CareEdge GLOBAL RATINGS

A subsidiary of CARE Ratings Limited

CareEdge

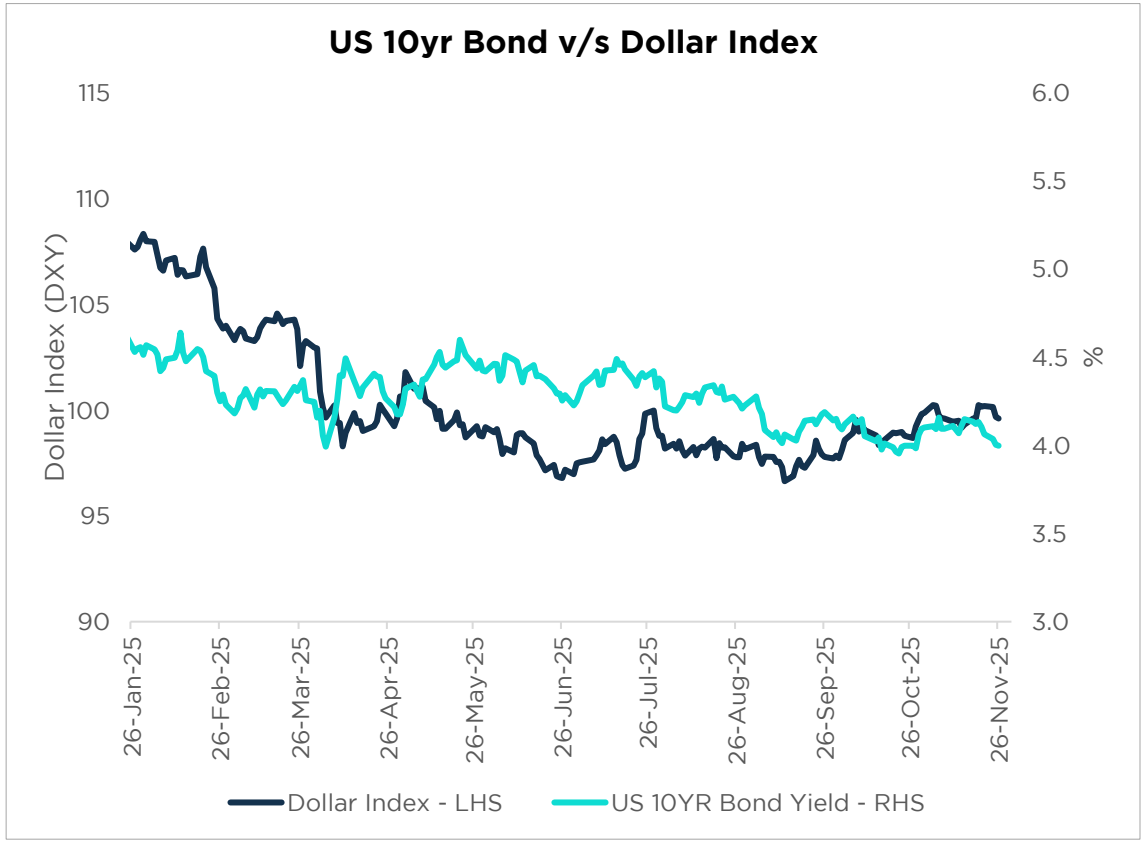
Global Economy Update

December 2025

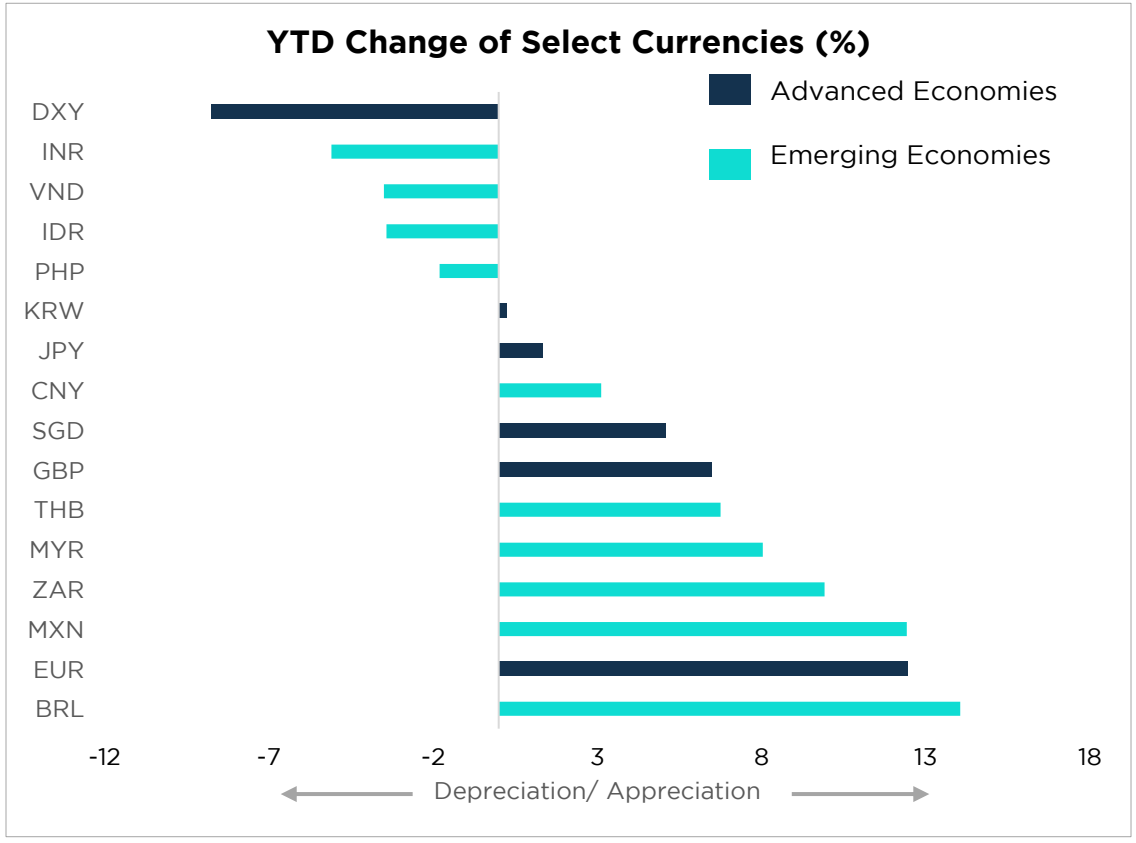
List of Content

International Landscape

Global Currencies at a Glance



Source: Refinitiv
Note: Data as of 26 November 2025
DXY measures the dollar's strength against a basket of six major currencies

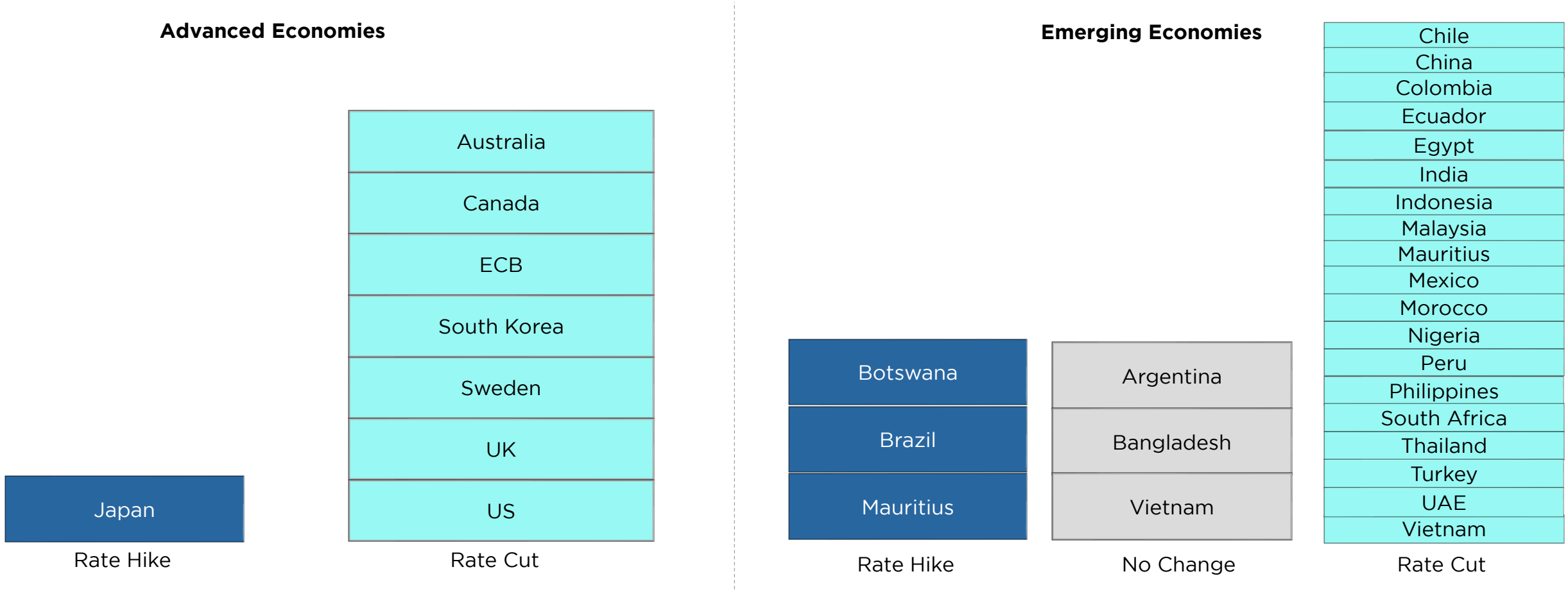


Source: Refinitiv
Note: Data as of 4 December 2025
The data represents movement against USD

- During the year, the US 10-year Treasury yield eased from nearly 4.6% to 4%.
- The Dollar Index (DXY) weakened due to a mix of factors, including heightened uncertainty around US trade policy, rising fiscal concerns, and growing expectations of Fed rate cuts. In addition, structural shifts such as increased global central banks' demand for gold also added downward pressure on the dollar.
- Consequently, several major currencies strengthened YTD against the dollar, supported by lower US yields and investors diversifying into non-USD assets.

Monetary Easing Underway Globally, with Few Exceptions

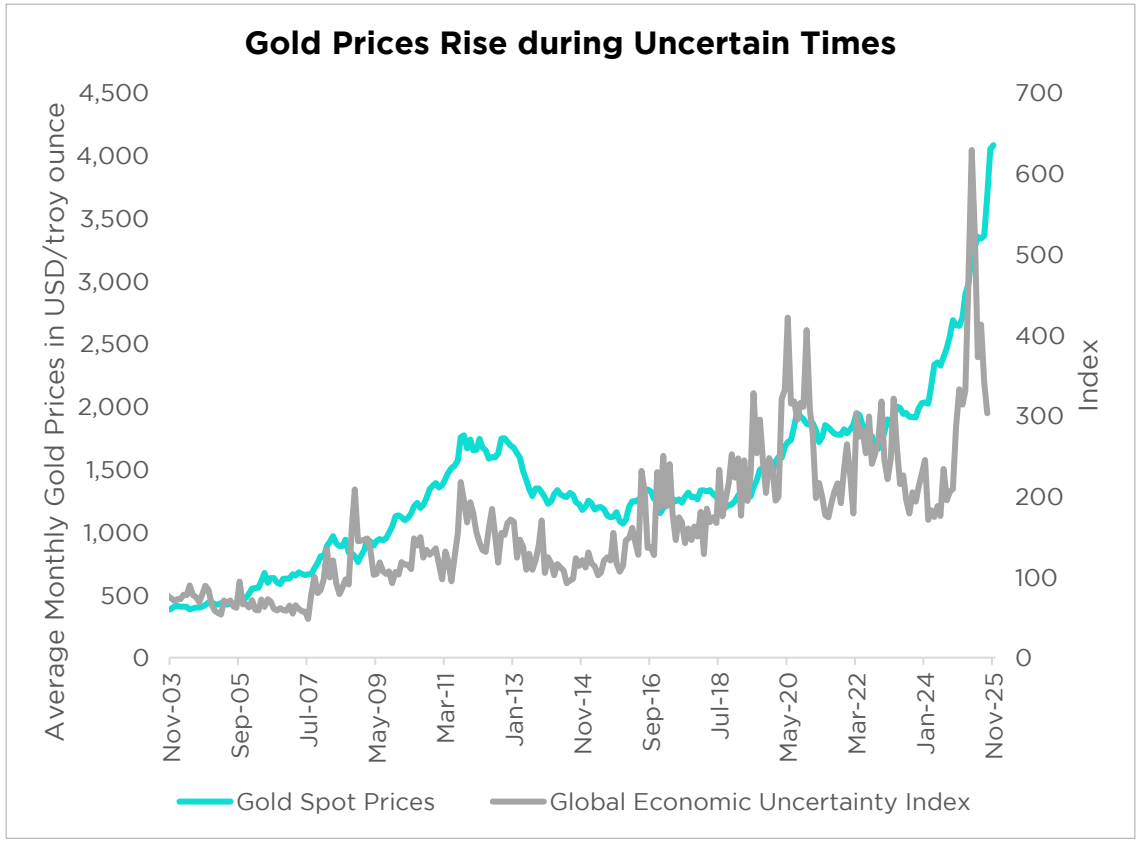
Trend in Monetary Policy Stance in the Year so Far



