

Consumer & Retail Outlook

Insights from the European Economic Outlook

EY Economic Analysis Team

March 2026



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Topics

Page

- ▶ Executive summary [3](#)
- ▶ Economic activity and consumer spending in recent quarters [5](#)
- ▶ Short-term drivers of economic and consumer outlook [22](#)
- ▶ Structural drivers of economic and consumer outlook [31](#)
- ▶ Economic and consumer outlook [38](#)

Executive summary

Scope and updated baseline assumptions

- ▶ This report focuses on household consumption and the implications for the retail sector, drawing on the broader [EY European Economic Outlook](#) published in early March 2026, including the update of macroeconomic assumptions and forecasts following the escalation of the conflict in the Middle East.
- ▶ The updated baseline scenario assumes a temporary energy shock, with a limited but noticeable drag on European economic activity. In this scenario, the conflict is expected to raise euro area inflation by around 0.5 pp in 2026 and reduce the level of GDP by around 0.2%. As a result, projected euro area GDP growth in 2026 has been revised down from 1.3% to 1.0%, partly reflecting a downward revision related to Ireland, with only limited changes to the outlook in subsequent years. At the same time, inflation is expected to remain slightly above target in 2026 (averaging 2.4%), before falling below 2% in 2027.
- ▶ However, recent escalations suggest that even a swift end to the conflict may not allow a rapid return to pre-conflict production levels, particularly for natural gas, implying structurally higher European gas prices over the medium term and more adverse economic effects than included in the current baseline. To capture risks beyond the baseline, we also present an additional, more severe downside scenario involving a prolonged Middle East conflict.

Recent economic performance

- ▶ In 2025, euro area GDP growth of 1.4% was significantly inflated by an exceptional 12.4% surge in Irish GDP. Excluding Ireland, growth amounted to around 1.0%, still an improvement from 0.8% in 2024. In 2025 Q4, underlying euro area growth (excluding Ireland) strengthened to around 0.4% q/q, as investment and exports began to recover. At the same time, private consumption slowed, manufacturing slipped back into stagnation, and services (led by ICT) continued to expand at a moderate pace.
- ▶ The labor market broadly stabilized but continued to cool at the margin. Employment growth held at 0.7% y/y, nominal wage growth remained close to 4% y/y, vacancy rates declined, and labor hoarding eased. Unemployment stayed near historical lows, despite some divergence across countries.
- ▶ With headline inflation hovering around 2%, the ECB kept the deposit rate on hold at 2.0% (unchanged since June 2025), while most other European central banks also remained in wait-and-see mode—consistent with an economy operating close to potential.
- ▶ In Q4 2025, consumption growth remained positive but relatively slow and uneven across countries. Despite stable labor markets and rising real incomes, households stayed cautious amid persistent uncertainty related to tariffs and geopolitics, limiting the pass-through from income gains to spending. Consumption outcomes were highly heterogenous, with very strong growth in countries such as Bulgaria contrasting with near-stagnation in Romania, while consumption in the euro area's large core economies remained subdued. In the Nordics, consumption growth was relatively robust (around 2% on average), supported by rising real wages and recovering employment, with Norway outperforming and Finland lagging.

Executive summary

Economic outlook

- ▶ Following the slowdown to 1.0% in 2026, euro area GDP growth is expected to pick up toward 1.5-1.6% in 2027-29, as the effects of the Middle East and trade-related shocks gradually fade. This recovery is expected to be supported by fiscal policy and lower interest rates, although demographic constraints on labor supply remain a structural headwind.
- ▶ As the Middle East conflict weighs on real incomes and consumer sentiment, euro area private consumption growth is anticipated to slow from 1.3% in 2025 to 1.1% in 2026, before reaccelerating to 1.4-1.5% in subsequent years, as shocks fade and the saving rate stops increasing.
- ▶ Inflation is projected to ease after a temporary energy-driven uptick to 2.4% in 2026, falling below 2% in 2027 as base effects and lower energy prices dominate, before edging slightly higher again toward the end of the forecast horizon, reflecting the extension of the ETS.
- ▶ Provided the Middle East shock is temporary, central banks are not expected to respond directly to higher energy prices. Under the baseline, no further ECB moves are anticipated. However, recent escalations point to structurally higher European gas prices over the longer term, tilting risks toward tighter ECB policy.

Cross-country disparities

- ▶ Growth performance differs markedly across the EU. Poland is set to remain the growth champion, with GDP growth averaging 4.0% in 2026, followed by Bulgaria and Croatia (around 3%) and Spain (2.5%). The recovery in the Nordics is expected to continue, with Sweden, Denmark, and Norway growing at around 2%. In contrast, Germany and Switzerland are expected to lag at 0.4-0.5%, as the negative impact of tariffs and the Middle East conflict largely offsets fiscal tailwinds.
- ▶ Private consumption growth broadly mirrors GDP dynamics. The strongest consumption growth is expected in CEE (particularly Bulgaria, Poland, and Hungary), supported by robust wage growth, followed by Spain and the Nordics (excluding Finland), with consumption growth of around 2.0-2.5%. Italy and the UK are expected to lag, with growth of only 0.5-0.6%, reflecting a relatively stronger inflation uptick.
- ▶ Inflation differentials remain pronounced. Inflation is projected to remain highest in Romania, averaging 7.0%, due to VAT and energy price hikes and still strong underlying price pressures. In the rest of CEE, inflation is expected in the 3-4% range, as the energy shock has a relatively stronger impact on the region. Inflation outcomes also diverge within "old" Europe: the UK, the Netherlands, Norway, and Spain are expected to see price growth of around 3%, while Switzerland, France, and the Nordics (excluding Norway) are projected to undershoot central bank targets, despite the energy shock.
- ▶ Policymakers are likely to remain cautious in delivering further monetary easing, given uncertainty around the duration of the Middle East conflict and concerns about spillovers into underlying inflation. Provided the Middle East shock proves temporary, some additional easing by central banks in Europe is anticipated from the second half of 2026 onwards. If the conflict becomes more protracted and/or further escalates, limited interest rate hikes are very likely.

Risks

- ▶ The balance of risks is tilted toward higher inflation and interest rates, and weaker GDP growth and consumption, reflecting uncertainty around the duration and severity of the Middle East conflict. Under a severe scenario of a protracted conflict, euro area inflation would average 4.0% in 2026, breaching 5% at peak in Q4. As lower disposable income and weaker consumer and business confidence weigh on activity, GDP growth would slow to 0.6% in 2026 and 0.9% in 2027, while private consumption would decelerate to near stall speed: 0.3% in 2026 and 0.7% in 2027. In such a scenario, the ECB could no longer ignore elevated inflation, and the deposit rate would likely be raised to at least 2.5%.

