ISSN: 2241-4851

Eurobank Research

EUROBANK

GLOBAL & REGIONAL MONTHLY

Fading prospects for a near-term and durable resolution to the US-Iran conflict have renewed upward pressure on energy costs, increasing the risk of a more prolonged price shock. Nevertheless, the global economy has so far proved resilient, with recent business surveys pointing to continued solid growth. Meanwhile, persistently elevated energy prices are increasingly feeding into global inflation, raising the risk of broader pass-through to underlying price trends over the coming quarters. Against this backdrop, major central banks have adopted a more cautious policy stance, with the balance of risks increasingly tilted towards tighter monetary policy. In bond markets, expectations of a higher-for-longer path for policy rates and fiscal concerns have contributed to the recent sharp rise in long-dated government bond yields across major economies.

Macro Picture

USA: resilient domestic demand, labour market near full employment, inflation trends elevated

EA: firm growth momentum has likely extended into the summer; upside risks to inflation remain

China: strong exports cushion softer domestic demand as growth momentum moderates

CESEE: domestic demand supports growth but regional divergence remains pronounced

Markets

FX: USD/JPY lower as market discounts higher JPY rates going forward

Rates: EUR and USD both bear-flattened; JPY braced for normalisation

EM: bonds still resilient despite sell-off in developed markets; supported by persistent inflows

Credit: robust data took risk assets to new heights in August; both US, EU synthetics tighter

Policy Outlook

USA: incoming inflation data likely to be the key catalyst shaping Fed's near-term policy path

EA: risks of broadening price pressures prompted ECB to tighten policy further at its Sept. meeting

Japan: Spotlight on whether BoJ will hike rate further above 1.0% at this month's policy meeting

CESEE: monetary policy remains cautious with easing scope divergent across the region

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; energy-driven inflation becomes entrenched; sharply tighter global financial conditions; abrupt repricing in AI-related stocks; reescalation of trade tensions; fiscal slippage and rising sovereign borrowing needs; China's domestic-demand weakness becoming more pronounced

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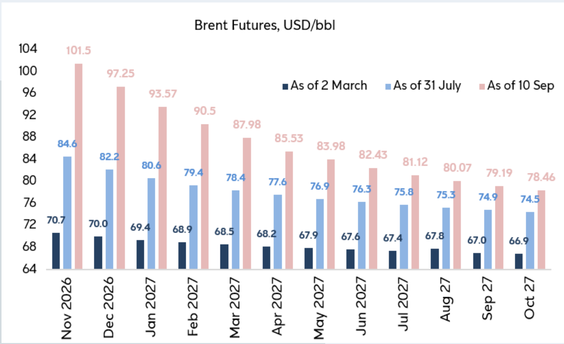
Macro Views

Global economy defies energy shock so far, but inflation risks are building

After more than six months of military tensions in the Middle East, a durable resolution remains unlikely in the near term. The 60-day ceasefire established under the US/Iran Memorandum of Understanding (MoU) signed in mid-June has now expired, while renewed strikes between the two sides following the recent escalation suggest that the conflict could be settling into a prolonged period of confrontation. With the Iran conflict showing little sign of ending and the prospects for a negotiated settlement having diminished further in recent weeks, investors have grown increasingly concerned about disruptions to regional energy flows, prompting markets to price in a more prolonged period of elevated energy prices.

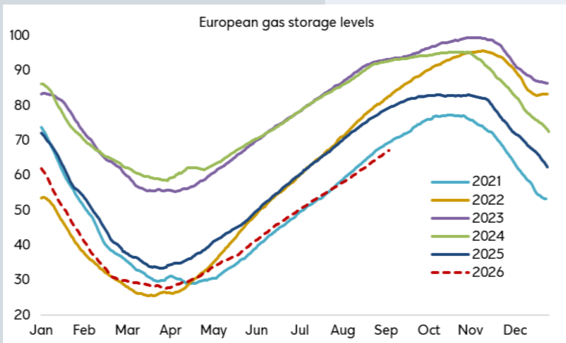
Figure 1: Brent oil prices expected to remain high for longer



Source: Bloomberg, Eurobank Research

The front-end Brent future has been on a steady uptrend since late August, moving above $100/bbl on September 9 for the first time in seven weeks and bringing the year-to-date average to $87.5, a 44%YoY increase. In fact, the 6-month Brent future currently stands at around $85.50/bbl, its highest level since mid-June. The relentless rise in European natural gas prices has also continued, with the front-end contract rising to €80/MWh, its highest level since December 2022 and more than twice their pre-Iran conflict levels. The latest uptrend, which began in late June, comes as Europe seeks to refill its storage facilities ahead of the winter heating season. There are growing concerns that Europe is behind schedule with its gas inventories, which is likely to keep demand elevated at least through the end of 2026. Current inventories stand at only 67% of capacity, some 12.5ppts below their level in early September 2025 and lower than is typical for this time of year, even falling below the levels seen during the 2021 energy crisis.

Figure 2: European gas storage at concerningly low levels



Source: Gas Infrastructure Europe (GIE) AGSI, Eurobank Research

Despite the still largely closed Strait of Hormuz and lingering uncertainty around the eventual outcome of the war, the global economy has shown surprisingly resilience to the energy shock so far, defying earlier concerns about a pronounced slowdown. This resilience has likely been supported by positive pre-conflict growth momentum, increased investment linked to artificial intelligence, the use of oil inventories to cushion the energy shock, lower energy intensity in power generation owing to the larger share of renewables and continued improvements in energy efficiency. The global economy's capacity to shake off the energy shock and maintain solid growth is reflected in the recent strength of global PMI surveys. Following a sharp decline in March, coinciding with the onset of the Middle East war, the global composite PMI has since staged a steady recovery, rising for the fifth consecutive month in August. The index increased 0.8pts to 53.5, its highest level in over two years and a reading that, according to S&P Global, is consistent with above-trend global growth. Key forward-looking components, including new orders and future output, strengthened further, suggesting that the improvement in global activity has probably further room to run. Both services and manufacturing accelerated (at 53.7 and 53.0, respectively) with the latter mainly driven by surging AI investment and Germany's boost of public investment spending, especially on defence.

Meanwhile, the conflict continues to leave a visible imprint on global inflation. Based on the latest available data, OECD headline inflation stood at 4.1%YoY in July, 0.7ppts above its February level. The increase largely reflects oil prices remaining well above their levels at the start of the year, persistent strains on global supply chains and strong AI-related demand which is adding to price pressures across technology goods. By contrast, global core inflation remains broadly close to the levels prevailing shortly before the onset of the conflict, with OECD core CPI at 3.60%YoY in July, broadly unchanged from 3.41%YoY in February. Nevertheless, after more than six months of elevated energy prices and persistent supply-chain disruptions, pipeline price pressures continue to build beyond the energy sector. As higher input costs gradually feed through to final prices, inflationary pressures could broaden to non-energy goods and services, particularly against a backdrop of continued resilience in the global economy, raising the risk that underlying inflation picks up over the coming quarters. Overall, risks to the global inflation outlook remain two-sided, depending on the path of oil prices and the potential for further supply disruptions stemming from the conflict in the Middle East.

Concerns that elevated energy costs could feed into underlying inflation, de-anchor inflation expectations and trigger second-round effects, have prompted most major central banks to adopt a more cautious policy stance, with the balance of risks increasingly tilted towards tighter monetary policy. Inflation concerns — particularly given the lack of progress on reopening the Strait of Hormuz — higher short-term rate expectations, still-solid economic data, concerns over fiscal sustainability, elevated geopolitical uncertainty and bond supply woes, have led investors to demand higher term premia, as reflected in the recent sharp rise in long-dated government bond yields across major economies. The US treasury secretary's announcement of a significant expansion of the Treasury's buyback programme for longer-dated securities initially eased pressure at the long-end of the yield curve. However, the relief proved short-lived, with longer-term yields continuing to be underpinned by the broader structural forces outlined above.

Developed Economies

US: Fed Chair Kevin Warsh's Jackson Hole remarks struck a distinctly more hawkish tone than investors had anticipated following the July FOMC meeting and the subsequent press conference. Importantly, Warsh set a relatively high bar for becoming confident that inflation is firmly on track towards the Fed's 2% target. While acknowledging that this summer's PCE and CPI readings were better than expected, he cautioned against reading too much into the recent improvement. Placing particular emphasis on inflation trends over the prior six and twelve months rather than on isolated data points, he pointed to these measures as evidence that price pressures remain elevated. The policy outlook has, however, become more nuanced in recent days, as remarks from other senior Fed officials highlighted differing assessments within the Committee regarding the underlying inflation trend and the need for additional tightening. The divergence in views does not alter the broader message that the September decision remains finely balanced and highly data-dependent, with incoming inflation data likely to be the key catalyst shaping the Fed's near-term policy path.

