



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Major Country Risk Developments August 2026



By Byron Shoulton



Overview

The outlook for the global economy has deteriorated again since the June 17th U.S.-Iran memorandum of understanding collapsed. With the resumption of the U.S. blockade of Iran on July 14th and military clashes escalating, the baseline has shifted from one of negotiations advancing to a prolonged stalemate. This means that in practical terms, sporadic military clashes will continue for the rest of 2026. These clashes may fall short of a major escalation, but risk will remain high.

While the Strait of Hormuz is expected to remain partially open, the traffic passing through it will be very low compared to past standards. With mounting economic and political costs and continued back-channel diplo-

macy, the expectation is for some progress towards a negotiated settlement in the first half of 2027.

Control and long-term management of the Strait remain the sticking points for any bilateral negotiations that could draw the conflict to a close. The forecast for Brent crude oil now stands at an average of \$91 per barrel in 2026. This is lower than the May baseline of \$100 per barrel and far below Brent's peak of \$120 per barrel in April.

Meanwhile, Artificial Intelligence (AI) has become the defining technology of our era. Governments are investing heavily in AI capabilities, organizations are re-

[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

designing business models around AI-driven decision making, and investors view AI as the next great engine of economic growth.

The enthusiasm is justified. Research from leading consulting firms, academic institutions, and global organizations suggests that AI has the potential to unlock trillions of dollars in economic value, improve productivity across industries, accelerate scientific breakthroughs, and support solutions to some of humanity's most pressing challenges. Beneath this optimism lies an important question: What are the sustainability costs of AI?

AI is reshaping industries. In the healthcare sector, it is accelerating medical research and drug discovery. In agriculture, it is enabling precision farming and more efficient resource utilization. In manufacturing, it is helping reduce waste and improve productivity. Across sectors, AI has the potential to make systems smarter, faster, and more resource-efficient.

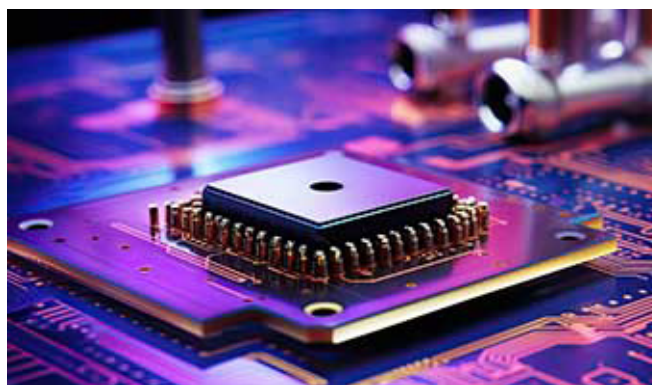
Every AI request travels through data centers containing thousands of servers equipped with advanced processors designed specifically for AI workloads. These facilities operate continuously, consuming electricity around the clock while requiring sophisticated cooling systems to prevent overheating.

As AI adoption accelerates, demand for computational power is rising at unprecedented rates. Recent research conducted by Deloitte suggests that electricity consumption associated with data centers will grow dramatically over the coming decades as AI becomes more deeply integrated into business and society.

The future of AI therefore presents a paradox. It may become one of the most important tools for sustainability while simultaneously becoming one of the fastest-growing consumers of resources. Understanding this duality is essential to any meaningful discussion about the future of AI. As society races to build models, more powerful computing infrastructure, and increasingly sophis-

ticated digital ecosystems, concerns are emerging about energy demand, greenhouse gas emissions, water consumption, resource extraction, and electronic waste. The same technology that could help solve environmental problems is also creating new environmental pressures.

Among the most visible concerns are energy and water consumption. Research highlighted by United Nations organizations indicates that global data-center electricity demand could reach levels comparable to the annual electricity consumption of entire nations over the coming decade.



The chips that power AI systems require a range of critical minerals and rare earth materials, including copper, lithium, cobalt, nickel, and rare earth elements. These materials must be mined, processed, transported, and manufactured into advanced electronic components. Mining activities can create environmental impacts such as habitat disruption, water pollution, land degradation, and carbon emissions. They could also raise social concerns related to labor conditions and community impacts.

As demand for AI infrastructure grows, demand for these materials is expected to rise as well. This creates a complex sustainability challenge in which digital innovation becomes increasingly dependent on physical resource extraction. AI represents one of humanity's most transformative technologies. It offers opportunities for economic growth, scientific advancement, sustainability



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

innovation, and productivity improvement. The benefits come with real-world environmental and social costs that are often invisible to end users.

