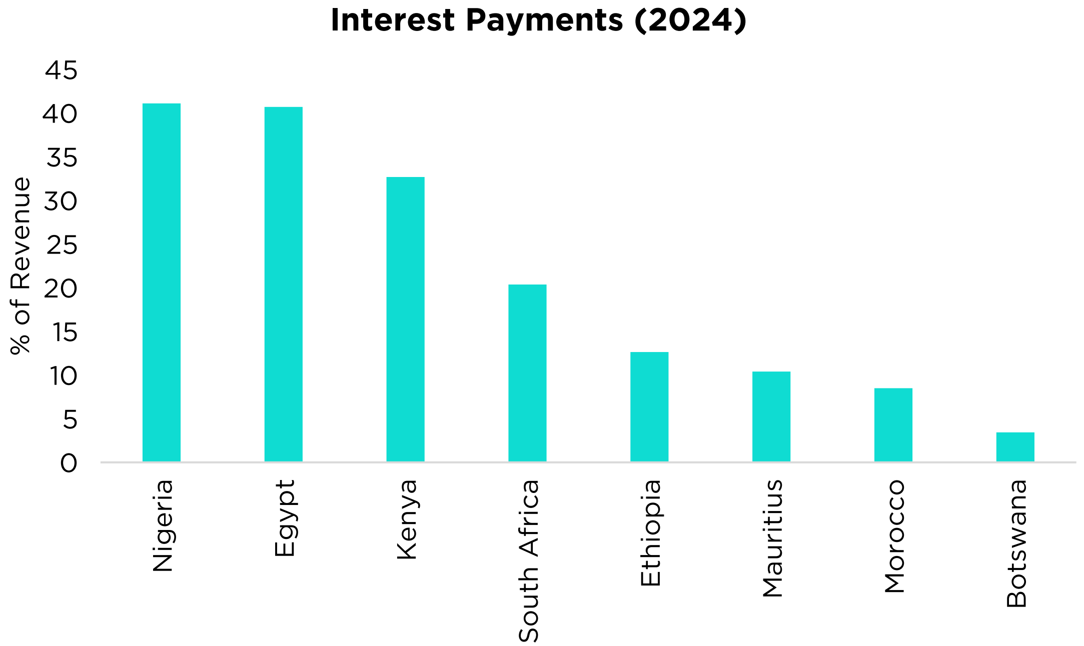
Source: IMF, CGIL
Note: P = IMF Projections

- Ethiopia, Kenya, Morocco, South Africa: Deficits are expected to decline steadily, reflecting fiscal consolidation and improved revenue mobilization.
- Mauritius: Deficit is projected to narrow in 2026 and is projected to turn into a surplus by 2030, signalling strong medium-term consolidation.
- Botswana, Egypt, Nigeria: Short-term pressures in 2026, whereby deficits worsen temporarily before improving by 2030. Nigeria remains above 2024 levels, highlighting temporary fiscal stress amid structural reforms.

Diverging Public Debt Trajectories



Source: IMF, CGIL
Note: (1) P= IMF Projections (2) Numbers in the boxes indicate the percentage-point change in GGG Debt

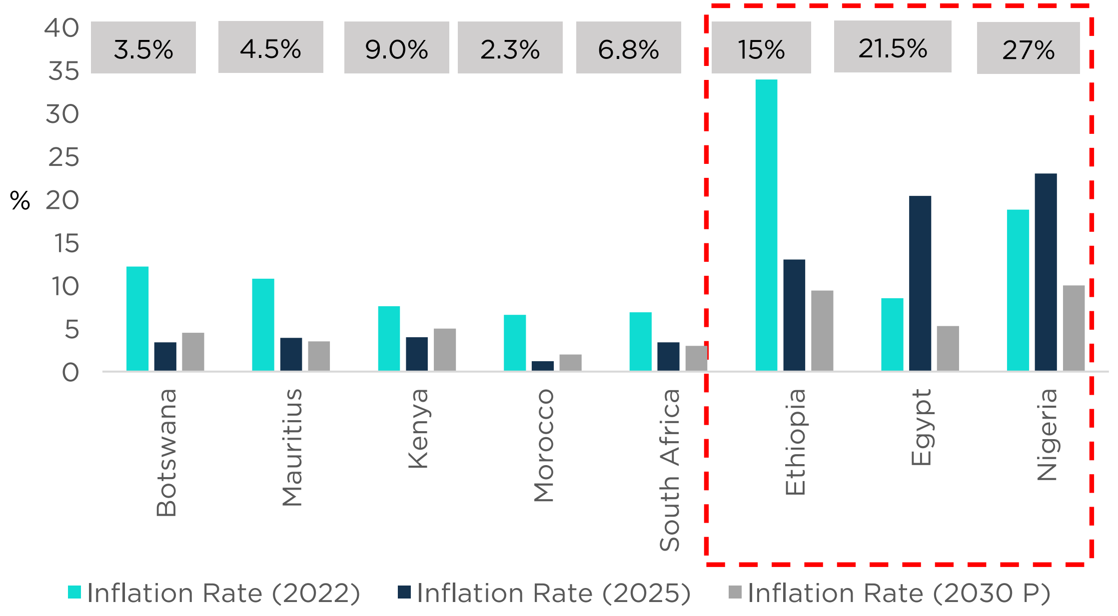


Source: IMF, World Bank, National Sources, CGIL

- Declining debt: Egypt, Mauritius, Nigeria, Morocco, and Ethiopia due to fiscal consolidation, improved revenue mobilisation, and narrowing deficits.
- Improving debt positions for these countries provides some fiscal flexibility for investment and policy support.
- Rising debt: Botswana, Kenya, South Africa driven by persistent deficits, infrastructure spending, and slower fiscal adjustment.
- High interest costs and debt servicing continue to weigh on budgets, especially for countries with rising debt.

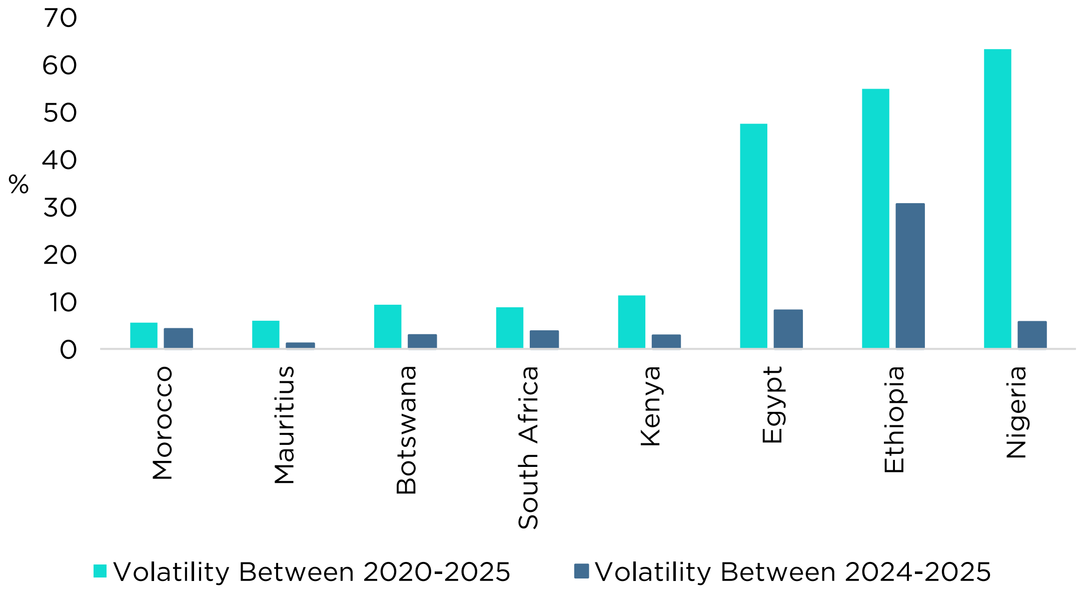
Inflation has Peaked, but FX Volatility May Still Be a Challenge

Inflation and Policy Rates for African Economies



Source: IMF, Refinitiv, CGIL
Note: (1) P = IMF Projections (2) Boxes represent latest policy rates available for the economies for 2025

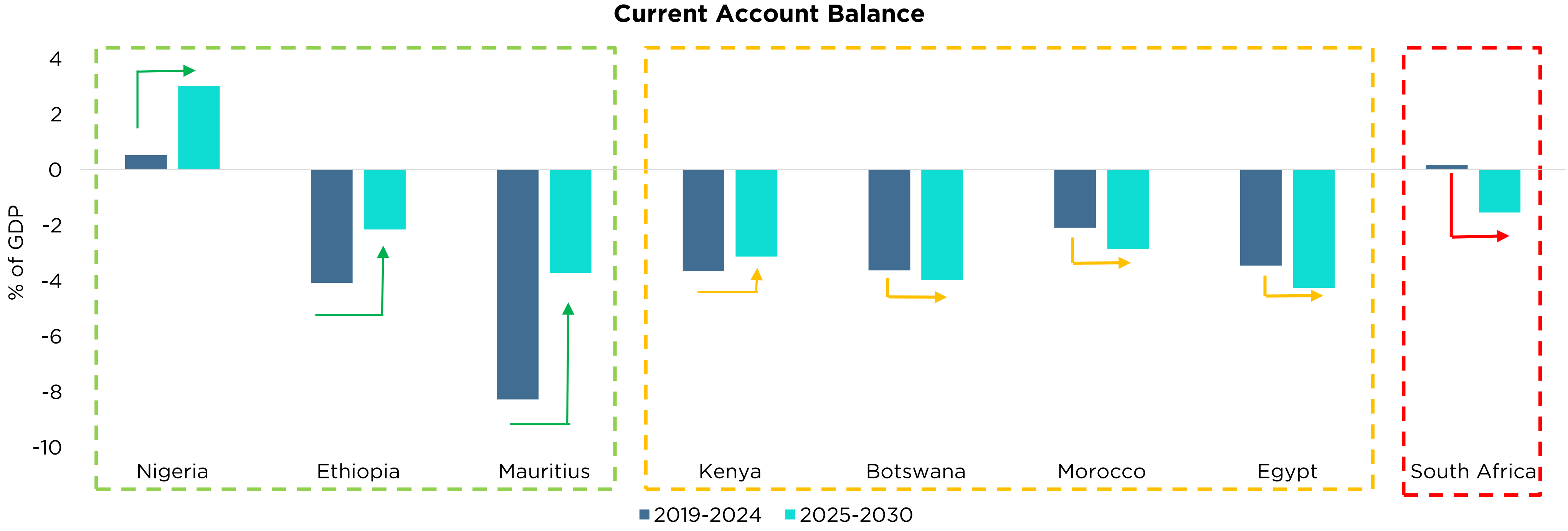
Currency Volatility for African Economies



Source: Refinitiv, CGIL
Note: Currency volatility is measured as the coefficient of variation (100*Standard Deviation/Mean) using monthly exchange rate data

- While inflationary pressures have moderated, the policy rates remain elevated due to downside risks attached to it.
- Currency volatility remains structurally elevated over 2020–2025, reflecting repeated external and domestic shocks; however, a shorter 2024–2025 window shows signs of stabilisation in some markets.
- Reduction in volatility highlights easing near-term pressures, though underlying FX vulnerability persists across several African economies.

