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GLOBAL & REGIONAL MONTHLY

The global economy entered 2024 on a solid foundation, demonstrating continued resilience. The April global composite PMI surveys boosted confidence in the sustainability of a healthy short-term growth momentum. Robust activity data has come with a slowdown in progress on the inflation front. The disinflationary trend in goods and oil appears to be losing steam, while strong labour markets are keeping services inflation high. Taking these developments into account, several major central banks are expected to proceed cautiously when it comes to relaxing monetary policy, potentially slowing or delaying their easing cycles, though keeping their freedom of manoeuvre open. They insist on being guided by the data.

Macro Picture

USA: the economy moderated in Q1, but still remains on a solid footing

EA: GDP rebounded strongly in Q1, but it remains unclear whether this momentum will persist

Japan: disruption to auto production contributed to disappointing Q1 GDP outcome

CESEE: flash GDP estimates in Q1 point to sound growth performance

Markets

FX: EUR direction unclear; USD/JPY overshoot is cue for FX interventions by Japanese authorities

Rates: EU and US rates expected to move lower but at slow pace as inflation remains sticky

EM: sovereign spreads little changed, supported by Fed stance and unaffected by Mideast tension

Credit: focus on macro and central bank commentary; issuance tapered off but likely to pick up

Policy Outlook

USA: Fed shifts to a wait-and-see policy stance, signalling rates will likely remain high for longer

EA: the ECB hints at June for first rate cut, but does not commit to a policy rate path thereafter

Japan: bets rising that BoJ will hike interest rates again by July

CESEE: central banks tiptoe between keeping inflation at bay and allowing economy to grow

Key Downside Risks

DM: increased interest rate expectation due to new price spikes stemming from escalating geopolitical tensions and/or persistently high core inflation, intensified geoeconomic fragmentation

EM: a sustained period of USD strength against some EM currencies weighs on the respective sovereign credit profiles

Special Topic in this issue:
→ EU fiscal rules back; could cause France and Italy post-election headaches

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May 2024

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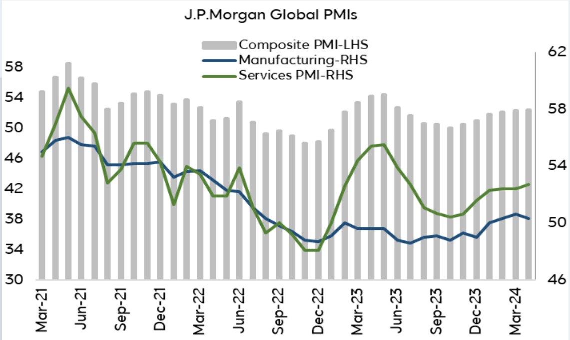
Macro Views

As global growth prospects brighten, the pace of disinflation has stalled, forcing several major CBs to proceed cautiously over easing policy

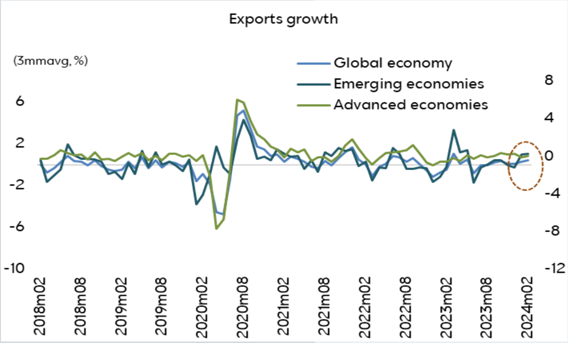
Figure 1: April PMIs bolster confidence in the sustainability of healthy growth momentum



Source: Bloomberg, Eurobank Research

Global prospects are brightening, although growth remains modest. Reflecting continued resilience to tighter monetary conditions and persistent geopolitical risks, the global economy started 2024 on a firm footing, with real GDP estimated to have expanded by 2.7%YoY in Q1, a similar growth rate to that of the last three quarters and not too far below its historic average. Importantly, regional activity is displaying signs of better balance, offering hope that the global expansion is transitioning towards a phase of stable and robust growth, as activity outside the US has rebounded after a period of US outperformance. Looking ahead, the further, albeit marginal, increase of 0.1pts in the global April composite PMI to a 10-month high of 52.4, supports optimism for continued healthy momentum in the near term, supported by robust private-sector balance sheets and ongoing strength in labour markets. This improvement was driven by a further increase in service sector activity which offset a slight decline in manufacturing growth. Specifically, the global services PMI rose further into expansionary territory, up by 0.3pts to 52.7, while the global manufacturing PMI dropped to 50.3 from 50.6, although still remained in expansionary territory for the third consecutive month after more than a year of contractionary prints. Adding to the optimism for continued global expansion, global export volumes expanded further in February, with a 0.3%MoM rise after a near one-year high increase of 0.8%MoM in January (according to data from the CBP Netherlands Bureau for Economic Policy Analysis). However, several challenges remain, including the risk of escalating tensions in the Middle East.

Figure 2: Global export volumes show uptrend in recent months; emerging markets outperform



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

Meanwhile, the pace of disinflation has slowed in recent months. Global headline CPI growth remains on a slight downward trajectory as the rebound in energy prices due to elevated geopolitical uncertainty is being offset by global food inflation. However, global core inflation remains stubbornly high. The deflationary trend observed in goods prices in H2 2023 driven by easing supply-chain pressures and softening global goods demand, appears to be losing some momentum, possibly due to the latest disruptions in global shipping routes. More importantly, service prices remain elevated, well above pre-pandemic levels, primarily driven by the ongoing labour market strength in most developed economies that leads to persistently high wage growth.

In light of these developments, policymakers are expected to proceed cautiously over easing policy. This is because they may need more time to build sufficient confidence that inflation is sustainably heading back to target levels. Overall, several major central banks will likely be forced to extend further their high-for-longer policy stance, by slowing or delaying easing cycles, while keeping a data-dependent approach to maximise optionality.

Developed Economies

US: According to the BEA's advance estimate, real GDP for Q1 2024 grew by a 1.6%QoQ annualised growth rate, decelerating from 3.4%QoQ in Q4 2023 and 4.9% in Q3 2024. However, underlying details revealed that demand conditions remain strong. Specifically, final sales to private domestic purchases (PDFP) rose by a solid 3.1%, slightly higher than the 3.0%growth in each of the previous two quarters, supported by a still-healthy gain in personal consumption (2.5% from 3.3%) and an acceleration in private fixed investment (5.3% from 3.5%). Looking into Q2, sentiment indicators suggest diminishing growth momentum. Nevertheless, underlying conditions remain solid, supporting optimism for another solid GDP growth rate in Q2. Real PCE posted a healthy 0.5%MoM increase in March for the second consecutive month, reflecting a 2.0%MoM rise in real disposable income, the highest so far this year. Meanwhile, average hourly earnings remained in the vicinity of 4%YoY in April, despite signs of softness in the labour market. Amid resilience in economic activity and firm price pressures, it will take longer for the Fed to be confident that inflation will move sustainably back to target. That said, the policy committee sent a clear message at the latest meeting that rates will remain high for longer and they will probably deliver fewer rate cuts this year than the three 25bps cuts indicated by the latest dot plot.

Euro area: After more a year of stagnation, the economy experienced a strong rebound in Q1 2024, but uncertainty looms over the sustainability of the improved GDP growth momentum. According to the flash estimate, real GDP expanded by a robust 0.3%QoQ following a downwardly revised 0.1%QoQ contraction in Q4 2023, suggesting that the Eurozone has emerged from the recession that plagued it in H2 2023. Looking ahead to Q2, incoming data presents a mixed outlook, casting doubt on the sustainability of the economy's upward trajectory. Encouragingly, the composite PMI index surpassed expectations in April, reaching 51.9, the highest level since May 2023, and retail sales surged by a near 1½ year high of 0.8%MoM in March. However, concerns have emerged with the deterioration in both the European Commission's business and consumer surveys for April. Meanwhile, headline CPI held steady at 2.4%YoY in April, as expected, but core inflation surprised slightly to the upside, decelerating by a lower than expected 0.2ppts to 2.7%YoY, fuelling concerns that the disinflationary process may take longer. Not surprisingly, though the ECB strongly hinted at the April meeting that it is on track for the first rate cut in June, it underlined that policy remains data-dependent, making clear that it is not committing to a pre-defined rate easing path thereafter.

Emerging Economies

EM: the dovish stance Fed Chair Powell maintained favoured EM assets, as reflected in relevant key gauges. Since late March, the MSCI EM equity and currency indices recorded gains of 7% and 1% respectively with the JP EMBI global spread index failing to follow suit and retreat. However, it surged only modestly, presumably on the back of the uncertain lingering situation in the Middle East region. Coming to the BRICS group, South African Ambassador to China Siyabonga Cyprian Cwele confirmed in an interview in early May that the BRICS currency is progressing, yet there is still a way to go before any tangible development. Further details about the currency could be released in the upcoming 16th BRICS summit, scheduled to take place in October 2024 in the Kazan region of Russia, where for the first time, the extended group with nine member countries will convene, following August's expansion. The Spring outlook by OECD held no major surprises for the EM sphere but it underlined that earlier feared risks over the impact of climate change in the growth of developing economies dependent on agriculture did not materialize, resulting in firm growth in early 2024. Among major developing economies, GDP growth was buoyant in India, helped by strong public investment, and Indonesia, and surprised on the upside in Brazil, Mexico and Turkey, despite tighter financial conditions. Growth also strengthened in China in the first quarter of 2024, with policy stimulus measures helping to partially offset continued weakness in property markets. Although the strong El Niño event that began in mid-2023 led to a string of global temperature records, making 2023 the warmest year in modern times, it did not have much effect on global agricultural output or commodity prices.

