

SPECIAL REPORT

# The World in 2026

From neo-mercantilism to Europe's fiscal turn.

How trade, tariffs and geopolitical rivalry are reshaping global growth in 2026.



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# Trump's shock and awe vision for US power

Written by [Gideon Rachman](#)

The World Economic Forum annual meeting starts against the backdrop of dramatic displays of American power. Donald Trump is expected to speak and will be in a triumphalist mood following the US military intervention in Venezuela, while he has taken a belligerent stance on Iran.

The assembled billionaires, business leaders and politicians who make up the typical Davos audience will be deferential to Trump. But behind the smiles and the handshakes, there is deep anxiety about the direction of US foreign policy — and its implications for international relations.

Trump's speech may give some clues about what will come next. Will the US president lay out plans for the future of Iran or Venezuela? Will he signal a truce in his trade war? Will he mention Greenland? Will he have warm words for Vladimir Putin and Xi Jinping, the leaders of Russia and China, who will not be at this year's forum?

When he was campaigning for office, Trump stressed his desire to be a peacemaker and to avoid involving America in further wars. But that period of restraint, also emphasised by his advisers, now seems to have disappeared.

The US has returned to muscular interventionism in the Latin America, but with a Trumpian twist. Talk of high ideals and democracy is out, instead there is a stress on business deals and oil. Trump also seems to have little interest in careful planning for the day after an intervention. Instead, he is interested in spectacular "wins". All of this makes even American allies in Europe, Asia and the Gulf very nervous.

It is unusual for events in Latin America to dominate world news, but the Trump administration's declared intention to establish US dominance over the western hemisphere has created the greatest climate of uncertainty in the region since the end of the cold war. It also has global implications, since it will shape expectations about how the US will conduct its business elsewhere.

Since the capture of Venezuelan leader Nicolás Maduro in early January, the Trump administration has already strongly indicated that its actions in Venezuela should not be regarded as a one off. The US has issued barely veiled threats to the governments of Colombia and Cuba — while threatening to stage a second military intervention in Venezuela, if the government there does not co-operate with Washington. The White House is also known to be contemplating the use of force against Mexican drug cartels.

Some have compared the current Trump policy to previous eras of American interventionism in Latin America — including the US arrest of Manuel Noriega in Panama in 1989, the overthrow of the Arbenz government in Guatemala in 1954 and America's alleged involvement in the coup that overthrew the Allende government in Chile in 1973.

In some respects, however, the "Donroe doctrine" (Trump's version of the Monroe Doctrine, which was a 19th-century US policy claiming the western hemisphere as a US sphere of influence) is even more aggressive in intent than previous eras of US interventionism in the Americas. The use of US troops to arrest a leader in South America represents a new demonstration of power. It will create fear across the continent, as it is intended to.

The scope for further American operations of this sort will, to a large extent, be dictated by the success or failure of US intervention in Venezuela. If Trump can plausibly package the Venezuelan venture as a success, he and his advisers will be sorely tempted to undertake further radical interventions in the western hemisphere. But, if Venezuela begins to go wrong, the “restrainers” in the Trump administration will find their voices again.

Differing attitudes to the Trump administration, and America’s policy of hemispheric dominance, will also widen ideological divisions between countries in the region. The Brazilian government, led by President Luiz Inácio Lula da Silva, has condemned the seizure of Maduro, as has Claudia Sheinbaum, the president of Mexico, who also hails from the left of the political spectrum. However Javier Milei, the libertarian president of Argentina, has warmly applauded American intervention in Venezuela — and this line has been embraced by other populist right-wing leaders in the region such as Nayib Bukele of El Salvador and José Antonio Kast, the incoming president of Chile.

The US policy of hemispheric dominance also poses serious questions for Europe — because of Trump’s repeated insistence on his administration’s determination to take over Greenland, which is an autonomous part of the Kingdom of Denmark.

Most European leaders have been cautious about what they say about Venezuela. They remain wary of antagonising the US, which is the central pillar of the Nato alliance, on which European security depends. That anxiety is all the more acute, given the war in Ukraine and the European desire to bind the US into peace proposals that the Europeans and Ukraine itself can accept. Those proposals are expected to be discussed in Davos with Ukraine’s President Volodymyr Zelenskyy in attendance.