Broad Stability in Medium-Term Current Accounts



Source: IMF, CGIL

- External balances are improving in Nigeria, Ethiopia, and Mauritius, supported by stronger export receipts, exchange rate adjustments, and improving competitiveness.
- Kenya, Botswana, Morocco, and Egypt are expected to maintain broadly stable current account positions, as export recovery largely offsets persistent import requirements, with sector-specific sensitivities (diamonds in Botswana; energy and food imports in Egypt).
- Overall current account sustainability hinges on export momentum, import containment, FX stability, and continued access to external financing.

Key Monitorables

Fiscal Consolidation & Reforms

IMF oversight
Active or forthcoming ECF/EFF frameworks for Egypt, Ethiopia, and Kenya

Mauritius fiscal consolidation efforts may weigh on consumption and business activity

Morocco's balance between infrastructure spending with fiscal consolidation

South Africa's fiscal consolidation reforms constrained by social and political pressures, with SOEs being a key risk

External Conditions

Global commodity prices
Nigeria, Botswana, South Africa, and Morocco (minerals and energy prices)

Ethiopia and Kenya (coffee, tea, and horticulture)

Current account outlook
exposed to volatility risks

International Relations and Geopolitics

AGOA extension of 3 additional years agreed by US House of representatives, but status of South Africa remains uncertain at Senate stage.

Mauritius progress on the Chagos
expected compensation impeded by rising pressure in the UK

Egypt Suez-Canal remains a vital revenue source and geopolitical lever

Note: ECF: Extended Credit Facility; EFF: Extended Fund Facility; AGOA: African Growth and Opportunity Act

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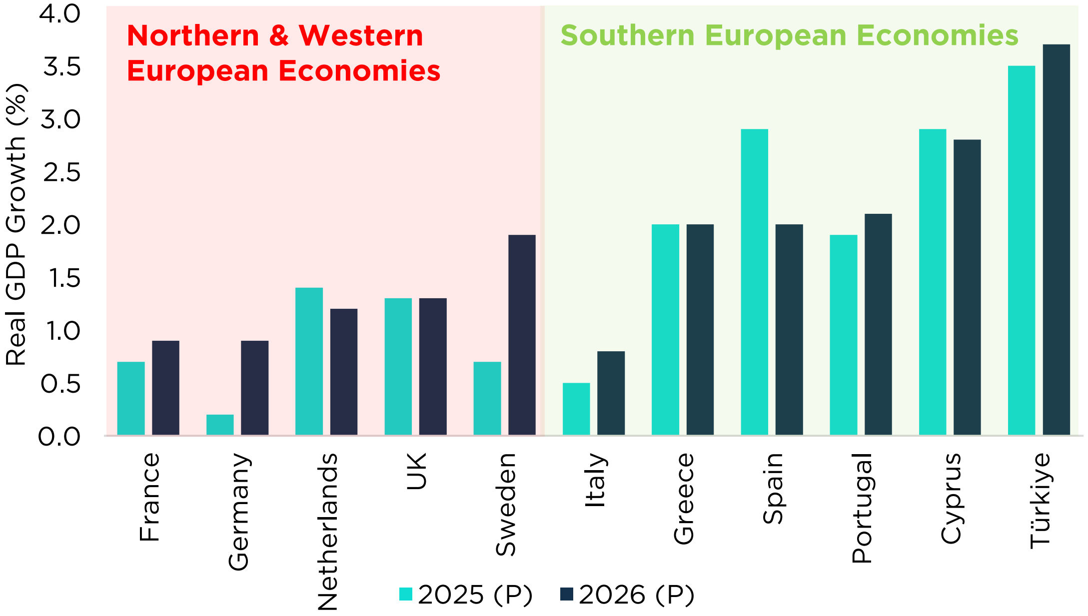
Europe: Walking a Tightrope - Debt Concerns Amid Emerging Tailwinds

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

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

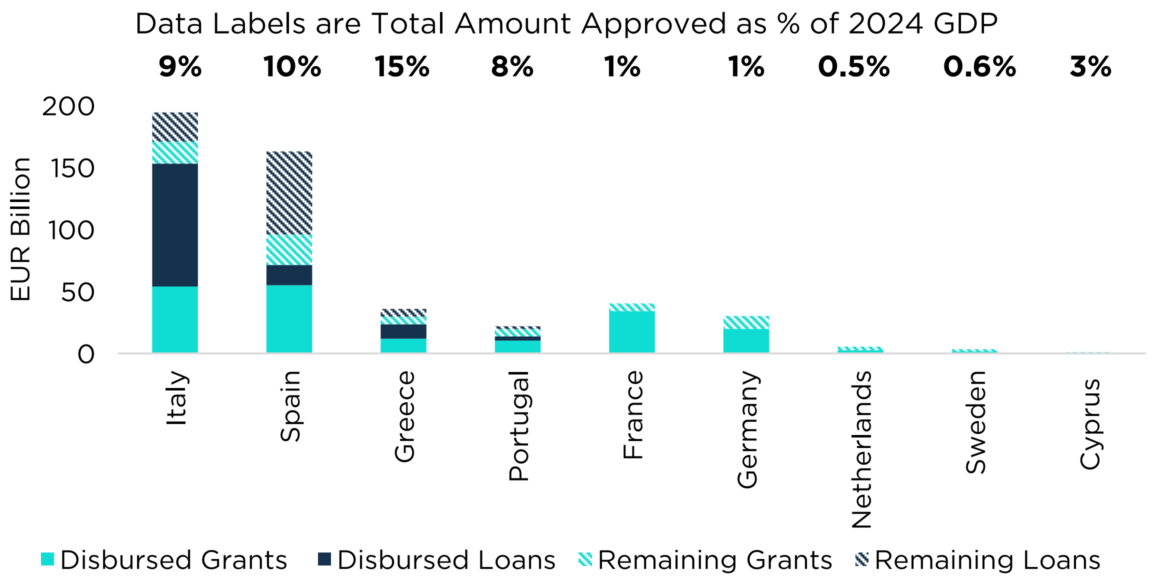
Southern European Economies to Outperform

Growth Led by Southern European Economies Majorly



Source: IMF, CGIL
Note: P = Projections

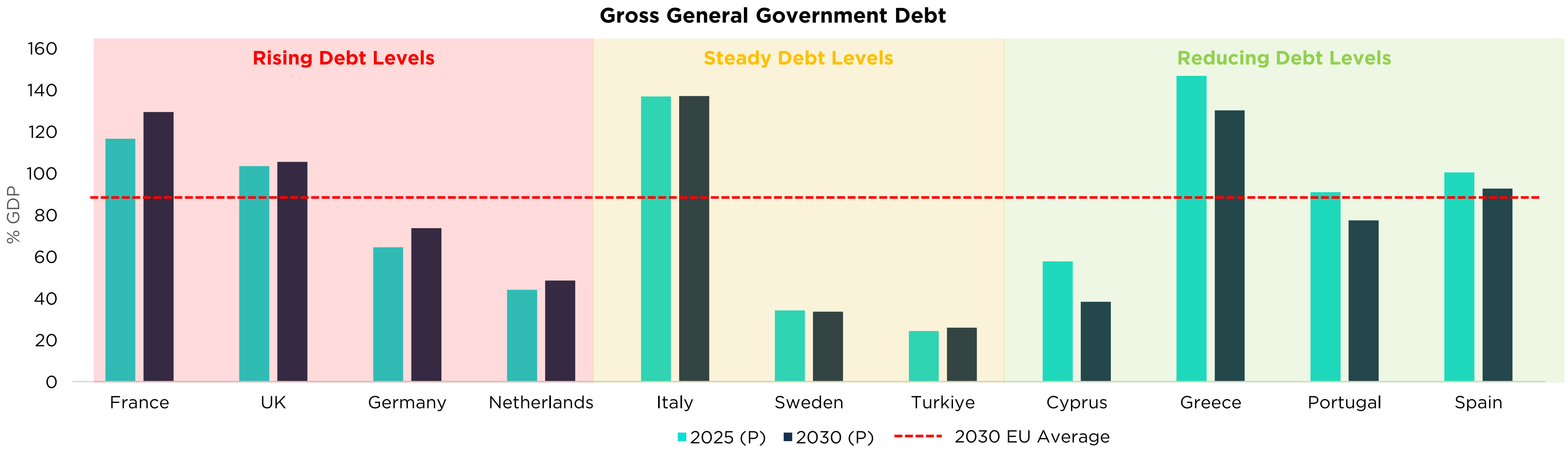
EU Recovery Fund Payments Till December 2025



Source: European Commission, CGIL

- Growth in Germany and Sweden is set to rebound on fiscal stimulus, led by infrastructure/defence spending and tax cuts, respectively.
- UK's economic growth is expected to be steady, though higher taxes to weigh on consumption.
- All Southern European economies have gained due to the shift towards high-value-added services and support from the Recovery and Resilience Fund.
- Turkiye's growth is supported by slowing inflation and easing policy rates.

