

Major Country Risk Developments

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USA

The expectation is that real U.S. GDP growth will be 1.7% for 2025, in part because the Artificial Intelligence (AI) investment boom helps to offset weaker fixed investment in other areas of the economy. As companies strain to see what lies ahead in 2026, one central question is how companies are using AI. The U.S. maintains the lead in developing frontier models, and its AI leaders dream of curing cancer and poverty, among other things.

While constrained by U.S. curbs on accessing the most advanced AI chips, Chinese AI developers have made strides. DeepSeek released its powerful R1 model in January, comparable with U.S. rivals despite being developed at a fraction of the cost and computing power. Chinese companies also receive subsidies to offset the

impact of trade barriers.

The White House has responded with a sense of urgency. President Trump set out an action plan in July to “win the AI race”, adding that going forward it will be U.S. policy to do whatever it takes to lead the world in artificial intelligence. And U.S. tech companies are plowing ahead.

China is focused on making better washing machines, even as it races ahead toward similar long-term goals as the U.S. A Chinese clothing designer reports slashing the time it takes to make a sample by more than 70% with AI. Washing machines in China’s hinterland are being churned out under the command of an AI “factory brain.” At one of China’s biggest ports, shipping containers whiz about on self-driving trucks with virtually no

workers in sight, while the port's scheduling is run by AI. Executives involved in China's efforts liken the future of factories to living organisms that can increasingly think and act for themselves, moving beyond pre-programmed tasks at traditionally automated factories. It could further enable the spread of "dark factories," with operations so automated that work happens around the clock with the lights dimmed.

According to the International Federation of Robotics, China is ahead when it comes to the use of robots and AI in factories. China installed 295,000 industrial robots last year, nearly nine times as many as the U.S. and more than the rest of the world combined. Of 131 factories and industrial sites recognized by the World Economic Forum globally for lifting productivity through cutting-edge technologies such as AI, 45 are in mainland China, while three are in the U.S.

The application of AI and robotics appear to be driving a clear return on investment, and while there is the risk that it will sideline human workers, the greater concern appears to be a shortage of human labor in key manufacturing sectors that could reach a 30 million shortfall this year.



This is of interest to the U.S. and European technology leaders, because it reframes the discussion of AI from a different perspective. The focus is on the immediate application of technology that is available now. It is not that

concerns about AI governance, labor-market impact, and public- and private-market valuations are frivolous or misplaced. Rather the rest of the world is not hitting "pause" to sort out such dilemmas. And the range of what is possible with AI and robotics is wider than what we typically see domestically. Furthermore, some of the highly skilled foreign technologists who moved to the U.S. are heading back home to great effect.

In China, a Jingzhou washing-machine factory works under an AI "factory brain" that manages 14 virtual agents that figure out the best ways to carry out tasks. *"You feed in all the data and let AI figure it out"* said the Company Director for Innovation, with a Ph.D. from the University of Maryland, who spent years working in Silicon Valley before returning to China to develop advanced robots.

The U.S. will need to do more with greater urgency and speed to match some of these strides. The consistent message from investors is that they will keep plowing money into private AI start-ups. Even in the event of a U.S. recession, some argue, it would merely be the non-AI start-ups that would suffer. Venture capital executives acknowledge that the AI mania will inevitably cause heavier-than-usual losses in their industry, where funds typically have one or two hits out of 10 investments. But they are hewing to the idea that the winners will be so enormous that the losers will not matter. That makes the pressure to do deals intense. The most scarce commodity in AI is not specialized microchips, it is talent. Many top researchers are realizing that they can command top dollar by leaving Big Tech to start their own companies.

Trendsetters like the former chief scientist and chief technology officer of OpenAI have founded Safe Superintelligence and Thinking Machines Lab, which were valued in the tens of billions within a year of their creation. "Thinkies", as they are known, are reportedly closing in on a new fundraising valuing it at \$50 billion, up from \$12 billion in July.

