ISSN: 2241-4851

Eurobank Research

EUROBANK

GLOBAL & REGIONAL MONTHLY

The partial de-escalation in trade tensions after the US suspended most of its "Liberation Day" reciprocal tariffs meant that May was a month of comparative stability relative to the heightened volatility that immediately preceded it. However, unresolved questions and legal challenges persist, particularly after a US trade court ruled that some of the tariffs are illegal. That opened the possibility of a protracted saga as the case works its way through appellate courts. Talks are happening between the US and its major trade partners, but the risk of renewed escalation remains high. With global GDP growth likely to decelerate this year, monetary policy is expected to continue easing in the months ahead to cushion the drag from higher tariffs on economic activity. However, this outlook assumes that inflation expectations remain anchored and that any renewed price pressures are deemed transitory.

Macro Picture

USA: distorted by swings in net exports, GDP is likely to rebound in Q2; inflation remains sticky

EA: sentiment surveys signal return to stagnation in Q2 amid high uncertainty after solid Q1 growth

China: exports surge on temporary truce; domestic fragilities persist

Japan: country risks technical recession after Q1 GDP contraction; core inflation trends up

CESEE: Q1 growth at the core of the region held firm despite global and idiosyncratic headwinds

Markets

FX: EUR/USD driven by ECB easing, trade tensions; USD/JPY by BoJ rate hike bets

Rates: European rates traded with a steepening bias; US driven by shifting macro headlines

EM: sovereign spreads tightened in May, reversing April's losses on data, easing trade tensions

Credit: news flow on US tariffs will continue to dominate and uncertainty is likely to linger

Policy Outlook

USA: Fed remains on hold while assessing tariff pass-through effects on inflation and growth

EA: ECB cut rates in June amid signs of growth deceleration, continuing disinflation

Japan: BoJ governor talks up rate hike prospects; QT in focus in June policy meeting

CESEE: recent political developments could stall fiscal consolidation and reform agenda

Key Downside Risks

DM & EM: escalating trade tensions leads to stagflation; uncertainty remains high for long, hurting investment; further tightening in financial conditions; intensifying geopolitical tensions; inflation persists or regains momentum; major CBs keep rates in restrictive territory for longer; commodity-exporting EMs confronted with lingering uncertainty over tariffs status quo; political transitions in key CESEE countries

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).

Contents

Macro Views

Despite legal challenges, US tariffs cement a protectionist global trade landscape

Since "Liberation Day" (April 2), global trade policy uncertainty has receded materially (Figure 1), although the US administration continues to maintain a generally hawkish stance. Notably, as of April 9, the US suspended reciprocal tariffs (ranging between 10% and 50%) for a 90-day period, replacing them with a temporary, across-the-board 10% import tariff applicable to all trading partners. This shift marks a partial de-escalation and is intended to provide room for ongoing bilateral negotiations.

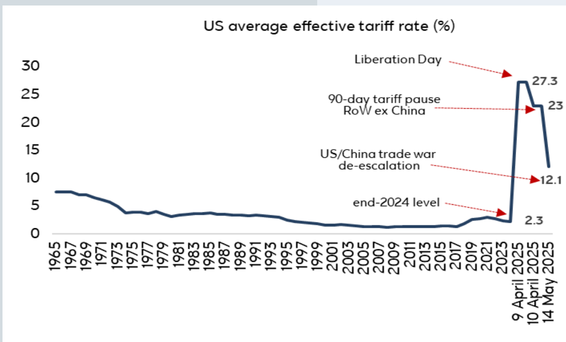
Figure 1: Global trade policy uncertainty has recently receded, but still remains elevated

Source: Caldara et all (Nov. 2019), Eurobank Research

The first bilateral agreement, involving the UK, was recently unveiled. However, it remains preliminary, with numerous technical issues unresolved. As such, the timeline for finalizing not only the UK deal but also any forthcoming agreements remains uncertain and could potentially stretch over months or even years. This reflects the administration's broader objectives, which extend beyond tariff reductions to include the elimination of structural trade barriers, such as foreign regulatory practices deemed to place US producers at a competitive disadvantage.

The US has signaled conditional willingness to lower tariffs, but this flexibility appears limited. President Donald Trump has made clear that the 10% import levy will now serve as a new baseline, a notable shift from the average applied tariff of 2.4% at end-2024. In parallel, a significant development occurred on May 12, when the US and China jointly announced a bilateral de-escalation of trade tensions. Both parties agreed to a 115bps reduction in tariffs for 90 days (through August 10), effectively reverting to pre-Liberation Day levels: 10% on US exports to China and 30% on Chinese exports to the US (inclusive of the pre-existing 20% fentanyl-related tariff). However, momentum has recently stalled, with mutual accusations of non-compliance emerging in the past week — raising concerns about the durability of the agreement. Meanwhile, US/EU negotiations are proving more protracted than initially anticipated. Trump has threatened to impose a 50% tariff on all EU imports, although the implementation date has now been postponed to July 9

Figure 2: US trade-weighted average tariff rate remains elevated



Source: Bloomberg, Eurobank Research

from the originally scheduled June 1. This delay reflects growing US frustration over the slow pace of talks, and while it could serve as a catalyst for accelerated EU concessions, the risk of further escalation remains elevated.

Despite recent signs of de-escalation in trade tensions — most notably the temporary suspension of reciprocal tariffs and the US/China tariff rollback agreement — it remains too early to draw firm conclusions regarding the final outcome of trade negotiations between the US and its major trading partners. Unresolved structural issues and a multitude of contentious points, particularly in the regulatory and tariff domains, suggest that the path to any lasting resolution is likely to be complex and protracted.

Adding to the uncertainty, the US Court of International Trade (USCIT) ruling on May 28 has cast legal doubt on the administration's tariff strategy. Specifically, the Court found that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) — on grounds such as persistent trade deficits and drug trafficking — are unlawful. The ruling affects: (i) the 10% baseline tariff and all reciprocal tariffs suspended until July 9; and (ii) fentanyl and immigration-related tariffs (10–30%) on imports from China, Canada, and Mexico. However, it does not apply to: (i) Section 232 tariffs (25%) on steel, aluminum, and autos (based on national security); (ii) Section 201 measures (e.g., solar products); and (iii) Section 301 tariffs on approximately 60% of Chinese imports, justified by unfair trade practices.

The legal resolution regarding the validity of IEEPA-based tariffs is expected to take considerable time, suggesting that bilateral trade deals may face substantial delays or complications. This is because trading partners may prefer to wait for further legal clarity before entering into binding agreements. The Court of Appeals has granted a temporary stay, allowing the tariffs to remain in effect pending additional review. Briefs concerning a potential long-term stay are due by June 9, while the final ruling could be postponed until the US Supreme Court's next term, from October 2025 to June 2026.

Given this timeline, trade policy uncertainty is likely to persist well beyond the July 9 deadline for the current reciprocal tariff pause. The broader trajectory of US trade policy is unlikely to shift meaningfully, even if the Supreme Court upholds the USCIT decision, as the administration retains several alternative legal instruments to maintain or expand the current tariff regime. These include:

- ✓ Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 have already been deployed in a sector-specific context, targeting industries such as steel, aluminum, and various categories of Chinese imports. Section 232 authorizes the imposition of tariffs on national security grounds, while Section 301 serves as a tool for retaliatory measures against unfair trade practices.
- ✓ Section 338 of the Tariff Act of 1930: Grants the president broad authority to impose tariffs — potentially up to 50% — on countries deemed to be engaging in practices that discriminate against US commerce or provide an "unfair advantage" to their domestic producers.

- ✓ Section 122 of the Trade Act of 1974: Authorizes the president to implement temporary tariffs of up to 15% for a period of 150 days in order to address balance of payments imbalances or counter excessive depreciation of the US dollar. Extensions beyond the initial 150 days require Congressional approval
- ✓ Section 201 of the Trade Act of 1974: Allows the imposition of safeguard measures—such as tariffs or import restrictions—intended to provide temporary relief to US industries suffering from serious injury due to surging imports. Such measures may be applied for a duration of four to eight years, depending on the severity and scope of the injury.
- ✓ Section 301 of the Trade Act of 1974: Provides the US administration with the authority to impose tariffs or other trade restrictions in response to unfair trade practices by a foreign country, including situations where a trading partner is deemed to have gained an “unfair advantage” over US businesses.

Additionally, investors are closely monitoring Clause 899 of the One Big Beautiful Bill, recently passed by the House and now under Senate consideration. This clause authorizes retaliatory taxes on foreign investments in the US, increasing by 5% annually up to 20%, if a country is deemed to impose "unfair" taxes on US companies or citizens — explicitly referencing Digital Services Taxes (DSTs), the OECD Pillar Two UTPR and Diverted Profits Tax (DPT). If enacted, this provision could turn the trade war into a "capital war”, undermining the attractiveness of US assets to foreign investors.

In summary, the US administration’s tariff policy appears far from concluding. Rather, the global trade environment is transitioning toward a structurally higher-tariff regime, with elevated and persistent policy uncertainty remaining a key feature. While recent developments — such as the US/China agreement and tariff suspensions — have moderated some of the tail risks, the potential for renewed escalation remains high, particularly for countries viewed by the US as not negotiating in good faith. The risk of additional sector-specific tariffs also looms large. The administration has launched new investigations into the impact of foreign trade practices across a broad range of industries, including semiconductors, pharmaceuticals, timber, lumber, copper and critical minerals, collectively covering up to 40% of US imports. Further compounding concerns, Trump has announced plans to double tariffs on imported steel and aluminum to 50%, reinforcing the administration’s continued commitment to an aggressive trade posture regardless of judicial outcomes.

