2026 ECONOMIC OUTLOOK IN ADVANCED COUNTRIES: BUILDING ON THE SUCCESS OF 2025

2026 could prove to be just as turbulent and resilient as 2025 in economic terms. The use of the term "turbulent" is justified considering the geopolitical developments and tensions that have already marked the beginning of this year, and which constitute an additional source of uncertainty (the immediate short-term economic impact is expected to be minimal, with low oil prices offsetting the negative effect of increased uncertainty). The second term reflects a crucial aspect of our baseline scenario. However, it remains to be seen whether the global economy, and advanced economies in particular (the focus of this editorial), will manage to navigate the challenges ahead as they did in 2025. We believe that in 2026 they will succeed, and that resilience will be combined with stronger growth (see EcoPerspectives). Nonetheless, this success will not come without certain conditions and risks.

In addition to last week's editorial, which reviewed the major known unknowns and global risks to monitor in 2026 (the Fed, global trade, AI, geopolitics)[1], we now present another set of key questions and developments to watch that will determine whether our scenario materialises. Relations with China (to what extent will they deteriorate?) are also an important part of the equation. These relations impact both advanced and emerging economies, which will be the focus of our editorial next week.

To what extent will Eurozone growth continue to gain momentum and consolidate?

After a commendable economic performance in 2025—where the average annual growth is estimated at 1.5% based on the available quarterly accounts, alongside a growth forecast of 0.3% q/q in Q4 2025—will GDP growth be higher or lower in 2026? Our forecast is positive, predicting a growth rate of 1.6%, which exceeds the December 2025 consensus by half a percentage point. After an average quarterly growth rate of 0.3% in 2025, we anticipate a significant acceleration in growth in 2026, reaching an average quarterly rate of 0.5%. In addition to being higher, Eurozone growth would become stronger This improvement would be attributed to reduced growth disparities among the four largest economies and a greater reliance on domestic demand, which is bolstered by more favourable trends in business investment and household consumption.

Several positive factors are influencing this outlook:

- The fall in inflation, which has approached the target level, thereby enhancing household purchasing power gains in conjunction with the resilience of the labour market;

- Previous policy rate cuts and the ECB's current neutral stance on monetary policy;

- Favourable credit and financial conditions;

- The German stimulus plan and European efforts to rearm and restore competitiveness.

Regarding these last two points, the scale and speed of their implementation will be crucial. We are optimistic about this aspect: we have faith in Europe's resurgence, which should also continue to advance the objectives outlined in Draghi's agenda.

However, weak productivity gains and limited fiscal space are likely to continue to constrain GDP growth. A more definitive recovery from the crisis in the automotive and real estate sectors is an upside risk.

To what extent will US growth resemble the Goldilocks cycle of the second half of the 1990s and see its foundations broaden?

In our revised scenario, which has been adjusted upward based on the latest data, US growth is accelerating significantly compared to 2025 (2.9% annual average after 2.3%), driven by a more favourable growth carry-over at the end of 2025 than initially anticipated[2]. US growth now appears to be more bolstered by the AI wave (as well as by the OBBBA's tax cuts and deregulation measures) than hindered by the tariff shock (and the OBBBA's budget cuts and tougher immigration policy). However, while US growth has remained robust overall, its foundations have thus far been relatively narrow due to its K-shaped nature. Broadening these foundations (to encompass all components of demand and all households across the income spectrum), in conjunction with reconciling activity and employment data, is one of the key issues for 2026 that will influence the strength of future growth.

This may also settle another debate, between a stagflation-lite scenario and the Goldilocks scenario of the second half of the 1990s, which was characterised by non-inflationary growth boosted by productivity gains (at that time, those resulting from the dissemination of the Internet and new information and communication technologies).

For the moment, let us consider this an upside risk. Inflation remains a significant concern: it is still high and, at best, faces both downside and upside risks. The full impact of the tariff increases has probably not yet been passed on to consumer prices, and we anticipate a new phase of rising inflation in Q2 2026, followed by limited disinflation. On the other hand, macroeconomic productivity gains resulting from the spread of AI remain highly uncertain.

