



Coping with disruption

Economic and political outlook for the advanced world

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US slows on Trump chaos, Europe mostly resilient

Mediocre outlook

Real economy: a very mixed picture

- **US:** a fundamentally vibrant and resilient economy...
- ...but tariffs, chaos and immigration crackdown raise prices and lower trend growth
- **China:** wasting capital on industrial overcapacities, serious long-term problems
- **Eurozone:** growth lull now, more momentum 2026 (trade deal, low rates, German reforms)

Central banks: transatlantic divergence

- **Fed:** tariffs + immigration crackdown = sticky inflation = limited room to cut rates
- **ECB:** no more cuts, back up to 3% in 2027/2028 as wage pressures mount
- **BoE:** bringing down the bank rate slowly to 3.5% in early 2026

Political and fiscal risks

- Rise in yields as US deficit stays high, Germany borrows more, and Fed stays put in 2026
- Politics could get in the way (Trump chaos, Trump tariffs, French paralysis)

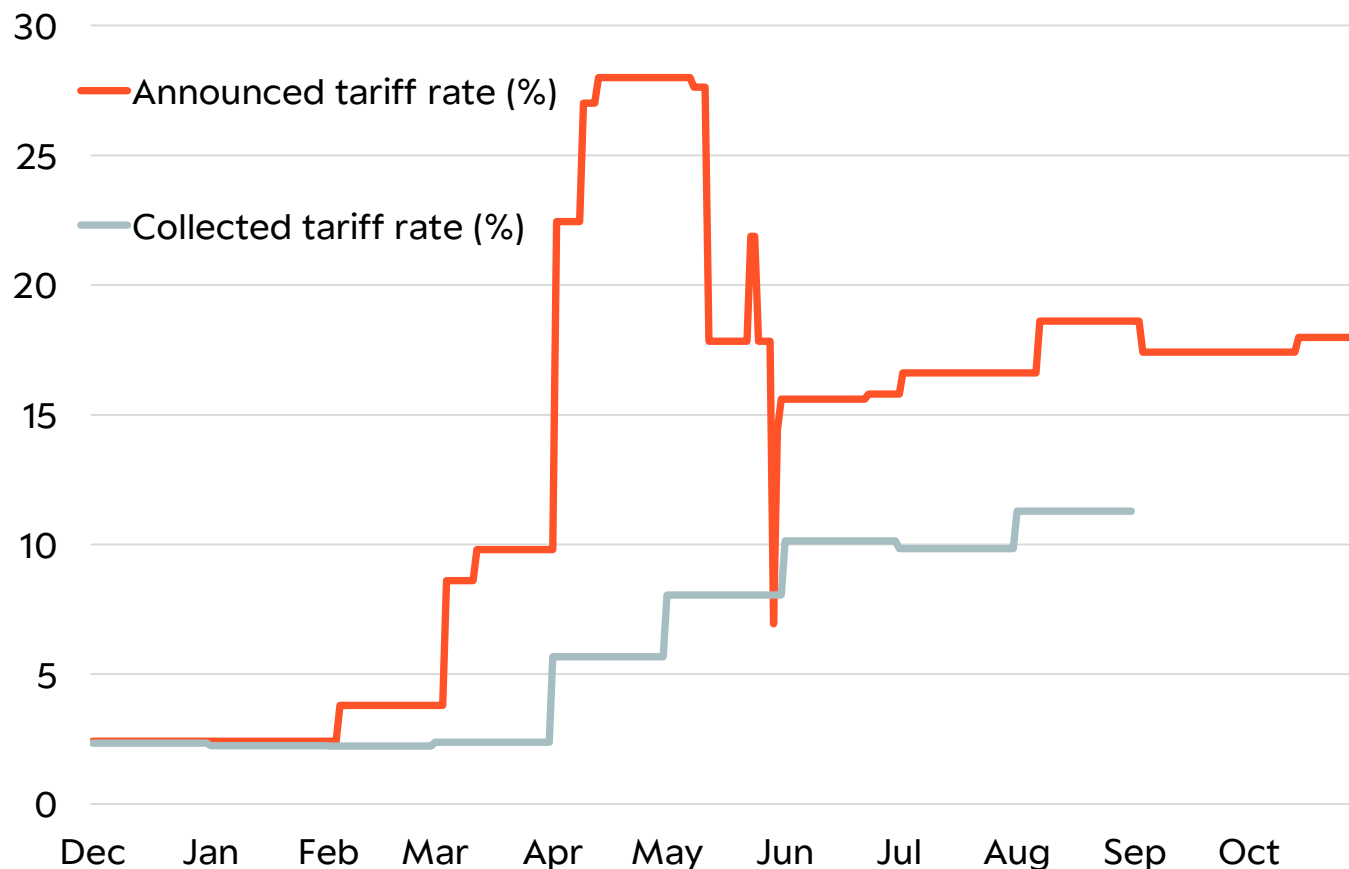


US

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US: reasons to be 'tariff'ied about Trump's tariffs

Average US tariff rate stands well above 15%

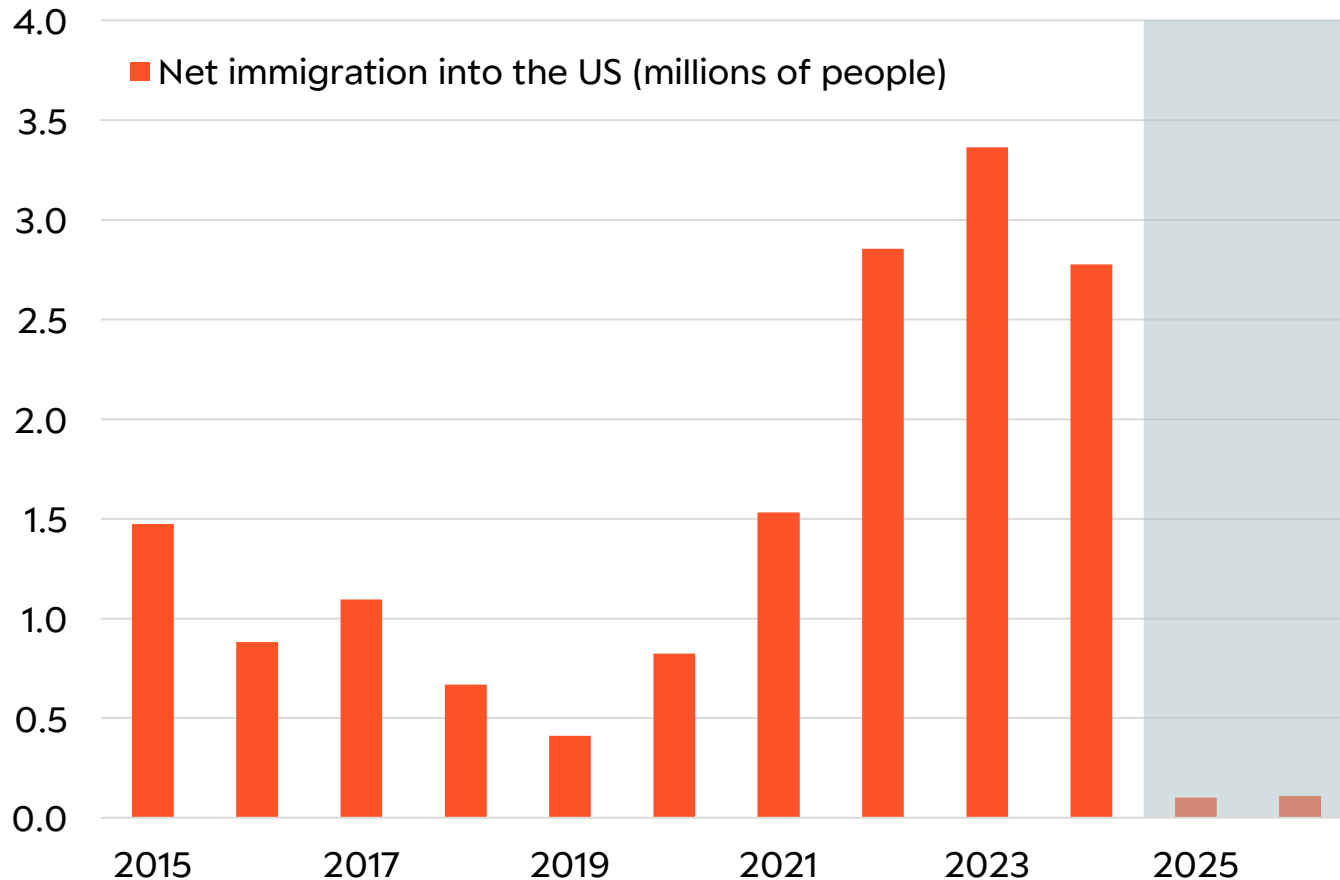


The announced tariff rate refers to Yale Budget Lab's estimate of the US average effective tariff rate. The collected tariff rate refers to federal customs revenue as a percentage of the value of imports. Sources: Bloomberg, Yale Budget Lab, Haver Analytics, US Treasury, Census Bureau, Berenberg.

- U.S. importers now face an average effective tariff rate of around 18%, up from 2.5% in 2024 and the highest level since 1934.
- However, the collected tariff rate (tariff revenue as a share of imports) currently stands at just over 11%.
- Gaps in enforcement, pauses during trade talks, and exemptions for shipments already en route likely all contributed to this discrepancy.
- Going forward, we expect collected tariffs to increase toward the announced rate, resulting in higher inflation and weaker US growth.
- So far, businesses have passed on less than half of the tariff costs to consumers.

US: deporting Goldilocks

Sudden stop to immigration

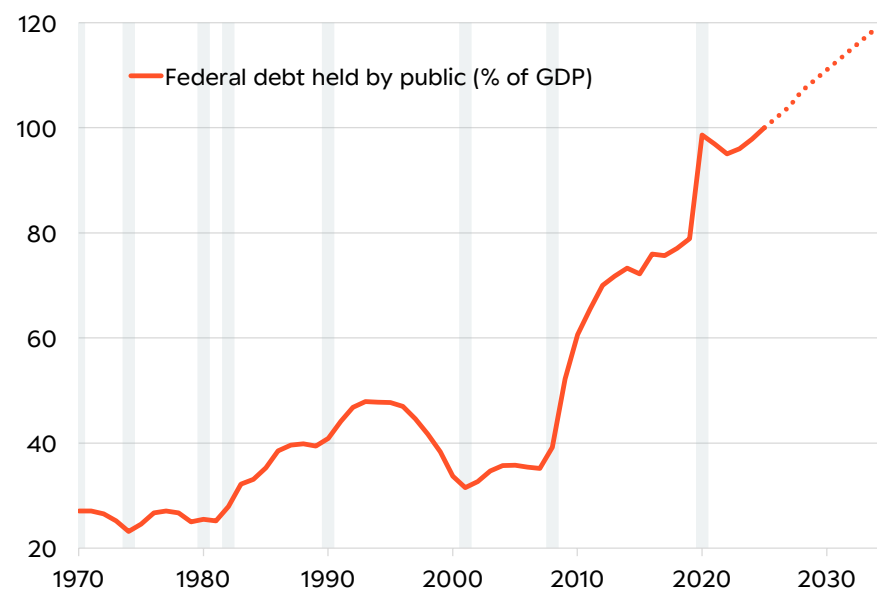


Shaded area is Berenberg projections. Sources: Congressional Budget Office, Berenberg calculations

- Trump delivers on one of his key campaign promises: he is clamping down hard on immigration.
- Immigration crackdown could result in severe labour shortages in key industries such as construction, agriculture and healthcare.
- The sharp slowdown in border crossings, surging deportations, and the rise in voluntary departures raise the possibility that net immigration may turn negative in the US (after around 3 million in both 2023 and 2024).
- If so, the US could lose jobs and still maintain a stable unemployment rate. We expect the US to add around 30k jobs on average in Q4, and possibly around 20k in early 2026.

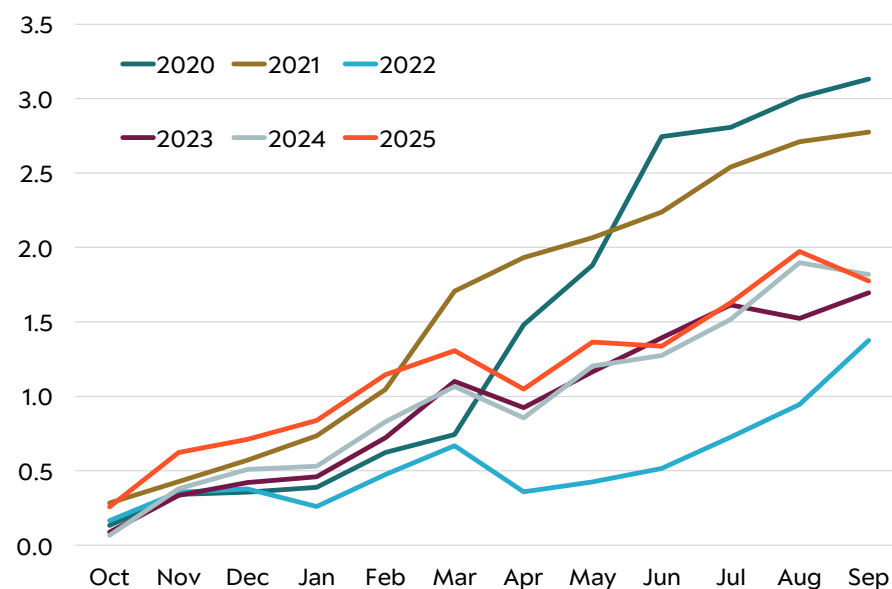
US fiscal outlook: unsustainable

To infinity and beyond!



Shading indicates recession. Dotted lines are projections based on CRFB's adjusted August 2025 baseline. Sources: CRFB, OMB, Haver Analytics

Federal deficit (\$ trillions, Fiscal YTD)

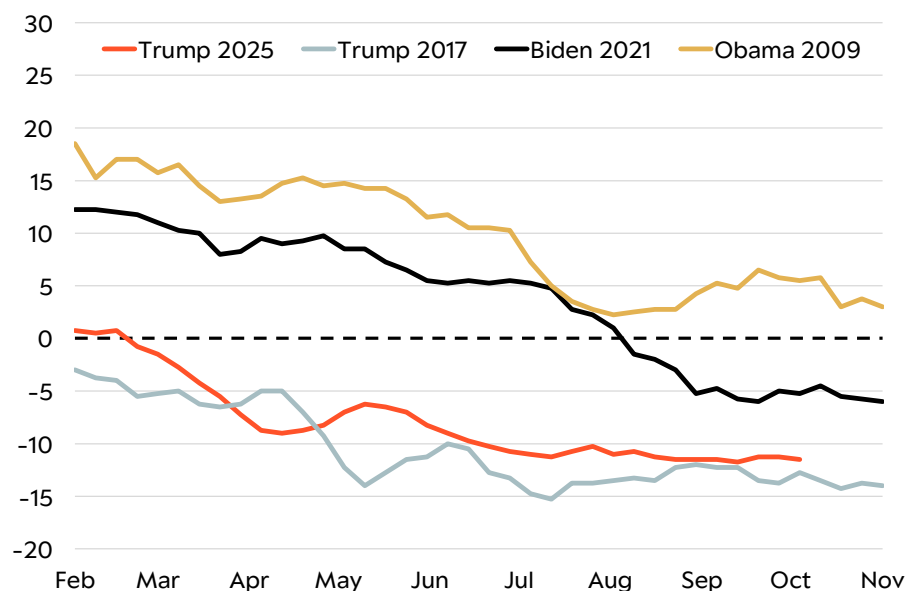


Source: US Treasury, Haver Analytics

- The One Big Beautiful Bill, which became law on 4 July, will add more than \$4 trillion to federal debt (and \$3.4 trillion without additional costs to interest payments) over the next 10 years. If provisions such as business and personal tax cuts that are set to expire in 2028 become permanent, then bill would add approximately \$5.5 trillion to national debt by 2035.
- Even an optimistic estimate of \$400 billion (1.3% of GDP) in annual tariff revenue (\$4 trillion over 10 years) will not be quite enough to offset the fiscal damage from One Big Beautiful Bill". Even after accounting for tariff revenue, the US deficit is on track to run above 6% of GDP in the coming years
- Federal debt held by the public (excluding debt held by intragovernmental organisations) stood at nearly 100% of GDP in 2024, up from 73% in 2014 and 36% in 2004.

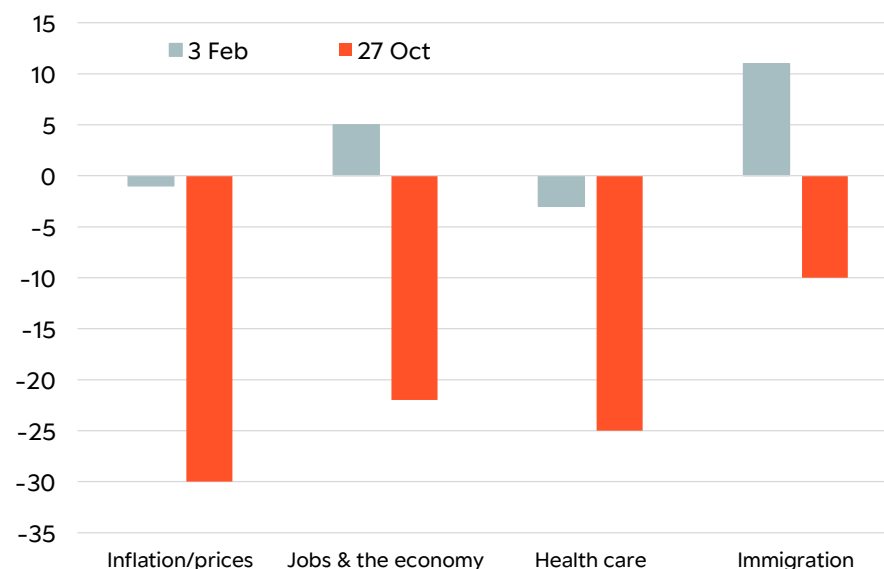
Trump in a slump

Net approval rating, in ppt



Net approval ratings at the same stage of the presidency; weekly data, four-week moving average.
Source: YouGov/The Economist

Net approval by issue, in ppt



Source: YouGov/The Economist

- Approval is under water: More Americans disapprove of Trump than approve – his net approval is similar to his first presidency and well below that of Obama and Biden at the same stages of their presidencies.
- The November 2026 midterm election is only a year away.
- A strategic pivot on immigration, trade and fiscal policies is possible if polling continues to slip.
- Trump's restrictive immigration policies have already harmed the US labor market – and will continue to weigh on growth in the months ahead.