Given these dynamics, some degree of growth deceleration appears unavoidable. Market consensus now projects global GDP growth at 2.7% for 2025, a modest upward revision of 0.1ppts since May, largely reflecting the temporary improvement in US/China trade relations, but still 0.3ppts below expectations earlier this year. A sustained or renewed escalation in trade frictions would pose downside risks to this forecast, with broader implications for the global growth outlook.

Despite recent reductions, the US trade-weighted average tariff remains elevated at around 12% (Figure 2), down from a peak near 28% following the reciprocal tariff announcements (the highest since the early

20th century). Implementation of the USCIT ruling would reduce this to approximately 5%, but even that remains significantly above the 2.3% level recorded at the end of 2024.

In this context, monetary policy is expected to continue easing in the months ahead, in an effort to cushion the drag from higher tariffs on economic activity. This outlook assumes that inflation expectations remain anchored, and that any renewed price pressures are deemed transitory. That said, the extent of monetary accommodation will vary across central banks, reflecting the need to balance growth support with medium-term price stability. For the US — as the tariff-imposing country—the impact is likely to be stagflationary, while for the rest of the world, the effect may manifest as a negative demand shock, resulting in softer growth and disinflationary pressures in the near term.

Developed Economies

US: While the revised Q1 GDP growth estimate was little changed (+0.1ppts to -0.2%QoQ saar), the underlying components pointed to a loss of momentum in private spending. Notably, consumer spending was revised down by 0.6ppts to 1.2%QoQ saar, a sharp deceleration from 4.0%QoQ saar in the prior quarter. Looking to Q2, consumer spending appears to have remained weak, with real personal consumption rising by just 0.1%MoM in April. Despite the expected continued softness in personal consumption, GDP growth is still expected to rebound in Q2, largely due to a likely positive contribution from net exports, following a sharp narrowing in the goods trade deficit in April, almost entirely driven by a plunge in imports. Meanwhile, inflation remains elevated, with core PCE price growth well above the Fed's 2% target. With upward risks to inflation likely to intensify in the coming months, as tariff effects will start to pass through, and GDP readings distorted by trade volatility, the Fed is likely to maintain a cautious, wait-and-see stance on monetary policy.

Euro area: After a downward revision of Q1 GDP growth to a still solid 0.3%QoQ from the initially reported 0.4%QoQ, largely driven by front-loaded US goods imports in anticipation of higher tariffs, recent sentiment surveys point to a possible slowdown in Q2 economic activity. Meanwhile, downside growth risks are mounting. Trade uncertainty remains elevated, with no signs of progress in EU/US negotiations on reciprocal tariffs, prompting President Donald Trump to threaten a 50% tariff on EU imports from 9 July. Nevertheless, the projected fiscal stance offers some reassurance that, while the Eurozone may slip back into stagnation in the coming quarters, a full-blown recession seems unlikely thanks to an expected shift toward a more supportive fiscal policy. Downside growth risks, ongoing disinflation (May's HICP and core inflation at 1.9%YoY and 2.3%YoY respectively), and uncertainty surrounding EU/US trade talks paved the way for the ECB to cut rates by a further 25bps at its 5 June meeting.

Emerging Economies

EM: currencies have broadly appreciated in recent weeks, supported by sustained weakness in the USD. This appreciation reflects heightened investor demand for higher-yielding EM assets, driven by increasing uncertainty surrounding US trade policy and fiscal sustainability. That said, the MSCI EM currency index recorded 2% returns intra May, opening June in record high levels. Notable gains were recorded in the Brazilian real and South African rand, while the Chinese yuan has remained relatively more stable, reflecting active policy management. In contrast, the Turkish lira continues to face persistent depreciation pressures amid ongoing macroeconomic imbalances and policy credibility concerns. Concurrently, a pronounced shift is underway in sovereign debt issuance strategies among EMs. According to available data, global issuance of USD-denominated sovereign debt declined by ca 20% year-to-May 2025, as several EM sovereigns — including India, Indonesia, and Thailand — increased issuance in local currencies. From an institutional perspective, the OECD's latest Economic Outlook highlights both the resilience and the vulnerabilities characterizing the EM landscape. Economic activity across most major EM economies continued to expand at a solid pace in Q1 2025. Growth remained particularly robust in China, India, Indonesia, Chile, Colombia and Mexico, underpinned by domestic demand and, in select cases, strong services and manufacturing performance. Nevertheless, external headwinds are expected to weigh on forward-looking dynamics. Commodity-exporting EMs are likely to experience a moderation in export momentum, as demand from key trading partners — especially China and the US — softens.

CESEE: recent electoral outcomes point to a gradual rightward drift in the region's political equilibrium, with rising populist momentum complicating the policy outlook. In Romania, the presidential election on May 18 delivered a relatively market-friendly outcome. Independent reformist Nicușor Dan, backed by a pro-European coalition, secured a 54% majority. His ascent to the presidency helps restore political continuity after the turbulence caused by the annulled December 2024 election. Still, the broader backdrop remains fragile: far-right candidate George Simion garnered a sizable 46%, underscoring deep-rooted political polarization. In Poland, the presidential runoff on June 1 yielded a narrow victory for conservative nationalist Karol Nawrocki, who defeated liberal Warsaw Mayor Rafał Trzaskowski by a margin of 50.89% to 49.11%. The result constitutes a notable setback for Prime Minister Donald Tusk's centrist, pro-EU coalition, casting doubt on the government's ability to advance its reform agenda — particularly with respect to judicial overhaul and EU institutional alignment. Despite the political transition in two of the largest and key countries of the region, growth in the CEE-4 held firm. Poland, Czechia, Hungary and Romania recorded an average Q1 2025 GDP growth of 2.4%YoY. While this represents a mild slowdown from Q4 2024 (2.6%YoY), it remains above the Q1 2024 print and the full-year 2024 average, reaffirming the region's relative resilience in the face of both global and idiosyncratic headwinds.

Markets View

Foreign Exchange

EUR/USD: entered June on a cautious yet resilient footing, trading above 1.1400 as markets awaited the ECB's seventh 25bps rate cut of the current rate easing cycle. While the disinflation trend supports further easing, internal ECB divisions and escalating US-EU trade tensions — especially Trump's renewed tariff threats — have introduced uncertainty into the policy outlook. The EUR's recent strength has been supported by a broadly weaker USD amid stagflation concerns, but the ECB's updated projections and Lagarde's tone will be pivotal in determining whether the pair sustains its bullish momentum or corrects lower. A break above 1.1458 could pave the way for a potential upward push towards 1.1555. Resistance levels also include 1.1573, 1.163 and 1.1687, while support levels include 1.1154, 1.1098 and 1.1042.

JPY: has been trading with a mild upside bias near 143.00 in early June, though the pair remains caught between diverging central bank outlooks and shifting market sentiment. While the USD has historically been viewed as a safe-haven, growing concerns over US fiscal stability and political uncertainty have led investors to increasingly favour the JPY in risk-off environments — especially as the Bank of Japan signals further rate hikes amid persistent inflation. Technically, support levels include 140.7087, 139.9981 and 139.2874 and resistance ones the 146.4904, 147.2156 and 147.9408.

Rates

EU: European rates markets navigated a month of mixed macro signals and event-driven flows. Early May was marked by inflation surprises, ECB rate cut expectations and market dislocations due to Iberian power outages. Political risks, especially around Dutch pension reforms, contributed to curve steepening, notably in the 30s50s segment. Throughout the month, long-end positioning remained supported by global term premium repricing, especially as US and JPY yields rose. The ECB is expected to cut rates in June, with additional easing likely deferred to September or December. By month-end, the 10yr EUR swap rate settled at 2.50%, with intramonth highs and lows between 2.425% and 2.64%. The yield curve steepened further, with the 5s30s segment closing 11bps higher at 0.42%, continuing its upward trend.

US: markets were shaped by fluctuating macro headlines, persistent trade risks and evolving Fed expectations. The month began with robust jobs data and equity strength, which triggered steepener unwinds and front-end bearishness. Mid-month, inflation prints (CPI, PPI, and PCE) painted a mixed picture, prompting tactical receiving in the belly and spread steepeners, while Fed officials maintained a cautious stance. A Moody's credit downgrade and tariff headlines drove sharp risk repricing and renewed curve steepening. Swap spreads showed increasing correlation with equities, suggesting spreads are now trading more like risk proxies. With rate cuts still expected later in the year, markets head into summer waiting for labour data to validate the Fed's next moves. The US-EU 10yr spread consolidated around the 1.50% area.

