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CareEdge

Global Economy Update

June 2025

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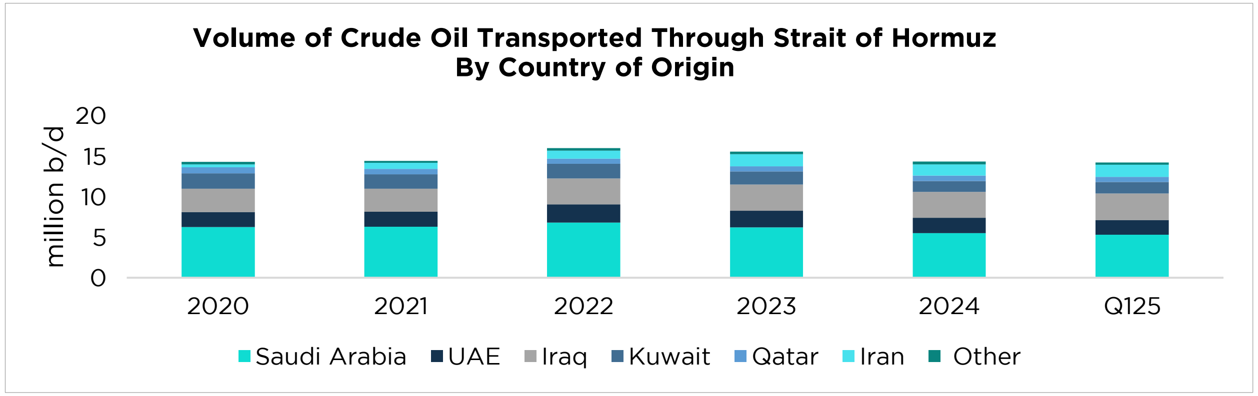
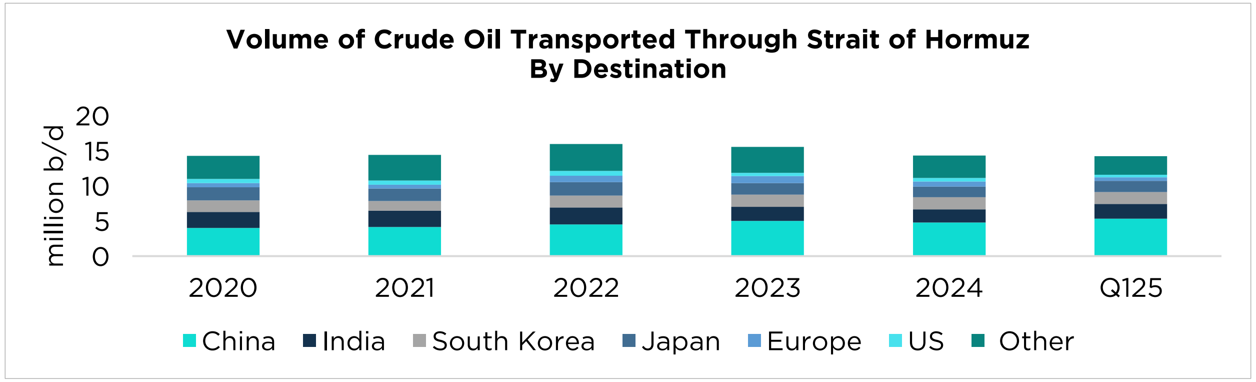
Global Backdrop

Strait of Hormuz: A Critical Choke Point





Source: EIA

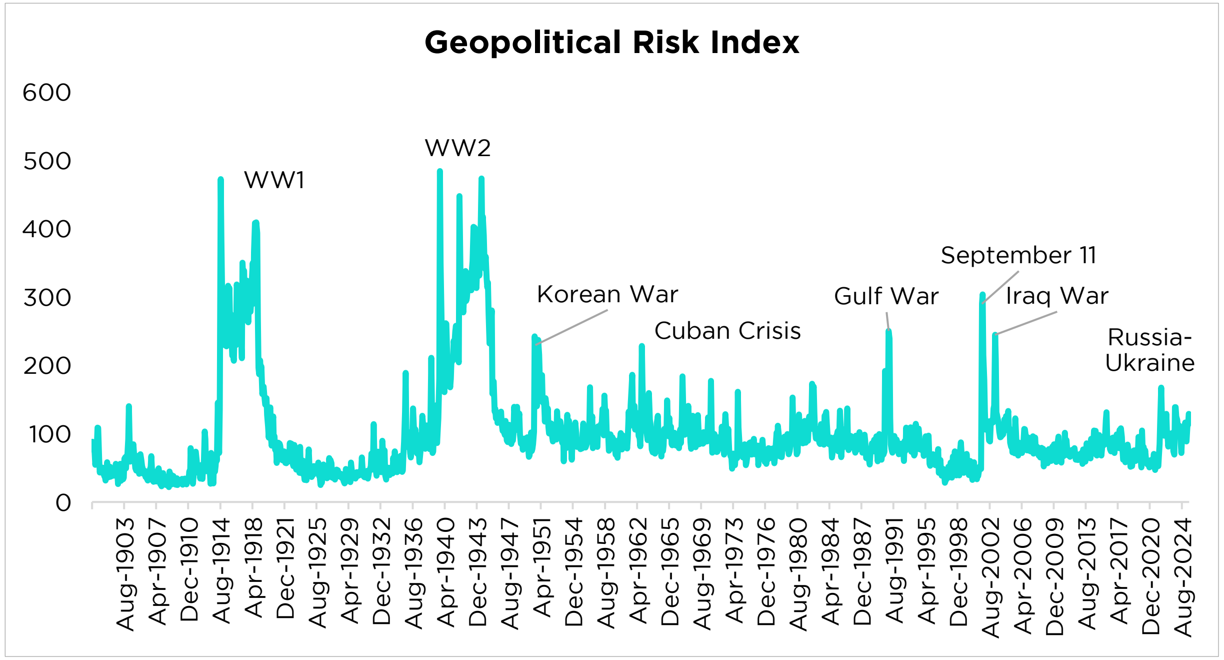
- Despite the current ceasefire, the conflict in the Middle-east region remains a key monitorable. Oil flow through the Strait of Hormuz accounts for about 25% of global seaborne oil trade and 20% of global oil and petroleum product consumption.

- Saudi Arabia and the UAE are key oil transporters through the Strait. However, they also have developed alternative infrastructure to bypass it and mitigate short-term disruptions, if tensions escalate.

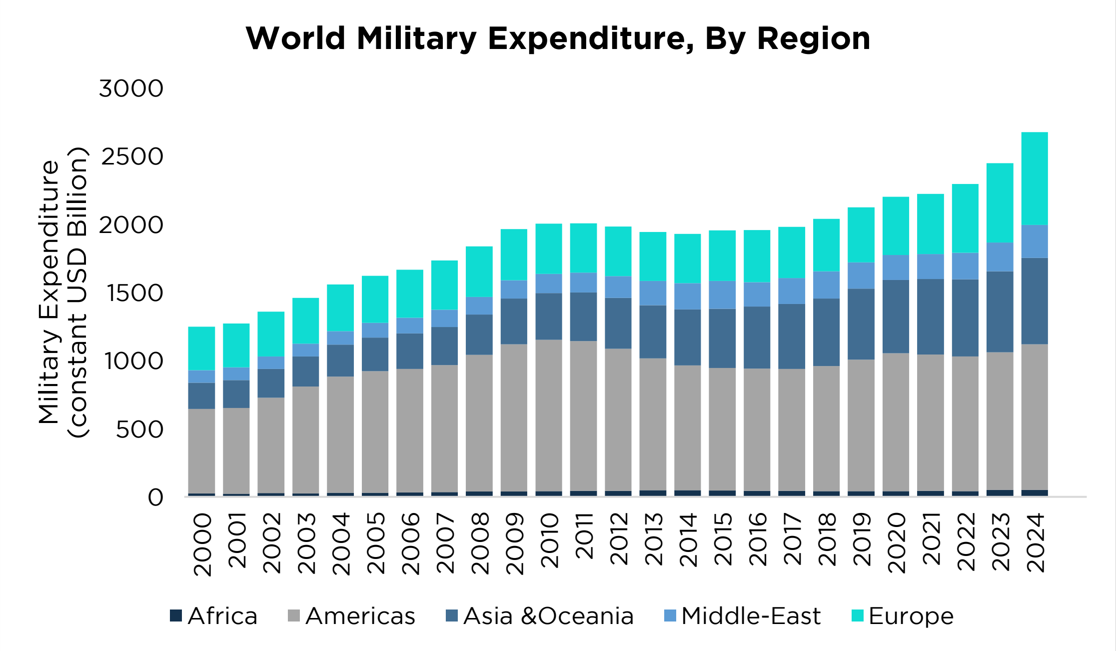
- 84% of the crude oil and condensate and 83% of the liquefied natural gas that moved through the Strait of Hormuz went to Asian markets in 2024 with China, India, Japan and South Korea being top destinations.

- Assuming no further escalation, we estimate Brent to average around USD 65-70 per barrel in 2025-26.

