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War in the Middle East takes hold of the global economy

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As developments in the US-Israeli war with Iran continue to unfold, questions are rising over their global economic impact. Currently, this hinges largely on the conflict's duration and Strait of Hormuz disruptions. Here are our latest views

The global economic implications of war in the Middle East

Venezuela, Greenland, tariffs, the Supreme Court, and now fresh instability in the Middle East. 2026 has been developing at warp speed so far, and it's hard to keep up. Still, in this fast-moving environment, questions are – understandably – arising over what the economic implications of the US-Israeli war with Iran will be. The honest answer would be a typical economist's response: it all depends. It all depends on how long the war will last, whether some semblance of political stability can emerge in Iran, and, most importantly, how long the Strait of Hormuz will be disrupted.

In our base case scenario, we assume that military action will last for around two weeks, followed by some calming of the combat and, consequently, also of the blockade of the Strait of Hormuz. Political instability in Iran would linger, but eventually the impact on the global economy and financial markets would be temporary and limited. This base case scenario is obviously only one of many possible outcomes and helped us develop the forecasts presented in this Monthly Update. Far more drastic outcomes could include longer-lasting military action, but also terroristic attacks on US or European targets on US or European soil. What, in my view, is remarkable from a geopolitical standpoint are reports of several countries appearing to have taken positions aligning them closer to the interests of the US and Israel – a situation that, should it stabilise in a way that consolidates US influence, could resemble something of a renewed Pax Americana.

Back to the economics of the current situation. Carrying some 20% of global oil and gas transportation, we all know how important the Strait of Hormuz is. The surge in oil prices has started to bring back memories of 2022 when oil prices went above 100 USD/b amid quickly accelerating inflation. A potentially stagflationary shock for the global economy, posing a new dilemma for central banks – and not only for those with a dual mandate.

However, for the time being, any new energy price crisis as a result of the war would be different from the 2022 crisis, particularly for the European economy. First of all, back in 2022, Europe had to abruptly decouple from an important energy supplier, Russia, and was actually facing both an energy price and supply crisis. This time around, it would mainly be an energy price crisis as Europe has diversified its energy suppliers. Still, a longer blockage of the Strait of Hormuz would put Europe's new trading relationships to the test.

What is also different this time around is that an energy price shock would hit a slowing labour market. In 2022, most labour markets were resilient and partially received additional boosts from pandemic fiscal support, which then quickly turned into fiscal support to reduce energy costs for households and companies. In short, the energy price shock shifted into an inflationary spiral more easily in 2022 as governments also added oil to the fire, creating a textbook price wage spiral. At the current juncture, European governments could be more reluctant to absorb higher energy costs due to highly stretched fiscal capacities.

In any case, the global economy is once again witnessing a crucial moment – one that not only has significant short-term implications, but also holds the potential to further aggravate ongoing seismic shifts in the wider geopolitical landscape.

Watch: **The global economic implications of war in the Middle East**

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Our key calls this month

- We're assuming that there are four weeks of disruption to oil and LNG flows – two weeks of full disruption and then two weeks of 50% disruption. We expect **Brent crude** to average 71 USD/bbl in and TTF natural gas prices at 31 EUR/MWh through the second quarter. The longer the disruption, the more upside to prices.
- We now expect **US** headline inflation to move back above 3% this year, squeezing consumer spending power. We're pushing back our call for the next Fed cut to September.
- Though a major net energy importer, we don't see current events derailing the **eurozone** recovery. Slightly lower growth and somewhat higher inflation will likely keep the ECB on hold for now.
- Unless energy prices rapidly fall back, we now expect the next **Bank of England** rate cut to come in April rather than this month. But with the jobs market under pressure, further easing remains likely.
- **Asia's** outlook is underpinned by strong growth in India, Singapore, and Australia, further supported by relief from the removal of IEEPA tariffs. But higher oil prices and a firmer US dollar pose meaningful downside risks, delaying the easing cycle and pushing rate cuts in Indonesia and India further into 2026.
- We continue to believe a June **Bank of Japan** rate hike remains a possibility.
- Sharply higher energy prices have seen the **dollar** rally broadly. European and Asian currencies in particular are likely to stay under pressure. We are raising our dollar forecasts for the first half of the year.
- For **market rates**, increased bouts of flight to safety risk pushing yields down and we don't rule out a break back below 4% on the US 10-year. Into the second quarter though, we anticipate this moving back up to the 4.3% area.

ING global forecasts

	2025					2026					2027				
	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F	1Q27F	2Q27F	3Q27F	4Q27F	2027F
United States															
GDP (% QoQ, ann)	-0.6	3.8	4.4	1.4	2.2	3.1	2.3	1.8	1.9	**2.6**	1.9	2.0	2.0	2.0	**2.0**
CPI headline (% YoY, avg)	2.7	2.5	2.9	2.7	2.7	2.5	3.4	3.1	2.9	**3.0**	2.5	2.1	2.1	2.2	**2.2**
Federal funds (%, eop)	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.50	3.25	**3.25**	3.25	3.25	3.25	3.25	**3.25**
3-month SOFR rate (%, eop)	4.50	4.40	4.20	3.70	3.70	3.70	3.70	3.50	3.30	**3.30**	3.30	3.30	3.30	3.30	**3.30**
10-year interest rate (%, eop)	4.25	4.25	4.15	4.20	4.20	4.00	4.30	4.20	4.15	**4.15**	4.15	4.25	4.25	4.30	**4.30**
Fiscal balance (% of GDP)					-5.4					**-6**					**-6.1**
Gross public debt / GDP					101.7					**102.6**					**104.5**
Eurozone															
GDP (% QoQ, ann)	2.3	0.6	1.1	1.4	1.5	0.9	0.8	1.7	1.8	**1.1**	1.6	1.4	1.3	1.2	**1.6**
CPI headline (% YoY, avg)	2.3	2.0	2.1	2.0	2.1	1.9	2.5	2.1	1.9	**2.1**	2.0	1.8	1.9	2.1	**2.0**
ECB Deposit Rate (%, eop)	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	**2.00**	2.00	2.00	2.00	2.00	**2.00**
3-month interest rate (%, eop)	2.40	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	**2.10**	2.10	2.10	2.10	2.10	**2.10**
10-year interest rate (%, eop)	2.80	2.60	2.70	2.85	2.85	2.70	2.80	2.80	2.90	**2.90**	2.90	3.00	3.10	3.10	**3.10**
Fiscal balance (% of GDP)					-3.1					**-3.4**					**-3.3**
Gross public debt/GDP					90.4					**92.8**					**93.7**
Japan															
GDP (% QoQ, ann)	1.0	2.1	-2.6	1.2	1.1	1.6	1.6	1.6	1.2	**1.0**	0.4	0.8	1.2	0.8	**1.0**
CPI headline (% YoY, avg)	3.8	3.4	2.9	2.7	3.2	1.8	2.4	2.1	1.9	**2.1**	2.2	1.6	2.0	1.9	**1.9**
Target rate (%, eop)	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	**1.00**	1.25	1.25	1.25	1.50	**1.50**
3-month interest rate (%, eop)	0.82	0.77	0.80	1.10	1.10	1.20	1.20	1.20	1.35	**1.35**	1.50	1.50	1.70	1.75	**1.75**
10-year interest rate (%, eop)	1.50	1.44	1.65	2.10	2.10	2.20	2.40	2.50	2.60	**2.60**	2.70	2.70	2.85	2.85	**2.85**
Fiscal balance (% of GDP)					-7.1					**-4.6**					**-5.0**
Gross public debt/GDP					235					**230**					**228**
China															
GDP (% YoY)	5.4	5.2	4.8	4.5	5.0	4.6	4.6	4.7	4.5	**4.6**	4.2	4.9	4.4	4.4	**4.5**
CPI headline (% YoY, avg)	-0.1	0.0	-0.2	0.7	0.1	1.1	1.0	0.9	1.0	**1.0**	1.1	1.2	1.2	1.2	**1.2**
7-day Reverse Repo Rate (% eop)	1.50	1.40	1.40	1.40	1.40	1.40	1.30	1.20	1.20	**1.20**	1.20	1.20	1.20	1.20	**1.20**
3M SHIBOR (% eop)	1.91	1.63	1.58	1.60	1.60	1.60	1.55	1.50	1.45	**1.45**	1.45	1.45	1.45	1.45	**1.45**
10-year T-bond yield (%, eop)	1.82	1.65	1.87	1.85	1.85	1.85	1.90	1.95	2.00	**2.00**	2.00	2.05	2.10	2.15	**2.15**
Fiscal balance (% of GDP)					-5.50					**-5.3**					**-5.3**
Public debt (% of GDP), incl, local govt					135					**145**					**-**
United Kingdom															
GDP (% QoQ, ann)	2.7	0.8	0.2	0.2	1.3	1.5	1.0	0.2	1.6	**0.8**	1.8	1.7	1.7	1.7	**1.5**
CPI headline (% YoY, avg)	2.8	3.5	3.8	3.4	3.4	3.0	2.2	2.6	2.4	**2.6**	2.4	2.2	2.0	2.3	**2.2**
BoE official bank rate (%, eop)	4.50	4.25	4.00	3.75	3.75	3.75	3.50	3.25	3.25	**3.25**	3.25	3.25	3.25	3.25	**3.25**
3-month interest rate (%, eop)	4.45	4.20	3.95	3.90	3.90	3.50	3.20	3.20	3.20	**3.20**	3.20	3.20	3.20	3.20	**3.20**
10-year interest rate (%, eop)	4.68	4.55	4.70	4.40	4.40	4.40	4.50	4.40	4.30	**4.30**	4.30	4.40	4.40	4.40	**4.40**
Fiscal balance (% of GDP)					4.0					**3.6**					**3.1**
Public sector net debt (FY, %)					95.4					**96.1**					**96.4**
EUR/USD (eop)	1.08	1.13	1.17	1.17	1.18	1.16	1.18	1.20	1.22	**1.22**	1.22	1.22	1.22	1.22	**1.22**
USD/JPY (eop)	150	145	148	157	157	157	155	154	152	**152**	150	147	146	145	**145**
USD/CNY (eop)	7.26	7.16	7.12	6.99	6.99	6.90	6.87	6.85	6.85	**6.85**	6.80	6.80	6.75	6.70	**6.70**
EUR/GBP (eop)	0.84	0.85	0.87	0.87	0.87	0.88	0.89	0.89	0.90	**0.90**	0.90	0.90	0.90	0.90	**0.90**
ICE Brent - US$/bbl (average)	75	67	68	63	68	72	71	68	62	**68**	58	60	66	63	**62**
Dutch TTF - EUR/MWh (average)	47	36	33	30	36	37	31	28	30	**32**	30	24	24	27	**26**

Source: ING forecasts

Assessing the global economic impact of the Middle East war

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The Middle East war remains highly unpredictable, with even seasoned analysts unable to gauge how it might end. Here, we outline what the conflict could mean for the global economy

Escalating US-Iran confrontation raises the risk of regional spillovers with global economic consequences

Needless to say, the war in the Middle East is one of these fast-moving environments, and even the best geopolitical analysts are struggling to predict how it could end. For financial markets, the branching point is simple and more brutal: does this end in days, or does it become a forever war that involves an entire region? Crucial factors here are whether, how and when there could be a regime change in Iran; the duration and intensity of US involvement; and the length and severity of any disruption to traffic through the Strait of Hormuz.

