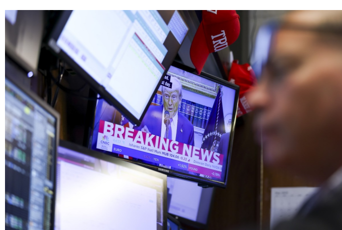
ING Global Outlook: A taste of things to come

The global economy is still cooking up decent enough food, but the kitchen is one heck of a mess. Expect 2026 to serve up more of the same

In this bundle

A taste of things to come
Carsten Brzeski on the global economy in 2026
By Carsten Brzeski



Resilience, inflation and debt: 3 calls for the global economy
Three calls for the global economy in 2026
By Carsten Brzeski

United States
Upbeat on growth but election dramas loom: 3 calls for the US
The US economy is still set to perform well in 2026
By James Knightley

Recovery, inflation and burden sharing: 3 calls for the eurozone
A eurozone manufacturing recovery is on the cards
By Carsten Brzeski, Peter Vanden Houte and Bert Colijn

France | Germany...

Waiting for a sudden surge: the eurozone's Big 4

Germany, France, Italy and Spain in 2026

By Carsten Brzeski, Charlotte de Montpellier and 2 others

FX | China

Growth, FX stability and potential holiday reforms: 3 calls for China

Stability for growth and currency remain the top priorities for China in 2026

By Lynn Song

10 risks for the global economy in 2026

From AI bubbles to government spending splurges, plenty could go wrong

By James Smith, Carsten Brzeski and 3 others

FX | Credit

Outlook 2026: The world right now

From the US to Europe, FX to rates, this is where we are

By James Knightley, Peter Vanden Houte and 8 others

Central banks in 2026: our predictions for interest rate moves

With rate cuts nearing their end in 2026, and some central banks already done, here's our interest rate outlook for the year ahead

By James Knightley, Carsten Brzeski and 3 others

Transport & Logistics

Brace for a slowdown: 3 calls for global trade

Global trade is set to slow significantly in 2026

By Carsten Brzeski

China | India...

Mixed growth and deflationary pressures: 3 calls for Asia

We're expecting weaker growth in Asia next year

By Deepali Bhargava and Min Joo Kang

United Kingdom

Slow growth and political alarms: 3 calls for the UK economy

Politics is the biggest risk for UK markets in 2026

By James Smith

A return to normality but regional splits: 3 calls for the CEE

Poland, Czechia, Hungary and Romania in the spotlight

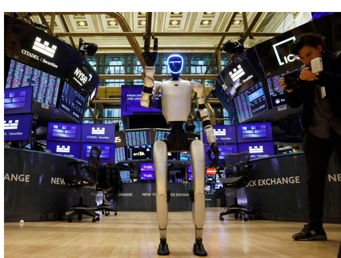
By Frantisek Taborsky

Armenia | Azerbaijan...

Kazakhstan slows, Uzbekistan may surprise: 3 calls for CIS

What 2026 might hold for Azerbaijan, Kazakhstan, and Uzbekistan

By Dmitry Dolgin



Europe lags and regulation shifts: 3 calls for AI

Artificial intelligence will continue to be a major growth driver in 2026. Can Europe catch up?

By Charlotte de Montpellier

FX

A weaker dollar as the Fed moves toward neutral: 3 calls for FX

Weaker dollar in 2026 with risks to the downside

By Chris Turner

Feels normal, but bounded by extremes: 3 calls for rates

Rates and curves in 2026

By Padhraic Garvey, CFA

ING Global Outlook: A taste of things to come

The global economy is simmering amid chaos

By Carsten Brzeski

Article | 4 December 2025

A taste of things to come

The global economy is still cooking, but the kitchen's in chaos. It reminds me of the high-pressure US drama, The Bear, with the stressed chef desperately trying to serve something vaguely decent. With our base calls and a few riskier, bolder ingredients, will the flavour mix finally come together, or are we in for something cold and tough? Service!

The global economy is similar to a frenzied kitchen worthy of the hit show, The Bear

The chaos in the kitchen

The global economy is still cooking up decent enough food, but the kitchen is one heck of a mess. If 2025 felt like an episode of *The Bear* - chaotic, high-stakes, and full of unexpected twists - 2026 promises more of the same.

The strong spices that threatened to overpower the dish last year are still scattered across the counter; 'Liberation Day' tariffs and new NATO targets for defence spending being the main ones. As for Ukraine, a forced peace deal could bring not stability but new long-term threats. Europe will have to make up its mind how it can decouple its security architecture from the US for good and, above all, fast.

Geopolitically, the world remains a boiling pot of uncertainty. We're still to get the US Supreme

Court's tariff rulings, and the trade tensions between the US and China, and increasingly between Europe and Beijing, appear to be baked into a new normal.

Yet, despite all the heat, financial markets and the global economy remained relatively unscathed.

Head chefs under pressure

As we look to 2026, we can say that after being somewhat overcooked, the American economy is moving to a gentle simmer. Sure, there'll be turbulence. And then we may have to look to the Executive Chefs for more guidance with their pinches of extra fiscal stimulus or interest rate cuts. Remember, we'll still feel the delayed impact of higher tariffs next year, and there's also the effect of all that AI spending. No one can yet say if that's a bubble.

As for Europe, the Master Chef is Germany. Growth prospects hinge on whether Berlin can finally serve up its promised spending boost. So far, very little has hit the plate, and the scraps we do have taste like sauerkraut. But if stimulus behaves like an old ketchup bottle - nothing, nothing, then everything - it's certainly way too early to give up on German growth. The ketchup splurge would even mask the taste of too few structural reforms, at least for a bit.

I'm often asked about the biggest risks to Europe's outlook. The answer is simple: Europe itself. If policymakers deliver, and ideally accelerate their 2025 commitments on defence and infrastructure spending and start implementing Mario Draghi's recommendations, Europe could surprise to the upside. If not… well, let's not spoil the festive mood.

Traditionally, the head chefs of the financial kitchen are indeed the central bankers. They can conjure up anything from a 'Calvinist Soup' to the fanciest dessert. In 2026, their job will be even harder than last year. Inflation could swing from disinflationary pressures, with cooling labour markets, weaker demand, and AI. But there also could be inflationary shocks from tariffs, supply constraints, and energy prices.

On top of these inflation swings, fiscal policy is serving an all-you-can-eat buffet, leaving central banks to pick up the tab. In this environment, monetary policy becomes less science, more art, which brings us back to the chaotic Bear kitchen. The hero of the show often improvises spectacular creations under enormous pressure. But in 2026, the ingredients may be so unfamiliar, and the heat just too intense, that we, the diners, won't be presented with anything we're ever going to enjoy. In fact, some might actually just refuse to pay the bill.

Base, bold and risky

We wanted to throw some extra ingredients into our Outlook mix this year; no one ever wants a meal lacking in flavour. So, you'll see that we have ING's base case in each of our articles. This is our best bet on what's going to happen in 2026 - our house view, if you like.

But then the extra seasoning comes from our 'risky' calls. These are things that could well happen if certain circumstances allow.

And for the extra touch, savour our 'bold calls'. These are us going out on a bit of a limb. By no means are they outrageous, but conceivably, every one could indeed come to pass next year.

From all of us at ING Research, a happy new year! We'll be with you all the way.

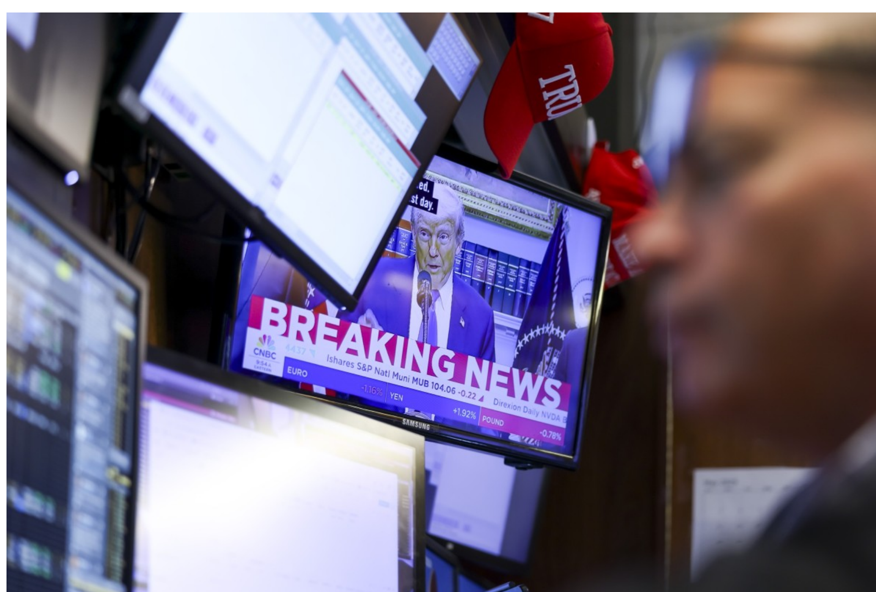
Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Article | 4 December 2025

Resilience, inflation and debt: 3 calls for the global economy

The global economy has shown remarkable resilience to various unprecedented shocks, but inflation never truly goes away. And might 2026 be the year radical measures need to be taken on debt sustainability?



