

Global Economic Outlook – September 2025

World Growth Forecasts Revised Up, but US Economy Is Slowing Down

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“Greater clarity about US tariff hikes does not alter the fact that they are huge and will reduce global growth. And evidence of a slowdown in the US is now appearing in the hard data; it’s no longer just in the sentiment surveys.”

Brian Coulton, Chief Economist, Fitch Ratings

Fitch Ratings has raised its world growth forecasts for 2025 moderately since the June [Global Economic Outlook](#) (GEO) on better-than-expected incoming data for 2Q25. But there is now evidence of an underlying US slowdown in hard economic data and recent positive surprises on eurozone growth have partly reflected US tariff front-running. Fitch still expects world GDP to slow significantly this year. Global growth is now forecast to be 2.4% in 2025, up 0.2pp since June but a sizeable slowdown from 2.9% last year and below trend. China’s forecast has been revised up to 4.7% from 4.2%, the eurozone’s to 1.1% from 0.8% and the US to 1.6% from 1.5%. World growth for 2026 is edged up by 0.1pp to 2.3%.

Greater clarity on US tariff policy has emerged after a flurry of announcements. Our latest estimate of the average US effective tariff rate (ETR) is 16%, very close to the ETR assumed in June. Mexico and Canada face lower ETRs, due to better USMCA compliance and Europe’s ETR is also slightly lower, but this is offset by higher-than-expected reciprocal rates for Asia excluding China.

US Slowdown Now Evident in ‘Hard’ Data

Pass-through from this huge jump in the ETR to US CPI inflation has been modest so far, with some evidence in the national accounts that it has partly been offset by downward pressure on corporate profits. But we expect pass-through to accelerate later this year. Higher inflation will dampen real wage growth and weigh on consumer spending, which has already slowed notably in 2025. Job growth has decelerated markedly, partly reflecting the impact of the immigration squeeze on labour force growth. A widening fiscal deficit should support demand in 2026, but Fitch expects the annual average GDP growth rate to remain well below trend at 1.6%.

China Sustains Exports, Rebalancing Slowly

China’s export growth has held up well in the face of the US tariff shock as a depreciating nominal effective exchange rate and falling export prices have helped a redirection of foreign sales. Fiscal easing is supporting growth, but private domestic demand growth seems to be weakening, and deflation is increasingly entrenched.

Eurozone Holds Up but Lull in Growth Ahead

Eurozone exports are unlikely to sustain their 1H25 pace and, with the consumer recovery fading, we do not expect GDP to expand in 2H25. German fiscal easing will provide more support next year.

Fed Now Likely to Cut Twice by Year-End

The weakening in the job market should persuade the FOMC to cut rates more quickly than we previously anticipated. We expect cuts of 25bp in September and December, and three more in 2026.

Dollar, Long-Term Bonds Still Under Pressure

With the ECB now looking likely unlikely to lower rates again, we see little prospect of a rebound in the dollar after the broad-based depreciation witnessed in 1H25. Long-term 30-year government bond yields in the US, UK, Germany and Japan continue to see upward pressure, possibly reflecting market concerns about supply.

Related Research

[Global Economic Outlook \(June 2025\)](#)

[US. Effective Tariff Rate Monitor \(August 2025\)](#)

Developed Economies’ Potential Growth Revised to 1.6%
(August 2025)

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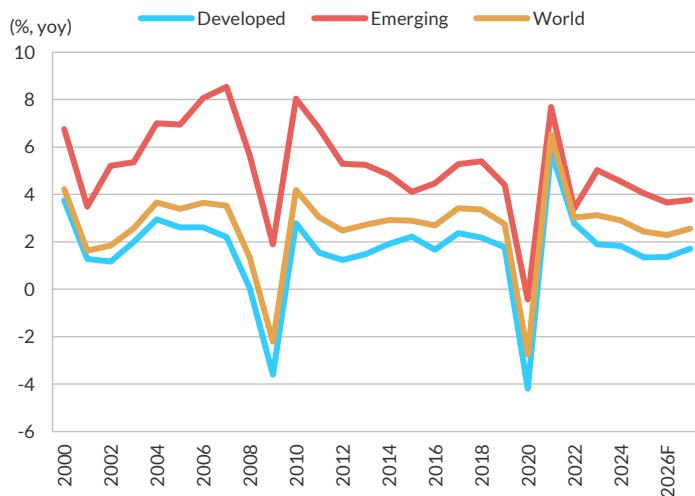
Global Forecast Summary

(%)	Annual Average	2024	2025F	2026F	2027F
	2020-2024				
GDP Growth					
US	2.4	2.8	1.6	1.6	2.1
Eurozone	1.1	0.9	1.1	1.1	1.2
China	4.9	5.0	4.7	4.1	4.1
Japan	0.2	0.1	1.2	0.6	0.6
UK	0.9	1.1	1.2	1.2	1.5
Developed ^a	1.6	1.8	1.4	1.4	1.7
Emerging ^b	4.0	4.5	4.1	3.7	3.8
Emerging ex China	2.8	4.0	3.3	3.1	3.4
World ^c	2.5	2.9	2.4	2.3	2.6
Inflation (end of period)					
US	4.0	2.9	3.6	3.3	2.4
Eurozone	3.6	2.4	2.2	1.8	2.0
China	1.7	0.1	0.4	1.2	1.4
Japan	1.2	3.7	2.2	2.0	2.0
UK	4.3	2.6	3.2	2.4	2.2
Interest Rates (end of period)					
US	2.05	4.50	4.00	3.25	3.00
Eurozone ^d	0.44	3.00	2.00	2.00	2.00
China ^e	2.94	1.50	1.20	1.00	1.00
Japan	-0.03	0.25	0.75	1.50	1.50
UK	1.47	4.75	3.75	3.25	3.00
US 10 Year Yield	2.69	4.57	4.40	4.40	4.25
Exchange Rates and Oil					
Oil (USD/barrel)	74.8	79.5	70.0	65.0	65.0
USDJPY (end-period)	119.5	156.7	147.0	140.0	136.0
USDEUR (end-period)	0.90	0.96	0.86	0.86	0.86
GBPUSD (end-period)	1.28	1.25	1.33	1.31	1.30
USDCNY (end-period)	6.82	7.30	7.20	7.30	7.30

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye.^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average).^d Deposit facility rate.^e 7-Day Reverse Repo Rate.

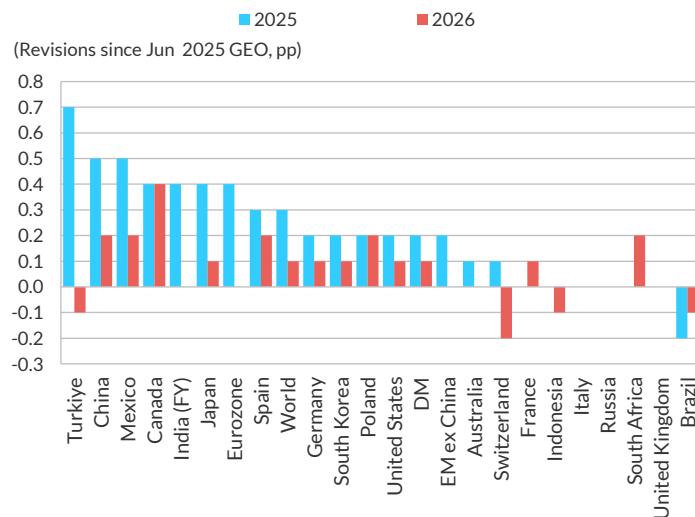
Source: Fitch Ratings

World GDP Growth



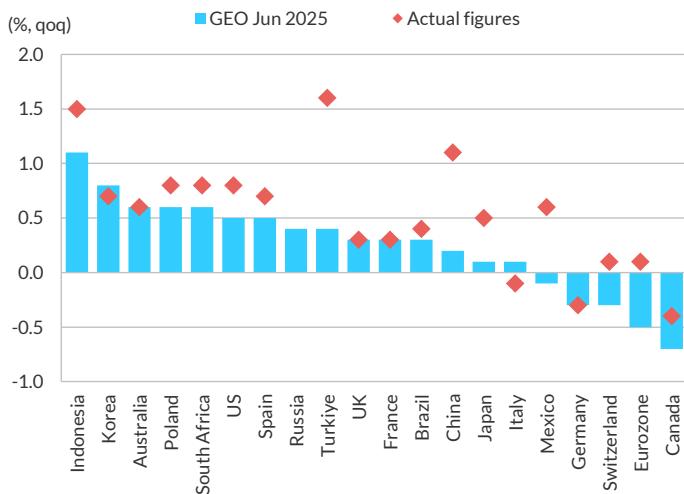
Source: Fitch Ratings' estimates

Revisions to Annual GDP Growth Forecasts



Source: Fitch Ratings' estimates

2Q25 GDP Outturns Versus Forecasts



Source: Fitch Ratings' estimates, national statistical offices, Haver Analytics

Forecast Highlights

Fitch has increased its world GDP growth forecast for 2025 to 2.4% from 2.2% in June's GEO. The forecast for growth this year in China has been raised by 0.5pp to 4.7%, the eurozone by 0.3pp to 1.1% and the US by 0.1pp to 1.6%.

Upward revisions to 2025 growth have been very broad-based with India, Turkey, Mexico, Japan and Canada all seeing sizeable increases. For India, Turkey and Japan, this reflects strong data for 2Q25 while in Mexico and Canada it is partly due to a lower US ETR assumption as the share of exports to the US qualifying for USMCA status – and hence tariff-free – has increased surprisingly quickly.

Among the Fitch 20 countries covered in the GEO, only Brazil has seen its 2025 forecasts cut. Sharp monetary tightening from late last year is restraining activity to a greater extent than anticipated. The US tariff shock has also been higher than expected for Brazil, as it was for Switzerland, where our 2026 growth forecast has also been cut (by 0.2pp).

Better-than-expected incoming GDP data have been a key driver of improved forecasts. Growth was a lot stronger in China in 2Q25 than we expected, with exports being surprisingly resilient. The eurozone defied our expectation that GDP would decline in 2Q25 after tariff-front running boosted growth in 1Q25. US growth was 0.8% (not annualised) in 2Q25 versus our forecast of 0.3%.

But upward revisions do not alter the picture of a significant slowdown in global growth from last year, when world GDP expanded by 2.9%. US growth is forecast to slow to 1.6% this year from 2.8% in 2024 as final domestic demand – including private consumption and government spending – decelerates. Fitch expects growth in China to slow to 4.7% from 5.0% in 2024 as the boost from net trade moderates and private spending growth remains subdued. Growth in emerging markets excluding China is also expected to slow to 3.3% from 4.0% in 2024 as earlier monetary tightening dampens activity in Russia and Brazil, and the US tariff shock hits Mexico.

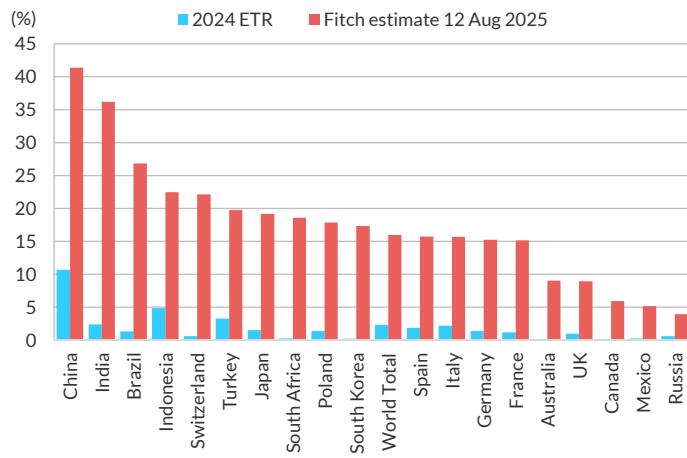
Fitch forecasts world growth to remain substantially below trend at 2.3% in 2026, albeit 0.1pp higher than in June. In 2025 and 2026, we expect a cumulative shortfall in world growth of 0.7pp relative to its long-run historical average of 2.7% a year. This highlights the adverse impact of the trade war.

Clarity Emerging on Size of US Tariff Shock

The fog is lifting on the US tariff shock after massive uncertainty and volatility in 2Q25. So-called reciprocal tariff rates were assigned across the board in July after the 90-day delay announced in April. China's reciprocal rate of 10% was extended by another three months through November and several 'trade deals' have been agreed in recent months, including with the EU and Japan.

The reduction in uncertainty about where US tariffs will settle is helpful to the global business community but there is no denying the severity of the shock. Our best estimate of the US ETR implied by the latest policy announcements (and assuming the same product and geographical mix of US imports as in 2024) is 16%. This is up from 2.4% in 2024 and would be the highest since 1936.

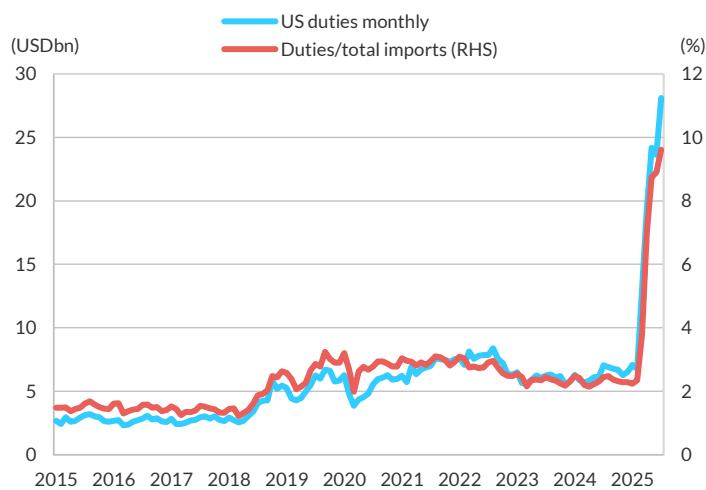
The high trade barriers that the US has erected put paid to earlier media and market speculation that tariff threats were largely a negotiation tactic to achieve other international policy goals. Rather, it has become clear that high tariff rates are seen as a key

US Effective Tariff Rate - Policy Base^a

^a Based on latest announced tariff rates and 2024 product and geographical mix of US imports.

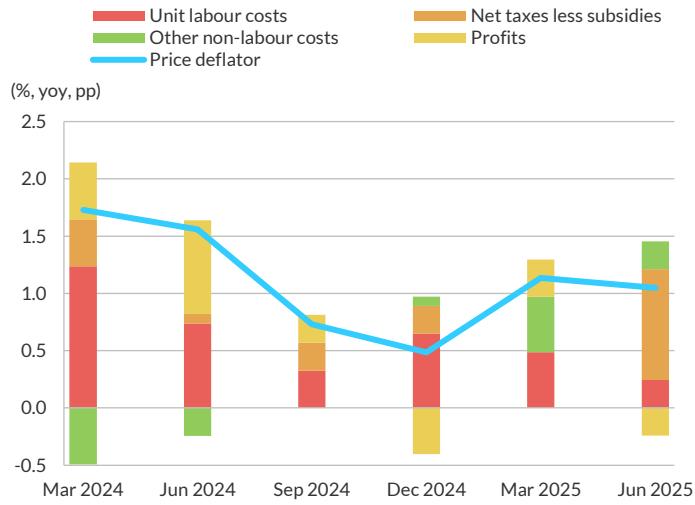
Source: Fitch Ratings

US Duties Collected and Realised Effective Tariff Rate



Source: Fitch Ratings, US Customs, Haver Analytics

US - Corporate Sector Price Deflator and Unit Costs



Source: Fitch Ratings, BEA, Haver Analytics

policy lever to help achieve the objective of import substitution. This reduces the likelihood that recent legal challenges to tariff hikes would culminate in a sharply lower overall ETR.

Our latest ETR estimate is not significantly different from the 16.8% assumed in the June GEO. However, there are some important changes at the regional and country level, some of which have forecast implications. Reciprocal rates imposed on several major trade partners in Asia (exc. China) imply ETRs that are significantly higher than the 15% assumption used in June. Our ETR monitor shows an ETR for Japan of 19%, 17% for Korea, 22% for Indonesia, 19% for Vietnam and 36% for India (including an additional 25% rate tariff related to US concerns about India's Russian oil purchases). Brazil is also facing a 27% ETR and Switzerland 22%.

These higher ETRs are offset by a sharp reduction in our estimates for Canada and Mexico. As of July 2025, 90% of total goods imports from Canada and 81% from Mexico remained tariff-free, reflecting stronger USMCA compliance and broader carveouts. Fitch now assumes that a greater share of Canadian and Mexican imports will ultimately remain exempt from tariffs. Based on this, our latest ETR estimates for Canada and Mexico are 5.9% and 5.2%, respectively, down from 7.6% and 9.2% in the June GEO.

The US-EU agreement also implies a lower ETR for EU exporters, at just over 12%. The agreement sets a headline 15% tariff on most exports from the eurozone and brings relief in the form of exemptions for some of its main exports. Under the agreement, tariffs on autos fall from 25% (or 27.5% including most-favoured nation tariffs of 2.5%) at present to 15% once the EU implements its commitments including scrapping tariffs on US industrial goods.

According to a joint statement on the deal on 21 August, the US tariff on Europe's pharmaceuticals and semiconductors will also be bound by the 15% rate. Aircraft and parts, and generic pharmaceuticals, will be free of tariffs. These details illustrate the benefit of reduced tariff uncertainty. The agreement attenuates the risk of a significantly higher ETR for the EU following pending US Section 232 actions on pharmaceuticals and semiconductors.