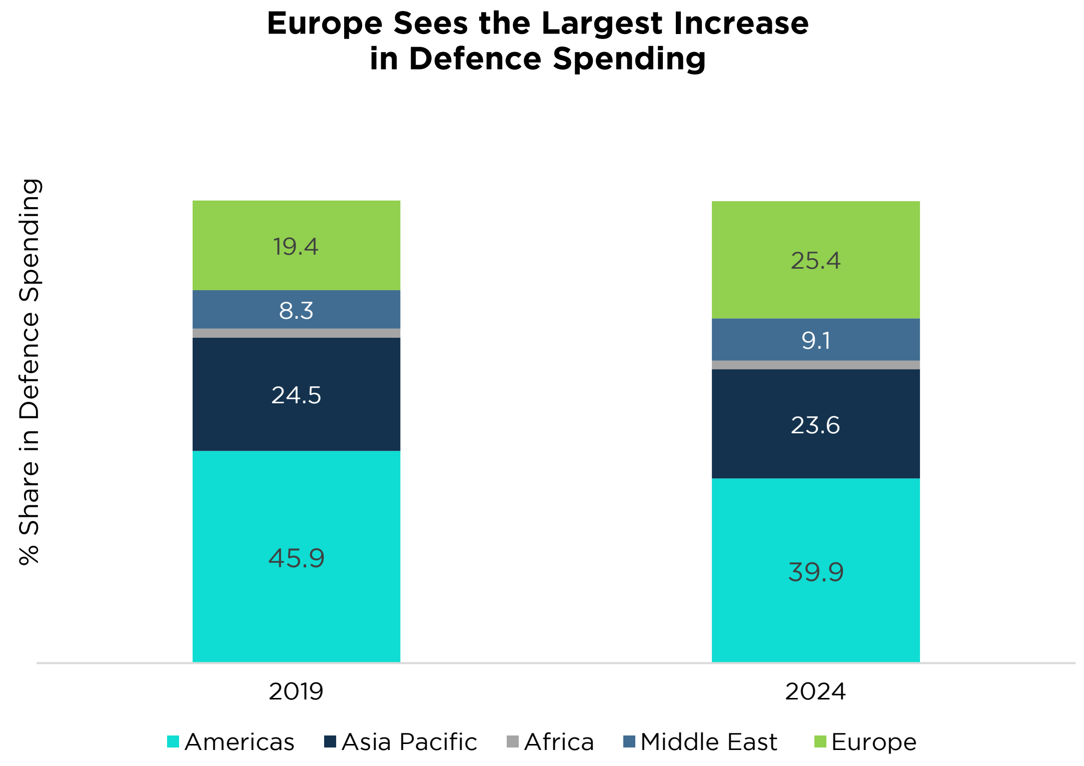
Diverging Debt Directions



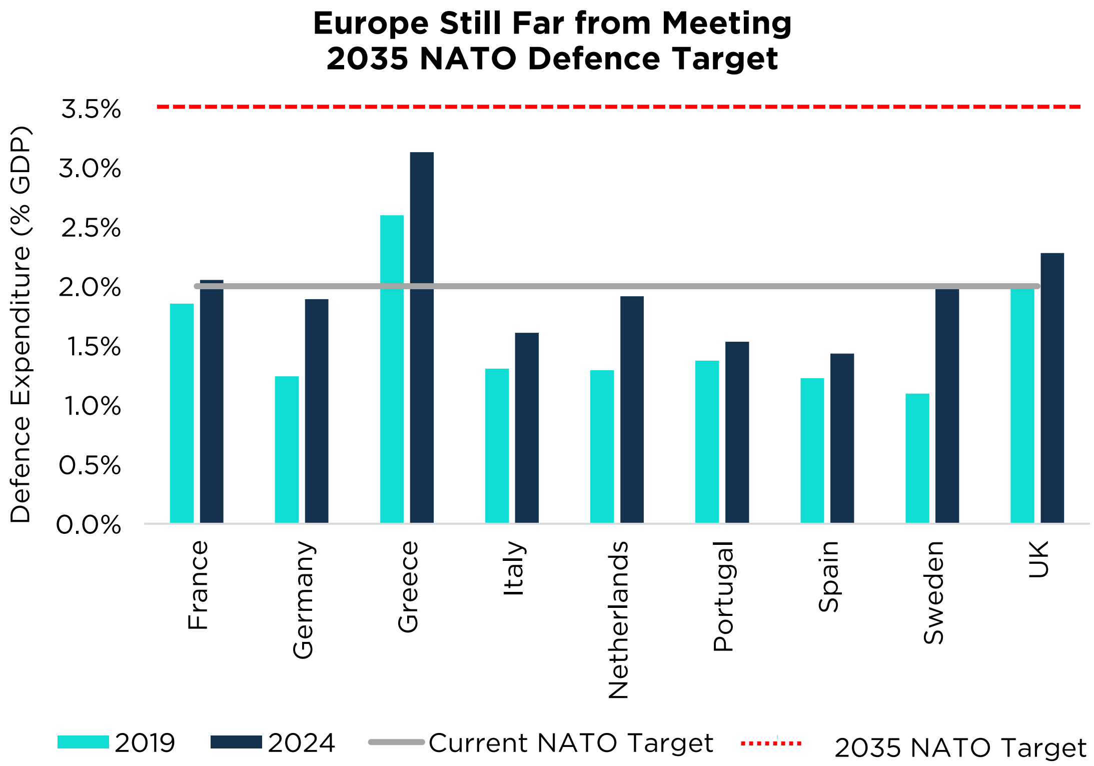
Source: IMF, CGIL
Note: P = Projections

- France and UK's debt levels are expected to rise on account of high social spending and continue to be above the EU average.
- Germany's debt is expected to rise sharply on account of fiscal loosening but is likely to be below the EU average.
- Italy's debt, while broadly stable, is projected to remain well above the EU average, making it the most indebted government in the EU by 2030.
- Cyprus, Greece, Spain and Portugal are expected to see a sharp reduction in debt levels. Despite this improvement, Greece's debt will continue to remain well above the EU average, the second highest in the region by 2030.

Rising Defence Costs to Stretch Government Pockets



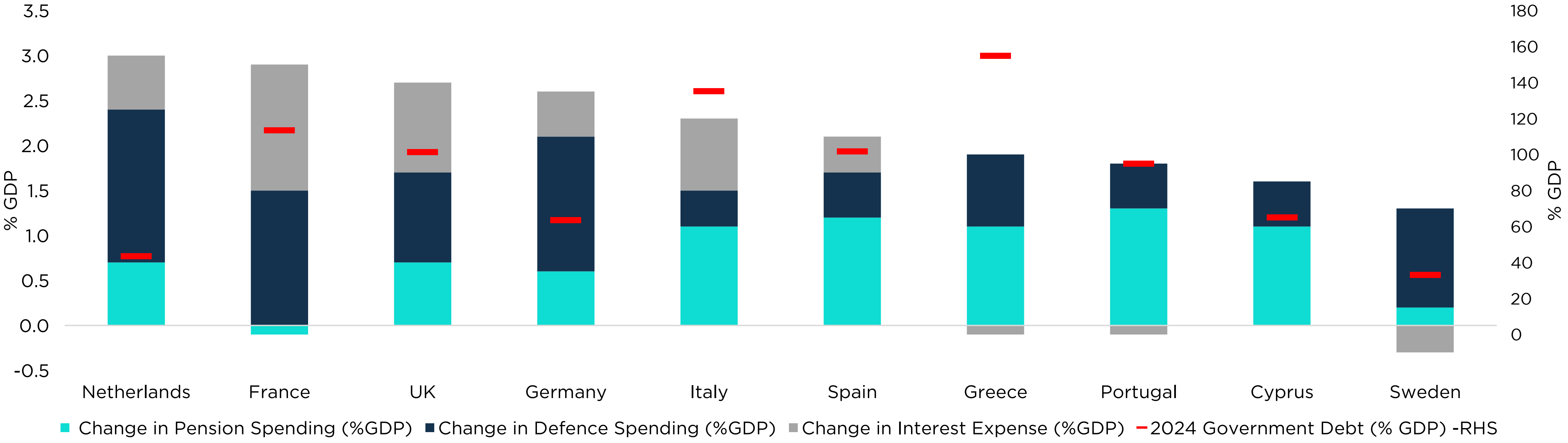
Source: SIPRI Military Database, CGIL



Source: NATO, CGIL

- Since the onset of Russia-Ukraine war, defence spending has seen a sharp rise in the continent.
- Modernizing needs and reducing dependence on the US coupled with pressures from NATO is expected to keep the defence spending high.

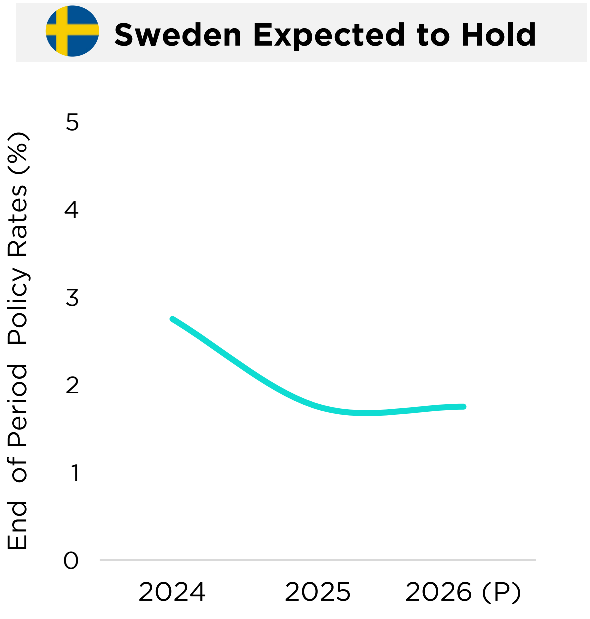
Medium Term Fiscal Pressures Arising From Pension, Defence & Interest