Euro area: headline inflation accelerated 0.4ppts to 3.3%YoY in August, its highest level since the outbreak of the Middle East war, primarily driven by energy inflation. More encouragingly, underlying inflation pressures remained contained. Core inflation unexpectedly edged down 0.1ppts to 2.4%YoY, returning to its February level, the last reading before the onset of the conflict. Nevertheless, upside risks to the inflation outlook remain significant. With the Strait of Hormuz still closed, PPI inflation accelerating sharply, TTF gas prices remaining well above pre-conflict levels and the effects from this summer's drought looming, further cost pressures are likely to remain in the pipeline. Their pass-through of these pressures to underlying inflation could become more visible with a lag, especially against the backdrop of resilient economic activity, raising the risk of broader indirect and second round effects. Following slightly above-trend growth in Q2, incoming data suggest that positive momentum has extended into the summer. Against this backdrop of resilient activity and persistent upside inflation risks, the ECB raised rates by a further 25bp at its 9-10 September policy meeting.

Emerging Economies

EM: emerging market economies remain broadly resilient in 2026, despite elevated geopolitical and energy-related risks. Activity continues to expand across most major EMs, while the inflationary impact of higher energy costs has so far remained more contained than during the 2022 shock. Nevertheless, the picture is increasingly differentiated across regions, reflecting differences in trade exposure, commodity dependence and domestic policy conditions. Emerging Asia remains the main source of strength. India continues to record robust domestic growth, while technology-producing economies are benefiting from the global AI investment cycle. Taiwan's exports rose by 41.0%YoY in August, supported by strong demand for semiconductors and AI-related hardware, with similar technology-related support evident in South Korea. China's exports also remained exceptionally strong, rising by 25.0%YoY in August, although weak domestic demand continues to limit broader growth. Conditions are less favourable elsewhere. In Latin America, activity remains moderate and monetary policy is constrained in several economies by persistent inflation and fiscal pressures. The Middle East remains directly exposed to geopolitical disruptions and energy-market volatility, with wider spillovers through transport and trade. Overall, the EM picture remains one of resilience but widening divergence. Asia continues to outperform, increasingly supported by technology exports, while inflation, fiscal constraints and energy exposure limit policy flexibility elsewhere. Geopolitical escalation and commodity-price volatility remain the main near-term risks.

CESEE: economic conditions across the region remain mixed, with domestic demand supporting activity but growth and policy space diverging. Poland remains the strongest performer, Czechia and Hungary continue to expand more moderately, while Romania faces a considerably more difficult macroeconomic environment. Poland leads regional growth, with GDP accelerating to 3.9%YoY in Q2 from 3.2%YoY in Q1, supported by consumption and investment. Inflation remains relatively contained, but large fiscal deficits and elevated borrowing needs complicate the outlook, with the NBP policy rate at 3.75%. In Czechia, growth moderated to 1.9%YoY in Q2 from 2.2%YoY in Q1, with domestic demand remaining supportive. Inflation is close to target, although underlying price pressures keep the CNB cautious, with its policy rate also at 3.75%. Hungary recorded growth of 1.7%YoY in Q2, unchanged from Q1. A sharp decline in inflation has allowed the NBH to reduce its policy rate to 5.50%, although further easing is likely to remain cautious. Romania remains the main regional vulnerability, with activity moving further into contraction in Q2 and inflation remaining above 8%. The NBR has maintained its rate at 6.50%, while fiscal consolidation, political uncertainty and potential delays in EU fund absorption add to the challenges. Overall, regional growth remains domestically supported but increasingly differentiated, with Romania facing the most difficult growth-inflation-fiscal policy mix.

Markets View

Foreign Exchange

EUR/USD: gained ~1.2% since the start of August, rising from 1.1509 on August 3 to 1.1643 at the time of writing on September 9, driven more by shifting Fed expectations rather than any euro-specific story. The pair traded range-bound near 1.152–1.157 through the first half of August before breaking sharply higher on August 19, when softer US employment and inflation data prompted markets to cut the probability of a September Fed hike from ~75% to around 35%, lifting EUR/USD to 1.168 — its highest since May. The pair gave back some of those gains through late August as European natural gas prices surged back to levels last seen at the outbreak of the Iran conflict, capping the euro's upside. September has seen the pair consolidate near 1.159–1.164, with the ECB fully expected to deliver a 25bp hike around the time of publication — keeping the euro underpinned — though options markets warn the rally remains a calendar bet, with the risk that a dovish pause signal from the ECB could reverse recent gains.

USD/JPY: fell ~4.4% since the start of August, from 157.18 on August 3 to 153.09 on September 9, in a period dominated by the tug-of-war between record Japanese intervention and persistent carry-trade rebuilding. The pair opened August in the wake of a historic joint US-Japan intervention — the first coordinated yen-buying operation since 1998 — which had pulled USD/JPY from a four-decade low near 164 to 155 in late July, only for carry traders to exploit the dip and push the pair back toward 159–160 through mid-August. Japan's Finance Ministry confirmed it had spent a record $96.4 billion (¥15.4 trillion) over the July 30–August 26 window, with limited lasting effect. The decisive break lower came in early September, when tightening signals from the BOJ — with more hawkish members even leaving the door open for a 50bp hike — triggered a fresh carry unwind, accelerated by July wage data showing nominal pay rising 4.7%YoY, the fastest pace since 1997 and well above the 3.8% consensus. The BOJ is expected to deliver at least a 25bp rate hike on September 18, and Treasury Secretary Bessent directly challenged yen bears on September 9 to test his resolve, keeping speculative shorts on edge.

Other Pairs: AUD was the strongest major currency against the dollar, up ~1.9% to around 0.7183 in late August and consolidating in a 0.7196–0.7226 range in early September, as the RBA's hawkish hold at 4.35% on August 11 — Bullock explicitly ruling out near-term cuts after 75bps of hikes this year — combined a wide carry advantage with a terms-of-trade tailwind from elevated energy. NOKSEK held firm near the top of its range around 1.0284 (1.0150–1.0330), with the krone supported by Brent above $90/bbl and a 4.25% Norges Bank policy rate against the Riksbank's 1.75%, both on hold in August. The asymmetry is worth flagging: NOK is materially the more oil-sensitive of the two, so any credible Hormuz reopening would likely see SEK gain sharply as both the oil bid and Norwegian hike expectations unwind together.

Rates

EU: June's energy relief fully reversed and EUR rates bear-flattened. Brent ran from $84.11/bbl on August 10 to $91.62 by August 18, briefly above $92, as tankers were struck and Hormuz transits stayed below 10% of normal. That fed straight to headline: August flash HICP re-accelerated to 3.3%YoY from 2.9%YoY, the first meaningful uptick in over a year, with core easing only to 2.4%YoY against sticky services. September hike pricing moved to ~100% for 2.50%, with Schnabel framing Middle East supply disruption as an upside inflation risk. Swaps sold off belly-led: 2y +17.4, 5y +18.8, 10y +15.7 and 30y +11.0bps, with the curve flattening throughout (2s10s -1.7bps, 5s30s -7.7bps and 10s30s -4.6bps) and the belly cheapening on the flies (2s5s10s +4.5bps) — hike pricing pulled into the 2–5y sector rather than a repricing of terminal. Vol split revealingly: 3m5y -0.9 as September became a known quantity, but 3m10y and 3m30y both +1.3 vols — comfortable with the next move, uncomfortable with where the cycle ends. EBC President Lagarde's post-meeting press conference in Berlin will test whether 2.50% is terminal.

US: August drifted higher on energy and Warsh's Jackson Hole speech. On September 4 payrolls printed +162k against consensus near 55k, unemployment held at 4.1%, and June/July were revised up a combined 55k — July flipping from a reported loss to a gain. September hike odds jumped to ~60% and the front end sold off sharply; the revisions were the real hawkish signal, undercutting the disinflationary-labour thesis July had supported. SOFR Swaps closed 2y +16.3bps, 5y +18.4bps, 10y +14.4bps and 30y +9.0bps for the period of August to September 9, flattening harder than EUR at the back (5s30s -9.4bps and 10s30s -5.4bps) with the largest belly cheapening of the two (2s5s10s +6.2bps). The divergence is in vol: a broad collapse — 3m5y -6.4, 3m10y -4.2, 3m30y -0.9 — as payrolls resolved the two-sided risk that kept optionality bid all summer.

JPY & GBP: Both cases of policy lagging the curve. Japan sold ~$59bn on July 31 – August 1, joined by the US Treasury in its first yen-support operation in over a decade, and deployed a record ¥15.4trn through August 26 — yet the yen stayed historically weak, confirming intervention as a bridge to normalisation rather than a substitute. Market expectations are growing that the BoJ will hike at its September 18 meeting, which falls in thin Silver Week liquidity. The super-long is where the interest lies: JGB 10yr at 2.88% and 30yr at 3.95%, and whether life-insurer demand absorbed supply. In the UK, the MPC held at 3.75% in July (6–3 vote) and August. BoE Chief Ecnomist Huw Pill is pushing for 4% going into the September 17 meeting, though futures were pricing only a ~10% probability on September 9. Gilts are the G10 standout — 2yr 4.53%, 10yr 5.13% (peak 5.23%) and 30yr 5.77% — far above Bank Rate, making this a fiscal-supply premium story as much as a policy one.

