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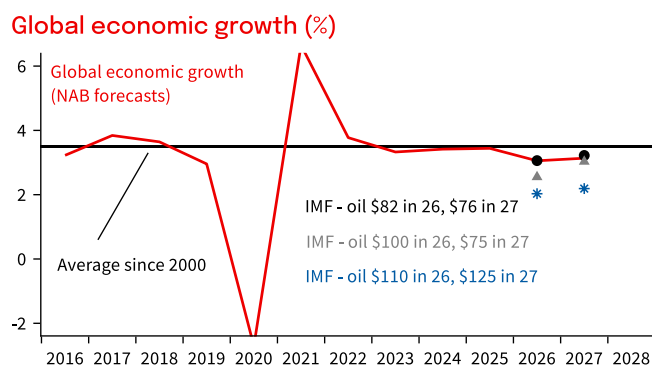
The Strait of uncertainty

- The course of the conflict between the US/Israel and Iran, and its impact on energy production, as well as shipping through the Strait of Hormuz, remains central to the global economic outlook.
- We have again lowered our growth forecast for 2026, albeit only modestly (to 3.1% from 3.2%). Crude oil prices are tracking higher than we assumed last month, and activity data for some countries has been weaker than expected. This includes for the US and Euro-zone, although the US economy should still see a rebound in Q1 as the impact of the Federal government shutdown is reversed. A solid start to the year in China provides some offset.
- The forecasts assume that oil prices average around \$US100/bl in Q2 before declining. This will require some improvement in the ability of shipping to transit through the Strait of Hormuz and, ultimately, a full re-opening. The swings in oil prices last weekend (from as low as \$US80 back up to towards \$US100) indicates that positive news on the conflict could see a lower path for prices; but if the Strait remains closed then oil prices are likely to move higher.
- Given the extent of lost oil supply (~10%), as well as damage to energy infrastructure, risks around oil prices are skewed to the upside. Reinforcing this asymmetric risk is that the impact on economic growth becomes steeper the higher prices rise. While business survey indicators have moved down and consumer sentiment declined, one of the other channels that can amplify the impact – global financial conditions – remains relatively unstressed. That said, market pricing for central bank rates remains higher than before the conflict. We now expect the ECB to raise rates this year and have pushed out the timing of Bank of England rate cuts into next year (and the risk is that the Fed also remains on hold this year).
- Net energy importers – such as Japan, India and parts of Europe – potentially face the largest growth headwinds, although by drawing on reserves and using policy measures to limit energy cost pass through, they can limit the near-term impact. EM economies are also generally more exposed. This can be seen in the policy response with EMs engaged more actively in demand rationing compared to advanced economies whose main response has been to shield consumers from rising energy costs.

Key Economic Forecasts

	2025	2026	2027
US	2.1	2.1 (-0.2)	1.9
Euro-zone	1.5	1.0 (-0.2)	1.3
Japan	1.2	0.6 (-0.1)	0.7 (0.1)
UK	1.4 (0.1)	0.7 (-0.1)	1.0
Canada	1.7	1.0	1.7
China	5.0	4.7 (0.1)	4.3 (0.1)
India	7.5	6.3 (-0.2)	6.5
Latin America	2.4 (0.1)	1.9 (0.1)	2.2 (0.2)
Other East Asia	4.3 (0.1)	4.1 (-0.1)	3.4
NZ	0.2 (-0.1)	1.7 (-0.7)	2.0 (-0.3)
Global	3.4 (-0.1)	3.1 (-0.1)	3.1
Major trading partners	3.9 (0.1)	3.5 (-0.1)	3.3 (0.1)

Global growth expected to be soft, with risks to the downside



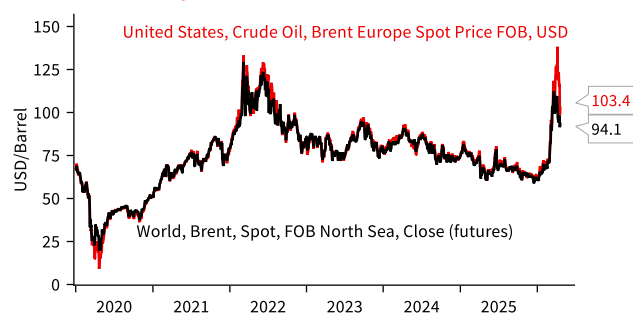
Source: National Australia Bank, Macrobond (IMF). Oil prices in IMF scenario are per barrel (USD) and based on average of UK Brent, Dubai Fateh, and WTI. NAB assumes \$85+/bl in '26, \$80 in '27.

Middle East conflict fallout

At the time of writing, a two-week ceasefire is active between the US/Israel and Iran, with the US actively blockading shipping from Iranian ports. This has prompted Iran to close the Strait of Hormuz, where the prospect of reopening is shifting daily. Last weekend, the next Brent futures contract price fell to as low as \$US80/bl before moving back close to \$US100 the following day.

Our baseline outlook is for a Brent oil price of around \$US100/bl through much of Q2, before prices track back towards \$US80/bl by the end of the year. Notably, 'dated' Brent prices (the price for immediate delivery) have been higher than the typical futures pricing benchmark. Crack spreads (the difference between refined and crude oil products) have also widened.

Brent crude oil prices

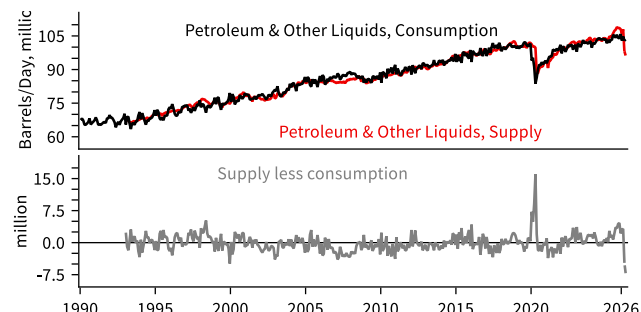


Source: National Australia Bank, Energy Information Administration (EIA), Macrobond Financial AB, Macrobond

US EIA estimates point to an 11% reduction in petroleum supply since February. With a short-term price elasticity of demand around 0.1, an indefinite Strait closure would drive prices well above \$US100 — implying our oil price assumption requires at least a partial re-opening this quarter, followed by a return to unimpeded passage.

