WORLD

MACRO-ECONOMIC SCENARIO 2026-2027

Quarterly – June 2026

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Another highly contingent scenario

First, we must make assumptions about the conflict in the Persian Gulf, which in turn shape the energy price scenario that feeds into inflation forecasts; then we must assess any second-round effects; and finally, we must map out growth trajectories.

Upstream, therefore, in the Middle East, a diplomatic window has opened (or perhaps it would be more accurate to say it has been left ajar). The memorandum of understanding recently signed between the US and Iran has fuelled hopes of a détente in the Strait of Hormuz, or even the immediate and complete reopening of this strategic waterway. **Our scenario aims to be 'realistic' – and therefore cautious – just as players in the maritime sector, shipowners and insurers will be and rules out a rapid 'return to normal'.** The resumption of maritime traffic will be only gradual; oil infrastructure in the Gulf will ramp up production gradually, with the exception of a few heavily damaged complexes. Given the low level of oil stocks, this only partial easing of tensions justifies oil prices remaining high during H226, before falling in 2027, while remaining above their pre-war levels. For global gas markets, even an incomplete reopening of the Strait of Hormuz is also welcome, given that European natural gas stocks are currently lower than those seen during the 2022 energy crisis.

In short, **even assuming a lull in which energy prices fall but remain high, causing an inflationary shock with limited impact, the costs in terms of growth are, unsurprisingly, very uneven: due to energy prices, but not solely so**.

The US economy has thus weathered the shock caused by the war in Iran well. The **us** is now a net energy exporter and is set to benefit from a positive correlation between oil prices and growth in non-residential fixed investment. While household finances remain extremely sound and investment spending on AI continues to point to another strong year for non-residential investment, fiscal policy is providing support, with the entry into force of the "One Big Beautiful Bill", notably through tax rebates. Although wage growth has moderated, the labour market remains resilient and the pace of job creation is expected to remain high enough to keep the unemployment rate around its current level of 4.3%. Inflation appears to have peaked, and second-round effects, particularly evident in core inflation, are expected to remain contained. Inflation is therefore expected to stand at around 3.5% by the end of 2026, then 2.5% by the end of 2027. As for core inflation, which is expected to hover around 2.9% at the turn of 2026-27, it is also forecast to end 2027 at around 2.5%. Pockets of vulnerability remain but appear to be confined to low-income households and small businesses; they are unlikely to spread to the wider economy. The 2.1% growth forecast for 2026 would therefore match that of 2025, before experiencing a slight slowdown in 2027, while maintaining a sustained pace (1.9%).

> ***Even assuming a lull in which energy prices fall but remain high, causing an inflationary shock with limited impact, the costs in terms of growth are, unsurprisingly, very uneven: due to energy prices, but not solely so.***

In the **euro area**, the inflationary spell is undermining growth prospects to a greater extent than those of its closest competitors. Factors contributing to a loss of competitiveness are mounting. Weak net external demand is eroding growth, while domestic drivers are faltering, even before the negative impact of the war in the Persian Gulf has had a chance to take effect and without taking exceptional factors into account. Overall, in Q1, a slowdown in household consumption, a decline in investment, a contraction in exports after the boost provided by the anticipation of US tariffs and resilient imports – despite subdued domestic demand – combined to result in weak growth (0.3% QoQ, excluding Ireland). Indicators suggest that the economic downturn is slowing, consistent with a stabilisation of GDP in Q2. Despite weak QoQ growth until the end of the year, the high level of growth carry-over gives grounds for hope of a growth rate (excluding Ireland) of 0.8% in 2026. The euro area would thus avoid a recession, thanks to relatively robust fundamentals and a temporary inflationary shock. Headline and core inflation rates are expected to approach 3.0% and 2.5% respectively by end-2026, before both converging towards 2.2% by end-2027, a year in which, due to a normalisation without any significant rebound, growth is not expected to exceed 0.9%.

The scenario therefore assumes a substantial inflationary shock, but one that stays contained, as second-round effects would be very limited and inflation expectations would remain anchored. **Against a backdrop of high uncertainty, central banks should nevertheless remain vigilant to ensure that core inflation does not spiral out of control**. **The Fed** is expected to remain on hold throughout 2026, ending the year with the upper bound of the Fed funds rate range at 3.75%. As inflation slows more markedly, it would make a final cut in Q227, resulting in a terminal rate of 3.50%. However, there is now a clear upside risk to this baseline status quo scenario, with a non-negligible possibility that the next move will in fact be a rate hike. As for **the ECB**, having raised its interest rates by 25bp on 11 June (deposit rate to 2.25%), its flexible approach – with no commitment to a predetermined path of rate hikes – reflects the high level of uncertainty surrounding the outlook for both inflation and growth. The ECB could raise its rates twice more this year. However, the tightening could be limited to a single hike, bringing the deposit rate to 2.50 per cent, should energy prices ease significantly.

Inflation, which is evident but also anticipated by the markets, has already led to a significant rise in interest rates. Our ‘imperfect normalisation’ scenario assumes that energy prices do not hinder a decline in inflation followed by monetary easing (albeit in the distant future). **In this context, interest rates (swaps) could begin to trend cautiously lower. A little patience will therefore be required**. In the **US**, following a significant rise in the term premium and once the peak forecast for this summer has passed, 10Y US Treasury yields are expected to approach 4.55% by year-end. In the **euro area**, the German 10Y Bund yield is expected to rise, peaking at 3.20% in December 2026, which would prevent French and Italian yields from rising significantly above 4.00%.

Finally, on the foreign exchange front, hopes of a de-escalation of hostilities in the Persian Gulf have helped to boost risk appetite. Assuming a lull – however precarious – in the Middle East, fundamentals should once again drive currency movements. However, **a comparison of economic performance between the US and ‘old Europe’ does not favour the EUR,** which is expected to depreciate, with EUR/USD falling to around 1.13 by end-2026.

Catherine LEBOUGRE

FOCUS – Geopolitics – The new rules of the game

Much that was once settled is now in flux. The Middle East, Ukraine, Taiwan, critical resources and the search for new overland trade routes are no longer separate issues. They all form part of the same broader dynamic: stakeholders are testing the limits of the United States' guarantee, freedom of the seas, frictionless globalisation and technological safeguards. The priority is no longer to predict a single price but to develop multiple stress scenarios covering logistics, insurance, commodities, domestic politics and so on. The era of maximum efficiency and tight value chains is giving way to one of strategic stockpiles and resilience.

A diplomatic window has opened, but the opportunity it represents remains fragile: Washington and Tehran now have a shared interest in turning their MoU into a robust peace agreement, while Israel appears isolated. However, this window should not be mistaken for a return to normality: the ongoing disruption to energy, freight, insurance, fertilisers and so on calls for a careful reading of both prices and volumes. In reality, the situation needs to be analysed not through a binary lens of war vs. peace but through a temporal one: easing tensions in the short term, reconfigured regional power relations in the medium term and a reshaped global strategic order in the long term. And all of this has economic ramifications, both directly through shocks and indirectly through broader realignments.

In the near term, the deal reduces the risk of energy shortages. However, while the drop in oil prices following the announcement of the MoU reflects expectations that supply will come back on stream, it does not mean the risk has gone away. Nevertheless, the agreement to come opens up the possibility of a major break with the status quo: Iran's potential reintegration into the global economy thanks to a USD300 billion reconstruction and development fund, the lifting of sanctions, the partial release of frozen assets, and so on. At the very least, this scenario – however it may be spun – represents a failure by the US. Above all, it confirms that the new geo-economic cycle will be based on a core tenet of geopolitical realism: states do not have friends but allies of circumstance. Ultimately, it is power relations that determine the direction of travel. Farewell to the geopolitics of human rights.

Beware of cornered actors who believe their very survival is at stake: "Never put your enemy with their back against the wall".

The dynamics of domestic US politics partly explain these events and will continue to play a major role in shaping how the scenario unfolds. In fact, the war against Iran has highlighted a rare degree of weariness in the United States: according to Pew, around six out of every ten Americans think the use of force against Iran was a bad idea. This pressure has materialised in Congress, with four Republican senators voting alongside Democrats. More significantly, the US's alliance with Israel is entering into a phase of misalignment. The two countries may not yet have reached a historic breaking point, but that may not be far off. In any event, automatic support for Israel is a thing of the past: Gaza had already weakened the moral consensus – In July 2025, Gallup found that only 32% of Americans approved of Israeli military action; Iran and Lebanon have shifted the focus from moral considerations to strategic ones. For Washington, supporting Israel no longer means following Israel. This is a key turning point in the global scenario.

It is also where the main risk lies for the months ahead. Israel is disputing some of the terms of the arrangement, which affect Lebanon and the operational survival of Hezbollah. This means electoral dynamics in Israel are now central: if Benjamin Netanyahu is still in a weakened state at the approach of the autumn elections, he might be tempted to resort to military escalation. If a US-Iran deal ultimately comes to fruition, that in itself could give rise to a dangerous situation, as sidelined actors seek to derail the emerging compromise.

The Iranians have a rational interest in negotiating a deal. The regime has secured significant gains: it has demonstrated its ability to paralyse a global chokepoint, impose a cost on the Gulf's major hubs, secure the prospect of sanctions being lifted and bring the issue of its sovereignty back to centre stage. The most sensitive aspects of the deal are the nuclear issue and the wording around Hormuz, which, for the time being, points towards recognising Iran's role in the security of the Strait. However, much will depend on the details: this issue has global ramifications, affecting the future – and potentially the emerging architecture – of freedom of navigation, the foundation of the wave of globalisation we have just lived through.

The real lesson? The power of asymmetric warfare

This asymmetric war has thus borne out an ancient intuition: inexpensive methods can disrupt sophisticated architectures – missile shields, shipping insurance, aviation hubs, energy supply chains. The age-old dialectic of the sword and shield remains powerful: every improvement in defensive systems creates an incentive to seek out weaknesses, find ways around them or simply overwhelm them. And globalisation has only reinforced this logic: what matters more than physical destruction is insurability. A strait does not have to be closed to become economically unviable.

Taking a medium-term view, the strategic landscape of the Middle East has changed. Saudi Arabia is likely to emerge stronger: The East-West Crude Oil Pipeline has reduced its reliance on the Strait of Hormuz, giving it more room to assert its regional leadership relative to the United Arab Emirates, which has been hit harder, is closer to Israel and has a more vulnerable economic model. In reality, though, what is emerging most clearly is a pattern of multi-alignment across the region as a whole: Riyadh, Abu Dhabi, Doha and Muscat are not picking sides; they are trying to find a balance between United States' security, their proximity to Iran, Asian capital and regional autonomy.

Among the United States' allies, the deal with Iran is strengthening the perception that an era of hegemony is drawing to a close: the promise of US protection no longer seems as dependable as it once did. Against this backdrop, Japan is asserting its ambition to play a key role in regional security. Not least because, according to the ISEAS – Yusof Ishak Institute's 2026 survey, Japan enjoys the highest level of trust among ASEAN respondents, at 65.6%, ahead of the European Union, the United States and China. At the same time, though, tensions between Beijing and Tokyo are mounting as Japan asserts its strategic role… In reality, Europe, India, South Korea, Australia, the Gulf monarchies and the ASEAN countries are all moving in the same direction: away from reliance on a single security guarantor.

Competition is also shifting to alternative routes. Tangier Med, East Africa's ports, the Middle Corridor via Azerbaijan and Kazakhstan, trans-Caspian links and, in the longer term, the Arctic are all gaining in strategic importance. While none of these routes can replace the Strait of Hormuz or the Strait of Malacca, each reduces dependence at the margin. And in a fragmented world, these kinds of incremental gains take on particular importance.

Lastly, the Iran situation is also reshaping developments elsewhere. The G7 has linked détente with Iran to increased pressure on Moscow, and the US seems to be coming around to this way of thinking: an important development if confirmed. At the same time, Ukraine's strikes on Russia underscore the effectiveness of asymmetric warfare, widening the conflict to energy systems, logistics networks and the realm of public perceptions. But Russian policy means this is also a very dangerous phase: restoring nuclear deterrence is vital for Moscow. Let us not, however, forget that peace negotiations in territorial wars tend to follow a period of intensifying conflict as each side seeks to strengthen its hand before coming to the table.

In Asia, Taiwan and the South China Sea are thus becoming the ultimate test of the coherence of the global geopolitical order.

The meeting between Donald Trump and Xi Jinping maintained the United States stance of strategic ambiguity: Washington did not change its policy but Trump avoided saying whether he would defend Taiwan. Meanwhile, Beijing is ratcheting up the military pressure – blockade exercises near Taiwan and incidents around the Philippines – while intensifying a cognitive war that exploits Taiwan's political polarisation to advance a strategy of gradual absorption. The opposition KMT party is seeking to reassure Washington while maintaining an open channel to Beijing: its president has met with Xi. This is a worry for the US security community and remains a key issue in global geopolitics.

Tania SOLLOGOUB

DEVELOPED COUNTRIES
Another highly contingent scenario

USA – Maintaining resilience in the face of the iran war

Euro area – Normalisation rather than a rebound

United Kingdom – The energy crisis – a delayed impact

Japan – Takaichi administration's strategic investments through public-private partnerships help overcome structural economic stagnation

Developed Countries – Another highly contingent scenario

First, it is necessary to make assumptions about the conflict in the Middle East, as it shapes the energy price scenario which, in turn, feeds into inflation forecasts; then we must decide on possible second-round effects and, finally, draw growth profiles. In short, assuming a lull thanks to which energy prices fall but remain high, causing a shock and not an inflationary spiral, the price paid is very uneven: while growth is holding up in the US, it is weakening in the euro area.

USA: MAINTAINING RESILIENCE IN THE FACE OF THE IRAN WAR

Despite the shock from the Iran war following soon after last year's tariff shock, the US economy has remained remarkably resilient to this point, and we expect this resilience to largely persist. While the quarterly pace has seen some fluctuations due to noise from last year's government shutdown and momentum does seem to have taken a step down compared to the middle of 2025, we currently project annual average growth to come in at 2.1% in 2026, matching the 2025 pace, before a slight step down to a still solidly-positive pace of 1.9% in 2027.

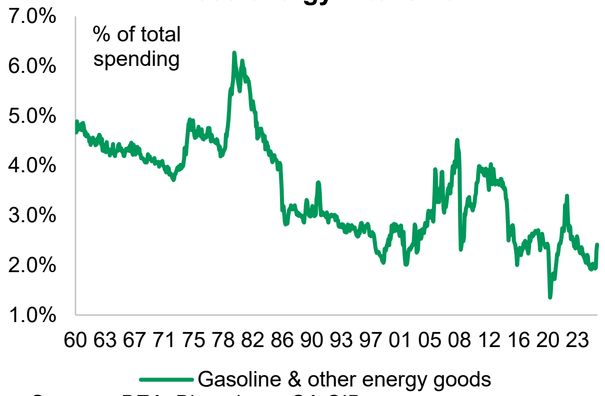
These forecasts are slightly down compared to our expectations entering the year, but little-changed from last quarter as downward revisions since the war started have been relatively modest. This comes down to the fact that we believe the US economy is less vulnerable to an oil price shock than many other countries currently and is less vulnerable than it was in prior decades. This largely comes down to two factors:

- ✓ **For one, US consumption has become much less energy-intensive over time.** For example, if we look at spending on gasoline & other energy goods as a percentage of total nominal spending, we can see a clear, if somewhat choppy, downward trend. In fact, this ratio had hovered in the 4-5% range for much of the 1970s before even spiking all the way towards 6% in 1980. More recently, however, it came down marginally below 2% prior to the breakout of war in the Middle East and has only risen to 2.4% after the recent price spike. As a result, while consumers will not be entirely immune, they should in general be less vulnerable, as a smaller portion of consumption would be directly impacted by any spike in oil prices.

- ✓ **Secondly, the US is now a net energy exporter, in stark contrast to the pre-GFC period**. The increasing importance of the energy industry means that higher oil prices can now provide a boost to structures investment, at least partially offsetting some of the negative impacts elsewhere. For example, the Kansas City Fed has published research[1] that even shows a positive correlation between oil prices and non-residential fixed investment growth.

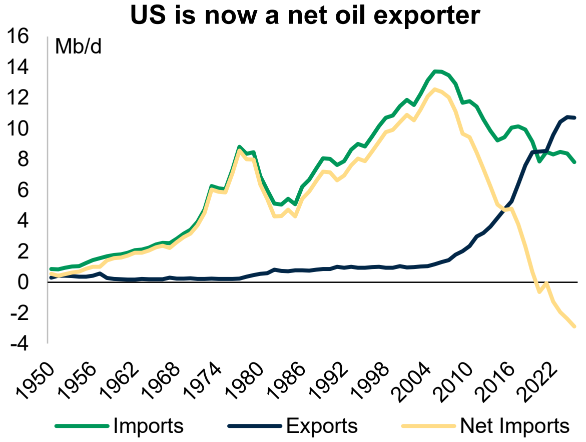
On top of the lessened vulnerability to an oil price shock, we continue to see a more constructive backdrop on the policy front, in line with our thoughts last year on policy sequencing. For example, while growth-negative tariffs were a key focus of the Trump administration in 2025, fiscal policy has begun to play a bigger role in 2026 as the Big, Beautiful Bill kicks in. In fact, tax refunds in 2026 have been running roughly USD50bn higher in 2026 than in 2025, providing some cushion to help offset the surge

US: consumption has become less energy intensive



Sources: BEA, Bloomberg, CA CIB

US is now a net oil exporter



Sources: EIA, CA CIB

[1] https://www.kansascityfed.org/research/economic-review/4q18-cakirmelek-response-us-investment-oil-price-shocks/

in gas prices, with this cushion possibly lasting into the summer.

Outside of policy changes, we would again highlight that household balance sheets remain extremely healthy, with overall net worth up by more than USD67trn compared to the pre-Covid period. Admittedly these are aggregate figures and not everyone is in good shape, but it does seem like pockets of weakness have been relatively concentrated among low-income households and small businesses rather than spread throughout the economy. Thus, our base case sees these K-shaped dynamics remaining contained rather than being severe enough to bring the overall economy down.