Greenland, however, is a different matter to Venezuela — since it is part of Denmark, which is a democratic country and a member of the EU and Nato. If the US were to attempt to use force in Greenland, or to sanction Denmark for failing to hand it over, the consequences for the western alliance could be devastating. Danish premier Mette Frederiksen has said that it would spell the end of the Nato alliance. That is certainly conceivable, because the alliance’s mutual security guarantee would be incapable of coping with a situation in which the territory of one Nato member was threatened by another.

In Davos, European leaders will attempt to get this point across to Trump and his entourage. The fear must be that the White House will not care. Trump has toyed with leaving the Nato alliance before and many members of his team have expressed open contempt for the EU.

The possible disintegration of the western alliance will be watched in Moscow and Beijing with fascination, and some hope. Ever since the beginning of the second Trump term, the Kremlin has been reaching out to the US government in the hope of negotiating a peace deal over the heads of Ukraine and the EU.

Putin has come close to a breakthrough on a couple of occasions. He managed to secure a summit in Alaska in mid-August 2025. Later, the Russians persuaded Trump’s special envoy, Steve Witkoff, to give his blessing to a proposed settlement that would have handed the Kremlin quite a lot of what it wanted. On both occasions, the proposed deal failed to stick. But if a deep rift opens up in the western alliance, Russia will see Europe as vulnerable.

The overthrow of Maduro was potentially embarrassing for the Chinese government, which had just sent a delegation to meet the former Venezuelan leader. But America’s assertion of a right to dominate its own hemisphere and to overthrow regional leaders it dislikes has clear potential implications for China’s long-held ambition to take over Taiwan. A “might makes right” world, combined with regional spheres of influence for great powers, could suit China well.

The Chinese will also be feeling more confident in their trade relations with the US having successfully used restrictions on the export of rare earths and critical minerals to force America to lower its tariffs. A proposed Xi-Trump summit in Beijing in April will be one of the most important set pieces of 2026.

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**Behind the smiles and the handshakes, there is deep anxiety about the direction of US foreign policy — and its implications for international relations.**



# The dangerous triumph of neo-mercantilism

Written by [Martin Wolf](#)

In the first 11 months of 2025, China ran a customs trade [surplus of over \\$1tn](#). According to Brad Setser of the Council on Foreign Relations, in 2025 as a whole, its “overall goods surplus . . . should — if accurately measured — approach an astonishing \$1.2tn dollars (6 per cent of China’s GDP, well over a percentage point of the GDP of all of China’s trading partners).”

Over much the same period, Donald Trump, obsessed with US trade deficits — both overall and, even more, in manufactured goods — raised average tariff rates to an [estimated 14.4 per cent](#), the highest level since shortly after the second world war.

Why is China running such huge trade surpluses and why is the US abandoning the relatively liberal trade policies of the past eight decades? The answer is the revival of mercantilism.

Mercantilism dominated European thinking on international economic policy in the 17th and 18th centuries. Mercantilists’ underlying belief was that international economic policy is primarily a tool of state power. Since power, unlike prosperity, is relative, mercantilists think of international economic engagement as “zero sum”: you win, I lose. Mercantilists also treasure domestic production and love trade surpluses and protection against imports. Adam Smith wrote *The Wealth of Nations* in the 18th century as an argument in favour of free trade, against just such mercantilism.

## China's overall trade surplus now exceeds \$1tn

Customs trade surpluses of key economies (\$bn, sum over previous four quarters)

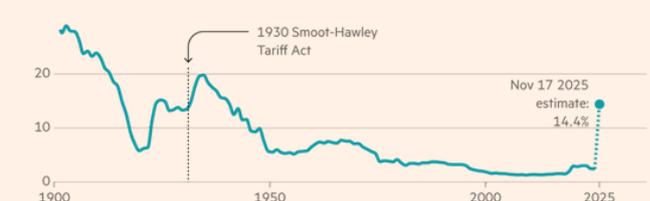


\* Newly industrialised economies  
Sources: Brad Setser (Council on Foreign Relations), GACC, Haver Analytics

[Mercantilism](#) goes back at least to the 16th century. So, given that we are in the 21st, we should call today’s version “neo-mercantilism”, replacing “neoliberalism” which took a more Smithian view of trade a few decades ago. Yet as the Canadian economist, Eric Helleiner [argues](#), such contemporary neo-mercantilism partly revives earlier neo-mercantilist ideas, notably those of two figures whose ideas were influential in the 19th century — the first US secretary of the treasury Alexander Hamilton and the German political theorist Friedrich List, both of whom argued for infant industry protection.