Rise in Geo-Political Tensions Spur Defense Spending Across Globe



Source: Economic Policy Uncertainty



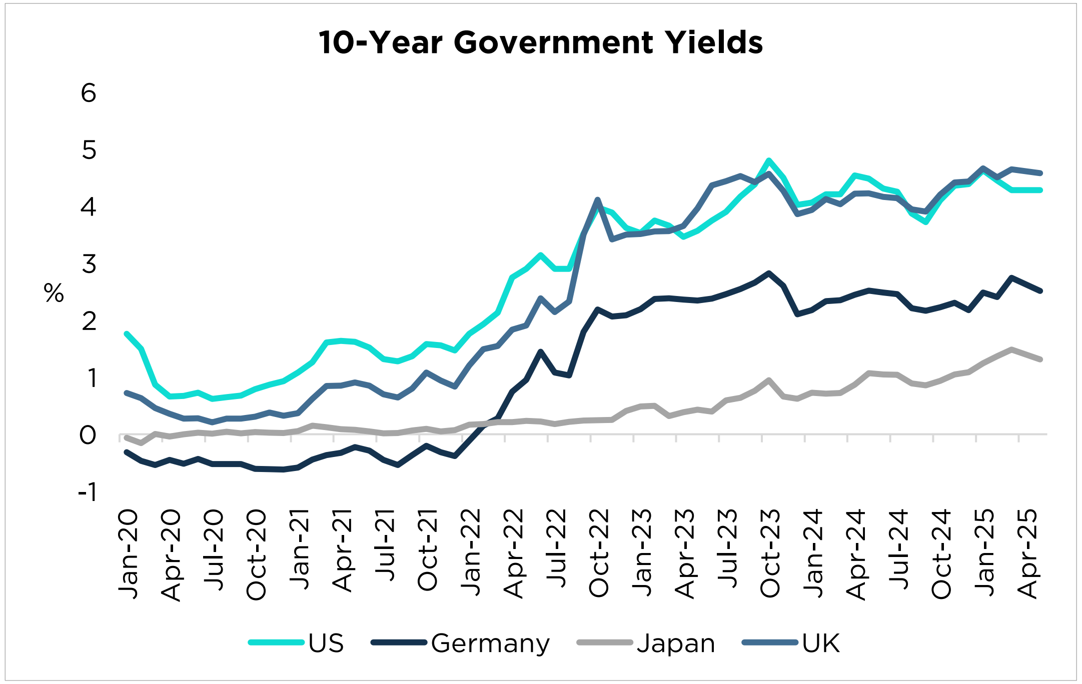
Source: Stockholm International Peace Research Institute

- Following the Russia-Ukraine and Israel-Iran conflicts, geopolitical tensions have escalated compared to the relatively stable period between 2003 and 2021.
- As a result sharp rise in military expenditure has been witnessed, with total world military expenditure reaching USD 2.7 trillion, accounting for 2.5% of global GDP in 2024.
- Military expenditure grew by 9% (y/y) in 2024 and 6% (y/y) in 2023 compared to an average of 2% (y/y) seen between 2014-22.
- Military expenditure increased in all five of the world’s geographical regions for the second year in a row in 2024, reflecting heightened geopolitical tensions across the globe. Largest increase in military spending was seen in Europe with 17% rise in 2024.
- The North Atlantic Treaty Organization (NATO) members have agreed to increase the defense expenditure to 5% of GDP by 2035 from current 2%.
- The five biggest spenders in 2024 were the United States, China, Russia, Germany and India, which together accounted for 60% of world military spending.

Who Moved My Yields- Fiscal Deficit?

	2020-24 (5Y Average)		2025-29 P (5Y Average)	
	GG Fiscal Balance (%GDP)	GG Gross Debt (% GDP)	GG Fiscal Balance (%GDP)	GG Gross Debt (% GDP)
US	-8.7	123	-5.6	124
UK	-7.5	102	-3.4	105
Germany	-2.9	66	-3.7	69
France	-6.2	112	-5.9	123
Italy	-7.4	142	-2.7	138
Japan	-4.8	247	-3.6	233
China	-7.4	77	-8.3	105
India	-9.3	83	-7.0	78
Brazil	-6.5	88	-6.5	97
Mexico	-4.5	56	-3.2	61

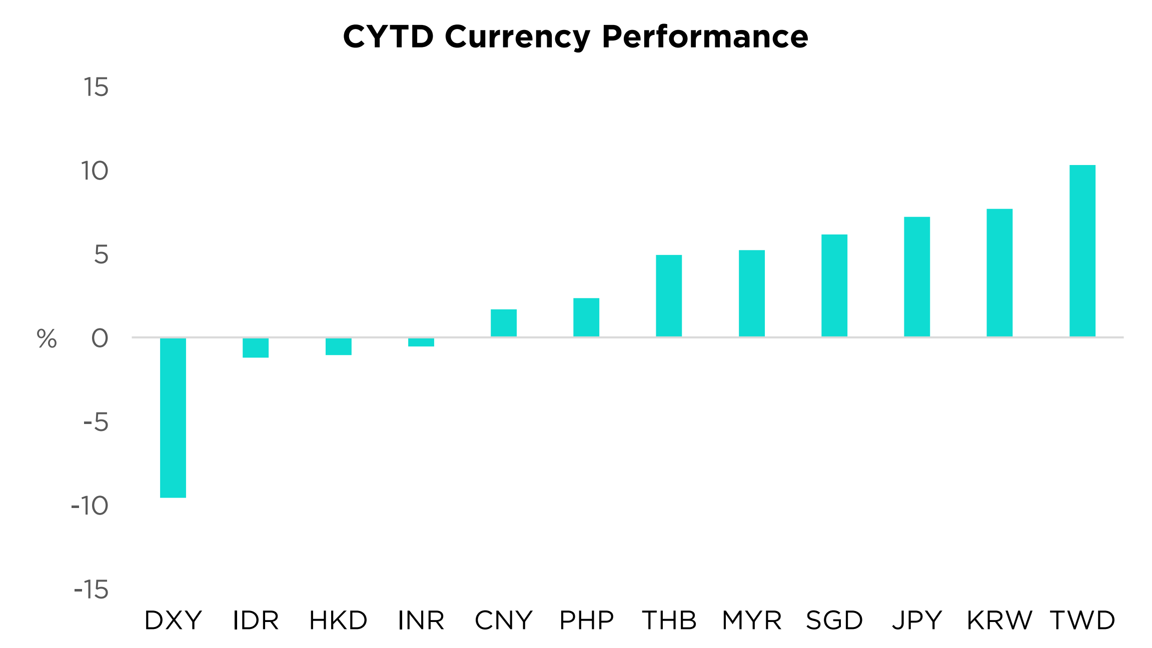
Source: IMF WEO, Note: P= Projections, GG=General Government



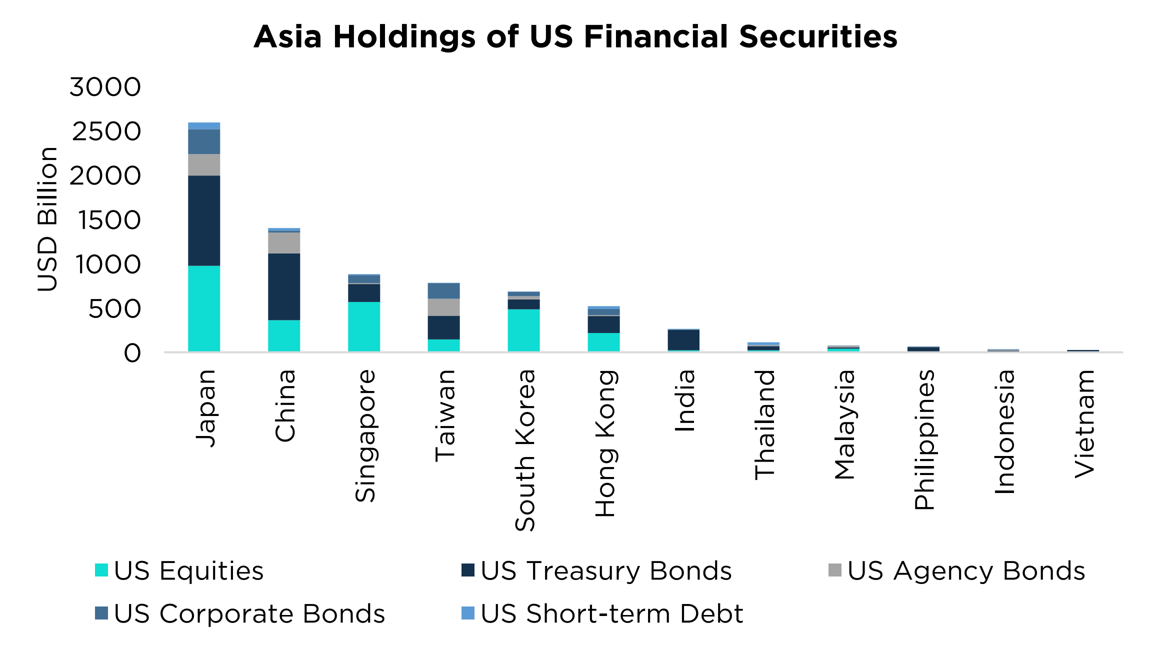
Source: CEIC

- Debt is expected to be higher than current levels in most of the major economies between 2025-29.
- US, UK, France and China's future upward debt to GDP trajectory path remains concerning.
- The rise in debt to GDP ratio is driven by elevated fiscal deficits amidst higher military and ageing related spending pressures and rising debt servicing costs.
- India continues to be an outlier, with lower future expected debt to GDP levels driven by fiscal consolidation.
- Government bond yields have risen steadily across most advanced economies reflecting higher fiscal concerns.

Asian Currencies Strengthen Amidst Weaker Dollar Environment



Source: Refinitiv. Data as of 25 June. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while other currencies' performance is measured against the USD.



Source: US Department of the Treasury. Holdings as of 30 June, 2024

- The US Dollar Index (DXY) has weakened 9.6% CYTD, reflecting fading investor confidence amidst rising US fiscal and trade policy risks.
- Investors are increasingly hedging their currency exposure on US assets as the dollar loses momentum.
- Asian exporters, traditionally large holders of US securities, appear to be reducing dollar exposure, which is resulting in an appreciation of their domestic currencies.
- There is also speculation that countries like Taiwan and South Korea may be allowing currency appreciation as part of the trade negotiations with the US.
- The yuan has appreciated modestly, in contrast to its sharp depreciation during the first trade war.