In shaping our view, we are working with a base case scenario that assumes roughly two weeks of ongoing combat, involving not only the US, Israel and Iran but the entire Middle East region. Air traffic will be down, and the Strait of Hormuz will be basically blocked. After these two weeks, political instability in Iran will remain, but broader uncertainty will recede and the Strait of Hormuz will gradually reopen. Within four to six weeks, conditions could return close to the pre-war environment, albeit with elevated levels of uncertainty. Given that there is no historical evidence of quick and smooth regime change in any country, the risk to our base case scenario is clearly to the downside. Think of 'boots on the ground', much longer-lasting military action or Iranian retaliation via activated sleeper cells or cyberattacks on US targets or even US territory.

Global trade: A supply shock at the worst possible moment

The Iran war is unfolding against a global trading system already strained by Trump's tariff offensive and the lingering fragmentation of supply chains since Covid and the war in Ukraine. The Strait of Hormuz is the single most important chokepoint in global energy trade, and it now sits in an active warzone.

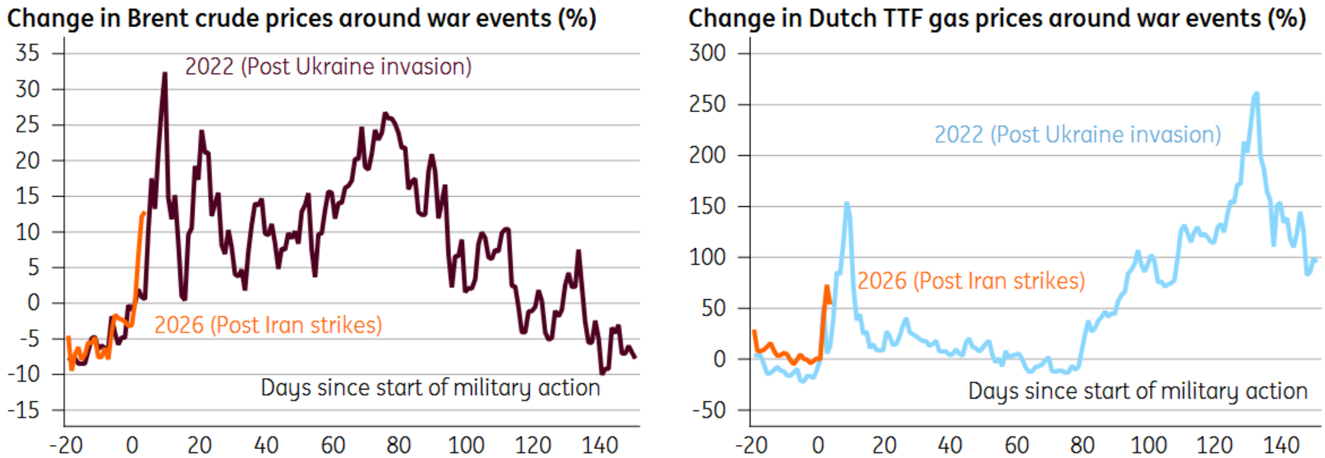
Even without a formal blockade, the commercial consequences are already emerging: insurers are cancelling cover, shipping premiums are spiking, and vessels are re-routing or pausing transits. The knock-on effects extend well beyond energy. Gulf airspace closures are disrupting aviation corridors between Europe and Asia. Houthi reactivation in the Red Sea would close the alternative routing valve that kept goods moving during earlier episodes of Hormuz tension.

The combination of higher energy costs, disrupted logistics, and a generalised confidence shock would constitute a meaningful drag on global trade volumes at precisely the moment the world economy was still digesting the inflationary and growth consequences of the tariff shock. The mother of all bad timings.

How the current energy supply risks compare to 2022

For oil and gas markets, there will likely be some parallels made with 2022 and Russia's invasion of Ukraine. The oil supply at risk from a successful blockade of the Strait of Hormuz is roughly 15-20% of global supply, depending on how much supply the Saudis can divert by pipeline to the Red Sea. This is significantly higher than the 7-8m b/d of Russian oil supply (which is around 7-8% of global supply) that was at risk during the early days of the Russia-Ukraine war, when we saw Brent spike to almost $140/bbl.

How the reaction in energy markets compares to 2022



Source: Macrobond, ING

However, helping to a certain degree at the moment is the fact that oil inventories are more comfortable than they were in the lead-up to Russia's invasion of Ukraine. OECD stocks are in the region of 200m barrels higher now than prior to the Russia/Ukraine war. Still, a two-week full blockade would essentially see this buffer disappear, leaving significant upside to prices.

For natural gas, as much as 125bcm of LNG flows are at risk, which is around 3% of global natural gas consumption, but 22% of global LNG trade. However, the roughly 15bcm that Oman exports will be at less of a risk, given cargoes don't need to navigate the Strait of Hormuz, but will still be in close proximity to danger.

In the lead-up to Russia's invasion of Ukraine, close to 160bcm of Russian gas (pipeline and LNG to the EU) was at risk. The market is relatively better positioned now, given the build-up of LNG export capacity, largely from the US. Since the beginning of 2025, we have seen around 40bcm of US capacity starting up, while a further 14bcm is set to start this year, and there will be significantly more in the years ahead. However, in the immediate term, capacity additions fall well short of potential Persian Gulf supply losses.

A tighter market would see Asia and Europe competing more aggressively for LNG cargoes, pushing up prices. Price-sensitive buyers in Asia will likely step back from the market, while Europe would likely not make the same mistake as it did in 2022, where buyers bought aggressively regardless of price levels.

In the eurozone – and similarly in the US – the labour market is another important way in which today differs from 2022. In the UK, for example, worker shortages were still widespread in 2022, which amplified the pass-through from higher inflation to wage growth. The jobs market is now much cooler, so that mechanism should be far less pronounced. The same likely applies to the eurozone, judging by European Commission surveys showing fewer firms reporting labour shortages as a constraint on production.

At the same time, what is different from a macro perspective compared with 2022 is the fact that in 2022 most major economies looked resilient and governments, which had already introduced fiscal support during the pandemic, announced more measures to prevent too much of a purchasing power loss due to higher energy prices.

The US: Fighting a war that raises domestic prices

For the US, even though trade exposure to the Straits of Hormuz is limited, higher global oil prices would fuel the current cost-of-living crisis. US consumers are already stretched, and gasoline prices are acutely politically sensitive going into midterm territory. Higher oil prices would also complicate the Federal Reserve's future monetary policy path.

A second supply-side inflation shock, while the inflationary impact from tariffs is still unfolding, could make further rate cuts hard to justify, at least in the near term. At the same time, if the conflict drags and uncertainty weighs on business investment and consumer confidence, the growth outlook darkens too.

The one partial offset is that the US itself is a major oil producer; higher oil prices benefit the shale patch and improve the terms of trade for domestic energy, even as they hurt consumers. But that balance is politically awkward to explain and economically insufficient to compensate for the broader damage.

The eurozone: The most exposed major economy

Europe is where the macro consequences hit hardest, and the timing could not be worse. The eurozone was finally emerging from its long period of stagnation, with tentative green shoots of recovery emerging – though recently, these have been undermined by new uncertainty regarding tariffs. Now the region could face an energy shock on top of a trade shock.

Europe imports essentially all of its oil and a significant share of its LNG. A surge in energy prices and potentially even energy supply disruption could bring back memories of the energy cost crisis from late 2021 to 2023. There are currently two important differences compared with the situation back then: Europe doesn't have to 'derisk' from a single important energy provider, and the oil price crisis comes at the end of the winter, not the start. Whether eurozone governments will be able (and willing) to quickly offset any purchasing power losses via new fiscal support, however, is less clear. Fiscal capacities are more under pressure than in 2022.

The European Central Bank is caught in a genuine dilemma. Services inflation is still sticky, and an oil shock would push headline inflation higher – yet the growth outlook is simultaneously deteriorating under the combined weight of tariffs, uncertainty, and now energy costs. In December, ECB analysis showed that a 14% increase in oil prices and 20% in gas prices would push up inflation by 0.5ppt and could reduce GDP growth by 0.1ppt. However, this would only be the price effect, not the supply chain disruption effect. Given the still relatively fresh memories of the recent inflation surge, the ECB is unlikely to see any new oil price-driven inflation spike as transitory or even deflationary. However, to see a rate hike, the eurozone economy would have to show clear resilience.

Asia: Inflation and trade balances could come under strain

For now, Asia seems to be able to absorb the jump in oil prices, thanks to the low starting points, with inflation broadly in control in most of Asia. However, the severity and persistence of higher prices will ultimately determine the impact. If sustained, Asia is particularly vulnerable to oil price volatility because it relies so heavily on imports;

except for Australia, Malaysia and Indonesia, all other economies run deficits in oil and gas trade, leaving them exposed when energy costs rise. If higher prices persist, three factors will shape the impact:

- **Heavy dependence on Middle Eastern oil:** A significant share of Asia's crude supply comes from the Persian Gulf. Japan and the Philippines rely on the region for almost 90% of their oil needs, while China and India import roughly 38% and 46%, respectively. Any disruption in the Strait of Hormuz – a critical shipping lane – would restrict supply, potentially causing shortages that slow business activity and put pressure on manufacturing across Asia.
- **Trade balances under strain:** Even without a physical supply disruption, higher global oil prices worsen trade balances and add to inflation pressures. Thailand, Korea, Vietnam, Taiwan, and the Philippines are the most exposed. A mere 10% rise in oil prices can deteriorate current account balances by 40-60 basis points. Prolonged increases would only deepen these deficits.
- **Strong inflation pass-through:** Because many emerging Asian economies have a relatively high weight of energy in their consumer inflation baskets, rising oil prices feed quickly into headline inflation. On average, a 10% increase in oil prices raises CPI inflation by about 0.2 percentage points.

Our base case had headline inflation across most of Asia rising in 2026 but still staying within most central bank targets. But a price shock of this magnitude – if it lasts – would likely push inflation above target ranges and increase the pressure on central banks to tighten policy sooner rather than later.

Middle East escalation rattles energy markets

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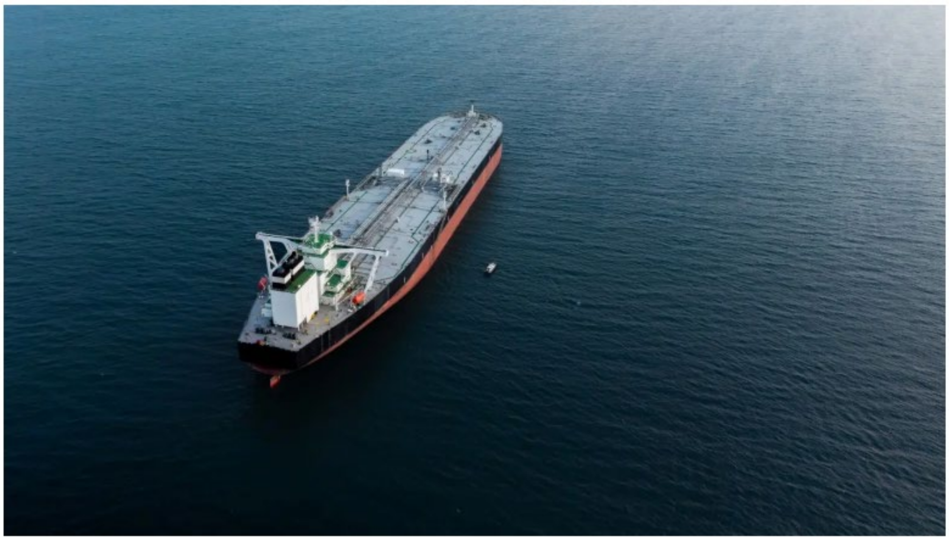
Energy prices have surged on the back of oil and gas disruptions in the Persian Gulf following US and Israeli strikes on Iran. Here are our scenarios on how energy flows through the Strait of Hormuz may evolve



Any prolonged closure of the Strait of Hormuz would place up to 20m b/d of oil supply at risk

Strait of Hormuz uncertainty hangs over oil and gas markets

US and Israeli strikes on Iran and the resulting retaliation have caused havoc for energy markets, with the market witnessing significant disruption to oil and gas flows through the Strait of Hormuz. In addition, there are growing risks to energy infrastructure in the Persian Gulf, with Iran striking neighbouring countries in the energy-rich region.