After getting through the early months of the Iran war, global auto makers have started to run out of inventories of high-quality base oils for engine oil that the U.S. and Europe had largely sourced from the Middle East. They have since found alternative lubricant manufacturers, but industry executives warn that those supplies remain tight and vulnerable to any fresh shock. For car drivers globally, any further shortage will make their routine oil changes — a procedure critical to prevent engines from malfunctioning — more expensive and prone to delays. Prices of Group III base oils have almost trebled compared with prewar levels, at about \$4,000 per ton in Europe and the US. “Alternative suppliers also have limited volumes, and any renewed shipping disruption, refinery outage or other supply shock could rapidly worsen the situation,” said Holly Alfano, chief executive of the Independent Lubricant Manufacturers Association. “The industry continues to operate with little margin for error,” she added.



The supply chains for Group III base oils, a highly refined oil product that is used to make motor oil, were heavily disrupted in March after Iranian missiles struck Shell’s huge gas-to-liquids plant in Qatar, requiring significant repair work. Industry insiders say some of Shell’s

customers had made frantic calls to secure alternative supplies. Head of base oil pricing says some suppliers of Middle Eastern Group III oil in Europe and the U.S. had sold out and declared force majeure on those supplies. There appear to be fewer and fewer alternatives becoming available in the short run.

Even when the Strait of Hormuz opens, the industry anticipates that the U.S. and Europe would not receive a replenishment shipment until several months at the earliest. To avert a crisis, carmakers have rushed to secure alternative supplies of motor oil — a shift that industry officials said was challenging since manufacturers had to ensure the same level of quality and performance with alternative formulations of the base oils and seek approval for the new products.

USA

U.S. manufacturing activity increased to its highest level in over four years in July driven by strong order growth and increased factory employment. However, the Middle East conflict continues to strain supply chains and keep input costs elevated. Manufacturing, which accounts for 9.4% of the economy, has been supported by businesses front-loading orders to avoid higher prices and shortages stemming from the war with Iran.

The U.S. just paid its highest borrowing costs to sell 30-year bonds since 2001 as investors fret over the country’s mounting debt pile and inflation which remains high. A \$25 billion Treasury auction on August 13th of 30-year bonds drew yields as high as 5.22%, according to the U.S. Treasury Department. It marked the highest yield since the 5.52% paid in August 2001, after which 30-year auctions were suspended for five years. The latest auction compares with 5.06% at the previous 30-year sale in July, and 4.91% in January 2025. The rise in borrowing costs comes as the U.S. debt pile has swollen to almost \$40 trillion, pushing the debt-to-GDP ratio towards an all-time high.



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Meanwhile, the war with Iran has sent prices sharply higher, raising the bar for investors to scoop up bonds that will provide consistent interest rates for the next three decades. The national debt — and the cost of borrowing — have doubled over the past decade, fueled by vast spending during the coronavirus pandemic.

The U.S. government now spends more on servicing its debt than it does on national defense. U.S. public finances seem out of control, as nominal debt has risen at its fastest rate outside of the COVID era. This increase is occurring amid the implementation of sweeping tax-cut legislation. Debt held by the public outstripped GDP in the first quarter of 2026, according to government data analyzed by the Committee for a Responsible Federal Budget. According to the Congressional Budget Office, the national debt is on track to surpass its post-WWII peak of 106% by the end of the decade and hit 120% by 2036.

The Federal Reserve (the “Fed”) has struggled to convince investors of its ability to control a bout of high inflation as an energy price surge triggered by the war in Iran exacerbates the price pressures created by tariffs and booming spending on AI infrastructure.

Annual inflation jumped to a three-year high of 4.2% in May as fuel prices surged at the height of the Iran war. It has since receded, falling to 3.4% in July, but remains well above the Fed’s target. The central bank has opted to hold rates steady at its last two meetings. The 30-year Treasury yield on the secondary market jumped to a 19-year high following the last meeting of the central bank’s policy committee, which avoided providing clear guidance on official thinking. The U.S. producer-price index, which measures wholesale prices, was flat in July, after falling by 0.1% in June. Analysts were expecting a 0.2% gain. The reading follows a slight slowdown in CPI reported earlier and adds to expectations that the Fed can hold off on raising rates for now.

Meanwhile, the U.S. is increasingly becoming an AI-driv-

en economy. It is difficult to imagine that economic resilience could have been maintained over 2025-26 without the current AI-driven momentum. As the economy keeps investing in AI, tech companies are spending hundreds of billions of dollars to meet AI computing needs and issuing billions of dollars of debt to help make those purchases.

The rapid data-center build-out is powering construction spending, hiring, and municipal revenues. Meanwhile, the stock market rally fueled by the rise in shares of chip makers and other companies benefiting from the AI boom has led to an increase in household wealth. That is helping to bolster consumer spending. Combined, these factors account for approximately one-third of recent economic growth, according to Oxford Economics. Still, the strength that the economy draws from the AI boom is also a vulnerability: what would happen if the boom fizzled out? Mapping out exactly how much strength the economy is drawing from AI is not straightforward, and prone to error. Even so, it is substantial.