Just how resilient will the global economy remain in 2026?

ING's Base Call: Disconnect between geopolitics and economies remains

It is remarkable how resilient the global economy has proven to be despite the huge geopolitical shifts and tensions 2025 brought. Stock markets have also quickly adjusted to the new reality of much more political (news) volatility.

In our base case, this disconnect between geopolitics and the global economy will continue in 2026 even though trade tensions are more likely to re-accelerate than fade away, and geopolitical tensions aren't going anywhere, either. This is especially true in Ukraine, where the outlook remains deeply unclear. In what some have called 'the age of instability,' political crises and tensions will ebb and flow across Europe and America, yet - assuming all else remains equal - the global economy should hold steady. We expect fiscal and monetary policy to at least partly offset these tensions and safeguard the global economy

against long-lasting turbulence.

Our risky call: Shorter inflation cycles

Since the pandemic, inflation is back. Its surge triggered aggressive monetary policy tightening, which was quickly reversed as inflation then slowed. Even though inflation has remained slightly too high to give central banks full comfort, it does seem to have become less of a concern. After the long inflation cycle, our risky call is that many economies could see shorter inflation cycles this year and beyond as both inflationary and disinflationary forces are strengthening.

In the short run, cyclical disinflation on the back of weaker labour markets and slowing wage growth could still prevail. However, the delayed impact of tariffs and fiscal stimulus could still easily reignite things later in the year. Consequently, 2026 could mark the beginning of a stop-and-go inflation pattern, with shorter but more frequent cycles.

Our bold call: The return of QE

Most governments of industrialised countries are currently facing the same dilemma: how to pay for things they can't afford. This holds true for the US, where tariff revenues have risen but remain far too small to fund any additional stimulus – stimulus that could be needed to support the economy or make living costs more affordable. But in Europe, too, where investment needs are high, demographic change is adding to fiscal pressures, and there seems to be little appetite for structural reforms or austerity.

In this world, government debt will continue to increase. While our base case foresees no significant implications from higher debt in 2026, a bold call is clearly the return of asset purchases. As the industrial world increasingly enters an era of fiscal dominance and central banks would rather avoid returning to the zero-interest rate bound, a return to asset purchases, voluntarily or gently forced by governments, could easily be on central banks' policy menu again.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Article | 4 December 2025 United States

Upbeat on growth but election dramas loom: 3 calls for the US

We're still pretty upbeat on US growth in 2026. But next year's mid-term elections could change the narrative, not least from the White House. And just what might happen if yields start soaring?

Perfect for Christmas, a Lego portrait of Donald Trump in the White House

ING's main call: We're still upbeat about America

We're still relatively upbeat about the US economy and think looser financial conditions provide a supportive growth environment. President Trump seems prepared to make some concessions on tariffs, while a potential 'tariff dividend' payment would help bolster lower-income households. With greater clarity on the global trade environment, companies that had been reluctant to put money to work may be incentivised to resume investment and hiring plans.

High-income households and the tech sector are set to be the main growth drivers, particularly in the first half of 2026. Middle and lower-income households remain worried about their prospects, as underscored by weak consumer confidence and anxiety over job security.

Tech-related investment continues to surge as America seeks to “win” the AI race, driven by both perceived economic and military/geopolitical necessity. Consequently, there is the risk

of near-term overcapacity. In the telecom sector 20+ years ago, overcapacities eventually drove down pricing, improving access and helping to spur activity.

Our risky call: Trump constrained

2026 is an election year, with all House seats and 35 Senate seats up for grabs in the November midterms. Democrats are confident of strong gains amid voter frustration over living costs and the Epstein files. While retaking the Senate is unlikely, winning the House is realistic, giving them control of the legislative agenda and potentially even paving the way for impeachment proceedings against President Trump.

Not surprisingly, this is something he'll be keen to avoid, and he's likely to try to pull every lever to regain the initiative. A proposed $2,000 'tariff dividend' for millions of households runs the risk of being diluted by Congress, but the weaker the Republicans poll, the greater the chances it passes.

The President may also seek influence over monetary policy. Fed Chair Powell will be replaced in May, and the administration is pushing to remove Governor Lisa Cook. Kevin Hassett, Director of the National Economic Council, is the current frontrunner for Fed Chair. He is already pushing for further interest rate cuts and the President may look to install more dovish thinkers. This would make a sub-3% Fed funds rate in 2026 more likely.

Our bold call: Renewed asset purchases if yields climb

Treasury Secretary Scott Bessent has repeatedly stated that the 10Y Treasury yield is the most important borrowing rate given its implications for government fiscal projections, mortgage rates and corporate borrowing costs. The US government is forecast to continue running a deficit of 6% of GDP over the next few years. Those deficit projections are vulnerable to any slowdown in growth, and if a tariff dividend payment is made to the same people who received the Covid stimulus cheques, it would cost $300bn, equivalent to half of the expected tariff revenues for 2026. There is clearly a risk that a glut of debt issuance starts to put upward pressure on yields.

If Treasury yields do climb, the next step for a Federal Reserve more attuned to President Trump's way of thinking could be renewed asset purchases to lower the cost of borrowing across the economy, so-called yield curve control. Such a situation could prompt significant dollar weakness and potentially more inflation while pumping up the equity market even more.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Article | 4 December 2025

Recovery, inflation and burden sharing: 3 calls for the eurozone

We should see a recovery in the eurozone next year, but where are the structural reforms? We are watching inflation, which could undershoot, and, if that happens, the ECB may lower rates again. And whisper it: could Eurobonds be back in play in some form or another?

European Commission President Ursula von der Leyen

ING's base call: Manufacturing will see a cyclical recovery

It has to happen at some point - a turnaround in the eurozone manufacturing sector, and we think we'll see it next year. It's been struggling since 2022 on the back of high energy prices, a strengthening euro, intensifying Chinese competition and the trade war. While headwinds from the latter have not disappeared, and some, of course, are structural, both oil and natural gas prices have declined by more than 20% since the beginning of 2025. In addition, Germany intends to significantly lower electricity costs for energy-intensive industries, providing additional breathing space.

On the demand side, we must not forget that the remaining money from the EU's recovery fund must be spent in 2026, while German infrastructure works and increased military spending will also start to have an impact. Capacity utilisation in manufacturing has already risen throughout the year, which might open the window for some pick-up in business investment next year. All in all, it looks as if manufacturing will see growth in 2026, even if the structural headaches, particularly Chinese competition, seem here to stay.

Our risky call: Eurozone inflation could undershoot significantly in 2026

Even though the economy seems set for a cyclical improvement, inflation could still undershoot more markedly this year, not because of weak domestic demand but rather because of external factors.

Energy prices, for example, could very well come in lower than expected due to sluggish global demand and increased expectations of supply, while the stronger euro is set to weigh on import prices again next year. Furthermore, with growing Chinese competition and European producers redirecting goods that would have been exported to the US back into the European market, the risk of price dumping is real. Consequently, import prices for key goods could face continued pressure.

So, while domestic demand could lead to some improvement in economic growth, there is a clear possibility that inflation undershoots. Sub-1.5% is not unimaginable. Many of these factors are temporary, and medium-term upside risks to inflation remain, but the European Central Bank could feel pressure to lower rates so as not to get caught in a reverse 'team transitory' scenario.