Another supportive factor that remains in place is the very strong AI capex cycle, which has played a key role in recent quarters. Here, the combination of investment in information process equipment and software contributing an average of around 0.8ppt to growth in the four quarters of 2025, and this was even stronger at more than 1.3ppt in Q126. **We are not convinced that the scorching pace seen in this most recent quarter will be maintained, but we do not expect AI investment to disappear entirely, contributing to another solid year for non-residential investment.**

The labour market has also shown clear signs of stabilisation in recent months, with the latest report even hinting at the possibility of some re-acceleration. For example, the three-month moving average of NFP surged to +188k as of May to hit its highest level since the spring of 2024. This is particularly impressive given a sharp decline in the breakeven pace due to shifts in immigration policy, which means that the economy does not have to create as many jobs to absorb new entrants as it did a couple of years ago.

We do think that the strength of the last couple of months may have been a bit exaggerated, with March boosted due to payback from a very weak February in which weather and strikes created a temporary drag and May possibly seeing some temporary boost from the World Cup. As such, we are not entirely convinced that the pace of job creation over these last few months will carry forward, though we still believe it will be strong enough to keep the unemployment rate hovering around the current level of 4.3% before ticking slightly lower as we head into 2027.

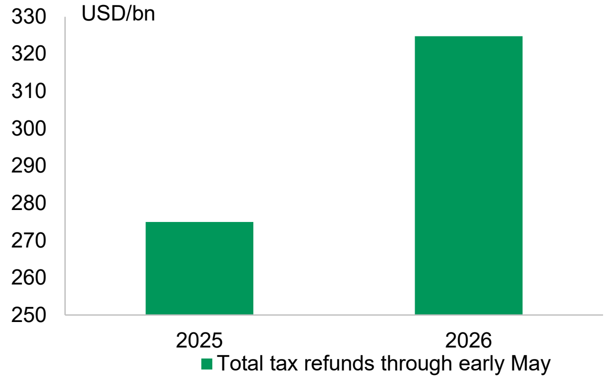
Wage growth has admittedly not been as strong, with average hourly earnings having dipped to 3.4% YoY as of May. This pace is still near the higher end of the pre-Covid range, but substantially down from the recent peak and below the 2025 average of closer to 4% as well. When combined with mostly solid productivity numbers, the Fed is expected to maintain its view that the labour market is not a major source of inflationary pressure at the moment, even with the clear improvement in NFP seen since last autumn.

Core inflation has been much better behaved, with few signs of any major second round effects.

Sticking with inflation, the spike in energy prices since the start of the Iran war has driven headline inflation much higher, with headline CPI accelerating to 4.2% in May from 2.4% in February, a nearly 2ppt increase in just three months. That said, core inflation has been much better behaved, with few signs of any major second round effects outside of airfares as YoY core CPI has ticked up to 2.9% as of May from 2.5% in February, and part of this increase is due to methodological decisions around the government shutdown.

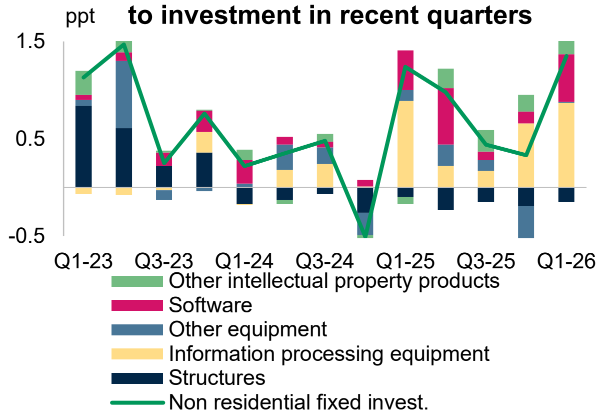
Annual change	2026	2027
GDP	2.1%	1.9%
Inflation	3.2%	2.3%

US: higher tax refunds help cushion the spike in gas prices



Sources: IRS, CA CIB

US: AI contributed strongly to investment in recent quarters



Sources: BEA, CA CIB

Going forward, we currently project that May was likely the peak for headline inflation and expect second round effects on core to remain fairly well contained. Specifically, we have headline CPI coming modestly down to the high-3% range for much of H226 followed by a sharper, base effects driven dip in Q227 before some bounce back to finish next year around 2.4%. For core, we currently see a roughly 2.6-2.9% range prevailing into Q127 before some modest decline later next year with core CPI also finishing 2027 around 2.4%.

Nicholas VAN NESS

EURO AREA: NORMALISATION RATHER THAN A REBOUND

Despite the signing of a memorandum of understanding that reduces the extreme risk posed by rising energy prices, the current upsurge in inflation is weighing more heavily on the Euro area's growth prospects than on those of its major competitors.

Factors contributing to a loss of competitiveness are mounting, and weak exports are increasingly eroding growth. However, **domestic demand is holding up**, supported by improvements in supply (the labour force and productivity) and a more balanced distribution of value added. Although benefiting less from the global investment supercycle, capital accumulation remains a driver of growth. With wages continuing to act as a disinflationary force, the supply shock is unlikely to result in persistent inflation and should allow growth to normalise at a pace slightly below potential.

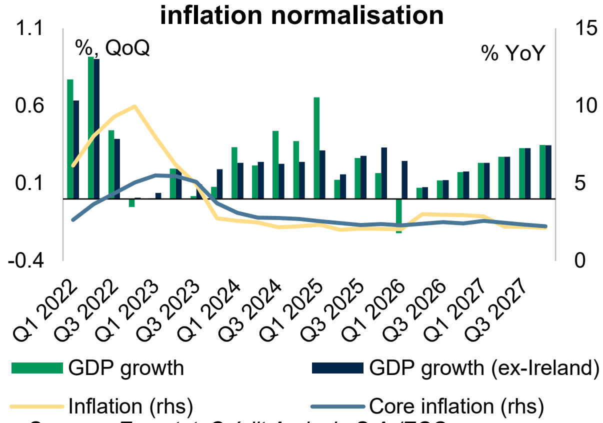
In the first quarter of 2026, growth proved resilient but was losing momentum

Against a backdrop of strong global growth underpinned by the manufacturing and investment supercycle in Asia – and revised upwards since last summer – growth in the Euro area had gradually strengthened following its slowdown from 2022 to 2024. It was primarily **the acceleration in domestic demand that gained momentum in the second half of 2025**, with this increase offsetting the negative contribution from net foreign demand. Indeed, since the tariff shock, net exports have reduced growth by an average of 0.3 points of percentage per quarter, in line with our forecasts of the impact of this shock. Growth in 2025 had therefore settled at a pace slightly below potential.

Buoyed by a well-advanced disinflation process, stabilised interest rates, a labour market that remained resilient and the sound economic and financial position of the non-financial private sector, the euro area was well placed to start the year on a positive note. Admittedly, firms had gradually reduced their abundant liquidity and were operating in an environment less favourable to their pricing power, but the slowdown in labour costs was limiting the erosion of margins. As for households, disinflation was restoring their purchasing power, even though past inflation had reduced the real value of the substantial savings accumulated during the post-pandemic period.

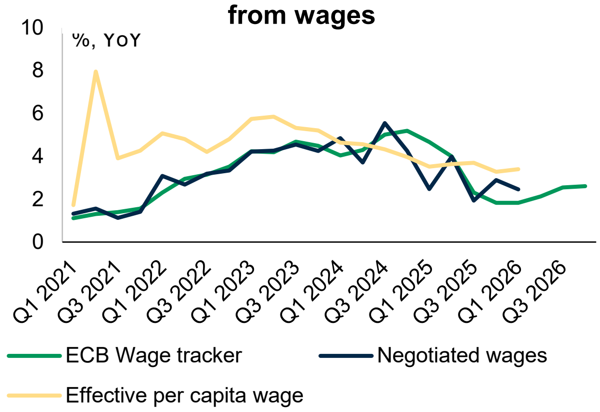
Indicators for the first quarter point to a loss of momentum, with growth nevertheless holding steady at a year on year rate of 1.0%. Excluding the distortion caused by Ireland's growth figure (-12.7% per cent)[2] , Euro area GDP growth stands at +0.3%, in line with our forecast from last March. Indeed, **growth proved stronger than expected in Germany, Italy (+0.3%) and Spain (+0.6%), offsetting the underperformance of the French economy (-0.1%).** Taking into account the dip at the start of the year due to Irish GDP, growth is negative (-0.2%) and the cumulative growth figure for 2026 is now just 0.1%, compared with 0.5% in our forecast last March.

Normalisation of growth after inflation normalisation



Sources: Eurostat, Crédit Agricole S.A./ECO

Euro area: a disinflationary pressure from wages



Sources: Eurostat, ECB, Crédit Agricole S.A./ECO

[2] The fall in GDP is attributable to a 27% decline in the output of multinational companies, which led to a 35% fall in value added in the manufacturing sector.

Excluding the Irish effect, the cumulative growth figure of 0.7% is more in line with economic activity expanding at a pace slightly below potential.

Excluding the exceptional factors that caused Euro area GDP to fall, and even before the negative impact of the war in the Persian Gulf had a chance to take effect, **the weakening of the drivers of growth is nevertheless evident**. In the first quarter, the slowdown in household consumption (+0.2% after +0.4% in the fourth quarter) affected all the major economies in the Euro area, with the exception of Italy. This slowdown is a cause for concern in Germany, where, following a recovery in 2025, the loss of momentum in private consumption was particularly marked (0.0% after 0.6% in in the fourth quarter): since 2019, it has grown by just 2.6%. In contrast, growth in public consumption remains robust, at +0.6% per quarter, driven by the acceleration in German spending that has been underway since last summer (+1.1% following +1.5% in in the last quarter of 2025). This rise is more modest elsewhere, and public consumption is even in decline in Italy. Investment declined in the Euro area (-0.3%), thereby halting the upturn observed since the end of 2024. It fell in Germany (-1.5%, offsetting the sharp rise in in the fourth quarter of 2025) and in France (-0.6%); while it remains on an upward trend in Italy and Spain, the pace has slowed.

Having exhausted the favourable effects linked to anticipation of US tariffs, the Euro area exports of goods and services have been contracting since the autumn (-0.2% in the first quarter of 2026). However, this trend is not uniform: in Germany and Italy, where exports had been in almost continuous decline since 2024, overseas sales have rebounded (+3.3% and +2.2% respectively); in contrast, after three years of strong growth (an average annual rate of over 2.0%), exports fell sharply in France (-3.5% over the quarter) and more moderately in Spain (-0.5%).

Conversely, weaker domestic demand and slower stockpiling did not dampen imports (+0.4% over the quarter), which further reduced the contribution of net exports to growth.

The most severe scenario has, for the time being, been ruled out

The conflict in the Middle East raised the risk of a double shock with two distinct phases that could have extended beyond our forecast horizon: an initial supply shock followed by a delayed second shock negatively affecting demand, exacerbated by rising interest rates.

Survey data had signalled an immediate reaction in confidence, with the sharpest contraction in the Euro area economy in eighteen months, as indicated in May by the S&P Global PMI® index for the Euro area. With the pace of deterioration slowing in June, particularly in the services sector, the index points to a stabilisation of GDP in the second quarter.

The memorandum of understanding between the United States and Iran, despite its fragility, has been factored into our central scenario, with the corollary of a partial reopening of the Strait of Hormuz. It rules out the risk of a severe double shock, although growth has been revised downwards compared with our scenario from last March, particularly in 2027.

Despite the already visible fall in energy prices, ‘normalisation’ is expected to be very gradual: a return to full capacity would occur slowly and energy prices would remain higher than before the conflict. Whereas, in our scenario from last March, inflation returned to a level below the ECB’s target, it exceeds it in our current forecasts (2.1% in December 2027). After peaking in May (3.2%), inflation would remain above 3.0% until February 2027. The negative contribution from energy prices, leading to a fall in inflation for non-energy industrial goods, would then push inflation downwards, while the late peak in food inflation (above 3.0% throughout 2027) would slow this decline. The process of disinflation in services has indeed been interrupted by the conflict, and although we do not anticipate any second-round effects, the inflation rate is inertial and is expected to remain above 3% in this sector.

Our inflation forecast therefore assumes a temporary shock, with limited second-round effects. The current inflationary episode differs from that seen following the outbreak of the war in Ukraine, against a backdrop of sustained demand driven by the post-Covid recovery.

Indeed, the fall in energy consumption by households and industry, and the greater share of low-marginal-cost energy sources in electricity generation, are likely to limit the pass-through of rising gas prices to electricity prices compared with 2022. Furthermore, with profits and real disposable income falling, demand conditions differ from those seen during the recent period of inflation. This effect is exacerbated by high uncertainty and weakened confidence, as well as by more restrictive economic policies.

Under these assumptions, the recalibration of monetary policy is likely to be only temporary. A key concern for the ECB is that the recent disinflationary process has not fully translated into lower perceived inflation. Hence the risk of a loss of anchorage in inflation expectations, which could fuel more persistent inflation. All surveys conducted since the outbreak of the conflict point to an upward revision in inflation expectations (PMI index, ESI survey, SAFE business survey and SPF survey of professional forecasters, CES consumer survey). In all cases, the anticipated acceleration in prices is perceived as being temporary and concentrated over the next year, but with a risk perceived as being on the upside. The sharp rise in input costs is squeezing companies’ margins. The PMI and SAFE surveys report a much sharper increase in input prices than in selling prices, with a significant compression of margins. The trade-off between employment and wages appears to have been settled in favour of the former, with firms anticipating wage moderation against a backdrop of job retention. The CES consumer survey shares these expectations: it points to both a slowdown in nominal disposable income over the next year and a fall in the unemployment rate.

Wages negotiated up to the end of May imply an annual wage growth rate (including bonuses) of 2.6% in 2026, marking a slowdown (from 3.0% in 2025). This rate is lower than that recorded for per capita wages in the first quarter of 2026 (3.4%).

A scenario of normalisation rather than a rebound

The relative strength of its fundamentals and the transitory nature of the inflationary shock are enabling the Euro area economy to avoid recession. Despite weak QoQ growth until end-2026, the high growth momentum achieved so far will result in a growth rate (excluding Ireland) of 0.8% this year. We have doubts as to whether Irish growth can rebound sufficiently to offset the negative impact of the first quarter of 2026. Taking Irish GDP into account, growth for the Euro area would be just 0.2% in 2026. In 2027, our scenario anticipates a normalisation of growth at a pace that remains below potential, in line with its performance since 2024. Without a genuine rebound, GDP growth would not exceed 0.9%.

The relative strength of its fundamentals and the transitory nature of the inflationary shock will enable the Euro area economy to avoid recession.

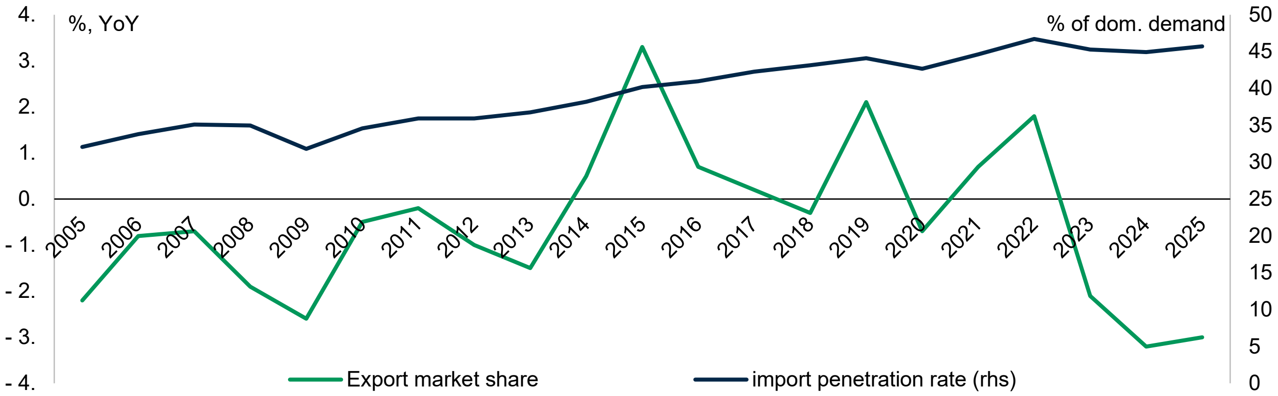
Household consumption growth is not expected to return to its recent pace (0.8% in 2026 and 2027, following 1.5% in 2025). Its trend would follow, with a lag, the slowdown in real disposable income, with little support from a savings rate that, while high, has also seen its purchasing power eroded. Driven increasingly by intangible assets, investment rebounded more strongly than anticipated in 2025. **Defence spending continues to be a driver of investment, as does spending on the energy transition.** German infrastructure spending, which is as yet not very visible, is also expected to contribute more. After hitting a low in 2026 (1.0%, down from 3.2%), investment is thus expected to accelerate in 2027 (1.8%).

The Euro area is expected to benefit less from *the* global AI investment supercycle, and its exports are expected to continue growing (0.0% in 2026 and 1.3% in 2027) **at a slower pace than their historical average and that of world trade**. The loss of market share is set to continue, with increased competition from China in products where the Euro area has a comparative advantage. This competition is taking place both in third-country markets and in the domestic market, as confirmed by a sharp rise in the import penetration rate, which is contributing to a lower contribution from net export growth.

Annual change	2026	2027
GDP (*Ireland incl.)*	0.2%	0.9%
Inflation	2.7%	2.4%

Paola MONPERRUS-VERONI

Euro area : market share loss and increased import penetration



Sources : Eurostat, Crédit Agricole S.A./ECO

UNITED KINGDOM: THE ENERGY CRISIS – A DELAYED IMPACT

UK GDP surprised on the upside in Q1 with a rebound of +0.6% QoQ compared with Q4. This growth was driven by household consumption (+0.6% QoQ), public consumption (+0.4% QoQ) and changes in inventories (contributing +0.6 percentage points). *By contrast*, investment and net exports made a negative contribution. Consequently, **we are revising our annual growth forecast for 2026 upwards by 0.3 percentage points to 1.1% annual average.**

However, we anticipate a marked slowdown in Q2 (to +0.2% QoQ), resulting in part from a technical effect. Indeed, the apparent strength of GDP in Q1 mirrors a pattern observed almost every year since the pandemic, namely activity being concentrated at the start of the year. *The Office for National Statistics* (ONS) acknowledges the existence of "moving seasonality", which is expected to be corrected over time, but the process is likely to take between three and five years. Pending this correction, our GDP forecasts incorporate a pronounced seasonal pattern, which would result in a further rebound in growth in Q1 2027.

This delayed but inevitable acceleration in inflation will reduce household purchasing power, against a backdrop of a deteriorating labour market.

