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The still-fragile US-Iran interim agreement has lowered the risk of a prolonged Middle East conflict and a more severe global energy shock, thereby easing stagflation concerns. However, the disinflationary impulse from the recent drop in oil prices may be partly offset by delayed pass-through to underlying inflation from nearly four months of elevated energy prices and wider supply chain pressures. Although energy prices have returned to pre-war levels, inflation may therefore remain above major central banks' targets for some time. The reopening of the Strait of Hormuz has reduced the likelihood of aggressive rate tightening, but markets are still pricing in less accommodative monetary-policy paths than had been expected before the conflict began.

Macro Picture

USA: stronger GDP growth in Q1, but underlying domestic demand is gradually decelerating

EA: lower energy prices should support domestic demand in H2, price pressures ease

China: export growth remains robust as domestic demand softens

CESEE: as external pressures ease, domestic fundamentals are driving regional performance

Markets

FX: Fed's clearly hawkish shift at Warsh's first meeting as chair gave the USD a strong boost

Rates: EUR rates rallied on easing inflation risk, while USD bear-flattened on hawkish Fed

EM: sovereign spreads were broadly stable during the month; performance across regions mixed

Credit: performed well in June, with both cash and synthetics tightening slightly

Policy Outlook

USA: Fed's hawkish shift at the June meeting increases risks of a 25bps rate hike by year-end

EA: ECB delivered first rate hike since Sept. 2023, while keeping data-dependent policy approach

Japan: BoJ increased rate 25bps to 1.0% in 7-1 vote, with another hike priced in by year-end

CESEE: policy rates reflect diverging inflation dynamics across the region

Key Downside Risks

DM & EM: peace talks falter and Strait of Hormuz gets blocked again; oil and gas production facilities in the Middle East take long to resume pre-war production levels; more conflicts arise elsewhere; pipeline price pressures drive further inflation, which becomes entrenched through second-round effects; sharply tighter global financial conditions; abrupt repricing in AI-related stocks; reescalation of trade tensions; more extensive risk repricing in financial markets

Contributing Authors:

Marcus Bensasson
Research Economist
mbensasson@eurobank.gr

Maria Kasola
Research Economist
mkasola@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

Michail Vassileiadis
Research Economist
mvassileiadis@eurobank.gr

Dr. Konstantinos Vrachimis
Research Economist
k.vrachimis@eurobank.cy

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

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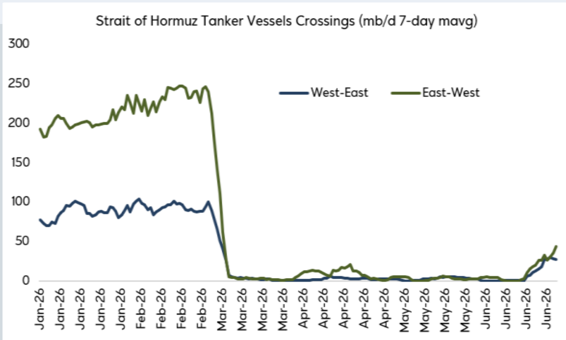
Macro Views

US-Iran MoU eases stagflation risks, but persistent inflation pressures keep major CBs on guard

After nearly four months of heightened tensions in the Middle East, the US and Iran signed a Memorandum of Understanding (MoU) in mid-June, setting out a 14-point interim framework aimed at ending military operations across all fronts, including Lebanon. The agreement provides for the lifting of the US naval blockade, the reopening of the Strait of Hormuz following the completion of mine-clearance operations, and the establishment of a reconstruction fund for Iran. It also introduces a 60-day ceasefire period, with the possibility of extension, to allow for a second round of negotiations. These talks are expected to focus primarily on Iran's nuclear program, sanctions relief, the long-term operating regime of the Strait of Hormuz — including whether transit will remain free of charge or become subject to administrative fees — and broader regional security arrangements. The ultimate objective is to reach a comprehensive and binding agreement.

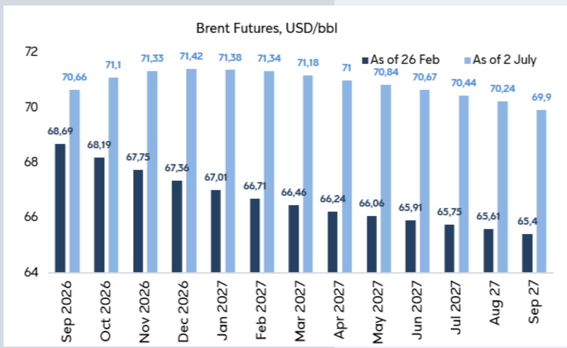
Figure 1: Navigation through the Strait re-sumes, but needs time to hit pre-war levels



Source: Bloomberg, Eurobank Research

The path towards a durable settlement remains challenging, as several critical technical and political issues need to be resolved. Nevertheless, while still fragile, the interim agreement has eased some of the key headwinds facing the global economy, which has so far proved more resilient to the energy supply shock than initially expected. This resilience has been supported by positive pre-conflict growth momentum, despite a global environment still marked by elevated uncertainty, increased investment linked to artificial intelligence, the use of oil inventories to cushion the energy shock, lower energy intensity in power generation owing to the larger share of renewables and continued improvements in energy efficiency.

Figure 2: Brent oil price: Late February vs. early July Forecast



Source: Bloomberg, Eurobank Research

The reopening of the Strait of Hormuz and the gradual restoration of maritime oil flows should significantly reduce the risk of further conflict escalation. This is particularly important against a backdrop of tight inventories, where a return to hostilities could quickly reignite energy price pressures and place renewed strain on global supply chains. In the absence of renewed supply disruptions, and provided the interim agreement holds, the upward pressure on headline inflation should start to ease, as the steep decline in oil prices feeds through to lower energy inflation and mitigates some of the adverse impact on growth. As a result, the probability of a more prolonged-conflict scenario, which could have intensified stagflationary pressures, has declined. In response to the interim agreement and the gradual resumption of navigation through the Strait of Hormuz, front-month Brent crude futures fell back to around end-February levels, near $70/bbl, while 6-month and 12-month-ahead contracts have also moved close to spot levels, leaving the forward curve relatively flat.

That said, even if the recent agreement holds and the Strait remains open, a full restoration of navigation, energy flows and regional production to pre-war levels — assuming this ultimately proves feasible — will be gradual and could take several weeks, if not months. Some of the disruptions to energy markets and supply chains triggered by the initial energy shock are therefore likely to persist. This is because the normalisation process remains complex and depends on the completion of demining operations, the decline in insurance premia, the restoration of confidence in maritime transport until conditions of durable stability are established, the clearance of vessels still awaiting transit, and repairs to ports and energy infrastructure. Iran may also seek to impose transit or administrative fees once the 60-day MoU period comes to an end.

At the same time, net energy-importing countries may seek to rebuild inventories to higher levels than in the past in order to insure against the risk of a renewed energy crisis, particularly given concerns over a possible collapse of the MoU or a failure to reach a comprehensive and lasting agreement. In parallel, the significant depletion of oil and oil-product inventories over recent months means that the need to replenish stocks is likely to keep oil demand above pre-conflict levels. Moreover, after nearly four months of elevated energy prices and broader supply-chain pressures, pipeline price pressures continue to build beyond energy markets. These cost increases are likely to be passed through gradually to final prices, adding upward pressure to non-energy goods and services inflation, keeping underlying inflation firm in the coming quarters. The disinflationary impulse from lower oil prices could therefore be partly offset by delayed indirect effects from the earlier energy shock. Their magnitude could also prove stronger than currently expected if lower energy prices and reduced geopolitical uncertainty strengthen domestic demand Overall, despite the decline in energy prices, concerns remain that inflation could stay above the 2% target for some time.

The risk of further indirect energy pass-through into underlying inflation, together with the possibility of less well-anchored inflation expectations and still-resilient global growth, is likely to keep major central banks on guard. As a result, while the reopening of the Hormuz has reduced the probability of aggressive rate tightening, markets continue to price in less accommodative monetary-policy paths than had been expected before the onset of the Middle East conflict.

Developed Economies

US: the third estimate of Q1 GDP points to a mixed picture for the economy, with stronger headline growth but softer underlying domestic demand, mainly due to consumer spending growth which was revised down to just 0.5%QoQ saar, as higher gasoline prices squeezed households' real purchasing power. Looking ahead, lower energy prices should support consumer spending, although slowing labour income growth points to moderating purchasing power. On inflation, headline PCE rose again in May, to 4.1%YoY, while core PCE edged up to 3.4%YoY, above the Fed's 2% target. However, the impact of higher tariffs on inflation is expected to start fading before year-end. Although some price pressures remain in the pipeline, the recent decline in energy prices should further help limit the upside. Long-term inflation expectations remain well-anchored, while wage growth has moderated, suggesting limited risk of second-round effects from the earlier energy-price spike. Against this backdrop, the Fed appears likely to remain on hold in the coming months. Nevertheless, the risk of a 25bp rate hike before year-end has increased following the hawkish shift in the Fed's dot plot at the June meeting, particularly if inflation proves stickier than expected.