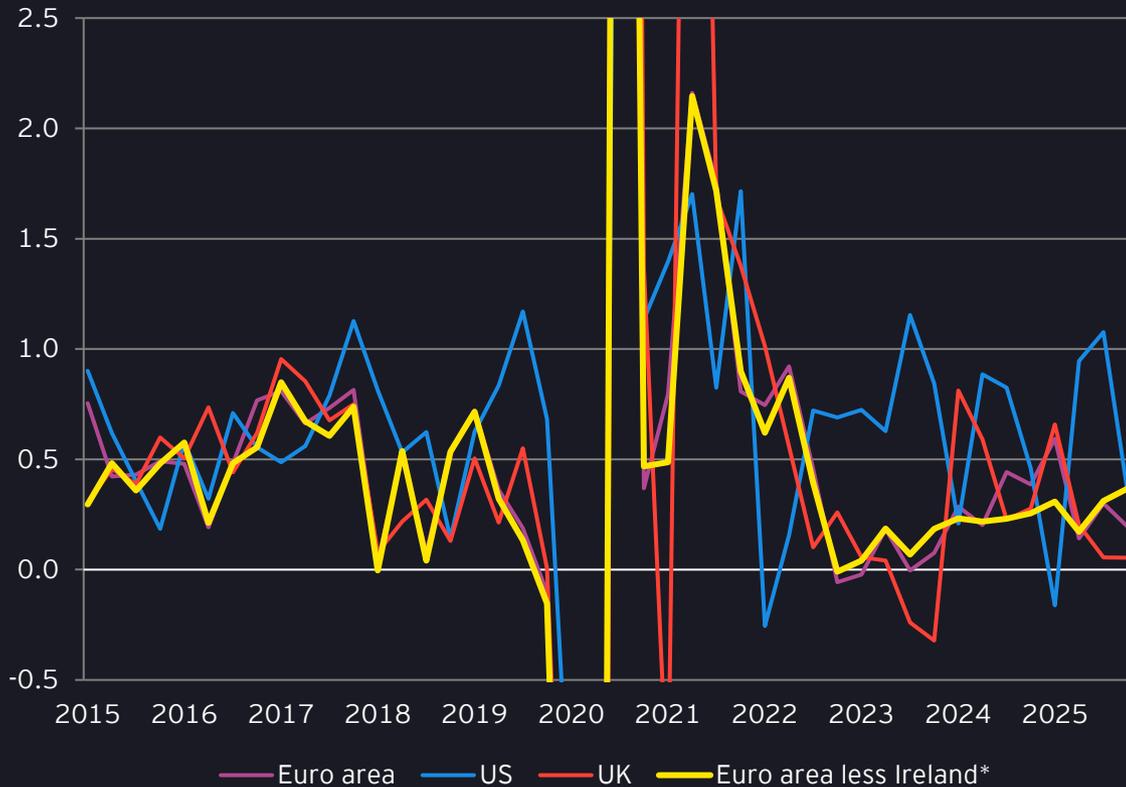
Chapter 1

Economic activity and consumer spending in recent quarters

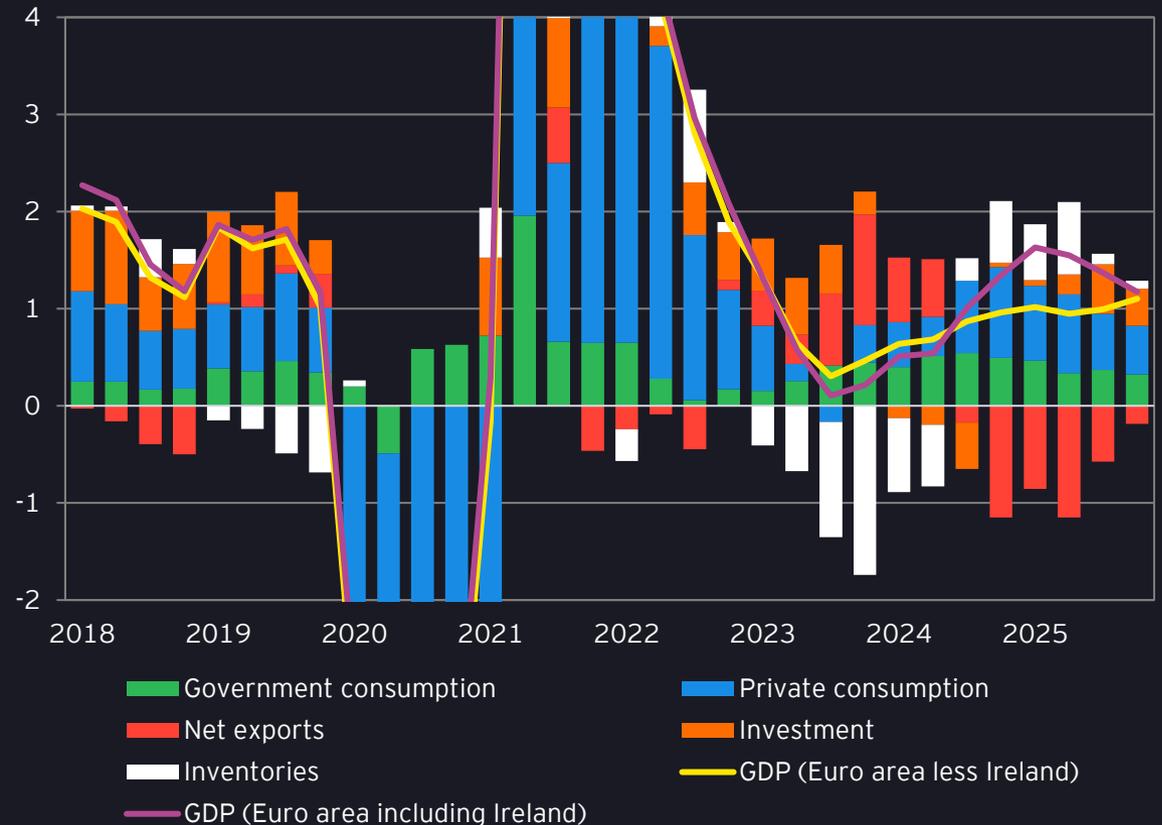
Despite an Ireland-driven slowdown in the euro area headline GDP growth, underlying activity continues to gradually strengthen

- ▶ Despite US tariffs, the euro area's underlying real GDP growth (i.e., excluding Ireland) accelerated to 0.3% q/q in 2025 Q3 and 0.4% in Q4, supported by a recovery in investment and exports. Private consumption has been slowing as households remained cautious amid global uncertainty.

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



Decomposition of y/y GDP growth in the euro area less Ireland*
(in percentage)



While cross-country disparities persist, growth in several lagging economies, including Germany, appears to be picking up

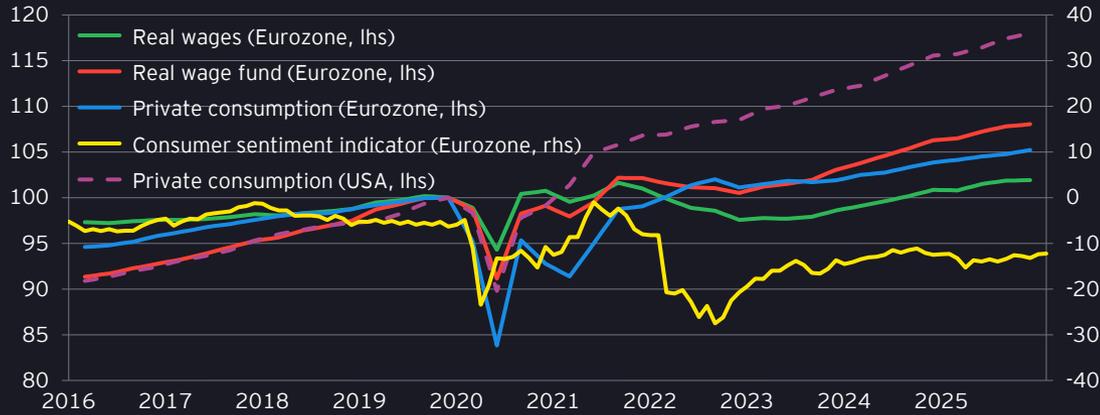
- ▶ Most Southern European economies, including Spain, still outpace the rest of the EU, benefiting from a booming tourism sector, strong immigration flows, and NextGenEU disbursements.
- ▶ Poland and several other CEE economies (Croatia, Lithuania, Bulgaria, Czechia, Latvia) are recording strong growth, supported by robust real income gains, expansionary fiscal policy, and substantial NextGenEU spending.
- ▶ Denmark maintains robust but volatile growth, driven by the expansion of a major pharmaceutical company. Meanwhile, Sweden and Norway are experiencing a cyclical recovery, supported by lower interest rates.
- ▶ Ireland posted a large quarterly GDP contraction following earlier rapid expansion linked to US tariff frontloading. Yet, GDP remains a flawed measure of activity, heavily influenced by activity of multinationals. Alternative indicators such as modified final domestic demand point to accelerating and strong momentum, exceeding 6% y/y.
- ▶ Germany, Italy, Switzerland, Austria, Finland, Hungary, and Slovakia remain among the slowest-growing economies due to weak industrial performance, though relatively solid 2025 Q4 outturns suggest that the worst may now be behind them.
- ▶ In contrast, economic activity in Romania is stagnating, held back by fiscal tightening and energy price increases.



Real consumer spending continued to grow, though at a slower pace than in 2024, as households remained cautious and savings rates stayed elevated

- ▶ Euro area consumption growth lags the US, as stronger US labor markets and lower precautionary saving continue to support spending, while euro area households remain more cautious, resulting in slower and more uneven consumption growth.

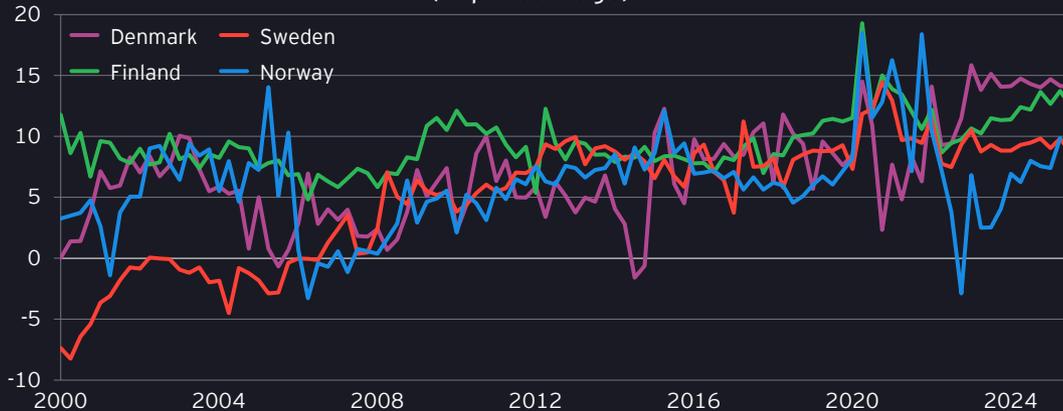
Real wages, real wage fund, consumer sentiment and real private consumption in the euro area and the US (2019 Q4 = 100)



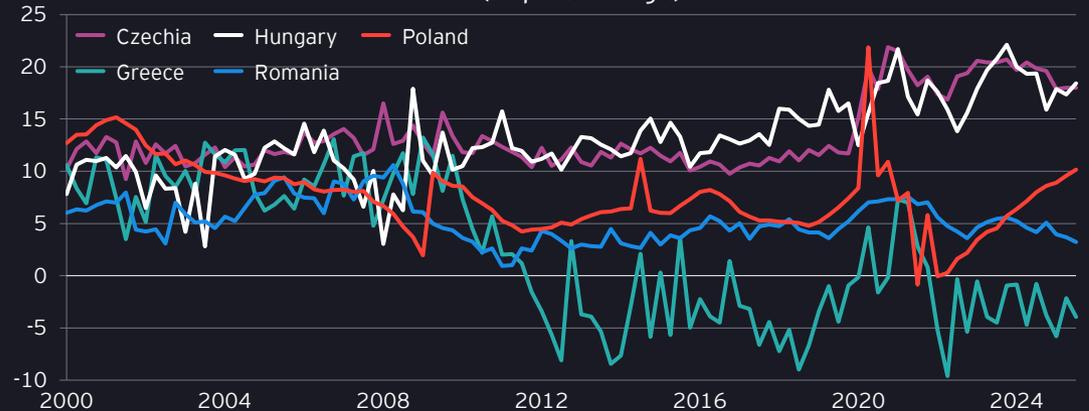
Household saving rate (In percentage)



