

ADVANCED ECONOMIES

“ AFTER A YEAR MARKED BY GLOBAL ECONOMIC RESILIENCE AND
ENDING ON A NOTE OF OPTIMISM, 2026 LOOKS PROMISING AND
COULD BE A YEAR OF SOLID ECONOMIC PERFORMANCE. ”



ECONOMIC RESEARCH



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TABLE OF CONTENT

2

EDITORIAL

3 Economic Outlook 2026-2027 in Advanced Countries: Solidity test

FOCUS

6 Pressures on public finances in advanced countries are mounting, but remain manageable

UNITED STATES

10 Two-speed growth

EUROZONE

12 Domestic demand to drive growth in 2026

GERMANY

14 The country launches its new growth cycle

FRANCE

16 Growth strikes back despite uncertainties

ITALY

18 Public finances are improving, while productivity remains sluggish

SPAIN

20 Job-rich growth momentum continues

UNITED KINGDOM

22 New growth drivers to be seized

JAPAN

24 2026, a year of challenges

MAIN INDICATORS

26

GROWTH CONTRIBUTIONS

27

FORECASTS

28

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EDITORIAL

3

ECONOMIC OUTLOOK 2026-2027 IN ADVANCED COUNTRIES: SOLIDITY TEST

After a year marked by global economic resilience and ending on a note of optimism, 2026 looks promising and could be a year of solid economic performance. In our baseline scenario, we expect most of the supportive factors at work in 2025 to continue to play a role in 2026 (favorable economic policy, AI, low oil prices), and even to gain momentum in the case of the German stimulus plan and European rearmament efforts. Growth in the Eurozone would thus stand out as stronger (1.6% in 2026 and 2027 after 1.5% in 2025), while US growth would stabilize at a rate close to but below 2%. Fiscal policy would, strangely enough, be both a factor supporting and hindering growth. Monetary policy would be favorable (in 2026, neutral status quo in the Eurozone; less restrictive in the United Kingdom and even accommodative in the United States after a further rate cut), except in Japan, where the BoJ would continue its very gradual tightening and monetary policy would progressively become less accommodative.

At the end of 2025, a feeling of optimism prevails, at least on the financial markets. There are signs of nervousness and sources of concern, with occasional bouts of tensions, but at the time of writing, risk appetite is generally high. This positive sentiment spills over into 2026, which, for the moment, looks promising. The positive mood is based on the resilience shown by the global economy (both advanced and emerging countries) in the face of the double shock of US tariffs and uncertainty, a resilience that is itself based on a combination of factors.

First, monetary policy has continued to ease overall, with the Federal Reserve, in particular, resuming its rate cuts. Second, and related to this, global financial conditions have remained favorable, combining thriving equity markets, a downward trend in the US dollar and oil prices, and tighter credit spreads. The generally solid balance sheets of private financial and non-financial agents (both businesses and households) were another favorable mitigating factor. Finally, global trade itself held up better than expected, fueled by the rapid reorientation of trade flows to adapt to the US tariff shock. This shock was also not as severe as Donald Trump's announcements had suggested. There are numerous exemptions, and trade deals have been negotiated. The resilience of growth and global trade and the equity markets' bullishness have an important common driver, another of the notable developments of 2025: the AI boom, the wave of investments and the associated wealth effects. We will end this list with a factor specific to Europe: the double positive signal sent by the German fiscal turnaround and the European defense plan, combined with various and varied progress, still tentative but real, aimed at strengthening the EU. Much remains to be done, but this has sent a positive signal for growth. This EU revival is one of the good news of 2025. It is a positive shock that should be highlighted in the face of the double negative shock coming from the US.

In our baseline scenario, we expect most of these supportive factors to continue to play out in 2026 (favorable economic policy, AI, low oil prices), and even to gain momentum in terms of the German stimulus plan, European rearmament efforts and, more broadly, the implementation of Draghi's agenda of reforms. Combined with a currently rather positive economic momentum and diminishing uncertainty, all of this would make 2026 more than just another year of resilience for the advanced economies covered in this issue¹²: performance would be driven by the solidity of expected economic growth. The horizon remains distant and even more uncertain than 2026, but 2027 would extend this performance, according to our initial projections for that year.

EUROPEAN STRENGTHENING, US STABILIZATION, JAPANESE SLUGGISHNESS

One of the distinctive features of our current forecasts is the expected strengthening of growth in the Eurozone (1.5% in 2025, then 1.6% in 2026 and 2027 after 0.8% in 2024), a forecast that is significantly higher than those of the Consensus, the OECD, or the IMF (between 0.1 and 0.4 percentage points higher). In addition to being higher, this growth would be stronger in the sense that, on the one hand, it would be based on less heterogeneity in performance between the four largest economies. On the other hand, it would be driven more by domestic demand, which would be supported by more favorable dynamics in terms of business investment (AI effect, lower interest rates, rearmament, decarbonization and infrastructure efforts, and associated sectoral spillover effects) and household consumption, albeit to a lesser extent³. Germany would once again be an engine for the region, with growth clearly exceeding 1% in 2026-2027 and very close to the Eurozone average. Spain would lose some of its momentum but would still grow at a rate of over 2%. France and Italy would remain neck and neck, with a slight advantage for France, whose growth would exceed 1%, while Italy would struggle to exceed this rate.

US growth would not accelerate compared to 2025, but nor would it decelerate: it would stabilize at a rate below but close to 2%. The growth gap with the Eurozone would narrow, but US growth would remain higher. Our US forecast is slightly lower than those of other organizations. Broadly speaking, US growth would continue to be supported by the AI wave on the one hand and penalized by the tariff shock on the other. US growth is holding up well overall, but its "K-shaped" pattern tends to weaken it in the sense that it rests on rather narrow foundations. Admittedly, the productivity gains expected from the deployment of AI in the economy will help to sustain growth and contain inflation. However, issues of affordability (increased costs of certain food and everyday consumer products due to tariffs, health insurance, and housing), a less dynamic labor market, and financial constraints on lower-income households are all sources of fragility. And at the other end of the income scale, the dependence of household consumption on wealth effects is another source of vulnerability.

Growth in the UK is expected to follow the same pattern as in the Eurozone, strengthening but unevenly distributed, somewhat like in the US, with investment outpacing household consumption. As for Japan, despite full employment, the good health of its companies, and fiscal

1 United States, Eurozone, Germany, France, Italy, Spain, United Kingdom, Japan.

2 For a similar analysis of the economic situation and outlook in emerging countries, see [EcoPerspectives — Emerging Economies | 4th quarter 2025— Economic Research — BNP Paribas, November 14, 2025](#)

3 For a more detailed analysis of the determinants of household consumption in the Eurozone and the United States, see [Household consumption: Heading for a rebound in the Eurozone and a slowdown in the United States?, December 4, 2025](#).



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support, it is expected to be the least performing of the advanced economies reviewed here. Japanese growth is expected to remain below 1% on average in 2026 and 2027, penalized by household purchasing power losses, the tightening of monetary policy, however gradual, and the US tariffs shock.

FISCAL CONSOLIDATION AND SUPPORT: A STRANGE COMBINATION

Fiscal policy faces the tricky task of reconciling consolidation efforts with support measures against a backdrop of rising interest rates. This is the topic of our focus, which looks at the growing constraints on public finances and offers a positive outlook by showing how they can still be overcome. Growth plays a decisive role in this regard, acting as a facilitator if it strengthens as we expect.

There is also a kind of paradox in observing (and anticipating) that growth does not appear to be slowed down that much by fiscal consolidation. On the contrary, in some countries, observed and expected growth relies to a significant extent on public spending (see table). In France, Germany and, to a lesser extent, the United Kingdom and Spain, the contribution of public consumption is greater than that of public investment (the latter plays a slightly more important role in Spanish and British growth than in French and German growth). It is noteworthy that in 2024, growth in Germany would have been significantly more negative without the contribution of public spending (-1.2% instead of -0.5%). Italy stands out with a stronger contribution from public investment (in 2023 and 2024⁴, followed by a marked decline) and the United States with a virtually non-existent contribution from public spending.

MONETARY POLICY: THE BAR TO ACT IS HIGHER

According to our central scenario, the next move would be a cut for the Fed (in March 2026) and the BoE (on December 18) and a hike for the BoJ (December 19) and the ECB (in the third quarter of 2027). For each of these decisions, the bar to act is higher than in previous decisions, with the ECB being a special case. For the latter, this observation

⁴ Effect of the "Superbonus" and NGEU European funds.

GROWTH & INFLATION: 2025-2027 FORECASTS (ANNUAL AVERAGE, %, RANKED BY DESCENDING ORDER IN 2026)

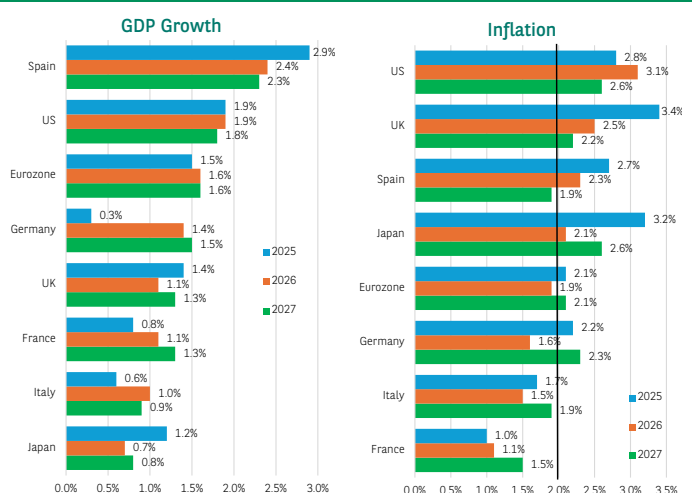


CHART 1

SOURCE: BNP PARIBAS

of a higher bar to act applies in the short-run and in the direction of further easing. Further easing could indeed be justified in view of current inflation forecasts below target in 2026. According to a dovish reading of the ECB's risk management approach, such a scenario is more vulnerable to a negative shock or the failure of a positive shock to materialize, which would tip the balance in favor of a further rate cut if necessary.

However, more hawkish views (such as those of Isabel Schnabel) and renewed optimism about Eurozone growth momentum (which should be reflected in the ECB's new forecasts, published on December 18) balance out this dovish interpretation. The fact that the ECB's monetary policy has globally returned to neutrality also argues in favor of

REAL GDP GROWTH WITH OR WITHOUT PUBLIC SPENDING (G = CONSUMPTION (C) + INVESTMENT (I))

France					Germany				Italy			
Yearly average, % et % points	Real GDP growth	Growth excl. G	Contribution C	Contribution I	Real GDP growth	Growth excl. G	Contribution C	Contribution I	Real GDP growth	Growth excl. G	Contribution C	Contribution I
2023	1.6%	1.0%	0.4	0.2	-0.9%	-0.8%	-0.0	0.0	1.0%	0.1%	0.2	0.7
2024	1.1%	0.6%	0.4	0.2	-0.5%	-1.2%	0.6	0.1	0.7%	-0.0%	0.2	0.5
2025	0.8%	0.5%	0.4	-0.0	0.3%	-0.3%	0.5	0.1	0.6%	0.4%	0.1	0.2
2026	1.1%	0.7%	0.4	-0.0	1.4%	0.6%	0.7	0.1	1.0%	0.6%	0.1	0.3
2027	1.3%	0.9%	0.3	0.0	1.5%	0.8%	0.6	0.1	0.9%	0.8%	0.1	0.1
Spain					United Kingdom				United States			
Yearly average, % et % points	Real GDP growth	Growth excl. G	Contribution C	Contribution I	Real GDP growth	Growth excl. G	Contribution C	Contribution I	Real GDP growth	Growth excl. G	Contribution C	Contribution I
2023	2.6%	1.1%	1.0	0.5	0.4%	-0.2%	0.5	0.2	2.9%	2.3%	0.4	0.2
2024	3.9%	3.4%	0.7	-0.1	1.2%	0.3%	0.8	0.1	2.8%	2.1%	0.4	0.2
2025	2.9%	2.2%	0.4	0.4	1.4%	0.8%	0.5	0.1	1.9%	1.7%	0.1	0.1
2026	2.4%	1.8%	0.4	0.2	1.1%	0.3%	0.5	0.3	1.9%	1.9%	-0.0	0.0
2027	2.3%	2.0%	0.4	-0.1	1.3%	0.7%	0.4	0.2	1.9%	1.8%	0.1	0.0

TABLE

SOURCE: NATIONAL STATISTICAL INSTITUTES, MACROBOND, BNPP PARIBAS CALCULATIONS AND FORECASTS


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prolonging the status quo. We anticipate that this extension will be long, lasting until mid-2027, and that the ECB's next move will be a hike (+25 bp) in the third quarter of 2027, followed by another one by the end of that year. While the ECB is in a relatively comfortable position compared to the Fed, the BoE, and the BoJ, the appreciation of the euro against the dollar, a corollary of the monetary policy differential on either side of the Atlantic, is the flip side of the coin.

On the **Fed** side, the clear shift of its assessment of the balance of risks and its reaction function in favor of employment has led to three preventive rate cuts in 2025. After a short wait-and-see period, we anticipate a further and final rate cut in March 2026, which would no longer be preventive in nature but dependent on macroeconomic conditions. This is why the bar to act is higher. The important divisions within the Fed are another indication of this. In our scenario, the situation on the employment front would remain a greater source of concern than that on the inflation front and would justify further easing, bringing the Fed Funds target range to 3.25-3.50%. According to the Fed's estimate of the neutral rate (3% in nominal terms according to the median of FOMC members), monetary policy would remain slightly restrictive, which is appropriate to address persistent inflation. According to our own estimate of the neutral rate (3.75%, which is the midpoint of our range of 3.25% to 4.25%), monetary policy would turn accommodative, and even more so in real terms, supporting our scenario of resilience in the economy and the labor market, at the cost of (CPI) inflation one point above target in 2026 and still about half a point above target in 2027.

On the **BoE** side, the conditions seem ripe for another cut on December 18: economic data remains mixed, political and fiscal uncertainty remains high, and inflation is trending downward. However, the vote promises to be very close (5-4 according to our forecast), illustrating the higher bar to act and the delicate trade-off between supporting growth by further diminishing monetary policy restriction or leaving it unchanged given high inflation. With disinflation continuing, the BoE would proceed with another rate cut in 2026 (in the first quarter), but this would be the only one that year, as the decline in inflation would remain too limited from the second quarter onwards. With a key rate of 3.50%, UK monetary policy would still be marginally restrictive in nominal terms. This first phase of the BoE's rate-cutting cycle would be followed by a long pause before a second phase begins in the first half of 2027 (two further 25bp rate cuts), once there is clear evidence of a sustained return of inflation to target, which would conclude the normalization of monetary policy and its return to neutral territory. More pronounced disinflation (a possible scenario) would pave the way for more frequent rate cuts.

The **BoJ** is also pursuing a very cautious and gradual normalization of its monetary policy but, unlike the other three central banks, in the direction of tightening. The rate hike expected at the December meeting would be only the second in 2025. The BoJ would maintain this pace until it raises its key rate to the terminal level of 1.5% in the second quarter of 2027. This slow pace is naturally intended to avoid slowing growth too much, but also to accommodate political considerations, which are an additional factor and contribute to raising the bar to act. According to our forecasts, Japanese inflation would remain above target, raising the risk of further hikes than in our base case.

Finally, another observation emerges from this review of monetary policies and is striking: inflation remains above target for all or almost all our forecast horizon in three out of four cases (United States, United Kingdom, Japan, the exception being the Eurozone). This is partly a deliberate choice by the central banks concerned, but it is not without risks.

RISKS ULTIMATELY CONTAINED IN 2025, STILL PRESENT, OR EVEN MORE ACUTE, IN 2026

Another explanation of the generally favorable sentiment at the end of the year is that some of the downside risks identified for this year have either not materialized, at least not in an acute form (higher risk premiums on long-term sovereign rates from fiscal concerns), or have proved less severe than feared (the positive impact on US inflation of additional tariffs and their negative impact on global growth and trade). However, when it comes to the US tariff shock, the full effects on inflation, growth, and global trade are most likely still ahead of us. As for the increased vigilance shown by bond markets, it has certainly remained selective and contained this year, but the risk of stronger and/or more widespread pressure on long-term rates in 2026 is likely to continue to weigh on the market and may even increase. Three other risks are worth watching: an AI-related equity market correction; a resurgence of inflation (particularly in the US); and renewed uncertainty surrounding US trade policy. Conversely, faster productivity gains thanks to the deployment of AI are a positive factor for both (stronger) growth and (lower) inflation.

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PRESSURES ON PUBLIC FINANCES IN ADVANCED COUNTRIES ARE MOUNTING, BUT REMAIN MANAGEABLE

Public finances in advanced economies¹ are facing a combination of pressures. The structural rise in interest rates is already complicating the situation, but its effects are not yet being fully felt. When they do (at the end of the decade), most countries will need to generate primary surpluses in order to stabilise their debt ratios. At the same time, governments must fund age-related spending, defence and climate change mitigation. In this climate, higher growth would help to stabilise public debt-to-GDP ratios, and vice versa.