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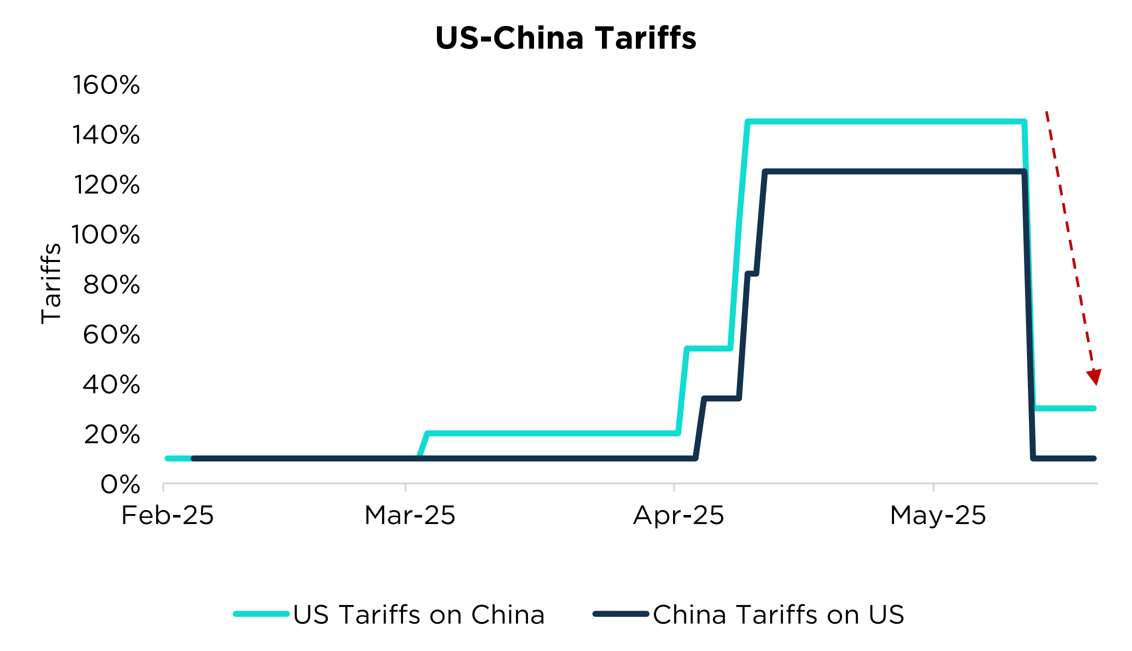
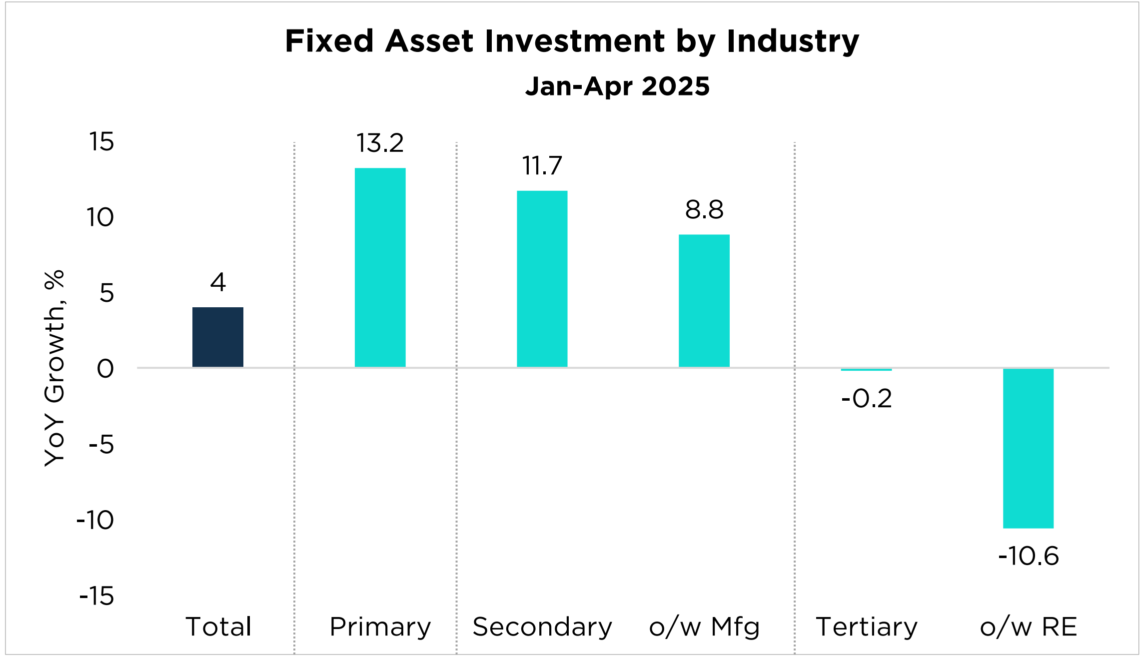
Asia Pacific

China: Trade Tensions De-escalate; Property Weakness Persists



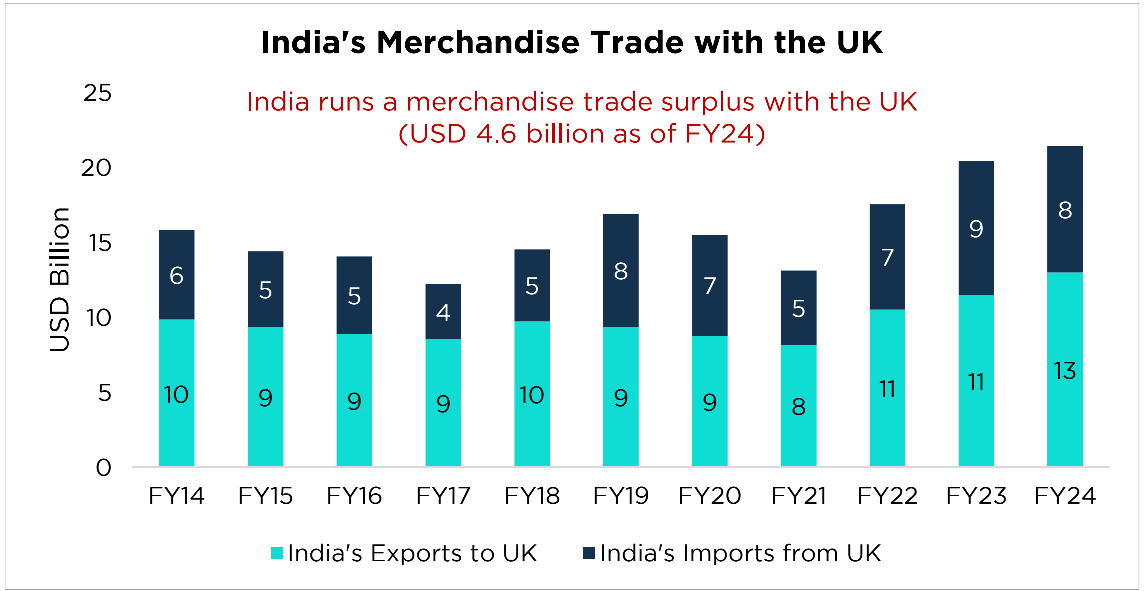
Source: Official Sources



Source: CEIC, National Bureau of Statistics of China
Note- o/w: of which; Mfg: Manufacturing; RE: Real Estate

- The US and China agreed to a 90-day tariff truce, with deeper-than-expected tariff cuts.
- China's exports rose 6% YoY in Jan-May 2025, though exports to the US fell 9%. The truce may support near-term exports through front-loading of orders.
- Real estate investment fell 10.6% YoY in Jan-Apr 2025, highlighting continued weakness in the sector.
- In May, the PBoC cut key lending rates to record lows and reduced the reserve requirement ratio by 50 bps. Further policy easing is expected.

India: Talks Concluded on Historic Free Trade Agreement with UK



Source: CMIE

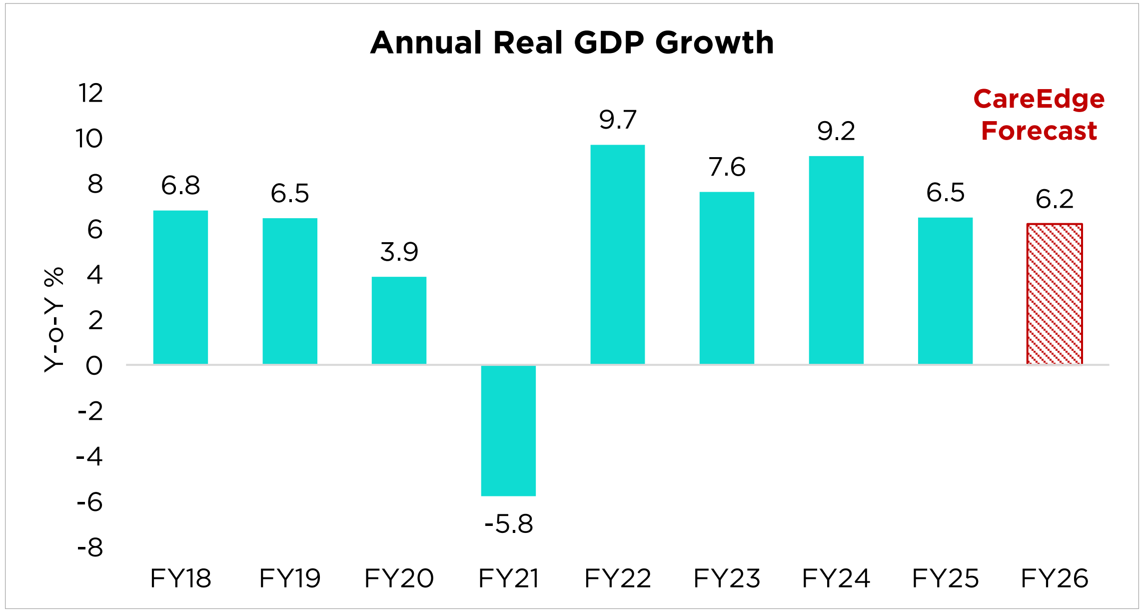
India's Top 5 Merchandise Exports to the UK (FY24)	Share in India's Exports to UK
Electrical machinery & equipment	14%
Nuclear reactors, boilers, parts	12%
Mineral fuels and oils	10%
Apparels & clothing accessories	10%
Pharma products	5%

India's Top 5 Merchandise Imports from the UK (FY24)	Share in India's Imports from UK
Pearls, precious stones & metals	28%
Nuclear reactors, boilers, parts	13%
Iron & steel	9%
Electrical machinery & equipment	6%
Essential oils & cosmetics	5%

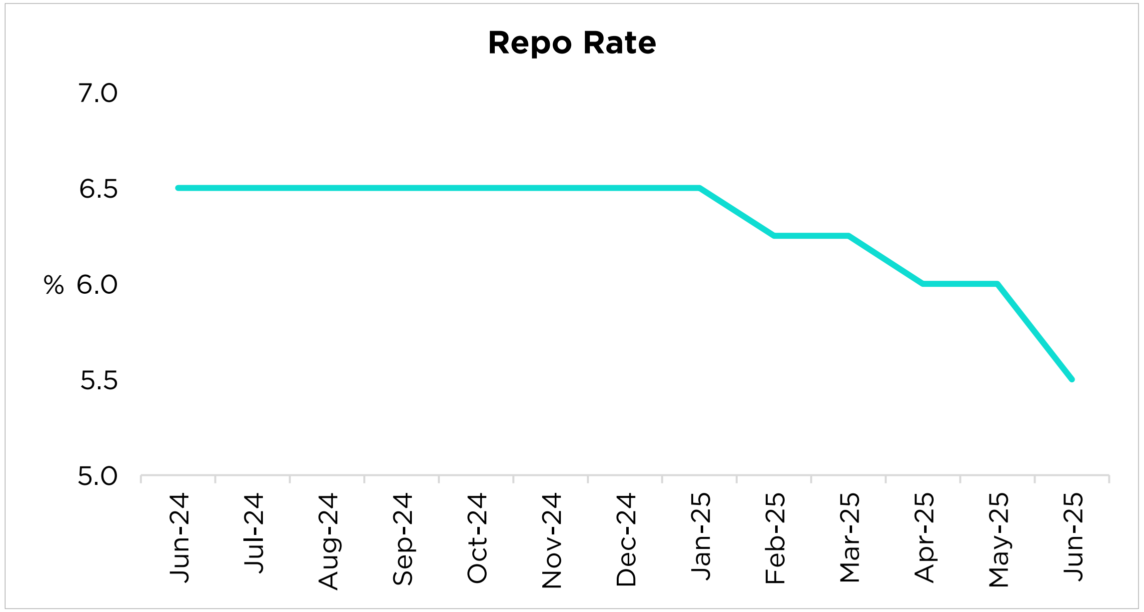
Source: Ministry of Commerce. Note: Export/Import categories are as per HS2 Code

