Outlook 2026 – Fiscal and monetary policy to the rescue

Finance ministers and central bank governors will be in the spotlight in 2026. They are fighting against the consequences of trade wars and reform backlogs and want to boost their economies. We show where this could succeed and what it means for the financial markets.

Dr. Jörg Krämer [AC]

Our central theme for 2026

Every year in November, we consider what the central theme ("leitmotif") for the major economies in the coming year might be. In 2026, finance ministers and central bankers are likely to take center stage. In view of the ongoing major problems surrounding trade conflicts, high government debt, and reform backlogs, they are likely to try to boost their economies with expansionary fiscal and/or monetary policies. However, it is not clear whether growth will actually pick up in the end. But finance ministers and central bankers will try – and that, too, will have an impact on the financial markets.

Germany: A considerable fiscal stimulus and ...

The leitmotif of a stimulating fiscal and monetary policy is a perfect fit for Germany. It is also likely to succeed in this country in the sense that growth in 2026 should be significantly higher at 1.2% than in 2025 (0.1%).

This is primarily due to the German government's fiscal package, which includes a special infrastructure fund of €500 billion and exempts defense spending of more than 1% of GDP from the debt brake. Because the government shifted spending on a large scale from the core budget to the shadow budget (“special fund”), considerable financial leeway was created in the core budget. The government is taking advantage of this. For example, there will be special depreciation allowances for companies, inflation-related increases in taxes will be partially offset, VAT for restaurants and grid fees will be reduced, and so on. The relief corresponds to a quarter of a percent of GDP (Chart 1).

A significantly greater boost is likely to come from the special fund for infrastructure and from defense spending. Admittedly, spending will not rise nearly as sharply as envisaged in the budget because procurement for the German Armed Forces is slow and the construction of infrastructure is hampered by lengthy approval procedures. However, based on conservative estimates by German economic research institutes, defense spending and infrastructure investment are still likely to increase by an amount equivalent to 0.6 percent of GDP in 2026.

If we combine the higher spending on defense and infrastructure with the additional expenditure caused by legislative changes, this results in a considerable fiscal stimulus of around 0.8% of GDP for the coming year, whereas fiscal policy actually slowed the economy slightly in 2025.

Chart 1 - Fiscal policy will give growth a boost starting in 2026

Burden (+) and relief (-) on the general government budget from fiscal policy measures in the respective years, as a percentage of GDP

Source: Joint diagnosis of the German economic research institutes, Commerzbank Research

