

GLOBAL & REGIONAL MONTHLY

The global economy appears to be absorbing the war-driven energy supply shock better than initially feared. However, this resilience should be viewed with caution and may prove temporary. If disruptions persist and no near-term resolution to the Middle East conflict is reached, the effects on inflation and growth are likely to intensify, raising the risk that the initial supply shock evolves into broader inflationary pressure and much weaker growth prospects. With the global economy still relatively well supported, markets are increasingly focused on upside inflation risks, pricing in less accommodative monetary-policy paths for major central banks than before the onset of the conflict.

Macro Picture

USA: resilient activity, stable labour market and elevated inflation with upside risks

EA: inflation and activity data reinforce the narrative of an increasingly stagnant economy

China: cost-driven deflation adds complexity to uneven growth dynamics

CESEE: growth divergence widens as external shocks and domestic vulnerabilities intensify

Markets

FX: USD supported by economic data and market reassessment of inflationary pressures

Rates: EUR rates lower on perceived easing of energy price risk; USD rates at year-to-date highs

EM: positive performance in May supported by ceasefire announcements in the Middle East

Credit: remained resilient last month, with both cash and synthetics tightening

Policy Outlook

USA: Fed signals an extended hold; hikes likely on the table if inflation expectations de-anchor

EA: increasing risks of broadening price pressures likely prompt the ECB to tighten policy in June

Japan: rate hike at this month's meeting almost fully priced in as officials sound more hawkish

CESEE: policy rates on hold as central banks balance inflation risks and growth concerns

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 arise elsewhere; inflation expectations become de-anchored; energy-driven inflation becomes entrenched through second-round effects; sharply tighter global financial conditions; abrupt repricing in AI-related stocks; reescalation of trade tensions; more extensive risk repricing in financial markets

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Macro Views

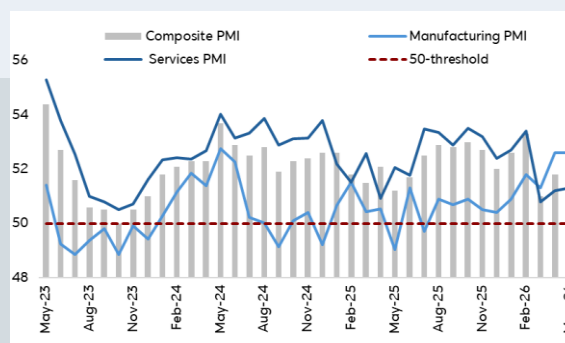
Global economy holds up, but energy-shock risks are building

The Middle East conflict has entered its fourth month. Although all parties appear intent on avoiding further escalation, renewed strikes between Israel and Iran are undermining hopes for an imminent and durable resolution. The main sticking points in any deal remain the future status of the Strait of Hormuz, the release of Iran's frozen assets, the fate of its stockpile of highly enriched uranium and developments in Lebanon.

So far, the global economy appears to be absorbing the war-driven energy supply shock better than initially feared. This resilience reflects the positive momentum carried into the year, tailwinds from the acceleration in AI-related spending, the drawdown of global oil inventories, reduced energy intensity due to the higher share of renewables in power generation and continued gains in energy efficiency. Consistent with this view, the global composite PMI held up surprisingly well in May for a second consecutive month, remaining in expansionary territory at 51.8, unchanged from April, after a sharp 2.3pt drop in March from February's near two-year high of 53.3 (Figure 1). The services PMI edged up 0.1pts to 51.3, signalling continued expansion in the sector, though it remained near the lower end of its range in recent years. The global manufacturing PMI outperformed, remaining the key driver of global resilience so far. It stood at a two-year high of 52.6, unchanged from April. Activity in the sector has been supported by the AI investment boom, but it has also been mechanically boosted by longer supplier delivery times linked to supply chain disruptions and front-loading activity, rather than by stronger underlying sentiment. Producers and buyers rushed to make purchases for the second consecutive month ahead of expected increases in input costs and potential supply shortages. This interpretation is also supported by the NY Fed's Global Supply Chain Pressure Index which stood at 1.77 in May, close to April's two-year high of 1.88 and well above the 0.55 average recorded in the first three months of the year.

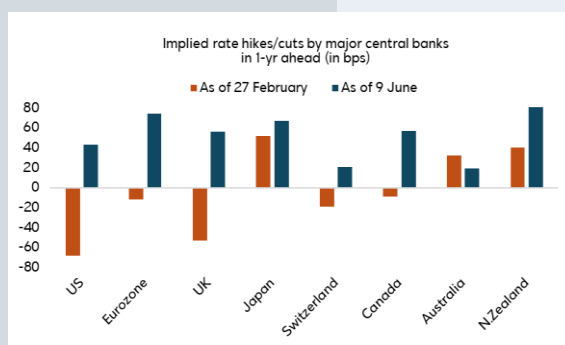
Against this backdrop, the global economy's recent resilience should be interpreted with caution and may prove temporary, especially if no resolution to the conflict is reached in the near term. Adding to cautionary signals around the global growth

Figure 1: Global economy has absorbed the energy shock better than initially feared



Source: Bloomberg, Eurobank Research

Figure 2: Markets now expect less accommodative policy paths than pre-conflict



Source: Bloomberg, Eurobank Research

outlook, the May PMI breakdown revealed a further decline in the new export orders component, while future output remained subdued compared with the January-February average. At the same time, the employment PMI fell sharply into contractionary territory, declining 0.9pts to 49.3, reinforcing the view that downside risks to global growth remain elevated. Economic performance also continued to diverge across countries. Among developed economies, the US continued to outperform, while within emerging markets, India and China led the way.

The direct impact of the energy-supply shock is already leaving an appreciable imprint on global inflation. OECD headline inflation rose further in April, up 0.4ppts from March and by a cumulative 1.0ppts since February, to 4.4%YoY, its highest level since January 2025. The increase was primarily driven by energy prices, which increased 13.2%YoY, which was 5.1ppts more than in March. OECD food inflation also increased, rising 0.4ppts to 4.0%, while core inflation remained broadly stable at 3.6% (3.64% unrounded) and little changed from the January-February average (3.61%). Worryingly, pipeline price pressures continue to build, and price pass-through remains a concern. The global PMI composite input cost index rose further in May across both manufacturing and services following sharp increases in the previous two months. Meanwhile, output prices ticked down but largely held on to April's spike, supporting concerns that inflationary pressures may prove more persistent in the coming quarters.

The energy shock is still relatively recent, so its macroeconomic impact has so far remained contained. Assuming the Strait of Hormuz reopens in the near term, allowing energy prices to ease gradually, Bloomberg consensus currently points to a modest slowdown in global GDP growth from 3.4% in 2025 to 2.9% in 2026, slightly below the 3.0% pre-conflict projection, followed by a modest recovery to 3.1% in 2027. Inflation is expected to average 4.0% in 2026, higher than the 3.3% forecast at the start of the year, but slightly below the 4.1% recorded in 2025.

However, the longer the disruptions persist, the larger the effects on inflation and growth are likely to become. Under such a scenario, the risk that the shock feeds into broader inflation pressures, de-anchors long-term inflation expectations and generates a wage-price spiral would increase. Meanwhile, consumer and business confidence would weaken, while investment and consumption would be curtailed. As a result, the initial supply shock would gradually morph into a demand shock, further weighing on growth prospects and pushing several economies around the globe into, or close to, recession. Consequently, downside risks to economic activity and upside risks to inflation remain elevated.

With the global economy still relatively well supported, markets are increasingly focused on upside inflation risks. This is consistent with signals from major central banks that the energy shock has delivered a sizeable inflationary impulse and could warrant a policy response if price pressures could broaden or inflation expectations become unanchored, ultimately feeding into wage and price-setting behaviour. As a result, markets are now pricing in less accommodative monetary-policy paths for major central banks than before the onset of the conflict (Figure 2).

Developed Economies

US: as a net energy importer in recent years, the economy remains broadly insulated from the impact of the Middle East conflict. Meanwhile, after the H2 2025 easing, the labour market appears to have stabilised in recent months, with conditions remaining solid overall. On inflation, pressures continue to build, as higher energy and commodity prices, along with supply chain disruptions related to the Iran conflict, add to existing pressures from trade tariffs and persistent core services stickiness. Against this backdrop, after several years of above-target inflation, the Fed appears to have moved away from an easing bias and shifted focus towards preserving inflation-fighting credibility. The April FOMC minutes revealed broad agreement in favour of an extended pause in rates, pending clearer evidence on the economic impact of the conflict. However, most policymakers have become increasingly concerned that elevated inflation could prove more persistent. In this context, they stressed that renewed tightening could be appropriate if price pressures and inflation expectations become de-anchored, ultimately feeding into wage and price-setting behaviour.