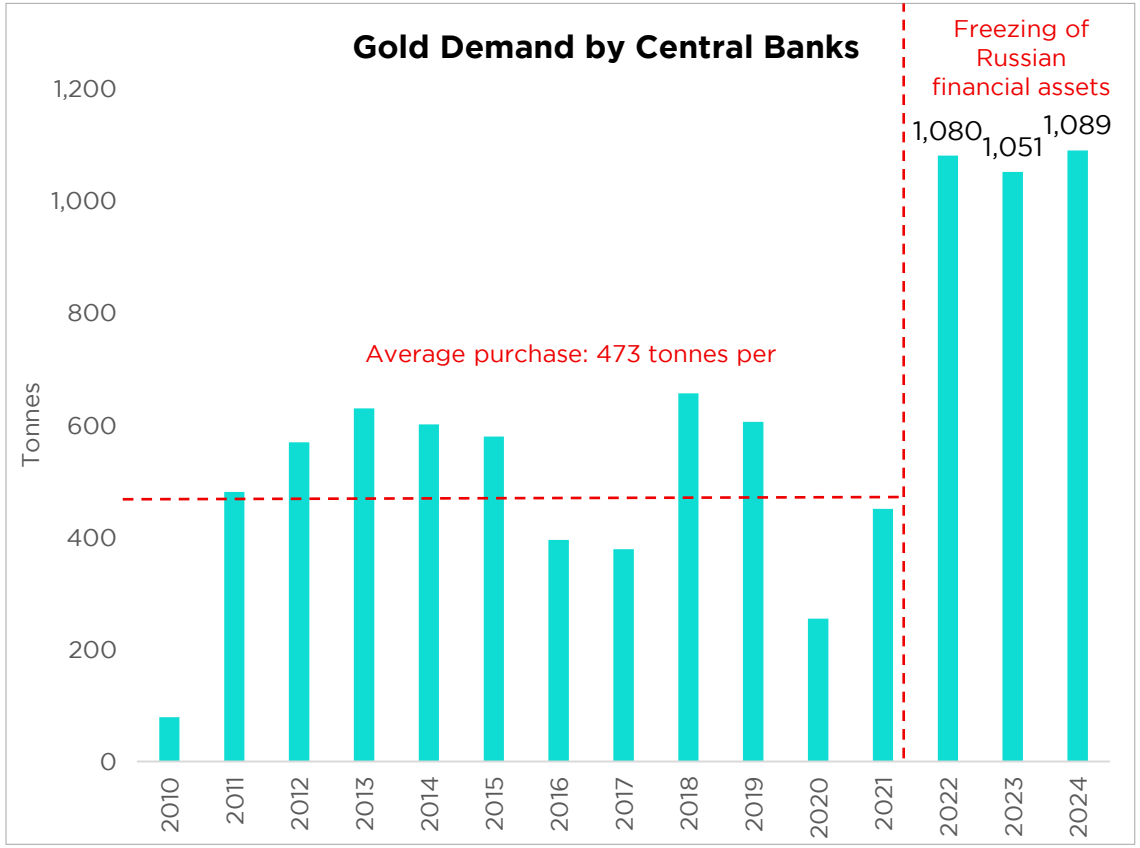
Source: CEIC

- Global deflationary trends helped create monetary space for rate cuts across most advanced and emerging economies.
- The policy rates were increased in Japan and Brazil to combat higher inflation.
- Meanwhile, policy rates were cut in the UK and the US, despite inflationary pressure in the respective countries, to support growth.

Gold: The Top Performer of the Year



Source: World Gold Council, FRED

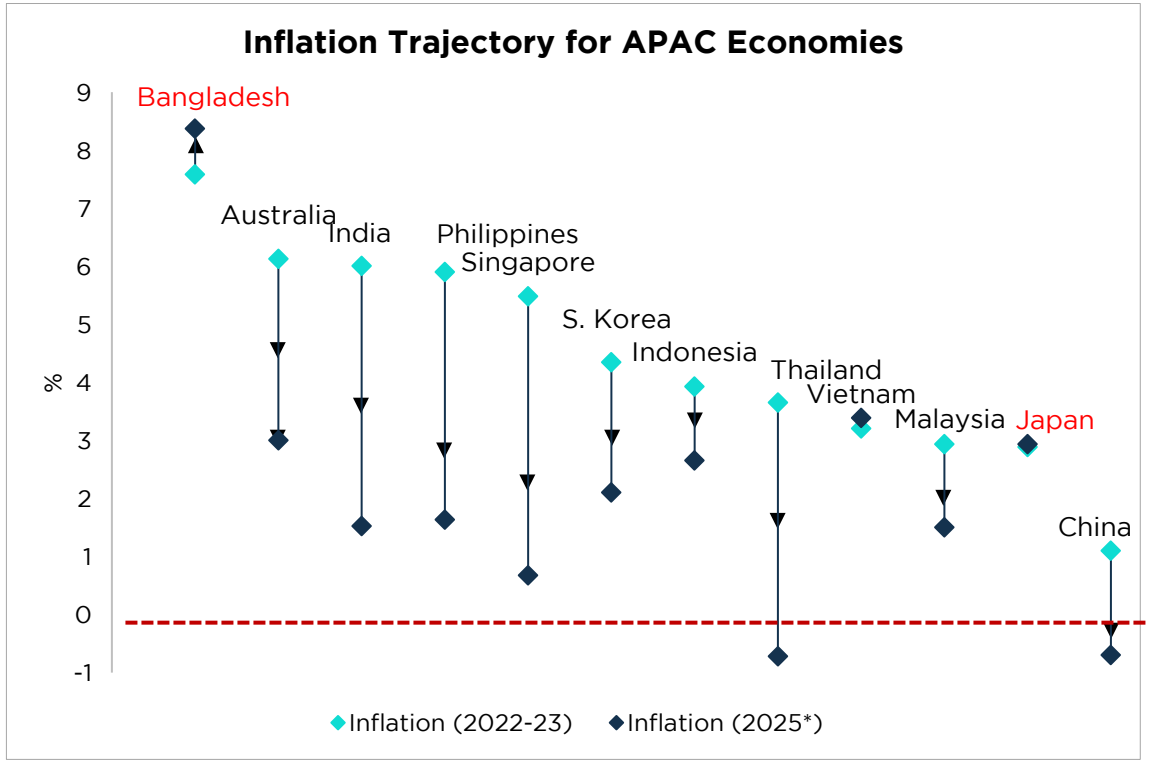


Source: World Gold Council

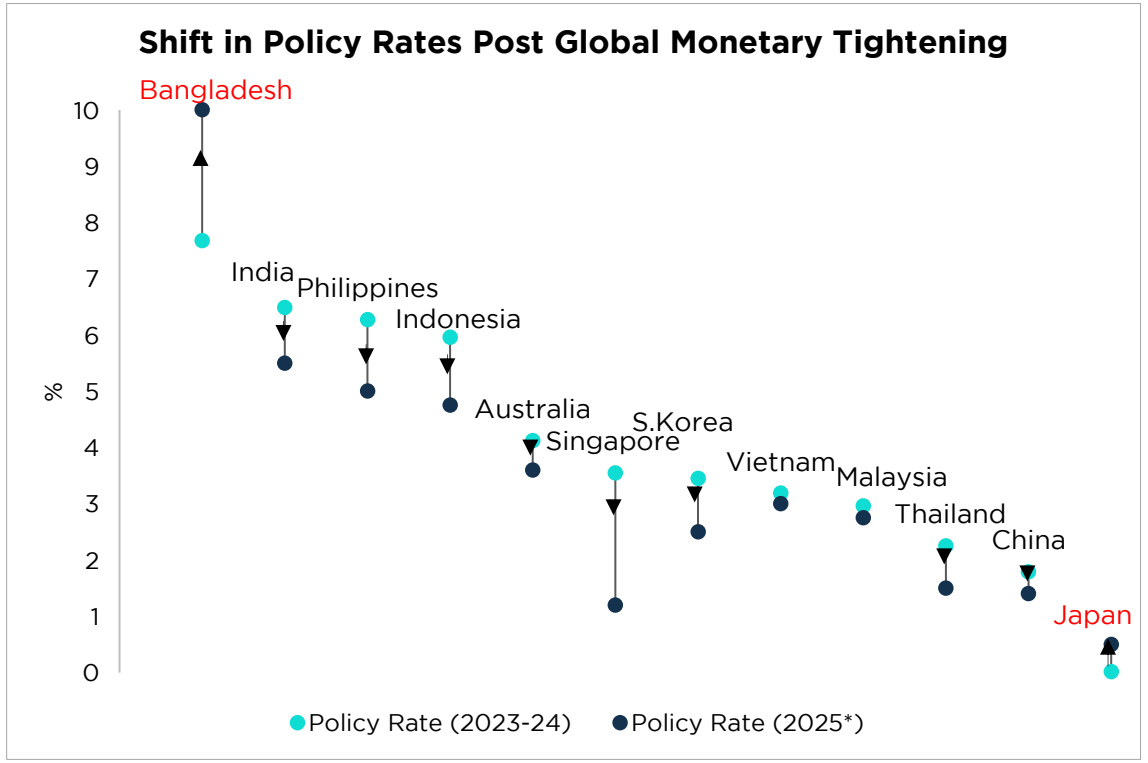
- Gold prices surged to a record high of nearly USD 4,000 in November from USD 2,700 per ounce, marking a 50% gain year-to-date.
- The metal has been a major beneficiary of a weaker dollar and continues to serve as a safe haven during geopolitical and economic shocks.
- Since 2022, central banks have accelerated gold buying to diversify reserves and reduce US dollar reliance, especially after the freezing of Russian assets that underscored the political risks of foreign-currency holdings.

Asia Pacific

APAC: Easing Inflation Added Policy Space for Most Economies to Navigate Risks



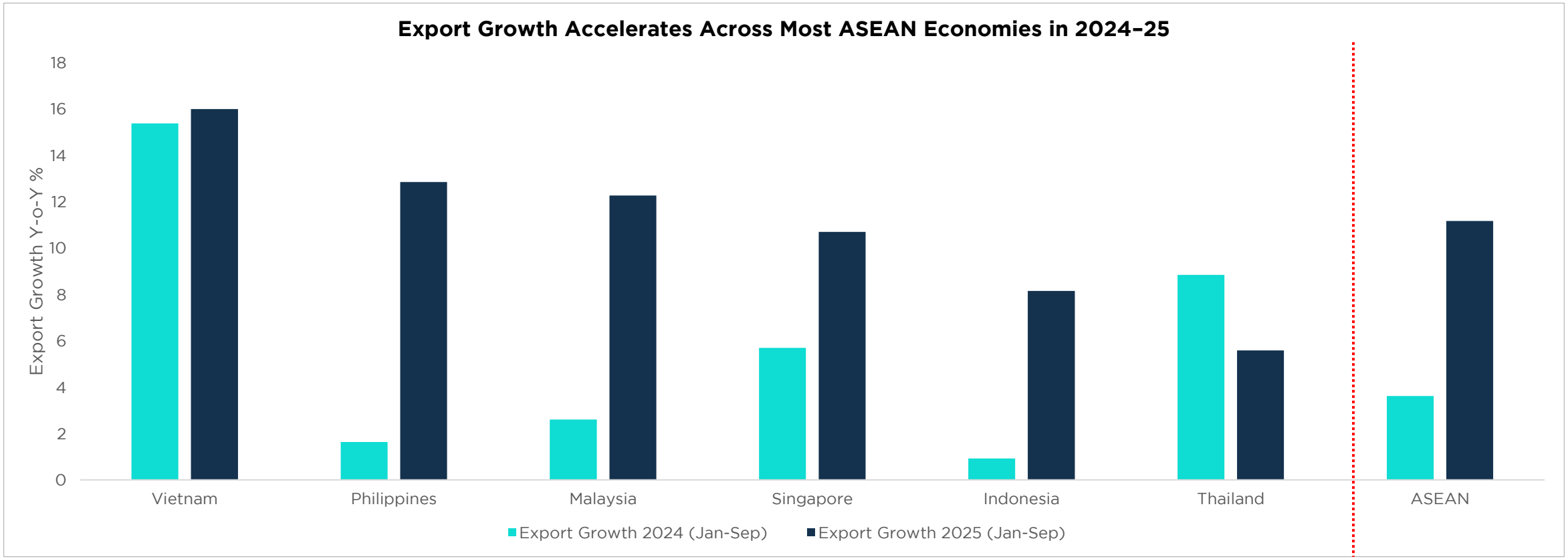
Source: CEIC, CGIL
Note: * latest available data for inflation



Source: CEIC, CGIL
Note: * latest policy rate

- With inflation moderating and policy rates declining from their peaks, most APAC economies have greater monetary policy space to manage uncertainties. China and Thailand continue to experience deflationary pressures.
- Bangladesh and Japan remain outliers to this trend due to economy-specific structural and policy challenges.