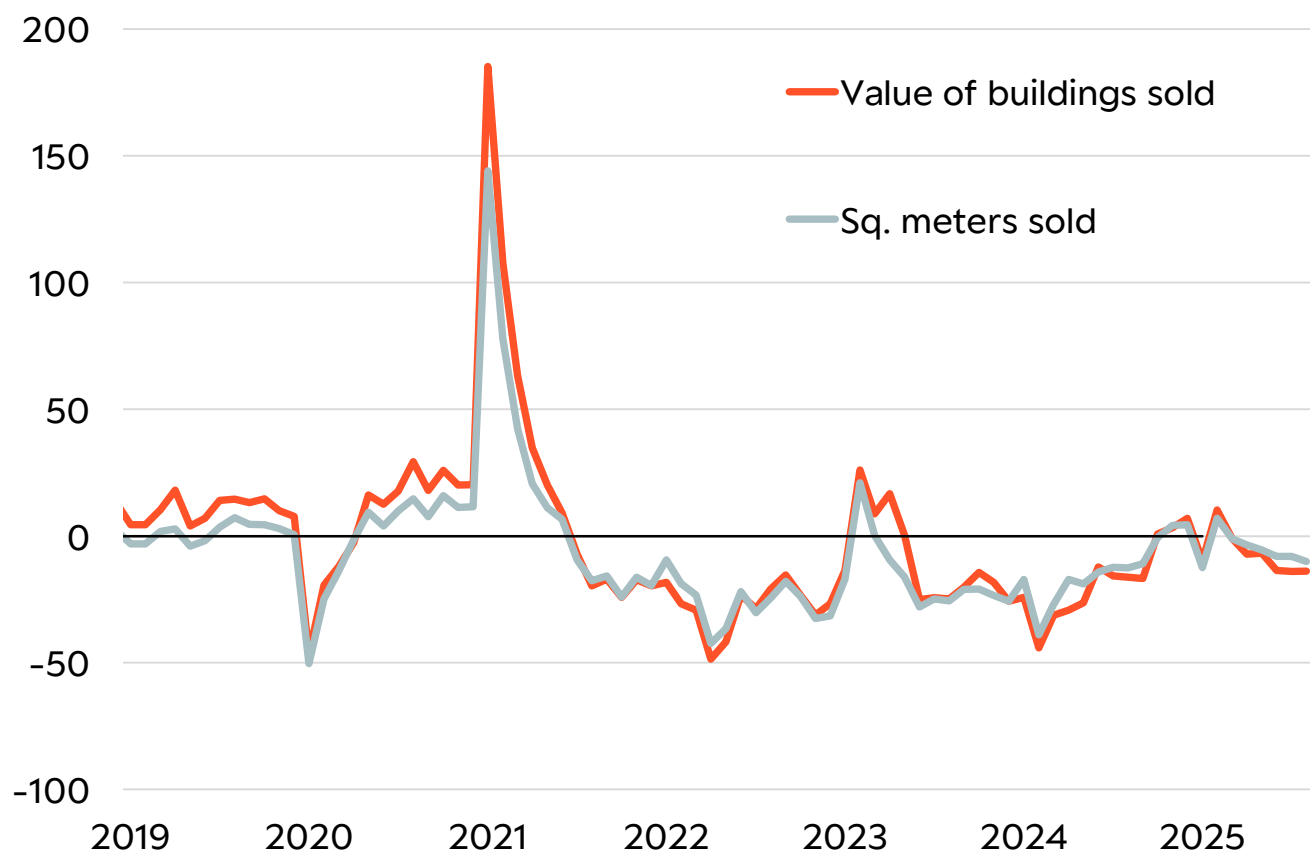


China



China's property market softening again

China residential buildings sold (change yoy in %)

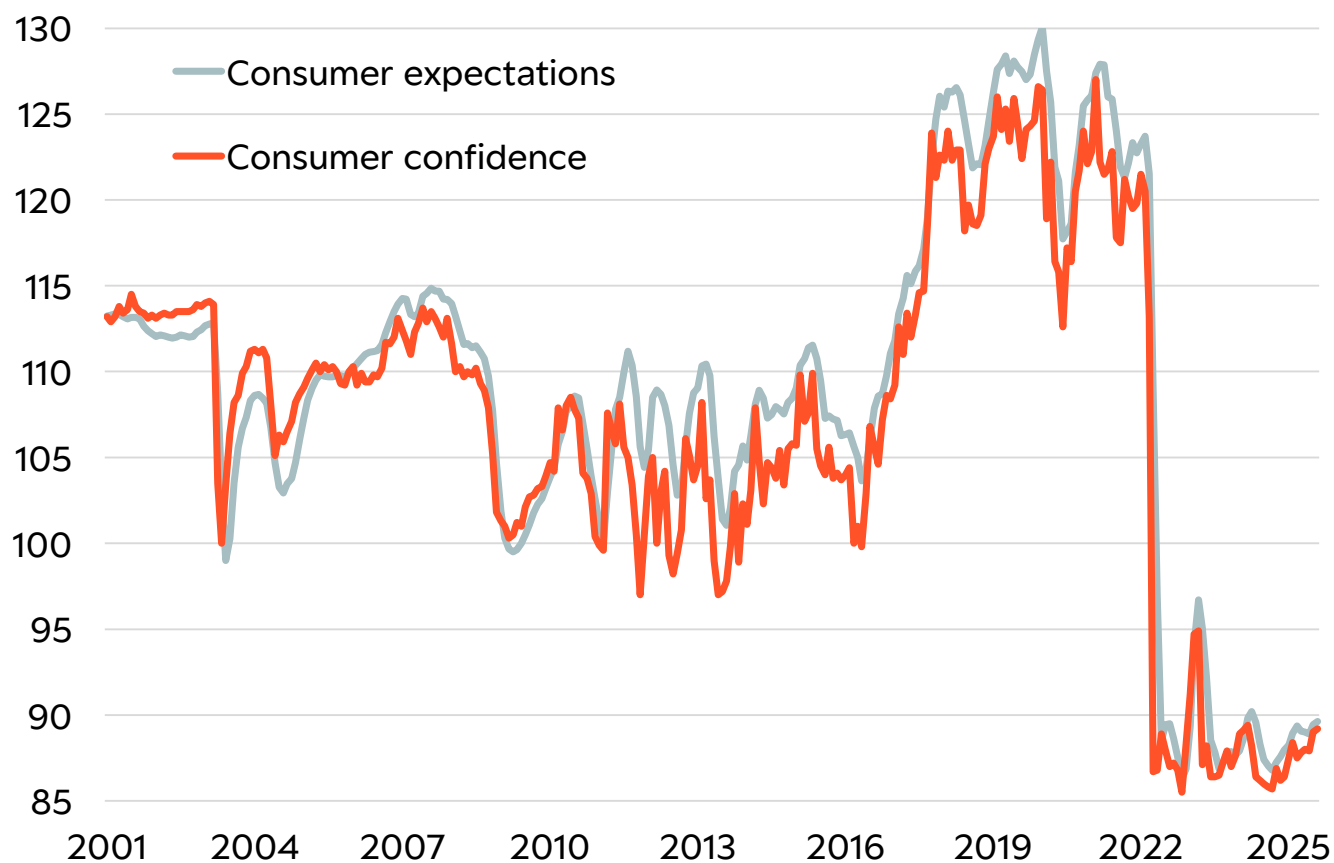


Monthly data. Not Seasonally Adjusted. Source: China National Bureau of Statistics

- After five years of downturn, the housing market showed tentative signs of recovery in late 2025.
- However, the large inventory of unsold housing continues to depress prices.
- Beijing has repeatedly announced new stimulus plans since September 2024, including new measures to dampen the impact of the trade war with the US.
- But the measures remain timid. Likely outcome: "muddle through" for 2025, with trade war hit in Q2 and Q3 2025.
- US-China trade tensions pose a significant risk.

Chinese consumers — chronically pessimistic

**Weak Chinese consumer confidence and expectations
= sluggish domestic demand**



100+ = optimistic. Monthly data. Source: CNBS

- Scarred by the pandemic and the end of a long property boom, consumers are unhappy.
- Bad policy choices exacerbate long-term structural problems.
- The working-age population is declining, the move from rural regions to cities is over, the slow deflating of the credit and real-estate bubble retards growth.
- The attempt to buy global market share is backfiring – wasting capital at home and meeting stiffer resistance abroad.
- The new stimulus programme will help – but only for a while.



Europe

Europe: resilient despite serious headwinds

More momentum from late 2025 onwards

Serious headwinds

- Trump chaos, Trump tariffs
- China struggles – and tries to flood global markets with its excess output
- Policy paralysis in France, government bickering in Berlin
- Consumers hold back in uncertain times

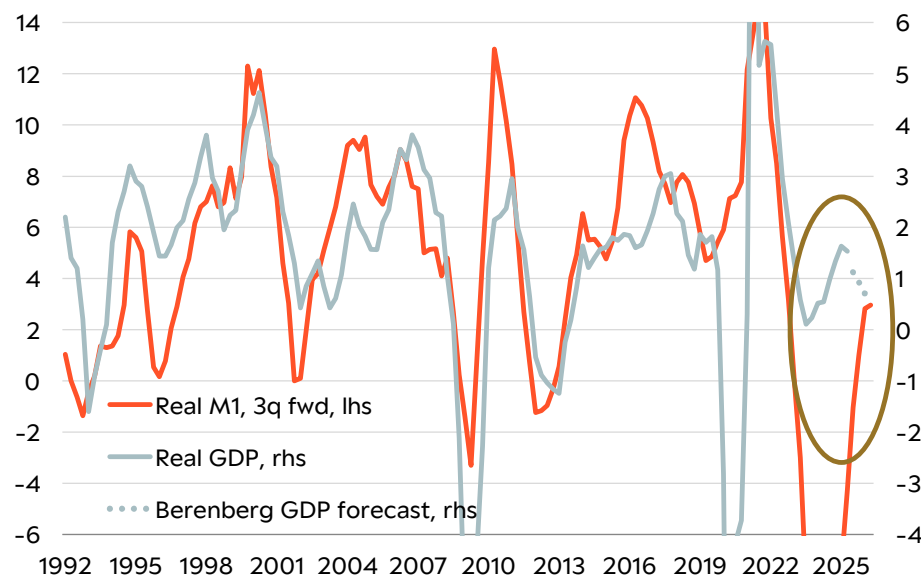
Return to normal growth during 2026 – above-trend in 2027

- Rising real incomes, stable labour markets, lower rates = more consumer spending
- ECB rate cuts are working (but higher long yields due to more German public borrowing may retard the recovery in residential construction slightly)
- German government: end of uncertainty, fiscal boost, some pro-growth reforms

Key assumption: trade deal with Trump (15% US tariff on most EU goods) sticks

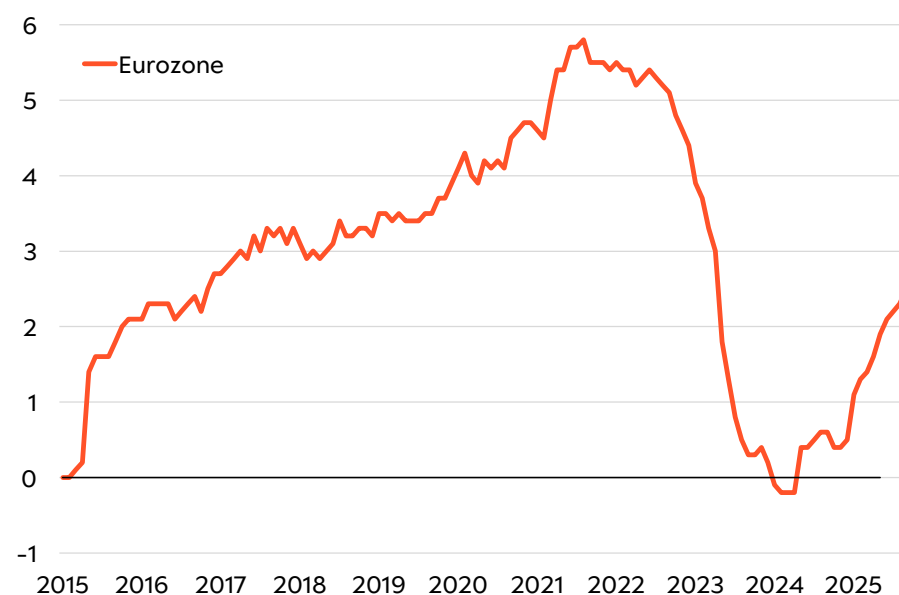
ECB monetary policy is working

Real M1 money supply and GDP growth (% yoy)



Sources: ECB, Eurostat, Berenberg.

Loans to households for house purchase (% yoy)

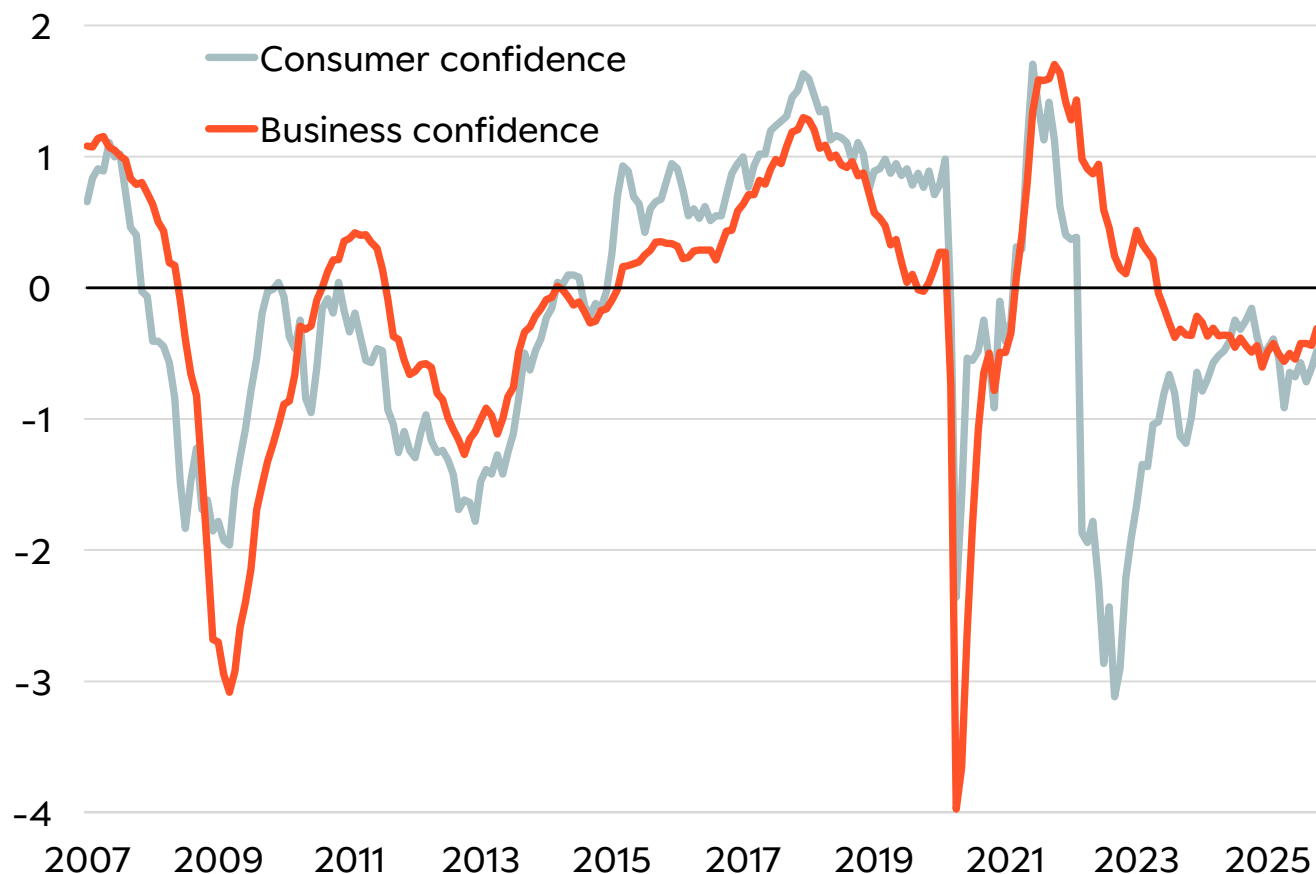


Loans from Eurozone monetary financial institutions; growth of notional stocks (excluding non-transactions); monthly data. Sources: ECB, Haver.

- The ECB cut its deposit rate from 4% in June 2024 to 2.0% in June 2025. Lower policy rates filter through to the real economy over time. We expect not further cut as the economy responds to the recent easing.
- Real M1 growth often signals cyclical turning points three quarters ahead of time. It points up.
- Mortgage volumes for Eurozone households are turning up – growth rates still have more upside.

Eurozone confidence: still subdued

Eurozone business and consumer confidence

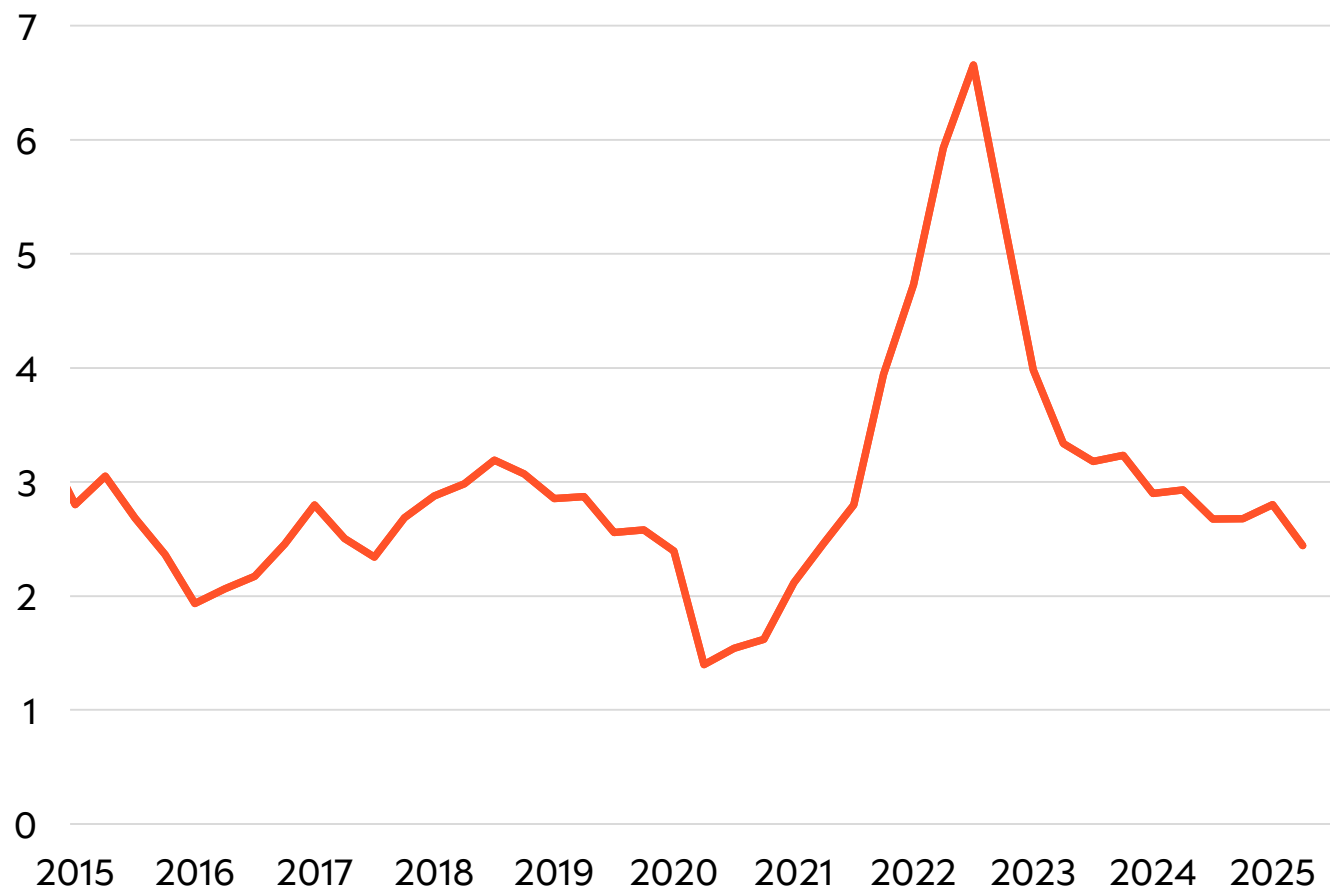


Difference from mean in standard deviations, business confidence as weighted average of industry (50%), services (37.5%), retail trade (6.25%) and construction (6.25%). Sources: European Commission, Berenberg

- After the Putin shock of 2022, consumer confidence rebounded when gas-related concerns eased in 2021.
- In 2024, Trump and his chaotic policies started to scare consumers again.
- China's attempt to offload its industrial overcapacities onto global markets hurts industry.
- The trade deal between the USA and the EU has recently eased some of the concerns.
- Eurozone growth will gain momentum as uncertainty decreases and the ECB rate cuts begin to take effect.
- Expect more growth from late 2025 onwards.

European energy import bill: no obstacle to growth

Eurozone imports of fossil fuels, in % of GDP

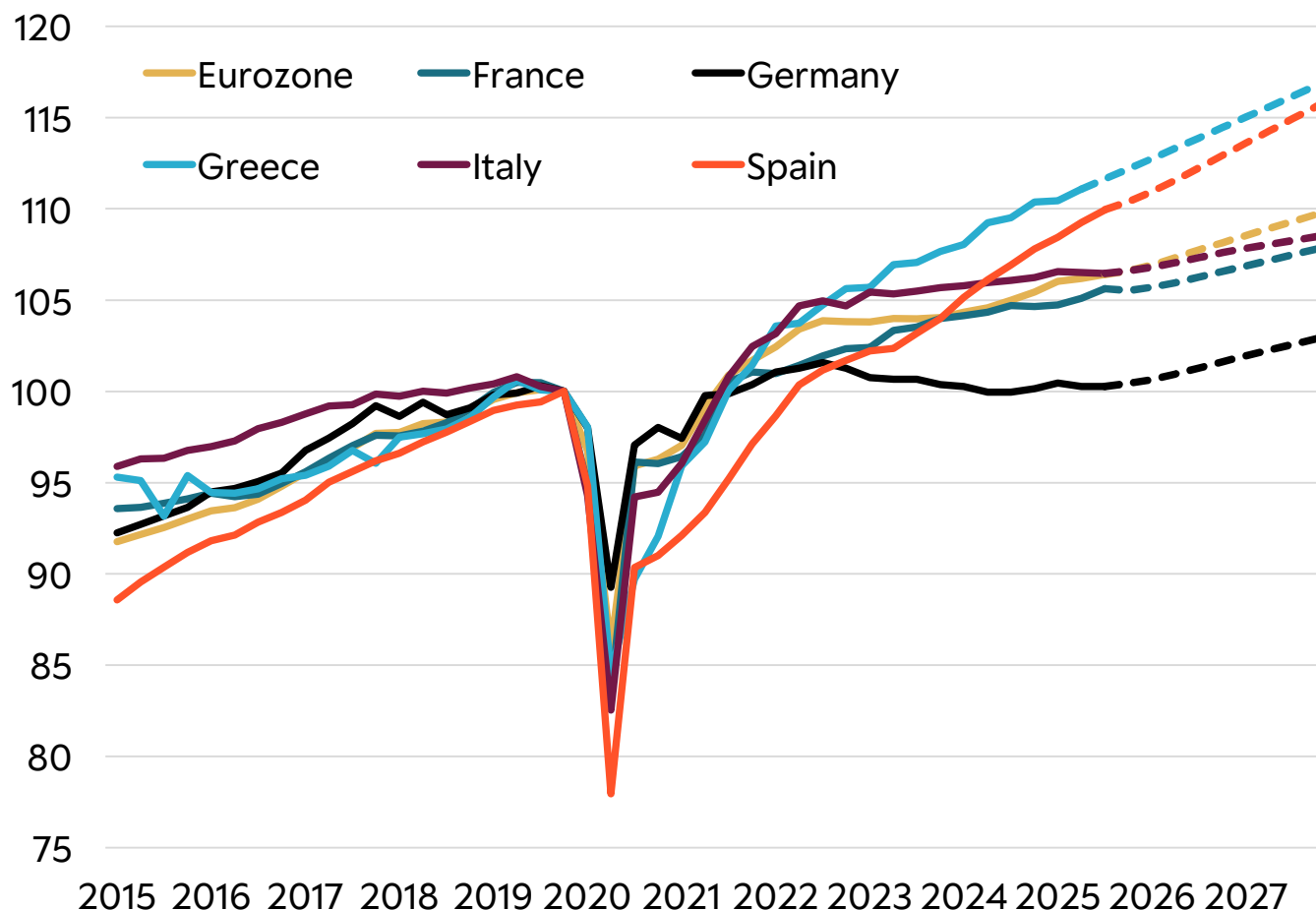


Imports of fossil fuels including oil, natural gas and coal, in % of Eurozone GDP. Source: Eurostat

- The Putin shock hit Europe hard in 2022 and 2023.
- But helped by a major correction in oil and gas prices...
- ...and serious energy savings...
- ...the Eurozone's import bill for fossil fuels is back to where it was before the Putin shock.
- The dark side of the story: As the composition of GDP has shifted away from energy-intensive industries, chemicals output has fallen by 20% since 2021.
- A sustained rise/fall in the oil prices by €10 per barrel lifts/lowers the Eurozone price level by c0.3ppt within two months – followed by second-round effects of 0.1–0.15ppt in the twelve months thereafter.

