

“2026 should see a further acceleration in military spending within the European Union. After an increase from 1.9% to 2.15% of GDP between 2024 and 2025, spending is expected to rise by nearly EUR 80 billion and reach 2.5% of EU GDP. ”

ECONOMIC RESEARCH



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## READINESS 2030: ONE YEAR AFTER ITS ANNOUNCEMENT, THE EUROPEAN REARMAMENT PLAN IS ON TRACK

Following the announcement on 4 March 2025 of a joint plan to invest EUR 800 billion in defence within the European Union (EU) by 2030, Member States have been gearing up for action. One year on, the initial assessment is fairly positive. Promises are being kept and, according to our estimates, EU countries spent nearly EUR 400 billion in 2025, slightly more than expected. Germany, the countries of Northern Europe and those that spent the least (including Spain) have agreed to a significant increase in spending. They are therefore aligning with the countries of Central and Eastern Europe that had already implemented this effort (in particular Poland and the Baltic states). Investment represents a growing share of expenditure and R&D is increasing rapidly. Spillover effects are emerging in European industry, contributing to the rebound in its production. Member States and the European Union have adopted instruments, which were virtually non-existent before, to facilitate the additional increase in investment in 2026. Military spending is projected to reach 2.5% of European GDP (+0.6 pp more in two years) and exceed the 2% of GDP threshold in over three-quarters of Member States.

### MILITARY SPENDING IN THE EU: NEARLY EUR 400 BILLION IN 2025

According to our estimates, military spending in the European Union increased slightly faster than initially expected by the European Defence Agency (EDA). It has reached nearly EUR 400 billion in 2025 (compared to EUR 392 billion according to the EDA), marking an increase of almost 17% relative to 2024. European countries allocated an additional quarter of a percentage point of GDP to this sector (2.15% in 2025, as opposed to 1.9% in 2024), in line with our [June 2025 estimate](#).

Germany's effort has been significant (+20% compared to 2024). The country is continuing a trend that began several years ago, which has resulted in it having the second largest military budget in NATO since 2023 (having been fourth until 2021). However, the effort is not confined to Germany alone. According to data from the IISS's [The Military Balance 2026 report](#), other countries have significantly increased their defence spending as well, notably Denmark (+114%), Belgium (+59%), Spain (+43%) and Sweden (+31%). The total spending increase in these four countries exceeds Germany's in absolute terms.

As a result of these budget increases, 18 of the 27 EU countries have already met the 2% of GDP threshold for annual military spending. Italy and Spain remain slightly below this threshold but are expected to reach it by 2026.

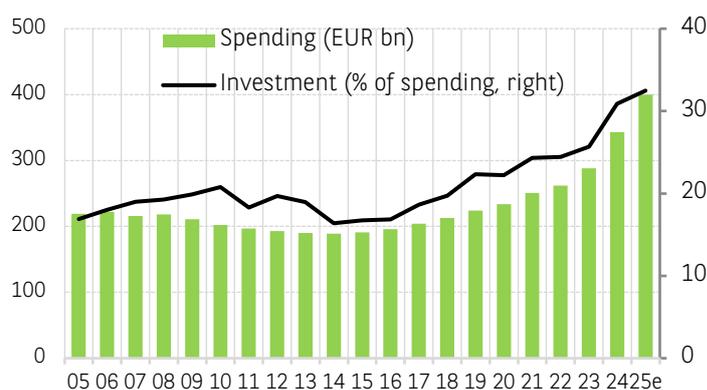
However, there is still some way to go before more countries reach the target of 3.5% of GDP by the end of the decade (only Poland and the Baltic States are currently on track). 2026 should see a further acceleration in military spending, with expenditure increasing by nearly EUR 80 billion to reach 2.5% of EU GDP.

