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The global economy has retained its steady growth, with relatively stable labour markets, strong AI-related investment and businesses' ability to adapt to supply disruptions helping to partially cushion the effects of elevated energy costs. However, the prolonged energy shock, persistent shipping disruptions, tighter financial conditions and growing concerns over the sustainability of the AI investment boom pose significant downside risks to global growth. At the same time, higher energy costs are fuelling inflationary pressures, increasing the risk of a more pronounced pass-through to underlying price growth. In response to persistent inflationary pressures and resilient economic activity, major CBs are tightening monetary policy, although higher sovereign bond yields may limit the extent of further rate hikes.

Macro Picture

USA: GDP growth accelerated in Q3, while inflation remains stubbornly above target

EA: economic activity continues to show good momentum; upside inflation risks persist

China: growth stabilised in Q3, yet domestic demand remains weak

CESEE: moderating growth coupled with rising political and geopolitical uncertainty

Markets

FX: EUR/USD under sustained pressure from dollar strength, European fiscal risk

Rates: swaps bull flattened as falling oil prices and growth concerns drove yields lower

EM: sovereign credit remained under moderate pressure amid geopolitical tensions

Credit: struggled amid mounting worries around AI; midterms bring renewed fears over regulation

Policy Outlook

USA: resilient economic activity and sticky inflation keep the Fed on a tightening path

EA: further rate hikes likely on persistent inflation risks; tighter financial conditions call for caution

Japan: BoJ held rate at 1.25% in October; markets pricing in high odds for a hike in December

CESEE: growth moderation and heightened political risks challenge economic policy capacity

Key Downside Risks

DM & EM: prolonged closure of oil and gas production facilities in the Middle East; persisting disruptions to exports through the Strait of Hormuz; more conflicts arise elsewhere; energy-driven inflation becomes entrenched; global financial conditions tighten sharply; AI-related stocks repriced abruptly; reescalation of trade tensions; China's domestic-demand weakness becoming more pronounced; El Niño-related agricultural disruptions and renewed food inflation

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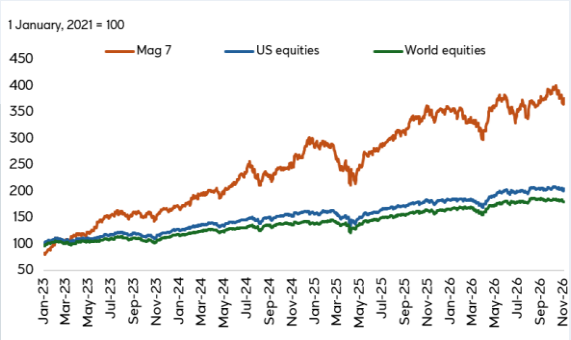
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Macro Views

Rising inflation and financial pressures challenge global growth resilience

Figure 1: Strong AI-related equity gains heighten vulnerability to a market correction



Source: Bloomberg, Eurobank Research

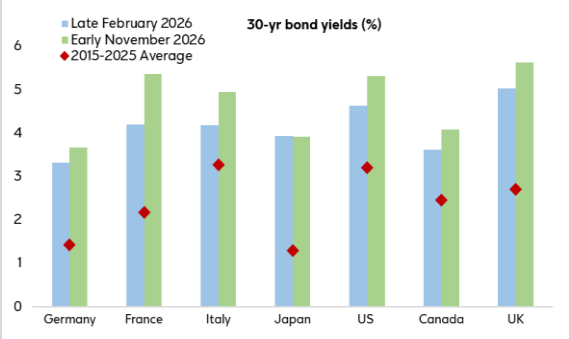
The global economy has continued to demonstrate notable resilience in recent months, despite the prolonged conflict in the Middle East, elevated energy prices, persistent trade tensions and tighter financial conditions. Economic activity has generally exceeded expectations, with the global composite PMI remaining firmly in expansionary territory, supported by solid manufacturing and services activity. According to the IMF's October 2026 World Economic Outlook, global GDP is projected to grow 3.1% in 2026, before recovering to 3.4% in 2027, broadly in line with its long-term average and close to the 3.5% growth recorded in 2025. However, economic performance remains uneven across regions, with the US continuing to outperform. Emerging Asian economies have generally shown somewhat softer momentum, although those with significant AI exposure, notably South Korea and Taiwan, have benefited from strong technology-related exports, despite their vulnerability to elevated energy prices as major oil importers. Meanwhile, the Eurozone remains a relative weak spot, facing significant headwinds from elevated energy costs and fiscal pressures.

Several factors have contributed to this stronger-than-expected economic performance. First, solid economic momentum ahead of the conflict and a relatively strong global corporate sector have supported employment, household incomes and consumer spending. Labour markets have generally stayed tight, helping sustain consumption, while business investment has remained robust. Second, the rapid expansion of investment in artificial intelligence (AI) has emerged as an increasingly important driver of global economic activity, led primarily by surging AI-related spending in the US, which has boosted demand for technology equipment, semiconductors, data centers and related infrastructure, while supporting manufacturing activity and international trade. Third, businesses' ability to adapt to ongoing supply disruptions and changes in trade policies has helped sustain economic activity. The rerouting of energy shipments, oil inventory drawdowns, additional supply from producers outside the Gulf region and substitution towards alternative energy sources have helped cushion the impact of the Middle East conflict. At the same time, lower energy intensity, reflecting the growing share of renewables in power generation and continued improvements in energy efficiency, has further mitigated the impact of elevated energy prices. Together with discretionary government support measures in some economies and broadly sound financial systems, these adjustments have helped prevent the energy shock from translating into a more pronounced slowdown in global activity.

Nevertheless, the prolonged conflict in the Middle East has now dragged into a ninth month, continuing to pose a significant challenge to the global economy. Although below recent highs, Brent crude oil prices remain elevated at around $94/bbl, roughly 30% above their pre-war February levels, while diesel and jet fuel prices have increased even more sharply. Alternative supply routes and adjustments in global energy flows have helped avert widespread physical shortages, but higher freight costs, shipping disruptions and pressures on refined petroleum products continue to push up production and distribution costs. Moreover, oil inventories that helped absorb the initial supply shock are gradually being depleted, increasing the vulnerability of energy markets to further geopolitical escalation.

Beyond geopolitical risks, growing uncertainty surrounding France's public finances has added to existing fiscal vulnerabilities across major economies, contributing to tighter financial conditions. At the same time, the rapid expansion of AI-related capital expenditure has raised questions about the sustainability of the investment cycle, amid growing uncertainty over whether substantial capital spending will translate into sufficient returns and productivity gains. A sustained correction in AI-related investment and asset valuations could weigh on global growth, both directly and through adverse wealth effects. These concerns could be further amplified following the Democrats' recent electoral victory, given waning political support for AI development in the US and the likelihood of a less supportive regulatory environment. Meanwhile, tighter financial conditions pose additional risks, particularly for economies such as the Eurozone that have benefited less from the AI investment cycle. Taken together, these mounting risks are increasingly testing the resilience of the global economy, suggesting that, despite its stronger-than-expected performance, it is not yet out of the woods.

Figure 2: Tighter finanical conditions may limit the extent of further rate hikes



Source: Bloomberg, Eurobank Research

Turning to inflation, elevated energy and commodity prices have renewed upward pressure on global consumer prices. The IMF projects global headline inflation at 4.7% in 2026, before easing to 4.1% in 2027, while core inflation is expected to remain elevated at 3.9% and 3.7%, respectively. While the recent surge in commodity prices has yet to feed significantly into underlying inflation, higher transportation and intermediate-input costs are increasingly weighing on businesses, with firms gradually passing these increases on to consumers. Persistent energy-related cost pressures, alongside strong AI-related investment, could sustain underlying inflationary pressures and increase the risk of second-round effects.

Resilient economic activity and rising inflationary pressures have prompted a growing number of major central banks to shift towards tighter monetary policy, seeking to prevent the energy shock from becoming more deeply embedded in underlying inflation, without unnecessarily undermining economic growth. Although the indirect inflation effects have so far remained relatively contained, the prolonged nature of the shock has increased the risk of broader price pressures, strengthening the case for further monetary

tightening. However, the sharp rise in long-term government bond yields across major economies since February has already contributed to tighter financial conditions, potentially prompting some central banks to raise policy rates by less than markets currently anticipate. Consequently, the pace and extent of further tightening are likely to vary across economies, depending on incoming inflation and activity data, the persistence of energy-related pressures and the extent to which higher borrowing costs weigh on domestic demand.