CPI inflation has been a rather pleasant surprise in recent months. It fell to 2.8% YoY in April, in line with our forecast, down from 3.3% YoY in March. It remained stable in May, below expectations (3.0% YoY): the rise in energy prices, driven mainly by higher fuel costs, was offset by a moderation in inflation rates for services and food. Gas and electricity prices, meanwhile, fell in April following the decision by the regulator Ofgem (*Office of Gas and Electricity Markets*) to reduce its *energy price cap* with effect from April the 1st. This cap is calculated based on wholesale gas prices over the period from 15 November 2025 to 13 February 2026, i.e. before the start of the conflict in the Middle East. This fall is also the result of measures taken by the government as part of its autumn budget, aimed at preserving households' purchasing power.

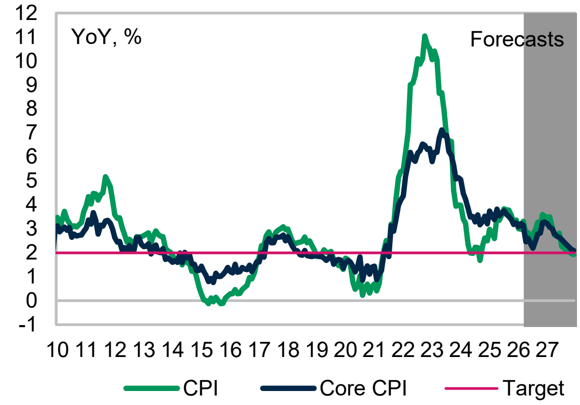
The impact of the energy shock on inflation will therefore only become apparent in the inflation figures from July onwards. Ofgem will increase its *energy price cap* by 13.5% from July the 1st, a rise very close to our initial estimate (+15%). Consequently, inflation will rise significantly in the second half of the year, peaking in November. However, the fall in oil and gas prices following the agreement between Iran and the United States will allow gas and electricity prices to resume their downward trend from October onwards. **We are revising down our inflation forecast to an average of 3.4% in Q4 (down from 3.5% previously), with a peak of 3.6% in November.** Inflation is expected to ease during 2027 and reach the *Bank of England's* (BoE) 2% target in Q4 2027.

This delayed but inevitable acceleration in inflation will reduce household purchasing power, against a backdrop of a deteriorating labour market. We anticipate a decline in consumption in H2. We also expect a further contraction in investment, due to pressure on corporate margins and elevated interest rates. **Consequently, the risk of a recession in the coming months cannot be ruled out**: only net exports will make a positive contribution to growth, due to an anticipated fall in imports. This sharp **slowdown in the second half of the year leads us to revise our growth forecast for 2027 by -0.1 pp to 1.1%.**

The risks surrounding the outlook are closely linked to uncertainties regarding maritime traffic through the Strait of Hormuz. A rapid recovery would trigger a sharper fall in energy prices. This creates upside potential for our growth forecast, which is based on the conservative assumption in our central scenario that traffic will be reduced to 80% of normal capacity.

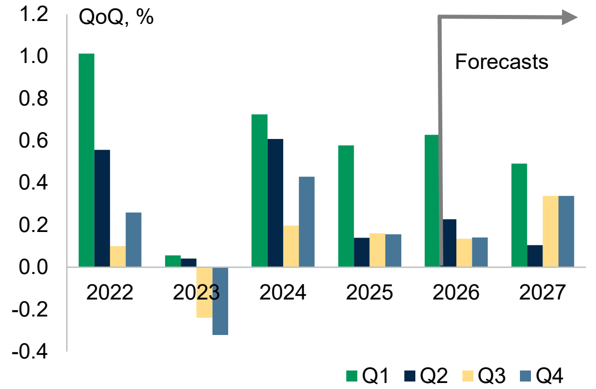
On the domestic front, the main source of uncertainty relates to the potential leadership contest following Keir Starmer's resignation as Prime Minister. The main risk identified by bond investors appears to be a possible easing of fiscal discipline under Andrew Burnham, who is regarded as Keir Starmer's most likely successor. A. Burnham

UK: CPI inflation



Sources: ONS, Crédit Agricole S.A.

UK: quarterly growth rate



Sources: ONS, Crédit Agricole S.A./ECO advocates increased public investment, as well as greater use of nationalisation or state equity stakes. He is probably the candidate most likely to relax the interpretation of the rules, but not to abandon them completely. Aware that an increase in the budget deficit would be heavily penalised by the markets, he has affirmed his intention to comply with the current fiscal rules. Fiscal policy must remain restrictive to ensure debt sustainability and, rather than a relaxation, it is a further tightening that the government may be forced to announce in the autumn.

Annual change	2026	2027
GDP	1.1%	1.1%
Inflation	3.1%	2.6%

Slavena NAZAROVA

JAPAN: TAKAICHI ADMINISTRATION'S STRATEGIC INVESTMENTS THROUGH PUBLIC-PRIVATE PARTNERSHIPS HELP OVERCOME STRUCTURAL ECONOMIC STAGNATION

The government and the BoJ are working together to achieve both strong economic growth and stable prices

Structural stagnation pressures implied by an abnormally high corporate savings rate keep domestic demand weak. Under downward pressure from a global slowdown driven by Donald Trump's tariffs and higher oil prices, domestic demand remains fragile. As a result, the core-core inflation rate (excluding fresh food and energy) is set to decelerate temporarily. Rising energy costs would likely reduce household purchasing power and increase the price elasticity of demand. In addition to a reduction in geopolitical risks, the expansion of strategic investments through public-private partnerships would lead to an increase in real wages, which would gradually expand domestic demand.

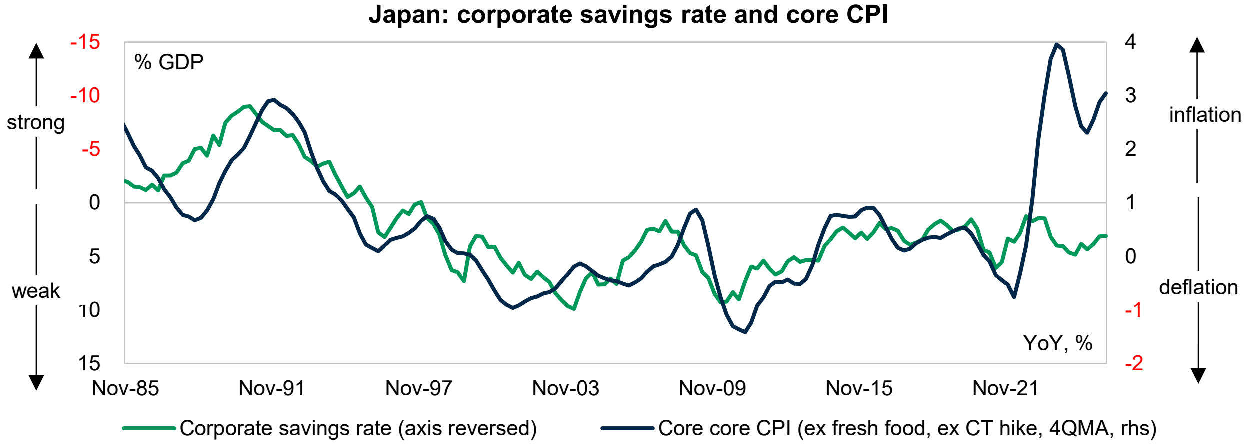
The BoJ's premature rate hikes would result in growth below potential, temporarily halting progress toward overcoming structural economic stagnation.

Amid a global economic slowdown, uncertainty under the Trump administration and downward pressure from high oil prices & supply stagnation due to geopolitical risks, the BoJ's premature rate hikes would result in growth below potential, temporarily halting progress toward overcoming structural economic stagnation. **The Takaichi administration, in its basic policy guidelines, is promoting expansionary fiscal policy through increased strategic investments in public-private partnerships**, aiming for a high-growth economy through the implementation of a government budget for expansionary fiscal policy in fiscal year 2027. 2026 would be a transitional period, with limited momentum. Policy expenditures would be included in the initial budget, with supplementary budgets being flexible and only used in emergencies.

The shift away from liberal policies that reduce government involvement would continue, and a new approach would be adopted to address social and economic challenges hindering growth through proactive fiscal policy and strategic investments in public-private partnerships. The transition to a Takaichi administration, which implements proactive fiscal policy and a high-pressure economy, would aim to maintain strong support for the government by the 2028 Upper House election by expanding strategic investments and implementing tax cuts to make the public feel the economic recovery. The primary balance surplus target, which has flaws such as requiring strategic investments to be financed by tax revenues, would be rendered meaningless by the Basic Policy Guidelines and replaced with a fiscal target that promotes proactive fiscal policy. **Budget formulation policies will be fundamentally reformed, enabling long-term investments based on the growth strategy by setting new investment quotas in the initial budget, and crises would be addressed with flexible supplementary budgets.** To break away from dependence on external demand, economic policies would promote developments similar to the expansion of domestic demand in the late 1980s after the trade dispute with the US. A complete recovery from structural economic stagnation would lead to a significant increase in tax revenues, resulting in a fiscal surplus by 2029.

Annual change	2026	2027
GDP	0.3%	0.5%
Inflation	1.9%	0.6%

Takuji AIDA – Ken MATSUMOTO



Sources: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB

EMERGING COUNTRIES

Resilience, but four main risks

Overview – Resilience, but four main risks

China – Inflation under control, model under pressure

Brazil – Robust growth and, in the end, "manageable" imbalances

Russia – The war of attrition is causing lasting damage to the economy

India – Hurt by the US-Iran war

Resilience, but four main risks

EM economic growth has been more resilient than expected to the blockade of Hormuz and higher oil prices. Even the inflation pressures have somewhat moderated in May, and there has been no need to massively hike rates in a way that could have hurt growth. We hardly revised our growth forecasts. Still, we see four main risks for H226.

Resilient growth

Almost four months after it began, the negative impact of the war in the Middle East has been more limited than what could have been feared in the first place. Looking for instance at the recent Purchasing Manager Indices, the manufacturing supply has resisted rather well.

When it comes to private consumption, it has been somewhat challenged by rising inflation (fuel), which erodes the purchasing power. This is true in particular among the least developed countries. However, the rise in inflation itself, has been capped in many places by targeted measures, such as caps on fuel & retail prices and corporate margins. As a consequence, the inflation push was material, initially. Sequential inflation accelerated in March and to some extent in April. But in many countries, it moderated in May. Looking ahead, what happens with Hormuz and the oil price will decide to a large extent where EM inflation goes. Following the guidelines of our in-house scenario (Brent price gradually declining in the coming three quarters), the negative impact on private consumption should remain limited on average.

When it comes to EM central banks hiking rates to fight inflation or defend their currencies, this has remained a fairly limited phenomenon so far. Among the largest countries in our coverage, only Indonesia, the Philippines and South Africa have hiked rates since the end of February. At the same time, Brazil, Mexico and Hungary lowered their policy rates. Three all, ball in the centre.

Sequential inflation accelerated in March and April, but moderated in May

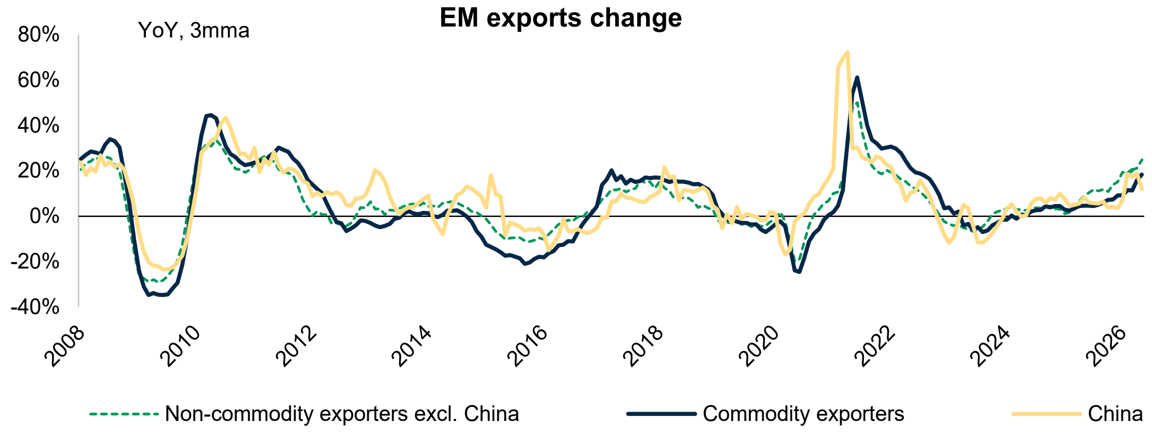
Not under attack

EM exports have shrugged off the uncertainty stemming from the blockade of Hormuz and the threats hovering above supply chains. They actually accelerated in March-May – particularly for non-commodity exporters. This has also supported economic growth in Q2.

The geopolitical/oil uncertainty has meant that there have been portfolio outflows out of EMs. However, overall, given the limited impact on growth and trade, the adjustment in EM FX reserves has been limited. Some countries, of course, have suffered more than other countries, like India, Turkey, Romania, and to a lesser extent Indonesia, the Philippines and Thailand. However, overall, EM FX reserves on the pool of countries in our coverage were down by only 2% in March-May. All in all, the shock on reserves has been limited.

China

Region by region, the exposure to the global backdrop is differentiated. China has been rather resilient to the oil shock, but has continued to face its own challenges. It remains marked by divergences: between supply (stronger) and demand (weaker) and between tech-related sectors (stronger) and other sectors (weaker). The inflation pressures have been limited. The Chinese leadership should continue to support the supply side and strengthen the country's industrial base and is unlikely to unveil a major consumption stimulus package, in our view.



Sources: Bloomberg, CA CIB

Rest of Asia

In the rest of Asia, South-East and South Asia are more vulnerable to rising inflation pressure, because of lower levels of development. Central banks have turned more hawkish, with rate hikes in some countries, but also with more hawkish rhetoric and sometimes with measures to support their currencies. North Asia has been more resilient and has been benefiting from upward surprises on tech dynamics. We have actually revised upward our 2026 growth forecasts for Korea and Taiwan in Q2.

EMEA

Central Europe has been impacted mostly via intensifying inflation pressure. But the inflation fighting has taken the form of administrative measures, not rate hikes. The Middle East has obviously been under much stronger pressure. Saudi Arabia’s growth should be rather resilient, but we have revised down our growth forecasts for the smallest/more open economies. And there is a big elephant in the room: how much will the war reshape and challenge GCC countries’ medium-term development model (be it the oil & gas focus, or the diversification efforts into services and tech sectors)? It is too early to say, as it will depend on the outcome of the US/Israel-Iran war.

Latin America

Latin America is less vulnerable than other EM regions. It is further from the epicentre of the geopolitical shock. It is broadly less exposed to terms-of-trade shocks, given that many countries of this region are commodity exporters. In Latam, the combination of politics and fiscal flexibility remains at the centre of many countries’ equation. From that point of view, the general election in Brazil will be one the major focuses of H2.

Main risks

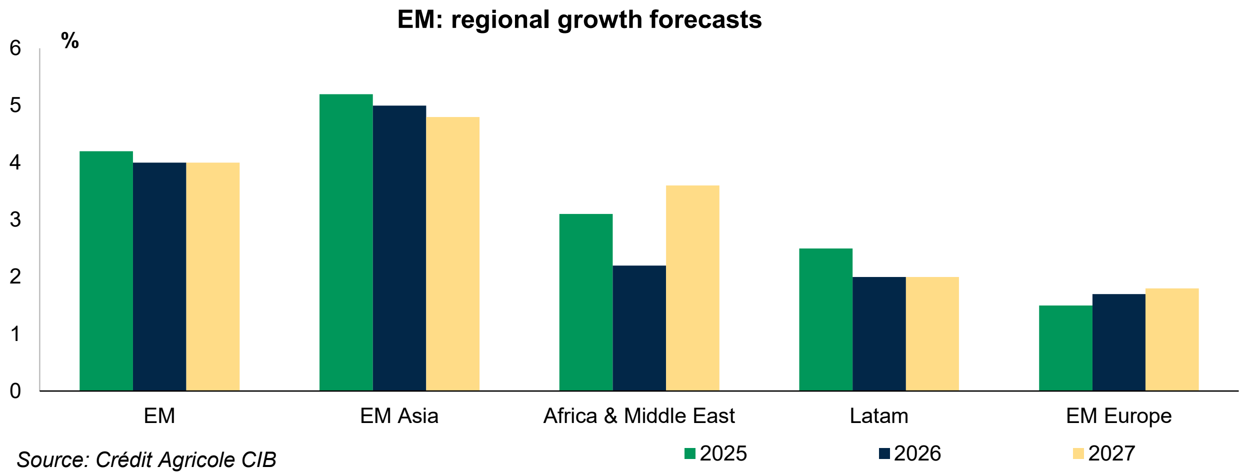
The situation in the Middle East remains at the centre of the risk map for EMs, with the central question being how quickly, effectively and sustainably Hormuz reopens (and how it impacts the oil price beyond the short term).

In our view, the sustainability of AI dynamics is another uncertainty that could impact EMs significantly. Should doubts intensify at some point about the benefits and profitability of AI, then a possible stock market correction would impact EM asset prices and currencies, with negative effects on growth, currencies and monetary policies.

There two other main risks on our list. First, global food prices (with supply chains possibly challenged by geopolitics). A shock on food prices could have significant negative consequences on the least developed countries (incl. Africa, South Asia and, to a lesser extent, South East Asia). Second, the war in Ukraine seems to be increasingly challenging for Russia. How might Russia react? In the past, the Russian leadership has reacted to such challenges, not by increased readiness to reach a compromise, but by more assertiveness.

Annual change	2026	2027
GDP	3.9%	4.1%
Inflation	3.8%	3.4%

Sébastien BARBÉ



Source: Crédit Agricole CIB

CHINA: INFLATION UNDER CONTROL, MODEL UNDER PRESSURE

Since the start of the war in Iran, China's inflation index has barely moved. Consumer prices rose 1.2% in May, well short of the pace seen across the rest of Asia.

This highlights one of the paradoxes of China's economic model: the coexistence of two contrasting realities, reflecting two sides of China. On the one hand, the country is demonstrating its ability to plan ahead: it has reportedly built up strategic reserves of around one billion barrels of oil, purchased at attractive prices (from Iran, Russia and Venezuela), enabling it to significantly reduce its oil imports over the last few months. It can also count on the continued development of renewable energy and, in the meantime, turn to other domestic sources – albeit more polluting ones (eg, coal) – while waiting for market prices to come down. Lastly, various price control mechanisms (eg, for fuel and air travel) have also helped limit the impact of the conflict.

