

The shifting world order

- **The transition from one world order to another is in full swing, but it is still unclear how that new world order will look**
- **The advent of AI, China's rise, and the US's relative decline offer challenges but also opportunities**
- **The trade war weapon *du jour* has shifted from tariffs to chokepoints, creating new challenges for governments and manufacturers**
- **Fiscal troubles in France and the UK are likely to remain a worry**
- **Global growth has been remarkably resilient given the headwinds. We expect that resilience to continue in 2026, albeit with considerable risks**
- **Exorbitant Privilege: The erosion of US institutions has surprised in its speed and scope. What are the risks in 2026, and can Europe step up to fill some of the void? Also: How the Dutch election outcome might help**
- **Regional Outlooks: Eurozone to see growth pick up on higher German fiscal spending, despite continued external headwinds**
- **The Dutch economy still resilient, but bottlenecks continue to cap growth**
- **In the US, a two speed economy has emerged, creating vulnerabilities**
- **China may take rebalancing steps while keeping its growth model intact**

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Global View: Will next year be merely transitional, or transformative?

We weren't joking when we said 2025 would be the *Year of the Tariff*. But 2025 was about much more than just tariffs. Three major shifts began in earnest, and 2026 could be the year that these accelerate. First, the AI boom is beginning to have transformative effects – not so much in the real economy just yet, but certainly in financial markets. While leading institutions have warned of the risk of a potential market bust, we economists will be watching closely for further signs of AI's impact on labour markets and on productivity. The second major shift we observe is China's coming-of-age on the global geo-economic stage. While our China economist had rightly flagged that Beijing was much better prepared for Trade War 2.0 than it was in Trump's first presidency, the degree to which it successfully wielded the leverage of rare earths – and later Nexperia chips – still felt like a milestone in China's global ascent. The third big shift, and perhaps the corollary of China's ascent, is the decline in the US's relative power and influence. While still a clear leader in the AI race, the erosion of US institutions threatens its leadership of the global financial system. For now, the US dollar and Treasuries remain the only game in town as globally safe liquid assets, given the lack of genuine alternatives. With Europe more awake to the challenges of an inward-looking US, but also the opportunities in a world where dollar dominance is no longer a given, next year could – in an admittedly optimistic scenario – be the year that Europe starts to seize the moment.

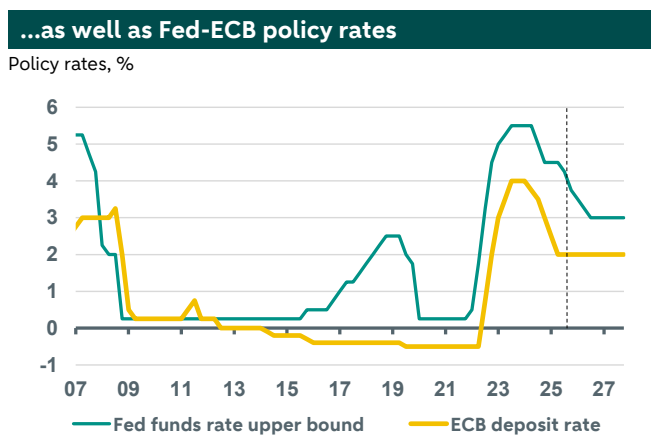
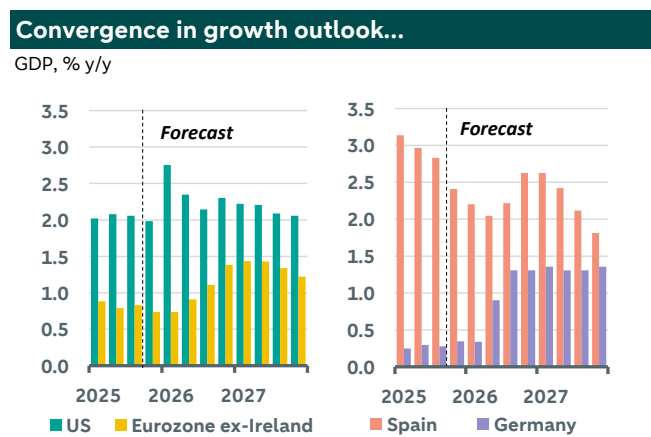
Against the backdrop of these transformative shifts, our view on the economy next year is a relatively benign one. The US continues to coast along, though solid overall growth figures will mask an increasing divergence between those benefitting from the AI boom, and a Main Street that is feeling the inflationary pinch from tariffs and the immigration crackdown. Europe will still see a slow-burning drag from US tariffs next year, but this will increasingly be offset by stronger domestic demand – helped by the ECB's rate cuts – as well as Germany's fiscal bazooka. China is expected to take modest further rebalancing steps, though nothing that is likely to be game-changing as a major global demand impulse. Finally, politics offers as much promise as it does peril. Populism will face key tests with the US midterms in November, and Hungary's general election (crucial for EU policymaking) in April, while France faces an ongoing risk of a snap election, should the government fail to pass a 2026 Budget (the presidential election will happen in April 2027).

We hope you find reading this year's *Global Outlook* as interesting as we did writing it – please do share your feedback. Lastly, wherever developments take us in 2026, we wish our readers a restful holiday period, and a happy new year!

Before we dive into our special topics for this year's *Global Outlook*, below is a brief summary of our updated base case for growth, inflation and interest rates in the three key regions (more detail in regional Outlooks; forecasts at the back).

Growth: US solid but vulnerable; eurozone on the up; China struggling with imbalances

Broadly, we see the US continuing to grow at a solid, trend-like pace over the next two years, but as described in our US Outlook, this benign appearance masks considerable variation and vulnerability below the surface. In the eurozone, growth is expected to pick up from the subdued, well below trend pace in recent quarters. Much of the recent weakness has been driven by the unwind of US export frontloading after tariffs were implemented in April, with the domestic economy holding up rather better. Looking ahead, we expect domestic demand to strengthen further, even as the tariff drag persists, although the impact of rising defence spending will be blunted by Europe's high dependence on imports for defence equipment. All told, growth is expected to gradually accelerate towards trend in the course of 2026, and occasionally grow at an above trend pace later in our horizon. This hinges crucially on how quickly and effectively Germany will deploy its new fiscal firepower. Big picture, the US and eurozone are expected to see a convergence in growth trends over the next year, driven largely by the eurozone's expected pickup. Within the eurozone itself, we also expect a growth convergence, as Germany finally starts to see some meaningful growth again, while the outperformance of southern Europe is expected to see some headwinds from the end of the EU's Recovery & Resilience Facility.



Note: Ireland excluded from the eurozone aggregate to visualise underlying growth. Source: LSEG, ABN AMRO Group Economics

Source: Bloomberg, ABN AMRO Group Economics

Looking beyond advanced economies, we expect China to stay laser focused on being the factory of the world (especially in cleantech). Still, while China has also shown itself to be an equal to the US in global geo-economic clout, recent communications from the CCP suggest there is also some recognition of a need to address imbalances and to raise domestic demand. This could go some way to reducing trade tensions, also with Europe. However, we do not expect any fundamental changes to China's supply-driven growth model, nor therefore anything dramatic on the demand stimulus front.

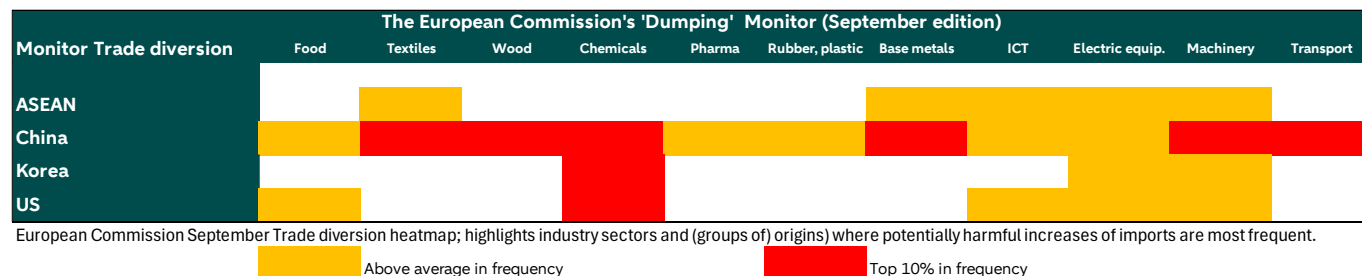
Could the imminent US Supreme Court ruling on the legality of Trump's tariffs be a game changer for the outlook? We think not, as even if the Court rules the tariffs to be illegal, the President has a number of alternatives, especially given support from the Republican majorities in Congress. Still, the Supreme Court's scepticism revives some of the trade policy uncertainty we thought had withered. With that said, the recent US-China trade truce already by itself offers some relief in the form of lower fentanyl-related tariffs, and in general, we see the downside risks to growth from escalating tariffs to be much lower than before the summer. Still, as discussed in our special Box on page 11, a bigger risk to trade and growth arguably now comes from the increased use of chokepoints rather than tariffs.

Finally, while we do not take a view on equity markets, we note the increasing worries expressed by policymakers and business leaders of a potential big market correction following the boom in AI-related stocks this year. Our base case does not assume any major correction, but this could pose a downside risk to growth – especially in the US – if it leads to a broader tightening of financial conditions.

Inflation: US still stubbornly high; eurozone broadly at target; China still exporting deflation

The main worry on the inflation front remains the US, where continued upward pressure is likely to come from tariffs, the immigration crackdown and – in our view – monetary policy that will end up being too loose for such a supply-constrained economy. A helpful offset is the unfolding massive supply glut of oil, which is also expected to push eurozone inflation

below the 2% target over the coming year. The eurozone's inflation undershoot could however prove fleeting, as later in the horizon we expect German fiscal spending to start providing some modest inflationary impulse. Globally, price growth should be kept in check by China's continued manufacturing largesse, notwithstanding the attempts by Beijing to tackle 'excessive' competition, or *involution* as it has come to be known. The European Commission's dumping monitor suggests some downward pressure on prices from China's oversupply, though in the aggregate we do not expect this to be enough to move the needle on eurozone inflation.



Source: European [Commission](#), ABN AMRO Group Economics

Central banks: Fed-ECB rates to converge as Fed prioritises the labour market over inflation

The Fed faces arguably the biggest test of all the major central banks next year. As if setting interest rates were not hard enough based on economic data (a scarce commodity in the US these days), the Fed must also contend with the most unprecedented attacks on its independence in decades. As our first topic will elaborate on, our base case sees the Fed broadly maintaining its independence; that is, we do not expect the Committee to be replaced wholesale with Trump appointees. But Trump will still wield considerable influence. Alongside his existing appointees, who have generally lined up in support of Trump's calls to lower rates, the President will also choose a successor to Fed Chair Powell. The Fed Chair is but one Committee vote out of 12, but still, one that has an outsized influence. While the labour market in the US has indeed weakened, this has in our view been largely driven by the supply side; i.e. it is not something that monetary policy can do a great deal about. At the same time, inflation is still well above target. Even so, we expect labour markets to dominate the Fed's thinking, and the more dovish tilt of the Fed in 2026-7 leads us to expect a string of rate cuts over the next year, taking the fed funds rate down to the lower end of neutral estimates (3% in the upper bound) by September.

The ECB, by contrast, is in a much more comfortable position, and is expected to keep policy on hold over 2026-7 amid broadly balanced growth and inflation dynamics. In the near term, the risk is still tilted somewhat to another cut if anything, given the expected inflation undershoot, and the upside risks to the euro exchange rate. However, as we move into 2027, that balance is likely to tilt more in favour of hikes. Where things could get trickier for the ECB is if France's fiscal problems escalate to something more crisis-like. We do not foresee this in our base case, but a major bond market rout has the potential to test the ECB's intervention resolve at some point.

Special topics

Over the coming pages, we draw on expertise across our macro research team (and beyond) to delve into some of the key themes that we expect to shape the outlook over the next year.

1. Could attacks on Fed independence lead to a US overheating? What could this mean for Europe?

Rogier Quaadvlieg, Bill Diviney and Nick Kounis

Our base case sees the Fed maintaining its independence, but inappropriate rate cuts could lead to a new boom and bust cycle in the US. This could also lead to tighter financial conditions in Europe – and maybe even renewed ECB rate cuts.

The Fed has eased policy rates by 50bp this year. The October FOMC press conference made it clear that easing in the current environment is becoming increasingly contentious. We have previously [argued](#) that easing monetary policy is not the solution to the difficulties the US economy is [currently facing](#). Nevertheless, the Trump administration continues to pressure the Fed. What began as blatant rhetorical demands to lower rates and attempts to dismiss Governors, has evolved into a much more subtle effort to redefine the Fed's role and mandate. We review these new forms of attack on the Fed's independence and consider the potential consequences for the US economy.

