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US President Donald Trump ramped up his administration's protectionist policies, further intensifying trade tensions and increasing policy uncertainty. His massive "reciprocal" tariffs hit nearly all the country's major trading partners, with US effective rates surpassing even the most pessimistic expectations. These rates might not even necessarily mark the endpoint, as sector tariffs may still follow in the coming weeks. Some nations have already indicated their intention to retaliate to the reciprocal tariffs, raising the prospect of an escalating tit-for-tat trade war. In the face of increased uncertainty, recent data from several major economies have been weaker than expected, particularly the US, signalling a slowdown in global growth momentum in Q1 2025. However, if tariffs remain in place for long, downside risks could intensify, making room for more monetary easing by major central banks.

Macro Picture

USA: rising stagflation risks after the US administration's massive reciprocal tariffs

EA: near-term outlook fragile, overshadowed by trade uncertainty; disinflation on track so far

China: banks' lending capacity in the spotlight as boosting consumption gets prioritised

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Japan: BoJ likely to further tighten policy in summer to contain rising wage-price spiral

CESEE: central banks holding fire in the latest MPCs as uncertainty dominates the outlook

Key Downside Risks

DM & EM: further escalation of the trade war through retaliation from trading partners; intensification of geopolitical tensions; sharply higher commodity prices and market-based inflation expectations; monetary policy remains restrictive for longer; climate related disasters; swelling trade deficits from increased tariffs exerting depreciation pressures on currencies of import-dependent EM countries

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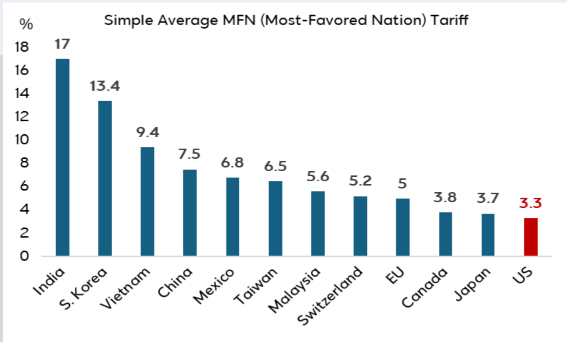
Macro Views

Escalating trade tensions and uncertainty threaten to dampen global growth, making room for more monetary easing by major central banks

US President Donald Trump has significantly ramped up tariffs on imports into the country, further escalating trade tensions and increasing policy uncertainty. With some US tariffs on certain countries and goods already in effect, the president unveiled the highly anticipated reciprocal tariffs on US trading partners on April 2, dubbing it “Liberation Day”. His announcement followed the completion of trade investigations he initiated on his first day in office, aimed at reviewing tariff rates on a country-by-country basis, to address factors that are viewed as indicative of unfair trade practices and non-tariff barriers, such as export controls, subsidies, stringent regulation and currency practices. Countries with a bilateral trade deficit with the US, including the UK, will face a minimum tariff of 10%, starting on April 5. By contrast, those with bilateral trade surpluses will be subject to much higher individualized tariffs, effective April 9. These tariffs were calculated using a simple formula based on the size of the trading partners’ goods trade surplus with the US and their total goods exports to the US. As a result, the EU will face a 20% tariff, while Mexico and Canada will continue to face a 25% tariff on their exports to the US that are not covered by the USMCA free trade agreement (10% on energy and potash). However, tariff rates imposed on Asian economies were significantly higher, ranging from 24% on Japan to 46% on Vietnam. With respect to China, an additional 34% tariff will come on top of the 20% announced earlier this year. The reciprocal tariff plan includes some exemptions, such as critical minerals, gold/bullion, pharmaceuticals, semiconductors, lumber and copper (which are under separate sectoral trade investigations), while steel, aluminium and auto imports will still be subject to the recently announced 25% tariffs.

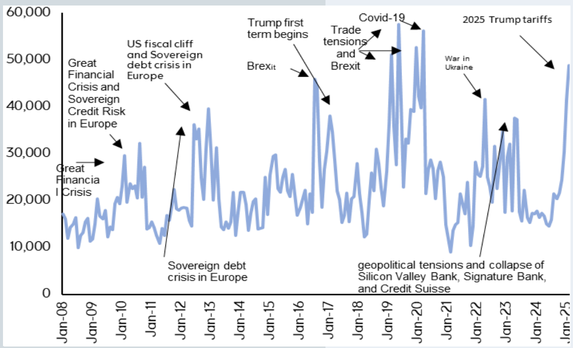
Figure 1: The US has one of the lowest simple average most-favoured-nation (MFN) tariff rates



Source: WTO, Eurobank Research

A major uncertainty is how US trading partners might respond, although some have already indicated their intention to retaliate. A few days before the announcement of the reciprocal tariffs, EU Commission President Ursula von der Leyen warned that Europe was prepared to take countermeasures, if necessary. Canada's prime minister made similar statements, as did China, which vowed to retaliate. However, Trump’s executive order made it clear that any retaliation would lead to additional US tariffs, reading that, in such cases,

Figure 2: World Uncertainty Index has only been higher at the start of the Covid-19 pandemic



Source: Economic Policy Uncertainty, Eurobank Research the president may "increase or expand in scope the duties imposed." As a result, there is potential for further escalation in this ongoing tit-for-tat trade conflict.

The US president did leave the door open for negotiations, signalling a potential for compromise. If a deal is reached — such as the relocation of production or investment at a small company level — tariffs will still rise, but by a lesser amount than initially outlined under the US reciprocity framework. This is because the Trump administration's tariff strategy aims to achieve three primary objectives: (i) reduce the growing US goods trade deficit; (ii) protect domestic sensitive industries from foreign competition; and (iii) extract policy concessions from trading partners. As of early April, the US trade-weighted average tariff had increased more than threefold, rising above 8%, up from 2.2% at the end of 2024 (according to WTO data). For comparison, the average US tariff during Trump's first term in 2018-2019 increased by only 1.4ppt. This figure is reportedly expected to rise even further following the announcement of reciprocal tariffs, estimated to exceed 20%, marking the highest level since the 1930s and surpassing even the most pessimistic expectations. Moreover, there is no clear endpoint in sight, as the US administration continues pursuing separate sectoral trade investigations, targeting industries such as copper, semiconductors, pharmaceuticals and timber/lumber. The timing of these additional tariffs remains uncertain.

Global policy uncertainty, mainly stemming from tariff announcements and concern about further trade escalations, has surged in recent months and is unlikely to subside any time soon (an index that measures it is currently near the all-time high observed at the start of the Covid-19 pandemic). In the face of this rising uncertainty, recent business surveys and activity data from several major economies, particularly the US, have come in weaker than expected. This points to slowing growth momentum in Q1 2025 following global economic growth of 3.2% in 2024, slightly below the long-term average of 3.4%. The market consensus (Bloomberg) now forecasts a GDP growth rate of 2.9% for the full year, 0.1ppts lower than earlier this year. However, if policy uncertainty persists, it will impart further downside risks to the global growth outlook, as it undermines business confidence, investment, consumer spending and trade. Meanwhile, inflationary pressures persist in many economies, including the US, where disinflation has stalled in recent months and inflation expectations have sharply increased, reflecting fears of price pressures from tariffs. In February, a deceleration in global energy inflation (OECD: -0.4ppts to 3.6% YoY) provided some relief to global headline inflation (OECD: -0.2pts to 4.5% YoY). Core CPI also continued to decline, albeit at a slower pace (-0.1ppts to 4.7%YoY), partly due to rising pressures on core goods prices, which have been gaining some momentum recently, while there seems potential for further increases, driven by tariff hikes.

Against this backdrop, major central banks are grappling with conflicting short-term challenges related to growth and inflation risks, driven by tariff increases and growing uncertainty in trade policies. Provided that inflation expectations remain well anchored, and inflation is on a sustained path toward returning to target levels, policy easing is expected to continue in the coming months to partially offset the drag from higher tariffs, especially if reciprocal tariffs remain in place for long. However, given heightened uncertainty, the pace of further easing will likely differ across central banks, largely dependent on their need to balance supporting economic growth, while also ensuring medium-term price stability.

