WORLD
MACRO-ECONOMIC SCENARIO 2026-2027

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ECO
ÉTUDES ÉCONOMIQUES GROUPE

Counting on fiscal policy support to counterbalance adversity

Against a backdrop of ongoing geopolitical uncertainty, but with the US trade fog lifting, growth rates are expected to remain steady or even pick up. Fiscal measures will contribute to this resilience in a variety of ways: from tax cuts in the US to aggressive fiscal policy in Japan, via Keynesian stimulus in the UK and spending linked to the NGEU plan on the one hand and the German recovery on the other in the Eurozone.

In the **US**, with average annual growth close to 1.9% in 2025, growth has held up well despite uncertainty – uncertainty that is omnipresent and sometimes very burdensome. Growth, which has been volatile due to net exports and inventories disrupted by the effects of Donald Trump's trade policy, is down sharply from the very strong pace of 2.8% in 2024. However, it has defied the recession forecasts that some feared in the aftermath of the tariff announcements on "Liberation Day" on 2 April.

Our scenario now envisages a slight acceleration to 2.1% in 2026, justified by a context of supposedly more favourable political and economic decisions. These refer to the second phase of the Trump administration's measures, in line with the pace outlined in our scenario at the end of 2024: measures detrimental to short-term growth taken quickly, as they fall within the president's prerogatives, followed by fiscal support. In 2026, fiscal policy should thus begin to take effect, and uncertainty, particularly on the trade front, should fade, albeit without disappearing. Economic fundamentals should remain sound: (1) lower sensitivity to interest rates; (2) an overall robust household financial situation despite pockets of weakness concentrated among low-income households and small businesses; (3) clear signs of a slowdown in the labour market, without however causing a significant rise in the unemployment rate due to the decline in net immigration, which will ultimately weigh on growth; and (4) continued investment in AI at a less frenetic pace, but pointing to another strong year for non-residential investment. On the other hand, economic policy, particularly tariffs, will continue to fuel inflationary pressures. Headline inflation is expected to reach 2.7% and core inflation nearly 2.8% by the end of 2026, before both indices trend towards 2.3-2.4% by the end of 2027. Inflation is expected to remain above the 2% target until the end of our forecast horizon.

In the **Eurozone**, resilient domestic demand has helped to weather an adverse environment, and growth, benefiting from a comfortable carry-over at the end of Q3, could reach 1.4% in 2025. In 2026, the good financial health of private agents, still favourable financial conditions and a slightly expansionary fiscal policy should help absorb the confidence shock linked to the trade war and geopolitical uncertainty. Our scenario therefore stays its course: growth in line with its potential, supported by accelerated investment, particularly public investment, with a significant contribution from the German spending plan.

Growth could thus be around 1.2% in 2026 and 1.3% in 2027: a resilience that is nevertheless tempered by some caveats. Increased competition from Asian products on global and domestic markets is hampering the competitiveness of European companies. Risks are therefore skewed to the downside and require vigilance, particularly regarding sector developments. Slowdowns in certain sectors can spread sequentially: while they may not immediately turn into a widespread 'depression', over time they can lead to a broad economic slowdown. Finally, despite headline and core inflation rates both expected to be around 1.8% at the end of 2026 and 2027, ie, below the 2.0% target, the pace of growth would encourage the ECB to maintain the status quo until spring 2027.

> ***Against a backdrop of ongoing geopolitical uncertainty, but with the US trade fog lifting, growth rates are expected to remain steady or even pick up.***

In **major emerging economies**, our scenario remains fairly positive. The slowdown in exports should be limited and growth is unlikely to slow significantly. Its composition could prove more balanced, with limited moderation in private consumption, while investment and consumer spending could gain momentum thanks to lower interest rates and clarification of US customs policy. Our scenario forecasts GDP growth of 4.0% in 2026, after 4.2% in 2025: economic acceleration in the Europe-Middle East-Africa region is offset by a slight slowdown in Latin America and Asia, which would nevertheless continue to post the strongest performance, thanks to Chinese growth forecast to be just below the 5% target.

On the monetary front, diverse progresses in terms of disinflation and proximity to central bank targets justify different approaches. The US Federal Reserve, whose further easing, is made difficult by more persistent inflation, differs in particular from the ECB, which is in a more comfortable position due to inflation foreseen to be slightly below its target. After key interest rates remain stable in 2026, there would be modest movements in 2027: downward in the US and upward in the Eurozone.

More specifically, in the **US**, our scenario of persistent inflation with a contained slowdown in the labour market justifies continuing to favour the Fed's "hard line" option.

The Fed is likely to pause until the end of 2026, keeping the upper limit of the Fed Funds rate at 3.75%, before proceeding with a single 25bp cut in Q227. This outlook remains more cautious than that of the market, which, continuing its trend of excessive optimism, is forecasting a rate slightly above 3.00% towards the end of 2026. Nevertheless, it must be acknowledged that the risks surrounding our scenario are rather skewed to the downside, particularly with political pressures and the imminent arrival of a new Fed chair.

In the **Eurozone**, the anticipated resilience of growth should encourage the ECB not to further ease its monetary policy in 2026. Inflation, and in particular core inflation, should continue to decline, falling below the 2.0% target at the end of 2026 and reaching its lowest point at the beginning of 2027. However, in 2027, driven mainly by the German recovery plan, stronger growth could put some pressure on the labour market and wages, which could eventually lead to inflationary pressures. The ECB could anticipate this expected rebound in inflation and begin to tighten its monetary policy as early as the beginning of 2027. The stability of key interest rates expected in 2026 would be followed by two rate hikes (March and September 2027), bringing the deposit rate to 2.50%.

In both the US and the Eurozone, interest rates are expected to be subject to moderate upward pressure in 2026, driven by decent growth rates and fiscal stimulus. However, the divergent monetary policy movements anticipated for 2027 justify different deformations in the interest rate curves: steepening in the US and flattening in the Eurozone.

While the market is expecting the Fed to ease the Fed Funds rate by nearly 50bp in 2026, the Fed's latest dot plot indicates a 25bp cut and a median rate of 3.00% in the long run. In light of these forecasts, the pause in monetary easing assumed in our scenario for 2026 argues in favour of a slight rise in the 2Y yield, whose recent decline reflects the market's somewhat overly optimistic expectations of monetary easing. Our scenario assumes a 2Y Treasury yield of around 3.70% at end-2026. Driven by slightly stronger growth in 2026 and continued high public financing needs, our scenario assumes a 10Y yield of 4.50% at end-2026. In 2026, after flattening slightly in H1, the curve would steepen in H2; in 2027, interest rates would fall.

In the **Eurozone**, after a pause in 2026, the ECB could undertake a somewhat slight monetary tightening in 2027. Such a scenario should result in a rise in interest rates coupled with a flattening of the curve. For 2026, our scenario (swap rate) thus assumes a rise of nearly 30bp in the 2Y yield, bringing it to nearly 2.50% and the 10Y yield rising to 2.90% at the end of the year. The increase in German debt supply, reflecting fiscal expansion, will lead to a slight recovery in 10Y yield, with the Bund ending the year at 3.00%. This tightening of monetary and financial conditions would be less favourable to riskier issuers, whether they are longstanding issuers from the periphery or have recently joined it.

Finally, in 2026, yield spreads should favour the USD, while it is unlikely that the EUR will be able to benefit from speculation about the US currency's status as a reserve currency. **The dollar is expected to depreciate in 2027 because of new monetary policies favourable to the euro.**

Catherine LEBOUGRE

Focus Geopolitics – Realistic' insight into what lies ahead?

US strategy, now set out in a 33-page document, combines ambitions of hegemony over the western hemisphere with a focus on resources and control of sea lanes. It seeks to be dominant in technology and finance, while the containment of China continues. The real disruptive change concerns Europe – in strategic and ideological terms.

The global geopolitical scenario is focused on three pillars. The first and central question remains the US. The US's National Security Strategy, published in November, sent political shockwaves in Europe, but it has also laid down the rules of the strategic universe in which the whole world will live for a considerable time, as some points are subject to a consensus that extends far beyond Donald Trump's term as president.

The military hotspots of global geopolitics

The second pillar concerns military aspects. It revolves around the two systemic focal points of geopolitics that are Ukraine and the Taiwan-China Sea area. In both cases, hybrid warfare is becoming the new normal, particularly in the Baltic Sea and the East China Sea – where Japan is taking regional leadership in defending Taiwan. In Europe, drone sightings reinforce the importance of protecting critical infrastructure (eg, airports, weapons factories, nuclear power plants) and businesses will have to become accustomed to the notion of 'dual-use goods'.[1]. In addition, comments by military leaders about a potential war with Russia and the weakening of European diplomacy in peace negotiations are increasing tensions in society: geopolitics could end up being divisive rather than a unifying force. Meanwhile, tensions remain in the background in the Middle East, but the international community is paying them less attention for as long as critical energy supply points are not affected. This is a short-sighted approach, because this conflict is reshaping the Middle East and is having a long-term impact on the maritime sector by reorganising global shipping and accelerating the development of Indian Ocean and African ports.

The third pillar of the geopolitical scenario is the behaviour of the 'greater South', where those countries that have the means – led by Saudi Arabia, India and Turkey – are seeking to affirm a multi-alignment strategy so as not to have to choose either the US or China. However, there is growing concern about the risk of secondary sanctions from the US.

What lasting effects could the new US strategy have?

The National Security Strategy document goes beyond political deadlines and the Democrat/Republican divide, as it primarily marks one of the victories of the old so-called 'realist' current within American elites. Henry Kissinger would have been pleased. In this respect, the US is not original, as numerous governments have already rallied to these theories, which in reality echo the concerns of populations facing the risk of shortages in essential resources (the realist posture consisting of prioritising national interests over human rights, which is more conducive to guaranteeing supplies). It is therefore unlikely that the US will depart from its current strategy, since, fundamentally, it reflects more the international situation and the rebalancing of power than the idiosyncrasies of the US administration.

However, the Trump team's hallmark remains its harsh rhetoric, which unfolds in polarising expressions that are typical of anti-establishment parties, with repeated attacks on the "elite", who are blamed for the difficulties facing the middle class. This point, which mixes ideology, domestic politics and geopolitics, has operational consequences, because it stokes violence against Europe, whose elite are seen to embody the excesses of "wokeism", regulations against individual freedoms, mass migration and globalism. On the first three points, the ideological principle may have all the subtlety of a cowboy gunfight, but it could prove effective as it falls squarely within European political divides. Trump's approach will resonate.

The US ideological principle falls squarely within European political divides.

In contrast, the insistence on globalism corresponds to the typical obsessions of a hegemon nearing the end of its domination, which invariably attacks the institutions it helped to build, now regarding them as costly, unnecessary and intrusive. **Indeed, US strategic behaviour is consistent with the theory of the end of hegemonic cycles.** In this respect, it is a symptom that goes far beyond Trump as an individual. However, the criticism of the excesses of globalisation in this strategy also reflects the reality of the inequalities that have fuelled the challenge to democracy. US geopolitical strategy is now rooted in the legitimacy of this political dissent, which has also been adopted by many autocrats.

Lastly, although the US attack on Europe received a lot of news coverage for its ideological violence, this should not mask its 'realistic' side: the US's number one priority is to shut down secondary fronts and focus on China by 2027, when the Davidson window.[2] will close. Its second priority is to end the ever-

[1] Goods used by both the military and the private sector.

[2] The Davidson window, named after Admiral Philip Davidson, refers to a moment of extreme tension widely feared in relations with China over Taiwan due to the convergence of various factors (eg, the centenary of the PRC, China's military advances).

deepening rapprochement between Russia and China, not only by finding a solution to the Ukrainian conflict, but also by offering Russia business opportunities that would provide an alternative to the asymmetry of Moscow's economic relations with China.

The slow lifting of the fog of war is accompanied by a return of economic logic.

This strange little tune of the post-war world, and of Russo-American peace negotiations against a backdrop of fighting, is not illogical: it reflects the fatigue of the war of attrition. There is now talk of elections in Ukraine. But the slow lifting of the "fog of war" also seems to be accompanied by a brutal return of economic logic, led by the US, in the wake of Trump's "trade diplomacy". It remains to be seen how far Moscow can go in its talks with Washington without undermining its longstanding rapprochement with Beijing, which is increasingly vital. This point, which restores Russia's historic role as a pivotal power, is certainly one of the keys to the scenarios for the coming years: how far from China and the US will – and can – Russia position itself? Its economic relations with Beijing leave it little room for manoeuvre, but the strategic temptation of a 'balance'& must be strong, to free itself from dependence on China.

The strategic disruption in US relations with Europe and the attempt to stabilise relations with Russia therefore mirror each other, and this is the strategic gambit that could have the biggest impact on the economic and geopolitical scenario of the coming years. It remains to be seen how far the principles of 'realism' and 'transactional diplomacy' can go.

A focus on regional hegemony while controlling resources and strategic sea routes

In the short term, the Trump Corollary to the Monroe Doctrine will also dominate the headlines. This doctrine gives absolute priority to American influence in "the western hemisphere". All strategic resources and routes in this region must be controlled, including by force if necessary, which implies combating "outside influences" – namely China and Russia. Central and Latin American countries are in Washington's sights, with Venezuela topping the list, as is the path to the Arctic – Denmark now considers the US a threat.

Here again, this strategy of regional hegemony is part of an age-old DNA, with echoes of the Manhattan Project, which brandished the notions of urgency and threat, or the call for greater collaboration with the private sector to buy everything that can be bought (unfortunately, EU Commissioner Stéphane Séjourné arrived in Brazil to secure rare earth mineral supplies but they had all just been sold to the US!).
The justification for this call for a great patriotic alliance is national security, and this is not inconsequential. It is the cradle of all governments of exception, a direct continuation of what Hannah Arendt denounced back at the time of the Watergate scandal. The playing up of external threats and the need for unity is also important at a time when Trump is losing popularity. With mass immigration officially under control, other fears must be found. Here again, politics and geopolitics intersect closely.

The logic of containment continues in Asia and is coupled with a geopolitical focus on resources

This National Security Strategy, focused on economic security, will continue to be felt in all areas and sectors considered vital: sea lanes, ports, critical minerals (it mentions Africa), energy (it cites the Middle East, but mostly the US ambition to maintain its energy dominance), but also AI, quantum technologies, autonomous systems, and space & nuclear technologies. It obviously addresses the rivalry with China in these areas, and here, there is perfect continuity between Donald Trump and Joe Biden: the technological containment strategy must be backed by the "combined economic power" of the allies. In these spheres of power, there cannot be two hegemons. This is also where the multi-alignment of secondary powers will be the most difficult to manage.

Maintaining the status quo in Taiwan is therefore supported, but from a 'realistic' perspective, as the island is presented as a technological stronghold, a maritime stronghold, and one of the keys to the second line of defence against China. Here again, there is no disruptive change in strategy. At the same time, the US is structuring a more regional deterrent in support of a Japan-Philippines-Taiwan-South Korea-Australia axis, which would include new industrial and military cooperation (for example, openness to Japanese deployment in the Philippines). Japan and Australia are deploying a much more active geo-economic influence strategy around the Pacific islands. In Asia, deterrence is building very quickly. Whether it will prevail over the security dilemma[3] remains to be seen.

Tania SOLLOGOUB

[3] The security dilemma implies that when one country arms itself, another country cannot know whether the arming is for its defence or for an attack. This can lead to a first-strike logic.

DEVELOPED COUNTRIES

Under favourable budgetary conditions

USA – More constructive policy backdrop could see modest improvement in 2026

Eurozone – Resilient To the accumulation of shocks

United Kingdom – A slight Keynesian boost to growth in 2026 and an energy-driven fall in inflation

Japan – Strong domestic demand expansion after Trump tariffs, ending structural deflationary stagnation

Under favourable budgetary conditions

Against a backdrop of ongoing geopolitical uncertainty, but with the fog surrounding US trade policy lifting, growth rates are expected to remain steady or even pick up. Fiscal measures will contribute to this resilience in a variety of ways: tax cuts in the United States aggressive fiscal policy in Japan, Keynesian stimulus in the United Kingdom and public investment spending linked to the NGEU plan and the German recovery plan in the Eurozone.

USA: MORE CONSTRUCTIVE POLICY BACKDROP COULD SEE MODEST IMPROVEMENT IN 2026

The US economy has once again remained relatively resilient in 2025 despite pervasive, and sometimes massive, levels of uncertainty permeating the environment, with growth tracking at 1.9% for the year on an annual average basis. Admittedly this would represent a clear step down from a very strong 2.8% pace in 2024, though it is far from the recessionary outcome that some had feared in the wake of the "Liberation Day" tariff announcement.

The quarterly pace of growth has been extremely choppy, with trade policy in particular contributing to some sharp swings in volatile components of GDP such as net exports and inventories. For example, Q125 saw a slight contraction of -0.6% QoQ SAAR, but this was followed by a rebound to almost 4% QoQ SAAR in Q225. The release of Q325 data has been delayed by the recent government shutdown, though it is tracking at another strong rate of 2.5% or higher, and while Q425 should be softer given some drag from the shutdown, this works out to a solid but slowing pace of growth for 2025 overall.

Going forward, we look for a modest acceleration to 2.1% in 2026 before a very slight step back down to 2.0% in 2027. Still, this would represent another couple of years of relative resilience, even if the robust pace of 2023 and 2024 is unlikely to return imminently, in our view.

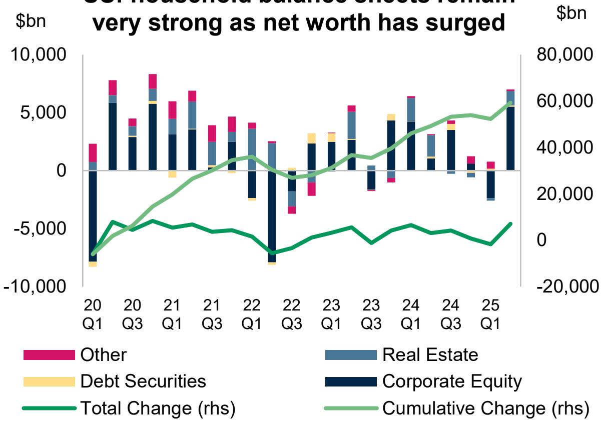
Once again, policy changes out of Washington should play a major role, and one of the drivers of our base case of a modest acceleration is that we see a more constructive backdrop on the policy front, in line with our thoughts last year on policy sequencing. For example, while the focus of the administration in early 2025 was all about tariffs and immigration restrictions, we think that fiscal policy should begin to provide more of a boost in 2026, with uncertainty, particularly on the trade front, beginning to diminish (even if it will never disappear entirely under a Trump administration).

Outside of policy, we think that economic fundamentals remain in decent shape, which has helped to cushion against policy shocks that have hit the economy over the course of the year. Overall, the economy has become much less interest rate-sensitive than it was in past decades, with large swathes of the economy having been able to lock into low fixed rates for an extended period of time, thus providing some insulation from a slow unwind (to this point) of the Fed's aggressive hiking cycle.

For now, the labour market remains at least close to balance.

