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Orange is the new Green

- **Geopolitical risk is increasingly dominating the outlook**
- **The US-EU dispute over Greenland threatens a new tariff war – or worse**
- **Over the next month, we will see just how far Trump is prepared to go to obtain Greenland, and whether Europe can stand its ground**
- **We refrain from changing our base case given the fluidity of events, but uncertainty is clearly back with a vengeance, and the outlook less benign**
- **Spotlight: We present a framework to analyse the main channels through which geopolitical risk impacts the economy**
- **Regional updates: Greenland risks aside, the eurozone's fragile recovery is continuing for now, while France looks like it may avoid a snap election**
- **The German economy faces a pivotal year in 2026**
- **Minority government in the Netherlands will require more compromises**
- **Post-shutdown data in the US fails to fully clear the fog**
- **Policy support in China is set to shift from consumption to investment**

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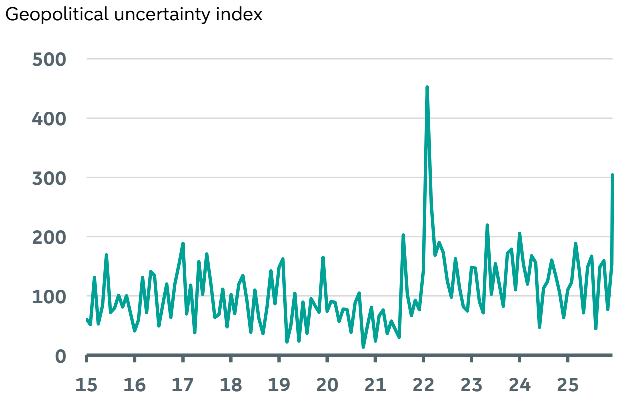
Global View: Will Trump risk losing a continent to gain an island?

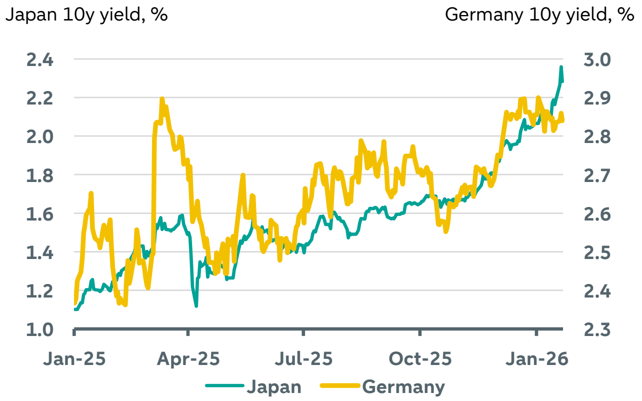
2026 has started off not just with a bang, but with multiple bangs, and we are barely one month in. Geopolitical risk has spiked, reflecting events in Venezuela, Iran, and now most spectacularly the transatlantic dispute over Greenland. Over the coming month we will learn: 1) whether Trump really meant his 10% tariff threat over Greenland (1 February), 2) whether the EU has allowed its suspension of retaliatory tariffs on EUR93bn of US imports to lapse (6 February), and 3) whether the Supreme Court has ruled much of Trump's tariffs to have been unlawful – potentially leading to refunds of over $130bn in tariffs paid so far. This is just to give a flavour of the uncertainty facing the global economy right now, and this is before we discuss the risk of geopolitical flashpoints escalating *militarily*, or the volatility in bond and FX markets. Indeed, as if it were not hard enough to translate all of this geopolitical risk to macroeconomic outcomes – a topic we tackle in this month's spotlight – financial markets threw another curve ball this week in the form of spiking Japanese government bond yields, which threaten to spillover to European government bond markets, and a renewed selloff in the dollar. Are there any crumbs of comfort amid the chaos? The end of the data drought in the US after the government shutdown is finally bringing some visibility US economic performance, though the data so far is unfortunately not yet telling a clear story. And in Europe, the domestic economy is continuing to recover, while France looks like it may avoid snap elections this year after all. Given the fluidity of events, we refrain from reacting with substantial changes to our base case this month. But uncertainty has clearly come back with a vengeance, and the outlook is looking less benign than it did at the end of 2025.

Geopolitical uncertainty is spiking again...



Source: Caldara and Iacoviello (2022), ABN AMRO Group Economics

...as are Japanese government bond yields



Source: Bloomberg, ABN AMRO Group Economics

Spotlight: Geopolitical risk is back with a vengeance

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- Geopolitical risks have flared up in a dramatic fashion at the start of the year
- We present a framework to analyse the main channels of impact for the economy
- The Greenland dispute risks escalating economic warfare between the EU and the US and an undermining of NATO, while the risks surrounding Iran revolve around oil supply
- Threats to Fed independence could destabilise inflation expectations, but Chair Powell remains defiant

