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The global economy proved resilient in H1, partly driven by the frontloading of exports to the US at the start of the year before the imposition of tariff hikes. However, this frontloading began to unwind in Q2, a trend that probably has further to run. The tariff effect is expected to become more pronounced in the coming months, making a slowdown in global growth in H2 increasingly likely. The anticipated tariff-related rise in US prices is also expected to weigh on US spending, while trade uncertainty remains elevated. Against this backdrop of downside risks and ongoing progress in global disinflation, most central banks are expected to cut interest rates further. Still, the extent of monetary easing will vary, reflecting their individual priorities in balancing growth support with medium-term inflation targets.

Macro Picture

USA: resilient activity data with slowing job gains; tariff pass-through on prices limited so far

EA: sluggish economic growth likely to persist in H2; disinflation progress remains intact

China: mid-year growth moderated amid structural and external trade pressures

Japan: economic growth surprisingly strong in Q2, driven by robust domestic demand

CESEE: Poland and Czechia lead and Romania and Hungary follow in terms of mid-year growth

Markets

FX: Fed rate cut expectations continue to put the USD under pressure, helping the EUR/USD gain

Rates: European rates stable overall, though political risk and issuance briefly widened spreads

EM: ongoing resilience for EM sovereign debt; spreads broadly stable, valuations stretched

Credit: technicals remain supportive amid strong inflows and low rates

Policy Outlook

USA: weak labour data have shifted risk balance, increasing the likelihood of an imminent Fed cut

EA: trade deal and EA's relative resilience to tariffs so far temper odds of imminent ECB easing

Japan: PM's resignation creates fiscal policy uncertainty as candidates jostle to replace him

CESEE: monetary easing in Poland and Czechia versus fiscal concerns in Romania and Hungary

Key Downside Risks

DM & EM: renewed escalation in trade disputes, intensifying geopolitical tensions, inflation regains momentum, rising inflation expectations, major CBs keep rates in restrictive territory for longer, tighter global financial conditions, political instability in key EMs, such as Indonesia and Argentina, fiscal slippages in CEE jointly with increased geopolitical risk due to its proximity with Russia

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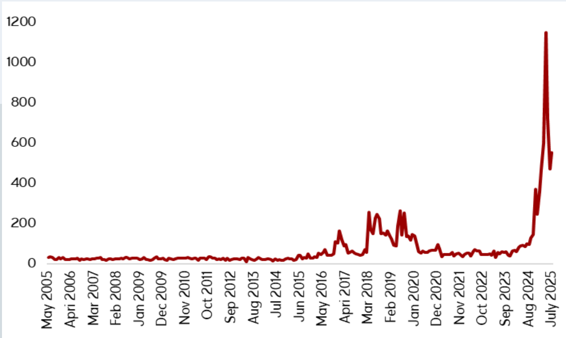
Macro Views

Slowdown likely in global economic growth in H2 as tariff impact increases

On July 31, the US administration announced new reciprocal tariffs on 69 key trading partners — including the EU, Japan, South Korea, Indonesia and the Philippines — ranging from 10% to 50%, which went into effect on August 7. All other countries will face a standard 10% tariff, with an additional 40% duty imposed on goods identified as transhipped. At the same time, the US and Mexico agreed to extend their current trade agreement for another 90 days, postponing the implementation of a planned 30% tariff. In a separate move, a new executive order raised tariffs on fentanyl-related products from Canada, from 25% to 35%. However, trade between the US, Mexico, and Canada remains largely unaffected by these changes due to various exemptions under the USMCA, which continues to cover over 50% of their bilateral trade. Recent trade agreements have helped ease global trade uncertainty, as the risk of even higher tariffs and further escalation in trade disputes was averted. However, long-term trade uncertainty remains elevated, well above the levels at the end of 2024 (Figure 1).

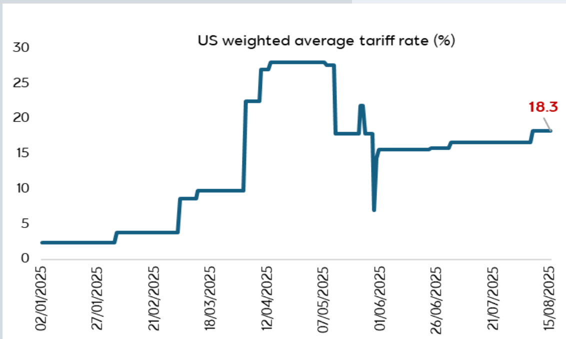
Figure 1: Though off its recent peak, global trade policy uncertainty remains high



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

Several key trade agreements are still under negotiation. In mid-August, US President Donald Trump signed an executive order extending the deadline for higher tariffs on China by another 90 days, pushing it to 10 November. In return, China agreed to reduce non-tariff barriers to US products and delay, for 90 days, adding US companies to its trade and investment restriction lists, that were previously targeted in April. Additionally, some of these agreements include significant investment commitments and pledges to purchase US goods. However, important elements of these deals remain subject to further negotiation. As US Treasury Secretary Scott Bessent has hinted, certain trade agreements will be reviewed quarterly by the US administration, with the president retaining the authority to reassess and potentially amend them, if unsatisfied. This raises concerns about the longevity of any deal (reportedly the president has threatened a 35% tariff rate on the EU if it does not provide $600bn in investment). If US trading partners fail to uphold their commitments, trade tensions are likely to resurface.

Figure 2: US trade-weighted average tariff rate above end-2024 levels



Source: Bloomberg, Eurobank Research

In addition, several Section 232 investigations into critical imported goods, identified as potential national security threats, are still underway. Tariffs have already been imposed on sectors following the completion of investigations, including 50% duties on steel, aluminium and copper and 25% on automobiles and auto parts. However, many sector-specific investigations are still ongoing, collectively covering up to 40% of US imports. Areas under investigation include critical minerals, timber and lumber, pharmaceuticals, and semiconductors, among others. If additional sector tariffs come into play, the US average effective tariff rate could rise beyond the current estimate of around 18% (Figure 2). Higher sectoral tariffs would put more pressure on supply chains, increase downside growth risks — particularly for countries whose exports to the US depend on these products — and could raise inflationary pressures in the US. The outcome will depend largely on whether these ongoing investigations yield higher tariffs and at what rate. The broader impact of these sectoral tariffs will also hinge on how they are integrated into existing trade agreements and any potential exemptions or quotas.

Adding to trade uncertainty, the US Court of Appeals for the Federal Circuit largely affirmed in late August an earlier ruling by the Court of International Trade which found that tariffs imposed under International Economic Emergency Powers Act (IEEPA) were unlawful. The decision impacts a range of tariffs, including the 25% fentanyl-related tariffs on Canada and Mexico, the 20% fentanyl-related tariff on China, the 10% reciprocal tariff on China, and similar reciprocal tariffs on other countries. However, the ruling does not affect the sectoral tariffs imposed under Section 232, which cover steel, aluminium, automobiles, auto parts and copper. It also excludes the IEEPA-based 50% tariff on Brazil and India for purchases of Russian crude as those were implemented after the case in question was filed.

In a 7-4 decision, the appeals court opted to leave the contested tariffs in place until October 14, giving the US administration time to appeal to the Supreme Court. While the majority of judges in the appeals court ruling were appointed by Democrat presidents, the Supreme Court has a 6-3 Republican majority, adding further uncertainty to the final outcome. That said, regardless of how the Supreme Court ultimately rules — expected sometime between March and June 2026 — the decision is likely to cause only a temporary disruption. The broader direction of US trade policy is unlikely to change significantly, as the administration still has access to other legal tools — such as 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.

So far, the effects of tariffs have been limited. In H1 the global economy proved resilient, partly due to the frontloading of exports to the US ahead of anticipated tariff hikes by the US administration. However, this frontloading began to reverse in Q2, a trend that probably has further to run. As a result, the impact of tariffs is expected to become more pronounced in the coming months, making a slowdown in global growth in H2 increasingly likely. In support of the above, the expected tariff-related increase in US prices is also anticipated to weigh on US real incomes and spending.

Currently, the market consensus forecasts global GDP growth at 2.8% for 2025 — a slight upward revision of 0.1ppts since July, before bilateral trade deals — but still 0.2ppts below expectations from earlier in the year. A prolonged or renewed escalation in trade tensions would present downside risks to this outlook and could have broader implications for global economic growth.

Given these downside risks and continued progress on global disinflation, most major central banks are expected to cut interest rates further in the coming months to help offset the economic drag from higher tariffs. Still, the degree of monetary easing will vary by central bank, depending on how they balance the need to support growth against their medium-term inflation goals.

