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GLOBAL & REGIONAL MONTHLY

Broadly improved PMI data since the start of the year provide an encouraging signal that the global economy is regaining steam. Meanwhile, headline inflation continues to decelerate, but not quite as quickly as expected, and core CPI is proving stickier to come down as persisting labor market tightness supports wage growth. Against this backdrop, markets have repriced expectations towards higher for longer terminal rates, as several major central banks appear to grow concerned that above-target inflation could become more entrenched, opening the door to more aggressive rate tightening ahead.

Macro Picture

USA: an array of strong activity data pertaining to early Q1 implies another quarter of solid growth

EA: activity data indicate that growth, though weak, could be starting to accelerate in Q1

UK: a technical recession in H2 2022 was narrowly avoided, but challenges prevail

CESEE: bracing for slowdown in Q1 with growth having proved more resilient than expected in 2022

Markets

FX: USD strength due to broad risk aversion, DXY at fresh year-to-date highs in early March

Rates: new highs in US short end yields foster more aggressive tightening expectations elsewhere

EM: sovereign fixed income stable as global growth data came strong, despite the elevated rates volatility

Credit: with “higher for longer” inflation priced-in, following last month’s performance, EU credit markets ran out of steam

Policy Outlook

USA: high inflation and strong activity data keep the Fed on track for further aggressive tightening

EA: improved EA outlook and sticky core inflation imply risks of more vigorous ECB rate tightening

UK: firm February’s PMIs and strong wage growth supportive of further BoE rate tightening

CESEE: central banks consolidate around already higher interest rates grasping the intentions of hawkish DM central banks

Key Downside Risks

DM: China’s recovery stalling, persistently high inflation necessitating further monetary tightening, escalation of the Ukraine war, gas shortages, renewed uptrend in commodity prices

EM: China’s reopening focusing primarily on internal demand with limited spillover for Asian peers; further strengthening of the USD

Special Topic:
→ Global and domestic repercussions of the BoJ monetary policy

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

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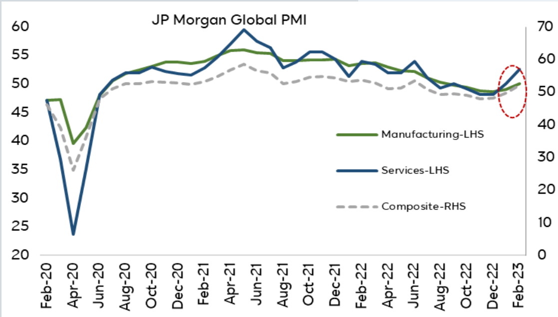
Macro Views
Latest world economic & market developments

Broadly improved PMI data since the start of the year provide an encouraging signal that the global economy is regaining steam

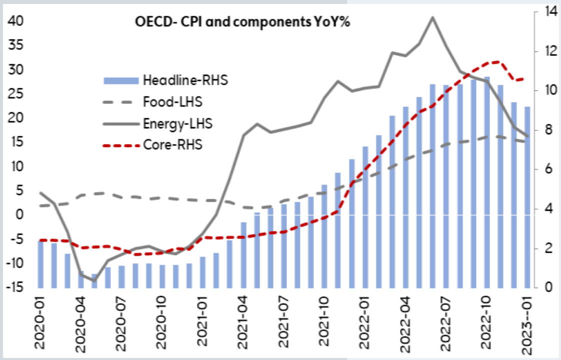
After a continuous deterioration since mid-2022 on the back of surging inflation and tightening financial conditions, PMI data for January and February have broadly surprised to the upside, providing a convincing signal that the global economy is regaining momentum early in the year. The J.P. Morgan Global Composite Output PMI moved back above the non-change threshold of 50.0 in February for the first time since July 2022, coming in at 52.1, a level consistent with global GDP growing at its potential pace, up by 2.4pts from January and 4.1pts cumulatively from November's two-year trough. Though the world economy continues to face several steep challenges, a number of closely watched forward-looking components, including new orders, improved further, raising the chances that global expansion could likely accelerate in the coming months, thanks to reduced recession risks, improving supply chains and China's firm reopening. The renewed uptrend in the global PMI output in February was mainly led by the services business activity index which rose to an eight-month high of 52.6, up from the neutral mark of 50.0 in January, implying growth for the first time since July 2022. On the manufacturing side, the headline PMI halted a five-month run of continued contraction, posting 50.0, up from 49.1 in January, and 2.1pts cumulatively from a more than a two-year low in November 2022. Much of the output rebound is owned to Asia, with India a standout, while Europe and the US also had an impact, especially in the services sector, as manufacturing activity remained in contractionary territory. On the inflation front, global headline CPI continued to decelerate in January, though not quite as quickly as previously thought, as energy prices were flat and food prices firmed. More worryingly, core prices unexpectedly reaccelerated, remaining sticky above central bank comfort zones, as persisting

Figure 1: Improved PMI data since the start of the year sent an encouraging signal on global growth



Source: Markit, Eurobank Research

Figure 2: Core CPI is proving stickier to come down on persistent labor market tightness



Source: OECD, Eurobank Research

labor market tightness in several major economies, contributes to strong wage growth, keeping core services inflation elevated. Against this backdrop, markets have repriced expectations towards higher for longer terminal rates, as several major central banks appear to grow concerned that above-target inflation could become more entrenched, opening the door to more aggressive rate tightening over the coming meetings.

Developed Economies

US: Headline CPI reaccelerated in January, rising from December's 0.1%MoM to 0.5%MoM, the firmest monthly increase since June 2022, while core CPI also surprised to the upside in monthly terms, rising by 0.4%, the same as in December, against expectations of a modest decline. In annual terms, both headline and core CPI decelerated for the fourth consecutive month, but remained elevated (6.4% and 5.6% respectively), adding to evidence that progress in bringing down inflation has been slow and further rate tightening will be required for the Fed to restore price stability, especially as labor market conditions remain exceptionally tight and wage growth continues to run well above the 3.5% level that is historically consistent with the inflation target. Meanwhile, a string of economic data pertaining to early Q1 2023 implies another quarter of solid growth following a downward revised annualized GDP print of 2.7% in Q4 2022. Amid elevated risks of inflation staying high for longer as the economy remains fairly resilient to the Fed's hiking cycle, several Fed officials adopt a decisively hawkish tone, calling for more aggressive tightening to ensure inflation returns to the 2% target over time and indicating risks the fed funds rate peaking higher than the 5.1% median in the Fed's December dots.

Euro area: Headline CPI dropped in February for the fourth consecutive month from January's 8.6%YoY to 8.5%YoY. However, the fall was smaller than expected, as a sharp drop in wholesale gas prices was offset by rising food prices. More importantly, core inflation continued to rise firmly, accelerating to a fresh record high of 5.6%YoY. Reflecting broadening price pressures, goods inflation rose further, though by a declining pace, but more worryingly, services inflation increased strongly. Meanwhile, incoming data pertaining to Q1 2023 suggest a stronger pace of activity following a downward revised flat GDP growth rate in Q4 2022, giving room for hope that an earlier expected technical recession this winter will likely be avoided. But though the economy will likely regain momentum in Q1, data are still consistent with feeble activity. In all, for the full 2023 year we stick to our projection for GDP growth of just 0.5%, as high price pressures should continue to erode consumer purchasing power and higher ECB rates will have an effect over the course of the year, especially as improved near-term Eurozone growth prospects and sticky core inflation point to risks of more aggressive monetary policy tightening than earlier expected.

Emerging Economies

EM: The risks on the growth outlook were tilted slightly to the downside intramonth, despite the prevailing optimism since the beginning of the year, mainly stemming from China's reopening and the view that EMs would benefit more from the latter compared to DMs. The key factors that weighed on the sentiment over EMs' prospects were the strengthening of the USD and firm US hard data releases during February that discounted possible further boost to the greenback, putting a series of emerging currencies under pressure. Two of the most representative gauges of EM assets performance reflected the said concern with the MSCI EM currency index concluding February 5.5%MoM lower and the respective index for EM equities recording 6.4% losses during the same period. Walking through March, the image is slightly reversed with both indicators erasing some of February's losses so far and with the EM yields benchmark, JP EMBi plus, proving resilient in February and slightly retreating thereafter as China reopening unfolds and relative positive soft and hard data get infused across markets. The moving, albeit rather slowly and with steps hence and forth in major EMs such as Brazil, Colombia, Poland, Hungary, disinflation process also adds to the partial bending of the worries bred during the previous month.