For oil markets, we have seen Brent trade above US$85/bbl recently with as much as 20m b/d of oil supply (14m b/d of crude oil and 6m b/d of refined product) at risk due to the ongoing blockage of the Strait of Hormuz. The disruption to flows has the potential to drastically change the outlook for the oil market – a market which was expected to be in large surplus this year. The duration of the disruption is crucial to the market outlook.

Saudi Arabia and the UAE have the ability to divert up to 5m b/d via pipeline to avoid the Strait of Hormuz, but this still leaves 15m b/d of oil supply at risk.

While OPEC+ agreed on a larger-than-expected supply increase for April, this does not move the needle much when you consider the amount of oil supply impacted. The bulk of OPEC's spare production capacity sits in the Persian Gulf, so it will not be very helpful amid the Strait of Hormuz blockade.

Furthermore, any supply response from other producers, such as from the US shale industry, will be too little too late; it's likely to take 6-12 months to bring additional supply onto the market.

A prolonged outage would likely need to see coordinated action from governments in the form of stock releases from strategic reserves to tide the market over until Persian Gulf supply disruptions ease.

The European natural gas market and the spot Asian LNG market have seen even more strength than the oil market, with TTF up as much as 70% following the escalation. The disruption in the Strait of Hormuz leaves 20% of global LNG trade at risk, with exports from the second-largest supplier, Qatar, grinding to a halt. While the majority of Persian Gulf LNG goes into Asia, the disruption has seen Asian buyers turning to the spot market, increasing competition for supplies between Asia and Europe. This comes at a time when EU natural gas storage has fallen below 30%, well below usual levels for this time of year and on track to finish the 2025/26 heating season at near 2022 levels. This could leave Europe with a tougher job of refilling storage through the summer.

While there is a significant amount of US LNG export capacity set to ramp up in the coming years, there is not enough spare capacity currently to make up for Persian Gulf disruptions. Therefore, in a scenario where we see a prolonged outage, the only solution would be higher prices to drive demand destruction.

Our three scenarios for how energy flows through the Strait of Hormuz evolve

While it is very difficult to foresee how developments in the Middle East will evolve, we have come up with three scenarios for energy flows through the Strait of Hormuz.

In **Scenario 1**, which is now our base case, we assume that there are four weeks of disruption to oil and LNG flows – two weeks of full disruption and then two weeks of 50% disruption. This scenario doesn't necessarily mean that we see a full end to the conflict in this time period, but if US and Israeli strikes degrade Iran's ability to attack vessels and/or enforce a closure of the Strait of Hormuz, we could see flows starting to normalise.

Scenario 2 assumes we see a longer period of disruption, which provides more upside to prices, but after one month of full disruptions, we start to see oil flows making a gradual return over a two-month period.

Scenario 3 is the most aggressive scenario, where we see a full disruption to oil and LNG flows for a three-month period. This would likely see oil prices spiking to record highs through the second quarter, while European gas prices could spike to EUR80-100/MWh in the coming months.

Our three scenarios for the Strait of Hormuz

		Oil supply lost (m barrels)	Brent forecast (US$/bbl)					Natural gas supply lost (bcm)	TTF forecast (EUR/MWh)				
			1Q26	2Q26	3Q26	4Q26	FY26		1Q26	2Q26	3Q26	4Q26	FY26
Forecasts prior to attacks		0	68	60	62	58	62	0	33	28	27	30	30
Scenario 1 (base case)	**4-week disruption (2-weeks full and 2 weeks at 50%)**	**315**	**72**	**71**	**68**	**62**	**68**	**6.4**	**37**	**31**	**28**	**30**	**32**
Scenario 2	3-month disruption (1-month full, 1 month at 50% and 1 month at 25%)	806	76	89	86	80	83	16.5	39	47	32	33	38
Scenario 3	3-month full disruption	1,380	76	110	102	91	95	28	50	65	35	35	46

Quarterly and full-year price forecasts are averages for the period
Source: ING Research

Our view on the major central banks

Our take on what could be next for the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan over the coming months

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We're largely expecting major central banks to hit pause amid ongoing uncertainty

Federal Reserve

After cutting the policy rate by 75bp over the final three FOMC meetings of 2025, the Federal Reserve held steady in January and signalled that it saw little need for additional near-term action given that inflation remained above target and, in its view, the downside risks to the jobs market had receded.

While the US imports little energy from the Middle East, it faces higher domestic oil, gas and electricity prices following the military action against Iran. This will delay inflation returning to 2%. In terms of growth, higher prices may be a boost for the US energy sector, but higher energy costs will squeeze household spending power at a time when consumer confidence is already weak due to anxiety over tariffs and job security. An added sense of economic and geopolitical uncertainty is not going to incentivise companies to suddenly accelerate hiring either.

In the near-term, the inflation narrative is likely to be the Fed’s focus, but if higher energy prices are sustained, it also poses clear challenges to growth and jobs that will ultimately lower inflation pressures in the economy. With the policy rate range of 3.5-3.75% still regarded as mildly restrictive, we continue to see scope for 50bp of cuts this year, but have pushed them back to September and December.

European Central Bank

With the war in the Middle East, a rate cut should definitely be off the table for the ECB's March meeting. Gone is a scenario in which a stronger euro could push down the central bank's own inflation forecasts for longer, leading to a more controversial debate on inflation undershooting and what it would mean for the ECB's credibility. Oil prices had already started to increase and the start of the war in the Middle East has probably coincided with the cut-off date for the latest forecast round.

The latest market movements, i.e., a weaker euro and higher oil prices, would lead to higher inflation in the eurozone going forward. The big question for the ECB is therefore no longer how to react to an inflation undershooting but rather how to react to another oil price shock. Traditionally, oil price shocks tend to be stagflationary for the eurozone, which often motivated the ECB to simply look through oil-driven inflation surges. However, the risk of such an approach is falling behind the curve, as could be witnessed in 2022. With these memories still fresh, we expect the ECB to turn more hawkish. However, as our base case scenario sees an easing of turmoil and oil prices, there is also no need for it to actually hike rates. Instead, we continue expecting the ECB to keep interest rates on hold this year.

Bank of England

The Bank of England has shown itself to be among the most sensitive to supply-driven rises in headline inflation. That was on full display last summer, when the Bank became more reticent to cut interest rates amid a rise in food prices. With the painful memories of the 2022 inflation overshoot still relatively fresh, higher energy prices risk delaying further interest rate cuts. That said, unlike in 2022, the jobs market is weak and getting weaker still. That limits the risk of wage growth rising in response to higher energy costs. We are retaining our call for two cuts this year, premised on the idea that oil/gas prices will recede from recent highs through the spring.

We've pushed back our call for a March rate cut on the basis that it was already a close decision and Governor Andrew Bailey, who de facto holds the deciding vote, will probably be minded to wait for more clarity. In the event we see a significant de-escalation in Middle East tensions within days, then that could conceivably bring a rate cut back into play this month as the Bank refocuses on the cooling labour market.

Bank of Japan

We expect the Bank of Japan to pause at its March meeting as the current situation remains quite fluid. The BoJ is likely to disregard any temporary hikes in energy prices, and will maintain flexibility while continuing its current rate hike stance.

However, a prolonged supply shock could shift its approach. Rising uncertainty from an oil shock may curb private spending and investment, leading to slower growth and higher inflation that will complicate decisions for the BoJ. An important factor supporting the BoJ's move towards policy normalisation – even if headline inflation drops below 2% – is the anticipated positive real wage growth this year, which should boost private spending. Government energy subsidies and stable food prices should increase purchasing power; in turn, underlying price pressure should remain sticky near 2%. However, if inflation accelerates, mostly driven by supply shock (which eventually curbs the recovery of real wages and consumption), then the BoJ may have to slow down the pace of rate hikes.

For the time being, the BoJ will assess the effects of recent hikes on financial conditions and require confirmation of solid wage growth and sustained inflation in April before considering another hike – possibly in June.

The US is insulated, but not immune to the Middle East conflict

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The US is a net energy producer, but higher oil, gas and electricity prices risk amplifying the effects of trade tariffs, resulting in squeezed household spending power and a weaker corporate profits backdrop. Economic and geopolitical uncertainty won't prompt a rebound in worker hiring either, but inflation will limit the scope for imminent rate cuts

Rising global energy prices threaten to squeeze US household spending power and delay Federal Reserve rate cuts

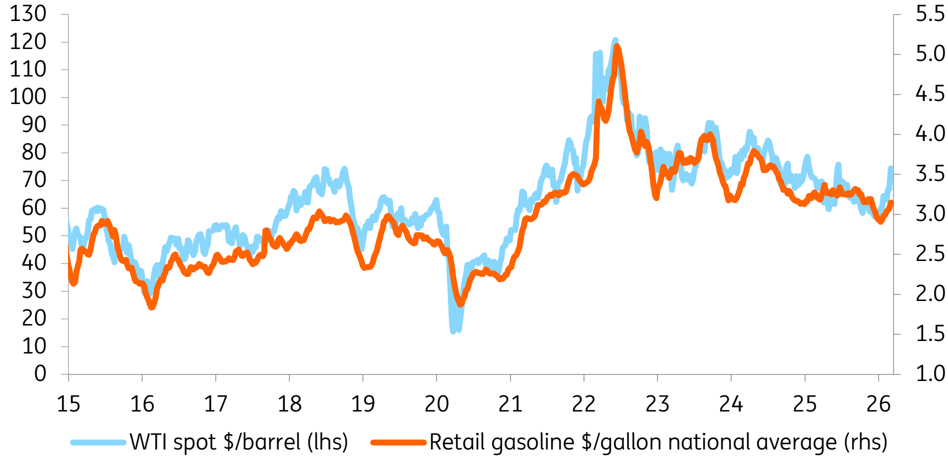
Higher energy costs compound tariff concerns

The US has been a net energy exporter since 2019, and while that should insulate the economy from oil and gas flow disruption in the Middle East, it doesn't mitigate all the risks. The US refinery make-up still requires the need for some heavier, foreign-sourced crude – around 3.5% of the oil consumed in the US comes from Saudi Arabia and the Persian Gulf. Moreover, US oil prices take their cue from global markets. A sustained move in WTI crude above \$75/barrel would mean we are on course for US gasoline to breach \$3.75/gallon versus \$3 currently. Higher airline fares and transport and distribution costs would follow.

US natural gas prices have also increased in line with global benchmarks, and that threatens higher electricity costs in the US too. Corporate America, which is already largely carrying the burden of tariff costs, will have to make a call on whether to raise prices or shrink profit margins further.

Given this situation, we suspect that US headline inflation will move back above 3% during the second quarter and may not drop below 3% until the end of the year. It also means we must acknowledge the risk that 2% inflation isn't achieved until the second half of 2027.

US oil & retail gasoline prices



Source: Macrobond, ING

Squeezed spending power threatens growth

This will squeeze consumer spending power, particularly for lower and middle-income earners, in an environment where real household disposable incomes have effectively flatlined for the past six months. The fact that there are now more unemployed Americans than there are job vacancies suggests wage growth risks dropping below 3% this year. High-income households are in a stronger position, buoyed by large property and stock market gains.

It is certainly true that higher energy prices may help to incentivise more investment in the US energy sector after the fourth-quarter 2025 GDP report again highlighted the bifurcation in corporate capital expenditure. Tech-related investment tied to software and computing power is growing 25% year-on-year, yet all other business capital expenditure has fallen in year-on-year terms for five straight quarters. This lack of breadth in the growth story is similarly seen in the jobs market, where, outside three sectors – leisure & hospitality, government and private education & healthcare services – the economy has lost more than 400,000 jobs since August 2024.