Developed Economies

US: Sentiment surveys and hard data continue to indicate a slowdown in growth momentum during the early months of the first quarter, after an above-trend growth rate exceeding 2.5% in H2 2024. Trade uncertainty has surged, while DOGE-related spending cuts and layoffs also acted as a drag on economic activity. Despite a solid 0.7%MoM increase in personal income in February, real personal consumption — the key driver of US economic growth — disappointed for the second consecutive month, rising by just 0.1%MoM after a downwardly revised decline of 0.6%MoM in January, the first drop in a year. Meanwhile, inflationary pressures are intensifying, while risks seem skewed toward a further increase once tariff effects on prices begin to take hold. Amid elevated uncertainty, the Fed kept rates unchanged on March 18-19 for the second straight meeting and reiterated that it is in no rush to adjust rates. The median dot plot remained unchanged, indicating two 25bps cuts in 2025. However, in response to the heightened downside risks from massive US reciprocal tariffs, markets have adopted a more dovish approach, currently pricing-in 86bps of rate easing by the end of 2025.

Euro area: Amid escalating trade tensions, end-of-Q1 data indicated that economic activity remained subdued. The EU's ReArm Europe plan for increased defence spending and the spillover effects from Germany's infrastructure investment fund are expected to support the Eurozone's growth outlook. However, due to production capacity constraints, a significant economic impact may take time to materialize. As a result, trade policy uncertainty remains the primary factor shaping the Eurozone's near-term growth outlook. At the same time, both headline and core CPI declined further in March (-0.1ppts and -0.2ppts to 2.2%YoY and 2.4%YoY, respectively), reinforcing confidence that disinflation continues. Against this backdrop, the ECB retains optionality regarding the timing and scale of further easing after 150bps of rate cuts that have brought the deposit rate close to the upper boundary of the neutral zone. However, another 25bps cut at the 16-17 April meeting is more likely than not, amid increased growth concerns following US reciprocal tariffs.

Emerging Economies

EM: all eyes are on yesterday's announcements by President Trump on Liberation Day as they have raised several concerns for emerging markets. While the details of his statements may vary, recurring themes from similar contexts point to significant risks for developing economies. President Trump's rhetoric and policy shifts can carry serious geopolitical implications. Emerging markets, heavily dependent on exports, remain vulnerable to shifts in global trade policies. Trump's past protectionist measures, such as tariffs and trade restrictions, have negatively impacted supply chains. A renewed focus on trade barriers could undermine economic growth in these export-reliant economies. US policy shifts also create uncertainty in global financial markets, leading to potential capital outflows from emerging economies. This could result in currency depreciation, inflation, and financial instability, especially in countries dependent on foreign investment. Moreover, emerging markets are highly sensitive to US interest rate changes. If President Trump's remarks prompt the Fed to adopt tighter liquidity policies or higher rates, borrowing costs for governments and corporations in emerging markets could rise, exacerbating existing debt burdens. A slowdown in US consumer spending or global demand could weaken emerging markets growth, especially in commodity-exporting economies. All in, the fresh announcements heighten concerns about geopolitical risks, trade disruptions, capital flows, inflation, and social unrest, all of which are likely to affect emerging markets in the near term.

CESEE: central banks in Poland, Hungary, and the Czech Republic held interest rates steady in line with market expectations during their Monetary Policy Council (MPC) meetings in March and early April. Poland's MPC maintained the Key Policy Rate (KPR) at 5.75%, despite inflation remaining elevated at 4.9%YoY in March. The MPC signaled the possibility of a rate cut later in 2025, acknowledging that inflation will likely remain above target. In line with expectations, Fitch and Moody's affirmed Poland's credit ratings (A- and A2, respectively) with stable outlooks, citing a diversified economy and strong EU ties. However, fiscal deficits—projected at 5.5% and 4.5% of GDP in 2025 and 2026—remain a concern. Hungary's central bank kept its policy rate at 6.5% but raised its inflation forecasts due to strong repricing in the services sector. Inflation is now expected to range between 4.5% and 5.0%, up from a previous forecast of 3.3% to 4.1%. Growth projections for 2025 were revised down to 1.9-2.9% from 2.6-3.6%. Fiscal challenges persist, with rating agencies forecasting larger budget slippages than the government's targets. Despite these pressures, Fitch revised Hungary's outlook to stable from negative, citing resilience in the economy but acknowledging risks from external factors, such as the Eurozone and US trade policies. The Czech National Bank also held rates steady, maintaining its pause in the easing cycle for a second consecutive month due to rising inflationary risks. S&P affirmed the Czech Republic's AA- rating, supported by its strong external position and fiscal consolidation, though inflationary risks have lowered growth forecasts to around 2% for 2025-2026, down from a previous 2.5%.

Markets View

Foreign Exchange

EUR/USD: at the time of writing on April 2 (before the receiprocal tariff announcement), held above 1.073, supported by the 200-DMA, with bulls eyeing a retest of 1.0947 while downside risks targeted 1.0644 on a break lower. Cooling inflation supports ECB rate-cut speculation, though tight labour markets and geopolitical risks complicate the outlook. Longer-term EUR strength may emerge as Germany's fiscal policies support recovery and ECB policy makers weigh inflation risks against trade uncertainty. Support levels included 1.0616, 1.0562 and 1.0509, while resistance levels included 1.1035, 1.109 and 1.1145. One-month, six-month and nine-month implied volatility was at 8.01%, 7.57% and 7.44% respectively.

USD/JPY: faced bearish pressure near 151.30 amid a "death cross" at the time of writing, with bears needing a break below 148.18 to confirm further downside toward 147.42. The BoJ's tapering of JGB purchases signals confidence in Japan's recovery, while narrowing US-Japan yield differentials weigh on the pair. Support levels included 146.916, 146.174 and 145.432 and resistance ones 152.7019, 153.4579 and 154.2138. One-month, six-month and nine-month implied volatility were at 10.76%, 10.42% and 10.23% respectively.

Rates

EU: March was a game changer for global rates, with Germany's historic fiscal pivot and evolving EU policies sending European yields soaring. Germany's €500bn infrastructure package and fiscal rule adjustments marked a dramatic policy shift, while EU leaders debated a €150bn loan fund and fiscal rule exemptions. In terms of reaction, Bund yields saw their biggest intraday jump since reunification, surging over 30bps in a single session on March 5 soon after the announcement from Germany. The ECB cut rates by 25bps at the March 6 policy meeting, lowering the deposit rate to 2.50%, but the lack of clear policy guidance created uncertainty. By month-end, the 10yr EUR swap rate settled at 265bps, after a turbulent ride between 235bps and 278bps. The yield curve steepened further as term-premium repricing continued, with the 5s30s segment closing 18bps higher at 23bps, extending its upward momentum.

US: the administration's tariff policy spurred volatility, with the April announcement hanging over markets. Inflation data presented a mixed picture – February's PPI print suggested slowing price pressures, but PCE-related components remained strong, fuelling debate on the Fed's next steps. The Fed held rates steady, with markets interpreting a slightly dovish stance despite divided opinions on future cuts. Powell reinforced a cautious, data-driven approach, highlighting that the policy path remains uncertain. Meanwhile, the Fed slowed quantitative tightening, reducing Treasury runoff from $25bn to $5bn per month, a move aimed at easing money market conditions while maintaining balance sheet discipline. By month-end, the 10yr SOFR swap rate settled at 376bps, after peaking at 393bps on March 27. Meanwhile, the US-EUR swap spread tightened sharply by 32bps, closing at 126bps and even touching 101bps – a key shift in transatlantic market dynamics, reflecting evolving policy expectations on both sides of the Atlantic.

Emerging Markets Sovereign Credit

EM sovereign spreads widened in March, driven by a slowing US economy and escalating geopolitical tensions. As of April 1, the EMBI Global Index had widened by approximately 16bps since the end of February, reaching 316bps. In Central Europe, Poland outperformed its regional peers, with the 10yr EUR spread over swaps ending slightly tighter over this period. Conversely, Hungary and Serbia underperformed, with their 10yr EUR spreads widening by approximately 25bps. In the Middle East, the resumption of Israeli military operations in Gaza following nearly two months of ceasefire led to a weakening of sovereign debt, with the 5yr USD CDS widening by nearly 10bps and reaching 93bps in March. In LATAM, spreads remained largely unchanged. The 10yr USD Chilean bond spread tightened marginally, while the Mexican equivalent widened by 5bps. In Asia, Indonesian EUR bond spreads widened by approximately 10bps from the end of February amid growing concerns over the government's fiscal policies. Given the challenging backdrop of a slowing US economy and subdued investor risk appetite, we remain cautious on EM sovereign risk.