Whatever the outcome and duration of the conflict, the main determinants of China's economic trajectory lie elsewhere.

Meanwhile, producer prices have finally moved out of contractionary territory, where they had been since October 2022, without any major impact on production or exports at this stage. Exports have slowed slightly but remain strong.

There is no doubting China's ability to contain inflation, the fruit of more than a decade of efforts to strengthen its strategic autonomy. However, this must not be allowed to obscure the fact that inflation is also the result of very weak domestic demand, hampered by stagnant incomes, eroded housing wealth and households opting to save rather than spend. Retail sales were down 0.6% year on year in May, the first such decline outside of the Covid period.

Model imbalances set to persist

Whatever the outcome and duration of the conflict, the main determinants of China's economic trajectory lie elsewhere.

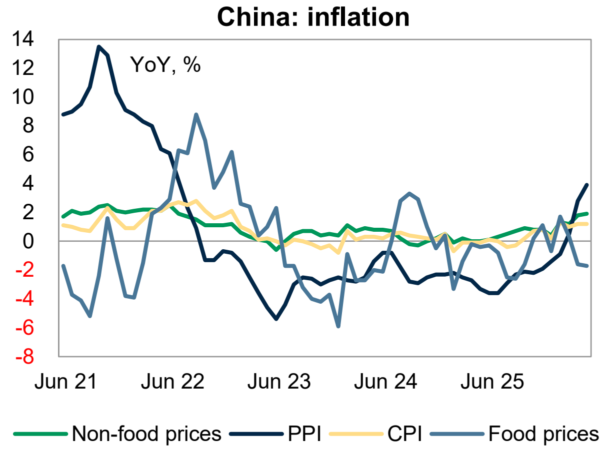
The fifteenth five-year plan made this very clear: **the government's priorities remain centred on productive capacity and economic sovereignty.** The strategic decision to finance technological competition with the United States through household savings is a deliberate one. In fact, it has recently been bolstered by tighter capital controls to prevent part of the population's wealth from being channelled into foreign financial markets. These government priorities should continue to drive China's manufacturing system, at the expense of support for consumer spending, for example in the form of a stronger welfare state.

China should therefore continue to produce more, while continuing to move up the value chain to reduce its remaining dependencies. We should therefore not expect a rebalancing of the economy, nor any resulting significant acceleration in inflation that would point to increased demand. So far, the only concession, particularly on the international front, has been a slight appreciation of the CNY engineered by PBoC, bringing the exchange rate back to around 6.75 yuan to the dollar, its lowest level since 2022. In the second half of the year, the USD/CNY is expected to stabilise at around 6.70 yuan.

The European Union vs China?

Maintaining strong export capability remains at the heart of the Chinese model. China has spared no effort to influence opinion (not to say engage in outright propaganda) to counter the regulatory offensive that appears to be getting underway in Europe. With a portion of China's exports to the US having shifted to the European market, the EU is threatening to introduce new protectionist barriers, perhaps in the form of quotas and tariffs.

Reports revealing the scale of subsidies received by Chinese firms – four to eight times higher than in the



Sources: NBS, Crédit Agricole S.A/ECO

Sources: NBS, Crédit Agricole S.A/ECO

rest of the OECD – bolster Europe's stance. The introduction of measures in specific sectors (small parcels, including apparel; electric vehicles; chemicals; steel and aluminium) would pose a new challenge for Chinese companies, which remain reliant on the rest of the world to support their margins and soak up their surplus production.

Annual change	2026	2027
GDP	4.7%	4.5%
Inflation	1.1%	1.0%

Sophie WIEVIORKA

BRAZIL: ROBUST GROWTH AND, IN THE END, "MANAGEABLE" IMBALANCES

While net oil exports prevent an erosion of the trade surplus and a widening of the current account deficit, a constraint that dynamic growth usually must struggle with, the current resistance is not accompanied by unmanageable imbalances. **Although it has lost some of its strength, growth remains at a comfortable level** (real GDP grew by 1.8% over 12 months in the first quarter): thanks to household consumption, which is supported, in particular, by a still dynamic labor market, with a historically low unemployment rate (5.8%), domestic demand remains strong.

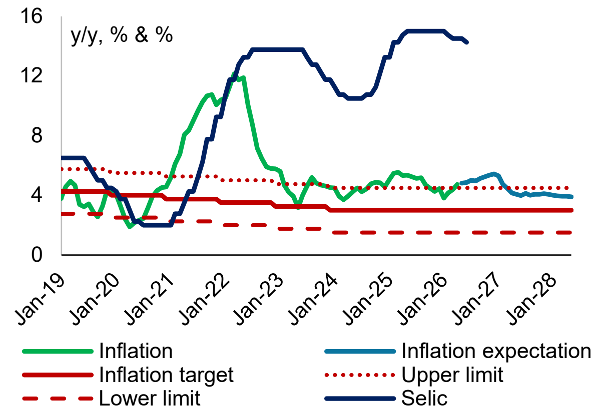
Monetary easing has left the credit rates at "punitive" levels in real terms, but in the face of which credit growth is surprisingly resilient.

This strength may seem even more surprising given that it is accompanied by a recovery in inflation and very high interest rates. Inflation over 12 months stood at 4.7% in May: driven by its volatile components (food prices, effects of energy prices on fertilizers and transport, electricity tariffs), it exceeds the upper end of the central bank's (BCB) target range (3% with a margin of +/-1.5 points). And yet, the BCB has just cut its key rate for the third time in a row (Selic to 14.25%). While acknowledging that it is operating in a riskier and more uncertain environment, revising its inflation projections upwards and postponing the return to the target until the first quarter of 2028, the BCB (in an unusually "convoluted" press release) justifies this decision by the still very restrictive nature of its monetary policy.

Monetary easing, which began in April and is very measured, has left the key rate, and more generally credit rates, at "punitive" levels in real terms, but in the face of which credit growth is surprisingly resilient. Hence the questions about the effectiveness of monetary transmission: questions to which the IMF[3] has responded favorably. The institution believes that monetary policy transmission remains effective and that two other factors have played a decisive role in boosting both demand and supply of credit: strong income growth and the success of financial inclusion. After reaching 3.4% in 2024 and 2.3% in 2025, growth is expected to hold up well, especially as it will be boosted by generous fiscal measures (around 1.6% of GDP). A large part of the measures is accounted "off budget" and will not weigh on the primary balance but will increase the gross public debt expected to be around 82% of GDP at the end of the year.

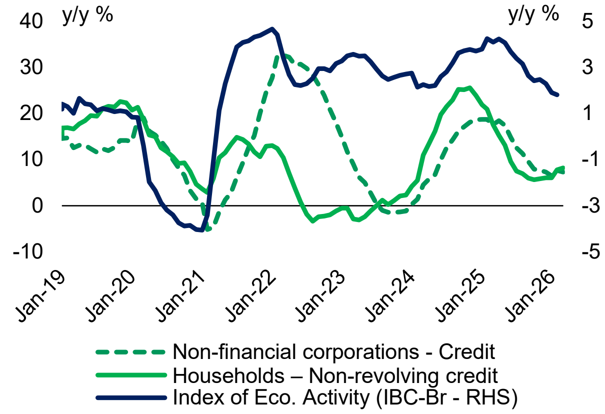
These "gifts" undermine fiscal credibility and contribute to pressures on long-term interest rates. But, in an election year[4] , it would have been futile to count on a

Half-hearted monetary easing



Sources: BCB, Crédit Agricole S.A./ECO

New growth drivers?



Sources: BCB, Crédit Agricole S.A./ECO

[1] "Explaining Brazil's Strong Credit Growth Despite High Monetary Policy Rates" - IMF Country Focus - October 2025

[2] General elections in October 2026 to elect the president, vice president, members of the National Congress, governors, vice

fiscal adjustment. On the other hand, while the BCB is stingy in terms of clear indications on its future monetary trajectory, it is vigilant about the impact of fiscal policy, "thus reinforcing its caution in a scenario of increased uncertainty": its key interest rate is thus likely to settle on a high plateau for a long time. And a little carry can't hurt.

Annual change	2026	2027
GDP	1.9%	2.0%
Inflation	4.5%	4.1%

Catherine LEBOUGRE

RUSSIA: THE WAR OF ATTRITION IS CAUSING LASTING DAMAGE TO THE ECONOMY

The Russian economy appears to have entered a new phase. After two years of growth driven by military spending, public investment and war-related industrial redeployment, the past quarter marks a turning point: the question is no longer one of resilience in the face of sanctions, but of the sustainability of the war model in the medium term.

Russian GDP is reported to have contracted by 0.3% in the first quarter of 2026 – the first quarterly contraction since 2023 – and the Russian Ministry of Economic Development has lowered its growth forecast for 2026 to 0.4%, down from 1.3% previously. The IMF remains slightly more optimistic (1.1%), mainly due to the recent rise in oil prices linked to the crisis in Iran. This divergence above all illustrates the fundamental uncertainty surrounding the Russian economy: official statistics remain incomplete and military data is largely classified. **It is difficult to make any sort of assessment of this country, shrouded as it is in the fog of war.**

Monetary policy at the forefront of managing war-related economic distortions

Monetary policy acts as a brake on economic activity, although since the start of the conflict it has also served to anchor expectations at a time when this is clearly necessary: maintaining confidence is one of the key factors in wars of attrition. In wars of attrition, it is a question of who will tire first – whether militarily or economically – as everything is interconnected. The Russian Central Bank is therefore maintaining very high real interest rates to contain inflation, following several years of overheating caused by the war. The key interest rate remains at around 14-15%, despite some recent easing. As for official annual inflation, it has fallen back to around 5-6%, but households' inflation expectations remain very high: 12.4 per cent in June, according to the Central Bank. This divergence reflects low confidence in the government's ability to curb inflation and a strong perception that purchasing power is eroding. Here too, this will play a role at a time when the government's position is becoming increasingly precarious.

The situation is also more tense on fiscal matters. Thus, over the first five months of 2026, the federal deficit stood at 2.6% of GDP, exceeding the annual target of 1.6%. Parliament recently authorised the government to adjust its spending and borrowing without a full parliamentary procedure, a sign of more flexible but also more opaque fiscal management. Several independent institutions now estimate that the deficit could exceed 3% of GDP by the end of the year if energy prices return to normal. The scenario of peace in Iran does not work in Russia's favour, although the inertia of physical flows and the diversification policies of many countries (particularly China) are limiting the erosion of revenues.

Gradual budgetary erosion

Energy remains the key factor in Russia's economic equilibrium. Despite Western sanctions, Moscow continues to export primarily to Asia, mainly to China and India. However, the discounts granted on Russian oil, higher logistical costs and financial restrictions are reducing the Kremlin's real revenues. The rise in oil prices linked to the Hormuz crisis provides temporary relief, but has not resolved the structural weaknesses: dependence on oil & gas, low productivity gains and a decline in private investment.

> ***The war has prevented the collapse predicted for 2022, but it has created a growth model that is increasingly dependent on military spending, energy revenues and state control.***

The labour market presents a paradox. The unemployment rate remains at a historically low level, around 2.0–2.5%, but this situation reflects labour shortages rather than economic strength: military mobilisation, the emigration of skilled workers and an ageing population are creating unprecedented pressures. This also forms the backdrop to inflation, which the Central Bank must manage. Several civilian sectors – construction, transport and manufacturing – are reporting increasing difficulties in recruiting staff.

governors, and legislative assemblies of the states of the federation.

Resilience is not the same as sustainability

Three profound developments merit attention:

1. the war is accelerating the long-term militarisation of the economy: according to some estimates, defence-related expenditure now accounts for nearly 40% of federal public spending,
2. the economy is becoming increasingly administered and centralised: greater control over capital, budgetary interventions, and targeted support for strategic sectors,
3. tensions are now emerging within the economic elite itself, with some major industrialists publicly criticising the Central Bank's high interest rates – a rare occurrence in the Russian system.

The Russian paradox therefore remains intact: the war has prevented the economic collapse predicted for 2022, but it has created a growth model that is increasingly dependent on military spending, energy revenues and state control. In the short term, the rise in oil prices linked to the Middle East offers a brief respite. But questions are being raised about the financial and social sustainability of a war economy now entering its fourth year.

Annual change	2026	2027
GDP	1.4%	1.4%
Inflation	6.0%	5.8%

Tania SOLLOGOUB

INDIA: HURT BY THE UNITED STATES-IRAN WAR

The United States-Iran war has fundamentally reshaped India's trade dynamics, severely disrupting its merchandise imports and exports as well as remittances creating a USD83.23bn, or c.2.00% of GDP, hole in India's current account balance. Even with a peace deal now signed, there has already been significant damage done to the economy. We have revised up our estimated current account deficit for 2026 to -2.9% of GDP vs -1.0% in 2025. At less than -2.9%, the current account balance is above the Indian government's comfort level. In response, the RBI and the government have unleashed aggressive structural reforms to attract foreign capital including among other things: eliminating taxes on foreign holdings of government bonds, relaxing FPI quotas, introducing concessional FX swap facilities and enabling leveraged USD deposits for NRIs with FX hedging costs covered by the RBI.

Even with a peace deal now signed, there has already been significant damage done to the economy.

These reforms could unlock USD90-130bn in additional capital inflows over the next two years – more than enough to plug our estimated USD83bn deficit hole. But how much the RBI absorbs to unwind its USD95bn forward book accumulated during previous FX interventions will determine the inflows' impact on the INR. If the RBI unwinds its USD45bn in near-term forwards, this will leave a substantial amount of capital inflows to weigh on USD/INR, likely capping the exchange rate's appreciation at around 96.00. This is the likely outcome, in our view. Full unwinding of the RBI's entire forward book, however, would significantly curtail the inflows' ability to boost the INR and could see USD/INR continue drifting higher to 98.00.

In any case, investors' upside bias in USD/INR will persist given the damage already done to the economy and until there is restored investor confidence in India's growth trajectory. The AI disruption is still generating investor concerns about India's IT and business consultancy sectors. The IMD is also forecasting monsoon rainfall 90% of its long-term average adding near-term weight to the INR. The USD/INR has already appreciated due to the United States-Iran war as well as these concerns about Indian growth to be trading significantly above its long-term fair value.

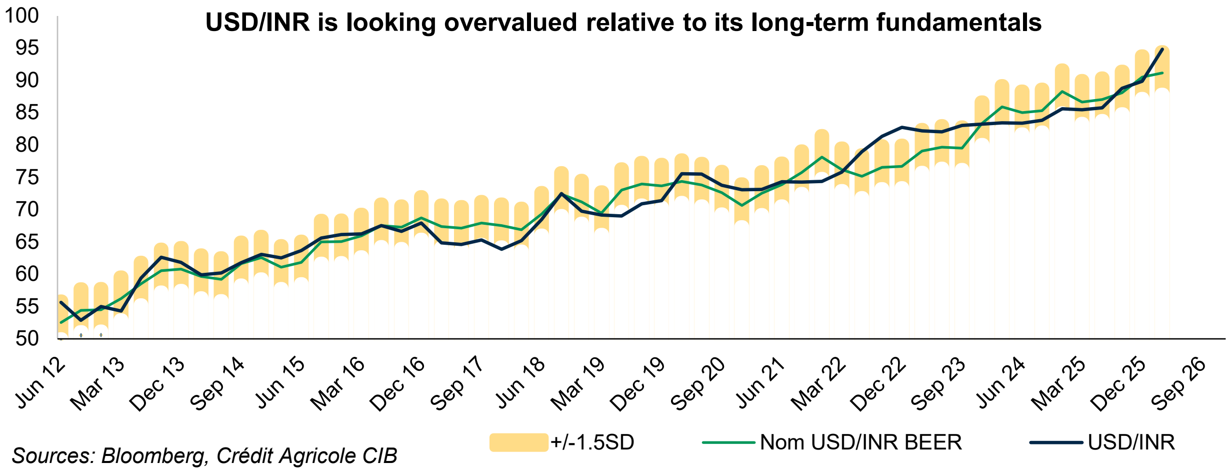
The disruption to India's trade and remittances caused by the United States-Iran war has led to us to lower our 2026 real GDP growth forecast from 6.7% to 6.5% previously and vs 7.0% growth in 2025. Importantly, India has still been able to get the energy it needs having diverted 70% of its Middle East energy imports around the Strait of Hormuz and sourcing energy from other exporters such as the United States, South America and Africa. India is paying a higher price for these imports, however. While India can divert its exports of refined oil products away from the Gulf and to Southeast Asia, exports are still falling given higher export taxes on refined products leading to their decline. India has not been able to find alternate markets for its significant electronic exports to the Middle East and even with the Strait of Hormuz re-opening, priority will be given to energy and food traffic over electronics. A weak monsoon season also threatens weaker agricultural exports. But the government is also stepping up its fiscal support for the economy allowing its fiscal deficit to go as high as 4.8% of GDP vs an earlier forecast of 4.3%.

We continue to forecast RBI to keep its policy rate at 5.25% in 2026, but acknowledge pressure is building on the central bank to raise rates given the expected rise in inflation due to higher global energy prices, a weak monsoon season pushing food prices higher and the INR's depreciation adding to import costs. The good news for the RBI, however, is that inflation is rising from a low base giving the central bank room to *manœuvre*. Inflation in headline and core (ex-fuel and food) terms is running at 3.9% YoY and 3.6% YoY, both below the centre of the RBI's 2-6% inflation tolerance band. Recent structural reforms to boost India's appeal to foreign investors are supporting the INR, taking pressure off the RBI to hike rates to support the currency. We continue to think the central bank would use rate hikes to support the INR only as a last resort.

Annual change	2026	2027
GDP	6.5%	6.7%
Inflation	5.2%	4.5%

David FORRESTER

USD/INR is looking overvalued relative to its long-term fundamentals



Sources: Bloomberg, Crédit Agricole CIB

SECTORS

Oil – Hopes of an easing of tensions in the Strait of Hormuz

Automotive – Restructuring underway

Semi-conductors – A sector constrained by huge demand for Artificial Intelligence

Shipping – Towards a gradual recovery in traffic through the Strait of Hormuz

Oil – Hopes of an easing of tensions in the Strait of Hormuz

To halt the depletion of global oil inventories following the closure of the Strait of Hormuz, shipping must resume quickly. The memorandum of understanding between the United States and Iran raises hopes of a gradual resumption in shipping that would ease market tensions, particularly from 2027 onwards.