Euro area: incoming price and activity data are reinforcing the narrative of an increasingly stagnant economy, highlighting the economic fallout from the Middle East conflict. Q1 GDP growth was revised down to -0.2%QoQ from +0.1%QoQ in the flash estimate, largely due to Ireland (-12.1%QoQ). Meanwhile, early sentiment indicators point to continued weakness in Q2. At the same time, inflationary pressures continue to intensify. Headline inflation accelerated further in May, up 0.2ppts to 3.2%YoY, 1.4ppts above the January-February average. Unlike in previous months, when the increase was driven by energy inflation, the latest rise reflected stronger underlying price pressures. Core inflation re-accelerated, up 0.3ppts to a one-year high of 2.5%YoY on the back of higher services inflation (+0.5ppts to 3.5%YoY), potentially signalling early indirect effects, as price pressures appear to be spreading from energy to energy-sensitive core components. Against a backdrop of rising risks of broader inflationary pressures, markets expect the ECB to tighten policy at its 10-11 June meeting, despite signs of softer economic momentum, to prevent higher inflation from becoming entrenched.

Emerging Economies

EM: the macroeconomic landscape across emerging markets has become more challenging over the past month, with the escalation of tensions in the Middle East emerging as the dominant driver of economic and financial conditions. Higher energy prices are feeding into inflation, weighing on household purchasing power, pressuring external balances and complicating monetary policy decisions across regions. Global institutions have responded by lowering growth expectations. The OECD, IMF and World Bank have all revised down their 2026 forecasts for emerging economies, citing the impact of higher energy and food prices, weaker real incomes and disruptions to trade and investment flows. While growth is expected to remain positive, the outlook has become increasingly uneven across countries and regions. In emerging Asia, India continues to act as the region's growth anchor, supported by strong domestic demand and resilient economic activity, although rising energy costs and currency pressures pose risks to the outlook.

China remains characterised by a two-speed recovery, with robust exports and manufacturing offsetting weak domestic demand and subdued credit growth. In Latin America, macroeconomic conditions remain mixed. Argentina has benefited from improving fiscal and external fundamentals, while Brazil continues to navigate a delicate balance between inflation control and supporting growth. Mexico faces persistent investment weakness amid policy uncertainty and concerns over future trade relations with the United States. In the Middle East, elevated oil prices are supporting fiscal and external balances for energy exporters, although regional tensions continue to cloud the outlook. Overall, emerging markets remain resilient, but the external environment has become less supportive. The trajectory of the Middle East conflict will remain a critical determinant of the outlook through the second half of 2026.

CESEE: recent macroeconomic developments highlight an increasingly uneven regional landscape, with growth, inflation and fiscal dynamics diverging across countries. Poland remains the strongest growth performer, although softer retail sales and a contractionary manufacturing PMI suggest momentum is moderating. Hungary continues to recover gradually, supported by easing inflation and stronger household consumption, but concerns over fiscal sustainability remain elevated following the recent political transition. Czechia presents the most balanced macroeconomic profile, combining moderate growth, inflation close to target and improving manufacturing activity. By contrast, Romania remains the clear regional laggard, facing a combination of economic contraction, double-digit inflation, fiscal imbalances and heightened political uncertainty. Inflation dynamics have generally improved across the region, with Poland, Hungary and Czechia reporting inflation rates close to central bank targets. However, higher global energy prices are creating renewed upside risks, prompting policymakers to remain cautious. Romania remains the notable exception, with inflation continuing to significantly exceed regional peers.

Markets View

Foreign Exchange

EUR/USD: declined by around 0.6% during May, opening the month near 1.1731 and closing around 1.1659. The dollar strengthened over the course of the month as US economic data continued to surprise on the upside and markets reassessed the inflationary implications of the Iran conflict. After showing resilience early in May, the euro gradually lost momentum, with the pair drifting lower before stabilising just above 1.16. Since then, it has fallen further, however, standing at 1.1547 as of June 9. Looking ahead, labour market developments in the US are likely to remain key drivers for the pair.

USD/CHF: was barely changed in May, starting the month at 0.7814 and closing at 0.7810. While periods of geopolitical tension intermittently supported demand for safe-haven assets, gains in the Swiss franc remained limited. The SNB's continued focus on preventing excessive franc strength, together with subdued domestic inflation, helped keep the currency under pressure. As a result, the dollar was able to recover ground against the franc despite recurring bouts of market uncertainty. Moreover, the USD has further strengthened so far this month, increasing 1.95% month-to-date as of June 9.

Rates

EU: rates were pulled in two directions in May. A global inflation and real-rate repricing that lifted yields through mid-month was partly offset late in the month as the energy-inflation impulse eased with the US–Iran de-escalation. Brent fell roughly 19% — its worst month since the pandemic — closing near \$92/bbl as the two sides moved toward a 60-day ceasefire MOU and Strait of Hormuz disruption risk receded. The drop in energy unwound part of the inflation narrative that had dominated since February, paring ECB hike pricing from the April peak of around three hikes by December toward roughly two. The competing theme was growth: with the euro area heavily exposed to imported energy and German recession risk rising sharply, the data leaned softer even as the front end stayed anchored. EUR swaps closed lower on the month (5yr: 2.76%, 10yr: 2.97%, 30yr: 3.15%; respectively down 12bps, 10bps and 2bps MoM). The curve extended the April flattening in early May before stabilising and resteeptening into month-end as oil fell, while volatility peaked mid-month on the global repricing and eased as the ceasefire firmed. Looking ahead, EUR rates remain caught between an easing inflation tail and deteriorating growth, with domestic data — not geopolitical headlines — now the directional driver.

US: rates sold off to fresh year-to-date highs in May, a deeper move than EUR with further curve flattening. The repricing was driven less by oil (which fell over the month) than by hot realized inflation, the swearing-in of Kevin Warsh as Fed Chair, and a market shift from pricing no 2026 cuts to an outright hike by December. Yields spiked mid-month — the 30yr UST briefly through 5%, the 10yr to multi-month highs, the 2yr back above 4% — before printing year-to-date highs into Memorial Day week (SOFR month-end: 2yr:

3.89%, 5yr: 3.90%, 10yr: 4.06%, 30yr: 4.25%; up 23bps, 22bps, 16bps and 9.5bps MoM respectively). Crucially, much of the move came from higher real rates rather than breakevens, an effective tightening of financial conditions. The Warsh transition reinforced the hawkish read: despite Trump's persistent pressure for cuts, Warsh signalled no commitment to easing and prioritised inflation credibility, and with firm labour data and core PCE drifting toward ~3.2%, there is little room for a dovish turn. Volatility was elevated around the mid-month inflation prints and the leadership change, easing modestly into month-end. Looking forward, US rates remain highly reactive to the inflation path and Warsh's reaction function; near-term cuts look off the table, and the risk is skewed towards the first hike being pulled forward into late 2026.

Emerging Markets Sovereign Credit

EM markets tracked a positive month in May supported by ceasefire announcements in the Middle East which resulted in increased inflows, that modestly extended April's sharp reversal following a conflict-related selloff. The EMBI Global Index tightened by around 5bps and was around 215bps as of June 5. In CEE, Romania EUR denominated bonds outperformed with 10yr spreads tightening by 35bps in ASW to settle at 250bps on improved political sentiment regarding the formation of a technocratic government. Hungary continued its positive trend with the 10yr EUR bonds marked 12bps tighter in ASW at 97bps during the period as investors' appetite remains elevated following April's election outcome.

In Asia, a selloff in Indonesian assets weighed on sovereign bonds with 10yr USD denominated paper widening 13bps in ASW, ending the period between the end of April and June 5 at around 138bps amid ongoing fiscal concerns. In Latam, Chile emerged as the region's outperformer, with the 10yr USD bonds tightening by 6bps in ASW, closing at 106bps. Mexico's 10yr USD closed unchanged in ASW at 195bps as a downgrade by Moodys weighed on the positive momentum. Heading into the summer period, we continue maintaining a cautious approach as risk sentiment remains volatile and thus sensitive for a market trades at multi-year tight levels.