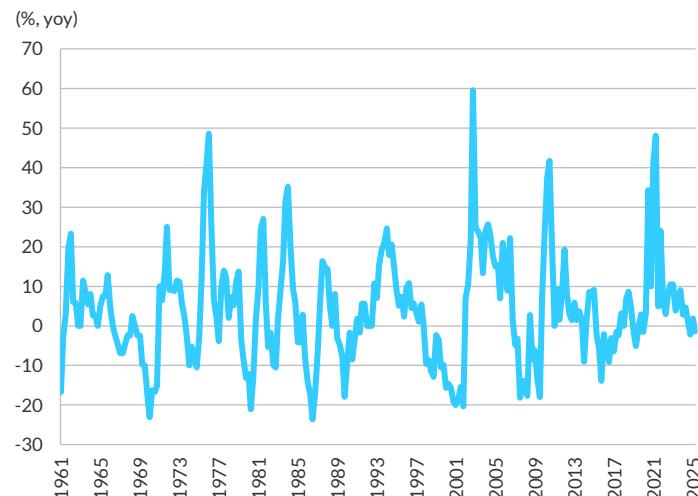
Tariff Pass-Through to US CPI to Accelerate

The impact of tariff hikes on US CPI inflation has been modest so far. Core goods inflation has returned to positive territory in annual terms since April, but prices only rose by 0.2% a month in June and July. However, pass-through is likely to accelerate soon.

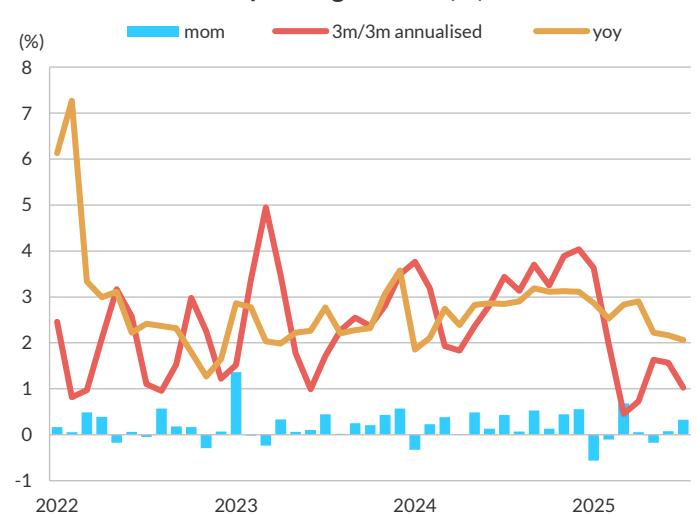
Limited pass-through to date partly reflects delays between tariff change announcements and movements in actual realised tariff rates. Data through July show the realised ETR - duties collected as a share of total goods imports - had only risen to around 9.6%, well short of the 16% rate we estimate based on the latest policy announcements. The delay in the implementation of higher rates until August has played a part, but trade diversion has also been a factor. The share of US goods imports originating from China - where tariff rates are much higher - fell to 9% in July from 13% in 2024, offset by a rising share from Vietnam and other suppliers in Asia. This redirection could become more difficult over time as broader-based US tariff hikes and trade measures kick in, including initiatives to limit trade diversion.

The build-up in imported inventories sourced before tariffs rose may also have delayed pass-through, but this effect will fade as these inventories are depleted. Massive uncertainty in 2Q25 about

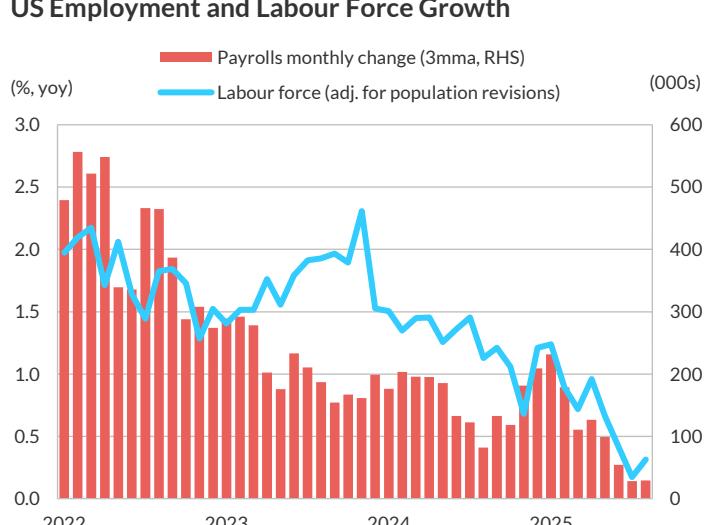
US - Corporate Sector Profit per Unit of Real GVA



US Real Consumer Spending Growth (%)



US Employment and Labour Force Growth



the duration of announced changes may also have made firms reluctant to pass on tariff increases quickly. Sellers' attitudes may change as it becomes clear that higher tariffs are here to stay.

A notable feature of the macro data is that US import prices – which are measured excluding duties – have not fallen. Exporters do not appear to be lowering their export prices to offset the extra duties being levied once the goods arrive in the US. This points to the higher import tax bill being fully borne by US residents. With the limited pass-through to the CPI, this would imply that US firms have, so far, squeezed profit margins or borne down on other costs.

There is some tentative evidence to suggest profits have been under pressure in the 2Q25 national accounts. The corporate sector gross value-added deflator breaks down the price charged by non-financial firms into unit labour costs, profits per unit and other non-labour unit costs which include taxes on production and imports (net of subsidies). Price inflation on this measure remained steady in 2Q25 at 1% despite a sharp jump in the tax component of other unit costs, which, in turn, reflected the rise in import duties. Profits per unit fell by 1.1% yoy. Unit labour costs growth remained positive but also slowed to 0.4% yoy from 1.3% in 2024. Corporate pricing behaviour in the post-pandemic inflation episode – when unit profits grew rapidly in 2021 and 2022 despite supply-chain disruptions and related cost shocks – suggests that companies may be unlikely to tolerate lower margins for too long.

Other indicators also point to a stronger pass through ahead, including upstream producer price inflation measures and business survey responses. A micro study from [Harvard University](#) also suggests that imported goods prices have risen faster than domestically sourced products at major US retailers since the tariff increases began. Our forecasts anticipate a significant pick-up in CPI inflation to 3.6% by December as tariff hikes feed through more strongly to core goods prices.

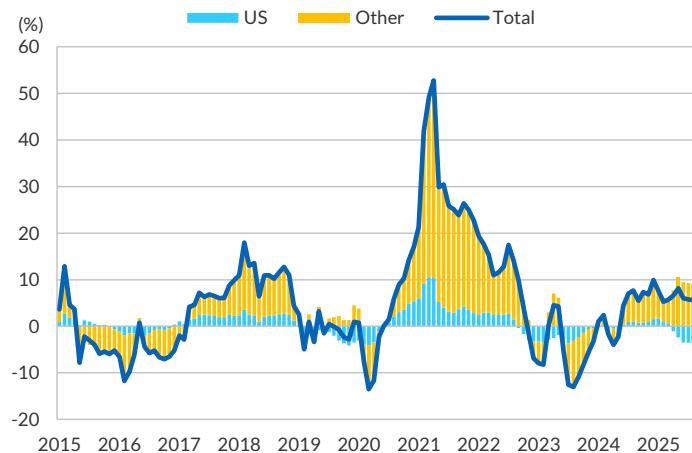
Evidence of US Consumer Slowdown

Rising inflation will dampen real wage growth given that nominal wage inflation is either steady or declining modestly (depending on which measure is tracked). This will put downward pressure to consumer spending dynamics, which have already cooled. Consumption slowed to 1.6% annualised in 1H25 from 2.8% in 2024 and in the three months to July, annualised growth weakened further to 1.0%. Spending on services, which account for two-thirds of consumption and historically has been less volatile than goods spending, has eased markedly this year. The saving ratio has risen by around 1pp since end-2024 as consumer confidence has fallen.

A slowdown in job growth is also weighing on confidence and aggregate household real income. Payrolls expanded by just 29,000 per month in the three months to August which was the slowest rate since 2010 (excluding the pandemic). This partly reflects a sharp decline in labour supply growth which dipped to just 0.3% yoy in August (using BLS Household Survey data adjusted for population revisions), down from 1.2% in 2024. The squeeze on immigration is reducing population growth as reflected in our [recent update](#) to US supply-side potential growth. The US population grew by 1% a year in 2023 and 2024, mainly due to net immigration, but we expect annual population growth to fall to 0.3% over the next few years as net immigration slows to less than 500,000 from 2.5 million a year in 2023 and 2024.

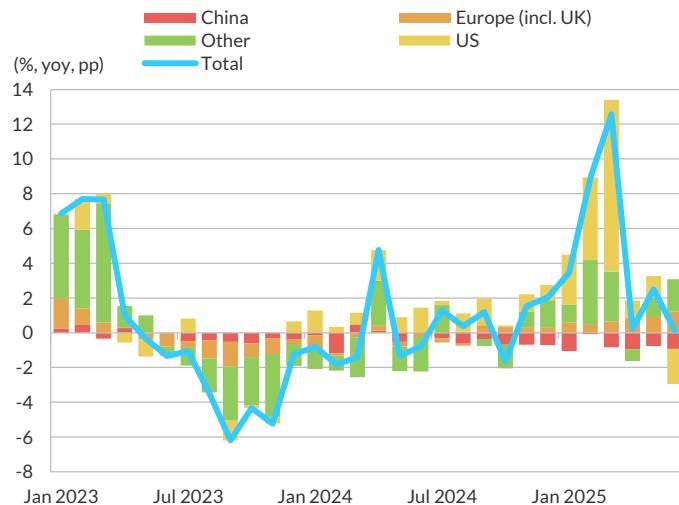
China Goods Exports (USD)

3mma - change on year earlier



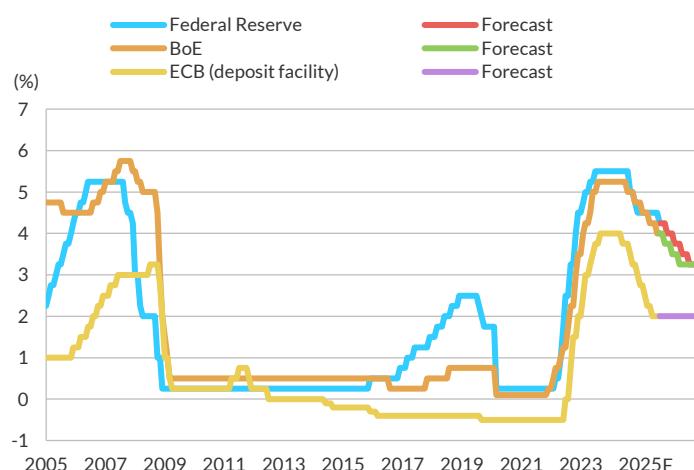
Source: Fitch Ratings, GAC, Haver Analytics

Eurozone – Export Growth by Destination



Source: Fitch Ratings, Eurostat, Haver Analytics

Fitch Policy Interest Rate Forecasts



Source: Fitch Ratings, Fed, BOE, ECB

Fitch expects consumer spending to slow further in 2H25 before picking up sequentially in 2026 as fiscal easing and tax cuts support demand and policy interest rates fall.

China's Growth Rotation Progresses Slowly

When the global trade war commenced this year, we assumed that China would see a shift from external to domestic demand as the key driver of economic growth, and that the Chinese authorities would respond to the tariffs through a combination of fiscal and monetary stimulus and by allowing the exchange rate to depreciate. Looser policy would then support domestic demand, alleviating domestic deflationary pressures.

For now, there are only tentative signs that this rotation is under way. Fiscal stimulus is supporting capital spending on infrastructure (which had grown steadily in 1H25) and consumer spending through durable goods trade-in programmes. Retail sales growth strengthened in the first months of the year but data for July point to weakening demand, and we do not expect the pace of fiscal stimulus to increase over the final months of the year. Export growth has held up well, despite sharp year-on-year declines in exports to the US. We expect GDP growth to slow in 2H25, after strong outturns in 1H25.

There are risks to the outlook for domestic demand and Fitch believes that the durability of the recovery in consumption is unclear without a rebound in consumer confidence, which remains stuck at very low levels, around two standard deviations below the mean. Low confidence reflects, among other factors, negative wealth effects from the ongoing property sector correction.

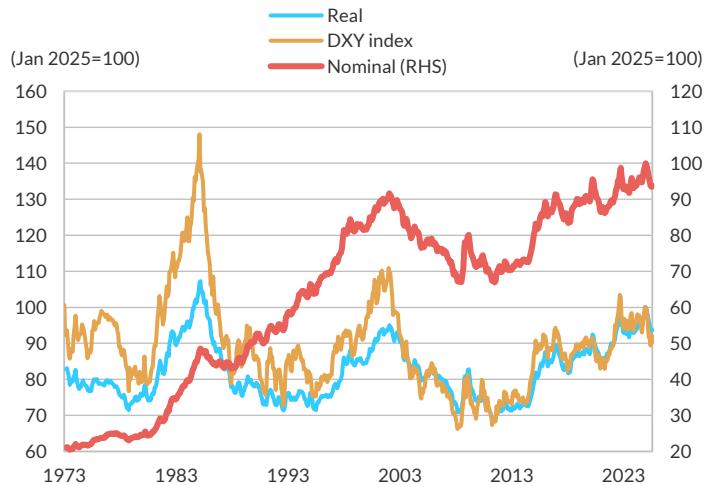
Monetary policy has taken a back seat in terms of policy response. The People's Bank of China (PBoC) has been more cautious than we expected in loosening policy and has kept its policy rate at 1.4% after cutting in May by just 10bp. Moreover, the renminbi has appreciated since June and the PBoC is leaning against any depreciating pressures. This may seem surprising given that a weaker exchange rate could offset the impact of higher tariffs through lower local-currency export prices. But China's overall competitiveness has improved through other currencies' strength versus the dollar (and the renminbi), and lower price pressures than China's trading partners, thus bearing down on the real exchange rate. This has helped China redirect export sales to other countries as exports to the US have fallen.

Domestic price pressures remain weak despite the recovery in consumer spending, with headline inflation close to zero, producer price inflation still negative and signs of weakness in the labour market. The GDP deflator has declined in annual terms for nine consecutive quarters up to 2Q25. The Chinese authorities are now acknowledging the downsides of excess capacity and price competition across industrial sectors and have indicated that supply-side initiatives will be used to address deflationary pressures. But it is unclear to what extent these initiatives will translate to upward pressures on prices. These measures could also weigh on GDP growth by reducing investment, which may have been a factor in the sharp drop in fixed-asset investment in July.

Eurozone Holds Up but Lull in Growth Ahead

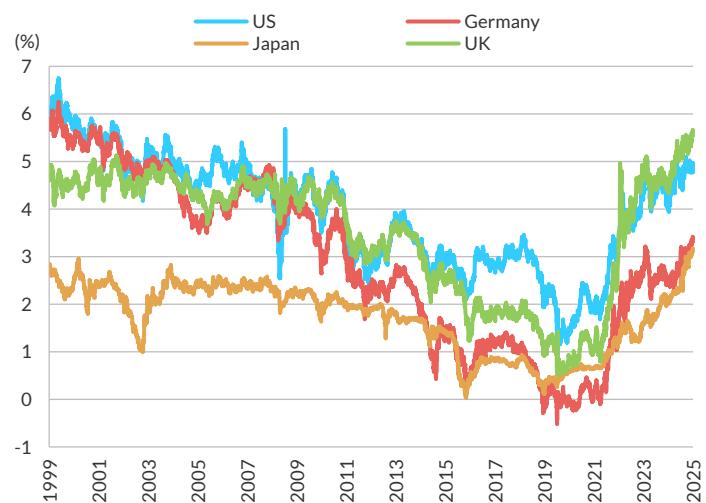
Our higher eurozone growth forecast for 2025 is largely due to stronger carry over from a better-than-expected outturn in 1H25.

US Dollar Broad Effective Exchange Rate Indices



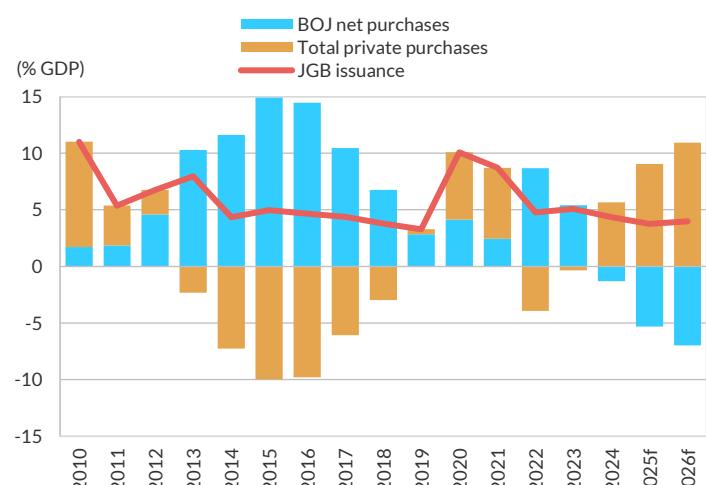
Source: Fitch Ratings, FRB, Haver Analytics

Long-Term (30 Year) Government Bond Yields



Source: Fitch Ratings, LSEG, Ministry of Finance Japan, Haver Analytics

JGB Issuance and BOJ Net Purchases



Source: Fitch Ratings, JSDA, BOJ, Haver Analytics

But the arithmetic disguises a quite fragile recovery. A key driver of 1H25 surprise was front-running of exports to the US ahead of tariff increases. Exports from Ireland grew particularly rapidly in 1Q25 with pharmaceuticals exports surging. With US Section 232 tariffs on the sector yet to be implemented, EU exports to the US continued to be exceptionally strong in 2Q25. This strong export dynamic now looks to have run its course: eurozone total exports were flat yoy in June and sales to the Americas were down nearly 10%. The appreciation of the euro could also amplify headwinds on net trade over the next year.

The tariff shock is particularly impactful for Germany's export-oriented economy, where recent GDP revisions revealed that the recession in 2023 and 2024 was deeper than previously thought. The gradual pick-up in consumer spending that began in early 2024 has faded in recent months. Consumption grew just 0.1% qoq in 2Q25 in the eurozone, despite real wages continuing to rise. Consumer confidence has fallen and the saving ratio has risen in France. We anticipate zero GDP growth in 2H25. Quarterly growth should pick up in 2026 as German fiscal easing gains more traction and public investment in Italy and Spain benefits from Next Generation EU fund disbursements. With credit growth picking up there should also be some impetus from earlier ECB rate cuts. Some forward-looking manufacturing surveys have also improved of late.