Euro area: the latest national accounts data suggest that underlying growth was already weak heading into the Middle East conflict, although the headline figure was heavily distorted by Ireland. Incoming data for Q2 have been mixed, but overall point to still subdued underlying growth momentum. Looking into H2, lower energy prices and reduced geopolitical uncertainty should support domestic demand. Reflecting the impact of lower energy prices, HICP inflation eased 0.4ppts to 2.8%YoY in June, while lower food inflation also contributed to the decline. Core inflation also fell (-0.2ppts to 2.4%YoY) as services inflation eased, pointing to a lack of significant indirect effects from the energy shock feeding through to consumer prices. However, there is still uncertainty about the inflation outlook as the US/Iran agreement remains fragile and pipeline price pressures built up over the crisis are still present. Overall, the risk of inflation remaining above the ECB's 2% target for longer has not disappeared. As such, some further ECB tightening following the 25bps rate hike at its June 10-11 policy meeting, cannot be ruled out. However, anchored long-term inflation expectations and the absence of second-round inflation effects in wage indicators should argue for a measured policy response, rather than aggressive rate adjustment.

Emerging Economies

EM: the macroeconomic outlook across emerging markets is becoming increasingly differentiated, as country-specific fundamentals play a larger role in shaping growth prospects and investor sentiment. The easing of global inflationary pressures has reduced pressure on central banks, allowing policymakers in several economies to adopt a more accommodative policy stance while preserving macroeconomic stability. Asia remains the principal engine of emerging market growth. India continues to outperform its peers, supported by strong domestic demand, favourable structural fundamentals and improving external balances, despite lingering pressures on the rupee. China, by contrast, continues to face structural challenges, including subdued household consumption and a prolonged property market adjustment, limiting the contribution of domestic activity to economic growth. Overall, emerging markets continue to display resilience despite an increasingly uncertain global environment. As inflation risks gradually recede, relative macroeconomic performance is expected to be driven less by common external shocks and more by domestic policy credibility, structural reform momentum and exposure to long-term growth sectors.

CESEE: macroeconomic conditions are becoming increasingly differentiated, as inflation dynamics, fiscal positions and domestic demand evolve at different speeds. While disinflation has progressed across much of the region, central banks remain cautious as they balance imported inflation risks against moderating growth. Hungary has emerged as the most dovish economy, with easing inflation allowing the National Bank of Hungary to begin lowering interest rates and signalling further easing ahead. Poland presents a more balanced outlook, with inflation returning to target but persistent core price pressures prompting the central bank to maintain a wait-and-see approach. Czechia continues to exhibit the strongest macroeconomic fundamentals, supported by resilient manufacturing activity and inflation close to target, although the Czech National Bank has retained a hawkish stance to prevent inflation expectations from becoming entrenched. Romania remains the region's principal source of macroeconomic vulnerability, combining double-digit inflation with restrictive monetary policy, ongoing fiscal challenges and prolonged political uncertainty, which continues to weigh on investor confidence and reform momentum. Overall, the CEE region enters the second half of 2026 with increasingly differentiated policy paths. As external shocks gradually recede, domestic policy credibility, fiscal discipline and inflation management are becoming the principal drivers of regional macroeconomic performance.

Markets View

Foreign Exchange

EUR/USD: fell ~1.9% in June, from 1.1631 to 1.1409, as the Fed's clear hawkish shift at Kevin Warsh's first meeting as Chair, gave the dollar a strong boost and prompted a broad reassessment of the US rate outlook. The policy divergence narrative deepened through the month as the Fed's dot plot signalled growing support for higher rates — pushing investors to reassess long-euro positions and shift flows decisively toward the dollar. The euro's sharpest move lower came around June 22–23, when German and French PMIs both contracted and ECB President Lagarde did not send a strong signal for further rate tightening at the June policy meeting, sending the pair to a one-year low near 1.1386 and prompting JPMorgan, Morgan Stanley and BNY Mellon to abandon their bullish euro calls, with some now targeting a move toward 1.10.

USD/CHF: the pair rose ~2.9% over June, from 0.7867 to 0.8091, as broad dollar strength — fuelled by the Fed's hawkish pivot and the dollar's role as a sanctuary from geopolitical risk — overwhelmed the franc's safe-haven appeal. The SNB held rates at zero for a fourth consecutive meeting and reiterated its heightened willingness to intervene, while data released on June 30 confirmed it had already sold CHF 3.9 billion in Q1 to cap the franc's surge at the outbreak of the Iran war. The franc did recover some ground in the final week of June as Strait of Hormuz tensions briefly flared again and Fed hike expectations cooled slightly, limiting further USD/CHF upside into month-end.

Rates

EU: rates rallied across the curve in June as the energy-inflation premium that had dominated since February unwound on a decisive Middle East de-escalation. The US and Iran signed a memorandum of understanding on 17 June to end nearly four months of war and reopen the Strait of Hormuz, setting up a 60-day window to negotiate a permanent deal; Brent collapsed toward ~$73 by month-end, almost 40% off its April peak of $118, with only a brief wobble around 18–19 June as Geneva talks were abruptly postponed and vessels were struck in the strait. Against this backdrop, the ECB delivered its first hike since 2023 on 11 June, lifting the deposit rate to 2.25%, but the move was fully priced in and Lagarde declined to pre-commit to a path, while softer growth (staff cut the 2026 GDP growth forecast to 0.8%) left the market comfortable fading the tightening premium. Swaps closed lower, belly-led: 2y at 2.71% (-10bps), 5y at 2.73% (-11bps), 10y at 2.91% (-13bps) and 30y 3.08% (-10bps). The 2s10s bull-flattened modestly (-3bps to 20bps) with the long end steepening (10s30s +3bps), while vol collapsed (3m5y -12.6, 3m10y -7.9 vols) as tail risk drained out. Looking ahead, direction hinges on whether the energy price relief holds against still-sticky core inflation (May core HICP +2.5%).

US: rates bear-flattened aggressively in June, decoupling from the oil rally as a hawkish Fed transition took over the front end. At Warsh's first meeting on 17 June the FOMC held at 3.50–3.75% by a unanimous 12-0 vote, but the dot plot flipped hawkish — the 2026 median rose to imply a hike, and 17 of 18 officials judged inflation risks tilted to the upside; nine of eighteen projected at least one hike this year. With May headline CPI rising 4.2%YoY, the statement dropped forward guidance, and the 2y sold off ~14bps on the day. Over the month SOFR closed 2y 4.01% (+13bps) and 5y 3.92% (+5bps), while 10y was flat (4.04%) and 30y richened (4.21%, -3bps) as oil relief and stable real rates anchored the long end. The result was an aggressive bear-flattening: 2s10s collapsed to ~2.5bps (-14bps) and 5s30s -8bps. Unlike EUR, vol stayed sticky (3m5y -0.8, 3m30y +1.7) with Fed-path uncertainty intact, and the transatlantic spread widened sharply (USD–EUR 5y +10bps, 10y +7bps to 134bps). Looking forward, US rates remain hostage to the inflation trajectory and Warsh's reaction function; a hold is the near-term base case, with risk skewed toward a hike into year-end.

Emerging Markets Sovereign Credit

EM hard currency sovereign bonds had a broadly stable month in June amid lower volatility. A shift towards a more hawkish tone in Fed rhetoric weighed negatively on EM spreads, offsetting the positive impact of a significant decline in oil prices. The EMBI Global Index traded within a narrow 10bp range, ending the month almost unchanged at 217bps. South Africa outperformed the broader EM space, with 10y USD bonds tightening 10bps in ASW terms to close the period at 212bps. In CEE, Hungary and Poland maintained their positive momentum, with 10y EUR-denominated ASW spreads tightening 7bps to settle at 95bps and 5bps to end the month at 50bps, respectively. By contrast, 10y EUR-denominated Bulgarian and Romanian bonds weakened amid mounting fiscal concerns, with Bulgaria widening 8bps in ASW to close at 95bps and Romania widening 4bps to close at 257bps. In MENA, sentiment turned negative, with 10y USD-denominated bonds of Saudi Arabia and Qatar widening 5bps and 7bps to settle at 105bps and 70bps, respectively. In Asia, Indonesia showed signs of stabilization, with its 10y USD bonds closing marginally wider by 2bps at 140bps. In LatAm, Chile remained the regional outperformer, with 10y USD bonds tightening 3bps in ASW to close at 95bps, while Mexico's 10y USD bonds closed unchanged in ASW at 195bps. We maintain a neutral stance at current levels, as valuations remain rich while a more hawkish Fed could weigh negatively on the sector going forward.

