

## The world economy in 2026: resilience, transition or disruption?

The year 2025 will end with the feeling that the impacts on growth of the various supply shocks and the heightened uncertainty have been limited and far lower than expected following the noise generated during Donald Trump's first few weeks in office. The global economy continues to show significant resilience and the business cycle is maintaining a cruising speed of around 3%, although the disparities in growth between Europe (1.3%), the US (1.8%) and Asia (4.5%) persist. The list of factors that may explain this strength in economic activity include a milder-than-expected impact of the tariff hikes now that an all-out trade war has been avoided and the flexibility of private agents in anticipating and adapting to the noise of the new economic environment, in addition to the existence of favourable financial conditions.

In fact, we have the same feeling at this time of autumn as we did in 2023 and 2024, when the reality at the end of the year was much better than the baseline forecast scenarios drawn up at the beginning of the year had predicted. There are several factors behind this steady improvement in the economic outlook, including an underestimation of economic agents' ability to deal with uncertainty and make decisions in times of instability or, simply, the fact that forecasting exercises are complicated in times of high uncertainty. However, in addition to all of the above, the resilience that the business cycle has demonstrated since the end of the pandemic appears to be a reflection of some of the benefits of an old international order that is in the midst of a transformation. This is an economic and political framework (Pax Americana) in which the US has assured the balance of an open world economy by offering essential public goods (defence, security, payment systems, etc.), open markets for trade and a stable currency, in addition to becoming a lender of last resort in times of need (via the IMF).

This environment, therefore, has offered benefits in terms of economic stability, growth, innovation and the optimisation of competitive advantages, but it is now threatened by the emergence of a new global leader (China) which is seeking to establish new alliances and strategic dependencies in the Eurasian continent, as well as in Africa and Latin America.<sup>1</sup> At the same time, the old

### Forecasts for the international economy and financial markets

Projections as of 22/09/2025

	2024	2025	2026
<b>World GDP</b> (year-on-year)	3.3	3.1	3.1
<b>US GDP</b> (year-on-year)	2.8	1.8	1.9
<b>Euro area GDP</b> (year-on-year)	0.8	1.3	1.2
<b>Germany GDP</b> (year-on-year)	-0.5	0.2	1.1
<b>China GDP</b> (year-on-year)	5.0	4.6	4.0
<b>Oil</b> (Brent, dollars per barrel)	79.8	68.5	65.1
<b>US inflation</b> (year-on-year)	3.0	2.8	2.8
<b>Euro area inflation</b> (year-on-year)	2.4	2.1	2.0
<b>ECB – depo rate</b> (%, end of period)	3.0	2.0	2.0
<b>Fed – fed funds rate</b> (%, end of period, lower bound)	4.3	3.5	3.0
<b>12M Euribor</b> (%, end of period)	2.4	2.1	2.2

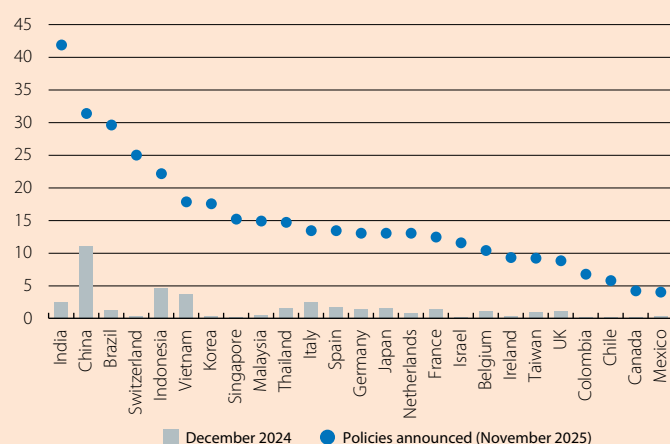
Source: CaixaBank Research.

hegemonic power is seeking to rebalance the playing field by charging more explicitly for the services rendered (tariffs, arms spending, direct investment targets, etc.), amid a radical realignment of its foreign policy in this new reality. This realignment process is generating some paradoxes, such as the fact that the theoretical provider of stability and protection is currently one of the main hotbeds of uncertainty and that traditional US allies (Europe, Japan, Canada, South Korea, etc.) could be the most impacted by the changes in the rules of the game.<sup>2</sup>

Therefore, geo-economics will continue to play a key role in 2026, as trade and finance appear to have become instruments at the service of political objectives, further complicating any forecasting exercise. The question is whether the current trend towards a more fragmented world will accelerate or, now that the average US tariff has stabilised at around 14,5%-16% (2.5% prior to Trump's mandate), the strengthening of trade links between the EU, ASEAN, Canada or Australia could partly offset

### Average effective US tariff

By trading partner (%)



Source: CaixaBank Research, based on data from the USITC, the BEA, the Treasury Department and Comtrade.

1. See «The Belt and Road Initiative: a double-edged sword?» in this same *Monthly Report*.

2. See Adam S. Posen (2025). «The New Economic Geography. Who profits in a Post-American World?». *Foreign Affairs*, Volume 104 no. 5.

the effects of the US' reduced openness. In any event, in the short term, the effects on growth and inflation of the new tariff framework will continue to materialise while the shape of the new trade relationship between the US and China is being finalised, and this will be defined by the balance between the two sectors in which there is mutual dependence: rare earths and microchips.