The US-Iran memorandum of understanding has fuelled cautious optimism that shipping through the Strait of Hormuz might resume quickly. While this progress is encouraging, it in no way guarantees the immediate and complete reopening of this strategic route. Shipping operators remain cautious, with shipowners and insurers demanding robust guarantees before resuming operations on a large scale, while buyers are keeping a close watch on the situation. This cautious stance reflects an inescapable reality: political commitments do not always translate into actual operational outcomes.

The crucial question is now whether reopening the Strait, even if only partially, would be enough to avoid a phenomenon feared by the industry: “hitting tank bottom”. This refers to a scenario in which oil inventories are exhausted, bringing refineries and pipelines to a standstill. The inability to accurately assess current inventory levels at each facility complicates forecasting. However, if we take a global perspective, **the risk of stocks falling to a critical level between September and December 2026 appears significant if the Strait were to remain completely closed for a prolonged period.**

Conversely, a gradual recovery in shipping from Q3 2026 onwards should bring the rapid depletion of oil stocks to an end. However, some oil facilities lacking sufficient inventories would still likely be forced to curtail or suspend operations.

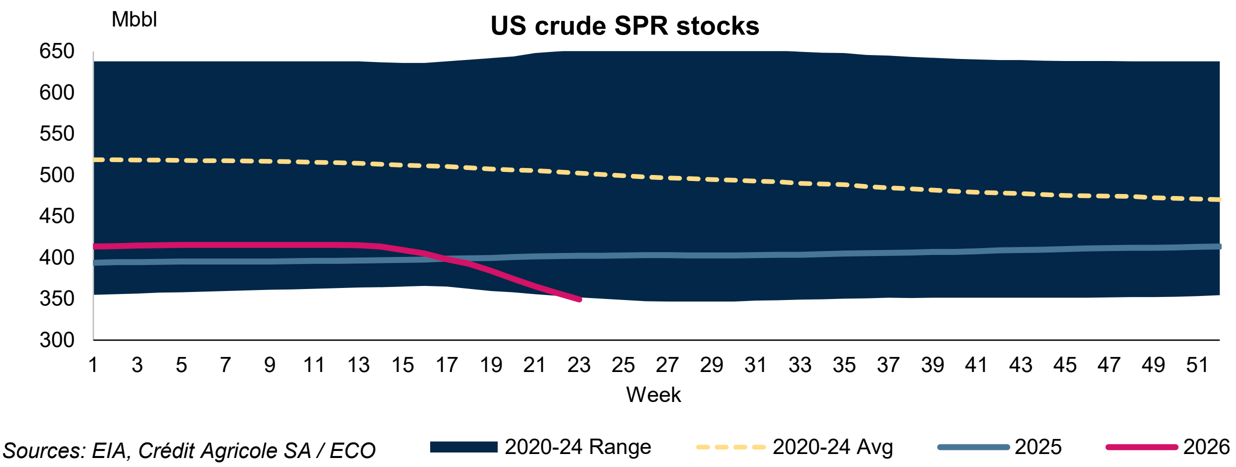
Oil prices are set to remain high in 2026.

Our analysis favours a scenario in which shipping gradually recovers. As shipping picks up, oil infrastructure in the Gulf will gradually resume production, with the notable exception of a few heavily damaged facilities. This gradual adjustment should help prevent bottlenecks arising from mismatches between production capacity and port handling capacity.

This gradual trajectory implies an inevitable consequence: **oil prices are set to remain high in 2026.** This pressure on prices is likely to persist until the Strait of Hormuz has more or less completely reopened. Only then will the conditions for a sustained easing in oil prices be restored.

	Average oil price (barrel)
Q3 2026	$ 91
2026	$ 92

Stéphane FERDRIN



Sources: EIA, Crédit Agricole SA / ECO

Gas – A timely deal, but one that has yet to be finalised

Thanks to the memorandum of understanding between the United States and Iran, Qatari LNG tankers could soon be heading back to Asia, easing a gas market that was set to tighten further this summer.

The US-Iran memorandum of understanding, has paved the way for the reopening – even if only partial – of the Strait of Hormuz. The signature comes at a particularly critical time for global gas markets.

Since 28 February, **the closure of the Strait has reduced the global supply of liquefied natural gas (LNG) –** mostly sourced from Qatar and mainly supplying Asia – **by nearly 20%**. The combined imports of the top five Asian buyers – China, Japan, South Korea, India and Taiwan – fell by 3.3 billion cubic metres (a 14% reduction) between April 2025 and April 2026. Furthermore, **this supply disruption also severely hampers Europe's ability to replenish its natural gas stocks over the spring and summer.** In April and May, the EU's LNG imports were 1.6 billion cubic metres lower than over the same period in 2025, a reduction of 7%.

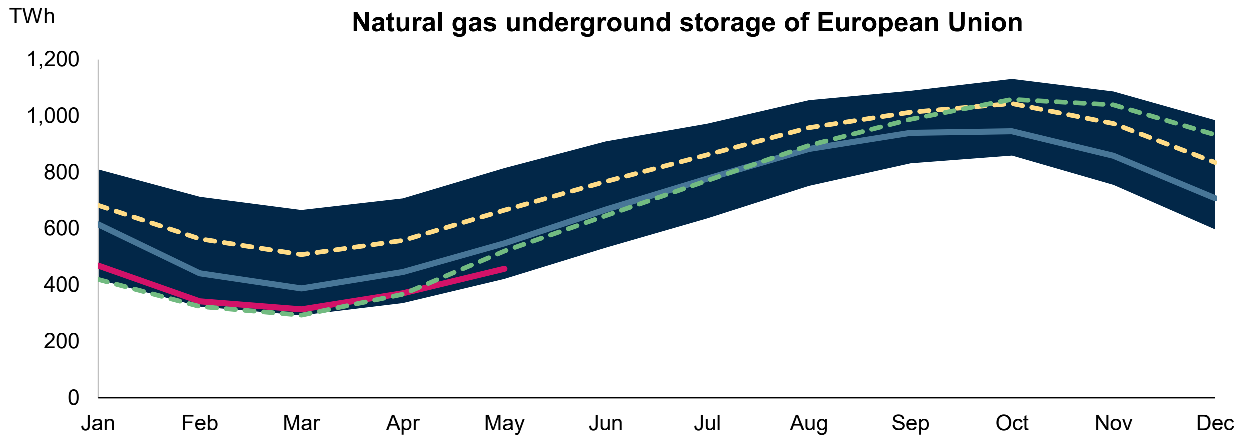
Europe's natural gas stocks are currently lower than they were during the 2022 energy crisis.

Europe emerged from the winter season with abnormally low reserves, making the need to replenish them in time for next winter all the more critical. At end May, stocks were 18 billion cubic metres below the average of the past five years – a deficit equivalent to 20% of the EU's total storage capacity. **Current levels remain lower than in 2022**, which saw a major energy crisis and a spike in natural gas prices over the summer.

The situation is all the more worrying given that Asian demand could quicken this summer, driven by peaks in electricity consumption linked to potential hot weather. In 2022, despite increased use of coal in Asia, natural gas prices reached record levels in July and August. Parallels with the current situation are now fuelling fears of a fresh spike in prices this summer unless Qatari carriers quickly resume LNG shipments to Asia, easing pressure on an already tight market.

	EU: LNG imports
Q1 2026	36.4 bcm

Stéphane FERDRIN



Sources: GIE, Crédit Agricole SA / ECO

Automotive – Restructuring underway

The sector is undergoing restructuring, but the economic environment is making short-term forecasting difficult after several years of declining volumes. In the event of a macroeconomic recovery, rising interest rates and persistent inflationary pressures could slow the sector's recovery in 2027.

The irrepressible rise of Chinese manufacturers

The global rise of Chinese automakers remains the key challenge for European vehicle and equipment manufacturers in 2026.

The sharp rise in Chinese exports worldwide, and to Europe in particular, allows Chinese manufacturers to offset weaker domestic sales: the domestic market has now posted YoY declines for eight consecutive months and is down 20% YTD.

Domestic challenges are prompting Chinese automakers, along with foreign brands manufacturing locally, **to pursue even more aggressive international expansion strategies.**

Fierce competition between manufacturers in the European market is set to continue or even intensify over the coming year. European automakers' share of the top five European markets (EU5) declined from 72% to 67% between 2020 and 2025; we expect it to decline further, falling to around 62% by 2027.

Carmakers with a presence in the entry-level segment, such as Stellantis, Volkswagen, Renault and Toyota, appear particularly exposed to Chinese competition, which is primarily targeting small affordable cars, SUVs and electric & plug-in hybrid vehicles. **Against this backdrop, we foresee a risk of widespread price falls.** Meanwhile, high-end manufacturers should prove more resilient.

In this context, BYD and Geely are taking advantage of growth opportunities in Europe, buoyed by the commercial success of their new electric models. BYD is among the best-selling electric vehicle brands in the UK and the EU so far this year, while Geely continues to win market share through its diversified product portfolio and its premium brand Zeekr.

Recent market conditions have been favourable for EVs, but manufacturers are pursuing a more pragmatic approach to electrification

The sector appears to be nearing the trough of the cycle, though it has yet to bottom out. European automakers have underperformed the market since April 2024.

In the short term, the conflict in the Middle East and tariff talks linked to the US-Mexico-Canada (USMCA) free trade agreement are supportive of the sector, though the latter appears not yet to have reached the bottom of the cycle and is not expected to recover in the near future. Higher oil prices improve the value proposition of electric vehicles relative to combustion-engine vehicles, though not enough to put them on an equal competitive footing.

Outside the US, the gradual global transition to EVs is nevertheless continuing, and even accelerating in Europe.

At end-April 2026, sales of EVs were up 25.8% YTD, driven by purchase incentives in the top five European markets of Germany, France, Italy, Spain and the UK (EU5).

> ***The global automotive industry remains weakened by persistent sectoral, macroeconomic and competitive pressures.***

At the same time, **manufacturers have made significant efforts to cut costs, underpinned by major technological advances**, making next-generation vehicles (especially from BMW and Mercedes-Benz) more competitive.

One of the main avenues of research is around lowering the cost of batteries by adopting cheaper lithium-iron-phosphate (LFP) technology. The expansion of the European battery supply chain and the standardisation of vehicle platforms are also contributing factors. Most automakers have partnered with leading battery manufacturers and Chinese players in the sector.

In China, EV sales are gradually recovering (up 13% in May 2026 but down 8% over the first five months of the year) despite the slowdown in domestic demand. EV exports – up more than 110% at end-May 2026 – are benefiting from the growing international competitiveness of China's automotive industry.

A robust response marked by restructuring and accelerating innovation centred on software-defined vehicles

The automotive industry is responding robustly and readjusting capacity in Europe and the US after several years of declining demand. This restructuring is also reflected in a shift in electrification strategies and increasing collaboration with Chinese automakers to share costs more effectively.

European car manufacturers are making every effort to improve their competitiveness by overhauling their cost structures and moderating their investments.

At the same time, vehicle software capabilities, ultra-fast charging systems capable of charging in under ten minutes, 800-volt architecture, advanced driver assistance systems (ADAS), AI-powered smart cockpits and over-the-air updates are becoming more widespread. European manufacturers thus hope to narrow the technological gap to Chinese automakers.

Outlook: another year of recession

We forecast a 2.6% YoY decline in global automotive production in 2026, after stronger than expected growth of 3.9% in 2025. North American production is expected to decline slightly YoY (down 1.8%) due to the repercussions of upcoming tariff and EV subsidy milestones.

European production is set to contract by 3.5% as a result of increased imports from China, which now account for 7-10% of the market depending on the country.

Chinese production is expected to decline 4% despite strong growth in exports, against a backdrop of sharply contracting domestic demand.

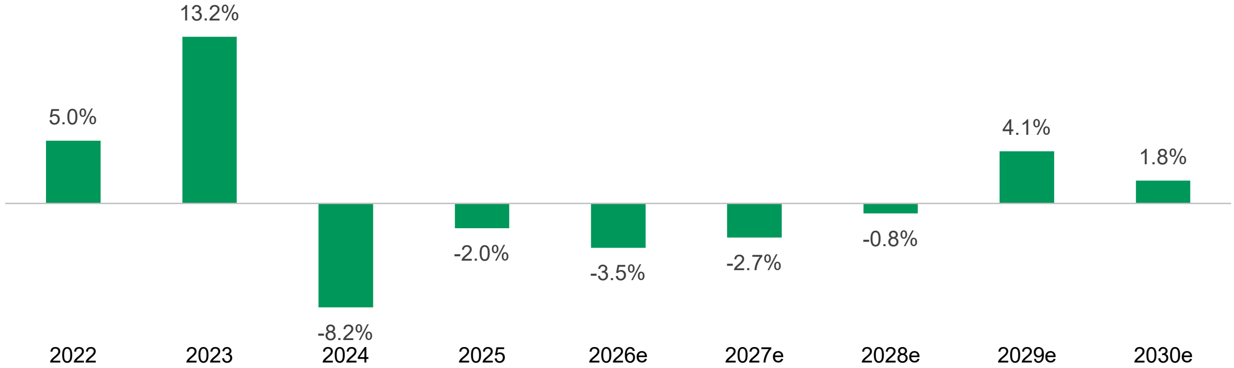
The global automotive industry continues to face adverse sector dynamics and macroeconomic headwinds, compounded by intensifying competition, rising raw material costs and an uncertain macroeconomic environment.

Based on our estimates, **2026 will be a transitional year** before operating profits and cash flows recover in 2027. This trajectory remains sustainable because the industry was in a strong financial position going into the crisis.

	EV penetration rate in Europe
April 2026	17.5%

Véronique VIGNER

Western Europe: trends in car production



Source: Crédit Agricole S.A./ECO

Semiconductors – A sector constrained by huge demand for Artificial Intelligence

Demand for computing power to train large language models for AI applications further concentrates AI and memory chip manufacturing in the hands of a few major players in the world.

Worldwide, the semiconductor market has seen double-digit growth since 2024. It reached USD805bn in revenues in 2025, with 22.4% YoY growth. Forecasts anticipate unprecedented YoY growth in 2026 of 64% – the strongest growth in two decades – to reach USD1,320bn.

Application-Specific Integrated Circuits (ASICs), encompassing AI accelerators, Graphics processing units (GPUs) and memory chips such as high bandwidth memory (HBM), **are the main driving force behind this spectacular growth in 2026.**

Sources : Gartner (March 2026), Crédit Agricole S.A./ECO

Colossal investments in AI infrastructure & data centers since 2023 in the US

The training phase of large language models (LLMs) requires huge levels of computing power which is primarily provided today through AI servers equipped with GPUs and HBMs. These servers are installed in dedicated AI data centers.

This industry remains highly capital intensive. Hence, the four Tech giants or Hyperscalers, namely Alphabet (Google's parent company), Amazon, Meta and Microsoft, have so far been constantly investing in Cloud Computing data centers, reaching together a total Capex of USD140bn in 2022.

Since the advent of Generative AI (GenAI) at the end of 2022, annual Capex spent together by the four Tech giants in AI infrastructure grew exponentially, reaching USD410bn in 2025, primarily in the US.

The latest forecasts anticipate further **significant growth in AI infrastructure spending by the four players together, to reach USD725bn in 2026.** One can also add the US government's USD500bn AI project, Stargate, with the contribution of leading players of the private sector, such as OpenAI, SoftBank, and Oracle.

Significant DRAM & NAND price surge leading to end-user terminal price increase

An AI chip spending surge is expected in 2026, up 47% vs 2025.

Sustained AI chip spending derives from the need for AI infrastructure and the development of AI-specific processors. **This leads to foundry capacity constraints as leading-edge foundries for AI infrastructure are highly concentrated among four leading players** (TSMC, Samsung, SK Hynix and Micron). **An AI chip spending surge is expected in 2026,** up 47% vs 2025, to reach USD2.6trn. This, combined with conventional **DRAM and NAND memory chip shortage since the end of 2025, will result in spectacular increase** in average selling price per gigabyte **(ASP/GB) in 2026 of 125% and 234% respectively, inevitably leading to further price increase of end-user devices.**

	Global semiconductor market
2026	USD1,320bn
2027	USD1,555bn

Rabindra RENGARADJALOU

Shipping: towards a gradual recovery in traffic through the Strait of Hormuz

The preliminary deal between the US and Iran has revived hopes of a recovery in shipping traffic. However, persistent uncertainties and technical challenges could hinder the rapid return of many shipping companies to the Gulf.

The deal, cautiously welcomed by the shipping sector, marks a welcome de-escalation after four months of crisis, while ushering in a new round of high-stakes negotiations. In an environment where the slightest incident could jeopardise a return to normality, the security situation remains precarious and will need to be stabilised before any return to regular shipping can be contemplated.

A number of operational and security obstacles will have to be overcome, including the need to demine sensitive areas, establish protected shipping lanes, reinstate marine insurance cover and bring suspended production facilities back on line. Around 600 ocean-going vessels stranded with their crews – including many tankers being used as floating storage – await safe passage out of the Strait. Fleets – particularly of oil tankers and LNG carriers redeployed to ports in the Atlantic basin – will need to be repositioned, with the recovery in traffic expected to be spread over several months.

The pace of recovery will depend on the urgency of the economic situation and shipowners' appetite for risk.

If the Strait reopens as expected, the resumption of traffic is likely to prioritise cargos that are critical to the global economy. The pace of reopening will depend both on the urgency of the economic situation facing the Gulf States and their importers and on shipowners' highly variable appetite for risk. With a growing number of tankers and LNG carriers being rerouted towards the Gulf, Iranian vessels are already able to transit through the Strait following the lifting of the US blockade. However, as the persistent diversions triggered by the crisis in the Red Sea have shown, some carriers – particularly in container shipping – will be reluctant to expose their crews and vessels to a still unstable situation.