Corporate Credit

June was dominated by progress on the Iran front, with a US-Iran interim deal signed and the naval blockade lifted. Oil fell sharply, with Brent ending the month at $72.92/bbl, close to pre-conflict levels, though the situation remains fluid and a full resolution is not yet in place. The drop in oil prices eased stagflation fears and supported a broad risk rally, with equities posting a strong quarter overall. The S&P 500 returned +15.2% in Q2, its best since Q2 2020, led by semiconductors and AI infrastructure names. June itself was softer for US equities, with the S&P down -1.1% and the NASDAQ -0.2% on the month as tech came under pressure. Europe held up better, with the STOXX 600 adding +2.7% in June.

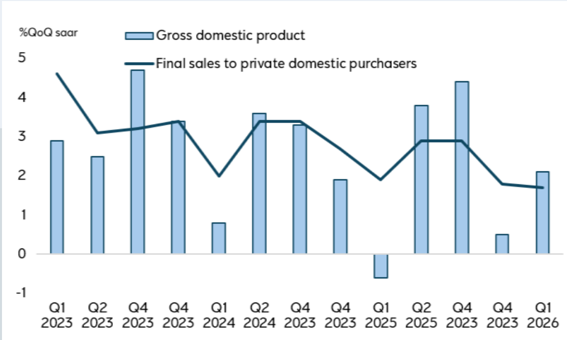
Central banks moved in a hawkish direction through the quarter as economic data held up. The first FOMC under Kevin Warsh leaned hawkish, with half of the 18 officials (Warsh did not submit SEP forecasts) pencilling in a hike for 2026, and year-end Fed pricing shifted from 7bps of cuts to 38bps of tightening over the quarter. The ECB hiked 25bps in June, taking the deposit rate to 2.25%, though the subsequent collapse in oil has shifted the calculus — market pricing for a follow-up hike has fallen sharply, with ECB commentary since the decision notably softer on the need for further tightening.

Credit held up well on the month. iTraxx Main tightened slightly by -1.1bps to about 52bps and Crossover by -14.3bps to around 245bps. In cash, Euro HY tightened -5.8bps while IG was broadly flat, with strong primary supply acting as a slight drag on cash performance.

US

GDP growth strengthened in Q1, but underlying domestic demand is slowing

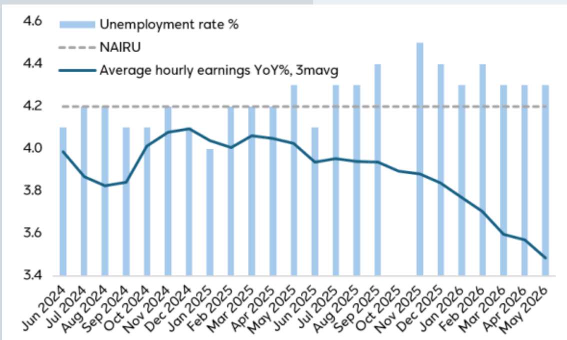
Figure 3: The revised PDFP trajectory points to a gradual deceleration in private final demand



Source: BLS, Eurobank Research

The latest GDP revision for Q1 points to a mixed picture for the economy, with stronger headline growth but softer underlying domestic demand. According to the third estimate, Q1 GDP was revised up 0.5ppts to 2.1%QoQ saar, reflecting an upward revision to the volatile net exports component which ultimately subtracted 0.4ppts from growth, 0.9ppts less than previously estimated. However, consumer spending growth was revised down to just 0.5%QoQ saar, 0.9ppts below the second estimate, as higher gasoline prices squeezed households' real purchasing power. Residential fixed investment was also marked lower (-1.6ppts to -7.8%QoQ saar). The drag from these components on private domestic final purchases (PDFP) was only partly offset by a strong upward revision to non-residential investment (+0.9ppts to 11%QoQ saar), supported by AI-related investment. Overall, PDFP were revised down 0.7ppts to 1.7%QoQ saar, marking a second consecutive weak reading and the softest since Q4 2022. Looking further ahead, lower energy prices should support consumer spending, assuming the US/Iran deal holds. However, labour income growth points to moderating purchasing power. Although non-farm payrolls suggest some improvement in labour market conditions in recent months, the unemployment rate, averaging 4.3% so far this year, remains close to the estimated NAIRU of 4.2%. Meanwhile. wage growth is slowing, with average hourly earnings rising by only 3.4%YoY in May compared with a 2025 average of 3.9%. On inflation, headline PCE rose again in May, up 0.3ppts to 4.1%YoY. Core PCE edged up by 3.4%YoY, compared with 3.3%YoY in April, above the Fed's 2% target. However, the impact of higher tariffs on inflation is expected to start fading before year-end. Although some price pressures remain in the pipeline, the recent decline in energy prices should further help limit the upside. Long-term inflation expectations remain well-anchored, while wage growth has moderated, suggesting limited risk of second round effects from the earlier energy-price spike. Against this backdrop, the Fed appears likely to remain on hold in the coming months while waiting for greater clarity on the inflation outlook. Nevertheless, the risk of a 25bp rate hike before year-end has increased following the hawkish shift in the Fed's dot plot at the June meeting, particularly if inflation proves stickier than expected.

Figure 4: Slowing labour income growth points to weaker purchasing power

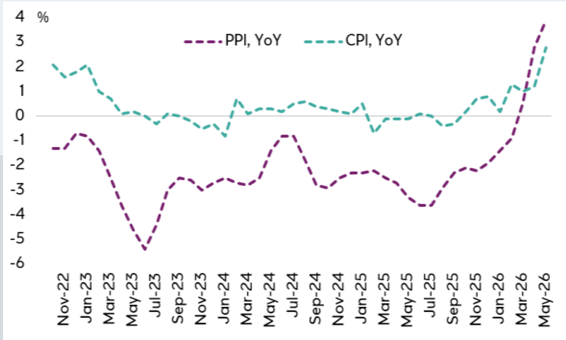


Source: BLS, Eurobank Research

China

Reflation gains momentum against an uneven growth path

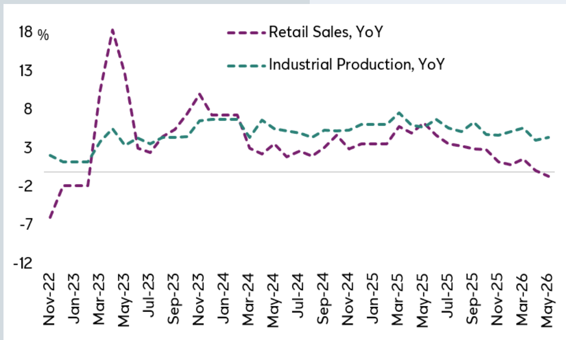
Figure 5: Reflation reflects cost pressures rather than demand strength



Source: Bloomberg, Eurobank Research

The economy continues to display an uneven growth pattern, with resilient manufacturing and exports offsetting persistent weakness in domestic demand. Following stronger-than-expected real GDP growth of 5.0%YoY in the first quarter, activity moderated during the second quarter, highlighting the economy's increasing reliance on external demand, while consumption, investment and the property sector remain subdued. The export sector continues to be the main engine of growth, supported by China's competitive position in advanced manufacturing, artificial intelligence-related products and green technologies. Manufacturing activity remained in expansionary territory in June, with the official PMI inching up to 50.3 from 50.1 in May. Strong global demand and continued market diversification are expected to support export growth throughout 2026, providing an important offset to weaker domestic activity. Domestic demand, however, remains soft. Retail sales contracted in May by 0.6%YoY for the first time since the post-pandemic reopening, reflecting weak consumer confidence, fading policy support and elevated household precautionary savings. Price dynamics suggest that a gradual reflation process is underway (3.9%YoY in May from 2.8%YoY in April and -1.4%YoY in January). Producer prices are expected to strengthen further during 2026, supported by higher commodity prices, measures to curb excessive price competition and continued investment in strategic industries. Consumer inflation (1.2%YoY in May and April) is likely to remain comparatively subdued as domestic demand remains weak. Looking ahead, policy support is expected to become increasingly fiscal. Government spending is likely to accelerate through infrastructure projects, urban renewal programmes and investment linked to the 15th Five-Year Plan. The PBoC is expected to maintain a broadly stable monetary policy stance, relying on targeted liquidity and structural lending facilities rather than broad-based rate cuts. The recent appreciation of the renminbi, supported by robust export performance and improving external balances, has also reduced the immediate need for additional monetary easing. Overall, China's economy is expected to expand by around 4.5%–4.7% in 2026, with growth continuing to be driven by external demand and advanced manufacturing. The sustainability of this growth pattern will depend on whether stronger export performance can gradually translate into firmer domestic consumption and a lasting stabilisation of the property sector.