For the Fed, the challenge may be particularly complex, as it must navigate trade-offs between its dual mandate of price stability and maximum employment. Tariff-driven inflationary pressures are starting to appear in the US data, though tentatively, with additional price increases probably on the way. As a result, there is still uncertainty around the magnitude and duration of the increase in inflation, as well as whether tariff-related price increases will spill over into broader inflation indicators. At the same time, recent labour market data have raised concerns about the health of the US economy. In this context, tariffs are likely to have a stagflationary effect on the US, the country imposing the tariffs, whereas the rest of the world may experience the impact primarily as a negative demand shock —leading to slower growth and disinflationary pressure in the near term.

Developed Economies

US: Recent data indicates that private consumption, the primary driver of US economic growth, has been stronger than anticipated in recent months, diminishing the likelihood of significant near-term economic weakness despite higher US tariffs. However, concerns about the broader economy are mounting as labour market conditions seem to be softening. Meanwhile, both headline and core CPI growth were at 2.7% YoY and 3.0% YoY, respectively, in July—roughly in line with the H1 average. This is partly due to limited pass-through effects from tariffs, and while price pressures are expected to increase in the coming months, the Fed's base case is that these pressures will likely be short-lived. Combined with a somewhat dovish tone in Jerome Powell's speech at Jackson Hole, the likelihood that the Fed may prioritize its full employment mandate has probably increased, keeping the door open for a potential rate cut at the upcoming September 16-17 meeting.

Euro area: The near-term economic outlook suggests subdued, yet still positive, growth, with GDP in H2 expected to stay largely in line with Q2, when output slowed to 0.1%QoQ following a stronger 0.6%QoQ growth in Q1. Easier monetary policy conditions combined with ongoing disinflation, should continue to support domestic demand. However, caution remains. While the EU/US trade deal has reduced much of the tariff uncertainty, several aspects of the agreement remain fragile, leaving room for potential future trade tensions. Additionally, exports and investment are likely to face ongoing pressure from the increasingly challenging external environment. Despite this, a significant negative impact from US tariffs has not yet materialized, and deflation remains intact. With monetary policy currently at neutral rates and the ECB viewing the projected inflation undershoot in 2026 as temporary, upcoming data will need to show a clear downturn and a sustained deviation below the 2% target to justify any further rate cuts.

Emerging Economies

EM: emerging markets are exhibiting a cautiously positive macroeconomic outlook, underpinning strong investor demand for EM assets. Inflation has moderated across key regions (Asia, Latin America and EMEA) while targeted fiscal and monetary measures support growth. Multilateral institutions such as the IMF and World Bank projected stable expansion in their latest outlooks released during summer, boosting confidence in sovereign and corporate debt. In developing Asia, growth in 2025 is projected around 4.5% supported by China's fiscal stimulus and efforts to bolster domestic demand amid external headwinds. In Latin America, it is forecast close to 2.5%, led by Argentina at 5.0%. Relative yield advantages versus advanced economies and ample global liquidity have further fuelled bond issuance, with EM borrowers raising over USD500bn year-to-date, based on Bloomberg estimations. However, market sentiment faces fresh headwinds. Political turbulence in Indonesia following the finance minister's resignation, policy uncertainty in Argentina under President Milei, and heightened geopolitical jitters between Poland and Russia have introduced volatility into EM markets.

CESEE: the economic outlook reveals widening divergences in the region. Poland and Czechia remain comparatively resilient, while Romania and Hungary continue to grapple with weaker growth, higher inflation, and fiscal fragility. Poland stands out as the regional outperformer. GDP grew 3.4%YoY in Q2, lifting first-half growth to 3.3%. Household spending and EU-financed investment remain key drivers, while inflation fell to 2.8% in August, allowing two interest rate cuts in the last quarter. Yet fiscal risks dominate the outlook, with the deficit projected to approach 7% of GDP in 2025 and Fitch revising the rating outlook to negative. Czechia also shows relative stability, with GDP rising 2.6%YoY in Q2 and inflation easing to 2.6%. The Czech National Bank has cautiously delivered a few interest rates cuts and fiscal metrics remain manageable, though structural headwinds persist. Romania's performance has weakened, with Q2 GDP up just 0.3%YoY. Inflation reaccelerated to 7.8%YoY in July, forcing the central bank to maintain a tight stance. Fiscal deficit projections for 2025 remain above 7% and reforms face political resistance, leaving ratings agencies cautious. Hungary remains the laggard, with Q2 GDP up only 0.1%YoY and inflation stuck above target at 4.3%. Growth forecasts for 2025 have been cut close to 1%.

Markets View

Foreign Exchange

EUR/USD: mostly range-bound between 1.155 and 1.17 in August. The pair found support around 1.163 and faced resistance near 1.174. Early-September euro strength was underpinned by resilient PMI data in Germany and France, but the highlight came in with softer-than-expected US August non-farm payrolls, triggering a sharp spike in the euro. Overall, the period from August onward had a neutral-to-slightly bullish note, with Fed rate cut bets offering support and Eurozone growth concerns capping the upside.

EUR/GBP: traded between 0.8600 and 0.8735 in August, averaging near 0.8660. The Bank of England's 25bp rate cut on August 7 would normally weigh on sterling, but as the move was smaller than expected and some MPC members opposed it, the pound briefly rallied before quickly losing momentum. Attention then shifted back to weak UK growth signals and easing inflation, which kept expectations of further BoE cuts alive. Meanwhile, resilient German and French PMI data provided modest support for the euro, and broader sentiment turned more favourable as markets priced in Fed easing.

Rates

EU: euro area rates traded with relatively limited direction, though political risk and supply dynamics were key drivers. The focus remained on France before the September 8 confidence vote, which temporarily widened OAT–Bund spreads to multi-month highs. At the same time, heavy September issuance – including Italy's €18bn jumbo bond – weighed on duration, particularly in the 7–10yr segment of the curve, though yields later retraced, supported by softer US data. Curve positioning was shaped by structural flows around Dutch pension reforms and ALM activity, with notable receiving in 5yr versus paying in 10yr. Long-end dynamics were more mixed, with hedge funds unwinding steepeners. Swap spreads tightened steadily as issuance supply dominated. By early September, the 10yr EUR swap rate stood at 2.68%, having traded between 2.61% and 2.70%. The curve steepened marginally, with the 5s30s segment around 0.51% on September 9, little changed month-on-month

US: rates shifted lower over the period as the market embraced a more dovish Fed outlook. Powell's Jackson Hole remarks emphasized downside labour market risks, with futures quickly pricing in a 25bp September cut and additional easing into year-end (68bps total for the rest of 2025, as of September 10). Weak payrolls data and large benchmark revisions reinforced this dovish bias. Alongside policy expectations, heavy IG issuance ($55bn compressed into the holiday week) influenced curve dynamics, with fast-money selling in the long end offset by real money receiving in the belly. The yield curve steepened, led by 5s30s and 2s30s, reaching cycle highs last seen in early 2022. Despite the moves, implied volatility stayed near YtD lows as asset managers continued to sell short-dated tails. Political noise – including Trump's attempted dismissal of Fed Governor Cook – had little lasting market impact. By early September, the 10yr SOFR swap rate stood at 3.69%, after trading between 3.69% and 3.99% intra-month.

Emerging Markets Sovereign Credit

August was another strong month for risk assets, with EM sovereign spreads moving slightly tighter. The EMBI Global Index narrowed by about 2bps versus end of July levels, currently trading at 270bps. In Central Europe, 10yr EUR asset swap spreads finished marginally wider amid thin liquidity, except for Serbia and Hungary which were unchanged. In Latin America, sovereign spreads tightened further, with Mexico's 10yr USD asset swap spread rallying by almost 8bps to 224bps as of September 9. In Asia, Indonesian USD bonds saw some modest widening due to ongoing street protests, with the 5yr CDS giving back part of its early-month tightening and ending at 69bps. Overall, we remain constructive but cautious on adding EM sovereign risk. Valuations are stretched, but current market conditions do not warrant outright bearishness.

Corporate Credit

August started with a risk-off move on revived concerns about a US economic slowdown following an underwhelming US jobs report. Markets soon recovered, with the S&P continuing to hit fresh record highs. In large part, this was because of a dovish pivot by Powell at Jackson Hole, which led to growing expectations that the Fed would cut rates in September. Markets were also supported by what proved to be one of the most benign earnings quarters in recent history. There were still several headwinds, including concerns about the Fed's independence and a fresh reappraisal of sovereign risk in Europe ahead of a confidence vote in France, which led to renewed fears about the fiscal trajectory. Against this backdrop, US equities advanced +1.9% and remained on positive ground in September, registering total gains of 2.2% from the end of July to September 8, largely led by the Magnificent (+4.2%). Europe saw mixed performance, with Stoxx 600 +0.8% during this period, despite mild losses in Germany and France (DAX -1.5% and CAC 40 -0.8%). Oil prices declined (Brent crude -8.1%) on speculation about a ceasefire or peace deal in Ukraine.