Emerging Markets Sovereign Credit

EM bonds demonstrated resilience relative to developed markets during the recent sell-off, supported by persistent investor inflows through August. The CDX EM tightened by 5bps from the end of July to September 9 to 137bps. Among the EM markets under our coverage, South Africa posted a particularly strong performance, with 10yr USD bond ASW spreads tightening by 25bps to 193bps. In CEE, performance was mixed, with EUR-denominated bonds in Hungary, Serbia and Bulgaria tightening on an ASW basis, while Romania and Poland widened. Hungary was the standout performer in the region, with 10yr EUR ASW spreads tightening by 11bps to 77bps, supported by positive developments around EU funding, while Romania's 10yr EUR benchmark widened by 10bps to 249bps amid increased political uncertainty. In Asia, Indonesia extended its recovery, with 10yr USD bond ASW spreads tightening by 8bps to 132bps. In LatAm, Mexico's 10yr USD bonds tightened by 8bps to 190bps, while Chile posted a more modest 5bps tightening to 102bps. Looking ahead, we maintain a cautious stance, as tight spread valuations leave limited room for further broad-based compression, while persistent uncertainty around the global rates outlook and fiscal risks across developed markets could generate renewed volatility and weigh on EM fixed income.

Corporate Credit

Robust data took risk assets to new heights in August, as optimism around global growth expectations outweighed inflation-related concerns. Indeed, the flash composite PMI for the Eurozone hit a 9-month high of 52.1, and a 4yr high of 56.0 in the US . Fed Chair Warsh struck a more hawkish tone at Jackson Hole, describing the Fed's target of 2% inflation as "a firm, fixed target". He also said that even though the summer inflation prints had been better than expected, "they do not tell me that underlying trends have meaningfully improved." Those factors left investors ended the month still thinking that a September hike was likely, on balance.

Oil prices were broadly steady in August, picking up in early September as geopolitics remained at the fore. Brent crude registered a +11% increase from the start of August to September 9, reaching $100/bbl. In equities, Europe posted somewhat mixed performance, with Stoxx600 -0.6%, the CAC 40 -3.2% and the DAX +0.6%, while US equities gained, helped by tech (S&P 500 +2.5%, Nasdaq +4.4%).

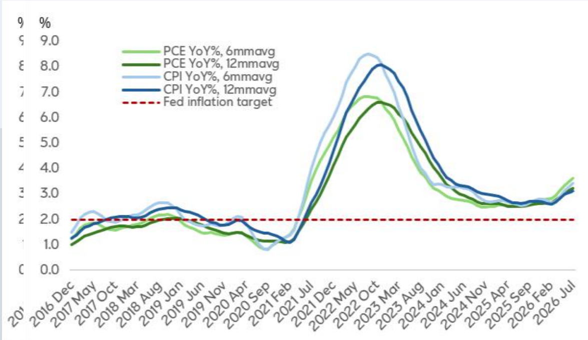
Synthetics moved tighter both in Europe as well as the US, with Main and CDX IG c. -2bps since the start of August. Cash held up well, despite strong primary activity. August primary issuance was near record levels (at €98bn, trailing only the record levels sold in Aug 2024), while September is also strong, with €81bn issuance so far as of September 9.

US

Incoming inflation data likely to shape Fed's near-term policy path

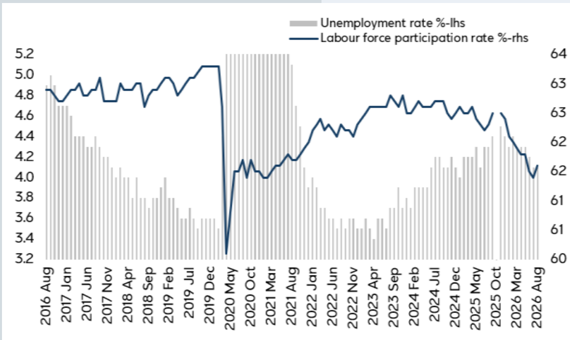
Fed Chair Kevin Warsh's Jackson Hole remarks struck a distinctly more hawkish tone than investors had anticipated following the July FOMC meeting and the subsequent press conference. Importantly, Warsh set a relatively high bar for becoming confident that inflation is firmly on track towards the Fed's 2% target. While acknowledging that this summer's PCE and CPI readings were better than expected — averaging 3.7%YoY and 3.5%YoY, respectively, in June–July, down from their recent peaks of 4.1%YoY and 4.2%YoY in May — Warsh cautioned against reading too much into the recent improvement. Placing particular emphasis on inflation trends over the prior six and twelve months rather than on isolated data points, he pointed to these measures — which incorporate the elevated readings recorded earlier this year, partly reflecting increases in energy prices — as evidence that price pressures remain elevated. Aside from inflation, the Fed chair assessed that economic activity has strengthened, with Q2 private domestic final purchases revised up by 0.3ppts to 4.2% QoQ saar — the strongest pace since Q1 2023 — mainly on the back of firmer consumer spending. At the same time, the labour market remains broadly consistent with full employment, with the unemployment rate unchanged at 4.1% in August, close to the Fed's NAIRU estimate. The combination of a resilient economy, persistently elevated inflation and Warsh's emphasis on preserving the central bank's credibility in delivering price stability prompted markets to reassess the policy outlook in a more hawkish direction, pricing in a tighter monetary policy path over the coming months. The policy outlook has, however, become more nuanced in recent days, as remarks from other senior Fed officials — notably NY Fed President John Williams and Governor Christopher Waller — highlighted differing assessments within the Committee regarding the underlying inflation trend and the need for additional tightening. The divergence in views does not alter the broader message that the September decision remains finely balanced and highly data-dependent, with incoming inflation data likely to be the key catalyst shaping the Fed's near-term policy path. Fed funds futures are currently assigning a 60% probability to a rate increase at the September 15–16 FOMC meeting, up from around 35% before Jackson Hole and are pricing in a cumulative 50bp of tightening over the next year.

Figure 3: Broader inflation trends provide limited reassurance of sustained disinflation



Source: BLS, Eurobank Research

Figure 4: Unemployment dropped this year along with a fall in labour force participation



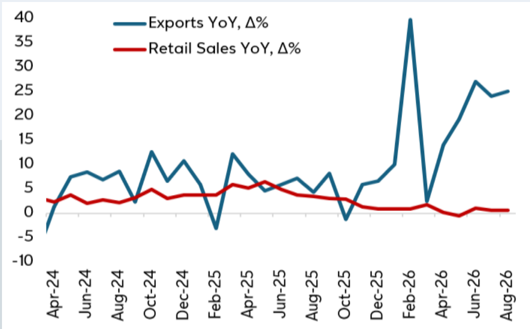
Source: BLS, Eurobank Research

China

Strong exports cushion softer domestic demand

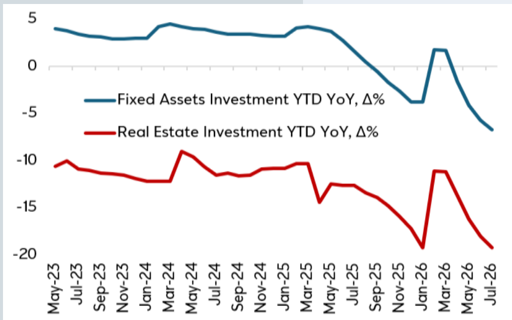
The economy continues to expand, but momentum has weakened and growth remains unbalanced. Real GDP growth slowed to 4.3%YoY in Q2, from 5.0%YoY in Q1, bringing growth in H1 2026 to 4.7%. The slow-down mainly reflected softer domestic demand, particularly investment, while manufacturing and exports remained important sources of support. Recent activity indicators point to continued, but moderate, growth. Industrial production increased by 4.5%YoY in July, while manufacturing output rose by 5.6%YoY in January–July. Business surveys improved somewhat in August, although they do not yet signal a broad strengthening in activity. Domestic demand remains the main constraint. Retail sales rose by only 0.6%YoY in July, while fixed-asset investment declined by 6.7%YoY in January–July. Private investment was particularly weak, falling by 9.4%YoY in the first seven months of 2026. The property correction remains a major drag as real-estate investment contracted by 19.2%YoY in the same period, with the contraction evident in both floor-space and value terms. By contrast, the external sector remains a key source of strength. Exports rose by 25.0%YoY in August, while imports increased by 28.2%YoY, taking the trade surplus to USD119.1bn, the fourth print in a row above USD100bn. Export growth continues to benefit from strong demand for higher-value manufactured goods, particularly technology-related products, while more traditional labour-intensive exports remain considerably weaker. This helps explain why strong trade performance has not translated into equally strong domestic activity. Price pressures also remain relatively subdued. CPI inflation stood at 0.8%YoY in August, with core inflation at 1.0%YoY, consistent with still-moderate domestic demand despite some improvement in prices. The July Politburo meeting acknowledged the challenges facing the economy and signalled stronger counter-cyclical support, with greater emphasis on expanding domestic demand. Policy priorities include faster fiscal implementation, better fiscal-monetary coordination and investment in the "Six Networks" –an integrated infrastructure programme spanning transport, energy, water, digital and urban networks– alongside measures to support consumption and stabilise the property sector. Overall, China's manufacturing and export strength continues to cushion weak consumption, investment and property activity. The key challenge is therefore not simply the pace, but the composition of growth: a more balanced expansion will require a stronger domestic demand engine and, over time, less reliance on external demand.