Corporate Credit

Markets saw a generally risk-off tone in March, amid tariff newsflow and increasing uncertainty about inflation. Additionally, there were growing concerns about mega tech valuations. Europe outperformed vs. the US after Chancellor-to-be Friedrich Mert, following the Feb. 23 general election, passed a bill in parliament with the support of the SPD and Greens, envisioning a shift in the fiscal regime towards higher defence spending. As of early on April 2, the S&P 500 had shed 5.4% since the end of February, mainly led by a decline in the Magnificent 7 (-8.7% during the same period). Europe saw a moderate decline (Stoxx 600 -3.7%), with Germany outperforming (DAX -1.0%). Safe-haven assets outperformed and gold prices continued to rise, posting their biggest quarterly gain in almost 40 years (+9.8% in March to end +18.4% higher year-to-date).

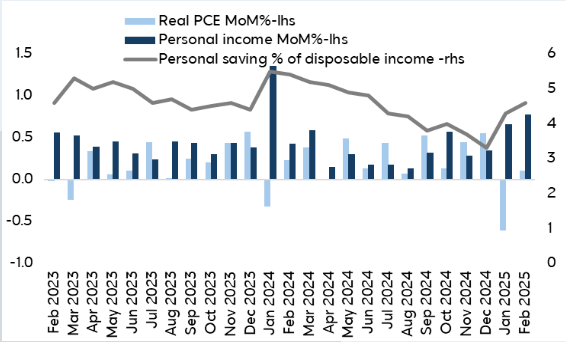
In credit, synthetics widened on both sides of the Atlantic, with Europe outperforming vs. the US. Main widened by 10bps while Xover widened 40bps as of early April 2, both standing wider on a year-to-date basis (+6bps and +16bps respectively). In the US, CDX IG was +12bps March-to-date while CDX HY widened +67bps. European cash remained fairly supported, even though all European IG and HY sectors ended wider during the reference period (IEAC +5bps, IHYG +35ps March-to-date). Sector-wise, Industrials and Materials outperformed in EUR IG (flattish since the end of February), while Financials and Utilities underperformed (Snr Fins +6bps, Sub Fins +15bps, Utilities +6bps). In High Yield, there were no notable outperformers while Energy was the main laggard (+80bps). Activity in the European primary market declined compared to February, with total issuance at €156bn vs. €218bn in the previous month. April started on strong footing despite market volatility, with more than €12bn of issuance so far and a slew of fresh mandates indicating a busy period ahead.

US

Growth slows amid policy uncertainty; inflation momentum picks up

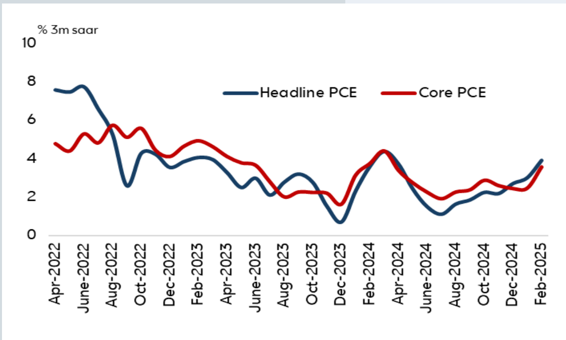
Sentiment surveys and hard data continue to indicate a slowdown in growth momentum during the early months of the first quarter, after an above-trend growth rate exceeding 2.5% in H2 2024. Trade uncertainty has surged, while DOGE-related spending cuts and layoffs also acted as a drag on economic activity. Despite a solid 0.7%MoM increase in personal income in February, real personal consumption — the key driver of US economic growth — disappointed for the second consecutive month, rising by just 0.1%MoM after a downwardly revised decline of 0.6%MoM in January, the first drop in a year. Reflecting the contribution of policy-related uncertainty on a more cautious spending environment, the savings rate climbed to an eight-month high of 4.6%, up 0.9ppts since the end of 2024, though it remained below post-pandemic levels. Consumer spending weakness in the first two months of the year has been accompanied by a continued deterioration in consumer sentiment. The University of Michigan's March survey showed a drop in its respective index for the third straight month, falling by another 7.7pts to 57, its lowest level since November 2022. Adding to the signs of slowing growth momentum, the manufacturing PMI fell into contractionary territory in March (-2.9pts to 49.8) and the goods trade deficit narrowed by just $7.7bn in February, staying close to January's record high of $155.6bn. Meanwhile, inflationary pressures are intensifying, with the 3-month annualised rate of core PCE reaching a two-year high of 4.5% in February, while risks seem skewed toward a further increase once tariff effects on prices begin to take hold. Amid elevated uncertainty, the Fed kept rates unchanged on March 18-19 for the second straight meeting and reiterated that it is in no rush to adjust rates, opting to wait for greater clarity on government policies. The median dot plot remained unchanged, indicating two 25bps cuts in 2025, (along with another two in 2026 and one in 2027). However, eight of the 19 members pencilled in fewer than two cuts this year, signalling growing concerns about the inflation outlook, although Chair Powell stressed in the post-meeting press conference that tariff-driven inflation could be "transitory". However, in response to the heightened downside risks from massive US reciprocal tariffs, markets have adopted a more dovish approach, currently pricing in 86bps of rate easing by the end of 2025.

Figure 3: Consumer spending has decelerated this year, despite healthy income gains



Source: BLS, Eurobank Research

Figure 4: Inflationary momentum is picking up



Source: BLS, Eurobank Research

China

Mixed picture amid domestic and external headwinds

The economy is currently navigating a period of mixed performance, grappling with both domestic challenges and external headwinds. On a positive note, the manufacturing sector demonstrated resilience in March, with the official manufacturing PMI rising to 50.5, reaching its highest level in twelve months. This uptick signals robust factory activity despite pressures, including anticipated US tariffs. However, domestic consumption remains a significant challenge. Since the conclusion of Covid-19 lockdowns, consumer spending has been lacklustre, prompting the government to implement measures aimed at boosting consumption. In response, a comprehensive 30-point action plan has been unveiled to support consumption, with immediate fiscal measures expected to provide a boost to retail sales in 2025. Early signs of improvement in retail sales are visible, with a 4%YoY increase recorded in January and February. The property sector, however, continues to weigh heavily on the economy, as it has entered the fourth year of a prolonged slowdown. February saw further declines in home prices, with new home prices down by 0.14%YoY and used home prices falling by 0.34%YoY, compared to the previous month's declines of 0.07%YoY and 0.34%YoY respectively. Investment in property development remains subdued, with a 9.8%YoY contraction in Jan-Feb 2025, only slightly better than the 10.6%YoY drop in December 2024. The banking sector is also under strain. The country's largest banks are facing unprecedented pressure as net interest margins fall to record lows, a direct consequence of the slowing economy and the policy initiatives aimed at boosting credit. In response, the government is injecting RMB520bn (USD72bn) into four state-owned banks through share sales, with the Ministry of Finance as a key investor. This capital infusion is designed to bolster the banks' core tier one capital and enhance their lending capacity. Externally, trade tensions with the United States remain a notable concern. The US has recently implemented fresh tariffs on Chinese exports, with rates recently skyrocketed to 54%. In response, China has signalled its intention to retaliate against the US's trade measures. Against this backdrop, the Chinese government appears to be conserving fiscal resources in anticipation of potential economic disruptions caused by higher US tariffs. Public sector spending has lagged in the first two months of the year, yet bond issuance has remained elevated, suggesting that the government is preparing for increased fiscal outlays should the need arise.

Figure 5: Reciprocal tariffs roil the global stage...