### INVESTMENT SPENDING IS ON THE RISE

According to EDA estimates, investment should have reached nearly EUR 130 billion in 2025 (up from EUR 106 billion in 2024), and its share of total expenditure is expected to have kept increasing: 32.5% in 2025 compared to 31% in 2024. Consequently, EU armed forces are seeing their capital intensity increase: investment spending reached nearly EUR 90,000 per soldier in 2025, nearly double the amount from 2020.

Out of the total investment expenditure, estimated at EUR 130 billion, equipment should have exceeded EUR 100 billion (103 billion) for the first time in 2025, but not at a rate faster than total expenditure (+17% y/y). A more rapid increase will be necessary to raise the equipment levels in European armies, but this will remain limited in the short term by the production capacity of the sector.

### DEFENCE : SIGNIFICANT INCREASE IN MILITARY SPENDING AND SHARE OF INVESTMENT IN THE EUROPEAN UNION



CHART

SOURCE: EUROPEAN DEFENSE AGENCY, BNP PARIBAS

The net increase in other investment expenditure is encouraging. Research and development spending is estimated to have reached nearly EUR 17 billion in 2025 (+30% y/y, and +67% compared to 2022), and EUR 6 billion in research and technology (+20% y/y and +67% over three years). This technological shift in investment spending reflects the desire to improve a European production in cutting-edge sectors, ranging from drones to satellite systems, which will enable European armies to establish their own communication infrastructures.

More good news: the knock-on effects for industrial activity are beginning to materialise, and the outlook for activity is improving. The manufacturing PMI rose to 50.8 in February in the Eurozone, marking its highest level since June 2022, buoyed by new orders, particularly in the aeronautics and defence sectors.

This improvement is extending to a growing number of sectors. According to the European Commission's manufacturing sector survey, the balance of opinions regarding future production improved from +5 in July 2025 to +17 in January 2026 in the computer, electronics and optics sector in the EU. The ripple effects should also benefit the construction sector and those producing essential intermediate goods (e.g. metallurgy). This is reflected in the net improvement in industrial orders in Germany ([see our analysis](#)).



This momentum is also evident in France, where the business climate in industry averaged 103.2 over the last three months, the highest since the end of 2022.

The impact on growth should be visible in the Eurozone. Growth is projected to reach 1.6% in 2026 (due to the direct and knock-on effects of additional defence spending), compared with 1% without an increase in spending.

### THE EU IS ORGANISING ITSELF TO SOURCE MORE SUPPLIES INTERNALLY

In 2025, initial steps were taken towards the EUR 800 billion plan announced on 4 March 2025. However, defence remains a national responsibility, and its ramp-up is primarily a matter of domestic policy. In particular, alongside budget increases, a number of countries have launched initiatives to finance defence sector companies, such as the Public Investment Bank's defence fund in France, which is set to receive EUR 450 million.

However, the EU has also developed mechanisms to boost momentum and increase procurement within its borders, as nearly half of military equipment is still sourced from outside the EU, mainly from the United States. This includes the SAFE (Security Action For Europe) programme, which offers EUR 150 billion in financing through long-term loans. This instrument can only be mobilised if the share of non-European inputs is less than 35% of the project's total value. The national plans of eight countries, including Spain, Belgium and Denmark, have been approved, amounting to EUR 38 billion, paving the way for the first disbursements. The EU has also established tools in order to coordinate joint public procurement, known as EDIRPA (European Defence Industry Reinforcement through common Procurement Act), which enabled EUR 11 billion in joint purchases to be financed in 2024, with figures for 2025 yet to be released.

These public initiatives must also be accompanied by increased market financing for defence companies, especially for new players. The IISS's Military Balance report indicates that these funds, which did not exist in 2024 and are of the venture capital or VC type, successfully raised nearly EUR 2.4 billion at European level in 2025, starting from a very low level.

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In 2025, there was an initial increase in military spending across Europe, which is expected to gain momentum due to the projects planned for 2026. There are numerous calls for tenders, and more than ever before, these will have to be submitted to European companies, which means developing a European offer. Production capabilities may be constrained in the short term by a shortage of available labour. Unemployment is low in many countries, and skilled workers, who are by definition scarce, will be essential for carrying out these projects.