Emerging Markets Sovereign Credit

Emerging market sovereign spreads reversed April's losses and ended May tighter, supported by stronger economic data and a de-escalation in U.S.-China trade tensions. The EMBI Global Index tightened by approximately 20bps to 304bps. In Central Europe, Romanian sovereign bonds rallied sharply following the second-round presidential election victory of moderate candidate Nicușor Dan over far-right contender George Simion, driving a 50bps tightening in spreads from the mid-month highs. Other CEE sovereigns also traded tighter, except for Poland, which closed flat after nationalist Karol Nawrocki won the presidency in the runoff vote. In Latin America, Mexican and Chilean 10-year USD sovereign spreads tightened by 5bps and 10bps, respectively. In Asia, Indonesian sovereign spreads also compressed, with the 10-year USD spread narrowing by roughly 19bps to 162bps. We maintain a constructive short-term view on EM spreads, given the recent lull in negative tariff headlines. However, with valuations historically tight, we prefer a selective approach focused on idiosyncratic opportunities.

Corporate Credit

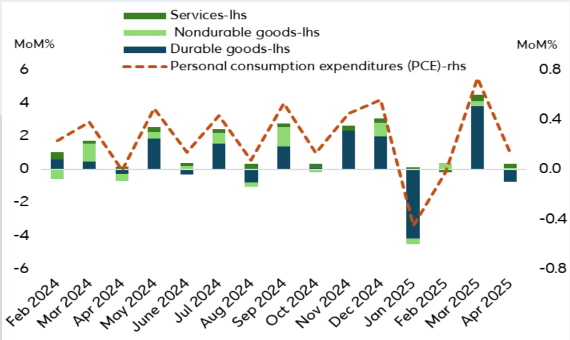
Following the post-Liberation Day turmoil in the previous months, May was a strong month for most financial assets, as easing US-China trade tensions and better economic data led investors to price out the likelihood of a global downturn. On the trade front, there were increasingly positive expectations at the start of the month about potential deals between the US and other countries. The rally then got a further boost from the US CPI report for April, which came beneath expectations for a third consecutive month. During the second half of May, the rally began to stall out on concerns about the US fiscal situation, triggered by a credit rating downgrade from Moody's. Towards the end of the month, there were further developments as President Trump recommended a 50% tariff on EU imports, which led to a fresh sell-off. A week later, the US Court of International Trade ruled that the Trump administration did not have the authority to impose most tariffs that had been announced, sparking a fresh short-lived rally among risk assets. Against this backdrop, equities rallied across both sides of the Atlantic. In Europe, Stoxx 600 advanced +4.6% from the end of April to June 5, alongside gains for the DAX (+7.9%) and CAC 40 (+3.0%). Overseas, the S&P 500 advanced 7.2%, with the Magnificent 7 outperforming yet again (+14.6%).

Credit had a positive month, with both European and US synthetics moving tighter. In Europe, Main ended the reference period -11bps, now standing flattish on a year-to-date basis. Xover tightened -55bps (+18bps year-to-date). In the US, CDX IG was -12bps, while CDX HY tightened -62bps (+5bps and +34bps wider, respectively, year-to-date). In cash, all European IG and HY sectors ended the period from the start of May to June 5 tighter (IEAC -13bps, IHYG -38ps May-to-date). Sector-wise, Financials and Energy outperformed in the EUR IG space (Snr Fins -15bps, Sub Fins-21bps, Energy -14bps May-to-date), while there were no notable underperformers. In High Yield, Materials, Consumer Staples and Healthcare outperformed (-55-65bps each). The European primary market was particularly active in May, with more than €230bn of issuance (vs. €53bn and €156bn in the previous two months). June started strongly, with over €54bn of issuance so far this month as of June 5.

US

GDP readings distorted by swings in net exports; inflation remains sticky

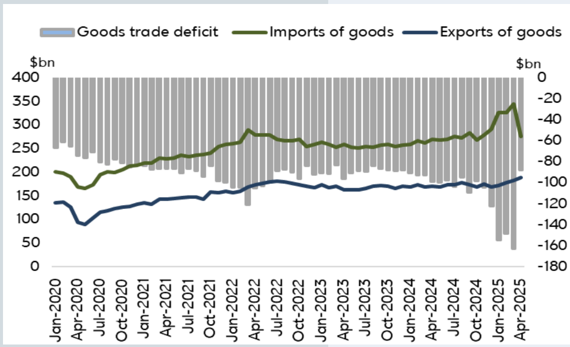
Figure 3: April's real PCE slowed on whiplash from March's tariff front-loading of purchases



Source: BLS, Eurobank Research

The second estimate for Q1 GDP showed a 0.2%QoQ saar contraction, a modest upward revision of 0.1ppts from the advance print following a 2.4%QoQ saar expansion in the previous quarter. This improvement was driven by stronger contributions from inventories (2.64ppts vs. 2.25ppts in the advance estimate), non-residential investment (1.36ppts vs. 1.29ppts) and government spending, which subtracted less from growth (-0.12ppts vs. -0.25ppts). However, net exports remained the main drag on growth, deducting 4.9ppts largely due to a 42.6%QoQ saar surge in imports, as businesses rushed to bring forward planned capital purchases ahead of expected US tariffs. While the revised GDP growth estimate was little changed, the underlying components pointed to a loss of momentum in private spending. Notably, consumer spending was revised down by 0.6ppts to 1.2%QoQ saar, a sharp deceleration from 4.0%QoQ saar in the prior quarter. Looking to Q2, consumer spending appears to have remained weak, with real personal consumption rising by just 0.1%MoM in April — despite a stronger-than-expected 0.8%MoM rise in personal income — following a 0.7%MoM boost in March when consumers pulled forward purchases in anticipation of tariff hikes. Despite the expected continued softness in personal consumption — weighed down by labour market concerns and the likely erosion of spending power due to tariff-related price pressures — GDP growth is still expected to rebound in Q2, largely due to a likely positive contribution from net exports. As of late May, the Atlanta Fed's GDPNow model projected Q2 GDP growth at 4.6%QoQ saar, supported by a sharp narrowing in the goods trade deficit to $87.6bn in April, the lowest since the end of 2023, from a record high of $162.3bn in March. This improvement was almost entirely driven by a 19.9%MoM plunge in imports, indicating a reversal of earlier front-loading ahead of the April reciprocal tariff announcement. Meanwhile, inflation remains elevated, with core PCE price growth at 2.5%YoY in April, down 0.2ppts from March, though still at the same levels seen last summer and well above the Fed's 2% target. With upward risks to inflation likely to intensify in the coming months, as tariff effects will start to pass through, and GDP readings distorted by trade volatility, the Fed is likely to maintain a cautious, wait-and-see stance on monetary policy.

Figure 4: Goods trade deficit narrowed sharply in April driven by a pronounced drop in imports



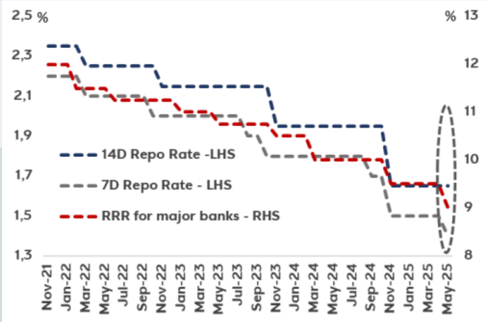
Source: Census Bureau, Eurobank Research

China

Exports surge on temporary truce; domestic fragilities persist

Economic performance in May presented a complex picture. While external demand provided a temporary lift, underlying structural challenges in manufacturing and real estate continued to weigh on broad-er momentum. Export growth remained resilient on the back of a front-loading strategy that many companies adopted in their effort to mitigate the impact of impending trade barriers. Prior to the 90-day US-China tariff truce announced on May 12, anticipation of increased US tariffs helped maintain export momentum into April, resulting into 8.1%YoY exports growth in April, down from 12.3% YoY in March. However, the rebound may prove short-lived. New order volumes are subdued, constrained by policy uncertainty and limited visibility beyond Q2. In anticipation of sustained tariff risks, Chinese ex-porters are increasingly pivoting away from the US market. According to Allianz Trade's 2025 Global Survey, 95% of Chinese firms are pursuing diversification strategies, with growing emphasis on ASEAN, Europe, and Belt and Road partners. Trade data reflects this strategic reorientation: exports to ASEAN surged 21% YoY in April, while shipments to the US declined by the same magnitude.

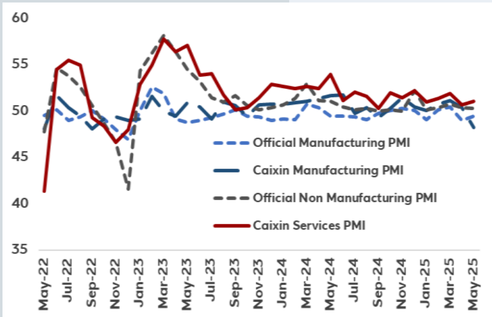
Figure 5: Given sufficiency in policy room, PBoC proceeded with monetary easing...



Source: Bloomberg, Eurobank Research

China's commercial diplomacy has simultaneously intensified. Notable developments include the Fourth Ministerial Meeting of the China-CELAC Forum in mid-May, where Beijing pledged over USD9bn in credit facilities to Lat-in American and Caribbean economies — underscoring its efforts to strengthen non-US economic ties. Manufacturing indicators offered contrasting signals. The official manufacturing PMI edged up to 49.5 in May from 49.0 in April but remained below the March pre-tariff level of 50.5. Meanwhile, the Caixin PMI — a proxy for smaller, private firms — fell sharply to 48.3, marking its lowest level since September 2022, and highlighting persistent stress among mid-sized enterprises. The real estate sector, once a cornerstone of growth, remains deeply entrenched in a multi-year downturn. New home sales across 30 major cities fell 4%YoY in May, following a 12% contraction in April, reinforcing the sector's drag on overall demand. Looking forward, Beijing remains committed to achieving its 5.0% GDP growth target for 2025. With ample fiscal and monetary space available, further policy easing remains a viable option should downside risks intensify. While the temporary tariff truce may provide near-term insulation, the broader trade environment remains volatile, compelling Chinese exporters to accelerate market diversification strategies and for this, we hold a more conservative view on growth for 2025, which we see at 4.5%.