An incomplete list of Fed attacks

Broadly, attacks on the Fed's independence fall into four categories:

- 1. Direct political pressure on policy:** From his first week in office, Trump renewed his claim that the Fed “keeps America from growing faster than it should.” Public calls for rapid rate cuts have been frequent and explicit. Trump has openly advocated for rates near 1% and has made personal attacks on the Fed Chair, Jerome “Too Late” Powell.
- 2. Influence on policy input:** The administration is increasingly challenging the inputs of monetary analysis. For instance, it argued that the Bureau of Labor Statistics' (BLS) inflation series “overstate shelter costs” and “understate real wage growth,” with a similar critique of labour market reports. The dismissal of the BLS chair was widely interpreted as an attempt to align the data with the administration's narrative. Our view remains that in the BLS' data will stay reliable. Still, a new commissioner could, over time, influence models and weights to an extent that some biases may creep in.
- 3. Changing personnel:** We've written [before](#) about the attempted firing of Fed Governor Lisa Cook on the grounds of alleged mortgage fraud. The intent was clear: secure a Fed board majority sympathetic to the Trump administration. Such a majority could significantly influence the composition of the FOMC in February 2026, when all twelve regional Federal Reserve Bank presidents are due for reappointment. This could result in the replacement of several members and a more dovish FOMC, shifting policy towards more aggressive easing. Lower courts have ruled that Cook may remain until the Supreme Court decides. The SC will handle the case in January, before the February threshold, but earlier rulings give us hope that the court will ultimately rule in her favour.
- 4. Reframing the mandate:** A subtler, and arguably more concerning, challenge is the debate over the Fed's core responsibilities and mandate. For example, Treasury Secretary Bessent's campaign against “mission drift” seeks to reframe quantitative easing (QE) and climate-related analysis as outside the Fed's “core” remit. In an article for [International Economy](#), Bessent argued against the Fed's “Gain of Function.” By linking technical tools to distributive and moral outcomes, Bessent advocates for a smaller, simpler Fed. While ostensibly in the public interest, this looks convenient in the context of Trump's general undermining of Fed independence. Another example is the renewed emphasis on the 1977 Federal Reserve Act's reference to “moderate long-term interest rates” as a third mandate. This unconventional interpretation is used to justify policies such as capping long-term yields or resisting balance-sheet reduction, ostensibly to protect the Treasury's borrowing capacity. In effect, this subordinates inflation control to debt sustainability, aka *fiscal dominance*.

If the mandate's meaning is flexible, independence becomes conditional: the Fed is independent only within the administration's evolving interpretation of its role. So while we do not expect an explicit loss of independence and an aggressive easing path fully disconnected from the business cycle, we are keeping an eye on more subtle developments that alter the bounds within it operates.

Aggressive easing will overheat economy

What if the Fed complied with Trump's demands and eased policy aggressively? For simplicity, assume the Fed cuts rates 300bp by June, taking the upper bound of the fed funds rate to 1.00%, and that financial markets fully price in this move. This would be an aggressive easing cycle, comparable to – or even bigger than – that seen during the global financial crisis.

In an unconstrained economy, model-based estimates suggest 300bp in cuts would boost growth by c1.5pp and raise inflation by c1.2pp. This GDP boost would typically result in a 1pp fall in the unemployment rate. However, these results do not apply to the current economy, where supply is constrained in several ways ([see also the US Outlook](#)). The economy is not in recession, the labour market cannot accommodate a full percentage point drop in unemployment, and long-term rates would likely rise sharply due to inflation expectations. Cutting rates by 300bp under current conditions would therefore push the US economy against multiple constraints, leading to overheating. Our modelling indicates GDP would see only a modest boost of 0.4pp, and unemployment would barely fall. Instead, wage pressures and inflation would intensify. Core PCE inflation could rise by 2pp if inflation expectations remain anchored, but by much more, and for longer, if they become unanchored. In such a scenario, the appropriate policy response would be to *hike* rates aggressively. The timing of all of this would be uncertain, but at best, this would create far more volatility in both inflation and employment, and at worst a recession.

What would this mean for the ECB, Europe, and beyond?

Aggressive Fed easing under political pressure would likely tighten financial conditions in the eurozone rather than loosen them. Long-term US yields could rise as inflation expectations climb, spilling over into higher European bond yields and raising borrowing costs for households and firms. At the same time, the euro would likely strengthen – perhaps significantly – reducing imported inflation and hurting export competitiveness. ECB staff simulations suggest that a 10% euro appreciation could knock around 0.2pp from GDP growth while pushing inflation well below target. In contrast to the undershoot we expect for next year ([see eurozone](#)), which is largely driven by oil prices, a much stronger euro would also dampen core inflationary pressure, and is therefore more likely to prompt a policy response from the Governing Council. ECB models suggest up to 100bp of rate cuts could be necessary to correct the inflation undershoot, implying the deposit rate [falls to 1%](#).

Globally, the stakes are even higher. The Fed anchors the world's reserve currency and the most liquid safe asset: US Treasuries. A loss of confidence in the Fed's independence would undermine these pillars, triggering market volatility, weaker investment, and ultimately tighter financial conditions worldwide. In a severe scenario, erosion of trust in US assets could gum up the global financial system, echoing the instability of the 1970s. In short, an "over-easing" Fed risks not only US overheating but also a destabilised global monetary order. In our [Special](#) on US institutions, we also discuss the potential upside for Europe in this scenario.

The Fed Five: The shortlist to succeed Powell

As Chair Powell's term nears its end, Treasury Secretary Scott Bessent has named five candidates to succeed him. Two are current board members: Christopher Waller, a long-serving Fed official known for his loyalty and early support for rate cuts and for criticizing the Fed's "mission drift," especially on climate policy; and Michelle Bowman, the vice president overseeing banking supervision, who is working to ease bank regulations in line with the administration's goals. Both have advocated for policy easing this year but are considered unlikely to be chosen.

The three other candidates are: Kevin Hassett, Chair of the National Economic Council and a key figure in the first Trump administration (and currently seen as the frontrunner); Kevin Warsh, a former Fed Governor now at Stanford's Hoover Institution; and Rick Rieder, Chief Investment Officer at Blackrock. Notably, these candidates have publicly discussed not only the need for lower rates but also significant changes to the Fed's governance, such as reducing its size and scope, limiting public communications by central bankers, holding fewer meetings, and scaling back quantitative easing, echoing Bessent's editorial stance. Frontrunner Kevin Hassett has been relatively quiet on the institutional makeup of the Fed, but is widely viewed as loyal to President Trump.

While the Fed Chair wields significant influence, their power is not absolute. As shown by Stephen Miran's experience, a single vote cannot override the technocratic FOMC members without strong economic justification. The risk of a policy shift increases if Lisa Cook and the regional Fed presidents are replaced by members more aligned with the administration. However, deeper institutional changes would require reinterpretation or amendment of the Federal Reserve Act, typically involving Congress.

Traditionally, the outgoing Chair steps down from the Board, but Powell's term as Governor runs until 2028, even if his Chair role ends in May 2026. If Powell decides to step down, his replacement will tilt the Board of Governors balance to a majority sympathetic to the Trump administration, but crucially past the February reappointment window. If Powell decides to stay on the board, he might serve as somewhat of a Shadow Chair, and potentially quite an influential one.

2. Will global trade's remarkable resilience in the 'Year of the Tariff' continue in 2026?

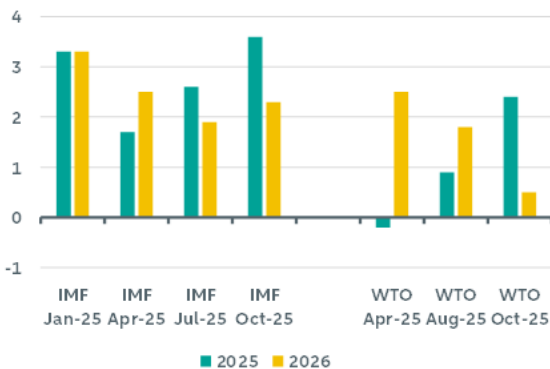
Arjen van Dijkhuizen

Annual global trade growth is expected to slow materially in 2026, following a remarkable acceleration so far this year.

In our 2025 Global Outlook, [The Year of the Tariff](#), we analysed the potential impact of the anticipated rise in US import tariffs on the global economy. Our projections for the tariff increase, as set out in our 2025 Outlook, have so far proved quite accurate on balance, but the tariff impact on the global economy has generally been less severe than was widely anticipated earlier. Let us take global trade as an example. The two leading institutions publishing global trade forecasts, IMF and WTO, both slashed their 2025 global trade forecasts in April 2025 following the announcement of global high 'reciprocal' tariffs on 'US Liberation Day', but raised them again in subsequent revision rounds (see chart).

World trade forecasts up for 2025, down for 2026

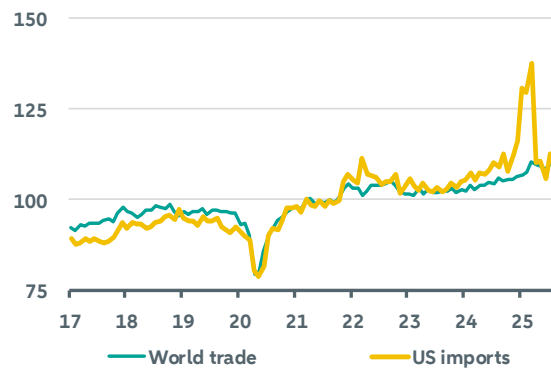
World trade forecasts IMF (goods and services) and WTO (goods), %



Source: ABN AMRO Group Economics, IMF, World Trade Organisation.

Frontloading spike in Q1-25 in run-up to tariffs

Trade volumes, indices, 2021-average = 100



Source: ABN AMRO Group Economics, CPB, LSEG

Why is that? Several specific factors (beside shifts in macro policies) contributed to the resilience of global trade this year:

- Trade frontloading** by US importers and foreign exporters in the run-up to anticipated higher US tariffs. This put the base for global trade higher in early 2025. Imports into tariff 'epicentre' the US surged in Q1, driving a spike of three full points in CPB's world trade volume index in March (see chart). This index fell back somewhat in April-June as the effects of trade frontloading unwound, but nowhere near as much as we had expected, and imports even began to rise again in July. The global CPB index shows an average of 4.9% y/y growth in world (goods) trade volumes in January-August 2025 (2024: 2.2%). Due to these shifts, the forecasts for 2025 have been revised up, but the forecasts for 2026 have been generally revised down, meaning that the tariff impact is more spread out than previously expected (albeit also generally lower on aggregate).
- Restraint with retaliation and trade deals leading to lower tariffs.** Most countries (except China) have exercised restraint in terms of retaliation, while trade deals with the US resulting in lower tariffs have also helped to mitigate the ultimate impact. According to Bloomberg data, the US effective tariff rate has fallen from $\pm 27.5\%$ mid-April to $\pm 16\%$ currently, although staying much higher compared to the pre-Trump 2.0 episode.
- Trade rerouting/diversification:** [China](#) in particular has offset falling direct exports to the US by rerouting trade (exporting to US through ASEAN) and diversifying to other destinations, including Europe. Rerouting can actually inflate trade volumes, as reported export flows may be double-counted when trade becomes 'triangular'. Europe, by contrast, has so far been less successful in offsetting the sharp decline in exports to the US through diversification (see left-hand chart below).
- AI boom:** The WTO found that stronger demand for AI-related goods was a key driver of global trade in 1H-25.
- Limited pass-through in the US:** The pass-through of higher tariffs into US consumer prices appears to be taking longer than earlier anticipated, which has softened the drag from tariffs on US consumption and imports so far.

In our base case, we still expect tariffs to have a dampening effect on global trade growth as we move into 2026. The global manufacturing PMI's export sub-index fell back deeper into contraction territory in October. While US tariff policy uncertainty has clearly declined since April, it remains higher than in the pre-Trump 2.0 period (and some legal uncertainties also remain). The recent flare-up of tensions between China, the US and other countries – including the Netherlands – around chokepoints (see box) is a reminder of how fragile the current equilibrium is. That said, the recent US-China deal prevents a harmful re-escalation for now, and gives both countries time to continue decoupling in sectors deemed

strategically important. Nevertheless, trade spats between China and the US/West are likely to flare up from time to time, particularly around chokepoints. Other factors likely to dampen global trade growth in 2026 include the expected fading of trade rerouting (as US-China trade stabilises and tariff differences between China and ASEAN narrow), and the delayed pass-through of tariffs into US consumer prices, which will weigh on US consumption and imports going forward (see [US chapter](#)). On the other hand, policy support in the key economies, and higher defence imports from Europe, will likely cushion global growth and trade.

US imports of AI related products surge

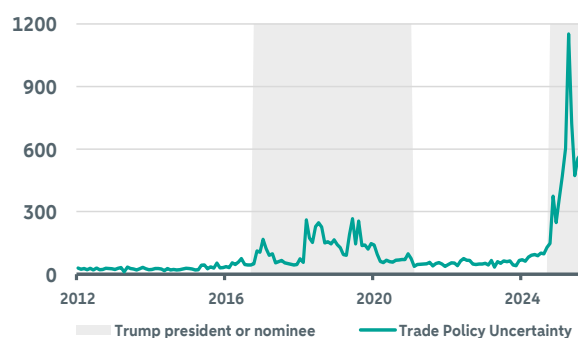
US computer & accessory imports, monthly average, USD bn



Source: ABN AMRO Group Economics, Bloomberg

US trade policy uncertainty down, but still elevated

US trade policy uncertainty index



Source: Caldara et al (2020), ABN AMRO Group Economics

All in all, we expect an end to some of the special factors that boosted global goods trade this year to result in slower growth next year. Taking into account base effects from 2025, we expect annual growth in global goods trade to slow materially in 2026, in line with the recent IMF and WTO forecasts.

Box: Chokepoint tensions between US and China put on hold, but chokepoint related risks remain material

The escalation of US-China trade/tech tensions in the course of this year initially was centred around new US import tariffs, but following the truce agreed in Geneva mid-May this focus shifted more and more to 'chokepoints' (see [here](#)). Both countries are trying to increase leverage over each other regarding products where one country has a dominant position in production/exports and the other has a critical dependence. These chokepoints in bilateral trade are concentrated in advanced semiconductors (US versus China) and rare earth metals and related products (China versus US). Over the past few years, the US has spun a broad web of export restrictions on semiconductors, which are used to contain China's access to the most advanced chips and related machines. This escalated in late September, after the US Department of Commerce decided to expand the entity list used for these export controls with foreign subsidiaries that are at least 50% owned by companies already on that list. This led to a massive expansion of the number of companies that are affected by this policy, with the number of Chinese firms rising from around 1,500 to around 20,000. This ruling also affected the Dutch semiconductor producer Nexperia, due to its Chinese owner.