Amazon's founder, Jeff Bezos, is jumping on the band-

wagon. His new start-up, called Project Prometheus, has reportedly raised more than \$6 billion to develop manufacturing-focused AI from investors. Even without the allure of big names, there are many more new-wave frontier labs coming on stream. Last month Reflection AI, led by two former Google DeepMind researchers, announced a \$2 billion fundraising to build a new “open” model, aiming to counter China’s DeepSeek. Others are more narrowly focused on robotics or scientific research, or abandoning today’s large language models for a new approach, such as “world models” or “multimodal” systems. This reflects a growing sense that more value will accrue to underlying AI systems, not the app developers who build on top of them.



It is also a testament to appetite from venture capitalists who passed on OpenAI, Anthropic or xAI when they were valued in the tens of billions and can’t bring themselves to pay up now when these companies are valued in the hundreds of billions. These VCs still need to show their investors that they have a bet in the frontier AI model race. A veteran investor confidently predicts that at least one of the current crop of AI labs would hit a trillion-dollar valuation within the next two years, even before going public.

JPMorgan Chase has joined the effort to get the U.S. ready, announcing a \$1.5 trillion initiative to fund investment in U.S. next generation technology, strategic manufacturing, and talent training over the next 10 years.

The Security and Resiliency Initiative, a \$1.5 trillion, 10-year plan will facilitate, finance and invest in industries critical to national economic security and resiliency. As part of this new initiative, the bank will make direct equity and venture capital investments of up to \$10 billion to help select companies primarily in the United States enhance their growth, spur innovation, and accelerate strategic manufacturing.

Given the expected business opportunities and significance of this mission, JPMorgan Chase will hire more bankers, investment professionals, and other experts to address this critical initiative. Additionally, the firm will create an external advisory council of experienced leaders from the public and private sectors to help guide the long-term strategy.

The initiative will also include special research on private companies and supply chain management issues related to rare earths, AI and technology. It will also be complemented by the firm’s recently launched Center for Geopolitics, which provides clients with timely analyses and insights on top global trends. In addition, the firm’s effort is supported by its Asset & Wealth Management division, which researches and invests in many of these critical industries. This effort will be further informed by JPMorgan’s own technology investments, including quantum computing, cyber security and AI research and capabilities.

Policy is also essential, and the private sector is advocating for policies that will accelerate these efforts, including research and development, permitting, procurement and regulations conducive to growth. As the policy intensifies its focus on these essential industries, financial institutions and investors push plans, collaborating closely with community and business partners to champion key sectors, foster talent and support skills training to ensure companies can fill critical jobs in the U.S. over the next decade.

Clearly, Silicon Valley has cast its wager on AI as both a source of future economic gains and a matter of national

importance. Tech companies say they are racing against China to build artificial general intelligence — systems that surpass human abilities.

As hyper-scalers expand and deploy more advanced chips, the pressure on energy supply is intensifying. In October, OpenAI wrote an open letter to the U.S. government urging it to set an ambitious target of building 100GW a year of new electricity capacity.

In 2024, China added 429GW of new power capacity — more than one-third of the entire U.S. grid, and more than half of all global electricity growth. The U.S. contributed just 51GW, or 12%. After more than two decades of flat or anemic growth, U.S. power demand is now surging. Electricity usage is projected to rise by an average of 5.7% a year to 2030, based on forecasts from utility companies. Though some of this demand is due to reshoring activity and a broader shift to electrifying buildings and transport, more than half of the expected increase stems from the rapid build-out of AI data centers, according to consultancy Grid Strategies.

Even if these projections prove overstated, conservative estimates still far exceed recent trends, requiring substantial investment in grid capacity to accommodate new loads.

But boosting the U.S. power grid is an enormous and time-consuming task due to a complex web of regulatory, financial and supply chain challenges. Interconnection queues - backlogs of projects waiting to plug into the network - have become a major chokepoint, slowing the rollout of new power capacity and leaving data centers facing lengthy delays. PJM, the largest grid operator in the U.S. and home to “data center alley” in Virginia, is under particular strain. The average time from filing an interconnection request to achieving commercial operation now exceeds eight years, according to energy think-tank RMI.