Next year, therefore, we will see a continuation of the reordering of the globalisation process in which the international economy has been immersed since the pandemic. When we eventually emerge from this process, the new balance – characterised by more division between economic blocs – will result in losses in potential growth and well-being which could potentially be offset by the innovation process linked to artificial intelligence (AI). This innovation process has accelerated significantly of late, as demonstrated by US GDP growth in the first half of the year (90% of which is explained by investments made in hardware, software, data centres, etc.).<sup>3</sup> The big tech firms alone plan to invest nearly 3 trillion dollars in AI-related items by 2030, representing almost 10% of GDP. The positive short-term boost to activity is assured and could help to offset the first signs of weakening in the US labour market, but the key question is whether this wave of investment will result in greater profits in the medium term. This question is particularly relevant bearing in mind that more leveraged and circular financing structures are beginning to be identified, with cross-holdings between companies in the same sector along the value chain, as this could increase the risks if the returns end up being lower than expected. Moreover, these interdependencies could act as a brake on the creative destruction process, blocking or delaying the entry of new competitors.<sup>4</sup>

In short, the big question is whether, in the medium term, AI can offset the negative impact of demographics and economic fragmentation on potential growth, via the accumulation of capital and total factor productivity. If successful, this will likely lead to a greater presence of capital in production and a lower proportion for labour, potentially posing an additional obstacle to fiscal consolidation policies, given that it is more difficult to tax capital – because it is more mobile – than labour incomes. Moreover, this is without taking into account that structural changes of this scope tend to require a compensation mechanism to support the losers of this change process in the transition to the new reality, whether they are companies or workers. All this is taking place in a context in which the absence of fiscal space<sup>5</sup> in many OECD countries is one of the biggest risks in the scenario,<sup>6</sup> especially given the need to simultaneously tackle a variety of challenges such as the energy transition, the new defence spending needs and the effects of population ageing.<sup>7</sup>

While the medium-term fiscal outlook for the US is not very buoyant – given the IMF's recent estimate that public debt could rise to 143% of GDP by 2030, while the deficit will not fall below 7% in the whole period – in the short term the focus will be on Europe, with France in the eye of the storm. Fiscal imbalance plus political instability is a recipe that is difficult to digest, especially in a country where tax revenues exceed 50% of GDP yet, despite this, the primary deficit lies above 3%. The diagnosis of the markets is clear: France's fiscal situation shares more in common with Italy's than with that of Spain or Portugal, and this has already translated into a reordering of Europe's country-risk, as reflected in the risk premiums and the changes made by the ratings agencies.<sup>8</sup> At the limit, the greatest threat is that the mechanisms designed in the past decade to tackle spikes in the risk of fragmentation in Europe (ESM, UNWTO and IPT) could end up being put to the test.

In short, in 2026 the economy will continue to be exposed to the combination of new underlying trends (restrictions on trade and migration movements, AI boom, etc.) and short-term challenges (limited fiscal space, high valuations in financial markets, etc.). This will be a year in which the ability to question the assumptions behind economic projections will once again be decisive, as will be a flexible approach to decision-making. Moreover, the resilience of the business cycle will once again be tested, as we find ourselves between a world that has not quite died yet (globalisation, multilateralism, liberal democracies) and another that has not quite been born. The risk lies in underestimating the changes at hand and believing that we will soon return to the previous status quo, which makes it pertinent to recall the words of Joseph de Maistre: «We had the French Revolution; we were quite pleased with it. It was not an event: it was an epoch.»

*José Ramón Díez*

3. For an in-depth analysis of the outlook for the US economy, see the article «[US 2026 outlook: resilience with frailties](#)» in this same *Monthly Report*.

4. See P. Aghion, C. Antonin and S. Bunel (2021). «El poder de la destrucción creativa». Editorial Deusto.

5. According to the IMF, global public debt could reach 100% by 2029.

6. For further details in the case of Europe, see the article «[Europe's medium-term fiscal dilemma](#)» in this same *Monthly Report*.

7. The IMF estimates that all these challenges could exert pressures on public spending in Europe equivalent to around 6 pps of GDP by 2050.

8. It should also be noted that the biggest fiscal shift in the euro area is occurring precisely in the country that has the greatest budgetary margin (Germany), and this is driven by an increase in investment in infrastructure and defence which should kick off in 2026, resulting in a projected jump in public debt of around 15 points between 2024 and 2028 and a structural deficit that is expected to rise to 4% of potential GDP in 2026.

## Europe's medium-term fiscal dilemma

This year's return to fiscal rules – as safeguards of the sustainability of public debt – and the persistent shortfall in investment needed to address the EU's priorities in the current geopolitical context create a scenario marked by frictions that requires a coordinated fiscal strategy that far exceeds the horizon of national and EU political mandates, both in duration and ambition. Therefore, it is essential that the differences that exist, as well as some taboos that have characterised the EU's economic history on other occasions, are overcome.

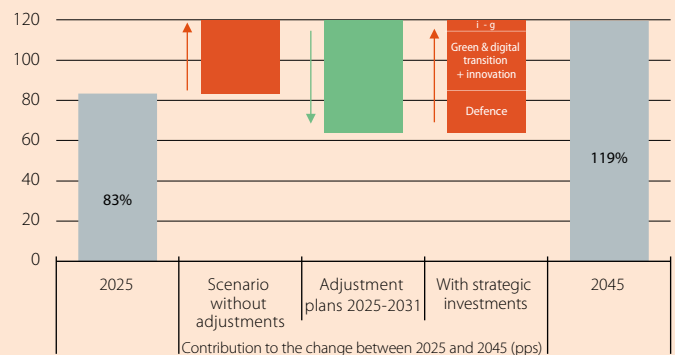
### Two opposing forces: fiscal consolidation vs. strategic autonomy