China responded in October with a considerable tightening of its export controls for rare earths and related products, presenting a host of new measures on top of the controls that were already rolled out in April (see [here](#)). New rare earth elements were added to the list, raising the total number of restricted elements to 12 (out of 17), and control measures for foreign producers and foreign users of semiconductors were also sharply tightened. Beijing also threatened to block exports of rare earths for military purposes. These measures were primarily aimed at mirroring the US export control regime for semiconductors. In this way, Beijing created proportional leverage in future trade negotiations. In addition, it gave Beijing potential leverage over countries that are willing to team up with the US against China (this partly explains why the controls were not only for US-bound exports).

China's matching strategy proved effective. A key outcome of the Xi-Trump meeting end-October was the postponement of the expansion of the US entity list by one year in exchange for the postponement of China's new export regime for rare earths (and other concessions, see [China chapter](#)). This has settled one of the most thorny issues in US-China relations for now, and gives both countries more time to work on decoupling from each other in these areas. It looks as if China is more ahead in that respect. China has already been working for years to reduce its dependence on semiconductor imports from the US. The US also stepped up efforts to diversify its supply chains of rare earths and related products. Still, China remains the dominant global player, with a 60% share in mining, a 80-90% share in processing/refining, and almost half of total global reserves.

The truce also reduces the risk of massive disturbances in global industrial supply chains for now, also for European producers. However, chokepoint-related risks are still material, as is for instance shown by the Nexperia case. Expanding policies to reduce risks in this respect has also gained greater priority for the EU, which aims to step up defence spending (see [Eurozone chapter](#)). Brussels is putting more and more effort into risk-mitigating its rare earths supply strategy, in line with the European Critical Raw Materials Act (see [here](#)).

3.From Steam to Silicon: How AI is transforming the economy

Rogier Quaedvlieg and Philip Bokeloh

AI's impact on the economy is more comparable to the industrial revolution than recent tech innovations.

The pace of development in artificial intelligence (AI) is astonishing. In just a few years, AI companions have become commonplace in our lives and workplaces. Analyses, which used to take hours, now take mere seconds. The generation of images, and videos, for which one would have to hire professionals, can now be done by anyone with a computer. This technology has already impacted the way we work, and early signs of its effects on the broader economy are emerging. As highlighted in our US Outlook, investments by, and valuations of, major companies are driving much of US economic growth. Here, we document further evidence of AI's influence on the US economy and speculate on its longer-term trajectory. A separate box considers the implications of the global AI race for Europe.

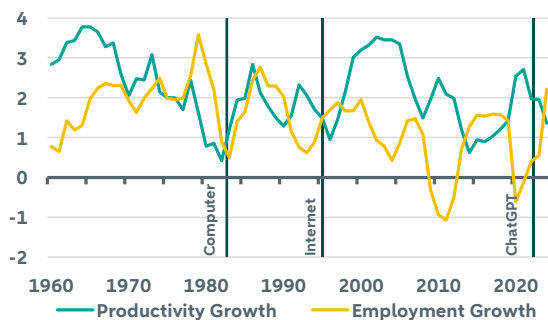
The impact of technological change on the economy

Technological innovation is typically expected to boost productivity and therefore destroy jobs. However, as the chart on the left below shows, the introduction of recent innovations such as computers and the internet did not lead to significant job losses. After computers, productivity grew slightly above trend, as did employment. The internet era saw productivity rise faster, but not at the expense of employment growth. While headline figures are not a substitute for rigorous analysis, academic studies generally reach similar conclusions: productivity gains are cumulative but modest year-on-year, while adoption is gradual enough for workers to transition and for new sectors to emerge. Indeed, MIT economist Autor (2015) finds that automation often complements human labour, creating jobs even within industries where technology enhances productivity.

Since ChatGPT's launch in November 2022, the US has seen a decline in four-year average productivity but rising employment growth. While some employment measures have stalled this year, much of this is due to supply factors. Meanwhile, as the right-hand chart below shows, adoption of AI is much faster than for other technologies, which could accelerate job displacement and test the economy's ability to create new complementary roles.

Previous tech innovations and US headline data

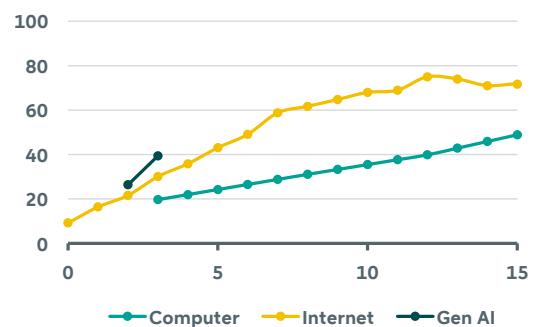
Annualized trailing 4-year % growth



Source: LSEG, ABN AMRO Group Economics

Gen AI adoption much quicker

Business adoption rate, %



Source: St Louis Fed, ABN AMRO Group Economics

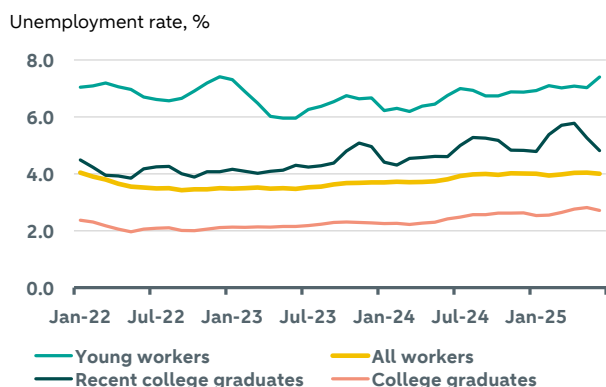
A more detailed assessment of AI's impact on the labour market

Technological change inevitably affects jobs. Recent innovations have typically increased demand for highly educated workers, while reducing it for the less educated. With AI, the impact could be broader. This technological innovation is capital-biased rather than labour-biased, and could therefore potentially affect all jobs, albeit to varying degrees. AI is highly capital-intensive: S&P estimates the four largest *hyperscalers* (builders of infrastructure) will spend over \$2 trillion in capital expenditure by 2030. This makes AI more akin to the Industrial Revolution than to the computer or internet eras. The capital intensity suggests that gains will accrue mainly to investors, putting pressure on wages and jobs, especially if AI investment crowds out other sectors. On the bright side, the lesson from the industrial revolution is one of long-term prosperity for everyone. Unfortunately, it might take a while for all to reap the benefits, however.

The fact that the impact of AI on labour markets is broader has some silver linings. Previous technological shifts often hit local labour markets hard, wiping out most jobs in specific towns, amplifying local downturns. With AI, job losses are likely to be more dispersed, making them easier to absorb. Recent developments in the US labour market suggest that job

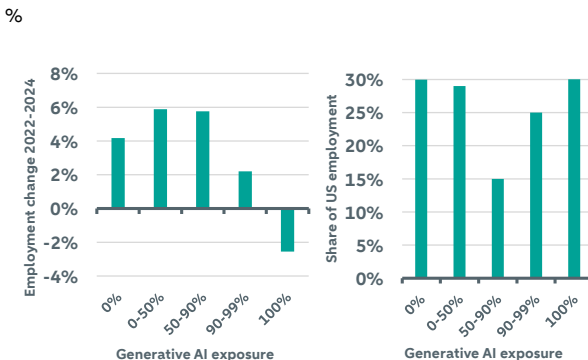
losses are indeed not concentrated geographically, but rather demographically. Young graduates are struggling to find work, with highly educated but inexperienced workers most affected. This is not just an AI story. College educated workers have been losing their relative advantage, also before ChatGPT, and the downturn can also partially be attributed to an unwind of the post-pandemic labour hoarding. Still, sectoral data using AI exposure measures (Eloundou et al., 2024) does show slower job growth, or even losses, in sectors most exposed to generative AI. Overall employment is still growing, but this is just the start of adoption. AI developments put jobs in the 90–99% and 50–90% exposure buckets at particularly high risk.

Recent US college graduates are struggling



Source: New York Fed, ABN AMRO Group Economics

Weakness in US labour market partly driven by AI



Source: BLS, Eloundou et al (2024), ABN AMRO Group Economics

Can we expect a productivity boost?

Will productivity gains appear as quickly as labour market effects? Rapid adoption does not guarantee immediate productivity improvements. Other bottlenecks (e.g. regulatory, energy, or human) may slow progress. For example, medical innovations may be delayed by regulatory approval, and energy or grid constraints could become limiting factors. It can also simply be humans. It could be due to slow adoption, or it could also be that humans are simply holding AI back being the worst performer in the team.

The longer-term trajectory on productivity is highly uncertain. It could be that AI leads to a one off-boost in productivity, or, more likely, lead to a faster pace of innovation, perpetually boosting productivity growth. A big difference with previous technological innovation is the potential of AI to further its own development. In the near term, the scale of investment suggests the innovating firms expect significant productivity gains, and an ability to monetise their AI products. Estimates of GenAI’s economic impact vary widely: we’ve seen estimates ranging from about \$72 billion of revenue by 2028, up to a staggering \$1.1 trillion by that same time. The higher figure would represent nearly 1% of global GDP. In competitive markets, Nordhaus (2004) suggests value extraction is capped at about 25%, implying GenAI would, in the most optimistic revenue estimates, have to boost global GDP by almost 4% over the next three years. It’s clear that AI will transform the economy, but it’s far from clear that we will see such a generational leap in productivity within the next three years.

Box: Has Europe already lost the AI race?

We have already discussed the impact of AI on the [US economy](#). But the rest of the world is not sitting still. China, too, is advancing, though the scope of its investment in the AI race is harder to discern in macroeconomic figures. Indirectly, there are indications that AI is leaving its mark on the economy. For instance, it seems likely that the rise of energy-intensive AI is driving up energy consumption. In China, the process is more actively state-led compared to in the US. For instance, the government is promoting “AI+” policies that embed AI into industries and education, there is a national AI Fund, and a strong government push with industrial policy to advance China’s chip-making capabilities. A big win this year was DeepSeek, which offered a low-cost and open-source alternative to US competitors.

Meanwhile, progress in Europe is substantially slower. In specific areas, there are stand-out leading companies, such as ASML, but in terms of scale and impact, European companies cannot compete with their American or Chinese counterparts. Part of the explanation lies in the less-developed capital market, which makes it more challenging to secure funding for risky investments. Another contributing factor is the stringent regulatory environment in Europe. Consider, for example, the Digital Services Act, the Digital Markets Act, the Data Act, and the AI Act, along with additional regulations from individual member states. The protection of privacy and copyrights complicates the training of AI models using large datasets, causing delays in their development.

The fact that Europe is not a frontrunner in the AI race does not however mean that it won't be able to reap the rewards. Europe possesses two critical conditions for the application of AI: an educated population and an extensive knowledge infrastructure. Moreover, there is considerable potential economic gain from the application of AI. A key finding of the Draghi report is that the potential of the common market is underutilised due to trade barriers arising from regulatory differences and language barriers. Even if the EU may struggle to further reduce these barriers, AI may very well lower their negative impact.

4. Which sovereign debtor should we worry more about: France, or the UK?

Bill Diviney and Sonia Renoult

France is a much bigger worry than the UK in the near-term.

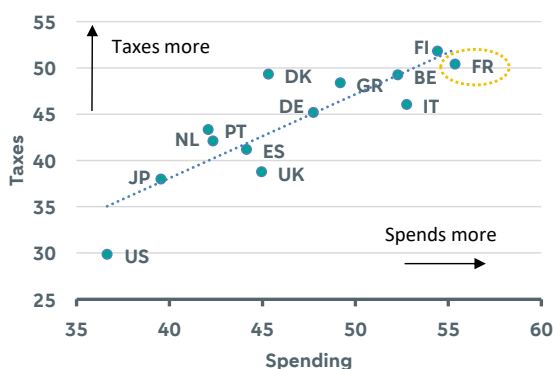
France and the UK's fiscal woes have been a regular theme in the financial markets news cycle in recent years. If the various headlines – and bouts of bond market stress – are taken at face value, both are in a dire fiscal situation, perhaps even a doom loop of low growth and unsustainable debt. Or are they?

Actually, France is in a much worse shape – and not simply because of its merry-go-round governments over the past year (four and counting, lasting 3 months on average). France has struggled much more than the UK to get a grip on its deficit, while debt dynamics are made worse by its very low inflation rate (c1%) and interest rates that are clearly too high for France's economic circumstances. Given the political paralysis that has made relatively modest reforms next to impossible – such as raising the pension age to international standards – we have little confidence that France will be able to implement the necessary fiscal adjustment to return debt to a sustainable trajectory in the near future. Elections, whether of the snap variety or as scheduled in 2027, bring as much risk as they do promise: if the far right or the far left come to power, France may end up with a Liz Truss-like government that cares little for bond markets, unless a crisis erupts. This could well end up bringing things to a head. A more benign scenario would see the return of a centrist majority that seeks to more aggressively rein in France's high deficits. The middle ground would be a continuation of what we see now: a slow-burning muddling through, with France's debt ratio on a gently rising trajectory, but not alarming enough that it causes a crisis.

Depending on your perspective, France's membership of the eurozone is both a blessing and a curse. Blessing, because it affords France financial market stability, but a curse because it insulates France's politics (and its public) from the pressure that is arguably necessary to make hard choices around government spending. Still, although France is not eligible for the ECB's *Transmission Protection Instrument*, investors expect – rightly or wrongly – that the ECB probably would step in should a genuine crisis erupt in French bond markets. It is this implicit backstop that is likely to keep French bond markets relatively calm, albeit with a continued elevated spread over German bonds over the coming years. An exception to this is in the scenario where a far left or far right win a majority in the Assembly, which may well test the bond market's – and the ECB's – resolve to its limits.