CESEE: Risks remain elevated in the European arm of EMs as this is the region mostly exposed to the lingering geopolitical risks of the Russo-Ukrainian war. In the EC winter economic forecasts, economies of Estonia, Croatia, Latvia, Lithuania, Slovenia, Slovakia Bulgaria, Czechia, Hungary, Poland and Romania are all forecast to slow down in 2023 before picking up in 2024 and the same counts for Serbia, which is not covered in the winter report. The worst hit was directed towards the Baltic states (Estonia, Latvia, Lithuania) in 2022 which appear less immune than the rest peers, given their proximity to the war front. The forecasts for 2023 set the growth rate of the sub-group almost flat, as the rapid rise in energy and commodity prices has succeeded to strongly pass-through to other inflation components, increasing, thus, the time needed for consumption to recover in a period when external demand is also hampered. Despite the foreseen cooling in 2023 and the confirmed slowdown in the last quarter of 2022 across the region, economies fared better than expected in FY-2022 as private consumption was somewhat protected by the labor shortages that fostered wage growths, but which in turn fueled inflation further. The warmer-than-usual winter in the continent along with the fact that most of the peers succeeded in diversifying their energy mix and providers quickly enough, with only Hungary being a laggard, also helped.

Markets View

Foreign Exchange

EUR/USD: the pair retraced from a 1.1033 high towards a 1.0533 low intramonth, driven by the general market risk aversion during most of February that led to broad USD strengthening. US yields marking new highs have been matched by more aggressive rate tightening expectations elsewhere, bringing the trade into a range bound USD environment in the last couple of weeks. We still see scope for appreciation of the pair as the ECB normalizes its policy with a likely higher terminal rate, that should continue to support the EUR. The China reopening should offer further support. We expect the 1.05 area support to hold.

EUR/GBP: the pair was volatile within a 0.88-0.90 range driven by benign monetary policy. Significant and persistent inflation coupled with a still dovish BoE skews risks to the upside increasing the likelihood for revisiting 0.90 from 0.881 currently. Recent upside surprises in euro area inflation will likely push the ECB to raise rates faster and a higher terminal level, adding also support to the EURGBP. As long as 0.88 support holds we remain bullish on the pair.

Rates

EU: swap rates sold off due to the expectation that the ECB will bring forward rate hikes, continuing possibly the increases up to June, reaching, thus, ultimately the expected terminal rate. 2yr swap rates made new multi-year highs at 3.90% as the market is pricing in an ECB terminal rate above 4%. 10y swaps are trading at 3.25%, up from 2.90bps at the beginning of February. The 2s10s curve inverted further and is trading at -0.62% from -0.41%. We anticipate further inversion of the curve with increases in yields across as EU core inflation remains sticky with the market starting to discount headwinds down the road as monetary policy tightening starts taking effect.

US: swap rates rose across all tenors since our last issue. The 2yr rate reached a multi-year high of 5.26% as the market repriced the Fed's terminal rate above 5.65%. Contrary to the 2-yr rate, 5-, 10- and 30-yr swap rates did not surpass November 2022 highs. The 10-year swap rate rose from 3.50% to 4.08% before retracing a little lower. The swap curve continued to invert, with the 2s10s trading at -1.25%, retreating to new multi-decade lows as higher inflation numbers sustain the pressure on the Fed. Going forward, we anticipate potentially further inversion of the curve, but we expect the medium and long end of the curve to remain below November highs.

Emerging Markets Sovereign credit

Sovereign bonds proved resilient to the increased volatility in rates from the new shift in terminal rate expectations, assisted by better-than-expected growth data. The EMBI Global Index closed at 369 bps at the end of February, 1bp wider on the month having retreated to 366 in early March. In CEEMEA, Romania continued trading strongly, while in South Africa the much-anticipated budget played out as expected. In LATAM, Mexico traded weaker, with the front end selling off, after the Banxico surprised the markets by hiking 50bps vs 25bps that was expected, due to core inflation fears. In Asia, Chinese yields ended slightly higher while the Chinese PMIs came strong, adding to the successful reopening story. We are optimistic on EM fixed income as the big picture disinflation story is likely on track, but we think that caution is required as US rates volatility is still elevated and the Fed's hiking cycle in not over yet.

Corporate credit

European credit markets got the year off to a strong start in February, with risk-on mode feeding through the first days of last month, but sentiment changed following US labour market data that showed strong job growth and a multi-year low unemployment rate. The print sparked fears that inflation could prove more persistent than previously thought, leading to ramped up expectations for central bank rate hikes. In the Euro-area, core inflation rose to a new record high in February and latest unemployment data also showed near record low levels, adding further pressure.

As such, credit indices gave up some of their January gains, ending in negative territory intramonth but still holding up on a YTD basis. USD credit underperformed vs EUR and GBP while High Yield outperformed Investment Grade. Both itraxx Main and Xover ended flattish month-on-month, with European IG ending February by 1.8bps tighter. Utilities and Senior Financials outperformed (-3.5bps and -1.9bps tighter respectively) while Technology and Materials were laggards (widening 6.8bps and 6.5bps respectively). High Yield was 17bps tighter with Senior Financials and Consumer Discretionary providing support (ended tighter by -33.4bps and -30.6bps respectively) and Technology being a notable underper-former, widening by 77.2bps. Performance was worse on the other side of the Atlantic, with CDX IG and HY ending 6.3bps and 39.7bps wider respectively. USD IG ended 0.5bps wider while HY ended -6.3bps tighter.

With the "higher for longer" narrative now being priced-in to a higher extent following last month's per-formance, EU credit markets have run out of steam. We expect they will remain range-bound in the near term, continuing to move in tandem with inflation-related news flow, in an effort to assess whether this is as hawkish as it gets or there's further peak to rates repricing. We expect Europe's primary market activity to slow down somewhat compared to a quite active February as rates will be in focus.

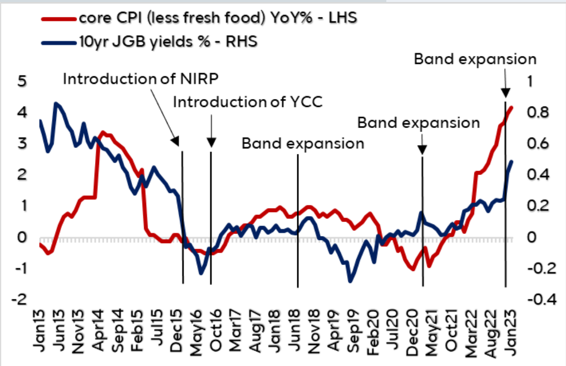
Special Topic: Global and domestic repercussions of the BoJ monetary policy

After the end of the asset price bubble in the early 90s, Japan went through a period of low inflation and weak growth. The policies adopted during the 90s did not tackle these stagnation conditions efficiently. To this end, the Bank of Japan (BoJ) adopted a strategy of quantitative easing (QE) in 2001 through extensive purchases of assets, mainly Japanese Government Bonds (JGBs). After the appointment of Governor Haruhiko Kuroda in 2013, the BoJ updated the QE policy to the so-called quantitative and qualitative easing (QQE), aiming at a faster expansion of the bank's balance sheet (Greenwood, 2017)[1].

In January 2016 the BoJ announced the adoption of a negative interest rate policy (NIRP) starting in February 2016 to boost prices and economic activity, setting the policy rate at -0.1%. However, the adoption of NIRP entailed a downturn in bond yields, with the 10yr JGB yield falling below 0% (Figure 3). In reaction, the BoJ introduced the "QQE with Yield Curve Control (YCC)" policy in September 2016, adding a 0% long-term target for 10yr JGB yield rates to the -0.1% short-term target. According to the bank's statement, the expansion of the monetary base would continue until inflation exceeds the 2% target and remains stable above that level. The long-term rates were fluctuating between ±0.1% from the target until July 2018, when the BoJ decided to allow yields to fluctuate in double the range. In March 2021 the bank set the yield cap at ±0.25% to make the policy more sustainable.

Despite monetary easing, inflation and growth remained low. The BoJ was massively purchasing sovereign bonds keeping 10yr JGB yields close to 0%, but the core CPI (less fresh food) had not exceeded 1% YoY from the start of the YCC policy until March 2022. Finally, it exceeded 2% YoY in April 2022, remaining on an increasing trend thereafter, in line with the global trend. In December 2022, the BoJ unexpectedly increased the long-term yield cap to 0.5% (Figure 3). The bank clarified that the reason behind the revision was to further facilitate the implementation of the ultra-loose monetary policy and tackle distortions observed in the bond market, thus it should not be considered a step towards the exit of the YCC.

