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GLOBAL & REGIONAL FOCUS NOTES

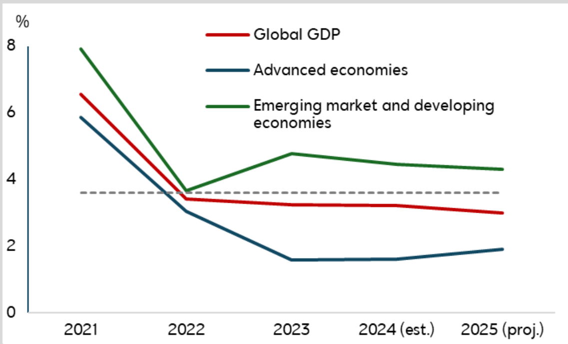
Navigating global growth: Resilience, divergence and uncertainty

A survey of economic prospects around the world at a critical juncture

- Global economic growth is expected to maintain positive momentum in the near-term, although divergences across regions and countries are likely to persist
- The disinflation process is anticipated to continue, but it may become more uneven and uncertain due to country-specific factors
- While there is potential for further reduction in monetary policy restrictiveness, central banks' easing paths are likely to vary due to high risks and uncertainties

Despite encountering various challenges, the global economy exceeded initial expectations in 2024, expanding at an estimated 3.2%, a solid yet below-trend pace, mainly driven by the sustained resilience of the US economy. Global demand remained relatively strong in the face of restrictive monetary policies, supported by robust spending in the global services sector which bolstered labour markets, while disinflationary trends contributed to higher real wage growth. Global economic growth is expected to maintain positive momentum in 2025, with GDP projected to grow steadily at 3.0% (Bloomberg consensus). The lagged effects of monetary policy tightening are continuing to moderate, while continued disinflation and strong employment growth are anticipated to bolster real household income growth and private consumption, partially offsetting headwinds from tighter fiscal policy in many economies. However, economic performance is likely to continue to diverge across regions and countries. Emerging economies are expected to perform generally better than the advanced economies, largely driven by strong domestic demand in India and Brazil, while stimulus measures in China will likely contribute to robust growth across Asia. Meanwhile, the US is forecast to maintain its strong position among developed economies, supported by solid private consumption, underpinned by vigorous household fundamentals and healthy labour income gains.

Figure 1: Global growth is expected to retain positive momentum in the near term ...



Source: Bloomberg, Eurobank Research

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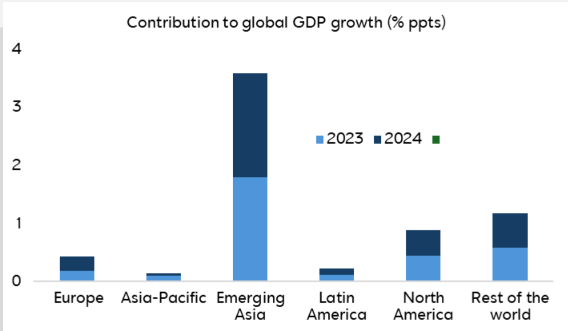
Global inflation is expected to continue its decline towards central bank targets, albeit at a slower pace, with the headline rate averaging 3.6% (Bloomberg consensus) compared to an estimated 5.7% in 2024. The downward pressure from falling energy prices has likely diminished, while goods disinflation — driven by easing supply disruptions and weaker demand, a key contributor to last year's disinflationary trend — appears to have bottomed out. However, services inflation, which has remained relatively sticky, is projected to stay on a gradual declining trend, supported by a shift in global demand from services back towards goods, alongside the continued effects of restrictive monetary policies that are expected to further ease labour market conditions. That said, the disinflation process is likely to become more uneven and uncertain this year. In recent months, disinflation appears to have stalled in certain economies, with factors such as fiscal policies and labour market tightness, which vary significantly across economies, becoming increasingly significant.

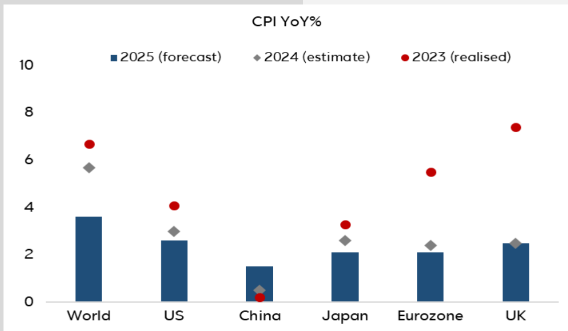
Figure 2: ... but uneven growth dynamics across regions likely to persist



Source: OECD, Eurobank Research

Despite the uncertainties surrounding disinflation, several central banks (excluding those of Japan and Brazil) are expected to further reduce policy restrictiveness to mitigate downside growth risks and move interest rates closer to neutral. However, due to the more idiosyncratic nature of inflation in different countries, monetary policy paths are likely to diverge, with the pace of policy easing varying, depending on the level of growth concerns and confidence in the timely return of inflation to target. Consequently, central banks are anticipated to proceed cautiously with some likely keeping all options open, while remaining mindful of potential risks.