Due to energy infrastructure damage sustained in the conflict, we do not expect a return to pre-war prices over the forecast period. The IEA reports more than 80 oil and gas facilities have been damaged. In Qatar the repair time on LNG infrastructure is expected to be years.

World, EIA, Petroleum supply and consumption



Source: National Australia Bank, Energy Information Administration (EIA), Macrobond. Estimates to April 2026 shown.

The impact extends beyond oil. Natural gas prices have also risen, though unevenly — the Asian benchmark is up around 40%, European TTF around 25%, while US prices are broadly unchanged, reflecting the Gulf's outsized role in LNG trade. Derivative products (helium, naphtha, fertiliser, plastics) and

Gulf-based aluminium production are also exposed. **The longer shipping remains restricted, the greater the risk that input shortages ripple through supply chains to consumer products.**

There is considerable uncertainty the path of the conflict and, by extension, energy prices, will take. **While the risks to our oil price assumption are two-sided, the growth risks are tilted to the downside** as the [impact of rising oil prices is non-linear](#) (growing disproportionately at higher levels). Our judgement has been that oil prices sustaining at over \$US120 would be needed for material recession risks to emerge.

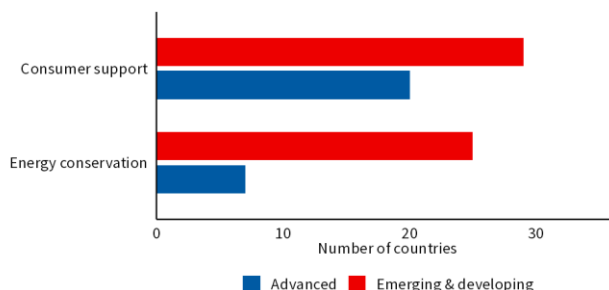
For now, the channels that would amplify an energy shock remain muted. **Market pricing for policy rates and bond yields have risen, but broader financial conditions have held up.** Equity markets have been resilient and measures of financial stress, while elevated briefly, have moderated since end-March, helped by the ceasefire. **Sentiment has fallen, but not yet precipitously.** Consumer confidence has declined across major advanced economies and the S&P Global Composite PMI fell sharply in March, driven by services — though it remained above breakeven. Whether these moves persist given the ceasefire is unclear.

How are governments responding?

As we noted last month, at a high level, **exposure to this war reflects the degree of energy independence and intensity.** Hard economic data on the impact of the crisis remains scarce, but **government policy responses offer an early read on where the biggest vulnerabilities lie.** [The IEA tracks 64 countries' crisis responses](#) across conservation and fiscal measures, and the pattern is striking.

Advanced economies are spending through the crisis; emerging markets, with less fiscal space, are rationing demand directly. Nearly all AEs have introduced consumer-support packages, but few have imposed conservation measures — EMs are the mirror image. Roughly half of mandatory EM policies target households and firms, with the rest directed at government operations, underscoring that the constraint binds economy wide.

Government responses to the 2026 energy crisis



Source: National Australia Bank, IEA 2026 Energy Crisis Policy Response Tracker (data as at 14 Apr 2026, downloaded 20 Apr 2026)
Note: Income classification per IMF WEO April 2025. Countries may appear in both categories.

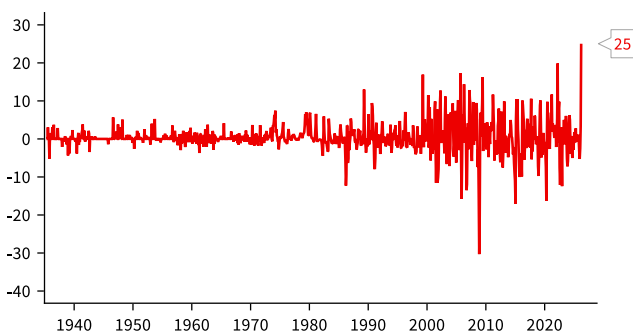
Asia-Pacific's policy response is by far the most extensive. Countries in the region have nearly double the number of distinct measure types compared to the next closest region. This is consistent with high import dependence, (with Asian economies particularly dependent on Middle East oil imports) and thin reserve buffers.

United States

US growth looks set to be modest in coming quarters. As a net energy exporter, it is well placed to weather the Middle East conflict, but the impact on household budgets is already evident and many business face higher costs with no signs yet that this will be balanced out by rising mining investment. **We expect modest labour market softening this year and for core inflation to ease in H2. The Fed is on hold for now, but the next move is likely a cut in rates.**

The March CPI (1.0% mom) saw the largest single month percentage rise in gasoline prices (since the 1930s). Although offsets are coming from the OBBBA, this represents a material drag on real household income. Personal taxes fell between December and February, contributing 0.4ppt contribution to income.

US CPI - private motor vehicle fuel (mom%)



Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

Household’s ability to absorb this drag is uncertain. **While forecasting positive consumption growth, it’s pace is expected to be the slowest since the pandemic.** While the household balance sheet is healthy the risk is that a relatively low savings rate, and falling consumer sentiment, sees a more abrupt pull back by consumers.