Figure 3: Inflation and JGB yields before and after the introduction of the NIRP and the YCC



Source: Statistics Bureau of Japan, Refinitiv Eikon, Eurobank Research

The BoJ still controls the yield curve, keeping negative short-term interest rates. Nonetheless, the recent developments - especially last's December's tweak - have fueled speculations for a further relaxation or even a termination of the YCC, with the prospect to exit the NIRP, possibly at a later stage. The global

1 Greenwood, J. (2017). The Japanese experience with QE and QQE. Cato J., 37, 17

economic implications of the energy crisis and the Ukrainian conflict have exacerbated concerns regarding the side effects of the country's monetary easing strategy, adding pressures on the BoJ to adopt a less dovish stance.

Inflation is a key determinant for the policy's future and Japan faces remarkable inflationary pressures over the last year. The nationwide core CPI (less fresh food) stood at 4.2% YoY in January 2023, marking a 41-year high, well above target. The equivalent measure for Tokyo slowed down to 3.3% YoY in February from January's 4.3% YoY, an expected deceleration mainly due to the reduction in energy prices. However, note that the core February CPI of Tokyo with the narrow definition that excludes food and energy prices, accelerated to 1.8% YoY from January's 1.7% YoY. The nationwide core CPI (less fresh food) stood at 2.3% for calendar year 2022, and according to the Outlook for Economic Activity and Prices released in January 2023, the BoJ forecasts it to stand at 3.0% in Fiscal Year[2] (FY)2022 and then decelerate to 1.6% and 1.8% in FY2023 and FY2024 respectively. The bank's current projection points that stabilization above the 2% target will not be achieved.

Wage growth expectations may increase the possibility for inflation to surpass projections. The Shunto annual wage talks will be an additional factor to be considered for the next steps of the BoJ. This is a regular meeting for wage negotiations between managers and labor units. This year's procedure is particularly important for the future of the YCC policy. According to the Japanese Trade Union Confederation (JTUC) survey, labour unions have requested wage hikes of 4.49% on average, standing above 4% for the first time since 1998. Given the increased requests, the probability of generous wage hike agreements is higher. The latter would increase the prospects for a wage-price spiral that can be stabilized through higher interest rates.

Even if prices fail to remain above target, the BoJ may be forced to reconsider its strategy. As mentioned earlier, the side effects of the YCC and the NIRP have made the current monetary policy less popular. Specifically, the wave of interest rate hikes around the globe is associated with the recent depreciation of the yen leading to higher import costs. A policy in the form of a further adjustment of the yield curve implying higher long-term 10yr JGB yields or an abolishment of the NIRP strategy, would push the yen higher, reducing import prices.

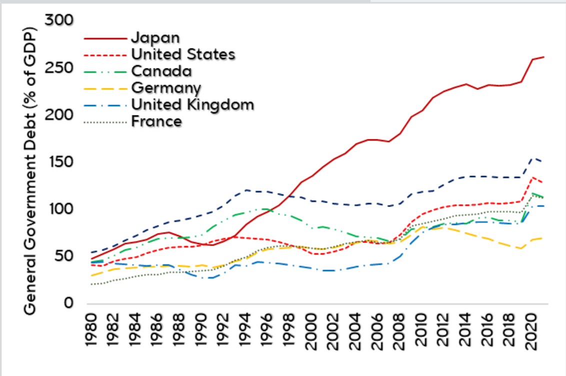
Furthermore, the current framework has been criticized as distorting the bond market. Higher inflation has raised investors' expectations that a further relaxation is coming, stimulating bond sales, and hence pushing JGB yields upwards, adding pressures to the bank to buy even more bonds. Indeed, in January 2023 the BoJ' government bond purchases jumped to a record-high of ¥23.69tn, as 10yr JGB yields exceeded the cap in the middle of the month. In addition, the bank responded to investors' massive sales by amending the rules for fund-supplying operations against pooled collateral. To this end, the flow of purchases decelerated to ¥9.40tn in February 2023. However, the Quarterly survey of the BoJ conducted in February 2023 indicated a further deterioration in the bond market functioning, with the diffusion index falling to -64 compared to -51 in the previous survey conducted in November 2022, the lowest level since the start of the survey in 2015. To this end, getting out of the current monetary easing, would improve bond market functionality, as the bank would buy less government bonds.

2 According to the BoJ accounting rules, the fiscal year of the bank runs from April 1 to March 31 of the following year.

A less accommodative policy could tackle the so-called zombification in the Japanese economy. Zombie firms are companies that stay afloat through credit inflows or public support, instead of profitability or equity. That is another remnant of the 90s crisis and recent evidence indicate that the problem persists, while credit expansion during the pandemic has deteriorated the situation. It is estimated that zombie firms consisted of 11.3% in FY2020[3]. A potential increase in interest rates would possibly result to a cleansing effect on the market, as larger costs of borrowing would lead to the insolvency of inefficient companies and would disengage funds to be distributed towards the most competitive players. However, the negative short-run and medium-run implications should not be neglected. A larger number of insolvencies is expected to have a negative effect on GDP growth and increase unemployment rates. In that case, the government would have to follow an expansionary fiscal policy to tackle unemployment, while it may have to support banks in order to manage the higher number of non-performing loans. The BoJ may have to carefully consider its strategy in a way that market cleaning would be gradual, mitigating the negative implications as much as possible.

On top of the short-run and medium-run impact of more business insolvencies, one should refer to other implications from a relaxation or even a termination of the current monetary policy and a shift towards a less accommodative approach may have implications both for global markets and within the country. Given that Japan is one of the largest world economies, a liquidity reduction may generate spillover effects across the globe, leading to higher government and corporate bond yield rates. Besides, an abolishment or modification of the YCC policy is likely to be followed by an increase in domestic interest rates, at a later stage. To this end, Japanese bonds will likely become cheaper and more attractive, while demand for foreign bonds would possibly diminish.

Figure 4: General government debt in G7, 1980-2021



Source: International Monetary Fund, Eurobank Research

Another challenge that the BoJ needs to consider in deciding the monetary stance ahead, is that Japan faces serious public debt servicing problems since the 90s crisis (Figure 4). According to the IMF, in 2021 Japan had the largest general government debt as a share of GDP among major economies, standing at 262.49%. A redirection of the monetary policy towards a less dovish approach with higher interest rates would fuel borrowing costs, making debt servicing even more difficult. Given that most of the country's debt is owned by Japanese investors, the risks related to debt sustainability could be limited. However, rate hikes could decelerate GDP growth which is needed to reduce debt burden.

As Kuroda's tenure -under whom the YCC policy was introduced- officially ends in April 2023 after 10 years serving as the Governor of the BoJ, the Japanese government announced Kazuo Ueda, an emeritus

[3] https://www.nippon.com/en/japan-data/h01399/

professor at Tokyo University, to be his successor. In contrast with Kuroda, his viewpoint on the current monetary policy framework so far seems rather neutral, recognizing the drawbacks of monetary easing, without neglecting the necessity to keep it as long as it is necessary.

During his latest speeches in the National Diet (the country's national legislature), he mentioned that the current policy is necessary, and the recent inflation trend is supply-driven, therefore the bank's response should not be immediate. However, he admitted the market deterioration as a result of the policy, and he commented that "there are various possibilities on what YCC could look like in the future". The latter is particularly important, as it is indicative of a possible change of direction by the bank even if inflation does not stabilize above the target, given the negative spillovers generated from the current monetary policy.

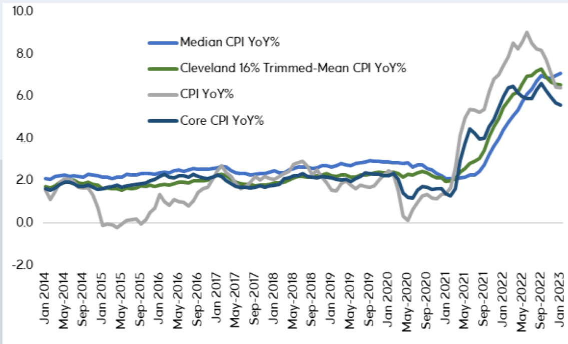
The developments regarding the BoJ's strategy are currently in the spotlight. As was highlighted from the above analysis, the decision to maintain, modify or terminate the YCC and the NIRP policy could have substantial consequences that should be considered beforehand, to alleviate potential problems. The timing and the type of any policy adjustment is also important. The new BoJ Governor supports the view that the bank should clearly communicate its strategy with the markets, though he also argued that surprises cannot be evaded at times.