Country	tariffs charged to the US	US discounted reciprocal tariffs
China	67%	34%
EU	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%

Source: White House, Eurobank Research

Figure 6: ...and will put additional stress on FX markets

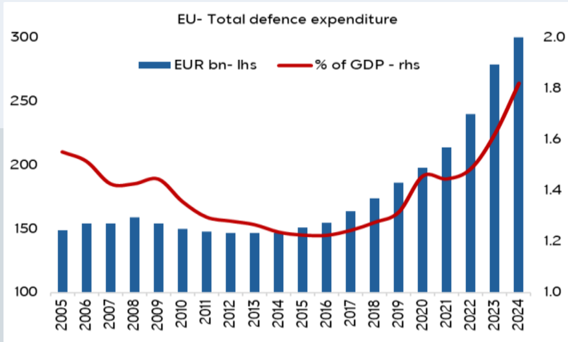
Source: Bloomberg, Eurobank Research

Euro area

Short term outlook remains fragile, overshadowed by trade policy uncertainty

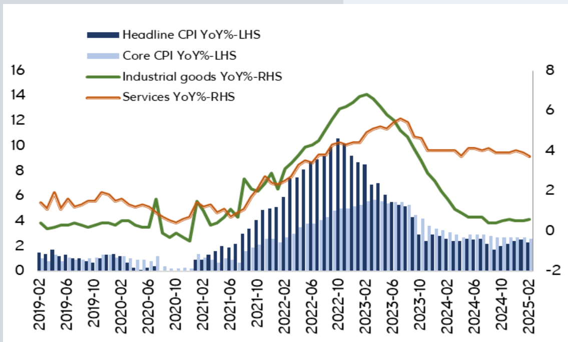
Amid escalating trade tensions, end-of-Q1 data indicated that economic activity remained subdued. The EU's ReArm Europe plan for increased defence spending and the spillover effects from Germany's infrastructure investment fund are expected to support the Eurozone's growth outlook. However, due to production capacity constraints, a significant economic impact may take time to materialize. As a result, trade policy uncertainty remains the primary factor shaping the Eurozone's near-term growth outlook. The composite PMI index inched up 0.7pts, to 50.9 in March, though it remained close to the threshold of 50 that separates expansion from contraction. The improvement was driven by manufacturing (+1pts to 48.6), supported by increased US demand ahead of anticipated tariff hikes. By contrast, services — the main driver of growth in recent years — continued to lose steam for the third straight month, staying slightly above 50 (-0.2pt, to 50.4). Reflecting this weak economic mood, the European Commission's economic sentiment indicator fell to 95.2 in March from February's 96.3, suggesting that trade uncertainty is weighing on consumer and business confidence. The decline was largely driven by the services sector, where assessment of the business climate dropped to a near four-year low (-2.7pts to 2.4), along with consumer confidence, which erased the gains recorded in the first two months of the year (-0.9pts to -14.5). Meanwhile, hard data was mixed. Industrial production rose by a five-month high of 0.8%MoM in January, putting it on track for the first quarterly increase in two years, boosted by frontloading of production ahead of potentially higher US tariffs. By contrast, retail sales remained flat in January for a fourth straight month, indicating that the gradual improvement seen in the first three quarters of 2024 has stalled, despite rising real purchasing power. At the same time, both headline and core CPI declined further in March (-0.1ppts and -0.2ppts to 2.2%YoY and 2.4%YoY, respectively), reinforcing confidence that disinflation continues. Against this backdrop, the ECB retains optionality regarding the timing and scale of further easing after 150bps of rate cuts that have brought the deposit rate close to the upper boundary of the neutral zone. However, another 25bp cut at the 16-17 April meeting cannot be ruled out after the US reciprocal tariffs announcement amplified growth concerns.

Figure 7: European defence spending is set to rise



Source: European Defence Agency, Ameco,, Eurobank Research

Figure 8: Disinflation remains on track



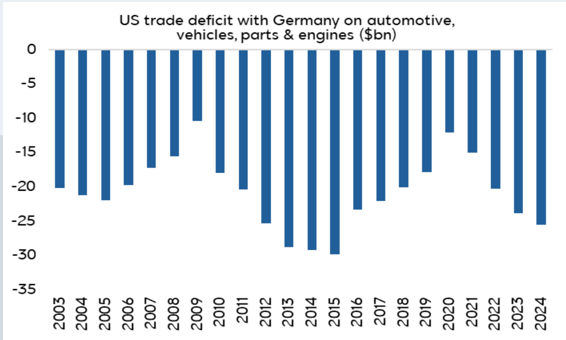
Source: Eurostat, Eurobank Research

Germany

Economic impact from fiscal stimulus may take time to show

After contracting slightly for the second consecutive year in 2024, the economic outlook is now dominated by two major forces: (i) escalating trade tensions, which present a clear downside risk, especially following US President Donald Trump's announcement of an additional 25% tariff on all automobiles; and (ii) a massive fiscal stimulus package, approved in March by the required two-thirds majority in parliament, which is expected to have a meaningful positive impact in the medium term. Sentiment surveys and hard data for late Q1 suggest that, for now, the shift in fiscal policy is having a bigger impact, raising hopes that the economy may be nearing a turning point. However, improvements could prove temporary as any significant impact from fiscal stimulus is unlikely to materialize until actual spending begins, while further tariff developments could weigh on sentiment. Industrial production rose by a higher-than-expected 0.2%MoM in January, taking the 3mavg rate into positive territory (0.6%) for the first time since August 2024. However, ongoing tariff uncertainty poses a clear downside risk. Additionally, national accounts showed a significant inventory build-up in H2, and industrial orders plunged by 7.0%MoM in January, more than offsetting December's 5.9%MoM surge.

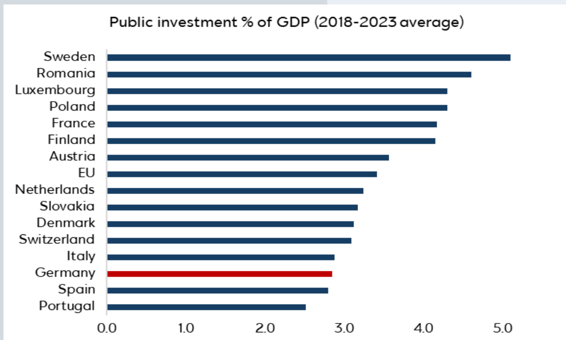
Figure 9: Higher US tariffs on automotives pose a clear downside risk for Germany



Source: BLS, Eurobank Research

Elsewhere, the composite PMI climbed to a 10-month high of 51.3 in March, up from 50.4 in February, driven by a strong improvement in manufacturing (+1.8pts to 48.3, the highest since August 2022). Similarly, the IFO business climate rose 1.4pts to 86.7 in March. The current assessment component improved by just 0.7pts to 85.7 while expectations improved significantly (+2.1pts to 87.7), as the full effect of large fiscal spending on defence and infrastructure will take time to show. Currently, around 30% of military equipment is imported and the full benefits of R&D and economies of scale will take time to materialise. In infrastructure, significant implementation risks remain, including bureaucratic hurdles and planning constraints. Meanwhile the government that will emerge from the February 23 election has yet to be formed and the 2025 budget, which will determine how the additional fiscal space will be allocated, is still pending. Given these factors, we maintain our 2025 GDP forecast at 0.2% though we now expect slightly stronger growth of 1.2% in 2026 compared with our previous forecast of 1.0%.