CESEE: flash Q1 GDP estimates in the region pave the way for a solid growth performance in 2024 despite the challenging international environment and the significant downside risks. Growth in the CEE3 in Q1 2024 came in stronger than in Q4 2023. In Poland growth stood at 1.9%YoY almost double compared to the last quarter of 2023 (1.0%YoY), in Hungary from a standstill at year end, GDP expanded by 1.1%YoY in Q1 and in Czechia, on a milder tone, the economy expanded by 0.4%YoY from 0.2%YoY previously. In Romania, the GDP grew by 1.7%YoY in Q1, picking up from 1.1%YoY in Q4. Turning to the course of interest rates and how the path of their reduction will foster growth in the coming quarters, the central banks of Hungary and Czechia proceeded in the latest rate policy meeting with 50bps cuts each which brought the key policy rates to 7.75% and 5.25% respectively while those of Poland and Romania held fire on the back of some manageable, for the time being, hiccups in the course of disinflation.

Markets View

Foreign Exchange

EUR/USD: despite the recent rally to 1.0780 from April's low close to 1.06, market consensus for EUR/USD is still to the downside, anticipating June's implied cut by the ECB. Technical analysis suggests that trading will be range bound, with no clear direction formed in the short term. Support levels include 1.0563, 1.051 and 1.0457 while resistance levels include 1.0918,1.0972, and 1.1026. 1M, 6M and 9M implied volatility currently at 5.9675%, 5.6675% and 6.2225%, respectively.

GBP/USD: is on a clear strong bullish momentum, while a break above 158.45 could potentially target the 161.60 territory. Technicals, such as RSI (30) (shows 58.708) and the MACD signal's bullish crossover, suggest further upward momentum. However, a high probability is assigned on sudden FX interventions by the Japanese authorities, as at the start of the month, which could be setting some hard resistance points on this bull run. Support levels include 150.8562, 150.0943, and 149.3324 and resistance ones include 160.0345, 160.8268, and 161.619. 1M, 6M and 9M implied volatility currently at 8.88%, 8.955% and 9.26%, respectively – not bad points for volume buyers here as well.

Rates

EU: swap rates have increased after a volatile month. The 10yr swap is trading at 278bps, up from 258bps in the previous month but having printed a high of 292bps earlier this month. The slope of the curve consolidated at the same levels, with 5s-30s trading at -38bps. Looking ahead, it is anticipated that yields will move lower given that the ECB set the scene for a June rate cut at the last meeting, but at a slow pace as inflation is still expected to remain high for longer.

US: swap rates closed the month higher amid high volatility. The 10yr swap rate is trading at 410bps, up from 390bps the previous month, and having traded as high as 430bps. The curve shift has also consolidated, remaining close to -38bps. Looking forward, we expect yields to move lower, but at a very slow pace and with high volatility, as macroeconomic inflation data continue to be released on the strong side.

Emerging Markets Sovereign Credit

The dovish stance maintained by Fed Chair Powell kept emerging market sovereign spreads relatively steady, while the increased geopolitical tensions in the Middle East proved to be short lived. The EMBI Global Index widened by 9bps and is now at 296bps. In the Middle East, geopolitical tensions peaked in April with Israeli spreads initially widening, especially in the short end of the curve where the 5yr USD bond spread moved from 130bps to 150bps. Most of these losses were erased as the month progressed and tensions eased, with the aforementioned spread now at 142bps. In central Europe 10yr EUR bond spreads are trading 10-20bps tighter compared with the end of March, with Poland being the best performer, trading at a spread of 61bps vs 80bps at the end of the first quarter. In Latam, Chilean and Colombian USD bond spreads slightly outperformed the rest of their peers with the 10yr Chilean spread now trading at 109bps vs 115bps at the end of March. Finally, in Asia, Indonesian USD external debt spreads traded at about the same levels as in the end of the first quarter, with the 15yr benchmark outperforming the rest of the curve and now being 6bps tighter at 144bps. We remain relatively positive but also cautious on EM assets as the Fed narrative is supportive for risk, but EM central banks are expected to remain data dependent.

Corporate Credit

After a strong start to the year, April proved to be a tough month for financial markets, on growing evidence of sticky US inflation, which triggered questions about whether the Fed would be able to cut rates at all this year. US equities closed at fresh all-time highs on the last day of March, but began to stumble after a series of hawkish developments. The macro backdrop made it increasingly difficult to argue that the stronger inflation prints earlier in the year were a temporary phenomenon, with the market moving to cut back expectations about Fed rate cuts in 2024. With investors expecting rates to stay higher for longer from the Fed, there was a sense that other central banks could also be constrained. Overall, the S&P 500 registered losses of 0.6% April-to-date, with the volatility index Vix reaching a 4-month high in mid-April but retreating in early May. European equities fared better, with Stoxx 600 +1.7% April-to-date and Dax +1.5%, both reaching fresh highs. Meanwhile, geopolitical tensions in the Middle East supported commodity prices, with Brent crude oil prices climbing in early April, but paring back gains to end -5% from the end of March. On the central bank front, the Swedish Riksbank became the second G10 central bank to cut rates in this cycle, after the Swiss National Bank proceeded with a rate cut in March. Riksbank's move was largely expected and marked the first rate cut since 2016 (policy rate down by 25bps to 3.75%). Their statement signalled more cuts likely ahead, if the inflation outlook holds up.

In credit, European synthetics ended broadly unchanged from the end of March, with Main -1.7bps and Xover +1.5bps. Both indices performed broadly in line with US spreads (CDX IG -0.9bps and CDX HY +6bps). In EUR Corporate cash, IEAC ended flattish on the month, with IHYG outperforming slightly, ending -5bps since the beginning of April. Financials continued to outperform among EUR IG cash (Snr Fins -4bps, Sub Fins -4bps) while Utilities, Materials and Tech lagged (c. +2bps each). In High Yield, Technology outperformed April-to-date after weak performance earlier in the year, alongside Consumer Discretionary (-10bps), Sub Fins (-10bps) and Healthcare (-10bps). On the other hand, Snr Financials (+36bps) and Industrials (+28bps) underperformed. After the busiest first quarter for issuance on record (€679bn priced in Q1), April saw subdued activity in the European primary market, with total issuance at €145bn from €157bn in March. Activity in May remained fairly muted, with total monthly issuance at €29bn so far.

The focus remains on macro. Markets expect that the Fed will keep rates unchanged in June, with the ECB and BoE proceeding with a 25bps rate cut each. With primary issuance having tapered off since the end of March, we expect activity to pick up as credit sentiment remains conducive for issuance.

Special Topic: EU fiscal rules come back and could cause France and Italy post-election headaches

While political attention in Europe is focussed on the European Parliament elections taking place in early June, rumbling beneath the surface is the issue of the euro area's second and third largest economies' non-compliance with the currency bloc's fiscal rules. As long as campaigning season remains in swing, the issue will probably remain under the surface. But once the ballot boxes are put away, the topic is set to break out into the open again.

After the rules came back into force this year, Italy, France and several other countries face the possibility of being subjected to an Excessive Deficit Procedure (EDP) this summer due to deficit slippages in 2023. In total eight countries of the euro area's 20 states posted 2023 budget deficits in excess of 3% of GDP, breaching the limit allowed by the Stability and Growth Pace, the others being Belgium, Estonia, Malta, Slovakia and Spain. The European Commission is unlikely to demand immediate corrective measures for this year.

The Commission's actual recommendation to the Council could be postponed until after the European parliamentary election. Alternatively, the European Commission may even opt to initiate an EDP in November 2024, under new fiscal rules — which is pending approval by the European Council — following a review of the 2025 budget plans. Under the EDP as it currently applies, a minimum 0.5ppts structural deficit adjustment per year is required. Starting from 2025, under the new rules, the required adjustment will be determined using the structural primary deficit, excluding the impact of higher interest rates on interest payments. With all due respect to Spain, the EU's fourth-largest economy, the fiscal situations of Italy and France are the most pressing concern, so here's a more detailed analysis of their situations.