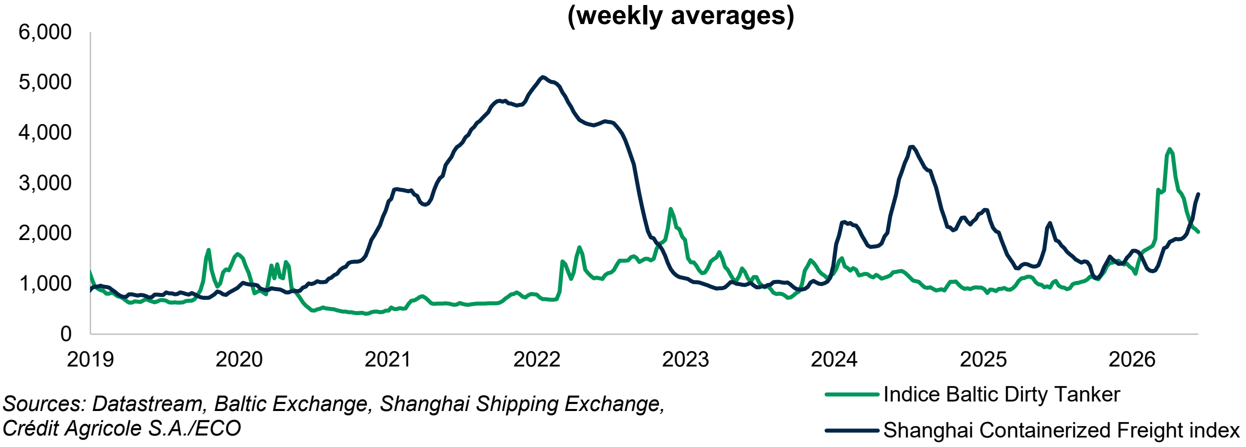
Freight rates for tankers and LNG carriers have eased but remain high, with the impact of lower shipping volumes offset by longer routes and waiting times at ports. If the Strait reopens for good, the rebuilding of global oil & gas inventories should support demand and keep freight rate at favourable levels over the medium term.

In the container market, freight rates have soared since May, driven by an early start to the high season, and are now approaching their 2024 highs. Cargo owners are bringing forward their bookings ahead of surcharges and changes to US import tariffs expected to take effect in July.

Despite the fall in trade with the Gulf states, which are now served via overland routes from neighbouring ports, global container traffic remains remarkably resilient. Chinese exports to Africa and Latin America have surged while those to Europe continue to grow, stretching transport capacity and exacerbating imbalances. Faced with this influx of heavily subsidised products, the European Commission is preparing to announce new safeguard measures.

Should the negotiations reach a successful conclusion and lead to a lasting peace agreement with Iran, the resumption of direct links with the Gulf, combined with the need for reconstruction, would provide an important source of growth. **However, the most likely scenario**

Freight rates for tankers and container ships (weekly averages)



Sources: Datastream, Baltic Exchange, Shanghai Shipping Exchange, Crédit Agricole S.A./ECO

at this stage remains a return to overcapacity and downward pressure on freight rates, given the record deliveries expected over the medium term and the increased likelihood of a resumption of traffic in the Red Sea.

Bertrand GAVAUDAN

MARKETS

Monetary policy – Guarding against second-round inflationary effects

Interest rates – A little patience

Exchange rates – Depending on the risks but not only

Monetary policy –Guarding against second round inflation effects

The scenario assumes a substantial inflationary shock but does not "degenerate" because second-round effects should be very limited and inflation expectations should remain anchored. In a context of high uncertainty, to ensure that core inflation does not overreact, central banks should remain vigilant.

FEDERAL RESERVE: EXTENDING THE HOLD

As we started off this section last quarter, we have once again not changed our base case scenario for the Fed, despite the fallout from the Iran war. Here, we continue to expect that the Fed will remain on hold for the entirety of 2026 to finish the year with an upper bound of 3.75%, before delivering one final cut in Q227 as inflation starts to ease more notably, resulting in a terminal rate of 3.50% for the upper bound.

We do now see risks as clearly tilted to the upside, with a non-negligible possibility that the next move is a hike. However, we have not added this option to our base case as we continue to believe that the bar for a rate hike is higher than the bar for extending the pause. In order for the Fed to deliver a hike, we believe it would need to see larger second round effects on core inflation than we are currently pencilling in and/or signs of de-anchoring in inflation expectations.

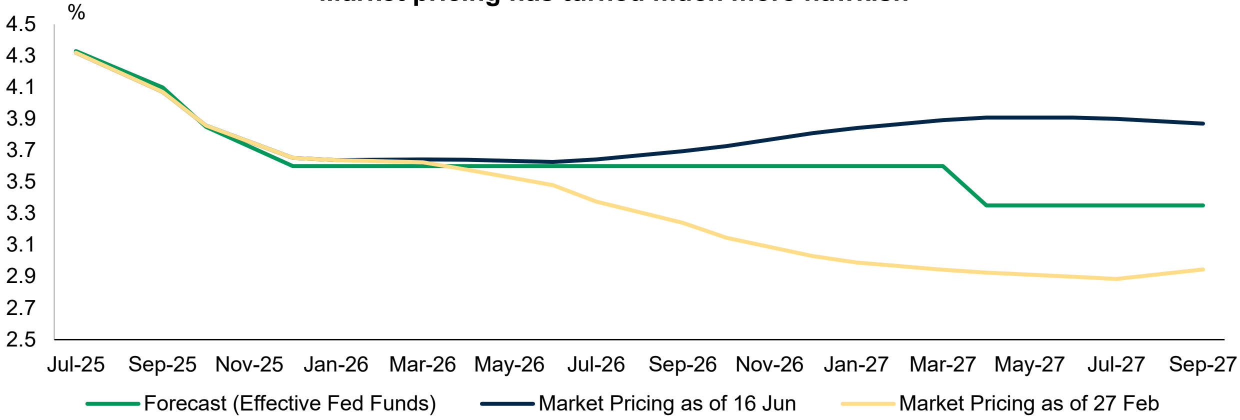
We do now see risks as clearly tilted to the upside, with a non-negligible possibility that the next move is a hike.

We would also highlight that a shift in leadership at the Fed could offer a bit of a wild card, with Kevin Warsh having now taken the helm as Chair from Jerome Powell. As we have noted in the past, we maintain our view that a new Chair will not be a game changer for the monetary policy outlook, as the Fed is not a dictatorship where the Chair sets policy unilaterally, but makes decisions through a vote of 12 members of a 19-person Committee.

However, we will keep a close eye on Warsh and his early actions as Chair. Even if he is not able to unilaterally shift the rate path, he may also push for changes to communications or balance sheet policy as well, including a stated goal of shrinking the balance sheet. While there may be some room to shrink the balance sheet, we are sceptical that Warsh would be able to reduce the size as much as he might like, and any changes here will likely require a gradual and lengthy process.

Nicholas VAN NESS

Market pricing has turned much more hawkish



Sources: Bloomberg, Federal Reserve, CA CIB

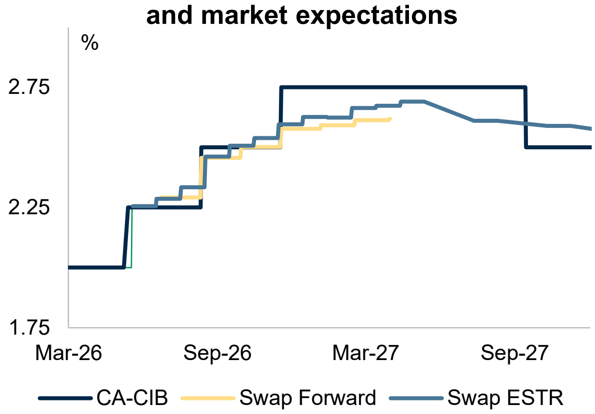
EUROPEAN CENTRAL BANK: NAVIGATING UNCERTAINTY

The European Central Bank faces a complex monetary policy landscape characterised by persistent inflation pressures and significant geopolitical uncertainties following its 25bp rate hike on 11 June.

Meeting-by-meeting approach

The ECB has maintained its meeting-by-meeting approach without committing to a predetermined path of rate hikes. This flexible stance reflects the ECB's recognition of substantial uncertainties surrounding the economic outlook, particularly upside risks for inflation and downside risks for economic growth stemming from the Iran war and energy price shocks.

Deposit rate: our forecasts and market expectations



Sources: Bloomberg, CA CIB

Expected rate trajectory

We anticipate two additional rate hikes beyond the June increase. The communication from Christine Lagarde during the June meeting suggests that the ECB will likely skip the July meeting and implement the next hike in September, followed by a final increase in December 2026. Recent developments in the Middle East could encourage the ECB to be more dovish than this scenario; in particular, the December hike could be dropped if energy commodities prices decline further.

The size of the final tightening will depend on how the geopolitical situation evolves, the impact on energy prices and the transmission of energy prices to core inflation.

On the other hand, we believe that even in a scenario with a swift normalisation, the ECB would hike once more, putting the deposit rate at 2.5%.

To sum up, in our view, the ECB will hike another time or two this year. The size of the final tightening (a total of two or three hikes for 2026) will depend on how the geopolitical situation evolves, the impact on energy prices and the transmission of energy prices to core inflation.

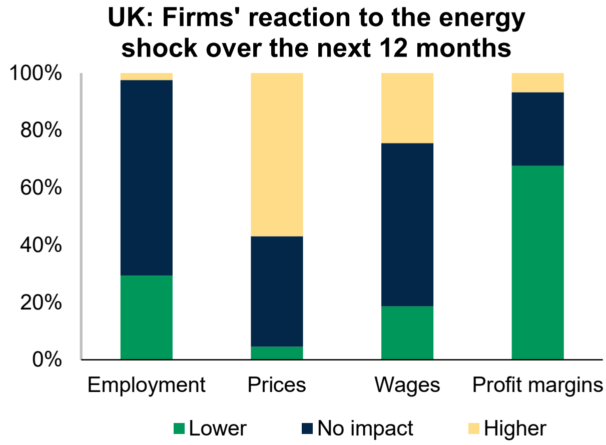
Louis HARREAU

BANK OF ENGLAND: A RATE HIKE IS BECOMING LESS LIKELY FOLLOWING THE IRAN-US TRUCE, BUT CANNOT BE RULED OUT

The Bank of England has kept interest rates unchanged (at 3.75%) since the start of the conflict in the Middle East, whilst signalling that it remains ready to act if it judges that its 2% inflation target is at risk of becoming unattainable in the medium term. **Action would be particularly warranted if the risk of second-round effects in price and wage-setting were to increase. This risk would be all the greater if the shock to energy prices were to persist.** The BoE has explicitly stated that **if inflation were to rise mainly due to direct effects of higher energy prices and second-round effects remained contained, a more gradual convergence towards the 2 % target would be tolerable**, against a backdrop of weak economic growth. In the alternative scenario, where the rise in energy prices were to feed through to more sustained domestic inflation, the BoE indicates that the priority given to stabilising economic activity would be reduced, and monetary policy would need to maintain its restrictive stance for longer, or even tighten it further.

The memorandum of understanding between the United States and Iran, and the resulting fall in energy prices, appear to reduce the need for an immediate rate rise.

Given these indications from the BoE regarding the conduct of its monetary policy**, the memorandum of understanding between the United States and Iran, and the resulting fall in energy prices, appear to reduce the need for an immediate rate rise**. This is all the more true given that the tightening of financial conditions observed since the start of the conflict is already playing a restrictive role in place of the BoE, weighing on demand and the employment outlook, and thereby reducing the prospects of inflationary pressures in the medium term. **We are therefore removing our previous forecast of a rate hike from our central scenario.** However, a rate rise remains a possibility should the alternative scenario materialise in the coming months.



Sources: BoE Decision Maker PaneCrédit Agricole

Business surveys suggest that pressure on input and output prices is already quite sustained, but has had little impact on expected wages at this stage. According to the BoE's *Decision Maker Panel* surveys, businesses mainly plan to respond to the energy price shock by reducing their profit margins – an option cited by more than two-thirds of respondents – and by raising their selling prices, mentioned by around half of them. By contrast, fewer than a quarter anticipate a rise in wages. Whilst households' inflation expectations have risen significantly, businesses anticipate a slowdown in wage growth over the next twelve months. We will also have to wait until next spring to find out the outcome of the next round of wage negotiations, which are due to take place in early 2027. Against the backdrop of an expected further deterioration of unemployment in the coming months, wage negotiations are likely to be restrained.

Core inflation (2.6% YoY in May) is expected to be held in check by weak demand and a rising unemployment rate. According to our forecasts, it is expected to temporarily exceed 3% in Q426 and Q127, returning to levels similar to those seen in early 2026, before falling rapidly over the course of next year. **This should enable the BoE to resume its process of rate cuts in H227.**

Slavena NAZAROVA

BANK OF JAPAN: A DUAL MANDATE OF ACHIEVING BOTH STRONG ECONOMIC GROWTH AND STABLE PRICES

The BoJ is given a dual mandate aimed at achieving both strong economic growth and price stability

The YoY rate of the consumer price index (excluding fresh food and energy) would temporarily decline to the mid-1% range in H226, reflecting still-weak domestic demand and a loss of purchasing power due to a sharp increase in energy costs.

Corporates are becoming wary of rising price elasticity of demand. With a temporary VAT cut, inflation is projected to slow down to below 1% by 2027. Under a global cyclical recovery and a rebound in domestic demand, corporate spending – including capital investment and wages – would strengthen, leading to a narrowing of the positive corporate savings rate that had been a source of structural economic stagnation through excess savings.

From 2027 onward, supported by a recovery in consumption driven by rising real wages and the realisation of a high-pressure economy accompanied by stronger growth, the rate of inflation would see an expanding upward momentum toward 2%.

By 2028, the corporate savings rate would turn negative, eliminating structural stagnation pressures, while accelerating wage growth and inflation expectations anchored at 2% would enable the stable and sustained achievement of the price target. A key precondition would be that the BoJ avoids premature rate hikes that could trigger a downward pressure on credit cycle and sharp appreciation of the JPY.

Four rate hikes since 2024 have delayed the recovery of domestic demand. By acting prematurely, the room for further rate hikes to counter the global rise in interest rates has been wasted.

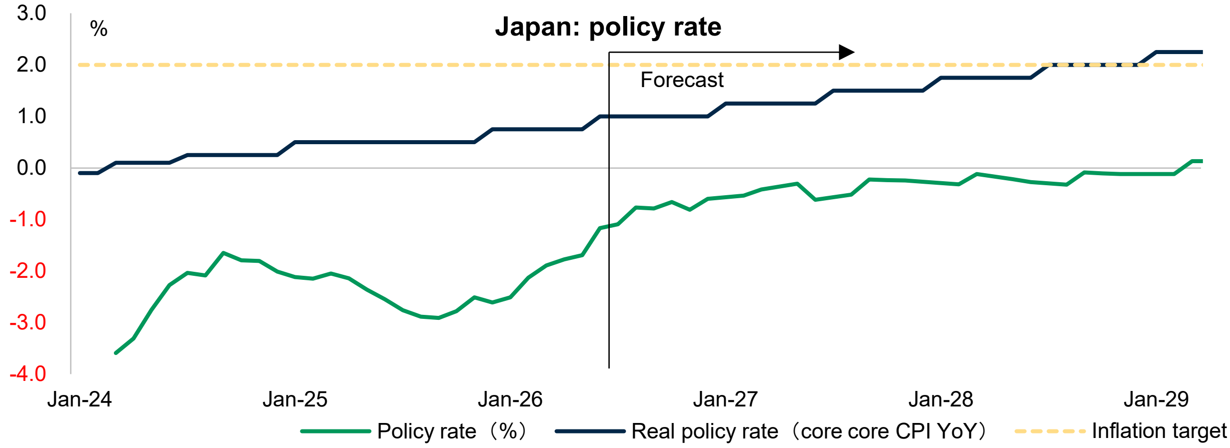
The government has imposed a de facto dual mandate on the BoJ, aiming to achieve both strong economic growth and stable inflation.

The coordination between the Takaichi administration's high-pressure economic policy to overcome structural economic stagnation and its expansionary fiscal policy is now more important. The government has imposed *a de facto* dual mandate on the BoJ, aiming to achieve both strong economic growth and stable inflation. We expect rate hikes toward neutral to be gradual, occurring once every six months. With inflation expanding again toward the 2% target, rate hikes would continue to align with the real policy rate of around 0%.

By 2028, the corporate savings rate would return to negative, corporate demand to recover, and structural economic stagnation would be overcome, resulting in a policy rate of slightly over 2%, and the real policy interest rate would move away from negative relative to the inflation target. By raising rates in line with the expansion of inflation, the real policy rate would be maintained near zero percent, supporting the negative corporate savings rate due to increased corporate investment. The target point would be a slight return to positive real policy rates in 2029. Amid rising geopolitical risks and a global economic slowdown,

Ken MATSUMOTO – Takuji AIDA

premature rate hikes could disrupt the credit and capex cycles, leading to a slowdown in domestic demand, a rise in corporate savings rates, and a risk of returning to a structural recession.



Sources: BOJ, MIAC, Crédit agricole CIB

Interest rates – A little patience

Inflation, both obvious and anticipated, has already resulted in a significant increase in interest rates. Our "imperfect normalization" scenario assumes that energy prices remain high but do not thwart a decline in inflation and then a monetary easing (albeit distant). In this context, interest rates (swaps) could trend downwards.

USA: TRANSITIONING FROM EASING TO TIGHTENING BIAS

Inflation worries from the US-Iran war have raised Treasury term premium, putting upward pressure on rates. Term premium jumped on rising rates, with the 10Y ACM term premium surging from 60bp at end-February to 88bp in May, before reserving course this month amid optimism of a possible US-Iran deal to end the war (Chart 1).

We have revised our US rate forecast against the inflation backdrop & the Fed pivoting away from an easing bias and considering rate hikes. Given no major changes to the inflation or labour market outlook, our house view is an extended Fed hold this year with one final cut next year. Recent labour market and inflation data does not change the near-term policy rate trajectory, solidifying the Fed's wait-and-see stance.

Recent data and Fed communication suggest the balance of concern around the dual mandate skews more towards inflation. Even if new Fed Chair Kevin Warsh tries to aggressively push for lower rates, he likely faces strong resistance from the rest of the FOMC. What may change that dynamic would be a sudden deterioration in the labour market or a slowdown in inflation, neither of which is our base scenario at the moment.

We continue to believe the bar for Fed hikes is relatively higher than the bar for extending the pause. With core CPI holding below 3% in our house forecast but well above the Fed's 2% goal, the outlook does not warrant rate hikes near-term, barring inflation expectations becoming de-anchored.

We expect the 2Y Treasury yield to trade in the 4.00-4.30% range near term, given our macro view of no Fed cuts this year and the market pricing a hawkish Fed with the first hike later this year. While the Fed is in no hurry for further action in the near-term, a majority of officials warned they would consider rate hikes if inflation continued to be persistently above the 2% target.