Eurozone members: strong south, weak Germany

Real GDP: pre-pandemic level = 100

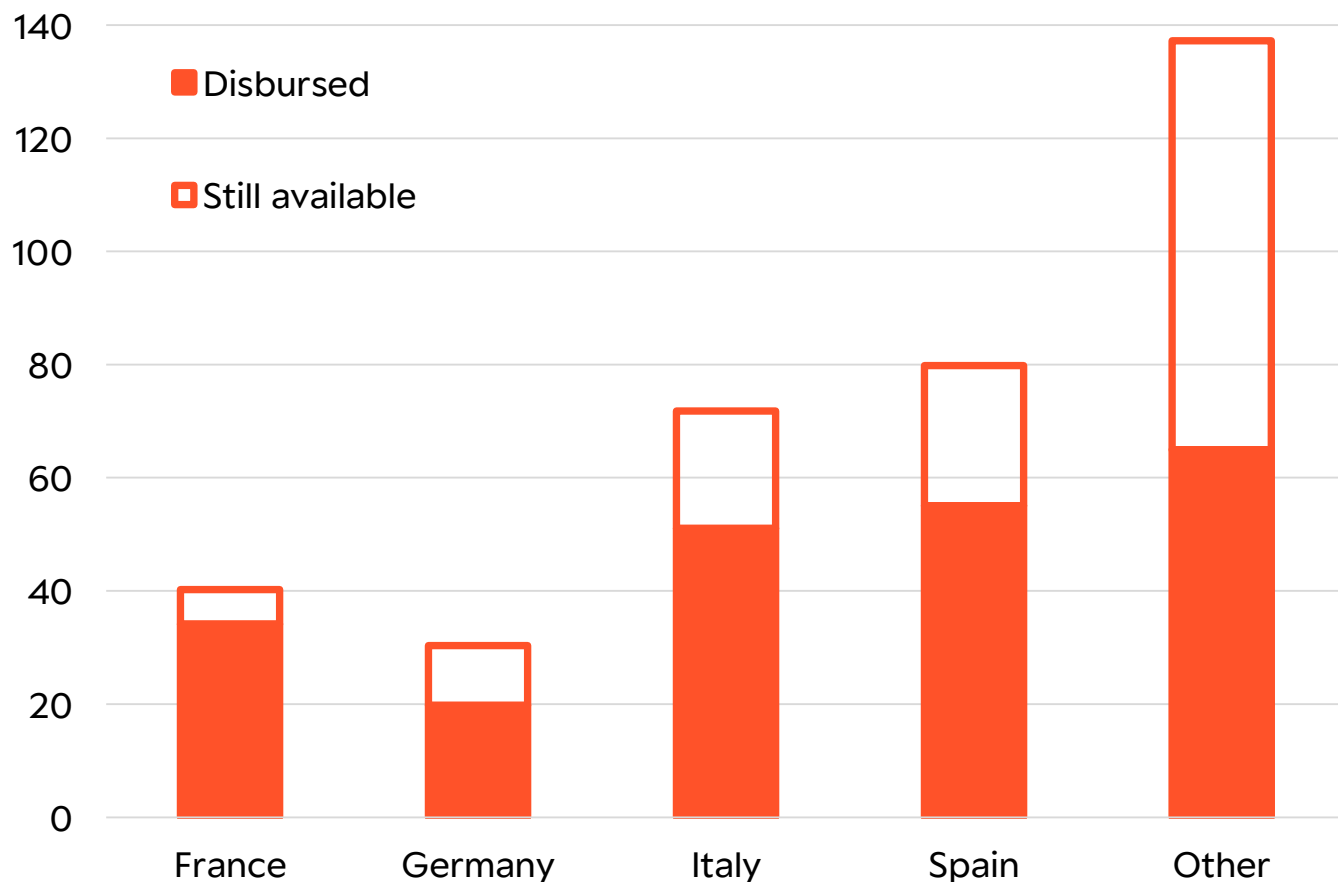


Real GDP, Q4 2019 = 100. Quarterly data. Source: Eurostat

- **The euro crisis triggered reforms at the periphery**
- **Germany:** stagnation since late 2021. Putin's war and Chinese troubles have hit Germany hard.
- **France** ahead of Germany. Macron's reforms have strengthened France – but policy paralysis now hurts.
- **Italy:** Reforms show results. More exports, more investment. EU and domestic fiscal stimulus.
- But is Italy raising its low trend growth enough? Still a very open question.
- **Spain:** strong gains after slow post-Covid rebound.
- **Greece:** star performer.

Large EU transfers still available in the near term

EU pandemic recovery grants (in billion euros)

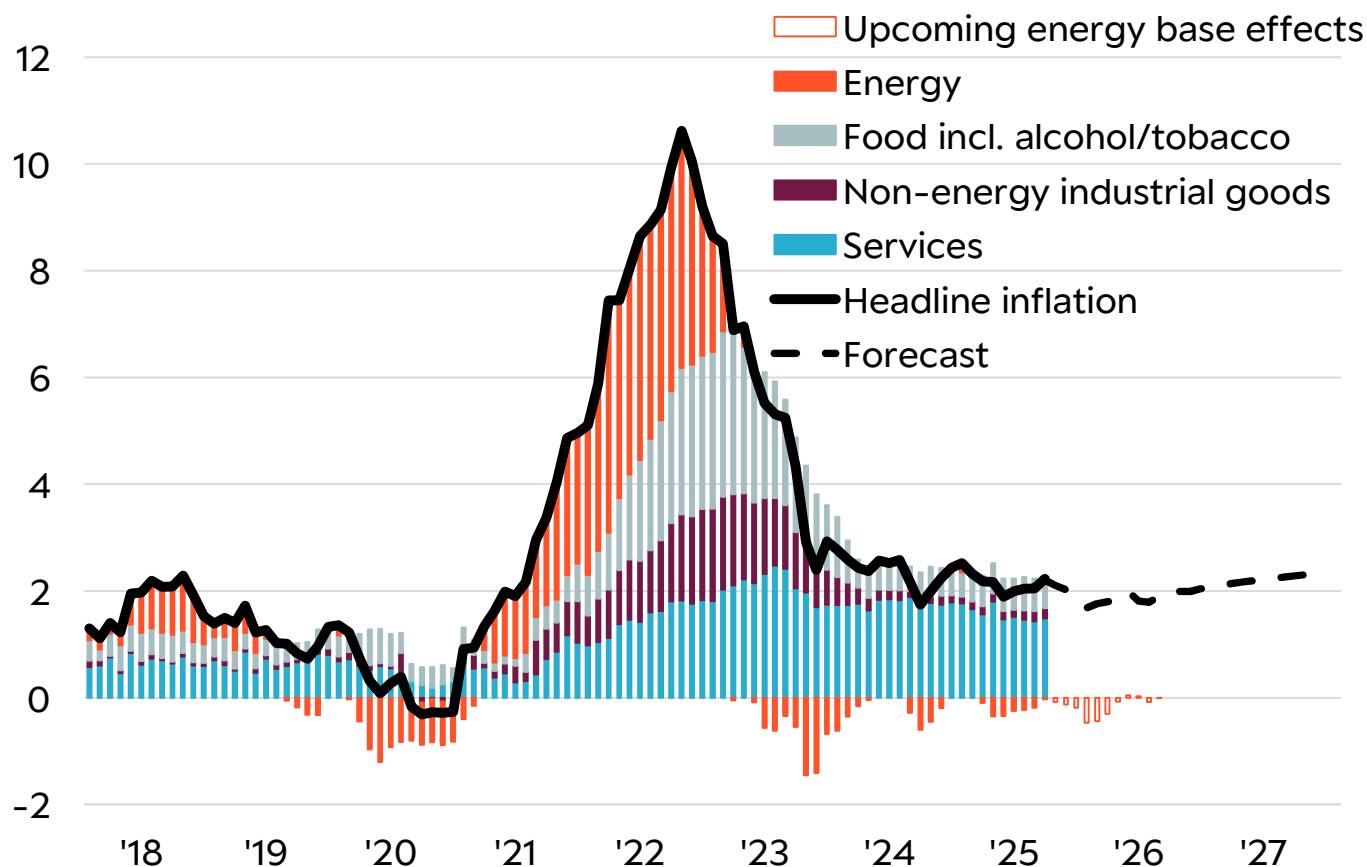


Data as of 11 June 2025. Grant allocations in 2022 prices. Source: European Commission

- The EU is allowing recipients of transfer funds to spend the money on defence
- During the COVID crisis, the EU set up a large-scale transfer programme, allocating c€360bn in grants (in 2022 prices) to individual member states, of which c€130bn are still unspent
- These grants can still be disbursed until end-2026
- Member states can also draw "cohesion" money from the regular multi-annual EU budget 2021-2027 for defence-related projects
- The EU offered an escape clause to exclude additional annual defence spending (vs. 2021 baseline) of up to 1.5% of GDP from fiscal rules in 2025-2028

Inflation: the half-triumph of team transitory

Drivers of inflation in the Eurozone

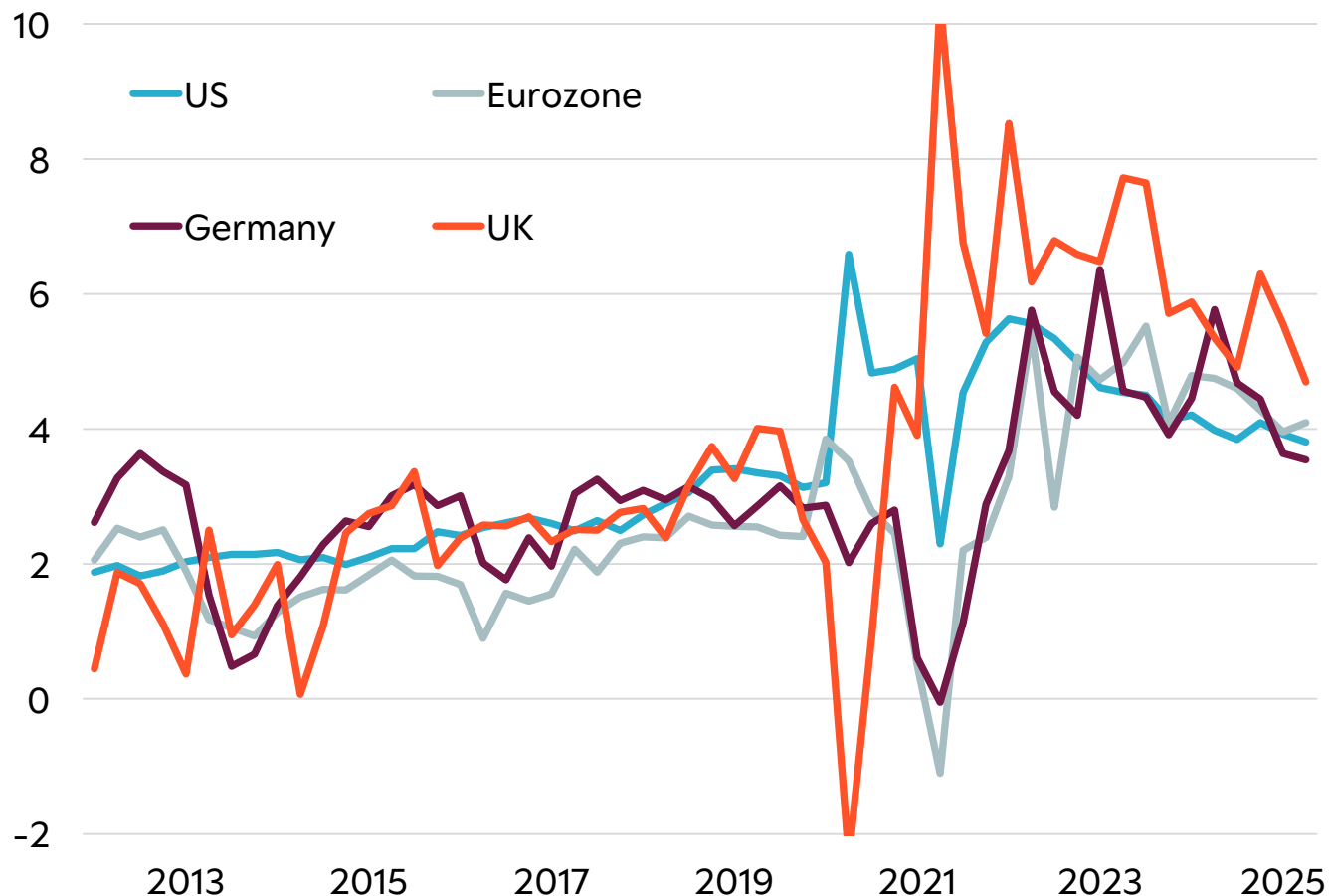


- Inflation above 10% in late 2022, mostly due to energy and food prices.
- Energy prices started to correct in 2023 already.
- Services prices slowest to adjust along the pricing chain – but past peak pressure, too.
- Inflation 2.2% in September after 2.0% in June, July and August.
- Energy prices likely to weigh down headline inflation for now.
- But expansionary fiscal policies could push inflation up again, towards 2.4% in late 2027.

Compared to the previous year in % or in percentage points; not seasonally adjusted; includes energy inflation base effects for the next 12 months if energy prices stay at the level of the last known month. This implicitly assumes that the June 2025 oil price spike will not last. Sources: Eurostat, Berenberg

Wage inflation: spot the underlying uptrend

US and European wages (change yoy in %)

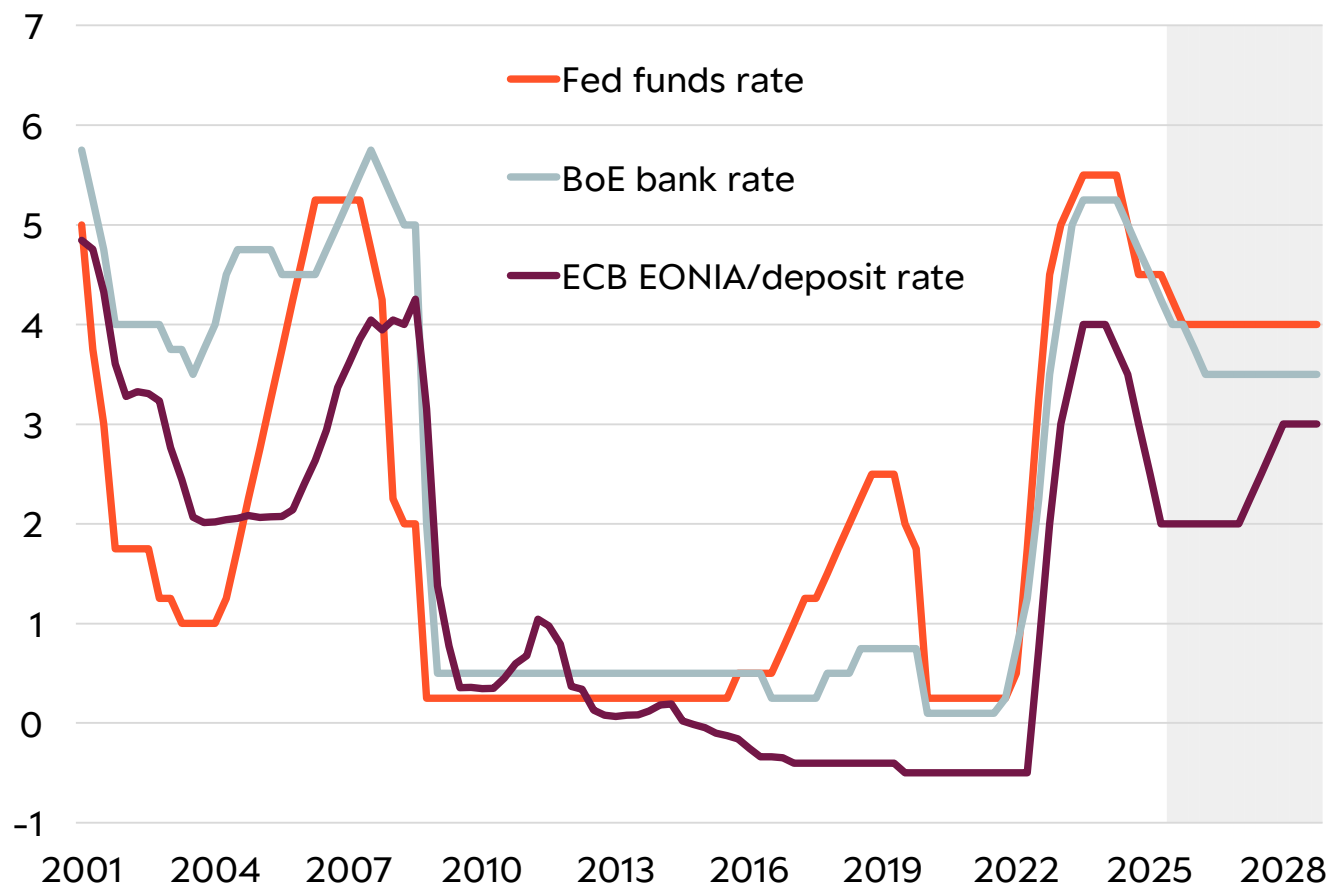


Earnings in the private sector (% yoy); per hour; US data exclude benefits, irregular bonuses, retroactive items; quarterly data. Sources: Eurostat, BLS, Destatis, ONS.

- Wage inflation up on trend since 2010s on both sides of the Atlantic.
- US wage inflation has decelerated to a more normal rate of c4% after the 2021/2022 spike amid less buoyant demand growth and slower payrolls gains.
- The less flexible Eurozone market reacts more slowly to changing fundamentals. Eurozone wages often reflect past inflation as unions try to protect or raise real incomes.
- Eurozone: as inflation recedes, wage gains to moderate to 3% by late 2025.
- Wage growth back to 4% over the course of 2027 amid worsening labour shortages.
- UK: minimum wage hikes and higher payroll taxes keep wage gains elevated – but the worst is over.

Central bank outlook: almost there

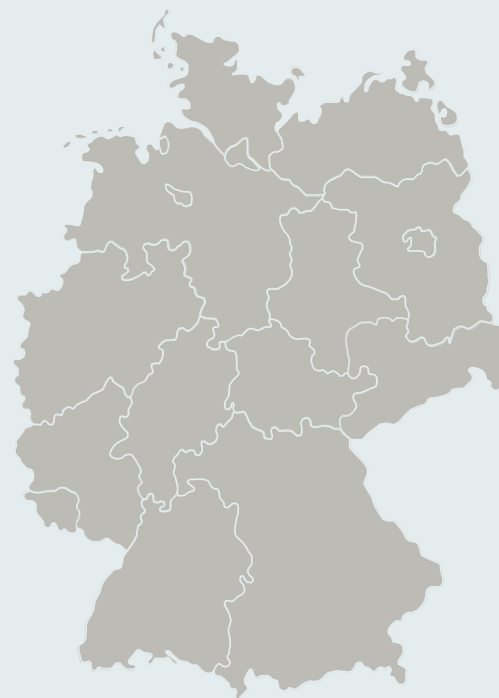
Key policy rates



- Fed: Trump fiscal stimulus + tariffs = less room for rate cuts. Expect only two 25bp cuts in 2H 2025. On hold in 2026.
- ECB: The rate cut on 5 June most likely marked the end of the easing cycle.
- In 2027/28, the ECB will likely have to respond to a rebound in wage pressures and core inflation by raising its deposit rate back to 3%.
- More ECB rate cuts in 2026 if trade tensions with the US escalate again and hurt Eurozone growth significantly.
- BoE: Bringing down the bank rate slowly to 3.5% till mid 2026.
- Labour shortages will keep wage inflation and services inflation elevated.
- Rates will not return to ultra-low levels.