Fed rate cuts delayed, not cancelled

For now, we are forecasting GDP growth of 2.6% this year. The first quarter will be lifted by a rebound in federal government spending after the shutdown in the first six weeks of 4Q25, with strong tech-related investment and high-income consumer spending keeping the US economy moving along nicely in the second quarter.

However, the lack of breadth to the US growth story may become more of a vulnerability in the second half of the year. The longer energy costs stay elevated, the greater the risk it becomes demand destructive, which dampens inflation pressures over the medium to longer term.

The Fed will likely be nervous about headline inflation initially, but if the core metrics (excluding food and energy) start to cool, officials will likely become more comfortable cutting interest rates a couple of times in the second half of the year.

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Eurozone economy in the line of fire

While great uncertainty persists, it looks certain that the eurozone economy, as a major energy importer, is the most vulnerable to war-induced economic shocks, though we don't see current events derailing the recovery. Slightly lower growth and somewhat higher inflation will likely keep the ECB on hold for now

With inflation risks skewed upward, the ECB is expected to keep interest rates unchanged

War, China and tariffs

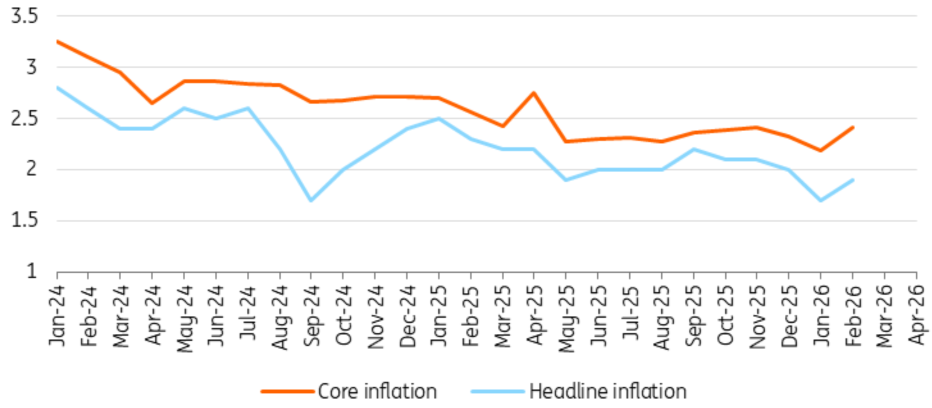
The eurozone economy is one of the most vulnerable to the Middle East war among the major economies. Although we anticipate that rising energy prices will be a temporary phenomenon, their negative impact is undeniable. At the same time, it's important to remember that other structural challenges, such as strong competition from China and ongoing US trade tariffs, persist. And while the European Parliament has suspended ratification of the US trade deal following the Supreme Court's move to strike down parts of Trump's tariff package, we see little reason to expect a meaningful easing of tariffs anytime soon.

Slowing, but not halting the recovery

For Europe, higher energy prices essentially act as a foreign tax on households and businesses. Thanks to a high savings ratio, European consumers should generally be able to absorb these increased costs. However, the risk remains that diminished confidence could prompt households to save even more, rather than less.

The manufacturing sector faces renewed difficulties, having already endured higher energy costs compared to the US and China. Despite these challenges, manufacturing entered the year with some momentum, supported by relatively low inventory levels. Additionally, Germany's fiscal stimulus is expected to gradually bolster the economy. As a result, we believe the current crisis will temporarily slow the recovery but not halt it altogether. We are forecasting weaker growth in the first half of the year, followed by a rebound in the second half, culminating in 1.1% GDP growth for 2026, after 1.5% in 2025.

Disinflation seems to be coming to an end



Source: LSEG Datastream

Higher inflation

Of course, elevated energy prices will also push headline inflation higher. Moreover, February's HICP reading was somewhat disappointing: headline inflation rose to 1.9%, still below the 2% target, but core inflation increased to 2.4%. With energy and food prices likely to add further upward pressure in the coming months, we expect second-quarter inflation to average 2.5%, raising our annual inflation forecast to 2.1%. This is still relatively low, but it is based on the assumption that there will be only a temporary surge in energy prices. Needless to say, the risk is skewed to the upside.

ECB still on hold

Since the high inflation episode in 2022, the ECB has exercised caution in labelling inflation increases as temporary. At this point, however, we do not believe a short-lived spike in energy prices will trigger significant second-round effects. Meanwhile, calls for further rate cuts, which were widespread during the dollar's weakening earlier this year, have likely been muted by recent events. In our view, the ECB will conclude that maintaining stable interest rates is the prudent course for the foreseeable future.

Germany’s five state elections - part one

Germany's 'super election year' with five state elections will determine Chancellor Merz's reform efforts

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Merz came to the chancellorship with a mandate and a compliant coalition partner – but one year on, promised reform breakthroughs haven't yet emerged

Every four years, the United States has its ‘Super Tuesday' – the day when most states have their primary elections in the presidential race. Every few years, Germany has its very own ‘Super Election year’, where several regional state elections are not only a test case for the federal government but can also reshape the political landscape. Next week, the state elections in Baden-Württemberg on 8 March will kick off an election year with five state elections. Rhineland-Palatinate will be the second on 22 March, followed by Saxony-Anhalt, Berlin and Mecklenburg-Vorpommern in September. Last but not least, there will be three municipal elections as well this year: in Bavaria, Hesse, and Lower Saxony. Speaking from historical experience, the outcomes of these regional elections are always driven by a mix of federal/national factors and figures but also by local or regional circumstances. Sometimes one is more relevant than the other, and vice versa.

However, one thing is for sure – this year the elections will be seen as a first test case for Chancellor Friedrich Merz and the popularity of his government, but also the stability of the coalition going forward. It will serve as a test case for the Alternative for Germany party (AfD) as the elections in the autumn, in particular, could lead to the first ever AfD Minister-President in a German state. But there is more: state governments appoint members to the Bundesrat, the upper chamber of parliament, which has a say in major legislation. A federal government led by the Christian Democratic Union (CDU) facing Bundesrat opposition from left-leaning state coalitions could find its reform agenda slowing to a crawl. Conversely, a string of CDU gains in the Länder would not only strengthen Merz’s hand in the upper chamber but send a powerful political signal that his government’s programme enjoys popular support outside the Berlin bubble.

A problem in Germany (or, for that matter, all of Europe) is that there is no synchronised election calendar. With 16 regional states, the next important election is never far away, often affecting national politics and particularly strategic decision-making, with implications even at the European level. Just think back to the Greek crisis when the decision on a bail-out was postponed until after elections in the German state North Rhine-Westphalia. In times when the economic business model of the entire country needs an overhaul, the conflict between short-term orientation in regional elections and long-term reforms becomes a real problem.

The five elections

Baden-Württemberg, 8 March. The opener and, for now, the most closely watched. The CDU wants to reclaim the Minister-President position for the first time since 2011. We'll also be watching the results for the AfD in one of Germany's most important economic powerhouses, a state that is currently feeling the pain of industrial transformation more acutely than almost anywhere else. More on this below.

Rhineland-Palatinate, 22 March. The Social Democratic Party (SPD) has governed here continuously since 1991. Losing this state, where Helmut Kohl once ruled for the CDU, would be a substantial blow to an already struggling junior coalition partner to Friedrich Merz and could push the party into an existential crisis that reverberates back to Berlin.

Sachsen-Anhalt, 6 September. This is where the AfD question becomes acute. The party is polling at 38-40%, ahead of any combination of other parties that could credibly govern. The CDU has held the premiership here since 2002, but forming a majority without the AfD is, according to current polls, only possible with a mathematically fragile multi-party arrangement. The firewall, the CDU's stated refusal to govern with the AfD, faces its most serious test here. If the firewall holds and a patchwork coalition stumbles, the AfD draws exactly the lesson it wants: that the mainstream parties' unwillingness to work with it is the problem. If the firewall cracks, Germany's political landscape shifts permanently.

Berlin, 20 September. CDU incumbent Kai Wegner has governed with the SPD since 2023 in a coalition that is functional but not inspiring. His recent handling of the power outage and winter weather chaos has not helped. Berlin is an unusual battlefield where the Left, Greens, SPD and AfD all compete in relatively close proximity, and the result could produce a governing coalition that looks nothing like what anyone in Berlin's federal government would prefer.

Mecklenburg-Vorpommern, 20 September. Another eastern state, another AfD stronghold. Manuela Schwesig's SPD has governed here since the late 1990s, but the AfD is polling as the clear frontrunner at around 30-35%. Schwesig is popular personally, which may soften the blow, but coalition mathematics here too are deeply uncomfortable. A second SPD defeat on the same evening as Berlin would be a brutal night for Merz's junior coalition partner.

Focus on Baden-Württemberg

Baden-Württemberg is not a typical German state. With nearly 11 million inhabitants, it is Germany's third-largest by population and one of its most economically significant. Home to Mercedes-Benz, Porsche, Bosch, Trumpf and SAP, it was long the benchmark for what industrial policy can achieve when it works.

The past tense is deliberate. The state economy contracted 0.4% in 2024, performing worse than even the weak national average. Household-name companies are recording losses and are announcing job cuts. Some have brought parallels with the Ruhr Valley. What coal and steel were to that region, the combustion engine could be to Baden-Württemberg. The Ruhr's decline took decades, was subsidised at enormous cost, and never fully resolved. The warning is not that transformation is impossible, but that it can be fatally delayed by political timidity.

The state has been governed by the Greens since 2011, when Winfried Kretschmann became Germany's first and only Green Minister-President. He won elections largely on personal trust that transcended his party. He is not running again, and with him goes the electoral magic that kept the Greens ahead of the CDU in a state that is, by temperament and tradition, conservative.

The CDU's Manuel Hagel, 35, is currently the frontrunner. Already his party’s youngest ever state Fraktion chair, he has assembled a visible alliance with Bavaria’s Markus Söder and Hesse’s Boris Rhein to signal mainstream Union credentials. His platform centres on deregulation, affordable energy and support for industry – well-suited to Baden-Württemberg’s mood.

The Greens’ Cem Özdemir, former federal agriculture minister, born in Bad Urach to Turkish immigrant parents and one of Germany’s most recognisable politicians, is the more intriguing candidate. He is running as a pragmatist, deliberately distancing himself from the prescriptive, regulation-heavy image that has become the Greens’ electoral liability. His personal approval rating, at 39% for Minister-President, dwarfs Hagel’s 18%. The problem is that personal popularity does not automatically transfer into party support. The latest polls put the CDU at 28%, the Greens at 22%, and the AfD at 20%, double its 2021 result of 9.7%.

What is at stake for Friedrich Merz?

Merz came to the chancellorship with a mandate and a compliant coalition partner. One year on, Germany has seen an enormous U-turn on fiscal policy but only tentative signs of structural reform. The promised breakthrough on reforms regarding welfare costs, competitiveness or the structural fiscal gap beyond the special purpose vehicle for defence and infrastructure has not arrived.

The March elections are the early warning system. A CDU victory in Baden-Württemberg would be a significant symbolic win. A narrow loss, or a result that leaves the CDU as the junior partner, would be the first signal that expectations have run ahead of delivery. For the SPD, Rhineland-Palatinate is existential in the way that Baden-Württemberg is for the CDU.

There is also the Bundesrat dimension that matters beyond the headlines. State governments appoint members to Germany’s upper chamber, which has a say in major federal legislation. A string of CDU gains would strengthen Merz’s hand in the Bundesrat and his legislative room for manoeuvre. A string of losses would constrain it at precisely the moment when his government needs to push through reforms that require cross-chamber support.

