

May 20, 2025 06:00 PM GMT

## Global Economics Mid-Year Outlook

# Skewed to the Downside

Global growth steps down by a percentage point from 2024. US trade policy and the uncertainty it engenders are the main drivers. Central banks have to confront the slowing, but the Fed must wait until inflation ebbs.



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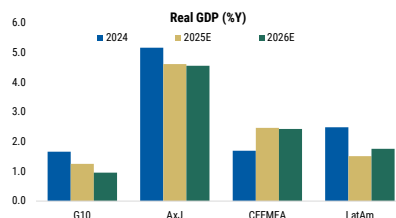
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**The broad imposition of tariffs by the US is a structural shock to the global trading order.** The tariffs themselves and the associated uncertainty will weigh notably on growth, but given the strong starting point coming into the year, probably not enough to tip the globe into recession. The risks from the trade shock are asymmetric. Our baseline view already assumes that the de-escalation announced recently persists, but tariffs are not eliminated. The economic damage is in train, and even fully undoing the tariffs would not restore global growth to where it would have been without tariffs. Conversely, a re-escalation of tariffs partially to the recent peak rates would likely spell a recession for the US and thereby the world.

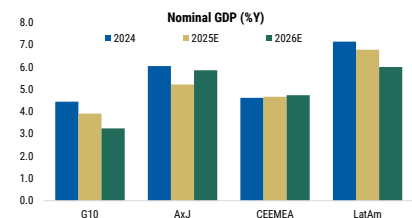
**In our baseline outlook, we forecast a slowdown in global growth from 3.5% 4Q/4Q in 2024 to 2.5% in 2025.** The trade shock hits economies simultaneously, generally pushing economies below potential growth. In the US, there is a step down in real GDP growth, from 2.5% 4Q/4Q in 2024 to 1.0% in both 2025 and 2026. Beyond tariffs, immigration restrictions also weigh on US growth, while we are skeptical of meaningful support from fiscal policy or deregulation. In the euro area, growth doesn't get above 1%Y throughout our forecast period, reflecting a step down in both private consumption and exports. For China, the tariff-related slowdown takes close to 0.5pp off real growth in 2025 relative to 2024. We expect only a partial and supply-centric offset from fiscal policy, and we forecast low real GDP growth (4.0% 4Q/4Q in 2025 and 4.2% in 2026) and persistent deflation. In Japan, the global trade shock slows exports, but nominal GDP reflation remains in place, as consumer resilience persists. India remains the fastest-growing economy in our coverage, with real GDP growth at 5.9% 4Q/4Q in 2025 and 6.4% in 2026. In Mexico, with some tariff effects and a close connection to the US economy, we expect GDP to be flat 4Q/4Q in 2025 and recover to 1.6% in 2026.

**Exhibit 1:** Global real growth trends are dispersed across regions but global growth is softening



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine, Turkey, and Egypt, LatAm excludes Argentina.

**Exhibit 2:** Nominal growth is softening in DM as inflation converges to target



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine, Turkey, and Egypt, LatAm excludes Argentina.

**Exhibit 3:** Morgan Stanley forecasts versus consensus

GDP (%Y)	2024	2025E		2026E	
		MS	Cons	MS	Cons
<b>G4</b>					
US	2.8	1.5	1.3	1.0	1.3
US (4Q/4Q)*	2.5	1.0	0.5	1.0	1.8
Euro Area	0.8	1.0	0.8	0.9	1.1
Japan	0.2	1.0	1.0	0.5	0.8
UK	1.1	0.8	0.9	1.3	1.2
<b>Selected EM</b>					
China	5.0	4.5	4.2	4.2	4.0
India (FY25/26/27)	6.3	6.2	6.3	6.5	6.5
Brazil	3.4	2.3	2.0	2.0	1.7
Mexico	1.5	0.0	0.2	1.0	1.5

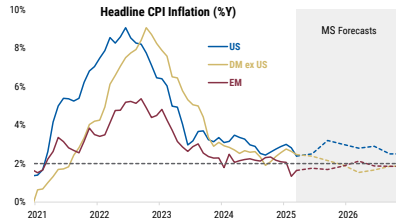
  

CPI (%Y)	2024	2025E		2026E	
		MS	Cons	MS	Cons
<b>G4</b>					
US	3.0	2.9	3.2	2.7	3.0
US (4Q/4Q)*	2.7	3.0	3.6	2.5	2.6
Euro Area	2.4	2.0	2.1	1.7	1.9
Japan	2.7	2.8	2.7	1.4	1.9
UK	2.5	3.0	3.0	1.8	2.3
<b>Selected EM</b>					
China	0.2	0.0	0.4	0.3	1.0
India (FY25/26/27)	4.6	4.0	4.1	4.1	4.5
Brazil (EOP)	4.8	5.6	5.5	4.4	4.5
Mexico (EOP)	4.2	3.8	3.8	3.7	3.7

Source: Bloomberg, Blue Chip, national central banks, Haver Analytics, Morgan Stanley Research forecasts; Note: Cons = Bloomberg consensus, except for the US, Mexico, and Brazil, where alternative consensus sources with more local representation are used. India consensus values refer to FY. \*BlueChip results were collected in early May before the US-China tariff de-escalation. Blue Chip consensus numbers are used for US 4Q/4Q GDP and 4Q/4Q core PCE. Brazil and Mexico consensus numbers are based on respective central bank EOP consensus.

**Exhibit 4:**

A divergence in global disinflation, with the US seeing a short-term tariff boost but the downward trend continuing afterwards



Source: National statistical agencies, Morgan Stanley Research forecasts; Note: EM excludes Ukraine, Turkey, Egypt, and Argentina.

**US divergence from global disinflation**

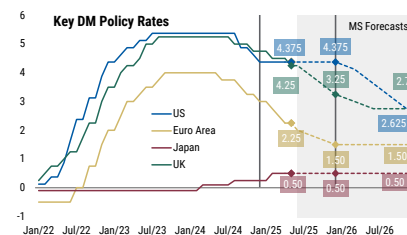
While we expect global inflation to moderate eventually, the US differs from the rest of the world because of the imposition of tariffs. In the US, the fall in inflation towards target is interrupted by some pass-through from tariffs that peaks at end-2025. Tariffs tend to cause a level shift in prices, so over 2026 the retreat in inflation resumes, even in the US. In the US, we forecast core PCE to reach 4.5%Q SAAR before ebbing. While tariffs

primarily boost goods inflation, immigration restrictions should limit the fall in services inflation. Ultimately, core PCE inflation remains notably above the Federal Reserve's target throughout 2026. In the euro area, the slowdown in economic activity and the strength of the euro against the US dollar push inflation below the ECB's target. In Japan, inflation remains positive but moderates in part as the yen appreciates, curbing import price inflation. The deflation loop in China continues: we expect policy support to remain supply-centric, and the added impulse from tariff shocks keeps our GDP deflator forecast in the -0.5% to -1% range throughout 2025-26.

**Monetary policy remains a balancing act**

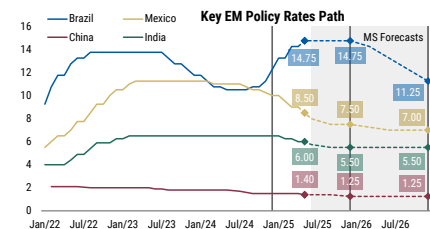
Generally, central banks will react to slower growth and somewhat softer inflation, with the exception of the Federal Reserve. We expect the Fed to remain on hold throughout 2025 because, until inflation peaks, it will be a bigger problem for the central bank than weak growth. Unemployment rises in the forecast but only modestly because immigration restrictions suppress labor supply. In our baseline, the Fed restarts its easing cycle in March 2026 and eventually cuts past neutral. In the euro area, already falling inflation, soft economic activity, and an appreciating euro make the decisions for the ECB somewhat easier. We forecast that the ECB continues its easing cycle, bringing the policy rate below neutral to 1.50% by December 2025. In contrast, the BoJ had been hiking, but we think that it is sidelined for the entire forecast period. Slower growth, moderating inflation, and an appreciating yen obviate the need for higher rates.

**Exhibit 5:** We forecast DM central banks to ease, but the Fed to remain on pause through 2025



Source: National central banks, Morgan Stanley Research forecasts

**Exhibit 6:** Among EM central banks, the easing cycle continues



Source: National central banks, Morgan Stanley Research forecasts; Note: China policy rate is 7-day reverse repo rate.

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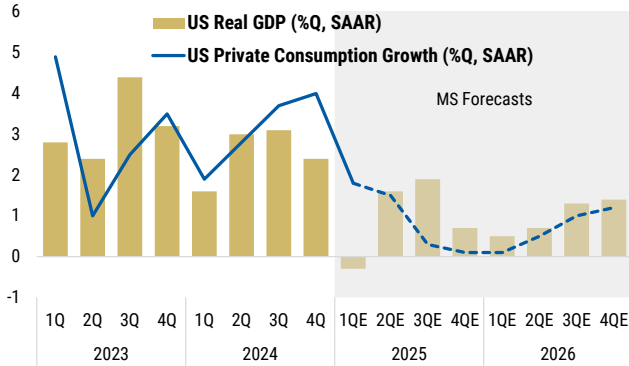
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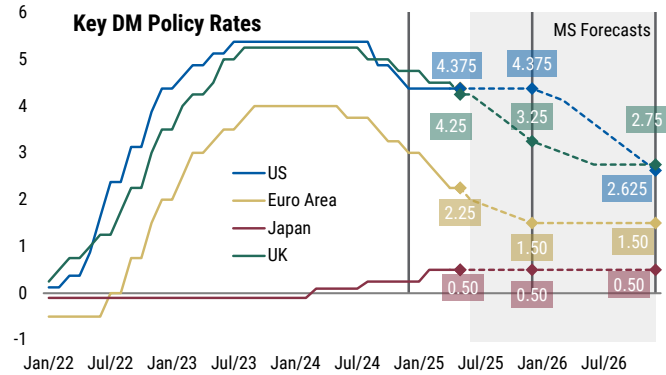
# Our Global Views in Charts

**Exhibit 7:** In the US, the economy slows, as does private consumption...



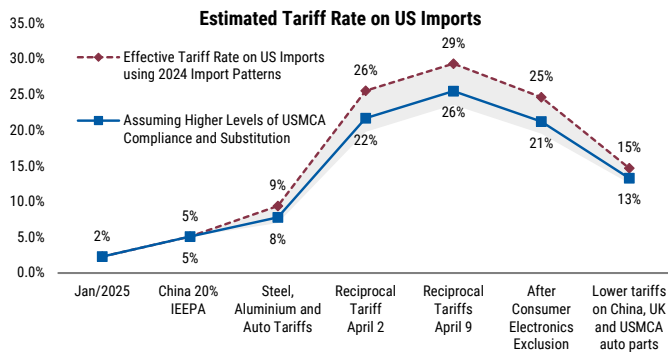
Source: BEA, Morgan Stanley Research forecasts

**Exhibit 8:** ...while the Fed remains in a tight spot, remaining on pause in 2025



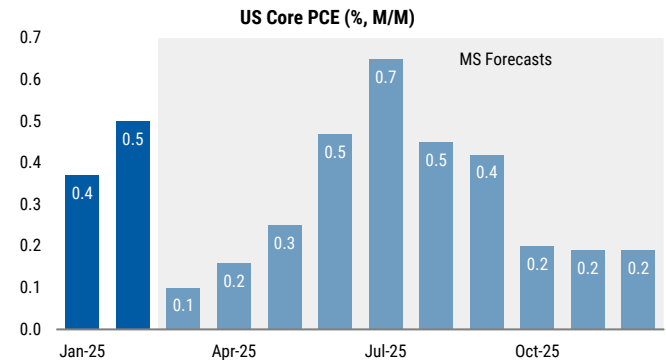
Source: National central banks, Morgan Stanley Research forecasts

**Exhibit 9:** Tariffs act as a tax on consumption. Although there has been some de-escalation in tariffs...



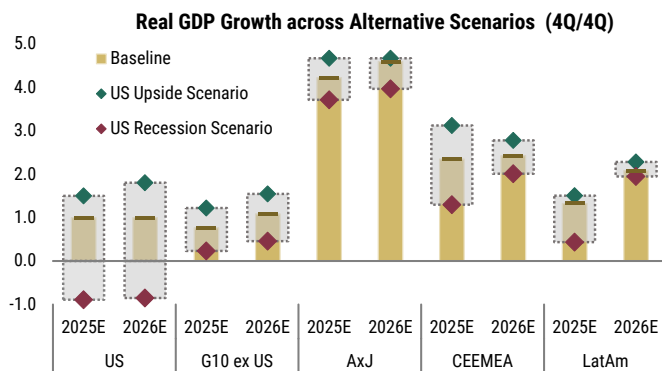
Source: US Census, UN Comtrade, US HTS, Morgan Stanley Research estimates; Note: Grey shaded area represents our estimates of a range for effective tariff rates assuming higher USMCA compliance, substitution, diversion and declines in volumes, See Exhibit 45 for notes.

**Exhibit 10:** ...tariffs are much higher than historical levels, and drive inflation higher, with core PCE inflation peaking at 4.5%Q SAAR in 3Q



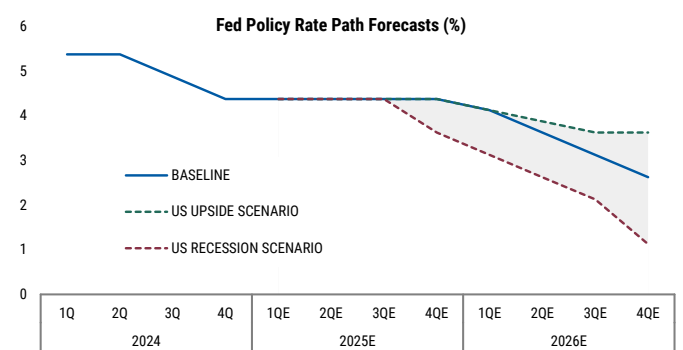
Source: BLS, Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 11:** We see risks skewed to the downside across our two alternative scenarios...



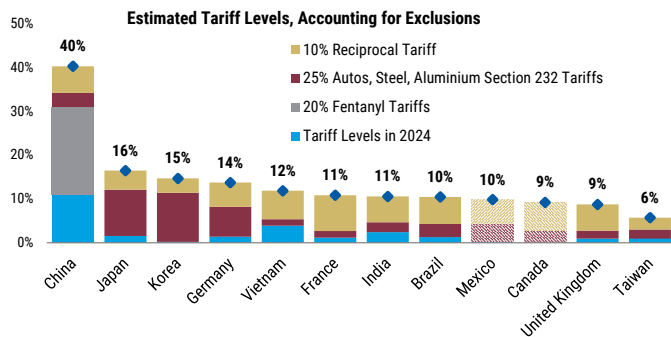
Source: Morgan Stanley Research forecasts

**Exhibit 12:** The Fed will likely ease policy under all scenarios, but notably more in recession



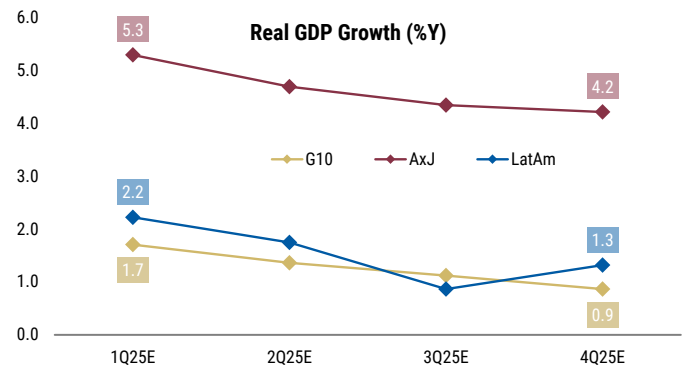
Source: Federal Reserve, Morgan Stanley Research forecasts

**Exhibit 13:** Outside the US, higher tariffs and trade policy uncertainty affect growth through direct and indirect channels



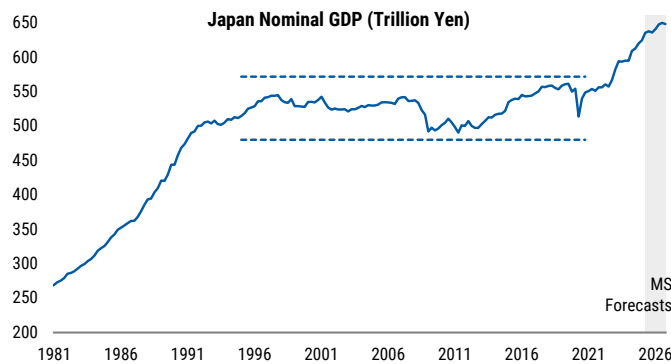
Source: US Census, UN Comtrade, US HTS, Morgan Stanley Research; Note: See Exhibit 44 for notes.

**Exhibit 14:** The trade shock hits the world simultaneously, and growth steps down by nearly a full percentage point across G10, Asia, and LatAm



Source: National Statistical Agencies, Morgan Stanley Research forecasts

**Exhibit 15:** Japan's nominal GDP recovery story remains intact...



Source: Cabinet Office, Morgan Stanley Research forecasts

**Exhibit 16:** ...but China's journey to reflation remains long and bumpy



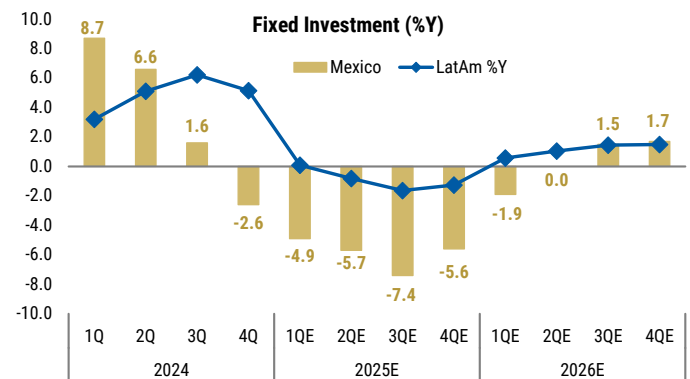
Source: CEIC, Morgan Stanley Research forecasts

**Exhibit 17:** Trade-oriented economies are most exposed. India is relatively insulated, and remains the fastest-growing economy in our coverage



Source: IMF, Morgan Stanley Research; Note: Euro area exports to world excludes Intra-EU trade.

**Exhibit 18:** Uncertainty over trade policy slows capex decisions materially globally, most visibly in Mexico



Source: IMF, National statistical agencies, Morgan Stanley Research forecasts

# Key Forecasts

**Exhibit 19: Baseline forecasts for GDP, inflation, and monetary policy**
**Key Forecast Profile**

Real GDP	Quarterly																Annual			
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global (YoY)</b>	3.3	3.9	3.3	3.5	3.4	3.2	3.1	3.5	3.4	3.0	2.7	2.5	2.7	2.7	2.8	2.8	3.5	3.3	2.9	2.8
<b>G10</b>	1.9	1.7	1.6	1.6	1.5	1.6	1.8	1.8	1.7	1.4	1.1	0.9	0.9	0.9	0.9	1.0	1.7	1.7	1.3	1.0
United States	2.3	2.8	3.2	3.2	2.9	3.0	2.7	2.5	2.1	1.7	1.4	1.0	1.2	0.9	0.8	1.0	2.9	2.8	1.5	1.0
Euro Area	1.4	0.6	0.0	0.2	0.5	0.5	1.0	1.2	1.2	1.1	0.8	0.8	0.7	0.8	1.0	1.0	0.5	0.8	1.0	0.9
Japan	2.3	1.6	1.1	0.6	-0.7	-0.6	0.8	1.3	1.7	0.9	0.9	0.3	0.7	0.5	0.4	0.6	1.4	0.2	1.0	0.5
UK	0.8	0.5	0.4	-0.2	0.7	1.1	1.2	1.5	1.3	0.6	0.7	0.7	0.6	1.3	1.5	1.7	0.4	1.1	0.8	1.3
<b>EM (YoY)</b>	4.4	5.6	4.7	5.0	4.9	4.5	4.2	4.8	4.7	4.2	3.8	3.8	4.0	4.0	4.2	4.2	4.9	4.6	4.1	4.1
China	4.7	6.5	5.0	5.3	5.3	4.7	4.6	5.4	5.4	4.7	4.2	4.0	4.2	4.2	4.4	4.2	5.4	5.0	4.5	4.2
India	6.9	9.7	9.3	9.5	8.4	6.5	5.6	6.2	6.7	6.3	6.1	5.9	6.4	6.4	6.5	6.4	8.8	6.7	6.2	6.4
Brazil	4.4	3.9	2.4	2.4	2.6	3.3	4.0	3.6	3.2	2.5	1.5	2.1	1.9	1.8	2.0	2.2	3.3	3.4	2.3	2.0
Mexico	3.8	3.4	3.5	2.4	1.5	2.2	1.7	0.6	0.7	0.3	-0.9	0.0	0.3	0.7	1.4	1.6	3.3	1.5	0.0	1.0
<b>Global (%Q, SAAR)^</b>	4.5	4.2	3.0	2.5	3.4	3.4	3.4	3.8	2.9	2.3	2.1	2.6	3.1	2.6	2.7	2.8	3.5	3.5	2.5	2.8
<b>G10 (%Q, SAAR)^</b>	1.9	1.4	1.5	1.4	1.3	2.2	2.2	1.8	0.6	1.0	1.2	0.7	0.8	0.9	1.2	1.3	1.6	1.8	0.9	1.0
United States	2.8	2.4	4.4	3.2	1.6	3.0	3.1	2.4	-0.3	1.6	1.9	0.7	0.5	0.7	1.3	1.4	3.2	2.5	1.0	1.0
Euro Area	0.1	0.3	0.0	0.2	1.3	0.7	1.7	1.0	1.3	0.5	0.5	0.8	0.9	1.0	1.1	1.1	0.2	1.2	0.8	1.0
Japan	4.7	2.4	-4.0	-0.2	-1.6	3.8	1.0	2.4	-0.7	1.0	0.9	0.6	0.1	0.3	0.7	0.9	0.6	1.3	0.3	0.6
UK	0.2	0.2	-0.2	-0.8	3.7	1.8	0.0	0.4	2.9	-1.0	0.4	0.4	2.4	1.8	1.4	1.2	-0.2	1.5	0.7	1.7
<b>EM (%Q, SAAR)^</b>	6.6	6.4	4.2	3.4	5.1	4.3	4.4	5.3	4.6	3.2	2.8	4.0	4.9	3.9	3.8	3.9	5.0	4.8	3.8	4.2
China	7.0	4.9	6.1	3.6	5.3	4.1	5.7	6.6	4.9	2.8	3.0	4.5	5.1	3.8	3.9	3.9	5.3	5.4	4.0	4.2
India	12.9	18.2	3.6	5.8	6.5	7.3	4.0	7.8	6.9	5.8	4.5	6.7	8.3	5.9	5.4	6.1	9.5	6.2	5.9	6.4
Brazil	5.6	3.0	0.3	1.6	4.0	5.4	3.0	0.7	5.3	2.8	1.2	1.2	0.8	4.1	2.8	2.4	2.4	3.6	2.1	2.2
Mexico	2.9	3.4	2.2	1.5	-0.1	1.2	3.7	-2.5	0.6	-0.6	-1.1	1.3	1.5	1.1	1.7	2.0	2.4	0.6	0.0	1.6
<b>Headline CPI Inflation (%Y)</b>	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global</b>	5.3	3.8	3.5	2.7	2.5	2.5	2.3	2.3	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0	3.8	2.4	2.1	2.0
<b>G10</b>	6.6	5.1	4.3	3.1	3.0	2.9	2.5	2.5	2.6	2.4	2.6	2.4	2.1	2.2	2.1	2.1	4.8	2.7	2.5	2.2
United States	5.7	4.0	3.6	3.2	3.2	3.2	2.7	2.7	2.7	2.5	3.2	3.0	2.8	2.9	2.5	2.5	4.1	3.0	2.9	2.7
Euro Area	8.0	6.2	5.0	2.7	2.6	2.5	2.2	2.2	2.3	2.1	1.9	1.8	1.4	1.6	1.8	1.8	5.5	2.4	2.0	1.7
Japan*	3.6	3.3	3.2	2.9	2.5	2.7	2.8	2.9	3.8	3.2	2.4	1.7	1.0	1.2	1.6	1.7	3.3	2.7	2.8	1.4
UK	10.2	8.4	6.7	4.2	3.5	2.1	2.0	2.5	2.8	3.4	3.2	2.6	2.0	1.6	1.8	1.8	7.4	2.5	3.0	1.8
<b>EM</b>	4.2	2.8	2.8	2.3	2.1	2.2	2.2	2.2	1.7	1.8	1.7	1.9	2.1	1.9	1.9	1.9	3.0	2.2	1.8	1.9
China	1.3	0.1	-0.1	-0.3	0.0	0.3	0.5	0.2	-0.1	0.0	-0.1	0.3	0.4	0.1	0.3	0.5	0.2	0.2	0.0	0.3
India	6.2	4.6	6.4	5.4	5.0	4.9	4.2	5.6	3.9	3.8	3.8	3.6	4.7	4.6	4.1	3.6	5.7	4.9	3.8	4.2
Brazil	5.3	3.8	4.6	4.7	4.3	3.9	4.4	4.8	5.0	5.5	5.8	5.6	5.4	4.9	4.4	4.3	4.6	4.4	5.5	4.7
Mexico	7.5	5.7	4.6	4.4	4.6	4.8	5.0	4.5	3.7	3.6	3.1	3.4	3.7	3.5	3.8	3.9	5.6	4.7	3.4	3.7
<b>Core CPI Inflation (%Y)</b>	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global</b>	4.4	4.0	3.6	3.0	2.6	2.3	2.2	2.2	2.3	2.4	2.4	2.3	2.2	2.1	2.0	2.0	3.7	2.3	2.3	2.1
<b>G10</b>	5.1	5.1	4.6	3.6	3.2	2.8	2.7	2.7	2.7	2.8	3.0	2.8	2.6	2.4	2.1	2.1	4.6	2.8	2.8	2.3
United States (Core PCE)	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.8	2.8	2.8	3.4	3.3	3.1	3.0	2.4	2.3	4.1	2.8	3.1	2.7
Euro Area	5.5	5.5	5.1	3.7	3.1	2.8	2.8	2.7	2.6	2.6	2.4	2.3	2.1	1.9	1.8	1.9	5.0	2.8	2.5	1.9
Japan*	3.5	4.2	4.3	3.8	3.2	2.2	2.0	2.4	2.4	3.0	2.8	2.2	1.9	1.7	1.6	1.8	4.0	2.4	2.6	1.9
UK	6.1	6.9	6.4	5.3	4.6	3.6	3.3	3.3	3.6	3.6	3.3	2.9	2.4	2.0	2.0	1.9	6.2	3.7	3.3	2.1
<b>EM</b>	3.7	3.2	2.9	2.4	2.1	1.9	1.8	1.8	1.9	2.1	1.9	1.9	1.9	1.9	1.9	1.9	3.1	1.9	2.0	1.9
China	0.8	0.6	0.8	0.6	0.7	0.6	0.3	0.3	0.3	0.4	0.1	0.1	0.1	0.2	0.4	0.5	0.7	0.5	0.3	0.3
India	6.2	5.2	4.8	4.1	3.4	3.2	3.5	3.7	4.0	4.3	4.5	4.5	4.5	4.3	4.1	4.1	5.1	3.4	4.4	4.2
Brazil	7.8	6.1	4.8	4.3	3.5	3.1	3.5	3.3	4.3	5.0	5.4	5.7	5.4	5.0	4.2	3.9	5.7	3.4	5.1	4.6
Mexico	8.3	7.3	6.2	5.3	4.7	4.2	4.0	3.7	3.6	3.9	3.9	3.9	3.7	3.5	3.5	3.7	6.8	4.1	3.8	3.6
<b>Monetary Policy Rate (% p.a.)</b>	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE	EOP	EOP	EOP	EOP
<b>G4</b>																				
United States	4.875	5.125	5.375	5.375	5.375	5.375	4.875	4.375	4.375	4.375	4.375	4.375	4.125	3.625	3.125	2.625	5.375	4.375	4.375	2.625
Euro Area^^	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	4.00	3.00	1.50	1.50
Japan*	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	-0.10	0.25	0.50	0.50
UK	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.75	4.50	4.25	3.75	3.25	3.00	2.75	2.75	2.75	5.25	4.75	3.25	2.75
<b>Selected EM</b>																				
China**	2.00	1.90	1.80	1.80	1.80	1.80	1.50	1.50	1.50	1.40	1.40	1.25	1.25	1.25	1.25	1.25	1.80	1.50	1.25	1.25
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	5.75	5.50	5.50	5.50	5.50	5.50	5.50	6.50	6.50	5.50	5.50
Brazil	13.75	13.75	12.75	11.75	10.75	10.50	10.75	12.25	14.25	14.75	14.75	14.75	14.25	13.25	12.25	11.25	11.75	12.25	14.75	11.25
Mexico	11.25	11.25	11.25	11.25	11.00	11.00	10.50	10.00	9.00	8.00	7.50	7.50	7.25	7.00	7.00	7.00	11.25	10.00	7.50	7.00

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI figures represent period averages. \*Annual values are 4Q/4Q. \*\*Japan's core CPI is excluding energy and fresh food. Policy rate indicated is the BoJ's Uncollateralized Overnight Call Rate Upper Limit. ^^ECB Deposit Facility rate; \*\*7-day reverse repo rate. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Saudi Arabia is excluded for core CPI aggregates. Egypt represents fiscal year from July 1 to June 30.

## Growth – A Widespread Deceleration

**The tariff shock crimps demand globally, while also weighing on supply in the US. In the US, there is an added drag from immigration restrictions. In the euro area, tariffs weigh on exports and investment, and the uplift from the fiscal package is not enough to overcome the drag. In China, the demand shock from tariffs is only partially offset by the modest policy stimulus, while structural deflation persists.**

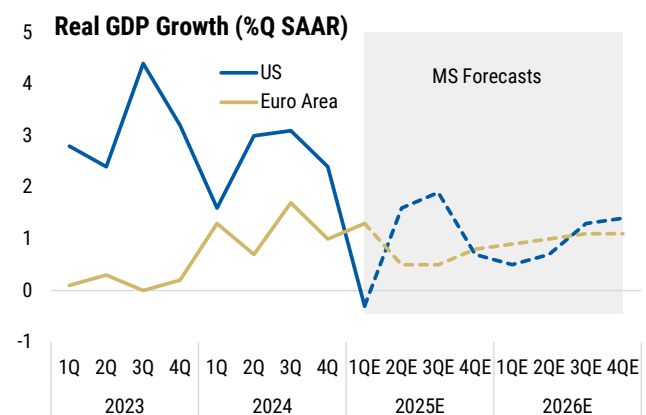
In the **US**, the combined effects of tariffs, immigration restrictions, and policy uncertainty weigh on US growth. The slowdown begins slowly, but by 4Q25 and 1Q26 the growth in real consumer spending falls sharply, and real GDP growth is 1.0% 4Q/4Q in 2025 and 2026. Cooling labor demand across the private and public sector combined with the step down in net immigration leads to slowing payrolls, but the unemployment rate rises only modestly.

In the **euro area**, the declining momentum in real income along with downward pressure on exports and investment from restrictive trade push growth down to 0.8%Y in 4Q25. The tailwinds from more active fiscal policy in Germany and policy easing by the ECB are not enough to offset the trade headwinds.

In the **UK**, growth stalls by 2H25 on the back of weaker US and euro area growth, and some direct impact of the global trade slowdown.

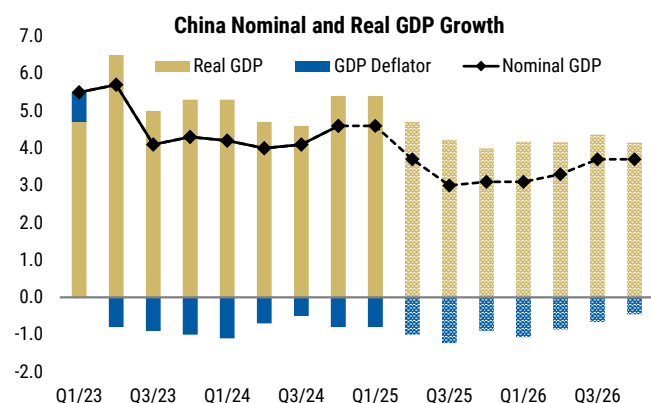
In **Japan**, nominal GDP reflation remains intact, although the slowdown in the global economy weighs on exports and thereby investment. However, the ongoing and structural labor shortages are likely to spur capital investment in areas such as software. Sustained wage growth would be a tailwind for consumption.

**Exhibit 20:** Growth slows in the US and Europe over our forecast horizon



Source: BEA, Eurostat, Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 21:** China's nominal growth continues to be dragged down by persistent deflationary pressures



Source: NBS, Haver Analytics, Morgan Stanley Research forecasts

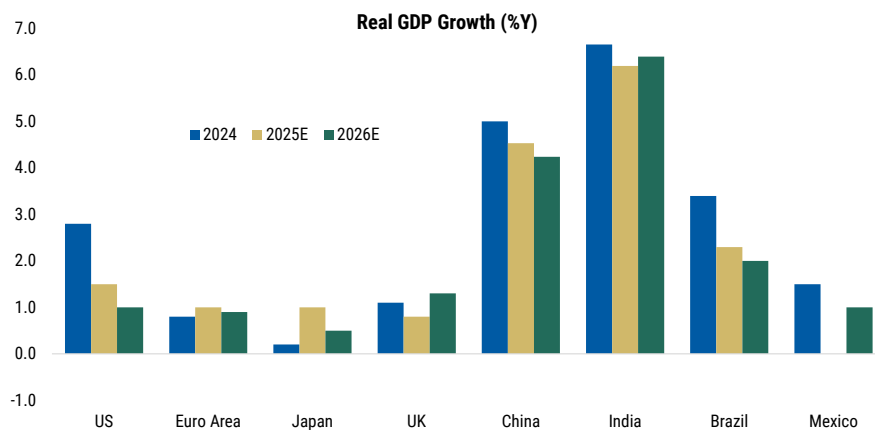
In **China**, modest fiscal expansion will likely be supply oriented, and thus insufficient to offset the tariff-induced growth shock. The ongoing deflationary loop with a still-weak housing sector should also keep growth momentum in check.

**India** remains the fastest-growing economy in our coverage, with real GDP growth of 6.2%Y in FY2025/26 and 6.5%Y in FY2026/27. Domestic demand, broad-based consumption growth and policy support should steer growth though external headwinds.

In **Brazil**, growth decelerates in 2025 and 2026 on the back of very high real rates, weakening real wages, and subdued investment ahead of elections in 2026. However, expansionary fiscal and credit measures should keep growth resilient, and support a softer landing.

In **Mexico**, the uncertainty around trade and the US economic slowdown lead to growth headwinds. Export demand falls after the front-loading to the US falls, government spending remains a drag on growth, and domestic demand remains weak with a deteriorating labor market. We expect that real GDP growth falls to zero on a 4Q/4Q basis, and there will be a muted recovery next year.

**Exhibit 22:** The US and China see the sharpest growth slowdowns among the regions under our coverage

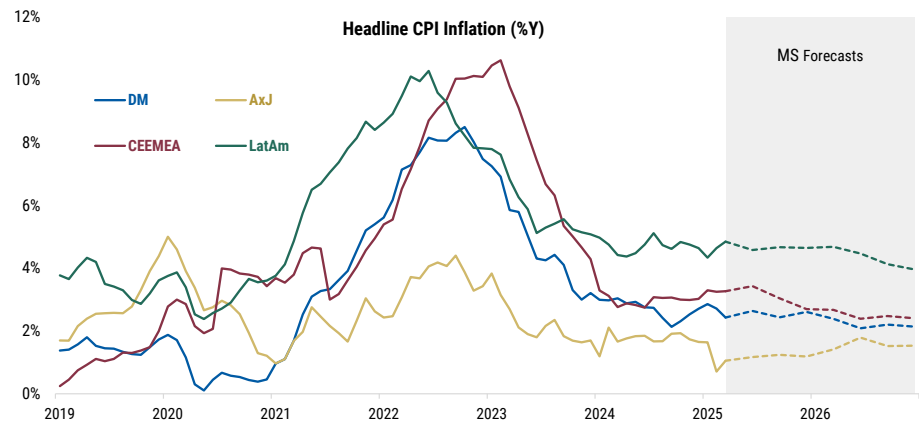


Source: National statistics offices, Haver Analytics, Morgan Stanley Research forecasts

# Inflation Divergence

**Disinflation continues globally except in the US, where it is temporarily interrupted by tariffs. Outside the US, weaker demand, currency appreciation, and lower oil prices are the primary drivers of disinflation.**

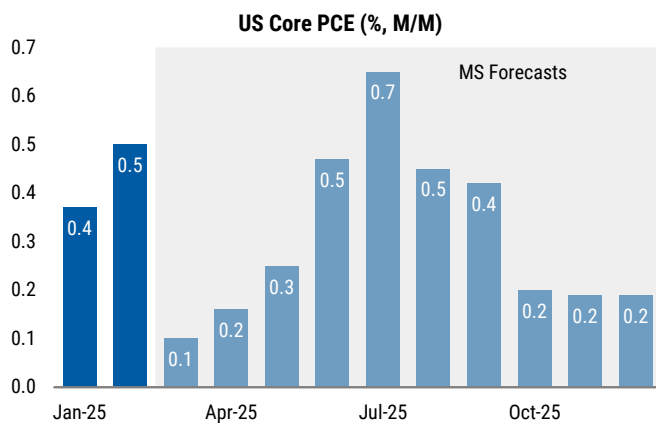
**Exhibit 23:** Inflation has come off its peaks, and some further disinflation is expected...except in the US, where tariffs interrupt the process



Source: Haver Analytics, Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine, Turkey, and Egypt, LatAm excludes Argentina.

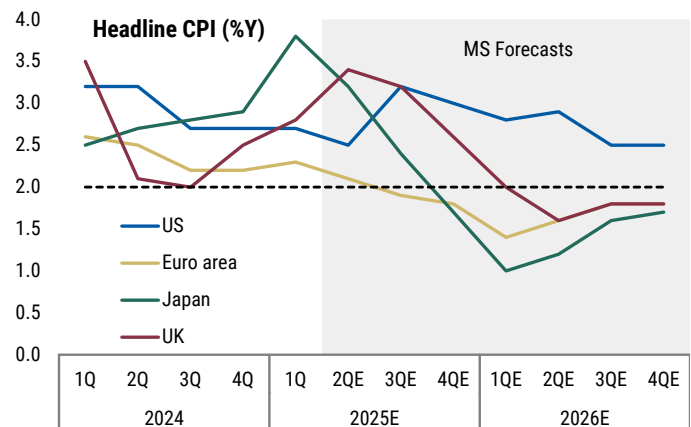
In the **US**, inflation is likely to rise in stages, driven both directly and indirectly by tariffs, but the peak will likely occur in 3Q25 before slowing thereafter as demand weakens. Core PCE inflation could reach 4.5%Q SAAR, but weaker consumer demand pressured by higher prices and a slowdown in tariff-exposed business spending should bring inflation down gradually. In 4Q/4Q terms, we expect core PCE inflation at 3.3% in 4Q25 before easing to 2.3% by 4Q26. Nevertheless, inflation is likely to stay above the Fed's 2%Y target throughout the period.

**Exhibit 24:** Tariffs boost core goods inflation in the US as inflationary trends in the US diverge from other DM



Source: BEA, BLS, Morgan Stanley Research forecasts

**Exhibit 25:** Below-potential growth, weak commodity prices, and strong currencies take inflation below 2%Y in other key DM

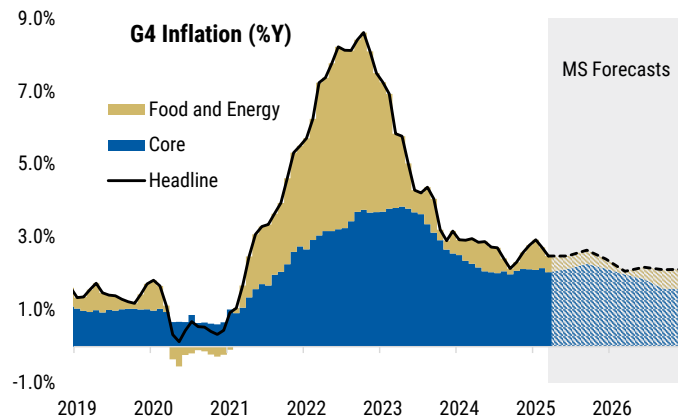


Source: National statistical agencies, Haver Analytics, Morgan Stanley Research forecasts

In the **euro area**, weakening growth and a softening labor market should continue the disinflationary process already under way. Recent declines in oil and natural gas prices, alongside a stronger euro against the US dollar, should further contribute to a moderation in price pressures.

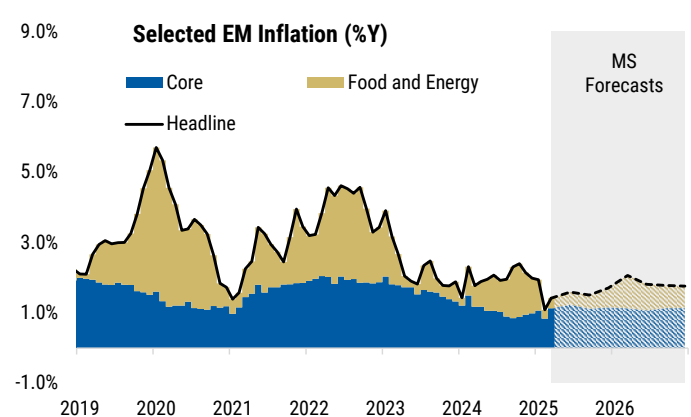
In **Japan**, inflation remains positive but moderates in 2025 and 2026. While the structural shift away from the long-lasting deflation equilibrium continues – as evident in the services inflation trend – JPY appreciation should weaken upward pressure from import prices.

**Exhibit 26:** Disinflation continues in DMs, but the last mile of the inflation journey is interrupted in the US from tariffs and restrictive immigration policy



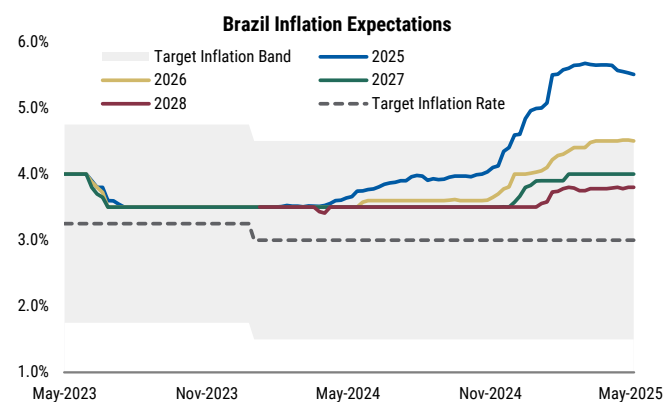
Source: Haver Analytics, Morgan Stanley Research forecasts; Note: G4 includes the US, euro area, Japan, and UK. US core inflation is core PCE inflation. ^Japan's core CPI is excluding energy and fresh food, and ex VAT and free child education impact.

**Exhibit 27:** EM inflation is more dispersed, partially because of the differentiated responses to shifting US policy



Source: Haver Analytics, Morgan Stanley Research forecasts; Note: Selected EM includes China, India, Brazil, and Mexico; the CPI weights used for China are based on the imputed Bloomberg weights.

**Exhibit 28:** De-anchored inflation expectations delay the easing cycle in Brazil



Source: BCB, Morgan Stanley Research forecasts

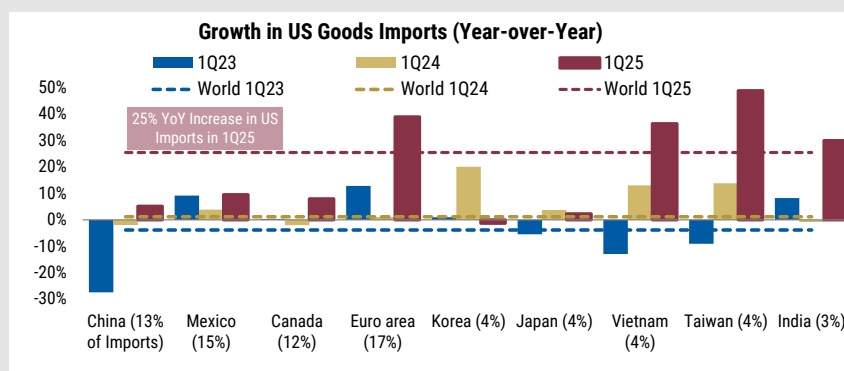
In **Asia**, tariffs should continue to weigh on growth and, in turn, on inflation. In **China**, we expect ongoing supply-side policy responses to tariffs to sustain deflationary dynamics. As a result, the GDP deflator is likely to remain between -0.5% and -1% through the forecast period. In **India**, benign global commodity prices –including food and energy – should help to keep headline CPI below the RBI's 4%Y target throughout 2025, with inflation likely hovering near the 4%Y mark in 2026 as well.

In **LatAm**, inflation is set to remain sticky through 2026. De-anchored inflation expectations in **Brazil** will likely delay the easing cycle. Very high real rates and the deceleration in growth only drive down inflation gradually, while we expect the tight labor market to keep services inflation elevated. Inflation should remain elevated in **Mexico** despite weaker activity, as core goods, which are less sensitive to output gap dynamics, see upward pressures.

## Trade diversion and global disinflation

As tariffs set in, the focus of importers will likely shift from front-running towards diversifying supply chains. This transition is not new – the share of US goods imports from China has fallen from a peak of 22% in 2016 to 13% today. Despite a seemingly large shift, production has not shifted away from China to the US. Rather China has continued to build capacity, has increased exports to other destinations, and the extra capacity has led to entrenched deflation in China.

**Exhibit 29:** Considerable front-loading in US imports and a drop in the share of US imports from China raise the risk of trade diversion leading to disinflation



Source: US Census, Morgan Stanley Research

One question is how much more could US imports from China fall. Looking at granular HS-6 product-level data suggests that China continues to dominate global supply of about a quarter of US imports. This is to say that production and export capacity for these goods do not meaningfully exist outside China. For another third of US imports from China, non-China export capacity is around twice what the US imports from China, suggesting plausible alternative sources for US imports. But such broad rerouting will come at a cost and supply chain frictions. Factoring in product-level exemptions and Section 232 tariffs, which apply to all countries and thus reduce the incentive for diversion, we expect that China is likely to retain well over 60% of its current US market share. Simply put, not enough alternatives exist globally, so China will likely not fall far below about 10% of US imports in the medium term. Moreover, consider that some rerouting through other countries with only minimal changes could imply that China's share of US imports does not fall much at all.

Euro area imports from China closely resemble US imports from China, so rerouting exports from the US to Europe is possible. The quantity shifted could be constrained by market demand, a fact that raises the possibility of disinflation or deflation being exported to Europe. Historically, the share of Chinese exports to the euro area has not changed as China's share of imports to the US has fallen. Instead, Chinese exports to Asian EMs, LatAm, and the Middle East have risen considerably. Given that China already has large market shares in these economies, a diversion of exports from the US could add to disinflationary pressures.

For US importers, deciding whether to incur the cost of adjusting supply chains will depend on the ultimate level of tariffs. For a low enough tariff, rewiring the supply chain may not be cost effective. In the short run, the uncertainty of where tariff

rates will land inhibits incurring that cost. Importers will rightly remain uncertain about whether to incur a cost if there is a chance that the tariffs which made the shift cost effective could go away. Altogether, we are skeptical that the diversion and disruption of tariffs will lead to a fundamental rewiring of global supply chains. To effect such a change, tariffs would have to be high and be perceived to be permanent.

## Monetary Policy – The Fed in a Bind

**With inflation above target and set to rise from tariffs, we expect the Fed to defer cutting rates until 2026. Weakening growth and falling inflation in the euro area and UK prompt continued easing by the ECB and BoE. We see the BoJ on hold this year and through the end of 2026. Emerging market central banks balance external pressures from tariff risks and higher US policy rates vis-à-vis their domestic objectives, but generally ease.**

**Federal Reserve:** In our baseline forecast, the Fed remains on hold in 2025, and we expect the easing cycle to restart in March 2026. Tariffs tend to boost inflation before slowing growth, so the Fed will likely worry more about its inflation objective than employment until late this year when inflation peaks and begins to decline. After inflation starts to fall, the labor market should continue to deteriorate, and we think that the Fed will cut rates past neutral and end up with 175bp in cuts by end-2026.

**ECB:** The downside risks to growth and the downward pressure on euro area inflation via a stronger euro continue the ECB's easing cycle. While there may be a pause in July to assess data, we see rate cuts at sequential meetings. By December 2025, the ECB has cut its policy below neutral to 1.50%.

**BoE:** In response to the slowdown in global growth, we expect the BoE to implement insurance cuts in May and June. The easing continues and the BoE lowers the policy rate to 3.25% by end-2025. There are two additional cuts in 2026, in response to the start of the Fed's easing cycle, and the terminal rate for end-2026 is 2.75%.

**BoJ:** We expect no more hikes within our forecast horizon. The tariff shock raises concerns about corporate profits and therefore winter bonus payments and next spring wage negotiations. Slower growth and JPY appreciation provide additional reasons not to hike.

**PBOC:** In China, we look for the PBOC to cut the policy rate by 15-20bp and the RRR by 50bp in 2H25 in order to support the services sector and tech investment. The PBOC would also opt for a more measured RMB depreciation to cushion the tariff impact.

**RBI:** We expect the RBI to ease rates by a further 50bp to 5.50% against a backdrop of benign macro stability and weaker growth. The RBI has the space to ease policy further in case of a more severe global or domestic downturn.

In **Mexico**, we expect **Banxico** to ease in response to the economic slowdown, and expect a terminal rate of 7.00% by May 2026. In **Brazil**, we think that May was the last hike of this cycle, with the **BCB** keeping policy rates on hold through 2025 as inflation forecasts remain elevated, and cuts begin in 2026 due to some domestic disinflation and the rising chances of a global recession.

## The Fed's independence

Central bank independence is the ability to set monetary policy free from the influence of short-term political considerations. Conventional wisdom, derived from extensive academic research and historical experience, is that an independent central bank will be more credible in fighting inflation, thus better anchoring inflation expectations, and thus being able to reduce inflation to target with less of a loss in output or employment.

In the past couple of months, the Fed's independence has been the subject of market debate, in part because of criticism of Fed Chair Powell by President Trump and the fact that the Chair's term is up in May 2026. A relevant but highly technical starting point is that while the President names the Chair of the Board of Governors of the Federal Reserve System (the Board), subject to confirmation by the Senate, the entity that sets the policy rate is the Federal Open Market Committee (FOMC). The FOMC is technically distinct from the Board. The FOMC comprises each member of the Board, the NY Fed President, plus four of 11 remaining Reserve Bank Presidents – who serve on a rotating basis.

By convention, the Chair of the Board is the Chair of the FOMC, but the FOMC in fact selects its own Chair. Consider the fact that John Williams, the President of the FRB NY, is the Vice Chair of the FOMC, while Phillip Jefferson is the Vice Chair of the Board. The FOMC and the Board are conceptually distinct. Jerome Powell is simultaneously Chair of the Board, a Governor on the Board, and Chair of the FOMC. If for whatever reason Powell were no longer Chair of the Board but still a Governor, the FOMC could continue to choose him as its Chair. However, this change would be unusual and could elicit a market reaction.

FOMC decisions are ultimately votes, so over time the President has a clear ability to influence the composition of the Board and thereby the FOMC. The first clear vacancy for the President to fill is Governor Kugler's seat in January 2026. Powell's term as Chair expires in May 2026. While he could stay as a Governor, as Governor Barr did when he stepped down as Vice Chair for Supervision and Regulation, we suspect that he would not. No other Board positions are scheduled to be vacant before January 2030. However, it is common for members to leave before the end of their terms, so it is difficult to know for sure.

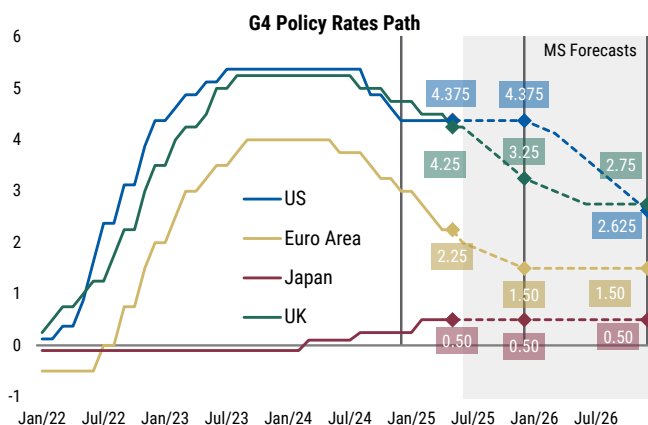
If only two members of the Board turn over next year, Fed independence would still be largely intact. The FOMC would be largely the same as it is now, and the decisions of the FOMC are literally taken by vote. So, a substantial deviation from conventional policy seems unlikely. To be sure, the Chair has extra influence on the Committee, so at the margin policy could be different. However, the Committee would be largely intact and the market's reaction would also be a consideration. Over time, however, more vacancies will become available. And although the Reserve Bank Presidents are selected by the Bank's Board of Directors, not the President of the United States, in practice the Board has substantial influence over the selection process and ultimately has a veto. The upshot is that over the next couple of years, the FOMC could be substantially remade, but it will take some time.

**Exhibit 30:** The structure of the FOMC leaves very little room for concerns about the Fed's independence

Board of Governors of the Federal Reserve System		
	<b>Current Term Expires</b>	
<b>Jerome Powell (as Chair of the FOMC)</b>	<b>May 15, 2026</b>	
<b>Jerome Powell (as Governor)</b>	<b>January 31, 2028</b>	
Philip Jefferson (as Vice Chair of the Board)	September 7, 2027	
Philip Jefferson (as Governor)	January 31, 2036	
Adriana Kugler	January 31, 2026	
Christopher Waller	January 31, 2030	
Michael Barr	January 31, 2032	
Michelle Bowman	January 31, 2034	
Lisa Cook	January 31, 2038	
Other Federal Open Market Committee Members		
	<b>Current Term Expires</b>	<b>Must Leave By</b>
John Williams (New York, Vice Chair of FOMC)	February 28, 2026	June 2028
Susan Collins (Boston)*	February 28, 2026	July 2032
Austan Goolsbee (Chicago)*	February 28, 2026	August 2034
Alberto Musalem (St. Louis)*	February 28, 2026	April 2034
Jefferey Schmid (Kansas City)*	February 28, 2026	August 2033

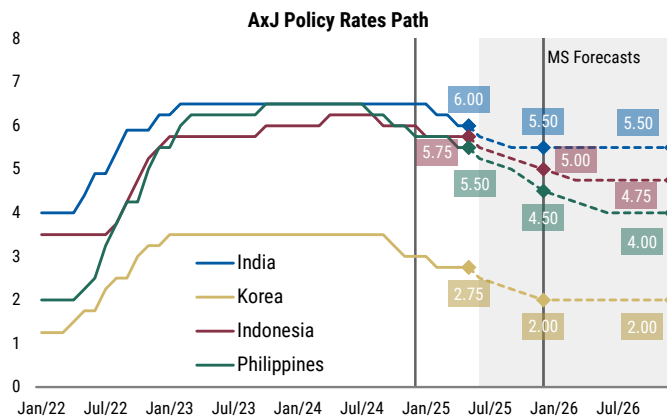
Source: FRB, Morgan Stanley Research; \*Indicates one-year term on a rotating basis.