France

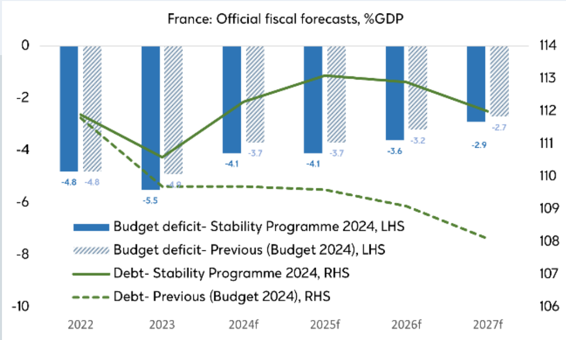
Concerns about the sustainability of France's public finances resurfaced after the national statistics office INSEE revealed in March that the general government deficit increased by 0.7ppts to 5.5%-of-GDP in 2023, a smaller deviation from the 4.9% forecast outlined in the 2024 budget bill than Italy's, but still significant. The sharper-than-expected deterioration in the deficit was primarily attributed to lower public revenues. After a 7.4% increase in 2022, they were up 2.0% last year compared to a 3.7% rise in spending, largely due to the weak growth environment and the more significant-than-anticipated decline in inflation and housing market weakness which weighed on tax revenues from VAT and real estate transactions.

To address the significantly higher-than-expected 2023 public deficit, the government announced through a decree additional spending cuts amounting to €10bn (approximately 0.3% of GDP) for 2024[1], accompanied by a downward revision of the GDP growth assumption from 1.4% to 1.0%. Nevertheless, additional consolidation measures would be required through an amended budget to ensure the initial

[1] Around half of that amount would come from cuts in operational budgets of ministries and the other half from lower fiscal support for a number of programs including financing for training programs, tax credits for home renovation and targeted subsidies on energy.

2024 fiscal target of 4.4%-of-GDP would be achieved. However, securing parliament's approval for an amended budget would pose a significant challenge for the government given its lack of a majority in the National Assembly. As an alternative, the government would need to resort to the so-called 49.3 procedure to bypass parliament.[2] However, this approach could fuel political tensions. Implementing new tightening measures ahead of the European elections on 9 June would be unpopular and the government could potentially face the risk of being dissolved[3] (opinion polls show Macron's party, Renaissance, trailing behind Le Pen's National Rally party). Given these circumstances, the government chose not to pursue additional fiscal consolidation measures through an amended 2024 budget, opting to avoid the potential political fallout associated with the 49.3 procedure. As a result, the government found itself with no alternative but to revise its deficit targets for 2024 and 2025 upward. Following the unveiling of the updated Stability Programme document in mid-April, the deficit target for 2024 was revised to 5.1%-of-GDP, and for 2025 to 4.1%-of-GDP from 3.7%-of-GDP previously. The government maintained its expectation of a gradual decline in the deficit to below 3%-of-GDP by 2027.

Figure 3: Concerns about the sustainability of France's finances resurfaced in March



Source: AMECO, French government, Eurobank Research

While the government's revised fiscal projections appear more credible, concerns remain regarding the medium-term fiscal outlook. Independent bodies such as the High Council of Public Finances[4] and the IMF have expressed doubts about the feasibility of the government's consolidation plans, especially given the ambitious GDP growth forecasts and the heightened political polarisation. Indeed, real GDP growth estimate for 2024 still appears optimistic compared to market consensus (1.0% vs. 0.7%, respectively). The GDP growth forecasts for subsequent years also seem ambitious, given the significant fiscal adjustment outlined in the updated Stability Programme document and the government's lack of a majority in the National Assembly (1.4%, 1.7%, and 1.8% for 2025, 2026, and 2027, respectively, above the government's estimated potential growth rate of 1.35%).

Italy

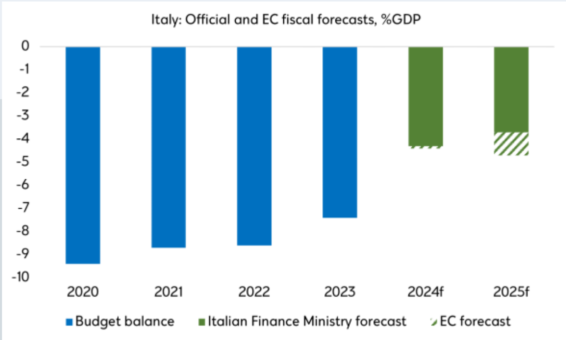
In Italy, the budget deficit was blown wide open last year by a controversial building subsidy that the last two governments have failed to rid themselves of. Introduced by former Prime Minister Giuseppe Conte in 2020, the so-called Superbonus scheme offered Italian households tax credits for home energy renovations worth 110% of the upgrades. The incentive structure of the subsidy was ripe for abuse, and it has ended up costing the state more than €120bn, far more than originally envisioned. However, the programme has

[2] Under the French constitution, the government can pass laws without a vote using the 49.3 procedure, unless a parliamentary majority votes in favour of a motion of no confidence.
[3] Press reports suggest that the centre-right *Les Republicains* have indicated they may oppose the government if it presents an amended 2024 budget law, unlike in previous instances.
[4] An independent body tasked with assessing the realism of official fiscal projections.

been enormously popular, so while both current Prime Minister Giorgio Meloni and her predecessor Mario Draghi criticised the scheme, they both wound up extending it, albeit on less generous terms and tightened criteria.

The Italian Statistical Authority announced in March that the 2023 budget deficit came in substantially higher than the 5.3% of GDP forecast in the government's 2024 budget bill, eventually landing at 7.4%, down from 8.6% the year before, mostly due to a €39bn more-than-expected take up of the Superbonus. The budget forecast itself, made in October, already represented a miss from the spring 2023 target of 4.5% for the 2023 deficit. In April, the government published its Economic and Financial Document (DEF), which is its main financial planning framework for the following years, in which it kept its main deficit projection for this year unchanged at 4.3%of-GDP. The document forecasts the deficit narrowing to 3.7%-of-GDP in 2025 and 3.0% the year after. Despite leaving its targets unchanged, the government hasn't spelt out a specific programme of fiscal belt-tightening measures to help it achieve these goals. Instead it is deferring those tough choices until after the June elections, taking advantage of the fact that EU rules gives it until 20 September to spell out its programme to the Commission. This has opened a gap with the Commission, which in its latest economic forecasts, published May 15, projects that Italy's deficit will narrow to 4.4%-of-GDP this year, but then widen to 4.7% in 2025 based on unchanged policies. Such is the inevitability that Rome will now face sanction from the EU's executive arm in the form of an EDP that Italy's finance minister took the unusual step of publicly conceding to lawmakers last month that the government is expecting that action.

Figure 4: Rome and Brussels have a difference of opinion over next year's deficit



Source: Italian government, EC, Eurobank Research

The Italian Finance Ministry and European Commission may have very different outlooks for what will happen to the budget in 2025, but for this year the difference in their forecasts is only 0.1ppt. Even the latter's slightly more pessimistic projection still represents a fiscal consolidation of 3ppts this year. That amount corresponds to the expected reduced take up of the Superbonus under its less generous rules, with the phase-out of energy measures also helping, though balanced out by spending increases on pensions and interest expenses. From 2025 the Commission forecasts a slowdown in current revenue and interest expenditure continuing to rise – and while Meloni's government won't detail what further measures it will take, that accounts for the divergence in the two sides' forecasts.

However, that's not the end of the problems related to the Superbonus's legacy. Specifically, while the tax credit has impacted previous years' deficits as it is recorded on an accrual basis, the need to finance it on a cash basis will weigh on the country's debt this year. This, combined with the primary deficit and a less favourable dyncamic in interest-growth differentials, led the Commission to forecast that public debt will rise to 138.6%-of-GDP this year from 137.3% in 2023, and rise further to 141.7% next year – above its 2022 level of 140.5%. For its part the Italian government estimates that the debt ratio will rise to 139.8% of GDP by 2026 and fall thereafter. It accounts for its more optimistic outlook through projected privatisation proceeds, with the government working on a plan to sell about €20bn in state-held stakes in companies by 2026.

Market impact

To the extent that the ultimate arbiter of these countries' fiscal viability is the bond market – where the government must go to raise new debt – investors are so far unfazed. The spread of Italian 10yr BTP over German 10yr Bunds – seen as a key barometer of eurozone stress – hit a two year low of 122bps in March and is currently only 9bps above that level. In October the spread reached as high as 206bps. France pays a much smaller borrowing premium, and the current spread of 48bps between French 10yr sovereign bonds and their German counterparts won't cause any sleepless nights at the Élysée Palace.

That could change if the credit rating agencies take a turn against either country. That's not happened so far. Both Moody's and Fitch opted to maintain their sovereign credit rating for France unchanged at Aa2 and AA-, respectively, in late April. The two rating agencies also maintained stable outlooks, though both expressed significant doubts about the government's medium-term consolidation plans. Attention now turns to S&P which is scheduled to announce its rating review on 31 May. S&P currently rates France at AA but may face challenges in maintaining this rating, as it is the only one among the three major ratings agencies that has a negative outlook on its assessment of France's public finances.