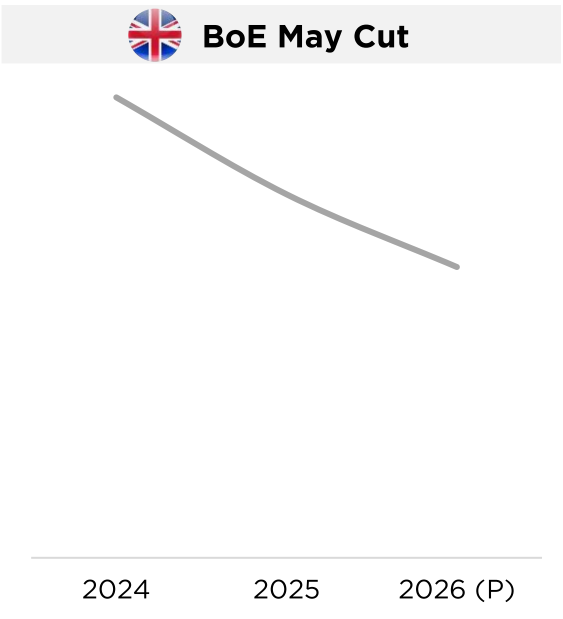


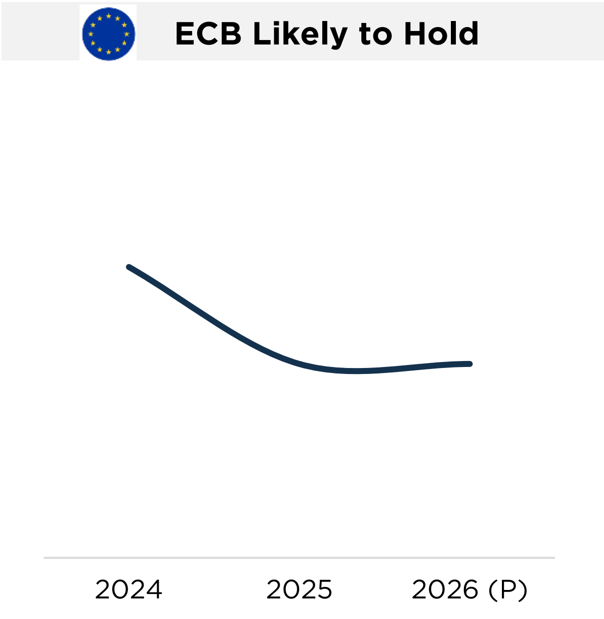
Source: EU Ageing Report, OBR, IMF, Budget Reports, CGIL

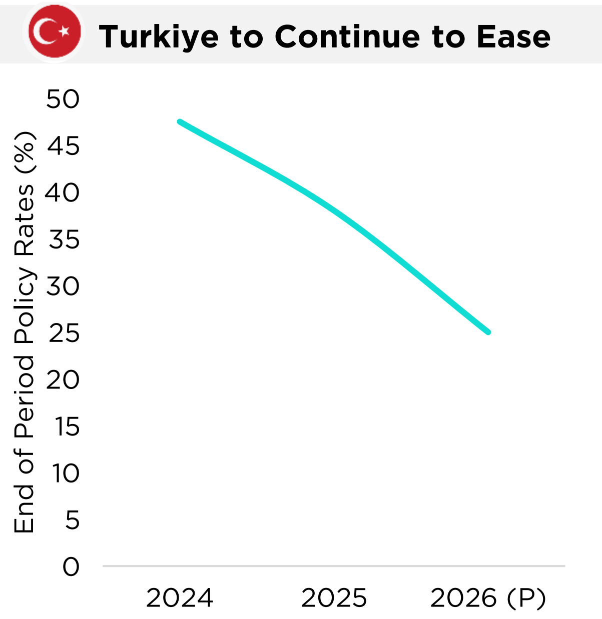
- Low general government debt helps the Netherlands absorb rising interest, defence, and pension costs.
- Across Northern & Western European economies (Netherlands, France, UK, Germany, Sweden), higher expenditure is largely driven by defence spending.
- In Southern European economies (Italy, Greece, Portugal, Cyprus) , rising pension spending drives medium-term expenditure pressures.
- France, UK, and Italy are projected to face a higher interest-rate burden over the medium term.

Monetary Policy: Interest Rates to Hold or Move Lower







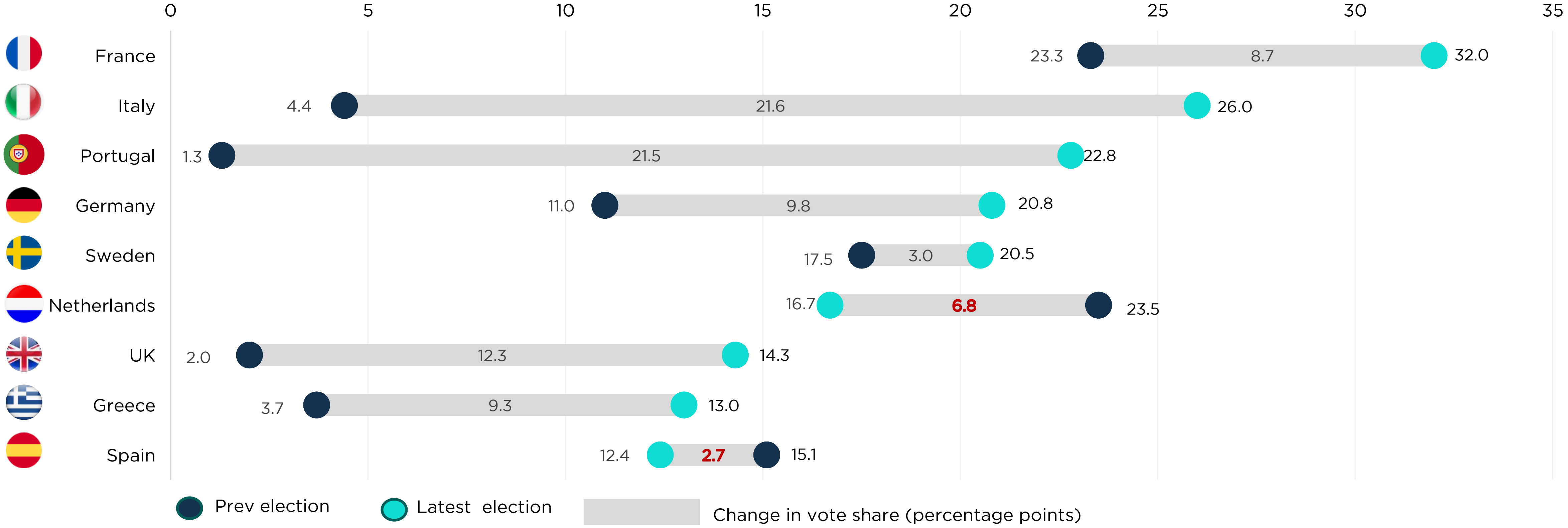


Source: BIS, CGIL
Note: P= Projections

- We expect the ECB to hold rates as inflation is expected to remain close to its target level of 2%.
- With declining inflation and slowing consumption, UK is expected to continue with rate cuts with policy rate being at 3% by the end of 2026.
- We expect year-end rates to be around 25% for Turkiye.

Rise of Right-Wing Parties in Mainstream Politics to Continue

Vote Share of Far-Right Parties Across Europe (%)



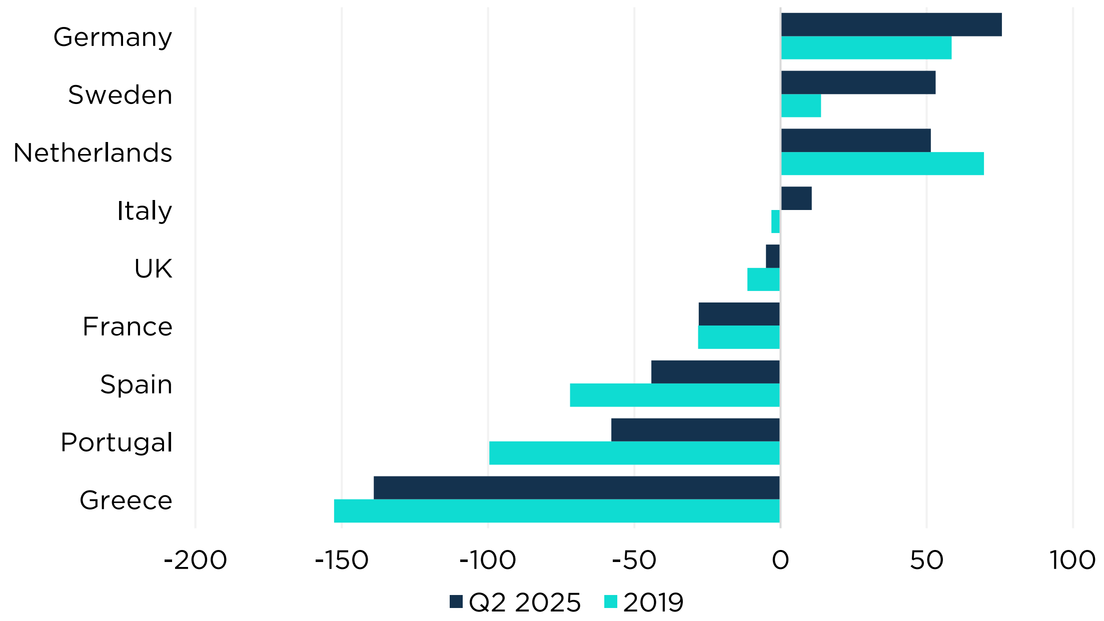
Source: Respective Parliament, CGIL

- Right-wing parties have gained ground in Europe, leading the opposition in Germany, France, and Portugal, and forming government in Italy and Sweden.
- Their rise is shifting policy towards stricter immigration laws, greater resistance to pension cuts and a tilt towards higher taxes.