However, the industrial dimension of European rearmament presents a potential opportunity, especially considering the challenges faced by European industry recently, particularly in the automotive sector. Current production capacity is not being fully utilised. The process of converting industrial sites has begun, with additional sites likely to follow. According to our estimates, the production capacity available for reallocation within the EU could amount to approximately EUR 180 billion ([see our study](#)).

Stéphane Colliac



[Find out more in our scenario and forecasts](#)

## CONFLICT IN THE GULF

**Stagflationary shock.** The ongoing military operations in the Persian Gulf are disrupting oil and gas supplies to Asia and Europe, at least temporarily, while also heightening geopolitical uncertainty. A significant rise in the price of these resources can be expected (*see below*), which would have a downward effect on growth and an upward effect on inflation. Europe is particularly exposed to this risk. The duration of the conflict and its impact on energy exports from the sub-region will determine the magnitude of the anticipated effects. In the case of a limited shock (in terms of duration and scale), the impact would be reflected in a few decimal points of GDP and inflation.

## ADVANCED ECONOMIES

### UNITED STATES

**United States: Household confidence improves and producer prices rise.** The household confidence index (Conference Board) has risen to 91.2 (+2.2 points), bolstered by a positive employment outlook. Regarding the relationship between AI and employment (*see our analysis*), Fed members hold differing views. Some, including Governor Cook and Raphael Bostic, CEO of the Atlanta Fed, perceive a "significant" negative impact that does not warrant a reduction in interest rates, while others, including Governor Waller and Susan Collins, CEO of the Boston Fed, consider the impact to be "negligible". Producer prices rose in January (+0.5% m/m, +0.8% excluding food and energy), driven by service prices (+0.8% m/m), in contrast to a decline of 0.3% m/m for goods. Year-on-year, the headline index fell by 0.2 pp (to +2.8% y/y), while the core index reached +3.6% (+0.3 pp). Thousands of companies have filed lawsuits to recover customs duties that were ruled illegal by the Supreme Court. US Trade Representative J. Greer indicated that the administration plans to exempt countries that have trade agreements with the United States from the universal 15% rate announced by President Trump, which is an increase from the previously planned 10% rate following the Supreme Court's ruling. However, no legal act has yet confirmed the new temporary rate of 15%, and existing law requires that customs duties adopted under Section 122 must be applied uniformly to all countries concerned, some of which may be entirely exempt. *Coming up: employment survey (Friday), ISM manufacturing (Monday) and non-manufacturing (Wednesday), Q4 2025 productivity and Fed Beige Book (Wednesday), foreign trade (Wednesday) and January retail sales (Friday).*

### EUROZONE / EUROPEAN UNION

**European Union: Agreements and disagreements.** The free trade agreement with Mercosur is set to come into force, albeit on a provisional basis, as the European Parliament has referred the matter to the European Court of Justice. The EU and the United Kingdom have signed an agreement on coordination and information sharing concerning cross-border mergers and anti-competitive practices (EU-UK Competition Cooperation Agreement). The European Commission (EC) has postponed the announcement of the Industrial Accelerator Act until 4 March, with disagreements centring on the definition of "European preference".

**Eurozone: Confidence indicators remain broadly positive.** The manufacturing PMI rebounded in February (+1.3 points to 50.8). Although the EC's Economic Sentiment Indicator (ESI) declined, its three-month average reached its highest level since April 2023. In addition, household confidence rose above its 2025 highs. In January, median household inflation expectations fell over a 12-month period (-0.2 pp to 2.6%). The ECB published its [2025 balance sheet](#), which shows a reduction of EUR 37.3 billion to EUR 603.3 billion, attributed to the non-reinvestment of securities

held under the APP and PEPP. *Coming up: inflation (Tuesday), January unemployment rate, PMI (Wednesday), January retail sales and minutes of the February ECB meeting (Thursday), Q4 GDP/employment (Friday).*