Figure 3: Most countries around the world should continue to experience gradual disinflation



Source: Bloomberg, Eurobank Research

Indeed, risks and uncertainties remain elevated. Hawkish protectionist policies from the US administration, including higher tariffs, aiming to address persistent US trade deficits as well as politically significant issues, such as immigration and drug trafficking. These policies could represent a supply shock, potentially escalating into to a tit-for-tat trade war which would likely fan higher global inflation and hinder growth. The impact would be exacerbated by escalating trade tensions, heightened uncertainty, lower investment and renewed supply chain disruptions. Countries heavily reliant on exports to the US — particularly those with exports accounting for over 10% of their total, such as China, Canada, Mexico, Germany, India, South Korea, Japan and Vietnam — would be especially vulnerable. Moreover, an intensification of geopolitical tensions could disrupt energy prices, fuelling global inflation and dampening growth prospects as tighter financial conditions would take a toll on both consumer and investment spending. Additionally, an unexpected surge in wage growth, particularly in labour-intensive service sectors, could keep service prices elevated, challenging current expectations for inflation to gradually return to central banks' targets. In this environment, inflation could persist longer than currently expected, liming central banks' ability to ease policy to the extent currently anticipated, with interest rates remaining high for longer. Furthermore, concerns over fiscal trajectories in major economies could push global long-term interest rates higher, contributing to slower global growth, financial market volatility, and greater debt-servicing pressures. Emerging markets could face significant challenges, with rising borrowing costs and the risk of capital outflows. Finally, China's advancements in AI, referred to as DeepSeek, could heighten the competition for technological dominance, especially with the US. This may lead to new geopolitical and trade tensions. In such a scenario, China's AI applications could pose risks to US industries, disrupting labour markets in sectors like manufacturing and logistics. US companies might lose their competitive edge, which could ultimately disrupt US economic activity.

The projected outlook for individual major regions and economies is as follows:

Developed Economies

US: despite tight monetary policy conditions, the US economy showed resilience in 2024, with GDP expanded at an above-trend rate of 2.8%. Personal consumption remained the primary driver of growth, bolstered by strong household fundamentals — net worth reached $189.7trn in Q3, a $56trn (42%) increase from pre-pandemic levels — and solid personal income growth, with wage inflation surpassing price inflation. However, in 2025 the US economy is expected to moderate, though still maintain a healthy growth rate of 2.2% (Bloomberg consensus). The pro-growth agenda of the Trump administration, following the Republican sweep in the 2024 elections, including more accommodative fiscal policies and deregulation, could help boost GDP. However, this positive effect may be partially offset by supply-side constraints, such as tighter immigration policies and higher tariffs on imports. Meanwhile, protectionist trade policies and stricter immigration rules are expected to add to inflationary pressures, although a stronger US currency could mitigate some of the tariff-related effects. As a result, annual core PCE inflation is projected to remain in the 2.5%-3.0% range this year, rather than dropping closer to the 2% target as initially expected. Regarding monetary policy, strong domestic demand driven by expansionary fiscal measures, combined with supply-side shocks from higher tariffs and reduced immigration, could prompt the Fed to adopt a more cautious approach on rate cuts following a cumulative easing of 100bps since September 2024. Markets currently expect the Fed to continue to reduce rates in 2025, though at a gradual pace, before pausing for an extended period to assess the economic impact of Trump's policy agenda, amid concerns over persistently high inflation. The fed funds target range is expected to end 2025 between 3.75% and 4.00%, which could be considered restrictive in light of the Fed's neutral rate estimate of 3.0%. On the fiscal front, the extension of expansionary fiscal policies including the full extension of the 2017 Tax Cuts and Jobs Act (TCJA) and additional modest tax cuts (such as in the corporate tax rate) could intensify concerns about

US long-term fiscal sustainability. If Trump's proposed fiscal measures are fully implemented, the Congressional Budget Office projects that the budget deficit could reach 9.7% of GDP by 2035 compared to the baseline scenario of around 7%.