Corporate Credit

May was driven by Middle East newsflow, but this time markets initially focused on the possibility of de-escalation. Hopes for a US-Iran deal and a potential reopening of the Strait of Hormuz helped Brent fall sharply, down 19.3% to c.\$92/bbl, before renewed strikes between Iran and Israel pushed oil higher again in early June. Risk assets rallied through most of May as lower oil prices eased stagflation fears and AI momentum returned. However, the tone turned more cautious after the stronger-than-expected May payrolls report triggered a hawkish Fed repricing, with markets moving to fully price a Fed hike by December. This drove a broad US equity sell-off, led by tech weakness. In Europe, the STOXX 600 was up 1.9% from the end of April to June 5, while in the US, the S&P 500 rose 2.4% during this period and the

NASDAQ advanced +3.3%, despite the latter falling as much as c.-4.2% intraday on Friday, June 5, after the release of payrolls report.

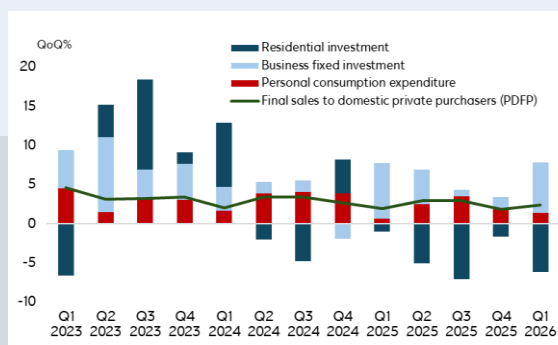
Credit has held up better, with both cash and synthetics tightening, although very strong primary issuance in Europe has slightly weighed on cash performance. Since 1 May, iTraxx Main has tightened 4.5bps to 55bps, while iTraxx Crossover has tightened 24.7bps to 268bps. In Euro IG cash, spreads are 3.8bps tighter, while HY cash has tightened 6.7bps, with Energy and Materials outperforming.

US

Fed concerns over elevated inflation shift focus toward preserving credibility

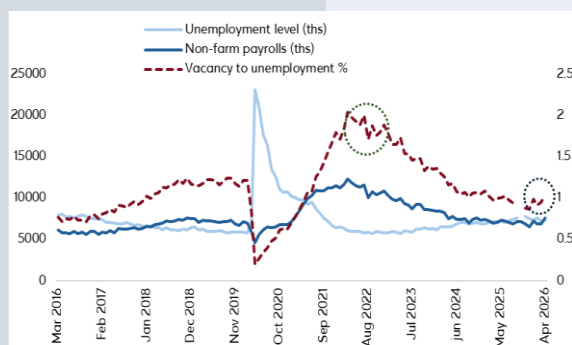
As a net energy importer in recent years, the economy remains broadly insulated from the impact of the Middle East conflict. GDP expanded 1.6%QoQ saar in Q1, revised down from the 2.0%QoQ saar initially reported, following downward revisions to consumer spending (-0.2ppts to 1.4%QoQ) and a slower pace of inventory drawdown. Even so, final sales growth to private domestic purchasers held steady at 2.4%QoQ saar, with AI investment offsetting softer consumption. Early Q2 data point to continued resilience. Industrial production rose more than expected in April (+0.7%MoM), a marked improvement from the 2025 monthly average (+0.1%MoM), driven by manufacturing output (+0.6%MoM), particularly durable goods, supported by robust AI-related investment. Similarly, April retail sales control group growth (which excludes volatile categories such as gasoline sales) remained solid (+0.5%MoM), albeit below the Q1 average (+0.7%MoM), indicating some moderation in consumer spending, partly due to slower income growth mainly as a result of softer gains in employment compensation (average hourly earnings up an average 3.6%YoY in January-May compared with 4.0% in 2025). Nonetheless, consumer spending continues to hold up, supported by tax refunds linked to the Trump tax reform law, and still-favourable household balance sheets. Meanwhile, after the H2 2025 easing, the labour market appears to have stabilised in recent months, with conditions remaining solid overall, though less tight than in previous years. On inflation, pressures continue to build, as higher energy and commodity prices, along with supply chain disruptions related to the Iran conflict, add to existing pressures from trade tariffs and persistent core services stickiness. Against this backdrop, after several years of above-target inflation, the Fed appears to have moved away from an easing bias and shifted focus towards preserving inflation-fighting credibility. The April FOMC minutes revealed broad agreement in favour of an extended pause in rates, pending clearer evidence on the economic impact of the conflict. However, most policymakers have become increasingly concerned that elevated inflation could prove more persistent. In this context, they stressed that renewed tightening could be appropriate if price pressures and inflation expectations become de-anchored, ultimately feeding into wage and price-setting behaviour. Markets are now almost fully pricing in a 25bp rate hike in late 2026.

Figure 3: PDPF remains solid; stronger business fixed investment offsets softer PCE



Source: BLS, Eurobank Research

Figure 4: The labour market is tight, but much less so than a few years ago



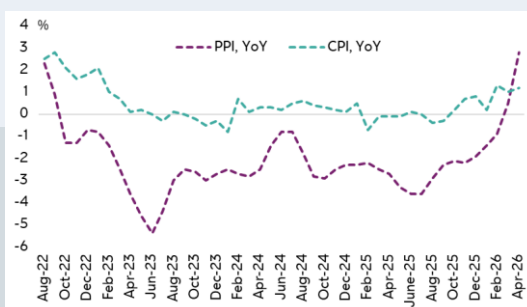
Source: BLS, Eurobank Research

China

Export strength masks subdued domestic demand and weak credit creation

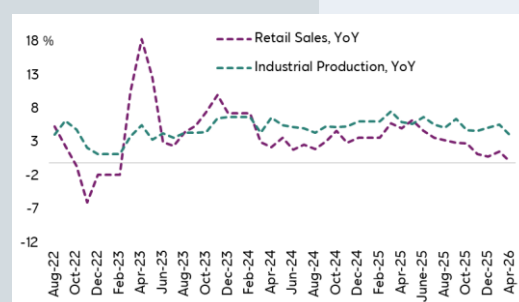
Recent macroeconomic data paint a picture of an increasingly bifurcated economy, where resilient external demand continues to offset weakness in domestic activity. While growth remains supported by exports and industrial profitability, household consumption, investment and credit demand continue to underperform, highlighting persistent structural challenges. A notable development over the past month has been the re-emergence of inflationary pressures. Consumer inflation accelerated to 1.2%YoY in April, while producer prices rose 2.8%YoY, the fastest pace since mid-2022. The sharp increase in producer prices was primarily driven by higher global energy costs following the escalation of tensions in the Middle East. While this marks a clear departure from the deflationary environment that characterized much of the past three years, the reflation impulse remains largely externally driven rather than a reflection of stronger domestic demand. Domestic activity indicators remain soft. Retail sales growth slowed sharply to just 0.2%YoY in April, reflecting subdued consumer confidence, fading policy support measures and ongoing weakness in the property sector. Industrial production expanded by 4.1%YoY, but at a slower pace than earlier in the year. More concerning, fixed-asset investment contracted during the first four months of 2026, signalling deteriorating private-sector confidence and a fragile recovery trajectory. By contrast, the external sector continues to outperform. Exports surged 14.1%YoY in April, supported by robust demand for technology and AI-related products, while industrial profits rose nearly 25%YoY, their strongest increase in more than two years. These developments underscore the economy's continued reliance on manufacturing competitiveness and external demand as key growth drivers. Policy signals remain mixed. Fiscal spending contracted, while aggregate financing and new bank lending fell sharply, pointing to weak underlying credit demand. At the same time, the People's Bank of China has maintained ample liquidity conditions, suggesting a continued easing bias. Rising foreign exchange reserves and ongoing local government debt restructuring have helped preserve financial stability, although tighter capital controls indicate growing concern over capital outflows and currency management. Overall, the economy continues to exhibit an uneven recovery, with export strength and industrial resilience offsetting subdued domestic demand, weak credit creation and lingering structural headwinds.

