

The Forward View – Global February 2026

Global economy on a solid footing

NAB Economics & Market Research



Overview

- The global economy enters 2026 on a solid footing. Growth in global activity was resilient in the face of US policy shocks – particularly US tariff increases. While not all countries have reported Q4 GDP, our global tracking points to growth of around 0.9% qoq (up from 0.8% qoq in the two previous quarters) and 3.3% yoy, only modestly down on the 3.5% yoy over 2024. The Global composite PMI has eased over the last two months but remains above its average level for 2025 (particularly in manufacturing).
- We have revised up our forecasts for 2026 and 2027, mainly reflecting revisions for the US, China, and Other East Asia. After a weak start to 2025 the US economy grew strongly last year; Q3 growth was even stronger than expected and Q4 GDP likely grew robustly as well (once the temporary impact of the government shutdown is accounted for). China's economy in 2025 grew in line with its growth target, helped by a strong net trade performance but domestic demand remains soft.
- Although tariff uncertainty remains elevated – because of threats of higher tariffs as well as the pending Supreme Court decision on the validity of the reciprocal and fentanyl tariffs – there has been some rollback of US tariffs since September. While the full impact of higher tariffs and trade dislocation on global growth is likely not yet fully realised, it should fade over 2026. At the same time, growth is being supported by more stimulatory fiscal settings, monetary policy easing and continued rapid growth in AI capacity.
- While the rapid growth in AI related investment may slow, it should still be strong (and off a higher base). AI investment is concentrated in the US (as well as China) but the production of the equipment used is more diverse. The impact this is having is demonstrated by Taiwan, a major semi-conductor manufacturer which saw GDP grow 12.4% yoy in Q4, the highest annual growth it has seen since the 1980s.
- The major advanced economy easing cycles are nearing their end. Though further rate cuts are expected by the US Fed, starting in June (conditional on an improvement in inflation) and by the Bank of England, we expect fewer cuts this year (a total of 50bps in each case) before they go on hold. The European Central Bank and Bank of Canada are expected to make no change to their policy rates this year and for the Bank of Japan to continue to gradually tighten policy. Closer to home, the RBA raised the cash rate by 25bps this month, and a further hike is expected in May, and the RBNZ is also expected to tighten policy this year.

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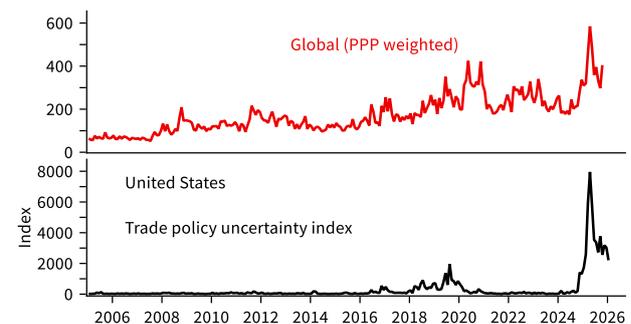
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Key Economic Forecasts

(Change since previous Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	2.2	(0.2)	2.6	(0.5)	2.0	(0.1)
Euro-zone	0.8	1.5		1.4		1.5	
Japan	-0.2	1.1	(-0.1)	0.7	(-0.1)	0.7	
UK	1.1	1.3	(-0.1)	0.8	(-0.1)	1.1	(0.1)
Canada	2.0	1.7		1.1		1.7	
China	5.0	5.0	(0.1)	4.6	(0.4)	4.2	(0.3)
India	6.7	7.7		6.5	(0.2)	6.5	(0.3)
Latin America	2.4	2.2	(0.1)	1.8	(0.2)	2.0	(0.2)
Other East Asia	4.0	4.3	(0.3)	4.4	(0.8)	3.6	(0.1)
NZ	-0.3	0.3	(-0.1)	2.5	(-0.2)	2.3	(-0.2)
Global	3.3	3.5	(0.1)	3.4	(0.3)	3.2	(0.2)
Major trading partners	3.5	3.8	(0.1)	3.7	(0.4)	3.3	(0.2)

Global Economic Policy Uncertainty Index



Source: National Australia Bank, Economic Policy Uncertainty, Macrobond

A New Fed Chair

President Trump nominated Kevin Warsh as the new Fed Chair at the end of January. His appointment is still subject to confirmation by the Senate. This is seen as likely, although it could be delayed because the Head of the Senate Banking Committee has threatened not to consider the nomination until a Justice Department investigation into Chair Powell is settled.

In light of concerns over the independence of the Fed, his appointment has been received positively. He has previously been a Fed Governor (so broadly within the mainstream) and had a hawkish reputation at that time. We would note, however, the President's ability to fire Governors is still unclear so while the concern over independence may have receded it has not gone away.

In terms of monetary policy and rate setting, Warsh has been more dovish recently. He has argued that AI could lead to major productivity gains, suppress inflation and enable rate cuts. Secondly, he has indicated that rate cuts could be enabled by reducing the bank's balance sheet.

Both these propositions are arguable. A common view is that a productivity boom raises the neutral interest rate (as higher returns on investment and expectations of higher income increase demand). Reducing the Fed's balance sheet ('QT') could push long term rates higher (including mortgages) even if they allow for lower short-term rates. These are empirical questions – not unusual in economics – and the issue would be if he wasn't prepared to adjust his views if incoming evidence does not support them.

Moreover, both of these propositions are yet to play out – inflation remains high (even with robust, but not exceptional, productivity growth this cycle) and big changes to the Fed's balance sheet and a move away from its 'ample reserves' framework would require changes in the way it manages its operations. This makes a rapid and major shift unlikely to occur quickly after Warsh becomes Chair.