France is the biggest spender in the OECD...

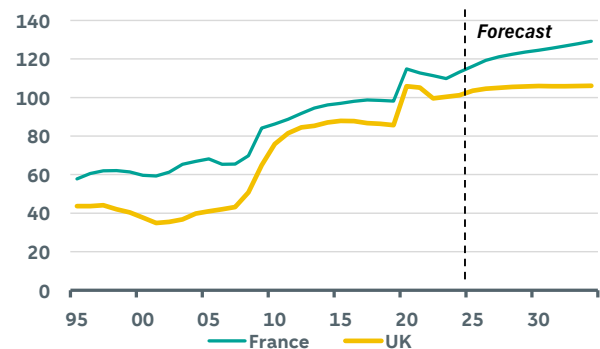
Government revenues and spending, % GDP (2023)



Source: LSEG, ABN AMRO Group Economics

...and on a more dangerous debt trajectory

Government debt, % GDP (forecast is our base case)



Source: Bloomberg, ABN AMRO Group Economics

For the UK, the risk is bigger in 2029

As we will argue in the upcoming Part II of our [Ugly Contest](#) series, the UK has been broadly sticking to its self-imposed fiscal rules, and for this reason we see the risk of a bond market crisis over the coming years to be relatively low. Part of

the reason for this is that the UK already went through a mini crisis [two years ago](#), following the infamous *mini budget* of the ill-fated Liz Truss government. The trauma from that episode, when bond yields and – importantly for voters – mortgage rates surged, caused lasting damage to the centre-right Conservative Party’s reputation for sound economic management. But the ghost of Liz Truss is also what hangs over Chancellor Rachel Reeves whenever she makes fiscal pronouncements. Even the smallest of market ructions, driven by speculation that the government might water down its commitment to the fiscal rules, have to led immediate responses from the government reaffirming said commitment. While the UK government has – like France – struggled to rein in spending (for instance, it failed to pass reforms to disability benefits earlier this year), it also has a lot more space on the revenue side to bring the deficit back down. Given this, we expect the UK to comfortably meet market expectations in announcing new revenue-raising measures at the Autumn Statement budget announcement on 26 November, and in our base case, we expect debt to broadly stabilise as a share of GDP, if not decline slightly, over the coming years.

But the UK faces its own significant risks come the late 2020s, the biggest being the possible election of a radical right-wing government in 2029. Nigel Farage’s Reform party is currently leading in the polls, and due to the UK’s antiquated first-past-the-post electoral system, it could well get a parliamentary majority with just 1/3 of the vote. Reform has threatened to exert the same kind of political pressure on the Bank of England that we are seeing now in the US with the Federal Reserve. With the UK lacking the [exorbitant privilege](#) of the dollar, the main risk in the UK would then transfer from bond markets to the currency. With the current moderate Labour government having a sizable majority, this risk remains remote for the time being – and much can happen in the meantime politically. But it will be a risk we will no doubt return to in future.

5. What are the European implications of the Dutch election outcome?

Jan-Paul van de Kerke, Aggie van Huisseling and Anne de Clercq Zubli

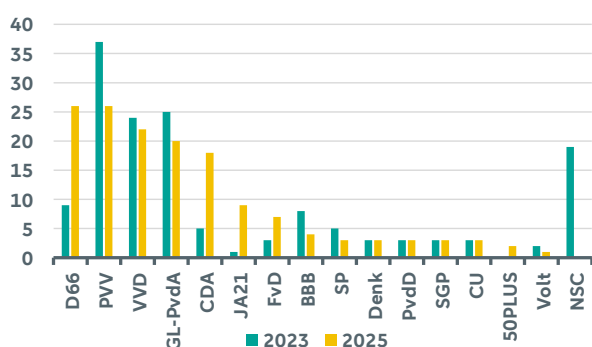
While coalition formation is expected to be lengthy and difficult, the incoming Dutch government will likely be more centrist, pursuing a more pro-European course.

“Europe risks stagnation if we fail to deepen integration. The Netherlands helped found the Union, now we should help shape its future,” were the words of election winner and possible next PM Rob Jetten of the liberal progressive D66, [exclaimed](#) following the Dutch snap elections held at the end of October. Pro-EU centrists D66 and the Christian Democratic CDA won a large number of seats in parliament, and this signals a more constructive stance towards the EU in the fifth biggest economy in the eurozone. Given the Netherlands’ traditional conservative stance on EU integration and treaty reform, its preference for frugal spending, and reputation for punching above its weight in EU policymaking, we examine the implications of the Dutch election outcome for EU policy direction.

Despite the strong showing of the centrist parties, the message to Europe from this election is not entirely clear. Yes, far-right firebrand and Eurosceptic Geert Wilders and his PVV party lost 11 seats, but the (far-)right did not decline in aggregate, it just became more dispersed (FvD and JA21 gained seats). The PVV’s losses align with those of his former coalition partners under the Schoof 1 cabinet; the VVD (centre-right), BBB (right-wing) and NSC (centre-right) all lost seats.

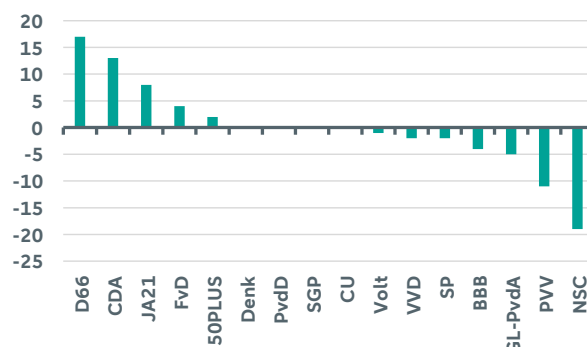
D66 won more votes, but tied with the PVV 26 seats

Number of seats, 76 needed for majority



Centrists win while previous coalition loses

Change in number of seats



Source: Peilingwijzer, ABN AMRO Group Economics

Source: Peilingwijzer, ABN AMRO Group Economics

Moreover, political fragmentation in the Netherlands remains high. D66 is the election winner but is the smallest winner in Dutch history, with no party securing more than a fifth of the votes. This signals arduous and probably lengthy coalition negotiations ahead. The resurgence or rather concentration of the two winning centre parties, D66 and CDA – which are

almost certainly forming the engine bloc of the next coalition – means the next Dutch government is expected to be more centrist. While this holds true, the exact extent depends on the outcome of coalition talks that have just begun. Currently, two coalition options are being considered. The first is a centrist coalition, where the CDA and D66 engine bloc is complemented by GL-PvdA (centre-left) and the VVD. This option is arithmetically favoured, as it would have a comfortable majority with 86 seats in parliament. The second option is a centre-right coalition, including VVD and JA21 (Eurosceptic, right-wing). However, this coalition falls short of a majority, with only 75 seats, and may require additional parties to complement it.

On the policymaking front, the Dutch elections do send an important message to Europe. The incoming Dutch government is expected to adopt a significantly more constructive approach towards European integration than its predecessor. While D66 has consistently been pro-European, there now appears to be a majority among the six largest parties in favour of advancing integration on key EU policy issues. The table below summarises the manifesto positions of these parties on key EU policy areas. There is broad consensus on enhancing the Single Market and advancing the Capital Markets Union. However, there is less agreement on common financing, such as Eurobonds.

Large parties on key EU policies *	PVV	GL/PvdA	CDA	VVD	D66	JA21
Advancing Capital Markets Union	X		✓	✓	✓	✓
Reducing internal barriers to Single Market	X	✓	✓	✓	✓	✓
In favour of Eurobonds	X	✓			✓	X
Eurobonds, only under strict conditions	X		✓			X

* Left blank if no proposals are included in the manifestos

Unlike previous years, however, there is now room for negotiation. D66 and GL-PvdA are supportive of Eurobonds, while CDA has softened its stance and shown openness on this sensitive issue during the election. The specific coalition and ensuing negotiations will ultimately shape the level of constructive engagement and outcomes on joint financing; for instance a centre-right coalition with JA21 may be more outspoken against common financing. Nonetheless, the incoming government is expected to adopt a more constructive position than the previous administration. This could portend a change in the EU policy landscape at a time of negotiations on the multi-year EU budget, the debate on common EU financing for innovation and defence, and decisions on long-term financial support for Ukraine.

Special: We need to talk about Exorbitant Privilege

(I) America's Turning Point – When institutions fail

Rogier Quaadvlieg

On 24 January, 2025, four days after the new Trump administration took office, seventeen inspectors general, many Senate-confirmed guardians of executive accountability, received dismissal notices via email. In one swoop, oversight roles that had long constrained agency excesses were stripped of their defenders. That purge set a tone. By late September, a federal court would rule several of those firings unlawful, yet decline to reinstate the dismissed officials. Just some days earlier came the indictment of former FBI Director James Comey, raising significant concerns that prosecutorial discretion was being abused for the purposes of political theatre. Around the same time, the CDC was hit by sweeping layoffs and structural reorganization, and massive proposed budget cuts. During the government shutdown, whose fault is being publicly put on the Democrats on all official government channels, layoffs were extended to the Treasury, the departments of Education, Commerce, Energy and many others. During the same shutdown, where furloughed federal workers are not getting salaries, and the SNAP program for food support was put on hold, the White House started construction on a massive ballroom, supposedly funded by private donors to circumvent the shutdown. These moves, grim in isolation, gain deeper meaning when placed side by side: they form a narrative arc of institutional retrenchment, one in which oversight is hollowed, enforcement becomes discretionary, and public goods are dismantled.

These are not anomalies, and we raised concern on this possibility a [year ago](#). They gesture toward a broader blueprint: Project 2025. The policy agenda backed by many in the Trump circle proposes sweeping executive powers, reorganization of federal agencies, expanded ability to fire civil servants, and decentralization of certain regulatory functions to partisan appointees. Its architects argue that the existing administrative state is bloated, unaccountable, and ripe for overhaul. Its critics warn it is precisely the toolset for converting partial capture into full control. Indeed, on October 9th, Stephen Miller, the White House deputy Chief of Staff slipped that Trump has 'plenary authority,' in a CNN interview, which represents power in absolute terms, with no review of or limitations to exercise that power.

The White House is firing watchdogs, prosecuting political adversaries, dismantling oversight, and reorganizing agencies in deeply partisan ways. When institutions that once limited power become subject to it, they cease functioning as guards and become tools. This raises the question whether in three years' time, this will still be the America of rule-bound, plural institutions and robust markets, or whether it will move towards a model where the US institutional balance tilts, perhaps irrevocably, towards a more extractive model. The risk is not only political, but also economic, and the stakes are high.

To understand the short and long-term implications, it's enlightening to look at these developments through the lens of Nobel Laureates Acemoglu and Robinson's 'Why Nations Fail,' in which they argue that it is not geography or culture that determines economic outcomes, but the nature of political and economic institutions. Inclusive institutions that spread power, enforce rule of law, protect property rights, and foster creative destruction, generate sustainable growth. By contrast, extractive institutions are structures that concentrate power and wealth in the hands of a few, limiting opportunities for the majority and hindering economic growth. The key insight: institutions don't just shape growth today, they shape incentives for investment, risk, innovation and social trust tomorrow. Once the machinery shifts toward extraction, reversing the course becomes painfully difficult.

What It Might Mean for America's Long-Term Economy

If the United States leans toward extractive institutions, the consequences will be structural and persistent, although it may take many years for the impact to be visible. The greatest threat to long-term growth comes from the fact that uncertainty over rule enforcement impairs long-duration investment more than short-term flows, skewing capital away from productivity-enhancing, long-horizon projects. Productivity and innovation suffer through two channels: (a) a direct cut to public goods (R&D, data, public health surveillance) degrading the inputs for private innovation; and (b) reduced incentives to invest due to weaker property rights and unpredictable regulations. Declining innovation reduces potential output growth and raises structural unemployment risk over time.

Second, as we have already seen (be it temporarily), policy uncertainty and risk premia would rise. When enforcement is perceived as discretionary or politically motivated, firms and investors price an added governance premium. That premium shows up as higher borrowing spreads and greater discount rates for government debt and government-sensitive sectors such as finance, regulated utilities and health care.

We should also expect fiscal and, the elephant in the room, monetary policy implications. Politicization of agencies and pressure on independent institutions can bleed into fiscal policy. They could lead to preferential bailouts. This could be a

bailout of companies (an AI bust scenario comes to mind, where companies that have shown support to the administration are bailed out to continue the AI race with China), or of politically aligned sovereigns (such as the USD 40 bn dollar that was sent to Argentina). The negative impact of a lack of central bank independence [requires a chapter by itself](#).

Another, less visible, effect is that public-goods capacity withers. Institutions like the CDC, NIH, regulatory science offices, environmental agencies and oversight bodies deliver returns mostly when crises occur. If they are hollowed out, resilience falls, and shock responses become weaker and costlier.

In an international setting, the US risks losing its exorbitant privilege. That America of rule-bound, plural institutions and robust markets is the reason that the US has grown to the economy it is, and the reason that the whole world continues to look at the US as the primary place to invest. That willingness to invest supports the dollar, and depresses interest rate spreads. The privilege is the envy of many other economic superpowers, and they should be jumping at the chance to replace the US in this global position.

Reversing the trend is hard. Once institutional norms are broken and careers reshaped, rebuilding independent agencies, judicial integrity, and oversight cultures is harder than maintaining them. The US risks sliding into institutional lock-ins characteristic of many weaker states, where political power trumps rule-based governance.