## Trump's tariffs are very far back to the future

Effective tariff rate (%)



Source: Yale Budget Lab  
© FT

Neo-mercantilism is thriving in China, which has not only embraced infant-industry promotion, but created huge trade surpluses. Trump's US is no less neo-mercantilist: he is obsessed with the evils of external deficits and the need to protect domestic markets.

Arvind Subramanian, former chief economic adviser to India's prime minister Narendra Modi, recently argued that "Trump's long-standing tariff obsession derives from his fury-fuelled conviction that trade surpluses abroad have damaged the US economy, especially its manufacturing sector. In that world view, China, with its consistently large trade surpluses, was the provocateur-in-chief."

My colleague, Robin Harding, has raised even more disturbing worries about China: the Chinese, he suggests, do not want to import anything manufactured elsewhere. Their aim, he argues, is domination of global manufacturing.

### China's trade surplus in manufactures is exploding

Surpluses on trade in manufactured goods, as a % of global GDP



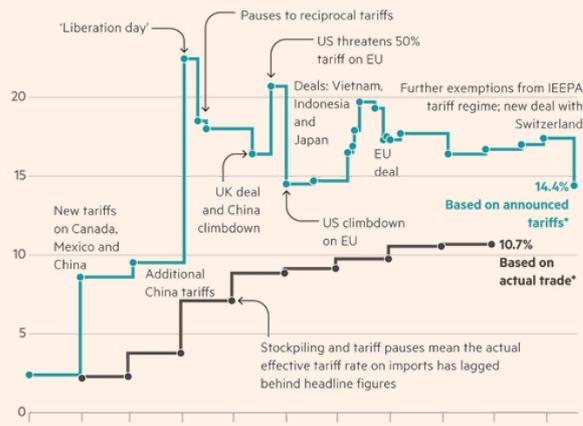
Sources: Brad Setser/Volkmar Baur (Council on Foreign Relations), GACC (China), UN Comtrade

This perspective is consistent with the revealed preferences of Chinese policymakers over decades. Certainly, China has never addressed its long-standing structural problem of excess savings. True, immediately after the financial crisis of 2007-09, its temporary "solution" was to promote a huge domestic property boom. But this has now (inevitably) blown up. More recently, the favoured solution has been enormous investment in advanced manufacturing, which generates excess capacity and even higher exports: China's mercantilism is embedded, economically and politically.

Trump's tariffs will now divert China's exports towards other markets, both other high-income economies and emerging and developing ones. Thus, Subramanian notes that "China's exports of low-value-added goods to developing countries have been rising sharply, undermining the competitiveness of these countries' own domestic industries." The beggar-our-neighbours interaction of China's mercantilism with US protectionism will spread damage across the world.

### In 2025 tariffs were unprecedentedly unpredictable

Effective tariff rate (%) — Based on announced tariffs\* — Based on actual trade\*



Sources: Yale Budget Lab; US Census Bureau. \* "Actual trade" rate is customs duty revenue as a % of value of goods imported. "Based on announced tariffs" is the estimate of the long-run effective tariff rate based on current announced policy, after accounting for consumption shifts © FT

Mercantilism's zero-sum and state-oriented perspective also tends to create international conflict. Mercantilist powers fought one another constantly: England and France, two of Europe's great powers, were at war, on and off, from 1689 to 1815. The apparently economically-motivated US decapitation of Venezuela is a classically imperialist resource-grab. Maybe, the fear of nuclear weapons will continue to constrain war. But it is not easy to separate intense economic friction from outright conflict.

The triumph of neo-mercantilism then raises two fundamental issues.



