

European Economic Outlook

Resilient growth amid persistent shocks

Abridged version

EY Economic Analysis Team

2 September 2026



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Underlying euro area GDP growth remained resilient in Q2 2026 despite the Middle East conflict

Euro area GDP growth remained resilient in the first half of 2026. Excluding Ireland, euro area GDP expanded by 0.3% q/q in both Q1 and Q2 2026, with year-on-year growth of 1.1-1.2%, broadly matching the pace recorded in H2 2025. While consumption and investment slowed somewhat, weighed down by higher energy prices and conflict-related uncertainty, growth was supported by robust exports, as the European economy appears finally to be benefiting from the expansion in global trade. At the sectoral level, manufacturing output recovered slightly in Q2 2026 but remained stagnant year on year. Services activity appears to have accelerated, led by transport, tourism and consulting.

All major European economies recorded positive quarter-on-quarter GDP growth in Q2. Most notably, Germany's GDP expanded for the third consecutive quarter, marking an exit from the stagnation of previous years. We estimate that this expansion was largely attributable to fiscal stimulus, although exports were also supportive in the first half of 2026. Growth in France, Germany, Italy and the UK remained relatively sluggish at 0.5-1.2% y/y. Spain continued to outperform at 2.7% y/y, as growth continued to be driven by booming tourism and housing activity, strong immigration flows, and NextGenEU disbursements.

Growth remained divergent across other European economies, although it generally exceeded the euro area average:

- ▶ Growth remained resilient in the Netherlands at 0.4% q/q and 1.5% y/y and accelerated sharply in Switzerland to 1.9% q/q and 2.3% y/y on the back of stronger external demand. By contrast, Belgium and Austria stagnated, remaining among Europe's weakest-performing economies.
- ▶ Poland and several other CEE economies (Slovenia, Lithuania, Bulgaria, Serbia) continued to grow strongly at around 3-4% y/y, supported by real income gains, expansionary fiscal policy and NextGenEU spending. Regional performance remained uneven, however, with solid growth of 1.5-2.0% y/y in Czechia, Croatia and Hungary, near-stagnation in Slovakia and a contraction in Romania amid fiscal tightening and high inflation.
- ▶ The Nordic economies recorded a strong quarter. Growth in Sweden accelerated to above 3% y/y. Denmark remained among Europe's fastest-growing economies, although headline growth continued to be disproportionately influenced by the pharmaceutical sector. Growth in Finland and Norway also accelerated to 1.6-2.0% y/y, although momentum in Norway's mainland economy remained sluggish as elevated interest rates constrained investment.
- ▶ Irish GDP partially recovered in Q2 following declines in previous quarters. However, headline GDP remains heavily distorted by pharmaceutical production and is therefore a poor indicator of underlying economic activity. We estimate that growth in modified final domestic demand slowed significantly in Q2 but remained positive at around 1.5% y/y.
- ▶ In Turkey, we estimate that GDP growth partially recovered in Q2 following an abrupt decline in exports in Q1, but remained relatively subdued by historical standards at around 3% y/y. Similarly, growth in Kazakhstan picked up to 4.1% y/y as oil production came back online, but remained significantly below last year's pace.

The labor market remains broadly balanced. Euro area employment growth has slowed to 0.5% y/y in H1 2026, with Spain acting as the main driver in an otherwise subdued labor market. As the slowdown in employment growth has broadly matched weaker labor force growth amid increasingly unfavorable demographic trends, the unemployment rate remained broadly unchanged, hovering near historical lows. However, unemployment continued to fall in Southern Europe while edging up in Germany and the UK. Nominal wage growth in the euro area slowed to 3.3% y/y as real wages have caught up with productivity. CEE economies continue to record much faster wage growth than Western and Southern Europe. At the other end of the spectrum, France and Switzerland stand out with slower wage growth, which is constraining consumer spending.

Oil prices have declined despite the Hormuz closure, but inflation remains elevated; the ECB hiked rates while most central banks stayed on hold, and bond yields continued to rise

Except for a brief partial reopening in June, the Strait of Hormuz has remained closed. Despite the continued closure, oil prices are below their May peaks. Gasoline and diesel prices have fallen much less, however, keeping fuel price inflation elevated. The relatively muted oil price response to the closure of the Strait, given the scale of the shock, can be explained by the rerouting of supplies through Fujairah and the Red Sea, the pre-conflict oil market surplus, weaker oil demand (especially from China) and substantial inventory drawdowns.

Supported by some moderation in oil prices and a decline in food inflation, headline inflation in the euro area fell to 2.9% in July from 3.2% in May. Core inflation remained broadly unchanged at 2.5%, around 0.2 pp above its pre-conflict levels due to some acceleration in core goods inflation. Supply chain disruptions, higher energy and metal prices from the Middle East conflict and AI-related investment are likely to push core goods inflation higher in the coming months.

Cross-country inflation differentials have narrowed in recent months, with most economies recording HICP inflation of around 3% in July. Nevertheless, several exceptions are worth noting:

- ▶ Among the major euro area economies, Spain records the highest inflation (3.9% in July) reflecting stronger and accelerating core price pressures. These pressures may be explained by robust domestic demand, which is facilitating a stronger pass-through of the energy shock to consumer prices.
- ▶ Romania continues to record the highest inflation in the EU (at 8.2% in July) due to broad-based price pressures exacerbated by increases in VAT and fuel prices. Inflation exceeds 4% in Lithuania and Bulgaria, reflecting strong wage growth, high services inflation and (in Lithuania) deregulated electricity prices.
- ▶ In contrast, inflation remains low in Switzerland and Sweden (below 1%), followed by Denmark, Czechia, Hungary and Serbia (below 2%) due to a mix of factors: tax and regulated electricity price cuts (Sweden, Denmark, Czechia, Serbia), limited wage growth (Switzerland, Sweden), currency appreciation (Sweden, Hungary), strong food price deflation (Czechia, Hungary, Serbia), and a fuel price freeze (Hungary).
- ▶ Disinflation stalled in Turkey following the energy shock, with price growth remaining above 30% y/y. By contrast, disinflation continued in Kazakhstan, where inflation declined to 10.2% in July.

In response to the energy shock, the ECB raised the deposit facility rate by 25 bp to 2.25% in June. The Fed and the Bank of England have kept their policy rates unchanged, as rates in both economies are already above neutral, at 3.75%. In the UK, the decision to remain on hold has also been supported by disinflation in non-energy components. Most other central banks in Europe have likewise kept policy rates unchanged, as falling food prices and regulatory measures have at least partly offset the impact of the Middle East conflict on headline inflation. The central bank of Hungary is an exception, having cut rates by 100 bp to 5.5% amid FX appreciation and low inflation. The central bank of Kazakhstan has also reduced its policy rate by 125 bp to 16.75%, as inflation eased.

Despite cautious monetary policy and the partial reversal of the oil price shock, bond yields have generally continued to trend up, pointing to broader concerns about inflation risks and fiscal sustainability. Nevertheless, credit demand has remained resilient, while exchange rates have been broadly stable in recent weeks. Equity prices have continued to rise in many European economies, particularly in CEE and Southern Europe. By contrast, global equity indices have remained broadly unchanged over the past three months as the AI-related rally has lost some momentum.

Underlying euro area growth is projected to accelerate in 2026 despite headwinds and strengthen further in 2027-2028

Under the baseline scenario of gradually moderating commodity prices, we expect underlying euro area growth (excluding Ireland) to rise to 1.2% in 2026 from 1.0% in 2025, as resilience in global trade, AI-related investment and German fiscal stimulus outweigh the effects of the Middle East conflict and US tariffs. Growth should strengthen further to 1.3% in 2027 and 1.4% in 2028 as these headwinds ease. Due to volatility in Ireland, headline euro area growth is expected to slow from 1.3% in 2025 to 0.9% in 2026, before accelerating to 1.5% in 2027-28.

Country highlights:

- ▶ **Germany:** After export- and government spending-led growth over the past three quarters, momentum is likely to soften in H2 2026 as exports slow and the Middle East conflict weighs on demand. Growth should reaccelerate in 2027-28 as external headwinds diminish. Structural competitiveness challenges and demographic headwinds will continue to constrain growth, with GDP projected to rise 0.9% in 2026, 1.0% in 2027 and 1.3% in 2028.
- ▶ **UK:** GDP is expected to stagnate through the remainder of 2026 as the Middle East conflict restrains consumption and investment, with growth averaging 1.0%, down from 1.3% in 2025. A gradual recovery is expected thereafter, with growth accelerating to 1.3% in 2027 and 1.5% in 2028.
- ▶ **France:** Following stagnation in H1 2026, momentum should gradually improve, initially driven by exports and later by stronger consumption and investment as sentiment improves and real incomes rise. Growth is projected at 0.7% in 2026, increasing to 1.1% in 2027 and 1.4% in 2028.
- ▶ **Italy:** After relatively strong growth over the past four quarters, momentum is expected to stall in H2 2026 as the Middle East conflict weighs on consumption, investment and exports. From 2027, quarterly growth should return to its estimated potential pace of around 0.2%. GDP is forecast to expand by 0.6-0.7% in 2026-28, broadly matching the previous two years.
- ▶ **Spain:** Growth should remain strong at 2.7% in 2026 before slowing to 2.0% in 2027 and 1.6% in 2028 as support from immigration, tourism and housing gradually fades.
- ▶ **Rest of Western Europe:** Dutch growth is expected to remain close to potential at 1.3-1.5% in 2026-28. In Switzerland, following an export-driven but broad-based acceleration in Q2, we expect growth to average 1.9% this year before moderating to 1.6% in 2027 and 1.3% in 2028. In Ireland, pharma-driven weakness is expected to push GDP down 5.9% in 2026, before rebounding by 7.1% in 2027 and 3-4% thereafter. Modified final domestic demand in Ireland is expected to slow to 2.2% in 2026 before strengthening to 3-4% from 2027.
- ▶ **Nordics:** Following strong growth in 2026 (Denmark 3.6%, Sweden 2.5%, Finland 2.2%), GDP growth is expected to ease toward 1.5-2.0% as cyclical recovery and pharmaceutical sector expansion moderate. In Norway, growth may improve slightly from 1.3% in 2026 to 1.5% in 2027-28 as mainland activity strengthens while hydrocarbons slow.
- ▶ **Poland:** Poland is expected to remain the fastest-growing large European economy, with GDP rising by 3.9% in 2026, supported by real income gains, NextGenEU funding and defense investment, before slowing toward 2.5-2.7% in 2027-28 as public investment plateaus and demographic constraints increasingly weigh on potential growth.
- ▶ **Other CEE economies:** Growth will remain uneven and modest on average in 2026, reflecting contraction in Romania, slower growth in Czechia, Bulgaria and Croatia partly because of the effects of the Middle East conflict, and recovery in Hungary and Serbia. From 2027, growth should strengthen and remain in the 2-3% range, supported by rising real incomes and an industrial recovery.
- ▶ **Turkey:** Growth is projected to slow from 3.6% in 2025 to 2.8% in 2026 as the Middle East conflict weighs heavily on activity, before accelerating to 4.2% in 2027 as investment and exports recover. Thereafter, annual growth should stabilize at around 3.5%.

Despite emerging second-round effects, euro area inflation is expected to return to around 2% from Q2 2027

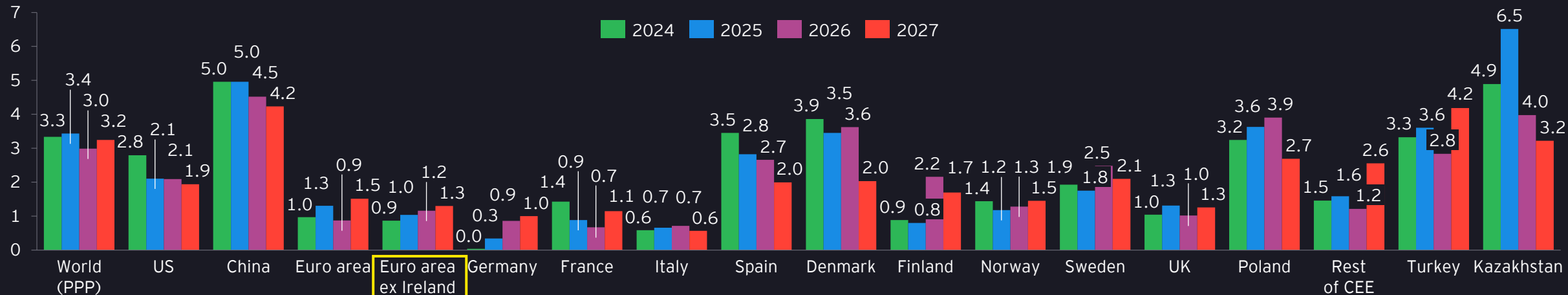
We expect euro area inflation to average 2.8% in 2026, 2.3% in 2027, and 2.0% in 2028. The direct impact of the Middle East conflict on fuel prices will be the main driver of elevated inflation between Q2 2026 and Q1 2027. We expect supply chain bottlenecks and elevated energy and metal prices to pass through to core goods and consumer electricity prices in the near term. Food inflation should remain subdued through end-2026 before gradually picking up. These inflationary pressures are expected to be largely offset by a further moderation in services inflation, reflecting a slowdown in wage growth in recent quarters. As a result, core inflation is projected to remain around 2.5% through end-2027 before converging to 2% as the effects of the Middle East shock fades. Headline inflation should return to around 2% from Q2 2027, when the increase in fuel prices drops out of the year-on-year calculation.

Country highlights:

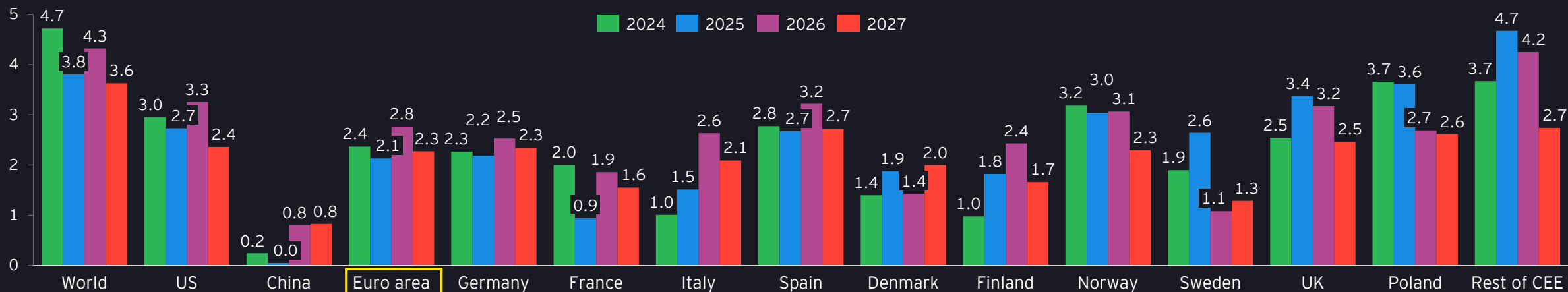
- ▶ Among the major economies, inflation is expected to remain elevated in Spain (3.2% in 2026, 2.6-2.7% in 2027-28) as core price pressures subside only gradually. In contrast, after the fuel price increase falls out of the year-on-year calculation, CPI inflation is expected to undershoot the target in France (1.6-1.7% in 2027-29) because of relatively weak wage growth. In Germany, inflation is projected to be very close to the euro area average. In the UK, inflation may rise in the second half of 2026 due to increasing electricity prices but should return to 2% from mid-2027. In Poland, inflation is expected to remain close to 2.5% as low food inflation offsets higher fuel and core prices in the near term.
- ▶ In Romania, after averaging 8.2% this year, inflation is expected to subside relatively quickly as the VAT hike drops out of the year-on-year calculation and underlying price pressures ease due to weak demand and more restrained public-sector wage growth, with headline inflation converging to the 2.5% target by 2028.
- ▶ After averaging 4-5% this year, inflation in Greece, Croatia and Bulgaria should decline to around 2% from 2027 onward as the fuel price increase drops out of the year-on-year calculation. Inflation may prove more persistent in Slovakia and Ireland at close to 3% in 2027 and 2028 due to lingering core price pressures.
- ▶ At the other end of the spectrum, we expect inflation in Switzerland to remain persistently low at close to 0.5% due to muted wage growth and low inflation expectations.
- ▶ In Sweden, CPIF inflation is expected to remain low until Q2 2027 when the food VAT cut drops out of the year-on-year calculation and may increase sharply in 2028 if the standard VAT rate is reinstated. Underlying price pressures should nevertheless pick up, with non-food non-energy CPIF inflation increasing from 1.2% in 2026 to 1.9% in 2027 as core goods prices increase. In Denmark, inflation should increase from 1.4% in 2026 to 2% in 2027 as electricity and food price declines fade. In Hungary, inflation is expected to gradually increase but remain subdued, returning to the 3% target only in 2029. In Serbia, inflation is set to rise toward 5% by end-2026 as core inflation accelerates further because of strong domestic demand and higher energy prices, while the drop in food prices falls out of the year-on-year calculation.
- ▶ In Turkey, we expect inflation to remain above 30% by year-end. Disinflation is expected to restart in 2027, with headline price growth declining to 17.5% at end-2027 and 11% at end-2028. In Kazakhstan, we expect disinflation to continue, with headline inflation dropping to 6.5% at end-2027 and stabilizing thereafter.

Underlying euro area growth is projected to accelerate this year despite headwinds. Inflation is expected to return to the 2% target from Q2 2027

GDP growth in 2024-2027 (in percentage)



Inflation in 2024-2027 (in percentage)



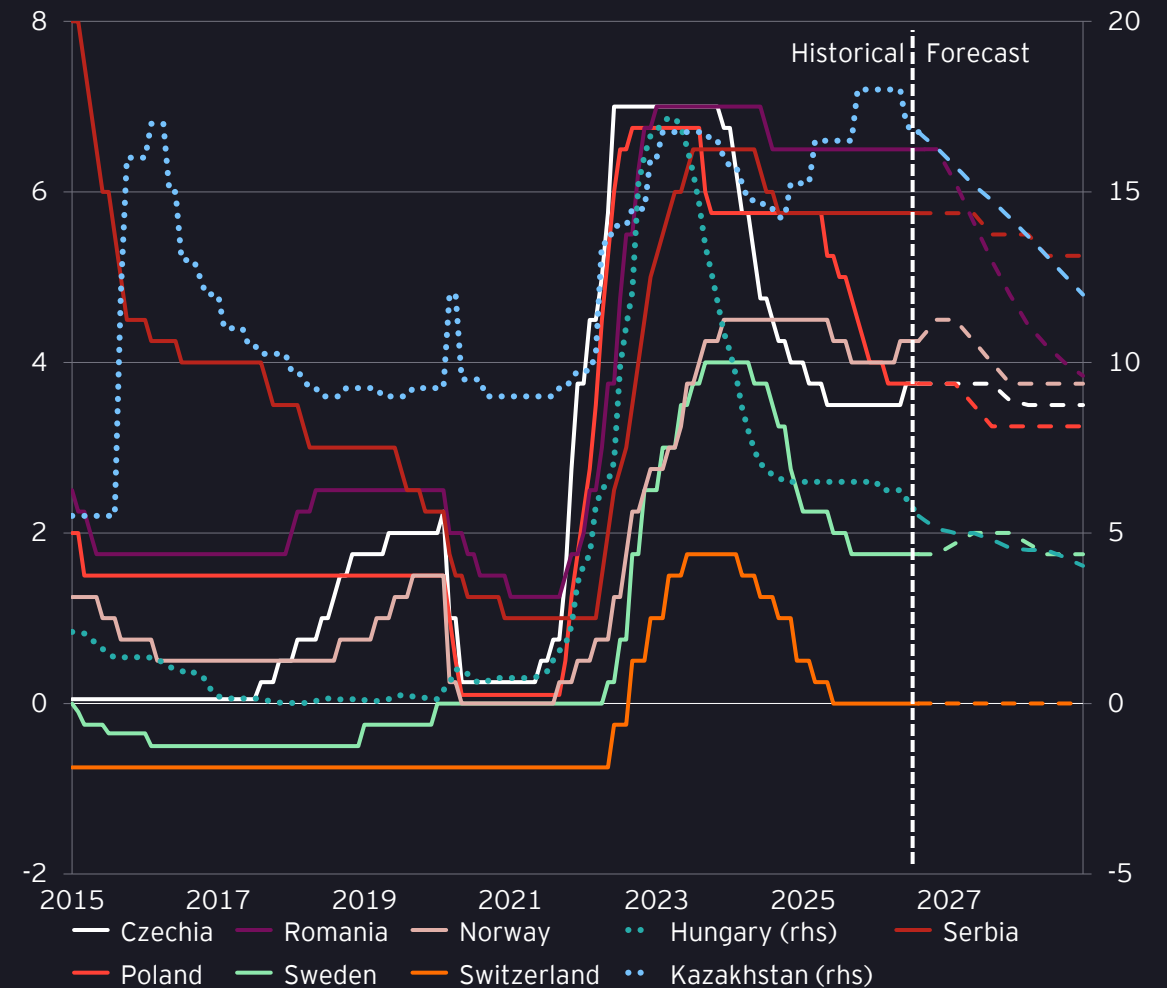
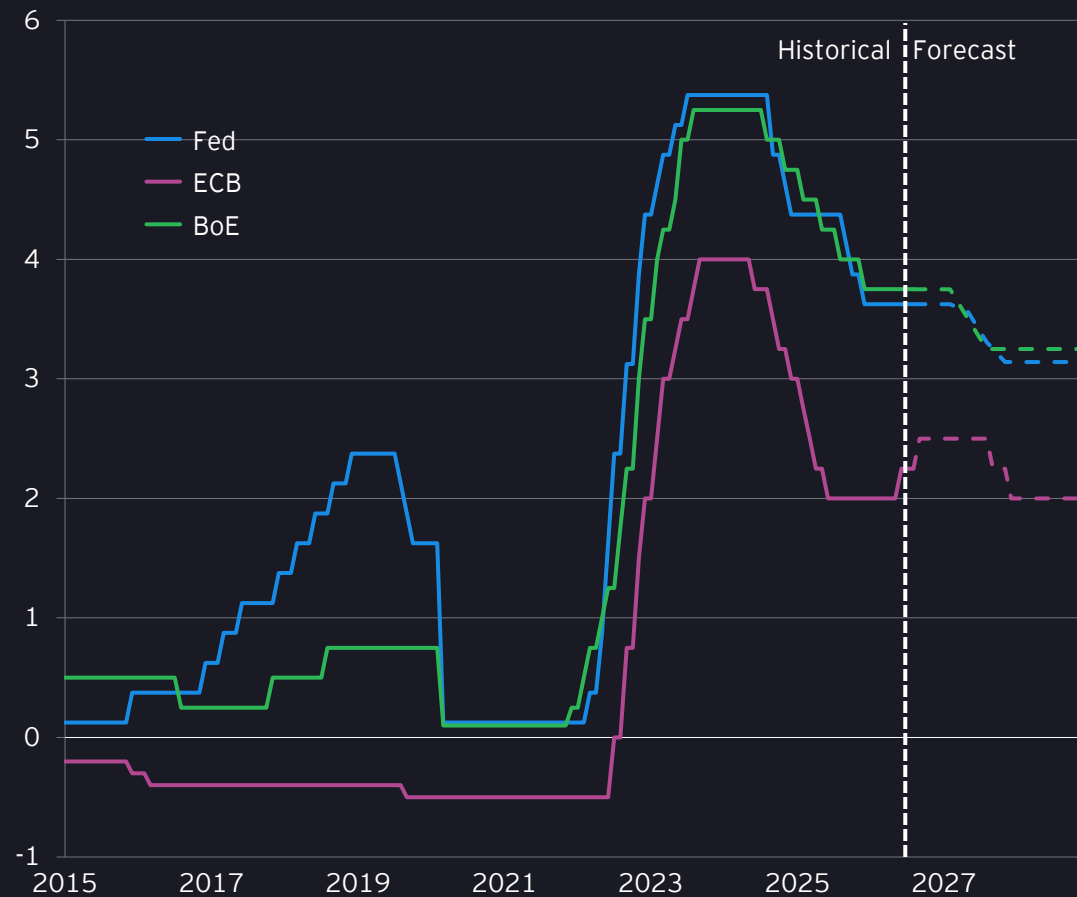
We expect one further ECB hike in September, followed by a reversal of this year's tightening in H2 2027. Most other central banks should remain on hold through year-end and resume easing in 2027

Monetary policy:

- ▶ **ECB:** We expect one 25 bp rate hike in September. Given our expectations of inflation returning to 2% as early as Q2 2027 and core inflation beginning to subside in the second half of 2027, we expect the ECB to cut the deposit rate back to 2% in H2 2027.
- ▶ **Fed:** While we continue to expect the Fed to remain on hold in 2026 before delivering 50 bp of cuts in 2027 as inflation normalizes, recent hawkish communication increases the likelihood of a rate hike this year.
- ▶ **BoE:** Given easing underlying price pressures, we expect the BoE to keep rates unchanged in 2026, before delivering 50 bp of easing in 2027 when headline inflation normalizes.
- ▶ **SNB:** With inflation remaining low, we expect the policy rate to stay at 0% through end-2029.
- ▶ **Sweden:** Rising core inflation and higher ECB rates should prompt a 25 bp hike in early 2027. As CPIF inflation falls below 2% in 2028, the policy rate may subsequently decline toward 1.75%.
- ▶ **Norway:** We expect one final 25 bp hike to 4.5% in September, followed by gradual easing to 3.75% by end-2027 as inflation falls.
- ▶ **CEE:** Apart from Hungary, we expect central banks to stay on hold this year before resuming easing in 2027.
 - ▶ **Poland:** We anticipate the National Bank of Poland (NBP) to keep the reference rate unchanged at 3.75% this year, given that core inflation is projected to rise toward 3.5%, preventing easing. Rate cuts are possible in 2027 after core inflation begins to decline, with an estimated terminal rate of 3.25%.
 - ▶ **Czechia:** Despite the CNB's hawkish stance, low inflation should make further hikes unlikely. Rates may be cut to 3.5% by late 2027 as core inflation eases.
 - ▶ **Hungary:** Low inflation and a stronger forint should allow rates to fall to 5.0% by year-end, followed by a pause in H1 2027. We see the terminal rate of 3.75%.
 - ▶ **Romania:** Persistently high inflation is likely to keep rates unchanged through year-end. Easing should resume in early 2027, with rates falling to 4.75% by end-2027 and 3.75% by end-2028.
 - ▶ **Serbia:** With core inflation projected to rise above 5%, household demand receiving additional fiscal support, and credit growth remaining strong, the NBS is likely to keep the policy rate at 5.75% until the second half of 2027 and ease only gradually thereafter, once domestic price pressures begin to recede.
- ▶ **Turkey:** We expect the TCMB to align its 40% funding rate with the official 37% policy rate by year-end by reinstating one-week repo auctions. Rate cuts should start in 2027, reaching 24% by end-2027 and 15.5% by end-2028.