Figure 6: Activity data point to weakening domestic demand

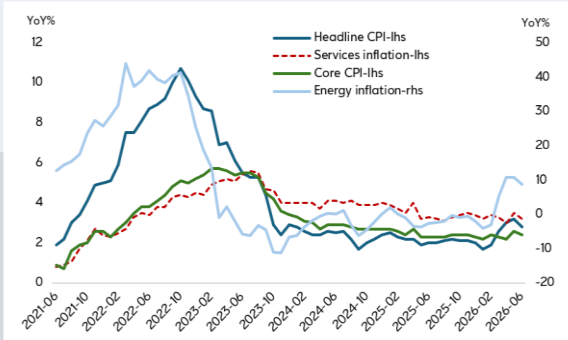


Source: Bloomberg, Eurobank Research

Euro area

Price pressures ease, but inflation outlook remains uncertain

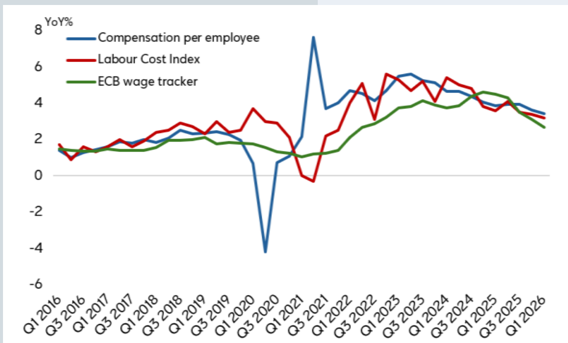
Figure 7: Easing price pressures



Source: Eurostat, Eurobank Research

The latest national accounts data suggest that underlying growth was already weak heading into the Middle East conflict, although the headline figure was heavily distorted by Ireland. Following a sharp downward revision to Irish GDP growth for Q1 (-10.1ppts to -12.1%QoQ), mainly due to a sizable drag from net exports, Eurozone growth moved into negative territory, to -0.2%QoQ from +0.1%QoQ in the initial estimate. Excluding Ireland, however, the picture was more resilient, with Eurozone output rising 0.3%QoQ. Incoming data for Q2 have been mixed, but overall point to still subdued underlying growth momentum. Retail sales fell 0.4%MoM in April, the second monthly decline so far this year, as higher price pressures continued to erode purchasing power and weigh on real household disposable income. The composite PMI rebounded in June following the US/Iran agreement, +1pts to 49.5, as services regained some ground. However, the Q2 average still remained 2.4pts below its Q1 level. Economic sentiment also improved in June, +1.3pts to 95, led by consumers, but remained below pre-war levels. Industrial production was a relative bright spot, rising in April for the third consecutive month, despite geopolitical headwinds and elevated energy prices. Output increased 0.1%MoM after a 0.4%MoM gain in March, leaving production 0.5% above its Q1 average. Looking into H2, lower energy prices and reduced geopolitical uncertainty should support domestic demand, with GDP growth for 2026 seen at 0.8%. Reflecting the impact of lower energy prices, HICP inflation eased 0.4ppts to 2.8%YoY in June, while lower food inflation (-0.3ppts to 1.6%YoY) also contributed to the decline. Core inflation also fell (-0.2ppts to 2.4%YoY) as services inflation eased (-0.3ppts to 3.2%YoY), pointing to a lack of significant indirect effects from the energy shock feeding through to consumer prices. However, there is still uncertainty about the inflation outlook as the US/Iran agreement remains fragile and pipeline price pressures built up over the crisis are still present. Price pass-through to final prices is expected to peak with a lag. Overall, the risk of inflation remaining above the ECB's 2% target for longer has not disappeared. As such, some further ECB tightening following the 25bps rate hike at its June 10-11 policy meeting, cannot be ruled out. However, anchored long-term inflation expectations and the absence of second-round inflation effects in wage indicators should argue for a measured policy response, rather than aggressive rate adjustment.

Figure 8: No signs of second-round effects in wage indicators

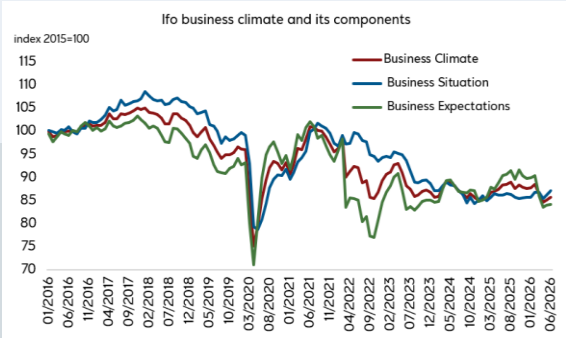


Source: European Commission, ECB, Eurobank Research

Germany

Lower energy prices and reform momentum should support H2 growth prospects

Figure 9: Ifo business confidence improved in June, but remains at subdued levels



Source: IFO, Eurobank Research

Incoming data for Q2, weighted down by the energy shock stemming from the Middle East conflict, have dampened hopes of sustained growth momentum, following a 0.3%QoQ GDP expansion in the previous quarter, the strongest outturn since Q1 2015, driven primarily by net exports. The composite PMI fell 0.8pts to a nearly one-and-a-half-year low of 48.0 in May, signalling a third consecutive month of contraction in private-sector activity, driven by a sharp deterioration in services (-1.3pts to 46.8). By contrast, the Ifo business climate index rose 0.6pts in June on hopes of a swift end to the Iran war, returning to its pre-Iran conflict level of 85.6. Still, it remains subdued, consistent with broadly stagnant activity. Hard data have also been discouraging. Industrial production rose 0.4%MoM in April, the first increase in five months. However, the improvement largely reflected a construction-led rebound (+2.4%MoM) following the weather-related disruptions earlier in the year. Manufacturing output was flat on the month, reflecting weak automotive-related production (-3.7%MoM). At the same time, tightening financial conditions and low industrial capacity utilisation — at 77.5%, around 7ppts below its long-term average — suggest that firms are unlikely to step up capital investment soon. In another weak signal, new industrial orders fell in April, interrupting a two-month recovery and reversing much of March's increase (-3.8%MoM after +4.5%MoM), with domestic demand particularly weak (-4.2%MoM). Looking ahead to H2, growth should recover as geopolitical uncertainty eases and energy prices moderate following the reopening of the Strait of Hormuz. The ongoing positive impulse from expansionary fiscal policy and improved momentum in the government's reform agenda should also support sentiment. The coalition has reached political agreement on income tax reform and a comprehensive overhaul of the statutory pension system. The latter includes, among other measures, a moderate increase in the pension age (from 67 to 67.5 between 2031 and 2041) and limits on costly early retirement programmes. However, a meaningful growth recovery remains unlikely, as high inflation should continue to weigh on real disposable income, while Germany continues to face a number of structural headwinds, including China's transition from a key export market to a major competitive rival. For the full year, we expect GDP growth of 0.6%, while inflation is seen averaging 2.7%, up from 2.3% in 2025.

Figure 10: China has shifted from key export market to major competitive rival

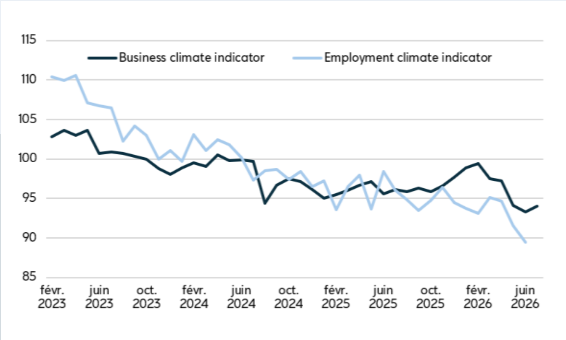
Source: Destatis, Eurobank Research

France

Weak growth dynamics likely to keep expected H2 recovery subdued

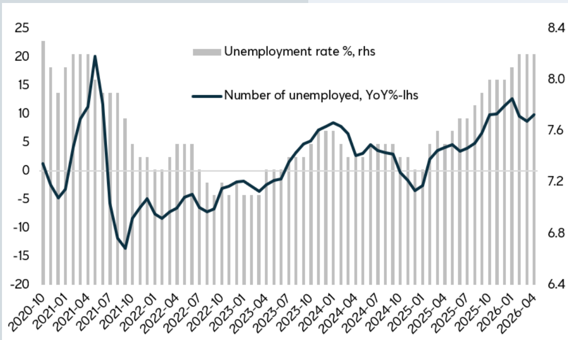
The economy entered the Middle East crisis in a weaker position than its euro-area peers. This was despite firmer output in H2 2025, supported by a pick-up in investment and exports, as well as a modest recovery in household consumption. Economic activity contracted 0.1%QoQ in Q1, largely unrelated to the Middle East crisis, as the main drag was a sharp drop in aeronautics exports. Domestic demand also lost momentum, with gross fixed capital formation contracting for the first time since Q3 2024 (-0.6%QoQ) and household consumption edging down (-0.2%QoQ) for the first time in a year. Looking ahead to Q2, available data point to continued subdued economic activity. That said, a likely rebound in aircraft deliveries — Airbus announced 81 commercial deliveries in May, up 59%YoY — could reduce the risk of a further modest contraction that would result in a technical recession. The composite PMI rebounded in June after falling to 44.9 in May, returning to April's level of 47.6. Even so, the Q2 average still stood at 46.7, some 2.6pts below Q1. Other survey indicators paint a similarly weak picture. The INSEE business climate indicator rebounded in June on expectations for a swift end to the Iran war, but only marginally, up 1pt to 94, still below its long-term average of 100. More worryingly, the labour-market outlook continued to deteriorate, with the employment climate indicator falling for a third consecutive month, down a further 2.1pts to its lowest level since late 2020. Household sentiment also remains subdued. INSEE consumer confidence improved in June after falling for two consecutive months, rising 2pts to 84, but it remained 7pts below February's one-year high, with willingness to make major purchases declining further. Hard data have been no more reassuring, with consumer goods spending falling in April (-0.5%MoM) mainly because of lower energy spending (-2.9%MoM). Lower oil prices (HICP down 0.8ppts in June to 2.0%YoY) and the 2.4% rise in the minimum wage in June, due to inflation indexation rules, could support consumer confidence in the period ahead. However, weak labour dynamics — unemployment rate unchanged at 8.2% in April for the third consecutive month, the highest in more than five years — suggest any recovery is likely to remain modest. Overall, we expect GDP growth of around 0.6% in 2026.