**Exhibit 31:** The Fed remains on hold, the ECB cuts below neutral, Japan stops hiking



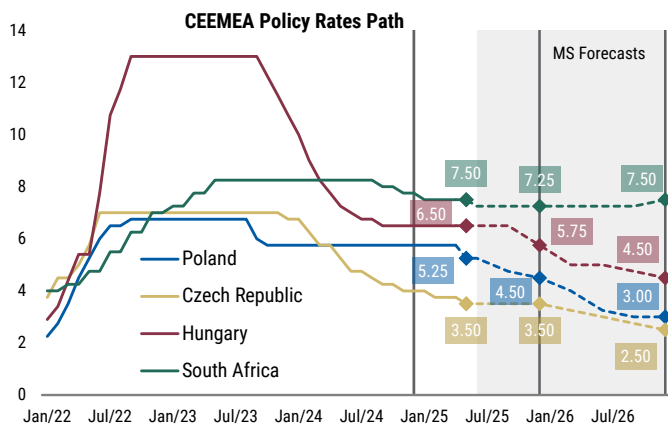
Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 32:** AXJ policy rates to ease as uncertainty looms



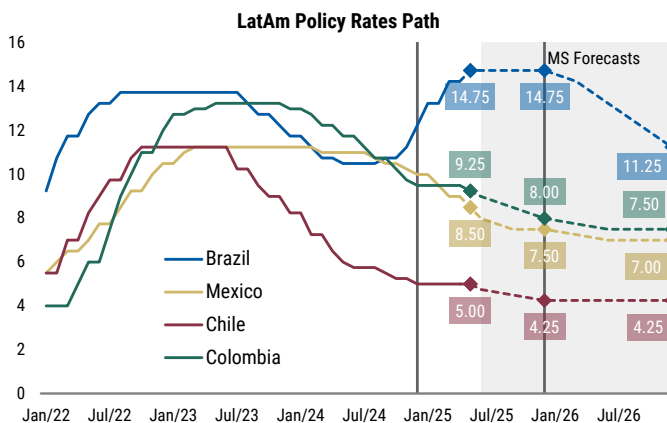
Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 33:** The CE3 rate-cutting cycle continues, with South Africa moving to hike by the end of the forecast horizon



Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

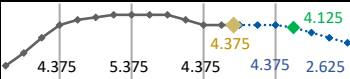
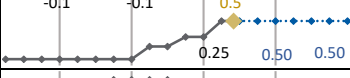
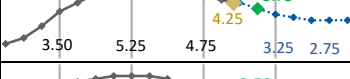
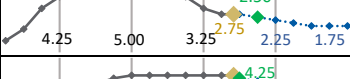

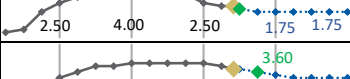
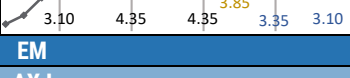
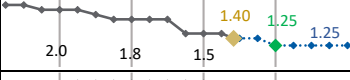
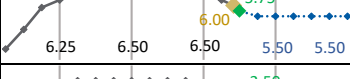
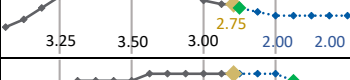
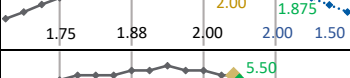
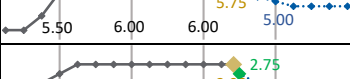
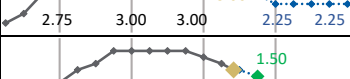
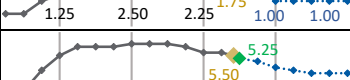
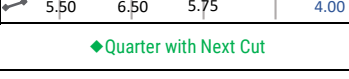
**Exhibit 34:** LatAm countries continue easing, Brazil joins the cycle



Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

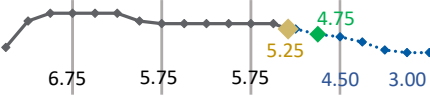
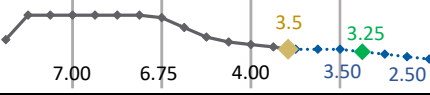
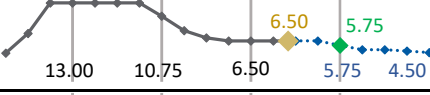
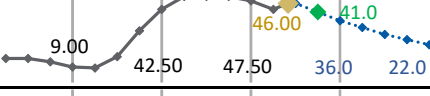
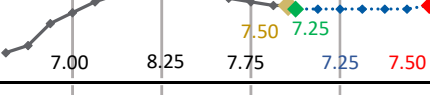

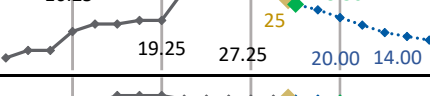
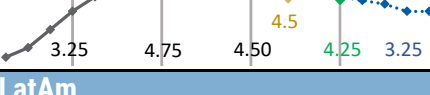
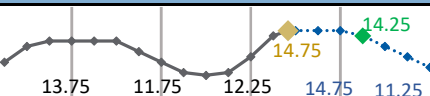
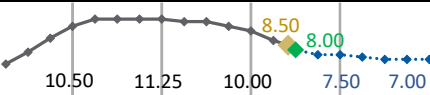
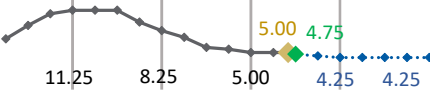
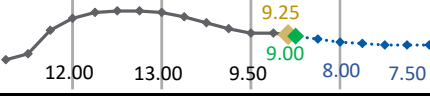
**Exhibit 35:**

Summary of central bank policy views – part I: G10 and AXJ

Economy	Current Policy Rate (Change at Last Meeting)	Next Meeting Date	End of Quarter Policy Rate Forecast (1Q22 to 4Q26E)	Next Expected Move	Timing of Next Expected Move
<b>G10</b>					
US	4.375% (No Change)	18-Jun-25		-25 bp	18-Mar-26
Euro Area	2.25% (-25 bps)	05-Jun-25		-25 bp	05-Jun-25
Japan	0.50% (No Change)	17-Jun-25		Hold	N.A.
UK	4.25% (-25 bps)	19-Jun-25		-25 bp	07-Aug-25
Canada	2.75% (No Change)	04-Jun-25		-25 bp	30-Jul-25
Norway	4.50% (No Change)	19-Jun-25		-25 bp	19-Jun-25
Sweden	2.25% (No Change)	18-Jun-25		-25 bp	18-Jun-25
Australia	3.85% (-25 bps)	08-Jul-25		-25 bp	12-Aug-25
<b>EM</b>					
<b>AXJ</b>					
China	1.40% (-10 bps)	N.A.		-15 bp	4Q-25
India	6.00% (-25 bps)	06-Jun-25		-25 bp	06-Jun-25
Korea	2.75% (No Change)	29-May-25		-25 bp	29-May-25
Taiwan	2.00% (No Change)	19-Jun-25		-12.5 bp	01-Mar-26
Indonesia	5.75% (No Change)	21-May-25		-25 bp	21-May-25
Malaysia	3.00% (No Change)	09-Jul-25		-25 bp	09-Jul-25
Thailand	1.75% (-25 bps)	05-Jun-25		-25 bp	13-Aug-25
Philippines	5.50% (-25 bps)	18-Jun-25		-25 bp	18-Jun-25
<p>◆ Historical    ◆ MS Quarterly Forecasts    ◆ Current Rate    ◆ Quarter with Next Cut    ◆ Quarter with Next Hike</p>					

Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts; Note: For euro area: ECB deposit facility rate; for Japan: uncollateralized overnight call rate upper limit; for China: 7-day reverse repo rate.

Exhibit 36: Summary of central bank policy views – part II: CEEMEA and LatAm

Economy	Current Policy Rate (Last Change)	Next Meeting Date	End of Quarter Policy Rate Forecast (1Q21 to 4Q25E)	Next Expected Move	Timing of Next Expected Move
<b>EM</b>					
<b>CEEMEA</b>					
Poland	5.25% (-50 bps)	04-Jun-25		-25 bp	02-Jul-25
Czech Rep.	3.50% (-25 bps)	25-Jun-25		-25 bp	05-Feb-26
Hungary	6.50% (No Change)	27-May-25		-25 bp	21-Oct-25
Turkey	46.00% (+350 bps)	19-Jun-25		-250 bp	24-Jul-25
South Africa	7.50% (No Change)	29-May-25		-25 bp	29-May-25
Saudi Arabia	5.00% (No Change)	18-Jun-25		-25 bp	18-Mar-26
Egypt	25.00% (-225 bps)	22-May-25		-150 bp	22-May-25
Israel	4.50% (No Change)	26-May-25		-25 bp	24-Nov-25
<b>LatAm</b>					
Brazil	14.75% (+50 bps)	17-Jun-25		-50 bp	04-Mar-26
Mexico	8.50% (-50 bps)	26-Jun-25		-50 bp	26-Jun-25
Chile	5.00% (No Change)	17-Jun-25		-25 bp	17-Jun-25
Colombia	9.25% (-25 bps)	27-Jun-25		-25 bp	27-Jun-25
<p>◆ Historical    ◆ MS Quarterly Forecasts    ◆ Current Rate    ◆ Quarter with Next Cut    ◆ Quarter with Next Hike</p>					

Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts; Note: Egypt rates are on a CY basis.

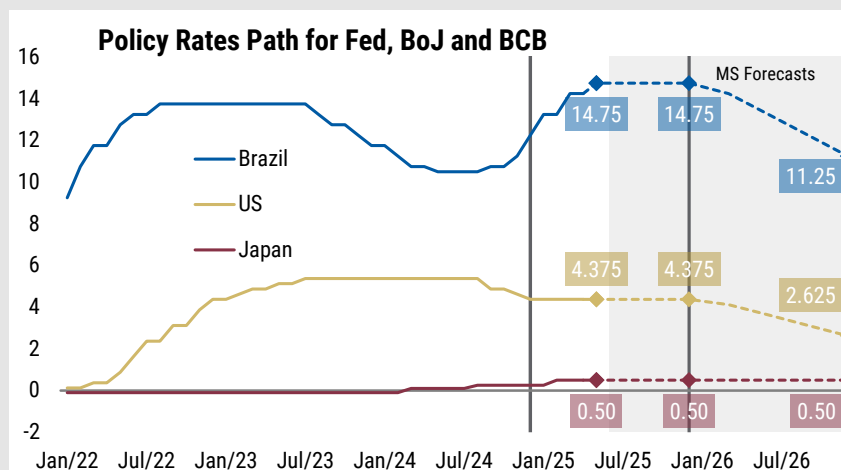
## Tariffs and the central bank response

In our [previous outlook](#), we highlighted policy divergence across global central banks. The ECB and BoE were cutting, while the Fed would pause before cutting next year. The BoJ and BCB were outliers, likely to hike. The early tariff shock and its attendant uncertainty have changed the global outlook and the previous outliers are not immune.

The BCB hiked in May, signaling a data-dependent approach going forward. We now think May was the last hike of this cycle, with rates on hold through 2025 and cuts starting in 2026. Inflation and the BCB's inflation forecasts remain elevated, hence the prolonged wait to cut. But we think that easing in 2026 will come from some domestic disinflation alone and the rising chances of a global recession.

The BoJ has pivoted, too. In April/May, Governor Ueda's tone turned more cautious on growth and inflation. Even if trade negotiations yield some progress, residual tariffs are likely to persist, posing downside risks to corporate earnings, year-end bonuses, and next spring's wage negotiations. Our Japan team has removed any further hiking from its forecast, leaving the policy rate at 0.5% through end-2026.

**Exhibit 37:** We no longer expect the BoJ and BCB to hike further, while the Fed remains in a tight spot



Source: FRB, BoJ, BCB, Morgan Stanley Research forecasts

The Fed faces one of the most difficult situations among central banks. The tariffs are imposed in the US and hit most imports, whereas for other countries tariffs affect only a fraction of exports, those to the US. For the US, tariffs will boost inflation and lower growth, but the timing and magnitude of each is unclear. In our view, inflation will come sooner, and the Fed will have only modest conviction that it will be temporary. Only when the hard data demonstrate that the cost from slowing growth exceeds the cost from high inflation will the Fed decide to lower rates. In our view, the easing cycle does not begin until early 2026.

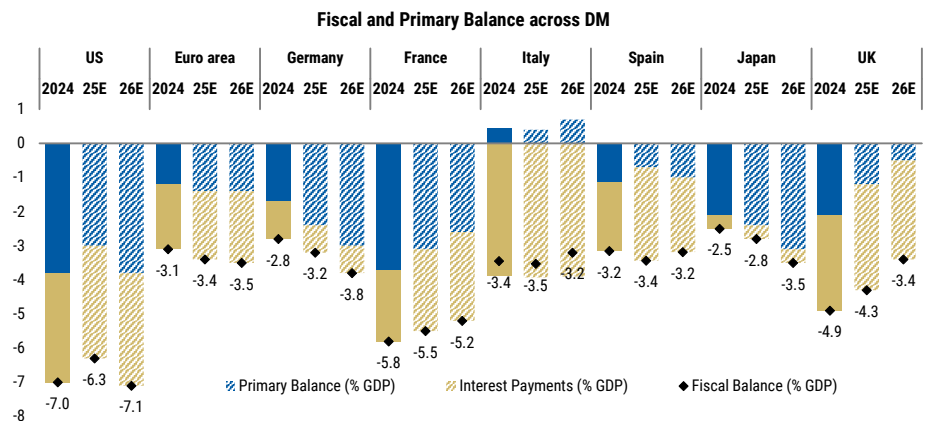
For the rest of the world, the Fed's choices carry consequences. Not easing this year would put pressure on currencies, especially in EM. By delaying until inflation's path is clear, however, the Fed risks making the slowdown worse, and thus when it does decide to ease policy, we think that it will do more, and against weak US growth, the dollar could remain soft.

# Fiscal – Rising Debt Driven by Different Dynamics

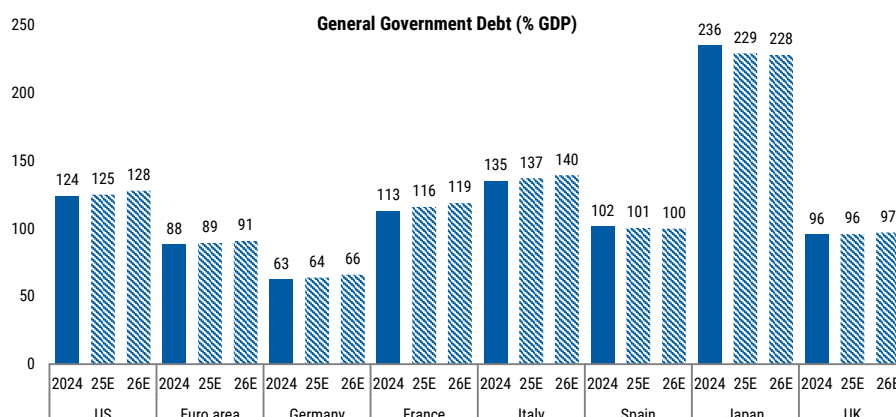
**Deficits should rise in the US and the euro area but for different reasons. The key drivers in the US are slower growth and rising interest costs. Germany is projected to run its largest deficit outside of a recession since unification; the main drivers are infrastructure and defense. China's fiscal policy should remain modestly expansionary, but other Asian countries may be constrained by high public debt.**

The fiscal expansion in the **US** in 2026 will likely be notably smaller than the 2016/17 tax cuts or the Covid fiscal impulse. We expect the expiring provisions of the TCJA to be extended, but incremental tax cuts will be mostly offset by 'pay-fors.' We expect debt to expand in 2026 due to slowing economic growth, where only a third of the deficit increase we forecast for 2026 is due to discretionary fiscal policy in excess of the TCJA extension. Moreover, a substantial portion of the debt stack is still repricing to the higher interest rate regime. The debt trajectory is contingent on interest rate expenses, and we expect it to surpass the late 1980s peak around 2030.

**Exhibit 38:** The US has a large primary deficit and interest expenses are rising. Germany announced its largest deficit outside a recession, but France and Spain reduce deficits. Even with accommodative fiscal policy on net, we see only modest boosts to growth



Source: National statistical agencies, Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: UK fiscal balance is PSNB ex, gross government debt is debt ex BoE and all data are fiscal year balances.

**Exhibit 39:** Debt/GDP ratios rise across much of the DM world

Source: National statistical agencies, Haver Analytics, IMF, Morgan Stanley Research forecasts. Note: UK fiscal balance is PSNB ex, gross government debt is debt ex BoE and all data are fiscal year balances.

In the **euro area**, we expect deficits to rise in 2025 and 2026; euro area debt/GDP exceeds 90% by 2026. The fiscal expansion is driven by formerly fiscally conservative countries, like Germany and the Netherlands. Measures at the euro area level are poised to reduce constraints on defense spending, further supporting deficits. At the same time, rising interest expenditures and deteriorating output gaps should push deficits higher. Germany has approved a historically large fiscal package and will run its largest deficit outside the recession years since its unification. While Germany is likely to see a large share of investment expenditure against a weak economic backdrop, for other euro area countries the fiscal expansion will likely be much more limited and focused on defense spending. However, analysis by our European economics team suggests that near-term defense spending **multipliers** are not high.

This change in structural primary deficits for the euro area is a key development, and we now expect a positive fiscal impulse of 10bp in 2025 before it becomes a modest drag in 2026. The drag is a reflection of gradual attempts at fiscal consolidation, primarily by France and Italy. Over the longer term, we expect fiscal policy to be somewhat expansionary, especially in Germany, but it is unlikely to contribute more than a tenth or two to growth.

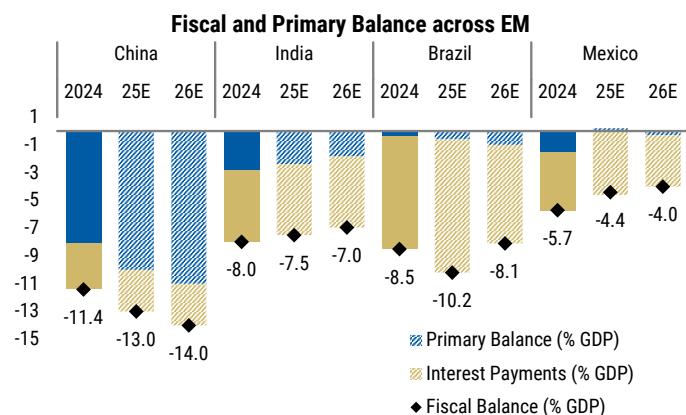
The **UK's** fiscal metrics are better than generally anticipated, with the UK on a path of fiscal **consolidation**. We anticipate a ~1pp consolidation between 2024 and 2026.

For **Asian economies**, we expect policymakers to leverage fiscal policy to support aggregate demand directly and limit the damage of lower corporate confidence and weaker trade and capex cycles. Yet, higher public debt levels compared to previous cycles could constrain the extent of fiscal stimulus. Instead, monetary policy may have to do much of the heavy lifting in AXJ outside China.

We continue to expect **China's** fiscal policy to remain modestly expansionary and reactive, but still sufficiently supply-centric to provide a floor to growth, but not enough to engineer rapid reflation. Given the meaningful tariff de-escalation between China and the US, our China economists now expect a smaller fiscal stimulus of Rmb 0.5-1 trillion in 4Q25, to leave room for flexibility, while supporting infrastructure and key sectors if momentum slows. We see double-digit primary deficits in China over 2025 and 2026. In **India**, policymakers have committed to further fiscal consolidation, but a deeper

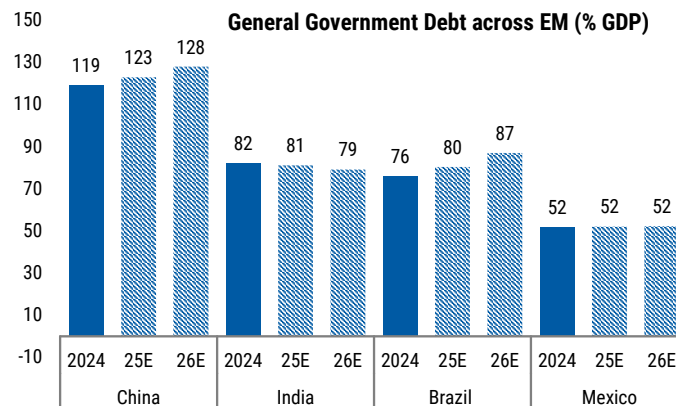
slowdown could necessitate a pause.

**Exhibit 40:** Fiscal stimulus in China and high interest expenses in Brazil keep debt/GDP accelerating...



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: China's general government balance includes budget deficit, transfers of fiscal reserves, local government special bonds, social security fund, LGFV funding, and net land sales; gross government debt includes central government debt, local government debt, and Wind statistics on LGFV debt, which are LGFVs with bond-issuing capability. For India, the fiscal deficit is consolidated deficit, summed across centre and the states.

**Exhibit 41:** ...while fiscal consolidation in India and Mexico keep debt/GDP stable over 2025 and 2026



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: China's general government balance includes budget deficit, transfers of fiscal reserves, local government special bonds, social security fund, LGFV funding, and net land sales; gross government debt includes central government debt, local government debt, and Wind statistics on LGFV debt, which are LGFVs with bond-issuing capability. For India, the fiscal deficit is consolidated deficit, summed across centre and the states.

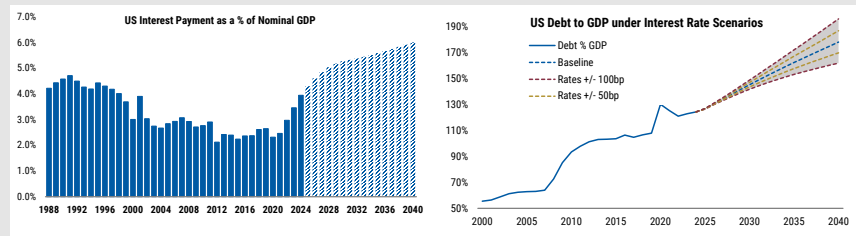
In **Brazil**, relatively modest primary deficits have helped to offset mounting interest costs, but rigidity in the budget due to compulsory spending makes primary surpluses challenging without structural reforms. The primary deficit should be contained in 2025 given resilient economic activity and revenues, but we expect an expansion in 2026 going into the general elections. Fiscal consolidation is under way in **Mexico**, acting as an additional drag on growth for an economy battling weaker US growth and policy uncertainty-induced capex weakness.

### Revisiting debt sustainability

In our [deep-dive into DM sovereign debt](#) a year ago, we flagged risks that debt/GDP ratios would not stabilize without fiscal consolidation. With debt-servicing costs converging to market rates, we noted that primary deficits would need to return to pre-Covid levels to keep debt/GDP from accelerating.

Developments over the past year have done little to alleviate these concerns on both the stock of debt and the interest rate expense. According to CBO forecasts, primary deficits in the US will be the norm over the medium-term horizon – a departure from the primary surpluses the US traditionally ran prior to the global financial crisis. The passage of the TCJA and measures taken during Covid pushed primary deficits into historically large territory, and the CBO does not expect a return to a primary surpluses, or even to balances, over a 10-year horizon.

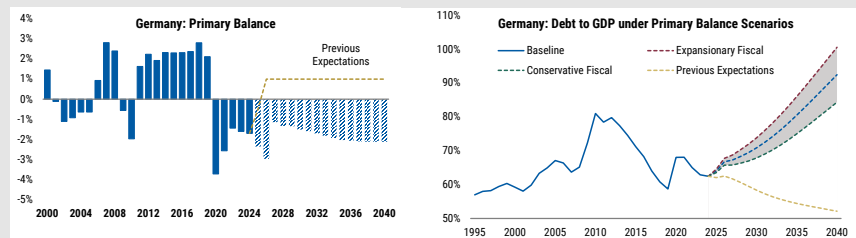
**Exhibit 42:** Persistent primary deficits and mounting interest costs to keep the US debt on a rising trajectory



Source: CBO, US Treasury, BEA, Haver Analytics, Morgan Stanley Research projections

At the same time, ultra-low US rates are behind us, and interest payments as a percentage of GDP will keep rising as debt-servicing costs converge to market rates. We expect the Fed to stay on hold throughout 2025, and cut by as little as 75bp by 2026 in our US upside scenario, which, coupled with the prospect of steepening yield curves, could mean that rising interest expenses continue to drive debt/GDP higher.

**Exhibit 43:** With Germany running its largest fiscal deficit outside of a recession, our analysis suggests an accelerating debt/GDP path, compared to the decline we had expected previously



Source: Eurostat, Federal Statistical Office, Haver Analytics, Morgan Stanley Research projections

We also expect deficits to pick up significantly in the euro area, where we previously expected consolidation. Germany's €1 trillion fiscal package will raise its fiscal deficit to the highest outside a recession, while measures at the euro area level should reduce constraints on defense spending. This keeps debt on an accelerating trajectory, with euro area debt rising to over 90% of GDP in 2026. Rising interest costs are of concern in the euro area as well, and [analysis by our European economics team](#) suggests that steepening forward yield curves over the past year added 3-6pp to debt ratios by 2040. Of particular interest is Germany, where a structural change towards primary deficits instead of primary surpluses results in a dramatic shift in our debt projections – rather than falling towards 50%, we now see debt/GDP rising to 90% by 2040.

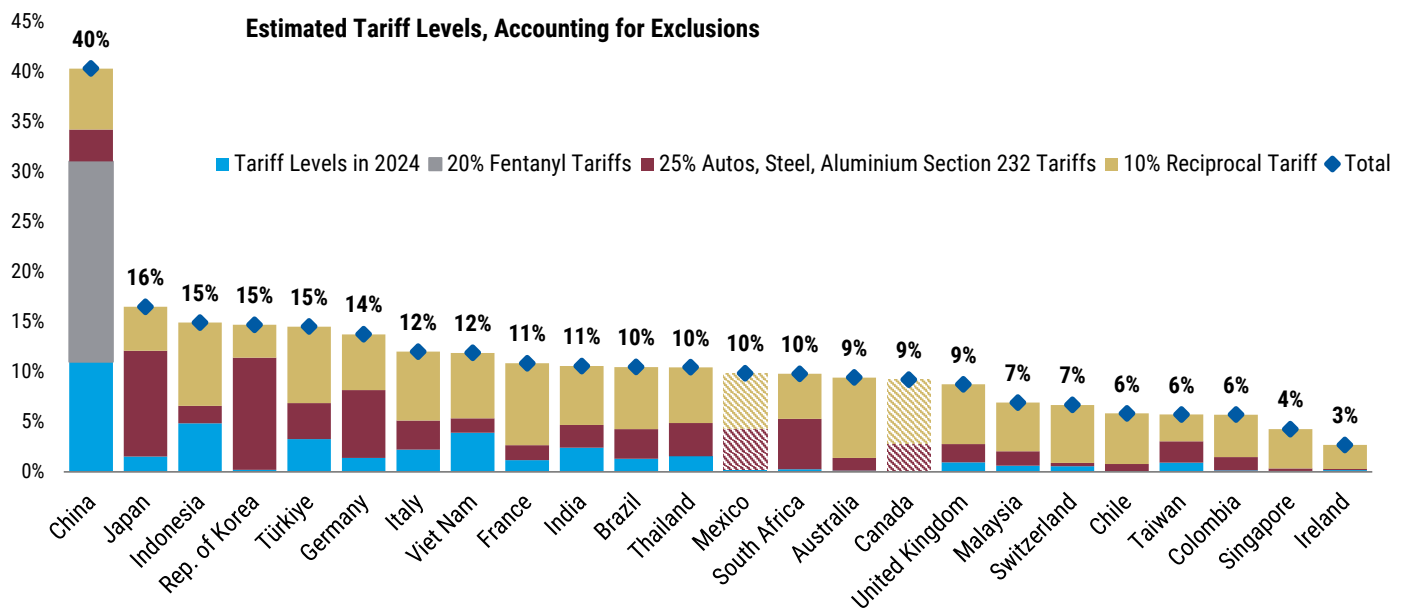
Around the DM economies, the sustainability of the path of debt appears to be increasingly precarious.

# Global Trade – A New Paradigm

**We expect global trade to slow from tariffs, policy uncertainty, and weaker global growth. With tariff negotiations pending and sector-specific tariff investigations ongoing, trade policy uncertainty is unlikely to dissipate soon. The trade shock is a structural change to global trading, and currencies may be a further headwind.**

The US administration's tariff announcements have led to tariffs rising to their highest levels in nearly a century. While there has been some de-escalation, tariff levels remain elevated. President Trump has invoked the International Emergency Economic Powers Act (IEEPA) to first impose tariffs on China, Mexico, and Canada, and then to impose 'reciprocal tariffs' on all trading partners on April 2. In parallel, product-level tariffs under Section 232 have been imposed on the imports of steel, aluminum, and automobiles, while investigations on pharmaceuticals, semiconductors, and other goods are in progress. The quantum and coverage of these tariffs have changed considerably – most crucially for [China, where effective tariff rates](#) have gone from 11% in January, to 22%, 34%, and 59% before peaking at 123%. Since then, exclusions for electronics brought tariffs to 107% before de-escalation in tariffs brought them to 40%. [Exhibit 44](#) represents our present estimates of tariffs, using the import volumes from end-2024.

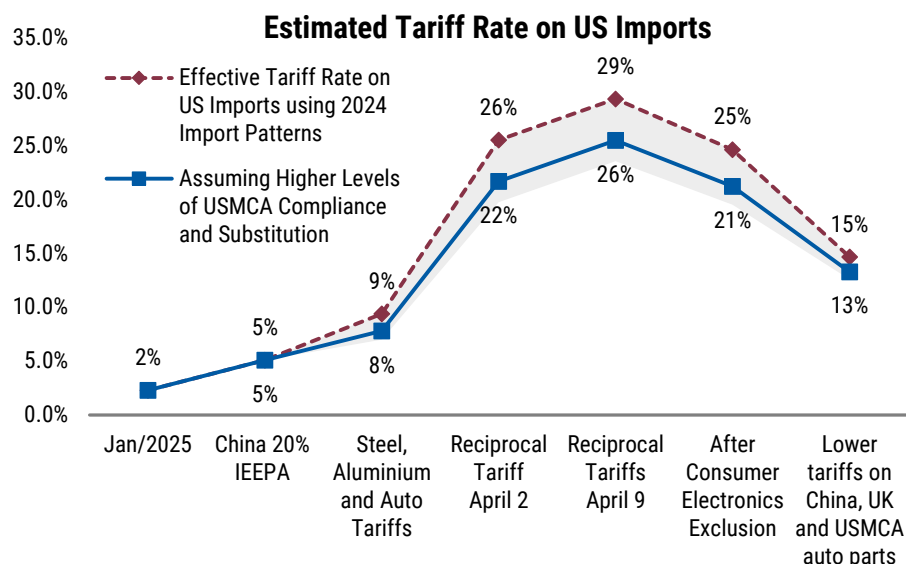
**Exhibit 44:** Estimated tariff levels remain elevated despite cooling trends; uncertainty remains



Source: US Census, US HTS, USITC, Morgan Stanley Research estimates; Note: More recent tariff-level estimates are based on 10% reciprocal tariffs on China with 20% tariff floor ex reciprocal, 10% tariffs on RoW, and 25% tariffs on non-USMCA-compliant goods. We assume reduced tariffs on UK autos and steel, and also factor in auto parts exemptions for USMCA. For the "Effective Tariff Rate on US Imports", we use 2024 trade data, assume current USMCA compliance levels, and factor in exemptions based on the April 2 announcement: goods that are subjects of Section 232 tariffs are excluded from reciprocal tariffs (steel, aluminum, autos, auto parts), goods with ongoing Section 232 investigations (copper, lumber, semiconductors, pharmaceuticals), as well as other exemptions like fuels, critical minerals, bullion, and consumer electronics. We assume 10% tariffs on non-USMCA-compliant fuel imports from Mexico and Canada. This represents the higher end of our tariff-level estimates.

Using 2024 trade composition at a HS6 product level, we estimate US import tariffs at 13% after de-escalation with China, the deal with the UK, and reduced tariffs on USMCA-compliant auto parts.

Exhibit 45: Evolution of tariffs so far



Source: US Census, US HTS, USITC, Morgan Stanley Research estimates; Note: More recent tariff-level estimates are based on 10% reciprocal tariffs on China with 20% tariff floor ex reciprocal, 10% tariffs on RoW, and 25% tariffs on non-USMCA-compliant goods. We assume reduced tariffs on UK autos and steel, and also factor in auto parts exemptions for USMCA. For the "Effective Tariff Rate on US Imports", we use 2024 trade data, assume current USMCA compliance levels, and factor in exemptions based on the April 2 announcement: goods that are subjects of Section 232 tariffs are excluded from reciprocal tariffs (steel, aluminum, autos, auto parts), goods with ongoing Section 232 investigations (copper, lumber, semiconductors, pharmaceuticals), as well as other exemptions like fuels, critical minerals, bullion, and consumer electronics. We assume 10% tariffs on non-USMCA-compliant fuel imports from Mexico and Canada. This represents the higher end of our tariff-level estimates. "Assuming Higher Levels of USMCA Compliance", we assume USMCA compliance is over 90%, and that the ambit of USMCA is expanded to cover USMCA-compliant goods that were previously provided MFN Duty-Free access. Shaded area is our estimate of the range of tariffs currently applicable, assuming certain levels of trade substitution and reduced import levels from China given elevated tariffs. We recommend these estimates be used directionally.

There are several challenges when it comes to estimating how these tariffs translate to real-time effective tariffs on total US imports. First, there remains significant uncertainty about the implementation of USMCA tariffs – at present, USMCA-compliant goods enter the US duty-free, while non-USMCA-compliant goods see a 25% reciprocal tariff, while a large share of goods are exposed to Section 232 tariffs. For a section of US imports, we see room for compliance rates to increase, and this assumption brings down the effective tariff level – especially fuels, as we discussed [here](#). Furthermore, there is likely to be some trade rerouting, transshipment and substitution (discussed [here](#)), use of FTZs, under-invoicing of goods, as well as a decline in import volumes on goods facing high tariffs. We include these effects in our estimated effective tariff rate. Leaving the USMCA compliance at current levels and not accounting for any substitution would imply an effective tariff rate of 15%.

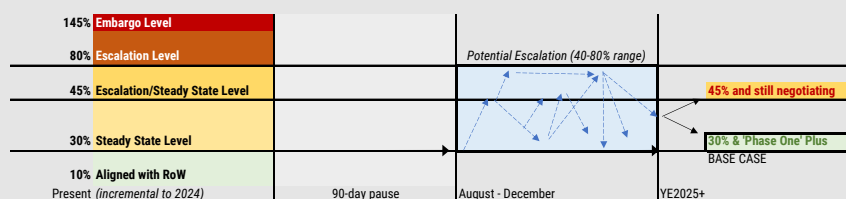
As tariff announcements have come in over the past few months, we have written about the nuances associated with estimating tariff levels, given that tariff policy has been a complex interplay of country-level and sector-level tariffs, with select exclusions. We had flagged how sector-level tariffs would likely become the focus of markets as Section 232 investigations and reciprocal tariffs on China declined from unsustainable levels. The recent de-escalation in regard to China affirms this view, and with reciprocal tariffs on China coming down to the same level as all other countries (with 20% additional fentanyl tariffs), we expect that Section 232 tariffs will now drive tariff levels over the course of this year, with negotiations so far focusing on exemptions on specific goods like autos (in the case of Japan and the UK) and steel (in the case of the UK).

## US public policy – trade policy outlook

**Our base case reflects uneven tariff implementation across the board** – a 10% baseline for most trading partners (with some exceptions), higher tariffs on China but at a workable rate, higher escalation risk on Europe, and longer-lasting product-specific Section 232 tariffs (on steel, aluminum, autos, copper, semis, and more). Importantly, incremental China tariff levels are lower than the medium-term steady state we have previously penciled in (30% versus 43%) and achieved faster. We also assume higher levels of compliance by the end of this year, relative to the current compliance levels.

The end state we envision is still one in which the US keeps higher barriers on trade in aggregate relative to the beginning of year, but still with a skew towards China, but to a lesser degree. We expect no incremental 'reciprocal' tariffs on top of this for RoW ex China, as we see negotiations with allies making sufficient progress to continue delaying implementation of Liberation Day tariffs. That said, we see high risk in key jurisdictions of temporary re-escalation on negotiation sticking points (i.e., Europe). We still expect a review of the USMCA to take place in mid-2026 in line with the timeline established in the original trade deal. We believe that key sticking points are the role of China in Mexico, updating some parameters around digital trade, and labor RRM, among some others, but view the current tariffs in place as a reasonable expectation for the near-to-medium term.

Exhibit 46: Tariff baseline – China



Source: Morgan Stanley Research forecasts

## Supply chain strain in a multipolar world: Trade, tariffs, and growth

One of the stated objectives of recent trade restrictions has been to rebuild the US manufacturing sector and pursue supply chain realignment. In [Multipolar World: Supply Chain Strain](#), we discussed how this would be a transition that would cost more, take longer, and bring greater risk – both to corporate P&Ls and to the economy, through increased sensitivity to growth and inflation at the macroeconomic level. We also introduced the [Trade Almanac](#), our trade database that maps global trade and supply chains through interactive models.

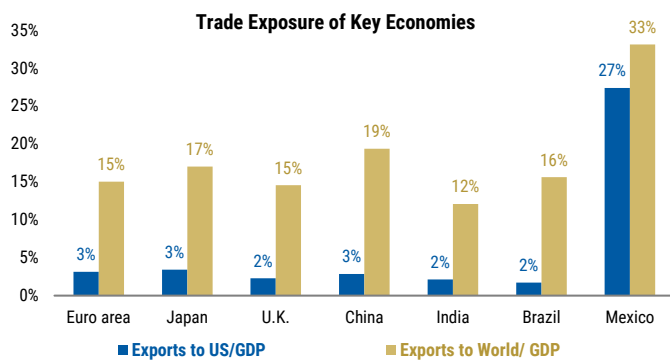
The US economy has become more services oriented over the past three decades, and as the contribution of manufacturing to the economy has declined, its reliance on imports for both consumer and producer goods has risen. In our view, rebuilding manufacturing capacity in the US will require extensive greenfield investment, as the US will first need to expand its stock of manufacturing equipment, much of which will need to be imported.

Current tariff policy and the uncertainty that has accompanied it presents a hurdle to this process. A large body of research, by [Ben Bernanke](#) and a host of others, has noted that

uncertainty reduces spending. For a business making capital expenditure with a long life, the option value of waiting rises with uncertainty. Taking a risk to establish productive capacity requires assurance of policy continuity and stability – instead, the past months have seen economic and trade policy uncertainty rise to all-time highs, while consumer and business confidence has fallen. With tariff negotiations looming, trade policy uncertainty is unlikely to dissipate soon. At the same time, tariffs have raised the cost of importing capital equipment, while also reducing final demand by acting as a tax on consumers – all of this serves to further disincentivize investment.

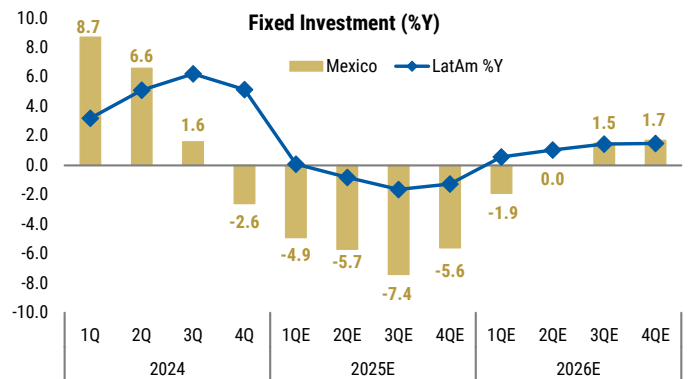
The impact of policy uncertainty is not limited to the US – our [Asia economists](#) have been flagging how tariffs and uncertainty will hurt corporate sentiment, capex growth, and hence labor markets and consumption in Asia. Similarly, in Mexico, policy uncertainty and lower business confidence are bringing capex to a standstill.

**Exhibit 47:** The ongoing structural change in global commerce should bring direct downside risks for trade-exposed economies...



Source: UN, IMF, Haver Analytics, Morgan Stanley Research; Note: Euro area data are extra-EU trade. See [Multipolar World: Supply Chain Strain](#) for a more exhaustive list of trade exposures.

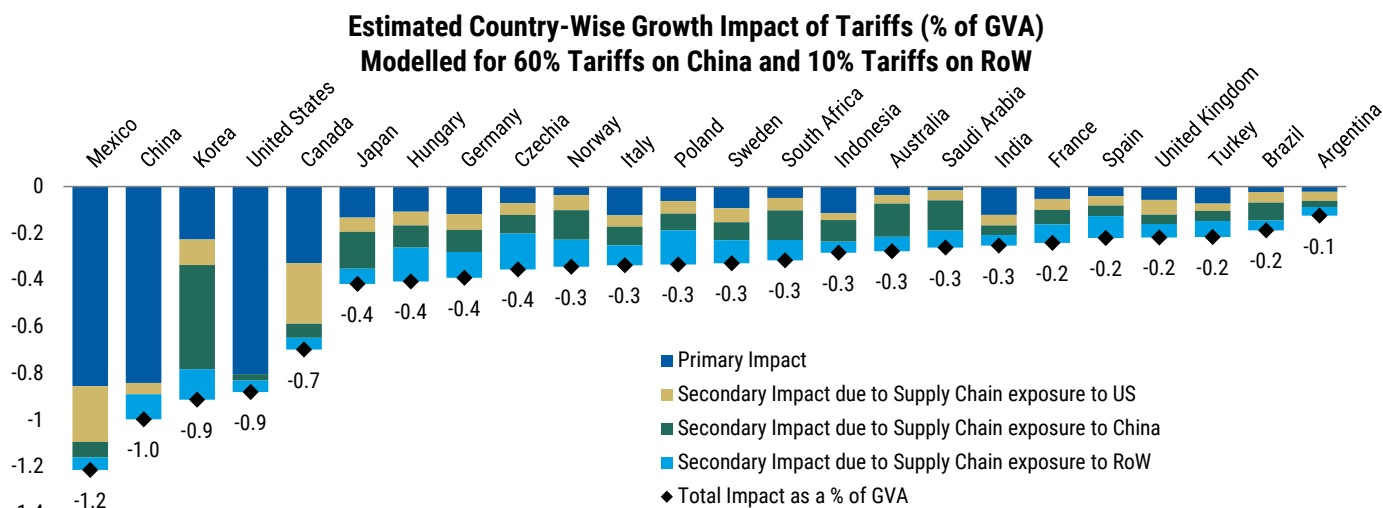
**Exhibit 48:** ...while indirect channels like lower corporate confidence affecting capex decisions can also have significant growth impacts



Source: National statistical agencies, Morgan Stanley Research forecasts

In [Global Tariffs: Call of Duties — Past, Present, and Future](#), we used an [input-output approach](#) to estimate how tariffs on China and other countries would have direct and indirect economic ramifications. Clearly, countries with higher trade exposure see the greatest downside risks to growth through these channels – in particular Asia and LatAm are most exposed, while in our coverage the CEEMEA region is relatively less exposed through direct channels.

**Exhibit 49:** Estimates of value-add exposure from a 10% global price increase and 60% China product price increase, as a proxy for tariffs



Source: Eurostat, OECD, Morgan Stanley Research estimates; Note: More details on methodology available [here](#). To run the model we make two basic assumptions – a tariff level and an initial unitary elasticity to frame the price to volume implication as the tariff propagates across the value chain. On the tariff side, we settled on a 10% base global tariff and 60% on China, which was the original April 2 announcement before escalation. Not having confidence in current elasticity measures in an instance of global trade disruption, we decided to use a unitary elasticity approach (1% price shift contracts demand by 1%) to estimate an implied upper bound of potential impact. The actual implication of the tariff will vary depending on the amount of trade disruption across countries and sectors.

We forecast that trade growth slows and lags real GDP growth globally over 2025 and 2026. Yet, this is only the latest change in a longer-term trend of declining trade as a percentage of GDP, something we had flagged in [Practical Guide to a Multipolar World](#). The next phase of rewiring global commerce for a multipolar world will require a meaningful shift in productive capacity. Policy uncertainty, weaker demand, and higher input prices will make it hard for economic agents to make the requisite investment decisions, especially those involving a longer investment horizon.

## Baseline Forecasts

## Real GDP growth (%Y)

Exhibit 50: Real GDP baseline forecasts (%Y)

Real GDP %Y	Base Case Real GDP Growth (%Y)																			
	Quarterly												Annual							
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global %Y</b>	<b>3.3</b>	<b>3.9</b>	<b>3.3</b>	<b>3.5</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>	<b>3.5</b>	<b>3.4</b>	<b>3.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>3.5</b>	<b>3.3</b>	<b>2.9</b>	<b>2.8</b>
<b>Global ex US %Y</b>	<b>3.5</b>	<b>4.1</b>	<b>3.4</b>	<b>3.5</b>	<b>3.5</b>	<b>3.2</b>	<b>3.2</b>	<b>3.7</b>	<b>3.7</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.6</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>
<b>G10 %Y</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.4</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.7</b>	<b>1.7</b>	<b>1.3</b>	<b>1.0</b>
US	2.3	2.8	3.2	3.2	2.9	3.0	2.7	2.5	2.1	1.7	1.4	1.0	1.2	0.9	0.8	1.0	2.9	2.8	1.5	1.0
Euro Area	1.4	0.6	0.0	0.2	0.5	0.5	1.0	1.2	1.2	1.1	0.8	0.8	0.7	0.8	1.0	1.0	0.5	0.8	1.0	0.9
Germany	0.2	0.1	-0.3	-0.2	-0.1	-0.2	-0.3	-0.2	-0.2	0.2	0.1	0.4	0.4	0.6	0.8	1.0	-0.1	-0.2	0.1	0.7
France	1.0	1.3	0.9	1.2	1.4	1.0	1.3	0.8	0.8	0.6	0.3	0.5	0.5	0.5	0.6	0.7	1.1	1.1	0.6	0.6
Italy	2.1	0.4	0.2	0.6	0.3	0.7	0.6	0.5	0.6	0.4	0.1	-0.3	-0.4	-0.1	0.6	1.2	0.8	0.5	0.2	0.3
Spain	3.9	2.4	2.2	2.3	2.7	3.3	3.3	3.3	2.8	2.4	2.1	2.0	1.9	2.1	2.1	1.9	2.7	3.1	2.3	2.0
Japan	2.3	1.6	1.1	0.6	-0.7	-0.6	0.8	1.3	1.7	0.9	0.9	0.3	0.7	0.5	0.4	0.6	1.4	0.2	1.0	0.5
UK	0.8	0.5	0.4	-0.2	0.7	1.1	1.2	1.5	1.3	0.6	0.7	0.7	0.6	1.3	1.5	1.7	0.4	1.1	0.8	1.3
Canada	2.4	1.6	0.9	1.2	0.7	1.2	1.9	2.4	2.2	1.7	1.2	0.6	0.3	0.3	0.5	0.8	1.5	1.6	1.4	0.5
Norway	1.9	1.1	1.2	0.2	0.5	0.5	0.9	0.5	1.5	1.2	0.9	1.7	1.3	1.4	1.6	1.8	1.1	0.6	1.3	1.5
Sweden	1.2	-0.3	-0.3	-0.1	-0.1	0.5	1.0	2.3	1.6	1.6	1.2	0.6	0.9	1.3	1.6	2.0	0.1	1.0	1.2	1.5
Australia	2.7	2.0	2.1	1.5	1.1	1.0	0.8	1.3	1.8	2.0	2.2	2.1	1.8	2.0	2.0	2.1	2.1	1.0	2.0	2.0
<b>Global (%Q, SAAR) ^</b>	<b>4.5</b>	<b>4.2</b>	<b>3.0</b>	<b>2.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.8</b>	<b>2.9</b>	<b>2.3</b>	<b>2.1</b>	<b>2.6</b>	<b>3.1</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>	<b>3.5</b>	<b>3.5</b>	<b>2.5</b>	<b>2.8</b>
<b>G10 (%Q, SAAR) ^</b>	<b>1.9</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>2.2</b>	<b>2.2</b>	<b>1.8</b>	<b>0.6</b>	<b>1.0</b>	<b>1.2</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>1.8</b>	<b>0.9</b>	<b>1.0</b>
US	2.8	2.4	4.4	3.2	1.6	3.0	3.1	2.4	-0.3	1.6	1.9	0.7	0.5	0.7	1.3	1.4	3.2	2.5	1.0	1.0
Euro Area	0.1	0.3	0.0	0.2	1.3	0.7	1.7	1.0	1.3	0.5	0.5	0.8	0.9	1.0	1.1	1.1	0.2	1.2	0.8	1.0
Japan	4.7	2.4	-4.0	-0.2	-1.6	3.8	1.0	2.4	-0.7	1.0	0.9	0.6	0.1	0.3	0.7	0.9	0.6	1.3	0.3	0.6
UK	0.2	0.2	-0.2	-0.8	3.7	1.8	0.0	0.4	2.9	-1.0	0.4	0.4	2.4	1.8	1.4	1.2	-0.2	1.5	0.7	1.7
Canada	3.9	0.8	-0.6	0.7	1.8	2.8	2.2	2.6	1.3	0.7	0.4	0.2	0.1	0.6	1.1	1.3	1.2	2.4	0.6	0.8
Norway	-1.3	1.6	0.7	-0.2	-0.1	1.7	2.2	-1.8	4.1	0.4	1.1	1.2	2.6	0.8	1.7	1.9	0.2	0.5	1.7	1.8
Sweden	2.8	-1.6	0.8	-2.3	3.0	0.7	2.6	3.1	0.2	0.6	0.8	0.8	1.4	2.0	2.3	2.4	-0.1	2.3	0.6	2.0
Australia	2.2	1.3	2.1	0.4	0.7	0.8	1.3	2.4	2.9	1.4	2.0	2.0	1.7	2.2	2.3	2.3	1.5	1.3	2.1	2.1
<b>EM %Y</b>	<b>4.4</b>	<b>5.6</b>	<b>4.7</b>	<b>5.0</b>	<b>4.9</b>	<b>4.5</b>	<b>4.2</b>	<b>4.8</b>	<b>4.7</b>	<b>4.2</b>	<b>3.8</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.2</b>	<b>4.2</b>	<b>4.9</b>	<b>4.6</b>	<b>4.1</b>	<b>4.1</b>
<b>EM ex China %Y</b>	<b>4.2</b>	<b>4.8</b>	<b>4.5</b>	<b>4.7</b>	<b>4.7</b>	<b>4.3</b>	<b>3.9</b>	<b>4.2</b>	<b>4.2</b>	<b>3.8</b>	<b>3.5</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.2</b>	<b>4.6</b>	<b>4.3</b>	<b>3.8</b>	<b>4.0</b>
<b>AXJ %Y</b>	<b>4.8</b>	<b>6.4</b>	<b>5.6</b>	<b>5.9</b>	<b>5.8</b>	<b>5.0</b>	<b>4.7</b>	<b>5.2</b>	<b>5.3</b>	<b>4.7</b>	<b>4.4</b>	<b>4.2</b>	<b>4.5</b>	<b>4.5</b>	<b>4.6</b>	<b>4.6</b>	<b>5.7</b>	<b>5.2</b>	<b>4.6</b>	<b>4.6</b>
China	4.7	6.5	5.0	5.3	5.3	4.7	4.6	5.4	5.4	4.7	4.2	4.0	4.2	4.2	4.4	4.2	5.4	5.0	4.5	4.2
India	6.9	9.7	9.3	9.5	8.4	6.5	5.6	6.2	6.7	6.3	6.1	5.9	6.4	6.4	6.5	6.4	8.8	6.7	6.2	6.4
Hong Kong	2.7	1.6	4.2	4.3	2.8	3.0	1.9	2.5	3.1	2.2	2.1	1.2	0.1	1.7	2.9	3.8	3.2	2.5	2.1	2.2
Korea	0.9	0.9	1.4	2.2	3.3	2.3	1.5	1.2	-0.1	0.7	1.8	1.8	0.7	1.6	1.2	2.5	1.4	2.0	1.1	1.5
Taiwan	-3.5	1.4	2.1	4.9	6.6	4.9	4.2	2.9	5.4	1.7	0.5	2.8	4.5	3.4	1.3	2.5	1.4	4.7	2.6	2.9
Singapore	1.0	1.3	1.9	3.1	3.2	3.4	5.7	5.0	3.8	2.7	-0.4	-0.7	0.8	1.3	1.7	2.1	1.8	4.4	1.4	1.5
Indonesia	5.0	5.2	4.9	5.0	5.1	5.0	4.9	5.0	4.9	4.8	4.7	4.7	4.8	4.8	5.0	5.0	5.0	5.0	4.8	4.9
Malaysia	5.5	2.8	3.1	2.9	4.2	5.9	5.4	5.0	4.4	3.9	3.5	3.5	3.5	4.0	4.2	4.4	3.6	5.1	3.8	4.0
Thailand	2.7	1.9	1.6	1.8	1.7	2.3	3.0	3.3	3.1	1.6	1.5	1.5	1.6	1.8	2.0	2.0	2.0	2.6	1.9	1.9
Philippines	6.4	4.3	6.0	5.5	5.9	6.5	5.2	5.3	5.4	5.2	5.0	5.0	5.1	5.2	5.2	5.5	5.6	5.7	5.2	5.3
<b>CEEMEA %Y</b>	<b>2.0</b>	<b>0.9</b>	<b>-0.5</b>	<b>-0.6</b>	<b>0.4</b>	<b>1.4</b>	<b>1.5</b>	<b>3.5</b>	<b>2.3</b>	<b>2.3</b>	<b>2.8</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>0.4</b>	<b>1.7</b>	<b>2.5</b>	<b>2.4</b>
Poland	-0.9	-1.1	0.9	1.8	1.5	4.4	1.6	4.1	3.7	2.8	3.2	2.3	2.3	2.3	2.3	2.2	0.3	2.9	3.0	2.3
Czech Rep	0.6	-0.2	-0.6	0.1	0.4	0.4	1.4	1.8	2.0	2.0	1.4	0.9	0.7	1.0	1.4	1.8	-0.1	1.0	1.5	1.2
Hungary	-1.3	-2.5	0.0	0.4	1.1	1.5	-0.8	0.4	0.0	0.3	1.5	1.3	2.4	2.1	2.2	2.2	-0.8	0.5	0.8	2.2
Ukraine	-10.2	19.3	9.7	5.2	6.8	4.0	2.2	-0.1	-3.2	-0.4	2.7	5.9	6.0	5.5	4.9	4.7	5.5	2.9	1.6	5.2
Turkey	4.5	4.6	6.5	4.6	5.4	2.4	2.2	3.0	2.6	2.4	3.3	2.6	2.5	4.0	4.4	4.7	5.1	3.2	2.8	4.0
South Africa	0.5	1.8	-0.9	1.4	0.6	0.4	0.4	0.9	0.7	0.8	1.7	1.2	1.7	1.6	1.6	1.6	0.7	0.6	1.2	1.7
Saudi Arabia	5.7	2.6	-2.8	-2.9	-0.6	0.5	2.9	4.4	2.7	2.7	3.4	3.2	3.1	3.0	2.9	2.9	0.5	1.8	3.0	3.0
Egypt	4.4	3.9	3.9	2.9	2.7	2.3	2.2	2.4	3.5	4.3	4.0	4.1	4.2	4.2	4.9	5.3	3.8	2.4	4.0	4.6
Israel	4.7	3.9	3.8	-5.1	-0.8	-3.0	-0.7	7.2	1.4	3.9	3.5	3.8	3.8	3.5	3.5	3.7	1.7	0.7	3.2	3.6
<b>LatAm %Y</b>	<b>3.7</b>	<b>3.1</b>	<b>2.4</b>	<b>2.1</b>	<b>2.0</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>	<b>2.2</b>	<b>1.7</b>	<b>0.9</b>	<b>1.3</b>	<b>1.4</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>2.8</b>	<b>2.5</b>	<b>1.5</b>	<b>1.8</b>
Brazil	4.4	3.9	2.4	2.4	2.6	3.3	4.0	3.6	3.2	2.5	1.5	2.1	1.9	1.8	2.0	2.2	3.3	3.4	2.3	2.0
Mexico	3.8	3.4	3.5	2.4	1.5	2.2	1.7	0.6	0.7	0.3	-0.9	0.0	0.3	0.7	1.4	1.6	3.3	1.5	0.0	1.0
Chile	-0.4	0.1	1.5	1.4	2.7	1.7	2.2	3.1	1.9	2.8	1.8	1.9	1.8	1.8	1.8	1.8	0.6	2.4	2.1	1.8
Colombia	2.6	0.4	-0.6	0.6	0.3	1.7	1.8	2.5	2.7	2.1	2.7	1.5	2.0	3.8	2.6	3.1	0.7	1.6	2.2	2.9
Argentina	1.1	-5.3	-0.7	-1.2	-5.2	-1.7	-2.0	2.1	4.2	7.2	3.7	3.2	3.3	3.0	3.1	3.0	-1.6	-1.7	4.6	3.1

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights. ^Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

## Real GDP growth (%Q SAAR)

Exhibit 51: Real GDP baseline forecasts (%Q SAAR)