External Sector: Improving Buffers, Europe Gains Share in US Imports

Broad Improvement in External Buffers Since Pre-Pandemic

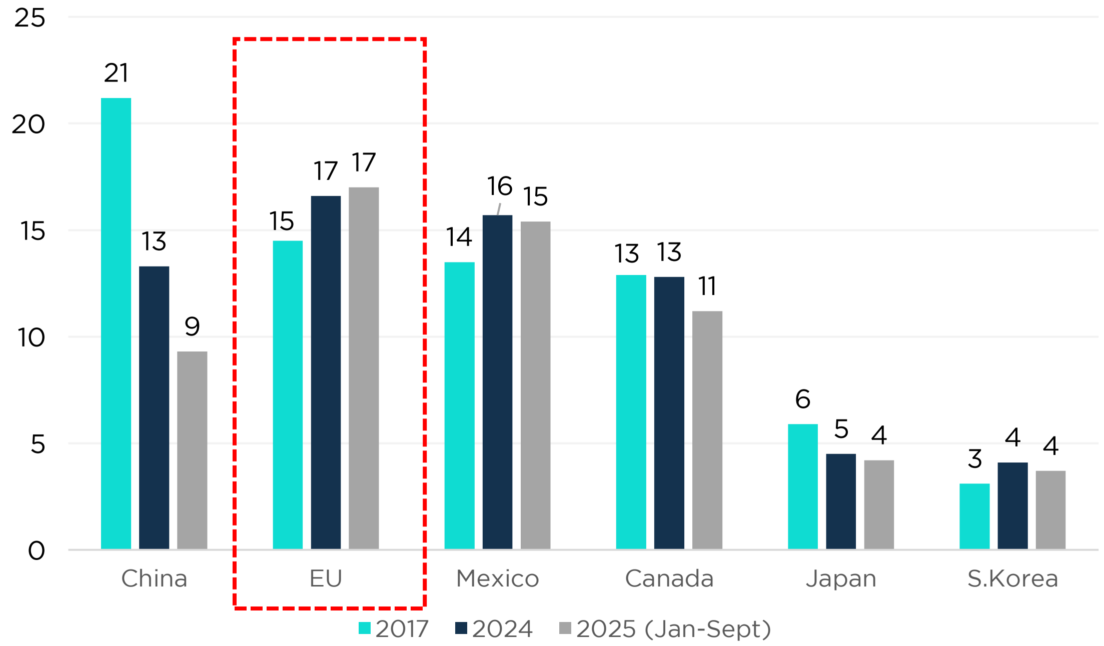
Net International Investment Position (%GDP)



Source: Eurostat, CGIL

EU is Gaining Market Share in US Markets

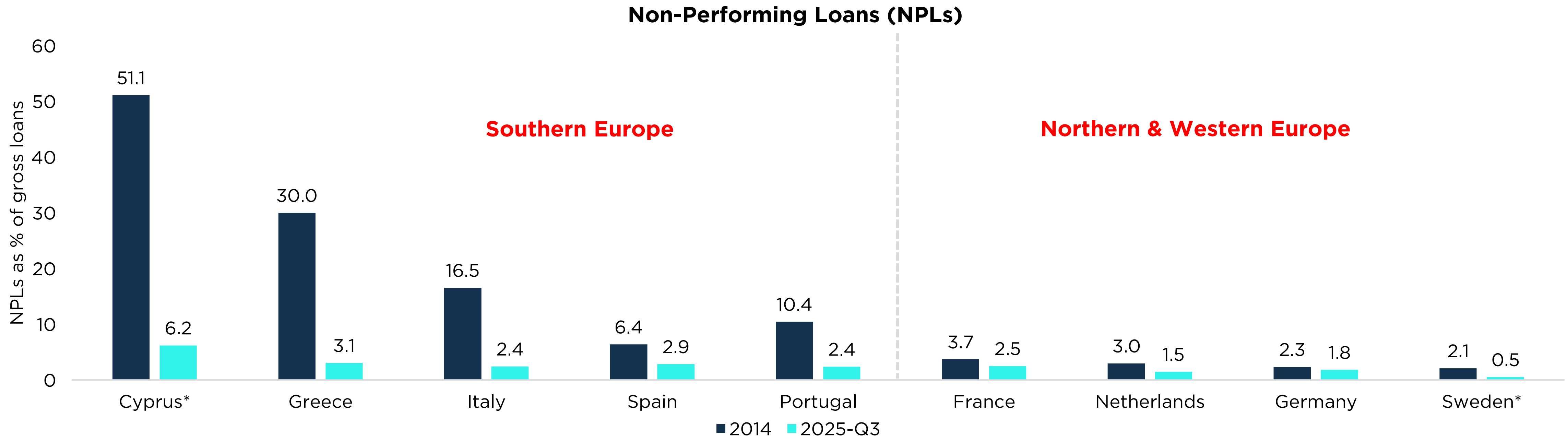
Total Imports into US Markets (%)



Source: US Comtrade, CGIL

- Most of the EU countries have seen an improvement in the external buffers, with an improvement in the net international position.
- Though EU has gained market share in the US import market, it remains a key monitorable owing to volatility & uncertainty around tariff policy.

Improving Asset Quality



Source: World Bank, European Central Bank, IMF, CGIL
Note: *Data for Sweden and Cyprus till 2024-Q4

- Following the Global Financial Crisis and the EU sovereign debt crisis, NPL ratios were significantly higher in Southern European economies than in Northern & Western peers.
- This divergence has narrowed markedly in recent years, with Southern European NPLs converging toward the EU average of around 2% by Q2 2025.
- Overall, these improvements strengthen bank balance sheets and enhance the effectiveness of monetary policy transmission across the EU.

Key Monitorables

Fragile Growth

Germany's fiscal push
Germany's spending pivot could be an inflection point for the region

Competition from China
China's move up the value chain signals structural pressure on EU manufacturing

Innovation and AI adoption
Critical for lagging growth as EU trails US and China in both parameters

Geopolitical Tensions
Escalation in the Russia–Ukraine war and developments in Greenland likely to be growth-negative

Debt Drag

Rise in ageing costs
Ageing cost to rise amid shrinking population.

Surge in defence expense
Pace of increase to be a concern on already heightened government debt

Elevated interest burden
Sticky yields to push up refinancing costs

Risks from political fragmentation
Pace of reform orientation may slow

Tailwinds

EU support
EU's monetary support (RRF, SAFE*) to continue to be growth supportive

Energy independence
Progress towards energy independence has been good, critical to restore competitiveness

Stealth banking sector
Banking sector health has improved across EU, continuity remains a monitorable

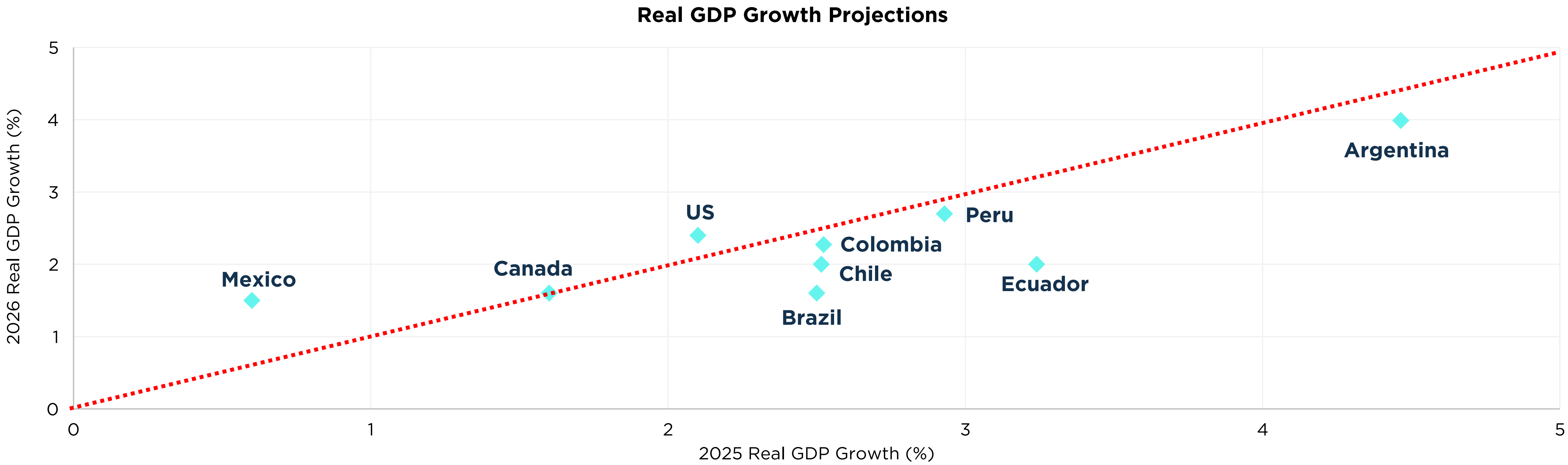
* RRF- Resilience and Recovery Fund (EUR 630 billion), SAFE- Security Action For Europe (EUR 150 billion)

Americas: Stable Ex-US, Though Resilience Is Being Tested

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

2026 Growth to Moderate Slightly Across Most Economies

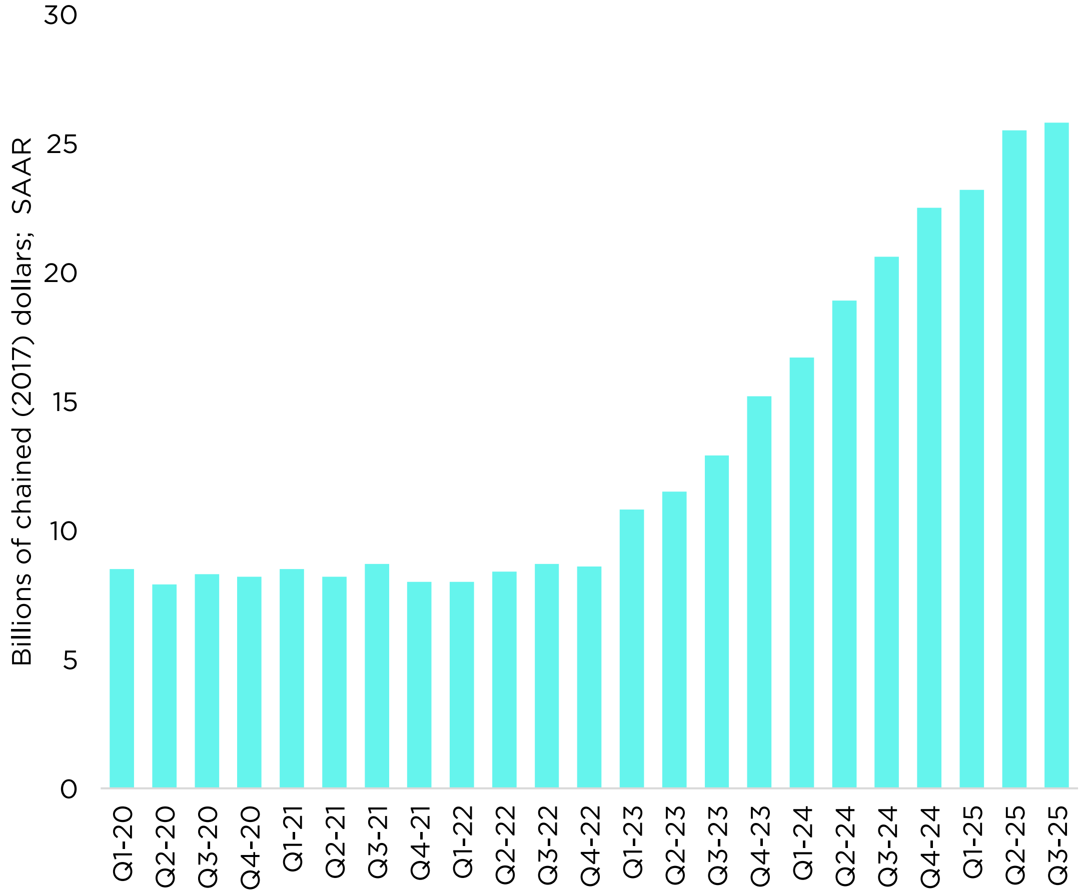


Source: IMF, CGIL
Note: Covers only American economies rated by CGIL

- Brazil, Chile, Ecuador and Argentina are expected to see slower growth in 2026 compared to 2025. However, Argentina's growth is projected to remain relatively higher, reflecting a catch-up in activity after years of subdued growth.
- Mexico is expected to record higher growth in 2026 versus 2025. However, among this group, Mexico is projected to remain the slowest-growing economy for the second consecutive year due to weak consumption and investment activity.
- US growth to be marginally higher at 2.4% in 2026 vs 2.1% in 2025, underpinned by lower policy rate, fiscal stimulus, and AI-related spending.