… ECB interest rate cuts are also helping the economy

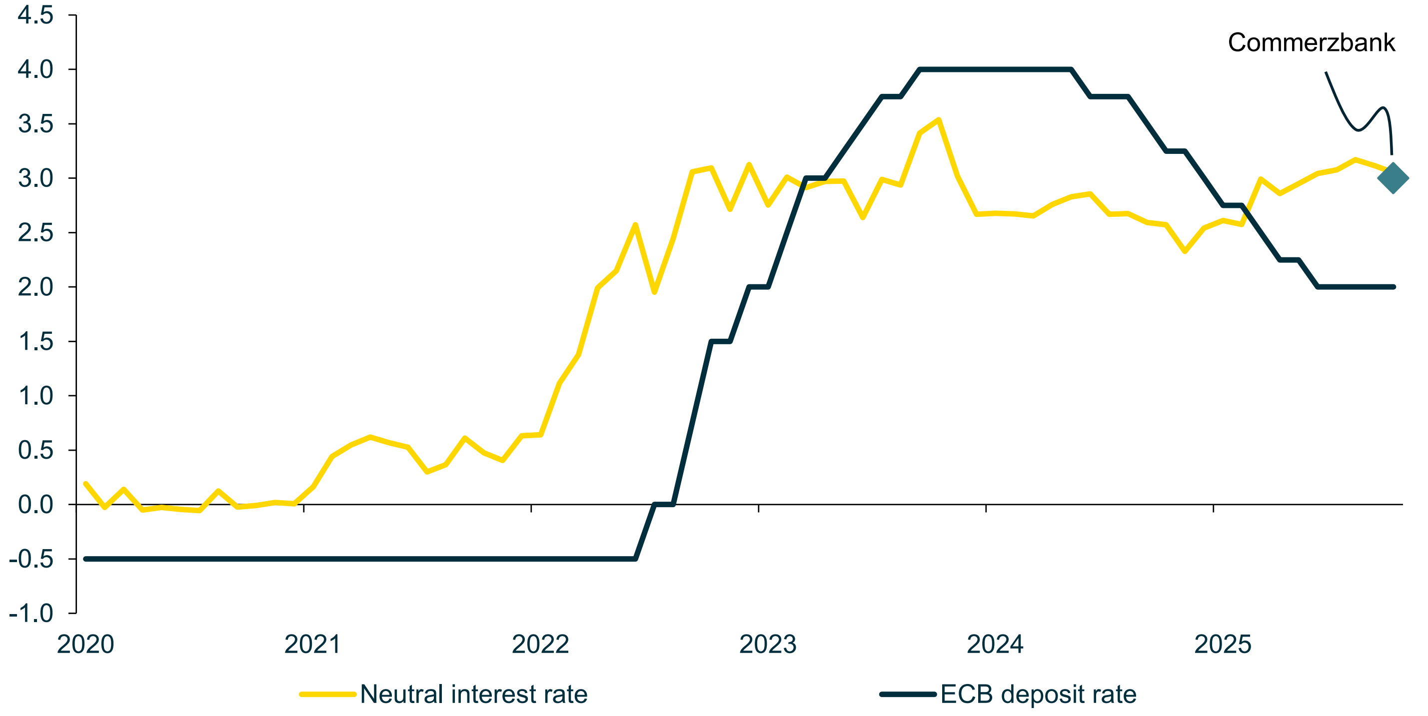
Added to this is the halving of the ECB deposit rate to 2.0% – a level that, in our view, is below the neutral interest rate that neither slows down nor boosts the economy (Chart 2). This means that no further rate cuts are needed (nor do we expect any) to boost the German economy.

All in all, we expect economic growth of 1.2% for Germany in 2026, following an estimated 0.1% in 2025. Incidentally, a pronounced working day effect also plays a role here: While the number of working days this year is lower than last year due to the timing of public holidays, it will be significantly higher again in 2026. This alone will increase the growth rate in 2026 by almost 0.4 percentage points compared to 2025.

Otherwise, it should be noted that the German government's fiscal package is not accompanied by the necessary economic policy reforms, which many German companies are eagerly awaiting. In this respect, the higher economic growth in the coming year has the characteristics of a flash in the pan.

Chart 2 - ECB key interest rate well below "neutral" interest rate

ECB deposit rate and "neutral" interest rate according to estimates by the futures markets (OIS 1-year forward rate in 9 years) and Commerzbank estimate, in per cent