## Base Case Real GDP Growth (%Q SAAR)

Real GDP (%Q SAAR, Annual 4Q/ 4Q)	Quarterly																Annual (Q4/Q4)			
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global</b>	4.5	4.2	3.0	2.5	3.4	3.4	3.4	3.8	2.9	2.3	2.1	2.6	3.1	2.6	2.7	2.8	3.5	3.5	2.5	2.8
<b>Global ex US</b>	4.9	4.6	2.7	2.4	3.9	3.5	3.5	4.1	3.6	2.4	2.2	3.1	3.7	3.1	3.0	3.1	3.5	3.7	2.9	3.2
<b>G10</b>	1.9	1.4	1.5	1.4	1.3	2.2	2.2	1.8	0.6	1.0	1.2	0.7	0.8	0.9	1.2	1.3	1.6	1.8	0.9	1.0
US	2.8	2.4	4.4	3.2	1.6	3.0	3.1	2.4	-0.3	1.6	1.9	0.7	0.5	0.7	1.3	1.4	3.2	2.5	1.0	1.0
Euro Area	0.1	0.3	0.0	0.2	1.3	0.7	1.7	1.0	1.3	0.5	0.5	0.8	0.9	1.0	1.1	1.1	0.2	1.2	0.8	1.0
Japan	4.7	2.4	-4.0	-0.2	-1.6	3.8	1.0	2.4	-0.7	1.0	0.9	0.6	0.1	0.3	0.7	0.9	0.6	1.3	0.3	0.6
UK	0.2	0.2	-0.2	-0.8	3.7	1.8	0.0	0.4	2.9	-1.0	0.4	0.4	2.4	1.8	1.4	1.2	-0.2	1.5	0.7	1.7
Canada	3.9	0.8	-0.6	0.7	1.8	2.8	2.2	2.6	1.3	0.7	0.4	0.2	0.1	0.6	1.1	1.3	1.2	2.4	0.6	0.8
Norway	-1.3	1.6	0.7	-0.2	-0.1	1.7	2.2	-1.8	4.1	0.4	1.1	1.2	2.6	0.8	1.7	1.9	0.2	0.5	1.7	1.8
Sweden	2.8	-1.6	0.8	-2.3	3.0	0.7	2.6	3.1	0.2	0.6	0.8	0.8	1.4	2.0	2.3	2.4	-0.1	2.3	0.6	2.0
Australia	2.2	1.3	2.1	0.4	0.7	0.8	1.3	2.4	2.9	1.4	2.0	2.0	1.7	2.2	2.3	2.3	1.5	1.3	2.1	2.1
<b>EM</b>	6.6	6.4	4.2	3.4	5.1	4.3	4.4	5.3	4.6	3.2	2.8	4.0	4.9	3.9	3.8	3.9	5.0	4.8	3.8	4.2
<b>EM ex China</b>	6.3	7.7	2.7	3.3	5.0	4.5	3.4	4.3	4.4	3.6	2.7	3.7	4.8	4.0	3.7	3.9	4.7	4.2	3.6	4.2
<b>AXJ</b>	7.4	7.7	5.2	4.3	5.4	4.7	4.9	6.2	5.0	3.6	3.2	4.6	5.6	4.2	4.1	4.3	5.9	5.2	4.2	4.6
China	7.0	4.9	6.1	3.6	5.3	4.1	5.7	6.6	4.9	2.8	3.0	4.5	5.1	3.8	3.9	3.9	5.3	5.4	4.0	4.2
India	12.9	18.2	3.6	5.8	6.5	7.3	4.0	7.8	6.9	5.8	4.5	6.7	8.3	5.9	5.4	6.1	9.5	6.2	5.9	6.4
Hong Kong	12.8	0.5	3.1	1.8	5.5	1.2	-0.4	3.6	8.2	-2.3	-1.0	0.3	3.6	3.8	3.9	4.1	4.3	2.5	1.2	3.8
Korea	1.3	2.4	2.5	2.5	5.1	-0.8	1.6	2.7	-0.8	0.0	1.2	1.6	0.8	1.2	0.4	1.2	2.2	1.2	1.8	2.5
Taiwan	-7.6	10.7	3.9	13.3	-1.0	3.4	2.4	6.6	9.7	6.0	0.0	1.2	8.8	2.4	4.4	3.6	4.9	2.9	2.8	2.5
Singapore	0.5	5.1	2.8	3.8	1.8	4.8	12.0	1.1	-2.3	-0.1	-2.0	-1.2	5.1	1.8	0.3	0.3	3.1	5.0	-0.7	2.1
Indonesia	5.3	5.4	4.7	4.6	5.3	4.9	4.6	5.0	4.5	4.7	4.4	4.7	5.1	4.8	4.9	4.9	5.0	5.0	4.7	5.0
Malaysia	3.1	1.5	7.4	1.5	6.8	7.0	4.1	2.9	3.8	4.0	2.7	3.6	3.8	5.2	4.1	4.2	2.9	5.0	3.5	4.4
Thailand	6.0	0.5	1.3	0.1	4.6	3.2	3.4	1.8	0.3	1.8	2.1	2.0	0.5	2.6	2.8	1.9	1.8	3.3	1.5	2.0
Philippines	4.7	1.5	11.5	4.3	5.1	4.9	6.0	4.8	5.2	4.6	5.1	4.7	5.5	5.0	5.1	6.0	5.5	5.3	5.0	5.5
<b>CEEMEA</b>	2.6	-0.9	-1.4	-1.7	6.3	2.6	0.7	3.6	2.4	2.7	2.3	2.1	2.7	2.6	2.3	2.2	-0.6	3.5	2.3	2.4
Poland	4.1	-2.4	7.8	-1.2	3.2	6.1	0.4	5.7	2.8	2.2	2.1	2.2	2.5	2.4	1.9	1.9	1.8	4.1	2.3	2.2
Czech Rep	0.1	0.6	-1.5	1.2	1.2	0.8	2.5	2.6	2.0	0.7	0.3	0.6	1.0	1.9	2.0	2.0	0.1	1.8	0.9	1.8
Hungary	-1.6	0.8	5.7	-1.6	1.6	-0.8	-2.8	2.4	-0.8	2.6	1.9	1.8	3.4	1.4	2.0	2.0	0.4	0.4	1.3	2.2
Ukraine	11.8	1.5	9.2	-1.1	18.5	-4.6	-5.7	-6.7	4.7	7.0	6.6	5.3	5.1	4.9	4.5	4.5	5.2	-0.1	5.9	4.7
Turkey	0.4	17.0	1.0	4.8	4.0	-0.8	-0.3	6.9	4.8	-1.7	3.5	4.0	4.4	4.1	4.9	5.4	4.6	3.0	2.6	4.7
South Africa	2.5	2.8	-1.6	1.4	0.2	1.2	-0.6	2.3	-0.1	1.9	1.5	1.7	1.8	1.7	1.8	1.9	1.4	0.9	1.2	1.6
Saudi Arabia	2.6	-2.9	-11.2	0.4	11.9	1.8	0.5	3.2	3.6	3.7	3.1	2.4	3.2	3.3	2.7	2.4	-2.9	4.4	3.2	2.9
Egypt	7.2	2.4	2.0	1.6	3.5	1.5	2.6	3.0	6.6	4.7	2.0	3.4	6.7	4.9	4.8	4.8	2.9	2.4	4.1	5.3
Israel	3.8	2.5	-0.2	-20.9	16.1	0.1	5.7	1.9	3.4	4.7	4.1	3.0	3.4	3.4	4.1	3.8	-5.1	7.2	3.8	3.7
<b>LatAm</b>	3.9	2.6	1.2	1.2	2.4	3.0	3.1	-0.3	3.0	1.4	0.4	1.2	1.1	2.6	2.1	2.0	2.1	2.4	1.3	2.1
Brazil	5.6	3.0	0.3	1.6	4.0	5.4	3.0	0.7	5.3	2.8	1.2	1.2	0.8	4.1	2.8	2.4	2.4	3.6	2.1	2.2
Mexico	2.9	3.4	2.2	1.5	-0.1	1.2	3.7	-2.5	0.6	-0.6	-1.1	1.3	1.5	1.1	1.7	2.0	2.4	0.6	0.0	1.6
Chile	1.5	2.0	3.9	-1.9	6.6	-1.7	5.9	1.5	2.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.4	3.1	1.9	1.8
Colombia	1.2	-0.7	0.1	0.1	0.7	0.8	0.2	0.9	0.8	0.8	0.6	0.6	0.6	0.8	0.7	0.7	0.6	2.5	1.5	3.1
Argentina	7.5	-11.1	8.3	-9.0	-5.5	-6.6	18.3	5.7	1.1	4.6	3.5	3.8	1.2	3.6	3.8	3.4	-1.2	2.1	3.2	3.0

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights. All annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 52: Baseline nominal GDP growth (%Y)

## Base Case Nominal GDP Growth (%Y)

Nominal GDP %Y	Quarterly												Annual							
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global %Y</b>	<b>7.4</b>	<b>6.4</b>	<b>6.0</b>	<b>5.9</b>	<b>5.5</b>	<b>5.4</b>	<b>5.1</b>	<b>5.5</b>	<b>5.3</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>	<b>6.4</b>	<b>5.4</b>	<b>4.7</b>	<b>4.7</b>
<b>Global ex US %Y</b>	<b>7.3</b>	<b>6.4</b>	<b>5.8</b>	<b>5.9</b>	<b>5.5</b>	<b>5.3</b>	<b>5.1</b>	<b>5.6</b>	<b>5.4</b>	<b>4.8</b>	<b>4.5</b>	<b>4.4</b>	<b>4.9</b>	<b>4.9</b>	<b>5.0</b>	<b>4.9</b>	<b>6.3</b>	<b>5.4</b>	<b>4.8</b>	<b>4.9</b>
<b>G10 %Y</b>	<b>7.5</b>	<b>6.4</b>	<b>6.1</b>	<b>5.3</b>	<b>4.6</b>	<b>4.5</b>	<b>4.3</b>	<b>4.4</b>	<b>4.3</b>	<b>4.0</b>	<b>3.9</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>6.3</b>	<b>4.4</b>	<b>3.9</b>	<b>3.2</b>
US	7.7	6.4	6.5	5.8	5.4	5.7	5.0	5.0	4.7	4.3	4.5	4.1	4.0	3.8	3.2	3.3	6.6	5.3	4.4	3.6
Euro Area	8.0	7.0	5.9	5.2	4.1	3.5	3.7	3.7	3.7	3.6	3.3	2.9	2.8	2.9	3.1	3.2	6.5	3.7	3.4	3.0
Japan	4.8	5.8	6.7	4.9	2.3	2.5	3.2	4.2	5.0	4.3	4.1	2.6	2.6	1.9	1.9	1.9	5.5	3.1	4.0	2.1
UK	9.1	8.4	7.4	4.5	4.8	4.2	5.2	6.4	5.8	4.5	3.2	2.6	2.5	3.1	3.3	3.3	7.3	5.2	4.0	3.0
Canada	4.2	0.8	2.2	4.2	5.0	5.6	3.2	2.2	2.4	2.1	3.9	4.0	3.9	3.7	3.4	3.2	2.9	4.0	3.1	3.6
Norway	7.7	5.8	3.9	5.3	5.2	4.4	4.9	3.5	4.5	4.6	4.2	4.3	3.8	3.9	4.0	4.2	5.7	4.4	4.4	4.0
Sweden	8.5	6.0	5.9	4.3	4.3	3.7	2.6	4.5	3.3	4.0	4.0	2.8	3.1	3.5	3.8	4.2	6.2	3.8	3.5	3.7
Australia	9.7	4.2	4.3	4.3	3.8	4.5	3.5	3.7	2.3	2.9	3.5	2.9	3.9	4.2	4.1	4.1	5.6	3.9	2.9	4.1
<b>EM %Y</b>	<b>7.3</b>	<b>6.4</b>	<b>5.8</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>5.7</b>	<b>6.3</b>	<b>6.1</b>	<b>5.2</b>	<b>4.9</b>	<b>5.1</b>	<b>5.7</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>6.4</b>	<b>6.1</b>	<b>5.3</b>	<b>5.8</b>
<b>EM ex China %Y</b>	<b>8.6</b>	<b>7.0</b>	<b>7.2</b>	<b>8.0</b>	<b>7.8</b>	<b>7.7</b>	<b>7.0</b>	<b>7.7</b>	<b>7.3</b>	<b>6.5</b>	<b>6.4</b>	<b>6.7</b>	<b>7.8</b>	<b>7.7</b>	<b>7.5</b>	<b>7.4</b>	<b>7.7</b>	<b>7.6</b>	<b>6.7</b>	<b>7.6</b>
<b>AXJ %Y</b>	<b>6.4</b>	<b>6.4</b>	<b>5.9</b>	<b>6.4</b>	<b>6.5</b>	<b>6.0</b>	<b>5.5</b>	<b>6.2</b>	<b>5.9</b>	<b>5.0</b>	<b>4.7</b>	<b>4.9</b>	<b>5.7</b>	<b>5.8</b>	<b>5.9</b>	<b>5.8</b>	<b>6.3</b>	<b>6.0</b>	<b>5.2</b>	<b>5.8</b>
China	5.5	5.7	4.1	4.3	4.2	4.0	4.1	4.6	4.6	3.7	3.0	3.1	3.1	3.3	3.7	3.7	4.9	4.2	3.6	3.5
India	8.9	11.0	12.1	12.9	12.0	9.7	8.3	9.9	9.5	8.2	9.1	9.5	11.7	12.5	11.5	10.6	11.2	10.0	9.1	11.6
Hong Kong	5.0	4.4	6.8	8.5	6.6	7.5	6.6	5.3	6.0	4.9	3.7	3.0	1.7	3.4	4.6	5.7	6.2	6.5	4.4	3.9
Korea	2.1	1.8	3.8	5.5	7.3	7.2	5.0	5.3	1.6	2.4	3.3	3.4	3.6	2.3	2.8	3.7	3.3	6.2	2.7	3.1
Taiwan	-2.8	2.8	5.2	8.2	11.3	9.1	7.0	6.1	8.5	5.7	1.9	2.7	7.5	2.4	4.9	4.5	3.4	8.4	4.7	4.8
Singapore	-0.1	-7.6	-5.3	0.1	6.7	8.8	8.6	7.0	4.8	3.6	0.5	0.2	2.0	2.6	3.0	3.4	-3.2	7.8	2.3	2.8
Indonesia	12.5	6.6	4.5	3.7	4.3	6.0	6.5	7.0	7.1	6.9	7.1	7.3	8.3	6.5	7.0	7.3	6.8	6.0	7.1	7.3
Malaysia	4.9	-1.2	1.1	1.8	4.9	7.5	6.0	5.5	5.9	5.2	5.0	5.6	5.3	5.8	6.0	6.2	1.7	6.0	5.4	5.8
Thailand	5.6	3.0	2.7	2.0	2.2	4.3	3.6	4.0	2.6	1.5	1.5	1.7	1.9	2.4	2.7	2.9	3.3	3.5	1.8	2.5
Philippines	13.9	9.1	9.7	9.3	9.0	10.3	8.6	7.5	7.6	6.6	6.7	7.1	7.8	8.0	8.2	8.5	10.5	8.9	7.0	8.1
<b>CEEMEA %Y</b>	<b>10.8</b>	<b>4.2</b>	<b>3.5</b>	<b>4.1</b>	<b>3.4</b>	<b>5.1</b>	<b>4.3</b>	<b>5.6</b>	<b>4.6</b>	<b>4.5</b>	<b>4.9</b>	<b>4.8</b>	<b>5.0</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>	<b>5.5</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>
Poland	14.6	11.9	7.9	7.1	4.8	5.8	6.8	8.6	8.6	7.0	6.1	5.1	4.5	4.7	4.5	4.3	10.4	6.5	6.7	4.5
Czech Rep	10.9	9.3	6.5	5.9	4.1	4.8	6.1	5.5	4.7	4.0	3.5	2.8	2.4	2.8	3.2	3.6	8.2	5.1	3.8	3.0
Hungary	14.9	14.8	14.7	12.9	9.4	9.7	6.6	6.3	5.3	4.5	5.2	4.8	5.1	5.5	5.3	5.2	14.3	8.0	4.9	5.3
Ukraine	27.2	43.9	23.7	17.7	17.4	17.5	15.8	12.6	14.4	18.5	19.5	20.2	18.7	17.0	15.7	14.9	26.5	15.6	18.4	16.4
Turkey	86.0	62.7	81.6	77.9	89.2	78.1	53.6	49.0	43.6	39.3	38.2	35.7	31.9	27.5	22.1	18.5	76.8	63.5	38.8	24.4
South Africa	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4.9	5.0	5.3	5.9
Saudi Arabia	7.1	-7.6	-4.8	-0.3	0.2	3.9	0.8	1.4	0.7	1.8	3.6	4.5	5.6	4.6	4.7	4.9	-1.7	1.6	2.6	4.8
Egypt	21.9	25.2	37.8	33.7	37.3	36.7	38.2	35.4	37.6	32.8	18.7	19.9	19.2	18.4	16.9	16.0	29.5	36.9	27.1	17.7
Israel	8.6	8.3	8.2	1.2	5.4	3.9	5.4	10.7	4.6	7.1	6.7	7.0	7.0	6.7	6.7	6.9	6.5	6.4	6.4	6.8
<b>LatAm %Y</b>	<b>10.9</b>	<b>8.0</b>	<b>6.7</b>	<b>7.6</b>	<b>5.9</b>	<b>7.0</b>	<b>7.6</b>	<b>8.0</b>	<b>7.9</b>	<b>7.2</b>	<b>5.8</b>	<b>6.3</b>	<b>6.1</b>	<b>5.9</b>	<b>5.8</b>	<b>6.1</b>	<b>8.2</b>	<b>7.1</b>	<b>6.8</b>	<b>6.0</b>
Brazil	11.3	8.3	6.5	8.5	6.7	7.1	8.0	8.6	8.3	8.1	7.4	7.8	7.4	6.8	6.4	6.6	8.6	7.6	7.9	6.8
Mexico	8.9	7.3	8.0	7.7	5.4	7.3	7.0	6.1	6.7	6.2	2.8	4.0	4.7	4.4	5.2	5.5	7.9	6.5	4.9	5.0
Chile	11.5	8.8	6.7	5.4	6.0	5.3	6.5	7.6	6.8	7.3	6.1	5.8	4.9	4.9	4.7	4.6	8.0	6.4	6.5	4.7
Colombia	14.4	8.1	4.1	5.2	3.8	7.0	8.4	11.2	10.3	6.6	7.3	6.5	5.7	7.4	6.0	6.3	7.7	7.6	7.7	6.3
Argentina	99.7	101.4	134.0	170.7	248.2	251.1	209.5	151.0	76.3	54.1	40.3	36.5	34.1	29.1	25.9	21.9	131.6	202.6	49.2	27.4

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights. All annual values are 4Q/4Q. Turkey, Egypt, Ukraine, South Africa and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

## Headline CPI inflation (%Y)

Exhibit 53: Headline inflation (%Y)

## Base Case Headline CPI Inflation (%Y)

Headline CPI Inflation (%Y)	Quarterly																Annual			
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global</b>	<b>5.3</b>	<b>3.8</b>	<b>3.5</b>	<b>2.7</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>3.8</b>	<b>2.4</b>	<b>2.1</b>	<b>2.0</b>
<b>G10</b>	<b>6.6</b>	<b>5.1</b>	<b>4.3</b>	<b>3.1</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>	<b>2.4</b>	<b>2.1</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>4.8</b>	<b>2.7</b>	<b>2.5</b>	<b>2.2</b>
US	5.7	4.0	3.6	3.2	3.2	3.2	2.7	2.7	2.7	2.5	3.2	3.0	2.8	2.9	2.5	2.5	4.1	3.0	2.9	2.7
Euro Area	8.0	6.2	5.0	2.7	2.6	2.5	2.2	2.2	2.3	2.1	1.9	1.8	1.4	1.6	1.8	1.8	5.5	2.4	2.0	1.7
Japan <sup>^</sup>	3.6	3.3	3.2	2.9	2.5	2.7	2.8	2.9	3.8	3.2	2.4	1.7	1.0	1.2	1.6	1.7	3.3	2.7	2.8	1.4
UK	10.2	8.4	6.7	4.2	3.5	2.1	2.0	2.5	2.8	3.4	3.2	2.6	2.0	1.6	1.8	1.8	7.4	2.5	3.0	1.8
Canada	5.1	3.5	3.7	3.2	2.8	2.7	2.0	1.9	2.3	1.9	1.9	2.0	2.1	2.2	2.1	2.0	3.9	2.4	2.0	2.1
Norway	6.6	6.5	4.5	4.5	4.4	3.1	2.8	2.4	2.9	2.5	3.1	2.7	2.0	2.1	2.3	2.1	5.5	3.1	2.8	2.1
Sweden	11.4	9.8	7.7	5.6	4.7	3.4	2.0	1.3	0.9	0.4	0.7	0.3	1.1	1.5	1.4	1.8	8.6	2.9	0.5	1.4
Australia	7.0	6.0	5.3	4.0	3.7	3.8	2.9	2.4	2.4	2.0	2.5	2.9	3.1	3.3	3.2	3.1	5.6	3.2	2.5	3.2
<b>EM</b>	<b>4.2</b>	<b>2.8</b>	<b>2.8</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>3.0</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>
<b>AXJ</b>	<b>3.2</b>	<b>1.9</b>	<b>2.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>	<b>1.8</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>2.2</b>	<b>1.7</b>	<b>1.2</b>	<b>1.6</b>
China	1.3	0.1	-0.1	-0.3	0.0	0.3	0.5	0.2	-0.1	0.0	-0.1	0.3	0.4	0.1	0.3	0.5	0.2	0.2	0.0	0.3
India	6.2	4.6	6.4	5.4	5.0	4.9	4.2	5.6	3.9	3.8	3.8	3.6	4.7	4.6	4.1	3.6	5.7	4.9	3.8	4.2
Hong Kong	1.9	2.0	1.9	2.6	1.9	1.2	2.4	1.4	1.6	1.6	0.9	1.3	1.1	1.2	1.1	1.3	2.1	1.7	1.3	1.2
Korea	4.6	3.3	3.2	3.4	3.0	2.7	2.2	1.4	1.9	2.0	1.9	1.9	1.7	1.9	2.0	1.9	3.6	2.3	1.9	1.9
Taiwan	2.6	2.0	2.4	2.9	2.3	2.2	2.5	2.3	2.2	1.9	1.7	1.6	1.5	1.8	1.6	1.8	2.5	2.3	1.9	1.7
Singapore	6.2	5.1	4.1	4.0	3.2	2.8	2.2	1.4	1.0	0.9	0.9	0.9	1.2	1.3	1.3	1.3	4.9	2.4	0.9	1.3
Indonesia	5.2	4.0	2.9	2.8	2.8	2.8	2.0	1.6	0.6	2.1	2.4	2.6	3.5	1.7	2.0	2.3	3.7	2.3	1.9	2.4
Malaysia	3.6	2.8	2.0	1.6	1.7	1.9	1.9	1.8	1.5	1.3	1.5	2.1	1.8	1.8	1.8	1.8	2.5	1.8	1.6	1.8
Thailand	3.9	1.2	0.5	-0.5	-0.8	0.8	0.6	1.0	1.1	-0.3	-0.1	0.2	0.3	0.6	0.7	0.9	1.3	0.4	0.2	0.6
Philippines	8.3	6.1	5.4	4.3	3.3	3.8	3.2	2.6	2.2	1.4	1.7	2.1	2.7	2.8	3.0	3.0	6.0	3.2	1.9	2.9
<b>CEEMEA</b>	<b>10.6</b>	<b>8.4</b>	<b>6.3</b>	<b>4.7</b>	<b>2.8</b>	<b>2.7</b>	<b>3.1</b>	<b>3.2</b>	<b>3.4</b>	<b>3.0</b>	<b>2.7</b>	<b>2.7</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>7.5</b>	<b>3.0</b>	<b>3.0</b>	<b>2.4</b>
Poland	17.0	13.1	9.7	6.5	2.8	2.5	4.5	4.8	4.9	4.3	2.9	2.7	2.2	2.4	2.2	2.1	11.6	3.7	3.7	2.2
Czech Rep	16.4	11.2	8.0	7.6	2.1	2.5	2.3	2.9	2.7	2.1	2.1	1.9	1.8	1.8	1.8	1.8	10.8	2.4	2.2	1.8
Hungary	25.4	21.9	15.4	7.8	3.7	3.8	3.5	3.8	5.3	4.1	3.6	3.4	2.7	3.4	3.2	3.0	17.6	3.7	4.1	3.1
Ukraine	24.0	15.3	9.0	5.2	4.0	3.8	7.2	11.0	13.6	14.8	12.7	10.0	8.3	7.1	6.3	5.8	13.4	6.5	12.8	6.9
Turkey	54.3	40.4	56.2	62.7	66.8	72.3	54.1	46.6	39.7	36.6	33.1	29.8	27.0	23.4	20.1	18.3	53.9	58.5	34.4	22.0
South Africa	7.0	6.2	5.0	5.5	5.4	5.2	4.3	2.9	3.0	2.6	3.1	3.8	4.0	4.3	4.2	4.0	5.9	4.4	3.2	4.1
Saudi Arabia	3.0	2.7	2.0	1.6	1.7	1.5	1.6	1.9	2.1	2.1	2.2	2.1	1.8	1.7	1.8	1.6	2.3	1.7	2.1	1.7
Egypt	14.4	18.8	30.2	33.0	37.3	34.7	33.0	29.4	26.1	25.4	16.5	14.6	14.6	14.0	13.2	12.4	24.4	33.3	20.3	13.5
Israel	5.2	4.6	3.8	3.3	2.6	2.8	2.9	3.2	3.5	3.4	3.0	2.9	2.9	2.6	2.4	2.3	4.2	2.9	3.2	2.6
<b>LatAm</b>	<b>7.4</b>	<b>5.8</b>	<b>5.4</b>	<b>5.2</b>	<b>4.7</b>	<b>4.6</b>	<b>4.8</b>	<b>4.7</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.5</b>	<b>4.1</b>	<b>4.0</b>	<b>3.9</b>	<b>6.0</b>	<b>4.7</b>	<b>4.6</b>	<b>4.1</b>
Brazil	5.3	3.8	4.6	4.7	4.3	3.9	4.4	4.8	5.0	5.5	5.8	5.6	5.4	4.9	4.4	4.3	4.6	4.4	5.5	4.7
Mexico	7.5	5.7	4.6	4.4	4.6	4.8	5.0	4.5	3.7	3.6	3.1	3.4	3.7	3.5	3.8	3.9	5.6	4.7	3.4	3.7
Chile	11.9	8.7	5.2	4.0	3.3	3.6	4.3	4.5	4.8	4.5	4.3	3.9	3.1	3.0	2.8	2.8	7.3	3.9	4.4	2.9
Colombia	13.3	12.4	11.4	10.0	7.8	7.2	6.3	5.3	5.2	4.4	4.5	5.0	3.6	3.4	3.3	3.1	11.7	6.6	4.8	3.3
Argentina	101.9	112.9	125.4	171.7	272.8	279.1	236.4	158.9	69.1	43.7	35.3	32.2	29.8	25.3	22.1	18.4	133.5	219.9	42.6	23.6

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI numbers are period averages. <sup>^</sup>Japan headline inflation includes VAT and free education impact. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Egypt represents fiscal year from July 1 to June 30.

## Core CPI inflation (%Y)

Exhibit 54: Core CPI inflation (%Y)

## Base Case Core CPI Inflation (%Y)

	Quarterly																Annual			
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global</b>	<b>4.4</b>	<b>4.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.6</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>3.7</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>
<b>G10</b>	<b>5.1</b>	<b>5.1</b>	<b>4.6</b>	<b>3.6</b>	<b>3.2</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.1</b>	<b>2.1</b>	<b>4.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.3</b>
US (Core PCE)	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.8	2.8	2.8	3.4	3.3	3.1	3.0	2.4	2.3	4.1	2.8	3.1	2.7
Euro Area	5.5	5.5	5.1	3.7	3.1	2.8	2.8	2.7	2.6	2.6	2.4	2.3	2.1	1.9	1.8	1.9	5.0	2.8	2.5	1.9
Japan <sup>A</sup>	3.5	4.2	4.3	3.8	3.2	2.2	2.0	2.4	2.4	3.0	2.8	2.2	1.9	1.7	1.6	1.8	4.0	2.4	2.6	1.9
UK	6.1	6.9	6.4	5.3	4.6	3.6	3.3	3.3	3.6	3.6	3.3	2.9	2.4	2.0	2.0	1.9	6.2	3.7	3.3	2.1
Canada	4.8	4.0	3.4	3.4	2.9	2.8	2.5	2.1	2.5	2.5	2.7	2.7	2.6	2.5	2.3	2.1	3.9	2.6	2.6	2.4
Norway	6.2	6.7	6.1	5.8	4.9	3.9	3.2	2.8	3.2	2.8	2.9	2.9	2.3	2.1	2.2	2.0	6.2	3.7	2.9	2.2
Sweden	9.0	8.2	7.4	5.6	3.6	2.7	2.1	2.2	2.9	2.8	2.6	2.5	1.9	1.8	1.8	1.7	7.5	2.7	2.7	1.8
Australia	6.5	5.8	5.1	4.2	4.0	4.0	3.6	3.3	2.9	2.7	2.5	2.7	2.8	2.9	2.9	2.8	5.4	3.7	2.7	2.9
<b>EM</b>	<b>3.7</b>	<b>3.2</b>	<b>2.9</b>	<b>2.4</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>3.1</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>
<b>AXJ</b>	<b>2.6</b>	<b>2.2</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>2.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>
China	0.8	0.6	0.8	0.6	0.7	0.6	0.3	0.3	0.3	0.4	0.1	0.1	0.1	0.2	0.4	0.5	0.7	0.5	0.3	0.3
India	6.2	5.2	4.8	4.1	3.4	3.2	3.5	3.7	4.0	4.3	4.5	4.5	4.5	4.3	4.1	4.1	5.1	3.4	4.4	4.2
Hong Kong	1.4	1.7	1.9	3.0	2.8	1.7	2.6	1.3	1.5	1.8	1.2	1.6	1.4	1.5	1.5	1.7	2.0	2.1	1.5	1.5
Korea	3.9	3.7	3.2	2.9	2.5	2.3	2.3	1.9	1.8	1.7	1.8	1.8	1.7	2.0	1.8	1.9	3.4	2.3	1.8	1.9
Taiwan	2.7	2.6	2.6	2.4	1.8	1.7	1.8	1.9	1.4	1.4	1.6	2.1	1.6	1.5	1.8	1.9	2.5	1.7	1.6	1.7
Singapore	5.4	4.6	3.4	3.3	3.4	3.0	2.7	1.9	0.6	0.5	0.5	1.0	1.3	1.4	1.4	1.4	4.2	2.8	0.7	1.4
Indonesia	2.9	2.5	2.0	1.7	1.7	1.9	2.0	2.2	2.4	2.5	2.4	1.0	1.9	1.5	1.8	2.1	2.3	2.0	2.1	1.8
Malaysia	3.9	3.4	2.6	2.1	1.8	1.9	1.9	1.7	1.9	1.9	1.7	2.2	2.0	1.9	1.9	1.9	3.0	1.8	1.9	1.9
Thailand	2.2	1.5	0.8	0.6	0.4	0.4	0.6	0.8	0.9	1.0	0.9	1.0	0.7	0.7	0.8	0.8	1.3	0.6	1.0	0.8
Philippines	6.3	5.1	4.3	3.9	3.4	3.3	2.7	2.2	2.0	1.5	1.8	1.0	2.5	2.7	2.8	3.0	4.9	2.9	1.6	2.8
<b>CEEMEA</b>	<b>10.4</b>	<b>9.7</b>	<b>7.8</b>	<b>6.1</b>	<b>4.7</b>	<b>3.8</b>	<b>3.7</b>	<b>3.7</b>	<b>3.5</b>	<b>3.3</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>8.5</b>	<b>4.0</b>	<b>3.3</b>	<b>2.8</b>
Poland	12.0	11.6	9.7	7.4	5.4	3.8	3.9	4.1	3.6	3.5	3.1	2.9	2.8	2.7	2.3	2.1	10.2	4.3	3.3	2.5
Czech Rep	11.9	8.7	5.9	3.9	2.8	2.4	2.3	2.3	2.5	2.6	2.4	2.4	2.1	2.1	2.2	2.0	7.6	2.5	2.5	2.1
Hungary	19.1	18.8	14.6	10.7	7.2	5.7	5.7	4.9	5.6	4.8	4.0	4.4	4.0	3.7	3.1	2.5	15.8	5.9	4.7	3.3
Ukraine	21.9	15.4	10.2	5.8	4.4	4.6	6.5	9.4	12.0	10.7	8.6	8.6	6.8	6.0	5.7	5.5	13.3	6.2	10.0	6.0
Turkey	50.2	46.5	63.4	70.1	72.9	74.0	53.4	46.7	40.0	36.7	34.1	29.5	25.7	21.4	18.3	17.5	58.5	59.8	34.7	20.5
South Africa	5.1	5.2	4.7	4.5	4.8	4.6	4.2	3.7	3.3	3.1	3.4	3.6	3.9	3.9	3.5	3.2	4.8	4.3	3.4	3.6
Saudi Arabia	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Egypt	16.8	21.7	37.1	40.0	40.3	36.0	32.7	28.5	24.8	23.8	13.7	11.3	12.6	11.7	10.2	9.5	29.3	33.9	17.9	11.0
Israel	5.2	4.9	3.8	3.1	2.3	2.1	2.2	2.5	2.7	2.9	2.6	2.9	3.2	2.6	2.4	2.2	4.2	2.3	2.8	2.6
<b>LatAm</b>	<b>8.4</b>	<b>7.2</b>	<b>6.0</b>	<b>5.2</b>	<b>4.4</b>	<b>3.8</b>	<b>3.9</b>	<b>3.7</b>	<b>4.1</b>	<b>4.5</b>	<b>4.6</b>	<b>4.7</b>	<b>4.5</b>	<b>4.2</b>	<b>3.8</b>	<b>3.7</b>	<b>6.7</b>	<b>4.0</b>	<b>4.5</b>	<b>4.0</b>
Brazil	7.8	6.1	4.8	4.3	3.5	3.1	3.5	3.3	4.3	5.0	5.4	5.7	5.4	5.0	4.2	3.9	5.7	3.4	5.1	4.6
Mexico	8.3	7.3	6.2	5.3	4.7	4.2	4.0	3.7	3.6	3.9	3.9	3.9	3.7	3.5	3.5	3.7	6.8	4.1	3.8	3.6
Chile	10.0	8.7	6.6	5.1	4.0	3.4	3.6	4.2	3.9	3.5	3.2	2.8	2.8	3.0	2.9	2.9	7.5	3.8	3.4	2.9
Colombia	10.1	10.5	9.9	8.8	7.3	6.2	5.6	5.3	4.9	4.7	4.3	4.2	3.8	3.8	3.6	3.3	9.8	6.1	4.5	3.6
Argentina	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI numbers are period averages. <sup>A</sup>Japan core CPI is excluding energy and fresh food, and ex VAT and free child education impact. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Saudi Arabia is excluded for core CPI aggregates. Egypt represents fiscal year from July 1 to June 30.

## Fiscal policy forecasts (% of GDP)

Exhibit 55: General government balance, primary government budget balance, and gross government debt as % of GDP

	General Government Budget Balance (% GDP)						Primary Government Budget Balance (% of GDP)						Gross Government Debt (% GDP)					
	2021	2022	2023	2024	2025E	2026E	2021	2022	2023	2024	2025E	2026E	2021	2022	2023	2024	2025E	2026E
<b>Global</b>	<b>-8.1</b>	<b>-7.0</b>	<b>-6.6</b>	<b>-6.6</b>	<b>-7.0</b>	<b>-7.3</b>	<b>-5.6</b>	<b>-4.4</b>	<b>-3.8</b>	<b>-3.6</b>	<b>-4.0</b>	<b>-4.3</b>	<b>98.0</b>	<b>96.5</b>	<b>98.9</b>	<b>101.3</b>	<b>102.5</b>	<b>104.4</b>
<b>G10</b>	<b>-7.3</b>	<b>-3.9</b>	<b>-4.3</b>	<b>-4.6</b>	<b>-4.4</b>	<b>-4.9</b>	<b>-6.0</b>	<b>-2.2</b>	<b>-2.3</b>	<b>-2.3</b>	<b>-2.1</b>	<b>-2.4</b>	<b>122.1</b>	<b>117.1</b>	<b>116.7</b>	<b>117.4</b>	<b>117.5</b>	<b>119.1</b>
US	-10.9	-5.5	-6.4	-7.0	-6.3	-7.1	-9.4	-3.5	-3.8	-3.8	-3.0	-3.8	125.5	120.8	122.7	124.1	125.1	128.1
Euro Area	-5.1	-3.5	-3.5	-3.1	-3.4	-3.5	-3.7	-1.8	-1.8	-1.2	-1.4	-1.4	94.0	89.6	87.3	88.4	89.4	89.0
Germany	-3.2	-2.1	-2.5	-2.8	-3.2	-3.8	-2.6	-1.4	-1.6	-1.7	-2.4	-3.0	68.1	65.0	62.9	62.5	63.9	66.1
France	-6.6	-4.7	-5.4	-5.8	-5.5	-5.2	-5.2	-2.8	-3.5	-3.7	-3.1	-2.6	112.9	111.4	110.0	113.2	116.0	119.0
Italy	-8.9	-8.1	-7.2	-3.4	-3.5	-3.2	-5.5	-4.0	-3.6	0.4	0.4	0.7	145.8	138.3	134.6	135.3	137.3	139.5
Spain	-6.7	-4.6	-3.5	-3.2	-3.4	-3.2	-7.7	-4.5	-2.3	-1.1	-0.7	-1.0	115.7	109.5	105.1	101.8	100.6	100.1
Japan	-6.1	-4.2	-3.0	-2.5	-2.8	-3.5	-5.5	-3.8	-2.0	-2.1	-2.4	-3.1	253.7	248.3	240.2	235.5	229.4	228.2
UK	-5.2	-4.8	-4.8	-4.9	-4.3	-3.4	-3.1	-1.0	-1.5	-2.1	-1.2	-0.5	96.6	95.7	96.0	95.6	96.0	97.2
Canada	-3.1	0.6	0.1	-2.2	-2.4	-2.1	-3.7	0.2	0.3	-1.9	-2.1	-1.8	112.6	104.2	107.7	110.8	113.0	110.9
Norway	10.3	25.5	16.5	13.2	10.9	3.1	11.5	26.8	18.9	16.0	12.9	10.5	41.3	36.3	44.5	55.1	44.6	41.1
Sweden	-0.2	1.0	-0.8	-1.5	-1.4	-1.0	0.0	1.5	-0.1	-0.9	-0.7	-0.2	37.0	33.9	31.6	33.5	34.4	34.6
Australia	-3.2	0.4	1.2	-0.1	-1.4	-1.6	-2.3	1.1	2.0	0.8	-0.7	-0.9	55.5	48.2	48.7	48.8	49.7	50.4
<b>EM</b>	<b>-8.8</b>	<b>-9.6</b>	<b>-8.5</b>	<b>-8.2</b>	<b>-8.9</b>	<b>-9.1</b>	<b>-5.3</b>	<b>-6.1</b>	<b>-5.0</b>	<b>-4.6</b>	<b>-5.5</b>	<b>-5.8</b>	<b>77.8</b>	<b>79.6</b>	<b>84.6</b>	<b>88.7</b>	<b>91.0</b>	<b>93.5</b>
<b>AXJ</b>	<b>-10.0</b>	<b>-11.3</b>	<b>-9.3</b>	<b>-8.7</b>	<b>-9.5</b>	<b>-9.9</b>	<b>-6.3</b>	<b>-7.7</b>	<b>-5.8</b>	<b>-5.3</b>	<b>-6.3</b>	<b>-6.7</b>	<b>83.0</b>	<b>85.9</b>	<b>91.6</b>	<b>95.8</b>	<b>97.8</b>	<b>100.0</b>
China^	-12.2	-15.5	-12.3	-11.4	-13.0	-14.0	-8.3	-11.4	-8.6	-8.1	-10.0	-11.0	95.5	101.3	110.9	119.1	123.0	128.0
India	-10.5	-9.2	-8.7	-8.0	-7.5	-7.0	-5.1	-4.3	-3.6	-2.9	-2.4	-1.8	85.6	82.9	83.1	82.2	81.1	79.2
Hong Kong	3.0	-7.3	-2.7	-0.9	-2.1	-1.5	3.0	-7.2	-2.6	-0.8	-2.0	-1.4	9.3	13.2	14.6	15.1	17.2	19.1
Korea	-4.2	-5.3	-3.9	-4.0	-4.5	-4.7	-1.5	-3.0	-3.7	-3.9	-4.6	-4.3	46.7	49.4	50.4	47.4	49.4	50.3
Taiwan	-1.1	1.2	1.9	2.0	1.8	1.5	-2.9	-2.1	-0.5	-0.5	-0.5	-0.6	32.1	30.2	29.7	25.0	22.5	20.5
Singapore	-1.4	-0.8	-1.5	0.9	-0.1	-0.1	-0.5	-0.2	-0.5	0.4	0.0	0.0	132.6	153.9	169.5	173.1	174.0	175.0
Indonesia	-4.6	-2.4	-1.6	-2.3	-2.8	-2.6	-2.4	-0.3	0.2	-0.1	-0.5	-0.3	41.1	40.1	39.6	40.2	41.0	41.0
Malaysia	-6.4	-5.5	-5.0	-4.1	-4.0	-3.8	-4.0	-2.5	-2.1	-2.0	-1.3	-1.1	69.2	65.5	69.7	70.4	70.1	69.8
Thailand	-5.5	-2.7	-3.0	-5.6	-4.5	-4.5	-5.5	-3.3	-0.8	-0.1	-1.8	-1.6	58.4	60.5	62.3	63.2	64.5	66.0
Philippines	-8.6	-7.3	-6.2	-5.7	-5.5	-5.5	-4.4	-3.5	-2.1	-1.4	-1.2	-0.2	57.0	57.4	56.5	57.1	58.1	58.1
<b>CEEMEA</b>	<b>-3.3</b>	<b>-1.5</b>	<b>-4.0</b>	<b>-4.6</b>	<b>-5.3</b>	<b>-5.1</b>	<b>-1.9</b>	<b>-0.2</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-3.0</b>	<b>-2.9</b>	<b>48.2</b>	<b>45.2</b>	<b>46.6</b>	<b>50.3</b>	<b>54.5</b>	<b>56.4</b>
Poland	-1.7	-3.4	-5.3	-6.6	-6.2	-5.7	-0.7	-1.9	-3.2	-3.5	-3.3	-2.7	53.0	48.8	49.5	55.3	61.1	64.3
Czech Rep	-5.0	-3.1	-3.8	-2.2	-2.3	-2.0	-4.2	-2.0	-2.5	-1.3	-0.9	-1.1	40.7	42.5	42.5	43.6	45.1	47.1
Hungary	-7.1	-6.2	-6.7	-4.9	-4.1	-4.1	-4.9	-3.4	-2.0	0.2	-0.1	-0.3	76.2	73.9	73.0	73.5	72.9	72.7
Ukraine	-3.6	-17.6	-20.4	-24.5	-20.0	-13.5	-0.8	-14.3	-16.7	-20.6	-16.0	-9.5	48.9	78.0	85.0	95.0	102.0	100.0
Turkey	-2.8	-1.0	-5.2	-4.9	-3.9	-3.2	-0.3	1.1	-2.7	-1.9	-0.5	0.4	37.9	26.9	25.4	21.3	23.2	24.3
South Africa	-5.1	-4.6	-4.6	-4.4	-4.6	-4.2	-0.9	0.0	0.5	0.9	0.9	1.3	67.6	70.5	74.1	76.5	78.6	78.7
Saudi Arabia	-2.3	2.6	-2.0	-2.8	-6.0	-6.3	-2.0	2.3	-2.0	-2.5	-5.7	-6.0	25.5	21.3	23.0	26.2	32.3	35.5
Egypt	-7.2	-6.0	-5.7	-3.8	-7.7	-7.5	1.5	1.0	1.4	6.0	3.5	3.8	88.4	87.2	95.7	89.6	86.4	84.0
Israel	-4.3	0.6	-4.1	-7.5	-5.5	-4.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	67.5	59.9	60.4	67.8	70.0	68.2
<b>LatAm</b>	<b>-4.3</b>	<b>-3.8</b>	<b>-6.0</b>	<b>-7.0</b>	<b>-7.4</b>	<b>-6.1</b>	<b>-0.7</b>	<b>0.4</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-0.6</b>	<b>-0.8</b>	<b>63.8</b>	<b>60.6</b>	<b>61.4</b>	<b>64.0</b>	<b>66.3</b>	<b>69.8</b>
Brazil	-4.3	-4.6	-8.8	-8.5	-10.2	-8.1	0.7	1.2	-2.3	-0.4	-0.6	-1.0	77.3	71.7	73.8	76.1	80.4	87.0
Mexico	-2.8	-3.2	-3.3	-5.7	-4.4	-4.0	-0.3	-0.4	-0.1	-1.5	0.2	-0.3	49.6	48.5	49.5	51.8	52.1	52.3
Chile	-7.5	1.4	-2.3	-2.9	-2.4	-1.4	-6.9	1.8	-1.9	-2.3	-1.8	-0.7	42.3	43.4	43.0	42.5	42.6	43.0
Colombia	-7.0	-5.3	-4.2	-6.7	-7.1	-6.4	-3.6	-1.0	-0.3	-2.4	-2.3	-1.6	63.0	60.8	56.3	61.6	61.8	63.9
Argentina	-3.6	-3.8	-4.4	0.3	0.0	0.1	-2.1	-2.0	-2.7	1.8	1.6	1.7	81.0	84.5	155.4	85.3	73.1	68.2

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. UK fiscal balance is PSNB ex, gross government debt is debt ex BoE, and all data are fiscal year balances. Israel is excluded from primary government balance aggregates. China's general government balance includes budget deficit, transfers of fiscal reserves, local government special bonds, social security fund, LGFV funding, and net land sales; gross government debt includes central government debt, local government debt, and Wind statistics on LGFV debt, which are LGFVs with bond-issuing capability. For India, the fiscal deficit is consolidated deficit, summed across centre and the states. Argentina gross government debt is based on IMF estimates. Egypt represents fiscal year from July 1 to June 30.

## Policy rates (%)

Exhibit 56: Monetary policy rates (EOP, %)

### Base Case Quarterly Policy Rates

Policy Rates	Current	2023				2024				2025E				2026E			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE
US	4.375	4.875	5.125	5.375	5.375	5.375	5.375	4.875	4.375	4.375	4.375	4.375	4.375	4.125	3.625	3.125	2.625
Euro Area*	2.25	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50
Japan**	0.50	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.25	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.75	4.50	4.25	3.75	3.25	3.00	2.75	2.75	2.75
Canada	2.75	4.50	4.75	5.00	5.00	5.00	4.75	4.25	3.25	2.75	2.75	2.50	2.25	2.00	1.75	1.75	1.75
Norway	4.50	3.00	3.75	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Sweden	2.25	3.00	3.50	4.00	4.00	4.00	3.75	3.50	2.75	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Australia	3.85	3.60	4.10	4.10	4.35	4.35	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10	3.10	3.10
China^	1.40	2.00	1.90	1.80	1.80	1.80	1.80	1.50	1.50	1.50	1.40	1.40	1.25	1.25	1.25	1.25	1.25
India	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	5.75	5.50	5.50	5.50	5.50	5.50	5.50
Hong Kong	4.75	5.25	5.50	5.75	5.75	5.75	5.75	5.25	4.75	4.75	4.75	4.75	4.75	4.50	4.00	3.50	3.00
S. Korea	2.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.00	2.75	2.50	2.25	2.00	2.00	2.00	2.00	2.00
Taiwan	2.00	1.88	1.88	1.88	1.88	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.88	1.75	1.63	1.50
Indonesia	5.75	5.75	5.75	5.75	6.00	6.00	6.25	6.00	6.00	5.75	5.50	5.25	5.00	4.75	4.75	4.75	4.75
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.50	2.25	2.25	2.25	2.25	2.25
Thailand	1.75	1.75	2.00	2.50	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.50	1.00	1.00	1.00	1.00	1.00
Philippines	5.50	6.25	6.25	6.25	6.50	6.50	6.50	6.25	5.75	5.75	5.25	5.00	4.50	4.25	4.00	4.00	4.00
Poland	5.25	6.75	6.75	6.00	5.75	5.75	5.75	5.75	5.75	5.75	5.25	4.75	4.50	4.00	3.25	3.00	3.00
Czech Republic	3.50	7.00	7.00	7.00	6.75	5.75	4.75	4.25	4.00	3.75	3.50	3.50	3.50	3.25	3.00	2.75	2.50
Hungary	6.50	13.00	13.00	13.00	10.75	8.25	7.00	6.50	6.50	6.50	6.50	6.50	5.75	5.00	5.00	4.75	4.50
Ukraine	15.50	25.00	25.00	20.00	15.00	14.50	13.00	13.00	13.50	15.50	15.50	15.50	15.00	14.00	13.00	12.00	11.00
Turkey	46.00	8.50	15.00	30.00	42.50	50.00	50.00	50.00	47.50	42.50	46.00	41.00	36.00	32.00	28.00	25.00	22.00
South Africa	7.50	7.25	8.25	8.25	8.25	8.25	8.25	8.00	7.75	7.50	7.25	7.25	7.25	7.25	7.25	7.25	7.50
Saudi Arabia	5.00	5.50	5.75	6.00	6.00	6.00	6.00	5.50	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Egypt	25.00	11.25	16.25	18.25	18.25	19.25	19.25	27.25	27.25	27.25	27.25	27.25	23.50	22.00	20.00	18.00	16.00
Israel	4.50	4.25	4.75	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.00	3.75	3.25	3.25
Brazil	14.75	13.75	13.75	12.75	11.75	10.75	10.50	10.75	12.25	14.25	14.75	14.75	14.75	14.25	13.25	12.25	11.25
Mexico	8.50	11.25	11.25	11.25	11.25	11.00	11.00	10.50	10.00	9.00	8.00	7.50	7.50	7.25	7.00	7.00	7.00
Chile	5.00	11.25	11.25	9.50	8.25	7.25	5.75	5.50	5.00	5.00	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Colombia	9.25	13.00	13.25	13.25	13.00	12.25	11.25	10.25	9.50	9.50	9.00	8.50	8.00	7.75	7.50	7.50	7.50
Argentina^^	29.00	78.00	97.00	118.00	100.00	80.00	40.00	40.00	32.00	29.00	29.00	29.00	25.00	20.00	20.00	18.00	18.00

Source: Haver Analytics, national central banks, Morgan Stanley Research forecasts; Note: \*ECB deposit facility rate; \*\*Uncollateralized overnight call rate upper limit; ^7-day reverse repo rate; ^^Central Bank of Argentina has announced the implementation of a monetary targeting regime to replace inflation targeting as of October 1, 2018. Egypt represents fiscal year from July 1 to June 30.