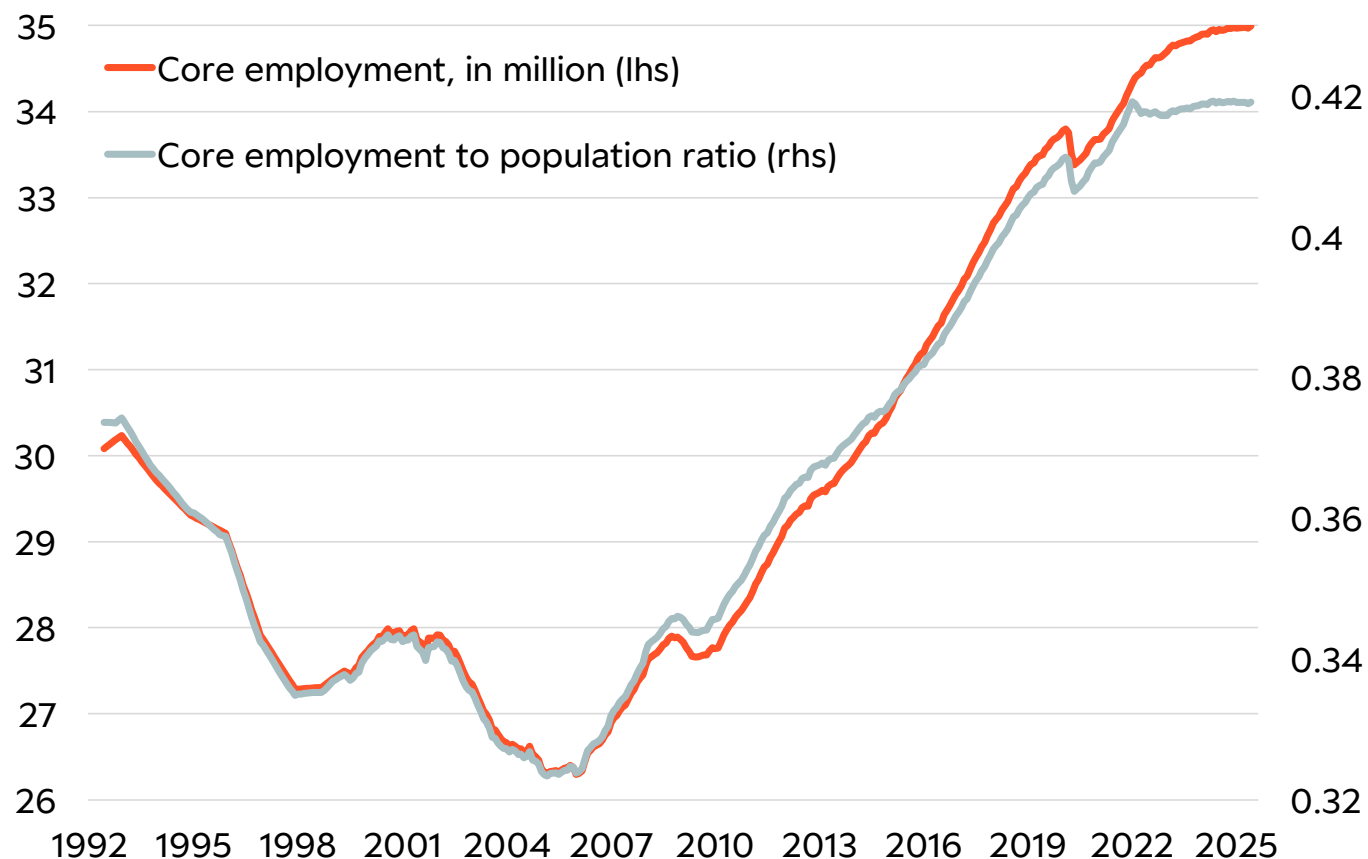


Germany



The great German jobs engine – starting to sputter

Germany's employment miracle after the 2004 reforms

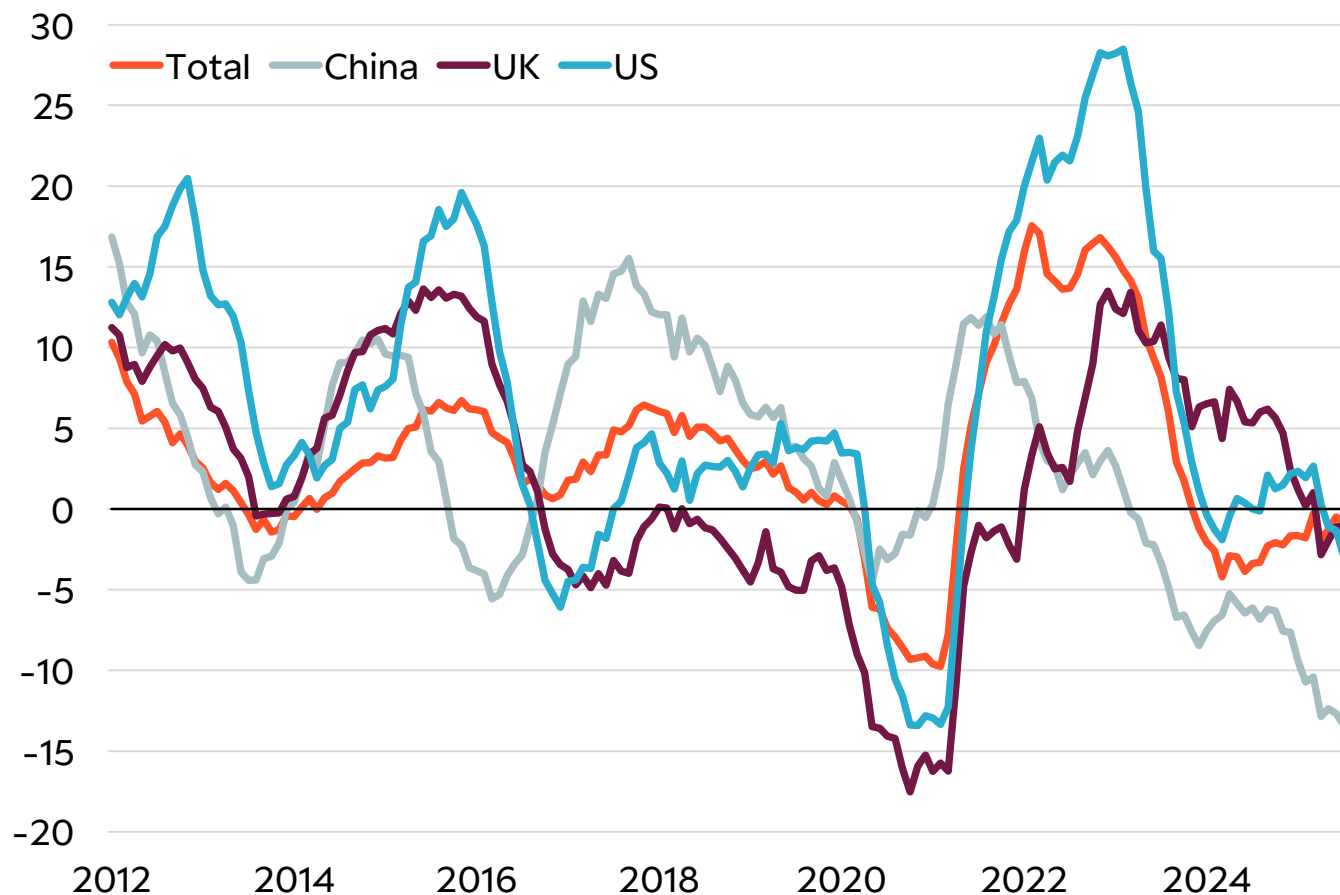


Core employment = employment subject to payroll taxes, in million on left-hand scale; as share of resident population on right-hand scale.
Sources: Arbeitsagentur, Bundesbank

- After a brief reunification boom in the early 1990s, Germany turned into the "sick man of Europe".
- Companies relocated jobs abroad to escape excessive regulations and non-wage labour costs.
- Turnaround after the "Agenda 2010" reforms of 2003/2005: Since early 2006, the number of core jobs has surged by 33%.
- More jobs = higher living standards, more tax receipts, fiscal space.
- Labour shortage: employment flat despite economic stagnation.
- 35mn core employees, o/w 5.5mn are non-Germans.
- Qualified immigration can help – Ukrainian refugees are slowly finding work

German exports downturn: the China drag

German goods exports to key non-Eurozone destinations, yoy change in %

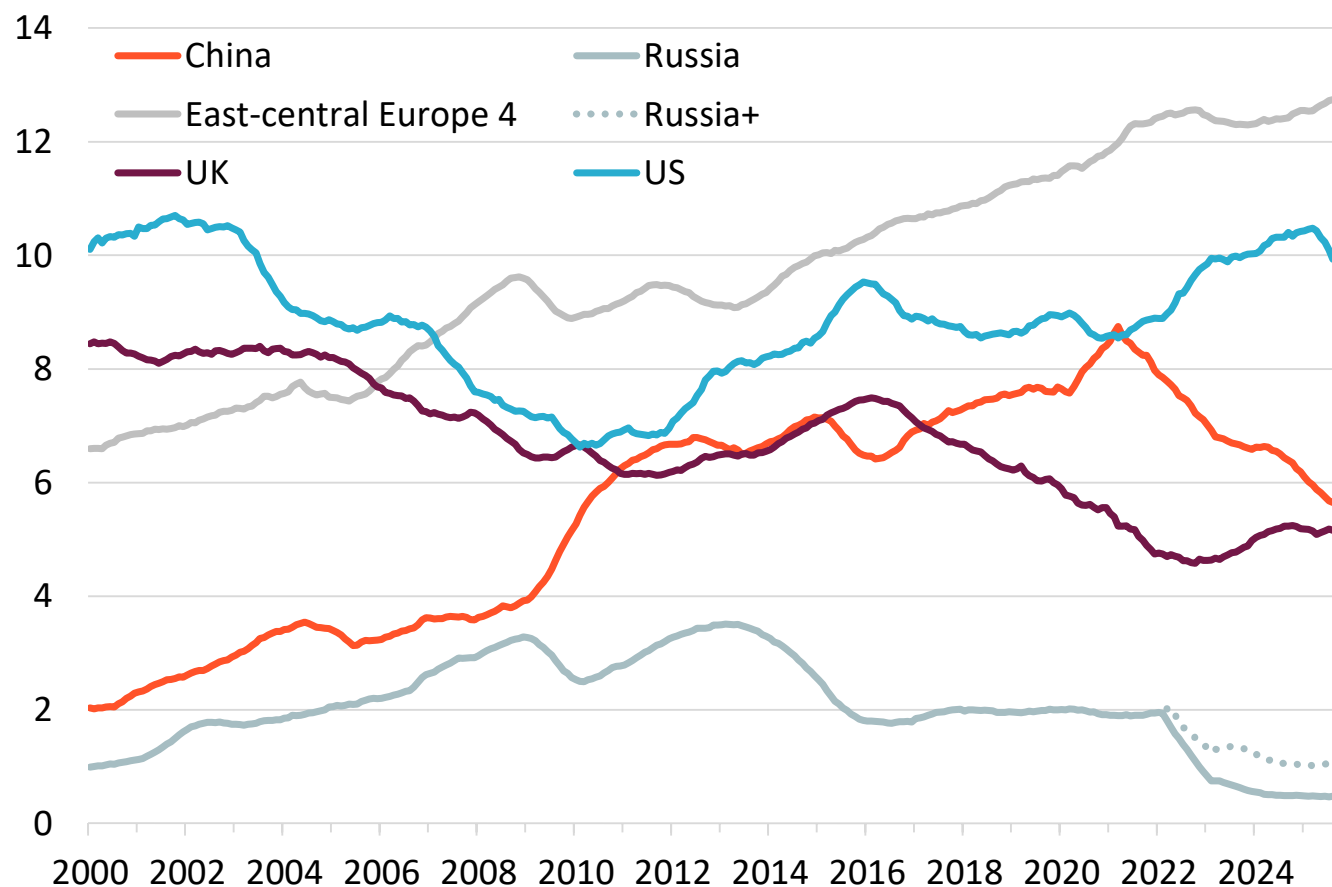


German goods exports, nominal values, yoy change in %, 12m moving averages; Source: Destatis.

- German goods export values are falling.
- The drop in exports to China is the key driver.
- After a post-pandemic surge in 2022 and a temporary pre-tariff bounce in early 2025, exports to the US are also falling.
- Exports to the UK are also declining after strong gains from 2022 to early 2024.
- Rising exports to east-central Europe are limiting the overall damage.

German exports: how important is China?

Share in German goods exports, in %

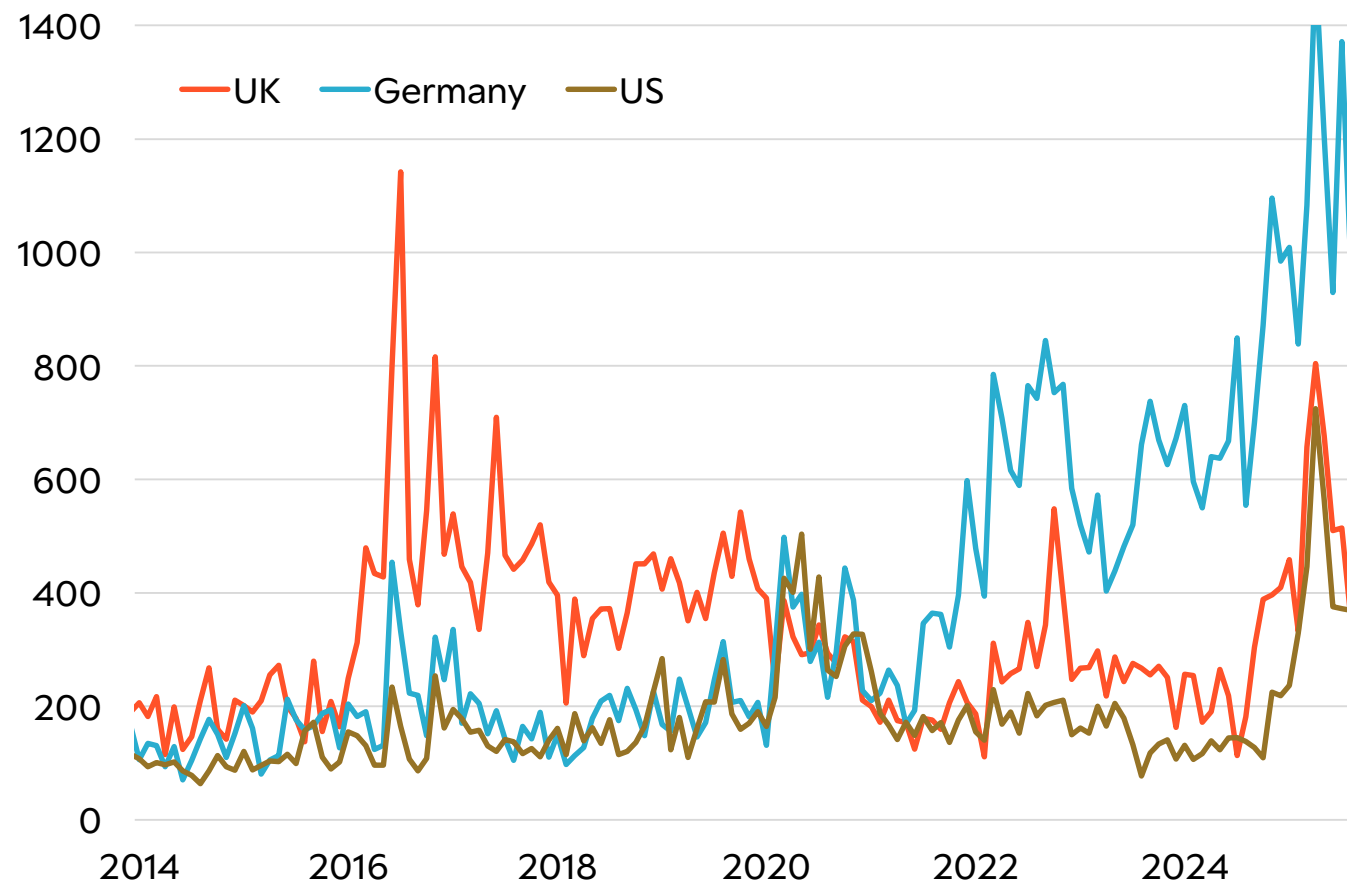


12m moving averages; China includes Hong Kong and Macao; east-central Europe 4: Poland, Czech Republic, Slovakia, Hungary; Russia+ includes 80% share of post-invasion increase to Turkey, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan. Source: Destatis

- US well ahead of China again. But Trump's tariffs will depress exports to the US
- China matters. But exports to China are falling.
- Neighbours matter most: Ongoing gains in exports to east-central Europe.
- Germany now exports more to dynamic Poland (6.3% of goods exports) than to decelerating China (5.6%).
- UK: Spot the Brexit effect – referendum in mid-2016. Fewer German machine tools, less investment, less productivity growth. Rebound after Sunak struck a deal with EU.
- Until 2013, Russia was a dynamic emerging market. But after its first attack on Ukraine in 2014, it decoupled from the uptrend of east-central Europe.
- Sanctions are a slow poison. Russia can circumvent sanctions – but at higher costs.

Uncertain times — but the worst could be over

Economic policy uncertainty: finally receding in Germany?

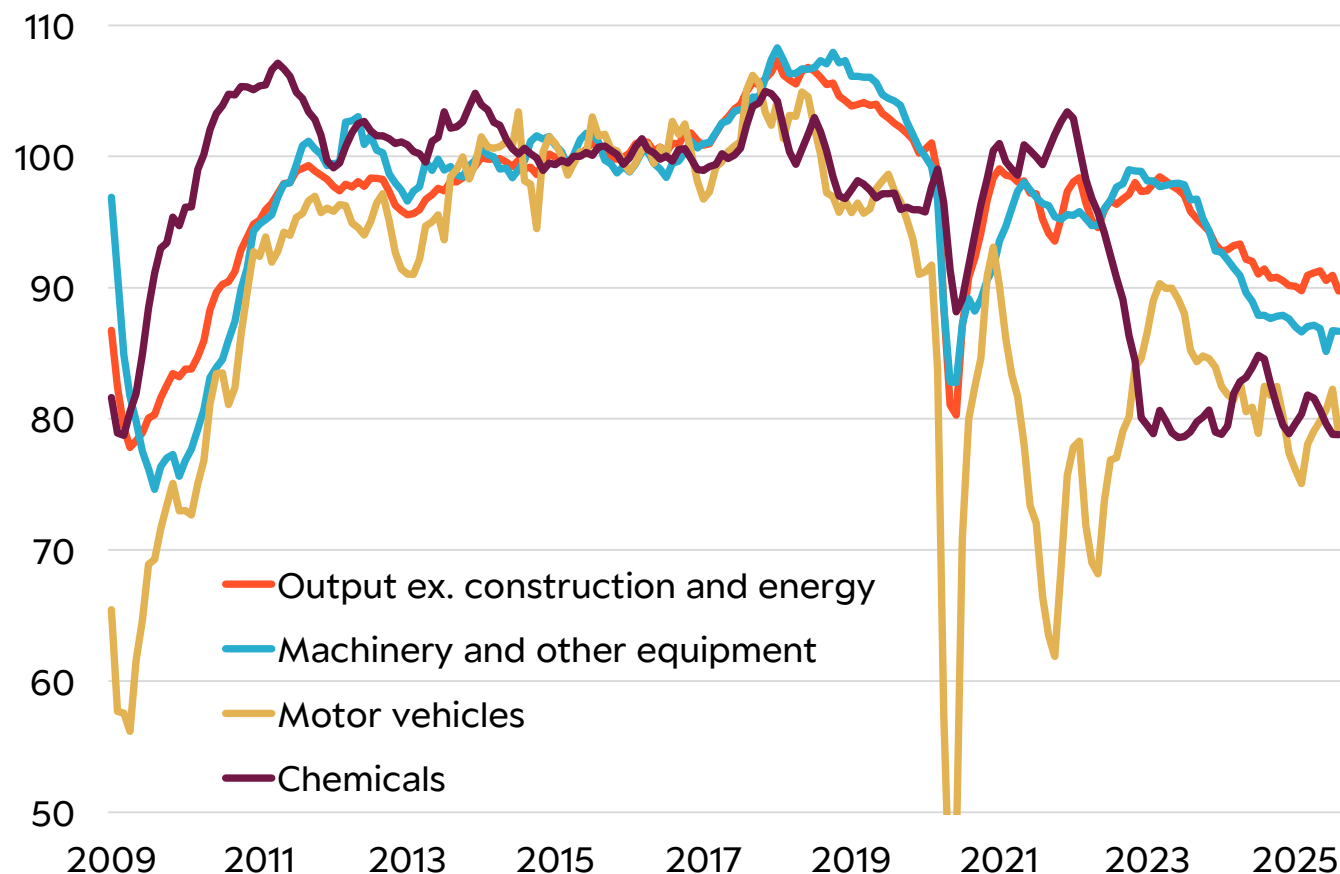


News-based economic policy uncertainty indices. Sources: PolicyUncertainty.com, Haver Analytics

- When Germany enjoyed its “golden decade” until 2019, economic policy was on a steady course.
- Policy uncertainty spiked when Putin threw energy policy into disarray.
- In late 2023, Germany’s constitutional court insisted on a strict interpretation of the debt brake. The need to find savings in the 2024 and 2025 budgets created extra uncertainty.
- As the new government implements its agenda, uncertainty is receding.
- Trump = US uncertainty.

German industry: stabilising at last?

Early 2025 bounce to beat tariffs: German output (2015 = 100)



3-month moving averages; seasonally and working day adjusted monthly data. Source: Destatis

- Gas price shock of 2022: chemicals output down sharply – overall output stable until 2023.
- Fall in global trade and inventory correction in manufacturing hit German industry hard in 2023.
- Chemicals: 37% of German industrial use of gas, 7.3% of industry, 1.5% of GDP; 3.2% of total energy use.
- Energy-intensive output including many chemicals migrates to the US. 2-3% of capacity is likely lost.
- Domestic uncertainties worsened the drop 2024.
- Car output has started to stabilise, machine tool sector still weak.
- Manufacturing gross value added held up better than industrial output index – moving up the value chain and reshoring of intermediate production?