Source: Bloomberg, Commerzbank Research

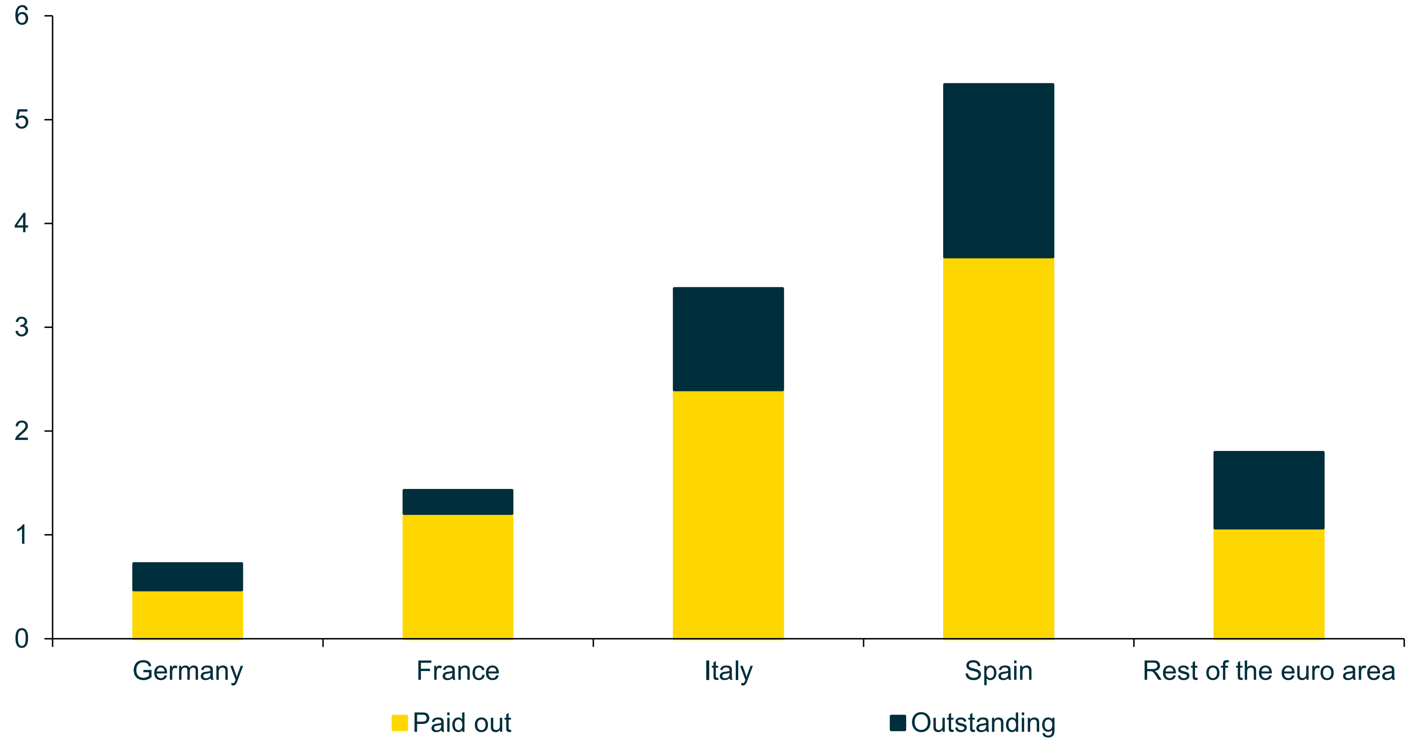
Euro area: Change in top performers

Unlike in Germany, it is only the ECB that is driving economic growth in the eurozone as a whole. As a result, the economy is expected to grow moderately again, at 0.9%. The fact that growth will not be higher is also due to the massive increase in US tariffs, which are estimated to reduce economic growth by 0.3 percentage points over two years.

Within the monetary union, there will be a change in who outperforms in 2026. While Germany is catching up after a long period of below-average growth, the peripheral countries are likely to cool down somewhat on average. This is because the boost from the EU Corona Recovery Fund (NGEU), whose funds have flowed disproportionately into the periphery (Chart 3), will decline in the coming year; by 2026 at the latest, the projects financed by the fund must be settled with the EU, which is only possible after their completion. Accordingly, growth in Spain will slow in 2026 (1.8% after 2.6% in 2025); in Italy, unlike in Germany, it will not increase (0.5%). We are more cautious than the average forecaster for these two countries.