Warsh is also opposed to the Fed having a large balance sheet, outside of extreme situations, on the grounds that it distorts capital allocation. Apart from possible policy rate impacts, a small Fed balance sheet would have other implications. A recent Fed [paper](#) noted that central banks, if they adopt a small balance sheet, can only have one of 'low volatility of short-term rates' or 'limited market intervention'.

He also does not see a role for forward guidance in 'normal times' and is wary of Fed members sharing their 'latest musings' and forecasts, as well as mission creep into areas outside of the Fed's expertise. This suggests changes in how Fed communicates but what new form it will take is unclear.

Finally, we would note that while there is intense focus on the Fed Chair, that person is only one of twelve voting members. While the Chair may normally be given some deference by the Committee, this will extend only so far. Warsh can try and push the Fed in the direction he prefers but this will also depend on his ability to shape the views of other Fed members and to build consensus.

Global trade developments

US tariffs have eased further, at the margin, but President Trump has also threatened some tariff increases and trade uncertainty remains high. The latter is not just because of the unpredictability of US trade actions but also because the US Supreme Court is yet to rule on the validity of tariffs based on the International Emergency Economic Powers Act.

Over the last two months the US has deferred scheduled tariff increases on lumber products, signed trade agreements or reached understandings with Taiwan, India, Bangladesh and North Macedonia. These agreements reduce the US reciprocal tariff rate (from 20% to 15% for Taiwan, from 50% to 18% for India) and provide tariff exemptions for certain goods. They also include commitments to: reduce tariffs and other trade barriers on US exports, buy US goods, and invest in the US. Taiwan alone has committed to \$250 billion in investment into U.S. semiconductor manufacturing, supported by \$250 billion in credit guarantees.

However, President Trump has over this period threatened some higher tariffs, including a possible 25% tariff on South Korea (because of implementation delays with the US-South Korea trade agreement). The US-Canada trade dynamic appears particularly tense – including threats by President Trump to block the opening of the nearly completed Gordie Howe International Bridge, a project linking Detroit, Michigan and Windsor, Ontario. He also threatened a 100% import tax in response to Canada's proposed trade deal with China.

The United States Trade Representative also recently indicated that the review of the United States-Mexico-Canada (USMCA) trade agreement would likely occur on a bilateral, rather than trilateral basis, adding to the risk of a worsening of the US Canada relationship. There have also been reports that the President is considering pulling out of the USMCA altogether which would have major implications for both Canada and Mexico.

A concern we have had is that the increase in US tariffs would spark a broader rise in tariffs globally, particularly aimed at China as its exporters sought other markets. However, so far this has been limited. Mexico has increased tariffs on Chinese imports – up to 50% across more than 1,400 tariff lines – and the EU is moving to end small-parcel tariff exemptions (which will mainly affect China). The French President has also warned China that tariffs could be imposed if a rising trade imbalance with the EU is not addressed. But there has been no broad-based global shift.

On the positive side, concerns over US trading relationships have seen moves to liberalise trade with other countries. This can be seen in the recent EU-Mercosur (a South American trade bloc) and EU-India agreements (both of which have been subjected of negotiations for well over a decade). Canada and China have also reached a preliminary agreement on trade (but to some extent it just undoes increases in trade barriers since 2024).

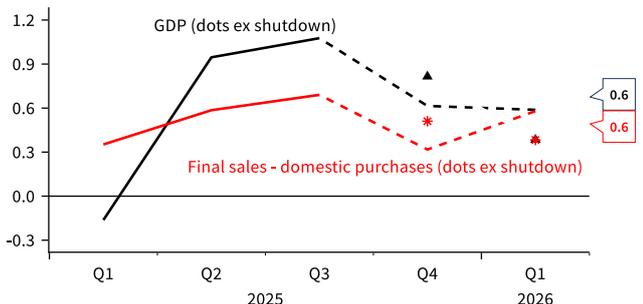
United States

We have lifted our US forecasts – year-average growth for 2025 is expected to be 2.2% (was 2.0%) and 2.6% (was 2.1%) for 2026 . This is mainly on the back of a stronger-than-expected H2 2025 but we also pushed our H1 2026 forecasts higher given the underlying momentum in the economy. The economy weathered the associated tariff and fiscal shocks in 2025 remarkably well. While tariff impacts are likely still feeding through, and immigration policy is curbing labour supply, the H2 2025 rate cuts by the Fed, fiscal policy and AI investment will support growth in 2026.

2025 Q3 GDP growth was stronger than expected (4.4% qoq annualised compared to our December forecast of 3.5%). For Q4, where the advance estimate will be released Friday, we now expect growth of 2.5% qoq annualised (up from 0.9% qoq), even with the deduction from the government shutdown. The strength in H2 2025 in part reflects a solid net export contribution as imports have adjusted to the bringing forward into earlier in the year and to higher tariffs.

Against this generally positive backdrop, nominal retail sales declined in December (and there were downward revisions to prior months). While this doesn't capture most services expenditure, it points to soft consumption in December and sets up weaker growth in Q1. January auto sales also declined 6% mom, although this might reflect weather impacts and could bounce back quickly.