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German: fiscal boost as a game changer

New government plans to spend more and implement some pro-growth reforms

Fiscal bazooka: c2.5% of GDP – but to be deployed in stages

- Defence spending above 1% of GDP to be exempted from debt brake ceiling
- Extra space in regular budget by re-classifying spending as defense (c€17bn/year)
- €500bn fund for additional infrastructure investment for 12 years (c€40bn/year)
- Federal states can run cyclically adjusted deficits of 0.35% of GDP (c€16bn/year)
- Federal budget 2025, budget draft 2026: federal spending (core budget and three major off-budget funds) to rise 9.8% in 2025 and 6.7% 2026

Likely impact

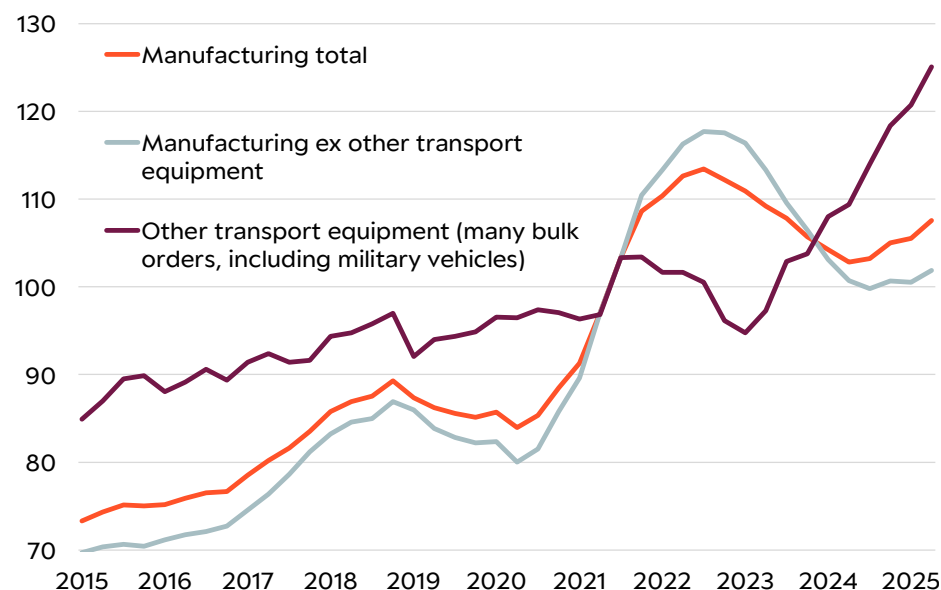
- Actual spending likely to be far less frontloaded than the fiscal plans
- Expect share of public spending to rise by 0.5ppt of GDP for 5 years from late 2025 onwards
- Impact +0.3ppt for annual real growth, +0.2ppt for inflation in next few years

Fiscal problems

- No plan to curtail public consumption
- No plan to rein in the rise in payroll taxes that fund pension and elderly-care systems

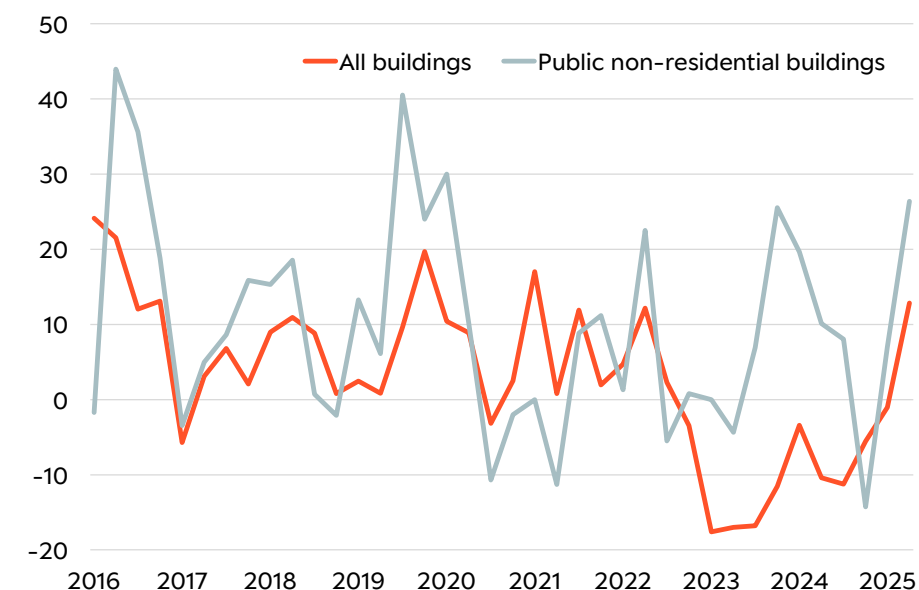
German orders and building permits: Upturn ahead?

German manufacturing order volumes (2021 = 100)



Unfilled orders; levels; seasonally adjusted quarterly data. Source: Destatis

Value of granted building permits (% yoy)

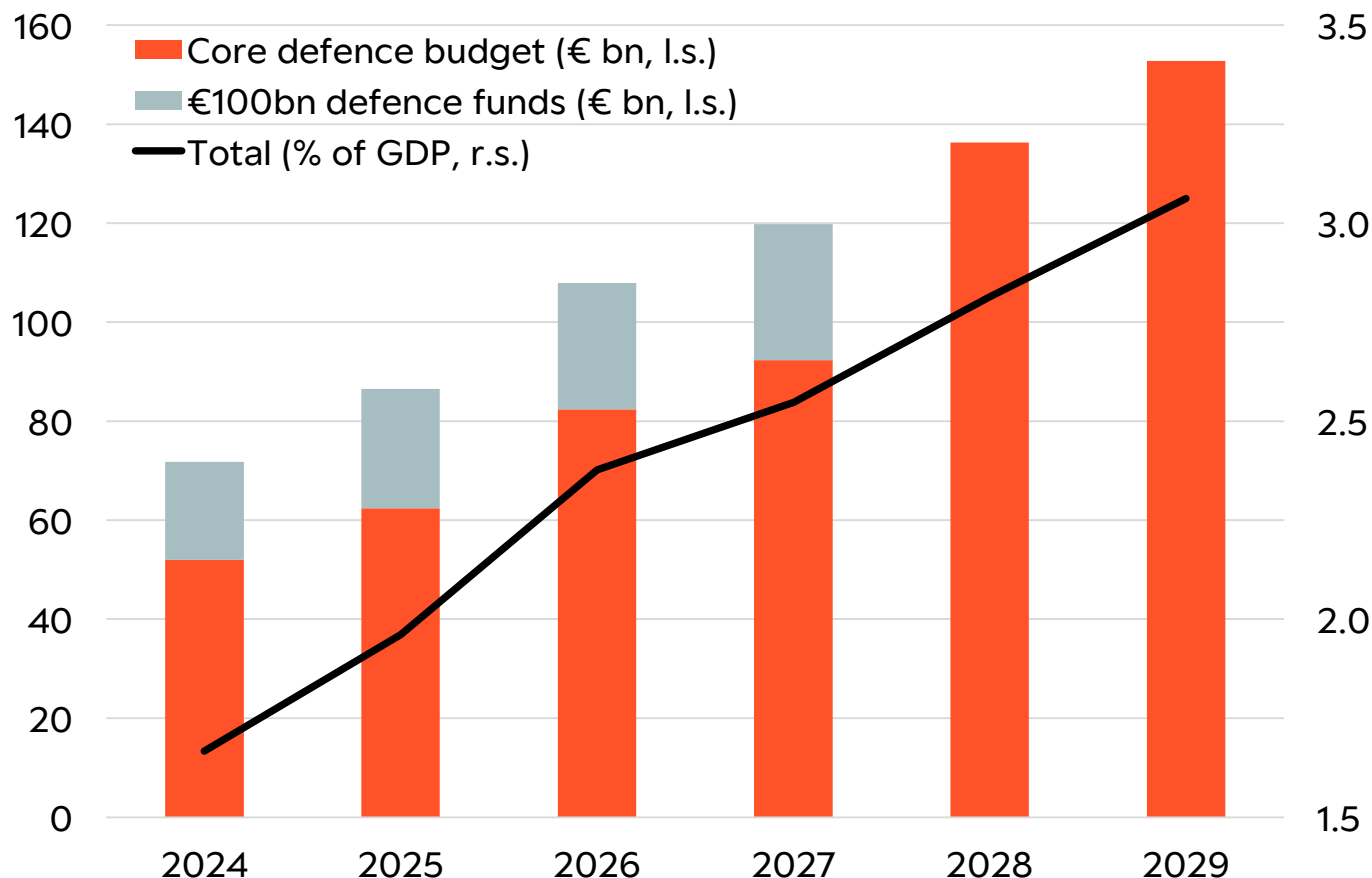


Estimated value of building permits; seasonally adjusted quarterly data. Source: Bundesbank.

- Public spending seems to contribute significantly to an upturn in the stocks of manufacturing orders (defence equipment is included "other transport equipment").
- Public construction orders for non-residential projects are surging.

The German defence build-up

German defence spending

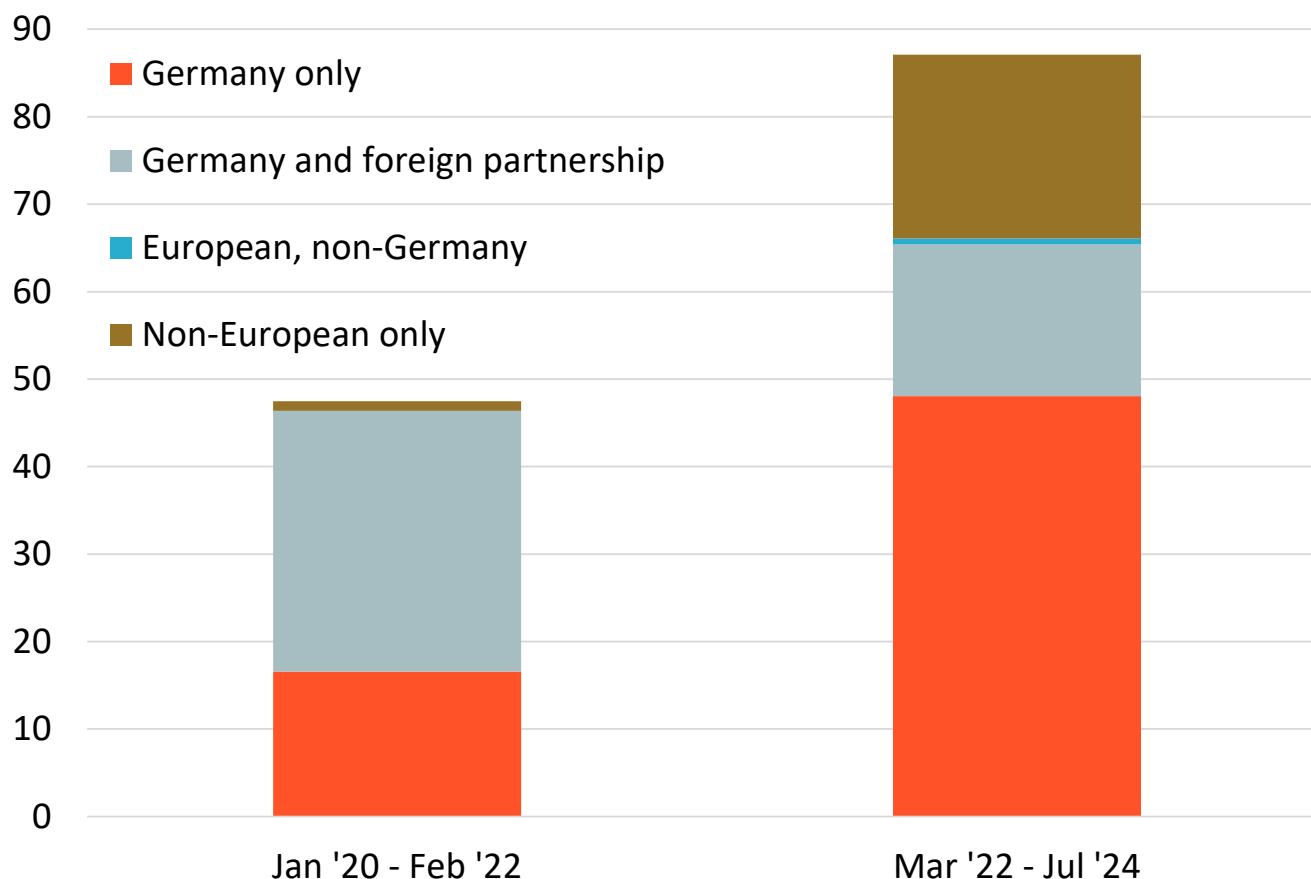


Not shown here: spending plans for military support to Ukraine, civil and population protection, intelligence services, cybersecurity. Share of GDP based on annual nominal GDP growth rates of 2.4%, 2.9%, 3.6%, 3.0% and 3.0% in 2025-2029. Source: BMF, Berenberg.

- **Putin effect:** Germany has increased its defence spending rapidly since 2022.
- Germany wants to raise its defence spending from 2.1% of GDP in 2024 to 2.4% in 2025 and 3.5% in 2029.
- This would be far ahead of the 2035 NATO target date. However, Germany may not reach 3.5% in 2029.
- Plans include some expenditure components (such as strengthening of transport infrastructure etc.) that do not fall under NATO's core definition (target: 3.5%) but under the wider umbrella (target: 5%).
- The changed domestic deficit rules no longer restrict the defence build-up. The procurement system is now the main bottleneck to quick and reasonably-priced contracts.

Large home bias in defence spending

German military orders by firm domicile (in billion EUR)

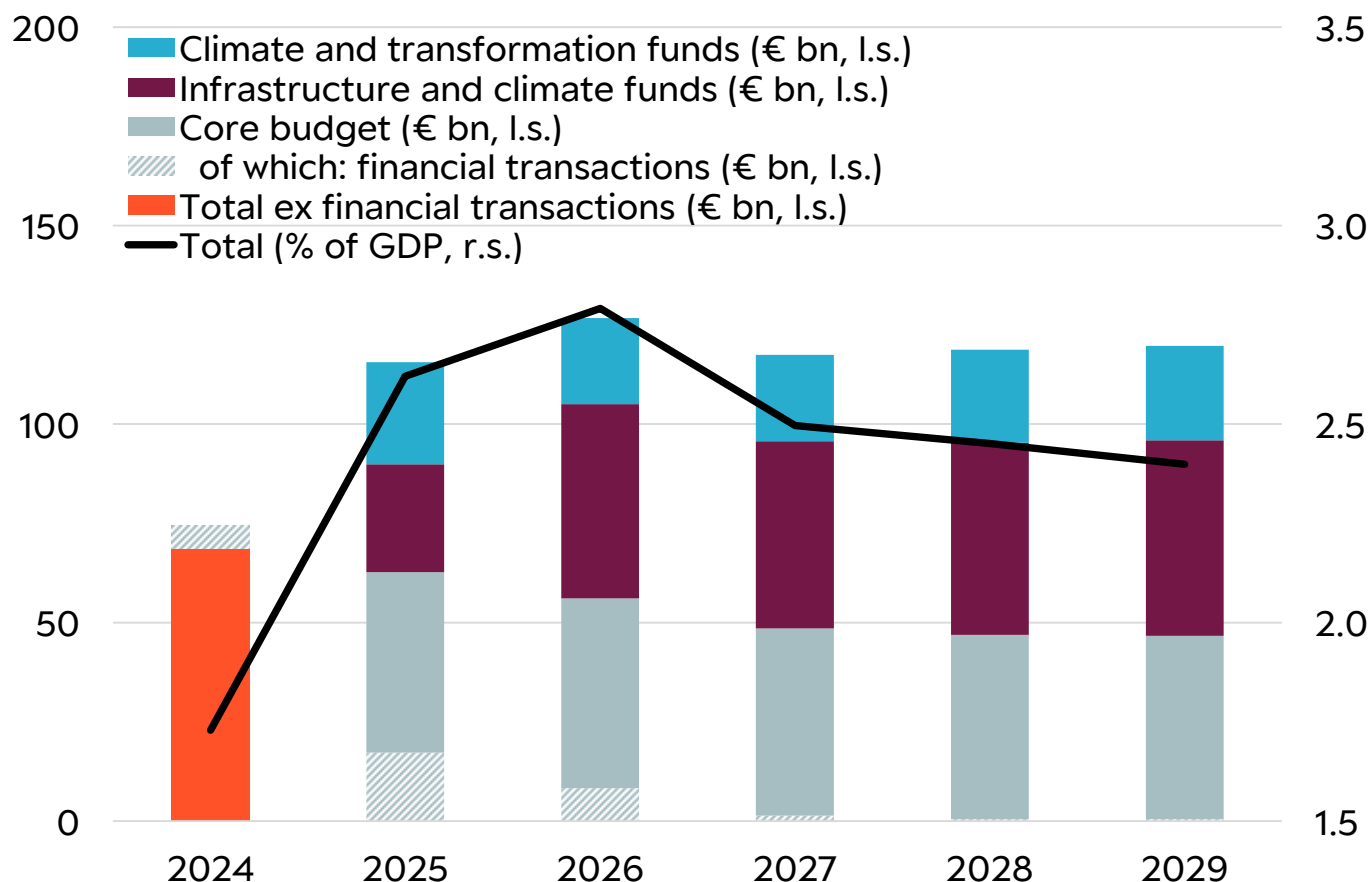


Domicile: country in which the firm's headquarter is located. Source: IfW Kiel.

- Domestic defence industry production will likely rise the most in the countries with the largest increase in defence budgets
- Home bias: governments typically hand a large portion of defence orders to domestic firms
- Even as it stepped up procurement activity substantially after the Russian invasion of Ukraine, Germany sent 55% of its order volumes to German contractors, an additional 20% to German-foreign partnerships, 24% to non-European
- Other countries, such as France, even more focused on supporting domestic firms

The federal investment spending spree

Investment spending in federal core budget and off-budget funds

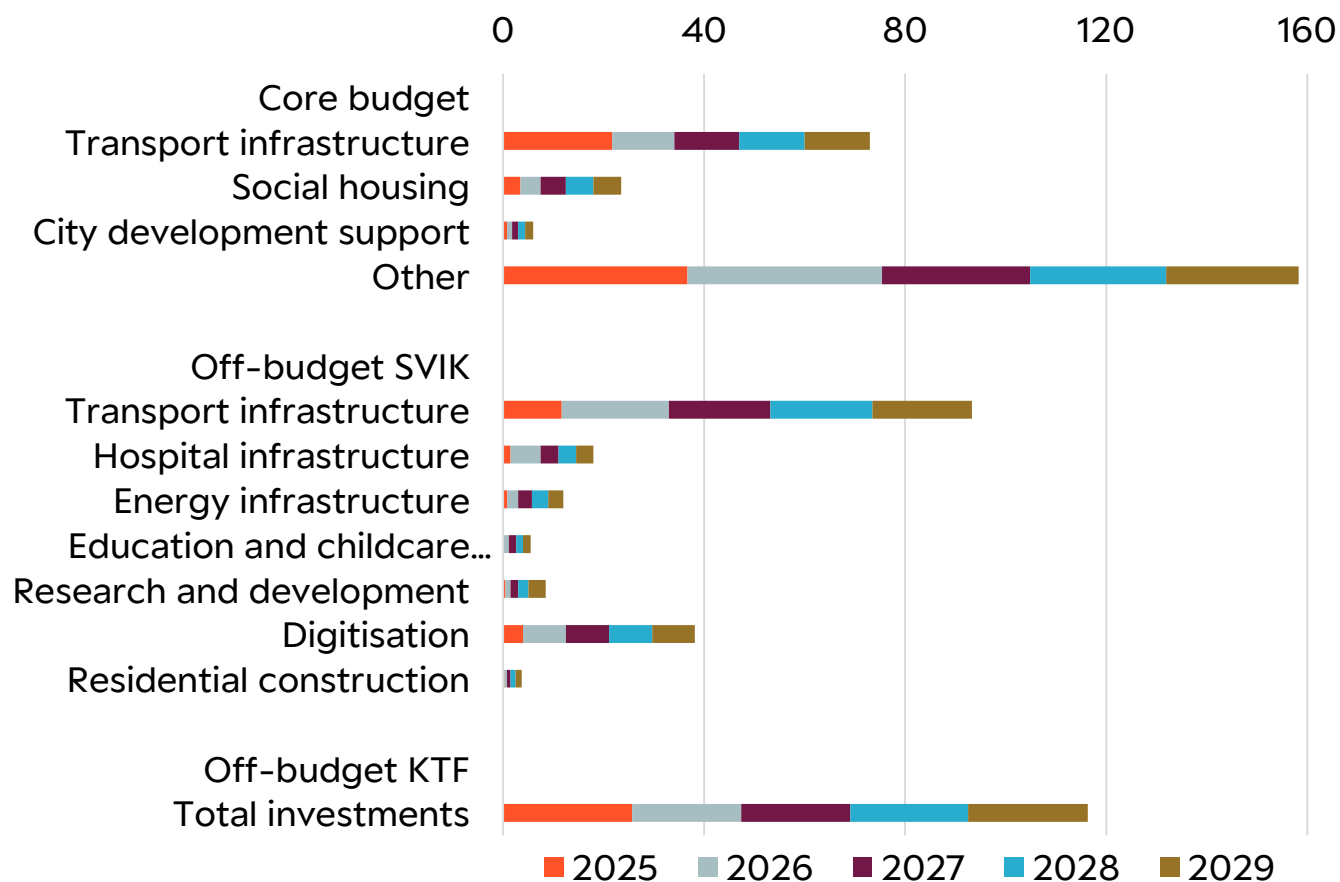


Actual spending in 2024 and budget plans for 2025-2029. Financial transactions may only lead to investment spending by recipients in later years. KTF: off-budget climate and transformation funds; SVIK: off-budget infrastructure and climate funds, excl. transfers to KTF but incl. transfers to federal states. Share of GDP based on annual nominal GDP growth rates of 2.4%, 2.9%, 3.6%, 3.0% and 3.0% in 2025-2029. Sources: BMF, Berenberg.

- Berlin wants to raise federal investment (including financial transactions) from €75bn in 2024 to €116bn in 2025 and €127bn in 2026.
- But this is fiscal accounting. In many cases, the actual work on the projects will be done later. The impact on activity (GDP) will be much less frontloaded.
- Federal investment is now split between core budget and off-budget funds.
- Infrastructure fund (SVIK) with €500bn debt for investment over the next 12 years (€300bn for federal, €100bn for transfers to the states, €100bn for KTF for climate neutrality).
- Financial transactions = more spending by parastatal bodies (railways etc.) later.
- Investment should be 10% of core budget (excl. financial transactions, debt-brake exempted defence).