- **France: Rebound in consumption and household confidence, moderation in business climate.** GDP growth was confirmed at 0.2% q/q in Q4 2025 (0.9% in 2025), with private consumption growth revised upwards (from 0.1pp to +0.4% q/q). The household savings rate continued to decline in Q4 (17.9% of gross disposable income, -0.4pp q/q). Household confidence rebounded to 91 in February (90 in January), bolstered by a more positive outlook on prices, personal financial wealth and the standard of living in the country. However, the balance for unemployment deteriorated (+2 points m/m to +48 in February, +33 on average historically), in line with a deterioration in employment in Q4 (-40,000 jobs in Q4) and the employment climate (92.7 in February, -1 point m/m, the lowest since April 2021) in the INSEE business climate survey. This survey also showed a decline in February from 99 to 97, impacted by services (index at 95, -3 points m/m) and industry (102, -3 points m/m, although the 3-month average stands at 103.2, the highest since Q1 2023), as confirmed by the manufacturing PMI. Harmonised inflation rebounded in February to 1.1% y/y, compared with 0.4% in January, due to two base effects (a rebound in goods prices after the sales and stable electricity prices, compared with a decline in February 2025). Existing house prices increased by 0.5% q/q in Q4 (+1.1% y/y), with transactions reaching 951,000 sales in 2025 (845,000 in 2024). The percentage of households intending to buy a home within the next two years averaged 9.8% over the last three months, the highest level since Q2 2022. *Coming up: Composite PMI (Wednesday), industrial production (Thursday).*

- **Germany: Improvement in manufacturing PMI, moderation in inflation.** The manufacturing PMI is at its highest since June 2022 (50.9; +1.8 points m/m), driven by new orders and production. In Q4 2025, growth (+0.3% q/q) was driven by contributions from both private and public consumption, each contributing 0.3pp. However, household confidence declined in February according to GfK (-0.5 points to -24.7). The propensity to save is currently at its highest since 2008, which is negatively impacting purchasing intentions. Harmonised inflation stood at 2.0% in February (-0.1pp m/m), while core inflation remains stable at 2.5%. *Coming up: Composite PMI (Wednesday), industrial orders (Friday).*

- **Italy: Improvement in business climate and household confidence.** The manufacturing PMI rebounded in February (50.6; +2.5 points m/m, bolstered by new orders and production) and returned to its November level after two difficult months. Household confidence is improving (+0.5 to -14.9, the highest since Nov. 24), supported by purchasing intentions (+2.7 pts m/m). *Coming up: inflation (Tuesday), composite PMI, January unemployment rate and Q4 GDP (Wednesday), January retail sales (Thursday).*

- **Spain: Developments remain favourable.** The manufacturing PMI saw an improvement in February (50.0; +0.8 pts m/m) alongside an increase in household confidence (+0.2 pts to -1.4). Harmonised inflation rose (+2.5% y/y; +0.1pp m/m) due to increases in fuel, tourism and food prices. *Coming up: unemployment (Tuesday), composite PMI (Wednesday), January industrial production (Thursday).*

### JAPAN

**Manufacturing output up, core inflation persistent.** Manufacturing output rose by +2.7% m/m in January (it was stable in December 2025), with a notable +9.1% m/m rise in vehicle production. Core inflation in Tokyo fell to +1.8% y/y (-0.2pp) in February 2026, marking its lowest level since the end of 2024 (due to energy subsidies). The index that excludes



[Find out more in our scenario and forecasts](#)

unprocessed food and energy saw an increase (+0.3% m/m, +0.3pp, and +2.5% y/y, +0.1pp), highlighting ongoing inflationary pressures. The government announced that Professors Ayano Sato and Toichiro Asada, who support an accommodative monetary policy, will be joining the BoJ's monetary policy board in 2026. *Coming up: speech by BoJ Governor K. Ueda (Tuesday), consumer confidence (Wednesday).*