GDP and domestic final demand (q/q%)



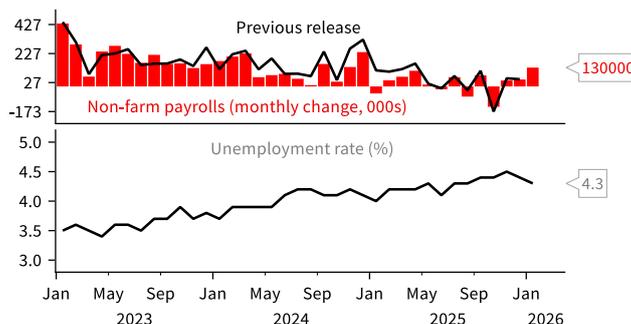
Source: National Australia Bank, U.S. Bureau of Economic Analysis (BEA), Macrobond. Q4 2025 - NAB forecast

Since April, growth in consumption has exceeded that of disposable income. As a result, the savings rate has fallen and is at a low level. Real wage gains and wealth effects have been supporting consumption - household net worth grew 7.8% between Q1 and Q3 2025, even with a decline in house prices between February and July. Tax cuts will also support consumption in 2026, but still weak consumer confidence and employment growth, and a rebuilding of the savings rate, should see consumption growth moderate into 2026.

Business fixed investment growth decelerated to a still solid 0.8% qoq in Q3. AI and broader tech related investment remains positive although also slowed in Q3; computers & peripheral equipment (much of which is imported) remained the strongest growing component. Outside of tech related investment, investment has been soft. This is in line with soft Regional Fed capital expenditure survey intentions although they have been showing some improvement. With demand solid, profits high and tariffs being eased at the margin, it is possible that capex may broaden out over 2026. Business tax changes in the OBBBA should also be supportive.

The labour market is showing signs of stabilising, and we expect the unemployment rate to track sideways before edging down as the year unfolds. The unemployment rate declined for the second consecutive month to 4.3% in January, from 4.5% in November. Non-farm employment rose 130,000, the best result since end-2024, despite further falls in public sector employment. However, revisions remain an issue – the average monthly gain in 2025 is now estimated at 15k, down from 49k. Other indicators have been more mixed – JOLTs job openings dropped sharply in December but Indeed job postings have been stable in recent months.

US labour market indicators



Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

In line with the labour market cooling seen in 2025, and contrary to fears that tariff induced inflation might provide a lift, wage growth is moderating. The Employment Cost Index in Q4 rose 0.7% qoq/3.4% yoy, the lowest readings since 2021. With productivity growth strong, this implies low unit labour cost growth, supporting disinflation over 2026.

Core CPI inflation rose 0.3% mom in January or 2.5% yoy, a new low for the post COVID period even if lingering shutdown impacts mean it is understated. Core goods prices were little changed due to a fall in used auto prices but core services ex rents was up 0.65% mom, a bit stronger than last January, so the underlying detail of the report was mixed. Based on CPI and other data to hand, PCE inflation (the Fed's preferred measure) on a core basis is expected to be 3.0% yoy in December and edge down to 2.9% in January. We expect it to moderate over the year as tariff impacts fade, but the risk is that the strength in the economy adds to pricing pressures.

The Fed left the federal funds rate unchanged at its January meeting, after having reduced it by 75bps over its three previous meetings. The end 2025 rate cuts were on the back of concerns over the labour market but at the January meeting the Fed said it saw signs that the labour market was stabilising. Powell, in his press conference, indicated that downside risks to the labour market diminished as had upside inflation risks – the January employment and CPI will only reinforce this view. He also noted that the fed funds rate is now within plausible estimates of neutral.

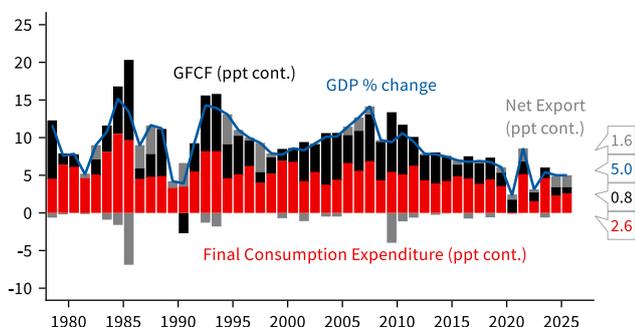
However, the majority of the Fed still see the fed funds rate as being above neutral, and so there is scope for further rate cuts. This will depend on greater confidence that inflation will fall back to the Fed's target which will take some time to gain.

We expect the next rate cut to be in June, when Kevin Warsh will be Fed Chair (barring a delay in his confirmation), followed by a further cut in Q3.

China

Chinese GDP growth for 2025, as in 2024, was 5% in line with the Government’s growth target. Contributions to growth from fixed investment and consumption remained relatively soft, with net exports again making a substantial contribution (almost one-third).

China - contributions to annual GDP growth



While Q4 GDP was only 4.5% above its year-before level, the lowest in several years, the quarterly growth rate picked up to 1.2% qoq and was stronger than we had expected given the weakness in the partial activity indicators at end 2025.

We have revised up our 2026 forecast to 4.6% (from 4.2%). This reflects the stronger than expected Q4 GDP quarterly outcome and the recent close alignment between reported growth and the growth target in recent years. The 2026 growth target, to be announced in March, is expected to be either 5% or a range of 4.5- 5.0%. Available provincial growth targets are either unchanged or lower than last year. Given weak domestic demand, more material policy support would be required to push growth to 5%.