Federal investment priorities

Investment plans of the German federal government (in €bn)



SVIK: infrastructure and climate neutrality funds, investment plans excluding transfers to states and KTF; KTF: climate and transformation funds, investment plans. Sources: BMF, BMV, BMWSB.

- Transport infrastructure: invest €166bn through 2029, €64bn more than in preceding five years (note price increases, though)
- Within transport: most for railways (€107bn), followed by roads (€52bn) and waterways (€8bn)
- KTF with programme plans for investment (€116bn) and other spending (€71bn), but with global shortfall of €9bn
- KTF plans: €65bn climate protect. in buildings, €48bn energy-cost relief, €17bn climate-friendly mobility, €16bn hydrogen economy, €20bn transformation of industry, €9bn climate-friendly energy supply, €6bn natural climate protect./adapt., €4bn international climate protect., €3bn other climate protect.

Implementation issues: how much bang for the buck?

Needed: faster procedures and a reallocation of scarce resources

More defence and infrastructure spending in real terms requires shift in resources

The risk: spending spree drives up prices, as happened before

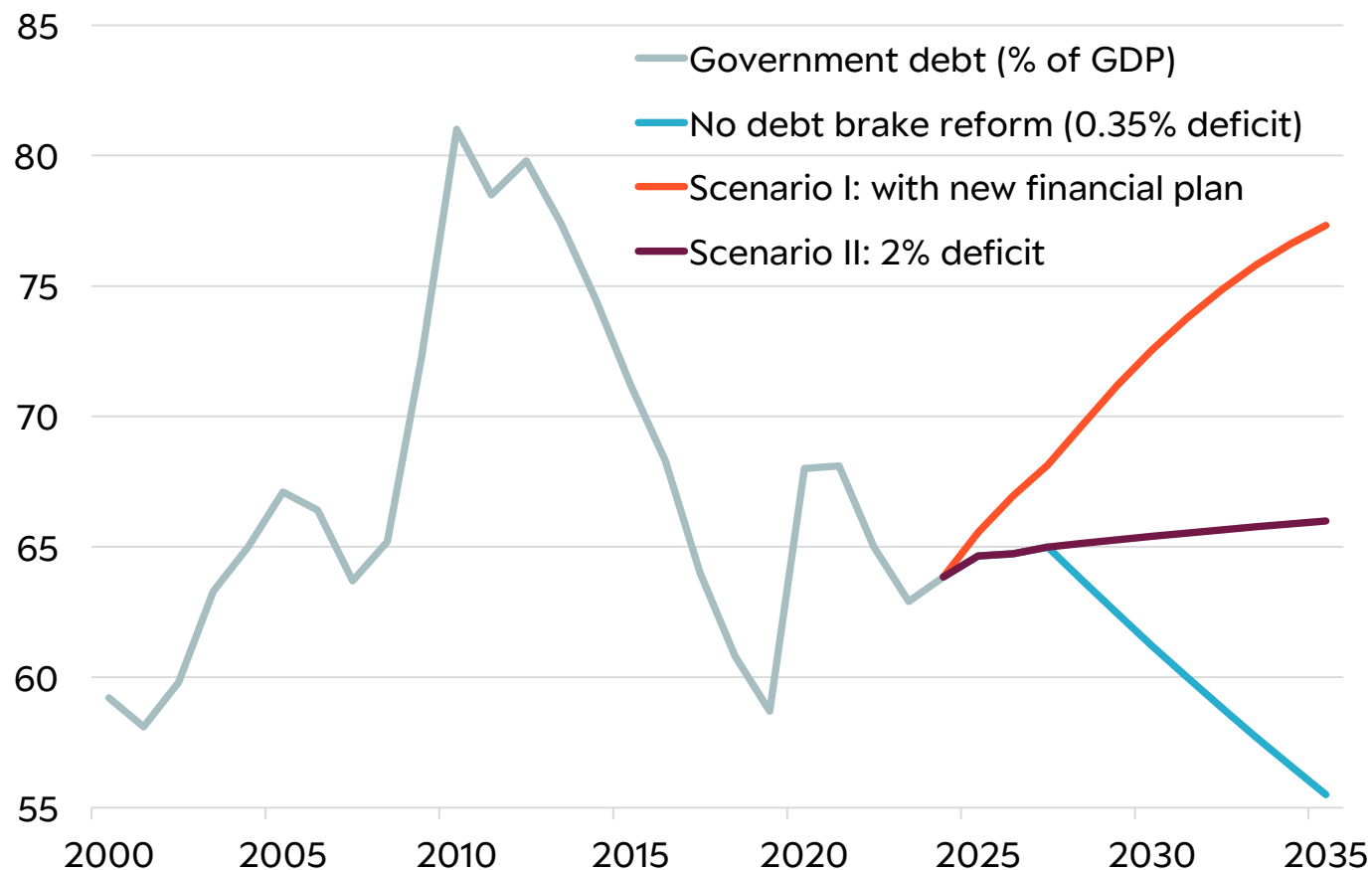
- Example: civil engineering sector (non-residential construction) prices up 44% vs pre-pandemic 2019 compared to “only” 23% for general price level

Three reasons why shift in resources may be easier now than in the past:

- Debt-brake reform allows government to order more for many years -> companies can plan ahead and raise their capacities (vs often volatile government orders in the past).
- Government pledge to speed up bureaucratic procedures (e.g. “presumption of approval” in some cases if application not processed fast enough) -> if Berlin delivers, Germany could turn into a better place to invest and raise capacities.
- Overall employment held up well during recent stagnation, but fewer jobs in industry/construction, more in services -> scope for more construction jobs again.

Germany: opening the fiscal floodgates?

German government debt scenarios



NO reform: Berenberg forecasts as of 28 February and for 2028 onwards nominal GDP (NGDP) growth of 2.6% and government deficits of 0.35% of GDP; 3% deficit scenario: reform: Berenberg forecasts as of 7 March and for 2028 onwards NGDP growth of 3.1% and deficits of 3.0% of GDP; 2% deficit scenario: as in "no reform" for 2025-2027, thereafter NGDP growth 0.15ppt lower than in "debt brake reform" and deficits of 2.0% of GDP. Sources: Bundesbank, Berenberg

- Germany's constitutional debt brake constrains cyclically adjusted fiscal deficits to 0.35% of GDP (c€16bn).
- Germany loosened the debt brake in March in 4 ways:
 1. No limit for defence
 2. €500bn infra-structure over 12 years
 3. €0.35% for states
 4. Re-defining defence (c€17bn per year)
- Scenario I: 3% deficits from 2028 onwards, once previous €100bn military special fund is exhausted.
- Scenario II: 2% deficits from 2028 onwards, once previous €100bn military special fund is exhausted.
- Scenarios include slightly stronger increases in real GDP and prices.

German pro-growth reforms: progress report

Mostly on track – in line with the April 2025 coalition deal

Modest supply-side reforms

- Tax incentive to invest now with 30% depreciation allowance for 2025-2027 – enacted
- Stepwise cut in business taxes from c30% to c25% from 2028 onwards – law passed
- Pruning of welfare benefits (“Bürgergeld” reform) – to be enacted 2026
- Tax incentive to work beyond retirement age (€2000/month tax free) – to be enacted 2026
- Faster/easier approval procedures for residential construction – law passed
- Modest streamlining of bureaucratic procedures – timeline for key steps already agreed
- More rational immigration policy: fewer asylum seekers, more engineers and nurses
- Rational energy policy? better grid and storage, more gas power stations – ongoing debate

The negatives

- Higher pensions for mothers with kids borne before 1992 from 2027 onwards – law to be passed in late 2025
- Faster pace of pension increases (fully in line with wages) until 2031 – to be enacted 2026
- Minimum wage to rise by 8.4% in 2026 and 5.0% in 2027 – already approved by cabinet

Back to post-unification misery? Payroll taxes up

Social security contributions, in % of gross wages

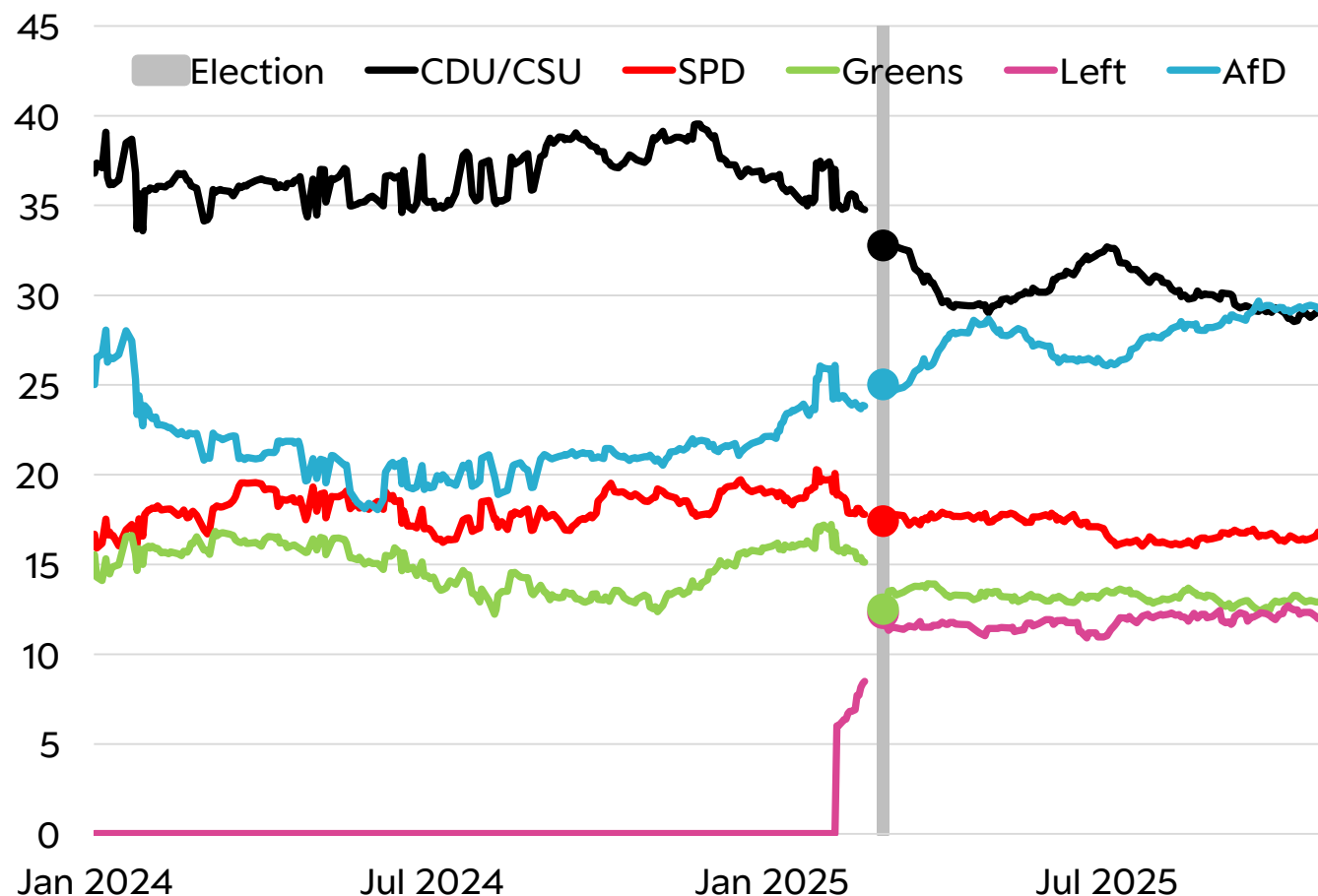


Estimate for 2025. Source: Destatis, AOK, Berenberg

- Payroll taxes are paid in roughly equal parts by employers and employees.
- In the 1990s, Germany tried to avoid outright tax hikes to finance the costs of unification.
- Instead, payroll taxes surged to fund social transfers to the East.
- In response to mounting cost, companies relocated jobs abroad, often into the post-communist emerging markets of east-central Europe.
- The “Agenda 2010” reform drive of 2002-05 turned the situation around.
- But payroll taxes are now rising again – and companies are curtailing investment at home.
- The new government needs to address the problem.

German polls – centre loses, AfD gains

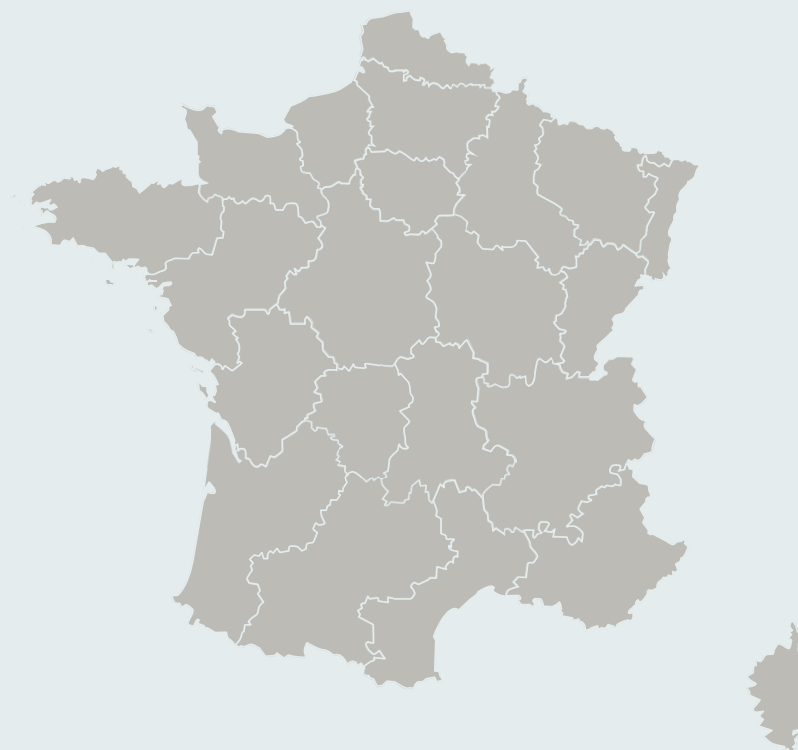
Election polls translated into seat shares in German parliament (%)



- After the March 2025 elections, now-chancellor Friedrich Merz (of the centre-right CDU/CSU) made major concessions to form a coalition with the centre-left SPD.
- The debt-brake reform, other concession to the SPD and the constant bickering within the coalition has bolstered the right-wing AfD at the expense of mainstream parties.
- Five of Germany's 16 states will hold elections in 2026: Baden-Württemberg (8 March), Rhineland-Palatinate (22 March), Saxony-Anhalt (6 September), Berlin (20 September), Mecklenburg-Western Pomerania (20 September)
- The AfD may win its first state government in small Saxony -Anhalt.

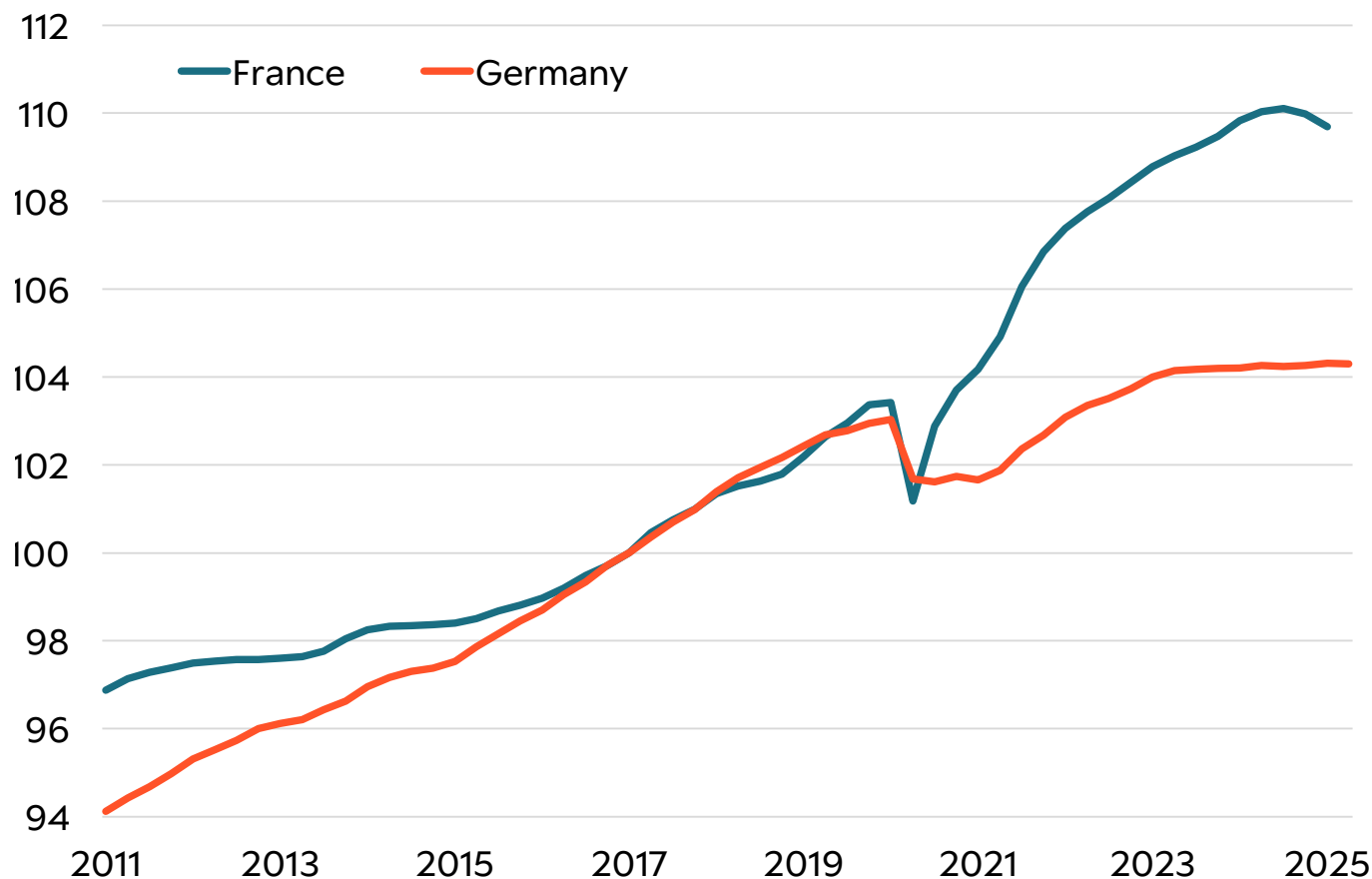


France



Macron's achievement at risk

Employment: advantage France until mid-2024



Employment, Q1 2017 = 100. Source: Eurostat

Macron has transformed France.

- Thanks to labour market reforms, lower corporate taxes and some deregulation, France is now a better place to invest and create jobs.
- French employment has risen by 1.9 mn beyond its pre-pandemic Q4 2019 level.

French catch-up potential:
Employment rate (15-74 years) Q1 2025:

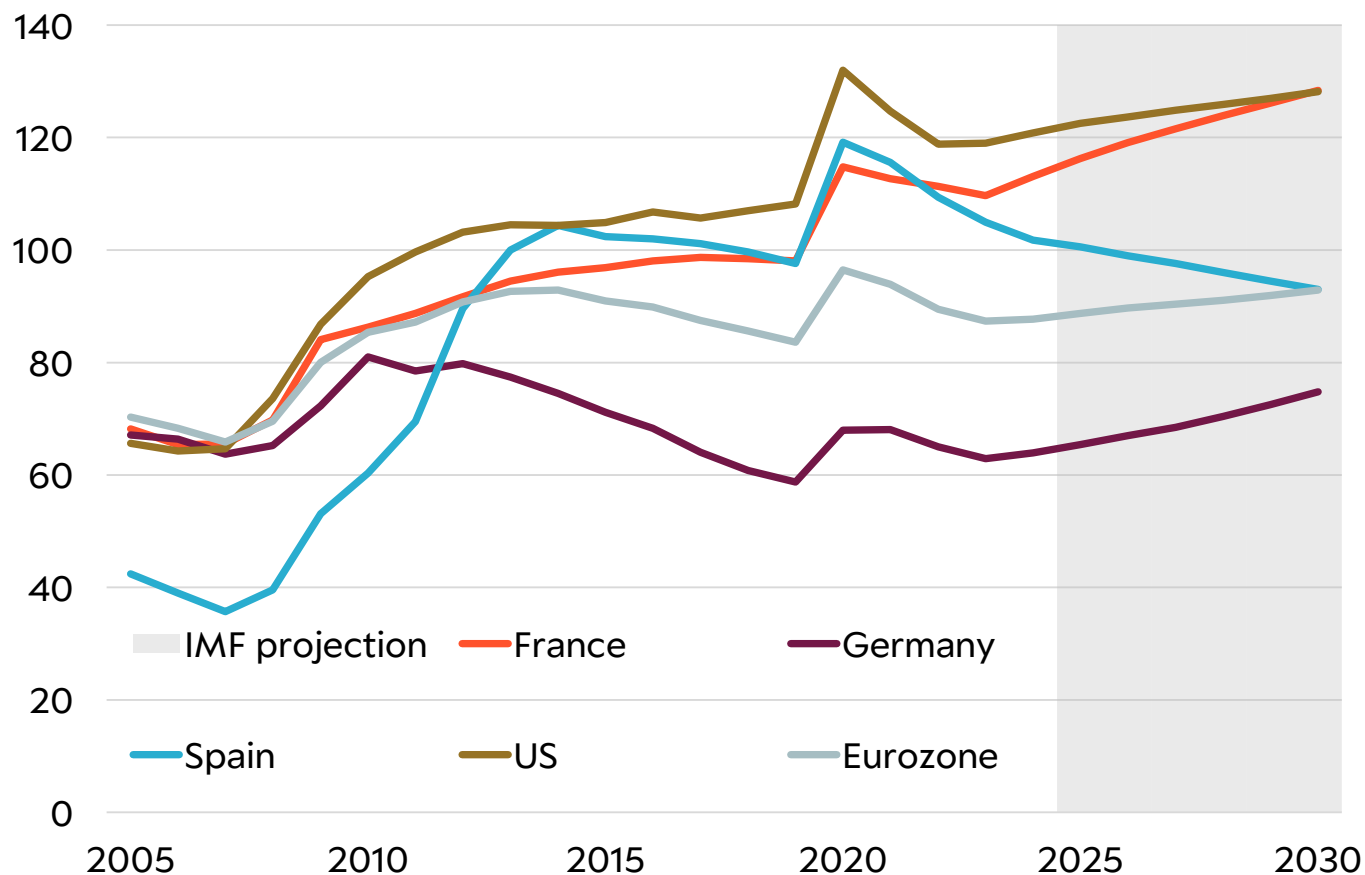
- Germany 68.1% after 65.8% end-2016
- France: 59.8% after 56.6% end-2016

Progress at grave risk:

- No stable government
- Fiscal tightening needed
- Partial reform reversal (business taxes, pension age) ahead?