(II) Laying the groundwork for a European safe asset

Sandra Phlippen and Nick Kounis

When the US administration introduced global tariffs in early April of this year, the negative co-movements in the value of the dollar and US equities, while Treasury yields rose, signalled a reassessment by global investors whether the dollar was to be trusted as a safe asset. The depreciation of the dollar seen this year does by no means reflect or predict a fundamental loss of confidence in the dollar reserve system (see our note on the dollar [here](#)). However, the decline in US institutions has continued at a high pace since the beginning of the year and the question of how trustworthy the dollar system still is, cannot be completely ignored. In this respect it is worth noting that the exorbitant privilege of the dollar system consists of many self-reinforcing layers. Once these layers start unravelling, the dollar system and with that global financial stability could be at risk.

Whether it is to avoid the risk of global financial panic or to grasp the opportunity of the century, preparing a European safe asset can be considered a no-regret move. Getting to such an asset in a euro system with many fiscal authorities is easier said than done, but we judge that a first step can and should be taken now through what is known as a blue-red bond scheme, which could allow for the creation of a European Safe Asset of with a market size of around EUR 4.5 trillion.

Capturing the exorbitant privilege

The dollar has many functions. Besides being a medium of exchange and the preferred currency for debt issuance, pegging local currencies, and central bank reserves, the dollar system also functions as means of credit. This is because the US can issue cheap dollar denominated debt and invest in foreign assets. According to research by Gourinchas and Rey ([see here](#)), the returns on foreign assets minus the costs of debt have led to an advantage of around 1.5 % of US GDP per annum in real terms since the 1950s. Another unique advantage for the dollar is that in times of stress, everyone wants dollar liquidity. As a result, refinancing costs in bad times are relatively low for the US and even lower as the world expects everyone else to flee to the dollar for safety. All these advantages rely on the US being a trustworthy counterpart. The risks of our times is that when markets get stressed precisely because the US is faltering, there is no safe haven to flee to. And this is where the Euro comes in.

The decline in US institutions could be an opportunity for Europe to increase the euro's global prominence, but it requires to prepare the Euro system to perform this role if needed. The euro is currently the world's second currency to the dollar, but very much a distant second. For instance, the euro accounts for 20% of global foreign exchange reserves, compared with 58% for the US dollar. To boost the euro's role, the eurozone would need to strengthen its geopolitical influence, make its economy more dynamic, strengthen the economic union and perhaps most crucially foster deeper and more liquid capital markets.

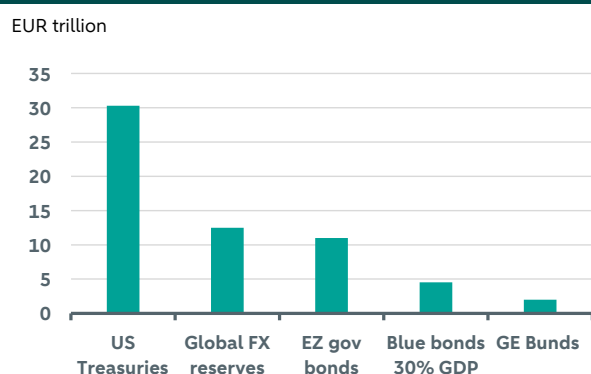
A key ingredient of achieving this is having a safe asset of sufficient scale. Although Europe does have safe assets, none of the markets have the size necessary. To give an example, the German government bond market has an outstanding size of around EUR 2 trillion, while NGEU bonds around EUR 0.7 trillion. This compares to the stock of US Treasury market securities that sits at USD 30 trillion. This has led to many calls over time for the creation of a Eurobond market.

The most complete version of a Eurobond market, that would achieve the biggest scale is one where all eurozone sovereign debt is mutualized. Outstanding government bonds in the eurozone stand at around EUR 11 trillion. So this would certainly represent sufficient scale. The obstacles to this occurring, certainly in the next few years, are large. First of all, this is not something that can occur under the current institutional arrangements. Member states would need to give up a much greater degree of sovereignty in terms of fiscal policy and governance structures for this would need to be set up at the eurozone level. Although the fiscal rules have been strengthened, they would be too weak in the context of common issuance. Second, treaty changes would be needed. Third, and perhaps most importantly, there does not seem to be the political support for such a further large step in economic integration either on the government level or the public level.

A first and important step to a Eurobond market

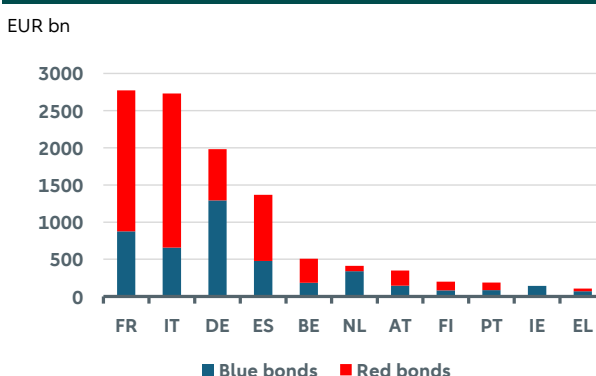
However, there are other intermediate options, which might overcome the above obstacles. The most straightforward of these is that some proportion of current eurozone national sovereign debt is pooled into Eurobonds, while the rest remains national. There have been various versions of this so-called blue-red bond plan (originally proposed in the early days of the euro crisis in a Bruegel paper by Delpla and Weizsacker – see [here](#)). More recently, Blanchard and Ubide (see [here](#)) set out a variation of this scheme, which we use as a framework for what follows. The pooled blue bonds – the Eurobonds – would have seniority to the remaining red or national sovereign bonds and each government would be responsible for their part of the debt. The red bonds would then be junior and their credit quality would diminish. The resultant higher interest costs on these could be a disciplining force when it comes to countries running responsible fiscal policies.

Bigger is better when it comes to safe assets



Source: Bloomberg, IMF, ABN AMRO Group Economics

A stylised version of a blue-red bond market



Source: Bloomberg, ABN AMRO Group Economics

A too large proportion of blue bonds would undermine their credit quality and raise issues about risk sharing. A too small proportion may mean the market is not deep and liquid enough. So optimizing the size is important. As an example, we consider a proportion of 30% GDP of national bonds switching to Blue bonds and limit the market to eurozone member states. This would mean the Blue bond market would total around EUR 4.5 trillion. The scale could be enhanced by potentially replacing existing European supranational bonds (amounting to around EUR 1.5 trillion) with Blue bonds. This would not be straightforward however given that the credit structure differs for different bonds. An alternative solution would be to push up the proportion of Blue bonds, while still maintaining their credit quality, by countries committing certain tax revenue streams to repayments. However, this too might be tough politically.

This raises the question of how big is big enough? It is likely that at EUR 4.5 trillion, the market would be deep and liquid enough to be categorised as a credible safe asset that would help the development of European capital markets. It would also easily be included in sovereign indices, especially given that there would be no end in sight, unlike the case of the NGEU market. However, it would unlikely be of a scale to challenge the dollar's dominance. Total global foreign exchange reserves amount to USD 12.5 trillion and foreign official sector holding of US Treasuries total around US 3.9 trillion. Considering the proportion of government bonds that reserve manager hold in their portfolios (generally estimated to be around two-thirds of the total) and given their reasonable share in total Eurobond holdings, the Blue bond market would need to be considerably bigger. We estimate that to be a dominant safe asset globally, the scale of the Eurobond market might need to be around EUR 8 trillion. So a switch of 30% GDP of national bonds to Eurobonds would not get Europe there. Still, it would be an important step with significant benefits and one should not let the perfect be the enemy of the good.

Eurozone: External environment rough, will Europe step up?

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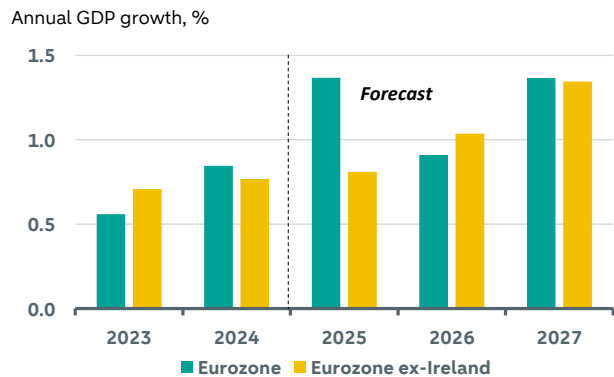
- The eurozone economy performed well in 2025, despite the headwinds from US tariffs and intense competition from China – even if that performance is exaggerated by outlier Ireland
- We expect growth to re-accelerate in 2026 as German fiscal spending ramps up, though southern European outperformance is expected to wane on the end of the EU’s Recovery & Resilience Facility
- The ECB is expected to stay on hold through 2026-7. Near term risks are tilted to another cut given the looming inflation undershoot, but those risks could tilt towards a hike as 2027 develops

Despite the many headwinds, 2025 has been a year of resilience and hope for the eurozone economy. US tariffs have left their mark, and will continue to do so next year in the form of weak export growth. Meanwhile, the eurozone continues to face intense competitive pressures from a China which has gone from being a major source of demand, to – increasingly – eating Europe’s lunch. Yet, despite the US tariff shock, the eurozone comfortably dodged a recession, and has so far defied expectations for a bigger slowdown: following the upside surprise in Q3 GDP, we now expect the economy to have grown 1.4% in 2025. Looking ahead, the ramp-up in German fiscal spending, alongside improving domestic demand (helped by ECB rate cuts) should see growth accelerate in 2026.

Still, in the near-term there remain downside risks to the outlook. Ireland, ever the thorn in a eurozone economist’s side, contributed a massive 0.6pp to 2025 growth so far. Put another way, eurozone growth would have been a much less impressive 0.8% in 2025 were it not for Ireland. Ireland was one of the chief beneficiaries of the spike in exports to the US ahead of the tariffs in April, but what has surprised is how gradual the post-tariff unwind has been, and how little this has impacted growth. The risk remains of a more substantial pullback in Ireland that could hit eurozone growth in Q4.

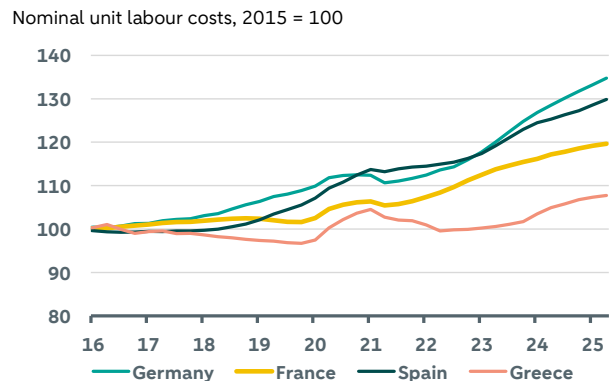
While some of this year’s growth may have been a mirage (Ireland’s GDP surges are often corporate tax planning balance sheet transfers), there has been some genuine strength this year. First, the periphery continues to outperform the core – particularly Spain, which continues to grow at a well above trend pace (our forecast: 2.8% in 2025). Continued Recovery and Resilience Facility (RRF) disbursements have helped, but there is also real underlying strength in southern Europe. Part of this is that southern European countries have been better positioned to benefit from the sectors seeing the strongest growth – namely tourism, and services more broadly. Second, we think improved regional competitiveness has a role to play. For years, these countries underwent an ‘internal devaluation’ following the eurozone sovereign debt crisis, i.e. wages were held down while they surged in northern Europe (in Germany and the Netherlands in particular). This factor may also yet help France dig itself out of a fiscal hole (see [here](#)).

Ireland has boosted growth by 0.6pp in 2025



Source: LSEG, ABN AMRO Group Economics

Competitiveness: Germany’s loss, Southern Europe’s gain



Source: Eurostat, ABN AMRO Group Economics

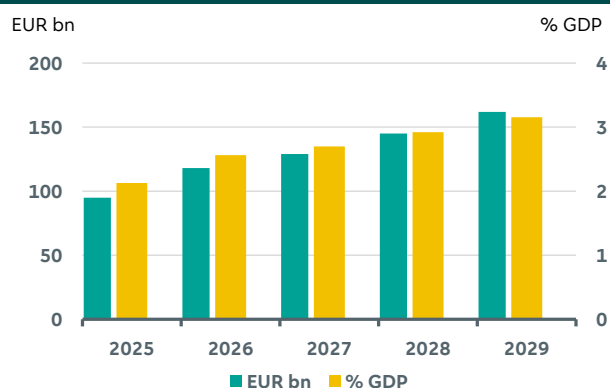
The strength in southern Europe has been a crucial offset to the weakness in Germany, which – even against our cautious expectations – has performed poorly this year. Despite the mid-year surge in optimism driven by frontloading benefits and the anticipation of increased fiscal spending under the newly appointed Chancellor Friedrich Merz, recent sentiment has shifted negatively. This change is attributed to further worsening of industrial production, currently at 2005 levels, alongside stagnant output in Q3 following a 0.2% quarter-on-quarter contraction in Q2. Given how much of a drag Germany has been on the rest of the eurozone, key going forward is going to be how quickly the German government rolls out its ambitious defence and infrastructure spending, but equally important is how the economy responds. For the

longest time, Germany has suffered from a tight labour market and, more recently, high energy costs. But with the car industry undergoing a painful restructuring, slack is being gradually released. Whether that slack can quickly retool to meet the demands of higher defence and infrastructure spending remains an open question. If the German economy proves flexible, growth could surprise to the upside. If it does not, more of that spending will leak out in the form of higher imports, or – worse – the extra spending might be inflationary.

What about defence spending in other eurozone countries? We have [long argued](#) that most either lack the political will (southern Europe) or face major fiscal constraints (France) to raise defence spending significantly. Some are drawing on the EU's EUR150bn SAFE plan, though most of those funds (around 2/3) are going to countries near the Russian border in central and eastern Europe. Some fiscally constrained western European countries will also receive significant sums (Portugal: 2.4% of GDP, Belgium: 1.6%, Italy: 0.8%, France: 0.6%). This, alongside spillovers from German (and possibly Dutch) spending will give some lift to economic growth in these countries. But in the very near term, much of the rise in defence spending will likely leak out in the form of higher imports. For this reason – alongside global competitiveness challenges – we expect net exports to remain a drag on GDP growth, even after the impact of US tariffs has faded.