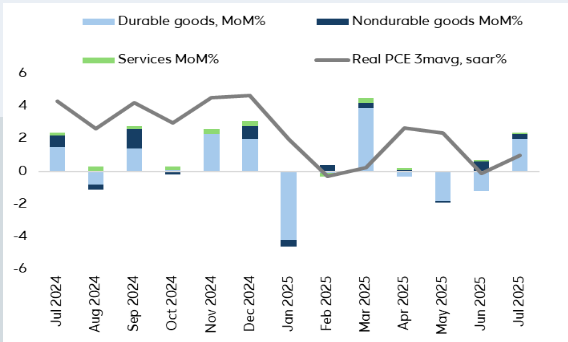
In the credit markets, synthetics ended slightly tighter August-to-September 8 both in Europe as well as the US. In Europe, Main ended largely unchanged while CDX IG closed -1.4bps tighter. In the HY space, Xover closed -6.5bps tighter during the period, while CDX HY tightened -3.7bps. Cash underperformed vs. synthetics, with all European IG sectors ending slightly wider since the beginning of August and no notable outperformers or underperformers (IEAC -7bps). European HY also ended slightly wider (IHYG +12ps). Sector-wise, Financials, Consumer Staples and Industrials underperformed while Technology and Energy fared better. The summer lull did not particularly dent the steady drip of money into credit markets, albeit activity eased in late August before picking up again as we moved into the traditional September rush. August supply stood at EUR 81bn, mostly in the financials space. New supply continues to be well absorbed.

Even though September is historically a weak month for credit, technicals remain supportive, amid strong inflows and low rates. Looking ahead, attention will remain on the Fed ahead of the next policy meeting in mid-September, as well as European politics given the fall of France's government.

US

Weak labour data have increased the likelihood of an imminent Fed rate cut

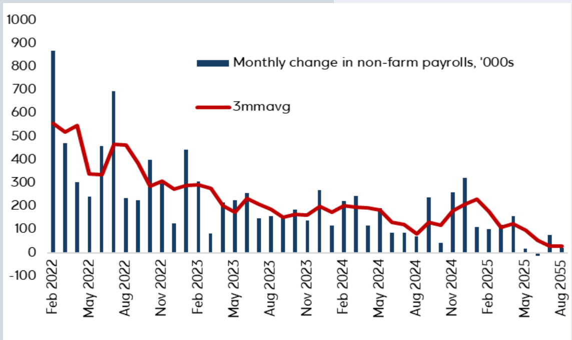
Figure 3: Real consumer spending rebounded in July after a series of lacklustre prints earlier this year



Source: BLS, Eurobank Research

Recent data suggests that private consumption – the main driver of US economic growth — has been stronger than expected over the past few months, reducing the likelihood of significant near-term economic weakness despite higher US tariffs. Driven by durable goods purchases during major promotional events from large retailers, real consumer spending rebounded in July, rising 0.3%MoM after a series of lacklustre monthly prints earlier this year. This recovery was accompanied by an upward revision in Q2 final sales to domestic purchasers to 1.6%QoQ saar, slightly higher than 1.5%QoQ saar in Q1. Nevertheless, the pace of growth remains below the 2024 average of 3.1% as tariff-related disruptions are likely to keep consumer spending on a slower growth trajectory than in recent years. Adding to recent positive data releases, durable goods orders excluding transportation posted a stronger than expected 1.1%MoM increase in July, the same as core capital goods orders, indicating continued strength in business fixed investment which grew by an upward revised 3.3%QoQ saar rate in Q2 (+2.9ppts). Market consensus expects GDP growth of around 1.5%QoQ saar in Q3, following an average of 1.4% in H1. However, looking further ahead, concerns about the overall state of the economy are growing as labour market conditions appear to be easing. Non-farm payrolls data for August surprised to the downside for the fourth consecutive month, with only 22k jobs added, and the 3-month average dropping to 29k, nearly 100k slower than the pace in H1. The unemployment rate also rose 0.1ppts to 4.3%, its highest level in four years and slightly higher from the 4.1-4.2% range that prevailed from June 2024 to July 2025. Meanwhile, headline and core CPI growth stood in July at 2.7%YoY and 3.0%YoY respectively, almost in line with the H1 average, as tariff pass-through has been limited so far. At the Jackson Hole symposium last month, Fed Chairman Jerome Powell reiterated that price pressures are expected to intensify in the coming months, though the base case is that these effects will be short-lived. Powell also noted that "downside risks to employment are rising" and that "the baseline outlook and shifting balance or risks may warrant adjusting our policy stance", suggesting the possibility of prioritizing the full employment mandate and leaving the door ajar for a rate cut at the upcoming 16-17 September meeting.

Figure 4: The pace of payroll employment growth has significantly slowed



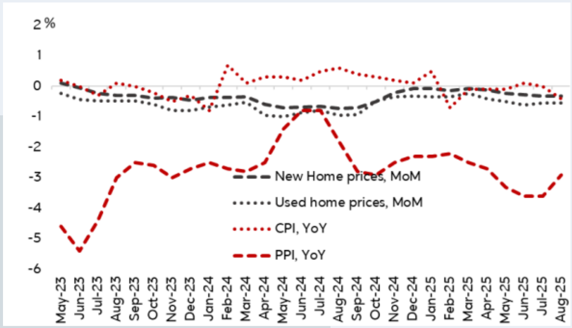
Source: BLS, Eurobank Research

China

Mid-year growth moderates amid structural and external pressures

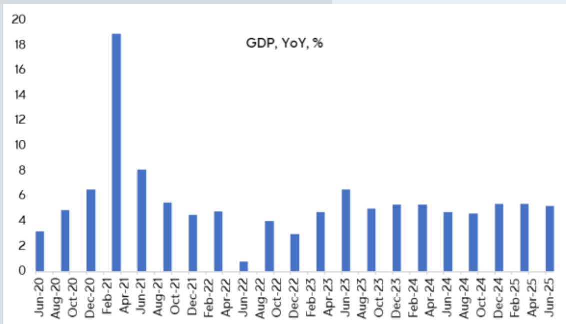
Most recent economic data point to an economy still expanding, though with uneven strength and mounting vulnerabilities. The second-quarter GDP release in July showed growth of 5.2%YoY and 1.1%QoQ, broadly in line with official targets but marginally softer than in the first quarter (5.4%YoY and 1.2%QoQ). The headline resilience masks a more complex picture upon reviewing the particulars. Industrial output advanced by 5.7%YoY in July, continuing to provide some momentum, yet consumer activity lagged: retail sales grew by only 3.7%YoY, down from an average of 5.5%YoY in the first half, reflecting cautious household spending. The property sector remains the most conspicuous drag. New-home prices kept declining by 0.3%MoM while the contraction in real-estate investment deepened (-12%YoY in July vs -11.2%YoY in June and -10.3%YoY on average in H1) despite targeted policy support. Apparently, developers' weak balance sheets, high inventories and persistent scepticism among potential buyers all continue to weigh on the sector. Price data reinforce the sense of underlying fragility. Consumer prices decreased in August, while factory-gate prices continued to shrink (-2.9%YoY in August), extending the longest run of declines since the pandemic. Trade figures also darken the picture. Export growth almost halved in August (4.4%YoY vs 8.0%YoY in July), marking the weakest print in six months, while imports rose by only 1.3%YoY, down from 4.8%YoY in the previous month. Exports to the US plunged by 33%YoY, while shipments to the EU rose 10% and to Africa 26%, underscoring the reorientation of trade flows under geopolitical pressure. Soft data offers scant comfort. The official manufacturing PMI slipped back into contraction at 49.8 in August, while the non-manufacturing index was barely expansionary at 50.1. The Caixin measures were somewhat firmer with manufacturing at 50.7 and services at 54.1, though the broader signal remains one of subdued rather than accelerating momentum. Looking ahead, China's principal challenges are clear: a structural property overhang, entrenched disinflation, weak corporate profitability and an external environment clouded by trade tensions with the United States. The economy is not stalling but it risks becoming trapped in a phase of middling expansion with vulnerabilities that policy alone cannot swiftly resolve.

Figure 5: Despite the drag of the property sector and the current deflation..



