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The most recent business survey data offers a glimmer of hope that the global expansion is getting to a phase of solid and stable growth, with divergences across sectors and regions last year appearing to narrow. However, major central banks are hitting bumps along the road to bringing inflation back to target. The deflationary trend in goods prices seems to be losing momentum, while services inflation remains high, fueled by rapid wage growth. This has led central bankers to emphasise the risks that would come with easing policy too soon, prompting investors to further scale back bets on the timing and extent of rate cuts.

Macro Picture

USA: the economy is losing some momentum, but appears to still be growing solidly

EA: there are tentative signs that activity has bottomed out, but little hope for a rebound soon

Japan: country avoided Q4 technical recession thanks to growth in non-residential investment

CESEE: acceleration of growth in 2024 amid waning inflation and lower interest rates

Markets

FX: both EUR and GBP retain bullish momentum; vol inching slightly higher but still at low levels

Rates: EU and US rates expected to move lower ahead of start to central bank rate easing cycle

EM: sovereign spreads are significantly tighter; macro environment conducive for this to continue

Credit: investors looking to data for clues on rate cut timing; sentiment positive for issuance

Policy Outlook

USA: Fed in no rush to cut rates, needs confidence that inflation is sustainably returning to target

EA: the ECB remains in a data-dependent policy mode, looking at growth in wages and profits

Japan: expectations rapidly growing that BoJ will imminently hike interest rates

CESEE: central banks at crossroads; foster growth and prevent inflation from resurfacing

Key Downside Risks

DM: commodity prices spike and renewed threat of supply chain disruptions as geopolitical tensions escalate; disinflation slowing leads to tight monetary policy for longer

EM: growing geopolitical fragmentation leads to global supply chain disruptions; political uncertainty and fiscal risks from a series of ballots

Special Topic in this issue:
→ AI and the economy: handle with care

Contributing Authors:

Marcus Bensasson
Research Economist
mbensasson@eurobank.gr

Maria Kasola
Research Economist
mkasola@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurbank.gr

Michail Vassileiadis
Research Economist
mvassileiadis@eurobank.gr

Special thanks to the Global Markets team (Global_Markets_Trading@eurobank.gr).

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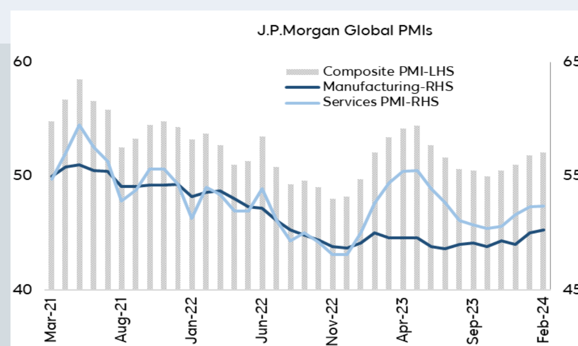
Macro Views

The uptrend in global economic activity gained further momentum in February; major CBs continued to signal caution about easing too quickly

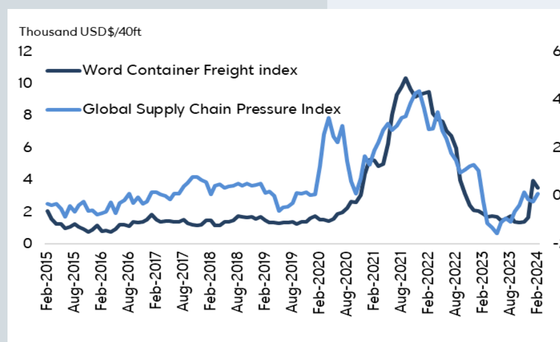
The uptrend in global economic activity gained further momentum in February, as seen in the continued upward trajectory of the composite PMI for a fourth straight month. This marks a notable turnaround from the five-month contractionary phase observed from June to October 2023. With an increase of 0.3ppts to 52.1, the index reached its highest reading since June 2023, underpinned by robust private sector balance sheets, still-strong labour markets and the fading drag from inflation. The trend offers a glimmer of hope that the global expansion is moving towards a phase of stable and solid growth, especially as the divergences seen across sectors and regions last year seem to be narrowing. Both the services and manufacturing sectors contributed to the positive momentum. The services sector remained robust, with the PMI rising for a fourth straight month to reach a seven-month high of 52.4, up from 52.3 in January, supported by increased growth in new orders and a modest reduction in work backlogs. The manufacturing PMI was lower but there were signs of renewed vigour following January's rebound from 16 months of continuous contraction. The index advanced by 0.3pts to 50.3, outpacing the 0.1pts gain in services and surpassing the critical 50.0 threshold for the first time since August 2022. Total new orders also rose above 50.0, albeit marginally, for the first time in 20 months and, although the downturn in export orders continued, the rate of decline eased, suggesting that domestic orders played a significant role in the sector's recovery. Moreover, regional activity looks to be coming into better balance. Europe remains a significant drag, but there are signs of improvement, with a notable increase in the composite PMI compared to a more modest rise in the corresponding US index. Meanwhile, headline CPI continued its slight downward trajectory in January, settling at 2.4%YoY, while core remained sticky at around 3.0%YoY. The deflationary trend in goods prices — the main driver of core deflation last year — appears to be losing momentum, although upward pressures remain modest. Container shipping costs have surged by more than

Figure 1: Global economic growth continued to gather pace in February



Source: Bloomberg, Eurobank Research

Figure 2: Higher container shipping costs are starting to disrupt supply chains



Source: Bloomberg, NY Fed, Eurobank Research

130% since early December due to recent disruptions in global shipping routes, particularly in the Red Sea. Meanwhile, pressures on global services prices persist, primarily due to high wage growth in most developed economies, with labour markets still relatively tight. In light of these developments, major central banks continued to signal caution about easing too quickly, while acknowledging that rates have reached their peak for this tightening cycle. The emphasis in their communication about the need for time to gain more confidence that inflation is sustainably returning to target before considering rate cuts has prompted market participants to further scale back their rate easing expectations for this year.

Developed Economies

US: Inflation picked up across a broad range of categories in January-February, snapping a rapid cooling trend and denting confidence that price growth is steadily converging on the Fed's 2% target, especially as the economy remains resilient. The unexpected reacceleration in inflation coincided with significant downturns in several major activity indicators for January (e.g., retail sales, manufacturing production, housing starts). However, it would be wise not to overinterpret the January weakness, as it could be partially attributed to a pull-back in spending after the holiday season, adverse weather effects or unfavourable seasonal factors. It is expected that these effects will reverse, at least partially, in subsequent months, especially as the fundamentals for consumption — the main driver of GDP growth — remain strong, supported by still-elevated wage growth and healthy households balance sheets. With activity appearing to be losing some momentum but continuing to grow at a solid pace, and inflation still above target, the Fed remains hesitant to rush into cutting rates soon. Chair Powell reiterated this message during his semi-annual Congressional testimony stating that the committee will not rush to dial back the level of restriction until there is more convincing evidence that inflation is moving sustainably toward 2%.

Euro area: Inflation decelerated further in February, though more slowly than expected for the second straight month, suggesting that the process of disinflation may be losing momentum. Headline CPI growth fell by less than expected to 2.6%YoY from January's 2.8%YoY, as services — mostly influenced by persistently elevated wage growth — slowed only slightly, restricting the decline of core inflation to 3.1%YoY from 3.3%YoY. Partially due to labour hoarding and demographic trends, job market conditions remain tight, showing extraordinary resilience to Eurozone's economic stagnation over the last five quarters, with the result that labour productivity is steadily declining. These indicators suggest that there is no sense of urgency for the ECB to reverse course on its monetary policy, especially as sentiment surveys (e.g., January's PMIs, February's EC consumer confidence) continue to provide tentative signs that economic activity might have already bottomed out sometime in Q4 2023. Amid reduced downside growth risks and sticky services inflation, the ECB remains firmly in a data-dependent policy mode, waiting for more evidence on wages data to build enough confidence that inflation will return to its target in a timely manner before pivoting to rate cuts. Wage data for Q1 2024, will only become available by the time of the June meeting.

Emerging Economies

EM: after economic updates from the IMF and the OECD were the significant highlights in February, March saw major global gatherings of policymakers take centre stage. At the G20 meeting of finance ministers and central bank governors in Sao Paulo, the major headlines arose out of their failure to issue a united statement condemning the conflicts in Gaza and Ukraine. This failure highlighted the deepening divisions between developed and developing countries, and overshadowed the meeting's formal agenda, which included discussions on implementing a global minimum wealth tax, proposed by the host Brazil. The same theme of division was also evident at the 13th WTO ministerial conference meeting, where negotiations among over 160 countries failed to achieve breakthroughs on agriculture, fisheries and other key trade topics, signaling a rising protectionism. Turning to macro fundamentals, India's strong GDP data in Q4 2023 caught the markets' eye, coming in at 8.4%YoY and beating all estimates. From a policy perspective, the market's attention has been focused on China's NPC to understand how the Politburo plans to address the risk of country hitting a plateau of slow economic growth. The congress's deliberations left researchers underwhelmed and with lingering concerns that achieving the same approximate growth rate as in 2023 – which was only just over the 5% targeted for this year – would require more policy stimulus than what was announced. Finally, among the plethora of elections held around the world, and specifically in the EM part of it, Indonesia's ballot held in mid-February looks like it was won by current Defense Minister Prabowo Subianto. The official election result is expected by March 20, and, if confirmed the winner, Prabowo will take the reins in October 2024.