On the one hand, the state of Europe's public finances since the pandemic<sup>1</sup> and the effects of population ageing<sup>2</sup> will lead to a marked fiscal deterioration in the absence of compensatory measures, causing a growing number of countries to stray from the benchmark levels established in the Stability and Growth Pact. Based on the European Commission's forecasts for the various Member States, in a scenario without adjustments, the EU's aggregate public deficit could reach 5% of GDP in 10 years (3.2% in 2024) and the public debt ratio could approach 100% of GDP (81% in 2024).<sup>3</sup> Under the new European fiscal governance framework, the main instrument for correcting such imbalances is the medium-term fiscal-structural plans, in which Member States set out a roadmap for ensuring the sustainability of their public debt.<sup>4</sup> For those countries that need to make adjustments, the measures included in the plans entail an annual reduction in the primary structural deficit of 0.5-0.6 pps of GDP between 2025 and 2031 (some in four years and others over an extended period of seven years). As for the public debt of the EU as a whole, the difference compared to the scenario without any adjustments is very substantial – up to 25 pps lower within 10 years and 50 pps lower within 20 years (see first chart). The implementation of the medium-term plans is therefore crucial in order to ensure the sustainability of the public finances.

On the other hand, as has been highlighted in recent years by COVID-19, Russia's invasion of Ukraine and the unilateralism of the new Trump Administration, the EU has strategic dependencies in areas such as defence, innovation and the twin green and digital transition. Thus, the Draghi report published in 2024 set out additional investment needs in these areas amounting to some 800 billion euros per year,<sup>5</sup> a figure which now, following the commitments to higher defence spending made by NATO members,<sup>6</sup> has been updated by the ECB to 1.2 trillion (around 7% of 2024 GDP).<sup>7</sup> Assuming that the public sector finances 25% of these additional investment needs over the next 10 years (100% in the case of defence due to its natural status as a monopsony), this spending boost could raise EU public debt to a level that would offset the reduction expected under the medium-term adjustment plans (see first chart).<sup>8</sup> Therefore, in the search for a desired strategic autonomy in the current geopolitical context, we would find ourselves back at the starting blocks in terms of debt (un)sustainability, with additional risks of adverse feedback effects due to the pressure on Member States' financing costs.<sup>9</sup>

### Total public debt of EU countries\*

(% of GDP)



**Notes:** \* Change between 2025 and 2045. 2025 forecast published in the European Commission's spring report. 'i - g' indicates the effect of the change in the spread between the interest rate (i) and nominal GDP growth (g), assuming that each 1-point increase in the public debt ratio results in a 4-bp increase in the cost of new financing, and a fiscal multiplier of 0.75 for changes in the primary structural balance. It is assumed that strategic investments will result in the existing gap being gradually closed by 2035.

**Source:** CaixaBank Research, based on data from the European Commission and the ECB.

1. See the Focus [«Debt limits: 2025 edition»](#) in this same *Monthly Report*.

2. See the Dossier [«Challenges and policies in the age of longevity»](#) in the MR09/2025.

3. Internal calculations based on the scenarios submitted by the European Commission to Member States prior to the preparation of the medium-term fiscal-structural plans in 2024-2025.

4. See the Focus [«The new EU economic governance framework»](#) in the MR01/2025.

5. See the Focus [«Draghi proposes a European industrial policy as a driving force to address the challenges of the coming decades»](#) in the MR10/2024.

6. See the Focus [«5% of GDP on defence: Why? What for? Is it feasible?»](#) in the MR09/2025.

7. ECB (2025), «Time to be strategic: how public money could power Europe's green, digital and defence transitions».

8. In the baseline scenario, we consider a gradual increase in defence spending to 3.5% of GDP by 2035 (5% for Poland and the Baltic Republics) and an increase in public investment on innovation and the dual green and digital transition of 1.5 pps over the same period.

9. E. Baldacci and M.S. Kumar (2010), «Fiscal Deficits, Public Debt, and Sovereign Bond Yield» estimates interest rate sensitivity in the range of 3 to 5 bps for each pp increase in the public debt ratio. Thus, *ceteris paribus*, the increase in public investment for strategic purposes could raise the cost of new financing by between 0.75 and 1.25 pps in 10 years and by between 1.5 and 2.5 pps in 20 years compared to the scenario with adjustments under the new fiscal rules.

## Mitigation levers for the transition towards a new balance

In this scenario, a credible fiscal strategy should combine some short-term flexibility in order to close the investment gap – extending the escape clause for defence spending activated this year to other critical areas and increasing joint financing of EU public assets – with the imperative requirement to achieve greater efficiency in public spending and to build a solid foundation for greater potential growth. Such a strategy would allow the necessary medium-term fiscal consolidation process to be addressed, which more realistically could entail a higher end-point benchmark for the public debt ratio – closer to 90% of GDP than the current 60% – something that is in fact implicit in Germany's own stimulus plans.<sup>10</sup>

The aspiration to boost the EU's economic growth is inseparable from the fiscal debate. Faster economic activity growth will broaden the revenue base and allow public debt to be «absorbed» more quickly, while also containing the pressure on financing costs that a new medium-term fiscal anchor might entail (see second chart).<sup>11</sup> To this end, the aforementioned investments must be channelled through high-impact projects in terms of strategic autonomy and macroeconomic scope in the EU – with a growing prominence of European value added. Furthermore, as set out in the objectives of the Competitiveness Compass, in parallel progress must be made with the reform agenda, including regulatory simplification, deeper integration of the single market, new financing instruments within a capital markets union, and the revision of the competition and state aid framework in order to promote European projects with an EU-wide approach.<sup>12</sup> As Draghi himself pointed out on the anniversary of his report, the adoption and implementation of this ambitious agenda must be urgently accelerated in order to generate a virtuous circle with greater participation of private capital and lower demands on the public accounts.<sup>13</sup>