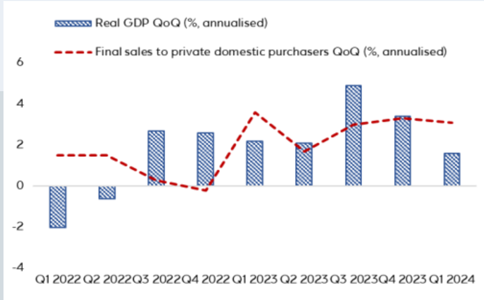
Italy has also so far escaped any downgrades over its precarious fiscal situation, though Fitch Ratings did release a report on 23 April warning that the Superbonus puts the debt ratio on an upward trajectory. Nevertheless, on May 4 Fitch affirmed Italy's rating at BBB with a stable outlook, which is the same rating and outlook as it has from S&P. Moody's, meanwhile, rates Italy's debt at Baa3, which is the lowest investment grade, but in November it raised its outlook from negative to stable.

US

The economy moderated in Q1, but still remains on a solid footing

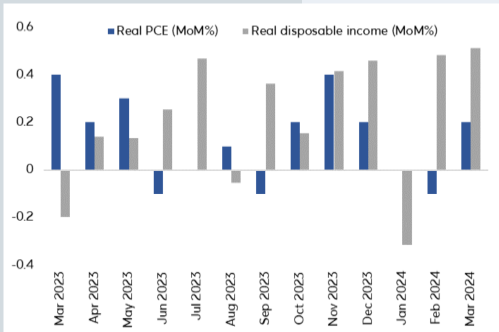
In Q1 2024, the economy moderated somewhat, yet it still appears to be on solid footing as underlying conditions remain resilient. This resilience is primarily attributed to healthy household balance sheets which continue to spur consumption and have likely found additional support in recent weeks from the latest surge in equity markets. According to the BEA's advance estimate, real GDP for Q1 2024 grew by a 1.6%QoQ annualised growth rate, decelerating from 3.4%QoQ in Q4 2023 and 4.9% in Q3 2024. However, it remained only slightly below trend growth, continuing to demonstrate a high degree of resilience to the Fed's restrictive policy. More importantly, underlying details revealed that demand conditions remain strong. Specifically, final sales to private domestic purchases (PDFP) — excluding trade, inventory investment and government spending — rose by a solid 3.1%, slightly higher than the 3.0% growth in each of the previous two quarters. The strength was driven by a healthy gain in personal consumption (2.5% from 3.3%) and an acceleration in private fixed investment (5.3% from 3.5%). Overall, PDFP added 2.6ppts to Q1 GDP growth, offsetting a deduction of 1.2ppts from net trade and inventory investment. Looking to Q2, sentiment indicators suggest diminishing growth momentum. April PMIs from both the manufacturing and services sector dropped into contractionary territory (down by 1.1pts and 2.0pts to 49.2 and 49.4, respectively) and UM consumer sentiment softened by around 10pts in May to 67.4, probably due to concerns about personal finances following the recent resurgence in inflation pressures (PCE +0.2ppts at 2.7%YoY in March). Nevertheless, underlying conditions remain solid, supporting optimism for another solid GDP growth rate in Q2, as suggested by the latest Fed Atlanta GDPNow estimate for a growth rate of 3.8%. Real PCE posted a healthy 0.5%MoM increase in March for the second consecutive month, reflecting a 2.0%MoM gain in real disposable income, the highest so far this year. Meanwhile, average hourly earnings remained in the vicinity of 4%YoY in April, despite signs of softness in the labour market. Amid resilience in economic activity and firm price pressures, it will take longer for the Fed to be confident that inflation will move sustainably back to target. That said, the policy committee sent a clear message at the May 1 meeting that rates will remain high for longer and they will probably deliver fewer rate cuts this year than the three 25bps cuts indicated by the latest dot plot.

Figure 5: GDP decelerated in Q1, but underlying details reveal that demand is still on a solid footing



Source: BSL, Eurobank Research

Figure 6: Real PCE rose in March alongside increasing real disposable income



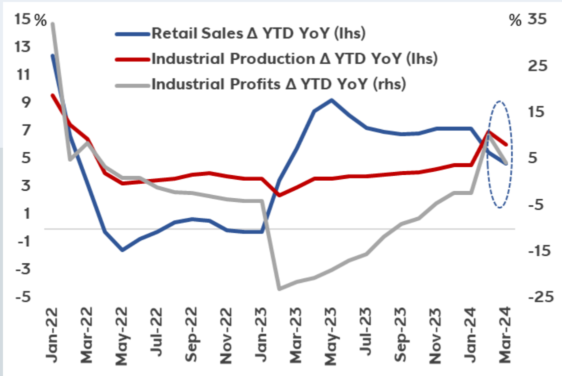
Source: BLS, Eurobank Research

China

The positive twist in Q1 growth could prove short-lived

The Q1 2024 growth print coming in 5.3%YoY from 5.2%YoY in the previous quarter was embraced as a positive surprise by market participants, who expected a lower performance of 4.8%YoY. The data releases that followed were on the whole disappointing, leaving little room for optimism. In brief, retail sales continued to increase in March, yet at a decelerating pace compared to that of February and December (+4.7%YoY vs 5.5%YoY and 7.4%YoY respectively) while January-February's positive momentum of industrial production proved short-lived as after expanding 7%YoY from 6.8%YoY in year-end, it retreated to 6.1%YoY in March when markets expected a more impressive growth of 6.6%YoY. In a similar vein, industrial profits continued to increase in March for a second month in a row, after contracting for 19 straight months previously, though at a more than halved speed (4.3%YoY in March vs 10.2%YoY in Jan-Feb). The course of external trade is rendered improved with both exports and imports picking up in April after contracting in March.

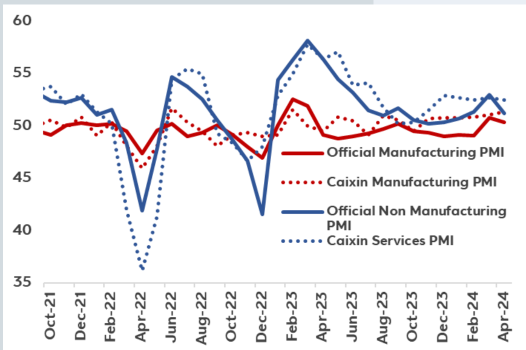
Figure 7: hard data disappointed in March...



Source: Bloomberg, Eurobank Research

While the uptick in inflation to 0.3%YoY in the same month from 0.1%YoY previously, along with external trade data, could imply a rosier façade of both domestic and external demand, than that shaped by retail sales and industrial production, the factory-gate prices (PPI) kept deflating in April, as they have been since late 2022, insinuating that there is still way to go for a well- and broad-based growth narrative ahead. The duality of hard data was also reflected in forward-looking indicators which are sort of divided between the official that retreated and the Caixin which – as it is more export sensitive – slightly improved. The bottom line is that the economy remains at crossroads and as such, the timing of the selling of the first batch of the CNY1trn (USD138bn) ultra-long special sovereign bonds is far from random. The fiscal policy stimulus is starting to roll out in order for there to be enough time for the stimulus to kick in within 2024 and the around 5.0% growth target to be achieved, when markets, including us, foresee a modest shortfall to 4.8%.