CESEE: GDP growth in the EU economies of the region accelerated in Q4 to 1.2%YoY from 0.7%YoY in Q3. Poland and Hungary set the tone, achieving the highest increases in the annual growth rate relative to Q3, by 1.5ppts (+1.7%YoY) and 0.7ppts (+0.5%YoY) respectively. Despite improved growth prints in Q4, the CEE3 economies combined did not avoid contraction in 2023 – shrinking by 0.2%. The Polish economy was the only one of the three that grew last year, albeit marginally (+0.2%), with Hungary contracting 0.9% and Czechia 0.5%. Stronger than expected disinflation over the previous months was the main reason behind the new key policy rate (KPR) cuts in February in Hungary (-100bps, to 9%) and Czechia (-50bps, to 6.25%). In Poland, despite rapid disinflation, the central bank has held its KPR unchanged at 5.75% since October, due to high uncertainty over how inflation will develop in the coming quarters. The easing of financial conditions in Czechia and Hungary is expected to support a pick-up in investment activity, according to the European Commission (EC) in its winter economic forecasts released last month. Nevertheless, the EC has revised downwards its GDP growth forecasts for Czechia for 2024 and 2025 relative to its autumn report, by 0.3ppts and 0.2ppts respectively to 1.1% and 2.8%, as private demand is projected to grow more slowly than previously expected, but kept projections for Hungary (2.4%, 3.6%) and Poland (2.7%, 3.2%) unchanged. Annual growth in the CEE3 economies is expected to be much faster over the forecast horizon than the EU average, 2.7% vs. 1.3%, with possible growth and other positive spillovers to other economies in the region.

Markets View

Foreign Exchange

EUR/USD: the market bias for EUR/USD is currently bullish. A break above 1.0946 could pave the way for a potential upward push towards 1.1048. Further bullish momentum could potentially target the 52-week high near 1.1276. RSI (30) is currently at 55.897 indicating that the market is in bullish territory. MACD signal is currently at a bullish crossover, suggesting that upward momentum could be building. Support levels include 1.0665, 1.0611, and 1.0558 while resistance levels include 1.1055,1.111, and 1.1165. 1M, 6M and 9M implied volatility currently at 5.8125%, 5.8%, and 5.93%, respectively.

GBP/USD: similar analysis for GBP/USD also suggests a bullish market bias, while a break above 1.2850 could potentially target the 1.30 territory. Currently RSI (30) shows 58.811 and indicates a technically set mid-term bullish area. The MACD signal's bullish crossover suggests an upward momentum, while support levels include 1.2461, 1.2398, and 1.2335 and resistance ones 1.2941,1.3005, and 1.3069. 1M, 6M and 9M implied volatility currently at 6.185%, 6.205%, and 6.56%, respectively.

Rates

EU: EU rates had a volatile month, rising in the first half of February but taking back a large part of that move thereafter. The 10y swap is currently trading at 255bps, a level last seen at the beginning of February, after printing a high of 280bps earlier this month. The slope of the curve has decreased, with 5s30s trading at -30bps down from -20bps at the beginning of the month but having printed a low of -38 bps at the end of February. Looking forward we expect EU rates to remain volatile but eventually move lower given that the ECB signaled at last week's meeting that June is the most likely timing for the first rate cut.

US: swap rates ended the month higher following substantial volatility. In particular, the 10y swap rate is currently trading at 370bps, having traded as high as 395bps earlier in February. The yield curve flattened, with the 5s30s trading close to -30bps, significantly lower than the -12bp at the beginning of February. Looking forward we expect interest rates to move lower in the US after Fed Chair Jerome Powell indicated last week that the next rate move would be a cut but continued to signal caution about easing too quickly.

Emerging Markets Sovereign Credit

The negative correlation between rates and spreads that has prevailed so far this year helped EM sovereign spreads to tighten in February during the sell-off in core rates, while there was a small underperformance in the recent rally in rates at the start of March. The EMBI Global Index tightened by 27bps and is now at 309bps. In CEEMEA, Hungarian EUR bonds slightly outperformed their central Europe peers, while in South Africa local markets reacted positively to the announced national budget with yields

reversing some of the month's losses. In Latam, Banxico seems to be en route to cutting the base rate in March as the inflation picture in Mexico continues to improve. Concerning the external debt, the 10y USD spread is now 8bps tighter than at the end of January, reversing some of the significant outperformance compared with peers that we saw at the end of February. In Asia, overall sentiment in China remains weak. The 10y CGB yield is currently 13bps lower than at the end of January, reaching new record lows. In Indonesia, the spread of USD sovereign bonds completely reversed the initial tightening and is now unchanged from the end of January. We believe that EM spreads may still have some potential for further compression, allowing investors to continue earn carry, despite tight valuations in a likely soft landing scenario.

Corporate Credit

February was a strong month for risk assets, with several major asset classes at record highs, as hopes for a soft landing continued. Macro remained in focus, with global data pointing to a robust backdrop growth-wise for the most part. In the US, the ISM manufacturing index climbed to a 15-month high, but upside surprises to inflation raised concerns that the path back to target is unlikely to be a smooth one. Another important story was continued AI-led excitement, which sent the Magnificent 7 up 12% in total return terms in February (best monthly performance since May 2023). Following suit, the S&P 500 reached new all-time highs, ending higher for a fourth consecutive month in February (currently +4.4% since January). European equities have advanced 3.6% since the start of February, with DAX being a notable outperformer, rising 4.9% in this period. By the end of last month, markets had largely dismissed fears related to commercial real estate, after New York Community Bancorp (which bought most of Signature Bank last year) reported higher-than-expected losses and raised their expected loan losses on commercial real estate. These had sparked concerns that the full consequences of higher rates are yet to materialize, particularly ahead of the 2024/2025 refinancing wall. That said, US regional banks underperformed, with the KBW Regional Banking Index falling 2.8% in February and New York Community Bancorp down 25%. Going into March, last Friday's US payrolls gave a mixed message, pointing to a cooler but still resilient US labour market, as NFPs beat expectations and the unemployment rate rose, while average hourly earnings slowed and there was a downward revision to January's payrolls. The ECB left rates unchanged last week, with several aspects suggesting the window for rate cuts was coming into view (e.g. inflation and near-term growth projections were revised downwards). Against this background, investors moved to increase the amount of rate cuts expected this year, almost fully pricing in a first cut by June from both the Fed and ECB.

In credit, synthetics moved tighter both in Europe as well as the US. European spreads saw strong performance since the start of February, with Main -8bps and Xover -33bps. Both indices performed broadly in line with US spreads (CDX IG -5bps and CDX HY -25bps since the start of February). In EUR Corporate cash, IEAC continued to underperform vs. HY, ending flattish on the month, with IHYG -30bps since the beginning of February. Financials outperformed among EUR IG cash (Snr Fins -4bps, Sub Fins -9bps) while Technology and Healthcare lagged (+6-8bps each). In High Yield, Consumer Stables and Energy outperformed (-63bps each) and Technology remained a notable underperformer (+150bps). Following a record-breaking January, primary issuance in February slowed down but remained healthy overall, as issuers continued to take

advantage of the supportive backdrop. Total issuance exceeded €170bn in February (vs. €350bn in January), of which c. 18% reflected ESG-labelled notes. March issuance is at almost €40bn so far.

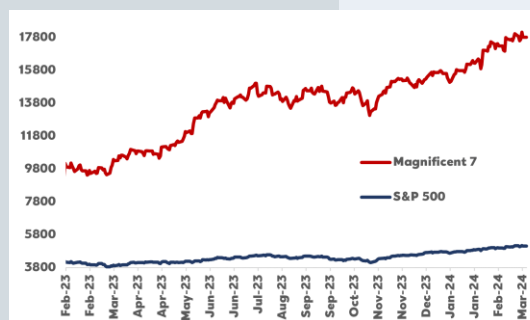
Looking ahead, attention remains on data, as investors seek fresh signs that will shed light on the timing and speed of rate cuts. Credit sentiment remains conducive for issuance, with a steady flow of mandates and updates for potential deals in the coming days suggesting another busy spell.

Special Topic: AI and the economy; handle with care

In 2023, global economic growth was more resilient than expected, but 2024 stands at a critical juncture. The direction it takes depends on how it addresses ongoing challenges, including how soon major central banks will initiate a rate easing cycle and to what extent they will cut rates, the impact of major elections in some of the world's key trading economies including the United States, United Kingdom, European Union, India, Mexico, Taiwan and Indonesia, and their fiscal imprint, along with persistent geopolitical risks. These factors contribute to a volatile international environment. In this intricate landscape, the spotlight has focused on artificial intelligence (AI), which lies at the intersection of computer science, psychology, philosophy, neurology, linguistics and engineering to mimic intelligent behaviour in machines, such as reasoning, learning, and adapting.