Details of July’s GDP report, which measures economic growth based on what a country produces, showed that business investment in AI-related categories continues to swell. Spending on software, data-center construction and computer and communications equipment (if it maintains the pace for 12 months), will be \$1.5 trillion. That compares with an annual rate of \$1 trillion two years earlier. The U.S. Commerce Department reported that June construction outlays on data centers reached \$68.3 billion, at an annual rate, up \$21.5 billion from a year earlier. Outlays on all other private construction including houses, shopping centers and hospitals—fell by \$101.6 billion over the same period. The Institute for Supply Management’s manufacturing report pointed to robust, AI-related demand.

Not all tech-related spending went toward AI—some of it was devoted to buying computers that sit on workers’ desks, for example. On the other hand, the AI build-out is also pouring money into other capital-spending cate-



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

gories, like cooling systems and backup generators.

A chunk of what is going into the AI build-out, such as memory chips, is imported, meaning some AI spending isn't directly boosting U.S. production, and therefore GDP. In the first five months of this year, for example, the U.S. imported about \$90 billion in computer equipment, semiconductors, and other electronic components from Taiwan. That compared with about \$20 billion in the first five months of 2024.

Meanwhile, inflation is eating away at the value of AI spending. Surging chip prices mean buyers simply are not getting as much bang for their buck as they did 12-18 months ago. Nonetheless, estimates indicate that AI investment alone has been behind nearly 25% of recent GDP growth.



The AI-boosted stock market is the other big source of support. In the first quarter of 2026, U.S. household net worth reached \$174 trillion, according to the Fed, an increase of \$13 trillion from a year earlier that was mostly due to stock gains. Since then, the broad S&P 1500 index has risen by about 15%, so net worth is likely trillions of dollars higher now. Those gains have been driven in large part by enthusiasm for AI.

With rising net worth, consumers appear to be spending freely. The spending from higher-income consumers, who hold most of the equity wealth, provides the

greatest support. Without the current investment boom, it is clear the economy would be running a lot cooler. AI is also feeding into inflation, cutting into consumers' spending power. For example, the iPhone 18 Pro being released in September might have been cheaper if not for the jump in the price of memory-chips.

For the immediate future the AI spending boom looks likely to continue. Estimates show that capital spending at five of the so-called hyperscalers—Alphabet, Amazon, Meta, Microsoft, and Oracle—will total \$4 trillion over the four years ending in 2029, according to FactSet. That is over \$300 billion more than what was estimated just a month ago. Estimates are that bond issuance by the five big hyperscalers and AI entrant SpaceX will come to \$285 billion in 2026, versus \$109 billion in 2025. AI data centers guzzle as much electricity as entire cities. They have ignited demand for all energy sources available. They are straining the existing power grid and making people fret about their utility bills. As data centers spring up across the U.S., many utilities have resorted to building new gas infrastructure to meet the explosion of power demand. But some experts caution that many of these data centers may never be built, leaving customers on the hook to pay for expensive new gas plants that may not be needed.

Meeting data center demand primarily with gas — a long-lived, high-cost asset — creates financial risks for utility customers. According to the GDP report, some utilities are making large investment decisions before determining, through system-wide planning, what combination of generation, storage and transmission would be the most cost-effective in meeting new demand. Some estimates suggest that over-investment in gas resources could raise the power bills of an average U.S. household by \$118 a year, worsening affordability for Americans who are already struggling with soaring electricity costs.

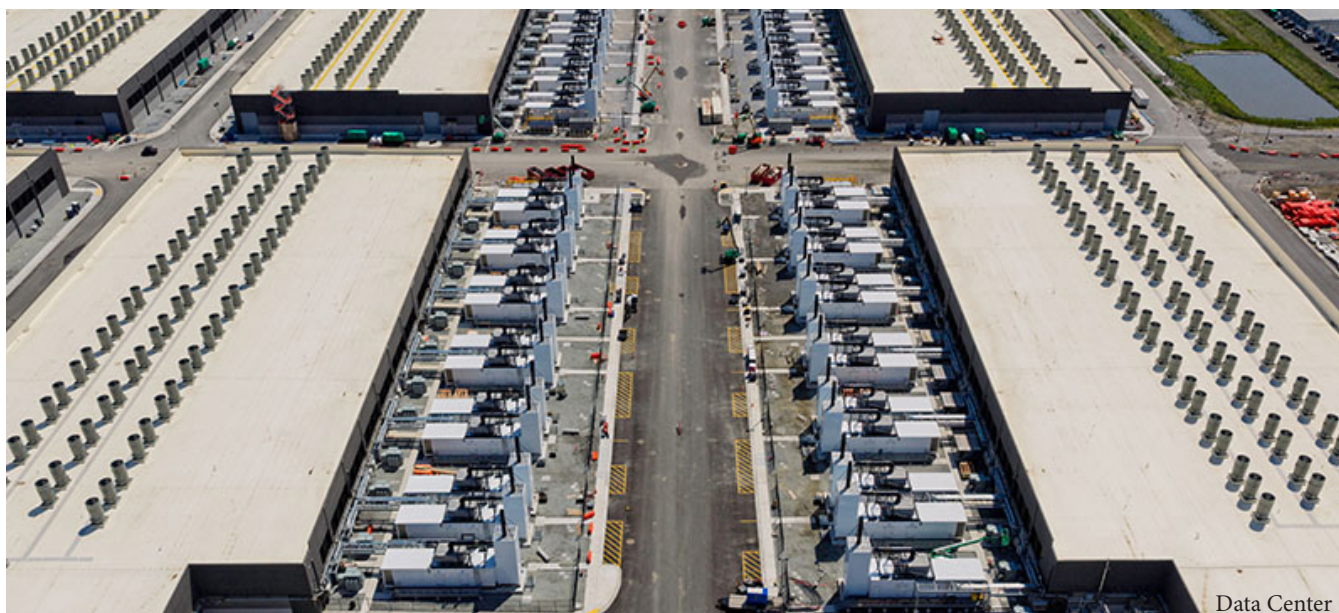
As data centers' requests come online at a rapid rate, utilities and some large load customers are proposing very large individual plants to serve that demand, and that is