Business investment is expected to hold up, though rising costs and uncertainty could put some of the pipeline on hold. High (and growing) corporate profits and healthy balance sheets point to capacity to absorb a shock. While business investment has largely been tech related in recent years, and this should remain a positive factor, the steady improvement in regional fed surveys of capex intentions point to the prospect of some broadening out. However, it is too early to fully assess the impact of the Middle East conflict on investment intentions.

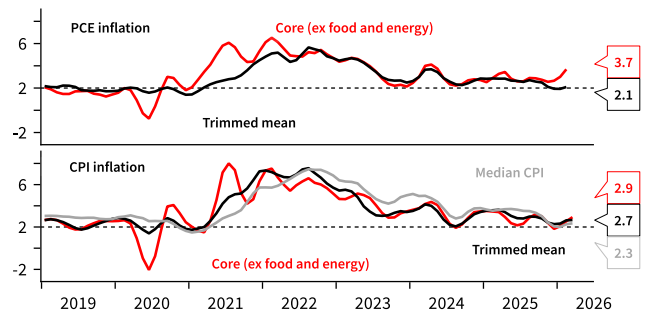
There are no signs that energy related investment is picking up on the back of higher oil prices, with the ‘rig count’ tracking sideways since February. This may reflect expectations that the increase in oil prices may only be temporary, as well as the limited change in US natural gas prices (unlike the rest of the world).

We have revised down our forecast for 2026 US GDP growth to 2.1% (from 2.3%). This reflects a further downward revision to 2025 Q4 GDP (now 0.5% qoq annualised from 0.7% previously), weaker than expected activity data for Q1, and the impact of our higher baseline assumption for oil prices. The latter is mitigated by the

resilience in financial markets, including for equity prices which have recovered from their post conflict lows.

The labour market has been broadly stable but is likely to weaken somewhat further over the rest of 2026 given the more subdued growth outlook. Changes in non-farm employment has been volatile but broadly appear to have settled at a low level. With labour supply also weak due to migration policy, the unemployment rate has also been moving sideways – it has been 4.3 or 4.4% since August (except for one month when it reached 4.5%).

Core inflation measures (3mth/3mth annualised %)



Source: National Australia Bank, U.S. Bureau of Economic Analysis (BEA), Federal Reserve Bank of Dallas, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Cleveland, Macrobond

CPI inflation jumped to its highest level in almost two years in March (3.3% yoy, from 2.4% in February) due to the rise in fuel costs. Core CPI inflation was only modest (0.2% mom) but, together with March PPI data, signals **another month of high core PCE inflation – the Fed’s preferred measure – of around 0.3% mom (3.2% yoy) is likely in March.**

Recent research by Federal Reserve staff find that 0.8ppts of current core PCE inflation is attributable to 2025 tariff increases, but that pass through is ‘effectively complete’. This was before the lowering in the average tariff rate following the suspension of IEEPA tariffs in February. Moreover, an alternative measure of underlying inflation – trimmed mean PCE inflation, has been more moderate than core.

Core inflation should decline but this is unlikely to be evident until the second half of 2026. Diminishing tariff impacts, contained wage growth and solid productivity growth), and a more modest growth backdrop, will drive this. However, there will be some pass through of higher oil prices to core inflation (as well as from other prices impacted by the conflict). April will also see higher housing services inflation, a mechanical correction to the low October result caused by the government shutdown.

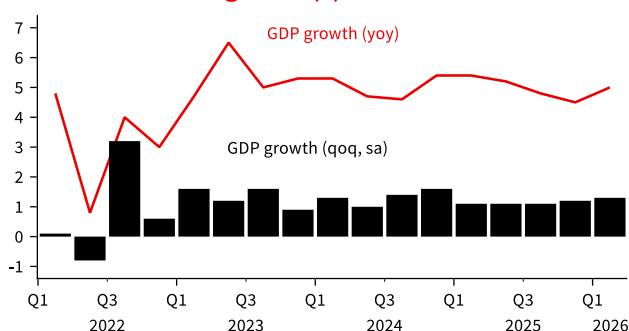
Last month we delayed the next expected cut in rates by the Federal Reserve to Q4 (December) with a follow up cut expected in Q1 2027. **We still see rate cuts as the next likely move by the Fed** given most Fed members see the policy rate as restrictive, core inflation should ease over time and the unemployment rate move a little higher. However, this is subject to inflation expectations remaining anchored. The risks around this call are tilted to the Fed remaining on hold for longer as it may want to see a longer period of closer to target monthly inflation readings before moving rates and given the possibility that inflation expectations will rise.

China

China's economy had a solid start to the year, and we have revised up our 2026 forecast to 4.7% (from 4.6%), closer to the mid-point of the Government's growth target (4.5-5.0%). Fixed asset investment was stronger in Q1, partly reflecting a bring forward of government bond issuance, but outside of this domestic demand growth remains soft. China is well placed to manage the Middle East disruptions given its large oil reserves, diversified energy imports and electricity generation assuming the conflict is resolved soon. However, softer global growth could be a headwind to exports, even if the recent lowering (likely only temporarily) in US tariffs may provide some short-term boost.

China GDP grew by 5.0% yoy in Q1 2026, up from 4.5% in Q4. On a quarterly basis, growth was 1.3% qoq, its strongest performance since end 2024. The stronger Q1 yoy growth was driven by gross fixed capital formation, with the consumption contribution broadly flat while the trade contribution declined (even if still relatively high).

Chinese economic growth (%)



Source: National Australia Bank, Macrobond

Partial activity data have been volatile in recent months, likely reflecting LNY holiday distortions; overall showing a lift in January/February but unwinding in March.

Fixed asset investment bounced back to 1.8% yoy in January/February, with a similar outcome for March (1.6% yoy); this is still soft by historical standards but a marked improvement on H2 2025. The improvement was broad based, with manufacturing and infrastructure fixed asset investment growth turning positive, with the latter possibly reflecting various **Government supports - the policy financing tool for infrastructure projects and front loading of local government bond issuance.** Real estate fixed asset investment is still falling (-11.7% yoy).