## Consumption, investment, and government spending forecasts

Exhibit 57: Private consumption growth (%Y)

	Private Consumption Growth (%Y)																Annual			
	Quarterly																2023	2024	2025E	2026E
	2023				2024				2025E				2026E							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global %Y</b>	<b>3.0</b>	<b>4.9</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>3.3</b>	<b>2.9</b>	<b>3.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.0</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>4.0</b>	<b>3.4</b>	<b>3.1</b>	<b>2.7</b>
<b>Global ex US %Y</b>	<b>3.1</b>	<b>5.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.4</b>	<b>3.5</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	<b>3.4</b>	<b>3.2</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>	<b>4.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>
<b>G10 %Y</b>	<b>2.2</b>	<b>1.3</b>	<b>1.0</b>	<b>1.5</b>	<b>1.2</b>	<b>1.4</b>	<b>1.9</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>1.5</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>0.7</b>
US	2.6	2.2	2.4	3.0	2.2	2.7	3.0	3.1	3.1	2.7	1.9	0.9	0.5	0.2	0.4	0.7	2.5	2.8	2.1	0.5
Euro Area	1.3	0.5	-0.2	0.8	1.0	0.6	1.1	1.5	1.3	1.5	1.2	0.9	0.8	0.8	0.9	0.9	0.6	1.0	1.2	0.9
Japan	3.3	0.5	0.0	-0.3	-1.6	-0.5	0.9	1.0	1.6	1.0	0.6	0.7	0.8	0.7	0.7	0.7	0.8	0.0	1.0	0.7
UK	2.3	0.8	-0.2	-0.7	0.3	-0.1	1.1	1.2	0.7	1.1	0.7	0.6	0.9	0.8	1.0	1.2	0.5	0.6	0.8	1.0
Canada	3.1	1.3	1.4	1.7	1.7	1.7	2.5	3.6	3.0	2.9	2.0	0.6	0.3	0.2	0.3	0.5	1.9	2.4	2.1	0.3
Norway	2.6	-0.5	-0.7	-5.6	-0.2	1.9	2.0	1.6	3.9	1.6	1.7	2.3	1.3	1.7	2.1	2.5	-1.2	1.3	2.4	1.9
Sweden	-2.0	-2.9	-2.3	-0.8	0.5	-0.1	0.5	0.5	0.8	1.1	1.1	0.7	1.1	1.5	1.8	2.2	-2.0	0.3	0.9	1.6
Australia	4.5	2.7	1.8	0.9	1.0	0.3	0.3	0.7	0.3	1.2	1.7	1.9	2.4	2.3	2.3	2.2	2.5	0.6	1.3	2.3
<b>G10 (%Q, SAAR) ^</b>	<b>2.7</b>	<b>0.9</b>	<b>0.7</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>2.9</b>	<b>2.6</b>	<b>1.4</b>	<b>1.2</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>	<b>2.2</b>	<b>0.9</b>	<b>0.9</b>
US	4.9	1.0	2.5	3.5	1.9	2.8	3.7	4.0	1.8	1.5	0.3	0.1	0.1	0.5	1.0	1.2	3.0	3.1	0.9	0.7
Euro Area	1.2	1.5	0.2	0.2	1.9	0.1	2.2	1.8	1.2	0.9	0.8	0.8	0.9	0.9	1.0	1.0	0.8	1.5	0.9	0.9
Japan	3.9	-2.6	-2.0	-0.1	-2.4	3.2	2.9	0.3	0.2	1.0	0.8	0.9	0.5	0.5	0.8	0.8	-0.3	1.0	0.7	0.7
UK	-1.5	1.5	-3.0	0.2	2.8	-0.2	1.8	0.3	1.6	0.8	0.8	0.0	2.0	1.4	0.6	0.6	-0.7	1.2	0.6	1.2
Canada	3.8	0.8	0.9	1.3	3.6	1.0	4.2	5.6	1.4	0.7	0.3	0.1	0.0	0.4	0.8	1.0	1.7	3.6	0.6	0.5
Norway	-22.4	1.9	-0.1	0.5	-3.1	10.6	0.5	-1.1	6.1	1.0	1.0	1.2	2.0	2.4	2.6	2.8	-5.6	1.6	2.3	2.5
Sweden	-5.7	1.6	-1.9	3.0	-0.6	-1.0	0.7	3.0	0.4	0.4	0.8	1.0	2.0	2.0	2.2	2.4	-0.8	0.5	0.7	2.2
Australia	1.8	2.1	-0.3	0.3	2.1	-0.8	-0.2	1.7	0.4	2.8	2.0	2.4	2.4	2.4	2.0	2.0	0.9	0.7	1.9	2.2
<b>EM %Y</b>	<b>3.6</b>	<b>7.8</b>	<b>6.7</b>	<b>6.3</b>	<b>6.1</b>	<b>4.8</b>	<b>3.7</b>	<b>4.3</b>	<b>4.6</b>	<b>4.3</b>	<b>4.2</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>6.1</b>	<b>4.7</b>	<b>4.2</b>	<b>4.2</b>
<b>EM ex China %Y</b>	<b>3.4</b>	<b>4.9</b>	<b>3.5</b>	<b>4.0</b>	<b>4.4</b>	<b>5.0</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>3.8</b>	<b>3.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>4.3</b>	<b>3.9</b>	<b>4.5</b>	<b>3.7</b>	<b>3.9</b>
<b>AXJ %Y</b>	<b>3.9</b>	<b>9.2</b>	<b>7.6</b>	<b>7.2</b>	<b>6.9</b>	<b>5.1</b>	<b>3.7</b>	<b>4.6</b>	<b>4.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4.5</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.7</b>	<b>7.0</b>	<b>5.1</b>	<b>4.7</b>	<b>4.7</b>
China	3.8	11.5	10.8	9.2	8.2	4.6	2.9	4.2	4.9	5.0	5.1	4.7	4.9	4.8	4.6	4.2	8.8	5.0	4.9	4.6
India	2.1	7.4	3.0	5.7	6.2	7.7	5.9	6.9	6.9	6.0	5.8	5.7	6.0	6.0	6.3	6.4	4.5	6.7	6.1	6.2
Hong Kong	12.2	7.6	5.8	2.5	1.0	-1.7	-1.3	-0.2	-1.2	-0.7	0.2	0.9	2.7	2.3	2.0	2.0	6.8	-0.6	-0.2	2.2
Korea	4.6	1.6	0.2	0.9	1.0	0.8	1.3	-0.5	0.5	0.8	1.2	1.5	1.2	2.4	2.8	4.0	1.8	0.7	1.0	2.6
Taiwan	6.1	12.8	9.1	4.1	4.0	2.9	1.8	2.5	1.2	0.9	1.3	0.5	-0.7	2.5	2.1	2.6	8.0	2.8	1.0	1.6
Singapore	7.1	4.3	2.1	6.0	5.6	5.2	6.4	2.2	2.0	1.8	1.7	1.6	1.6	1.5	1.7	1.8	4.9	4.9	1.8	1.7
Indonesia	4.6	5.3	5.1	4.8	5.3	5.0	5.1	5.0	4.8	4.5	4.8	4.5	4.7	4.8	5.0	5.0	5.0	5.1	4.7	4.9
Malaysia	6.1	4.2	4.1	4.2	4.7	6.0	4.8	4.9	4.5	4.0	4.0	4.0	4.3	4.3	4.5	5.0	4.7	5.1	4.1	4.5
Thailand	6.0	7.3	7.4	6.7	6.6	4.5	3.3	3.4	2.6	0.7	1.5	1.4	2.8	2.3	2.1	2.0	6.9	4.5	1.6	2.3
Philippines	6.3	5.4	5.1	5.3	4.7	4.8	5.2	4.7	5.3	4.9	4.7	4.6	4.7	5.0	5.4	5.5	5.5	4.9	4.9	5.2
<b>CEEMEA %Y</b>	<b>1.9</b>	<b>1.2</b>	<b>2.9</b>	<b>2.2</b>	<b>1.7</b>	<b>2.7</b>	<b>2.5</b>	<b>4.3</b>	<b>4.1</b>	<b>3.5</b>	<b>2.2</b>	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.8</b>	<b>2.0</b>	<b>2.8</b>	<b>2.9</b>	<b>2.5</b>
Poland	-1.9	-2.5	2.3	1.1	4.1	4.4	0.8	3.5	2.1	1.8	2.5	1.6	1.6	1.7	1.9	2.0	-0.3	3.1	2.0	1.8
Czech Rep	-4.4	-3.3	-3.1	-0.3	1.6	1.1	2.8	3.2	3.0	3.5	2.7	1.3	0.9	0.9	1.1	1.3	-2.8	2.2	2.6	1.1
Hungary	-2.8	-2.9	-1.7	3.2	4.9	5.1	5.1	5.5	5.1	4.9	4.6	3.4	3.6	2.7	2.5	2.5	-1.0	5.1	4.5	2.8
Ukraine	-11.8	14.8	10.4	8.0	6.6	7.9	8.8	4.2	4.4	5.0	1.9	5.3	5.8	6.2	6.6	7.0	4.3	6.8	4.1	6.4
Turkey	17.3	16.0	12.3	10.1	7.3	1.2	2.6	3.9	4.7	5.0	5.7	1.9	1.8	2.9	3.4	4.0	13.6	3.7	4.2	3.1
South Africa	0.5	0.8	1.0	0.6	-0.2	0.6	1.3	2.3	3.0	1.9	1.5	0.5	0.5	0.9	1.3	1.7	0.7	1.0	1.7	1.1
Saudi Arabia	8.6	7.4	7.5	7.1	0.7	2.6	4.0	3.6	6.4	5.4	1.5	2.0	2.7	3.2	3.6	3.9	7.6	2.7	3.8	3.4
Egypt	3.7	-0.4	8.7	2.8	-1.2	14.7	10.7	8.7	12.8	2.6	2.2	4.1	1.9	4.3	5.1	5.5	3.6	8.0	5.4	4.1
Israel	2.7	-0.4	1.2	-8.2	-1.6	0.6	2.7	13.5	4.0	4.5	2.9	3.0	5.4	5.0	4.5	4.6	-1.2	3.7	3.6	4.8
<b>LatAm %Y</b>	<b>2.9</b>	<b>2.5</b>	<b>2.9</b>	<b>2.5</b>	<b>3.6</b>	<b>4.0</b>	<b>4.0</b>	<b>2.4</b>	<b>2.4</b>	<b>1.9</b>	<b>1.1</b>	<b>1.4</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>2.0</b>	<b>2.7</b>	<b>3.5</b>	<b>1.7</b>	<b>1.6</b>
Brazil	4.0	3.1	3.3	2.6	4.7	5.1	5.5	3.7	3.3	2.4	1.6	1.4	1.7	1.9	2.1	2.4	3.3	4.8	2.2	2.0
Mexico	3.6	3.8	5.1	4.4	3.8	4.3	3.0	0.4	0.4	0.1	-1.2	0.1	0.1	0.4	1.0	1.5	4.2	2.9	-0.2	0.8
Chile	-7.8	-5.3	-4.3	-1.8	0.5	0.5	1.1	1.7	3.0	3.5	3.9	3.2	1.5	1.3	1.1	1.3	-4.8	1.0	3.4	1.3
Colombia	2.8	0.6	-0.6	-1.1	0.5	0.9	2.0	2.8	3.8	4.2	3.8	3.6	2.2	2.2	2.3	2.4	0.4	1.6	3.8	2.3
Argentina	5.0	0.7	0.2	-1.9	-6.6	-8.8	-3.1	2.8	5.1	8.7	5.1	2.5	2.6	2.6	2.1	1.7	1.0	-4.2	5.4	2.3

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. ^Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 58: Gross fixed investment growth (%Y)

## Gross Fixed Investment Growth (%Y)

	Quarterly												Annual							
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global %Y</b>	<b>5.1</b>	<b>4.3</b>	<b>3.5</b>	<b>3.4</b>	<b>2.2</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>3.9</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>
<b>Global ex US %Y</b>	<b>4.7</b>	<b>3.7</b>	<b>3.0</b>	<b>3.0</b>	<b>1.6</b>	<b>2.4</b>	<b>2.6</b>	<b>2.4</b>	<b>2.3</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>	<b>2.3</b>	<b>2.7</b>	<b>2.9</b>
<b>G10 %Y</b>	<b>3.9</b>	<b>3.9</b>	<b>2.6</b>	<b>3.1</b>	<b>1.5</b>	<b>0.6</b>	<b>1.7</b>	<b>0.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.0</b>	<b>1.0</b>	<b>-0.1</b>	<b>0.6</b>	<b>0.9</b>	<b>1.3</b>	<b>3.4</b>	<b>1.1</b>	<b>1.6</b>	<b>0.7</b>
US	6.5	7.1	5.5	5.0	4.8	3.3	4.1	2.3	3.6	1.6	0.7	1.4	-1.0	0.0	0.3	0.7	6.0	3.6	1.8	0.0
Euro Area*	2.5	1.9	1.1	2.2	-0.9	-3.2	-1.5	-2.0	-0.1	2.5	0.8	0.3	0.7	1.0	1.4	1.8	1.9	-1.9	0.9	1.2
Japan	3.3	2.0	-0.5	1.0	-2.1	1.2	1.7	0.8	3.5	2.2	2.3	2.0	1.1	0.6	0.6	0.7	1.5	0.3	2.5	0.8
UK	1.8	0.3	-1.5	0.7	-1.4	1.2	3.8	2.2	4.4	0.7	0.0	1.0	-0.7	2.4	2.6	2.8	0.3	1.5	1.5	1.7
Canada	-4.0	-0.5	0.1	-0.1	-0.6	-1.1	-0.6	3.1	3.3	2.5	2.8	0.5	0.1	0.0	0.3	0.8	-1.1	0.2	2.3	0.3
Norway	-1.2	-2.5	-3.7	1.3	-6.0	-1.4	2.1	-0.1	0.6	1.4	-0.5	-2.3	2.2	0.0	0.5	1.3	-1.5	-1.4	-0.2	1.0
Sweden	0.5	-1.7	-2.5	-1.2	-1.6	-2.4	-1.9	1.3	1.1	2.0	2.2	0.6	1.0	1.4	2.0	2.6	-1.2	-1.2	1.5	1.7
Australia	1.4	3.8	3.8	5.2	3.1	1.8	1.4	0.8	1.4	1.3	1.8	1.9	2.0	2.2	2.5	2.8	3.5	1.7	1.6	2.4
<b>G10 (%Q, SAAR)^</b>	<b>5.7</b>	<b>3.5</b>	<b>-0.2</b>	<b>3.8</b>	<b>-1.0</b>	<b>0.0</b>	<b>4.4</b>	<b>0.1</b>	<b>4.7</b>	<b>-1.2</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.8</b>	<b>1.7</b>	<b>1.9</b>	<b>3.1</b>	<b>0.7</b>	<b>1.0</b>	<b>1.3</b>
US	5.3	9.9	1.1	3.8	4.5	3.9	4.0	-3.0	9.8	-3.8	0.2	-0.1	0.0	-0.1	1.4	1.4	5.0	2.3	1.4	0.7
Euro Area*	5.0	-1.0	0.3	4.7	-7.5	-9.6	7.4	2.6	0.0	0.0	0.5	0.9	1.3	1.5	2.1	2.4	2.2	-2.0	0.3	1.8
Japan	6.5	-3.7	-2.8	4.8	-6.1	9.0	-0.2	1.6	4.2	2.5	0.9	0.8	0.4	0.2	1.0	1.4	1.0	0.8	2.0	0.7
UK	12.1	-5.8	-6.1	3.8	3.1	4.4	4.1	-2.5	1.8	0.6	1.9	-1.0	3.6	2.4	2.2	2.2	0.7	2.2	1.0	2.8
Canada	2.4	5.9	-3.2	-5.3	0.4	3.9	-1.1	9.5	1.1	0.9	0.1	-0.3	-0.5	0.8	1.3	1.6	-0.1	3.1	0.5	0.8
Norway	3.5	-9.7	-4.4	18.0	-23.2	9.1	9.9	8.3	-21.1	12.6	2.0	0.8	-5.9	3.2	4.1	4.1	1.3	-0.1	-2.3	1.3
Sweden	3.1	0.0	-2.0	-5.8	1.4	-3.0	-0.1	7.3	0.4	0.6	0.6	0.8	2.0	2.2	2.8	3.2	-1.2	1.3	0.6	2.6
Australia	8.1	7.8	1.5	3.4	-0.3	2.5	-0.1	1.3	2.0	2.0	1.9	1.6	2.5	2.8	3.0	3.0	5.2	0.8	1.9	2.8
<b>EM %Y</b>	<b>6.0</b>	<b>4.7</b>	<b>4.2</b>	<b>3.5</b>	<b>2.8</b>	<b>4.2</b>	<b>3.8</b>	<b>3.7</b>	<b>2.7</b>	<b>3.2</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>4.4</b>	<b>3.6</b>	<b>3.2</b>	<b>3.6</b>
<b>EM ex China %Y</b>	<b>5.0</b>	<b>5.0</b>	<b>5.4</b>	<b>4.9</b>	<b>3.1</b>	<b>4.2</b>	<b>4.7</b>	<b>4.2</b>	<b>3.3</b>	<b>2.6</b>	<b>2.9</b>	<b>3.0</b>	<b>3.6</b>	<b>3.5</b>	<b>3.8</b>	<b>4.1</b>	<b>5.1</b>	<b>4.0</b>	<b>3.0</b>	<b>3.7</b>
<b>AXJ %Y</b>	<b>5.9</b>	<b>4.6</b>	<b>4.6</b>	<b>3.5</b>	<b>3.0</b>	<b>4.6</b>	<b>4.0</b>	<b>4.1</b>	<b>3.3</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>4.1</b>	<b>3.8</b>	<b>4.0</b>	<b>4.1</b>	<b>4.4</b>	<b>4.0</b>	<b>3.9</b>	<b>3.9</b>
China	7.3	4.2	2.6	1.8	2.4	4.2	2.7	3.1	2.0	3.9	3.6	3.9	4.0	3.6	3.5	3.4	3.5	3.2	3.6	3.5
India	5.6	8.4	11.7	9.3	6.0	6.7	5.8	5.7	6.1	5.7	5.4	5.4	5.6	5.7	5.9	6.2	8.7	6.0	5.6	5.8
Hong Kong	9.2	-1.0	21.9	17.2	0.4	4.4	5.7	-0.9	2.8	0.2	1.4	1.6	1.1	1.7	3.8	5.2	11.4	2.4	1.5	3.0
Korea	3.2	3.0	0.4	-1.6	0.9	-0.7	-0.7	0.1	-4.1	-4.6	3.1	-0.5	2.3	-0.7	-0.2	2.7	1.3	-0.1	-1.5	1.0
Taiwan	-2.0	-7.5	-10.0	-11.1	-3.7	6.9	7.1	11.0	19.2	8.4	7.5	2.5	0.3	0.2	1.0	1.4	-7.7	5.3	9.4	0.7
Singapore	0.1	-3.1	-2.9	2.3	-1.4	3.4	4.7	4.9	1.1	-2.1	-2.3	-1.9	0.2	2.2	2.4	2.4	-0.9	2.9	-1.3	1.8
Indonesia	1.5	4.1	5.1	4.3	3.8	4.4	5.2	5.0	2.1	2.5	3.5	3.6	4.3	4.5	5.0	5.0	3.8	4.6	2.9	4.7
Malaysia	4.9	5.5	5.1	6.4	9.6	11.5	15.3	11.7	5.0	4.5	4.0	4.0	4.2	4.0	4.2	4.5	5.5	12.0	4.4	4.2
Thailand	3.2	0.4	1.7	-0.4	-4.3	-6.1	5.1	5.1	4.7	4.0	0.6	0.6	0.1	-0.4	2.5	2.5	1.2	0.0	2.6	1.2
Philippines	11.0	4.2	8.3	10.3	2.3	9.6	7.7	5.0	5.9	4.0	4.0	4.0	4.0	4.5	5.0	6.0	8.5	6.2	4.5	4.9
<b>CEEMEA %Y</b>	<b>9.4</b>	<b>7.8</b>	<b>2.9</b>	<b>6.1</b>	<b>-0.2</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-2.7</b>	<b>-0.4</b>	<b>1.3</b>	<b>2.5</b>	<b>5.5</b>	<b>5.3</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>	<b>6.8</b>	<b>-2.1</b>	<b>2.5</b>	<b>4.1</b>
Poland	2.0	12.6	11.0	19.2	5.1	5.1	-5.2	-7.4	-2.6	0.0	5.4	8.6	9.2	8.1	6.4	5.1	12.7	-2.2	3.9	6.8
Czech Rep	0.5	1.5	2.8	4.8	-2.7	-2.4	1.0	-0.9	-1.3	-1.8	-3.0	-0.5	-0.7	0.6	2.0	3.0	2.5	-1.2	-1.6	1.4
Hungary	-3.9	-10.9	-10.9	-3.1	-7.3	-13.2	-12.0	-10.5	-11.7	-5.2	-1.8	0.6	2.2	2.3	2.3	2.1	-7.7	-11.1	-4.0	2.2
Ukraine	60.5	128.9	72.5	31.5	-1.9	-0.4	4.6	9.5	-3.7	-8.8	1.7	20.5	20.1	19.6	19.1	17.8	65.9	3.5	3.9	18.9
Turkey	4.3	5.3	14.2	9.1	9.1	0.8	-0.1	6.1	5.5	6.0	3.6	0.7	0.2	4.0	5.1	5.9	8.4	3.9	3.8	3.9
South Africa	4.6	8.2	2.1	0.8	-2.5	-6.9	-2.7	-2.7	-1.6	-0.6	-0.3	0.6	1.5	1.9	2.1	2.5	3.9	-3.7	-0.5	2.0
Saudi Arabia	24.0	9.0	-1.5	7.2	2.1	2.0	6.6	-4.2	2.3	2.5	2.9	7.9	6.3	4.5	2.8	1.5	9.4	1.6	3.8	3.8
Egypt	-14.4	-16.8	-26.1	-9.9	-4.6	-9.9	-5.4	-4.9	-22.6	0.8	1.6	-2.5	21.8	7.0	5.9	4.4	-17.0	-6.1	-5.2	8.6
Israel	8.5	8.3	4.6	-24.4	-14.7	-18.5	-12.5	23.6	8.8	13.0	6.0	4.8	3.4	4.1	4.9	5.3	-1.6	-7.0	7.9	4.5
<b>LatAm %Y</b>	<b>4.3</b>	<b>3.2</b>	<b>1.9</b>	<b>2.0</b>	<b>3.2</b>	<b>5.1</b>	<b>6.2</b>	<b>5.1</b>	<b>0.1</b>	<b>-0.8</b>	<b>-1.6</b>	<b>-1.3</b>	<b>0.6</b>	<b>1.0</b>	<b>1.4</b>	<b>1.5</b>	<b>2.9</b>	<b>4.9</b>	<b>-0.9</b>	<b>1.2</b>
Brazil	1.5	-1.5	-6.8	-4.4	3.0	5.7	10.8	9.4	2.4	1.7	1.2	1.3	1.2	0.9	0.7	0.6	-2.8	7.2	1.7	0.9
Mexico	11.8	15.5	20.8	18.1	8.7	6.6	1.6	-2.6	-4.9	-5.7	-7.4	-5.6	-1.9	0.0	1.5	1.7	16.6	3.6	-5.9	0.3
Chile	3.8	2.9	-1.9	-3.3	-4.8	-3.9	-0.5	2.2	4.9	5.2	5.1	5.3	3.7	3.2	2.7	2.4	0.3	-1.8	5.1	3.0
Colombia	-5.5	-13.2	-15.7	-16.0	-7.2	3.7	4.6	11.8	1.8	-0.9	-1.0	-3.5	3.1	3.3	3.6	4.0	-12.7	3.2	-1.0	3.5
Argentina	-1.0	-1.6	1.2	-6.8	-23.8	-29.3	-16.6	1.9	23.0	38.9	32.4	22.7	17.9	13.6	11.4	11.0	-2.0	-17.4	29.0	13.2

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. \*Euro area fixed investment growth includes public investment. ^Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 59: Government spending growth (%Y)

Government Spending (%Y)

	Quarterly												Annual							
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global %Y</b>	<b>3.3</b>	<b>4.7</b>	<b>5.3</b>	<b>4.1</b>	<b>3.3</b>	<b>3.0</b>	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>3.4</b>	<b>4.5</b>	<b>4.4</b>	<b>3.6</b>	<b>2.8</b>	<b>2.7</b>	<b>2.4</b>	<b>4.2</b>	<b>2.9</b>	<b>3.5</b>	<b>3.0</b>
<b>Global ex US %Y</b>	<b>3.5</b>	<b>5.0</b>	<b>5.4</b>	<b>4.1</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>2.5</b>	<b>3.8</b>	<b>5.3</b>	<b>5.4</b>	<b>4.3</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>4.3</b>	<b>2.7</b>	<b>4.1</b>	<b>3.5</b>
<b>G10 %Y</b>	<b>1.4</b>	<b>2.2</b>	<b>3.1</b>	<b>2.8</b>	<b>2.7</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.4</b>	<b>1.8</b>	<b>1.2</b>	<b>0.9</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>2.4</b>	<b>2.9</b>	<b>1.6</b>	<b>1.1</b>
US	2.6	3.7	4.8	4.3	3.5	3.5	3.4	3.2	2.4	1.8	0.7	0.1	0.6	0.6	0.7	0.7	3.9	3.4	1.2	0.6
Euro Area*	0.6	0.9	1.9	2.1	2.1	2.9	3.0	2.7	2.8	2.1	1.5	1.4	1.4	1.4	1.4	1.4	1.4	2.7	2.0	1.4
Japan	1.3	-1.1	-0.2	-1.0	-0.8	1.6	1.3	1.7	1.3	0.6	0.6	0.5	0.5	0.5	0.4	0.3	-0.3	0.9	0.7	0.4
UK	-2.8	3.0	3.0	3.2	4.6	3.1	1.9	2.6	1.3	0.6	2.9	3.4	3.9	3.7	1.2	0.3	1.6	3.0	2.1	2.3
Canada	2.4	2.5	2.7	1.2	2.5	3.2	3.2	4.1	3.0	2.5	1.5	1.6	1.6	1.6	1.5	1.5	2.2	3.3	2.2	1.6
Norway	3.0	3.4	3.7	3.4	3.0	2.4	2.2	2.0	2.0	2.1	2.0	2.0	2.0	2.0	1.9	1.9	3.4	2.4	2.0	2.0
Sweden	1.9	2.2	1.3	1.7	1.4	1.1	1.5	0.8	0.9	1.1	1.2	1.5	1.6	1.6	1.6	1.6	1.8	1.2	1.2	1.6
Australia	1.1	2.8	4.6	4.1	4.2	3.5	4.4	5.5	5.6	5.6	3.8	3.5	3.1	2.7	2.6	2.6	3.1	4.4	4.6	2.8
<b>G10 (%Q, SAAR) ^</b>	<b>2.5</b>	<b>2.1</b>	<b>4.5</b>	<b>2.4</b>	<b>1.8</b>	<b>3.6</b>	<b>4.1</b>	<b>2.4</b>	<b>0.4</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>2.8</b>	<b>2.9</b>	<b>0.9</b>	<b>1.0</b>
US	5.1	2.9	5.7	3.6	1.8	3.1	5.1	3.1	-1.4	0.6	0.6	0.6	0.7	0.7	0.7	0.7	4.3	3.2	0.1	0.7
Euro Area*	0.9	1.4	3.2	3.0	1.1	4.3	3.7	1.9	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	2.1	2.7	1.4	1.4
Japan	0.6	-5.8	1.8	-0.3	1.4	3.6	0.4	1.3	-0.1	0.8	0.4	0.8	0.2	0.5	0.2	0.2	-1.0	1.7	0.5	0.3
UK	-2.5	10.3	6.3	-0.7	2.9	4.1	1.3	2.0	6.1	4.1	1.6	1.6	2.0	1.6	0.8	0.8	3.2	2.6	3.4	0.3
Canada	0.2	1.1	5.6	-2.0	5.5	3.9	5.4	1.4	1.5	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.2	4.1	1.6	1.5
Norway	3.3	3.8	3.7	2.7	1.7	1.5	2.8	2.1	1.6	1.8	2.4	2.0	1.6	2.0	2.0	2.0	3.4	2.0	2.0	1.9
Sweden	2.2	1.8	-0.2	2.9	1.0	0.6	1.5	0.3	1.4	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.7	0.8	1.5	1.6
Australia	3.7	6.7	6.7	-0.6	4.2	3.8	10.4	3.9	4.4	4.0	3.0	2.3	2.0	2.0	1.6	1.3	4.1	5.5	3.5	2.6
<b>EM %Y</b>	<b>4.9</b>	<b>6.8</b>	<b>7.0</b>	<b>5.2</b>	<b>3.7</b>	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>2.5</b>	<b>4.6</b>	<b>6.9</b>	<b>7.0</b>	<b>5.4</b>	<b>4.1</b>	<b>3.9</b>	<b>3.5</b>	<b>5.7</b>	<b>2.9</b>	<b>5.0</b>	<b>4.4</b>
<b>EM ex China %Y</b>	<b>4.4</b>	<b>3.3</b>	<b>7.6</b>	<b>2.7</b>	<b>5.9</b>	<b>2.1</b>	<b>3.6</b>	<b>4.7</b>	<b>2.9</b>	<b>3.1</b>	<b>4.0</b>	<b>4.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.3</b>	<b>4.4</b>	<b>4.0</b>	<b>3.5</b>	<b>3.5</b>
<b>AXJ %Y</b>	<b>5.5</b>	<b>7.8</b>	<b>7.9</b>	<b>5.1</b>	<b>3.6</b>	<b>2.7</b>	<b>2.7</b>	<b>3.1</b>	<b>2.9</b>	<b>5.5</b>	<b>8.2</b>	<b>8.3</b>	<b>6.2</b>	<b>4.6</b>	<b>4.4</b>	<b>4.0</b>	<b>6.2</b>	<b>2.9</b>	<b>5.9</b>	<b>4.9</b>
China	5.4	11.3	6.2	8.3	1.0	4.0	1.5	0.1	2.1	6.6	10.6	10.8	8.0	4.8	4.2	3.8	7.2	1.4	7.0	5.5
India	9.0	5.3	20.1	2.3	6.6	-0.5	3.8	8.3	5.0	6.0	6.0	6.0	6.0	5.0	5.0	5.0	8.9	4.5	5.7	5.3
Hong Kong	1.1	-8.9	-3.4	-4.7	-1.5	2.0	1.7	2.0	1.2	2.2	1.2	0.3	0.5	0.8	0.8	0.9	-3.9	1.0	1.2	0.8
Korea	4.0	1.0	1.1	-0.9	-0.5	2.4	2.6	4.6	1.9	-0.2	10.3	10.0	-1.2	5.7	7.1	2.6	1.3	2.3	5.5	3.6
Taiwan	3.3	-0.2	-0.4	-0.5	1.6	2.0	4.0	2.1	0.5	1.4	3.5	2.4	0.0	1.5	1.8	2.5	0.5	2.4	2.0	1.5
Singapore	5.8	0.4	2.4	-2.2	6.6	2.5	8.3	16.2	3.0	4.0	3.5	3.5	3.5	3.5	3.0	3.0	1.6	8.4	3.5	3.3
Indonesia	3.3	10.5	-3.9	2.9	20.4	2.0	4.6	4.2	-1.4	5.0	5.0	4.7	5.0	4.7	4.6	4.5	3.2	7.8	3.3	4.7
Malaysia	-2.0	3.3	5.3	5.8	7.3	3.6	4.9	3.3	3.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.1	4.8	2.3	2.0
Thailand	-6.0	-4.5	-5.0	-3.2	-2.3	0.4	6.1	5.5	3.4	1.0	0.1	0.4	0.6	1.3	2.8	2.5	-4.7	2.4	1.2	1.8
Philippines	5.9	-7.3	6.4	-1.3	2.6	11.9	5.0	9.0	18.7	3.0	3.0	3.0	3.0	3.0	4.0	4.0	0.9	7.1	6.9	3.5
<b>CEEMEA %Y</b>	<b>4.1</b>	<b>2.0</b>	<b>4.4</b>	<b>7.6</b>	<b>6.3</b>	<b>6.5</b>	<b>4.9</b>	<b>0.2</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>2.3</b>	<b>2.2</b>	<b>1.9</b>	<b>1.5</b>	<b>1.3</b>	<b>4.5</b>	<b>4.1</b>	<b>1.6</b>	<b>1.7</b>
Poland	0.4	1.6	2.7	11.8	9.5	10.2	5.2	8.2	4.8	3.2	2.4	0.8	0.7	0.6	0.7	0.8	4.5	8.2	2.6	0.7
Czech Rep	3.6	2.9	3.5	3.6	2.4	3.9	3.6	3.1	3.5	1.6	1.1	0.6	0.7	1.0	1.2	1.4	3.4	3.3	1.6	1.1
Hungary	-2.2	4.7	7.4	3.5	-6.3	-6.2	-2.8	-3.2	-2.3	-1.0	0.0	1.2	2.1	2.5	2.2	1.9	3.3	-4.6	-0.5	2.2
Ukraine	13.6	13.4	12.5	0.7	8.6	-7.3	-12.1	-2.8	-1.0	-4.1	-1.6	5.3	-1.9	-9.5	-12.5	-12.1	9.2	-4.5	-0.1	-9.5
Turkey	3.0	4.3	3.4	-0.2	3.3	-0.2	0.1	1.6	1.7	1.2	1.8	2.4	2.2	2.0	1.7	1.4	2.4	1.2	1.8	1.8
South Africa	-0.4	2.5	2.2	3.2	1.6	1.0	-0.4	-0.6	-0.5	-1.3	-0.4	0.4	0.7	0.8	0.8	0.8	1.9	0.4	-0.4	0.8
Saudi Arabia	11.5	1.1	6.6	4.1	5.7	6.2	6.5	-6.9	-0.2	0.8	0.2	5.0	4.0	2.9	1.8	1.1	5.5	1.9	1.7	2.3
Egypt	11.6	1.5	0.6	-20.8	11.1	-6.0	-1.8	-2.6	-8.3	2.2	0.5	6.5	4.5	3.2	1.7	0.2	-2.8	0.2	-0.2	2.4
Israel	2.6	2.3	3.6	22.7	20.6	17.9	15.7	0.9	-0.9	2.7	4.4	3.5	4.5	4.6	4.4	4.2	8.0	13.0	2.4	4.4
<b>LatAm %Y</b>	<b>1.0</b>	<b>2.9</b>	<b>2.9</b>	<b>3.9</b>	<b>2.6</b>	<b>2.1</b>	<b>1.0</b>	<b>1.3</b>	<b>0.7</b>	<b>0.3</b>	<b>1.5</b>	<b>1.0</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.7</b>	<b>1.8</b>	<b>0.8</b>	<b>1.8</b>
Brazil	1.5	4.8	3.5	5.1	4.1	1.2	1.3	1.2	0.9	1.1	1.2	1.3	1.2	1.6	1.9	2.1	3.7	1.9	1.1	1.7
Mexico	1.5	1.8	1.7	2.2	1.1	2.5	1.7	1.0	0.5	-0.3	-0.2	0.2	0.6	0.9	0.9	0.8	1.8	1.6	0.1	0.8
Chile	3.5	1.0	3.2	1.9	5.3	3.9	5.2	-1.5	-6.4	-4.5	-6.4	-0.7	1.3	2.4	3.6	3.3	2.4	3.2	-4.6	2.6
Colombia	-3.6	-0.7	3.6	5.3	-1.3	3.5	-5.2	4.1	4.3	1.6	12.4	3.2	5.1	4.8	4.6	4.3	1.6	0.7	5.1	4.6
Argentina	1.7	2.8	2.8	-1.1	-4.3	-6.1	-2.8	0.5	0.7	1.3	-0.2	-0.9	-0.4	0.0	-0.1	0.2	1.5	-3.2	0.2	0.0

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. \*Euro area government spending does not include public investment. ^Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

## Trade

Exhibit 60: Export growth (%Y)

## Export Growth (%Y)

Export Growth (%Y)	Quarterly																Annual			
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global %Y*</b>	5.1	0.3	-0.1	1.2	2.6	3.7	3.4	3.8	3.2	2.3	1.8	1.6	1.7	2.0	2.1	2.3	1.6	3.4	2.2	2.0
<b>Global ex US %Y*</b>	4.5	-0.4	-0.2	1.0	2.7	3.7	3.0	4.1	3.3	2.0	2.1	1.7	1.8	2.3	2.5	2.9	1.2	3.4	2.3	2.4
<b>G10 %Y</b>	5.3	2.0	-0.6	0.4	1.1	2.3	2.7	1.6	2.0	1.4	0.9	0.9	0.6	0.7	0.9	1.1	1.7	1.9	1.3	0.8
US	6.8	2.4	0.2	2.0	2.0	3.5	4.6	3.0	3.0	3.1	1.1	1.3	1.2	0.8	0.7	0.7	2.8	3.3	2.1	0.9
Euro Area	2.8	0.0	-2.6	-2.5	-0.6	1.9	1.6	1.3	0.8	-0.6	0.8	1.0	0.6	0.8	1.1	1.4	-0.6	1.0	0.5	1.0
Japan	2.2	3.7	2.9	4.3	1.4	1.1	1.5	0.5	3.7	2.8	2.2	0.5	0.8	0.5	0.3	0.5	3.3	1.1	2.3	0.5
UK	10.2	3.2	-6.8	-6.3	0.7	-1.4	-0.4	-3.5	-0.3	-1.3	-1.7	0.2	-2.7	0.6	1.8	2.4	-0.4	-1.2	-0.8	0.5
Canada	8.1	4.4	2.6	4.8	2.0	-0.1	0.6	0.1	1.0	2.1	1.2	-0.8	-1.8	-0.7	1.1	2.1	5.0	0.7	0.9	0.2
Norway	3.7	0.0	-4.5	3.3	3.4	10.4	5.6	1.8	-0.4	-5.8	-2.0	-1.2	0.3	1.5	1.2	1.2	0.6	5.3	-2.4	1.0
Sweden	5.6	3.7	3.5	3.3	0.7	3.3	2.7	2.8	3.7	1.6	0.6	0.0	0.0	0.4	0.9	1.2	4.0	2.4	1.4	0.6
Australia	8.0	7.5	8.5	3.7	3.3	0.0	-1.2	1.7	2.7	1.4	1.5	1.1	0.1	1.2	1.4	1.6	6.9	0.9	1.7	1.1
<b>EM %Y</b>	4.8	-2.2	0.6	2.4	4.6	5.7	4.4	6.9	4.8	3.5	3.1	2.4	3.2	3.6	3.6	4.0	1.4	5.4	3.5	3.6
<b>EM ex China %Y</b>	4.8	-2.2	0.6	2.4	4.6	5.7	4.4	6.9	4.8	3.5	3.1	2.4	3.2	3.6	3.6	4.0	1.4	5.4	3.5	3.6
<b>AXJ %Y</b>	5.3	-4.7	1.7	3.5	6.8	7.7	4.9	8.4	4.7	2.8	2.6	2.1	3.4	4.2	4.3	4.8	1.5	6.9	3.1	4.2
China	-1.9	-4.9	-9.9	-1.3	1.5	5.7	5.9	9.9	5.8	4.0	-2.0	-7.0	-4.0	2.0	5.5	8.5	-4.7	5.9	0.0	3.5
India	9.4	-7.0	4.6	3.0	7.7	8.1	2.5	10.4	4.5	3.0	3.0	3.0	4.0	5.0	5.0	6.0	2.5	7.1	3.4	5.0
Hong Kong	-14.7	-10.7	-4.9	5.1	7.2	6.5	3.8	1.9	8.4	3.5	1.2	0.2	0.0	2.8	3.3	3.3	-6.5	4.7	3.2	2.3
Korea	-2.0	0.3	3.1	10.8	9.1	8.7	6.5	2.0	0.6	1.8	1.8	-0.1	4.2	3.7	4.2	3.3	3.1	6.6	1.0	3.8
Taiwan	-11.8	-7.7	-0.2	3.7	9.4	7.6	8.9	8.9	0.5	1.4	3.5	2.4	0.0	1.5	1.8	2.5	-4.0	8.7	2.0	1.5
Singapore	1.2	1.8	3.8	16.0	9.1	5.6	4.4	3.2	3.1	2.9	0.7	0.0	0.4	0.6	1.7	1.9	5.7	5.6	1.7	1.2
Indonesia	11.7	-2.8	-3.9	1.7	1.5	8.1	8.8	7.6	6.8	4.0	3.5	2.0	3.5	3.5	3.0	3.0	1.7	6.5	4.1	3.3
Malaysia	-2.9	-9.0	-12.0	-7.9	5.2	8.4	11.8	8.5	4.5	3.5	1.0	1.0	2.9	3.7	3.5	3.5	-8.0	8.5	2.5	3.4
Thailand	1.9	0.1	1.5	6.1	4.1	5.9	9.9	11.5	12.3	0.1	-1.6	-2.3	2.2	2.7	3.7	4.0	2.4	7.9	2.1	3.2
Philippines	0.8	4.5	2.7	-2.7	8.1	3.9	-1.3	3.2	6.2	3.6	3.8	3.9	4.3	5.8	6.1	6.5	1.3	3.5	4.4	5.7
<b>CEEMEA %Y</b>	4.1	1.1	-4.2	-2.0	-0.5	0.4	1.5	3.2	-0.4	1.4	5.4	4.7	3.8	3.1	2.2	1.6	-0.3	1.0	2.8	2.6
Poland	5.8	-0.4	5.3	4.1	3.2	6.0	-1.5	0.6	1.1	1.1	1.4	1.1	0.9	1.2	1.7	2.1	3.7	2.0	1.2	1.5
Czech Rep	7.2	4.0	-1.1	0.8	-1.1	1.2	6.1	1.5	1.4	1.4	-0.4	1.3	1.1	1.4	1.8	2.2	2.7	1.8	1.0	1.6
Hungary	6.7	2.4	0.6	-2.7	-4.2	-2.3	-2.1	-3.3	-1.8	-1.3	-1.1	1.4	1.2	1.4	1.9	2.3	1.7	-3.0	-0.7	1.7
Ukraine	-22.9	33.0	-12.2	-4.4	7.9	11.5	13.4	8.5	-6.5	-3.6	10.1	11.2	5.3	1.8	0.5	1.2	-5.4	10.3	2.6	2.2
Turkey	-3.4	-9.5	1.0	0.1	5.1	0.8	0.7	-2.0	-3.9	2.2	0.6	5.1	5.6	4.6	4.1	4.1	-2.8	0.9	1.1	4.3
South Africa	3.4	2.8	2.9	5.9	0.7	0.1	-5.1	-3.5	-2.4	-1.6	3.0	1.8	2.0	2.4	2.8	3.0	3.7	-2.0	0.3	2.6
Saudi Arabia	2.1	0.8	-19.0	-11.1	-2.0	-1.4	8.1	11.2	-1.5	2.9	13.9	11.8	8.9	6.3	2.4	-0.2	-7.0	3.7	6.6	4.1
Egypt	26.6	46.4	11.8	38.7	20.9	-26.9	-22.8	-7.1	13.8	39.8	54.8	13.1	8.5	7.4	7.4	7.8	31.4	-10.6	27.1	7.8
Israel	1.4	0.0	-0.4	-5.0	-6.4	-10.0	-4.4	1.2	1.7	4.6	3.3	1.1	2.2	2.2	2.7	3.2	-1.1	-4.9	2.6	2.6
<b>LatAm %Y</b>	3.8	3.2	0.2	1.6	1.3	2.4	4.8	4.7	8.4	7.0	3.3	2.1	1.9	2.1	2.6	3.0	2.2	3.3	5.2	2.4
Brazil	7.1	11.5	9.6	7.3	6.1	4.3	2.1	-0.7	6.4	4.8	2.2	2.0	2.2	2.4	2.5	2.9	8.9	3.0	3.9	2.5
Mexico	-0.5	-6.8	-13.1	-7.9	-6.4	-1.7	8.9	12.9	13.2	11.4	4.6	1.1	0.0	0.4	1.4	1.9	-7.2	3.4	7.6	0.9
Chile	3.6	-1.2	0.1	-0.6	2.4	6.6	8.3	7.7	9.0	8.2	5.5	7.5	2.7	2.5	2.3	2.2	0.5	6.2	7.5	2.4
Colombia	2.9	1.3	0.5	7.6	2.7	3.7	2.1	1.8	2.4	2.8	2.9	2.4	5.1	5.5	6.4	6.8	3.1	2.5	2.7	6.0
Argentina	-5.5	-11.6	-5.3	-7.4	26.4	19.5	20.1	27.1	9.5	13.3	10.4	2.9	2.9	2.8	2.7	2.6	-7.5	23.2	8.9	2.8

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP-weighted averages, using PPP weights. Estimates for China are nominal, and are excluded while calculating global, EM, and AxJ aggregates. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Egypt represents fiscal year from July 1 to June 30.

## Exhibit 61: Import growth (%Y)

## Import Growth (%Y)

Import Growth (%Y)	Quarterly												Annual							
	2023				2024				2025E				2026E				2023	2024	2025E	2026E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E
<b>Global %Y*</b>	1.1	1.2	-0.2	1.3	2.6	3.2	4.6	4.0	6.9	3.7	1.6	1.2	-0.7	0.5	1.7	2.1	0.8	3.6	3.3	0.9
<b>Global ex US %Y*</b>	1.8	2.7	0.0	1.4	2.5	2.4	3.7	3.5	4.7	2.7	2.2	1.9	2.2	2.7	3.1	3.2	1.4	3.0	2.8	2.8
<b>G10 %Y</b>	0.8	-1.6	-2.1	-0.5	0.7	3.0	4.4	3.4	7.7	3.9	0.7	0.4	-3.8	-2.1	-0.3	0.3	-0.9	2.9	3.2	-1.5
US	-1.3	-3.5	-1.0	1.2	2.9	5.6	7.1	5.5	13.4	6.9	0.0	-0.8	-9.4	-6.2	-2.6	-1.5	-1.2	5.3	4.8	-5.0
Euro Area	1.9	-0.1	-3.6	-3.1	-1.6	-0.4	1.7	1.5	2.2	1.4	1.0	1.1	1.0	1.2	1.6	2.0	-1.3	0.3	1.4	1.4
Japan	4.5	-1.4	-4.6	-1.6	-3.3	3.3	4.6	-0.4	6.4	4.2	2.3	4.1	1.2	1.1	1.1	1.0	-0.8	1.0	4.3	1.1
UK	-2.1	-1.5	-0.9	-0.5	-0.7	3.4	3.1	5.0	7.6	-1.2	1.9	-0.6	-2.0	1.6	1.8	1.8	-1.2	2.7	1.9	0.8
Canada	2.8	-1.6	-1.5	1.9	2.6	0.1	-0.5	0.3	1.3	1.9	1.8	-0.1	-1.9	-1.5	-0.6	0.5	0.4	0.6	1.2	-0.9
Norway	6.1	1.3	-4.8	-5.7	-0.7	1.3	9.0	6.7	4.3	0.2	-4.2	-3.6	-1.3	-0.2	1.1	0.9	-1.0	4.0	-0.9	0.1
Sweden	1.3	0.1	-2.9	-0.3	1.2	-0.2	3.6	2.1	1.4	1.8	0.3	1.2	1.1	1.2	1.0	0.8	-0.5	1.7	1.2	1.0
Australia	7.9	7.8	6.0	5.5	8.0	5.8	2.7	5.8	0.7	1.0	1.8	2.2	2.8	2.8	2.9	2.9	6.8	5.5	1.4	2.9
<b>EM %Y</b>	1.5	5.1	2.4	3.9	5.3	3.5	4.8	4.9	5.7	3.5	2.8	2.3	3.4	3.8	4.4	4.4	3.1	4.5	3.5	4.0
<b>EM ex China %Y</b>	1.5	5.1	2.4	3.9	5.3	3.5	4.8	4.9	5.7	3.5	2.8	2.3	3.4	3.8	4.4	4.4	3.1	4.5	3.5	4.0
<b>AXJ %Y</b>	-0.3	7.5	4.9	6.6	7.2	2.7	3.3	3.2	6.1	3.5	3.0	3.5	4.5	4.7	5.3	5.0	4.6	3.9	4.0	4.9
China	-7.3	-7.1	-8.5	0.9	1.6	2.5	2.2	-1.8	-7.0	-2.0	1.0	4.0	3.0	1.0	2.0	3.0	-5.5	1.1	-1.0	2.0
India	-1.8	18.0	14.3	11.3	11.4	-0.7	-2.5	-1.1	6.0	5.0	5.0	5.0	5.5	6.0	6.0	6.0	10.4	1.4	5.2	5.9
Hong Kong	-11.2	-12.1	-2.7	6.1	5.2	4.4	3.6	1.4	7.2	3.1	0.8	0.4	0.9	2.7	2.8	3.0	-5.2	3.5	2.8	2.4
Korea	5.9	2.8	-0.3	4.0	-0.4	2.7	4.3	2.1	1.2	1.8	1.7	-0.9	4.2	6.2	8.7	5.8	3.1	2.2	0.9	6.2
Taiwan	-4.3	-9.6	-2.6	-5.1	1.9	11.5	13.9	18.3	23.7	8.8	6.8	5.5	13.0	6.7	7.8	5.7	-5.4	11.4	11.2	8.3
Singapore	1.2	-0.2	3.3	16.8	11.3	8.2	4.2	3.8	1.6	1.7	0.8	0.0	0.7	0.8	1.9	1.9	5.3	6.9	1.0	1.3
Indonesia	4.1	-3.2	-6.8	0.1	1.5	7.8	11.9	10.4	4.0	-2.0	-2.5	2.5	-0.5	1.0	1.5	2.0	-1.5	7.9	0.5	1.0
Malaysia	-6.7	-8.8	-11.3	-2.6	8.0	8.7	13.5	5.7	6.4	3.1	2.9	3.5	3.5	3.5	3.2	3.4	-7.4	9.0	4.0	3.4
Thailand	-0.5	-3.3	-9.8	4.5	5.7	1.1	10.3	8.2	2.1	2.4	-1.8	-0.8	2.6	1.5	3.8	3.2	-2.3	6.3	0.5	2.8
Philippines	4.3	-0.4	-1.5	2.1	2.2	5.3	6.5	2.7	9.9	5.0	4.2	4.3	5.3	3.8	5.5	5.7	1.1	4.2	5.9	5.1
<b>CEEMEA %Y</b>	7.7	0.0	2.5	0.0	-2.3	1.2	2.1	3.7	4.9	3.5	3.3	1.3	2.5	3.1	3.8	4.4	2.3	1.1	3.1	3.5
Poland	-0.2	-3.4	-2.0	-0.3	2.7	7.1	4.4	2.9	2.3	0.9	1.4	2.2	1.9	1.6	1.7	1.9	-1.5	4.2	1.7	1.8
Czech Rep	3.9	0.2	-2.5	-4.8	-3.6	-0.9	5.1	3.3	3.2	3.0	-0.1	2.3	2.0	2.0	2.2	2.3	-0.9	0.9	2.1	2.1
Hungary	4.0	-3.8	-6.0	-7.4	-8.4	-3.2	-0.8	-3.1	-1.0	-0.1	-1.0	2.6	3.2	3.1	3.0	3.0	-3.4	-4.0	0.1	3.1
Ukraine	14.4	32.5	6.9	-7.8	-1.2	16.4	7.9	8.9	0.1	-10.1	11.3	24.1	7.1	0.4	0.2	1.1	8.9	7.7	6.8	2.1
Turkey	13.6	19.7	14.5	2.8	-3.2	-5.9	-9.6	1.6	5.8	5.5	7.2	2.1	1.9	2.5	3.3	4.4	11.8	-4.1	4.9	3.2
South Africa	9.0	7.4	-2.3	2.4	-7.0	-8.6	-4.0	-5.6	-0.3	-1.8	2.9	0.9	0.9	1.5	2.0	2.6	3.9	-6.3	0.4	1.8
Saudi Arabia	18.6	1.9	14.2	5.8	-1.8	3.9	3.6	7.4	11.0	7.3	5.9	-1.0	2.8	4.6	6.4	8.0	9.7	3.3	5.6	5.5
Egypt	1.0	-2.2	-4.4	9.5	-3.0	8.4	6.9	5.2	33.6	19.8	27.7	7.5	8.2	8.2	7.2	6.2	1.1	4.7	20.8	7.4
Israel	-2.4	-6.6	-6.2	-14.7	-6.8	-6.6	-1.6	14.8	6.5	10.3	7.5	5.1	5.5	6.1	6.5	6.3	-7.5	-0.4	7.3	6.1
<b>LatAm %Y</b>	2.7	0.9	-5.5	-2.0	4.0	7.9	11.3	11.1	4.7	3.2	1.8	-0.9	0.2	1.4	1.9	2.4	-1.1	8.6	2.2	1.4
Brazil	1.7	1.1	-5.8	-0.9	10.0	14.7	17.7	16.0	3.9	2.5	1.7	-2.0	-0.1	1.5	1.7	2.2	-1.0	14.6	1.5	1.3
Mexico	9.5	6.2	-0.4	0.2	0.0	1.6	3.9	5.1	2.4	1.4	-0.8	-2.6	-1.6	-0.5	0.7	1.8	3.7	2.7	0.1	0.1
Chile	-16.4	-11.1	-8.0	-6.3	1.3	-2.8	1.3	8.2	9.3	10.5	9.1	4.0	3.2	2.8	2.6	2.4	-10.6	1.9	8.2	2.8
Colombia	-2.1	-8.4	-18.1	-10.0	-7.6	4.1	11.8	9.8	11.9	7.3	5.7	5.2	4.8	5.1	5.3	5.3	-9.9	4.4	7.4	5.1
Argentina	3.6	2.8	2.2	-1.8	-15.5	-22.4	-11.8	9.7	24.5	33.2	26.1	13.1	10.4	8.4	5.3	4.6	1.7	-10.6	23.7	7.1

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. Estimates for China are nominal, and are excluded while calculating global, EM, and AxJ aggregates. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Egypt represents fiscal year from July 1 to June 30.

## Labor force

**Exhibit 62:** Unemployment rate and labor force participation rates (% of labor force)

	Unemployment Rate (% of Labor Force)																Annual			
	Quarterly																2023	2024	2025E	2026E
	2023				2024				2025E				2026E							
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E	
US	3.5	3.5	3.7	3.8	3.8	4.0	4.2	4.1	4.1	4.2	4.2	4.3	4.5	4.6	4.7	4.8	3.6	4.0	4.2	4.7
Euro Area	6.6	6.5	6.6	6.5	6.5	6.4	6.3	6.2	6.2	6.3	6.4	6.4	6.5	6.5	6.6	6.6	6.6	6.4	6.3	6.5
Japan	2.6	2.5	2.6	2.5	2.6	2.6	2.5	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.6	2.5	2.5	2.7
UK	4.0	4.2	4.1	3.9	4.3	4.2	4.3	4.4	4.5	4.7	5.0	5.1	5.2	5.1	5.1	5.1	4.0	4.3	4.8	5.1
Canada	5.1	5.2	5.5	5.7	5.9	6.3	6.5	6.7	6.6	6.8	6.9	7.0	7.2	7.1	6.9	6.8	5.4	6.4	6.8	7.0
Norway	3.7	3.3	3.6	3.8	4.0	4.1	3.9	4.0	4.0	4.1	4.0	4.0	4.0	4.1	4.1	4.0	3.6	4.0	4.0	4.0
Sweden	7.3	7.5	7.8	8.1	8.2	8.3	8.5	8.4	8.9	8.7	8.5	8.3	8.2	8.1	8.1	8.0	7.7	8.4	8.6	8.1
Australia	3.6	3.6	3.7	3.9	3.9	4.1	4.1	4.0	4.1	4.2	4.2	4.3	4.3	4.4	4.4	4.4	3.7	4.0	4.2	4.4

	Labor Force Participation Rate (% of Labor Force)																Annual			
	Quarterly																2023	2024	2025E	2026E
	2023				2024				2025E				2026E							
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E	
US	62.5	62.6	62.7	62.7	62.6	62.6	62.7	62.5	62.5	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6
Euro Area*	74.8	75.0	75.0	75.2	75.4	75.4	75.4	75.3	75.4	75.4	75.5	75.5	75.6	75.6	75.7	75.7	75.0	75.4	75.4	75.6
Japan^	62.8	62.9	62.8	63.0	64.0	65.0	66.0	67.0	68.0	68.1	68.2	68.3	68.4	68.5	68.6	68.7	62.9	65.5	68.2	68.6
UK	63.3	63.4	63.1	62.8	62.8	62.9	63.3	63.3	63.5	63.2	63.1	62.9	62.9	62.9	62.8	62.8	63.1	63.1	63.2	62.8
Canada	65.8	65.8	65.8	65.8	65.6	65.6	65.3	65.3	65.4	65.3	65.3	65.3	65.3	65.3	65.4	65.5	65.8	65.5	65.3	65.4
Norway	72.6	72.7	72.9	72.8	72.6	72.6	72.6	72.8	72.7	72.7	72.7	72.7	72.7	72.6	72.6	72.6	72.8	72.6	72.6	72.6
Sweden	75.1	75.1	75.3	75.4	75.3	75.4	75.3	75.0	75.6	75.5	75.3	75.2	75.2	75.2	75.3	75.3	75.2	75.2	75.4	75.2
Australia	66.5	66.7	66.6	66.8	66.5	66.7	67.0	67.0	66.9	67.0	67.0	67.1	67.0	66.9	66.8	66.7	66.6	66.8	67.0	66.9

Source: Haver Analytics, Morgan Stanley Research forecasts; Note: \*Participation rate for ages 15-64, ^SA rate for ages 15 and over.

# Alternative Scenarios

Our baseline is subject to all the standard uncertainty that forecasting brings. A key question to ask is "how could we be wrong?" and "what would that look like?" Alternative paths differ across growth, inflation, and monetary policy, and therefore have different implications across asset classes, but given the locus of the current shock, both alternatives focus on the US: 1) US upside; and 2) US recession.

## Scenario 1 – US upside

**In this scenario, negotiations with trading partners and lobbying by the domestic corporate sector virtually eliminate tariffs. Policy uncertainty cannot be eliminated, but markets come to believe that the current tariffs represent a ceiling and not a floor. Clarity on trade policy is accompanied by increased pathways for legal immigration to replace undocumented migration flows. Furthermore, the budget reconciliation bill making its way through Congress lands more firmly on the side of deficit expansion and a greater fiscal contribution to growth in 2026. Stronger US growth and the decline in trade uncertainty have positive spillover effects on other regions.**

The combined effect of these policies raises our US growth forecast by 0.5pp compared to the baseline for 2025. Trade restrictions still weigh on growth and spending, but to a smaller degree. Monthly job gains are higher and the unemployment rate is a bit lower. Lower tariffs lead to a more muted inflationary impulse. The Fed remains on hold in 2025 and undertakes a very shallow easing cycle of 75bp as inflation drifts down.

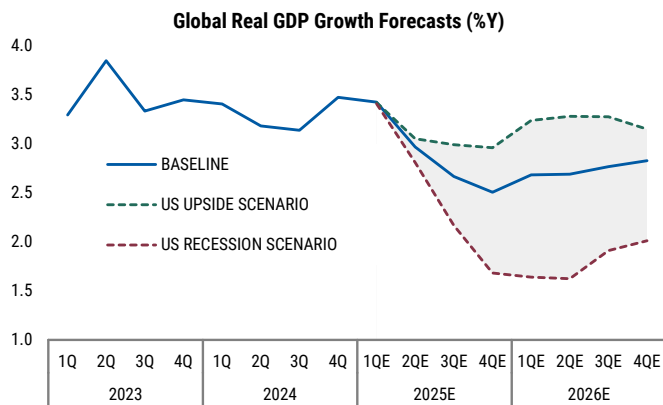
In the euro area, the rise in exports and business investment lifts growth to slightly above potential. Activity remains robust and inflation converges to the target. The ECB only lowers the policy rate to 2.00% by June 2025 and then remains on pause.

In China, the tariff-induced policy shock has a more muted adverse effect on growth, approximately two-thirds of its magnitude than in the baseline. In this scenario, domestic policy support could fully offset the tariff shock in 2H, and we forecast that real GDP growth will be approximately 50bp higher than in the baseline on a 4Q/4Q basis.

In Japan, the faster exports lead to stronger corporate earnings, resulting in a higher base pay increase in the 2026 spring wage negotiations. Better consumer sentiment supports private consumption, while inbound tourists' consumption picks up.

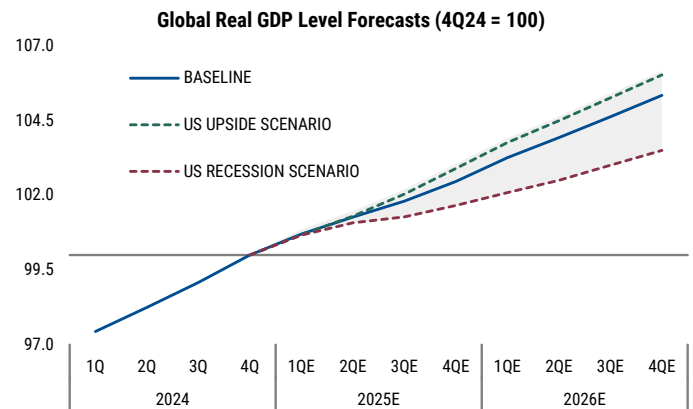
Mexico's economy is in a better place with lower trade uncertainty and a stronger US economy. By 2H25, domestic demand recovers and there is a smaller drag from investment. Real GDP growth in 2025 is close to 1pp higher than the baseline.

**Exhibit 63:** Growth forecasts are skewed to the downside, even with de-escalation in our baseline...



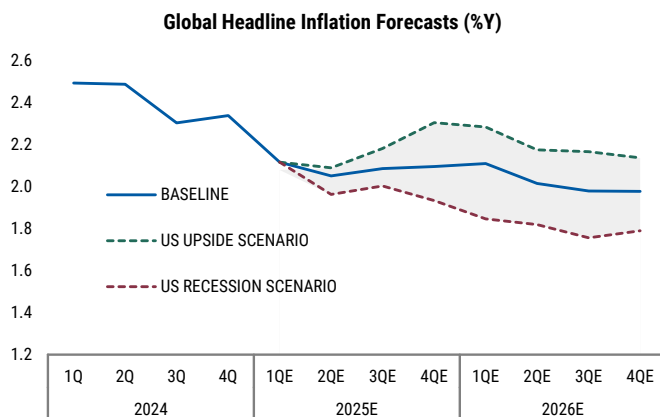
Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Ukraine, Egypt, Turkey, and Argentina are excluded from global aggregates.

**Exhibit 64:** ...and escalation would have long-lasting effects



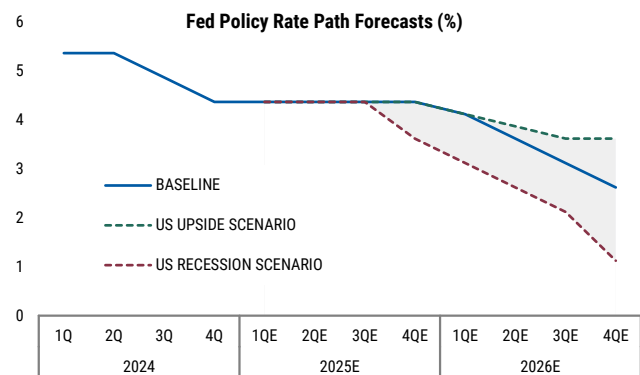
Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Ukraine, Egypt, Turkey and Argentina, are excluded from global aggregates.

**Exhibit 65:** In the upside scenario, the Fed undertakes only a shallow easing cycle given a lower inflationary impulse



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Ukraine, Egypt, Turkey and Argentina are excluded from global aggregates.

**Exhibit 66:** The Fed will likely ease policy under all scenarios, but notably more in recession



Source: Federal Reserve, Morgan Stanley Research forecasts

## Scenario 2 – US recession

**In this scenario, the US administration returns to reciprocal tariffs – a 23% effective tariff rate. We further assume that the budget process leads to federal spending cuts. This 'double whammy' means that the US economy enters a deep recession, and this weakness spills over to the rest of the world.**

In the US, there is a significant economic slowdown: real consumer spending stalls in 2Q25 – by 4Q/4Q 2025, it declines by 0.9%. An equity bear market pushes up precautionary savings among upper-income consumers; business investment declines throughout 2H25 and 2026. Real GDP growth falls the most rapidly in 2H25 but continues to decline through most of 2026 – a 2pp decline in total. Starting in 4Q25, the economy experiences five straight quarters of payroll declines and the unemployment rate rises to 6.5% by end-2026. With slower growth and fiscal spending cuts, the disinflationary process is accelerated, and the Fed undertakes a total of 325bp of easing in this scenario.

In the euro area, higher tariffs and slower growth in the US weigh on exports and business investment, lowering GDP growth to close to 0.5%Y until mid-2026.

In China, a supply-centric policy response to a global trade recession exacerbates excess capacity and thus leads to deeper deflation, with real GDP growth falling below 4%Y in 2026.

In Japan, tighter financial conditions followed by a sharp decline in exports lead to a slowdown in domestic demand, with Japan entering a shallow recession with a lag. However, the structural shortage of labor and fiscal stimulus measures would prevent a deep recession.