## UNITED KINGDOM

**According to GfK, household confidence fell in February after three months of growth** (to -19; -3 pts m/m), in line with trends in unemployment. The manufacturing PMI saw a decrease compared to January (-0.1 points in February to 51.7) but remains above its previous high in August 2024. House prices rose by 0.3% m/m in February and January (Nationwide index). *Coming up: Composite PMI (Tuesday), Spring Statement by the Chancellor of the Exchequer (Tuesday).*

## EMERGING ECONOMIES

### AFRICA & MIDDLE EAST

**Gulf countries: Drawn into war.** Direct strikes by Iran on Gulf countries have immediate economic ramifications (oil market, air travel, domestic consumption and tourism). While these economies can absorb the shock in the short term due to robust macroeconomic fundamentals, a regional escalation of the conflict could have significant repercussions in terms of security and economic diversification.

**South Africa: Striking a balance between fiscal consolidation and protecting growth in the 2026 budget.** The Treasury has made a slight upward adjustment to its fiscal deficit target (+0.1 to +0.2pp per year). This adjustment reflects a decrease in anticipated revenues due to the retraction of new taxes aimed at easing pressure on households and businesses. However, fiscal consolidation remains intact. The fiscal deficit is expected to fall from 4.5% of GDP in the current fiscal year (FY) to 2.9% of GDP in FY 2028/2029. Central government debt is estimated to have already peaked at 78.9% of GDP and is expected to gradually decline from FY2025/2026 onwards, reaching 76.5% of GDP in FY 2028/2029. The budget was well received by investors: the yield on 10-year sovereign bonds in local currency fell to 8.2% last week, marking its lowest level since 2016.

### ASIA

**China: The National People's Congress (NPC) will hold its annual session from 5 to 11 March.** At this event, Beijing will announce its growth targets for 2026, which are expected to be between 4.5% and 5%, and is also expected to reaffirm its commitment to a moderately accommodative economic policy. The comprehensive Five-Year Plan for 2026-2030 will be published after the NPC meeting.

**India: Growth even stronger than initially estimated.** Following the GDP rebasing conducted by the National Institute of Statistics, growth for the 2025 calendar year reached 7.5%, compared to 7.2% in 2024, marking one of the highest growth rates in Asia after Vietnam. The preliminary growth estimate for the 2025/2026 fiscal year, which concludes at the end of March, has also been revised upwards by +0.2pp to +7.6%. The rebasing of statistics shows that the manufacturing sector's contribution, although still less than that of agriculture (17.7% of GDP), has increased to 16.2% of GDP. In February, the manufacturing PMI rose slightly to 56.9.

**Southeast Asia: Manufacturing PMIs remain strong.** Except for Malaysia, where the index fell to 49.3, all PMIs in the region rose in February and remained above 50, ranging from 53.5 in Thailand to 54.6 in the Philippines.

## EMERGING EUROPE

**Hungary: Key interest rate cut by 25 basis points.** In line with expectations, the Central Bank cut its key interest rate to 6.25%, marking the first cut since August 2024. The significant decrease in inflation in recent months has paved the way for a cycle of monetary easing, which is expected to be cautious in 2026. A further rate cut is expected by the end of the year. Given the risk of volatility of the Hungarian forint, the Central Bank is likely to remain cautious. In February, the manufacturing PMI showed improvement, rising to 51.3 from 50 in January.

**Türkiye: Slowdown in growth in Q4 but a good year overall in 2025.** In Q4, GDP growth slowed to 0.4% q/q, compared with an average of just over 1% in the previous two quarters. For the year as a whole, it stabilised at 3.6% y/y, compared with 3.3% in 2024. Growth was primarily driven by domestic demand. On the other hand, foreign trade contributed negatively, especially in the second half of the year, resulting in an unbalanced growth trajectory.

