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EUROBANK

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More than two months into the Middle East conflict, markets shifted toward a near-term de-escalation narrative following reports of exploratory US–Iran discussions, triggering a relief rally across risk assets. A durable diplomatic breakthrough is far from assured, however. Even under a swift agreement, a quick reopening of the Strait of Hormuz is not certain, and restoring shipping volumes, oil flows and production to pre-war levels would take time. Energy prices are therefore likely to remain above pre-war levels through H2 2026, sustaining the upturn in inflation already visible in inflation data. Against this backdrop, most major central banks are emphasising patience and appear reluctant to provide clear forward guidance, awaiting greater clarity on inflation dynamics instead.

Macro Picture

USA: GDP rebounded in Q1, but consumer spending softened

EA: incoming inflation and activity data consistent with a stagflationary environment

China: uneven recovery continues, with strong exports offsetting weak domestic demand

Japan: domestic demand softened, while headline inflation picked up in March

CESEE: resilience coexists with constraints from external shocks and domestic policy divergence

Markets

FX: safe haven demand drives USD strength; JPY weakness prompted intervention last month

Rates: moved higher in April; curves flattened as inflation risks increased

EM: experienced a robust recovery in April, retracing the spread widening observed in March

Credit: tightened materially with high yield leading; spreads remain wider than earlier this year

Policy Outlook

USA: Fed signals an extended hold due to uncertainty about the economic effects of the conflict

EA: ECB signals tighter monetary policy if risks of indirect or second-round effects intensify

Japan: "hawkish hold" at April meeting as uncertainty led BoJ to cautious pace of tightening

CESEE: policy on hold as central banks balance energy-led inflation against fragile growth

Key Downside Risks

DM & EM: longer-lasting closure of oil and gas production facilities in the Middle East; persisting disruptions to exports through the Strait of Hormuz; more conflicts arising elsewhere; rising inflation expectations; energy-driven inflation becomes entrenched through second-round effects; sharply tighter global financial conditions; abrupt repricing in AI-related stocks; reescalation of trade tensions; fiscal imbalances across major economies

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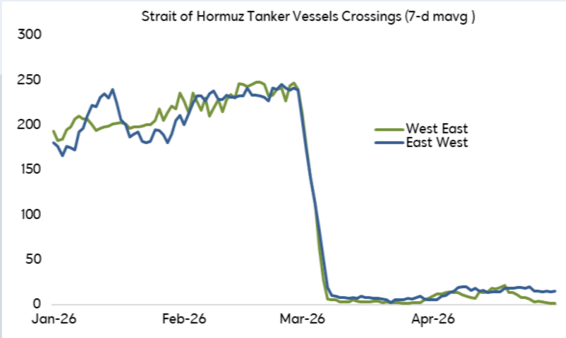
Macro Views

Sentiment surveys point to risks of inflation-pass through, most major CBs in a holding pattern

After more than two months of tensions in the Middle East, markets shifted toward a near-term de-escalation narrative following reports of exploratory US–Iran discussions, triggering a relief rally across global markets. Risk assets advanced, oil prices along with inflation risk premia declined, and bonds rallied. Encouragingly, there appears to be scope for gradual diplomatic progress, and the likelihood of renewed escalation currently seems lower than that of some form of agreement. However, a lasting diplomatic breakthrough and a definitive end to the conflict soon are far from assured. One of the key challenges in the negotiations is the broad scope of issues under consideration, including the future status of the Strait of Hormuz, Iran's ties with armed groups across the region, the question of sanctions easing, its nuclear ambitions, post-conflict reconstruction efforts and possible constraints on its missile capabilities.

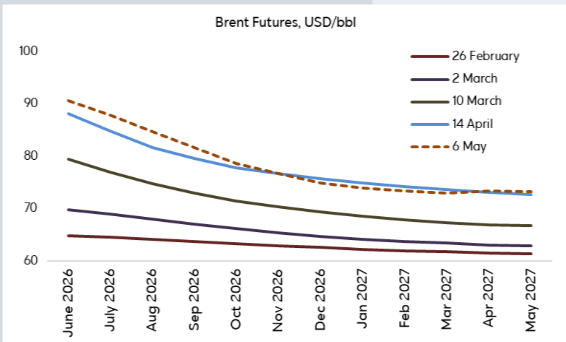
Figure 1: The Strait of Hormuz has remained effectively closed for more than two months



Source: Bloomberg, Eurobank Research

Even under a favourable scenario involving a swift peace agreement, it remains unclear whether this would entail the prompt reopening of the Strait of Hormuz. It is also uncertain whether, if reopening is agreed, transit will be unrestricted or whether Iran would impose a transit toll on vessels. In addition, restoring balance in energy markets and broader supply chains will require considerable time. The return of shipping activity, oil flows and production to pre-war levels is expected to take several weeks, and possibly months, given the large number of vessels still awaiting clearance, as well the damage to port infrastructure. At the same time, damaged or pre-emptively shut energy infrastructure will need time to resume operations. Strategic reserves released by the International Energy Agency will also have to be replenished, while war-risk insurance costs are expected to remain elevated for some time. Therefore, although there is currently optimism that the two sides may reach some form of agreement in the near-term, a degree of disruption is likely to persist for some time, keeping prices above pre-conflict levels and continuing to fuel higher inflation alongside

Figure 2: Investors have become more cautious over a normalization of Brent prices



Source: Bloomberg, Eurobank Research

weaker growth. That said, the timing of a comprehensive agreement remains critical to avoiding a protracted stagflation or even a recession.

Easing fears of renewed escalation have recently pushed oil prices lower. One-month-ahead Brent crude was trading at around $100/bbl in early May 7, after testing levels above $125/bbl just a few sessions earlier (April 30), though still standing more than 37% above pre-war levels. In the meantime, the December 2026 contract is hovering around $75/bbl, pointing to an expected improvement in oil supply dynamics over the remainder of the year, with the average Brent price projected at around $89/bbl for full year 2026.

Even so, the global economy has already moved away from the recent baseline outlined by major international institution. In its latest World Economic Outlook, released in April, the IMF expects global 2026 GDP growth to reach 3.1% under its reference forecast, which assumes a relatively short-lived and contained conflict, with Brent oil prices averaging $82/bbl this year. This projection is slower than the recent pace of about 3.4% in 2024–25 and has been revised down by 0.2%ppts from the January projection. The Fund noted that, in the absence of the conflict, its 2026 GDP growth projection would instead have been revised up by 0.1ppts to 3.4%, implying a total downgrade of 0.3ppts due to higher oil prices. At the same time, headline inflation is projected to rise from 4.1% in 2025 to 4.4% in 2026, marking an upward revision of 0.6ppts relative to the January forecast. However, under an adverse scenario in which Brent oil prices average $100 in 2026, global output could slow more sharply, to 2.5%, while inflation could rise further to 5.4%, suggesting an increased risk of stagflation.

Headwinds from the Middle East conflict are evident in recent global indicators, with the impact of higher energy prices and associated supply-chain disruptions becoming more broadly felt. OECD headline inflation rose 4.0%YoY in March — the highest in six months — driven by energy prices, up from 3.4%YoY in February and January's recent low of 3.3%YoY, thereby breaking the disinflationary trend in place since September 2025. In contrast, core inflation remained relatively subdued, edging up to 3.7%YoY (3.66% unrounded) following a broadly stable reading of 3.6% (3.61%) in February.

However, pipeline pricing pressures are strengthening, as reflected in the pricing components of the latest PMI surveys covering the period since the onset of the Iran war, pointing to increased risks of more persistent inflation in the coming quarters. The global composite input cost index accelerated in April for the second consecutive month, reaching a 41-month high, with respondents citing higher energy and other commodity prices. Meanwhile, part of these costs was passed on to clients in the form of higher output charges, with the respective index reaching two-month highs. In terms of activity, the global composite PMI rose 0.8pts to 51.8 in April, offsetting part of March's sharp 2.3pts decline and suggesting that the Middle East conflict has so far taken only a modest toll on global economy. However, the breakdown of the survey seems is less encouraging, suggesting that the April improvement should be interpreted with caution and that recent resilience may prove temporary, especially if no resolution to the conflict is reached in the near term. The increase in the composite PMI was almost entirely driven by the 1.3pts rise in the manufacturing index (52.6). Importantly, the latter partly reflects longer supplier delivery times due to supply chain disruptions and front-loading activity, rather than stronger underlying sentiment, as producers and buyers rush to make purchases ahead of expected price increases and supply shortages. In addition, activity in the services sector remained lacklustre (51.2, up from 50.8), while forward looking components, including the composite future output and the new orders indices, remained nearly unchanged, close to March's depressed levels.