The exceptional performance of the "Magnificent 7" (M7) stocks over the remaining 493 in the S&P 500 index underscores the optimism surrounding AI's potential to stimulate the global economy and generate value on both macro and microeconomic levels. In 2023, the M7 — comprising Microsoft, Amazon, Meta Platforms, Apple, Alphabet, Tesla, and Nvidia — achieved an impressive average return of 111%, outperforming the S&P 500's overall return of 24%. Notably, Nvidia's stock, closely associated with AI as the leading chip manufacturer for critical AI processes, soared by almost 240%YoY, with its upward trajectory continuing into 2024. According to a recent McKinsey study, generative AI could contribute between USD2.6trn and USD4.4trn annually to the global economy. To put this in perspective, the United Kingdom's entire GDP in 2021 was USD3.1trn, about 3% of the global total. Meanwhile, Goldman Sachs has projected that AI adoption could enhance productivity growth by 1.5ppts per year over a decade, potentially increasing global GDP by 7%.

Figure 3: "Magnificent 7" overperformance underscores the optimism around AI



Source: Bloomberg, Eurobank Research

International financial institutions are also optimistic about AI's potential benefits, but they are cautious about its adverse effects. The latest quarterly report by the Chief Economists for the World Economic Forum (Chief Economists Outlook, 01/2024) reflects this dual perspective. It's broadly agreed that within the next five years, AI's contribution to productivity will be significant in developed economies and, to a lesser extent, in developing ones. The Global Risks Report 2024 by the WEF highlights concerns that the Global North's dominance in tech stack development could exacerbate social, cultural and political biases. Additionally, the resilience to AI-related risks, ranging from misinformation to criminal use, might be weaker in the Global South, potentially creating winners and losers in the AI battlefield.

Beyond the divide between developed and developing nations, AI is anticipated to impact productivity growth and the labour market, though it also raises concerns about industrial concentration. As AI evolves

and matures, it is expected to significantly boost productivity, marking the most transformative technological breakthrough in decades. AI may automate numerous tasks, but like the internet did two decades ago, it will also redefine many professions and create new types of jobs that drive economic growth.

The impact of AI on the labour market may not be entirely positive, a view shared by the International Monetary Fund (IMF). The fund stresses that AI's integration into the economy should go hand in hand with targeted lifelong learning initiatives. These are essential to mitigate the risk of human labour becoming obsolete, which could lead to increased unemployment and negative social impacts. It is crucial to find a balance between leveraging AI for productivity gains and adapting to changes in the nature of work through continuous education and training. This balance is vital for a positive and inclusive economic future. Without adequate upskilling, the workforce might not keep pace with AI's demands, potentially leading to greater inequality. According to Erik Brynjolfsson and Gabriel Unge in December 2023, this scenario doesn't necessarily mean widespread unemployment but could result in a polarised labour market with a small, highly skilled elite and a large, low-paid service sector.

Beyond the risks and opportunities AI presents, establishing a robust institutional and legal framework is crucial for it to benefit all economic participants. The case of self-driving cars illustrates the challenge: technological advancements have produced highly reliable vehicles that must navigate a legal system not built to accommodate such innovations, potentially impeding their development. Concerning institutional and governmental needs in the AI era, the precautionary principle — caution in the face of uncertainty — has often been overlooked in AI development, with regulators leaning towards a preference for innovation. However, the swift progress in deep learning and the increasing dependence on advanced machine intelligence are outstripping our capacity to both grasp the technology (the "Black Box Problem") and establish regulatory measures (the "Pacing Problem"), leading to regulation lagging behind technological advances.

In nutshell, AI's economic impact is complex, shaped by how policymakers, corporations, and society address its challenges and opportunities. Daron Acemoglu and Simon Johnson (Dec 2023) propose strategies to steer AI development towards augmenting rather than replacing human roles

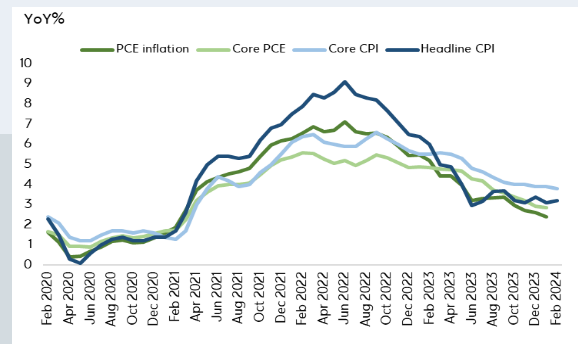
i. Modify business models to promote diversity and competition, preventing industrial concentration and monopolies
ii. Adjust the tax system to incentivise companies to choose technologies that complement human workers
iii. Financially support AI technologies that enhance human expertise, especially in crucial social sectors
iv. Incorporate AI expertise within regulatory and government bodies for more timely and effective decision-making.

US

Journey to Fed's inflation target hits road bump; cooling economy remains solid

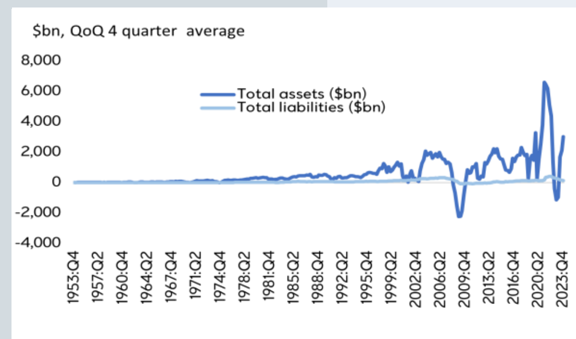
Inflation picked up across a broad range of categories in January-February, snapping a rapid cooling trend and denting confidence that price growth is steadily converging on the Fed's 2% target, especially as the economy remains resilient. CPI data surprised to the upside in February for the second consecutive month, with the headline unexpectedly rising by 0.1ppts to 3.2%YoY, while core inflation dropped by less than anticipated to 3.8%YoY from January's 3.9YoY%. Despite core services continuing to decline (-0.2ppts to 5.2%YoY), goods prices unexpectedly halted their declining trend and remained stable at the prior month's level (-0.3%YoY). PPI data was also firmer than expected in January, with core accelerating to 2.6%YoY (+0.1ppts), the first increase since February 2023, contributing to a higher-than-expected rise in core PCE to 2.8%YoY. That implies annualised inflation at 2.5% saar over the six-month period ending in January after running under 2% saar in the previous two months. The unexpected reacceleration in inflation coincided with significant downturns in several major activity indicators for January (e.g., retail sales, manufacturing production, housing starts). However, it would be wise not to overinterpret the January weakness, as it could be partially attributed to a pull-back in spending after the holiday season, adverse weather effects or unfavourable seasonal factors. It is expected that these effects will reverse, at least partially, in subsequent months, especially as the fundamentals for consumption — the main driver of GDP growth — remain strong, supported by still-elevated wage growth and healthy households balance sheets. After reaching a peak of 5.9% in early 2022, average hourly earnings growth dropped by a further 0.1ppts in February to 4.3%YoY, though it was still above the range of 3-3.5% that the Fed considers consistent with its inflation target. Meanwhile, household net worth surged by nearly $5trn in Q4 2023, bringing the total increase since the onset of the pandemic to a remarkable $40trn. With activity appearing to be losing some momentum but continuing to grow at a solid pace, and inflation still above target, the Fed remains hesitant to rush into cutting rates soon. Chair Powell reiterated this message during his semi-annual Congressional testimony stating that the committee will not rush to dial back the level of restriction until there is more convincing evidence that inflation is moving sustainably toward 2%.