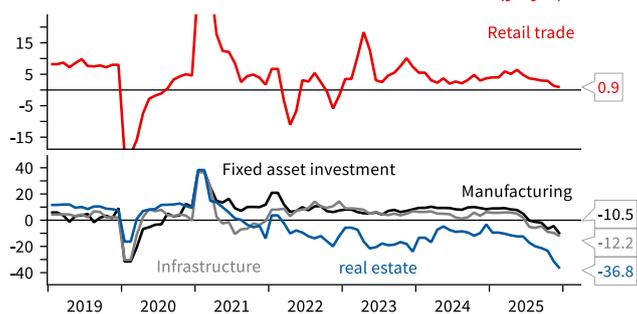
Growth in industrial production picked up to 5.2% yoy in December (from 4.8%), with strength evident in the Government’s priority sectors. High tech manufacturing IP grew 9.4% in 2025, with chemicals (7.8%), electrical machinery (9.2%), communications equipment & computers (10.6%), as well as autos (11.4%) also posting strong gains.

Exports in December grew by 6.6% yoy, with growth higher in volume terms. There has been a re-orientation in trade away from the US (-30% yoy) offset by broad based growth to other markets. This may reflect the re-routing of US trade through other countries but China’s overcapacity issues have also led to falling export unit values. The real effective exchange rate depreciated in H1 2025 but this has been reversing, pointing to a more difficult trading environment in 2026.

Domestic demand indicators took another turn down in December. Retail sales growth was only 0.9% yoy, pointing to a near flat outcome on an inflation adjusted basis. A fading impact from previous policy supports, a soft labour market, weak confidence and the property downturn are all factors. The plunge in fixed asset investment also continued into December, down 16% yoy. It is difficult to tally these data with the GDP (and other data) suggesting that they are being distorted by reporting issues. However, the housing market downturn is continuing, and overcapacity in manufacturing,

as well as the anti-involution campaign, suggest these data may be picking up some underlying weakness.

China retail sales & fixed asset investment (yoy%)



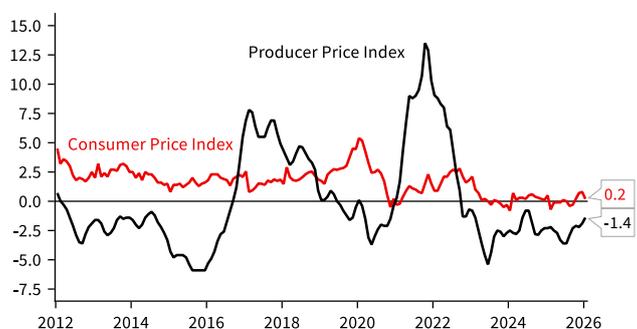
Business surveys at the start of 2026 have been mixed.

The RatingDog PMIs ticked up slightly in January and remained higher than the official PMIs which eased. With the exception of the RatingDog services PMI (which, unlike the official non-manufacturing survey, does not cover construction) the PMIs are at low levels.

Deflationary pressures remain in place but have eased.

The CPI fell back to 0.2% yoy (from 0.8%) with the later timing of Lunar new year holiday this year a factor. Even so, the CPI excluding energy and food was 0.8% yoy, above where it was over 2025. PPI inflation strengthened to -1.4% yoy in January, from -1.9%. The lift in inflation measures has been partly related to changes in commodity prices - historically the PPI and global commodity price indices are correlated (while silver/ gold prices feed into the CPI via jewellery).

Chinese inflation (% yoy)

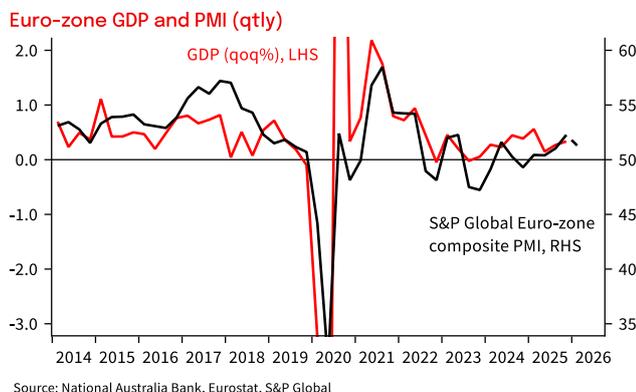


Authorities towards the end of last year and early this year have put in place some modest supports for the economy.

These include the policy financing tool, pre-school fee waivers and a ‘front-loaded’ allocation for the consumer goods trade-in scheme. The Ministry of Finance has also indicated that it will front load bond issuance from the 2026 local government bond quota. The PBoC in mid-January reduced structural policy rates by 25bp, and increased quotas that benefit priority sectors (such as tech, rural and SMEs). The PBoC Deputy Governor Zou Lan in January stated there is ‘some space’ for RRR and policy rate reductions, indicating a reduction in the main policy rate by 10bps is possible soon. That said, the shift in language between the PBoC’s Q3 and Q4 2025 monetary policy reports, from lowering financing costs to keeping them low, suggests there is a risk that they will hold off for now.

Euro-zone

Euro-zone Q4 GDP grew by 0.3% qoq, in line with our forecast. Growth over the year to Q4 2025 was 1.3% yoy, unchanged from that seen over 2024. Growth at these levels is around trend for the Euro-zone, and is a positive outcome given the disruptions and uncertainty caused by the shifts in US trade policy last year.



Recent data have been mixed. Retail sales volumes declined 0.5% mom in December (but rose 0.4% qoq in the quarter). Similarly, industrial production fell 1.4% m/m in December but was up for the quarter (1.9% qoq). Similarly, the S&P Global composite PMI eased over December and January but remains above where it was for most of 2025. In contrast, the European Commission’s economic sentiment indicator in January was at its highest level in three years.