Nationally, the problem is compounded by developers approaching multiple utilities in search of the lowest

price. This leads to so-called phantom data centers — duplicate proposals that further bloat queues and make it harder for utilities to prepare for future demand.

The global event worrying U.S. farmers is that China has stopped buying American soybeans. Last year Chinese buyers bought \$13 billion-worth, representing around half of exports, or almost a quarter of the entire crop. By mid-September last year Chinese buyers ordered 6.5 million tons of American soybeans. By that date this year, with the buying season just getting started, and a 20% retaliatory tariff imposed by China, they have not made a single order.



Looking at the modern American farm industry: The combine harvesters, which are worth several hundred thousand dollars, are so efficient that farmers can bring in an entire harvest on their own. A fleet of autonomous drones spray pesticides. Both corn and soybeans have undergone decades of research and genetic engineering to improve yield and quality. Once the harvest comes in, trucks carry crops to the Mississippi, and from there barges carry it down the river to Louisiana, to be loaded onto cargo ships.

Yet this efficiency also makes farms vulnerable. U.S. farmers are not diversified and the Trump tariffs have delivered quite a shock. China's retaliatory tariffs are just the start of the problem. While commodity prices are falling, input costs are rising, in part thanks to import tariffs. In more labor-intensive sectors, such as dairy,

fresh produce and cattle farming, ICE raids are disrupting the supply of workers.

Conditions are not yet as bad as they were during the 1980s farm crisis. Bankruptcies have risen sharply this year but remain below pre-pandemic levels. Land prices are high, so farmers can get loans. But things could get worse quickly. When farmers approach lenders for financing the next crop year, the real stress will show.

The bigger risk even than bankruptcy, is that the U.S. loses its competitive advantage. In the past few years, the land used for soybeans and corn cultivation in Brazil has expanded by 40%. Chinese investment in new railways and ports means it is cheaper to get to market. And in Brazil's climate farmers can grow two crops a year. A trade war would only cause this competition to grow. U.S. farmers hope that new markets can be found, and domestic uses for soybeans, such as making biofuels, will provide new demand. But, that is all speculative.

The U.S. administration announced a \$12 billion bailout for American farmers. What farmers want, however, is a deal with China, not a handout. One thing that has particularly outraged them is that the U.S. has supported the government of Argentina with a \$20 billion swap line. In gratitude, Argentina removed the country's export tax on soybeans, and China immediately bought 20 ship-loads from Argentina.

China

China's trade surplus in goods has surpassed \$1 trillion in 2025 for the first time, as exports boomed despite the U.S. tariff war. In the first 11 months of this year, China's trade surplus in dollar terms was \$1.076 trillion, according to data released by China's customs administration, which covers goods but not services. China's trade surplus in goods for the full year in 2024 was just shy of \$1 trillion.

The record surplus comes in the wake of a de-escalation

in trade tensions between Washington and Beijing, which agreed on a yearlong truce in October. China's large gap between its exports and imports has drawn criticism from its trading partners, with French President Emmanuel Macron pointing to "unbearable" imbalances on a recent visit to China.

The new data shows that Chinese exports rose 5.9% in November compared to a year earlier, after they fell unexpectedly in October. Imports rose 1.9% in November, leading to a surplus of \$112 billion for the month. China's exports to the U.S. have cratered in recent months and fell 29% in November year-on-year. However, shipments to other regions, especially south-east Asia, have grown rapidly. Economists believe some of these shipments to south-east Asia, which added 8% last month, are later trans-shipped to the U.S. Some believe that the U.S. hasn't clamped down on trans-shipments of goods via third-party countries, as was expected. An economist for Asia at UBP said the U.S. demand had been stable. With no decline in U.S. demand, the region continues to see a surge in exports, and China is benefiting indirectly from that.



Beijing has relied heavily on exports to drive economic activity amid weak domestic demand and a property slowdown now entering its fifth year. At a meeting of the Communist party's politburo on economic policy, President Xi Jinping referred to the need for greater con-

sumption, saying “it is essential to adhere to domestic demand as the main driver, building a strong domestic market”. But he also reiterated calls to build “new growth drivers” — industries powering China’s exports such as electric vehicles and robots.