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com



a bit different from doing a system-wide planning portfolio approach. The speed at which things are happening is clearly breaking the traditional planning process. The scale of this build-out has made the U.S. the international leader in gas-fired capacity development, surpassing China for the first time, according to Global Energy Monitor.

Entergy Louisiana plans to build 10 gas-fired plants to support Meta's data centers in the state. The utility Northern Indiana Public Service Company plans to build two gas plants to serve Amazon's planned data centers in Indiana. The sudden proliferation of data centers has already affected how utilities make investment decisions. Georgia Power traditionally files a full system-wide planning document every three years. Recently it has filed updates every year as it faced unprecedented power demand from data centers. In 2023, the Georgia utility received approval to build 1,300 megawatts of new gas infrastructure, one year after it filed its official planning document. By 2025, it received approval to build another 3,692MW of new gas capacity.

Still, gas plants can be risky assets because they are ex-

posed to rising construction costs, delays associated with turbine backlogs and exposure to volatile fuel prices, among other complications. Overinvesting in gas infrastructure, based on uncertain demand forecasts, creates a risk because fixed costs must be recovered from fewer customers than expected. Portfolio planning can reduce this risk because utilities are able to anticipate the mix of resources that would be the cheapest price for customers. A report shows that many utilities commit to building a new generation of output that is not aligned with system plans or typical planning cycles. Most of the planned procurement in those out-of-cycle cases are gas powered plants. Like it or not, AI is on course to extend the dominance of fossil fuels. That is the conclusion of a new paper that seeks to quantify how AI will change the energy system.

China

There has been no shortage of complaints about Chinese overcapacity in recent years. China's commitment to driving up exports and widening its trade surplus, by any means necessary, has undermined the manufactur-



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

ing aspirations of advanced economies such as the U.S., Europe, Japan, as well as developing countries in Africa, Asia and Latin America. There is now greater global consensus than ever before regarding the nature of this challenge.

The world's ability to absorb Chinese overcapacity is approaching breaking point. Over the past two decades, China amassed the largest trade surplus in recorded history. In 2025, it reached \$1.2 trillion, growing at three times the rate of global goods trade. This paradigm has been strategically beneficial for China and disinflationary for the rest of the world. But it is politically and structurally unsustainable for the global economy.

China's astounding growth and development over the last four decades has been made possible by a benign international environment in which other countries were eager to accept low-cost manufactured goods in exchange for efficient supply chains and benefiting consumers. That international environment has become toxic. The appetite for globalization and accepting the deindustrialization and critical dependencies that come with the flood of Chinese imports - is finite and shrinking.

As this trend continues, protectionism will inevitably rise further, cutting off Chinese manufacturers' market access and thereby short-circuiting China's strategy, introduced in 2020, called "dual circulation," which promotes both domestic economic self-sufficiency and continued engagement in international markets.

China now accounts for 30% of global industrial production, and by 2030, it is expected to reach 45%, according to the latest UN report. Except for the U.S. economy immediately after WWII, there is no historical precedent for such a concentration of industrial power. Measured as a share of global GDP, China's current manufactured goods surplus is greater than the combined surpluses of Germany and Japan at any point during the 1980s.

This manufacturing surplus reflects a concerted policy

choice. The Organisation for Economic Co-operation and Development ("OECD") has estimated that 60% of China's gains in global manufacturing market share have been driven by government subsidies between 2005 and 2024. Perhaps the most significant subsidy is Chinese manufacturing firms' access to the state-directed financial system. It channels vast credit to prioritized sectors, enabling Chinese firms to expand without the same concern for profit and return as their international peers. The result is a race in which firms cut prices below cost, accept razor-thin margins, and continue building to chase greater market share. Thirty percent of Chinese industrial firms operate at a loss, up from 20% before the COVID pandemic, according to the OECD.