Figure 5: Export strength contrasts with weak domestic demand



Source: Bloomberg, Eurobank Research

Figure 6: Property downturn continues to weigh on investment

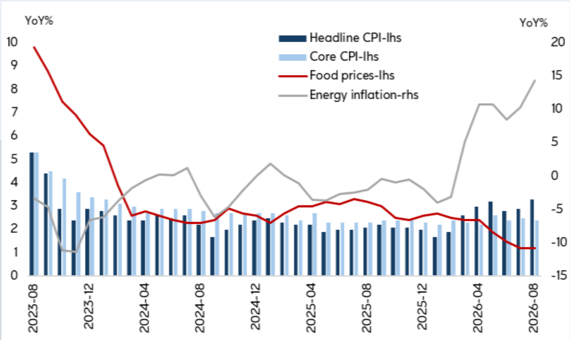


Source: Bloomberg, Eurobank Research

Euro area

Firm growth momentum, while upside inflation risks remain

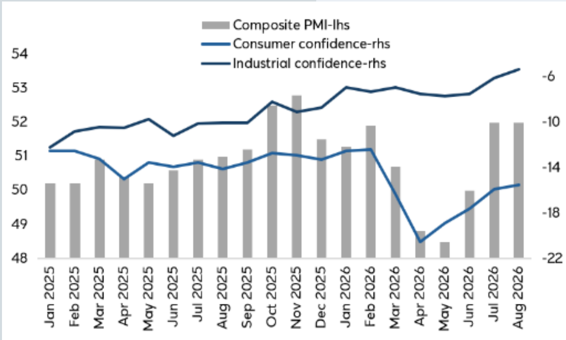
Figure 7: HICP hits Middle East war peak on energy prices; core pressures still contained



Source: Eurostat, Eurobank Research

Headline inflation accelerated 0.4ppts to 3.3%YoY in August, its highest level since the outbreak of the Middle East war. The increase was primarily driven by energy inflation (+4.0ppts to 14.3%YoY), mainly reflecting higher fuel prices following the latest escalation of the conflict. Food inflation, by contrast, remained subdued at 1.2%YoY, broadly unchanged from the previous month and 1.5ppts below its level at the start of the year, suggesting that higher energy and fertiliser costs have yet to feed through meaningfully into consumer food prices. Similarly, this summer's severe heatwaves do not appear to have exerted a significant impact on food inflation so far. More encouragingly, underlying inflation pressures remained contained. Core inflation unexpectedly edged down 0.1ppts to 2.4%YoY, returning to its February level, the last reading before the onset of the conflict. The decline was driven by services inflation which eased (-0.3ppts to 3.0%YoY%), more than offsetting firmer core goods prices (+0.3ppts to 1.2%YoY). Nevertheless, upside risks to the inflation outlook remain significant. With the Strait of Hormuz still closed, PPI inflation accelerating sharply (PPI +1.2ppts to 5.8%YoY in July), TTF gas prices remaining well above pre-conflict levels and the effects from this summer's drought looming, further cost pressures are likely to remain in the pipeline. Their pass-through of these pressures to underlying inflation could become more visible with a lag, especially against the backdrop of resilient economic activity, raising the risk of broader indirect and second round effects. Following slightly above-trend growth in Q2 (0.4%QoQ), incoming data (e.g. PMI & EC surveys, bank lending flows) suggest that positive momentum has extended into the summer. As highlighted in the August PMI release, manufacturing appears to have provided an important source of growth support, in part reflecting precautionary inventory accumulation as firms seek to mitigate potential supply-chain disruptions stemming from developments in the Middle East. Activity is also likely to benefit from fiscal stimulus, particularly in Germany, as well as possible spillover effects from AI-related investment into selective segments of the manufacturing sector. Robust tourism activity is likely to have provided an additional boost, especially in peripheral economies. Against this backdrop of resilient activity and persistent upside inflation risks, the ECB raised rates by a further 25bp at its 9-10 September policy meeting.

Figure 8: PMIs and EC surveys show positive momentum at the start of Q3



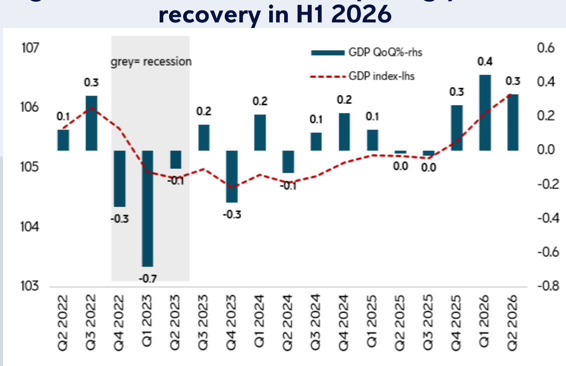
Source: European Commission, PMI, Eurobank Research

Germany

Country emerges from its stagnation, but downside risks remain

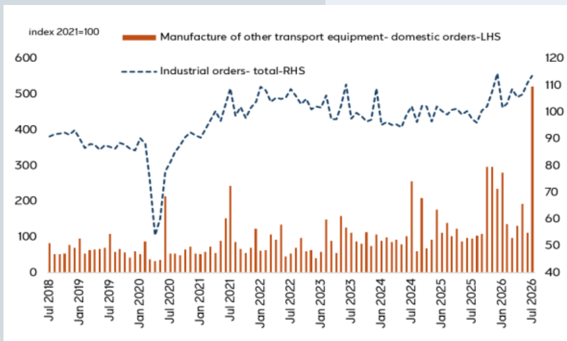
Defying headwinds from the energy price shock, the economy performed better than expected in Q2. GDP expanded 0.3%QoQ, 0.1ppts above the initial estimate, with net trade providing the main boost (+0.2pts), likely supported by precautionary front-loading of pharmaceuticals and AI-related goods. Household consumption remained sluggish (+0.1%QoQ), reflecting persistently weak consumer sentiment, continued softness in the labour market (employment down 0.5%YoY in August, extending a downward trend for more than a year) and inflation-related loss in households' purchasing power. Investment also remained weak (-0.2%QoQ), constrained by geopolitical uncertainty and persistently low-capacity utilisation. Nevertheless, despite continued weakness in domestic demand, the Q2 outturn, together with the stronger than expected 0.4%QoQ expansion in Q1 and the rebound in Q4 2025, marks three consecutive quarters of growth, averaging 0.3%QoQ and bringing to an end more than three years of broad economic stagnation. Looking ahead, however, some temporary loss of momentum in Q3 cannot be ruled out. Low water levels in the Rhine in August pose a downside risk, as disruptions to inland shipping could raise transportation costs and weigh on industrial activity. Nevertheless, underlying growth momentum is expected to remain positive, consistent with the continued improvement in business surveys in the early months of Q3, including the composite PMI and the Ifo business climate. Sentiment appears to have benefitted from the government's recently approved reform package, aimed at addressing structural constraints through tax relief, measures to boost labour supply, enhance labour-market flexibility and reduce red tape. Investment is also expected to gain momentum as the expansionary fiscal policy translates into higher public spending and stronger order books, particularly in defence-related industries. For 2026, we now expect GDP growth of 0.9%, up from 0.6% previously. Downside risks nevertheless remain significant, notably from elevated oil prices, low gas storage levels and persistent geopolitical uncertainty. Meanwhile, the AfD's historic electoral gains in Saxony-Anhalt add another layer of political uncertainty and increase pressure on the federal government to deliver tangible economic improvements, particularly in addressing Germany's longstanding challenges related to competitiveness and high energy costs.

Figure 9: GDP exhibited a surprisingly robust recovery in H1 2026



Source: Destatis, Eurobank Research

Figure 10: Looser fiscal policy is mainly feeding through to defence-linked orders

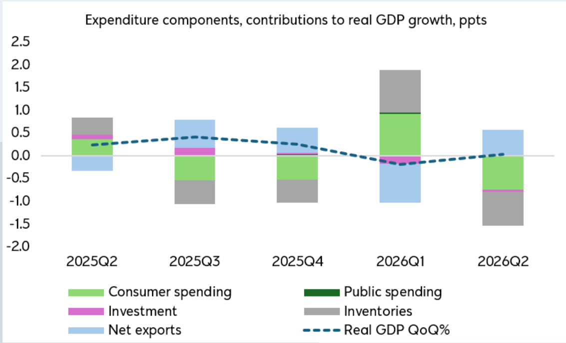


Source: Destatis, Eurobank Research

France

Weak growth dynamics in an increasingly challenging fiscal environment

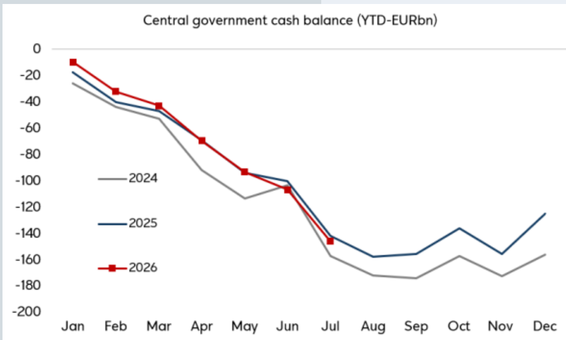
Figure 11: Rebound in net exports was the main growth driver in Q2 GDP