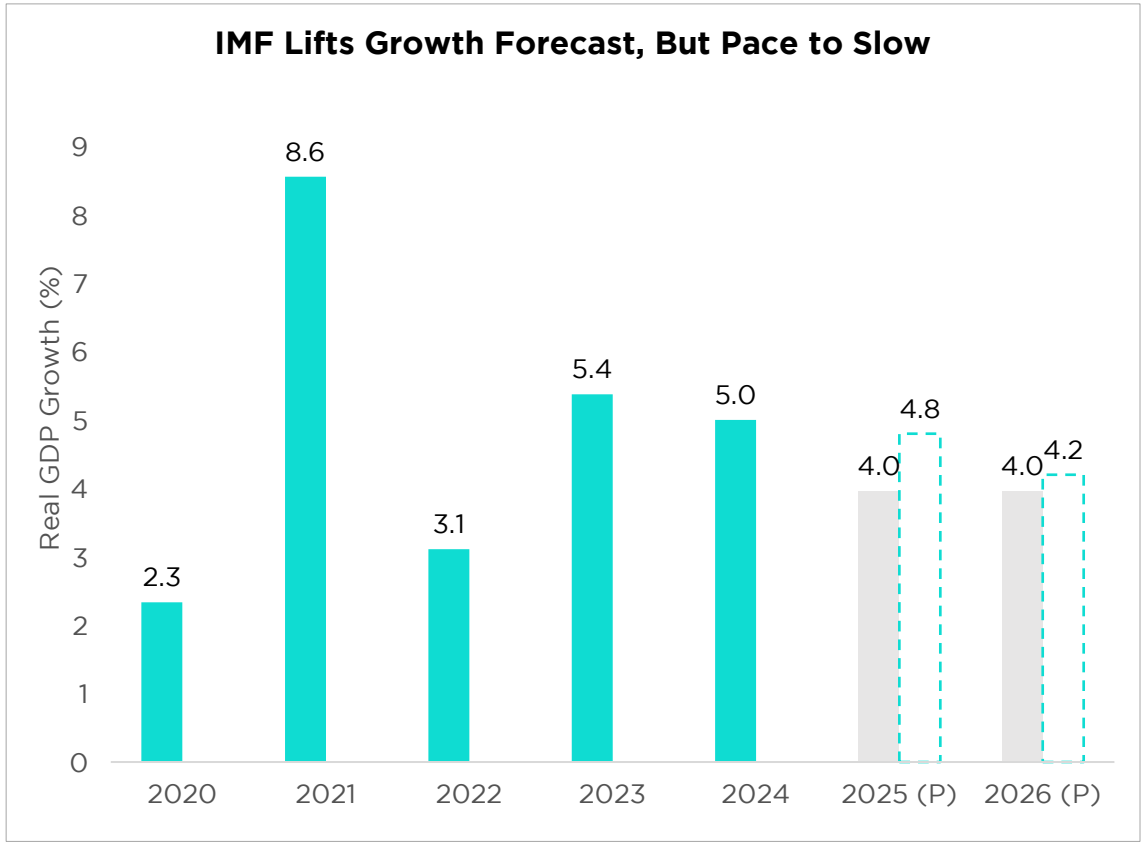
ASEAN: Front-Loaded Demand Supports Early-2025 Export Gains



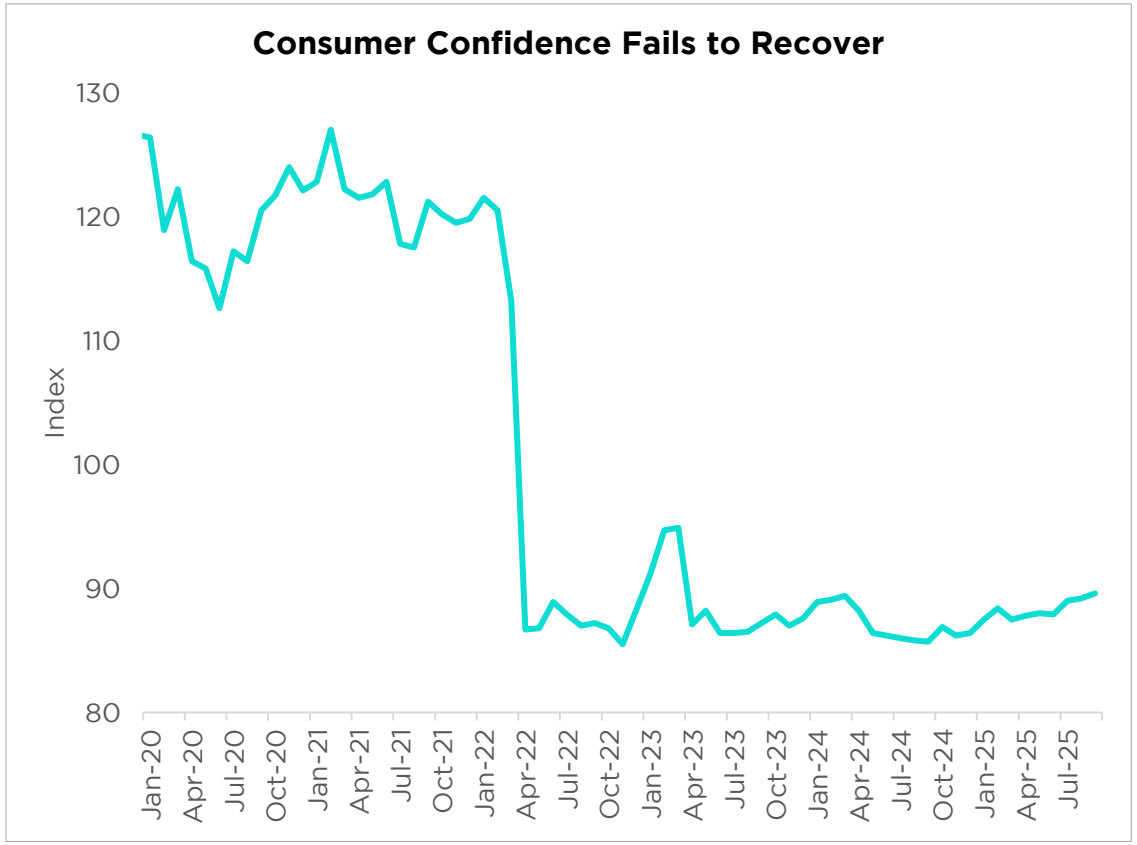
Source: CEIC, CGIL

- Pre-tariff front-loading and resilient domestic demand supported stronger growth across most ASEAN economies in the first quarter of 2025.
- However, the IMF has revised down its 2026 growth outlook for ASEAN economies, reflecting the tapering of pre-tariff front-loading, softer domestic demand, and weaker investment activity in countries such as Indonesia, Malaysia, and Thailand.

China: Growth Better Than Initially Expected, but Domestic Woes Persist



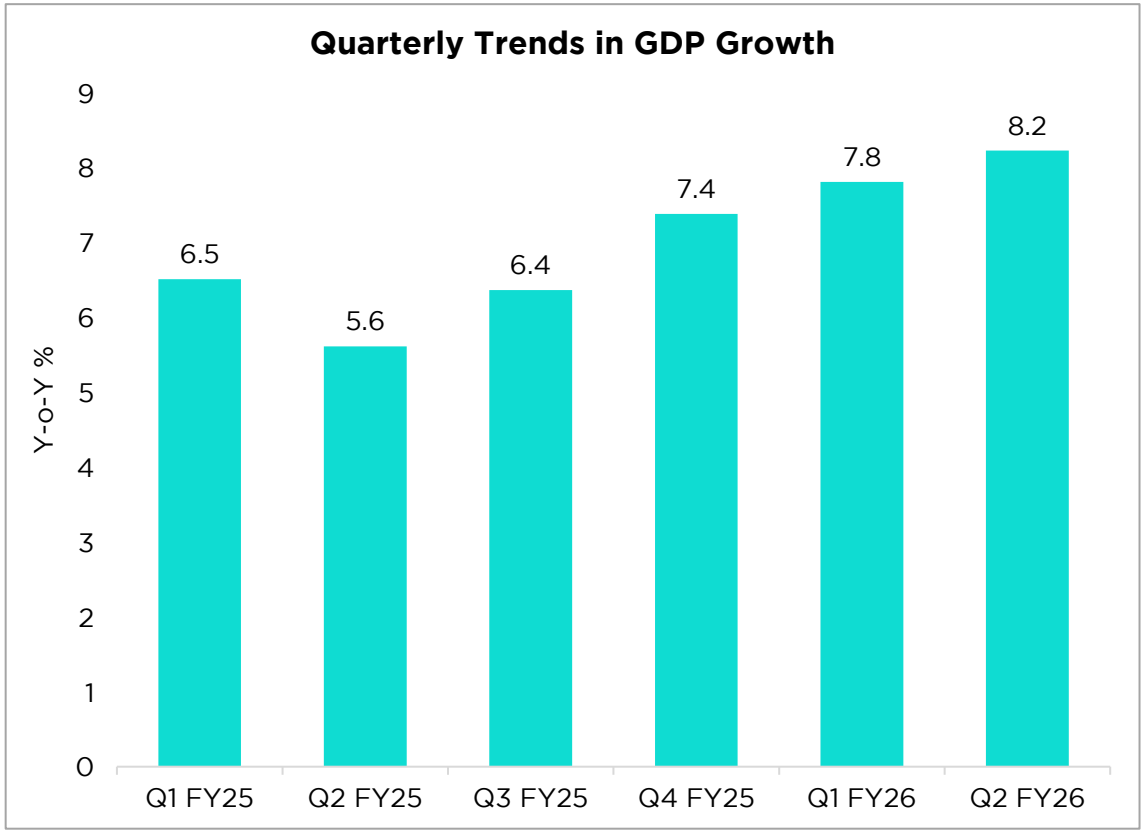
Source: IMF WEO (April & October 2025), CGIL
Note: P = Projections