In sectors with the fastest investment growth—those prioritized by President Xi's "Made in China 2025" initiative, which seeks to foster Chinese self-sufficiency in advanced industries - that number is as high as 34%. Rather than allowing failing firms to exit, local governments prop up unprofitable companies to preserve employment and tax revenue, and state-owned banks roll over the debt for insolvent borrowers. This system, in addition to a persistently undervalued renminbi that makes exports cheap, allows Chinese firms to charge up to 30% less than their peers based anywhere.

These price wars and overcapacity have negative im-

pacts abroad but also at home. The Chinese word for this phenomenon is *neijuan*, translated as “involution,” a term used to refer to excessive competition that pushes Chinese companies to the brink even for diminishing returns. Firms invest more to produce more to export more at lower or negative margins, subsidized by local governments whose own fiscal health depends on the factories’ staying open. The result is an industrial machine that cannot stop and cannot slow down—owing to the limits of demand, cannot stop going.

Nonetheless, China’s economy is resilient, and at least on paper, its leadership has signaled a recognition of the problem and an interest in taking steps to address it. The CCP has also taken modest steps to strengthen its social safety net, with the goal of reducing the incentive for households to save instead of spending.

China’s leadership appears unwilling to reorient the

country’s growth strategy toward a more sustainable model. Beijing has continued to suppress domestic consumption, with the goal of maximizing industrial output in strategic and low-value sectors alike. The result is an ‘absolute advantage’ economy: a country that competes simultaneously with the U.S. when it comes to artificial intelligence, electric vehicles, and electronics, and with the poorest nations in Africa when it comes to the manufacture of textiles, apparel, and household goods. This defies any historic precedent, or basic economic logic of comparative advantage that most countries follow. Even governments that pursue mercantilist development strategies, such as in South Korea and Taiwan, relinquished low-value-added manufacturing as domestic wages rose.

China appears reluctant to change course because both its export-led growth model and economic grand strategy are a political project. It reflects President Xi’s 2020





Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

speech, that although China must “accelerate construction of the digital economy,” the real economy is the foundation, and the various manufacturing industries cannot be abandoned.

Local officials’ promotions are tied to hitting growth targets, regardless of whether that growth is sustainable. To hit those targets and finance local spending, they sell land, plow the proceeds into subsidized factory plots and industrial parks, marshal credit from local bank branches and local government financing vehicles, and build yet more factories. Because provinces and municipalities are chronically in deficit and lack alternative means for generating revenue at-scale, this production-oriented cycle continues in perpetuity. This problem and its solutions—foremost, a more consumption-oriented economic model—are well known in China. That does not mean the issue is any easier to address.

Germany, long an advocate and beneficiary of trade with China, provides an insightful case study. In 2025, German goods exports to China fell to their lowest level in a decade—down 9.3% from 2024 and down 23% from their 2022 peak. Traffic in the opposite direction increased. In the second quarter of 2025, German imports from China rose by 10%, across 2,241 product categories, including chemicals and vehicles collectively, those categories made up more than 60% of all German imports from China.

The displacement is most severe in automobiles. German firms’ share of the Chinese auto market is shrinking as China’s share of global auto market grows. Between 2022 and 2025, German car exports to China fell 66%, and China’s total vehicle exports more than doubled, making China the world’s largest auto exporter. As a result, German autoworker layoffs are now higher than during the global financial crisis of 2008-09 or during the COVID pandemic. This is forcing German and European business associations to call for unprecedentedly stringent local-content requirement. The employers’ association, Gesamtmetall, reported that Germany’s metal

and electrical engineering industry, the country’s largest, was shedding nearly 10,000 jobs a month. Volkswagen is considering whether to cut as many as 100,000 jobs—one-sixth of its workforce—and to end production in four plants in Germany. BMW and Mercedes-Benz are pursuing sweeping restructurings.



This China-driven shock has forced the German Chancellery to contemplate what was once unthinkable: backing proposals for the European Union (“EU”) to consider a mechanism like the U.S. Section 301 tariff. This would allow the EU to impose tariffs targeting China’s export glut and incentivizing a revaluation of the Chinese renminbi.

The challenges that China faces are not limited to the U.S. and Europe. When in 2025, China demonstrated its willingness to weaponize its dominance in the processing of critical minerals and the production of related goods, such as magnets, it prompted a global reaction. The new Forum on Resource Geostrategic Engagement, convened by the U.S., is a coalition supported by dozens of countries, aimed at rapidly scaling up public and private investment in “China Free” critical minerals supply chains. It could be a harbinger of a more daunting prospect for China. Coalitions of the willing cooperating to close global markets to Chinese goods, and to force China to rebalance its economy. In several sensitive sectors, such as telecommunications, EVs, and drones, such



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

cliques have already formed, setting bans and restrictions on the use of equipment from Chinese telecommunications Huawei and ZTE.

Defense, automotive and semiconductor companies warn of Beijing's export controls on rare earth and other niche minerals and the potential for shortages that could force a halt to production. Even before China's introduction of export controls, experts warned that aging mines and soaring demand for the metals key to electrification and AI might mean supply shortages one day.