Figure 8: ..separating forward looking indicators to positive and gloomier



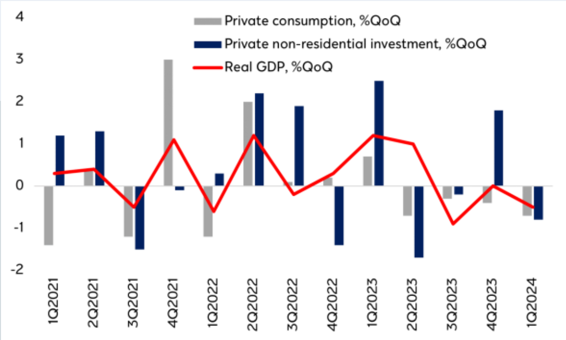
Source: Bloomberg, Eurobank Research

Japan

Latest GDP and wage data underpin difficulty of sustaining demand growth

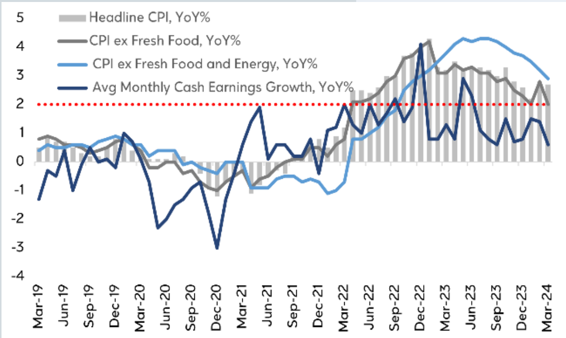
Complicating the path to further tightening the country's ultra-loose monetary policy, Japan's economy contracted an annualised 2.0%QoQ in Q1 2024, with the Q4 2023 also revised to flat from a prior reading of +0.4%QoQ. On a non-annualised basis, the Q1 GDP contraction was 0.5%QoQ. The outcome was worse than the consensus estimate that GDP would shrink an annualised 1.5%QoQ last quarter. The contraction was on the cards following the hit from an earthquake in the Noto region and disprution to car production at Daihatsu, a subsidiary of Toyota, which hurt exports and capital investment. Japan's GDP data is susceptible to seasonal adjustment revisions, and the fact that the Q4 2023 figure wasn't revised downwards even further, as some expected, meant the country was at least spared three consecutive quarter of contraction and a technical recession. Output is likely to rebound this quarter as the one-off factors affecting Q1 fade, with auto production already rising 9.6%MoM in March. Broken down further, the GDP report showed the challenges in stirring up domestic demand as consumption contracted a non-annualised 0.7%QoQ (vs -0.2%QoQ consensus estimate), a fourth straight quarterly decline, and capital spending shrank 0.8%QoQ (vs -0.7%QoQ conensensus). This underlined the picture in the earlier monthly expenditure survey, which showed that household spending declined 1.2%YoY in March, a 13th straight drop. Meanwhile, on the pay front, the growth in labour cash earnings slowed to 0.6%YoY in March from 1.8%YoY the month before, below the consensus forecast of 1.4%YoY. The data poses a challenge for Bank of Japan policy makers, who as part of their course of gradual monetary normalisation – in March the central bank ended its negative interest rate policy – insist they want to see inflation moving towards the 2% target in a sustainable way. Policy makers have said they want to see demand-led price growth underpinned by real wage gains rather than inflation stemming from supply shocks and the depreciation of the JPY. To that end, officials have also been squeezed by the recent strength of the USD, a situation that in recent weeks resulted in Japanese authorities intervening in currency markets to halt the JPY's declining trend against the USD. Derivatives markets are currently pricing in an 85% chance that the BoJ will hike rates by its July policy meeting. April's CPI figures will be released on May 24.

Figure 9: Sustainable growth in domestic demand is still a challenge for policy makers



Source: Bloomberg, Eurobank Research

Figure 10: The BoJ wants to see inflation sustainably return to 2% on a demand-led basis



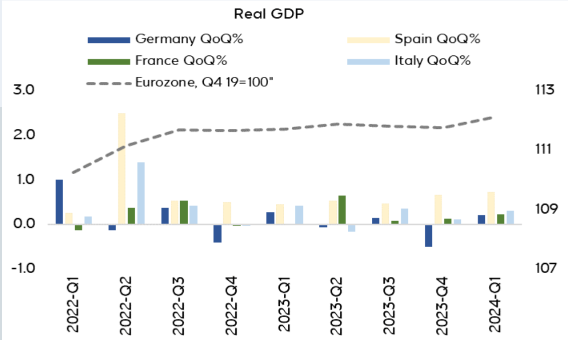
Source: Bloomberg, Eurobank Research

Euro area

GDP rebounded strongly in Q1, but not clear whether this momentum will persist

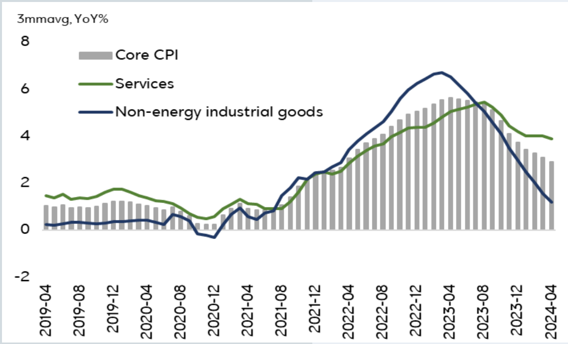
After more than a year of stagnation, the economy experienced a strong rebound in Q1 2024, but uncertainty looms over the sustainability of the improved GDP growth momentum. According to the flash estimate, real GDP expanded by a robust 0.3%QoQ following a downwardly revised 0.1%QoQ contraction in Q4 2023, suggesting that the Eurozone has emerged from the recession that plagued it in H2 2023. While a detailed breakdown of GDP components is not yet available, preliminary national data suggests that domestic demand remained subdued, while external demand, likely bolstered by tourism services, was the primary growth driver. Notably, southern Europe continued to outperform its northern counterparts in terms of economic performance, underscoring persistent regional disparities. Looking ahead to Q2, incoming data presents a mixed outlook, casting doubt on the sustainability of the economy's upward trajectory. Encouragingly, the composite PMI index surpassed expectations in April, reaching 51.9 (+1.6pts), the highest level since May 2023. This uptick was propelled by a notable rebound in the services sector (+ 1.8pts to 53.3), offsetting an unexpected decline in manufacturing activity (-0.4pts to 45.7). Additionally, retail sales surged by a near 1½ year high of 0.8%MoM in March, implying a potential carryover effect of 0.4%QoQ into Q2. However, the European Commission's business surveys for April revealed a drop in economic sentiment further below its long-term average, at 95.6 (-0.6pts), reflecting a worsening climate across all sectors. In addition, consumer sentiment improved less than expected, at -14.7 (+0.2pts). Meanwhile, headline CPI held steady at 2.4%YoY in April, as expected, but core inflation surprised slightly to the upside, decelerating by a lower than expected 0.2ppts to 2.7%YoY. Services inflation dropped to 3.7%YoY after five consecutive months at 4.0%YoY, though still remained fairly elevated, while industrial goods disinflation continued but at a slower pace (-0.2ppts to 0.9%YoY). Meanwhile, the disinflation in food prices came to a halt (+0.2ppts to 2.8%YoY) and energy prices fell less rapidly (+1.2ppts to -0.6%YoY), fuelling concerns that the disinflationary process may take longer. Not surprisingly, though the ECB strongly hinted at the April meeting that it is on track for the first rate cut in June, it underlined that policy remains data-dependent, making clear that it is not committing to a pre-defined rate easing path thereafter.

Figure 11: EA Q1 GDP rebounds after more than a year of stagnation, southern Europe outperforms



Source: Eurostat, Research

Figure 12: Services inflation still elevated, while the pace of disinflation in goods prices slowed in April

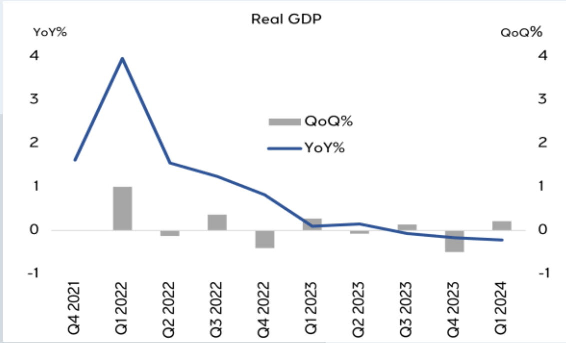


Source: Eurostat, Eurobank Research

Germany

The cyclical trough is likely behind us, but no strong upswing in sight

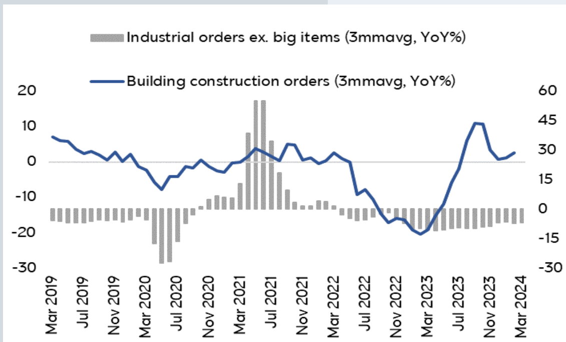
Figure 13: The economy avoided a recession after surprisingly strong GDP growth in Q1



Source: Destatis, Eurobank Research

The economy managed to avoid slipping into recession as GDP returned to positive growth in Q1, expanding by a slightly higher than expected 0.2%QoQ. This followed a downwardly revised contraction of 0.5%QoQ in the prior quarter. As we await the detailed breakdown of the Q1 GDP report, scheduled for 24 May, the Destatis press release indicated that the modest growth was driven by an increase in gross fixed capital formation in construction and in exports, while household final consumption expenditure saw a decline. Indeed, construction output expanded robustly in Q1, buoyed by unusually mild weather, surging 3.9% compared to Q4 2023. Exports also showed strength, rising 3.2%QoQ in Q1, nearly double the increase in imports. However, the weakness in Q1 private consumption did not come as a surprise. Despite a sharp rebound in March (+1.8%MoM), retail sales were down 1.2%QoQ in Q1, the weakest figure since Q2 2022. Looking ahead, data paints a cautious outlook for the near future, notwithstanding the positive turn of GDP growth in Q1. While sentiment indicators suggest brighter prospects at the beginning of Q2, challenges remain. In April, the composite PMI returned to expansionary territory for the first time in 10 months, (+0.8pts to 50.5) solely driven by the services component. The IFO increased for the third consecutive month (to 89.4), and the ZEW economic sentiment improved to a near two-year high (to 42.9). However, concerns arise regarding the sustainability of the boost from the construction sector to economic activity as it largely reflects favourable one-offs. Construction orders remain on a downward trend (up 1.4%MoM in February, reversing part of January's 7.0%MoM decline after a 9.6%QoQ contraction in Q4 2023), with over 55% of companies in the residential construction sector reporting a lack of orders in April. Similarly, weak manufacturing orders raise doubts about the sustainability of net exports as a growth driver (orders ex. big ticket items have dropped in each of the last eight quarters). Overall, while economic activity may have bottomed out, a sustained recovery is not yet in sight. The economy is expected to stagnate in Q2 and is unlikely to embark on a moderate upward trend before H2 2024, supported by easing financial conditions, a slight pickup in world trade and improved private consumption bolstered by higher real wage growth. Following the positive surprise in Q1, our annual GDP projection for 2024 has been revised upward to 0% from -0.1% previously.