Chinese exports to the European Union also rose sharply in November, up 14.8% year-on-year compared with 0.9% in October. That was the big surprise in the November data. The depreciation of the renminbi, in line with the dollar and against the euro, had also boosted the competitiveness of Chinese exports and added to its trade surplus with the bloc.

The prediction is that Chinese export strength will persist into 2026 but will face growing resistance from trade partners. France’s President Macron said that the EU might be potentially raising tariffs on China. Also, with a slightly slower growth outlook globally, that will feed into the export demand side as well.

China is poised to increase its share of global exports to 16.5% by 2030, from 15% currently, according to a Morgan Stanley report, which added that it doubted increasing protectionist measures from trading partners could halt this advance. Given China’s dominant position in high-growth emerging sectors like EVs, batteries, and robotics, the consensus is that China will continue to strengthen its position in global manufacturing and trade next year. The role of trade rerouting in offsetting the drag from U.S. tariffs still appears to be increasing and the expectation is that China’s trade surplus will widen further in 2026.

Foreign car manufacturers doing business in China have been flattened by local rivals such as BYD that have fast become world leaders in electric vehicles. As the Chinese market has gone electric, foreign carmakers’ share of it plummeted from 62% in 2020 to 35% last year. Germany’s VW has lost its position as the top carmaker in China. In 2024 it sold 2.9 million cars in China, down from 3.9 million in 2020. Only 200,000 were EVs.



No foreign carmaker is doing more to compete with Chinese automakers than VW. It is planning to release 30 new mass market EV models in China over the next five years, with the first due in 2026. They will come equipped with advanced self-driving capabilities and sleek interiors including features that Chinese buyers value the most. They will be significantly cheaper than earlier models. VW intends to sell these cars also in other Asian markets such as Thailand, where Chinese companies are currently flooding with cheap EVs.

Other foreign brands such as Ford and GM are scaling back in China. But others are adopting local technology in an effort to fight back, by shifting more of their operations to the country and working with local firms. Toyota of Japan has expanded research and development in China and collaborates with companies including BYD and CATL on batteries and Pony.ai on autonomous driving. Honda of Japan is working with DeepSeek, the Chinese AI star, and Tencent, an internet conglomerate. Germany’s BMW has built a team of 3,000 local engineers and software developers and has started collaborating with Chinese firms such as Alibaba and Huawei.

Partnering with local firms are the other important feature of the foreign carmakers’ China offensive. These include working with Chinese robotics companies, etc.

Nevertheless, Chinese carmakers have gained an edge over foreign competitors with tight-knit supply chains that make them faster and cheaper. Another risk is that the vicious price war in China's EV market makes even new models unprofitable. Against this background, it remains uncertain how the auto marketplace in mainland China will look in two years. The bold foreign footprint may be a refreshing addition to consumer choices; or they could prove to be too much for the market to handle.

Canada

Canada's economy has held up better than expected despite a significant external trade shock. U.S. tariff increases—and Canada's limited and now withdrawn retaliatory measures—have disrupted tightly integrated North American supply chains, raised input costs, and hit trade-exposed sectors hardest. The impact has been mitigated by continued Canada-U.S.-Mexico Agreement exemptions and firms' early adjustments, but output, employment, and investment have weakened.

Economic activity has softened as the tariff shock moves through integrated supply chains. A brief front-loading

of exports gave way to a sharp mid-2025 adjustment once renewed U.S. tariff hikes took effect. Exports fell back, business investment slowed, and manufacturing, transportation, and other supply-chain-linked sectors contracted this year. Consumption has held up, supported by accumulated savings, but weaker hiring and slower immigration continue to weigh on momentum.

Inflation has been contained, creating space for monetary easing. Weaker demand, firms' cost absorption, and limited exchange-rate pass-through have kept price pressures at bay. Headline inflation is 2% and core measures are softening. With expectations well anchored and the economy operating below potential, the decision to lower the policy rate to 2 1/4 % is well judged.