Figure 10: Germany near the bottom of European economies in public investment



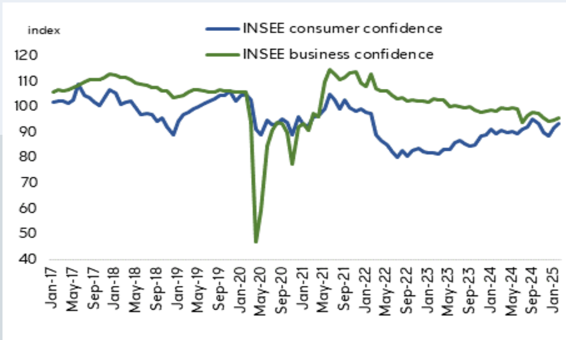
Source: Eurostat, Eurobank Research

France

Tentative signs of modest recovery, but risks are looming

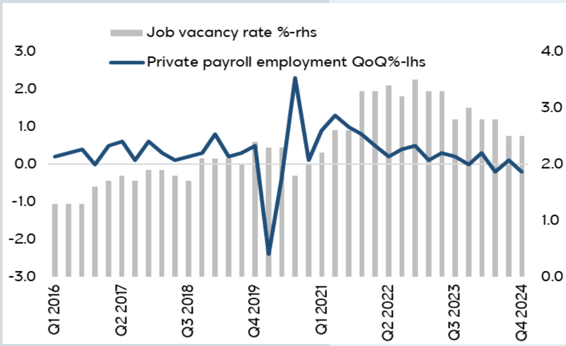
Sentiment surveys presented mixed signals in the first month of the year. However, a steady gradual recovery in February and March has fostered optimism that the economy probably bottomed out in Q1 2025 following a minor contraction of 0.1%QoQ at the end of 2024, a whiplash from the Paris Olympic and Paralympic Games in the summer. The composite PMI rose 1.9pts in March, reaching 47, after a sharp drop of 2.5pts in February. Although still below the 50-threshold separating expansion from contraction, this improvement exceeded expectations, driven by gains in both manufacturing (+3.1pts to 48.9) and services (+1.3pts to 46.6). Similarly, the INSEE business climate index improved in February, rising 0.7pts to 95.6 following a more modest increase of 0.4pts in January, partly reflecting reduced political uncertainty after Prime Minister Francois Bayrou's minority government successfully passed the 2025 budget. Additionally, INSEE household confidence recovered modestly in February, rising 1pt to 93, the second consecutive monthly improvement. According to the Banque de France, GDP is expected to show modest growth in Q1, with a forecast between 0.1%QoQ and 0.2%QoQ. This pace of growth is expected to continue into Q2, before slightly accelerating in H2, assuming a sustained recovery in real wage purchasing power. Annual headline inflation is projected to continue falling significantly in the coming months, mainly due to a 15% reduction in electricity prices (HICP growth was stable at 0.8%YoY in March, after falling below 1%YoY in February for the first time in four years). For the full year 2025, real GDP is projected to grow 0.7%, a slowdown from the 1.1% recorded in both 2024 and 2023, primarily due to a lower growth carry-over effect (0.2% at the end of 2024 compared to 0.6% the previous year). However, our forecast is subject to downside risks. The labour market has started showing signs of weakness, and the 2025 budget suggests a more restrictive fiscal policy. Additionally, the possibility of a snap election could emerge in H2, as President Macron will regain the constitutional authority to dissolve the National Assembly and call for a new election from July. External risks have also become more prominent, particularly related to Trump's trade policies.

Figure 11: Tentative signs of modest recovery



Source: INSEE, Eurobank Research

Figure 12: Signs of weakness in the labour market



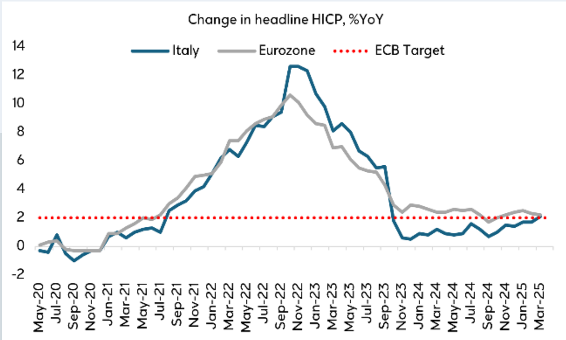
Source: INSEE, Eurostat, Eurobank Research

Italy

Signs of green shoots for economy stamped out as sentiment sours

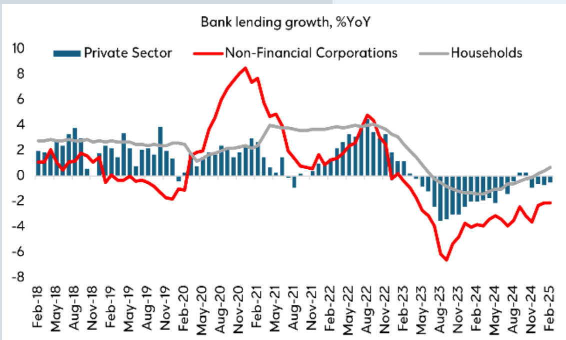
Energy costs helped unexpectedly drive Italy's inflation rate in March above the European Central Bank's 2% target for the first time since 2023. This was one notable data point in a series of disappointing releases for the Italian economy in the past few weeks. At the time of our last report, there were a handful of encouraging signs that the economy could be rekindling some momentum after growth stalled in the second half of last year. However, it appears that may have been a flash in a pan, with rising global economic uncertainty and weak manufacturing conditions all weighing on the Italian economy. In terms of prices, headline HICP increased 0.4ppts to 2.1%YoY last month, with the consensus estimate being that it would increase by just 0.1ppts. The increase contrasts with the Eurozone as a whole, where inflation slowed down in March. However, Italy was the only major economy where inflation was running consistently below the ECB's target last year, so the latest trend puts the country in closer convergence with the rest of the currency bloc. Of greater concern is the deterioration in the forward-looking survey data for March, reversing some encouraging signs in February. The economic sentiment indicator dropped to 93.3 from 94.7, while consumer confidence fell 3.8pts to 95, compared with the consensus estimate for a 0.3pt drop to 98.5. Manufacturing confidence fell to 86 from 86.9 in February, with the consensus estimate having been that it would increase to 87.3. The manufacturing PMI also undershot the consensus estimate, falling 0.8pts to 46.6, well below the 50 threshold separating expansion from contraction, compared with the expectation that it would rise to 48. Composite PMI remained in expansionary territory, although it dropped to 50.5 from 51.9 as services PMI dropped by 0.5pts more than expected, to 52 from 53 in February. As things stand, business sentiment is likely to deteriorate further as the surveys were conducted before April 2, when the US – Italy's second-biggest export market after Germany – imposed a 20% tariff on EU goods, which was on the high end of the range of anticipated scenarios. Meanwhile, the ECB's monetary easing has had only a limited passthrough to Italy's real economy, with bank lending to the private sector contracting 0.5%YoY in February. Credit to non-financial corporations contacted 2.1%YoY, though lending to households expanded 0.7%YoY, an increase of 0.3ppts from January.

Figure 13: March's inflation rate converged to within 0.1ppts of the Eurozone average



Source: Bloomberg, Eurobank Research

Figure 14: Bank lending to Italian businesses continued to contract in Jan-Feb



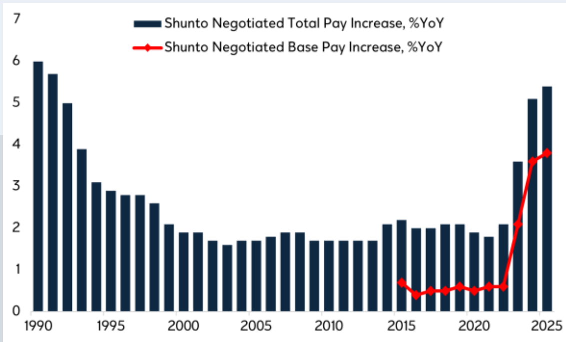
Source: ECB, Eurobank Research

Japan

Central bank is seen tightening policy further to contain rising wage-price cycle

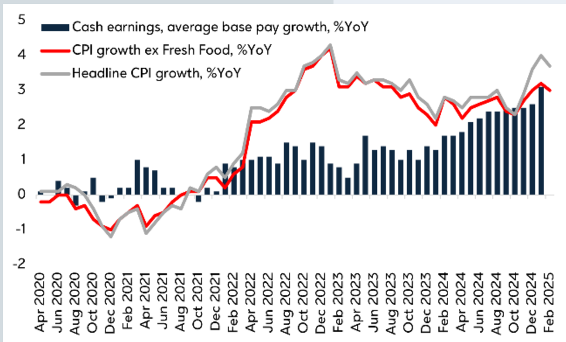
A rising wage-price cycle meant that the Bank of Japan was seen as likely to further tighten monetary policy this summer despite the expected negative impact from US tariffs. Notably, the preliminary results of the annual *shunto* spring salary negotiations – held between the country's large corporations and trade unions – point to a 5.4%YoY average increase in total pay, more than last year's rise of 5.1%YoY, with base pay growing 3.8%YoY. Last year's increase was already the largest since the 1990s and was the key information point that gave the BoJ the confidence to begin its hiking cycle in April 2024, ending its negative interest rate policy. That confidence was partly based on the expectation that large pay increases in the *shunto* talks would trickle down to wage growth in the wider economy as 2024 progressed – an expectation that proved correct. Labour cash earnings growth has been on a steadily rising path, with the average monthly base pay for workers increasing 3.1%YoY in January, compared with 2.6%YoY the month before. On the inflation side of the cycle, nationwide headline CPI rose 3.7%YoY in February, less than the 4%YoY increase the month before, but higher than the consensus forecast of 3.5%YoY. In Tokyo, which is seen as a leading indicator for nationwide trends, headline CPI in March rose 2.9%YoY, more than the 2.8%YoY increase in February and the 2.7%YoY consensus estimate. After the BoJ kept interest rates on hold at its March policy meeting, Governor Kazuo Ueda indicated that these factors were weighing most heavily on policy makers' thinking, placing less emphasis on the risks from tariffs. In the event, Trump's announcement of a 24% "reciprocal" tariff on imports from Japan was worse than most envisioned in their worst-case scenarios and it remains to be seen whether this will change the thinking of BoJ policy makers. Before the tariff announcement, markets were pricing in an almost even probability that the BoJ will hike the policy interest rate by 25bps from its current 0.5% level by June, those odds slipped to 39% in the immediate aftermath. The tariff announcement will heap more woe on Japan's struggling squeezed manufacturing sector and overshadows an output rebound in February, when industrial production increased 2.5%MoM, the first expansion in four months and 0.5ppts more than the consensus estimate. The March manufacturing PMI remained in contractionary territory below 50, inching up 0.1pts to 48.4, while composite PMI fell to 48.9 from 52.