Figure 5: Reflation reflects cost pressures rather than demand strength



Source: Bloomberg, Eurobank Research

Figure 6: Activity data point to weakening domestic demand



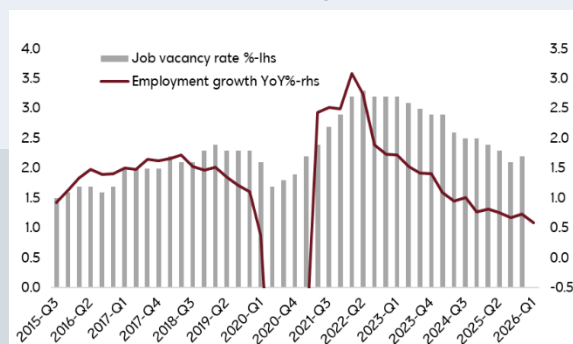
Source: Bloomberg, Eurobank Research

Euro area

Incoming price and activity data consistent with a stagflationary environment

Incoming price and activity data are reinforcing the narrative of an increasingly stagnant economy, highlighting the economic fallout from the Middle East conflict. Q1 GDP growth was revised down to -0.2%QoQ from +0.1%QoQ in the flash estimate, largely due to Ireland (-12.1%QoQ). Meanwhile, early sentiment indicators point to continued weakness in Q2. The composite PMI fell for a third consecutive month in May to 48.5, down 0.3pts from April and 3.4pts since the outbreak of the war. This marks its lowest level in 18 months and is typically consistent with a mild contraction in activity. The services PMI edged up from April's five-year low (+0.1pts to 47.7), while the manufacturing PMI dropped (-0.6pts to 51.6), though it remained in expansionary territory, supported by inventory accumulation ahead of expected price increases and potential supply chain disruptions. Consumer sentiment improved modestly in May (+1.6pts to 19) but remained near end-2022 levels, reflecting persistent concerns about the economic outlook and households' financial conditions. Adding to growth concerns, labour market conditions are gradually loosening, with employment growth slowing (+0.6%YoY in Q1, the lowest rate in almost four years), while May's forward-looking PMI employment indicator points to additional softening ahead. At the same time, inflationary pressures continue to intensify. Headline inflation accelerated further in May, up 0.2ppts to 3.2%YoY, 1.4ppts above the January-February average. Unlike in previous months, when the increase was driven by energy inflation, the latest rise reflected stronger underlying price pressures. Core inflation re-accelerated, up 0.3ppts to a one-year high of 2.5%YoY on the back of higher services inflation (+0.5ppts to 3.5%YoY), potentially signalling early indirect effects, as price pressures appear to be spreading from energy to energy-sensitive core components. Meanwhile, price pressures are building, with industrial producer prices rising sharply in March (3.4%MoM vs. -0.7%MoM in February), while the EC's business surveys indicated increasing pricing pressures across a broad range of sectors. Against a backdrop of rising risks of broader inflationary pressures, markets expect the ECB to tighten policy at its 10-11 June meeting, despite signs of softer economic momentum, to prevent higher inflation from becoming entrenched. Beyond June, policy decisions are likely to remain highly data-dependent and contingent on the evolving balance of risks to medium-term inflation. However, subdued demand limits the case for a forceful policy response.

Figure 7: Labour market conditions are easing



Source: Eurostat, Eurobank Research

Figure 8: Pipeline price pressures are building



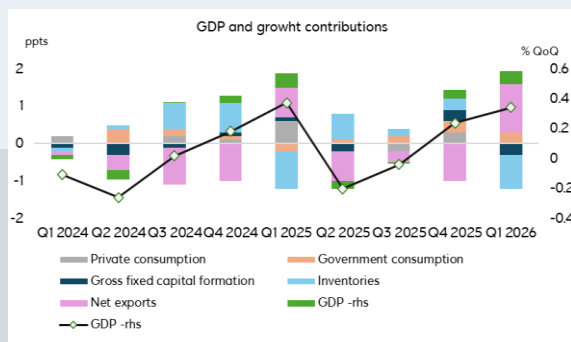
Source: European Commission, Eurobank Research

Germany

Strong start to year, 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. The German Statistical Office (Destatis) confirmed GDP grew 0.3%QoQ in Q1, its strongest performance since Q1 2025. The expenditure breakdown showed that net exports were the main growth contributor (+1.3ppts). Public spending also supported activity (+0.3ppts), suggesting that fiscal support is already feeding through. This positive development was tempered by a renewed decline in gross fixed capital formation (-1.5%QoQ) after two consecutive quarters of expansion, raising questions about the pace at which fiscal stimulus — defence and infrastructure — is being deployed. Construction fell sharply (-2.5%QoQ), partly owing to adverse weather conditions. However, the renewed decline in machinery and equipment (-1.2%QoQ) was attributed by Destatis to weaker government investment, suggesting that the infrastructure component of the fiscal package is materialising only slowly. Household consumption also remained subdued (+0.4%QoQ), while inventories subtracted significantly from economic activity (-0.9ppts). That said, this positive start to the year is unlikely to be sustained. The impact of the ongoing energy shock is expected to become more pronounced in Q2, with weak sentiment indicators pointing to an increased risk of stagflation, or even a mild contraction. The Ifo business climate index recovered slightly in May (+0.5ppts to 84.5) but remained near multi-year lows. Similarly, the composite PMI edged up (+0.4pts to 48.8), yet stayed firmly in contractionary territory. Ongoing geopolitical uncertainty and higher input costs are likely to place further pressure on investment, while net exports are unlikely to repeat their strong Q1 contribution, which was probably boosted by front-loading as firms sought to guard against potential shortages. Private consumption is unlikely to strengthen meaningfully, given the inflation-driven loss of purchasing power (HICP inflation at 2.7%YoY in May), slowing wage growth and the deteriorating labour market (employment growth has turned negative on an annual basis for two consecutive quarters). Against this backdrop, the public sector is likely to remain the only source of support for growth in Q2. Assuming a near-term de-escalation in the Middle East and the reopening of the Strait of Hormuz, economic activity is expected to recover in H2, bringing full-year GDP growth to 0.5%.

Figure 9: GDP grew in Q1 supported by net exports and public consumption



Source: Destatis, Eurobank Research

Figure 10: Wage growth is slowing, likely to act as a drag on private consumption



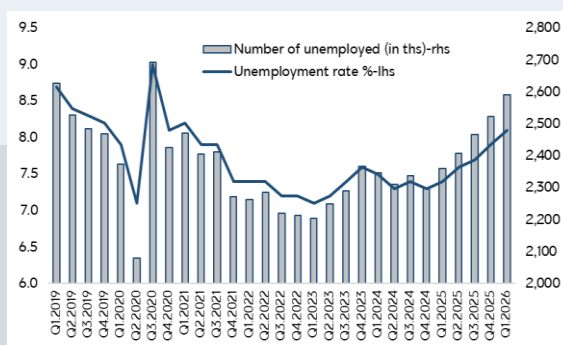
Source: Bundesbank, Eurobank Research

France

Contraction at start of year leaves country on brink of a technical recession

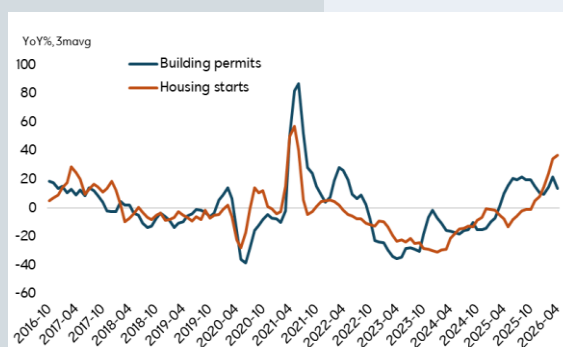
The economy slipped back into negative growth, with Q1 GDP revised down to -0.1%QoQ (+0.9%YoY) from the flat preliminary estimate. Looking ahead to Q2, high-frequency indicators point to a further loss of momentum, raising the risk of a technical recession. The composite PMI fell by a further 2.7pts in May, dropping deeper into contractionary territory at 44.9 and bringing the cumulative decline since February to 5pts. Other survey indicators paint a similarly weak picture. The INSEE business climate indicator declined for a fourth consecutive month in May to 93.6, its lowest level since early 2021, marking a sharp reversal from a one-and-a-half-year high of 99.4 reached in January. Household sentiment has also weakened. INSEE consumer confidence fell for a third consecutive month in May, to 82, down 9pts from its February one-year high, reflecting growing pessimism regarding households' financial situation and a reduced willingness to make major purchases, consistent with the renewed decline in consumer goods spending in April (-0.5%MoM). At the same time, the energy-driven rise in inflation is eroding purchasing power and weighing on private consumption. Headline inflation accelerated further in May, to 2.8%YoY, from 1.1%YoY in February, though it remains below the euro area average. Labour market conditions have also softened. The unemployment rate rose 0.2ppts in Q1 to 8.1%, moving above the 8% threshold for the first time in seven years (though part of this increase reflects the impact of a late-2023 labour market reform that reclassified some previously inactive individuals as unemployed). While the economy is clearly slowing, a deep contraction is not our baseline. Residential investment is expected to strengthen, consistent with the recent improvement in housing starts, while France remains less exposed to the energy shock than many of its euro area peers thanks to its strong nuclear capacity. Moreover, some of the weakness reflected in May survey data may overstate the underlying deterioration due to technical distortions (May 2026 had an unusually high number of public holidays). Under our baseline scenario, 2026 GDP growth is projected at 0.7% GDP, while inflation is expected to average 2.2%, assuming a gradual near-term easing of geopolitical tensions and a normalisation of shipping and energy flows through the Strait of Hormuz.