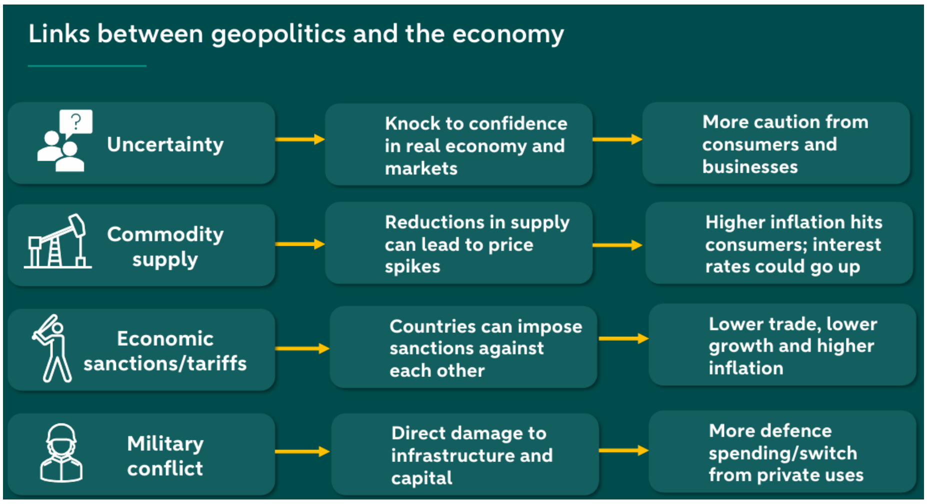
Geopolitical risks are flaring up

Just as it looked like geopolitical risks were starting to ease, they flared up in a dramatic fashion at the start of the year. From Venezuela to Greenland to Iran, the geopolitical hotspots are multiple. President Trump has re-stated his view that acquiring Greenland is a national security priority of the United States. This has now been backed with coercive tariff threats against European countries in order to achieve that objective, and the White House has said that 'utilising the US military is always an option'. This comes against the background of the capture of Venezuelan President Maduro at the start of the year. This was seen as a demonstration that the Trump administration is willing to use military power to achieve its objectives and that international law is not at the forefront of its considerations.

Various other Latin American countries appeared to be at risk of a similar fate, but the most prominent threats recently have been in the direction of Greenland, an autonomous territory of Denmark, which is a member of both the EU and Nato. Protests in Iran against the regime have also been significant. President Trump had encouraged protestors to topple the country's institutions, while also suggesting the US could intervene militarily. As if all this was not enough, we have also seen fresh threats from the US administration on the independence of the Fed. The Fed has received grand jury subpoenas from the Justice Department regarding renovations at its headquarters, with investigations centred on 'possible taxpayer abuse'. Before tackling the various flashpoints, we turn first to a simple framework for analysing the impact of geopolitical shocks on the economy.

Four main channels of impact

Below, we identify four main channels of impact from geopolitical shocks to the economy:



First, higher uncertainty can knock confidence in the economy and markets making businesses and consumers more cautious. Households would tend to spend less and save more. A good example is in the eurozone, where the household savings ratio picked up again following Russia's invasion of Ukraine, and remains well above its pre-pandemic level. It is a similar story for companies, which would tend to hold off from capital spending. Uncertainty can also stem from the undermining of domestic and international institutions as they tend to provide more predictability about the future. For instance, independent central banks provide more confidence in future inflation, fiscal rules in the future sustainability of government debt, while internationally, NATO provides more confidence in future security.

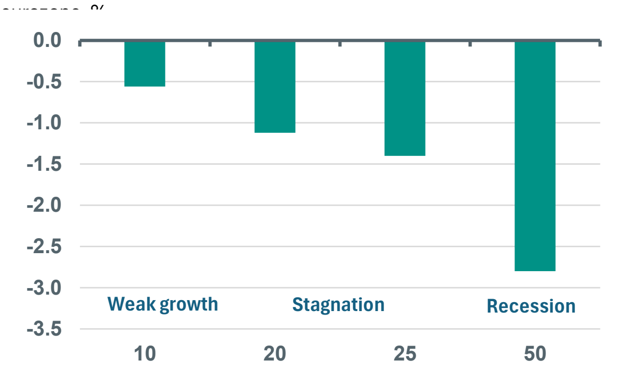
The extent and duration of uncertainty of course depends on the other potential channels of impact. Traditionally, geopolitical risk impacted the economy because the countries involved were oil producers. Fears of supply disruption lead to higher oil prices, meaning higher inflation, less consumer spending and sometimes higher interest rates. Furthermore, countries in conflict can impose sanctions or tariffs on each other, and we have of course seen that up close over the last year. As a rule of thumb, a country imposing tariffs or sanctions is imposing a supply shock on its own economy, which means lower growth and higher inflation, while it is more of a demand shock (both lower growth and inflation) for the country on the receiving end. Finally, actual military conflict has obviously very direct destructive effects. As well as loss of lives, war also destroys infrastructure and the capital stock more generally and sees resources shifting from the private sector to the military effort. It hence reduces the productive potential of the economy where the conflict is occurring. The spillovers to other countries then depends on the size of the economy and the strength of trading links.

Greenland could lead to escalating EU-US economic warfare

President Trump has strongly asserted that acquiring Greenland is a national security priority of the United States. This has now been backed by coercive tariff threats against European countries in order to achieve that objective, and the White House has said that 'utilising the US military is always an option'. Europe has been steadfast in its response, with a joint statement from European leaders making clear that 'Greenland belongs to its people. It is for Denmark and Greenland, and them only, to decide on matters concerning Denmark and Greenland'. Thinking purely of the impact on the economy, three factors matter. First, whether this dispute leads to unleashing of sanctions and/or tariffs between the US and the EU, that could have negative impact on both economies. In this respect, the US has fired the first shot, with president Trump saying he would impose additional tariffs of 10% on European countries from next month until they agree to support his administration's ambition of acquiring Greenland.

Impact of tariffs on the eurozone economy

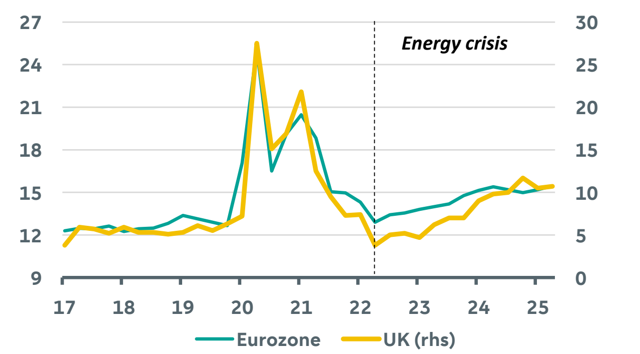
Impact GDP growth of different US tariff rates on imports from the