US

High inflation and strong activity data support more aggressive Fed tightening

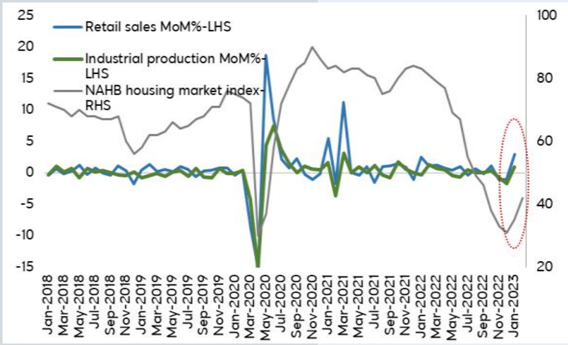
Headline CPI reaccelerated in January, rising from December's 0.1%MoM to 0.5%MoM, the firmest monthly increase since June 2022, as food inflation continued to rise strongly (0.5%MoM) and energy inflation marked its first positive contribution in two months (1.9%MoM) mainly on the back of higher gasoline prices. Core CPI also surprised to the upside in monthly terms, rising by 0.4%, the same as in December, against expectations of a modest decline, amid a hefty increase in services prices (0.5%MoM) mostly driven by firm shelter inflation (0.7%MoM), while core goods inflation halted a three-month declining streak and swung into positive territory (0.1%MoM), as a drop in used vehicle prices was more than offset by increases in other goods prices. In annual terms, both headline and core CPI decelerated for the fourth consecutive month, but remained elevated (6.4% and 5.6% respectively) adding to evidence that progress in bringing down inflation has been slow and further rate tightening will be required for the Fed to restore price stability on a sustained basis, especially as labor market conditions remain exceptionally tight and wage growth (average hourly earnings at 4.4%YoY in January) continues to run well above the 3.5% level that is historically consistent with the inflation target. Meanwhile, a string of economic data pertaining to early Q1 2023 implies another quarter of solid growth following a downward revised annualized GDP print of 2.7% (from 2.9% in the advance estimate) in Q4 2022, though risks of a mild recession by the end of the year are still non-negligible, as we might not have yet seen the full effect of the Fed's tightening cycle as lags in transmission of monetary policy take time to unfold. Among other data, US retail sales rose by a near two-year high of 3.0%MoM in January, more than reversing the 1.1% monthly declines in both November and December, manufacturing production rose by a one-year peak of 1.0%MoM, recovering part of a cumulative 2.6% decline in the prior two months, and the NAHB housing market index bounced sharply from January's 35 to a five-month high of 42 in February. Amid elevated risks of inflation staying high for longer as the economy remains fairly resilient to the Fed's hiking cycle, several Fed officials adopt a decisively hawkish tone, calling for more aggressive tightening to ensure inflation returns to the 2% target over time and indicating risks of the fed funds rate peaking higher than the 5.1% median in the Fed's December dots.

Figure 5: Measures of trend inflation remain strong



Source: BLS, Federal Reserve of Cleveland, Eurobank Research

Figure 6: Economic data point to solid GDP growth in Q1 2023



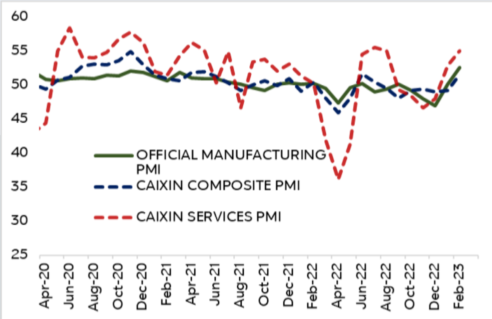
Source: BLS, St Louis Fed, NAHB, Eurobank Research

China

Growth target in 2023 set lower than market consensus of 5.5%

The key development of March sums up to the National People's Congress (NPC) and specifically the growth target of 5.0% in 2023. The NPC opened on March 5, concludes in March 13 and during its sessions and plenaries the economic and social agenda for the running year will unfold. Among the deliberations so far, the centerpiece is the announcement of the 2023 growth target with the bar considered to be set lower than the 5.5% market consensus. Reasons for the conservative approach of the Politburo could possibly have to do with (i) 2022's growth target mismatch as the mark was set at 5.5% and the actual print came in markedly behind at 3.0% and (ii) the confidence China wishes to emit by comfortably meeting this year's goal. Additionally, the prevailing global uncertainty and expected deceleration entail possible headwinds for China's growth, adding to the decision. Finally, with inflation proving hard to tame as quickly as earlier expected in almost the rest of the world, there are worries that the pent-up demand, after three years of suppression, could trigger inflationary pressures in China. With this in mind, the growth target was set at a level where no extensive policy stimulus would be required for the target to be achieved so as for the policy arsenal to remain as a backup, either for fighting possible inflationary waves caused from the economy's rebound, or for addressing vital idiosyncratic challenges such as the contraction in the real estate, the shrinking population and the slowing productivity growth. Prior to the commencement of the NPC, a series of soft and hard data released in February predisposed for this year's robust recovery but hinted also the limited or less than expected positive spillover for the rest of the world. February's PMIs moved to expansionary grounds, beating market expectations to the upside with the manufacturing gauge marking the highest reading since April 2012 and the services proxy hitting a new high since September 2022. Moreover, the value of new homes sold by the 100 largest real estate developers increased by 14.9%YoY in February, posting the first increase since June 2021. On the flipside, exports fell by 6.8%YoY year-to-February and so did imports that retreated by 10.2%YoY year-to-February, signaling the dependency of this year's growth print on domestic demand.

Figure 7: Broad optimism over the recovery ahead ...



Source: Bloomberg, Eurobank Research

Figure 8:..which follows a more self-reliant trail so far

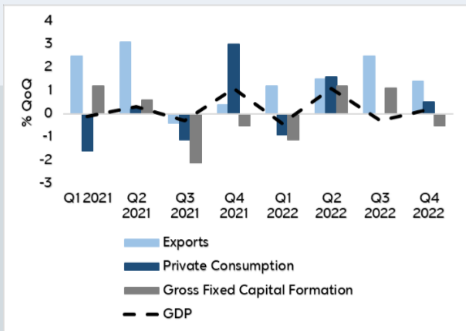
Source: Bloomberg, Eurobank Research

Japan

Weak growth in Q4 2022, weakening industrial production and strengthened consumption in early 2023

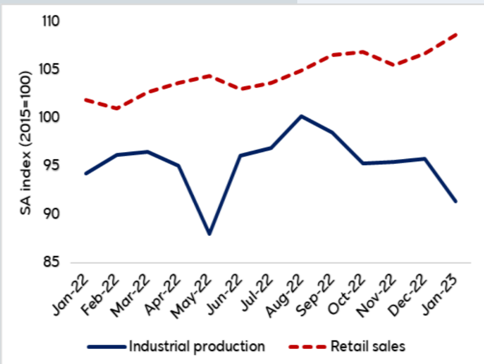
According to the preliminary GDP data for Q4 2022 the country returned to growth, albeit weaker than expected (Reuters poll 0.5% QoQ), with real GDP growing by a 0.2% QoQ from -0.3% QoQ in Q3 2022. The rebound was mainly driven by external demand, with exports rising by 1.4% QoQ, and imports falling by 0.4% QoQ, pointing to a positive 0.3ppt contribution to the GDP growth rate from net exports, associated with an increase in inbound tourism, as the government dropped Covid-related border restrictions in October 2022. Investment dragged down growth, with the gross fixed capital formation falling by 0.5% QoQ, while change in private inventories marked a large negative contribution at 0.5ppt to growth. In contrast, private consumption grew by 0.5% QoQ, which can be partially attributed to higher consumer spending by the government's travel subsidy program. Overall, the 2022 annual real GDP growth rate stood at 1.1% comparing to 2.1% in 2021. A substantial shrinkage in industrial production marked the beginning of 2023, as it declined in January in seasonally adjusted terms by 4.6% MoM, possibly due to weak trade performance, as January's trade deficit marked a record-high of ¥3.5tn. Leading indicators illustrate different directions within the economy. February manufacturing PMI declined to 47.7 from January's 48.9, the sharpest contraction since September 2020, while February services PMI rose to 54.0 from January's 52.3, the highest since June 2022. On the consumption side, the positive tone observed in Q4 2022 persisted in early 2023, as seasonally adjusted retail sales increased by 1.9% MoM. The improvement in consumer demand is possibly associated with the sharp increase in employees' cash earnings in December 2022 by 4.1% YoY, the largest since January 1997. Finally, despite the deceleration in February Tokyo headline inflation to 3.4% YoY from January's 4.4% YoY (more than 41-high) associated with the reduction in energy prices, the core CPI Tokyo (less food and energy) rose to 1.8% YoY from January's 1.7% YoY, indicating a persistence in price pressures, possibly allowing the BoJ to shift the current monetary easing policy towards a less dovish stance.

