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THINK Ahead: When 2 tribes go to war - Budgets v Markets

From Paris to Tokyo, budget battles are back in the driving seat in global bond markets. James Smith breaks it all down and looks at what it means for central banks this autumn, as he and the team look ahead to another week without shutdown-hit US data for the global economy



We couldn't afford Frankie's Two Tribes video image, but you get the picture

Four ways budget wrangling could affect central banks

It makes a change for us weary UK economists when it's someone else's Treasury squaring up to the bond market; I'm still scarred by Liz Truss's 45 days in office when the markets told her exactly - and quickly - what they thought of her uncosted tax-cutting budget.

And while Britain may soon see market turbulence again, step forward, Paris this week, as political turmoil and unresolved budget dramas caught the eye of bond investors once more.

This stuff matters. A lot. The past five years - from the pandemic to Europe's energy shock - show that government budgets really steer the macro ship. Central banks merely [trim the sails](#) (... yes, AI suggestions doing some heavy lifting on this bland analogy, but I digress).

So, here are four ways today's fiscal noise could affect our near-term rate calls:

□ France

I'm no expert on French politics, but even if I were, I wouldn't have a clue as to how this saga will eventually end. My colleagues are [similarly uncertain](#).

Plan A is still to **appoint a prime minister** who can submit a draft 2026 budget by Monday's deadline. That's to give Parliament 70 days to deliberate. And let's face it, the odds aren't any kinder to the next PM than the last.

Plan B – **parliamentary elections** – aren't guaranteed to break the deadlock, either. Polls suggest no one party wins a majority.

That probably leaves 2026 looking much like 2025: the current budget rolling forward, keeping deficits north of 5% of GDP.

Cue the inevitable fight with the European Commission over excessive deficits. Does that really matter for markets? Only if you think it would make the ECB hesitant to use its Transmission Protection Instrument (TPI) should French bonds come under greater pressure. It's debatable. As our Rates team [put it](#), France is too big to do nothing. Yet, as [Carsten Brzeski notes](#), it's hardly a great look for the ECB to Hoover up French bonds during a political crisis.

This fight matters, given that the TPI is what's really stopping French-German spreads from rising dramatically. More political uncertainty and the threat of renewed market pressure rarely spell good macro news. For the ECB, that's a [dovish risk](#), even if our base case is for no further cuts.

□ Germany

Carsten's [piece in our Monthly](#) captures the vibe shift around the long-trailed German budget bazooka: optimism has cooled. The big infrastructure push increasingly looks like a 2027 story, not 2026. Some existing investment has been shuffled into the new special funds. And there are capacity constraints too, like finding the people to build all this new stuff. An eerily familiar tale to us living in Britain...

Near term, though, can fiscal policy still deliver a cyclical lift to the ailing industry? Earlier in 2025, it looked possible. The opportunity is obvious: industrial production is still about 15% below pre-pandemic levels.

But the tariff front-loading is over. [Data this week](#) showed order books back to January levels. Inventories are up.

Let's be clear: The "fiscal miracle" should still arrive. But Carsten is [flagging](#) the risk of a second straight quarter of negative growth - another downside for the ECB into autumn.

□ United States

America's budget situation is precarious, to put it mildly. The deficit looks stuck around 6-7% of GDP. The tax bill earlier this year didn't change that much. But the US administration has long argued that tariff revenue would provide an offset.

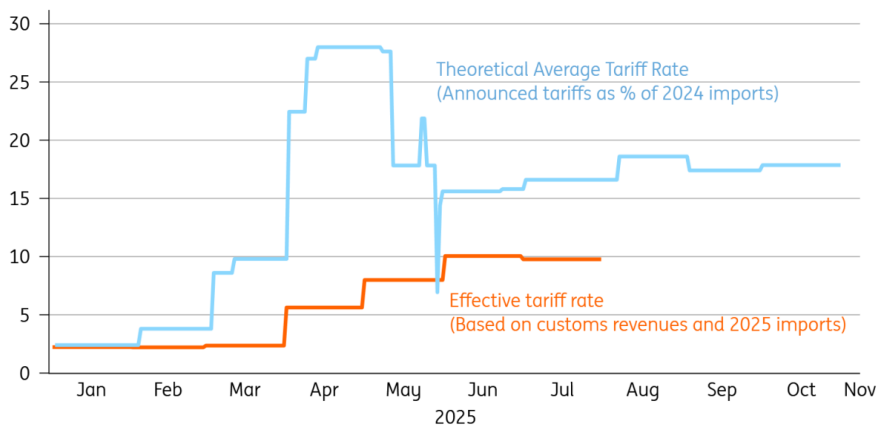
So far, that hasn't happened, or at least they aren't raising as much cash as expected. On paper, taking everything that's been announced puts the average tariff rate at 18%, using 2024 import data. Actual revenue data this summer shows the effective tariff rate is more like 10%.