- 99% of Indian exports to the UK will enjoy zero duty, benefiting sectors like RMG, toys, gems and jewellery, engineering goods, auto parts and engines, and chemicals.
- India to reduce duties on whisky (from 150% to 40% over 10 years) and cars (from 100% to 10% under quota).
- Deal to boost services trade and talent mobility, supporting IT, financial, professional and educational services.
- As per the Government of India, India-UK bilateral trade of USD 60 billion is projected to double by 2030 with the help of FTA.
- Similarly, India's ongoing trade negotiations with other countries/regions like the US, EU, and New Zealand are a positive for its external sector outlook.

India: Growth Surprises on the Upside; RBI Front-Loads Easing



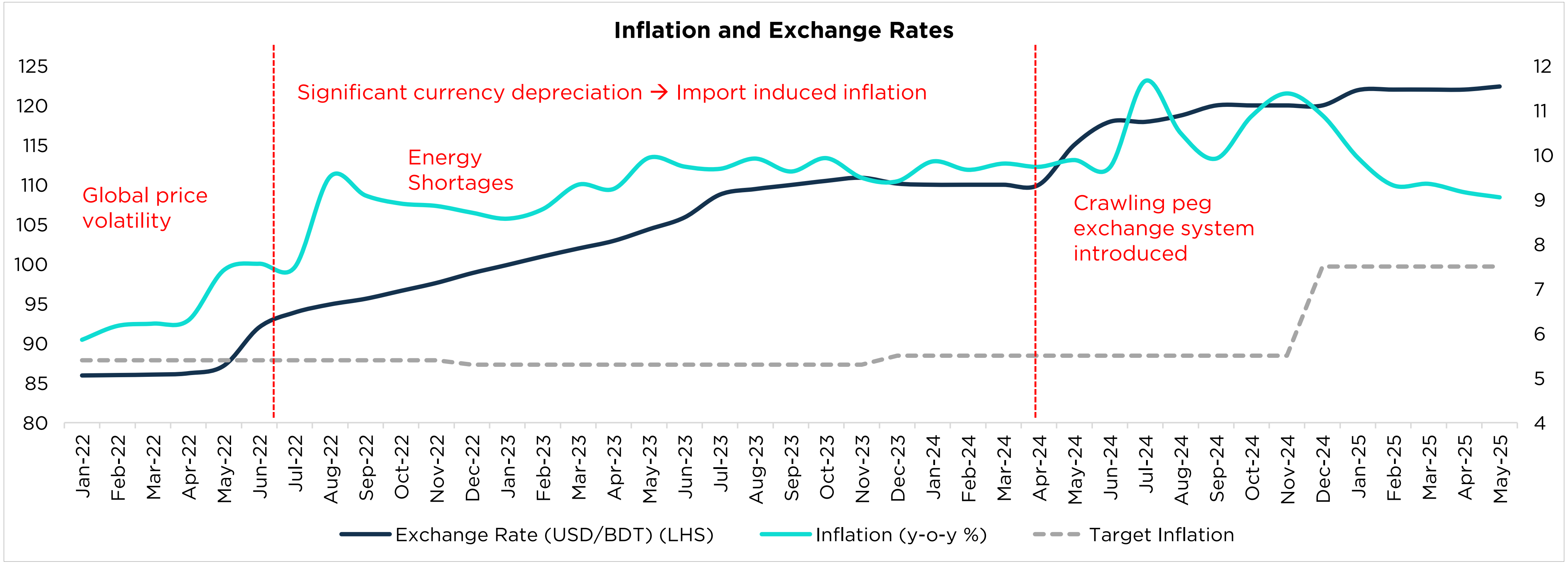
Source: CMIE, MOSPI



Source: CMIE, RBI

- India's Q4FY25 GDP growth came in at 7.4%, exceeding expectations and lifting FY25 growth to 6.5%, though down from the 8.4% average over the past two years.
- The RBI delivered a larger-than-expected 50 bps repo rate cut to support growth amidst easing inflation and shifted its stance to neutral from accommodative.
- A phased 100 bps CRR cut from Sep is expected to inject ~Rs 2.5 trillion of durable liquidity by Dec-25, supporting credit growth and monetary policy transmission.
- The RBI retained its FY26 GDP growth forecast at 6.5% but lowered its CPI inflation projection to 3.7% from 4%.
- We do not expect further RBI rate cuts unless downside risks to growth materialise.

Bangladesh: Import Costs Pressures Keep Inflation Higher than Central Bank Target



Sources: CEIC, Bangladesh Bank

- Inflation has cooled since October-2024 due to decline in food prices, though higher than 7-8% central bank target range.
- Exchange rate has depreciated significantly attributed to widening current account deficits and falling reserves leading to import costs pressures.
- Bangladesh's central bank has maintained tight monetary policy since 2022 with the current policy rate at 10%.

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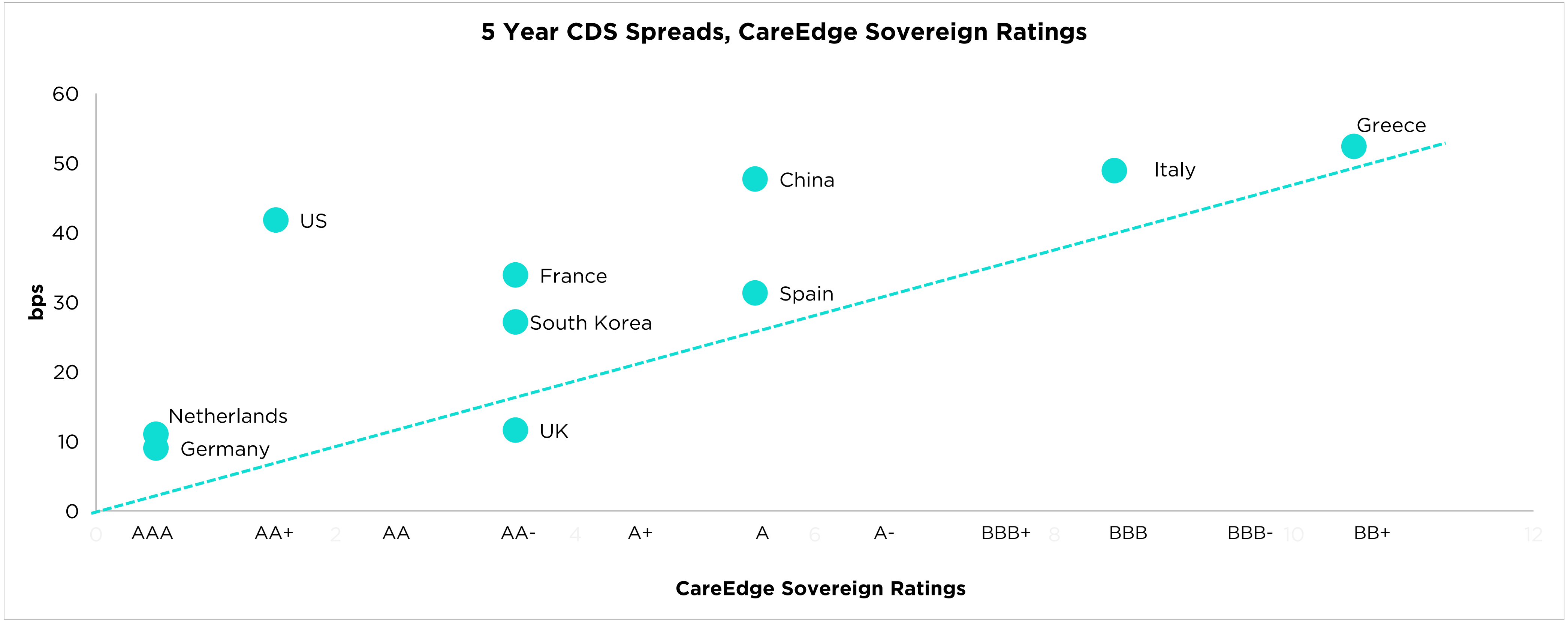
The Americas