Chart 3 - Italy and Spain taking strong profit from NGEU

EU Recovery Fund (NGEU) grants as a percentage of nominal GDP

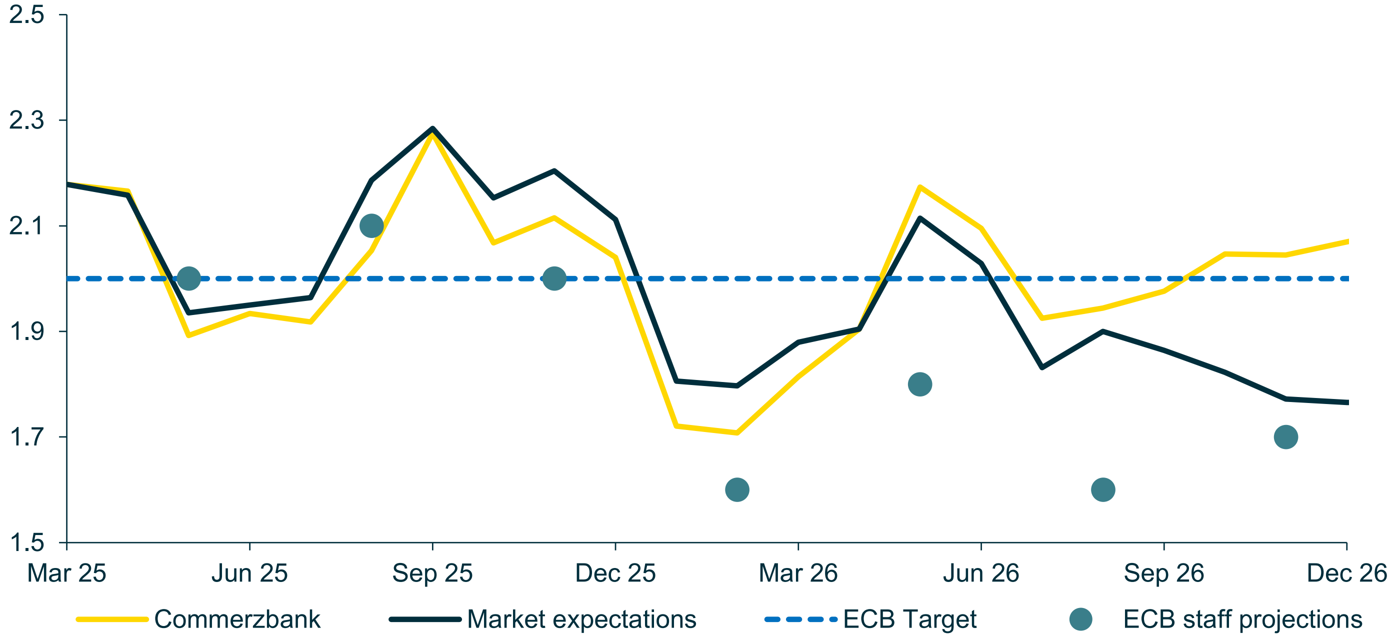


Source: EU commission, Eurostat, Commerzbank Research

We expect inflation in the eurozone to average 2.0% over the coming year, which would be similar to this year. Core inflation, which has hardly fallen at all in recent months, should be slightly higher at 2.1%. At first glance, this all looks unspectacular. However, our forecast is higher than that of the ECB (inflation: 1.7%) and in H2 2026 above the forecasts derived from inflation swaps (Chart 4). Incidentally, this, together with the slight economic recovery, is the main reason why we do not expect the ECB to cut interest rates further.

Chart 4 - We expect a higher inflation than the ECB

Consumer price index in the euro area, year-on-year changes in percent; market expectations derived from inflation swaps with a reference date of November 4, 2025, and ECB projections as of September 2025.



Source: Bloomberg, ECB, Commerzbank-Research

USA: To boost the economy, ...

With a key interest rate of 4.0% (upper bound of the target range), US monetary policy is still dampening the economy. But US President Donald Trump wants to avoid a further slowdown in growth or even a recession at all costs and therefore wants to boost the US economy with an expansionary monetary policy. This is all the more true given that the federal government's budget deficit is already very high at more than 6% of GDP, which means that further stimulus from fiscal policy is hardly possible.

... Trump brings the Fed under his control

To ensure that the Fed actually lowers key interest rates significantly and boosts the economy despite inflation above 2%, Trump is deliberately undermining the independence of the Federal Reserve – through public pressure and by nominating loyalists. Trump's supporters may already have a majority on the decisive board before Fed Chairman Jerome Powell steps down in May next year. Otherwise, Trump is likely to bring the central bank under his control a little later. We therefore expect the US key interest rate to be lowered to just 2.5% by autumn next year, which in our estimation is well below the natural interest rate and will thus boost the economy. Until a new Fed chair loyal to Trump takes office, the Fed is unlikely to cut its key interest rates at every meeting (we expect interest rate moves in December, March, and June), and thereafter at every meeting (July, September, October).

But Trump's policies largely neutralize interest rate cuts

All of this may suggest that the US economy will pick up in the course of 2026. But Trump himself largely neutralizes this boost with his tariff policy, which is also causing a great deal of uncertainty in the US. In addition, he is reducing immigration.