Fed Now Likely to Cut Twice by Year-End

The recent deterioration in job growth is likely to persuade the Federal Reserve to cut by 25bp in September. While the FOMC expects inflation to pick up as tariff pass-through strengthens, a 25bp cut would leave rates clearly in restrictive territory allowing the Fed to argue that it is not taking undue risks with inflation. The vote at the July meeting was already split, with two members opting for a 25bp cut. Fed Chair Powell recently noted that downside risks to employment are rising and that tariff impacts could be a one-off hit to the price level rather than a source of ongoing inflationary pressure. We anticipate a further 25bp cut in December and then three more in 2026 as tariffs stabilise and unemployment rises. The ECB is expected to keep rates unchanged at 2%, a change from our previous forecast of one further cut to 1.75%. Recent ECB commentary has sounded less dovish as activity has held up, growth forecasts have improved and unemployment has remained low. But with inflation back at target and wage growth easing it would not take too much to persuade the ECB to move rates below neutral.

Dollar and Long-Term Yields Under Pressure

These monetary policy developments are unlikely to provide much support to the US dollar. The [dollar has stabilised](#) since the end of June as uncertainties about US trade policy have eased, but it remains around 9% to 10% weaker than at the start of the year. Our end 2025 EURUSD assumption of 1.16 is about 4% weaker than assumed in June. Nevertheless, from a historical perspective the dollar remains strong in nominal and real effective terms. Upward pressures persist on 30-year government bond yields in the US, UK, Japan and Europe. Japanese yields have risen particularly fast, possibly related to the very aggressive pace of [quantitative tightening by the Bank of Japan](#). Rising term premia in US Treasury yields could reflect market concerns about supply. Real (inflation-protected) US yields are back to pre-2008 levels and the 30-year real yield is a strikingly high 2.7%. These high rates are dampening activity in US real estate, where investment continues to fall.



United States

The US economy is slowing down. Our growth forecasts for both 2025 and 2026 are broadly unchanged from the June GEO at 1.6%, but this represents a sharp deceleration from 2.8% in 2024. GDP rebounded by 0.8% (not annualised) in 2Q25 – faster than the 0.4% predicted in June – driven by a large decline in imports after tariff front-running in 1Q25. But tariff-related volatility in headline GDP belies increasing evidence of an underlying slowdown. Final sales to domestic purchasers (GDP excluding net trade and inventories) slowed to 1.6% annualised from 2.5%-3.0% in 2023 and 2024.

Consumption growth fell to 1.6% annualised in 1H25, down from 3% through 2023 and 2024. Services spending has eased notably as consumer sentiment has deteriorated and the household savings ratio has risen. Government spending on goods and services, which added 0.6pp to annual GDP growth in both 2023 and 2024, has also stalled. Private investment trends have been more mixed, with equipment investment expanding rapidly – fuelled by the boom in AI-related capital spending – while investment in commercial and residential buildings has fallen. But high long-term interest rates will continue to weigh on the latter and with the surge in policy uncertainty, the investment outlook overall looks subdued.

The labour market is also slowing. Payrolls grew by just 29,000 a month on average in the three months to August, the weakest since 2010 (excluding the pandemic). This is as much a reflection of slowing labour supply as demand, as the immigration squeeze reduces population growth. While the unemployment rate remains low, slowing job growth, moderating nominal wage growth and rising inflation will dampen aggregate real household income, and we expect consumption to slow further in 2H25. A widening in the fiscal deficit due to additional tax cuts incorporated in the One Big Beautiful Bill Act should support demand next year. We foresee a pick-up in sequential GDP growth from early 2026 even though annual average growth is forecast to remain flat at 1.6%.

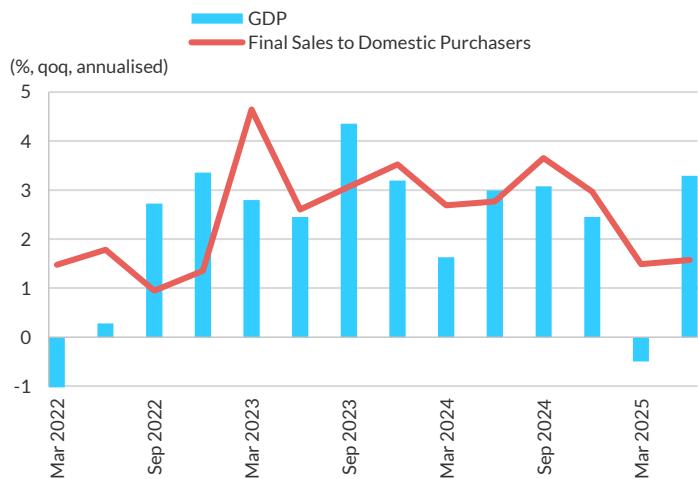
Core inflation has been edging up in recent months but the pass-through from tariffs has been quite mild. We anticipate a stronger pass-through in the rest of the year as pre-tariff imported inventories are depleted and more firms acknowledge that tariff hikes are here to stay. Nevertheless, we have lowered our end-year CPI forecast to 3.6% from 3.8% in the June GEO. The softening in the labour market will make the Fed more willing to ease policy and we now anticipate 25bp of rate cuts at both the September and December FOMC meetings and three further rate reductions in 2026.

United States – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.4	2.8	1.6	1.6	2.1
Consumer spending	2.9	2.8	1.9	1.4	2.1
Fixed investment	2.8	3.7	2.5	1.1	2.0
Net trade (contribution pp)	-0.4	-0.4	-0.3	0.5	0.0
CPI inflation (end-year)	4.0	2.9	3.6	3.3	2.4
Unemployment rate	5.0	4.0	4.3	4.7	4.6
Policy interest rate (end-year)	2.05	4.50	4.00	3.25	3.00
Exchange rate, USDEUR (end-year)	0.90	0.96	0.86	0.86	0.86

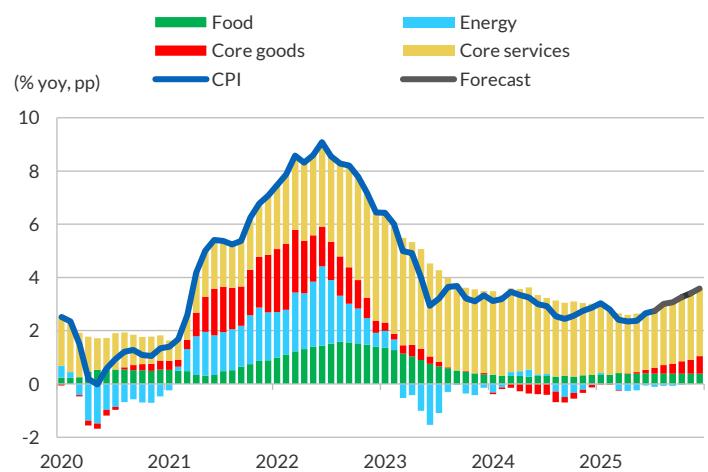
Source: Fitch Ratings

Growth in US GDP and Final Domestic Demand



Source: Fitch Ratings, BEA, Haver Analytics

US CPI Inflation and Contributions



Source: Fitch Ratings, BLS, Haver Analytics

Eurozone

Fitch has raised its growth forecast for the eurozone, as the impact of tariffs on net exports has been less than feared in the June forecast. Real GDP grew 0.1% qoq in 2Q25 in both the eurozone and the big four economies. While the major economies collectively grew in line with our forecast, eurozone aggregate growth was stronger than we had expected. A pre-tariff surge in exports, particularly from Ireland, had lifted eurozone growth to 0.6% in 1Q25, 0.3pp stronger than the big four economies.

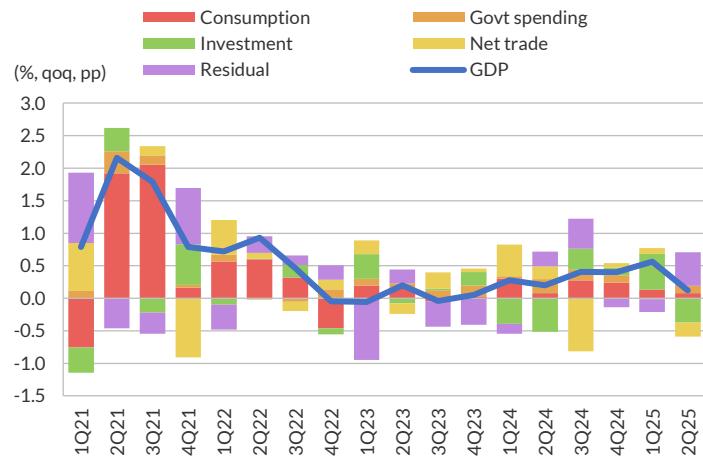
The changes to our forecast mainly reflect the vagaries of net trade. Consumption continued to grow albeit at a slower pace of 0.1% qoq. Surveys show a pause in the recovery of consumer sentiment. Investment fell in 2Q25, with a sharp decline in Germany and a negative swing in Ireland. We still see a lull in growth in 2H25 as payback for the strength of exports in the first six months of the year but have revised up our growth forecast for 2025 by 0.3pp to 1.1%. We expect stronger sequential growth in 2026 largely owing to improved domestic demand – we add 0.1pp to our growth forecasts on the back of improved carryover.

The trade agreement reached by the US and EU appears to exclude the risk of a very severe shock, containing the US effective tariff rate on EU exports at around 3pp below our long-running 15% assumption. It brings some relief for some of the bloc's key exports, such as autos and pharmaceuticals. Uncertainty is likely to persist however, both on tariff levels and on their application.

The ECB appears to have tamed inflation. The annual rate was 2.1% in August, up slightly on the previous month, with services inflation slowing to 3.1%. Forward-looking wage metrics, such as the ECB wage tracker, point to moderating pressures.

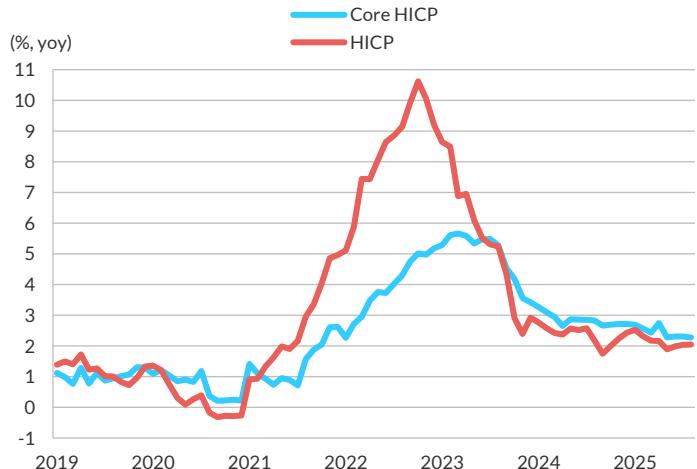
Better-than-expected economic performance weakens the case for a September ECB rate cut. We now expect the ECB to keep the deposit rate at its current 2%. Latest data on the labour market show employment growth stable at 0.7% year on year although it is static or slightly falling in both France and Germany. The unemployment rate remains at a record low of 6.2% and we still expect only a mild rise. In terms of policy transmission from previous rate cuts, the pace of credit growth is recovering slowly, but there has been no easing in credit standards, even as loan demand improved.

Eurozone - Contributions to GDP Growth



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone - CPI



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.1	0.9	1.1	1.1	1.2
Consumer spending	0.7	1.2	1.2	1.1	1.2
Fixed investment	0.0	-2.0	1.9	1.2	2.4
Net trade (contribution pp)	0.3	0.4	-0.6	-0.3	-0.2
CPI inflation (end-year)	3.6	2.4	2.2	1.8	2.0
Unemployment rate	7.1	6.4	6.4	6.3	6.2
Policy interest rate (end-year)	0.44	3.00	2.00	2.00	2.00
Exchange rate, EURUSD (end-year)	1.12	1.04	1.16	1.16	1.16

Source: Fitch Ratings

China

GDP growth in 2Q25 eased slightly from the previous quarter but was stronger than expected at 5.2% yoy (in June we had forecast 4.5%), with stronger investment growth, meaning that the contribution of domestic demand to GDP growth increased.

Economic data for July point to a slowdown in 2H25, with fixed-asset investment falling by 5.3% on an annual basis – with capital spending for manufacturing and infrastructure lower year-on-year, and real estate investment continuing to contract. Retail sales growth fell to 3.7% in July from 4.8% in June. On the production side, annual growth in real industrial value-added fell to 5.7% in July from 6.8%, while service sector output growth eased slightly – these trends are consistent with weaker PMI data recorded in July (this weakness has reversed to some extent in the August surveys).

Export growth has been broadly steady in recent months, averaging 5.8% in annual value terms in the three months to August; a decline in exports to the US has been offset by stronger growth in other markets. Exports in volume terms continue to increase – by 8.2% on an annual basis in the three months to July. Fitch estimates that the effective tariff rate applied by the US on Chinese exports is close to 40%, unchanged from June.

Despite the slowdown in growth over the remainder of the year, we have revised up our GDP growth forecast for 2025 to 4.7% from 4.2% in June. Continued fiscal policy stimulus will support domestic demand, mitigating weaker private demand and output. We have also slightly raised our forecast for growth next year to 4.1% from 3.9% with trade frictions continuing to lower export growth but capital spending growth recovering. Fitch then expects GDP growth by 4.1% in 2027.

Headline inflation remains close to zero, while core inflation has edged up in recent months as consumer spending strengthened. Despite the upward revision in growth forecasts, price pressures remain very weak and we expect inflation to be 0.4% at end-2025 (revised down from 0.6%), before picking up to 1.2% by end-2026.

The PBoC has been more cautious than anticipated in cutting interest rates, and we now only expect 20bp of further rate cuts this year, and 20bp more next year. The bank has also leaned against any downside pressure on the renminbi since June. We now expect only a moderate depreciation for the renminbi this year and next; stronger currencies and price pressures in China's other trading partners are supporting China's competitiveness.

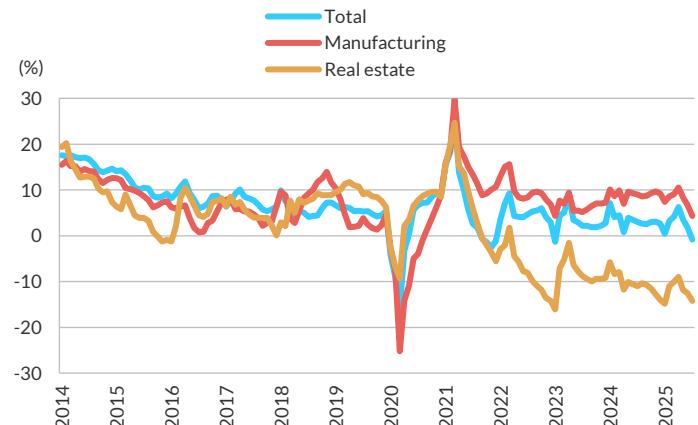
China - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	4.9	5.0	4.7	4.1	4.1
Consumer spending	5.4	5.1	4.9	3.5	4.1
Fixed investment	3.3	3.0	2.3	5.5	4.8
Net trade (contribution pp)	1.1	2.1	1.4	0.5	0.3
CPI inflation (end-year)	1.7	0.1	0.4	1.2	1.4
Policy interest rate (end-year)	2.94	1.50	1.20	1.00	1.00
Exchange rate, USDCNY (end-year)	6.82	7.30	7.20	7.30	7.30

Source: Fitch Ratings

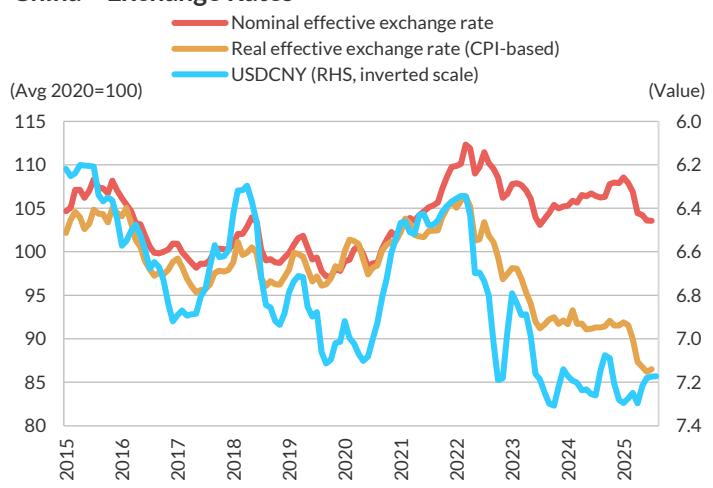
China - Fixed Asset Investment

3-month moving average - change on year earlier



Source: Fitch Ratings, CBS, Haver Analytics

China - Exchange Rates



Source: Fitch Ratings, BIS, FRB

Japan

Japan's economy is holding up well despite external headwinds from US tariffs and domestic challenges in the form of high food price inflation and political uncertainty. Fitch expects the economy to grow at or above potential through 2027, further fuelling price pressures and allowing the Bank of Japan (BOJ) to raise the policy rate to its highest level in decades.

The 0.5% qoq increase in GDP in 2Q25 was driven by net trade, despite the imposition of tariffs by the US. In July 2025, Japan's ex post, realised US effective tariff rate rose to around 15%, from 1.5% in 2024, with autos and metals exports subject to the highest rates. Our US ETR monitor calculated that the latest policy announcements – including the US 25% blanket global tariff on autos – implied an ETR of 19.2% on Japan, higher than the 15% we assumed in the June GEO. However, this estimate predated a recent US order reducing auto tariffs on Japan to 15%. This could return the overall ETR closer to 16.5%. Export price data from the BOJ suggest that Japanese car manufacturers have responded to tariffs by slashing the price of exports to North America while keeping them stable to other destinations.

The consumer outlook is more mixed. On the one hand, the labour market remains very tight with unemployment around 2.5% and this year's Shunto wage negotiations resulted in another bumper pay agreement that outpaces inflation. On the other, rice prices remain very high and consumer confidence is below its long-run average, especially among older cohorts. Almost half of all households expect inflation to be higher by 5% or more in a year's time. We expect GDP growth of 1.2% in 2025 followed by a slowdown to 0.6% in both 2026 and 2027, slightly above potential.