Figure 6: ...to fortify the economy and reverse the retreating sentiment



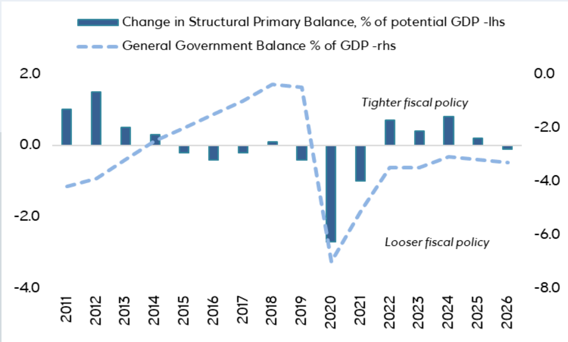
Source: Bloomberg, Eurobank Research

Euro area

ECB cut rates in June amid signs of growth deceleration in Q2

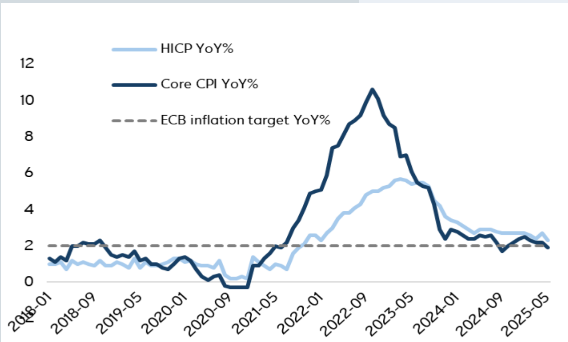
After a downward revision of Q1 GDP growth to a still solid 0.3%QoQ from the initially reported 0.4%QoQ, largely driven by front-loaded US goods imports in anticipation of higher tariffs, recent sentiment surveys point to a possible slowdown in Q2 economic activity. In May, the composite PMI unexpectedly fell into contractionary territory, dropping to 49.5 from 50.4 in April, indicating stagnant or slightly contracting private sector activity in Q2. Although the manufacturing PMI edged up (+0.4pts to 49.4) supported by continued tariff-related front-loading, the services PMI declined further (-1.2pts to 48.9). On a more positive note, consumer confidence improved in May (+1.4pts to -15.2), possibly reflecting relief from the US-China trade war de-escalation. However, this rebound was not enough to fully offset the drop (-2.1pts) recorded in April. Meanwhile, downside growth risks are mounting. Trade uncertainty remains elevated, with no signs of progress in EU/US negotiations on reciprocal tariffs, prompting President Donald Trump to threaten a 50% tariff on EU imports from 9 July, substantially higher than both the 20% Liberation tariff level and the current 10% rate (in addition to the 25% levy on cars, steel and aluminium). Nevertheless, the projected fiscal stance offers some reassurance that, while the Eurozone may slip back into stagnation in the coming quarters, a full-blown recession seems unlikely thanks to an expected shift toward a more supportive fiscal policy. After the fiscal tightening in 2024, when EU fiscal rules were reinstated, the EC expects fiscal policy to be broadly neutral in 2025 and 2026 (Spring 2025 Economic Forecast), as increased nationally financed investment (notably in defence) and spending backed by RRF grants should partially offset continued expenditure restraints. Downside growth risks, ongoing disinflation (May's HICP and core inflation at 1.9%YoY and 2.3%YoY respectively), and uncertainty surrounding EU/US trade talks paved the way for the ECB to cut rates by a further 25bps at the 5 June meeting. However, beyond June, the monetary policy path looks uncertain. While the anticipated fiscal expansion and a continued rise in the ECB's median 12-months ahead inflation expectations (+0.2ppts at 3.1%YoY in May) may ease pressure on the ECB for further cut rates, any escalation in EU/US trade tensions could likely tilt the balance toward a more accommodative stance.

Figure 7: Fiscal stance in the EA is expected to turn broadly neutral in 2025 & 2026



Source: Ameco, Eurobank Research

Figure 8: EA disinflation on track; HICP inflation dropped below 2%YoY in May

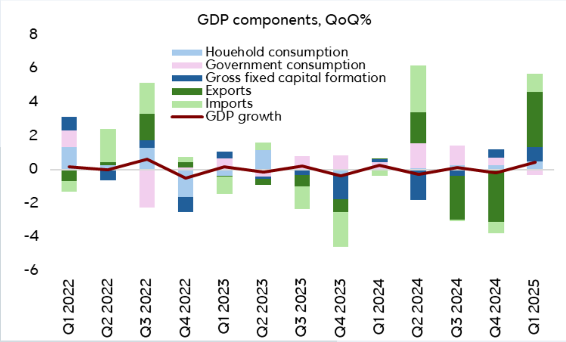


Source: Eurostat, Eurobank Research

Germany

Final Q1 GDP surprised to the upside, partly due to one-off effects

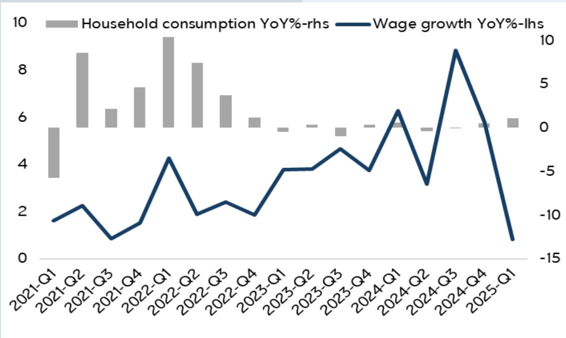
Figure 9: GDP grew in Q1 at double the pace initially reported



Source: Denstatis, Eurobank Research

According to the final estimate, GDP grew 0.4%QoQ in Q1, the strongest pace since Q3 2022 and double the flash estimate. This upward revision was largely driven by surprisingly strong data for March. Industrial output surged by 3.0%MoM, lifting the Q1 rate up to 1.5%QoQ, the highest since Q4 2021, particularly in major export-oriented sectors (e.g. automotive and pharmaceutical industry up by 8.0%MoM and 19.6%MoM, respectively). Likewise, industrial new orders increased by a stronger-than-expected 3.2%MoM, fuelled by robust foreign demand (+4.7%MoM), while exports posted another solid rise, up 1.1%MoM. Looking at the components of GDP, Q1 growth was driven by a sharp rise in exports (3.2%QoQ, outpacing imports 1.1%QoQ), resulting in a 0.9ppts contribution to headline growth from net trade following two quarters of a considerably negative contribution. The largest share of exports went to the US, with Germany's goods trade surplus with the US rising to €17.7bn, the highest among its trading partners. Domestic demand also contributed significantly to Q1 GDP growth. Household consumption supported economic activity for the fourth consecutive quarter (0.3ppts) on the back of ongoing disinflation (HICP growth at 2.1%YoY in May) and a notable rise in nominal wages in H2 2024 (7.3%YoY). Gross fixed capital formation also recorded strong growth (0.9%QoQ), driven by gains in both construction (0.5%QoQ) and machinery equipment (0.7%QoQ). In summary, the economy unexpectedly gained momentum in Q1. However, it is uncertain whether this growth will be sustainable. The front-loaded boost to exports is likely to fade, suggesting a possible negative correction in Q2. Meanwhile, persistent trade uncertainty casts doubt on whether the strong export performance marks the start of a lasting recovery. Additionally, rising unemployment (number of unemployed near 3mn in May for the first time in a decade) and a sharp slowdown in nominal wage growth in Q1 (to 0.8%YoY from 5.8%YoY in Q4) do not bode well for the outlook of household consumption. Pending the outcome of the EU/US tariff negotiations, we maintain our GDP growth forecast at 0.1% for 2025, despite the strong Q1 performance, while in 2026, growth is expected to accelerate to 1.3%, as planned increases in defence and infrastructure spending begin to support broader economic activity.