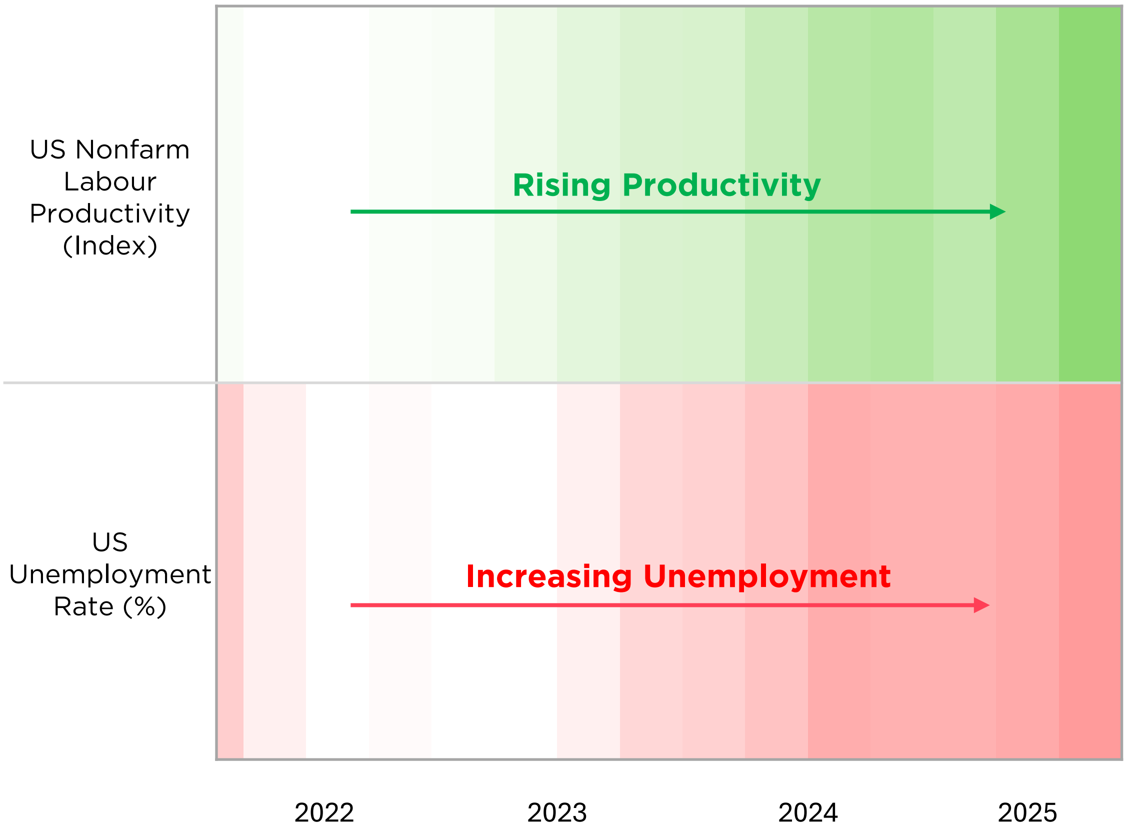
AI-Led Investment & Productivity Gains Support US Growth

US Data Centre Investment Accelerates on AI Push



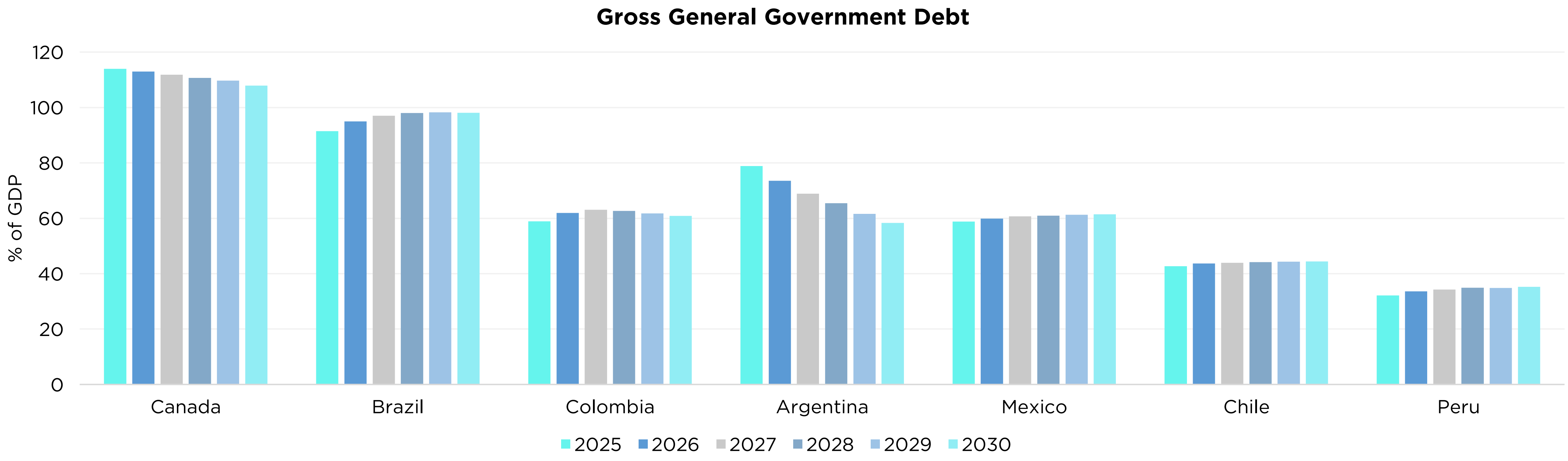
Source: Haver Analytics, Bureau of Economic Analysis, CGIL
Note: SAAR = Seasonally Adjusted at Annual Rates

Productivity Strengthening with AI Adoption, Despite Job Market Headwinds



Source: Haver Analytics, US Bureau of Labour Statistics, CGIL
Note: (1) Data are quarterly; unemployment is a quarterly average of monthly figures.
(2) In the heatmap, darker green indicates higher nonfarm labour productivity; darker red indicates higher unemployment.

Debt Dynamics Outside US Largely Stable

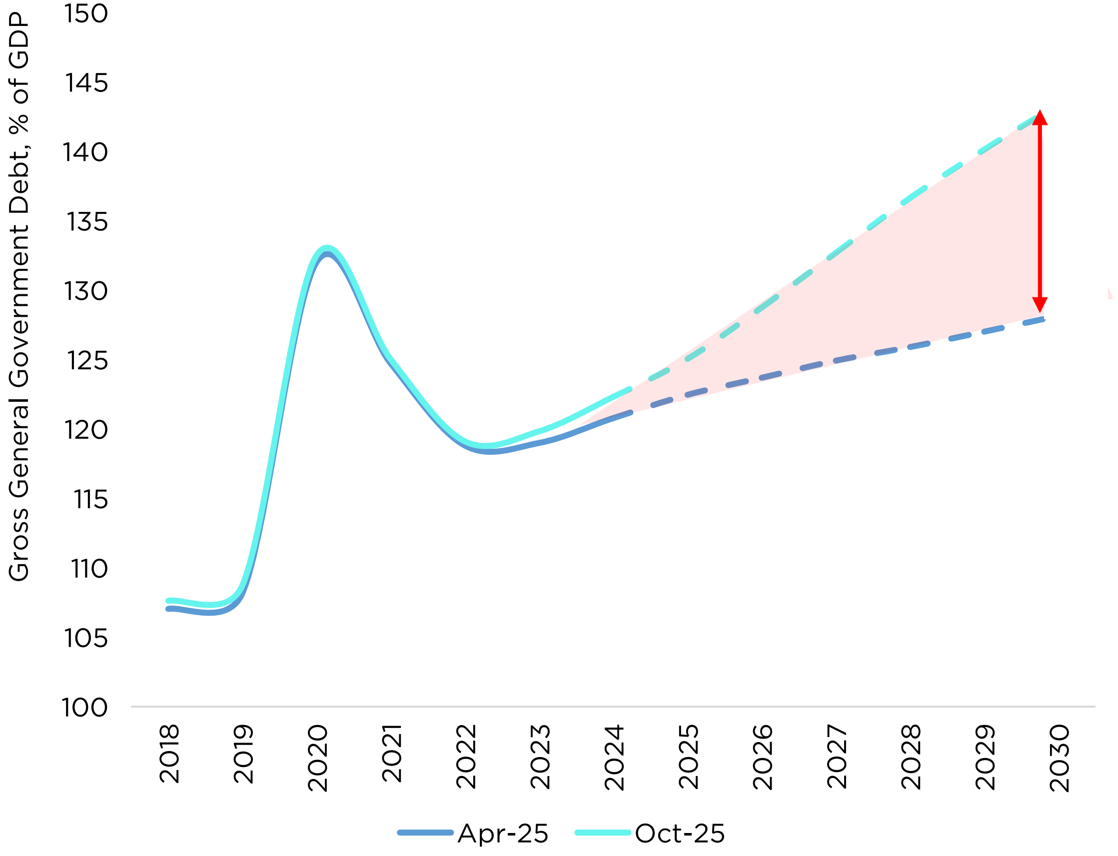


Source: IMF Projections, CGIL

- Argentina's debt is projected to fall the most, by 20 percentage points (pp), between 2025–2030.
- In contrast, Brazil's debt is expected to rise the most, by 7 pp.
- Canada's debt to decline slightly by 6 pp. However, the government's substantial financial assets mitigate concerns around elevated debt levels.
- Moderate debt increases of 2–3 pp are expected for countries like Chile, Mexico and Peru.