Figure 9: Weak growth in Q4 2022, mainly driven by poor investment



Source: Cabinet office Japan, Eurobank Research

Figure 10: Tumbling industrial production, but better consumption prospects in early 2023



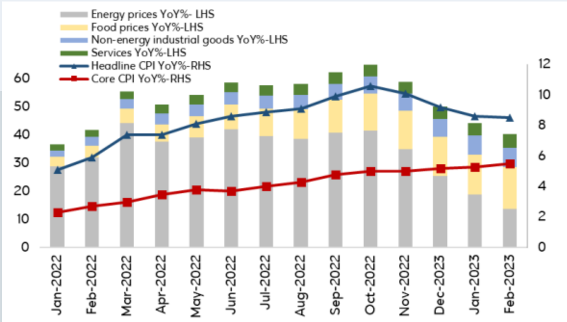
Source: METI Japan, Eurobank Research

Euro area

Improving growth prospects and sticky core CPI point to risks of more aggressive ECB rate tightening

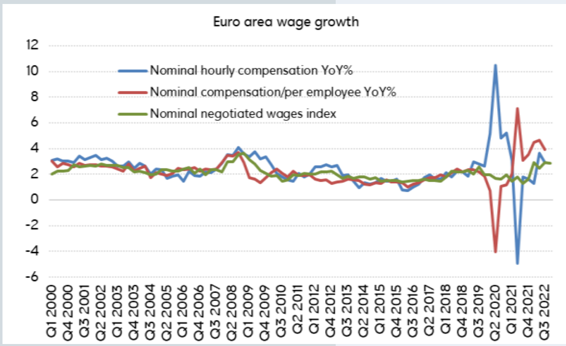
Headline CPI dropped in February for the fourth consecutive month from January's 8.6%YoY to 8.5%YoY, after peaking at 10.6%YoY in October. However, the fall was smaller than expected, as a sharp drop in wholesale gas prices (13.7%YoY from January's 18.9%YoY) was offset by rising food prices (15.0%YoY from 14.1%YoY) mainly due to a hefty increase in unprocessed food inflation after three consecutive monthly declines, likely on the back of the cold February weather. More importantly, core inflation continued to rise firmly, accelerating to a fresh record high of 5.6%YoY. Reflecting broadening price pressures, goods inflation rose further, though by a declining pace, to 6.8%YoY from 6.7%YoY, but more worryingly, services inflation increased strongly, up by 0.4ppt to 4.8%YoY. What's more, still rising wage growth (Figure 12) amid persistent labor market tightness (January's unemployment rate at 6.7% for the third consecutive month, within distance from October's 6.6% record low), makes a near-term slowdown in services inflation unlikely. Meanwhile, incoming soft and hard data pertaining to Q1 2023 suggest a stronger pace of activity following a downward revised 0.0%QoQ GDP growth print in Q4 2022 (from 0.1%QoQ previously) giving room for hope an earlier expected technical recession this winter will likely be avoided. But though the economy will likely regain momentum in Q1, data are still consistent with feeble activity. The composite PMI rose in February for the fourth consecutive month to a nine-month high of 52.0 from 50.3 in January. On the other hand, the three-month rising streak of the EC consumer sentiment index came to a halt in February edging down by 0.1 to 99.7, retail sales were up by 0.3%MoM in January following a 1.6%MoM decline in December, but were still down by a hefty 2.4%YoY,and, as evident in the January 2023 ECB Bank Lending Survey, higher rates are already feeding through to the credit channel, taking a toll on economic activity. All in all, for the full 2023 year we stick to our projection for GDP growth of just 0.5%YoY, as high price pressures should continue to erode consumer purchasing power and higher ECB rates will have an effect over the course of the year, especially as improved near-term Eurozone growth prospects and sticky core inflation point to risks of more aggressive monetary policy tightening.

Figure 11: Headline CPI has peaked but core inflation keeps rising



Source: Eurostat, Eurobank Research

Figure 12: Still rising wage growth likely to keep core inflation above target in the coming months



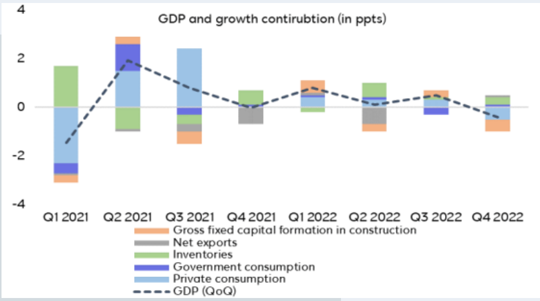
Source: ECB, Eurobank Research

Germany

Q4 GDP growth revised further lower, increasing the risks of technical recession

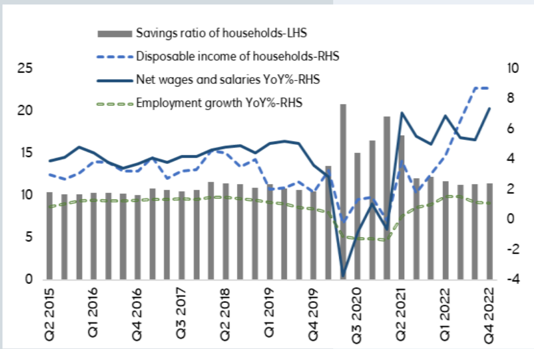
According to the third estimate, Q4 2022 GDP was revised down further, showing a 0.4%QoQ contraction, double the reported decline in the flash release (-0.2%QoQ) following a preliminary estimate that indicated flat quarterly growth. Private consumption was among main drags on growth, shrinking by 1.0%QoQ and subtracting 0.5ppt, reflecting the burden of persistently high inflation and deteriorating financial conditions due to rising ECB interest rates. Thankfully, persistent tightness in the labor market (employment was at a record high of 45.7mn in Q4), the government's one-off payment of household energy bills in December and still high accumulated savings (savings rate up by 0.1ppt to 11.4% in Q4, above pre-pandemic levels) prevented a more pronounced Q4 decline in private consumption. Along similar lines, business fixed investment also contracted substantially, by 2.5%QoQ, weighing heavily on growth, -0.5ppt, mainly pressured by an accelerating decline in construction amid higher building costs, rising mortgage rates and contracting real wages. On the flipside, net exports (+0.1ppt, reflecting a larger fall in imports than that in exports), a large inventory buildup (+0.3ppt) and government consumption (+0.1ppt), helped the economy to avoid falling into a deeper contraction. Undoubtedly, the economy continues to face steep challenges, and the further downward revision in the Q4 GDP print increases the risk of a technical recession as output may drop further in Q1 2023. Persistently high price pressures should continue to weigh on households' purchasing power (HICP inflation unexpectedly up by 0.1ppt to 9.3%YoY in February), while rising borrowing costs and continuing material shortages (as evident in the January's IFO survey) leave no room for optimism for a quick bounce back in business investment. However, improving sentiment indicators pertaining to January/February thanks to lower wholesale energy prices, government support measures and optimism that inflation has passed its peak (e.g., IFO business climate, PMIs) suggest that a likely Q1 2023 GDP growth contraction will be softer than in Q4, followed by a gradual recovery from Q2 that could set the stage for a broad GDP growth stagnation this year, better than -0.6% expected in late 2022.