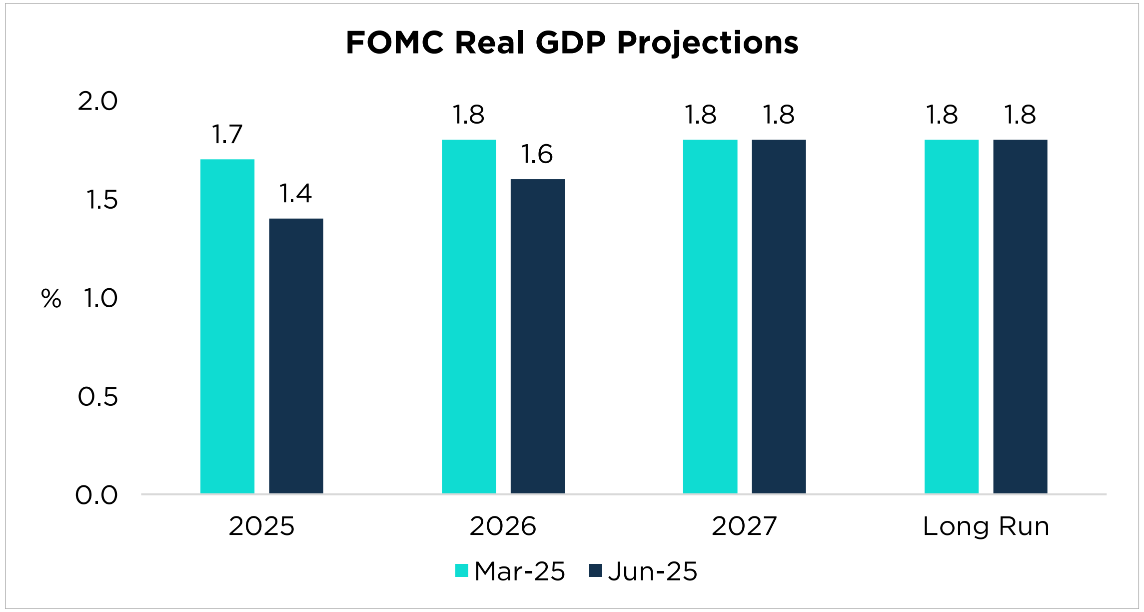
US: Rise in CDS Spreads



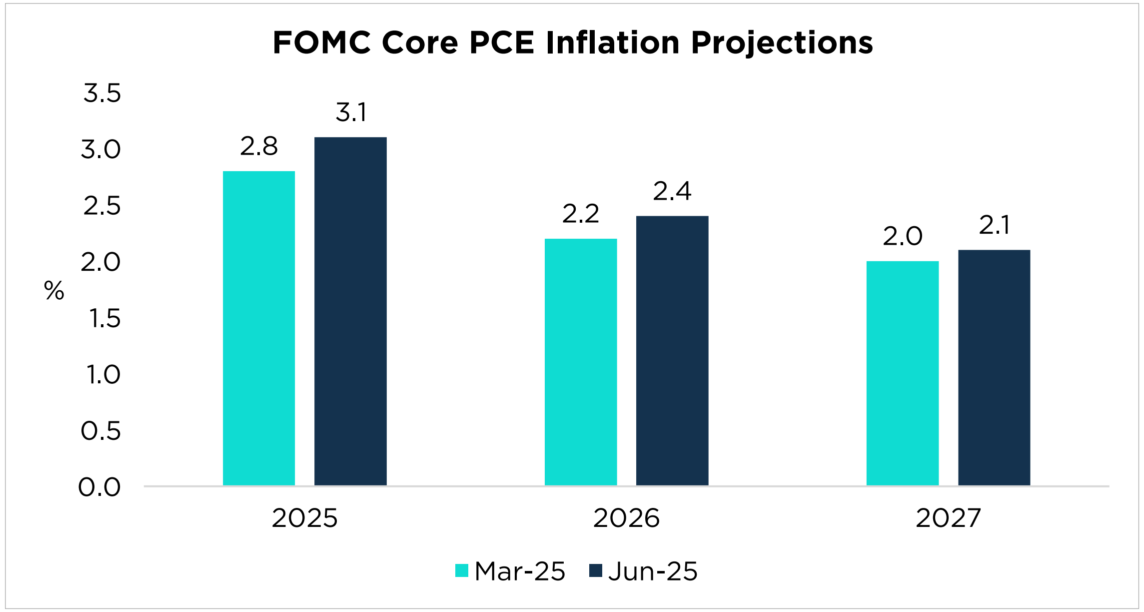
Source: Refinitiv, CGIL

- US' 5 Year CDS Spread is higher than Spain, France, South Korea and UK despite having a better sovereign rating.
- Greece and Italy's CDS spreads have seen a decline whereas that of US has steadily increased in the past 1 year indicating deteriorating fiscal balances.

US: Fed Holds Rates, Projects Weaker Growth and Higher Inflation



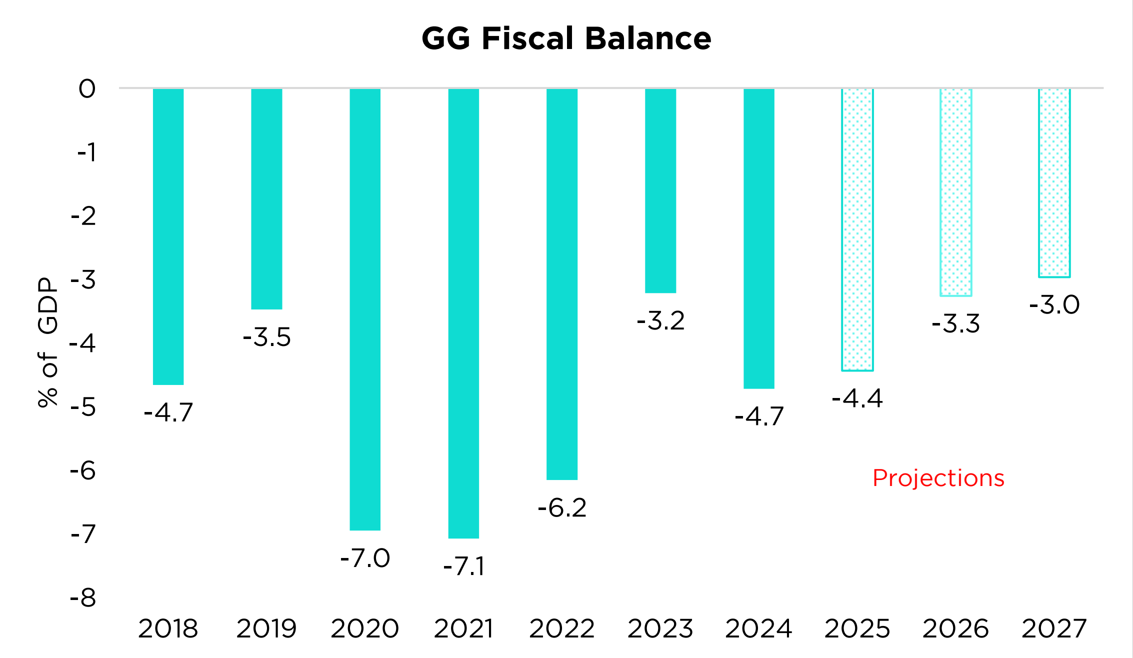
Source: Federal Reserve



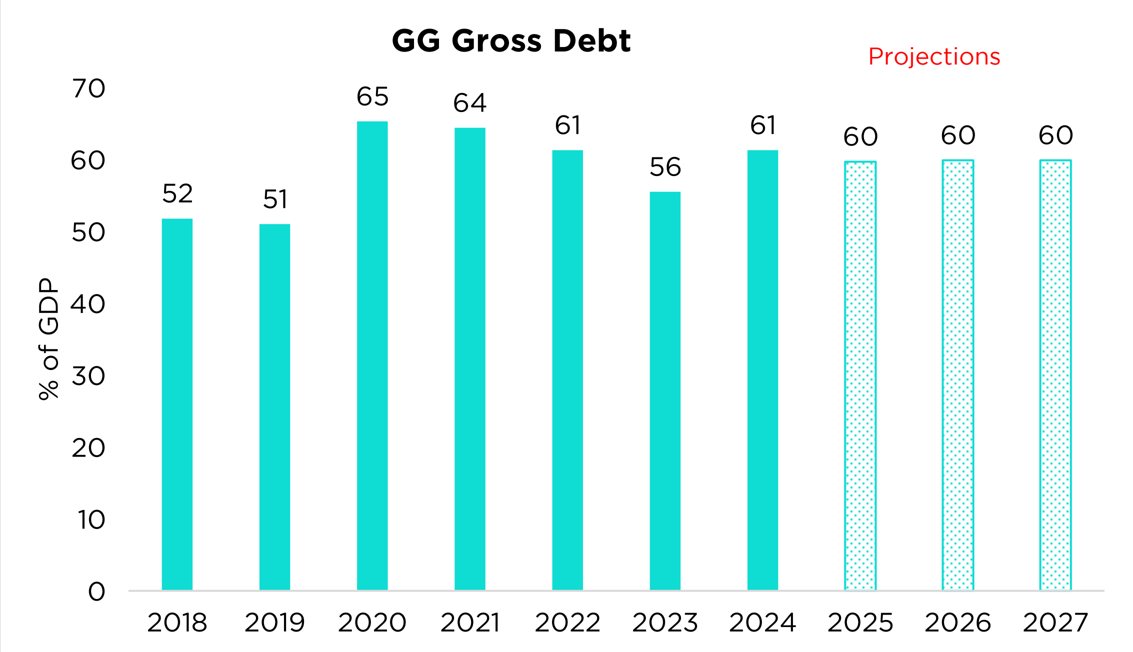
Source: Federal Reserve

- The Fed kept the federal funds rate unchanged in the 4.25-4.5% range in June, marking its fourth consecutive pause, in line with market expectations.
- However, its latest projections point towards a more cautious outlook, with weaker growth, slightly higher unemployment, and stickier inflation.
- The Fed now sees growth slowing to 1.4% in 2025 (vs 1.7% as per March projections). Unemployment rate is projected at 4.5% in 2025, up from 4.4% previously.
- Core PCE inflation, the Fed's preferred measure, is now seen at 3.1% in 2025 (vs 2.8% earlier). Inflation is no longer seen returning to the Fed's 2% target by 2027.
- The Fed noted that while uncertainty around the economic outlook has diminished, it remains elevated.
- The dot plot continues to signal two rate cuts in 2025, though it is a close call as eight FOMC members project two cuts, while seven expect none.