Mexico's slowdown would be deepened by a US recession. Demand weakens across the board, led by plunging investment. Consumption and exports fall, while government spending fails to cushion the blow.

# Forecasts: Baseline and Alternative Scenarios

Exhibit 67: Real GDP growth rates (%Y) across alternative scenarios

## Global Scenarios: GDP (YoY)

GDP (YoY)	Baseline				Scenario 1: US Upside			Scenario 2: US Recession		
	2024	2025E	2026E	2027-29E	2024	2025E	2026E	2024	2025E	2026E
<b>Global</b>	<b>3.3</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>2.5</b>	<b>1.8</b>
<b>Global ex US</b>	<b>3.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.4</b>	<b>2.9</b>	<b>2.6</b>
<b>G10</b>	<b>1.7</b>	<b>1.3</b>	<b>1.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>0.8</b>	<b>-0.5</b>
US	2.8	1.5	1.0	1.9	2.8	1.8	1.8	2.8	0.8	-1.5
Euro Area	0.8	1.0	0.9	1.0	0.8	1.2	1.4	0.8	0.8	0.4
Japan	0.2	1.0	0.5	0.8	0.2	1.2	1.3	0.2	0.6	-0.2
UK	1.1	0.8	1.3	1.5	1.1	1.2	1.7	1.1	0.5	0.1
Canada	1.6	1.4	0.5	1.9	1.6	1.7	1.8	1.6	0.7	-1.8
Norway	0.6	1.3	1.5	1.6	0.6	1.4	1.8	0.6	1.2	0.7
Sweden	1.0	1.2	1.5	1.9	1.0	1.3	1.7	1.0	1.1	0.4
Australia	1.0	2.0	2.0	2.5	1.0	2.3	2.0	1.0	1.9	1.3
<b>EM</b>	<b>4.6</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>4.6</b>	<b>4.3</b>	<b>4.4</b>	<b>4.6</b>	<b>3.8</b>	<b>3.6</b>
<b>EM ex China</b>	<b>4.3</b>	<b>3.8</b>	<b>4.0</b>	<b>4.3</b>	<b>4.3</b>	<b>4.0</b>	<b>4.4</b>	<b>4.3</b>	<b>3.4</b>	<b>3.5</b>
<b>AXJ</b>	<b>5.2</b>	<b>4.6</b>	<b>4.6</b>	<b>4.4</b>	<b>5.2</b>	<b>4.8</b>	<b>4.9</b>	<b>5.2</b>	<b>4.3</b>	<b>4.0</b>
China	5.0	4.5	4.2	3.7	5.0	4.7	4.5	5.0	4.2	3.6
India	6.7	6.2	6.4	6.5	6.7	6.4	6.9	6.7	6.0	5.9
Hong Kong	2.5	2.1	2.2	2.0	2.5	2.3	2.3	2.5	1.9	1.8
Korea	2.0	1.1	1.5	1.8	2.0	1.3	1.8	2.0	0.5	1.0
Taiwan	4.7	2.6	2.9	3.3	4.7	3.5	3.7	4.7	1.7	2.2
Singapore	4.4	1.4	1.5	3.0	4.4	2.0	2.1	4.4	0.8	0.6
Indonesia	5.0	4.8	4.9	5.0	5.0	4.8	5.1	5.0	4.7	4.9
Malaysia	5.1	3.8	4.0	4.0	5.1	3.9	4.2	5.1	3.6	3.8
Thailand	2.6	1.9	1.9	2.0	2.6	1.9	2.2	2.6	1.6	1.6
Philippines	5.7	5.2	5.3	5.0	5.7	5.3	5.4	5.7	4.9	5.2
<b>CEEMEA</b>	<b>1.7</b>	<b>2.5</b>	<b>2.4</b>	<b>3.2</b>	<b>1.7</b>	<b>2.9</b>	<b>3.0</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>
Poland	2.9	3.0	2.3	3.5	2.9	2.9	2.5	2.9	2.6	1.7
Czech Rep	1.0	1.5	1.2	2.0	1.0	1.8	1.9	1.0	1.5	0.8
Hungary	0.5	0.8	2.2	3.5	0.5	1.0	2.9	0.5	0.6	1.7
Ukraine	2.9	1.6	5.2	5.5	2.9	2.3	6.7	2.9	0.5	2.1
Turkey	3.2	2.8	4.0	4.0	3.2	3.3	4.5	3.2	2.2	2.9
South Africa	0.6	1.2	1.7	1.7	0.6	2.0	2.2	0.6	0.7	0.9
Saudi Arabia	1.8	3.0	3.0	3.7	1.8	3.6	3.8	1.8	2.1	1.8
Egypt	2.4	4.0	4.6	5.0	2.4	4.2	5.1	2.4	3.8	3.9
Israel	0.7	3.2	3.6	3.7	0.7	3.8	4.4	0.7	2.8	2.9
<b>LatAm</b>	<b>2.5</b>	<b>1.5</b>	<b>1.8</b>	<b>2.2</b>	<b>2.5</b>	<b>1.7</b>	<b>2.0</b>	<b>2.5</b>	<b>1.2</b>	<b>1.3</b>
Brazil	3.4	2.3	2.0	2.2	3.4	2.3	2.0	3.4	2.2	1.7
Mexico	1.5	0.0	1.0	2.0	1.5	0.5	1.5	1.5	-0.8	0.3
Chile	2.4	2.1	1.8	1.8	2.4	2.3	2.6	2.4	1.9	1.1
Colombia	1.6	2.2	2.9	3.0	1.6	2.5	3.2	1.6	2.1	2.3
Argentina	-1.7	4.6	3.1	2.0	-1.7	5.4	3.7	-1.7	2.7	0.5

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights. \*Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 68: Headline CPI inflation (%Y) across alternative scenarios

## Global Scenarios: CPI (YoY)

CPI (YoY)	Baseline				Scenario 1: US Upside			Scenario 2: US Recession		
	2024	2025E	2026E	2027-29E	2024	2025E	2026E	2024	2025E	2026E
<b>Global</b>	<b>2.4</b>	<b>2.1</b>	<b>2.0</b>	<b>2.3</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>
<b>Global ex US</b>	<b>2.3</b>	<b>1.9</b>	<b>1.9</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.3</b>	<b>1.7</b>	<b>1.5</b>
<b>G10</b>	<b>2.7</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.3</b>	<b>2.7</b>	<b>2.6</b>	<b>2.0</b>
US	3.0	2.9	2.7	2.0	3.0	2.7	2.6	3.0	3.2	2.9
Euro Area	2.4	2.0	1.7	1.9	2.4	2.2	1.9	2.4	1.9	1.3
Japan	2.7	2.8	1.4	1.8	2.7	2.9	1.8	2.7	2.6	0.8
UK	2.5	3.0	1.8	2.0	2.5	3.1	2.2	2.5	2.9	1.5
Canada	2.4	2.0	2.1	2.0	2.4	2.1	2.2	2.4	1.8	1.6
Norway	3.1	2.8	2.1	2.0	3.1	2.9	2.4	3.1	2.6	1.7
Sweden	2.9	0.5	1.4	1.9	2.9	0.7	1.8	2.9	0.4	1.1
Australia	3.2	2.5	3.2	2.5	3.2	2.6	3.3	3.2	2.2	2.6
<b>EM</b>	<b>2.2</b>	<b>1.8</b>	<b>1.9</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>1.6</b>	<b>1.6</b>
<b>EM ex China</b>	<b>3.7</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.0</b>	<b>2.9</b>
<b>AXJ</b>	<b>1.7</b>	<b>1.2</b>	<b>1.6</b>	<b>2.3</b>	<b>1.7</b>	<b>1.4</b>	<b>1.8</b>	<b>1.7</b>	<b>1.1</b>	<b>1.3</b>
China	0.2	0.0	0.3	1.5	0.2	0.2	0.5	0.2	-0.2	0.0
India	4.9	3.8	4.2	4.0	4.9	4.0	4.5	4.9	3.6	3.9
Hong Kong	1.7	1.3	1.2	1.5	1.7	1.4	1.3	1.7	1.1	0.8
Korea	2.3	1.9	1.9	1.9	2.3	2.1	2.0	2.3	1.9	1.6
Taiwan	2.3	1.9	1.7	2.0	2.3	1.9	1.9	2.3	1.7	1.5
Singapore	2.4	0.9	1.3	2.0	2.4	0.9	1.4	2.4	0.9	0.9
Indonesia	2.3	1.9	2.4	3.0	2.3	1.9	2.5	2.3	1.9	2.1
Malaysia	1.8	1.6	1.8	2.5	1.8	1.5	1.9	1.8	1.5	1.7
Thailand	0.4	0.2	0.6	1.5	0.4	0.3	1.0	0.4	0.0	0.5
Philippines	3.2	1.9	2.9	3.0	3.2	1.9	3.0	3.2	1.8	2.6
<b>CEEMEA</b>	<b>3.0</b>	<b>3.0</b>	<b>2.4</b>	<b>2.6</b>	<b>3.0</b>	<b>3.2</b>	<b>2.9</b>	<b>3.0</b>	<b>2.8</b>	<b>2.3</b>
Poland	3.7	3.7	2.2	2.5	3.7	3.9	2.8	3.7	3.5	2.0
Czech Rep	2.4	2.2	1.8	2.0	2.4	2.5	2.2	2.4	2.0	1.5
Hungary	3.7	4.1	3.1	3.0	3.7	4.4	3.4	3.7	4.0	2.7
Ukraine	6.5	12.8	6.9	6.0	6.5	13.2	8.0	6.5	12.2	5.5
Turkey	58.5	34.4	22.0	12.0	58.5	35.4	24.8	58.5	34.8	21.5
South Africa	4.4	3.2	4.1	4.3	4.4	3.2	4.6	4.4	3.0	3.5
Saudi Arabia	1.7	2.1	1.7	2.0	1.7	2.5	2.3	1.7	1.9	2.1
Egypt	33.3	20.3	13.5	7.0	33.3	20.3	14.2	33.3	20.2	12.1
Israel	2.9	3.2	2.6	2.5	2.9	3.5	2.9	2.9	2.9	2.2
<b>LatAm</b>	<b>4.7</b>	<b>4.6</b>	<b>4.1</b>	<b>3.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.2</b>	<b>4.7</b>	<b>4.5</b>	<b>3.8</b>
Brazil	4.4	5.5	4.7	4.0	4.4	5.5	4.9	4.4	5.4	4.5
Mexico	4.7	3.4	3.7	3.7	4.7	3.6	3.6	4.7	3.4	3.1
Chile	3.9	4.4	2.9	3.0	3.9	4.5	3.1	3.9	4.2	2.7
Colombia	6.6	4.8	3.3	3.0	6.6	4.6	4.0	6.6	4.3	3.8
Argentina	219.9	42.6	23.6	10.0	219.9	42.6	18.6	219.9	49.3	36.3

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI numbers are period averages. ^Japan headline inflation includes VAT and free education impact. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 69: Real GDP growth rates (4Q/4Q) across alternative scenarios

## Global Scenarios: GDP (4Q/4Q)

GDP (4Q/4Q)	Baseline			Scenario 1: US Upside			Scenario 2: US Recession		
	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
<b>Global</b>	<b>3.5</b>	<b>2.5</b>	<b>2.8</b>	<b>3.5</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>	<b>1.7</b>	<b>2.0</b>
<b>Global ex US</b>	<b>3.7</b>	<b>2.9</b>	<b>3.2</b>	<b>3.7</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>2.3</b>	<b>2.7</b>
<b>G10</b>	<b>1.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.8</b>	<b>1.3</b>	<b>1.7</b>	<b>1.8</b>	<b>-0.3</b>	<b>-0.1</b>
US	2.5	1.0	1.0	2.5	1.5	1.8	2.5	-0.9	-0.9
Euro Area	1.2	0.8	1.0	1.2	1.2	1.5	1.2	0.4	0.6
Japan	1.3	0.3	0.6	1.3	0.7	1.1	1.3	-0.1	-0.1
UK	1.5	0.7	1.7	1.5	1.4	1.8	1.5	-0.2	0.9
Canada	2.4	0.6	0.8	2.4	1.4	1.9	2.4	-1.0	-1.1
Norway	0.5	1.7	1.8	0.5	1.9	2.1	0.5	1.3	0.7
Sweden	2.3	0.6	2.0	2.3	0.8	2.3	2.3	0.3	0.5
Australia	1.3	2.1	2.1	1.3	2.5	2.0	1.3	1.7	1.6
<b>EM</b>	<b>4.8</b>	<b>3.8</b>	<b>4.2</b>	<b>4.8</b>	<b>4.2</b>	<b>4.3</b>	<b>4.8</b>	<b>3.2</b>	<b>3.6</b>
<b>EM ex China</b>	<b>4.2</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>	<b>3.9</b>	<b>4.4</b>	<b>4.2</b>	<b>2.9</b>	<b>3.8</b>
<b>AXJ</b>	<b>5.2</b>	<b>4.2</b>	<b>4.6</b>	<b>5.2</b>	<b>4.7</b>	<b>4.7</b>	<b>5.2</b>	<b>3.7</b>	<b>4.0</b>
China	5.4	4.0	4.2	5.4	4.5	4.0	5.4	3.5	3.4
India	6.2	5.9	6.4	6.2	6.3	6.9	6.2	5.6	5.9
Hong Kong	2.5	1.2	3.8	2.5	1.5	4.0	2.5	0.9	3.4
Korea	1.2	1.8	2.5	1.2	2.2	2.2	1.2	0.5	0.8
Taiwan	2.9	2.8	2.5	2.9	3.0	2.5	2.9	-0.1	2.5
Singapore	5.0	-0.7	2.1	5.0	0.5	2.5	5.0	-2.0	1.2
Indonesia	5.0	4.7	5.0	5.0	4.8	5.2	5.0	4.5	5.0
Malaysia	5.0	3.5	4.4	5.0	3.6	4.5	5.0	3.0	4.4
Thailand	3.3	1.5	2.0	3.3	1.7	2.5	3.3	1.0	2.0
Philippines	5.3	5.0	5.5	5.3	5.0	5.5	5.3	4.5	5.5
<b>CEEMEA</b>	<b>3.5</b>	<b>2.3</b>	<b>2.4</b>	<b>3.5</b>	<b>3.1</b>	<b>2.8</b>	<b>3.5</b>	<b>1.3</b>	<b>2.0</b>
Poland	4.1	2.3	2.2	4.1	2.4	2.5	4.1	1.8	1.7
Czech Rep	1.8	0.9	1.8	1.8	1.3	2.5	1.8	0.5	1.5
Hungary	0.4	1.3	2.2	0.4	1.7	2.9	0.4	0.8	1.7
Ukraine	-0.1	5.9	4.7	-0.1	7.2	5.8	-0.1	3.9	1.5
Turkey	3.0	2.6	4.7	3.0	3.5	4.7	3.0	1.4	4.3
South Africa	0.9	1.2	1.6	0.9	2.7	1.5	0.9	0.2	1.0
Saudi Arabia	4.4	3.2	2.9	4.4	4.4	3.3	4.4	1.3	2.6
Egypt	2.4	4.1	5.3	2.4	4.7	5.0	2.4	3.7	4.5
Israel	7.2	3.8	3.7	7.2	4.5	4.2	7.2	2.6	3.4
<b>LatAm</b>	<b>2.4</b>	<b>1.3</b>	<b>2.1</b>	<b>2.4</b>	<b>1.5</b>	<b>2.3</b>	<b>2.4</b>	<b>0.4</b>	<b>1.9</b>
Brazil	3.6	2.1	2.2	3.6	1.7	2.4	3.6	1.3	2.3
Mexico	0.6	0.0	1.6	0.6	1.0	1.6	0.6	-1.3	1.4
Chile	3.1	1.9	1.8	3.1	2.2	2.8	3.1	1.4	1.1
Colombia	2.5	1.5	3.1	2.5	1.7	3.4	2.5	1.2	2.5
Argentina	2.1	3.2	3.0	2.1	3.7	4.4	2.1	-0.8	2.8

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights. \*Annual values are 4Q/4Q. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm GDP aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 70: Headline CPI inflation (4Q/4Q) across alternative scenarios

## Global Scenarios: CPI (4Q/4Q)

CPI (4Q/4Q)	Baseline			Scenario 1: US Upside			Scenario 2: US Recession		
	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
<b>Global</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>1.9</b>	<b>1.8</b>
<b>Global ex US</b>	<b>2.3</b>	<b>1.9</b>	<b>1.9</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>2.3</b>	<b>1.5</b>	<b>1.7</b>
<b>G10</b>	<b>2.5</b>	<b>2.4</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>1.7</b>
US	2.7	3.0	2.5	2.7	2.8	2.6	2.7	3.7	2.0
Euro Area	2.2	1.8	1.8	2.2	2.1	2.0	2.2	1.5	1.5
Japan	2.9	1.7	1.7	2.9	2.1	2.2	2.9	1.2	1.2
UK	2.5	2.6	1.8	2.5	2.9	2.1	2.5	2.4	1.5
Canada	1.9	2.0	2.0	1.9	2.1	2.3	1.9	1.4	1.9
Norway	2.4	2.7	2.1	2.4	3.0	2.4	2.4	2.4	1.8
Sweden	1.3	0.3	1.8	1.3	0.5	2.1	1.3	0.0	1.4
Australia	2.4	2.9	3.1	2.4	3.2	3.0	2.4	2.2	2.9
<b>EM</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>2.2</b>	<b>1.5</b>	<b>1.8</b>
<b>EM ex China</b>	<b>3.8</b>	<b>3.1</b>	<b>2.9</b>	<b>3.8</b>	<b>3.3</b>	<b>3.3</b>	<b>3.8</b>	<b>2.9</b>	<b>2.8</b>
<b>AXJ</b>	<b>1.8</b>	<b>1.4</b>	<b>1.5</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.1</b>	<b>1.5</b>
China	0.2	0.3	0.5	0.2	0.7	0.4	0.2	-0.3	0.6
India	5.6	3.6	3.6	5.6	3.9	4.1	5.6	3.5	3.6
Hong Kong	1.4	1.3	1.3	1.4	1.5	1.4	1.4	0.7	1.1
Korea	1.4	1.9	1.9	1.4	2.2	2.1	1.4	1.8	1.4
Taiwan	2.3	1.6	1.8	2.3	1.9	2.1	2.3	1.5	1.4
Singapore	1.4	0.9	1.3	1.4	0.9	1.5	1.4	0.8	1.0
Indonesia	1.6	2.6	2.3	1.6	2.6	2.5	1.6	2.6	2.0
Malaysia	1.8	2.1	1.8	1.8	2.1	2.0	1.8	1.8	1.8
Thailand	1.0	0.2	0.9	1.0	0.3	1.5	1.0	0.0	0.9
Philippines	2.6	2.1	3.0	2.6	2.1	3.2	2.6	2.0	2.8
<b>CEEMEA</b>	<b>3.2</b>	<b>2.7</b>	<b>2.3</b>	<b>3.2</b>	<b>3.1</b>	<b>2.7</b>	<b>3.2</b>	<b>2.3</b>	<b>2.4</b>
Poland	4.8	2.7	2.1	4.8	3.1	2.8	4.8	2.4	2.0
Czech Rep	2.9	1.9	1.8	2.9	2.3	2.1	2.9	1.6	1.5
Hungary	3.8	3.4	3.0	3.8	3.8	3.2	3.8	3.1	2.6
Ukraine	11.0	10.0	5.8	11.0	11.1	6.3	11.0	8.5	5.2
Turkey	46.6	29.8	18.3	46.6	31.2	22.0	46.6	30.1	17.2
South Africa	2.9	3.8	4.0	2.9	4.0	4.5	2.9	3.6	3.4
Saudi Arabia	1.9	2.1	1.6	1.9	2.7	1.9	1.9	1.7	2.3
Egypt	29.4	14.6	12.4	29.4	14.6	13.4	29.4	14.6	10.4
Israel	3.2	2.9	2.3	3.2	3.5	2.8	3.2	2.1	2.7
<b>LatAm</b>	<b>4.7</b>	<b>4.7</b>	<b>3.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4.0</b>	<b>4.7</b>	<b>4.4</b>	<b>3.6</b>
Brazil	4.8	5.6	4.3	4.8	5.7	4.5	4.8	5.3	4.0
Mexico	4.5	3.4	3.9	4.5	3.7	3.7	4.5	3.3	3.2
Chile	4.5	3.9	2.8	4.5	4.0	2.9	4.5	3.6	2.6
Colombia	5.3	5.0	3.1	5.3	4.4	3.6	5.3	3.9	3.7
Argentina	158.9	32.2	18.4	158.9	26.7	14.6	158.9	42.6	27.6

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI numbers are period averages. ^Japan headline inflation includes VAT and free education impact. Turkey, Egypt, Ukraine, and Argentina are excluded when calculating global, EM, CEEMEA, and LatAm aggregates. Egypt represents fiscal year from July 1 to June 30.

Exhibit 71: Monetary policy (EOP, %) across scenarios

## Global Scenarios: Policy Rate (End of Period, %)

	Baseline				Scenario 1: US Upside			Scenario 2: US Recession		
	2024	2025E	2026E	2027-29E	2024	2025E	2026E	2024	2025E	2026E
<b>G10</b>										
US	4.375	4.375	2.625	2.875	4.375	4.375	3.625	4.375	3.625	1.125
Euro Area*	3.00	1.50	1.50	1.50	3.00	2.00	2.00	3.00	1.00	1.00
Japan**	0.25	0.50	0.50	1.50	0.25	0.75	1.25	0.25	0.50	0.10
UK	4.75	3.25	2.75	2.75	4.75	3.75	3.25	4.75	3.00	1.50
Canada	3.25	2.25	1.75	2.75	3.25	2.25	2.25	3.25	2.00	1.00
Norway	4.50	3.75	3.00	3.00	4.50	4.00	3.25	4.50	3.50	2.50
Sweden	2.75	1.75	1.75	1.75	2.75	2.00	2.00	2.75	1.50	1.50
Australia	4.35	3.35	3.10	3.10	4.35	3.85	3.35	4.35	2.85	2.60
<b>AXJ</b>										
China^	1.50	1.25	1.25	1.00	1.50	1.20	1.20	1.50	1.00	1.00
India	6.50	5.50	5.50	5.50	6.50	5.75	5.75	6.50	5.00	5.00
Hong Kong	4.75	4.75	3.00	3.25	4.75	4.75	4.00	4.75	4.00	1.50
Korea	3.00	2.00	2.00	2.00	3.00	2.25	2.25	3.00	2.00	1.50
Taiwan	2.00	2.00	1.50	1.75	2.00	2.00	1.63	2.00	1.63	1.25
Indonesia	6.00	5.00	4.75	5.00	6.00	5.25	5.25	6.00	4.50	4.00
Malaysia	3.00	2.25	2.25	3.00	3.00	2.50	2.50	3.00	2.25	2.00
Thailand	2.25	1.00	1.00	1.50	2.25	1.50	1.50	2.25	1.00	0.50
Philippines	5.75	4.50	4.00	5.00	5.75	4.50	4.50	5.75	4.50	4.00
<b>CEEMEA</b>										
Poland	5.75	4.50	3.00	3.00	5.75	5.00	3.50	5.75	3.75	2.50
Czech Rep	4.00	3.50	2.50	3.00	4.00	3.50	3.00	4.00	2.75	2.00
Hungary	6.50	5.75	4.50	5.00	6.50	6.25	5.25	6.50	5.25	4.00
Ukraine	13.50	15.00	11.00	9.00	13.50	15.50	12.50	13.50	13.00	10.00
Turkey	47.50	36.00	22.00	15.00	47.50	36.00	24.00	47.50	38.00	22.00
South Africa	7.75	7.25	7.50	6.50	7.75	7.50	8.25	7.75	6.50	6.75
Saudi Arabia	5.00	5.00	3.25	3.50	5.00	5.00	4.00	5.00	4.25	1.75
Egypt	27.25	23.50	16.00	12.00	27.25	23.50	18.00	27.25	23.50	14.00
Israel	4.50	4.25	3.25	3.00	4.50	4.50	4.00	4.50	4.00	3.00
<b>LatAm</b>										
Brazil	12.25	14.75	11.25	9.00	12.25	14.75	11.75	12.25	14.25	10.25
Mexico	10.00	7.50	7.00	7.00	10.00	8.00	7.00	10.00	7.00	6.00
Chile	5.00	4.25	4.25	4.00	5.00	4.50	4.50	5.00	4.25	2.50
Colombia	9.50	8.00	7.50	6.00	9.50	8.50	7.75	9.50	8.00	6.00
Argentina^^	32.00	25.00	18.00	12.00	32.00	25.00	15.00	32.00	35.00	25.00

Source: Haver Analytics, national central banks, Morgan Stanley Research forecasts; Note: \*ECB deposit facility rate; \*\*Uncollateralized overnight call rate upper limit; ^7-day reverse repo rate; ^^Central Bank of Argentina has announced the implementation of a monetary-targeting regime to replace inflation targeting as of October 1, 2018. Egypt represents fiscal year from July 1 to June 30.

## Country Snapshots

**US: Slower Growth but Firmer Inflation** – We forecast the economy to slow but avoid a recession. Inflation rises over the rest of this year, staying the Fed's hand until 2026, when the fall in growth and employment becomes a bigger risk than inflation. We expect real GDP growth of 1.0% 4Q/4Q in 2025 and 2026, with inflation peaking later this year between 3.0-3.5%Y and the unemployment rate rising gradually to 4.8% by end-2026. We expect the first cut in March 2026.

**Euro Area: Walking a Fine Line** – Growth likely peaked in 1Q25, and we expect a slower quarterly pace until year-end. Private consumption remains robust, monetary policy eases, and fiscal policies become supportive, thanks to the German fiscal package. But exports and investment should be dampened by trade tensions and uncertainty, as we expect the effective US tariff rate on EU goods to remain close to 10%. We see core and headline inflation undershooting 2%Y in 2026 and the ECB to cut to 1.50% in December 2025 and stay there.

**Japan: A Year of Dual Uncertainties** – The nominal GDP recovery story remains intact, but uncertainty stemming from both tariffs and domestic politics will likely weigh during 2025.

**UK: Everything Is Relative** – The drag from net trade and a delayed acceleration in government consumption growth counter a mild pick-up in private final domestic growth, with the latter aided by BoE cuts. Growth slows in 2025, but picks up in 2026, outpacing major DM peers. Inflation slips below 2%Y in 2026, and the BoE cuts to 2.75% in 1H26.

**China: Lingering Deflation Despite Tariff De-Escalation** – We raise 2025 GDP by 30bp to 4.5%Y as the tariff de-escalation reduces near-term growth headwinds, though additional stimulus may be pushed to 4Q24 and in a smaller package. We still expect persistent deflation amid a gradual fix of structural headwinds from housing and insufficient consumption.

**India: Domestic Demand to Remain Resilient amid Policy Support** – We expect growth to remain resilient, supported by strength in domestic demand amid uncertainty from external factors. Policy support is likely to continue through easier monetary policy while fiscal policy prioritizes capex spending. Macro stability should remain in the comfort zone, with robust buffers, providing flexibility to policymakers.

**Brazil: Staying Out of the Tide, for Now** – Growth should be more resilient on the back of expansionary fiscal and credit measures, suggesting an even softer-than-expected landing. Disinflation proceeds but at a slower pace, as services inflation remains pressured from a tight labor market. We expect the BCB to remain on hold until year-end and start the easing cycle in 1Q26 due to still de-anchored inflation expectations and resilient growth.

**Mexico: Dealing with High and Protracted Uncertainty** – Elevated uncertainty should continue affecting investment and overall growth dynamics. With business sentiment low, labor markets deteriorate, feeding further weakness. The USMCA renegotiation will likely go to mid-2026, prolonging uncertainty. And the required fiscal consolidation will also be a drag on growth. Inflation faces cross-currents: lower core services quotes will likely pressure core goods. Banxico easing helps fiscal dynamics, but not so much growth.

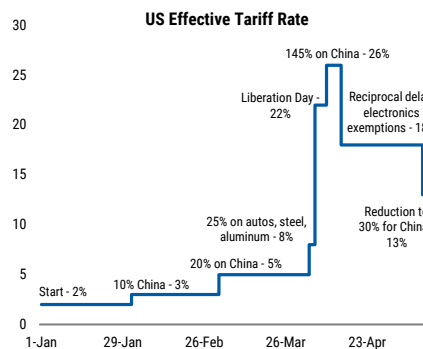
# US: Slower Growth but Firmer Inflation

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US Economics Team

**We still forecast the US economy to slow, but avoid a recession. Inflation rises over the rest of this year, staying the Fed's hand until 2026, when the fall in growth and employment becomes a bigger risk for the Fed than inflation. We expect real GDP growth of 1.0% 4Q/4Q in 2025 and 2026, with inflation peaking later this year between 3.0-3.5%Y and the unemployment rate rising gradually to 4.8% by end-2026. We expect the first cut in March 2026.**

**Exhibit 72:** The effective tariff rate is now 13%

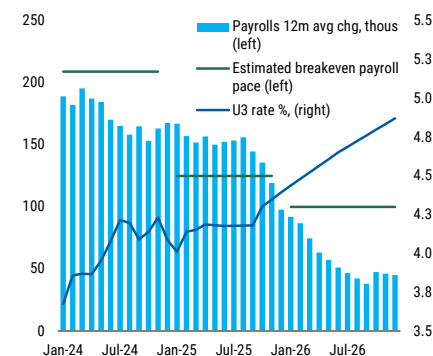


Source: Morgan Stanley Research forecasts; Note: Tariffs on China here are the incremental tariffs from end-2024, which were 10%.

**Despite numerous policy announcements and scores of executive actions that increased volatility in financial markets sharply, our baseline outlook for the US economy remains largely unchanged relative to our view coming into the year:** As the saying goes, the more things change, the more they stay the same. We retain the main elements of our policy assumptions for immigration, fiscal policy, and deregulation. The main adjustment we make is around tariffs, which came much faster and were at least for a while much higher than we penciled into our prior baseline. With this more intense policy implementation, we expect even slower growth and stickier inflation than we did coming into the year. Previously, we expected tariffs to weigh on activity more next year.

**We think the average effective tariff rate at 13% stays in place as trade negotiations persist:** This assumption incorporates the 10% across-the-board tariff on imports; additional levies that bring the total tariff rate on China to 40%; tariffs on steel, aluminum, and autos; and exemptions for USMCA-compliant trade. We assume that potential forthcoming tariffs on pharmaceuticals, chips, and copper, among other items, are roughly offset by exemptions achieved through bilateral negotiations and a reduction in tariffs on non-USMCA-compliant goods. While down from the level observed on April 2, the effective tariff rate in our revised mid-year baseline outlook is much higher than the 8-9% we assumed in our year-ahead outlook.

**Exhibit 73:** Slowed labor force growth lowers breakeven payrolls and keeps the unemployment rate relatively low in 2025

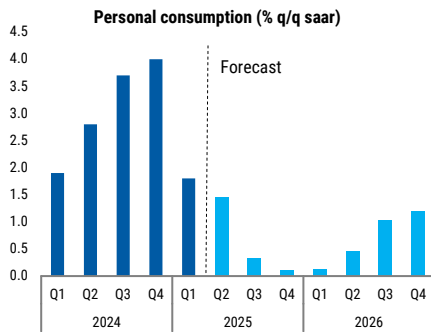


Source: BLS, Morgan Stanley Research

**Immigration restriction remains underappreciated, including for monetary policy:** Our forecast assumes that immigration flows slow from c.3 million per year in 2022-24 to c.1 million in 2025 and 500,000 in 2026. As we note in [Immigration and the macroeconomy](#), February 20, 2025, restrictive immigration policies create adverse supply and demand effects (via slower labor force growth and fewer consuming households). The data, in our view, suggest that supply effects outweigh demand effects. Immigration controls reduce growth in personal consumption via less employment while keeping the labor market tight since slow labor force growth reduces the breakeven rate of employment. Less immigration also reduces potential growth through slower growth in trend hours.

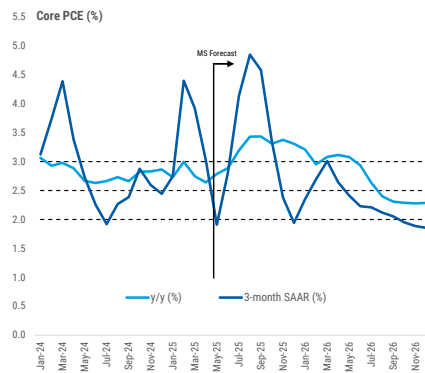
**After the rush of trade and immigration policies in 1H25, we think attention will temporarily shift back towards fiscal policy,** where the federal government still needs to pass a budget and lift the debt limit. Our baseline assumes full extension of the Tax Cut and Jobs Act (TCJA). We assume some additional tax cuts, such as a domestic manufacturing credit and not taxing tips, that will be largely offset by other 'pay-fors' and

**Exhibit 74:** Tariffs act as a tax on consumption



Source: BEA, Morgan Stanley Research forecasts

**Exhibit 75:** Bumpy inflation ahead, peaking in 3Q25



Source: BEA, Morgan Stanley Research forecasts

cuts to social spending programs. On net, a largely unchanged fiscal stance means the contribution from fiscal policy to growth falls from 0.7pp in 2023 and 0.5pp in 2024 to only 0.1pp this year and next. The cuts to staffing and outlays from DOGE imply risks to contractionary policy this year, but the fiscal process points to the risk of easing next year.

**Real US GDP growth of 1.0% (4Q/4Q) in 2025 and 2026:** The 4Q/4Q growth numbers hide a slowdown in quarterly growth rates that trough close to 0.5%Q SAAR in 4Q25 and 1Q26. The primary drivers of the slowdown are the direct effects of tariffs as a tax on consumption and capital. Prolonged uncertainty and low confidence remain wildcards. We forecast personal consumption expenditures to slow to 0.9% and 0.7% this year and next (4Q/4Q) while nonresidential fixed investment moderates to 1.4% and 0.7%, respectively.

**A slow-growing economy demands less labor and immigration controls mean a sharp reduction in available labor supply:** We forecast employment growth to slow from its 144k per month pace in the first four months of 2025 to around 50k per month in 2026. With a much lower breakeven rate, the unemployment rate rises only slowly, from its current 4.2% reading to 4.3% in 4Q25 and 4.8% in 4Q26.

**Tariff-induced rises in goods prices cause headline and core PCE to rise to 3.0% (4Q/4Q) and 3.3%, respectively in 2025:** The 3-month annualized impulse to inflation should peak in 3Q25 at 4.5-5.0%, before falling back. We assume that the effects of tariffs on inflation will prove transitory, though several years of above-target inflation could make inflation expectations more upwardly malleable than we expect.

**A Fed on hold this year, with back-loaded cuts in 2026:** With: 1) Inflation rising before activity slows; 2) Inflation further from the 2%Y target than employment; and 3) A Fed which would prefer to rely on actual data over forecasts, we expect the Fed to keep the target funds rate unchanged at 4.25-4.50% until March 2026. Thereafter it reduces its policy rate steadily by 25bp per meeting to a terminal target range of 2.50-2.75%. Even as the Fed eases, it will still have to balance above-target (but slowing) inflation and rising slack in labor markets. We think that the Fed is a long way from initiating balance sheet expansion through asset purchases.

**Exhibit 76:** Key forecast summary

US Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (% 4Q/4Q)</b>	<b>3.2</b>	<b>2.5</b>	<b>1.0</b>	<b>1.0</b>
Private consumption	3.0	3.1	0.9	0.7
Gross fixed investment	5.0	2.3	1.4	0.7
Government consumption	4.3	3.2	0.1	0.7
<b>Contribution to GDP (pp)</b>				
Final domestic demand	3.1	2.8	1.4	1.2
Net exports	0.5	-0.4	-0.5	0.0
Inventories	-0.4	0.0	0.1	-0.3
<b>CPI (% 4Q/4Q)</b>	<b>3.2</b>	<b>2.7</b>	<b>3.0</b>	<b>2.5</b>
<b>Core PCE (% 4Q/4Q)</b>	<b>3.2</b>	<b>2.8</b>	<b>3.3</b>	<b>2.3</b>
<b>Policy rate (EOP, %)</b>	<b>5.375</b>	<b>4.375</b>	<b>4.375</b>	<b>2.625</b>
Unemp. rate (EOP % labor force)	3.8	4.1	4.3	4.8
Labor force participation rate (EOP %)	62.7	62.5	62.6	62.6
General govt. balance (% GDP)	-6.4	-7.0	-6.3	-7.1
Gross govt. debt (% GDP)	122.7	124.1	125.1	128.1
Current account balance (% GDP)	-3.3	-3.9	-3.9	-2.5

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research forecasts

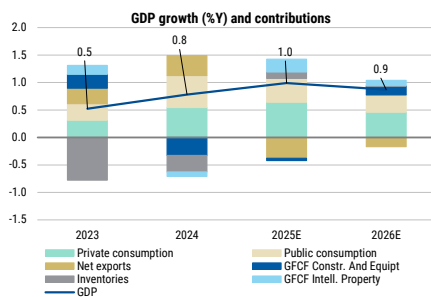
# Euro Area: Walking a Fine Line

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European Economics Team

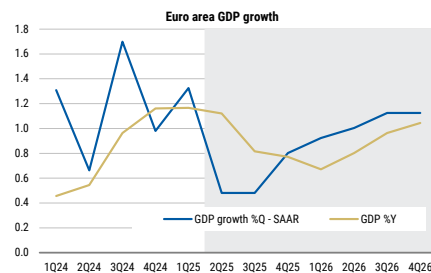
**Euro area growth likely peaked in 1Q25, and we expect a slower quarterly pace until year-end. Private consumption remains robust, monetary policy eases, and fiscal policies become supportive, thanks to the German fiscal package. But exports and investment should be dampened by trade tensions and uncertainty, as we expect the effective US tariff rate on EU goods to remain close to 10%. We see core and headline inflation undershooting 2%Y in 2026 and thus forecast the ECB to cut to 1.50% in December 2025 and stay there.**

**Exhibit 77:** Domestic demand is key for growth



Source: Eurostat, Morgan Stanley Research forecasts

**Exhibit 78:** Slowdown ahead



Source: Eurostat, Morgan Stanley Research forecasts

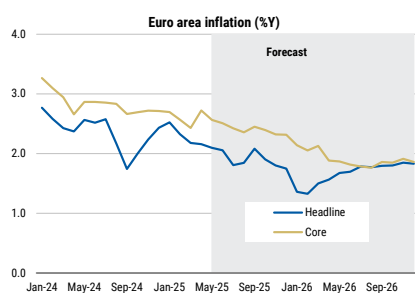
**What to watch?** Four key themes shape the euro area outlook. **Monetary policy** easing should boost investment, in particular in the construction sector, and might also contribute to a decline of household saving rates. **Fiscal policy** should also be, on net, supportive. And, with solid labor markets and still positive real income gains, **private consumption** is likely to remain robust. In short, domestic demand is likely to provide a positive contribution to growth. But headwinds should come from the **external side**. In our baseline scenario, US tariffs on EU goods remain in place (with limited EU countermeasures). But it takes time to realize the end state, and global trade tensions and uncertainties weigh on European exports, but also productive investment and inventories.

**Growth | Slowdown ahead:** Through 1Q25, euro area growth has been roughly 1.2%Y, close to potential and a touch higher than we forecast six months ago. From here, we think that global trade tensions will cause a slowdown, especially in 2Q25 and 3Q25. In 2026, growth should firm based on solid domestic demand with monetary and fiscal policy easing.

**Fiscal policy | Change of direction:** We project an increase in the euro area public deficit in 2025 and 2026, with a consequent positive fiscal impulse. But heterogeneity across countries will be notable. The new coalition in Germany will increase spending on defense and infrastructure meaningfully. Meanwhile, France and Italy should continue reducing their deficits: more defense spending in those economies will likely come with higher taxes, spending cuts elsewhere, or both.

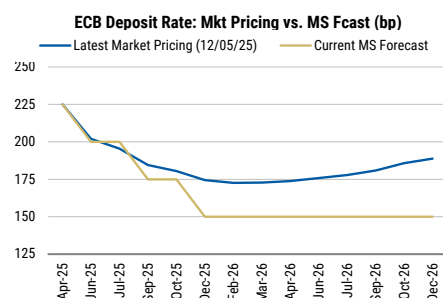
**Inflation | Undershooting in 2026:** The recent sharp declines of oil and natural gas prices mean headline inflation should follow a bumpy path down, touching a low point (1.3%Y) in the first months of 2026 before rebounding when base effects fade. Looking through this volatility, euro area core inflation continues to abate. In line with existing wage agreements, we have growing conviction that wage momentum will soften further and meaningfully. All the above, when combined with weak GDP growth, imply core and headline inflation falling below 2%Y in 2026.

**Exhibit 79:** Inflation below 2%Y in 2026



Source: Eurostat, Morgan Stanley Research forecasts

**Exhibit 80:** We see the ECB cutting down to 1.50%



Source: Bloomberg, Morgan Stanley Research forecasts

**ECB | Down to 1.50%:** We expect the ECB to slow its cutting cycle after the June cut and reach a terminal rate of 1.50% through cuts in September and December. After June, the September projections point to further evidence that activity is softening while inflation is again expected to undershoot 2%Y in 2026, enough evidence to take rates below neutral. The December projections are likely to be the first with a balanced outlook for growth while inflation is still expected below target in 2026. Another rate cut follows and rates are kept at 1.50% throughout 2026. The growth momentum is improving and inflation increases but remains below target.

**Balance sheet:** We expect passive QT of APP and PEPP portfolios to continue and lead to a gradual decline in the ECB's balance sheet. Throughout 2025, we expect the take-up for regular refinancing operations (mostly done by periphery banks) to remain limited around current levels. Reserves remain abundant, but borrowing in the repo market will become increasingly attractive. With declining excess liquidity we anticipate that banks will start to increase their recourse to refinancing operations in 2H26. Excess liquidity will fall to a level at the end of 2026 that will push the ECB to decide on its operational framework in mid-2026.

**Risks | All eyes on the US:** A recession in the US would push euro area growth lower, close to stagnation, and lead the ECB to go all the way down to 1.00%. Conversely, stronger external demand in case US policies turn out more supportive of growth this year could mean euro area growth would be close to or above potential in 2025-26 and the ECB could stop at 2.00%.

**Exhibit 81:** Key forecast summary

<b>Euro Area Forecast Summary</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>
<b>Real GDP (%Y)</b>	<b>0.5</b>	<b>0.8</b>	<b>1.0</b>	<b>0.9</b>
Private consumption	0.6	1.0	1.2	0.9
Gross fixed investment	1.9	-1.9	0.9	1.2
Government consumption	1.4	2.7	2.0	1.4
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.0	0.7	1.3	1.0
Net exports	0.3	0.4	-0.4	-0.2
Inventories	-0.8	-0.3	0.1	0.0
<b>CPI (%Y)</b>	<b>5.5</b>	<b>2.4</b>	<b>2.0</b>	<b>1.7</b>
<b>Core CPI (%Y)</b>	<b>5.0</b>	<b>2.8</b>	<b>2.5</b>	<b>1.9</b>
<b>Policy rate (EOP, %)</b>	<b>4.00</b>	<b>3.00</b>	<b>1.50</b>	<b>1.50</b>
Unemp. rate ( % labor force)	6.6	6.4	6.3	6.5
Labor force participation rate (%)	75.0	75.4	75.4	75.6
General govt. balance (% GDP)	-3.5	-3.1	-3.4	-3.5
Gross govt. debt (% GDP)	87.3	88.4	89.4	90.9
Current account balance (% GDP)	1.6	2.7	2.5	2.4

Source: ECB, Eurostat, Morgan Stanley Research forecasts

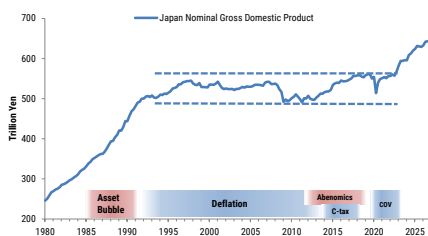
# Japan: A Year of Dual Uncertainties

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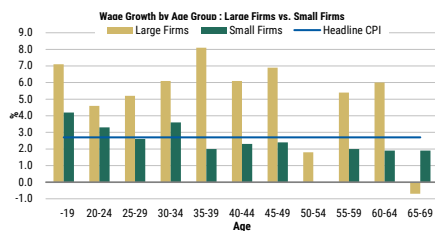
**The nominal GDP recovery story remains intact, but uncertainty stemming from both tariffs and domestic politics will likely weigh on the near-term outlook during 2025.**

**Exhibit 82:** The nominal GDP recovery story remains intact



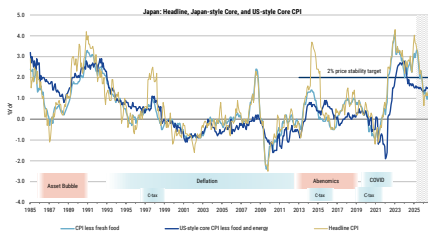
Source: Cabinet Office, Morgan Stanley Research forecasts

**Exhibit 83:** Younger workers enjoy higher wages (% , 2024)



Source: MHLW, Morgan Stanley Research

**Exhibit 84:** Neither runaway inflation nor a return to deflation



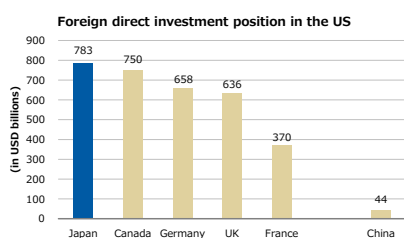
Source: MIC, Morgan Stanley Research forecasts

**The nominal GDP recovery story remains intact:** Japan has already entered a new world of sustained price and wage increases against a backdrop of demographically induced, structural labor shortages and now well-established inflation expectations. Japan's nominal GDP, unchanged on net for two decades, will likely continue to grow steadily ahead. We see mild domestic-driven inflation despite yen appreciation and lower oil prices. The macro structural change should encourage continued spending among the younger generations and with it domestic investment, improve Japan's fiscal dynamics, and justify a recovery in asset prices, including equity prices, over the medium term.

**Impact of tariffs not to be underestimated:** While the average effective US tariff rate is set to decline ahead, it is unlikely to return to its previous level, and thus the outlook continues to be one of a slowdown in the global economy, including the US. Slower US growth in general and taxes on Japanese exports to the US in particular sap the strength of Japan's exports and manufacturing production. We believe that exporters will need to diversify their export destinations, rebuild supply chains, expand direct investment in the US as a means of avoiding tariffs (so-called quid pro quo FDI), and shift towards higher levels of value-added in their exports. Japan-US trade talks around the issue of auto tariffs seem likely to take months. The uncertainty will likely have long-lasting effects.

**Domestic demand expansion policies likely to be a key theme:** We expect scheduled cash earnings to grow steadily while inflation edges lower, implying continued growth in real incomes. While there is a risk of companies increasingly putting off investment amid the uncertainty created by tariffs, we are likely to see ongoing labor-saving investment in digitalization (including AI), software, and automation on a structural rather than cyclical basis. Given the changes in the global trade landscape, domestic fiscal policy will become a key market theme. In addition to defense spending, potential policies include tax cuts and additional infrastructure spending.

**BoJ outlook:** We believe that the BoJ will monitor how tariffs and a slowing economy affect wage growth. We stand by our base case forecast that the BoJ will maintain its current policy rate to the end of the forecast period in December 2026. This view depends critically on a two key factors: 1) US growth decelerates, and the Fed cuts rates meaningfully in 2026; and 2) Automotive tariffs remain at 25%. We think that the BoJ is likely looking to hike towards the neutral policy rate in the vicinity of 1.5% over the longer term. Should international trade negotiations, including the Japan-US talks, progress significantly by this coming summer and global growth recovers, a hike at the September or October MPM could be possible.

**Exhibit 85:** Japan is the largest source of FDI in the US (2023)

Source: Census Bureau, Morgan Stanley Research; Note: FDI by ultimate beneficial owner (UBO) basis.

**Politics within Japan another uncertainty:** With the ruling coalition already having lost its majority in the October 2024 Lower House election, attention is focused on the upcoming Upper House election in July, taking place amid low cabinet approval ratings. Considering that there has been a greater push for consumption tax cuts from the opposition and some ruling party members, we could, depending on how the Upper House election pans out, see a shift towards expansionary fiscal policy, which, on the monetary policy front, could also get in the way of rate hikes.

**Exhibit 86:** Key forecast summary

<b>Japan Forecast Summary</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>
<b>Real GDP (%Y)</b>	<b>1.4</b>	<b>0.2</b>	<b>1.0</b>	<b>0.5</b>
Private consumption	0.8	0.0	1.0	0.7
Gross fixed investment	1.5	0.3	2.5	0.8
Government consumption	-0.3	0.9	0.7	0.4
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.9	0.2	1.2	2.7
Net exports	0.8	0.0	-0.4	-2.2
Inventories	-0.3	-0.1	0.1	0.0
<b>CPI (%Y)</b>	<b>3.3</b>	<b>2.7</b>	<b>2.8</b>	<b>1.4</b>
<b>Core CPI (%Y)*</b>	<b>4.0</b>	<b>2.4</b>	<b>2.6</b>	<b>1.9</b>
<b>Policy rate (EOP, %)</b>	<b>-0.10</b>	<b>0.25</b>	<b>0.50</b>	<b>0.50</b>
Unemp. rate ( % labor force)	2.6	2.5	2.5	2.7
Labor force participation rate (%)	62.9	65.5	68.2	68.6
General govt. balance (% GDP)	-3.0	-2.5	-2.8	-3.5
Gross govt. debt (% GDP)	240.2	235.5	229.4	228.2
Current account balance (% GDP)	3.8	4.8	5.3	5.1

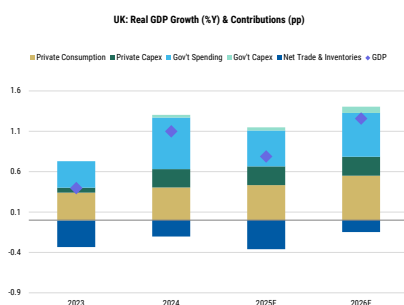
Source: BoJ, CAO, MIAC, MoF, Morgan Stanley Research forecasts; Note: Figures show calendar-year basis. \*BoJ-style core-core (excluding fresh food and energy).

# UK: Everything Is Relative

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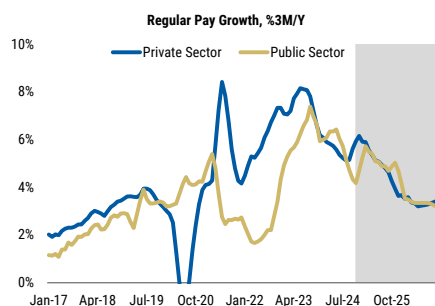
**The drag from net trade and a delayed acceleration in government consumption growth counter a very mild pick-up in private final domestic growth, with the latter aided by BoE cuts. Growth slows in 2025, but picks up in 2026, outpacing major DM peers. Inflation slips below 2%Y in 2026, and the BoE cuts to 2.75% in 1H26.**

**Exhibit 87:** Private final domestic demand growth set to firm a bit more over our forecast horizon



Source: ONS, Morgan Stanley Research forecasts

**Exhibit 88:** Labour market: Emerging slack = wage growth normalization, but with regulatory measures slowing the deceleration in 1H25



Source: ONS, Morgan Stanley Research forecasts (grey shading)

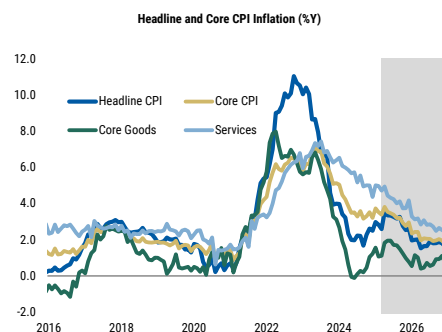
**Growth | Yet another resilience test:** The fiscal impulse has likely peaked, immigration flows are normalizing, and the US economy is about to slow. What will keep the economy growing? In our forecasts, BoE cuts drive a lower savings rate and some acceleration in private consumption growth. Combined with still-robust government consumption and capex growth, consumer spending helps to counter the drag from net trade. On net, the economy has modest slack, which widens over our forecast horizon. The UK grows by 0.8%Y in 2025 and 1.3%Y in 2026 – moderate growth, but outpacing the US and the euro area in 2026. After a bumper start to the year, growth does slow sequentially though 2025 – re-accelerating through 2026. Risks are skewed to the downside.

**Labor market | On thin ice:** We see subdued labor market demand currently and struggle to see how this changes in the near term. On the contrary, we expect an uptick in redundancies in 2H25. With that, the UK's employment rate is likely to drop further, even if the UK's welfare system leaves those without work as more incentivized to seek inactivity and disability rather than unemployment benefits – which complicates measuring of the unemployment rate. Tentatively, we do expect the jobless rate to pick up to 5% in 2H25, but warn about the unreliability of the LFS measures. We expect an immigration slowdown to lead to less labor supply growth in 2026, capping slack and downside risks to pay growth. We see pay growth ending the year at ~3.5%, and expect it to average there through 2026 as well.

**Inflation | Hard times come again no more:** Subsiding labor costs push domestically generated inflation lower in 2H25 and 2026, with additional tailwinds from the recent decline in commodities prices, and from the normalization in administrative prices and rents. We see lower core goods inflation next year, in part on direct and indirect effects of the shifts in the US trade policy (i.e., some modest trade diversion). That said, we see risks as skewed towards a more notable slowdown than the ~60bp we are forecasting (i.e., from 1.4%Y to 0.8%Y). Summing all this up, we expect core inflation to end 2025 at 3%Y and 2026 at sub-2%Y, with inflation averaging at just below 2%Y in 2026.

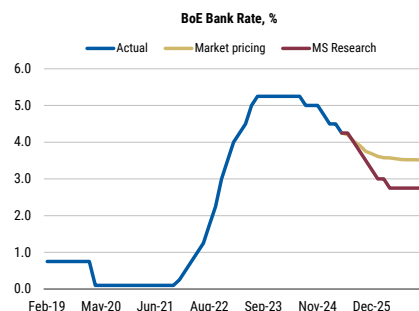
**BoE | Set it and forget it?** Its strong preference is to cut rates at a quarterly pace, and its view of the neutral rate seems very elevated – 3.5-4.0% seems embedded in the May MPR projections. On lower inflation than the BoE is expecting in 2H25 and 2026, and mounting evidence of labor market weakness, we think that the BoE could expedite its cutting cycle in 2H25. We see consecutive cuts from August through to December, with two more 1H26 cuts, to a terminal rate of 2.75%. We now expect changes to the QT program in

**Exhibit 89:** Our base case sees inflation slipping below 2%Y in 2026, as core inflation normalizes...



Source: ONS, Morgan Stanley Research forecasts (grey shading)

**Exhibit 90:** ...and the BoE cuts to 2.75% in our base case. In our upside scenario – of stronger US growth spilling over to the UK – Bank Rate settles at 3.25%. In our downside scenario, Bank Rate slips to 1.50%



Source: Bloomberg, Morgan Stanley Research forecasts

September, with the total pace unlikely to be higher than £65 billion, which implies an unchanged pace of active sales. If the BoE amps up active sales to ~£20 billion (i.e., twice the current pace), as is the median market participant expectation based on the BoE's MAPS survey, we see a high chance of active sales skewing more towards short- and medium-dated gilts.

**Fiscal policy | The rules of the game:** Our assessment of downside risks to the OBR's growth, inflation, and debt interest cost forecasts results in what looks to be ~£5 billion net hit to fiscal headroom. This seems relatively manageable, although our downside growth scenario likely results in at least £10 billion worth of a current budget deficit. Our base case forecasts still see fiscal consolidation ahead (with the deficit declining from ~5% of GDP in FY2024/25 to ~3.5% in FY2026/27), as we assume that the government will want to avoid market gyrations related to any major near-term issuance increases. Still, we accept that the risks are skewed towards a less aggressive consolidation, as medium-term fiscal rules can always be met via commitments to tighten at a later date.

**Risks:** Should the US undergo a meaningful recession due to reciprocal tariffs and a larger-than-expected fiscal drag, we would anticipate a disorderly labor market slackening in the 'white collar' services sectors, weighing heavily on overall consumption growth, and leaving GDP growth barely above 0%Y in 2026. The cumulative delta in growth versus our base case would be ~140bp. In the upside scenario for the US economy and global trade, the external boost is tempered slightly by fewer BoE cuts than in our base case. Growth would accelerate to 1.7%Y next year, with the cumulative delta in growth versus our base case at 60bp.