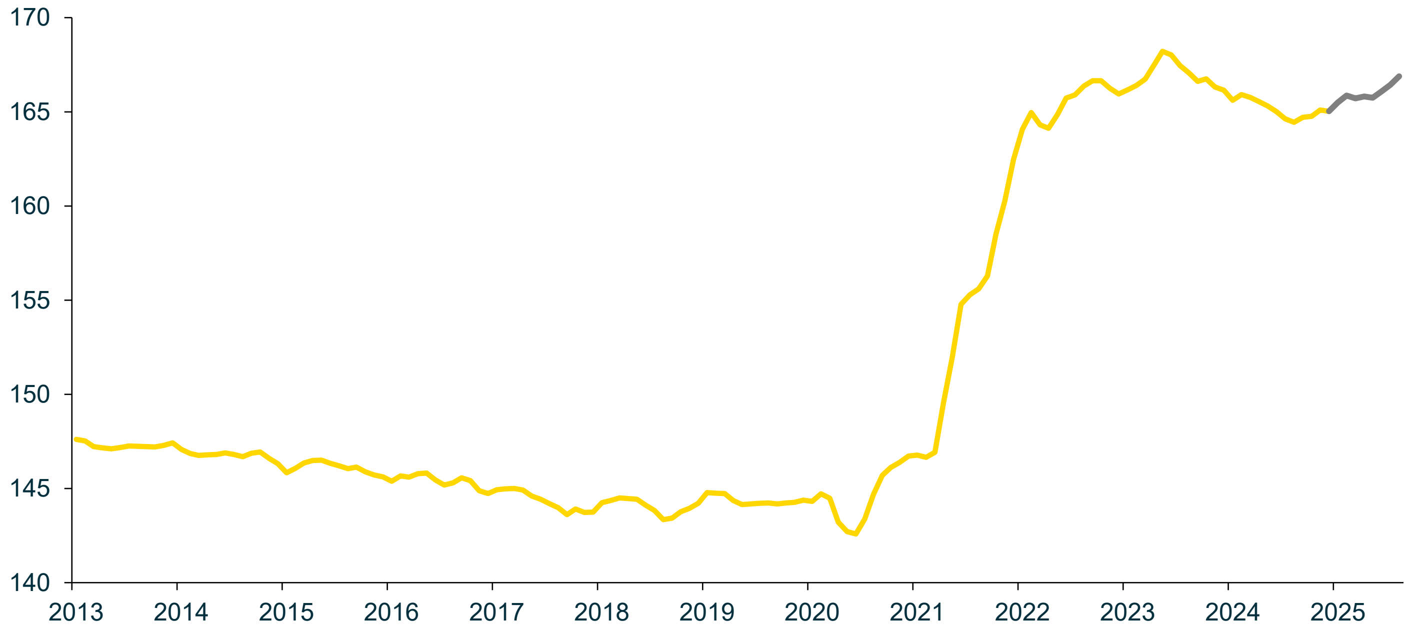
All in all, the US economy is unlikely to grow much faster in 2026 (2.2%) than in 2025 (2.0%). Growth is only slightly above trend growth, so the unemployment rate is likely to fall only moderately over the course of next year.

US inflation noticeably above 2% target

Despite weaker growth, US inflation is significantly above the Federal Reserve's target of 2%, at just under 3%. Because US importers will eventually pass on some of the burden of the massive increase in tariffs to consumers (Chart 5), inflation is likely to be higher in 2026 (3.2% after 2.8%; core inflation: 3.4% after 3.0%). In the long term, the curtailed independence of the US Federal Reserve argues for significantly higher inflation anyway.

Chart 5 - US goods prices have increased due to higher tariffs

US consumer prices for commodities excluding food and energy, index 1982/84 = 100, seasonally adjusted monthly figures; data since January 2025 have been marked