Household saving rate (In percentage)



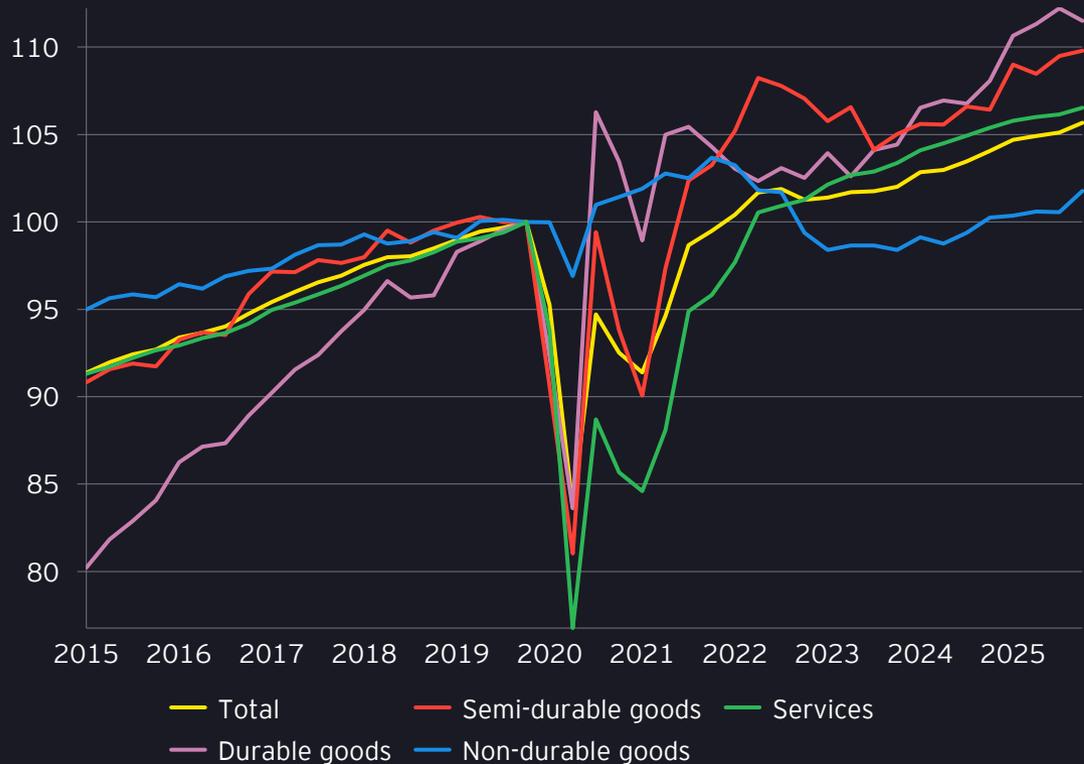
Household saving rate (In percentage)



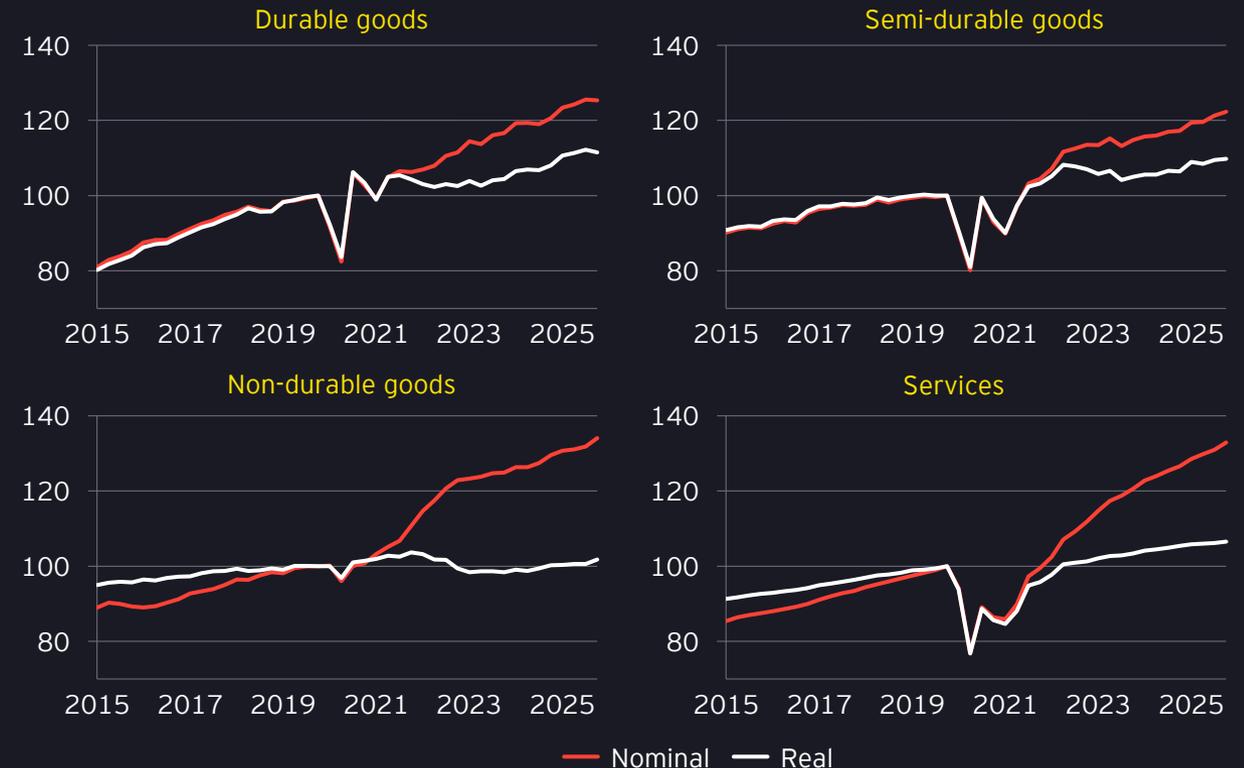
Consumption growth remains uneven across categories. Durables continue to drive headline dynamics—despite some recent softening—while relatively stable services smooth aggregate consumption

- ▶ Semi-durables* have shown steady improvement in recent quarters. Durables still exhibit the strongest momentum, albeit with some recent softening, while services grow at a steady but modest pace. Non-durables show similarly modest growth and remain well below their 2021 peaks in real terms.
- ▶ The durability breakdown reveals distinct cyclical profiles. Durable goods are the most volatile and sensitive to real income developments and interest rates, whereas services and non-durables are comparatively stable, helping to smooth overall consumption.
- ▶ Services accounted for around 54% of household spending in Q3 2025, compared with roughly 30% for non-durables and about 8% each for durables and semi-durables. These shares have remained broadly stable, with services' weight increasing only marginally (around 1pp) since 2019.
- ▶ Despite lagging durables in real terms, non-durables and services have seen the largest increases in nominal spending since 2019, driven by stronger price growth.

EU households' real final consumption expenditure by durability (2019 Q4 = 100)



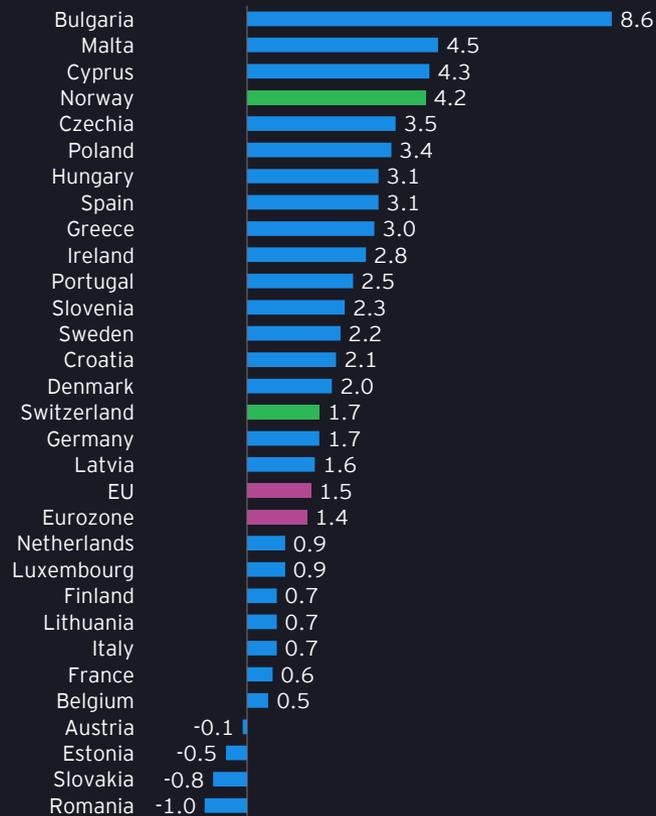
EU households' real vs nominal final consumption expenditure by durability (2019 Q4 = 100)