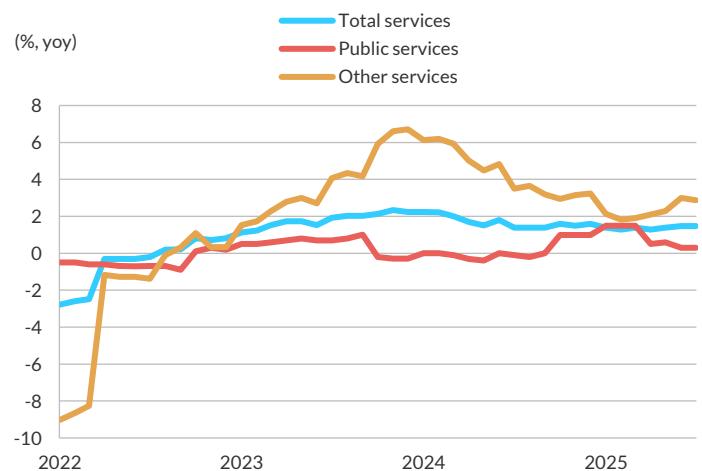
Headline inflation has eased since the spring to 3.1% in July. We expect further disinflation over the coming months and have lowered our end-2025 forecast to 2.2%. The combination of energy subsidies and past yen appreciation will weigh on the headline number, while the surge in rice prices over the past year is also starting to fall out of the annual rate. And although overall services inflation has been tracking sideways at around 1.5%, this is largely to do with weak public services inflation. Private services inflation, particularly when shelter is stripped out, is much stronger. Accordingly, we continue to think that the BOJ will raise its policy rate further, with one further 25bp increase this year and three more in 2026 to 1.5%. The BOJ will remain cautious and rapid rises in long-dated bond yields may force a slower pace of tightening. But the big picture is one of rising short-term rates and a balance sheet that will soon be shrinking at a very rapid rate.

Japan - Forecast Summary

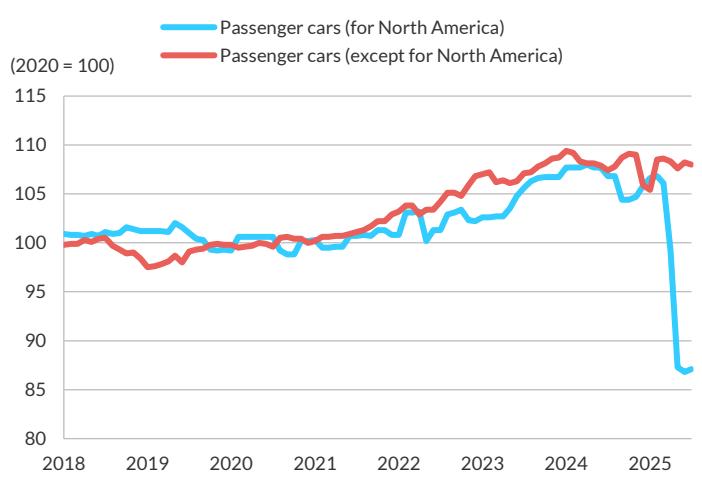
(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	0.2	0.1	1.2	0.6	0.6
Consumer spending	-0.2	-0.1	1.0	0.8	0.6
Fixed investment	-0.5	0.1	1.5	0.3	0.8
Net trade (contribution pp)	0.1	0.0	-0.1	-0.1	0.0
CPI inflation (end-year)	1.2	3.7	2.2	2.0	2.0
Unemployment rate	2.7	2.5	2.5	2.5	2.5
Policy interest rate (end-year)	-0.03	0.25	0.75	1.50	1.50
Exchange rate, USDJPY (end-year)	119.5	156.7	147.0	140.0	136.0

Source: Fitch Ratings

Japan - Services CPI Inflation



Japan - Export Price Indices for Passenger Cars



United Kingdom

The UK economy shows signs of recovery following prolonged stagnation, with GDP growing by 0.3% qoq in 2Q25 after 0.7% growth in 1Q25. Growth in 2Q25 was primarily supported by government consumption and stock-building, despite a sharp fall in business investment and marginal consumer spending growth.

External headwinds have eased in recent months, with the de-escalation of trade tensions between the US and China, and the announcement of an EU-US trade deal broadly beneficial for UK exporters. In any case, the impact on the UK was always going to be small, given the focus on services exports.

On the domestic front, the business surveys have painted a mixed picture, with the PMIs and the Lloyds Business Barometer much more positive than either the CBI's monthly indicators or the ONS Business Insights and Conditions Survey. But the declines in the policy rate over the past year will be supportive of both household spending and private-sector investment. We expect GDP growth of 1.2% this year and next before an acceleration to 1.5% in 2027, slightly above potential.

However, the labour market is cooling. Redundancies remain uncommon, but companies' hiring activity has weakened, as shown by declining vacancy numbers. Payroll data have probably overstated some of the decline in employment but is clearly signalling a weaker labour market and we expect unemployment to rise to close to 5%.

We think this will ultimately bear down on wage growth, although April's rise in the National Living Wage has added to the stickiness of wage growth and contributed to stubbornly high services inflation. Alongside renewed core goods and food inflation, and a rise in utility bills in October, the near-term outlook remains for higher inflation. We have revised up our end-2025 forecast to 3.2%, but continue to think that the disinflation trend is intact as wage growth slows and we see CPI inflation falling to 2.4% by end-2026 and 2.2% by end-2027.

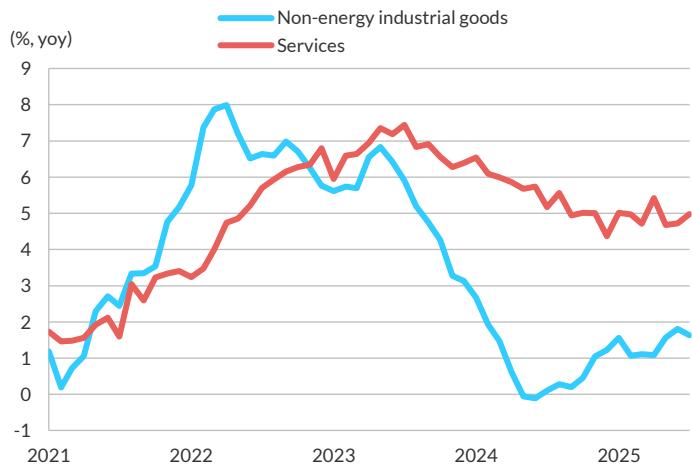
Consumer inflation expectations have started to stabilise after trending higher in recent months. We think this will be sufficient to quell some of the more hawkish Monetary Policy Committee (MPC) members' concerns about second-round effects and result in a 25bp rate cut in November to 3.75%. For now, our base case remains for two further cuts in early 2026 followed by one more in 2027, to 3%. But the recent hump in inflation has shifted the balance of risks towards fewer and/or later rate cuts.

United Kingdom – Forecast Summary

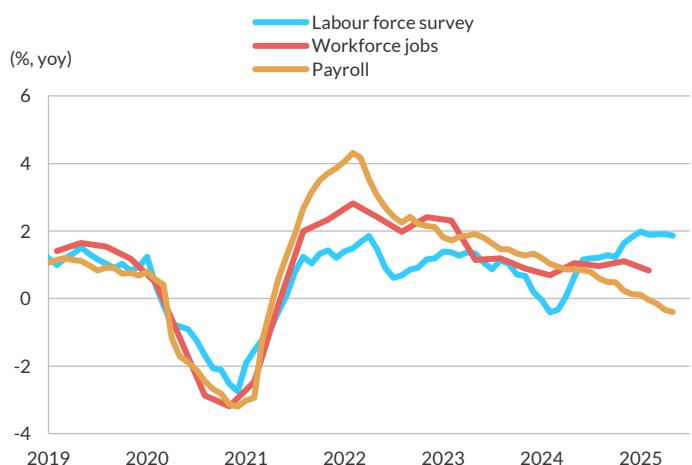
(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	0.9	1.1	1.2	1.2	1.5
Consumer spending	0.5	0.6	0.8	1.0	1.4
Fixed investment	1.0	1.5	1.7	1.9	2.9
Net trade (contribution pp)	-0.1	-1.3	-1.0	0.0	-0.2
CPI inflation (end-year)	4.3	2.6	3.2	2.4	2.2
Unemployment rate	4.3	4.3	4.6	4.6	4.5
Policy interest rate (end-year)	1.47	4.75	3.75	3.25	3.00
Exchange rate, GBPUSD (end-year)	1.28	1.25	1.33	1.31	1.30

Source: Fitch Ratings

UK - Core CPI Inflation



UK - Employment Measures



Germany

Fitch has raised its 2025 growth forecast for Germany by 0.2pp, largely because of the incoming data and data revisions affecting past years. Our quarterly path for headline GDP over the rest of 2025 is unchanged, with a return to modest growth, a view now supported by recent PMI surveys up to August.

Higher carryover leads to a mild improvement to the forecast for 2026. As previously, we expect the government's spending programme and investment incentives to deliver an acceleration in growth. Our below-consensus call reflects our view that there are likely to be bottlenecks in rolling out spending.

The economy contracted in 2Q25 by 0.3%, essentially reversing the gain seen in 1Q25 and matching our June projection. There was some payback for strong exports in 1Q25, consumption growth slowed sharply, and investment dipped. Industrial production excluding construction and energy was 0.1% lower in May-July on the previous three months and flat on the same period in 2024. Value-added in manufacturing is growing more quickly than the raw production data suggests; at the same time, we think that growth in value-added in the [auto sector](#) is likely to slow from recent high rates. The stock of unfilled manufacturing orders remains high.

Firms are notably more optimistic about the future than they are in their assessment of current conditions, as noted in June. To judge from the EC business survey this seems to be quite specific to Germany. But gains in sentiment spurred by the new government's investment plans appear to have stalled, according to the Ifo business climate survey. The short-term outlook is constrained by the external environment.

Business optimism about exports has declined, even with a greater measure of certainty about US tariffs. The agreement on tariffs between the EU and US gives some relief – at least relative to earlier fears – for Germany's key automotive as well as pharmaceutical exports. Tariffs will be lowered on cars and the eventual tariff on pharmaceutical goods, which are currently exempt, will be capped at 15%.

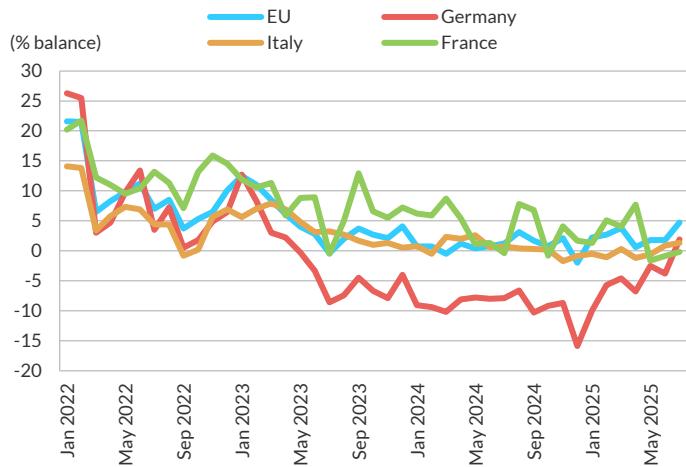
Fitch's unemployment rate forecast is unchanged for 2025. Employment on a seasonally adjusted basis was essentially static in May and June. The unemployment rate was 3.7% in July for a fourth successive month. A broader measure of unemployment sits at 6.3%, just below its level in January. There is some sign of the decline in industrial job vacancies bottoming out. Our forecast assumes job creation recovers in 2026, driven by public spending.

Germany - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	0.0	-0.5	0.3	1.1	1.2
Consumer spending	0.3	0.5	1.2	1.0	1.0
Fixed investment	-1.5	-3.3	-0.5	2.3	3.2
Net trade (contribution pp)	-0.4	-0.7	-1.4	-0.6	-0.7
CPI inflation (end-year)	3.9	2.8	2.2	1.8	2.0
Unemployment rate	3.4	3.4	3.7	3.6	3.5
Policy interest rate (end-year)	0.44	3.00	2.00	2.00	2.00
Exchange rate, EURUSD (end-year)	1.12	1.04	1.16	1.16	1.16

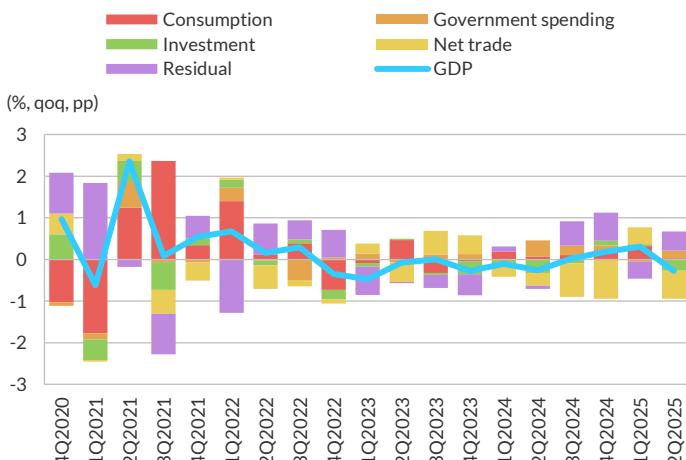
Source: Fitch Ratings

Germany - Production Expectations



Source: Fitch Ratings, European Commission, Haver Analytics

Germany - Contributions to Real GDP Growth



Source: Fitch Ratings, FSO, Haver Analytics

France

Our growth forecast for France is unchanged. Headline growth in 2Q25 was in line with our expectations at 0.3% quarter on quarter. Consumption returned to growth, business investment continued to contract and the contribution from net trade was less negative. Growth in 2025 has been quite reliant on rising inventories. We expect a slightly slower pace of growth in the remainder of 2025 to limit GDP growth to 0.6%.

Household consumption, which has been more resilient than the eurozone since 2022, has been weak in recent quarters, having been essentially static between 3Q24 and 2Q25. However, we see a recovery in consumption as the main driver of improved overall growth in 2026-2027.

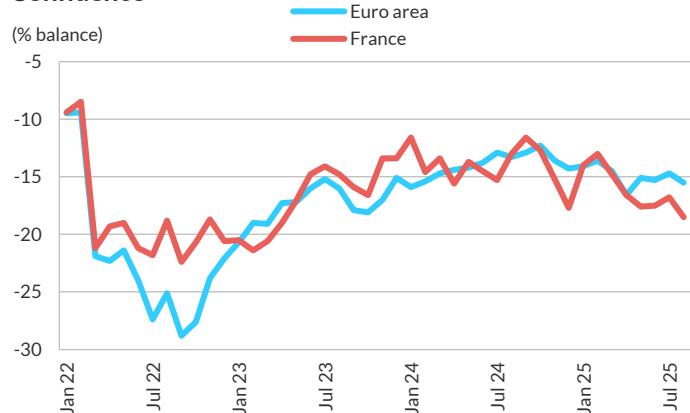
The labour market is still supportive, despite the impact of some policy shocks. The reported unemployment rate has been subject to revisions but remains unchanged since March with just a mild rise built into our forecast. The broadest definition of employment showed a slight contraction in both sequential and year on year terms in 2Q25, although salaried employment – the biggest subset of this – continued to rise. Real wages are increasing with hourly labour costs rising 2.7% year on year in 1Q25, above inflation.

Despite progress in household incomes, the household savings rate continued to increase in 2Q25 to 18.9%. Consumer confidence has sunk more quickly than the eurozone over the past three months. In view of political and market developments, short-term policy uncertainty remains high, with widespread expectations of fiscal tightening in 2026 and beyond affecting confidence.

There is slightly better news on the supply side. PMIs for August showed composite output at its highest in a year. The sharp recovery in production in the aerospace industry in June was an encouraging sign for this sector, which accounts for 8% of industrial output. Lingering supply-chain issues have held aircraft production well below 2019 levels despite buoyant orders and a growing backlog. Moreover, the sector is exempted from tariffs under the recent US-EU trade agreement.

France is less vulnerable to a slowdown in US demand given its lower dependence on the US market than Italy and Germany. Exports to Germany represent 13% of the total and should benefit at the margin from spillovers from Germany's fiscal stimulus and higher growth.

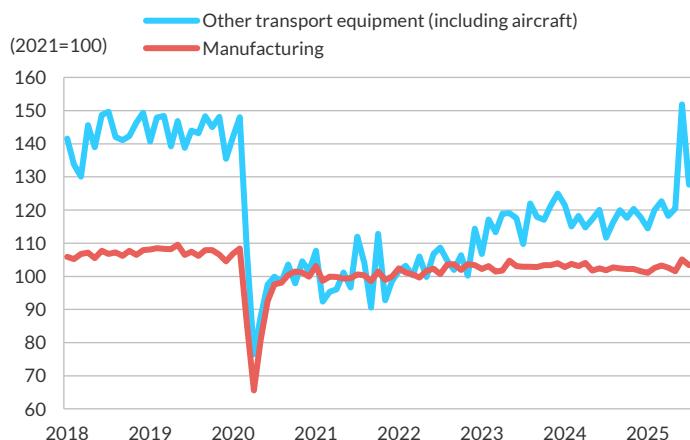
France - European Commission Survey, Consumer Confidence



Source: Fitch Ratings, European Commission, Haver Analytics

France - Index of Production

Manufacturing and aeronautical sector



Source: Fitch Ratings, Insee, Haver Analytics

France - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.0	1.2	0.6	0.9	1.2
Consumer spending	0.8	1.1	0.4	0.7	1.0
Fixed investment	0.6	-1.1	-0.4	1.0	1.6
Net trade (contribution pp)	0.3	1.2	-0.8	0.0	0.0
CPI inflation (end-year)	3.1	1.8	1.3	1.7	2.0
Unemployment rate	7.6	7.4	7.6	7.6	7.6
Policy interest rate (end-year)	0.44	3.00	2.00	2.00	2.00
Exchange rate, EURUSD (end-year)	1.12	1.04	1.16	1.16	1.16

Source: Fitch Ratings

Italy

After surprisingly positive data in 1Q25, real GDP contracted marginally in 2Q25, pulled down by net trade in a reversal of the pre-tariff boost to exports. Fitch expects US tariffs and stiff global competition to limit the contribution of net trade over the next two years.