Figure 11: Labour market conditions are on a softening trend



Source: INSEE, Eurobank Research

Figure 12: The recent rise in housing starts bodes well for residential investment



Source: INSEE, Eurobank Research

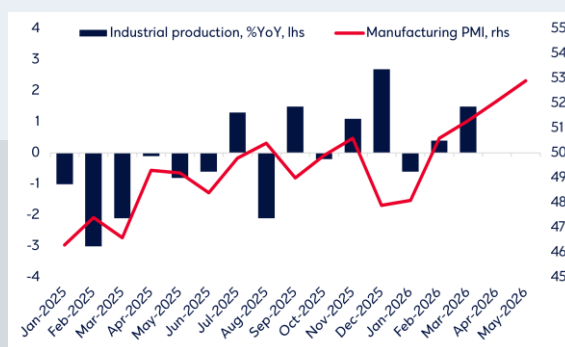
Italy

Industrial recovery gains traction, but domestic demand remains fragile

The country's manufacturing outlook continues to improve, but the recovery is becoming difficult to disentangle from distortions linked to the Strait of Hormuz shock. The hard-data signal strengthened, with March industrial production increasing 0.7%MoM (vs 0.2%MoM expected) and 1.5%YoY, while the manufacturing PMI rose to 52.9 in May from 52.1, its highest level since April 2022. However, the improvement was driven in part by precautionary behaviour rather than strengthening final demand. The PMI release noted renewed growth in new orders, but partly linked this to clients' efforts to build safety stocks amid shortages and expected price increases.

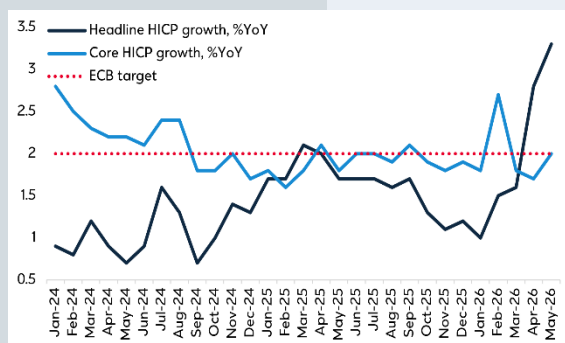
Against that backdrop, the more cautious message from confidence indicators still points to a recovery that is real but narrow: manufacturing confidence was unchanged on the month at 87.9, slightly above the 87.6 consensus estimate, while broader economic sentiment fell to 94.1 from 95.2, extending its drift lower and highlighting that the manufacturing improvement has yet to translate into a broad-based strengthening in activity. The impending ECB tightening poses a risk to this tentative recovery. Given the capital intensiveness of industry, the country's manufacturing stabilisation is linked to improving bank lending to businesses, which leaves the sector vulnerable if policy tightens into an energy shock. That said, Italy's latest inflation print offers a reminder of the reasons for that monetary tightening. Preliminary May HICP rose 3.3%YoY, compared with 2.8%YoY the month before. Energy prices surged 12.0%YoY, compared with 9.3%YoY in April. But the policy trade-off remains awkward, because tighter settings would largely be responding to the energy shock at a time when domestic demand is still soft. Services PMI fell to 49.4 in May from 49.8 in April, retail sales were flat in April after 0.8%MoM growth previously, and the 0.3%QoQ GDP growth registered in Q1 was driven by net exports, which contributed 0.7ppts to headline growth. Changes to inventories were the main drag on Q1 growth, subtracting 1.1ppts. The labour market remains one source of support, however. April employment rose 0.5%MoM, the employment rate increased to 63.1% and unemployment fell to 5.1%, its lowest level on record, compared with consensus expectations for an increase to 5.3%. That should help household incomes, but with consumer-facing indicators still weak, stronger labour-market conditions are not yet translating into a broad-based rebound in demand.

Figure 13: PMI data points to a continued, fragile recovery in manufacturing



Source: Istat, S&P Global, Bloomberg, Eurobank Research

Figure 14: The surge in energy prices pushed headline inflation to 3.3%YoY in May



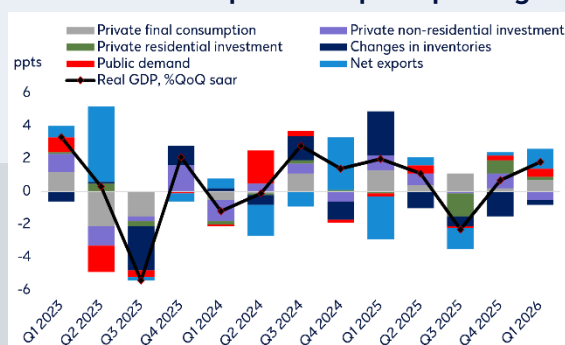
Source: Istat, Bloomberg, Eurobank Research

Japan

BoJ likely to hike interest rates in June as recent data show steady momentum

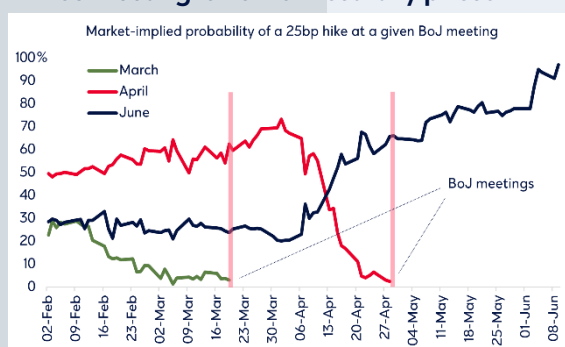
The latest macroeconomic data from Japan show resilient, albeit uneven, momentum, shoring up the case for a long-awaited continuation of the central bank's monetary tightening. GDP expanded an annualised 1.8%QoQ in Q1, compared with 0.7%QoQ saar in Q4 2025, downwardly revised from the flash estimate of 2.1%QoQ. The revised figure was expected to come in lower, so the upward surprise relative to both the pre-flash-release consensus (+1.7%QoQ saar) and the revised-print consensus (+1.4%QoQ saar) was a sign of robustness. An earlier release for Q1 capital spending showed an unexpected flat reading in YoY terms following a 6.5%YoY expansion in Q4, pointing to softer business investment and explaining part of the downward revision to the national accounts. Still, the broader activity picture remains solid. April retail sales and industrial production both surprised to the upside, while the manufacturing PMI remained firmly in expansionary territory in May – albeit with the caveat, as in other countries, that this was boosted by stock building due to supply-chain disruptions from the Middle East conflict. That said, another concern is a lack of breadth: services momentum has cooled, and the composite PMI now points to only modest expansion. Taken together, the data show the economy is far from overheating, but also not weak enough to give the Bank of Japan a clear reason to further delay its monetary policy normalisation, even taking account of recent soft CPI prints. Headline inflation slowed 0.1ppts to 1.4%YoY in April, versus consensus expectations for an increase of 1.6%YoY, while the core rate that excludes fresh food also slowed to 1.4%YoY from 1.8%YoY in March. In May, Tokyo's CPI rate – seen as a leading indicator for the nationwide trend – also unexpectedly slowed by 0.1ppts to 1.4%YoY. However, the disinflation was largely driven by base effects and government cost-of-living measures, including lower gasoline prices and reduced education fees, rather than reflecting easing underlying price pressure. In terms of input costs, the producer price index grew 4.9%YoY in April, compared with 2.9%YoY in March and above the consensus estimate for 3.0%YoY. This helps explain why recent BoJ communication has turned more hawkish, while the case for a June rate hike is also reinforced by real wages, which grew for a fourth consecutive month in April. Market pricing implies a 95% probability that the BoJ will raise the policy rate 25bps to 1.0% at its June 16 meeting, with a cumulative 47bps of tightening priced in through December.