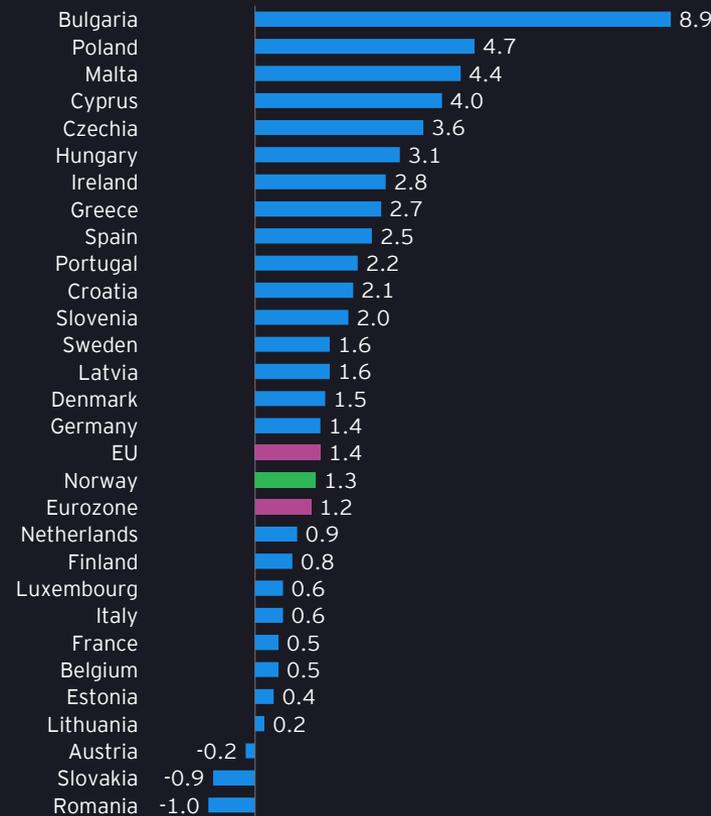
Household consumption growth in 2025 Q4 remained highly uneven across countries

- ▶ Consumption growth was relatively strong in parts of Southern Europe and CEE, while several core euro area countries continued to lag. Consumption contracted in Romania and Slovakia amid indirect tax hikes and fiscal consolidation.
- ▶ Consumer spending was generally stronger in durable goods, but also exhibited significant cross-country dispersion.
- ▶ Quarterly developments should be interpreted with caution, as country-specific factors may distort the data. These include front-loaded consumption in Bulgaria ahead of euro area entry and tax changes on cars in Norway, which boosted December car sales and, in turn, durable goods consumption.

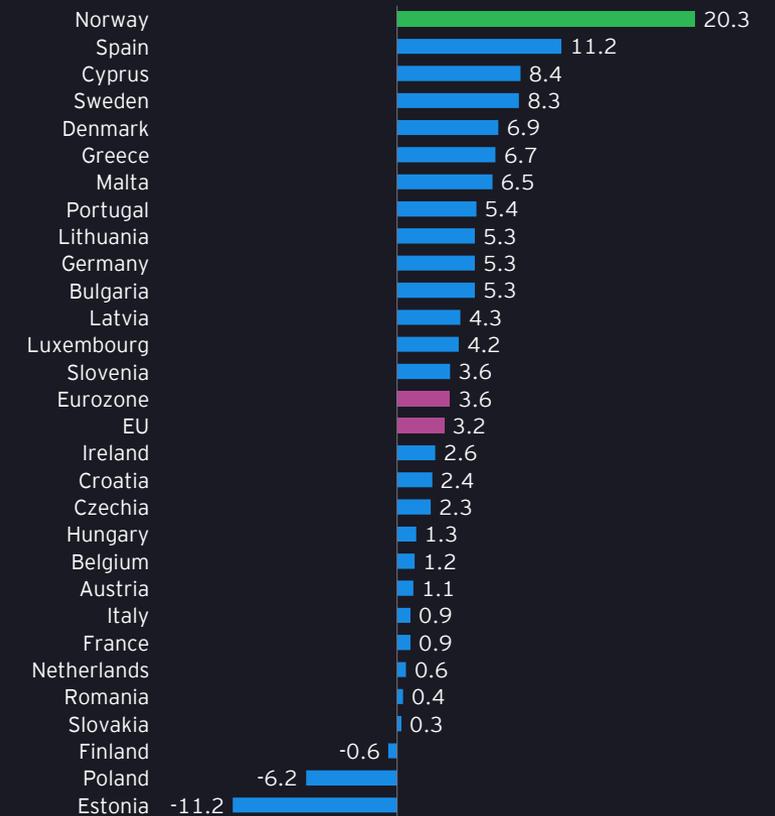
Households' consumption growth in 4Q 2025: all goods (% y/y, constant prices)



Households' consumption growth in 4Q 2025: semi-durable goods, non-durable goods and services (% y/y, constant prices)



Households' consumption growth in 4Q 2025: durable goods (% y/y, constant prices)



Household consumption growth in 2025 Q4 remained highly uneven across countries

Household consumption (constant prices)

	Total			Durables			Semi-durables			Non-durables			Services		
	Y/y in 25Q4	Change since 19Q4	Y/y in 25Q4	Change since 19Q4	Share in total	Y/y in 25Q4	Change since 19Q4	Share in total	Y/y in 25Q4	Change since 19Q4	Share in total	Y/y in 25Q4	Change since 19Q4	Share in total	
Belgium	0.5	3.4	1.2	7.2	7.3	1.9	11.2	8.9	3.3	-2.8	26.4	-1.1	5.3	57.7	
Czechia	3.5	-0.3	2.3	-5.4	7.4	2.1	-0.9	6.5	3.1	-5.6	34.5	4.2	4.3	51.6	
Denmark	2.0	1.8	6.9	11.8	11.8	3.4	9.6	8.8	0.6	-9.2	22.3	1.6	4.1	57.5	
Germany	1.7	2.4	5.3	3.8	10.0	5.1	11.7	8.8	1.0	1.1	26.1	1.1	1.6	55.2	
Ireland	2.8	18.3	2.6	13.6	6.5	2.7	61.5	8.8	3.0	12.8	27.5	2.8	16.9	57.3	
Greece	3.0	17.4	6.7	61.6	6.5	2.2	-8.6	5.0	3.8	19.7	32.1	2.3	15.2	56.7	
Spain	3.1	9.6	11.2	28.0	7.9	5.9	7.5	6.1	3.0	-0.8	24.7	2.0	12.9	61.6	
France	0.6	4.2	0.9	-0.7	7.7	1.0	-0.4	8.2	-0.1	-4.6	25.8	0.8	10.5	58.4	
Croatia	2.1	23.7	2.4	32.2	6.1	2.3	28.1	6.7	3.5	25.4	40.3	2.9	19.5	47.2	
Italy	0.7	3.2	0.9	20.1	9.1	1.0	10.2	9.2	0.3	-1.2	29.0	0.8	2.4	52.9	
Hungary	3.1	15.9	1.3	28.9	8.2	3.9	62.8	9.8	2.3	2.8	35.3	3.2	18.0	47.2	
Netherlands	0.9	6.2	0.6	7.3	10.2	2.9	22.5	10.0	0.6	1.1	23.7	0.7	5.7	56.3	
Austria	-0.1	1.3	1.1	-4.6	9.8	1.7	11.0	10.4	-0.1	-2.3	24.9	-0.6	2.7	55.1	
Poland	3.4	11.0	-6.2	45.1	10.7	8.7	-2.1	8.4	5.1	16.8	44.0	3.3	1.0	36.8	
Romania	-1.0	14.2	0.4	39.5	7.2	-1.5	30.2	10.4	1.7	3.8	45.9	-5.0	22.3	36.9	
Slovakia	-0.8	4.9	0.3	16.8	9.5	0.1	7.7	6.8	-1.7	2.6	39.4	-1.0	3.2	44.2	
Finland	0.7	-0.5	-0.6	-9.5	7.4	3.4	-2.1	7.3	1.2	-0.5	28.2	0.3	1.2	57.2	
Sweden	2.2	6.7	8.3	14.3	10.2	7.0	7.7	8.4	1.7	6.8	27.7	0.8	5.3	53.8	
Norway	4.2	14.5	20.3	30.5	15.7	2.6	17.4	6.3	0.3	4.4	19.4	1.6	14.0	58.8	
Serbia	3.4	16.4	13.7	27.6	6.1	4.8	41.8	7.6	2.9	8.1	47.1	1.6	21.3	38.8	

While consumers remain pessimistic, retailers expect a pick-up in sales in the coming months

Latest sentiment indicators are based on survey data collected up to February 2026 and therefore do not yet capture potential reactions of consumers and firms to the recent escalation of the Middle East conflict. This constitutes a downside risk to sentiment in the coming months.

Consumer sentiment

- ▶ Consumer sentiment has stabilised after recovering from the 2022-2023 lows, but remains below long-term averages. Importantly, sentiment indicators remain below zero, indicating that negative assessments of both current conditions and the outlook continue to outweigh positive ones on a net basis.
- ▶ The modest recent improvement in current situation assessment reflects easing concerns around current conditions rather than a broader shift in spending behaviour, as indicators related to major purchases have remained broadly flat.
- ▶ Forward-looking components show little further improvement, suggesting that households do not expect a material change in the economic outlook over the next year.

Retail sector sentiment

- ▶ Sentiment in the retail trade sector recovered earlier and stronger than consumer sentiment, returning closer to neutral levels, but has remained more volatile.
- ▶ Since late summer, expectations for business activity have exceeded assessments of the current situation and moved into positive territory, while indicators of recent sales remain closer to neutral.
- ▶ Expectations related to orders have improved gradually in recent months, pointing to a slow rebuilding of confidence on the demand side.
- ▶ Overall, retailers appear cautiously more optimistic about the near-term outlook than about current conditions, although the volatility of expectations suggests limited conviction in a strong cyclical upswing.