Figure 4: Disinflation is slowing



Source: BSL, Eurobank Research

Figure 5: Household net worth surged by nearly $5trn in Q4 2023



Source: Fed, Eurobank Research

China

Same target, but greater challenges to achieving 5% growth in 2024

The pivotal event this month was the annual National People's Congress (NPC) session, where the primary economic objectives were outlined, focusing on GDP growth rate, the fiscal deficit, and inflation targets. The GDP growth target remains unchanged from 2023 at approximately 5%. Growth has trended downward for the past two decades, with an average of 10% from 2003 to 2013, decreasing to an average of 5.9% in the following decade. Prospects for a near-term turnaround in China's economic fortunes are gloomy as the country is currently grappling with deep challenges. These include a protracted real estate crisis, diminishing domestic demand, an aging population, high debt levels, and trade tensions with the US. Given these difficulties, a near repeat this year of 2023's growth rate of 5.2% appears optimistic. The current market consensus for Chinese GDP growth this year stands at 4.5%, while the IMF's forecasts up to 2028 do not exceed the region of 4%. Some observers had held out hope of an extensive fiscal stimulus from Beijing in order to inject some vigour into the economy. But those hopes appeared to be dashed at the NPC, where the fiscal deficit target for 2024 was set at 3% of GDP, indicating potentially even a move towards fiscal consolidation given that the final 2023 deficit target was reset during the year at 3.8% of GDP from 3% initially at the corresponding NPC meeting. Finally, the inflation target remains at 3%. In line with the commonly held view among China scholars and observers, we interpret that more as an upper limit than as a two-sided objective. Over the past decade, inflation has generally remained well below the 3% mark, only a few times approaching that level, and surpassing it even fewer. Year-end inflation did average 3% from 2004 to 2013, but that average fell to 1.7% from 2014 to 2023. Notably, in 2023, inflation was only marginally positive, with the year-on-year prints coming in negative in the final quarter, a trend that has continued into 2024 with consumer prices falling 0.8%YoY in January. This persistent disinflation, indicative of weak domestic demand, led to expectations for more detailed guidance from the NPC on revitalising demand, which was not provided. However, an ad-hoc, data-driven approach by the Politburo remains a possibility, as was the case in 2023, and could become crucial as the year progresses.

Figure 6: Waning growth and inflation in the last 20 years

Source: Bloomberg, Eurobank Research

Figure 7: ..set the bar high for this year's NPC targets

	2024 target	2023 target	2023 actual
GDP growth	around 5%	around 5%	5.2%
Fiscal Deficit % of GDP	3%	3,80%	3,80%
CPI	around 3%	around 3%	0.2%

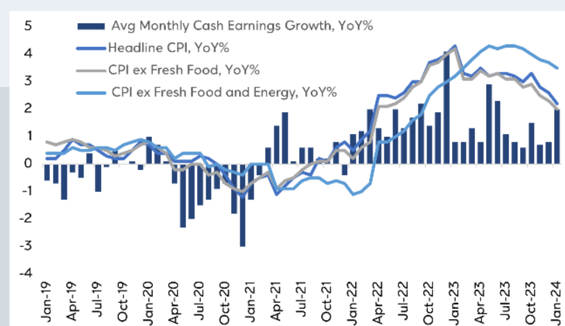
Source: Bloomberg, Eurobank Research

Japan

As country turns page on its deflationary era, question is: how soon will BoJ hike?

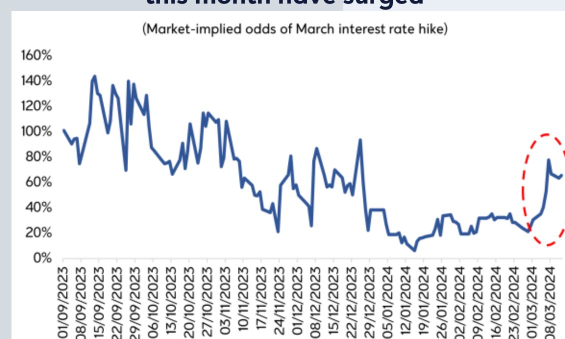
Recent developments are causing an escalation in market bets that the Bank of Japan will put an end to negative interest rates as soon as this month. When the country's Nikkei 225 stock index hit an all-time high in February, finally surpassing its previous peak in 1989, it symbolised the growing optimism that Japan has closed it's deflationary cycle. That anticipation was boosted when revised figures for Q4 2023 GDP showed the country didn't end the year in a technical recession, as had been indicated by the flash estimate. Instead, the economy grew 0.1%QoQ, translating to a 0.4% annualised pace, revised from -0.1%QoQ and -0.4% annualised. Overall, the Japanese economy grew 1.9% in 2023. The main reason for the swing between the first and second readings for Q4 was an upward revision in private non-residential investment, which grew 1%QoQ, instead of the initially estimated 0.1%QoQ contraction. That said, domestic demand overall contracted 0.1%QoQ due to drops in household and government consumption. Nevetheless, a few inflation prints have come in hotter than anticipated, while statements by several BoJ officials have expressed confidence that inflation is converging towards the central bank's 2% target on a sustainable, demand-led basis. National CPI rose 2.2%YoY in January, down from 2.6%YoY the month before but higher than the consensus estimate of 1.9%YoY, while the Tokyo CPI index increased 2.6%YoY in February, a 0.8ppts rise from January. Also surprising to the upside were labour cash earnings, which increased 2%YoY in January from a downwardly revised 0.8%YoY in December. Much of the BoJ's confidence that inflation will sustaibly rise to its target rests on the outcome of the annual *shunto* salary negotiations, currently underway, between unions and large corporations. These are expected to secure the biggest pay increases for employees in decades. The initial results of the talks are expected on March 15. This may be too soon to bring about a hike at the BoJ's March 19 meeting, making April the likeliest date for an end to negative interest rates. However, sentiment has shifted rapidly in recent weeks on a steady news flow of stronger-than-expected economic data and hawkish comments from central bank policy makers. Option markets currently imply a 56% probability of a rate hike this month, an increase from 21.4% just two weeks ago.

Figure 8: The BoJ wants to see prices sustainably at the 2% target



Source: Bloomberg, Eurobank Research

Figure 9: Market-implied odds of a rate hike this month have surged



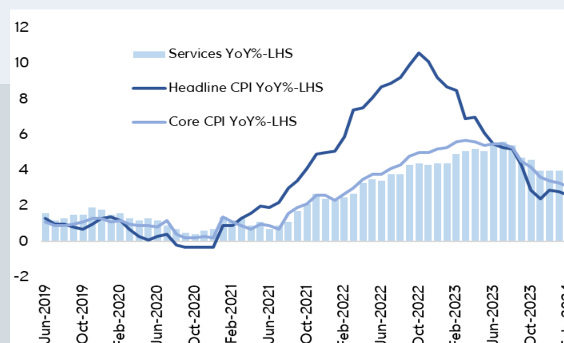
Source: Bloomberg, Eurobank Research

Euro area

The ECB remains firmly in a data-dependent policy mode

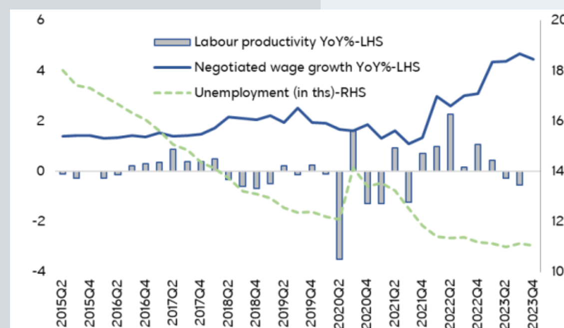
Inflation decelerated further in February, though more slowly than expected for the second straight month, suggesting that the process of disinflation may be losing momentum. Headline CPI growth fell from to 2.6%YoY from January's 2.8%YoY, primarily driven by declines in food prices (-1.6ppts to a 25-month low of 4.0%YoY) and core goods (-0.4ppts to 1.6%YoY). However, the February print exceeded expectation, as services, mostly influenced by persistently elevated wage growth, slowed only slightly (-0.1ppts to 3.9%YoY), restricting the decline of core inflation to 3.1%YoY from 3.3%YoY in January. That was higher than the 2.9%YoY market consensus. The ECB remains particularly concerned about the impact of strong wage growth on underlying inflation pressures, with developments on this front at the fore of the central bank's considerations regarding the appropriate time to start the rate easing cycle. Partially due to labour hoarding and demographic trends, job market conditions remain tight, showing extraordinary resilience to Eurozone's economic stagnation over the last five quarters, with the result that labour productivity is steadily declining (-0.5%YoY in Q4 2023). Negotiated wage growth stopped accelerating in Q4 2023, slowing to 4.5%YoY from 4.7%YoY in Q3, the first drop in two years. Nevertheless, it remains significantly above the 2.5%-3.0% level that the ECB considers compatible with its inflation target, assuming labour productivity growth somewhere between 0.5%-1.0%. The number of unemployed decreased by a further 34k in January to 11.009mn, the lowest ever, with the jobless rate edging down by 0.1ppts to a new record low of 6.4%. These indicators suggest that there is no sense of urgency for the ECB to reverse course on its monetary policy, especially as sentiment surveys (e.g., January's PMIs, February's EC consumer confidence) continue to provide tentative signs that economic activity might have already bottomed out sometime in Q4 2023. Amid reduced downside growth risks and sticky services inflation, the ECB remains firmly in a data-dependent policy mode, waiting for more evidence on wages data to build enough confidence that inflation will return to its target in a timely manner before pivoting to rate cuts. Wage data for Q1 2024, will only become available by the time of the June meeting. We continue to see the first rate cut in June, with risks tilted towards a later start to the easing cycle.