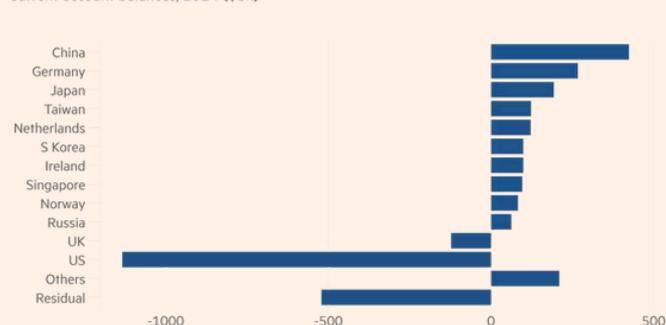
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The first is where it will lead. Some argue that the world will fracture. This seems likely. But it is unlikely to be a neat fracturing, because the interests of great powers overlap. It seems unlikely, for example, that the US will just abandon south and east Asia to China.

Again, in the mercantilist era, there was agreement that gold was a politically neutral form of money. Today, the world's money (like it or not) consists of national fiat currencies, predominantly the dollar. Replacing it would be very messy. Above all, today's world economy is more integrated, on almost all dimensions, than any that existed in previous eras. The costs of fracturing are likely to be correspondingly high, especially for small and vulnerable countries.

### The US is the world's dominant net borrower

Current account balances, 2024 (\$bn)



Residual = amount needed for global total to sum to zero. Reflects statistical discrepancies, errors and unrecorded transactions  
Source: IMF WEO

The second question is whether the fracturing can be managed. There is, in fact, an answer that is rational, albeit optimistic. It is to build a new system around the notion of a peace treaty among mercantilists. Surprisingly, perhaps, that would not be a new idea: just such a peace treaty was an important element in the post-second-world-war liberal settlement that China and Trump's US are jointly destroying.

Thus, the underlying principle of trade negotiations in 1947's General Agreement on Trade and Tariffs was reciprocal liberalisation: you lower your barriers to my exporters and, in return, I will lower mine to yours. This is far from the economists' case for unilateral liberalisation. But it worked rather well, especially in combination with the more liberal principles of non-discrimination and national treatment.

### The great trade expansion is over, but it has a very long way to fall

Global exports of goods as a % of GDP

- 1 Opium wars
- 2 Long Depression in US & Europe
- 3 First world war
- 4 Smoot-Hawley Act in US
- 5 Second world war
- 6 GATT signed. In effect until WTO established in 1995
- 7 Break-up of the USSR
- 8 China joins WTO
- 9 Global financial crisis
- 10 China starts Belt & Road Initiative



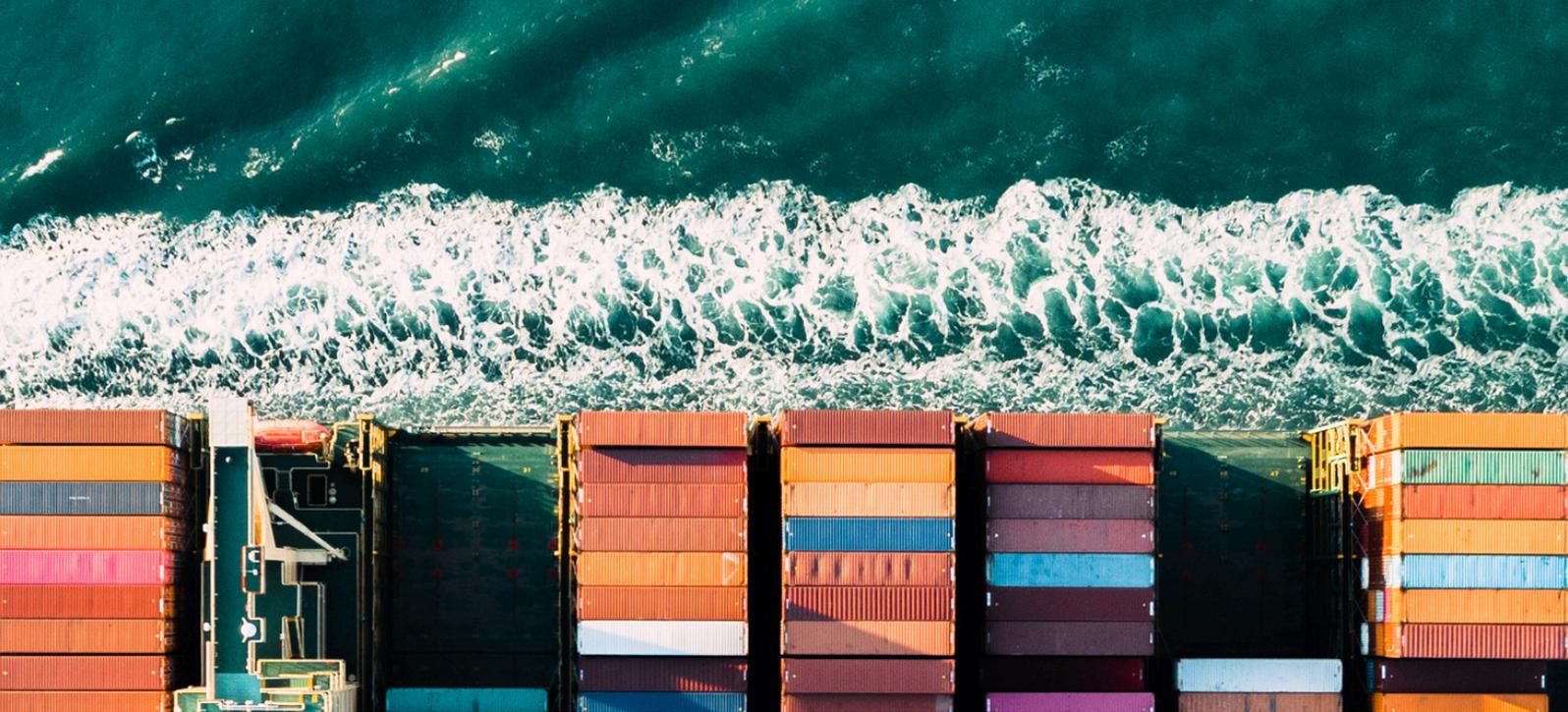
FINANCIAL TIMES Source: Fouquin and Hugot (CEPII 2016); Jordà-Schularick-Taylor Macroeconomy Database; IMF