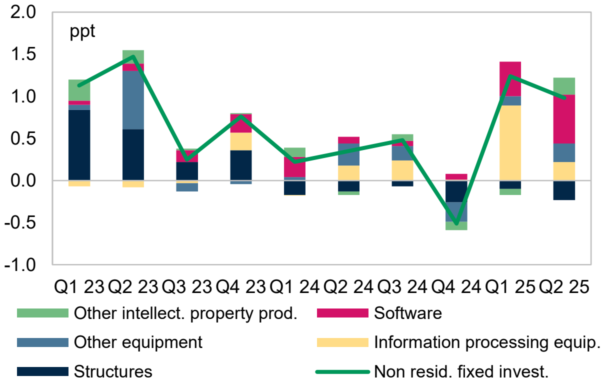
Additionally, household balance sheets remain extremely healthy, with overall net worth up by roughly USD60trn compared to the pre-Covid period. Admittedly these are aggregate figures and not everyone is in good shape, but it does seem like pockets of weakness have been relatively concentrated among low-income households and small businesses rather than spread throughout the economy. Thus, our base case sees these K-shaped dynamics remaining contained rather than being severe enough to bring the overall economy down.

US: household balance sheets remain very strong as net worth has surged



Sources: Federal Reserve, CA CIB

USA: AI has contributed solidly to H125 investment



Sources: BEA, CACIB

The AI boom has played a key role as well, with the combination of investment in information process equipment and software contributing more than 1ppt to growth in each of the first two quarters of 2025. **We are not convinced that the scorching pace of H125 can be maintained, but we do not expect AI investment to disappear entirely, contributing to another solid year for non-residential investment.**

The labour market has admittedly been more of a mixed bag, with some clear signs of cooling becoming evident. Chief among these has been a marked slowdown in payroll gains, with two of the four months through September showing outright job losses and the three-month moving average dipping as low as +18k in August, even if it bounced back to +62k in September.

That said, we would highlight the caveat that this slowdown has likely been influenced by immigration policy, as net immigration that may have come close to a standstill (or even lower) means that the breakeven pace of job creation has slowed sharply. In fact, we think it could be below 50k at this point after having moved above 200k in the latter portion of the Biden presidency. This has likely helped limit upward pressure on the unemployment rate, which has only ticked modestly higher to 4.4%.

For now, the labour market remains at least close to balance in a low-hiring, but also low-firing, environment. We expect some additional slowdown that takes the unemployment rate up to a peak of around 4.5% by year-end, though this is only a modest amount of cooling overall. That said, we acknowledge that the slower pace of hiring suggests downside risks have become more prominent, making the labour market more vulnerable to a shock moving forward, as hiring is likely not strong enough to offset any pick-up in layoffs that were to materialise.

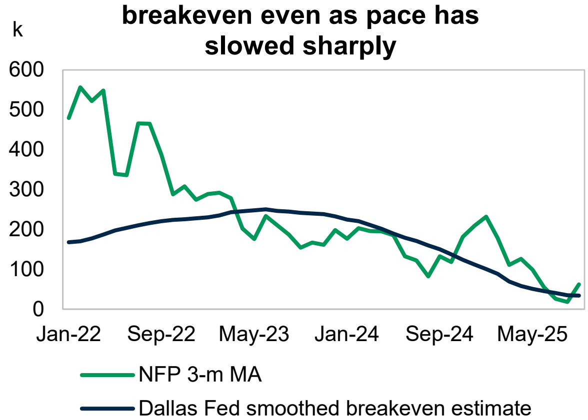
We think the policy mix also leans inflationary and have maintained our view that inflation will experience some additional upward pressure in the coming months. In total, we have now boosted our YoY CPI forecasts by around 65bp due to tariffs, at the point of maximum impact, though we have ramped up the impact more gradually than we previously had, even if we still anticipate that it will be largely temporary.

In detail, we expect headline CPI and core CPI to hover around the low-3% range through H126, with the tariff impact largely spread through H225 and H126. We then look for some improvement in the remainder of our forecast horizon, but only a very gradual decline. This would take headline to 2.7% and core to around 2.8% by end-2026 before both move towards 2.3-2.4% by end-2027, keeping inflation above the 2% target through the end of our forecast horizon.

Annual change	2025	2026
GDP	1.9%	2.1%
Inflation	2.8%	2.8%

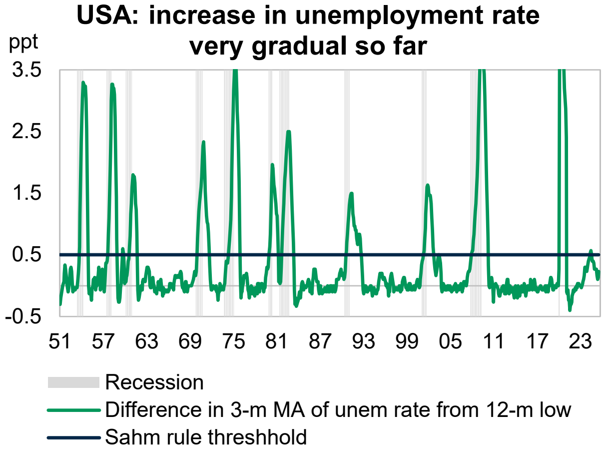
Nicholas VAN NESS

USA: job gains still close to breakeven even as pace has slowed sharply



Sources: BLS, Dallas Fed, CA CIB

USA: increase in unemployment rate very gradual so far



Sources: BLS, NBER, CA CIB

EUROZONE: RESILIENT TO THE ACCUMULATION OF SHOCKS

The good health of private agents, still favourable financial conditions and a slightly expansionary fiscal policy should help absorb the confidence shock linked to the trade war and geopolitical uncertainty. We therefore maintain our narrative of growth in line with its potential pace, supported by accelerating investment, especially public investment, with a significant contribution coming from the German spending plan. Despite inflation below target, the pace of growth is encouraging the ECB to maintain the *status quo* until spring 2027. We therefore forecast GDP growth of 1.4% in 2025, 1.2% in 2026 and 1.3% in 2027.

Nevertheless, **the strong euro and increased competition from Asian products on global and domestic markets are affecting the competitiveness of European companies**. The risks are therefore skewed to the downside and require us to remain vigilant, particularly with regard to sector developments. Indeed, slowdowns in certain sectors can spread sequentially, without immediately turning into widespread tensions, but over time, triggering a generalized economic slowdown.

The latest data confirm the narrative of resilience

Activity accelerated at a rate of +0.3% quarter-on-quarter in the third quarter of 2025, faster than anticipated in our October forecast (+0.2%). Thus, after dynamic growth at the end of 2024 (+0.4% q/q) and even more so in the first quarter of 2025 (+0.6%), and after the slowdown in the spring (+0.1%), GDP growth settled at a pace close to potential (+1.4% year-on-year) during the summer. Growth surprised on the upside in all the major eurozone economies. The growth achieved in the third quarter brought the annual average for 2025 to 1.4%, prompting us to revise our forecast for 2025 upwards (from 1.3% to 1.4%).

Domestic demand was stronger than expected and offset the more negative contribution from net foreign demand, while the negative contribution from inventories that we had forecast did not materialize. The renewed growth in domestic demand, following its decline in the second quarter, boosted GDP growth, contributing 0.4 percentage points. Inventory accumulation continued and supported GDP growth by 0.1 percentage points, while the contribution of net exports reduced growth by 0.2 percentage points for the second consecutive quarter.

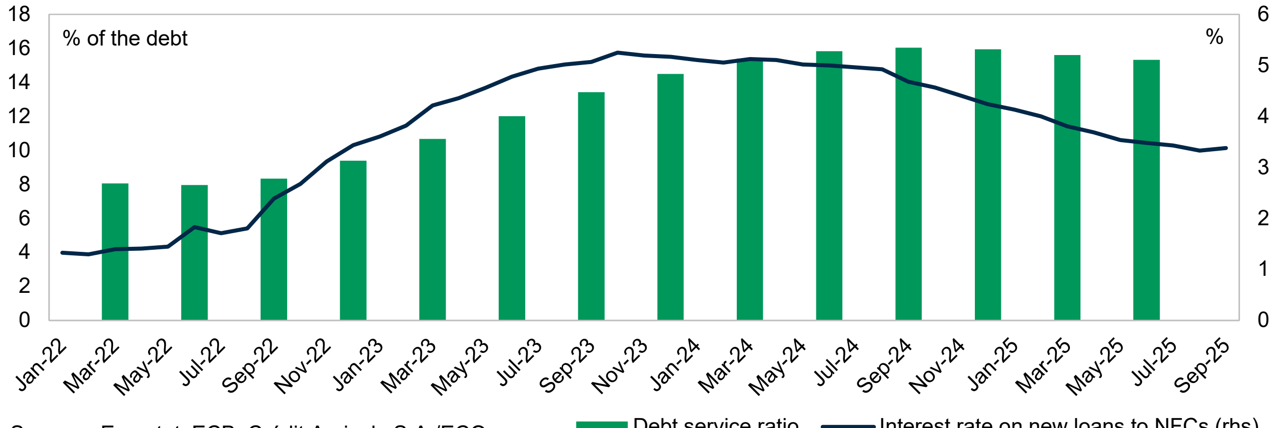
Among the components of domestic demand, the strongest contribution came from investment, which recovered (+0.9% quarter-on-quarter) after declining (-1.7%) in the second quarter. This was an adjustment following the sharp rise in investment in the first quarter (+2.6%), driven by strong growth in intellectual property investment in Ireland at the beginning of the year. This component of investment rebounded in the third quarter (3.1%) and the accumulation of productive capital also accelerated (+1.1%), supported by stronger growth in transport investment, while investment in machinery and equipment (including ICT) remained moderate (+0.3%). The sluggishness of investment in construction can be explained by a modest recovery in civil engineering, while housing declined (-0.3%).

There is no immediate, widespread economic slowdown, but weakness in certain sectors is spreading sequentially.

Households consumption continued to grow at a modest pace (+0.2% quarter-on-quarter), supported by continued positive momentum in employment (+0.2%) and total wages (+1.1%), which rose faster than inflation (+0.3% over the quarter). Growth in public consumption strengthened (+0.7%).

External demand recovered (+0.7%) after adjusting (-0.4%) in the second quarter following the sharp rise in exports at the beginning of the year, driven mainly by sales to the United States, particularly of chemical products, in anticipation of the Trump administration's increase in customs duties. This increase in foreign demand was not enough to support GDP growth, as it

Euro area: funding conditions to NFC



Sources: Eurostat, ECB, Crédit Agricole S.A./ECO was more than offset by the rise in imports (+1.3%). After the decline recorded in 2022, imports from China have been rising steadily, and 2025 has seen a marked increase in the penetration of chemical products in particular, combined with a significant drop in prices.

Investment driving growth, despite declining profitability

Productive investment continues to grow and strengthen despite the deterioration in margins. After stabilizing in the second half of 2024, the margin rate has been falling again since the beginning of 2025, due to the recovery in unit labour costs. The acceleration in per capita wages since the spring, particularly in the non-financial market sector and in export sectors, is outpacing productivity, which has also rebounded in these same sectors.

Financial constraints are easing, but are set to tighten again

Non-financial corporations can nevertheless benefit from lower interest charges on their debt thanks to the incorporation of the latest rate cuts and declining debt levels. However, the rate on new loans to businesses, after falling by 200 basis points in two years (5.3% at its peak in October 2023), rose in September and October (3.5%). According to the ECB's SAFE survey for the third quarter of 2025, businesses perceive a moderate tightening of lending rates and conditions.

However, **they report no change in the availability of credit or in their financing needs, which continue to be met also by internal financing despite the erosion of margins**. Their financial vulnerability and debt management capacity remain unchanged. A similar perception is conveyed by banks according to the BLS survey. Credit conditions are broadly stable in the third quarter and are expected to remain unchanged in the fourth quarter of 2025 for all sizes of enterprises.

German banks, however, stand out for their restrictive credit terms and conditions for businesses and an increase in loan rejections. This rise in rejections is also seen for SMEs in France. Banks' perception of risk has increased, particularly due to the geopolitical situation and the impact of trade tensions. However, this higher risk perception remains confined to sector-specific and company-specific factors. This risk assessment offsets the positive effect of competition on easing credit conditions, while the recent fall in interest rates continues to have a positive impact on credit volumes.

Companies are forecasting a moderate increase in investment.

After revising their investment plans downwards between May and November 2025, **the number of industrial companies planning to increase investment in 2026 is higher than those planning to reduce it, according to the European Commission's half-yearly survey**. However, there are differences between producers of investment and consumer goods, who are more optimistic, and producers of intermediate goods, who are reducing their investment plans. The upward trend in plans also applies to the services sector and to industry in all the major economies in the Euro area, with the exception of Germany, where the anticipated decline is nevertheless less than in 2025.

The planned investment is mainly in response to a need to replace production equipment and to rationalize operations, while the need to expand capacity remains less significant. Demand for businesses is one of the main factors driving investment by a growing number of companies in 2026, along with technical factors (decarbonization, digital transformation), while financial interest remains less important than before 2021. The signal provided by the European Investment Bank's annual survey on investment in the EU (figures for the Euro area are not available) confirms that the number of companies wishing to increase their investment remains slightly higher than those planning to reduce it, with this number being similar to that reported by American companies. However, this number has been declining since 2023, signalling a difficulty in planning in an environment where companies are still figuring out the impact of geopolitical and trade shocks.

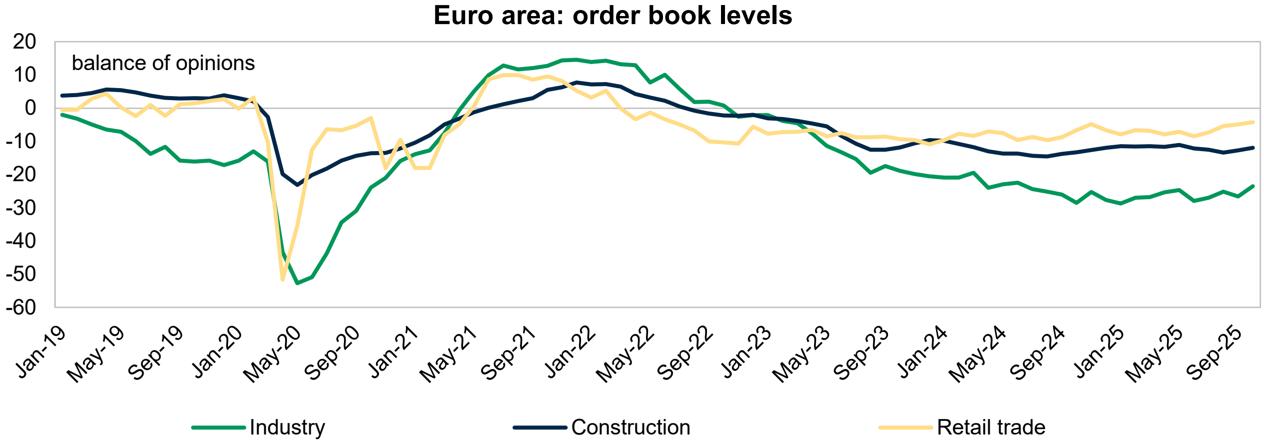
A significant contribution to investment growth would come from public accumulation, thanks to the acceleration of spending related to NGEU funds, particularly in southern countries, and the German recovery plan. We have not assumed that unused funds from the European recovery plan will be extended beyond 2026, although their use may be envisaged in priority areas (energy, decarbonization of industry, security). A slowdown in investment spending is therefore expected in these countries, but this will be offset by the ramp-up of German infrastructure spending.

In this context, **demand for companies remains the key issue**. Opinions on orders in the European Commission's survey improved in November, after deteriorating at the end of 2024, but remain very poor, and those on export orders have deteriorated further. However, the outlook for production has improved in industry, where October's output offset the decline that followed the rebound in the first quarter of 2025. More positively, the PMI index of overall activity rose for the sixth consecutive month in November, reaching its highest level since May 2023. These signals sustained growth in Euro area activity and, at 52.8, exceeds its historical average (52.4). However, while activity accelerated in the services sector, output slowed in the manufacturing sector, posting its weakest pace in nine months.

In our scenario, domestic demand would continue to support activity and enable productive investment to accelerate. Our forecast anticipates a positive contribution from domestic demand in 2026 (1.2 points in 2026, after 1.6 points in 2025), which will more than offset the still negative contribution from net foreign demand (-0.3 points in 2026, after -0.5 points in 2025). It is based on sustained investment growth (+1.7% in 2026 and +2.3% in 2027, after +2.6% in 2025) and continued moderate growth, without acceleration, in private consumption (+1.2% in 2026 and 2027, after +1.3% in 2025).

Annual change	2025	2026
GDP	1.4%	1.2%
Inflation	2.1%	1.8%

Paola MONPERRUS-VERONI



Sources: ESI European Commission, Crédit Agricole S.A./ECO

UNITED KINGDOM: A SLIGHT KEYNESIAN BOOST TO GROWTH IN 2026 AND AN ENERGY-DRIVEN FALL IN INFLATION

Uncertainty related to the 2025 Autumn Budget, published on 26 November 2025, is expected to weigh on growth in Q425. Business and consumer confidence is low, indicating persistently weak underlying domestic demand in the private sector. GDP contracted by 0.1% MoM in October, following -0.1% MoM in September, bringing the carry-over-effect for QoQ growth rate in Q225 to -0.2 percentage points. We therefore anticipate a slowdown in GDP to 0% QoQ in Q425 after +0.1% QoQ in Q325.

The Autumn Budget policy measures imply a small temporary boost to real GDP of +0.1ppt in 2026. This is slightly less than we had estimated in the immediate aftermath of the Budget (+0.15ppt) due to a downward revision to the OBR's fiscal multipliers. The Budget delivered a frontloaded increase in public spending (GBP16bn in 2026-27 and 2027-28), in the form of higher welfare spending (notably the reversals to previously announced cuts to winter fuel payments and health-related benefits, the removal of the two-child limit within the universal credit from April 2026) and measures aimed at tackling the cost of living (reduced household electricity bills). These are funded by more borrowing and by a backloaded increase in tax rises. Increased public spending will take effect immediately while personal tax measures take effect from 2027 onwards and more significantly from 2028 (higher tax rates on dividends, property and savings income in April 2027, a freeze in the tax thresholds from 2028 to 2031). Consequently, we raise our 2026 growth forecast from 1.1% to 1.2%, still below trend growth. For 2027, we forecast growth at 1.4% on annual average, close to potential, but still soft on a quarterly basis.

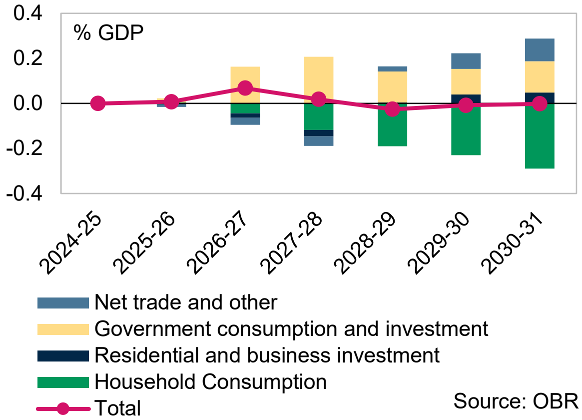
Government capital investment growth is expected to remain robust. General government investment rose by 4.1% QoQ in Q225 and 3.6% QoQ in Q325. According to the OBR's estimates, general government investment is expected to grow by 7.8% in 2026 and 5.4% in 2027. The government confirmed its commitment to an over GBP120bn increase in department capital spending over the current Parliament to 2029-30 relative to the previous government's plans, in line with its [10-year Infrastructure Strategy](), published in June. It covers both economic and social infrastructure (housing, transport, water, clean and and nuclear energy, digital connectivity but also schools and hospitals) and introduced a new model of Public Private Partnerships in order to attract more private finance. It also confirms the government's commitment to increase defence investment to 2.6% of GDP by 2027 for NATO qualifying defence spending.