Our bold call: Eurobonds are coming but in a different wrapping

More than a year after the release of the Draghi report, tangible progress in Europe – whether on deeper integration, reducing regulation, tackling market and financial fragmentation, or reforming energy and telecommunications - remains elusive. Expecting the full implementation of all of Draghi's recommendations in 2026 would be far too bold a call. Instead, the greater risk is that national governments prioritise their own economies, relegating the European dimension to a secondary concern at best.

Yet, despite persistent resistance, particularly among core eurozone countries, towards burden-sharing at the European level, 2026 could still deliver a surprise. Given the EU's positive experience with project bonds and the Recovery Fund, a 'Ukraine bond' to finance additional military aid or reconstruction could gain broad support. While Germany's substantial fiscal stimulus has, to some extent, reduced the urgency for new safe assets, such a bond would represent another step towards completing the capital markets union and revive a familiar European tradition: introducing Eurobonds through the back door.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Waiting for a sudden surge: the eurozone's Big 4

For Germany and France, we're talking about the ketchup bottle effect – we're patiently waiting for something to drop. We're hoping that private consumption can make a difference in Italy next year. And Spain? We need quality, not just quantity

Germany: Waiting for the ketchup bottle effect

Germany has been both the eurozone's greatest disappointment and its main source of hope this year. Mired in prolonged stagnation and burdened by many structural challenges, Germany remained the region's growth laggard. At the same time, its historic U-turn on fiscal stimulus and the announcement of major infrastructure and defence investments raised expectations for a rebound, both for Germany and the eurozone as a whole. However, persistent political tensions and the absence of meaningful structural reforms have dampened these hopes. Even the planned public investments for 2025 have fallen significantly short of target. The sauce is stuck in the bottle.

So, the main question is whether Germany is fundamentally unable to make fiscal stimulus effective – or whether it is simply a matter of time. We believe it is the latter. Fiscal stimulus and investment often resemble a ketchup bottle: nothing comes out at first, and then suddenly everything pours out at once. While this won't solve Germany's structural problems, it should

deliver a boost. We expect German GDP growth to approach 1% in 2026 and 2% in 2027.

France: Persistent fiscal deadlock and rising risk of early elections

A new budget is unlikely before year-end as political manoeuvring ahead of the 2027 presidential race is blocking consensus between the Senate and National Assembly. The most probable outcome is a rollover of the 2025 budget, with debates restarting almost from scratch in January. An agreement will remain elusive, raising the risk of government collapse and early legislative elections next year.

Although the right-wing RN leads polls at around 35%, it is unlikely to win a majority, meaning new elections would do little to resolve the deadlock. Without a budget, fiscal efforts will falter, and public finances will deteriorate, with the deficit widening to about 5.7% of GDP if the situation persists throughout 2026, up from 5.4% in 2025, well above the 4.6% target promised by the Lecornu government. While the absence of fiscal tightening may offer some support, higher financing costs and persistent uncertainty will offset this, leaving growth at just 0.8% versus 1.1% for the eurozone.

Italy: Still a domestic demand story

The effect of higher US tariffs on Italian external accounts will likely play out more clearly over 2026, when we expect net exports to act as a drag on economic growth. This will shift the burden of growth to domestic demand. Gross fixed capital formation should remain the primary driver, supported by infrastructure investment foreseen under the EU-funded National Recovery and Resilience Plan, which is due to formally expire over the summer of 2026.

Non-restrictive European Central Bank monetary policy could also help revive machinery investment. Private consumption, which has been disappointingly weak over 2025, might catch up a little next year. A resilient labour market, the ongoing recovery in purchasing power driven by decent wage dynamics and low inflation, and an extension of personal income tax reductions introduced by the budget might encourage households to reduce their savings ratios from current high levels.

Fiscal policy, however, will provide little additional support. The draft budget under discussion in parliament is neutral by design, reflecting the government’s clear priority of maintaining the adjustment path and ensuring Italy exits the Excessive Deficit Procedure in early 2026.

Spain: Looking for a quality turning point

Spain’s economy remains a eurozone outperformer, with 2025 growth nearing 3%. However, much of this momentum is quantity-driven: immigration has increased the population, making Spain’s performance less impressive when measured by GDP per capita or labour productivity gains. The key challenge now is to make growth more quality-led, driven by higher productivity. This will be especially crucial in 2026, as the contribution of government spending growth will be limited in the absence of a budget, net exports will be muted partly due to the strong euro, and private consumption growth is normalising.

Investment is set to play a pivotal role, with the EU’s Recovery and Resilience Facility (RRF) providing significant upside: only about €59 billion of the possible €163 billion has been

awarded so far. While the productivity impact may not be immediate, these investments could mark a turning point towards quality-driven growth and help keep Spain ahead of its eurozone peers in 2026 and beyond.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Article | 4 December 2025 **FX | China**

Growth, FX stability and potential holiday reforms: 3 calls for China

China has the policy levers to produce another year of stable growth in 2026. China's currency stability objective should keep USD/CNY range-bound again. Could holiday reform be a low-cost, high-impact move to support consumption?

We expect an uptick in Chinese government bond yields as risk appetite returns

ING's base call: China's growth to remain on track in 2026

In November, Premier Li Qiang commented that China's target is for GDP to surpass RMB 170tr by 2030, giving us a mid-point target to President Xi's prior goal of doubling 2020's output level by 2035. This goal implies that a growth rate of 4-5% is needed over the next five years.

China's history of setting growth targets suggests it's rarely a good call to bet against the government achieving its goals. They look considerably more realistic if positive momentum continues into 2026. As such, another year of targeting "around 5% growth", or at least "above 4.5% growth", could be in the works.

The big surprise of 2025 was external demand remaining the main growth driver despite the trade war. For similar growth to continue, we'll need to see domestic demand pick up more of the slack. This will require more effective policy support.

Our risky call: PBoC's currency stability focus will keep USD/CNY range bound

Our bold call for 2025 was that the People's Bank of China (PBoC) would hold the line on the CNY for a 7.00-7.40 fluctuation band. It was a controversial call at the time; most in the markets expected depreciation to support exporters ahead of a second trade war. The range held, and our call gradually went from outlier to consensus.

We see little reason to change this view of limited fluctuation next year. Currency stability has worked out well for China in the past few years, helping avoid another area of uncertainty. We expect the fluctuation band to narrow to 6.90-7.30 next year, with risks generally balanced toward appreciation, given the narrowing US-China yield spread and the large amounts of FX held abroad by Chinese exporters that have yet to be converted back to China. Barring a change of heart, the PBoC has shown a willingness and ability to keep the CNY steady.

Our bold call: China could see holiday reforms to boost consumption

China's national holidays are well known for being key windows of consumption and tourism, so much so that economic data is often shaped by these holidays; much of China's January and February data is published in one block in March to avoid market overreactions to year-on-year data; China's Lunar New Year and Golden Week data are tracked closely.

The long holiday periods are often big bursts of consumer demand, but they also result in a less-than-optimal result for consumption and tourism, with overcrowding. We believe the balance should shift toward more statutory annual leave to be used at employees' discretion, to help smooth out the consumption and tourism demand throughout the year. China's statutory leave scales by years of service and is only 5 days for employees with under 10 years of tenure at a company, limiting discretionary travel outside the main holiday windows.

Many would-be travellers have sworn off trips during the big holiday windows due to the overcrowding and high prices, while tourism sites remain relatively underutilised the rest of the year. Holiday reform could be a low-cost, high-impact move to boost domestic activity to supplement more traditional policy stimulus.

Author

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Article | 4 December 2025

10 risks for the global economy in 2026

From AI bubbles to government spending splurges, property crashes to oil price spikes, these are the 10 ways our economic outlook for 2026 could go wrong – or right

Even our predictions could be shot down in flames in 2026

1 The AI bubble bursts

US tech companies fail to monetise AI, questioning the logic of immense investment in hardware/software and related industries. Tech stocks crash, hitting the top 20% of American earners who own the lion's share of US equities held domestically.

Having enabled consumer spending to grow over the past couple of years, even as the bottom 60% have struggled, lower household wealth causes a fall in consumption in 2026.

AI investment falls abruptly, weighing on the construction and investment that has likely contributed around one percentage point to US growth in 2025 (though less once imported equipment is netted off). This is enough to push the US jobs market into a full-blown recession.

Impact: The US falls into recession, while Europe is less affected. The Fed cuts rates more aggressively.