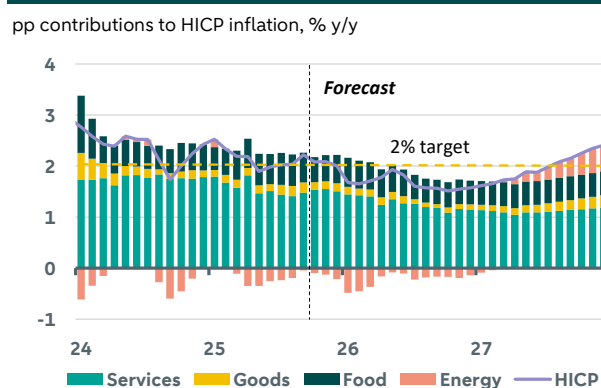
Another growth driver to watch next year is the end of the EUR650bn Recovery and Resilience Facility. Just 57% of the funds have been utilised since the RRF started in mid-2021 and the deadline for disbursement is 31 August 2026. There is likely to be a rush of spending ahead of that deadline with probably some leniency for projects under construction/in progress. Thereafter, growth in the periphery is likely to slow as that spending dries up again, and this explains the quarterly growth dip that we expect in early 2027. The remainder of the funds – EUR283bn (c1.8% of eurozone GDP) could theoretically be repurposed for defence or other European spending goals. This is likely to be a discussion point among EU leaders as the RRF approaches its conclusion.

Show me the money: Will Germany really spend that quickly?



Source: German government, ABN AMRO Group Economics

Inflation to return to target in 2027



Source: LSEG, ABN AMRO Group Economics

Against the backdrop of a broadly balanced growth outlook, inflation in the near term is set to undershoot the ECB's 2% target, although this is largely driven by energy (and to a lesser extent the stronger euro), with core inflation expected to hold broadly steady. Indeed, by 2027 we expect inflation to move back to target once the energy drag fades, and there could be further upward pressure on inflation from the implementation of ETS2 (which could yet be watered down or delayed), as well as from German fiscal spending. The ECB has continued to communicate that it is in a 'good place' with regards to interest rates, though President Lagarde augmented this at the [October](#) Governing Council meeting with the caveat that it is not in a 'fixed place'. Our base case sees the ECB keeping policy on hold until end-2027. With near-term risks to inflation tilted somewhat to the downside – given the oil supply glut, and our expectation for a further strengthening in the euro – the risk in the near term is more tilted to a cut than a hike. However, further out in our forecast horizon this balance of risks could start to shift more towards a hike.

Politics will also continue to be a key driver of the eurozone outlook. While not in the eurozone, Hungary's general election in April could be a pivotal moment for the EU, given that PM Orban is currently trailing in the polls, and given his historic obstruction of many EU initiatives. A more pro-EU government there – coming alongside a new pro-EU [Dutch government](#) – could give new momentum to integration initiatives such as completing the capital markets union, the multi-annual budget or even Eurobonds (see this month's [special](#)). Further ahead, the signs are less positive, with the French presidential election in 2027 potentially heralding a far-right presidency. While much can happen between now and then, centrists and those on the left are currently on the back foot politically in France. This will make dealing with France's deficit problem in a growth-friendly manner all the more crucial, but on that we are [not optimistic](#).

The Netherlands: Bottlenecks keep a lid on the economy

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- The growth outlook improves moving into 2026, but bottlenecks and competitiveness issues constrain potential growth. We expect GDP growth to average 1.7% in 2025, 1.2% in 2026, and 1.4% in 2027
- Labour market tightness eases, but the unemployment rate will only increase marginally
- Inflation stays above the eurozone aggregate, due to tax changes and services prices

Developments on the international front remain volatile

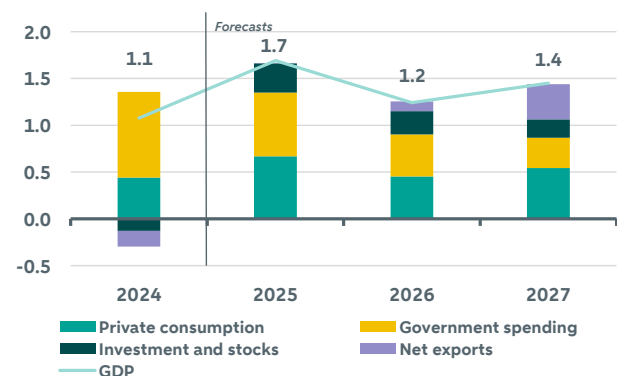
The Dutch economy has grown by a below-trend 0.3% q/q over the past quarters on average, while remaining more resilient than expected, given US tariffs and (inter)national uncertainty. On the international front, the trade agreement between the US and the EU has reduced but not eliminated uncertainty for exporting companies. Now, US-China tensions have shifted from tariffs to [chokepoints](#), predominantly over rare earths and semiconductors, and the Netherlands is caught in the crossfire. [Allegedly](#), pressure from the US led the Netherlands to remove the CEO of Nexperia, a Netherlands-based chip manufacturer, which led to escalating Netherlands-China relations. Furthermore, as a result of international uncertainty, Dutch companies [report](#) that they are responding by holding larger inventories or seeking alternative export destinations. Trade shifts might mitigate the impact of tariffs, but they will not entirely eliminate the shock. As the trade war continues, these chokepoints might appear more frequently.

2026: New coalition reduces policy uncertainty, continues expansive fiscal stance, and raises defence spending ...

On the domestic front, the fall of the Dutch cabinet in June of this year increased policy uncertainty at a time where bottlenecks, such as the overloaded electricity grid, housing shortages, and the nitrogen impasse, are increasingly constraining potential growth. If not addressed, the costs of these obstacles rises, and come on top of other major challenges awaiting the Dutch economy, such as the ageing workforce and climate change. The prospect of a new coalition after the elections held on the 29th of October is therefore welcome. As highlighted in the [global chapter](#), an arduous and lengthy formation process can be expected, but will ultimately create more policy certainty – potentially also on tackling the aforementioned bottlenecks. For the Dutch growth outlook it is also relevant that calculations by the [CPB](#) show there seems to be a consensus among the potential coalition parties for significant deficits and continued support for the economy, even though this appears to be at odds with an economy running at capacity and elevated inflation. This confirms the expansive fiscal stance also going forward. Finally, despite minor differences in overall spending levels and funding approaches, the major political parties intend to make substantial investments in defence to meet the NATO target, which provides further stimulus to economic growth.

Growth to remain driven by internal demand

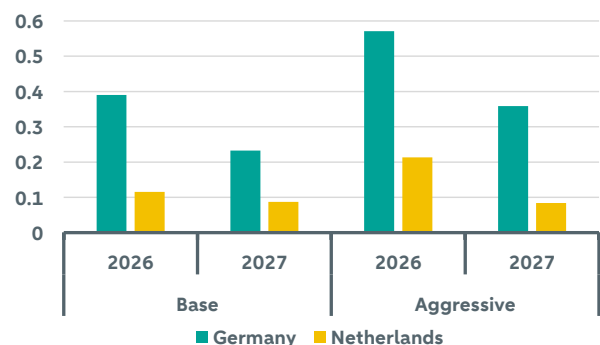
% y/y, contributions in pp



Source: LSEG, ABN AMRO Group Economics

German plans increase Dutch GDP growth

% growth difference relative to a baseline without German spending



Source: ABN AMRO Group Economics

... and international developments contribute to an improving outlook for 2026 ...

International factors also contribute to an improving outlook for 2026. Firstly, recent rate cuts by the ECB are expected to provide support in 2026. Secondly, public spending across Europe is set to increase, driven by commitments to higher defence spending and infrastructure. Main trading partner Germany will significantly invest in infrastructure and defence, which boosts the growth outlook. According to [our calculations](#), this will spill over to the Dutch economy: roughly equivalent to an additional quarter of growth over the coming two years. Finally, a recovery in global trade will bolster

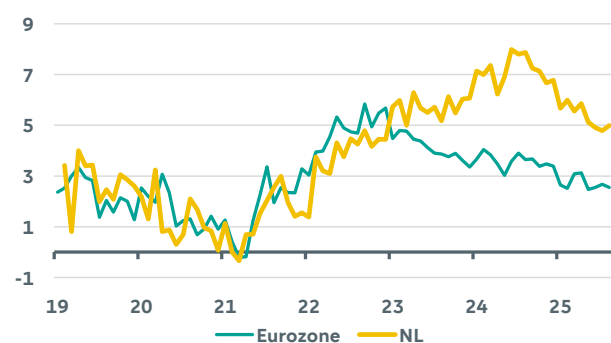
external demand; however, the Netherlands faces a reduced market share, partly due to a loss of competitiveness, driven by factors such as high labour and energy costs.

... but domestic factors remain the largest drivers of growth

In 2025, household and government spending are the largest growth drivers. For 2026, we also expect their contribution to be substantial. Household purchasing power is set to continue to rise in 2026, according to forecasts by the [CPB](#), driven by strong (albeit slowing) wage growth, gradually easing inflation, and government policies implemented by the caretaker cabinet. [Our calculations](#) also show that household incomes have generally improved relative to essential spending such as fixed costs and groceries, leaving household balance sheets in a strong position. Although labour market tightness is slightly easing, households continue to benefit, with a large number of people working. Nonetheless, sentiment remains subdued as reflected by low consumer confidence, and the elevated savings rate indicates that households still prioritize saving over spending. As uncertainty gradually recedes and real incomes improve further, we expect the savings rate to normalize somewhat, creating room for consumption.

Dutch wage growth remains high relative to eurozone

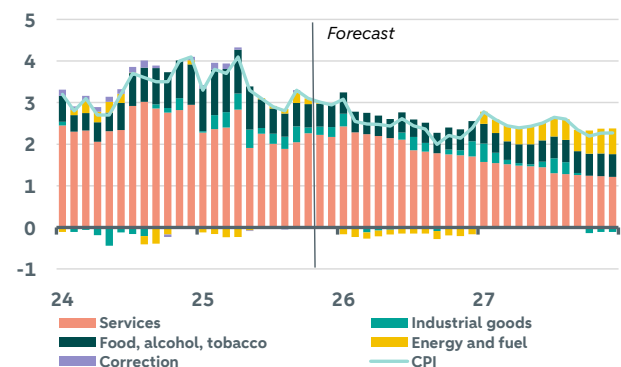
Indeed wage growth tracker, %y/y



Source: Indeed, ABN AMRO Group Economics

Services continue to drive inflation

% y/y, contributions in pp



Source: CBS, ABN AMRO Group Economics

Despite an easing labour market, bottlenecks constraining potential growth remain

In recent months, the unemployment rate has been on the rise, reaching a 4-year high of 4.0% in September. The increase is primarily driven by more people entering the job market, reflecting an increase in labour supply. In the third quarter, labour market pressure eased further as the number of employed surpassed the number of vacancies for the first time in four years. In line with slower economic growth and the continued normalization of bankruptcy rates, we expect labour demand to cool slightly. Still, we do not anticipate a significant rise in layoffs. Labour shortages remain the biggest constraint for businesses, and while the unemployment rate is expected to edge up, it will remain low by historical standards. Greying means that growth of the population aged 20-65 becomes stagnant from 2027 onwards and starts declining in 2029, limiting the number of working people and increasing the number of inactive. As a result the lack of labour supply weighs on potential growth from 2027 onwards, alongside other capacity constraints such as the housing market, electricity grid congestion, and the nitrogen gridlock. Growth will therefore stay below trend in 2026 and 2027.

Inflation to stay above 2% in the years ahead

Dutch inflation has stood well above the eurozone average in recent years, primarily driven by higher services inflation on the back of stronger increases in unit labour costs and wage-linked rent adjustments. Dutch food inflation has also deviated from the eurozone trend, which was partly due to higher excise taxes on tobacco, alcohol and the 'sugar tax'. Even excluding these tax changes – which have now also dropped from the inflation figure due to base effects – food prices in the Netherlands have risen faster, likely driven by stronger labour cost increases. Climate factors have also played a role in the recent rise in food prices, as hot summers disrupt supply. We [recently calculated](#) that Dutch inflation could increase by 0.15–0.3 percentage points due to the impact of climate change on food prices. We therefore forecast somewhat higher food inflation compared to the 2010-19 average. Looking ahead, we expect Dutch inflation to gradually decrease, but stay above the eurozone average. Slowing wage growth alleviates pipeline pressure on services inflation, while a combination of strong demand and anticipation on the tax increase on overnight stays from 2026 keeps services inflation elevated. The lower fuel excise tax was extended by one year into 2026, which postpones the upward impact to 2027; coming in at the same time as the impact of [EU ETS2](#), both of which will exert upward pressure on inflation. As illustrated by the extended lower fuel excise tax, policy changes from the new government could have a large impact on the inflation figure.

