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The global economy has been resilient so far, but a near-term slowdown appears increasingly likely. With the new reciprocal tariffs coming into effect in early August, the frontloading of US imports is set to unwind. The anticipated tariff-related rise in US prices is also expected to weigh on spending, while trade uncertainty remains elevated. But the most immediate risk currently stems from politics, as the US economy entered Q4 with a first government shutdown since 2018-19. Against a backdrop of downside risks and ongoing progress in global disinflation, most major central banks are expected to remain on a gradual path of monetary easing. However, despite lower rates, government bond yields remain high enough to exert significant fiscal pressures on governments at a time of heightened global uncertainty.

Macro Picture

USA: shutdown poses risks to economy just as downside risks to labour market are intensifying

EA: data point to slow but positive GDP growth in H2, while inflation remains subdued

China: cautious resilience amid mounting pressures; so-called "anti-involution" drive kicks in

Japan: Tankan Q3 survey showed improving business confidence for second straight quarter

CESEE: challenging fiscal outlooks in key economies such as Poland and Romania

Markets

FX: EUR/USD gained on Fed rate cut expectations and a slightly more hawkish ECB tone

Rates: European rates range-bound; US rates declined on dovish Fed signals, weak labour data

EM: sovereign spreads tightened further in September; risk appetite resilient

Credit: technicals remain supportive amid continued inflows in credit

Policy Outlook

USA: Fed delivers precautionary cut, with the pace of future easing hinging on incoming data

EA: easing cycle has likely come to an end, data would need to disappoint to justify further cuts

Japan: expectations growing that central bank will hike interest rates in October

CESEE: public finances in the spotlight amid increased defence budget requirements

Key Downside Risks

DM & EM: renewed escalation in trade disputes; intensifying geopolitical tensions; sharp and prolonged rise in US inflation; rising concerns over fiscal sustainability; moral hazard risks tilted to the upside from US's financial help to Argentina; fiscal slippages in CEE along with increased geopolitical and idiosyncratic risks in the region

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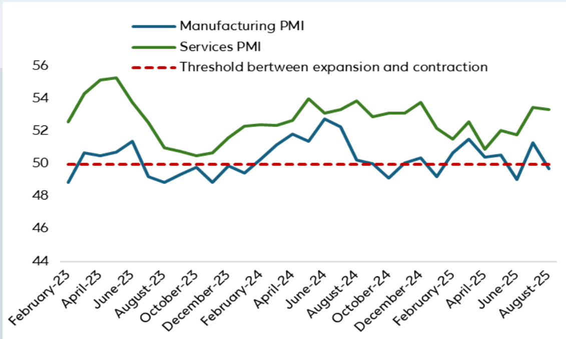
Macro Views

Global economy resilient but about to slow in H2 as US frontloading will start to unwind; most major CBs likely to remain on a gradual path of monetary easing

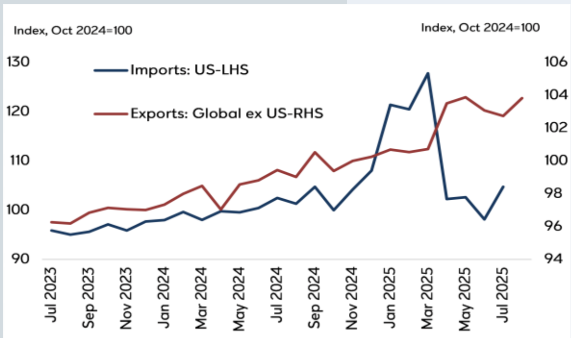
Defying earlier expectations of a sharp slowdown amid heightened tariff-related uncertainty, the global economy proved surprisingly resilient in H1. Anticipating higher US tariffs, US consumers and businesses frontloaded goods imports, pushing average volumes so far this year (January-July) well above 2024 levels. In parallel, exports from the rest of the world rose sharply. Sentiment indicators signal that this strong momentum likely carried into Q3, with August's global composite PMI rising to 52.9, marking its highest reading since June 2024. The global manufacturing PMI rebounded, reaching 50.9, the highest-level since June 2024, from July's 49.7, probably driven by inventory stock building as firms remain concerned about tariff developments. Meanwhile, the services PMI remained in solidly expansionary territory, though easing slightly to 53.4 from 53.5 previously. However, with the new reciprocal tariffs the US administration imposed on multiple trading partners — ranging from 10% to 50% — coming into effect on 7 August, the earlier frontloading of US imports is set to unwind, making a slowdown in global growth increasingly likely in the remainder of the year. Supporting this view, new export orders in the global PMI manufacturing survey, while showing some improvement in August, remained below the threshold of 50, signalling continued weakness in foreign demand. On top of that, the expected tariff-related increase in US prices is anticipated to weigh on US real income and consumer spending. The full pass-through tariff impact on US prices has yet to materialize, partly because firms that aggressively built-up inventories during the H1 frontloading have delayed price increases, awaiting greater clarity on tariff policy and consumers' tolerance for higher costs. But once inventories are depleted, the impact of tariffs will become more pronounced, with higher prices eventually passing on to households, eroding purchasing power and constraining spending.

Figure 1: Global economy surprisingly resilient ...



Source: Ameco, Eurobank Research

Figure 2: ... mainly supported by frontloading of US imports



Source: CBP Netherlands Bureau for Economic Policy Analysis, Eurobank Research

Adding to global headwinds, trade uncertainty remains elevated, as several Section 232 investigations into critical US imported goods, identified as potential national security threats — such as semiconductors and critical minerals — are still underway (expected to be finalized by the end of the year). Underscoring that tariffs are far from over, President Donald Trump recently warned that he would impose a 100% tariff on all foreign-made movies as well as “substantial tariffs” on imported furniture. This warning came shortly after his announcement of new tariffs resulting from Section 232 investigations, including a 100% duty on branded or patented pharmaceutical imports, a 25% tariff on kitchen cabinets and bathroom vanities with the rate potentially rising to 50% for certain countries if no concessions are reached, a 30% tariff on upholstered furniture and a 25% levy on imported trucks. It is worth noting, however, that under the recent EU/US trade agreement, EU pharmaceutical exports — which account for about 2/3 of US pharmaceutical imports — should not face tariffs above the agreed 15%.

Adding to trade uncertainty, the US Supreme Court has agreed to hear the case challenging Trump’s country-level tariffs imposed under International Economic Emergency Powers Act (IEEPA) which currently cover around over 60% of US imports and generate about 70% of tariff revenues (the ruling could be expected by year-end or early next year). If Trump prevails, he will likely feel more emboldened to expand the use of IEEP tariffs. Conversely, if the court rules IEEPA tariffs are illegal, the disruption is expected to be temporary, as none of the recently announced trade deals have yet been finalized and still require congressional approval. More broadly, the broader direction of US trade policy is unlikely to change significantly. The US administration is expected to resort to other legal instruments — including Section 338 of the Tariff Act of 1930, Section 122 of the Trade Act of 1974, Section 232 of the Trade Expansion Act of 1962, and Section 301 of the Trade Act of 1974 — to maintain or expand tariff measures, seen as critical to financing the looser fiscal stance envisioned under the One Big Beautiful Act (OBBA).

But the most immediate risk currently stems from politics as the US economy entered Q4 amid its first government shutdown[1] since 2018-19, during Trump’s first term. The deadlock arises from Republicans and Democrats failing to agree on a funding bill before the fiscal year ended on September 30, which would have extended government funding through November 21. Although Republicans hold a majority in both chambers of Congress, they are short of the 60 votes required in the Senate to avoid a filibuster (they only have 53 senators). Democrats are demanding an extension of enhanced health-care subsidies (Affordable Care Act) which are set to expire this year, a reversal of cuts to Medicaid introduced under Trump and they are opposing spending cuts to the Centers for Disease Control (CDC) and National Institutes of Health (NIH). Republicans, however, have so far resisted substantive concessions.

A shutdown immediately furloughs hundreds of thousands of federal workers without pay, while those providing essential services will have to continue working but without pay. Typically, the economic drag is confined to the quarter in which the shutdown occurs, with growth rebounding afterward once the shutdown ends, and federal workers receive back pay. However, some Republicans have suggested mass layoffs to retain only the minimum number of essential employees, raising the risk of longer-lasting economic damage.

The Bureau of Labor Statistics has confirmed it would suspend operations and delay economic data releases, potentially including the critical non-farm payrolls report scheduled for Friday, October 3. If the

[1] During a government shutdown, non-essential government workers and services are impacted; however, mandatory spending, Treasury payments and issuances, and essential services continue without interruption.

shutdown continues, the release of the monthly CPI report, due on October 15, could also be postponed. The duration of the shutdown will ultimately determine its impact. The longer it lasts, the bigger the drag will be. Historically, most past episodes have been short lived, lasting about eight days (including weekends) with limited economic fallout. A few shutdowns have stretched longer. The longest, from December 2018 to January 2019, lasted 34 days and significantly weighed on growth.[2] If the current impasse is not resolved soon, the Fed could also be left without up-to-date critical economic data ahead of its next policy meeting on October 28–29.