Interest rate forecasts

Central bank policy rates (%)



The economic outlook remains highly uncertain, with the Middle East conflict the main near-term risk and AI an increasingly important driver

The balance of risks remains skewed toward higher inflation and interest rates and lower GDP growth.

The Middle East conflict remains the main near-term risk. The Strait of Hormuz remains closed and progress in US-Iran talks has been limited. The impact on oil and gas prices has so far been contained by inventory drawdowns, weak demand (especially in China) and the pre-conflict oil surplus. However, if the closure persists, these factors may fade, triggering a stronger rise in commodity prices. Conversely, a full reopening could lead to a faster-than-assumed decline in oil prices, although the potential upside to growth appears smaller than the downside risk associated with a renewed commodity price spike.

To illustrate these risks, we constructed three scenarios:

- ▶ **Optimistic scenario:** oil prices quickly fall to USD 68-70/bbl.
- ▶ **Adverse scenario:** oil prices return toward USD 100/bbl and then decline gradually.
- ▶ **Severe scenario:** oil prices rise above USD 140/bbl in the short term and remain close to USD 100/bbl over the medium term.

Under the optimistic scenario, euro area inflation would be 0.6 pp lower and GDP growth 0.2 pp higher in 2027 than in the baseline scenario. Under the adverse scenario, euro area HICP inflation would be 1.3 pp higher and GDP growth 0.4 pp lower. Turkey would be most affected, followed by Czechia, Romania and the UK, while the Nordics, Poland and the Netherlands would be least impacted. Under the severe scenario, euro area inflation would peak at close to 6%, and GDP growth would be 0.8-0.9 pp lower in both 2027 and 2028 compared to the baseline scenario.

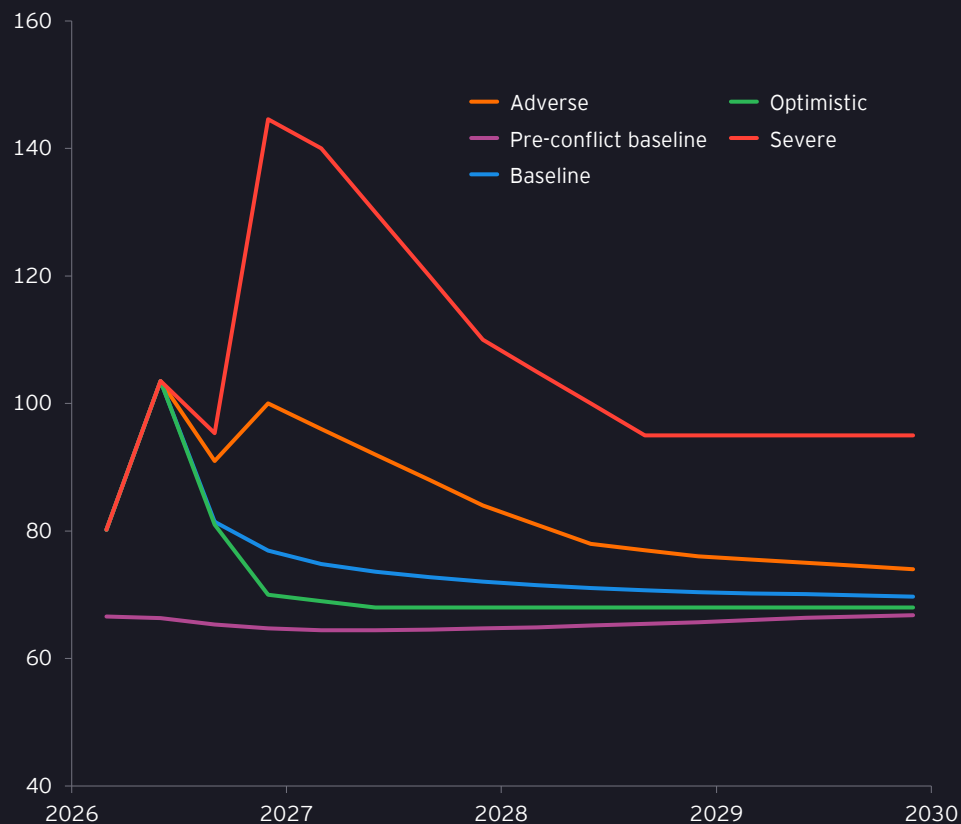
AI is another key driver of the outlook. AI is already influencing activity through investment, trade and equity prices and may have contributed to the productivity revival in the US. Although the effects of AI are most evident in the US and several Asian economies, Europe is benefiting indirectly from stronger global trade. Over time, AI-driven productivity gains will be crucial in offsetting adverse demographics. We estimate that AI may already have raised Europe's productivity by around 0.2% and assume 0.4% of additional gains by 2029. Risks are tilted to the upside. Conversely, if AI leads to labor displacement, the impact on GDP may be reduced.

Other important sources of uncertainty include:

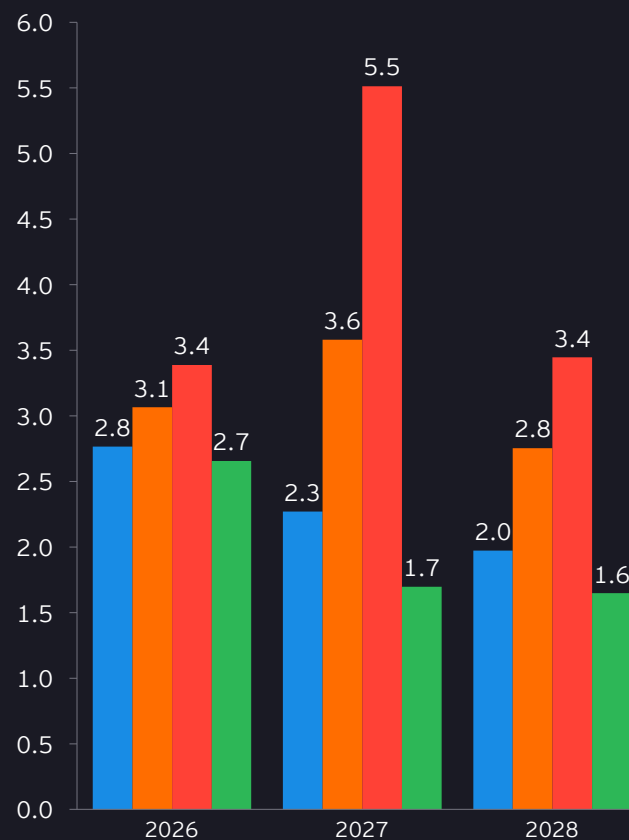
1. **Fiscal policy:** Germany's fiscal package is being implemented, but the pace, scale and economic impact remain uncertain. The timing and design of measures to cushion higher energy prices affect near-term inflation. Further risks arise from high fiscal deficits, political instability and elections in countries including France, Poland and Romania.
2. **Tariffs and trade policy:** Global trade has remained resilient despite US tariffs, supported by AI-related trade, and the tariff framework has stabilized. Nevertheless, tariffs remain a source of uncertainty due to potential legal challenges, their use in political negotiations, and uncertainty over their durability beyond the next US presidential election.
3. **Exports and competitiveness:** European exports underperformed global trade in 2024-25, particularly in Germany and France. While we expect export growth to accelerate, the shift toward AI-related goods and a structural loss of industrial competitiveness may prolong Europe's underperformance and weigh on GDP growth.
4. **Equity prices:** US equity valuations are elevated by historical standards and, by some measures, are approaching levels observed during the dotcom bubble. If expectations of AI-related earnings growth are not realized, the risk of a significant market correction would increase. Although European valuations remain considerably lower and stock markets play a less important economic role, a major US market downturn would affect Europe through weaker external demand and sentiment, as well as tighter financial conditions. We estimate that a dotcom-style equity market downturn could reduce euro area GDP by 0.6%.
5. **Demographics and migration policy:** Europe's unfavorable demographics, tighter migration policies and political resistance to immigration weigh on growth prospects. However, immigration and labor force participation have continued to surprise on the upside. The EU's working-age population is currently 1.6% higher and its labor supply 2.3% higher than we projected four years ago, suggesting upside risks to our baseline assumption of broadly stagnant labor supply through 2029.

The outlook remains highly uncertain, with risks clearly skewed toward higher commodity prices and inflation and lower GDP growth

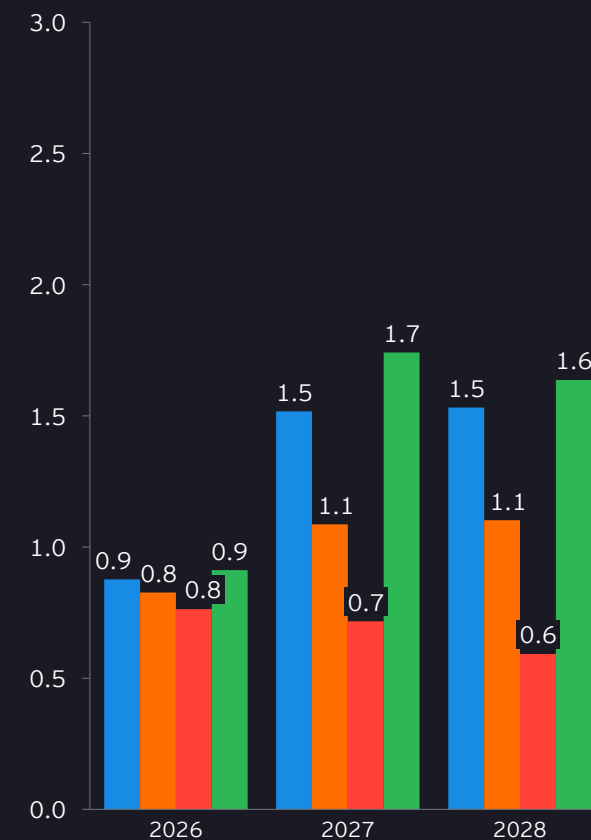
Brent oil price (USD/bbl)



**HICP inflation in the euro area
(in percentage)**



**Real GDP growth in the euro area
(in percentage)**



Baseline Adverse Severe Optimistic

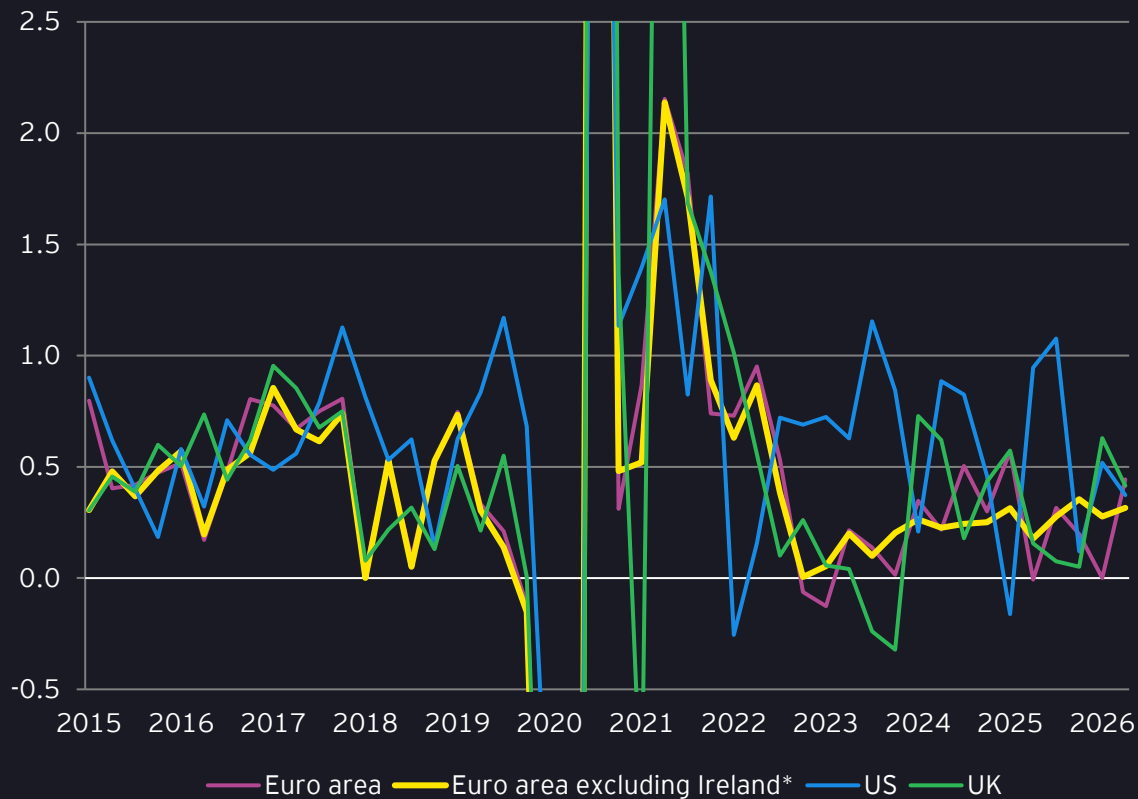
Chapter 1

Economic activity in recent quarters

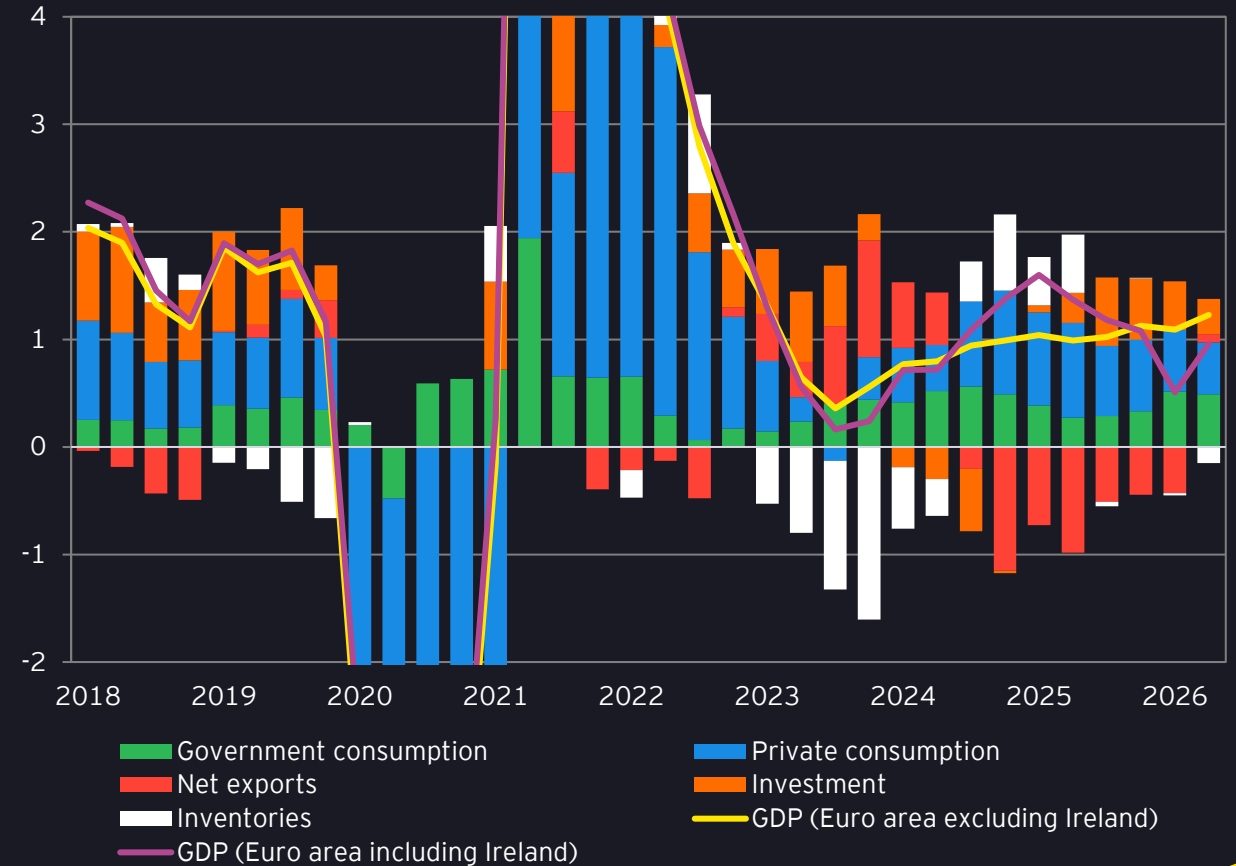
Underlying euro area GDP growth remained resilient in Q2 2026 despite the Middle East conflict

- ▶ Underlying euro area real GDP growth (excluding Ireland) remained at 0.3% q/q in Q2 2026, similar to previous quarters
- ▶ Headline GDP growth continued to be more volatile due to large fluctuations in Ireland
- ▶ Growth was driven primarily by a recovery in exports and robust government spending, while private consumption and investment decelerated slightly

Q/q real GDP growth
(in percentage, seasonally adjusted)

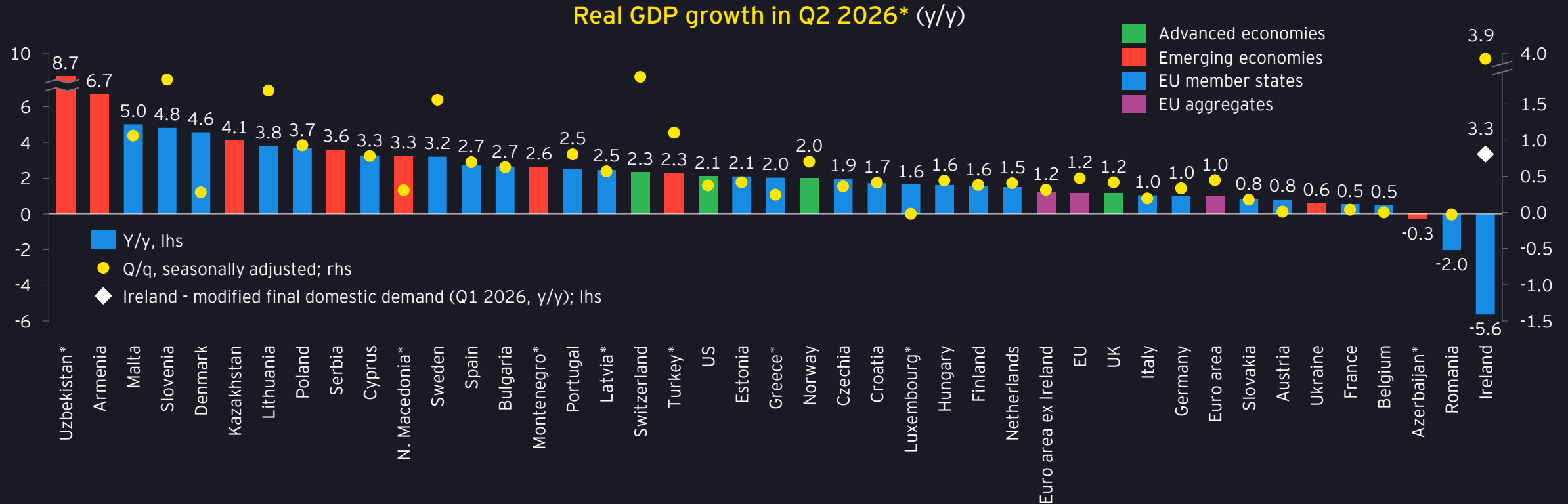


Contributions to y/y GDP growth in the euro area excluding Ireland* (in percentage points)



Growth remains strong in most of Southern Europe and CEE and has picked up in the Nordics, while France, Italy and Germany continue to lag

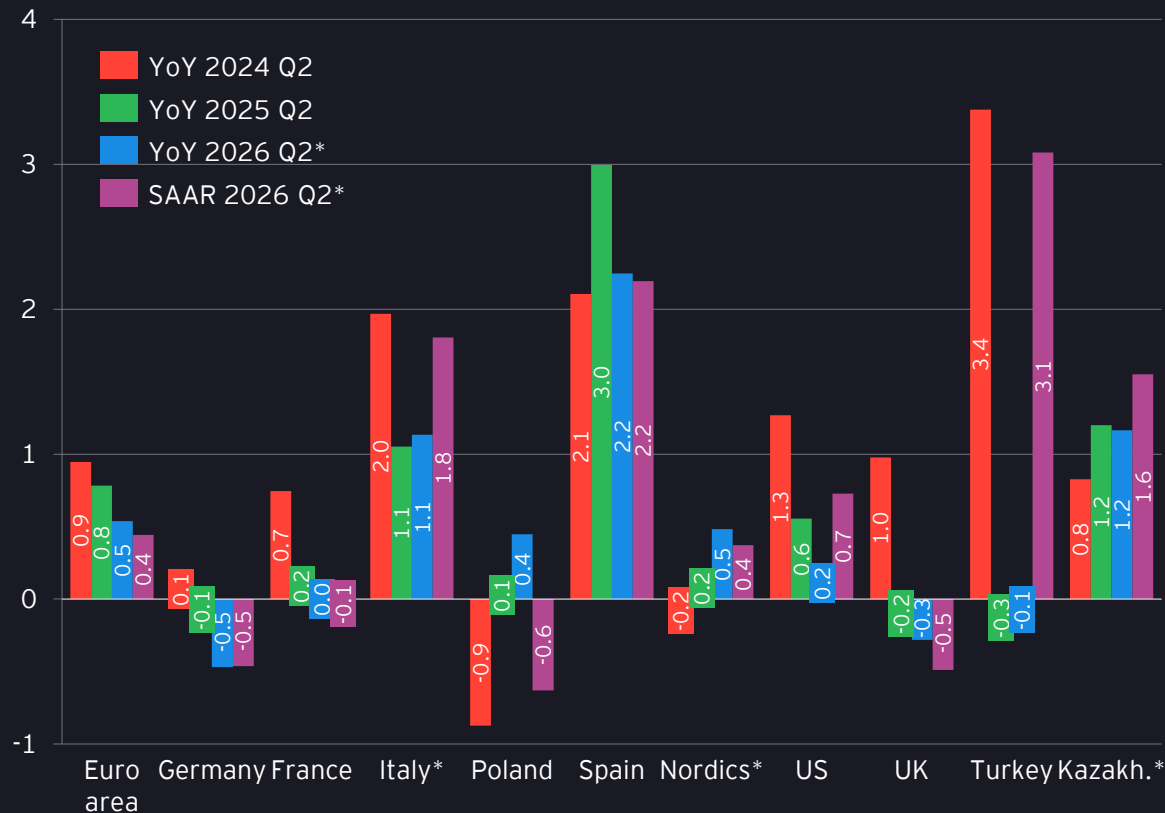
- ▶ All major European economies recorded positive quarter-on-quarter growth in Q2. Germany saw a third consecutive quarter of growth, marking an exit from the stagnation. However, growth in France, Germany, Italy and the UK remained subdued. Spain continued to outperform, supported by strong tourism, housing activity, immigration and NextGenEU funds.
- ▶ Growth remained resilient in the Netherlands and accelerated sharply in Switzerland on stronger external demand. By contrast, Belgium and Austria stagnated, remaining among Europe's weakest performers.
- ▶ Poland and several other CEE economies (Slovenia, Lithuania, Bulgaria, Serbia) continued to grow strongly, supported by real income gains, expansionary fiscal policy and NextGenEU spending. Regional performance remained uneven, however, with solid growth in Czechia, Croatia and Hungary, near-stagnation in Slovakia, and contraction in Romania amid fiscal tightening and high inflation.
- ▶ The Nordics had a strong quarter. Growth surged in Sweden, while Denmark remained among Europe's fastest-growing economies, although headline growth was still boosted by pharmaceutical sector. Growth in Norway and Finland also accelerated, although momentum in the Norway's mainland economy remained sluggish.
- ▶ Irish GDP partially recovered in Q2 after previous declines. However, it remains heavily distorted by pharmaceutical production and is therefore a poor indicator of underlying economic activity.