Eurozone: following a growth rate of 0.7% in 2024, the Eurozone is projected to experience a modest recovery in 2025, with GDP growth edging up to 1.0%. However, significant disparities between economies are likely to persist, with southern countries continuing to outperform their northern counterparts, driven by strong growth in services (which account for a larger share of their economies) and investment support from the EU Recovery Fund. Private consumption is anticipated to gain some traction, aided by disinflation that supports real wages. Nevertheless, the overall improvement is expected to be limited, as weakening labour market conditions, due to falling corporate profits and sluggish economic activity, will likely prevent a significant reduction in high household savings rates. Monetary policy easing is expected to support the construction sector, providing a buffer for capital expenditure amid rising trade uncertainty and relatively weak external demand. However, fiscal policy is likely to be somewhat restrictive, with an expected tightening of around 0.4% of GDP, largely driven by fiscal consolidation in France. External trade is likely to be a drag on growth, largely due to market uncertainty surrounding the potential for higher tariffs from the US (currently averaging 3%), which remains the Eurozone's largest export market, accounting for 15.9% of its total extra-Eurozone merchandise trade. Persistent structural challenges in the manufacturing sector, higher energy prices and competitive pressures from China are expected to further dampen trade performance. Disinflation is expected to stay on track, with both headline and core inflation returning to the ECB's 2% target, driven by subdued gains in goods prices and cooling services inflation, alongside expectations that wage growth will slow to around 3% by year-end (according to the ECB's contractual wage measures). With weak growth and ongoing disinflation, the ECB is likely to continue easing monetary policy. Back-to-back cuts of 25bps each should follow until March 2025 before the pace of cuts slows with a further 50bps of easing by the end of 2025, taking the deposit rate to a terminal rate of 2.00%.

Germany: under pressure from a combination of structural and cyclical challenges, the economy remains trapped in a prolonged period of stagnation. GDP shrank 0.2% in 2024 following a 0.3% decline in 2023, marking the first consecutive annual contractions since 2002-2003, with output having increased by a modest 0.3% compared to pre-pandemic levels. The outlook for 2025 is somewhat more optimistic, with GDP growth projected at 0.4%. Stronger real income growth for households should support private consumption, although gains could be limited by weakening labour market conditions. Net exports are likely to remain a drag, with slower growth in both the US and China, as well as potential US tariffs, which may dampen business investment. On a more positive note, construction investment is expected to gain momentum, supported by more favourable financing conditions resulting from lower ECB interest rates. However, business fixed investment is likely to remain subdued due to weak industrial orders and declining capacity utilization rates. For a more substantial recovery, effective supply-side reforms are crucial. Moreover, the next coalition government emerging from the snap election on 23 February, will need to adopt a more expansionary fiscal policy. This approach is particularly crucial considering the country's need to boost public investment in infrastructure to address declining productivity. Additionally, the likelihood of an increase in the 2% NATO defence spending commitment further underscores the urgency for fiscal expansion. Such a prospect depends on whether the Union, CDU/CSU — expected to lead the next coalition government, according to recent polls — will be open to fiscal rules reform. Additionally, the two potential coalition parties (SPD, Greens) which favour a shift in fiscal policy will need to gain a two-thirds parliament majority with CDU/CSU support to secure constitutional amendments, such as reforming the debt break or creating a special off-budget fund to increase investment in critical areas.

France: the Eurozone's second largest economy remains mired in fiscal and political uncertainty following its placement under an Excessive Deficit Procedure last summer thanks to a 5.5% of GDP budget deficit in 2023, which exceeded the EU's 3% threshold. The situation was further complicated by snap elections in July, resulting in a fragmented parliament. Discussions on the 2025 budget have seen the new minority government targeting a deficit of a still sizeable 5.4% of GDP, down from an estimated 6.1% in 2024, with a target of bringing it below 3% by 2029. However, the need for political compromises in a divided parliament makes achieving these fiscal goals challenging, and the government's ability to implement substantial fiscal adjustments may be limited. This means fiscal consolidation could be milder than projected, resulting in a budget deficit wider than expected, as political instability would continue to undermine the government's capacity to deliver. Even if the budget passes, concerns about the government's effectiveness could persist. New elections in H2 2025 would remain a possibility as efforts to secure a more stable parliamentary majority should continue. This uncertainty, combined with fiscal consolidation efforts and tight financial conditions driven by high OAT yields, is expected to weigh on public demand, consumer spending, and business investment. As a result, GDP growth is forecast to slow to 0.7% in 2025, below the government's estimate of 0.8% and the 1.1% growth rate in 2024, while inflation is projected to average 1.5% compared to 2.3% in 2024.

Italy: despite sluggish GDP growth and economic momentum stalling towards the end of 2024, Prime Minister Giorgia Meloni has cause to be satisfied with her country's economic position at the start of this year. Fiscal worries that hung over the country a year earlier – which culminated with the announcement that the 2023 budget deficit blew out to 7.2% of GDP – receded in the second half of the year. Meloni's governing coalition managed to pass its 2025 budget without much drama, in stark contrast to neighbouring France, whose continuing failure to do the same plunged the country into a simmering political crisis. With Germany also embroiled in its own political troubles, Italy appeared as an island of stability by contrast – and was rewarded by bond investors narrowing the spread of 10yr BTP yields over their German counterparts by more than 50bps over the course of 2024, reaching three-year lows in the process. The budget sees the deficit falling to 3.3% of GDP this year from an estimated 3.8% in 2024, before dropping to 2.8% in 2026. However, slow growth remains a threat to the government achieving those fiscal targets, with market consensus instead forecasting that the budget deficit will come down to 3.6% this year from 4% in 2024. GDP stagnated for a second straight quarter in Q4 2024, bringing the growth rate for the whole year down to 0.5% from 0.7% in 2023. The wider eurozone economic malaise has acted as a drag on growth, with net exports hit in recent quarters, and we expect the manufacturing contraction to continue in 2025. We forecast that the economy will grow 0.7% this year as services remain relatively robust and inflation well below the EU average, together with a tight labour market, bolsters household consumption. HICP growth averaged 1.1% in 2024 and is forecast at 1.7% this year.