Increased public spending will take effect immediately while personal tax measures take effect from 2027 onwards and more significantly from 2028.

A sharp fall in inflation below target in Q226, but core still above 2%. The near-term inflation outlook is more favourable than three months ago thanks to the government's measures leading to reduced household electricity bills, the announcement of a temporary extension of the fuel duty freeze until September 2026 and a one-year freeze to rail fares and prescription charges. Those measures are expected to knock off 0.5ppt from CPI inflation in Q226 and 0.3ppt of the 2026 average inflation, according to OBR estimates. Furthermore, our oil strategist has revised his oil forecasts down which also contributes negatively to CPI inflation. We now expect CPI inflation below target as soon as in Q226 and at 1.7% YoY on average in H226 (vs 3.8% YoY in Q325). With the fall in CPI inflation being driven mainly by energy prices, core inflation is much stickier throughout 2026 and 2027 and remains above target for the major part of 2026 and 2027.

Household consumption is expected to accelerate slightly next year (1.2% annual growth in 2026 after 0.8% in 2025) thanks to this more rapid fall in inflation, a further increase in the National Living Wage (NLW)

UK: Autumn budget policy impacts on real GDP and its components



Source: OBR

UK: business profitability and investment

Sources: ONS, Crédit Agricole S.A.

and higher welfare spending. However, we expect household consumption growth to remain overall weaker than implied by real income growth and to decelerate in H227 as tax rises start to come in effect. Furthermore, households are likely to continue to save some of their disposable income from the near-term fiscal loosening in anticipation of higher taxes. As a result, the saving ratio would likely fall only gradually and would remain higher than its pre-Covid levels.

Business investment contracted in Q225 and Q325, likely suffering from the squeeze in business margins following the April 2025 increase in the employer National Insurance Contributions (NICs). It is likely to rebound in the near term as business confidence will probably improve thanks to dissipating uncertainty about tariffs and the budget, fiscal loosening and the BoE's monetary easing. However, the outlook remains challenging. The impact of the April 2025 increase in NICs on business labour costs will be compounded by another increase in the National Living Wage in April 2026, while productivity growth remains weak. As a result of those government policies, profit growth is expected to decline, contradicting the government's own strategy to encourage private investment.

Finally, net exports remain the biggest drag on growth in our scenario, as export growth would remain hampered by the US tariffs, while import growth would likely get a slight boost from the positive impact from the Autumn Budget on domestic demand.

Downside risks to our scenario persist, especially in relation with fiscal policies. Even though the Chancellor doubled her “headroom” against her fiscal mandate, reassuring the markets about its fiscal credibility, the government is not out of the woods yet. Budget execution risks persist, especially regarding the implementation of the tax rises in the later years of this parliament. The government chose to spend more in the near term and to leave the painful decisions until ahead of the next elections in 2029. Higher public sector net borrowing and public debt in the coming years are likely to maintain upward pressure on long-term interest rates.

Annual change	2025	2026
GDP	1.4%	1.2%
Inflation	3.4%	2.1%

Downside risks to our scenario persist, especially in relation with fiscal policies. Even though the Chancellor doubled her “headroom” against her fiscal mandate, reassuring the markets about its fiscal credibility, the government is not out of the woods yet. Budget execution risks persist, especially regarding the implementation of the tax rises in the later years of this parliament. The government chose to spend more in the near term and to leave the painful decisions until ahead of the next elections in 2029. Higher public sector net borrowing and public debt in the coming years are likely to maintain upward pressure on long-term interest rates.

Slavena NAZAROVA

JAPAN: STRONG DOMESTIC DEMAND EXPANSION AFTER TRUMP TARIFFS, ENDING STRUCTURAL DEFLATIONARY STAGNATION

Takaichi government support growth through aggressive fiscal policy

In 2026, amid a global economic slowdown and downward pressure from the uncertainty of the Trump administration, **domestic demand would be supported by economic measures**, growth would exceed the potential growth rate of about 0.5%, and the movement towards completely escaping deflation would continue. From 2027 onwards, a global cyclical economic recovery and an expansion in domestic demand due to the Takaichi government's shift to an aggressive fiscal policy and an upswing in the capex cycle would see the start of a movement towards self-sustaining growth of around 1%. **An increase in real wages would lead to a recovery in consumption.** The shift to JPY appreciation would put downward pressure on corporate earnings, and there would still be no sense of acceleration in the economic recovery. **In 2027, with the sustained expansion of nominal GDP, corporate competition would clearly shift from cost reduction to investment.** The ratio of capex to GDP would far exceed the difficult-to-reach level of 18%, and the economic recovery would accelerate along with the expansion of consumption.

From 2027 onwards, inflation rate would again expand toward 2%.

The YoY change in CPI (ex fresh food and energy) would temporarily shrink to around 1% from H225 to mid-2026 due to a pause in the pass-through of import price hikes and a weakening in supply-demand balance due to a temporary economic downturn. **With a global cyclical economic recovery and a recovery in domestic demand, corporate spending, including capital investment & wages, would strengthen, and the positive range of the corporate savings rate**, which caused the deflationary structural stagnation as excess savings, would shrink. From 2027 onwards, inflation rate would again expand toward 2% as consumption recovers due to rising real wages and a rise in growth due to realisation of high-pressure economy.

The government would promote aggressive fiscal policy and focus on expanding domestic demand

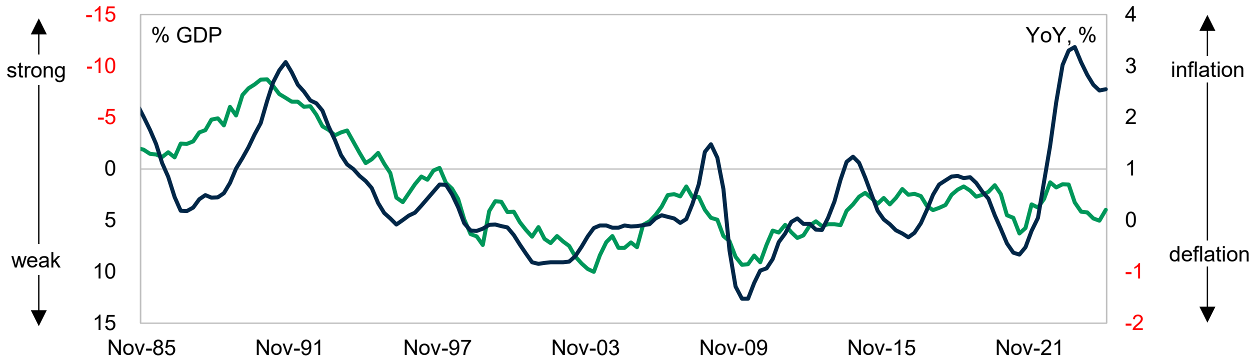
The shift away from liberal policies that reduce government involvement would continue, and a new approach would be adopted to address social economic issues hindering investment and growth through aggressive fiscal policy, including government growth investment, and public-private partnerships. The austerity-driven Ishiba administration is replaced by the Takaichi administration, which promotes aggressive fiscal policy and achieving a high-pressure economy. In response to the Trump tariffs, expanded fiscal spending and tax cuts would be discussed, and they would seek to expand support for the administration by making the public feel the economic recovery. The flawed goal of achieving primary balance surplus, which requires growth investment to be funded by tax revenue, would become a mere formality and no longer be an obstacle to an aggressive fiscal policy.

After sizable stimulus measures, an expansionary FY26 budget, including tax cuts and expanded fiscal spending, would be passed in the regular Diet beginning in January 2026. Additional economic measures would be implemented after the bill is passed. Committed to expanding the economy under a high-pressure economy policy, they would continue to prioritise economic and fiscal management, escaping structural deflation and boosting growth. In order to move away from dependence on foreign demand, economic policies would encourage a shift towards an expansion of domestic demand similar to that seen in the late 1980s after the US trade dispute.

Annual change	2025	2026
GDP	1.1%	1.0%
Inflation (ex-fresh food and energy)	3.0%	1.8%

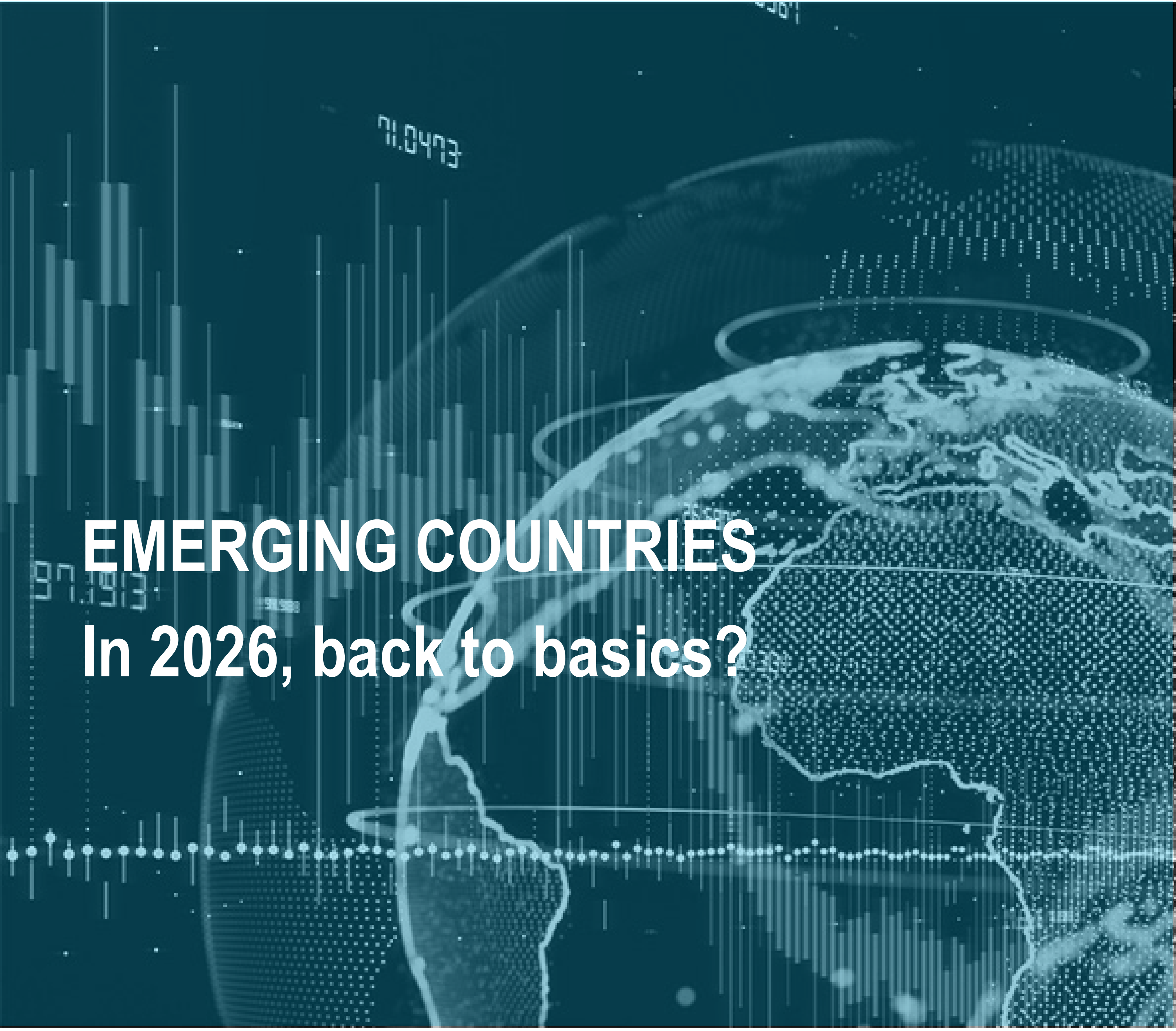
Takuji AIDA – Ken MATSUMOTO

Japan: corporate savings rate and core CPI



Corporate savings rate (axis reversed) — Core CPI (ex fresh food, YoY %, ex CT hike, 4QMA, rhs)

Sources: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB



EMERGING COUNTRIES
In 2026, back to basics?

Emerging markets – In 2026, back to basics?

We are rather constructive on EMs. Growth should hardly slow, the soft patch on exports should be limited. China should be resilient. But mind the side risks…

2025 was marked by tariff-related uncertainty. This issue has been partly clarified since the summer, and most of the uncertainty is now out of the way. As a result, after a handful of years marked by unusual challenges (Covid, surging inflation, the sharp increase in geopolitical uncertainty on various fronts, the risk of a trade war), Emerging Markets may be back to basics in 2026, ie, facing more standard challenges, more related to financial markets and to the economy itself.

EM basics? Not what they used to be…

However, these basics have evolved compared with a few years ago. First the centrifugal force in the world economy has gained traction. Second, the spreading of AI has fuelled uncertainty. With possible positive outcomes, as the diffusion of AI may eventually boost productivity gains (but this is to be confirmed) and wealth effects via the stock market. Also with possible negative outcomes, should the market at some point decide that it is facing a bubble, triggering a downward adjustment that would negatively affect the markets worldwide (including emerging markets). So the side risks are significant.

Hardly slowing

That being said, **keeping these risks in mind, our central scenario is rather constructive**. EMs should benefit from a decent growth/carry mix. Economic growth should be roughly stable for the overall EM complex. We expect GDP growth at 4.0% in 2026 vs 4.2% in 2025. Region by region, we expect a slight slowdown in Asia and Latin America, and some economic acceleration in the EMEA region. In terms of levels, Asia will remain the champion of economic growth, with growth expected at 4.8% in 2026, compared with 2.2% for Latin America, 1.9% for Emerging Europe and 3.2% for MEA.

Growth mix improving at the margin

The growth mix could become more balanced, with private consumption moderating to a limited extent whereas investment could gain some momentum on lower interest rates and tariff clarification (particularly in EMEA and, to some extent, in Latin America). Overall, consumer demand benefits from relatively strong job markets in EM. The average unemployment rate for a sample of large emerging countries remains close to a record low level. Of course, some countries have higher (sometimes much higher) jobless rates than others, but overall private consumption should find some support here.

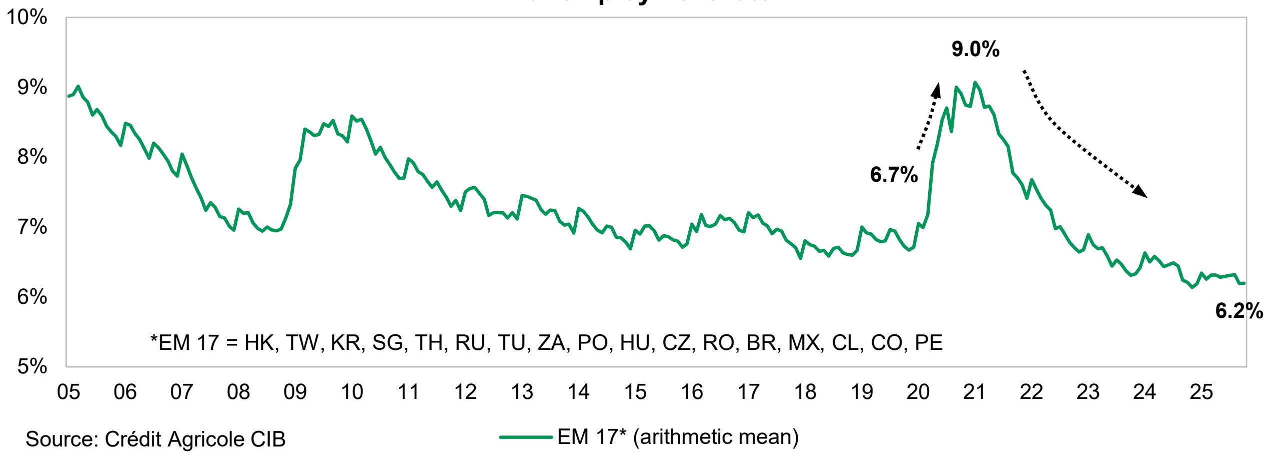
China: resilient

We expect China economic growth to hardly slow, as the authorities continue to stimulate public investment in infrastructure and in some targeted industries, and as the fiscal policy supports the household consumption in a controlled way. We expect only a slight slowdown of Chinese economic growth from an estimated 5.0% in 2025 to 4.7% in 2026.

Exports: limited soft patch

EM export growth may soften in H126 as export frontloading ends. But this should be only temporary, and H2 should look better. The resilient sequential growth in G3 economies should help to support exports, particularly if the US and German government spending boosts are confirmed. For Asia, which should be rather impacted by the US tariffs, US spending will likely act as a buffer. German spending should benefit Central Europe mostly.

EM: unemployment rate



Source: Crédit Agricole CIB

The good thing is that **most EM central banks still have policy rates well above where they were before the Covid crisis**. That means some of them could afford lowering them if necessary (in case of negative surprise on economic growth for instance, but carefully in order to not shock exchange rates).

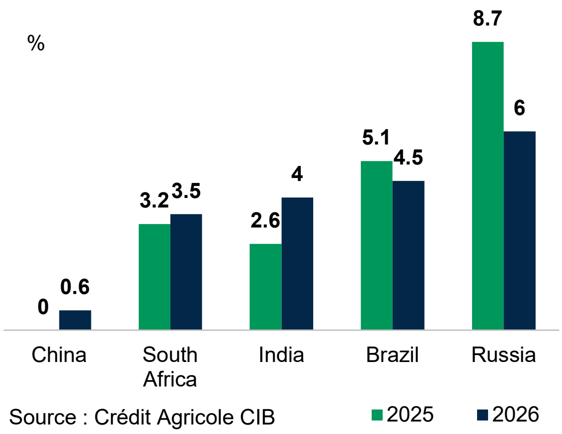
Annual change	2025	2026
GDP	4.3%	4.1%
Inflation	4.3%	3.8%

Two main risks

Apart from possible black swans, **we identify two main risks to our relatively constructive EM scenario**. First, should inflation in the US surprise to the upside and wrong-foot y the market strongly, producing a hawkish shift, then EMs would likely suffer from tightening global monetary conditions. Second, should the AI-driven stock market turn into a bursting bubble, EMs would come under pressure from a risk aversion wave. This is not our base-case scenario, but this is certainly a risk in this world where the basics are not what they used to be.

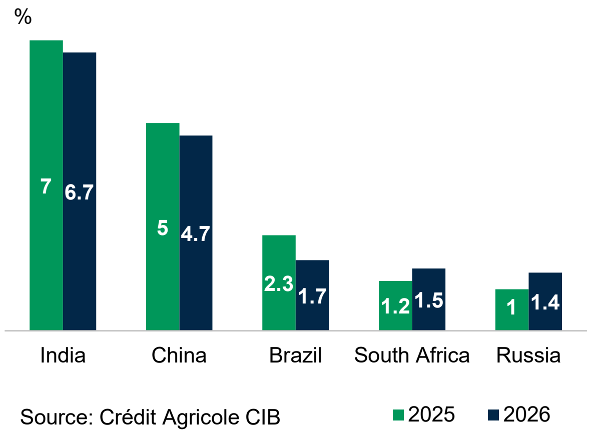
Sébastien BARBÉ

BRICS inflation: forecasts



Source : Crédit Agricole CIB

BRICS GDP growth: forecasts



Source: Crédit Agricole CIB

CHINA: SPOTLIGHT ON THE 15TH FIVE-YEAR PLAN

China looks set to reach its 5% growth target once again in 2025, despite the slowdown in H2. The Chinese economy remains marked by deflation, fuelled by weak private consumption and the ongoing real estate crisis, which is showing no real sign of improvement. Retail sales continue to grow at a much slower pace than overall activity, and doubts remain as to the sustainability of a growth model without internal momentum.