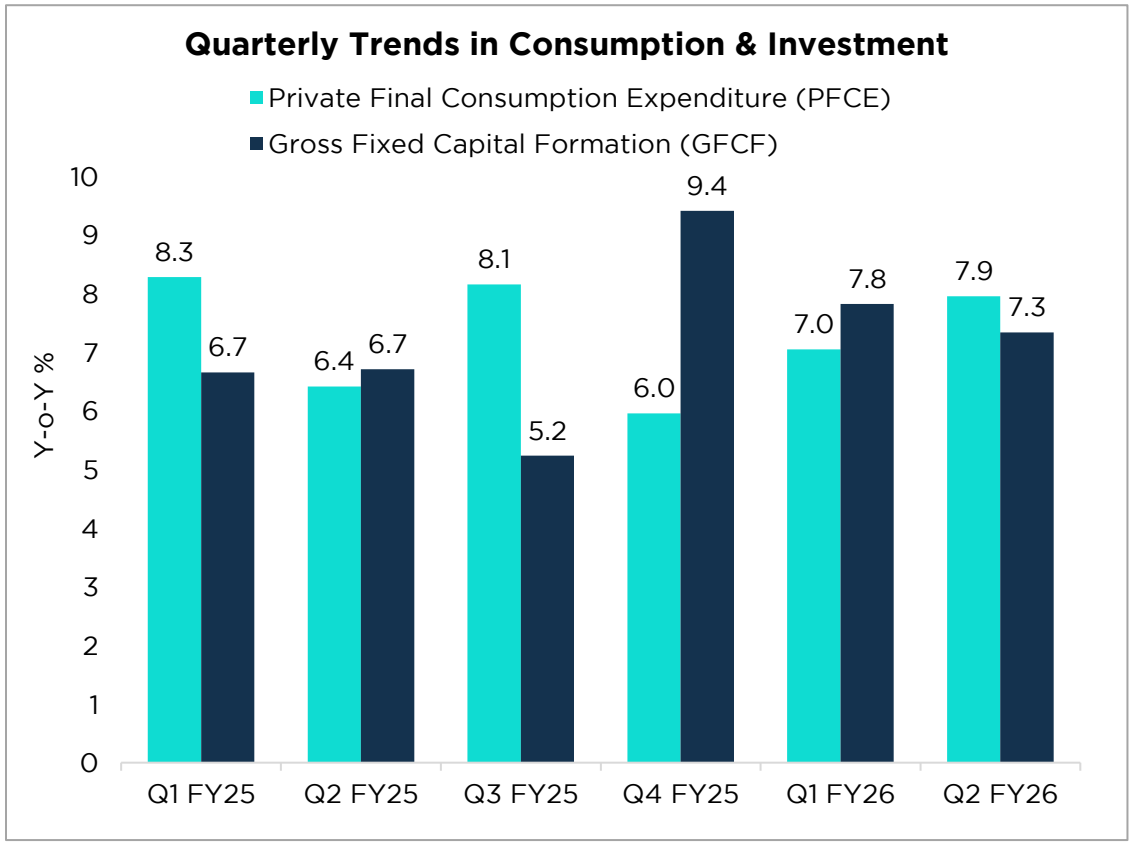
Source: National Bureau of Statistics, CEIC, CGIL

- The IMF has raised its 2025 growth forecast for China to 4.8%, up 0.8 percentage points from its April projection, reflecting better-than-expected H1 activity supported by front-loaded exports and easing US–China trade tensions from earlier triple-digit tariffs.
- Nonetheless, growth is expected to slow. The property sector slump continues to weigh on consumer confidence, keeping inflation subdued. Further, the earlier boost from the consumer goods trade-in programme appears to be fading. China's high off-budget government debt also remains a key structural challenge.

India: Q2 FY26 GDP Growth Beats Expectations



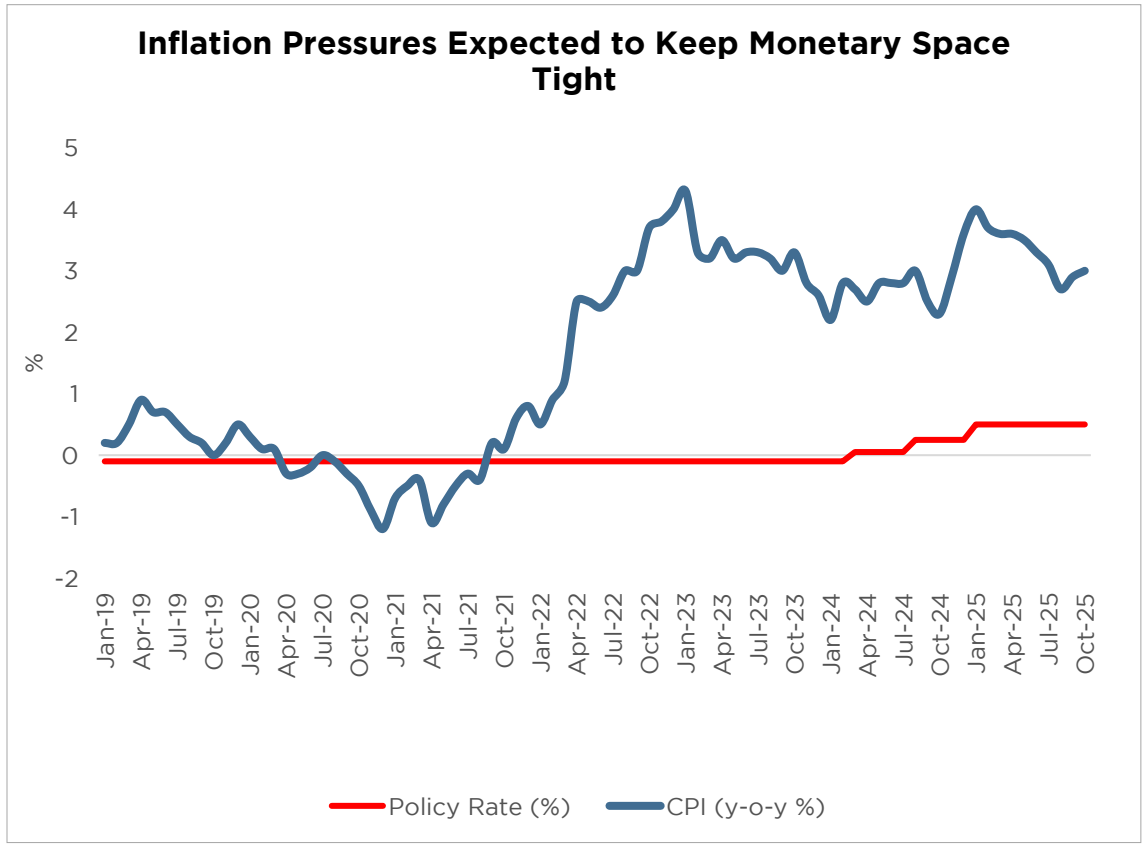
Sources: MOSPI, CareEdge



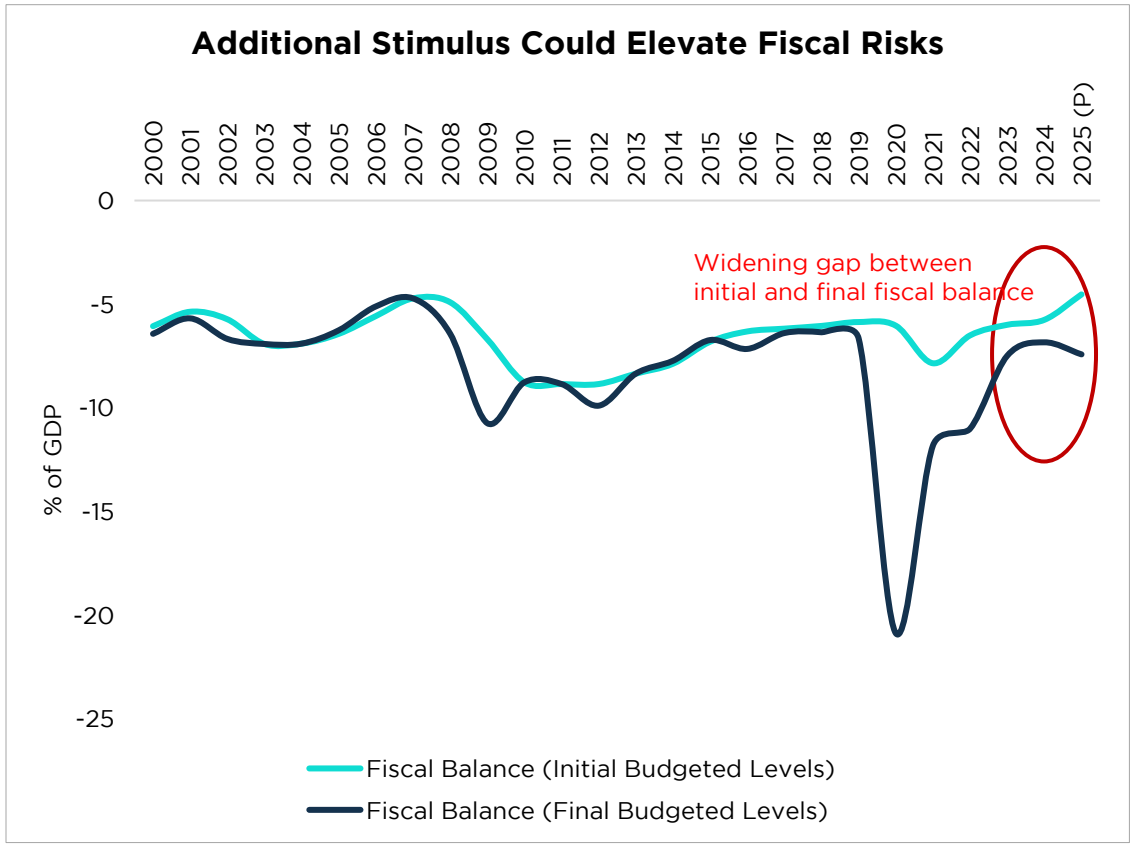
Sources: MOSPI, CareEdge

- Income tax cuts, GST rationalisation, early festive season and easing inflation supported the acceleration in PFCE (consumption) to 7.9% in Q2.
- Despite some moderation, the growth in GFCF (investment) remained encouraging at 7.3% in Q2 on the back of supportive public capex.
- The low base of the previous year and the low deflator also pushed up the GDP growth rate.
- Looking ahead, we expect the GDP growth to moderate to ~7% in H2 from an average of 8% in H1. We estimate the FY26 GDP growth at 7.5%.