Now, western countries are keenly aware of the effects of losing a metals-processing industry they were happy to let move to China. Some see a market 'panic' provoking a new resource nationalism across regions. In response, several countries led by the U.S., are racing to develop self-sufficient supply chains by locking in access to metals and building up domestic minerals industries, framing the issue as one of "sovereignty" and national security.

Major importing economies are already increasing their deployment of tariffs, local content requirements, and national security exclusions. If this continues, whether as a coordinated effort or a thicket of unilateral measures, over time the effect on China could become a sustained shortfall in external demand. Over the first few months of 2026, China's trade surplus grew by more than 20% year-over-year. Meanwhile, the International Monetary Fund has projected that the global economy will grow only 3.1% this year. This trend is unsustainable: global demand is not rising fast enough to absorb Chinese exports at this pace. Eventually the market for new factories in China will run dry, as did the market for property.

Middle East

Energy producers in the Middle East are concluding that Iran's control over the Strait of Hormuz seems likely for some time. Meaning disruption of their oil and gas exports and global energy supplies could now be indefi-

nite. The alternative is returning to war on Iran with retaliatory attacks following across the region.

The war has unleashed a more antagonistic Iran and left the region's energy infrastructure at risk-without any clear strategy on how to counter the spillover effects. The International Energy Agency has warned that oil-market volatility tied to the war is complicating energy security and investment planning worldwide. No one is describing a contained Middle East problem; we are describing a drag on the global economy.



A prolonged closure of the Strait will add further strains to the global energy markets, inflation management and supply of some critical industrial materials. Repair and restart production plants will be time-consuming, and energy flows out of the Middle East could remain under prewar level deep into 2027. The impact will reverberate first through petroleum industries and energy-intensive industries such as chemicals and metallurgical production. Fertilizer production could decrease in 2026, as a

large portion of critical inputs including urea and sulfur are produced in and exported from the Middle East. This would constrain crop production and push up food prices in 2027. In the worst case, surging energy and maritime logistics costs could spread through the global supply chains and keep inflation higher for longer.

Firms should expect an extended period of elevated energy and potential trade disruptions in and out of the Gulf region. The most damaging factor would be if these events killed off the currently positive global capital expenditure cycle in AI-related infrastructure.

India

The forecast is that real GDP growth will slow to 6.5% in FY 2026/27, from 7.7% in 2025/26, owing to economic challenges stemming from the Middle East war. The slowdown reflects higher import costs squeezing household budgets and company profit margins, rather than an underlying fall in domestic demand.



The Middle East conflict has affected the Indian economy through three main channels: (1) energy prices and supplies, (2) worker remittances and (3) a large diaspora of businesses and personnel located in the Gulf states. India also imports fertilizers, petrochemicals and industrial minerals from Middle East producers, leaving agri-

cultural and industrial sectors exposed to supply shocks. India is most vulnerable to a disruption in liquefied petroleum gas (LPG, or cooking gas) imports, as the country imports 80% of its LPG needs.

Headline inflation climbed to 4.4% in June, the highest since December 2024, driven by food inflation and a renewed surge in transportation prices following the energy shock. With both pressures rooted in oil prices and monsoon dynamics rather than demand, tightening policy rates would raise growth cost without addressing inflation concerns.

The weak rupee adds to imported inflation, along with strong outflows from Indian financial markets. India's drive to tap the savings of its vast diaspora has drawn stronger than expected inflows, boosting the central bank's efforts to stabilize the ailing rupee.

The Reserve Bank of India reported robust FX inflows of \$40.8 billion from the diaspora since the campaign to lure foreign exchange from Indian overseas citizens was launched. The inflows come as the world's most populous nation, a major Gulf oil importer, grapples with a sharp rise in energy costs due to the war in Iran. The rupee has weakened 6% against the dollar so far in 2026, making it one of Asia's worst-performing currencies, while India is on track for its third consecutive year of balance of payments deficits.

Growth will remain overwhelmingly driven by domestic demand. The slowdown in activity will be driven by elevated prices and higher input costs, which will lead to subdued private consumption, softer industrial activity and a weakening in the momentum of private investment.

Manufacturing momentum will remain stressed as high commodity prices impinge on corporate margins. The disruption around the Strait of Hormuz, and its resulting impact on crucial Indian imports like natural gas, fertilizers and petroleum, will weigh on private investment plans and capacity addition.



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

If the energy-supply disruption dissipates over the next year, the dominant driver of inflation will shift from supply-side disruption to domestic demand-side pressures, underpinned by real private consumption growing strongly and nominal GDP expanding at an average of 10% per year over four years.

An ethanol-blended petrol policy has been implemented amid ongoing public debate. The policy is an economic measure aimed at strengthening India's long-term energy security and reducing dependence on imported fuel. The central government introduced ethanol blending after analysis of the economy and consumer needs. Countries like Brazil have already adopted ethanol on a large scale.