Source: Bloomberg, Eurobank Research

Figure 6: ..GDP growth holds firm, even though more moderate



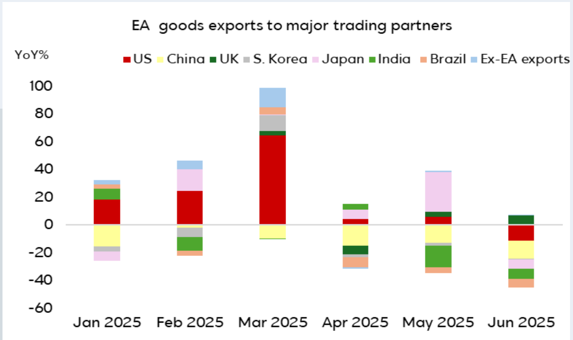
Source: Bloomberg, Eurobank Research

Euro area

Sluggish economic growth likely to persist in H2; disinflation progress intact

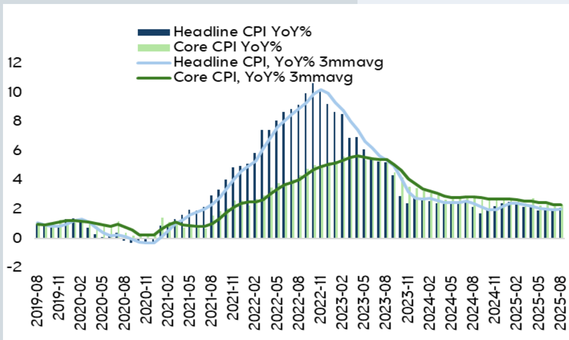
The impact of higher US tariffs on the Eurozone has so far been limited so far, largely cushioned by export front-loading in Q1 ahead of anticipated tariff increases from the US administration. The near-term outlook continues to suggest subdued, though still positive economic activity, with GDP growth in H2 projected to remain broadly unchanged from Q2, when output slowed to 0.1%QoQ after a sharp 0.6%QoQ expansion in Q1. Easier monetary policy conditions following a cumulative 200bps easing in ECB rates since July 2024 and ongoing disinflation, should continue to support domestic demand. However, caution prevails, as reflected in August's economic sentiment which dropped 0.3pts to a three-month low of 94.9, in contrast to the composite August PMI which unexpectedly improved (+0.2pts to 51.5). The EU/US trade deal has eased much of the tariff uncertainty, but risks remain, given the possibility that the deal could be revised should the US administration judge the balance of trade "unsatisfactory." Meanwhile, exports and investment are likely to remain under pressure from the Eurozone's increasingly challenging external environment. In June, ex-EA exports declined 0.2%MoM (+0.4%YoY), while imports rose by more than 3%MoM (+6.5%YoY), narrowing the trade surplus sharply to just €2.8bn from €15.6bn in May. The drop was mainly driven by a 15.4%MoM (-11.4%YoY) fall in exports to the US, bringing the Q2 monthly average to -17.4% after an average monthly gain of more than 20% in Q1. Some further reversal of the Q1 frontloading could continue in the months ahead. Meanwhile, industrial production fell 1.3%MoM in June led by a 10.5%MoM drop in the pharmaceutical sector. This followed a downwardly revised 1.1%MoM increase in May and a 2.5%MoM drop in April, leaving Q2 output averaging -0.3%QoQ after a solid 1.9%QoQ gain in Q1. Initial signs of an inventory cycle turn earlier this year appear to have been driven by US frontloading rather than a genuine cyclical recovery. Nevertheless, a significant downward impact on activity from US tariffs has yet to emerge, while deflation remains intact (August: headline CPI 2.1%YoY, core CPI 2.3%YoY). With monetary policy at neutral rates and the projected 2026 inflation undershoot viewed by the ECB as temporary, upcoming Eurozone data would need to indicate a pronounced downturn and a sustained undershooting of the 2% target to justify further rate cuts.

Figure 7: June trade data confirm continuing unwind of the Q1 export frontloading



Source: Eurostat, Eurobank Research

Figure 8: Headline CPI close to target, core momentum on a gradual downward trajectory



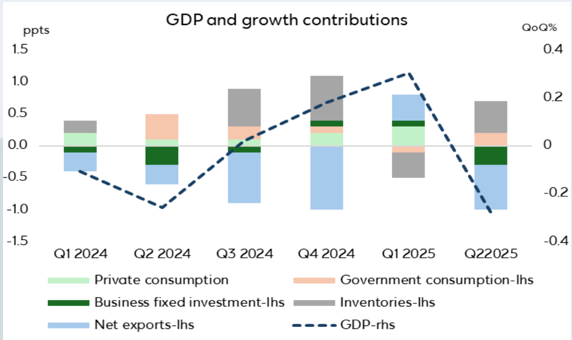
Source: Eurostat, Eurobank Research

Germany

Contracting again, but sentiment indicators point to brighter outlook

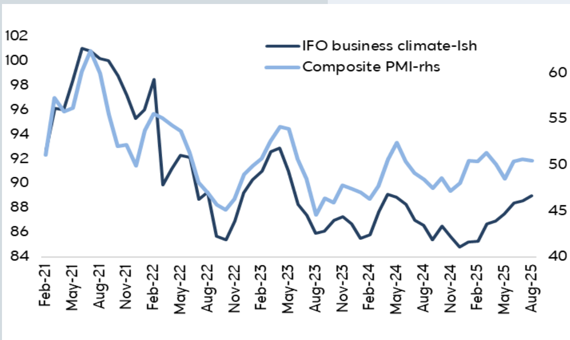
After a positive start to 2025 with GDP expanding 0.3%QoQ in Q1, economic output contracted 0.3%QoQ in the subsequent quarter. This marks a downward revision from the flash estimate of -0.1%QoQ, with the Federal Statistical Office highlighting weaker industrial production and construction as key factors for this revision. The largest drag on growth came from net trade (-0.7ppts) partially due to a reversal of frontloaded exports to the US earlier this year ahead of tariff increases. Business fixed investment also weighed on output (-0.3ppts), mainly on the back of a sharp drop in construction (-2.1%QoQ) amid ongoing trade policy uncertainty. On the positive side, inventories contributed to growth (+0.5ppts), along with domestic demand (+0.4ppts) which was driven by government spending as household consumption was subdued (+0.1%QoQ), failing to provide any uplift to overall GDP. However, a key drag on Q2 economic activity has eased. In late July, the EU and the US reached a trade agreement that alleviated some of the trade uncertainty, with the car tariff set to decrease from 27.5% to 15%, contingent on the removal of certain EU non-trade barriers. Meanwhile, the government coalition has committed to a significant fiscal stimulus, amounting to around 20% of GDP, set to be implemented by 2030, primarily directed towards defence (€500bn) and infrastructure (€300bn). However, tariffs remain higher than last year, and the stronger EUR — up nearly 6% so far this year on the effective exchange rate — poses a challenge for exports. Against this backdrop, economic activity is expected to improve, though gradually, likely starting in Q4, as the reversal of export frontloading may have further to run. Supporting a more optimistic growth outlook, the Ifo Business Climate Index has been on a steady upward trajectory throughout this year, reaching a more than two year high of 89 in August. Meanwhile, the composite PMI has remained in expansionary territory since the start of the year, except for May, and manufacturing is within touching distance of the 50 threshold (August: 49.8). Given the downward revision of GDP growth for 2023 and 2024, along with eased trade uncertainty, we now forecast 2025 GDP growth at 0.3%, up from 0.1% previously, and 1.0% for 2026, as a more expansionary fiscal policy should support broader economic activity.

Figure 9: Significant drag on Q2 GDP growth from net trade



Source: Destatis, Eurobank Research

Figure 10: Leading indicators point to improved growth prospects



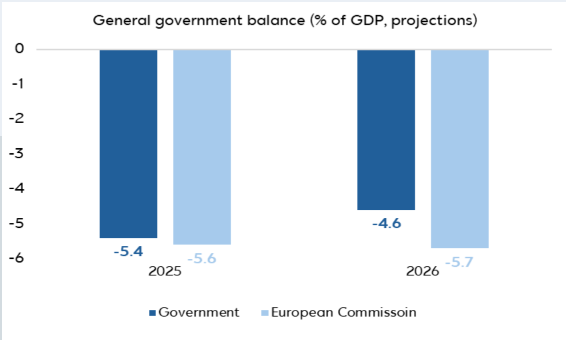
Source: Ifo, Bloomberg, Eurobank Research