Source: ABN AMRO Group Economics

Household savings ratio

% disposable income



Source: LSEG, ABN AMRO Group Economics

A 10% tariff – if sustained and if across all eurozone exports – would over time reduce eurozone GDP by 0.5% according to our calculations. However, it is worth noting that so far US tariffs have not been imposed on all products (with for instance pharma being an important exception). So, effective tariff rates have tended to be 2/3 of the headline rate. That would mean a GDP impact of around 0.3% and again assuming the tariff rate holds over the long term. While last year the EU took US tariffs on the chin, i.e. it did not retaliate, history may not repeat itself this time. Europe seems to have drawn a line with regards to Greenland and appears to be less open for appeasement. According to reports, EU leaders are preparing a package of tariffs affecting EUR 93bn of US imports and/or restricting US companies from the internal market under the anti-coercion instrument (ACI). This could give the EU leverage in future negotiations on Greenland, though it also risks a further escalation, with the US potentially raising tariffs further. Whether Europe continues to stand firm is a question mark.

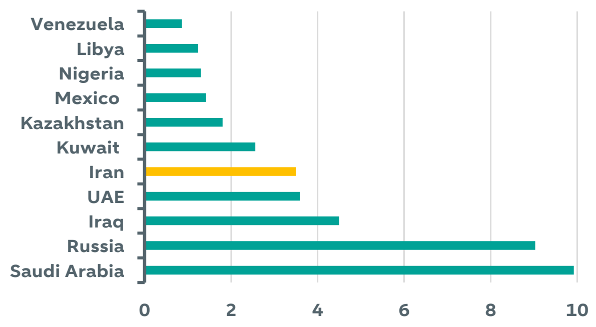
A second factor to consider is the impact of this heightened uncertainty on business and consumer confidence, which could lead to a dampening of domestic demand. Our base scenario for the eurozone economic recovery partly relies on a return of 'animal spirits' to the European private sector, and escalating economic warfare between the US and EU would clearly be a threat to that. The third factoris that the US-EU dispute over Greenland threatens to undermine the NATO alliance, meaning that security concerns could add to the confidence shock. The EU continues to rely on US support for Ukraine as well as the US security umbrella more generally, and this also looks increasingly at risk.

Protests in Iran and concerns about oil supply

The widespread public protests in Iran against the regime, together with the possibility of US military intervention (a prospect that has recently receded) raised concerns recently about potential disruption to Iran's oil supply. Iran is a significant producer (see chart below on the left), with supply of around 3.5 million barrels per day. It must be said that the starting point for the global oil market is very favourable (at least for consumers) with an ongoing supply glut expected this year, which should put downward pressure on prices. However, a scenario where Iran's production was seriously disrupted could take the market closer to balance, or even one where demand exceeds supply, which could instead put upward pressure on prices.

Main Opec + oil producers

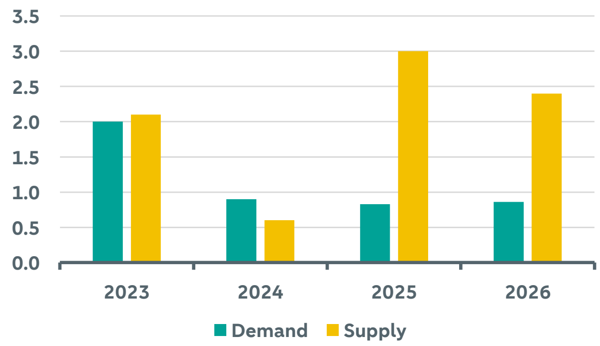
Million barrels per day



Source: IEA, ABN AMRO Group Economics

Global oil demand and supply

Annual change, million barrels per day



Source: IEA, ABN AMRO Group Economics

Threats to Fed independence

The final risk to highlight is to the Fed's independence. The central bank has received grand jury subpoenas from the Justice Department regarding Jerome Powell's June congressional testimony about renovations at the Fed's headquarters. Last year, it became apparent that the Trump administration viewed these renovations as a potential way to challenge Chair Powell. In a video statement immediately after the move, Powell emphasized that "the threat (…) is a consequence of the Federal Reserve setting interest rates based on our assessment of what will serve the public, rather than following the preferences of the President." The first order risk from the attacks to the Fed's independence is that it may raise concerns that it will follow an easier policy path than justified by the state of the economy. Running the economy hot might be seen as a positive in the short-term, but over the medium-to-long term it could raise inflation and lead to a de-anchoring of inflation expectations, which may then require aggressive tightening to fix. As a result, longer term rates would start to rise. With US assets being the global risk-free benchmark, this repricing would spill over to all major economies, including Europe. It would also likely lead to a weaker dollar, and more generally put the US' dominant role in the global financial system under pressure, even if no clear alternative exists.

However, at this stage, we see these risks as being contained. First of all, a subpoena marks the beginning of an evidence-gathering process. This is an investigation, which may conclude without charges. If an indictment does occur, it will likely follow the precedent set by the Lisa Cook case, likely reaching the Supreme Court and taking considerable time. If anything, this challenge to the Fed's independence could prompt the FOMC to take a slightly more hawkish stance to defend the institution. Powell has responded forcefully, calling out the subpoena for what it is, i.e. a politically motivated plot to remove him.

The timing suggests this may relate to his potential continued presence on the Fed's board of governors after his term as Chair ends, which is crucial for Trump's influence over the board. This increases pressure on Powell to step down, but the strategy might backfire in a couple of ways. First, Powell may become more defiant and stay on the board precisely because of this. Second, it makes the appointment of the next Chair a lot more difficult. Given this blatant attack on Fed independence, any nominee will be even more clearly seen in this light. Accepting the role with these lawsuits ongoing effectively implies accepting the loss of independence. Any potential chair that accepts the role is therefore immediately compromised. This may slightly improve the chances for an outsider like Kevin Warsh, who could be viewed as more independent.