Colombia: Widening Fiscal Deficit And Rising Debt Pressures



Source: IMF, Note: GG= General Government

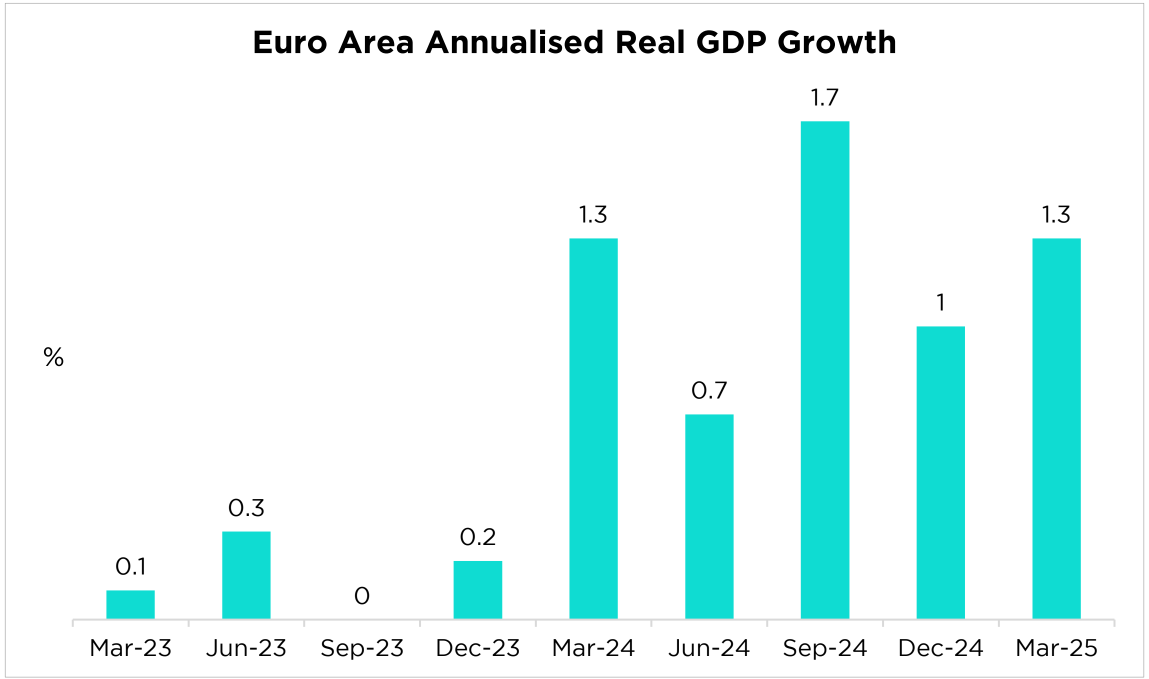


Source: IMF, Note: GG= General Government

- The fiscal deficit rose to 4.7% of GDP in 2024 from 3.2% in 2023.
- This marks reversal in fiscal consolidation trend seen between 2021-23.
- The deficit increased as revenues fell short due to weak tax collections.
- Expenditures exceeded the target driven by higher primary spending and rising interest payments.
- Gross general government debt also remained elevated at 61.3% of GDP.

Europe

Euro Area: Q1 GDP Beats Expectations



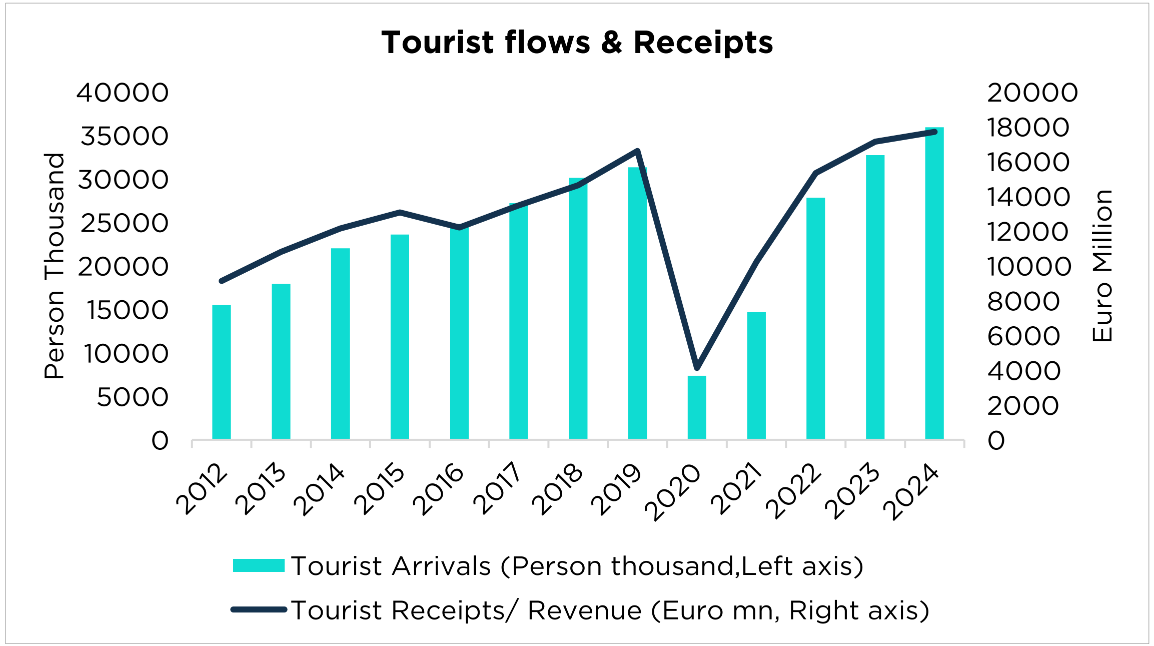
Source: Eurostat

	Real GDP Annualized Growth	
	Q4 2024	Q1 2025
Germany	-0.8	1.7
France	2.9	2.3
Italy	0.8	1.1
Portugal	5.6	-2.1
Spain	2.9	2.3

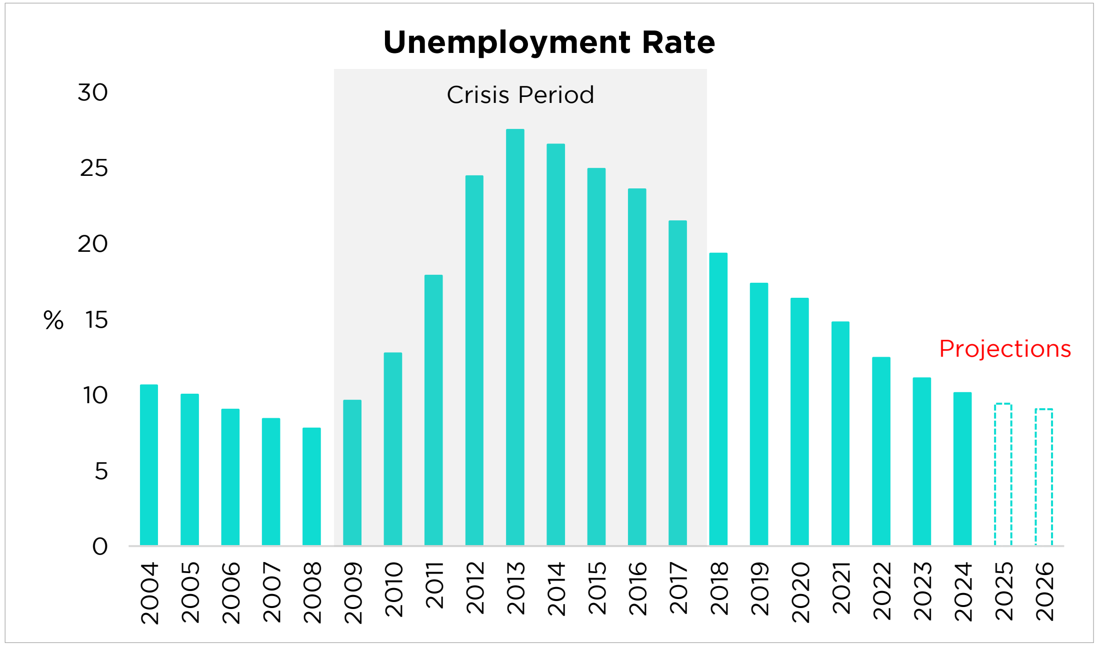
Source: Eurostat

- GDP increased by 1.3% (q/q annualized) in Q1 2025 in the Euro Area amid front-loading exports to US due to tariff uncertainties.
- Inventory levels peaked in 2022 due to supply chain disruptions but have steadily declined since then. As a result, firms are now replenishing stocks, contributing to GDP growth—particularly in Germany and Italy.
- Portugal's contraction in GDP is temporary as retroactive wage tax adjustments temporarily boosted the disposable income in late 2024 which was followed by a correction.