As for the role that joint financing can play in meeting strategic needs, the issuance of pooled debt has shown its potential in the face of large-scale shocks accompanied by stress in financial markets, thus facilitating the implementation and lowering the cost of short-term countercyclical policies, while also relieving pressure on public finances in the medium term.<sup>14</sup> However, in «normal times» and in the absence of a complete federal structure, the use of joint financing (whether via markets or through the EU budget) seems less justifiable as a means to guarantee the EU's combined fiscal sustainability – after all, it is debt that Member States will have to repay. However, this approach is more justifiable due to the potential efficiency gains it could offer in areas where national public spending is fragmented, such as trans-European energy and transport networks, or minimum defence capabilities coordinated at the EU level. That said, the 530 billion euros proposed by the European Commission to finance strategic investments for the period 2028-2034 – including the new Competitiveness Fund and greater resources for the Connecting Europe facility – seems rather small in scale, since its incremental share compared to the previous budget is equivalent to just 4% of the total gap estimated by the ECB.<sup>15</sup> An increase of 25% of these funds would finance up to 20% of the public investments in strategic areas in the coming years.<sup>16</sup>

## Consolidation, but adapted to the new times

Greater potential economic growth, greater efficiency in public spending, a higher degree of co-financing in EU public assets and greater flexibility in the fiscal rules are key mitigation levers for the sustainability of Europe's public debt. However, it is likely that they will not be sufficient in the face of potential future shocks and a certain amount of additional consolidation will remain necessary in the medium term, although it would be much more limited in scale than the adjustment plans approved for the coming years (see second chart).<sup>17</sup> This path will be easier to follow provided it is gradual yet persistent and integrated into a credible fiscal strategy that is coordinated among Member States.

10. J. Zettelmeyer (2025), «What does German debt brake reform mean for Europe?», and Z. Darvas, L. Welslau and J. Zettelmeyer (2025), «What Germany's medium-term fiscal plan means for Europe».

11. We estimate that, beyond the multiplier effect of strategic investments, a 0.5-pp increase in the average annual growth of nominal GDP over the next five years, and a 1-pp increase thereafter, could reduce the EU's public debt ratio by around 15 pps within 20 years.

12. See the Focus «[A shift in the EU's political priorities](#)» in the MR04/2025.

13. M. Draghi (2025), «High Level Conference – One year after the Draghi report: what has been achieved, what has changed».

14. P. Burriel, I. Kataryniuk and J.J. Pérez (2022), «Computing the EU's SURE interest savings using an extended debt sustainability assessment tool».

15. See the Focus «[The 2028-2034 EU budget: An impossible mission?](#)» in the MR09/2025.

16. If jointly financed, we estimate that the national debt ratio for all EU countries as a whole could be around 10-12 pps lower in 2045, compared with a slightly smaller increase in EU debt, resulting from the differential impact on the cost of financing.

17. According to our internal estimates, stabilising the public debt ratio from 2045 would require an increase in the primary structural balance equivalent to a reduction in EU debt of between 10 and 15 pps of GDP. For countries with levels in excess of 90% of GDP, it is assumed that they would converge on this level or, if higher, on the level that would be expected after the adjustments set out in the medium-term adjustment plans (excluding strategic investments).

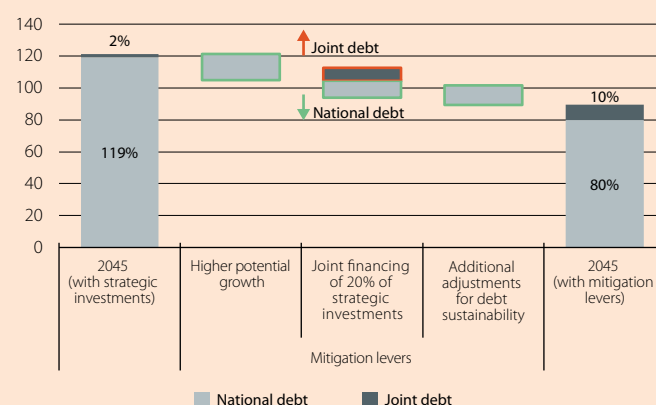
On the revenue side, the tax structure must promote economic growth and eliminate distortions in market efficiency, while also helping to mitigate – through an adequate level of collections and suitably progressive tranches – any social and territorial inequalities that may arise in the transition towards a European economy that is more autonomous and competitive at the global level. On the expenditure side, besides allocating the greater strategic investment to more productive areas, it would also be beneficial to continuously monitor the efficiency and impact of public policies, as well as evaluating the effects that the change in the composition of budgets will have on growth and income distribution.<sup>18</sup>

We see, therefore, that reconciling the sustainability of public debt with the drive for European strategic autonomy is a challenge of enormous complexity, marked by tensions between fiscal discipline, necessary investments and geopolitical demands. Each step that is taken on one of these fronts implies adjustments and risks on the other fronts, and this will require ambitious and flexible coordination between Member States, under the continued discipline of financial markets and with the additional complication of growing domestic political fragmentation. The magnitude and interdependence of the challenges addressed in this analysis highlight the difficulty of achieving a lasting balance. However, inaction or a lack of ambition could leave the EU lagging behind other global powers in terms of welfare and with a debt challenge far greater than the current one.