Figure 11: INSEE business climate is subdued, while jobs climate deteriorates further



Source: INSEE, Eurobank Research

Figure 12: Weak labour dynamics



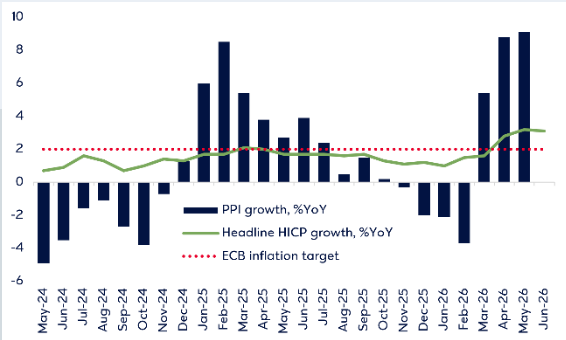
Source: Eurostat, Eurobank Research

Italy

Easing inflation suggests worse energy shock avoided; political risks resurface

June's inflation data, together with the deescalation of the Middle East conflict, suggest that the fallout from the latest energy shock is likely to remain contained. EU-harmonised headline inflation unexpectedly eased to 3.0%YoY in June, against expectations that it would hold steady at 3.2%YoY, while core inflation slowed to 1.7%YoY from 2.0%YoY in May. However, May's 9.1%YoY increase in the producer price index, 0.3ppts stronger than April's rise, suggests that pipeline pressures remain and that upside inflation risks have not fully dissipated. Firms responding to S&P Global's June manufacturing survey continued to report elevated cost pressures, though these were lower than in April and May's four-year peak. The manufacturing PMI dipped 0.7pts to 52.2 in June, comfortably in expansionary territory, though it came in slightly below consensus. Given the distortionary impact on the index during the crisis from geopolitical supply-chain disruptions, part of the June decline reflected some unwinding of those effects. Industrial production, though a lagging indicator, rose 1.3%YoY in April, only 0.1ppts below March's pace and well above the 0.5%YoY consensus forecast. The improving manufacturing outlook reflects a more supportive investment backdrop. Earlier monetary easing and continued disbursements under the EU's Next Generation EU programme are supporting investment.

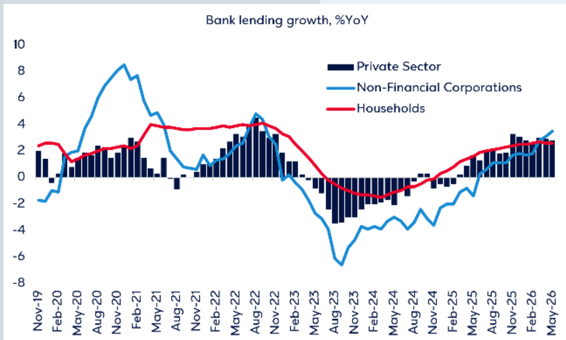
Figure 13: Headline inflation eased in June, but pipeline pressures remain a risk



Source: Istat, Eurostat, Bloomberg, Eurobank Research

Higher defence spending and the reorientation of European supply chains towards strategic industries should provide additional tailwinds. Credit conditions for firms are continuing to improve, with lending to non-financial corporations rising 3.5%YoY in May, the strongest pace since 2022 and a sign of gradually recovering corporate investment. Risks are now shifting from the external shock to domestic politics. Reports that Prime Minister Giorgia Meloni is considering early elections, possibly in April 2027, have sharpened attention on fiscal continuity and reform implementation. The BTP–Bund spread has risen from its early-2026 lows, though it remains contained, suggesting that investors are attaching a modest political risk premium to Italian assets. The 10yr spread stood at 78bps on July 1, below the March spike that followed the government's defeat in the justice-reform referendum but above February's 60bps level. A more sustained widening would tighten financial conditions and could partly offset the investment support from lower rates, EU funds and stronger business lending.

Figure 14: Recovering business lending continues to support manufacturing outlook



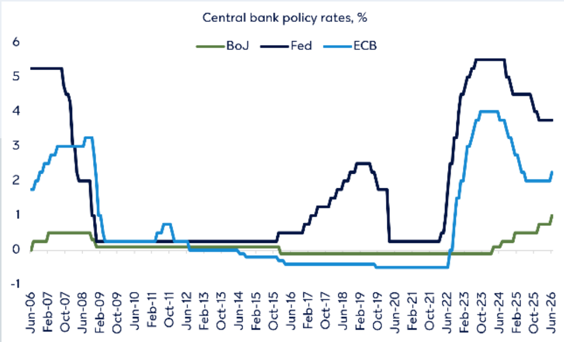
Source: ECB, Eurobank Research

Japan

BoJ tightens as activity holds up; yen and fiscal risks temper outlook

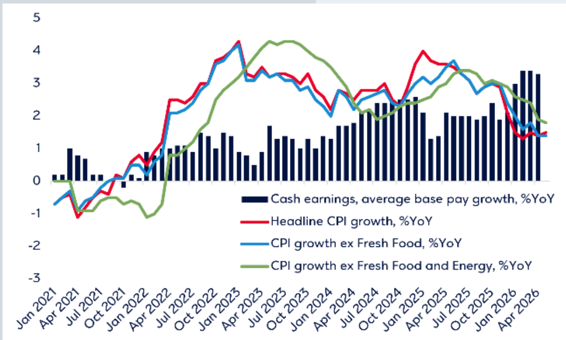
The country's policy mix moved into sharper focus in June after the Bank of Japan raised its policy rate by 25bps to 1.0% in a 7–1 vote, while also confirming that monthly JGB purchases will be reduced by about JPY200bn each quarter until they reach about JPY2trn from April 2027. Board member Toichiro Asada dissented in favour of a hold, and the BoJ repeated that it would continue to adjust the degree of monetary accommodation in response to developments in activity, prices and financial conditions. Incoming data suggest that domestic activity has remained broadly resilient. The Q2 Tankan survey showed large manufacturers' sentiment unexpectedly rising to 22 from 17 and large non-manufacturers at 37 from 36, while large all-industry capex plans were also revised up to 11.5% from 3.3%. The composite PMI rose to 52.5 in June from 51.1 in May, with manufacturing at 54.8 and services at 51.8. Hard data were more mixed: May retail sales grew 5.3%YoY, but industrial production fell 1.7%YoY even as it rose 0.5%MoM. Despite the robust activity data, inflation still looks contained in the near term. National CPI growth came in at 1.5%YoY in May, an increase from 1.4%YoY the month before, while the core measure excluding fresh food remained flat at 1.4%YoY. Tokyo's headline inflation, seen as a leading indicator for the nationwide trend, ticked up by 0.3ppts to 1.7%YoY in June and core CPI rose by the same margin to 1.6%YoY. The steady disinflationary trend this year helped real wages grow 1.9%YoY in April, 0.5ppts more than in March and 0.2ppts above the consensus estimate. It was also the first time since 2021 that Japan achieved four consecutive months of real wage growth. The yen remains the main complication. USD/JPY moved above 162 on July 1, leaving the currency at its weakest level in roughly four decades and keeping imported inflation and intervention risks firmly in view. Fiscal signals are also under closer scrutiny after Prime Minister Sanae Takaichi's growth strategy outlined more than JPY370trn of combined public and private investment through 2040, despite Japan's public debt standing near 240% of GDP. Against that backdrop, super-long JGB yields have stayed elevated, with the 30yr yield close to 4.0% on July 1 and the 20yr and 40yr at roughly 3.7% and 3.8%, respectively. Overall, domestic demand and corporate sentiment still look firm enough to sustain the BoJ's tightening bias, but yen weakness and fiscal sensitivity are likely to keep the policy path cautious. As of July 1, futures markets were fully pricing in one additional 25bp rate hike by year-end.