EU Economic Sentiment Index* - Consumers (index points)

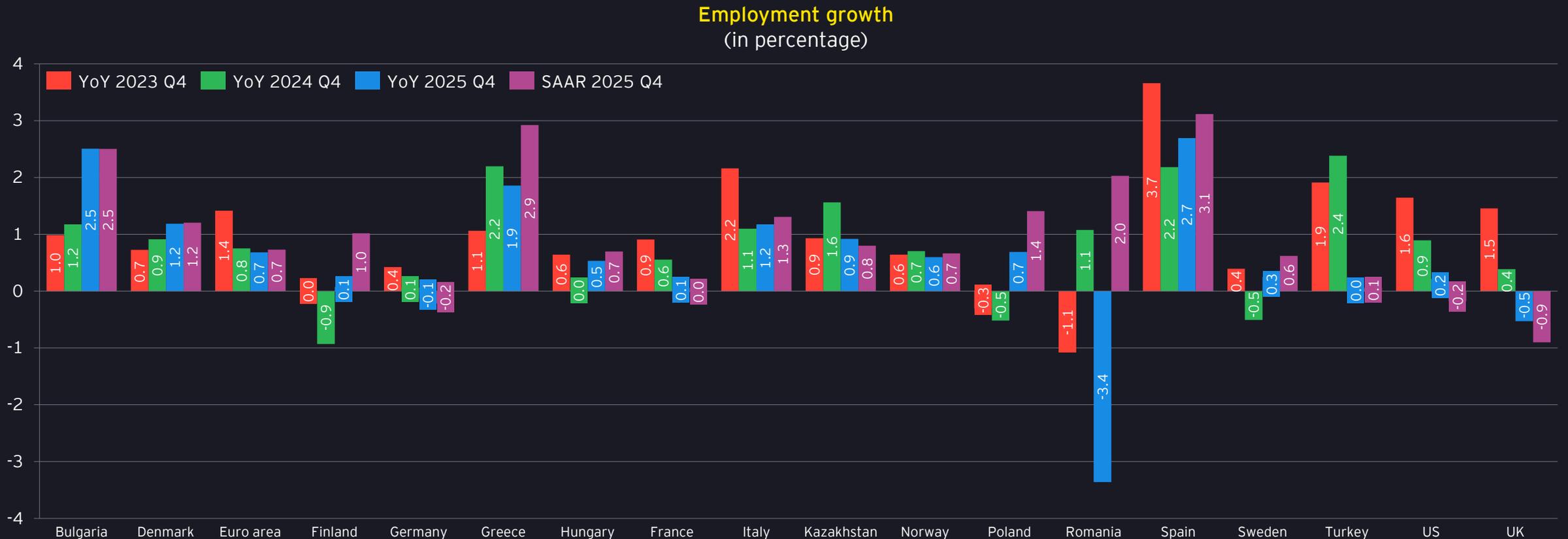


EU Economic Sentiment Index* - Retail trade sector (index points)



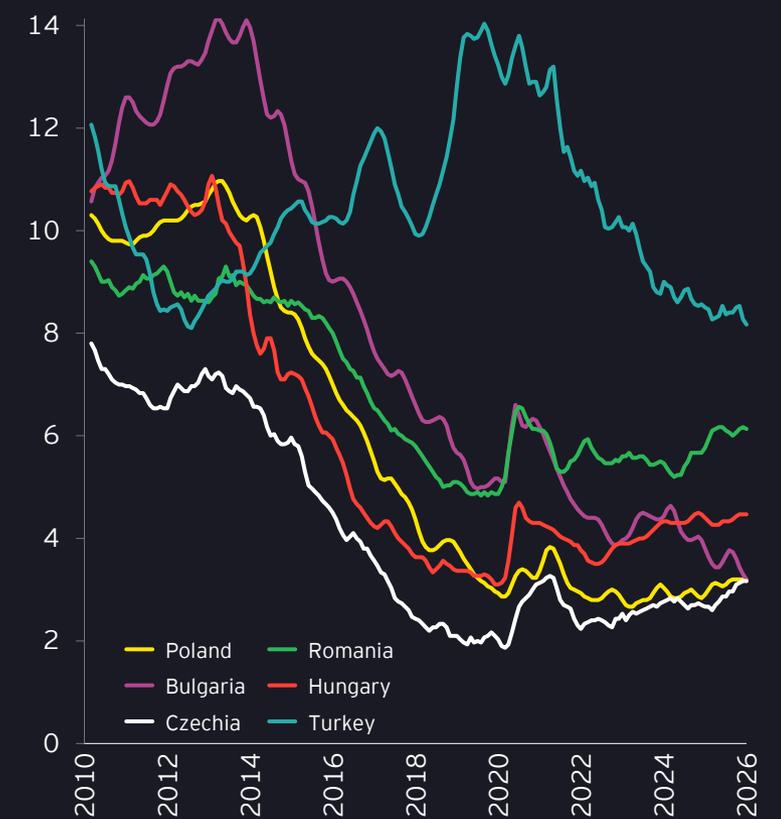
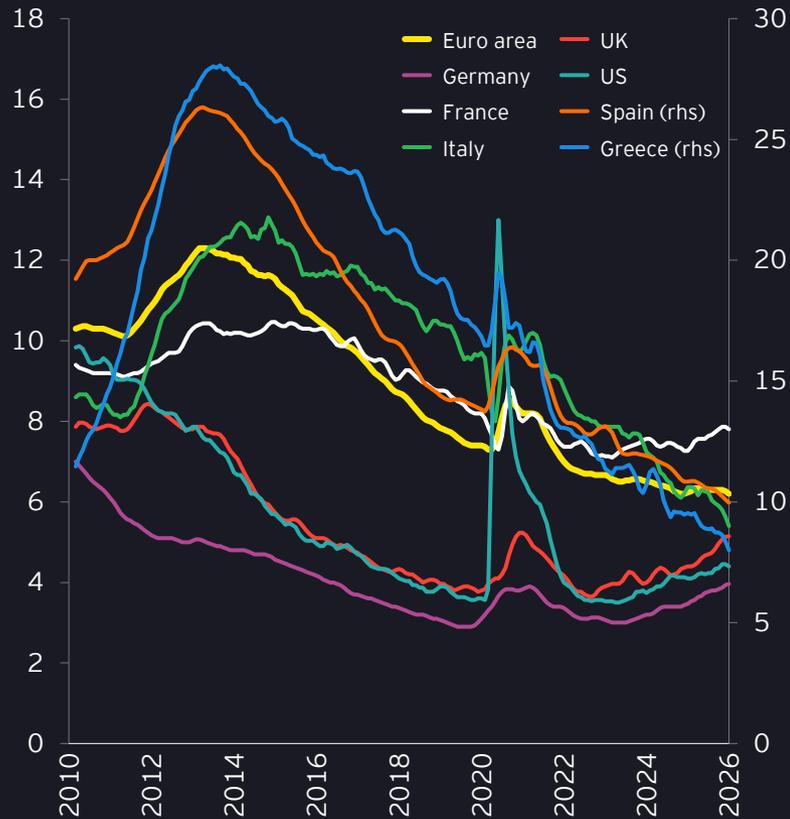
The labor market is a key driver of consumption growth. Euro area employment is growing by 0.7% y/y, with Spain accounting for a large share of net job creation amid an otherwise subdued labor market

- ▶ Employment dynamics remain uneven across countries. Many major European economies are experiencing stagnant or declining employment, while Spain stands out, supported by strong immigration inflows from Latin America and North Africa. At the same time, declining vacancies point to continued labor market cooling.
- ▶ Labor demand growth continues to slow despite an uptick in GDP growth. This largely reflects a normalization in labor demand following past negative supply shocks, pandemic-era mismatches, and earlier labor hoarding. Labor supply growth picked up through 2025, driven by rising labor force participation, outpacing labor demand growth.