On the inflation front, global headline remains close to central banks' 2% target, supported by lower oil prices — currently below $70/bbl — on speculation of higher supply from OPEC and a potential easing of geopolitical tensions in the Middle East. Looking ahead, inflation is expected to stabilize, with upside risks appearing limited amid forecasts of a near-term global economic slowdown. However, in the US inflation is projected to diverge from this global trend. The impact of new tariffs is expected to become more pronounced in the coming months, pushing prices higher. That said, there is considerable uncertainty regarding the scale and duration of this inflationary effect, as well as whether tariff-induced price increases will spill over into broader inflation indicators. Compounding the challenge for the Fed, recent signs of weakness in the US labor market have increased downside risks to its full employment mandate.

Overall, most major central banks are expected to remain on a gradual path of monetary easing; either pausing after substantial rate cuts to assess the full impact of tariffs or continuing to lower rates to mitigate their effects. In both scenarios, interest rates are generally moving back toward neutral levels. However, despite lower rates, government bond yields remain high, exerting significant fiscal pressures on governments at a time of heightened global uncertainty.

Developed Economies

US: The US economy entered Q4 amidst a government shutdown, the first since 2018-19 during Trump's first term. The potential economic impact remains highly uncertain. A major factor in this uncertainty is the duration of the shutdown. However, so far, incoming data continue to indicate stronger underlying growth momentum than previously expected, skewing risks toward another solid increase in real GDP in Q3. This follows real GDP growth of 3.8%QoQ saar in Q2, revised up from 3.3%QoQ saar previously, after a 0.6%QoQ saar contraction in Q1. On the inflation front, headline and core PCE growth stood in August at 2.7%YoY and 2.9%YoY respectively, above the Fed's 2% inflation target, with price pressures expected to intensify in the coming months as tariff passthrough gathers momentum. Despite elevated inflation and resilient growth, the Fed delivered a precautionary 25bp rate cut in September amid increased downside risks to its full employment mandate, with the updated dot plot implying two further cuts this year and one each in 2026 and 2027.

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[2] According to the Congressional Budget Office (CBO), the five-week government shutdown from December 22, 2018, to January 25, 2019, reduced real GDP growth by 0.1% in Q4 2018 and by 0.2% in Q1 2019 — roughly 0.1ppt per week on an annualized basis. Importantly, this was only a partial shutdown, as several spending bills had already been passed, leaving some federal departments unaffected.

Euro area: Despite an increasingly challenging external environment, the economy proved unexpectedly resilient in H1. Q1 was particularly strong, with GDP expanding 0.6%QoQ, largely driven by front-loaded exports to the US ahead of higher tariffs. Momentum slowed sharply in Q2, with GDP rising just 0.1%QoQ as the partial unwinding of Q1's front-loading dynamics weighed on activity. Early Q3 indicators suggest slow but still positive activity, with risks now more balanced following the recent EU–US trade agreement. Meanwhile, inflation remains subdued. With monetary policy already at neutral rates and the ECB's president downplaying the GC's inflation downward revision for the end point of the forecast period (2027) at the September press conference following the decision to keep rates steady, the easing cycle has probably come to an end. Any further rate cuts remain dependent on a pronounced downturn or a sustained undershooting of the ECB's 2% medium-term inflation target.

Emerging Economies

EM: the near-term outlook for EM is shaped by a looming moderation in growth, which will test the resilience shown so far. GDP expanded in the first half of 2025 above expectations, buoyed by country-specific factors such as Brazil's agricultural surge, India's deflator-driven boost and Indonesia's rebound in investment, as outlined in the OECD's recent economic outlook. China, meanwhile, offset property market fragility with increased fiscal spending. Yet these impulses are fading and growth across major EMs is projected to soften as trade tensions intensify, tariffs rise and fiscal support recedes. China's output is expected to decelerate mildly in 2026 compared to this year, while India and Indonesia maintain stronger momentum, aided by policy easing and public investment. Inflation in the EM universe is forecast to retreat to close to 3% in 2026 from about 4% in 2025 – in large part thanks to disinflation in Argentina and Türkiye – though food price pressures and tariff effects complicate this trajectory. Financial conditions have eased, with dollar depreciation and tighter spreads supporting borrowing. Brazil remains an outlier in raising rates to anchor expectations. Worries are also mounting around Argentina's distressed economy which is about to receive sizable financial aid from the US.

CESEE: In September, Moody's and Fitch highlighted fiscal and inflationary pressures in Poland and Romania. Poland's outlook was downgraded to negative, with deficits projected to rise to nearly 7% of GDP in 2025 before easing slightly. Rising debt, heavy defence spending and limited fiscal space weigh on its prospects, though inflation remains relatively contained at around 3%, supported by an extended energy price cap. Romania avoided a downgrade, but its credibility was weakened after it revised its 2025 deficit target upward to 8.4% of GDP. Although its deficit is expected to shrink from 9.3% in 2024, it remains elevated, while inflation surged to 9.9% in August due to energy and tax changes. The IMF warned that without structural reforms, Romania risks macroeconomic instability. Across emerging Europe, fragile government finances are compounded by political strains: Czech elections signal a populist resurgence and Serbia faces domestic unrest and external pressure over ties with Russia. Despite stronger growth prospects than developed economies, the region is struggling with high deficits, rising debt, persistent inflation and geopolitical uncertainty. Policymakers face mounting pressure to consolidate budgets, maintain monetary stability and effectively channel EU investment to increase resilience.

Markets View

Foreign Exchange

EUR/USD: traded with a bullish bias for most of September, supported by growing expectations of further Fed rate cuts and hawkish signals from ECB officials. The pair reached a high near 1.1855, driven by softer US inflation data and bets for a 25bp Fed cut in October. Technically, the pair remains supported above 1.1776, with upside potential toward 1.1918 if bullish momentum resumes.

USD/JPY: weakened over the month, falling to around 148.70, as concerns over a potential US government shutdown and dovish Fed expectations pressured the USD. However, traders are eying Japan's upcoming LDP leadership election, which could complicate the BoJ's rate-hike path if Sanae Takaichi wins (see page 15). Support levels include 144.70, 143.98 and 143.25, while resistance ones are 151.42,152.16 and 152.9184.

Rates

EU: euro area rates traded within ranges in September but remained influenced by politics and supply dynamics. French uncertainty around the Sept. 8 confidence vote in the government briefly widened OAT–Bund spreads, though the impact soon faded. Heavy long-end issuance (Italy, Portugal, Netherlands, UK, corporates) drove bouts of steepening, while Dutch pension-related flows continued to underpin positioning in ASWs and box structures. The curve oscillated between flattening and steepening as fast money unwinds met structural receiving in 5y5y and long-end demand from pensions. Volatility declined steadily to multi-year lows, reflecting the lack of directional conviction. Inflation data were broadly in line, with energy effects pushing headline higher while core stabilized, keeping expectations for an ECB pause intact. By the end of the month, the 10yr EUR swap rate settled at 2.70% (range: 2.68%–2.72%), while the 5s30s segment ended at 0.51%, 10bps lower than at the end of August.

US: rates moved lower in September, as markets consolidated expectations for Fed easing, but the path was volatile. Powell's comments on "two-sided" labour risks, weak data revisions and shutdown chatter reinforced the dovish bias, with ~45–55bps of cuts priced by year-end. At the same time, heavy IG supply and poor 30yr seasonals pressured the long end, keeping the curve active. The month saw episodes of sharp twist-steepening and bear-flattening as crowded steepener trades were unwound. Real money extended bull-flattening positions while fast money continued to favour 10s30s steepeners. Volatility fell further, with the surface unusually flat in short tails. The US–EU 10yr spread broke through 1.1% making a September low of 1.02%, the lowest of the year so far as Fed cuts were priced more aggressively. By the end of the month, the 10yr SOFR swap rate settled at 3.65% (range: 3.76%–3.46%), while the 5s30s curve segment eased to 0.52%, modestly lower month-on-month.

Emerging Markets Sovereign Credit

EM sovereign spreads extended their strong run in September, tightening further on the back of growing expectations for Fed easing and a broadly manageable US growth slowdown. The EMBI Global Index compressed by roughly 14bps during the month, closing at 256bps. In Central Europe, performance was strong, with Hungarian and Serbian 10yr EUR spreads over swaps outperforming the region. Hungary tightened by about 8bps, while Serbia followed with a 5bps move, both benefiting from improving local sentiment and supportive technicals. Latin America also saw continued strength, with investment-grade USD sovereign spreads narrowing by an additional 10–15bps. This reflected both global risk appetite and steady domestic macro backdrops across key issuers. In Asia, Indonesian USD bonds initially came under pressure, widening in early September amid political protests and associated volatility. Those losses were gradually erased as confidence stabilized, leading the 10yr asset-swap spread to finish the month 8bps tighter at 152bps. Overall, the EM complex continues to benefit from resilient inflows and the global search for yield.