David Martínez Turégano

### Total EU public debt in 2045\*

(% of GDP)



**Notes:** \* Change versus a scenario with strategic investments. Total EU public debt includes Member States' national debt and joint EU debt. The balance of the joint debt expected for 2045 corresponds to the gradual repayment of the financing for NGEU. The scenario with higher potential growth assumes a gradual increase of 0.5 pps through to 2030 and of up to 1 pp from 2035. The gap between the increase in joint debt needed to finance 20% of strategic investments and the reduction in the national debt ratio is explained by the impact on financing costs. The additional adjustments for the sustainability of public debt are materialised in a gradual increase in the primary structural balance beginning in 2029, when the escape clause for defence spending (here extended to other strategic investments) ends. The effects consider the impact via fiscal multipliers and interest rates of the new financing.

**Source:** CaixaBank Research, based on data from the European Commission and the ECB.

18. IMF (2025), «Fiscal Monitor: Spending Smarter: How Efficient and Well-Allocated Public Spending Can Boost Economic Growth».

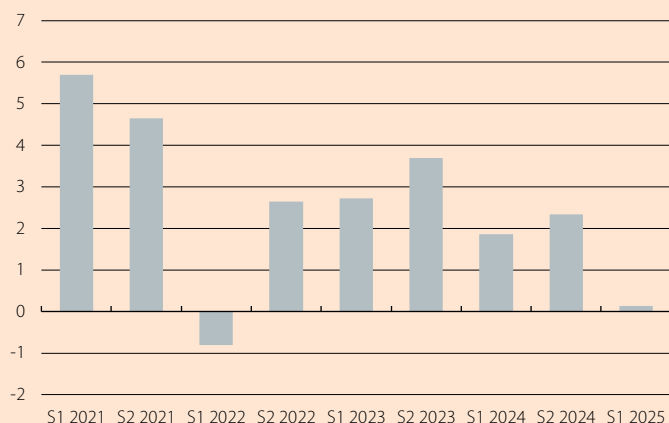


## US 2026 outlook: resilience with frailties

The US economy has shown remarkable resilience in 2025, despite facing a complex environment marked by tensions in trade and domestic policy, as well as uncertainty. In spite of these obstacles, growth reached 1.6% (annualised) in the first half of the year, driven primarily by the dynamism of investment in assets linked to artificial intelligence (AI), as well as by private consumption which, despite a moderation in its growth rate, continues to contribute to economic activity.

### US: GDP growth excluding investment in information processing equipment and software

(%, annualised)



Source: CaixaBank Research, based on data from the BEA.

Looking ahead to 2026, the outlook is positive. We project a growth rate close to the potential (2%), based mainly on the continuity of the vigorous private investment cycle, particularly linked to AI. Another source of support will be the transition of monetary policy towards a more neutral position, as well as an expansionary fiscal policy that maintains the stimulus in the short term. However, these pillars also carry risks in the medium term, with doubts over the return that the current wave of investment in AI will yield, the health of public accounts and the sustainability of debt, the ability of the Fed to complete the transition to neutrality and the backdrop of risks more directly linked to the measures introduced by the new Trump administration. The latter include the impact on the labour market, wages and economic activity of restrictive migration policies, the reconfiguration of US institutions and persistent tariff tensions.

### The surge in investment in AI spearheads growth

In 2025, private investment in technology and AI has been the major driver of growth. Spending on information processing equipment (computers, servers) and software grew in the first half of the year at annual rates of 35% and 23%, respectively, and contributed 1.4 pps to a total growth of 1.6%. Without this push from investment in technology, GDP would hardly have grown at all.

The epicentre of the boom is Silicon Valley, where a small group of large firms<sup>1</sup> have invested some 194 billion dollars in infrastructure and data centres in the first half of the year. It is estimated that this figure will reach 368 billion by the end of 2025 (equivalent to 1.2% of GDP) and that it could reach 432 billion in 2026, more than double the amount invested in 2023. In addition, we must consider the large projects being pursued by companies such as OpenAI and the vast investments required to bolster the electricity grid and chip production, where players such as Nvidia stand out.

In the short term, this investment boom has a clearly positive effect on the economy. However, the concentration of growth mainly in a single driving force poses risks. If the technological tailwind weakens, underlying weaknesses could be exposed: more fragile consumption, a labour market that has begun to cool, and the inflationary effects of tariffs which, although limited to date (partly due to the accumulation of inventories and advanced purchases in Q1 2025), could intensify as inventory buffers run out.

In addition, questions have arisen regarding the sustainability of this boom. Companies face operational challenges in scaling their infrastructure, while the true impact of AI on productivity and its ability to generate sustainable benefits remains unclear. If expectations are not met, there could be a correction in stock market valuations in the medium term, the financial implications of which will be more or less broad depending on the rise in credit and debt that accompanies the investment boom in the coming years.<sup>2</sup> Another possible amplification factor lies in the rise of more leveraged and circular financing structures, with cross-holdings between companies within the same sector along value chains.