Why that is, isn't exactly clear, though poor compliance could be a part of it. Either way, it's not great for the deficit but might explain why inflation hasn't taken off, as James Knightley explains in his [monthly article](#).

Revenues should build over time, and so too should the pressure on goods prices. Yet disinflation elsewhere, not least from rents, should offset it, James K thinks.

Bottom line: the lingering threat of tariff-induced inflation shouldn't get in the way of a further four Fed rate cuts

Chart of the week: Tariff revenues have undershot expectations



Source: Macrobond, Yale Budget Lab, ING calculations

□ United Kingdom

Never one to miss the drama, the UK has its own fireworks coming up with November's Autumn Budget. This matters enormously for Bank of England rate cut prospects, which markets have all but priced out.

Tax hikes are inevitable. But do they kick in next year? Do the major revenue-raisers like income tax go up? And crucially, do tax hikes push up measured inflation?

That may sound weird. Tax hikes are supposed to lower inflation, right? Sure, but some taxes do mechanically lift CPI for a time. VAT is a classic example. And all this at a time when the BoE is obsessing more about current rates of inflation. The Treasury knows that, and will presumably limit policies that could nudge up prices next year.

That's why we think the prospect of fiscal tightening in 2026 spells more rate cuts than markets now expect. And gilt yields should eventually come lower, too.

Still, these budgets are rarely plain sailing. Better get the popcorn ready...

THINK Ahead in developed markets

United States (James Knightley)

- **Beige Book (Wed):** Heading into the third week of the government shutdown, there appears little imminent prospect of a deal that will allow a re-opening of the government. Hopefully, that will change; otherwise, we will have another week that is devoid of official economic data. That will mean the Federal Reserve's Beige Book and the industrial production release are the main events, as the Federal Reserve is still open and publishing reports and data. The Beige Book is a really important report that, because of its downbeat assessment last year, prompted the Fed to cut rates 50bp in September 2024. The most recent version, published in August, suggested activity was stalling while 11 out of 12 regions reported no change in employment, with the other region reporting a decline in jobs. We aren't expecting any material improvement in its assessment this week, and that should help convince the Fed to cut rates 25bp later this month.

United Kingdom (James Smith)

- **Jobs report (Tues):** The key story is likely to be a further dip in private-sector wage growth, which surveys suggest should continue into year-end. By the time of December's Bank of England meeting, we expect it to be a tad above 4%, and by February's, a tad below. If that happens, that would go some way to reassuring the Bank that the inflation outlook is cooling, despite headline CPI currently standing close to 4%.

THINK Ahead in Central and Eastern Europe

Poland (Adam Antoniak)

- **August Current Account (Tue):** Current account deficit stabilised around 1% of GDP in

recent months as the trade deficit in goods remains around 1.5% of GDP. We forecast that in August exports in € rose by 3.2% YoY, while imports declined by 0.4% YoY. Weaker US\$ and stable prices of energy commodities curb import growth, while still weak external demand does not allow for a more dynamic export performance. The level of external imbalance remains low and stable.

- **September Core Inflation (Thu):** Downward trend in core inflation continues as the labour market cooled down slightly and wage growth is moderating. According to our forecast, core inflation eased slightly further in September. Core inflation remains slightly above headline CPI as it has a higher share of services, where prices are still rising at a pace of around 6%YoY, while goods inflation moderated below 2% YoY.

Romania (Valentin Tataru)

- **September Inflation (Mon):** More than two years after Romania's inflation returned to single-digit levels, we expect the September reading to exceed 10% once again. However, this is likely to mark the peak of the current inflationary surge. Despite this, consumer prices remain high, and annual inflation is expected to stay near double digits through the end of the year and into the first half of 2026, as the effects of the VAT increase, higher excise duties, and the removal of electricity price caps continue to filter through. We anticipate inflation will decline toward the 4.0–4.5% range by the end of 2026, still significantly above the National Bank of Romania's projection of around 3.0% by year-end.