2 Congress approves 'tariff rebates' ahead of mid-terms

Fiscal policy is a major upside risk to growth and inflation in 2026. President Trump is pushing

Congress to hand out $2,000 'tariff rebate' checks to 150 million Americans, resurfacing memories of the Covid-era stimulus that helped turbocharge inflation. Though the maths doesn't totally add up – and tariffs already helped justify the One Big Beautiful Bill – pressure could build into November's mid-term elections.

This would help the bottom 60% of American consumers struggling under the weight of the cost of living, though much of it may simply be used to pay off debt, and the impact on growth may be more muted than in 2020/21.

Impact: US growth is higher and inflation rises. The Fed becomes more hawkish, depending on political influence over the committee.

3 Inflation resurgence on AI supply bottlenecks

Many economists – not least the Fed's doves – expect AI to be a massive positive for productivity, which pushes down inflation. But what if that's wrong? In the short term, massive investment in AI infrastructure could crowd out other forms of economic activity. Data centres are expected to account for 10% of US power demand by 2030. Electricity grids globally will be under increasing strain, risking blackouts and higher prices. Rising investment needs also risk fresh supply shortages, at a time of tighter immigration rules in the US and Europe. Wage growth risks turning higher again.

Impact: Global inflation rises. Central bank rate hikes draw nearer.

4 President Trump slashes tariffs as negative impact grows

There are two ways the US average tariff – currently around 16% – could fall. First, the US administration opts to lower tariffs ahead of the elections, just as it has done with certain food products recently. The resulting fall in revenue would complicate efforts to convince Congress to approve 'tariff rebate' checks, but it's possible that once this is done, the president will begin to roll back trade barriers in a bid to lower consumer bills.

Alternatively, the Supreme Court rules that tariffs imposed under emergency powers – most country-level levies – are illegal. The president uses other means, such as Section 122, which allows 15% tariffs for 150 days, to rebuild trade barriers – but the result is messier. He could also widen the scope of sector-specific tariffs, though this would take time. The result may well be a lower average tariff level.

Impact: Growth rises, inflation eases, but the former is judged as the dominant factor by the Fed. US rate cuts are curtailed.

5 European consumers start splashing the cash

At 15%, the eurozone savings rate has consistently been three percentage points above its pre-Covid average. Savings intentions remain ultra-high. But having had time to rebuild savings after the 2022 energy crisis – and after a period of stable 2% inflation – it's possible consumers will begin to splash the cash more willingly in 2026. At least if governments can take away policy uncertainty regarding pensions.

Impact: The eurozone grows above trend (upwards of 1.5% annual growth). The ECB hikes rates in late 2026.

6 US-China relations sour, hitting supply of rare earths

The US-China friction has been alleviated after a face-to-face meeting between Presidents Trump and Xi led to a 12-month truce, which theoretically would leave tariffs and export controls unchanged for much of 2026. However, the truce remains fragile, and any miscalculations along the way could derail the deal. If cooler minds do not prevail, non-tariff barriers such as rare earth controls could be enacted.

Impact: Direct impact on semiconductor, auto, and defence sectors, potentially resulting in shortages and price surges on affected products, contributing to higher inflation.

7 Oil prices spike on renewed geopolitical tensions

The key upside risk to oil prices remains Russian supply, due to both US sanctions and persistent Ukrainian attacks on Russian energy infrastructure. The widely held view is that Russian oil will find ways to circumvent sanctions. However, if sanctions prove to be more effective than thought, this potentially reduces the scale of the oil surplus expected in 2026, and is an upside risk to our view that Brent will average $57/bbl next year.

The recent escalation between the US and Venezuela also leaves uncertainty over Venezuelan supply, while the fragility of the Israel/Gaza ceasefire means that supply risks from the Middle East could re-emerge.

Impact: Weaker global growth and higher inflation. Central banks are more likely to hike rates/curtail rate cuts to lean against inflation risk.

8 Budget crises loom as bond investors lose confidence

Investors have been surprisingly immune to concerns about the trajectory of the US fiscal deficit this year, helped perhaps by lingering concerns about the US macro outlook and resumption of Fed rate cuts. But America's public finances are precarious; the deficit is expected to remain at 6-7% for some time. There's a risk investors begin to baulk at the volume of debt issuance, potentially in the aftermath of our second scenario – fiscal profligacy combined with a perception of too loose monetary policy and hints of inflation.

Europe remains vulnerable too; the situation in France could become more widespread as spending pressures mount – not least from defence. Bond yields would spike, and the economic impact would depend greatly on how central banks react. Do we see a return to QE – or in Europe's case, the first use of its 'Transmission Protection Instrument'? If not, governments may be forced to embrace austerity.

Impact: Governments – particularly in Europe – forced into painful spending cuts in a bid to halt the bond sell-off. Growth slumps.

9 China enters downturn on deeper property price correction

After stabilising at the start of 2025, the downturn in property prices began to steepen once more, starting in mid-2025. Prices have fallen, inventories remain high, and property investment remains a major drag on growth. Default concerns have re-emerged after property developer Vanke asked for a 1-year extension on a bond payment.

After rolling out myriad policies to help stabilise the markets in 2024, the momentum has slowed in 2025, with more voices advocating for just letting the cycle fully play out naturally over the coming years instead of trying to stabilise the market – a move which could have serious implications. The spillover effects could be significant if the downward momentum is not contained.

Impact: Household wealth destruction, deteriorating bank asset quality, and entrenched pessimism would all be potential consequences if the property downturn continues. It would hamper efforts to transition toward domestic demand-driven growth, as well as reduce the growth outlook in the near term.

10 Ukraine war ends with full and enduring peace agreement

If peace negotiations are successful, the wider economic impact will likely depend on the extent to which trickier topics – such as territorial recognition – are addressed, and how enduring any ceasefire is perceived to be. In a more optimistic scenario – where a credible, long-term agreement is reached and investors feel confident about redeploying money in Ukraine – reconstruction efforts would likely have wider ripple effects on activity and, more importantly, sentiment in Eastern Europe.

Lower energy prices, depending on the extent of sanction removal, could also have a stimulative effect on global consumers. However, our energy team notes that Russian oil supply hasn't materially fallen in recent years, so the impact on the global supply balance may not be significant. Although, admittedly, it would reduce a large amount of supply risk hanging over the oil market. The impact on the gas market would be more significant, but this would require Europe to start resuming its purchases of Russian natural gas.

Impact: Lower energy prices boost global growth. Some central banks (e.g. the Bank of England) may counterintuitively react dovishly, having recently reacted hawkishly to price spikes on fears of supply-driven inflation.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

James Knightley
Chief International Economist, US
james.knightley@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Article | 4 December 2025 FX | Credit

Outlook 2026: The world right now

As we hurtle towards 2026, it's worth reminding ourselves just where we are right now in the world

It's worth recapping the global situation after a pretty crazy year

United States

The US economy has weathered the tariff storm with 2% full year growth looking achievable, just as we forecast 12 months ago. Nonetheless, this masks huge swings in inventories and trade.

In terms of domestic demand, the K-shaped narrative continues to dominate both the household and the corporate sectors. Consumer spending growth is overwhelmingly led by higher-income households who have been bolstered by strong asset price gains. Middle and lower-income households are in a more stressed financial position. Business investment tied to tech and AI is soaring while non-tech-related investment has contracted for three consecutive quarters.

The government shutdown has disrupted the economy and could depress 4Q GDP by upwards of 1pp, but much should be recovered in the 1Q GDP report now that workers and benefit recipients are receiving the money that is owed and activity is back to normal levels. Third-party data sources suggest employment growth is stalling and may be turning negative.

The eurozone

The eurozone managed positive GDP growth in every quarter of 2025, delivering a better-than-expected 1.4% for the year. Industrial weakness persists, but lower energy costs offer relief. A Ukraine ceasefire could lift confidence, while delayed German fiscal stimulus, mainly infrastructure and some defence spending, should support growth in late 2026. Risks remain from fragile public

finances, especially in France.

A greater number of work days will lift 2026 GDP; we forecast 1.2% growth. Inflation disappointed at 2.2% in November, with core at 2.4%, but is likely to dip below 2% soon. Still, modest growth and sticky prices mean the ECB sees its 2% deposit rate as “a good place” for now.