The September elections are a different order of challenge. Here the question is not whether Merz’s CDU wins, but whether it can prevent the AfD from crossing the threshold that makes a stable coalition government impossible. Every time the firewall holds under pressure, Merz’s authority within his own party is reinforced. Every time it looks like it might crack, the AfD has its argument handed to it: that the mainstream parties’ refusal to engage with it is leading to governmental dysfunction rather than solving it.

Super election year will determine how much reform effort to still expect from Merz

Germany’s Superwahljahr – a year of multiple elections – is not just a test of Merz’s popularity. It is a test of whether the political mainstream can still govern effectively enough that voters see a reason to stay within it. The last German leader with the courage to push through painful structural reform was Gerhard Schröder. His reforms outlasted him. His successors have largely avoided his fate by also avoiding his ambition.

The moment to act is before the crisis looks irreversible, not after. Baden-Württemberg’s voters know this story well. On 8 March, they begin to write the next chapter. This is the first of five chapters this year that will also determine the pace of any new reform efforts.

China lowers growth target as geopolitical risk complicates outlook

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China's 2026 GDP growth target was lowered to 4.5-5%, after three straight years of "around 5%" targets. Most other targets were left unchanged. The slight softening shows that growth stability remains important, but steady fiscal targets are also signalling a reluctance to lean too heavily on fresh stimulus to bolster growth

The annual Two Sessions meetings set the country's economic targets and policy direction for the year

Two Sessions to be key for this year's policy backdrop

China's annual target-setting is always an important event. Since GDP growth targets were first published in 1990, China has fallen short of the target only a couple of times. Generally, betting on China to miss its target has been a losing bet for forecasters.

This year's GDP growth target was reduced to 4.5-5.0%, a slight softening from the more ambiguous "around 5%" target set in the past three years. While it was debatable how much flexibility "around 5%" entailed, most market participants viewed this as within 0.2-0.3pp of 5%. With the new target, there appears to be a tolerance for slower growth, which should give policymakers more flexibility to pursue quality growth, a priority in recent years.

The government work report outlined an intention for "laying a solid foundation for doubling per capita GDP by 2035 compared to 2020," a key goal set by President Xi in the past.

The softer GDP target was in line with our expectations, as we had hints of this outcome earlier when various provinces also revised growth targets lower. Our GDP forecast for the year is 4.6% year-on-year, which would fall within this range.

Anti-involution push continues in the background

The government recently published "Price Behaviour Compliance Guidelines for the Automotive Industry", taking aim at automakers' pricing cars below cost to gain market share. It also signalled a crackdown on price fixing. Much like the regulations introduced for platform companies in 2025, new guidance was issued to prevent major brands from pressuring dealers to sell certain models at prices that would leave them unprofitable.

The anti-involution measures have attracted considerable attention and debate over the past year. It can be argued that these measures are already beginning to show some effect. PMI and PPI data show that ex-factory price indicators have been trending mostly higher in recent months.

Middle East uncertainty a potential risk to outlook

With the escalation in the Middle East, China, the world's largest oil importer, could be negatively impacted, particularly if the situation continues to worsen. China's official data shows zero crude oil imports from Iran, but widely cited third-party data estimates around 1.38m barrels per day of imports. This would be around 12% of China's total imports of 11.55m barrels per day. It's estimated that more than 40% of China's oil imports go through the Strait of Hormuz. If the Strait remains blocked for an extended period, China may need to tap its strategic petroleum reserves.

If oil prices continue to rise for an extended period, the developments could lead to greater inflationary pressure in China this year. This could finally drive PPI inflation back into positive territory and the CPI over 1%.

China has a modest level of investment exposure to Iran, with around $4.5bn in cumulative outbound direct investment (ODI) as of the end of 2024. In 2025, we saw around $643m, or 0.4% of outward direct investments, going to the country. It's unclear how these investments might be affected by recent events. The impact, though, is quite limited when considering China's broader portfolio of outward investment.

We're in wait-and-see mode on the potential impact on growth and inflation. For now, risks are balanced to the upside for inflation, while the impact on growth is expected to be limited. The domestic policy and external demand outlooks should be more important factors in the growth outlook.

Bank of England to delay rate cuts on elevated energy prices

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Though not our base case, UK inflation could peak at 3.5% if energy prices stay at current levels into Q2. We now expect the next Bank of England cut in April, though March is still a distinct possibility if Middle Eastern tensions rapidly de-escalate.

We're pushing back our call for the next Bank of England cut to April, though we wouldn't rule out a cut this month

Inflation could test 3.5% if energy prices stay elevated into Q2

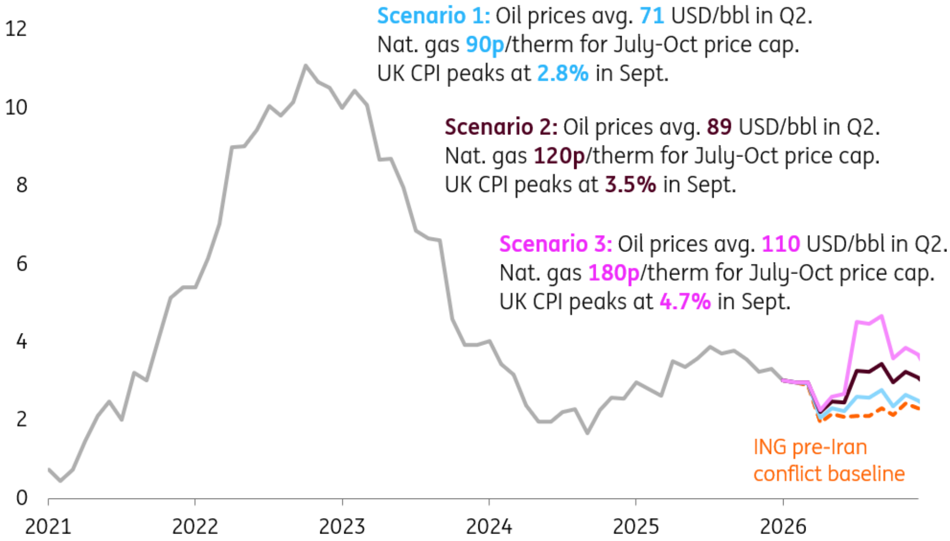
Investors have slashed expectations for a March rate cut from the Bank of England; markets are pricing it with just a 20% probability, down from 80% pre-conflict.

We are pushing back our call for the next cut to April, though we wouldn't rule out a move this month. Remember, those who have voted for rate cuts at recent meetings have done so because the labour market is getting weaker. That hasn't changed.

Still, the Bank of England has shown itself to be particularly sensitive to supply-driven spikes in headline inflation, more so than the Federal Reserve or the European Central Bank. Chief Economist Huw Pill has often cited 3.5-4% as a level for headline CPI which, if reached, is statistically much more likely to morph into a longer-lasting bout of price pressure.

That threshold could easily be tested if natural gas prices stay at or above 120p/therm into Q2 and if oil prices persistently flirt with 85-90 USD/bbl. Headline inflation would peak at 3.5% in late-summer. And that's before considering the secondary impact on food and services inflation.

Three scenarios for UK headline inflation (YoY%)



Source: Macrobond, ING

Cooler jobs market will limit the impact on wage growth and services inflation

But this will take some time to show through fully. Household energy prices are capped by the regulator and only 40% of that cap is directly affected by gas prices. The next update isn't until July and that'll be based on average wholesale prices from mid-February to mid-May. That means the more short-lived the energy price spike, the less of an impact it will have on households this summer.

Rising energy prices inevitably revive memories of the 2022 shock. But the jobs market is much, much weaker now. In early 2022, more than half of firms told the Bank it was "much harder" than usual to recruit. Today that figure is just 10%. Workers have less bargaining power to drive up wage growth and protect their disposable incomes.

Much also depends on how the government reacts. In 2022, policies including a £2,500 cap on household energy bills cost £50bn – or 2% of GDP. That kept the UK economy out of recession and arguably provoked a more significant rate hiking cycle than might have otherwise come to pass.

Yet the Treasury is constrained. Though gilt issuance is falling back, markets would not take kindly to an unfunded energy support package, potentially tying the Treasury's hands on how much support it can offer without countervailing tax increases.

In short, we still think UK interest rates have further to fall. But if energy prices stay at or above current levels, it's hard to see the Bank cutting rates in March. It has previously said decisions are becoming more finely balanced as we approach the neutral level of interest rates.

We've pushed back our call for the next cut to April – though a significant de-escalation over the next few weeks could yet bring a March move back onto the table.

Asia's growth hotspots prompt us to upgrade GDP forecasts

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Asia's outlook is underpinned by strong growth in India, Singapore, and Australia, further supported by relief from the removal of IEEPA tariffs. But higher oil prices and a firmer US dollar pose meaningful downside risks, delaying the easing cycle and pushing rate cuts in Indonesia and India further into 2026

A rebound in manufacturing and trade has helped lift growth momentum, with Singapore emerging as a regional bright spot.

Recent growth performance has been strong

There are pockets of real strength across the region. India, Singapore, and Australia continue to stand out, and fourth-quarter 2025 GDP prints and high-frequency indicators reinforce that momentum. As a result, we have raised our 2026 GDP growth forecasts to 6.7% year-on-year for India (from 6.5%), 3.4% for Singapore (from 2.7%), and 2.3% for Australia (from 2.2%).

India's fourth-quarter GDP growth came in at a robust 7.8% year-on-year, which is impressive given that exporters were still contending with 50% US tariffs at the time. Domestic demand has remained a key engine of growth – 1Q26 indicators like motor vehicle sales point to a healthy consumption recovery, supported by easing inflation and better transmission of earlier rate cuts into borrowing conditions.

Singapore also surprised meaningfully on the upside. Its 4Q GDP growth accelerated to 6.9% YoY, powered by a strong rebound in manufacturing – especially pharmaceuticals and electronics. The city-state has been a clear beneficiary of AI-related demand and has also gained from relatively low tariff exposure, which helped keep its exports competitive, and we expect this momentum to continue.

Australia's fourth quarter GDP expanded by 2.6% YoY, outperforming both market expectations and the Reserve Bank of Australia's projection of 2.3%. Growth was underpinned by solid investment activity across both the public and private sectors. Public investment continued to be supported by major transport and health infrastructure projects, while private investment benefited from strong spending on AI and technology-related initiatives. Coupled with a net positive energy trade balance, Australia remains a relative outperformer in the region amid ongoing geopolitical tensions.

The removal of elevated IEEPA tariffs is a relief for Asia

From a regional perspective, the removal of International Emergency Economic Powers Act (IEEPA) tariffs represents a clear positive for Asia. China and India benefit the most, with tariff cuts of 7.1 points and 5.6 points, respectively. In their case, the new 15% rate is far better than the steep, country-specific IEEPA tariffs they had been facing previously. It also sharply reduces Southeast Asia’s tariff burden and boosts its price competitiveness. It’s an especially important outcome for Vietnam, which relies heavily on export-led growth; this is even more important given that Vietnam is now the third-largest Asian exporter to the US.

Oil prices remain the wild card

Even without a physical supply disruption, higher global oil prices worsen trade balances and add to inflation pressures. Thailand, Korea, Vietnam, Taiwan, and the Philippines are the most exposed, with relatively higher shares of oil and gas trade deficits. It’s not just the higher oil import bill that hurts – some Asian economies could also see their export growth take a hit. India is the most exposed to the Middle East-driven export demand, with China following closely behind.