THE FULL EFFECT OF RISING INTEREST RATES IS STILL ON THE HORIZON

After the 2008 crisis, public finances benefited from a long period of low interest rates. This reduced debt-servicing costs, thereby facilitating adjustments or limiting the deterioration of deficits.

The situation has changed, and probably for the long term. Since early 2022, public finances have been subject to rising interest rates. Inflation initially counteracted this effect by keeping real interest rates low. Now that inflation has fallen, real interest rates have begun to rebound. Nevertheless, the relatively long average maturity of public debt is keeping the apparent interest rate on debt well below the market interest rate.

There is a divergence between two groups of countries:

- In the euro area, inflation is already moderate, but the long average maturity of debt is delaying the full transmission of higher market rates to the apparent cost of debt.
- In the United Kingdom, Japan and the United States, inflation remains significant (reaching or exceeding 3%) and is continuing to drive down the real interest rate.

In all cases (high maturity or high inflation), public finances retain some room for manoeuvre because the real apparent interest rate (r) remains below real GDP growth (g). However, over time, r tends to converge towards g . The larger the r - g gap, the larger the primary surplus required to stabilise public debt relative to GDP (and, a fortiori, to lower the ratio). This may even require generating primary surpluses to stabilise debt (see our analysis).

¹ United States, Germany, France, Italy, Spain, United Kingdom and Japan studied here.

According to our calculations (see analysis), Italy is already in this situation, due to historically higher interest rates (but is already capable of generating the necessary primary surpluses). The convergence of r towards g is quite advanced in the United States, where the average maturity of debt is relatively short (6 years, see analysis). Thus, the apparent interest rate already largely reflects the rise in market interest rates.

For other countries, r should catch up with g by the end of the decade. Germany and Japan, which are the countries that have experienced negative rates the most, will not see that convergence until the next decade.

PUBLIC SPENDING IS UNDER INCREASING PRESSURE

Three types of pressure are common to all of the countries considered, albeit to varying degrees: the debt burden, population ageing and defence spending. The IMF has estimated the additional public spending that these factors would require in Europe by 2050. However, part of this additional cost appears to be already weighing on public finances.

The interest service burden is already being affected by rising interest rates. This is an expense which when it rises intensifies the effort needed on all other spending in order to keep the public debt to GDP ratio stable.

At the same time, population ageing also puts upward pressure on public expenditure, especially on the two main social spending items, health and pensions, which already account for a large share of the budget.

GAP BETWEEN APPARENT NOMINAL INTEREST RATE AND NOMINAL GDP GROWTH (R-G)

1.a: r - g projected to converge to zero by the end of the decade

Eurozone

Other countries

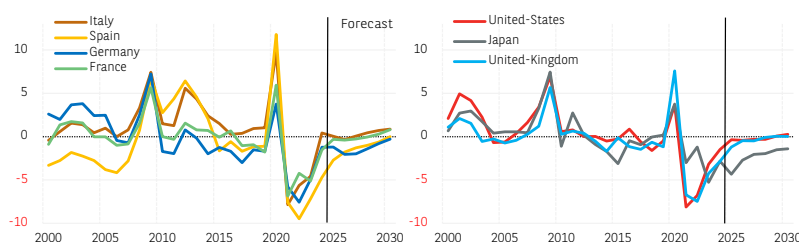
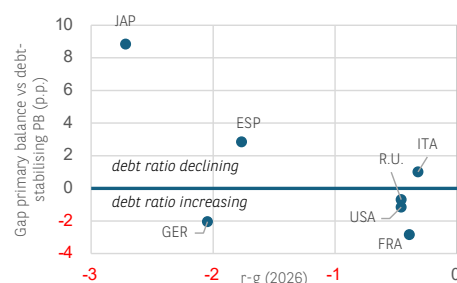


CHART 1

1.b.: In 2026, many countries would still run deficits large enough to prevent debt to GDP stabilisation



SOURCE: IMF, BNP PARIBAS FORECASTS



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FOCUS

7

The US Congressional Budget Office (CBO) estimates that the combined share of health and pensions will rise from 8.3% of GDP in 2024 to 11.2% in 2050 in the US. In Japan, the IMF projects a combined 23% share by 2040.

In terms of pensions, the impact of ageing on public finances depends on the ratio between those who pay contributions (the working population) and those who receive benefits (pensioners). Although this ratio varies from one country to another, it has fallen dramatically everywhere and is already well below 2 in most economies (Japan, Italy, Germany and France included), and current and projected demographic trends indicate a continued deterioration.

In order to limit the impact of ageing on social spending, several countries have undertaken reforms to raise the statutory retirement age. In addition, measures to promote combined employment and retirement have recently been announced in Germany. Policies to raise labour-force participation are also expanding, with some targeting young people (apprenticeships and vocational training), but most aimed at older workers. The Netherlands is a particularly good example of this trend, with an employment rate of nearly 75% among 55–64-year-olds.

According to our estimates, if France were to raise the 55–64 employment rate by four percentage points (to the EU average), it could generate an additional EUR 25 billion (0.8% of GDP) for its public finances each year. This result would come from both an increase in revenue (social security contributions, VAT and income tax, as working people have higher consumption and income than pensioners) and a reduction in expenditure (lower pension outlays).

The size of social spending also reflects policy choices, not only demographics. These choices relate both to the level of benefits (in France, for example, the average level of pensions is comparable to the average wage, whereas it is lower in other countries) and to their developments (in particular, the level of indexation to inflation during the inflationary crisis, which is above 100% in France, but often lower in other countries).

RE-ARMAMENT EFFORTS WILL ALSO EXERT INCREASING PRESSURE

The United States already spends 3.5 % of GDP on defence and is likely to maintain that level, with NATO members expected to converge toward the same norm. The European Union has pledged to reach this target by the end of the decade, compared to an average of around 1.9% of GDP in 2024. The United Kingdom has also started to increase its spending, but budgetary constraints mean that the increase is likely to remain gradual (around 0.1 percentage points per year to reach 2.6% of GDP in 2027). Japan has significantly increased its budget to bring it closer to the minimum level required by NATO (2% in 2025, compared to almost half that amount until 2022). The stakes are high for all countries, as this constraint weighs heavily alongside those mentioned above.

In Europe, the plans announced in spring 2025 are generally progressing on time and within the defined budgets ([see our analysis](#)). According to our estimates, defence spending will reach 2.8% of GDP in 2027. However, the burden will not be evenly distributed. Most of the increase is expected from Germany, which, thanks to a temporary suspension of EU deficit rules and a specific exemption to its debt brake rule, and given the country's low public debt ratio, can afford a higher defence outlay. By contrast, Spain is only expected to increase its spending to around 2% of GDP.

SOCIAL SPENDINGS, % OF GDP

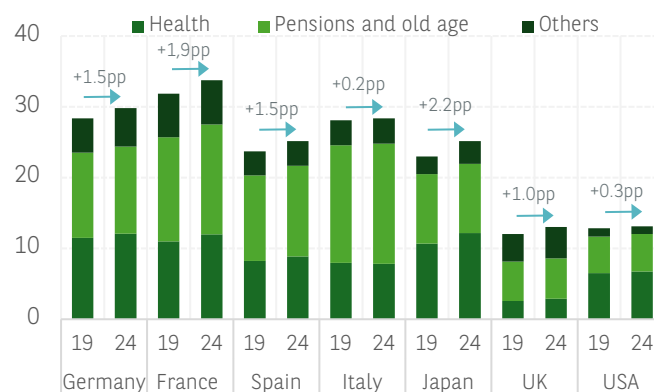


CHART 2

SOURCE: EUROSTAT, NIPSSR, CBO, BNP PARIBAS

Furthermore, the effort will remain gradual, particularly in countries where high public deficits are reducing fiscal room for manoeuvre. For France, the EUR 6.7 billion increase in the defence budget announced in the 2026 Finance Bill translates into roughly +0.2 percentage points of GDP in additional defence spending. This increase is expected to continue until the end of the decade, reaching nearly 3% of GDP in 2030.

MORE GROWTH COULD HELP TO FIND SOLUTIONS, BUT LESS GROWTH COULD COMPLICATE MATTERS

In a recent analysis ([see details](#)), we have showed that the debt ratio is expected to continue to decline by the end of the decade in Japan, Italy and Spain, albeit from a high level. In the United States, France and the United Kingdom, the increase is expected to continue, while Germany is expected to see a turnaround. However, according to our forecasts, the public debt ratio would stabilise by the end of the decade in most of these countries, thanks to fiscal consolidation efforts. The United States would notably have a primary budget balance still well below the level required to stabilise the public debt-to-GDP ratio by 2030.

Nonetheless, the success of these consolidation paths depends on three parameters that are subject to considerable uncertainty: GDP growth, the pace of fiscal consolidation and interest-rate levels. However, these factors interact with each other.

We believe that the risks to growth are balanced and that the probability of them occurring is significant. If a negative shock were to occur, it would lead to a more erratic growth trajectory than in a naturally smooth scenario, which would cause a pause in consolidation and further compromise the stabilisation of public debt by 2030. This situation would call for a monetary-policy response designed to generate a rebound in growth, which our baseline scenario does not incorporate.

Conversely, our current growthpotential assumptions may underestimate the impact of innovation, especially artificial intelligence (AI). AI is already boosting real growth, directly through investment in technological equipment and software, and indirectly via wealth effects.



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EVOLUTION OF THE PRIMARY BALANCE UNDER ALTERNATIVE GROWTH SCENARIOS

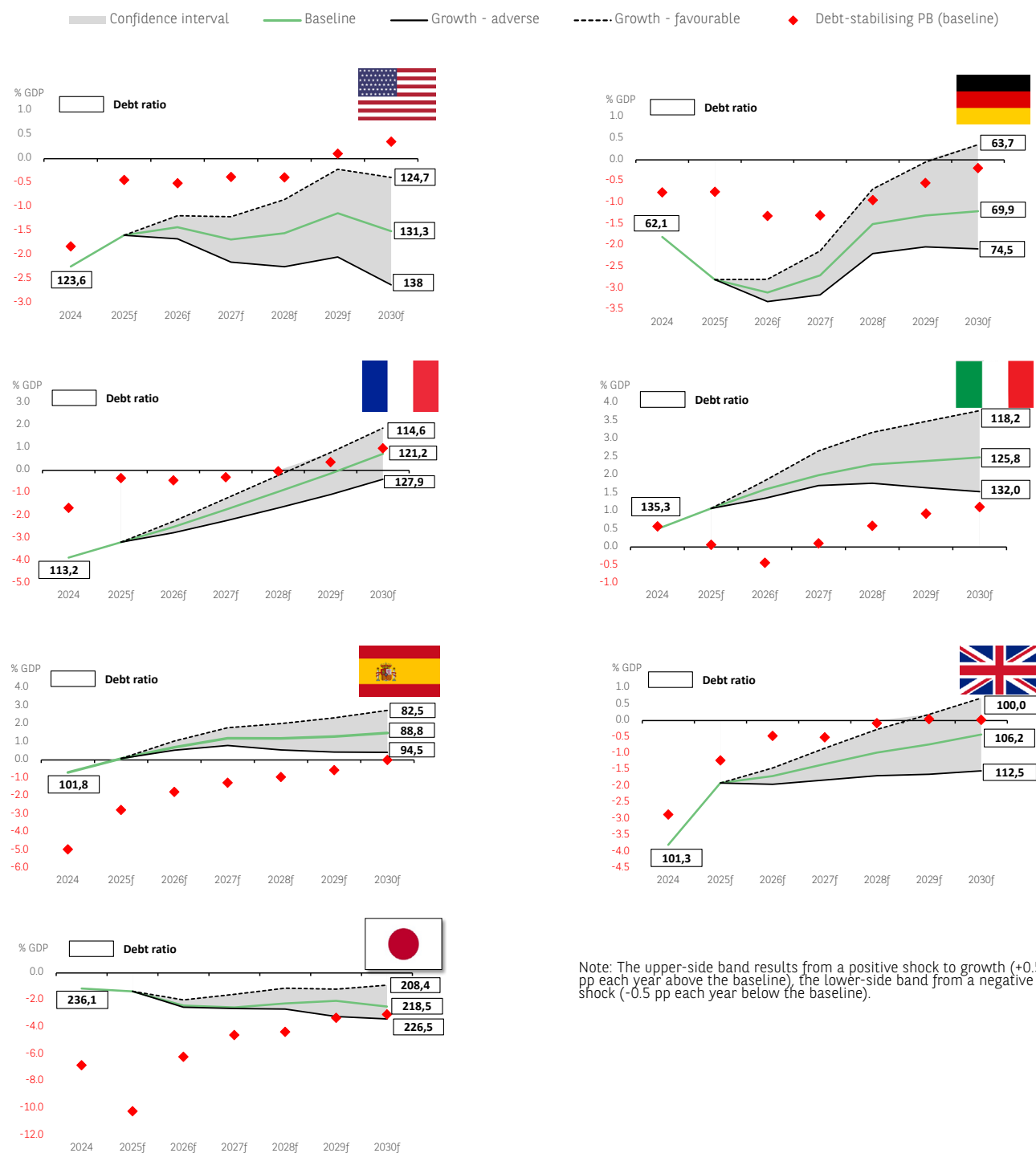


CHART 3

SOURCE: BNP PARIBAS



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Rapid adoption by the rest of the economy - while currently still embryonic - would constitute a bullish scenario for growth, even though the fiscal boost from higher tax revenues could be tempered by AI's relatively low employment intensity. European rearmament efforts are also drivers of growth and productivity gains, as they should support the activity rebound that we are forecasting for the euro area over the next two years and beyond. Investments related to the energy transition and decarbonisation are another growth factor.

Figure 3 assesses the extent of these upside and downside risks to the likely path of fiscal consolidation.

Logically, for countries where the required consolidation effort is already significant (France, the United Kingdom and the United States, notably), repeated negative shocks would permanently push the primary balance away from the threshold needed to stabilise the debt ratio. In Spain, Italy and, to a lesser extent, Japan, the impact of lower growth on the primary deficit would not be sufficient to cause an increase in the public debt ratio.

A positive shock (growth of 0.5 points higher than our current scenario) would enable France and the United Kingdom to achieve a primary deficit that stabilises public debt as early as 2028. In the United States, given the very high level of the budget deficit, such additional growth would not fully stabilise the ratio, but would bring it much closer. In other euro-area countries and Japan, higher growth would help to chart a more favourable public debt trajectory (stabilisation by 2028 in Germany, and a more pronounced reduction in public debt in Italy, Spain and Japan).

ADDITIONAL FISCAL PRESSURES AHEAD

Beyond the items already discussed, public finances will also have to meet new demands, notably the green transition, industrial policy and AI development. The exact fiscal weight of these needs is hard to gauge, as it will depend on national strategies and on how the necessary funding is shared between the public and private sectors. However, the total cost could be significant.

Article written by the Advanced Economies team of the Economic Research, with the assistance of Benjamin Puisieux, intern.



UNITED STATES

10

TWO-SPEED GROWTH

Growth in the United States is expected to come close to its potential pace in 2026. This resilience would mask “K-shaped growth”, supported by AI-optimism related investment and consumption by the wealthiest. Investment in other areas of the economy is not as dynamic, while most Americans face persistent inflation and a deteriorating labour market. At the end of Q1 2026, the Fed is expected to end its cycle of monetary easing, due to an emphasis on the employment component of its dual mandate. The fiscal impulse is expected to remain slightly negative in 2026 due to tariffs, with their scope still a key issue.

GROWTH SUPPORTED BY OPTIMISM AROUND AI

Growth experienced unusual variability in 2025 due to temporary factors: volatility in goods imports (H1 2025) and the federal government shutdown (Q4 2025). In our view, the latter reduced Q4 2025 growth to +0.0% q/q (a loss that will be recouped later) against +0.8% q/q in Q3¹. GDP growth is expected to be more stable in 2026, at around +0.4% q/q per quarter (from Q2), with an annual average of +1.9%, as in 2025. Therefore, growth would be close to its potential pace, but characterised by a change in its drivers and a moderation in employment.

The dynamism of investment against a backdrop of AI-optimism is the distinctive feature of growth. At the same time, other components of investment have declined (Chart 2). In H1 2025, AI-related categories accounted for 9% of GDP, but drove 40% of its growth. However, this was accompanied by an increase in related imports, putting the previous result into perspective and highlighting the United States’ external dependence in this area. In addition, the valuation of the tech sector’s “Magnificent Seven”² has contributed significantly to the recent increase in household financial wealth (+30 pp since Q3 2023, to 420% of GDP in Q2 2025), which supports consumption among those households that hold shares.

US growth is therefore “K-shaped”. The divergence in investment is likely to continue in 2026–27, and household consumption should continue to be supported by the top end of the income and wealth distribution (see our [EcoInsight on Consumption](#)). Household sentiment reflects these contrasts, as it remains particularly weak at an aggregate level (at its lowest since 2015), with a widening gap between the top income segment (USD > 120,000/year) and almost the entire rest of the distribution in 2025, according to the Conference Board. As a result, growth is vulnerable to a sharp correction in stock market valuations, which are historically high.