Thus, one could imagine an effort (albeit not under Trump) to design a new multilateral economic treaty. In the process, one could even include something John Maynard Keynes wanted to achieve at Bretton Woods, namely, a way to combat huge structural trade surpluses. These, he believed, imposed ruinous constraints upon others. In the 1940s he could not persuade the US, then a huge surplus country. Today, not only the US, but perhaps the Chinese, too, might see that its mercantilism creates serious macroeconomic and microeconomic difficulties.

Neo-mercantilism is a reality. But it needs to be managed. Policymakers need to respond imaginatively.



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# Trade Armageddon has failed to materialise

Written by [Peter Foster](#)

Donald Trump spent decades professing faith in the power of tariffs, but still caught investors off guard when he unveiled his “liberation day” levies in the Rose Garden of the White House in April 2025.

The shock of suddenly seeing manufacturing powerhouses, such as China, Vietnam and Cambodia, threatened with tariffs of 46 per cent or more rattled markets, sparking a multitrillion dollar sell-off. To borrow the US president’s term, people got “yippy”.

And yet, despite economists such as Harvard University’s Kenneth Rogoff warning that Trump had “dropped a nuclear bomb on the global trading system”, the promised Armageddon never quite materialised.

Instead, by the end of 2025 the Trump administration had salami-sliced its way to the highest tariffs on US imports since the second world war — an effective rate of more than 10 per cent globally and more than 35 per cent for China by early December 2025 — but without provoking outright trade war.

“**‘For business leaders, as long as they have a tariff number, then they can adjust’**

**Maria Demertzis, Conference Board**

Trump has not always backtracked — despite the popular 2025 markets trade dubbed Taco, or Trump Always Chickens Out — by the FT’s [Robert Armstrong](#). Instead, the US president’s campaign to tackle imbalances of global trade contained multiple feints and tactical retreats, including with China.

Despite tariffs driving a 40 per cent year-on-year fall in Chinese exports to the US in the third quarter of 2025, China’s trade surplus with the world still grew, exceeding \$1tn last November.

At the same time, exports to the US from leading exporting countries in Asia also grew, according to US Census Bureau data, even though most countries in the Association of Southeast Asian Nations were subject to tariffs of around 20 per cent by mid-2025. The resilience arose from China rerouting goods via south-east Asian allies, US demand for electronic components to support the AI boom, and the continuing cost advantages of manufacturing in Asia.