Figure 10: Slowdown in Q1 wage growth signals likely weakness in household consumption ahead



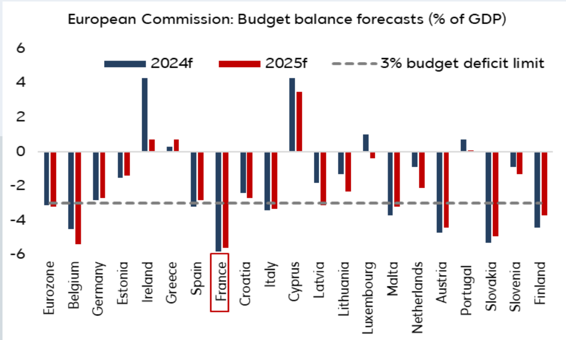
Source: Denstatis, Bundesbank, Eurobank Research

France

Stagnation likely to persist amid high global and domestic uncertainty

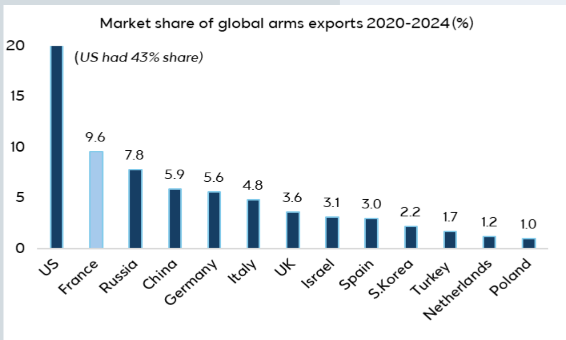
France's GDP grew by a modest 0.1%QoQ in Q1, recovering slightly from a 0.1%QoQ contraction in the final quarter of 2024. The only positive contribution came from inventories, likely reflecting frontloading of activity in anticipation of higher US tariffs. Looking ahead, sentiment indicators (e.g. INSEE, PMI) suggest the economy likely remained close to stagnation in Q2, posing downside risks to the government's forecast for an acceleration to 0.2-0.3%QoQ in the coming quarters, targeting a full-year GDP growth rate of 0.7%. This is because the economy faces two major headwinds: heightened global trade policy uncertainty due to higher US tariffs and domestic uncertainty over fiscal consolidation efforts. While France is less exposed to direct global trade tensions compared to its major Eurozone peers, its exports to the US still accounted for 17.3% of EU exports outside the bloc in 2024 (vs. Germany's 22.7% and Italy's 21.2%). On the fiscal front, Prime Minister Francois Bayrou – who has openly stated his intention to present a plan in early July aimed at restoring public finances to equilibrium over the next three to four years – has indicated that an additional €40bn in fiscal adjustment may be needed to meet the 4.6% of GDP deficit target for 2026, following expected deficits of 5.4% this year and 5.8% in 2024. However, with the government lacking a parliamentary majority (holding only 211 out of the 577 seats in the National Assembly), it will probably have to resort to Article 49.3 of the constitution to pass the budget, raising the possibility of a no-confidence vote. Reflecting the difficulty in building consensus for further deficit reduction, the prime minister has floated the idea of putting the fiscal plan to a referendum in a bid to gain public backing. Whether the government survives a potential vote of no-confidence will depend on the stance of the Socialist Party, which has thus far offered implicit support in exchange for reopening talks on pension reform. The outcome of the Socialist Party's internal election (5 June) and the conclusion of pension reform talks (scheduled for 17 June) will be crucial. For 2025, we project real GDP to grow by 0.6%, down from 1.0% in 2024, before accelerating to 1.1% in 2026, driven by increased EU defence spending. France, with the largest defence industry in the Eurozone and being the second-largest global exporter of military goods after the US, is well-positioned to benefit from this boost.

Figure 11: France is projected to run the biggest budget deficit in the Eurozone in 2024 and 2025



Source: European Commission, Eurobank Research

Figure 12: France is the largest military goods exporter behind the US



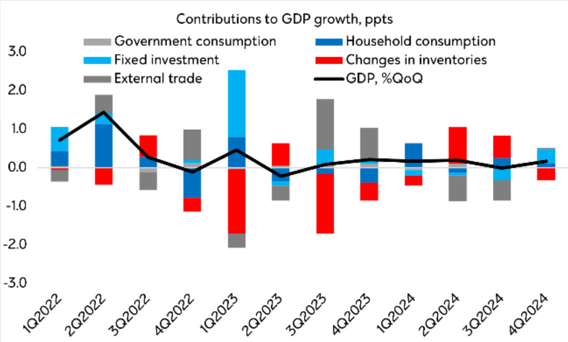
Source: Bloomberg, Eurobank Research

Italy

Survey data, credit growth suggest economy might keep some of Q1 momentum

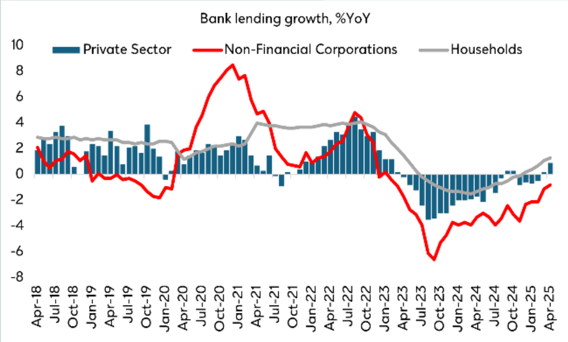
Although medium-term growth prospects hang in the balance as the county's important export sector is affected by the mounting trade tensions, the economy at least started 2025 on a strong footing. The second GDP estimate from Istat confirmed that growth accelerated 0.1ppts to 0.3%QoQ in Q1 2025, the same amount as shown in the flash estimate. That was mostly driven by a second consecutive 1.6%QoQ increase in gross fixed capital formation, which contributed 0.3ppts to headline growth. A big part of that was dwellings investment, which contracted in every quarter of 2024 following the withdrawal of a controversial energy renovation subsidy that made it the main driver of GDP growth in 2023. It rebounded in Q1, increasing 1.7%QoQ after contracting 1.4QoQ in Q4 2024, adding 0.1ppts to headline growth. Consumption expenditure increased 0.1%QoQ, contributing 0.1ppts to headline growth. Exports increased 2.8%QoQ and imports rose 2.6%QoQ, with the overall net trade contribution to GDP amounting to 0.1ppt in Q1. The biggest drag on growth in the quarter was inventories, which subtracted 0.3ppts from growth. In terms of more forward-looking indicators, May's survey data was encouraging. Economic sentiment improved 1.5pts to 93.1, while consumer confidence and manufacturing confidence both improved more than the consensus estimate, with the latter jumping 3.8pts to 96.5. The manufacturing PMI did unexpectedly slip 0.1pts to 49.2, pushing it further below the 50-threshold separating expansion from contraction, but the composite and services readings both unexpectedly rose, to 52.5 and 53.2 respectively. Meanwhile, price growth remains under control, with headline inflation slowing 0.1ppts to 1.9%YoY in May putting it back below the ECB's 2% target. That helps to justify further interest rate cuts from the central bank, and there are signs that the monetary easing that has already taken place is finally beginning to transmit to the real economy through expanding credit. Bank lending to the private sector grew 0.9%YoY in April – the highest rate of expansion in more than two years – compared with 0.2%YoY in March. That was led by lending to households, which increased 1.3%YoY in April, marking its fifth consecutive expansion. Lending to non-financial corporations fell for a 27th straight month, though it is on a clear improving trajectory, with the 0.8%YoY contraction being the smallest since February 2023.

Figure 13: Fixed investment was the biggest driver of Italian GDP growth in Q1



Source: Bloomberg, Eurobank Research

Figure 14: Bank lending is finally starting to pick up as credit conditions ease



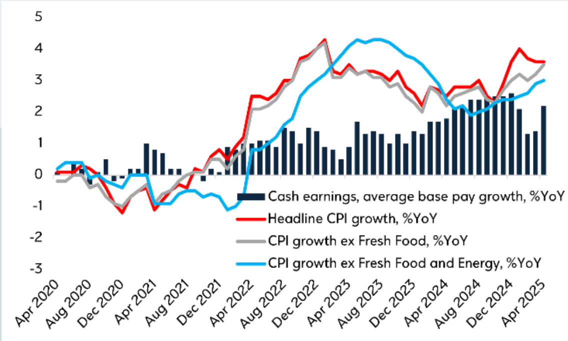
Source: ECB, Eurobank Research

Japan

Economy contracts in Q1 as inflation continues to trend upwards

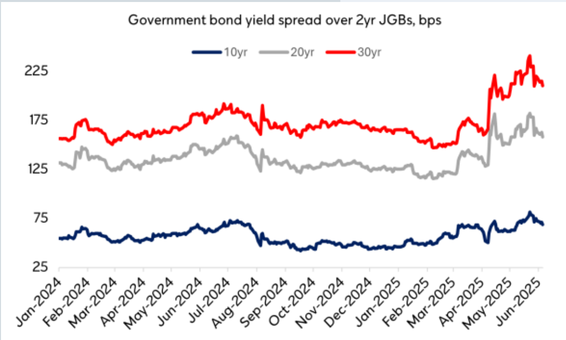
The relative softening in the background level of trade tensions in May compared to April brought a reassessment once more in the likely pace and extent of rate hikes by the Bank of Japan. Recent inflation prints continue to indicate that price increases are running hot, with headline CPI increasing 3.6%YoY in April, the same rate as in March and the core-core reading that excludes fresh food and energy rising 0.1ppts to 3%YoY, continuing its steady uptrend since last summer. Despite solid growth in nominal wages – labour cash earnings rose 2.3%YoY for a second straight month in April, up from 2.1%YoY the month before, though 0.3ppts less than the consensus estimate – the pace of price increases has meant that real wages have fallen in 13 of the last 17 months. Inflation is a hot-button political topic, with one minister in Prime Minister Shigeru Ishiba's government forced to resign last month following a gaffe in which he joked about never having to buy rice, the price of which has nearly doubled in the past year. Squeezed real incomes are also depressing demand. The Japanese economy is now flirting with a technical recession after GDP contracted by a more-than-expected annualised 0.7%QoQ in Q1, following an annualised 2.4%QoQ increase in Q4 2024. While net exports were the major reason for the decline – subtracting 3.3ppts from the headline figure as imports bounced back strongly after a slump in the previous quarter – growth got little support from private consumption expenditure, which eked out an annualised 0.1%QoQ increase for a second consecutive quarter. Against this backdrop, in recent comments Bank of Japan Governor Kazuo Ueda has emphasised that the central bank is still looking to hike interest rates further, having so far in the tightening cycle increased the policy rate by a cumulative 60bps to 0.5%. However, the BoJ will almost certainly keep rates unchanged at its June 17 meeting, with attention instead focused on details on its quantitative tightening programme. This is particularly relevant right now as the prospect of higher policy rates further out, the oscillating market response to the international situation and structural shifts in demand from the country's life insurance funds have led to heightened volatility in the long end of the JGB market. The yield on 30yr bonds moved above 3% at one point in May following weak demand at a 20yr auction, a level deemed unthinkable before the current wave of inflation and monetary policy tightening.