Source: BLS, S&P Global, Commerzbank Research

China: Structural problems weigh heavily

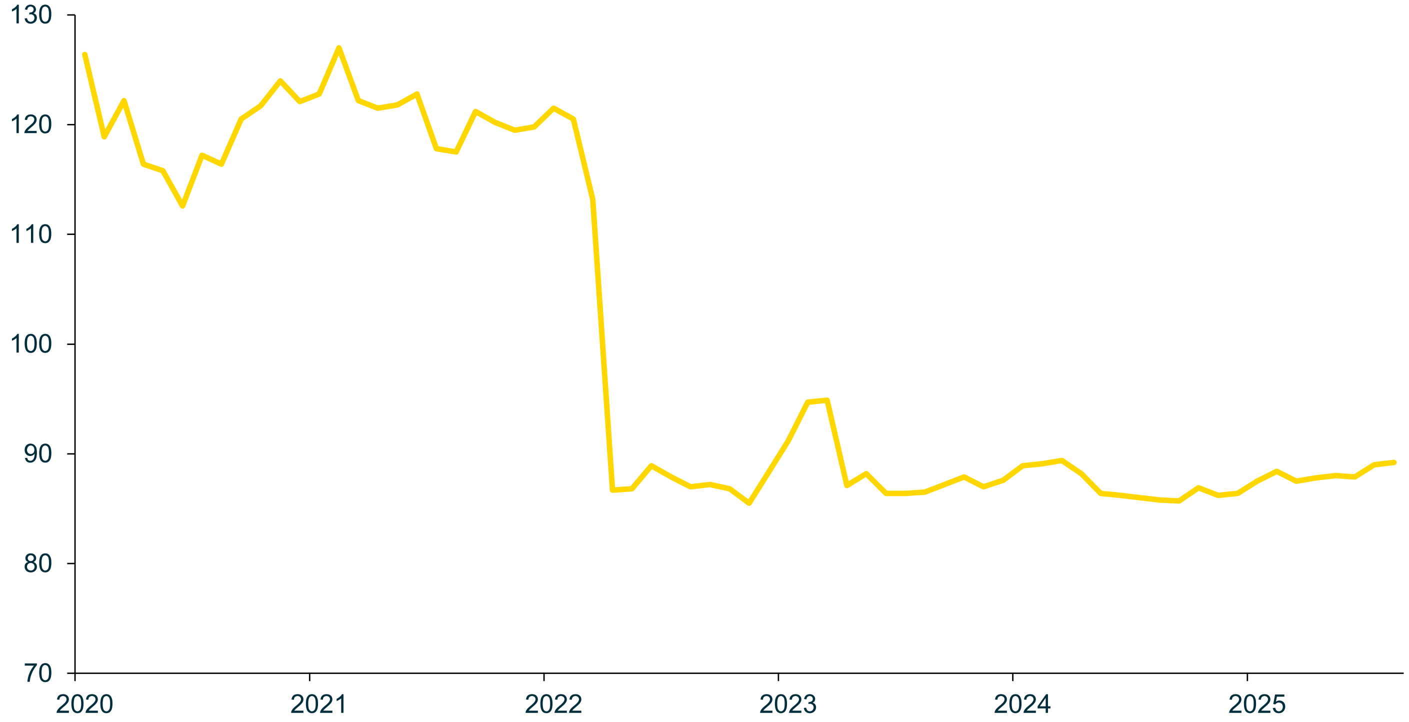
In China, too, the Ministry of Finance and the central bank are trying to boost the sluggish economy. The central government and regional governments are issuing more bonds. They are using the additional funds to finance higher investments – both government investments and those made within the framework of public-private partnerships. In addition, the central bank is pursuing a moderately expansionary monetary policy – primarily by providing additional liquidity and less by cutting interest rates.

However, unresolved structural problems outweigh the expansionary economic policy. Consumer confidence has still not recovered from the lockdowns imposed during the Covid pandemic (chart 6), which is exacerbated by the continued decline in real estate prices and high youth unemployment. In addition, the Chinese economy is suffering from the trade war with the US. Furthermore, the correction of the previously inflated real estate sector is not yet complete, and the manufacturing sector is suffering from overcapacity.

All in all, the Chinese economy is likely to grow more slowly in 2026 at 4.0% than in 2025 (4.9%).

Chart 6 - Depressed Chinese consumers

Consumer confidence, index 1997=100



Source: Bloomberg, Commerzbank Research

What the financial markets are making of it

As far as bond yields are concerned, yields on longer-term German government bonds are likely to rise moderately in the coming year in an environment of rising sovereign debt ratios. This is also supported by Trump's actions against the independence of the Federal Reserve, which are likely to increase long-term inflation expectations as soon as investors focus on the issue. In addition, the independence of the ECB is also suffering from high government debt.

The dollar is likely to remain under pressure in 2026. This is supported by the pronounced and ultimately excessive US interest rate cuts, which have a lot to do with the Federal Reserve's dwindling independence. Furthermore, the dollar is vulnerable because it is more than one standard deviation above purchasing power parity against the euro and is therefore significantly overvalued.