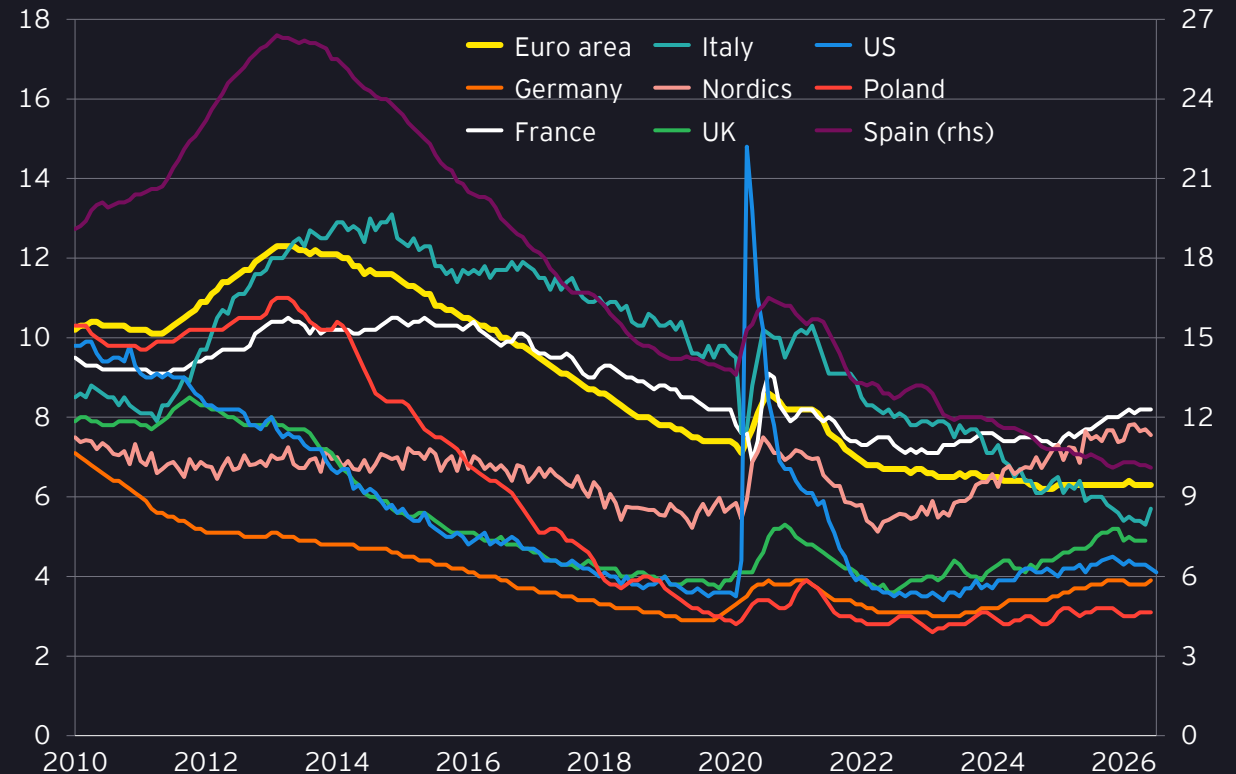
Euro area employment growth has continued to slow, with Spain the primary driver in an otherwise subdued labor market

- ▶ Many major European economies are seeing stagnant or declining employment, while Spain stands out as the main driver of job creation, supported by strong immigration inflows (notably from Latin America and North Africa).
- ▶ Labor supply growth slowed in early 2026 following 2025 strength. With concurrent slowdown in employment, the unemployment rate has remained stable.
- ▶ Employment has been rising in France and the Nordics, although there are tentative signs of stabilization. It appears to have stabilized in the UK and Germany. Meanwhile, unemployment continues to decline in Spain, albeit more slowly, while it has rebounded somewhat in Italy after an earlier rapid decline.

Employment growth
(in percentage)

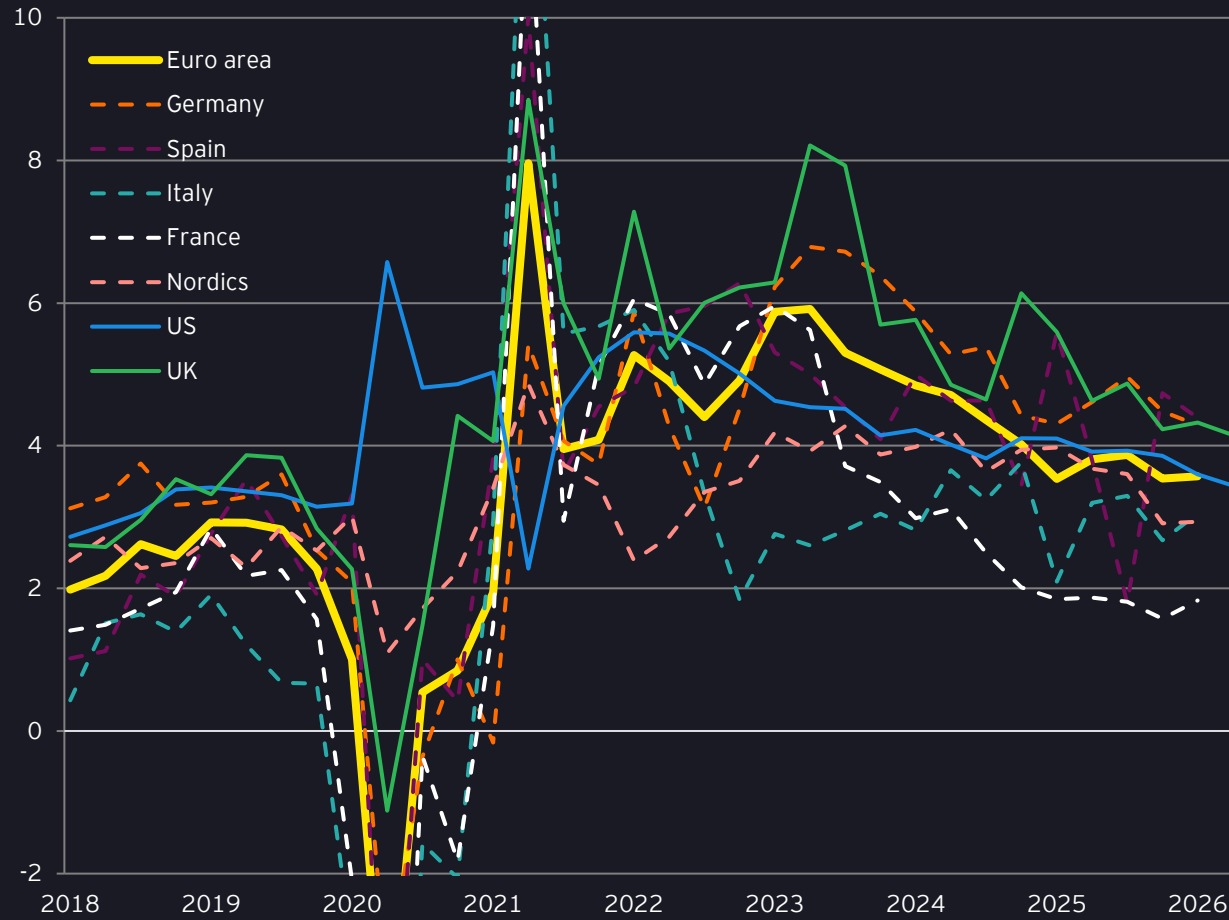


Unemployment rate (in percentage)



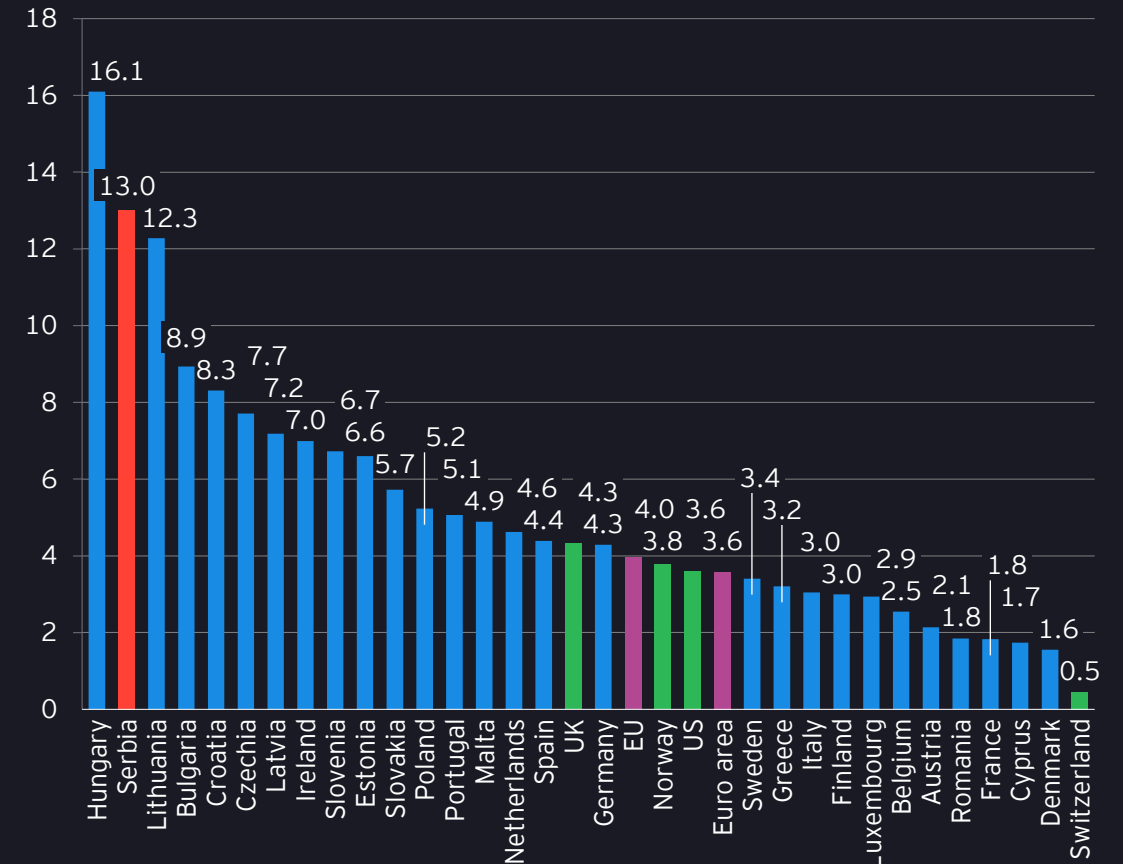
Nominal wage growth has slowed as the real wages have caught up with productivity

Nominal wage growth (y/y, in percentage)



- CEE economies continue to record significantly stronger wage growth than Western and Southern Europe. In most Western European economies, wage growth is moderate (around 2.5-4.5%). France and Switzerland stand out on the downside, with weaker wage growth constraining consumer spending.

Nominal wage growth in Q1 2026 (y/y, in percentage)

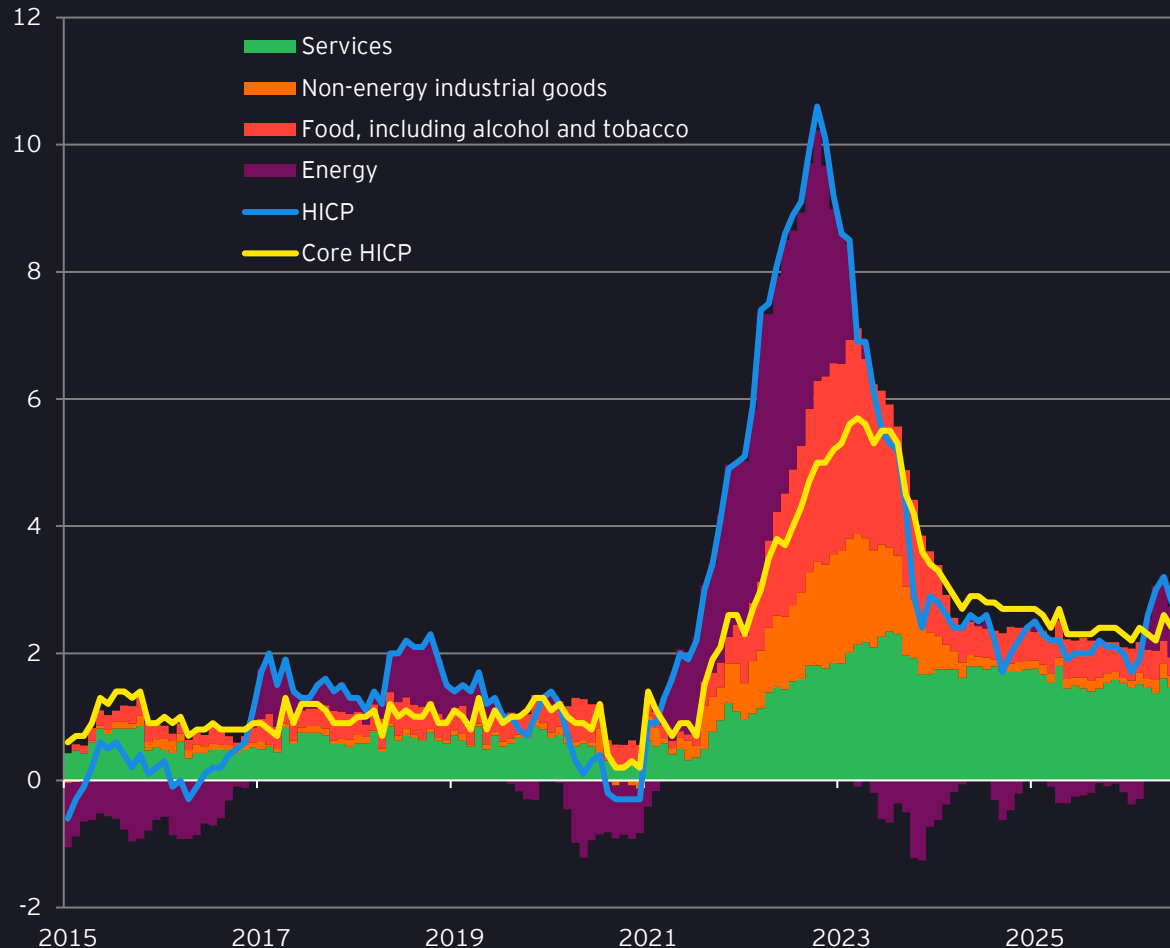


Source: Eurostat, ONS, FRED, Oxford Economics.

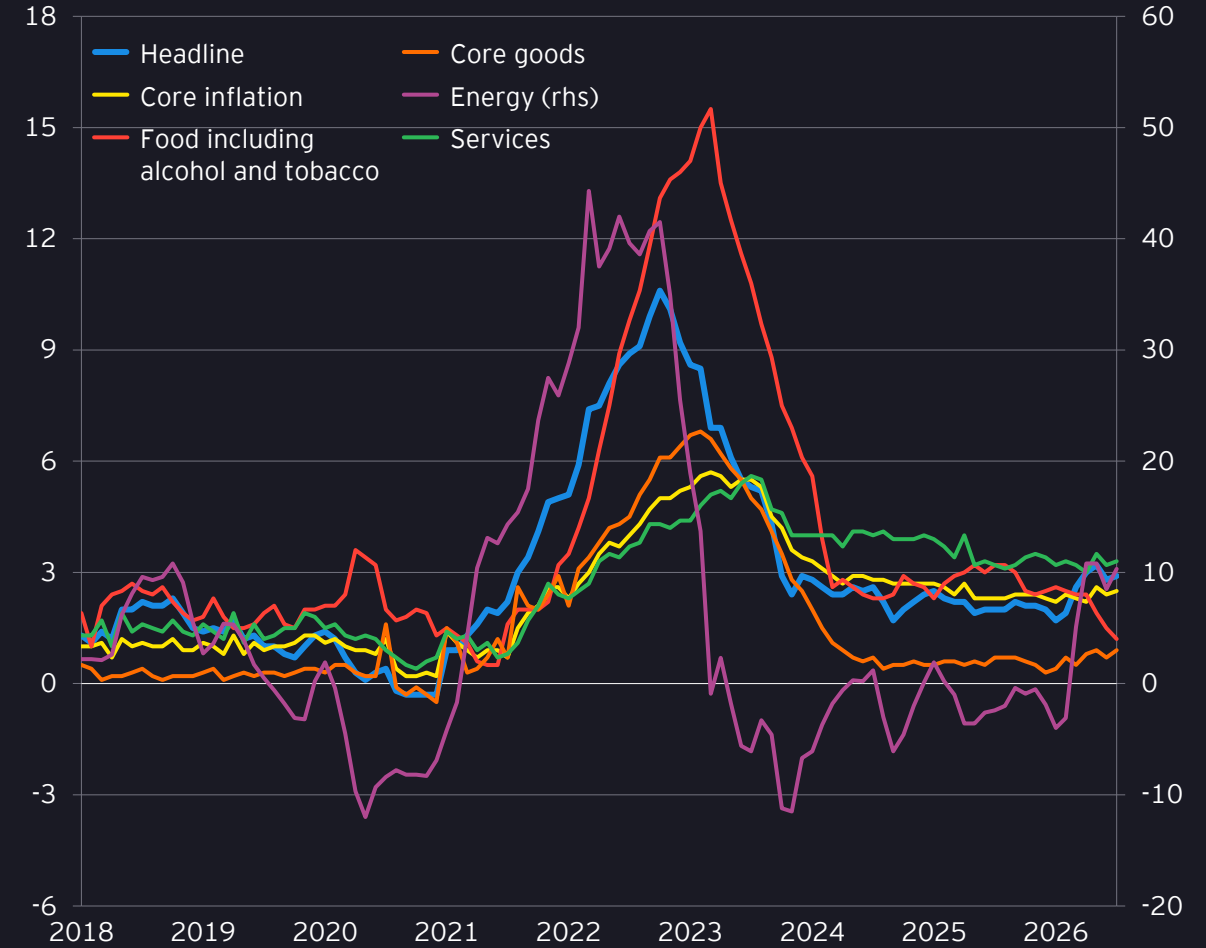
For the euro area countries, wages and salaries per employed person; for the UK, average weekly earnings in the whole economy, total pay; for the US average hourly earnings of All Employees, Total Private. The Nordic aggregate is the unweighted average of Denmark, Finland, Norway, and Sweden.

Euro area inflation fell from 3.2% in May to 2.9% in July as food inflation eased, while energy prices remained elevated. Non-energy components have remained broadly stable, indicating limited second-round effects from the energy shock so far

Statistical decomposition of y/y HICP inflation
in the euro area (in percentage points)



HICP inflation in the euro area
(y/y, in percentage)



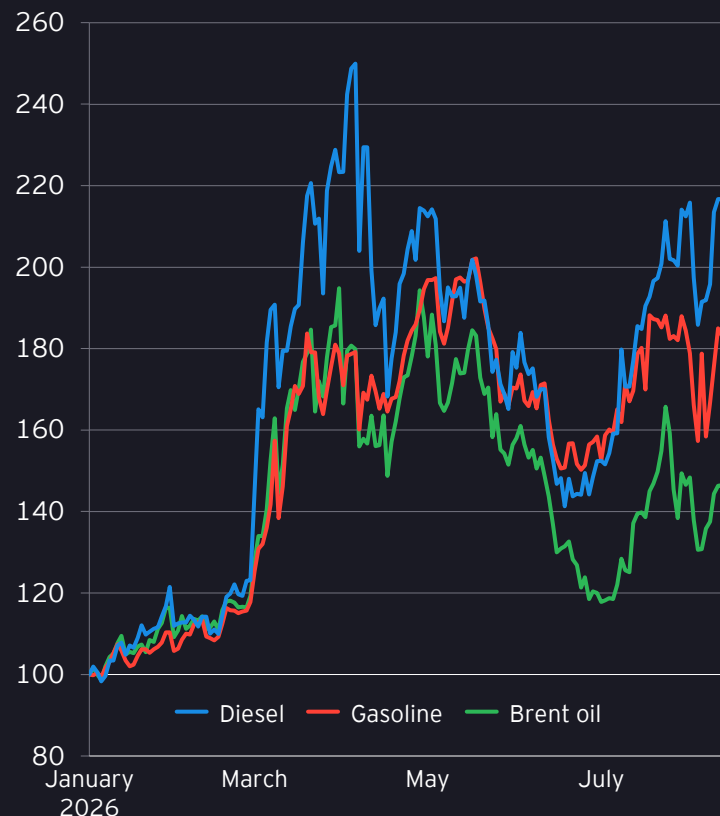
Oil prices have fallen substantially from their May peaks, but gasoline and diesel prices remain much more elevated

- ▶ Except for a brief and partial reopening in June, the Strait of Hormuz has remained closed. Despite this, oil is trading below May peaks, although gasoline and diesel have fallen much less, keeping fuel price inflation elevated.
- ▶ The relatively muted oil price response, given the scale of the shock, to the Hormuz closure can be explained by the rerouting of supplies through Fujairah and the Red Sea, pre-conflict oil market surplus, reduced oil demand (especially from China) and large inventory drawdowns. However, if the closure persists, these factors may fade, triggering a stronger rise in commodity prices.

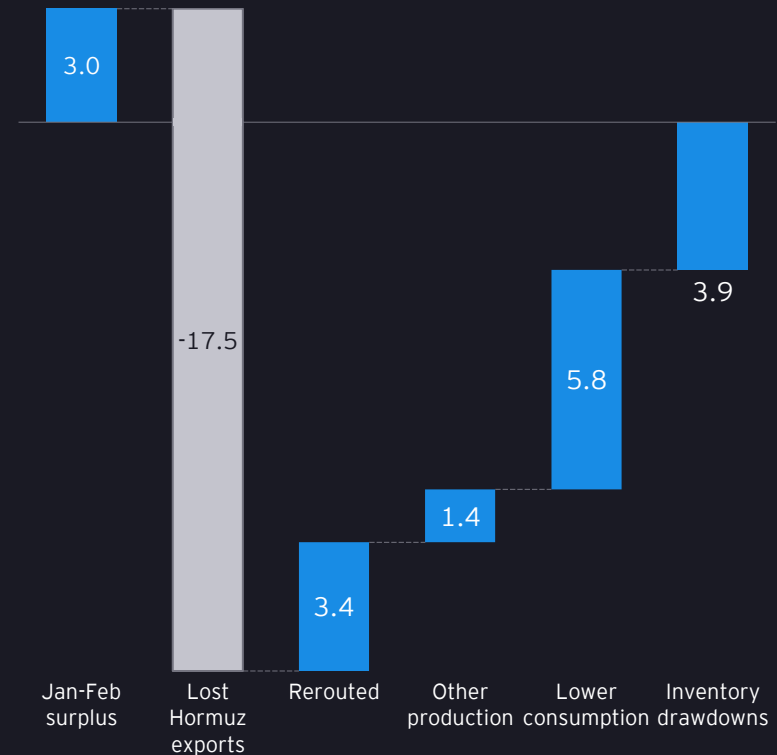
Number of tankers crossing the Strait of Hormuz (7-day rolling total) January 1, 2022 - August 9, 2026



Energy commodities futures prices (USD, January 2nd 2026 = 100)



Global oil balance (Millions of barrels per day, Q2 vs. January-February)



Supply chain pressures from the Middle East conflict and AI-related demand are likely to raise core goods inflation in the near term

Global Supply Chain Pressure Index (index) vs. euro area supply chain production hindrance¹ (percentage)



— GSCPI

— Material/equipment shortage limiting production

Global base metals² price index (% change y/y)



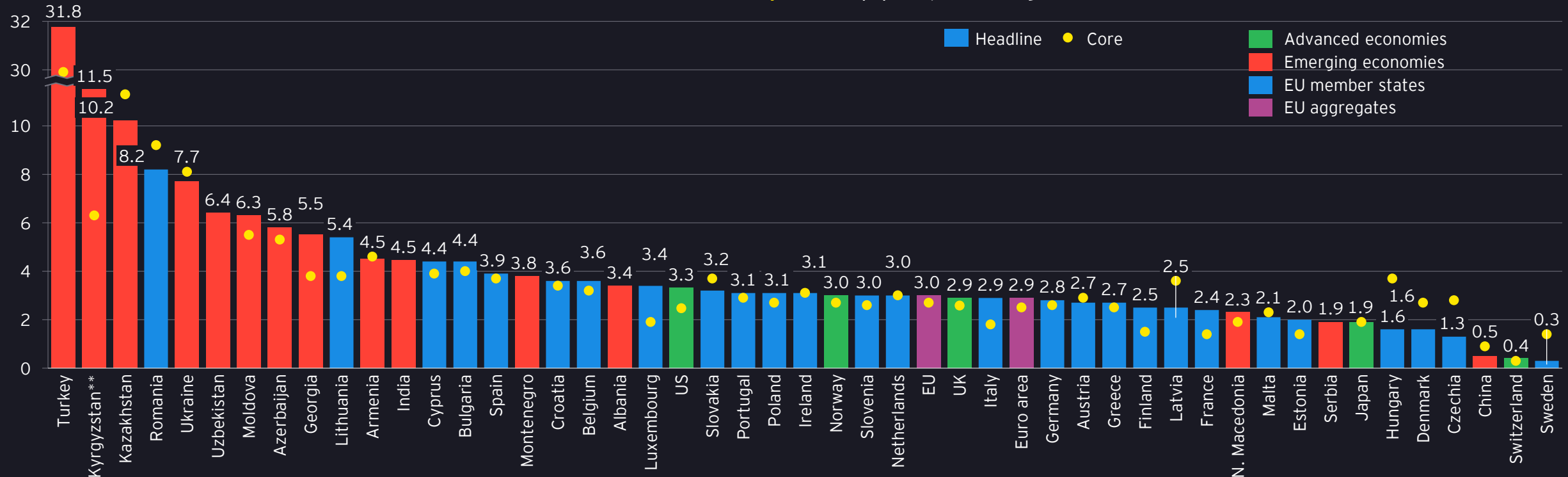
Containerized Freight Index (index)



Inflation dispersion has narrowed over the past two to three months as food inflation fell and energy prices normalized in several high-inflation economies

- ▶ Among major euro area economies, Spain records the highest inflation due to more pronounced (and accelerating) core price pressures, which may be explained by relatively strong demand inducing a stronger pass-through of the energy shock to consumer prices.
- ▶ Romania continues to record the highest inflation in the EU due to broad-based price pressures exacerbated by the VAT and fuel price hikes. Inflation exceeds 4% in Lithuania and Bulgaria due to strong wage growth, high services inflation and (in Lithuania) deregulated electricity prices.
- ▶ In contrast, inflation remains low in Switzerland and Sweden, followed by Denmark, Czechia, Hungary and Serbia due to a mix of factors: tax and regulated electricity price cuts (Sweden, Denmark, Czechia, Serbia), limited wage growth (Switzerland, Sweden), FX appreciation (Sweden, Hungary), strong food price deflation (Czechia, Hungary, Serbia), and a fuel price freeze (Hungary).
- ▶ Disinflation has been halted in Turkey due to the energy shock, with price growth remaining above 30% y/y, but continued in Kazakhstan.