Developed Economies

US: the economy maintained a robust pace of expansion in Q3, with real GDP growth accelerating to 3.4%QoQ saar, its strongest performance in a year, underpinned by sustained strength in private domestic final demand. Business investment also provided significant support, with non-residential fixed investment surging, largely reflecting a sharp increase in AI-related investment which alone contributed nearly 1.1ppts to GDP growth. Meanwhile, driven by higher energy prices, headline PCE inflation rose 0.3ppts in September to 3.7%YoY, while core PCE inflation edged up, 0.1ppts to 3.1%, its highest level since May and well above the Fed's 2% target. Resilient economic activity, a broadly stable labour market and persistently elevated inflation support further monetary tightening, albeit at a measured pace, consistent with the October FOMC statement and Chair Warsh's press conference in light of well-anchored inflation expectations and tightening financial conditions. A 25bp hike in December remains the baseline, with risks tilted towards further tightening, although the path will depend on incoming data and financial conditions.

Euro area: despite a challenging external environment, the economy remains resilient. According to the flash Q3 GDP estimate, the economy expanded 0.4%QoQ, moderating from 0.6%QoQ in the prior quarter. Nevertheless, the outturn was twice as strong as market expectations and exceeded the ECB's September projection of 0.3%QoQ. Looking ahead to Q4, incoming sentiment indicators point to some moderation in growth momentum, albeit with the pace of expansion remaining relatively healthy. Meanwhile, rising energy prices pushed headline HICP inflation up to a fresh three-year high of 4.0%YoY in October, while core inflation was unchanged at 2.5%YoY, indicating limited pass-through from higher energy costs to underlying inflation so far. However, with pipeline pressures continuing to build, a gradual pass through to underlying inflation appears increasingly likely to materialise with a lag. Against this backdrop, unless the inflation outlook improves materially, further ECB rate tightening is likely to be warranted. However, there appears to be little urgency for the ECB to deviate from its measured approach to monetary tightening adopted so far as financial conditions have become markedly more restrictive.

Emerging Economies

EM: emerging markets faced a more challenging macroeconomic environment over the past month, as renewed inflationary pressures, tighter financial conditions and heightened geopolitical uncertainty weighed on investor sentiment. The MSCI Emerging Markets Index declined by approximately 8% within October, reflecting a broad-based equity selloff, particularly across Asian markets, where technology-related weakness compounded concerns over global growth prospects. Meanwhile, monetary policy divergence became increasingly pronounced, reflecting differences in domestic inflation dynamics and external vulnerabilities. Central banks in India, the Philippines and Egypt raised policy rates in response to intensifying price pressures, while Brazil maintained its policy rate at 13.75%, signalling caution over rising inflation expectations despite moderating economic activity. Elevated energy prices, partly reflecting the prolonged Middle East conflict, have emerged as a common inflationary driver, particularly for energy-importing economies, complicating monetary policy decisions and potentially constraining domestic demand. Currency developments added to these challenges, with the Indian rupee facing sustained depreciation pressures and prompting foreign exchange intervention, while China sought to moderate appreciation pressures on the yuan. Country-specific political and trade-related uncertainties, including developments in South Africa and parts of Latin America, further complicated the outlook.

CESEE: regional economies continue to exhibit divergent growth dynamics, with domestic demand providing support but industrial weakness, renewed inflationary pressures and political uncertainty weighing on the outlook. Recent indicators suggest moderating economic momentum rather than a broad-based downturn, while political developments increasingly challenge policy implementation. Preliminary Q3 GDP estimates indicate slowing activity in Central Europe. Czechia's annual growth eased to 1.6%, from 1.8% in Q2, while Hungary's moderated to 1.5% YoY, with quarterly expansion slowing to 0.1%. Poland remains relatively resilient, supported by rising real incomes and consumption, although its preliminary Q3 GDP estimate remains pending. Renewed inflationary pressures could limit further monetary easing. Romania faces more pronounced challenges as fiscal consolidation constrains economic activity. Despite a narrowing budget deficit, official forecasts were revised to -0.4% growth and 6.4% inflation for 2026. October's minority government formation ended a prolonged political impasse, but uncertainty persists over parliamentary support for fiscal adjustment. Institutional tensions in Poland, Slovakia and Czechia could also complicate policymaking. In Serbia, the student-backed opposition's electoral victory introduces uncertainty over government formation, economic policy continuity and external orientation, despite potential longer-term institutional benefits. Meanwhile, the prolonged Russia–Ukraine war and reported attacks on Black Sea shipping sustain geopolitical risks, potentially increasing trade disruptions and transport costs.

Markets View

Foreign Exchange

EUR/USD: extended its September decline into October, opening the month at 1.1244 and sliding to a cycle low of 1.1105 on October 29 — its weakest level since May 2025 — as the euro came under sustained pressure from a combination of dollar strength, European political and fiscal risk alongside a more cautious ECB. The primary drivers of euro weakness were persistent US rate outperformance, fiscal stress in France (where widening OAT-Bund spreads and street protests rattled sentiment) and escalating Russia-Ukraine tensions. The ECB held rates unchanged at its October 30 meeting, with President Lagarde maintaining a non-committal, meeting-by-meeting stance, which did little to support the currency. Options markets reflected the gloom, with longer-dated positioning reaching its most bearish on the euro since March 2025. The pair staged a sharp recovery into month-end and through the first days of November, reaching 1.1259 on the morning of November 4, after the Democratic sweep of both chambers of Congress in the US midterm elections led markets to price in greater constraints on the Trump policy agenda, pulling the dollar broadly lower. On net, EUR/USD closed October near flat versus its September 29 close of 1.1341, having spent most of the month in the 1.11–1.12 range.

USD/CHF: opened October at 0.8310 — near the 0.8342 high reached at end-September — and initially held firm, supported by the SNB's September 24 decision to keep its policy rate at 0% and the removal of language around an "increased willingness" to intervene in FX markets, which reduced the franc's safe-haven premium. However, the pair reversed sharply through mid-October as European risk aversion drove haven flows into the franc, with EUR/CHF simultaneously collapsing. USD/CHF fell to 0.8158 on the morning of November, its lowest since the September rally began, as the post-election dollar selloff compounded franc strength. Swiss CPI growth rising to 1.5%YoY in October — a two-year high — added to the franc's appeal by raising the prospect of an earlier SNB policy shift. On balance, USD/CHF shed roughly 1.8% over October, reversing a meaningful portion of September's 3.2% gain.

Rates

EU: EUR swaps rallied modestly in the first few days of November, bull-flattening from October month-end levels, with the 5y at 3.37%, the 10y at 3.43% and the 30y at 3.30% — moves of approx. -22bp, -26bp, and -26bp respectively as of November 4 — as a confluence of disinflationary signals drove rates lower: an ~8% single-day collapse in oil prices on Monday as Washington and Tehran signalled openness to ceasefire talks, followed by a renewed flight-to-quality bid on Wednesday as the Democratic midterm sweep raised growth-risk concerns. The 10s30s inversion has narrowed to -12.9bps from -15.1bps at the end of October, as the long end outperforms on the growth repricing. Despite the October ECB pause, the hawkish chorus

remains loud — Bundesbank President Joachim Nagel flagged a likely December hike citing a worsening inflation picture, Austrian central bank governor Martin Kocher said a hike is "likely before year-end", and Bulgaria's Dimitar Radev stressed the October pause was "an evaluation, not a signal tightening is over". Duch central bank chief Olaf Sleijpen offered a lone dovish note, acknowledging tightening is slowing the economy. OIS swaps are now pricing approximately 55bps of additional ECB monetary tightening through September 2027, implying a terminal rate near 3%, with an 84.4% probability for a 25bps hike in December 2026.

US: the SOFR swap curve has bull-flattened compared with the previous month, with the 5y at 4.44%, the 10y at 4.539%, and the 30y at 4.656% — moves of -28bp, -30bp, and -28.5bp since the beginning of October — as the Democratic midterm sweep, delivering control of both the Senate and the House, triggered a flight-to-quality bid into Treasuries and a meaningful repricing of the near-term Fed path, with markets interpreting Democratic Congressional control as a constraint on fiscal expansion. The 10s30s spread has widened modestly to +11.9bps from +10.3bps at the beginning of October, as the long end lags slightly on term-premium uncertainty around fiscal policy. The oil-yield correlation has turned negative for the first time since the Iran conflict began — growth fears are now displacing inflation as the primary bond driver — a structurally dovish shift for the front end. OIS now prices approximately 2.3 Fed hikes over the next 12 months, lifting the implied policy rate to ~4.45% by October 2027, with December 2026 priced in with a 79.4% probability.

Emerging Markets Sovereign Credit

Emerging Market hard-currency sovereign bonds remained under pressure in October, as September's spread widening extended amid a broader risk-off environment driven by geopolitical tensions, elevated energy prices and AI-related market concerns. The CDX EM spread widened by 12bps over the month to 168bps. In Central Europe, 10-year EUR sovereign spreads were broadly unchanged, with Serbia a notable outperformer, tightening by more than 10bps on expectations of political change following elections there, closer EU integration and a lower political risk premium. In LatAm, Mexican and Chilean 10-year USD spreads widened by 8bps and 2bps, respectively. In Asia, Indonesian 10-year EUR spreads widened by 18bps to 170bps, reflecting spillovers from the equity market sell-off. In the Middle East, 10-year USD spreads in Qatar, Saudi Arabia and Israel widened by 3–4bps, while Abu Dhabi outperformed and ended the month broadly unchanged. We maintain a cautious but selective stance on EM sovereign credit, with geopolitical uncertainty, elevated energy prices and persistent fiscal vulnerabilities continuing to weigh on the asset class, while recent spread widening is creating selective relative-value opportunities.