Japan: 2024 was momentous for economic developments in the country as it marked the year in which the Bank of Japan normalised monetary policy after decades of extraordinary operations that brought the world innovations such as quantitative easing and negative interest rates. The BoJ hiked interest rates for the first time in 17 years in March 2024, ending negative interest rates and its yield curve control policy at the same time. This was followed by a second hike in July, with the BoJ continuing the tightening cycle start in January 2025 with a 25bps increase that brought the policy rate to 0.5%, its highest level since 2008. As of January 29, options markets are pricing in a further 25bps of monetary tightening this year. The shift away from unconventional monetary policy came as wage and inflation data suggested that Japan is finally seeing sustained demand-led inflation close to the central bank's 2% target. Headline inflation averaged 2.7% last year, down from 3.3% the year before, with the Bloomberg consensus forecast being that it will average 2.2% this year. However, economic activity was bumpy last year with the consensus estimate being that GDP contracted 0.2% in 2024 after expanding 1.5% the year before. This year output is forecast to expand 1.2%. Last year also saw significant political developments. The ruling LDP party – which has governed almost continuously since 1955 – changed leaders in September, with Ishiba Shigeru replacing Fumio Kishida. Snap elections a month later were disastrous for the new premier as the LDP-led coalition lost its parliamentary majority. Despite the suggestion before the poll that such a bad result could lead to in Shigeru's quick replacement, the preference for stability after Trump's election in the US meant he stayed on as the head of a minority government. However, key tests lie ahead in March, the deadline for parliament to pass a budget, and in upper house elections in July.

UK: after a strong start last year in terms of cyclical momentum, by the end of 2024 the economy was in the doldrums and the new government's finance team already on the defensive. GDP stagnated in Q3 2024, after expanding 0.7%QoQ and 0.5%QoQ in Q1 and Q2 respectively, while monthly prints for October and November indicated a high likelihood that the economy also stagnated, or even contracted, in the last three months of the year. The economy probably expanded by 0.8% in the whole of 2024, up from 0.4% the year before, with the consensus estimate pointing to 1.3% growth this year. At the start of this year, the government has taken every opportunity to reassert the central importance of boosting GDP – though this has partly been in response to criticism that it lacks a convincing growth strategy. It faces a reckoning on March 26, when the Office for Budget Responsibility issues fiscal projections that will determine whether the government is in breach of its rule that the current budget balance must be forecast to be in surplus in 2029-30. The issue came to the fore when the worldwide selloff in sovereign bonds at the end of 2024 hit the gilt market particularly hard, raising borrowing costs and eroding the government's small amount of fiscal headroom to meet its rule. An unfavourable forecast by the OBR could leave the government needing to make politically difficult budget cuts. Inflation averaged 2.5% in 2024, with the Bloomberg consensus estimate being that it will pick up to 2.6% this year. A softer-than-expected December inflation print, along with some weakening of labour market conditions, meant that at the start of this year there has been some increase in the amount of monetary policy easing expected from the Bank of England this year. Markets have almost fully priced in a 25bps interest rate cut to 4.5% at the first monetary policy committee policy meeting of the year in February and expect a cumulative of 72bps of easing in 2025.

Developing Economies

In 2025, emerging markets (EM) are poised for sustained growth close to 4.2% despite facing multiple headwinds. Elevated risks from US trade policies, interest rates and global uncertainties will influence the trajectory of EM economies. Inflationary pressures and domestic vulnerabilities will also be key factors shaping their economic performance.

Global Risks

- US Tariffs: Potentially renewed US tariffs, particularly targeting China, could disrupt trade and supply chains, negatively affecting export-dependent EM economies.
- US Policy and Dollar Strength: A stronger US dollar, driven by higher tariffs or interest rates, may tighten global financial conditions, posing challenges for EM countries with high dollar-denominated debt.
- Financial Market Volatility: Elevated asset valuations raise the risk of market corrections, which could further strain financial conditions in EM.
- Geopolitical Tensions: Ongoing geopolitical instability, particularly in Ukraine and the Middle East, could dampen investor sentiment and disrupt global trade, impacting EMs.