Easing cycle delayed but not over

The Iran-driven shock to global energy prices and USD strength complicates the timing of cuts. A weaker FX profile across the region increases the risk of imported inflation and may restrain easing in the near term. We expect the upside risk to inflation from higher oil prices to delay rate cuts in Indonesia, India and the Philippines. Indonesia remains one of the few economies in Asia where the domestic demand picture still argues for monetary easing. With growth softening, Bank Indonesia (BI) retains an easing bias. While we maintain our view that BI will ultimately deliver two 25bp cuts in 2026 once currency conditions allow, we have revised the timing. Easing is no longer expected in the first quarter, with rate reductions now pushed further out in the year. Similarly, we have pushed out our final rate cut in India to the third quarter.

Firm growth expected in Japan despite rising downside risks

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Global oil shocks pose significant risks to Japan's economic growth and inflation. However, Sanaenomics can help alleviate certain risk factors

'Sanaenomics' is expected help alleviate certain risk factors for Japan's economy

Tax cut pledge will eventually be implemented, though details remain lacking

With the landslide victory of Japan's Liberal Democratic Party (LDP) in February, Prime Minister SanaeTakaichi's "responsible and expansionary fiscal policy" is expected to drive the economy's growth. She pledged to alleviate living costs and increase public expenditure with the aim of improving the country's strategic industries and quality of life. Among the key campaign proposals was a reduction in the consumption tax on food, without increasing government debt, though no specific details have been provided so far.

Once this is implemented, it should marginally boost growth, at least temporarily. Yet, since the timing and details of tax cuts are uncertain, we have updated our GDP and inflation outlook without factoring in the potential impact of these tax reductions.

Growth is expected to stay above potential in 2026

The ongoing conflict in the Middle East presents considerable uncertainty. Should the situation be resolved within the speculated timeframe, however, growth conditions are expected to remain robust in 2026 due to fiscal support and a recovery in private consumption. Preliminary GDP data for the fourth quarter of 2025 showed just 0.2% annualised growth, but stronger-than-expected capital spending data points to a likely upward revision to 1.2%.

We expect growth momentum to continue in 2026. The effects of the supplementary budget are beginning to take hold, and robust corporate earnings are expected to facilitate sustained wage growth, increased investment, and enhanced government tax revenues. In the face of structural labour shortages, we anticipate that wage growth will exceed 5% for the full-year 2026. As inflation is expected to stay near 2%, real wage growth is expected to turn positive, which should boost private consumption. Meanwhile, the government is likely to increase its spending on defence and strategic industries –

such as shipbuilding, semiconductors, and software – which should contribute positively to overall growth. Considering these factors, we expect GDP to rise 1.0% year-on-year in 2026, staying above the potential growth level.

Rising oil prices to raise fiscal strain, likely to push up JGB yields

Based on our updated oil and gas price outlook, we've slightly increased our CPI forecasts for 2026 to 2.1% YoY (vs the previous 2.0%). Despite the heavy dependence on Middle Eastern oil and gas, at this stage, we only expect a brief price increase in the second quarter. We believe that the government is likely to resume energy subsidies during the summer to alleviate cost burdens. The Takaichi administration may face pressure for additional fiscal support, which could lead to upward pressure on Japanese government bond yields. The JGB curve flattened significantly after the lower house election. We view this post-election reaction to be a correction to the overly dramatic pre-election volatility. While the 10Y JGB yield drifted lower to the 2.15% level recently due to rising geopolitical risks, we expect it to rise steadily later.

Meanwhile, we continue to believe a June hike remains a possibility. While temporary oil price hikes are not likely to alter the Bank of Japan's rate hike path, the central bank will need to adopt a more cautious approach. Although two newly nominated members are scheduled to join in March and June (pending parliamentary approval), the two retiring members are also considered dovish, so the BoJ's overall dove-hawk spectrum is unlikely to change significantly.

CEE growth tested by energy shocks and geopolitics

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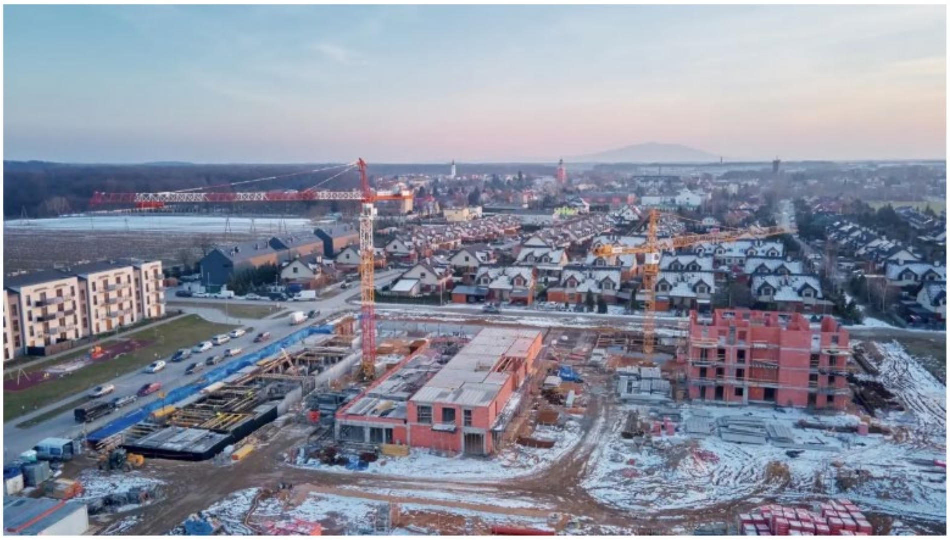
The CEE outlook has dimmed as geopolitics lifts energy risks. Poland cools after a strong 4Q25 but stays domestically driven, while Czech growth is resilient yet inflation-prone. Hungary faces energy shocks and FX volatility. Romania's weak growth collides with renewed inflation uncertainty. Central banks turn cautious again



Harsh winter conditions slowed construction and industry in Poland, even as domestic demand remains resilient

Poland: Cold weather, hot geopolitics

The beginning of 2026 brought some cooling in economic activity after a buoyant fourth quarter of 2025 (GDP up by 4.0%YoY) as harsh weather conditions dampened output in construction and industry in January and probably in February. The US/Israel attack on Iran has added yet another layer of uncertainty. GDP growth in 1Q26 is likely to be around 3.6%YoY. We still project 3.7% for 2026 as a whole, but see forecasts pointing to Poland's growth above 4% this year as overly optimistic. Economic growth remains domestically driven. We expect consumers to continue spending at a similar rate as in the last two years, and fixed investment to accelerate on the back of public outlays.

Inflation remains subdued and is unlikely to significantly deviate from the National Bank of Poland (NBP) target of 2.5%. However, prolonged conflict in the Middle East and higher prices of crude oil and natural gas pose upside risks to the inflation outlook. If current spot prices of Brent were sustained, it would add up to 1pp to inflation. So, the magnitude of the oil shock poses an upside risk to headline CPI, but at the same time, the shock may be temporary in nature and possibly unwind in a few weeks.

The strike on Iran is clearly a supply shock, which central banks usually look through. Unlike the Covid and Russia-related shocks, which combined both supply and demand effects and led to sharper price increases and de-anchored inflation expectations, this shock was more limited in scope. Also, the strike on Iran may dampen economic activity and weigh on business sentiment, with possible adverse effects on investment activity. At the current juncture, the shock seems to be a more persistent risk for private investments than for inflation. The NBP should continue easing, but the terminal rate may be higher than the 3.25 we expected so far.

Czech Republic: Energy markets turmoil poses risk to inflation and growth

Economic performance is set to extend into this year, after a vibrant 4Q25 in terms of consumption, fixed investment, and foreign trade. We expect the economy to expand by 2.7% this year and next in our base case scenario, driven by equally strong contributions of household consumption and investment activity on average. The novelty is the recent turmoil in the Middle East that is about to result in some period of elevated oil and natural gas prices, with unknown duration and amplitudes in prices right now. Should Brent crude prices peak at around US$85/b in March and weaken gradually thereafter to more reasonable levels, we believe that the harm to Czech economic performance would be rather negligible, mostly driven by transitory deterioration in sentiment. However, should the oil price peak closer to US$100/b and remain elevated for a couple of months, the negative supply shock would take its toll on the economic performance.

As energy prices ultimately affect all price domains, the pro-inflationary risks are obvious, and the magnitude is directly linked to future developments in oil and natural gas prices. In the milder scenario, we see headline inflation averaging 1.7% and core inflation at 2.5% this year. However, should oil prices breach the US$100/b threshold, headline inflation could cross 2% and core inflation creep close to 3%.

In any case, neither of these scenarios supports any appetite for easier monetary policy. And given this is a negative supply shock, the Czech National Bank would likely also refrain from monetary policy tightening. As a result, stable rates at 3.5% are the right answer to the price shock and heightened uncertainty about growth prospects, at least until the dust has settled. That said, we believe that the services sector is showing signs of saturation, which makes the need for a rebound in industry more urgent to maintain a robust expansion. We hope that industry will answer the call.

Hungary: Heading into the great unknown

Hungarian economic growth in the last quarter of 2025 was lower than expected. Increased government spending has yet to have a significant impact on the economy's overall performance. While we are still forecasting accelerated GDP growth this year, downside risks are clearly growing. We have reduced our growth forecast for 2026 from 2.3% to 1.7%.

Hard data on industry and retail sales for January has not yet been released, but based on the big data available so far, the outlook is not too rosy. One of the main negative surprises came from the labour market. Despite the shrinking labour force due to poor demographics, unemployment increased in January while employment fell to a five-year low. This is probably a reaction to the substantial increase in the minimum wage in 2026, combined with the stagnant economy of the past three years.

On a positive note, however, inflation fell well below the target in January, reaching 2.1% YoY. While the base effect was strong, monthly repricing was unusually muted at the start of the year. This was mainly due to price shield measures, as well as the strong HUF. Consequently, the National Bank of Hungary cut the interest rate by 25bp to 6.25%, as expected. In its statement, the central bank emphasised that this was a one-off move and not the start of a new cycle. It added that the March interest rate decision meeting would be open-ended and data-driven; hence, the central bank avoided committing to another interest rate decision. However, while market pricing (and our base case) still suggests the possibility of another 25bp cut in March, a significant risk factor has emerged.

The war in the Middle East has caused energy prices on the global market to rise significantly. This is an especially pressing issue for Hungary, which has not received any oil through the Druzhba pipeline since the end of January. If Russian oil supplies to Hungary do not resume in the coming months, the country will be unable to produce refined oil and will have to buy it on the global market. Given the significant increase in oil prices caused by the recent conflict in the Middle East, this would be an extremely costly purchase.

A 10% increase in energy prices would lead to a 0.4% increase in yearly average inflation and a 0.1% decrease in annual GDP compared to the base case due to Hungary's energy dependence. Our latest base case sees inflation averaging around 2.6% in 2026, so the recent price shock could push it meaningfully above 3%.

With elections approaching, the government is likely to impose price controls on fuel due to the issue's high political sensitivity. If this were to happen, the increased energy prices would not be directly reflected in the consumer price index, putting the central bank in a better position to cut the base rate at its next meeting.

The Hungarian forint has strengthened significantly since the beginning of the year. However, it has weakened in recent days due to increased geopolitical risks, and has moved close to Dec-Jan peaks, materially higher than the levels seen before the central bank’s rate cut in February. Therefore, significant volatility could push the central bank to be cautious again. We believe that the recent range of EUR/HUF (375-390) will hold. Overall, the latest geopolitical developments can have significant macroeconomic consequences for Hungary.

Romania: New layers of uncertainty on the inflation front

We expect GDP growth for 2026 to remain at a constant 0.6%, before picking up to 2.8% in 2027. Downside risks are at play, as the labour market shows visible signs of weakening while economic activity is in pain after the fourth quarter’s 1.9% quarterly contraction. What’s more, potential new shocks on the energy front due to the Middle East situation could extend the stagflationary forces at play. And it is growth, more than inflation, that would be affected this time compared to the previous energy shock, if the hostilities continue. Investments, which seem to be pushing forward, are set to remain the key growth driver in the short run.