### The monetary lever

On the monetary front, the Federal Reserve is in the midst of a transition from a position it qualifies as moderately restrictive to a more neutral one. Currently, the fed funds rate lies in the 3.75%–4.00% range and we expect it to fall to 3.00%–3.25% by the end of 2026. This shift responds to a deterioration in the labour market: job creation has cooled, recruitment is declining and unemployment has begun

1. In particular, we refer to Amazon, Microsoft, Meta, Alphabet, Oracle, Apple and Tesla.

2. For example, according to estimates by Morgan Stanley and Bloomberg, of the investments that the big tech firms will make between 2026 and 2028 in data centres, 50% will be financed with these companies' own cash flows, 30% with private credit and the remaining 20% from other sources. See S. Ren (2025, 2 October), «AI Data Centers Give Private Credit Its Mojo Back», Bloomberg.

to creep up. Although inflation remains above the 2% target, the Fed is seeking to avoid an excessive cooling of employment which could compromise economic activity.

However, consensus within the FOMC is limited: one group of members is advocating a degree of prudence while another is pushing for more aggressive cuts. In a context in which the two mandates – price stability and full employment – are pulling in opposite directions, the margin for error is narrow and the path of interest rates is uncertain. In Powell's words, the next cuts are «far from» guaranteed.

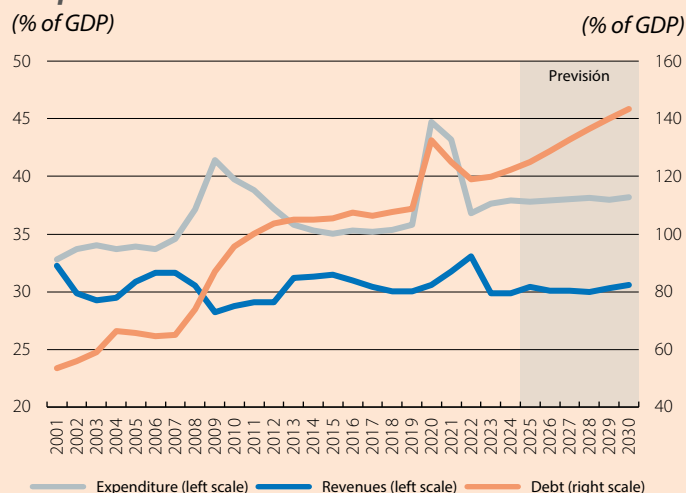
In addition to this uncertainty there is an institutional risk. In 2025, the White House intensified its pressure on the Fed, proposing appointments of allies and sparking debate over the central bank's independence. The attempt to oust Governor Lisa Cook set an unusual precedent, and the appointment of Stephen Miran – an economist close to President Trump – aroused misgivings. Miran has expressed divergent positions to the rest of the FOMC, contributing to the widest dispersion of interest rate projections among Fed members at its September meeting (when there is usually greater consensus on the rates anticipated for the end of the year) in the last 13 years, as seen in the second chart. While we see no clear signs that the Fed will lose its independence, and we are confident that the majority of its members will continue to act to fulfil its mandates, this type of institutional tension adds uncertainty to the economic and financial environment. Moreover, this comes at a time when at least two Board seats are up for renewal in 2026.<sup>3</sup>

### Fiscal outlook

In July 2025, the OBBBA (One Big Beautiful Bill Act) came into force, making most of the tax cuts that were passed in 2017 permanent and adding some new temporary cuts.<sup>4</sup> It also allows companies to immediately deduct certain capital expenses, thus encouraging short-term investment.

These measures help sustain growth in the short term, but at the cost of further deterioration in the public accounts. Thus, all the indicators suggest that this year the public deficit will remain at around 7% of GDP – double the average prior to the pandemic – and the forecasts indicate that it will remain at that level for several years. The increase in revenues from tariffs is unlikely to offset the projected increase in public spending. The IMF estimates that, if this trend continues, gross public debt could exceed 140% of GDP by the end of the decade, a very significant increase in a short period of time considering it expects it to close this year at 122%. In other words, today's fiscal momentum could become a burden tomorrow.

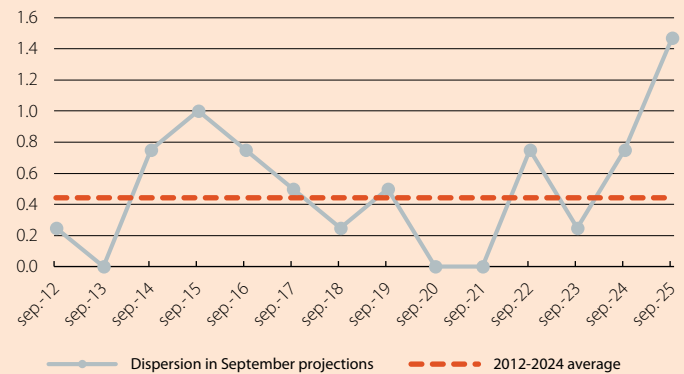
### US: public accounts



Source: CaixaBank Research, based on data from the IMF.

### Dispersion in year-end rate projections (FOMC - September meetings)

(pps)



Notes: Dispersion refers to the difference between the maximum rate and the minimum rate projected in the dot plot. The maximum rate projected in September 2025 is 4.375% and the minimum rate (Miran) is 2.875%.

Source: CaixaBank Research, based on data from the Fed.

### Cautious optimism

Overall, the US economy is facing 2026 with a mix of strength and vulnerability. The resilience demonstrated in 2025 has exceeded expectations, and the two growth drivers – AI investment and new rate cuts – predict another year of strong growth. However, the picture is not free from risks. The tech boom could well be prolonged and, if the productivity gains materialise, its benefits will extend beyond 2026. However, if the return on these investments falls short of expectations, then the negative impact on growth and on financial markets would be significant in the medium term. The Fed faces internal dilemmas and external pressures while labour, tariff and political risks persist, and all this against the backdrop of a deterioration of the public accounts.