United Kingdom

Economic momentum slowed through the autumn, not helped by prolonged uncertainty ahead of the Autumn Budget. Employee numbers have continued to fall, including now in the public sector, where hiring had until recently helped offset prolonged weakness in the private sector. This is a theme we expect to continue into 2026. Unemployment is on the rise.

The flip side of that is that the inflation outlook is continuing to improve. Private-sector wage growth is running at 2.4% on a three-month annualised basis.

The Autumn Budget was less damaging to near-term growth than headlines implied. While tax hikes worth 0.7% of GDP are planned by 2029, almost none take effect next year. Fiscal policy will still weigh on activity due to the ongoing freeze on income tax thresholds. The deficit is projected to fall from 4.5% this year to 3.5% in 2026.

China

China’s economy outperformed expectations in 2025, meeting its “around 5%” growth target despite trade tensions with the US. External demand remained the key driver, while domestic firms advanced in tech innovation and self-sufficiency.

However, growth slowed sharply in the second half. Property markets are weakening, fixed asset investment is contracting, and retail sales have cooled as trade-in stimulus fades. With external demand uncertain amid ongoing tensions, policymakers must strengthen domestic demand and restore household and corporate confidence.

Asia ex-China

Overall, Asia’s GDP growth exceeded expectations in 2025, supported by strong tech demand, front-loaded exports, and government spending. Investment held up well, with Taiwan and Malaysia benefiting from tech-related capex, though surveys show growing caution amid slowing global trade. Inflation stayed subdued across most of Asia, except Australia, thanks to overcapacity in China and easing food and fuel costs, enabling rate cuts. Typhoons may lift food prices temporarily, but improved rainfall and softer oil prices in 2026 should keep inflation benign.

Asian currencies had a mixed year: low-yielders outperformed high-yielders like the Indian rupee, the Indonesian rupiah, and the Philippine peso, amid growth and tariff concerns. Looking ahead, a weaker dollar could help Asia FX, but tariff risks and uneven growth mean local differentiation will drive performance in 2026.

Central and Eastern Europe

Central and Eastern Europe should return to “normal” in 2026. Poland and the Czech Republic are set to confirm this year’s recovery, with household consumption driving growth while industry should remain muted. Hungary and Romania should also rebound after stagnation, though weaker

German growth and limited fiscal stimulus remain key risks. Inflation is largely under control in the Czech Republic and Poland and should stay contained, with some volatility. Hungary and Romania will see easing but remain above central bank targets. External risks lean to the downside, and weaker growth could accelerate disinflation.

Rate-cutting cycles have ended in the Czech Republic and should conclude in Poland by mid-2026. Hungary and Romania are expected to resume cuts in the second half of 2026, continuing into 2027. If downside risks materialise, central banks may have more room to ease than currently anticipated.

FX

The dollar ends the year down about 10%, still weighed by 'Liberation Day' losses. In retrospect, those losses seem to have resulted from an under-hedged buyside raising its FX hedge ratios on its US asset holdings. Those FX hedge ratios now appear more balanced.

EUR/USD has slipped from September highs above 1.19. Bears argue Fed easing is fully priced and eurozone growth will again lag US exceptionalism. Bulls, including us, see lower US hedging costs, stronger eurozone fiscal stimulus, and cheaper energy supporting the euro.

FX volatility is closing at its lowest since mid-2024, with expectations for continued calm into 2026 and sustained interest in carry trades.

Rates

We think we'll hit mythical normal levels for rates through 2026. Even Japanese rates are moving in that direction. In fact, we are practically there in the eurozone. Currently, we have the 10yr Euribor rate at 2.7%. For 2026, our call is for this to head to the 3% area. The add-on of heavier issuance (defence spending) should lift government yields by more than the rise in the ESTR 10yr, thereby widening the Bund swap spread.

In the US, the Fed's rate-cutting agenda is set to be completed in the early months of 2026 (to the 3%-3.25% range). The 10yr swap rate, now at 3.65%, looks low against a backdrop where US inflation is at 3%, and prone to some rising. We see 10yr SOFR edging up to the 3.75% to 4% area. That pitches the 10yr Treasury yield in the 4.25% -4.5% area, assuming some deficit-impacted re-widening in the swap spread.

Commodities

Oil prices fell in 2025 despite geopolitical tensions and supply risks. OPEC+ shifted strategy to defend market share, boosting supply, while global demand growth remained modest and structural factors capped gains.

The market enters 2026 expecting a large surplus, though Russian supply faces risks from sanctions and Ukrainian attacks. European gas prices also dropped on weaker Asian LNG demand and relaxed EU storage rules.

Despite lower prices, EU storage is below last year and the five-year average heading into winter. Looking ahead, significant new LNG supply should keep global and European gas markets well stocked.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Article | 4 December 2025

Central banks in 2026: our predictions for interest rate moves

For many central banks, 2026 is the year when rate-cutting cycles meet their end. And for some – like the ECB – the work is already done. Here's what we expect from interest rates over the next 12 months

Federal Reserve

There is a recognition within the Federal Reserve that even after 150bp of cumulative interest rate cuts, monetary policy remains modestly restrictive. However, officials' relative position on the risks to the Fed's dual mandate of price stability and maximum employment is becoming more dispersed.

Regarding the jobs story, it has been a low-hire, low-fire economy. This has resulted in payrolls growth stalling since the summer. Private surveys on hiring and lay-off intentions have been weak, and there have been high-profile job loss announcements from the likes of Amazon, Target, Paramount and UPS in recent weeks. The jobs mandate therefore argues for further rate cuts from the Fed.

However, inflation has proved to be sticky with tariffs and higher insurance costs potentially keeping it elevated, which explains why the hawks on the FOMC are reluctant to approve further policy easing. That said, tariffs are feeding more slowly into pricing than feared and this gives more time for disinflationary impulses from lower energy prices, weaker wage growth and slowing housing-related inflation to mitigate.

With the inflation backdrop looking less threatening but the jobs story becoming more fragile, the Fed is expected to lower policy rates to a more neutral setting of around 3.25% in 2026. The potential appointment of a more dovish Fed chair in May could tilt risks toward additional rate cuts.

European Central Bank

The bar for yet another rate cut remains very high. While in the first half of 2025, large positive data surprises were needed to stop the ECB from cutting rates, currently we would need to see large negative surprises to push the ECB towards further rate cuts.

The ECB is seemingly happy with what it has often called 'the good place'; a macro backdrop with inflation close to 2% and positive, though below potential, growth.

Given the many structural challenges of the eurozone economy, the ECB will maintain the well-known stance that there is very little monetary policy can do to tackle structural weaknesses. This is why we don't see any ECB rate moves for the next two years in our base case. However, in the event of (projections of) significant inflation undershooting, one or two more rate cuts in the first half of 2026 should not entirely be excluded.

Bank of England

The committee is enormously divided. Four hawkish officials remain concerned that current levels of inflation (3.6%) will manifest into a more persistent bout of price pressure, akin to the post-2022 experience. The four doves, meanwhile, are more focused on the jobs market and the ongoing fall in wage growth. Governor Andrew Bailey sits between the two camps, though he has recently indicated he is minded to side with the doves at the December meeting.

We expect a cut before year-end. Headline inflation should fall in early 2026 and more dramatically from April. Food inflation appears to have peaked, too. As it becomes clearer that the UK is less of an outlier on inflation and as the upside risks ebb away, we expect two further cuts in the first half of 2026.

Bank of Japan

The Bank of Japan continued its slow and steady policy normalisation this year, raising policy rates by 25bp as of November and continuing quantitative tightening by offloading Japanese government bonds and ETF/JREITs from its balance sheet.

As we move into 2026, this gradual shift is expected to be maintained. Several board members have already expressed support for rate hikes, noting near 2% underlying inflation and negative real interest rates. Overall economic conditions have shifted as the BoJ anticipated, and new government policies are expected to assist the central bank in achieving its goals.

The new economic package will likely drive short-term growth and reduce headline inflation below 2%. Support for childcare, tax relief, and reduced energy costs is expected to encourage higher consumer spending and keep core inflation above 2%. We believe strong corporate earnings point to continued wage increases in the next spring wage negotiations. Rising government spending on defence and key strategic industries is also likely to stimulate further investment.

Continued inflation of around 2% combined with GDP growth above potential will underpin the BoJ's policy rate hikes. Our base case projects the policy rate reaching 1.0% by the end of 2026.