Japan: Persistently High Inflation and Rising Policy Trade-offs



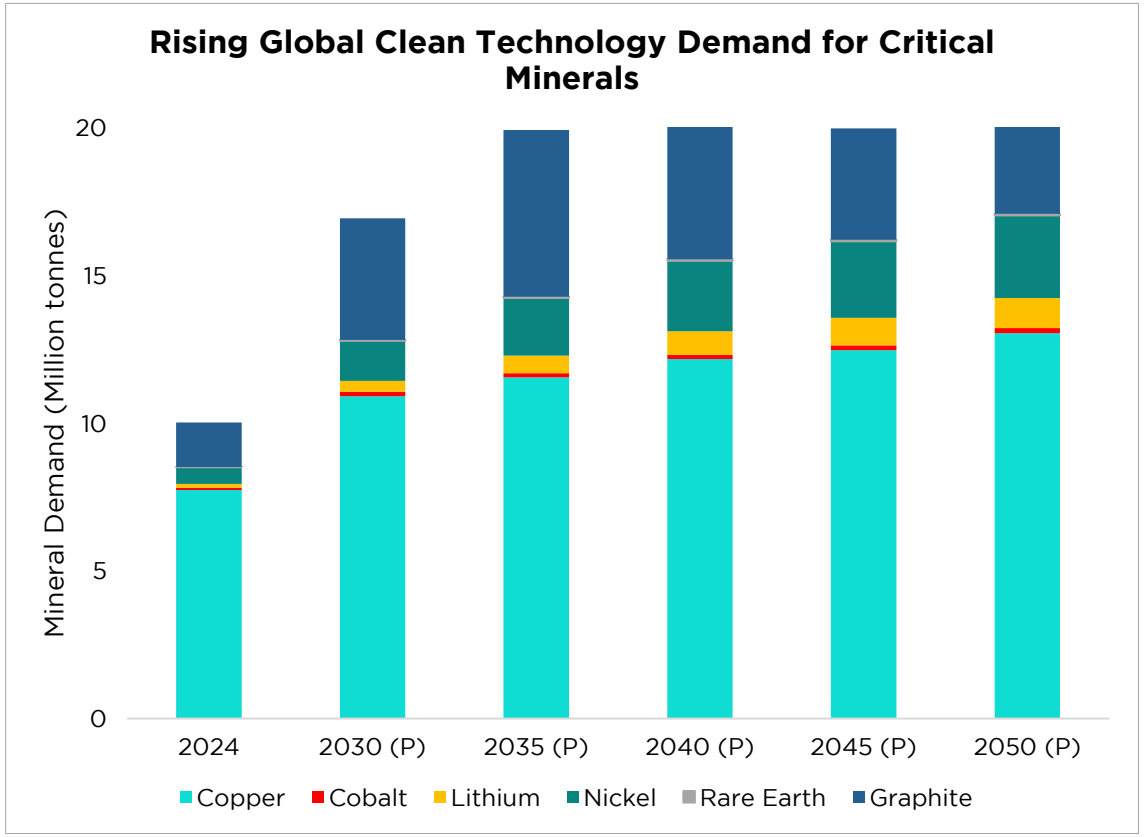
Sources: BOJ



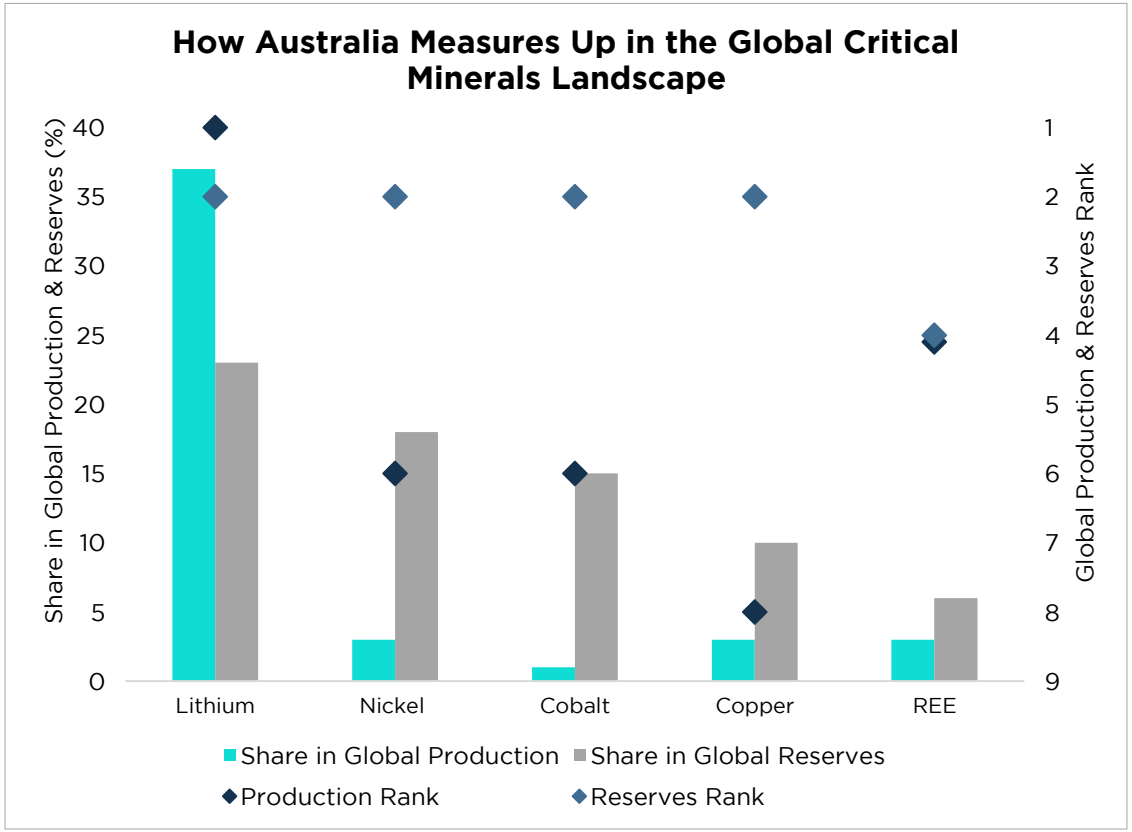
Sources: Ministry of Finance, Japan
Note: (P) Projections includes initial planned budget passed in March 2025 & Final budget includes the additional supplementary budget recently passed

- Japan's inflation has remained stubborn at around 3.3% (Jan-Oct 2025), well above the 2% target, while a depreciating yen continues to raise imported inflation risks. These dynamics are likely to keep monetary conditions tight, increasing the probability of BoJ rate hikes in the coming months.
- To counter rising cost pressures, PM Takaichi has unveiled an expansionary stimulus of ~3.5% of GDP, centred on tax cuts and subsidies. While supportive in the near term, this stance could elevate fiscal vulnerabilities, given Japan's already high debt burden of ~236% of GDP (2024).

Australia: Critical Mineral Advantage



Source: International Energy Agency (Global Critical Minerals Outlook 2025)



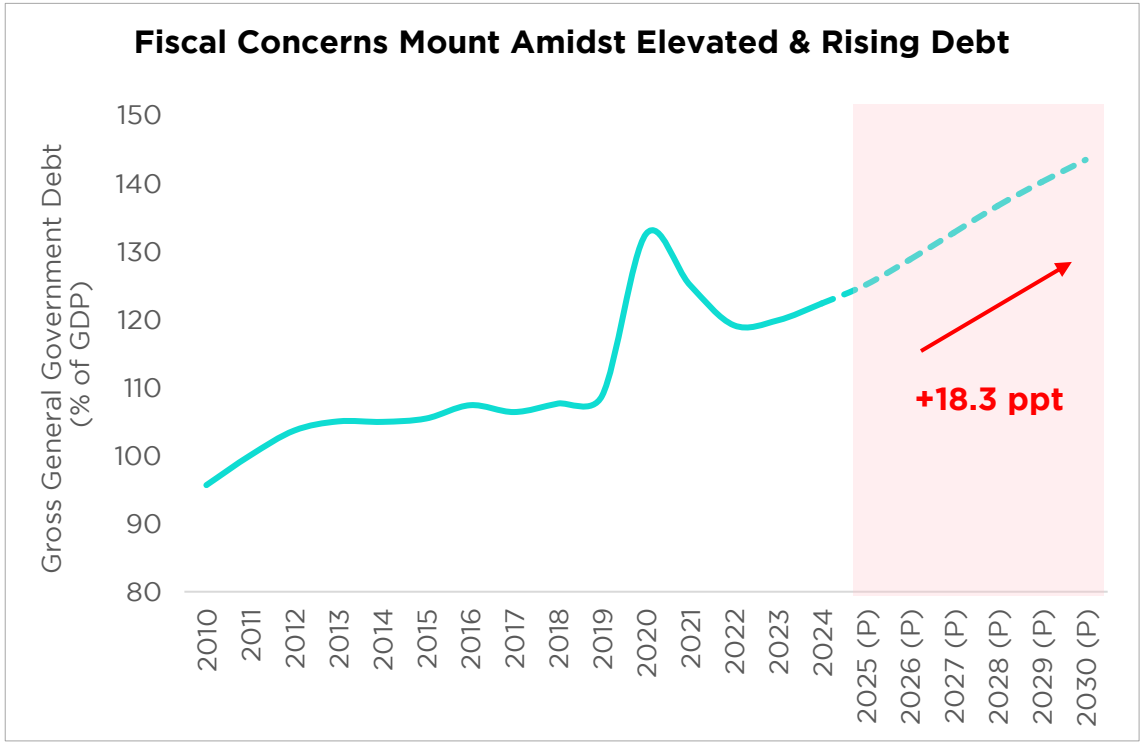
Source: U.S. Geological Survey (USGS) Mineral Commodity Summaries

- As the world shifts to a low-carbon future, demand for critical minerals such as lithium, nickel, copper, cobalt, graphite, and rare earths is expected to rise rapidly due to their role in clean energy technologies.

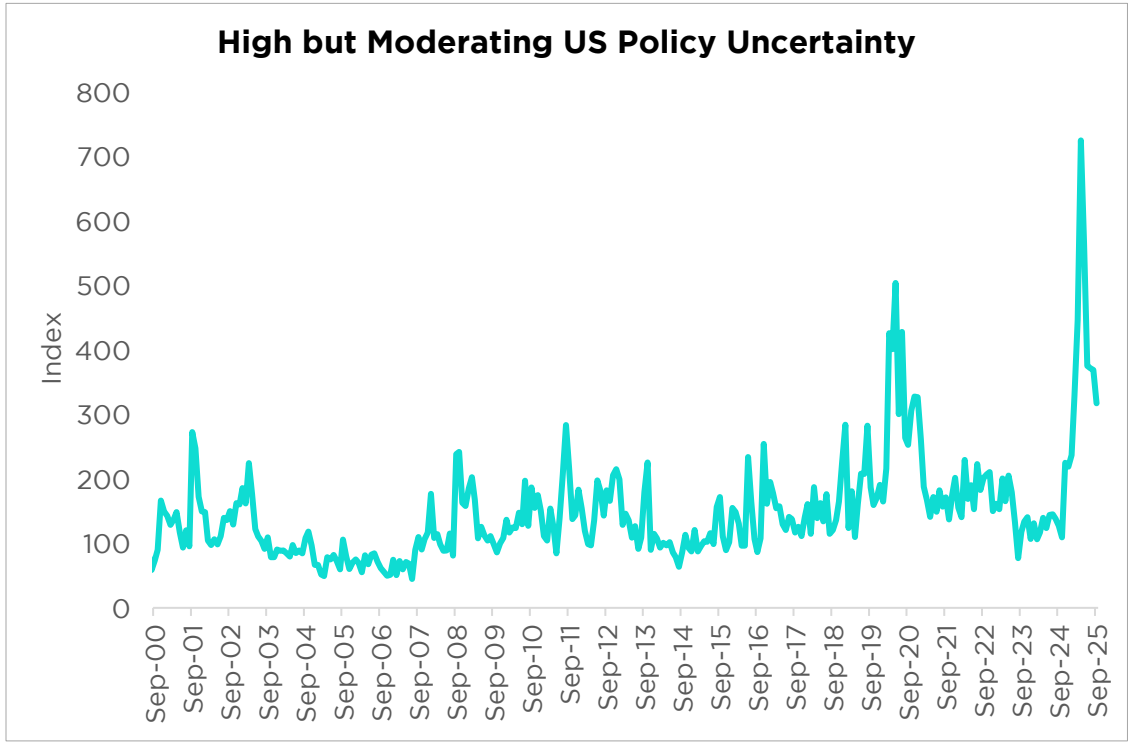
- Australia already plays a leading role in lithium. It holds large untapped reserves of other key transition minerals, placing it in a strong position to support future clean energy supply chains.

The Americas

US: Fiscal Pressures & Policy Uncertainty Weigh on Credit Outlook



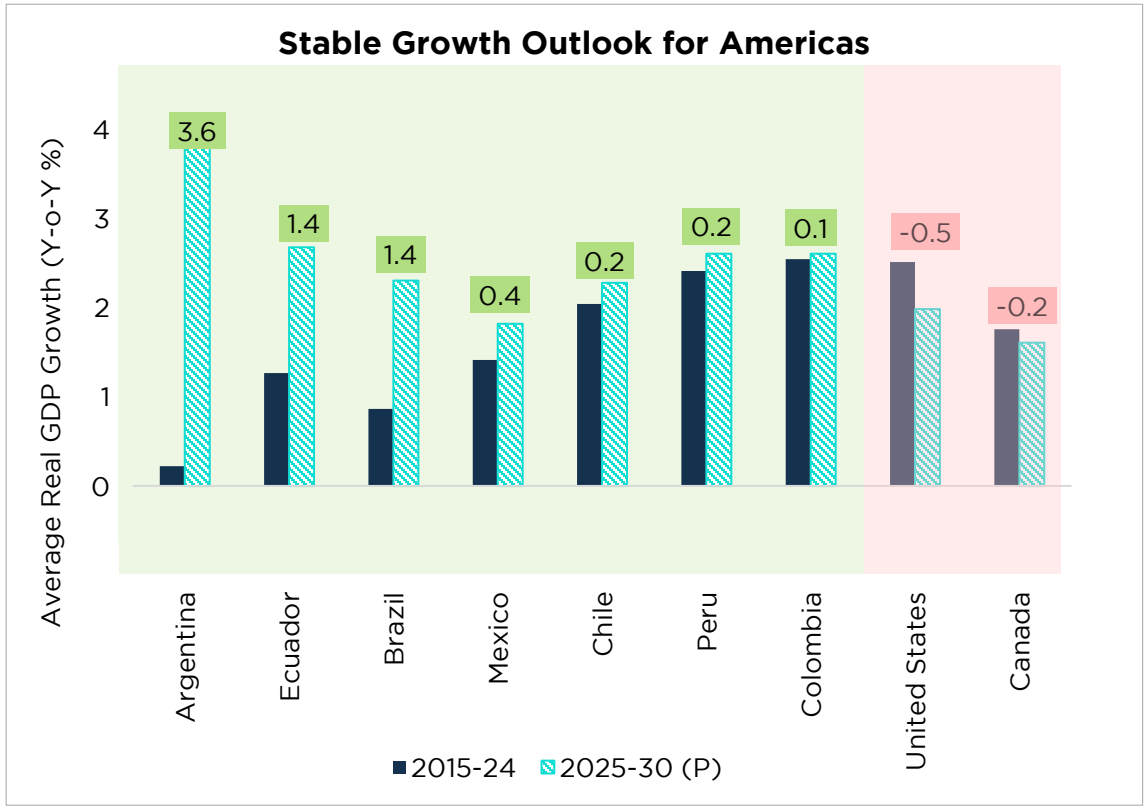
Source: IMF WEO (October 2025), CGIL
Note: P = Projections; ppt = Percentage Points