2026: the 15th five-year plan

In March, China will unveil its 15th five-year plan for 2026-30. It should set out China's sectoral and strategic priorities for the next five years, as well as its broad economic policy guidelines.

What growth targets will be announced in the plan? China's long-term objective is to become an advanced economy by 2035. To do this, it must maintain an 'appropriate' and sufficient pace of growth to increase per capita GDP by about USD10k. For 2026, the authorities may therefore decide to maintain a growth target of around 5%. Our scenario expects a slight slowdown, to around 4.7%, in line with the trend seen over the past six months.

Although the authorities regularly affirm the need to rebalance growth in favour of domestic demand, **President Xi Jinping has already said that one of the main objectives of the plan would be to significantly boost industrial production**, based on the theory that the best response to sluggish demand would be better-quality supply. Another challenge is the success of the "anti-involution" campaign, which aims to end the price war and gradually consolidate production capacities, and is also part of the oxymoronic objective of boosting demand through supply.

In any case, **reflation will only be very gradual** – our inflation forecast for 2026 is 0.6% – because its roots are deep & structural and reflect poor consumer confidence. The 2026 budget also shows moderate fiscal support, with the deficit increasing from 10.2% to 11.2% of GDP. However, there has been a change in the distribution of this deficit, with the central government taking an increased and more direct role. Since the real estate crisis, which undermined the local authority financing model, the government has embarked on an effort to clean up and improve the transparency of local public finances, resulting in more central steering of reforms and financing.

Will the external environment become more challenging?

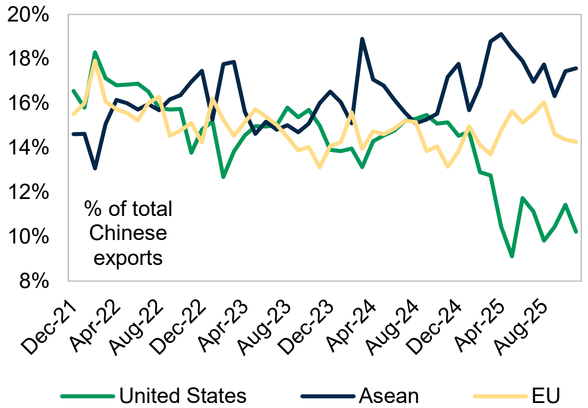
The negotiations with the US provided some visibility, but the external environment remains uncertain and volatile. The US tariff policy has already changed the structure of Chinese exports. Circumvention, in particular *via* the Asean countries, has intensified. Although reciprocal tariffs fell after the negotiations, the tariffs on Chinese products remain above 45%. China has mainly sought new opportunities, particularly in EU countries. The EU's trade deficit with China has reached an all-time high of USD310bn. Trade flows to other regions (Latam and Africa) have also increased.

The US tariff policy has already changed the structure of Chinese exports.

China could therefore face a widespread rise in protectionism: from the EU in certain key sectors (autos, aluminium & steel and even textiles), and from the rest of the emerging world, which fears its industry may falter in the face of China's economic clout.

A key parameter will be the PBoC's exchange rate controls. In recent months, the CNY has strengthened against the USD, giving the central bank more room for manoeuvre. **The CNY is now hovering around its target**, and CNY/USD is gradually converging towards 7, a level not seen since May 2023. It remains to be seen whether China would be willing to accept a depreciation to boost its competitiveness and exports in a more hostile external environment, and with the US already regularly including it on its list of currency manipulators.

China: export destinations



Sources: Crédit Agricole S.A./ECO, Chinese Customs

Annual change	2025	2026
GDP	5.0%	4.7%
Inflation	0.0%	0.6%

On the monetary policy side, Fed easing should make it possible for the PBoC to continue to gradually cut its own rates, in particular its policy rate and its reserve requirement ratio.

Sophie WIEVIORKA

BRAZIL: A SLOWDOWN, AT LAST!

After three years of strong growth, Brazil is seeing a sharp slowdown, which began in Q2 and continued in Q3. Annual growth is expected at 2.3% in 2025 and could fall to close to 1.7% in 2026. This should allow inflation to return towards the central bank's target, the normalisation of monetary policy and the reduction of the current account deficit, which has recently widened, reminding us that, in the absence of domestic manufacturing supply, growth can be hampered by external constraints.

Domestic demand, and in particular private consumption – the main driver of growth – is showing signs of slowing, albeit moderately. High interest rates, which ultimately weigh on credit, and the loss of momentum in the labour market are counterbalanced by employment, which remains at a record high, the rise in wages (particularly the minimum wage), and the income tax exemption for monthly incomes of less than BRL5,000 (EUR790). The picture is therefore far from gloomy, and the relative resilience of consumer spending points to a "gentle" slowdown in growth.

The slowdown and strength of the BRL contributed to a fall in inflation, which is now within the target range set by the Central Bank of Brazil (BCB) for the first time since August 2024. Core inflation remains under pressure and the BCB – showing great caution – has kept its key rate unchanged since June at 15%. It will be monitoring inflation expectations (stable since June), wage developments, the labour market, fiscal pressure and the international context. Average inflation is expected to be 5.1% in 2025 and around 4.2% in 2026. Monetary easing could begin in March 2026.

On the tax front, 2025 was less turbulent than 2024. Without any major fiscal consolidation, the fiscal situation remains under control: the primary deficit target (0.6% of GDP, ie, a total deficit of 8.5% of GDP) is expected to be achieved. Consolidation is not a priority in the run-up to elections, but the 2026 budget is less expansionary than expected. The government expects a primary surplus of 0.25% of GDP, ie, a total deficit of 8% of GDP. According to the government's optimistic assumptions (growth between 2% and 3%, whereas the consensus puts it at 1.7%), the increase in spending would be neutral in terms of GDP. Even without a major overshoot, the "tax noise" will remain.

Consolidation is not a priority in the run-up to elections, but the 2026 budget is less expansionary than expected.

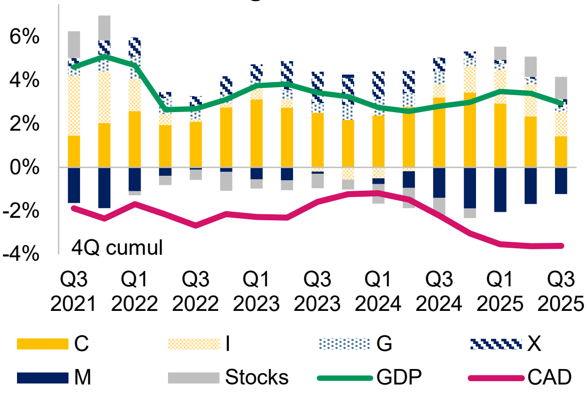
The slowdown in domestic demand is already easing the need for imports, which widened the current account deficit in 2025 to levels not seen since the 2014 crisis. Despite showing resilience, net inflows of external financing have ceased to cover the current account deficit. However, the shortfall is very low (0.4% of GDP in one year period), the reduction of the current account deficit has begun, capital flows are of high quality (mainly direct investment and not portfolio investments as was the case in 2014), and foreign exchange reserves are solid (14% of GDP).

Annual change	2025	2026
GDP	2.3%	1.7%
Inflation	5.1%	4.5%

The general election to be held in October 2026 will play out against this backdrop of a slowdown without fanfare, and one of 'normalisation', with weaker domestic consumption, lower interest rates unlikely to cause anything more than a slight uptick in demand and limited fiscal support.

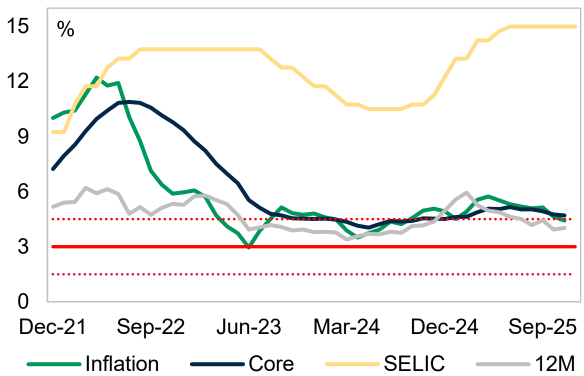
Jorge APARICIO LOPEZ – Catherine LEBOUGRE

Brazil: economic slowdown, widening current account



Sources: IBGE, Crédit Agricole S.A./ECO

Brazil: stubborn inflation, punitive rates & "extreme" prudence



Sources: BCB, Crédit Agricole S.A./ECO

INDIA: WEATHERING THE TRUMP STORM?

We forecast a slowing in India's real GDP growth from 7.5% in 2025 to 6.7% in 2026. Despite very high US tariffs at 50%, India's economic growth is so far holding up well on the back of strong domestic demand due to earlier RBI rate cuts as well as government tax cuts and fiscal spending. We continue to think the impact of US tariffs on the Indian economy is modest given that over a third of exports going to the US are excluded from the tariffs and exports make up a small part of the overall economy. Falling exports to the US are nonetheless weighing on growth.

We expect India's current account deficit to rise modestly from -1.0% in 2025 to -1.2% as a share of GDP. Slowing growth and weak oil prices will help limit this rise. Inflation could accelerate from 2.6% in 2025 to 4.0% in 2026. Falling food prices, weak oil prices and a one-off rationalisation of the GST led to a sharp fall in inflation in 2025. While the presence of La Nina suggests that monsoons will be again at least average, the impact on food prices will be more muted. We expect global oil prices to stabilise in the USD60-63/bl region during 2026.

We forecast RBI to keep its policy rate at 5.25% in 2026, having cut rates by 125bp during 2025, lowering its policy rate to the bottom of its neutral zone. With earlier rate cuts & fiscal spending still flowing through the economy and inflation heading higher, to the centre of the RBI's 2-6% tolerance band, a neutral setting for monetary policy seems appropriate. Also, having rates at the bottom end of neutral gives the RBI the flexibility to quickly move rates into stimulatory territory if needed.

The risk to the Indian economy, rates and the INR in 2026 is the failure of India and the US to ink a trade deal. At a minimum, a framework agreement to remove the punitive 25% tariff rate for India's purchases of Russian oil is needed to restore investor confidence and prevent RBI from cutting rates into stimulatory territory. Progress on this front is mixed. PM Narendra Modi does not want to appear to be caving into President Donald Trump. Indian refineries' imports of Russian oil have fallen following the imposition of US sanctions on Russian oil exporters, but this could represent the lag it takes to "re-wire" the mechanisms to avoid US sanctions. India's agricultural protectionism is another obstacle to a broader trade agreement.

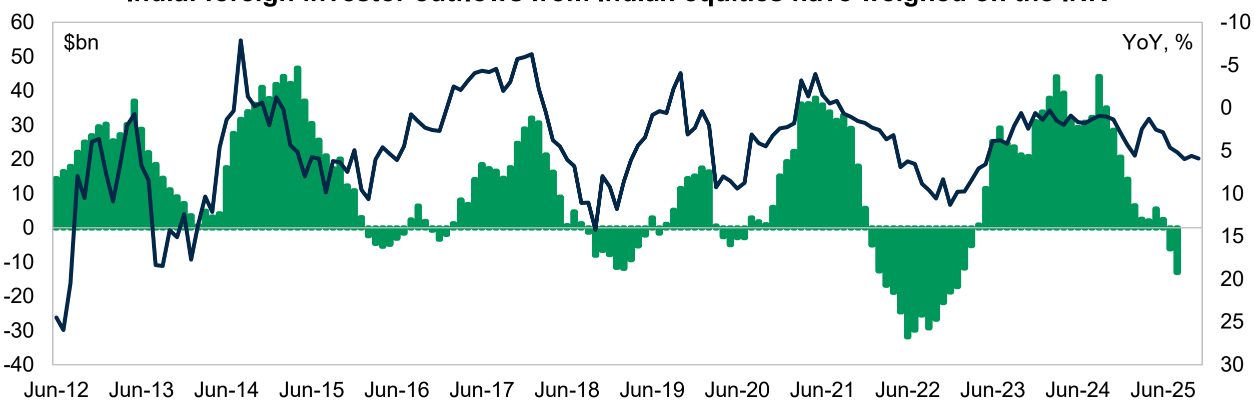
The impact of US tariffs on the Indian economy is modest.

Without any trade deal, the reversal of foreign investor outflows from India that occurred in 2025 and weighed on the INR is unlikely. Additionally, the RBI would continue allowing INR weakness to ensure the currency does not add to the loss in competitiveness already coming from US tariffs. So we forecast USD/INR to continue to track above 90 throughout much of 2026. The impact of the higher US H-1B visa fees on India's technology and business services sectors is being delayed by the higher fee not applying to existing visas or their renewals, but if maintained it will hurt growth down the line.

Annual change	2025	2026
GDP	7.0%	6.7%
Inflation	2.6%	4.0%

David FORRESTER

India: foreign investor outflows from Indian equities have weighed on the INR



Sources: Bloomberg, Crédit Agricole CIB

SECTORS

Oil – The market moves into surplus

Gas – Optimism is rising in the natural gas market

Automotive – Is the worst behind us?

Metals – How to bend without breaking

Semi-conductors – AI is accelerating sector growth and disrupting its cyclicality

Containers – The challenges of a return to normal

Oil – The market moves into surplus

With relatively sluggish demand and an increase in OPEC+ supply, the oil market is expected to remain in surplus. However, US threats regarding the import of Russian oil by several countries could eliminate this surplus and end up causing a supply deficit.

At the end of the year, OPEC+ reversed the 2.2m bpd production cuts implemented in 2023. OPEC increased production by about 2m bpd between April and October 2025. Saudi Arabia accounts for half of this increase and now produces nearly 10m bpd, compared to an average of 9m between July 2023 and May 2025. OPEC production now stands at around 30m bpd. Supply from other OPEC+ members is stable at around 14.5m bpd.

Excess supply is currently helping to rebuild oil inventories in Europe and Asia.

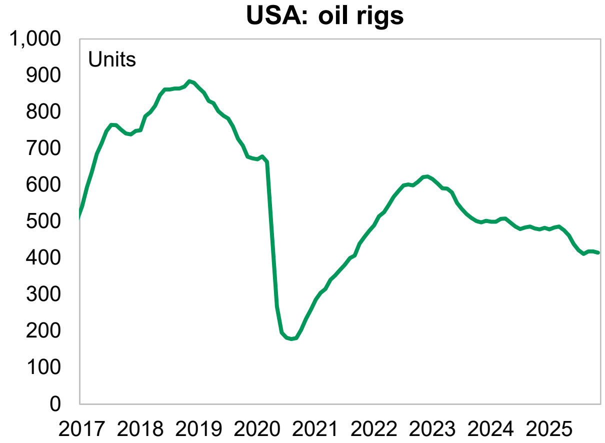
Growth in demand for petroleum products is expected to be moderate over the next two years. It is set to remain below 1m bpd in 2026 and 2027. The market is therefore expected to be in surplus over the next two years. Excess supply is currently helping to rebuild oil inventories in Europe and Asia. This surplus will not encourage the recovery in investments and drilling needed to ensure lasting growth in US oil production. The number of active derricks in the US appears to be slowly declining. US crude oil production continues to be supported by the commissioning of wells drilled in previous years and put on hold. In this environment, US oil producers will certainly remain more focused on profitability than on volumes.

Relations between India, the US and Russia will need to be watched in the coming months. Since the start of the war between Russia and Ukraine, India has provided an outlet for Russian oil, thereby preventing a global supply shortfall of nearly 2m bpd. By increasing its refining activities, India is supplying the global market with petroleum products. Since the summer, India has faced America's wrath over its imports of Russian oil. US threats prompted Reliance, an Indian refining company, to halt its imports of Russian oil. However, during President Vladimir Putin's recent meeting with PM Narendra Modi in India, the two leaders stressed the importance of maintaining the energy partnership between the two countries. If the threat of US sanctions were to deprive Russian oil of outlets in India or elsewhere, then the global oil supply would fall by 2m bpd. In such a scenario, the prices of oil and petroleum products would rise. This scenario would likely be warmly welcomed by US producers and refiners. However, it would certainly be poorly received by US consumers, who are not necessarily convinced that their purchasing power has increased as the US president claims.

	Average oil price (barrel)
Q4 25	$63
2026	$63

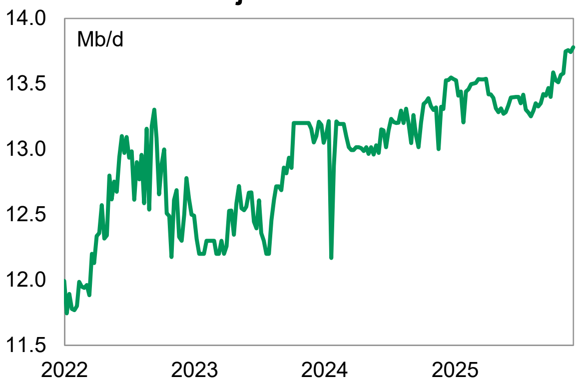
Stéphane FERDRIN

USA: oil rigs



Sources: Baker Hughes, Crédit Agricole S.A./ ECO

USA: crude oil production after SPR injection/withdraws



Sources : EIA, Crédit Agricole S.A. / ECO

Gas – Optimism is rising in the natural gas market

Despite stocks being lower than in 2024, prices fell by 30% between November 2024 and 2025. This anomaly reflects market confidence, driven by rising US exports and new global liquefied natural gas infrastructure.

The natural gas market proved resilient as the first cold spell swept through Europe in the second half of November. Despite lower European gas stocks compared with the same period last year, current natural gas prices are very low – 30% to 40% below last year's prices. This downward trend reflects a well-stocked market at the start of the winter season.

Overall, and despite significant differences between countries, the EU is starting the winter with lower stocks (-10% on average) than last year. Despite an increase in liquefied natural gas (LNG) imports during October and November – up 30% compared to the same period in 2024 – and lower drawdowns in November, the shortfall remains. **The current balance sheet shows a shortfall of about 11bcm compared to last year's stock levels.**

The market is counting on the imminent commissioning of new terminals in Qatar and the US to offset lower inventories. The Plaquemines terminal in the US began production at the end of the year, enabling the US to increase its LNG exports by 20% – an additional volume of 0.560bcm per week compared to last summer's levels. The EU will have to keep its LNG imports high and rely heavily on its regasification terminals.

While the major energy crisis of 2022 now seems to be well in the past, some gas market indicators deserve particular attention. With lower stocks and relatively little regasification capacity compared to its needs, Germany is seeing a rise in the price of natural gas compared to that of neighbouring countries. On the spot market, natural gas in Germany is currently trading with a premium of EUR2.7/MWh compared to the price in France, compared to just EUR1.1/MWh on average in September.