Figure 15: Domestic demand retained Q1 momentum despite flat capital spending



Source: Bloomberg, Eurobank Research

Figure 16: A 25bp policy rate hike at June's BoJ meeting is now almost fully priced in



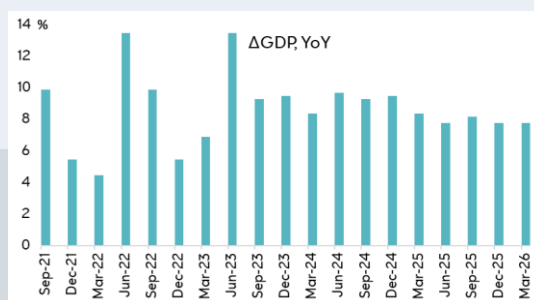
Source: Bloomberg, Eurobank Research

India

Strong growth meets rising external pressures

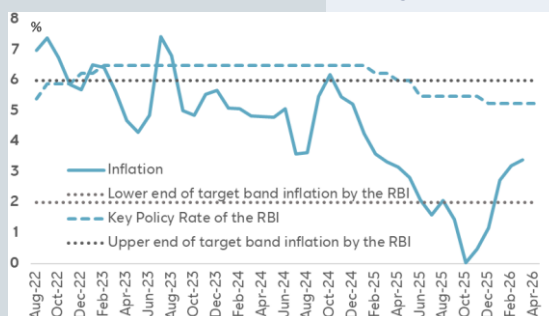
The macroeconomic performance has remained robust over the past month, supported by robust domestic activity and strong external services receipts. However, rising energy prices and currency pressures linked to geopolitical tensions in the Middle East are beginning to test the economy's resilience, creating a more challenging policy environment. Real GDP expanded by 7.8%YoY in the first quarter of 2026, maintaining India's position among the fastest-growing major economies. High-frequency indicators also point to continued economic momentum. Industrial production rose by 4.9%YoY in April, while business surveys remained firmly expansionary, with the manufacturing and services PMIs reaching 55.0 and 59.8 respectively. These readings suggest that underlying activity remains robust despite a less supportive global backdrop. Inflation dynamics, however, present a more nuanced picture. Headline consumer inflation remained contained at 3.5%YoY in April, below the Reserve Bank of India's (RBI) target. By contrast, wholesale price inflation accelerated sharply to 8.3%YoY, driven largely by rising fuel and energy costs. The widening gap between producer and consumer prices suggests mounting cost pressures across supply chains, raising the risk of future pass-through to consumers and corporate margin compression. The external sector has delivered a positive surprise. Despite a sizeable merchandise trade deficit, India recorded a current account surplus of 0.7% of GDP in the first quarter, supported by strong services exports and resilient remittance in-flows. Foreign exchange reserves remained elevated at over USD680bn, providing an important buffer against external shocks. Monetary policy has become increasingly focused on preserving macroeconomic stability. The RBI left its policy rate unchanged at 5.25%, balancing the need to support growth against rising inflation risks stemming from higher energy prices. At the same time, policymakers introduced a series of measures aimed at supporting the rupee and attracting foreign capital after the currency came under significant depreciation pressure. Recent stabilisation in foreign exchange reserves suggests these measures have begun to alleviate market concerns. Overall, India's economy continues to benefit from strong structural growth fundamentals. Nevertheless, the combination of higher energy costs, currency pressures and potential inflation pass-through effects represents an important downside risk, requiring continued policy vigilance in the coming few months ahead.

Figure 17: India continues to outperform on growth..



Source: MOSPI, Eurobank Research

Figure 18: ..however, renewed inflation pressures test the RBI's easing path



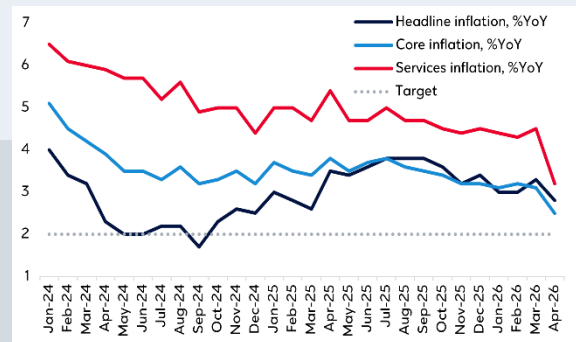
Source: RBI, Eurobank Research

UK

Deceptive fall in inflation rate masks underlying trade-off for monetary policy

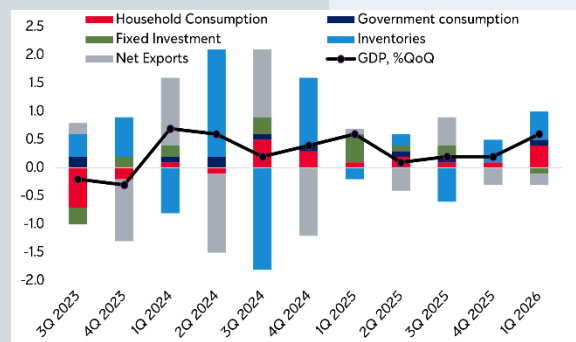
The UK saw its inflation rate drop in the latest reading, just as it rose in most peer economies on the energy shock, reflecting the regulatory cap on household energy prices. The headline rate slowed by 0.5ppts to 2.8%YoY in April, below the consensus expectation of 3.0%YoY. Core inflation also decelerated more than expected, to 2.5%YoY from 3.1%YoY in March, its lowest reading in almost five years, while the country's previously sticky services inflation dropped 1.3ppts to 3.2%. However, this deceleration offers little respite for policymakers as it was driven by the mechanical drop in household energy bills that came into effect in April, rather than by a clear easing in underlying price pressure. The UK's Ofgem price-cap mechanism means that part of the shock's pass-through is delayed rather than avoided, with the July–October reset likely to be the critical test. In its concluding statement on the latest UK Article IV mission, the IMF projected headline growth CPI will peak just below 4% at the end of 2026 before easing in H2 2027 and returning to the 2% target by end-2027, provided higher energy prices do not trigger stronger second-round effects in wages and core inflation. Meanwhile, last month's release of Q1 GDP showed that the UK economy entered the current crisis from a place of relative resilience. Economic output expanded 0.6%QoQ, compared with 0.2%QoQ in Q4 2025. The biggest growth contribution came from changes to inventories, but household consumption also rose by 0.6%QoQ, resulting in its biggest contribution to headline growth since Q3 2024. Following the disruption from the Middle East shock, more forward-looking survey indicators now point to a loss of momentum, particularly in services. The services PMI fell to 49.3 in May from 52.7 in April, dropping below the 50.0 no-change threshold for the first time in a year, while the composite index fell to 49.7 from 52.6. Labour-market data also point to a softer underlying picture, with unemployment rising back to 5.0% in March and vacancies falling to a post-pandemic low of 705k in April, suggesting that firms are becoming more cautious on hiring. The Bank of England, caught between softer activity and an uncomfortable inflation backdrop, remains in data-dependent mode and is widely expected to hold the policy rate at 3.75% at this month's meeting. But if the cap-driven rebound in headline inflation feeds into services prices or wage-setting, the Monetary Policy Committee may be forced back towards a tightening bias even as growth momentum fades.

Figure 19: The big drop off in inflation seen in April is likely to just be temporary



Source: ONS, Bloomberg, Eurobank Research

Figure 20: Household consumption in Q1 contributed most to GDP since Q3 2024



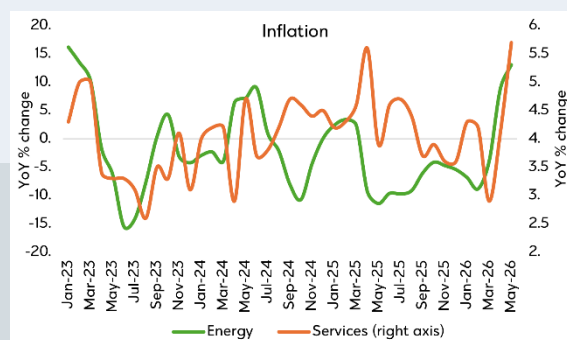
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Imports drag on Q1 growth; tourism softens, construction stays supportive