Greece: Tourism Strength Persists; Labor Market Developments Remain Positive



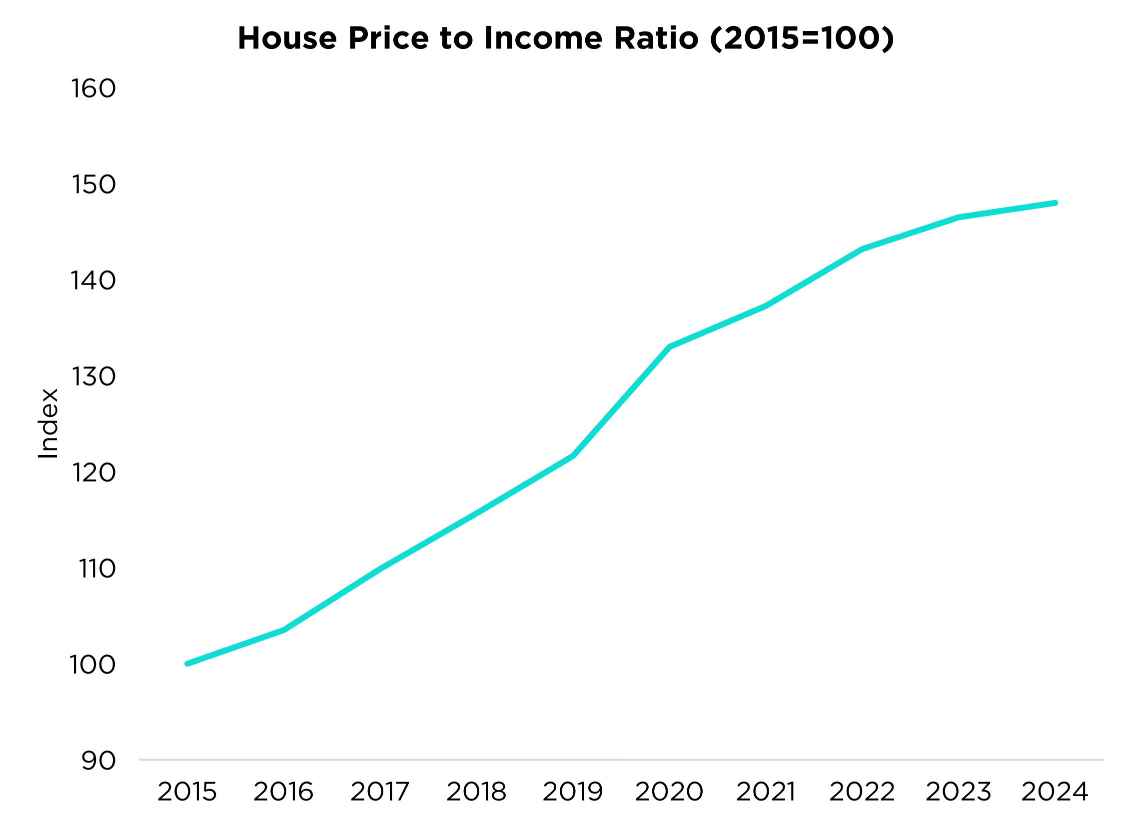
Source: CEIC, Bank of Greece



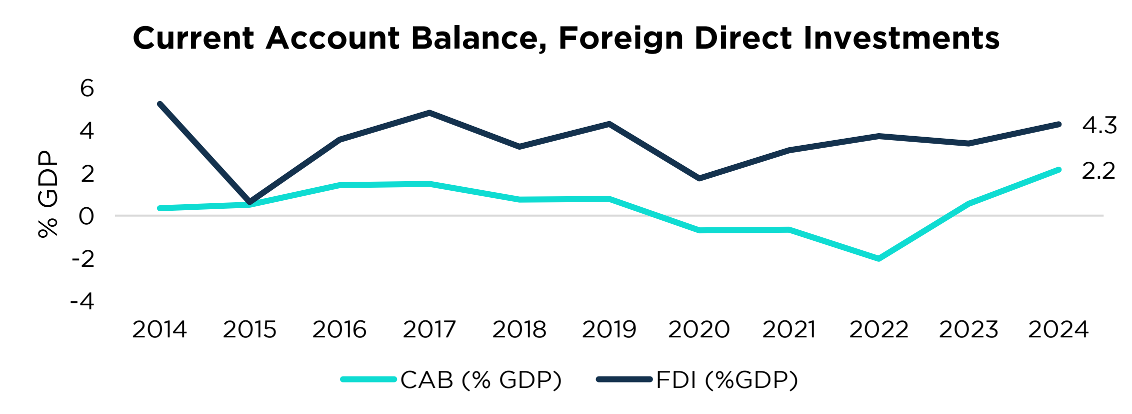
Source: IMF

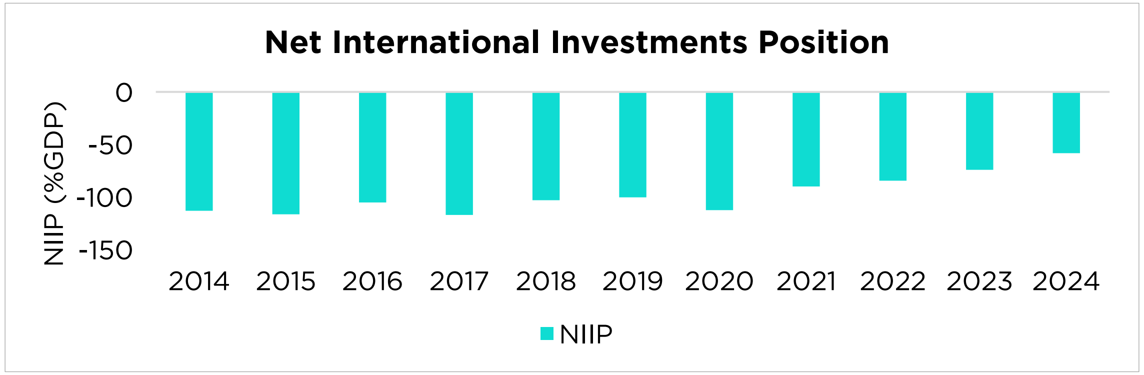
- Tourist arrivals and receipts reached record levels of 36 million (9.8% y/y) and EUR 17.7 billion (3.5% y/y) respectively in 2024.
- Labor market conditions have improved significantly, owing to labor market reforms, and rebound in private sector has led to reduction in unemployment rate falling to 10.1 % in 2024, from its peak of 27.5% in 2013.
- Full recovery in labor market is constrained due to low labor force participation rate and relatively higher unemployment among youth & females.

Portugal: House Prices Rise, Steady Improvement in External Imbalances



Source: Eurostat

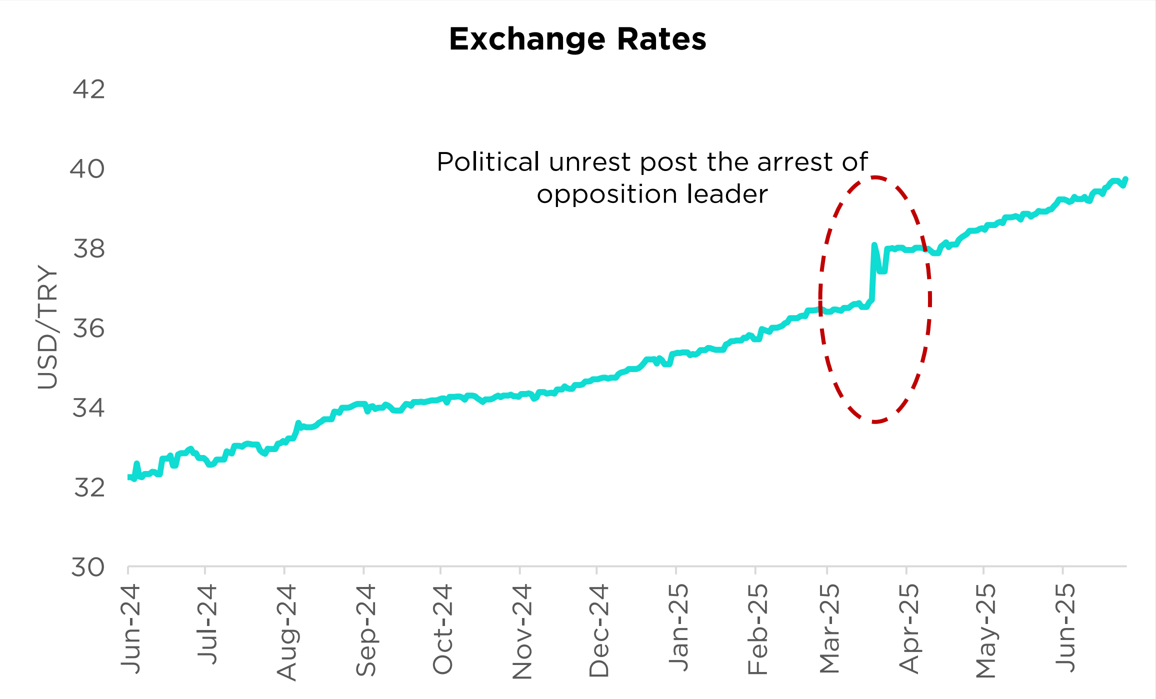




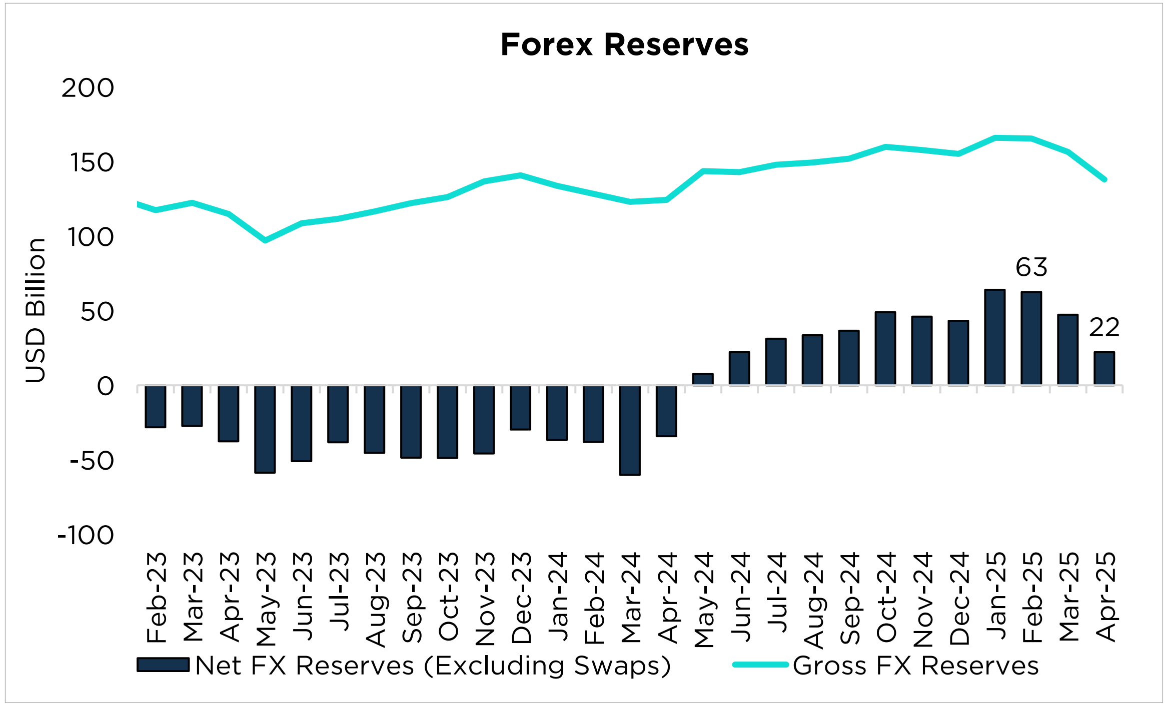
Source: CEIC

- Housing prices in Portugal increased by 109% between 2010 and 2024 while wages have not grown in the same proportion leading to rising unaffordability.
- Portugal recorded a current account surplus of 2.2% of GDP in 2024, highest in three decades.
- FDI inflows have also been robust improving the international investment position, now at -58% of GDP from -120% of GDP in 2014.