Figure 15: The BoJ continued to normalise monetary policy with 25bp hike



Source: Bloomberg, Eurobank Research

Figure 16: Real wages recorded four straight months of growth for the first time since 2021



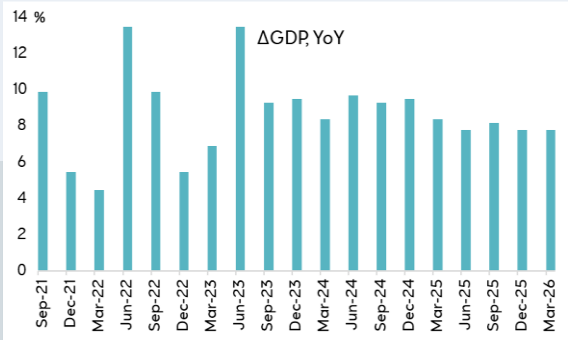
Source: Bloomberg, Eurobank Research

India

Strong macroeconomic fundamentals face rising weather and inflation risks

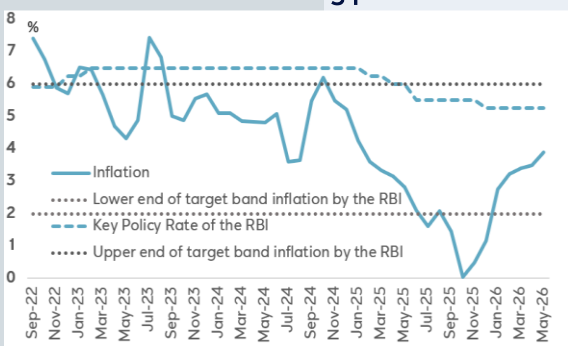
India remains the fastest-growing major economy, with real GDP expanding by 7.5% in FY2026. Growth is nevertheless expected to moderate to around 6.5%–6.7% in FY2027, reflecting softer domestic demand, rising energy costs and increased uncertainty surrounding the 2026 monsoon. While the medium-term growth outlook continues to be supported by favourable demographics, sustained infrastructure investment and ongoing structural reforms, the near-term macroeconomic environment has become more challenging as external and domestic headwinds begin to intensify. Private consumption, accounting for almost 60% of GDP, remains the principal engine of economic growth. However, household spending is expected to soften as higher food and energy prices gradually erode purchasing power, particularly across rural households where incomes remain closely linked to agricultural activity. Against this backdrop, the delayed start to the 2026 monsoon has emerged as the key macroeconomic risk. Below-average rainfall could weigh on agricultural output, rural incomes and consumer confidence, ultimately dampening domestic demand during the second half of the fiscal year. Inflation dynamics have also become less favourable. Although headline CPI remained contained at 3.9%YoY in May, food inflation accelerated to 4.8%YoY, pointing to mounting supply-side pressures ahead of the main harvest season. Should rainfall fail to normalise over the coming months, food price increases could broaden beyond temporary supply effects, generating more persistent inflationary pressures and limiting the improvement in real household incomes. Against this backdrop, the Reserve Bank of India is expected to maintain the repo rate at 5.25% in the near term while closely monitoring inflation developments. Fiscal policy remains supportive while preserving the government's commitment to consolidation. The FY2027 budget continues to target a fiscal deficit of 4.3% of GDP, alongside sustained public infrastructure investment aimed at strengthening the economy's long-term productive capacity. Overall, India's macroeconomic fundamentals remain among the strongest in the emerging market universe. Nevertheless, the evolution of the monsoon will be the defining factor for the near-term outlook, shaping inflation dynamics, household consumption and the pace of economic growth.

Figure 17: India continues to outperform on growth



Source: MOSPI. Eurobank Research

Figure 18: Renewed inflation pressures test the RBI's easing path

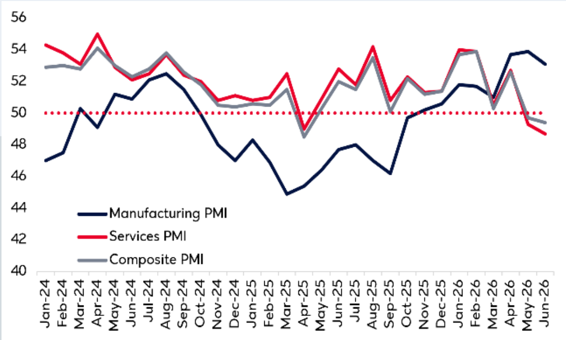


Source: RBI, Eurobank Research

UK

Economic momentum slows as focus shifts to leadership transition

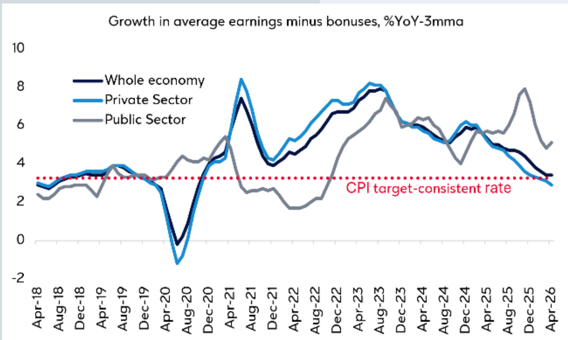
Figure 19: Services slipped further into contractionary territory in June



Source: S&P Global, Bloomberg, Eurobank Research

As the UK marked the 10-year anniversary of the Brexit referendum vote to leave the EU, it prepared to welcome its seventh prime minister since then. Andy Burnham, the former mayor of Greater Manchester, is the sole declared contender and is widely expected to succeed Keir Starmer. The political transition comes against an economic backdrop less robust than the headline GDP figures suggest. Output was still up 0.7% in the three months to April — the fifth consecutive rolling-quarter increase — but GDP fell 0.1%MoM in April, in line with consensus, as earlier Q1 strength began to unwind. More recent survey evidence points to a further loss of momentum: the June flash composite PMI unexpectedly slipped deeper into contractionary territory, to 49.4, as services fell to a 41-month low of 48.7 and manufacturing support appeared increasingly reliant on stockbuilding. The consumer picture is mixed. Retail sales rebounded 1.2%MoM in May and were 3.2%YoY higher, but GfK consumer confidence stayed weak at -23 in June, suggesting weather- and promotion-led spending has yet to translate into firmer underlying demand. Headline inflation was unchanged at 2.8%YoY in May, below expectations for a rise to 3.0%YoY, but services inflation accelerated to 3.7%YoY. In the labour market, three-month average earnings growth was unchanged at 4.4%YoY in April, above the 4.0%YoY consensus estimate, with March revised up from 4.1%YoY. Excluding bonuses, however, earnings growth was lower at 3.4%YoY, also unchanged from March and close to the 3.25% rate the Bank of England sees as consistent with its inflation target. The figure was lifted by public-sector pay, up 5.1%YoY, partly catching up with the private sector, where average earnings rose 2.9%YoY. The BoE's Monetary Policy Committee left the Bank Rate unchanged at 3.75% in June in a 7–2 vote, flagging volatile energy prices, loosening labour-market conditions and upside inflation risks. Given tight fiscal constraints, bond markets will also focus on the new prime minister's economic agenda and choice of finance minister, with Ed Miliband, the current energy secretary and a former leader of the Labour Party, often cited as one of the frontrunners. Still, the mid-June US–Iran framework has lowered oil prices and eased some inflation concerns, creating a more benign international backdrop. Together with the prospect of reduced UK political uncertainty, this has helped push gilt yields lower over the last few weeks.

Figure 20: Pay growth is slowing to levels consistent with the BoE's inflation target



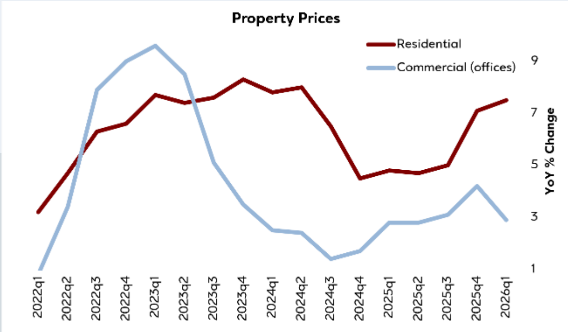
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Domestic demand resilient as property and labour markets offset softer tourism