HICP inflation in July 2026 (y/y, in percentage)



Source: Eurostat, FRED, ONS, Trading Economics, national statistical bureaus.

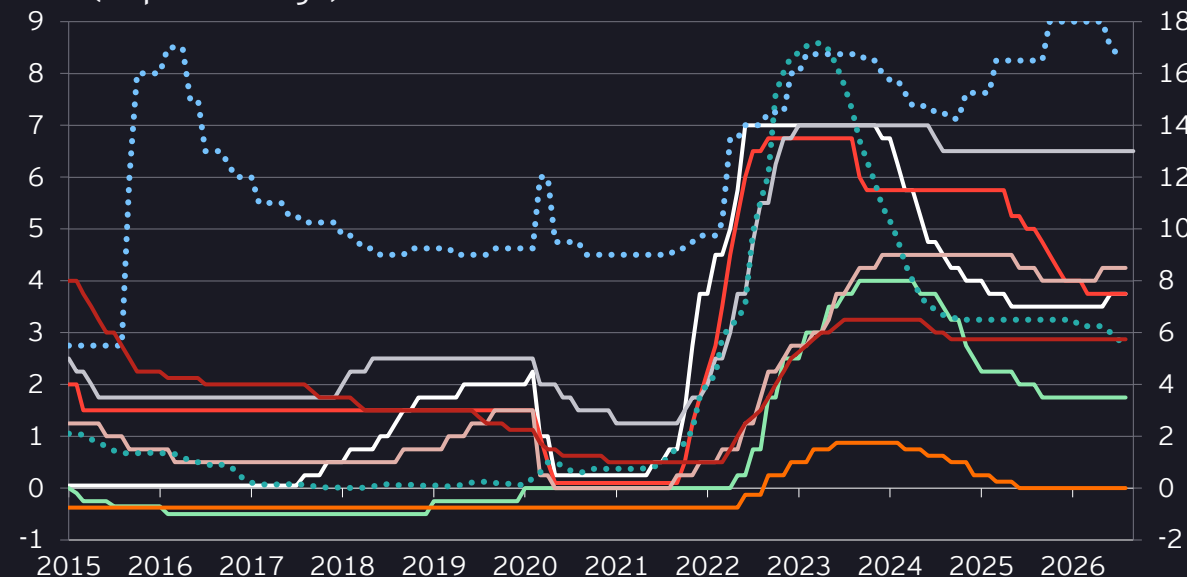
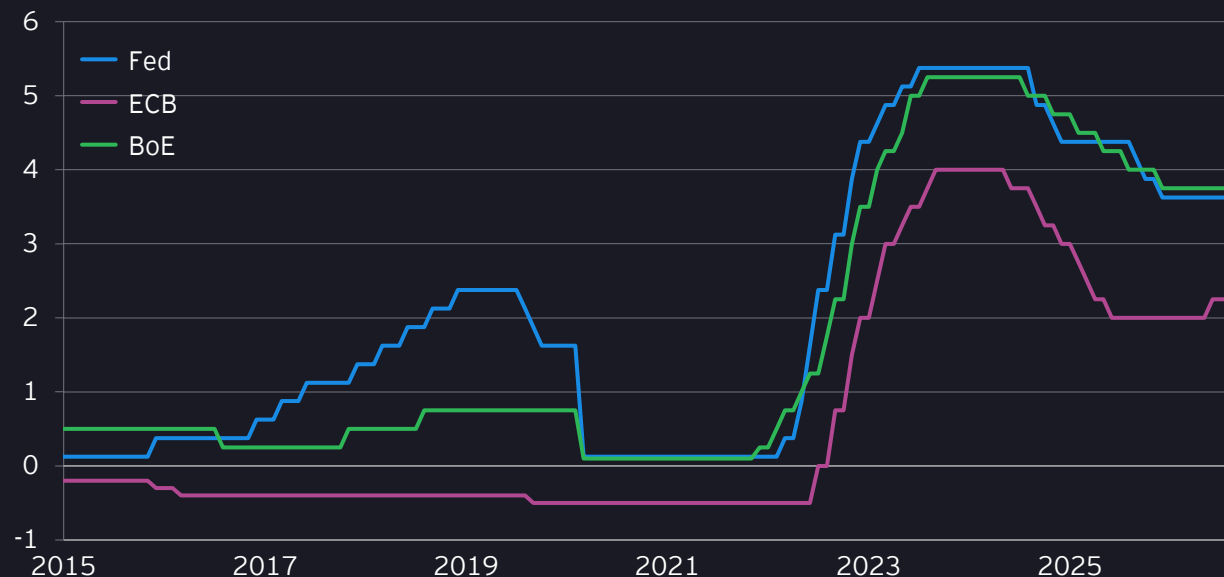
Note: For non-EU countries, CPI inflation.

** June 2026 - Core inflation only

The ECB hiked rates in June and remained on hold in July. Most other central banks kept rates unchanged

- ▶ The ECB increased the deposit rate to 2.25% in June in response to the energy shock but kept interest rates unchanged in July as the Middle East conflict appeared to be dissipating.
- ▶ The Federal Reserve has held rates at 3.5-3.75% since December 2025, though with inflation persistently above target, stable labor market and solid GDP growth, policymakers are increasingly tilting toward a rate hike, with 3 FOMC members voting in favor of a hike in July.
- ▶ The Bank of England has kept the Bank rate unchanged at 3.75% as inflation fell below 3% despite the Middle East conflict.
- ▶ Central banks of Switzerland and Sweden have also stayed put in light of weak price pressures, though Riksbank signaled growing risk of tightening given the impact of the Middle East conflict. Norges Bank kept rates unchanged at 4.25% in June following a hike in May but signaled that further tightening may be needed as inflation remains too high.
- ▶ The central bank of Hungary initiated an easing cycle in June, cutting rates by 75 bp to 5.5% by July, amid FX appreciation, reduced risk premia, and muted inflation following the parliamentary elections. In contrast, Czechia increased the policy rate to 3.75% amid elevated core inflation, wage and lending growth, despite low headline inflation. Policy rates have remained unchanged in Poland (at 3.75%), Romania (6.5%) and Serbia (5.75%).
- ▶ The central bank of Turkey delivered a *de facto* tightening from 37% to 40% by suspending weekly repo auctions to guard against derailment of disinflation amid the Middle East shock. The National Bank of Kazakhstan cut the policy rate to 16.75% in July amid easing inflation.

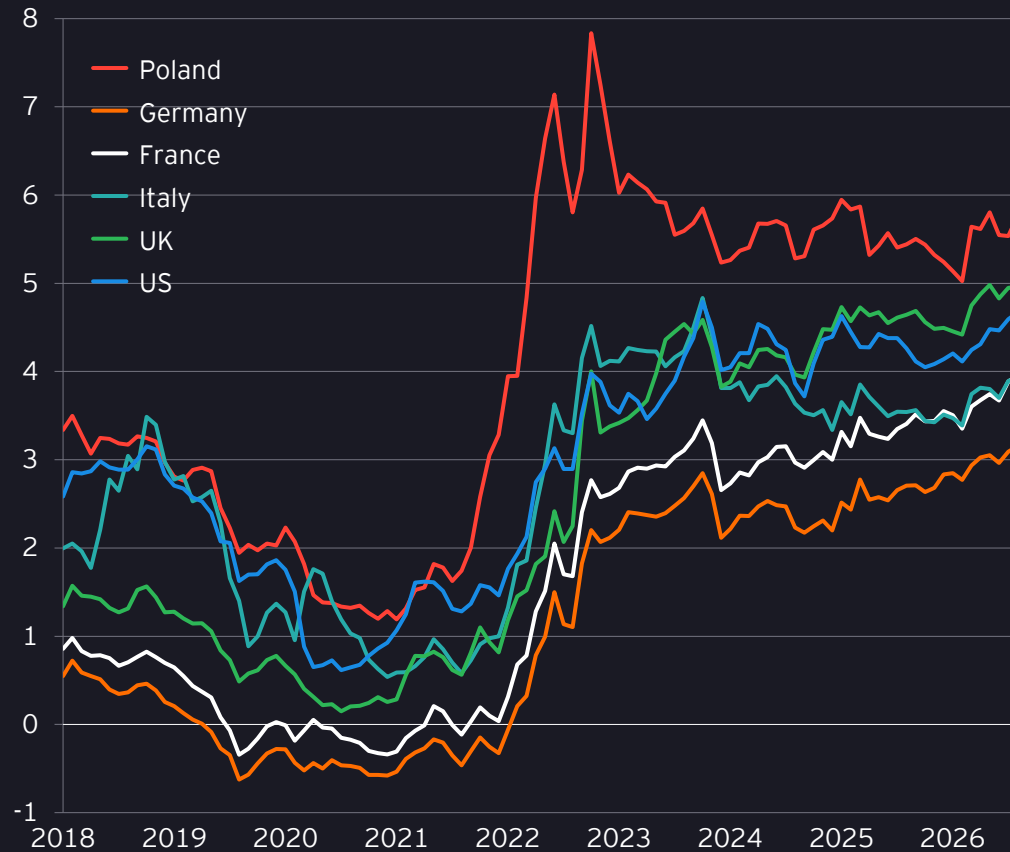
Central bank interest rates (in percentage)



— Czechia — Sweden ... Hungary (rhs)
 — Poland — Norway ... Kazakhstan (rhs)
 — Romania — Switzerland — Serbia

Bond yields have continued to rise despite lower oil prices, suggesting that broader factors – including fiscal sustainability concerns – are at work

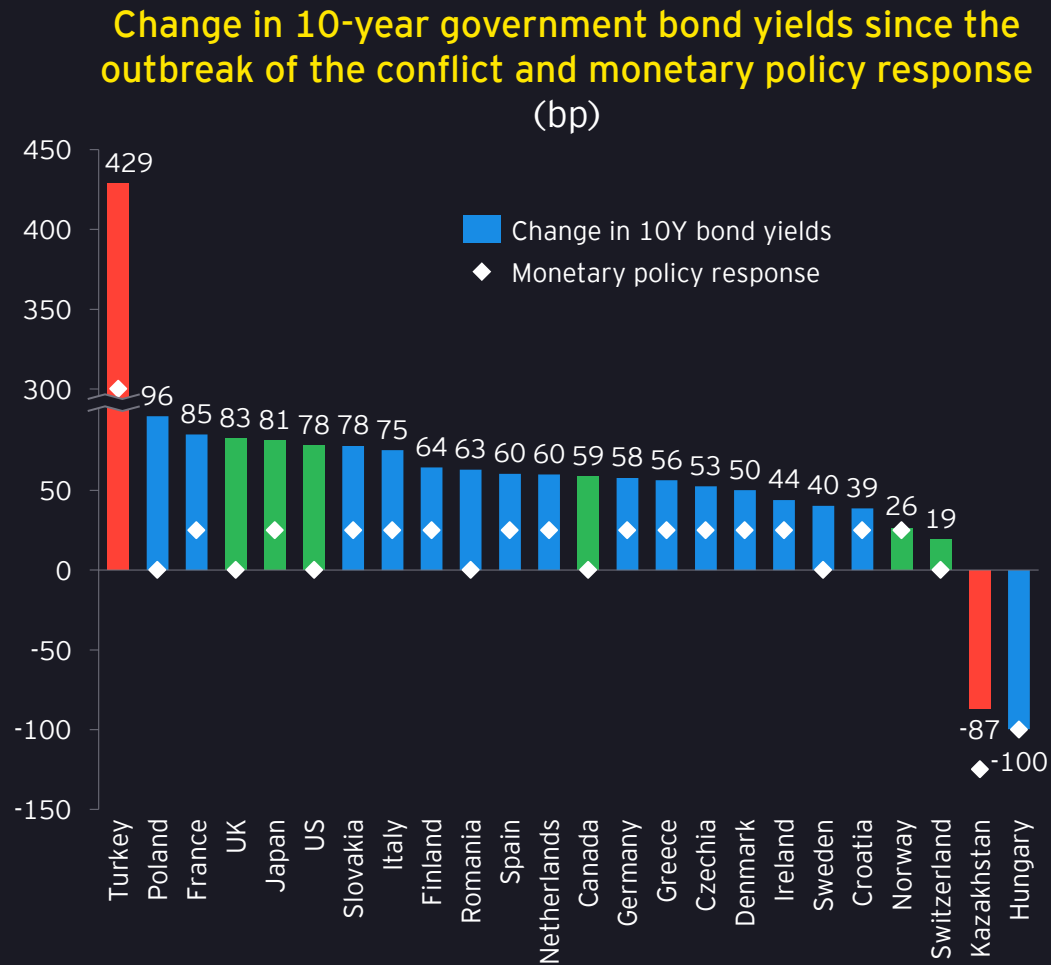
10-year government bond yield
(in percentage)



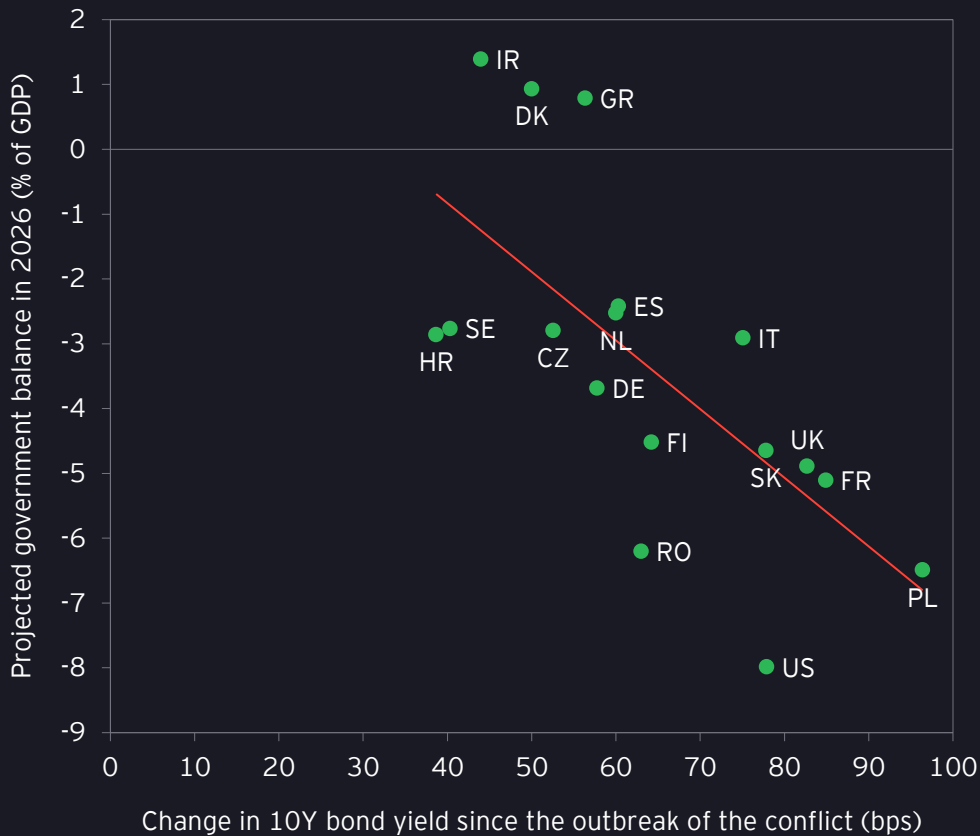
Change in 10-year government bond yields (bp)
vs. change in Brent oil price (USD/bbl)
since the outbreak of the Middle East conflict



The response of bond yields to the energy shock has varied across countries depending on the monetary policy response and the fiscal stance



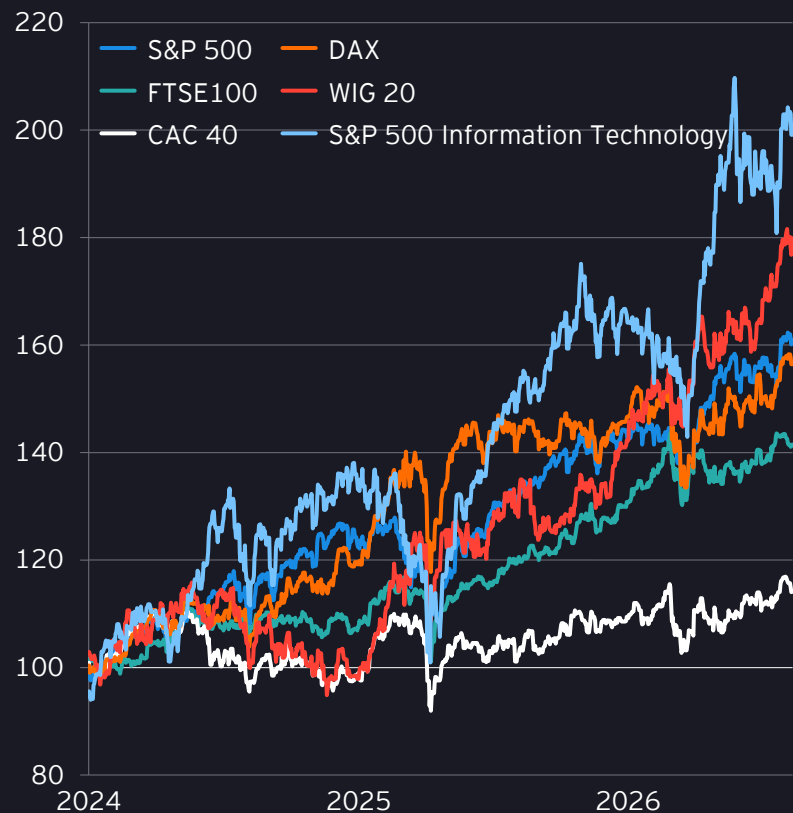
Change in 10-year government bond yields since the outbreak of the conflict (bp) vs. projected government balance in 2026 (% of GDP)



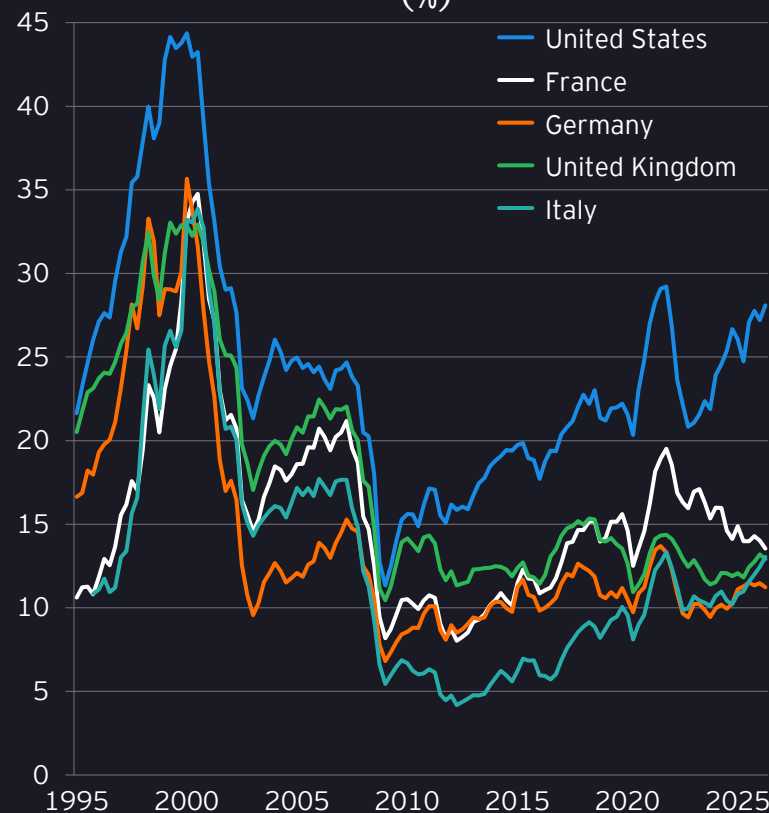
European stock indices have continued to rise, while the AI-driven rally in the US has lost momentum

- ▶ US equity valuations are elevated by historical standards. If expectations of AI-related earnings growth are not realized, the risk of a significant market correction would increase. European equity valuations remain considerably lower, but a major US market downturn would still affect Europe.
- ▶ Many stock markets in Southern Europe and CEE have recorded very strong returns in recent years, significantly outperforming the broad US market and, in some cases, approaching the gains recorded by US technology stocks.

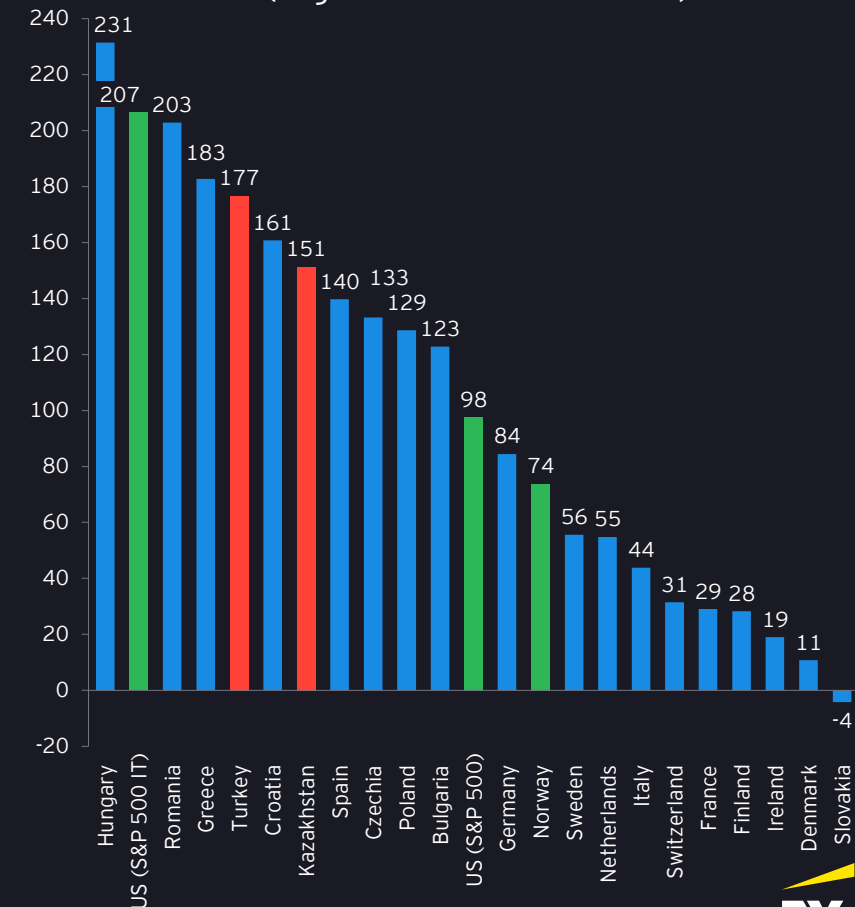
Major stock price indices
(index, 2024-01=100)



**Stock market cyclically-adjusted
Price-Earnings ratio**
(%)



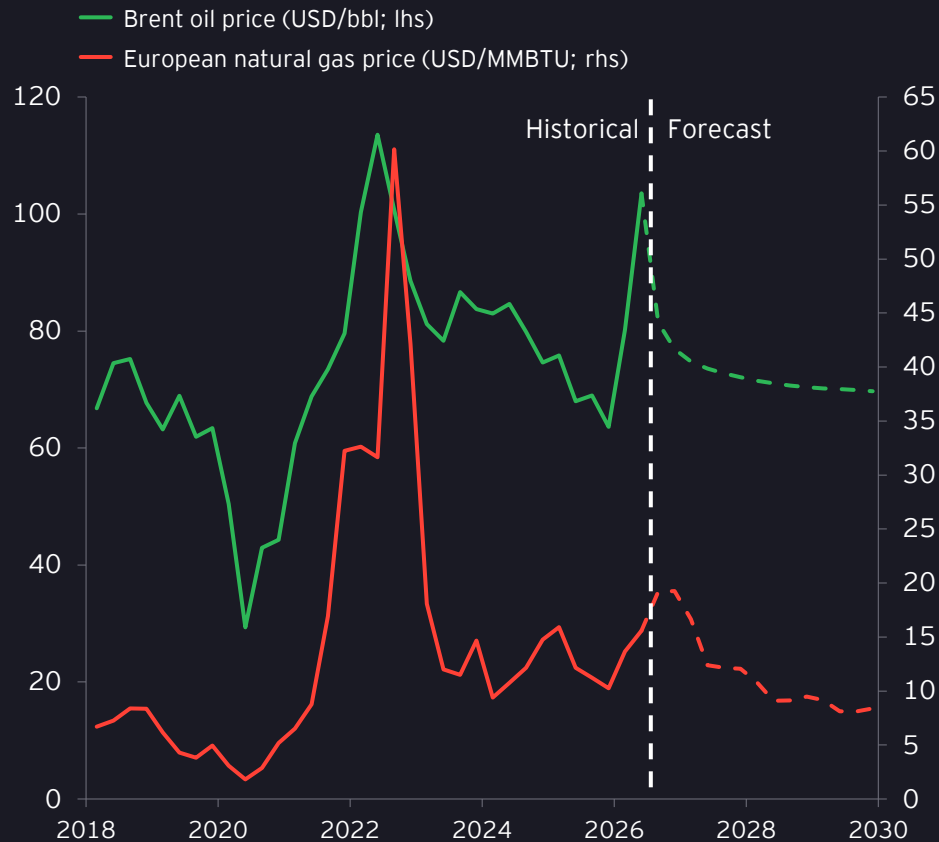
Stock price indices
(% growth from 2022-12)