External and fiscal positions have adjusted to the trade shock. The external current account deficit widened as exports to the U.S. declined and reorientation toward Europe and Asia only partly offset losses. Fiscal policy provided measured support through 2025—including middle-income tax relief, repeal of the consumer carbon tax, and liquidity, investment, and procurement support for businesses—while preserving space to respond to evolving conditions.



Risks are currently more balanced than earlier in the year but still tilt to the downside. A renewed escalation of tariffs or tighter global financial conditions are the dominant risks, with potential to weaken investment, hiring, and confidence. A sharper slowdown in China could depress commodity prices and exports.

Domestically, elevated household debt leaves consumption vulnerable to labor-market shocks. Upside risks include a more constructive U.S. trade backdrop, faster internal market integration, and stronger execution of supply-side reforms and priority infrastructure investment, all of which could lift demand and improve long-term potential growth. Canada's strong fundamentals, including a positive net international investment position (NIIP) and reliable access to external financing, continue to provide important buffers.

Monetary policy remains focused on keeping inflation low and stable as the central bank navigates heightened trade uncertainty and a more supportive fiscal stance. With inflation contained and the economy operating below potential, the current stance is appropriate. Further easing could be considered if underlying pressures continue to fade and slack widens, while taking account of how fiscal measures shape both demand and supply.



A clear debt-to-GDP anchor remains central to Canada's fiscal framework. Budget 2025 rightly pivots toward higher public investment while maintaining discipline

through the new deficit and operating-balance anchors, enabling decisive action in a volatile global environment. Elevating the debt ratio from an indicator to a formal anchor—and positioning the deficit and operating-balance paths as complementary instruments—reinforce accountability and help ensure investment plans remain sustainable and credible.

The government's new capital-budgeting framework is a significant advance that signals the authorities' intent to emphasize spending that supports long-term growth. The framework is designed to improve transparency, ensure comparability over time, and maintain a clear link between borrowing and the debt path. Expenditure control will be critical to sustaining the pivot toward higher investment. A commitment to comprehensive expenditure reviews is an important step. Clear targets, transparent reporting, and timely delivery—starting with the upcoming Main Estimates—will help strengthen discipline and accountability as this exercise ramps up.

Housing affordability pressures remain severe in several major cities despite tentative cooling. Softer labor markets and slower population growth have tempered demand, but structural supply gaps, not cyclical conditions, continue to underpin affordability challenges. The government's renewed focus on boosting supply, alongside actions to better calibrate immigration to more sustainable inflows, should help reduce pressures over time.

Canada's financial system remains resilient, with targeted enhancements to strengthen oversight and preparedness, recommended by the International Monetary Fund (IMF). A 2025 financial sector review found banks and major Non-Bank Financial Institutions (NBFI) resilient to severe liquidity and solvency shocks, with crisis-management and supervisory-coordination frameworks assessed as broadly robust. Authorities have taken steps to intensify and thereby, strengthen, bank supervision—particularly on governance, non-financial risks, and financial-integrity compliance—expanding the monitoring of cross-border exposures and market-based finance.

According to the IMF, further efforts are needed to strengthen information-sharing arrangements, supervisory autonomy, and prudential oversight. More frequent risk-based onsite inspections, especially for banks and financial-integrity risks, to better align practices with international standards. Timely enforcement backed by clearer sanctioning powers would strengthen credibility.

Risks outside the core banking system merit closer attention as interconnectedness deepens. NBFIs continue to grow in size and cross-border linkages. Liquidity mismatches, leverage, and large U.S. hedge-fund positions in Canadian fixed-income and repo markets could amplify stress transmission during bouts of volatility.

Policymakers remain alert. Borrower-based tools continue to help contain leverage and curb excessive risk-taking, especially given elevated household debt and pockets of stretched valuations.

Internal market integration—one of Canada's crucial reforms—now requires decisive action across provinces and territories along with sustained implementation. The federal government has taken steps to reduce impediments and support a more seamless national economy. Most remaining barriers lie within provincial jurisdiction: differing standards, licensing rules, procurement preferences, and labor mobility restrictions raise costs and hinder efficient reallocation across provinces. Removing these frictions—prioritizing mutual recognition of credentials, Canadian Free Trade Agreement-aligned procurement, and harmonized inspection and safety certifications—could lift real GDP by up to 7% over time, with especially large gains in services.