US: The AI Haves and Have Nots

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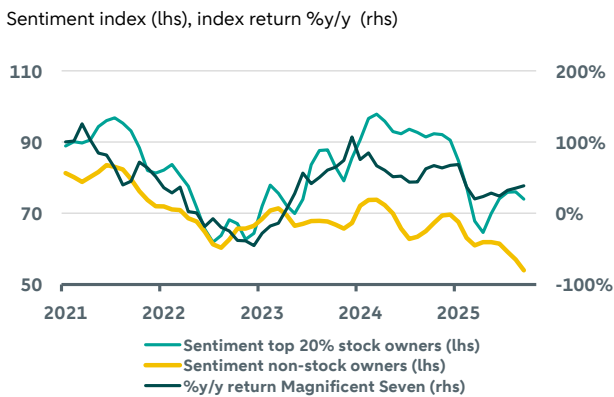
- The US has become a tale of two economies: AI is booming, the remainder is stagnant
- Trade and immigration policy are expected to widen the divide
- AI investment, and fiscal and monetary easing will drive growth, at the cost of deficits and inflation

The economy is running at two speeds. AI and related sectors are thriving, whereas most other areas are stagnant or contracting. This creates a challenging environment for policy-making and economic forecasting. The Trump administration is fully committed to AI, implementing an Action Plan that reduces regulatory oversight and encourages investment across the supply chain. Meanwhile, the Federal Reserve has resumed easing its policy rate to support a weakening labour market. However, it remains unclear how this shift in monetary policy will affect a bifurcated economy, where supply-side factors are significant. The outlook is further muddled by uncertainty over the timing and magnitude of trade and immigration policy impacts; both are expected to increase prices and suppress growth, but have yet to fully be reflected in headline data. We expect 2026 to be characterised by a further widening of this ‘K-shaped’ economy, amplified by trade and immigration policy. Downside risk to growth is limited by fiscal and monetary easing. This keeps the economy growing at a solid pace of slightly above 2% but comes at the cost of higher inflation and larger fiscal deficits. Policy is unlikely to narrow the divide.

The two faces of the US

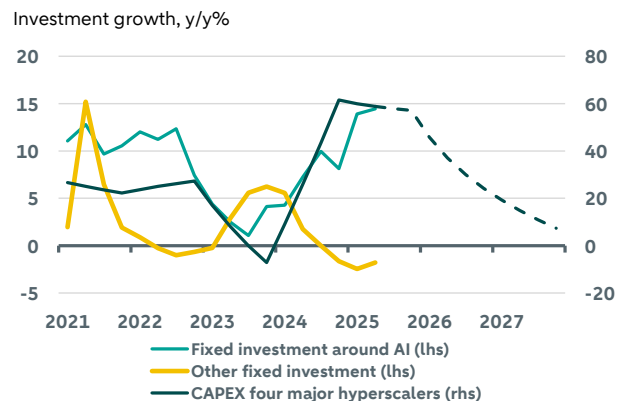
Investment has surged on the prospect of AI market dominance. Our [piece on AI](#) describes how its introduction and development have already influenced the US economy and speculates on future impact. AI has already supported headline economic growth, both directly through investment and indirectly through consumption, via wealth effects from soaring equity prices. This wealth effect is evident when comparing the University of Michigan’s sentiment index for non-stock owners and the top 20% of equity owners. While both have deteriorated since last year, the sentiment gap between the groups is widening again. Sentiment among stock owners correlates strongly with returns on the ‘Magnificent Seven’, and these gains have supported consumption. The top 10% of income households now account for 49.2% of all consumption, compared to 46% in 2022 and a low of 41% after the financial crisis. If this share fell back to 46%, with the remaining 90% of consumption fixed, total consumption would drop by 6%.

Consumer sentiment poor, unless you own (AI) stocks



Source: University of Michigan, Bloomberg, ABN AMRO Group Economics

Real economy diverges in a similar way



Source: LSEG, S&P Global, ABN AMRO Group Economics

Meanwhile, sentiment among non-stock owners has fallen to its lowest level in at least 25 years. Without support from equity gains, these households rely on real wage growth for consumption growth. According to Atlanta Fed data, wage growth for the lowest quartile, previously strong due to labour market tightness since 2021, has now dipped below that of the top quartile for the first time since 2014. Overall, wage growth has returned to pre-Covid levels in nominal terms, but is substantially lower in real terms. While overall unemployment has not risen much, unemployment among some groups which serve as an early indicator has increased in recent months. Lower income households are also expected to face a significant hit to disposable income due to rising healthcare costs under the OBBBA.

The real economy, and investment in particular, mirrors this divide. Investment in data centres has surged by over 50% per year, while other forms of fixed and residential investment are contracting. Estimates of capital expenditure by the four largest hyperscalers (builders of infrastructure) suggest their influence on headline growth figures will continue in the near term, but gradually fade. It is not clear that the expected easing by the Fed will be enough to revive the rest of the economy, especially household consumption. Fiscal policy may provide a moderate boost to investment through bonus depreciation extensions, but if anything, redistributive effects only makes things harder for most households.

Implications for 2026 and beyond

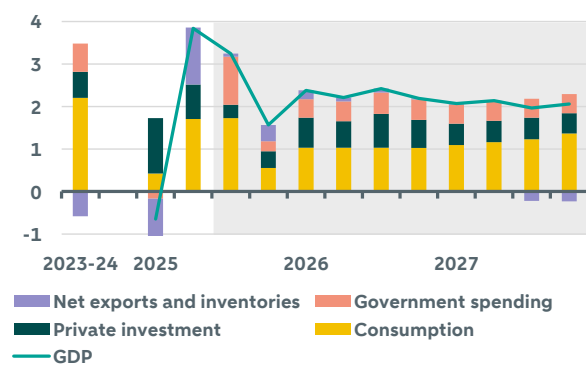
First and foremost, we expect to see the impact of tariffs and immigration policy in headline data in 2026. Goods prices have risen, but full pass-through of tariffs has yet to occur. As import prices have not increased and consumer price rises have been limited, it is mostly US firms paying the tariffs. Businesses need time to react to such shocks. Initially, uncertainty over the permanence of tariffs led firms to build inventories, limiting immediate price rises. Now that tariffs seem permanent, companies face decisions about sourcing and production, which takes time, but costs will eventually be passed on to consumers.

The full impact of immigration policy has also yet to be seen. Labour supply growth has stalled, explaining much of the current labour market dynamics. However, the effects of the ICE crackdown on illegal labour are not yet evident. Homeland Security reports over two million people have left, but economic data shows little evidence of this. Production has not declined, nor has there been a substantial increase in native or legal employment in sectors that rely heavily on illegal labour. There is no clear evidence for replacement by capital inputs or AI. It is likely that deportation figures are overstated and most illegal workers remain. Similar to the businesses above, these families also need time to react, and more substantial departures are likely in 2026. This will lead to tightness in relevant sectors, with wage pressures balancing between the weaker negotiating position of remaining illegal employees and the stronger position of legal employees. We expect this to result in some upward price pressure, particularly in food and other sectors.

Both trade and immigration policy will therefore raise prices and suppress growth in the coming year. Still, the economy should hold up due to substantial private sector investment, predominantly in AI, and accommodative fiscal and monetary policy. The Fed's rate cuts this year and into 2026 will help somewhat, though the impact will be limited, with markets already pricing in likely cuts, broadly higher risk premia in long-term rates, and the lags of monetary policy. It is also unclear how much demand stimulus can support the labour market, given that much of the weakness is supply-driven. On the fiscal side, we expect unintended but substantial stimulus relative to 2025. The administration's cut to the IRS budget has a large multiplier for tax revenues. We also expect tariff revenues to decline as firms adjust. The total reduction in tax and tariff revenues could exceed half a percentage point of GDP. Both fiscal and monetary easing will benefit the broader economy, though the advantages are likely to be concentrated among the 'AI Haves'. Lower tariffs will reduce inflationary pressure, but the IRS budget cut will likely favour higher incomes. Given the relative insensitivity of AI investments to policy rates, monetary easing may provide more stimulus to the rest of the economy. Still, lower rates will amplify the wealth effects described above and increase inflationary pressures in an economy where much inflation is already demand-driven.

Consumption weak, AI investment thrives

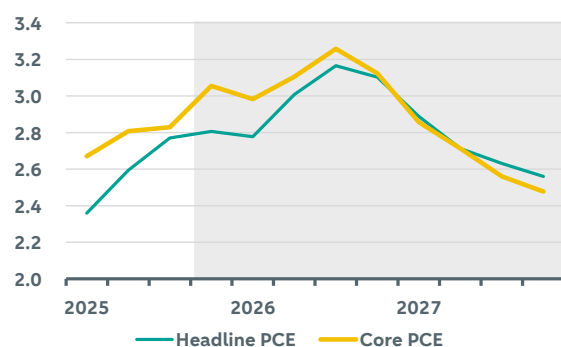
Decomposed GDP growth, annualized q/q%. Forecasts in shaded area



Source: LSEG, ABN AMRO Group Economics

Oil prices to limit headline PCE growth in near term

PCE inflation, y/y%. Forecasts in shaded area



Source: LSEG, ABN AMRO Group Economics

This suggests the US will continue to grow at a solid pace, but at the cost of higher deficits and inflation. We have upgraded our growth forecasts and increased the expected peak and persistence of inflation. Despite higher inflation, we expect the Fed to continue easing into 2026. This is consistent with historical Fed behaviour in similar situations, where sustaining 'inclusive full employment' is seen as the best solution to uneven growth, although inflation was typically at or below target in those easing periods. The dovish FOMC rotation next year may use the windfall from lower oil prices on headline inflation to argue that inflation remains contained and that employment is the bigger worry. Continued fiscal and monetary stimulus will, therefore, keep inflation running above target for the remainder of our projection horizon. If policy easing ignites labour demand without supply, risks of second-round inflation effects beyond our base case increase. If labour demand does not pick up, the weaker part of the economy risks entering stall speed and contracting. The economic resilience of the AI Haves is fragile due to its sheer concentration. Both segments of the economy tread a narrow path, and political pressure on the Fed makes it substantially harder to navigate.

China: The need to rebalance remains despite trade deal

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- Supply-demand imbalances have not really been tackled in 2025
- Extension of the US-China truce will reduce external risks in 2026, but there is still a need to rebalance
- We expect a stepping up of targeted measures to support domestic demand, but still no ‘bazooka’
- China-US/West: Fragile equilibrium holds after trade deal with US, strategic decoupling to continue
- We expect annual GDP growth to slow from 5.0% in 2025 to 4.6% in 2026, and to 4.3% in 2027

Looking back at 2025: Supply-demand imbalances have not really been tackled

Despite the escalation of trade war 2.0 with the US, the economy showed remarkable resilience in 1H-25. This was mainly due to robust exports and industrial production. Declining exports to the US were offset by increased exports to other regions (including ASEAN and EU), although October exports surprised to the downside. By contrast, the demand side remains much weaker. Retail sales continue to lag behind, hampered by weak confidence, a deepening property slump, and a fragile labour market. Fixed investment also slowed sharply last summer, with growth (ytd) turning negative in September – for the first time since the 2020 Covid-shock. This investment slump is partly attributable to the property crisis, but also reflects the campaign against excessive competition – although the reporting of this data by local governments may exaggerate the true downturn. Overall, annual GDP growth gradually slowed during 2025, reaching 4.8% y/y in Q3 (in line with our expectations). Still, quarterly GDP growth held up well in Q3, helped by solid industrial production and exports, and an acceleration in the financial sector. China’s stock markets, on balance, have shrugged off weaker macro data and are outperforming this year, buoyed by tech enthusiasm and the US-China truce.

Consumer confidence picking up a bit, but still weak

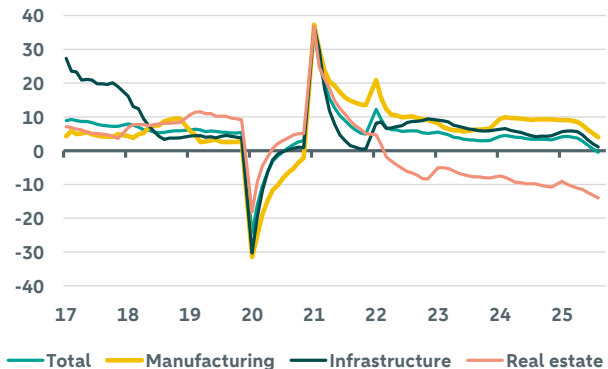
Consumer confidence, index



Source: ABN AMRO Group Economics, LSEG

Investment growth has turned negative

Fixed asset investment, % y/y ytd



Source: ABN AMRO Group Economics, Bloomberg

What to expect in 2026 in terms of rebalancing the growth model...

All told, macro imbalances remain elevated, with the supply side still stronger than the demand side, while deflationary pressures remain (core inflation is picking up, but remains quite low). These imbalances reflect the growth model of recent years. This model prioritises the support of high-tech manufacturing and tech self-reliance – partly in response to more hawkish US trade/tech policies – over raising consumption. This has freed up capacity for exports, while inflation and currency developments help external competitiveness. The campaign against excessive competition is not really moving the needle in this respect. With global pushback against China’s imbalances rising, the question is how sustainable this externally-led growth model still is. October exports provided a warning signal, while the IMF recently repeated its call on Beijing to reduce imbalances. Given ongoing tensions with the US/West, we assume Beijing will not abandon its focus on tech development next year. Still, taking into account what has been stated about the 15th Five-Year Plan (2026-2030) so far, we sense the government feels somewhat more urgency to fix the deficiencies of China’s model, and will step up efforts to support household income, consumption, and broader domestic demand.

...and in terms of macro support measures?