France

Entering a new period of political uncertainty

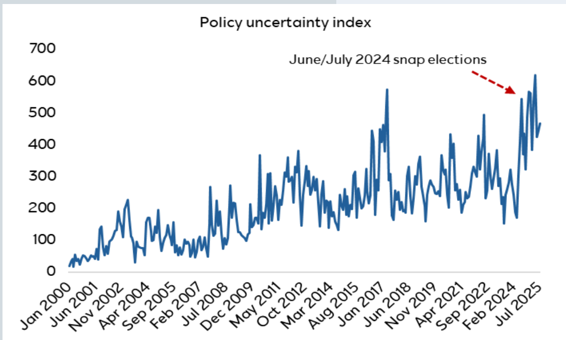
In a surprise move aimed at forcing other political parties to take a clear stance on the government's 2026 budget proposals, François Bayrou invoked Article 49.1 of the Constitution on 25 August and called for a confidence vote. His government had presented the main features of the 2026 budget in mid-July, which included fiscal measures totalling €43.8bn (1.4% of GDP), aimed at reducing the budget deficit to 4.6% of GDP from a projected 5.4% in 2025. Without policy changes, the government projected that the deficit could rise to 5.9%. The confidence vote was held on 8 September and, as anticipated, the government was defeated in the 574-seat National Assembly (3 seats currently vacant). A total of 364 MPs voted against the government, while only 194 supported it, indicating that some members of the centrist alliance— which holds 201 seats and was nominally aligned with Bayrou's government—broke ranks. Following the vote, Bayrou resigned the next day, and President Emmanuel Macron, facing pressure ahead of planned social protests, particularly on 10 and 18 September, quickly appointed Sébastien Lecornu—who has been minister of defence since 2022—as France's new prime minister. However, with ongoing political divisions and a lack of consensus on the budget, it remains uncertain whether the new prime minister will be able to break the deadlock and secure enough support to pass the 2026 budget by year-end. If this effort fails—since the new prime minister will also need to secure a confidence vote in the Assembly— Macron may be left with no choice but to dissolve the National Assembly and call snap elections, with recent polls showing the far-right National Rally (RN) currently leading. In any case, France is entering another period of political uncertainty, which raises the risk of fiscal slippage and potential sovereign credit rating downgrades. Major rating agencies are set to review France's sovereign credit rating soon, with Fitch being the first to do so on 12 September. Currently, Fitch assigns France a rating of AA- with a negative outlook. Political uncertainty is unlikely to have a significant impact on economic activity, given the already elevated uncertainty following the 2024 snap elections. That said, we still project GDP growth of 0.6% for 2025, before picking up to 0.9% in 2026, supported by spillover effects from Germany's fiscal expansion and increased EU defence spending.

Figure 11: The new period of policy uncertainty raises the risk of fiscal slippages



Source: European Commission, Eurobank Research

Figure 12: Policy uncertainty has remained high since the 2024 snap elections



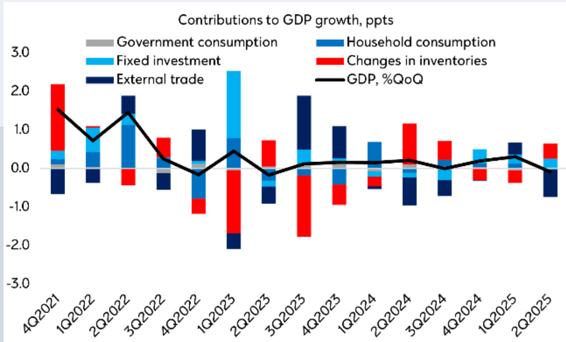
Source: Policy Uncertainty, Eurobank Research

Italy

Growth disappoints but fiscal outlook improves

GDP data showed a mild contraction in Q2, underscoring Italy's fragile growth momentum in a difficult external economic environment. The economy shrank by 0.1%QoQ after expanding 0.3%QoQ in Q1, when it was boosted by companies front-loading US imports before the imposition of higher tariffs. The subsequent 1.7%QoQ drop in Italian exports in Q2 was the main driver of the headline GDP contraction, with final consumption flat and gross fixed capital formation increasing 1.0%QoQ. Business surveys point to conditions remaining sluggish in Q3. Consumer confidence unexpectedly dropped to 96.2 in August from 97.2 the month before, with Istat's economic sentiment indicator remaining unchanged at 93.6. Against that, the manufacturing PMI unexpectedly edged slightly above the 50-threshold separating expansion from contraction, increasing 0.6pts to 50.4. However, the services PMI softened more than anticipated, falling 0.8pts to 51.5. The composite PMI crept up 0.2pts to 51.7. Labour market data also offered some relief, with the unemployment rate falling to 6.0% in July from 6.2% in June. The consensus forecast now sees GDP growth at 0.5% for 2025, which is slightly below the government's target of 0.6%, reiterated by Finance Minister Giancarlo Giorgetti this month.

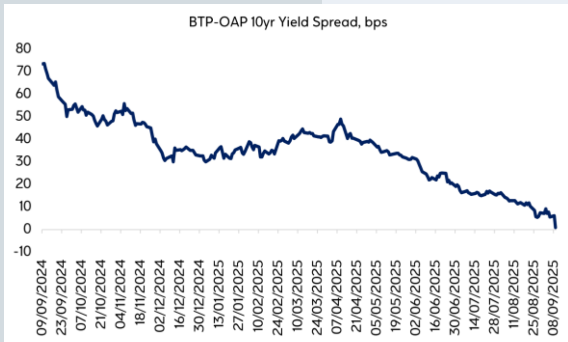
Figure 13: The Q2 deterioration in Italy's external trade balance drove its GDP contraction



Source: Bloomberg, Eurobank Research

The inflation backdrop remains benign, giving policymakers breathing space. Headline HICP growth stood at 1.7%YoY in June, with core rising 1.9%YoY, keeping Italy's inflation rate below the eurozone average. The IMF expects inflation to average 1.7% in 2025 before converging towards the ECB's 2% target in 2026, according to its most recent Article IV report, released in July. The report also praised Italy for returning to a primary fiscal surplus last year as the country's finances move closer to meeting EU requirements. While discussing the budget crisis in her native France, ECB President Christine Lagarde recently noted that Italy is near exiting the Excessive Deficit Procedure, with the budget deficit set to narrow to just slightly over 3% of GDP this year. Steady revenue growth and contained expenditure have supported this improvement, and Giorgetti this month said that the 2026 budget would require no new "sacrifices" from citizens in the form of remedial budget measures. That's led to continued reward from bond markets, with the 10yr BTP-Bund spread reaching a 15yr low of 77bps in August. And as France's budget headaches spelt the end of another government, the 10yr BTP-OAP spread narrowed to just 1bps as of September 9.

Figure 14: Italian 10yr bonds are on the brink of yielding less than their French counterparts

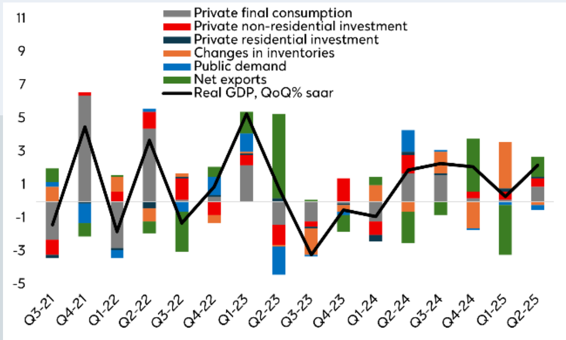


Source: Bloomberg, Eurobank Research

Japan

PM Ishiba resigns after election defeat, clouding policy outlook

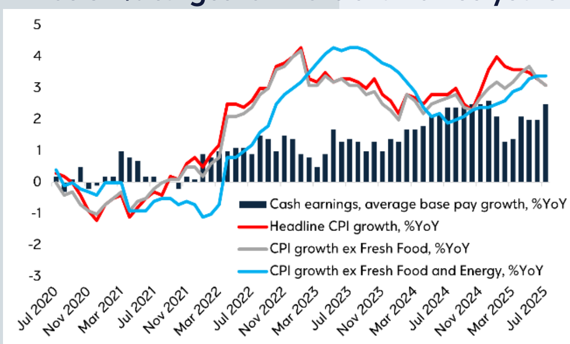
Figure 15: The political shock came after stronger-than-expected GDP figures in Q2



Source: Bloomberg, Eurobank Research

Politics once more take precedence over economic developments as the country finds itself seeking a new leader for the second time in less than a year. Prime Minister Shigeru Ishiba announced his resignation on September 7, following the ruling coalition's heavy defeat in the July 20 upper house election. The LDP–Komeito alliance lost its majority for the first time in decades, with the LDP's vote share dropping to a historic low of 21.6%. The writing was on the wall for Ishiba almost immediately after a calamitous start to his premiership. Upon succeeding Fumio Kishida as leader of the scandal-hit LDP in a hotly contested leadership election in September 2024, Ishiba immediately called snap elections for the lower house the following month to reinforce his mandate. Instead, the LDP-Komeito coalition, which has governed Japan almost continuously since 1955, lost its overall majority, leaving Ishiba hanging on by a thread throughout his year in office. The main thing keeping him in place – despite mounting internal dissent within the LDP – was the need for political stability domestically to deal with the fallout from the election of Donald Trump in the US, with much of Ishiba's 2025 agenda dominated by trade talks. However, following the coalition's dismal showing in July's upper house elections, Ishiba's party critics eventually forced his resignation. An LDP leadership contest is now set for October 4, with the field of potential successors again wide open. The current frontrunner is hard-line conservative Sanae Takaichi, who was narrowly defeated by Ishiba last time, and would become the country's first female prime minister. Takaichi is a disciple of former Prime Minister Shinzo Abe, and under her leadership the party is expected to move towards favouring looser fiscal spending and further monetary easing. Her likeliest rival is Shinjiro Koizumi, the son of former Prime Minister Junichiro Koizumi. The political shock comes after a stronger-than-expected economic performance in Q2. GDP grew 2.2%QoQ saar – after expanding 1%QoQ saar in the first three months of the year – with private consumption holding strong and counterbalancing the tariff-induced pain of falling exports to the US. Meanwhile, the government announced this month that it will raise Japan's minimum hourly wage by 6.3%. With the inflation rate remaining above the Bank of Japan's 2% target for more than three years, these developments support the central bank's aim to continue its hiking cycle.