DECLINE IN HOUSEHOLD AND CORPORATE DEBT RATIOS

Household debt fell to 93.6% of GDP in Q2 2025, its lowest level in over twenty years. Corporate debt also declined, to 46.1%, but remained close to its historic highs (excluding COVID). Growth in outstanding household mortgage loans remains fairly strong (+2.9% y/y in H1 2025), but property purchasing power remains weak (high interest rates and prices). Although 30-year fixed rates (90% of new lending) have fallen since May (-65 bp to 6.3% in November), this trend is unlikely to continue, given our scenario of rising long-term sovereign rates (see below). Refinancing demand will also remain modest, as the vast majority of loans were taken out at fixed rates below 6% (78% of outstanding loans in Q2 2025). Demand for consumer credit, which was virtually stable y/y in September, remains depressed. Conversely, corporate financing flows (new credit production, and debt securities issues) increased in H1 2025, helping to support investment. This trend could continue, driven by lower short-term rates.

GROWTH AND INFLATION (YEARLY AVERAGE)

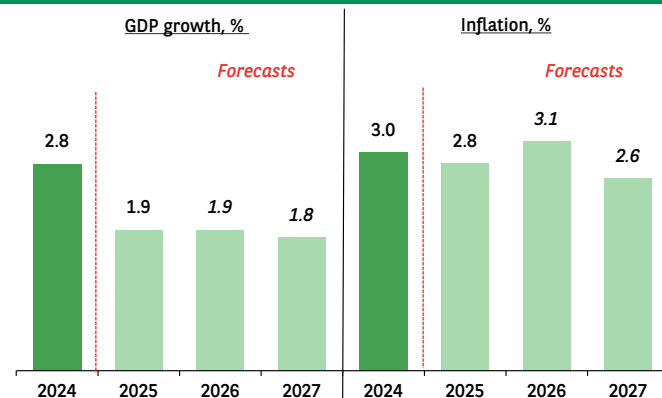


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

EMPLOYMENT: LESS DEMAND, LESS SUPPLY

In 2026, the unemployment rate is expected to be around 4.4%, close to full employment. Job growth has declined (non-farm payrolls averaged +59k in September 2025, compared with +133k a year earlier), and the annual revision confirms this trend (-911k jobs between April 2024 and March 2025). The available labour force is also declining with the administration’s “net zero immigration” goal. This is resulting in a paradoxical situation where the downturn in hiring is not leading to higher unemployment, but where potential growth is being reduced by immigration policy.

The support provided by AI-optimism to growth is not having a significant impact on employment, either directly or indirectly. Payroll employment has even declined in the relevant sectors since January 2023 (Chart 3). In addition, the labour market is mirroring the “K-shaped” growth pattern. As a fact, in Q3 2025, the wage-growth differential between the first and fourth quartiles reached its highest level since 2013 (Atlanta Fed). The associated challenges in terms of household consumption are more significant due to stable aggregate wage growth (+3.8% y/y in September; stable in 2025), the rebound in inflation and increased household fears about employment.

INFLATION: NO RETURN TO TARGET BEFORE 2028

Inflation (CPI) is expected to exceed +2% y/y until at least 2028, according to our forecasts, peaking at +3.3% y/y in mid-2026 for both headline and core indices. The rise began in April 2025, with the CPI rising from +2.3% to +3.0% y/y in September (+2.8% to +3.0% for core).

¹ The release of official data has been disrupted by the federal shutdown. Q3 GDP and November employment and CPI inflation figures are not available at this time.

² Alphabet, Amazon, Apple, Microsoft, Meta, Nvidia, Tesla.


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Additional customs duties are the main factor, due to the increase in the average effective tariff on imports (15.9%, compared to 2.3% in 2024, although the actual revenue collected currently stands at 11.5%). However, the pass-through to consumer prices has so far been weaker than expected. The deterioration in household prospects may have led to a greater absorption of tariff increases by businesses. Nevertheless, disinflation is expected to be slow after the peak in mid-2026, with the CPI reaching +2.5% y/y in Q4 2027, above the “pre-tariff” level of April 2025.

THE FED FACES THE CHALLENGE OF NEUTRALITY

In September, the Federal Reserve (Fed) resumed its monetary easing policy due to the rebalancing of risks between employment and inflation, cutting rates three times (-25 bp) and reducing its restrictive bias. We anticipate a final cut in March 2026, with a target rate of +3.25% – +3.50% (slightly below our estimate of the neutral rate of 3.75%). The risks are skewed towards further easing, given the bias towards employment among the most influential members of the FOMC. Furthermore, the committee is very divided on rate cuts against a backdrop of persistent inflation. At the same time, the USD is expected to weaken moderately against the euro (1.20 at the end of 2026, compared with 1.16 today) against a backdrop of stronger-than-expected growth in the Eurozone (see chapter) and a narrowing of the policy rate differential.

The Supreme Court (SCOTUS) ruling in Trump v. Cook and the replacement of Chair Jerome Powell are major issues for the future of monetary policy. A ruling in favour of the administration would grant the US President broad discretionary power over the composition of the FOMC, while the future Fed Chair could be chosen for their bias in favour of easing. Another risk is the possibility of resignations from the board, including by Jerome Powell, which could lead to a more profound reshuffle, opening the door to a change in institutional structure and a significant loss of independence. This could result in an erosion of the Fed's credibility and its commitment to price stability. However, this is not our scenario (see the editorial ‘Fed: Powell’s legacy should endure’): decisions would continue to be guided by economic fundamentals, despite a persistent imbalance in favour of the “employment” part of the dual mandate.

A MODERATELY NEGATIVE FISCAL IMPULSE

The total fiscal deficit is expected to reach 6.5% of GDP in 2025 and 6.3% in 2026, which are particularly high levels, but down from 7.0% in 2024, due to the student-loan reform and higher customs revenues. The latter should help to reduce the primary deficit, which is expected to fluctuate between 1.0% and 1.5% of GDP between 2025 and 2027, but remains volatile (recent exemptions on food) and uncertain (see below). At the same time, interest payments are weighing on the total deficit (5.0% of GDP in 2026, rising steadily since 2020). The fiscal stance has negative distributional effects on growth and contributes to the “K-shaped” economy: customs tariffs are borne by the lowest-income households, and the One Big Beautiful Bill Act (OBBBA) essentially extends favourable taxation for high incomes. As a result, the public debt ratio is expected to continue rising (126.4% of GDP in 2027, compared to 124.7% in 2025), but will be limited by continued high nominal growth. Furthermore, there is a high risk of another government shutdown.

Deficit reduction and FOMC rate cuts are unlikely to stem the rise in bond pressure in 2026. According to our projections, 10-year and 30-year rates will reach 4.5% and 5.0%, respectively, in Q4 2026, compared with 4.2% and 4.8% on 9 December. Persistent inflation and deficits, combined with better-than-expected growth, underpin this forecast. Furthermore, Q3 saw a moderation in the absorption of US debt by foreign investors, whose demand increased in volume but moderated as a proportion of net Treasury issuance, which were particularly significant after the debt ceiling was raised this summer.

UNITED STATES - GDP: A K-SHAPED FIXED INVESTMENT (100 = Q1 2023)

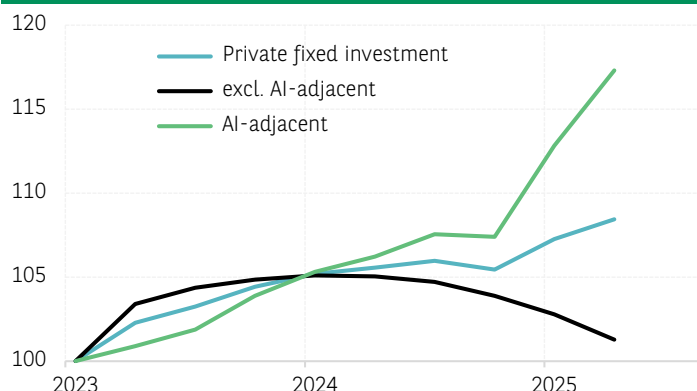


CHART 2

SOURCE: BEA, BNP PARIBAS CALCULATIONS

UNITED STATES: AI-RELATED EMPLOYMENT IS NOT SURGING

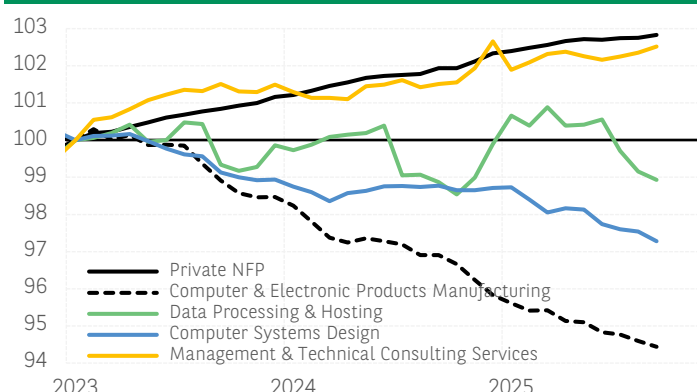


CHART 3

SOURCE: BLS, BNP PARIBAS

⇄ FOREIGN TRADE: UNCERTAINTY HAS RECEDED, BUT REMAINS SIGNIFICANT

Data available for Q3 (July and August) put the trade balance at an average monthly USD -68.9 billion, compared with USD -75.2 billion in 2024. Imports are in line with Q2, which was marked by a sharp backlash following frontloading in Q1, and exports have been generally stable since January. A relative balance appears to have been reached on the issue of customs tariffs, with a one-year truce (until 10 November 2026) with China. Trade uncertainty has therefore declined significantly since its peak in spring 2025, but remains well above pre-tariff levels. However, there is a strong possibility that reciprocal tariffs will be invalidated by the WTO, opening the door to more sectoral countervailing tariffs. Finally, other sectoral tariffs are possible, particularly on semiconductors and pharmaceuticals.

Article completed on 11 December 2025

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EUROZONE

12

DOMESTIC DEMAND TO DRIVE GROWTH IN 2026

Growth in the eurozone is expected to strengthen in 2026 (1.6%) primarily driven by investment and a resurgence in activity in Germany. Our forecasts indicate that inflation is likely to remain below the 2% target. However, the anticipated recovery in GDP growth may prompt the ECB to keep its rates unchanged until 2027 before raising them. The fiscal impulse is expected to remain largely neutral, as fiscal consolidation in France and Italy offsets the increase in the German deficit. Interest rates on new loans to households and businesses are projected to remain stable in 2026, with new loans continuing to decelerate for both households and businesses. However, sovereign rates are expected to rise moderately.

GROWTH: NEW MOMENTUM FROM THE CORE

Following a lacklustre performance in 2024 (0.8%), growth in the eurozone is projected to accelerate to 1.4% in 2025, 1.6% in 2026 and 1.6% in 2027. The improvement appears to be gradual. However, GDP growth is expected to stabilise after erratic fluctuations in 2025 due to US tariffs. It is also likely to be less dependent on extraordinary factors, such as Ireland's exceptional performance in 2025, while the major countries (Germany, Italy, and, to a lesser extent, France) have underperformed. In 2026, growth in the eurozone is projected to be driven by its largest economies and mainly fuelled by investment. This investment will be both public, bolstered by the German infrastructure fund and European rearmament efforts, and private, driven by the boom in AI and digital infrastructure.

Household purchasing power gains, on the other hand, are expected to be more limited in 2026 than in 2025, remaining below 2% due to a slowdown in wage growth. However, consumption could exceed expectations¹, in line with a savings rate that is projected to decline in most countries from a peak (15.4% in Q2 2025, +2.4 pp compared to the pre-COVID level of 2019) and a resilient labour market.

FINANCING: STABLE RATES AND SLOWER GROWTH IN VOLUMES

The stability in the rate of new loans to households for house purchases, across all maturities, observed between February and September 2025, is expected to continue largely into 2026 (3.3%). The modest increase in the cost of new fixed-rate loans² (which account for around 35% of new housing loans in the eurozone) between July and September 2025 was offset by the ongoing, albeit increasingly modest, decrease in the cost of loans with shorter initial period of interest rate fixation (irf) or floating rates. However, we expect rates on floating-rate loans and those with short irf to remain stable. Our forecast of a limited increase in long-term sovereign rates is expected to have no impact on the cost of fixed-rate loans, as the pricing of these loans is based more on changes in swap rates than on changes in sovereign rates³.

While the fall in the cost of credit has been a powerful supporting factor of new housing loans (cumulated over one year, +30.7% y/y in September 2025, a figure that has remained nearly constant since July, starting from a low level), the stabilisation of rates indicates that growth will likely slow in the coming months. As for consumer credit, surveys conducted among banks and households⁴ suggest that new lending could remain at its current level (cumulated over one year, +1.5% y/y in September 2025). In addition, the average interest rate remains historically high, with no prospect of a significant decrease in the short term (7.4% in September 2025 compared with an average of 5.5% between 2018 and 2022), mainly due to the heightened risks perceived by banks.

¹ See BNP Paribas EcoInsight Household consumption: Heading for a rebound in the Eurozone and a slowdown in the United States? 3 December 2025.

² Initial period of interest rate fixation (irf) greater than 10 years

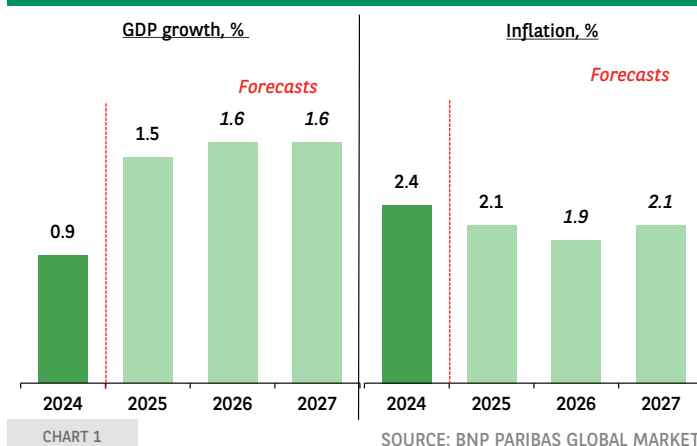
³ See in particular T. Humblot, Eurozone: the bulk of the decrease in borrowing costs is behind us, BNP Paribas, 9 October 2025.

⁴ ECB Bank Lending Survey – Third quarter of 2025 and Consumer Expectations Survey results – September 2025.

⁵ The ECB's wage tracker indicates that wage inflation in the eurozone will stabilise from the second half of 2026 onwards.

⁶ See BNP Paribas Chart of the week: Job creation in the technology sector is a driver of the Eurozone's labour market, 19 November 2025.

GROWTH AND INFLATION (YEARLY AVERAGE)



After rebounding from a low point in October 2021, new investment loans to businesses have remained steady since June 2025 (cumulated over one year, +15.3% y/y in September 2025). Interest rates have been relatively stable since November 2024, hovering around 3.6% for loans with a maturity of more than five years, and are not a limiting factor in investment decisions, unlike fears of weak growth or sluggish demand.

LABOUR MARKET: UNEMPLOYMENT RATE EXPECTED TO FALL FURTHER

Unemployment is expected to continue falling in southern European countries, while stabilising in Germany and France. A reduction in the unemployment rate (6.4% in October) to around 6% seems achievable, especially as wage growth is expected to remain on a downward trend in the first half of 2026⁵, which will bolster corporate margins, alongside a moderation in energy prices. However, the dynamics are expected to remain mixed across sectors: competitive pressure from China and diminishing opportunities in the United States are likely to have an adverse effect on industrial employment, but job growth in digital and tech⁶ should more than compensate for this decline.

INFLATION: BELOW TARGET IN 2026, AND MODERATELY ABOVE IT IN 2027

Inflation is expected to dip below the 2% target in 2026, held back by both domestic and external factors. Wage growth is projected to continue to slow, allowing for more pronounced disinflation in services,



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with a slowdown below 2.5% possible by spring 2026. Moderate energy prices, with stable oil and gas/TTF prices projected for 2026, a stronger euro, and disinflationary pressures imported from China will limit the rise in goods prices. After a period of stability in H2 2026, inflation is expected to pick up slightly in 2027 (2.2% y/y in Q4 2027). This increase will be driven by stronger economic activity and greater constraints on production capacity, particularly in Germany. Furthermore, the significant inflation gap between countries in 2025, which was relatively high in Germany and Spain, but low in France and Italy, is expected to narrow in 2026.

MONETARY POLICY: PROLONGED STATUS QUO

The ECB is expected to maintain its key interest rates at their current levels in 2026 and into the first half of 2027 (effectively resulting in nearly two years of stable rates overall). However, a further cut cannot be ruled out if inflation significantly and persistently drops below the 2% target. However, the disparities noted in inflation across the eurozone, although expected to decrease, could complicate the ECB's assessment of the inflation trajectory. In this scenario, the Central Bank will aim to stabilise household inflation expectations, which have tended to rise this autumn (with a median of 2.8% in October for 12-month expectations). Furthermore, any reduction in inflation below the target is likely to be temporary: stronger economic activity in 2026, with growth projected to be around 0.2 to 0.3 pp above its potential rate⁷, would elevate inflation sufficiently to warrant two 25 bp rate hikes in H2 2027. Consequently, at 2.5%, the deposit facility rate would be at the upper end of our neutral rate range (1.5-2.5%).