Figure 15: Core inflation continues its upward trend, squeezing real wages



Source: Bloomberg, Eurobank Research

Figure 16: Japan's yield curve steepened in May, with high volatility on the long end



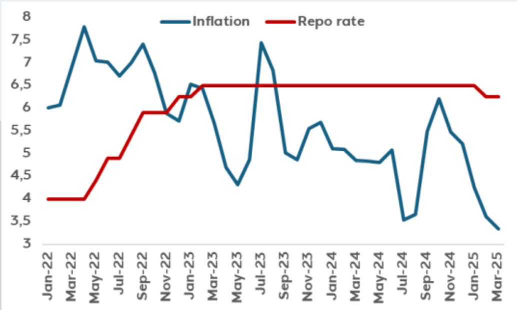
Source: Bloomberg, Eurobank Research

India

Strong growth in Q4, yet global headwinds create choppy environment ahead

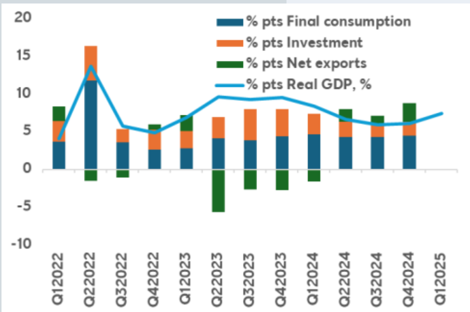
The economy surprised to the upside in the final quarter of FY2024/25, registering real GDP growth of 7.4%YoY in the three months ending March — well above the market consensus of 6.7% and marking the fastest quarterly expansion in the past year. The beat was driven predominantly by robust gains in construction and manufacturing output and came alongside a notable rise in tax revenue collections. Provisional estimates from the Ministry of Statistics place FY2024/25 real GDP growth at 6.5%, a moderation from the 9.2% expansion recorded in FY2023/24. The deceleration is largely attributable to the high base effect of the previous year, with the underlying growth momentum remaining resilient in the face of multiple global and domestic headwinds. According to the latest IMF's World Economic Outlook data, India remains the fifth-largest economy globally, trailing the United States, China, Germany and marginally behind Japan based on nominal GDP in USD for 2024. This global positioning underscores India's increasing macroeconomic importance, even amid a challenging trade and geopolitical environment. In terms of monetary policy, the Reserve Bank of India (RBI) is widely expected to deliver a third consecutive rate cut at its June 5 policy meeting. Market consensus points to a 25bps reduction, which would bring the repo rate down to 5.75%, driven by a significant disinflationary trend. April CPI inflation eased to 3.16%YoY, marking a near six-year low and providing the central bank with sufficient room to maintain its pro-growth stance. Looking ahead, the growth outlook is becoming increasingly complex. External risks have intensified following the imposition of higher US tariffs on Indian exports, which could weigh on external demand — particularly in sectors such as textiles, chemicals and pharmaceuticals. Concurrently, the OECD has flagged the potential for a weaker monsoon season, which may constrain agricultural output, dampen rural consumption and reintroduce upward pressure on food inflation. This is a non-negligible risk given agriculture's 15% share of GDP and its role in rural employment and in-come. Geopolitical developments also warrant close monitoring. Although a ceasefire was declared on May 10, following escalations in Kashmir, the situation between Indian and Pakistan remains delicate. Both countries have launched competing diplomatic campaigns to secure international backing for their respective narratives, underscoring the persistent geostrategic fragility in the region.

Figure 17: Waning inflation allows for gradual monetary easing....



Source: Bloomberg, Eurobank Research

Figure 18: ...growth also holds firm, despite global headwinds



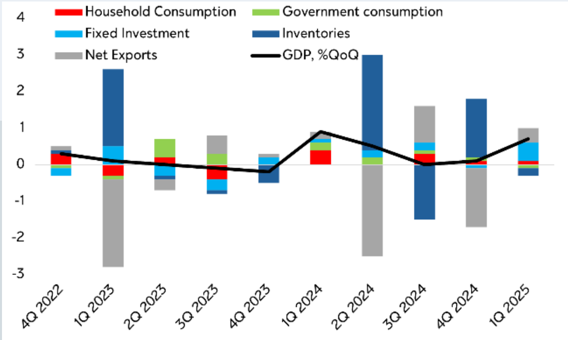
Source: Bloomberg, Eurobank Research

UK

Strong growth start to year and higher inflation complicate BoE easing path

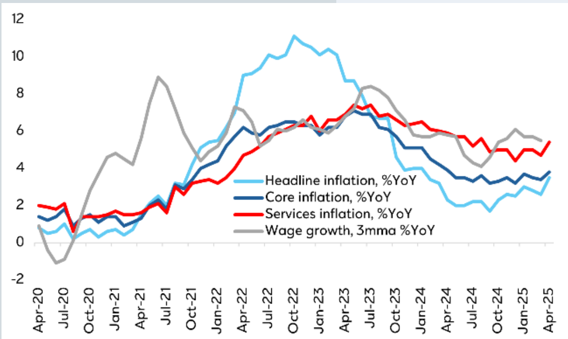
The economy started the year strongly with GDP expanding 0.7%QoQ in Q1 after growing 0.1%QoQ in Q4 2024, coming in 0.1ppts above the consensus expectation. Fixed investment was the biggest growth driver, adding 0.5ppts to GDP, with net exports adding 0.4ppts due to frontloading ahead of the expected announcement of US “reciprocal” tariffs on April 2. On a monthly basis, growth slowed to 0.2% in March from 0.5% in February and was unchanged in January, while manufacturing production contracted 0.8%MoM in March after expanding 2.4%MoM the month before. However, as the temporary factors that boosted UK growth in Q1 recede, the economy is likely to remain buffeted by headwinds from the uncertainty around trade tensions (the Bloomberg consensus expectation is for GDP growth to decelerate to 0.2%QoQ in Q2, with annual growth of 1% for 2025, down from 1.1% last year). While the trade agreement that Prime Minister Keir Starmer reached with Trump last month holds out the prospect of the levy on UK cars coming down to 10% from 27.5%, the overall relief from the economic impact of the situation is considered to be quite marginal. Furthermore, many of the details of the agreement still needing to be worked out on a tight timeframe (though one tangible benefit so far was that the US did give the UK a five-week reprieve from the doubling of tariffs on steel and aluminium exports to 50%). Still, the agreement was enough to give a boost to business confidence in May, with the composite PMI unexpectedly rising 1.8pts to 50.3, putting it back in expansionary territory. The services PMI rose to 50.9 from 49 the month before and the manufacturing PMI remained well below the 50-threshold separating expansion from contraction, despite increasing 0.9pts to 46.4. Meanwhile, headline inflation jumped to 3.5%YoY in April from 2.6%YoY in March, 0.2ppts more than the consensus estimate, primarily driven by increases in energy, administered prices, and services inflation. That complicates the prospects for a faster pace of monetary policy easing from the Bank of England, with board members already split three ways over the 25bp rate cut to 4.25% at its May meeting, where some voted for a 50bps cut and others preferred to keep rates on hold. April’s inflation data probably reinforced a cautious stance, with markets pricing in only a 4% probability of another decrease at this month’s meeting. The market-implied odds of a cut in July stand at 62%.