Source: INSEE, Eurobank Research

Downward revisions to H1 GDP data confirmed a weaker-than-previously estimated growth profile, with the economy narrowly avoiding a technical recession. GDP is now estimated to have stagnated in Q2 compared with the previously reported 0.2%QoQ increase. Activity was supported by a sizeable contribution from net exports (+0.6pts) underpinned by stronger aeronautics exports and by final domestic demand ex. inventories (+0.2pts) on the back of firmer government and household consumption. However, these positive contributions were fully offset by a sizeable inventory drawdown (-0.7pts) and a further decline in gross fixed capital investment (-0.3%QoQ). Overall, the revised figures leave H1 activity looking notably weaker, with Q1 GDP growth also revised down 0.1ppts to -0.2%QoQ, making the government's full year GDP growth forecast of 0.7% increasingly challenging to achieve. Looking into Q3, more recent indicators point to some improvement in growth momentum. INSEE's composite business-climate indicator increased for a third consecutive month in August to 98.1, broadly back to pre-war levels, while survey-based measures of private sector activity have also strengthened, with the July-August composite PMI average standing 2.4pts above its Q2 average. These developments support a return to positive quarterly growth. Nevertheless, the expected rebound is likely to be moderate. Household sentiment remained subdued at 86 in August, well below its long-run average, weak investment and tighter fiscal policy are likely to continue constraining domestic demand while the recent heatwaves are expected to have a negative impact on summer crops. The softer growth environment compounds an already challenging fiscal position by increasing the risk that additional measures may be needed to meet the government's target of reducing the public deficit to 5.0% in 2026. At the same time, higher sovereign yields are raising debt-servicing costs, while higher inflation is likely to feed into indexed social spending and other expenditure items with a lag, partly offsetting the initial boost to nominal revenues. Any fiscal slippage in 2026 would increase the adjustment required in 2027 if the government remains committed to its medium-term deficit path. Delivering such an adjustment will, however, be politically difficult given the fragmented parliamentary landscape and the approaching 2027 presidential election, raising the risk that part of the consolidation could be deferred until after the election.

Figure 12: Monthly budget data point to some fiscal slippage in 2026



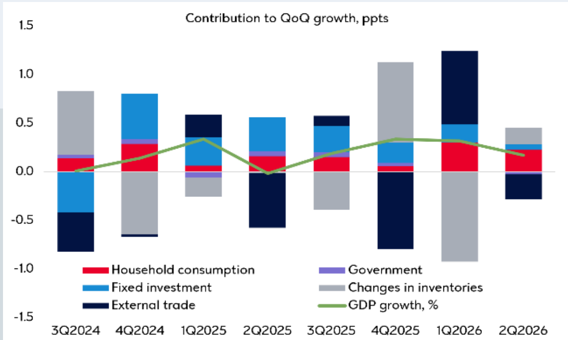
Source: INSEE, Eurobank Research

Italy

GDP growth stronger than expected in Q2, boosting government's fiscal space

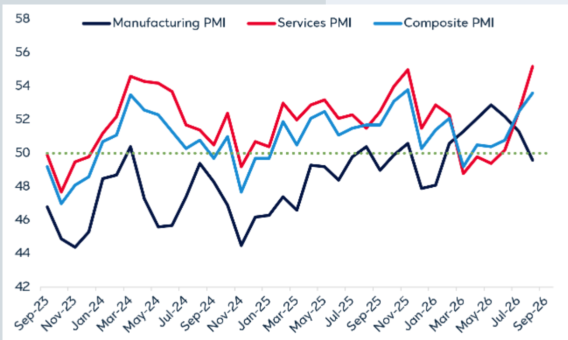
Economic activity retained modest momentum in Q2 despite a weakening external sector. GDP expanded by 0.2%QoQ, matching the preliminary estimate, following growth of 0.3%QoQ in Q1. That's higher than the 0.1%QoQ consensus forecast before the flash estimate, as domestic demand supported activity with household consumption increasing 0.4%QoQ and inventory accumulation also adding 0.2ppts to headline growth. Net trade was the main drag, subtracting 0.3ppts from headline growth as export growth slowed and imports increased – consistent with the negative impact of the Middle East shock on the country's energy costs. Business surveys point to firmer services activity alongside renewed weakness in manufacturing over the summer. The services PMI rose by 2.7pts to 55.2 in August, lifting the composite PMI by 1.1pts to a nine-month-high of 53.6. By contrast, the manufacturing PMI fell by 1.7pts to 49.6, putting it back below the 50 threshold that separates expansion from contraction for the first time since January. Consumer confidence edged up by 0.3pts to 94.5 in August, while the broader economic sentiment indicator rose to 96.9 from an upwardly revised 95.7. The stronger-than-expected growth for the first half of the year increases the carry-over effect into 2H and raises the full-year gowth forecast for 2026, with the consensus now expecting 2026 GDP to grow 0.9%, compared with 0.6% expected in July. That should increase the fiscal space available to the government in planning the 2027 budget, a boost ahead of elections due to take place next year. Inflation is becoming a more visible constraint. Harmonised inflation accelerated by 0.3ppts to 3.2%YoY in August, although the reading was below the 3.4%YoY consensus forecast. Petrol and household energy costs drove the increase, with underlying price pressure remaining contained. The labour market remains comparatively supportive, even if monthly readings have been volatile. The unemployment rate came in at 5.8% in July, unchanged from June after that month's figure was revised up from an initially-reported 5.7%. May's figure was also revised up to 5.3% from 5.0%, and that revision, combined with the jump in June's rate, suggests methodological factors at play. Still, July's reading remained below the 6.0% average recorded in 2025. Looking ahead, RRF-backed investment and resilient services should keep growth positive in H2 2026, but weaker industry and reduced purchasing power limit the scope for acceleration.

Figure 13: Household consumption was the main driver of GDP growth in Q2



Source: Eurostat, Bloomberg, Eurobank Research

Figure 14: Services have surged as manufacturing has returned to contraction



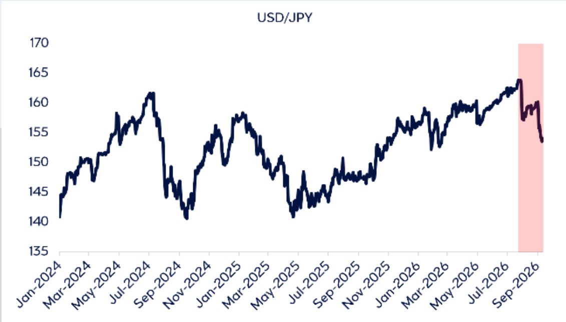
Source: Bloomberg, Eurobank Research

Japan

Pace of rate tightening cycle set to pick up as FX interventions dominate summer

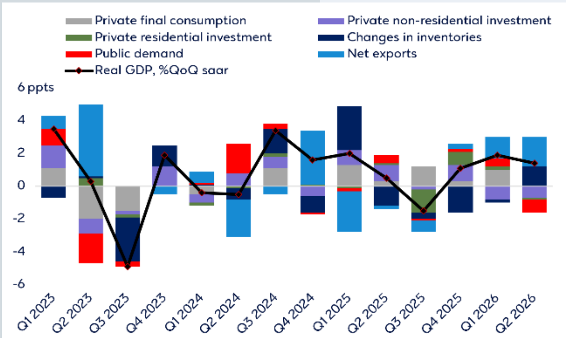
The Bank of Japan looks increasingly likely to raise its policy rate by 25bps to 1.25% at its September 17–18 meeting, with markets fully pricing in such a move as of September 9. A rate hike would be consistent with resilient domestic activity and persistent underlying price pressures, but it would also reinforce the authorities' efforts to strengthen the yen after large foreign-exchange interventions over the summer. The BoJ kept its policy rate unchanged at 1.00% on July 31, although one Policy Board member voted for an immediate increase to 1.25%. A hike in September would help narrow Japan's interest-rate differential and reduce the incentive to fund carry trades in yen, addressing a key driver of the currency's earlier depreciation. On July 31 and in August, Japanese authorities intervened in the FX market in coordination with the US Treasury, an unusual step that strengthened the signal that both governments regarded disorderly yen depreciation as a policy concern. Some JPY15.4trn was spent between July 30 and August 26 after USD/JPY approached 164, the lowest level for the yen in around four decades. The intervention initially pushed the rate towards 155, but August's subsequent partial reversal showed that currency purchases alone could not resolve the underlying interest-rate imbalance. However, the picture reversed again in September in anticipation of a BoJ hike, with USD/JPY below 154 on September 9. Domestic conditions give the BoJ room to move. GDP expanded by an annualised 1.4%QoQ in Q2, revised up from the 1.1%QoQ initially estimated, though 0.5ppts slower than the Q1 pace. This meant growth remained positive for a third successive quarter, while capital spending rising 1.6%YoY provides a firmer investment backdrop than the flat reading in Q1. The latest indicators suggest that momentum carried into Q3. The composite PMI increased to 53.5 in August from 52.7 in July, reflecting improvements in both manufacturing, to 54.9 from 54.5, and services, to 52.5 from 51.2. Industrial production was broadly flat in July, rising 0.1%MoM, but remained 4.1% above its year-earlier level. Household activity also improved after a weak June. Retail sales rebounded by 2.4%MoM and 4.0%YoY in July, reversing some of June's 4.1%MoM decline. National headline CPI inflation rose to 1.9%YoY in July from 1.6%YoY in June, while core inflation, excluding fresh food, accelerated to 1.8%YoY from 1.6%YoY. Producer-price inflation was much stronger at 7.2%YoY in July, pointing to a sizeable cost pipeline even though the monthly increase slowed to 0.1%MoM.