We still **expect to see some pick-up in growth this year**, supported by fiscal stimulus and the return to more neutral interest rate settings that occurred last year. Progress on reforms, such as those recommended by Draghi, will be made even if it has been slow so far. The defence rupture with the US and an acknowledgement that being dependent on the US for security limits EU trade leverage, is galvanizing Europe to pick up the pace of reforms across multiple fronts.

While the appreciation of the Euro, ongoing geo-political and trade uncertainty, and competition from Chinese imports will act as headwinds, a step-change in Europe’s determination to be more self-reliant will play to investor diversification from and hedging of the US.



The shift in fiscal policy is most significant in Germany with planned increases in defence and infrastructure spending. There are signs of traction within the economy, with German

manufacturing orders rising in recent months. While the increase in total orders is impacted by aircraft (Airbus) orders, even excluding major orders an upswing is underway.

The labour market remains healthy. In December the unemployment rate eased to 6.2%, from 6.3%, equalling the historical lows seen in late 2024. While wage growth remains relatively high, forward indicators suggest it should ease.

Even with a strong labour market and solid growth, **inflation is under control.** Headline HICP inflation was 1.7% in January, while core inflation eased to 2.2% yoy (its lowest level since 2021).

The ECB made no change to its policy rate at its February meeting and is likely to remain on hold this year. At the February meeting press conference President Lagarde downplayed the risk of an inflation undershoot. While recent outcomes are below the ECB’s December forecasts (which projected inflation to be a bit below target out to 2027), Lagarde indicated that risks around the inflation outlook are balanced and that the “updated assessment” is for medium term (2028) inflation to be 2% which “is what we rely upon”.

Clearly the ECB has some tolerance to below target inflation, and won't cut unless there is a clear and sustained downside miss. However, we expect the Euro to appreciate further and, together with pricing pressure from Chinese imports, see inflation risks tilted to the downside. As a result, risks around our baseline ECB view are biased towards further easing.

United Kingdom

The UK economy struggled in the second half of 2025 but should see some improvement over 2026. Lower rates of inflation will help consumers while monetary policy is set to ease further, and US trade policy impacts should fade. A doubling of the savings ratio and lower household and corporate debt levels (relative to income) highlight the potential for increased spending and investment.

However, fiscal policy remains a headwind (even if Budget uncertainty has abated for now), National Living Wage increases will add to labour costs and households are still facing the prospect of future tax rises. A souring labour market, and an ongoing lack of consumer and business confidence still prevails.

Domestic political risks are also elevated given recent heightened media coverage of a potential challenge to the Prime Minister. The immediate danger here has passed, but only temporarily, and will become more serious around the May local elections. If Starmer and Reeves were to be replaced, we anticipate a policy shift towards higher spending, borrowing and taxes. Investors would react negatively, selling UK bonds and GBP.

GDP rose by only 0.05% qoq in Q4 2025 (against our expectation of 0.2%). While growth in December of 0.1% mom was in line with expectations, the November outcome was revised down. Over Q3 and Q4 the economy grew by only 0.2% (well down on the 0.9% seen in the first half of the year).

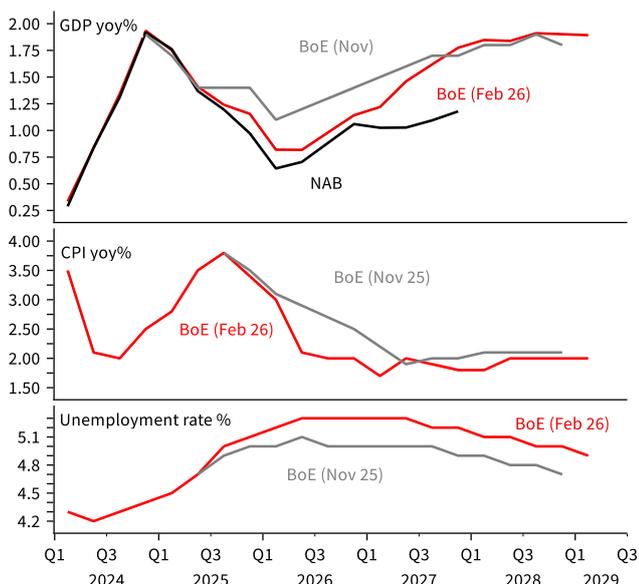
In Q4, household consumption moderated to 0.2% qoq (from 0.4% in Q3) while business fixed investment fell 2.7% qoq.

Dwelling investment also declined. The weakness in private final demand was offset by government consumption growth (0.4% qoq) and a surge in government fixed investment (+11.6% qoq) which can be volatile. Part of the Q4 weakness was due to both net exports and inventories detracting from growth which should be a temporary combination.

The Bank of England (BoE), at its February meeting revised down its growth forecasts. Year average growth for 2026 was marked down to 0.9% (from 1.2%) and for 2027 to 1.5% (from 1.6%). While the Q4 outcome represents an early undershoot (like us they expected 0.2% in Q4) we have not significantly changed our expectation for growth over 2026 (we have Q4 2026 at 1.1% yoy, similar to the BoE).

The BoE also revised its unemployment rate (to a peak of 5.3%) and inflation forecasts. The unemployment rate was 5.2% in December and trended up over 2025 alongside a decline in employment. Wage growth has decelerated - private sector regular pay AWE growth was 3.4% yoy in December, down from around 6% at the start of the year, moving closer to the level the BoE assesses is consistent with its inflation target (3¼%).