Figure 15: Annual spring salary negotiations are set to secure another bumper increase



Source: Bloomberg, Eurobank Research

Figure16: Last year's *shunto* gains trickled down to smaller firms as the year progressed



Source: Bloomberg, Eurobank Research

India

US-India trade talks progress amid uncertainty

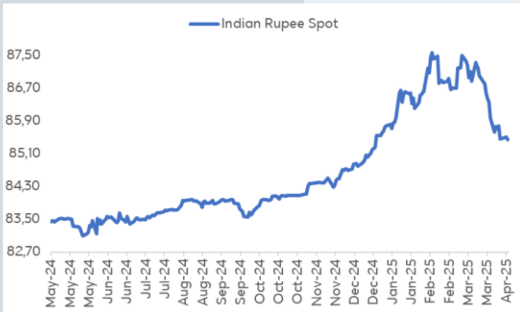
Following President Trump's "Liberation Day" announcement, trade negotiations between the US and India are gaining momentum, with both countries working toward a Bilateral Trade Agreement (BTA). While no comprehensive deal has been finalized, significant progress has been evident with talks intensifying before the US's big tariff package announcement on April 2. India has recently finalized the Terms of Reference (ToR) for the BTA, setting the stage for formal negotiations. The Indian Prime Minister's Office (PMO) is reportedly eager to reach a deal quickly, with a target completion date of autumn 2025. Trump has suggested that India is prepared to reduce tariffs substantially, and senior Indian officials have confirmed that India expects to lower tariffs on US goods in exchange for US concessions. In the first phase of the potential deal, India is expected to reduce tariffs on over half of US imports, valued at approximately USD 23 billion. This could include tariff cuts on 55% of US goods currently facing duties ranging from 5% to 30%. Key sectors under consideration for tariff reductions include agriculture, motorcycles, automobiles and alcoholic beverages — areas where India's tariffs have historically been high. Agriculture, pharmaceuticals, textiles, automobiles and energy — which together account for about 50% of India's exports — are also expected to be central to the discussions. As negotiations advance and India demonstrates a willingness to engage, the risk of a blanket reciprocal tariff being imposed by the US has significantly diminished. A potential BTA could lead to increased trade and enhanced market access for both countries, with Indian tariff reductions likely boosting US imports, particularly in sectors with previously high tariff barriers. In the medium term, tariff cuts could benefit Indian consumers by fostering competition and potentially reducing inflation. Indian exporters may also benefit from lower import costs, making their products more competitive. Moreover, a successful agreement would reduce economic uncertainty and strengthen bilateral ties, improving the investment climate. In summary, while the specifics of the tariff reductions remain under negotiation, the finalization of the trade agreement framework and India's willingness to lower tariffs suggest a positive outlook. If concluded, the deal could offer long-term benefits to the Indian economy, including increased trade, better market access, and potentially lower costs for consumers and exporters. However, the ultimate economic impact will depend on the agreement's terms.

Figure 17: Reciprocal tariffs roil the global stage....

Country	tariffs charged to the US	US discounted reciprocal tariffs
China	67%	34%
EU	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%

Source: White House, Eurobank Research

Figure 18: ...and will put additional stress on FX markets



Source: Bloomberg, Eurobank Research

UK

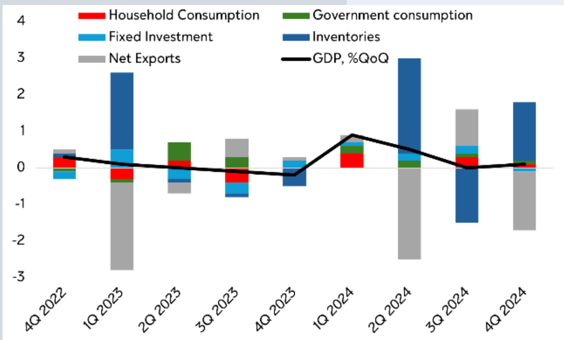
OBR forecast revision brings about welfare spending cuts from government

As widely expected, the Office of Budget Responsibility revised lower its growth forecasts for the UK economy, which had knock-on effects on the government's spending policies as these forecasts are used to assess its compliance with its fiscal rules. The OBR now expects GDP to grow 1% this year, which brings it into line with the Bloomberg consensus and is half as much as in its previous forecast in October. However, it upwardly revised its projections for beyond 2025. The new forecasts wiped out the £9.9 billion of "headroom" that the government had towards meeting the rule that Finance Minister Rachel Reeve adopted when presenting her inaugural budget in October – that public sector net financial liabilities (PSNFL) must be projected to be falling as a share of GDP by FY2029/30. To help restore the headroom to exactly where it was in October, the government announced measures that leaned heavily on cuts to welfare spending that risk angering core supporters. Taking the government's measures into account, the OBR forecasts that the UK will run a budget deficit of 4.8% of GDP this year, falling to 2.1% of GDP by FY2029/30. Against the fiscal target, the OBR forecasts that PSNFL will rise to a peak of 83.5% of GDP in FY2026/27 from 81.9% this year, falling thereafter to 82.7% in FY2029/30, the final year of the forecast horizon. Meanwhile, headline CPI increased 2.8%YoY in February, less than the consensus forecast for a 3%YoY increase, the same as in January. Core CPI growth slowed to 3.5%YoY in February from 3.7%YoY the month before. The softer-than-expected inflation print was driven by base effects from clothing and footwear prices, which fell 0.3%YoY, having increased 2.1%YoY in February 2024. With final data for Q4 2024 GDP showing that the 0.1%QoQ expansion was largely driven by buildup of inventories, survey data gave mixed signals regarding the prospects of an improvement in economic momentum in Q1. The manufacturing PMI fell 2pts in March to 44.9 – the consensus estimate was that it would rise to 47.2 – leaving the sector in a deep slump that was also underlined by industrial production sinking 0.9%MoM in January. However, the composite PMI increased 0.5pts to 51.5 as services PMI rose to 52.5 from 51 in February. Accounting for softening inflation and weak growth, markets are currently pricing in 90% odds that the Bank of England will cut interest rates by 25bps at its May 8 policy meeting.

Figure 19: OBR growth forecast revisions caused the government to announce new welfare spending cuts

Source: OBR, Eurobank Research

Figure 20: Inventory buildup was the key factor securing slight growth in Q4



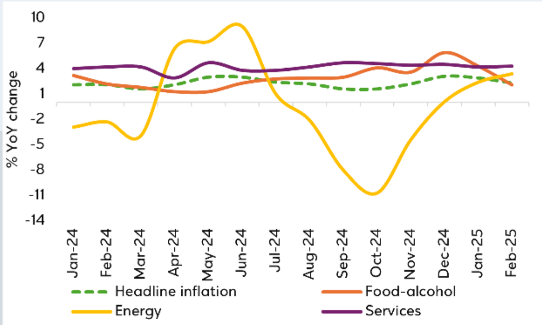
Source: ONS, Bloomberg, Eurobank Research