Figure 10: The disinflation process may be slowing amid sticky service prices



Source: Eurostat, Eurobank Research

Figure 11: High wage growth amid labour market tightness, while productivity remains weak



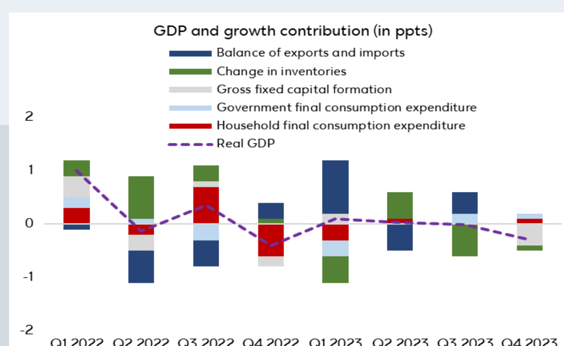
Source: Eurostat, Eurobank Research

Germany

No sustained near-term recovery in sight after economy contracts in Q4 2023

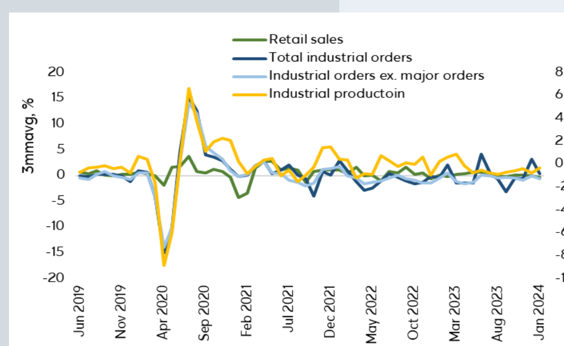
Germany continues to underperform its regional peers, with output contracting in Q4 2023 and data for Q1 2024 pointing to risks of another quarterly decline, despite tentative signs of bottoming out. According to the final estimate, real GDP contracted by 0.3%QoQ in Q4 2023, in line with the flash estimate. This decline was mainly driven by a decrease in gross fixed investment (-1.9%QoQ) which subtracted 0.4ppts from GDP growth. High financing costs and adverse weather conditions dampened investment activity. Industrial production was also affected by weak external demand and a shrinking order backlog, with manufacturing sector production declining for the second consecutive year in 2023 (-0.5%YoY). Private consumption showed only modest recovery (+0.2%QoQ), adding just 0.1ppts to GDP growth, despite a still-tight labour market and elevated wage growth. Geopolitical uncertainty and fiscal concerns continued to weigh on consumers' appetite for spending, leading to a relatively high saving rate (11.4% in Q4, above the 10.6% pre-pandemic level in Q4 2019). Future growth prospects remain gloomy. Retail sales unexpectedly fell in January (-0.4%MoM), the third consecutive monthly decline, and the GfK Consumption Climate indicator improved slightly in March (+0.6pts to -29.0) but failed to fully recover February's sharp decline (-4.2pts). On an encouraging note, industrial production rose in January for the first time since April 2023 (+1.0%MoM). However, it is still 0.4% below the Q4 average, while a sharp drop in new manufacturing orders (-11.3%MoM), which fully reversed December's gain (+12%MoM), indicates another potential industrial output contraction in Q1. High-frequency indicators added to concerns that a strong recovery is still some way off. Composite PMI unexpectedly fell in February (-0.2pts to 46.3) mainly driven by a renewed deterioration in manufacturing (-3.0pts to 42.5), while the IFO remained in contractionary territory in February, despite a 0.3pts increase to 85.5. Overall, risks appear tilted towards another quarterly contraction in Q1, particularly given the impact of national strikes at the beginning of the year. Growth momentum is expected to pick up in H2 driven by easing financial conditions, a slight pickup in global trade and improved private consumption supported by higher real wage growth. However, any rebound is expected to be limited, allowing us to stick to our projection for another full-year GDP contraction of -0.1% in 2024.

Figure 12: GDP contracted in Q4 2023 driven by a decrease in GFCF



Source: Destatis, Eurobank Research

Figure 13: No sustained near-term recovery in sight



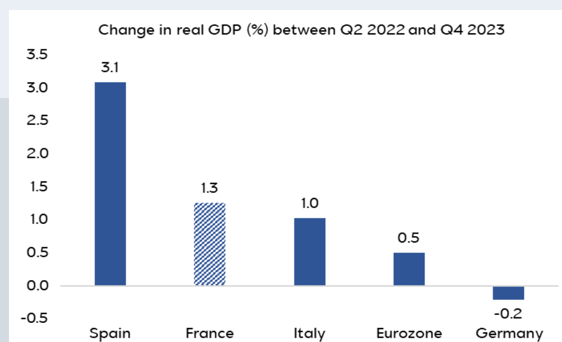
Source: Destatis, Eurobank Research

France

Growth lacklustre, expected to remain so; but still exceeds the Eurozone average

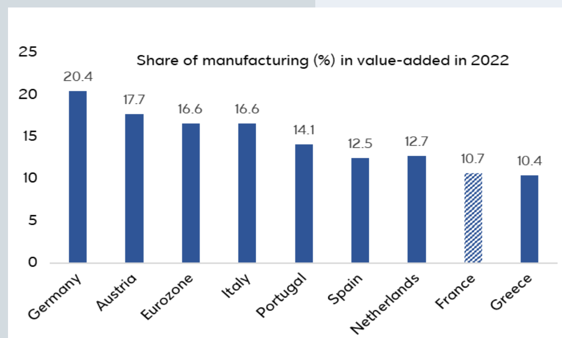
Economic activity indicators for Q1 2024 have proven disappointing so far, offering little hope of a strong recovery after two consecutive quarters of stagnation on subdued domestic demand. Starting the year on a weak note, household consumption expenditure on goods declined by 0.3%MoM in January, primarily driven by reduced purchases of manufactured goods (-1.5%MoM), notably cars. January's fall fully offset December's gain of the same magnitude, pointing to a carry-over effect of +0.1ppts into Q1, less than the +0.4ppts of the prior month. Furthermore, primarily driven by a 1.6%MoM fall in manufacturing output, the biggest drop in more than a year, industrial production also faltered in January, declining by a greater-than-expected 1.1%MoM following a modest gain of 0.4%MoM in December, which was subsequently revised downward by a substantial margin of 0.7ppts. Adding to the view of subdued economic growth, the INSEE business climate indicator ended a two-month rising streak in February, falling by 0.8pts to a three-month low of 97.8, still below its long-term average of 100. Along these lines, household confidence also deteriorated in February for the first time since last October, falling by 0.2pts to 89, matching December's print. Encouragingly, the PMI survey painted a less gloomy picture, revealing a jump in the composite index from January's 44.6 to a nine-month high of 48.1. That was still below the key 50 threshold, thanks to much smaller contractions in both services (48.5 vs. 45.3 in January) and the manufacturing sector (11-month high of 47.1 vs. 43.1), signaling a softening downturn in business activity. Overall, stagnation in GDP will likely continue in Q1 before economic activity starts gathering momentum gradually thereafter. Full-year GDP growth is projected at 0.8% for 2024, led by a rebound in household spending, continuing to outperform most of its major peers thanks to France's relatively low exposure to manufacturing. This should be the result of slightly improving purchasing power as inflation declines and wage growth remains strong in a tight labour market (negotiated wages seen rising 3.5%YoY in 2024 after a 4.6% increase in 2023). EU-harmonised inflation continued to slow in February, but at a slower pace than before, down to 3.1%YoY from 3.4%YoY the month before. The government revised its 2024 growth forecast to 1.0% from 1.4% and announced its plan to impose €10bn in expenditure savings to achieve the deficit target of 4.4% of GDP.

Figure 14: France has outperformed most of its major peers over recent years ...



Source: Eurostat, Eurobank Research

Figure 15: ... thanks to its relatively low exposure to manufacturing



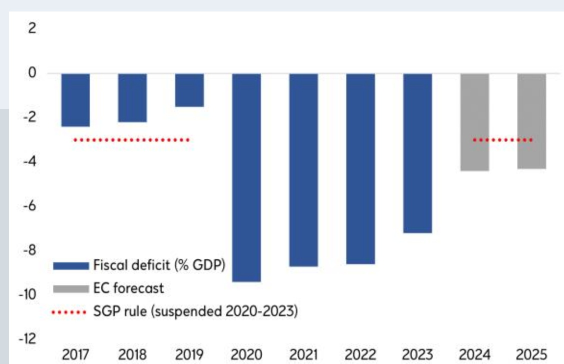
Source: Eurostat, Eurobank Research

Italy

Budget goes off rails in 2023 as controversial renovations subsidy fuels Q4 growth

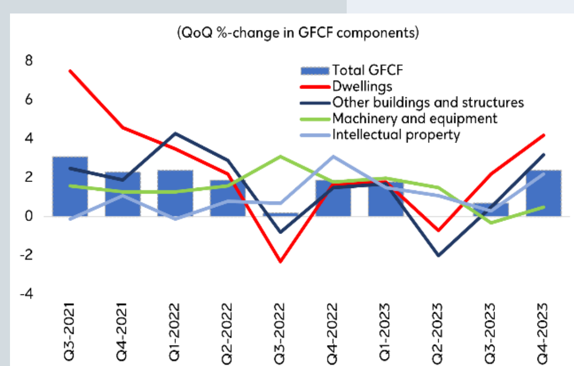
Fiscal data showed that Italy's budget deficit went off course in 2023, setting the stage for a possible future showdown with the European Commission. The budget deficit narrowed to 7.2% of GDP in 2023 from an upwardly revised 8.6% the year before. The government's most recent forecasts were that last year's deficit would come in at 5.3% and that it would narrow to 4.3% this year. This year's target was already controversial, since EU rules have come back into force requiring the deficit to shrink to 3%. The extent of the miss in 2023 means that even that goal looks over-ambitious. However, bond markets are so far unfazed, with the spread on the yield between benchmark 10yr BTPs and German Bunds narrowing to its current level of 128bps, its lowest level since 2021. In terms of real economic activity, full-year growth for 2023 was revised upwards to 0.9%. That was largely due to revisions for the first three quarters, with final GDP data for Q4 2023 confirming that the Italian economy expanded 0.2%QoQ. Growth in Q4 was largely driven by fixed investment and exports, which grew 2.4%QoQ and 1.2%QoQ respectively. Conversely, household consumption expenditure contracted 1.4%QoQ after growing 0.7%QoQ in Q3.