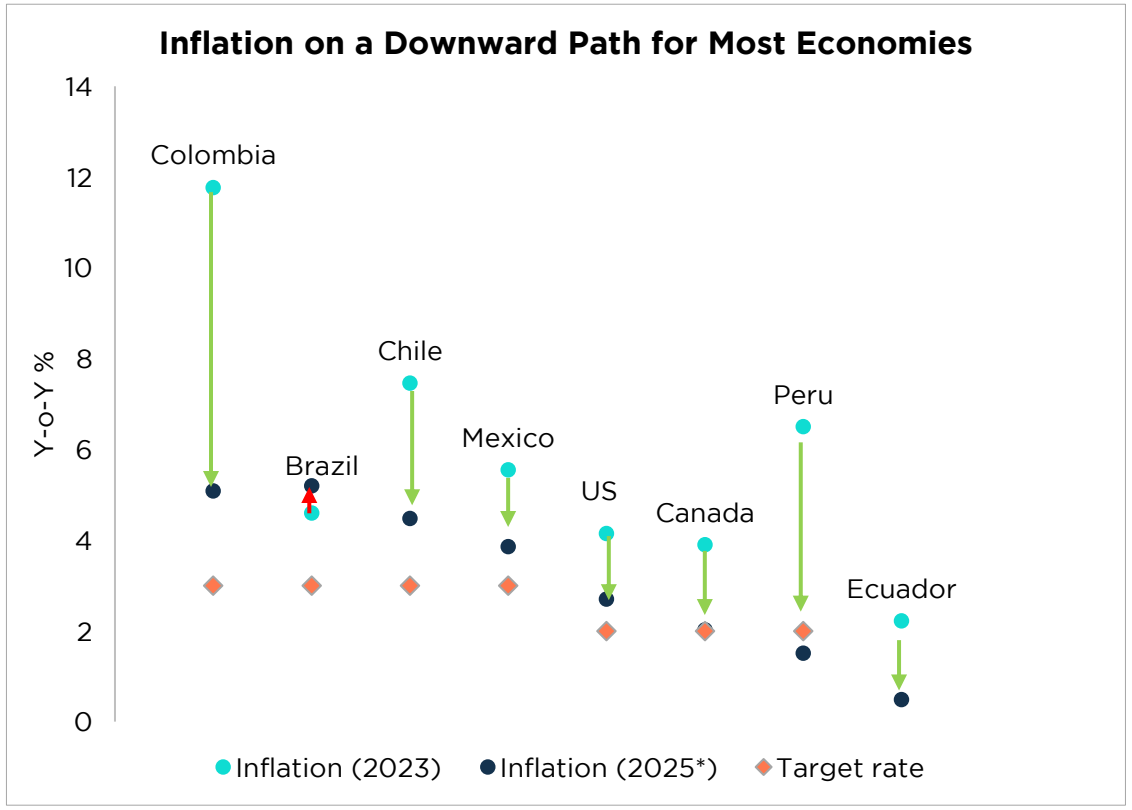
Source: Economic Policy Uncertainty, CEIC, CGIL

- During the year, we assigned a 'Negative' outlook to the rating of the US, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA+ (Unsolicited)'.
- The negative outlook reflects our view that the sovereign debt and the interest servicing burden are likely to remain elevated over the medium term. Further, the ongoing environment of policy uncertainty has the potential to weaken the government's effectiveness and the traditionally strong institutions and governance.
- Nevertheless, the credit profile of the US continues to be supported by its large economy, high per-capita income, and strong innovation. Its funding flexibility, underpinned by the US dollar's status as the primary global reserve currency, remains an important factor supporting its creditworthiness.

Americas: Stable Growth Outlook for the Region; Inflation Eases



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



Source: IMF, CGIL; (P): IMF Projections
Note: *Average Inflation rates of the economies for 2023 & 2025; Ecuador is a dollarized economy and does not have an officially stated inflation target rate

- Most emerging economies in this region have limited direct trade exposure to the US, which helps cushion them from external uncertainty. However, heavy reliance on commodity exports could keep growth volatile.
- Advanced economies (Canada and the US) are expected to grow at a marginally lower rate compared to their past 10-year average growth rate.
- Disinflation is underway for many American economies, though the process remains gradual.

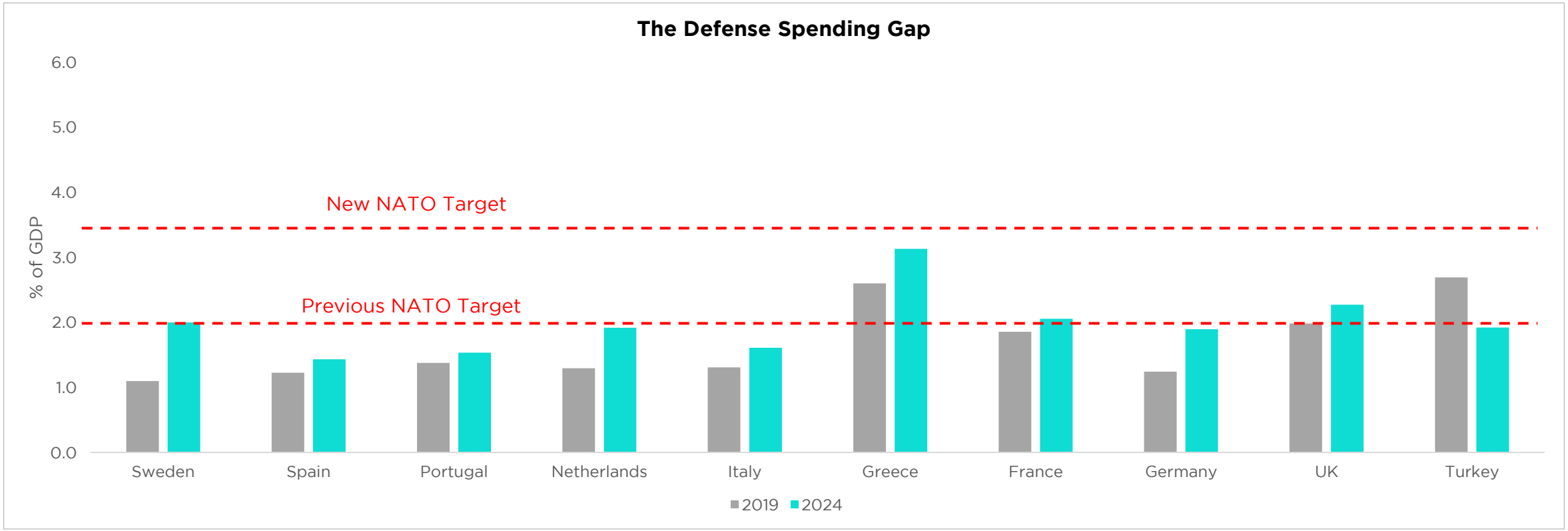
2025 Marked the Start of the Election Cycle for LATAM Economies

Country	Date of Election	Election Type	Seats Up for Election		Result/Remarks
Ecuador	09 Feb 2025 (Round 1) 12 Apr 2025 (Round 2)	General Election (Presidential + Parliamentary)	National Assembly	151 out of 151	• Daniel Noboa re-elected as President in the second and final runoff • Opposition (RC+RETO) secured narrow majority (67) over Daniel Noboa's AND (66)
Argentina	26 Oct 2025	Mid-term (Parliamentary)	Chamber of Deputies	127 out of 257	• The results were decisive in favour of incumbent President Javier Milei's LLA, strengthening its position in both houses
			Senate	24 out of 72	
Chile	16 Nov 2025 (Round 1) 14 Dec 2025 (Round 2)	General Election (Presidential + Parliamentary)	Chamber of Deputies	155 out of 155	• Jeannette Jara and Jose Antonio Kast will be running for the office of the President in the second and final runoff • Right Wing parties have strengthened their position in both houses
			Senate	27 out of 50	
Peru	12 Apr 2026	General Election (Presidential + Parliamentary)	Congress	130 out of 130	• The current tenure has been very unstable with frequent changes in leadership, including impeachment of two Presidents
Colombia	March & May 2026	General Election (Parliamentary + Presidential)	House of Representatives	162 out of 162	• As the current tenure of the country's first Left-wing President comes to an end, policy continuity remains a key monitorable
			Senate	100 out of 100	
Brazil	Oct 2026	General Election (Presidential + Parliamentary)	Chamber of Deputies	513 out of 513	• The path toward fiscal consolidation and policy continuity remains a key monitorable
			Senate	54 out of 81	