Consumption growth also remains soft. Quarterly household per capita consumption is trending down and is running below income growth, with ongoing property market weakness (through wealth and confidence impacts) likely a contributing factor. Monthly retail sales picked up early in the quarter but softened in March (1.7% yoy) with volume growth even weaker given the recent inflation pick-up.

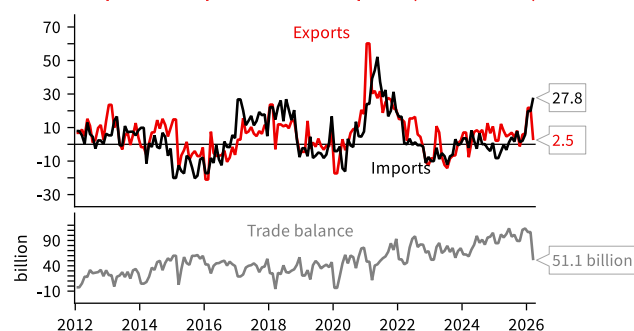
China industrial production growth has been steadier and was little changed in March (5.7% yoy). **The policy pivot to tech sectors is evident with the hi-tech category growing 11.7% yoy in March,** while chemical production (9.0%) and comms and computer equipment was up 12.5% yoy.

Automobile production was down slightly on its year ago level (-0.1% yoy) reflecting over capacity but EV sales may get a boost from the rise in oil prices.

That said construction material production continues to decline – with cement down as 21% yoy – as is crude steel production, in line with the **ongoing property sector downturn.** Housing starts are still declining, as are sales and house prices although at a slower pace in recent months.

Rounding out the activity data, yoy export growth for March was the weakest recorded (2.5%) since October after surging in the Jan/Feb period likely reflecting LNY distortions. In contrast, import growth moved even higher – to 27.8% yoy reflecting strong growth in tech imports (the value of petroleum imports was lower than a year ago). As a result, **the trade balance almost halved to its lowest level in almost four years.**

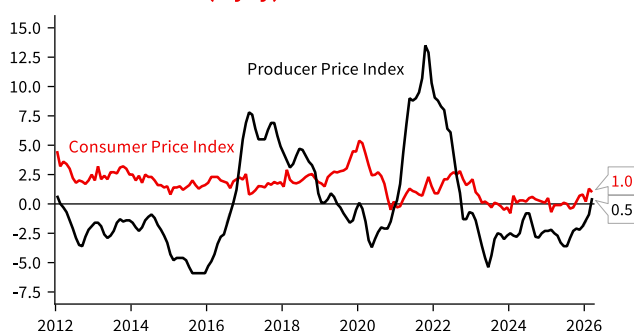
China exports, imports and surplus (US\$ billion)



Source: National Australia Bank, Macrobond

Unlike most other countries, the surge in energy prices is occurring against a backdrop of what had been a persistent deflationary environment. CPI inflation has strengthened since late 2025 but moderated in March (1.0% yoy from 1.3% yoy) helped by lower food inflation, with government policy supports also limiting pass through of higher crude oil prices. PPI inflation was 0.5% yoy, the first positive reading since late 2022, with petroleum and natural gas producer prices up 16% mom, with stronger price pressures in chemical and tech related equipment also evident. **The Middle East conflict fall out is likely to place further upwards pressure on PPI inflation but does not necessarily signal an end to China's deflationary concerns.** Many sectors still have over capacity issues, as seen in continuing consumer goods deflation, and businesses in these sectors are likely to absorb the higher costs by lowering margins.

Chinese inflation (% yoy)



Source: National Australia Bank, Macrobond

Euro-zone

Solid domestic demand in H2, 2025 amid a healthy labour market and strong household balance sheets helped the Euro-zone (EZ) weather a negative GDP drag from Ireland at the back end of last year. The ECB has talked of coming into the Middle East energy crisis with a 'good base.' While this assessment looked a reasonable one, **the omens from here are less supportive with economic growth for Q1 looking like there are downside risks to a 0.2% outturn, while inflation is picking up to a degree that we think will necessitate 50bps of ECB policy tightening starting at the June meeting.**

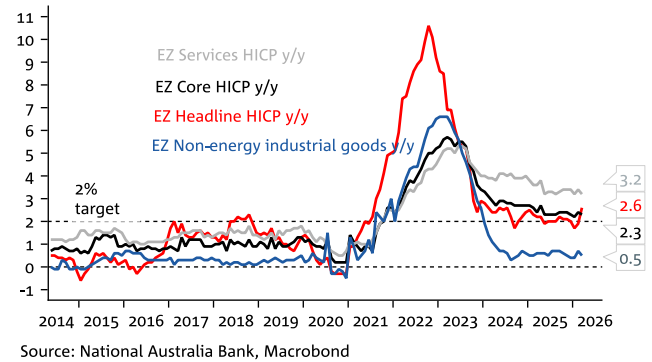
The slide in Irish economic growth seen in Q4 looks like it will continue to some extent in Q1. **Meanwhile, Spain's relative growth outperformance of the last few years looks to be coming off the boil** amid a combination of weaker industrial production, construction output and softer retail sales. Spanish manufacturing PMI activity has slipped from above 54 into contraction territory just above 48. Services sector activity has pulled back from 57 to 53. It is true Spain's better energy mix, being less reliant of fossil fuels is a positive and government fiscal assistance on higher energy bills has been quick, **but for now a Spain that isn't able to grow by the 3% or so it has done annually since the pandemic will impact overall EZ GDP.**

In Germany soft industrial production and construction activity in February looks set to be followed by a sizeable rebound in manufacturing in March. The manufacturing PMI surged to a cycle high of 52.2, with S&P indicating that customers were looking to mitigate and get ahead of the Middle East conflict. Ifo data for manufacturing showed a similar rise. **That said the slump in services activity from above 54 towards the 50 breakeven looks meaningful and will reflect the coming hit to real incomes as nominal wages fall** behind a rise in inflation. Like Spain Germany has indicated it wants to help households and businesses weather the energy price hit.