Cautionary signals on global growth prospects are also provided by the OECD consumer confidence index, which declined sharply in March (to 98.4), moving further below its long-term average and approaching early-2025 lows, on the back of heightened geopolitical uncertainty and higher commodity prices.

Against this backdrop of elevated uncertainty stemming from an external energy supply shock, most major central banks remain broadly in a holding pattern. They are emphasising patience and appear reluctant to provide clear forward guidance, seeking to retain flexibility as they await more clarity on how the energy-driven inflationary pulse evolves. While policymakers would likely look through any temporary inflation spike, the anchoring of inflation expectations may no longer be assured if price pressures are perceived as more persistent. In such a scenario, central banks could be forced to respond — by delaying policy easing or even tightening monetary policy — to help prevent a broader pass-through into underlying inflation.

Developed Economies

US: GDP growth rebounded in Q1 at a trend-like pace of 2.0%QoQ saar, following a modest 0.5% increase in the previous quarter, mainly driven by private fixed investment, particularly non-residential, largely reflecting strength in technology and AI-related spending. This strength more than offset a slowdown in consumer spending growth as employment compensation growth is moderating due to weak job creation. On inflation, higher energy prices are adding to existing pressures from trade tariffs, with headline PCE inflation rising in Q1 to the highest since Q3 2022. In what appeared to be a close-call decision, the statement released after the April FOMC policy meeting retained a mild easing bias, indicating that most committee members still expect the next move in policy rates to be a continuation of the easing cycle. However, with the conflict tilting inflation risks to the upside and economic activity remaining broadly resilient, risks point to a prolonged pause in Fed policy. As such, rate cuts could be pushed further out, unless a marked deterioration in labour market materialises.

Euro area: the impact of the Middle East conflict is building, pointing to an increasingly stagflationary environment. Headline inflation rose further in April, to 3.0%YoY, the highest in almost 2½ years, driven entirely by another increase in energy inflation. By contrast, core CPI moderated for the second straight month, but higher energy prices may feed into core inflation with a lag, particularly if pressures persist and trigger indirect and second round effects through inflation expectations and wage-price dynamics. At the same time, incoming high frequency indicators continued to weaken in April, echoing the pattern seen in March, pointing to a further slowdown in economic activity in Q2, following only modest GDP growth of 0.1%QoQ in Q1. Meanwhile, the ECB considered raising interest rates at its April meeting but ultimately decided to keep them unchanged, opting to wait for clearer evidence of potential spillover effects from the energy shock. However, President Lagarde's overall tone suggested that, unless crude oil prices decline significantly, a rate hike at June's meeting remains a possibility.

Emerging Economies

EM: emerging markets have entered a more challenging phase as rising global energy prices, driven by geopolitical tensions in the Middle East, have reintroduced inflationary pressures and reinforced divergence across regions. In Asia, the impact has been relatively contained but still visible through higher import costs and cautious policy responses. Economies remain broadly resilient, supported by domestic demand and external investment flows, including continued regional engagement by China. However, rising energy prices are beginning to weigh on inflation dynamics and could moderate growth momentum, particularly in more import-dependent economies. In the Middle East, the geopolitical backdrop is the primary driver of macro conditions. Elevated oil prices are supporting fiscal and external balances for energy exporters, strengthening revenues and improving near-term growth prospects. At the same time, heightened regional tensions are increasing uncertainty and volatility, with potential spillovers to trade routes, capital flows, and broader financial conditions. In Latin America, macro-financial conditions have shown tentative improvement despite the global backdrop. Argentina's sovereign rating upgrade reflects progress in fiscal consolidation and external rebalancing while Brazil's central bank has shifted toward monetary easing, signalling greater confidence in the disinflation process and providing support to domestic demand. Venezuela's gradual recovery in oil production also points to stabilisation in its energy sector, benefiting from the higher price environment. Monetary policy across these regions remains cautious overall, as central banks balance persistent inflation risks against still-fragile growth conditions. Overall, while emerging markets continue to demonstrate resilience, the energy shock is reinforcing regional asymmetries, with inflation trajectories and growth outcomes increasingly shaped by exposure to commodity cycles and geopolitical developments.

CESEE: recent political developments across the region are driving a more cautious and increasingly differentiated macroeconomic outlook, with domestic policy credibility emerging as a key determinant of fiscal performance, market sentiment and growth. Hungary represents a relative positive shift following a political reset. The election of Péter Magyar has improved market confidence, supported by expectations of stronger governance and closer EU alignment. Planned reforms could bolster investment and medium-term growth, though their impact hinges on effective implementation. By contrast, Romania has become the region's primary macro-financial risk. The collapse of the government has heightened fiscal uncertainty amid already large deficits, the highest in the EU. Political fragmentation limits the scope for consolidation, while growth has slowed sharply and inflation remains elevated near 10%, reinforcing a weak macro backdrop. Elsewhere, political risks are more contained but still relevant. Slovenia's political deadlock is weighing on reform momentum, while in Czechia, geopolitical tensions and energy volatility are dampening confidence and domestic demand. Overall, the region is moving toward a more fragmented macro environment, where political stability and policy credibility are increasingly critical for sustaining growth and favourable financing conditions.

Markets View

Foreign Exchange

EUR/USD: has traded in a relatively tight range over the past month (1.1523–1.1799), currently near 1.1688. The euro is supported by firm expectations of an ECB rate hike in June, with Peter Kazimir signalling tightening is "all but inevitable". However, this is offset by safe-haven USD demand driven by Middle East tensions and ongoing euro area growth concerns. On the US side, John Williams highlighted rising risks to both inflation and growth, potentially delaying Fed rate cuts. Overall, the pair remains in a tug-of-war between ECB tightening and USD strength, suggesting continued range-bound trading near term.

USD/JPY: maintains a clear upward bias despite last week's BoJ/MoF intervention around 160. The pair rebounded from ~155.50 to ~157.36, reflecting persistent USD strength. Key drivers remain wide Fed-BoJ rate differentials, weak Japanese core inflation and Japan's energy vulnerability. Rising US yields (30yr >5%) and elevated geopolitical risk continue to support the USD. While intervention risk remains, authorities are expected to act selectively and dips are likely to attract buyers. Unless US yields decline materially or the BoJ accelerates normalization, upside pressure should persist, with 160 still a realistic test level.

Rates

EU: rates in April were overwhelmingly driven by developments in the US–Iran conflict, with energy markets at the centre of the repricing. A renewed inflation shock was reflected in market expectations, with up to three 25bp ECB hikes priced this year at the peak. EUR swaps traded in a highly volatile, headline-driven fashion: an initial rally on optimism around a temporary ceasefire and peace talks (following Trump's intervention) quickly reversed as tensions escalated again, including renewed disruption risks around the Strait of Hormuz. On the month, rates closed modestly higher overall (5yr at ~2.89%, 10yr ~3.07% and 30yr at ~3.16%). Curve dynamics were unstable, with early steepening giving way to aggressive flattening after mid-April as geopolitical risks re-intensified. Volatility eased from March extremes but re-accelerated in the second half of the month.

US: rates followed a similar geopolitical-driven pattern, though with a more pronounced sell-off and stronger curve flattening than in EUR. The escalation in the US–Iran conflict dominated price action, pushing yields higher across the curve, with the 5yr up ~12bps to 3.77% and 30yr up ~11bps to 4.23%. In parallel, domestic political developments added another layer of uncertainty: Jerome Powell's expected transition and the increasing likelihood of Kevin Warsh's appointment as Fed chair have reinforced the perception of a more politically influenced policy path. Despite firm labour data and rising inflation risks, political pressure – particularly from Trump – for rate cuts contrasts with market pricing, which has fully removed easing expectations and begun to price potential hikes into 2027.

Emerging Markets Sovereign Credit

EM markets posted a strong performance in April with spreads fully recovering the widening seen in March amid improved sentiment, driven by optimism post a ceasefire deal between US and Iran. The EMBI Global Index tightened by 35bps, closing at approximately 219bps on May 5 — a level not seen since February. In CEE, performance was bifurcated across the region. Hungary's EUR-denominated bonds outperformed, with 10yr Asset Swap (ASW) spreads tightening by 40bps to 90bps between the end of March and May 5. This rally was driven by election results that seated a pro-EU government. Conversely, Romania underperformed its peers; ongoing political uncertainty caused 10yr ASW EUR spreads to widen by 1bp, ending the reference period at 282bps. In MENA, Qatar led the region with USD ASW spreads tightening by 26bps during the observation period to settle at 57bps. Meanwhile, USD-denominated bonds from Saudi Arabia and Israel lagged, tightening by a more modest 13bps. In Latam, a renewed "hunt for carry" supported strong performance across Latin American sovereigns. Notably, Mexico's 10yr ASW spread narrowed by 22bps, closing at 195bps. We hold a constructive approach as any de-escalation in the Middle East war followed by fall in oil prices is expected to have a strong positive impact in the EM spectrum.