Corporate Credit

With central bank policy gradually overtaking tariffs as the top global macro theme in the last months, risk assets powered ahead in September, benefiting from a dovish tilt from the Fed. Meanwhile, macro data remained supportive, with strong US activity data reassuring investors that an economic slowdown could be avoided. Against this backdrop, US equities advanced +2.8% in September, registering total gains of 13% year-to-date, largely led by the Magnificent 7 (+8.4% in September; +19% ytd). Europe saw mixed performance, with Stoxx 600 +1.5% in September, as mild losses in Germany (-0.1%) were offset by positive performance in other EU markets (e.g. CAC 40 in France +2.5%).

In the credit markets, the seasonally weak September did not materialise, as the “summer grind” thesis played out, driven by strong technicals and relatively illiquid markets. Inflows into credit markets continue to support multi-year tight spreads, despite hefty valuations. In Europe, Main ended September flattish (+0.5bps wider), seeing 9 consecutive sessions of tightening for the first time in history in mid-September. This compares to +1.1bps widening for CDX IG in the US. In the HY space, Xover closed -5.7bps tighter in September while CDX HY tightened -16.9bps. Cash remained strong, with all European IG sectors ending slightly tighter since the beginning of September and financials outperforming (IEAC -8bps; Snr Fins -9bps; Sub Fins -15bps). European HY also ended tighter (IHYG -17ps). Sector-wise, Energy and Tech outperformed while industrials underperformed. The European primary market saw the typical September rush, with continuous strong demand for debt deals. Total issuance exceeded €210bn compared to just €83bn in August.

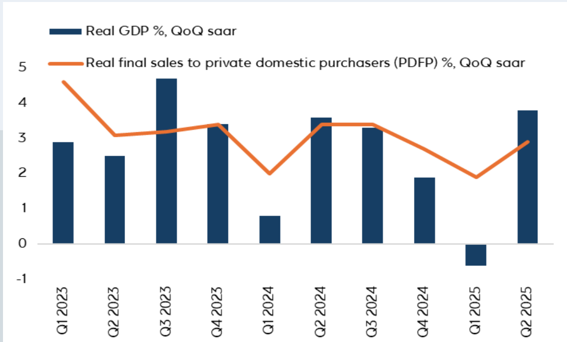
Technicals remain supportive amid continued inflows in credit. Looking ahead, attention will remain on macro announcements, particularly labour market data as investors look for signs of an economic downturn. US politics will also be in the spotlight amid tariff developments and talks to end the US shutdown.

US

Shutdown poses risks to economy just as labour market cools

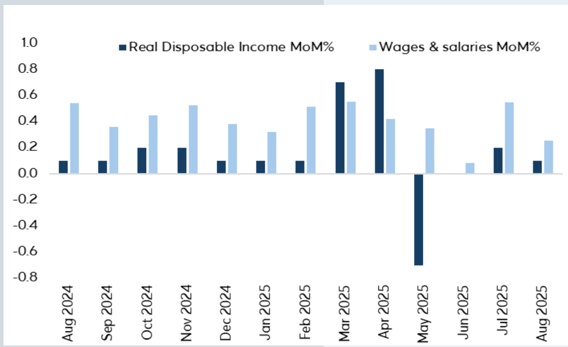
The US economy entered Q4 amidst a government shutdown, the first since 2018-19 during Trump's first term, as Republicans and Democrats failed to agree on a bill to fund the government until November 21. The potential economic impact remains highly uncertain. A major factor in this uncertainty is the duration of the shutdown. However, so far, incoming data continue to indicate stronger underlying growth momentum than previously expected, skewing risks toward another solid increase in real GDP in Q3. This follows real GDP growth of 3.8%QoQ saar in Q2, according to the final estimate, revised up from 3.3%QoQ saar previously, after a 0.6%QoQ saar contraction in Q1. The upward revision to Q2 GDP was entirely driven by personal consumer expenditures (PCE), which were revised up 0.9ppts to 2.5%QoQ saar, lifting final sales to private domestic final purchasers (PDFP) by a substantial 1.0ppts to 2.9%QoQ saar. Adding to the constructive consumer spending outlook, real PCE rose 0.3%MoM in August, slightly below July's 0.4%MoM gain but well above the H1 average of 0.1%MoM, supported by a 0.7%MoM increase in goods spending. This resilience came despite softer income fundamentals, with payroll income gains slowing to a three-month low of 0.3%MoM in August, as the drag from eroding purchasing power amid weaker labour market conditions was likely offset by equity market gains. Even so, downside risks to employment have intensified. According to the Bureau for Labor Statistics' preliminary benchmark revisions, non-farm payrolls for the 12 months through March 2025 were revised lower by 911,000, implying that the economy generated only 847,000 jobs over the period. This translates to an average monthly job growth of just 70,600 — less than half the previously reported 146,000 — suggesting labour market conditions are more fragile than earlier thought. On the inflation front, headline and core PCE growth stood in August at 2.7%YoY and 2.9%YoY respectively, above the Fed's 2% inflation target and slightly higher than the H1 average, with price pressures expected to intensify in the coming months as tariff passthrough gathers momentum. Despite elevated inflation and resilient growth, the Fed delivered a precautionary 25bp rate cut in September amid increased downside risks to its full employment mandate, with the updated dot plot implying two further cuts this year and one each in 2026 and 2027.

Figure 3: Strong gains in PDFP continue to support real GDP growth



Source: BLS, Eurobank Research

Figure 4: Weaker income fundamentals amid slowing payroll income gains



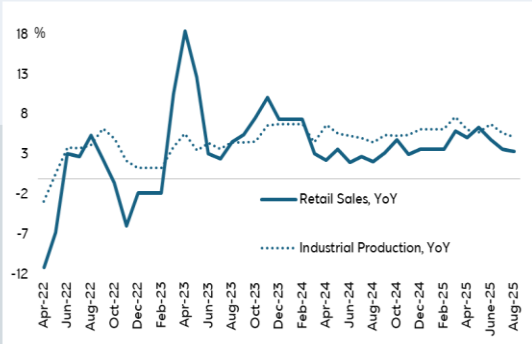
Source: BLS, Eurobank Research

China

Government leans on more policy support to help with structural transition

Recent economic performance reflects a pattern of cautious resilience amid mounting pressures. Retail sales in August rose a mere 3.4%YoY, the slowest pace since December 2024, signalling subdued domestic demand while inflation briefly turned negative, with prices dipping to -0.4%YoY in August from stable levels in July. Industrial production expanded by 5.2%YoY in August, marking the lowest reading in over a year, partly due to the government's "anti-involution" initiative, which has restrained output in targeted sectors. The anti-involution policy represents a strategic effort to curb self-defeating competition that erodes profits and generates structural inefficiencies. First discussed by the Politburo in July 2024 and elevated to top priority in July 2025, following three consecutive quarters of GDP growth above 5%, the initiative focuses on sectors including steel, solar, automotive, lithium, batteries and coal. Its implementation has already impacted industrial production, as already outlined, and fixed-asset investment (FAI). January-to-August FAI grew by only 0.5%YoY, marking a significant deceleration from the 1.6%YoY growth recorded from January through July. On the flipside, early reflationary signals are evident, with the PPI remaining flat monthly and decreasing at a slower pace annually (-2.9%YoY in August vs -3.6%YoY in July).

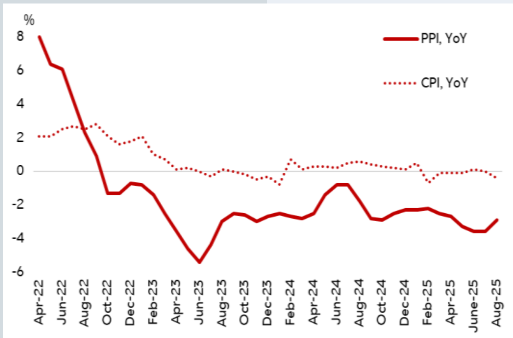
Figure 5: Anti-involution policies have started to kick in as mirrored in IP growth..



Source: Bloomberg, Eurobank Research

Embedded in the Fifteenth Five-Year Plan (2026–2030), anti-involution aims to rationalise supply and cultivate a sustainable, innovation-driven economy, balancing near-term moderation with long-term reform. As such, policy support is being cautiously reinforced. In late September, the National Development and Reform Commission unveiled a CNY500bn policy-based financial instrument to accelerate investment projects, prioritizing infrastructure, strategic industries and employment while containing systemic risks. Externally, trade relations with the United States continue to pose challenges. Limited tariff reductions and temporary pauses on new measures have provided some relief but disputes over technology, market access and export controls persist. Exports rose 4.4%YoY in August from 8.0%YoY in July, supported by demand from Africa and Southeast Asia, keeping China on track for a record trade surplus, while imports increased only marginally, reflecting muted domestic consumption. Taken together, the data through September portray an economy that remains resilient yet increasingly dependent on policy interventions and external demand. The coming months will test Beijing's ability to sustain growth while advancing its long-term structural transformation amid a challenging global environment.