Figure 19: Investment and net exports were the drivers behind the UK’s strong Q1 GDP growth



Source: ONS, Bloomberg, Eurobank Research

Figure 20: Inflation rates are ticking up again, while wage growth is still strong



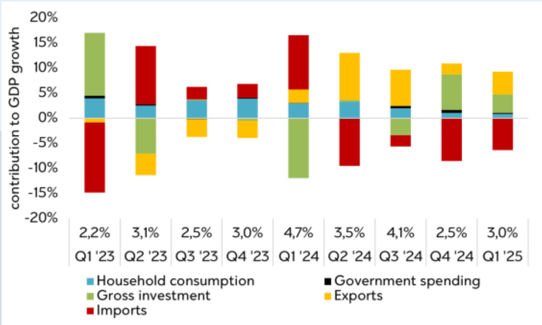
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Q1 growth holds steady as improved net exports offset soft consumer spending

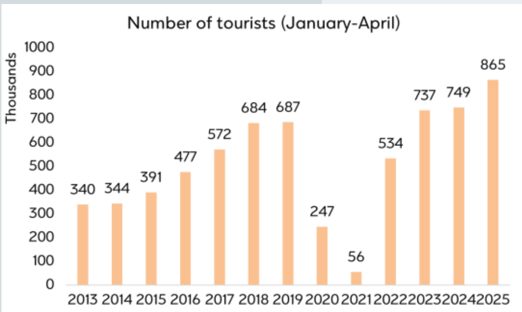
GDP growth remained broadly stable in Q1 2025, expanding by 3.0%YoY, slightly above the 2.9%YoY pace recorded in the previous quarter. On a quarterly basis, however, momentum improved notably, with growth accelerating to 1.3% from 0.2% in Q4 2024. The composition of growth remained largely unchanged, led by robust services exports (+6.8%YoY), and strong, albeit moderating, investment activity (+19.3%YoY). Nonetheless, net exports remained a drag, but the negative contribution narrowed as the growth in imports moderated to 6.8%YoY from 8.7%YoY previously. Private consumption remained soft for a second consecutive quarter, increasing by just 1.5%YoY after +1.8%YoY in Q4. This was despite unemployment being at a 16-year low for Q1 (5.0%) and a notable pickup in consumer credit expansion from September 2024 onwards, averaging 7.6%YoY through March. Slightly firmer inflation, rising to 2.5%YoY from 2.3%YoY, was the only factor that may have dampened household spending. Government consumption growth weakened more than households', +1.0%YoY from +3.4%YoY. Looking ahead, the outlook for household demand is expected to improve, supported by continued disinflation and multi-year-low unemployment. Headline inflation fell to 1.3%YoY in April, down from 2.9%YoY in February, largely due to lower energy prices globally and a VAT reduction on electricity (from 19% to 9%) effective April 2025 through March 2026. These favourable for consumption trends will be reinforced from protracted strong credit expansion, reaching 10.2%YoY in April, the most in 16.5 years. Lending to businesses also picked up in recent months – growing 7.6%YoY in April, up from 4.9%YoY in February – and is expected to fuel investment. On the other hand, the maritime-related investment surge in Q4 2024-Q1 2025 is not expected to be sustained in the coming quarters. In the external sector, the sharp rise in tourist arrivals in April (+25.5%YoY) was anticipated, given the later timing of Catholic Easter this year. Still, the broader trend remains strong, with arrivals up 15.6%YoY on average in the January-April period, following a record year in 2024, which points to the likelihood of another record year for tourism in 2025. Trade data for January-February show that the nominal rise in goods imports and exports was driven almost entirely by higher flows of fuels-lubricants, an indication that is linked to transit trade rather than higher demand for domestic products. Therefore, it is more susceptible to global cyclical trends.

Figure 21: Gross investment and exports remained the main GDP growth drivers in Q1 2025



Source: CYSTAT, Eurobank Research

Figure 22: Signs of tourist arrivals moving towards a new all-time high



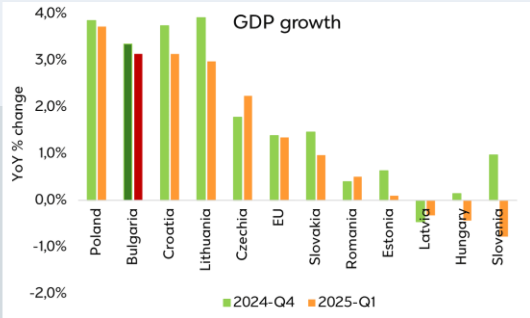
Source: CYSTAT, Eurobank Research

Bulgaria

European institutions pave the way for Eurozone entry; resilient GDP growth in Q1

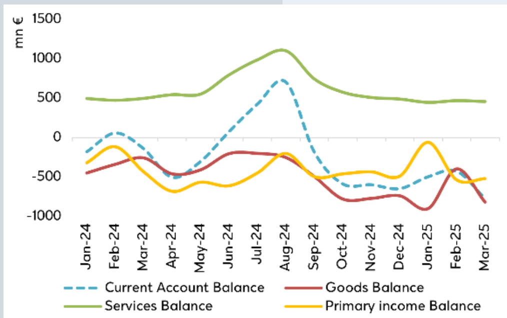
June 4, 2025 will most probably be a landmark for Bulgaria, as both the European Commission (EC) and the ECB published their convergence reports, concluding that the country meets the necessary criteria to adopt the euro as of January 1, 2026. Notably, the final hurdle — the price stability criterion — was assessed favourably, with the EC stating that a broad set of indicators showed no material concerns regarding the sustainability of price stability. The formal process now shifts to the institutional validation of membership. This involves a recommendation by the Eurogroup to the ECOFIN for Bulgaria to adopt the euro on the proposed date. ECOFIN must then formally adopt the recommendation and submit a letter to the European Council, which will subsequently need to endorse three legal acts enabling Bulgaria's entry into the Eurozone. If the timeline follows the precedent set by Croatia — whose accession process was finalised within a month in mid-2022 — these steps could be completed swiftly. Amid this positive policy backdrop, macroeconomic performance in Q1 2025 remained solid, as GDP grew by 3.1%YoY, slightly below the 10-quarter high of 3.4%YoY in Q4 2024. Growth was once again driven primarily by domestic demand components, with final consumption expanding by 7.1%YoY and gross fixed capital formation by 6.1%YoY. By contrast, net exports deteriorated further, as imports rose by 6.2%YoY and exports contracted by 3.4%YoY. This dynamic was mirrored in the current account, where the deficit widened to 3.7% of GDP in Q1 2025 from 0.6% a year earlier, largely due to an expanding goods deficit. An exceptionally tight labour market, with the unemployment rate falling to 3.9% in Q1 — the lowest level for this quarter in at least 23 years – and strong consumer credit growth (+14.4%YoY in January-April) are expected to sustain robust household spending growth in the coming quarters. However, the transition from the lev to the euro could prompt a rebound in inflation, which may partially offset gains in real income and spending. Public consumption is likely to remain elevated, supported by rising public sector wages. Business investment should continue to benefit from strong credit flows and improved confidence linked to the Eurozone accession process. Nevertheless, the pending approval by the European Commission of the revised Recovery and Resilience Plan has pushed back the second payment under the RRF, which will weigh both on investment and public finances.

Figure 23: For another quarter, GDP growth in Q1 2025 outpaced most regional peers



Source: Eurostat, Eurobank Research

Figure 24: Current account deficit deterioration in Q1 was driven by the goods balance



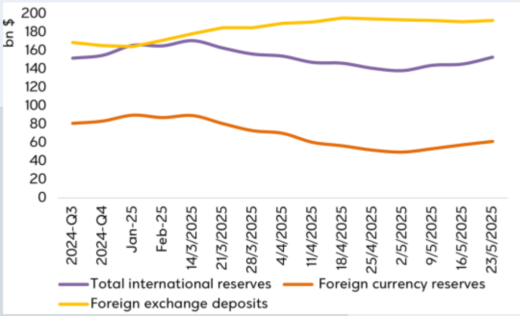
Source: Bulgarian National Bank, Eurobank Research

Turkey

Tepid disinflation after the political turmoil; early signs of weakening uncertainty

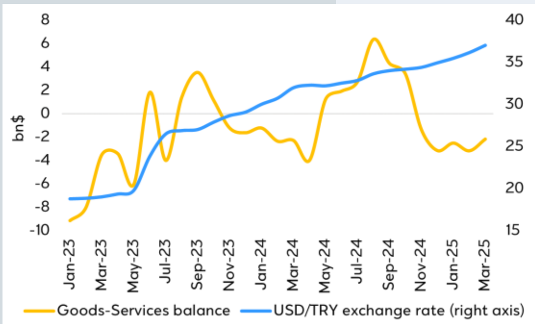
Q1 2025 GDP growth held steady at 2.4%YoY on a seasonally adjusted basis, though quarterly momentum slowed to 1.0% from 1.7% in Q4 2024. Growth in the most significant domestic demand components – household consumption and gross fixed capital formation – also weakened, with the slowdown being more pronounced in the latter, to 2.2%YoY versus 6.0%YoY, due to falling industrial and other investment. Only government consumption expanded faster, by 3.5%YoY, a seven-quarter-high pace. The ex-ternal balance also deteriorated as import growth accelerated to 3.6%YoY from 0.6%YoY. The moderation in household spending came in spite of supportive labour market dynamics — unemployment at a 12.5-year low of 8.3% — and mild disinflation in January-February, prior to the political turmoil caused by the arrest in mid-March of Istanbul Mayor Ekrem İmamoğlu. As foreseen in our previous report, the stronger subsequent lira (TRY) depreciation (-20.4%YoY in May vs. -15.8%YoY in March), despite aggressive FX intervention by the central bank (TCMB), which drew down $40.5bn in reserves through end-April to stabilize the currency, weakened the disinflationary trend in March-May. This was reflected in the headline inflation rate only slowing to 35.4%YoY in May from 39.1%YoY in February, a trend that could put further pressure on private consumption in Q2, especially if the increase in April's jobless rate, to 8.6% from 8.0% in March, develops into a trend. Counterintuitively, ongoing TRY weakness may also weigh on the external balance, echoing dynamics observed during the 2023–24 monetary tightening cycle. April's 68.1% spike in the merchandise trade deficit relative to March pushed the shortfall to a 19-month high, reinforcing this concern. Nevertheless, some early indicators suggest a tentative easing of economic uncertainty. The economic climate index inched up by 0.4pts to 96.2 in May after a sharp 4.4pt drop in April, with sentiment improving mainly in the services and construction sectors. Business confidence in industry, however, continued to soften. Foreign reserves saw a partial recovery, rising $11.4bn in the first three weeks of May to reach $61.4bn. Meanwhile, the flight to foreign currency deposits has paused, with total household-business holdings falling just slightly, by $2.9bn, over the same period. In light of these developments, the TCMB could avoid a further monetary tightening in the upcoming mid-June policy rate-setting meeting, opting for a wait-and-see approach.