Meanwhile the knock to consumption via lower real incomes is likely to be felt across the EZ. ECB bank lending data for Q1 is due next week but Q4 data already pointed to an easing of borrowing for house purchases, while demand for business loans remains soft. The EZ savings rate remains high at above 14% and could help support household demand, but we look for domestic demand contributing around half what it did in H2, 2025. **Overall, our EZ growth profile looks for between 0.2% and 0.3% per quarter and 1.0% in 2026, broadly in line with the ECB's baseline scenario, picking back up to 1.3% in 2027.** The risks are to the downside and a more adverse scenario.

The ECB has stated that it is 'well positioned' to navigate the Iran war-induced uncertainty and that longer-term inflation expectations are 'well anchored.' Comments from ECB officials over the last few weeks have eased back a little from a more hawkish take earlier in the crisis. **Rhetoric from the many ECB officials in Washington last week portrayed a sense of the ECB having time to assess second round effects, but also not wanting to take chances with inflation expectations.**

EZ headline inflation has already jumped to 2.6% from 1.9%



The ECB Deposit Rate is currently at 2%; considered the lower end of a 1.75%-2.75% neutral setting. Headline inflation has stepped up to 2.6% in March from 1.9% in February and is on course we think to rise above 3% - potentially towards 3.5% later in 2027. After a robust debate on rates at the 30 April meeting, **we see the ECB leaving rates in hold at 2%, before raising them to 2.25% in June and then again to 2.5% at the September meeting.** The follow-up rate rise is less certain than the first we think, but the timing of it could be as soon as the July meeting or after September, depending on the inflation path and second round effects. We do not see a Deposit Rate of 2.5% derailing growth significantly.

United Kingdom

A strong rebound in UK monthly GDP for February and upward revision for January is more consistent with our previously stated view of improved output early in 2026 after the very soft H2, 2025. **However, the rebound overstates the strength of economic expansion and the coming hit from the Iran war will likely see it skirt recession. We see BoE policy on hold**, with potential cuts in 2027 but do see a couple of BoE dissenters possibly voting for a hike this year.

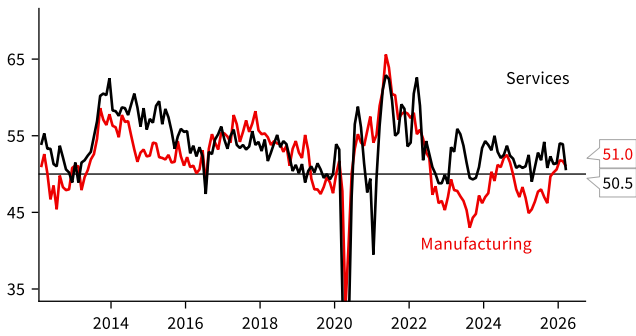
Our previously noted optimism the UK economy would improve in early 2026 as the factors weighing on growth in H2, 2025 faded and as households and businesses looked forward to a more meaningful drop in inflation and confidence-boosting rate cuts, **has been borne out in latest monthly GDP data. February's monthly GDP bounce-back to 0.5% m/m** against a consensus 0.1% forecast and where January's zero outturn was revised up to 0.1% **not only corrects things more towards our thinking at the time, but almost certainly overstates the strength of economic expansion.** The February GDP report revealed 3m/3m growth to February also at 0.5% from a prior 0.3% (the latter also an upward revision). The pick-up in growth was broad-based, with the dominant services sector expanding by 0.5% mom and on a 3m/3m basis. While manufacturing fell 0.1%, broader industrial production rose a strong 0.5% mom.

However, construction's 1% m/m surge against a forecast - 0.5% decline as the extremely wet weather suggested activity here would have been negatively impacted, looks out of sync. Similarly, a 2% rise in administrative services and an almost 4% rise in mining output look ripe for corrections come March, potentially shaving a little off February's strong outturn. **That said, even if we assume a slight fall mom in**

March, Q1 GDP now looks set for 0.5% or so – suitably above the BoE’s February 0.1/0.2% forecast.

Of course, all of that predates the war in the Middle East, which will compound our prior pessimism that an improvement in early 2026 would not last against the backdrop of the rising tax burden, still elevated energy and food costs and the necessity of increasing spending in areas such as defence. Firms continue to put hiring plans on hold amid increases in the minimum wage and costs associated with significant changes to workers’ rights.

UK PMIs



Source: National Australia Bank, Account in-house, Macrobond

We have lowered our GDP forecast to 0.7% (from 0.8%) as we expect near flat qoq readings for Q2 and Q3, thereby suggesting the UK will at least flirt with a technical recession as the cost of the Iran war weighs further on activity and confidence. We see 2027 growth at 1%.

PMI activity has already slumped back towards the 50 breakeven - services from around 54 in January and February – **making for the most pronounced slowing across major economies.** Higher petrol and diesel prices are biting and will add around 0.3ppts to March CPI this week to at least 3.3% headline inflation. Households have a couple of months’ grace on energy-related utility bills, the marginal pricing system will deliver steep increases from July.

From the prior widely expected drop in headline inflation to around 2% by May, we now expect inflation to only ease back into the high 2s - around 2.8% or so (on Budget and energy base-effects) before rising back to around 3.5% in H2. A peak around that level, alongside sooner peaks in core and services (the latter 4.3%-4.4% in Q2) should ease BoE hawk concerns about second round effects. This will take time **and some BoE MPC voters such as Huw Pill and Megan Greene, could vote for a rate hike in April or June.**

We do not however expect to see a majority on the BoE vote for a rate hike, with the current 3.75% restrictive enough. We previously pushed out our pre-war forecast of two rate cuts to 3.25% to Q4, 2026 and Q1, 2027. These are now on hold with the timing of a future easing in 2027 awaiting greater clarity from the Middle East, wage developments and the unemployment rate. Zero growth and rising unemployment could bring forward rate cuts.