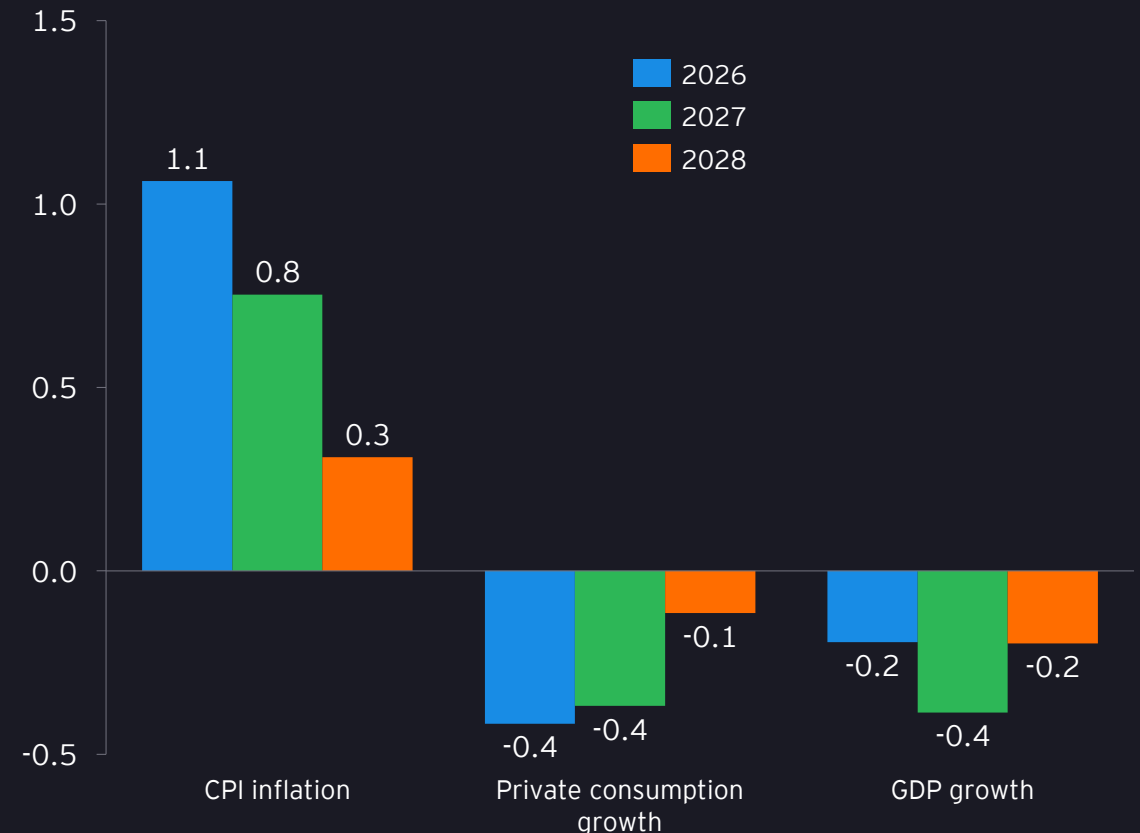
Key forecast drivers

The Middle East conflict remains the key driver of the outlook. Under our baseline scenario of a gradual normalization in energy commodity prices, we expect the conflict to have a persistent impact on inflation, moderately weighing on growth

Key commodity price assumptions

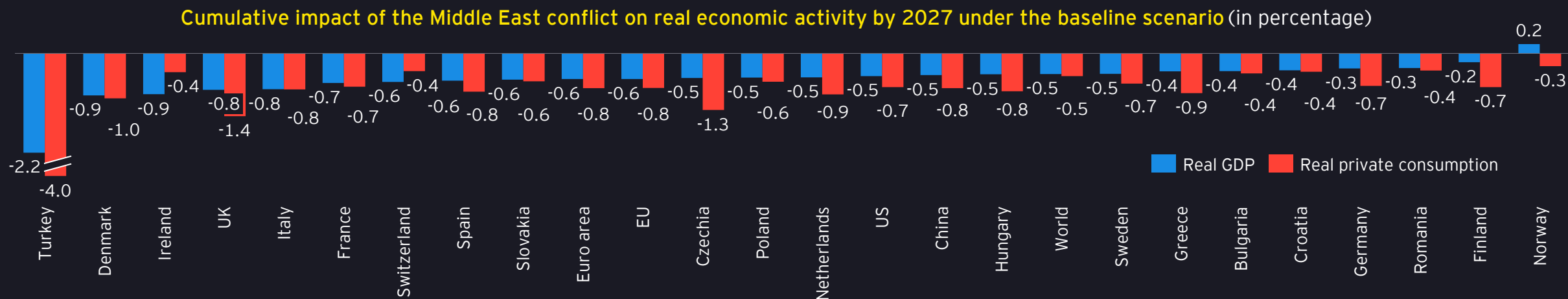
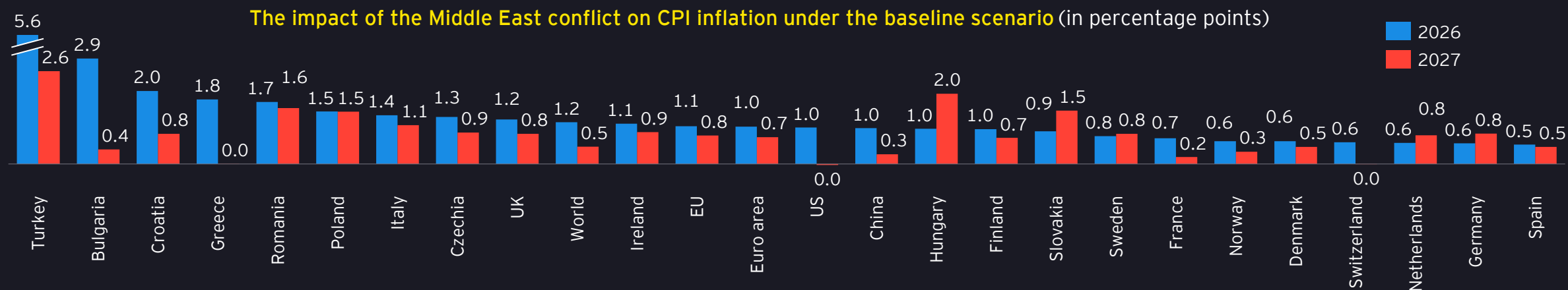


The impact of the Middle East conflict on the euro area economy under the baseline scenario (in percentage points)



Turkey is the economy most affected by the energy shock, with consumption hit harder than GDP through lower real disposable income

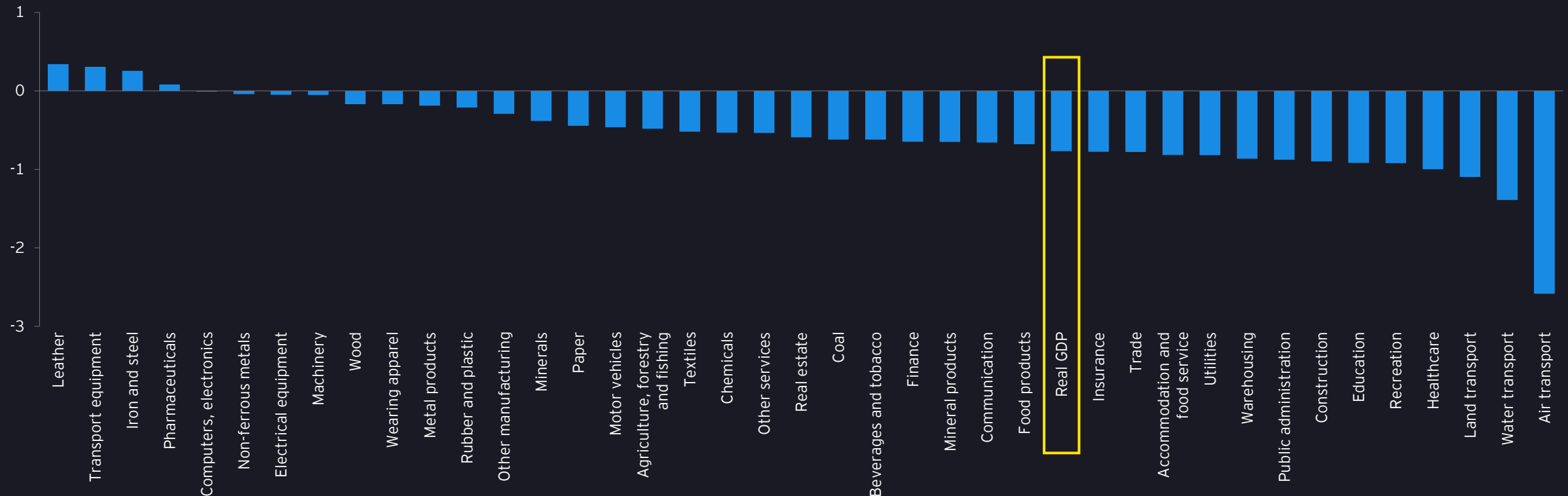
- ▶ In Turkey, inflation expectations are de-anchored and prices respond strongly to shocks, weighing on real incomes and consumer spending. Together with Turkey's relatively close economic ties to MENA countries, these factors result in a particularly large impact on GDP.
- ▶ The cumulative inflationary impact the conflict depends primarily on the energy mix and the share of energy in the consumer basket, with CEE economies generally the most affected and Switzerland the least affected. The US is less impacted than Europe because it does not face a comparable increase in natural gas prices. The speed of pass-through depends on the extent of energy price regulation and government intervention. Pass-through is relatively rapid in Bulgaria, Croatia and Greece, while the price response is delayed in Hungary and Slovakia.



Transport is most exposed to higher energy prices. Most manufacturing sectors are considerably more resilient

- Higher energy costs erode household disposable incomes, reducing demand for discretionary services and weighing on activity despite the sector's low direct energy intensity.
- Higher energy prices also increase costs for non-EU producers. Given higher energy intensity of Chinese manufacturing, the negative impact on EU firms is partly offset by an improvement in their relative cost competitiveness.

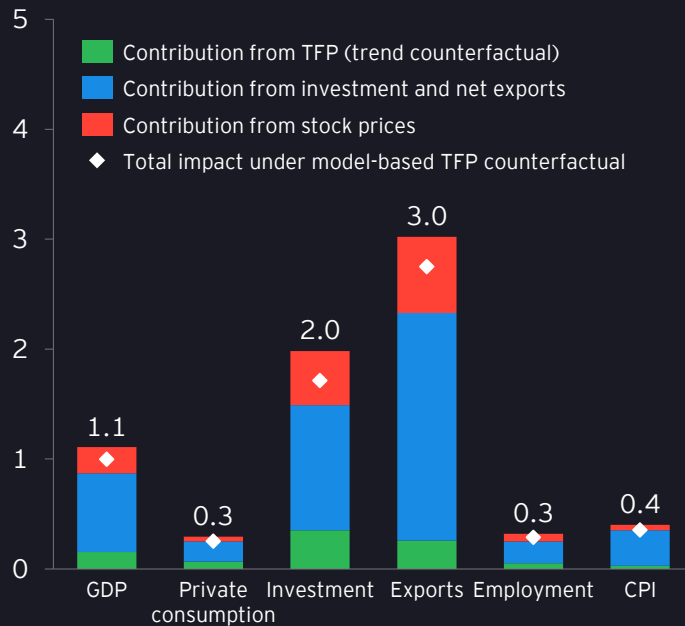
Impact of the Middle East conflict on value added by sector in the EU in 2028
(percentage deviation relative to a no-conflict scenario)



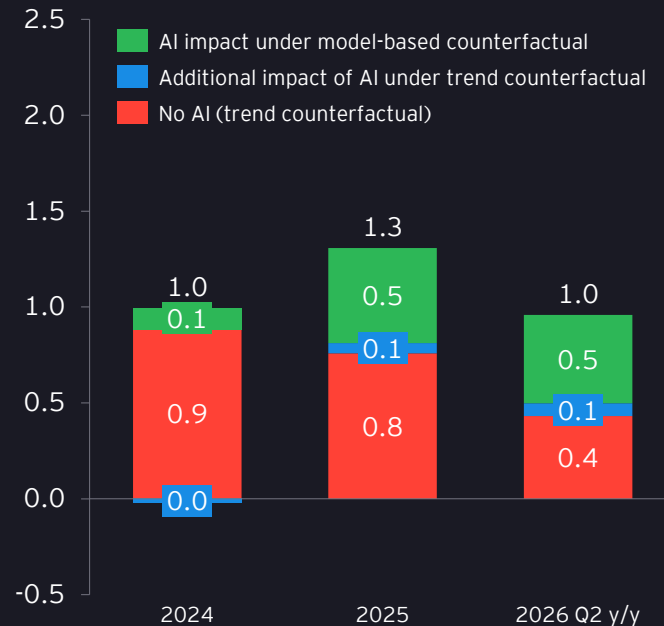
Although AI adoption remains at an early stage, we estimate that stronger AI-driven US import demand may have indirectly raised euro area GDP by up to 1%

- ▶ We estimate AI's impact to date using our global macroeconomic model and two counterfactual scenarios. In the first scenario, US potential total factor productivity (TFP) follows its pre-2024 trend; in the second, counterfactual TFP is estimated using the [approach described on the next page](#). In both scenarios, US real investment in information-processing equipment and software, as well as real exports and imports of computers, peripherals and parts, follow their pre-2024 trends. We also assume that the cyclically-adjusted price-to-earnings ratio (CAPE) of the US stock market remains broadly in line with its 2023 level. Finally, we apply TFP shocks to other economies using the [approach described on the next page](#).
- ▶ Although the direct impact of AI on the euro area economy has so far been limited, stronger US import demand has supported euro area exports and investment, raising GDP by an estimated 1.0-1.1%. This should be regarded as an upper-bound estimate because the model allocates the increase in US imports across trading partners in proportion to their existing shares of US imports. In practice, Asian semiconductor and electronics producers appear to have benefited considerably more than European producers.
- ▶ In Europe, countries most exposed to trade with the US are estimated to have benefitted the most from the AI boom.

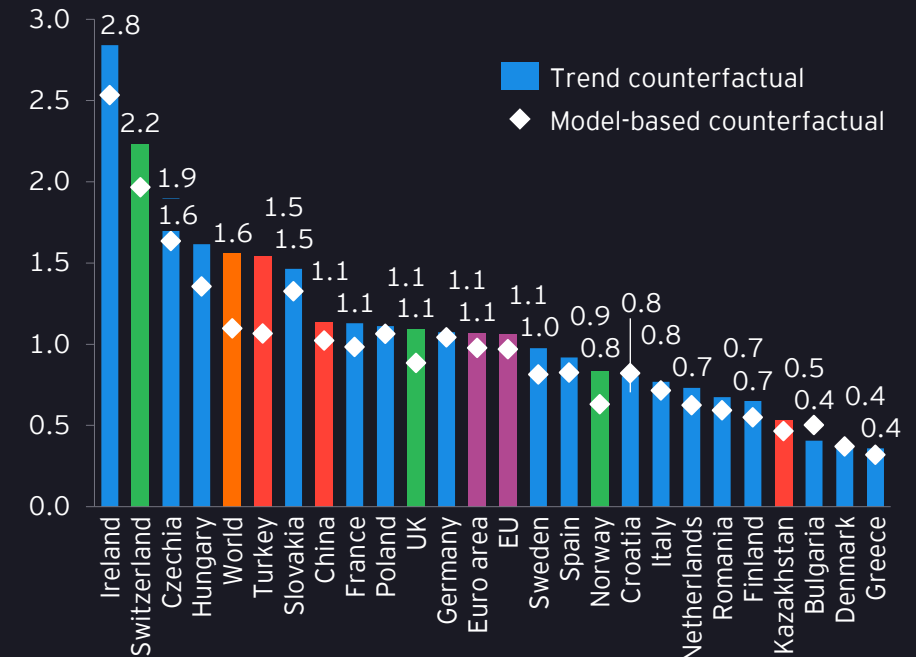
Estimated cumulative impact of AI on levels of key macroeconomic indicators in the euro area by Q2 2026 (in percentage)



Estimated impact of AI on real GDP growth (in percentage points)



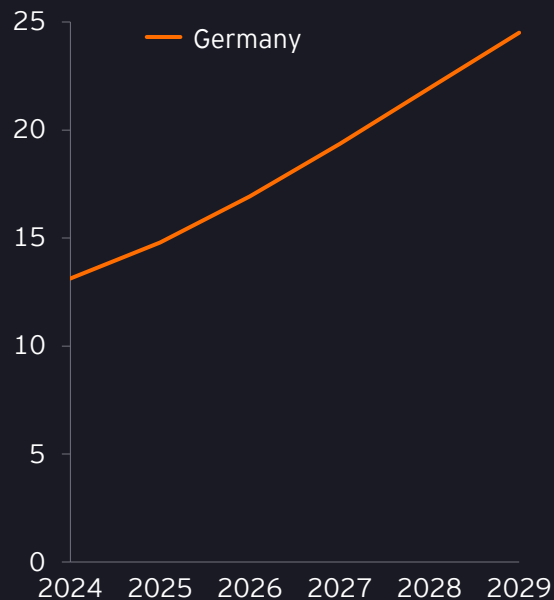
Estimated cumulative impact of AI on real GDP level by Q2 2026 (in percentage)



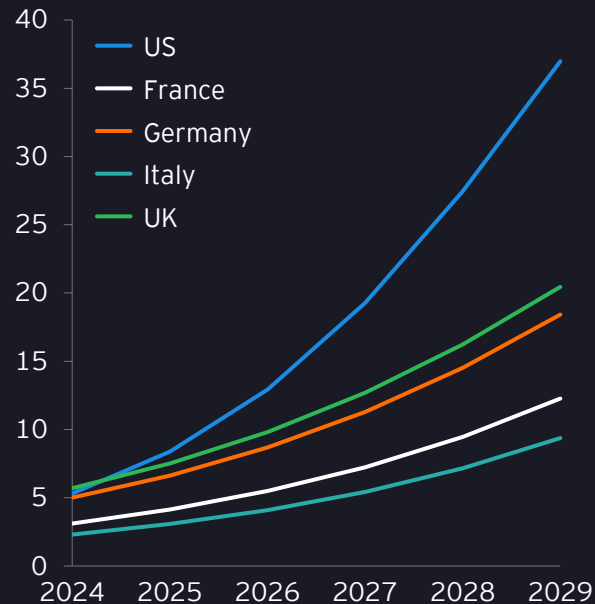
Under conservative baseline assumptions, AI-driven productivity gains may increase euro area potential output by an additional 0.4% by 2029

- ▶ AI's impact on productivity depends on three factors: 1) exposure to AI, 2) AI adoption, and 3) the rate at which the worker-level productivity gains identified in microeconomic studies translate into aggregate TFP gains
 - ▶ Exposure to AI is measured using task-level automation exposure, which increases over time, combined with each country's occupational employment structure
 - ▶ Adoption is defined narrowly as the use of AI in producing goods and services. It follows an S-shaped curve calibrated to the available data
 - ▶ We assume that 15% of the worker-level productivity gains identified in microeconomic studies translate into aggregate TFP gains.
- ▶ No AI-related job displacement is assumed
- ▶ The analysis does not incorporate additional effects from AI-related investment or higher equity prices.
- ▶ For our analysis of AI's estimated contribution to GDP through Q2 2026 [see the previous page](#).

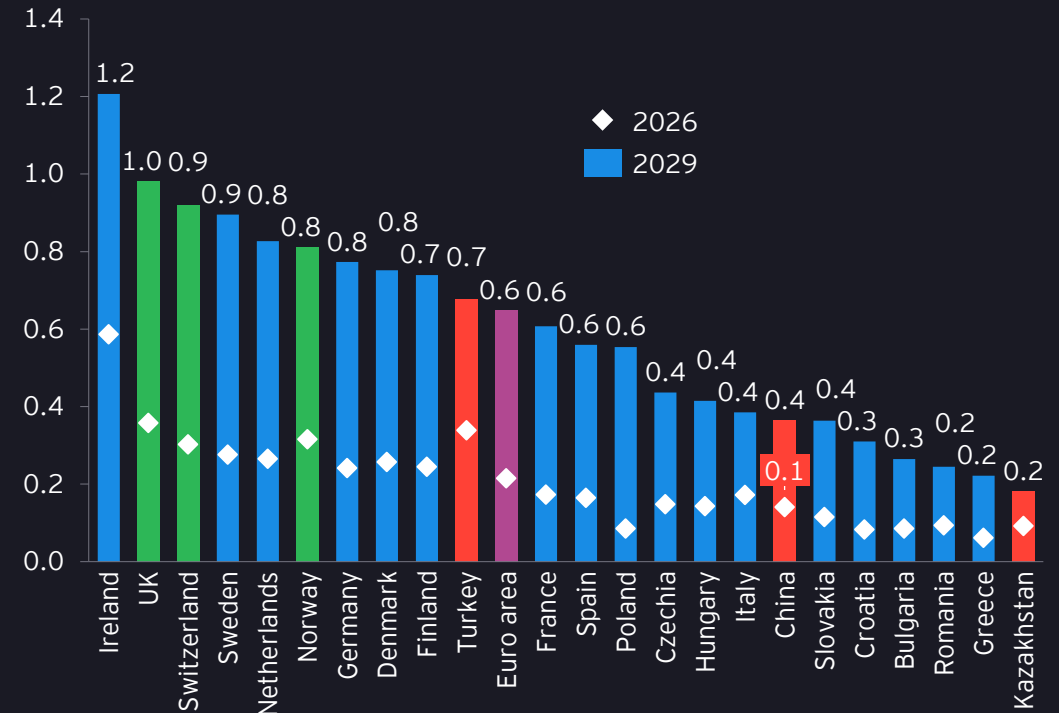
AI occupational exposure in Germany* (In percentage of employment)



AI adoption (percentage of enterprises using AI in production processes)