Corporate Credit

Credit markets faced continued volatility in October, on the back of mounting doubts around AI, French sovereign stress and geopolitical tensions that pushed energy prices higher, thus increasing inflation-related concerns. Brent crude saw a high of $118/bbl during the month, easing to $104/bbl in early November after headlines about a potential diplomatic resolution in Iran, followed by a drop to as low as $94.62/bbl after the US midterm elections. Politics were also at the fore ahead of the midterms, which resulted in a Democratic win of both the House of Representatives and the Senate. When the new Congress convenes in January, it will be the first time the Democrats have control over both chambers since the first two years of Joe Biden's presidency. The election result brought renewed tech anxiety, on concerns that the Democratic control might lead to tougher regulation on AI. On the central bank front, both the Fed and the ECB maintained rates unchanged in October. Against this backdrop, equities posted mixed performance across the two sides of the Atlantic. In Europe, Stoxx 600 was 2.1% higher than September's close as of November 4, with gains for the DAX (+2.9%) and the CAC 40 (+1.0%). Overseas, the S&P 500 lost 1.1% since the beginning of October, mostly due to weak performance in big tech stocks (Nasdaq -7.3%).

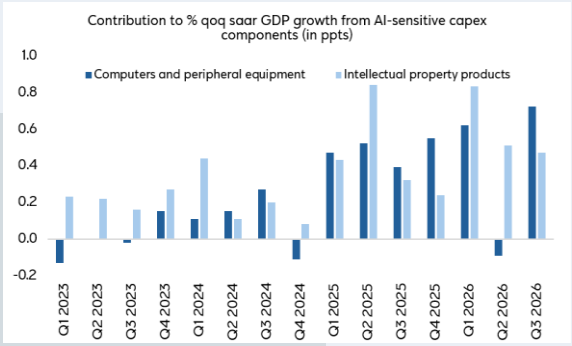
Credit struggled across both Europe and the US. European spreads widened by +0.9bps and +15.3bps in IG and HY respectively, performing largely in-line with US synthetics. European cash was also lower, with Investment Grade +16bps October-to-date and High Yield +55% during the same period. Looking at sector performance, Telecoms were a notable underperformer. The primary market remains quite active, with total issuance in October at €95bn and year-to-date issuance +3.1% ahead of 2025's at the same point.

US

Robust growth and persistent inflation keep the Fed on a tightening path

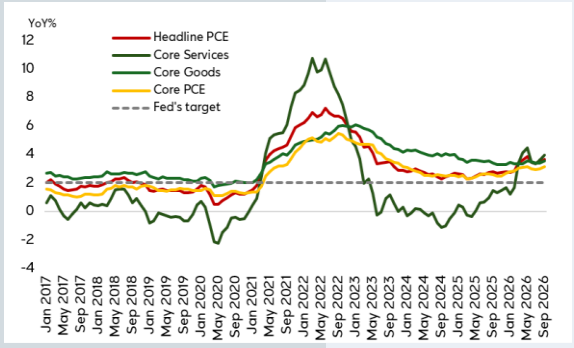
The economy maintained a robust pace of expansion in Q3, with real GDP growth accelerating to 3.4%QoQ saar, its strongest performance in a year, from 2.2%QoQ saar in the prior quarter, underpinned by sustained strength in private domestic final demand. Growth in real private domestic final purchasers picked up 0.3ppts to a near- five-year high of 4.9%QoQ saar, primarily driven by resilient private consumption (+3.8%). Business investment also provided significant support, with non-residential fixed investment surging (+12.7%), largely reflecting a sharp increase in AI-related investment which alone contributed nearly 1.1ppts to GDP growth. Conversely, net trade was a substantial drag (-3.3ppts) largely reflecting a sharp increase in capital goods imports associated with the AI-investment boom. Looking ahead, economic growth is expected to moderate, with private consumption likely to be the main source of deceleration amid weakening household income dynamics. Real personal disposable income increased by a modest 0.3%MoM in September after a flat reading in August, amid subdued growth in labour compensation (+0.2%MoM). Meanwhile, the personal saving rate fell 0.2ppts to a fresh multi-year low of 3.8%, suggesting diminishing household financial buffers to sustain spending. Nevertheless, resilient underlying domestic demand and continued investment activity suggest a gradual moderation rather than a sharp deterioration in economic activity. Meanwhile, driven by higher energy prices, headline PCE inflation rose 0.3ppts in September to 3.7%YoY, while core PCE inflation edged up, 0.1ppts to 3.1%, its highest level since May and well above the Fed's 2% target, reflecting broad-based price pressures across services and goods. Elevated energy prices, persistent services inflation, robust domestic demand and sustained investment raise the risk of inflation remaining above target for longer, even if growth moderates. Against this backdrop, resilient economic activity, a broadly stable labour market and persistently elevated inflation support further monetary tightening, albeit at a measured pace, consistent with the October FOMC statement and Chair Warsh's press conference in light of well-anchored inflation expectations and tightening financial conditions. A 25bp hike in December remains the baseline, with risks tilted towards further tightening, although the path will depend on incoming data and financial conditions.

Figure 3: AI-related investment contributed around 1.1ppts to Q3 GDP growth



Source: BLS, Eurobank Research

Figure 4: Inflation persistently above the Fed's target



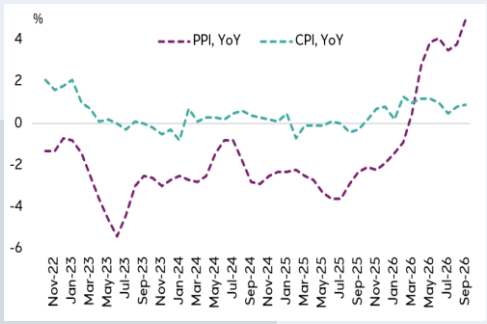
Source: BLS, Eurobank Research

China

Growth stabilisation alongside monetary policy reform

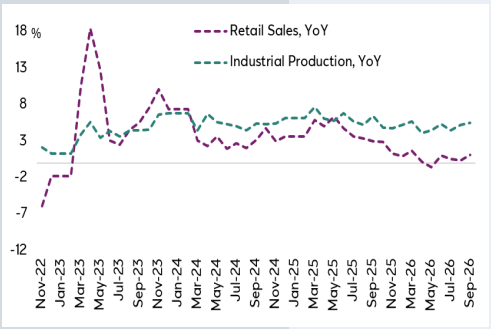
The economy showed tentative signs of stabilisation in Q3 2026, although growth remained uneven and reliant on external demand. Real GDP expanded by 4.5%YoY, up from 4.3%YoY in Q2 and slightly above market expectations, bringing growth in the first nine months to 4.6%, broadly consistent with the government's 4.5–5.0% annual target. Resilient exports, partly supported by global AI-related demand, continued to underpin industrial activity, with industrial production rising by 5.5% YoY in September. Domestic demand, however, remains the economy's principal vulnerability. Retail sales increased by just 1.1% YoY in September, inflation remained subdued at 0.9%YoY and real estate development investment contracted sharply, underscoring persistent weakness in household spending and the property sector. October indicators pointed to continued divergence across the economy. The official manufacturing PMI declined to 49.3, from 50.1 in September. Meanwhile, broad budget expenditure contracted by 3.7% YoY in September, its seventh consecutive monthly decline, highlighting persistent fiscal constraints. On the policy front, the Fifth Plenum reaffirmed the authorities' commitment to technological self-reliance and high-quality growth, with near-term priorities increasingly centred on effective policy implementation. The Ministry of Finance authorised the use of CNY550bn in previously unspent local government bond quotas to support expenditure and investment. The People's Bank of China (PBoC) increased net government bond purchases to CNY150bn in October to bolster liquidity, while establishing the overnight reverse repo rate at 1.25% as a key policy anchor to strengthen monetary transmission. Separately, the PBoC raised the reserve requirement ratio on foreign-currency deposits from 4% to 6% to moderate renminbi appreciation, reinforcing its preference for exchange-rate stability. Overall, China remains on course for moderate growth in 2026, although the recovery remains fragile and dependent on effective policy implementation. Property stabilisation, stronger household confidence and a sustained recovery in domestic demand remain essential for more balanced growth.