Figure 16: Inflation has remaining above the BoJ's 2% target for more than three years



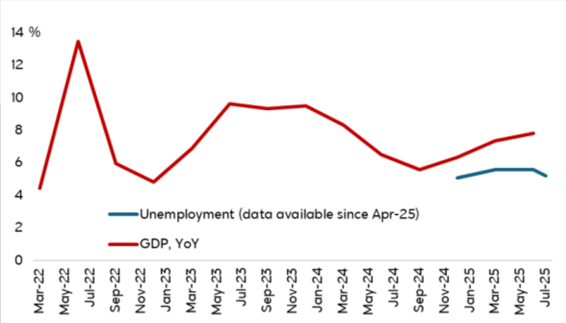
Source: Bloomberg, Eurobank Research

India

Sustaining growth in the face of trade headwinds

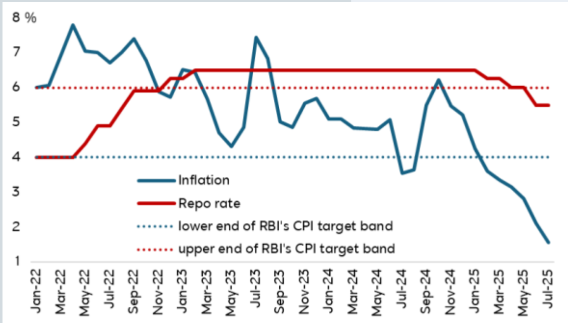
The economy continues to record robust growth, underpinned by domestic demand, though rising external pressures, particularly trade tensions with the US, pose a material risk to the outlook. In the first quarter of FY2025–26, GDP expanded by 7.8%YoY, surpassing both the 7.4%YoY print recorded in the previous quarter and the 6.5%YoY reading posted in the same period last year. This acceleration has been largely driven by strong performances in the manufacturing, construction and services sectors, reflecting continued resilience in domestic activity. Inflation remains subdued, providing the Reserve Bank of India (RBI) with policy flexibility. Consumer prices rose by 1.55%YoY in July, down from 2.10% in June, though seasonal factors are expected to push CPI closer to 2.0% in August. The moderation in inflation, combined with sustained credit growth, supports both household consumption and investment activity, sustaining overall economic momentum. The RBI, however, is likely to maintain a cautious approach to assess the full effects of previous rate cuts before taking further action. Trade dynamics have become increasingly challenging as exports face headwinds from US tariff measures with a 50% duty on certain Indian goods having taken effect since late August. In response, the Indian government has signalled relief measures for affected exporters and is seeking to diversify trading partners and strengthen domestic competitiveness, mitigating some of the downside risks to growth. Fiscal policy has been recalibrated through GST 2.0, a reform package aimed at stimulating household consumption and simplifying indirect taxation. The measures envisaged in the package are estimated to boost GDP growth by approximately 0.6ppts while preserving central government revenue through offsets such as the cessation of state compensation payments. Together with targeted infrastructure and social spending, GST 2.0 strengthens domestic demand and complements monetary policy support. In conclusion, India's economy in mid-2025 remains resilient with strong domestic consumption, investment, and policy support driving growth. Nevertheless, the combination of high US tariffs, external trade risks and fiscal vulnerabilities underscores the importance of coordinated policy interventions.

Figure 17: Sustained growth along with progress in monitoring unemployment



Source: Bloomberg, Eurobank Research

Figure 18: Inflation in lowest levels since 2017, monetary policy on a wait-and-see mode



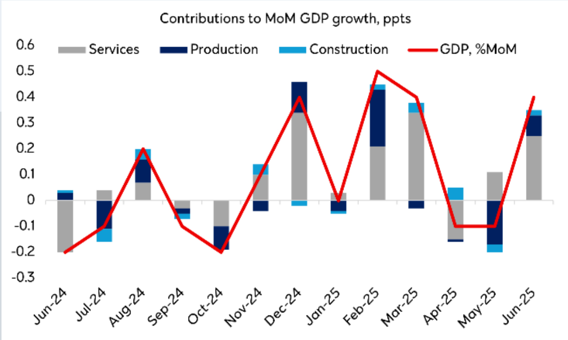
Source: Bloomberg, Eurobank Research

UK

Growth slows as borrowing costs surge and the PM reshuffles cabinet

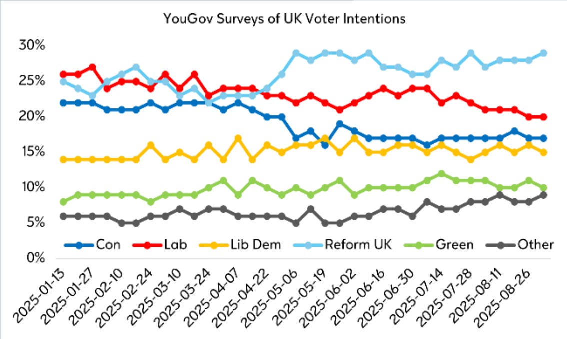
The UK economy lost some of its momentum in Q2, though it continues to outperform many other advanced economies and did better than the consensus expectation. GDP grew 0.3%QoQ after expanding 0.7%QoQ in Q1, with growth supported by services and construction activity. That beat the consensus forecast for a 0.1%QoQ increase, thanks to a strong finish to the quarter as economic activity increased 0.4%MoM in June after contracting in each of the previous two months. Consumption remained resilient in July, with retail sales increasing 0.6%MoM, which was less than the 0.9%MoM rise in June but 0.4ppts above the consensus estimate. While recent business survey data has been mixed overall, it does show a pickup in services activity, with the August services PMI increasing 0.6ppts to 54.2, when it had been expected to remain unchanged. That helped drive up the composite PMI to 53.5 from 53.0 in July. However, the manufacturing PMI remained in deeply contractionary territory, unexpectedly decreasing 0.3pts to 47.0. Meanwhile, inflation has continued to be stickier than policy makers anticipated, with headline CPI increasing 3.8%YoY in July, compared with 3.6%YoY in June and 0.1ppts above the consensus estimate. Core inflation also unexpectedly accelerated 0.1ppts to 3.8%YoY. That persistence has been behind the Bank of England taking a cautious approach to easing monetary policy, with its 25bp interest rate cut to 4.00% at its last policy meeting meeting in August viewed as relatively hawkish. As of September 9, futures market pricing implied only a 46% probability of further interest rates cuts this year. Price pressures notwithstanding, the macroeconomic backdrop has been calm compared to the combination of bond market volatility, which have seen long-term gilts under pressure with the 30yr yield reaching 5.69% in early September — its highest level since 1998 – and a torrid summer for the governing Labour party, which has seen its polling support slump behind Nigel Farage's right-wing populist Reform UK party. In the most recent political developments, Deputy PM Angela Rayner – who had been seen as a likely contender to replace PM Keir Starmer in the event of him being edged out – resigned after it emerged that she had underpaid stamp duty on a house purchase. The embattled finance minister, Rachel Reeves, managed to keep her job in the subsequent Cabinet reshuffle.

Figure 19: A strong rebound in services in June was behind Q2 GDP beating expectation



Source: ONS, Eurobank Research

Figure 20: A torrid summer for the government has seen Reform widen its lead in polls