UK political uncertainty has returned. The coming 7 May local and regional elections are widely tipped to deliver the governing Labour Party a bloody nose that has the capacity to unseat PM Starmer and possibly Chancellor Reeves. Geopolitical tensions may have bought Starmer a little bit of

time – a factor prediction markets have priced. **However, any actual challenge, not least actual removal will see a bear-steepening of the yield curve,** that hopefully is heeded by the government.

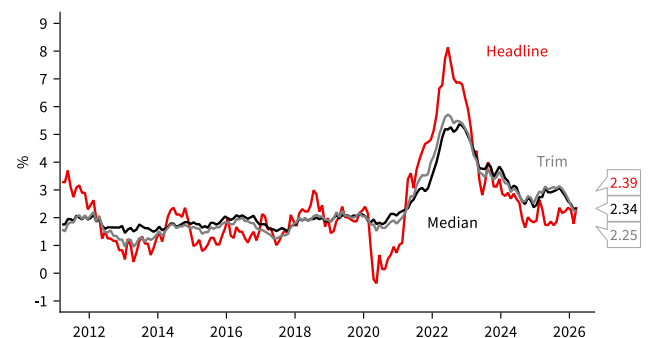
Canada

Canada's tepid growth does not yet show signs of abating in 2026, but there has been no immediate deterioration owing to the Iranian conflict or new data. We leave the outlook (1.0% in 2026, 2.7% in 2027) and rate call (on hold) unchanged.

Following a weak Q4 GDP outcome (-0.6% q/q annualised), Q1 indicators remain soft. Monthly GDP recorded just 0.1% m/m in January, PMIs sit at breakeven, and the labour market continues to look weaker than the headline suggests. March employment rebounded modestly (+14k after February's -83k) but does little to dispel the sense of **a labour market in excess supply.**

The inflation picture reinforces this view. Despite headline inflation ticking up in March (from 1.8% to 2.4%) due primarily to higher energy prices, the BoC’s core measures (trim and median) either remained steady or eased slightly.

Canadian inflation



Source: National Australia Bank, Statistics Canada, Macrobond

The Carney government has moved to cushion households from the energy price shock, with further support likely coming soon. The fuel excise tax holiday (20 April to 7 September, 10 c/L) is the first direct fiscal response to the conflict. However, further targeted support is expected from an April 28 budget update, likely funded by the energy royalty windfall.

The BoC have clearly communicated their willingness to look through the conflict's inflationary impact so long as it does not embed into second round effects. It considers the economy to be in excess supply, limiting energy cost pass-through. It’s Q1 Business Outlook Survey confirms inflation expectations for businesses remain anchored thus far, despite showing some initial tick up post-conflict. This means **the bar to moving rates from 2.25% remains high.**

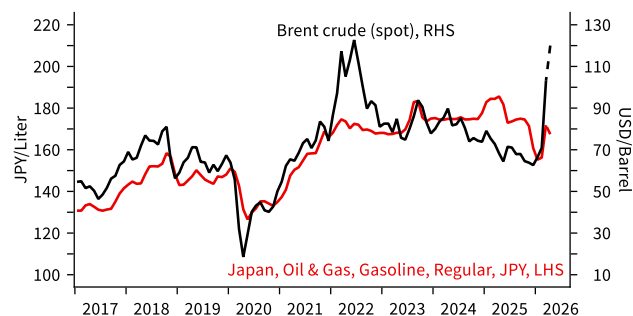
Japan

While Japan is facing a large terms of trade shock from the rise in energy prices for now the Government is absorbing part of the impact by capping fuel prices. The economy is

supply constrained, the labour market tight and fiscal policy is adding to inflationary pressures, making monetary policy tightening likely this year.

Government subsidies are capping the flow through of global oil prices to petrol prices. The Government has announced subsidies to keep retail prices around ¥170/litre. While there was large rise in Tokyo area gasoline prices in March (+16% mom), they were still below low year ago levels, and headline CPI actual eased in March (1.4% yoy from 1.5%).

Japan petrol prices and crude oil

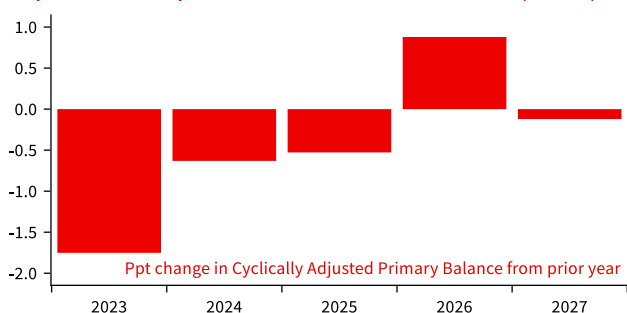


Source: National Australia Bank, Japanese Ministry of Economy, Trade & Industry, Energy Information Administration (EIA), Macrobond

This insulates the broader economy, to some extent, from the oil price shock as the Government absorbs the brunt of the impact of the terms of trade shock. Spot natural gas prices have also risen which, if sustained, will feed through over time (around one-third of electricity production utilises gas). A key risk – if the disruption to oil production were to be sustained – relates to ensuring supply of petroleum products – with over 90% of imports sourced from the Middle East in 2025. That said, the Government’s oil reserves (already being deployed) lessen the risk of major near-term disruptions.