Figure 14: GDP rebound in Q1 is unlikely to mark the start of a strong economic recovery



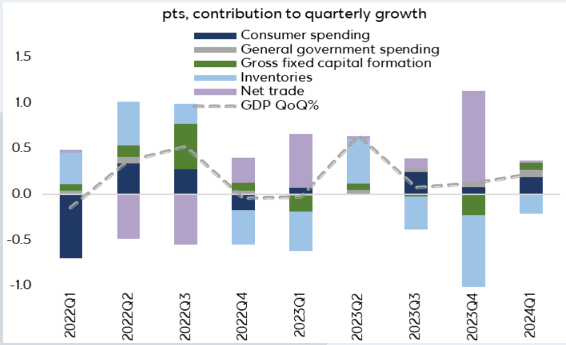
Source: Destastis, Eurobank Research

France

Q1 GDP growth exceeds expectations, yet subdued near-term outlook persists

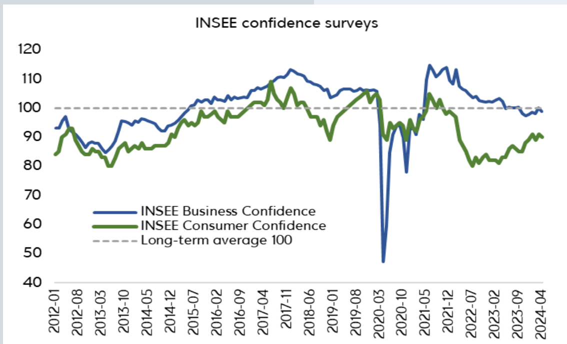
Economic growth expanded slightly more than expected in Q1 2024, signalling an encouraging start to the year following modest gains in H2 2023. GDP grew by 0.2% in quarterly terms, marking a slight uptick from the 0.1% growth rate witnessed in each of the preceding two quarters, while on an annual basis it accelerated to 1.1% from 0.8%. The upturn in economic activity was primarily driven by final domestic demand, which contributed 0.4pts to GDP growth, a significant improvement from nil contribution in Q4 2023. Household consumption moderately accelerated (0.4%QoQ vs. 0.2%QoQ in Q4 2023), supported by a rebound in goods consumption. Additionally, gross fixed investment saw a bounce back (0.3%QoQ), driven by both business and public investment, following two consecutive quarterly declines (-0.9%QoQ and -0.1%QoQ in Q4 and Q3 2023, respectively. The reacceleration of final domestic demand more than offset a negative contribution from inventories (-0.2pts), while the contribution of net exports became neutral (after +1.0pts in Q4 2023) as imports picked up again (+0.2%QoQ after -2.3%QoQ in Q4 2023). Looking ahead, the INSEE survey, which is considered a relatively better indicator for short-term forecasts by the Ministry of Finance, does not inspire hope for an acceleration in growth in the near-term. That said, economic growth is expected to remain subdued, with projections suggesting a similar pace of growth in Q2 as seen in Q1. In contrast to the positive sentiment portrayed by the April PMI survey, where business activity in the services sector returned to growth, taking the composite PMI up by 1.6pts to a near one-year high of 49.9, the INSEE business climate composite indicator eased by 1pt to 99 over the same month. Similarly, consumer confidence fell back in April to 90, which is 10pts below its long-term average, likely due to increasing uncertainty surrounding the government's fiscal policy after the large fiscal slippage of last year's budget deficit (at 5.5% of GDP, exceeding the official target by 0.6ppts), although the government has vowed to focus solely on public spending to reduce the fiscal deficit. For the whole year 2024, we maintain our annual GDP growth forecast of 0.7%, as economic activity is likely to moderately accelerate in H2, supported by an expected upturn in global demand and a further gradual recovery in private consumption on the back of improving real wages.

Figure 15: GDP was mainly supported by domestic demand in Q1 2024



Source: INSEE, Eurobank Research

Figure 16: Confidence has been weak since the start of the year



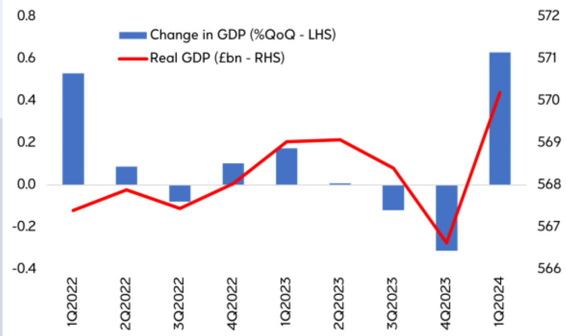
Source: INSEE, Eurobank Research

UK

Strong Q1 2024 GDP growth marks complete recovery from H2 2023 recession

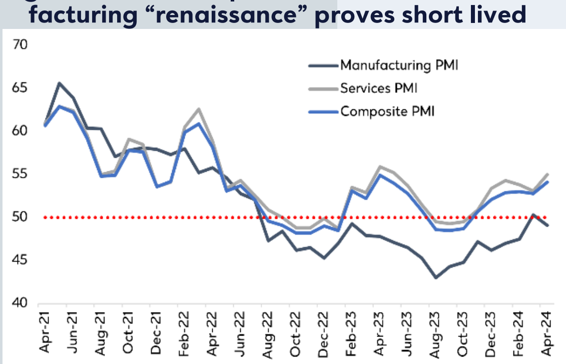
The UK's economy grew 0.6%QoQ in Q1 2024, which was more than enough to recover the output lost during a technical recession in the second half o 2023. While this GDP growth outcome beats the consensus estimate by 0.2ppts, it was clear the rebound in Q1 would be strong as soon as higher-frequency monthly data started showing robust economic activity from January, particularly in the services sector. Broken down, services grew 0.7%QoQ in Q1 and production increased 0.8%QoQ, though construction fell 0.9%QoQ. On the expenditure side, net exports grew 0.4%QoQ, after falling 0.2%QoQ in Q4 2023, while final consumption – both household and government – also contributed to last quarter's growth. Gross capital formation was unchanged, after contracting 0.1%QoQ in the final quarter of last year. However, this was mostly due to changes in inventories, with gross fixed capital formation increasing 1.4%QoQ in Q1 after growing 0.9%QoQ in the previous quarter. Turning to the monthly GDP data that the Office for National Statistics released, GDP increased 0.4%MoM in March, compared with an upwardly revised 0.2%MoM in February and 0.3%MoM in January. Despite the growth rebound, the Bank of England is expected to reduce its rate this summer from 5.25% currently, with speculation revolving around exactly how soon. As things stand, the market-implied odds of a 25bps cut by the June meeting are almost exactly 50%, with a cut by the next meeting in August fully priced in. Part of the reason why rate cuts are on the horizon is that the next CPI report, due on May 22, is expected to show headline inflation down near the central bank's 2% target, due to falling household energy bills. Headline CPI in March was at 3.2%YoY, with core at 4.2%YoY. Against that, the latest round on labour market data gave mixed messages with wage growth still strong as three-month average weekly earnings increased 5.7%YoY in March, 0.2ppts higher than the consensus estimate, but signs of loosening in the job market came from the unemployment rate ticking up to 4.3% from 4.2% in February. In the sentiment survey data, the manufacturing PMI fell to 49.1 in April from 50.3, moving below the 50 threshold indicating contraction for the sector, just one month after rising above that level for the first time in almost two years. However, composite PMI increased to 54.1 from 52.8 thanks to the strong performance of services, which rose to 55.0 in April from 53.1 in March.