The midterm elections in November will also provide an opportunity to take stock of Trumponomics: to what extent will long-term interest rates, the dollar, oil prices, inflation, and the trade deficit have fallen, will competitiveness have improved, and will reindustrialization have advanced as a result of the measures taken?

To what extent will growth in the United Kingdom and Japan pick up?

Last year, the question already arose regarding whether the UK economy would manage to shake off the doom and gloom of 2024.

The assessment for 2025 is, at the very least, mixed. The UK economy has faced more difficulties than the Eurozone:

1 2026 Economic Outlook: Clear skies but don't unfasten your seatbelts yet, 6 January 2026.

2 Q3 growth figures were very positive (4.3% annualised quarterly rate). The negative effects of the October-November shutdown on Q4 growth also appear to be considerably less severe than expected. The Atlanta Fed's GDPNow shows no sign of this, with estimated growth of between 3% and 4% q/q on an annualised basis. We now anticipate growth in Q4 2025 (3.8% on an annualised quarterly basis) to be quite similar to that in Q3.

i/ higher inflation (3.4% vs. 2.1%);

ii/ (slightly) lower growth (1.4% vs. 1.5% according to our estimates) and rising unemployment;

iii/ a Bank of England that has appeared more constrained than the ECB, with a monetary policy that remains restrictive[3];

iv/ an equally constrained fiscal policy and difficult fiscal consolidation that is exerting upward pressure on long-term rates[4].

However, in 2026, bolstered by interest rate reductions, falling inflation and a healthy private sector balance sheet, UK growth could also benefit from a boost in the wake of the Eurozone's recovery, which is further supported by ongoing efforts to strengthen ties with the EU. Yet, while these initiatives are encouraging and advantageous, they remain largely symbolic when compared to the negative impact of Brexit, which this June will see the 10th anniversary of the referendum, marking what amounts to a lost decade[5].

As for Japan, the country's economic situation is paradoxical in that, despite full employment, the strong financial health of its companies, substantial fiscal support, and a monetary policy that remains accommodative (though to a lesser extent), it is set to be the worst-performing of the advanced economies discussed here in 2026. Growth is expected to fall back below 1% in annual average terms (after 1.2% in 2025 according to our forecasts), hindered by a negative growth carry-over at the end of 2025, household purchasing power losses, monetary tightening, and the US tariff shock (the negative effects of which are, however, lessening). This weak growth would still exceed potential growth, which offers a more optimistic perspective. Nevertheless, the downside is that fiscal support is likely to push inflation up more than growth.

To what extent will 2026 be a continuation of 2025 in terms of the EUR/USD exchange rate, long-term interest rates, and oil prices?

Three notable developments emerged in 2025:

i/ the unrealised fear of a bond market meltdown amid fiscal imbalances and significant borrowing requirements (the increase in long-term rates remained limited and selective, and in some countries, it was even negated during the year);

ii/ the unforeseen erosion of the US dollar's reputation as a safe haven and its marked depreciation, especially against the euro, with the greenback caught up in the turmoil caused by US protectionism, while at the same time, the euro was buoyed by improved growth prospects in the Eurozone;

iii/ the significant drop in oil prices, with the market remaining largely driven by fundamentals and excess supply weighing on prices, without geopolitical tensions having a major or lasting effect.

In 2026, we expect oil prices to remain relatively soft and stable, although maintaining vigilance will be essential. The same applies to long-term interest rates, which we expect to rise moderately over the year[6], though instances of tension cannot be ruled out. As for the euro, it should continue to benefit from favourable conditions.

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3 Although their timing was very different (concentrated in H1 2025 for the ECB, one per quarter for the BoE), both central banks proceeded with rate cuts of the same magnitude: -100 bp between 1 January and 31 December 2025.

4 This scenario resembles that of France but differs from Germany, where the rise in long-term rates reflects the new expansionary fiscal policy.

5 It is worth noting that between 2016 and 2024, UK growth matched that of the Eurozone (1.5% per year on average). However, this performance comes after two decades of outperformance, during which UK growth was significantly higher than that of the Eurozone (2.1% versus 1.5% per year on average).

6 Apart from the United Kingdom, where we expect long-term rates to decline slightly.