Figure 5: Producer prices surge while consumer inflation remains subdued



Source: Bloomberg, Eurobank Research

Figure 6: Industrial resilience coupled with weak consumer demand



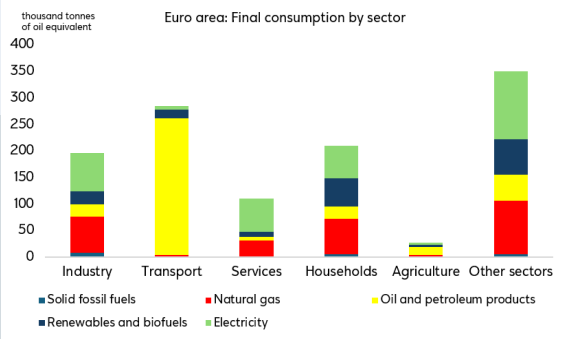
Source: Bloomberg, Eurobank Research

Euro area

Resilient growth persists, while upside inflation risks remain

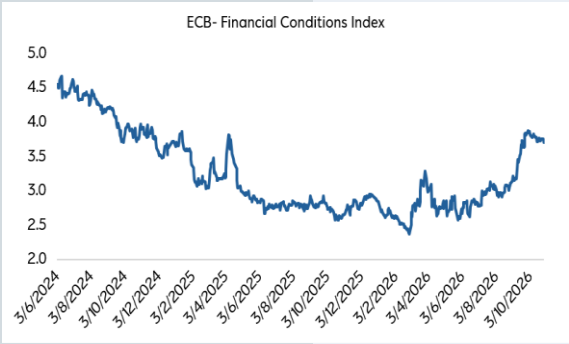
Despite a challenging external environment, marked by elevated energy prices and heightened geopolitical uncertainty related to the conflict in the Middle East, the economy remains resilient. According to the flash Q3 GDP estimate, the economy expanded 0.4%QoQ (1.3%YoY), moderating from 0.6%QoQ (1.2%YoY) in the prior quarter. Nevertheless, the outturn was twice as strong as market expectations and exceeded the ECB's September projection of 0.3%QoQ, underpinned by resilient household consumption despite persistent pressures on purchasing power. Looking ahead to Q4, incoming sentiment indicators (October PMIs, consumer sentiment) point to some moderation in growth momentum, albeit with the pace of expansion remaining relatively healthy, amid a re-acceleration in energy price growth and tighter financing conditions, partly driven by higher long-term bond yields. Meanwhile, rising energy prices pushed headline HICP inflation up by a further 0.2ppts in October to a fresh three-year high of 4.0%YoY, while core inflation was unchanged at 2.5%YoY, broadly in line with pre-war levels, indicating limited pass-through from higher energy costs to underlying inflation so far. However, with pipeline pressures continuing to build, a gradual pass through to underlying inflation appears increasingly likely to materialise with a lag, raising the risk of broader indirect and second round effects. Concerns over a more widespread and persistent inflationary impact on non-energy components have intensified recently, particularly as the ongoing energy shock appears increasingly likely to be driven mainly by natural gas prices. This is particularly relevant given the economy's exposure to natural gas, which is the main energy source for both industry and households (Figure 7). At around €90/MWh currently, gas prices stand approximately 50% above the ECB's baseline scenario in its September projections and 17% above its adverse scenario. Against this backdrop, unless the inflation outlook improves materially, further ECB rate tightening is likely to be warranted. However, there appears to be little urgency for the ECB to deviate from its measured approach to monetary tightening adopted so far as financial conditions have become markedly more restrictive. Consistent with this assessment, the ECB stayed put in October following September's 25bp hike but left the door open for further tightening should energy prices fail to normalise.

Figure 7: Gas is the main energy source for both industry and households



Source: Eurostat, Eurobank Research

Figure 8: Tighter financial conditions support the case for measured ECB policy adjustment



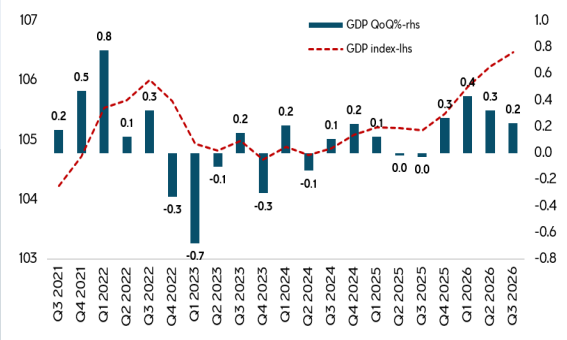
Source: ECB, Eurobank Research

Germany

Economic recovery continues, but structural challenges persist

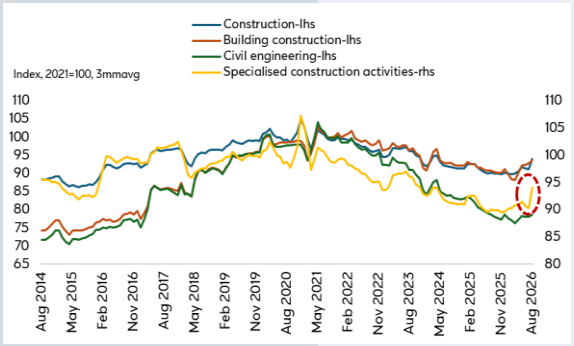
The economy continues its recovery despite elevated energy prices, geopolitical uncertainty and tighter financial conditions. Real GDP expanded 0.2%QoQ in Q3 (+1.2%YoY) after growing 0.3%QoQ (+1.0%YoY) in Q2, marking the fourth consecutive quarter of expansion, with the Federal Statistical Office's release suggesting that private consumption supported activity while exports and investment weakened. Although the economy is on track for its strongest growth performance since 2022, with market consensus projecting a 1.0% expansion for 2026 as a whole, the recovery's reliance on temporary factors and large fiscal stimulus raises questions about its sustainability. Forward-looking indicators point to continued, albeit uneven, expansion in early Q4. The composite PMI declined 1.0pts to 52.8 in October, reflecting weaker services activity, while the manufacturing PMI rose to its highest level since May 2022. However, weaker output and new orders suggest that the headline improvement likely overstates underlying demand. Meanwhile, the Ifo business climate index rose for the sixth consecutive month to a more-than-three-year high of 90.2, driven by stronger expectations, despite weaker current conditions. Industrial production rebounded 2.0%MoM in August, largely supported by construction activity (9.3%MoM), likely benefiting from a one-off boost associated with the completion of a major energy infrastructure project. More broadly, temporary factors, including the diversion of industrial orders from Asia following disruptions in the Strait of Hormuz and inventory accumulation, have also supported activity, alongside gradually increasing public investment in infrastructure and defence. Meanwhile, headline HICP inflation eased to 2.8%YoY in October, from 3.3%YoY in September, while core inflation declined 0.3ppts to 2.1%YoY, suggesting limited indirect effect from higher energy costs. Nevertheless, elevated oil prices and low natural gas inventories pose renewed inflationary risks ahead of winter, underscoring the importance of the government's proposed strategic gas reserve. Looking ahead, Germany's economic outlook remains cautiously optimistic, with the strength of the recovery largely dependent on the pace and effectiveness of fiscal stimulus transmission to the broader economy. However, turning the anticipated cyclical upturn into a self-sustaining expansion will require decisive structural reforms aimed at restoring international competitiveness and strengthening longer-term growth potential.

Figure 9: Germany on track for its strongest growth performance since 2022



Source: Destatis, Eurobank Research

Figure 10: Construction output likely surged in August, driven by a one-off infra project