Corporate Credit

April told two different stories. The Iran conflict dominated headlines, oscillating between ceasefire optimism and renewed escalation, while markets largely focused on the positives driving one of the strongest equity rallies in recent memory. The conflict followed a familiar push–pull dynamic. Ceasefire hopes lifted sentiment, talks progressed, and Brent fell toward $90/bbl. But negotiations ultimately broke down, diplomacy stalled, and fresh strikes were reported, pushing Brent back up to $108/bbl. The resulting energy shock fed into inflation expectations, keeping the Fed on hold. However, in the days leading up to the publication of this report, renewed optimism for peace deal pushed Brent back below $100/bbl.

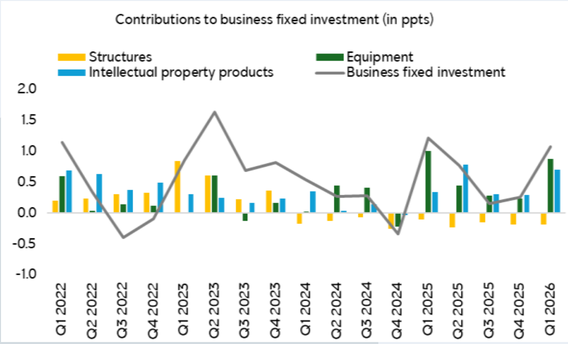
Equities nonetheless rebounded strongly. European markets recovered, with the STOXX 600 up 4.6% between the end of March and May 5 and the DAX gaining 7.6%. US equities also posted a strong month, with the S&P 500 rising 11.2% during the reference period, led by a semiconductor-driven rally. Credit markets tightened materially, though spreads remain wider than earlier in the year. Since the start of April, iTraxx Main has tightened 13.3bps to 58bps, while iTraxx Crossover is 65.6bps tighter at 282bps. In Euro IG cash, spreads have tightened by 13.4bps, while high yield has rallied by 37bps, with Materials out-performing. Credit markets widened but the move remained orderly relative to the scale of the macro shock. In March, iTraxx Main has widened 11.7bps to 67bps, while iTraxx Crossover has widened 71bps to 334bps. In Euro IG cash, spreads were 9.9bps wider, led by Consumer Discretionary (+14.2bps). High yield cash has also widened (+37.1bps), with Industrials underperforming sharply (+54.7bps) while Technology has outperformed, tightening 54bps.

US

GDP rebounds in Q1; Fed likely to stay on hold for longer

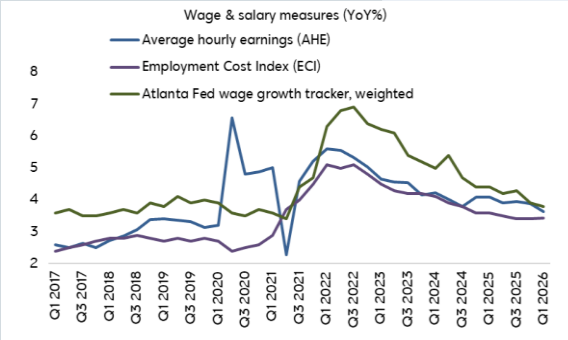
According to the advance estimate, GDP growth rebounded in Q1 at a trend-like pace of 2.0%QoQ saar, following a modest 0.5% increase in the previous quarter. This acceleration was partly driven by a rebound in government spending after a temporary decline caused by employee furloughs during the Q4 government shutdown. However, the main driver of Q1 growth was private fixed investment, particularly non-residential (1.08ppts contribution to GDP), which accelerated from 2.4%QoQ saar to 10.4%QoQ saar, the fastest pace since Q2 2023, largely reflecting strength in technology and AI-related spending. This strength more than offset a slowdown in consumer spending growth, which eased from 1.9%QoQ saar to 1.6%QoQ saar, on the back of softer growth in employment compensation due to weak job creation (the 6-mmavg of non-farm payrolls fell to 38k in March from around 60k late last year). As a result, private domestic final purchases rose a solid 2.5%QoQ saar, slightly above the 2025 average. Individual tax refunds were up 12.5%YoY as of April, but rising gas prices likely limit the expected boost to consumer spending. Higher energy prices will also add to existing pressures from trade tariffs, with headline PCE inflation rising from 2.9%YoY to 4.5%YoY in Q1, the highest since Q3 2022, also reflecting payback effects related to disruptions in data collection during the Q4 government shutdown. Speaking at his last post-meeting press conference as Fed chair in late April, when rates were kept unchanged, Jerome Powel highlighted that the degree of upside risk to inflation from higher energy prices is highly uncertain, while stressing that the Fed can not contemplate rate cuts until it is confident that tariff-related effects are fading and that any inflationary impact from the Middle East conflict has peaked. Notably, in what appeared to be a close-call decision, the statement retained a mild easing bias, indicating that most committee members still expect the next move in policy rates to be a continuation of the easing cycle. However, with the conflict tilting inflation risks to the upside and economic activity remaining broadly resilient, risks point to a prolonged pause in Fed policy. As such, rate cuts could be pushed further out, unless a marked deterioration in labour market materialises.

Figure 3: Business fixed investment was the main growth driver in Q1 GDP



Source: BLS, Eurobank Research

Figure 4: Annual growth in employment compensation is slowing



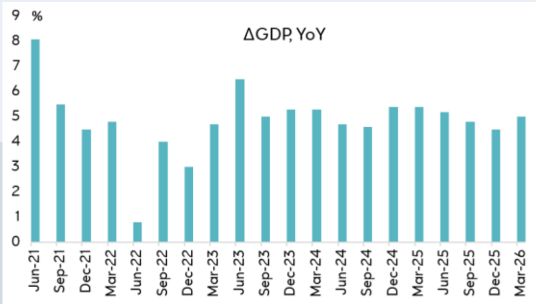
Source: BLS, Atlanta Fed, Eurobank Research

China

Strong headline growth masks persistent domestic weakness

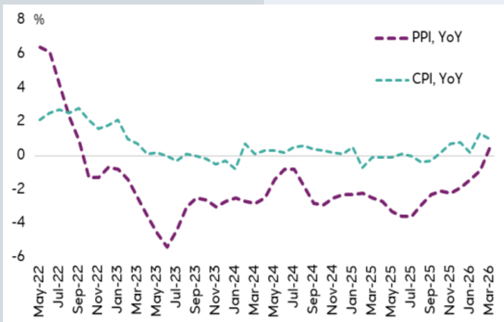
The economy entered 2026 with stronger-than-expected momentum, as real GDP expanded by 5.0%YoY in Q1, exceeding market expectations. Despite the solid headline performance, the composition of growth continues to point to a "two-speed" recovery, with external demand and policy-led investment offsetting persistently weak domestic consumption. Price dynamics suggest only a partial and fragile reflation process. Producer prices returned to positive territory in March (+0.5%YoY) for the first time in over three years, largely reflecting upstream commodity price pressures rather than a sustained recovery in final demand. On the consumer side, inflation moderated to 1.0%YoY, while core inflation remained subdued, underscoring ongoing slack in the domestic economy and limited pricing power among downstream firms. High-frequency indicators reinforce this divergence. Industrial production remained robust, expanding by 6.1%YoY in Q1, with high-technology sectors, most notably electric vehicles and semiconductors, continuing to outperform. By contrast, retail sales growth slowed markedly to 1.7%YoY in March, reflecting weaker discretionary spending, fading policy support and cautious household behaviour. Fixed asset investment trends mirror this split: infrastructure investment remained strong, driven by government stimulus and accelerated project execution, while property investment contracted by over 11%, highlighting continued stress in the real estate sector. Survey-based indicators point to a mixed near-term outlook. The official manufacturing PMI edged down slightly to 50.3 in April, remaining in expansionary territory for a second consecutive month, supported primarily by resilient export demand and ongoing policy support. By contrast, the non-manufacturing PMI fell to 49.4, slipping back into contraction and signalling renewed weakness in services and construction activity, largely reflecting subdued domestic demand and the continued drag from the property sector. The export sector continues to benefit from its dominant position in global supply chains, particularly in green technology and advanced manufacturing. Conversely, domestic demand remains constrained by a softening labour market (unemployment rose to 5.4% in March) and a high propensity to save. Declining property prices continue to weigh on household wealth and confidence, reinforcing precautionary behaviour. All in, while China's near-term growth outlook appears stable, the recovery remains uneven and externally reliant. Policymakers are likely to maintain a cautious stance, favouring targeted and incremental easing while balancing short-term support with longer-term structural adjustments.