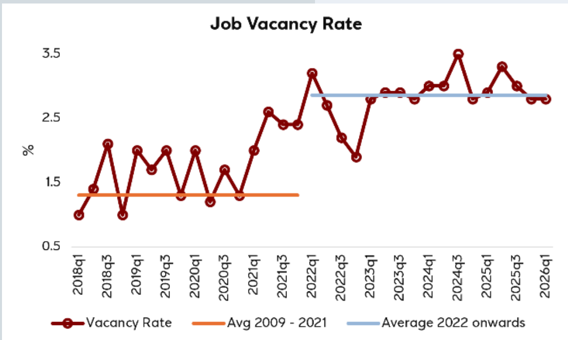
Cyprus's economy continued to display signs of resilience in late spring 2026, supported by robust domestic demand, favourable labour market conditions, a buoyant property market and continued fiscal strength, despite heightened geopolitical uncertainty weighing on tourism activity. Retail trade turnover increased by 6.4%YoY during January–May, while wholesale trade expanded by an even stronger 11.2%YoY in the first quarter, pointing to resilient household spending and solid business activity. Retail trade turnover rose 6.4%YoY in Jan–May, while wholesale trade grew 11.2%YoY in Q1, indicating resilient household spending and strong business activity. Forward-looking indicators remained subdued but continued to improve gradually. Overall sentiment edged up in June, while consumer confidence also strengthened, supported by improving household expectations for their financial situation and the general economic outlook. Tourism activity continued to normalise following the record performance of 2025. Tourist arrivals declined by 13.3%YoY during January–May, reflecting an exceptionally high comparison base and the impact of heightened geopolitical tensions in the Eastern Mediterranean and Middle East. Arrivals fell by 30.7%YoY in March, 27.6%YoY in April and 4.9%YoY in May, mainly reflecting weaker inflows from Israel and, to a lesser extent, the UK. Despite weaker tourist arrivals, passenger traffic declined by only 4.6% YoY during January–May, while the number of flights remained broadly unchanged (+0.1%) compared with the same period in 2024. Labour market conditions remained tight, with the new job vacancies release pointing to continued strong labour demand. The job vacancy rate stood at 2.8% in Q1 and demand was particularly pronounced in tourism and associated sectors, construction and trade. The property market also maintained strong momentum. Residential property prices accelerated to 7.5%YoY in Q1, led by apartments (+10.8%YoY), while house prices increased more moderately (+3.0%YoY). Price growth remained broad-based across districts, with coastal areas recording the strongest increases. Finally, public finances remained among the strongest in the euro area. The General Government recorded a fiscal surplus of €593.4 mln, equivalent to 1.5% of GDP, during January–April 2026, only marginally below the €614.0 mln (1.7% of GDP) recorded a year earlier, enabling the government to extend the fuel excise tax reduction to 31 August 2026 for an additional two months at a cost of €12 million.

Figure 21: Residential property prices keep momentum; commercial growth normalises



Source: Central Bank of Cyprus, RICS UK, KPMG, Eurobank Research

Figure 22: Demand for new jobs exceeds the long-term average



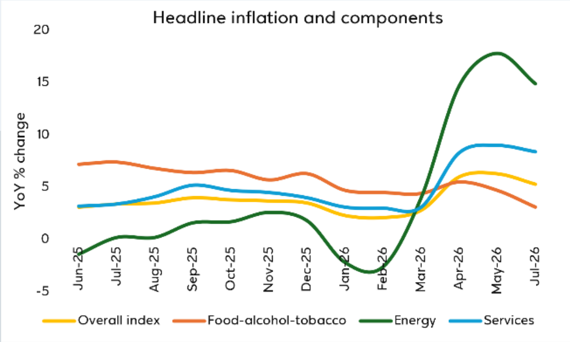
Source: CYSTAT, Eurobank Research

Bulgaria

2026 budget shifts fiscal consolidation since 2027; inflation moderates in June

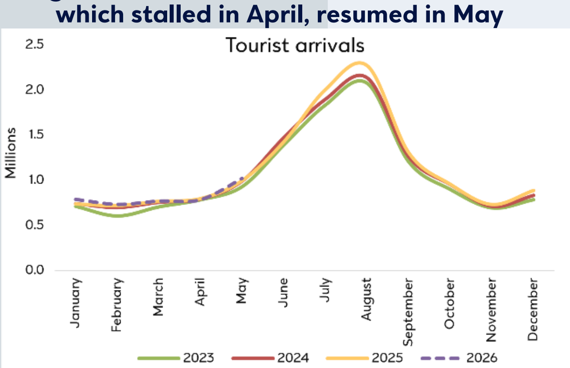
On 25 June, the European Commission proposed opening an Excessive Deficit Procedure for Bulgaria following the estimated fiscal deficit of 3.5% of GDP in 2025. The proposal was endorsed by the EU Council on 26 June which recommended that Bulgaria take the necessary measures to reduce its fiscal deficit below the 3%-of-GDP reference threshold by 2029. The authorities are expected to decide effective corrective measures by 15 October and reflect them in both the 2027 Draft Budgetary Plan and the medium-term fiscal strategy. On 1 July, the Bulgarian Parliament approved the 2026 state budget, which targets a fiscal deficit of 5.7% of GDP this year. According to the accompanying macroeconomic framework, the deficit is projected to decline to 3.8% of GDP in 2027 and to 3.0% in 2028, one year ahead of the deadline set by the Council. By way of comparison, the second and final budget draft prepared by the previous coalition government, which was withdrawn in December 2025, envisaged a deficit of 3.0% of GDP. However, several of its key measures faced strong criticism, ultimately contributing to the government's resignation. The new government's budget includes measures on both the expenditure (reduction in personnel costs in state-owned enterprises, introduction of employee social security contributions for civil servants) and the revenue sides (higher maximum insurable income, increase in vignette fees – expansion of tolls, higher taxation of gambling activities, anti-shadow economy measures). However, given the time required for the planning and implementation of these measures, as well as the fact that the budget was adopted midway through the year, we expect their impact on fiscal performance to be limited in 2026 and to become more visible from 2027 onwards. The high deficit so far in 2026 (2.1% of projected GDP in January-May) has constrained the government's ability to introduce to the budget additional measures to mitigate the impact of elevated inflation. Meanwhile, the flash estimate for June inflation pointed to a moderation in price pressures, with headline inflation easing to 5.3%YoY from 6.3%YoY in May, driven primarily by lower energy and food inflation. Regarding activity indicators at the start of Q2, retail trade volumes, which increased by 7.7%YoY in Q1, accelerated further to 8.2%YoY in April. By contrast, industrial production contracted by 4.6%YoY, marking the sharpest decline in 13 months.

Figure 23: Non-core items (food and energy) mainly drove the inflation slowdown in June



Source: Eurostat, Eurobank Research

Figure 24: The increase in tourism in 2026, which stalled in April, resumed in May



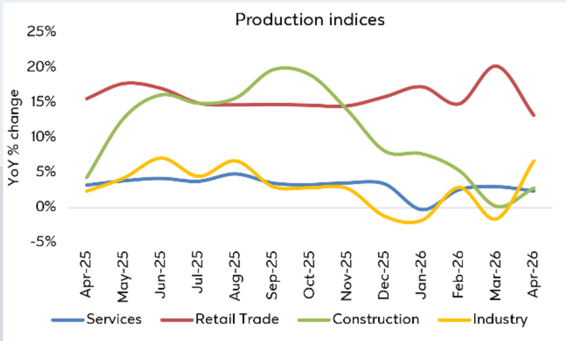
Source: Bulgarian Statistical Institute, Eurobank Research

Turkey

Growth slows across most core sectors at the start of Q2

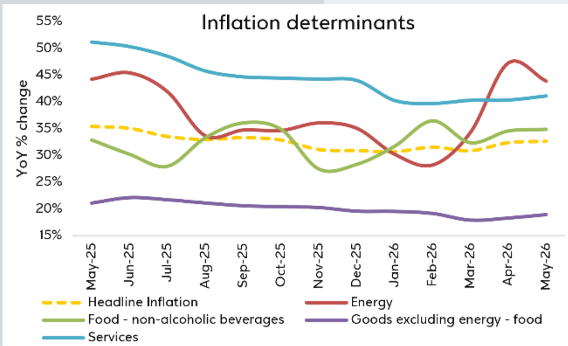
The Central Bank of the Republic of Turkey (TCMB) left its policy rate unchanged at 37.0% for a third consecutive meeting, in line with the Reuters consensus expectation. This was despite a further, albeit marginal, increase in annual headline inflation to 32.6% in May from 32.4% in April. The TCMB justified its decision by pointing to the slowdown in seasonally adjusted (s.a.) monthly inflation to 1.9% in May from 3.4% in the previous month, as well as leading indicators suggesting continued weakness in domestic demand. It is worth noting, however, that the April monthly s.a. inflation reading was the highest in two years, making some moderation in May highly likely. That said, the monetary policy decision appeared to place limited emphasis on factors that continue to signal elevated underlying inflationary pressures or have helped contain a stronger increase in consumer prices. In particular, s.a. monthly core inflation was higher in May than the headline inflation monitored by the TCMB, reaching 2.3%. At the same time, since the outbreak of the Iran conflict, the government has introduced measures aimed at limiting imported inflation (e.g., fuel VAT cut, actions to contain agricultural production costs). In parallel, the TCMB implemented a series of measures to support the lira and mitigate inflationary pressures stemming from exchange-rate depreciation. Nevertheless, the lira continued to weaken during March–June, depreciating by an average monthly rate of 1.5%, compared with 1.1% in the preceding six months. This suggests that imported inflation pressures are likely to persist in the near term, potentially weighing on private consumption. Together with heightened geopolitical uncertainty, these developments may explain the marked slowdown in retail sales growth, which eased to a 20-month low of 0.9%YoY in April from an average of 4.7%YoY in Q1 2026. Investment-related activity also showed signs of losing momentum. Construction output expanded by 2.8%YoY in April, recovering from a 40-month low of 0.2%YoY in March but remaining well below the average growth rate of 4.4%YoY in Q1 2026. By contrast, industrial activity strengthened markedly at the start of Q2, with production rising by 6.7%YoY after an average contraction of 0.2%YoY in Q1. The external sector also delivered a positive surprise, as the goods and services balance improved for the first time in six months. Notably, the improvement was driven almost entirely by a sharp acceleration in goods exports, by 19.5%YoY. Whether this divergence proves sustainable will become clearer in the coming months.