By contrast, domestic demand is contributing positively, although this rested on investment in 2Q25. Private consumption was unchanged amid low consumer confidence. We still see prospects for household spending as being underpinned by continued job growth, low aggregate indebtedness and some catch-up in real wages; inflation is below the eurozone average. We have maintained our growth forecast for 2025 at 0.5%, which is slightly below Italy's potential growth rate of 0.7%.

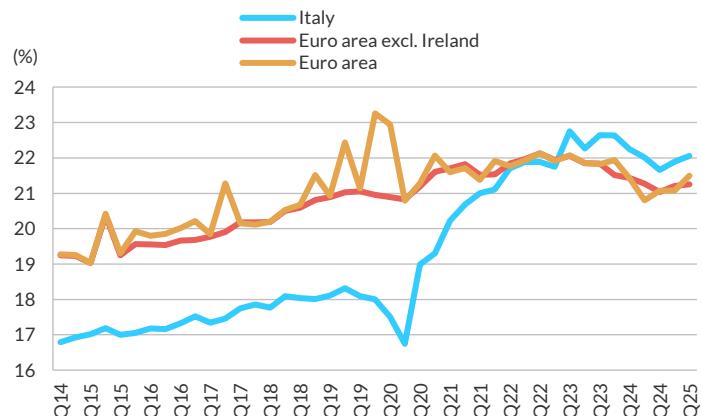
Investment was the bright spot in 2Q25, with all types of investment contributing. Italy's investment rate overtook that of the eurozone in 2023. We expect an acceleration in headline GDP growth in 2026 as the final year of NGEU disbursements from the EU is spent. For now, the EC appears unwilling to extend the deadline for spending NGEU funds, and a likely fall-off in spending will dent domestic demand in 2027. But beyond the spending impact of the programme, a slew of reforms to improve the business environment also aim to stimulate both business investment and labour force participation.

Labour force participation is increasing, making up for a declining working-age population, and allowing employment to continue to grow. The share of older workers participating in the labour market has risen dramatically, by almost 6pp since 4Q19, making up for a smaller inflow of younger entrants to the labour market. Labour market slack is diminishing at a more rapid rate than in the eurozone. The number of inactive workers who want a job but are not seeking work has also fallen quite quickly.

The labour market is nevertheless cooling. Comprehensive data are not yet available for 2Q25, but the annual change in employment dipped below 1% for the first time since 2021, on the basis of seasonally adjusted monthly labour force estimates. We still expect unemployment to continue to fall. The harmonised unemployment rate for July was 6.0%, having fluctuated since December, when it was 6.4%.

Italy - Investment Rate

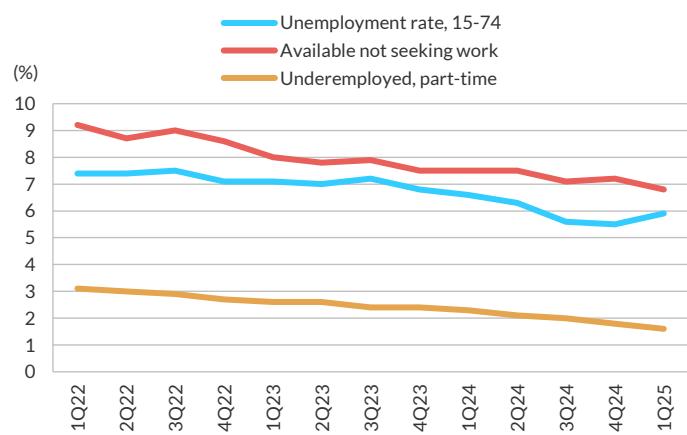
Gross fixed investment as % of nominal GDP



Source: Fitch Ratings, Eurostat, Haver Analytics

Italy - Labour Market Slack

Jobless, non-participating, part-time



Source: Fitch Ratings, Eurostat, Haver Analytics

Italy - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.3	0.7	0.6	0.8	0.7
Consumer spending	0.3	0.4	0.6	0.9	1.0
Fixed investment	6.3	0.5	2.5	2.0	0.9
Net trade (contribution pp)	-0.1	0.3	-0.6	-0.3	-0.2
CPI inflation (end-year)	3.4	1.4	1.7	1.8	2.0
Unemployment rate	8.3	6.6	6.2	6.1	6.0
Policy interest rate (end-year)	0.44	3.00	2.00	2.00	2.00
Exchange rate, EURUSD (end-year)	1.12	1.04	1.16	1.16	1.16

Source: Fitch Ratings

Spain

We have lifted our 2025 growth outlook for Spain, based on a strong performance in 1H25. The economy had greater momentum heading into the second half than we expected. Domestic demand was the main driver, with imports rising quickly. PMIs for both manufacturing and services point to continued expansion. Even allowing for some moderation in the pace of growth, we expect 2.7% growth in 2025, slowing to 2% in 2026, although with risks skewed to the upside.

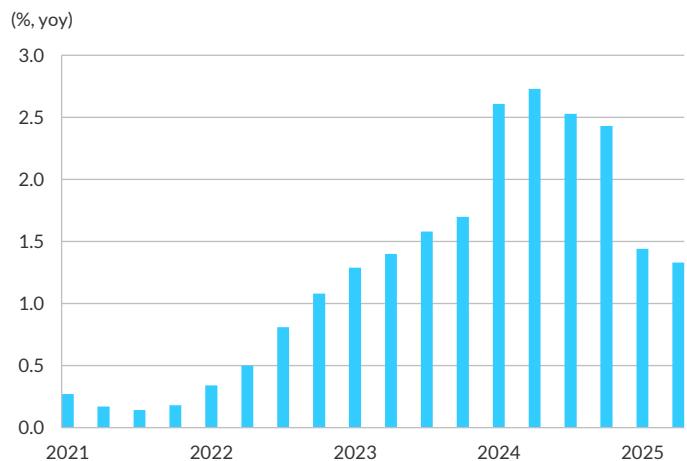
Fitch believes Spain can continue to grow more rapidly than the eurozone, based on a faster potential growth rate, which is in turn largely driven by immigration and the resulting stronger labour force growth. The latest data show growth in the working-age population slowing to 1.3% year on year in 2Q25, below its recent peak but still comfortably above our five-year forecast assumption of 1%. It is also underpinning consumption, with retail sales volumes growing twice as fast as the eurozone average. On the supply-side, a competitive advantage in energy costs is underpinning growth in manufacturing, bucking the trend elsewhere in Europe.

Like Italy, Spain is benefiting from investment financed by NGEU transfers, but recent investment performance has been driven more by equipment investment (including in vehicles; Spain is the most dynamic major market for passenger cars in the euro area). The housing market is also dynamic.

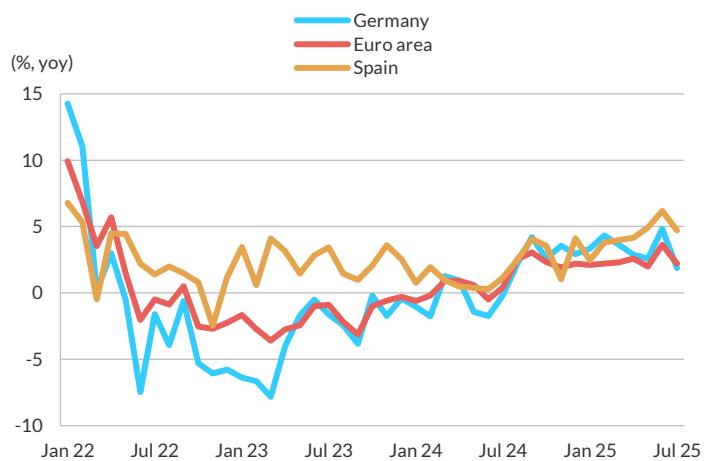
Job creation continues apace, with monthly affiliations to the social security system, a high-frequency measure of employment, up 2.3% in August. Job creation has been strongest among younger workers and older age groups. As a result, we have lowered our unemployment forecasts and expect the unemployment rate to fall to single digits by 2026. The unemployment rate has dropped 0.4pp on the harmonised measure since December to reach 10.4% in July.

Inflation was 2.7% in August and we see it remaining above the eurozone average for the remainder of 2025. The government ended energy subsidies and tax reliefs this year, explaining part of this. Energy inflation has trailed that of the eurozone in recent years, but the contribution from energy prices has turned positive in recent months. Core inflation is in line with the eurozone measure.

Spain - Working-Age Population (Aged 16+)



Spain - Retail Sales Volume



Spain - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.5	3.2	2.7	2.0	1.8
Consumer spending	0.9	2.9	3.1	1.9	1.6
Fixed investment	0.4	3.0	5.7	2.9	2.0
Net trade (contribution pp)	0.2	0.3	-0.3	0.0	0.2
CPI inflation (end-year)	3.0	2.8	2.3	1.8	2.2
Unemployment rate	13.4	11.4	10.3	9.7	9.2
Policy interest rate (end-year)	0.44	3.00	2.00	2.00	2.00
Exchange rate, EURUSD (end-year)	1.12	1.04	1.16	1.16	1.16

Source: Fitch Ratings

Switzerland

Fitch has lowered its growth forecast for 2026 by 0.2pp to reflect the risks to net trade from the recent US tariff decision. We had already built a sizeable US tariff shock (a 15% ETR) into our previous growth forecasts, which were below consensus.

In a surprise decision, the US raised reciprocal tariffs on Switzerland to 39%, starting on 7 August, from 10%. Swiss exporters now face one of the highest headline rates of any industrial country, a shock for a trade-dependent economy that sends almost a fifth of exports to the US. The latest announcements imply a 22% US ETR on imports from Switzerland.

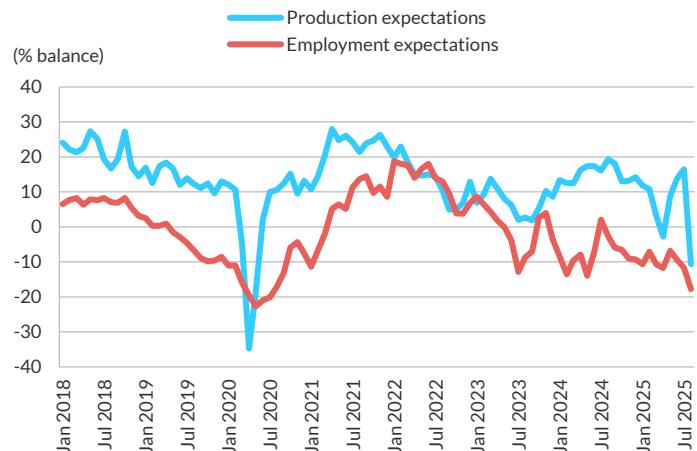
Pharmaceuticals and gold remain exempt but up to 60% of exports to the US are in the frame, according to the Swiss authorities. These include exports of capital goods, watches and other exports containing high domestic value-added (in contrast to gold, which is merely processed in Switzerland). The tariff level may well be negotiated down. For now, Swiss exporters are at a significant disadvantage to competitors in the EU, who will face a 15% tariff in the US and an effective rate of 12%.

The economy was already slowing in 2Q25, growing 0.1% qoq (on a sport event-adjusted and non-adjusted basis), after a jump in production and exports to the US delivered a bounce in 1Q25. We now assume output is flat in 2H25, a path which still leads to a slightly increased forecast of 1.1%.

We also expect a steeper rise in unemployment continuing into 2026 than we did in June. Overall jobs grew 0.1% qoq in 2Q25 and by 0.6% year on year, not quickly enough to stabilise the jobless rate, which reached 2.8% in August. We expect the tariff shock to accentuate the pattern of job losses in manufacturing while services, which generate most new jobs, are less affected.

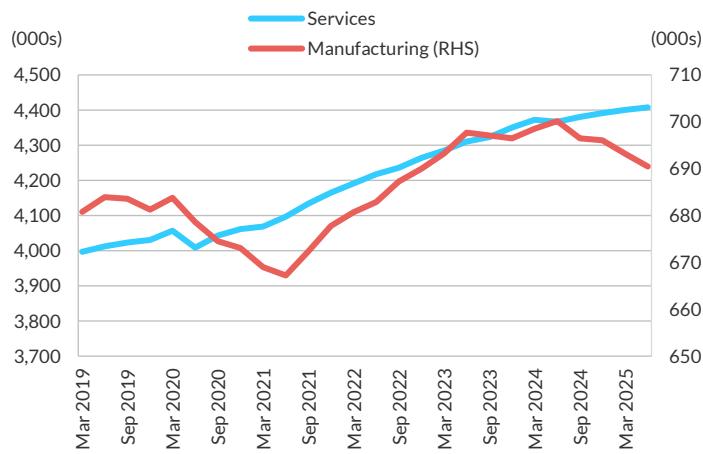
Exchange rate depreciation is unlikely to come to the economy's rescue given the Swiss franc's global role as a safe-haven. The franc has been resilient to the tariff announcement relative to both the dollar and the euro. Indeed, we expect a slightly stronger exchange rate than previously. We forecast the SNB to keep rates unchanged at zero and hold off from imposing a negative policy rate. Prices fell in August, but the annual rate was still in positive territory, with core inflation at 0.7%.

Switzerland - Business Survey



Source: Fitch Ratings, KOF, Haver Analytics

Switzerland - Employment



Source: Fitch Ratings, SFSO, Haver Analytics

Switzerland - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.7	1.4	1.1	1.1	1.1
Consumer spending	1.3	1.8	1.4	1.2	1.2
Fixed investment	0.1	-0.7	0.9	1.3	1.4
Net trade (contribution pp)	0.5	-0.8	0.8	0.2	0.0
CPI inflation (end-year)	1.0	0.6	0.5	0.6	0.8
Unemployment rate	2.5	2.4	2.8	3.0	3.0
Policy interest rate (end-year)	-0.17	0.50	0.00	0.00	0.00
Exchange rate, USDCHF (end-year)	0.94	0.90	0.83	0.83	0.83

Source: Fitch Ratings

Australia

Australia's economy registered solid growth in 1H25, due to robust private demand. Along with the recent upside surprise to monthly inflation, we think this will make the Reserve Bank of Australia (RBA) cautious about cutting the policy rate.

The 0.6% qoq increase in GDP in 2Q25 was in line with our June GEO forecast but followed an upwardly revised 0.3% rise in 1Q25. The main driver was household spending, especially on discretionary items, while government consumption and net trade also made small positive contributions.

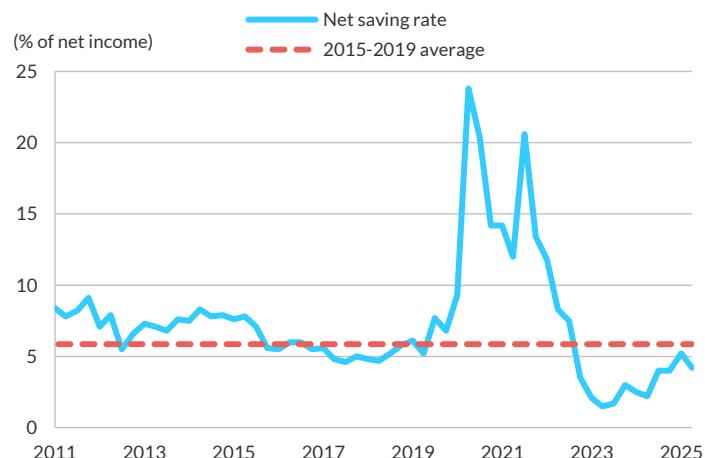
The external backdrop has improved, with the de-escalation in the US-China trade war and our upward revisions to China's growth rate at the margin a positive for Australia. However, as we have previously highlighted, Australia was always likely to be fairly sheltered from tariffs as it is a low-cost exporter of mining commodities.

The consumer outlook remains very positive. Annual growth in household gross disposable income held steady at 7% in 2Q25, far outpacing inflation. Perhaps encouraged by lower interest rates, households have also been prepared to dip into their savings to fund consumption, with the net saving rate falling to 4.2% of disposable income from 5.2%. This chimes with the sharp improvement in the Westpac-Melbourne Institute Consumer Sentiment Index since the spring. The labour market is resilient, with the unemployment rate edging down to 4.2% in July. Vacancy data and surveys have been tracking sideways or easing only gradually.

The headline inflation rate has been volatile, due to energy subsidies. But underlying inflation measures have been around 2.5%, the middle of the RBA's target range. We expect it to remain there; domestic inflationary pressures have been muted while the inflationary impact of past currency depreciation will not be sustained. A slight increase in the monthly CPI indicator may make the RBA a touch more cautious, but we do not think it will derail policy loosening altogether.

The RBA had been very cautious about lowering the cash rate and only began cutting in February 2025. It has so far reduced the policy rate by 75bp, but the minutes of the August meeting suggested a more dovish skew. Overall, we continue to think that it will cut twice more, to 3.1%, by early 2026.

Australia - Household Saving Rate



Australia - GDP per Hour Worked



Australia - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.1	1.1	1.8	2.1	2.4
Consumer spending	1.9	0.7	1.9	2.0	2.2
Fixed investment	3.5	2.2	1.0	2.3	2.7
Net trade (contribution pp)	-0.9	-1.0	-0.1	0.1	0.1
CPI inflation (end-year)	3.4	2.4	2.9	2.5	2.5
Unemployment rate	4.6	4.0	4.2	4.1	4.0
Policy interest rate (end-year)	1.36	4.35	3.35	3.10	3.10
Exchange rate, USDAUD (end-year)	1.43	1.61	1.54	1.50	1.45

Source: Fitch Ratings

Canada

The sharp, tariff-related decline in exports was behind the contraction in Canada's economy in 2Q25, but Canadian companies are making rapid progress in adjusting to the new trade landscape. Fitch has therefore raised its forecasts for GDP growth this year and next.