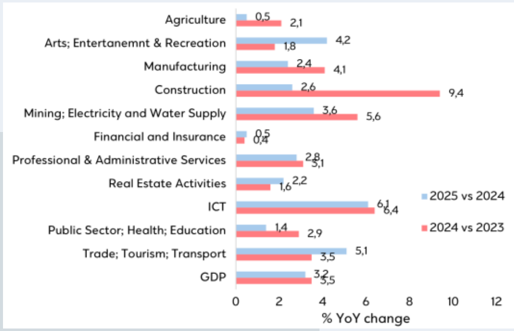
Source: YouGov, Eurobank Research

Cyprus

Resilient growth amid easing regional risks; credit expansion fuels recovery

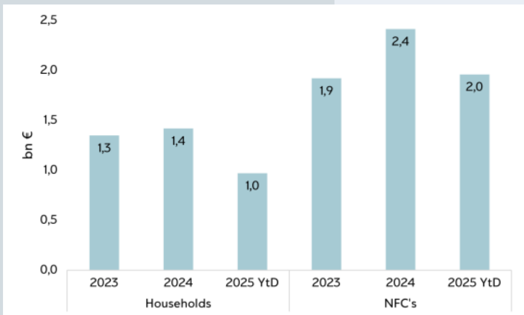
GDP growth accelerated to 3.3%YoY in Q2 2025 from 3.1%YoY in the previous quarter, leading to a solid H1 performance of 3.2%YoY. Momentum was driven primarily by strong performances in trade, tourism, transport and ICT, which all posted notable year-on-year gains. The gradual easing of geopolitical tensions has supported Cyprus's near-term economic outlook, as has the expected limited impact of wild-fires around Limassol in July. Broken down by expenditure components, services exports rose by 10.8%YoY in Q2 2025 (from 12.7%YoY in Q1), while investment activity surged by 17.7%YoY (compared with 19.2%YoY in Q1 2025). Growth of both imports and exports decelerated relative to Q1 2025, with exports increasing 5.5%YoY (from 9.0%YoY in Q1 2025) and import growth slowing to 6.8%YoY (from 7.5%YoY in Q1 2025). Private consumption remained subdued, though it improved compared to Q1 2025, increasing 2.8% (versus 1.7%YoY in Q1 2025 and 5.4%YoY in Q2 2024). Labour market conditions continued to strengthen, with unemployment on a downward trajectory, supported by sustained job creation across key sectors. The unemployment rate fell to 4.3% in Q2 2025, down from 4.6% in Q2 2024. This trend is consistent with registered unemployment data, which showed a 9.2%YoY decline over the January-August 2025 period, suggesting continued momentum and further improvements in the labour market ahead. Regarding short-term indicators, Cyprus experienced a marked deceleration in headline inflation to -0.1%YoY in August —the lowest since February 2021 — down from 0.1%YoY in July and 2.1%YoY in April. This is mainly driven by falling energy prices, which have dropped by 5.3%YoY year-to-date. This trend is expected to stabilize in the coming months as energy prices began their decline in September 2024. Overall, this disinflationary environment should help support real household incomes and ease business cost pressures for the remainder of the year. Demand for new loans to businesses in January-July 2025 approached 2024 levels, which had marked the strongest year in the past decade. Credit demand is anticipated to benefit not only from easing inflation but also from gradually falling lending rates and continued employment growth. New lending grew 57.8%YoY for non-financial corporations and 18.1%YoY for households in January-July 2025. In tourism, strong growth in travellers persisted in July (+6.9%YoY), lifting January-July 2025 arrivals by 10.4% compared to the same period in 2024, itself a record year.

Figure 21: Services lead H1 2025 growth; trade-tourism-transport and ICT outperform



Source: CYSTAT, Eurobank Research

Figure 22: 2025 YTD (January-July) new lending on track to surpass 2024, reach new all-time high

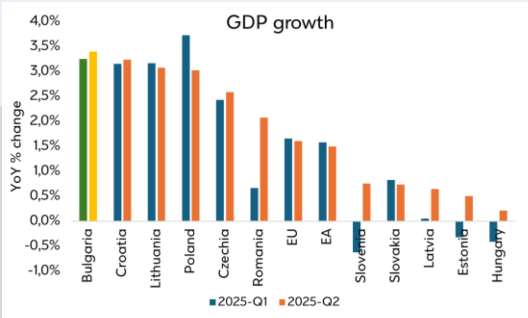


Source: Central Bank of Cyprus, Eurobank Research

Bulgaria

Inflationary and fiscal challenges resurface amid robust growth momentum

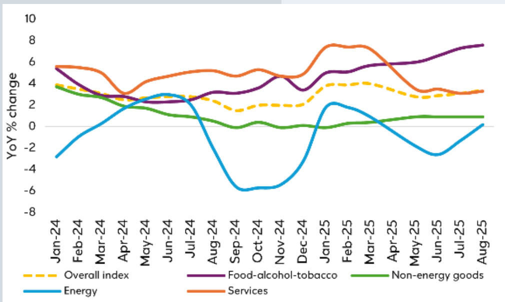
Figure 23: Bulgaria's growth performance outpaced all regional peers in Q2



Source: Eurostat, Eurobank Research

Resilient economic growth continued in Q2, with GDP expanding by 3.4%YoY, marginally outpacing the 3.3%YoY pace recorded in Q1. The acceleration was driven entirely by robust domestic consumption, as household spending posted strong growth at 6.8%YoY and government consumption surged by 14.4%YoY. By contrast, gross capital formation fell mildly, by 1.3%YoY, and net exports deteriorated, as imports stagnated (+0.1%YoY), and exports contracted (-4.8%YoY). The sharp rise in household consumption reflects a confluence of favourable conditions in Q2: unemployment fell to 3.6%, from 3.9% in the previous quarter, rapid wage growth continued (+12.0%YoY, up from 11.1%YoY in Q1), as well as strong consumer credit expansion (+14.0%YoY). These factors are expected to support domestic disposable income and household spending also in the second half of 2025. The 5.3%YoY increase in retail trade volume in July (vs. 5.9%YoY growth in Q2), is a first indication of the sustained momentum in early Q3. On the other hand, price speculation related to the upcoming currency transition to the euro could undermine real income growth in the period ahead. Inflation accelerated in May-July, to 3.4%YoY from 2.8%YoY in April, though it remains below early-2025 levels (3.8%–4.0%). The uptick in inflation was primarily driven by energy (+2.0 ppts) and food prices (+1.6 ppts). As was mentioned in our previous issue, following the publication of the EC and ECB assessments supporting Bulgaria's eurozone entry on June 4, the National Revenue Agency identified broad-based price increases — 5% to 40% — across 14 food categories within just two weeks. In response, legislative amendments to the euro adoption law were passed in August, introducing enhanced price monitoring measures through July 2026. Notably, the revised framework empowers the Council of Ministers to implement anti-speculation measures targeting essential goods and services without parliamentary approval. The effectiveness of these controls will be closely monitored in the next months. The sovereign rating upgrades by Standard & Poor's and Fitch after the positive eurozone accession assessments, to BBB+ from BBB, with a stable outlook by both, will contribute to the improvement of investor confidence and lower financing costs. Also on the fiscal front, the state budget deficit widened significantly over the January-July period, by 37.3%YoY, against a 9.7% full-year target increase. The slippage stems largely from underperformance in tax revenues, which grew 17.7%YoY, falling short of the ambitious 25% annual target.

Figure 24: Food and energy price rises stall disinflation



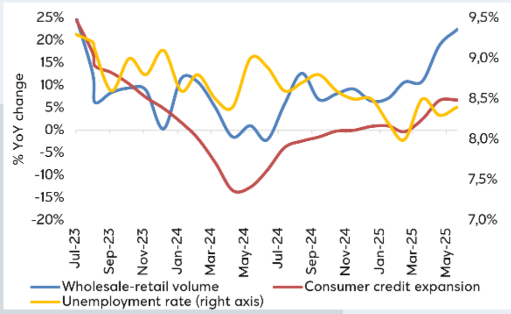
Source: Eurostat, Eurobank Research

Turkey

GDP growth rebounds in Q2, partly driven by transient factors

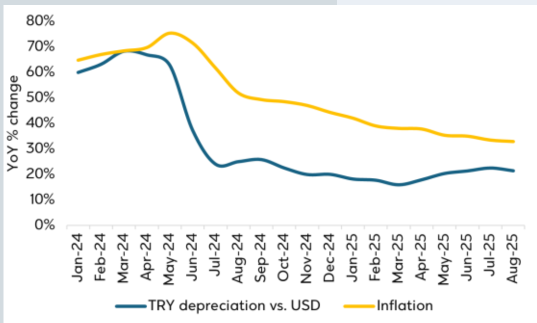
GDP growth surprised to the upside in Q2 2025, with the seasonally unadjusted quarterly expansion reaching 4.8%, well above the 4.1% consensus forecast from the Reuters poll. On a seasonally adjusted annual basis, growth accelerated to 4.4%, from 2.3% in Q1. The upside surprise was largely driven by a sharp rebound in gross fixed capital formation, which rose 8.8%YoY (vs. +1.7%YoY in Q1), and a pickup in household consumption, which rose 4.5%YoY (vs. +2.7%YoY in Q1). By contrast, government consumption contracted by 4.3%YoY, against a 1.5%YoY increase in the prior quarter. Net exports deteriorated for another quarter, as imports grew by 6.7%YoY, while exports rose only 1.7%YoY. The surge in fixed investment was mainly due to an 11.6%YoY increase in construction work and, secondly, to higher investment in machinery and equipment (+9.3%YoY). The former rise is highly correlated with the very strong rebound in the number of dwelling permits in Q2 (+81.3%YoY), following five quarters of steep declines. The momentum was driven by mass housing initiatives led by the state housing agency, aimed at accelerating reconstruction in provinces affected by the February 2023 earthquake. However, this pace is unlikely to be sustained in H2, as the underlying fiscal support is expected to unwind. The acceleration in household consumption is less intuitive, given still-elevated inflation and softening labour market dynamics. Inflation moderated slightly to 36.1%YoY in Q2, from 39.8%YoY in Q1 and 46.7%YoY in Q4 2024, while unemployment edged up to 8.4% from 8.2%. A likely contributor to stronger consumption was the return of real consumer credit growth, for the first time since Q2 2024, reaching 5.3%YoY. If the July uptick in consumer credit expansion (to 9.8%YoY) and the decline in unemployment (to 8.0%) prove durable, household spending could remain resilient into Q3. However, no support is expected from developments in inflation, as it only edged down to 33.0%YoY in August from 35.4%YoY in June, due to increases in administratively determined prices and renewed currency weakness. Political tensions — particularly the arrest of Istanbul Mayor Ekrem İmamoğlu in mid-March and a broader crackdown on the opposition — have exacerbated investor concerns, leading to faster lira depreciation. Indicatively, the lira lost 22.0%YoY vs. the USD in July–August, up from 17.3%YoY in Q1, which is expected to further strain the trade balance (Q2 deficit: +604.9%YoY).