Isabela Lara White

3. In January, Miran's position is up for renewal, after he took over to finish Adriana Kugler's term in September 2025. Powell's term as chair of the FOMC expires in May and, although his position as a governor is not due to end until 2028, his predecessors have resigned from the board after the end of their term as chair.

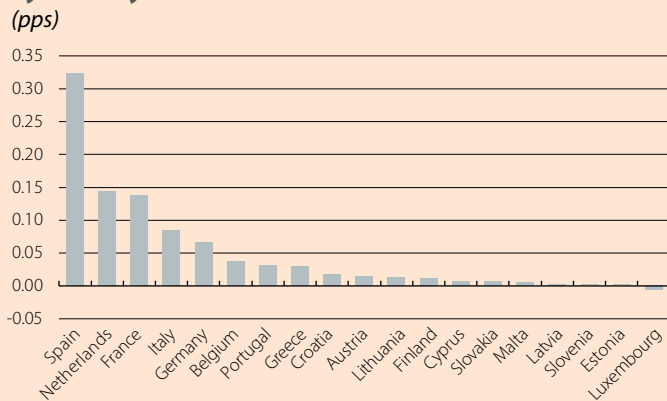
4. Such as the exemption from income tax for tips and overtime.

## Good growth outlook for the Spanish economy in 2026

### Positive assessment of 2025

Despite 2025 being marked by global trade tensions, Spain's economy has shown significant dynamism. It is estimated that GDP will grow by 2.9%, well above the 1.3% for the euro area as a whole, and this makes Spain the bloc's leading economic driver, alongside Ireland (see first chart).

### Euro area: contribution to GDP growth by country in the first half of 2025



**Note:** We exclude Ireland given the anomalous pattern in the data in Q1 2025, when the economy grew by 7.5% quarter-on-quarter, driven by the earnings of multinationals located in the country.

**Source:** CaixaBank Research, based on data from Eurostat.

In 2025, the Spanish economy has completed the shift towards domestic demand as the main driver of growth, stimulated by private consumption and investment. These two components account for the entirety of the increase in GDP in 2025. According to our forecasts, the slight contribution from public consumption, of 0.3 pps, will be offset by the negative contribution from the foreign sector. This negative contribution should not be taken as a bad figure: Spanish exports have maintained a very solid growth rate – we expect them to grow by 4.2% year-on-year – supported in particular by the dynamism of non-tourism services. Exports alone in 2025 will provide 1.5 pps to annual GDP growth, although this contribution will be more than offset by the strong growth of imports, which have had to feed the surge in domestic demand. In short, 2025 is leaving the Spanish economy with strong inertia to face 2026.

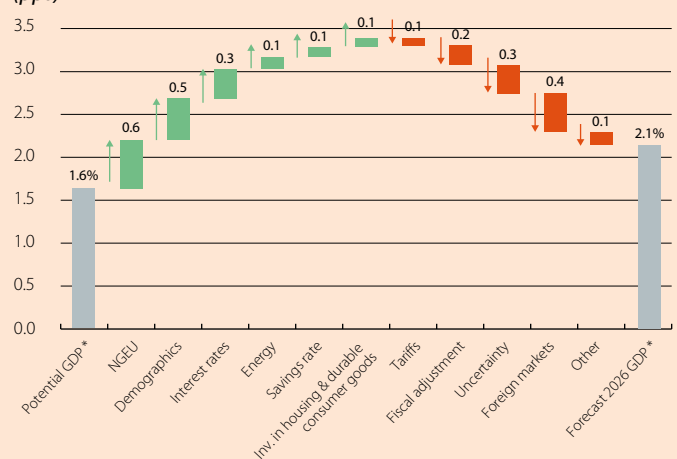
### 2026 outlook: breaking down the growth drivers

We expect Spain's GDP to grow by 2.1% in 2026. This growth is broken down into several factors (see second chart). Our starting point is an underlying (or «potential») growth rate that is estimated at around 1.6% per year – i.e. the speed at which Spain's GDP could grow considering the underlying trend in production – to which other factors are then added.<sup>1</sup>

On the positive side, several channels will continue to drive Spain's economic activity:

- **European Funds (NGEU):** in 2026 – a key year, as all the milestones of the Recovery Plan are supposed to have been met by August – investment linked to European funds will accelerate. We expect some 17.5 billion in grants to be executed (versus ~15 billion in 2025)<sup>2</sup> and progress to be made on projects financed with loans. This injection of funds could contribute 0.6 pps to GDP growth.
- **Demographic boost:** in 2026, immigration will continue to drive population growth, which is estimated at 0.8%, well above the annual rate of 0.3% prior to the pandemic. By incorporating this differential, the additional population increase is expected to translate into around 0.5 pps of GDP growth. This demographic boost will contribute to the continued strength of the labour market – we expect jobs growth of 2% in 2026.
- **Reasonably accommodative financial conditions:** monetary policy will remain a net support for the Spanish economy during 2026. While no further interest rate cuts are anticipated, the economy, and especially investment, will continue to benefit from the transmission of the rate cuts implemented in 2024 and 2025. This channel could contribute 0.3 pps to GDP growth, with a particular impact on investment in equipment, which is still only 6.4% pps above the pre-pandemic level, compared to 10.0% pps for GDP.