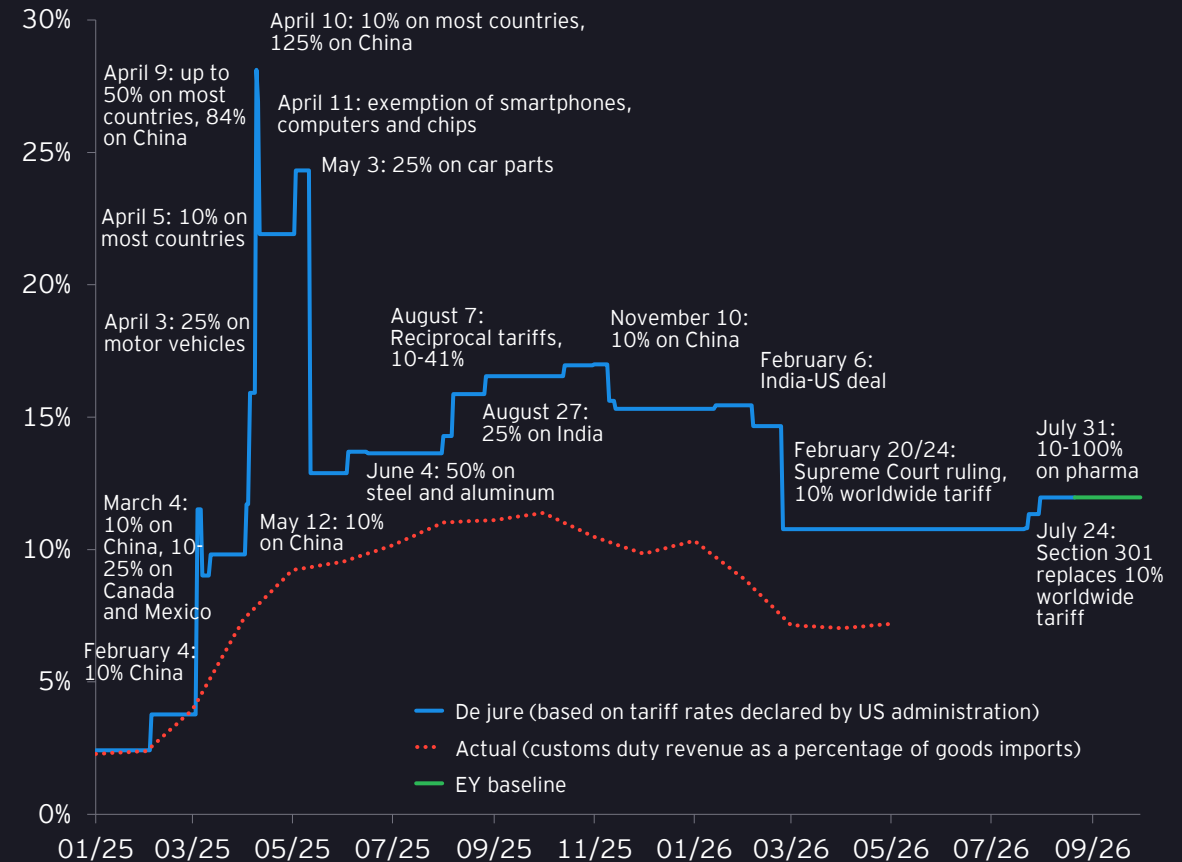
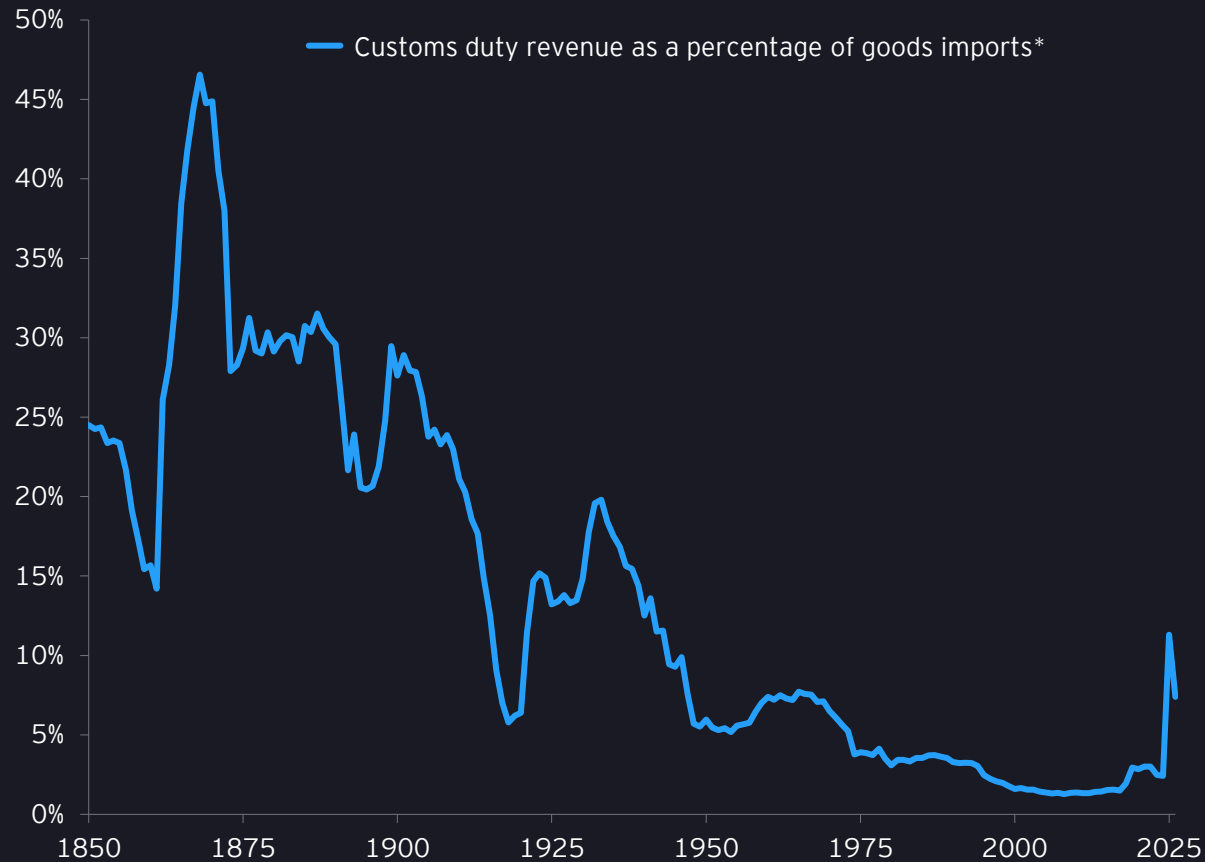
Impact of AI on potential GDP level (In percentage)



Tariffs remain a material headwind. The replacement of Section 122 with Section 301, together with new pharmaceutical tariffs, has raised the average effective US import tariff to 12%

- The *de facto* tariff rate (measured as customs revenues relative to imports) remains significantly below the statutory (*de iure*) rate implied by the tariffs in force and import composition. This gap reflects factors including trade rerouting and product reclassification and is unlikely to close fully.

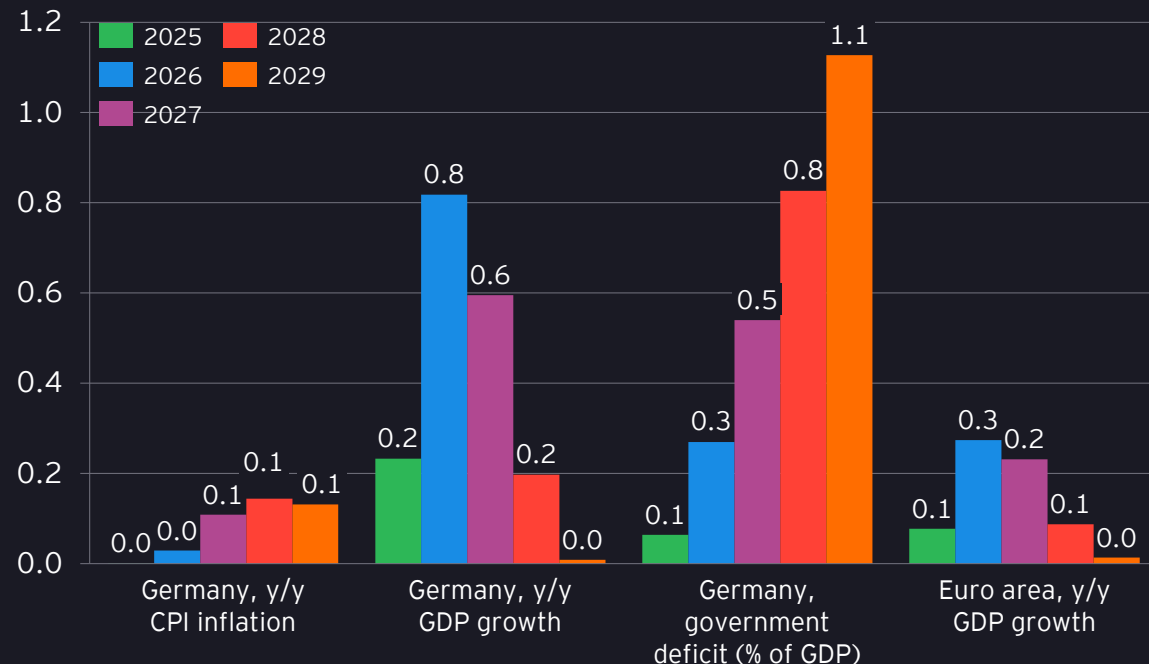
Average effective tariff rate in the US (in percentage)



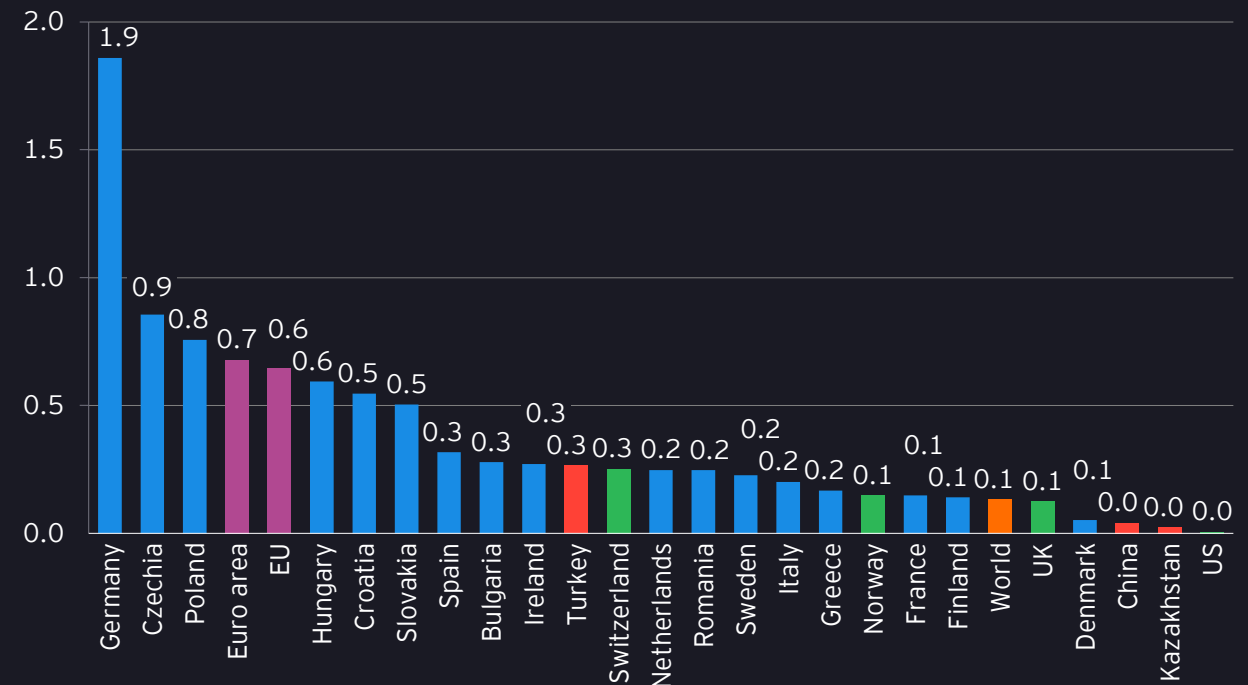
The drag from US tariffs and the Middle East conflict is being partly offset by fiscal expansion in Germany

- ▶ In March 2025, the German Parliament adopted a fiscal package marking a clear shift away from its previously conservative stance
 - ▶ A EUR500 billion infrastructure fund (~11.5% of 2024 GDP) will be deployed over 12 years, including €100 billion for the Climate Transition Fund and the remainder for infrastructure investments—€300 billion at the federal level and €100 billion for state governments. The fund sits outside the 'debt brake' constraints.
 - ▶ Defense spending above 1% of GDP will not count toward the 'debt brake'.
 - ▶ Germany's 16 federal states are now allowed to run a structural deficit of up to 0.35% of their economic output, ending the previous prohibition on state deficits.
- ▶ We estimate that the package has already significantly contributed to growth over the past three quarters, helping the German economy emerge from stagnation. While the vast majority of the package is yet to be implemented, going forward, it is more likely to sustain growth than to provide an additional acceleration.
- ▶ Given its composition, which is focused on infrastructure and defense spending, we do not expect the package to have a meaningful impact on consumer-price inflation.
- ▶ CEE economies are expected to benefit most from Germany's fiscal expansion because of their close integration with German industrial supply chains. Spillovers to the rest of Europe are likely to be more limited.

Impact of German fiscal expansion on y/y GDP growth, CPI inflation, and government deficit in Germany and the euro area (in percentage points)



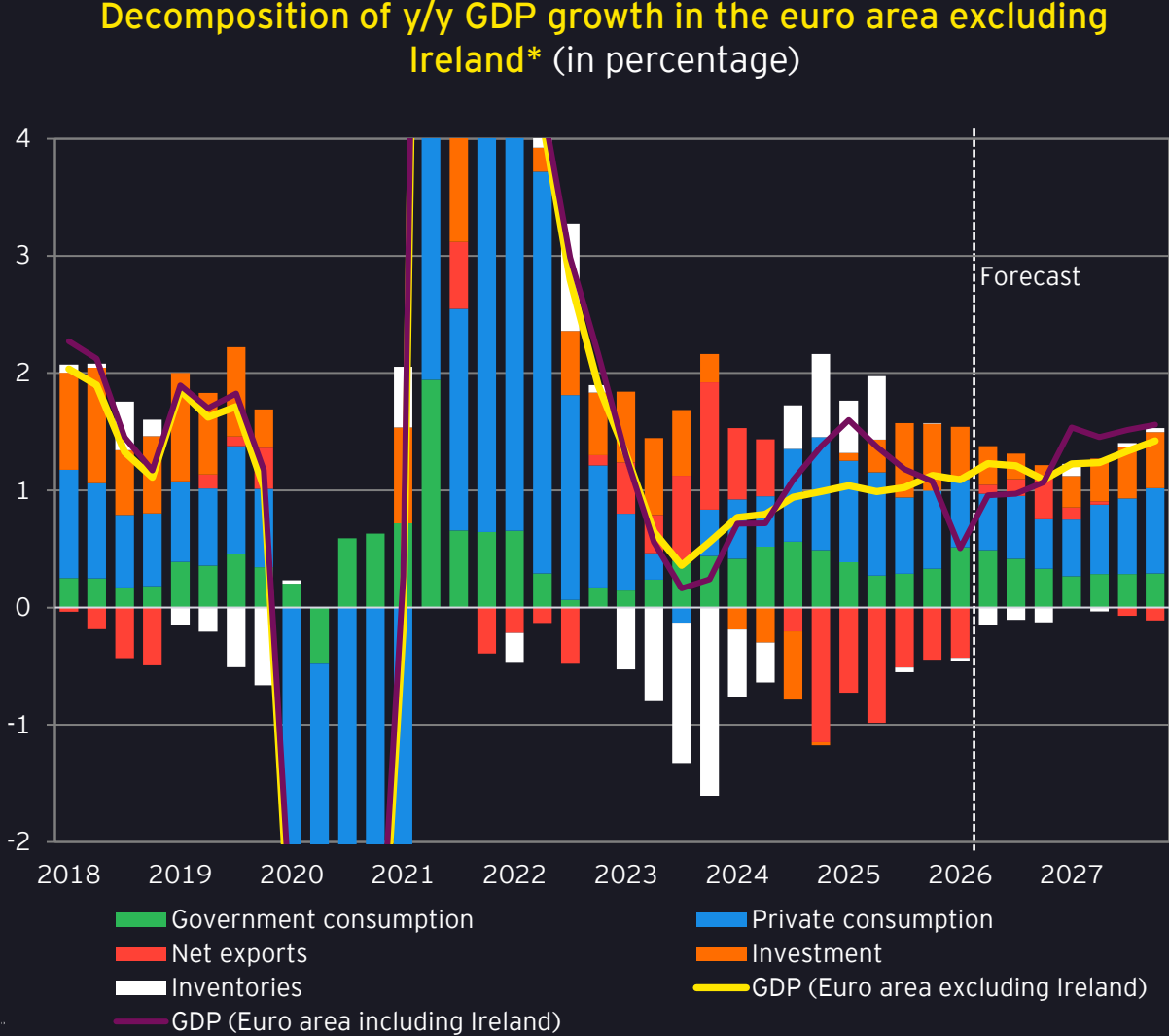
Impact of German fiscal expansion on 2029 GDP level (in percentage)



Chapter 3

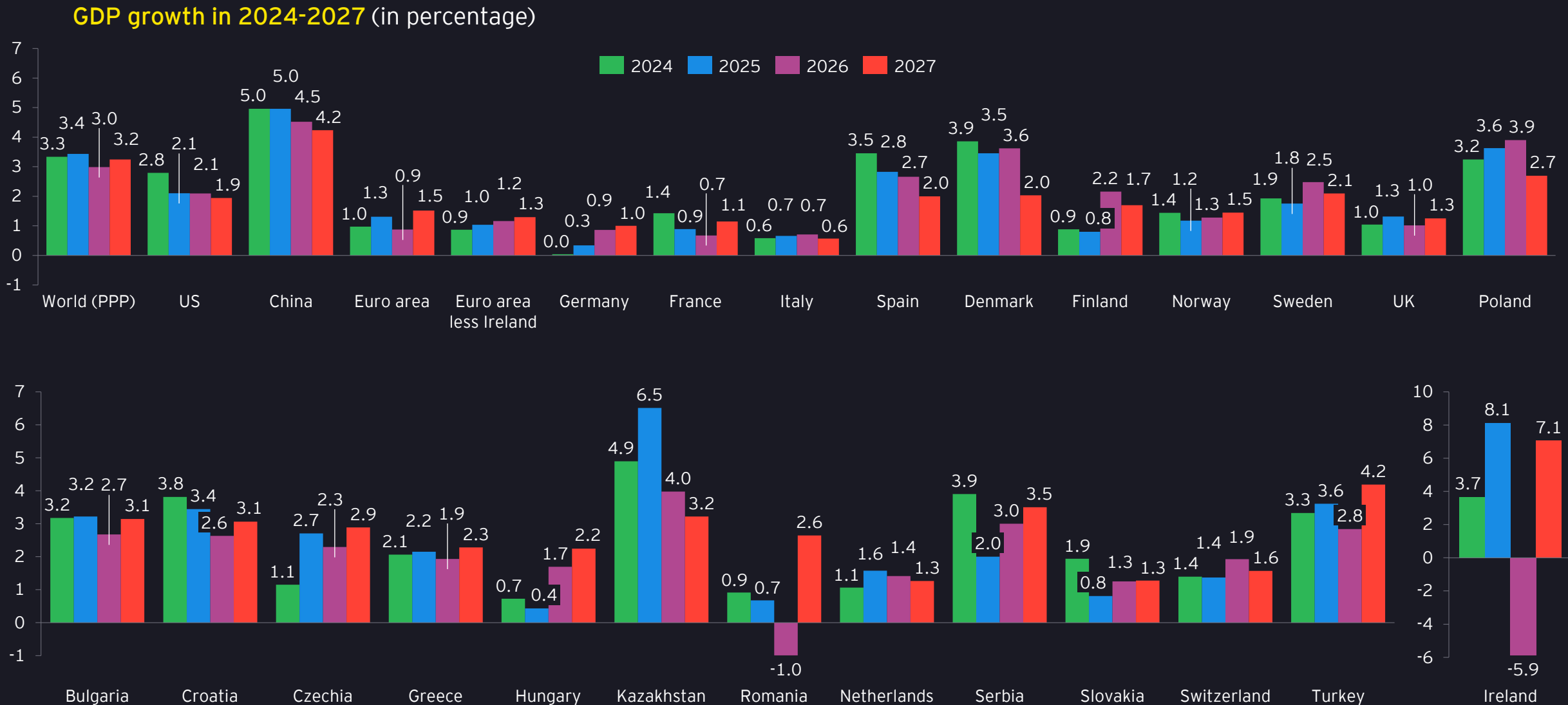
Economic outlook

Euro area growth is expected to remain resilient this year despite headwinds from the Middle East conflict, before accelerating from 2027 onwards



Source: Eurostat, FRED, ONS, EY EAT forecast, EY Parthenon US Macroeconomics Team, EY UK.
Dashed lines denote forecast
* Ireland is excluded as its GDP tends to be very volatile, reflecting the outsized role multinational corporations play in the economy. While Irish GDP is expected to severely contract in 2026 (-5.9%), modified final domestic demand (a proxy for underlying activity) is projected to increase by 2.2%.

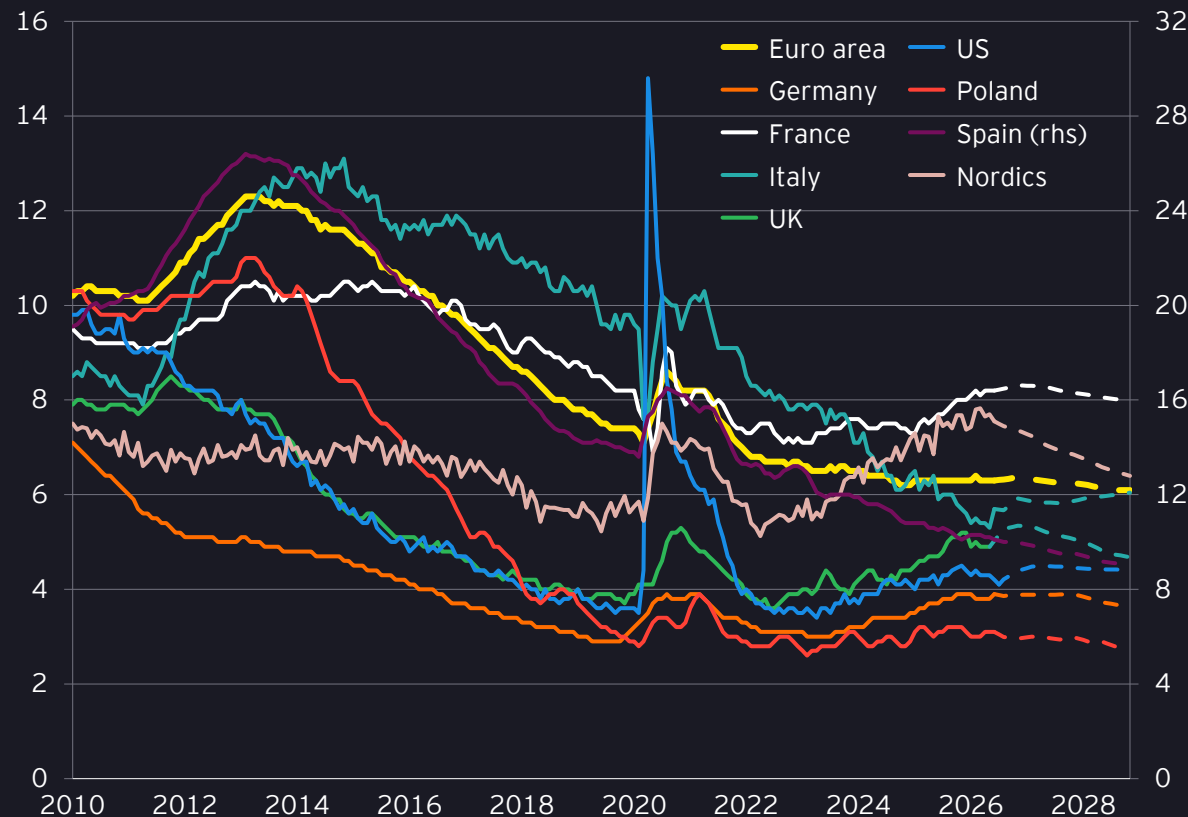
Poland and Denmark* are projected to be the fastest-growing EU economies in 2026, while Romania is expected to contract



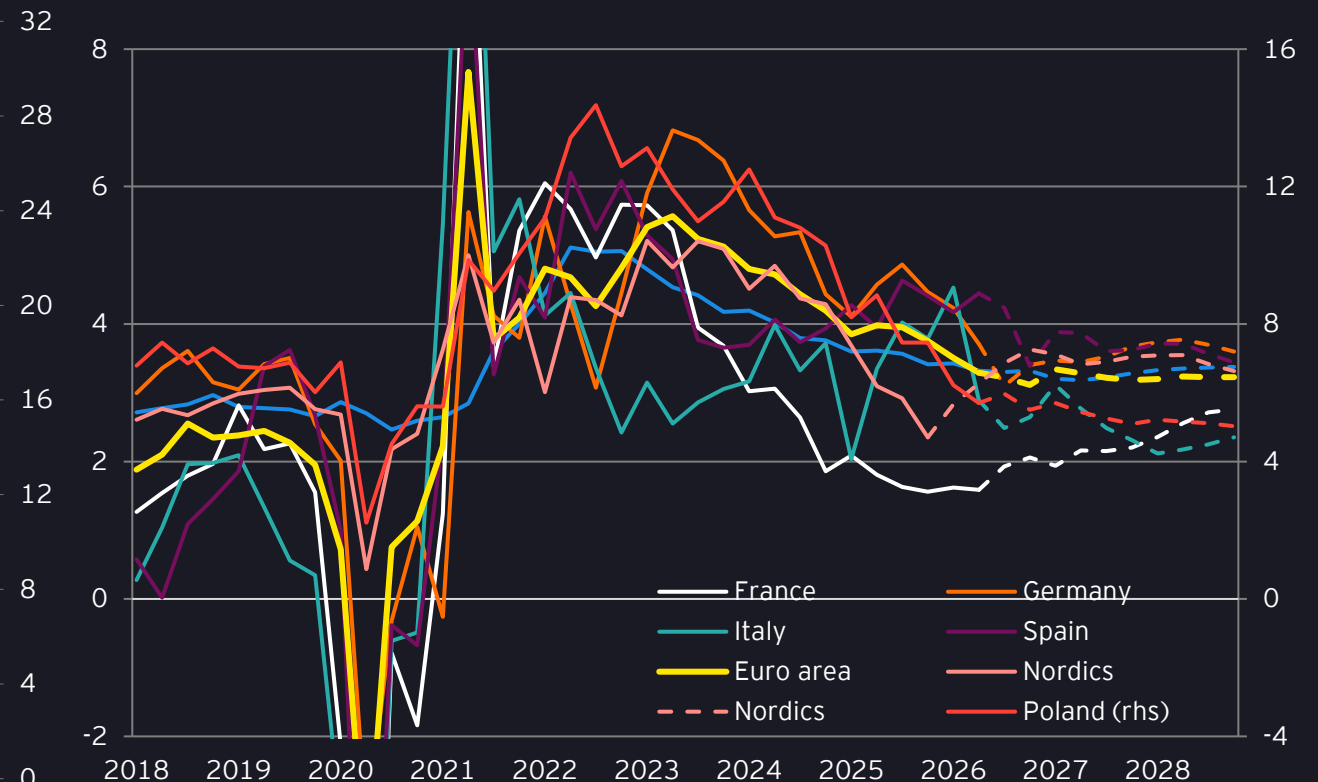
Euro area labor market conditions are expected to stabilize further, with wage growth settling slightly above 3% amid structurally tighter labor markets

- ▶ Euro area employment growth is expected to slow from 0.7% in 2025 to 0.5% in 2026 and 0.3% in 2027, reflecting increasing demographic constraints. Despite this slowdown, the unemployment rate is projected to remain broadly stable in both 2026 and 2027.
- ▶ In Spain, employment growth is projected to slow but remain relatively robust, while the unemployment rate should continue to decline. Employment is expected to remain broadly stagnant in other major European economies. Unemployment should gradually decline across the Nordics and remain broadly stable in most other countries.
- ▶ Wage growth is expected to moderate across CEE but remain relatively strong at 4.5-6%. Across most of the rest of Europe, wage growth should converge toward a range of 3-3.5%, although it is likely to remain lower in France in the short term. In Switzerland, wage growth is expected to remain below 2% amid low inflation.