UK Economic projections



Source: National Australia Bank, Bank of England, Macrobond

An even larger revision was made to the CPI forecast. The BoE now expects inflation to be almost back at target by Q2 2026 (in November it projected 2.9%). While this mainly reflects lower energy prices and the impact of budget measures CPI is seen as remaining around target over the forecast period.

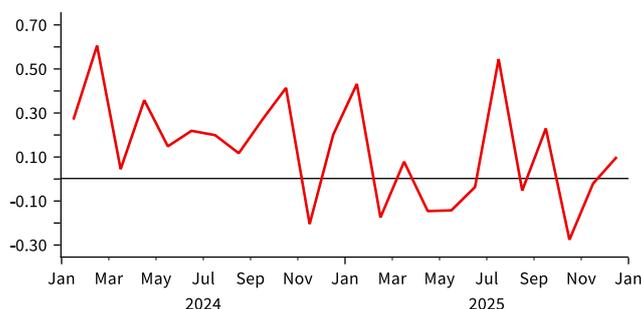
Despite these forecast changes – which are conditioned on a 40bp reduction in Bank Rate over 2026 – the BoE left policy rates unchanged at its February meeting. However, the meeting statement said “Bank Rate is likely to be reduced further “. **Our view remains that the BoE will cut twice this year (50bps in total) – most likely in April and July.** However, the March meeting is clearly live, and if CPI for January (due today) declines to 3%, we will expect either Governor Bailey and/or Catherine Mann to shift their vote (s) and provide the MPC with a majority to ease in March (and then July).

Canada

Canada’s economy is still struggling to grow in the face of ongoing change in the trade and broader relationship with the US and record low population growth. There has, however, been some improvement in the labour market and inflation has eased.

After a strong Q3 GDP outcome (0.6% qoq), we noted that the path ahead was likely to be rocky. Incoming data supports this view. The monthly GDP indicator points to a 0.1% qoq decline in Q4. Similarly, while the S&P Global PMI, Bank of Canada Business Opinion Survey and, in particular, the CFIB business barometer have shown improvement since mid-year, they remain soft by historical standards.

Canada monthly GDP (chained volumes, mom%)



Source: National Australia Bank, Macrobond, Statistics Canada. December 2025 is Stats Canada advance estimate

The gain in Q3 GDP was driven by a large net export contribution to growth, with domestic final demand flat. Trade data to November point to a net export detraction from growth in Q4. Looking through the ups and downs in the data, there has been a modest, but incomplete, recovery in exports after the initial sharp downturn early in 2025, driven by gains in exports to non-US markets.

Canada’s population increased by only 0.2% over 2025 – the lowest recorded (with data going back to 1947) and is also reflected in weak labour force growth. Measured employment growth has seen some big swings this year, obscuring a clear deceleration in the annual growth rate. **The unemployment rate fell 0.3ppts in January to 6.5%**, to be well down on the 7.1% seen in September, but business surveys point to low hiring intentions.

The Bank of Canada (BoC) has been on hold since October. Its January meeting statement indicated that the policy rate “remains appropriate” but that uncertainty is high. At 2.25% the policy rate is around the bottom of the BoC’s estimate of neutral. While labour market slack has eased in recent months, so has inflation with the average of the BoC’s preferred core measures falling from 3.0% in October to 2.5% in January. The bank forecasts close to target inflation by end 2026. We expect **the BoC to remain on hold this year 2026** and see risks around this outlook as balanced.

Japan

Japanese Prime Minister Sanae Takaichi this month secured a more than two-thirds majority in the lower house following a snap election. Takaichi campaigned on the broad policy

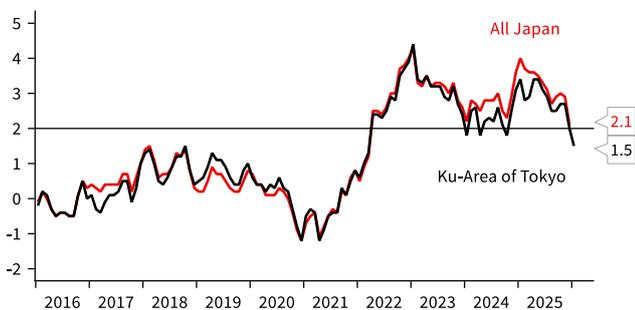
themes evident since she became PM and the December supplementary budget had already introduced measures to support this agenda. **The major election commitment was for a suspension of the 8% VAT on food and beverages.** It is unclear whether the Government intends to further increase defence spending beyond that already announced or introduce other previously flagged measures (e.g. the Investment Tax Incentive).

Exempting food from the VAT is estimated to cost ¥5 trillion per year, or around 0.8% of GDP. The PM has stated that the food tax exemption will not be funded by bond issuance, instead suggesting "...reviewing subsidies and special tax measures, along with nontax revenue". The Finance Minister has raised the possibility of using foreign reserves (e.g. coupon income) as a funding source. It is also possible that the Government will utilise expected increases in taxation revenue and underlying budgetary gains as 'funding'.

Overall, our take ([Japan: Some post election thoughts on fiscal policy, BoJ and JPY](#)) is that some fiscal loosening is likely. How future budgets prioritise strategic investments (and boost growth over time) as opposed to cost-of-living subsidies will also be important to monitor.

Cost of living measures announced late last year, including energy subsidies, are already weighing on inflation. The CPI fell to 2.1% yoy in December, well down from 2.9% as recently as October, and the Tokyo CPI measure indicates another large fall in January is likely. Decelerating food inflation is also helping.