Latin America: Growth Amid Political and Fiscal Uncertainty

2025 economic outlook is mixed, with growth forecast at 2.5%, supported by recovery in Argentina, but risks from trade disruptions, inflation and political instability remain high.

- **Growth:** Argentina is expected to lead the region's recovery due to fiscal reforms, while Brazil and Mexico face slower growth due to weaker external demand and domestic challenges.
- **Inflation: Inflation has subsided in some countries, but core inflation in Brazil and Chile is rising. Currency depreciation could trigger inflation in other nations, complicating monetary policy.**
- **Country specific risks:**

Mexico is the most exposed country in Latin America to the policies of President Trump, given its close proximity to the US, deep trade ties under the USMCA (formerly NAFTA), and its role in migration. The country's trade and economic stability are particularly vulnerable to US policy changes, with the threat of punitive tariffs or regulatory changes affecting the export sector. **Brazil** faces considerable risks stemming from its fragile fiscal position. The market remains highly sensitive to fiscal slippage, as investors demand higher returns for holding Brazilian assets in the face of concerns over government debt sustainability. Any deviation from fiscal discipline, particularly around public spending or pension reforms, could undermine market confidence and trigger adverse financial market reactions, further escalating the country's fiscal challenges. **Colombia** will likely face heightened scrutiny in 2025 as concerns about fiscal stability and compliance with fiscal rules persist. While the country's economic fundamentals remain relatively strong, the need to maintain a balanced budget and manage public debt levels will be critical in ensuring continued market confidence. **Panama** is at risk due to the ongoing targeting of the Panama Canal by President

Trump. The canal is a vital economic asset, and disruptions in its use or access could hinder Panama's role as a major global trade hub.

India: Steady Growth with External and Domestic Risks

Economy is projected to grow by 6.5% in Fiscal 2026, driven by private consumption and waning inflation, but external trade tensions and domestic structural issues remain significant challenges.

- **Growth:** Consumption will be a key driver of stable growth. However, global trade risks, especially with the US, could impact export performance.
- **Monetary Policy**: with annual CPI readings cooling from 5.5%YoY in November to 5.2%YoY in December, the Reserve Bank of India (RBI) is likely to ease the policy rate – currently at 6.5% – to support growth, but challenges such as depreciation of the rupee and fiscal slippage could undermine effectiveness.
- **Risks:** US tariffs and global slowdowns are significant threats. Internally, challenges such as job creation and education reform need addressing for sustained growth.

China: Modest Growth and Trade Risks

The economy faces a slowdown in 2025, with GDP growth expected close to 4.5%. Despite domestic stimulus supporting consumption, trade tensions with the US and a weak housing sector present considerable risks.

- **Growth:** Domestic consumption and investment will offset some export weakness, but global demand and trade barriers will weigh on overall growth.
- **Inflation and Monetary Policy**: Inflation is expected to remain low, averaging 0.2% in 2024, but deflationary pressures and a widening fiscal deficit could challenge policy makers.
- **Trade Risks:** US tariffs remain a key risk, clouding the prospects of export growth. The RMB is expected to weaken in response to these external pressures.
- **Real Estate Market:** The real estate sector will remain a drag, with limited signs of recovery in property prices or construction activity.

Russia: Economic Deceleration Amid Geopolitical Tensions

Economic growth is forecasted to decelerate sharply to 1.4% in 2025, down from 3.8% in 2024. The ongoing war in Ukraine, sanctions and geopolitical tensions will severely impact economic performance.

- **Key Drivers:** Oil production remains resilient despite sanctions, but OPEC+ policies could create uncertainties in pricing and revenues. Inflation will moderate, but tight monetary policies are expected to persist.
- **Domestic Demand:** Private consumption and investment will provide limited support, with fiscal spending on defence and social support being critical.
- **Risks:** Sanctions continue to restrict Russia's access to global markets, while the pivot to non-Western trade partners has not fully offset the negative impact. The geopolitical situation remains a significant risk to growth, particularly with the unresolved conflict in Ukraine.

Central and Eastern Europe (CEE): Moderate Growth with External Risks

The region faces a mixed 2025 outlook, with moderate growth averaging 2.5% from less than 1% in 2024, supported by easing inflation and monetary policies. However, geopolitical tensions and weakening external demand, particularly from the Eurozone, pose substantial risks.

- **Key Drivers:** Moderate growth is expected across the region, with EU funds supporting public investment and domestic demand. Consumer spending will benefit from rising incomes, though weak external demand — especially from Germany — will weigh on manufacturing-heavy economies like Poland and Czechia.
- **Disinflation**: Inflation is expected to ease, though service-sector inflation may persist, delaying the broader disinflationary trend. Central banks are likely to ease monetary policy, though the pace of cuts will vary across countries.
- **Fiscal Policy**: Some countries, like Romania, are likely to engage in moderate fiscal consolidation, while EU funds will continue to support investment.
- **Risks:** Geopolitical instability, particularly the ongoing war in Ukraine and tensions in the Middle East, could disrupt trade and energy prices. A prolonged slowdown in the Eurozone poses risks to growth, especially for export-oriented economies in CEE.
- **Country-Specific Insights**

Growth in **Czechia** is projected to remain subdued in 2025, with a slowdown in the manufacturing sector, particularly car production, due to weaker demand from the Eurozone. Inflation is expected to stabilize around 2%, which would allow for further monetary easing. GDP growth is forecast at 2.4%.