Completed Elections | Ongoing Elections | Upcoming Elections

Europe

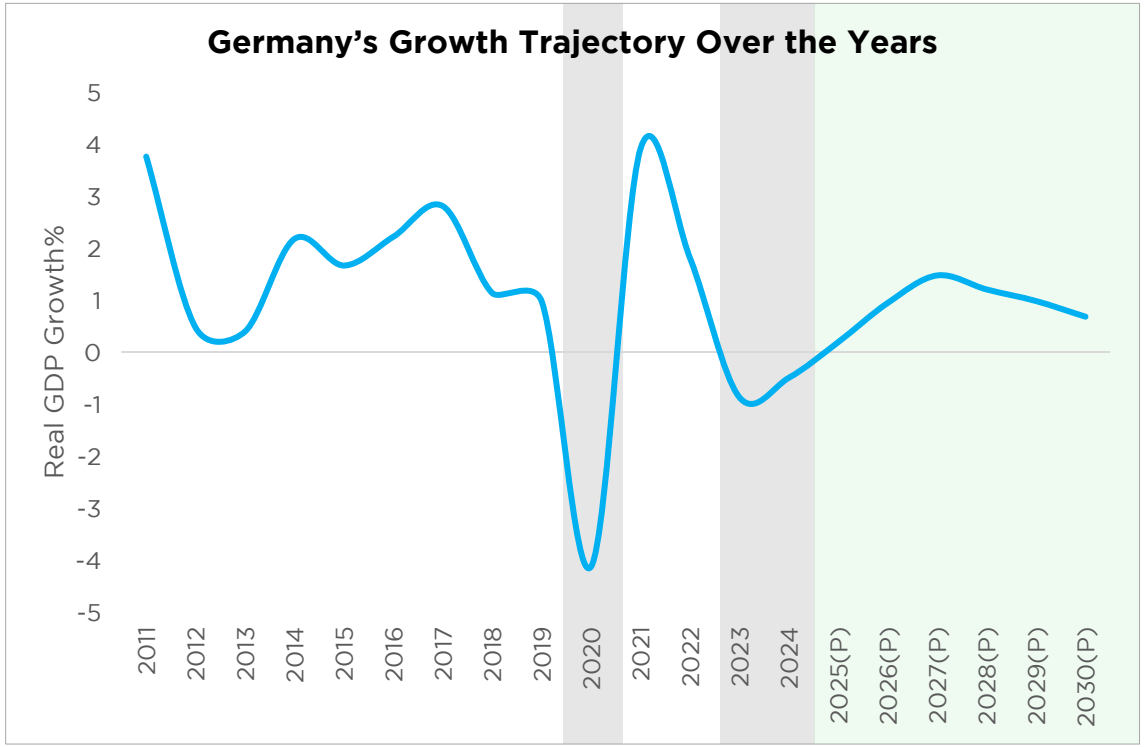
Europe: Rising Defence Commitments



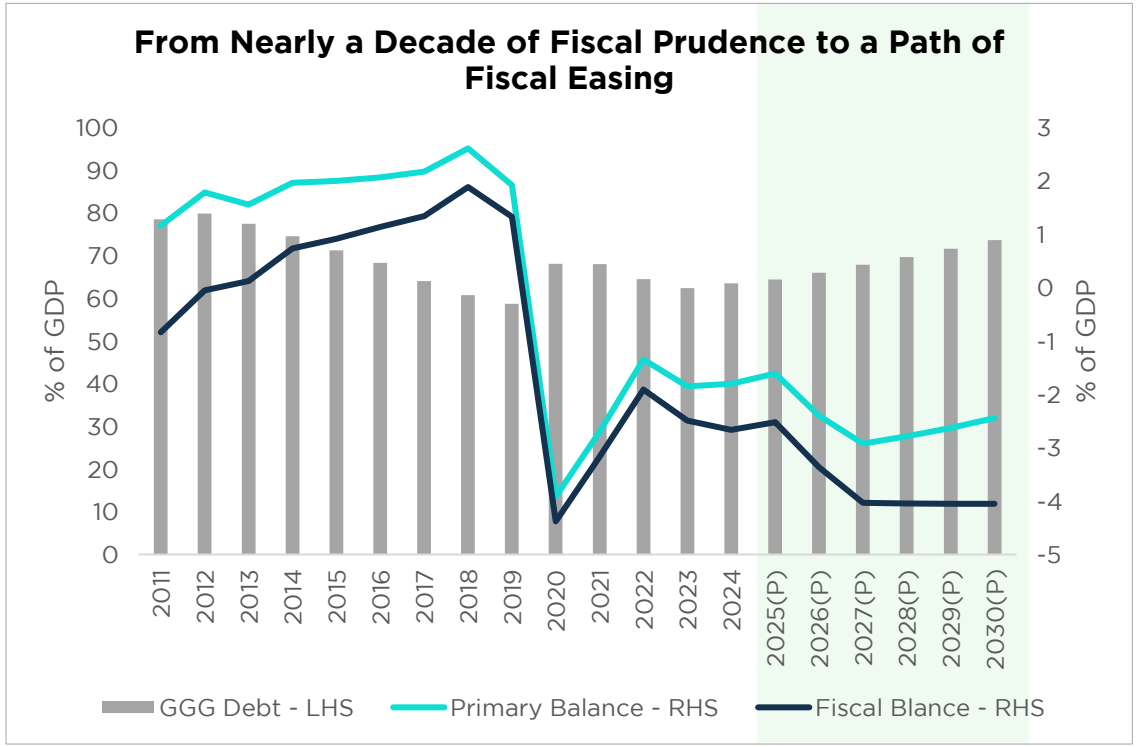
Source: SIPRI

- At the 2025 summit in The Hague, NATO committed to raising its defense-spending target from 2% to 5% of GDP by 2035.
- This 5% is split into 3.5% for core military capability and 1.5% for broader security and infrastructure needs.
- This dramatic increase reflects escalating geopolitical threats and a push for burden-sharing among allies.
- For many European economies, this poses a substantial fiscal burden, forcing difficult trade-offs that could crowd out spending on social programs, climate initiatives, infrastructure, and public welfare.

Germany: From Fiscal Hawk to Loosening



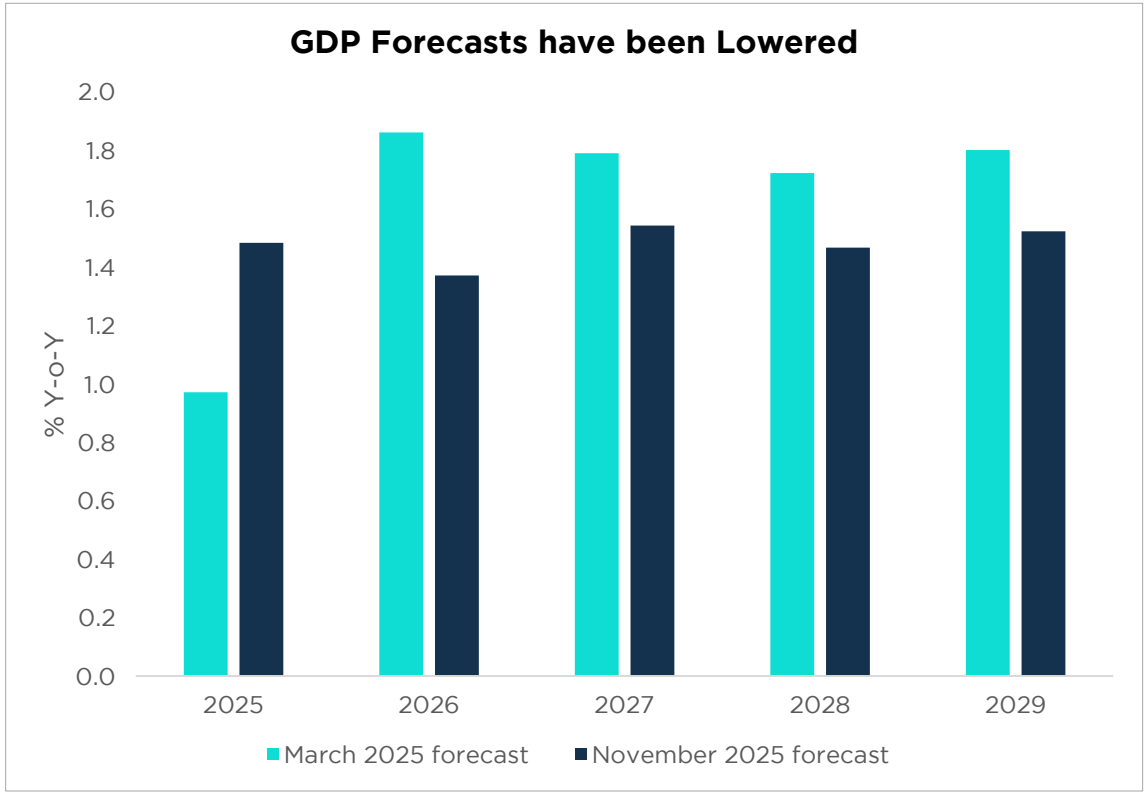
Source: IMF
Note: P = Projections
The Grey Shaded Portions show Recession



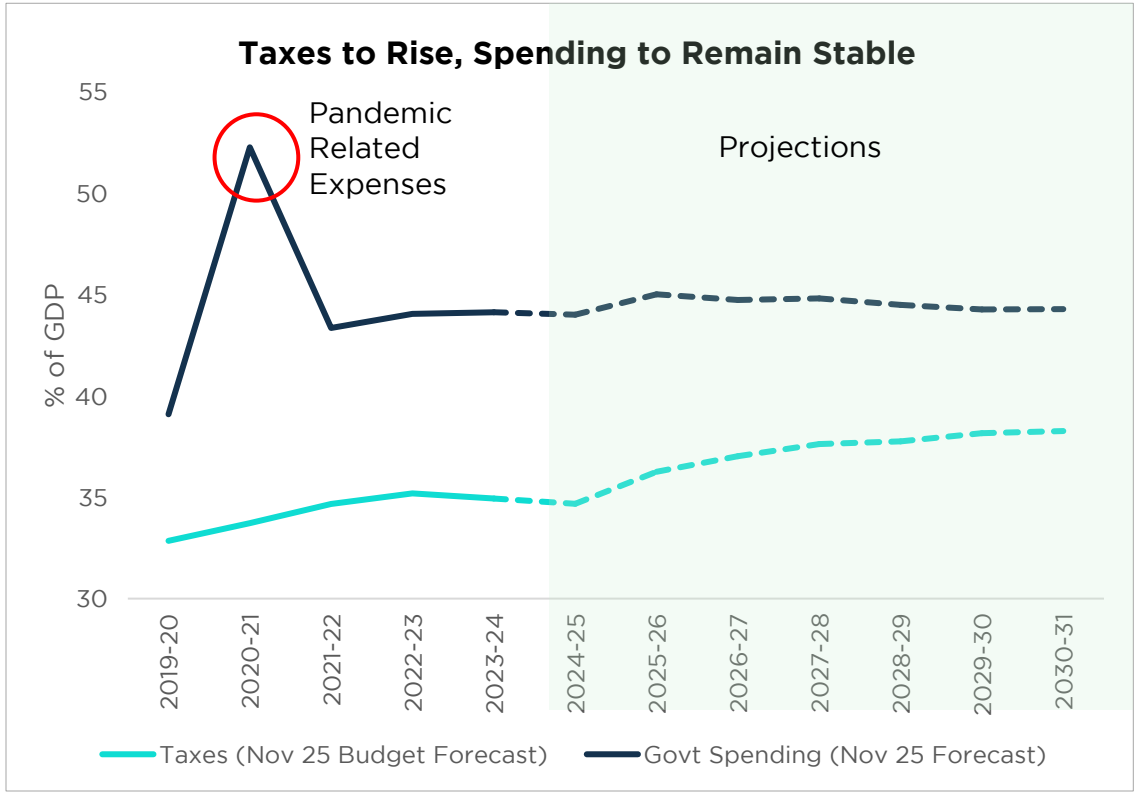
Source: IMF
Note: P = Projections, GGG = Gross General Government

- Germany started to slowdown since 2017 due to weak investment, declining exports, soaring energy costs from the Russia–Ukraine war, and persistent structural challenges.
- In response, March 2025 saw a historic fiscal U-turn: the government loosened long-standing debt-brake limits, exempted defense and major investment spending from borrowing caps, and launched a EUR 500 billion infrastructure and investment fund.
- This bold shift from austerity to expansive public investment aims to revive growth, modernize infrastructure, accelerate energy and digital transitions, and tackle deep-seated structural weaknesses.