Nevertheless, if political considerations influence monetary decisions under the guise of policy coordination, the policy changes may proceed at a slower pace.

People's Bank of China

The PBoC was more cautious than expected in 2025, with only one major easing move in May to cut rates and the required reserve ratio for banks.

The limited easing can be attributed to three main reasons: first, the economy held up better than expected for much of the year, limiting the need for easing. Second, Chinese bank net interest margins continued to narrow, squeezing profitability, and further rate cuts could worsen the pressure on banks. And third, the equity market rally continued, prompting some to warn against fuelling a bubble.

We expect the PBoC to remain on an easing trajectory next year despite these factors, as the slowdown of the past few months shows that policy will need to remain supportive in order to secure another year of stable growth. We look for 20bp of rate cuts and 100bp of RRR cuts next year.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Brace for a slowdown: 3 calls for global trade

We're expecting global trade to slow significantly in 2026, and Trump's tariff tango with the rest of the world could go in numerous directions

Global trade is set to fall significantly next year

ING's base call: Global trade to slow

Due to AI-related trade and all the frontloading we saw ahead of the introduction of US tariffs, global trade has held up relatively well this year despite the highest tariff rates since the 1930s. Even though a collapse of global trade was avoided, US tariffs are here to stay. If anything, there is the risk of an escalation, rather than a de-escalation, of ongoing trade tensions. Not only is the US administration using tariffs as an important tool for all kinds of policy goals, but the US government also needs the revenues to partly fund the budget.

Another reason for trade uncertainty is that the current trade truce between the US and China will expire next year, potentially bringing new turbulence in the second half of 2026. Also, there is a significant risk that US trading partners will not be able or willing to deliver on their investment commitments under the trade agreements, which in turn could trigger renewed tariff action by the US government. Even though the US administration recently dialled back on some food import tariffs, we expect global trade to slow down significantly, from around 2.5% in 2025 to some 0.5% in 2026.

Our risky call: Accidental tariff acceleration

Despite Trump's assertion that, *'tariff is the most beautiful word in the English dictionary',* the effective tariff rate in the US had turned out to be much lower than everyone feared after the President's 'Liberation Day' announcements. In the end, they've been an important element of the administration's very transactional policy agenda. This suggests that the US government has no interest in completely melting down global trade, but rather in reshaping it. In this regard, the US Supreme Court's ruling on some US tariffs could trigger an unintended acceleration of said tariffs.

If the court rules against the tariffs, the US government may revert to more sectoral tariffs. These could do more harm not just to exporters but also to US consumers, triggering a much more adverse impact on the global economy.

Our bold case: The world can't live without the US

Attempts by US trading partners to build new trade alliances all fail. In Europe, almost-finalised trade agreements like Mercosur don't receive approval from some member states. The few new trade agreements that Europe manages to close all fall short of offsetting losses in exports to the US, as no other trading partner has the same purchasing power as the Americans. To make matters worse, while doubts about the rule of law in the US prevented many European companies from relocating, these concerns fade away, and Europe sees massive corporate emigration.

Consequently, and feeling the pressure to deliver on his election promises to bring back manufacturing jobs to the US, President Trump actually increases tariffs for European exporters ahead of the US mid-term elections. On top of this, the first review of the USMCA deal next year could also bring renewed tensions with Canada and Mexico.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Article | 4 December 2025 **China | India...**

Mixed growth and deflationary pressures: 3 calls for Asia

Korea and Japan are set for stronger 2026 growth due to fiscal stimulus, but India and Indonesia face near-term risks from weak demand and tariff uncertainty, leaving Asia’s overall outlook softer than in 2025

The bustling streets of Tokyo. We expect GDP growth in Japan to accelerate in 2026

ING's base call: A weaker growth outlook for Asia

While recent trade agreements signal a de-escalation in tensions, they offer limited assurance that export growth will remain robust. The reduced tariff gap between China and its regional peers stands out as a clear strategic win for Beijing. However, most of ASEAN, except Singapore, now face 19-20% tariffs. The full impact of this is yet to be seen on export growth, which has been rather resilient in 2025. Softer exports and weaker growth are likely to remain headwinds for several regional currencies. Countries with strong exposure to AI-related exports may outperform, but for others, the agreements do little to counteract the broader slowdown in trade momentum.

We expect GDP growth in Korea and Japan to accelerate in 2026 as substantial fiscal stimulus filters through to household consumption. In contrast, downside risks have intensified for domestic demand-driven economies such as India and Indonesia in the near

term, which should leave overall growth in Asia weaker compared to 2025. India's inability to secure a trade agreement with the US remains a key concern unless negotiations progress. Meanwhile, Indonesia's growth outlook is vulnerable to investment headwinds stemming not only from tariff-related uncertainty but also from subdued government spending.

Our risky call: Deflationary pressures persist across the continent

While unfavourable base effects may cause inflation readings to edge higher next year, we expect the key drivers behind the slowdown this year to persist.

First, consumer spending across Asia remains subdued despite easing inflation, as labour markets continue to show weakness. Discretionary spending is likely to stay constrained, reflecting a K-shaped post-Covid recovery that has deepened income disparities at the lower end. This dynamic points to continued softness in core inflation, as weak demand limits businesses' pricing power.

Second, fuel prices are likely to remain benign, supported by stable supply conditions and moderate global demand. This will further alleviate cost pressures across transportation and manufacturing sectors.

Third, persistent overcapacity in China is widening the demand-supply gap in Asia, exerting downward pressure on prices. This deflationary trend is likely to continue spilling over into regional markets.

Our bold call: Government incentives could boost the Korean won

Korea's economic growth is projected to accelerate to 2.0% YoY in 2026 (vs 1.2% in 2025), supported by government spending and steady export performance. Continued strong global demand for AI chips is expected, while the weak KRW is expected to help offset some of the adverse effects of the 15% US tariffs. Should demand for semiconductors exceed expectations, GDP growth in 2026 could grow even further to 2.3% YoY.

With inflation close to 2%, a faster closure of the negative output gap, and little property price stabilisation, the Bank of Korea may end its easing sooner than expected, possibly leading to stronger-than-expected KRW appreciation.

The government also intends to increase incentives for equity market investment, enhance shareholder rights, and improve corporate governance to support Korea's goal of attaining developed-market status. These initiatives, combined with solid large-cap performance (primarily from leading Korean exporters) and enhanced accessibility to the Korean FX market, could attract further capital inflows into Korean asset markets while tempering outbound investment activity by domestic investors.

Author

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Article | 4 December 2025 United Kingdom

Slow growth and political alarms: 3 calls for the UK economy

Tighter fiscal policy means the UK economy is set to grow more slowly in 2026, even if falling inflation should open the door to further Bank of England rate cuts. For markets, politics is the biggest risk next year

Prime Minister, Sir Keir Starmer is on shaky political grounds in the UK

ING's base call: UK economy to grow more slowly in 2026

We expect growth to slow to 0.9% next year (from 1.4% this year), for three reasons.

First, spending power is expected to stagnate; real household disposable incomes are set to grow by 0.5% in 2026, versus 1.5% this year. Wage growth is falling quickly, while employment growth is likely to be negligible. Rate cuts are a slow burner. Most mortgages are fixed for five years, while savings income will decline more quickly.

Second, the public sector – having been a key offset to private sector weakness in 2025 – will be less supportive. Real departmental spending will grow at half the rate seen in 2024 and 2025, while income tax is rising as a share of GDP. The deficit is set to drop a full percentage point to circa 3.5%. Fiscal policy will be a drag in 2026.

Finally, business investment is likely to weaken, at least in the first half of the year. Confidence has fallen on the delivery of – and uncertainty about – future tax hikes. Global

challenges aren't helping.

Our risky call: Bank of England hawks proven wrong as inflation recedes

We expect inflation to fall from 3.6% now to almost 2% in April. Food inflation has likely peaked. The marked fall in wage growth points to lower services inflation, helped by more contained regulatory price hikes and slower rental growth. The government's decision to lower energy bills should trim 0.3pp off headline CPI too.

Hawks at the Bank of England fear that elevated inflation rates in 2025 – particularly for food – will fuel a more sustained episode of price pressure akin to 2022. We disagree. The jobs market is considerably weaker. Firms' pricing power has receded. Though a risky call after several years of sticky inflation, we think 2026 will finally show the UK as less of an outlier. The Bank is set to narrowly vote on a December rate cut. And as the tide turns on inflation, we expect two more next year – and the risk is we get more.