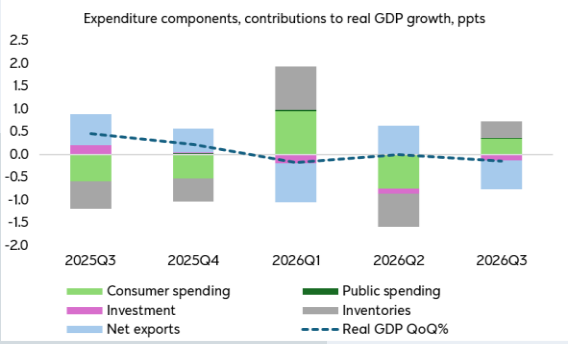
Source: Destatis, Eurobank Research

France

Fiscal and political risks keep sovereign bonds under pressure

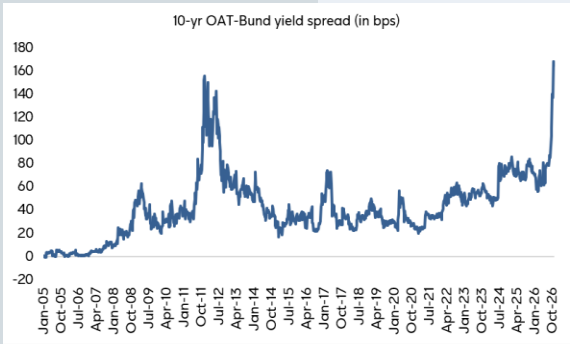
Economic activity disappointed again in Q3, as GDP contracted by 0.1%QoQ, marking the second quarterly decline this year following a 0.2%QoQ contraction in Q1 and stagnation in Q2. The renewed contraction was primarily driven by a sizeable drag from net trade (-0.6ppts), reflecting a sharp decline in transport equipment, particularly aeronautics. Investment also disappointed, contracting for the third consecutive quarter (-0.6%QoQ) amid deteriorating business sentiment and tighter financing conditions. By contrast, consumer and government spending remained resilient (+0.4%QoQ and +0.3%QoQ, respectively) while inventories provided the largest positive contribution to growth (+0.4ppts). Looking ahead to Q4, prospects remain subdued, with sentiment indicators (PMIs, INSEE consumer sentiment) pointing to persistent weakness in economic activity. Against this backdrop, the government's growth projections underpinning the draft 2027 budget — 0.5% in 2026 followed by a rebound to 1.0% in 2027 — appear increasingly difficult to achieve, posing risks to the planned reduction in the general government deficit from 5.4% of GDP in 2026 to 5.0% in 2027. Beyond weak growth prospects and elevated borrowing costs, political hurdles pose additional challenges to fiscal consolidation. The government's lack of an absolute majority in the fragmented National Assembly could necessitate concessions to opposition parties to secure the budget's passage, potentially diluting the proposed fiscal measures. Uncertainty is further compounded by the approaching April-May 2027 presidential election, with Marine Le Pen holding a sizeable lead over her potential rivals in recent opinion polls. Against this backdrop, French sovereign bonds have underperformed their euro area peers, with the 10-year OAT-Bund yield spread widening to levels last seen during the euro area sovereign debt crisis. The resulting market tensions have raised questions about possible ECB intervention. Although the ECB has signalled its readiness to address disorderly market developments that threaten monetary policy transmission, activation of its Transmission Protection Instrument (TPI) appears unlikely at this stage, as market pressures appear largely driven by France-specific fiscal and political risks rather than unwarranted market fragmentation.

Figure 11: GDP disappointed again in Q3, dragged down by net trade and investment



Source: INSEE, Eurobank Research

Figure 12: Sharp widening in the 10-yr OAT-Bund yield spread



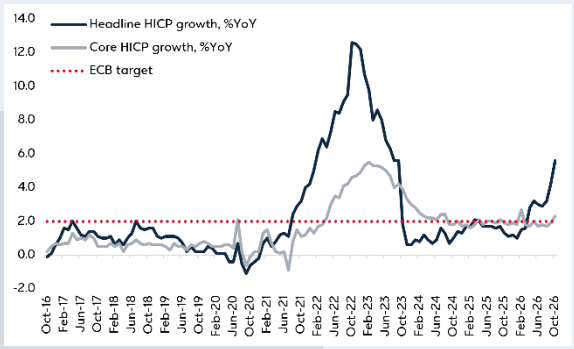
Source: Reuters, Eurobank Research

Italy

Growth stalls as the energy shock pushes inflation sharply higher

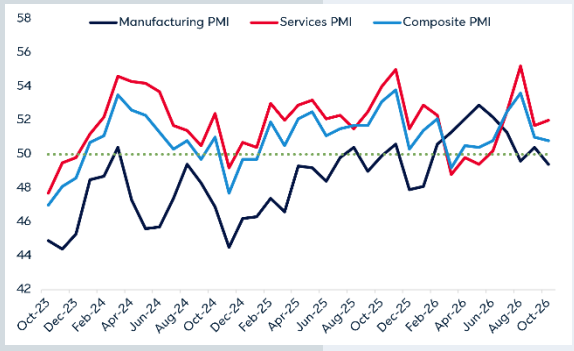
Economic momentum weakened at the start of Q4, while the renewed energy shock led to a marked deterioration in the inflation outlook. GDP was unchanged in Q3 following growth of 0.2%QoQ in Q2, although annual growth remained positive at 0.8%. Services and agriculture expanded, but industrial value added contracted; a positive contribution from domestic demand was offset by a negative contribution from net exports. Manufacturing data reinforce this subdued picture. The S&P Global Italy Manufacturing PMI fell to 49.4 in October from 50.4 in September, returning below the expansion threshold and recording its weakest reading since January. Output declined at the fastest pace since the beginning of 2026, order books contracted for a fourth consecutive month and employment fell for the first time since July. Domestic demand was the principal source of weakness, while firms also faced longer delivery times and rising input costs. Survey evidence outside manufacturing was somewhat less downbeat: business confidence increased to 96.6 in October from 95.9, although manufacturing confidence remained at 91.9 and retail confidence declined. Consumer confidence fell further, from 91.2 to 90.3, consistent with growing pressure on household purchasing power. That pressure intensified sharply in October. HICP inflation jumped by 1.4ppts to 5.6%YoY, substantially above the 4.6%YoY consensus estimate. The acceleration was driven primarily by energy inflation, which rose to 31.4%YoY from 22.6%YoY in September. However, the pressure was not confined to energy: unprocessed-food inflation increased 2.5ppts to 7.6%YoY. The core index increased 1.9%YoY, up 0.4ppts from the month before. Survey data released in early November reinforce this less favourable inflation signal. The services PMI input-price index climbed from 65.4 to 68.4, its highest level since December 2022, while the prices-charged index rose from 54.8 to 55.9, the highest level since February 2023. Firms frequently attributed the increase to energy, fuel and transport costs, adding to the signs that pipeline pressure is passing through to final prices. Looking ahead, weak industrial demand and the squeeze on real incomes are likely to constrain near-term growth. The main risk is that elevated energy costs persist and broaden further into food, services and wage-setting, leaving weaker activity alongside more persistent inflation, while narrowing the scope for supportive fiscal policy.

Figure 13: Headline inflation is taking off rapidly, though core is more restrained



Source: Eurostat, Bloomberg, Eurobank Research

Figure 14: The manufacturing PMI fell back into contractionary territory in October



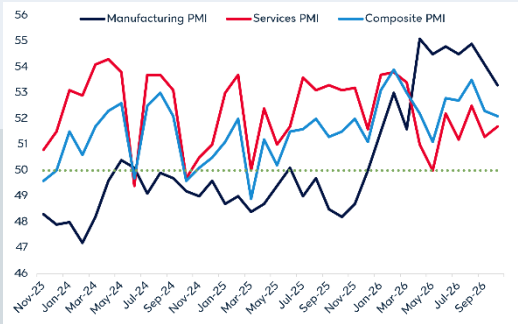
Source: Bloomberg, Eurobank Research

Japan

Activity gathers momentum, while inflation keeps the BoJ on a tightening path

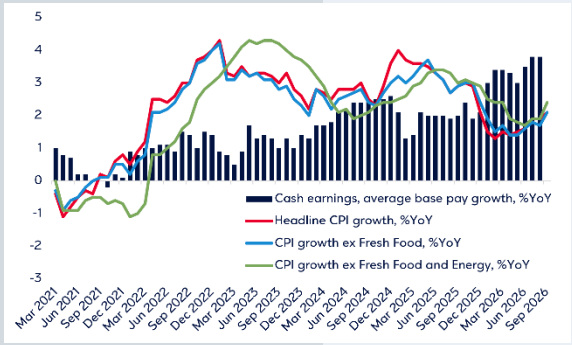
Japan's economy entered Q4 with firmer production and business activity, although household demand remained uneven. Industrial production rebounded by 2.2%MoM in September after falling 2.4%MoM in August, exceeding expectations for a 1.2%MoM increase. The recovery was also visible in survey data: the manufacturing PMI stood at 53.3 in October, down 0.8pts but still comfortably in expansionary territory, while the services PMI rose to 51.7 from 51.3. Core machinery orders provided an additional positive signal, increasing by 5.2%MoM and 18.6%YoY in August. These indicators suggest that external and investment-related demand, including AI-related demand, is offsetting some of the pressure from elevated energy and raw-material costs. The consumer picture was less convincing. Retail sales fell by 0.7%MoM in September and increased by only 2.3%YoY, below the 3.3%YoY consensus estimate. Nevertheless, labour-market conditions remained tight: the unemployment rate edged down to 2.4%, while the job-to-applicant ratio rose to 1.19. Labour cash earnings increased by 3.8%YoY in August, although this marked a slowdown from 4.7%YoY in July. The combination of persistent labour shortages and positive nominal wage growth should support consumption, but the recovery in real purchasing power is likely to remain gradual as price pressures strengthen. Inflation has started to reaccelerate. National headline and core CPI inflation both rose to 2.1%YoY in September, from 1.9%YoY and 1.7%YoY, respectively, in August. More timely Tokyo data showed headline inflation increasing further to 2.8%YoY in October from 2.7%YoY, while inflation excluding fresh food stood at 2.6%YoY. The Bank of Japan expects core inflation to move further above 2%, reflecting higher oil prices, earlier yen depreciation and the continued pass-through of wage increases into selling prices. It now judges underlying inflation to be broadly consistent with its 2% target, with risks to the inflation outlook skewed to the upside. Against this backdrop, the Bank of Japan left its policy rate unchanged at 1.25% at its October 30 policy meeting. The pause does not signal the end of policy normalisation. With activity indicators improving and underlying inflation around target, swap market pricing implies a 79% probability of a 25bp rate hike in December, with such an increase fully priced in by the central bank's January meeting, and a terminal rate of around 2%. Growth should remain moderate for the remainder of 2026, supported by accommodative financial conditions, government measures and AI-related demand.