Hungary faces a weak investment climate, exacerbated by blocked EU funds and a volatile inflationary environment. Core inflation remains a concern, weighing on economic growth. GDP growth is projected at 2.1%. **Poland**'s economy is expected to benefit from a sharp decline in inflation post-Q1 2025, supporting consumer spending and investment activity. GDP growth is forecast at 3.5%, outpacing other CEE countries. **Romania**'s political developments, fiscal challenges, and persistent inflation will affect the central bank's monetary policy stance. Easing is expected to resume within H1, with the policy rate falling from 6.5%. GDP growth is projected at 2.6%.

Middle East (Gulf): Growth Amid Oil Price Volatility and Geopolitical Instability

The Gulf Cooperation Council (GCC) region will see an acceleration in growth in 2025, primarily driven by domestic reforms and non-oil sector expansion. However, oil revenue pressures and geopolitical risks will continue to weigh on growth prospects.

- **Growth**: GCC economies are projected to grow between 3.0% and 3.5%, fuelled by domestic demand and the diversification of non-oil sectors. Saudi Arabia's non-oil sector, in particular, will continue to expand.
- **Oil Dependency:** While oil remains crucial to GCC economies, fiscal pressures from lower oil revenues and reduced production cuts will challenge growth.
- **Monetary and Fiscal Policy:** Inflation is expected to ease, but fiscal deficits may widen due to reduced oil revenues. Governments will continue to focus on spending controls, although fiscal pressures remain significant.

• **Risks:** Geopolitical instability, particularly in the Middle East, poses substantial risks to growth. Oil price volatility remains a major risk, with potential price increases hurting oil-importing countries. Additionally, uncertainty surrounding US trade policies could negatively affect GCC economies, especially those with strong ties to the US.

Economies in the wider CESEE region

Bulgaria: the political uncertainty that has persisted since March 2024, following the collapse of the coalition government, may begin to ease in 2025, after successful negotiations for a new coalition government following October elections. These culminated in a three-party agreement for a minority cabinet, supported by another party in parliament. The critical question for the new ruling coalition is whether it can reconcile significant political differences among its participants on key issues, in order to be able to make the necessary decisions for the country's eurozone entry and the restart of EU funds absorption. An immediate challenge is the ratification of the 2025 state budget, which must ensure a fiscal deficit no higher than 3% of GDP, the maximum reference level for eurozone access. On January 23, the new government withdrew the caretaker government's state budget draft and announced it will present a new budget bill by February 14. Given that public consumption was a major driver of GDP growth in 2024, the economic policy mix to achieve the targeted deficit will be crucial for GDP dynamics in 2025. On the inflation front, the gap between Bulgaria's 12-month average inflation and the inflation reference value for the euro accession narrowed to just 0.1ppts in December, reflecting rapid disinflation in 2024 – the seventh-largest in the EU (-6.0ppts), one of the factors that made household consumption the main growth driver. Household demand will continue rising in 2025, on the back of historically low projected unemployment at 4.1%, rapid consumer credit expansion that already began in 2024 (+14.2%YoY in January-November) and the new significant increase in the minimum wage by 15.4% in January. On the other hand, the latter development poses short-term risks for the disinflationary process. Stronger-than-expected consumer housing credit growth (+24.7%YoY in January-November 2024) is likely to stimulate construction output. Fixed capital formation will also be benefited from significant credit growth towards non-financial businesses, which averaged 8.5% last year – the second fastest rate since 2010 – and from the improving economic climate as the country approaches eurozone entry, provided the political environment remains relatively stable. On the downside, robust domestic demand will weigh on net exports through higher imports, extending trends observed last year. Overall, stronger domestic demand is anticipated to lead to a moderate acceleration in GDP growth in 2025, to 2.8% from 2.2% projected in 2024.