Figure 16: The budget deficit has a long way to go to comply with EU rules



All subcomponents of gross fixed capital formation increased, but the biggest rise was in dwellings, which grew 4.2%QoQ. However, that increase came with a sting in the tail, since the increase in residential construction is largely attributable to the controversial subsidy on home energy renovation, which in turn has been blamed for the government's budget getting so badly derailed. The fallout could linger, since Eurostat will rule on the accounting treatment of the subsidy this year, which could mean changes that further inflate this year's budget deficit as the program continues. The extent of the drop in household consumption in Q4 is surprising given that there was a 10%QoQ increase in retail sales in the same quarter, but it does fit with the services PMI lying below the 50 threshold seperating expansion and contraction throughout the three months of the period. The same indicator points to better prospects for Q1 as the services PMI increased to 52.2 in February from 51.2 in the previous month, when it crossed into expansionary territory. That pushed the composite PMI up 0.4pts to 51.1. The manufacturing PMI rose 0.2pts to 47.8, leaving in contraction for an 11th straight month. Things were steady on the inflation front in February, with the headline HICP growth

Figure 17: Residential construction is leading the growth in fixed investment

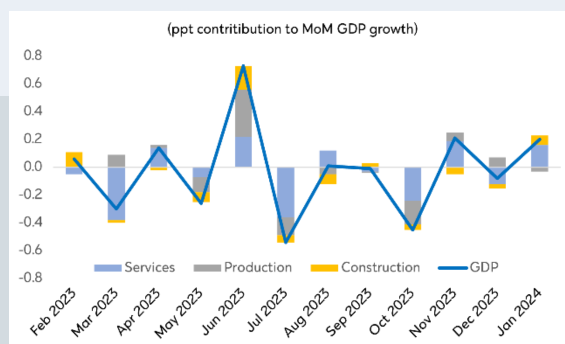


UK

Economic activity looks to be gaining momentum in Q1 despite recession

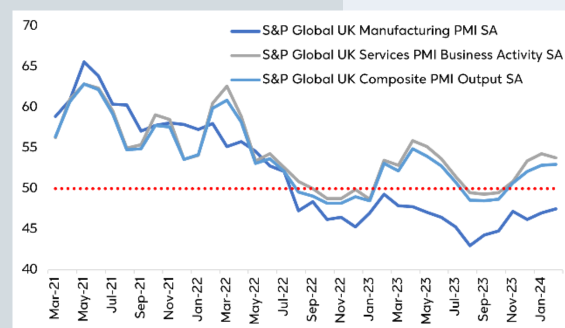
The UK economy slipped into technical recession at the end of 2023, though other data released in the last few weeks for Q1 2024 offer encouragement that the contraction won't continue into the start of 2024. In particular, inflation is continuing to slow despite indications of ongoing tightness in the labour market. GDP contracted 0.3%QoQ in Q4 after slipping 0.1%QoQ in Q3, meaning that economic growth for the whole of last year came to just 0.1%. Services, production and construction all contracted in Q4, while on the expenditure side household spending, government consumption and net trade all fell. That offset a 1.4%QoQ increase in gross capital formation. Confirming that the economy is on course to grow in Q1, the subsequent GDP release for January showed that economic activity grew 0.2%MoM, in line with expectations, after a 0.1%MoM contraction in December, with gains coming mostly from services and construction. Both the headline and core inflation rates were unchanged in January at 4%YoY and 5.1%YoY respectively, which were below the consensus forecast that each would pick up by 0.1ppts. The composite PMI index cooled slightly in February to 53.0 from 53.3 in the previous month, though it remains well above the 50 threshold signifying ongoing expansion. That expansion remained driven by the services sector, even as the reading for the sector dipped to 53.8 from 54.3 in January. Conversely, manufacturing remained in contractionary territory despite the PMI reading for the sector rising to 47.5 in February from 47.1 the month before. Retail sales increased 3.4%MoM in January, confirming the intuitution that December's 3.2%MoM dip was temporary and due to consumers bringing purchases forward to November. Labour market tightness remains one of the biggest barriers to the Bank of England easing monetary policy. The unemployment rate did unexpectedly tick up 0.1ppts to 3.9% in January, while average weekly earnings rose 5.6%YoY in the three months through January, down from 5.8%YoY through December. However, that's still above levels the BoE deems consistent with stable prices, and the central bank's monthly survey of company CFOs worryingly showed that firm decision makers expect annual pay growth will remain at 5.2% one year from now. Derivatives markets are currently fully pricing in a first interest rate cut by the BoE's August meeting, and imply 53% odds that the central bank will move in June.

Figure 18: Services and construction led GDP higher in January, suggesting a Q1 rebound



Source: ONS, Eurobank Research

Figure 19: Manufacturing output has been in a slump in the UK since 2022



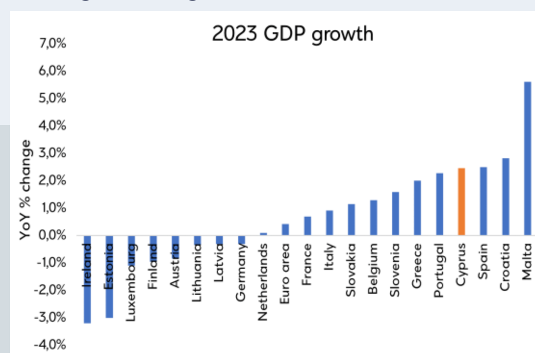
Source: S&P Global, Bloomberg, Eurobank Research

Cyprus

Disinflationary measures support consumption; credit crunch eases for businesses

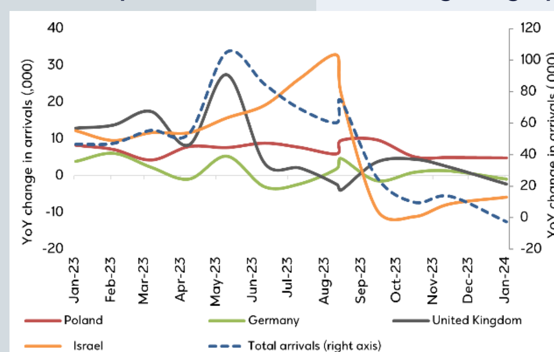
There was a slight slowdown in the GDP growth rate during Q4 2023 to 2.2%YoY from 2.4%YoY in the previous quarter. On a quarterly basis, growth also decelerated to 0.6% from 1.3%. As mentioned in previous issues, GDP was boosted in Q4 on a year-on-year basis from a base effect in gross fixed capital formation, which resulted in the component spiking 48.7%YoY. Household consumption continued to play a key role in driving growth, accelerating slightly to 3.8%YoY in Q4 from 3.5%YoY in Q3. Public consumption saw a marginal rise of 0.4%YoY, recovering from a minor contraction of -0.3%YoY in the preceding quarter. However, growth was partially offset for another quarter by a weakening external balance, evidenced by a 5.3%YoY drop in exports – marking a 13-quarter low, predominantly due to a sharp 43.5%YoY decline in goods exports. Meanwhile, import growth slowed to 3.9%YoY from 6.0%YoY in Q3. Investment was the main driver of growth in Q4 and overall in 2023, and will continue boosting economic activity this year, in part due to the resumption of RRF disbursements. Improved financing conditions, indicated by an easing of the credit contraction to non-financial corporations to 0.2%YoY in January (a 15-month low), suggesting that credit to businesses may expand again in Q1 2024. The extension of disinflationary measures through February to the end of March/April is expected to maintain inflation near or below 2.0%YoY for most of H1 2024, thereby supporting consumer spending. Given the modest fiscal impact of these measures (approximately 0.8% of the projected 2024 GDP) and an estimated fiscal surplus of 2.9% of GDP in 2023 (exceeding the target of 1.7%), a further extension of these measures is deemed likely. Additionally, a tight labour market, with the unemployment rate dropping to a 14-year low of 5.9% in Q4 and averaging 6.1% in 2023, should also boost consumption. There was a 2.9%YoY decline in tourist arrivals in January – the first in 32 months, largely due to the conflict in Gaza affecting visitor numbers from Israel (down 63.9%YoY). While January is not the most suitable month to assess tourism dynamics for the whole year, tourist inflows also declined from other countries that contributed to the overall increase last year (UK: -14.2%YoY, Romania: -56.2%YoY). The goods trade balance improved significantly (deficit: -60.1%YoY), but only due to one-off investment in shipping a year ago that fed into imports. Considering these developments, our growth forecast for 2024 remains un-changed at 2.7%