Figure 15: Japanese and US launched joint efforts to shore up the JPY in the summer



Source: Bloomberg, Eurobank Research

Figure 16: Changes to inventories and net exports drove Japanese growth in Q2



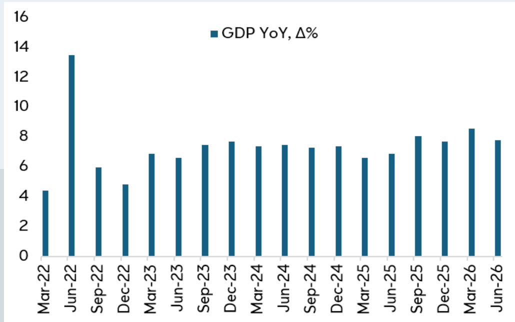
Source: Bloomberg, Eurobank Research

India

Robust domestic growth faces renewed inflationary pressures

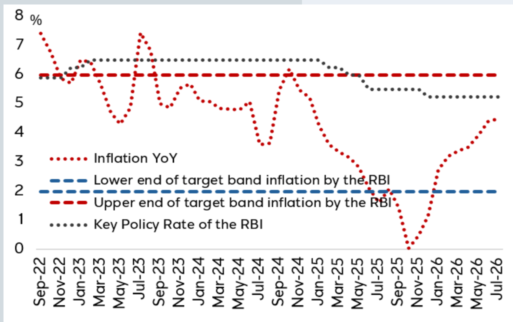
India remains one of the fastest-growing major economies, supported by strong domestic activity despite a challenging global environment. Real GDP expanded by 7.8%YoY in Q1 FY2026/27 (April–June), exceeding expectations and confirming strong underlying momentum. Growth remained broad-based, with manufacturing and services providing important support, while domestic demand continued to underpin activity. More recent indicators suggest that expansion has continued into the second quarter of the fiscal year, although momentum has moderated somewhat. The manufacturing PMI stood at 52.8 in August, remaining comfortably above the 50 threshold and signalling continued expansion in output and new orders. Services activity has also remained resilient, supporting the broader picture of an economy still growing at a strong pace. Industrial production continues to expand, although monthly data have been more mixed than the headline GDP figures, suggesting some normalisation following the strong April–June performance. The inflation picture has become less favourable. The headline CPI inflation rate increased to 4.45%YoY in July, from 4.38% in June, moving further above the RBI's mid-point 4% target. The acceleration in inflation is particularly relevant given the continued strength of domestic activity, while food and energy prices remain potential sources of volatility. Labour-market conditions have remained broadly stable, with the official unemployment rate at 5.1% in July. Against this backdrop, the RBI kept the repo rate unchanged at 5.25% in August and maintained a neutral stance. With economic activity remaining robust and inflation moving above target, the balance facing monetary policy has become less supportive of further easing. The RBI is therefore likely to remain focused on inflation developments while assessing whether recent price pressures become more persistent. Overall, India enters the second half of 2026 from a position of considerable economic strength, with domestic demand, manufacturing and services supporting growth. The main near-term challenge is to maintain this momentum while keeping inflation contained. On the political front, recent youth-led protests warrant monitoring, although at this stage they do not appear to materially alter the broader reform direction. Over the medium term, continued investment, expansion of manufacturing capacity and stronger job creation will be important for translating rapid GDP growth into higher household incomes and a more balanced and durable expansion.

Figure 17: Economic growth remains robust



Source: MOSPI, Eurobank Research

Figure 18: Renewed inflation pressures warrant greater policy caution



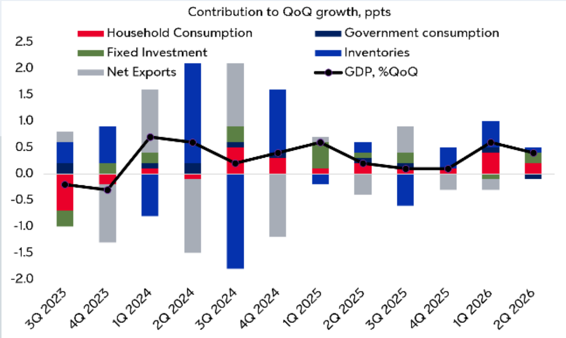
Source: RBI, Eurobank Research

UK

Growth holds up but inflation and fiscal pressures cloud the outlook

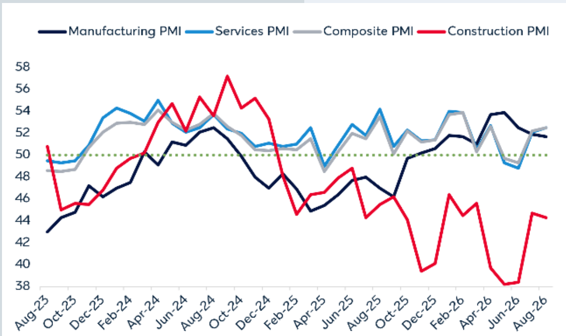
The UK economy retained some momentum in Q2, although the composition of activity and renewed price pressures point to a more challenging H2. GDP expanded by 0.4%QoQ, slowing from 0.6%QoQ in Q1 but matching expectations. Services remained the principal growth engine, supported by technology-intensive activities, while business investment also strengthened. The quarterly performance masks softer momentum in parts of the economy: industrial production fell by 0.2%MoM in June and manufacturing output declined by 0.5%MoM, while the trade deficit widened by more than expected. Business surveys provide a more encouraging signal for Q3. The composite PMI recovered from 49.3 in June to 52.2 in July and 52.5 in August, with both manufacturing and services above the 50 threshold. Construction remained the main weak spot, as its PMI edged down 0.4pts to 44.3 in August, despite improving from 38.4 in June. Household demand has also been uneven: retail sales declined by 0.5%MoM in July following a downwardly revised 0.7%MoM increase in June. Consumer confidence, however, improved to -14 in August from -17 in July, defying the consensus expectation for a slight weakening. The labour market is cooling only gradually. The unemployment rate remained at 4.9% in the three months to June, while average weekly earnings growth slowed to 4.1%YoY from 4.4%YoY in May. Both numbers were 0.1ppts higher than the consensus. The baseline is for growth to lose some momentum towards year-end as higher energy costs squeeze real incomes, but positive PMIs suggest that a sharp downturn is not imminent. Headline CPI inflation rose by 0.3ppts to 2.9%YoY in July, partly reflecting higher household energy costs, while core inflation held at 2.6%YoY. Further energy and transport cost pressures leave the near-term inflation profile tilted upwards. Against this backdrop, the BoE maintained Bank Rate at 3.75% in July. Resilient activity and above-target inflation argue for a cautious approach to further easing, with the next decision due on September 17. Markets are pricing in only a 10% probability of a 25bp rate hike at that meeting, though they see a cumulative 31bps of monetary tightening by the end of the year. On the fiscal side, borrowing in FY2026–27 to July was GBP2.3bn above the OBR's forecast profile, leaving the October 28 budget to reconcile spending pressures with the government's commitment to preserve a buffer against its fiscal rules.