Medium-term growth will be supported by trade diversification and infrastructure buildout, but that will fall short of India's full potential. India's series of trade deals will steadily open new export markets, and ongoing infrastructure investment will help improve returns on private projects.

Urbanization and the expanding middle class should support steady demand for housing and consumer goods. However, limited high-quality job creation and slow progress on climate resilience will prevent the economy from fully realizing its growth capacity.

Since taking office in 2014, the ruling BJP has made notable strides in implementing structural reform. However, while the party had aimed to further liberalize land acquisition laws and streamline labor regulations nationwide, its reduced majority following the 2024 legislative election, forced it to abandon more contentious initiatives. Reforms such as reducing the role of state-owned enterprises in strategic sectors and leaving non-strategic sectors to the private sector have achieved only moderate success, as have efforts to seal bilateral trade agreements.

The Middle East conflict has opened a sharp divide within India's industrial economy: sectors underpinned by government capital expenditure are holding firm,

while energy-intensive and export-exposed industries face mounting strains. The divide will likely deepen over the coming months as energy and supply-chain shocks persist. Disruptions in the Strait of Hormuz continue to impair supplies of pharmaceutical intermediates and curtail gas-dependent fertilizer production, while elevated freight costs weigh on the textiles, leather and gems/jewelry sectors.



Despite India's large consumer base and favorable demographics, its limited integration into global trade blocs will continue to weigh on export competitiveness. The focus on bilateral trade agreements with various countries will remain a major policy goal after limited progress over previous decades.

European Union and Eurozone

The EU is increasing tariffs on steel to protect its ailing industry in a move that has raised tensions with trading partners including China.

As of July 1, Brussels is implementing a previously announced 50% tariff on half its steel imports, hitting countries with which it has free trade agreements. The EU has issued annual tariff-free quotas for 18.3 mil-

lion tons of steel, down from 39 million tons, granting higher-than -proportionate quotas for FTA partners in a move it claims is in line with WTO rules.

The EU conceded that the decision to slash quotas and double the tariff to 50% had caused tension with key EU trade partners during negotiations with Brussels over-compensation for the move.

The EU confirmation of its tariffs followed the United Kingdom (“UK”) finalizing details of its own scheme to cut tariff-free quotas by 51% and double tariffs to 50%, in effect matching the EU and aligning with similar moves by the U.S. and Canada. These countries have repeatedly warned of the impact of a global glut of steel, the majority of which comes from China. Global excess steel capacity is set to exceed 720 million tons by 2027, according to the OECD.

Lobby group, UK Steel, observed that the new quotas would harm UK producers as they would lose a “significant chunk” of the finished steel they exported to the EU under the previous tariff regime.

Separately, the EU seeks “tangible results” by October in reducing its soaring trade deficit with China. Both sides issued a rare joint statement launching EU-China Trade and Investment Consultations, a forum to try to tackle market access issues. Foreign chambers of commerce in China argue that their companies’ imports often face a web of nontariff barriers and point to a range of new Chinese laws making it difficult to conduct supply-chain due diligence in the country. They also argue that Chinese controls on rare earth exports, which were introduced last year as part of the trade war with the U.S., have unfairly hit other countries.

China says it is willing to expand imports from Europe to balance trade, but it added that first the “European side needs to relax export controls on high-tech products and not weaponize economic and trade issues.” It said Chinese companies were no longer as concerned about the

European market because they now had options such as Southeast Asia or the Middle East. Numerous analyses have concluded that many components or goods shipped from China to southeast Asia are ultimately re-exported to the U.S., Europe and other developed markets as finished products.

China cancelled two important diplomatic meetings with the EU recently as tensions between the two trading partners build over China’s aggressive trade practices in the EU. Beijing has mounted a campaign to deter the EU from adopting new measures designed to curb Chinese exports, which surged a further 16.4% between January and May compared with a year earlier.

The European Commission recently outlined an update to its cyber security act to exclude Chinese companies from its telecommunications networks and solar energy systems. Adding to China’s concerns, the EU has blocked public funding for imported inverters used to control solar panel installations and other energy technology, a product dominated by China.



Meanwhile a surge in European defense spending is helping sustain jobs in the U.S. as \$300 billion in European arms orders are now outstanding. The NATO Secretary General hailed a rush of European defense spending on U.S. arms, both to overhaul their long-neglected militaries and to support Ukraine.



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

U.S. officials have warned European capitals of severe delays to weapons shipments as the war against Iran dramatically reduces U.S. stockpiles and redirects production to Washington's Gulf allies.

There is also a strong defense industrial base in Europe, which is ramping up production, but the U.S. defense industrial base is extremely important for overall NATO deterrence. But there is an issue of production capacity both in the U.S. and in Europe. This is causing some European allies to also buy defense products from South Korea and elsewhere.