With no significant tariff differential between Asian manufacturers, incentives for a radical shift in supply chains remain muted. As Ken Loo, secretary-general of a Cambodian trade body for goods manufacturers, recently told the FT: “If you hit everybody evenly, then you hit nobody.”

And while tariffs do increase costs, a 20 per cent tariff on \$100 trainers that have a customs value of \$25 ultimately increases the retail price of that item to \$105 — painful, but not fatal.

Still, boardrooms can be sure that tariffs are not going away.

“Tariffs are now the new sanctions, and they’re here to stay,” says Maria Demertzis, head of the economy strategy centre at the Conference Board think-tank in Brussels, who predicts more of the same in 2026 and that business can cope with the new, higher-tariff world. “For business leaders, as long as they have a tariff number then they can adjust. They may not like it, but they can plan accordingly,” she adds.

Even if global supply chains do now settle into an uneasy equilibrium, building resilience against geopolitical upheaval will come at a cost, according to Simon Geale, executive vice-president at Proxima, a supply chain consultancy owned by Bain & Co.

“Supply chains are getting longer, not shorter, and CEOs must now think ‘risk first’ not ‘cost first’ as they did a decade ago,” he says. “Resilience is becoming a strategic asset for many companies as we move into a world that is increasingly designed for disruption.”

Predicting where disruption will come is difficult with a US president as mercurial as Trump. The reciprocal tariff agreements he has signed with a host of partners since mid-2025 are unstable by design, leading to constant renegotiation.

The question for 2026 is how far the Trump administration will make good on threats it has already issued.

The office of the US trade representative has [threatened](#) the EU with retaliation against what it calls “harassing lawsuits, taxes, fines, and directives” against US technology companies and services businesses. As with EU rules on food safety, environmental regulations and the imposition of its carbon border tax, these are long-standing US complaints — what is unknown is how far Trump intends to push the point.

Equally long-standing are US complaints about the impact of China’s surpluses in steel, and its growing dominance in some electric vehicle markets and other key industrial sectors — as well as US demands to exclude Chinese tech from strategically sensitive supply chains.

Trump’s reciprocal tariff trade deals with countries such as Cambodia, Malaysia, Vietnam and Indonesia provide potential leverage to push that agenda — including the threat of 40 per cent tariffs on goods “transhipped” from China. The administration has many enforcement mechanisms available, but it has so far been opaque about whether it has the political will and the bureaucratic bandwidth to use them.

Amid the threat of Chinese controls on critical raw materials, much may depend on the outcome of Trump’s state visit to Beijing in April and a return visit by President Xi Jinping to the US later in the year — the first of four potential meetings between the two leaders.

Finally, it is worth remembering that Trump and Xi are not the only potentially disruptive forces in world trade. The EU is also taking steps to address what French President Emmanuel Macron called the “[unbearable imbalances](#)” caused by the Chinese manufacturing juggernaut.

Brussels is doubling its steel tariffs, while pushing for a “Made in Europe” campaign to prioritise industrial inputs from European countries. But, as with Washington, questions remain about the EU’s true stomach for the fight.

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# Multilateral world under threat as Trump takes aim

*Written by [Martin Sandbu](#)*

If, at the start of the year, anyone still hoped Donald Trump and his Maga movement's dismissal of the rules-based multilateral order was more bark than bite, they will have been disabused by the US raid on Venezuela. It showed that the revived Monroe Doctrine and great power competition concerns set out in December's National Security Strategy are meant seriously.

The abduction of a foreign leader is about as unilateral as you can get. But the second Trump administration had already made its disdain for traditional multilateralism amply clear.

In 2025 the US pulled out of the Paris Agreement on climate change (again) and the World Health Organization, followed by **another 66** groups and conventions earlier this month

The US remains in the World Trade Organization but has doubled down on its long-standing antagonism, most recently by formally disavowing the "most favoured nation" principle. This foundation stone of the postwar trading system, requires a country to grant the lowest tariff offered to its "most favoured" trading partner to all others with MFN status. (In practice, the so-called "reciprocal tariffs" announced in April made MFN a dead letter as far as the US was concerned.)

The US has always been selective in its approach to multilateralism. If, postwar, it promoted structures of formal equality between nations such as the UN, it reserved its freedom to act outside or against the rules it set up.

But for three-quarters of a century, Washington saw the existence of a rules-based multilateral system as in its interest.