Canada's trade strategy remains anchored in openness and predictability, balancing diversification with deeper North American integration. Diversification toward Europe and the Indo-Pacific can strengthen resilience and reduce over-reliance on the U.S. market. Reorientation will take time given already tightly integrated continental supply chains and infrastructure readiness.

The upcoming 2026 US-Mexico-Canada Agreement [USMCA] review will be pivotal: updating rules on critical minerals, digital trade, and technological transfers would bolster regional competitiveness, while stable and predictable disciplines support investment and scale. A strategy that broadens market access while deepening continental integration—through investment in trade-enabling infrastructure and transparent, rules-based engagement—offers the most durable path to higher productivity, resilience, and economic security.

Canadian authorities, provincial governments, the private sector, and others appear to be in close collaboration, and candid discussions on policy guidance. The authorities remain committed to policy transparency and in dialogue with the IMF and markets. This has once again contributed to constructive exchange on Canada's economic challenges and policy priorities. The year 2026 will be a challenging one for Canadian trade: tariffs, raw material & input costs, and commodity prices will impact short-term growth, employment and demand. That will determine economic sustainability over the next few years.

India

India's real GDP is forecast to grow by 6.2% in 2025/26 slowing slightly from 6.5% in 2024-25. This reflects elevated geopolitical risks related to U.S. import tariffs and subdued urban consumption. Lower interest rates, strong public investment and resilient rural consumption will support growth. Front-loading of monetary easing by the central bank in 2025 will put a floor under the growth slowdown, and more monetary easing is expected in 2026 if a trade agreement with the U.S. is not reached.

The progressive inclusion of Indian bonds in global indices, which started in 2024, will boost foreign capital inflows in 2025/26. Equity markets are expected to remain attractive, despite higher capital gains taxes and overvaluation.



Russian President Vladimir Putin visited India in early December- his first visit to India since launching the war on Ukraine in 2022. India and Russia share a deep and long relationship. Throughout India's years of "non-alignment" with the great powers during the cold war and its recently rebranded "multi-alignment" strategy, both countries have remained trade partners. India views Russia as a steady ally that has come to its aid in times of need.

Well over half of Indians had a favorable view of Russia in 2023, compared with a 24-country median of 15%, according to a poll by the Pew Research Center. RT, a Kremlin-funded propaganda outlet, advertises itself in India as a "A new voice from an old friend".

During the past two decades, India had appeared to be drifting from the Russian orbit, slowly overcoming its historic distrust of the West. It has been growing closer to the U.S. under leaders from both of the main political parties in both countries. Relations grew stronger under the first Trump term, as both leaders (Modi and Trump) seem to have established a strong personal rapport. Both leaders visited each other's countries and addressed huge rallies. Yet the second Trump administration has slapped India with tariffs of 50%-in part for buying Russian oil- and at one point India's economy (which grew 8.2% in

the most recent quarter), termed "dead", by President Trump.

Recently, Modi appears to be avoiding summits where he might bump into the U.S. president. By contrast, Prime Minister Modi seems to be publicly cozying up to the Russian and Chinese leaders this year, most notably at the summit near Beijing in August. The recent visit by the Russian leader to India included pictures of both leaders embracing, which was interpreted as intended to reinforce the message to the U.S. that India has other economic and defense partners. Moreover, India has reasons to not have Russia fall entirely under China's influence.

Indian talks with Russia focused on deepening trade and defense ties. Russia's S-400 air-defense system was a game-changer in India's war with Pakistan in May. India is keen to acquire more. New platforms are also on offer. One is Russia's Su-57 stealth fighter jet, which Indians already turned down once, partly for not being stealthy enough. An updated offer comes with a full transfer of technology.

Though Russia is India's biggest arms supplier, accounting for over a third of its defense imports, that share is down from nearly three-quarters a decade ago. India increasingly looks to the U.S., France and Israel for modern weapons platforms, while it tries to build up its indigenous capabilities. Russia is developing a reputation for shoddy quality and supply disruptions. Not helped by the ongoing war in Ukraine. India is still waiting for two of the five S-400 systems it ordered in 2018.