Figure 6: ..and in factory gate prices which have been decreasing slower



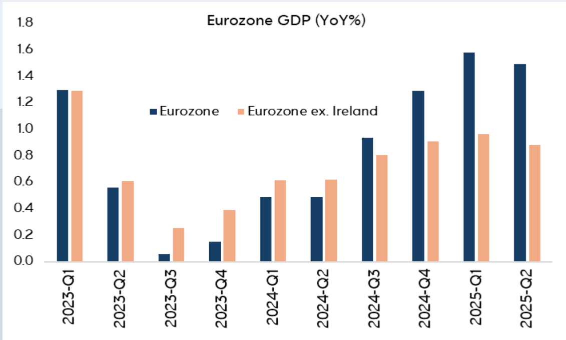
Source: Bloomberg, Eurobank Research

Euro area

Data point to slow but positive GDP growth, while disinflation still in play

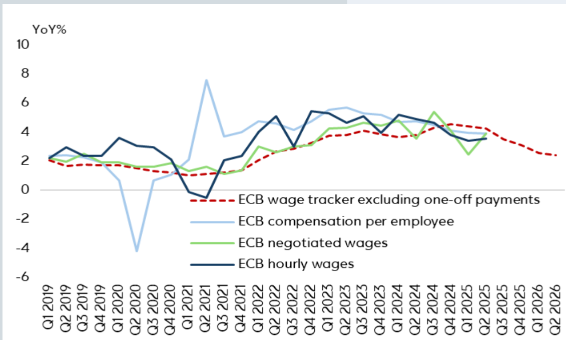
Despite an increasingly challenging external environment, the economy proved unexpectedly resilient in H1. Q1 was particularly strong, with GDP expanding 0.6%QoQ (1.6%YoY), largely driven by front-loaded exports to the US — especially pharmaceutical shipments from Ireland — ahead of higher tariffs. Momentum slowed sharply in Q2, with GDP rising just 0.1%QoQ (0.5%YoY), as the partial unwinding of Q1's front-loading dynamics weighed on activity. Exports dropped (-0.5%QoQ after rising 2.2%QoQ in Q1), turning net trade into a drag (-0.2ppts) on the headline expansion. Positive growth was sustained only thanks to inventory accumulation (0.5ppts) as firms probably rebuilt stocks depleted earlier in the year to meet surging US demand. Gross fixed investment which surged in Q1 (2.7%QoQ) also weakened in Q2 (-1.8%QoQ), and private consumption remained sluggish (0.1%QoQ, down from 0.3%QoQ in Q1). Early Q3 indicators suggest slow but still positive activity, with risks now more balanced following the recent EU–US trade agreement. Industrial production rose 0.3%MoM in July, in line with expectations, but this only partly offset June's 0.6%MoM decline, which left Q2 output down 0.2%QoQ after a strong 2.1%QoQ expansion in Q1. European Commission consumer sentiment improved by 0.6pts in September to –14.9, though it remains well below its long-term average. The composite PMI also edged higher in September, up 0.2pts to a 16-month high of 51.2, but the improvement was driven entirely by a surge in German services; elsewhere in the eurozone, the picture was less upbeat, and manufacturing PMIs declined across the board, weighted down by trade frictions and a stronger euro. Meanwhile, inflation remains subdued. Headline HICP rose 0.2ppts to 2.2%YoY in September, but this was mainly due to energy effects, while core inflation stayed at 2.3%YoY for the fifth straight month, with the ECB's latest wage tracker pointing to easing wage pressures in the quarters ahead. With monetary policy already at neutral rates and the ECB's president downplaying the GC's inflation downward revision for the end point of the forecast period (2027) at the September press conference following the decision to keep rates steady, the easing cycle has probably come to an end. Any further rate cuts remain dependent on a pronounced downturn or a sustained undershooting of the ECB's 2% medium-term inflation target.

Figure 7: Surprising resilience in H1 against a challenging external environment



Source: Eurostat, Eurobank Research

Figure 8: Although wages remain supported, ECB's wage tracker points to easing pay pressures

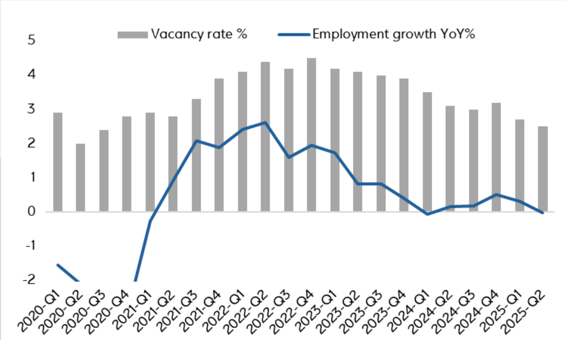


Source: ECB, Eurobank Research

Germany

Conflicting data flow keeps near-term outlook uncertain

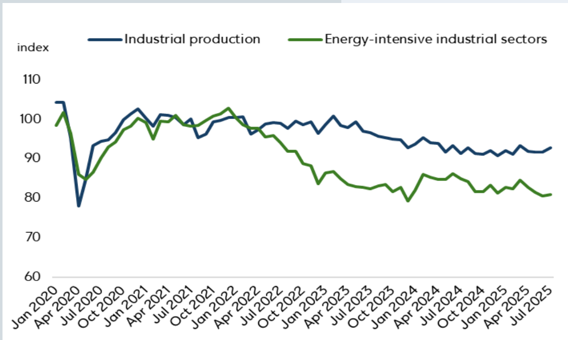
Figure 9: Weakening labour market conditions



Source: Eurostat, Eurobank Research

The gradual recovery that begun in Q3 2024, following a deep recession from Q4 2022 to Q2 2024, stalled in Q2 2025 as the economy contrated again by 0.3%QoQ. Looking ahead, the mixed flow of incoming data leaves us cautious on the near-term outlook. The composite PMI rose strongly in September (+1.9pts to 52.4) but this improvement was entirely driven by services (3.2pts to 52.5). Beneath the surface, however, the details were less encouraging, with both new orders and employment falling further into contraction. Meanwhile, the manufacturing PMI edged down (-0.3pts to 49.5) pointing to stagnating activity in the sector. Echoing this cautious tone, the Ifo business climate indicator ended its eighth-month rising streak in September, posting its largest monthly decline in over two years (-1.2pts to 88.9). This probably reflects concerns over implementation challenges for the long-anticipated fiscal stimulus for infrastructure and defence — expected not earlier than Q4 — amounting to roughly 20% of GDP and set to be implemented by 2030 (€500bn for defence, €300bn for infrastructure). Meanwhile, structural reforms intended to accompany the fiscal expansion appear slow to materialise due to divisions within the coalition government. The Gfk consumer climate index halted a three-month declining trend in October (+1.2pts to -22.3), though it remains uncertain whether this marks the start of a sustained uptrend. Concerns about a softening labour market persist (job vacancy rate at 2.5% in Q2 2025, its lowest since Q3 2020), as reflected in the renewed increase in the propensity-to-save subcomponent. Industrial production rebounded 1.3%MoM in July following an upwardly revised gain of 0.1%MoM in June, but it remains more than 10% below its pre-pandemic level, highlighting ongoing structural challenges. New orders in manufacturing dropped in July for the third month in a row, posting their biggest decline since January (-2.9%MoM), while retail sales unexpectedly fell in August (-0.2%MoM), marking the fourth monthly decline so far this year. These developments underscore that hopes for a sustained recovery hinge on the rapid implementation of the planned fiscal stimulus accompanied with critical reforms. The European Commission estimates that this could boost GDP by 1.25% by the end of the current legislative term (2029) and by roughly 2.5% by 2035.