LFS unemployment rate (in percentage)



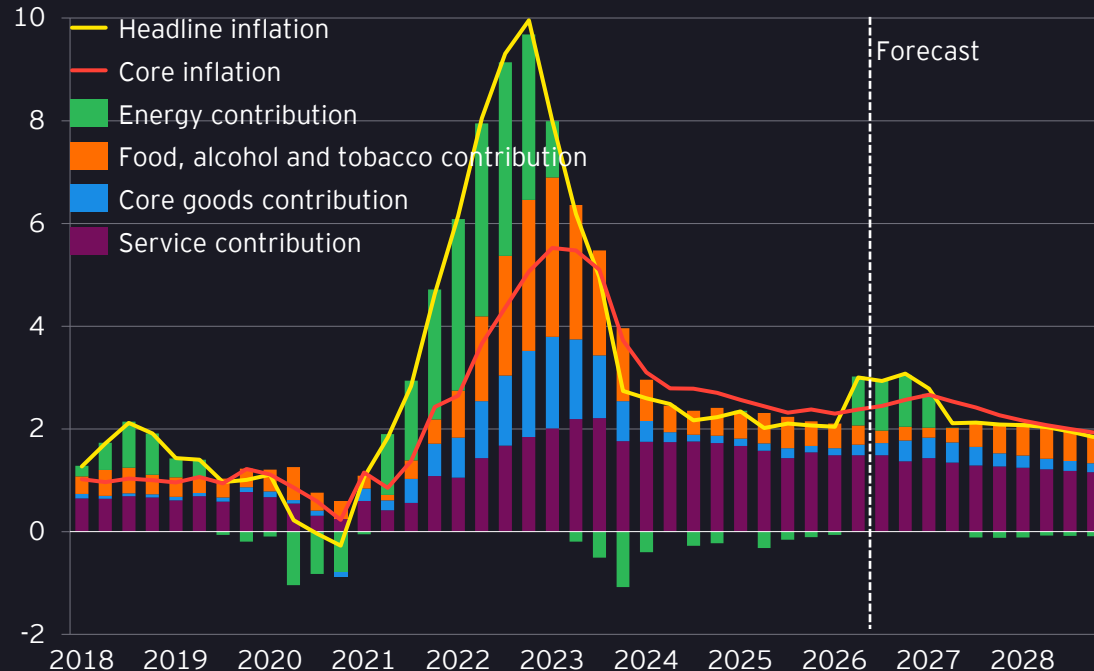
Wage growth (y/y, in percentage)



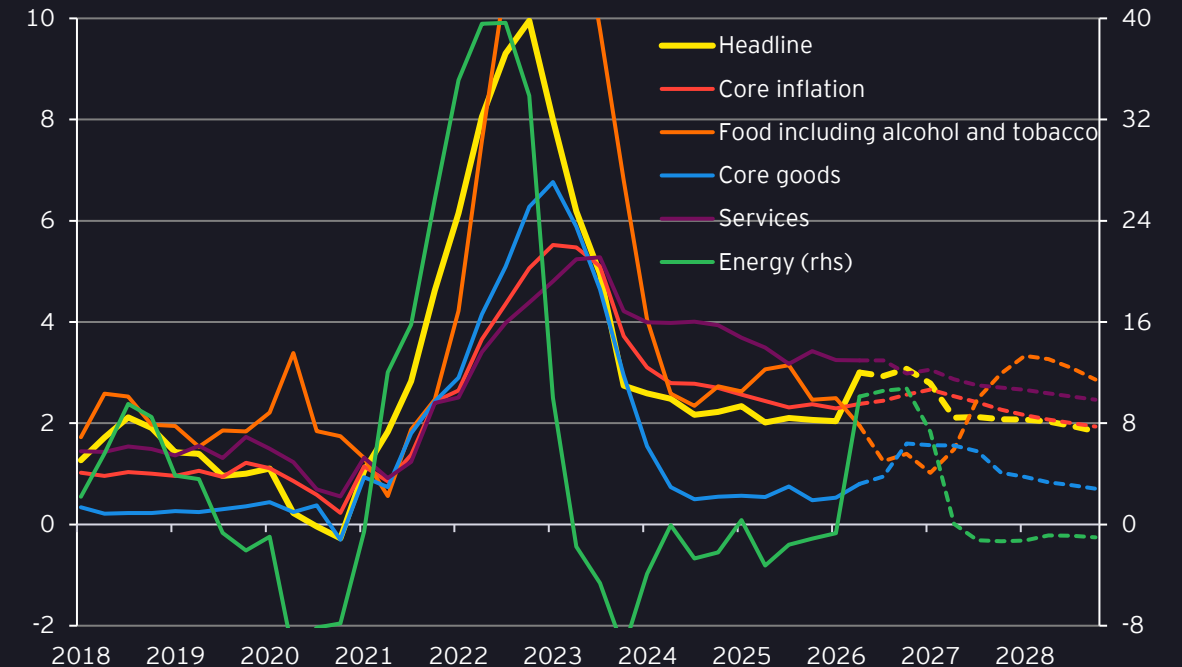
Despite emerging second-round effects, euro area inflation is expected to return to the 2% target from Q2 2027

- ▶ We expect euro area inflation to average 2.8% in 2026, 2.3% in 2027, and 2.0% in 2028.
- ▶ The direct impact of the Middle East conflict on fuel prices will be the main driver of elevated inflation between Q2 2026 and Q1 2027.
- ▶ In the near term, supply chain bottlenecks and elevated energy and metal prices are expected to pass through to core goods prices and consumer electricity prices.
- ▶ Food inflation should remain subdued through the end of 2026 before gradually picking up, with this year's unfavorable weather conditions adding to the price pressures caused by the Middle East conflict.
- ▶ These inflationary pressures should be largely offset by a further moderation in services inflation, reflecting the recent slowdown in wage growth.
- ▶ As a result, core inflation is expected to remain around 2.5% through end-2027 before converging to 2% as the impact of the Middle East shock fades. Headline inflation should return to 2% from Q2 2027, when the increase in fuel prices drops out of the year-on-year calculation.

HICP inflation in the euro area
(y/y, in percentage)

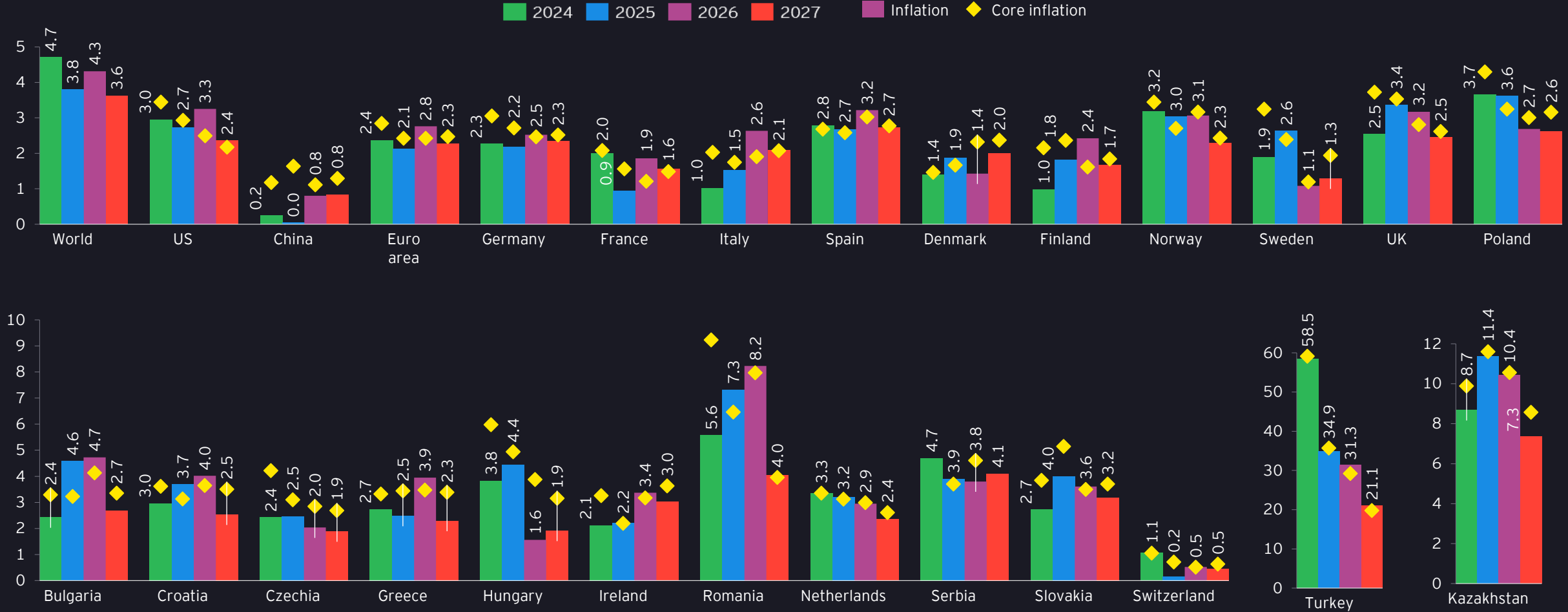


HICP inflation in the euro area
(y/y, in percentage)



Inflation is expected to remain elevated this year in Turkey, Kazakhstan, and Romania, rise to ~4% in Southeast Europe, and undershoot targets in Switzerland, Sweden, and Hungary

Inflation in 2024-2027 (in percentage)



Source: Oxford Economics, EY EAT forecast, EY UK, EY Italy, EY Parthenon US Macroeconomics Team, EY Serbia.

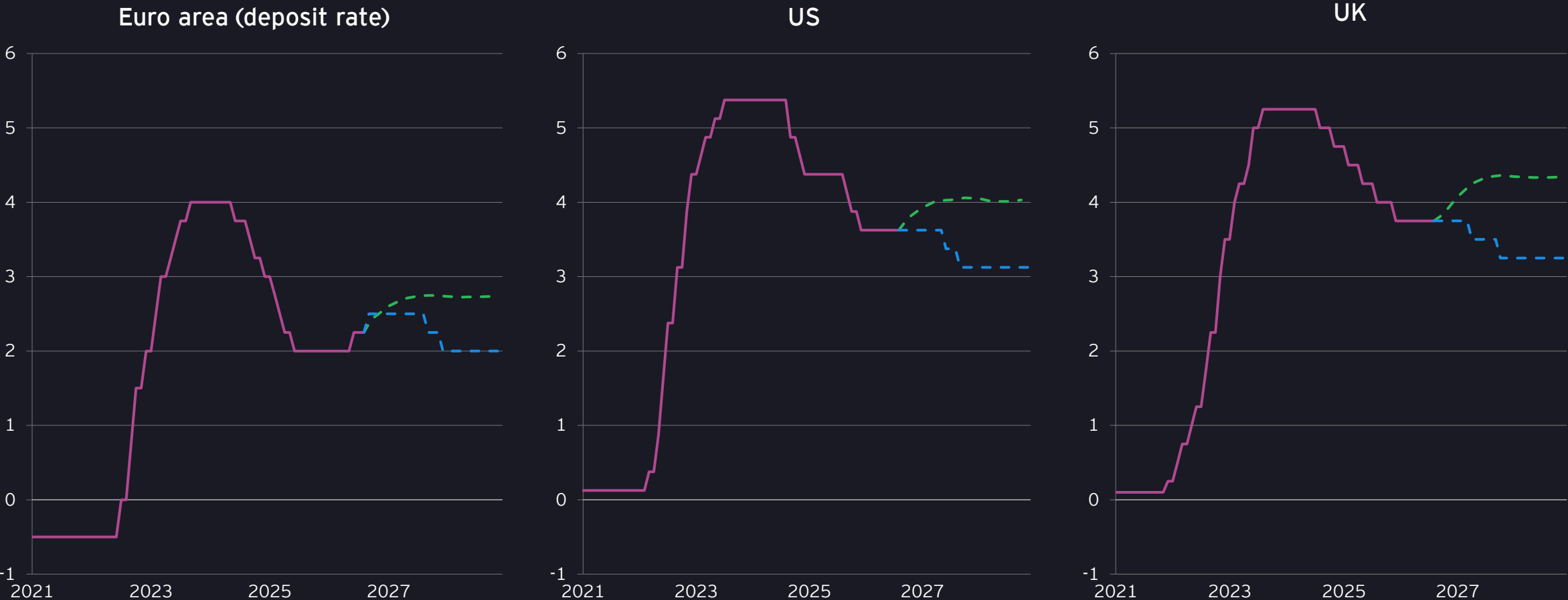
Nordics include Denmark, Finland, Norway and Sweden; rest of CEE includes Czechia, Slovakia, Hungary, Romania, Bulgaria, and Croatia.

* For Sweden, CPIF; for Finland and the euro area, HICP; for others, CPI.

We expect one further ECB hike in September before the tightening is unwound in H2 2027. With interest rates already higher in the US and UK, the Fed and BoE are expected to hold rates in 2026 and resume easing in 2027

Historical and expected* central bank interest rates (In percentage)

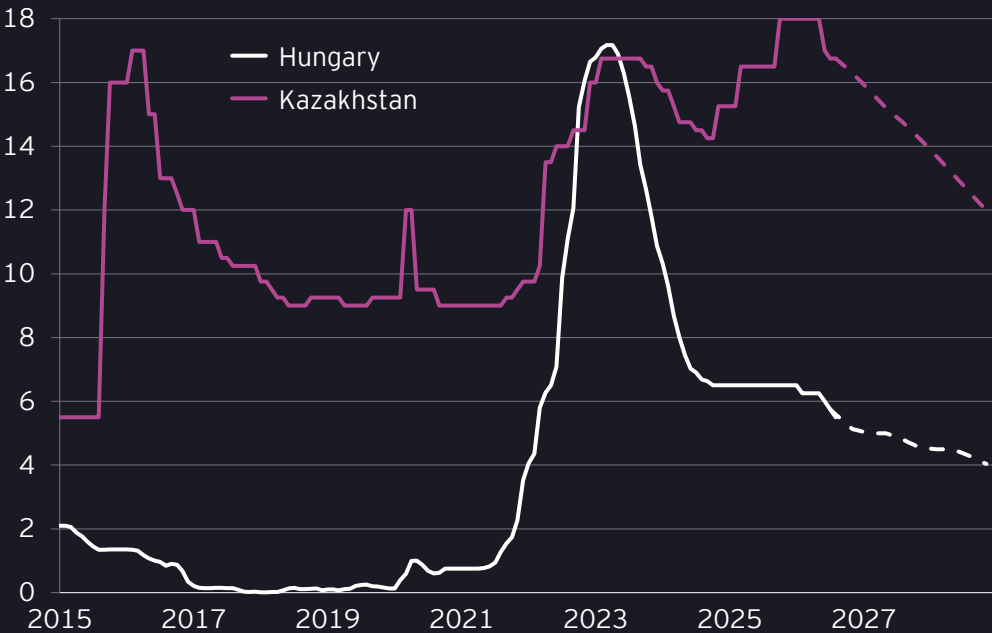
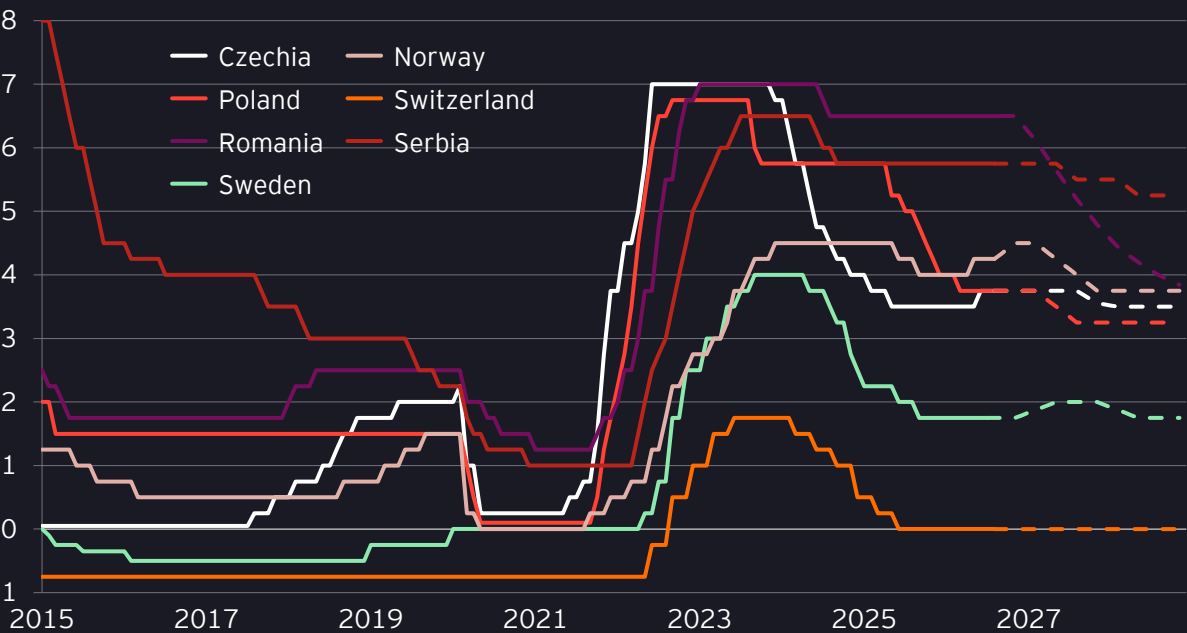
Historical data Market expectations (17 August 2026) EY forecast



Most other central banks are expected to remain on hold through year-end, with easing becoming more widespread in 2027

- ▶ **SNB:** With inflation remaining low, we expect the policy rate to stay at 0% through end-2029.
- ▶ **Norway:** One final 25 bp hike to 4.5% in September, followed by gradual easing in 2027 to 3.75% by year-end as inflation falls.
- ▶ **Sweden:** Rising core inflation and higher ECB rates should prompt a 25 bp hike in early 2027. As CPIF inflation falls below 2% in 2028, rates may decline toward 1.75%.
- ▶ **Poland:** We anticipate the National Bank of Poland (NBP) to keep the reference rate unchanged at 3.75% this year, given that core inflation will rise toward 3.5%, preventing easing. Rate cuts are possible in 2027 after core inflation begins to decline, with estimated terminal rate of 3.25%.
- ▶ **Czechia:** Despite the CNB's hawkish stance, low inflation should preclude further hikes this year. Rates may be cut to 3.5% by late 2027 as core inflation eases.
- ▶ **Hungary:** Low inflation and a stronger forint should allow rates to fall to 5.0% by year-end, followed by a pause in H1 2027. We see the terminal rate of 3.75%.
- ▶ **Romania:** Persistently high inflation is likely to keep rates unchanged through year-end. Easing should resume in early 2027, with rates falling to 4.75% by end-2027 and 3.75% by end-2028.
- ▶ **Serbia:** With core inflation projected to rise above 5%, household demand receiving additional fiscal support, and credit growth remaining strong, the NBS is likely to keep the policy rate at 5.75% until the second half of 2027 and ease only gradually thereafter, once domestic price pressures begin to recede.
- ▶ **Turkey:** We expect the TCMB to align its 40% *de facto* rate with the 37% *de iure* rate by year-end via renewed one-week repo auctions. Rate cuts should start in 2027, reaching 24% by end-2027 and 15.5% by end-2028.

Historical and forecast central bank interest rates* (In percentage)



Source: Trading Economics, Stooq.pl, EY Serbia, EY EAT forecast.

Dashed lines denote forecasts.

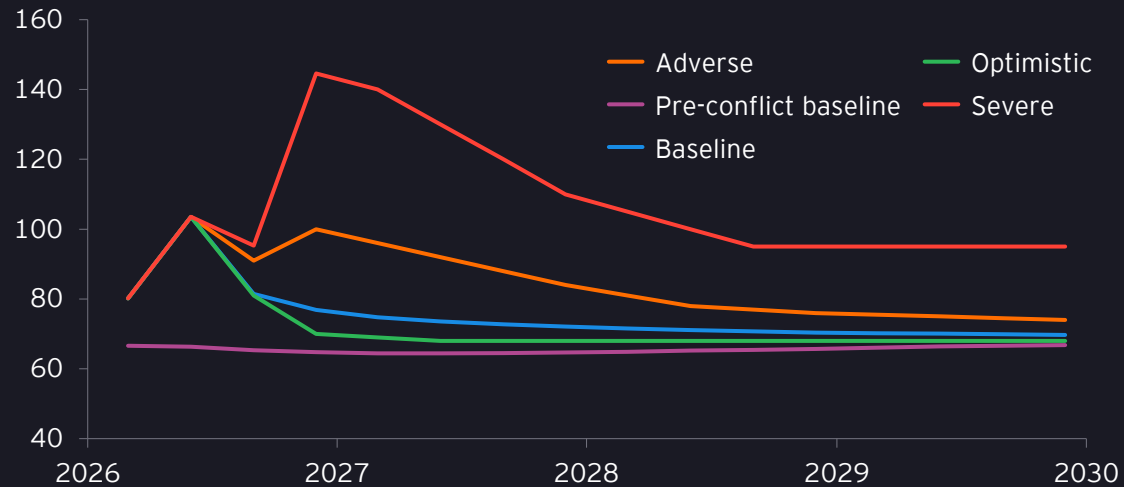
* For Hungary, 1-month interbank rate.

Chapter 4

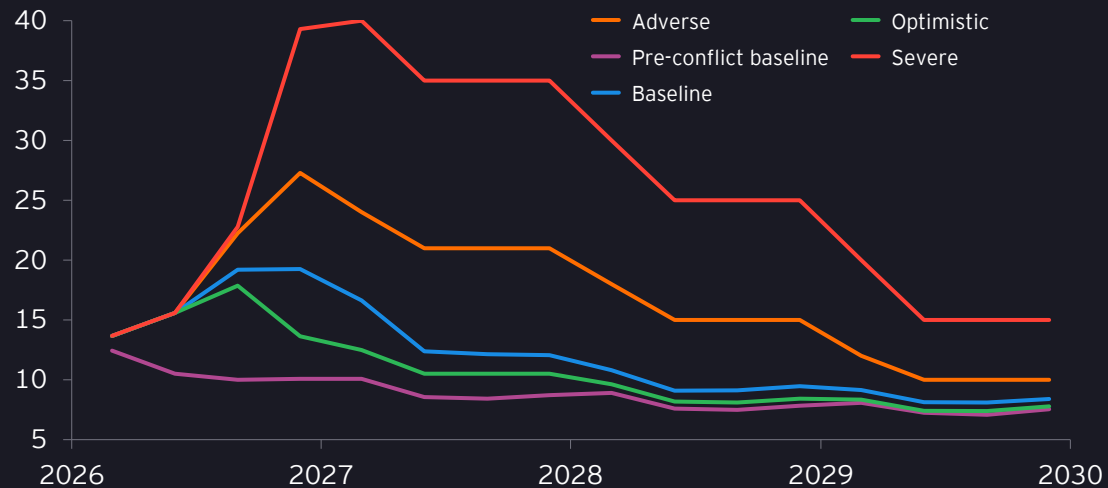
Risks

Middle East scenarios point to asymmetric risks, with significantly more upside to commodity prices and inflation than downside

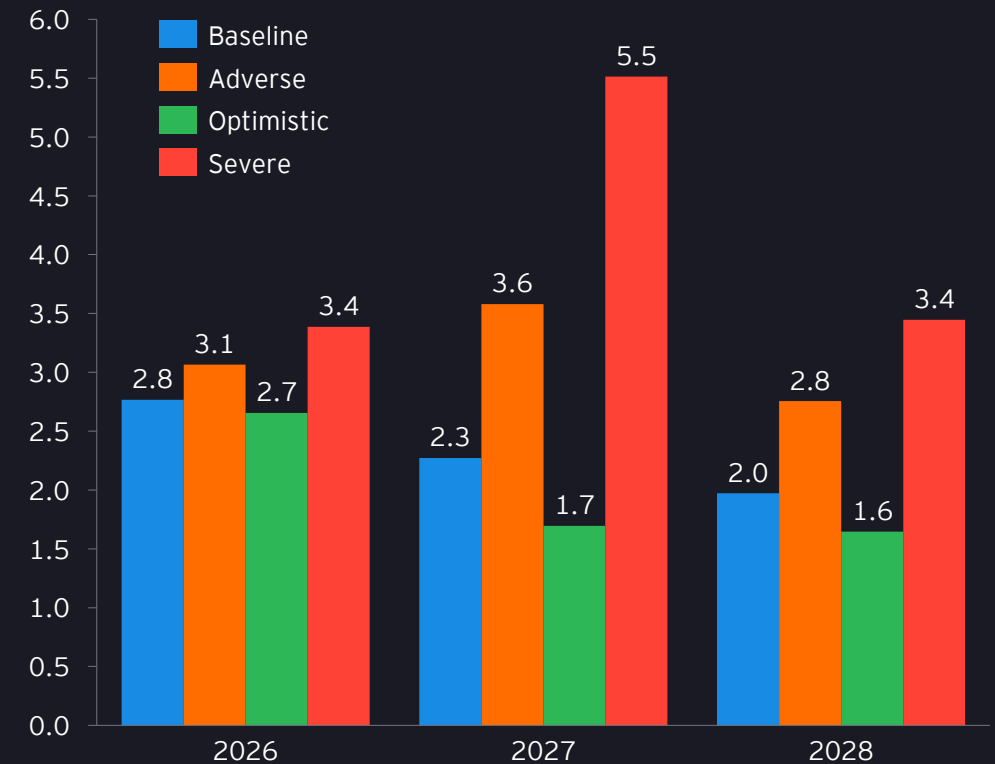
Brent oil price (USD/bbl)