PUBLIC FINANCES: BROADLY NEUTRAL FISCAL IMPULSE

The increase in Germany's public deficit, coupled with the anticipated improvement in budget balances in France, Italy and Spain, is expected to lead to a slight deterioration in the eurozone budget balance in 2026 (by around 0.1 pp, to -3.3% of GDP). The fiscal impulse in the eurozone is projected to remain broadly neutral, transitioning to a slightly restrictive stance in 2027, due to ongoing efforts to adjust public finances in France and Italy⁸. However, defence investment plans and the intent of several countries to consolidate public finances without curbing growth in social spending should mitigate the effects of consolidation on GDP growth. Interest expenditures, on the other hand, are expected to rise for the four largest countries in the eurozone (from 1.4% of GDP in Germany to 4.2% in Italy by 2027), although this increase will be moderated by the high average residual maturity of government bonds (averaging 8.3 years in the eurozone as of November 2025), which will delay the increase in the apparent interest rate (see the focus section in this issue for more details).

FOREIGN TRADE: STRENGTHENING EUROPEAN SYNERGIES

Exports are likely to continue facing constraints due to competitive pressure from China, bolstered by a weak renminbi. At this stage, the decline in eurozone exports to Asia (-12.6% y/y and -5.6% cumulatively over the first nine months of 2025, specifically concerning China and ASEAN) is not offset by an increase in trade with the United States (+5.6% y/y, driven by pharmaceutical sector exports), nor by trade within the Eurozone, which stagnated in 2025. Eurozone exports to the rest of Europe were more dynamic, particularly to non-Eurozone EU countries (1.2%) and EFTA (Switzerland, Norway, Iceland and Liechtenstein, which saw a rise of 1.3%).

⁷ The European Commission estimates potential growth in the eurozone at 1.2% in 2026.

⁸ For an overview of our public finance forecasts in Europe, see BNP Paribas *Ecopulse: Public debt set to increase in most countries by 2030*, 18 November 2025.

⁹ This category includes the chemical, armaments, electrical equipment, machinery, motor vehicles, other vehicles and medical equipment sectors. For more details, see C. Kalasopatan Antioine, *Central Europe: Moving up the value chain*, BNP Paribas, 4 February 2025.

EUROZONE: EVOLUTION OF WAGES AND INFLATION (A/A, %)

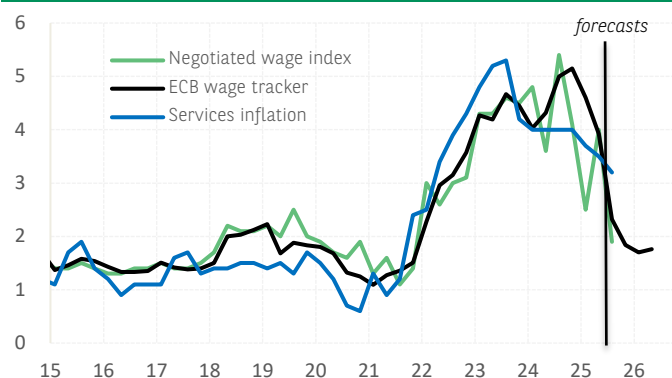


CHART 2

SOURCE: ECB, EUROSTAT, BNP PARIBAS

SHARE OF EUROZONE TRADE (X+M) BY DESTINATION (12MMA)

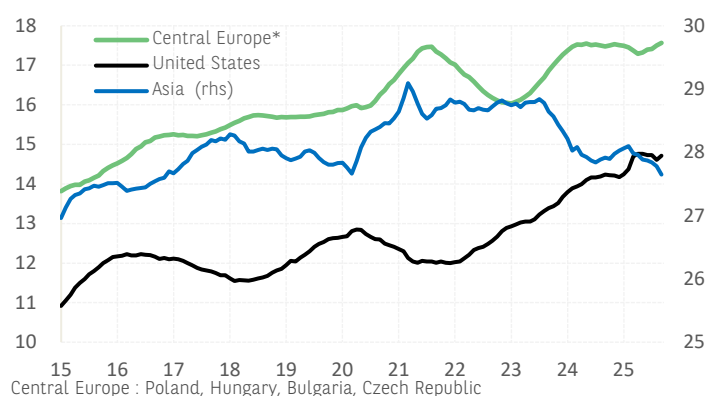


CHART 3

SOURCE: ECB, EUROSTAT, BNP PARIBAS

Although this does not fully counterbalance the decline in exports to third countries at this stage, trade between the eurozone and Central European countries has nevertheless intensified as these countries have advanced industrially and increased their significance in European value chains (see chart). The medium- and high-tech sectors⁹, in which these countries specialise, are highly intensive in intermediate goods and are partially complementary to the export segments of Western European countries. These synergies are set to strengthen in 2026 and beyond.

Article completed on 3 December 2025

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GERMANY

14

THE COUNTRY LAUNCHES ITS NEW GROWTH CYCLE

The German economy is undergoing a strategic transformation, with increased public spending poised to significantly change its economic model. This transformation has the potential to boost business investment and household spending, while also reducing the country's reliance on exports. The stability of GDP in Q3 2025 underscores this duality: the rise in public spending and private investment is offsetting the ongoing decline in exports. Following a growth rate of 0.3% in 2025, Germany's economic expansion is projected to gain considerable momentum in 2026 (1.4%) and 2027 (1.5%), with this growth gradually extending to the private sector. The rise in public debt is expected to remain manageable and temporary. However, several structural issues must be addressed to ensure that labour shortages and stagnant productivity do not impede the recovery. Social spending, which is currently bolstering growth, will have to be optimised to ensure fiscal sustainability, while managing inflation, which is still above the European average, is crucial to avoid a loss of competitiveness.

A TWO-STAGE ACCELERATION IN GROWTH

Germany's growth performance in 2025 was mixed. Its main driver was public spending, particularly public consumption, which increased mainly due to social spending and local government spending. In the first three quarters, public investment rose by +3.2% year-on-year, bolstered by a resurgence in spending on machinery and equipment (+13% year-on-year), albeit from a low starting point, resulting in its contribution to GDP growth being only 0.1 percentage points. In contrast, private consumption and exports remained subdued in 2025, with the latter particularly impacted by a decline in trade with the United States. The deterioration in export markets continued to exert pressure on the industrial sector, as evidenced by the persistently low capacity utilisation rate. Despite these challenges, GDP stopped contracting on a net basis, recording a growth of +0.3% in 2025 (following declines of -0.7% and -0.5% in 2023 and 2024 respectively).

Evidence of an improvement in the private sector has started to surface. According to the IFO survey, a growing number of industrial sectors are either rebounding or expanding (8 out of 21 in October, compared with just 2 at the end of 2024). Additionally, private investment in machinery and equipment grew in Q3 (+0.6% q/q, following a contraction of 11% over the past two years). This positive trend is expected to continue in 2026, due to lower interest rates and tax incentives, such as accelerated depreciation that reduces corporate tax for investing companies¹. Q4 2025 is expected to signal the onset of more significant growth, spurred on by the implementation of the 2025 budget approved last September, which will facilitate an increase in public investment. In 2026 and 2027, economic activity is projected to benefit from increased rearmament and infrastructure spending, alongside more favourable employment trends and improved household purchasing power (see [our recent analysis](#)), heralding a rebound in household consumption, which we estimate will rise by 1.6% in 2026. Consequently, GDP growth is expected to surpass 1% for the first time since 2018 (excluding the post-COVID rebound), with projections of 1.4% in 2026 and 1.5% in 2027.

LABOUR MARKET: A LEVER THAT RISKS RUNNING UP AGAINST FULL EMPLOYMENT

The unemployment rate has gradually increased from a low of 3% in 2023 to 3.8% in October 2025, according to Eurostat's definition. The country has therefore seen a moderate shift away from full employment due to job losses in industry (-320,000 compared to Q4 2019) and construction (-210,000), while job creation has remained concentrated in services (+310,000).

¹ The implementation of the 'federal modernisation agenda', adopted in December 2025, which aims to reduce bureaucracy and related costs, should also contribute to this. The plan includes, among others, a reduction in the time required to register companies and obtain building permits, and the simplification of reporting requirements to facilitate access to finance.

GROWTH AND INFLATION (YEARLY AVERAGE)

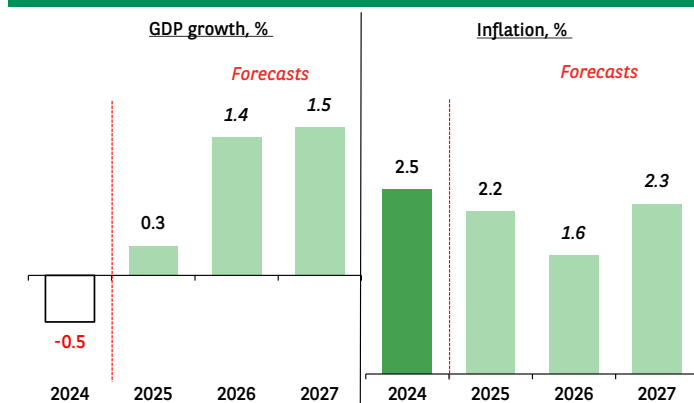


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

The available workforce is estimated to be around 300,000 potential jobs, which should support non-inflationary growth at least until the end of 2026. It could support industrial restructuring for the advancement of military equipment production ([which we have assessed as having significant potential, as outlined in our study](#)). In the fourth quarter of 2025, only 8% of industrial companies reported labour shortages, down from 33% three years earlier, according to the European Commission.

However, this opportunity may be fleeting: the unemployment rate is projected to fall to 3.6% in 2026 and then to 3% in 2027, indicating a return to full employment levels. While the proportion of manufacturers facing labour shortages has fallen from 33% to 8% in three years, tensions persist in other sectors: 18% of service and construction companies—down 10 and 3 pp respectively—still report staff shortages. The relatively rapid return of these shortages therefore calls for prompt reforms, particularly aimed at improving the employment rate among people of working age, to mitigate their adverse effects.

DISINFLATION INCOMPLETE BUT EXPECTED TO PROGRESS

While Germany has recorded inflation around 5 percentage points higher than that of France and Italy since 2021, harmonised inflation reached 2.6% y/y in November (+0.7 pp compared to July, 0.5 pp above the eurozone average). After several months of decline, energy prices are stabilising, although inflation in services remains persistent.



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As a result, inflation and wage growth curves are converging once again, with wages rising by 2.8% y/y in Q3 2025. The recovery in purchasing power has slowed significantly: in real terms, average wages are still around 12 points below their pre-inflation level, which may account for the ongoing weakness in household confidence and consumption. However, disinflation is expected to resume: inflation is projected to fall by 1 pp by May 2026, especially in the services sector (where the persistence of the y/y figure is mainly due to the dissipation of base effects). At the same time, wages should hold up better due to ongoing labour market pressures in certain services, public sector recruitment related to rearmament, and the scheduled increase in the minimum wage in 2026 and 2027 (+8% in 2026, +5% in 2027 to reach EUR 14.60/hour).

However, the period of inflation below 2% is expected to come to an end in 2027 (forecast at 2.3%) due to wage pressures resulting from a return to full employment. Finally, a sustained anchoring of inflation at a lower level would require a correction in energy costs, which continue to exceed eurozone standards and have not fallen as sharply as in other regions recently.

TOWARDS A MANAGED INCREASE IN PUBLIC DEBT

The budgetary reform initiated by the government is based on two separate components. The first is a multi-year plan, extending over ten years, which derogates from the debt brake rule in order to finance investments in infrastructure and defence. The second is the federal budget, which remains fully subject to this rule and must therefore balance any new expenditures with savings. However, measures to promote the transition to low carbon (in particular, the reintroduction of a car bonus at a cost of around EUR 3 bn) and the pressures associated with demographic ageing (with an anticipated increase in pension and healthcare costs) will increase public spending. While tax revenues are expected to benefit from the projected economic recovery, several measures to bolster economic activity and industry (such as accelerated depreciation followed by a reduction in corporate tax, subsidies for electricity prices and a reduction in electricity taxes for industry) would constrain their growth. This combination is expected to widen the primary deficit (projected at -2.8% in 2025 according to our forecasts, -3.1% in 2026 and -2.7% in 2027, compared with -1.6% in 2024, [as outlined in our publication](#)), while additional budgetary financing through special funds (nearly EUR 230 billion between 2025 and 2027), will further increase debt levels, pushing up sovereign rates (2.8% on 5 December 2025, compared to an average of 2.3% in 2024) and therefore the interest burden (+0.3 pp by 2027 according to our estimates). All these factors are expected to contribute to a gradual increase in the public debt-to-GDP ratio, which is projected to reach 67.5% of GDP by 2027 (compared with 62.4% in Q2 2025).

While the budget deficit is expected to widen until 2027, fiscal consolidation is projected to facilitate a reduction thereafter. Still adhering to the debt brake rule, the government will likely seek to lower the public deficit to around 3% of GDP by the end of its term in 2029.

DOMESTIC DEMAND IS PROJECTED TO COMPENSATE FOR THE DECLINE IN EXPORT OPPORTUNITIES

The German growth model has long relied on exports, which still accounted for 41% of GDP in 2024, a significantly higher percentage than in similarly sized countries (around one-third of GDP in Italy and France). While external markets are shrinking due to competition from China and the US tariff shock, domestic demand has yet to recover sufficiently (despite positive signs, such as an increase in new registrations

GERMANY: CHANGES IN GDP AND ITS COMPONENTS

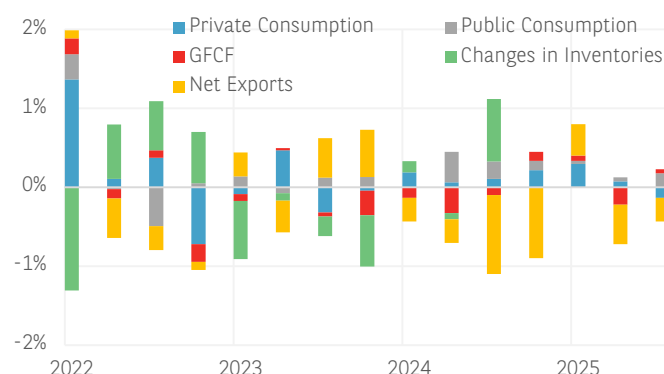


CHART 2

SOURCE: FEDERAL STATISTICAL OFFICE, BNP PARIBAS

GERMANY: CHANGES IN PUBLIC DEBT AND BUDGET BALANCE

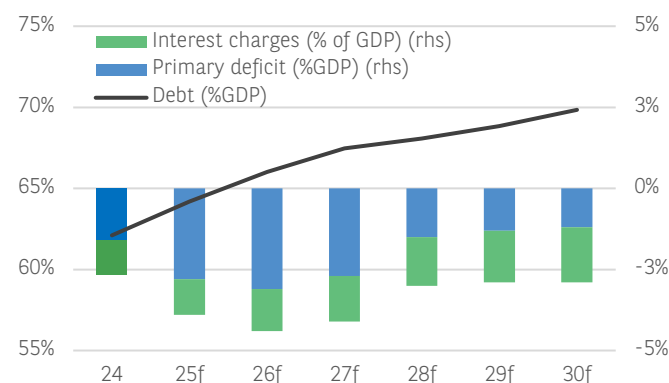


CHART 3

SOURCE: FEDERAL MINISTRY OF FINANCE, BNP PARIBAS FORECASTS

in 2025, particularly for electric vehicles). Meanwhile, exports of goods and services continue to decline (-0.7% q/q). The deficit with China is widening, while German exports are also being eroded in third markets. At the same time, the tariffs imposed by the Trump administration have intensified pressure on the automotive sector. Consequently, following a spike in Q1 associated with advance purchases in the US, the downturn in sales to the US in Q2 and Q3 was more pronounced, resulting in a negative net effect.

The EU may serve as a stabilising force in the coming quarters: increased internal trade within the region has already mitigated the decline. The expected rebound in growth in the eurozone, particularly from countries such as France and Italy, is expected to benefit German exporters. However, it is likely that the recovery in German growth will also lead to an increase in imports: consequently, the goods surplus and its counterpart, the current account surplus, are likely to continue to diminish, reaching around 4% of GDP by the end of 2027 (compared with 5.7% in 2024 and 7.9% in 2019).

Article completed on 5 December 2025

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FRANCE

16

GROWTH STRIKES BACK DESPITE UNCERTAINTIES

French growth has been rebounding since Q2 2025, driven primarily by aeronautics production, but also by business investment in a context of decreasing interest rates. These two factors are coming along with two structural drivers: growth in services and public consumption. In 2026, these momentums are expected to continue. Additionally, exports should benefit from the rebound in German growth. Inflation is expected to remain low and household consumption to strengthen moderately, against a backdrop of continued high political uncertainty. French GDP growth is expected to return to its 2024 level (1.1%) in 2026, after a soft patch in 2025 (0.8%).

GROWTH REBOUND

French growth has been picking up since June 2025 (+0.5% q/q in Q3) with the rebound in aeronautics production. The latter had stagnated between December 2023 and May 2025, at nearly 20% below its pre-Covid level; from June, it has been only 6% below that level on average. In 2026, this strength would add nearly 0.3 percentage points to French GDP growth. At the same time, the industry has benefited from an early rebound in exports to Germany, which is expected to continue in 2026.