Figure 10: Industrial production still 11% below its pre-pandemic level

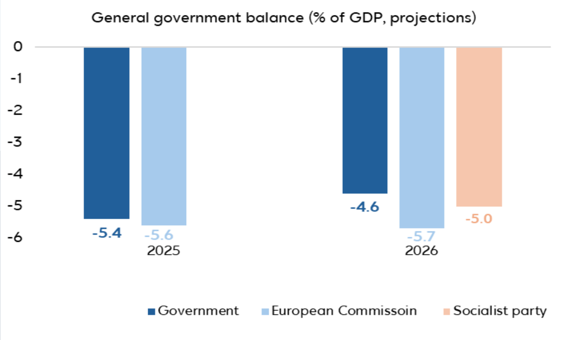


Source: Destatis, Eurobank Research

France

Mired in political deadlock, 2026 budget deficit target likely to be scaled back

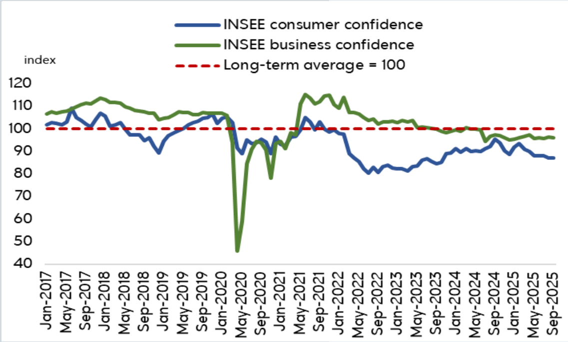
Figure 11: Political deadlock raises the risk of a slower pace of fiscal consolidation in 2026



Source: European Commission, French media, Eurobank Research

France is once again facing political deadlock after the resignation of outgoing PM François Bayrou in early September. His government, lacking a parliamentary majority, failed to secure a confidence vote amid strong opposition to the 2026 budget. President Emmanuel Macron quickly appointed close ally Sébastien Lecornu as the PM, tasking him with forming a government and securing broader parliamentary support for the budget. With the Rassemblement National (RN) party continuing to press for fresh elections, passage of the budget is likely to hinge on Socialist Party backing, though only in exchange for costly concessions. The draft budget sets out €43.8bn (1.5% of GDP) in fiscal consolidation measures aimed at cutting the deficit to 4.6% of GDP in 2026, following a projected 5.4% shortfall in 2025. By contrast, the Socialist Party advocates a less ambitious 5.0% deficit target for 2026, underpinned by a smaller net adjustment of €21.7bn (0.7% of GDP). Their plan includes a full reversal of the 2023 pension reform and higher taxes on wealthy households, partly offsetting increased spending on education, health, transport, and housing. They also propose delaying the return to the EU's 3.0% deficit target from 2029 to 2032. A compromise is likely, allowing Lecornu to stay in office at least until the end of the year, though at the cost of a slower pace of fiscal consolidation. Approval of a watered-down 2026 budget could temporarily ease political risk premiums and reduce policy uncertainty, enabling Lecornu to clear his first major hurdle. However, political gridlock will persist given the government's continued lack of a parliamentary majority, leaving it vulnerable to no-confidence votes at any time. Even if a consensus on the 2026 budget is reached, the likely fiscal slippage may trigger fresh scrutiny from rating agencies. Moody's is scheduled to review France's Aa3 (stable) rating on 24 October, shortly after Fitch downgraded the country to the single-A category in September. Meanwhile, weak sentiment indicators (INSEE, PMI) provide little hope of a near-term recovery in growth momentum. Domestic demand is expected to remain subdued, weighed down by political uncertainty, fiscal concerns and elevated trade policy risks. Overall, growth is set to remain below trend at 0.6% in 2025, before a modest pickup to 0.8% in 2026, supported by spillover effects from Germany's fiscal expansion and increased EU defence spending.

Figure 12: Weak sentiment surveys provide little hope for a near term recovery in domestic demand



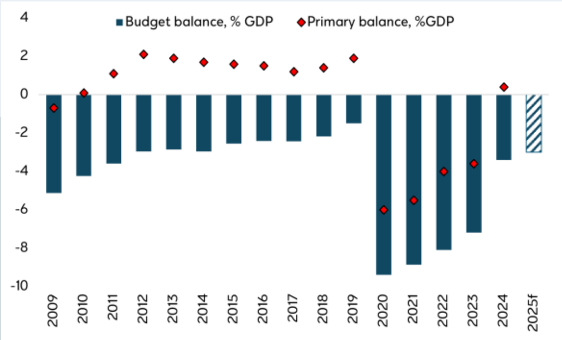
Source: INSEE, Eurobank Research

Italy

Fiscal turnaround leaves country poised to exit EDP a year ahead of schedule

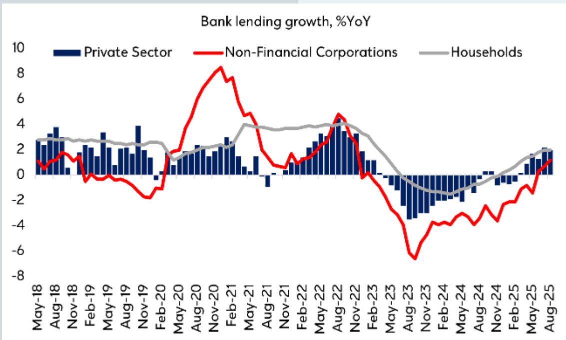
An ever-improving fiscal picture brought a credit rating upgrade from Fitch, which last month raised Italy's sovereign rating by one notch to BBB+ with a stable outlook. The rating action comes a week after Fitch downgraded France's credit rating and reflects how market perceptions of the two countries' budget courses have switched, with the yield on Italian 10yr government bonds now falling slightly below those of their French counterparts in September. At the time of publication, the Italian government was imminently set to unveil its draft 2026 budget. Media reports ahead of the announcement said the draft would include a projection that the country's budget deficit would narrow to 3% of GDP this year from 3.4% in 2024 and 7.2% in 2023. This would bring Italy's fiscal gap into line with EU rules and mean the country exiting its Excessive Deficit Procedure a year before schedule and provide scope for the government to pursue its goal of cutting taxes. These fiscal developments could boost the real economy – through the stimulus of tax cuts, and by creating space for a better transmission of the ECB's monetary easing – at a time when Italy's growth momentum remains fragile. There have been signs in recent months that the credit cycle is turning, with bank lending to non-financial corporations growing 1.2%YoY in August, its third straight month of expansion after more than two years of contraction. The prolonged decline in business credit in the last few years is probably connected to the manufacturing slump taking place during the same period. Recent data hinted at some signs of life in Italian industry, with industrial production surprisingly expanding 0.9%YoY in July after contracting 0.7%YoY in June, only its second positive reading since January 2023. However, more forward-looking survey data for September indicated this is unlikely to be a sustained trend, with business sentiment remaining subdued. After recording just one month above the 50-threshold separating expansion from contraction in August, the manufacturing PMI fell 1.4pts to 49 in September, a worse reading than the consensus forecast which expected it to slip back to 49.9. The European Commission's economic sentiment indicator edged up 0.1pts to 93.7, though manufacturing confidence was unchanged at 87.3 in September. Consumer confidence improved 0.6pts to 96.8. Meanwhile, the headline inflation rate increased 0.2ppts to 1.8%YoY in September, which was more than the consensus estimate of 1.7%YoY but still below the ECB's 2% target.

Figure 13: Italy has slashed its budget deficit since it was the EU's highest in 2023



Source: Istat, Reuters, Eurobank Research

Figure 14: Bank lending to Italian businesses has finally started expanding again

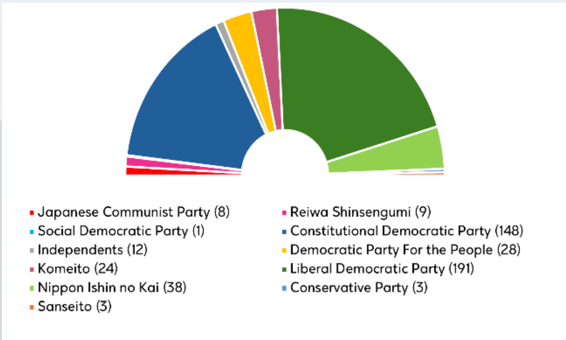


Source: ECB, Eurobank Research

Japan

LDP leadership contest set to impact country's macroeconomic course

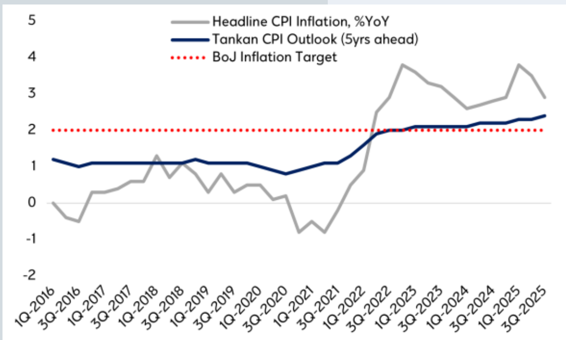
Figure 15: The next PM will have to contend with not having a parliamentary majority



Source: Internal Affairs Ministry, Eurobank Research

Five contenders have come forward in the contest to become the next leader of the ruling Liberal Democratic Party, a contest that may have a profound impact on the future direction of the country's economy. The party has governed Japan almost continuously since 1955, but after a series of scandals and electoral setbacks it is now at a crossroads. The race will probably come down to a straight choice between the two candidates that came closest to outgoing Prime Minister Shigeru Ishiba in last year's leadership election. The narrow favourite at this point is Shinjiro Koizumi, the son of former Prime Minister Junichiro Koizumi, who finished third in the 2024 contest. Hailing from the LDP's reformist wing, a Koizumi victory would probably mean continuity in terms of macroeconomic policy, with the Bank of Japan free to continue tightening monetary policy and the government keen to maintain some degree of fiscal restraint. The next likeliest challenger is last year's runner up, Sanae Takaichi, a hardline conservative who advocates a return to the economic and foreign policies of her late mentor Shinzo Abe. A Takaichi victory could trigger some increased volatility in Japanese financial markets as she has been a strong advocate for more expansionary fiscal and monetary policies, going so far last year as to call the BoJ's rate hikes "idiotic". However, she has taken a more moderate line so far in this year's leadership campaign. The race will be settled when rank and file members of the LDP vote on October 4, with the winner then assumed to also take over the country's premiership from Ishiba. Whoever wins, one of the first things they will need to address in order to govern effectively will be how to navigate the lack of a majority in both the lower and upper houses of parliament. Meanwhile, expectations are growing that the BoJ will hike interest rates further at its October 30 policy meeting, with the market implied odds of a 25bp increase in the target rate to 0.75% standing at 63% as of October 1, compared with just 22% on September 8. The case for rate hikes was strengthened by the central bank's Tankan survey, which showed business confidence improved for large manufacturers for a second straight quarter in Q3. The survey also showed companies' five-year-ahead expected inflation outlook continue to steadily creep up. The central bank held rates steady at its September 19 meeting, when it also announced it would begin slowly selling its equity ETF holdings.