Turkiye: Currency Depreciation and Reserve Depletion Amid Political Unrest



Source: BIS

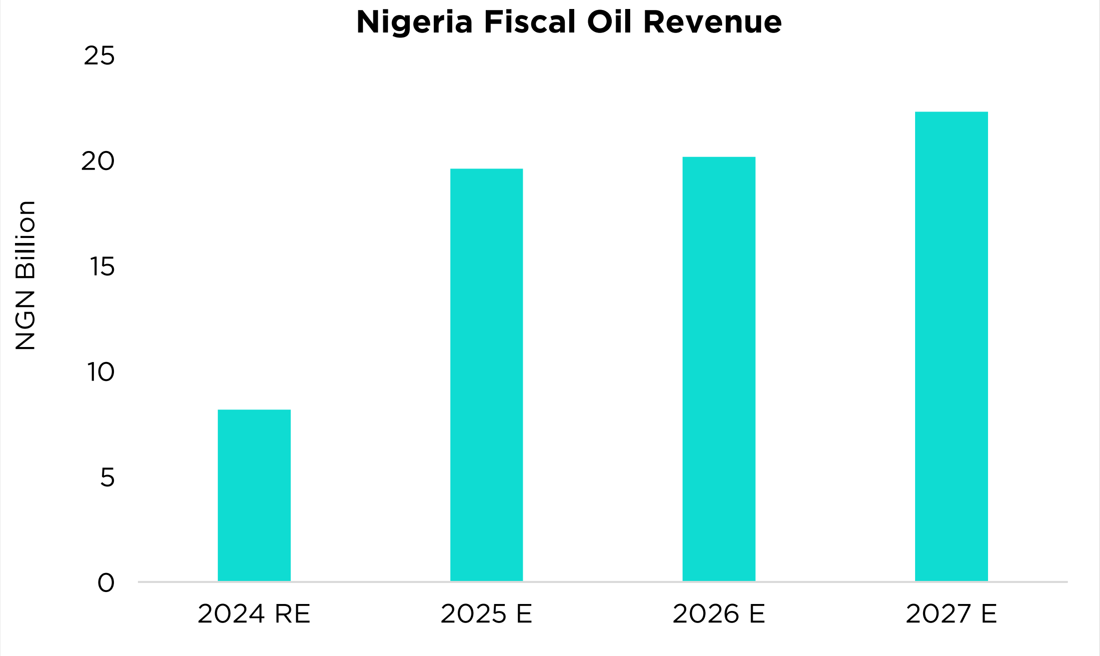


Source: CBRT

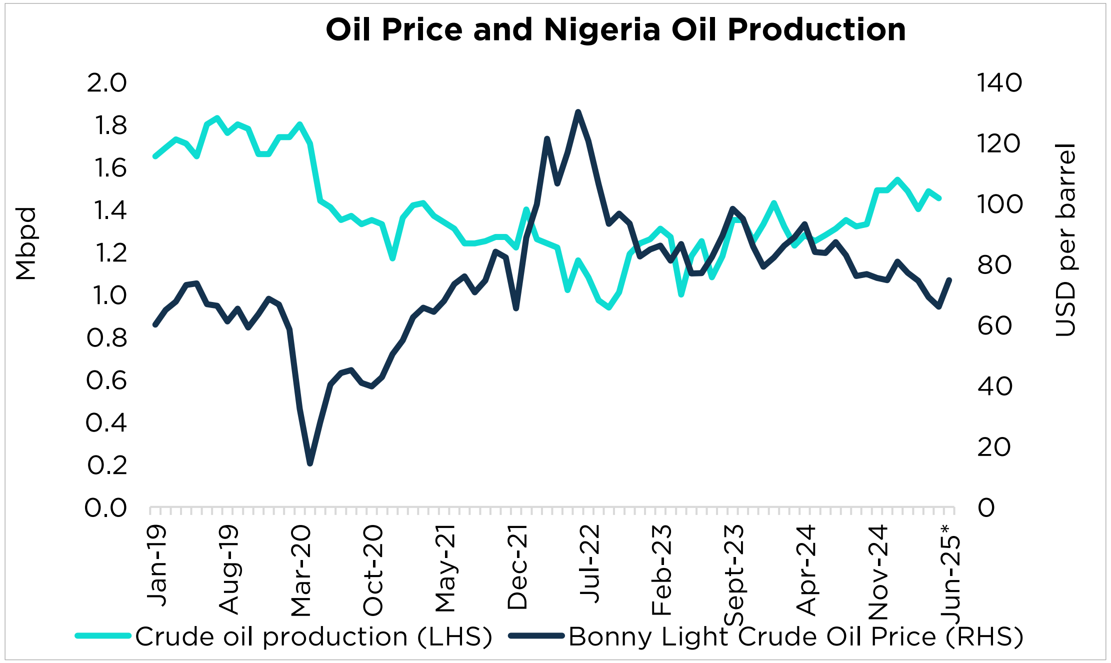
- The Turkish Lira has depreciated by 20% over the past year
- Following political turmoil triggered by the arrest of the opposition leader, the depreciation in lira accelerated further.
- In response, the central bank intervened in the currency markets, leading to a significant depletion of its foreign exchange reserves

Africa

Nigeria: Oil Prices and Production to Weigh on Fiscal Revenues



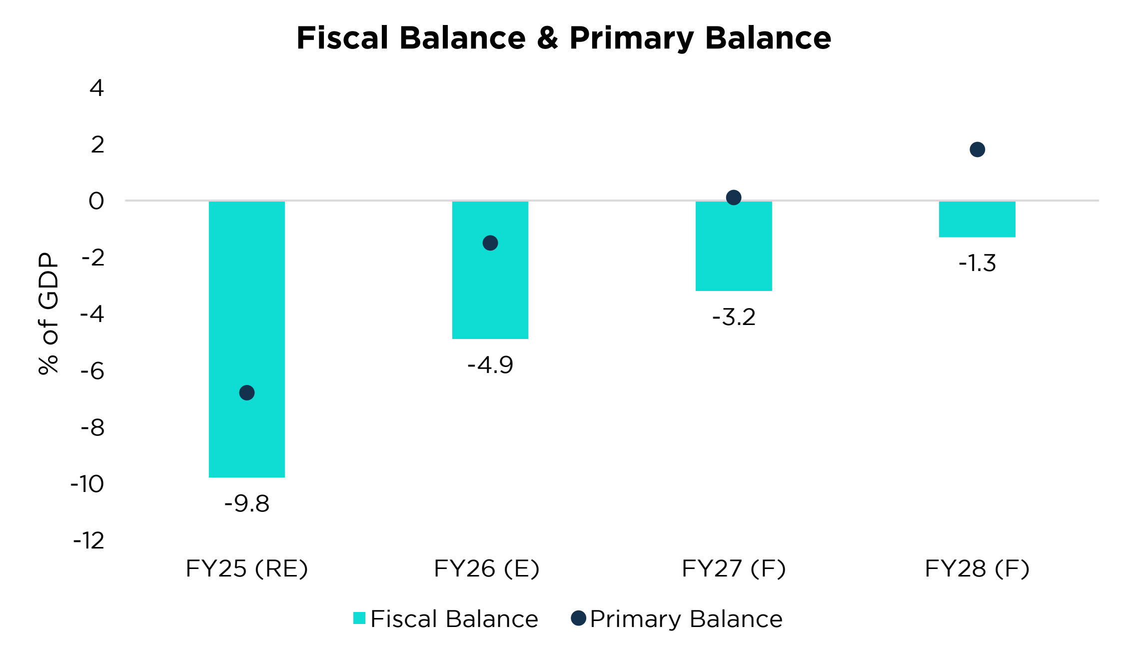
Source: Budget office of the Federation of Nigeria. Note: RE=Revised Estimates, E=Estimates. Nigeria's fiscal year and calendar year start from 1 January to 31 December.



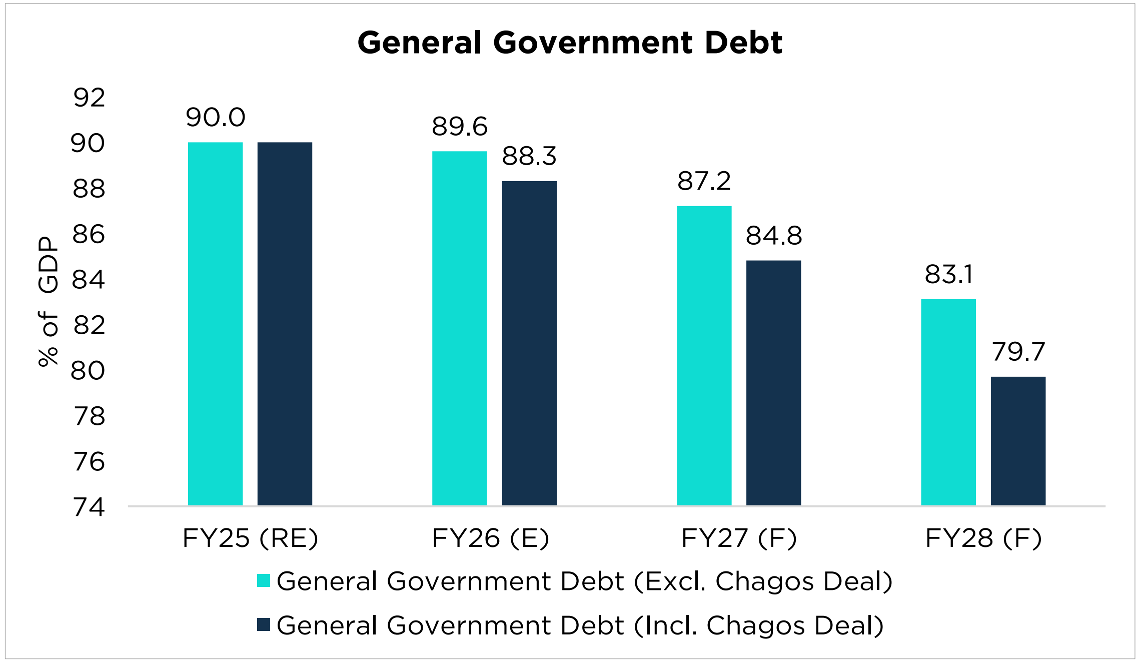
Source: CEIC, Central Bank of Nigeria. Note: Mbpd=Million barrels per day
Jun-25* oil price is the average of daily oil prices from 2 June to 23 June 2025.

- There are doubts over Nigeria meeting its optimistic revenue target of NGN 34.8 trillion in 2025, 35% larger than the revised revenue estimate in 2024.
- The government projected oil revenues to account for over half of government revenue.
- However, average monthly bonny light crude oil prices in 2025 are down by 1.8% relative to the USD 75 per barrel used as the benchmark bonny light crude oil price in the 2025 Budget.
- Meanwhile, average crude oil production for the first five months of the year lags the 2025 Budget target of 2.1 mbpd by 30%.

Mauritius: Government Unveils Bold Fiscal Consolidation and Debt Reduction Strategy



Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD)
Note: RE=Revised Estimates; E=Estimates; F=Forecasts



Source: Mauritius Ministry of Finance, Economic Planning and Development (MOFEPD)
Note: RE=Revised Estimates; E=Estimates; F=Forecasts

- Mauritius 2025-2026 Budget aims to reduce the budget deficit from -9.8% of GDP in FY25 to -1.3% by FY28 through streamlined spending and enhanced revenue measures.
- Revenue from the Chagos deal will be strategically used to lower public debt over the next three years , helping Mauritius reduce its debt-to-GDP ratio from 90% of GDP in FY25 to 79.7% in FY28, as per the Ministry of Finance.
- Additional measures include cutting inefficiencies, rationalizing expenditures, and increasing revenue through targeted taxation to support fiscal consolidation efforts.

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

*as on June 17, 2025

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