### 2026 GDP: breakdown of the growth



**Notes:** Annual change (%). \* Potential GDP corrected for the impact of rapid population growth and NGEU funds.

**Source:** CaixaBank Research.

1. In order to clean up the effect of the rapid population growth of recent years and the impact of NGEU funds, when calculating potential GDP growth we have assumed that since 2022 the population has grown in line with the average rate of 2017-2019, namely 0.3% per year, and we have also reduced the level of annual investment by the amount that is estimated to originate from NGEU funds.

2. In this way, the 80 billion in transfers anticipated in the Recovery Plan would have been executed.



- Easing energy prices: oil and gas prices are expected to fall slightly in 2026 compared to 2025, and this would reduce costs for businesses and households, thus providing a small boost to economic growth.
- Private consumption and savings: the high growth of gross disposable income, driven by the strength of the labour market, has enabled a substantial increase in the household savings rate. We expect the savings rate to remain at around 13% of gross disposable income in 2025, while for 2026 we forecast a slight decline as a result of a reduction in uncertainty and the recent interest rate cuts. This decrease in the savings rate will help maintain the dynamism of private consumption and will boost GDP growth slightly, by 0.1 pp.
- Residential investment on the rise: housing construction will experience an expansive phase in 2025 and 2026. New construction permits are expected to increase from 128,000 in 2024 to 140,000 in 2025 and to 150,000 in 2026, responding to the high demand. Homes started in 2025 will continue to generate activity in 2026, as the construction of housing lasts more than a year, and the consumption of household-related durable goods will also grow. This channel as a whole could contribute 0.1 pp to GDP growth.<sup>3</sup>

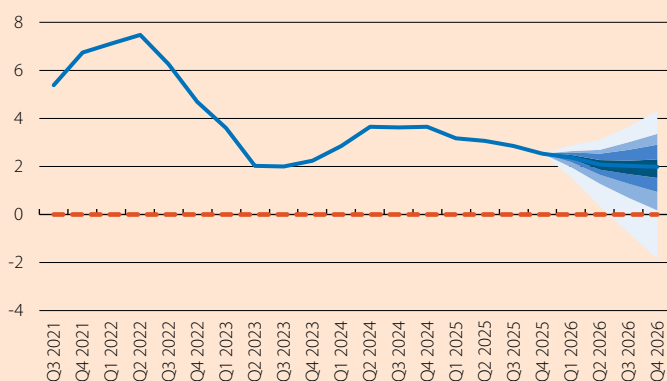
Of course, not all factors will exert upward pressure on growth. We have also identified several headwinds that will moderate growth in 2026:

- Weakness of the external environment: the main brake will come from the foreign sector, as our export markets will grow below their historical average in 2026, still affected by the aftermath of the recent tariff conflict and the economic weakness of our main European trading partners.<sup>4</sup> This could subtract 0.4 pps from GDP growth. In addition, the direct impact of trade barriers must be considered: the tariffs imposed by the US on its imports from Europe during 2025 will still have a negative impact on growth in 2026, subtracting approximately 0.1 pp.
- Global uncertainty and fiscal tightening: other adverse elements, although on a smaller scale, may nevertheless weigh slightly on growth. Global uncertainty – although lower than in 2025 – will continue to weigh on investment and consumption decisions. In addition, a more contractionary fiscal policy (excluding the effect of NGEU funds) is envisaged, with rising government revenues and more moderate expenditure growth, which will entail a reduction of the deficit and a slight containment of domestic demand.

Overall, we anticipate a growth rate of 2.1% in 2026 – a solid figure, albeit slightly below that of 2025. This moderation is explained by the fact that several key support factors already provided a boost to the economy in 2025. In particular, the contribution to growth provided by demographics, interest rates and the tourism sector will be similar in 2026 to in 2025. Only the contribution from NGEU funds is expected to be higher. In contrast, factors such as less foreign dynamism and the transition to a more mature phase of the business cycle are now gaining prominence.

### Spain: GDP

Year-on-year change (%)



**Note:** The degree of transparency of the shading is an indicator of the probability of deviation from our forecasts, i.e. lighter colours correspond to a lower probability of occurrence. As a benchmark, the lightest band at the bottom of the chart delimits the 10th and 20th percentiles of the distribution.

**Source:** CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

### Confidence intervals: quantifying uncertainty

Like all forecasts, our scenario is subject to uncertainty. For this reason, we present growth intervals with their respective associated probabilities. To do so, we use the CaixaBank Research macroeconomic model for the Spanish economy.<sup>5</sup> The third chart shows the trend in GDP growth which we expect through to Q4 2026 and possible deviations from our forecasts. According to this analysis, there is a 40% probability that annual GDP growth in 2026 will lie between 1.5% and 2.7%. With a 60% probability, which already incorporates the possibility of relatively major shocks (both negative and positive), growth is expected to be between 1.0% and 2.9%. In this way, we can state with a high degree of confidence that the Spanish economy will continue to grow at a steady pace next year.

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3. This calculation is the contribution to GDP growth in excess of the contribution that would result if this category were to grow at the rate marked by potential GDP growth.

4. The growth of our main export markets was 3.5%, in average annual terms, between 2014 and 2024. For 2026, we anticipate a growth rate of 1.9%.

5. This is a semi-structural general equilibrium model of the Spanish economy, where the short term is determined by aggregate demand, while in the long term aggregate demand and supply are equal. See (content in Spanish): [https://www.caixabankresearch.com/sites/default/files/content/file/2022/12/14/34454/wp-320-modelo-semiestructural-de-caixabank-research-para-espana\\_0.pdf](https://www.caixabankresearch.com/sites/default/files/content/file/2022/12/14/34454/wp-320-modelo-semiestructural-de-caixabank-research-para-espana_0.pdf).