That is no longer true. So what remains of multilateralism today? What prospects may its supporters still hope for — and what exactly is the Trump administration trying to replace it with?

Optimists may point to its willingness to work with groups of countries that accept its redefined interest. The "pax silica" compact, for example, aligns a handful of countries, including Japan, Israel, Singapore, the UK, and Australia, with US economic security priorities for the AI supply chain. In the WTO, the US calls for coalitions of the willing to follow its lead on trade policy. If not quite multilateralism, it is at least a plurilateralism of convenience that seeks to rally countries behind the US and against China in particular.

Conversely, other countries can pursue a reverse plurilateralism on a "world minus one" basis. WHO members passed a pandemic treaty last spring, without the US.

At the COP30 climate talks in Brazil in November, a large group of countries vowed to form a coalition of those willing to work towards phasing out fossil fuels — a goal notably absent in the consensus declaration. Immediately afterwards, leaders at the G20 summit hosted by South Africa signed a joint statement against the wishes of the US — whose president did not turn up.

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These are all signs that the multilateral institutions set up in the 80 years since the second world war, under the aegis of the US itself, may be robust enough to keep functioning even after the withdrawal of their principal sponsor. While their influence may be curtailed, they may still usefully serve those who still find them valuable — which probably means most countries.

But will the US let them? Far from being isolationist, “America First” has turned out to be less than indifferent to how the rest of the world arranges its affairs.

The US has made several efforts at sabotaging multilateral initiatives. It has sanctioned top officials of the International Criminal Court. In October, it managed to help overturn a vote in the International Maritime Organization to impose levies on carbon emissions from shipping, by strong-arming enough delegates, including through threats of personal repercussions. It has even threatened to seize Greenland, a fellow Nato country’s territory.

What the Trump administration wants to replace multilateralism with, however, can be hard to pin down — those shaping the White House’s foreign policy come in many factions. The Venezuela raid, for instance, brought together the Monroe Doctrine, neoconservative interventionism, traditional promotion of US corporate interests (in this case oil) and Maga’s obsession with immigrants and narcotics.

PAs a result, experts highlight different aspects of Washington’s new approach to international relations. Nathalie Tocci, director of Italy’s Istituto Affari Internazionali, reads the US National Security Strategy as a declaration of “imperial collusion with both Russia and China”.

For history professor Michael Kimmage, the NSS presents “an aspirational world order” which would not be “the function of great-power competition or of civilisational clashes . . . It would issue instead from a dense network of personal relationships that supersede any alliances or any division of countries along the lines of democracy or authoritarianism.”

In the same vein, politics scholars Stacie Goddard and Abraham Newman have identified the emergence of a “neo-royalist international order” shaped by “cliques” of “hyper-elites” rather than conventional national or international structured authorities.

Atop it all sits Donald Trump, a leader seeming to prefer chaos over predictability. So whatever follows the postwar multilateral order, the transition is liable to be scary. When an old world is dying and the new one struggling to be born, Italian Marxist Antonio Gramsci wrote before the second world war, it is a “time of monsters”.



**[The National Security Strategy] would issue instead from a dense network of personal relationships that supersede any alliances or any division of countries along the lines of democracy or authoritarianism.**



# Germany is reigniting cautious optimism in Europe's economy

*Written by [Sam Fleming](#)*

Germany's closely followed Ifo index of business sentiment fell to its lowest level at the end of 2025 since the spring. "The year is ending without any sense of optimism," the Ifo institute noted succinctly.

But to some economists, this feeling of gloom in the Eurozone's largest economy is misplaced — at least, in part. Not only did the single currency zone prove more economically resilient than expected in 2025, but additional growth drivers are also poised to kick in over the coming 12 months, which have the potential to lift the outlook.

The key one is the impact of German fiscal policy. The country is set to inject stimulus into the economy even as the benefits of European Central Bank interest rate cuts continue to feed through. Falling inflation and ongoing real-terms household income growth should support the outlook, analysts add.

"We expect growth to accelerate in the course of this year," says economist Bert Colijn at ING bank. The global environment will remain challenging because of competition from China, US trade tensions and a strong euro, he says, but there is an optimistic economic case resting on domestic factors.