Eurozone: The fragile recovery

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- Consumption and industry are continuing to recover, despite the looming new risks to the outlook
- The likely passage of a 2026 budget in France is also a welcome development. We do not expect a lasting solution to France's fiscal woes, but nor do we expect the country to descend into a crisis
- Eurozone inflation remains well behaved, likely keeping the ECB on hold for the foreseeable future. But persistent undershoots in France and Italy are a cause for concern

Ignoring the elephant in the room for a moment, the eurozone economy is not doing too badly at present. Incoming data for Q4 suggests the European consumer is regaining some confidence, with consumption seeing a lift from a recovery in car sales in particular (up 5.5% y/y in the 3 months to November), but also services. On the industrial side, meanwhile, although exports to the US are seeing ongoing weakness on the back of the tariff shock, manufacturing continues to hold up, with output growth consistently positive in annual terms throughout 2025 – a turnaround from the declines of 2023-24. German factory order data suggests the recovery is being driven primarily by domestic orders, though external demand has also showed signs of firming recently – again, despite the drag from the US. It is definitely too soon to point to new trade deals as a driver, and even over time, the European Commission estimates a very modest boost to GDP from the EU-Mercosur deal (0.02-0.1% by 2040) that was just signed. But it is encouraging that Europe is looking to diversify export destinations, and that even in the current hostile trade environment, European industry seems to be finding its feet again.

Some further good news hails from France, which at the time of writing appears on the cusp of finally passing a 2026 budget, after months of wrangling. PM Lecornu will after all resort to using article 49.3 to push through a budget without majority support in the French Assembly, but the centre-left has all-but promised to abstain in a vote of no confidence in the government after extracting a number of significant concessions, including scrapping certain benefit cuts and opting not to raise taxes on households. France's deficit will still be an eye-watering 5% of GDP this year (and that's assuming departmental spending cuts are realised), but the government continues to do just about enough to avoid a fiscal crisis. Our base case continues to see France muddling through its fiscal quagmire, neither definitively resolving it nor entering a downward spiral. This status quo will likely persist now until the presidential election in 2027.

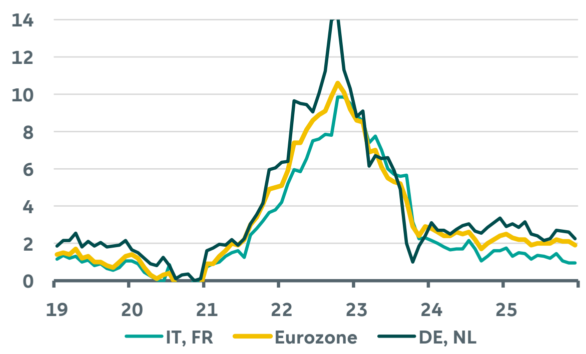
Eurozone manufacturing is keeping its head above

Eurozone manufacturing output, % y/y

Source: Bloomberg, ABN AMRO Group Economics

Inflation divergence: How worried should we be?

HICP inflation, % y/y



Source: Bloomberg, ABN AMRO Group Economics

Inflation meanwhile remains broadly well behaved – at least in the aggregate. Headline inflation came in at 1.9% in December, having held remarkably close to the ECB's 2% for the best part of a year now. The benign headline hides a discomforting divergence in inflation trends among some of the key eurozone constituents. Inflation in France and Italy in particular remains well below the ECB's target, while inflation in Germany and the Netherlands has been either at or above target. Inflation divergence is not new to the eurozone, and is not necessarily a problem. For instance, a similar divergence between north and south was evident before the pandemic, too. The difference between now and then is that aggregate eurozone inflation was also well below target, and ECB monetary policy was therefore much more accommodative. As things stand, with aggregate core inflation expected to hold steady over the coming years, we expect the ECB to remain comfortable holding rates where they are. Should inflation continue to sharply undershoot in some big eurozone countries, however, the calls from such countries for looser monetary policy may grow larger.

Germany: An important year for the country

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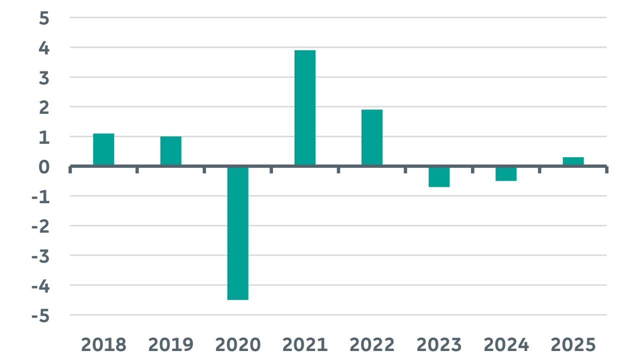
- The German economy grew by 0.2% q/q in Q4, landing the annual average for 2025 at 0.3%
- We expect government spending alongside other factors to drive an increase in growth to 0.9% in 2026
- Recent news on delays to government investment and tariffs introduce downside risks to the forecast

After two years of recession, the economy returned to growth in 2025, though the expansion was modest at just 0.3%. Destatis' preliminary estimate for Q4 growth stood at 0.2% q/q, close to our forecast of 0.25%. This slight improvement in growth sets the stage for 2026, a year anticipated to see higher quarterly growth rates driven by increased government investment and defence spending, rising consumer real incomes, and past interest rate cuts supporting domestic demand. We forecast annual growth for 2026 to reach 0.9%. However, downside risks have risen, from delays in fiscal spending and renewed tariff threats (see here). Uncertainty around this keeps us from adjusting our forecast for now.