The US gas market is also experiencing inflation fuelled by increased demand for natural gas from new liquefaction terminals concentrated in the southern states. Once transported and regasified in European ports, US LNG costs are now higher than spot prices in European gas markets.

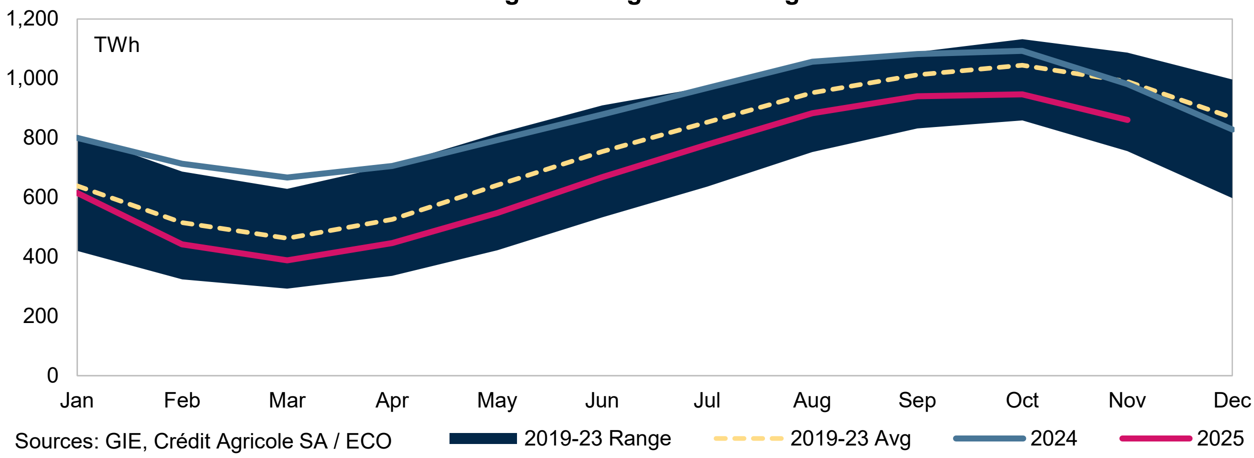
US LNG costs are now higher than spot prices in European gas markets.

The difference is not yet big enough to impact US LNG imports into Europe. However, the upward trend in the natural gas market could have implications for the US economy as a whole. **Higher natural gas prices are likely to have an impact on electricity prices.** Rising natural gas and electricity prices would undermine the competitiveness of the US industrial sector and lower household purchasing power. Faced with the growing pressure on the electricity grid caused by the development of energy-intensive data centres, coal-fired power plants could be partially reactivated.

	EU LNG imports
Q3 25	30,3 bcm

Stéphane FERDRIN

EU: natural gas underground storage



Sources: GIE, Crédit Agricole SA / ECO

Automotive – Is the worst behind us?

The global automotive market is showing mixed momentum in 2025 with lower margins and sales in North America, a gradual recovery in Europe supported by EV subsidies, strong growth of Chinese brands around the world and an expected easing in European regulations. Meanwhile, a further decline in European production is expected in 2026.

Better visibility

US tariffs on imports from European, Japanese and South Korean manufacturers are now set at 15% (vs 25% initially). Manufacturers are therefore fine-tuning their strategies, either by investing in the US (Stellantis, Volkswagen, BMW, Volvo) or by forging closer alliances (Mitsubishi-Honda) to counter this loss of competitiveness.

The North American market was stronger than expected in the first nine months of 2025, as manufacturers did not increase prices to cover the higher tariffs and consumers brought forward their purchases of electric vehicles before the end of Inflation Reduction Act subsidies on 30 September. But the trend is now reversing, with a 3% decline over the past two months and EV sales down 50%. The market is expected to end the year in recession with a contraction of 1.8%.

Manufacturers are now focusing on Europe for growth opportunities, with a rebound expected in H226 and 2027, driven by renewed growth in the EV market in a more favourable political context.

> *The launch of models costing less than EUR25k, such as the Renault R5 or the Citroën C3, has been a major factor in the recovery of EV sales.*

Margins in the sector remain under pressure and on a sample of the top seven North American and European manufacturers (BMW, Ford, General Motors, Mercedes, Renault, Stellantis and Volkswagen), the operating margin declined by 50% to 4.4% of revenue, while revenues fell by only 5.4%. However, until we see significantly higher sales growth, which may not happen for three to four quarters, we have no reason to be too optimistic about near-term margin trends.

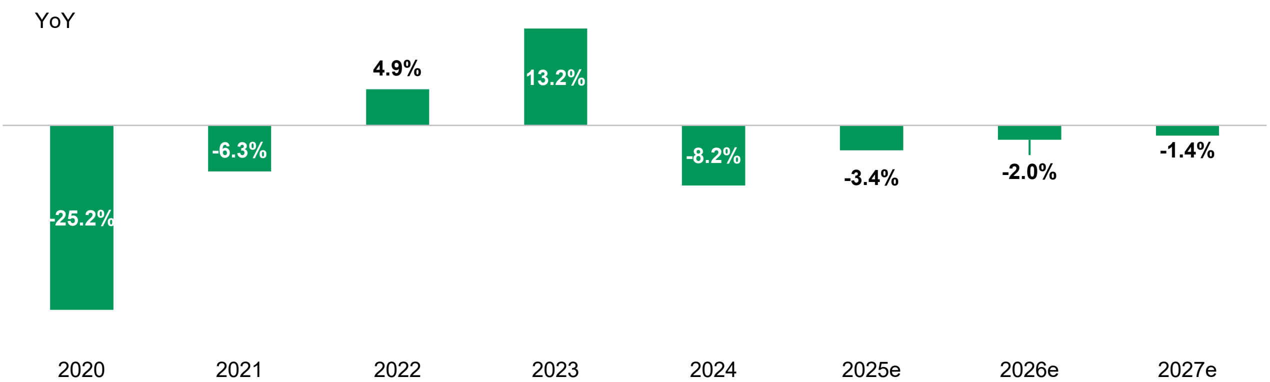
… The start of a recovery in demand boosted by subsidies in most European countries

The European market is gradually recovering, although it remains around 14% below its pre-Covid-19 level (November 2019). Volumes have increased by around 3% YoY in Germany, while they have declined by around 2% in the UK and remained stable in Italy. Volumes were also virtually flat in France and grew by around 13% in Spain.

China's electric vehicle market is growing rapidly and its success now extends beyond its borders. Chinese brands already account for nearly one in five electric vehicles sold abroad. New factories in Europe, South-East Asia and Latin America allow them to circumvent trade barriers. In Europe, the market share of Chinese automakers increased from around 5% at the beginning of the year to around 9% in November 2025 (an increase of almost 1ppt compared to October 2025).

In Europe, November 2025 saw the fifth consecutive monthly increase since June 2025. While demand from fleet managers remains the main driver of car sales in Europe, demand from individuals is starting to take over. With the exception of the French and Italian markets, where this demand fell by 3% and 6%, the share of individual purchases picked up with an increase of 10% in Germany and 19% in Spain. The launch of models costing less than EUR25k, such as the Renault R5 or the Citroën C3, has been a major factor in the recovery of EV sales. A wave of new models expected in 2027-28 should support this demand over the long term.

Western Europe: trends in automotive production



Source: Crédit Agricole S.A./ECO

The market penetration of battery-electric vehicles (BEV) in the top five European countries (EU-5) has reached around 16% YTD, with 19% in Germany, 23% in the UK, 20% in France and 9% in Spain, but it remains low in Italy at 6%. All these markets posted a 35% increase in Q325 vs 2024. However, the average penetration rate of BEVs is still quite far from the 25% penetration rate required to meet the requirements of European regulations in 2027.

An expected easing of European regulations

In France, the success of the 'social leasing' programme for electric vehicles (now expired) has prompted the government to extend these subsidies in 2026. Similarly, grants for the purchase of electric vehicles are expected to be maintained and extended in the UK, in Germany – which is reintroducing a EUR3bn subsidy for low-income households (of up to EUR5k for 600-750k vehicles), and in Spain, where the subsidy for 2026 is expected to total EUR400m. Europe has just approved easing requirements for the planned phase-out of internal combustion engine vehicles from 2035.

The slowdown in European production is gradually easing, but the sector is still expected to experience another year of decline in 2026, of around 2%, after a contraction of 8.3% in 2024 and 3.4% in 2025. These forecasts continue to presage ongoing restructuring by automakers and equipment manufacturers.

	EV penetration rate in Europe
Since January 2025	16%

Véronique VIGNER

Metals – How to bend without breaking

With rising protectionism, demand uncertainties and the introduction of the Carbon Border Adjustment Mechanism (CBAM), the European steel industry faces a pivotal year in 2026.

Europe is stepping up its game

Good things come to those who wait! After a long wait, in October, **European steel manufacturers discovered the terms of a Commission proposal aimed at ensuring the long-term viability of the European steel sector**, with details of the action plan announced six months earlier. In concrete terms, the Commission proposed amending its tariff policy, with a 47% reduction in tariff-free import volumes and a doubling of out-of-quota duties to 50%. In response to circumvention, it also plans to introduce a 'melt and pour' rule, under which the origin of the steel will be determined by the country in which it is originally melted instead of that where it was further processed.

> *In the absence of a hydrogen sector in Europe, credible decarbonisation options are shrinking in the short term.*

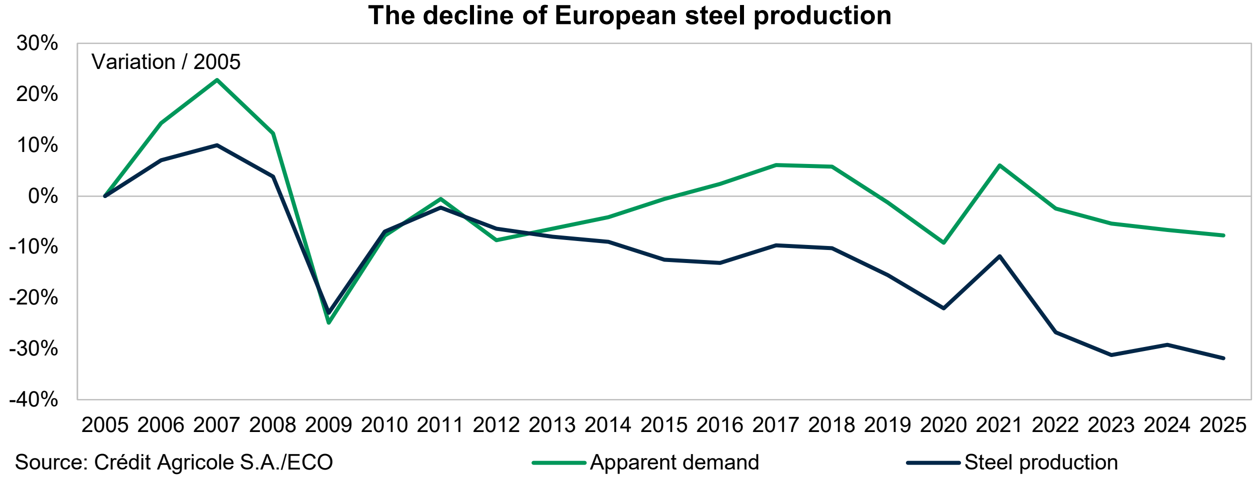
The Commission is actually facing time constraints as the current system expires in June 2026. The deluge of customs measures resulting from Trump's tariffs and Chinese overproduction are also continuing to put pressure on European producers. Still subject to Parliament and Council approval, the measure will most likely be adopted for application from mid-2026.

One quota policy can hide another. **In mid-November the Commission announced restrictions on imports of certain ferroalloys intended for steel manufacturers.** In a major surprise, Norway and Iceland, which account for 50% of European imports, will not be exempt. Recognising the impact of this decision, the Commission has said that it is planning quarterly consultations with these countries as well as an annual review of the measure. The impact on the market remains to be seen, but a permanent exclusion of these two countries seems unlikely.

Decarbonising: yes, but when (and how)?

The CBAM will come into force on 1 January 2026 and will mark the gradual phasing-out of free carbon emission allowances until 2034. In the absence of a hydrogen sector in Europe, credible decarbonisation options are shrinking in the short term. The idea of decoupling value chains, from the integrated blast furnace route to a Europe importing direct reduced iron (DRI) is gaining ground, with no urgency. It could hardly be otherwise in a late-cycle environment where the market is having to face – in one fell swoop – new tariff rules and an ever-changing CBAM. Do good things come to those who wait?

Guillaume STECHMANN



Source: Crédit Agricole S.A./ECO

Semi-conductors – AI is accelerating sector growth and disrupting its cyclicality

Demand for artificial intelligence (AI) chips has been driving growth in the sector since 2023. The industry is cyclical, and huge AI-related needs have significantly slowed down the supply of other essential components such as memory.

The rapid development of AI since 2023 has led to sustained demand for specific components: graphics processing units (GPUs), non-GPU AI accelerators, high bandwidth memory (HBM), as well as the more common DRAM and NAND memory types.

The global semiconductor market is expected to reach USD773bn in 2025, up nearly 18% from 2024. **This sustained growth is mainly driven by strong demand for chips tailored to AI needs** (+48% compared to 2024). GPUs (+57% vs 2024), other AI accelerators (+143% vs 2024) and DRAM memories (+33% vs 2024), posted the strongest growth.

AI-specific components accounted for 27% of the sector's revenues in 2025.

Strong demand for AI chips

The ever-increasing training and inference activities of large language models (LLM) require specific components. Revenues from these AI chips are expected to reach USD205bn in 2025, up 48% compared to 2024.

AI chips account for 27% of the sector's revenues in 2025. GPUs and other AI accelerator processors alone account for 63% of total revenue from these AI chips in 2025.

These specific components are used for different applications in almost all sectors. However, **computing and storage applications are clearly the biggest users**, accounting for 76% of the AI chip market in 2025.

AI chips are mainly found in servers, data centres and devices such as PCs, smartphones and tablets. **The number two segment for AI chips is telecommunications and connectivity**, accounting for 16% of revenues in 2025. Together, **these two segments account for 92% of AI chip revenues in 2025** and largely exceed other segments such as automotive, industrial electronics and consumer electronics.

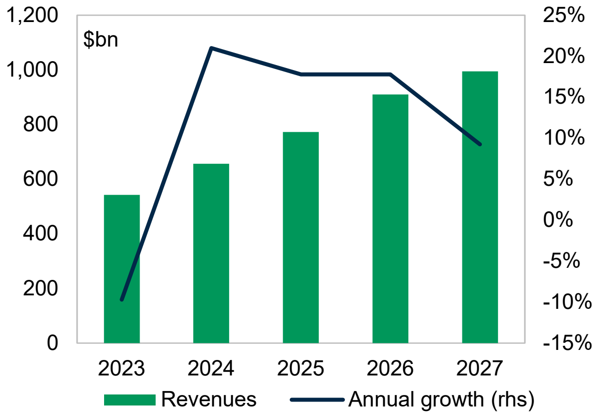
The surge in demand for AI is disrupting cyclicality

The surge in specific needs linked to the rapid development of AI has also created an imbalance in supply and demand in 2025, resulting in surplus stocks for some categories of components and shortages for others. This should translate into a cyclical low for general-purpose chips in 2026, impacting the automotive, industrial-electronics and consumer-electronics industries. Memory and GPU prices are also expected to continue on their rising trend.

	Global semiconductor market
2025	$bn 773
2026	$bn 910

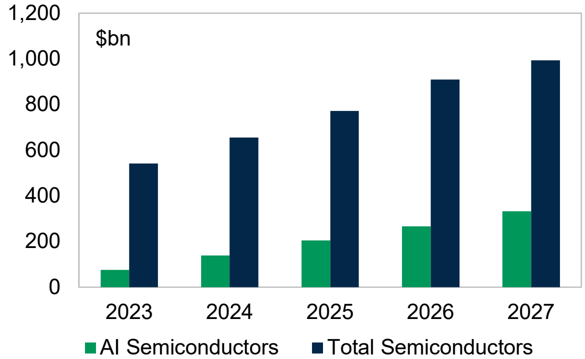
Rabindra RENGARADJALOU

Worldwide market revenue trend



Sources: Gartner (Sept. 2025), Crédit Agricole S.A./ECO

Worldwide market: AI semiconductors revenues share of total revenues



Sources: Gartner (Sept. 2025), Crédit Agricole S.A./ECO

Containers – The challenges of a return to normal

While the container shipping sector is facing worrying overcapacity and uncertain demand, the tanker sector is on the rise as a result of recent sanctions against Russia. In this environment, maritime transport could see a new major upheaval with the possible resolution of the crisis in the Red Sea.

The ceasefire in Gaza and the announced suspension of attacks by the Houthis could allow ships to return to the Suez route instead of sailing around Africa, which has become the norm for many over the past two years. This possibility depends on the peace plan holding in Gaza.

For container transport, **returning to the Suez route would have far-reaching consequences.** In 2024, the Red Sea crisis helped absorb record deliveries, which were threatening the sector's overall equilibrium. It caused logistical tensions that triggered price spikes. **A return to the normal Red Sea passage would free up an additional 6% of supply**, which is currently used for rerouting. This would exacerbate the overcapacity already seen on the market, with freight rates down by more than 40% YoY, despite the upward revision in traffic growth to around 4% this year. **This issue of overcapacity, combined with a record high order book, will remain central in the coming years and should exert lasting pressure on transport prices.**

In contrast, the crude oil tanker market is experiencing a surge, partly due to the latest Western sanctions on Russia. Over the past three years, sanctions have caused a major decoupling between Europe and Russia in terms of energy supply, fuelling maritime transport and extending routes. They have also led to the growth of a sizeable "dark fleet" of often aged and under-insured Russian vessels that use multiple circumvention strategies. This fleet, also used by Iran and Venezuela, constitutes a parallel and opaque market around which the noose is beginning to tighten.

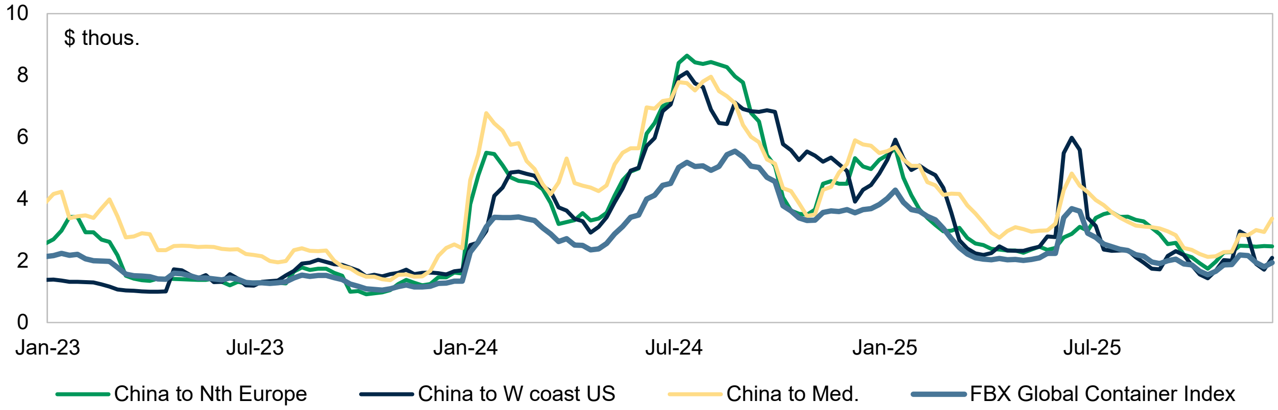
China is asserting itself more than ever as a driver of container transport. While its imports are tending to fall, China's containerised exports to emerging regions continued to show strong growth, as did those to Europe, where the influx of Chinese goods is becoming problematic. Despite its decline in North America, China now accounts for 37% of global export container volumes, up 4ppt in two years, generating a growing imbalance in trade flows. However, the slowdown in total Chinese exports in value in October raises questions about the sustainability of this dynamic.