Figure 25: Excluding the industrial sector, production growth moderated in April wrt Q1



Source: Turkish Statistical Institute, Eurobank Research

Figure 26: May's inflation acceleration was due to services and core goods prices



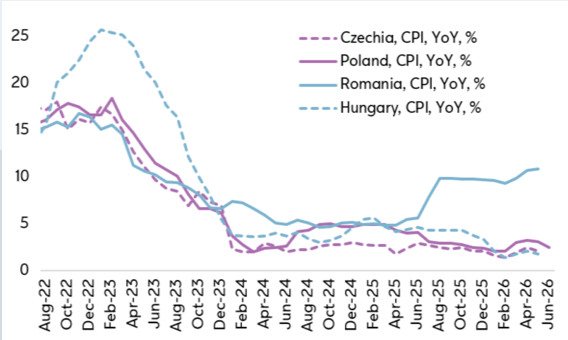
Source: Turkish Statistical Institute, Eurobank Research

CESEE

Policy divergence deepens as disinflation advances unevenly across the region

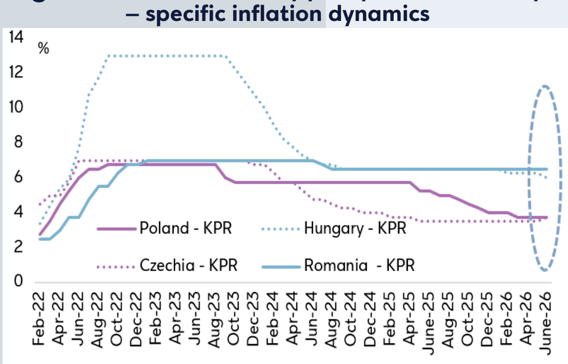
Macroeconomic conditions across the region continue to evolve at different speeds, reflecting varying inflation dynamics, fiscal positions and domestic demand conditions. While disinflation has gained traction across much of the region, growth remains uneven, prompting central banks to adopt increasingly differentiated policy stances as they balance imported inflation risks against moderating economic activity. Hungary has experienced the sharpest improvement in inflation, with headline CPI slowing to 1.8% YoY in May, allowing the National Bank of Hungary to lower its policy rate to 6.0%. The central bank has signalled that further easing remains likely should inflation continue to undershoot its target, while improving prospects for closer engagement with the EU have supported market sentiment. Poland presents a more balanced macroeconomic picture. Headline inflation returned to the National Bank of Poland's 2.5% target in June, largely reflecting lower fuel prices. However, underlying inflation remains relatively firm, prompting policymakers to maintain the policy rate at 3.75% despite softer wage growth, weaker employment and moderating household consumption. Czechia continues to display the strongest macroeconomic fundamentals in the region. Manufacturing activity has strengthened, while inflation remains close to target. Nevertheless, persistent services inflation and resilient wage growth prompted the Czech National Bank to raise its policy rate to 3.75%, signalling its commitment to keeping inflation expectations firmly anchored. Romania remains the region's principal macroeconomic vulnerability. Although fiscal performance has improved on stronger tax revenues, inflation remains elevated at 10.9%, requiring the National Bank of Romania to maintain its policy rate at 6.5%. Meanwhile, prolonged uncertainty over government formation continues to complicate fiscal consolidation and delay structural reforms, weighing on investor confidence and the broader macroeconomic outlook. Overall, the CEE enters the second half of 2026 with increasingly differentiated policy paths. While Hungary has begun easing monetary policy, Poland and Czechia remain cautious, and Romania continues to prioritise macroeconomic stability. As external shocks gradually recede, domestic policy credibility and fiscal discipline are becoming the principal drivers of regional macroeconomic performance.

Figure 27: Inflationary pressures remain manageable across region, except Romania



Source: Bloomberg, Eurobank Research

Figure 28: ..and monetary policy reflects country – specific inflation dynamics



Source: Bloomberg, Eurobank Research

EUROBANK

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f
World	3.4	2.9	3.1	4.1	4.3	3.7									
Advanced Economies															
USA	2.1	2.1	2.1	2.7	3.4	2.5	4.3	4.4	4.3	-3.8	-3.2	-3.3	-5.9	-6.3	-6.4
Eurozone	1.4	0.8	1.2	2.1	2.9	2.2	6.3	6.3	6.2	1.7	1.4	1.5	-2.9	-3.4	-3.4
Germany	0.2	0.6	1.1	2.3	2.7	2.3	6.3	6.3	6.1	4.5	4.0	3.8	-2.7	-3.8	-4.2
France	0.8	0.6	0.9	0.9	2.3	1.9	7.7	8.0	7.9	-0.3	-0.3	-0.2	-5.1	-5.1	-5.0
Periphery															
Cyprus	3.8	2.3	2.9	0.8	3.7	2.6	4.4	4.6	4.5	-6.8	-7.0	-6.5	3.4	2.6	3.0
Italy	0.5	0.6	0.7	1.6	2.8	2.0	6.1	5.6	5.8	1.1	0.6	1.0	-3.1	-3.0	-2.8
Portugal	1.9	1.9	1.9	2.2	2.9	2.2	6.0	5.9	5.9	1.2	0.5	0.8	0.7	-0.2	-0.4
Spain	2.8	2.2	1.8	2.7	3.3	2.4	10.5	9.9	9.8	2.9	2.6	2.5	-2.4	-2.4	-2.4
UK	1.3	1.0	1.1	3.4	3.2	2.6	4.8	5.2	5.3	-3.1	-2.9	-2.7	-4.9	-3.9	-3.3
Japan	1.1	0.6	0.8	3.2	2.0	2.1	2.5	2.6	2.5	4.9	4.6	4.3	-1.4	-2.9	-2.7
Emerging Economies															
BRIC															
Brazil	2.3	1.8	1.8	5.0	4.5	4.0	6.0	5.8	6.0	-2.9	-2.7	-2.7	-8.3	-8.5	-7.9
China	5.0	4.6	4.4	0.1	1.1	1.1	5.2	5.1	5.1	3.8	3.0	2.8	-5.1	-5.4	-5.7
India	7.5	6.4	6.8	2.0	4.9	4.5	4.9	4.9	4.9	-1.0	-1.8	-1.5	-4.4	-4.4	-4.4
Russia	1.0	0.9	1.3	8.7	5.5	4.5	2.2	2.3	2.7	1.7	2.8	1.7	-2.6	-2.0	-2.0
CESEE															
Bulgaria	3.2	2.4	2.9	3.5	5.2	3.5	3.5	3.7	3.6	-5.7	-8.4	-6.3	-3.5	-5.5	-4.1
Turkey	3.6	3.0	3.6	35.2	30.0	24.7	8.4	8.6	8.4	-1.4	-2.3	-1.9	-2.9	-3.9	-3.3

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

Eurobank Fixed Income Forecasts

	Current	September 2026	December 2026	January 2027	March 2027
USA					
Fed Funds Rate	3.5-3.75%	3.51-3.76%	3.49-3.74%	3.43-3.68%	3.32-3.57%
3m SOFR	3.75%	3.64%	3.62%	3.55%	3.46%
2yr Notes	4.13%	3.95%	3.85%	3.77%	3.72%
10yr Bonds	4.47%	4.41%	4.37%	4.33%	4.33%
Eurozone					
Refi Rate	2.4%	2.59%	2.62%	2.57%	2.47%
3m Euribor	2.33%	2.52%	2.53%	2.49%	2.4%
2yr Bunds	2.5%	2.51%	2.47%	2.4%	2.37%
10yr Bunds	2.91%	3.02%	3%	2.97%	2.96%
UK					
Repo Rate	3.75%	3.88%	3.86%	3.8%	3.65%
3m Sonia	3.76%	3.9%	3.87%	3.77%	3.65%
10-yr Gilt	4.79%	4.85%	4.77%	4.72%	4.64%
Switzerland					
3m Saron	-0.05%	0.02%	0.02%	0.02%	0.09%
10yr Bond	0.30%	0.46%	0.47%	0.47%	0.50%

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

Panagiota Koroli
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

Dr. Konstantinos Vrachimis
Research Economist
k.vrachimis@eurobank.cy
+ 357 22 501 333

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