Figure 5: GDP growth stabilises on external and policy support



Source: Bloomberg, Eurobank Research

Figure 6: ..yet reflation remains weak despite tentative PPI recovery



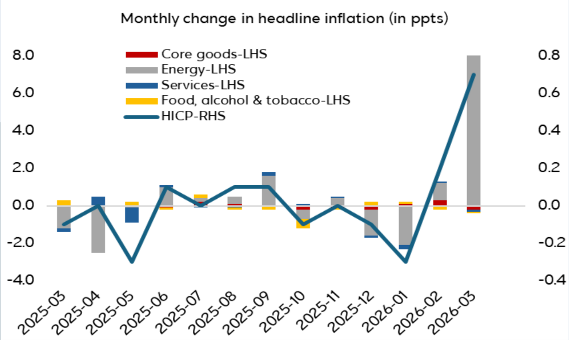
Source: Bloomberg, Eurobank Research

Euro area

Incoming price and activity data consistent with a stagflationary environment

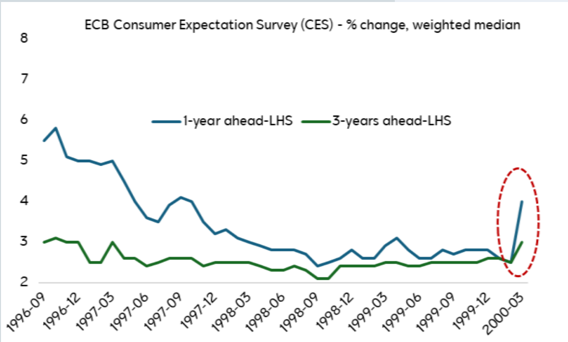
The impact of the Middle East conflict is building, painting an increasingly stagflationary environment. Headline inflation accelerated further in April, to 3.0%YoY, the highest in almost 2½ years, from 2.6%YoY in March, following January's recent trough of 1.7%YoY, driven entirely by a further increase in energy inflation (to 10.9%YoY, up 5.8ppts from March and 15ppts cumulatively since January). By contrast, core CPI moderated for the second straight month, down a further 0.1ppts to 2.2%YoY. However, higher energy prices may feed into core inflation with a lag, particularly if pressures persist and trigger indirect and second round effects through inflation expectations and wage-price dynamics. According to the ECB Consumer Expectation Survey, both 1-year and 3-year inflation expectations surged in March (from 2.5% to 4.0% and to 3.0%, respectively, their highest levels since 2023), while the European Commission's business survey also showed a sharp rise in selling price expectations in April, reaching the highest level in nearly 3½ years (+10.3pts to 31.1). In an additional concerning sign, the April PMI survey already points to strong firm pricing behaviour, with selling prices reaching 2-year highs. At the same time, incoming high frequency indicators continued to deteriorate in April echoing the pattern seen in March. Against this backdrop, economic activity is expected to slow further in Q2, after GDP expanded only modestly in Q1, up 0.1%QoQ, falling short of the ECB's 0.3%QoQ projection. The key question is whether the expected slowdown in economic activity and domestic demand due to lower real incomes, elevated uncertainty and tighter financial conditions, together with the measures already introduced by a number EA countries to mitigate the impact of higher energy prices, will be sufficient to offset those pressures, or whether some ECB monetary policy tightening may be required. The ECB considered raising interest rates at its April meeting but ultimately decided to keep them unchanged, opting to wait for clearer evidence of potential spillover effects from the energy shock. However, President Lagarde's overall tone suggested that, unless crude oil prices decline significantly, a rate hike at June's meeting remains a possibility.

Figure 7: HICP accelerated, entirely driven by a surge in energy prices



Source: Eurostat, Eurobank Research

Figure 8: Medium-term inflation expectations have moved up significantly



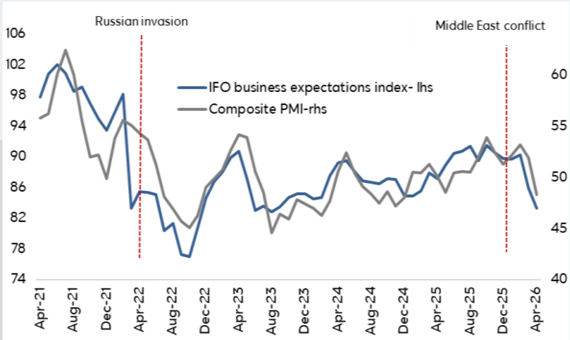
Source: ECB, Eurobank Research

Germany

Q1 GDP accelerated, but ongoing energy shock clear risk for near-term outlook

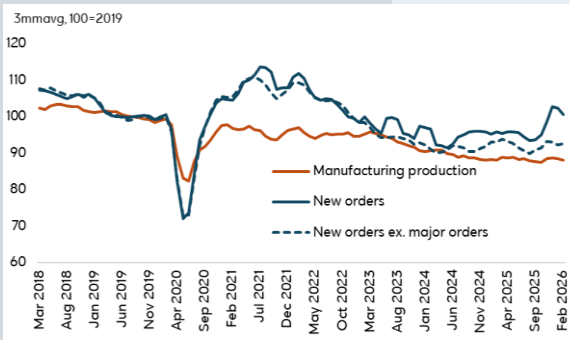
Despite persistent structural barriers and additional headwinds from the Middle East conflict, the economy entered the year with stronger than expected momentum. According to the flash estimate, GDP grew 0.3%QoQ in Q1, following a 0.1ppts downward revision in the prior quarter to 0.2%QoQ, with the Federal Statical Office attributing this expansion to private and government consumption, as well as exports. However, this positive start is unlikely to be sustained. The impact of the ongoing energy shock is expected to intensify in Q2, with a range of disappointing sentiment indicators suggesting a heightened risk of stagflation, or even a mild contraction, reflecting higher costs for firms, the inflation-driven loss of purchasing power (headline HICP up 2.9%YoY in April) and continued geopolitical uncertainty. Meanwhile, last year's fiscal pivot toward substantially higher defence and infrastructure spending has so far failed to deliver the anticipated boost to economic activity, as industrial production has yet to register meaningful gains. To mitigate the impact of higher energy prices, the government introduced a targeted fiscal support package. The measures include a reduction in fuel taxes on petrol and diesel (c. €0.17 per litre) and tax-free relief bonus up to €1,000 for employees this year. Nevertheless, the overall impact of these initiatives, both on growth and inflation, is likely to be modest. The total size of the package is reportedly estimated at €13.6bn (around 0.4% of projected GDP in 2026), substantially smaller than the €140bn (3.4% of 2023 GDP) deployed during the 2022–2023 energy crisis. In addition, the package is intended to be largely self-financed, through a higher tobacco tax and a proposed windfall profit tax on mineral oil companies. Constraints also arise from the temporary nature of the fuel tax reduction, applicable for just two months, and by the structure of the employee tax-free bonus, which is fully borne by employers rather than the state. Assuming a de-escalation in the Middle East by the summer that ensures the reopening of the Strait of Hormuz, economic activity is expected to recover in H2, taking full-year GDP growth at 0.5%, revised down from 0.8% previously and broadly in line with the federal government's spring forecast update.

Figure 9: The Middle East conflict is taking a toll on business sentiment



Source: Destatis, Eurobank Research

Figure 10: The increase in government orders has not yet led to a recovery in industrial production