Figure 25: A rebound in foreign reserves in May and a fall in FX deposits marked weakened uncertainty



Source: Central Bank of Turkey, Eurobank Research

Figure 26: The lira depreciation could worsen the external balance, as in the 2023-24 tightening cycle

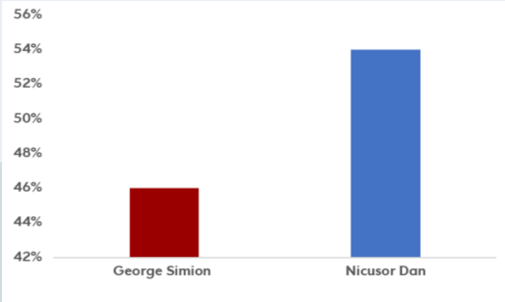


Source: Central Bank of Turkey, Eurobank Research

CESEE

Political transitions overshadow resilient Q1 growth

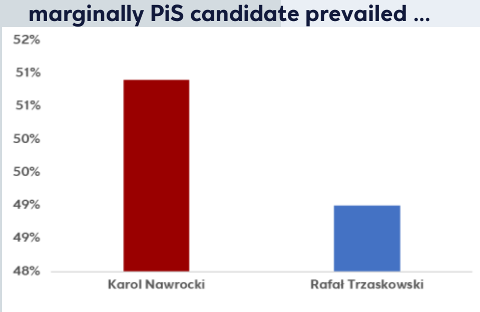
Figure 27: Results from the second round of election in Romania were comforting…



Source: Politico, Eurobank Research

Preliminary GDP data for Q1 2025 have been largely eclipsed by evolving political dynamics in the region. Recent electoral outcomes point to a gradual right-ward drift in the region's political equilibrium, with rising populist momentum complicating the policy outlook. In Romania, the presidential election on May 18 delivered a relatively market-friendly outcome. Independent reformist Nicușor Dan, backed by a pro-European coalition, secured a 54% majority, following his resignation as mayor of Bucharest. His ascent to the presidency helps restore political continuity after the turbulence caused by the annulled December 2024 election. However, the broader backdrop remains fragile: far-right candidate George Simion garnered a sizable 46%, underscoring deep-rooted political polarization. With parliament sharply fragmented, President-elect Dan will likely face significant challenges in assembling a functional governing coalition, potentially hampering legislative efficacy and reform implementation. In Poland, the presidential runoff on June 1 yielded a narrow victory for conservative nationalist Karol Nawrocki, who defeated liberal Warsaw Mayor Rafał Trzaskowski by a margin of 50.89% to 49.11%. Nawrocki, an independent candidate endorsed by the Law and Justice (PiS) party, will assume office on August 6, succeeding President Andrzej Duda. The result constitutes a notable setback for Prime Minister Donald Tusk's centrist, pro-EU coalition, casting doubt on the government's ability to advance its reform agenda — particularly with respect to judicial overhaul and EU institutional alignment. Credit rating agencies, including Fitch and S&P, have flagged concerns over potential political gridlock, which could delay fiscal consolidation and dampen investor sentiment. On the macro front, CESEE economies showed continued resilience in Q1, notwithstanding limited progress on a Ukraine ceasefire and intensifying concerns over US tariff exposure. Poland led regional growth with a 3.2%YoY expansion — slightly below the 3.4% pace in Q4 2024 but still robust. Czechia saw GDP growth accelerate from 2.0% to 2.2%, underpinned by a rebound in household consumption and a notable pickup in construction. By contrast, Hungary's economy stagnated, with flat growth following a 0.4% expansion in the prior quarter, weighed down by subdued industrial output and weak investment. Romania posted 0.2% growth, decelerating from 0.5% previously, as political uncertainty weighed on momentum. Taken together, the CEE-4 economies (Poland, Czechia, Hungary and Romania) recorded an average Q1 2025 GDP growth of 2.4%YoY. While this rep-resents a mild slowdown from Q4 2024 (2.6%YoY), it remains above the Q1 2024 print and the full-year 2024 average, reaffirming the region's relative resilience in the face of both global and idiosyncratic headwinds.

Figure 28: unlike Poland, where, even, marginally PiS candidate prevailed …



Source: Politico, 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	2.7	2.8	5.7	3.9	3.5									
Advanced Economies															
USA	2.8	1.4	1.5	3.0	3.0	2.8	4.0	4.4	4.5	-3.9	-4.0	-3.6	-6.9	-6.7	-6.5
Eurozone	0.9	0.8	1.1	2.4	2.1	1.9	6.4	6.3	6.4	2.7	2.3	2.3	-3.1	-3.3	-3.2
Germany	-0.2	0.1	1.3	2.5	2.2	2.0	6.0	6.3	6.2	5.7	4.9	4.7	-2.8	-3.0	-3.3
France	1.0	0.6	1.1	2.3	1.1	1.6	7.4	7.5	7.7	-0.2	0.1	-0.2	-5.8	-5.6	-5.4
Periphery															
Cyprus	3.4	3.1	3.2	2.3	1.4	1.9	4.9	4.5	4.2	-8.3	-9.0	-7.8	4.3	4.1	3.8
Italy	0.7	0.5	0.8	1.1	1.8	1.7	6.6	6.3	6.3	1.1	1.3	1.8	-3.4	-3.3	-3.1
Portugal	1.9	2.2	2.0	2.7	2.2	1.9	6.4	6.3	6.3	2.2	1.7	1.6	0.7	0.3	0.1
Spain	3.2	2.4	1.8	2.9	2.3	1.9	11.4	10.7	10.4	3.0	2.6	2.5	-3.2	-2.9	-2.8
UK	1.1	1.0	1.1	2.5	3.1	2.3	4.3	4.6	4.6	-2.7	-2.5	-2.5	-5.1	-4.1	-3.6
Japan	0.2	0.8	0.8	2.7	2.8	1.8	2.5	2.5	2.3	4.8	4.6	4.3	-2.2	-3.5	-3.3
Emerging Economies															
BRIC															
Brazil	3.4	2.0	1.6	4.4	5.3	4.3	6.8	6.9	7.2	-2.8	-2.5	-2.5	-8.5	-8.4	-8.0
China	5.0	4.5	4.2	0.2	0.3	1.0	5.1	5.1	5.1	1.4	1.6	1.3	-4.8	-5.6	-5.7
India	6.3	6.3	6.5	4.6	3.8	4.2		N/A		-0.8	-1.0	-1.0	-4.8	-4.4	-4.4
Russia	4.3	1.5	1.2	8.4	9.2	5.5	2.5	2.5	2.8	2.9	2.2	2.1	-1.7	-1.7	-1.4
CESEE															
Bulgaria	2.8	3.2	3.4	2.4	3.2	2.1	4.2	3.6	3.3	-1.8	-2.4	-1.5	-3.0	-4.0	-2.6
Turkey	3.2	2.6	3.1	58.5	32.2	21.7	8.7	8.3	7.8	-0.8	-1.4	-1.1	-4.9	-5.4	-4.5

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

Eurobank Fixed Income Forecasts

	Current	June 2025	September 2025	December 2025	March 2026
USA					
Fed Funds Rate	4.25-4.5%	4.23-4.48%	4.01-4.26%	3.75-4%	3.57-3.82%
3m SOFR	4.32%	4.28%	4.1%	3.87%	3.75%
2yr Notes	3.88%	3.91%	3.78%	3.63%	3.58%
10yr Bonds	4.35%	4.37%	4.3%	4.25%	4.19%
Eurozone					
Refi Rate	2.4%	2.15%	1.94%	1.89%	1.91%
3m Euribor	1.96%	1.94%	1.82%	1.84%	1.88%
2yr Bunds	1.78%	1.79%	1.81%	1.84%	1.91%
10yr Bunds	2.5%	2.53%	2.56%	2.63%	2.72%
UK					
Repo Rate	4.25%	4.23%	3.96%	3.71%	3.52%
3m Sonia	4.17%	4.14%	3.89%	3.76%	3.61%
10-yr Gilt	4.58%	4.47%	4.34%	4.23%	4.17%
Switzerland					
3m Saron	-0.09%	0.06%	-0.08%	-0.08%	-0.08%
10-yr Bond	0.20%	0.40%	0.43%	0.47%	0.53%

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

Koroli Panagiota
Administration Officer
pkoroli@eurobank.gr
+ 30 214 40 63 430

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

More available research at: https://www.eurobank.gr/en/group/economic-research
Subscribe electronically at: https://www.eurobank.gr/el/omilos/oikonomikes-analuseis/forma-ekdilosis-endiaferontos
Follow us on twitter: https://twitter.com/Eurobank_Group
Follow us on LinkedIn: https://www.linkedin.com/company/eurobank