

The scenario and forecasts of the Economic Research - 19 January 2026

GDP growth and Inflation								Interest and exchange rates							
%	GDP Growth				Inflation				Interest rates, %	2026				2027	
	2024	2025 e	2026 e	2027 e	2024	2025 e	2026 e	2027 e		Q1	Q2	Q3	Q4	Q4	Q4
United States	2.8	2.3	2.9	1.8	2.9	2.7	2.7	2.7	US	Fed Funds (upper limit)	3.50	3.50	3.50	3.50	3.50
Japan	0.1	1.2	0.7	0.8	2.7	3.1	2.0	2.5		T-Note 10y	4.25	4.35	4.45	4.50	-
United Kingdom	1.1	1.4	1.1	1.3	2.5	3.4	2.4	2.2	Eurozone	deposit rate	2.00	2.00	2.00	2.00	2.50
Euro Area	0.9	1.5	1.6	1.6	2.4	2.1	1.9	2.3		Bund 10y	2.90	3.00	3.05	3.10	-
Germany	-0.5	0.3	1.4	1.5	2.5	2.2	1.6	2.3		OAT 10y	3.55	3.65	3.80	3.87	-
France	1.1	0.8	1.1	1.3	2.3	1.0	1.1	1.5		BTP 10y	3.50	3.58	3.70	3.75	-
Italy	0.5	0.6	1.0	0.9	1.1	1.7	1.5	1.9		BONO 10y	3.35	3.42	3.50	3.55	-
Spain	3.5	2.9	2.4	2.3	2.8	2.7	2.3	1.9	UK	Base rate	3.50	3.50	3.50	3.50	3.00
China	5.0	5.0	4.7	4.5	0.2	0.1	0.9	1.0		Gilts 10y	4.50	4.50	4.40	4.30	-
India*	6.5	6.8	6.5	6.6	4.6	2.4	4.1	4.3	Japan	BoJ Rate	0.75	1.00	1.25	1.75	-
Brazil	3.4	2.2	1.8	1.4	4.4	5.0	3.8	3.8		JGB 10y	1.90	2.00	2.05	2.10	-

UNITED STATES

The US economy is expected to grow above its potential pace in 2026, with an average annual growth rate of +2.9%, a yearly improvement (+2.3% in 2025). This apparent resilience to uncertainty and tariff shocks, together with above-trend productivity growth, masks K-shaped growth, supported by investment linked to AI-optimism and consumption by the wealthiest amid a wealth effect (historically high stock market valuations). The inflation overshooting of the target is set to continue (+2.7% in 2026) due to tariffs –although the impact of these appears to be less significant than expected –until at least the end of 2027. The labour market is experiencing a slowdown in both demand and supply, linked to a less dynamic economy than after the post-pandemic reopening due to the administration's immigration policy. The rebalancing of risks surrounding the Fed's dual mandate and its emphasis on the 'employment' component has triggered a new cycle of rate cuts. The FOMC implemented three rate cuts (-75 bps cumulative) in total in 2025. We anticipate a final rate cut in March 2026, bringing the terminal rate to 3.25% - 3.50%.

CHINA

Economic growth reached 5.0% in 2025, like in 2024, and is projected to decelerate moderately in 2026. The weakness of domestic demand worsened in the last quarter of 2025, with a contraction in investment and a slowdown in retail sales growth. The crisis in the property sector continues and confidence of households and private investors remains low. The authorities will maintain supportive fiscal and monetary policies, and the strengthening of private consumption is one of their priorities. However, the central bank and the government will continue to implement cautious policy measures. Export growth performance stayed strong until the end of 2025, with the fall in sales to the US offset by the increase in exports to the rest of the world. In the short term, Chinese goods are expected to remain competitive, but the export sector should suffer from new protectionist measures. Deflationary pressures persist. They might decline slightly in 2026 thanks to anti-involution measures implemented by the authorities.

EUROZONE

After holding up well in 2025 (1.5%), growth is expected to strengthen in 2026 (+1.6%). It is expected to grow at a stable quarterly rate of 0.5% over the year. Favourable carryover effect would push the average annual for 2027 higher (1.6%), despite a lower quarterly profile (+0.3% q/q). The roll-out of fiscal measures in Germany and the planned increase in military spending in Europe, against a backdrop of labour market resilience, underpin this scenario. The EU-US trade agreement remains precarious and tensions with China are mounting, creating uncertainty around our forecasts. Inflation is expected to remain below the 2% target in 2026. Stronger economic activity will lead to a progressive acceleration in inflation in 2027, albeit a moderate one. This would lead the ECB to increase the policy rate in H2 2027, bringing the deposit facility rate to 2.5%.

FRANCE

GDP growth reached 0.5% q/q in Q3 (after 0.3% q/q in Q2), driven by the production and exports of aeronautics and non-financial corporate investment. Disinflation is now visible and continued in 2025 (the harmonized index should grow by 1% in 2025, compared to 2.3% in 2024) but household consumption growth remains disappointing. In 2025, GDP growth decreased to 0.8% against a background of significant political uncertainty and its impact on household confidence (after 1.1% in 2024). In 2026, growth should accelerate to 1.1% as a result of German growth recovery.

UNITED KINGDOM

Activity is expected to slow slightly in 2026, to 1.1% due to unfavourable carryover effect, after a +1.4% GDP growth in 2025. Despite downside risks in the labour market and difficulties in industry, quarterly growth is expected to return to a higher and more stable pace in 2026 (+0.3% q/q on average) thanks to monetary easing. Increased defence spending in the United Kingdom and Europe will also support GDP, while downside risks related to trade tensions are mitigated by the agreement with the United States. Inflation would only return to target very gradually, and monetary policy would remain restrictive, despite a new rate cut in Q1 2026, bringing the Bank rate down to 3.5%. With inflation falling more sustainably towards the 2% target, a new phase of normalization would begin, with two further rate cuts in H1 2027.

JAPAN

Japanese growth is expected to slightly exceed its potential level, which is still subject to significant supply constraints, in 2026. In 2025, growth surprised on the upside in H1 2025, before correcting in Q3 (-0.6% q/q); and the average annual rate is expected to be +1.2% before slowing to +0.7% in 2026, when the actual, and still uncertain, consequences of US trade policy will become apparent. Inflation has exceeded the +2% y/y target since 2022. As a result, solid nominal wage increases, which are expected to continue in 2026, are proving insufficient to stem the decline in real incomes and support household demand. The level of public debt is contributing to bond pressure, illustrated by record 10-year and 30-year rates over more than two decades, probably reinforced by expansionary fiscal policy and the spacing of key rate hikes. In fact, in 2024, the Bank of Japan began a cycle of 'less accommodative' policy and the policy rate currently stands at +0.75% (previously negative). We expect two increases per year (+25 bp each) in 2026 and 2027.

EXCHANGE RATES

We expect the dollar to continue depreciating against the euro. Structural changes in fiscal policy and the expected strengthening of growth in Europe, coupled with the slowdown in the United States, underpin our forecast of a gradual and moderate rise in the EUR/GBP exchange rate by the end of 2026 (1.20 in Q4 2026). Conversely, we anticipate a slight depreciation of the yen and the GBP against the dollar (USD/JPY 160 and GBP/USD 1.3 in Q4 2026).



BNP PARIBAS

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