Investment by non-financial corporations has also recovered. Having stabilised at a healthy level for nearly a year (investment rate at 21.5% of value added, 1 point above its historical average), it grew by 0.8% q/q in Q3 (supported by investment in digital services and AI), against a backdrop of decreasing interest rates. This rebound was not affected by the increase in compulsory levies, with corporate margins reflecting good profitability (31.5% in Q3 2025, compared with an historical average of 31% since 2010).

These positive dynamics would support growth in 2026 (to 1.1% after 0.8% in 2025) and strengthen further in 2027 (1.3%). This acceleration, mainly driven by a reduction in supply constraints, should not generate inflationary pressures. These positive factors are in addition to the two structural supports that have continued to sustain growth even when it was low: the trend growth of services and the increase in public consumption (with fiscal consolidation not really curbing its growth rate). Finally, household consumption growth is likely to pick up (after stagnating between Q3 2024 and Q3 2025).

Public investment would decline (in a context of fiscal consolidation) and household investment would stagnate. In the latter case, land remains scarce and most of the rebound in purchases is driven by second-hand transactions, which should continue to be the case in 2026 and 2027.

STABILIZING INTEREST RATES AND PROPERTY PRICES

Interest rates on new housing loans have been stable for seven months, close to 3% in September 2025. Their disconnect from the 10-year OAT rate, which rose slightly over the same period, is becoming more pronounced. This is explained by the relative stability, since July 2025, of the 10-year swap rate, which is a better indicator of changes in the cost of bank resources backing fixed-rate loans. The recovery in new loan production recorded in the first half of the year was short-lived. Between June and September 2025, monthly flows of new loans stood at around EUR 13 billion, due to the stabilisation of rates. This new production is barely sufficient to ensure growth in outstanding loans (+0.3% y/y in September), given the repayment flows inherent in the abundant new production during the period of low rates.

Credit conditions have stabilised and are no longer a factor supporting households' real estate purchasing capacity. However, transaction volumes continued to recover. In August 2025, the number of sales over twelve months (916,000) recorded positive annual growth (+10%) for the sixth consecutive month. Prices for existing homes nevertheless remained stable between Q2 and Q3 2025, even falling slightly compared

GROWTH AND INFLATION (YEARLY RATE)

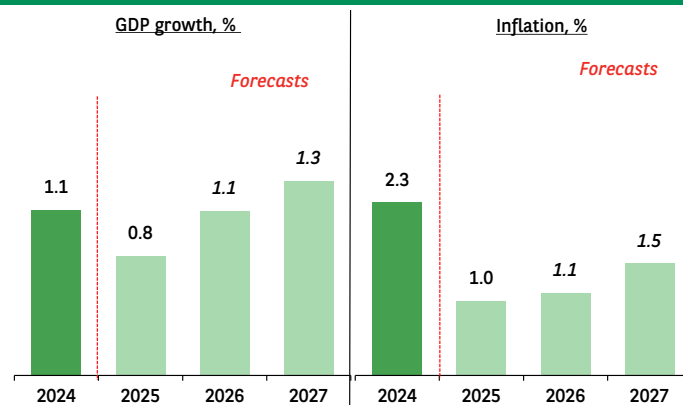


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

to Q1 (-0.5%). After a sharp rebound in housing between May and August 2025, the recovery came to a halt in September (-8.9% m/m). After three consecutive years of decline, cumulative housing construction over one year was characterised by particularly low volumes in July. After +0.6% in August, the increase strengthened in September (+4.4%). New housing prices, which declined between Q4 2023 and Q3 2024, have been recovering since then (+2.7% y/y in Q2 2025).

In a highly competitive environment, our interest rate scenario (money market rates and swap rates) suggests that average housing loan rates will remain relatively stable over the next quarter and beyond. This stability would contrast with the continued moderate rise in German and French 10-year sovereign yields, which we expect to continue until the end of 2026. Combined with the slowdown in household income (due in particular to the dissipation of the catch-up effects that played a role in 2025), transaction volumes are expected to decline and prices to rise only moderately, or even level off depending on location, over the coming quarters.

LABOUR MARKET: RESILIENCE ACROSS THE BOARD

The observed and expected resilience of the labour market will support household consumption in the coming quarters. This resilience is relative, as the unemployment rate rose to 7.7% in Q3 2025 (compared to 7.4% in Q3 2024) and 100,000 net salaried jobs were lost in one year. However, this has not undermined the progress made in terms of the employment rate (69.4% in Q3, close to its peak, up more than 3 points compared to pre-Covid levels).

However, the balance of opinion on fears of unemployment (incorporated by INSEE into household confidence) rose by 30 points to peak at 60 in May 2025. In 2013, a rise in this proportion was followed by an increase in unemployment of nearly 2 points (0.3 pp this time). As a



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result of the resilience of the labour market, the balance of opinion began to fall by nearly 12 points between May and November (see chart).

Furthermore, nearly half of the deterioration in employment is due to the decline in apprenticeships (decrease in budgetary support), but this has not led to further inactivity: the proportion of 15-29 year olds who are neither in employment, education or training fell to 12.5% in Q3 2025 (-0.3 pp over the last two quarters). From 2026 onwards, stronger growth should halt job losses and allow the unemployment rate to stabilise.

LOW INFLATION AND MODERATE REBOUND IN REAL WAGES

Since February 2025, harmonised inflation has once again reached a level close to 1% y/y (pre-Covid level), driven down by energy prices (electricity, oil), whose decline has been accentuated by the appreciation of the euro against the dollar. Core inflation has moderated as prices for manufactured goods have stabilised, while disinflation is slower for services. In 2026, inflation is expected to remain close to 1%. The decline in energy prices is expected to be less pronounced, but inflation in services is expected to continue to slow.

As a result, core inflation is expected to reach 1.2% (1.6% in 2025), in line with a slowdown in nominal wage growth (+1.6% in 2026 after +2% in 2025). Real wages would increase moderately and would be the main driver of growth in gross disposable household income (unlike in 2024-25, when social benefits were the main contributor). Purchasing power would increase less (+0.5% in 2026 compared with an estimated +1.2% in 2025), but would be based more on wage dynamics. In an environment of low inflation and stabilised unemployment, this would trigger a decline in the household savings rate, which fell from 18.7% in Q2 2025 to 18.4% in Q3. In 2026, the decline would remain moderate (to 18.3%), before accelerating in 2027 (to 17.6%), after two years of increases that brought it to an average of 18.6% in 2025 (+2 pp in two years). Household consumption is expected to grow by nearly 1% in 2026 and 2027 (after 0.4% in 2025).

LIMITED FISCAL CONSOLIDATION, BASED ON REVENUE

According to the High Council of Public Finances (HCFP), there is a strong probability that the target of a deficit of 5.4% of GDP in 2025 will be achieved (compared with 5.8% in 2024). This would mark the first reduction in the budget deficit since 2022. However, public spending is expected to remain at around 57% of GDP in 2025 (higher than before Covid), mainly due to increased social spending. The deficit would therefore be reduced thanks to a rebound in revenues.

Budget debates in Parliament suggest that the 2026 budget should follow the same formula: a more moderate deficit reduction target than that of the government (5% according to our forecasts, compared with 4.7%), mainly due to an increase in revenue (from businesses, savings and wealth). On the expenditure side, the government has to contend with higher defence spending, increased contributions to the EU budget, high social spending (impact of ageing, no under-indexation) and higher interest costs (which are expected to rise from 2.2% in 2025 to 2.5% in 2026). The increase in revenue would improve the primary balance by 0.7 percentage points to 2.5% of GDP in 2026.

These constraints are likely to continue to weigh on the economy until the end of the decade, with the public deficit only returning to 3% of GDP in 2030. And until the deficit returns to this level, public debt is expected to continue to rise, reaching nearly 121% of GDP in 2030. The increase in sovereign interest rates (penalized by political uncertainty and the upward trajectory of public debt) has remained contained: the France-Germany spread on the 10-year rate fluctuates between 65 and 80 basis points, and is expected to do so again in 2026.

FRANCE: HOUSEHOLD BALANCE OF OPINIONS ON UNEMPLOYMENT FEARS VS. UNEMPLOYMENT RATE (%)

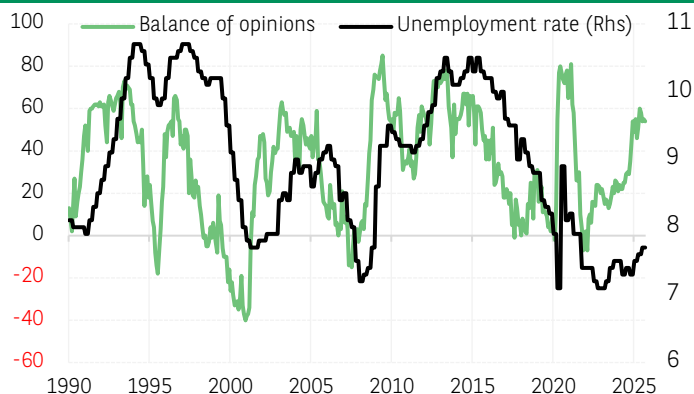


CHART 2

SOURCE: INSEE, BNP PARIBAS

FRANCE : CURRENT ACCOUNT BREAKDOWN (MDS EUR)

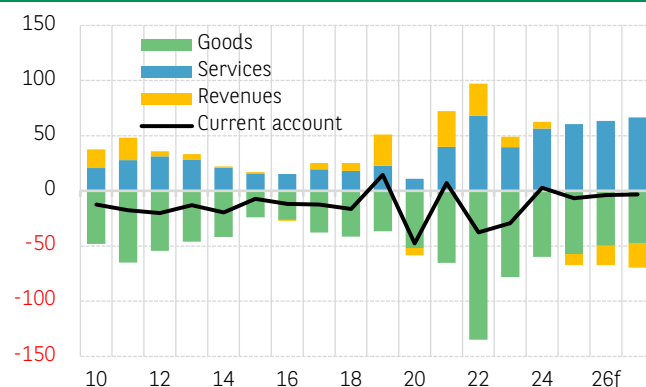


CHART 3

SOURCE: BANQUE DE FRANCE, BNP PARIBAS FORECASTS

BALANCED FOREIGN TRADE SUPPORTING GROWTH ONCE AGAIN

Between mid-2024 and mid-2025, stagnating aerospace exports and declining exports to Germany accounted for the clearly negative contribution of foreign trade to GDP growth. The rebound observed from Q3 2025 onwards, both in aeronautics and in sales to Germany, is expected to continue. Exports to the United States have been relatively stable despite additional customs duties.

Overall, the trade deficit on goods should therefore narrow in 2026. At the same time, the surplus on services is relatively stable. Thus, the net contribution to growth from trade in goods and services should be positive in 2026. At the same time, the income balance (previously in surplus) exhibits a moderate deficit.

These developments are consistent with the current account balance remaining relatively balanced in the coming years.

Article completed on 9 December 2025

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PUBLIC FINANCES ARE IMPROVING, WHILE PRODUCTIVITY REMAINS SLUGGISH

The Italian economy is showing some resilience: GDP experienced a modest rebound in Q3 2025, and moderate inflation is helping to maintain household purchasing power. We forecast growth to be around 1% over the next two years (1% in 2026 and 0.9% in 2027). Market confidence has been bolstered, as evidenced by improved ratings, due to political stability, fiscal consolidation, and a growing share of public debt held abroad. Exports are benefiting from a robust pharmaceutical sector and intra-EU sales, while trade with the United States remains positive. Despite an historically strong labour market, productivity remains low due to weak intangible investment, limited digitalisation and significant fragmentation within the business sector.

UNDERPERFORMANCE IN TERMS OF GROWTH IS EXPECTED TO LESSEN

In Q3, Italian GDP rose by 0.1% q/q, driven by a rise in value added in agriculture and services, which offset the decline in industry. Consumption grew by 0.1%, investment by 0.6%, and imports and exports increased by 1.2% and 2.6% q/q, respectively. This Q3 result follows a -0.1% q/q contraction in Q2, marking the first decline after seven consecutive quarters of stability or modest growth. Italy's real GDP now stands at 6.5% above its pre-pandemic level (Q4 2019), compared with +5.6% in France, +0.1% in Germany and +10% in Spain.

Although growth has slowed over the past two years, low inflation – remaining mostly below 2% since October 2023 – and a shrinking population have facilitated an increase in PPP-adjusted GDP per capita. In 2023, Italy overtook the United Kingdom in terms of GDP per capita for the first time in a decade, with this gap widening further in 2024.

Over the next two years, Italian growth is projected to hover around 1% (1.0% in 2026 and 0.9% in 2027). The main drivers of this growth are anticipated to be consumption and investment (the latter being boosted by the final stages of the NRRP). Net exports are expected to have a negative impact on GDP growth due to increased difficulties in global trade.

LABOUR MARKET DYNAMICS ARE BEING DRIVEN BY WORKERS AGED OVER 50

The Italian labour market continues to perform well. In Q3, employment remained stable at around 24.2 million workers (+0.1% vs Q2). The growth in employment was primarily seen among permanent employees, self-employed individuals and people aged over 50. In comparison with Q2, both the employment and inactivity rates remained stable at 62.7% and 33.1% respectively, while the unemployment rate fell by 0.3 pp to 6.1%. From January to September 2025, contractual hourly wages rose by 3.3% y/y.

The unemployment rate is expected to stabilise at current levels in 2025 and to decline in 2026. In this context, employment growth in 2025 is expected to exceed GDP growth before slowing in 2026. As a result, labour productivity, which is declining in industry in particular, is projected to decrease in 2025 and then resume growth in 2026–2027.

INFLATION CONTINUES ITS DOWNWARD TREND

Inflation remains moderate in Italy. In November, the HICP slowed significantly to 1.1% y/y. Food inflation decreased from 2.5% in October to 2.3% in November, while energy prices continued to show deflation at -4.2% y/y. Core inflation also fell slightly to 1.8%, down from 1.9% in October.

Throughout 2025, inflation has remained below 2%, with the exception of March. Italy therefore continues to be one of the countries with the lowest inflation rates in the Eurozone, largely due to substantial deflation in energy prices. In Q2, household purchasing power continued to

GROWTH AND INFLATION (YEARLY AVERAGE)

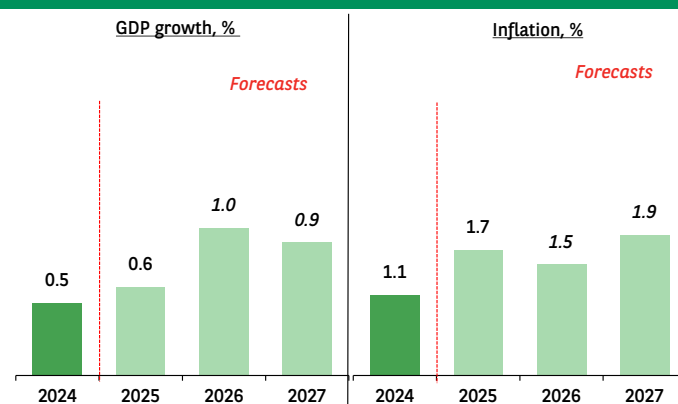


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

grow (+0.3% q/q, following +0.7% q/q in Q1). Despite this, the savings rate reached 9.5% in April-May, continuing its upward trajectory after hitting a low of 8.8% in Q4 2024.

For 2025 as a whole, inflation is expected to average 1.7%. Due to uncertainty and a higher savings rate – which offset the positive impact of income growth – private consumption is expected to rise moderately (less than 1%) before picking up pace in 2026.

PUBLIC FINANCES: INDICATORS OF CONFIDENCE AND STRUCTURAL IMPROVEMENT

Italian public finances continue to benefit from positive revisions by rating agencies and European institutions. In November 2025, Moody's upgraded Italy to Baa2 (stable outlook), marking the first upgrade in over twenty years, following similar decisions by Fitch and S&P. At the same time, the European Commission has revised its budget projections upward, anticipating improved fiscal metrics, and has indicated that Italy could exit the Excessive Deficit Procedure as early as 2026, one year ahead of schedule, pending verification of the Spring data.

Market sentiment has also improved: the BTP-Bund spread has fallen by around 100 basis points over the past two years, returning to its pre-sovereign crisis levels (75 bp in December 2025, with a 10-year rate of 3.5%). Foreign demand has increased, with the share of public debt held by non-residents reaching 33.7% in August 2025, marking a rise of nearly EUR 124 billion in just eight months, thereby confirming the reversal of the trend observed since 2023.

The 2025 Public Finance Planning Document (PFPD) indicates a more favourable path for fiscal consolidation: the deficit is projected to fall to 3% of GDP in 2025 (one year ahead of the earlier forecast made in



the Spring), and is expected to gradually shrink in 2026–2028 (–2.8% in 2026, –2.6% in 2027, –2.3% in 2028). This downward trajectory, which aligns with the European Commission's forecasts, complies with the new net expenditure rule that is central to the EU's revised fiscal governance.

Nevertheless, Italian public debt remains high and is expected to reach 137.4% of GDP in 2026 due to stock-flow adjustments associated with the "Superbonus" scheme, before beginning to fall from 2027 onwards (136.4% in 2028 as per government estimates). The long-term sustainability of this debt will depend on the relationship between the average cost of debt and nominal GDP growth, particularly in a scenario where refinancing costs are expected to be less favourable than those in the previous decade.