Cyprus

Resilience in household demand and tourism eroded by net exports of goods

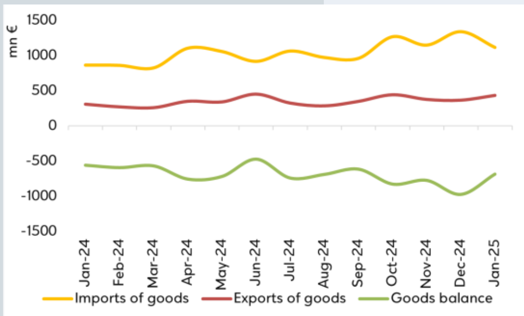
Recent trends in short-term indicators of economic activity in Cyprus have been mixed across key domestic and foreign demand sectors, suggesting that more data is needed to reliably assess growth momentum. On the household demand side, amid an increase in inflation in January to 2.9%YoY from an average 2.3%YoY in Q4 2024, retail volume rose by 4.8%YoY, which is a moderate slowdown from the 5.8%YoY increase in the previous quarter. The upcoming retail volume data for February, when inflation eased to 2.3% YoY, will be crucial for private consumption growth in Q1 2025. The pickup in the consumer credit expansion from September onwards, averaging 7.5%YoY through February 2025, up from 5.5%YoY during January-August 2024, could support household demand. However, the slowdown in household consumption growth in Q4 2024 does not yet suggest a significant impact from the in-creased credit supply. Moreover, there are upside risks to inflation in 2025, linked to the introduction of green taxes on transport fuels, water, waste and hotels starting in May. These taxes are part of Cyprus's Resilience and Recovery Plan and aim to reduce greenhouse gas emissions by 32% by 2030 from their 2005 levels. The green tax on transport fuels will be further increased in 2026 and 2027, which will probably affect consumers in those years too. In the real estate sector, the positive momentum seen in January continued into February, though growth in the number of sales moderated from 20.7%YoY to 6.8%YoY. Although real estate sales reached a 17-year high in 2024, their average increase in the first two months of 2025 has been stronger than in Q4 2024 at +13.1%YoY compared to just +2.8%YoY. This growth is largely driven by domestic demand, which rose by 15.2%YoY, while sales to foreigners also saw solid growth of 10%. On the external front, the goods trade balance continued to deteriorate in January, with imports rising faster than exports, widening the trade deficit by 23%YoY. However, this is an improvement compared to the 52.2%YoY deficit increase in Q4 2024. By contrast, tourist arrivals grew by 15.4%YoY in January-February, although winter tourism represents only a small fraction of annual totals, making it difficult to draw definitive conclusions about the sector's performance for the entire year. In any case, the increase in exports of services has not been enough to avert a significant weakening in overall export growth in Q3 and Q4 2024, driven by a worsening in goods exports.

Figure 21: With the introduction of green taxes lying ahead, energy has already pushed inflation higher



Source: CYSTAT, Eurobank Research

Figure 22: Stronger increase in imports than in exports of goods worsens the goods trade balance



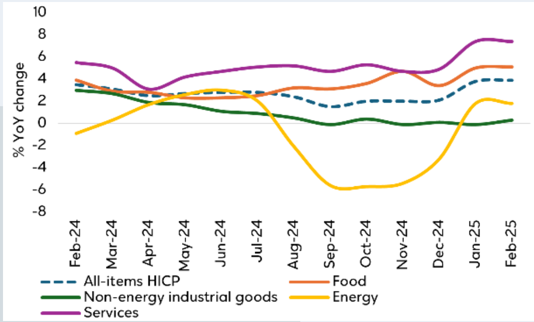
Source: CYSTAT, Eurobank Research

Bulgaria

Concerns about government stability come back to the surface

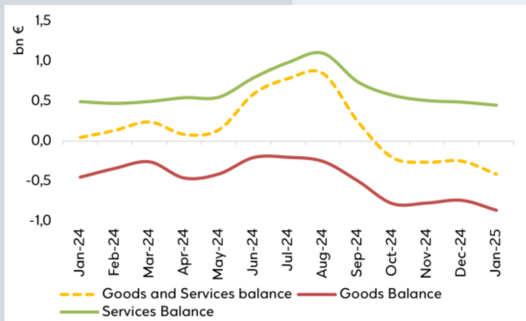
As Bulgaria awaited reports from the European Commission and the European Central Bank on its read-iness to adopt the euro, political uncertainty flared up again in March due to a series of events. First, following the partial recount of the October 2024 elections requested by the political party Velichie, which fell short of the 4% threshold to enter parliament by just 21 votes, the central election commission ruled that it should join the parliament with 10 MPs. While the three-party coalition government (com-prising GERB, BSP, and ITN) and its parliamentary supporter (APS), retained a majority after the redistribution of seats, this majority now stands at a precarious 121 MPs out of a total of 240, placing the stability of the cabinet at risk. Another source of concern about government stability is that none of APS's candidates for regulatory bodies were appointed, leading the party to accuse its coalition partners of failing to honour their agreement for joint governance, and even threaten to withdraw its support for the government. However, on April 1 APS decided to keep its support for the coalition cabinet in place at least until the release of the EC and ECB convergence reports, expected in June, which temporarily reduces uncertainty about government stability. On the economic front, the headline inflation rate remained elevated, reaching 3.9%YoY in February, up from 3.8%YoY in January, a pace almost double that in Q4 2024 (2.0%YoY). The inflation uptick is largely attributed to a reversal of energy deflation since the second half of 2024 and a sharp rise in services inflation. Nonetheless, Bulgaria's 12-month average inflation, which is the metric used to assess the country's price stability for euro adoption, remained 0.07 percentage points below the reference value in February. Amid redounding inflationary dynamics, growth in retail trade volume weakened to 0.1%YoY in January, a five-month low pace. However, overall wholesale-retail volume rose 2.7%YoY, the strongest increase in eight months, largely driven by a surge in motor vehicle sales (+22.8%YoY). Regarding developments in the external balance, whose deterioration in the second half of 2024 was the main drug to GDP growth, it worsened further in January, reaching a deficit of €460.5mn in just one month, compared to €873.8mn in Q4 2024. This deterioration was almost entirely driven by the goods deficit, with the services surplus remaining relatively unchanged.

Figure 23: Rising energy prices and stronger services inflation drove headline inflation higher



Source: Eurostat, Eurobank Research

Figure 24: Net exports deteriorated further in January, driven by the goods deficit



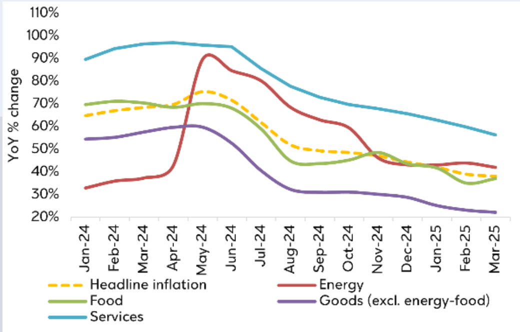
Source: Bulgarian National Bank, Eurobank Research

Turkey

The political turmoil introduces significant uncertainty to the economic outlook

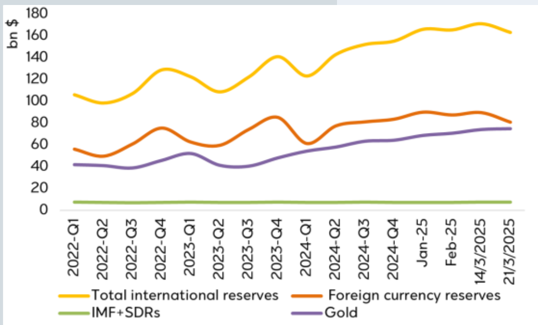
The economic implications of the latest domestic political developments, triggered by the arrest of Is-tanbul's mayor Ekrem Imamoglu on March 19, are too early to assess. Based on data available, within a week of the arrest, the central bank's (TCMB) net foreign exchange (FX) position deteri-orated by $27.6 bn, due to both its market operations to support the Turkish lira (TRY) and a surge in FX demand. Initially, the TRY depreciated by up to 11.0% against the USD, but the TCMB's intervention contained the devaluation to just 0.6% by April 2, against both the USD and the euro. The TCMB also introduced a series of mone-tary tightening measures without touching the policy -one-week repo- rate, including an in-crease in the overnight borrowing rate to 46% from 44%, and the suspension of the one-week repo auctions. These actions stand in contrast to the easing monetary policy that had been in place since December. Such a gradual relaxation, provided that inflation remained on a sustained downward trend, also by means of macroprudential measures, was a key assumption for GDP growth projections in 2025-2026. It was expected to stimulate investment, whereas the weakened inflationary pressures would support real disposable income, thereby driving household consumption growth. Another source of uncertainty for the eco-nomic outlook is the potential developments in the TRY exchange rate, particularly once the central bank interventions retreat. The slowdown in the lira devaluation in 2024 did not have a negative impact on the external balance, aside from Q4, when a big-ger part of the robust household consumption increase was covered with imports. On the other hand, one of the main drivers of this stronger con-sumption growth was faster disinflation, which was supported by the weakened lira devaluation. The March inflation print of 38.1%, down from 39.1% in February and 42.1% in January, already suggests a substantial slowdown in disinflation without the implications of a stronger lira devaluation. The political turmoil and its associated economic risks are likely to weigh on Turkey's credit rating and credibility, as the upgrades by all credit houses in 2024 were mostly due to a surge in net foreign assets and sustained dis-inflation. As to the potential impact of the announced 10% US tariff on Turkish exports, indicatively, the EBRD has estimated in a recent report that such a tariff could have a minimal effect, of 0.2% of GDP.