The 0.4% qoq decline in GDP in 2Q25 was largely due to a 7.5% fall in export volumes as tariff front-running faded and companies put US-bound shipments on hold while securing USMCA compliance and awaiting greater clarity on US trade policy. Investment also contracted, while both private and public consumption grew strongly.

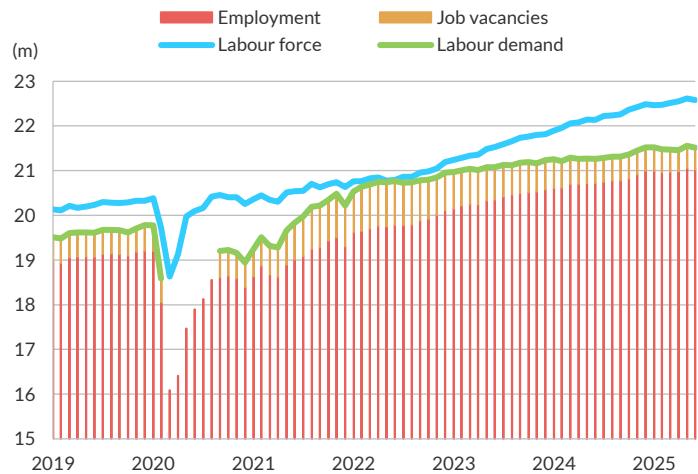
We think that 2Q25 marked the low point for the Canadian economy. USMCA compliance has increased sharply, to the extent that we have revised down our assumption for the effective tariff rate to 5.2%, from 7.6% in the June GEO. This is still substantially higher than the 0.1% in 2024 but will be far less damaging than what appeared likely in the spring. We have raised our GDP forecast for 2025 to 1.2% and for 2026 to 1.1%.

On the domestic front, the investment outlook is likely to improve now that some of the trade uncertainty has cleared. And while we doubt that the 1.1% qoq increase in household spending in 2Q25 will be repeated, the consumer outlook is brighter than June. Admittedly, the labour market continues to weaken, especially in the auto manufacturing heartlands, but the better growth outlook will limit job losses. Our view that the Bank of Canada (BOC) will resume interest rate cuts implies further relief for indebted households.

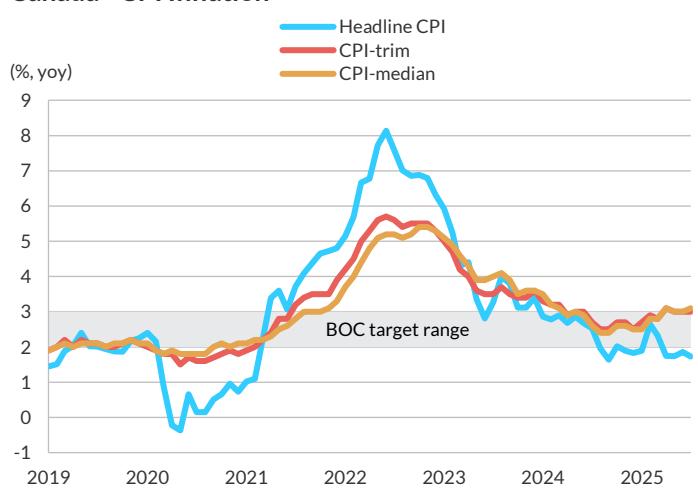
The BOC has been on hold since the spring, citing an uncertain growth and inflation outlook. But serious price pressures have not materialised – if anything headline inflation has been weaker than expected. The recent decision to remove counter tariffs against the US will also remove a source of inflationary pressure.

The central bank's preferred underlying inflation measures are sitting at the top of the 2%-3% target range, but they are unlikely to surge from here in our view or the BOC's. This helps to explain why recent communications from the bank have taken on a more dovish tone. We therefore still believe that the BOC will shift to supporting growth rather than worrying about inflation and we expect the policy rate to be lowered to 2.25% by end-2025, with a further cut in 2026.

Canada - Labour Demand and Supply



Canada - CPI Inflation



Canada - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.6	1.6	1.2	1.1	1.5
Consumer spending	1.8	2.4	2.6	1.1	1.1
Fixed investment	0.5	0.1	0.6	1.7	2.0
Net trade (contribution pp)	-0.3	-0.1	-1.1	-0.5	0.0
CPI inflation (end-year)	3.4	1.8	2.0	2.0	2.0
Unemployment rate	6.8	6.4	6.9	6.7	6.5
Policy interest rate (end-year)	1.86	3.25	2.25	2.00	2.00
Exchange rate, USDCAD (end-year)	1.31	1.44	1.38	1.35	1.35

Source: Fitch Ratings

Brazil

We have lowered our growth forecast for this year to 2.3% from 2.5% in June. Earlier monetary tightening appears to be restraining activity to a greater extent than previously estimated and the US tariff shock will be a modest drag to growth. A wedge has recently emerged between annual growth in seasonally and non-seasonally adjusted GDP and our forecast places greater weight on the latter, where the 2Q25 outturn was weaker than we anticipated in June.

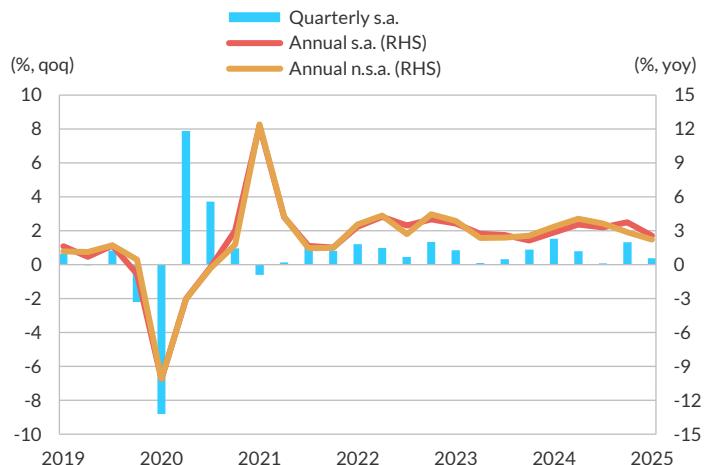
In seasonally adjusted terms, the economy posted a 0.4% qoq increase (June GEO: 0.3% qoq) with growth driven by private consumption but offset by a contraction in fixed investment. This helped to drag down imports while export growth was softer after a strong increase in 1Q25. On the supply side, agriculture was fairly stable at -0.1% qoq (seasonally adjusted) after a strong increase in the first quarter, while services expanded 0.6% and industry rose 0.5% qoq.

Past monetary tightening is restraining activity. The central bank raised its Selic rate by 450bp to 15% in the 10 months through June 2025, having intensified the pace in late 2024 to stabilise markets after a negative reaction to fiscal announcements. We expect the central bank to maintain policy rates at 15% for the rest of 2025 before it begins cutting early next year, ending 2026 at 12%. Tight monetary policy has weighed on private consumption, softening in 2Q25 relative to the previous quarter (0.5% qoq vs 1.0% qoq) with this trend likely to continue in coming quarters. Although the labour market remains strong, nominal wage growth has slowed and real household disposable income per worker is barely growing. High-frequency indicators were weak at the start of 3Q25.

The rise in the tariff rate to 50% on Brazilian exports to the US will have a modest dampening effect on activity. Brazil has limited trade with the US and the tariff announcement was followed by significant exemptions on key products. The proposed 2026 federal budget targets a modest improvement in the primary balance, and thus the absence of fiscal impulse, although there could be some pressure for spending measures ahead of elections in late 2026. We now expect the economy to grow by 1.9% in 2026 rather than 2.0%.

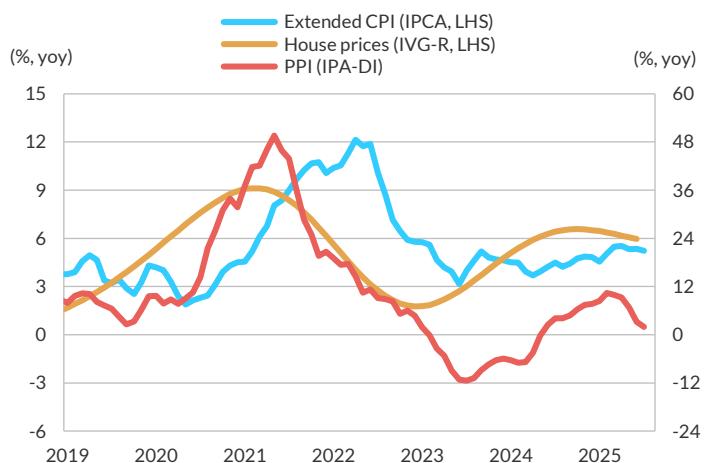
Inflation has remained stubbornly above the central bank's target of 3% (with a band of +/-1.5pp) although the July print eased to 5.2% from 5.5% in March. Core inflation is declining modestly and now expect inflation to continue to slow further, ending 2025 at 4.9% rather than 5.5% as we had expected.

Brazil - Real GDP Growth



Source: Fitch Ratings, IBGE, Haver Analytics

Brazil - CPI, PPI and House Price Inflation



Source: Fitch Ratings, IBGE, Banco Central do Brazil, FGV, Haver Analytics

Brazil - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.2	3.4	2.3	1.9	1.8
Consumer spending	2.1	4.8	1.8	2.4	1.9
Fixed investment	3.3	7.2	3.8	0.8	1.6
Net trade (contribution pp)	0.1	-1.5	-0.5	0.2	0.1
CPI inflation (end-year)	5.8	4.8	4.9	4.5	4.0
Policy interest rate (end-year)	7.89	12.25	15.00	12.00	10.50
Exchange rate, USDBRL (end-year)	4.93	6.19	5.60	5.70	5.70

Source: Fitch Ratings

Russia

The Russian economy looks to have only narrowly avoided a technical recession with growth in 2Q25 slowing to just 1.1% yoy, below our June GEO forecast of 1.3% yoy. Our calculations suggest the 2Q25 annual growth rate is consistent with a seasonally adjusted quarterly gain of just 0.2% qoq, which followed a contraction of 0.6% qoq in 1Q25. No breakdown of growth into expenditure components is available at this stage but high frequency indicators point to a further moderation in activity in recent months. Industrial production slowed in 2Q25 while the manufacturing PMI index dropped to 47, signifying contraction.

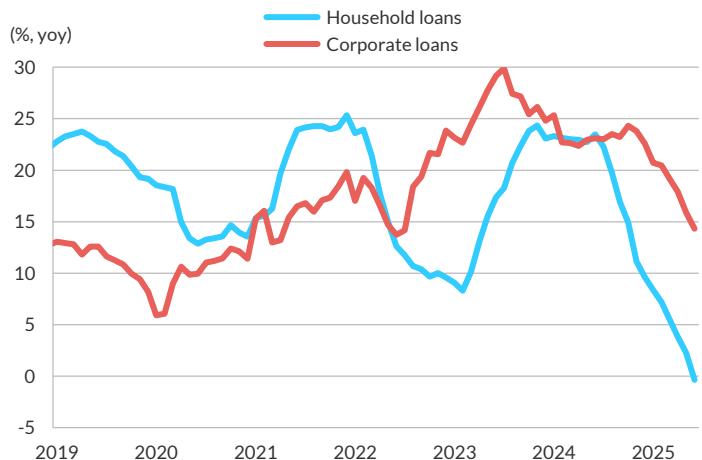
Credit growth for both corporates and households continues to moderate in response to the significant monetary and credit tightening implemented from late 2023. Retail sales have slowed, and nominal wage growth is easing although surveys of spending intentions suggest consumers' willingness to make major purchases remains strong. A stronger rouble has also weighed on exports while falling Russian oil prices have affected export earnings.

The economy continues to be affected by supply-demand imbalances with unemployment at historically low levels and capacity utilisation rates at all-time highs. That said, the impact of tight monetary conditions on demand is becoming increasingly evident in decreasing inflationary pressures while there are also more signs of a softening in the labour market, with surveys pointing to fewer enterprises experiencing labour shortages.

While policy rates have been lowered by 300bp to 18%, since their peak in May of this year, real rates remain high at over 9%. Annual CPI moderated to 8.8% in July from a recent peak of 10.3% in March, with rouble strength helping to cap inflationary pressures. By sector, inflation in the service sector remains elevated, and rising a 11.9% in July compared to 7.6% in the goods sector. Inflation expectations – as derived from household surveys and as implied by financial market instruments – remain elevated and have only eased modestly.

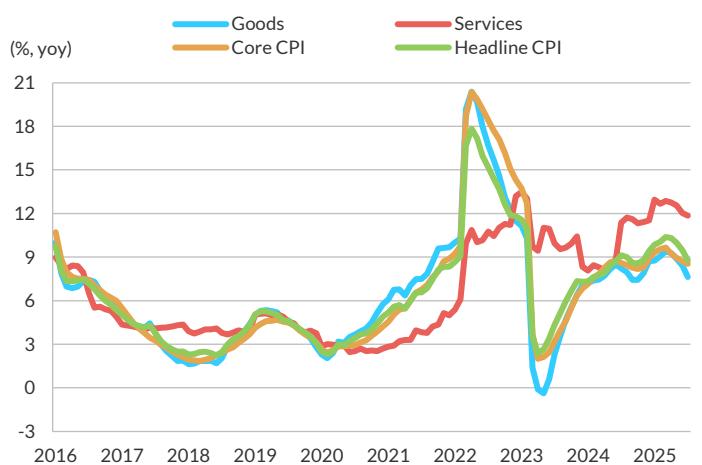
Recent commentary from the central bank suggests that policymakers may be able to cut further this year if inflation slows rapidly but at the same time it does not rule out holding rates unchanged at 18% for the rest of 2025. The bank expects end-2025 inflation to be 6%-7% and 4% in 2026 and 2027. This is below Fitch's expectation of 7.5% for end-2025 and 6.8% by end-2026.

Russia - Household and Corporate Loans



Source: Fitch Ratings, CBR, Haver Analytics

Russia - Inflation Rates



Source: Fitch Ratings, Haver Analytics

Russia – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.0	4.3	1.3	1.0	1.2
Consumer spending	3.2	5.4	2.4	0.9	1.0
Fixed investment	5.3	6.0	3.6	0.4	1.9
Net trade (contribution pp)	-1.8	-0.2	0.5	0.2	0.0
CPI inflation (end-year)	6.8	9.5	7.5	6.8	5.0
Policy interest rate (end-year)	7.91	21.00	13.00	11.00	10.00
Exchange rate, USDRUB (end-year)	72.83	101.61	85.00	88.00	92.00

Source: Fitch Ratings

India

The pace of economic activity accelerated sharply between 1Q25 and 2Q25, with real GDP growth rising to 7.8% yoy, from 7.4% in 1Q25. This was substantially higher than the forecast of 6.7% in our June GEO. From the output side of the economy, stronger service sector growth (9.3% yoy, up from 6.8%) was the key driver of this acceleration; on the expenditure side, consumption spending – both private and public – were the main drivers.

The wedge between nominal and real GDP growth narrowed sharply, with GDP deflator growth (0.9% yoy) at its lowest since 3Q19. Real GDP may be overstated given historical patterns observed when wholesale prices are weak and commodity prices are declining; this may unwind if those prices start rising again.

Trade tensions with the US have increased in recent months, with the US imposing an additional 25% tariff on imports from India. We expect this will eventually be negotiated lower, but the uncertainty around trade relations will dampen business sentiment and potentially investment. At the same time, PMI survey data point to a strong pace of economic activity in the coming months, and industrial output growth picked in July. The government has adopted reforms to the Goods and Services Tax to be effective from 22 September, which should modestly boost consumer spending over the remainder of this and the next fiscal years.

On the back of the 2Q25 outturn, Fitch has revised up its forecast for the fiscal year ending March 2026 (FY26) to 6.9% from 6.5% in the June GEO. Domestic demand will be the key driver of growth, as strong real income dynamics support consumer spending and looser financial conditions should feed through to investment. At the same time, annual growth will slow in the second half of the financial year, and so we expect growth to slow in FY27 to 6.3%. With the economy operating slightly above its potential, we expect growth will edge down to 6.2% in FY28.

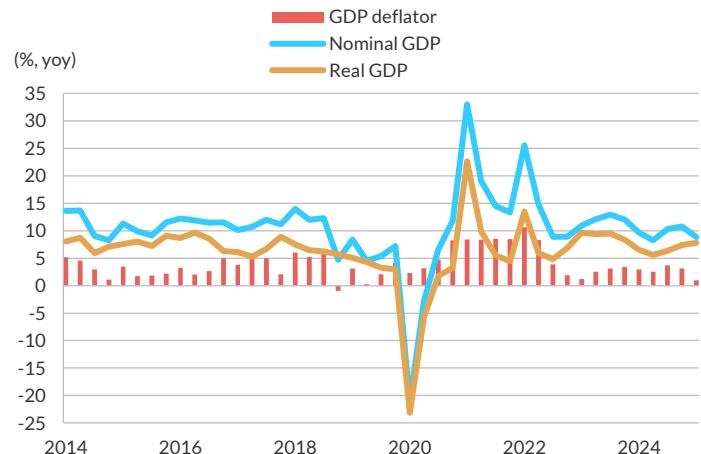
Low food prices have pushed headline inflation down to 1.6% in July, the lowest outturn since June 2017. Core inflation fell below 4% for the first time in six months. We expect food price pressures will remain weak, in the context of above-average monsoon rainfall and high food stockpiles, so that inflation will only pick up to 3.2% by end-2025 and 4.1% by end-2026. We still expect the Reserve Bank of India (RBI) to cut rates by 25bp towards the end of the year, as it assesses the impact of the policy loosening already implemented, and that rates will stay there until end-2026. We expect the RBI to start raising rates in 2027.