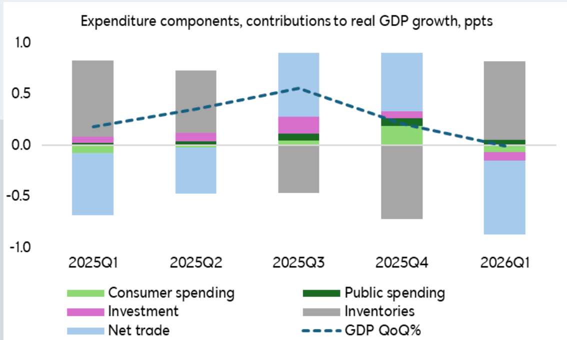
Source: Destatis, Eurobank Research

France

Q1 GDP growth stalls; economy well placed to cope with higher energy prices

Largely due to one-off factors, mainly aeronautics exports, GDP growth stagnated in Q1 (1.1%YoY), coming in below the Banque de France's estimate of 0.3%QoQ and the previous quarter's pace of 0.2%QoQ (1.3%YoY). Exports declined more sharply than imports (-3.8%QoQ vs. -1.7%QoQ) driven by a 20.1%QoQ drop in transport equipment exports — aircraft deliveries down to 114 in Q1 2026 from 136 in Q1 2025 and 286 in Q4 2025 — even though transport equipment production rose (+1.5%QoQ after -0.7%QoQ), resulting in a 0.7ppts negative contribution from foreign trade to growth. Final domestic demand, excluding inventories, was broadly flat. Gross fixed capital formation declined (-0.4%QoQ after +0.3%QoQ), while household consumption also edged down (-0.1% after +0.4%). On the upside, inventories were the sole positive contributor to GDP growth (+ 0.8ppts vs -0.7ppts in the prior quarter), with INSEE noting that the build-up was driven mainly by aerospace products. Looking ahead, rising energy prices appear to be weighing heavily on household purchasing behaviour. Headline HICP rose to 2.5%YoY in April, up 0.5ppts from March and 2.1ppts cumulatively so far this year. At the same time, higher operating costs and expectations of higher ECB rates are curbing private-sector investment prospects, also weighing on economic growth. However, France's smaller manufacturing share (10.7% of total GVA) and its lower reliance on fossil fuels, thanks to its strong nuclear capacity, should help the economy to stay on course and cope better with higher energy prices than many of its EA peers. GDP growth for 2026 is projected at 0.8% GDP, slightly below the Banque de France's 0.9% forecast, while inflation is expected to average 2.0% The measures announced so far by the government to mitigate the energy price shock have been well targeted at specific sectors and low-income households, amounting to around €1bn (less than 0.1% of GDP), far below the €100bn provided between 2021 and 2024, reflecting fiscal constraints. To offset the cost of these measures, as well as the increase in inflation-indexed spending and higher interest payments, the government has announced €6bn of spending cuts to meet its 5.0% of GDP deficit target for 2026, after the smaller than expected shortfall of 5.1%of GDP in 2025.

Figure 11: Foreign trade exerted a strong negative contribution to GDP growth in Q1 2026



Source: INSEE, Eurobank Research

Figure 12: France's manufacturing sector holds a low share of GVA compared to major EA peers

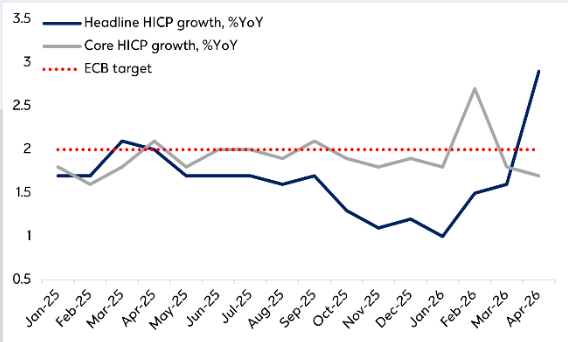
Source: Eurostat, Eurobank Research

Italy

Growth held in Q1 but inflation accelerated in April and fiscal space narrowed

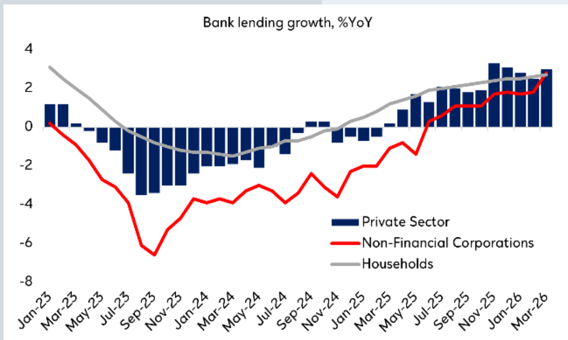
Inflation accelerated sharply in April, raising the risk that Italy's already slow growth could give way to a more stagflationary mix. HICP inflation accelerated to 2.9%YoY in April from 1.6%YoY in March, which was above the consensus estimate for an increase to 2.5%YoY. Italy is one of the euro area countries most dependent on LNG shipments that need to pass through the Straits of Hormuz, and higher utility bills, as well as food, were the main drivers for the HICP increase, which was 1.7%MoM. GDP growth surprised slightly to the upside, increasing 0.2%QoQ in Q1 after rising 0.3%QoQ in Q4 2025, with the consensus fore-cast suggesting that it would slow further to 0.1%QoQ. A full breakdown in not available in the preliminary reading released by Istat, although in its press release Italy's statistics agency said that growth was driven by net exports, with domestic demand contracting and industry remaining weak. Survey data point in the same direction. The manufacturing PMI improved by 0.9pts to 52.1 in April, but the European Commission's manufacturing confidence deteriorated, while consumer confidence fell to 90.8 from 92.6 and the overall economic sentiment indicator fell 2.1pts to 95.2. The labour market still provides a buffer, supporting household income, although the signal has be-come less clear. The unemployment rate edged down to a record low of 5.2% in March from 5.3% in February, but employment fell 0.1%MoM for a second consecutive month and contractual hourly wages rose just 2.4%YoY. The domestic fiscal space for a gov-ernment policy response is constrained by the 2025 budget deficit coming in at 3.1% of GDP, 0.1ppts higher than the EU's permitted limit. While that dif-ference is fractional, it means that the country remains under the country's Excessive Deficit Proce-dure – the government had projected a 3% deficit in its 2026 budget, which would have allowed it to leave the EDP a year ahead of schedule. That leaves the government with limited room to extend energy-related support without raising fiscal credibility con-cerns, particularly after the March widening in BTP-Bund spreads. It also puts a particular spotlight on the monetary policy transmission channel as ECB policy makers ponder interest rate hikes on conflict-related inflation pressure. The recovery in Italian pri-vate-sector lending growth from mid-2025 — particularly to non-financial corporations — has supported activity and underpinned the manufacturing sector's exit from its prolonged slump.

Figure 13: Headline HICP spiked upwards in April as the energy shock set in



Source: Eurostat, Bloomberg, Eurobank Research

Figure 14: A recovery in bank lending has underpinned Italy's manufacturing recovery



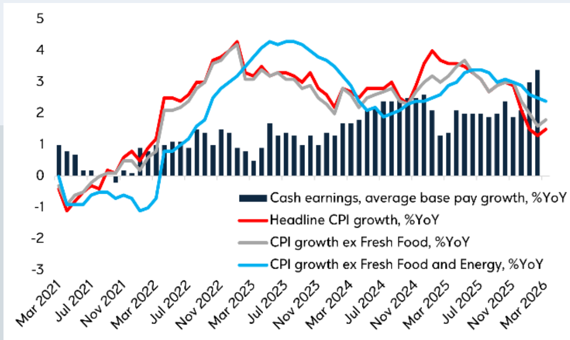
Source: ECB, Eurobank Research

Japan

Cautious central bank holds interest rates in April; MoF intervenes in USD/JPY

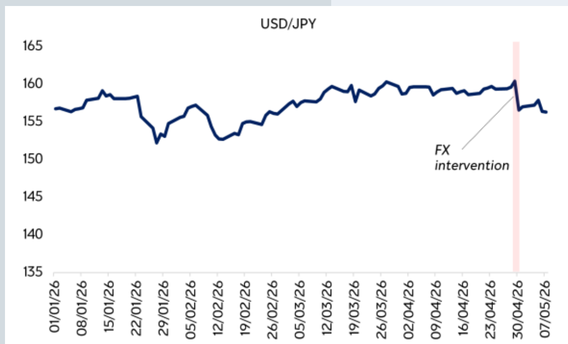
The Bank of Japan opted to keep interest rates on hold at its April meeting – a decision that looked unlikely a few weeks earlier. Political sensitivity around further tightening under a pro-stimulus government may have reinforced caution, though the vote split – 6–3, with three Board members backing an immediate 25bp hike to 1.00% – signals that an increase is still likely to come soon. After encouraging activity data in late 2025 and early 2026 suggested an improving domestic-demand base, the focus has shifted to how well that demand absorbs the Iran conflict-driven energy shock. Industrial production fell 0.5%MoM in March after a 2.0%MoM drop in February, while real household consumption was flat MoM and retail sales rose just 0.4%YoY after increasing 1.4%YoY in February. The BoJ's April Outlook Report cut its FY2026 GDP projection to 0.5% from 1.0%, citing terms-of-trade losses from higher energy costs. Domestic demand should still be cushioned by rising wages and fiscal support, but the growth signal is noisier than it was in Q1. Inflation, by contrast, has firmed. Headline CPI rose to 1.5%YoY in March from 1.3%YoY in February, while the measure excluding fresh food and energy eased only marginally to 2.4%YoY from 2.5%YoY. The Outlook Report also lifted FY2026 core CPI to 2.8% from 1.9%, the largest single-meeting upgrade of the cycle and a sign that inflation risks remain skewed to the upside. Wage growth corroborates this picture, with nominal cash earnings rising 3.3%YoY in February and real wages up 1.9%YoY. Rengo's third *shunto* tally confirmed the 2026 round at +5.09%, the third year running above 5%, something that had not previously happened in the annual salary negotiations in more than 30 years. Governor Ueda framed the pause as conditional on Middle East uncertainty rather than a change of direction. We expect a 25bp hike to 1.00% in H2 2026, with July 30–31 the central case and June 17 a live meeting. Futures markets are pricing in 44bps of additional monetary tightening for the remainder of 2026. The prospect of further rate hikes in the coming months wasn't enough to arrest the JPY's prolonged slide, with the USD/JPY closing above 160 on April 29, a level widely seen as a likely trigger Ministry of Finance intervention. That came on April 30, with subsequent media reports based on analysis of BoJ accounts suggesting that authorities spent JPY3.86 trillion to support the currency.