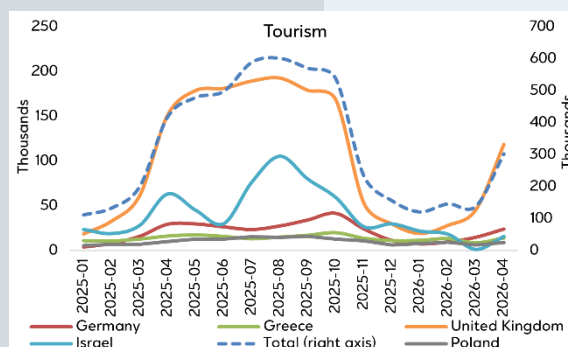
GDP growth slowed to 3.0%YoY in Q1 2026 from 4.3%YoY in Q4 2025, marking the weakest outturn in ten quarters. The slowdown was primarily driven by a negative contribution from net exports. Although both exports and imports expanded at a robust pace in Q1 (10.5%YoY and 10.4%YoY, respectively), the net trade contribution deteriorated from the previous quarter, when exports increased modestly (+3.4%YoY) and imports contracted (-3.9%YoY). The rebound in imports largely reflects base effects related to transport equipment (ships, aircraft). Domestic demand dynamics improved across components. Private consumption growth accelerated to 4.9%YoY from 3.6%YoY in Q4, supported by still-favourable labour market conditions, with unemployment declining to a Q1 record low of 4.0%. Gross fixed capital formation contracted for a second quarter, albeit at a much slower pace (-6.9%YoY vs. -21.7%YoY), largely reflecting the rebound in transport equipment imports. Looking ahead, tourism and transport are expected to bear the brunt of the ongoing Middle East tensions. After record-high tourist arrivals and receipts in 2025, the impact on the sector is likely to be significant and is already visible in the sharp decline in arrivals in March–April (-28.6%YoY), compared with a 9.1%YoY increase recorded in the first two months of the year. Weakness in these activities is likely to spill over to employment in affected and adjacent sectors (e.g., storage and retail trade), putting downward pressure on household disposable income. Indeed, the number of registered unemployed increased by 9.0%YoY in April–May, reversing the 2.2%YoY decline seen in Q1. Household consumption is also likely to face additional headwinds from rising inflation, which accelerated to 3.7%YoY in May from 0.9%YoY in February, as second-round effects from the surge in energy prices (+20.2%YoY in May) fed into services costs. These pressures should be partially offset by a higher wage indexation adjustment (90% in July, up from 66.5% in previous years). On the investment side, prospects for the construction sector remain supportive. Leading indicators, including a strong increase in building permits and authorised surface area in H2 2025 and January 2026, point to a potential re-acceleration of activity. This outlook is reinforced by robust housing credit growth in Q1 (+24.5%YoY) and points to continued resilience in residential construction despite broader macroeconomic headwinds.

Figure 21: There are significant lagged effects from energy prices on services costs



Source: Eurostat, Eurobank Research

Figure 22: The decline in tourists in March–April is mainly from a few traditional markets



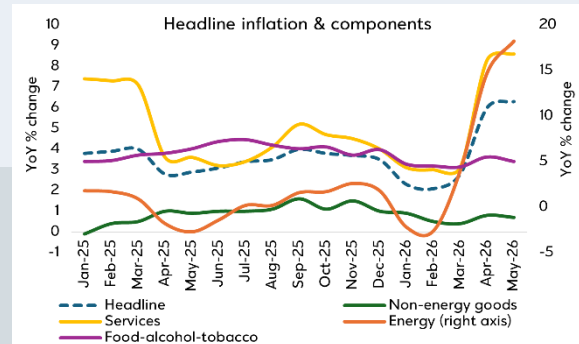
Source: CYPSTAT, Eurobank Research

Bulgaria

GDP growth remained resilient in Q1; fiscal slippage means country faces EDP

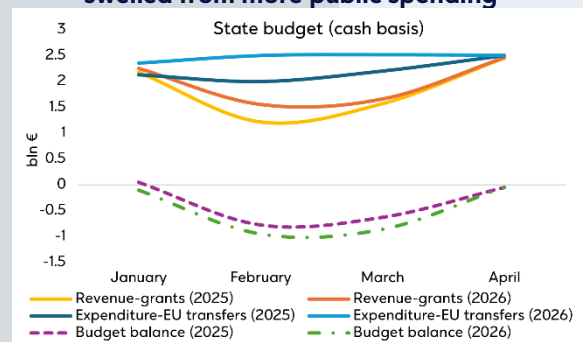
Economic activity remained resilient in Q1 2026, with GDP growth accelerating marginally to 3.1%YoY from 2.9%YoY in Q4 2025. Growth continued to be driven primarily by domestic demand, as household consumption expanded by a strong 9.4%YoY and gross capital formation surged by 18.7%YoY, marking the fastest pace in four years. Robust labour market conditions, with unemployment at a historical low of 3.2%, along with solid consumer credit growth (+13.2%YoY), supported private consumption. By contrast, net exports deteriorated, as exports declined sharply by 7.4%YoY (vs. a small decline of 0.7%YoY in Q4), while imports remained robust (+8.2%YoY after +11.1%YoY). Looking ahead, the formation of a single-party government has significantly reduced political uncertainty. As previously noted, the immediate policy agenda is dominated by two key challenges: the ratification of the 2026 budget and the management of intensifying inflationary pressures. Against this backdrop, and taking into account the 2025 fiscal deficit of 3.5% of GDP and elevated net expenditure growth last year (even after incorporating the defense spending derogation), the European Commission has indicated, that it is considering opening an Excessive Deficit Procedure for Bulgaria. A formal decision on the issue is expected at the ECOFIN meeting on 10 July. Meanwhile, the new Finance Minister Galab Donev has announced a set of expenditure restraint measures, including a 10% reduction in personnel costs across the public sector as of September, the decoupling of high-level public wages from the national average wage, and the introduction of a salary cap for civil servants. However, the envisaged personnel cost adjustment relies on staff reductions rather than wage cuts, raising implementation challenges in the short term. At the same time, the 5% increase in public sector wages, approved by parliament in mid-March, remains in place. Overall, the limited scope of the proposed measures raises uncertainty regarding their adequacy in delivering a meaningful reduction in the fiscal deficit. The deterioration in public finances also constrains the authorities' capacity to implement relief measures to counter rising inflation. Headline inflation accelerated further, reaching 6.3%YoY in May, up from 6.0%YoY in April. The latest increase was driven by energy inflation rising to 18.2%YoY from 14.7%YoY. In this context, the planned but not yet implemented, subsidy schemes for energy-intensive firms could help mitigate second-round effects from energy costs.

Figure 23: Energy inflation is feeding into services; not yet food and non-energy goods



Source: Eurostat, Eurobank Research

Figure 24: Jan-Apr 2026 (+39.1%YoY) deficit swelled from more public spending



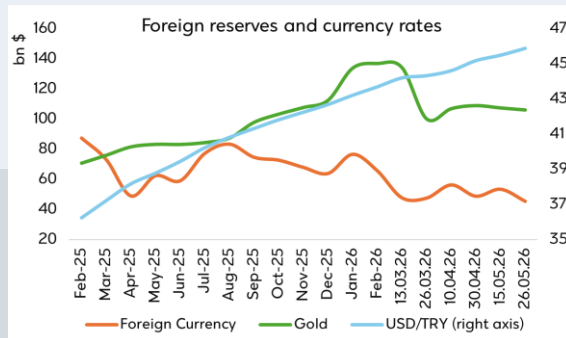
Source: Ministry of Finance, Eurobank Research

Turkey

Growth slowdown in Q1 driven by weaker external demand and investment

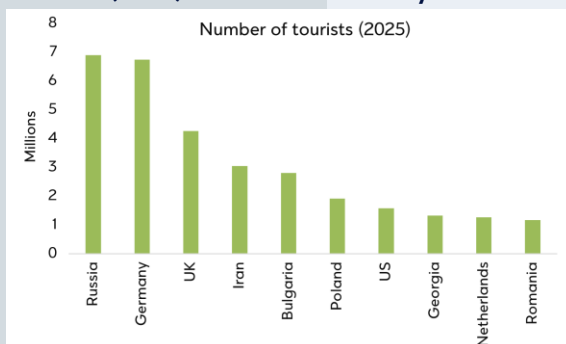
Real GDP growth decelerated further in Q1 2026 to 2.8%YoY, from 3.5%YoY in the previous quarter and 4.4%YoY in Q3 2025. The slowdown largely reflects a deterioration in the external balance alongside weakening growth in construction. Net exports exerted a significant drag on growth, as goods exports contracted by 12.0%YoY, while imports edged down by 0.7%YoY, following a 3.1%YoY increase in Q4. At the same time, investment growth moderated to 3.9%YoY from 5.7%YoY in Q4, primarily due to a marked deceleration in construction activity (+3.3%YoY from +8.7%YoY). This loss of momentum occurred despite monetary policy easing since July 2025 and the October announcement of the Century Housing Project, which envisages the construction of 500,000 subsidised residential units, with the first deliveries expected within just 18 months. By contrast, private consumption growth picked up modestly to 5.4%YoY, from 4.7%YoY in Q4, despite the halt in the disinflationary trend and a broadly stable labour market. The strength in consumption appears supported by robust real household credit expansion (+13.0%YoY in Q1). Looking ahead, the modest but persistent uptick in inflation, from 30.7%YoY in January to 32.6%YoY in May, is expected to lead the central bank (TCMB) to raise its policy rate by 100–150bps at its upcoming meeting, which is likely to weigh on investment sentiment. Moderate inflationary pressures in Q2, combined with favourable labour market conditions – shown by unemployment at a 14-year low of 8.2% in April – should continue to underpin private consumption in Q2. But employment losses in H2 2026, particularly in tourism and transport-related sectors affected by the Middle East crisis, alongside second-round inflationary effects from higher energy prices and imported inputs, are expected to erode real household incomes. Deterioration in the external balance is set to continue in the coming quarters, mainly in export-oriented services sectors. In April, tourist arrivals fell by 9.4%YoY, contrasting with the 6.2%YoY increase in March. The decline was mainly driven by fewer arrivals from European countries rather than from Middle Eastern ones – specifically Germany (-17.5%YoY), home to a large Turkish diaspora, and the UK (-15.1%YoY). Iran alone accounted last year for 3.05m tourists to Turkey, corresponding to 5.8% of total arrivals. The tourism sector is a critical pillar of the Turkish economy, with an estimated total contribution to GDP last year of around 12%.