Our bold call: Leadership risk sparks renewed UK bond sell-off

Twelve months ago, our bold call correctly argued that more tax rises were inevitable in 2025. The same isn't necessarily true in 2026. Adverse economic forecasts are less likely to force the chancellor's hand, given greater 'headroom' under the fiscal rules. The fact that issuance and the deficit will be falling next year is a reminder that the UK isn't the "next France".

Yet the Autumn Budget failed to address many longer-term challenges. Public spending pressures are growing. Taxes on average workers are comparably low. That, against a backdrop of mounting political pressure, means a change of political leadership can't be ruled out. May's local elections are a key flashpoint.

Changing leaders isn't easy; 20% of Labour MPs would need to back a rival candidate when none currently exists. But were it to happen – or even if the risk of it rises – bond yields would likely spike on the perception that a more left-leaning PM would hike borrowing. This would be against a backdrop of growing populism on the political right.

Politics is the biggest risk for UK bond markets in 2026.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Article | 4 December 2025

A return to normality but regional splits: 3 calls for the CEE

Countries in Central and Eastern Europe should return to normal growth and inflation paths. Fiscal policy remains broad, but monetary policy is moving towards neutral. And so much depends on what happens in Germany and Ukraine

Decisions in Ukraine and Germany will shape the future for CEE leaders, including Poland's Donald Tusk.

ING's base call: Monetary policy returns to normal

Within the CEE region, we should see strong growth in Poland and the Czech Republic next year, and a recovery in Hungary and Romania. For the first two, inflation should remain stable near the central banks' target, while Hungary and Romania should see some progress in disinflation, but it still remains above target.

We think the Czech National Bank completed its cutting cycle in May and the National Bank of Poland should complete its work in the first half of next year at 3.50%. The National Banks of Hungary and Romania should return to rate cuts in the second half of the year (50bps from the NBH and 100bps from the NBR) but not complete their cycle until 2027. Fiscal metrics appear stretched across the region, leading the EU deficit rankings, except for the Czech Republic. Although the political cycle suggests limited scope for consolidation, the public deficit should be further widened only to the extent permitted by financial markets

and the risk of a rating downgrade.

Our risky call: Disappointment could lead to more rate cuts

The assumption of strong growth next year in the CEE region is heavily based on the recovery of the German economy, the main trading partner, and the effect of fiscal stimulus there. If it disappoints, both recovery and sentiment would be undermined. A weaker eurozone could also mean further rate cuts from the ECB, freeing up some space for CEE central banks to continue or accelerate their cutting cycle.

If that were the case, we could see the CNB cutting rates to a neutral level of 3.00%. The NBP would likely head towards similar levels compared to the 3.50% in our current forecast. The NBH could resume rate cuts in this environment as early as the first half of the year, delivering at least 100bps in total. The NBR will have to wait for inflation to decline in the second half of the year, but with the economy on the brink of a recession triggered by the consolidation package, we could see 150bps of rate cuts next year under this scenario.

Our bold call: Any boom would spark rate hikes

Full delivery of the fiscal stimulus in Germany and a revival of the eurozone would fully kick-start the CEE region's economy. A full-fledged peace agreement between Ukraine and Russia would allow energy prices to be reduced for heavily industrialised countries in the region. Positive sentiment from that, along with a reconstruction project and relaxed fiscal measures, would visibly boost the economy above potential. Consumption-driven GDP growth and fiscally supported wages would quickly turn into inflationary pressures. This would force central banks to react quickly and offset the economic boom by raising rates, starting in the Czech Republic.

Author

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Kazakhstan slows, Uzbekistan may surprise: 3 calls for CIS

Our safe call is that Kazakhstan will face slower GDP growth and faster inflation. The riskier one is that Uzbekistan will continue showing better-than-expected FX and CPI performance, while our bold call is that Azerbaijan could face FX risks amid a negative current account balance

A train is lifted onto rails in Astana, Kazakhstan. Can its economy also stay on track?

ING's base call: Kazakhstan to slow amid fiscal consolidation

Kazakhstan's economy is to lose some steam after showing a strong oil and consumption-driven performance in 2025. We expect GDP growth to ease to 4.5-5.0% in 2026, as fiscal consolidation through a VAT rate hike puts pressure on consumption. Moderation of oil production and lending growth will weigh on activity.

Inflation remains a thorn in policymakers' sides. The upcoming VAT rate hike from 12% to 16% and other challenges may lead to a spike in CPI inflation to 15% at the beginning of the year, potentially triggering another rate hike from the current 18.0% level before moderating in the second half of next year. Still, with the year-end CPI expected at 11% and the policy rate projected at 17%, monetary conditions will stay restrictive.

Our risky call: Uzbekistani soum to see only 2% correction, CPI to approach 6%

Markets are expecting a sharp depreciation of the Uzbek soum after an atypical gold-driven strength in 2025, but we see only a mild 2% correction. Why? A strong gold price environment, more credible fiscal consolidation, and efforts to boost the attractiveness of foreign investment inflows will provide a buffer against external shocks. These factors should prevent the kind of FX volatility that consensus expects.

Inflation dynamics will benefit from this stability. We forecast CPI at 6.0-6.5% by the end of 2026. Combined with fiscal prudence, this backdrop should allow the central bank to cut its key rate towards 12.00%, undercutting consensus and signalling confidence in macro fundamentals.

Our bold call: Azerbaijan to face elevated depreciation risk

Our GDP growth forecast for Azerbaijan is 2.8%, signalling a recovery from the 2025 trough. However, the key story is rising external vulnerability. With exports stagnating and imports growing, Azerbaijan's current account breakeven Brent price has climbed to nearly $60 – the highest since 2014. Under our house oil price view, the current account is set to turn negative in 2026, an unusual and uncomfortable scenario for Azerbaijan that raises concerns over FX stability.

If oil prices remain near our forecast, pressure on the manat could intensify. The peg, fixed at 1.7 per USD since 2017, may become a policy flashpoint. Authorities will face a stark choice: defend the peg at the cost of reserves or allow adjustment to preserve competitiveness. Azerbaijan's substantial external buffers – sovereign fund and central bank reserves totalling around 100% of GDP – should enable short-term defence, as seen in 2020. However, if oil prices fall sustainably below the breakeven level, as was the case in 2015–16, an exchange rate adjustment cannot be ruled out

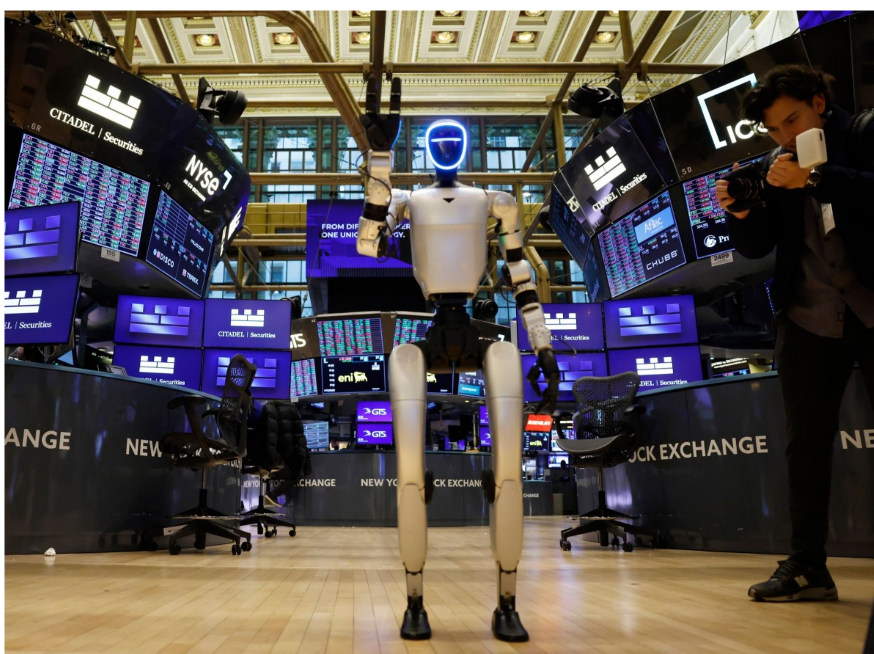
Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Article | 4 December 2025

Europe lags and regulation shifts: 3 calls for AI

Artificial intelligence will remain a key driver of the global economic outlook in 2026, but Europe risks falling further behind the United States and China



The continent hosts only a handful of AI models and remains far behind the United States

ING's base call: Europe still behind in the AI race

Europe is significantly lagging in the global race for artificial intelligence development. The continent hosts only a handful of AI models and remains far behind the United States – and, to a lesser extent, China – in terms of innovation and deployment.