Figure 15: Wage growth keeps monetary policy normalisation alive despite softer activity



Source: Bloomberg, Eurobank Research

Figure 16: The MoF and BoJ intervened to halt the JPY's slide on April 30



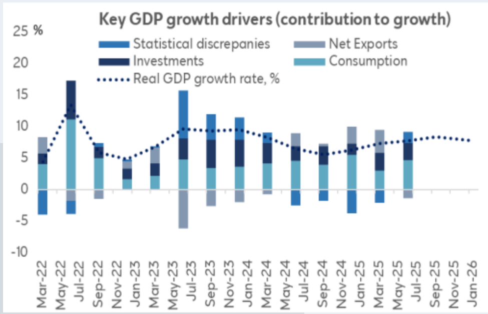
Source: Bloomberg, Eurobank Research

India

Rising external pressures and domestic vulnerabilities

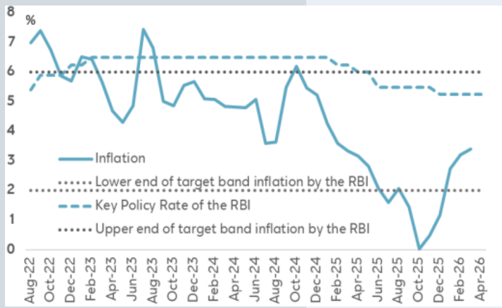
The macroeconomic outlook is increasingly shaped by a complex interplay of external and domestic pressures. While the economy remains one of the fastest-growing among major peers, rising geopolitical tensions in the Middle East and the risk of a sub-par monsoon are beginning to weigh on the near-term outlook. As a result, growth expectations have moderated, while inflation risks have shifted to the upside for FY27. A key source of vulnerability stems from India's dependence on imported energy. A substantial share of crude oil and gas supplies transits through geopolitically sensitive regions, leaving the economy exposed to supply disruptions and price volatility. With global oil prices hovering near USD 100 per barrel, import costs have risen materially, with the Indian crude basket trading at a premium to international benchmarks. This has already begun to affect import volumes and domestic pricing dynamics. Real GDP growth for FY27 is now projected close to 6.5%, down from earlier expectations, as elevated uncertainty weighs on domestic demand and private investment. Inflation is expected to rise towards 4.9%, driven by higher fuel costs and potential second-round effects on transportation and food prices. Climatic conditions add a further layer of uncertainty. Current projections suggest the 2026 monsoon may fall below the long-period average, with El Niño conditions likely to emerge. Although agriculture's share in GDP has declined over time, rural demand remains closely tied to rainfall outcomes. A weaker monsoon could therefore dampen consumption, particularly as rural sentiment has already softened in recent months. External balances are also coming under pressure. The higher energy import bill is expected to widen the current account deficit to around 2.0% of GDP, increasing reliance on external financing at a time of uncertain global capital flows. The Indian rupee has faced depreciation pressures, prompting active intervention by the Reserve Bank of India in both spot and forward markets to maintain orderly conditions. In response to these challenges, India's policy orientation is gradually evolving towards enhancing economic resilience. Efforts to strengthen domestic manufacturing, diversify supply chains and accelerate structural reforms in logistics, taxation and energy infrastructure are gaining prominence. These initiatives aim to reinforce the economy's internal capacity and reduce exposure to external shocks. Overall, while India's medium-term growth fundamentals remain intact, the near-term environment has become more challenging, requiring careful policy calibration to sustain stability and support durable growth.

Figure 17: growth holds up despite rising external headwinds



Source: OECD. IMF. Eurobank Research

Figure 18: inflation spikes on energy shocks, complicating policy outlook



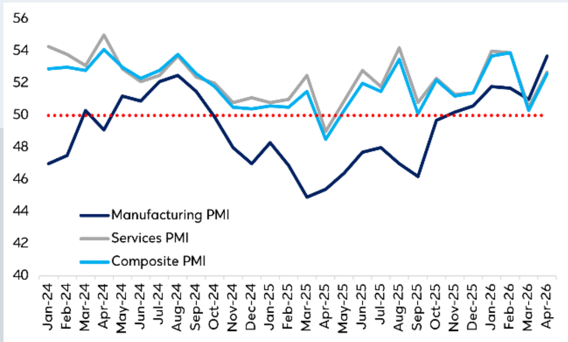
Source: RBI, Eurobank Research

UK

Firmer activity and rising inflation pressures keep the BoE in a policy squeeze

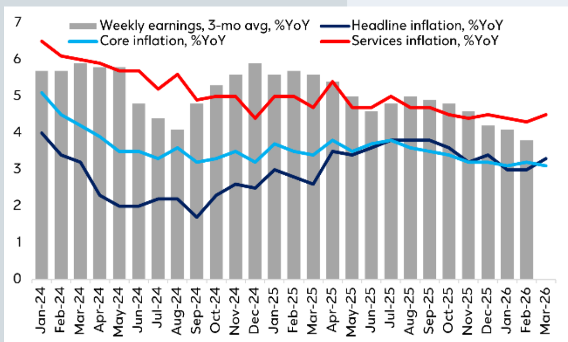
The UK faces a growing policy squeeze as firmer activity coincides with rising inflation pressures following the Middle East shock, complicating the Bank of England's near-term policy path. Recent data suggest the economy gained solid momentum before the strikes on Iran, with GDP rising 0.5%MoM in February after stagnating in January, its strongest monthly print in more than two years. Both services and production increased 0.5%MoM, while PMI survey indicators also improved. The composite index rose to 52.6 in April from 50.3, with services at 52.7 and manufacturing at 53.7, as new orders returned to marginal growth and the pace of job losses slowed. That said, forward-looking signals are softer, with business expectations only marginally higher than March's nine-month low and survey respondents widely citing the conflict as a drag on confidence and investment, suggesting that recent resilience may prove temporary. Inflation dynamics have deteriorated, pointing to stronger and broader price pressures. Headline CPI re-accelerated to 3.3%YoY in March from 3.0%YoY, driven largely by higher fuel costs, with transport inflation rising to 4.7%YoY from 2.4%YoY. While core CPI edged down to 3.1%YoY, services inflation increased to 4.5%YoY from 4.3%YoY, indicating persistent domestic pressure. Upstream indicators strengthened, with input PPI rising to 5.4%YoY from 0.7%YoY, while PMI data showed service-sector input cost inflation at its highest level since November 2022. These developments suggest that the pass-through from higher energy and import costs is broadening, increasing the risk of more persistent inflation over coming quarters. The labour market continues to cool, partially offsetting inflation risks. The unemployment rate fell 0.3ppts to 4.9% in the three months to February, but this was driven by rising inactivity rather than stronger employment. Vacancies declined to 711k, the lowest since the pandemic, while broader indicators point to easing labour demand. This softening supports a cautious policy stance, even as inflation pressures intensify. Against this backdrop, the BoE kept the Bank Rate unchanged at 3.75% in April, but the 8-1 vote split, with one member favouring a 25bp hike, signals a more hawkish tilt. Market pricing has shifted accordingly: around 50bps of tightening is priced in for the remainder of 2026. A more persistent energy shock or stronger second-round effects would tilt risks towards further tightening.