Figure 13: Household consumption and gross fixed capital formation were the main drags on Q4 2022 GDP



Source: German Federal Statistical Office, Eurobank Research

Figure 14: Rising wages amid a tight labor market & high accumulated savings prevented a deeper Q4 decline in household consumption



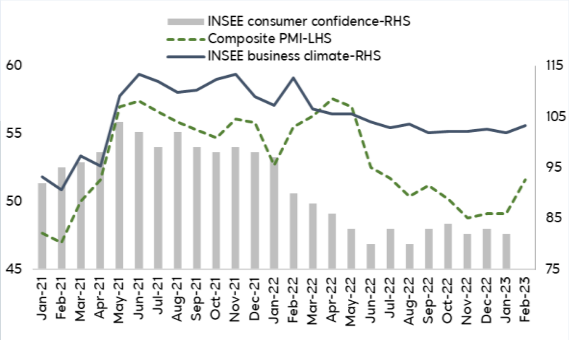
Source: German Federal Statistical Office, Eurobank Research

France

Leading indicators point to subdued, but still positive Q1 GDP growth

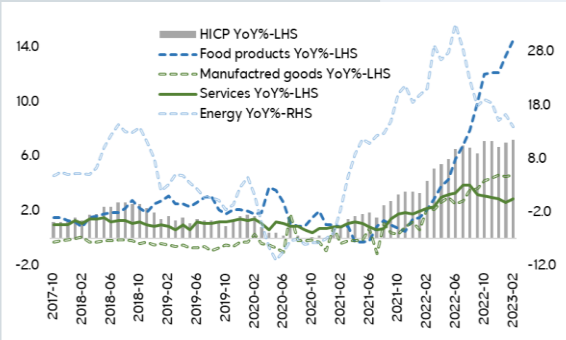
Real GDP growth eased in Q4 2022 for the third consecutive quarter, remaining though in positive territory (+0.1%QoQ) mainly thanks to net trade (+0.5ppt) as imports fell by a higher pace than exports, confounding earlier expectations of a recession. Looking into Q1 2023, leading indicators paint a mixed picture and, while not pointing to risks of a growth contraction, leave no room for optimism for a strong rebound. The composite PMI moved above the threshold of 50.0 in February (51.6) for the first time since October 2022, and the INSEE business climate index increased by 1.4 in February (103.3), recovering fully January's 0.7 drop and standing well above its long-term average. On the flipside, the INSEE consumer confidence index dropped in January for the third consecutive month (82.0), coming closer to June 2013's historical lows (79), as reflected in household consumption which dropped significantly in Q4 2022 (-0.9%QoQ) pressured by the cost-of-living crisis. That said, the economic landscape continues to look challenging. Inflation has not yet reached a peak, continuing to dent household purchasing power. In spite of lower energy prices, HICP inflation rose by a higher than expected 0.2ppt to 7.2%YoY in February, as food prices inflation resumed its uptrend led by fresh food, but also industrial goods and services inflation kept rising. In addition, fiscal policy is becoming less expansionary following the end of the fuel tax rebate at the end of 2022 and the revision of the tariff shield which led to: (i) a 15% increase since January in the regulated prices of gas and, (ii) a 15% rise in household electricity bills since February (compared to 4% in 2022). Higher ECB interest rates should also continue to weigh on domestic demand, while ongoing massive nationwide strikes against the proposed pension reform, which envisions among others a gradual increase in the retirement age from 62 to 64 years by 2030, should also dent economic activity somewhat in Q1 (26 March is the deadline for the parliament to ratify on the said reform). In all, GDP growth is expected to remain subdued in H1 2023 with a stable print in Q1, before a projected deceleration of inflation in H2 on lower energy and commodity prices should allow for a gradual recovery, taking annual GDP for the whole year at 0.5% after growing by 2.6% in 2022.

Figure 15: Leading indicators point to subdued, but still positive GDP growth in Q1



Source: INSEE, Bloomberg, Eurobank Research

Figure 16: Headline inflation continued to rise in February



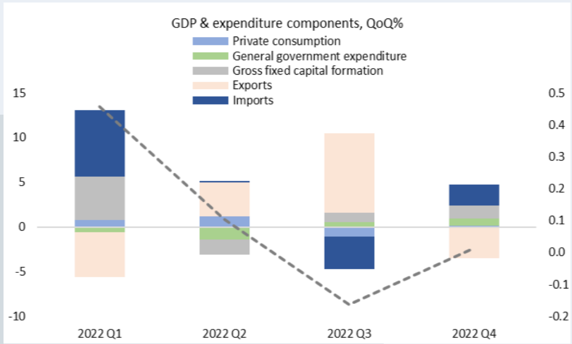
Source: INSEEE, Eurobank Research

UK

A technical recession in H2 2022 was narrowly avoided, but challenges prevail

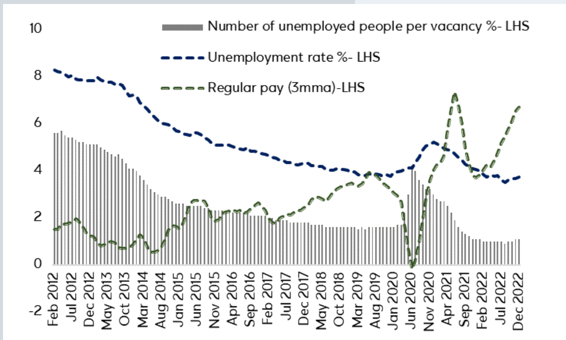
GDP dropped by a slightly higher than expected 0.5%MoM in December after growing by an average 0.3%MoM in October-November, mostly pressured by a monthly contraction in services (-0.8%), attributed to some extent to the worker strikes. The softer than anticipated December print brought GDP growth for Q4 to 0.0%QoQ, suggesting that the economy narrowly avoided a technical recession after shrinking by 0.2%QoQ in Q3 (upward revised from -0.3%QoQ initially reported). For the whole year 2022, GDP grew by 4.0%YoY, remaining 0.8% below pre-pandemic levels. Even though a technical recession was prevented, the broader picture for the UK economy is still challenging and a flat Q4 GDP print will rather delay rather than avert a looming recession, expected more likely by mid-year, as several headwinds remain. Notably, higher BoE interest rates have yet to fully feed through to household consumption and business investment, public policy will be relatively less supportive in 2023 as much of the energy support will dissipate, and persistently high price pressures should continue to erode consumer purchasing power. That said, headline inflation and core CPI dropped in January for the third consecutive month, by more than expected to 10.1%YoY and 5.8%YoY, respectively, from 10.5%YoY and 6.3%YoY in December, partially thanks to the weighting changes in the consumer price basket, remaining though well above the BoE's inflation target. Strikes should also continue to weigh on activity in early Q1, the housing market is slowing sharply amid rising mortgage rates, while another bank holiday in Q2 to mark the King's coronation could also weigh on output. However, as evident in the surprisingly strong February's PMIs, the expected recession is likely to be shallower than earlier projected, thanks to lower energy prices, improved political stability, a turn in inflation and the improved external backdrop following China's reopening and better than earlier expected Eurozone growth prospects. All in all, we now expect 2023 GDP to shrink by -0.6%, while the less gloomy UK growth outlook against a backdrop of elevated inflation and persisting labor market tightness supports further BoE tightening.

Figure 17: A technical recession in H2 2022 was narrowly avoided



Source: ONS, Eurobank Research

Figure 18: Persisting labor market tightness likely points to further BoE rate tightening