**Exhibit 91:** Key forecast summary

UK Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.4</b>	<b>1.1</b>	<b>0.8</b>	<b>1.3</b>
Private consumption	0.5	0.6	0.8	1.0
Gross fixed investment	0.3	1.5	1.5	1.7
Government consumption	1.6	3.0	2.1	2.3
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.7	1.3	1.2	1.4
Net exports	0.3	-1.3	-0.9	-0.1
Inventories	-0.6	1.1	0.5	0.0
<b>CPI (%Y)</b>	<b>7.4</b>	<b>2.5</b>	<b>3.0</b>	<b>1.8</b>
<b>Core CPI (%Y)</b>	<b>6.2</b>	<b>3.7</b>	<b>3.3</b>	<b>2.1</b>
<b>Policy rate (EOP, %)</b>	<b>5.25</b>	<b>4.75</b>	<b>3.25</b>	<b>2.75</b>
Unemp. rate ( % labor force)	4.0	4.3	4.8	5.1
Labor force participation rate (%)	63.1	63.1	63.2	62.8
General govt. balance (% GDP)	-4.8	-4.9	-4.3	-3.4
Gross govt. debt (% GDP)	96.0	95.6	96.0	97.2
Current account balance (% GDP)	-3.5	-2.7	-3.0	-3.0

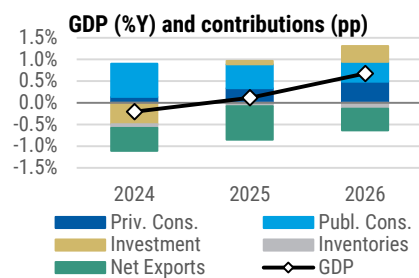
Source: ONS, BoE, Morgan Stanley Research forecasts; \*Fiscal balance = PSNB-ex; gross government debt = debt ex BoE; fiscal data = fiscal year balances.

# Germany: From 'More Debt' to 'More Growth'

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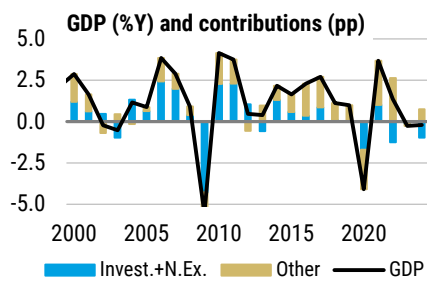
**We expect growth just above 0%Y in 2025, as headwinds from trade outweigh domestic upside. 2026 rebounds to 0.7%Y on support from the fiscal package.**

**Exhibit 92:** Domestic demand lifts growth into positive territory



Source: Destatis, Morgan Stanley Research forecasts

**Exhibit 93:** Trade and investment drive the business cycle



Source: Destatis, Morgan Stanley Research

**Exhibit 94:** Key forecasts

Germany Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	-0.1	-0.2	0.1	0.7
Private consumption	-0.2	0.3	0.6	0.9
Gross fixed investment	-0.5	-2.4	0.4	1.8
Government consumption	-0.1	3.5	2.4	2.0
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-0.2	0.4	1.0	1.3
Net exports	0.2	-0.5	-0.8	-0.5
Inventories	0.0	-0.1	-0.1	-0.1
<b>CPI (%Y)</b>	6.0	2.3	2.1	1.7
<b>Core CPI (%Y)</b>	5.1	3.1	2.6	1.8
Unemp. rate (% labor force)	3.0	3.4	3.6	3.7
Labor force participation rate (%)	79.8	80.4	80.8	81.2
General govt. balance (% GDP)	-2.5	-2.8	-3.2	-3.8
Gross govt. debt (% GDP)	62.9	62.5	63.9	66.1
Current account balance (% GDP)	5.6	5.7	5.2	5.3

Source: Destatis, Morgan Stanley Research forecasts

**Growth returns to positive territory (slowly):** After two years of contraction, growth should cross the 0%Y mark again in 2025 at 0.1%Y and accelerate to 0.7%Y in 2026, with the growth gap vis-à-vis the euro area aggregate also narrowing. The headline path masks two opposing forces: headwinds from tariffs plus weaker global growth outweigh tailwinds from the '€1 trillion fiscal package', at least in the near term (from the fiscal package in isolation, [we estimate 40bp growth upside this year and next](#)).

**Domestic demand is the key upside driver...** Public consumption was the dominant growth driver in 2024 and remains a boost in 2025 and 2026, albeit to a lesser degree. Private consumption continues to expand as strong nominal wage growth and falling inflation raise real income. Multiple factors stimulate investment: 1) Falling interest rates; 2) A post-election uptick, in line with previous cycles, amplified by the fiscal package; and 3) Spillovers from (public) spending out of the infrastructure SPV. Yet, subdued manufacturing activity contains the rebound, and we expect only a slight increase in investment in 2025, which accelerates in 2026.

**...and trade is a large drag:** Net trade continues to weigh on growth. We expect the largest drag in 2025 from US tariffs and weak export demand as global growth cools. The drag is exacerbated by forgone investment in the manufacturing sector ([ifo](#)). Germany's business cycle is particularly susceptible to (up and down) swings in these two components. So, domestic upside can only partly offset the imminent hit to growth. And vice versa, a more benign trade environment is needed to meaningfully push growth above potential (see our deep dive [here](#)).

**All eyes on the new government:** Following the snap elections in February, the government of the CDU/CSU and SPD, of Chancellor Merz (CDU), took office in early May. The near-term focus will be on how and when the government deploys the '€1 trillion fiscal package', particularly the two largest pillars – defense and infrastructure. We think this develops in tandem with the 2025 budget. In our baseline, we expect the 2025 budget to be passed before the Bundestag's summer break, i.e., mid-July. But there are risks that this only happens in September or later (see our discussion of the expected policy agenda and timeline for the new government [here](#)).

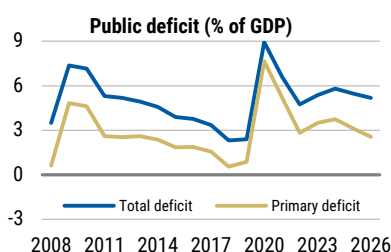
**Risks:** Upside risks could stem from a faster and/or more favorable resolution to US tariff negotiations and higher global growth. Reduced uncertainties would lift confidence. This would bolster the investment rebound and strengthen private consumption more than we assume, especially if households draw down savings. Prolonged and/or deeper trade tensions are a downside risk. Domestically, a delay in the expected fiscal expansion and policy agenda of the new government would reduce growth and yield a smaller deficit.

# France: Waiting Mode

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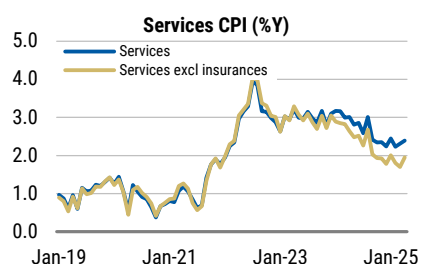
**As we expected, activity failed to gain momentum and growth is likely to come in at only 0.6%Y in 2025. It should remain low in 2026 as local uncertainties, fiscal consolidation, and the global environment are drags. We expect inflation to remain well below 2%Y.**

**Exhibit 95:** Still a high primary deficit in 2026



Source: Insee, Morgan Stanley Research forecasts

**Exhibit 96:** Inflation lower than it seems



Source: Insee, Morgan Stanley Research

**Exhibit 97:** Key forecast summary

France Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>1.1</b>	<b>1.1</b>	<b>0.6</b>	<b>0.6</b>
Private consumption	0.9	0.9	0.8	0.8
Gross fixed investment	0.7	-1.4	-0.1	1.0
Government consumption	1.1	1.6	1.3	0.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.9	0.6	0.6	0.8
Net exports	0.5	0.9	-0.3	-0.1
Inventories	-0.3	-0.4	0.3	-0.1
<b>CPI (%Y)</b>	<b>4.9</b>	<b>2.0</b>	<b>1.0</b>	<b>1.5</b>
<b>Core CPI (%Y)</b>	<b>3.2</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>
Unemp. rate (% labor force)	7.3	7.4	7.6	7.8
Labor force participation rate (%)	74.1	74.5	74.6	74.6
General govt. balance (% GDP)	-5.4	-5.8	-5.5	-5.2
Gross govt. debt (% GDP)	110.0	113.2	116.0	119.0
Current account balance (% GDP)	-1.0	0.4	0.1	0.0

Source: Insee, Morgan Stanley Research forecasts

**Local uncertainties...** Local uncertainties remain a key driver of France’s macro outlook. We recently explored scenarios (see [here](#)) that could lead to snap elections, which President Macron will be able to call again from July onwards. Our focus is on discussions around the pension reform (in June) and the 2026 budget (October-November), although we do not have strong conviction that one outcome (e.g., snap elections before the end of 2025) is more likely than the other (no snap elections).

**...weigh on the macro outlook:** We have stronger conviction on two other factors. First, domestic uncertainty weighs on private consumption and investment. As an illustration, households' saving rate is likely to remain elevated, at around 18%, up from 14% before 2019. Second, fiscal consolidation should be a slow process.

**Fiscal consolidation continues:** Our base scenario of a slow reduction of the public deficit is under way for 2025 (5.5% of GDP from 5.8% in 2024). The consolidation is mostly due to large tax increases (see our detailed analysis [here](#)). We expect this to continue in 2026 (5.2% of GDP) even though passing the next budget could be challenging as the government needs to accommodate higher defense spending (we think +0.1pp of GDP per year until 2030), rising interest payments (+0.2pp of GDP in 2026), and, in principle, the suppression of the 2025 surcharge on corporate taxes (0.3pp of GDP).

**Low growth...** In the context of fiscal consolidation, growth is likely to be lower in France in 2025-26 than in 2023-24. And while France was outperforming the euro area in recent years, it is now underperforming. The main drivers of growth should be private and public consumption, and construction investment could bounce back thanks to monetary policy easing.

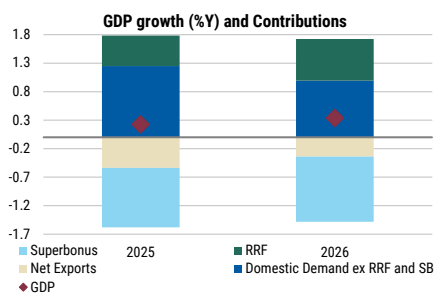
**...and low inflation:** Low growth likely comes with low inflation, well below 2%Y. Following the 15% fall in electricity tariffs in February 2025, energy inflation (-7.9%Y in April 2025) should remain very negative for a couple more months. In addition, services inflation is likely to edge down further. Insurance inflation currently runs above 11%Y. When this normalizes, it should lower services inflation by as much as 80bp, bringing it below 2%Y and close to the low 2015-19 average of 1.1%Y. This would be in line with very soft wage pressures: negotiated wages increases decelerated to 2.1%Y in 1Q25 and low headline CPI means future increases of the minimum wage (via its indexation on inflation) should be limited. France is converging to a low-growth, low-inflation near future.

# Italy: Bracing for Underperformance

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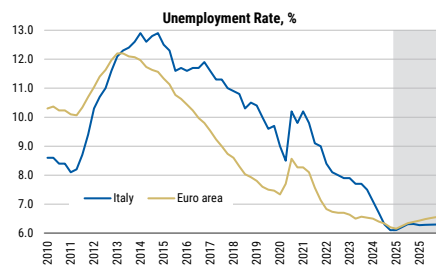
**We confirm our below-consensus forecast for growth. We forecast the labor market to slow down, and higher fiscal deficits than the government expects.**

**Exhibit 98:** External trade and post-Superbonus correction are headwinds



Source: ISTAT, Morgan Stanley Research

**Exhibit 99:** We expect the labor market to slow down in 2025-26



Source: ISTAT, Morgan Stanley Research forecasts

**Exhibit 100:** Key forecast summary

Italy Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.8</b>	<b>0.5</b>	<b>0.2</b>	<b>0.3</b>
Private consumption	0.4	0.4	1.2	1.1
Gross fixed investment	9.2	0.0	-1.4	-0.9
Government consumption	0.6	1.1	1.2	1.5
<b>Contribution to GDP (pp)</b>				
Final domestic demand	2.3	0.4	0.6	0.7
Net exports	0.5	0.3	-0.5	-0.3
Inventories	-2.0	-0.2	0.2	0.0
<b>CPI (%Y)</b>	<b>5.7</b>	<b>1.0</b>	<b>1.5</b>	<b>1.1</b>
<b>Core CPI (%Y)</b>	<b>2.9</b>	<b>1.6</b>	<b>1.8</b>	<b>1.2</b>
Unemp. rate (% labor force)	7.7	6.6	6.2	6.3
Labor force participation rate ( %)	66.7	66.6	66.8	67.4
General govt. balance (% GDP)	-7.2	-3.4	-3.5	-3.2
Gross govt. debt (% GDP)	134.6	135.3	137.3	139.5
Current account balance (% GDP)	0.1	1.2	1.2	1.3

Source: ISTAT, Morgan Stanley Research forecasts

**Below consensus on growth:** In our last iteration of the outlook, we were forecasting Italy's GDP growth at 0.2%Y. The government was expecting growth of 1.2%Y at the time while it now sees growth of 0.6%Y in 2025. We stick with our view that growth will fall to 0.2%Y in 2025. But compared with our November outlook, we also revise down 2026 growth to 0.3%Y on the back of weaker external demand resulting from tariffs. Private consumption is a key contributor to growth. Net exports should bring a negative contribution in both 2025 and 2026, while a correction in residential construction post the Superbonus should shave off around 2pp over this year and next.

**Residential construction weighs on investment:** In November we had highlighted a potential correction in residential construction activity following the end of the Superbonus. Over 2024, housing experienced a recession, with residential investment falling by 8.6% – after rising by a revised 100% over 2020-23. We expect this correction to continue and extend into 2026. Non-residential investment should grow at a faster pace, on the back of a lower interest rate environment. Overall, while the recovery fund should support investment, the negative effect from a more uncertain international policy environment could weigh negatively on GFCF.

**A very tight labor market?** As at August 2024, Italy's unemployment rate has fallen below that of the euro area. The Italian labor market is tight, but there are caveats to this assessment. Italian employment grew by 4.8% over 4Q19-4Q24, less than in the euro area ex Italy, where it grew by 5.2%. The construction sector contributed 1.2pp to Italy's employment growth, versus 0.5pp in the euro area – likely another spillover from the Superbonus. Why did Italy's unemployment rate drop below that of the euro area, even with less employment growth? The answer lies in the participation rate. From 4Q19 to 4Q24, the euro area participation rate was rising at a faster pace than before the pandemic, whereas in Italy it was growing at a slower pace. All else equal, if the Italian labor force had grown at similar pace to pre-pandemic trends, this would have led to an unemployment rate of at least 7% – higher than in the euro area. Going forward, we expect some catch-up in the participation rate and a slowdown in employment growth as the economy cools down. This should lead to a gradual rise in the unemployment rate.

**Slower fiscal consolidation ahead:** Weaker growth and a slight increase in the unemployment rate are behind our forecast of a higher deficit than the government anticipates. We see fiscal deficits at 3.5% in 2025 and 3.2% in 2026 (versus government expectations of 3.3% and 2.8%, respectively). A stock-flow adjustment from the Superbonus pushes debt/GDP up to 139.5% in 2026. Embedded in our fiscal forecast is a conservative attitude by the current government towards additional defense spending, which we expect to reach 2% of GDP in 2025 and stabilize at that level.

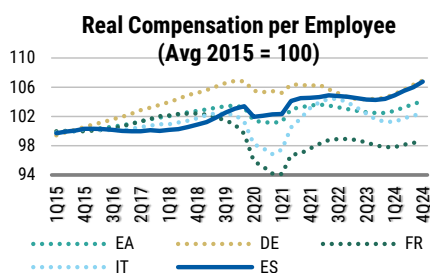
# Spain: Time to Invest

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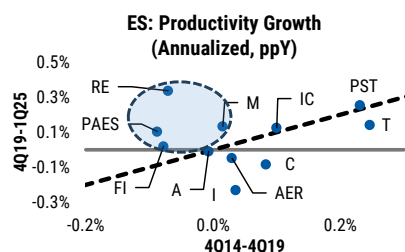
**We expect the external sector to weaken, while domestic demand should be robust. We see an acceleration in investment and resilient consumption growth.**

**Exhibit 101:** Higher real compensation per employee



Source: Eurostat, Morgan Stanley Research

**Exhibit 102:** Productivity gains driven by real estate



Source: Eurostat, Morgan Stanley Research. Note: RE: Real Estate, M: Manufacturing, PAES: Public Administration, FI: Financial.

**Exhibit 103:** Key forecast summary

Spain Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>2.7</b>	<b>3.1</b>	<b>2.3</b>	<b>2.0</b>
Private consumption	1.7	2.9	2.6	2.1
Gross fixed investment	2.1	3.0	5.6	6.3
Government consumption	5.2	4.1	1.9	0.9
<b>Contribution to GDP (pp)</b>				
Final domestic demand	2.4	3.0	2.9	2.6
Net exports	0.9	0.3	-0.5	-0.6
Inventories	-0.6	-0.2	-0.1	0.0
<b>CPI (%Y)</b>	<b>3.5</b>	<b>2.8</b>	<b>2.4</b>	<b>1.6</b>
<b>Core CPI (%Y)</b>	<b>6.0</b>	<b>2.9</b>	<b>2.3</b>	<b>1.8</b>
Unemp. rate (% labor force)	12.2	11.3	11.6	11.8
Labor force participation rate (%)	74.5	74.6	74.6	74.6
General govt. balance (% GDP)	-3.5	-3.2	-3.4	-3.2
Gross govt. debt (% GDP)	105.1	101.8	100.6	100.1
Current account balance (% GDP)	1.3	1.7	2.6	2.0

Source: Eurostat, INE, Morgan Stanley Research forecasts

**Domestic demand in the driver's seat:** We expect Spain's GDP growth to decelerate in 2025, albeit remaining strong (2.3%Y from 3.1%Y). Weaker exports driven by trade uncertainty and the appreciation of the euro will likely put a strain on growth. Domestic demand should remain strong, led by resilient consumption growth and an acceleration in investment. In 2026, we expect GDP growth to decelerate further to 2.0%Y, although remaining above potential growth (~1.8%Y), thanks to the continued strength of domestic demand.

**A robust consumption outlook, despite softer population growth:** Over the past decade, Spain has seen one of the fastest rises in real compensation per employee. This trend has even accelerated over the past couple of years, which has fostered resilience among households. Yet, this has not translated into gains in real consumption per capita, which has declined slightly since 2019. Going forward, lower interest rates should lift households' propensity to consume. Population growth should decelerate somewhat but remain solid, in the 0.2-0.3%Q growth range. Taken together, this points to robust consumption growth, ranging between 0.4-0.6%Q.

**No clear structural productivity gains:** Looking at the supply side, productivity growth has shown progress in recent years. From 2022 to 2024, annualized productivity growth was strong, at 1.2%Y, compared to a softer 0.5%Y in 2015-19. While this development can certainly explain Spain's recent outperformance, the evidence suggests that the upswing is cyclical rather than structural. For instance, despite its relatively small size in the economy (~12%), real estate appears to be the largest contributor to these gains. The sector annually contributed more than 0.3ppY in 4Q19-1Q25, versus its previously negative contribution of 0.1ppY in 4Q14-4Q19 (Exhibit 102). In sum, we see these productivity gains as reflecting cyclical strength and expect them to revert to historical norms in future.

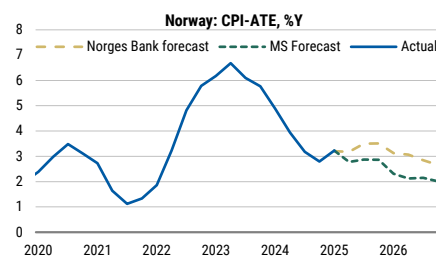
**From here, investment should accelerate:** Investment has significant upside potential in the next couple of years. First, monetary policy is becoming progressively more accommodative, which should uplift borrowing and investment. This is already starting to show in construction, where we've seen two consecutive quarters of robust growth. More importantly, Spain's allocation to the recovery fund should channel more capex to the economy up until August 2026 (the deadline to request the last RRF disbursements). So far, close to €50 billion has already been injected (see here), leaving more than €30 billion in grants and €80 billion in loans still to be spent. Given the limited time to spend these funds, a strong acceleration in investment is likely between 2025 and 2026.

# Norway: Let's Start Cutting

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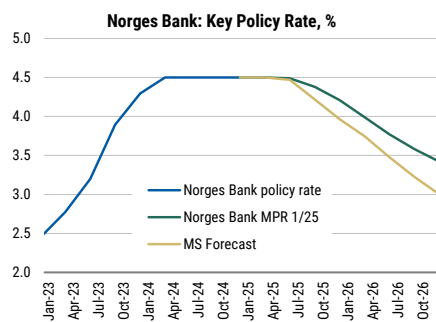
**We see Norges Bank starting the cutting cycle in June, at a slow pace to a terminal rate of 3.0% as inflation abates gradually, and the currency remains a risk.**

**Exhibit 104:** Core inflation at target in 4Q26



Source: Statistics Norway, Morgan Stanley Research forecasts

**Exhibit 105:** Norges Bank is yet to start the cutting cycle



Source: Norges Bank, Morgan Stanley Research forecasts

**Exhibit 106:** Key forecast summary

Norway Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>1.1</b>	<b>0.6</b>	<b>1.3</b>	<b>1.5</b>
Private consumption	-1.2	1.3	2.4	1.9
Gross fixed investment	-1.5	-1.4	-0.2	1.0
Government consumption	3.4	2.4	2.0	2.0
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-0.1	0.6	1.1	1.2
Net exports	0.6	1.9	-1.1	0.5
Inventories	-0.3	-0.4	0.0	0.0
<b>CPI (%Y)</b>	<b>5.5</b>	<b>3.1</b>	<b>2.8</b>	<b>2.1</b>
<b>Core CPI (%Y)</b>	<b>6.2</b>	<b>3.7</b>	<b>2.9</b>	<b>2.2</b>
<b>Policy rate (EOP, %)</b>	<b>4.50</b>	<b>4.50</b>	<b>3.75</b>	<b>3.00</b>
Unemp. rate (% labor force)	3.6	4.0	4.0	4.0
Labor force participation rate (%)	72.8	72.6	72.6	72.6
General govt. balance (% GDP)	16.5	13.2	10.9	3.1
Gross govt. debt (% GDP)	44.5	55.1	44.6	41.1
Current account balance (% GDP)	17.4	17.1	15.5	14.9

Source: Statistics Norway, Morgan Stanley Research forecasts

**Good base for recovery:** GDP growth at the start of the year in Mainland Norway was strong, driven by household consumption, which picked up even before the start of the easing cycle. Norwegian households are due to receive another real disposable income boost this year, building a solid base for recovery. However, with consumer confidence declining in 2Q25 and the cutting cycle being pushed back, we expect consumers to now only gradually increase spending. Recovery in investment from the construction sector should come earlier than anticipated. Housing market activity remains strong, and construction is starting to pick up. Fueled by the start of the rate-cutting cycle this year, we expect non-petroleum investment to increase already by mid-2025. Petroleum investment should remain on par with 2024 this year, but start to correct in 2026, also driven by lower oil prices. Lower petroleum exports are also expected to drag offshore GDP down this year. The direct impact of US tariffs on Norwegian GDP should be relatively small (see more [here](#)), but the indirect effect of lower global growth and uncertainty should be a drag on the recovery. A weak NOK and the relatively low price sensitivity for Norwegian exports (e.g., seafood) will keep Norway partially shielded, in our view.

**2025 parliamentary elections:** The parliamentary elections will be held on September 8. The current [polls](#) show the Labour Party of PM Støre, who is currently leading the first single-party minority government in 25 years, climbing to the lead since the beginning of the year. At this stage, the main points of discussion for the parties appear to be the relationship with the EU and immigration policy.

**Inflation target in sight:** After a pick-up in inflation at the beginning of this year, core inflation declined a touch more than expected in April, mainly driven by domestic and imported goods. Services should remain elevated this year, due to rents inflation. We see headline inflation hovering just above the target in 2026, due to low energy prices.

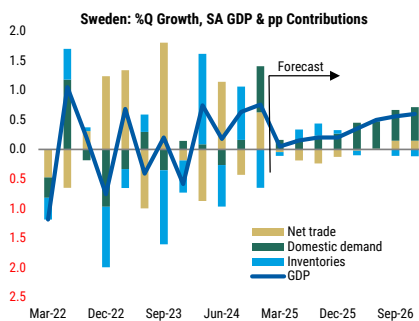
**Norges Bank | Still waiting for the first cut:** Norges Bank pushed the long-awaited first rate cut back due to an inflation surge at the start of the year. However, the disinflation process is again under way, and the external factors (global growth, oil prices, and interest rates abroad) are also exerting downside pressure on the rate path. In our view, the incoming data on the inflation and growth outlook will likely signal the rate-cutting cycle could begin already in June (see [here](#) for more details). The risk lies in the weaker currency and stronger economic activity in 1Q. After the release of the 1Q25 GDP data, we see a risk that Norges Bank could only signal in June that the rate cut will come in 3Q25. We expect Norges Bank to cut only at projection meetings as inflation abates only gradually. We see a terminal rate of 3.0% in September 2026, close to neutral territory.

# Sweden: More Easing Ahead

**Gabriela Silova**  
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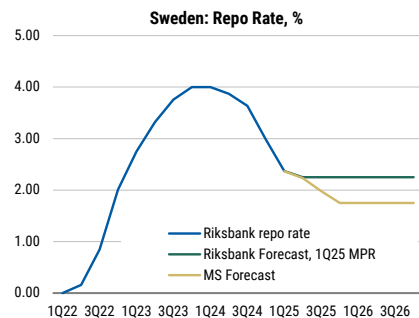
**We expect Sweden to remain in a weak recovery, with consumers remaining cautious. We see the Riksbank restarting the cutting cycle in June.**

**Exhibit 107: Slow recovery ahead**



Source: Statistics Sweden, Morgan Stanley Research forecasts

**Exhibit 108: Riksbank to cut twice more**



Source: Riksbank, Morgan Stanley Research forecasts

**Exhibit 109: Key forecast summary**

Sweden Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.1</b>	<b>1.0</b>	<b>1.2</b>	<b>1.5</b>
Private consumption	-2.0	0.3	0.9	1.6
Gross fixed investment	-1.2	-1.2	1.5	1.7
Government consumption	1.8	1.2	1.2	1.6
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-0.8	0.2	1.1	1.6
Net exports	2.4	0.4	0.2	-0.2
Inventories	-1.5	0.3	0.0	0.0
<b>CPI (%Y)</b>	<b>8.6</b>	<b>2.9</b>	<b>0.5</b>	<b>1.4</b>
<b>Core CPI (%Y)</b>	<b>7.5</b>	<b>2.7</b>	<b>2.7</b>	<b>1.8</b>
<b>Policy rate (EOP, %)</b>	<b>4.00</b>	<b>2.75</b>	<b>1.75</b>	<b>1.75</b>
Unemp. rate (% labor force)	7.7	8.4	8.6	8.1
Labor force participation rate (%)	75.2	75.2	75.4	75.2
General govt. balance (% GDP)	-0.8	-1.5	-1.4	-1.0
Gross govt. debt (% GDP)	31.6	33.5	34.4	34.6
Current account balance (% GDP)	7.0	7.4	7.0	6.6

Source: Sweden Statistics, Riksbank, Morgan Stanley Research forecasts

**Weak recovery:** We maintain our cautious view of the Swedish economic recovery. Household consumption is improving slowly, but confidence and propensity to spend remain subdued. The prevailing uncertainty, inflation surge at the beginning of the year, and interest rate expenditures on mortgages still being higher than in the past are taking a toll on consumers' willingness to spend. We see private consumption increasing across the forecast horizon, but the process will likely be slow. Fiscal policy is the backbone of Swedish growth, both this year and next year, also fueled by the increased pledge for defense spending to 3.5% of GDP by 2030. The construction industry is also close to turning the corner, in our view. Household demand for mortgages is increasing and expectations within the industry are picking up. Investment should be driven by construction, as manufacturing investment remains subdued by weak external demand. On top of direct tariffs, heightened global trade tension and the weak growth among main trading partners should contribute to the external side being a drag (see more [here](#)). A stronger SEK compared with last year would also be less supportive of exports growth.

**Inflation back on track:** The disinflation process is back on track in Sweden, following the temporary uptick at the start of the year. We expect core inflation to remain elevated in 2025 due to repricing in January 2025, but to start undershooting the target in 1Q26. The strengthening of SEK relative to last year should keep imported inflation low, helping the disinflation process. Selling price expectations remain elevated, but we think that weaker demand and the more supportive currency will hamper price-setting power going forward.

**Labor market:** We expect unemployment to correct downwards after the one-off pick-up in January. Signals from surveys point towards a gradual improvement in employment across sectors. We anticipate a pick-up in temporary employees, mainly driven by the construction sector. The two-year wage negotiation agreement, struck at 6.4%, should not pose inflationary pressures. However, we will carefully observe potential wage drift, mainly going into 2026.

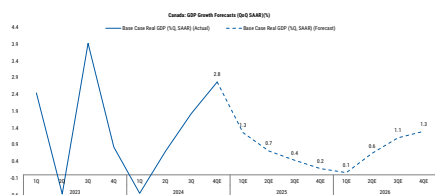
**Riksbank | Two more cuts:** The Riksbank signalled at the May meeting that "slight easing of monetary policy" could be in the pipeline, shifting from the terminal rate narrative. By the June meeting, we expect the data to reconfirm the weaker economic recovery and the continuation of the disinflation process. We expect the resumption of the cutting cycle to take place in June, with the Riksbank taking the repo rate down to 2.0% to support the domestic economy. The balance of risks will likely still be skewed to the downside after the June meeting, due to US trade policy uncertainty. With the probability of an inflation undershoot in 2026 building slowly, and the growth outlook remaining subdued, we think that the Riksbank will deliver its final rate cut in September 2025, down to 1.75%.

# Canada: A Rocky Road Ahead

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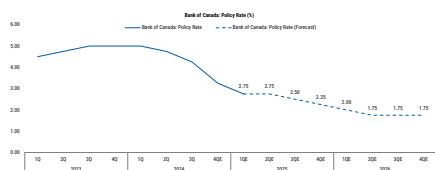
**Trade uncertainty and slowing US growth weigh on Canada. The BoC gradually lowers rates to support the economy. After rising by 1.6%Y in 2024, real GDP slows to 1.4%Y in 2025 and 0.5%Y in 2026. Tariffs impact inflation and boost unemployment. Fiscal policy is supportive for activity. After a period of soft growth, Canada posts a moderate recovery in 2H26.**

**Exhibit 110:** Growth slows in 2025 and into 1H26 but posts a moderate recovery in 2H26



Source: Statistics Canada, Morgan Stanley Research forecasts

**Exhibit 111:** The BoC eases gradually to support the economy



Source: Bank of Canada, Morgan Stanley Research forecasts

**Exhibit 112:** Key forecast summary

Canada Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>	<b>0.5</b>
Private consumption	1.9	2.4	2.1	0.3
Gross fixed investment	-1.1	0.2	2.3	0.3
Government consumption	2.2	3.3	2.2	1.6
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.3	2.1	2.2	0.6
Net exports	1.4	0.0	-0.1	0.3
Inventories	-1.2	-0.6	-0.7	-0.5
<b>CPI (%Y)</b>	<b>3.9</b>	<b>2.4</b>	<b>2.0</b>	<b>2.1</b>
<b>Core CPI (%Y)</b>	<b>3.9</b>	<b>2.6</b>	<b>2.6</b>	<b>2.4</b>
<b>Policy rate (EOP, %)</b>	<b>5.00</b>	<b>3.25</b>	<b>2.25</b>	<b>1.75</b>
Unemp. rate (% labor force)	5.4	6.4	6.8	7.0
Labor force participation rate (%)	65.8	65.5	65.3	65.4
General govt. balance (% GDP)	0.1	-2.2	-2.4	-2.1
Gross govt. debt (% GDP)	107.7	110.8	113.0	110.9
Current account balance (% GDP)	-0.2	-0.4	-1.0	-1.5

Source: Statistics Canada, Bank of Canada, IMF, Morgan Stanley Research forecasts

**Economy:** US trade policy is expected to weaken US growth, and thereby weigh on Canadian economic growth. Narrow tariffs on Canadian exports and general uncertainty weigh on the economy further in 2025 and through early 2026. We expect a slowdown in activity across the board; business and residential investment slow through 2H25-1H26 as trade-related economic uncertainty lingers.

Job gains remain soft in 2025 and through 1H26 as firms remain cautious; this weakening labor demand raises the unemployment rate. However, we expect a gradual recovery in hiring in 2H26, driven by stabilizing trade conditions and a modest rebound. The unemployment rate falls through end-2026.

By 2H26, a modest recovery in US growth, as well as less macro uncertainty, lift Canadian economic activity. Consumption, business, and residential investment improve through end-2026 due to lower rates, looser financial conditions, and a recovery in growth.

**Inflation:** Headline inflation benefits from the removal of the carbon tax until 1Q26. Low oil prices and soft activity keep headline inflation subdued through rest of 2026. Core inflation is elevated through 1H26, driven by higher goods prices from tariffs. Services ex shelter inflation slows as the labor market weakens. Shelter inflation continues to slow as mortgage rates fall and slower immigration diminishes pressure on the housing market. Core inflation moderates in 2H26 as tariff-induced price effects fade.

**Monetary policy:** With weaker growth, the BoC gradually cuts its policy rate to support the economy. After pausing in April, we continue to expect two 25bp rate cuts in July and October and a further 50bp by April 2026. The BoC then holds rates constant for the remainder of 2026. It continues asset purchases as part of its normal balance sheet operations.

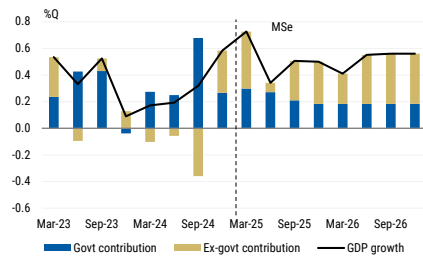
**Risks:** In the US recession scenario, Canada falls into recession in 3Q25-3Q26, in parallel. The BoC cuts 175bp through 2Q26. In the US upside scenario, Canadian exports and business investment pick up as trade uncertainty falls. Increased domestic demand for goods and services push up inflation in Canada. The BoC delivers 50bp more in cuts by end-2025, and keeps the policy rate constant in 2026.

# Australia: Relative Resilience

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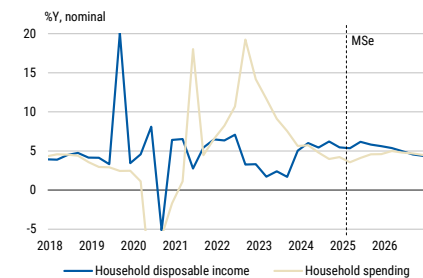
**A weaker global backdrop is offset by continued fiscal stimulus and easing to neutral for the RBA, supporting housing and consumer conditions and leaving growth modestly below trend for 2025 and 2026, but improved from last year.**

**Exhibit 113:** We expect government spending to remain an important driver of GDP growth



Source: ABS, Morgan Stanley Research forecasts

**Exhibit 114:** Improving household incomes should see spending growth pick up through 2025



Source: ABS, Morgan Stanley Research forecasts

**Exhibit 115:** Key forecast summary

Australia Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>2.1</b>	<b>1.0</b>	<b>2.0</b>	<b>2.0</b>
Private consumption	2.5	0.6	1.3	2.3
Gross fixed investment	3.5	1.7	1.6	2.4
Government consumption	3.1	4.4	4.6	2.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.8	1.9	2.3	2.2
Net exports	0.3	-1.0	0.1	-0.4
Inventories	-1.0	0.0	-0.1	0.0
<b>CPI (%Y)</b>	<b>5.6</b>	<b>3.2</b>	<b>2.5</b>	<b>3.2</b>
<b>Core CPI (%Y)</b>	<b>5.4</b>	<b>3.7</b>	<b>2.7</b>	<b>2.9</b>
<b>Policy rate (EOP, %)</b>	<b>4.35</b>	<b>4.35</b>	<b>3.35</b>	<b>3.10</b>
Unemp. rate (% labor force)	3.7	4.0	4.2	4.4
Labor force participation rate (%)	66.6	66.8	67.0	66.9
General govt. balance (% GDP)	1.2	-0.1	-1.4	-1.6
Govt. govt. debt (% GDP)	48.7	48.8	49.7	50.4
Current account balance (% GDP)	-0.3	-1.9	-2.4	-3.0

Source: ABS, Morgan Stanley Research forecasts

**A resilient growth outlook:** We expect economic growth to remain below trend in 2025, but still improve sequentially from the very weak conditions seen last year. Softer global growth will clearly be a drag, but given Australia's low direct tariff exposure and high commodity share of exports, we expect this to be more of a price than volume impact – although some confidence effect on business investment is likely. Migration is also likely to be an underlying headwind, continuing to decline in net terms and moving below pre-Covid rates in 2026. Offsetting these factors will be policy settings that continue supporting the economy, with a strong majority election win from the government seeing the fiscal pulse sustaining.

**Labor market tightness easing:** The labor market remains tight and forward indicators have largely stabilized. Government-linked employment continues to drive the majority of jobs growth and that is likely to continue in the near term, but our below-trend growth forecast suggests some easing in private sector tightness over 2025. As such, we see the unemployment rate rising to a still-low 4.3% by year-end. Despite this, we think that wage growth ticks up in 2025, helped by some sector-specific legislated wage rises, with low productivity meaning unit labor cost growth also stays elevated.

**Inflation balancing global and domestic factors, allowing the RBA to move to neutral:** Inflation has returned to the RBA's target band but in headline terms this continues to be supported by temporary subsidy measures, and so we expect some uplift into 2026 as these are removed. The key driver over the next 12 months is likely to be tradeables disinflation from weaker global growth and potential trade diversion, although we expect that a majority government outcome is likely to see some medium-term focus on services and domestic inflation, which is likely to remain sticky. Given the stronger spending outlook as a result of the election outcome, we have slowed our path for rate cuts this year to two more 25bp cuts in August and November (July and August previously) and now have only one further cut in 2026 (from two previously) to 3.1%.

**Risks:** Risks are skewed to the downside, largely on the global growth outlook. While Australia looks resilient to the base case global growth slowdown, a larger global recession could have a more severe impact on terms of trade and commodity volumes – which would have much greater read-through for domestic demand. Alternatively, a more mild growth backdrop could see inflation pressures re-emerge faster, given that we expect continued policy stimulus and continued stickiness in services inflation components.

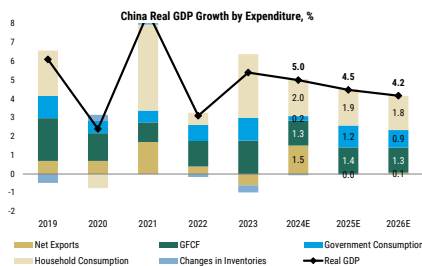
# China: Lingering Deflation Despite Tariff De-Escalation

**Robin Xing**  
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China Economics Team

**We raise 2025 GDP by 30bp to 4.5%Y as the tariff de-escalation reduces near-term growth headwinds, though additional stimulus may be pushed to 4Q25 and in a smaller package. We still expect persistent deflation amid a gradual fix of structural headwinds from housing and insufficient consumption.**

**Exhibit 116:** Stronger domestic demand amid modest stimulus partly offsets weaker exports

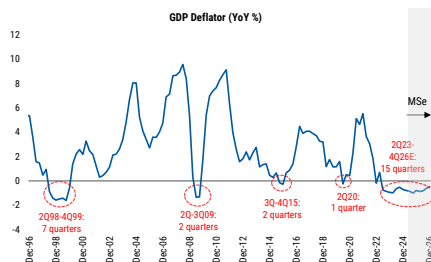


Source: NBS, Morgan Stanley Research forecasts

**Growth softens amid less prohibitive, yet still elevated tariffs:** We revise up 2025/26 GDP growth to 4.5%Y/4.2%Y (from 4.2%/4.0%) due to sooner and more meaningful tariff de-escalation. We now expect the current 30% additional US tariffs to remain in our forecast horizon, which means a 0.6pp smaller growth drag on 2025 GDP. The softer external shock also leads us to assume a smaller and more delayed additional fiscal package. On a quarterly basis, 4Q/4Q growth may stabilize at 4.0%, up from 3.7% previously.

Despite the upward revision, key narratives remain the same. Tariffs are a major demand shock, exacerbating deflationary pressures. The policy response remains modest and reactive to provide a floor to growth instead of to engineer a rapid reflation. Some pockets of the economy may outperform on the back of policy support, such as certain consumption goods, capex for urban renewal, and tech. However, broader reflation should remain a long and bumpy journey as an immediate cure for structural headwinds of debt and economic imbalance appears elusive.

**Exhibit 117:** Reflation to remain a long and bumpy journey



Source: CEIC, Morgan Stanley Research forecasts

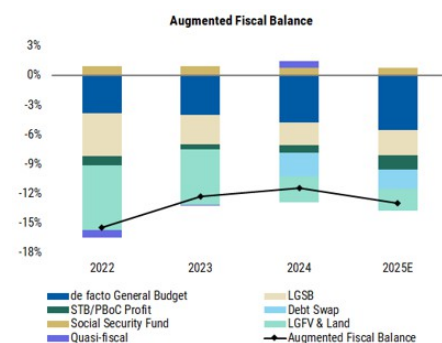
**Deflationary pressures to persist:** We expect entrenched PPI deflation and CPI lowflation to continue, and the GDP deflator stays negative over our forecast horizon, as tariffs weaken final demand and exacerbate overcapacity issues. Meanwhile, the policy response will likely remain reactive and supply-centric along with gradual social welfare reforms, resulting in relatively muted support to consumption demand outside segments covered by the consumer goods trade-in program.

**Domestic stimulus – lighter and pushed back:** Given the softer external shock, we now expect lighter additional stimulus and push back the timing – instead of a Rmb 1-1.5 trillion supplementary package to be announced in 3Q25, we now pencil in a Rmb 0.5-1 trillion package (consumption-related spending amounts to Rmb 200-300 billion) in early 4Q25. This would allow Beijing to maintain flexibility before tariff uncertainty dissipates, with front-loading of existing policy space to provide support to growth. But as the cumulative impact of tariffs still slows growth momentum in our forecast, Beijing would introduce an additional package to support infrastructure and key sectors. We expect modest monetary easing in 2H25 – the PBOC may cut the policy rate and RRR by 15-20bp and 50bp, respectively.

**Gradual structural adjustments:** Housing overhang and insufficient consumption demand may continue to cap growth upside. We see a prolonged process of resolution of outstanding troubled housing assets, and the bar for direct central government

intervention is high as excess inventory is more rampant in lower-tier cities with population outflows. On consumption, we expect a gradualist approach to social welfare reforms, as a significant revamp likely requires equally significant fiscal reforms, while how households will react to these reforms remains uncertain. Therefore, we think that Beijing will take a middle course by gradually pivoting the policy mix towards consumption, while not decisively breaking the path-dependent reliance on investment.

**Exhibit 118:** Augmented fiscal deficit to expand in 2025



Source: CEIC, Morgan Stanley Research forecasts

**RMB to appreciate versus a weaker USD:** On the back of our global FX team's view of a significantly weaker dollar from here, we now see mild appreciation of RMB against USD. In turn, the RMB trade-weighted basket would depreciate modestly, but not so meaningfully as to trigger concerns from other neutral economies on the Chinese import surge amid US tariffs. Despite the tariff de-escalation, we still see the US and China to be locked in long-term competition, and Beijing to continue to try to improve trade and supply-chain collaborations with the rest of the world.

**Risks to watch:** Tariffs and domestic policy are two key sources of uncertainty. Our bull case factors in continued tariff de-escalation to waive 20% Fentanyl tariffs by end-3Q25, while Beijing rolls out a more consumption-centric stimulus than our base case and accelerates structural reforms. Real GDP may reach 4.7%Y in 2025 and, as the tariff impact fades, 4.5%Y in 2026. In the bear case, the weighted average US tariff rate goes up by another 15pp after the 90-day pause, while tensions between the US and other major economies rise, weighing on exports in 2H25 and 2026. Domestically, Beijing increases its reliance on investment to support activity, but the multiplier effect diminishes further. China's real GDP growth would slip to 4.2%Y in 2025 and 3.6%Y in 2026.

**Exhibit 119:** Key forecast summary

China Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>5.4</b>	<b>5.0</b>	<b>4.5</b>	<b>4.2</b>
Private consumption	8.8	5.0	4.9	4.6
Gross fixed investment	3.5	3.2	3.6	3.5
Government consumption	7.2	1.4	7.0	5.5
<b>Contribution to GDP (pp)</b>				
Final domestic demand	6.4	3.6	4.5	4.1
Net exports	-0.6	1.5	0.0	0.1
Inventories	-0.4	-0.1	0.0	0.0
<b>CPI (%Y)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.3</b>
<b>Core CPI (%Y)</b>	<b>0.7</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>
<b>Policy rate (EOP, %)</b>	<b>1.80</b>	<b>1.50</b>	<b>1.25</b>	<b>1.25</b>
General govt. balance (% GDP)	-12.3	-11.4	-13.0	-14.0
Gross govt. debt (% GDP)	110.9	119.1	123.0	128.0
Current account balance (% GDP)	1.4	2.2	1.6	1.1

Source: CEIC, Wind, Morgan Stanley Research forecasts; Note: The policy rate we use here for China is 7-day PBOC reverse repo rate; China's general government balance includes budget deficit, transfers of fiscal reserves, local government special bonds, social security fund, LGFV funding, and net land sales; Gross government debt includes central government debt, local government debt, and Wind statistics on LGFV debt, which are LGFVs with bond-issuing capability.

# India: Domestic Demand to Remain Resilient amid Policy Support

Upasana Chachra

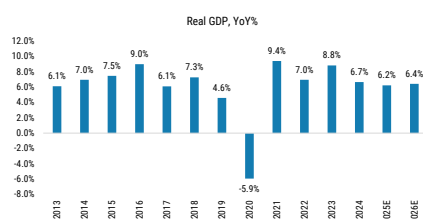
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**We expect growth to remain resilient, supported by strength in domestic demand amid uncertainty from external factors. Policy support is likely to continue through easier monetary policy while fiscal policy prioritizes capex spending. Macro stability should remain in the comfort zone, with robust buffers, providing flexibility to policymakers.**

**Exhibit 120:** We expect GDP growth to remain resilient



Source: CEIC, Morgan Stanley Research forecasts

**Growth | Domestic demand to remain in focus:** We expect a modestly higher growth path on the back of de-escalation of US-China trade tensions, which improves the external demand outlook at the margin. The trend in domestic demand should be the key driver of India's growth momentum, as lingering uncertainty remains on the external front. Within domestic demand, we expect the consumption recovery to get more broad-based as urban demand improves, to support the robust trend in rural consumption levels. Within investment, we see public and household capex driving growth, while private corporate capex recovers gradually. We expect GDP growth at 6.2%Y in 2025 and 6.4%Y in 2026.

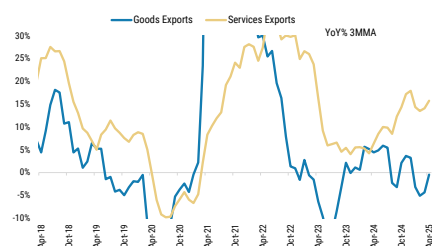
**Consumption:** We expect consumption growth to get more broadly based as urban consumption improves, aided by income tax cuts announced in the budget, an improving job growth outlook, better purchasing power as inflation remains benign, and increased credit off-take. We expect rural demand to continue to hold up, buoyed by a strong upcoming monsoon season, moderating inflation, and favorable terms of trade.

**Investment:** The trade and tariff-related uncertainty is likely to have second-order impacts on the capex cycle, due to subdued investor sentiment. In such a scenario, we expect the public and household sectors to do the heavy lifting on the capex front, amid weak risk appetite for the private corporate sector. The central government retains its emphasis on supporting capex through higher outlays for physical and social infra, housing, and support for state capex spending. Private capex trends suggest a gradual recovery, with some sectors such as power, semiconductors, and electronics seeing a rise in capex.

**Trade:** Even as US-China trade tensions have de-escalated recently, we believe that lingering uncertainty will hamper the trade cycle and weigh on external demand. As such, while we expect that there is a strong likelihood of the India-US bilateral trade deal to come through before July 9, the indirect impact through slower global growth could still weigh on aggregate demand through the channel of weaker business confidence.

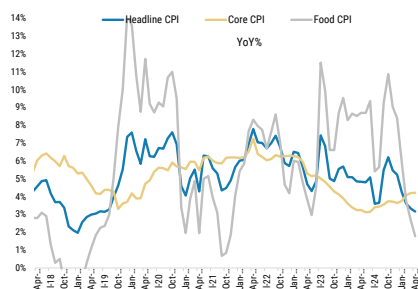
**Inflation to remain benign:** We expect the trend in headline inflation to remain benign, driven by lower food inflation and softer global commodity prices, especially oil. The IMD's forecast of an above-normal monsoon for 2025 is likely to support the cropping season, which, in addition to healthy buffer stocks, is likely to ensure food prices remain range bound. Moreover, non-food inflation is also likely to be in check, on the back of

**Exhibit 121:** Goods versus services exports, %Y, 3MMA



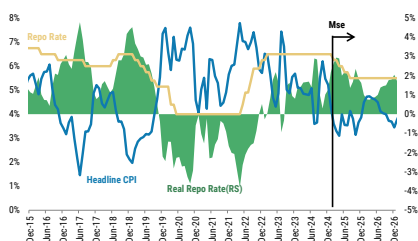
Source: CEIC, Morgan Stanley Research

**Exhibit 122:** Softening food prices leading to lower headline inflation



Source: CEIC, Morgan Stanley Research

**Exhibit 123:** We expect a terminal policy rate of 5.50%



Source: CEIC, RBI, Morgan Stanley Research forecasts

lower global commodity prices partly reflecting slower end demand. As such, we expect inflation to remain decisively below the 4%Y mark over the next few months and average 3.8%Y in 2025 and edge slightly higher in 2026.

**Current account to remain comfortable:** The current account deficit is likely to be affected by a combination of tariff-related uncertainty leading to lower external demand, and softer global commodity prices. We believe that the net effect is likely to keep the current account deficit range-bound – lower commodity prices, which improve the commodity terms of trade, will be partly offset by lower demand adversely affecting export income. In our view, the current account deficit is likely to remain range-bound below 1% of GDP in 2025-26, well within policymakers' comfort zone, with the presence of sufficient macro-stability buffers suggesting continued resilience of the external balance sheet.

**Policy response to remain counter-cyclical:** We expect the RBI to respond with a deeper easing cycle, premised on slower growth, while inflation remains under control. As such, we pencil in cumulative easing of 100bp, and therefore expect two more rate cuts in 2025, pegging the terminal policy rate at 5.50% in this rate-cutting cycle. A deeper-than-anticipated slowdown globally, which dents India's growth trajectory further, and/or faster moderation in inflation is likely to lead to an extended rate-cutting cycle. Moreover, the RBI is also likely to continue easing across its other levers of liquidity and regulations. On the fiscal policy front, while we expect the consolidation path laid out in the budget to be maintained in our base case, downside risks to growth may prompt a pause in fiscal deficit consolidation, in addition to increased capex to support domestic demand.

**Risks remain balanced:** In our view, risks to our growth outlook remain evenly balanced, amid an improving outlook on cross-country trade deals. On the upside, an acceleration in US growth, along with faster resolution of trade and tariff-related uncertainty, can help to improve investor sentiment and therefore push growth higher relative to our base case. Downside risks emanate from prolonged uncertainty on the trade and tariff front, leading to a deeper slowdown in global growth. Risks from global capital flows or volatility in the currency could make it more challenging for policymakers to address growth risks.

**Exhibit 124:** Key forecast summary

India Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>8.8</b>	<b>6.7</b>	<b>6.2</b>	<b>6.4</b>
Private consumption	4.5	6.7	6.1	6.2
Gross fixed investment	8.7	6.0	5.6	5.8
Government consumption	8.9	4.5	5.7	5.3
<b>Contribution to GDP (pp)</b>				
Final domestic demand	6.1	6.4	5.9	6.0
Net exports	-2.0	1.2	0.0	-0.8
Inventories	0.6	0.2	-0.5	-0.3
<b>CPI (%Y)</b>	<b>5.7</b>	<b>4.9</b>	<b>3.8</b>	<b>4.2</b>
<b>Core CPI (%Y)</b>	<b>5.1</b>	<b>3.4</b>	<b>4.4</b>	<b>4.2</b>
<b>Policy rate (EOP, %)</b>	<b>6.50</b>	<b>6.50</b>	<b>5.50</b>	<b>5.50</b>
General govt. balance (% GDP)	-8.7	-8.0	-7.5	-7.0
Gross govt. debt (% GDP)	83.1	82.2	81.1	79.2
Current account balance (% GDP)	-0.9	-0.8	-0.8	-0.7

Source: RBI, CEIC, budget documents, Morgan Stanley Research forecasts

# Indonesia: A Double Dose of Uncertainty

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**We expect GDP growth to stay below 5%Y, as the double dose of domestic and external uncertainty should keep weighing on the capex cycle.**

**Exhibit 125:** The capex cycle remains lackluster



Source: Haver Analytics, Morgan Stanley Research

**The capex cycle remains lackluster:** We have been highlighting for some time that a pick-up in capex will be required to sustain the next phase of the growth cycle. However, the ratio of investment/GDP has dipped even further in 1Q25, remaining well below its pre-Covid averages. As this weaker investment environment persists, which we expect, it should weigh on job creation and income growth, in turn pressuring consumption growth.

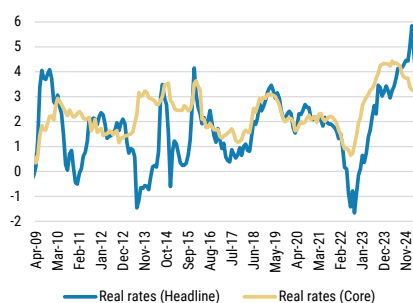
**Double dose of uncertainty to still weigh on capex:** Moreover, the current elevated uncertainty in both the external and domestic backdrop has been weighing on corporate sentiment, which will likely keep private capex momentum subdued. Domestically, there has been a period of prolonged policy uncertainty. At a time when the private sector appears less willing to step forward and invest, public investment should be taking the lead, but this has not been forthcoming either. Externally, the commodity price cycle has not been supportive. Terms of trade have been generally weak as global commodity prices, especially for those which Indonesia exports, have been relatively weak after a run-up in 2022. Typically, the capex cycle in Indonesia is led by commodity producers but, without a significant improvement in the terms of trade, the support to growth from the commodity cycle and via its secondary effects through boosting the capex cycle appears less likely.

**Tariffs to add further downward pressure:** Compounding the challenge, we have just seen the imposition of tariffs, which should crimp global demand and weigh further on corporate sentiment. To be sure, Indonesia's goods exports/GDP ratio is relatively low in a regional context but its exposure will likely be via commodity prices and exports. The diversification of supply chains is also unlikely to be an offsetting benefit given that, at the outset, there has been a limited push from policymakers to diversify growth away from commodity-related segments. Indeed, the growth strategy has been to anchor around the downstreaming of commodity-related segments and to gain manufacturing market share in those downstream industries. The lack of a natural competitive advantage as well as lack of a policy push to lift infrastructure spending have impeded the progress so far, in our view. Moreover, given that tariffs will likely exacerbate China's excess capacity challenge, this makes adoption of manufacturing as a growth driver all the more challenging.

**Spillovers from weaker capex to consumption:** We think that the weaker capex momentum will spill over to domestic consumption via softer job creation and income growth. As it is, domestic consumption indicators have been relatively weak and we'd highlight that domestic car and motorcycle sales have yet to cross pre-Covid levels meaningfully. As capex momentum stays soft, this should also keep downward pressure on consumption growth over the course of the forecast horizon.

**A lack of fiscal room to respond to downward growth pressures:** Policymakers have been adhering to the 3% fiscal deficit rule, which helps to anchor macro stability. However, this does pose challenges because it provides limited space for countercyclical support to the economy. Moreover, policymakers have moved away from allocating budgetary expenditures to capex. The allocation to capex in the budget draft for 2025 has already dipped to a low since 2020 and dropped to 0.8% of GDP as compared to an average of 1.4% of GDP in the preceding five years. At the start of the year, policymakers unveiled plans to cut expenditure to make room for other spending, which will shift the allocation further away from capex. In response to the weak 1Q GDP growth print, policymakers have continued to focus on increasing spending on social programs and exploring ways to support domestic consumption rather than capex.

**Exhibit 126:** Real rates are too high and crimping growth



Source: Haver Analytics, Morgan Stanley Research

**Monetary policy to do the heavy lifting, but the pace may be constrained too:** While BI has cut rates twice in this cycle, the current level of real rates (whether deflated by headline or core CPI inflation) is still too high relative to the historical context and is higher than warranted by the current growth set-up. We do see another 100bp of rate cuts – we see this as the only tool to support growth. But the pace and extent of easing should be curtailed by the weakness in IDR, and they are in turn linked to both the outlook for the Fed as well as domestic policy uncertainty. Indeed, real rate differentials have improved substantially, given the rise in Indonesia's real rates, which should open up some room for BI to cut interest rates from this perspective.

**Downside pressures persist:** As we highlighted, fiscal policy is constrained and it appears that monetary easing will be reactive at best, meaning that financial conditions will likely remain tighter for longer than warranted by domestic conditions. Further complicating the issue is that even if we were to assume that domestic policy uncertainty may be removed in the coming months, external trade policy uncertainty should still be a drag on corporate confidence and capex.