Figure 15: PMI survey data shows Japan's economy is comfortably expanding



Source: Bloomberg, Eurobank Research

Figure 16: Inflation has reaccelerated in recent months as price pressure builds



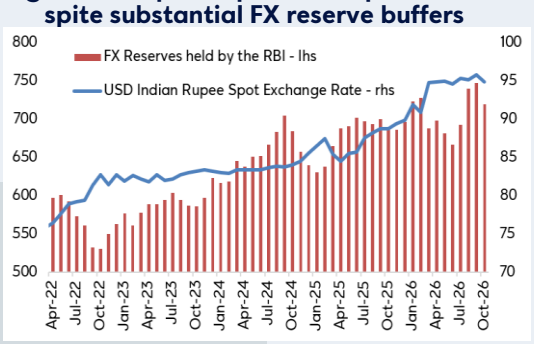
Source: Bloomberg, Eurobank Research

India

Growth resilience tested by inflation and tighter monetary conditions

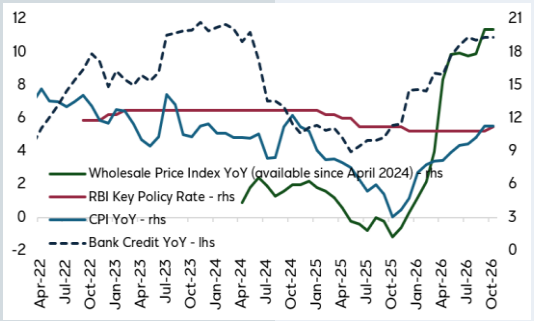
The economy continues to demonstrate considerable resilience, although rising inflationary pressures, tighter monetary conditions and external vulnerabilities are increasingly complicating the macroeconomic outlook. Real GDP growth is projected to remain close to or slightly above 7% in FY2026/27 and FY2027/28, underpinned by robust industrial activity, particularly in manufacturing and capital goods, sustained momentum in the services sector and strong bank credit growth. These developments point to continued strength in underlying economic activity, even as the macroeconomic environment becomes increasingly challenging. Inflation, however, has emerged as a more immediate concern. Headline CPI inflation accelerated to 5.54% YoY in September, driven primarily by higher vegetable prices and unfavourable base effects, with a further increase towards 6% anticipated in Q4 2026. Against this backdrop, the Reserve Bank of India (RBI) raised its policy repo rate by 25bps to 5.50% in October, signalling a shift towards calibrated monetary tightening. Further increases are anticipated, potentially bringing the policy rate close to 6% by Q1 2027. Persistent food price pressures, elevated energy costs and rising household inflation expectations could complicate the disinflation process, despite relatively contained core inflation, highlighting the increasingly delicate balance between containing price pressures and sustaining growth momentum. External developments add another layer of complexity. The Indian rupee remains under depreciation pressure amid foreign portfolio equity outflows, elevated oil prices and relatively narrow interest rate differentials. RBI intervention and measures aimed at containing onshore dollar demand have contributed to a decline in foreign exchange reserves from their September peak, although reserve buffers remain substantial. Continued currency weakness could further amplify imported inflation pressures, particularly through India's energy import bill. On the fiscal front, the central government is expected to meet its FY2026/27 deficit target of 4.3% of GDP. Nevertheless, higher energy-related expenditure and prospective public-sector wage adjustments could constrain the scope for further fiscal consolidation. Over the medium term, infrastructure investment, manufacturing incentives, labour market reforms and deeper trade integration should continue to underpin productivity gains and competitiveness. Overall, India's growth outlook remains favourable, but persistent inflationary and external pressures are increasingly testing the sustainability of its domestic demand-led expansion.

Figure 17: Rupee depreciation persists despite substantial FX reserve buffers



Source: RBI, Bloomberg, Eurobank Research

Figure 18: Inflationary pressures surge alongside sustained credit expansion



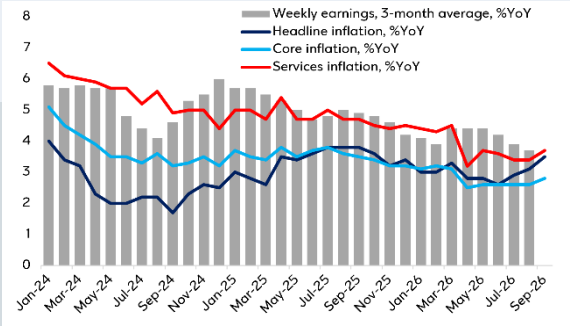
Source: RBI, Eurobank Research

UK

Firm activity growth meets a renewed energy shock; BoE starts tightening

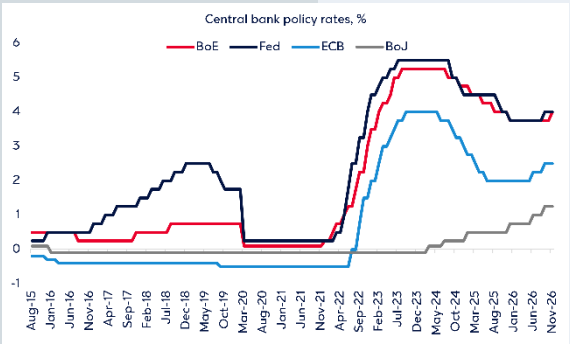
The UK economy entered Q4 with firmer momentum than expected, but the renewed energy shock has materially worsened the inflation and household-income outlook. The composite PMI remained expansionary at 52.9 in October, with both services and manufacturing recording readings of 52.8. Industrial production also surprised positively in August, rising by 0.8%MoM, while manufacturing output increased by 1.2%MoM. However, the recovery remains uneven: the construction PMI fell to 43.6 in October, mortgage approvals declined to 53.4k in September and consumer confidence dropped sharply to -24. Retail sales fell by 0.4%MoM in September, reversing part of August's 0.7%MoM increase, while sales excluding automotive fuel declined by a sharper 0.7%MoM. Wage growth eased 0.2ppts to 3.7%YoY in the three months to August, while unemployment declined to 4.7% from 4.9%. This combination still provides some support to consumption, but higher energy costs, tighter monetary conditions and weak confidence are likely to restrain spending over the coming quarters. Headline CPI inflation accelerated by 0.4ppts to 3.5%YoY in September, exceeding expectations, while core inflation rose to 2.8%YoY from 2.6%YoY. The October Budget sought to cushion the energy-price shock through household support, temporarily lower VAT on electricity and an extension of the fuel-duty cut. The Office for Budget Responsibility raised its 2026 GDP growth forecast by 0.1ppts to 1.2%, reflecting stronger activity during the year, but reduced its 2027 forecast by 0.5ppts to 1.0% as higher inflation erodes real incomes and weighs on consumption and investment. Against this backdrop, the BoE raised Bank Rate by 25bps to 4.00% on 5 November, reversing the direction of the previous easing cycle. The central bank expects inflation to approach 5% by mid-2027 and judged that stronger-than-expected activity had increased the risk of higher energy costs feeding into wages and firms' pricing behaviour. Governor Andrew Bailey suggested that more hikes could follow, with markets pricing in a 55% probability of another 25bp increase at the December meeting. Nevertheless, the BoE stressed that policy is not on a preset path and that evidence of second-round effects remains limited. With real earnings at risk of stagnating in 2027 and monetary policy turning tighter, growth is likely to slow materially next year.