France: Tackling the deficit will be a long process

France almost as bad as the US – public debt (% of GDP)

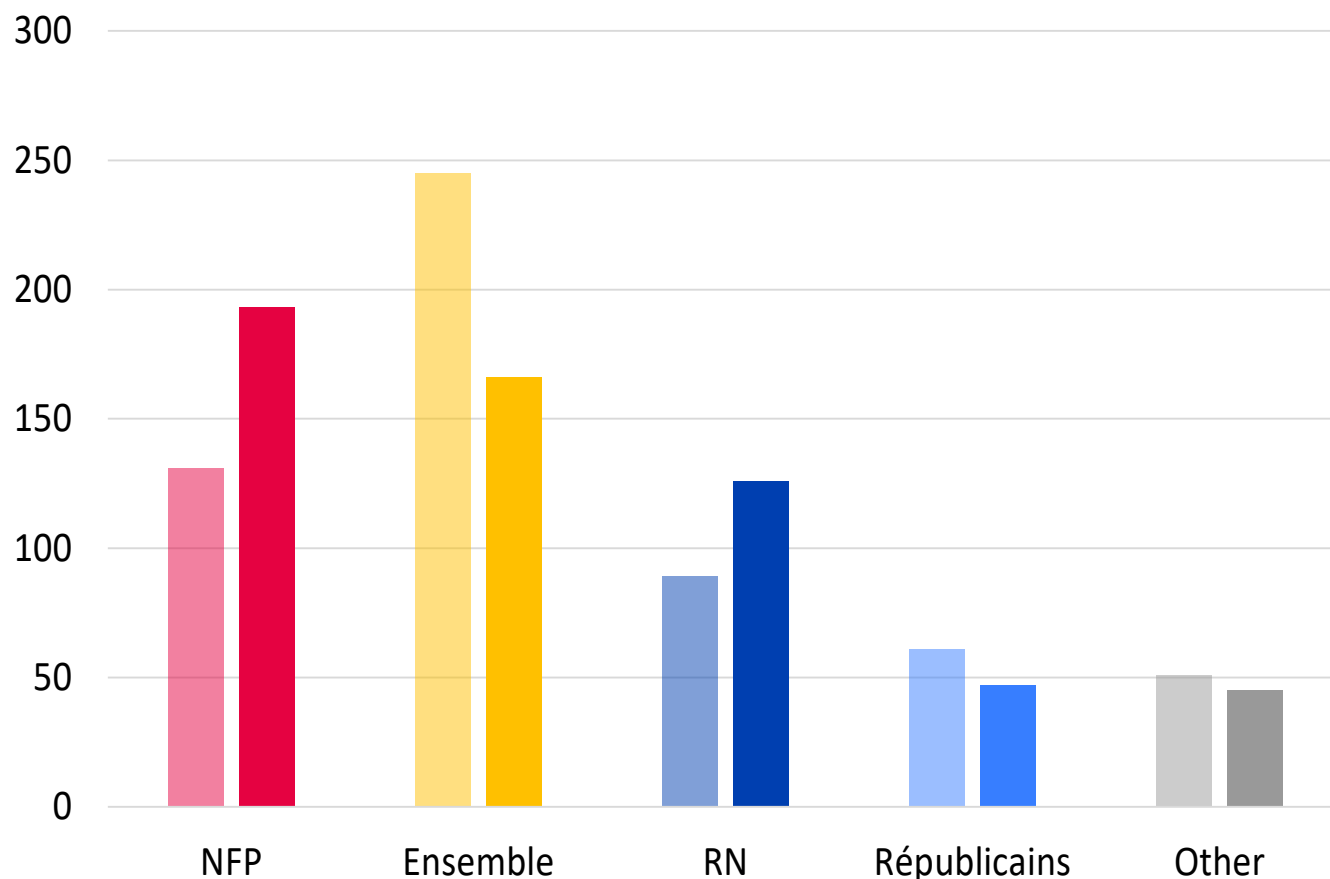


General government debt in % of GDP. Source: IMF

- France ran a public deficit of 5.8% of GDP in 2024 – far above the 3.1% Eurozone average.
- Prime Minister Bayrou is targeting a deficit of 5.4% of GDP in 2025 and already took some corrective actions.
- Bayrou wants to save more than €40bn for the 2026 budget. He plans to bring the deficit below 3% of GDP by 2029 to comply with EU rules.
- Deficit reduction difficult: parliament is fragmented and may oust Bayrou in a confidence vote on 8 September.
- Bond turmoil risk. ECB could only help if France cuts its deficit.

French election: hung parliament

Number of seats won in 2024 compared with 2022



Seats in the National Assembly, 2022 (left column) and 2024 (right). The dotted line marks the absolute majority of 289 seats. Right-wing RN includes allies; NFP: left Nouveau Front Populaire; centrist Ensemble includes close allies, centre-right Républicains.. The NFP total of 193 seats includes 66 for the Socialists. Sources: French ministry of the Interior; Le Monde

- Snap legislative elections in mid-2024 after Macron's party lost the EU vote.
- The tail risks of a far-right government or an absolute majority for the united left did not materialise.
- Parliament divided into three major blocs: the left NFP (including the Socialists), the right (mostly Le Pen's RN) and the centre (mostly Macron's Ensemble and the centre-right Republicans).
- Lame duck Macron.
- Three prime ministers have failed since mid-2024.
- France in fiscal trouble: need for substantial consolidation in a years-long process, but no majority in parliament.
- Risk of some reform reversals.
- Lower trend growth.

United Kingdom



UK: beyond peak inflation

Weathering one more, self imposed, supply shock

A final burst of high inflation

- Strong pay growth and a tax hike are subjecting the UK to another burst of inflation
- After inflation reached 3.8% in Q3, we expect the BoE to “skip” a cut in November
- A softening in demand over the winter will ensure inflation subsides in 2026

Temporary weakness

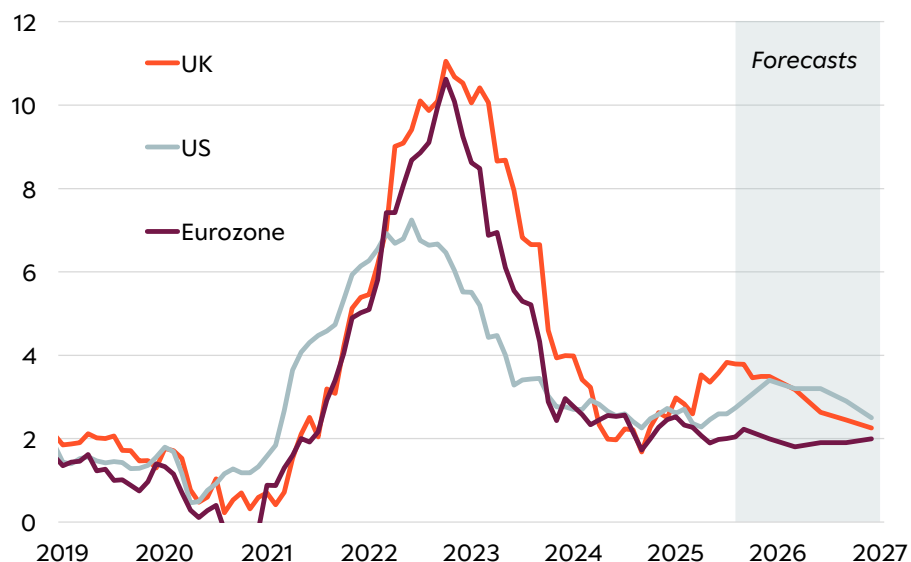
- Interest rates are not restricting aggregate demand much
- Instead, a household income squeeze and belated fiscal tightening will slow spending
- High household saving and room to cut interest rates provide downside protection

Fiscal hysteria

- If government efforts to tackle the budget deficit bear fruit, it would set the UK apart from France and the US.
- The UK's high bond yields are principally due to high short rates.
- A challenge to Prime Minister Starmer's leadership of the ruling Labour party is a risk that could push fiscal consolidation off course.

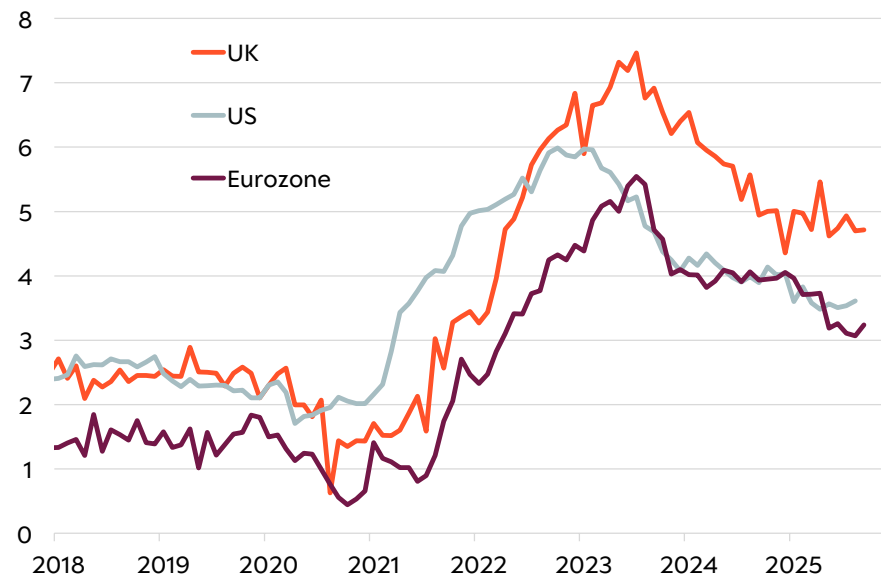
UK inflation: an outlier for now

Berenberg forecasts for inflation



In % yoy. Harmonised index of consumer prices for the UK and Eurozone. Core personal consumption deflator for the US. Sources: Haver, Berenberg.

Still-large rises in services prices are the problem

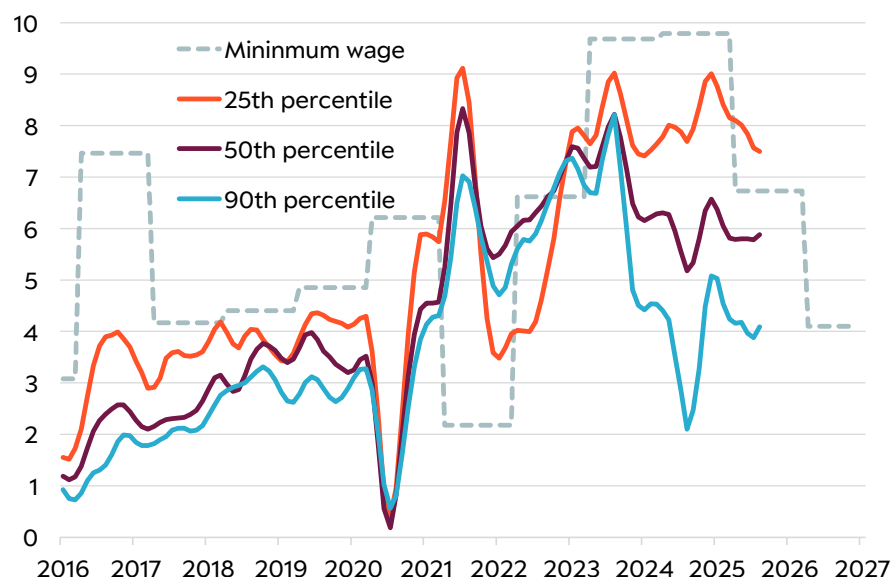


Services CPI/PCE, % year-over-year change. Sources: Haver, Berenberg

- High inflation has been the defining feature of the UK economy this year.
- After falls in utility bills briefly dragged CPI inflation down to the Bank of England's 2% target last year it rebounded, driven by persistent high inflation in services prices.
- Government policy mistakes and robust demand explain why UK services inflation has got stuck at a higher level than in other developed economies.

UK: government policy errors

The minimum wage is biting...



In % yoy. 3m. average of pay at the 25th, 50th and 75th percentiles of the employee pay distribution and the NLW for adults. Sources: ONS, House of Commons Library, gov.uk, Berenberg

...and payroll taxes have jumped

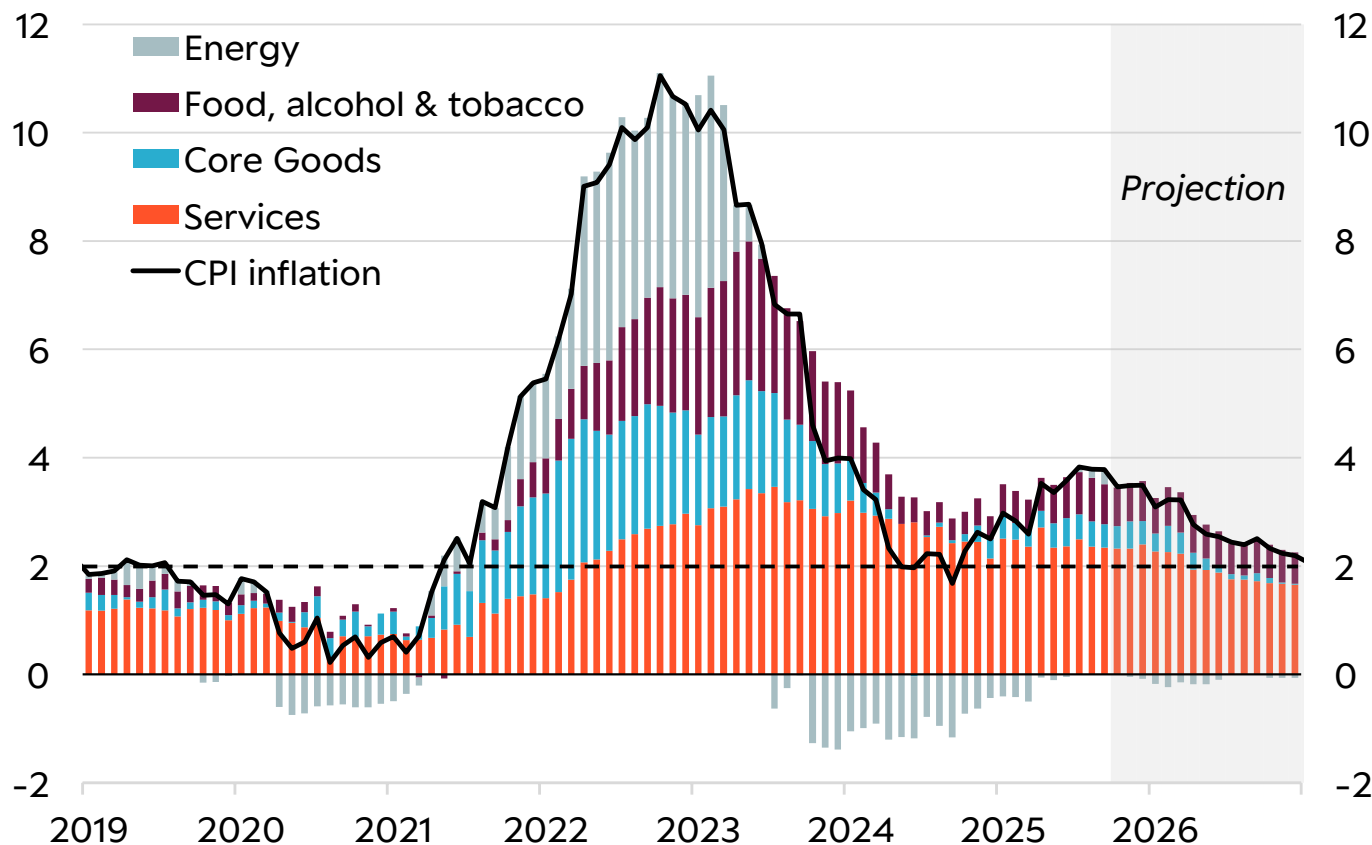


In % yoy. Cost to the employer illustrates the increase in total labour costs from wage inflation and the April increase in employer NICs. Sources: Haver, Berenberg.

- The cumulative 17% increase in the minimum wage (officially called the “National Living Wage”, or NLW) since 2023 put significant upward pressure on pay in the bottom half of the pay distribution.
- Employers have raised wages higher up the pay scale too. A simultaneous increase in payroll tax means that companies’ total wage bills have risen even more sharply than indicated by strong pay growth.
- A hiring freeze and rising unemployment will ensure pay growth continues to slow.

UK: Softer demand will ensure inflation declines

Inflation is set to wane, despite food prices

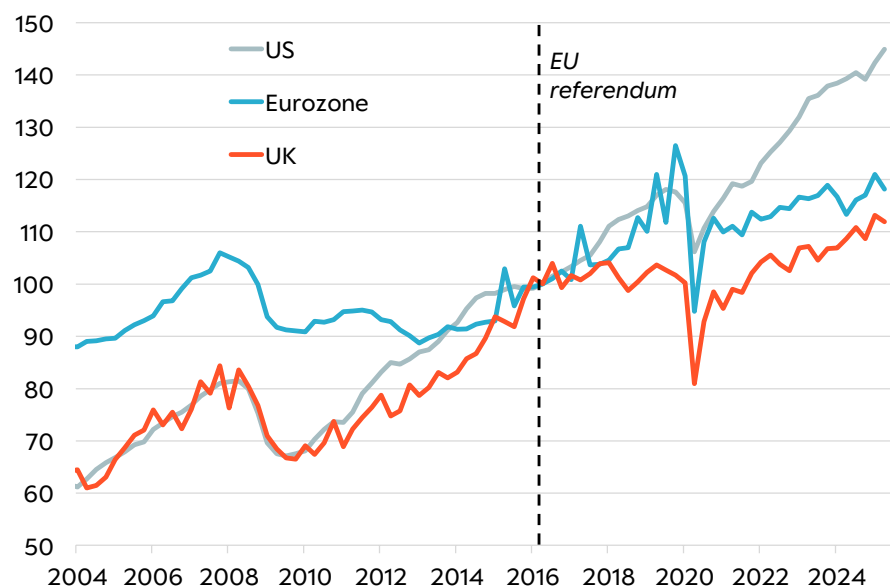


- A drop in energy price inflation in October will ensure inflation begins to decline. Slower increases in core goods prices will ensure the direction of travel remains down.
- Food inflation is likely to remain elevated for a while, although increases in agricultural commodity prices are moderating.
- The key to sustained disinflation, however, is services prices. A period of soft demand should subdue them.

In ppt, contributions to yoy CPI inflation. Sources: Haver OBR, Berenberg

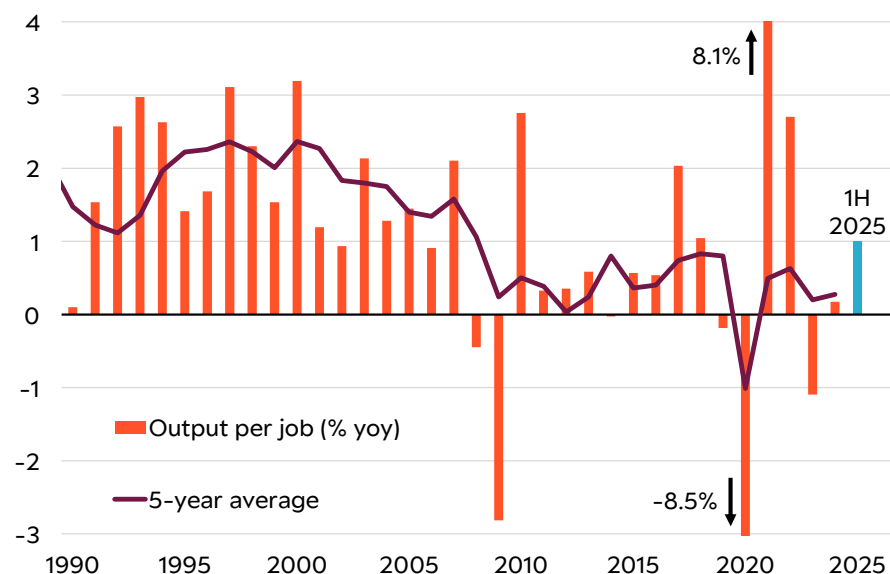
UK: Productivity upturn?