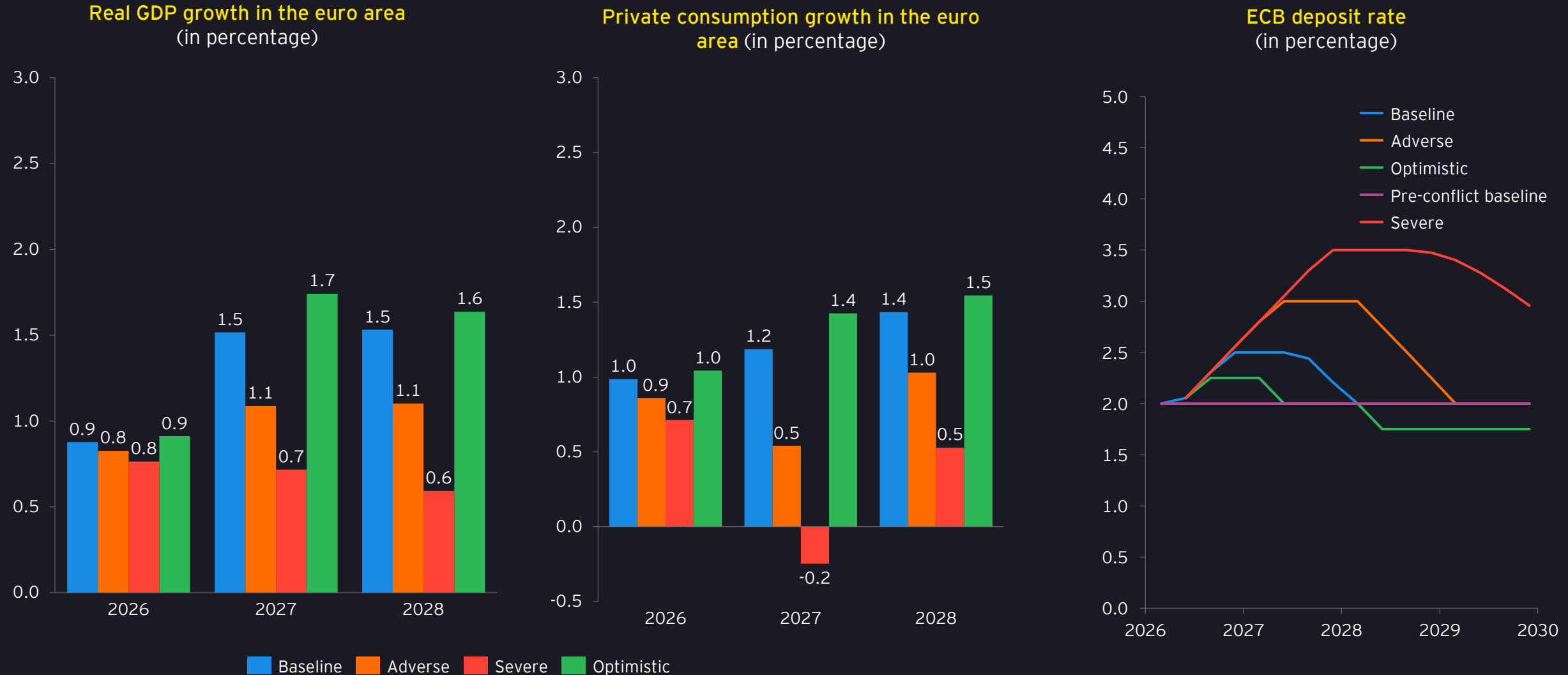
European natural gas price (USD/MMBTU)



CPI inflation in the euro area (in percentage)



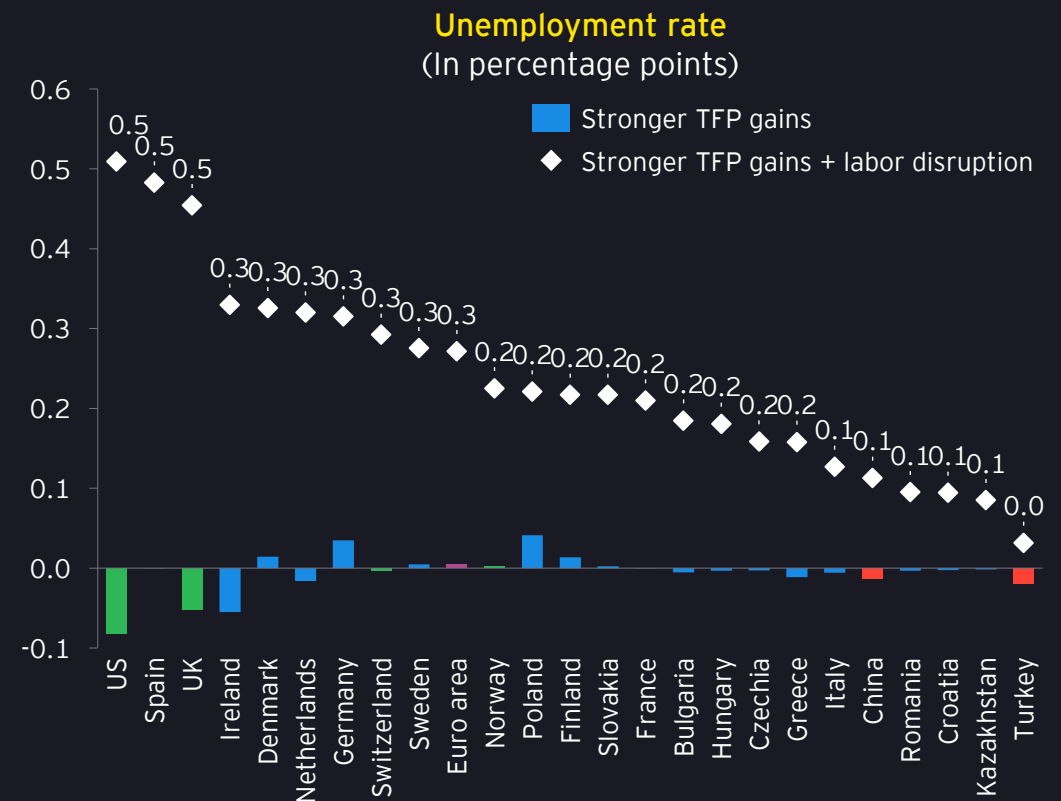
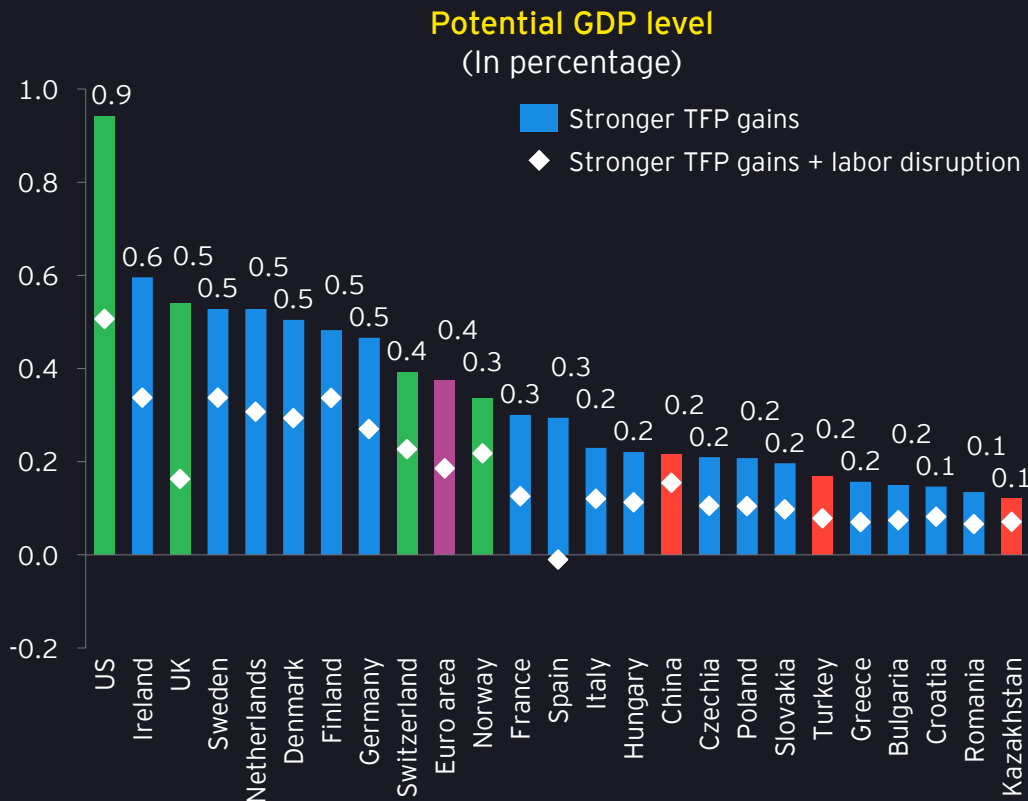
Higher inflation under more adverse Middle East scenarios would keep ECB rates higher and materially weaken GDP and consumption growth



The economic impact of AI remains highly uncertain: stronger productivity gains could raise potential output, but labor displacement may offset part of the benefit

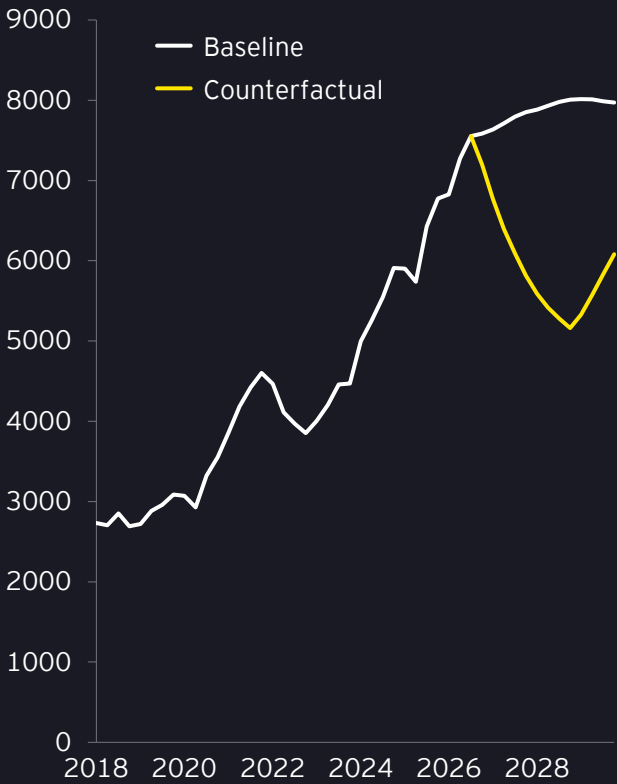
- ▶ We have developed two alternative scenarios for the economic impact of AI by 2029:
 - ▶ Stronger productivity gains: The conversion rate from worker-level productivity gains to aggregate productivity gains gradually increases from 15% to 30%
 - ▶ Stronger productivity gains with labor displacement: In addition to the higher conversion rate, productivity gains reduce labor demand in line with the model-implied relationship between employment and GDP
- ▶ Under the stronger productivity scenario, the potential GDP level in 2029 is 0.9% higher in the US and 0.4% higher in the euro area than under the baseline. Across European economies, the estimated gains range from 0.1% in Southeast Europe to 0.5-0.6% in Ireland, the Nordics and the Netherlands. The impact on unemployment is very limited
- ▶ When labor displacement is also assumed, the increase in potential GDP is approximately half as large because of the decline in labor input. In Spain, the positive productivity effect is fully offset by lower labor input. At the same time, the unemployment rate rises by up to 0.5 pp relative to the baseline.
- ▶ The scenarios do not capture additional effects from AI-related investment or higher equity prices, which could be material.

Impact of AI in 2029 relative to the baseline scenario

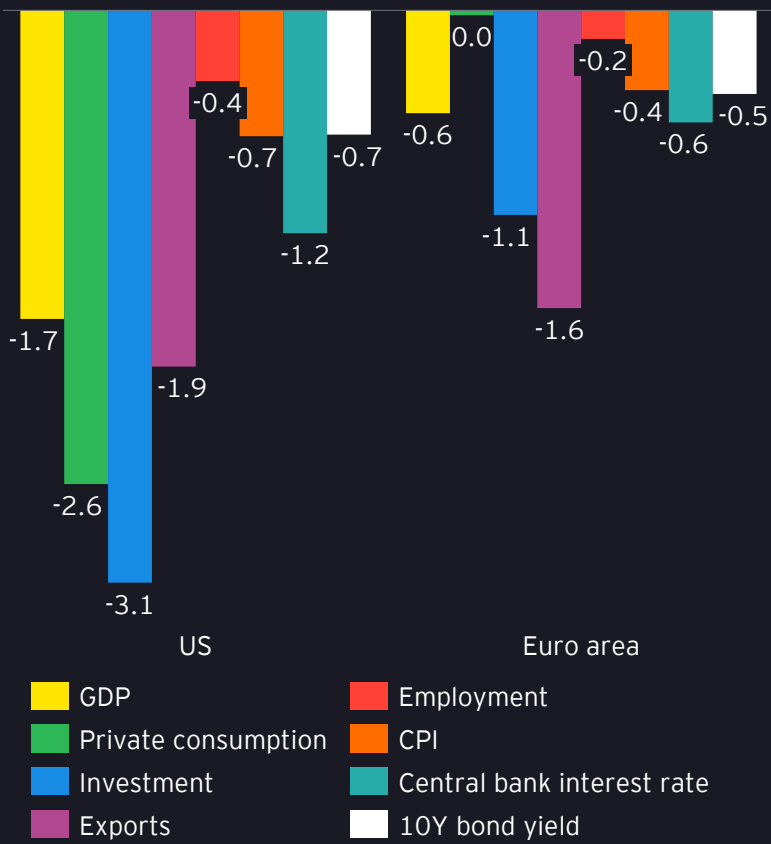


A dotcom-style equity market downturn could reduce euro area GDP by around 0.6% through weaker exports and investment, with Ireland, Switzerland and highly trade-exposed CEE economies likely to be most affected

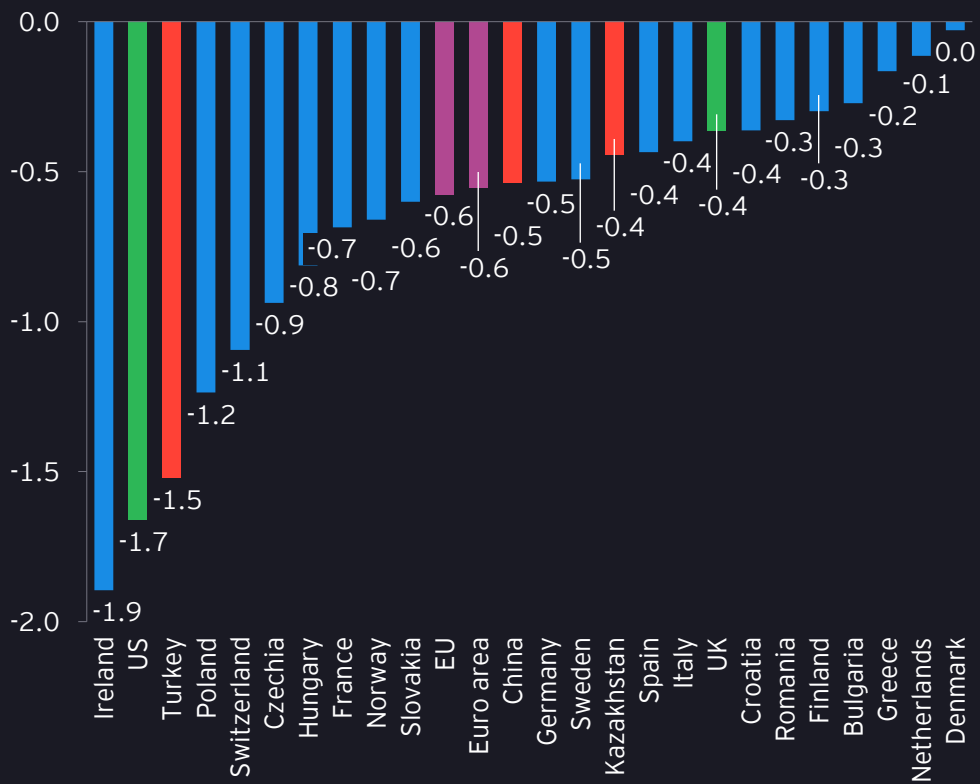
S&P 500



Peak impact on key macroeconomic variables (In percentage)



Peak impact on annual real GDP (In percentage)



Summary: GDP and inflation forecasts

GDP (% y/y)

Location	2023	2024	2025	2026 F	2027 F	2028 F	2029 F
Bulgaria	1.7	3.2	3.2	2.7	3.1	3.1	3.4
Croatia	3.7	3.8	3.4	2.6	3.1	3.3	2.9
Czechia	0.2	1.1	2.7	2.3	2.9	2.7	2.7
Denmark	1.1	3.9	3.5	3.6	2.0	1.8	1.8
European Union	0.6	1.1	1.6	1.3	1.7	1.6	1.5
Euro area	0.6	1.0	1.3	0.9	1.5	1.5	1.4
Euro area excl. Ireland	0.7	0.9	1.0	1.2	1.3	1.4	1.3
Finland	-1.3	0.9	0.8	2.2	1.7	2.0	1.6
France	1.8	1.4	0.9	0.7	1.1	1.4	1.2
Germany	-0.8	0.0	0.3	0.9	1.0	1.3	0.9
Greece	2.1	2.1	2.2	1.9	2.3	1.8	1.5
Hungary	-0.7	0.7	0.4	1.7	2.2	2.8	2.2
Ireland	-3.5	3.7	8.1	-5.9	7.1	4.0	3.3
Italy	1.0	0.6	0.7	0.7	0.6	0.7	0.9
Kazakhstan	5.1	4.9	6.5	4.0	3.2	4.0	3.2
Netherlands	-0.6	1.1	1.6	1.4	1.3	1.5	1.8
Norway	0.6	1.4	1.2	1.3	1.5	1.5	1.4
Poland	0.2	3.2	3.6	3.9	2.7	2.5	2.5
Romania	2.3	0.9	0.7	-1.0	2.6	3.0	2.8
Serbia	3.8	3.9	2.0	3.0	3.5	3.0	3.0
Slovakia	2.1	1.9	0.8	1.3	1.3	2.1	2.3
Spain	2.5	3.5	2.8	2.7	2.0	1.6	1.6
Sweden	0.1	1.9	1.8	2.5	2.1	1.6	1.6
Switzerland	0.9	1.4	1.4	1.9	1.6	1.3	1.4
Turkey	5.0	3.3	3.6	2.8	4.2	3.7	3.6
United Kingdom	0.3	1.0	1.3	1.0	1.3	1.5	1.4

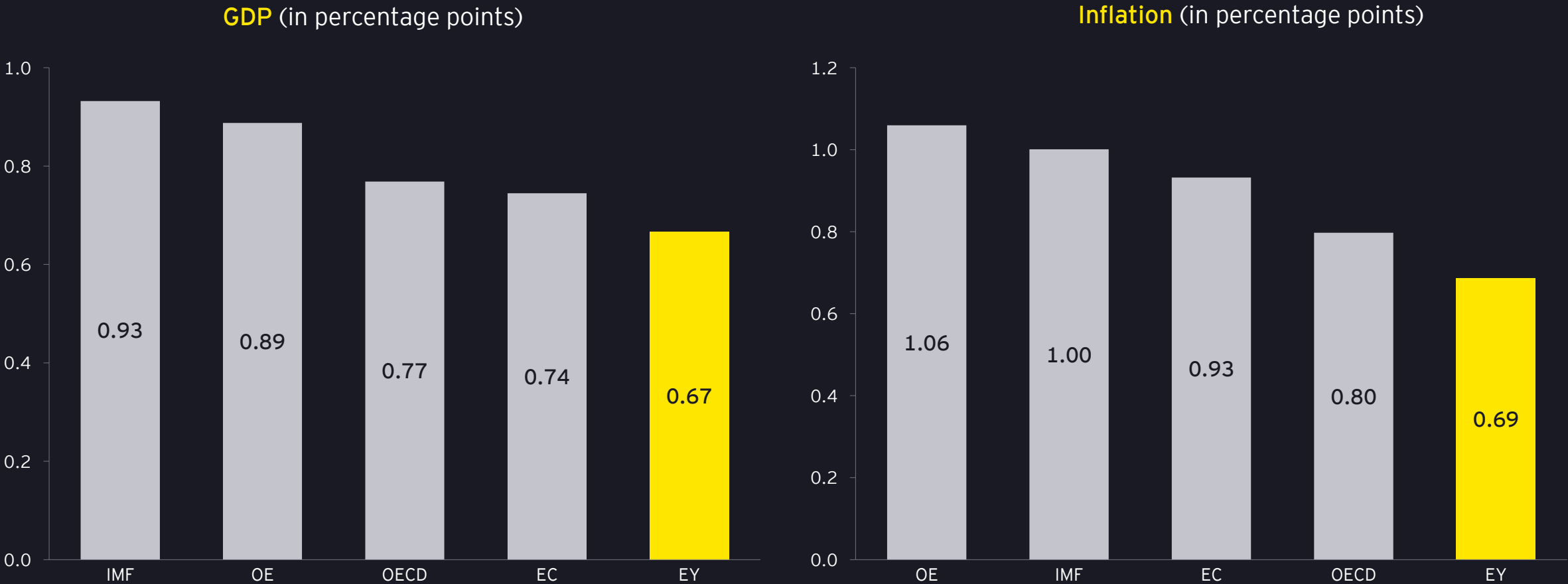
Inflation* (yearly average, % y/y)

Location	2023	2024	2025	2026 F	2027 F	2028 F	2029 F
Bulgaria	9.5	2.4	4.6	4.7	2.7	1.8	2.3
Croatia	8.0	3.0	3.7	4.0	2.5	2.6	2.3
Czechia	10.7	2.4	2.5	2.0	1.9	2.1	2.8
Denmark	3.3	1.4	1.9	1.4	2.0	2.4	1.5
European Union	6.4	2.6	2.5	2.9	2.4	2.2	1.9
Euro area	5.4	2.4	2.1	2.8	2.3	2.0	1.7
Finland	4.3	1.0	1.8	2.4	1.7	1.5	1.1
France	4.9	2.0	0.9	1.9	1.6	1.7	1.6
Germany	5.9	2.3	2.2	2.5	2.3	1.9	1.6
Greece	3.5	2.7	2.5	3.9	2.3	1.9	2.0
Hungary	17.1	3.8	4.4	1.6	1.9	2.4	2.9
Ireland	6.3	2.1	2.2	3.4	3.0	2.8	2.2
Italy	5.6	1.0	1.5	2.6	2.1	1.4	1.3
Kazakhstan	14.5	8.7	11.4	10.4	7.3	6.6	6.4
Netherlands	3.8	3.3	3.2	2.9	2.4	1.7	1.6
Norway	5.5	3.2	3.0	3.1	2.3	2.3	2.1
Poland	11.4	3.7	3.6	2.7	2.6	2.5	2.2
Romania	10.4	5.6	7.3	8.2	4.0	2.7	2.7
Serbia	12.4	4.7	3.9	3.8	4.1	3.0	3.0
Slovakia	10.5	2.7	4.0	3.6	3.2	3.0	2.5
Spain	3.5	2.8	2.7	3.2	2.7	2.6	1.9
Sweden	6.0	1.9	2.6	1.1	1.3	2.6	1.7
Switzerland	2.1	1.1	0.2	0.5	0.5	0.6	0.6
Turkey	53.9	58.5	34.9	31.3	21.1	13.0	9.4
United Kingdom	7.3	2.5	3.4	3.2	2.5	2.2	2.3

A full set of forecasts can be found on our [SharePoint site](#).

On a common country sample, our 2025 forecasts had lower average absolute errors than those of major international institutions

Average absolute error for the 2025 forecast
formulated around January 2025*



*Compared forecast: EY EAT: European Economic Outlook: 2025 January; Oxford Economics: Country Economic Forecast January 2025; for central banks, EC: Autumn 2024 Economic Forecast, IMF: WEO October 2024 except GDP estimation for France, Germany, Netherlands, Poland, Spain and the euro area (January 2025 update); OECD: Economic Outlook December 2024. The assessment covers all EU economies (excluding Italy) as well as Norway and Switzerland. Sources: EY EAT analysis, Oxford Economics, OECD, IMF, EC

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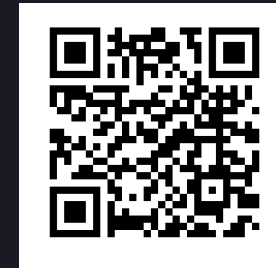
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Forecast and country-specific outlook sources

- ▶ Forecasts for most economies are prepared by EY Economic Analysis Team (EY EAT) using an amended version of the Oxford Global Economic Model (GEM)
 - ▶ EY EAT adjusts model equations, assumptions and data inputs where appropriate
- ▶ Forecasts for the US have been prepared by EY-Parthenon Macroeconomics Team
 - ▶ Contact: https://www.ey.com/en_us/strategy/macroconomics
- ▶ Forecasts for the UK have been prepared by EY UK
 - ▶ Contact: parnold@uk.ey.com
- ▶ Forecasts for Italy in 2026-27 have been prepared by EY Italy
 - ▶ Contact: alberto.caruso@it.ey.com
- ▶ Forecasts for Serbia have been prepared by EY Serbia
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