Another important topic of discussion was trade. India has spent the past three years buying cut-price Russian oil, reducing its import bill while helping Russia fund its war. The share of oil coming from Russia jumped from 2% before 2022 to 36% last year, saving India \$13 billion, on its energy bill in the first two years of the Ukraine war. That arrangement now appears to be coming to an end as a result of U.S. pressure -including sanctions on Russian

oil firms that went into effect November 1. Further European sanctions on Russian oil take effect next month. Even with India's refiners – both public and private – dumping Russian crude, Indian officials are speculating about when to reopen the taps. Many believe a work-around will be found.



India may end up signing a new trade deal with the U.S. in the New Year. Both sides must see the need for it.

Prime Minister Modi's visit to China this year was less a reaction to U.S. tariffs and more of an effort to repair damaged ties with Beijing after a year of relative stability along India's disputed border with China. Modi appears to be managing differences and avoiding crises with China while seeking to stabilize ties with the U.S.

India's purchase of German submarines in August reflects its strategy of diversification in arms procurement. It has been gradually reducing its reliance on Russian defense hardware every year for the past 15 years. Russia offers India little in terms of investment capital or cutting-edge technology, two areas that are critical to the country's long-term development ambitions. Leaders in New Delhi appreciate the long history behind ties with Moscow but recognize that there's not much room for growth in the relationship.

One place where Indian foreign policy could find benefits

is in Europe. Europe is a reliable partner with relatively strong technological capabilities, shared concerns about Chinese coercion, and a steady foreign policy. Europeans argue that by pursuing a renewed multi-alignment, India would be hedging against both the U.S. unpredictability and Chinese aggression while maintaining the strategic autonomy that has long been central to its foreign policy doctrine.

India's financial services sector has recovered well in recent years from a domestic bad-loans crisis and the global turmoil caused by Covid-19. Indian banks recorded five consecutive years of record profits in 2020-24, and these profits are likely to rise further as India looks set to be the fastest -growing major emerging economy in 2025-29. Robust credit growth, increased digital adoption, and supportive government initiatives will be instrumental in the future growth of financial firms. A tightening monetary policy has improved interest margins for lenders.

Private banks are growing much faster than their public-sector counterparts. The 2023 mega-merger between a mortgage lender HDFC, and its subsidiary HDFC Bank made the entity India's most valuable firm, with a market capitalization of about \$185 billion. The non-bank financial institutions are showing improved balance sheets and performance which provides good support to financing durable goods and broad credit growth across the economy.

Mexico

Mexico's financial sector is facing a challenging economic environment of low growth and high (albeit easing) inflation. Although the central bank (Banxico) has embarked on a loosening cycle, high interest rates will continue to support banks' margins. However, elevated interest rates will dampen credit demand and weigh on economic activity more broadly, putting stress on asset quality and causing distress among borrowers. In the absence of structural reforms, the expectation is that Mex-

ico's economy and financial sector will underperform in the years ahead.

The central bank has lifted interest rates more sharply than the U.S. Federal Reserve over the past three years. However, Mexican lenders generally take a cautious approach to managing balance sheets and have a long track record of riding out crises, helping them to deal with policy tightening.

The president Claudia Sheinbaum of the left-wing Morena party, has just completed the first year of her six-year term. She remains in a strong political position, underpinned by high approval ratings and her party's super-majorities in Congress. Mrs. Sheinbaum's future standing will remain vulnerable to shifts in Mexico's relationship with the U.S. which have become tense and unpredictable. To her credit Mrs. Sheinbaum has remained engaged, diplomatic, firm, and yet pragmatic in trade talks with the U.S. Her willingness to move against organized crime and drug cartels in cooperation with the U.S. has been successful. The consensus is that Mrs. Sheinbaum is more pragmatic and less populist than her predecessor Andres Manual Lopez Obrador (2018-24), but opposition from Morena hardliners may dilute the more orthodox elements of her agenda.