India - Forecast Summary

(%) FY starting April	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	4.9	6.5	6.9	6.3	6.2
Consumer spending	4.9	7.2	6.2	5.7	6.1
Fixed investment	5.8	7.1	5.7	5.1	5.7
Net trade (contribution pp)	-0.1	2.3	-1.6	1.1	0.4
CPI inflation (end-cal. year)	5.6	5.2	3.2	4.1	4.5
Policy interest rate (end-cal. year)	5.09	6.50	5.25	5.25	5.50
Exchange rate, USDINR (end-cal. year)	75.93	85.62	88.00	87.00	87.00

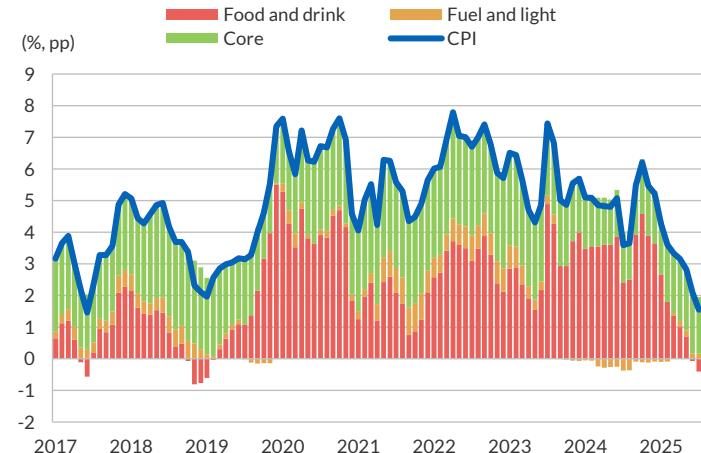
Source: Fitch Ratings

India - GDP and GDP Deflator



Source: Fitch Ratings, CSO

India - Contributions to Annual Inflation



Source: Fitch Ratings, MOSPI

Korea

Economic activity recovered in 2Q25, after four quarters of little change in the level of real GDP, with growth picking up to 0.7% qoq. Despite this, investment continued to decline, driven by lower construction investment (linked to weak property sales), around 18% lower than its level in 1Q21.

Other factors will support a continued recovery in growth over the forecast period. The second supplementary budget approved in early July (which included around KRW21 trillion in spending measures, with around half accounted for by consumer vouchers, and the remainder focused on support for businesses) will boost growth in consumer spending and, to a lesser extent, investment.

In late July, the US administration agreed to align the headline reciprocal tariff rate for Korea to the ones for Japan and the EU at 15%. This is a very sharp increase on the effective tariff rates close to zero in place up to 2024 in the context of the US-Korea free-trade agreement and will constrain export growth over the forecast period. At the same time, uncertainty about US trade policy has decreased and tariff levels are in broadly line with Korea's primary export competitors.

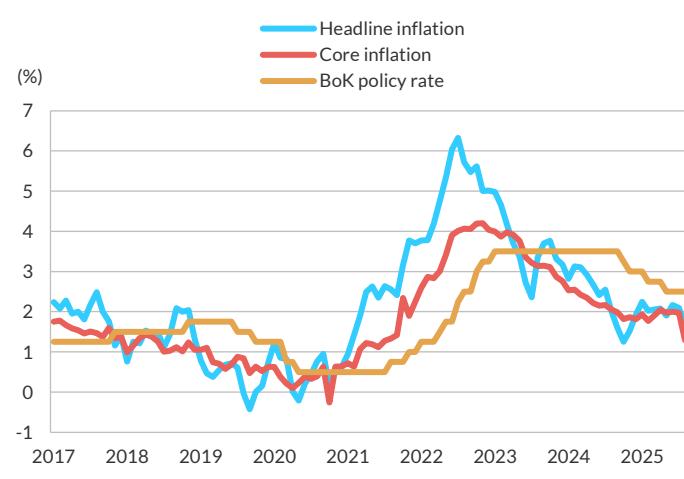
Fitch expects GDP growth of 1.0% this year, marginally higher than in June, as fiscal stimulus measures support growth in 2H25. A stronger carryover effect will push GDP growth next year to 1.9% on average (up 0.1pp from June), as improved real income dynamics support consumer spending and capital spending recovers with looser financial conditions. For 2027, we expect a similar pace of growth (1.8% on average). The new Korean administration published their 2026 budget proposal at the end of August, which will loosen fiscal policy significantly over the medium term relative to the previous administration. Our forecasts do not assume an impact on growth from the budget, so this constitutes an upside to our forecasts for 2026 and 2027.

Inflation was stable around the Bank of Korea's (BoK) target of 2% before falling to 1.7% in August. Core inflation fell to a four-year low of 1.3%. A sharp decline in charges by the country's main telecoms provider drove the decline. We expect inflation will stay below the BoK's target until next year. This will allow the bank to loosen policy, but we now think there will be a slower pace of rate cuts, with one further cut of 25bp rate cut this autumn, and then one early next year.

South Korea - Real GDP Growth



South Korea - Inflation and Interest Rates



Korea - Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.0	2.0	1.0	1.9	1.8
Consumer spending	1.3	1.1	1.3	2.1	1.9
Fixed investment	1.2	-0.8	-2.3	2.5	2.2
Net trade (contribution pp)	0.6	1.7	0.2	-0.3	-0.2
CPI inflation (end-year)	2.4	1.9	1.8	2.1	2.0
Policy interest rate (end-year)	1.70	3.00	2.25	2.00	2.00
Exchange rate, USDKRW (end-year)	1,217	1,470	1,400	1,350	1,350

Source: Fitch Ratings

Indonesia

GDP growth in Indonesia picked up in 2Q25, to 5.1% yoy from 4.9% in the first quarter, outperforming our June forecast of 4.7%. A sharp rise in non-residential investment of 12.9% drove the increase in the overall growth rate, while consumer spending was stable, and strong imports offset any potential front-loading of exports ahead of changes in US trade policy.

Fitch expects the momentum in growth to ease in 2H25. Consumer confidence has waned over the course of this year. Business survey data from Bank Indonesia (BI) point to weakening growth in 3Q25. Low levels of capacity utilisation suggest investment may weaken, as credit growth to the private sector has fallen below 8% on an annual basis. The recent outbreak of violent protests across various cities in Indonesia against government plans for improved allowances for lawmakers has highlighted elevated levels of public discontent, which may dampen investor sentiment further. Equity prices and the rupiah have been volatile following the protests.

In mid-July, the US administration imposed a 19% tariff on Indonesian exports to the US. This is much higher than the effective tariff rate of 4.8% for 2024, but lower than the 32% announced in early April. This may reduce uncertainty about export prospects, in the context of broadly stable terms of trade. In addition, tariffs on select commodity exports which the US does not produce domestically, such as palm oil, cocoa and rubber, may be removed or reduced.

Despite the stronger-than-expected 2Q25, we still expect GDP growth to average 4.8% this year. For 2026, we forecast a slight slowdown to 4.7%. Domestic demand will be the main growth driver, partly offsetting a drag from weaker global commodity prices and net exports. In 2027, GDP growth will edge up to 4.8%, as demand slightly outpaces our estimate of trend growth (4.7%). Our GDP forecasts are unchanged from June. Any deepening and intensification of the protests and persistent unrest would be a key risk to our forecast.

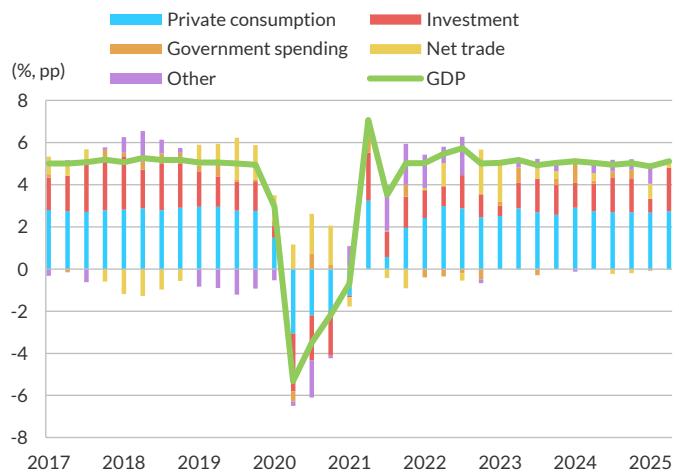
Annual consumer price inflation rose to 2.4% in July, from 1.9% in June, driven by rising goods prices, before falling slightly to 2.3% in August. We expect inflation to increase into the early months of next year due to base effects, but in the medium term inflation will be close to the 2.5% midpoint of BI's target. BI cut rates by 25bp to 5.25% in July and by a further 25bp in August to 5.0% – a faster pace of policy easing than we had expected. The combination of relatively low inflation and external resilience will allow BI to cut rates by 50bp next year, with the exchange rate appreciating slightly.

Indonesia – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	3.4	5.0	4.8	4.7	4.8
Consumer spending	2.9	5.1	4.9	4.9	4.9
Fixed investment	2.2	4.6	5.0	6.6	5.9
Net trade (contribution pp)	0.5	0.0	0.2	-0.2	0.1
CPI inflation (end-year)	2.9	1.6	2.7	2.5	2.6
Policy interest rate (end-year)	4.64	6.00	5.00	4.50	4.50
Exchange rate, USDIDR (end-year)	14,625	16,162	16,300	16,000	16,000

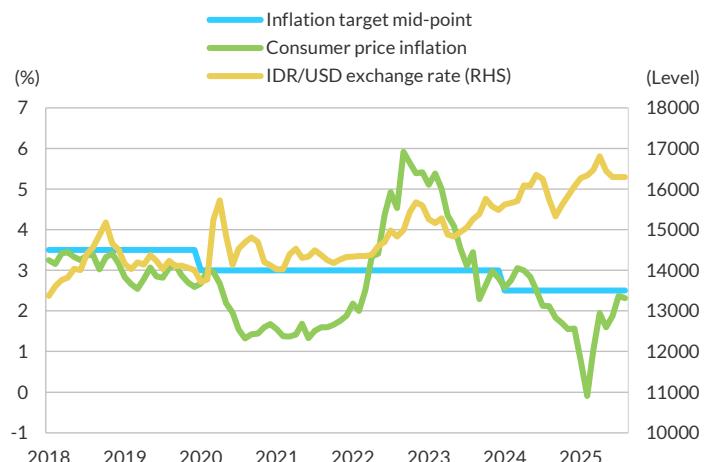
Source: Fitch Ratings

Indonesia - Contributions to Annual GDP Growth



Source: Fitch Ratings, Haver Analytics

Indonesia - Inflation and Exchange rate



Source: Fitch Ratings, BI, BPS

Mexico

Despite a still difficult backdrop, we no longer expect Mexico to dip into recession this year, as incoming data and the US tariff scenario have both been better than previously assumed. GDP grew 0.6% qoq in 2Q25, up from 0.3% in 1Q25 and -0.6% in 4Q24, and with a stronger sectoral composition driven by industry and services rather than the weather-sensitive agriculture. The data continue to suggest that the economy is facing a slowdown but will avoid a severe slump from tariff uncertainties and fiscal adjustment.

We have reduced our estimated ETR on Mexican exports to the US to 5.2% from 9.6% in our June GEO, as data have shown a large share of exports have shifted toward formal compliance with the USMCA trade agreement to avoid the 25% tariff on non-compliant goods. Although Mexico has secured favourable tariff treatment on a relative basis, developments remain fluid, hinging on negotiations on a host of issues (e.g. migration and crime), while a looming review of USMCA in 2026 should keep uncertainties high.

As a result of the strong 1H25 economic performance and lower ETR, Fitch has increased its projection of real GDP growth from -0.1% to 0.4%, which assumes moderate but positive sequential data later in 2025 and the avoidance of a technical recession. We expect growth to recover to 1.2% in 2026, somewhat better than we previously assumed, but still modest given lacklustre growth in the US and tariff uncertainties that are likely to persist through the USMCA negotiation.

Headline inflation fell to 3.5% in July from 4.2% at end-2024, closer to the target of 3% (+/-1pp). Non-core components explain most of the recent decline in inflation, while core inflation remains higher at 4.2%. Slow growth, a cooling labour market and a strong currency should continue to alleviate price pressures, and we expect inflation to reach 3.8% end-2025 and fall to 3.5% by end-2026. Banxico cut its policy rate by 25 basis points to 7.75% in August, adopting a more gradual pace of loosening after 50bp cuts in prior meetings, as lingering inflation inertia and a narrowing differential with respect to the US Fed induced caution despite the sluggish economic backdrop. We expect another 25bp cut in September taking rates to 7.5% and a further 75bp in cuts in 2026.

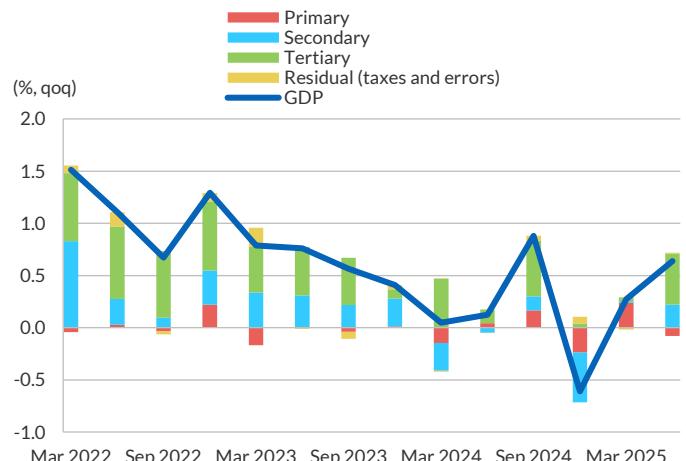
The global weakening of the US dollar and reduced concern over severe tariff outcomes have supported the Mexican peso, helping it to reverse a modest depreciation early in the year and strengthen to 18.7/USD as of early September. We expect the peso to be 19/USD at end-2025 and 20/USD at end-2026.

Mexico – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	1.2	1.4	0.4	1.2	2.0
Consumer spending	2.1	2.8	-0.5	1.9	2.6
Fixed investment	4.2	3.4	-6.1	1.5	1.2
Net trade (contribution pp)	-1.2	0.0	3.9	-0.6	-0.4
CPI inflation (end-year)	5.2	4.2	3.8	3.5	3.5
Policy interest rate (end-year)	7.35	10.00	7.50	6.75	6.75
Exchange rate, USDMXN (end-year)	19.78	20.27	19.00	20.00	20.00

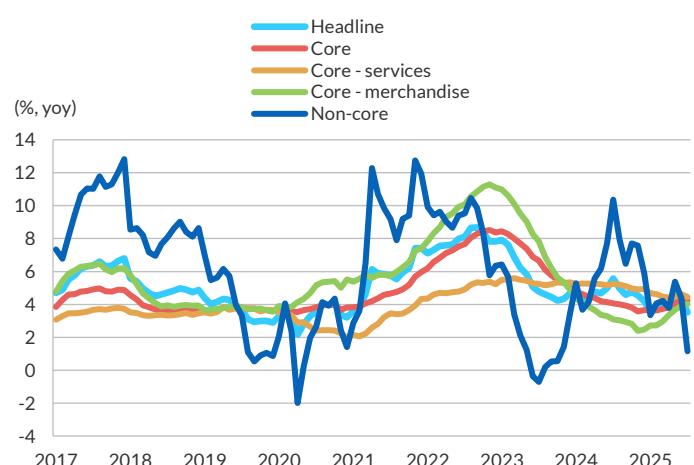
Source: Fitch Ratings

Mexico - GDP by Activity (SA, qoq)



Source: Fitch Ratings, Haver Analytics

Mexico - Headline and Core Inflation Rates



Source: Fitch Ratings, Haver Analytics

Poland

Polish GDP grew by 0.8% qoq in 2Q25, 0.2pp faster than we had predicted in the June GEO. Consumer spending remained strong but investment declined, reversing a significant increase in 1Q25. At the start of the year, investment was boosted by an improvement in public investment, related to the rising take-up of EU funds and, probably, deliveries of military equipment.

Monthly activity data were consistent with strong growth in 2Q25 with retail sales up 2.5% qoq, indicating that consumer-facing sectors continue to provide a boost to activity. Industrial production was also resilient (up 1.0% qoq), suggesting a limited impact from US tariffs on the economy.

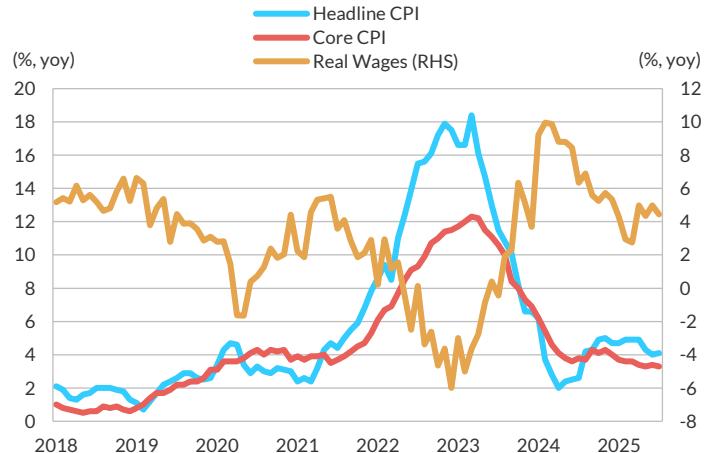
Maintaining this level of buoyant growth in 2H25 will require a revival of fixed investment, especially in the private sector. The ongoing cycle of monetary easing, coupled with recovering credit demand and increased absorption of EU funds, is expected to bolster investment activity. The main headwind to economic recovery, especially in the industrial sector, is still the subdued demand in key export markets.

The 15% baseline tariff applied that was applied to EU exports by the US to at the start of August was higher than the previous 10% tariff. But the economy remains resilient and Poland's export dependence on the US is low. We have upgraded growth for both 2025 and 2026 to 3.2% from a forecast of 3% in both years. This reflects continued strength in private consumption, an easier fiscal stance than previously expected and the likelihood of continued increases in investment reflecting projects co-financed with EU Recovery and Resilience Facility.