The Government has set aside around ¥1 trillion for the fuel subsidies. While this is only around 0.15% of annual GDP, it is only sufficient to maintain the subsidy for 2-3 months (dependent on future oil price movements). It also adds to the **fiscal easing** already in place, as confirmed by fiscal impulse estimates based on April 2026 IMF projections.

Japan fiscal impulse based on IMF estimates (% GDP)



Source: National Australia Bank, International Monetary Fund (IMF), Macrobond. Fiscal Year (April-March) Basis

This fiscal boost is into an economy which is supply constrained. As a result, rather than boosting growth it is more likely to be a source of inflationary pressure, which the Middle East conflict is adding to. Core inflation (ex fresh food and energy) has been 2% of more since 2022, while annual growth in scheduled cash earnings was 3.3% yoy in February – its highest level since the early 1990s.

Reflecting this, as well as the Bank of Japan’s (BoJ) past sensitivity to Yen weakness, and strong initial outcomes from this year’s wage round, we recently moved forward our expectation of when the BoJ would next increase rates from June to April. However, in a subsequent speech, BoJ Governor Ueda concentrated on near-term growth risks from the Middle East conflict, leading to April rate hike expectations pulling back. Some softness in recent data – particularly household consumption may also be adding to the BoJ’s concerns, although business surveys point to a still solid economy, and capacity constraints and growing corporate profits should support business investment.

With developments in the Middle East fluid, we leave our call unchanged for now; signs of an easing in the conflict before the next meeting would lower growth risks without changing the underlying inflation dynamics. Regardless of what it does in April, **we still expect two rate hikes by the BoJ this year** conditional on the Middle East conflict following the path assumed in our baseline view.

India

Indian growth has shown resilience to date, but we have downgraded our outlook amid prolonged energy risks arising from the Iranian conflict. Growth in 2026 is now forecast at 6.3% (-0.2ppts), reflecting the drag from higher input costs on domestic demand and the limited scope for fiscal offsets without jeopardising progress on budget consolidation. Growth in 2027 has been left unchanged at 6.5%.

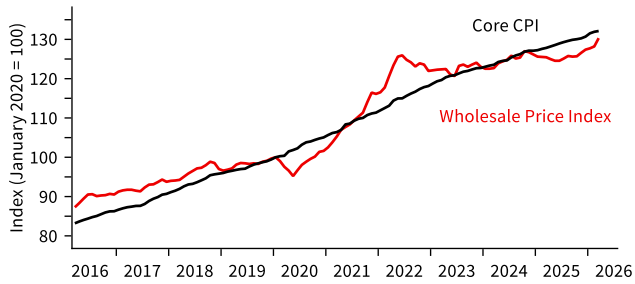
Following a strong Q4 GDP outcome (7.8%) growth indicators have been solid, albeit limited, indicating strong momentum heading into the unfolding energy shock. PMIs eased slightly but remain firmly in expansionary territory, and industrial production saw a solid result which exceeded expectations.

For prices, the story is more nuanced as the impacts of the energy shock are yet to show up in consumer prices.

Wholesale prices (WPI) surged in March (3.9%) on a near-immediate pass-through of higher crude costs. However, retail fuel prices have been largely steady through implicit subsidies via public refiner margins, keeping CPI contained at 3.4% in March below the RBI’s 4% target. Notably, WPI beat market expectations by nearly a whole percentage point (0.9ppt), suggesting upstream cost pass-through could already be happening faster than anticipated.

The government has also moved to manage supply directly, capping industrial LPG allocation at 70% of pre-conflict levels and deferring refinery maintenance to maximise output, **measures that reinforce our decision to lower the 2026 growth forecast by 0.2ppts.**

Indian price indices



Source: National Australia Bank, Indian Ministry of Commerce & Industry, Indian Ministry of Statistics & Programme Implementation (MoS&PI), Macrobond

The government had budgeted a fiscal deficit of 4.3% of GDP for FY27 on the back of several years of consolidation, but excise duty cuts, expanded fertiliser subsidies, export relief packages and credit guarantees all put that target under pressure. **The longer crude stays elevated, the harder this balancing act becomes,** with general government debt already at 56% of GDP and [RBI foreign exchange curbs](#) deterring the foreign portfolio inflows India relies on to finance its deficit.

For now, the RBI has kept the repo rate unchanged and adopted a neutral “wait and see” policy approach. Despite articulating 5 separate transmission mechanisms through which the Iranian conflict could negatively impact the Indian economy, Governor Malhorta was resolute about the two-sided nature of risks with respect to inflation and growth from the war in Iran following the April meeting. Any change from this will require clear evidence of second-round impacts taking hold in prices data.