This technological gap is mirrored in business adoption: the share of European companies integrating AI into their daily operations is markedly lower, creating a widening productivity divide. Against this backdrop, AI is poised to remain a dominant engine of economic growth in the United States throughout 2026, whereas its impact in Europe will be comparatively muted.

Although AI usage and investment on the continent are expected to accelerate, they will still fall well short of US levels. This disparity will constrain Europe's potential for productivity

gain. Consequently, the structural growth gap between the US and Europe is likely to widen.

Our risky call: Europe stops to regulate

We have heard it often enough: the US innovates, China replicates and Europe regulates. Our risky call is that, in its broader efforts to support growth and competitiveness in Europe, the European Commission will propose a big deregulation package for AI, which would then be approved by governments and the European Parliament.

Parts of this package could allow European companies to train models better and more easily. Consequently, European companies will become slightly less dependent on AI made in the US and AI investments will finally start to accelerate in Europe, positively impacting total investments in Europe in 2026. Nevertheless, this will not enable Europe to catch up with the United States, nor will it bridge the structural gap in potential growth.

Our bold call: AI appetite takes a pause

We won't speculate on stock market trends or whether an AI bubble is forming, but regardless of market moves, our bold call is that investor enthusiasm for AI will fade in 2026. It will follow the so-called "Gartner Hype Cycle" where a new technology moves from initial excitement to a peak of inflated expectations, then through a period of disappointment, before reaching a stage of practical understanding and finally becoming widely adopted and productive.

For AI, 2026 could mark the peak of inflated expectations, as investments fail to deliver on promises and major model errors prompt a return to human judgment – forcing companies to rethink how they use and apply AI. Power outages or cooling issues, as experienced by the Chicago Mercantile Exchange in late November, for example, create more uncertainty regarding the use of AI. As a result, 2026 becomes a year of consolidation or even a setback for the global AI wave.

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Article | 4 December 2025 FX

A weaker dollar as the Fed moves toward neutral: 3 calls for FX

We are mildly bearish on the dollar into 2026 as the Fed brings the policy rate down to neutral. We see risks skewed to the dollar's downside should a more politically minded Fed take US real rates a lot lower or even be dragged into a scheme to target longer-dated Treasury yields

Fed Chair Jay Powell. We expect the Fed to cut rates back to neutral near 3 to 3.25%

ING's base call: Less restrictive Fed policy delivers softer dollar

Our baseline call sees the Fed cutting rates back to neutral somewhere near the 3.00/3.25% area. With the ECB not touching its policy rate during 2026, FX hedging costs for eurozone holders of US assets should fall further. Three-month hedging costs have already fallen to 1.85% per annum from 2.45% as recently as July and are expected to fall further. Increased hedging activity should weigh on the dollar as it did in April this year.

For reference, the recent ECB Financial Stability report highlighted that eurozone investors, as of the second quarter 2025, held $3.8tr of US equities, $800bn of US sovereign debt and $1.5tr of other US debt securities. With debt investors typically dealing with lower

prospective returns, it will largely be this community which we expect to raise dollar hedge ratios next year.

Our risky call: Risk of negative real rates hurting the dollar

If political pressure mounts on the Fed to cut rates, we will all definitely be talking more about real interest rates in the US turning negative again. Two-year real swap rates have dropped to just 0.75% now from a peak of 2.5% in 2023. Any suggestion that the Fed is taking rates to inappropriately low levels could see real US rates turn negative again and weigh on the dollar.

For reference, when the Fed attempted to reflate the economy after the pandemic, real rates were taken down to the -3% area, and the dollar was under broad-based pressure. Were US real rates to make it back to the -1% area in 2026, we could see the dollar some 5-7% lower from current levels.

Our bold call: QE would be a game-changer for the dollar

Were the nexus of the US Treasury and the Fed to somehow agree that yield curve control was a good idea, the resurgence of quantitative easing would weigh heavily on the dollar. Printing money to keep the long end of the Treasury market in check, while good for growth, would further damage the credibility of the dollar and lead to a much clearer return of the 'risk on, dollar off' trading environment seen in the decade immediately after the Global Financial Crisis.

In the absence of a crisis, we presume the ECB and the Bank of Japan would be operating with much more stable balance sheets than the Fed and that the euro and the yen would witness some meaningful outperformance against the dollar. Under this policy, the US administration could achieve two of its goals at the same time: stable funding levels for the US government and a weaker dollar.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Article | 4 December 2025

Feels normal, but bounded by extremes: 3 calls for rates

In our base case, we hit mythical normal levels for rates in 2026. We end at around 4.25% on the 10yr. We expand on two variations. One, where the Fed cuts to 2% on macro angst. The other is where the Fed does something similar, but purely on a super dovish tilt

The Fed's rate-cutting agenda is set to be completed in early 2026

ING's base call: It's unusual to get to a normal curve, but we might just see it

What we call normal levels for rates typically derive from long-run averages, to avoid us just making them up. In our base case, we hit the mythical normal rate levels through 2026. Even Japanese rates are moving in that direction.

In fact, we are practically there in the eurozone. The ECB's deposit rate is pitched at 2%, consistent with an "around 2%" inflation expectation and a zero (to low) real rate. Currently, we have the 10yr Euribor rate at 2.7%. For 2026, our call is for this to head to the 3% area. The add-on of heavier issuance (defence spending) should lift government yields by more than the rise in the ESTR 10yr, thereby widening the Bund swap spread.

In the US, the Fed's rate-cutting agenda is set to be completed in the early months of 2026.

The market discount has the funds rate bottoming in the 3% area. The 10yr swap rate, now at 3.65%, looks a tad low against a backdrop where US inflation is at 3%, and prone to rising in the coming months. We see 10yr SOFR edging up to the 3.75% to 4% area. That pitches the 10yr Treasury yield in the 4.25% to 4.5% area, assuming a deficit-impacted re-widening in the swap spread to the 50+bp area.

Our risky call: The Fed cuts for justifiable reasons

Following the 'Risky Call' outlined in the US section, we ask here what happens to bonds when the picture morphs to corrections in the tech and housing markets, squeezing confidence and spending, necessitating Fed cuts to 2%. This would be at 1% to 1.5% below what we consider neutral (3 to 3.5%).

In this "non-inflationary" scenario, the US 10yr yield is quickly pulled structurally below 4%, and has the potential to get all the way down to 3%. We'd have a central tendency in the 3% to 3.5% area on the assumption that the Fed is actually done cutting at 2% and there is an ambition for the next move then to be a hike, even if eventually.

This would impact eurozone rates too, with the 10yr Bund yield liable to find comfort in the sub-2.5% area, likely 2.25% to 2.5%, as the eurozone would be unable to shrug off the effects of US angst.

Our bold call: What happens if the Fed slashes for unjustifiable reasons

Again, following the lead from the US section, the 'Bold Scenario' is where the Trump administration manages to secure the required turnover so that the Fed executes rate cuts far in excess of what's required, all in an attempt to juice the economy in good time for the midterms. While there are some positive outcomes for Treasuries from higher tax receipts, the bigger negative is the rise in inflation risks. Add to that the notion that the Fed is doing things it really should not be doing, thereby tarnishing credibility.

While Treasuries love rate cuts, they won't like them much given this cocktail. Here, there is a material risk that finally things begin to unravel for longer tenors, with the 10yr yield hitting 5%, and the 30yr risks hitting 6%.

In the eurozone, the 10yr Bund yield structurally moves above 3%, and likely settles in the lower half of the 3% to 3.5% area, looking at a 150bp to 200bp spread to Treasuries.

Author

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

Report | 4 December 2025

ING Global Outlook: A taste of things to come

The global economy is still cooking up decent enough food, but the kitchen is one heck of a mess. Expect 2026 to serve up more of the same

The global economy is similar to a frenzied kitchen worthy of the hit show, The Bear

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.