Review of forecasts for 2025: The year of the tariff dispute

The key factor influencing our 2025 forecasts, as well as the consensus, was the foreseeable tariff disputes under US President Donald Trump, who took office on January 20. We were spot on with our forecasts for German economic growth and eurozone inflation; we were only slightly off the mark with German inflation.

Dr. Marco Wagner AC

ariff conflict overshadows the year 2025

When we – and all other institutes – made our forecasts for 2025 at the end of 2024, it was clear to everyone that the year would be overshadowed by tariff disputes. We were therefore quite cautious in all our forecasts for economic growth. With our forecast of 0.2% for **Germany**, we will be spot on according to the current consensus (table). As an export nation, Germany is not only particularly affected by higher US tariffs, but we also consistently emphasize its eroded competitiveness as a business location, which is structurally hampering growth. Other large eurozone countries such as France (0.7%; Commerzbank forecast: 0.8%) and Italy (0.5%; Commerzbank forecast: 0.6%) have also experienced below-average expansion. The fact that the **eurozone** as a whole grew significantly faster than we had forecast (0.9%) at 1.3% was mainly due to the many small eurozone countries, which grew by an average of a good 4%. Ireland plays a key role here, with growth of more than 10% expected in 2025 due to special effects that are typical for Ireland but difficult to forecast. In contrast, the **US** economy is likely to have grown more slowly, at 1.9%, than we predicted (2.3%). Ultimately, Donald Trump's tariff policy was more aggressive than we had already assumed. The only reason the **Chinese** economy did not suffer more than we expected was because the government tried to prevent worse from happening with supportive fiscal and monetary policy.

In terms of **inflation**, we generally assumed higher oil prices and persistent core inflation (excluding energy and food). Our forecast of 2.1% for the eurozone was spot on, while the consensus among other economists predicted a figure slightly below the ECB's target (1.9%). For Germany, we were very close to the final result of 2.2% (Commerzbank forecast: 2.1%). Although energy prices were ultimately significantly lower, core inflation proved to be more persistent. In the US, the tariff effect was added to the mix, meaning that US inflation is likely to exceed our forecast and the consensus forecast at 2.8% this year.

Table 1 - Review 2025: The year of the tariffs

	2024-Actual[1)]	2025-Actual[2)]	Commerzbank[3)]	Consensus[4)]
Econmic growth				
US	2.8	1.9	2.3	1.9
China	5.0	4.8	4.3	4.5
Eurozone	0.9	1.3	0.9	1.1
Germany	-0.5	0.2	0.2	0.6
Inflation				
US	3.0	2.8	2.5	2.3
Eurozone	2.4	2.1	2.1	1.9
Germany	2.5	2.2	2.1	2.0
10 year Bund yield	2.36	2.76	2.40	2.30
EUR-USD	1.04	1.15	1.07	1.09
Crude oil price (Brent)	74.6	65.0	80.0	76.4

1) Market data: average for Dec. 2024; 2) Growth: current consensus, market data: averages in the week from 26 to 31 November 2025; 3) “Week in Focus” of 15 November 2024 (“Outlook” edition); 4) Sources: Consensus Economics of Nov. 2024

Source: Consensus Economics, Commerzbank Research

Oil cheaper than initially expected

In our forecast at the end of 2024, we had anticipated only a slight upturn in global demand and had not assumed any expansion of oil supply by the OPEC⁺ countries. Demand did indeed remain weak. However, the OPEC⁺ countries increased their production volumes, partly in order to regain market share with cheap oil from the US. This change in strategy has recently caused the oil price to fall to USD 65 per barrel, which is significantly lower than expected in the forecasts.

Markets surprise

The EUR-USD, which last traded at 1.15, also surprised in the course of 2025. Economists had expected a weaker USD, but not to this extent. The new US president's extremely aggressive and erratic policies have shaken the financial markets' confidence in the US economy. As a result, the dollar weakened not only against the euro, but also against many other currencies. In contrast, the financial markets saw more potential in Europe. The idea that Europe is becoming militarily more independent and coming up with fiscal packages has strengthened confidence in the currency. In contrast, financial packages have tended to sow doubt on the bond markets and caused yields to rise; 10-year Bunds recently yielded 2.65%, which was higher than we and the consensus had expected.

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