Figure 17: Q1 growth brought GDP back above where it was before the H2 2023 recession



Source: ONS, Eurobank Research

Figure 18: Services power onwards, but manufacturing "renaissance" proves short lived



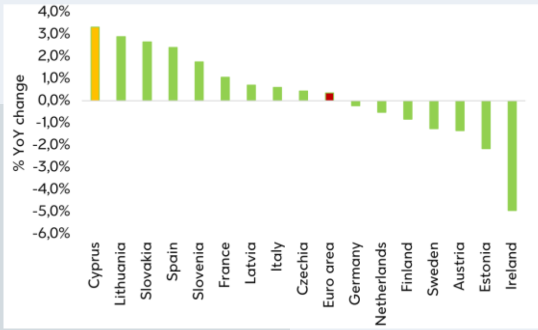
Source: S&P Global, Bloomberg, Eurobank Research

Cyprus

Flash Q1 GDP estimate above expectations

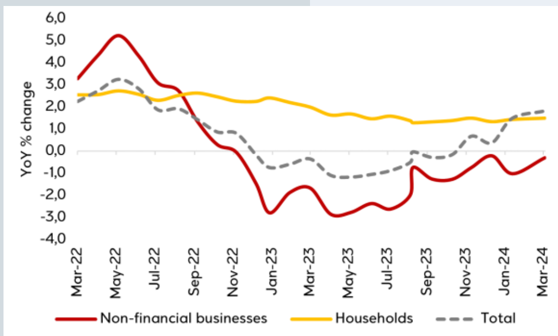
According to the Q1 2024 GDP flash estimate, seasonally adjusted growth accelerated to 3.3%YoY – a five quarter high - from 2.3%YoY in Q4 2023. The growth momentum was robust also on a quarterly basis, +1.2% against +1.0% a quarter earlier. In view of the full GDP dataset to be released on June 3, trends in short-term indicators of economic activity provide signs that sectors with a vital role in the 2023 GDP growth, were resilient or expanded in the first months of 2024. After a small fall in January (-2.9%YoY), tourist arrivals resumed rising in February (5.0%YoY) and March (9.8%YoY), retaining an overall upward trend in Q1, modestly weaker than in Q4 (5.4%YoY vs. 7.4%YoY). While the March print came on the back of the earlier Catholic Easter holiday than last year, the range of countries driving growth in Q1 implies a greater degree of market diversification relative to 2023. After a 16-year high in 2023, mixed trends appeared in the volume of real estate sales in Q1 2024, resulting in stagnation (+0.6%YoY). Although the momentum improved in April (+14.6%YoY), more such prints are necessary to establish an upward trend. The HICP inflation deceleration in March to 1.6%YoY brought the Q1 average down to 1.9%YoY from 2.6%YoY in Q4, and together with higher wage indexation are considered to have boosted household consumption. On the other hand, the April spike in domestic CPI-based inflation, to 2.4%YoY from 1.2%YoY in March, mainly from a change of price trend in housing-utility-water supply (+4.5%YoY after -1.8%YoY) and transport (+4.2%YoY vs. -0.3%YoY), highlights the underlying inflationary dynamics, which were partly curbed up to March by the reduced excise duty on fuels and could weaken household demand in the period ahead. The April inflation also indicates the significance of the disinflationary measures still in place, increasing the probability of an extension. Credit expansion continued in March, at a faster pace than previously (1.8%YoY), bringing the Q1 average to 1.2%YoY, after stagnation in Q4. A weaker credit crunch towards non-financial businesses (-0.5%YoY from -1.1%YoY) and stronger credit supply to financial intermediaries excluding banks (+16.2%YoY from +1.2%YoY) ended the credit contraction, improving investment prospects. As previously analysed, RRF inflows will be a key determinant of investment in 2024, with 13 calls currently open to tendering providing in total more than €200mn of EU funding. Aside these improving dynamics, stronger than expected Q1 GDP leads us to revise upward our growth forecast to 2.9%.

Figure 19: Retail trade volume growth robust despite inflation still slightly above 2%



Source: Eurostat, Eurobank Research

Figure 20: Credit expansion in Q1 2024 mainly from financing of businesses, improves investment outlook



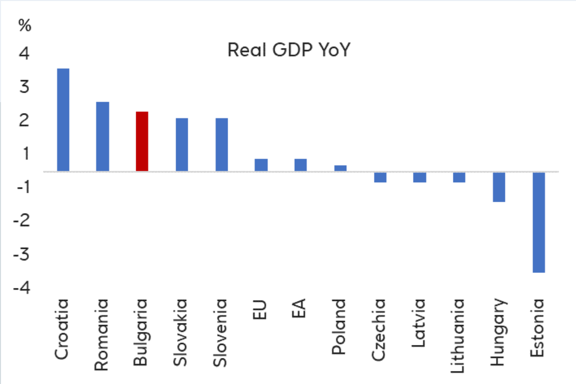
Source: Central bank of Cyprus, Eurobank Research

Bulgaria

Growth on a solid footing in Q1 but snap elections cloud the outlook

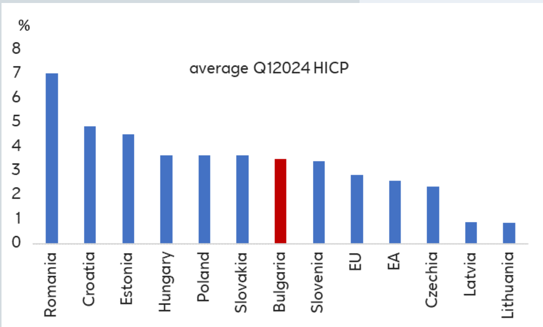
The Q1 2024 flash GDP estimate came in at 1.7%YoY, passing below the bar of market expectations for a 1.9%YoY reading. Economic output picked up by a tad compared to the previous quarter when the growth rate stood at 1.6%YoY and resulted in a FY2023 growth rate of 1.8%. Since our latest issue, a series of institutional outlooks that cover, inter alia, the economy of Bulgaria has been released. The spring outlooks of the World Bank and the OECD along with the quarterly Macroeconomic Forecast of Bulgaria's central bank (BNB) may vary modestly from 2.1% to 2.5% with respect to the 2024 growth forecast (ours at 2.2% since March), yet they all coincide with its trim since their previous releases in November (OECD) and January (WB, BNB). While it is not tabulated directly by the two IFIs as the key factor that drove the downgrade of forecast, the reappearance of political instability in the country has emerged into a vocal point of concern regarding the prospects ahead. Fears that the country could slide back to lengthy coalition negotiations and that renewed political instability could threaten to slow the reform agenda and delay beyond 2025 eurozone entry are getting widespread. The resurfacing political upheaval reverberates also on the optimum management and absorption of the EU funds from the Recovery and Resilience Program (RRP). Parliamentary elections are scheduled for June 9, jointly with the elections that will appoint the members of the European parliament. Based on the latest available poll, conducted by Market Links, five parties appear entering the parliament, with GERB gathering pace and 26% of the votes and the WCC-DB coalition left behind with 17.7%. Despite the curbed growth prospects for 2024, the latest valuation of the sovereign creditworthiness came from Fitch in late April and held no surprises. The agency kept the rating at BBB and the outlook positive on the grounds of strong external and public balance sheets, underpinned by EU funds and the financing of investments the former could unlock up to 2026. While low productivity and adverse demographics remain pivotal challenges, the broad political commitment over euro adoption, regardless of any delays, within the country and at EU level, will finally provide the economy with additional resilience.

Figure 21: growth held firm in 2023, ranking third in the CESEE region...



Source: Eurostat, Eurobank Research

Figure 22: ...and disinflation accelerated further in Q1 2024, supporting growth in the same quarter

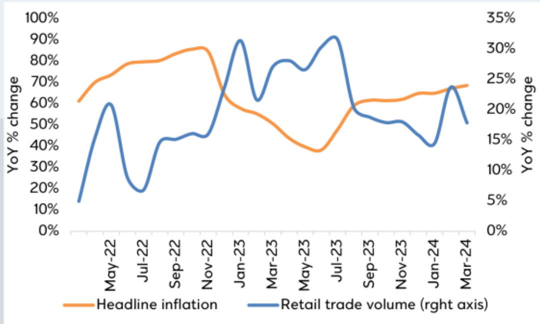


Source: Eurostat, Eurobank Research

Turkey

Will fiscal policy align with monetary tightening stance?

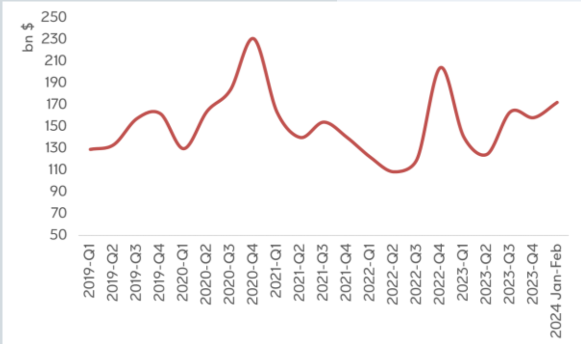
Figure 23: Resilient retail trade volume growth amid rampant inflation