**Exhibit 127:** Key forecast summary

Indonesia Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>5.0</b>	<b>5.0</b>	<b>4.8</b>	<b>4.9</b>
Private consumption	5.0	5.1	4.7	4.9
Gross fixed investment	3.8	4.6	2.9	4.7
Government consumption	3.2	7.8	3.3	4.7
<b>Contribution to GDP (pp)</b>				
Final domestic demand	4.1	4.7	3.7	4.3
Net exports	0.7	-0.1	0.9	0.6
Inventories	0.3	0.4	0.2	0.0
<b>CPI (%Y)</b>	<b>3.7</b>	<b>2.3</b>	<b>1.9</b>	<b>2.4</b>
<b>Core CPI (%Y)</b>	<b>2.3</b>	<b>2.0</b>	<b>2.1</b>	<b>1.8</b>
<b>Policy rate (EOP, %)</b>	<b>6.00</b>	<b>6.00</b>	<b>5.00</b>	<b>4.75</b>
General govt. balance (% GDP)	-1.6	-2.3	-2.8	-2.6
Gross govt. debt (% GDP)	39.6	40.2	41.0	41.0
Current account balance (% GDP)	-0.1	-0.6	-0.3	-0.7

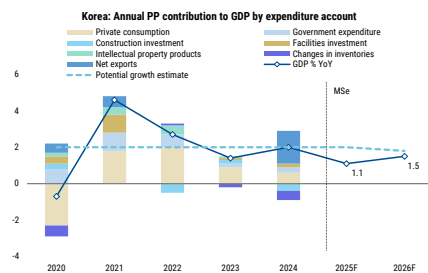
Source: CEIC, Morgan Stanley Research forecasts

# Korea: New Era Post-Early Election

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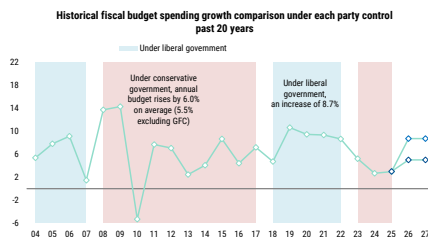
**After the early presidential election this June, we see a turnaround in fiscal policy to expansionary amid weak domestic and export growth. Recent tariff de-escalation is good news while high external uncertainties likely drive the BoK to lower the policy rate below neutral to 2.0%.**

**Exhibit 128:** Weak growth outlook amid a highly uncertain external environment



Source: BoK, Morgan Stanley Research forecasts

**Exhibit 129:** Expansionary fiscal policy to help growth recover in 2026



Source: MoEF, Morgan Stanley Research forecasts

**Exhibit 130:** Key forecast summary

Korea Forecast Summary				
	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	1.4	2.0	1.1	1.5
Private consumption	1.8	0.7	1.0	2.6
Gross fixed investment	1.3	-0.1	-1.5	1.0
Government consumption	1.3	2.3	5.5	3.6
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.1	0.9	1.2	1.8
Net exports	0.2	1.9	0.1	-0.6
Inventories	0.0	0.6	-0.4	0.0
<b>CPI (%Y)</b>	3.6	2.3	1.9	1.9
<b>Core CPI (%Y)</b>	3.4	2.3	1.8	1.9
<b>Policy rate (EOP, %)</b>	3.50	3.00	2.00	2.00
General govt. balance (% GDP)	-3.9	-4.0	-4.5	-4.7
Gross govt. debt (% GDP)	50.4	47.4	49.4	50.3
Current account balance (% GDP)	2.1	4.7	3.6	3.6

Source: CEIC, Morgan Stanley Research forecasts

**Tariff uncertainty here to stay:** We remain bearish on Korea on high tariff uncertainty. Korea currently faces 25% tariffs on autos, steel, and aluminum. We have penciled in potential tariffs on semis mid-year in our base case. We lowered our growth outlook significantly earlier in the year on a harsher-than-expected tariff roll-out – with growth cut by 40bp to 1.0%Y. However, coupled with the recent US-China tariff de-escalation, incorporating the earlier-announced 90-day pause on reciprocal tariffs, we raise our growth forecast modestly by 10bp each to 1.1%Y for 2025 and 1.5%Y for 2026. While we see Korea positioned better than its peers in trade negotiations, we see the downturn in trade on a deterioration in global corporate confidence posing a challenge to growth.

**Election to help gradual domestic recovery:** On the domestic front, we expect a better 2H25 than 1H. After the impeachment of the former president in April, the newly scheduled presidential election for June 3 should help the domestic sentiment recovery on removal of political uncertainty. The leading candidate from the liberal Democratic Party of Korea (DPK) focuses on the household and small business sector recovery as well as pursuing policy reversal to fiscal expansion, against the Conservative party candidate who puts a priority on private sector growth.

**Inflationary environment under control:** Despite our domestic growth recovery story, global demand weakness putting downward pressure on global oil prices likely keeps CPI inflation under control for the next two years. We forecast CPI inflation rising by 1.9%Y for 2025-26, inside the BoK's target (2.0%Y).

**Faith in fiscal:** After three previous years of fiscal prudence, we expect a turnaround to fiscal expansion. We expect fiscal policy to take center stage after the presidential election in Korea. The economic conditions – on both on the external and domestic fronts – appear challenging. Our growth forecast with a 1.0% handle through 2026 remains far below the potential growth level. A policy reversal to fiscal expansion is likely to receive increased recognition and support over the rest of this year, especially after the presidential election on June 3. On the monetary side, we expect the BoK to continue cutting to the accommodative level just below the neutral rate range of 2.25-2.75% with the terminal rate at 2.0%. After lowering the level to 2.0% we see the BoK prioritizing financial stability while passing the baton for boosting growth to the government.

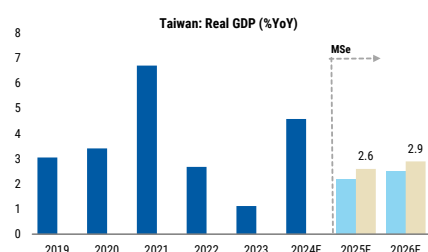
**Risks:** Harsher-than-expected sectoral tariffs such as semiconductors pose an additional downside risk. Upside risks could come from larger-than-expected fiscal expansion after the election in case of a DPK victory.

# Taiwan: Strong TWD Impact

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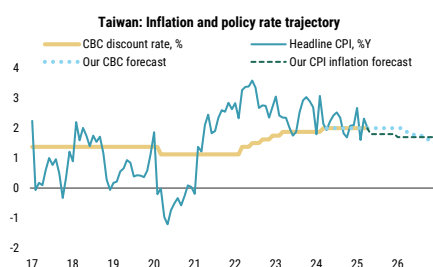
**Taiwan remains highly exposed to global tariff risks while lacking bargaining power on trade negotiations. The recent TWD rally evidences Taiwan's exposure while stronger-than-expected 1Q GDP on a rush order-driven exports boost likely buffers coming downward pressure. We push CBC cuts to 2026 and see the terminal rate now at 1.5% on recent US-China tariff de-escalation.**

**Exhibit 131:** We see improved growth on strong 1Q GDP and tariff de-escalation



Source: Taiwan Budget Office, Morgan Stanley Research forecasts

**Exhibit 132:** We expect the CBC to start cutting in March 2026 until it gets to 1.5%



Source: CBC, Morgan Stanley Research forecasts

**Exhibit 133:** Key forecast summary

Taiwan Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	1.4	4.7	2.6	2.9
Private consumption	8.0	2.8	1.0	1.6
Gross fixed investment	-7.7	5.3	9.4	0.7
Government consumption	0.5	2.4	2.0	1.5
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.8	4.8	2.3	2.1
Net exports	0.3	-0.2	0.3	1.0
Inventories	-0.7	1.7	-0.1	-0.2
<b>CPI (%Y)</b>	2.5	2.3	1.9	1.7
Core CPI (%Y)	2.5	1.7	1.6	1.7
<b>Policy rate (EOP, %)</b>	1.88	2.00	2.00	1.50
General govt. balance (% GDP)	1.9	2.0	1.8	1.5
Gross govt. debt (% GDP)	29.7	25.0	22.5	20.5
Current account balance (% GDP)	14.6	15.5	12.9	13.2

Source: CEIC, Morgan Stanley Research forecasts

**Highly exposed to tariffs risks:** We continue to view Taiwan as one of the most exposed economies in the region and stay bearish on its growth outlook. At the same time, given its high exposure to US and China demand, the recent de-escalation over the 90-day pause on partial tariff imposition between the US and China is likely to ease some pain and delay the export slowdown. Moreover, the strong rush order demand especially from the US in 1Q25 ahead of the tariffs kicking in by April and before the 90-day pause on reciprocal tariffs had lifted the GDP print notably above consensus to 5.4%Y versus our forecast of 3.1%Y. Digesting the de-escalation on US-China tariffs and stronger-than-expected 1Q25, we now raise our growth forecast for both 2025-26 by 40bp to 2.6%Y and 2.9%Y, respectively. However, this still sits below trend for Taiwan at 3.5%Y, given its high exposure to a highly uncertain external environment.

**Strong TWD impact negative for macro:** The recent TWD rally post-initial trade talks with the US put downward pressure on Taiwan's exports. TWD has strengthened nearly 10% quarter to date, driven by an event-driven rally after US-Taiwan trade negotiations held on May 1; the spot is yet to reverse back to the 10-year average as of May 12. We note that Taiwan's exports remain highly sensitive to FX, which bodes negatively in the near term. Our analysis shows that every 10% gain in TWD leads to a 0.55pp drop in exports growth, but over time it also lowers imports after initially raising them by 0.57pp. The good news is that the sensitivity of semiconductor exports to FX has remained low since 2023 and our [tech team sees a limited impact on TSMC's structural profitability](#).

**Stable inflation and four cuts by the CBC:** Despite stronger-than-expected headline GDP growth in 1Q25, we noted slowing domestic consumption and local demand for goods and services, reflected by a muted core inflation trend. On the back of weak global oil prices this year, we expect muted inflationary pressure through next year – we keep our inflation forecast stable at 1.9%Y in 2025 before it weakens to 1.7%Y in 2026. On this, we expect the CBC to start a rate cut cycle once the Fed starts to cut. We push out our starting quarter for the CBC rate cut on our upwards growth revision and slower negative impact from exports feeding through to domestic activity. However, we continue to see the CBC engaging a notable cutting cycle – four cuts through end-2026.

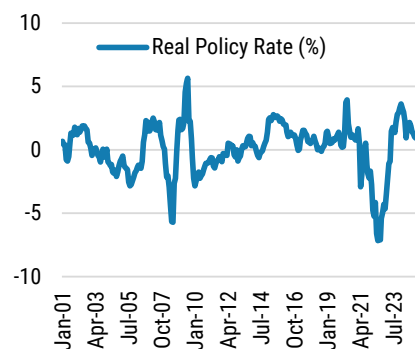
**Risks:** The balance tilts to the downside as uncertainty remains high on tariffs. Harsher-than-expected sectoral tariffs such as semiconductors pose downside risks while TWD exposure and a potentially stronger-than-expected TWD move could further distress export growth in the near term.

# Thailand: Easing Tailwinds Fading, Trade Headwinds Rising

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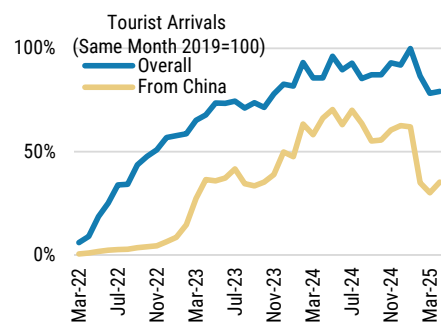
**Fiscal and monetary easing have helped to support near-term growth momentum. But we expect trade headwinds to drag growth lower.**

**Exhibit 134:** Real policy rates off the peak but still elevated



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 135:** Tourism – once a source of growth – has not fully recovered



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 136:** Key forecast summary

Thailand Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	2.0	2.6	1.9	1.9
Private consumption	6.9	4.5	1.6	2.3
Gross fixed investment	1.2	0.0	2.6	1.2
Government consumption	-4.7	2.4	1.2	1.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	3.2	2.9	1.8	1.9
Net exports	-0.2	1.1	-0.5	0.4
Inventories	-1.0	-1.5	0.6	-0.4
<b>CPI (%Y)</b>	1.3	0.4	0.2	0.6
Core CPI (%Y)	1.3	0.6	1.0	0.8
<b>Policy rate (EOP, %)</b>	2.50	2.25	1.00	1.00
General govt. balance (% GDP)	-3.0	-5.6	-4.5	-4.5
Gross govt. debt (% GDP)	62.3	63.2	64.5	66.0
Current account balance (% GDP)	1.4	2.1	1.5	1.2

Source: CEIC, Morgan Stanley Research forecasts

**The Thai economy gained strength in 2H24...** Growth in Thailand picked up in 2H24, helped by the disbursement of the digital wallet scheme and the lowering of interest rates. The fiscal deficit widened to 5.6% of GDP in 2024 from 3.0% in 2023. Real rates also moved lower than real GDP growth, helped by a pick-up in inflation and cut in nominal interest rates.

**...but we see a lack of catalysts that would support growth going forward:** Beyond the support from easing measures, there has been a lack of other growth drivers. Tourism trends remain strong and, while financial conditions for households have eased, the starting point of high levels of household debt is constraining a robust recovery in consumption. This has had implications for the investment cycle, as weak demand is weighing on capacity utilization and corporate sentiment. A loss of economic competitiveness has also meant that foreign investment trends have been lackluster. Trade tension will likely exacerbate the existing trends of weak demand.

**A seeming need to stay on the monetary easing path:** Against this backdrop, the series of rate cuts that have been undertaken are helpful but monetary policy is not as yet accommodative. We expect headline inflation to stay below the BoT's 1-3%Y range and hence project more rate cuts, with a view that the terminal rate will reach 1%, taking it below neutral. Recently, the BoT has pushed back against the notion of further rate cuts, suggesting that policy room is limited after the recent rate cuts and that it needed to preserve space to deal with future uncertainties. But we believe that the softening growth and persistent below-target inflation warrant further monetary easing. Moreover, the appreciation of the baht will likely mean that competitiveness issues will again weigh on the corporate sector and we believe that the best way to manage currency appreciation would be for the central bank to cut interest rates – which would help to ease financial conditions all around.

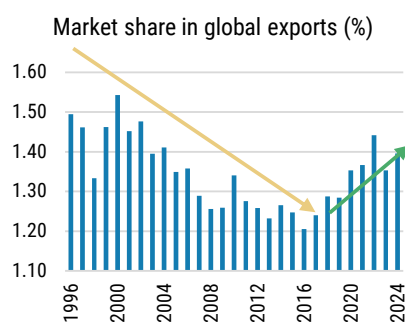
**Risks we are on the lookout for:** One of the lingering concerns that we have on the Thai economy is the loss of competitiveness, which would weigh on the structural growth outlook. Policymakers have been making efforts to attract FDI inflows but we believe that there is a cyclical element in that the subdued post-Covid recovery is weighing on investors' minds.

# Malaysia: A Loss of Cyclical Momentum

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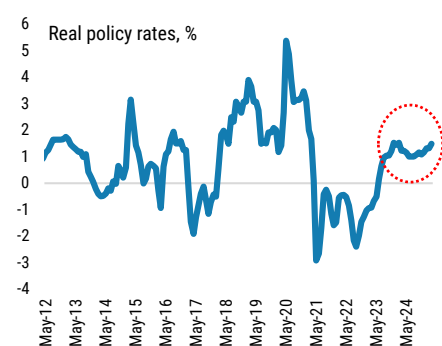
**Trade headwinds mean that Malaysia, a highly trade-oriented economy, loses cyclical momentum in the near term. But structural positives and domestic demand strength should help to provide a cushion to the growth drag.**

**Exhibit 137:** Regaining competitiveness a positive but watch cyclical headwinds



Source: UNCTAD, Morgan Stanley Research

**Exhibit 138:** Scope to reduce rates



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 139:** Key forecast summary

Malaysia Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	3.6	5.1	3.8	4.0
Private consumption	4.7	5.1	4.1	4.5
Gross fixed investment	5.5	12.0	4.4	4.2
Government consumption	3.1	4.8	2.3	2.0
<b>Contribution to GDP (pp)</b>				
Final domestic demand	4.3	6.1	3.7	3.9
Net exports	-0.9	-0.1	-0.8	0.1
Inventories	0.2	-0.9	0.9	0.0
<b>CPI (%Y)</b>	2.5	1.8	1.6	1.8
<b>Core CPI (%Y)</b>	3.0	1.8	1.9	1.9
<b>Policy rate (EOP, %)</b>	3.00	3.00	2.25	2.25
General govt. balance (% GDP)	-5.0	-4.1	-4.0	-3.8
Gross govt. debt (% GDP)	69.7	70.4	70.1	69.8
Current account balance (% GDP)	1.1	1.4	1.6	1.5

Source: CEIC, Morgan Stanley Research forecasts

**Structural outlook still positive...** We are positive on the structural outlook for Malaysia. The economy has regained competitiveness (as evident in a higher share in global exports and FDI) and this has helped to support domestic demand, which has been robust. At the margin, we are still observing strength in electronics exports, and there has been a renewed push for inbound investment in Malaysia, in areas like data centers, after a period of moderation. Policy reforms to reduce the subsidy burden on the fiscal deficit and to support investment growth have continued, albeit at a gradual pace.

**...but not immune to cyclical headwinds:** The rise in trade tension is leading to a slowing trade cycle, which should affect Malaysia’s exports and create negative spillover effects to the capex cycle. At the same time, we do think that Malaysia will find it somewhat difficult to agree to a trade deal, mainly because its trade surplus with the US is about 9% of GDP. Hence, there could be some challenges in ramping up purchases to that magnitude and, even if a deal were to be reached, a 10% tariff will still likely apply.

**Macro stability should remain in check:** Headline CPI inflation has been below 2%Y for the past 21 months and we expect that the growth moderation will keep inflationary pressures at bay. As it is, the deceleration in inflation has already meant that real interest rates are now above the 10-year average. As growth begins to moderate, we think that the central bank will implement some rate cuts in order to provide some support to growth. At the last monetary policy meeting, the central bank took notice of the “downside risks in the economic environment” and “remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook”, which we read as a dovish signal that the central bank will be open to cutting interest rates. We project a total of 75bp of interest rate cuts in this cycle, which will be about half of the extent of rate cuts that had been delivered in previous easing cycles. As for fiscal policy, policymakers have laid out a path for fiscal consolidation over the medium term, and we believe that the efforts could be hampered by a weaker underlying growth momentum, which would lead to a more gradual pace of fiscal consolidation.

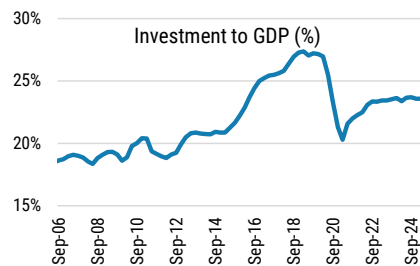
**Risks:** We think that risks to the outlook are still more likely to be external than domestic. The open nature of the economy means that Malaysia will be particularly exposed to downdrafts in external demand. As it relates to trade tension, Malaysia has been one of the beneficiaries from global supply chain rewiring effects, and the near-term uncertainty and its effect on capex may weigh more on FDI flows, affecting the growth momentum by more than we expect.

# Philippines: Even More Rate Cuts Coming

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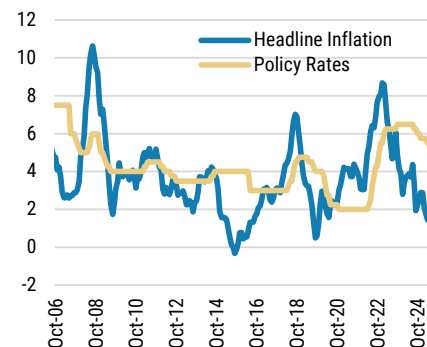
**The low goods exports/GDP insulate the economy on a relative basis but underlying private demand remains soft. We see significant room for rates to be lowered.**

**Exhibit 140:** Investment/GDP still well below pre-Covid levels



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 141:** More room for rate cuts given the rapid descent of inflation



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 142:** Key forecast summary

Philippines Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	5.6	5.7	5.2	5.3
Private consumption	5.5	4.9	4.9	5.2
Gross fixed investment	8.5	6.2	4.5	4.9
Government consumption	0.9	7.1	6.9	3.5
<b>Contribution to GDP (pp)</b>				
Final domestic demand	6.0	6.1	5.6	5.4
Net exports	0.0	-0.7	-1.0	-0.4
Inventories	-0.4	0.3	0.6	0.2
<b>CPI (%Y)</b>	6.0	3.2	1.9	2.9
<b>Core CPI (%Y)</b>	4.9	2.9	1.6	2.8
<b>Policy rate (EOP, %)</b>	6.50	5.75	4.50	4.00
General govt. balance (% GDP)	-6.2	-5.7	-5.5	-5.5
Gross govt. debt (% GDP)	56.5	57.1	58.1	58.1
Current account balance (% GDP)	-2.9	-3.8	-3.5	-3.5

Source: CEIC, Morgan Stanley Research forecasts

**One of the least exposed economies to trade tensions:** Against the current backdrop of trade tensions and slower trade growth, the Philippine economy should be one of the least exposed within Asia, largely on account of its low goods exports/GDP at the starting point. Meanwhile, a weaker USD environment would also be most beneficial to the Philippines on account of its current account deficit, which reduces external funding risks.

**But underlying growth momentum is soft:** However, the challenge in this cycle is that private demand is weak. On a headline basis, GDP growth appears to be holding up well at 5.4%Y as of 1Q25, but excluding public consumption and public construction, private domestic demand is growing at just 3.2%Y. Indeed, investment has only just reached its pre-Covid levels and investment has been range-bound at around 24% of GDP. Hence, even while trade tensions may not affect the Philippines as much, the subdued private demand momentum keeps us cautious on the growth outlook.

**Below-target inflation opens up room for more cuts:** The BSP has been one of the earliest central banks in the region to start its easing cycle and has already cut rates by 100bp. This move towards a less restrictive monetary policy has been enabled by a rapid descent in inflation – with inflation moving back into the BSP's target range of 2-4%Y from August 2024 onwards. More recently, inflation in the past two months has dipped to even below the lower end of the target range. While we do think that the recent prints likely do mark a trough in inflation rates, we believe that the soft private demand and commodity prices outlook will mean that inflation stays within the 2-4%Y target range. A weak USD environment should provide a more conducive backdrop. Hence, we think that the central bank will be able to support growth and continue to cut interest rates, eventually lowering them to 4%.

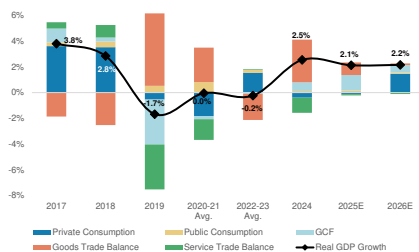
**Risks – a quick return of macro-stability risks:** Given the higher levels of public debt/GDP and the still-wide deficits, we believe that efforts will have to be taken to consolidate fiscal deficits. But given the extent of growth support needed, the pace of consolidation may be relatively gradual, which would keep the concern about macro-stability risks re-emerging alive.

# Hong Kong: Darkness Before Dawn

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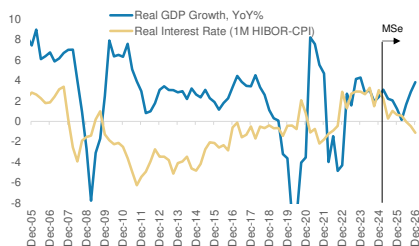
**We expect real GDP to slow to 2.1%Y in 2025, before edging up to 2.2%Y in 2026. Elevated US tariffs and increased price competitiveness in China are near-term headwinds, offset by meaningful Fed-induced rate cuts next year.**

**Exhibit 143: Growth to slow in 2025 amid tariff shocks, before edging up in 2026 on interest rate cuts**



Source: CEIC, Morgan Stanley Research forecasts

**Exhibit 144: Real rates to fall well below real GDP growth in 2026, for the first time in four years**



Source: CEIC, Morgan Stanley Research forecasts

**Exhibit 145: Key forecast summary**

Hong Kong Forecast Summary				
	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	3.2	2.5	2.1	2.2
Private consumption	6.8	-0.6	-0.2	2.2
Gross fixed investment	11.4	2.4	1.5	3.0
Government consumption	-3.9	1.0	1.2	0.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	5.9	1.1	0.3	2.1
Net exports	-2.7	2.1	0.9	0.0
Inventories	0.1	-0.7	0.9	0.1
<b>CPI (%Y)</b>				
Core CPI (%Y)	2.0	2.1	1.5	1.5
<b>Policy rate (EOP, %)</b>	5.75	4.75	4.75	3.00
General govt. balance (% GDP)	-2.7	-0.9	-2.1	-1.5
Gross govt. debt (% GDP)	14.6	15.1	17.2	19.1
Current account balance (% GDP)	8.5	12.9	9.7	7.9

Source: CEIC, Morgan Stanley Research forecasts

**Growth to moderate in 2025 amid tariff disruptions...** The US tariff hikes on China would serve as the key growth headwind for Hong Kong this year. Our base case assumes the trade-weighted US tariffs on China would stay at 40% despite ongoing trade talks, significantly higher than its pre-2025 level of 11%. In our view, the direct tariff impact on Hong Kong should be manageable, given that US-China trade only accounts for 6% of its total re-export business (versus 9% in 2017). However, tariffs could indirectly affect Hong Kong's economy via: 1) Weaker capex growth, given lingering market concerns about tariff uncertainties; and 2) Sharper Hong Kong-China price differentials due to more entrenched deflation in China under tariff shocks, reducing the attractiveness of Hong Kong's domestic retail market. We thus expect Hong Kong's real GDP growth to soften by 40bp to 2.1%Y in 2025, with 4Q/4Q slowing from 2.5% in 2024 to 1.2% in 2025.

**...before recovering modestly in 2026 on lower interest rates:** We expect real GDP growth to edge up by 10bp to 2.2%Y in 2026, with 4Q/4Q growth rebounding to 3.8%. The bulk of the tariff impact should play out in next 3-4 quarters and fade afterwards. Meanwhile, 175bp of Fed rate cuts in 2026 would translate into lower market interest rates in Hong Kong under the Linked Exchange Rate System. This would give a boost to Hong Kong's property market by pushing effective mortgage rates well below residential housing rental yields, and encourage interest rate-sensitive investment.

**Modest disinflation ongoing:** The key drag would be sluggish domestic retail demand and pass-through of lower prices from China. Yet, this could be partly offset by higher residential rental prices due to increased immigrants via the talent attraction programs.

**All eyes on rate cuts:** While the government will likely continue with fiscal consolidation in view of falling fiscal reserves, a more dovish Fed and dollar weakness should help to reverse the de facto monetary tightening over the past three years. As it is, 1-month Hibor has quickly fallen to <2% (from ~4% in late April), as continued dollar depreciation has triggered HKMA intervention at the strong end of the USD/HKD trading band (7.75) near term, by buying USD assets while injecting more HKD liquidity to the banking system. Market interest rates in Hong Kong can decline further next year on 175bp of cumulative Fed cuts in 2026, after a pause this year.

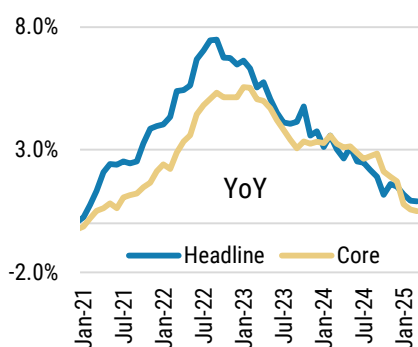
**Risks:** In a US recession scenario, weaker global demand and enlarged Hong Kong-China price differentials would further weigh on the economy, but this could be partly offset by faster and larger Fed cuts. In a US upside scenario, further tariff de-escalation reduces the drag to Hong Kong's re-export business and restore impaired business sentiment, but support from Fed cuts would be less than in the base case.

# Singapore: Hampered by Trade Headwinds

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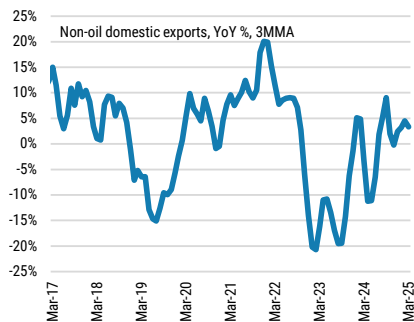
**Trade and global growth headwinds should affect Singapore the most in Asia, leading to a significant step down in growth in 2025 and keeping it subdued in 2026.**

**Exhibit 146: Rapid pace of disinflation**



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 147: Trade cycle facing headwinds**



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 148: Key forecast summary**

Singapore Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>1.8</b>	<b>4.4</b>	<b>1.4</b>	<b>1.5</b>
Private consumption	4.9	4.9	1.8	1.7
Gross fixed investment	-0.9	2.9	-1.3	1.8
Government consumption	1.6	8.4	3.5	3.3
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.3	3.0	0.7	1.4
Net exports	2.9	0.3	2.4	1.1
Inventories	-2.4	1.1	-1.7	-1.0
<b>CPI (%Y)</b>	<b>4.9</b>	<b>2.4</b>	<b>0.9</b>	<b>1.3</b>
<b>Core CPI (%Y)</b>	<b>4.2</b>	<b>2.8</b>	<b>0.7</b>	<b>1.4</b>
General govt. balance (% GDP)	-1.5	0.9	-0.1	-0.1
Gross govt. debt (% GDP)	169.5	173.1	174.0	175.0
Current account balance (% GDP)	17.7	17.6	18.5	18.0

Source: CEIC, Morgan Stanley Research forecasts

**High trade exposure, limited boost from trade deal:** Within Asia, Singapore is highly exposed to the global growth and trade cycle. Against this backdrop, where global growth and trade are set to decelerate, there could be significant damage to the growth cycle in Singapore. Meanwhile, it appears that the baseline tariffs of 10% will likely stay on, even in the case that a trade deal is reached (though exemptions may mean that the effective rate will be lower than this). Singapore is already subject to the 10% tariff rate and there may yet be more sectoral tariffs looming – suggesting that there may be limited direct tariff relief while, at the same time, the indirect effects would still be in play.

**Limited offset from domestic demand:** If anything, domestic demand is pro-cyclical rather than being counter-cyclical. External demand trends exert a strong influence on the capex cycle and that in turn should weigh on job creation and income growth, pressuring the consumer.

**Disinflation has proceeded at a faster-than-expected pace in 2025:** Headline CPI inflation has decelerated by 70bp over the past four months, while core inflation has dropped by a bigger extent of 140bp over a similar time period. With weaker growth taking hold, a negative output gap will likely persist, which would keep inflationary pressures subdued.

**We expect a third round of MAS easing:** The MAS has already reduced the slope (i.e., the pace of appreciation) of the S\$NEER band at its January and April meetings. One of the common questions we received from investors after the April meeting was why the MAS did not ease more aggressively then given the rapid pace of disinflation and the tariff backdrop. Our perspective was that the April meeting was still too early to decisively conclude that a 0% appreciation stance would be warranted then. Our base case is that this next step in easing will be taken up at the July meeting, and the MAS will move to a 0% appreciation stance at the July meeting.

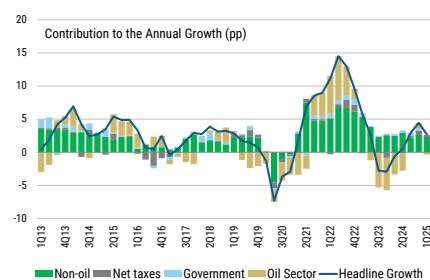
However, there are risks that may also delay this outcome. For instance, the 90-day pause on tariffs will expire in July and the outcome or associated uncertainty may still sway the MAS decision then. Given the focus on currency moves in the trade negotiations, this may factor into the MAS' consideration in moving to a 0% appreciation stance. On the flipside, we are also not expecting a more aggressive easing option which is a re-centering of the mid-point lower. That had only occurred before in March 2020 and April 2009, times when it was clear that the global economy was in recession, which is not our global team's base case.

# Saudi Arabia: Increasing Oil Supply

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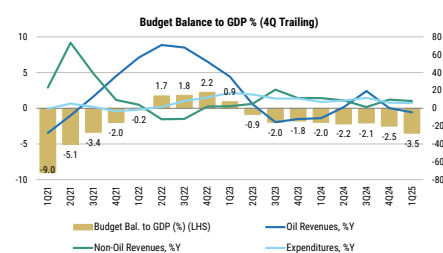
**In 2025 we expect increased oil production to support the oil-related part of the economy, while lower external demand and lower oil prices weigh on fiscal revenues, impacting policy space, and we see non-oil GDP slowing down somewhat to sub-4%Y. Commitment to Vision 2030 goals remains.**

**Exhibit 149:** The non-oil sector remains a source of stable growth amid oil GDP volatility



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 150:** We see the budget deficit widening to 6.0% of GDP in 2025



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 151:** Key forecast summary

Saudi Arabia Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>3.0</b>
Private consumption	7.6	2.7	3.8	3.4
Gross fixed investment	9.4	1.6	3.8	3.8
Government consumption	5.5	1.9	1.7	2.3
<b>Contribution to GDP (pp)</b>				
Final domestic demand	6.6	2.0	3.1	3.0
Net exports	-4.4	0.3	0.8	0.2
Inventories	-1.7	-0.5	-1.0	-0.4
<b>CPI (%Y)</b>	<b>2.3</b>	<b>1.7</b>	<b>2.1</b>	<b>1.7</b>
<b>Policy rate (EOP, %)</b>	<b>6.00</b>	<b>5.00</b>	<b>5.00</b>	<b>3.25</b>
General govt. balance (% GDP)	-2.0	-2.8	-6.0	-6.3
Gross govt. debt (% GDP)	23.0	26.2	32.3	35.5
Current account balance (% GDP)	3.3	-0.5	-3.3	-3.5

Source: Haver Analytics, Morgan Stanley Research forecasts

**We see a growth tailwind from oil production:** In 2025, we see headline GDP growth improving, supported by the rise in oil production. As planned, Saudi Arabia started to increase this in April, in line with the most recent OPEC+ decision, and accelerated the unwind of its production quota in May. Our commodity strategists now expect the country's oil production to reach 9.5 million barrels per day and its average production to grow by 2.4%Y in 2025, which is a tangible improvement compared to a 5.1%Y decline in 2024 and 7.4%Y contraction in 2023. In 2026, we see 2.5%Y oil production growth.

**Yet, the headwind comes from lower oil prices:** The US tariffs announced in April weigh on the global growth outlook and imply weaker global demand for oil. On higher-than-expected trade tariffs and faster-than-expected OPEC+ quota increases, our oil price assumptions shift lower. In 2025, we use oil futures and assume Brent oil prices average US\$65.6/barrel in our model – 18%Y lower than the US\$80 average oil price in 2024. In 2026, we assume the oil price at US\$62, another 6%Y lower.

**External conditions matter:** Our recent findings suggest that the Saudi economy has become more diversified and less sensitive to changes in external conditions. In particular, non-oil GDP growth is less sensitive to the oil price than in the past. However, external conditions matter still. Until there is even more significant diversification away from oil, oil revenues will continue to matter for non-oil growth, being an important funding source of government infrastructure spending and hence one of the drivers of diversification.

**The fiscal deficit looks set to widen:** The fiscal deficit widened to 3.5% of GDP in 1Q25 versus 2.5% in 4Q24 on a four-quarter trailing basis, driven by both lower revenues and an increase in spending. In revenues, the biggest reduction in contribution still comes from oil sector-related revenues due to the lower oil prices. Looking at expenditures, higher social benefits were the biggest factor contributing to the acceleration. Government compensation to employees was also up. Given a deteriorating external environment, we now expect the budget deficit to widen to 6.0% of GDP in 2025 versus 2.8% in 2024.

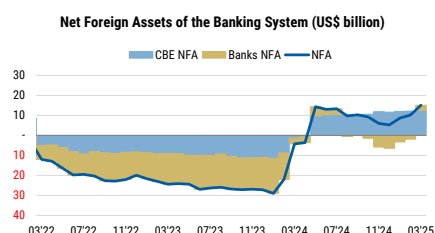
**We still see a growth acceleration:** 1Q25 GDP growth slowed to 2.7%Y from 4.4%Y in 4Q24 on base effects. Yet, in sequential seasonally adjusted terms, GDP growth showed acceleration versus 4Q24. Starting from 2Q25 we see oil GDP as a main contributor to further growth acceleration. We expect non-oil GDP growth to slow to sub-4%Y in 2025 versus 4.3%Y actual reported non-oil growth in 2024. Still, we see Saudi Arabia total real GDP growth accelerating this year versus 1.8%Y in 2024, as we expect growth in the oil-related part of the economy to turn positive following the 4.5%Y contraction in 2024.

# Egypt: Staying on Track

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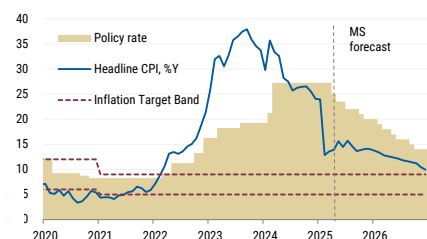
**An improved macro policy setting and a strong funding pipeline have supported Egypt's resilience to external shocks. We expect disinflation to continue, paving the way for rate cuts in support of growth and fiscal metrics.**

**Exhibit 152:** Banks' NFA has increased notably since last year



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 153:** We expect 5pp of rate cuts in the remainder of the year



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 154:** Key forecast summary

Egypt Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>3.8</b>	<b>2.4</b>	<b>4.0</b>	<b>4.6</b>
Private consumption	3.6	8.0	5.4	4.1
Gross fixed investment	-17.0	-6.1	-5.2	8.6
Government consumption	-2.8	0.2	-0.2	2.4
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-0.6	5.4	3.7	4.8
Net exports	4.5	-3.0	0.0	-0.3
Inventories	-0.1	0.0	0.3	0.1
<b>CPI (%Y)</b>	<b>24.4</b>	<b>33.3</b>	<b>20.3</b>	<b>13.5</b>
Core CPI (%Y)	29.3	33.9	17.9	11.0
<b>Policy rate (EOP, %)</b>	<b>18.25</b>	<b>27.25</b>	<b>23.50</b>	<b>16.00</b>
General govt. balance (% GDP)	-5.7	-3.8	-7.7	-7.5
Gross govt. debt (% GDP)	95.7	89.6	86.4	84.0
Current account balance (% GDP)	-1.2	-5.5	-4.5	-3.6

Source: Haver Analytics, Morgan Stanley Research forecasts; Note: Numbers represent fiscal year from July 1 to June 30.

**Increased resilience against external shocks:** An improved macro policy setting and a strong pipeline of multilateral (IMF and EU) and regional funds have supported Egypt's resilience. The CBE has continued to allow for FX flexibility in both directions in response to capital flows, which, along with high real rates, has been key to limit the size of recent sell-offs and keep FX expectations under control. As of March, banking system NFA has stood at US\$15 billion, marking an improvement of US\$44 billion compared to January 2024 – a sign of stronger external buffers.

**Inflation to show a bumpy path but should trend down:** Inflation has come down by about 22pp since the FX unification to 13.9%Y as of April. While this was largely driven by base effects, the monthly inflation trend has started to improve as well on the back of relatively stable FX, increased supply of goods, and subdued domestic demand. We think that the bulk of administered price adjustments have now been completed, but we factor in another round of energy and tobacco price hikes in 4Q25. We see inflation displaying a volatile course in the near term due to a low base and the indirect effects of the fuel price hike in April, but we expect it to trend down to the low-teens by next year.

**We see room for another 500bp of cuts this year:** The CBE delivered its first cut (to 25.00%) after holding at 27.25% since March 2024, signalling a prudent, meeting-by-meeting approach to rate cuts in support of disinflation. We expect rate cuts to continue at a measured pace, reaching 20% in December, which implies only a gradual decline in ex post real rates towards 6pp at year-end on account of higher risk premia associated with geopolitical and global risks. We see room for more cuts next year provided that some of these risks ease and progress on structural reforms (especially divestment) continues to reduce the current account deficit and the reliance on portfolio inflows.

**Growth on a path to recovery:** The government is on track to reach a primary surplus of 3.5% of GDP in FY25 and aims to bring this up to 4% in FY26. Despite continued fiscal consolidation, we expect the recovery in domestic demand to continue in line with the easing in borrowing costs. On the other hand, slower external demand, continued geopolitical tensions (the disruptions in the Suez Canal in particular), and prospects for a gradual recovery in gas exports could limit the contribution from net exports.

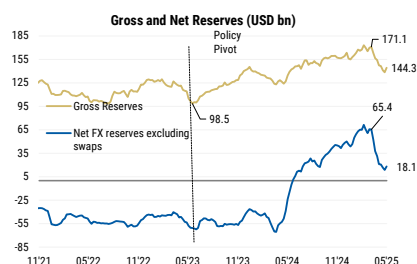
**Risks:** A US upside scenario implies higher US rates and might reduce the room for rate cuts along with inflationary pressures coming from higher commodity prices. Meanwhile, a US recession scenario could create a bigger improvement in external and fiscal accounts and inflation on the back of lower commodity prices and lower global rates.

# Turkey: Higher Rates, Lower Growth

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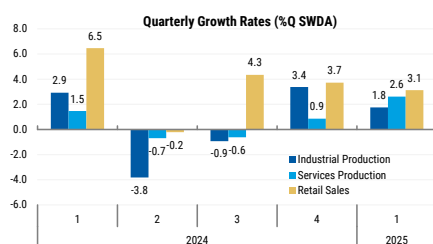
**A swift reversal in monetary stance has been key to stabilize reserves, and to manage expectations. We expect disinflation to remain on track on the back of tighter financial conditions, with risks to growth skewed to the downside.**

**Exhibit 155:** Reserves came under pressure in mid-March but have started to stabilize



Source: Haver Analytics, Morgan Stanley Research

**Exhibit 156:** We expect a significant slowdown following a robust 1Q25



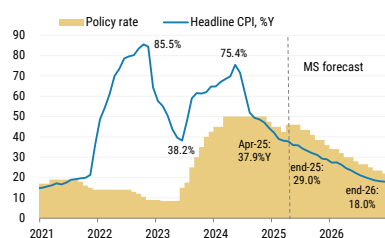
Source: Haver Analytics, Morgan Stanley Research

**Reserves seem to have stabilized:** The upward trend in Turkey's FX reserves over the past year was interrupted in mid-March due to a combination of domestic and global shocks which led to portfolio outflows and increased FX demand by locals. The cumulative decline in the CBT's net FX position since March 18 (adjusted for gold prices) peaked around US\$58 billion on May 2, 60% of which stemmed from foreign outflows according to our calculations. Since May 2, the CBT has resumed net FX purchases, bringing the cumulative reserve loss down to US\$50 billion (last data as of May 14). Locals' FX demand has slowed recently, on the back of the CBT's rate hikes and liquidity tightening. This, along with the subsequent macroprudential measures, has started a recovery in reserves. Barring any major new shock, we expect the reserves outlook to be supported by higher rates and favorable seasonality in the current account balance over the summer (Exhibit 155).

**The abrupt tightening in financial conditions to weigh on growth:** Domestic demand and real GDP were growing at a relatively strong pace prior to the market volatility in mid-March (Exhibit 156). But the domestic and global shocks since then imply a significant slowdown in economic activity, if not a recession, according to our base case scenario. The negative impact of higher uncertainty on business and consumer confidence, coupled with the abrupt tightening in financial conditions, should weigh on business investment and consumers' discretionary spending. The manufacturing sector will likely bear the brunt as it also faces weaker external demand. We expect domestic demand to soften but remain largely resilient due to heterogenous income and wealth effects, which should provide some cushion for services and retail sectors. We see net exports' contribution to growth declining as external demand slows due to higher tariffs and tariff uncertainty, as well as continued real appreciation of TRY.

**Disinflation to continue:** Despite a higher pace of TRY depreciation against the FX basket (USD and EUR) since March, disinflation continued in April. The FX pass-through was evident in core goods, but the rise in services inflation was more muted, which we expect to be the case in May as well. We see disinflation continuing based on a moderate depreciation in TRY (with USD/TRY ending the year at 43) and tighter financial conditions. We keep our forecast for December inflation at 29%Y, as we see upside risks related to food inflation and FX to be balanced out by downside risks related to growth and commodity prices. We think that the CBT's swift reversal from a rate-cutting cycle to outright rate hikes has been key to limit the deterioration in inflation expectations.

**Exhibit 157:** We expect real rates to stay high during the forecast horizon

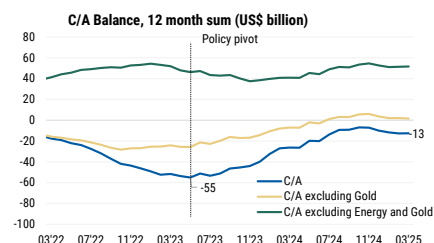


Source: Haver Analytics, Morgan Stanley Research forecasts

**Tighter-for-longer rates:** Persistently higher uncertainty reflected in a higher risk premium requires higher rates to support currency stability and anchor inflation expectations. This is the key reason why we expect the CBT to maintain higher real rates compared to pre-shock levels, and above relevant historical averages (Exhibit 157). The decline in inflation and the slowdown in economic activity should pave the way for rate cuts in 2H25, but the size of cuts will ultimately depend on locals' dollarization trends and the evolution of reserves. We expect the CBT to allow for a decline in TLREF towards the one-week repo rate from June, before starting outright rate cuts in July to reach 36% at year-end, with risks to the upside given domestic and global uncertainties. We expect the authorities to end KKM in 2H25, while keeping macroprudential and liquidity policies tight to complement the rates policy.

**Fiscal stance to turn more neutral?** Slowing growth means lower revenue expansion and a weaker fiscal position compared to the Medium-Term Program's -3.1% of GDP target for 2025. Despite the headwinds to growth, the authorities emphasize commitment to the spending targets. Hence, a wider budget deficit compared to the MTP does not imply a more expansionary fiscal stance. While we expect spending growth to slow, accrued earthquake expenditures from last year will likely keep cash-based spending higher.

**Exhibit 158:** We expect the full-year current account deficit at US\$18 billion



Source: Haver Analytics, Morgan Stanley Research forecasts

**Current account to remain manageable:** While lower growth in major trading partners is a headwind to Turkish exports, a stronger EUR/USD and lower commodity prices should support the current account. We see the current account deficit remaining well below historical averages, and its financing comfortable, which is key to alleviate the build-up of additional depreciation pressure on the currency.

**Risks:** A US upside scenario means improved risk sentiment globally but higher commodity prices and a higher Fed path might restrict the room for disinflation and rate cuts. While a US recession scenario might initially imply a global risk-off mode, and further headwinds to exports, lower commodity prices should reduce the current account deficit and inflation, and deeper Fed cuts might pave the way for lower real rates in Turkey.

**Exhibit 159:** Key forecast summary

Turkey Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>5.1</b>	<b>3.2</b>	<b>2.8</b>	<b>4.0</b>
Private consumption	13.6	3.7	4.2	3.1
Gross fixed investment	8.4	3.9	3.8	3.9
Government consumption	2.4	1.2	1.8	1.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	11.8	3.9	4.3	3.5
Net exports	-3.1	1.2	-0.6	0.3
Inventories	-3.6	-1.9	-1.0	0.0
<b>CPI (%Y)</b>	<b>53.9</b>	<b>58.5</b>	<b>34.4</b>	<b>22.0</b>
<b>Core CPI (%Y)</b>	<b>58.5</b>	<b>59.8</b>	<b>34.7</b>	<b>20.5</b>
<b>Policy rate (EOP, %)</b>	<b>42.50</b>	<b>47.50</b>	<b>36.00</b>	<b>22.00</b>
General govt. balance (% GDP)	-5.2	-4.9	-3.9	-3.2
Gross govt. debt (% GDP)	25.4	21.3	23.2	24.3
Current account balance (% GDP)	-3.5	-0.8	-1.2	-1.5

Source: Haver Analytics, Morgan Stanley Research forecasts

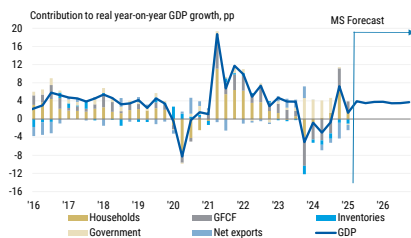
# Israel: Looking for Normalization

**Alina Slyusarchuk**

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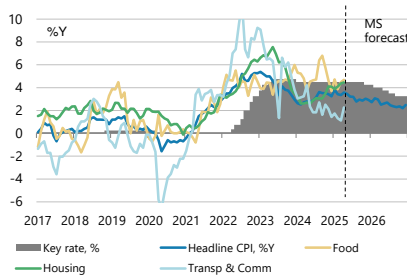
**Domestic and regional tensions have re-escalated since the beginning of the year and weigh on the Israel growth outlook, bringing our GDP forecasts lower. Inflation has been below BOI expectations recently. Still, given geopolitical developments, the global terms of trade, and shekel volatility, we see easing in 4Q25 only with rates down to 4.25% by end-2025.**

**Exhibit 160:** Government spending has been the key driver of growth but the role of domestic demand is set to increase



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 161:** We see easing in 4Q25 with rates down to 4.25% by end-2025



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 162:** Key forecast summary

Israel Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	1.7	0.7	3.2	3.6
Private consumption	-1.2	3.7	3.6	4.8
Gross fixed investment	-1.6	-7.0	7.9	4.5
Government consumption	8.0	13.0	2.4	4.4
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.3	3.3	5.1	4.8
Net exports	2.1	-1.6	-1.3	-1.1
Inventories	-0.6	-0.9	-0.6	-0.1
<b>CPI (%Y)</b>	4.2	2.9	3.2	2.6
Core CPI (%Y)	4.2	2.3	2.8	2.6
<b>Policy rate (EOP, %)</b>	4.75	4.50	4.25	3.25
General govt. balance (% GDP)	-4.1	-7.5	-5.5	-4.0
Gross govt. debt (% GDP)	60.4	67.8	70.0	69.0
Current account balance (% GDP)	3.7	3.2	3.7	3.4

Source: Haver Analytics, Morgan Stanley Research forecasts

**Domestic and external growth headwinds:** Although economic activity continued to recover moderately this year, higher trade barriers and the weaker external environment weigh on Israel's growth outlook. Domestic tensions also re-escalated since the start of the year, contributing to higher uncertainty. In 2024, government spending was the key growth driver, contributing as much as 3.0pp to annual GDP growth. Households' consumption contribution was also positive (1.9pp), while the drag came from investment and net exports. Looking into 2025, 1Q GDP data suggest that economic activity improved. We expect government spending to remain an important growth driver while we see some recovery in household consumption and investment as the economy continues to normalize. Our 2025 growth forecast is somewhat lower than that of the BOI and is below consensus.

**Fiscal deficit narrows in 2025 versus 2024:** The Knesset adopted the 2025 budget bill targeting a 4.9% of GDP deficit versus a 6.8% of GDP deficit in 2024. Out of NIS 619 billion in planned spending, NIS 110 billion would go to defense. Together with debt service, total spending is expected at NIS 756 billion. We note that fiscal dynamics have been consistent with the plan so far as the 12-month budget deficit narrowed to 5.1% of GDP by April 2025.

**Inflation's return to the 1-3%Y target band is delayed:** Inflation decelerated from its peak of 3.8%Y in January to 3.3%Y in March, but then reaccelerated to 3.6%Y in April on the back of the spike in transport inflation. The inflation pressures are not widespread, as 3M SAAR inflation slowed down to 3.2% in April, and we expect the general slowdown to continue. However, now we expect inflation to move back inside the 1-3%Y target band only in late summer and average 3.2%Y in 2025.

**The BOI should remain cautious, on track to ease later in 2025:** We believe that an increase in geopolitical and domestic tensions, shekel volatility, and the recent upside inflation surprise will keep the BOI on the prudent side. We now expect the key policy rate to be kept on hold until 4Q25. We think that the case for BOI Governor Yaron's baseline scenario assuming 1-2 cuts in 2H25 still broadly holds. We see one 25bp cut in November with rates going down to 4.25% by the end of this year, followed by 100bp of cuts in 2026 as inflation stabilizes within the target range.

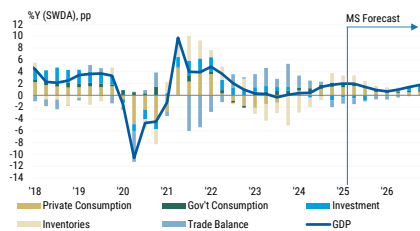
# Czech Republic: Taking a Breather

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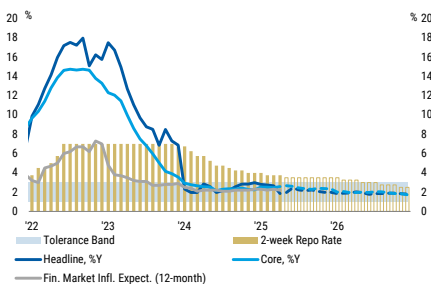
**We expect GDP growth to decelerate from 2%Y in 1Q25 in the coming quarters but to start improving from 2026 onwards. While we see inflation remaining close to the target, we expect the CNB to restart its easing cycle only in early 2026.**

**Exhibit 163:** GDP growth to weaken in 2025



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 164:** CNB to abstain from going below neutral until 2026



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 165:** Key forecast summary

Czech Republic Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	-0.1	1.0	1.5	1.2
Private consumption	-2.8	2.2	2.6	1.1
Gross fixed investment	2.5	-1.2	-1.6	1.4
Government consumption	3.4	3.3	1.6	1.1
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.1	1.3	1.1	1.1
Net exports	2.6	0.7	-0.8	-0.3
Inventories	-2.7	-1.1	1.2	0.4
<b>CPI (%Y)</b>	10.8	2.4	2.2	1.8
<b>Core CPI (%Y)</b>	7.6	2.5	2.5	2.1
<b>Policy rate (EOP, %)</b>	6.75	4.00	3.50	2.50
General govt. balance (% GDP)	-3.8	-2.2	-2.3	-2.0
Gross govt. debt (% GDP)	42.5	43.6	45.1	47.1
Current account balance (% GDP)	-0.1	1.8	0.6	-0.3

Source: Haver Analytics, Morgan Stanley Research forecasts

**GDP growth to decelerate in 2025:** Despite supportive private consumption growth, we expect the export-led Czech GDP growth to ease in the coming quarters due to weaker external demand and elevated trade policy uncertainty. Yet, we see economic activity starting to recover from 1Q26, in line with improving euro area demand as fiscal and monetary policy turn supportive. Still, we expect Czech GDP growth to remain rather subdued as we continue to assume US tariffs on EU imports to remain at 10% over the projection horizon. Moreover, we anticipate labor market conditions continuing to ease, keeping precautionary household savings elevated and private consumption growth moderate.

**Inflation to ease more permanently in 2026:** We expect inflation to accelerate in the very near term above the 2%Y target, mostly thanks to unfavorable base effects in food inflation but also due to rising imputed rents. Still, with GDP growth decelerating and wage growth pressures easing in 2H25, we see headline easing back to the 2%Y target despite core inflation remaining above the target. Further ahead, we expect both headline and core inflation to ease slightly below the 2%Y target in 2026, suppressed by lower external price pressures and more balanced wage pressures.

**CNB to err on the side of caution:** We expect the CNB to remain cautious in face of the elevated uncertainty about the net effect of US tariffs on inflation over the coming quarters and thus to keep its policy rate unchanged until the end of this year. The central bank is concerned that a hypothetical decline in global supply capacity could offset the disinflationary effects from the decline in global trade, resulting in higher global price pressures ahead. Moreover, the CNB continues to see elevated wage growth, rising property prices, and sticky services inflation as pro-inflationary risks. We anticipate these domestic risk factors to improve only in 1Q26, resulting in a resumption of the easing cycle, with the CNB cutting its key policy rate gradually to 2.50% by the end of 2026 from the current 3.50%.

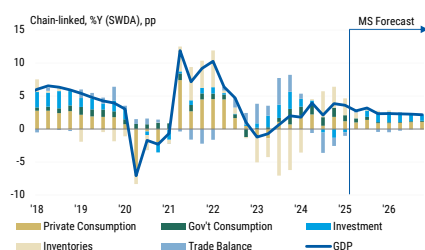
**Risks:** In our US upside scenario, reduced tariff-related uncertainty helps the Czech economy to grow close to its potential but inflation converges to target only at the end of 2026. Facing higher inflation for longer, the CNB remains cautious for longer and lowers its policy rate only by 50bp to 3.00% in the later part of 2026. In our US recession scenario, weaker global demand and price pressures, coupled with steeper rate cuts from major central banks, lead to the CNB lowering its key policy rate to a below-neutral 2.75% at the end of 2025 and to 2.00% at the end of 2026. On the domestic side, general elections in October 2025 are creating uncertainty about the future path of fiscal policy.