China alone now accounts for 37% of global export container volumes.

In the US, after frontloading effects, containerised imports are now declining (-7% in October), with the decrease much more visible on imports from China, the main target of Donald Trump's tariffs. The one-year trade truce reached between the US and China at the end of October will not change this. The contraction in Chinese exports to the US is therefore likely to continue over the coming quarters, partly offset by Asean countries and India, which is seeking to renegotiate the penalising 50% tariffs applied since the summer, half of which are in retaliation for India's purchases of Russian oil.

Bertrand GAVAUDAN

40-foot container price (weekly average)



Sources: Datastream, Freightos, Crédit Agricole S.A.

MARKETS

Monetary policy – Desynchronisation

Interest rates – Moderate upward pressure

Exchange rates – New advantage for the dollar

Monetary policy – Desynchronisation

On the monetary front, diverse progresses in terms of disinflation and proximity to central bank targets justify different approaches. The US Federal Reserve, whose further easing, is made difficult by more persistent inflation, differs in particular from the ECB, which is in a more comfortable position due to inflation foreseen to be slightly below its target. After key interest rates remain stable in 2026, there would be modest movements in 2027: downward in the US and upward in the Eurozone.

FEDERAL RESERVE: PACE OF EASING TO SLOW MOVING FORWARD

Given our view that inflation will remain relatively sticky, along with our base case that the labour market will see only modest additional cooling, we continue to lean hawkish on the Fed as we forecast a terminal rate of 3.50% for the upper bound, and we think it could take a while to get there. In fact, we technically have the Fed on hold through end-2026 with the upper bound at 3.75%, before reaching this terminal rate with a final cut only in Q227.

This makes us more hawkish than the market, which prices a terminal rate of just above 3% that is reached by around end-2026. That said, we are no stranger to being a hawkish outlier in recent years, which has mostly worked out well. For example, heading into 2024, we projected the first cut in July even when the market was pricing a cut by March, and the Fed did not end up cutting until September. In 2025, we held firm to our call of two cuts even when the market was pricing close to five in the wake of "Liberation Day", and it ended up being a close call between two and three. None of this is to say that we are guaranteed to be right, but it is simply to point out that the market has displayed a consistent dovish bias in recent years. Thus, we are not particularly uncomfortable about the fact that our outlook is more hawkish than the market.

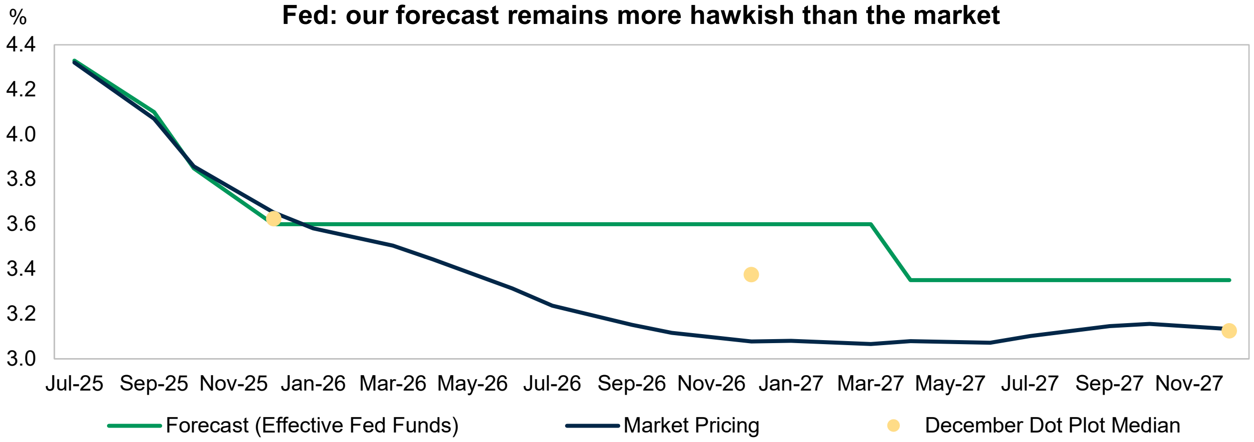
Admittedly, risks are tilted to the downside, with political pressure and the looming arrival of a new Fed Chair prominent among these. However, we continue to think there are enough checks and balances in place for the Fed to largely withstand the pressure and prevent Fed capture, including the fact that the Chair is not a dictator that sets policy unilaterally. Consequently, our base case sees political pressure having a limited impact on the rate path. That said, the persistence and variety of attacks by the administration indicate that risks are clearly rising.

Our base case sees political pressure having a limited impact on the rate path.

Despite QT having only just ended, the Fed's balance sheet is about to begin expanding once again, with the Fed in December announcing reserve management purchases (RMP) totalling USD40bn worth of Treasury bills over the next 30 days. The updated pace and schedule will be announced around the ninth of each month, and we expect the pace to decline after mid-April Tax Day, as the Fed implied. Though some refer to RMP as akin to stealth QE, we view them as a technical adjustment rather than a change to the stance of monetary policy.

Nicholas VAN NESS

Fed: our forecast remains more hawkish than the market



Sources: Bloomberg, Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: THE NEXT MOVE WILL BE UP

The improvement in Eurozone growth in 2026 and even more so in 2027, driven mainly by the recovery in Germany, **should prompt the ECB not to ease its monetary policy further in 2026**.

Inflation, and in particular core inflation, should continue to decline, falling below 2% at the end of 2026 and reaching a low at the beginning of 2027. The economic recovery could generate tensions in the labour market, wage pressure and, ultimately, inflationary pressure. The ECB could anticipate this rebound in inflation and start tightening its monetary policy in early 2027. **Against this backdrop, we expect a first rate hike in March 2027 and a second in September 2027, bringing the deposit rate to 2.5%.**

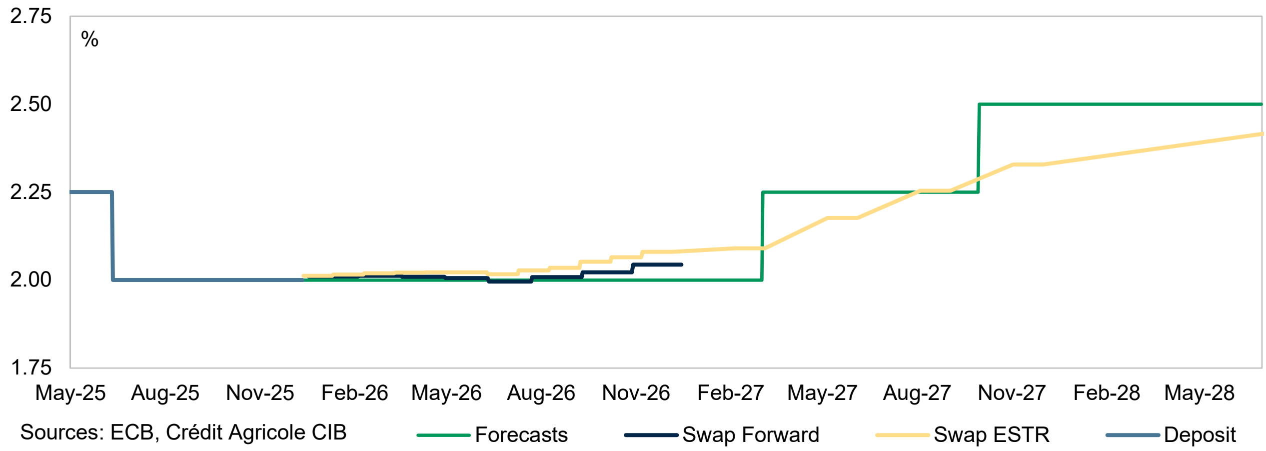
This quantitative tightening is widely priced in by the markets and is unlikely to weigh heavily on the sovereign bond markets.

This would be the terminal rate of this cycle, enough to ease inflationary pressure. We are more hawkish than current market pricing, though recent comments from members of the Governing Council have led to some convergence towards our view among investors.

The ECB's balance sheet policy is expected to continue in the same way as in 2025, with the ECB pursuing its quantitative tightening: by not reinvesting the assets held in its balance sheet as they mature, the ECB is reducing its quantitative easing (QE) by around EUR40bn per month. This quantitative tightening is widely priced in by the markets and is unlikely to weigh heavily on the sovereign bond markets. However, a reduction in balance sheet assets will reduce bank liquidity on the liabilities side. As a result, bank liquidity is expected to fall from EUR2,500bn at end-2025 to below EUR2,000bn at end-2026. This level of excess liquidity should be sufficient to cover the needs of the banking system, but it is likely to approach the lower limit, which could generate some – very limited – tensions in the short-term interest rate markets.

Louis HARREAU

ECB: deposit rate and market expectations



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: NEARING NEUTRAL LEVELS OF BANK RATE

The Bank of England (BoE) decided to pause its monetary policy easing cycle in November and left its Bank rate on hold at 4.00%. A tight majority of the MPC (5 against 4) was worried about the risk of higher household inflation expectations resulting in greater inflation persistence.

With recent economic developments generally coming on the softer side, we expect him to switch to the dovish camp in December and to vote for a rate cut. Inflation has surprised to the downside, and the labour market has deteriorated. As we had anticipated, at its meeting on 17 December, **the MPC voted for a 25 basis points (bp) reduction to 3.75%, once again by a narrow majority (5 to 4)**. This decision was driven by the fall in inflation which, at 3.2%, still exceeds the 2% target but towards which it is now expected to converge more rapidly in the short term.

Our scenario anticipates a further 25 bp rate cut in the first quarter of 2026 (February). **Admittedly, the recent acceleration in the labour market's deterioration has raised the question of faster rate cuts.** The unemployment rate reached 5.0% in September 2025, slightly higher than expected. Private sector wage growth moderated to 4.2% in Q325 from 4.8% in Q225. Vacancies were broadly unchanged on the quarter, but early estimates point to another fall in October. The number of unemployed people per vacancy, the BoE's preferred measure of the degree of loosening in the labour market, increased to 2.5, its highest level since Q121. Redundancies increased sharply in Q325 (+18.4%), reaching their highest since Q121. The easing of labour market conditions is both demand and supply-side driven. Businesses have been cutting employment due to rising non-wage costs in relation with the increase in April 2025 of employer National Insurance Contributions. This negative trend has been exacerbated by the uncertainty in relation to the Autumn Budget, as shown by the sharp decline in employment in the November business surveys. On the supply-side, the participation ratio has been increasing since early 2024, reaching 63.9% vs 63.3% one year ago and back to its pre-pandemic levels. The BoE judges that it is likely to remain broadly flat in the coming years. We expect the unemployment rate to peak at 5.2% in Q425, before falling back below 5% in the course of the year thanks to the dissipation of the impact of the April increase in employer NICs and of the uncertainty related to the Budget.

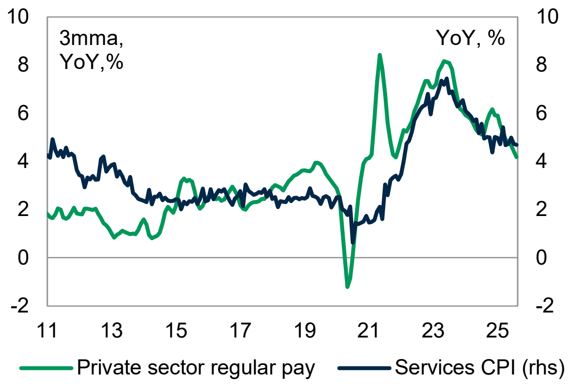
Aiming to reduce the cost of living, the government introduced a package of measures which will reduce household energy bills.

We expect a sharp fall in total inflation below target in Q226 thanks to lower energy prices. Aiming to reduce the cost of living, the government introduced a package of measures which will reduce household energy bills; it announced a temporary extension of the fuel duty freeze until September 2026, and a one-year freeze to rail fares and prescription charges. Those measures are expected to reduce CPI inflation by 0.5ppt in Q226 and by 0.3ppt in 2026, according to OBR estimates. Furthermore, our oil strategist has revised his oil forecasts down, which also contributes negatively to CPI inflation. As a result, we now expect CPI inflation below target as soon as in Q226 at 1.9% on average (down from 3.8% YoY in Q325 and 3.6% YoY in Q425) and at 1.7% YoY in Q326.

Core inflation, albeit also declining sharply in the coming year, is generally higher than the BoE's 2.0% target throughout 2026 and 2027. Services inflation, largely determined by wage growth, will likely remain elevated, preventing the BoE from cutting more aggressively. Indeed, early indications from the Bank Agents suggest that settlements could average around 3.5% in 2026. The most recent DMP Survey even expected wage growth of 3.7% over the next year on average, still above the level compatible with a sustainable return of inflation back to target. The BoE will likely need to see more evidence of softening domestic prices pressures, such as a downward revision to Bank Agent's private sector pay settlements, before envisaging cutting rates more aggressively. This may materialise in H226 if household expectations are adjusted to the downside in reaction to lower short-term CPI inflation.

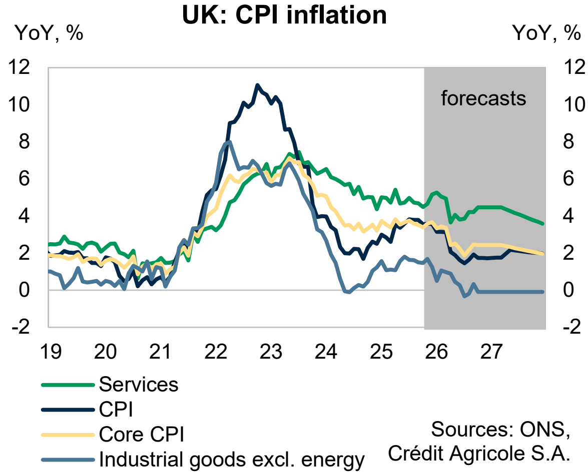
Slavena NAZAROVA

UK: wages in the private sector and inflation in the services



Sources: ONS, Crédit Agricole S.A.

UK: CPI inflation



Sources: ONS, Crédit Agricole S.A.

BANK OF JAPAN: FULL-SCALE RATE HIKE CYCLE TOWARD NEUTRAL INTEREST RATES WOULD BEGIN AFTER 2027

The BoJ is given a dual mandate aimed at achieving both strong economic growth and price stability. Domestic demand remains weak due to structural deflationary pressures, as indicated by the abnormally positive corporate savings rate. There is downward pressure from the global economic slowdown caused by Donald Trump's tariffs. Inflation temporarily slowed as the impact of high import prices fades and domestic demand remains weak. The rise in real wages due to the slowdown in inflation gradually expands domestic demand.

The reflationary forces of continued active fiscal policy and accommodative monetary policy have significantly expanded nominal GDP. The expansion of nominal GDP would temporarily slow down due to the BoJ's premature rate hikes and the global economic slowdown caused by the Trump tariffs.

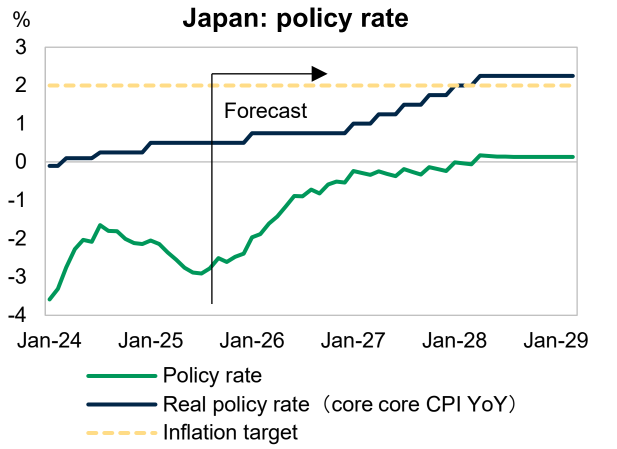
As the decline in the corporate savings rate catches up with the capital investment cycle, real wages would rise more strongly.

Net domestic fund demand (corporate savings rate + fiscal balance) **has recovered, and the reflationary force has expanded nominal GDP.** The Takaichi administration's expansionary fiscal policy, driven by public-private partnerships for growth investment and demand expansion measures, is expected to revive domestic demand and trigger a global cyclical economic recovery. Increased corporate spending is likely to cause the corporate savings rate to decline, and, combined with expansionary fiscal policy, this would revive net domestic fund demand, which had disappeared, and provide a reflationary force that would lead to a complete escape from the structural deflationary stagnation.

The upswing in the capital investment cycle helps bring the corporate savings rate back to a normal negative state. As the decline in the corporate savings rate catches up with the capital investment cycle, real wages would rise more strongly. The focus of the economy, policies, companies and markets would shift from external demand to domestic demand.

Three rate hikes in 2024 and 2025 delayed the recovery of domestic demand. With the transition from the austerity-oriented Ishiba administration to the Takaichi administration, greater emphasis would be placed on the government's top priority of escaping structural deflation and stagnation through a high-pressure economy, and on coordinating it with an aggressive fiscal policy. The government has effectively imposed a dual mandate on the BoJ, aiming to achieve both strong economic growth and price stability.

After the rate hike in December 2025, rate hikes are expected to be halted for a year under the high-pressure economic policy. A slowdown in inflation would give the BoJ the leeway to stop hiking rates. When a steady decline in the corporate savings rate is confirmed due to a global cyclical economic recovery, the BoJ would finally enter a full-scale rate hike cycle toward neutral rate, once it has confirmed the certainty of the outlook for a recovery in domestic demand due to rising real wages and a recovery in inflation due to the realisation of a high-pressure economy accompanied by an upswing in growth. The BoJ would continue to raise rates by 25bp every quarter, with the policy rate expected to rise to just over 2% by 2028. By raising rates in line with the expansion of inflation, the real interest rate would be maintained near 0%, supporting the corporate savings rate turning negative due to the expansion of investment. The goal would be for the real rate to return to a slightly positive level relative to 2% inflation target.



Sources: BoJ, MIAC, Crédit agricole CIB

Ken MATSUMOTO – Takuji AIDA

Interest rates – Moderate upward pressure

In both the United States and the Eurozone, interest rates are expected to be subject to moderate upward pressure in 2026, driven by decent growth rates and fiscal stimulus. However, the divergent monetary policy moves anticipated for 2027 justify different patterns in interest rate curves: steepening in the United States and flattening in the Eurozone.

USA: FRONT END LEADS RATES HIGHER

We are biased towards higher rates, given our house view that the Fed will stop easing in 2026. Our macro view on the Fed is more bearish than the market pricing, where around 50bp easing is priced for 2026. There have been clear divisions on the FOMC. The FOMC added “the extent and timing of additional adjustments” to the future policy path in the December statement, suggesting a more cautious approach. The Fed has emphasised that policy was not on a “pre-set” course, with no “risk-free” path available moving forward.