Business sentiment, despite the improvement since early 2025, has weakened recently. While overall GDP shows signs of recovery, business continues to face challenges. Indeed, over the course of 2025, key sectors still saw negative annual growth in value added: manufacturing (-1.3%), construction (-3.6%), and business services (-0.8%). Bankruptcies, which have steadily risen from the pandemic lows, are now at levels comparable to 2014, also contributing to higher unemployment. This trend is expected to persist in the short term before higher growth offers some relief. The weak macro situation, coupled with poor sentiment, has led to cautious responses from German leadership to Trump's Greenland threats. Germany's export model remains under pressure, with net exports continuing to be a drag in 2026. Though demand in export markets is expected to grow, German exporters are likely to see only limited benefits. Price competitiveness has declined in recent years, as reflected in a reduced global export market share. The stronger euro and the risk of new tariffs exacerbate the situation. Indeed, Germany already faces one of the highest effective US tariff rates within the eurozone. In summary, while GDP growth is projected to increase to 0.9% in 2026, up from 0.3% in 2025, downside risks to this forecast are mounting.

German economy returns to (weak) growth

%, annual GDP growth, price and calendar adj.



Source: LSEG, ABN AMRO Group Economics

Corporate bankruptcies rising in Germany

Number of Corporate Bankruptcies, 3m moving average

Source: Destatis, ABN AMRO Group Economics

The German government is under increasing pressure from voters and business lobby groups. While the CDU/CSU and SPD swiftly formed a coalition agreement, many of its planned measures lack detail and require further refinement. Nearly a year into office, Chancellor Merz – despite prioritizing reforms during the campaign – has struggled to achieve meaningful progress. Plans have been introduced for tax reform, reducing bureaucratic barriers valued at EUR 16 billion (with IFO estimates suggesting the total could reach EUR 150 billion), along with reforms to social security and the pension system. However, these initiatives fall short of addressing key issues, such as pension costs, legal hurdles, or political resistance. Additionally, reports suggest that investment projects originally planned within the core budget have been reclassified into special investment funds to create fiscal space for social spending. If these reports are accurate, it would mean less investment in favour of current discretionary spending. As a result, the government's objectives for strengthening defence and improving infrastructure will remain unfulfilled. Furthermore, without structural reforms, any growth stimulus will likely be temporary, and prospects for long-term economic improvement will remain elusive.

The Netherlands: Heading into budget and election season

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- We see the Dutch economy's growth cooling from 1.7% in 2025 to 1.2% in 2026, and slightly recovering to 1.4% in 2027; private and public consumption is expected to contribute significantly.
- Inflation is expected to moderate to 2.4% in 2026, down from 3.3% in 2025
- The Netherlands is likely to have a minority government, led by D66, VVD, and CDA, with Rob Jetten anticipated as Prime Minister. While policy uncertainty may decrease, compromises with opposition parties will remain essential due to the lack of majority in both parliament and senate

With global events unfolding rapidly, the Netherlands also experienced significant domestic turbulence at the end of 2025 and the start of 2026. For starters, in December 2025, Peter Wennink (former CEO ASML) published his report, commissioned by the Minister of Economic affairs, on improving the Dutch business climate and translating the Draghi report to the Netherlands. The report pushes to improve potential growth to 1.5-2.0%, by tackling key bottlenecks, such as the externalities from nitrogen emittance norms, energy grid congestions, and access to talent, and an extensive investment agenda for the coming decade, totalling €151-187bn investments, targeting digitalisation & AI, energy & climate tech, life sciences & biotech, and security.

On the political front, as it sits currently, the next Dutch government is expected to be a minority government including election winner liberal-progressive D66, centre-right VVD, and Christian Democratic CDA. This setup lacks a majority in parliament and also falls short in the senate, necessitating compromises with opposition parties. As a result, while policy uncertainty is likely to decrease, the minority status will keep it elevated. The next anticipated step is the appointment of Rob Jetten, the expected Prime Minister, as 'formateur' - the final step in coalition formation.

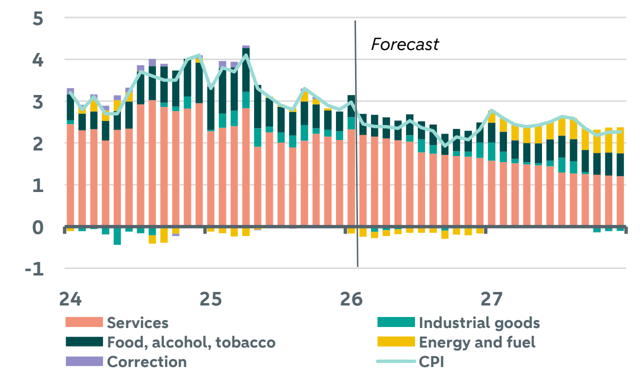
Bankruptcies on a declining trend

Number of bankruptcies per 100 000 businesses

Source: CBS, ABN AMRO Group Economics

Services to keep Dutch inflation elevated above 2%

%, CPI inflation



Source: LSEG, ABN AMRO Group Economics

Economically, it is also not all business as usual. Over the past months, the Netherlands attracted an outsized amount of headlines in international financial newspapers, especially for such a small country, due to the pension system reforms. Given the sheer size of Dutch pension fund holdings, this transition has had an impact on financial markets as it changes pension funds' investment strategy. As of now, one-third of Dutch pension assets have transitioned to the new system, resulting in significant indexation amounts (increases in pension payments) for current pensioners. We expect this, alongside further purchasing power increases due to strong wage growth and lower inflation, to finally outweigh the persistently high savings rate and lead to a sizeable contribution of private consumption to growth in the near term. Private consumption as well as government consumption are the main drivers of GDP growth in 2026. We see growth cooling from 1.7% in 2025 to 1.2% in 2026, and thereafter slightly recovering to 1.4% in 2027, with the slowdown mainly driven by supply-side constraints and the pass-through to activity of tariffs and uncertainty.