Figure 19: PMIs improved in April, though forward-looking components of the survey were softer



Source: Bloomberg, Eurobank Research

Figure 20: Headline and services inflation both accelerated in April; core slowed slightly



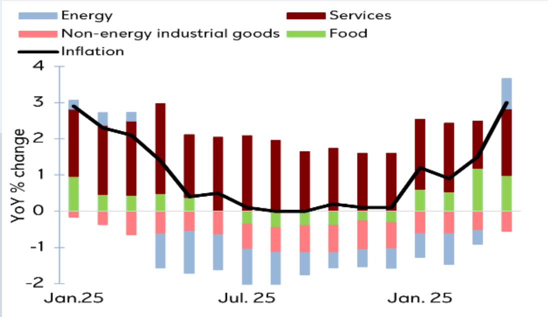
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Middle East conflict tests resilience as inflation starts accelerating again

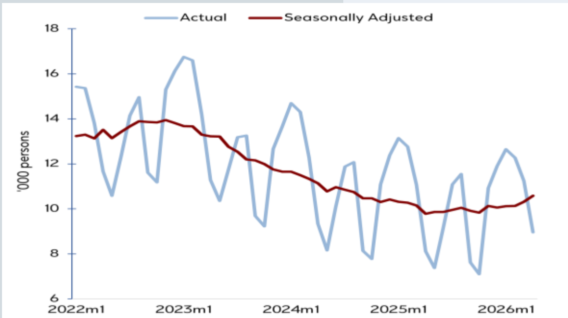
Cyprus entered the period from a position of resilience but renewed external energy pressures linked to the Middle East conflict are testing inflation, labour-market dynamics and fiscal policy. Inflation has started to accelerate again, partly reflecting external energy pressures linked to the Middle East crisis: after very low inflation during most of 2025, recent data show a renewed upward trend in early 2026. Average inflation for Jan–Apr 2026 reached 1.7%YoY, accelerating from 0.9% in February to 1.5% in March and 3.0% in April. Inflation remained below the euro area trend for most of 2025, but the gap has narrowed sharply since the crisis escalation. In April 2026, energy prices increased by 8.7%YoY, reversing the weak or negative energy contribution seen in 2025, while food and services remain significant inflation drivers domestically. They reflect ongoing wage pressures, imported input costs and local agricultural supply constraints. The pass-through to households and firms is likely to become more visible through lower real disposable income and tighter operating margins, while FMD-related risks may add further pressure to meat- and dairy-related prices. The number of unemployed in Cyprus serves as an early warning indicator for developments in the unemployment rate. Overall, unemployment has remained on a downward trajectory since 2021, reflecting improving labour market conditions. In the first four months of the year, the number of unemployed increased marginally by 0.1% compared to the previous year. However, the number of unemployed in the accommodation sector rose by 2.6% compared with the same period of 2025. Looking ahead, upcoming data will be critical in assessing whether recent government measures have been effective in safeguarding employment, particularly in tourism. On the positive side, the government's fiscal position remains strong. The preliminary fiscal outturn points to a robust start to the year, with the general government recording a surplus of €573.3mn, or 1.5% of GDP, in Q1 2026, broadly in line with the high surplus recorded in the corresponding period of 2025 (€600.6mn, or 1.6% of GDP). Looking ahead, the targeted support measures related to developments in the Middle East region may place some pressure on revenue performance in the coming months. Nevertheless, the strong starting fiscal position provides a sound buffer, allowing fiscal policy to remain supportive of the economy while safeguarding overall fiscal sustainability.

Figure 21: Energy prices rose in April, reversing the negative contributions of the previous 12 months



Source: Eurostat, Eurobank Research

Figure 22: The number of unemployed in Cyprus increased marginally in the first four months of 2026



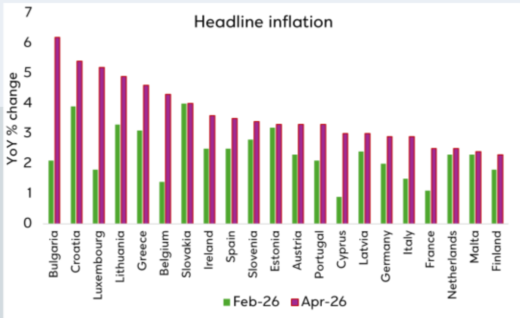
Source: Central Bank of Cyprus, CYSTAT, Eurobank Research

Bulgaria

First single-party government since 2001; fiscal slippage in 2025 persists in Q1 ’26

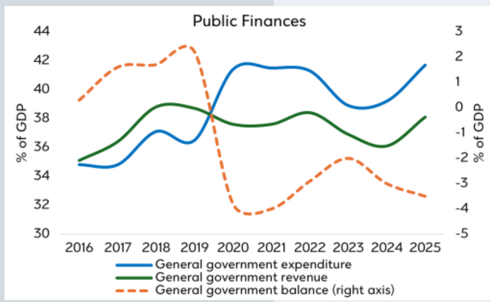
Confounding pre-election expectations, Progressive Bulgaria (PB), associated with former president Rumen Radev, secured an outright parliamentary majority for the first time in nearly three decades, winning 131 out of 240 seats. The limited parliamentary strength of the opposition, led by the outgoing prime minister Boy-ko Borisov’s GERB with 39 seats and WCC-DB with 37, provides the new government with ample room to advance its policy agenda. The immediate policy focus should be on the ratification of the 2026 budget and addressing intensifying inflationary pressures, which possibly are interlinked. Headline inflation accelerated sharply to 6.2%YoY in April, from 2.8%YoY in March, marking the highest level in the EU and under-scoring the need for relief measures. The surge was primarily driven by energy (16.1%YoY vs 4.0%YoY), and services inflation (8.3%YoY vs 3.1%YoY). On the other hand, fiscal dynamics have weakened. The 2025 fiscal deficit widened to 3.5% of GDP, exceeding the 3.0% threshold that triggers a European Commission (EC) assessment for a potential Excessive Deficit Procedure (EDP). The deterioration largely reflects robust growth in national primary expenditure, estimated at 13–14%YoY based on Ministry of Finance data, well above the 6.2% ceiling set in the 2025–2028 Medium-Term Fiscal Plan. If this increase were attributable to temporary factors, such as elevated defence spending permitted under the national escape clause activated by the European Commission in July 2025, it would have no policy implications. However, both Ministry of Finance and Eurostat data indicate that a meaningful share of the increase is structural, particularly in personnel costs. If confirmed, this would materially raise the likelihood of Bulgaria entering an EDP from 2027 onward. This risk should already be factored into the design of the 2026 budget. Notably, parliament approved a 5% public sector wage increase in March, adding to underlying expenditure pressures. More broadly, the general government deficit increased in Q1 2026 by 55.2%YoY, even before accounting for measures related to the war in Iran. These developments significantly constrain fiscal space to mitigate the effects of high inflation. To date, the fiscal response has been relatively modest, amounting to approx. €60mn and targeting low-income households, as well as the transport and agricultural sectors. Another €40mn in measures are planned, but remain either pending EC approval (e.g., doubling the state aid to the transport sector to €50mn), or conditional on high electricity prices for businesses from June onward.

Figure 23: Strongest inflation increase in the EU during the latest Middle East tension



Source: Eurostat, Eurobank Research

Figure 24: Personnel costs and investment pushed the fiscal deficit to 3.5% of GDP in 2025



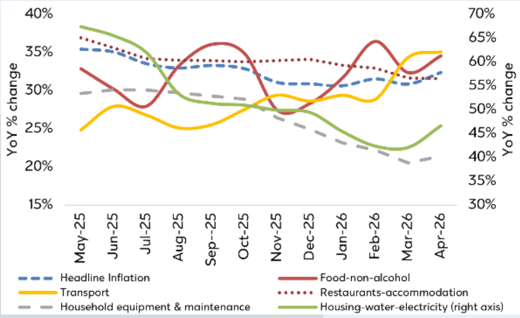
Source: Eurostat, Eurobank Research

Turkey

Inflationary pressures remain contained; GDP drivers soften before war

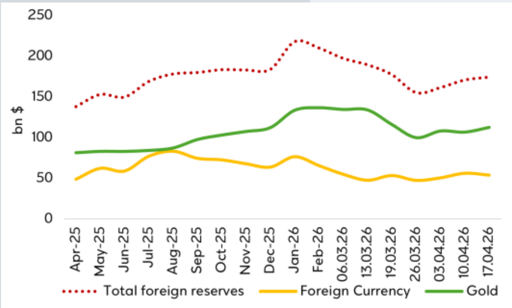
Despite persistent geopolitical tensions in Iran and the broader Middle East for a second consecutive month in April, along with limited anti-inflationary interventions by the government (fuel excise tax adjustments, measures to contain agricultural costs), inflation dynamics remained relatively contained. Headline inflation increased to 32.4%YoY from 30.9%YoY in March. The rise in inflation was mainly driven by housing-electricity, as well as food prices. The increase in the former component was largely anticipated, reflecting the 25% hike in household electricity tariffs since April 4. Electricity tariff hikes for businesses — 5.8% in industry, 17.5% in services and 24.8% in agriculture — are expected to gradually pass through to consumer prices in the next months. By contrast, transport prices rose modestly, by 0.7%YoY, suggesting that the fuel tax adjustments have been effective in containing price pressures. Although seasonally adjusted monthly inflation, an indicator closely monitored by the central bank of Turkey (TCMB) for monetary policy decisions, decelerated in March, leading indicators at the time of the rate setting meeting in April, pointed to its rebound in this month. Together with heightened volatility in energy prices due to the ongoing geopolitical developments, this led the TCMB to keep the policy rate unchanged at 37% for a second time, in line with our expectations. Looking ahead, second round effects from elevated energy costs and imported inputs are most likely to sustain inflationary pressures in the coming months. Against this backdrop, we expect the central bank to raise the policy rate by 100-150bps at its next meeting in June, tightening financing conditions. Credit dynamics already indicate some moderation, with real credit growth to non-financial corporates slowing to 6.9%YoY in March from 10.1%YoY in February, while household lending growth remained relatively robust, at 13.7%YoY from 12.3%YoY. On the fiscal side, the marked improvement in the 2025 budget balance, with the deficit narrowing to 2.9% from 4.7% of GDP in 2024, provides scope for support measures, e.g., for low-income households. High frequency indicators capturing the impact of recent geopolitical developments are not yet available. However, construction output growth, a major contributor to GDP growth in 2025, softened further in February, to 5.7%YoY from 8.1%YoY in January and 14.1%YoY in Q4. Activity in the services sector showed a partial recovery, increasing by 2.8%YoY after stagnation in January, remaining, however, below the pace in Q4 2025 (3.4%YoY).