We expect the 2Y yield to trade in the high 3.00% area, with no Fed cuts in our 2026 forecast vs a more dovish market pricing. The 2Y yield correlates with market-implied easing. The latest Fed dot plot implies one 25bp cut in 2026, one more in 2027 and none in 2028, leaving the median longer-run dot at 3.00%.

We target the 10Y yield at 4.50% by the end of 2026, as growth will likely be stronger in 2026 than in 2025. The December FOMC Summary of Economic Projections (SEP) median forecast sees stronger growth at 2.3% in 2026 than 1.7% in 2025, while core inflation PCE drops to 2.5% in 2026 from 3.0% in 2025. Hence, higher growth and lower inflation in 2026.

We expect the 30Y yield to rise as well, but struggle to go over 5.00% on the forecast horizon, thanks to pension demand/LDI flows. There has been active stripping of bonds, eg, USD50bn Treasuries were net stripped this year through November. Strong stock prices further improved pension fund status. The Milliman 100 Pension Funding Index increased to 107% in November.

The curve stays in a range in our forecast for most of 2026, with a flattening bias in H126. The Supreme Court will hear oral arguments on President Donald Trump’s decision to remove Governor Lisa Cook in January 2026. If Trump succeeds in replacing Cook, there will be a majority of Fed Governors who could advance the administration’s lower rates agenda. The curve appears steep relative to forward rates, such as 1Y1Y swap. A flattening yield curve should help compress Treasury term premium.

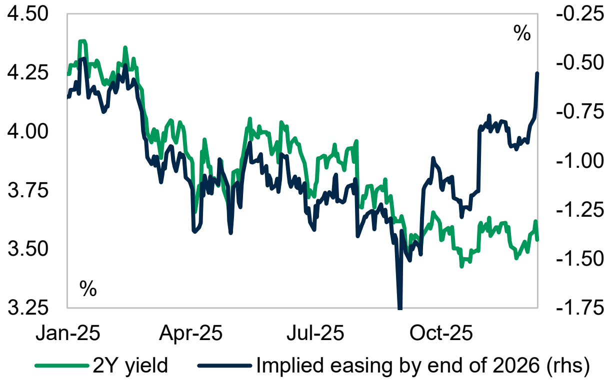
The Fed has emphasised that policy was not on a “pre-set” course, with no “risk-free” path available moving forward.

We expect stable nominal coupon auction sizes and high bill issuance in 2026. The Treasury’s guidance of “maintaining nominal coupon and FRN auction sizes for at least the next several quarters” is unlikely to change near term. The market expects the deficit to GDP ratio to centre around 6.4% and nearly USD2trn net issuance in 2026.

High bill issuance satisfies Fed reinvestments after QT, as well as reserve management purchases (RMPs). The Fed has started USD40bn per month RMPs of Treasury bills, as officials judged that “reserve balances have declined to ample levels” and the purchases are “needed to maintain an ample supply of reserves on an ongoing basis.” Once funding gets under control over the coming months, we expect the RMPs to “be significantly reduced in line with expected seasonal patterns in Federal Reserve liabilities,” eg, after the 15 April tax day.

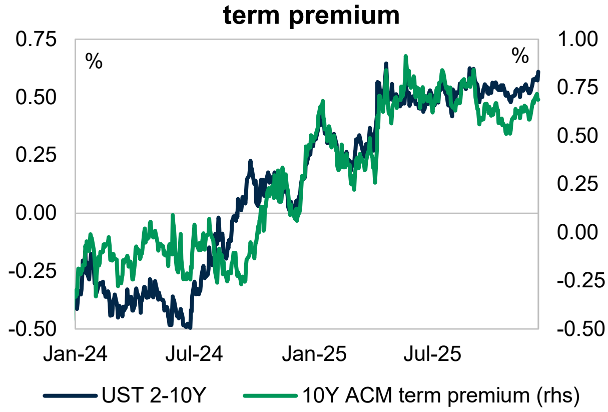
Alex LI

2Y yield could rise if the Fed stops easing in 2026



Sources: Bloomberg, CA CIB

A flattening curve compresses term premium



Sources: Bloomberg, CA CIB

EUROPE: REAL YIELDS RISING

Though the ECB completed its easing cycle in June and inflation continued its decline to just above 2%, **the performance of EGBs in 2025 has been very mixed**. From an index total return perspective, Bunds and the Netherlands returned just under -2.0%, while Italy returned almost +3.0% and Spain +1.5%. Aside from index composition differences, giving old core issuers a higher duration component, EGB yield convergence was once again a big theme in 2025. At the same time, reflecting sounder fiscal metrics, old periphery countries saw numerous upgrades, while France and Belgium's ratings were downgraded.

Markets are always forward looking, so the other big theme of 2025 has been rising Bund real yields while UST real yields have been falling. Part of the rationale is the notion that the ECB will continue with QT through 2026 and its next move should be to tighten policy, while the Fed has stopped QT and markets expect it to ease policy in 2026 a number times. Hence it is notable the extent to which long-end EGBs have underperformed USTs in 2025. It is also surprising that long-end EGBs realised negative returns, while USTs had very large positive returns, but this should reflect demand differences from respective insurance and pension fund sectors for each region.

Given our view that the ECB should be hiking in 2027 and the Fed will not deliver any cuts in 2026, our view is that the bearish momentum will persist for EGBs. More Bund supply driving German fiscal growth is also a factor driving ASW levels, where we think Bunds should underperform swaps. If the ECB's next move is to hike rates, we should see a mild tightening cycle priced into the curve, which implies bear flattening, albeit initially led by the 5Y sector before the 2Y sector repricing catches up.

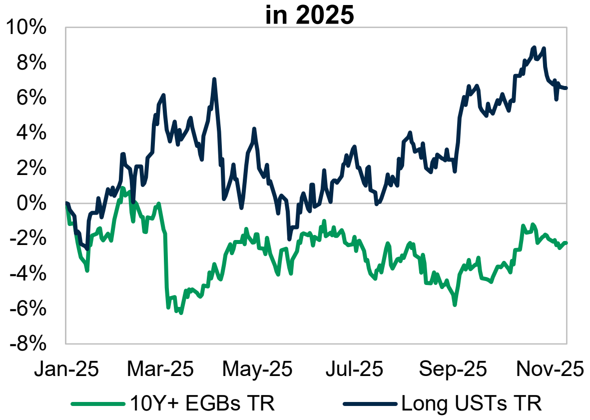
This scenario of pricing in higher ECB rates should become a headwind to carry led and risky assets where falling volatility in 2025 was a big tailwind. In our view this becomes a less supportive environment for BTPs from a technical perspective as they now lack yield, trading through OATs. Provided we have no negative news from France next year, we think OATs can outperform BTPs, but 2027 is a different story as elections in both countries come into focus.

Part of the rationale is the notion that the ECB will continue with QT through 2026, while the Fed has stopped QT and markets expect it to ease policy in 2026 a number times.

Tighter monetary & financial conditions bode in favour of the EUR curve to flatten, and perhaps also the 10-30Y segment. Therefore, the carry driven, spread compression environment of the last two years should mildly go into reverse. Note also that apart from Germany increasing net issuance by around EUR366bn, we expect overall EGB net issuance to decline in 2026. At the margin more deleveraging is to come from previously classified "periphery" countries, hence we think that Bonos should be the relative outperformer in 2026 among the bigger countries. Smaller issuers should retain a scarcity premium.

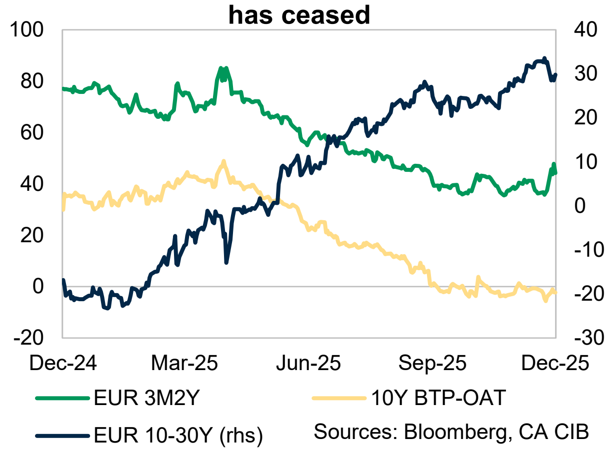
Bert LOURENCO

EGBs lagged UST performance in 2025



Sources: Bloomberg, CA CIB

BTPs' outperformance of OATs has ceased



Sources: Bloomberg, CA CIB

Exchange rates – New advantage for the dollar

In 2026, yield spreads are expected to favour the US currency, while the euro is unlikely to benefit from speculation about the dollar's status as a reserve currency. The dollar is expected to depreciate in 2027 on the back of new monetary policy measures favourable to the euro.

DEVELOPED COUNTRIES: EUR/USD DOWNSIDE RISKS TO GROW IN 2026

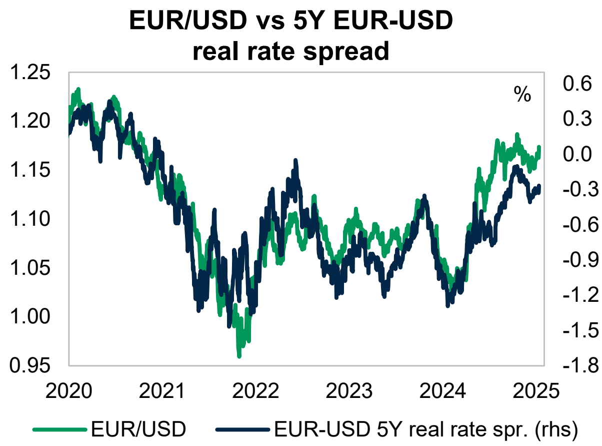
We expect the USD to outperform the EUR in 2026 because we think that the ECB-Fed policy convergence would be delayed by another year. Our US economist expects no Fed cuts in 2026 – a more hawkish outlook than that expected by the US rates markets. We further see stable ECB policy rates throughout 2026 – a slightly more dovish outlook than the current market view. We thus expect that the EUR-USD policy rate spread would turn more negative again in 2026 and weigh on EUR/USD. At the same time, pushing against too aggressive USD gains vs the EUR would be fears about fiscal dominance over the Fed in 2026.

We also expect the Eurozone investors should remain invested in the US as it continues to outperform the Eurozone and the AI boom lives on. Growing nominal UST yields and subsiding US inflation could boost US real yields in 2026 as well. European FDI in the US could pick up given the commitments by Eurozone companies. We think that hedging costs would remain too high for European investors to aggressively hedge their USD exposure in 2026. We note that demand for long-EUR FX hedges from European corporates could wane as well due to challenging global trade conditions that together with a domestic demand-driven recovery in the Eurozone could lead to further weakness of its net exports in 2026.

The EUR outlook should remain vulnerable to geopolitical risks.

We further doubt that the EUR would benefit significantly from continuing market speculation about the reserve currency status of the USD. This is partly due to the fragmentation of the EGB market as well as lingering political and fiscal risks in France that could intensify in 2026. The EUR outlook should remain vulnerable to geopolitical risks – ranging from the ongoing war in Ukraine to potential renewed escalation of tensions between the US and China. While it is difficult to be more precise on the timing of these risks, we believe that the Ukraine war in particular could remain the more dominant factor in the next three to six months. This should add to the downside risks to the Eurozone and EUR outlook.

Valentin MARINOV



Sources: Bloomberg, CA CIB

Sources: Bloomberg, CA CIB

EMERGING COUNTRIES: PICK THE RIGHT CARRY STORY

We expect a slight depreciation of EM FX vs the USD in most of 2026. However, this reflects to a large extent our rather bullish in-house view on the USD. The payback on EM exports in H1 and continued softening in Latam currencies, partly for political reasons, also plays a role in capping EM currencies.

However, there are also solid factors supporting EM currencies. The resilience of EM growth is one of them. We also expect the EM-USD interest rate differential to remain relatively stable, as EM central banks, apart from a few exceptions, will either keep interest rates stable, or lower them in proportions similar to what the US Fed is expected to make.

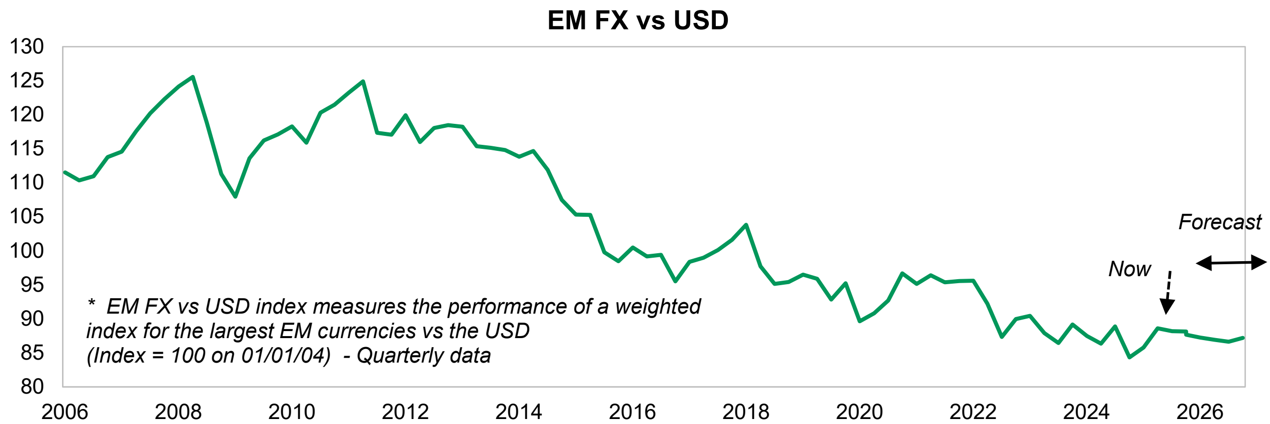
EM FX: flattish enough to make it worth selectively picking some carry trades.

From a strategy point of view, we expect the EM FX trajectory to be flattish enough to make it worth selectively picking some carry trades. As highlighted in the EM macro *article*, the two main identified uncertainties are the Fed's behaviour and the stock market.

Region by region, we have the following top EM FX recommendations:

- ✓ **Asia**: short THB on overdue correction as growth slows and the BOT cuts aggressively. Short PHP as political uncertainties weigh on sentiment and drag on growth. Buy 3Y KTB on normalisation of stretched basis to policy rate and expectation of WGBI inflow. Receive CNY repo 1Y NDIRS on extended easing cycle into 2026.
- ✓ **EMEA**: go long HUF and ZAR on carry and acceleration of economic growth (politics represents a risk in both cases). Very high yielders: the TRY and EGP are also interesting picks, as gradual monetary stabilisation is on its way in both markets, but still requires strong commitment to orthodox policies (riskier, though).
- ✓ **Latam**: long BRL vs COP. Colombia's fiscal premium should continue to increase. We offset the carry cost by going long the BRL, which we foresee remaining relatively resilient in the near term, anchored by high real rates and strong external dynamics. Long CLP vs PEN. We expect the incoming market-friendly administration to pursue pro-growth reforms in Chile; the PEN has similar exposure to the terms of trade, however is relatively expensive, while the political outlook remains highly uncertain.

Sébastien BARBÉ



Sources: Bloomberg, Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price * (yoy, %)			Current account (% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
United States	**1.9**	**2.1**	**2.0**	**2.8**	**2.8**	**2.4**	**-3.8**	**-3.5**	**-3.4**
Japan	**1.1**	**1.0**	**1.7**	**3.0**	**1.6**	**1.6**	**2.0**	**2.0**	**3.0**
Eurozone	**1.4**	**1.2**	**1.3**	**2.1**	**1.8**	**1.8**	**2.4**	**1.6**	**1.8**
Germany	0.3	0.9	1.5	2.3	2.0	2.0	5.8	5.1	5.0
France	0.8	1.2	1.2	1.0	1.2	1.5	-0.9	-0.1	0.0
Italy	0.5	0.5	0.8	1.7	1.1	1.3	1.0	1.1	1.2
Spain	2.9	2.2	1.9	2.7	2.3	1.8	2.3	2.5	2.4
Netherlands	1.7	1.5	1.6	3.0	2.2	1.9	9.1	8.6	10.4
Belgium	1.0	1.1	1.1	3.0	2.2	1.8	-0.4	2.4	-1.3
Other advanced									
United Kingdom	1.4	1.2	1.4	3.4	2.1	2.0	-3.3	-3.0	-3.5
Canada	1.1	1.5	1.8	2.0	2.1	2.0	-0.8	-1.0	-1.7
Australia	2.1	2.2	2.3	3.3	3.0	2.6	-2.1	-2.3	-2.6
Switzerland	1.0	1.3	1.1	0.1	0.6	0.7	7.0	7.0	7.1
Sweden	1.9	2.3	2.1	2.7	2.3	2.0	6.3	5.8	5.3
Norway	0.2	1.2	1.1	3.0	2.6	2.3	15.0	12.0	11.0
Asia	**5.2**	**4.8**	**4.7**	**1.0**	**1.7**	**2.1**	**2.7**	**2.2**	**1.8**
China	5.0	4.7	4.5	0.0	0.6	1.0	3.2	2.4	1.8
India	7.0	6.7	6.5	2.6	4.0	4.5	-1.0	-1.2	-1.2
South Korea	1.1	2.1	2.1	2.1	2.1	1.8	6.1	5.9	5.9
Indonesia	5.0	4.8	4.9	2.0	2.5	2.8	-1.0	-1.2	-1.5
Taiwan	6.4	2.6	2.3	1.7	1.8	1.8	14.8	14.0	13.0
Thailand	2.0	1.5	2.6	-0.1	0.6	1.2	3.2	3.4	4.2
Malaysia	4.2	4.5	4.3	2.0	2.2	2.0	1.9	1.8	1.8
Singapore	3.9	2.0	2.2	0.9	1.5	1.7	17.5	17.2	17.0
Hongkong	3.2	2.1	2.0	1.5	1.8	2.0	13.5	11.2	9.5
Philippines	4.7	4.7	6.0	1.6	2.4	3.3	-2.3	-1.3	-2.3
Vietnam	6.9	6.9	6.6	3.3	3.5	3.3	5.1	5.3	6.0
Latin America	**2.6**	**2.4**	**2.5**	**3.1**	**2.9**	**3.0**	**-0.8**	**-1.2**	**-1.1**
Brazil	2.3	1.7	2.0	5.1	4.5	4.0	-3.6	-3.2	-2.6
Mexico	0.5	1.2	1.2	3.8	3.8	3.6	-0.5	-0.3	-0.3
Emerging Europe	**2.0**	**2.3**	**2.4**	**14.7**	**10.1**	**8.5**	**0.0**	**-0.1**	**-0.2**
Russia	1.0	1.4	1.4	8.7	6.0	5.8	1.8	1.7	1.6
Turkey	3.4	3.4	3.7	36.0	24.0	19.0	-1.5	-1.5	-2.0
Poland	3.6	3.6	3.0	3.6	2.7	3.0	-0.9	-1.0	-1.0
Czech Republic	2.4	2.3	2.4	2.5	2.2	2.3	1.2	0.8	0.9
Romania	1.0	1.5	2.3	7.3	6.5	3.4	-6.5	-6.0	-5.8
Hungary	0.4	2.3	2.5	4.5	3.8	3.2	1.5	1.0	1.3
Africa, Middle East	**3.1**	**3.5**	**3.4**	**11.8**	**9.5**	**8.9**	**0.3**	**0.1**	**-0.1**
Saudi Arabia	4.3	4.6	3.9	2.1	1.7	2.0	-3.1	-3.3	-3.5
United Arab Emirates	4.8	5.1	4.6	1.5	1.8	2.0	8.8	8.3	8.0
South Africa	1.2	1.5	1.5	3.2	3.5	3.5	-1.2	-1.4	-1.6
Egypt	4.4	4.8	5.2	20.9	12.0	9.6	-4.4	-4.3	-3.9
Algeria	3.3	2.9	2.7	3.6	4.1	4.5	-3.0	-3.8	-4.2
Qatar	2.6	5.2	6.8	0.5	0.5	2.0	13.7	15.0	16.0
Koweit	2.5	2.8	2.2	2.3	2.2	2.2	22.0	19.0	17.0
Morocco	4.5	4.2	4.1	1.0	1.7	2.0	-1.9	-2.3	-2.6
Tunisia	2.3	2.1	1.7	5.5	5.8	6.0	-2.7	-2.9	-3.2
Total	**3.1**	**3.0**	**3.0**	**3.5**	**3.1**	**3.0**	**0.7**	**0.4**	**0.3**
Advanced economies	**1.6**	**1.6**	**1.7**	**2.6**	**2.3**	**2.0**	**-0.6**	**-0.7**	**-0.6**
Emerging countries	**4.3**	**4.1**	**4.0**	**4.3**	**3.8**	**3.8**	**1.7**	**1.3**	**1.0**