Japan CPI (yoy%)



Source: National Australia Bank, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond

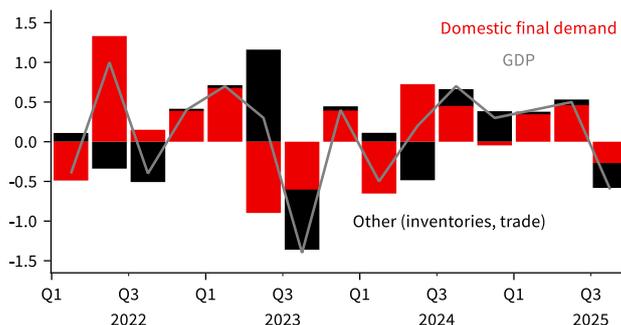
How much this shift down in inflation influences **Bank of Japan** (BoJ) thinking is unclear, particularly against a backdrop where the Government may pressure it to move slowly. That said, normally a central bank would look through temporary policy induced changes in inflation, particularly when fiscal policy is stimulatory and adding to underlying inflation pressures.

We would not expect the possibility of a food tax exemption (or other prospective measures) to be a factor for the BoJ until how it is being funded, and the timing, is clearer. That said, fiscal policy had already turned stimulatory before the election and the BoJ was on a path of tightening policy. While the BoJ left the policy rate unchanged in January (following a 25bp hike in December), there was a hawkish dissent and the Summary of Opinions for the meeting also read hawkishly.

We still expect two rate rises this year – June and December but there is a risk of an earlier move.

Lower than expected Q4 2025 GDP growth adds to the case for the BoJ continuing with its gradual approach. **GDP grew by only 0.05% qoq in Q4**, with Q3 revised even weaker than previously estimated (now -0.7% qoq from -0.6%). The details were, however, a bit more positive. The soft GDP outcome was largely due to a decline in public final demand and a negative inventory contribution. In contrast, private final demand rose 0.4% qoq, more than reversing the -0.2% qoq Q3 decline; as business investment growth turned positive and the large regulatory driven fall in residential investment in Q3 was partially reversed. Household consumption growth did soften but should gain support this year from a falling CPI due to government subsidies.

GDP - contributions to growth (qoq, ppts)



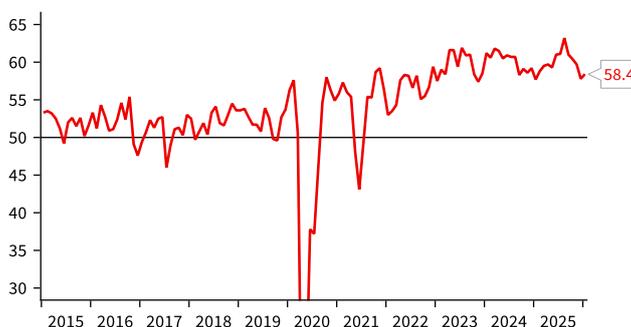
Source: National Australia Bank, Japanese Cabinet Office (CAO), Macrobond

Business surveys also point to an economy performing better than the GDP data might suggest. The quarterly BoJ Tankan is at a high level, while the Composite PMI in January was at its highest level since mid-2023, driven by a rebound in the manufacturing sector in recent months.

India

The Indian economy has been growing strongly supported by favourable agricultural conditions, as well as policy support (including monetary policy easing and GST reform last year). Fixed investment growth has also been supportive.

India S&P Global Composite PMI



Source: National Australia Bank, Macrobond. Y-axis set to exclude COVID extreme

The S&P Global PMI - which broadly tracks GDP growth over time - has moderated from a 63.2 high since August; with four consecutive declines before stabilising in January. The level of the PMI remains solid and other indicators remain positive including industrial production where growth lifted year-end.

Trade risks to the economy have diminished following an agreement with the US that reduces the reciprocal tariff rate

from 50% to 18% (with 25ppts of this effective 7 February). For India this represents a substantial improvement in its competitive position in the US market. In return India agreed to remove certain tariffs on US imports, as well as to purchase \$500 billion of U.S. energy products, aircraft and aircraft parts, precious metals, technology products, and coking coal over the next 5 years. This is well in excess of current levels but to what degree it will be enforced is unclear.

India also reached a 'free trade' deal with the EU which will reduce trade barriers between the two parties. It is still subject to ratification but together with the US deal signals some opening up in the relatively closed Indian economy, which may yield longer term productivity benefits.

The Reserve Bank of India (RBI) remained on hold in January, after cutting its policy rate by 125bps over 2025 (to 5.25%). Inflation is now picking up – it was 2.75% yoy in February, up from 1.3% in January and its low of 0.3% yoy in October 2025. The RBI expects inflation to rise back to the mid-points of its 2-6% inflation target. With the economy on a solid footing, the RBI is expected to remain on hold in the foreseeable future.