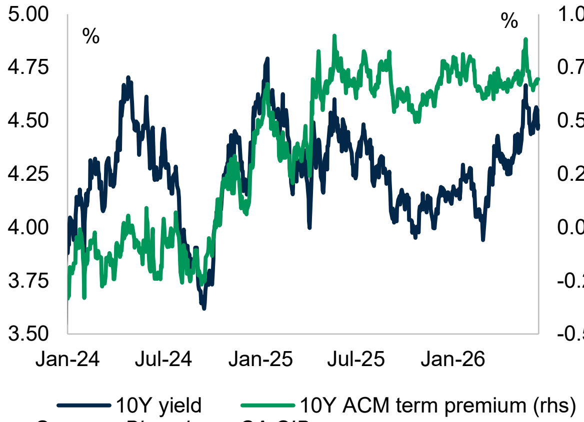
We see rates declining later in 2026 when energy markets normalise following a United States-Iran ceasefire agreement.

We target the 10Y yield in the 4.50% area by year-end, a decline from the peak in Q226. Our macro team forecasts decent growth this year, with the annual average GDP at 2.1% in 2026, the same as in 2025. Demand for long duration bonds amid record pension funding ratio likely limit upward pressure on long-end rates (Chart 2).

We see rates declining later in 2026 when energy markets normalise following a United States-Iran ceasefire agreement. Modestly lower rates will likely continue through mid-2027 given our macro call of a 25bp Fed rate cut in Q227. In our forecast, the curve remains stable near-term and steepens in H127 ahead of a Fed rate cut.

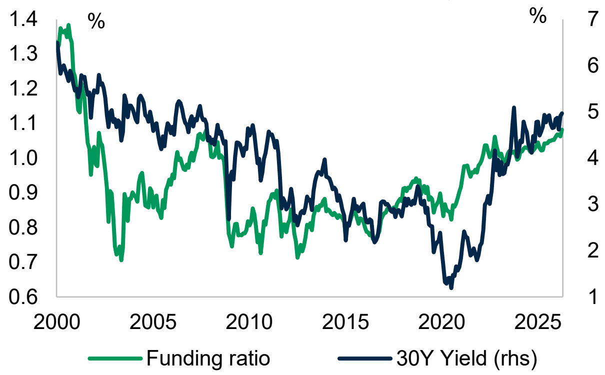
Alex LI

Term premium stays elevated



Sources: Bloomberg, CA CIB

Demand for long duration bonds amid record pension funding ratio



Sources: Bloomberg, CA CIB

EUROPE: OPTIONALITY OVER ORTHODOXY

The ECB's conditional guidance has mechanically linked front-end pricing to energy and inflation. To maintain credibility, the ECB delivered June's hike given realised energy paths, but we expect a shift toward a more flexible, multi-variable framework with explicit optionality rather than full path dependence on energy. This began with a new milder scenario to create "positive upside" and balance out more adverse outcomes. Markets correctly read this as dovish as more optionality means toning down prevailing hawkish sentiment. September remains the main expectation for the next hike, though a third remains possible if inflation warrants it. Regardless, we do not expect the ECB to fall behind the curve.

Our ECB path means 2Y swaps should modestly undershoot forwards yet shift slightly higher. With markets pricing two to three cuts by year-end, implied volatility should remain contained and decline post-pivot. Main upside risk requires persistent second-round effects into 2027 and a material global tightening (a hawkish Fed). Under our base case this remains unlikely, favouring non-rates risk premia monetisation after summer.

Manageable supply shocks should anchor the EUR front end, but the long end faces global rates pressures. The Fed situation echoes Q323's "higher for longer." Medium-term Fed rates are harder to assess given persistent fiscal stimulus, the US growth wedge vs other developed markets and the resilient labour market. Add imported energy shocks, tariff uncertainty and new Fed chair communication risks, there is a sizable risk of term premium creation that percolates to other jurisdictions. GBP and JPY rates face similar policy uncertainty risks. Initial repricing occurred via real yields in USD curve with limited ASW impact despite fiscal risks, while EUR real yields stayed resilient, leaving catch-up potential. This implies that 5Y and 10Y swaps will not benefit much from an ECB pivot, steepening both the 2-10Y and 5-30Y segments.

Beyond US-driven term premium, duration demand continues shifting. ECB QT and declining liability-driven investor maturities meet sticky nominal deficits, making price-sensitive investors more important for marginal pricing. With fewer captive investors, long-end risk-adjusted returns must be sufficient to secure demand. This fuels collateral depreciation and ASW curve steepening, with bonds underperforming swaps.

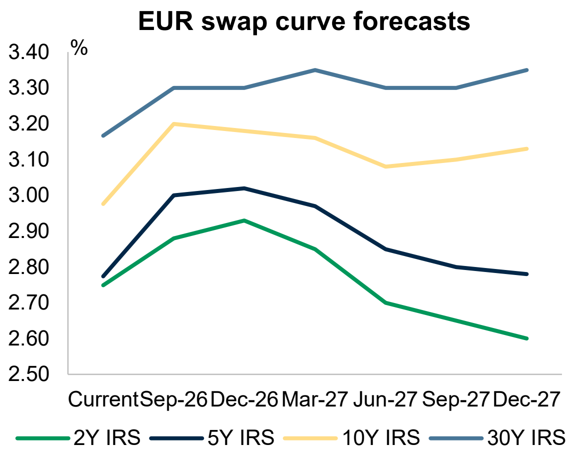
EGB curves should outperform G10 peers given lower implied volatility for comparable carry/rolldown from credit components. EGB ASW should benefit from stabilising global swap spreads, supporting convergence. Near-term, expect slight EGB spread readjustment starting at the front end, then 5Y ASW outperformance before monetisation extends to farther tenors.

Political risk threatens countries with limited fiscal leeway, though positive EGB backdrop limits widening absent overwhelming poll leads for growth-undermining parties.

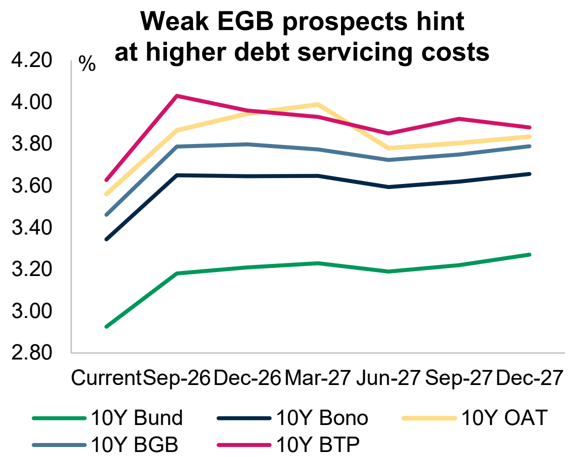
Country spreads should reflect GDP trajectories and debt servicing costs rather than pure deficits. Germany is the main exception, where medium-term outlook should stabilise above 4% through decade-end. German ASW should steepen more than peers where fiscal consolidation continues modestly. Political risk threatens countries with limited fiscal leeway, though positive EGB backdrop limits widening absent overwhelming poll leads for growth-undermining parties.

We expect 10Y OAT-Bund peaking around 75bp, BTP-Bund at 85bp. 10Y Bund should stabilise around 3.2%; neither 10Y OAT nor BTP should meaningfully exceed 4.0%. Expect Bono outperformance vs broad EGB, especially OLOs.

Guillaume MARTIN



Source: Crédit Agricole CIB



Source: Crédit Agricole CIB

Exchange rates – Depending on the risks but not only

Hopes for an appeasement of hostilities in the Persian Gulf have helped to boost risk appetite. Assuming a lull, albeit a precarious lull, in the Middle East, fundamentals should again drive currency trends. However, the comparison between the economic results of the United States and those of "old Europe" does not work in favour of the EUR.

DEVELOPED COUNTRIES: THE WAR IN IRAN AND OUR FX FORECASTS

Hopes for a sustained cessation of hostilities in the Middle East and a reopening of the Strait of Hormuz have sunk global energy prices and helped risk sentiment recover. These developments have weighed on the USD, but the EUR has gained as demand for safe-haven assets faded while easing fears about a severe negative commodity terms-of-trade shock in the Euro area have burnished the appeal of EUR-denominated risk-correlated assets. It remains uncertain whether the US and Iran would be able to reach a deal at the end of their self-imposed 60-day negotiation period. To the extent that we do see some normalisation of the flow of energy through the Strait of Hormuz, however, this should cut the risk of renewed oil price spikes and thus the risk of significant EUR/USD downside.

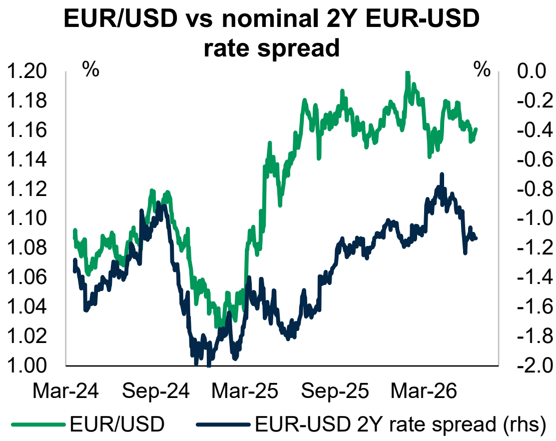
Despite that, we remain bearish on EUR/USD, expecting it to trade close to 1.13-1.14 in the next 6-12 months because of the following reasons/channels:

Rates channel: the nominal and real EUR-USD rate spreads continue to point at further downside. Stable to somewhat lower global energy prices (as per the oil futures markets) could encourage both the ECB and the Fed to shift their focus away from risks to their inflation outlook to their growth outlook. This could push the nominal EUR-USD rate spread lower still and weigh on EUR/USD that further continues to trade at a premium relative to the spread.

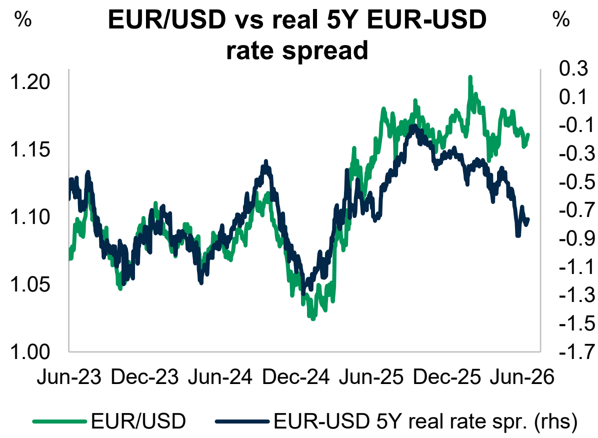
Growth channel: only very gradual normalisation of the flow of energy through the Strait of Hormuz could keep global energy prices elevated and thus maintain downside growth risks in place for the economies of energy importers like the Euro area. This could keep the real EUR-USD rate spread – our proxy for the relative Euro area-US growth outlook – very negative and thus add to the headwinds for EUR/USD.

Equity flow channel: the Euro area growth outlook should continue to lag that of the US and thus undermine the appeal of EUR- vs USD-denominated assets. A continuing outperformance of US technology stocks could encourage further portfolio rebalancing away from the Euro area and into the US. Prohibitively high FX hedging costs could keep these USD inflows unhedged, in a blow to EUR/USD.

Valentin MARINOV



Sources: Bloomberg, CA CIB



Sources: Bloomberg, CA CIB

EMERGING COUNTRIES: RELATIVELY CONSTRUCTIVE OUTLOOK, PROVIDED RISKS DO NOT MATERIALISE

After having depreciated in March, an index of EM currencies has partly recovered at the beginning of April. It has been directionless since mid-April, fluctuating according to the newsflow on Iran, tech stocks and the Fed.

Overall, EM currencies have been more resilient to the shock than what could have been expected at the beginning of the war. This is also because the price of oil reached its local peak at end-March. It then fluctuated but with a downward trend.

What happens with EM currencies in the coming months will continue to depend a lot on the situation in the Middle East, on Hormuz and on oil prices. Assuming that our in-house base-case scenario materialises, the gradual decline in the oil price suggests that it should not be a strong constraint for EM currencies.

> ***The Middle East geopolitics and the uncertainty on tech stocks are the main risks to our relatively constructive EM FX view***

When it comes to US rates, our US economist expects flat Fed fund rates in 2026, and our US rates strategist expects only a limited increase in US yields in the short term, followed by a gradual decrease. This should not exert strong pressure on EM currencies either.

Overall, among the 22 currencies under our coverage, we expect that 15 will appreciate vs the USD in 2026 and that 7 will depreciate.

Asia

Region-by-region, we expect most Asian currencies to appreciate. As Asia is a big fuel importer, Asian currencies should benefit from the expected moderation in the oil price. We see the largest appreciation potential for the KRW and the MYR. Still, for Asia, the uncertainty regarding tech stocks (and the possibility of a correction) represents a risk. On the weak side, we expect the INR and the THB to depreciate vs the USD in the rest of 2026.

Latin America

Latam currencies have been supported by a high level of carry, on average. However, this has pushed them to levels which sometimes look overvalued. This is particularly the case for the COP. For this region, politics and fiscal flexibility should remain a key theme. The BRL may suffer from increased uncertainty ahead of the general election (due in October). The MXN is a peculiar case. It is not cheap, when one looks at its real effective exchange rate, and a risk for the MXN is possible US pressure as we approach the mid-term elections.

EMEA

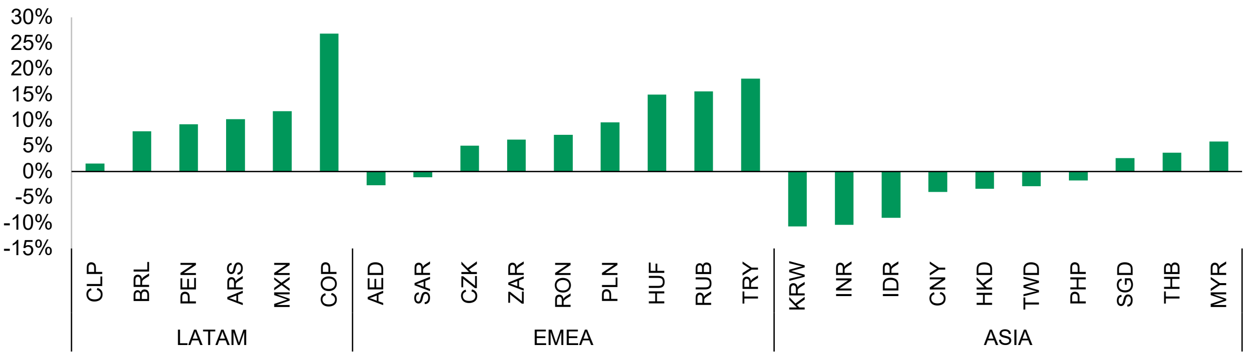
We see most Central European currencies appreciating vs the EUR over the rest of 2026 (the RON being the exception). They should benefit from a combination of decent/improving growth performance, favourable rate gap vs EUR and EU fund flows.

The ZAR may outperform in our view, benefiting from the SARB's strong credibility, a rather high carry, and a gradually improving growth narrative, together with likely supportive terms-of-trade dynamics.

Needless to say, there are many risks to our EM FX forecasts. These risks are mentioned in the EM macro section of this publication. The first one is the possibility of a rebound in tensions in the Middle East. The second one, which should not be neglected, has to do with the possibility of a correction on global tech stocks. Both risks would push most EM currencies down vs the USD, should they materialise.

Sébastien BARBÉ

Real effective exchange rates vs 5 years average
(updated 19 June)



Sources: BIS, CA CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price * (yoy, %)			Current account(% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
United States	**2.1**	**2.1**	**1.9**	**2.7**	**3.2**	**2.3**	**-3.8**	**-3.5**	**-3.4**
Japan	**1.1**	**0.3**	**0.5**	**3.0**	**1.9**	**0.6**	**4.0**	**3.0**	**2.0**
Euro area	**1.5**	**0.2**	**0.9**	**2.1**	**2.7**	**2.4**	**1.7**	**1.3**	**1.3**
Eurozone excl. Ireland	**1.0**	**0.8**	**0.9**	-	-	-	-	-	-
Germany	0.3	0.6	0.9	2.3	2.7	2.7	5.8	4.5	3.9
France	0.9	0.6	0.8	0.9	2.0	1.7	0.1	-0.3	0.1
Italy	0.7	0.5	0.6	1.6	2.6	1.8	1.1	1.1	1.0
Spain	2.8	2.1	1.6	2.7	3.7	3.1	3.2	2.9	1.7
Netherlands	1.8	1.0	1.0	3.0	2.7	2.7	9.1	7.9	7.7
Other advanced									
United Kingdom	1.4	1.1	1.1	3.4	3.1	2.6	-2.4	-4.1	-3.8
Canada	1.1	1.5	1.8	2.0	2.1	2.0	-0.8	-1.0	-1.7
Australia	2.1	2.2	2.3	3.3	3.0	2.6	-2.1	-2.3	-2.6
Switzerland	1.0	1.3	1.1	0.1	0.6	0.7	7.0	7.0	7.1
Asia	**5.2**	**5.0**	**4.8**	**1.0**	**2.5**	**2.2**	**2.8**	**2.7**	**3.1**
China	5.0	4.7	4.5	0.0	1.1	1.0	3.2	3.2	3.5
India	7.0	6.5	6.7	2.6	5.2	4.5	-1.0	-2.9	-2.1
South Korea	1.0	2.6	2.1	2.1	2.9	2.3	6.6	12.0	11.8
Latin America	**2.8**	**2.1**	**2.1**	**3.1**	**2.9**	**3.0**	**-0.1**	**-0.5**	**-0.7**
Brazil	2.3	1.9	2.0	5.2	4.5	4.1	-3.0	-2.1	-2.2
Mexico	0.6	0.9	1.2	3.7	3.9	3.5	-0.5	-0.5	-0.6
Emerging Europe	**2.0**	**2.2**	**2.3**	**14.7**	**10.2**	**8.6**	**-0.1**	**-0.3**	**-0.4**
Russia	1.0	1.4	1.4	8.7	6.0	5.8	1.8	1.7	1.6
Turkey	3.4	3.4	3.7	36.0	24.0	19.0	-1.5	-1.5	-2.0
Poland	3.6	3.3	3.0	3.6	2.9	3.5	-0.8	-1.3	-1.3
Africa, Middle East	**3.3**	**0.8**	**3.5**	**4.9**	**4.5**	**4.1**	**1.0**	**0.1**	**0.2**
Saudi Arabia	4.5	1.4	4.2	2.1	2.3	2.4	-2.6	-0.8	-1.4
United Arab Emirates	6.2	-0.9	6.0	1.3	3.0	1.8	15.3	7.5	9.0
Egypt	4.4	4.6	4.0	20.9	13.3	12.0	-4.4	-5.0	-3.9
Morocco	4.6	4.1	4.2	0.7	3.5	2.0	-2.5	-2.6	-2.6
Total	**3.2**	**2.7**	**2.9**	**3.1**	**3.4**	**2.8**	**2.8**	**2.8**	**2.8**
Advanced economies	**1.7**	**1.2**	**1.4**	**2.5**	**2.8**	**2.2**	**2.2**	**2.2**	**2.2**
Emerging countries	**4.3**	**3.9**	**4.1**	**3.6**	**3.8**	**3.4**	**3.4**	**3.4**	**3.4**