Business investment (Q1 2016 = 100)



Indexed to 100 in Q1 2016. Private sector fixed investment excluding dwellings. Sources: Haver, Berenberg

Many sectors are producing more with fewer staff

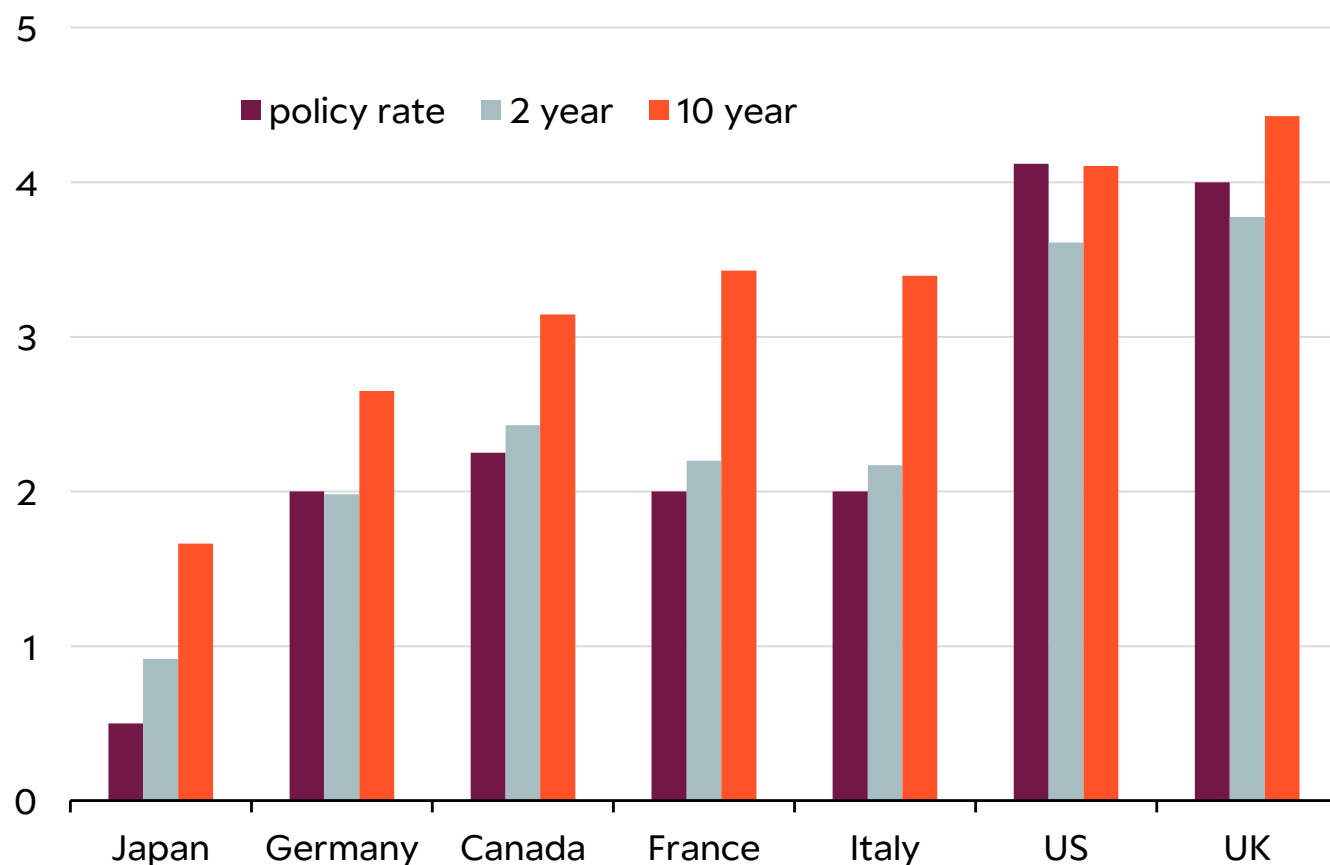


In % yoy, real GDP per job. Annual data except H1 2024. Sources: Haver, Berenberg..

- The UK economy expanded by 1.4% yoy in Q2 without much, or perhaps any, help from an increase in employment. Instead, growth was driven by a rebound in output per job, otherwise known as productivity.
- We should not be too surprised by the upturn. The industrial sector has contracted by 15% since 2021 as higher energy prices made some production unviable. Then higher interest rates put the brakes on activity in the UK's large financial and real estate sectors. As these drags on growth fade, productivity should recover.
- Rising business investment since the pandemic also provides support. We expect productivity growth to average 1% yoy in the years ahead consistent with trend growth in real GDP of around 1.5% yoy.

UK: Punishingly high interest rates

The UK faces the highest borrowing costs of any major economy

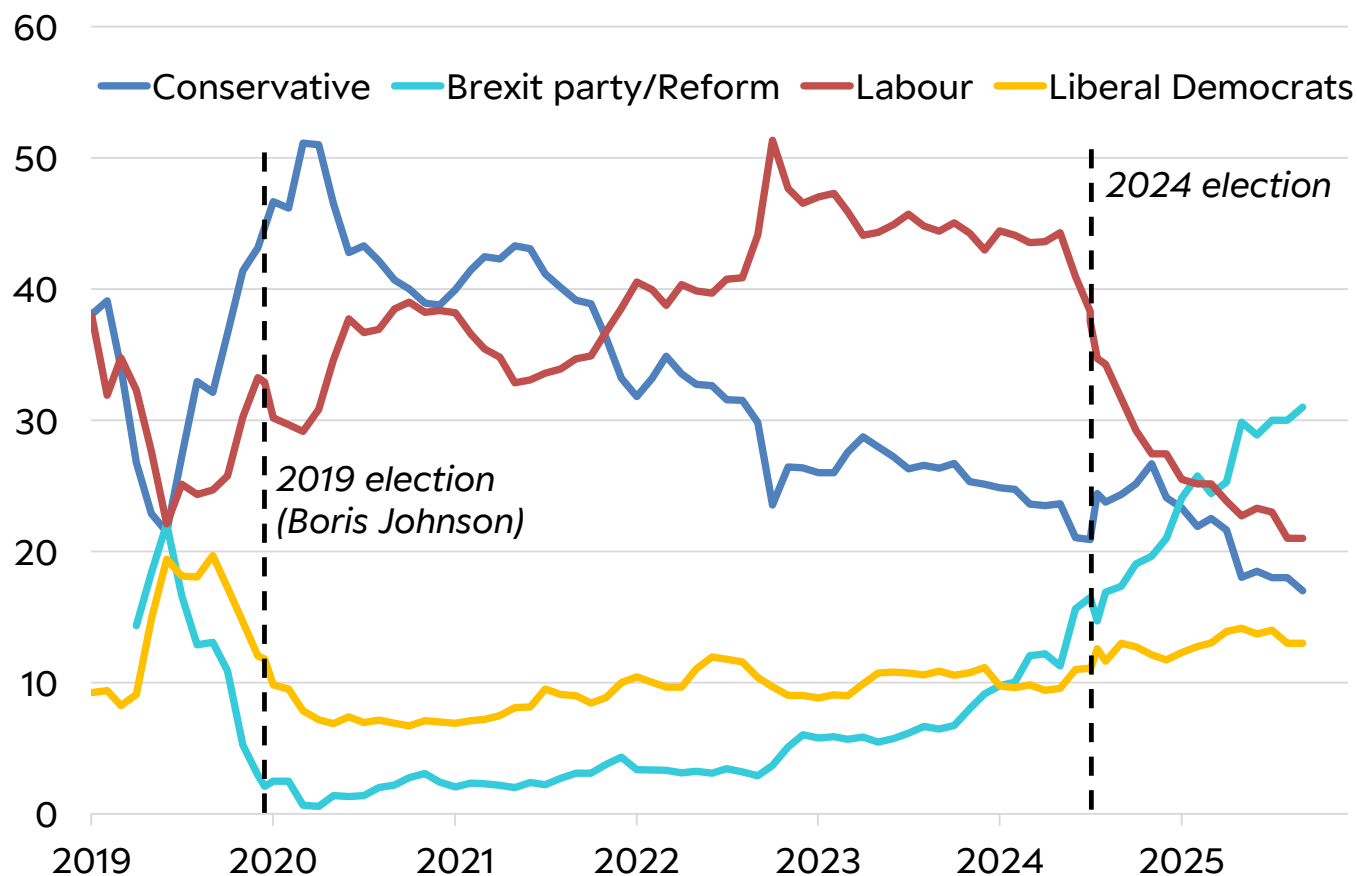


In % as of 31 October 2025. Source: Bloomberg.

- Investors demand a higher interest rate to lend to the UK government on a long-term basis than from any other developed market government.
- That principally reflects high short-term interest rates. However, the government gets little credit for its long-planned fiscal consolidation.
- Successful deficit reduction could begin a virtuous circle between borrowing costs and the deficit.

UK politics: the rise of Reform

The UK faces the highest borrowing costs of any major economy



In %, voting intention. Monthly average of polls. Sources: Poll Base, Wikipedia, Berenberg.

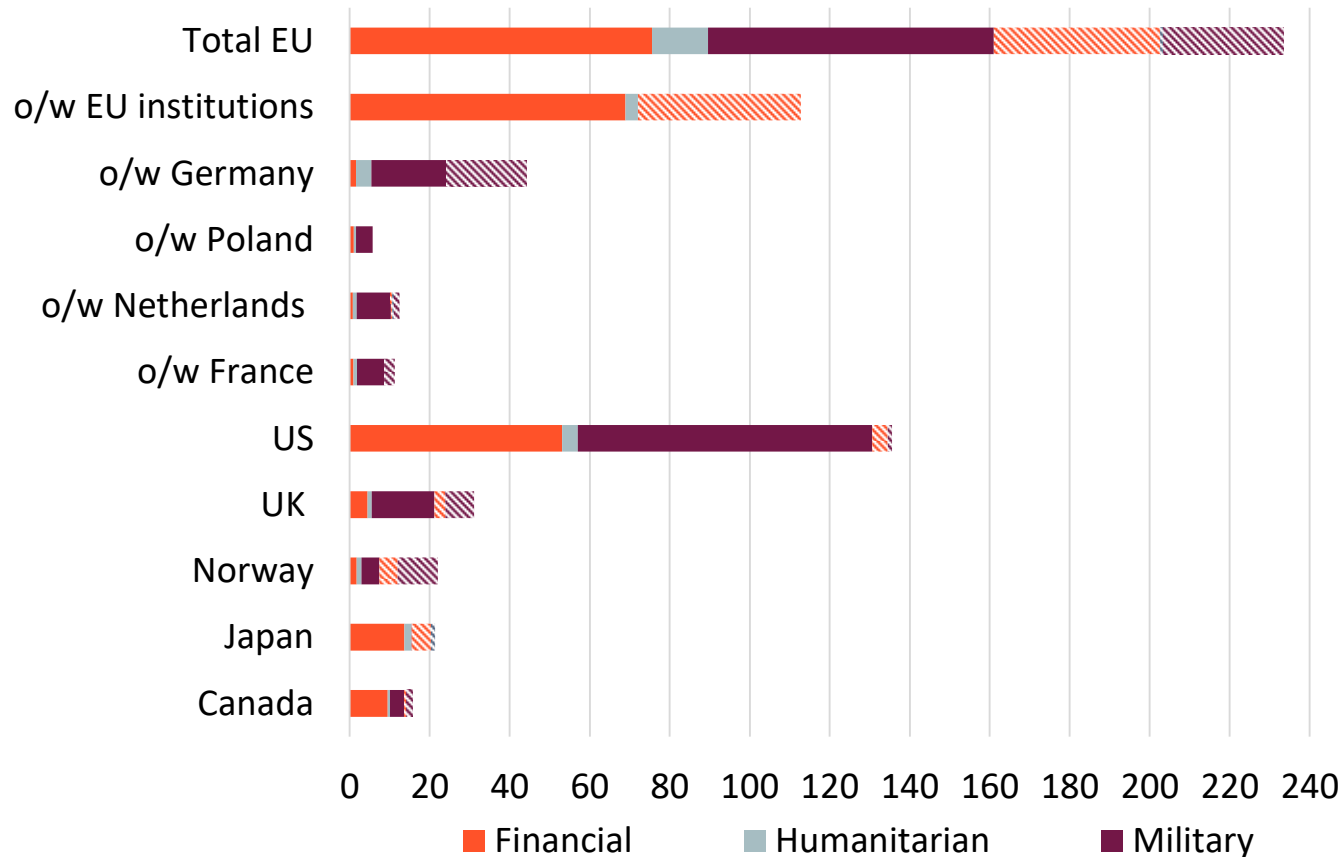
- The surge in support for Nigel Farage's Reform party suggests it would win an election held today. However, Labour are unlikely to call one until they have to, in 2029.
- Even so, Labour's unpopularity is of deep concern to Labour MPs. Any attempt to change their fortunes by switching leader would likely mean a shift to the left.



Geopolitics

Help for Ukraine: EU ahead of US — but is it enough?

Support for Ukraine by donor

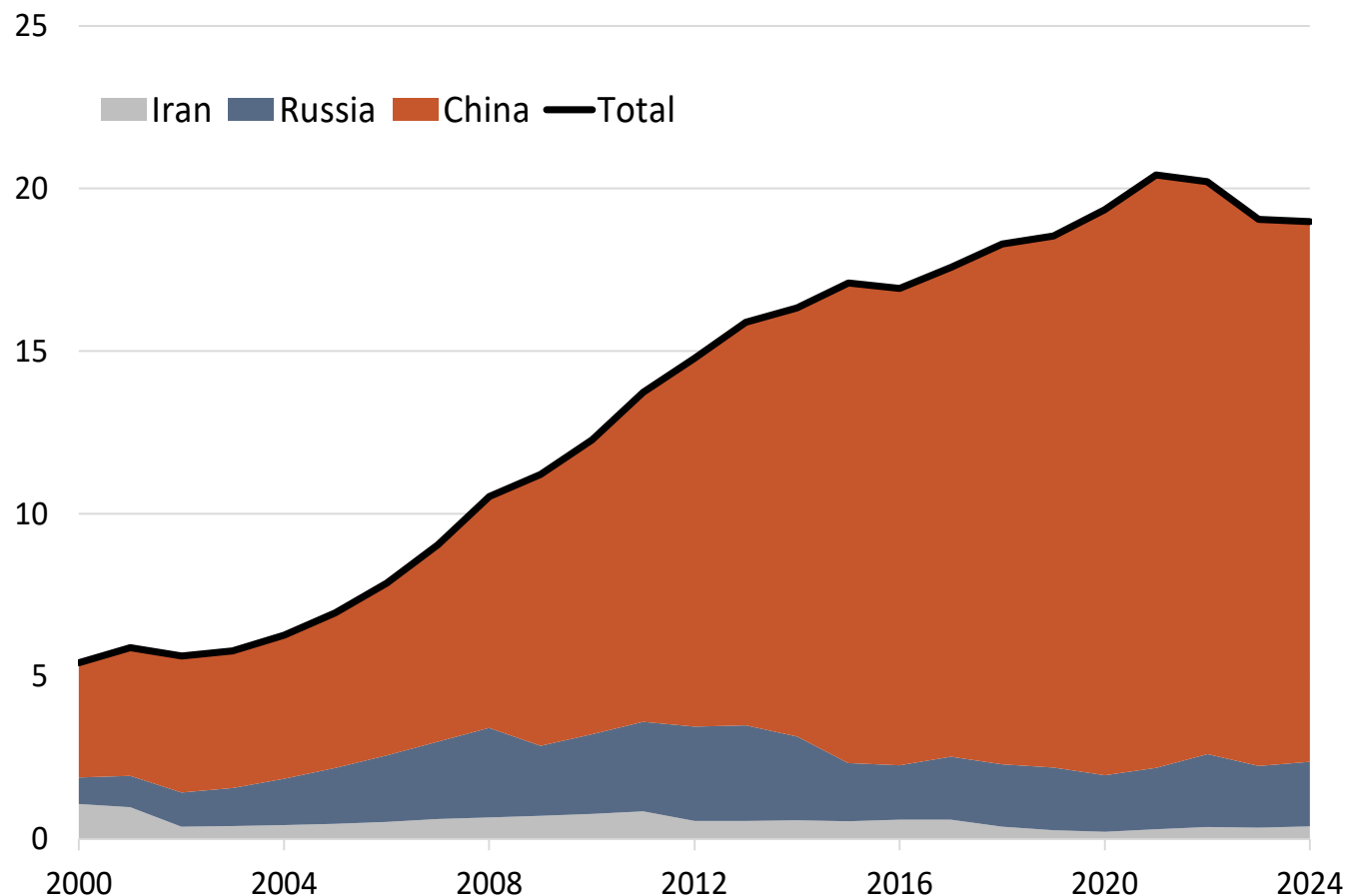


Breakdown of support to Ukraine, billion USD. Hatched bars: support committed but not yet allocated. Source: Kiel Institute.

- As of June 2025, Ukraine has received \$471bn in bilateral commitments.
- Including bilateral help from EU members, total EU support adds up to \$234bn. \$161bn has been disbursed.
- Within the EU, Germany is the largest bilateral donor. Excluding its share in the common EU support packages, Germany has pledged \$44bn.
- The US have pledged far less help than the EU, but is still relatively close in terms of actually delivered support (\$131bn).
- In addition, the IMF has pledged a two-part support package – immediate financial assistance and support in rebuilding – of \$15.6bn.

Geopolitics: top troublemakers past peak power

Shares in global GDP



In current prices, in %. Source: IMF datamapper

- Causing trouble does not come cheap. Supreme leaders not bound by political constraints at home tend to waste resources.
- **Peak China:** As Xi Jinping focuses on control at home and projecting power abroad, the share of China in global GDP has peaked.
- **Russian decline:** Since Putin first attacked Ukraine in 2014, Russia's economy has fallen behind.
- **Iran** is a basket case.
- The share of **NATO** and its close allies such as Japan, South Korea, Australia and New Zealand has held almost steady at 55% of global GDP since 2013.
- The **Global West** can prevail – if it musters the will.

Key financial forecasts

	Current ¹	End-2025	End-2026	End-2027
Central bank rates				
US Fed	3.75-4.00%	3.75-4.00%	3.75-4.00%	3.75-4.00%
ECB refi rate*	2.15%	2.15%	2.15%	2.90%
ECB deposit rate*	2.00%	2.00%	2.00%	2.75%
BoE	4.00%	4.00%	3.50%	3.50%
BoJ	0.50%	0.75%	1.00%	1.00%
10-year bond yields				
US	4.09%	4.20%	4.80%	5.00%
Germany	2.64%	2.70%	3.00%	3.00%
UK	4.43%	4.60%	4.90%	4.90%
Currencies				
EUR-USD	1.16	1.18	1.20	1.22
EUR-GBP	0.88	0.87	0.88	0.88
GBP-USD	1.32	1.36	1.36	1.39
USD-JPY	154	146	140	137
EUR-JPY	179	172	168	167
EUR-CHF	0.93	0.95	0.95	0.95
USD-CNY	7.11	7.25	7.30	7.30

¹ Taken on 30 October at 14:30 UK time. Currency forecasts may not add up due to rounding. *The deposit rate has turned into the major ECB policy rate to steer the money market rate.

Global economic forecasts

	Weight	GDP Growth				Inflation				Unemployment				Fiscal balance			
		2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
World*	100.0	2.7	2.6	2.4	2.3												
US	26.4	2.8	1.9	1.8	1.5	3.0	2.8	2.9	2.6	4.0	4.2	4.2	4.0	-6.9	-6.3	-6.5	-6.5
China	17.0	5.0	4.9	4.2	3.9	0.2	0.0	1.3	1.9	5.1	5.1	5.0	5.0	-7.3	-8.6	-8.5	-8.1
Japan	3.6	0.1	1.2	0.8	1.0	2.7	3.0	1.8	1.7	2.5	2.4	2.3	2.3	-4.3	-3.5	-3.3	-1.3
India	3.5	6.7	6.5	6.5	6.0									-7.8	-7.5	-7.5	-7.5
Latin America	6.1	2.1	2.5	2.5	2.3									-4.5	-4.0	-4.0	-4.0
Europe	24.5	1.3	1.5	1.3	1.5												
Eurozone	14.8	0.8	1.4	1.2	1.5	2.4	2.1	1.9	2.2	6.4	6.3	6.2	5.8	-3.1	-3.2	-3.4	-3.3
Germany	4.2	-0.5	0.3	0.8	1.3	2.5	2.2	1.9	2.2	3.4	3.8	3.9	3.6	-2.7	-2.7	-3.4	-3.6
France	2.9	1.1	0.8	0.8	1.1	2.3	1.0	1.6	2.1	7.4	7.6	7.6	7.5	-5.8	-5.4	-5.6	-5.0
Italy	2.1	0.5	0.5	0.6	0.9	1.1	1.8	1.9	2.1	6.6	6.2	5.9	5.7	-3.4	-2.9	-2.7	-2.4
Spain	1.6	3.5	2.8	2.2	2.4	2.9	2.7	2.3	2.4	11.4	10.6	10.0	9.4	-3.2	-2.9	-2.6	-2.4
Portugal	0.3	2.1	1.9	2.5	2.2	2.7	2.2	2.0	2.2	6.5	6.1	5.7	5.3	0.5	-0.1	0.0	0.0
Other Western Europe																	
UK	3.3	1.1	1.4	1.0	1.5	2.5	3.4	2.6	2.0	4.3	4.7	5.1	4.6	-5.2	-4.6	-3.8	-2.9
Switzerland	0.8	1.4	1.2	1.4	1.5	1.1	0.3	0.7	1.1	2.4	2.9	2.9	2.6	0.5	0.3	0.3	0.3
Sweden	0.6	0.8	1.3	2.0	2.0	2.8	0.9	1.5	1.9	8.4	8.7	8.4	7.7	-1.1	-1.3	-1.0	-0.7
Eastern Europe																	
Russia	2.0	4.4	1.0	0.9	0.8	8.4	9.0	7.5	6.0	2.5	2.5	3.0	3.0	-1.7	-2.7	-3.0	-2.5
Turkey	1.2	3.5	2.8	2.9	2.5	58.5	35.0	25.0	20.0	8.7	9.0	9.3	9.3	-4.9	-4.0	-4.0	-4.0

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.

*At market exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.

Weights based on IMF World Economic Outlook 2025 GDP data for 2024. Sources: World Economic Outlook, Berenberg

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