Cautious optimism about the Eurozone lifted some of the region's key equity indices in 2025 — including the German Dax index of 40 blue-chip companies, which rose 23 per cent vs the S&P 500's 18 per cent.

Forecasts from the ECB released just before the end-of-year break pointed to a solid growth performance in the coming two years. Growth in Eurozone GDP is predicted to be 1.2 per cent in 2026 and 1.4 per cent in 2027 and 2028 — similar to last year's expansion.

Business investment will rise in 2026-2028, the ECB forecasts, borne higher by increasing profit growth and relatively low interest rates.

The biggest shift comes down to budget policy, which is expected to be stimulative overall because of the decision by the government of Chancellor Friedrich Merz to loosen its self-imposed budgetary strictures and invest in defence and infrastructure.

The German budget deficit is set to widen from 3.1 per cent of GDP in 2025 to 4 per cent in 2026, according to European Commission projections.

More public spending in the region's biggest economy will have knock-on effects for businesses and consumers elsewhere in the currency zone. The peak of the impact on the single currency area will be felt in 2026, the ECB projections suggest, with an overall Eurozone fiscal loosening of 0.3 percentage points. This comes even as some Euro area countries make efforts to rein in public debt — among them France and Italy.



Household sentiment remains subdued, with a European Commission index of optimism dipping in December and still hovering below pre-pandemic levels. The household savings ratio remains high at over 15 per cent of disposable income. But unemployment is still near record lows, real wages are growing, and lending growth is up, points out Claus Vistesén at Pantheon Macroeconomics. “We think Eurozone households’ spending will continue to grow modestly in coming quarters.”

At the same time, growth threats remain manifold. Among them are the risk of fresh political tensions with the US, and the war between Russia and Ukraine.

A renewed Chinese push for export growth poses particularly acute challenges for German GDP, Goldman Sachs analysts warn, with slightly less pronounced effects for Italy, France and Spain.

As a recent global FT survey showed, economists expect the US to extend its productivity lead over Europe thanks to AI investments. Meanwhile progress on deepening the EU single market and bolstering the region’s economic dynamism is patchy.

And while Germany may have space for a €1tn debt-funded spending drive on infrastructure and defence, the economy’s overall performance remains tepid. The Bundesbank in December lowered its 2026 German growth forecast by 0.1 percentage points to 0.6 per cent, while raising its 2027 prediction by the same amount to 1.3 per cent.

Nevertheless lower energy costs should help the region’s manufacturing powerhouses, and inflation now appears to have been decisively quelled, leading to ECB predictions that policy is in a “good place”. It forecasts annual inflation of 1.9 per cent in 2026.

Then on top of that comes the fiscal policy shift in its biggest economy. Low interest rates will have even more far-reaching effects across the Eurozone, stimulating investment and residential construction, he adds. “It is not just a German fiscal story.”

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**“The biggest factor that makes 2026 better is that we will likely see a private sector response to the German fiscal stimulus — consumers and businesses feeling better and spending more money”, says Holger Schmieding at Berenberg Bank.**

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## Forecasting the World in 2026

FT writers' predictions for the new year, from the likelihood of higher Trump tariffs to the future of interest rates and the arrival of humanoid helpers.



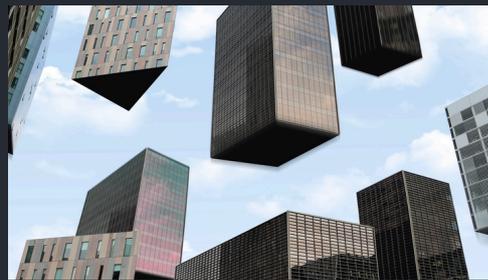
## Business trends, wild cards and companies to watch in 2026

Where people, profits and pressure points are likely to lie across five key sectors.



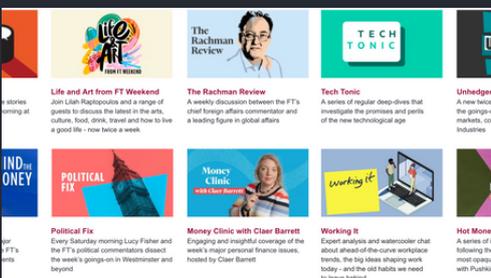
## Climate action faces key tests in 2026

Companies and countries outside the US face the challenge of moving from creating targets and regulations to putting them into practice.



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