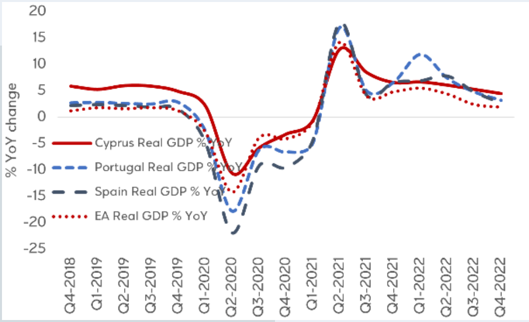
Source: ONS, Eurobank Research

Cyprus

Moderate growth slowdown in Q4-2022, improving prospects for exports

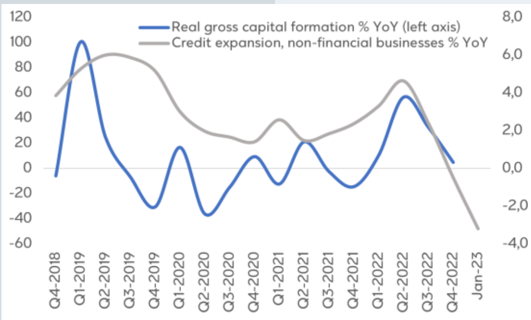
The growth momentum in Cyprus eased further in Q4-2022, to 4.5%YoY from 5.3%YoY in Q3-2022. The slowdown was mainly driven from the same trend in investments (+4.7%YoY after +32.5%YoY in Q3-2022), due to a weaker positive effect from inventories, with the rise in gross fixed capital formation easing moderately (+6.5%YoY vs. +2.3%YoY). The latter deceleration is linked to the same dynamics of investments in housing, as well as in other construction, in line with the slight slowdown in H2-2022 in mortgages' growth (+4.6%YoY in Dec-22 from +5.4%YoY in Jun-22) and the change of trend in credit to non-financial businesses (-1.7%YoY against +4.3%YoY). Weaker growth in Q4-2022 stemmed also from less expanding household consumption (+6.6%YoY from +9.6%YoY). On the contrary, the external balance improved in Oct-Dec '22, both from a small acceleration in exports growth (+10.4%YoY after +9.9%YoY), due to a stronger increase in exports of goods (+18.1%YoY from +10.6%YoY), as well as from a slowdown in imports (+12.2%YoY from +18.4%YoY). Overall, in 2022, GDP expanded by 5.6%, a moderate deceleration relative to the 6.6% growth rate in 2021 given the implications of the war in Ukraine. The causes behind GDP slowdown in end-2022 highlight some segments of the economy where policy actions in the coming period are needed, also by the newly elected government, to improve conditions for 2023 and the next years. In the field of investments, although a stronger support from RRF and MFF 2021-2027 is expected, it is to some extent undermined by the lingering issue of foreclosure suspension for a part of loans, inhibiting banks' ability to provide new financing. The implications are evident in credit growth which contracted in Dec-22 – Jan-23 for the first time in the last two years, weighing mainly on credit to non-financial businesses (-3.2%YoY in Jan-23). As inflation is steadily slowing since Aug-22, falling to a 12-month low in Feb-23 (6.7%YoY), thereby pressures on private consumption are easing, the importance of other developments for household consumption is escalating, e.g., the forthcoming negotiations about wage indexation in the private sector. Prospects for the external sector are improving lately, due to increasing signs of the Eurozone remaining on a growth path in Q1-2023. The above dynamics are evident in the moderate upward revision by the EC in its Winter Economic Forecast of the GDP forecast for 2023, to 1.6% from 1.0% in Nov-22.

Figure 19: In terms of GDP growth, Cyprus performed better in 2022 than the peripheral peers and EA average



Source: Eurostat, Eurobank Research

Figure 20: Investments follow the trend in business credit with a one or two-quarter time lag



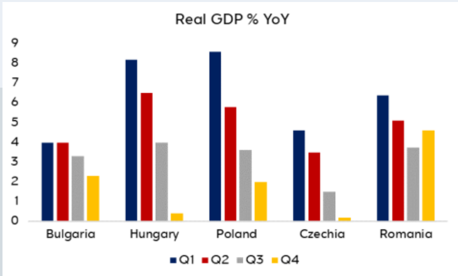
Source: CYSTAT, Eurobank Research

Bulgaria

Growth lands at 3.4% in 2022 with more cooling on cards for 2023

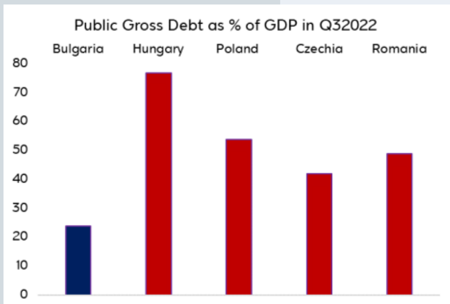
After growing by 4.4%YoY, 3.9%YoY and 2.9%YoY in Q1, Q2 and Q3 respectively, real GDP expanded by 2.6%YoY in Q4 bringing the average real GDP growth rate at 3.4% and marking, thus, a visible deceleration compared to 2021 when the economy grew by 7.6%. On a quarterly basis, Q4 growth rate was estimated at 0.6%, coinciding with the pace of growth in the previous quarter, having grown by 0.7% in Q2 and 0.3% in Q1. The breakdown of the GDP components from the expenditure perspective points to consumption as the key contributor of the full year headline growth and reveals the retreat of investments, i.e. a continuing trend starting to breed in 2021. Despite the apparent growth slowdown in 2022, its magnitude was smaller than that estimated earlier in the year while it also surprised to the upside given the milder than anticipated cooling in Q4-2022 (3.2%. market consensus). All in all, fears that the sharp increase of CPI that averaged at 15.3% in 2022 would hamper materially private consumption were not fully realised as wages and social transfer increases acted protectively towards the disposable incomes. Triggered, among others, by ultra-low levels of unemployment (3.9% in Q4 2022 vs 5-year average at 4.8%), nominal wage increases that averaged at 13.6% in 2022 and translated into an average -1.6% annual real reduction, appear to have sheltered consumption. Looking ahead into the start of 2023, the inflationary outlook continues to preoccupy with maigre signs of decompression in January not being sufficient yet to wash out the sour sentiment coming from the deferral of the euro adoption date for 12 months. February ended with an official announcement by the ministry of finance, stating that the government will not request the EC and the ECB to prepare a convergence report on Bulgaria's readiness for eurozone entry, as the target date of January 1, 2024, for the euro adoption cannot be met. The statement came as little surprise, as the inflation criterium failed to be met for quite some time while there were also delays in the adoption of all necessary legislation. Annual CPI came in at 16.4% in January vs 16.9% in December with the respective monthly print failing to show signs of prices de-escalation (+1.1% in January vs 0.9% in December). In a nutshell, the interaction between wage increases, given the persistent labour shortages, and the course of prices will determine to a great extend the growth rate in 2023, which is forecast to slide to 1.3%, given the downside risks from continuing delays in the RRP rollout.

Figure 21: Amid growth retarding cross-country due to high inflation…



Source: Statistics Office of each country depicted, Eurobank Research

Figure 22: …the lowest indebtedness of Bulgaria in the region adds resilience…



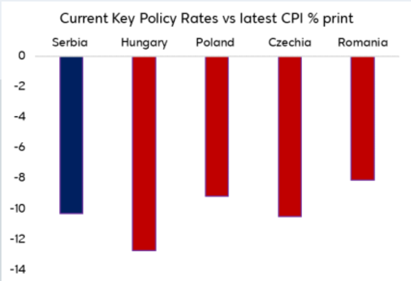
Source: Eurostat, Eurobank Research

Serbia

Inefficiencies in the energy industry tilt growth risks to the downside

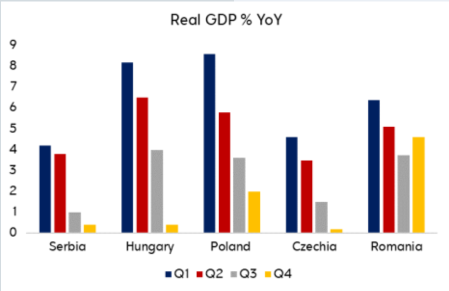
Preliminary data of real GDP growth in Q4-2022 confirmed the flash estimate of 0.4% YoY and sealed the FY2022 growth rate at 2.3% from 7.5% in 2021, with private consumption continuing to contribute the most, but with its loss of steam, given the soaring inflation throughout the previous year, reflected in the headline print. Marching into 2023, the course of inflation continues to preoccupy as the CPI print came in at 15.8%YoY in January accelerating from 15.1%YoY in December while, in monthly terms, headline inflation increased by 1.4% from 0.5% in the previous month. The increase in both prints, annual and monthly, stems mainly from food and energy prices which bodes well with the 8% and 11% increases in the electricity and natural gas prices respectively from January 1, 2023. While the Central Bank of Serbia anticipates prices to ease in H2-2023 before peaking further in Q1-2023, as stated in the latest inflation report released in mid-February, routed increases in energy prices by 8% from May 1, 2023, November 1, 2023 and May 1, 2024 agreed between the Serbian government and the IMF in order for the latter to greenlight in late Dec-2022 the EUR2.4bn Stand By Agreement (SBA), render soaring inflation hard to tame. Reasons for the Serbian government to consent to the said increases lie to aged and structural problems of the two dominant public energy providers of Serbia (EPS-Elektroprivreda Srbije for electricity and Srbijagas for natural gas) that coincided with the unprecedented turmoil in the energy markets in 2022, turning the energy sufficiency for Serbia costly with evident imprint the widening of its current account deficit from 4.5% of GDP in 2021 to almost 7.0% of GDP in 2022. On the flipside, the IMF consented into replacing the non-financial Policy Coordination Instrument with financial assistance in the shape of the SBA under firm pledges of the Serbian cabinet over severe reforms in the local energy market. Given the above, the presumptive stubbornness of inflation in Serbia for at least the first half of 2023, along with the fact that the tightening monetary cycle has fared a long way since its beginning in April 2022, cast a shadow over the resilience of private consumption, about to be squeezed through the trimming of disposable incomes. Moreover, the targeted 3.3% of the projected 2023 GDP fiscal deficit will most probably leave limited room for wage and social transfer increases as a compensation for increasing consumer prices, given the fact that more than half of the deficit (1.7-1.8% of GDP) will be directed into the financing of losses of both the EPS and Srbijagas, as inferred in the opinion of the 2023's budget by the Fiscal Council in early December. The subdued external demand from its major trade partner, the EU, poses additional headwinds.