## LATIN AMERICA

**Argentina: Acceleration of growth in December.** The INDEC supply-side activity indicator (a reliable proxy for GDP) jumped sharply by 1.8% in December compared to November (seasonally adjusted data) after declining in the previous two months. For the quarter as a whole, the index rose by 0.8% (+2.3% compared to Q4 2024). For 2025 as a whole, growth stood at 4.4%, driven by substantial growth in the agricultural sector (+10.6%), similar to 2024, and in financial intermediation (+26.8% after -3.3% in 2024, probably linked to the lifting of exchange controls). Industrial activity saw a modest increase of 1.6% due to a strong positive base effect at the end of 2024 and the beginning of 2025. However, at the end of the year, it contracted (-1.5% year-on-year in December 2025).

## COMMODITIES

**As a result of the conflict in Iran, the price of Brent crude reached USD 80 per barrel on Monday, 2 March.** In the very short term, the extent of the rise in oil prices will depend on the disruption to exports: if the Strait of Hormuz remains blocked in the coming days, the price could exceed USD 100/b. Following a spike linked to the attacks, oil prices will largely hinge on the situation in Iran. In the event of a regime change leading to a power vacuum, a risk premium of USD 10/b would be added compared to a scenario with no regime change or blockade of the Strait of Hormuz. However, the potential for a more significant price increase is considerable, especially if there are attacks on oil production facilities in the region.

European gas prices (TTF) have also risen sharply (by more than 30% since 27 February) following a reduction in maritime traffic in the Strait of Hormuz this past weekend and the announcement regarding the shutdown of Israeli gas fields and the interruption of LNG production in Qatar.

It is important to note that approximately 15 million barrels of crude oil pass through the Strait of Hormuz every day (accounting for around 15% of global production) and around 20% of global LNG.

In light of this situation, OPEC+ member countries have announced a cautious resumption of their plan to increase production by 206,000 b/d in April.



# MARKETS OVERVIEW

## Bond Markets

	In %		In bps		
	27/02/2026	1-Week	1-Month	Year to date	1-Year
Bund 2Y	1.97	-3.9	-9.7	-12.1	-9.0
Bund 5Y	2.21	-8.8	-21.6	-25.2	+7.6
Bund 10Y	2.61	-8.8	-21.9	-25.1	+22.4
OAT 10Y	3.17	-7.3	-20.0	-33.0	+15.4
BTP 10Y	3.21	-7.6	-20.4	-28.3	-15.3
BONO 10Y	2.96	-8.7	-22.7	-28.7	-4.6
Treasuries 2Y	3.41	-8.5	-16.5	-7.1	-67.5
Treasuries 5Y	3.52	-12.7	-30.8	-20.5	-57.6
Treasuries 10Y	3.95	-12.1	-28.1	-21.1	-32.2
Gilt 2Y	3.53	-7.3	-26.9	-22.9	-66.5
Treasuries 5Y	3.80	-10.3	-12.2	-5.3	-36.3
Gilt 10Y	4.30	-12.2	-29.6	-24.6	-21.3