More positively, data for January brought further good news for the budget, which recorded a surplus of 0.04% of GDP, following the visibly better-than-expected 7.7% deficit at the end of 2025. Our 2026 forecast currently remains at 6.4% of GDP. The 2026 budget law remains in the making and is likely to pass in March.

At this early stage, we still hold on to our 4.5% end-2026 inflation forecast. Even before the current geopolitical uncertainties, price pressures were set to remain in the 9-10% range this summer, before falling more visibly afterwards towards the 4-5% range. New energy shocks could indeed bring inflation back into the small double-digits territory. The ingredients for an inflationary impact as strong as the previous one aren’t in the picture right now, as the fiscal impulse and low wage growth are pushing in the other direction on the demand front.

It has been our long-held view that the National Bank of Romania would keep its policy rate at 6.50% until May 2026, and deliver a total of 100bp of rate cuts by the end of the year, as the growth picture would require a loosening in financial conditions sooner rather than later. Depending on the length of the situation, the amplification of the Middle East conflict reduces the likelihood of our May cut call, especially as the depreciation pressures on RON have sharpened, given the broader risk-off sentiment in global markets. In a scenario of an August cut (not yet our base case but more likely now), we would expect a total of 75bp cuts this year.

CIS-4: Early implications of war in the Middle East

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As the military conflict affects the CIS through higher commodity prices, global flight to safety, risk of trade disruptions and imported inflation, Uzbekistan appears the most secure, while Armenia is in the most vulnerable position

Tashkent, Uzbekistan. The country currently appears the most secure among the CIS-4

The renewed conflict in the Middle East calls for an update to our CIS-4 outlook. The macro impact will flow through the following main channels: commodity prices, portfolio flows and imported inflation. Our initial global take highlights upside risks from commodities but also downside risks via risk off behaviour, shifts in capital flows and possible trade frictions.

Commodity prices

Higher oil and gold prices provide a near-term boost to the external balances of Azerbaijan, Kazakhstan and Uzbekistan, while putting pressure on the energy-importing Armenia.

Every sustained $10/bbl increase in oil prices adds roughly $6bn to Kazakhstan's annual export proceeds and $3bn to Azerbaijan's (1.8% and 4.0% of GDP, respectively).

On the fiscal side, the same increase adds around $1.5bn to annual fuel revenues for both countries (0.5% of GDP for Kazakhstan and 2.0% of GDP for Azerbaijan).

Uzbekistan benefits through higher gold prices, with each $1,000/oz ensuring around $4bn (2.7% of GDP) of export proceeds.

Portfolio flows

A sustained global flight to safety is unlikely to favour portfolio inflows into the region, with a possible exception for Uzbekistan.

- Kazakhstan is exposed through recent non-resident inflows into the government bond market of $1.7bn in 2025 and an additional $0.6bn year to date. During the 12-Day War in June 2025, the tenge reacted more to global risk off than to higher oil prices. A global market downturn also poses a risk to the investment income of the sovereign fund, which totalled 3.5-4.0% of GDP in 2024-25 and may be lower moving forwards.

- Armenia has also recently seen higher portfolio inflows amid the US-mediated peace process with Azerbaijan. Both countries are direct neighbours of Iran, meaning that security implications could be material in case of further escalation. Armenia has closer ties with Iran, while Azerbaijan is more aligned with Israel and Turkey.
- By contrast, the Uzbek soum's positive performance during last year's US tariff episode and the 12-Day War underscores its relatively defensive status among regional currencies, supported by gold exposure.

Trade disruptions and imported inflation

Direct CIS-4 trade exposure to the countries involved in the conflict is limited. However, dependence on EU imports and broader DM/Turkey/Iran/GCC supply chains remains a watch factor. Import exposure to these markets ranges from 14% of total imports for Armenia to 46% for Azerbaijan. This raises upside inflation risks, especially given limited near-term appreciation potential across CIS FX. For Kazakhstan, these factors reinforce our view that the National Bank of Kazakhstan is likely to hold at 18.00% this Friday, as downside to rates remains constrained.

Implications by country

Armenia – most vulnerable: Exposed through energy imports, portfolio outflow risk and proximity to the conflict. Reinforces our cautious view on the dram.

Azerbaijan – relative winner: A stronger trade surplus, removes our concerns about potential current account deficits or manat de-pegging in the medium-term; defence spending may rise due to proximity to Iran.

Kazakhstan – balanced: Oil benefits may be offset by portfolio flow volatility and lower sovereign fund investment income, maintaining the need for fiscal consolidation.

Uzbekistan – best positioned: A defensive play via gold exposure, stronger current account and geographic distance from Iran. Reinforces our constructive view on UZS.

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What war in the Middle East means for our FX forecasts

Sharply higher energy prices have seen the dollar rally broadly. European and Asian currencies in particular are likely to stay under pressure until energy markets calm down

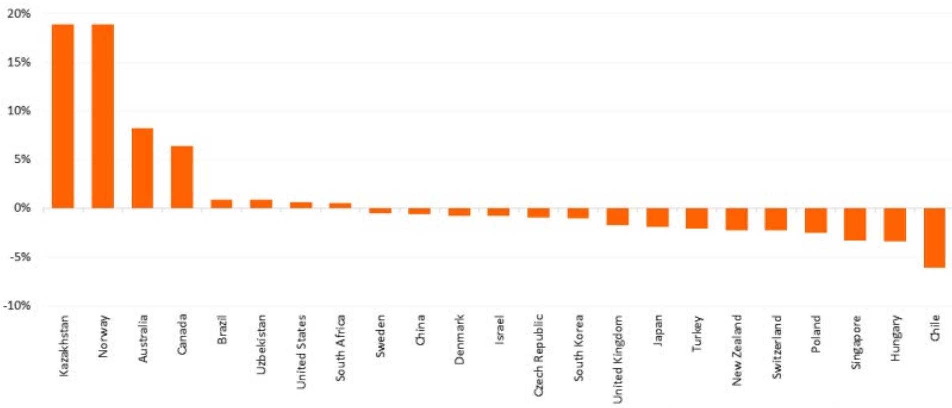
The dollar looks likely to remain stronger in the near term as the energy shock dominates

Dollar gains a reprieve

After a soft opening to the start of the year, the dollar has come back bid. The surge in energy prices has been the key driver, which we think is driving dollar strength through three channels.

The first, as it was in 2022, is the direct impact higher energy prices have on external accounts. Investors recall how in 2022, the higher cost of energy imports saw the eurozone monthly trade account swing to a near €50bn deficit by the late summer. US energy independence is being rewarded, while the fossil fuel importers of Europe and Asia are punished.

Fuel balance as a % of GDP during the last oil energy shock in 2022



Source: Macrobond, World Bank, ING

The re-pricing of the Federal Reserve cycle is the second key channel. 1m USD OIS rates priced one-year forward have quickly bounced 25bp since the start of the conflict. That not only makes dollar hedging costs more expensive, but a bearish flattening of the US yield curve is normally a dollar positive by what it means for growth prospects.

This leads us to the third channel of a stagflationary shock hitting a market positioned overweight Europe and emerging markets in anticipation of synchronised world growth. An unwind of these inflows, which had been building since last summer, is also buoying the dollar.

Back in 2022, we noticed that the shift in terms of trade (export versus import prices) was a key driver in raising the fundamental medium term value of the dollar. That is why making a call on the duration of this energy shock is so important. Our baseline of more settled energy markets by the end of the month should mean the dollar starts to hand back some of its recent gains. Meanwhile, a three-month plus shock would be another, more bullish dollar matter entirely.

The forecasts

We are raising our dollar forecasts for the first half of the year on the view that energy prices will likely be higher than they were before the crisis and that the inflationary risk will delay – but not derail – the Fed easing cycle. That means EUR/USD could be ending March somewhere near 1.15/16. Assuming that conditions calm, eurozone growth comes in as planned and the Fed can cut rates twice in the second half, we then look for EUR/USD to still push up to the 1.22 area by year-end.

Asia is also at the forefront of this supply shock and USD/JPY looks to stay stronger for longer. Unilateral intervention from the Bank of Japan looks likely somewhere near 160. Co-ordinated intervention with the US looks a more complicated proposition, but cannot completely be ruled out after the Treasury requested that the Fed 'check' USD/JPY rates last month. Expect USD/JPY to trade towards the top end of a 155-160 range, while energy stays bid. But a calmer environment in the second half should still see USD/JPY end the year closer to 150.

In general, however, our prior baseline of a benign dollar decline this year will increasingly be challenged the longer this conflict continues.

Rates: lessons from the Iraq war

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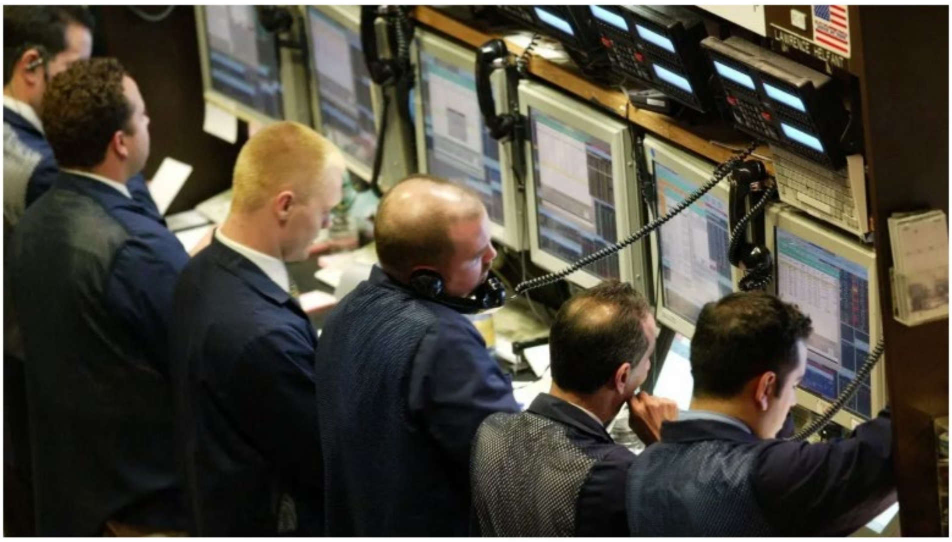
We've not seen this exact movie before, but we've certainly seen a version of it. Magnitudes of some 40bp in the 10yr were obtained. Lower first, and then higher in yield. Sounds familiar. The big difference this time is the spike in short-tenor inflation break-evens. But real yields have held up. The market sees this as a pure short-term price shock, so far



US Treasury yields echo 2003-style swings, but markets are pricing a short-term inflation shock rather than lasting growth risk

Can we identify echos from the 2003 Iraq war for Treasuries and rates?

In 2003, in the weeks leading up to the war in Iraq, the US 10yr Treasury yield fell from 3.95% to 3.55%, a 40bp drop over a three-to-four-week period. Not all of this was reflective of the upcoming war, but a lot of it was. There was an overt build-up of military presence, as the coalition of the willing got ready. Hostilities finally kicked off on 20 March 2003, by which time the 10yr yield had popped back up to the 4.1% area. And in the first couple of weeks of the attack on Iran, the 10yr yield fell back down to the 3.8% area. The dominant impact impulse, over consecutive weeks, was in the direction of lower yields (a flight into Treasuries).