Cyprus: the implications of widespread geopolitical tensions in the Middle East on significant parts of economic activity in 2024 were much milder than initially anticipated. The number of tourists rose annually 5.1% to an all-time high, though the rate of increase slowed down from the 20.1% seen in 2023. Similarly in the real estate sector, although sales rose more moderately than a year ago (1.5% vs. 16.1%), this increase still marked a 17-year high as the spike in domestic demand compensated for a slight decline in foreign buyers. These moderate trend changes in the face of geopolitical turbulence imply that Cyprus is viewed as a regional safe haven and has demonstrated an ability to quickly adapt its market orientation. In any case, household consumption, the primary growth driver last year, mainly on the back of falling unemployment, is expected to remain a key contributor to GDP growth in 2025. It will also be supported by the -mild still first since 2009- increases in the salaries of civil servants and public sector pensioners, and a faster consumer credit expansion, evident from September 2024 onwards. Amid a further decline in NPL ratios, to 6.5% in September 2024 from 7.7% in December 2023, the credit trend towards non-financial businesses switched in 2024 from contraction to expansion, enhancing investment potential for 2025. Investment will also be supported by the disbursement of the second tranche of RRF funds in November, with additional requests for another two RRF tranches pending evaluation by the European Commission. Provided that the recent de-escalation in the geopolitical tensions (Syria, Gaza) progresses further, the regional interest in Cyprus' economy could strengthen, particularly in the real estate, energy and tourism sectors, with positive implications for investment and exports. The external balance will also be affected by stronger domestic demand, through more imports. Under these projected trends in key GDP components, GDP growth for 2025 is forecast at 3.4%, a slight deceleration from the 3.7% anticipated in 2024.

Turkey: the implications for GDP growth in 2024 of both severe monetary policy tightening, and efforts to reduce the fiscal deficit – evidenced by the growth slowdown in Q1-Q3 2024 to 3.6%YoY, down from 4.9%YoY a year previously – are expected to extend into 2025. Although the central bank of Turkey (TCMB) implemented in December the first policy rate cut in 23 months, by 250bps to 47.5%, it highlighted in its accompanying statement that inflation expectations and pricing behavior will continue to pose risks to the disinflationary process. Other factors likely to challenge disinflation in 2025 and dampen real household income growth include hikes in administered prices (e.g. utilities, water) and taxes, as well as the new, smaller than in previous years, increases in the minimum wage, the salaries of civil servants and pensions. The latter will initially boost consumer spending before feeding into a wage-price spiral. These inflationary effects will likely mean that interest rates come down more slowly than they went up, with implications for investment and household spending. Apart from smaller increases in civil servants' salaries and pensions, public spending cuts for achieving the 2025 deficit target of 3.1% will be based on reducing public investment expenditure, particularly through less spending on reconstruction projects following the Febebruary 2023 earthquakes (target of TRY584bn or 1.5% of the projected GDP in the 2025 budget, down from the TRY1.04tn or 3.2% of GDP target for 2024). The weakening in domestic demand expansion is expected to result in a stagnation, or even fall, in imports. Such trends were observed in 2024, with imports falling annually for three consecutive quarters in Q1-Q3. Meanwhile, growth in exports decelerated despite the lira devaluation, a trend probably related to the stronger disinflation in Turkey's main trading partners (e.g., US, Germany, Italy), as was evidenced by the continuous appreciation of the CPI-based real effective exchange rate. However, if disinflation progresses faster than in the trading partners in 2025, net exports could further improve, offsetting some of the effects of weaker domestic demand. These conflicting dynamics within key GDP components lead us to project a GDP growth slowdown in 2025 to 2.5% from 3.2% expected in 2024.

Commodity Markets

Trends in the demand and prices of energy commodities and industrial metals in 2025 will be primarily influenced by the policies of US President Donald Trump and the uncertainty surrounding their implementation. Additional key factors include geopolitical developments in the Middle East, the ongoing Russia-Ukraine conflict, and the pace of economic growth in China, particularly within its metals-intensive property sector.

Crude Oil: geopolitical developments and milder than initially expected GDP growth in China's economy were the most decisive factors in energy prices in 2024. Geopolitical developments were not always those expected. For example, Iran's reactions to the wars in Palestine and Lebanon were much milder than expected, resulting in only a moderate escalation of US sanctions. Combined in Europe with the mild winter at the beginning of 2024, the average Brent price last year was $79.9/bbl, 2.8% lower than in 2023. In the US, despite the estimated much smaller than in 2023 increase in crude oil production (+0.3mb/d, to 13.2mb/d vs. +1.0mb/d in the previous year), slightly higher domestic demand for oil products (+0.1mb/d, to 20.48mb/d) and exports (another +0.07mb/d, to 4.12mb/d), resulted in a fall in the West Texas Intermediate (WTI) price in 2024 (-2.3%, to $75.9/bbl). As for 2025, the new extension by OPEC+ of its production cuts in December 2024 is not anticipated to significantly affect oil prices primarily for two reasons. Firstly, a non-OPEC+ output increase of approx. 1.4-1.5mb/d is expected to be the main driver of global supply growth this year, led by the US, Brazil, Guyana and Canada. Secondly, the rise in global oil demand is projected to be smaller than the supply expansion (approx. +0.9mb/d), mainly due to a weaker growth in China's economy than in 2024 on the back of lingering problems in the real estate market and heightened trade policy uncertainty after the US elections. The above supply forecasts do not incorporate the potential effects of the executive order to expand US offshore drilling, signed recently by President Trump. The recent more expansive US sanctions on Russia's and Iran's shadow fleets further complicated oil trade logistics for them. They will probably lead to more exports towards China, reducing its crude oil demand from other countries. Subsequently, estimates for the average Brent price in 2025 are in the $70-76/bbl range and those for the WTI price are at $69-71/bbl.