Figure 19: As wage growth slows, real incomes could be squeezed in 2027



Source: ONS, Bloomberg, Eurobank Research

Figure 20: The BoE in November followed other major central banks by hiking rates



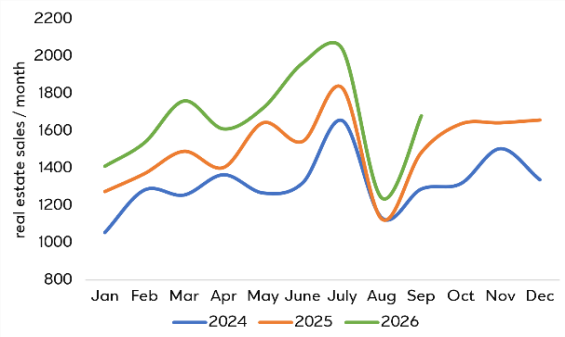
Source: Bloomberg, Eurobank Research

Cyprus

Economic activity shows resilience amid renewed inflation pressures

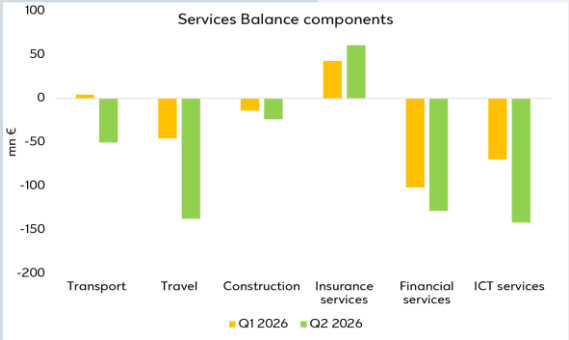
There were encouraging signs for GDP dynamics in Q3 from short-term indicators of economic activity. De-spite rising headline inflation, reaching 5.2%YoY in August - September from 4.1% in June, retail trade volume increased by an average of 7.9%YoY, accel-erating from 5.3%YoY in Q2. The improvement was likely supported by improving labour market condi-tions, as growth in registered unemployment moderated to 7.3%YoY in Q3 from 9.3%YoY in the previous quarter. Although inflation accelerated slightly further in October, to 5.4%YoY, the inflation-relief measures introduced by the government at the beginning of the month (zero VAT rate on a broader range of products until May 2027, reduction in the excise duty on heating oil, a one-off €200 payment to vulnerable households etc.), are expected to mitigate the impact of higher prices on real disposable income. Together with strong employment conditions, these measures should support household consumption during the remainder of 2026. On the investment side, robust real estate sales growth continued in July-August, albeit at a somewhat slower pace than in Q2 (+11.7%YoY vs. +15.4%YoY). The moderation primarily reflected weaker growth in purchases by foreign buy-ers (+15.8%YoY after +22.7%YoY), while growth in domestic demand eased more modestly (+8.8%YoY from +11.0%YoY). This slowdown may partly reflect the sharp increase in residential property prices in Q2 (+8.5%YoY), which pushed the relevant price index to a new all-time high. Nevertheless, the sustained ex-pansion in real estate activity should continue to support housing construction and supply, which in turn could gradually moderate property price growth. As highlighted in previous issues, investment growth in H2 2026 should also benefit from favourable base effects, particularly in intellectual property rights. Turning to the external sector, tourist arrivals ex-ceeded their year-earlier level in September for the first time since the outbreak of the US-Iran conflict (+1.8%YoY). As a result, arrivals declined by only 0.9%YoY in Q3 – the peak of the tourism season – narrowing the cumulative decline during the first nine months of 2026 to 5.6%YoY. However, Q2 current account data point to a significant deterioration in net receipts from other services sectors compared with a year earlier, including transport (-25.0%YoY), financial services (-20.2%YoY) and ICT services (-17.9%YoY). On the goods side, preliminary data from the Statistical Service point to a marked improvement, with the trade deficit narrowing by 27.5%YoY in July-August.

Figure 21: Real estate sales volume steadily above 2025, towards a new all-time high



Source: Ministry of Interior, Eurobank Research

Figure 22: Q2 saw a strong deterioration in most services sectors' trade balances



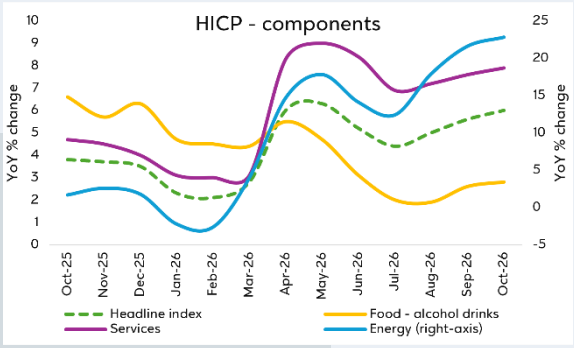
Source: Central Bank of Cyprus, Eurobank Research

Bulgaria

Energy drives inflation higher, as labour market signals soften

Based on the flash estimate, headline inflation accelerated to 6.0%YoY in October from 5.6%YoY in September, returning to the pace recorded in April. There are, however, important qualitative differences between the two inflation prints. The October reading primarily reflects exceptionally strong energy price pressures, with energy inflation reaching 22.8%YoY, 8.1ppts higher than six months earlier. By contrast, services inflation was slightly lower than in April (7.9%YoY compared with 8.3%YoY), while food inflation was substantially weaker (2.8%YoY vs. 5.5%YoY). These developments suggest that second-round effects have so far remained relatively contained. Nevertheless, persistently high global energy prices are expected to sustain elevated energy inflation in the coming months and gradually increase cost pressures across other consumer goods and services. Recent inflation dynamics are broadly consistent with our assessment of the September inflation-relief measures in the previous issue. These interventions are primarily aimed at cushioning the impact of higher energy costs on households' real disposable income, for example through direct subsidies, rather than materially reducing headline inflation. Meanwhile, consumer credit growth accelerated further in Q3, averaging 15.8%YoY, its strongest pace in 7.5 years, and should continue to support household spending.

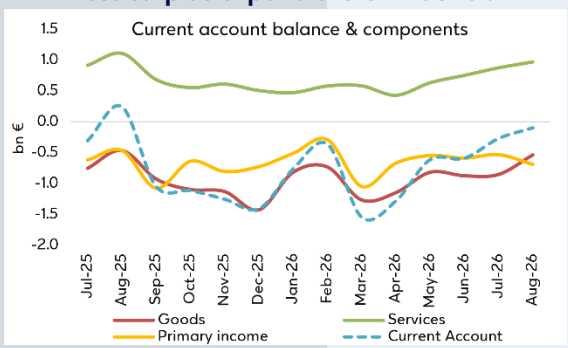
Figure 23: Energy drives the new inflation spike, second-round effects remain contained



Source: Bulgarian National Bank, Eurobank Research

On the other hand, registered unemployment increased by 0.4ppts on an annual basis in September, the largest YtD increase, reaching 5.4% and bringing the average Q3 rise to 0.3ppts. This deterioration in labour market conditions represents a downside risk to the household consumption outlook. The latest short-term activity indicators suggest that household spending growth moderated somewhat in Q3 compared with the previous quarter. Retail trade volume increased by 6.4%YoY in July-August, down from 7.3%YoY in Q2. Strong credit expansion continues to provide support also to investment activity. Lending to non-financial corporations accelerated to 16.8%YoY in Q3, its strongest pace in 17 years, while mortgage lending remained close to multi-year highs, expanding by 25.2%YoY. The latter trend is reflected in sustained construction output growth in July-August, by 4.7%YoY, moderately below the 5.5%YoY average in H1 2026. However, the strength of both consumption and investment continues to fuel goods imports, deteriorating the goods - services balance (July-August surplus: -43.4%YoY).

Figure 24: Higher goods deficit, smaller services surplus expand the CAB deficit



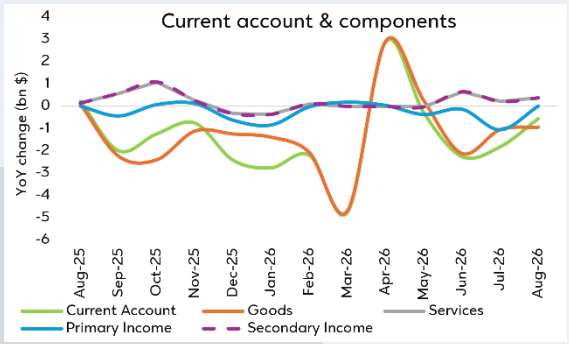
Source: Bulgarian National Bank, Eurobank Research

Turkey

Softer domestic demand supports disinflation; external balance weakens

The headline inflation slowdown to 29.7%YoY in September from 31.5%YoY in the previous month, falling below the 31-33% range for the first time in 15 months, was the main driver of the key policy rate cut by the central bank of Turkey (TCMB) on 23 October, by 100bps, to 35%. In its accompanying statement the TCMB reiterated that the underlying trend of inflation, as captured by seasonally adjusted monthly price dynamics, was moderating. Unlike in previous rate-setting meetings, recent data provide support for this assessment, with the underlying inflation slowing to 1.6% in September, a 10-month low pace.