# Poland: All About That Pace

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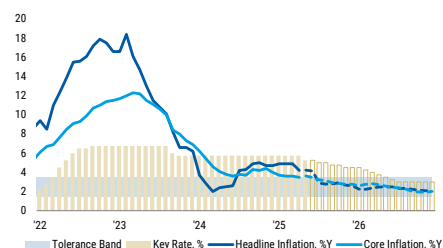
**We see GDP growth outperforming the rest of the region on the back of robust investment growth. Inflation should ease more visibly in 2H25 and continue drifting lower after, allowing the NBP to keep normalizing monetary policy.**

**Exhibit 166:** Defense and RRF spending to sustain GDP growth



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 167:** Inflation to ease more visibly in 2H25



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 168:** Key forecast summary

Poland Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.3</b>	<b>2.9</b>	<b>3.0</b>	<b>2.3</b>
Private consumption	-0.3	3.1	2.0	1.8
Gross fixed investment	12.7	-2.2	3.9	6.8
Government consumption	4.5	8.2	2.6	0.7
<b>Contribution to GDP (pp)</b>				
Final domestic demand	2.8	2.8	2.3	2.4
Net exports	2.8	-0.9	-0.2	-0.2
Inventories	-5.3	1.0	0.9	0.0
<b>CPI (%Y)</b>	<b>11.6</b>	<b>3.7</b>	<b>3.7</b>	<b>2.2</b>
<b>Core CPI (%Y)</b>	<b>10.2</b>	<b>4.3</b>	<b>3.3</b>	<b>2.5</b>
<b>Policy rate (EOP, %)</b>	<b>5.75</b>	<b>5.75</b>	<b>4.50</b>	<b>3.00</b>
General govt. balance (% GDP)	-5.3	-6.6	-6.2	-5.7
Gross govt. debt (% GDP)	49.5	55.3	61.1	64.3
Current account balance (% GDP)	1.8	0.2	-0.8	-1.0

Source: Haver Analytics, Morgan Stanley Research forecasts

**Sustaining GDP growth in 2025:** We expect robust domestic demand growth to balance out the negative effects from weaker external demand in 2025. Rising defense spending and public investment on the back of the RRF funds absorption should result in fixed investment taking over from private consumption as the main driver of GDP growth from 2H25 onwards. Yet, easing wage pressures and an elevated precautionary household savings rate should keep private consumption growth subdued. We see net exports contributing negatively to GDP growth over the projection horizon on the back of robust imports growth, supported by elevated investment demand. Meanwhile, we see exports growth remaining moderate until mid-2026, when we expect it to start recovering.

**Inflation to approach the target at the end of 2025:** Despite having decelerated to 4.3%Y in April, inflation remains above the NBP's tolerance band thanks to the persistent effects from the hike in regulated energy prices in July 2024. Yet, core inflation has eased and wage growth has decelerated on the back of the significantly lower minimum wage hike this year. Looking ahead, we expect inflation to decelerate even more visibly in July to around 3%Y and to hover around that level until November, when we see it decelerating towards the 2.5%Y target. Further into 2026, we expect inflation to hover around the target in 1H26 but lower wage pressures and subdued consumption demand to result in inflation falling to around 2%Y in 2H26.

**A cautious and reactive NBP:** After having delivered a catch-up 50bp rate cut in May, the NBP remains reluctant to engage in a proper easing cycle. We expect the elevated level of policy uncertainty to keep the central bank on the cautious side and see it delivering an additional 75bp of cuts this year for the key policy rate to end at 4.50% in 2025. While we see the NBP easing by 25bp in July, September, and November, uncertainty around the pace and timing of rate cuts this year remains elevated. With inflation easing more persistently in 2026, we see a higher probability that the NBP considers a sustained easing cycle and expect it to deliver 150bp of easing in 1H26, with the policy rate reaching 3% by July 2026 and staying at that level for the rest of that year.

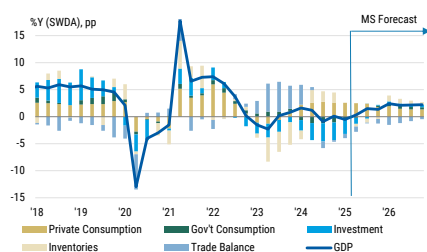
**Risks:** In our US upside scenario, a more growth-friendly external environment is likely to sustain Polish GDP growth close to its potential while inflation would remain above the 2.5%Y target in 2026. In such a case, we expect the NBP to exercise greater caution and to ease its key policy rate more gradually to 5% in 2025 and 3.5% in 2026. In our US recession scenario, faster deterioration of global trade and price pressures results in slower GDP growth, with inflation falling persistently below the target in 2026. We expect the NBP to respond with a faster and deeper easing cycle, with the key policy rate reaching 3.75% at the end of 2025 and 2.50% at the end of 2026.

# Hungary: Awaiting an Opportunity

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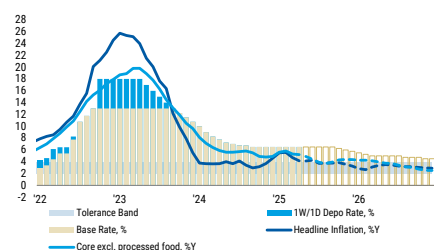
**We expect weak external demand and domestic investment to continue to act as a drag on GDP growth. A bumpy inflation path should keep the NBH cautious, with rate cuts only becoming possible at the end of this year.**

**Exhibit 169:** Consumption to remain the main driver of GDP growth



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 170:** A bumpy inflation path ahead



Source: Haver Analytics, Morgan Stanley Research forecasts; Note: Dashed line and unfilled bars represent Morgan Stanley forecasts

**Exhibit 171:** Key forecast summary

Hungary Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>-0.8</b>	<b>0.5</b>	<b>0.8</b>	<b>2.2</b>
Private consumption	-1.0	5.1	4.5	2.8
Gross fixed investment	-7.7	-11.1	-4.0	2.2
Government consumption	3.3	-4.6	-0.5	2.2
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-1.8	-1.2	1.3	2.4
Net exports	4.3	0.8	-0.7	-1.1
Inventories	-3.3	0.9	0.2	0.9
<b>CPI (%Y)</b>	<b>17.6</b>	<b>3.7</b>	<b>4.1</b>	<b>3.1</b>
<b>Core CPI (%Y)</b>	<b>15.8</b>	<b>5.9</b>	<b>4.7</b>	<b>3.3</b>
<b>Policy rate (EOP, %)</b>	<b>10.75</b>	<b>6.50</b>	<b>5.75</b>	<b>4.50</b>
General govt. balance (% GDP)	-6.7	-4.9	-4.1	-4.1
Gross govt. debt (% GDP)	73.0	73.5	72.9	72.7
Current account balance (% GDP)	0.3	2.2	1.2	1.5

Source: Haver Analytics, Morgan Stanley Research forecasts

**Growth weakness to persist in 2025:** With 1Q25 data pointing to another drop in economic activity, we expect GDP growth to remain subdued in 2025 before recovering more visibly in 2026. We expect weak external demand to keep acting as a drag on the export-dependent Hungarian economy before improving euro area demand becomes supportive in 2026. On the domestic side, strong private consumption growth should support economic activity this year but start moderating in 2H26 as the positive effects from the government's consumer-friendly measures fade away. Meanwhile, investment should continue to contract in 2025 on the back of elevated uncertainty and declining public investment before starting to recover in 2026.

**Bumpy but easing inflation ahead:** We expect both headline and core inflation dynamics to remain somewhat volatile, reflecting unstable commodity prices but also the effects of the government's measures aimed at limiting domestic inflationary pressures. In the very near term, we expect headline inflation to remain slightly above the central bank's tolerance band before falling within it in July. Still, we project inflation to remain uncomfortably close to the 4%Y upper bound until November, when we see it decelerating and even undershooting the 3%Y target temporarily in 1Q26. Still, we expect inflation to accelerate again to the middle of the upper portion of the tolerance band in 2Q26 and 3Q26 before falling again to the 3%Y target level in 4Q26.

**NBH to remain in wait-and-see mode, for now:** We continue to see the NBH prioritizing financial and FX stability in order to achieve domestic price stability, given elevated inflation expectations and FX pass-through. As such, we expect the central bank to keep its key policy rate unchanged at 6.50% until 4Q25, when we see a total of 75bp of easing to 5.75%. Further ahead, with inflation remaining contained in 1Q26, and even falling slightly below the 3%Y target, we see the NBH easing by another 75bp for the policy rate to reach 5% at the end of that quarter. Additional anchoring of inflation expectations and easier global monetary policy are most likely to result in the NBH easing by an additional 50bp in 2H26 for the base rate to reach 4.50% at the end of 2026.

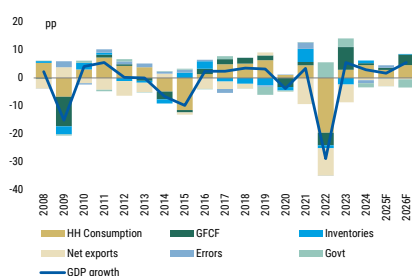
**Risks:** In our US upside scenario, less pronounced monetary policy easing by major central banks is likely to limit the room for maneuver for the NBH and we see the policy rate falling only to 6.25% by the end of 2025 and 5.25% by the end of 2026. In our US recession scenario, we expect the NBH to remain cautious in the near term on the back of potential FX volatility but to engage in a steeper easing cycle in 2H25, with the policy rate reaching 5.25% by the end of 2025 and 4% by the end of 2026. With the opposition continuing to lead in the opinion polls, the general elections in 1Q26 create elevated uncertainty about the future path of fiscal and monetary policy.

# Ukraine: Planning for Peace

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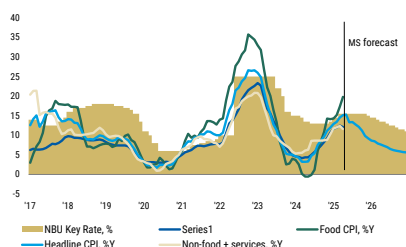
**The ongoing military conflict and global trade tensions create headwinds to economic recovery, and we see subdued growth. We see inflation returning to single-digits by end-2025 and allowing for NBU easing. Fiscal and external imbalances rely heavily on external financing, which we see as sufficient this year to avoid monetary financing of the budget deficit and supporting the FX market.**

**Exhibit 172:** GDP recovery is set to be subdued until hostilities end



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 173:** We see inflation returning to single-digits by end-2025



Source: Haver Analytics, Morgan Stanley Research forecasts

**Exhibit 174:** Key forecast summary

Ukraine Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>5.5</b>	<b>2.9</b>	<b>1.6</b>	<b>5.2</b>
Private consumption	4.3	6.8	4.1	6.4
Gross fixed investment	65.9	3.5	3.9	18.9
Government consumption	9.2	-4.5	-0.1	-9.5
<b>Contribution to GDP (pp)</b>				
Final domestic demand	14.2	2.8	4.6	5.7
Net exports	-6.3	-0.8	-2.7	-0.5
Inventories	-2.4	1.0	-0.2	0.2
<b>CPI (%Y)</b>	<b>13.4</b>	<b>6.5</b>	<b>12.8</b>	<b>6.9</b>
<b>Core CPI (%Y)</b>	<b>13.3</b>	<b>6.2</b>	<b>10.0</b>	<b>6.0</b>
<b>Policy rate (EOP, %)</b>	<b>15.00</b>	<b>13.50</b>	<b>15.00</b>	<b>11.00</b>
General govt. balance (% GDP)	-20.4	-24.5	-20.0	-13.5
Gross govt. debt (% GDP)	85.0	95.0	102.0	100.0
Current account balance (% GDP)	-5.2	-8.5	-12.4	-11.2

Source: Haver Analytics, Morgan Stanley Research forecasts

**Economic recovery set to be subdued:** Economic recovery is seen facing headwinds amid the conflict but also due to an escalation of global trade tension, which is still to affect the economy. In 2024 GDP expanded by 2.9%Y. The biggest contribution came from household consumption, as it was up 6.8%Y. Fixed investment slowed down to 3.5%Y from a strong 65.9%Y in 2023. Government consumption growth was negative at -4.5%Y. Finally, there was a 0.8pp negative contribution from net exports as imports growth outpaced that of exports. Importantly, according to Ukrstat estimates, there was a sequential contraction in seasonally adjusted GDP series in the last three quarters of 2024. This creates a low starting point in 2025 and we see 2025 annual GDP growth at only 1.6%Y. The ongoing hostilities, higher need for gas imports, and global trade tensions are also among growth headwinds this year. The timing of the conflict resolution and its outcome are still highly uncertain as the White House peace initiatives have had limited success so far. We now assume hostilities would cease at end-2025 and expect growth to gain speed in 2026, accelerating by 5.2%Y.

**We see inflation returning to single-digits by end-2025:** Inflation averaged 14%Y in the first four months of the year, accelerating to 15.1%Y in April. While food prices surged to 19.8%Y, non-food and core CPI seem to have passed the peak in March. We expect inflation to peak in May at 15.3%Y and to slow down gradually to single digits to 9.2%Y by end-2025. Lower oil prices would be an additional factor in the slowdown.

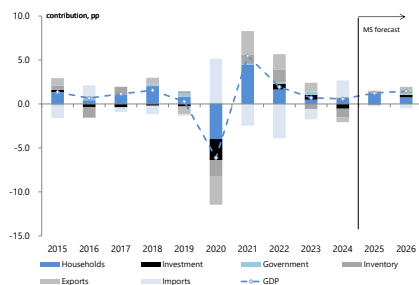
**With geopolitical and FX risks persisting, the NBU is set to be patient, with easing delayed to end-2025:** Since the start of this year the NBU has delivered 200bp of tightening but kept rates on hold at 15.50% in April given the temporary nature of the recent inflation acceleration. We see the NBU keeping rates on hold for longer to support the FX market. We see the start of the easing cycle at the very end of 2025 once inflation is at single digits, with a 50bp cut pencilled in for December. That said, rate hikes are not excluded if non-food inflation re-accelerates. Finally, talking about FX and general macro stability, we see external financial assistance sufficient this year to avoid monetary financing of the budget deficit and supporting the FX market.

# South Africa: High Real Rates Here to Stay

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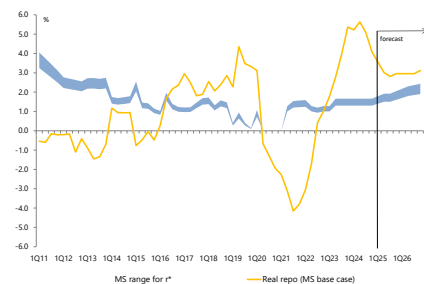
**South Africa is mostly through what we saw as a risk premium shock in April and May. We see ongoing tariff uncertainty as a negative demand shock which widens the output gap all while imported disinflation via CNH keeps a lid on core goods CPI. We only expect a marginally lower policy rate from here.**

**Exhibit 175:** Consumption over investment remains the growth model for the time being



Source: Statistics South Africa, Morgan Stanley Research forecasts

**Exhibit 176:** Real rates seem likely to remain high and above their neutral level



Source: SARB, Morgan Stanley Research forecasts

**Exhibit 177:** Key forecast summary

South Africa Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.7</b>	<b>0.6</b>	<b>1.2</b>	<b>1.7</b>
Private consumption	0.7	1.0	1.7	1.1
Gross fixed investment	3.9	-3.7	-0.5	2.0
Government consumption	1.9	0.4	-0.4	0.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	1.4	0.2	1.1	1.2
Net exports	-0.2	1.4	-0.1	0.2
Inventories	-0.6	-1.0	0.2	0.3
<b>CPI (%Y)</b>	<b>5.9</b>	<b>4.4</b>	<b>3.2</b>	<b>4.1</b>
<b>Core CPI (%Y)</b>	<b>4.8</b>	<b>4.3</b>	<b>3.4</b>	<b>3.6</b>
<b>Policy rate (EOP, %)</b>	<b>8.25</b>	<b>7.75</b>	<b>7.25</b>	<b>7.50</b>
General govt. balance (% GDP)	-4.6	-4.4	-4.6	-4.2
Gross govt. debt (% GDP)	74.1	76.5	78.6	78.7
Current account balance (% GDP)	-1.6	-0.7	-1.2	-1.7

Source: Haver Analytics; Morgan Stanley Research forecasts

**The fluidity of the global tariff discussion makes forecasting more challenging than usual, both domestically and at a global level:** Our baseline growth forecasts across the globe inform our domestic growth view, particularly as it relates to the contribution from net exports. The added headwind from policy uncertainty and high real policy rates underpins our below-consensus 1.2%Y growth forecast this year (consensus 1.5%Y). Our 2026 estimate now stands at 1.7%Y (consensus 1.8%Y).

South Africa's growth model continues to be driven by consumption rather than investment, contributing towards comparably low structural growth and mediocre productivity. In this environment, pressure on the current account remains contained, but so too does economic growth. Reform delivery in areas such as rail and energy, regulation, and product markets are needed to permanently raise GDP per capita growth into positive territory, in our view.

**Given disappointing growth dynamics, fiscal consolidation continues but at a slow pace:** Revenue growth has exceeded budget estimates, pointing towards a main budget primary surplus of around 0.9% of GDP in 2024/25. Looking forward, much uncertainty surrounds the fiscal framework and the outlook for tax policy, but what is clear is National Treasury's commitment to achieving primary surpluses. We expect debt to peak in 2026/27, at a level of some 79% of GDP.

**As growth forecasts are likely to undershoot official forecasts, so too should inflation:** Both goods CPI and services are well below target, and while it is true that monetary policy is forward looking, starting points as low as these are likely to drag the MPC's inflation forecasts lower. On our estimates, headline CPI ends 2026 at 4.0%Y, which will likely require a slightly deeper easing cycle in the SARB forecast compared to what was presented at the March MPC (terminal rate of 7.25%).

We believe that South Africa is mostly through what we interpreted as a risk premium shock in April, the effect of which was a level shift in  $r^*$ . From here, we see the ongoing tariff uncertainty as a negative demand shock which widens the output gap all while imported disinflation via CNH keeps a lid on core goods CPI. With this additional space, we pencil in a further reduction in the repo rate at the May MPC meeting. Risks of a final 25bp reduction in July are significant.

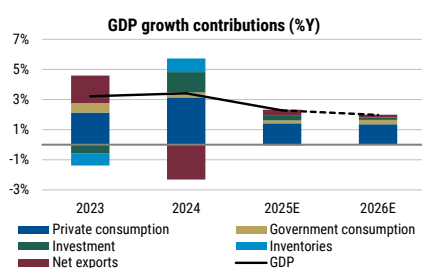
# Brazil: Staying Out of the Tide, for Now

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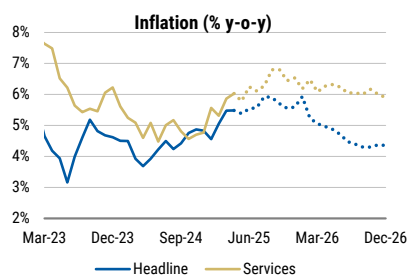
**Growth should be more resilient on the back of expansionary fiscal and credit measures, suggesting an even softer-than-expected landing. As Brazil is a relatively closed economy, the impact from the global slowdown is more limited. Disinflation proceeds but at a slower pace, as services inflation remains pressured from a tight labor market. We expect the BCB to remain on hold until year-end and start the easing cycle in 1Q26 due to still de-anchored inflation expectations and resilient growth.**

**Exhibit 178:** Resilient growth suggests an even softer landing



Source: IBGE, Morgan Stanley Research

**Exhibit 179:** Sticky services inflation to continue pressuring the headline



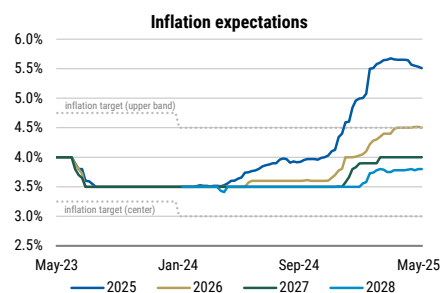
Source: IBGE, Morgan Stanley Research

**Activity data suggest more resilient growth for the year:** We still expect a growth deceleration versus 2024, but recent activity data, along with some expansionary fiscal and credit measures implemented by the government, suggest an even softer landing for the year than originally expected. So, we are revising up our GDP growth forecasts for 2025 and 2026. The growth path remains unchanged, however: we expect a more notable deceleration to start in 2H25 and extend throughout 2026. Private consumption should decelerate less than investment (gross fixed capital formation), as the labor market should remain resilient throughout the year, pressuring wages higher. Main drivers of the growth deceleration include: 1) The lagged impact of monetary policy (from the current hiking cycle); 2) Weakening in real wages (as inflation continues to rise); and 3) More timid investment (from a wait-and-see mode) ahead of the general elections in 2026.

**Inflation should decelerate but remain above the 3%Y target:** Risks to our inflation forecast for 2025 remain balanced, but we are revising up 2026. The growth deceleration we expect in 2025 and 2026 (relative to 2024), together with the very high level of (real) interest rates, should drive inflation down in 2026 (but still above the 3%Y target). However, given that we now expect a softer growth deceleration, this implies higher inflation for 2026. We expect core inflation to also remain above target, mostly pressured by services. Services inflation – which has been a source of concern for the central bank – should accelerate gradually in 2025, pressured by a still-tight labor market, and decelerate in 2026 but remain above the inflation target. The main downside risk relates to commodity prices, which could push domestic inflation down on the back of a more intense global growth slowdown.

**We expect interest rates to remain restrictive for a long period:** We continue to forecast the BCB to keep rates on hold until year-end as policymakers recently signaled the end of the hiking cycle and reinforced the idea of keeping rates high for longer. Recall that since our 2025 outlook, we have revised lower the peak for the Selic rate by 100bp for 2025. Moreover, we now expect the easing cycle to start in 1Q26 (from 2Q26 before) and lower our end-2026 policy rate forecast to 11.25% (from 12.25%). Even with earlier expected rate cuts, we continue to see a somewhat later easing cycle compared to consensus mostly due to: 1) The still de-anchored inflation expectations; and 2) Relatively resilient economic growth despite the ongoing deceleration. Moreover, a rise in fiscal

**Exhibit 180:** De-anchored inflation expectations delay the easing cycle



Source: BCB, Morgan Stanley Research forecasts

noise towards year-end (as we anticipate that the government will discuss additional spending as part of the budget for 2026) should also delay the easing cycle to 2026, in our view. Depending on the external scenario and balance of risks for a global recession, the timing of the easing cycle could be anticipated, in our view.

**Fiscal interest from investors moved to the background, but long-term dynamics remain a concern:** Fiscal accounts remain very rigid in Brazil (i.e., very high compulsory spending), and the possibility of primary surpluses ahead seem challenging at best without structural reforms on the spending side. We expect the government to be able to comply with the lower bound of the primary target for 2025 on the back of still-resilient economic activity. However, for 2026 we expect a higher primary deficit due to general elections, when spending usually tends to increase.

**A US upside scenario would imply marginal upside risks to Brazil GDP growth, in our view:** We consider Brazil in the lower-bound range when it comes to US/global growth shocks because it is a relatively closed economy. We estimate that a shock of +100bp on US growth would affect Brazil's GDP growth by +20bp, all else equal. An overall stronger US/global economy would likely lead to higher commodity prices and pressure Brazil's inflation, especially via the food and fuel prices channel. Yet, the timing of the BCB easing cycle would be little impacted in this scenario, in our view, as the interest rate differential between the two countries is already very high and as we are already considering a long on-hold period for the BCB. That said, the BCB's total easing cycle may be shorter in a scenario in which the Fed cuts less.

**In a US downside scenario, idiosyncrasies in Brazil would limit the impact, in our view:** Weaker US growth would translate into lower global growth, reducing Brazilian exports. Meanwhile, imports should remain relatively strong, sustained by resilient domestic demand. However, inflation wise, we consider a bigger impact as Brazil would benefit from lower commodity prices linked to a weaker global economy. More aggressive Fed cuts in response to a US recession would open room for the anticipation of the easing cycle to 4Q25 (from 1Q26 in the baseline).

**Exhibit 181:** Key forecast summary

<b>Brazil Forecast Summary</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>
<b>Real GDP (%Y)</b>	<b>3.3</b>	<b>3.4</b>	<b>2.3</b>	<b>2.0</b>
Private consumption	3.3	4.8	2.2	2.0
Gross fixed investment	-2.8	7.2	1.7	0.9
Government consumption	3.7	1.9	1.1	1.7
<b>Contribution to GDP (pp)</b>				
Final domestic demand	2.2	4.8	1.9	1.8
Net exports	1.8	-2.3	0.4	0.2
Inventories	-0.8	0.9	0.0	0.0
<b>CPI (%Y)</b>	<b>4.6</b>	<b>4.4</b>	<b>5.5</b>	<b>4.7</b>
<b>Core CPI (%Y)</b>	<b>5.7</b>	<b>3.4</b>	<b>5.1</b>	<b>4.6</b>
<b>Policy rate (EOP, %)</b>	<b>11.75</b>	<b>12.25</b>	<b>14.75</b>	<b>11.25</b>
General govt. balance (% GDP)	-8.8	-8.5	-10.2	-8.1
Gross govt. debt (% GDP)	73.8	76.1	80.4	87.0
Current account balance (% GDP)	-1.1	-2.6	-2.8	-2.5

Source: IBGE, BCB, Morgan Stanley Research forecasts

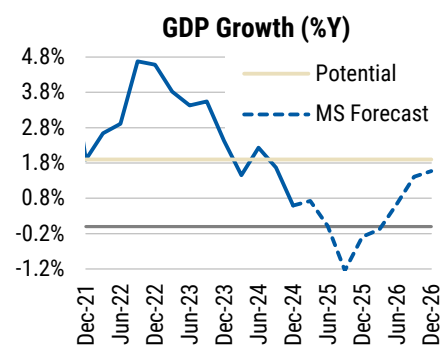
# Mexico: Dealing with High and Protracted Uncertainty

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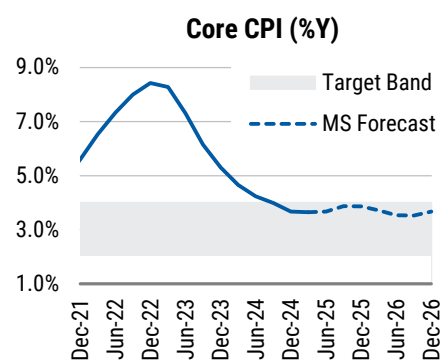
**Elevated uncertainty – mostly imported – should continue affecting investment and overall growth dynamics. With business sentiment low, labor markets deteriorate, feeding further weakness. The USMCA renegotiation will likely go down to the wire (mid-2026), prolonging the pain from uncertainty. And the required fiscal consolidation will also be a drag on growth. Inflation faces cross-currents: lower core services quotes will likely pressure core goods. Banxico easing helps fiscal dynamics, but not so much growth.**

Exhibit 182: Uncertainty hits growth



Source: INEGI, Morgan Stanley Research forecasts

Exhibit 183: Cross-currents lead to persistence



Source: INEGI, Morgan Stanley Research forecasts

## We maintain our expectation for below-potential growth during the forecast horizon:

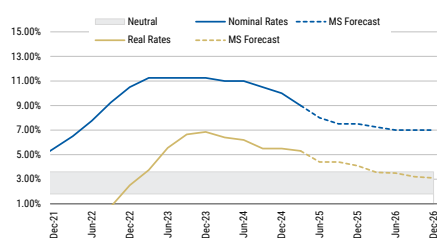
Elevated uncertainty is already affecting growth and will likely persist at least until mid-2026, the deadline for the renegotiation of USMCA. The sizeable deceleration in US activity [expected by our colleagues](#) is also a headwind to Mexico's exports, investment, consumption, and overall growth. We struggle to find growth drivers during the forecast horizon as capex and export demand fall, which in turn should lead to weakness in labor markets. We also have some concerns associated with additional structural damage to the Mexico manufacturing complex, especially in the auto sector. Whether US tariff policy towards the sector succeeds in motivating companies to expand production in the US remains a question. Amid serious efforts and [good progress to reduce the fiscal deficit](#), the government will have to be creative to find funding sources for much-needed infrastructure projects, including in the energy space. And the domestic agenda still comes with pockets of weakness, with the upcoming judicial reform front and center of those concerns. [The constitutional reforms from last year](#) that eliminate autonomous regulators in key sectors and the changes in the telecom industry are worth watching.

**The inflation outlook faces cross-currents:** We continue to expect some persistence in inflation metrics, despite weaker activity. On the one hand, we do think that the uncertainty-driven downturn in activity will generate slack in labor markets, and this will translate into lower core services pressures. Yet, the currency depreciation seen in 2H24 is likely to have some pass-through effects on CPI metrics. The PPI dynamics we follow closely suggest that core goods could see pressures. We might have started to experience some of that, [based on recent CPI prints](#). We understand that in a weak growth environment any pass-through should be contained, but we argue that it is not zero. If we add the possibility of higher import taxes on selected items from selected countries, then the outlook for core goods inflation gets a bit more cloudy. All in, we have a hard time seeing inflation converging to the 3%Y target, although we project CPI staying within the tolerance band in the forecast horizon (closer to the upper bound though).

**Easing gradually towards the upper bound of the neutral range:** A stable currency and the progress made so far on disinflation are allowing Banxico to ease monetary policy. Weaker activity keeps policymakers confident on further easing, but keeps monetary policy in contractionary territory. We do expect further cuts in the near term, but we see

some limitations in the easing process. First, with our US colleagues calling for no Fed cuts this year, Banxico will have to pause easing as rates differentials reach levels that might be too narrow to preserve currency stability. And the FX is a key variable shaping inflation expectations. Second, while activity is clearly weakening, we have some concerns around inflation persistence arising from pressures in core goods. Third, lingering uncertainty over the future of USMCA and the whole nearshoring thesis, along with other domestic-driven policy uncertainty, might require tighter-than-usual monetary policy to preserve macro stability. With the Fed cutting next year, Banxico could resume easing and take rates gradually towards the upper bound of the neutral rates range (real rates between 1.7-3.5%).

**Exhibit 184:** Banxico to continue easing policy



Source: Banxico, Morgan Stanley Research forecasts

**Risks to our outlook remain skewed to the downside:** While our US colleagues do not expect a recession in the US in their baseline scenario, uncertainty keeps the chances of that happening relatively high. In a likely downside scenario, tariff escalation leads to a recession in the US. Mexico's ongoing economic slowdown is exacerbated, with weakness widespread across aggregate demand components, with investment the weakest link. Private consumption gets hit, as do exports, with government spending unable to offset those losses. The broad-based growth weakness helps with disinflation. The services component shows a rapid fading of pressures. From a goods inflation standpoint, any potential pressures from the FX are limited by the negative output gap. Fed cuts prompt Banxico to be more aggressive on easing, taking the monetary policy stance within the neutral range.

**In a less likely upside scenario, reduced trade uncertainty and better US growth dynamics put a floor on Mexico's downturn,** with a recovery starting in 2H25, yet at a modest pace. Details-wise, domestic demand fares relatively better vis-à-vis the baseline, with more moderate investment losses. The improved outlook for growth leads to further persistence in services inflation, yet a stable currency helps to reduce some pressures in core goods. Better growth prospects lead to marginally higher rates vis-à-vis the baseline scenario. There is less appetite for large rate cuts due to some lingering inflation persistence and a shallower easing cycle from the Fed.

**Exhibit 185:** Key forecast summary

<b>Mexico Forecast Summary</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>
<b>Real GDP (%Y)</b>	<b>3.3</b>	<b>1.5</b>	<b>0.0</b>	<b>1.0</b>
Private consumption	4.2	2.9	-0.2	0.8
Gross fixed investment	16.6	3.6	-5.9	0.3
Government consumption	1.8	1.6	0.1	0.8
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-3.1	0.1	2.9	0.4
Net exports	1.7	1.1	0.0	0.0
Inventories	0.0	0.0	0.0	0.0
<b>CPI (%Y)</b>	<b>5.6</b>	<b>4.7</b>	<b>3.4</b>	<b>3.7</b>
<b>Core CPI (%Y)</b>	<b>6.8</b>	<b>4.1</b>	<b>3.8</b>	<b>3.6</b>
<b>Policy rate (EOP, %)</b>	<b>11.25</b>	<b>10.00</b>	<b>7.50</b>	<b>7.00</b>
General govt. balance (% GDP)	-3.3	-5.7	-4.4	-4.0
Gross govt. debt (% GDP)	49.5	51.8	52.1	52.3
Current account balance (% GDP)	-0.3	-0.3	-0.2	-0.3

Source: Banxico, INEGI, SHCP, Morgan Stanley Research forecasts

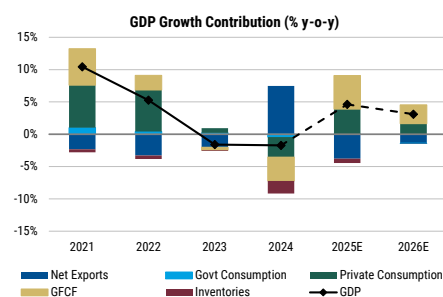
# Argentina: Testing the New Framework

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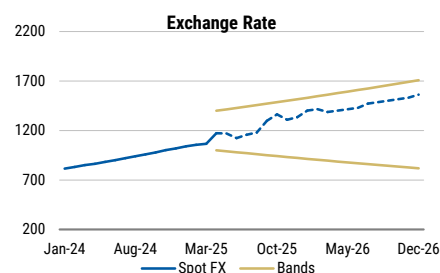
**After a soft patch led by FX uncertainty, the recovery is set to continue broadening. FX stability should lead to growth and disinflation paths resuming. Yet, we think that the new framework could be tested later in the year, so growth and disinflation paths will unlikely be straight lines. Mid-term elections are the key signpost to watch. The current account deficit is manageable throughout the forecast horizon, with financial inflows more than offsetting the gap. The fiscal anchor remains intact.**

**Exhibit 186: Recovery to continue broadening**



Source: INDEC, Morgan Stanley Research forecasts

**Exhibit 187: Floating within the band**



Source: BCRA, Morgan Stanley Research forecasts

**Exhibit 188: Key forecast summary**

Argentina Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>-1.6</b>	<b>-1.7</b>	<b>4.6</b>	<b>3.1</b>
Private consumption	1.0	-4.2	5.4	2.3
Gross fixed investment	-2.0	-17.4	29.0	13.2
Government consumption	1.5	-3.2	0.2	0.0
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.5	-7.2	9.1	4.5
Net exports	-2.0	7.5	-3.8	-1.4
Inventories	-0.1	-1.9	-0.7	0.0
<b>CPI (%Y)</b>	<b>133.5</b>	<b>219.9</b>	<b>42.6</b>	<b>23.6</b>
<b>Policy rate (EOP, %)</b>	<b>100.00</b>	<b>32.00</b>	<b>25.00</b>	<b>18.00</b>
General govt. balance (% GDP)	-4.4	0.3	0.0	0.1
Gross govt. debt (% GDP)	155.4	85.3	73.1	68.2
Current account balance (% GDP)	-3.2	1.0	-0.9	-1.1

Source: INDEC, BCRA, Morgan Stanley Research forecasts

**Recovery to continue broadening, with new framework likely tested:** The recent lifting of FX controls and new FX and monetary framework have so far brought about new-found stability, after several weeks of FX market jitters. The currency has been hovering below the center of the FX band, likely helping with upcoming inflation prints. FX inflows should keep the currency from depreciating too much, helping the economy to resume its recovery path after a soft patch in March/April due to FX policy uncertainty. Growth is investment-led but consumption – helped by disinflation and a surge in credit – should also contribute to overall growth metrics. A strong currency leads to a sizeable recovery of imports, so net exports remain a drag on growth. On the back of sustained fiscal prudence, government consumption does not help growth either. The **current account deficit seems manageable and fully financed**, yet it is worth monitoring. The October mid-term elections remain the main signpost to watch and will likely test the new macro framework. We cannot rule out some depreciation (within the band) of the currency ahead of the election. The election outcome will likely impact markets and whether the new macro framework requires changes or not.

**Disinflation proceeds, yet not a straight line:** With a more flexible FX, we will unlikely get a smooth downward trend in inflation metrics. There are pending regulated price hikes that will affect headline numbers. Lower trade barriers should continue helping on the goods side, with services inflation more persistent on the back of stronger labor markets.

**The framework suggests tight monetary policy:** Considering there is still space for the economy to continue re-monetizing to more normal levels, we view the monetary aggregates set by the BCRA and explicit in the IMF program as reasonable. Independent of the actual targets, we think that the authorities will keep monetary policy tight in order to avoid sizeable FX moves.

**Risks are skewed to the downside:** An uncertain global macro environment is never positive for a country that needs external funding sources. Idiosyncratic risks are always present, especially in an election year. While we think that the macro framework looks robust, our downside scenario entails eventual FX pressures that translate into higher inflation, lower growth, and, hence, weaker support for the strong policy framework. A more certain global environment that helps to maintain prudent policymaking is the basis for our upside scenario.

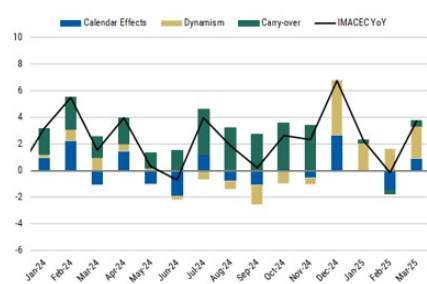
# Chile: A Larger Role for Monetary Policy

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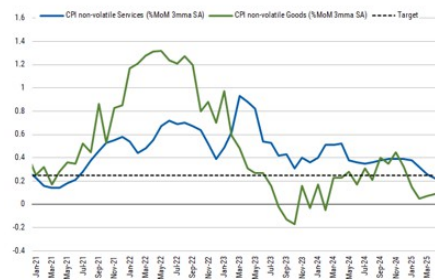
**We expect 2.1%Y growth in 2025, underwhelming but with a more balanced growth mix, as most imbalances have been resolved. Yet, we think trade policy uncertainty in the US provides a less benign external backdrop and this calls for a larger role for monetary policy in the absence of fiscal buffers.**

**Exhibit 189:** Positive supply shocks and calendar effects during 1Q25



Source: BCCh, Morgan Stanley Research

**Exhibit 190:** Inflation convergence is a reality rather than an expectation



Source: BCCh, Morgan Stanley Research

**Exhibit 191:** Key forecast summary

Chile Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.6</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>
Private consumption	-4.8	1.0	3.4	1.3
Gross fixed investment	0.3	-1.8	5.1	3.0
Government consumption	2.4	3.2	-4.6	2.6
<b>Contribution to GDP (pp)</b>				
Final domestic demand	-2.6	0.7	2.6	1.9
Net exports	3.0	1.1	-0.3	-0.1
Inventories	0.2	0.7	-0.2	0.0
<b>CPI (%Y)</b>	<b>7.3</b>	<b>3.9</b>	<b>4.4</b>	<b>2.9</b>
<b>Core CPI (%Y)</b>	<b>7.5</b>	<b>3.8</b>	<b>3.4</b>	<b>2.9</b>
<b>Policy rate (EOP, %)</b>	<b>8.25</b>	<b>5.00</b>	<b>4.25</b>	<b>4.25</b>
General govt. balance (% GDP)	-2.3	-2.9	-2.4	-1.4
Gross govt. debt (% GDP)	43.0	42.5	42.6	43.0
Current account balance (% GDP)	-4.8	-1.5	-1.9	-1.8

Source: INE, BCCh, Morgan Stanley Research forecasts

**Chile's economic activity is showing signs of gradual recovery, and we expect growth of 2.1%Y for 2025, driven by both external and domestic factors:** Data into 1Q25

suggest that the economy has been more dynamic than anticipated, primarily due to external demand and [supply-side factors](#). Going forward, we think the ongoing momentum of investment is likely to be sustained for some time. Copper prices remain supported and our sense is that both the direct and indirect effects of tariffs are rather limited. On the former, the US represents 6% of total exports (or ~1.8% of GDP) and these are mainly concentrated in refined copper, while the latter, based on [recent BCCh estimates](#), is less than 0.5% of GDP. However, in our view, towards year-end and into 2026, lower global growth is likely to translate into lower demand for Chilean exports. We also think trade policy uncertainty is likely to dent confidence, lowering consumption and delaying investment decisions. In that context, we see growth running at or even below potential of 1.8%Y. On a positive note, the coming elections in November 2025 could potentially lead to a positive shift towards a more pro-business agenda, boosting investment going forward.

**Core inflation is almost on target, risks are broadly balanced:** Convergence is a reality and we do not anticipate further shocks to derail the disinflation story. Since the January statement when the BCCh portrayed a more hawkish stance due to inflation expectation concerns, inflation has continued to adjust lower. For its part, we have seen significant progress on inflation expectations, on the back of favorable CPI prints. For end-2025 we expect headline inflation at 3.9%Y and core at 2.8%Y. Convergence in headline to 3%Y is reached in 1Q26.

**The BCCh can continue easing despite the Fed remaining on hold:** Currently, domestic data are supportive of further easing and, while our [US colleagues](#) expect the Fed to remain on hold for this year, we think that in an environment where the US dollar continues depreciating, compressed interest rate differentials with the Fed become less relevant. Consequently, we expect three 25bp cuts in 2025, with a terminal rate of 4.25%.

**The Chilean economy looks well positioned to cushion the effects of trade uncertainty:** In a downside scenario, we see the economy hovering around 1.9%Y in 2025 and falling below potential at 1.1%Y in 2026. Weakening activity and lower US rates and oil prices allow the BCCh to go below neutral. In an upside scenario we see activity expanding at a solid pace into 2025-26. Inflation stays above target for longer and policy rates stay above neutral.

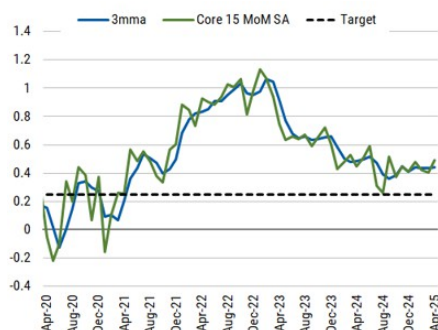
# Colombia: Breaking Fiscal Records

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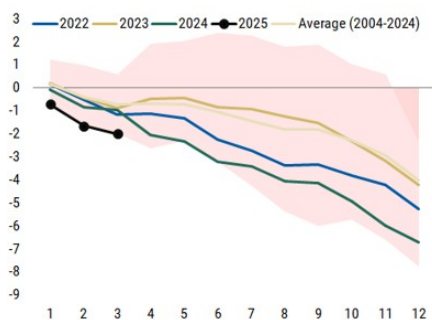
**The cyclical recovery continues, but fiscal imbalances remain. External and domestic uncertainties are likely to weigh on investment as sentiment remains weak. BanRep eases policy cautiously conditional on fiscal improvement.**

**Exhibit 192:** Disinflation continues, but risks are to the upside



Source: DANE, Morgan Stanley Research

**Exhibit 193:** The fiscal deficit is breaking historical records



Source: FinMin, Morgan Stanley Research

**Exhibit 194:** Key forecast summary

Colombia Forecast Summary	2023	2024	2025E	2026E
<b>Real GDP (%Y)</b>	<b>0.7</b>	<b>1.6</b>	<b>2.2</b>	<b>2.9</b>
Private consumption	0.4	1.6	3.8	2.3
Gross fixed investment	-12.7	3.2	-1.0	3.5
Government consumption	1.6	0.7	5.1	4.6
<b>Contribution to GDP (pp)</b>				
Final domestic demand	0.3	1.2	1.3	1.7
Net exports	3.0	-0.7	-1.0	-0.4
Inventories	-0.8	0.8	0.6	0.2
<b>CPI (%Y)</b>	<b>11.7</b>	<b>6.6</b>	<b>4.8</b>	<b>3.3</b>
Core CPI (%Y)	9.8	6.1	4.5	3.6
<b>Policy rate (EOP, %)</b>	<b>13.00</b>	<b>9.50</b>	<b>8.00</b>	<b>7.50</b>
General govt. balance (% GDP)	-4.2	-6.7	-7.1	-6.4
Gross govt. debt (% GDP)	56.3	61.6	61.8	63.9
Current account balance (% GDP)	-2.3	-1.8	-2.8	-2.9

Source: DANE, BanRep, Morgan Stanley Research forecasts

**The economy is recovering from a very low base:** Towards the end of 2024, domestic demand continued recovering, mainly concentrated in gross capital formation and a moderate expansion in consumption, on the back of falling rates and higher disposable household income. This momentum has also extended into 1Q25. Going forward, we think that higher trade uncertainty that hinders confidence, lower global growth and remittances, and a lower fiscal impulse are likely to take a toll on growth into 2026.

**Despite progress, the balance of risks for inflation is to the upside:** As outlined in BanRep's latest [monetary policy report for 1Q25](#), the most notable risks are COP depreciation due to the fiscal situation, a tightening of external financial conditions, further increases in minimum wages, and structural problems in the energy sector.

**We expect more easing, conditional on fiscal improvement:** We think that the recent BanRep surprise cut was a [second-best decision](#) and more easing is likely to be conditional on some progress on the fiscal front. Currently, government deficit projections for this year are at 5.1% and so far the deficit continues to break historical records. We expect the Medium-Term Fiscal Outlook, to be released in mid-June, to bring important news on this front.

**Domestic policy uncertainty prevails:** With the government pushing for a popular consultation on its labor reform and the FinMin announcing several sources of revenue, amid persistent revenue underperformance, we think that uncertainty is likely to weigh on growth. We also see the risks of missing the fiscal target as large, similar to our [February assumptions](#).

**We see limited space to maneuver in a downside scenario due to the weak fiscal situation:** In a downside scenario, lower oil prices, global growth, and higher US unemployment impacting remittances are likely to take growth below potential without countercyclical fiscal and monetary policy space to accommodate the shock. In an upside scenario, more growth in Colombia's trading partners should bode well for the economy. Also, higher oil prices and lower unemployment in the US should provide a boost to the terms of trade and remittances.

# Upcoming Central Bank Meetings

Exhibit 195: Central bank meetings in 2H25

Central Bank Meeting Calendar-2H 2025						
	Week 27 (30 June - 6 Jul)	Week 28 (7 Jul-13 Jul)	Week 29 (14 Jul-20 Jul)	Week 30 (21 Jul-27 Jul)	Week 31 (28 Jul-3 Aug)	
July	Poland 02-Jul	Israel 07-Jul	Indonesia 16-Jul	Hungary 22-Jul	Chile 29-Jul	
		Australia 08-Jul		<b>Euro Area 24-Jul</b>	<b>US 30-Jul</b>	
		Malaysia 09-Jul		Turkey 24-Jul	Canada 30-Jul	
		Korea 10-Jul		Ukraine 24-Jul	Brazil 30-Jul	
					Colombia 31-Jul	
				South Africa 31-Jul		
					<b>Japan 31-Jul</b>	
August	Week 31 (28 Jul-3 Aug)	Week 32 (4 Aug-10 Aug)	Week 33 (11 Aug-17 Aug)	Week 34 (18 Aug-24 Aug)	Week 35 (25 Aug-31 Aug)	
	Chile 29-Jul	<b>UK 07-Aug</b>	Australia 12-Aug	Sweden 20-Aug	Hungary 26-Aug	
	<b>US 30-Jul</b>	Mexico 07-Aug	Thailand 13-Aug	Israel 20-Aug	Korea 28-Aug	
	Canada 30-Jul	Czech Republic 07-Aug	Norway 14-Aug	Indonesia 20-Aug	Philippines 28-Aug	
	Brazil 30-Jul	India 07-Aug			Egypt 28-Aug	
	Colombia 31-Jul					
	South Africa 31-Jul					
<b>Japan 31-Jul</b>						
September	Week 36 (1 Sep-7 Sep)	Week 37 (8 Sep-14 Sep)	Week 38 (15 Sep-21 Sep)	Week 39 (22 Sep-28 Sep)	Week 40 (29 Sep-5 Oct)	
	Poland 03-Sep	Chile 09-Sep	<b>US 17-Sep</b>	Sweden 23-Sep	Israel 29-Sep	
	Malaysia 04-Sep	<b>Euro Area 11-Sep</b>	Canada 17-Sep	Hungary 23-Sep	Australia 30-Sep	
		Turkey 11-Sep	Brazil 17-Sep	Czech Republic 24-Sep	Colombia 30-Sep	
		Ukraine 11-Sep	Indonesia 17-Sep	Mexico 25-Sep	India 01-Oct	
			<b>UK 18-Sep</b>			
			South Africa 18-Sep			
			Taiwan 18-Sep			
			Norway 18-Sep			
			<b>Japan 19-Sep</b>			
October	Week 40 (29 Sep-5 Oct)	Week 41 (6 Oct-12 Oct)	Week 42 (13 Oct-19 Oct)	Week 43 (20 Oct-26 Oct)	Week 44 (27 Oct-2 Nov)	
	Israel 29-Sep	Poland 08-Oct		Hungary 21-Oct	Chile 28-Oct	
	Australia 30-Sep	Thailand 08-Oct		Indonesia 22-Oct	<b>US 29-Oct</b>	
	Colombia 30-Sep	Philippines 09-Oct		Turkey 23-Oct	Canada 29-Oct	
	India 01-Oct			Korea 23-Oct	<b>Euro Area 30-Oct</b>	
	Egypt 02-Oct			Ukraine 23-Oct	<b>Japan 30-Oct</b>	
				Colombia 31-Oct		
November	Week 44 (27 Oct-2 Nov)	Week 45 (3 Nov-9 Nov)	Week 46 (10 Nov-16 Nov)	Week 47 (17 Nov-23 Nov)	Week 48 (24 Nov-30 Nov)	
	Chile 28-Oct	Australia 04-Nov		Hungary 18-Nov	Israel 24-Nov	
	<b>US 29-Oct</b>	Sweden 05-Nov		Indonesia 19-Nov	Korea 27-Nov	
	Canada 29-Oct	Poland 05-Nov		South Africa 20-Nov		
	<b>Euro Area 30-Oct</b>	Brazil 05-Nov		Egypt 20-Nov		
	<b>Japan 30-Oct</b>	<b>UK 06-Nov</b>				
	Colombia 31-Oct	Czech Republic 06-Nov				
		Malaysia 06-Nov				
	Mexico 06-Nov					
	Norway 06-Nov					
December	Week 49 (1 Dec - 7 Dec)	Week 50 (8 Dec-14 Dec)	Week 51 (15 Dec-21 Dec)	Week 52 (22 Dec-28 Dec)		
	Poland 03-Dec	Australia 09-Dec	Hungary 16-Dec	Egypt 25-Dec		
	India 05-Dec	<b>US 10-Dec</b>	Chile 16-Dec			
		Canada 10-Dec	Indonesia 17-Dec			
		Brazil 10-Dec	Thailand 17-Dec			
		Ukraine 11-Dec	<b>UK 18-Dec</b>			
		Philippines 11-Dec	<b>Euro Area 18-Dec</b>			
		Turkey 11-Dec	Sweden 18-Dec			
			Norway 18-Dec			
			Czech Republic 18-Dec			
			Taiwan 18-Dec			
			Mexico 18-Dec			
			Colombia 19-Dec			
		<b>Japan 19-Dec</b>				

Source: National central banks, Morgan Stanley Research

# Global Strategy Forecasts

Exhibit 196: Morgan Stanley global currency forecasts

## Global Currency Forecasts

	2025			2026			
	2Q	3Q	4Q	1Q	2Q	3Q	4Q
EUR/USD	1.13	1.15	1.20	1.23	1.25	1.26	1.27
USD/JPY	148	149	140	136	130	126	124
GBP/USD	1.34	1.36	1.40	1.43	1.45	1.46	1.47
USD/CHF	0.82	0.82	0.78	0.76	0.74	0.74	0.73
USD/SEK	9.70	9.70	9.20	8.90	8.70	8.70	8.50
USD/NOK	10.40	10.30	9.90	9.80	9.50	9.40	9.40
USD/CAD	1.39	1.38	1.36	1.35	1.34	1.34	1.33
AUD/USD	0.65	0.66	0.67	0.68	0.69	0.69	0.70
NZD/USD	0.61	0.62	0.63	0.64	0.65	0.66	0.66
EUR/JPY	167	171	168	167	163	159	157
EUR/GBP	0.84	0.85	0.86	0.86	0.86	0.86	0.86
EUR/CHF	0.93	0.94	0.94	0.93	0.93	0.93	0.93
EUR/SEK	11.00	11.10	11.00	10.90	10.90	10.90	10.80
EUR/NOK	11.70	11.80	11.90	12.00	11.90	11.90	11.90
USD/CNY	7.18	7.16	7.15	7.15	7.10	7.07	7.05
USD/HKD	7.79	7.78	7.76	7.78	7.76	7.76	7.75
USD/IDR	16500	16400	16250	16100	16000	15950	15900
USD/INR	84.9	84.1	83.1	82.5	81.9	81.6	81.3
USD/KRW	1400	1380	1360	1345	1330	1325	1320
USD/MYR	4.27	4.23	4.19	4.16	4.13	4.12	4.11
USD/PHP	55.7	55.2	54.7	54.3	54.0	53.9	53.8
USD/SGD	1.290	1.275	1.260	1.245	1.235	1.230	1.225
USD/TWD	30.2	29.8	29.4	29.1	28.9	28.8	28.7
USD/THB	33.1	32.8	32.3	31.9	31.5	31.4	31.3
USD/BRL	5.60	5.50	5.90	5.80	5.60	6.00	5.60
USD/MXN	20.30	20.50	20.55	20.60	20.80	20.50	20.40
USD/ARS	1123	1298	1335	1387	1429	1501	1562
USD/CLP	940	920	910	900	890	885	880
USD/COP	4300	4450	4500	4550	4450	4400	4350
USD/ZAR	18.00	18.00	17.50	18.00	18.50	18.75	18.75
USD/TRY	38.75	41.00	43.00	44.00	45.00	46.00	47.00
USD/ILS	3.60	3.50	3.50	3.40	3.40	3.50	3.60
EUR/PLN	4.24	4.35	4.40	4.45	4.50	4.55	4.60
EUR/CZK	25.0	24.9	24.8	25.0	25.3	25.6	25.9
EUR/HUF	405	408	412	416	420	410	402
DXY Index	100	99	95	93	91	90	89
Fed's Broad USD	123	122	120	118	117	117	116
ECB EUR TWI	99.7	100.9	103.0	104.3	104.9	105.1	105.4

Source: Morgan Stanley Research forecasts

Exhibit 197: Morgan Stanley forecasts

	As of May 19, 2025	Q2 2026 Forecast			Q2 2026 Forecast			Volatility	Base Case Return/Risk
		Bear	Base	Bull	Bear	Base	Bull		
<b>Equities</b>									
S&P 500	5,964	4,900	6,500	7,200	-16.6%	10.3%	22.0%	19%	0.55
MSCI Europe	2,183	1,610	2,250	2,620	-23.1%	6.3%	23.2%	16%	0.40
Topix	2,738	2,100	2,900	3,250	-20.8%	8.4%	21.2%	20%	0.43
MSCI EM	1,167	870	1,200	1,360	-22.8%	5.5%	19.3%	16%	0.34
<b>FX</b>									
JPY*	145	143	130	122	15.0%	7.7%	-2.4%	9%	0.83
EUR	1.12	1.14	1.25	1.30	-0.9%	8.9%	13.4%	8%	1.15
GBP	1.34	1.35	1.45	1.51	0.9%	8.4%	12.9%	9%	0.89
AUD	0.65	0.64	0.69	0.72	-1.3%	6.4%	11.1%	10%	0.62
INR*	85.4	85.2	81.9	80.3	8.5%	6.4%	2.4%	5%	1.35
ZAR*	18.1	20.0	18.5	17.0	9.3%	0.7%	-6.7%	16%	0.04
BRL*	5.65	6.20	5.60	5.20	17.5%	9.8%	0.0%	16%	0.61
MXN*	19.3	22.5	20.8	19.0	5.9%	-2.9%	-9.9%	13%	-0.22
CNY*	7.21	7.35	7.10	6.95	-0.7%	-4.2%	-6.3%	4%	-0.99
<b>Rates (% percent)</b>									
UST 10yr	4.45	4.00	3.45	2.85	8.5%	12.9%	18.1%	7%	1.92
DBR 10yr	2.59	2.85	2.35	1.85	1.0%	5.2%	9.8%	6%	0.90
UKT 10yr	4.66	4.35	4.10	3.15	7.6%	9.6%	16.9%	7%	1.43
JGB 10yr	1.48	1.70	0.90	0.55	0.0%	7.2%	10.4%	2%	2.94
<b>Credit (bps)</b>									
US IG	89	130	90	70	-1.9%	0.8%	2.2%	3%	0.26
US HY	312	475	335	275	-2.8%	1.6%	3.7%	6%	0.27
EUR IG	101	180	110	90	-2.5%	0.6%	1.5%	2%	0.32
EUR HY	322	500	350	275	-2.9%	1.6%	3.9%	5%	0.33
EM \$ Sov	331	475	361	290	-6.3%	1.3%	6.0%	7%	0.18
<b>Sec. Products (bps)</b>									
US Agency MBS	39	55	35	25	-0.6%	0.6%	1.2%	2%	0.33
US CMBS AAA	85	160	80	70	-6.6%	1.3%	2.3%	2%	0.83
US CMBS BBB-	515	750	435	390	-18.1%	13.1%	17.5%	4%	3.65
<b>Commodities</b>									
Brent	66	45.0	55.0	70.0	-29.5%	-13.9%	9.6%	39%	-0.35
Copper	9,539	7,790	9,500	11,400	-16.9%	1.3%	21.6%	21%	0.06
Gold	3,230	2,760	3,250	3,900	-18.6%	-4.1%	15.1%	15%	-0.28

Source: Bloomberg, MSCI, Morgan Stanley Research forecasts; Note: Returns are total returns, except for credit, where we forecast excess returns versus government bonds. Commodity returns are calculated relative to futures to account for carry. All currency returns are shown as XXXUSD return. Volatility is 10y realised vol.

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Equal-weight/Hold	1667	44%	375	45%	22%	796	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	603	16%	76	9%	13%	229	13%
Total	3,774		828			1717	

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