Central Bank Monitor

	Inflation and output gap indicators			Central bank rates			
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
US Federal Reserve	2.8% 	4.6% 	2.3% 	3.75% 	easing	18 Mar 3.75 29 Apr 3.75	end 2026 3.25 end 2027 3.25
The Fed is on hold with labour market stabilising and inflation still above target. We expect 50bps of rate cuts, starting June, on inflation moderation and with a new Fed Chair							
European Central Bank	2.4% 	6.2% 	1.3% 	2.00% 	hold	19 Mar 2.00 30 Apr 2.00	end 2026 2.00 end 2027
On hold with economy growing around trend and inflation under control. A possible undershoot on inflation this year means the risk is that easing re-starts later in the year							
Bank of Japan	1.3% 	2.6% 	0.2% 	0.75% 	tightening	19 Mar 0.75 28 Apr 0.75	end 2026 1.25 end 2027
Further tightening is expected by the BoJ at it moves the policy rate towards a more neutral level, but it is likely to be a gradual process							
Bank of England	3.4% 	5.2% 	1.0% 	3.75% 	easing	19 Mar 3.75 30 Apr 3.50	end 2026 3.25 end 2027
Deteriorating labour market, wage growth slowing, and the BoE expecting inflation back around target mid-year point to further easing. We see two cuts this year - April (but March a possibility) and July, with risk of a third							
Bank of Canada	2.8% 	6.5% 	1.4% 	2.25% 	hold	18 Mar 2.25 29 Apr 2.25	end 2026 2.25 end 2027
The BoC is on hold - inflation still above target but labour market assessed as having some slack							
Reserve Bank of New Zealand	2.6% 	5.4% 	1.3% 	2.25% 	tightening	18 Feb 2.25 8 Apr 2.25	end 2026 2.75 end 2027 4.00
With headline CPI inflation at an 18 month high and the economy recovering, the RBNZ will likely start raising rates later in the year to make policy less stimulatory							
People's Bank of China	0.8% 		4.5% 	1.40% 	easing	na	end 2026 1.20 end 2027
Further easing likely given weakness in some growth indicators and ongoing deflationary pressures.							

* Core based headline ex food and energy, except Japan (also excludes alcoholic beverages), UK (also excludes alcoholic beverages & tobacco), NZ(RBNZ's factorial model), Canada (TRIM measure). US PCE measure used, CPI for all others

For federal funds rate the top of the target range is shown * For meetings spanning two days, the final day is shown

Note: number at top of each chart is latest observation (yoy change for GDP and inflation, level for unemployment rate and policy rate)

Economic Forecast Detail - Advanced Economies

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States												
GDP												
qoq%	-0.2	0.9	1.1	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.4	0.4
yoy%	2.0	2.1	2.3	2.5	3.3	2.8	2.3	2.2	2.1	2.1	1.9	1.9
year-average				2.2				2.6				2.0
PCE deflator												
Headline - yoy%	2.6	2.4	2.7	2.7	2.5	2.6	2.4	2.3	2.2	2.1	2.1	2.0
Core												
qoq%	0.8	0.6	0.7	0.6	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	2.9	2.8	2.7	2.7	2.6	2.5	2.3	2.2	2.1	2.1
Unemployment rate												
qly average %	4.1	4.2	4.3	4.5	4.4	4.4	4.4	4.3	4.3	4.3	4.2	4.2
Euro-zone - GDP												
qoq%	0.6	0.1	0.3	0.3	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.3
yoy%	1.6	1.5	1.4	1.3	1.1	1.4	1.6	1.7	1.6	1.6	1.4	1.4
year-average				1.5				1.4				1.5
United Kingdom - GDP												
qoq%	0.7	0.2	0.1	0.1	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3
yoy%	1.8	1.4	1.2	1.0	0.6	0.7	0.9	1.1	1.0	1.0	1.1	1.2
year-average				1.3				0.8				1.1
Japan - GDP												
qoq%	0.3	0.5	-0.7	0.1	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.6	1.9	0.6	0.2	0.3	0.2	1.0	1.2	0.9	0.7	0.6	0.6
year-average				1.1				0.7				0.7
Canada - GDP												
qoq%	0.5	-0.5	0.6	0.0	0.3	0.4	0.4	0.5	0.5	0.4	0.3	0.3
yoy%	2.9	1.6	1.4	0.7	0.4	1.3	1.1	1.6	1.8	1.8	1.7	1.5
year-average				1.7				1.1				1.7

Source: NAB Group Economics.

FX Forecasts

	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD/USD	0.70	0.72	0.73	0.73	0.72	0.71	0.71	0.70	0.70	0.70
NZD/USD	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.62	0.62	0.62
USD/JPY	154	152	150	148	146	145	143	142	140	140
EUR/USD	1.20	1.22	1.20	1.23	1.22	1.22	1.21	1.19	1.18	1.18
GBP/USD	1.37	1.38	1.38	1.38	1.36	1.35	1.34	1.34	1.33	1.33
USD/CHF	0.77	0.76	0.75	0.75	0.75	0.75	0.76	0.77	0.78	0.78
USD/CAD	1.36	1.34	1.33	1.33	1.35	1.37	1.37	1.37	1.36	1.36
USD/CNY	6.93	6.90	6.85	6.80	6.80	6.85	6.85	6.85	6.85	6.85

Australian Cross Rates										
AUD/NZD	1.17	1.16	1.16	1.15	1.15	1.13	1.13	1.13	1.13	1.13
AUD/JPY	108	109	110	108	105	103	102	99	98	98
AUD/EUR	0.58	0.59	0.61	0.59	0.59	0.58	0.59	0.59	0.59	0.59
AUD/GBP	0.51	0.52	0.53	0.53	0.53	0.53	0.53	0.52	0.53	0.53
AUD/CHF	0.54	0.55	0.55	0.55	0.54	0.53	0.54	0.54	0.55	0.55
AUD/CAD	0.95	0.96	0.97	0.97	0.97	0.97	0.97	0.96	0.95	0.95
AUD/CNY	4.85	4.97	5.00	4.96	4.90	4.86	4.86	4.80	4.80	4.80

[Global FX Strategist](#) provides details on our FX views

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