Annual inflation (CPI) for 2025 amounted to 3.3%, far exceeding the eurozone average. Looking forward, we expect inflation to slowly moderate, averaging 2.4% in 2026. Main contributions will come from services inflation, fuelled by the ongoing pass-through of elevated wage growth, with 50% of CLA's set for 2026 indicating wage growth north of 4% again, as well as higher VAT-rates for the hospitality sector. Some easing in inflation is expected from goods as well as moderating energy prices.

US: Post-shutdown data fails to fully clear the fog

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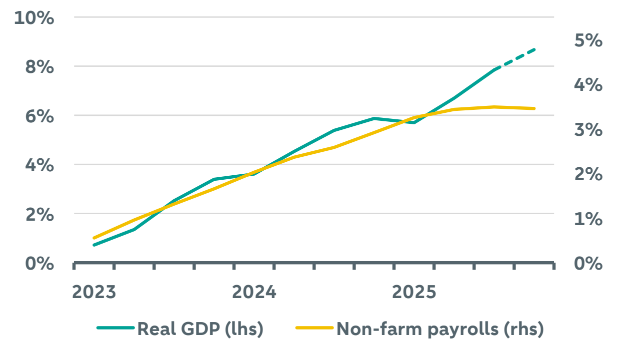
- Post-shutdown data shows a further discrepancy between headline growth and the labour market
- Inflation has been mixed, with surprisingly low shutdown period data, followed by a sharp rebound
- We see a simple reorientation towards more productive sectors as the most likely explanation

US data has been difficult to interpret throughout the past year, but the latest releases have been even more contradictory than usual. GDP growth suggests the economy is booming – now driven not only by AI-related investment, as earlier in the year, but also by stronger consumption and rising exports. In contrast, labour market data tells a different story. Job growth has essentially stalled, and after a brief uptick, the unemployment rate is back at a mild 4.4%, exactly matching the 2015-2019 average. Inflation data released after the shutdown shows no meaningful goods (i.e. tariff-related) inflation. In fact, cumulative inflation over the two shutdown months looks unusually low, even if partly supported by softer activity indicators.

GDP and jobs growth starting to disconnect

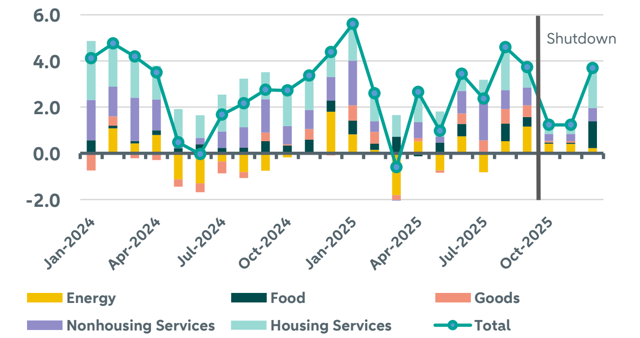
Cumulative GDP and non-farm payroll growth, %. Dashed is forecast.



Source: LSEG, ABN AMRO Group Economics

And inflation is also sending mixed signals

CPI inflation, annualized m/m%



Source: LSEG, ABN AMRO Group Economics

This raises the questions whether the economy is booming, as GDP would suggest, or whether the economy is about to slow down significantly, as labour market data and perhaps the weak inflation data would suggest. Could GDP be significantly overstated? GDP revisions are usually large, but not all components of GDP are equally likely to be revised. The personal consumption component, which was a strong contributor in Q3, tends to be accurate, and is believable in the context of significant wealth effects from strong equity gains and extended credit use for low income households.

Alternatively, might labour market data be understated? Unlikely. Recent revisions have been predominantly downward, and the Federal Reserve has noted that payroll figures may still be overstated by roughly 60k per month. Even beyond the decreasing labour supply from foreign born workers, we see a decrease in participation from native born workers as well.

The gap between growth and labour market data could also suggest an exceptional rise in productivity. Are we seeing the first impact from AI? We think it's too early to see any broad-based productivity gains. Rather, we think it's more likely that what we're seeing here is a shift in the economy to a number of more productive sectors, predominantly Technology and Information services. Similar 'jobless growth' occurred during the recovery following the early 2000s recession, where we also saw strong GDP growth driven by growth of that same sector, with rises in productivity without proportional employment gains. Such a scenario of weak labour demand because of positive structural forces has less downside risk to the employment mandate than for instance some of the more cyclical demand-driven explanations sought last year, although they still cannot be fully ruled out.

Recent Fed commentary has been consistent with this view, having taken a decidedly more hawkish turn (with some exceptions) even before the December labour market report where unemployment dropped again. We now put our next cut in the June meeting, where further evidence of labour market stabilization will have occurred, headline inflation should have remained relatively benign, and a new Fed chair will have taken the reign. We continue to see three more rate cuts this year, now reaching an upper bound of 3.00% in the final meeting of the year. Beyond the update to our Fed view, we've upgraded our growth forecast for predominantly Q4 of 2025, and a little bit more spillover into 2026, with slightly stronger consumption growth and a bigger contribution from net exports. The outlook remains strong on the back of the private sector, fiscal and monetary stimulus. Second, we adjusted our inflation forecast down slightly, particularly in the short run, consistent with the latest data releases, but see some risk of near-term catch up from the shutdown data. Overall, we see inflation picking up again throughout the year on the back of remaining and potentially renewed tariff pressure, tight labour supply, and substantial stimulus.