Natural Gas: prolonged outages during summer for maintenance reasons in Europe's significant suppliers (Norway, US) have prevented the accumulation of gas reserves reaching as high as in 2023. Furthermore, the Europe's autumn was colder than in 2023, leading to reserves being run down much faster, with the storage filling level by end-December at 72.2%, 14.1ppts lower than that a year ago. But the main reason behind the upward trend in the natural gas price since September in the TTF hub, the most significant for Europe's supply, was the expiry at end-2024 of the agreement to transit Russian gas to Europe via Ukraine, with no alternatives available. Past the termination of the agreement, the storage filling level has declined much faster than previously, by an average of 4ppts/week in January against 2.16ppts/week in November-December. Amid these developments, the TTF natural gas price by January 27 was 41.4% higher than a year ago, at €48.6/MWh. Thus, Europe is in search of alternative suppliers and is heading mainly towards importing more LNG, but also increasing pipeline flows (e.g., from Azerbaijan). The energy and trade policies of President Trump will be of utmost importance for related developments. He has already urged the EU to step up its LNG purchases from the US if it wants to avoid tariffs on all imports. A stronger demand from the EU, and perhaps some other regions, could trigger a rise in US LNG prices, but such a trend is likely be mitigated due to two new LNG export facilities, in Plaquemines, Louisiana, and Corpus Christi, Texas, that started producing LNG in December. On the other hand, their effects will not be significant until at least H2 2025, when both are expected to operate in high/full capacity. Uncertainty about covering the supply gap is exacerbated by the reluctance of Qatar — the EU's third-largest LNG supplier — to adhere by the EU Directive on corporate sustainability due diligence. EU considerations for more sanctions on Russian pipeline gas and LNG, in the context of the forthcoming 16th package of sanctions, could have further price implications, if implemented. In view of these expected demand and supply developments, Fitch Ratings recently projected a mild 4.6% increase in the TTF gas price for 2025, to €40/MWh from €38.2/MWh last year. However, we consider a bigger increase, of about 10% to €42/MWh, is more likely.

Copper-Aluminium: the US and UK prohibitions on Russian-origin metals trading in mid-April 2024, in an effort to undermine Russia's export revenues, were the main driver of the surge in copper, nickel, aluminium and zinc prices in April-May. A short squeeze on copper futures on the New York Comex exchange in mid-May ignited a global rush to secure the metal, pushing prices to an all-time high of $10,935/tonne (for 3-month futures) on the London Metal Exchange (LME) by May 20. Similarly, aluminium futures peaked at a 24-month high of $2,767/tonne on May 29. Afterwards, copper prices declined by early August (-19.8%, to $8,770/tonne), due to weak demand from the EU, Japan and the US. The rise in aluminium production in China in June-July resulted in excess supply that pushed down prices by almost the same rate as copper. Both metals experienced another price rally in September-October, up to $10k/tonne and $2,680/tonne respectively, driven by the announcement of a ¥3.95trn stimulus package in China, equivalent to just over 3% of the country's GDP. However, this boost once again proved short lived in the case of copper. That closed 2024 hovering at $8,770/tonne on the LME, whereas the average price for last year was 8.6% higher than in 2023, at $9,266/tonne. Aluminium, by contrast, saw more sustained gains as prices remained elevated primarily due to a key policy change in China, the world's largest producer of primary aluminium, which announced in November it would end its 13% export tax rebate, effective December 1. This change contributed to a 7.4% average increase in aluminium prices at the LME last year to $2,457/tonne.

The price outlook for 2025 is once again negatively affected from the persisting vulnerabilities in China's real estate sector and the weakened consumer confidence in the country. Their implications for domestic demand could be mitigated if the shift in monetary policy stance that China's Politburo announced in December – from "prudent" to "moderately loose" for the first time since 2010 – is implemented. President Trump's recurring statements on his plans to impose tariffs on steel, aluminum and copper imports have already triggered an increase in the prices of these metals, which could continue until his decisions on the issue are announced. For both copper and aluminium, supply growth is projected to outpace demand in 2025, but in the case of the latter, only a narrow surplus globally is projected (≈0.1mn tons), against a 0.4mn tons deficit in 2024. Under the above effects, aluminium is projected to trade higher than last year in 2025, averaging $2,625 to $2,813/tonne (+6.8%-+14.5%), whereas there are varying views for price developments in copper, both to the downside ($8,900/tonne, -3.9%) and to the upside ($9,438/tonne, +1.9%).

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