What does all of this mean for the macro support mix? We assume Beijing will step up policy support further, following up on recent measures such as increasing local government bond sales to finance infrastructure and policy banks’ lending. However, as the extension of the US-China truce (see below) will reduce external risks in 2026, we still expect a measured approach and no ‘credit bazooka’. On the fiscal side, we think Beijing will keep the headline budget deficit target at 4% of GDP, and will tweak targeted policy measures into more direct forms of supporting consumption and investment. We also

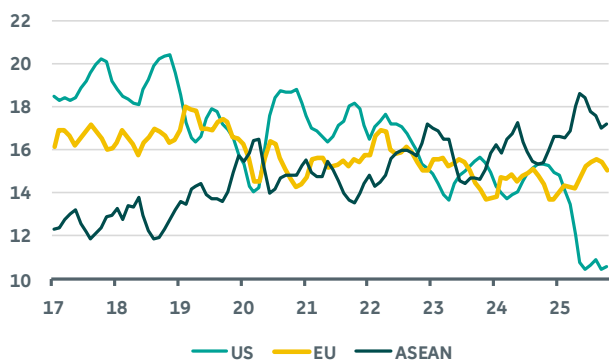
assume Beijing will do a bit more to stabilise the property sector, given the ongoing negative feedback loop to demand, although the government is still comfortable with the structural decline of the property sector's role in China's growth model. On the monetary side, we expect ongoing piecemeal easing steps in the form of RRR cuts and small policy rate cuts. While the re-start of the US Fed rate cut cycle creates additional room for manoeuvre, we think the PBoC will remain cautious, also taking financial stability angles into account (also see [China - Managing the growth slowdown amidst a 'hot' stock market](#)). Note that the government's policy plans for 2026 will be further worked out in the annual Central Economic Work Conference in December, and final policy plans and targets will be presented for approval in the annual sessions of China's parliament (National People's Congress) in March 2026.

China-US/West: Fragile equilibrium holds after deal, strategic decoupling to continue

Following the dramatic tariff escalation in April, market turbulence and corporate lobbying led to a US-China truce in mid-May, with tariffs settling at much lower levels. Trade tensions flared up again after this truce, with the focus shifting from tariffs to 'chokepoints' (rare earths/semiconductors). In October, China presented an even stricter export control regime for rare earths, intended to mirror a similar US regime on semiconductors to create leverage in trade negotiations (see [China: Chokepoint challenges](#)). The timing of this seems to be related to the recent US expansion of the entity list used for semiconductor controls with foreign affiliates. The rare earth controls also give Beijing leverage over countries that might team up with the US against China, similar to the US's semiconductor approach. While the US initially threatened to re-install high tariffs and export controls on critical software, both countries ultimately found enough common ground to sign a new trade deal, agreed between presidents Trump and Xi end-October. This deal includes a one-year postponement of China's rare earth controls, the expansion of the US entity list, and the increase in bilateral port fees. It also includes a cut of fentanyl-related US tariffs on China from 20% to 10%, reducing this year's additional headline tariffs from 30% to 20%. China agreed to step up soybean imports from the US, and scrapped tariffs on US farm products. This deal prevents a harmful re-escalation of bilateral tensions for now, while leaving more fundamental trade/tech, national security and geopolitical issues untouched. All of this gives both countries time to further work on decoupling in sectors deemed to be of strategic relevance; we think that China is ahead of the US in this respect (see [box](#) in lead article). All in all, we assume the fragile equilibrium in US-China relations will hold in 2026. Still, trade spats between China and the US/West are likely from time to time, particularly around chokepoints, with the Dutch chips producer Nexperia being a recent example of a firm caught in the crossfire.

Trade deal likely to contain US-China trade decoupling

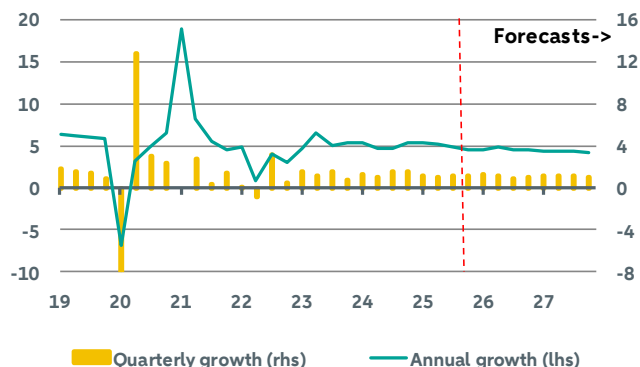
Chinese exports by destination, %



Source: ABN AMRO Group Economics, Bloomberg

Annual growth expected to slow below 5% in 2026-27

Real GDP growth, % y/y and % q/q (forecasts from Q4-2025 onwards)



Source: ABN AMRO Group Economics, Bloomberg

We expect annual real GDP growth to slow to 4.6% in 2026 and 4.3% in 2027

Overall, we assume that stepped-up targeted stimulus will be mainly about containing the downturn. Particularly against the background of ongoing US-China power play, it is unlikely that Beijing would tolerate a sharp deceleration in annual GDP growth next year. We have slightly revised our quarterly growth profile, assuming targeted stimulus will contribute to a modest pickup in sequential (q/q) growth in the first half of 2026. That said, we still expect full-year annual growth to slow, dropping to 4.6% (revised upwards from 4.3%) in 2026 and to 4.3% in 2027. Downside risks to these forecasts include a re-escalation of trade/tech/chokepoint tensions with the US/West and other geopolitical scenarios (such as an intensifying conflict with Taiwan), which could accelerate further decoupling. Another downside risk is a lack of (effective) measures to rebalance and support the demand side. In terms of upside risks, it is possible that a longer *détente* in US-China relations leads to a sharper recovery in bilateral trade. And on the domestic side, a virtuous cycle could arise if a stabilising property sector and an improving labour market – coupled with more stimulus – were to drive a sharper improvement in domestic demand than we anticipate in our base case.

Key views on a page

The transition from one world order to another is in full swing, but it is still unclear how that new world order will look. The advent of AI, China's rise, and the US's relative decline offer challenges but also opportunities. The trade war weapon *du jour* has shifted from tariffs to chokepoints, creating new challenges for governments and manufacturers. Global growth has been remarkably resilient given the headwinds. We expect that resilience to continue in 2026, albeit with considerable risks. Growth in the US is expected to stay solid, but this masks variation and vulnerability below the surface. Eurozone growth is expected to pick up on higher German fiscal spending, while China is expected to implement some modest demand-supportive measures while keeping its manufacturing growth model broadly intact. Fiscal troubles in France and the UK are likely to remain a worry. Inflation in the US is expected to continue accelerating, but to fall below target in the eurozone. Despite this, the divergence in Fed & ECB rates is expected to narrow significantly, with the ECB 'looking through' the inflation undershoot in the eurozone and the Fed 'looking through' the US inflation overshoot by continuing to cut rates.

Macro	Central Banks & Markets
<p>Eurozone – Growth in the near term is slowing on the back of US tariffs and an unwind of US export frontloading, though the recovery in domestic demand (helped by past rate cuts) is a key offset. Next year, higher defence and German infrastructure spending are likely to drive higher quarterly growth. Disinflation is continuing, though progress in services inflation has recently stalled, despite wage growth continuing to cool. Falling energy prices are likely to drive an undershoot of the 2% inflation target later this year, helped by a stronger euro. However, core inflation is expected to hold steady around the ECB's target.</p>	<p>ECB – The Governing Council kept policy on hold in October, and is likely to remain on hold for the foreseeable future. President Lagarde has said that the ECB is 'well positioned' to face the coming period of tariff impact and uncertainty. Despite the expected undershoot of the 2% inflation target, the GC seems minded to look through this on the expectation that inflation will return to target in 2027. Near term risks are tilted to another cut given the looming inflation undershoot, but in 2027, those risks could tilt towards a hike, with upside risks likely to build from higher German fiscal spending.</p>
<p>The Netherlands – The short-term growth outlook remains subdued on the back of US tariffs and (inter)national uncertainty. Moving further into 2026, the outlook improves on the back of rising real incomes, fiscal measures, rate cuts feeding through and spillovers from German fiscal expansion. Inflation, still significantly above 2%, is expected to ease further but to stay elevated compared to the eurozone in the coming years – partly due to services prices and tax changes. After the recent snap elections, the coalition formation is expected to be an arduous and lengthy.</p>	<p>Fed – The Fed has started easing rates in response to downside risk in the labour market. Despite some pushback due to a lack of data, we expect another 25 bps cut in December. In 2026, the Fed faces a further diverging economy. Consistent with its reaction in the most comparable instances, we expect the Fed to continue easing, despite rising core inflation. We expect a policy rate of 2.75-3.00% by Q3, the lower end of neutral estimates. Headline inflation will initially be more modest on the back of lower oil prices, allowing a focus on the employment mandate..</p>
<p>UK – The economy is slowing on the back of the US tariff shock. Still, the UK is less vulnerable to US tariffs than the eurozone, as it is less export dependent and faces a lower tariff rate. Lower interest rates and higher government spending are also giving some support to growth. The upcoming budget is likely to come with new tax rises, which should be enough to keep the UK sticking to its fiscal rules. Inflation remains stubbornly high, with wage growth still well above levels consistent with 2% inflation, but recent data has been slightly more encouraging.</p>	<p>Bank of England – The MPC kept Bank Rate at 4.00% in November, in line with our expectations. Four of the nine MPC members dissented against the last rate cut in August, and Governor Bailey has become more dovish again. In light of this and despite sticky inflation, we see some risk that the next rate cut could come sooner than our base case of April. We will update our view based on the incoming data. If recent, more benign inflation indicators persist, the BoE could well already move in December.</p>
<p>US – The impact of tariff and immigration policy will gradually build in the data. However, any negative impact in the headline figures will be overshadowed by the positive impulse from AI investments and monetary and fiscal easing. We further upgraded our growth forecast but also foresee higher inflation and deficits. Inflation rises further due to continued pass-through of tariffs, as well as demand effects from stimulus. Unemployment continues a gradual, but not dramatic increase, as supply and demand remain mostly in balance.</p>	<p>Bond yields – With the conclusion of the ECB's rate-cutting cycle and elevated debt supply issuance next year, there is limited potential for 10y bund yield to decline. We anticipate upward pressure on long-term yields, with bond vigilantes on alert, ready to respond to signs of fiscal slippage. This is particularly relevant to the US, with one of the weakest fiscal and debt outlooks among developed countries. Current US term premium fails to compensate for it. As such, we expect US long-term rates to rise in 2026, leading to a steeper yield curve.</p>
<p>China – Macro imbalances remain elevated, with supply stronger than demand, and deflationary pressures not over yet. Next year, Beijing will likely not abandon its focus on high-tech development, but we sense a bit more urgency to support the demand side as well. As the recent deal with the US reduces external risks in 2026, we still expect targeted support, and no 'credit bazooka'. We have slightly revised our quarterly GDP growth profile, and expect a moderate pick-up in q/q growth in 1H-26. However, we still expect annual growth to slow, from 5% in 2025 to 4.6% (was 4.3%) in 2026 and 4.3% in 2027.</p>	<p>FX – The US dollar is substantially overvalued according to different metrics. Cyclical drivers and FX hedging have mainly contributed to dollar weakness in 2025. In our forecast horizon we expect the dollar to weaken further due to negative cyclical developments and more concerns on the structural factors. We expect the narrowing of rate spreads between the US and the eurozone to support the euro as well as higher defence spending and German infrastructure spending. Our forecast for EUR/USD end 2026 stands at 1.25.</p>

Main economic & financial market forecasts												
	GDP				Inflation				Policy rate			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Eurozone	0.8	1.4	0.9	1.4	2.4	2.1	1.7	2.0	3.00	2.00	2.00	2.00
Netherlands	1.1	1.7	1.2	1.4	3.2	3.0	2.3	2.4				
Germany	-0.5	0.3	1.0	1.3								
UK	1.1	1.4	1.0	1.4	2.5	3.4	2.5	2.3	4.75	4.00	3.50	3.25
US	2.8	2.0	2.4	2.1	2.6	2.8	3.1	2.6	4.50	3.75	3.00	3.00
China	5.0	5.0	4.6	4.3	0.2	0.0	1.0	1.4	3.10	2.90	2.70	2.60

Note: Annual average for GDP and inflation, end of period for the policy rate

	2025	07/11/25	26Q1	2026	2027	Energy	2025	05/11/25	26Q1	2026	2027
US Treasury	4.15	4.09	4.20	4.35	4.40						
German Bund	2.70	2.67	2.75	2.85	3.00	Brent - USD/bbl*	60	63.52	58	52	63
EUR/USD	1.15	1.16	1.17	1.25	1.30	WTI - USD/bbl*	56	59.60	54	48	59
USD/CNY	7.00	7.13	6.90	6.80	6.70	TTF Gas - EUR/MWh*	38	30.86	34	30	28
GBP/USD	1.30	1.32	1.32	1.40	1.45						

* Brent, WTI: active month contract; TTF: next calendar year

GDP (q/q)	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.6	0.1	0.2	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Netherlands	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
US (saar)	-0.6	3.8	3.2	1.6	2.4	2.2	2.4	2.2	2.1	2.1	2.0	2.1
China (y/y)	5.4	5.2	4.8	4.5	4.6	4.8	4.6	4.5	4.4	4.3	4.3	4.2
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.3	2.0	2.1	2.1	1.7	1.9	1.6	1.5	1.7	1.8	2.1	2.3
Netherlands	3.3	3.3	2.6	2.9	2.6	2.4	2.2	2.1	2.5	2.3	2.4	2.1
US (PCE)	2.6	2.4	2.8	2.8	2.8	3.0	3.2	3.1	2.9	2.7	2.6	2.6
China	-0.1	0.0	-0.2	0.2	0.5	0.9	1.2	1.5	1.4	1.4	1.3	1.4
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.3	6.4	6.3	6.4	6.4	6.4	6.4	6.3	6.3	6.2	6.2	6.2
Netherlands	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.2	4.3	4.3	4.3	4.3
US	4.1	4.2	4.3	4.5	4.6	4.7	4.7	4.7	4.6	4.6	4.6	4.6
Policy rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
US	4.50	4.50	4.25	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00
UK	4.50	4.25	4.00	4.00	4.00	3.75	3.50	3.50	3.50	3.50	3.25	3.25
China	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.70	2.70	2.60	2.60	2.60

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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