Figure 16: Rising inflation expectations support the BoJ's case for hiking interest rates



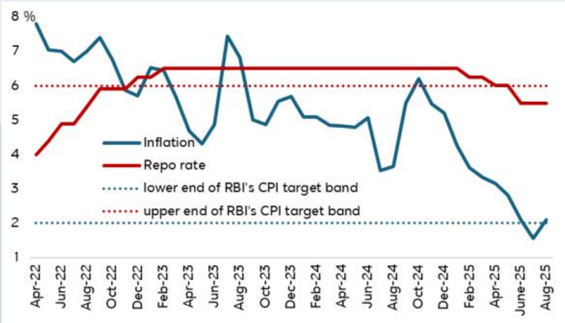
Source: Bloomberg, Eurobank Research

India

Domestic demand props up economy trade tensions with the US escalate

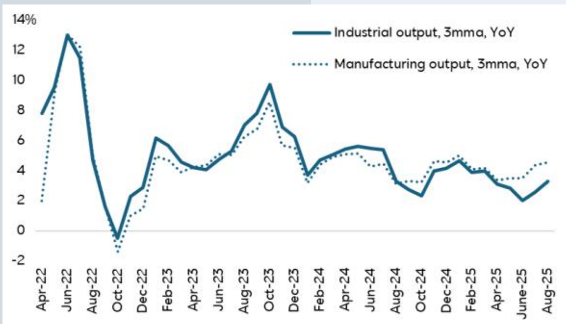
Economic activity in September 2025 showed early signs of cooling, hinting at moderating growth momentum. Soft data reveal a broad but measured slowdown: the manufacturing PMI eased to 58.5 from 59.3 in August, the services PMI fell to 61.6 from 62.9 and the composite index slipped to 61.9 from 63.2. While these levels remain firmly in expansionary territory, they mark a loss of pace compared with earlier in the year. Hard data present a similar picture of moderating growth. Industrial output rose 4%YoY in August, buoyed by mining and electricity activity. Though slightly lower than July's 4.3%YoY, this was a marked improvement over the flat growth of August 2024. Even so, industrial expansion remains below FY25 averages. Inflation dynamics shifted in August as headline CPI growth climbed to 2.07%YoY from 1.61%YoY in July, ending a nine-month streak of steady declines. The uptick was driven largely by food prices with food inflation narrowing to -0.69% from -1.76%. Despite this rebound, headline inflation re-mains comfortably within the Reserve Bank of India's 2–6% target, suggesting limited pressure on monetary policy. Agriculture and allied sectors — accounting for roughly 20% of India's gross value added — continue to play a stabilizing role. The monsoon season has been broadly favourable with sowing of key staples proceeding on schedule. Yields are expected to align with long-period norms, supporting rural incomes and sustaining demand for inputs such as seeds, fertilizers and machinery. A stable harvest could help cushion rural consumption, offsetting softness in other sectors. The OECD's September 2025 Interim Outlook added a more optimistic dimension by raising India's growth forecast to 6.7% from 6.3% in June. This revision reflects strong domestic demand, supportive macroeconomic policy and the ongoing benefits of GST reforms. Nonetheless, external risks cloud the outlook. Elevated US tariff rates, aimed at pressuring India over its Russian oil imports, have already dampened exports to the American market. High-level trade talks in New Delhi and Washington have been described as "constructive" but differences remain on energy policy, tariff thresholds and market access. Added together, the latest data suggest an economy that remains resilient, underpinned by robust domestic demand and agricultural stability. Yet the trajectory for the remainder of 2025 will hinge on whether US–India negotiations succeed in easing trade frictions.

Figure 17: Inflation dynamics shifted in August, driven largely by food prices



Source: NSO, Eurobank Research

Figure 18: Hard data reflect a picture of moderating growth

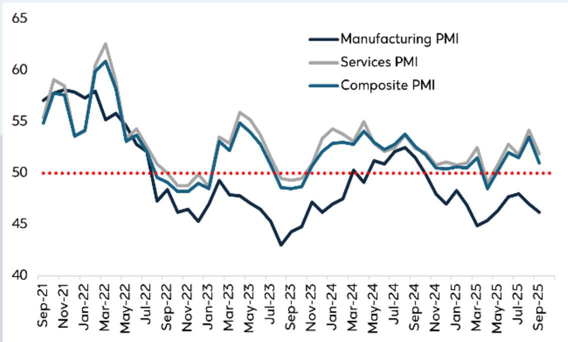


Source: MOSPI, Eurobank Research

UK

Central bank remains cautious on easing despite loss of economic momentum

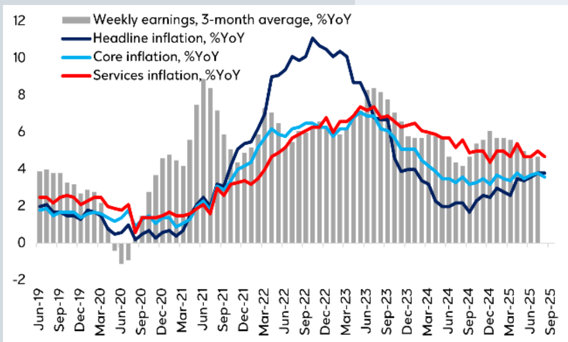
Figure 19: Survey data showed the economy continued to lose momentum as Q3 drew to a close



Source: Bloomberg, Eurobank Research

The apparent loss of momentum in the economy seen towards the end of Q2 was further evident at the start of Q3 as manufacturing data came in much worse than expected and economic growth stalled. Industrial production contracted 0.9%MoM in July after growing 0.7%MoM in June, compared with the consensus expectation that it would be unchanged. Manufacturing was hit particularly hard, shrinking 1.3%MoM. With services and construction growing 0.1%MoM and 0.2%MoM respectively, GDP stagnated in the month, after increasing 0.4%MoM in June and dropping 0.1%MoM in May. Survey data indicated that the economy's loss of momentum continued as Q3 drew to a close. The composite PMI fell 2.5pts to 51.0 in September, compared with the consensus forecast of a drop to 53.0. The manufacturing and services PMIs were both lower than expected, with the former falling 0.8pts to 46.2, leaving it significantly below the 50-threshold that separates expansion from contractions. Consumer confidence in September also declined to -19 from -17. Despite the risk of economic slowdown, there is market speculation that the Bank of England's easing cycle – which has been more restrained than other major central banks – may be over already. Derivatives markets are pricing in just a 23% probability of another 25bp cut this year to the policy rate, which currently stands at 4% following 125bps of cumulative easing since August 2024. The reason for the BoE's caution is that inflation remains too high for comfort, while wages are also growing at a rate the central bank deems inconsistent with its 2% target, fuelling concerns of persistent stickiness in price growth. The headline CPI inflation rate was unchanged at 3.8%YoY in August, in line with expectations, while core CPI growth slowed 0.2ppts to 3.6%YoY, also matching the consensus estimate. In July, the three-month moving average of weekly earnings growth increased 0.1ppts to 4.7%YoY. Meanwhile, Prime Minister Keir Starmer is fighting for his political survival after a succession of missteps and scandals have raised questions about his political judgement. The autumn budget announcement, which will take place on November 26, is already starting to take centre stage as focus turns to what combination of tax rises and spending increases will be necessary for the government to remain in compliance with its fiscal rules.