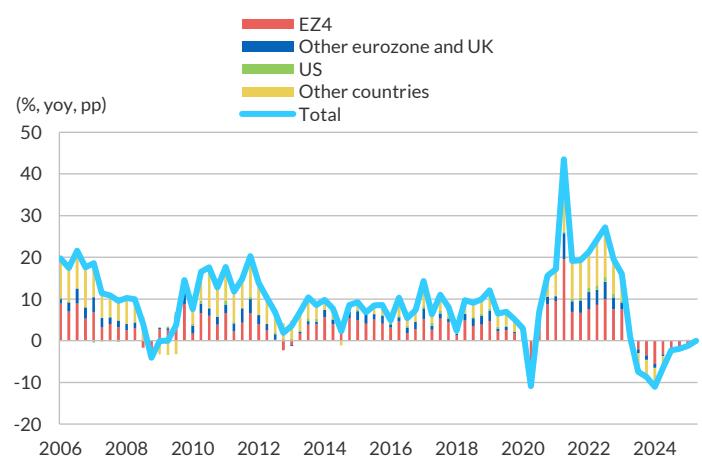
Inflation slowed sharply in July to 3.1% from 4.1% in June, reflecting base effects related to the partial unfreeze of energy prices in mid-2024. Goods prices rose by 1.9% yoy last month, while services prices increased by 6.2%, compared to 3.2% and 6.3%, respectively, in June.

Inflation is now within the range of acceptable deviations from the National Bank of Poland's (NBP) target. The inflation outlook for the coming months remains favourable, and assuming continued stability in energy prices, inflation should hover close to the NBP's target of 2.5%. We therefore expect the Monetary Policy Council to cut by an additional 25bp so that rates end this year at 4.5%.

Poland: Inflation Rates and Wage Growth



Poland - Goods Exports by Key Destinations



Poland – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	2.7	2.9	3.2	3.2	2.9
Consumer spending	2.1	3.1	3.5	3.5	2.6
Fixed investment	2.3	-2.2	5.6	4.8	2.6
Net trade (contribution pp)	0.4	-1.0	-1.1	-0.2	0.6
CPI inflation (end-year)	7.3	4.7	3.3	3.3	3.2
Policy interest rate (end-year)	2.82	5.75	4.50	4.25	4.25
Exchange rate, USDPLN (end-year)	4.05	4.10	3.80	3.90	3.90

Source: Fitch Ratings

Turkiye

Following a stronger-than-expected outturn in 2Q25, we have revised up our forecast for this year, to 3.5% from a previous expectation of 2.9%. The non-seasonally adjusted increase of 4.8% yoy in 2Q25 far exceeded the June GEO forecast of 3.0% and represented a notable acceleration from previous quarters. Growth in 2Q25 was also partially supported by favourable base effects. But in seasonally adjusted quarter-on-quarter terms, growth also increased by 1.6% qoq (June GEO: 0.4% qoq), the highest quarterly increase in the past two years, and supported by robust private consumption and higher investment activity.

It is notable that 2Q25 activity improved despite tighter financial conditions during 1Q25 which followed domestic political uncertainty and tariff volatility. Higher inventory accumulation also helped. Faster eurozone growth this year should help the economy, more than offsetting a slight drag to exports from the increase in tariffs on Turkish exports to the US from 10% to 15%.

The statistics office also revised GDP data as part of its harmonisation efforts with the European System of National Accounts resulting in 1Q25 GDP being increased to 2.3% from 2.0% while 2024 growth was also raised, to 3.3% from 3.2%. Our growth forecasts for 2026 and 2027 have been maintained at 3.5% and 4.2% respectively.

At the same time, annual inflation continues to ease, falling to 33% in August from a peak of 75.4% a year ago. The average monthly rate in the three months to August slowed to 1.8% from 2.3% in the preceding three months although service sector inflation is still close to 50% yoy. On current monthly trends we expect end-2025 inflation to slow to 28%, slightly above the Central Bank of the Republic of Turkiye's (CBRT) year-end mid-point forecast of 27%. For 2026, the bank expects inflation to end at 16%, a rather more optimistic forecast than our expectation of 21%. The CBRT expects that past monetary tightening, the real Turkish lira appreciation and lower inflation expectations will help inflation trends ahead.

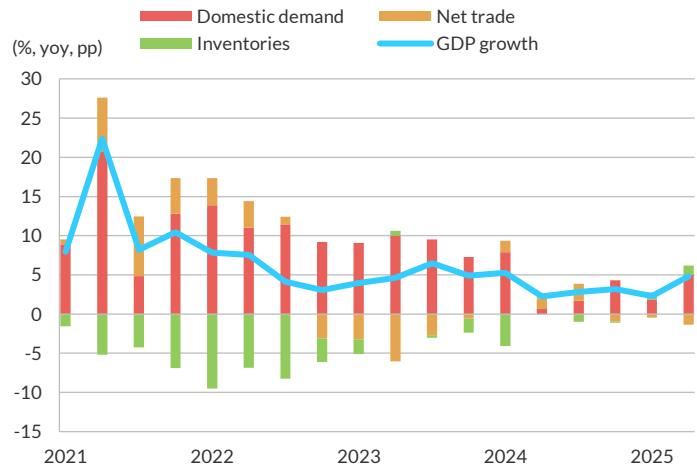
The bank cut policy rates by 300bp to 43% in July, largely reversing the emergency hike in March that had been implemented to counter lira weakness. The bank also appears to have become slightly more confident about disinflationary pressures though communication is still fairly hawkish, emphasising that a tight monetary stance will be maintained until price stability is achieved. With three more policy meetings to be held in 2025, we expect the CBRT to implement a total of 800bp cuts this year to end the year at 35%. The USDTRY exchange rate is at 41 and we continue to expect a further weakening in the lira to 43 by end-2025.

Turkiye – Forecast Summary

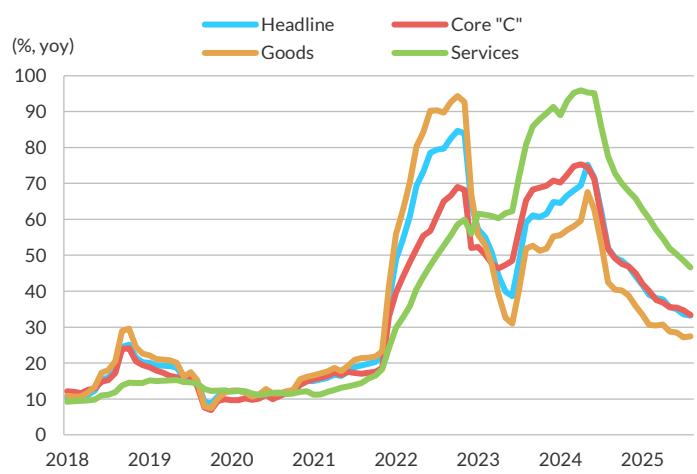
(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	5.5	3.3	3.5	3.5	4.2
Consumer spending	10.0	4.3	2.5	2.8	3.8
Fixed investment	5.7	2.7	4.8	3.4	3.4
Net trade (contribution pp)	-0.4	1.0	-1.5	-0.2	0.4
CPI inflation (end-year)	34.5	44.4	28.0	21.0	19.0
Policy interest rate (end-year)	16.28	47.50	35.00	24.00	21.00
Exchange rate, USDTRY (end-year)	12.36	35.26	43.00	48.00	53.00

Source: Fitch Ratings

Turkiye - GDP Growth and Components



Turkiye - Inflation Rates



South Africa

GDP growth in South Africa recovered strongly to 0.8% qoq in 2Q25 after a bounce-back in activity in the mining and manufacturing sector. Private consumption accounted for the bulk of the increase along with a boost from government consumption and a large decline in imports (reversing a large increase in 1Q25). But with a worse US tariff outcome than expected and recent deteriorations in some high-frequency indicators, we have maintained our 2025 growth forecast at 1.2%.

We expect some growth momentum to continue into 3Q25 with domestic demand driving the economy supported by firmer consumer confidence, and a recovery in real household incomes given lower inflation. That said, the ABSA manufacturing PMI, which had been recovering since the start of the year, fell back below 50 in August. New sales orders in the ABSA index dropped to 47.4 in August from 55.9 in July, signalling a sharp fall in demand.

The RMB/BER business confidence index has also eased to 39, the lowest since 3Q24 reflecting general uncertainty over US tariffs. Moreover, according to our calculations, South Africa's effective tariff rate is now 18.6%, above the 15% we previously assumed. The effective lowering of the inflation target to 3% is also likely to have some bearing on economic activity.

We expect household consumption to continue to support growth in 2025 helped by withdrawals from retirement funds, the so-called "two pot retirement" system. Despite ongoing structural reforms, operating conditions remain challenging, and production costs high. Weaker global demand amid higher US tariff barriers could weigh on output. We expect growth of 1.2% this year and in 2026.

Headline CPI has increased steadily since March, rising to 3.5% in July and driven by a jump in food inflation. We expect headline inflation to rise further to 4.2% at end-2025. At the same time, core inflation remains subdued, at 3.0%. Looking to next year, easing supply constraints, better terms of trade and an easing in policy rates are likely to offset the headwinds from higher US tariffs and tight fiscal policy.

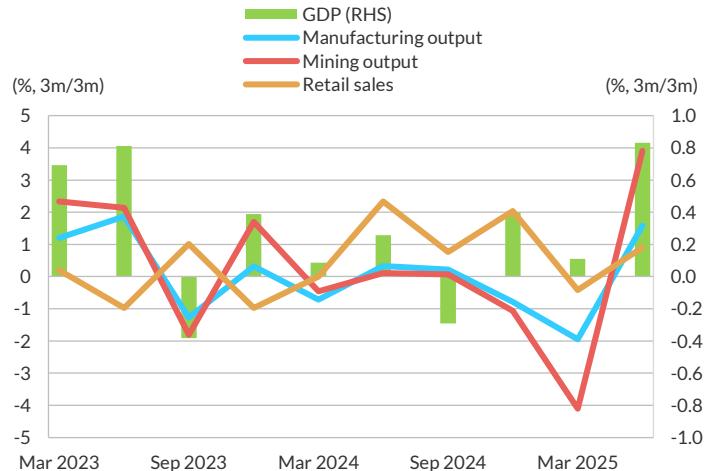
After the July MPC meeting, the South African Reserve Bank (SARB) governor said that 3% is effectively the bank's new "preferred" target, noting that the SARB would now be "aiming for the bottom of our inflation target range, of 3%-6%". Policy rates were cut by 25bp to 7% in July and we now expect them to remain unchanged until the end of this year. We have also lowered the 2026 and 2027 forecasts by 25bp since the June GEO.

South Africa – Forecast Summary

(%)	Annual Avg. 2020-2024	2024	2025F	2026F	2027F
GDP	0.4	0.5	1.2	1.2	1.2
Consumer spending	0.7	1.0	2.7	1.6	1.4
Fixed investment	-2.0	-3.9	-2.7	0.8	1.2
Net trade (contribution pp)	0.3	1.1	-0.6	-0.3	-0.2
CPI inflation (end-year)	4.9	3.0	4.2	3.8	3.5
Policy interest rate (end-year)	5.53	7.75	7.00	6.75	6.50
Exchange rate, USDZAR (end-year)	16.10	18.74	17.80	17.40	17.40

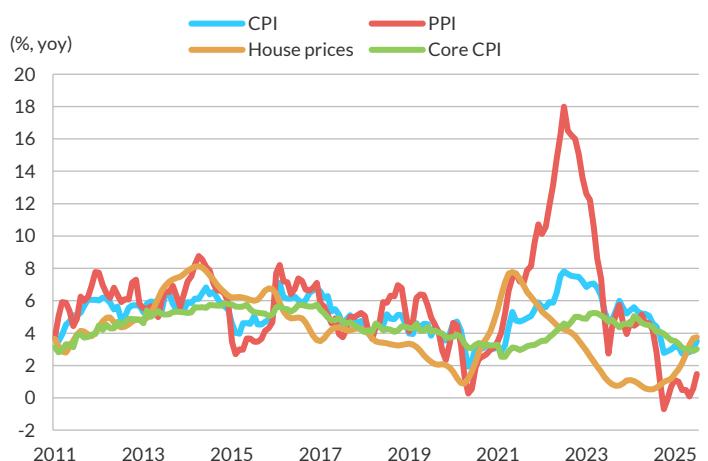
Source: Fitch Ratings

South Africa - Activity Indicators



Source: Fitch Ratings, Haver Analytics

South Africa - CPI, PPI and House Price Inflation



Source: Fitch Ratings, Statistics South Africa, FNB, Haver Analytics

Appendix 1

Quarterly GDP QOQ

(%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
US	0.4	0.7	0.8	0.6	-0.1	0.8	0.2	0.2	0.4	0.4
Eurozone	0.3	0.2	0.4	0.4	0.6	0.1	-0.3	0.2	0.4	0.4
China	1.4	1.0	1.3	1.6	1.2	1.1	0.7	1.7	0.4	1.2
Japan	-0.2	0.5	0.6	0.5	0.1	0.5	0.0	0.0	0.2	0.2
UK	0.9	0.5	0.0	0.1	0.7	0.3	-0.1	0.3	0.3	0.4
Germany	-0.1	-0.3	0.0	0.2	0.3	-0.3	0.1	0.1	0.4	0.4
France	0.1	0.2	0.4	-0.1	0.1	0.3	0.1	0.2	0.2	0.3
Italy	0.2	0.2	0.0	0.2	0.3	-0.1	0.1	0.1	0.3	0.3
Spain	1.1	0.8	0.7	0.7	0.6	0.7	0.6	0.5	0.4	0.5
Switzerland	0.3	0.6	0.5	0.3	0.4	0.1	0.0	0.0	0.5	0.5
Australia	0.2	0.1	0.3	0.6	0.3	0.6	0.6	0.6	0.5	0.5
Canada	0.5	0.6	0.6	0.5	0.5	-0.4	0.3	0.3	0.3	0.4
Brazil	0.9	1.5	0.8	0.1	1.3	0.4	-0.3	0.3	0.8	0.8
Russia	1.9	0.6	0.4	1.1	-0.6	0.2	0.9	0.4	0.0	0.1
India	1.1	1.2	1.6	2.2	2.0	1.8	1.3	1.5	1.1	1.7
Korea	1.2	-0.2	0.1	0.1	-0.2	0.7	1.0	0.8	0.2	0.2
Mexico	0.0	0.1	0.9	-0.6	0.3	0.6	-0.5	0.3	0.4	0.5
Indonesia	1.3	1.2	1.1	1.3	1.2	1.5	0.7	1.0	1.3	1.2
Turkiye	0.9	-0.1	0.6	1.3	0.7	1.6	0.2	0.7	1.0	1.0
Poland	0.8	1.5	0.1	1.4	0.7	0.8	0.3	0.9	0.8	1.0
South Africa	0.1	0.3	-0.3	0.4	0.1	0.8	0.3	0.3	0.3	0.3
Developed ^a	0.3	0.5	0.5	0.5	0.1	0.5	0.2	0.2	0.4	0.4
Emerging ^b	1.2	0.9	1.1	1.3	1.0	1.0	0.6	1.3	0.6	1.1
Emerging ex China	1.0	0.8	0.8	0.9	0.8	1.0	0.6	0.8	0.7	0.9
World ^c	0.7	0.7	0.8	0.8	0.5	0.7	0.3	0.6	0.4	0.7

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye.^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average).

Source: Fitch Ratings

Appendix 2

Quarterly GDP YOY

(%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
US	2.9	3.0	2.7	2.5	2.0	2.1	1.5	1.0	1.6	1.2
Eurozone	0.5	0.5	0.9	1.3	1.6	1.5	0.8	0.6	0.5	0.8
China	5.3	4.7	4.6	5.4	5.4	5.2	4.7	4.7	3.9	4.1
Japan	-0.9	-0.7	0.7	1.3	1.6	1.7	1.1	0.6	0.7	0.3
UK	0.7	1.1	1.2	1.5	1.3	1.2	1.1	1.3	0.8	0.9
Germany	-0.5	-0.6	-0.6	-0.2	0.2	0.2	0.3	0.3	0.4	1.1
France	1.7	1.0	1.1	0.6	0.6	0.8	0.5	0.8	0.8	0.8
Italy	0.3	0.7	0.5	0.6	0.7	0.4	0.6	0.5	0.5	0.9
Spain	2.7	3.3	3.3	3.3	2.8	2.8	2.7	2.5	2.3	2.0
Switzerland	0.4	1.5	2.0	1.6	1.8	1.2	0.9	0.6	0.6	1.0
Australia	1.2	0.9	0.8	1.3	1.4	1.8	2.1	2.0	2.3	2.2
Canada	0.8	1.2	1.9	2.3	2.3	1.2	0.9	0.6	0.4	1.2
Brazil	2.6	3.3	4.0	3.6	2.9	2.2	1.4	1.6	1.1	1.5
Russia	5.4	4.3	3.3	4.5	1.4	1.1	1.5	0.9	1.5	1.4
India	8.4	6.5	5.6	6.4	7.4	7.8	7.5	6.8	5.8	5.7
Korea	3.4	2.2	1.4	1.1	0.0	0.6	1.6	2.3	2.7	2.3
Mexico	1.5	2.2	1.6	0.4	0.9	0.0	-0.2	0.7	0.8	0.7
Indonesia	5.1	5.0	4.9	5.0	4.9	5.1	4.7	4.4	4.6	4.3
Turkiye	5.3	2.3	2.8	3.2	2.3	4.8	3.9	3.3	3.6	2.9
Poland	2.2	3.2	2.8	3.4	3.2	3.4	3.3	2.8	2.8	3.1
South Africa	0.5	0.4	0.4	0.8	0.8	0.6	1.7	1.6	1.8	1.2
Developed ^a	1.7	1.8	1.8	1.9	1.6	1.6	1.2	1.0	1.3	1.1
Emerging ^b	5.0	4.4	4.1	4.7	4.4	4.4	4.1	4.0	3.5	3.5
Emerging ex China	4.7	4.0	3.5	3.7	3.2	3.4	3.3	3.1	3.1	2.9
World ^c	3.0	2.8	2.8	3.0	2.7	2.7	2.4	2.2	2.2	2.1

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye.^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average).

Source: Fitch Ratings

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