Figure 25: Energy and food inflation had weakened disinflation before the political turmoil



Source: Turkstat, Eurobank Research

Figure 26: International reserves were at an all-time high in mid-March, driven by gold reserves



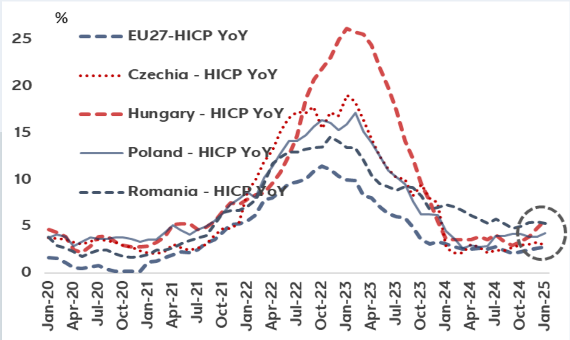
Source: Central Bank of Turkey, Eurobank Research

CESEE

Grappling with inflation and navigating a complex global environment

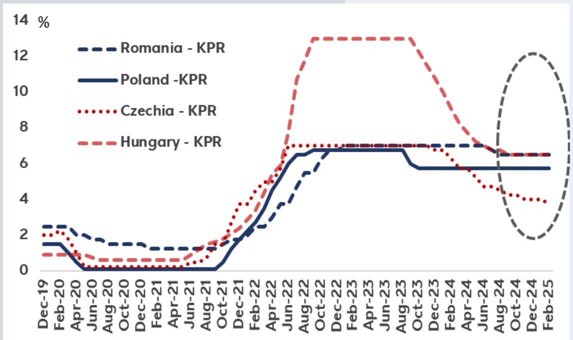
Central banks in Poland, Hungary and the Czech Republic decided, in line with market expectations, to hold fire in the Monetary Policy Council (MPC) sessions held in March and early April. Poland's MPC kept the Key Policy Rate (KPR) at 5.75%, despite persistent inflation coming in at 4.9%YoY in March. The MPC has signalled the potential for a rate cut later in 2025, acknowledging that inflation is expected to remain elevated. Rating actions in the month, by Fitch and Moody's, held no surprises also as they affirmed Poland's credit rating (A- & A2 respectively) with stable outlooks, underpinned by a diversified economy and strong EU ties, though fiscal deficits, projected at 5.5% and 4.5% of GDP in 2025 and 2026 respectively, remain a concern. All in all, Poland's GDP growth is projected at 3% for 2025, with slight discrepancies between the forecasts of the National Bank of Poland (NBP) and the government. In Hungary, the central bank kept the policy rate at 6.5% while revising its inflation forecasts upward – on the back of strong repricing in the services sector – ranging between 4.5% and 5.0% compared to 3.3% and 4.1% in December 2024, when the previous forecast was published. Growth projections for 2025 were revised down to 1.9-2.9% from 2.6-3.6% a quarter earlier. The fiscal outlook remains challenging, with larger budget slippages expected by rating agencies than those set as the government's targets. Despite these strains, Fitch revised Hungary's outlook to stable from negative in a flash report in mid-March, reflecting on resilience in the economy, but also acknowledging ongoing risks, particularly external factors such as spillovers from the Eurozone's economic performance and potential shifts in the US's trade policies. Finally, Czech National Bank (CNB) policy makers decided unanimously to stick with its pause in the monetary easing cycle for a second month in a row in light of rising inflationary risks. Both domestic factors, such as service price increases, and external influences, including geopolitical tensions, have heightened inflation concerns. Despite the inflationary risks pulling growth forecasts downwards (growth seen at around 2% in 2025-2026 currently vs 2.5% a few months ago), S&P Ratings affirmed the Czech Republic's AA- rating, supported by its strong external position and effective fiscal consolidation.

Figure 27: Building price pressures, among other factors…



Source: Eurostat, Eurobank Research

Figure 28: ..tap the brake on interest rate cuts …



Source: Central Bank of Czechia, Hungary, Poland & Romania, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f
World	3.2	2.9	3.0	5.7	4.0	3.5									
Advanced Economies															
USA	2.8	1.9	1.9	3.0	3.0	2.6	4.0	4.3	4.3	-3.9	-3.8	-3.7	-6.9	-6.5	-6.6
Eurozone	0.9	0.9	1.3	2.4	2.2	2.0	6.4	6.4	6.4	2.7	2.6	2.4	-3.2	-3.1	-3.0
Germany	-0.2	0.2	1.2	2.5	2.3	2.1	6.0	6.3	6.3	5.7	5.4	5.3	-2.3	-2.4	-2.3
France	1.2	0.7	1.2	2.3	1.4	1.9	7.4	7.8	7.7	-0.2	-0.3	-0.5	-6.1	-5.6	-5.4
Periphery															
Cyprus	3.4	3.1	3.0	2.3	2.1	1.7	4.9	4.5	4.1	-5.0	-4.8	-5.5	4.4	3.8	3.6
Italy	0.7	0.6	0.9	1.1	1.9	1.7	6.6	6.3	6.2	1.1	1.2	1.4	-3.4	-3.3	-3.0
Portugal	1.9	2.1	2.0	2.7	2.0	1.9	6.4	6.3	6.3	2.2	1.7	1.7	0.5	0.3	0.2
Spain	3.2	2.5	2.0	2.9	3.0	2.0	11.4	10.9	10.6	3.0	2.7	2.7	-3.1	-2.8	-2.7
UK	1.1	1.0	1.4	2.5	3.1	2.4	4.3	4.5	4.5	-2.7	-2.6	-2.5	-4.5	-3.8	-3.2
Japan	0.1	1.2	0.9	2.7	2.6	1.9	2.5	2.4	2.4	4.8	4.5	4.4	-3.0	-3.6	-3.3
Emerging Economies															
BRIC															
Brazil	3.2	2.0	1.9	4.4	4.3	3.7	6.9	6.9	7.2	-2.4	-2.4	-2.3	-7.9	-8.3	-7.8
China	5.0	4.5	4.2	0.2	0.8	1.3	5.1	5.1	5.1	1.8	1.3	1.0	-5.0	-5.5	-5.7
India	6.4	6.5	6.8	4.8	4.2	4.0		N/A		-1.1	-1.0	-1.0	-4.8	-4.6	-4.8
Russia	3.7	1.5	1.4	8.3	7.3	4.9	2.6	2.7	3.1	2.9	2.6	2.6	-1.7	-1.2	-1.2
CESEE															
Bulgaria	2.8	3.2	3.4	2.6	2.7	2.0	4.2	3.9	3.7	-0.9	-0.4	0.6	-3.5	-2.9	-2.6
Turkey	3.2	2.3	3.3	58.5	31.7	19.7	8.7	8.4	8.0	-0.8	-1.5	-1.1	-4.9	-4.3	-3.8

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

Eurobank Fixed Income Forecasts

	Current	June 2025	September 2025	December 2025	March 2026
USA					
Fed Funds Rate	4.25-4.5%	4.14-4.4%	3.95-4.2%	3.81-4.05%	3.65-3.9%
3m SOFR	4.28%	4.21%	4.07%	3.9%	3.76%
2yr Notes	3.86%	4.01%	3.91%	3.82%	3.78%
10yr Bonds	4.13%	4.33%	4.31%	4.29%	4.26%
Eurozone					
Refi Rate	2.65%	2.25%	2.15%	2.15%	2.1%
3m Euribor	2.36%	2.07%	2%	1.96%	1.96%
2yr Bunds	1.99%	2.1%	2.05%	2.05%	2.08%
10yr Bunds	2.66%	2.67%	2.68%	2.71%	2.75%
UK					
Repo Rate	4.5%	4.2%	3.95%	3.75%	3.6%
3m Sonia	4.36%	4.1%	3.89%	3.76%	3.71%
10-yr Gilt	4.61%	4.36%	4.24%	4.17%	4.11%
Switzerland					
3m Saron	0.18%	0.16%	0.16%	0.16%	0.16%
10-yr Bond	0.45%	0.52%	0.52%	0.54%	0.56%

Source: Bloomberg (market implied forecasts)

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