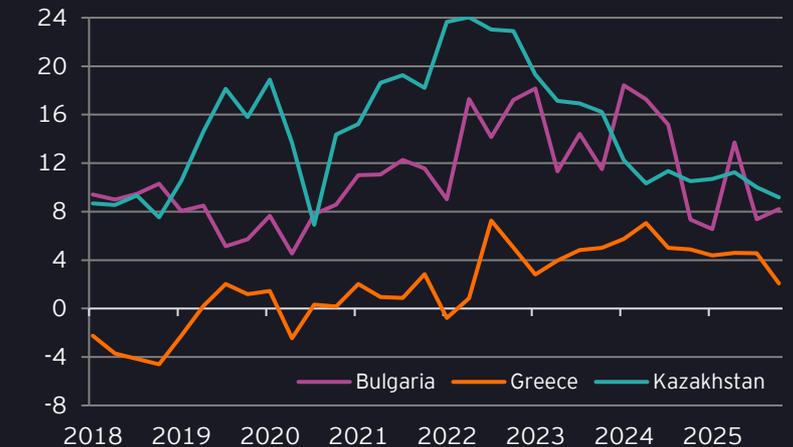
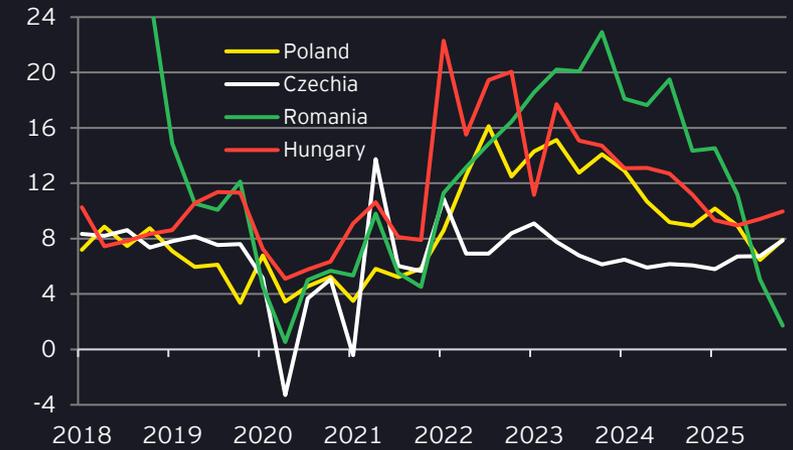
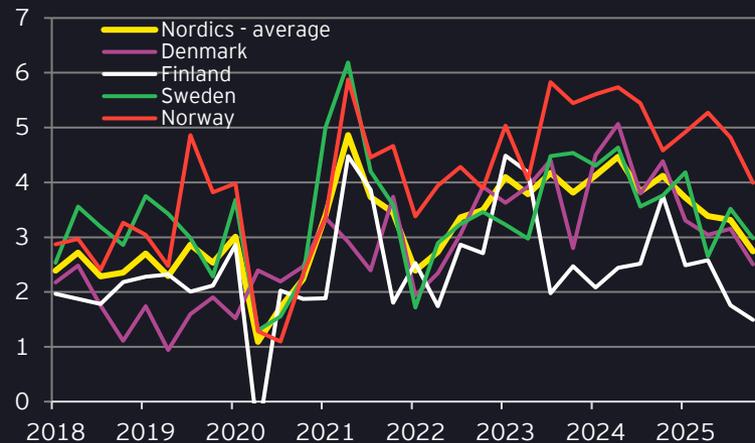
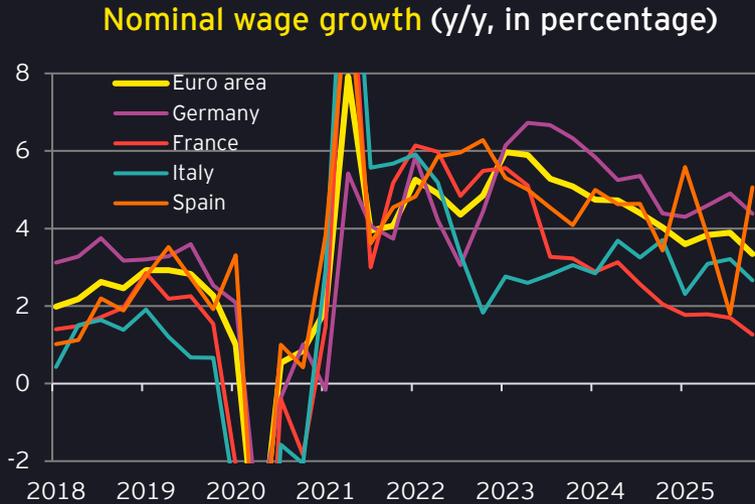
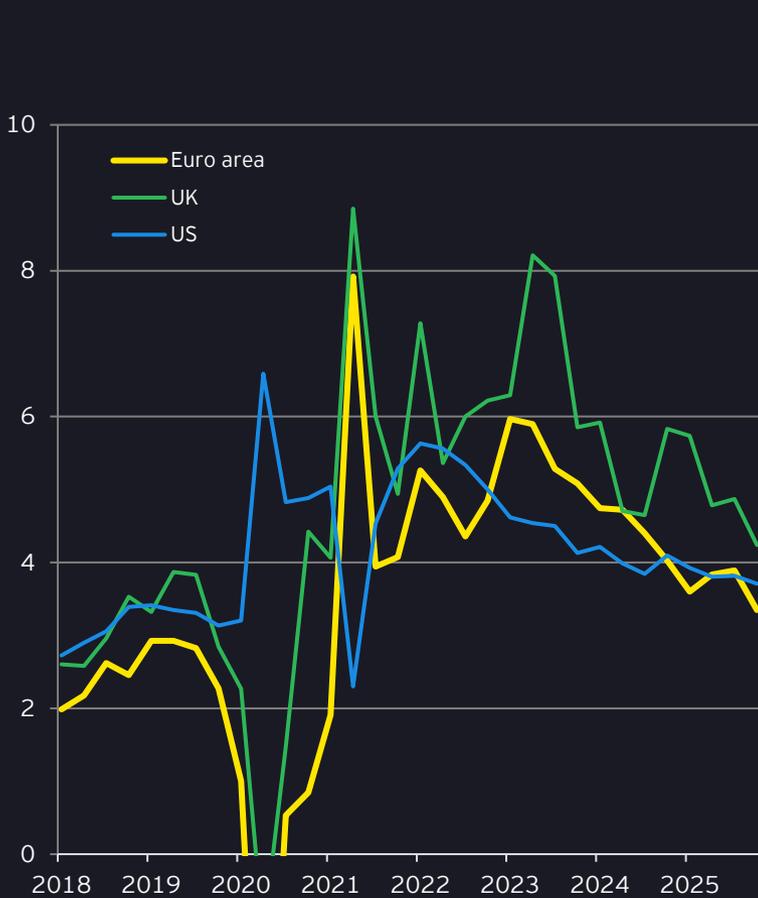
Despite cooling dynamics, unemployment remains low. The euro area unemployment rate has stabilized near historical lows, continuing to decline in Southern Europe, edging up in Germany and the UK, and showing signs of stabilization in the Nordics, after earlier increases

LFS unemployment rate (3-month average, in percentage)



Nominal wage growth has slowed as real wages have caught up with productivity, but remains above pre-pandemic levels due to structurally tight labor markets

- ▶ Significant cross-country disparities in wage growth persist, reflecting differences in inflation dynamics, public sector pay policies, minimum wage growth, and labor market slack. CEE economies continue to record much faster wage growth than Western and Southern Europe. Within broadly defined Western Europe, wage growth differentials are narrowing, with most economies moving toward more sustainable wage dynamics.



Source: Eurostat, ONS, FRED, Oxford Economics

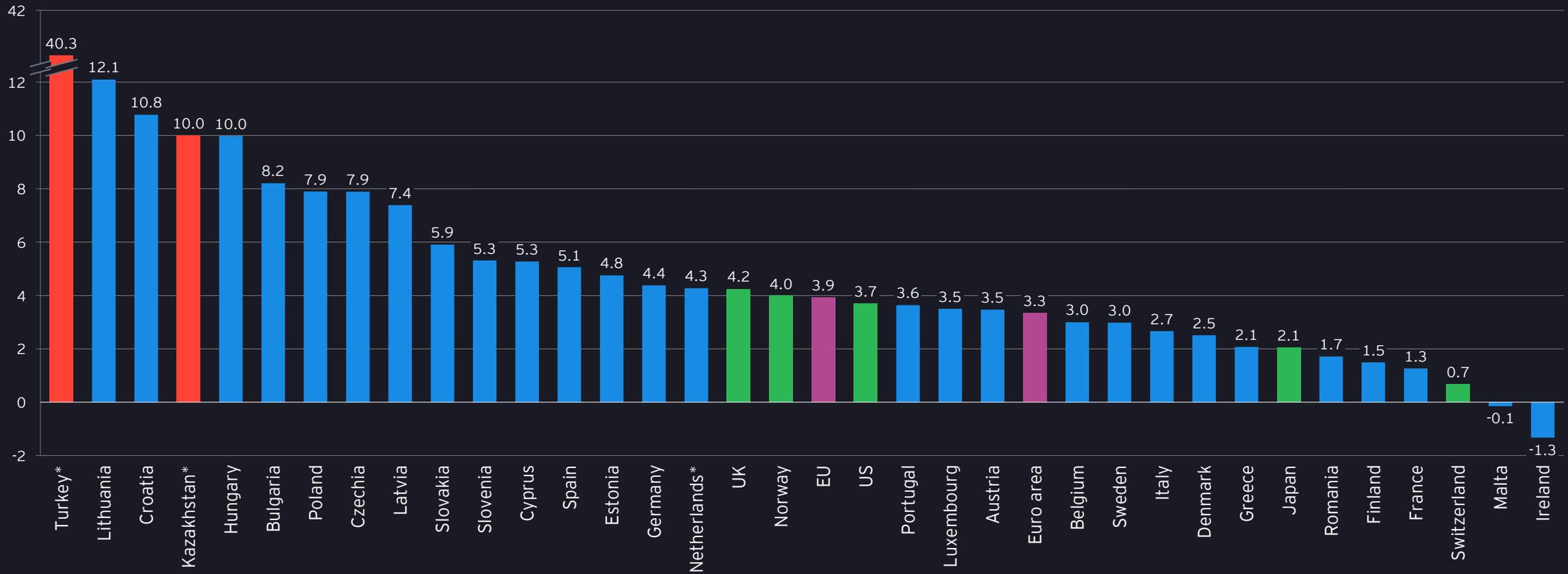
For the euro area countries, wages and salaries per employed person; for the UK, average weekly earnings in the whole economy, total pay; for the US average hourly earnings of All Employees, Total Private. Nordics as Norway, Sweden, Finland, and Denmark arithmetic average.

* Unemployment gap is the difference between the Unemployment rate and NAIRU (non-inflation accelerating rate of unemployment).