Figure 25: The lira continues to depreciate despite extensive use of foreign reserves



Source: Central Bank of Turkey, Eurobank Research

Figure 26: Iranians held the fourth highest share (5.8%) of tourists to Turkey in 2025



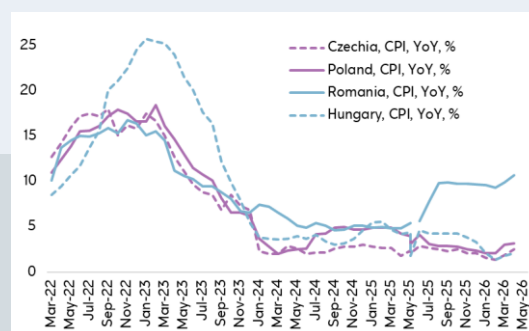
Source: Ministry of Culture and Tourism, Eurobank Research

CESEE

Growth paths diverge across region as central banks remain cautious

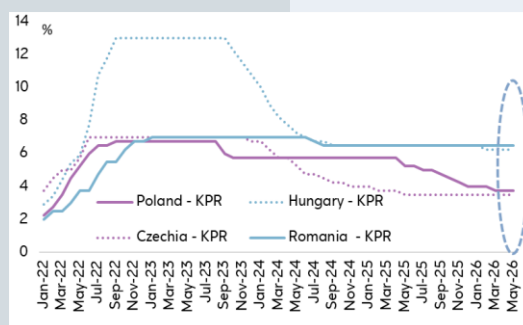
The macroeconomic picture across the region has become more differentiated, reflecting varying degrees of exposure to external shocks, domestic policy challenges and political developments. While growth re-mains positive in most economies, momentum has softened amid higher energy costs and persistent uncertainty stemming from geopolitical tensions. Poland continues to outperform the region in terms of economic growth, with GDP expanding by 3.5%YoY in Q1. However, signs of moderation are emerging, as retail sales weakened and manufacturing activity slipped back into contraction. Inflation remains above target, although on a gradual downward path. Fiscal concerns have also come into greater focus, with rising debt-servicing costs placing pressure on public finances. Hungary's economy remains in recovery mode, support-ed by easing inflation and resilient household consumption. The recent political transition has brought renewed scrutiny of fiscal sustainability, with the new government signalling a significantly wider budget deficit than previously reported. At the same time, prospects for improved relations with the EU and access to frozen EU funds have supported investor sentiment and contributed to a notable improvement in market pricing. Czechia continues to display the most balanced macroeconomic profile in the region. Growth re-mains steady, inflation has largely converged toward the central bank's target, and manufacturing activity is showing renewed momentum. As a result, the Czech economy appears relatively well-positioned to navigate the current external environment. Romania remains the region's principal source of macroeconomic vulnerability. The economy contracted in Q1, while inflation remains the highest in the European Union. Political instability following the collapse of the government has further complicated fiscal consolidation efforts, raising concerns over policy credibility and external financing conditions. Weak domestic demand, a depreciating currency, and elevated fiscal deficits continue to weigh on the outlook. Against this backdrop, central banks across the region have adopted a cautious stance. Policy rates in Poland, Hungary, Czechia and Romania were left unchanged at recent meetings, as policymakers seek to balance imported inflation pressures from higher energy prices against increasingly fragile growth dynamics. Overall, the region remains resilient, but growing divergence in economic performance and fiscal positions is increasingly shaping the macroeconomic outlook.

Figure 27: inflationary pressures remain manageable, except in Romania...



Source: Bloomberg, Eurobank Research

Figure 28: ..and as inflationary risks re-emerge, central banks maintain a cautious



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	2.9	3.1	4.1	4.0	3.6									
Advanced Economies															
USA	2.1	2.1	2.0	2.7	3.5	2.4	4.3	4.4	4.3	-3.6	-3.1	-3.3	-5.9	-6.3	-6.4
Eurozone	1.4	0.8	1.3	2.1	2.9	2.1	6.3	6.3	6.2	1.7	1.5	1.7	-2.9	-3.4	-3.2
Germany	0.2	0.5	1.3	2.3	2.8	2.3	6.3	6.3	6.1	4.5	4.1	3.9	-2.7	-4.0	-4.2
France	0.9	0.7	0.9	0.9	2.2	1.8	7.7	8.0	7.9	-0.3	-0.3	-0.1	-5.1	-5.1	-5.0
Periphery															
Cyprus	3.8	2.3	2.9	0.8	4.0	2.6	4.4	4.6	4.5	-6.8	-7.0	-6.5	3.4	2.4	3.0
Italy	0.5	0.5	0.7	1.6	2.9	2.0	6.1	5.6	5.8	1.1	0.5	1.0	-3.1	-3.0	-2.8
Portugal	1.9	2.0	1.9	2.2	2.8	2.2	6.0	5.9	5.9	1.2	1.0	1.0	0.7	-0.2	-0.3
Spain	2.8	2.2	1.8	2.7	3.3	2.3	10.5	9.9	9.7	2.9	2.6	2.5	-2.4	-2.4	-2.4
UK	1.4	0.8	1.1	3.4	3.3	2.5	4.8	5.3	5.4	-2.4	-2.8	-2.5	-5.0	-3.9	-3.3
Japan	1.1	0.7	0.8	3.2	2.1	2.1	2.5	2.6	2.5	4.9	4.5	4.3	-1.4	-3.0	-3.0
Emerging Economies															
BRIC															
Brazil	2.3	1.8	1.8	5.0	4.5	4.0	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	1.1	1.1	5.2	5.1	5.1	3.8	3.0	2.8	-5.1	-5.4	-5.7
India	7.5	6.4	6.8	2.0	4.9	4.5	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	5.5	4.5	2.2	2.3	2.7	1.7	2.8	1.7	-2.6	-2.0	-2.0
CESEE															
Bulgaria	3.2	2.5	2.8	3.5	5.8	4.1	3.5	3.7	3.6	-5.7	-6.5	-4.7	-3.5	-4.5	-3.2
Turkey	3.6	3.1	3.6	35.2	30.0	24.7	8.4	8.6	8.4	-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

Eurobank Fixed Income Forecasts

	Current	June 2026	September 2026	December 2026	January 2027
USA					
Fed Funds Rate	3.5-3.75%	3.5-3.75%	3.48-3.73%	3.36-3.61%	3.27-3.52%
3m SOFR	3.67%	3.63%	3.59%	3.48%	3.38%
2yr Notes	4.15%	3.98%	3.84%	3.73%	3.65%
10yr Bonds	4.56%	4.46%	4.37%	4.34%	4.29%
Eurozone					
Refi Rate	2.15%	2.37%	2.51%	2.52%	2.5%
3m Euribor	2.37%	2.32%	2.43%	2.41%	2.36%
2yr Bunds	2.68%	2.57%	2.54%	2.49%	2.43%
10yr Bunds	3.06%	3.01%	2.98%	2.98%	2.97%
UK					
Repo Rate	3.75%	3.79%	3.85%	3.85%	3.76%
3m Sonia	3.81%	3.76%	3.8%	3.81%	3.7%
10-yr Gilt	4.94%	4.85%	4.76%	4.67%	4.6%
Switzerland					
3m Saron	-0.05%	0.05%	0.05%	0.05%	0.05%
10yr Bond	0.42%	0.42%	0.45%	0.49%	0.50%

Source: Bloomberg (market implied forecasts)

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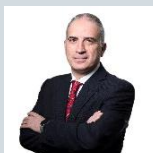
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