China: Exports support growth, supply-demand imbalances still rising

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- Real GDP growth slowed to 3-year low of 4.5% y/y in Q4 as expected, annual growth of 5% ‘on target’
- Divergence remains: Exports and industrial production solid, offsetting weak investment and retail sales
- Risks around fragile US-China truce resurface; targeted support shifts from consumption to investment

Real GDP growth drops to three-year low in Q4-2025

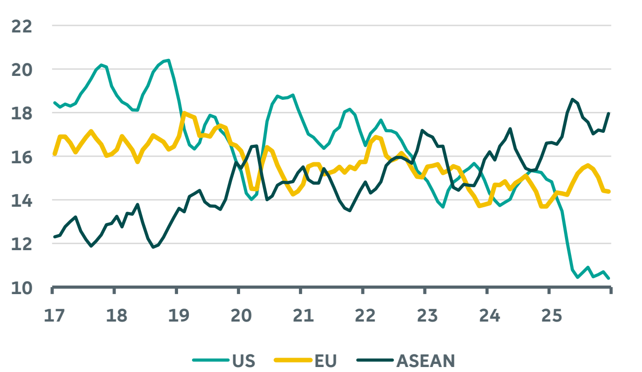
As expected, real GDP growth slowed further in Q4-25 to a three-year low of 4.5% (Q3-25: 4.8%), in line with our and consensus expectations. Quarterly growth picked up slightly, to 1.2% q/q s.a. (Q3-25: 1.1%). Full-year GDP growth in 2025 came in at 5.0% (same as in 2024), in line with the growth target and our forecast. The contribution of net exports to growth in 2025 was reported at around one-third, the highest since 1997. Going forward, we assume quarterly growth in the first half of 2026 to benefit somewhat from the (filtering through of) targeted stimulus amidst still solid export growth. We expect full-year growth to slow to 4.7% (was 4.6%) in 2026 and 4.4% (4.3%) in 2027.

December data point to rising supply-demand imbalances

December macro data were a mixed bag, pointing to rising supply-demand imbalances. PMIs indicated a pick-up in momentum, with the two composite PMIs improving both for the first time since September (see here). Construction was a key driver, reflecting the filtering through of targeted stimulus. Foreign trade came in stronger than expected. Export growth rose to 6.6% y/y, with trade rerouting/diversification to non-US markets still more than offsetting the drop in exports to the US. Over the whole of 2025, direct exports to the US are down by 20% (with the US export share falling to ±10%), but exports to ASEAN and the EU are up by 15% and 8%, while China’s overall trade surplus rose to a record USD 1.2trn. Imports also beat expectations (+5.7% y/y in December), despite ongoing signs of weak domestic demand. Retail sales slowed further to a post-pandemic low of 0.9% y/y. The supply side remains much stronger, with industrial production accelerating to 5.2% y/y . Meanwhile, the property sector is still in the doldrums, with the annual slump in both property investment and residential property sales deepening further. The unemployment rate was steady at 5.1%. On the inflation side, CPI rose to a 3-year high of 0.8% y/y, driven by base effects from end-2024 and a correction in food prices, but remains low. Core inflation was steady at 1.2% y/y. Producer prices stayed in deflation territory (for the 39th month in a row), although the annual pace of deflation eased, to -1,9% y/y.

Drop in exports to US offset by higher exports to ROW

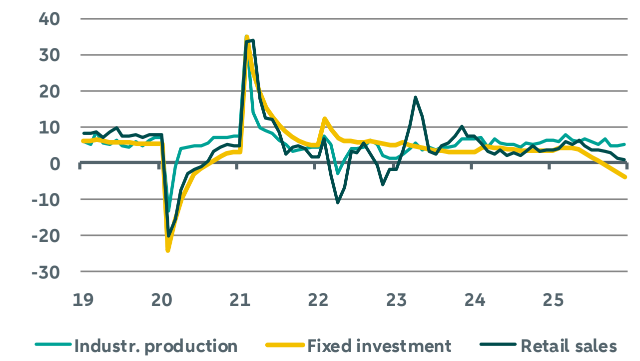
Chinese export by destination, shares, %, 3m moving average



Source: ABN AMRO Group Economics, Bloomberg

Rising supply-demand imbalances, investment slump

Industrial production, retail sales: % y/y ; Fixed investment : % y/y ytd



Source: LSEG, ABN AMRO Group Economics

Stimulus will likely remain ‘targeted’; shift from consumption to investment support

Last October’s agreement between Trump and Xi marked the continuation of a US-China truce, with tariffs cut and chokepoint restrictions (rare earths, semiconductors) postponed – also check our 2026 Outlook and podcast. Risks around this fragile equilibrium remain, with for instance Trump’s recent 25% tariff threat to countries trading with Iran. What is more, the recent US intervention in Venezuela, and US tensions with NATO partners around Greenland, may affect Beijing’s calculus regarding Taiwan, although we believe one-on-one comparisons between US/Venezuela (or Greenland) and China/Taiwan are flawed. In our base case, we still expect the US-China trade truce to remain broadly in place in 2026. As China’s export engine still functions, we stick to our view that we should not expect a support ‘bazooka’, but adherence to targeted stimulus – with the focus shifting a bit from consumption support to investment support (also see here). We also expect more piecemeal monetary easing in the form of mini policy rate and RRR cuts.

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. Tariffs have made a comeback as threat to the outlook, driven by the transatlantic dispute over Greenland. Still, global growth has been resilient given the headwinds. Our base case sees that resilience continuing, 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 may take modest measures to lift demand while keeping its manufacturing growth model intact. Inflation in the US is expected to continue accelerating, but to stay broadly benign in the eurozone. Despite this, the divergence in Fed & ECB rates is expected to narrow significantly, with the ECB expected to keep rates on hold and the Fed 'looking through' the US inflation overshoot by continuing to cut rates.