** HICP for euro area countries, CPI for others*

	2025				2026				2027			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	-0.6	3.8	2.5	0.8	2.6	1.6	2.4	2.3	2.1	2.0	1.9	1.9
Japan	0.1	0.5	-0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Eurozone	0.6	0.1	0.3	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Germany	0.3	-0.2	0.0	0.1	0.2	0.5	0.4	0.4	0.4	0.3	0.3	0.3
France	0.1	0.3	0.5	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Italy	0.3	-0.1	0.1	-0.1	0.2	0.2	0.2	0.3	0.1	0.2	0.3	0.3
Spain	0.6	0.8	0.6	0.5	0.5	0.5	0.6	0.6	0.4	0.4	0.4	0.4
United Kingdom	0.7	0.3	0.1	0.0	0.3	0.5	0.4	0.4	0.4	0.3	0.2	0.2

	2025				2026				2027			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	2.7	2.5	2.9	3.1	3.0	3.0	2.7	2.7	2.5	2.4	2.4	2.3
Japan	2.7	3.2	3.3	2.6	2.1	1.6	1.3	1.4	1.3	1.6	1.8	1.8
Eurozone	2.3	2.0	2.1	2.1	1.8	2.0	1.8	1.8	1.8	1.7	1.8	1.8
Germany	2.6	2.1	2.1	2.4	2.1	2.1	2.0	1.9	2.0	2.0	2.0	2.0
France	1.2	0.8	0.9	0.9	0.9	1.2	1.2	1.4	1.5	1.4	1.5	1.5
Italy	1.8	1.8	1.7	1.2	0.8	1.3	1.0	1.3	1.2	1.3	1.4	1.3
Spain	2.7	2.2	2.9	2.7	2.5	2.0	2.0	2.0	2.0	2.0	1.5	1.5
United Kingdom	2.8	3.5	3.8	3.6	3.1	1.9	1.7	1.7	1.7	2.1	2.1	2.1

	2025				2026				2027			
Unemployment rate, %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	4.1	4.2	4.3	4.5	4.5	4.4	4.4	4.3	4.3	4.3	4.2	4.2
Japan	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Eurozone	6.4	6.4	6.4	6.3	6.3	6.3	6.2	6.2	6.2	6.2	6.1	6.1
Germany	3.6	3.7	3.8	3.6	3.6	3.5	3.4	3.4	3.4	3.3	3.3	3.3
France	7.5	7.6	7.7	7.8	7.8	7.8	7.8	7.7	7.7	7.7	7.6	7.5
Italy	6.3	6.3	6.1	6.1	6.2	6.3	6.4	6.4	6.5	6.5	6.5	6.5
Spain	10.8	10.6	10.5	10.3	10.1	9.9	9.7	9.6	9.5	9.4	9.3	9.2
United Kingdom	4.5	4.7	5.0	5.2	5.1	5.0	4.9	4.9	4.9	4.9	4.9	4.9

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2025	1.4	1.3	1.7	2.6	2.1	3.5	-0.5	0.5
2026	1.2	1.2	1.5	1.7	1.1	1.8	-0.3	0.6
2027	1.3	1.2	1.2	2.3	1.6	1.7	0.0	0.6
Q1 2025	*0.6*	*0.3*	*0.0*	*2.6*	*2.3*	*2.3*	*0.1*	*0.1*
Q2 2025	*0.1*	*0.2*	*0.4*	*-1.7*	*-0.4*	*0.0*	*-0.2*	*0.6*
Q3 2025	*0.3*	*0.2*	*0.7*	*0.9*	*0.7*	*1.3*	*-0.2*	*0.7*
Q4 2025	*0.2*	*0.3*	*0.3*	*0.5*	*0.2*	*0.2*	*0.0*	*0.6*
Germany								
2025	0.3	1.0	2.2	-0.4	-0.1	3.6	-1.5	0.8
2026	0.9	0.7	2.3	3.0	-0.1	1.6	-0.7	0.2
2027	1.5	1.0	2.1	4.1	1.2	2.2	-0.4	0.1
Q1 2025	*0.3*	*0.6*	*0.2*	*0.3*	*2.4*	*1.5*	*0.4*	*-0.5*
Q2 2025	*-0.2*	*0.1*	*0.2*	*-1.1*	*0.3*	*1.7*	*-0.6*	*0.5*
Q3 2025	*0.0*	*-0.3*	*0.8*	*0.3*	*-0.7*	*0.0*	*-0.3*	*0.2*
Q4 2025	*0.1*	*0.2*	*0.5*	*0.8*	*-0.2*	*0.1*	*-0.1*	*-0.1*
France								
2025	0.8	0.4	1.5	-0.1	1.3	2.1	-0.3	0.6
2026	1.2	0.9	1.1	1.1	3.2	1.1	0.7	-0.6
2027	1.2	1.0	0.6	1.7	1.9	1.5	0.1	0.0
Q1 2025	*0.1*	*-0.3*	*0.2*	*-0.1*	*-1.4*	*0.1*	*-0.5*	*0.7*
Q2 2025	*0.3*	*0.1*	*0.5*	*0.0*	*0.3*	*1.4*	*-0.4*	*0.5*
Q3 2025	*0.5*	*0.1*	*0.5*	*0.5*	*3.2*	*-0.4*	*1.2*	*-0.9*
Q4 2025	*0.1*	*0.2*	*0.2*	*0.1*	*1.1*	*0.4*	*0.2*	*-0.3*
Italy								
2025	0.5	0.8	0.3	3.1	1.2	3.0	-0.5	-0.2
2026	0.5	0.9	0.4	-0.1	0.1	0.6	-0.1	0.1
2027	0.8	1.0	0.4	0.4	1.1	1.0	0.1	0.0
Q1 2025	*0.3*	*0.2*	*-0.3*	*1.0*	*2.2*	*1.1*	*0.4*	*-0.3*
Q2 2025	*-0.1*	*0.1*	*0.2*	*1.5*	*-1.7*	*0.4*	*-0.7*	*0.1*
Q3 2025	*0.1*	*0.1*	*0.2*	*0.6*	*2.6*	*1.2*	*0.5*	*-0.6*
Q4 2025	*-0.1*	*0.2*	*0.1*	*-0.2*	*-0.8*	*-0.2*	*-0.2*	*0.0*
Spain								
2025	2.9	3.4	1.7	5.7	3.5	5.7	-0.6	0.1
2026	2.2	2.5	1.4	3.7	1.8	3.0	-0.4	0.1
2027	1.9	1.8	1.2	2.5	2.2	2.0	0.1	0.0
Q1 2025	*0.6*	*0.5*	*0.2*	*1.4*	*2.3*	*2.0*	*0.2*	*-0.2*
Q2 2025	*0.8*	*0.7*	*0.0*	*0.7*	*1.3*	*1.6*	*0.0*	*0.3*
Q3 2025	*0.6*	*1.2*	*1.1*	*1.7*	*-0.6*	*1.1*	*-0.6*	*0.0*
Q4 2025	*0.5*	*0.6*	*0.2*	*1.0*	*0.4*	*0.7*	*-0.1*	*0.0*
Portugal								
2025	1.9	3.4	1.6	3.8	1.0	5.1	-2.0	0.8
2026	2.0	2.2	1.0	6.3	2.3	4.0	-0.9	0.1
2027	1.7	1.9	1.0	0.5	2.8	2.2	0.2	0.0
Q1 2025	*-0.3*	*0.0*	*0.5*	*-2.2*	*-0.2*	*1.8*	*-0.9*	*1.0*
Q2 2025	*0.7*	*0.7*	*0.5*	*2.3*	*-0.1*	*0.5*	*-0.3*	*-0.1*
Q3 2025	*0.8*	*1.2*	*0.5*	*3.3*	*0.8*	*2.0*	*-0.6*	*-0.1*
Q4 2025	*0.8*	*0.4*	*0.1*	*2.0*	*0.4*	*0.8*	*-0.2*	*0.3*
Netherlands								
2025	1.7	1.5	2.6	0.7	2.0	2.2	0.1	0.1
2026	1.5	1.5	1.8	1.8	1.5	1.5	0.2	-0.1
2027	1.6	1.7	1.3	2.4	1.4	1.5	0.0	0.0
Q1 2025	*0.3*	*0.4*	*0.4*	*-2.2*	*0.3*	*0.4*	*0.0*	*0.5*
Q2 2025	*0.3*	*0.1*	*0.5*	*1.6*	*0.5*	*1.9*	*-1.0*	*0.8*
Q3 2025	*0.4*	*0.3*	*1.1*	*-1.6*	*0.8*	*0.2*	*0.5*	*-0.2*
Q4 2025	*0.4*	*0.3*	*0.4*	*1.0*	*0.0*	*-0.3*	*0.3*	*-0.3*
United Kingdom								
2025	1.4	0.9	2.0	4.0	3.1	3.9	-0.3	0.0
2026	1.2	1.2	3.0	5.1	2.4	3.9	-0.6	0.0
2027	1.4	1.3	3.2	4.1	3.0	5.4	-0.9	0.0
Q1 2025	*0.7*	*0.3*	*-0.2*	*1.9*	*1.2*	*1.2*	*0.0*	*0.0*
Q2 2025	*0.3*	*0.1*	*1.3*	*0.5*	*0.4*	*0.0*	*0.2*	*-0.3*
Q3 2025	*0.1*	*0.2*	*0.3*	*1.8*	*-0.1*	*-0.3*	*0.1*	*0.0*
Q4 2025	*0.2*	*0.2*	*0.6*	*2.0*	*0.5*	*0.7*	*-0.1*	*0.0*

(a) contribution to GDP growth (%, q/q) (b) q/q, %

INTEREST RATES

Short-term interest rates		18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Etats-Unis	Fed funds	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.50
	Sofr	3.69	3.65	3.63	3.63	3.63	3.63	3.63	3.38	3.38	3.38
Japon	Call rate	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.50	1.75
Eurozone	Refinancing	2.15	2.15	2.15	2.15	2.15	2.40	2.40	2.40	2.65	2.65
	Deposit	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50
	€str	1.93	1.93	1.93	1.93	1.93	1.94	2.19	2.19	2.44	2.44
	Euribor 3m	2.04	1.97	1.98	1.99	2.00	2.13	2.25	2.38	2.50	2.50
United-Kingdom	Base rate	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	Sonia	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Sweden	Repo	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Norway	Deposit	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50
Canada	Overnight	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25

10Y rates	18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
USA	4.11	4.15	4.20	4.25	4.40	4.50	4.45	4.35	4.30	4.35
Japan	1.97	1.95	2.00	2.00	2.10	2.20	2.30	2.40	2.60	2.80
Eurozone (Germany)	2.85	2.78	2.84	2.85	2.95	3.00	3.08	3.10	3.12	3.10
Spread 10 ans / Bund										
France	0.71	0.78	0.71	0.69	0.91	1.03	1.25	1.11	1.08	1.04
Italy	0.65	0.77	0.70	0.67	0.95	1.02	1.05	1.13	1.15	1.10
Spain	0.43	0.52	0.47	0.45	0.59	0.63	0.65	0.69	0.67	0.64

Asia		18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
China	7d reverse repo rate	1.40	1.40	1.30	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Hong Kong	Base rate	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
India	Repo rate	4.75	4.50	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia	7D (reverse) repo rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Korea	Base rate	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Malaysia	OPR	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Philippines	Repo rate	1.26	1.00	1.00	0.90	0.90	0.90	0.85	0.60	0.60	0.60
Singapore	O/N SORA	2.00	2.00	2.00	2.00	2.00	2.00	1.88	1.88	1.88	1.88
Taiwan	Redisc	1.25	1.25	1.25	1.25	1.00	1.00	1.00	1.00	1.25	1.25
Thailand	Repo	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America											
Brazil	Overnight/Selic	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Mexico	Overnight rate	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Emerging Europe											
Czech Rep.	14D repo	6.50	6.50	6.25	6.25	6.25	6.00	5.50	5.00	4.50	4.00
Hungary	Base rate	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Poland	7D repo	6.50	6.50	6.50	6.50	6.00	5.50	5.00	4.50	4.00	4.00
Romania	2W repo	16.00	16.00	14.00	13.00	12.00	11.00	10.00	9.00	8.00	8.00
Russia	1W auction rate	6.75	6.75	6.50	6.25	6.25	6.25	6.25	6.00	6.00	6.00
South Africa	Repo	38.00	38.50	36.50	34.50	32.50	29.50	26.50	24.50	22.50	20.50

EXCHANGE RATES

USD Exchange rate

Industrialised countries		18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Euro	EUR/USD	1.17	1.17	1.16	1.14	1.12	1.10	1.12	1.14	1.16	1.17
Japan	USD/JPY	155.4	152.0	152.0	152.0	154.0	154.0	152.0	150.0	146.0	145.0
United Kingdom	GBP/USD	1.34	1.34	1.35	1.33	1.32	1.30	1.33	1.36	1.39	1.40
Switzerland	USD/CHF	0.79	0.80	0.82	0.83	0.86	0.87	0.87	0.85	0.84	0.84
Canada	USD/CAD	1.38	1.38	1.37	1.39	1.37	1.35	1.34	1.33	1.32	1.32
Australia	AUD/USD	0.66	0.66	0.66	0.67	0.68	0.70	0.72	0.72	0.70	0.70
New Zealand	NZD/USD	0.58	0.58	0.60	0.62	0.64	0.65	0.65	0.64	0.64	0.64

Euro Cross rates

Industrialised countries		18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Japan	EUR/JPY	183	178	176	173	172	169	170	171	169	170
United Kingdom	EUR/GBP	0.88	0.87	0.86	0.86	0.85	0.85	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.93	0.94	0.95	0.95	0.96	0.96	0.97	0.97	0.98	0.98
Sweden	EUR/SEK	10.89	11.00	10.80	10.70	10.60	10.50	10.60	10.40	10.30	10.20
Norway	EUR/NOK	11.91	11.50	11.30	11.10	10.90	10.70	10.50	10.40	10.30	10.20

Asia		18-Dec	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
China	USD/CNY	7.04	7.06	7.06	7.08	7.10	7.04	7.02	7.00	6.98	6.95
Hong Kong	USD/HKD	7.78	7.80	7.79	7.78	7.77	7.77	7.76	7.76	7.75	7.75
India	USD/INR	90.17	89.00	89.50	90.00	90.00	89.50	89.00	88.50	88.00	88.00
Indonesia	USD/IDR	16710	16750	16700	16800	16850	16850	16850	16800	16700	16600
Malaysia	USD/MYR	4.08	4.18	4.18	4.18	4.16	4.16	4.15	4.12	4.12	4.10
Philippines	USD/PHP	58.5	58.6	59.0	59.5	59.0	58.6	58.3	58.0	57.9	57.4
Singapore	USD/SGD	1.29	1.29	1.31	1.31	1.32	1.31	1.30	1.29	1.28	1.27
South Korea	USD/KRW	1473	1455	1450	1460	1465	1450	1440	1435	1430	1425
Taiwan	USD/TWD	31.5	31.0	31.1	31.2	31.3	30.9	30.8	30.6	30.4	30.0
Thailand	USD/THB	31.4	32.2	32.8	33.0	33.5	33.0	33.0	32.8	32.5	32.0
Vietnam	USD/VND	26285	26300	26350	26400	26450	26300	26300	26200	26100	26000
Latin America											
Brazil	USD/BRL	5.51	5.40	5.45	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Mexico	USD/MXN	17.96	18.50	18.75	19.00	19.25	19.50	19.60	19.70	19.80	19.90
Africa											
South Africa	USD/ZAR	16.71	17.20	16.95	16.70	16.70	16.70	16.60	16.60	16.60	16.60
Emerging europe											
Poland	USD/PLN	3.58	3.62	3.63	3.68	3.74	3.80	3.72	3.65	3.58	3.55
Russia	USD/RUB	79.80	78.50	80.00	82.00	84.00	86.00	86.00	86.00	86.00	86.00
Turkey	USD/TRY	42.73	42.50	43.40	44.10	44.50	44.80	46.20	47.50	48.70	50.00
Central Europe											
Czech Rep.	EUR/CZK	24.37	24.20	24.00	23.80	23.60	23.40	23.20	23.00	22.80	22.60
Hungary	EUR/HUF	387	380	375	365	363	360	357	355	352	350
Poland	EUR/PLN	4.20	4.23	4.21	4.20	4.19	4.18	4.17	4.16	4.15	4.15
Romania	EUR/RON	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09

COMMODITIES

Av. quarter price		18-déc	2025	2026				2027			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	**USD/BBL**	60	63	60	65	65	63	62	65	67	70

Av. quarter price		18-déc	2025	2026				2027			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	**USD/oz**	4,372	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2025	2026	2027	2025	2026	2027
United States	**-6.1**	**-6.4**	**-6.5**	**101.3**	**102.4**	**104.5**
Japan	**-1.0**	**-3.0**	**-3.0**	**218.0**	**217.0**	**215.0**
Eurozone	**-3.0**	**-3.1**	**-3.1**	**87.7**	**88.5**	**88.9**
Germany	-2.6	-3.5	-3.7	63.1	65.0	66.5
France	-5.5	-5.2	-4.9	116.7	118.6	120.2
Italy	-3.0	-2.9	-2.9	136.2	138.5	138.4
Spain	-2.8	-2.7	-2.7	100.2	99.0	99.1
Netherlands	-2.2	-2.8	-2.8	45.4	48.7	48.7
Belgium	-5.4	-5.6	-5.6	107.0	109.7	109.7
Greece	1.1	0.5	0.2	146.0	141.0	135.8
Ireland	2.0	2.8	3.1	33.3	30.3	26.4
Portugal	0.3	-0.1	-0.3	88.7	85.6	84.1
United Kingdom	**-4.8**	**-4.0**	**-3.6**	**102.9**	**105.0**	**106.1**

Completed on 19 December 2025