Figure 19: Household consumption and investment support GDP growth in Q2



Source: ONS, Bloomberg, Eurobank Research

Figure 20: Services PMI rebounded sharply over the summer after dipping in Q2



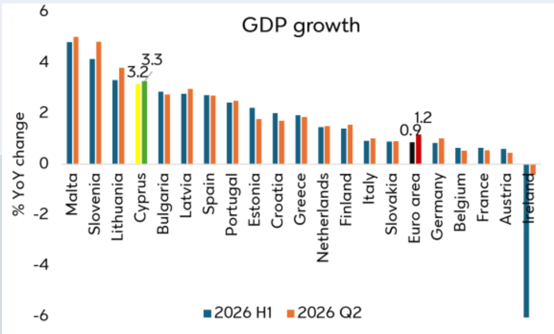
Source: Bloomberg, Eurobank Research

Cyprus

Consumption and investment offset external headwinds in Q2

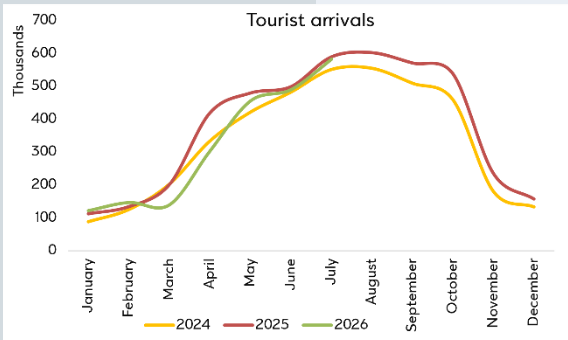
Despite the deterioration in the global economic environment in Q2 following the outbreak of the Iran war, Cyprus's economy remained resilient, with GDP growth accelerating to 3.3%YoY from 3.0%YoY in the previous quarter. This was the fourth-highest growth rate in the euro area, behind only Malta, Slovenia and Lithuania. Growth in the second quarter was primarily driven by household consumption (+5.4%YoY) and gross fixed capital formation (+9.4%YoY), largely reflecting a surge in investment in transport equipment (+151.9%YoY). Government consumption (+4.5%YoY) also contributed positively to economic activity. Exports increased by 9.6%YoY, supported mainly by services exports. However, the external surplus narrowed by 45.1%YoY, as imports grew by 12.9%YoY, largely reflecting the transport-related investment already mentioned. Looking forward, there are signs that economic momentum remained robust at the beginning of Q3. Real estate sales increased by 10.8%YoY in July-August, bringing the YtD increase to 13.7% and placing the market on course for an all-time high. Strong demand, fueled mainly from non-resident buyers, is expected to continue supporting construction activity, which expanded by 45.5%YoY by surface area during January-April. In contrast to the 28.6%YoY steep fall in March-April, tourist arrivals declined by only 1.1%YoY in July, following a similarly moderate decrease in June (-1.7%YoY). Our tourism scenarios for 2026, presented in the September issue of the Eurobank Limited LinkedIn newsletter (Cyprus Insights), project a decline in arrivals from the record levels of 2025 of between 4.7% and 5.8%, suggesting a relatively mild correction. The outlook for household consumption remains subject to opposing forces. On the one hand, inflationary pressures re-emerged in August, with headline inflation accelerating to 5.2%YoY from 4.4%YoY in July, mainly because of higher energy prices, despite all existing energy-related inflation-relief measures remaining in place. These developments increase uncertainty regarding the inflation outlook once such measures are gradually withdrawn. On the other hand, labour market conditions remain supportive. The unemployment rate fell to a record low of 3.6% in Q2 2026, supported by a 2.9%YoY increase in employment, notwithstanding a 9.4%YoY increase in registered unemployed persons during the same period. Moreover, labour market conditions appear to be gradually improving, as the annual increase in registered unemployment moderated to 6.5%YoY in July-August.

Figure 21: Pace of GDP growth remains one of the fastest in the Euro area



Source: Eurostat, Eurobank Research

Figure 22: Tourism approaches last year's all-time highs after the downturn in March-April



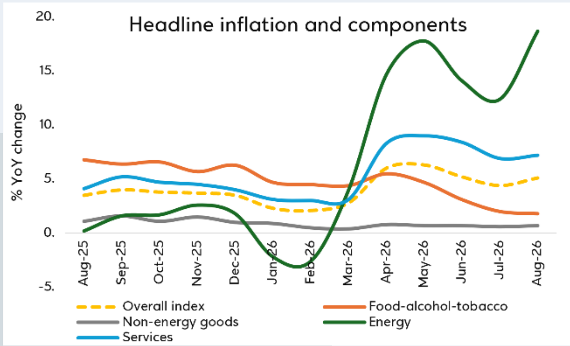
Source: CYSTAT, Eurobank Research

Bulgaria

Growth eases slightly, but underlying momentum remains solid

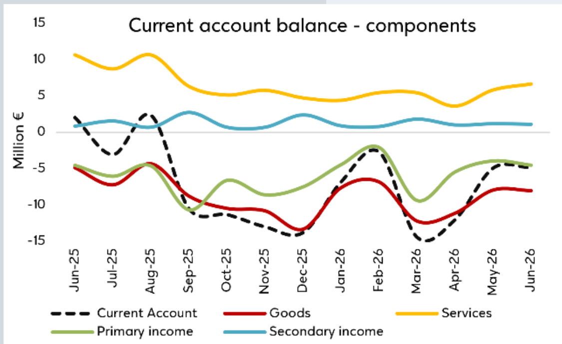
GDP growth moderated slightly in Q2 2026, to 2.8%YoY from 3.0%YoY in the previous quarter, with domestic demand continuing to act as the main driver of economic growth, through household consumption and investment. Household spending expanded by 8.9%YoY, only slightly below the 9.3%YoY recorded in Q1, while gross fixed capital formation increased by 8.4%YoY, compared with 8.7%YoY in the previous quarter. The external balance improved relative to Q1, with the external sector deficit narrowing by 52.5%. Nevertheless, the economy remained in deficit, compared with a small surplus recorded in Q2 2025. Exports increased for the first time in six quarters, albeit marginally (+0.2%YoY), supported by higher exports of goods. At the same time, import growth accelerated to 8.5%YoY from 8.3%YoY in Q1, driven entirely by stronger imports of goods. The strong performance of household consumption was supported by a combination of historically low unemployment (3.5% in Q2), robust wage growth, despite slowing to a nearly 4.5-year low of 9.8%YoY, and rapid consumer credit expansion (+14.1%YoY). Based on the first available indicators for Q3, these factors are expected to continue supporting household spending during the second half of 2026. Consumer credit growth accelerated further to 15.4%YoY in July, while registered unemployment edged up to 5.4% from 5.3% in June, although this largely reflects seasonal factors, such as the end of the school year. Nevertheless, persistent inflationary pressures could weigh on the pace of consumption growth, as headline inflation accelerated to 5.1%YoY in August from 4.4%YoY in July. On the investment side, activity is expected to benefit from the improved business sentiment following the May elections, efforts to accelerate the RRF funds absorption during the final implementation phase, and strong credit growth to businesses (+17.4%YoY in July). However, unfavourable base effects are likely to moderate the pace of annual investment growth. Strong domestic demand should continue to support imports of goods, although base effects are expected to soften their negative contribution to overall growth. A more significant challenge for the external sector, particularly in Q3, stems from the deterioration in the tourism balance. Tourist arrivals have declined modestly since April (excluding May), while outbound travel by Bulgarian residents has continued to increase, rising by 4.4%YoY between April-July.

Figure 23: Energy prices mainly drove the inflation acceleration in August



Source: Eurostat, Eurobank Research

Figure 24: Recent deterioration in the services balance further worsens the current account



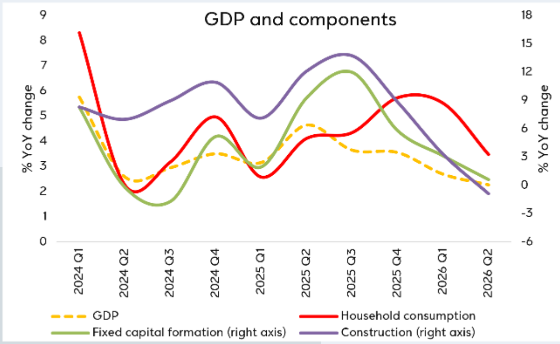
Source: Bulgarian National Bank, Eurobank Research

Turkey

Softer consumption and investment push growth to a six-year low

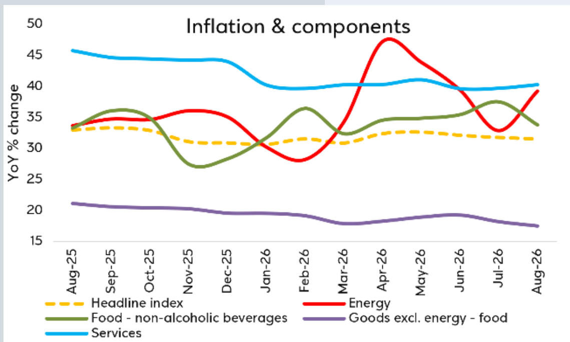
Turkey's economic growth slowed further in Q2 2026, broadly in line with the signals from short-term activity indicators presented in our previous issues. Real GDP expanded by 2.3%YoY, down from 2.7%YoY in Q1 and 4.6%YoY a year earlier, marking the weakest pace in six years. The slowdown reflected weaker momentum across all major components of domestic demand. Household consumption growth decelerated to 3.5%YoY from 5.5%YoY in Q1. Investment activity also weakened, with gross fixed capital formation rising by only 0.6%YoY, compared with 3.1%YoY in the preceding quarter. By contrast, the external sector provided some support for growth. Export performance improved considerably, with the 12.7%YoY decline recorded in Q1 moderating to 3.4%YoY in Q2, while the import contraction deepened to 6.4%YoY from 1.6%YoY in the previous quarter. The moderation in household spending appears inconsistent with labour-market developments. The unemployment rate declined further to 8.0% in Q2, from 8.2% in Q1, reaching its lowest level since at least 2005. Nevertheless, persistently high inflation has probably continued to weigh on consumers' purchasing power. Headline inflation has remained within the 31-33%YoY range since July 2025, despite measures adopted by both the government and the central bank of the country (TCMB) to contain the inflationary impact of the war in Iran. Looking ahead, considering protracted geopolitical tensions in the Middle East and their implications for energy prices, the TCMB's reluctance to tighten monetary policy since March despite sticky inflation, as well as the ongoing depreciation of the Turkish lira, inflationary pressures are expected to remain elevated in H2 2026. As a result, household spending growth is projected to remain subdued. A rebound in unemployment, due to sectors losing momentum, such as retail trade and construction, could result in additional headwinds for private consumption. Indeed, the unemployment rate rose to 8.1% in July from 7.6% in June. Weak domestic demand should continue to restrain imports, contributing to a further improvement in the external balance. The tourism sector may also provide a more positive contribution in Q3, as the summer travel season appears to be backloaded. Indicatively, tourist arrivals declined by only 0.3%YoY in July, compared with a 5.3%YoY contraction in Q2. The prolonged war conflict may generate some benefits for the transport sector, as Turkey's strategic location positions it as an alternative trade corridor between Middle Eastern countries and the Mediterranean Sea.