Macro	Central Banks & Markets
Eurozone – The domestic economy continues to gradually recover, helped by strengthening consumption and resilience in industry, despite the headwinds from US tariffs. This year, higher defence and German infrastructure spending are likely to drive higher quarterly growth. Aggregate inflation remains well behaved, but some key countries are seeing a persistent undershoot of the 2% target. 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.	**ECB** – The Governing Council kept policy on hold in December, and is likely to remain on hold for the foreseeable future. President Lagarde has reiterated 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 still tilted to another cut given the looming inflation undershoot, but in 2027, those risks could tilt back towards a hike, with upside risks likely to build from higher German fiscal spending.
The Netherlands – The Dutch economy has shown resilience in 2025, we expect a solid final quarter with GDP at 0.3% q/q in Q4. In 2026 growth is expected to cool from 1.7% in 2025 to 1.2% in 2026. Private consumption and government spending remain the drivers of the outlook. While the geopolitical situation and uncertainty keep a lid on export growth and investment. Inflation (CPI) is expected to ease, further slowly throughout the year to average 2.4% in 2026 down from 3.3% in 2025. The next Government is expected to have minority states, lacking majorities in both parliament and the senate.	**Fed** – The Fed cut rates in the last three meetings of 2025 but will likely again enter another pause in the first part of this year. Due to stronger growth and demand, waning pressure from the labour market, and continued above-target inflation, we think the Fed will keep on hold until the June meeting, the first meeting with the new chair. From that point onward, it will gradually start easing once a quarter in response to a gradually slowing economy, despite still elevated inflation. We expect the policy rate to reach 2.75-3.00% by the end of the year, the lower end of neutral estimates.
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. Lower interest rates and higher government spending are also giving some support to growth. The budget delivered sufficient backloaded tax rises to keep the UK sticking to its fiscal rules and therefore bond markets on side. Inflation remains stubbornly high, with wage growth still well above levels consistent with 2% inflation, but recent data suggest inflation is moving back in the right direction.	**Bank of England** – The MPC lowered Bank Rate to 3.75% in December, in line with our expectations. The BoE is now nearing the end of its rate cut cycle, with limited room for further easing given stubborn underlying inflation. We expect another rate cut by the Spring (likely at the April meeting), and possibly one additional cut thereafter, but this will be highly data dependent and the risk is that rate cuts end with Bank Rate at 3.5%. Injecting considerable uncertainty is the high degree of division on the MPC, with doves and hawks still split finely down the middle.
US – The impact of tariff and immigration policy continues to gradually build in the data. However, any negative impact in the headline figures is be overshadowed by the positive impulse from AI investments and monetary and fiscal easing. We further upgraded our near-term growth forecast on the back of strong export momentum. After a cooldown in the beginning of the year, inflation rises again 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.	**Bond yields** – The start of the new year has been marked by geopolitical tensions, but so far this has not had a major impact on government bond markets. However, the significant bear steepening in JGBs did result in a steepening of the curve for both EGBs and US Treasuries. We see still further room for EGB curves to steepen, led by the long end. However, we expect a greater steepening of the US Treasury curve, with short-end yields falling on the back of expected Fed rate cuts and the further pricing in of term premium at the long end of the curve.
China – Real GDP growth fell to a 3-year low of 4.5% y/y in Q4, as expected. We expect full-year growth to slow from 5.0% in 2025 to 4.7% in 2026 and 4.4% in 2027. Exports are holding up growth, with trade rerouting/diversification still offsetting the drop in direct exports to the US. Domestic imbalances keep rising, with supply still stronger than demand, and the property slump not easing yet. We assume the US-China truce will broadly hold in 2026. As the export engine keeps functioning, we still expect targeted stimulus (and no 'bazooka'), with the focus shifting a bit from consumption to investment support.	**FX –** This year we expect weakness of the dollar due to: Fed rate cuts, lower US real yields, the growth inflation mix, more dollar hedging, long term structural deficits, and attacks on US institutions. We expect the euro to strengthen against the dollar, with the EUR/USD exchange rate reaching around 1.25 by the end 2026. If (geo)political risks cause more foreign investors to sell US assets, the dollar could weaken even more (risk scenario). We adjusted our forecasts for the yen. We expect that Sanae Takaichi's policies — both fiscal and (geo)political — to keep pressure on the yen in the near-term, despite its undervaluation.

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	2.3				
Germany	-0.5	0.3	0.9	1.3								
UK	1.1	1.4	1.0	1.4	2.5	3.4	2.5	2.3	4.75	3.75	3.25	3.25
US	2.8	2.1	3.0	2.2	2.6	2.8	3.1	2.6	4.50	3.75	3.00	3.00
China	5.0	5.0	4.7	4.4	0.2	0.1	0.9	1.2	3.10	3.00	2.80	2.60

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

	2025	19/01/26	26Q1	2026	2027	Energy	2025	19/01/26	26Q1	2026	2027
US Treasury	4.17	4.23	4.20	4.35	4.40						
German Bund	2.85	2.84	2.75	2.90	3.00	Brent - USD/bbl*	60.85	63.94	58	50	63
EUR/USD	1.17	1.16	1.17	1.25	1.30	WTI - USD/bbl*	57.42	59.44	54	48	59
USD/CNY	6.99	6.97	6.90	6.80	6.70	TTF Gas - EUR/MWh*	27.28	25.51	34	30	28
GBP/USD	1.35	1.34	1.32	1.40	1.45						

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

	2025				2026				2027			
GDP (q/q)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.6	0.1	0.3	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	4.3	3.1	2.8	2.6	2.4	2.2	2.1	2.1	2.0	2.1
China (y/y)	5.4	5.2	4.8	4.5	4.7	4.9	4.8	4.5	4.4	4.3	4.4	4.5
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	2.8	2.5	2.3	2.1	2.1	2.5	2.3	2.4	2.1
US (PCE)	2.6	2.4	2.7	2.8	2.6	2.7	2.9	3.0	2.9	2.7	2.5	2.4
China	-0.1	0.0	-0.2	0.6	0.7	1.0	1.0	1.0	0.9	1.0	1.2	1.5
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.3	6.4	6.4	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	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00
UK	4.50	4.25	4.00	3.75	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25
China	3.10	3.00	3.00	3.00	2.90	2.90	2.80	2.80	2.70	2.70	2.60	2.60

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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