↔ PHARMACEUTICALS ARE DRIVING ITALIAN EXPORTS

During the first nine months of the year, trade dynamics were positive (resulting in a trade surplus of approximately EUR 35.4 bn; +0.9% y/y). Exports experienced a nominal growth of 3.5% y/y, mainly driven by pharmaceuticals (+35%), basic metals (+6.7%) and food products (+5%), while imports increased by 3.7%. The growth in exports was particularly strong towards EU countries (+4.5% y/y, compared to an increase of just 2.4% for countries outside the EU). Notably, exports to Spain surged by 11.8% y/y (accounting for 5.5% of total exports), while Switzerland also saw an increase of 11.8% (representing 4.8% of total exports).

Despite ongoing trade tensions and the introduction of US tariffs in August, exports to the United States grew by 9% y/y in the first nine months of the year, with pharmaceutical exports being the main contributor (+58.3%). However, the performance of Italian exports to the US was slightly below the EU average (+10% y/y between January and September 2025).

The US-EU trade agreement, although disadvantageous for the EU, has helped to reduce uncertainty, but the outlook for Italian exports to the US remains weak. On the other hand, the ratification of the EU-Mercosur agreement is expected to open up significant alternative markets that would be advantageous for Italian companies. In summary, Italian exports are projected to experience only marginal growth in 2025 before entering a phase of stronger growth in 2026, while imports are expected to rise more markedly in 2025–2026, driven by domestic demand.

↻ PRODUCTIVITY AND COMPETITIVENESS: ITALY'S STRUCTURAL CHALLENGES

Italy continues to exhibit a growth in labour productivity that is significantly lower than that of its European counterparts: according to Eurostat data, the average annual productivity growth from 1995 to 2024 was a mere 0.2% in Italy compared with 1.2% in the EU. Following a brief recovery from 2009 to 2014 (+0.6% per year), productivity has stagnated once more – or is nearly stagnant – at +0.1% annually for around a decade. Undoubtedly, in the last five years, employment has seen considerable growth (+4.4%, in line with the EU average), but this increase has primarily occurred in low-productivity sectors. The rising costs of capital have also led companies to prioritise labour over investment, especially in intangible assets – an area where Italy lags behind its main competitors. From 1995 to 2023, intangible investment as a share of GDP increased only slightly, from 7% to 8.4%, compared to sharper increases in France (from 11% to 16%) and Germany (from 7% to 10%). The adoption of digital technologies is impeded by the low level of digital skills among the workforce: only 16% have advanced information and communication technology (ICT) skills (compared to around 30% in Germany and France), and graduates in science, technology, engineering and mathematics (STEM) account for only 15% of the total (EU average: 26%).

ITALY : PUBLIC DEBT BY HOLDER (%)

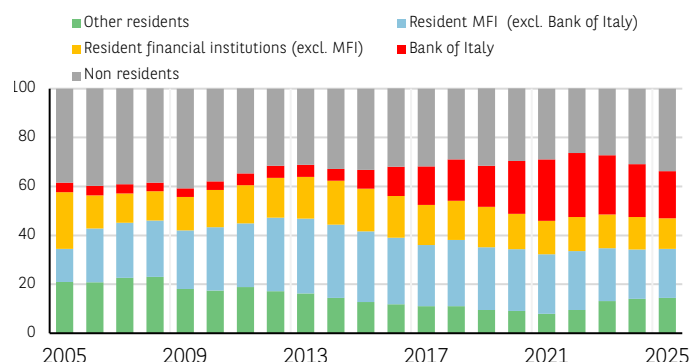


CHART 2

SOURCE: BANCA D'ITALIA, BNL ECONOMIC RESEARCH

ITALY: REAL LABOUR PRODUCTIVITY PER HOUR WORKED

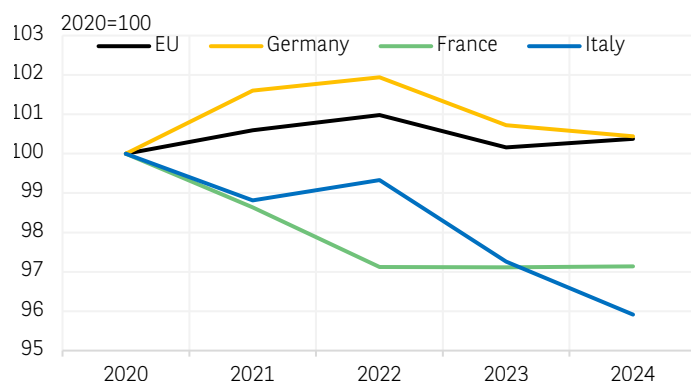


CHART 3

SOURCE: BANCA D'ITALIA, BNL ECONOMIC RESEARCH

The productive system is highly fragmented, primarily consisting of micro-enterprises, which restricts export potential, digitalisation and innovation – all of which are linked to significant productivity gains (15–30% for digital technologies and around 20% for innovation).

Boosting productivity will require greater investment in human and intangible capital, support for company-size growth, and full implementation of the NRRP reforms. In this regard, the government has taken concrete measures: under NRRP mission No.1 (digitalisation, innovation, competitiveness, culture and tourism), over EUR 16.9 bn has been allocated, with around EUR 6.1 billion earmarked for "digitalisation, innovation and security in public administration" and around EUR 6.9 bn for "digitalisation, innovation and competitiveness of the production system". In addition, over the last three years of the current administration, around EUR 6.3 bn has been allocated specifically to facilitate the digital and energy transformation of businesses.

Article completed on 28 November 2025

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SPAIN

20

JOB-RICH GROWTH MOMENTUM CONTINUES

Spanish growth should continue to outpace Eurozone growth. It is underpinned by a dynamic labour market, which is generating gains in purchasing power and bolstering consumption. Investment, meanwhile, is benefiting from lower interest rates and European funding. This strong GDP growth will enable the country to generate primary surpluses and continue to reduce its public debt ratio. However, Spanish activity should come up against the constraint of full employment at the end of the decade, in the absence of significant productivity gains.

DOMESTIC DEMAND, THE DRIVING FORCE BEHIND SPANISH GROWTH

Spanish real GDP growth is relatively stable, at a good level (+0.6% q/q in both Q3 and Q4, according to our forecasts) and should reach 2.9% in 2025 on an annual average basis.

The economy remains buoyant (composite PMI at 56.0 in October, compared with 52.4 in the Eurozone), and growth is set to persist in 2026–2027 (2.4% and 2.3%, respectively). It would remain higher than in the Eurozone (1.5% in 2026 and 1.6% in 2027), continuing to be fuelled by the availability of labour. However, this favourable effect will moderate over the forecast horizon, against a backdrop of falling unemployment and an increase in the number of sectors experiencing labour shortages.

Household consumption is likely to remain the main contributor to growth, benefiting from strong job creation and further gains in purchasing power (see below). Household confidence reflects this favourable climate (49.5 in October, compared with an average of 42.7 over 2015–2019, according to the Ipsos survey).

In 2026, investment should also be supported by the continued use of funds from the EU Recovery and Resilience Plan, and by lower interest rates for non-financial companies (from 5.1% in October 2023 to 3.3% in October 2025). 2027 should see a slowdown with the gradual phasing out of these European funds.

Activity should also benefit from an acceleration in exports, due to the rise in German demand and improved growth in Spain's main trading partners.

LABOUR MARKET: MOVING TOWARDS FULL EMPLOYMENT?

Spanish household consumption remains buoyed by job creation and wage growth supported by falling unemployment. Immigration is playing a key role, as it has enabled the working population to continue to grow despite a negative natural balance between births and deaths. Therefore, the share of the foreign working population rose from 16.9% of the total working population in Q3 2024 to 17.7% in Q3 2025. The dynamism of the labour market should continue in the coming quarters. Although it remains one of the highest in the Eurozone, the unemployment rate is falling (10.5% in September; -0.9 pp y/y), while employment (measured by the number of people registered with the social security system) continues to set historic records (21.8 million in October, +500,000 over one year).

Nevertheless, labour shortages are increasingly limiting production in construction and services, according to the European Commission's ESI survey. These factors suggest that Spain is approaching full employment. The structural level of unemployment is historically high - around 7–8% - and projections indicate that this threshold will be reached by the end of the decade (9.6% in 2027, according to the European Commission). Against this backdrop, the contribution of job creation to growth is likely to diminish, accompanied by rising wage pressures and structurally higher inflation.

¹ Caused by the government's minority in Parliament, which prevents it from passing the budget.

GROWTH AND INFLATION (YEARLY AVERAGE)

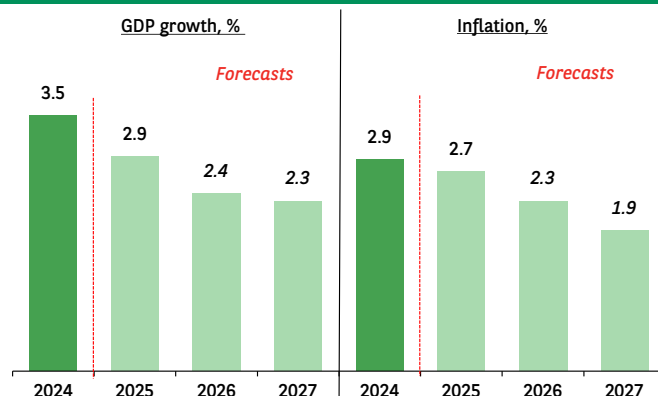


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

SLOWER INFLATION WILL BOOST PURCHASING POWER

The outperformance of Spanish growth relative to the Eurozone average is also accompanied by higher inflation. Spanish inflation (headline and core) (3.2% y/y and 2.9% y/y in October) remains higher than in the Eurozone (2.1% and 2.4%, respectively). According to our forecasts, they will remain higher in 2026, despite a slowdown (2.3%, compared with 1.9% for the Eurozone for headline inflation) linked to the moderation in food and energy prices.

Nominal wage growth (3.5% in October, a stable rate since July) is expected to moderate. Nevertheless, it should remain higher than inflation in 2026, allowing real wages to make up some of the ground lost during the inflationary crisis (they remain nearly 7 points below their Q1 2020 level, compared with -9.1 points at their worst in Q3 2022). Meanwhile, the trend in real gross disposable income is more favourable (see Graph 2). It has increased by 15 points compared to its pre-COVID level, and this growth is set to continue. The increase in household purchasing power should continue to support private consumption as a result.

NOMINAL GROWTH WILL REDUCE PUBLIC DEBT

The rollover of the State budget from 2023¹, along with the removal of support measures put in place in response to the pandemic, have helped to reduce the primary deficit from 2.3% of GDP in 2022 to 0.1% in 2025 (according to our estimate). In 2026–2027, Spain should even achieve a surplus (+0.4% in 2026 and +0.7% in 2027) for the first time since 2007, thanks, in part, to strong nominal growth (4.3% on average over the period).



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At the same time, public spending should remain relatively stable, due to the almost certain renewal of the 2023 budget for the third consecutive year in 2026 and the government's intention not to increase defence spending above 2.1% of GDP. Revenues are expected to continue to grow, underpinned by the rise in domestic consumption (which will have a favourable effect on VAT revenue) and by the dual effect of job creation and wage increases on social-security-contribution revenue.

In addition, the apparent interest rate on debt (2.6% in 2026, according to our forecasts) would remain well below nominal growth. As a result, the public debt-to-GDP ratio would fall below 100% as early as 2026, reaching 95.3% in 2027 (compared with 100.4% in 2025), according to our forecasts². On the other hand, the Spain-Germany spread remains on a downward trend at 47.2 bp in December 2025 (compared with 66.7 a year earlier).

↔ FOREIGN TRADE: SPAIN'S ATTRACTIVENESS WILL LIMIT THE DRIFT IN THE EXTERNAL BALANCE

Spain's external accounts are solid: the current account surplus has widened since 2023 (EUR 13.2 bn in Q3 2025); however, it should narrow with the likely reduction in the surplus on services. Tourism receipts have already stabilised at high levels (growth in tourist arrivals has slowed significantly, from +10.9% in September 2024 to +1.0% y/y in September 2025).

At the same time, the goods deficit should continue to widen in 2026. Exports are likely to slow as a result of the direct and indirect impacts of the rise in US tariffs. Imports, meanwhile, are set to rise due to strong domestic demand. In 2027, however, exports will be buoyed by improved growth prospects in the Eurozone.

In 2024, Spain will remain the second largest recipient of foreign direct investments (FDI), after France³. These FDIs support the country's capacity to export: a factor that should boost growth potential and limit the trade deficit.

↻ LOW PRODUCTIVITY: A THREAT TO SPANISH OUTPERFORMANCE

The gap in GDP per capita between Spain and the three largest economies in the eurozone (Germany, France and Italy) is primarily due to much lower productivity⁴. Spain's productive fabric is still dominated by less productive sectors (particularly tourism-related activities). This weakness is also due to the small size of companies, their struggles to grow and lower spending on research and development (1.5% of GDP in 2023 in Spain, compared with 2.2% in France). GDP growth is mainly underpinned by labour input, but the productivity deficit could become more constraining as this effect recedes. In addition, a possible drop in net immigration, combined with the rapid ageing of the population, could have a negative impact on the available workforce, which is one of the country's main assets.

Article completed on 3 December 2025

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CHANGE IN SPANISH HOUSEHOLDS' PURCHASING POWER SINCE Q4 2020

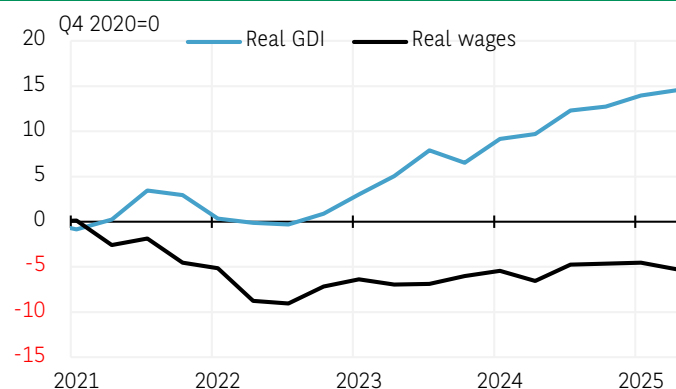


CHART 2

SOURCE: EUROSTAT BNP PARIBAS

FISCAL RATIOS (AS A % OF GDP)

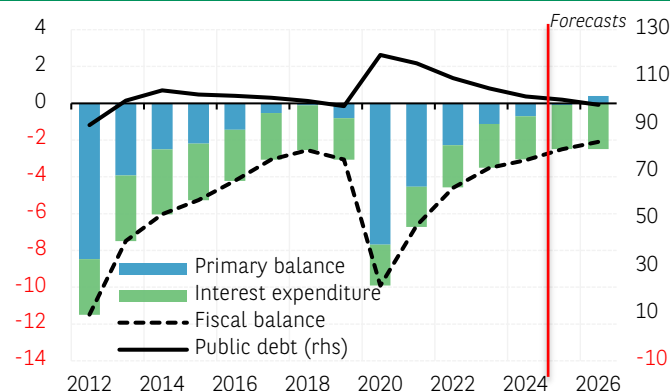


CHART 3

SOURCE: DG ECFIN AMECO, EUROSTAT, BNP PARIBAS

² See our Eco Charts Public finances 2025 - Spain: Moving towards a reduction in public debt amid strong growth.
³ World Investment Report 2025 "World Investment Report 2025: International investment in the digital economy", UNCTAD.
⁴ June 2025 Note "Spain's Productivity Gap Vis-a-Vis Europe and the United States: Diagnosis and Remedies", IMF.



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22

NEW GROWTH DRIVERS TO BE SEIZED

Growth is expected to reach 1.1% in 2026, down from 1.4% in 2025, the latter benefiting from a particularly strong first quarter. However, GDP growth is likely to be unevenly distributed. On the one hand, the service sector should benefit from the development of AI. On the other hand, households will suffer from the deterioration of the labour market, and industry will be penalised by a decline in competitiveness and increased competition from China. Disinflation is expected to remain gradual, limiting the BoE's scope for easing. The policy mix will be more accommodative, with part of the fiscal consolidation effort postponed until the end of the decade. We anticipate a slight depreciation of the sterling against the euro and the dollar in 2026, driven by lower key interest rates in the United Kingdom.

GROWTH: INVESTMENT MORE DYNAMIC THAN CONSUMPTION

A cyberattack at Land Rover penalised Q3 growth (-0.06 pp, +0.1% q/q), masking the otherwise resilient economy. Investment in machinery and equipment excluding transport rebounded strongly (+10.1% q/q). Furthermore, the return of the manufacturing PMI to expansion territory in November (50.2) bodes well for Q4, when GDP growth is expected to rebound (+0.3% q/q). Growth is expected to reach 1.4% in 2025 on an annual average. It would be lower in 2026 (at 1.1%), but mainly due to the exceptional performance in Q1 2025 (+0.7% q/q) supported by volatile components (mainly investment in aeronautics). Quarterly growth is expected to remain at +0.3% q/q on average, which is the rate anticipated for Q4 2025.