Figure 25: The fuel excise tax adjustment and certain services (e.g., tourism) contain inflationary pressures



Source: Turkstat, Eurobank Research

Figure 26: Foreign reserves gradually recovering in April, mainly due to gold



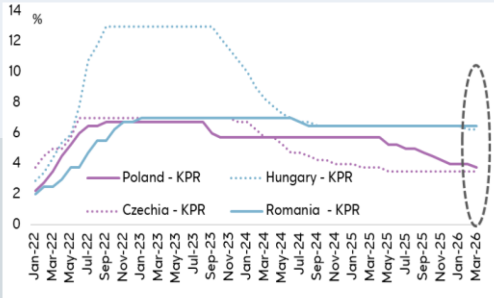
Source: Central Bank of Turkey, Eurobank Research

CESEE

Political risk drives growing economic divergence

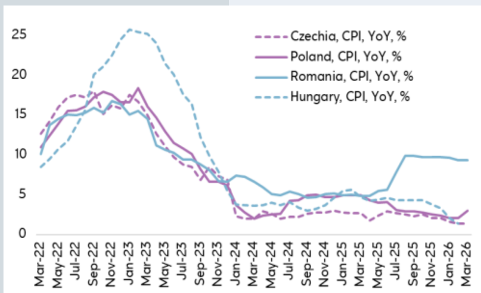
Recent political developments across the region are contributing to a more cautious macroeconomic outlook, as country-specific risks increasingly transmit into fiscal dynamics, market pricing and growth prospects. The region's long-standing convergence narrative is becoming more differentiated, with domestic policy credibility emerging as a key determinant of macro-financial performance. Hungary represents a case of improving sentiment following a political reset. The decisive electoral victory of Péter Magyar marked a shift in policy direction and triggered a positive market response, with equities strengthening on expectations of improved governance and closer alignment with the European Union. Planned reforms, particularly regarding EU fund allocation, competition policy and longer-term euro adoption, could support investment and enhance medium-term growth potential. However, the macroeconomic impact is likely to materialise gradually and remains contingent on the consistency of policy implementation. By contrast, Romania has emerged as the region's most acute source of macro-financial risk, where political instability is interacting with already fragile fundamentals. The collapse of the minority government in early May has significantly increased uncertainty around fiscal policy and reform continuity. This development comes at a time when Romania is managing the largest budget deficit in the EU, with consolidation efforts already constrained by structural rigidities and political resistance. The political outlook remains uncertain, with scenarios ranging from a fragile interim coalition to early elections that could further fragment the political landscape. In either case, the scope for decisive fiscal adjustment appears limited in the near term. The macroeconomic backdrop in Romania is also deteriorating. Growth slowed sharply to 0.7% in 2025, with only a modest recovery expected in 2026, while inflation remains elevated near 10%, driven partly by fiscal measures and persistent cost pressures. Elsewhere in the region, political developments are exerting more moderate but still notable economic effects. In Slovenia, ongoing political deadlock has so far had limited immediate macro impact but continues to weigh on reform momentum and medium-term growth prospects. Czechia highlights the importance of external transmission channels. Declining consumer and business confidence, linked to geopolitical tensions and energy market volatility, is weighing on domestic demand and raising risks of slower growth alongside renewed inflationary pressures. Overall, the region appears to be moving toward a more fragmented macroeconomic landscape, where political stability and policy credibility are increasingly central to sustaining favourable financing conditions and growth dynamics.

Figure 27: Room for accommodative monetary policy put under stress..



Source: Bloomberg, Eurobank Research

Figure 28: ..as the region's energy dependence becomes evident on price levels



Source: Bloomberg, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f
World	3.4	3.0	3.1	4.1	4.0	3.3									
Advanced Economies															
USA	2.1	2.2	2.0	2.7	3.3	2.4	4.3	4.4	4.3	-3.6	-3.2	-3.3	-5.9	-6.3	-6.4
Eurozone	1.4	0.9	1.3	2.1	2.8	2.1	6.3	6.3	6.2	2.6	1.5	1.5	-2.9	-3.3	-3.4
Germany	0.2	0.5	1.3	2.3	2.7	2.3	6.3	6.3	6.1	4.5	4.2	3.8	-2.7	-3.8	-4.1
France	0.9	0.8	1.0	0.9	2.0	1.7	7.7	8.0	7.9	-0.3	-0.3	-0.2	-5.1	-5.1	-5.0
Periphery															
Cyprus	3.8	2.6	3.5	0.8	2.8	2.1	4.4	4.6	4.3	-7.0	-6.6	-6.0	3.4	2.0	3.4
Italy	0.5	0.6	0.8	1.6	2.6	1.9	6.1	5.6	5.7	1.1	0.9	0.9	-3.1	-3.0	-2.8
Portugal	1.9	2.1	1.8	2.2	2.4	2.0	6.0	5.9	5.9	1.2	1.0	1.0	0.7	-0.2	-0.4
Spain	2.8	2.2	1.9	2.7	3.0	2.1	10.5	9.9	9.7	2.9	2.6	2.5	-2.4	-2.4	-2.4
UK	1.4	0.8	1.2	3.4	3.1	2.4	4.8	5.4	5.3	-2.4	-2.9	-2.6	-4.5	-3.8	-3.3
Japan	1.2	0.7	0.9	3.2	2.0	2.0	2.5	2.5	2.5	4.9	4.5	4.3	-1.4	-2.9	-3.0
Emerging Economies															
BRIC															
Brazil	2.3	1.8	1.8	5.0	4.5	3.9	6.0	5.8	6.0	-2.9	-2.7	-2.7	-8.3	-8.5	-7.9
China	5.0	4.6	4.4	0.1	1.0	1.1	5.2	5.1	5.1	3.8	3.0	2.8	-5.1	-5.4	-5.7
India	7.5	6.5	6.8	2.0	4.6	4.3	4.9	4.9	4.9	-1.0	-1.8	-1.5	-4.4	-4.4	-4.4
Russia	1.0	0.9	1.3	8.7	5.8	4.6	2.2	2.3	2.7	1.7	2.8	1.7	-2.6	-2.0	-1.5
CESEE															
Bulgaria	3.2	2.3	3.0	3.5	4.4	2.7	3.5	3.9	3.6	-5.7	-4.5	-2.3	-3.5	-3.9	-2.9
Turkey	3.6	3.1	3.6	35.2	30.0	23.7	8.4	8.7	8.5	-1.4	-2.8	-1.9	-2.9	-3.9	-3.4

Sources: European Commission, World Bank, IMF, OECD, Bureaus of National Statistics, Bloomberg, Eurobank Research

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Eurobank Fixed Income Forecasts

	Current	June 2026	September 2026	December 2026	January 2027
USA					
Fed Funds Rate	3.5-3.75%	3.48-3.73%	3.37-3.62%	3.21-3.46%	3.12-3.37%
3m SOFR	3.64%	3.6%	3.47%	3.36%	3.28%
2yr Notes	3.87%	3.68%	3.57%	3.47%	3.45%
10yr Bonds	4.35%	4.25%	4.2%	4.17%	4.16%
Eurozone					
Refi Rate	2.15%	2.3%	2.39%	2.41%	2.42%
3m Euribor	2.24%	2.31%	2.4%	2.42%	2.41%
2yr Bunds	2.56%	2.54%	2.51%	2.47%	2.4%
10yr Bunds	2.99%	3%	3%	2.98%	3%
UK					
Repo Rate	3.75%	3.79%	3.8%	3.73%	3.65%
3m Sonia	3.81%	3.63%	3.61%	3.56%	3.45%
10-yr Gilt	4.94%	4.7%	4.62%	4.53%	4.49%
Switzerland					
3m Saron	-0.04%	0.03%	0.03%	0.03%	0.03%
10yr Bond	0.37%	0.37%	0.42%	0.44%	0.46%

Source: Bloomberg (market implied forecasts)

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