Figure 20: Inflation and earnings growth are both too high for BoE policy makers' comfort



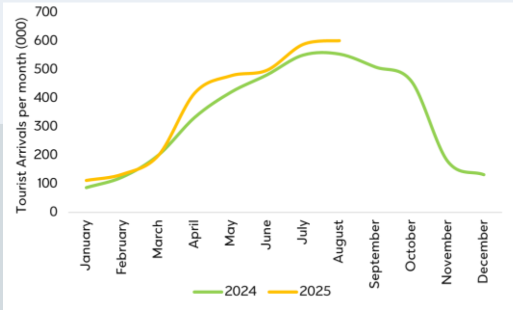
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Tourism and real estate markets remain resilient in Q3

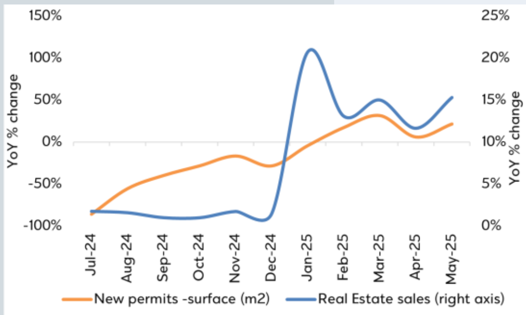
The labour market continued showing signs of strength in July-August, with registered unemployment declining by 6.4%YoY. This, combined with stronger disinflation — headline inflation easing to 0.1%YoY in July-August from 0.8%YoY in Q2 2025 — should maintain momentum in household consumption growth in Q3. The boost to disinflation in July-August came mainly from deflation in energy (-9.5%YoY) and food (-1.2%YoY). The energy sector benefited significantly from the VAT reduction on electricity to 9% from 19% that started in April, as well as favourable base effects from global energy prices. However, the latter influences are likely to diminish gradually between September and November. On the investment side, the gradual normalisation in the issuance of construction permits, after the transfer of the process from municipalities to urban planning offices and regional administrations, is evident from the significant uptick in terms of surface area of new constructions in Q1-Q2. This momentum is expected to continue through Q3, supported by sustained demand growth. Real estate sales rose by 6.0%YoY in July-August, following a robust 16.0%YoY increase in Q2, underpinned by a moderation in price increases during Q1-Q2 2025 and a notable acceleration in mortgage lending, which reached a 28-month high of 3.4%YoY in August. The trajectory of gross fixed investment in the remainder of 2025 will also depend heavily on developments related to intellectual property rights, which played a significant role in in-vestment expansion in the first half of the year. However, developments in this investment field are hard to follow and remain uncertain. Turning to the external sector of the economy, tourism maintained strong momentum throughout most of the peak season. Tourist arrivals increased by 7.7%YoY in July-August, while tourism revenue grew by 8.2%YoY in July, set-ting the stage for record-breaking figures for the second consecutive year. Meanwhile, early Q3 data from the goods trade balance showed improvement in July, with the deficit narrowing by 5.5%YoY. This was driven primarily by a substantial surge in exports (+72.7%YoY), which more than offset a significant rise in imports (+18.5%YoY). Export growth was broad-based, with non-EU exports rising 75.1%YoY and intra-EU exports increasing by 67.5%YoY.

Figure 21: Tourist arrivals heading towards a new all-time high for second straight year



Source: CYSTAT, Eurobank Research

Figure 22: As the transfer of permits issuance to new authorities progresses, correlation with sales increases



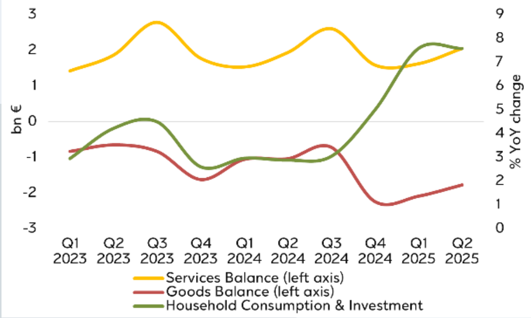
Source: CYSTAT, Ministry of Interior, Eurobank Research

Bulgaria

Domestic demand retains momentum in Q3, but weighs on external balance

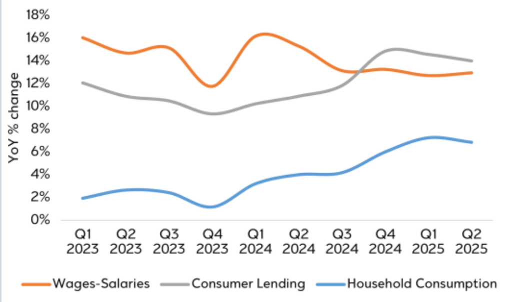
With anti-speculation measures tied to the euro transition in effect since early August – some of them with a two-month grace period – headline inflation marginally accelerated, to 3.5%YoY from 3.4%YoY in July and 2.8%YoY in April, remaining below the early-2025 high levels of 3.8%YoY–4.0%YoY. Notably, the monthly inflation rate decelerated significantly to 0.1% from 1.4% in July, primarily due to a sharp slowdown in services inflation (0.7% vs. 3.9% previously). Nonetheless, the September-November period will be critical for the government to evaluate the effectiveness of the anti-speculation measures and decide whether further interventions are necessary ahead of the euro adoption. Retail trade volume growth softened mildly as annual inflation accelerated, to 5.4%YoY in July from 7.3%YoY in May, as it remains underpinned by strong fundamentals: unemployment reached a record low for Q2 of 3.6%; wage growth accelerated modestly to 13.0%YoY (from 12.7%YoY in Q1); and consumer credit continued to expand at a solid pace (+13.6%YoY in July, little changed from +14.0%YoY in May). These factors are expected to support continued growth in household disposable income and spending through the remainder of 2025. From the construction sector came some first signs of sustained investment growth in Q3, as the production volume increased by 5.9%YoY in July, slightly up from 5.6%YoY in Q2. Robust mortgage credit growth (+27.4%YoY in July-August, up from +26.6%YoY in Q2) and business lending expansion (+6.9%YoY against +4.7%YoY), will also support fixed capital formation. These dynamics are expected to remain in place through 2025 and into 2026, supported by improved investor and banking sector confidence following the country's approval for eurozone accession in July, which will also lower the cost of capital. However, strong domestic demand is increasingly impacting the trade balance. The goods and services balance deteriorated for an eleventh consecutive month in July, widening 61.6%YoY. The goods deficit drove the entire decline, increasing by 441.5%YoY, while the services surplus remained largely flat (+0.5%YoY). Visitor arrivals rose by 2.5%YoY in January–August 2025, suggesting only a moderate boost to tourism from full Schengen membership, effective January 1, 2025. On the fiscal front, the state budget deficit diverged slightly further from the full-year targeted increase of 9.7% in August (+38.0%YoY vs. +37.3%YoY in July). The shortfall remains driven primarily by underperformance in tax revenues (+15.1%YoY vs. +25.0% annual target).

Figure 23: The recent surge in private demand weighed on the goods balance, but not on services



Source: National Bank, National Statistical Service, Eurobank Research

Figure 24: Consumption growth is more correlated with consumer credit expansion than wage increases



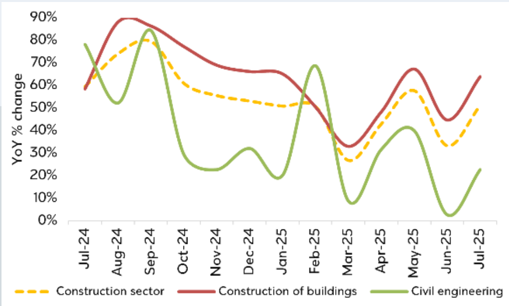
Source: National Bank, National Statistical Service, Eurobank Research

Turkey

Signs of easing in household spending; construction sector maintains momentum

Despite another month of moderate disinflation in August, with headline inflation easing to 33.0%YoY from 33.5%YoY in July, the Central Bank of Turkey (TCMB) proceeded in early September with a second policy rate cut in just seven weeks, by 250 basis points, reducing it to 40.5%. In its accompanying statement, the TCMB justified the move by pointing to weakening seasonally adjusted (s.a.) monthly inflation and recent data suggesting that demand conditions support disinflation. However, the s.a. monthly inflation only marginally slowed in August, to 2.5% from 2.6% in July — a six-month high. Furthermore, the cumulative decline in headline annual inflation between March and August stood at just 6.1 percentage points. The persistence in monthly inflation and the slower pace of annual decline are primarily due to the prices of food and certain services (notably transportation and housing), the mid-year adjustment of administered prices and accelerating depreciation of the lira following the arrest of Istanbul's mayor, Ekrem İmamoğlu. Ahead of the release of nationwide inflation data for September, Istanbul inflation remained flat at 40.8%YoY, marking a pause in the four-month disinflation trend.