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Nominal wage growth in 2025 Q4 (y/y, in percentage)



Source: Eurostat, ONS, FRED, Oxford Economics

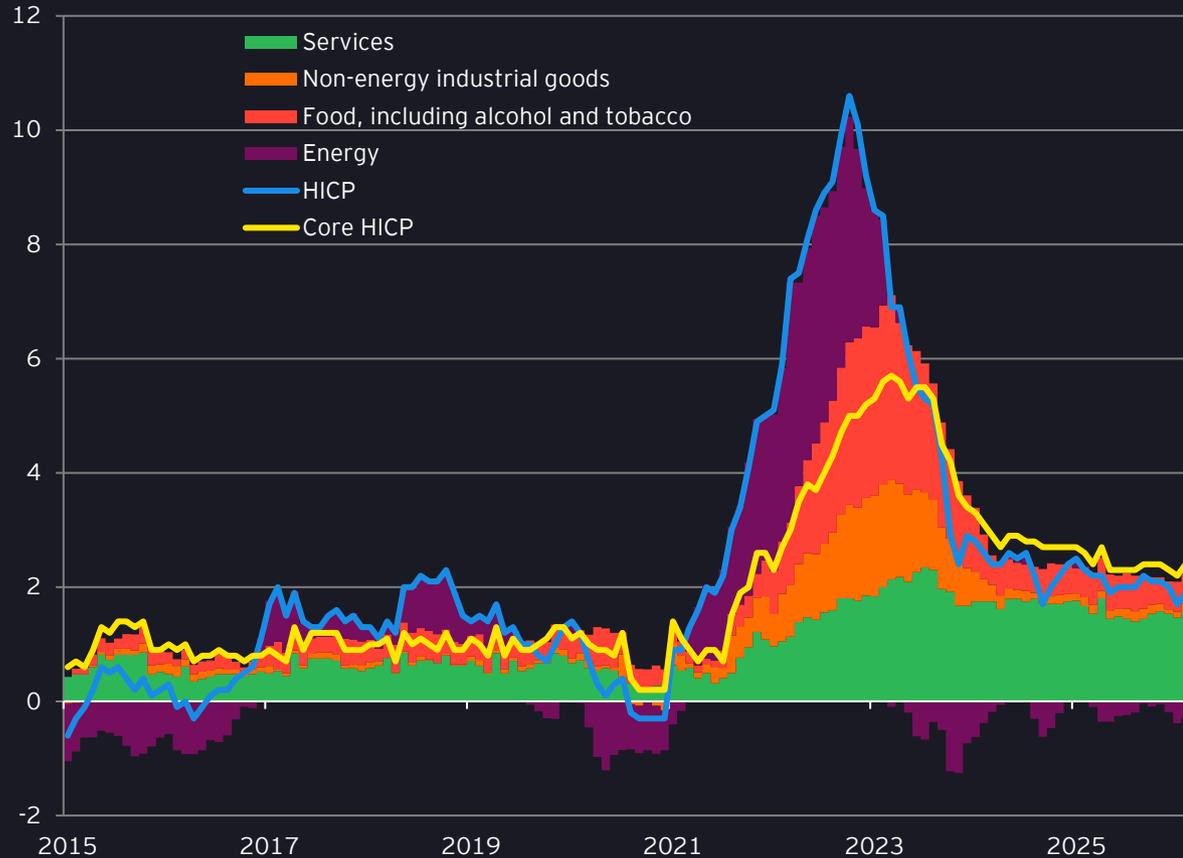
For the euro area countries, wages and salaries per employed person; for the UK, average weekly earnings in the whole economy, total pay; for the US average hourly earnings of All Employees, Total Private.

* Data for 2025 Q3.

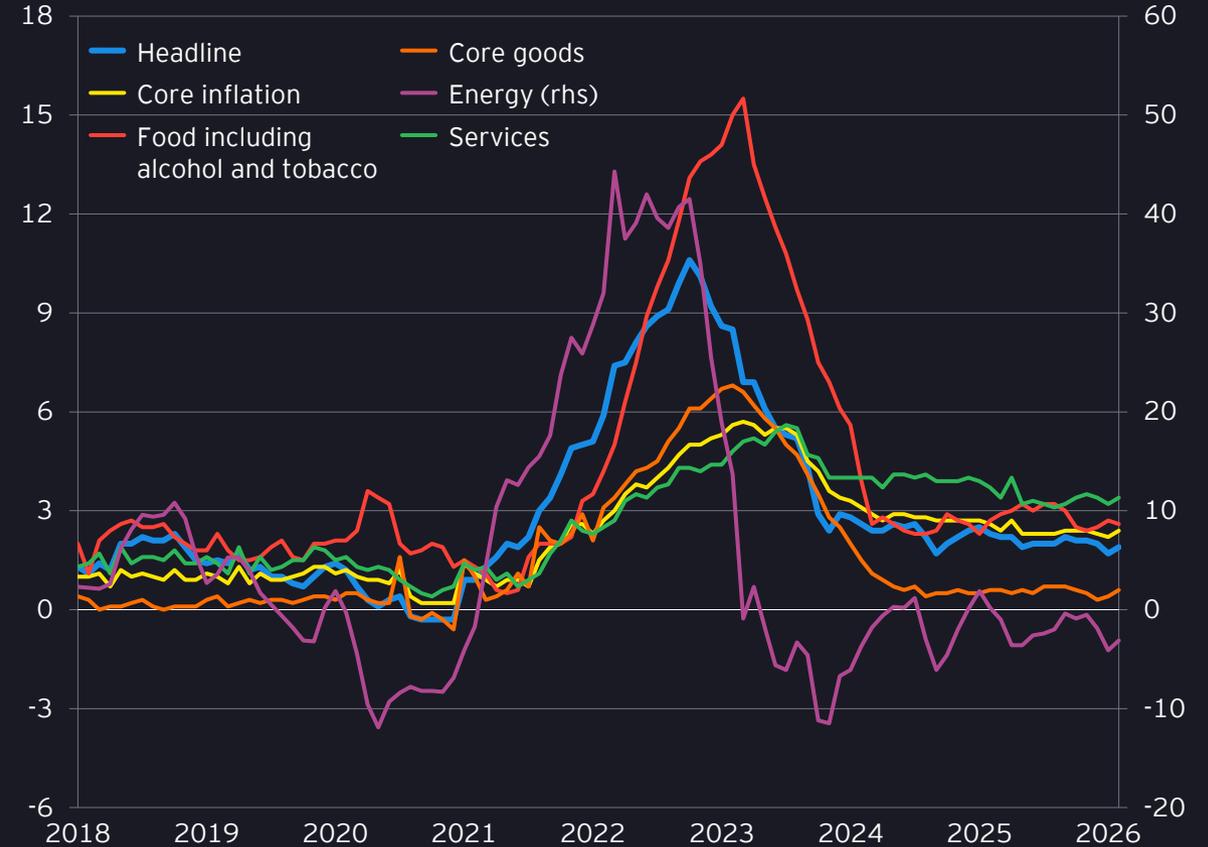
Headline inflation in the euro area has stabilized close to 2%, well below nominal wage growth, leading to real income gains and supporting consumption

- ▶ Core goods inflation remains subdued, helped by the appreciation of the euro and low global price pressures in manufacturing. Services inflation has stabilized at a somewhat elevated level, broadly consistent with underlying wage growth. Food inflation eased slightly from summer 2023 heights but remains above 2%.
- ▶ Prior to the escalation of the Middle East conflict, falling energy prices were helping to keep inflation in check. This support is set to reverse in the coming months.

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



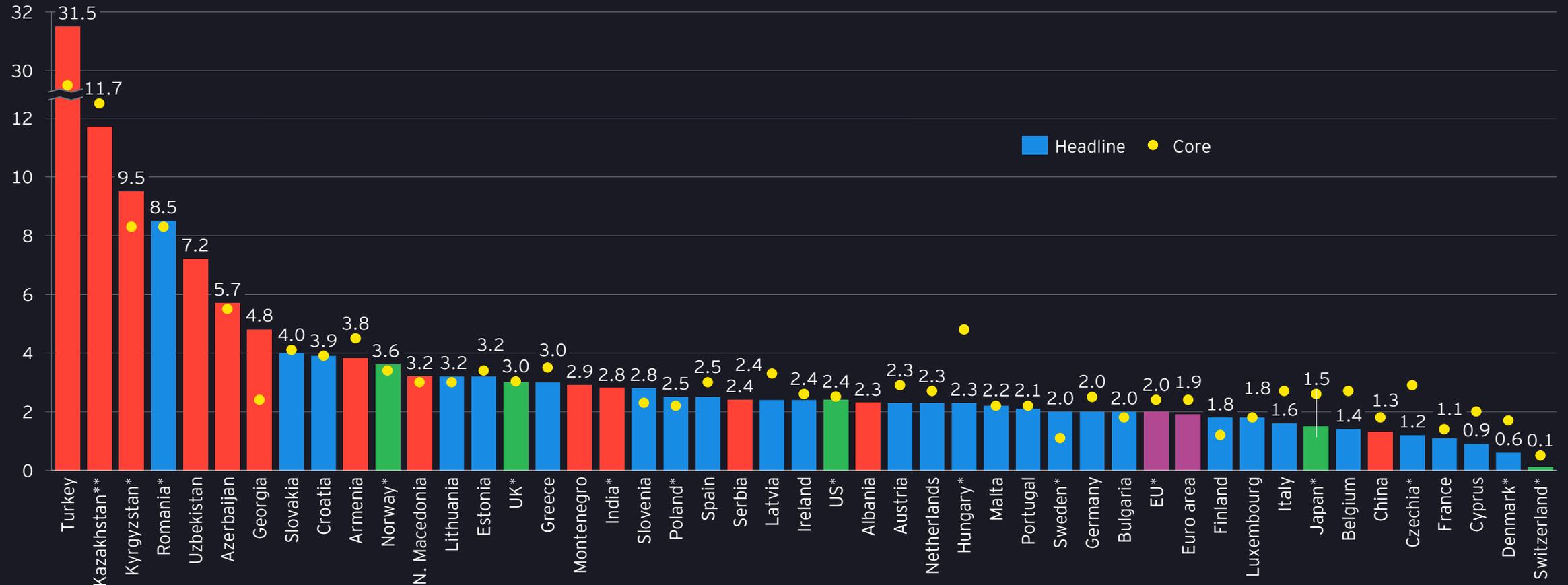
HICP inflation in the euro area (y/y, in percentage)



Inflation rates across Europe continue to diverge, influenced by differences in wage growth, regulated prices, and excise tax adjustments

- ▶ Several CEE economies still record elevated Inflation, notably Romania (partly due to energy price and VAT hikes).
- ▶ In contrast, Switzerland, France, Italy, Denmark, and Finland are experiencing subdued price growth, largely due to low wage growth.