Czech Republic (David Havrlant)

- **Current Account Balance (Tue):** The current account remained in deficit in August, but by less than previously. The Czech exporter's performance has stabilised recently, but the unimpressive demand from the eurozone's main trading partners still represents a challenge. The same issue affects pricing in the industry, where annual price dynamics remained in negative territory in September.

Key events in developed markets next week

Country	Time Data/event	ING	Prev.
Tuesday 14 October			
US	1720 Fed's Powell Speech	-	-
Eurozone	1000 ZEW Economic Sentiment Index	25	26.1
Germany	0700 Sep CPI Final (MoM%/YoY%)	0.2/2.4	0.2/2.4
UK	0700 Aug ILO Unemployment Rate	4.6	4.7
	0700 Aug Employment Change	130	232
	0700 Aug Average Weekly Earnings growth (3M YoY%)	4.8	4.7
	0700 Aug Average Regular Pay growth (3M YoY%)	4.7	4.8
	0700 Aug Private-Sector Regular Pay Growth (3M YoY%)	4.5	4.7
	1800 BoE's Bailey Speech	-	-
Wednesday 15 October			
US	1330 Sep CPI (MoM%/YoY%)	0.4/3.1	0.4/2.9
	1330 Sep Core CPI (MoM%/YoY%)	0.3/3.1	0.3/3.1
	1900 Fed Beige Book	-	-
Eurozone	1000 Aug Industrial Production (MoM%/YoY%)	-/-	0.3/1.8
France	0745 Sep CPI (MoM%/YoY%)	-/-	1/1.2
Sweden	0700 Sep CPIF Final (MoM%/YoY%)	-/-	-0.2/3.2
Thursday 16 October			
US	1330 Sep Retail Sales (MoM%/YoY%)	0.4	0.6/5
	1330 Initial Jobless Claims (000s)	-	-
	1330 PPI (MoM%)	0.3	-0.1
Eurozone	1000 Aug Total Trade Balance (EUR bn)	-	12.4
	1700 ECB's Lagarde Speech	-	-
UK	0700 Aug GDP (MoM%/YoY%)	0.1/1.2	0/1.4
Italy	1000 Aug Global Trade Balance (EUR bn)	-	7.9
Friday 17 October			
US	1415 Sep Industrial Production (MoM%)	0.0	0.1
Eurozone	1000 Sep CPI (YoY%)	-	2.3
Sweden	0700 Sep Unemployment Rate	-	8.4

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST) Data/event	ING	Prev.
Monday 13 October			
Turkey	0800 Aug Current Account Balance (USD bn)	5.2	1.8
Romania	0700 Sep CPI (MoM%/YoY%)	0.4/10.0	2.1/9.9
Serbia	1100 Sep CPI (MoM%/YoY%)	0.1/4.7	0.2/4.7
Tuesday 14 October			
Poland	1300 Aug Current Account (EUR bn)	-1	-1.3
Czech Rep	0900 Aug Current Account Balance (CZK bn)	-10.9	-14.9
Wednesday 15 October			
Turkey	0900 Sep Budget Balance (TRY bn)	-	96.7
Poland	0900 Sep Final CPI (MoM%/YoY%)	-/-	0/2.9
Ukraine	1400 Aug Trade Balance YTD (USD bn)	-	-4.1
Kazakhstan	- Sep Industrial Production (YoY%)	-	12.8
	- GDP (YoY%)	-	9.6
Croatia	1000 Sep CPI (YoY%)	4.2	4.1
Thursday 16 October			
Turkey	1230 Gross FX Reserves (USD bn)	-	86.7
Russia	0500 PPI (MoM%/YoY%)	-/-	1.1/0.4
Poland	0900 Core CPI (YoY%)	3.1	3.2
Czech Rep	0800 Sep PPI (MoM%/YoY%)	0/-0.5	0/-0.8
Kazakhstan	- Sep Industrial Production (MoM%)	-	3.8
Friday 17 October			
Hungary	0730 Aug Average Gross Wages (YoY%)	9.2	9.0

Source: Refinitiv, ING

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