Just for context, the Fed funds rate was at 1.25% at the time (tail end of the dot.com bust). In fact, it got cut to a 1% low later in 2003. While the funds rate is at a different level today, it just so happens that the 10yr yield is in the same ballpark as it was back then. The events of the past few days are clearly not a perfect repeat of the Iraq War. But it is interesting to view the magnitude of change. We're not suggesting this is determinative; just making the comparison to help set some expectations and identify some differences. One was a much lower effect on the oil price back then (Iraqi exports had already been slashed, so the oil price impact was minimal).

Fast forwarding to today, we identify some important nuances

Turning to now, the US 10yr yield shot to below 4% (to just above 3.9%) as the war with Iran broke out, but quickly reverted to above 4% (hitting 4.1% briefly). At the extreme, that's a 20bp swing. It's also a far swifter reversion higher in yield than would be expected based on the Iraq War experience. The 2/10yr curve has also flattened, as it did in the lead-up to the Iraq War. This flattening process is quite striking, and fits with the notion that a flight-to-safety trade continues to exist for Treasuries. This coincides with quite benign inflation expectations in the 10yr, with the implied break-even inflation rate there not deviating too far from 2.3% (absolutely fine).

But it's on the shorter tenors where we find spikes in inflation expectations. The 2yr break-even was in fact already elevated on the eve of last weekend's attacks, at around 2.8%. Now it's at 2.9%, reflective of the material rise in the price of oil. Beyond that, real yields have not done much, so the rise in break-evens is purely a function of higher regular yields. This tells us that markets are not, so far, discounting a material US economic activity risk from the current situation. Rather, the biggest risk is upward pressure on consumer prices. This, in turn, is anticipated to be temporary (long-term inflation break-evens remain tolerably benign).

Impact on European rates and projections for the second quarter

In terms of spreads to eurozone rates and yields, there is no big story to be told. The issue for Europe is its greater reliance on imported oil and acceptance of whatever the global price for energy is. Not to say that we do not see the same for the US. Rather, for Europe, it's more mechanical, albeit muted by a higher taxation element in the overall price set for energy. There has been quite a high correlation between eurozone and US rates since the conflict began, and we expect to see more of the same ahead.

We risk seeing increased bouts of flight to safety, pushing yields down. Don't rule out a break back below 4% on the US 10yr, even if brief, likely on a risk-off episode should things turn really sour. This could see the 10yr Bund yield falling back towards 2.5%. But as we look into the second quarter, we anticipate the US 10yr yield to get back up to the 4.3% area (a level that we observed for a period in January). That equates to the German 10yr yield rising to the 2.9% area. This reflects a resultant higher inflation narrative (higher energy prices). Beyond that, a subsequent calming in yields through the second half of the year would reflect the payment for that in terms of a hit to real growth.

GDP forecasts

QoQ% Annualised (avg)	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2025F	2026F	2027F
US	3.1	2.3	1.8	1.9	1.9	2.0	2.0	2.0	2.2	2.6	2.0
Japan	1.6	1.6	1.6	1.2	0.4	0.8	1.2	0.8	1.1	1.0	1.0
Germany	0.3	1.5	1.6	1.9	2.4	2.3	2.3	2.3	0.2	1.1	2.0
France	0.6	0.6	0.8	0.6	1.2	1.4	1.6	1.2	0.9	0.9	1.1
UK	1.5	1.0	0.2	1.6	1.8	1.7	1.7	1.7	1.3	0.8	1.5
Italy	0.3	0.4	0.8	1.2	0.8	0.5	0.5	0.5	0.7	0.7	0.7
Canada	1.6	1.5	2.3	2.5	2.2	2.0	2.1	2.0	1.7	1.2	2.2
Australia	2.3	2.2	2.3	2.2	2.5	2.5	2.5	2.5	2.0	2.3	2.5
Eurozone	0.9	0.8	1.7	1.8	1.6	1.4	1.3	1.2	1.5	1.1	1.6
Austria	1.2	1.0	1.6	1.8	1.8	1.6	1.6	1.4	0.6	1.2	1.6
Spain	2.2	1.7	2.3	1.7	2.2	2.2	2.1	2.1	2.8	2.3	2.1
Netherlands	1.6	1.6	1.6	1.5	1.9	1.4	1.2	1.3	1.9	1.7	1.5
Belgium	0.8	0.6	1.6	1.3	1.3	1.3	1.2	1.4	1.0	0.9	1.2
Greece	1.6	1.7	3.0	1.8	2.0	1.4	1.3	1.3	2.0	2.1	1.8
Portugal	2.0	2.0	2.0	2.1	2.2	2.2	2.2	2.2	1.9	2.4	2.1
Switzerland	1.2	1.2	1.6	1.2	1.2	1.6	1.6	1.2	1.2	0.7	1.4

Emerging Markets, (YoY% growth)	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2025F	2026F	2027F
Bulgaria	3.1	2.8	2.7	2.5	2.5	2.5	2.5	2.7	3.1	2.8	2.5
Croatia	3.6	3.2	3.1	1.8	1.6	1.7	1.8	1.8	3.2	2.9	1.7
Czech Republic	2.5	2.8	2.7	2.8	2.8	2.8	2.7	2.7	2.6	2.7	2.7
Hungary	1.6	1.4	1.7	2.2	1.9	3.2	3.1	3.6	0.4	1.7	3.0
Poland	3.6	3.8	3.7	3.6	3.6	3.4	3.0	3.0	3.6	3.7	3.2
Romania	-0.7	-0.8	0.3	2.8	3.1	2.9	2.6	2.7	0.6	0.6	2.8
Turkey	3.6	3.9	4.1	4.4	4.6	5.0	4.4	4.2	3.6	4.0	4.5
Serbia	3.6	3.1	3.2	2.7	2.8	3.2	3.3	3.6	2.0	3.2	3.2
Azerbaijan	3.0	2.0	4.0	1.0	3.0	3.5	2.0	3.5	1.4	2.5	3.0
Kazakhstan	4.0	5.0	5.0	6.0	5.0	4.8	4.0	4.0	6.5	5.0	4.5
Russia	1.0	1.0	0.5	-0.5	0.0	0.5	1.0	1.5	1.0	0.5	0.8
Uzbekistan	6.5	6.3	6.0	7.0	6.5	5.5	6.0	6.0	7.7	6.5	6.0
Ukraine	2.1	2.6	2.5	2.8	3.2	3.4	3.5	3.5	1.8	2.5	3.4
China	4.6	4.6	4.7	4.5	4.2	4.9	4.4	4.4	5.0	4.6	4.5
India	6.5	6.6	6.8	7.0	6.5	6.5	6.5	6.5	7.5	6.7	6.5
Indonesia	4.8	4.9	5.0	5.0	5.0	5.0	5.0	5.0	4.8	4.9	5.0
Korea	2.4	2.4	1.5	2.3	1.8	1.8	1.9	1.8	1.0	2.2	1.8
Philippines	4.0	4.5	6.0	6.2	6.0	6.0	6.0	6.0	4.4	5.2	6.0
Singapore	4.5	4.0	3.0	2.0	1.8	1.8	1.8	1.8	5.0	3.4	1.8
Taiwan	10.2	7.4	7.1	3.3	4.2	4.8	5.0	5.1	8.6	6.9	4.7

Norway: Forecasts are mainland GDP
Source: ING estimates

CPI Forecasts (pa)

YoY% (avg)	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2025F	2026F	2027F
US	2.5	3.4	3.1	2.9	2.5	2.1	2.1	2.2	2.7	3.0	2.2
Japan	1.8	2.4	2.1	1.9	2.2	1.6	2.0	1.9	3.2	2.1	1.9
Germany	2.2	2.6	2.5	2.3	2.3	2.0	2.0	2.1	2.2	2.4	2.1
France	1.1	1.9	1.7	1.8	1.5	1.0	1.0	1.8	0.9	1.6	1.3
UK	3.0	2.2	2.6	2.4	2.4	2.2	2.0	2.3	3.4	2.6	2.2
Italy	1.4	1.8	2.0	2.2	1.9	1.7	1.8	1.9	1.7	1.9	1.8
Canada	2.1	2.5	2.6	2.4	2.3	2.1	2.0	2.0	2.1	2.4	2.1
Australia	3.7	3.7	3.2	3.2	3.0	3.0	3.0	3.0	2.8	3.5	3.0
Eurozone	1.9	2.5	2.1	1.9	2.0	1.8	1.9	2.1	2.1	2.1	2.0
Austria	2.2	2.4	2.2	2.1	2.1	2.1	2.1	2.1	3.6	2.2	2.1
Spain	2.5	2.9	2.4	2.4	2.1	2.1	2.0	2.0	2.7	2.6	2.1
Netherlands	2.2	2.3	2.3	2.0	2.0	2.1	2.1	2.1	3.0	2.2	2.1
Belgium	1.5	2.5	2.2	2.1	2.0	2.0	2.1	2.1	2.6	2.3	2.0
Greece	2.7	2.6	2.8	2.4	2.3	2.1	2.2	2.1	2.9	2.6	2.2
Portugal	2.3	2.4	2.1	2.2	2.1	2.1	2.0	2.0	2.2	2.3	2.0
Switzerland	0.2	0.6	0.5	0.5	0.6	0.6	0.8	0.8	0.2	0.4	0.7
Bulgaria	3.2	3.6	2.1	2.3	2.4	2.3	2.5	2.6	4.6	2.8	2.5
Croatia	3.8	4.1	3.3	3.2	2.4	2.6	2.7	3.1	3.7	3.6	2.7
Czech Republic	1.5	1.8	1.6	2.1	2.5	2.3	2.3	2.3	2.5	1.7	2.3
Hungary	1.8	2.6	3.2	3.7	4.0	4.1	3.7	3.4	4.4	2.8	3.8
Poland	2.2	2.2	2.0	1.8	1.8	2.2	2.4	2.7	3.6	2.2	2.3
Romania	9.4	9.5	5.2	4.6	4.2	4.1	3.9	3.7	7.3	7.2	4.0
Turkey	30.2	28.0	25.7	25.0	21.8	20.8	19.0	18.2	34.9	27.6	20.2
Serbia	2.6	3.0	2.6	3.4	3.1	3.3	3.6	4.0	3.9	3.0	3.5
Azerbaijan	6.0	5.7	5.1	4.9	4.4	4.5	4.7	4.9	5.6	5.4	4.6
Kazakhstan	11.8	11.0	10.3	10.0	9.6	8.9	8.3	8.0	11.4	10.8	8.7
Russia	5.7	5.2	4.6	5.2	4.4	4.7	5.2	4.5	8.7	5.2	4.6
Uzbekistan	7.3	6.9	6.7	7.2	7.4	7.0	7.0	7.0	8.8	7.1	7.1
Ukraine	9.2	8.5	7.5	7.0	6.5	6.3	6.1	5.7	13.2	8.1	6.2
China	1.1	1.0	0.9	1.0	1.1	1.2	1.2	1.2	0.1	1.0	1.2
India	3.0	3.7	4.1	4.3	4.5	4.8	4.8	5.0	2.2	3.8	5.0
Indonesia	3.0	2.3	2.5	2.5	2.5	2.5	3.0	3.0	1.8	2.6	2.5
Korea	2.1	2.4	2.2	2.2	1.8	1.8	2.1	2.0	2.1	2.2	1.9
Philippines	2.5	3.0	3.2	3.0	3.0	3.0	3.0	3.0	1.7	3.0	3.0
Singapore	1.6	1.8	1.9	1.8	2.0	2.0	2.0	2.0	0.8	1.8	2.0
Taiwan	1.2	1.7	1.7	1.8	1.6	1.6	1.5	1.5	1.7	1.6	1.6

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas forecasts (avg)

	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2026F	2027F
Brent ($/bbl)	72	71	68	62	58	60	66	63	68	62
Dutch TTF (EUR/MWh)	37	31	28	30	30	24	24	27	32	26

Source: ING estimates

Disclaimer