

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](#).



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)

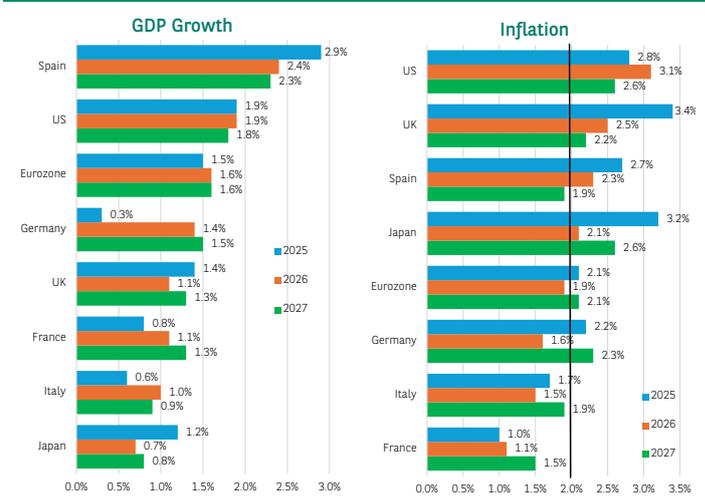


CHART 1

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))

Yearly average, % et % points	France				Germany				Italy			
	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

Yearly average, % et % points	Spain				United Kingdom				United States			
	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



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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