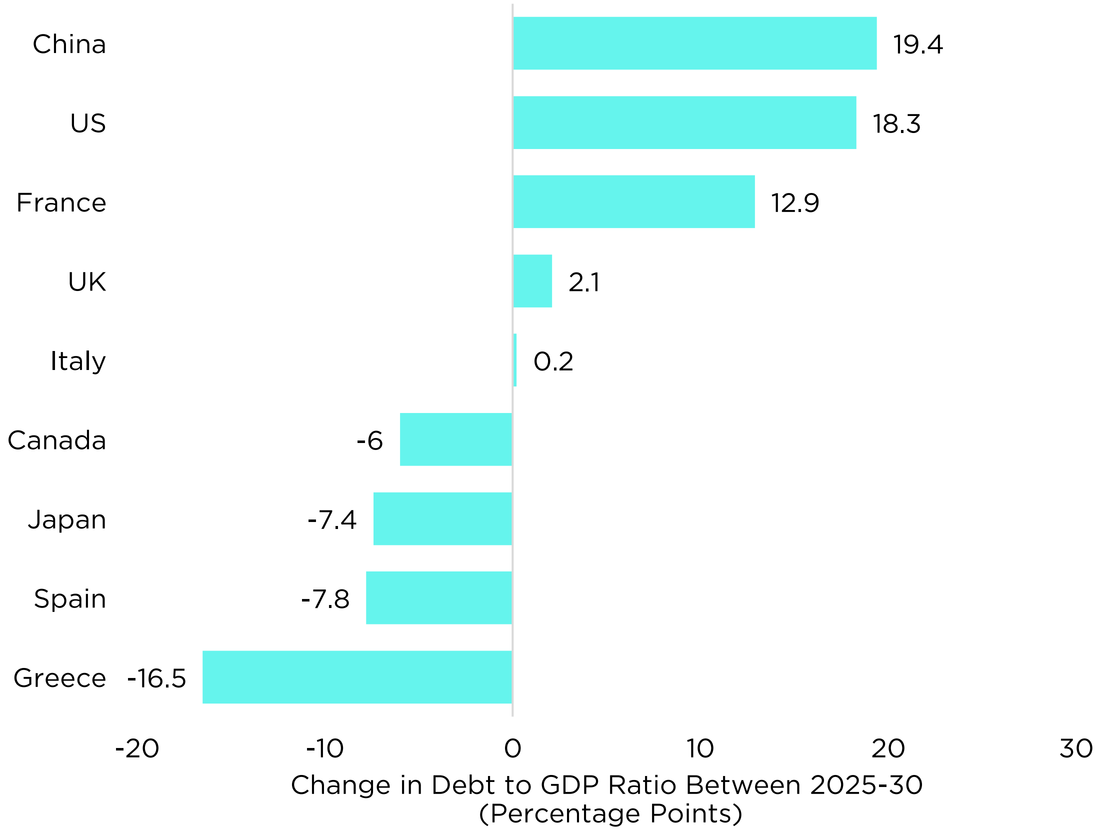
US Fiscal Outlook Under Strain

US Debt Outlook has Worsened Post the One Big Beautiful Bill Act (OBBBA)



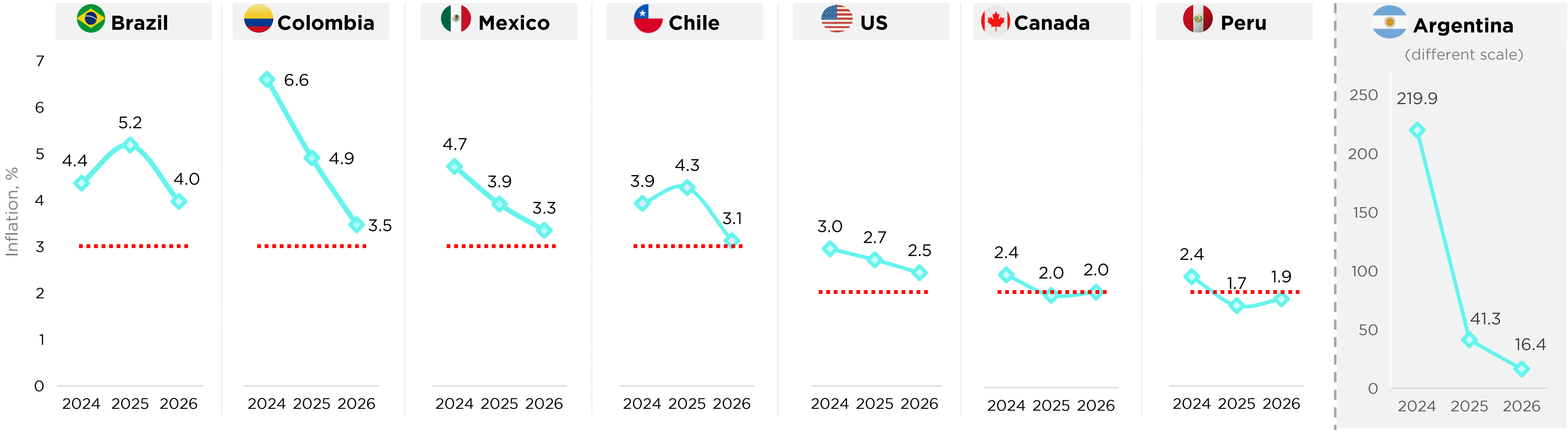
Source: IMF, CGIL
Note: Projections start from 2025

US to See Substantial Debt Increase, Second Only to China



Source: IMF, CGIL
Note: (1) China data is for augmented debt, which includes off-budget local government borrowing. (2) Figures shown are for select economies with debt > 100% of GDP

Inflation to Ease Broadly, but Remain Above Target

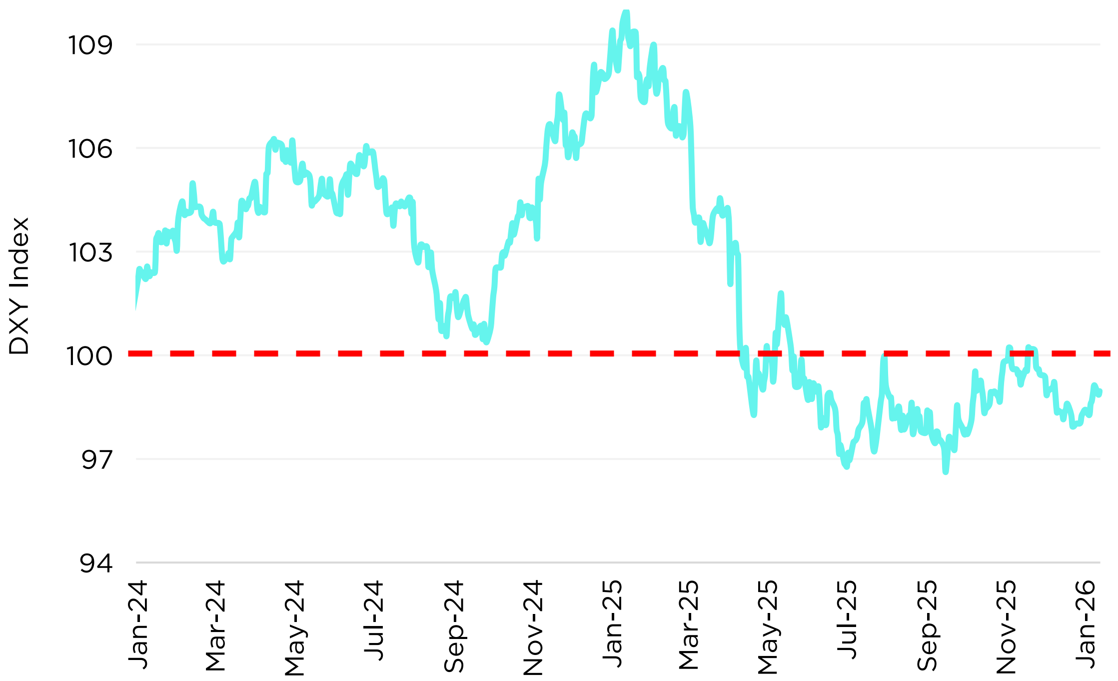


Source: IMF, CGIL
Note: (1) 2025 and 2026 data are projections (2) Red dotted line represents inflation target (midpoint used where a range applies)

- Most central banks cut rates in 2025 as inflation eased, while Brazil was an outlier, raising interest rates.
- The US Fed is expected to cut rates by 50 bps in 2026 amidst labour market concerns, even as inflation remains somewhat elevated.
- Overall, policy rates are likely to stay above pre-Covid levels.