Brazil

Brazil's manufacturing sector deteriorated at its fastest pace in five months, as sales were weighed down by competition, weaker demand, inflationary pressures, and the war in the Middle East.

The purchasing managers index (PMI), for the manufacturing sector, fell to 47.5 in July from 50.8 in June. Any score below 50 indicates contraction, while a reading above 50 indicates expansion in the sector.

New orders logged the steepest fall in over three years, and export business markedly decreased due to lower sales to China, Europe, and Latin America. Brazilian manufacturers reduced their workforce numbers for the first time in six months, linked to sales performances and shortages of suitable candidates for existing vacancies.

On the price front, input price inflation eased to a 5-month low, though it remained above its long-term average trend amid higher costs for electronic items, foodstuffs, freight, fuel, chemicals, metals, and plastics. Similarly, selling-price inflation remained high despite slowing to a 4-month low.





Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

Supply chain pressures softened in July, and there was the least pronounced deterioration in vendor performance since the start of the year.

Looking ahead, Brazilian manufacturers, including makers of automobiles, chemicals, paper and textiles, amongst others, remain optimistic about output over the next 12 months, supported by expectations for stronger demand, renewed investment, acquisitions, new product launches, and partnerships following the presidential election.

Brazil has denied visas for two U.S. envoys over fears they intended to interfere in upcoming elections, in a further deterioration of diplomatic relations between the most populous nations in the Americas. Brazil's foreign ministry confirmed it had rejected the travel documents requested for two state department representatives, both political appointees of U.S. President Trump. A delegation had been expected to visit Brasília before campaigns begin for elections in October.

The mission intended to cast doubt on the fairness and integrity of Brazil's electronic voting system. A Brazilian official said the trip was barred because authorities had reason to believe it would be used to "disseminate misinformation" about the electoral process, allegedly in co-ordination with two sons of ex-president Jair Bolsonaro, who is serving a prison sentence for an attempted military coup. The U.S. State Department says the envoys planned to meet Brazilian government officials, religious leaders, and others to discuss "election integrity, religious freedom, and freedom of expression".

A diplomatic dispute between Brazil and the U.S. erupted a year ago after the U.S. slapped Brazil with a 50% trade tariff — later overturned — in a failed bid to get the charges against Trump ally Jair Bolsonaro dropped. The rift deepened with a new 25% U.S. duty on Brazilian exports in July. With Washington's more assertive stance in Latin America, Brazil's President Lula accused the Bolsonaro family of helping engineer the trade levy

for electoral gain.



The new visa refusal overshadowed the official launch on of Flávio Bolsonaro's presidential candidacy. It featured a rare visit to Brazil by Argentine leader Javier Milei to declare his endorsement of Bolsonaro, as conservatives seek to cement a rightward swing across Latin America. The younger Bolsonaro's campaign has faltered lately following a series of missteps and controversies. Brazil's Supreme Court has authorized police to investigate his alleged links with the suspected mastermind of a massive bank fraud.

A recent Datafolha poll gave Lula a 48% lead in a tie-breaker, versus 43% for his main adversary. The 80 year-old Lula is seeking a non-consecutive fourth term.

Written by Byron M. Shoulton
Senior Global Economist
FCIA Trade Credit & Political Risk Division
Great American Insurance Group
For questions / comments, please contact Byron at bshoulton@fcia.com



Secure your sales and fuel your growth—[watch how](#)



www.FCIA.com

What is Trade Credit Insurance?

Companies selling products or services on credit terms or financial institutions financing those sales face the risk of non-payment by their buyers.

Trade Credit Insurance provides a cost-effective mechanism for transferring that risk. FCIA's Trade Credit Insurance products protect the policyholders against losses resulting from that non-payment.

Why Trade Credit Insurance?

One of a company's largest assets is their accounts receivable but they are often not insured. This could often be due to lack of knowledge of availability of coverage.

A debtor's nonpayment can be caused by commercial events such as insolvency or protracted default. On international transactions, nonpayment can also result from the occurrence of disruptive political events such as wars, government interventions, or currency inconvertibility.

A Few Value-Added Benefits For Insureds

FCIA's Trade Credit Insurance policies offer companies a wide array of flexible coverages. You can insure a broad multi-buyer receivable portfolio, a smaller select receivable portfolio (key accounts), or a single buyer receivable.

Some Value-Added Benefits of Trade Credit Insurance

- Sales expansion
- Ability to offer longer repayment terms
- Access to better financing terms
- Reduce earnings volatility
- Reduce bad debt reserves

Who Can Benefit From Trade Credit Insurance?

Manufacturers & Distributors, Packaging, Energy, Pharma, Mining, Commodity Traders, Metals, Technology, Financial Institutions, Food & Beverages, and more.

To sign up for FCIA Major Country Risk Development and more information on FCIA insurance coverages, please visit us at www.FCIA.com.

Watch FCIA's one-minute video at www.FCIA.com



[Celebrating FCIA's Legacy, Inspiring Its Future—watch here](#)