Figure 25: GDP more affected in the past year by investment than consumption fluctuations



Source: Turkstat, Eurobank Research

Figure 26: Food and non-food-energy prices appear to be the main drivers of inflation



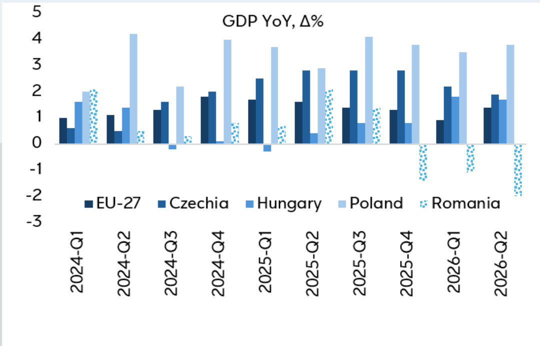
Source: Turkstat, Eurobank Research

CESEE

Domestic growth meets inflation and fiscal pressures

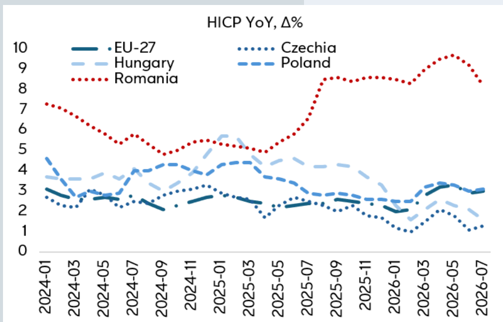
Economic conditions across CESEE remain mixed, with domestic demand providing support but growth, inflation and policy space differing considerably across countries. Poland remains the strongest performer, while Czechia continues to expand at a moderate pace; Hungary is gradually gaining momentum and Romania faces a much more difficult combination of weak activity, high inflation and fiscal adjustment. In Poland, GDP growth accelerated to 3.9%YoY in Q2 2026, from 3.2%YoY in Q1, supported mainly by domestic demand. Household consumption remained firm, while investment also strengthened. Inflation stood at 3.4%YoY in August, following 3.0% in July, keeping price developments relatively close to the NBP's target range. The policy rate remains at 3.75%, but large fiscal deficits and high government borrowing needs continue to complicate the policy outlook. Czechia recorded more moderate but balanced growth, with GDP increasing by 1.9%YoY in Q2 compared to 2.2%YoY in Q1. Inflation remains close to the CNB's 2% target, although core inflation is still just below 3%. The CNB therefore kept its policy rate at 3.75% in August, following its 25bp increase in June, and continues to signal a restrictive stance. In Hungary, GDP expanded by 1.7%YoY in Q2, same as in the previous quarter, supported by services and industry. Inflation fell sharply to 1.2%YoY in July, with core inflation at 1.9%, allowing Hungary's central bank to cut its base rate by another 25bp to 5.50% in August. Further easing remains possible, although the central bank continues to emphasise positive real rates and FX stability. Romania remains the main regional vulnerability. GDP contracted deeper by around -2%YoY in Q2 vs -1.2%YoY in Q1, while CPI inflation remained above 8% in July. The NBR consequently kept its policy rate at 6.50% in August. Fiscal consolidation is progressing — the government estimates the 2026 deficit at around 6% of GDP, from 7.9% in 2025 — but public debt has moved above 60% of GDP. Political instability adds to these pressures: the collapse of the government in May and subsequent disagreement over public-sector wage reform have delayed reforms and put EUR770mn of EU recovery funds at risk. Overall, CESEE remains domestically supported but increasingly differentiated: Poland leads growth, Czechia remains comparatively balanced, Hungary has gained room for monetary easing, while Romania faces the region's most difficult growth-inflation-fiscal policy mix.

Figure 27: Poland leads as regional growth performance diverges



Source: Eurostat, Eurobank Research

Figure 28: Inflation divergence persists, with Romania remaining the outlier



Source: Eurostat, 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	3.5	3.0	3.1	4.1	4.0	3.5											
Advanced Economies																	
USA	2.1	2.1	2.1	2.7	3.3	2.4	4.3	4.3	4.3	-3.8	-3.1	-3.2	-5.9	-6.3	-6.4	2.1	2.1
Eurozone	1.2	0.9	1.2	2.1	2.9	2.3	6.3	6.3	6.2	1.7	1.5	1.5	-2.9	-3.5	-3.3	0.9	1.2
Germany	0.2	0.9	1.1	2.3	2.7	2.4	6.3	6.3	6.2	4.5	4.3	3.9	-2.7	-3.8	-4.2	0.9	1.1
France	0.8	0.6	0.9	0.9	2.3	1.9	7.7	8.2	8.0	-0.3	-0.3	0.0	-5.1	-5.1	-5.1		
Periphery																	
Cyprus	3.8	3,0	3.2	0.8	3.6	3.5	4.4	4.3	4.2	-6.8	-7.2	-6.7	3.4	2.7	3.1		
Italy	0.5	0.9	0.7	1.6	2.8	2.1	6.0	5.5	5.6	1.1	0.9	1.0	-3.1	-3.0	-2.8		
Portugal	1.9	2.0	1.8	2.2	2.9	2.3	6.0	5.8	5.8	1.2	0.5	0.7	0.7	-0.2	-0.4		
Spain	2.8	2.5	1.9	2.7	3.4	2.6	10.5	10.1	9.8	2.9	2.3	2.1	-2.4	-2.4	-2.3		
UK	1.3	1.1	1.2	3.4	3.1	2.6	4.8	5.1	5.3	-3.1	-2.9	-3.0	-4.9	-3.8	-3.3		
Japan	1.2	0.7	0.8	3.2	2.0	2.1	2.5	2.5	2.5	4.8	4.8	4.7	-1.4	-2.3	-2.6		
Emerging Economies																	
BRIC																	
Brazil	2.3	2.0	1.7	5.0	4.6	4.3	6.0	5.6	6.0	-2.9	-2.4	-2.2	-8.3	-8.9	-8.5		
China	5.0	4.6	4.5	0.1	1.0	1.1	5.2	5.1	5.1	3.8	3.6	3.3	-5.1	-5.4	-5.5		
India	7.2	6.7	6.9	2.2	5.0	4.6	4.9	4.9	4.9	-0.5	-1.3	-1.2	-4.5	-4.5	-4.3		
Russia	1.0	0.7	1.2	8.7	6.0	5.0	2.2	2.3	2.4	1.5	2.8	1.8	-2.6	-3.0	-2.3		
CESEE																	
Bulgaria	3.2	2.6	3.0	3.5	4.3	3.1	3.5	3.6	3.8	-5.7	-8.4	-6.3	-3.5	-5.5	-4.1		
Turkey	3.6	2.3	3.0	35.2	30.0	22.0	8.4	8.1	7.8	-1.4	-2.3	-1.9	-2.9	-3.9	-3.3		

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

Eurobank Fixed Income Forecasts

	Current	September 2026	December 2026	January 2027	March 2027
USA					
Fed Funds Rate	3.5-3.75%	3.57-3.77%	3.61-3.83%	3.53-3.78%	3.39-3.66%
3m SOFR	3.84%	3.76%	3.71%	3.65%	3.57%
2yr Notes	4.4%	4.11%	4.02%	3.93%	3.84%
10yr Bonds	4.8%	4.59%	4.53%	4.46%	4.4%
Eurozone					
Refi Rate	2.4%	2.63%	2.61%	2.59%	2.54%
3m Euribor	2.62%	2.55%	2.54%	2.5%	2.44%
2yr Bunds	3.05%	2.52%	2.58%	2.57%	2.51%
10yr Bunds	3.41%	2.99%	3.05%	3.03%	3.01%
UK					
Repo Rate	3.75%	3.75%	3.76%	3.69%	3.54%
3m Sonia	3.82%	3.77%	3.8%	3.73%	3.59%
10-yr Gilt	5.22%	4.91%	4.79%	4.67%	4.58%
Switzerland					
3m Saron	-0.05%	-0.01%	-0.02%	-0.02%	0.04%
10yr Bond	0.45%	0.37%	0.42%	0.45%	0.48%

Source: Bloomberg (market implied forecasts)

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