Figure 23: Despite the monetary tightening among peers...



Source: Central Bank of each country depicted, Eurobank Research

Figure 24: ...unabated inflation took a visible toll on growth in 2022...



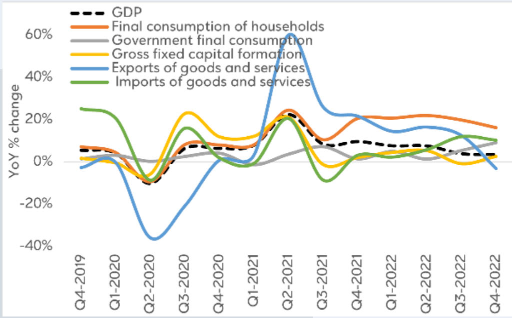
Source: Statistics Office of each country depicted, Eurobank Research

Turkey

Significant deterioration of growth dynamics for 2023 from the earthquakes

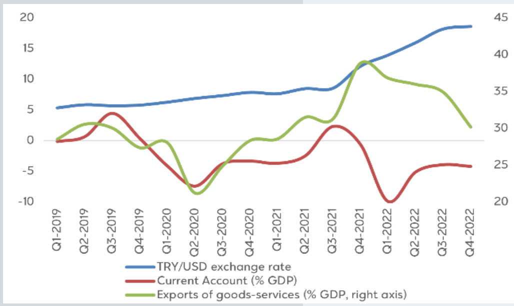
Growth eased further in Q4 2022 to 3.5%YoY from 3.8%YoY in Q3 2022. The slowdown was mainly driven by a 3.3%YoY decline in exports, in contrast to a 12.4%YoY rise in Q3 2022, affirming the evidenced in previous issues fading benefits from the Turkish lira (TRY) devaluation -due to the unconventional monetary policy by the Central Bank of Turkey- for competitiveness. On the imports side, the pace of increase eased moderately in Q4, by 1.7ppts, to 10.2%YoY. The deceleration in household consumption expansion to 16.1%YoY from 19.8%YoY was the other cause of weaker GDP growth, albeit milder than anticipated given the 24-year inflation high in Q4, on the back of raises in the minimum wage and civil servants' salaries. On the other hand, ahead of presidential elections, government consumption widened by 9.0%YoY. Fixed investment rose moderately (+2.6%YoY), after falling in Q3 by 0.8%YoY. Overall, in 2022, real GDP growth more than halved compared to 2021, to 5.4% from 11.6%. Trends in key determinants of private consumption in early 2023 (new increases in minimum wage and civil servants' pay, de-escalating inflation from falling energy prices) pointed to a continuing increase in Q1 2023. Accelerating credit expansion towards businesses and cuts in utility and gas prices for industrial use up to early Feb-23 created favourable conditions for investments and industrial production. But the earthquakes of February 6 dramatically changed the dynamics and priorities in the Turkish economy. Given the magnitude of the disasters, it is very difficult to evaluate the implications for the economy and society. TURKONFED (Turkish Business Confederation) estimated a damage of $84.1bn, including buildings-infrastructure, GDP losses and labour force losses. Support for the hit regions, from fundraising, emergency social transfers and loans, financial assistance from abroad etc. is already sizeable, exceeding $19bn. Regardless of developments in this field, the human toll is extremely high, a very long period is required to restore damages to remaining residences-businesses-infrastructure, even disruptions in everyday life. The new policy rate cut in Feb-23 by 50bps, to 8.5%, after a 3-month pause from the massive rate easing in Aug-Nov 22 (-500bps) added to heightened uncertainty, with the TRY devaluating further against the USD, moving below 18.9 for the first time ever. These adverse developments are reflected in the deterioration of growth projections for 2023 to 2.5%, from c.3.0% before the earthquakes.

Figure 25: Growth decelerated further in Q4 2022, from falling exports and decelerating household consumption



Source: Turkstat, Eurobank Research

Figure 26: TRY devaluation since Oct-21 due to monetary policy deteriorates exports & current account



Source: Central Bank of Turkey, Turkstat, 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)		
	2022e	2023f	2024f	2022e	2023f	2024f	2022e	2023f	2024f	2022e	2023f	2024f	2022e	2023f	2024f
World	3.4	2.4	2.9	8.8	5.3	3.6									
Advanced Economies															
USA	2.1	0.8	1.2	8.0	4.0	2.5	3.6	3.9	4.6	-3.9	-3.2	-3.1	-5.5	-4.9	-5.1
Eurozone	3.5	0.5	1.2	8.4	5.6	2.4	6.7	6.0	7.0	-0.3	0.7	1.1	-3.7	-3.6	-3.2
Germany	1.8	0.0	1.2	8.6	6.1	2.7	5.3	5.6	5.3	3.7	4.4	4.5	-3.2	-2.8	-2.0
France	2.6	0.5	1.0	5.9	5.0	2.3	7.3	7.4	7.8	-2.2	-2.3	-1.6	-5.0	-5.0	-4.7
Periphery															
Cyprus	5.6	2.0	2.7	8.1	4.0	2.0	6.8	6.3	6.0	-10.8	-8.0	-6.0	2.3	1.2	1.8
Italy	3.7	0.5	1	8.7	6.6	2.2	8.1	8.3	8.5	-0.2	-0.5	0.5	-5.2	-4.8	-4.2
Portugal	6.8	0.8	1.7	8.1	5.5	2.3	6.0	6.2	6.1	-2.0	-1.7	-1.3	-1.8	-1.3	-0.9
Spain	5.5	1.1	1.8	8.3	4.3	2.5	12.9	13.0	12.8	0.4	0.6	1	-4.9	-4.4	-3.9
UK	4.0	-0.6	0.9	9.1	6.6	2.4	3.7	4.3	4.7	-5.2	-3.6	-3.9	-6.7	-5.4	-3.6
Japan	1.1	1.3	1.0	2.5	2.0	1.7	2.6	2.5	2.4	2.1	1.5	2.0	-6.7	-5	-3.8
Emerging Economies															
BRICs															
Brazil	2.9	0.8	1.8	9.3	5.2	4.0	9.3	9.3	9.5	-2.9	-2.4	-2.1	-4.7	-7.8	-7.4
China	3.0	5.2	5.0	2.0	2.5	2.3	4.9	4.0	4.0	2.3	1.3	1.1	-4.7	-4.9	-4.8
India	7.0	6.0	6.2	6.7	5.1	5.0		NA		-3.0	-2.5	-2.4	-6.4	-6.0	-5.5
Russia	-2.1	-2.5	1.5	13.8	5.8	4.9	4.8	4.5	4.5	10.5	4.8	3.8	-2.2	-3.3	-1.9
CESEE															
Bulgaria	3.8	1.3	2.5	15.3	8.7	4.1	4.3	4.8	4.7	-0.4	-0.8	-0.5	-2.9	-3.0	-3.0
Serbia	2.3	2.5	3.2	11.9	9.7	4.7	9.4	9.8	9.6	-6.9	-6.8	-6.3	-3.1	-3.3	-2.5
Turkey	5.4	2.2	3.5	72.0	43.4	23.6	10.5	12.0	11.5	-5.5	-6.8	-5.5	-0.9	-2.5	-1.3

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

Eurobank Fixed Income Forecasts

	Current	March	June	September	December
USA					
Fed Funds Rate	4.50-4.75%	4.75-5.00%	4.99-5.25%	4.97-5.02%	4.82-5.05%
3m SOFR	4.96%	4.90%	5.11%	5.04%	4.85%
2yr Notes	4.87%	4.45%	4.37%	4.16%	3.88%
10yr Bonds	3.94%	3.68%	3.66%	3.60%	3.48%
Eurozone					
Refi Rate	3.00%	3.50%	3.80%	3.75%	3.75%
3m Euribor	2.92%	3.06%	3.25%	3.23%	3.19%
2yr Bunds	3.25%	2.64%	2.57%	2.39%	2.12%
10yr Bunds	2.68%	2.39%	2.35%	2.23%	2.04%
UK					
Repo Rate	4.00%	4.25%	4.35%	4.30%	4.20%
3m Sonia	4.20%	4.23%	4.33%	4.29%	4.10%
10-yr Gilt	3.82%	3.40%	3.33%	3.25%	3.09%
Switzerland					
3m Saron	1.43%	1.46%	1.54%	1.52%	1.51%
10-yr Bond	1.54%	1.47%	1.53%	1.49%	1.41%

Source: Bloomberg (market implied forecasts)

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