UK: Fiscal Pressures Continue



Source: ONS, OBR, November 2025 Projections

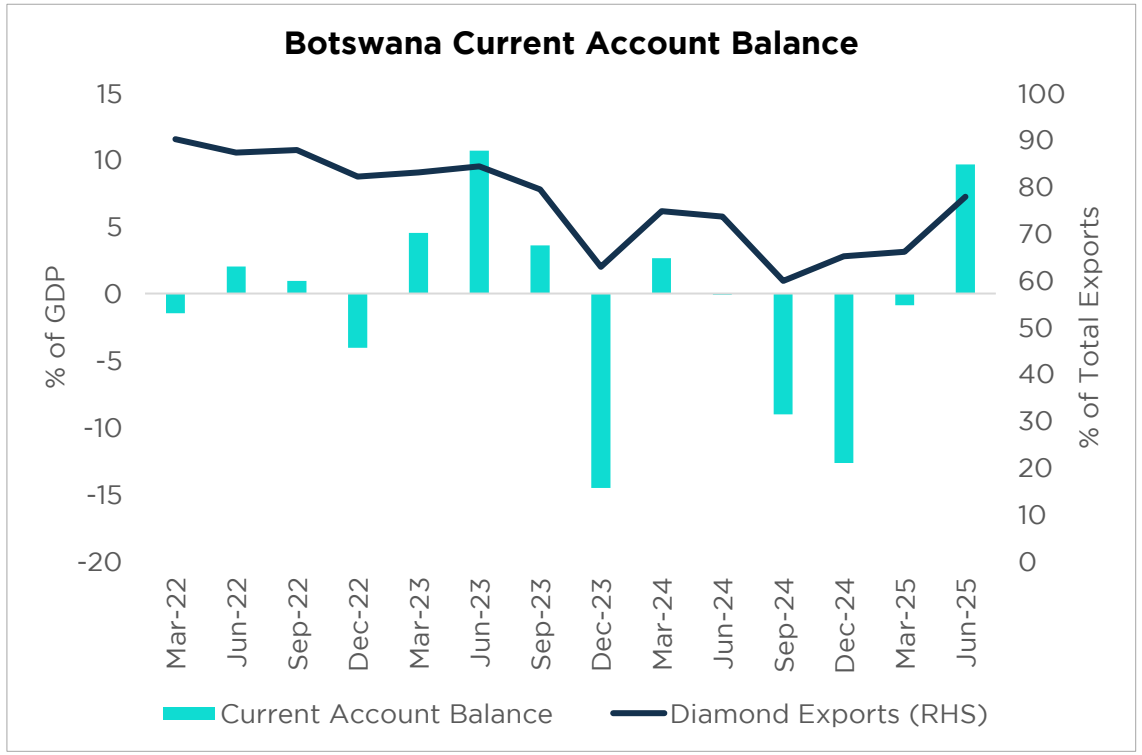


Source: ONS, OBR, November 2025 Projections

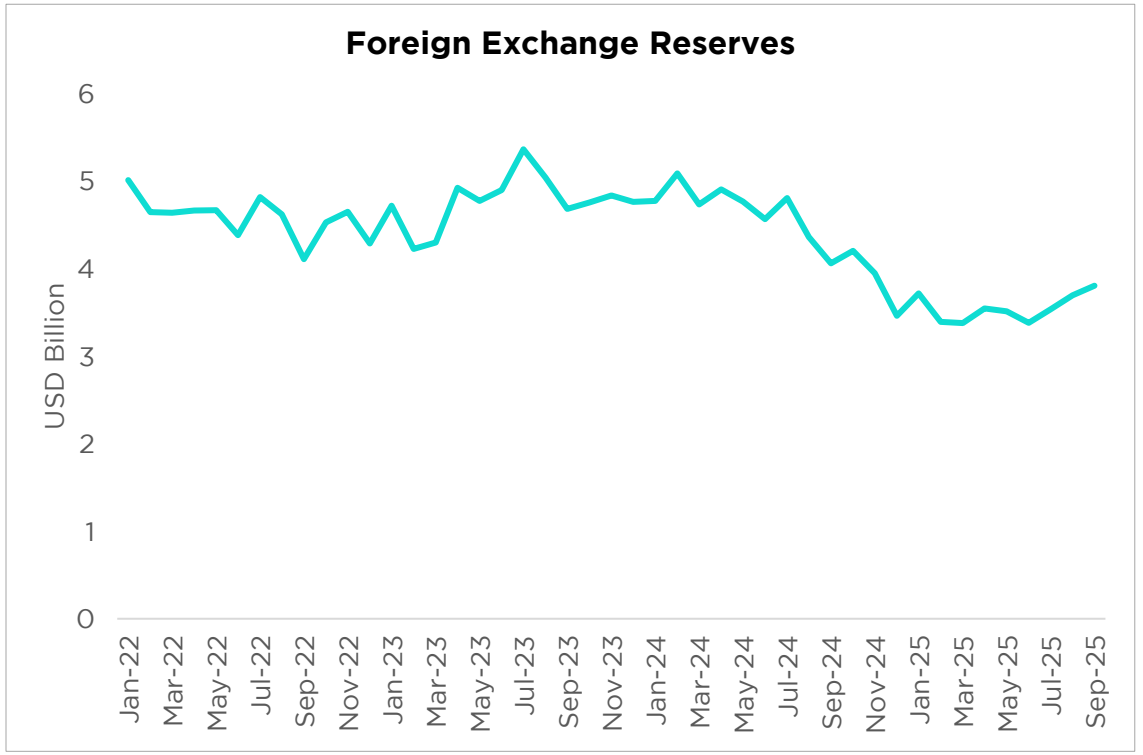
- The UK's average annual GDP growth is expected to be around 1.5 % for the next 5 years, 0.3% lower than the previous estimate, according to the Office of Budget Responsibility (OBR). Weak productivity gains and higher inflation are two primary reasons for the cut in growth forecasts.
- The current budget outlines substantial tax increases extending through 2030–31. As a result, the tax-to-GDP ratio is projected to reach a historic high of 38% by 2030-31, up from 34.7% currently.
- At the same time, government spending is expected to remain elevated. Following the failure to pass proposed welfare-spending cuts early this year, the government has postponed broader spending reforms.
- The UK's budget-deficit strategy is set to rely increasingly on tax rises rather than expenditure reductions.

Africa

Botswana: External Position Reflect Signs of Recovery



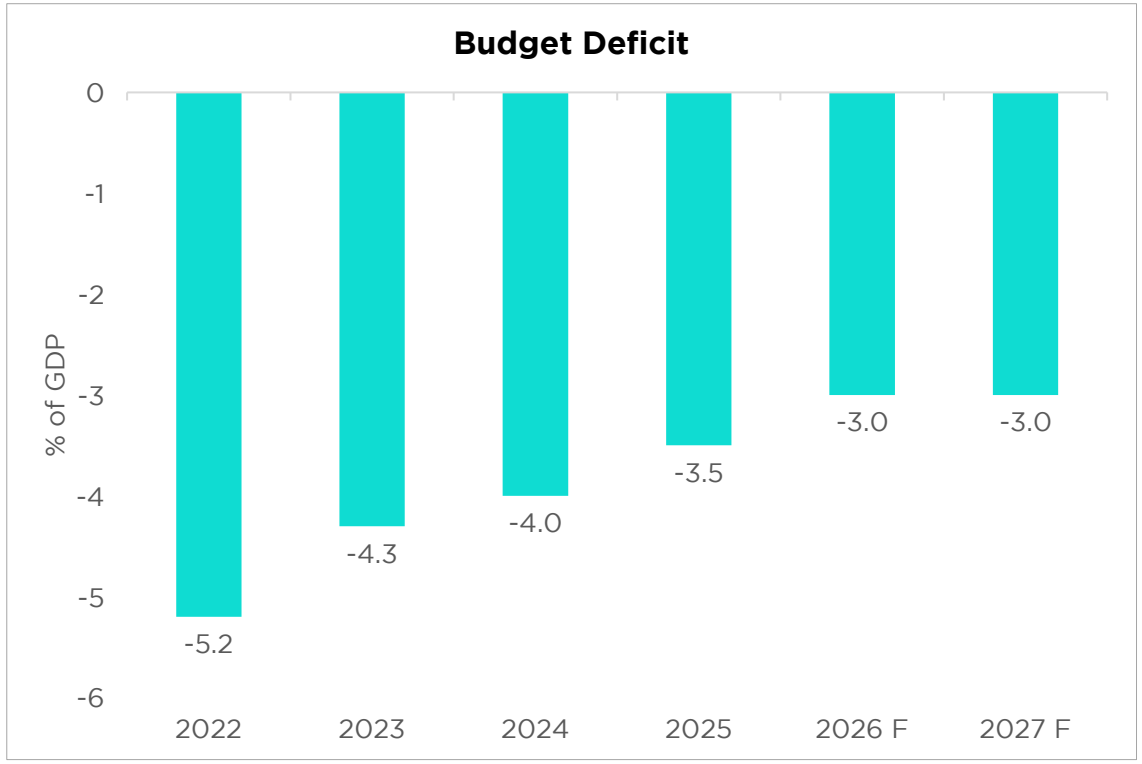
Source: CEIC



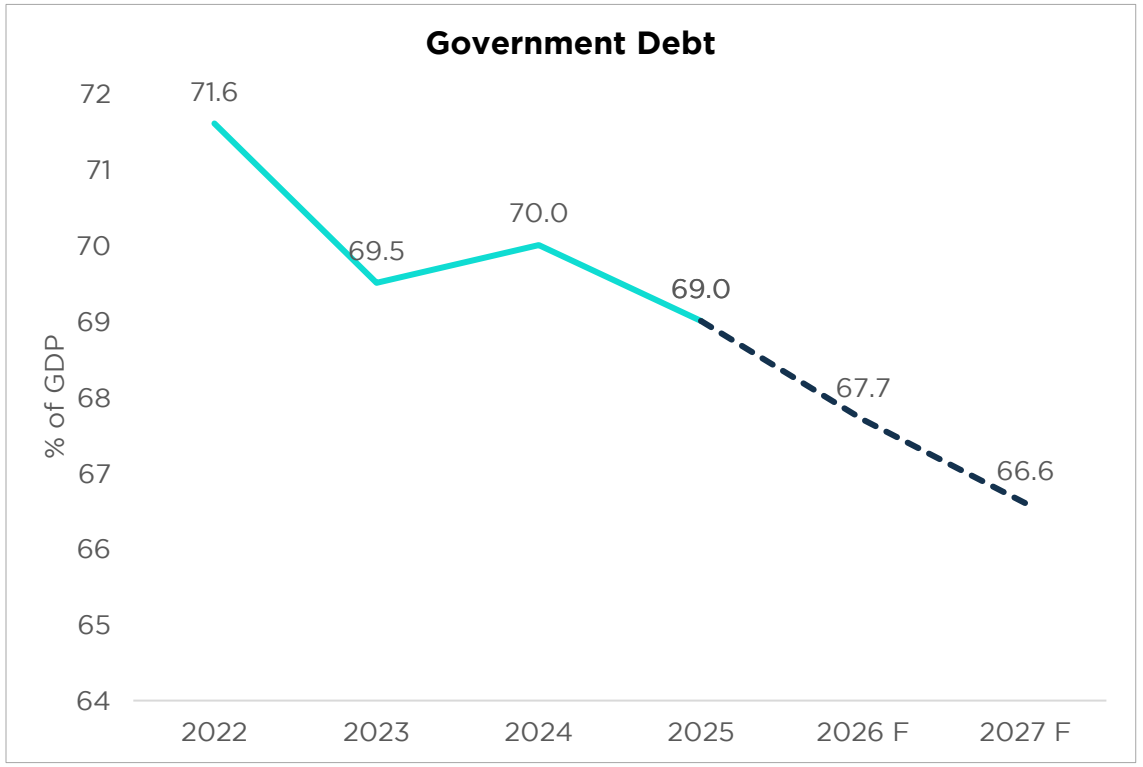
Source: CEIC

- The current account balance swung into surplus at 9.7% of GDP in Q2 2025 from a deficit of 0.08% in Q2 2024 and 0.9% in Q1 2025.
- This was supported by diamond exports, which grew by 29% YoY in Q2 2025 compared to Q2 2024 on the back of increased consumer demand for rough diamonds, particularly in the UAE and India. There was also a stock rebalancing initiative by the De Beers group, in which lower margins were accepted for specific assortments of rough diamonds.
- This momentum is expected to continue in Q3 2025 and should contribute to an uptick in FX reserves.

Morocco: 2026 Budget Proposal Path Signals Fiscal Tightening



Source: Ministry of Economy and Finance



Source: Ministry of Economy and Finance
Note: F = Forecast

- In its 2026 Budget proposal, the Moroccan government demonstrated its commitment towards fiscal consolidation. The fiscal deficit is projected to narrow to 3% of GDP in 2026 from 3.5% in 2025, while debt is expected to reach 67.7% of GDP by 2026 from 69% in 2025.
- Revenue growth is broad-based and in the next two years (2026-2027), it will mainly be supported by higher tax receipts and improved dividend inflows by state-owned enterprises. While wages and infrastructure investment are expected to contribute to expenditure growth, there's a pullback in subsidies, pensions, and social transfers, reflecting the government's efforts to rationalize subsidy spending.
- Overall, revenue growth is expected to outpace expenditure growth, reinforcing the trajectory of fiscal consolidation over the period.

CareEdge Sovereign Ratings

CareEdge Global: Long Term Foreign Currency Ratings*

Germany CareEdge AAA/Stable	**Japan** CareEdge AA-/Stable	**Spain** CareEdge A/Stable	**Indonesia** CareEdge BBB/Stable	**Colombia** CareEdge BB+/Negative	**Ecuador** CareEdge CCC+
Netherlands CareEdge AAA/Stable	**Korea** CareEdge AA-/Stable	**Chile** CareEdge A-/Stable	**Italy** CareEdge BBB/Stable	**Greece** CareEdge BB+/Stable	**Bangladesh** CareEdge CCC+
Singapore CareEdge AAA/Stable	**UAE** CareEdge AA-/Stable	**Malaysia** CareEdge A-/Stable	**Mauritius** CareEdge BBB/Stable	**Vietnam** CareEdge BB+/Stable	**Argentina** CareEdge CCC+
Sweden CareEdge AAA/Stable	**United Kingdom** CareEdge AA-/Stable	**Thailand** CareEdge A-/Negative	**Mexico** CareEdge BBB-/Stable	**South Africa** CareEdge BB/Stable	**Ethiopia** CareEdge D
Australia CareEdge AA+/Stable	**France** CareEdge A+/Stable	**Botswana** CareEdge BBB+/Negative	**Morocco** CareEdge BBB-/Stable	**Turkiye** CareEdge B+/Stable	
Canada CareEdge AA+/Stable	**Portugal** CareEdge A+/Stable	**India** CareEdge BBB+/Stable	**Peru** CareEdge BBB-/Stable	**Nigeria** CareEdge B/Positive	
United States CareEdge AA+/Negative	**China** CareEdge A/Stable	**Philippines** CareEdge BBB+/Stable	**Brazil** CareEdge BB+/Stable	**Egypt** CareEdge B-/Stable	

*as on Dec 4, 2025

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