Figure 20: Cyprus and Spain achieved the third strongest GDP growth in the Eurozone in 2023



Source: Eurostat, Eurobank Research

Figure 21: Steep drop in arrivals from Israel continues in January; UK entered the deteriorating category



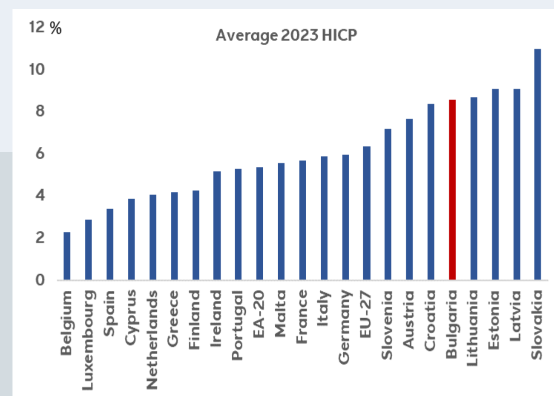
Source: Central Bank of Cyprus, Eurobank Research

Bulgaria

Growth at 1.8% in 2023; mild acceleration on cards for 2024

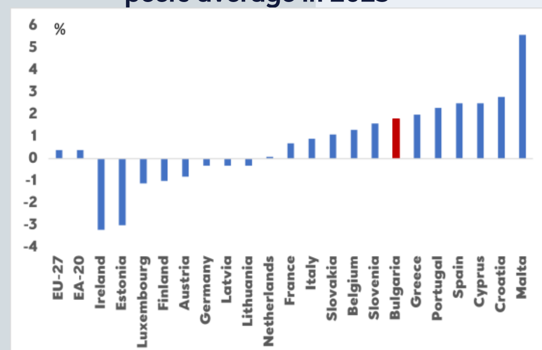
Based on the preliminary Q4 2023 GDP print, real GDP growth decelerated to 1.8%YoY in 2023 from 3.9%YoY in 2022. Yet the four quarterly growth readings of 2023 varied only marginally between 0.4%QoQ and 0.5%QoQ, underlining the resilience of the economy in a year of challenging global economic conditions which have led to extensive monetary tightening and complex geopolitical circumstances. Public and private consumption remained the key drivers of growth, contributing almost 80% to total GDP in 2023 –almost the same as in 2022 – while the net exports component had neutral impact. The growth deceleration came broadly from the contraction of investments, which exhibited a positive momentum in Q3 2023. However, that proved short lived when looking at the full-year data. Still, prospects for investments look more positive for 2024 and 2025 on the back of higher absorption of EU funds – especially when also factoring in the implementation of the Recovery and Resilience Plan, which is now at a more mature stage. Taking the above into account along with the fact that consumption remains resilient, real GDP is expected to grow by 2.2% in 2024 and 2.7% in 2025. Disinflation is progressing, but there is still some distance to be covered before headline inflation returns to levels consistent with price stability, or approaches the EU and EA average. HICP climbed to 13.0% in 2022 from 2.8% in 2021 and averaged 8.6%YoY in 2023 with available harmonised readings for 2024 pointing to further cooling (Jan-2024 4.0%YoY from Dec-2023 5.0%YoY). All in, the economy is heading for a mild acceleration in 2024 with risks appearing broadly balanced. However, risks on the political front are starting to loom again with stability having been restored less than a year ago, following April's 2023 latest parliamentary elections. Outgoing PM Nikolay Denkov of the WCC-DB sub-coalition is to be succeeded by Mariya Gabriel, a former EC commissioner who is backed by GERB. While the passing of the prime ministerial baton (and changing of the rest cabinet) from the WCC-DB collation to GERB simply represents the execution of a political pact between these parties, there are growing worries that the political scheme is becoming fragile, with consensus among the participants waning.

Figure 22: slow convergence on prices poses delays on the Euro adoption...



Source: Eurostat, Eurobank Research

Figure 23: ...yet growth fared above EU & peers average in 2023



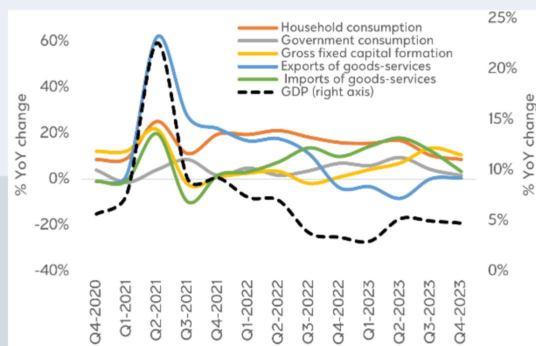
Source: Eurostat, Eurobank Research

Turkey

Lira depreciation stems deterioration in external balance; GDP growth slows down

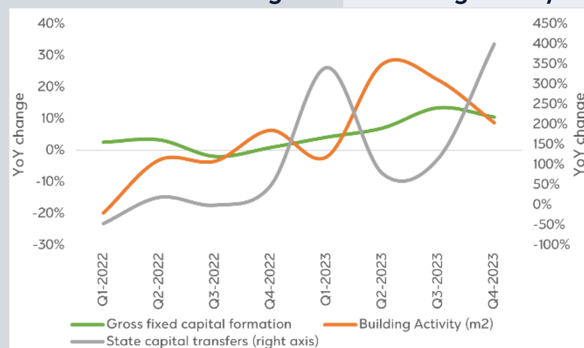
GDP growth slightly slowed in Q4 2023 to 4.8%YoY, down from 5%YoY in the previous quarter. However, the Q4 print exceeded market expectations, by about 0.5ppts. This led to a full-year 2023 growth rate of 4.5%, a decrease from 5.5% in 2022. The most significant slowdown was observed in gross fixed capital formation, which grew by 10.6%YoY in Q4, down from 13.6%YoY, despite increased state capital transfers relating to reconstruction efforts following the February 2023 quakes. This deceleration was primarily due to a slowdown in the growth of building activity, which increased by 8.8%YoY in terms of surface area in Q4, compared with 22.3%YoY in the previous quarter. Government consumption growth also slowed, to 1.6%YoY, marking an eight-quarter low. Inflationary pressures eroded purchasing power and led to a slowdown in household consumption growth to 8.6%YoY in Q4, a 12-quarter low, from 10.3%YoY in Q3. However, these growth-dampening effects were largely countered by a slowdown in import expansion to 3.3%YoY from 12.3%YoY, along with a slight increase in export growth (+0.5%YoY, up from +0.3%YoY), resulting in a much smaller annual deterioration in the external balance compared to Q3. The dynamics of the external balance in Q3-Q4 indicate that while the lira's deprecation, that escalated in January-February (the lira fell 61.6%YoY against the USD, after -53.3%YoY in Q4), has not enhanced the competitiveness of Turkey's export sector, it may help reduce the external deficit by making imports less affordable for households and businesses. This effect was reflected in January's goods trade balance, where the deficit narrowed 56.4%YoY in dollar terms, mainly due to a 22%YoY decrease in imports and less from a small increase in exports (+3.5%YoY). Despite ending base rate hikes in February, the central bank announced additional monetary tightening in March in the form of lower monthly growth ceilings for loans (except for those related to exports, investments, and public institutions in quake-affected regions). Coupled with a historically high base rate of 45%, these measures are expected to further restrict credit supply, particularly to households, where credit expansion slowed in January to 4.9%YoY (from 14.2%YoY in H2 2023), and the trend towards non-financial businesses has almost flattened out (+0.6%YoY). Household demand is expected to be more impacted in H1 2024 by soaring inflation, which reached a 15-month high of 67.1%YoY in February. The central bank's inflation report, released last month, projects inflation to continue rising in H1 2024 before declining afterwards. Considering these developments, particularly the firmer than expected Q4 growth, our growth forecast for 2024 remains at 3.2%.