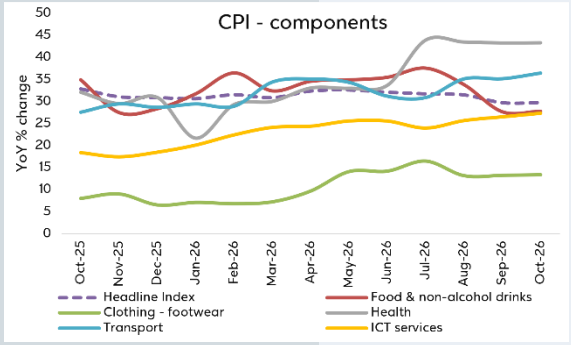
Figure 25: The goods balance deterioration mainly drives the current account worsening



Source: Central Bank of Turkey, Eurobank Research

Recent activity indicators also support the TCMB's assessment that domestic demand has weakened and is increasingly contributing to the disinflation process. Most notably, the seasonally adjusted volume of wholesale-retail trade recorded either marginal annual growth or outright contractions during May-August, a pattern not observed since Q1 2022. Nevertheless, other factors, particularly the impact of geopolitical developments on energy prices, could sustain or even intensify inflationary pressures in the coming months. This was already evident in October, when headline inflation remained broadly unchanged at 29.8%YoY. Higher inflation in transport and electricity, reflecting elevated energy product prices, together with stronger telecommunications inflation, offset stable or moderating price pressures across the other expenditure categories. In contrast to previous years, the increase in unemployment in Q3 by 0.2ppt, to 8.2%, represents an additional downside risk to the outlook for household consumption. Regarding short-term trends related to investment, construction output, which drove GDP growth in 2025, increased modestly by 1.8%YoY in August after contracting by an average of 3.5%YoY during the previous three months. Nevertheless, the August outturn was considerably weaker than the 4.3%YoY expansion recorded in Q1 2026 and, particularly, the 15.6%YoY increase in August 2025. In principle, weaker domestic demand, combined with the continued depreciation of the lira, should restrain imports and support an improvement in the external balance, while greater price competitiveness should support exports. However, Q3 data point to somewhat different developments. The combined goods and services balance deteriorated by 14.3%YoY in July-August, driven primarily by an 8.4%YoY increase in goods imports. Goods exports also strengthened, rising by 5.4%YoY, but this improvement was insufficient to offset the increase in imports.

Figure 26: High inflation is sustained by war tensions through fuel prices and clothing



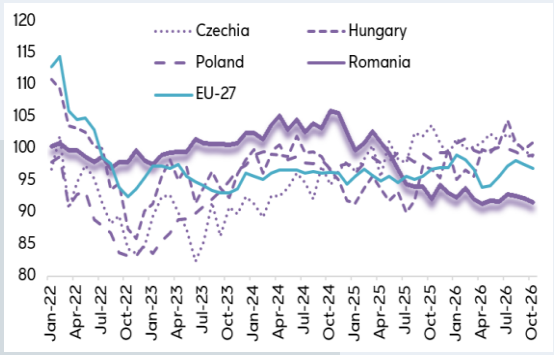
Source: Turkstat, Eurobank Research

CESEE

Slowing growth momentum coupled with political and geopolitical uncertainty

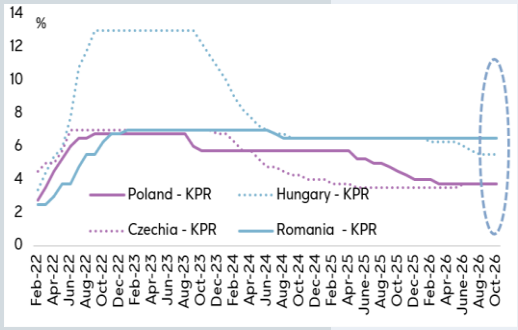
Regional economies continue to exhibit divergent growth dynamics, with domestic demand providing support but industrial weakness, renewed inflationary pressures and political uncertainty weighing on the outlook. Recent indicators suggest moderating economic momentum rather than a broad-based downturn, while political developments have increased uncertainty over policy implementation and medium-term growth prospects. Preliminary Q3 GDP estimates indicate slowing activity in Central Europe. In Czechia, annual growth eased to 1.6%, from 1.8% in Q2, supported by consumption and net exports, while investment remained weak. Hungary's growth moderated to 1.5% YoY, with quarterly expansion slowing to 0.1%. Poland remains relatively resilient, supported by real income gains and consumption, although its preliminary Q3 GDP estimate remains pending. Renewed inflationary pressures complicate monetary policy, potentially limiting further easing. Romania remains particularly vulnerable as fiscal consolidation constrains economic activity. Despite a narrowing budget deficit in the first nine months of 2026, official forecasts were revised to -0.4% growth and 6.4% inflation for 2026. October's minority government formation ended a prolonged political impasse but left uncertainty over support for sustained fiscal adjustment. Institutional tensions in Poland, Slovakia and Czechia could also complicate policymaking. In Serbia, the student-backed opposition's electoral victory on 25 October signals a major political transition. Stronger institutional accountability could eventually improve the investment environment, but uncertainty surrounds government formation, policy continuity and external orientation. Geopolitical risks remain significant. The prolonged Russia–Ukraine war continues to generate security, energy and fiscal pressures, while reported attacks on commercial shipping in the western Black Sea raise concerns over regional trade disruptions and higher transport and insurance costs. Overall, the convergence of softer growth momentum, renewed inflation risks and increased political uncertainty reinforces differences in economic resilience and policy capacity across CESEE, rather than signalling a uniform regional crisis.

Figure 27: Economic sentiment remains uneven across the region



Source: Eurostat, Eurobank Research

Figure 28: Monetary policy paths remain similarly divergent



Source: Bloomberg, 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)		
	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f	2025	2026f	2027f
World	3.5	3.1	3.4	4.1	4.7	4.1									
Advanced Economies															
USA	2.3	2.3	2.2	2.7	3.3	2.7	4.3	4.2	4.2	-3.8	-3.2	-3.4	-5.9	-6.3	-6.4
Eurozone	1.2	1.0	1.3	2.1	3.0	2.6	6.3	6.4	6.2	1.7	1.5	1.6	-3.0	-3.5	-3.5
Germany	0.2	1.0	1.1	2.3	2.8	2.6	6.3	6.4	6.2	4.4	4.3	3.8	-2.9	-3.9	-4.2
France	0.8	0.5	0.8	0.9	2.4	2.2	7.7	8.3	8.3	-0.3	-0.4	-0.2	-5.1	-5.4	-5.3
Periphery															
Cyprus	4.8	3.4	3.6	0.8	4.1	3.7	4.4	3.7	3.5	-8.8	-10.5	-9.0	3.6	4.2	3.5
Italy	0.6	0.9	0.7	1.6	3.1	2.5	6.0	5.6	5.8	0.7	0.6	0.4	-3.1	-3.0	-3.0
Portugal	1.9	2.1	1.8	2.2	3.0	2.3	6.0	5.8	5.7	1.2	0.3	0.5	0.7	-0.1	-0.3
Spain	2.6	2.6	2.1	2.7	3.8	3.0	10.5	10.1	9.7	3.2	2.2	2.0	-2.4	-2.4	-2.4
UK	1.2	1.3	1.2	3.4	3.2	3.1	4.8	5.0	5.1	-3.0	-3.0	-3.1	-5.0	-3.9	-3.5
Japan	1.2	0.8	0.8	3.2	1.9	2.1	2.5	2.5	2.5	4.8	4.8	4.6	-2.0	-2.3	-2.6
Emerging Economies															
BRIC															
Brazil	2.3	1.9	1.5	5.0	4.5	4.4	6.0	5.6	6.0	-3.0	-2.4	-2.3	-8.3	-8.9	-8.5
China	5.0	4.6	4.4	0.1	1.1	1.1	5.2	5.1	5.0	3.8	3.6	3.4	-5.1	-5.4	-5.5
India	7.8	7.1	7.0	2.2	5.1	4.6	4.9	4.9	4.9	-0.5	-1.4	-1.1	-4.5	-4.4	-4.2
Russia	1.0	0.8	1.1	8.7	6.2	5.5	2.2	2.4	2.7	1.5	2.5	1.8	-2.6	-3.0	-2.4
CESEE															
Bulgaria	3.0	2.7	3.0	3.5	4.9	3.4	3.5	3.6	3.8	-5.7	-8.4	-6.3	-4.0	-5.0	-3.8
Turkey	3.6	2.3	3.0	35.2	31.2	23.0	8.4	8.1	7.8	-1.4	-2.8	-2.4	-2.9	-3.6	-3.3

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

Eurobank Fixed Income Forecasts

	Current	December 2026	March 2027	June 2027	September 2027
USA					
Fed Funds Rate	3.75-4%	4-4.25%	4.09-4.33%	4.08-4.32%	4-4.25%
3m SOFR	4.05%	4.16%	4.23%	4.25%	4.19%
2yr Notes	4.62%	4.63%	4.58%	4.51%	4.41%
10yr Bonds	4.95%	5.02%	5.01%	4.96%	4.89%
Eurozone					
Refi Rate	2.65%	2.89%	2.98%	2.97%	2.92%
3m Euribor	2.75%	2.8%	2.89%	2.88%	2.84%
2yr Bunds	3.06%	3.05%	3.04%	2.94%	2.77%
10yr Bunds	3.32%	3.4%	3.37%	3.31%	3.21%
UK					
Repo Rate	3.75%	3.98%	4.14%	4.11%	4.06%
3m Sonia	4.03%	4.02%	4.09%	4.03%	3.94%
10-yr Gilt	5.2%	5.23%	5.19%	5.06%	4.92%
Switzerland					
3m Saron	-0.03%	-0.01%	0.12%	0.30%	0.37%
10yr Bond	0.47%	0.56%	0.64%	0.68%	0.71%

Source: Bloomberg (market implied forecasts)

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