Source: Turkstat, Eurobank Research

Despite further monetary policy tightening in March, by 500bps, which brought the base rate to 50%, inflation accelerated anew in April, to 69.8%YoY (+1.3ppts), a new high after the October-November 2022 24-year peak of 85%YoY. Given the April monthly pace at 3.2%, the annual inflation spike is not due to base effects but came on the back of price increases mainly in non-core items (utility-housing +4.4ppts from March to 55.6%YoY, alcoholic beverages - tobacco +15.6ppts, to 78.5%YoY). Amid very high inflation, retail trade volume retained a fast pace in March, 17.8%YoY, which brought Q1 2024 growth to 18.7%YoY, slightly exceeding that in Q3 2023 (+17.2%YoY), a dynamic expected to be reflected in the Q1 household consumption. The focus now turns on whether the government will proceed in July to another minimum wage and civil servants' remunerations indexation, as in the last two years, especially after the central bank's recommendation to the MinFin in early April to align fiscal policy instruments with the medium-term inflation target (5%). The new policy rate hike and other recent credit-related measures (e.g., lower monthly growth ceilings on loans) led in March to a shift to credit contraction in real terms towards both non-financial businesses (-0.7%YoY) and households (-1.8%YoY) – as foreseen in our previous issue – limiting their spending capacity. In contrast, expanding foreign direct investment (FDI) since Q3 2023, which edged to $172.4bn in January-February 2024 (+22.6% from Q1 2023), in combination with the carryover effect of the December spike in state capital payments (+669.3%YoY, at TL799.9bn or $27.45bn), could fuel gross capital formation in H1 2024. Recent credit rating upgrades, by Fitch and S&P Global, both to B+ from B, with positive outlooks, are expected to sustain FDI net inflows in the following quarters. Improvement in the goods trade balance continued in March, albeit weaker than the month before, with the deficit ($ denominated) narrowing 12.4%YoY after -44.1%YoY in February. Accordingly, the trade deficit fell in Q1 by 41.5%YoY, mainly due to declining imports (-12.8%YoY) and to a lesser extent from higher exports (+3.6%YoY). Turning to exports of services, net income from tourism expanded in Q1 4.0%YoY, in contrast to a 4.7%YoY fall in Q4, both from a stronger rise in receipts from visitors (+5.4%YoY after +2.2%YoY), and an ease in spending growth of inhabitants (+11.3%YoY vs. +44.1%YoY). Favourable developments in the external sector but mostly rapidly rising FDI inflows, which could mitigate the implications of credit tightening on investment, lead us to an upward revision of our growth forecast for 2024 by 0.3ppts, to 3.3%.

Figure 24: Rapidly recovering FDI could mitigate the implications of credit tightening on investment



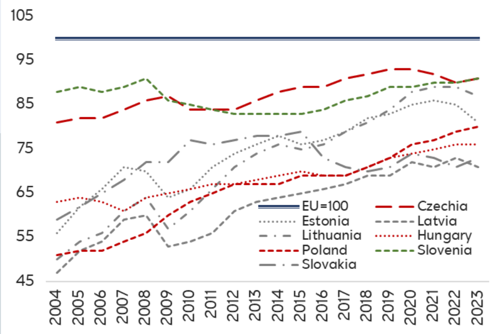
*Source: Central Bank of Turlkey, Eurobank Research

CESEE

20 years after the first Eastern enlargement, more pros than cons

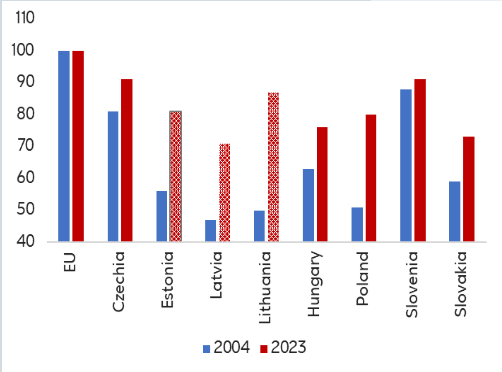
Until all flash GDP estimates for Q1 in the region are released, it is worth briefly assessing the key milestones of the first eastern enlargement of the EU, which marked its 20-year anniversary in April. The EU's cohesion policy has paid off as all members that entered the EU from 2004 to 2013 have converged substantially towards the EU average in PPP terms. The countries that have galloped faster, under this gauge, are primarily the three Baltic states (Estonia, Lithuania, Latvia) and Poland. The common denominator for the progress of the Baltics, apart from the geographic proximity, was their decision for further integration by joining the euro area progressively from 2011 to 2015 (Estonia in 2011, Latvia in 2014 and Lithuania in 2015). The country that has covered the longer distance of conversion is Lithuania with its PPP in 2004 being half of the EU average and brought to 87% in almost 20 years. Lithuania's current position is the second among the eight eastern countries that entered the EU in 2004 with Slovenia and Czechia ranking first at 91 but with both latter accessing the union at a much higher level (81 and 88 respectively). The last enlargement goes back to 2013 with Croatia, and the whole process of EU widening and deepening is seen currently at a crossroads with the agenda of the next decade envisaging the inclusion of Western Balkan countries, Georgia, Moldova and Ukraine. For this endeavour to succeed, acceptance by existing members of the whole enlargement concept and especially by those that have been benefiting for the last two decades and that will now be called to move from a "new" member to an "old" status is a sin a qua non. The latest Eurobarometer survey in Autumn 2023 showed that, despite any existing euroscepticism in a series of issues, the ground is set to some extent as almost the biggest part of the population in all once-new members that are or have approached EU "adulthood" think positively of the EU and recognize the benefits that EU membership has brought at a national level. It comes as no surprise that Lithuania ranks first with more than 90% of the questioned sample thinking in favour and Bulgaria that, despite the progress, remains the poorest (64% of the EU average in terms of PPP) and the most reluctant on whether the country has on the whole been supported since it got into the EU.

Figure 25: All members accessing the EU in 2004 converged in PPP terms...



Source: Eurostat, Eurobank Research

Figure 26: ..those, that integrated further by adopting the Euro, caught up faster...



Source: Eurostat, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f
World	3.2	2.9	2.9	6.8	4.2	3.4									
Advanced Economies															
USA	2.5	2.4	1.7	4.1	3.1	2.4	3.6	3.9	4.1	-3.0	-3.0	-3.0	-6.5	-6.0	-5.9
Eurozone	0.4	0.6	1.4	5.5	2.4	2.1	6.6	6.6	6.5	1.7	2.0	1.8	-3.6	-3.0	-2.7
Germany	-0.3	0.0	1.2	6.1	2.5	2.1	5.7	5.9	5.7	5.9	6.5	6.4	-2.5	-1.6	-1.3
France	0.7	0.7	1.3	5.7	2.5	2.0	7.3	7.5	7.5	-1.4	-0.5	-0.5	-5.5	-5.1	-4.1
Periphery															
Cyprus	2.5	2.9	3.5	3.9	2.2	1.5	6.1	5.8	5.5	-12.1	-9.0	-7.0	3.1	3.5	3.7
Italy	0.9	0.9	1.1	6.0	1.4	1.9	7.7	7.4	7.4	0.5	0.9	1.1	-7.4	-4.6	-3.2
Portugal	2.3	1.4	1.9	5.3	2.3	2.0	6.5	6.6	6.5	1.4	1.1	1.4	1.2	0.2	0.1
Spain	2.5	2.0	1.9	3.4	3.1	2.3	12.2	11.7	11.4	2.6	2.0	2.1	-3.6	-3.2	-3.0
UK	0.1	0.5	1.2	7.4	2.5	2.2	4.0	4.3	4.4	-3.3	-2.8	-2.7	-5.0	-3.6	-3.0
Japan	1.9	0.7	1.1	3.3	2.3	1.8	2.6	2.5	2.4	3.6	3.6	3.5	-5.2	-4.2	-3.6
Emerging Economies															
BRICs															
Brazil	2.9	1.9	2.0	4.6	4.0	3.5	8.0	8.0	8.1	-1.4	-1.5	-1.8	-8.9	-7.2	-6.5
China	5.2	4.8	4.4	0.2	0.7	1.5	5.2	5.2	5.1	1.8	1.2	1.1	-4.6	-4.9	-4.8
India	7.6	6.7	6.5	5.7	4.5	4.5		NA		-0.9	-1.2	-1.2	-5.8	-5.1	-4.5
Russia	3.6	2.5	1.2	6.0	6.8	5.0	3.2	3.0	3.1	2.5	2.7	2.3	-1.9	-1.7	-1.0
CESEE															
Bulgaria	1.8	2.2	2.8	9.6	3.3	3.1	4.3	4.4	4.3	-0.3	0.2	0.2	-3.0	-3.0	-2.9
Turkey	4.5	3.3	3.8	53.4	55.6	34.2	9.4	8.9	8.6	-4.1	-2.5	-1.5	-5.3	-3.7	-2.0

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

Eurobank Fixed Income Forecasts

	Current	June 2024	September 2024	December 2024	March 2024
USA					
Fed Funds Rate	5.25-5.50%	5.24-5.50%	4.98-5.25%	4.67-4.90%	4.35-4.60%
3m SOFR	5.33%	5.25%	5.02%	4.68%	4.38%
2yr Notes	4.84%	4.68%	4.36%	4.06%	3.87%
10yr Bonds	4.48%	4.37%	4.20%	4.04%	3.98%
Eurozone					
Refi Rate	4.50%	4.25%	3.60%	3.30%	3.00%
3m Euribor	3.82%	3.67%	3.34%	3.08%	2.81%
2yr Bunds	2.94%	2.70%	2.45%	2.28%	2.18%
10yr Bunds	2.51%	2.36%	2.25%	2.28%	2.22%
UK					
Repo Rate	5.25%	5.15%	4.75%	4.35%	3.95%
3m Sonia	5.13%	4.86%	4.61%	4.26%	3.78%
10-yr Gilt	4.16%	3.84%	3.68%	3.54%	3.52%
Switzerland					
3m Saron	1.32%	1.32%	1.15%	1.12%	1.00%
10-yr Bond	0.73%	0.80%	0.78%	0.79%	0.80%

Source: Bloomberg (market implied forecasts)

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