Figure 24: Improved Q4 external balance almost offset domestic demand slowdown in GDP data



Source: Central Bank of Turkey, Eurobank Research

Figure 25: Despite quake reconstruction spending, investment is more aligned with building activity



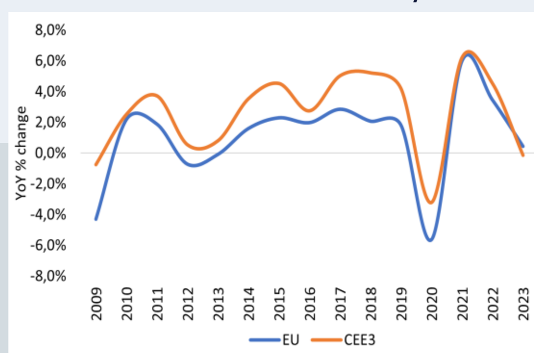
Source: Turkstat, Ministry of Finance, Eurobank Research

CESEE

Accommodative monetary policy in the region supports growth outlook

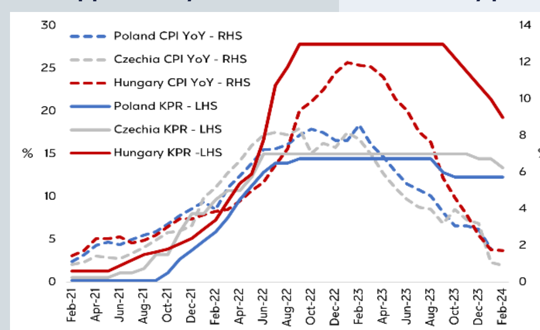
GDP growth in the EU economies of the region accelerated in Q4 to 1.2%YoY from 0.7%YoY in the previous quarter, a four-quarter high. Poland and Hungary set the tone, with their annual growth rates increasing relative to Q3 more than the rest of the region's economies, by 1.5ppts (+1.7%YoY), and 0.7ppts (+0.5%YoY), respectively. Despite improved growth prints in Q4, the CEE3 economies combined did not avoid contraction in 2023 – shrinking by 0.2%, after strong GDP growth of 4.5% in 2022. The Polish economy was the only one of the three that grew last year, albeit marginally (+0.2%), with Hungary contracting 0.9% and Czechia 0.5%. Stronger than expected disinflation over the previous months was the main reason behind the new key policy rate (KPR) cuts in February in Hungary (-100bps, to 9%) and Czechia (-50bps, to 6.25%). The forward guidance of the central bank in Czechia accompanying the KPR cut was hawkish, but since this was also the case after previous meetings, further monetary policy easing ahead cannot be ruled out if inflation data continue surprising to the downside. In Poland, after successive cuts in September and October, totaling 100bps, the central bank held its KPR unchanged at 5.75%, despite rapid disinflation (3.9%YoY in January, compared with 16.6%YoY in the same month of 2023), due to high uncertainty over how inflation will develop in the coming quarters. The easing of financial conditions in Czechia and Hungary is expected to support a pick-up in investment activity, according to the European Commission (EC) in its winter economic forecasts released last month. In Czechia, investment should also be boosted by an acceleration in the RRF implementation. Nevertheless, the EC has revised downwards its GDP growth forecasts for Czechia for 2024 and 2025 from its autumn report, by 0.3ppts and 0.2ppts respectively to 1.1% and 2.8%, as private demand is projected to grow less than previously expected. The EC did not revise its growth projections for Hungary (2.4%, 3.6%) and Poland (2.7%, 3.2%). However, Hungary's economy remains exposed to potential supply disruptions due to its large dependence on energy imports, whereas in Poland risks to the outlook relate mainly to possible delays in the implementation of EU-funded investment. In any case, annual growth in the CEE3 economies is expected to be much faster over the forecast horizon than the EU average, 2.7% vs. 1.3%, in part thanks to accommodative monetary policy, with possible growth and other positive spillovers to the rest of the economies in the region.

Figure 26: CEE3 growth below EU average for the first time in at least 15 years...



Source:Eurostat, Eurobank Research

Figure 27: .. but, with inflation falling, growth will be supported by accommodative monetary policy



Source: local statistics bureaus and central banks, 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)		
	2023e	2024f	2025f	2023	2024f	2025f	2023e	2024f	2025f	2023e	2024f	2025f	2023e	2024f	2025f
World	3.1	2.8	3.0	6.8	4.0	3.4									
Advanced Economies															
USA	2.5	2.1	1.7	4.1	2.7	2.4	3.6	4.0	4.1	-3.1	-3.0	-3.0	-6.5	-6.0	-6.1
Eurozone	0.4	0.5	1.4	5.5	2.3	2.1	6.5	6.7	6.6	1.9	2.0	1.9	-3.3	-3.0	-2.7
Germany	-0.3	-0.1	1.1	6.1	2.6	2.2	5.7	5.9	5.7	6.0	6.6	6.4	--2.5	-1.6	-1.0
France	0.9	0.8	1.3	5.7	2.6	2.0	7.3	7.4	7.4	-1.2	-1.0	-0.7	-4.9	-4.5	-4.3
Periphery															
Cyprus	2.5	2.7	3.0	3.9	1.8	1.2	6.1	5.8	5.5	-10.5	-8.0	-7.0	2.9	3.3	3.5
Italy	0.7	0.6	1.1	6.0	1.7	2.0	7.7	7.5	7.4	0.1	0.7	0.8	-7.2	-4.5	-4.0
Portugal	2.3	1.2	1.9	5.3	2.4	1.9	6.5	6.6	6.3	1.6	1.2	1.4	0.7	0.2	0.0
Spain	2.5	1.5	1.9	3.4	2.8	2.2	12.1	11.8	11.6	2.2	2.0	2.0	-4.0	-3.3	-3.0
UK	0.3	0.4	1.2	7.4	2.8	2.1	4.0	4.5	4.7	-2.8	-2.5	-2.5	-5.0	-3.5	-2.8
Japan	1.9	0.7	1.1	3.3	2.2	1.7	2.6	2.5	2.4	3.5	3.4	3.6	-5.2	-4.2	-3.5
Emerging Economies															
BRICs															
Brazil	2.9	1.7	2.0	4.6	3.9	3.5	8.0	8.1	8.4	-1.4	-1.5	-1.7	-8.4	-7.0	-6.3
China	5.2	4.6	4.3	0.2	0.8	1.6	5.2	5.1	5.1	1.8	1.2	1.1	-4.6	-5.0	-5.0
India	7.0	6.9	6.4	5.7	5.4	4.6		NA		-1.3	-1.4	-1.6	-5.8	-5.1	-4.5
Russia	3.6	1.9	1.0	6.0	6.5	4.5	3.2	3.1	3.2	3.4	3.2	3.0	-2.3	-2.1	-1.2
CESEE															
Bulgaria	1.8	2.2	2.6	9.6	3.6	3.1	4.3	4.6	4.4	0.3	0.5	0.8	-3.0	-3.0	-3.0
Turkey	4.5	3.2	3.5	53.9	48.6	30.2	9.4	8.9	8.6	-4.1	-3.0	-2.5	-4.0	-5.0	-2.0

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

Eurobank Fixed Income Forecasts

	Current	March 2024	June 2024	September 2024	December 2024
USA					
Fed Funds Rate	5.25-5.50%	5.25-5.50%	5.01-5.25%	4.63-4.90%	4.26-4.50%
3m SOFR	5.31%	5.29%	5.06%	4.72%	4.37%
2yr Notes	5.50%	5.50%	5.25%	4.90%	4.50%
10yr Bonds	5.25%	5.25%	5.01%	4.63%	4.26%
Eurozone					
Refi Rate	4.50%	4.50%	4.25%	3.85%	3.50%
3m Euribor	3.93%	3.91%	3.68%	3.41%	3.14%
2yr Bunds	2.80%	2.58%	2.34%	2.16%	2.05%
10yr Bunds	2.30%	2.30%	2.17%	2.12%	2.14%
UK					
Repo Rate	5.25%	5.25%	5.10%	4.75%	4.30%
3m Sonia	5.21%	5.22%	4.94%	4.61%	4.26%
10-yr Gilt	3.97%	3.91%	3.77%	3.68%	3.59%
Switzerland					
3m Saron	1.61%	1.74%	1.63%	1.49%	1.25%
10-yr Bond	0.66%	0.83%	0.85%	0.85%	0.88%

Source: Bloomberg (market implied forecasts)

Research Team

Dr. Tasos Anastasatos | Group Chief Economist
tanastasatos@eurobank.gr | + 30 214 40 59 706

Marcus Bensasson
Research Economist
mbensasson@eurobank.gr
+ 30 214 40 65 113

Dr. Stylianos Gogos
Research Economist
sgogos@eurobank.gr
+ 30 214 40 63 456

Maria Kasola
Research Economist
mkasola@eurobank.gr
+ 30 214 40 63 453

Dr. Konstantinos Peppas
Research Economist
kpeppas@eurobank.gr
+ 30 214 40 63 520

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 214 40 63 455

Dr. Theodoros Rapanos
Research Economist
trapanos@eurobank.gr
+ 30 214 40 59 711

Dr. Theodoros Stamatiou
Senior Economist
tstamatiou@eurobank.gr
+ 30 214 40 59 708

Michail Vassiliadis
Research Economist
mvassileiadis@eurobank.gr
+ 30 214 40 59 709

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