Statist policies, regulatory unpredictability concerns

about contract rights and protectionism in major sectors (such as energy) will remain obstacles to growth. Upon taking office in October 2024 President Sheinbaum signed a bill integrating state-owned oil company Pemex and state-owned electricity company CFE into the federal government. Although the two firms are no longer classified as independent entities, the legislation stops short of re-establishing monopolistic control over the hydrocarbons and electricity markets.

Real GDP expanded by 1.5% in 2024 reflecting a moderation in the U.S. growth (Mexico's main trading partner) and is expected to remain below 2% in 2025-29, as elevated interest rates will subdue public investment, and high poverty levels will offset investment inflows. The domestic economy will suffer from a lack of competitiveness that structural reforms in areas such as banking and telecoms have failed to address in full. Mexico also faces significant risks from tariff threats by the U.S.

The U.S. trade protectionism around U.S.-Mexico relations will weigh heavily on the economy, which is forecast to grow by a mere 0.1% in 2025. Steadier trade relations on the back of an expected update to the USMCA should help accelerate growth to 1.6% in 2026. However, fiscal constraints and controversial domestic reforms will continue to weigh on the business environment.



Difficulties that small and medium-sized enterprises (SMEs) face in accessing credit, combined with high levels of labor informality, have fostered the development of a thriving fintech ecosystem that is now one of the largest globally. Challenger banks are increasingly providing credit and facilitating payments to the low-income and unbanked population.

Still, the Mexican economy is the second largest in Latin America and among the most open in the world, with 14 free-trade agreements (FTA) covering more than 50 countries. Mexico is highly integrated with the U.S., which has exposed it to the current shifts in U.S. policy and economic conditions.

Uncertainty around the renewal of the USMCA, which is scheduled for completion by July 1, 2026, presents downside risks to the economic forecasts. Protracted negotiations or a U.S. exit from the agreement would prompt substantial downgrades to Mexico's growth expectations for the foreseeable future.

Mexico is Latin America's biggest vehicle manufacturer and a regional production hub for the auto industry, which generates 4% of the country's GDP. Vehicle exports have recovered after a sharp decline in 2020, growing over four consecutive years on the back of recovering U.S. demand and easing supply-chain disruptions. Exports account for 80-90% of Mexico's vehicle production. However, Mexico produces about 15% of the vehicles that are sold in the U.S. and in March 2025 the U.S. introduced 25% trade tariffs on all light vehicle imports. The tariffs were then reduced in April 2025, by exempting the U.S. made components of an imported car from tariffs. To qualify, a vehicle must have at least 40% components that are U.S. made in accordance with the USMCA trade agreement. In such instances the importer will end up paying 15% tariffs.

The introduction of U.S. trade tariffs and tighter U.S. immigration policy will also weigh on inward investments in Mexico and dampen economic growth. However,

there should be some support from further monetary policy easing as the Mexican central bank cut its policy rate from a high of 11.25% in early 2024 to 8% in 2025. The forecast is for economic growth to pick up in 2026-29, to an average of 1.65%, partly based on the assumption that the continuation of the USMCA will boost business and consumer sentiment. Interest-rate cuts and steady inflows of remittances from Mexicans overseas will provide further support.

Since taking office, Mrs. Sheinbaum's government claims to have reduced murders by 32%. That figure overstates the improvement, but independent analysis confirms that the underlying trend is real. Arrests are up, as are seizures of weapons and drugs. The amount of fentanyl seized at the U.S. border is way down. This is the first Mexican leader in years to curb the power of drug gangs.

However, this represents a good start on a major problem, the solving of which will run long beyond her term in office. The country will be pressed to spend more on security and criminal justice. The government currently spends less than 1% of GDP on both, and the plan for 2026 cuts the security ministry's budget by 18%. This is indefensible when cartels reportedly control more than 20% of the country.

Mexico has plenty of other problems: creaking energy infrastructure, weak economic growth and a large fiscal deficit. But without consistent improvement in security, and confidence that such improvements will continue, Mexico will find investors reluctant to bet on the country.

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Trade Credit & Political Risk



What is Trade Credit Insurance?

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