** HICP for euro area countries, CPI for others*

	2025				2026				2027			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	-0.6	3.8	4.4	0.5	1.6	2.5	1.8	1.8	2.0	2.0	1.9	1.9
Japan	0.5	0.3	-0.6	0.2	0.5	0.1	-0.2	0.1	0.1	0.3	0.3	0.3
Euro area	0.7	0.1	0.3	0.2	-0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Eurozone excl. Ireland	0.3	0.2	0.3	0.3	0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Germany	0.4	-0.2	0.0	0.2	0.3	0.0	0.1	0.2	0.2	0.3	0.3	0.4
France	0.1	0.3	0.4	0.2	-0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3
Italy	0.3	0.0	0.2	0.3	0.3	-0.2	0.0	0.1	0.2	0.2	0.4	0.3
Spain	0.5	0.7	0.6	0.8	0.6	0.3	0.3	0.3	0.4	0.4	0.5	0.5
United Kingdom	0.6	0.1	0.2	0.2	0.6	0.2	0.1	0.1	0.5	0.1	0.3	0.3

	2025				2026				2027			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	2.7	2.5	2.9	2.7	2.7	3.6	3.3	3.3	3.0	1.9	2.0	2.2
Japan	2.7	3.2	3.2	3.0	2.5	1.8	1.8	1.6	1.6	0.3	0.2	0.3
Euro area (HICP)	2.3	2.0	2.1	2.1	2.0	3.0	3.0	3.0	2.9	2.2	2.2	2.1
Germany	2.6	2.1	2.1	2.3	2.3	2.7	2.8	2.9	2.9	2.7	2.6	2.4
France	1.2	0.8	0.9	0.8	1.1	2.5	2.2	2.3	2.2	1.3	1.6	1.5
Italy	1.7	1.8	1.7	1.2	1.4	3.1	2.9	3.1	2.6	1.4	1.5	1.7
Spain	2.7	2.2	2.8	3.1	2.8	4.0	4.0	4.0	3.4	3.5	3.0	2.5
United Kingdom	2.8	3.5	3.8	3.4	3.1	2.7	3.0	3.4	3.4	2.8	2.2	2.0

	2025				2026				2027			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	4.1	4.2	4.3	4.5	4.3	4.3	43.0	4.3	4.3	4.3	4.2	4.2
Japan	2.5	2.5	2.5	2.6	2.7	2.5	2.6	2.6	2.6	2.6	2.5	2.5
Euro area	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.5	6.5	6.5	6.5	6.5
Germany	3.6	3.7	3.8	3.9	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.1
France	7.5	7.6	7.8	8.0	8.2	8.3	8.3	8.3	8.3	8.3	8.3	8.2
Italy	6.3	6.3	6.0	5.7	5.3	5.5	5.7	5.9	6.0	6.1	6.2	6.3
Spain	10.8	10.6	10.5	10.2	10.3	10.1	9.9	9.8	9.7	9.6	9.5	9.4
United Kingdom	4.6	4.7	5.1	5.2	5.0	5.2	5.4	5.4	5.4	5.4	5.3	5.2

	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Euro area								
2025	1.5	1.5	1.4	3.2	2.2	3.6	-0.5	0.4
2026	0.2	0.8	2.0	1.0	0.0	2.1	-0.9	0.5
2027	0.9	0.8	1.3	1.8	1.3	1.9	-0.2	0.5
Q1 2026	*-0.2*	*0.2*	*0.5*	*-0.3*	*-0.2*	*0.5*	*-0.3*	*0.5*
Q2 2026	*0.1*	*0.0*	*0.3*	*0.3*	*0.4*	*0.6*	*-0.1*	*0.5*
Q3 2026	*0.1*	*0.1*	*0.4*	*0.3*	*0.3*	*0.4*	*-0.1*	*0.5*
Q4 2026	*0.2*	*0.1*	*0.3*	*0.4*	*0.4*	*0.6*	*-0.1*	*0.5*
Germany								
2025	0.3	1.5	1.5	0.0	-0.7	3.2	-1.5	0.7
2026	0.6	0.4	3.5	0.4	0.8	1.5	-0.2	-0.3
2027	0.9	0.6	2.1	3.5	0.0	2.0	-0.8	0.1
Q1 2026	*0.3*	*0.0*	*1.1*	*-1.5*	*3.3*	*0.1*	*1.3*	*-0.9*
Q2 2026	*0.0*	*0.0*	*0.5*	*0.7*	*-0.4*	*0.4*	*-0.3*	*0.1*
Q3 2026	*0.1*	*0.0*	*0.6*	*0.7*	*-0.3*	*0.4*	*-0.3*	*0.1*
Q4 2026	*0.2*	*0.1*	*0.5*	*0.7*	*-0.1*	*0.5*	*-0.2*	*0.1*
France								
2025	0.9	0.5	0.7	0.7	2.4	2.9	-0.2	0.6
2026	0.6	0.1	1.2	0.1	1.0	0.3	0.2	0.0
2027	0.8	0.6	0.9	0.5	2.6	1.6	0.3	-0.2
Q1 2026	*-0.1*	*-0.2*	*0.3*	*-0.6*	*-3.5*	*-0.9*	*-0.9*	*1.0*
Q2 2026	*0.1*	*-0.1*	*0.3*	*0.1*	*2.5*	*1.3*	*0.4*	*-0.3*
Q3 2026	*0.1*	*0.0*	*0.3*	*-0.1*	*1.0*	*0.3*	*0.2*	*-0.2*
Q4 2026	*0.2*	*0.1*	*0.2*	*0.0*	*0.7*	*0.4*	*0.1*	*-0.1*
Italy								
2025	0.7	1.1	0.6	3.8	1.4	3.9	-0.6	-0.2
2026	0.5	0.6	0.4	2.5	2.2	1.9	0.1	-0.7
2027	0.6	0.4	0.6	0.5	1.1	1.5	-0.1	0.2
Q1 2026	*0.3*	*0.5*	*0.0*	*0.7*	*2.2*	*-0.7*	*0.9*	*-1.1*
Q2 2026	*-0.2*	*-0.2*	*0.1*	*0.1*	*-0.3*	*0.2*	*-0.2*	*0.0*
Q3 2026	*0.0*	*-0.1*	*0.1*	*-0.2*	*0.3*	*0.4*	*0.0*	*0.1*
Q4 2026	*0.1*	*-0.1*	*0.1*	*0.3*	*0.7*	*1.0*	*-0.1*	*0.1*
Spain								
2025	2.8	3.4	2.4	5.8	3.6	6.2	-0.7	0.0
2026	2.1	2.4	1.5	3.9	1.1	2.2	-0.3	-0.1
2027	1.6	1.7	1.2	2.7	2.5	3.3	-0.2	0.0
Q1 2026	*0.6*	*0.6*	*0.2*	*0.4*	*-0.5*	*-1.2*	*0.2*	*0.0*
Q2 2026	*0.3*	*0.3*	*0.3*	*0.4*	*0.7*	*0.9*	*0.0*	*0.0*
Q3 2026	*0.3*	*0.3*	*0.3*	*0.4*	*0.7*	*0.9*	*0.0*	*0.0*
Q4 2026	*0.3*	*0.4*	*0.3*	*0.7*	*0.8*	*1.2*	*-0.1*	*0.0*
Portugal								
2025	1.9	3.5	1.6	3.7	0.4	4.3	-1.7	0.3
2026	1.7	2.2	1.4	6.1	2.7	5.8	-1.5	0.3
2027	1.6	1.6	1.0	1.4	2.4	2.2	0.0	0.0
Q1 2026	*0.0*	*0.1*	*0.3*	*1.9*	*2.1*	*5.4*	*-1.5*	*1.0*
Q2 2026	*0.3*	*0.4*	*0.3*	*0.6*	*0.6*	*0.9*	*-0.2*	*0.0*
Q3 2026	*0.3*	*0.4*	*0.3*	*0.5*	*0.6*	*0.7*	*-0.1*	*0.0*
Q4 2026	*0.5*	*0.4*	*0.3*	*0.4*	*0.7*	*0.5*	*0.1*	*0.0*
Netherlands								
2025	1.8	1.6	1.9	1.0	2.5	2.5	0.2	0.1
2026	1.0	0.6	2.1	1.4	1.1	1.5	-0.2	0.1
2027	1.0	1.0	1.3	1.4	1.3	1.5	0.0	0.0
Q1 2026	*0.1*	*0.0*	*0.5*	*0.7*	*-0.6*	*0.0*	*-0.5*	*0.3*
Q2 2026	*0.2*	*0.2*	*0.3*	*0.4*	*0.3*	*0.4*	*-0.1*	*0.0*
Q3 2026	*0.2*	*0.2*	*0.3*	*0.4*	*0.3*	*0.4*	*-0.1*	*0.0*
Q4 2026	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.4*	*-0.1*	*0.0*
United Kingdom								
2025	1.4	1.0	1.6	4.3	2.1	4.2	-0.7	-0.1
2026	1.1	0.7	1.3	-0.8	1.2	1.1	0.0	0.5
2027	1.1	0.1	1.6	1.3	2.0	0.8	0.4	0.0
Q1 2026	*0.6*	*0.6*	*0.4*	*-0.6*	*0.1*	*0.6*	*-0.2*	*0.6*
Q2 2026	*0.2*	*0.1*	*0.4*	*-0.5*	*0.3*	*-0.2*	*0.2*	*0.0*
Q3 2026	*0.1*	*-0.2*	*0.4*	*-0.4*	*0.5*	*-0.2*	*0.2*	*0.0*
Q4 2026	*0.1*	*-0.2*	*0.4*	*-0.2*	*0.5*	*-0.1*	*0.2*	*0.0*

(a) contribution to GDP growth (%, q/q) (b) q/q, %

INTEREST RATES

Short-term interest rates		Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
United States	Fed funds	3.75	3.75	3.75	3.75	3.50	3.50	3.50
	Sofr	3.63	3.63	3.63	3.63	3.38	3.38	3.38
Japon	Call rate	0.75	0.75	1.00	1.00	1.25	1.50	1.75
Euro area	Refinancing	2.65	2.90	2.90	2.90	2.90	2.65	2.65
	Deposit	2.25	2.50	2.75	2.75	2.75	2.50	2.50
	€str	2.18	2.44	2.70	2.70	2.70	2.45	2.45
	Euribor 3m	2.50	2.75	2.85	2.85	2.65	2.50	2.30
United-Kingdom	Base rate	3.75	3.75	3.75	3.75	3.75	3.50	3.25
	Sonia	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Sweden	Repo	1.75	1.75	1.75	2.00	2.00	2.00	2.00
Norway	Deposit	4.00	4.00	4.25	4.25	4.25	4.00	4.00
Canada	Overnight	2.25	2.25	2.25	2.25	2.25	2.25	2.25

10Y rates	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
USA	4.70	4.60	4.55	4.55	4.45	4.50	4.50
Japan	2.60	2.55	2.55	2.60	2.60	2.65	2.65
Euro area (Germany)	3.05	3.18	3.21	3.23	3.19	3.22	3.27
Spread 10 ans / Bund							
France	0.65	0.69	0.74	0.76	0.59	0.58	0.56
Italy	0.81	0.85	0.75	0.70	0.66	0.70	0.61
Spain	0.45	0.47	0.44	0.42	0.40	0.40	0.39

Asia		Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
China	7d reverse repo rate	1,40	1,40	1,40	1,30	1,30	1,30	1,30
Hong Kong	Base rate	4,00	4,00	4,00	4,00	3,75	3,75	3,75
India	Repo rate	5,25	5,25	5,25	5,25	5,25	5,25	5,25
Indonesia	7D (reverse) repo rate	5,75	6,00	6,00	6,00	6,00	6,00	6,00
Korea	Base rate	2,50	2,75	3,00	3,00	3,00	3,00	3,00
Malaysia	OPR	2,75	2,75	2,75	2,75	2,75	2,75	2,75
Philippines	Repo rate	4,75	4,75	4,75	4,75	4,75	4,75	4,75
Singapore	O/N SORA	1,10	1,15	1,20	1,25	1,25	1,30	1,40
Taiwan	Redisc	2,00	2,00	2,13	2,13	2,13	2,13	2,13
Thailand	Repo	1,00	1,00	1,00	1,00	1,00	1,25	1,25
Latin America								
Brazil	Overnight/Selic	14,25	13,75	13,75	13,75	13,75	13,75	13,75
Mexico	Overnight rate	6,50	6,50	6,50	6,50	6,50	6,50	6,50
Emerging Europe								
Czech Rep.	14D repo	3,50	3,50	3,50	3,50	3,50	3,50	3,50
Hungary	Base rate	6,00	5,25	5,00	4,75	4,50	4,50	4,50
Poland	7D repo	3,75	3,75	3,75	3,75	3,75	3,75	3,75
Romania	2W repo	6,50	6,50	6,00	6,00	5,50	5,00	4,50
Russia	1W auction rate	14,00	12,00	11,00	10,00	9,00	9,00	9,00
Turkey	1W repo rate	37,00	36,00	34,00	31,00	28,00	25,00	22,00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Euro	EUR/USD	1.14	1.14	1.13	1.13	1.14	1.16	1.17
Japan	USD/JPY	156.0	156.0	154.0	154.0	152.0	148.0	147.0
United Kingdom	GBP/USD	1.32	1.32	1.31	1.32	1.34	1.37	1.39
Switzerland	USD/CHF	0.82	0.82	0.84	0.84	0.83	0.81	0.80
Canada	USD/CAD	1.39	1.37	1.35	1.34	1.33	1.32	1.32
Australia	AUD/USD	0.73	0.71	0.70	0.70	0.72	0.74	0.74
New Zealand	NZD/USD	0.60	0.62	0.63	0.65	0.64	0.64	0.64

Euro Cross rates

Industrialised countries		Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Japan	EUR/JPY	178	178	174	174	173	172	172
United Kingdom	EUR/GBP	0.87	0.86	0.86	0.86	0.85	0.84	0.84
Switzerland	EUR/CHF	0.93	0.94	0.95	0.95	0.95	0.94	0.94
Sweden	EUR/SEK	11.00	10.80	10.60	10.50	10.60	10.50	10.40
Norway	EUR/NOK	11.10	10.90	10.70	10.50	10.40	10.30	10.20

Asia		Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
China	USD/CNY	6.80	6.78	6.72	6.70	6.70	6.66	6.60
Hong Kong	USD/HKD	7.82	7.80	7.78	7.76	7.76	7.75	7.75
India	USD/INR	96.00	96.00	96.00	94.00	94.00	92.00	92.00
Indonesia	USD/IDR	18000	17850	17600	17500	17500	17250	17250
Malaysia	USD/MYR	3.88	3.86	3.84	3.82	3.82	3.82	3.82
Philippines	USD/PHP	59.6	59.0	58.6	58.3	58.0	57.9	57.4
Singapore	USD/SGD	1.27	1.27	1.26	1.26	1.25	1.25	1.24
South Korea	USD/KRW	1460	1450	1435	1440	1435	1430	1425
Taiwan	USD/TWD	31.4	31.3	31.1	30.9	30.8	30.8	30.6
Thailand	USD/THB	32.5	32.8	33.0	33.0	32.8	32.5	32.0
Vietnam	USD/VND	26300	26350	26250	26200	26200	26100	26000
Latin America								
Brazil	USD/BRL	5.15	5.20	5.25	5.30	5.35	5.40	5.45
Mexico	USD/MXN	17.50	17.75	18.00	18.25	18.50	18.75	19.00
Africa								
South Africa	USD/ZAR	16.20	15.90	15.50	15.50	15.50	15.50	15.50
Emerging europe								
Poland	USD/PLN	3.75	3.71	3.72	3.70	3.66	3.59	3.55
Russia	USD/RUB	73.00	74.00	77.00	80.00	81.00	82.00	83.00
Turkey	USD/TRY	46.50	49.00	51.50	52.50	53.50	54.10	55.00
Central Europe								
Czech Rep.	EUR/CZK	24.40	24.00	23.60	23.40	23.10	22.80	22.60
Hungary	EUR/HUF	352	349	346	345	344	342	340
Poland	EUR/PLN	4.27	4.23	4.20	4.18	4.17	4.16	4.15
Romania	EUR/RON	5.23	5.23	5.23	5.23	5.28	5.28	5.28

COMMODITIES

Av. quarter price		2026			2027			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	110	91	87	82	85	78	78

Av. quarter price		2026			2027			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	5 080	4 500	5 000	5 200	5 300	5 400	5 500

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2025	2026	2027	2025	2026	2027
United States	**-6.1**	**-6.4**	**-6.5**	**101.3**	**102.4**	**104.5**
Japan	**-1.0**	**-3.0**	**-3.0**	**218.0**	**217.0**	**215.0**
Euro area	**-2.9**	**-3.4**	**-3.4**	**88.7**	**90.1**	**91.0**
Germany	-2.7	-3.7	-4.1	63.3	65.9	68.3
France	-5.1	-5.1	-5.0	115.7	118.3	120.5
Italy	-3.1	-3.0	-2.9	137.1	138.4	138.6
Spain	-1.6	-2.5	-1.9	100.7	99.1	98.7
Netherlands	-1.6	-2.5	-1.9	44.4	47.2	47.2
Belgium	-5.2	-5.3	-5.5	107.9	109.9	113.1
Greece	1.7	0.5	0.2	145.3	138.0	133.8
Ireland	1.8	-0.8	-0.1	32.9	35.1	33.7
Portugal	0.7	-0.1	-0.3	89.7	88.8	88.3
United Kingdom	**-5.3**	**-3.9**	**-3.5**	**102.3**	**103.1**	**103.5**

Completed on 26 June 2026

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