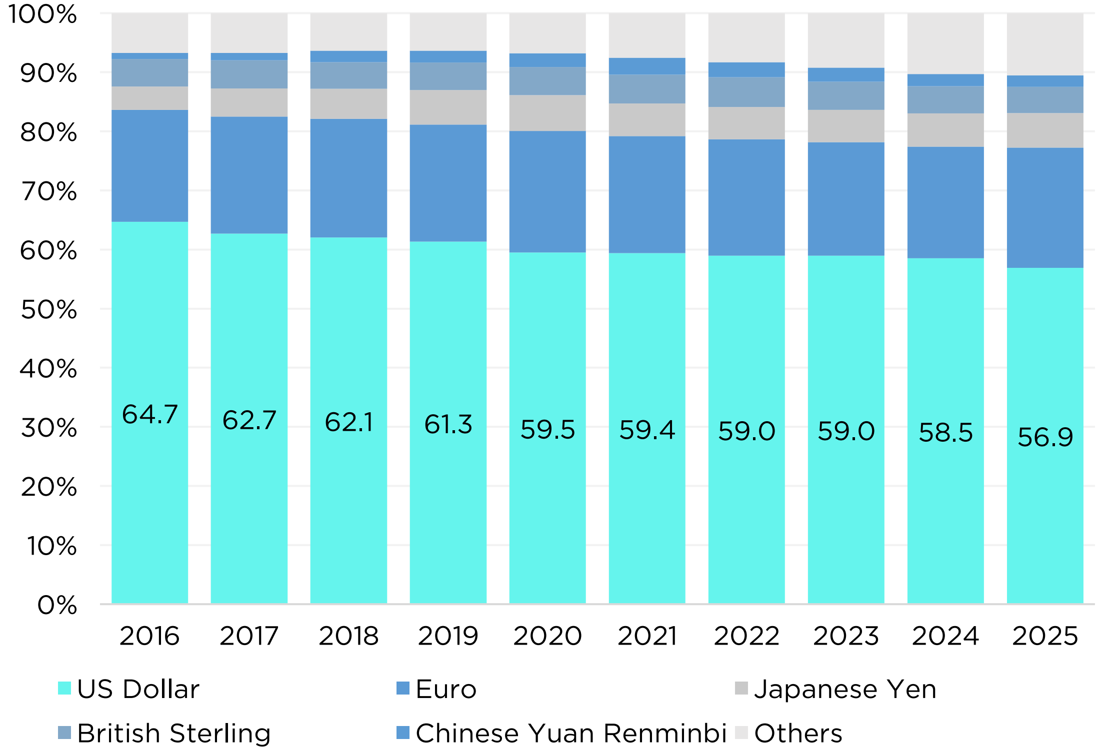
Dollar Softness Likely to Persist

Dollar Recorded a Sharp Decline in 2025



Source: Refinitiv, CGIL

US Dollar Share in Forex Reserves Declines



Source: IMF, Currency Composition of Official Foreign Exchange Reserves (COFER), CGIL
Note: 2025 data is for Q3

- US fiscal strain, Fed rate cuts, and policy and institutional concerns are likely to weigh on the dollar in 2026.

Trade & Institutional Risks Intensifying

Supreme Court Ruling on Trump Tariffs

Decision expected early 2026

In the event tariffs imposed under the IEEPA (International Emergency Economic Powers Act) are ruled unlawful, US tariffs could still be imposed through alternative legal routes, keeping policy uncertainty elevated.

Fed Independence

Cook case - early 2026;
Powell term ends - May 2026

Developments such as the Supreme Court's review of the President's authority to dismiss Lisa Cook and the selection of the next Fed Chair will have important implications for institutional quality.

US-Mexico-Canada Agreement (USMCA) Review

Renewal due July 2026

Potential USMCA revisions that tighten rules of origin and introduce China-focused measures, could affect regional trade and investment.

Against this backdrop, Mexico's recent tariffs of up to 50% on imports from China and several other countries, appear aligned with the USMCA review dynamics.

Source: CGIL

LatAm Shifting Right; US Republicans Facing Headwinds

Peru	Colombia	Brazil	United States
General Election April 2026 (Parliamentary and Presidential)	General Election March & May 2026 (Parliamentary and Presidential)	General Election October 2026 (Parliamentary and Presidential)	Midterm Election November 2026

Source: CGIL

- LatAm elections in 2025, including in Argentina and Chile, signalled a rightward political shift, which could extend into 2026, in countries like Peru.
- In the US, Democratic gains in late 2025 state elections suggest they could challenge the Republican majority in the 2026 midterms. Depending on the election outcome, the government's ability to run its legislative agenda would be a monitorable.

US Expanding its Influence Across the Region

Tightening Migration Control

- The US aims to curb migrant inflows from LatAm.
- This could spillover to remittances, consumption and external balances in countries such as Mexico.

Tackling Drug Trafficking

- The US is intensifying its crackdown on drug trafficking networks.
- The focus is on countries such as Mexico and Colombia.

Countering China's Influence

- China's growing presence in LatAm, through trade linkages and cross-border investments, has raised US concerns.
- This has prompted a stronger US focus on addressing China's influence in the region.

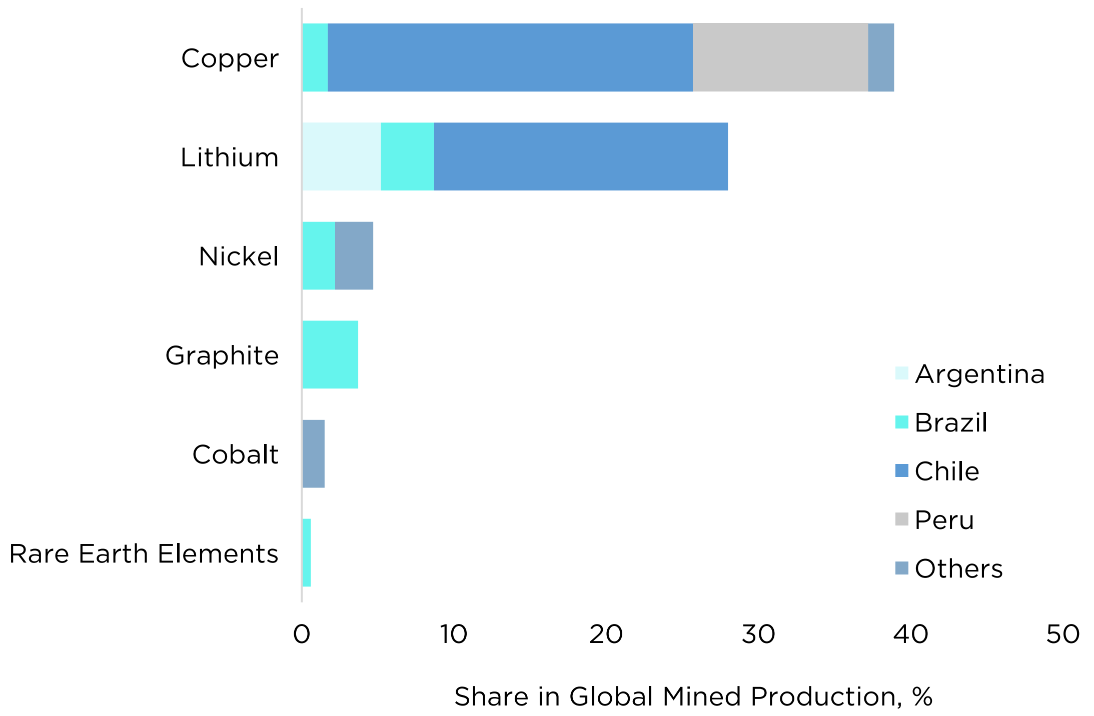
Increasing Financial & Military Presence

- The US is deepening its regional engagement through financial and military channels.
- It extended a US dollar swap line to Argentina and also undertook military action in Venezuela that led to the capture and removal of President Maduro.

Source: CGIL

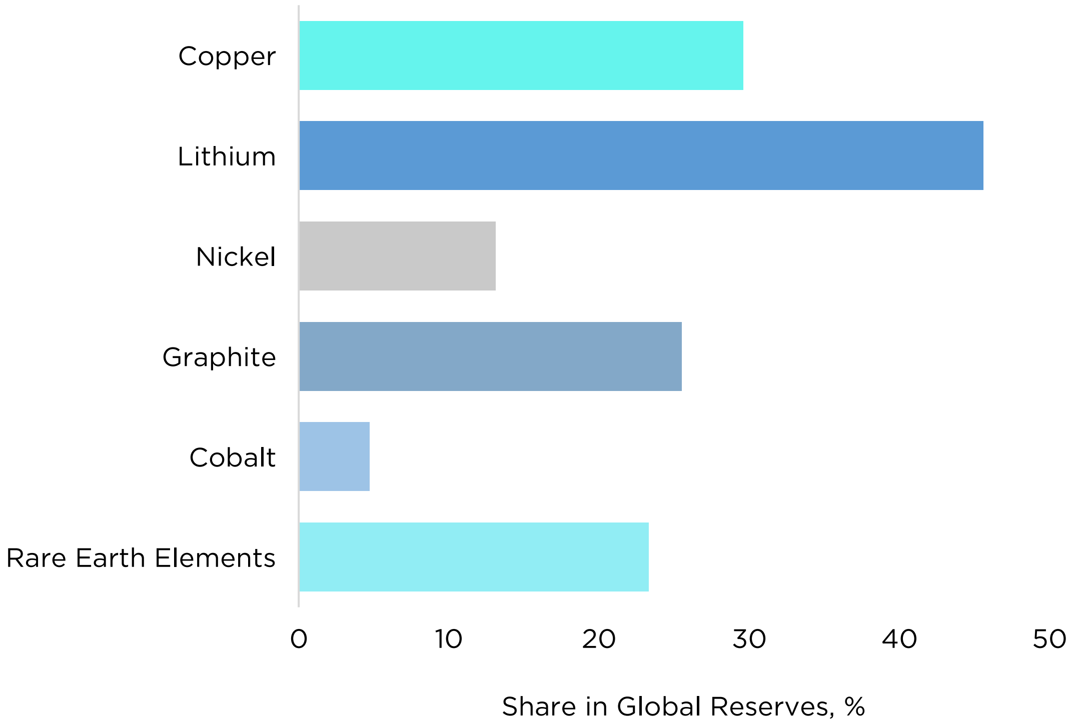
Critical Minerals Putting the Americas into Focus

Central & South America Mined Production



Source: International Energy Agency (IEA), CGIL
Note: Data is for 2024

Central & South America Reserves



Source: International Energy Agency (IEA), CGIL
Note: Data is for 2024

- The region's vast critical mineral reserves are attracting growing attention, making it a key focus for investment & geopolitical developments.

Key Monitorables

US Pressure Points

Fiscal concerns
Debt to rise sharply, with One Big Beautiful Bill Act adding pressure

Policy uncertainty
Trade and immigration policy shifts; tariff ruling & USMCA review in focus

Institutional credibility
Fed independence under watch

US midterms in focus
Election outcome to shape policy direction

LatAm in Spotlight

US expanding regional footprint
US tightening migration and drug controls, and increasing military presence in LatAm

Political landscape turning right
2025 elections saw rightward shift, which is likely to continue into 2026

Vast critical mineral reserves
Strategic importance, with investment and geopolitical implications

Tailwinds

Debt ex-US largely stable
Argentina debt falling; Canada cushioned by assets; moderate rise in Chile and Peru

Lagged effects of monetary easing
Supporting economic activity

Country-specific factors
Argentina reforms;
AI-driven productivity gains in the US

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