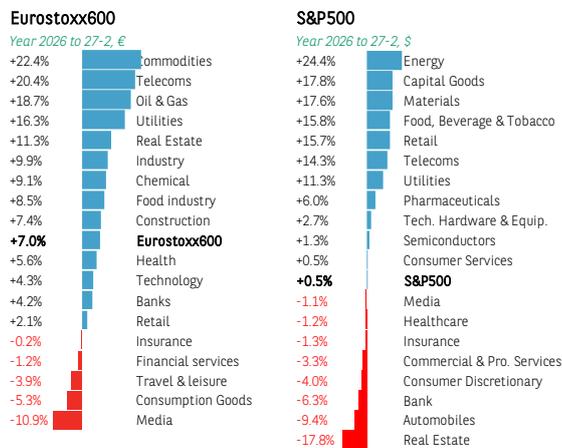
## Currencies & Commodities

	Level		Change, %		
	27/02/2026	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.18	+0.2	-1.2	+0.5	+13.4
GBP/USD	1.34	-0.4	-2.2	-0.0	+6.5
USD/JPY	156.13	+0.8	+1.9	-0.4	+4.1
DXY	97.60	+0.7	-1.1	-1.0	-8.2
EUR/GBP	0.88	+0.6	+1.0	+0.6	+6.5
EUR/CHF	0.91	-0.5	-1.1	-2.4	-3.0
EUR/JPY	184.34	+1.0	+0.7	+0.1	+18.0
Oil, Brent (\$/bbl)	72.55	+1.0	+7.4	+19.2	-2.6
Gold (\$/ounce)	5254	+3.9	+3.0	+21.5	+82.7

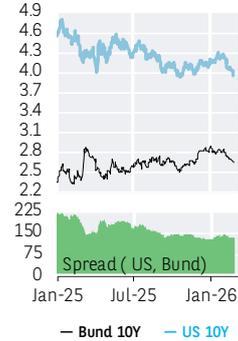
## Equity Indices

	Level		Change, %		
	27/02/2026	1-Week	1-Month	Year to date	1-Year
<b>World</b>					
MSCI World (\$)	4557	+0.0	-0.1	+2.8	+21.0
<b>North America</b>					
S&P500	6879	-0.4	-1.4	+0.5	+17.4
Dow Jones	48978	-1.3	-0.1	+1.9	+13.3
Nasdaq composite	22668	-1.0	-4.8	-2.5	+22.2
<b>Europe</b>					
CAC 40	8581	+0.8	+5.2	+5.3	+5.9
DAX 30	25284	+0.1	+1.6	+3.2	+12.1
EuroStoxx50	6138	+0.1	+2.4	+6.0	+12.2
FTSE100	10911	+2.1	+6.9	+9.9	+24.6
<b>Asia</b>					
MSCI, loc.	1906	+2.7	+8.3	+12.8	+33.6
Nikkei	58850	+3.6	+10.3	+16.9	+53.8
<b>Emerging</b>					
MSCI Emerging (\$)	1611	+2.8	+5.4	+14.6	+43.3
China	81	-0.8	-5.9	-1.4	+8.2
India	1014	-0.9	+1.9	-4.3	+8.9
Brazil	1994	-1.4	+2.8	+21.1	+55.7

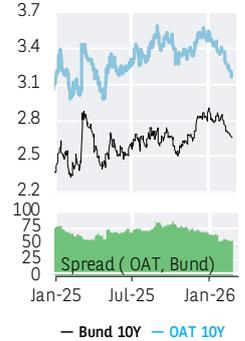
## Performance by sector



## Bund 10Y & US Treas. 10Y



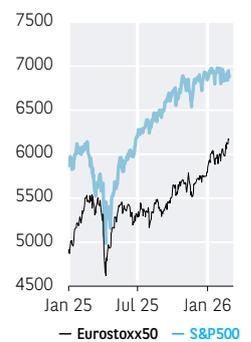
## Bund 10Y & OAT 10Y



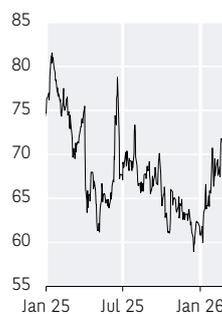
## EUR/USD & GBP/USD



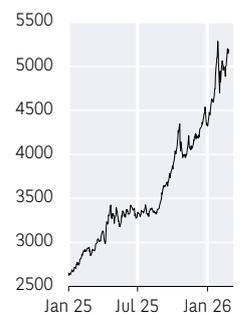
## EUROSTOXX 50 & S&P500



## Oil, Brent (\$/bbl)



## Gold (\$/ounce)



## MSCI World (\$)



## MSCI Emerging (\$)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS  
DATA VISUALISATION AND CARTOGRAPHY: TARIK RHARRAB

# FURTHER READING

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<a href="#">AI and United States: A 'Jobless Growth'?</a>	EcoTV	24 February 2026
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# GROUP ECONOMIC RESEARCH

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