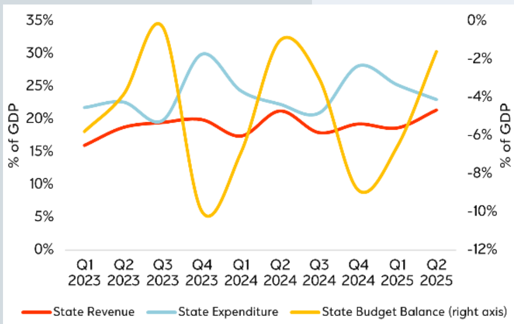
Figure 25: New buildings continue boosting activity in construction that led to the Q2 GDP spike



Source: Central Bank of Turkey, Turkstat, Eurobank Research

Early indicators for Q3 point to a softening in household demand. Despite the unemployment declining to a 13-year low of 8.1% in July, retail trade volume growth slowed to 11.6%YoY, down from 17.3%YoY in Q2, and the services production index rose by 2.5%YoY, down from 4.2%YoY in April-June. The increase in unemployment to 8.5% in August reinforces the probability of an ease in household consumption growth in Q3. On the investment side, activity in the construction sector, which drove the increase in gross capital formation and GDP in Q2, remained robust in July. Turnover growth accelerated to 51.0%YoY, up from 44.6%YoY in April-June. The strength came primarily from building construction, which surged by 63.8%YoY (vs. 53.3%YoY in Q2), while civil engineering activity moderated to 22.7%YoY from 24.8%YoY. It should be noted that the surge in housing construction in Q2 was related to initiatives by the state housing agency, to expedite reconstruction across provinces impacted by the 2023 earthquakes. In the external sector, July marked the first improvement in the goods and services trade balance in four months, driven mainly by an 8.5%YoY reduction in the goods deficit. Whether this improvement is sustainable remains to be seen, as a similar trend in March ultimately proved short-lived.

Figure 26: Improvement in the budget balance in Q2 is seasonal; on track for a near 5% deficit



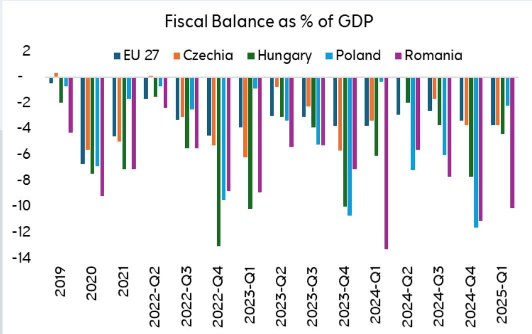
Source: Central Bank of Turkey, Turkstat,, Eurobank Research

CESEE

Credit rating agencies take dim view on inflation dynamics and fiscal constraints

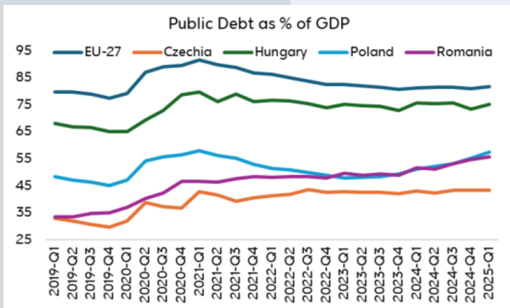
In September, credit rating agencies Moody's and Fitch delivered assessments of Poland and Romania that underscored the fragile balance between fiscal consolidation, mounting defence expenditures and persistent inflationary pressures. Fitch first, followed by Moody's, revised Poland's outlook from stable to negative, citing a deteriorating fiscal trajectory and rising debt levels. Both agencies now project Poland's general government deficit to approach 7% of GDP in 2025, moderating only slightly to 6.5% in 2026, compared with 6.6% in 2024 and 5.3% in 2023. With S&P scheduled to update its rating in November, the prospect of a similar adjustment looms large. Romania, by contrast, avoided an outright downgrade, as both Moody's and Fitch affirmed its BBB- rating while retaining a negative outlook. Fiscal risks remain acute: although the deficit is expected to decline from 9.3% of GDP in 2024, it will remain uncomfortably high in 2025. The coalition government's credibility suffered further when it revised its 2025 budget target upward to 8.4% of GDP from a previously announced 7.1%. Inflation dynamics add to the strain. Romania's CPI surged to 9.9% in August, reflecting the removal of an electricity price cap and a VAT hike. Poland, by contrast, benefits from relatively moderate inflation, with headline CPI at 2.9% and core inflation at 3.2% in August. The government's decision to extend its household energy price cap through late 2025 has provided an additional buffer. The IMF's September Article IV consultation for Romania warned that without decisive fiscal consolidation and structural reforms, the country's capacity to manage shocks and sustain macroeconomic stability will remain constrained. In both Poland and Romania, rising defence and social spending is eroding fiscal space, while inflationary and political pressures complicate policy adjustments. The broader regional backdrop magnifies these vulnerabilities. The Czech parliamentary elections in October 2025 are witnessing renewed strength for the populist, eurosceptic ANO party, raising questions about cohesion within the EU and NATO. Further east, Serbia continues to wrestle with mass protests while facing US pressure to sever ties with Russia's NIS oil company, underscoring how domestic fragility and external demands intersect across emerging Europe. Although the region is still expected to outpace developed economies in GDP growth, it faces a challenging combination of high deficits, swelling debt burdens, inflationary persistence, fragile governance and heightened geopolitical risk.

Figure 27 : Widening fiscal deficits in the post pandemic era...



Source: Eurostat, Eurobank Research

Figure 28 :..have led to swelled public debt levels, posing constraints to fiscal policy



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)		
	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f
World	3.3	2.9	2.9	5.6	3.6	3.4									
Advanced Economies															
USA	2.8	1.8	1.8	3.0	2.8	2.9	4.0	4.3	4.4	-4.1	-4.3	-3.8	-6.9	-6.2	-6.5eur
Eurozone	0.9	1.3	1.1	2.4	2.1	1.8	6.4	6.3	6.3	2.6	2.2	2.0	-3.1	-3.2	-3.5
Germany	-0.5	0.3	1.1	2.5	2.1	2.0	6.0	6.3	6.4	5.7	5.1	4.8	-2.8	-3.0	-3.7
France	1.2	0.6	0.9	2.3	1.1	1.6	7.4	7.6	7.7	-0.2	0.2	-0.3	-5.8	-5.5	-5.3
Periphery															
Cyprus	3.4	3.2	3.3	2.3	1.3	1.9	4.9	4.4	4.2	-8.3	-8.8	-7.8	4.0	4.1	3.7
Italy	0.7	0.5	0.8	1.1	1.8	1.6	6.6	6.2	6.2	1.1	1.0	1.1	-3.4	-3.0	-2.8
Portugal	1.9	1.7	2.0	2.7	2.2	2.0	6.4	6.4	6.3	2.1	1.2	1.0	0.7	0.2	0.0
Spain	3.5	2.5	2.0	2.9	2.5	2.0	11.4	10.6	10.3	3.2	2.6	2.5	-3.2	-2.9	-2.6
UK	1.1	1.3	1.2	2.5	3.4	2.5	4.3	4.7	4.8	-2.2	-3.0	-2.7	-5.1	-4.2	-3.6
Japan	0.1	1.0	0.7	2.7	3.0	1.8	2.5	2.5	2.4	4.8	4.6	4.3	-2.0	-3.4	-3.3
Emerging Economies															
BRIC															
Brazil	3.4	2.2	1.6	4.4	5.1	4.2	6.9	6.1	6.6	-3.0	-3.0	-2.7	-8.5	-8.3	-8.0
China	5.0	4.8	4.2	0.2	0.1	0.8	5.1	5.2	5.1	2.3	2.0	1.5	-4.8	-5.6	-5.7
India	6.4	6.5	6.3	4.6	3.1	4.1	4.9	4.9	4.9	-0.8	-1.0	-1.3	-4.9	-4.5	-4.4
Russia	4.3	1.0	1.2	8.4	8.9	5.5	2.5	2.3	2.7	2.9	2.0	2.1	-1.7	-2.5	-1.5
CESEE															
Bulgaria	2.8	3.3	3.4	2.4	3.5	2.8	4.2	3.7	3.5	-1.8	-2.8	-2.7	-3.0	-4.1	-3.3
Turkey	3.2	3.8	3.7	58.5	33.4	21.2	8.7	8.4	8.2	-0.8	-1.4	-1.2	-4.9	-4.8	-4.7

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

Eurobank Fixed Income Forecasts

	Current	September 2025	December 2025	March 2026	June 2026
USA					
Fed Funds Rate	4-4.25%	3.62-3.87%	3.41-3.66%	3.21-3.46%	3.11-3.36%
3m SOFR	3.96%	3.77%	3.57%	3.36%	3.27%
2yr Notes	3.54%	3.51%	3.41%	3.36%	3.36%
10yr Bonds	4.1%	4.15%	4.1%	4.09%	4.08%
Eurozone					
Refi Rate	2.15%	2.08%	2.05%	2.05%	2.06%
3m Euribor	2.02%	2.01%	2.02%	2.03%	2.04%
2yr Bunds	2.01%	1.95%	2%	2.04%	2.09%
10yr Bunds	2.71%	2.69%	2.77%	2.83%	2.89%
UK					
Repo Rate	4%	3.84%	3.63%	3.47%	3.37%
3m Sonia	3.97%	3.8%	3.64%	3.5%	3.36%
10-yr Gilt	4.7%	4.46%	4.43%	4.37%	4.27%
Switzerland					
3m Saron	-0.05%	-0.03%	-0.03%	-0.03%	-0.03%
10-yr Bond	0.20%	0.41%	0.45%	0.47%	0.51%

Source: Bloomberg (market implied forecasts)

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