Central Bank Monitor

	Inflation and output gap indicators			Central bank rates			
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
US Federal Reserve	3.0% 	4.3% 	2.0% 	3.75% 	easing	29 Apr 3.75 17 Jun 3.75	end 2026 3.50 end 2027 3.25
We expect 50bps of rate cuts, but now not starting before Q4 (with risk delayed into next yr), given recent high core PCE inflation prints and the Fed needing time to be comfortable that inflation expectations do not de-anchor							
European Central Bank	2.3% 	6.2% 	1.2% 	2.00% 	hold	30 Apr 2.00 11 Jun 2.25	end 2026 2.50 end 2027
With EZ monetary policy settings at the lower end of neutral and inflation set to rise to at least 3% over the coming months, we see the ECB, after a careful debate at its April meeting, hiking rates in June and then again in							
Bank of Japan	1.4% 	2.6% 	0.5% 	0.75% 	tightening	28 Apr 1.00 16 Jun 1.00	end 2026 1.25 end 2027
Further tightening expected by the BoJ as it moves the policy rate towards a more neutral level, albeit only gradually. Recent comments from Ueda put a April hike in doubt but direction is clearer							
Bank of England	3.2% 	4.9% 	1.0% 	3.75% 	easing	30 Apr 3.75 18 Jun 3.75	end 2026 3.75 end 2027 3.25
With inflation now set to be above target for an extended time, concerns over inflation scarring and 2nd round impacts, the BoE has paused rate cuts amid an active, if divided debate. We don't see rate cuts until 2027							
Bank of Canada	2.2% 	6.7% 	0.7% 	2.25% 	hold	29 Apr 2.25 10 Jun 2.25	end 2026 2.25 end 2027
A weak labour market and growth concerns from trade, moderating underlying inflation will keep the BoC on hold for now even as energy prices push up headline inflation							
Reserve Bank of New Zealand	2.6% 	5.4% 	1.3% 	2.25% 	tightening	27 May 2.25 8 Jul 2.25	end 2026 2.75 end 2027 4.00
The RBNZ tilted in a more hawkish direction in April. We still forecast an extended tightening cycle from September but are open to the view of an earlier start in the face of intense inflation pressure and sub-neutral start point							
People's Bank of China	1.1% 		5.0% 	1.40% 	easing	na	end 2026 1.20 end 2027
Solid Q1 growth and, for now, the end to PPI disinflation, reduce pressure for PBoC action; we still expect 2 rate cuts later in the year but risk is that they do fewer							

* Core based headline ex food and energy, except Japan (also excludes alcoholic beverages), UK (also excludes alcoholic beverages & tobacco), NZ(RBNZ's factorial model), Canada, Aust. (qly TRIM measure). US PCE measure used, CPI for all others
 For federal funds rate the top of the target range is shown * For meetings spanning two days, the final day is shown
 Note: number at top of each chart is latest observation (yoy change for GDP and inflation, level for unemployment. rate and policy rate). 15yrs of data shown.

Economic Forecast Detail - Advanced Economies

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States												
GDP												
qoq%	-0.2	0.9	1.1	0.1	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.4
qoq, annualised %	-0.6	3.8	4.4	0.5	2.4	1.5	1.7	1.9	2.0	2.0	1.9	1.8
yoy%	2.0	2.1	2.3	2.0	2.8	2.2	1.5	1.8	1.7	1.9	1.9	1.9
year-average				2.1				2.1				1.9
PCE deflator												
Headline - yoy%	2.6	2.4	2.7	2.8	3.1	3.8	3.7	3.4	2.6	1.9	1.9	2.0
Core												
qoq%	0.8	0.6	0.7	0.7	1.0	0.8	0.6	0.5	0.5	0.6	0.5	0.5
yoy%	2.8	2.7	2.9	2.9	3.1	3.2	3.1	3.0	2.5	2.3	2.2	2.2
Unemployment rate												
qly average %	4.1	4.2	4.3	4.5	4.3	4.4	4.5	4.5	4.4	4.4	4.4	4.3
Fed funds rate												
Top of target band (%)	4.50	4.50	4.25	3.75	0.00	3.75	3.75	3.50	3.25	3.25	3.25	3.25
Euro-zone												
GDP												
qoq%	0.6	0.1	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.4	0.3
yoy%	1.6	1.6	1.4	1.2	0.9	1.0	1.0	1.1	1.1	1.3	1.4	1.4
year-average				1.5				1.0				1.3
Policy rate (%)	2.50	2.00	2.00	2.00	2.00	2.25	2.50	2.50				
United Kingdom												
GDP												
qoq%	0.7	0.2	0.1	0.1	0.5	0.0	0.0	0.3	0.3	0.3	0.3	0.3
yoy%	1.8	1.4	1.3	1.0	0.9	0.7	0.6	0.8	0.6	0.9	1.1	1.2
year-average				1.4				0.7				1.0
Policy rate (%)	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25
Japan												
GDP												
qoq%	0.3	0.6	-0.7	0.3	0.3	0.1	0.2	0.1	0.2	0.2	0.2	0.2
yoy%	1.6	2.0	0.7	0.5	0.5	0.1	0.9	0.7	0.6	0.7	0.7	0.7
year-average				1.2				0.6				0.7
Policy rate (%)	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25				
Canada												
GDP												
qoq%	0.5	-0.2	0.6	-0.2	0.3	0.4	0.4	0.5	0.5	0.4	0.3	0.3
yoy%	2.9	1.8	1.6	0.7	0.5	1.1	0.9	1.6	1.8	1.8	1.7	1.5
year-average				1.7				1.0				1.7
Policy rate (%)	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25				

Source: NAB Economics and Markets Research

FX Forecasts

	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
AUD/USD	0.71	0.72	0.73	0.74	0.73	0.72	0.71
NZD/USD	0.59	0.61	0.63	0.64	0.63	0.63	0.63
USD/JPY	156	153	152	150	149	146	144
EUR/USD	1.18	1.19	1.20	1.21	1.20	1.20	1.19
GBP/USD	1.33	1.34	1.33	1.36	1.35	1.35	1.33
USD/CHF	0.78	0.78	0.77	0.76	0.77	0.77	0.76
USD/CAD	1.37	1.36	1.35	1.34	1.35	1.37	1.33
USD/CNY	6.75	6.70	6.60	6.50	6.40	6.40	6.40

Australian Cross Rates							
AUD/NZD	1.20	1.18	1.16	1.15	1.15	1.14	1.13
AUD/JPY	111	110	111	111	109	105	103
AUD/EUR	0.60	0.61	0.61	0.61	0.61	0.60	0.60
AUD/GBP	0.53	0.54	0.55	0.54	0.54	0.53	0.53
AUD/CHF	0.56	0.56	0.56	0.57	0.56	0.56	0.55
AUD/CAD	0.97	0.98	0.99	0.99	0.99	0.99	0.99
AUD/CNY	4.79	4.82	4.82	4.81	4.67	4.61	4.60

[Global FX Strategist](#) provides details on our FX views

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