In 2026, the UK will benefit from renewed growth in the major eurozone countries (led by Germany and France, which accounted for 15% of UK exports in Q3), particularly through increased defence budgets. Investment momentum is expected to continue. The British economy is benefiting from the boom in digital and tech services, where the country remains competitive (investment in intellectual property amounted to more than 5% of GDP in Q3 2025) and generates added value (+6.3% y/y in the information and communication sector), as well as major trade surpluses (GBP 207 billion in Q3 2025, year-on-year cumulative). Nevertheless, this investment momentum will be slowed by declining investment in struggling industrial sectors with production overcapacity (chemicals, plastics, steel). More broadly, business activity remains constrained by rising labour costs and persistent margin erosion (23.7% of value added in Q3 2025, the lowest since 2007).

Household spending intentions (consumption and investment) are also less positive. They are being penalised by the deterioration in the labour market the climate of uncertainty (fiscal policy, trade tensions) which is weighing on household confidence.

LABOUR MARKET: DETERIORATION EXPECTED TO CONTINUE

The unemployment rate reached 5% in October – its highest level since 2021. The deterioration has been significant since the beginning of the year (+0.6 pp) and the unfavourable trends in various surveys (REC/KPMG, Deloitte CFO) suggest that the jobless rate could continue to rise, towards 5.5% in 2026, especially as growth is expected to be unevenly distributed across sectors. The United Kingdom is also experiencing specific sectoral dynamics following Brexit: unlike the eurozone, traditionally buoyant industries such as finance and insurance have suffered net job losses in the UK. The rise in unemployment is also expected to weigh on wages: wage growth in the private sector excluding bonuses (which stood at 3.8% year-on-year in September) is expected to slow gradually to between 3.0% and 3.5% in 2026. This will support disinflation and companies seeking to rebuild their margins, while household purchasing power gains are expected to remain positive in 2026 (around 1%), with lower inflation offsetting slower wage growth.

GROWTH AND INFLATION (YEARLY AVERAGE)

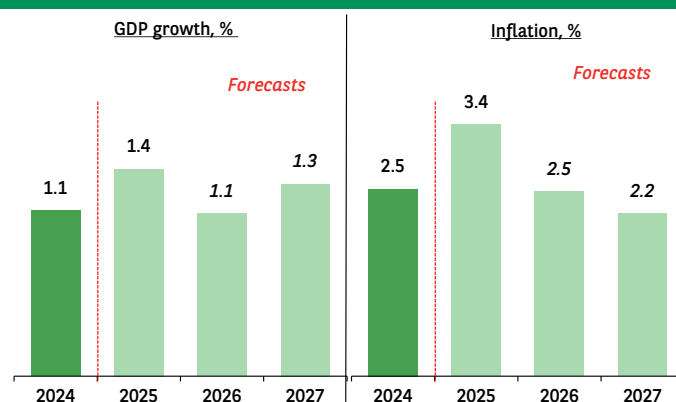


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

DISINFLATION IS EXPECTED TO ACCELERATE

Inflation remains relatively widespread, with nearly 60% of the components of the consumer price index above 4% y/y in October. However, according to our forecasts, inflation is expected to decline quite sharply by the end of 2026 (to 2.2% in Q4 from 3.6% y/y in October 2025), thus moving closer to the BoE's target. Inflation in services – the main driver of price rises – is expected to slow, more significantly from April 2026 onwards due to favourable base effects (the dissipation of the effects of the April 2025 fiscal measures, notably the tax on electric vehicles; and the sharp past increase in airfares).

An earlier and more pronounced slowdown in inflation cannot be ruled out (see chart). Faced with weak demand and international competition (this autumn, the United Kingdom became the first export market for Chinese car manufacturers), companies' pricing power has indeed been eroded, according to companies surveyed in the November PMI report. This constitutes a downside risk to inflation, which our scenario of stable energy prices on international markets is unlikely to counteract.

MONETARY POLICY: GRADUAL EASING

The BoE is expected to continue its gradual easing of monetary policy. Two further cuts are expected in December 2025 and then in Q1 2026, reflecting a cautious approach in a context of still relatively high inflation. Monetary policy would thus remain restrictive: an interest rate of 3.5% at the end of Q1 2026 would be above our estimated neutral rate range (2.25-3.25%). With more pronounced disinflation, two further


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cuts would occur in H1 2027. Some members of the Monetary Policy Committee already believe that monetary policy is now too restrictive in view of the economic slowdown. The risks are therefore on the downside compared to our central scenario for key interest rates.

As announced in September, the BoE will continue to reduce the size of its balance sheet in 2026 (by GBP 70 billion over the period October 2025–September 2026), but at a slower pace than in 2025 (GBP 100 bn between October 2024 and September 2025), given the tensions on the long end of the yield curve. Unlike other central banks, the BoE does not limit itself to maturing maturities but actively sells its securities on the secondary market. While short-term UK bond yields are likely to remain on a downward trend due to monetary easing, long-term rates would remain constrained at the start of the year (4.5% in Q1 for 10-year rates) by political uncertainty linked to the local elections in May, before easing more markedly in the second half of the year (4.3% in Q4 2026).

PUBLIC FINANCES: THE BUDGET PASSES, UNCERTAINTIES REMAIN

Fiscal policy will remain moderately restrictive in 2026. However, this will not be enough at this stage to stabilise the debt ratio, which is expected to reach 103.3% of GDP (compared with 101.3% in 2024). Nevertheless, the debt trajectory remains under control and continued fiscal consolidation efforts would limit the increase in this ratio in the coming years.

However, with the autumn budget, the government has not managed to rule out the possibility of resorting to new consolidation measures in the near future in order to comply with its own budgetary rules. The fiscal headroom available to the government to bring the current budget balance back into equilibrium by 2029–2030 has increased (from GBP 9.9 bn to GBP 21.7 bn), but it remains limited given the OBR's strong assumptions on i/ the growth scenario (+1.5% in 2026 and +1.4% in 2027, compared with +1.1% and +1.3% in our scenario, respectively) and ii/ the expected evolution of certain indicators (decline in the savings rate, drop in the unemployment rate, rebound in residential construction in 2027).

The announced tax increases (GBP 28 bn by 2029–2030) will mainly materialise at the end of the decade, while spending will increase from 2026 onwards. While the end point is reassuring, with marked consolidation by 2030 (the OBR expects a deficit of 2.4% of GDP at that date, compared with 5.0% in 2025 and 4.1% in 2026), this asymmetry carries the risk of delaying and making consolidation even more difficult, with the forthcoming rise in the apparent interest rate (which we estimate will exceed nominal growth from 2029 onwards). The OBR scenario forecasts that the public deficit will fall to 3.6% of GDP in 2027. Given our lower growth scenario, the risks point to a worsening deficit in the short term.

FOREIGN TRADE WILL BENEFIT FROM THE RISE OF AI AND TECHNOLOGY

The trade deficit continues to worsen (GBP 235.4 bn in Q3 on a twelve-month cumulative basis, a record high). Exports to the United States, particularly automobiles, have suffered from increased tariffs. However, bilateral negotiations are progressing and certain sectors will benefit from more favourable conditions in 2026, notably pharmaceuticals (the exemption from US tariffs on imports of British pharmaceutical products has been made permanent), which account for 10% of UK exports. Trade agreements with India and Europe (rearmament, including the SAFE programme, on which discussions are not progressing) are not sufficient, as they stand, to offset the impact of Brexit.

UNITED KINGDOM: MANUFACTURING PMI AND CONSUMER/PRODUCER PRICES

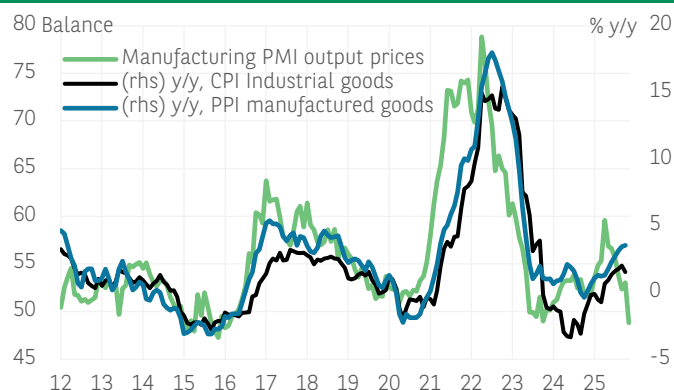


CHART 2

SOURCE: ONS, MARKIT, BNP PARIBAS

Nevertheless, the surplus in services continues to expand (GBP 206.9 bn in Q3) and offset much of the goods deficit. As a result, the current account deficit (2.6% of GDP in Q2 2025) is under control and will remain so in 2026. Exports of services, one of the UK's strengths, will continue to play an important role as a shock absorber, increasingly so thanks to the boom in digital and tech investment on both sides of the Atlantic.

Exports in this area (information and communication services, royalties, management/consulting services) accelerated in 2025 (+11.4% year-on-year, cumulative for the first nine months of 2025 compared to the same period in 2024), and the ambitious national strategy for component manufacturing and quantum computing should support an increase in exports.

Article completed on 3 December 2025

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JAPAN

24

2026, A YEAR OF CHALLENGES

The Japanese economy is caught between a rock and a hard place. Growth has begun to slow towards its potential level. Japan can boast full employment, a buoyant corporate sector and a reduction in its debt-to-GDP ratio. At the same time, inflation repeatedly overshoots the 2% target and real wages are declining, which negatively impacts consumption. US trade policy remains a risk factor, and ongoing structural issues related to weak domestic demand and limited supply in the labour market persist. Finally, long-term interest rates are rising steeply, partly due to expansionary fiscal policy, while the currency continues to depreciate. Faced with this dilemma, the central bank is expected to maintain a gradual rate-hiking approach until it achieves a terminal rate of +1.5% by mid-2027.

GROWTH RETURNING TO POTENTIAL IN 2026-2027

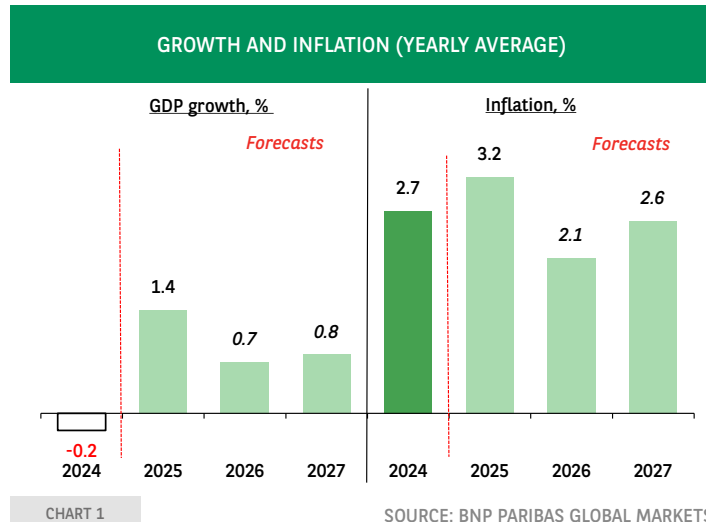
Japanese GDP growth is gradually returning to balance. The contraction in Q3 2025 (-0.6% q/q) interrupted a five-quarter period of growth (including +0.5% q/q in Q2). The underlying momentum in the last quarter is therefore more nuanced, with the overall result being dragged down by a correction in exports (see below) and a decline in business investment (-0.2% q/q, after solid progress in H1), as well as a significant drop in residential investment (-8.2% q/q) against a backdrop of regulatory changes (e.g. compliance of new buildings with energy efficiency standards). At the same time, public investment momentum remained negative, in contrast to public consumption.

Looking ahead, GDP growth is projected to be +0.2% q/q per quarter over the forecast period (ending in 2027). This is close to its potential level (estimated to be between +0.1% and +0.2%), i.e. an annual growth rate of 0.7% - 0.8%. The Takaichi government's fiscal stance (see 'A decline in the debt-to-GDP ratio that is likely to fade') should support growth. However, this support may not be sufficient to offset the impact of declining purchasing power on household consumption, while rising interest rates and foreign trade will also weigh on growth.

The business conditions, as indicated by the Tankan survey, reflect a recovery from a tariff shock that had less impact than initially feared: the national result has been stable (15) since Q1, and sentiment has improved over the course of the year (14 in Q3, +2 points year-to-date) for large manufacturing companies. The non-manufacturing sector continues to perform strongly (21, compared with an average of 11 from 2014 to 2019). On the other hand, negative trends in real wages are affecting household confidence: at 35.8 in October 2025, it has improved from its low of 31.2 in April but remains below its annual performance in 2024 (37.2) according to the Cabinet Office, penalised by the components 'overall likelihood' and, above all, the 'willingness to buy durable goods'.

THE POLICY MIX IS NOT HELPING TO REDUCE INFLATION

Core inflation (excluding fresh food) has been above 2% y/y since April 2022 and, according to our forecasts, will not return to its target before 2028 at the earliest – with the exception of a dip in Q2 2026 (to +1.9% y/y) due to energy support measures, before rising again. The increase in prices is the result of both imported inflation against a backdrop of a depreciating yen (USD/JPY around 100 at the beginning of 2021, now above 150) and the food component. Headline inflation is following similar patterns. The policy mix is contributing to the ongoing inflation, which is likely to continue with the adoption of a more expansionary fiscal policy in a context of full employment of production factors. Meanwhile, the central bank's interest rate hikes have been limited so far, maintaining an accommodative stance and reinforcing the perception of a 'behind the curve' monetary policy. Finally, market inflation expectations, as indicated by the 10-year breakeven inflation rate, are at an historic high of +1.6%.



FULL EMPLOYMENT WITHOUT REAL WAGE GROWTH

The labour market is constrained by labour shortages, as illustrated by the Tankan index of factor utilisation hitting an historic low in Q4 2025. At the same time, the total number of hours worked continues to decrease (-1.2% y/y in Q1-Q3 2025). The unemployment rate remained low, at 2.6% in October, despite a slight rise (+0.3 pp in 2025 to date). Growth in scheduled contractual wages has averaged +2.0% y/y so far in 2025, a trend that is expected to continue in 2026. The Rengo trade union confederation has set the same target as last year for its annual negotiations, suggesting that current growth standards will be maintained for the coming year. However, this increase is inadequate in light of inflation: the real wage index has contracted by -1.5% y/y on average in 2025 to date (Chart 1), and the outlook for inflation remains unfavourable in this regard.

THE BANK OF JAPAN TO RESUME MONETARY ADJUSTMENT

Since 2024, the Bank of Japan (BoJ) has been carefully and gradually raising the key interest rate while 'adjusting the degree of monetary accommodation'. The upcoming meeting on December 18-19 is expected to result in a rate hike (+25bp), marking the first since January 2025, which will bring the policy rate to 0.75%. This adjusting process is expected to continue, albeit at a slow pace, with a 25bp increase every six months over the next 18 months, ultimately reaching a terminal rate of +1.5% by mid-2027, according to our forecasts. This rate, assuming inflation remains anchored at 2%, corresponds to a neutral monetary policy stance. For the time being, monetary policy therefore remains distinctly accommodative in real terms (around



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2pp below neutrality). At the same time, since Q3 2024, the BoJ has been engaged in a process of reducing its purchases of Japanese Government Bonds (JGBs), with the monthly pace set to fall from an initial JPY 5.7 trn to JPY 2.1 trn by April 2027, in order to begin reducing the size of its balance sheet.

A DECLINE IN THE PUBLIC DEBT RATIO THAT IS LIKELY TO FADE

The appointment of S. Takaichi as Prime Minister, leading a minority cabinet (231/465 seats in the House of Representatives for the LDP/Ishin coalition), takes place within a specific context. Sovereign interest rates are rising sharply, resulting in a pronounced steepening of the yield curve: as of 8 December, 10-year and 30-year rates of +1.97% and +3.39% in 2025 had risen by 87 basis points (bp) and 101 bp respectively since the beginning of the year. This trend is associated with ongoing primary deficits, which are subject to upside risks, both structural (ageing population, defence needs) and cyclical (divided Parliament, inflation). Added to this is a monetary policy that is absorbing less JGB supply and appears to be responding too slowly to persistent inflation. These factors support our central scenario of a sustained increase in long-term yields, projected at +2.1% (10-year) and +3.5% (30-year) by the end of 2026 (Chart 2).

In light of these circumstances, the newly appointed Prime Minister, who boasts an approval rating of almost 70%, is determined to implement further fiscal support. An initial stimulus package, valued at JPY 21.3 trn (3.8% of GDP), has been adopted to support households amid inflationary pressures and to foster economic growth. The plan is divided between direct and indirect financial support for households, public investment and tax cuts. Half of this funding will be sourced from new bond issues. It is anticipated that supplementary budgets will be recurrent in the future, with Japan projected to maintain primary deficits of -2.4% in 2026 and -2.5% in 2027, exacerbated by an increasing interest burden that will contribute to a further deterioration in the total budget deficit (3.2% in 2026 and 3.7% in 2027, according to our forecasts). At the same time, the public debt ratio continues to decline, due to nominal GDP growth outpacing the apparent cost of debt (the 'r-g' effect), decreasing from 258% to 228% of GDP between 2020 and 2025 (according to our estimates). It is expected to reach 222% in 2027, prior to the disappearance of the favourable short-term differential between r and g.