Figure 25: With unemployment rising in Q2, consumer credit fuelled household spending



Source: Central Bank of Turkey, Turkstat, Eurobank Research

Figure 26: The lira (TRY) depreciation since March slowed down the pace of disinflation

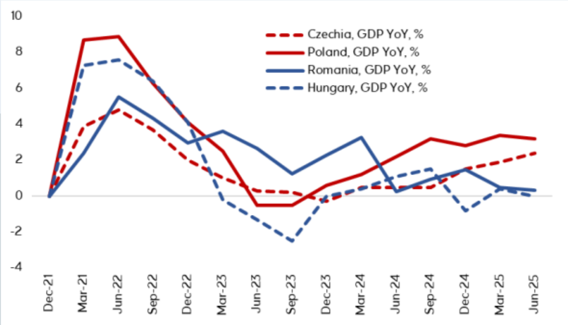


Source: Central Bank of Turkey, Turkstat,, Eurobank Research

CESEE

Uneven growth, fiscal strains and policy dilemmas

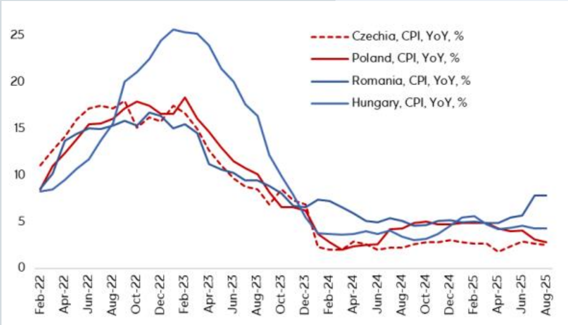
Figure 27: Divergent paths in growth as of H1 2025 between the four biggest economies..



Source: Bloomberg, Eurobank Research

The economic landscape of Poland, Romania, Czechia and Hungary — the four largest economies in Central Europe — underscores widening divergences in performance across the region. Recent data indicate that Poland and Czechia continue to exhibit relative resilience, while Romania and Hungary face persistent macroeconomic and policy challenges. Although all four economies maintain investment-grade status, fiscal pressures, structural weaknesses and political frictions keep their outlooks fragile. In Poland, Q2 GDP rose by 3.4%YoY, up from 3.2% in Q1, bringing average growth for H1 2025 to 3.3%YoY. This expansion has been supported by robust household consumption and a gradual revival of EU-financed investment. Inflation eased further to 2.8%YoY in August, the lowest in years, underpinning the National Bank of Poland's rationale for two interest rate cuts in July and September. However, fiscal risks remain pronounced with the budget deficit projected to approach 7% of GDP in 2025. That said, in August, Fitch revised Poland's outlook to negative, reflecting growing concern over public finance prospects. Czechia has also delivered relatively stable performance. GDP expanded by 2.6%YoY in Q2, a notable acceleration from Q1, signalling recovery after last year's contraction. Exports and improving domestic demand provided key support. Inflation declined to 2.6%, enabling the Czech National Bank to begin a cautious easing cycle, although forward guidance remains conservative. By contrast, Romania's conditions have deteriorated over the summer. GDP growth remains weak, rising just 0.3%YoY in Q2, as contracting investment offset resilient consumption. Inflation accelerated to 7.8%YoY in July, prompting the National Bank of Romania to maintain the policy rate at 6.5%, delaying any easing. Fiscal vulnerabilities remain pronounced, with the deficit projected above 7% of GDP next year. Rating agencies continue to place Romania at the lowest investment-grade tier with negative outlooks. In Hungary, Q2 GDP rose by only 0.1%YoY, confirming stagnation. Investment slumped, industrial production remained subdued and only household consumption offered limited support. Growth forecasts for 2025 have been revised down to 1.0%, the lowest in the region. Inflation stabilized at 4.3% in August but remains above target, prompting the National Bank of Hungary to hold the policy rate at 6.5%.

Figure 28:..mirrored in the same way on the inflationary front as well



Source: Bloomberg, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f
World	3.3	2.8	2.9	5.4	3.8	3.5									
Advanced Economies															
USA	2.8	1.6	1.7	3.0	2.8	2.8	4.0	4.3	4.4	-4.1	-4.5	-3.9	-6.9	-6.3	-6.5
Eurozone	0.9	1.1	1.2	2.4	2.1	1.9	6.4	6.3	6.3	2.6	2.5	2.2	-3.1	-3.3	-3.4
Germany	-0.5	0.3	1.0	2.5	2.1	2.0	6.0	6.3	6.3	5.6	5.4	4.9	-2.8	-3.1	-3.7
France	1.2	0.6	0.9	2.3	1.1	1.7	7.3	7.4	7.5	-0.2	0.2	-0.2	-5.8	-5.6	-5.4
Periphery															
Cyprus	3.4	3.2	3.3	2.3	1.3	1.9	4.9	4.5	4.2	-8.3	-8.8	-7.8	4.3	4.1	3.9
Italy	0.7	0.5	0.8	1.1	1.8	1.6	6.6	6.3	6.3	1.1	1.0	1.1	-3.4	-3.3	-3.0
Portugal	1.9	1.7	1.9	2.7	2.2	2.0	6.4	6.4	6.3	2.1	1.5	1.3	0.7	0.2	0.0
Spain	3.2	2.5	2.0	2.9	2.4	2.0	11.4	10.6	10.3	3.1	2.6	2.5	-3.2	-2.9	-2.7
UK	1.1	1.2	1.1	2.5	3.3	2.5	4.3	4.7	4.8	-2.7	-2.8	-2.7	-5.1	-4.3	-3.7
Japan	0.1	1.0	0.7	2.7	3.0	1.8	2.5	2.5	2.5	4.8	4.6	4.5	-2.2	-3.4	-3.3
Emerging Economies															
BRIC															
Brazil	3.4	2.2	1.7	4.4	5.1	4.3	6.8	6.2	6.8	-2.7	-2.9	-2.7	-8.5	-8.3	-8.0
China	5.0	4.7	4.2	0.2	0.1	0.9	5.1	5.1	5.1	2.3	2.0	1.5	-4.8	-5.6	-5.7
India	6.4	6.2	6.3	4.6	4.2	4.1	4.9	4.9	4.9	-0.8	-1.0	-1.3	-4.8	-4.4	-4.4
Russia	4.3	1.3	1.4	8.4	9.1	5.6	2.5	2.4	2.7	2.9	2.2	2.1	-1.7	-1.9	-1.5
CESEE															
Bulgaria	2.8	3.2	3.4	2.4	3.5	2.7	4.2	3.6	3.3	-1.8	-2.4	-1.5	-3.0	-4.0	-2.6
Turkey	3.2	2.5	3.1	58.5	34.2	24.7	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	September 2025	December 2025	March 2026	June 2026
USA					
Fed Funds Rate	4.25-4.5%	4.02-4.27%	3.72-3.97%	3.5-3.75%	3.29-3.54%
3m SOFR	4.056%	4.13%	3.88%	3.66%	3.49%
2yr Notes	3.55%	3.74%	3.63%	3.53%	3.46%
10yr Bonds	4.0846%	4.28%	4.23%	4.18%	4.16%
Eurozone					
Refi Rate	2.15%	2.04%	1.97%	1.96%	1.96%
3m Euribor	2.029%	1.86%	1.81%	1.82%	1.84%
2yr Bunds	1.9389%	1.84%	1.84%	1.9%	1.96%
10yr Bunds	2.6583%	2.62%	2.68%	2.75%	2.81%
UK					
Repo Rate	4%	3.99%	3.79%	3.57%	3.4%
3m Sonia	3.9635%	3.95%	3.78%	3.63%	3.48%
10-yr Gilt	4.6222%	4.46%	4.33%	4.3%	4.24%
Switzerland					
3m Saron	0.00%	-0.08%	-0.09%	-0.07%	-0.07%
10-yr Bond	0.21%	0.41%	0.43%	0.46%	0.50%

Source: Bloomberg (market implied forecasts)

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