FOREIGN TRADE FACING HEADWINDS

Net exports negatively impacted Q3 growth, with a reduction in imports (-0.4% q/q) failing to sufficiently offset the decline in exports (-1.2% q/q). However, 2025 should see a return to growth in goods exports after two years of contraction, helped by a frontloading effect in H1 (+4.1% y/y), before experiencing a partial correction from Q3 onwards. Looking ahead, 2026 may see a backlash due to the full effect of the US tariff shock, while the index of exports to the United States reached its lowest level since 2022 in Q3. However, this situation is likely to improve as economic agents adjust to the new conditions. At the same time, export growth to the European Union is picking up again after a year of contraction in 2024.

Growth in service exports is slowing, registering only +4.0% y/y in Q3 2025, after being a significant driver of growth in 2023 and 2024, where it recorded +28.1% and +12.3% respectively on an annual average. At the same time, imports of services, bolstered by digital technology, are growing at a robust and sustained pace. Exports may benefit from the depreciation of the yen, which has been ongoing since April

JAPAN: REAL WAGES STRUGGLE TO CATCH-UP

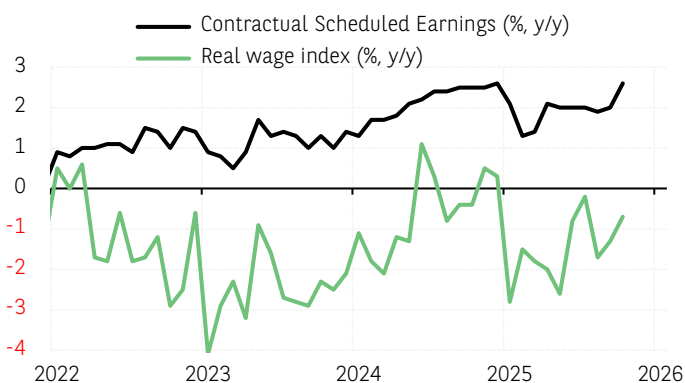


CHART 2

SOURCE: JAPANESE MINISTRY OF LABOUR, BNP PARIBAS

JAPAN: PRESSURE ON JGB'S LONG-TERM YIELDS (%)

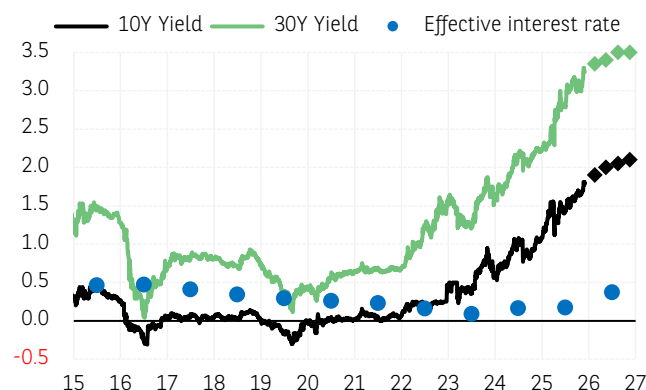


CHART 3

SOURCE: MACROBOND, BNP PARIBAS (FORECASTS, CALCULATIONS)

2025, with the USD/JPY exchange rate increasing from around 143 to 156. The JPY is expected to remain weak throughout 2026, potentially reaching 160 JPY per USD by the end of that year. Finally, in Q3 2025, the current account balance stood at 5.1% of GDP, well above the 2024 average of 4.5%, helped by the improvement in the current account balance, which was 5.2% of GDP compared with an average of 4.7% in 2024.

Article completed on 9 December 2025

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MAIN INDICATORS

26

GDP, Q4 2019=100

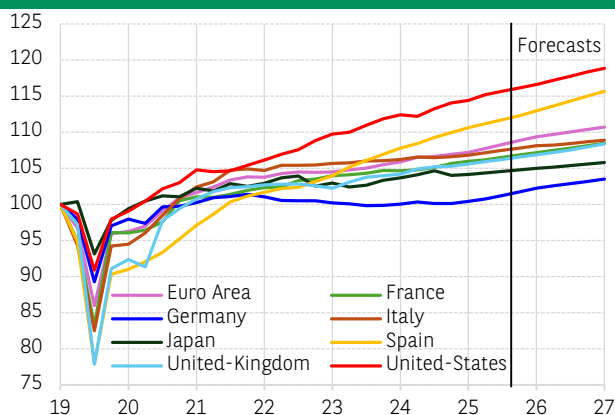


CHART 1

SOURCE: EUROSTAT, BEA, ONS, CAO, BNP PARIBAS FORECASTS

INFLATION RATE, % Y/Y

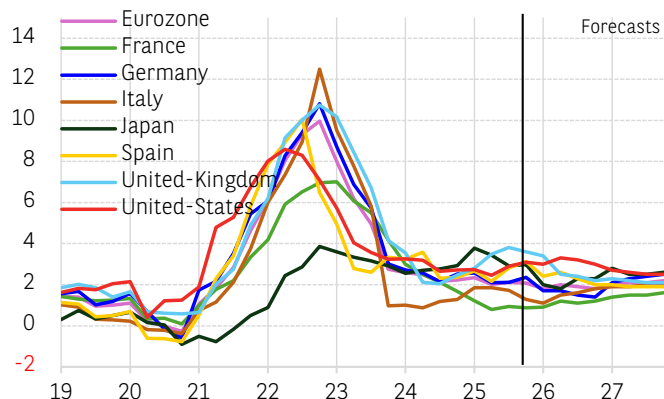


CHART 2

SOURCE: EUROSTAT, ONS, BLS, BNP PARIBAS FORECASTS

UNEMPLOYMENT RATE, %

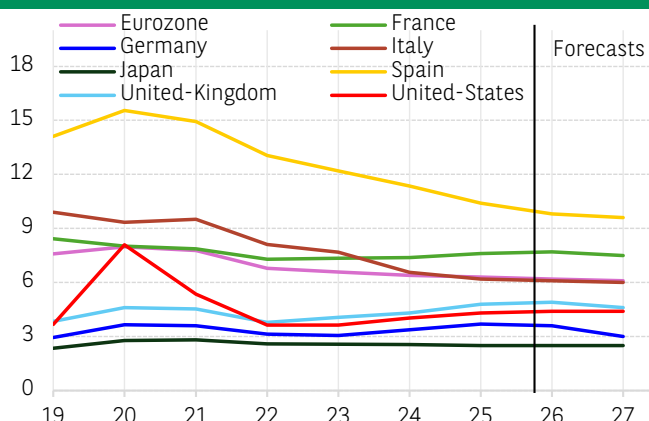


CHART 3

SOURCE: EUROSTAT, BLS, SBJ, DG ECFIN AMECO, OBR, BNP PARIBAS

CURRENT ACCOUNT BALANCE, AS % OF GDP

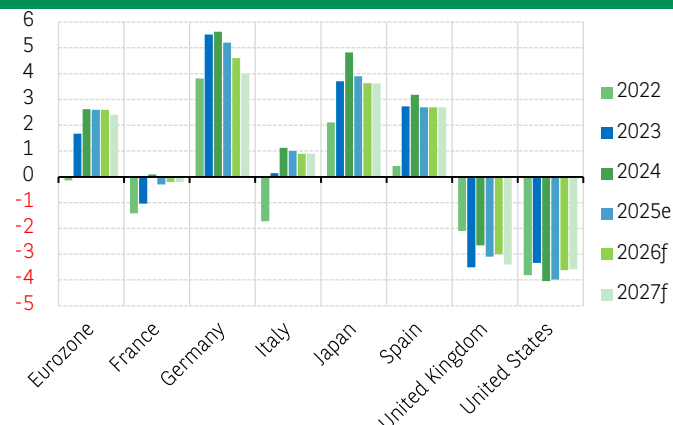


CHART 4

SOURCE: IMF, DG ECFIN AMECO, BNP PARIBAS FORECASTS

GOVERNMENT NET LENDING / BORROWING, % OF GDP

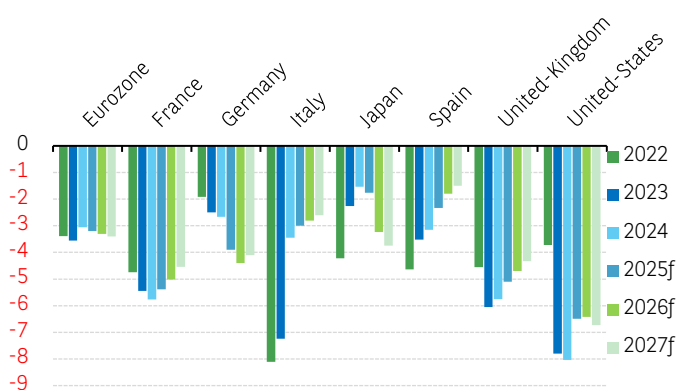


CHART 5

SOURCE: IMF, BNP PARIBAS FORECASTS

GENERAL GOVERNMENT DEBT, AS % OF GDP

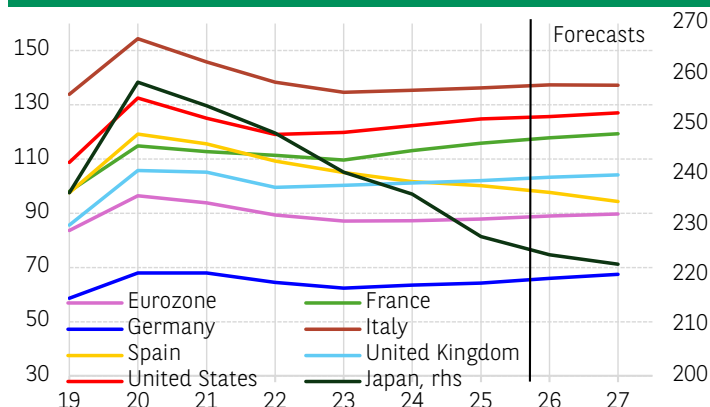


CHART 6

SOURCE: IMF, BNP PARIBAS FORECASTS


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GDP GROWTH: CONTRIBUTIONS

27

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
United States	GDP	0.20	0.90	0.83	0.48	-0.15	0.95	-
	Private cons	0.29	0.65	0.67	0.65	0.11	0.42	-
	GFCF	0.14	0.07	0.07	-0.09	0.30	0.19	-
	Public cons	0.10	0.14	0.23	0.14	-0.04	0.00	-
	Stocks	-0.21	0.29	-0.03	-0.23	0.65	-0.86	-
	Net exports	-0.11	-0.26	-0.10	-0.02	-1.17	1.21	-

Source: BEA

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Eurozone	GDP	0.27	0.23	0.45	0.38	0.56	0.15	0.26
	Private cons	0.29	0.1	0.3	0.25	0.13	0.13	0.08
	GFCF	-0.43	-0.53	0.34	0.16	0.54	-0.36	0.2
	Public cons	0.02	0.2	0.12	0.12	0.01	0.08	0.15
	Stocks	-0.03	0.19	0.59	-0.15	-0.22	0.47	0.08
	Net exports	0.43	0.26	-0.90	0.00	0.11	-0.17	-0.24

Source: Eurostat

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Germany	GDP	-0.11	-0.26	0.02	0.18	0.31	-0.21	0.00
	Private cons	0.19	0.06	0.11	0.22	0.30	0.07	-0.14
	GFCF	-0.13	-0.34	-0.10	0.12	0.07	-0.23	0.05
	Public cons	-0.01	0.38	0.22	0.12	0.04	0.05	0.17
	Stocks	0.12	-0.10	0.78	0.62	-0.52	0.42	0.23
	Net exports	-0.26	-0.25	-0.99	-0.89	0.40	-0.53	-0.31

Source: Eurostat

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
France	GDP	0.13	0.19	0.37	-0.04	0.10	0.33	0.54
	Private cons	0.10	0.03	0.49	0.01	-0.14	0.05	0.06
	GFCF	-0.14	0.06	-0.20	0.04	-0.03	0.00	0.10
	Public cons	0.07	0.05	0.08	0.10	0.06	0.12	0.13
	Stocks	-0.20	-0.36	0.76	-0.42	0.76	0.59	-0.35
	Net exports	0.30	0.41	-0.76	0.22	-0.55	-0.43	0.60

Source: Eurostat

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Italy	GDP	0.08	0.23	0.02	0.17	0.33	-0.07	0.12
	Private cons	0.67	0.01	0.09	0.25	0.12	0.07	0.06
	GFCF	-0.18	-0.10	-0.29	0.43	0.22	0.34	0.14
	Public cons	-0.08	0.11	-0.01	0.07	-0.06	0.03	0.03
	Stocks	-0.09	0.91	0.79	-0.42	-0.33	0.18	-0.57
	Net exports	-0.23	-0.69	-0.56	-0.15	0.37	-0.69	0.46

Source: Eurostat

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Spain	GDP	1.11	0.92	0.77	0.81	0.60	0.75	0.63
	Private cons	0.27	0.65	0.67	0.48	0.28	0.38	0.65
	GFCF	0.31	0.09	-0.11	0.73	0.29	0.14	0.35
	Public cons	0.12	0.01	0.32	0.01	0.04	0.00	0.20
	Stocks	0.06	0.13	0.15	-0.02	-0.20	0.26	0.02
	Net exports	0.34	0.03	-0.26	-0.39	0.19	-0.03	-0.60

Source: Eurostat

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
United Kingdom	GDP	0.83	0.61	0.24	0.24	0.66	0.28	0.08
	Private cons	0.20	-0.10	0.40	0.10	0.20	0.00	0.10
	GFCF	0.20	0.10	0.20	-0.10	0.40	0.10	0.30
	Public cons	0.10	0.30	0.10	0.10	-0.10	0.30	0.10
	Stocks	-0.80	1.80	-1.70	1.00	0.20	-0.30	-0.50
	Net exports	1.1	-1.5	1.2	-0.9	0	0.2	0.1

Source: ONS

		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Japan	GDP	-0.50	0.20	0.70	0.30	0.40	0.50	-0.60
	Private cons	-0.20	0.00	0.30	0.00	0.40	0.10	0.10
	GFCF	-0.50	0.30	0.20	0.00	0.00	0.20	-0.50
	Public cons	0.10	0.40	0.00	0.00	-0.10	0.10	0.00
	Stocks	0.00	-0.10	0.40	-0.40	0.60	0.00	-0.10
	Net exports	0.10	-0.50	-0.20	0.80	-0.60	0.10	-0.20

Source: Japan Cabinet office


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FORECASTS

28

ECONOMIC FORECASTS

%	GDP Growth				Inflation			
	2024	2025 e	2026 e	2027 e	2024	2025 e	2026 e	2027 e
United States	2.8	1.9	1.9	1.8	2.9	2.8	3.1	2.6
Japan	0.1	1.4	0.7	0.8	2.7	3.2	2.1	2.6
United Kingdom	1.1	1.4	1.1	1.3	2.5	3.4	2.6	2.2
Eurozone	0.9	1.5	1.6	1.6	2.4	2.1	1.9	2.1
Germany	-0.5	0.3	1.4	1.5	2.5	2.2	1.6	2.3
France	1.1	0.8	1.1	1.3	2.3	1.0	1.1	1.5
Italy	0.5	0.6	1.0	0.9	1.1	1.7	1.5	1.9
Spain	3.5	2.9	2.4	2.3	2.8	2.7	2.3	1.9
China	5.0	5.0	4.7	4.5	0.2	-0.1	0.9	1.0
India*	6.5	6.8	6.5	6.6	4.6	2.4	4.1	4.3
Brazil	3.4	2.2	1.8	1.4	4.4	5.0	3.8	3.8

* Fiscal year from 4 April of year n-1 to March 31st of year n

SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)

FINANCIAL FORECASTS

Interest rates, %

End of period		Spot 15/12/2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q4 2027
US	"Fed Funds (upper limit)"	3.75	3.50	3.50	3.50	3.50	3.50
	T-Note 10y	4.16	4.25	4.35	4.45	4.50	-
Eurozone	deposit rate	2.00	2.00	2.00	2.00	2.00	2.50
	Bund 10y	2.82	2.90	3.00	3.05	3.10	-
	OAT 10y	3.49	3.55	3.65	3.80	3.87	-
	BTP 10y	3.52	3.50	3.58	3.70	3.75	-
	BONO 10y	3.25	3.35	3.42	3.50	3.55	-
UK	Base rate	4.00	3.50	3.50	3.50	3.50	3.00
	Gilts 10y	4.57	4.50	4.50	4.40	4.30	-
Japan	BoJ Rate	0.50	0.75	1.00	1.00	1.25	1.50
	JGB 10y	1.94	1.90	2.00	2.05	2.10	-

Exchange Rates

End of period		Spot 15/12/2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q4 2027
USD	EUR / USD	1.18	1.17	1.18	1.19	1.20	1.22
	USD / JPY	155	157	158	159	160	160
	GBP / USD	1.34	1.30	1.30	1.30	1.30	1.30
EUR	EUR / GBP	0.88	0.90	0.91	0.92	0.92	0.94
	EUR / JPY	183	184	186	189	192	195

SOURCE : BNP PARIBAS GLOBAL MARKETS


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