HICP inflation in February/January 2026 (y/y, in percentage)

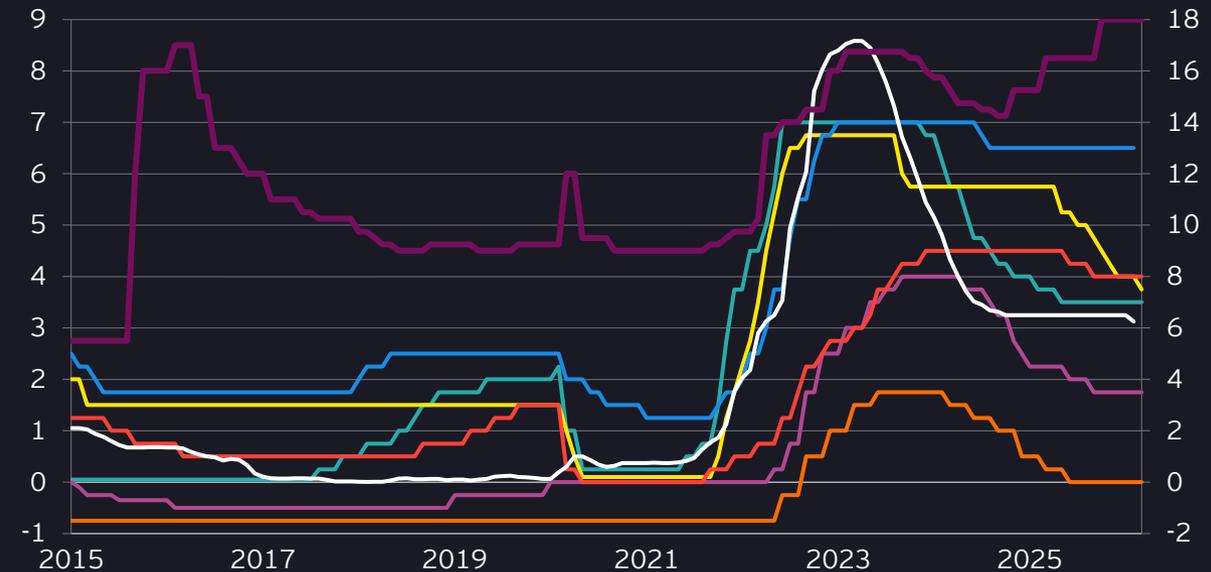
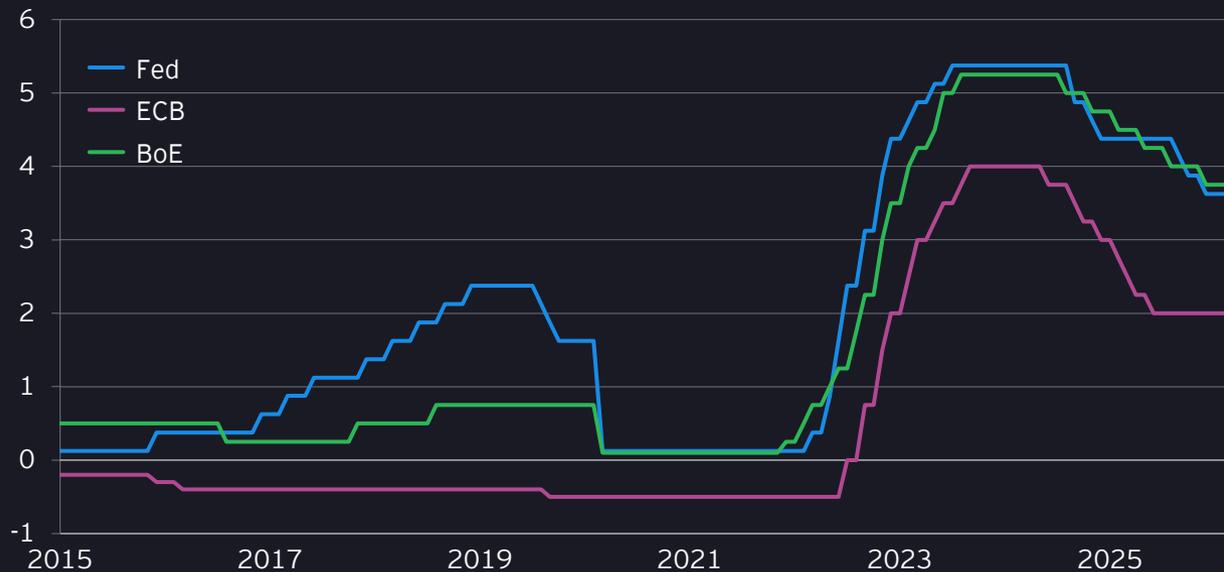


Source: Eurostat, FRED, ONS, Trading Economics, national statistical bureaus.
 Note: For non-EU countries, CPI inflation.
 *January 2026

With inflation at target, moderate GDP growth, and heightened uncertainty related to the Middle East conflict—following earlier rate cuts—the ECB and most other European central banks are in wait-and-see mode

- ▶ The Federal Reserve cut rates by 75 bps between September and December 2025 (to 3.5-3.75%) in response to slowing employment growth. Rates were held steady in January and March, as they approached neutral level and inflation was expected to increase due to the Middle East conflict.
- ▶ With inflation near target and GDP growth close to potential, the ECB has kept the deposit rate at 2.0% since June 2025. Policymakers remained in wait-and-see mode following the outbreak of the Middle East conflict, while signalling that rate hikes may be needed if more severe scenarios materialize.
- ▶ As inflation and wage growth eased from summer heights and GDP growth slowed, the Bank of England cut the Bank Rate to 3.75% in December 2025 but held rates unchanged in February and March amid geopolitical uncertainty.
- ▶ The SNB has kept rates at 0.0% since June 2025, despite weak inflation and growth dynamics, indicating reluctance to return to negative rates unless deflation risks intensify.
- ▶ The Riksbank has signalled the end of its easing cycle, holding rates at 1.75% since September, consistent with improving growth and inflation at target. The Norges Bank has paused easing cycle, keeping rates at 4% since September amid persistently elevated inflation.
- ▶ In CEE, monetary policy remains divergent. The CNB has held rates at 3.5% since May 2025. Romania maintained rates at 6.5% throughout 2025 amid persistent price pressures. In Hungary, elevated inflation kept policy unchanged through 2025, with the easing cycle resuming in February 2026 via a 25 bp cut. Poland's NBP cut rates to 3.75% in March, as inflation returned to the 2.5% target.
- ▶ In Türkiye, the central bank has gradually reduced rates since July 2025, reaching 37% in January 2026, in line with falling inflation, but paused in March amid inflationary risks related to the Middle East conflict.
- ▶ The National Bank of Kazakhstan raised rates to 18% in October amid accelerating GDP growth and elevated inflation.

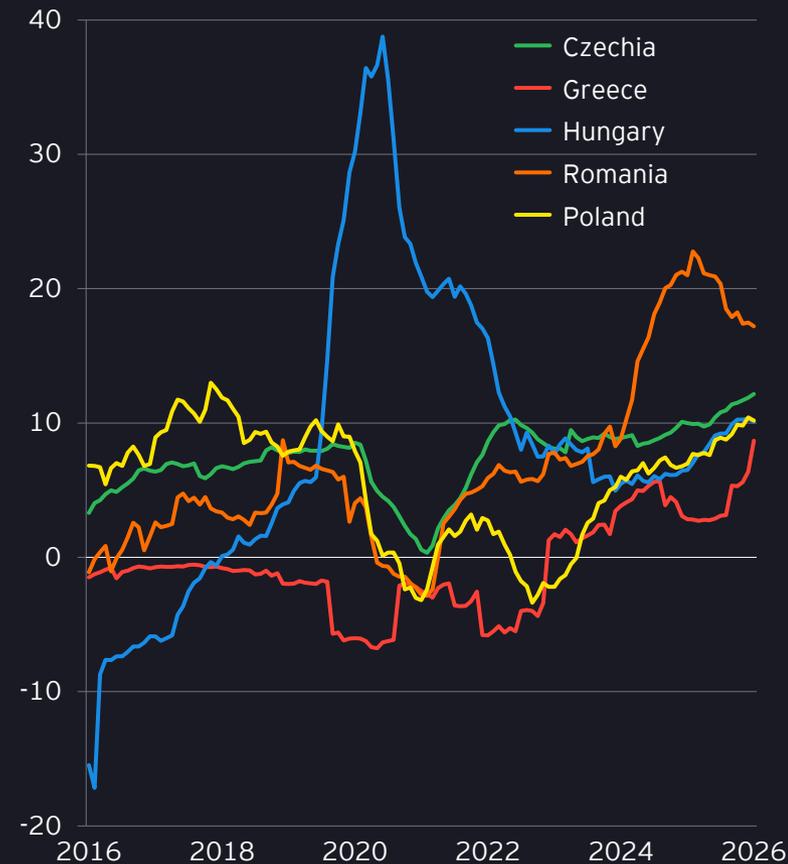
Central bank interest rates (in percentage)



Lower interest rates supported an improvement in consumer lending in 2025, particularly in Spain...

- ▶ Cross-country differences remain pronounced. Consumer credit growth was relatively strong in Spain and CEE in 2025, while demand remains weak in Germany, France, and the Nordics.

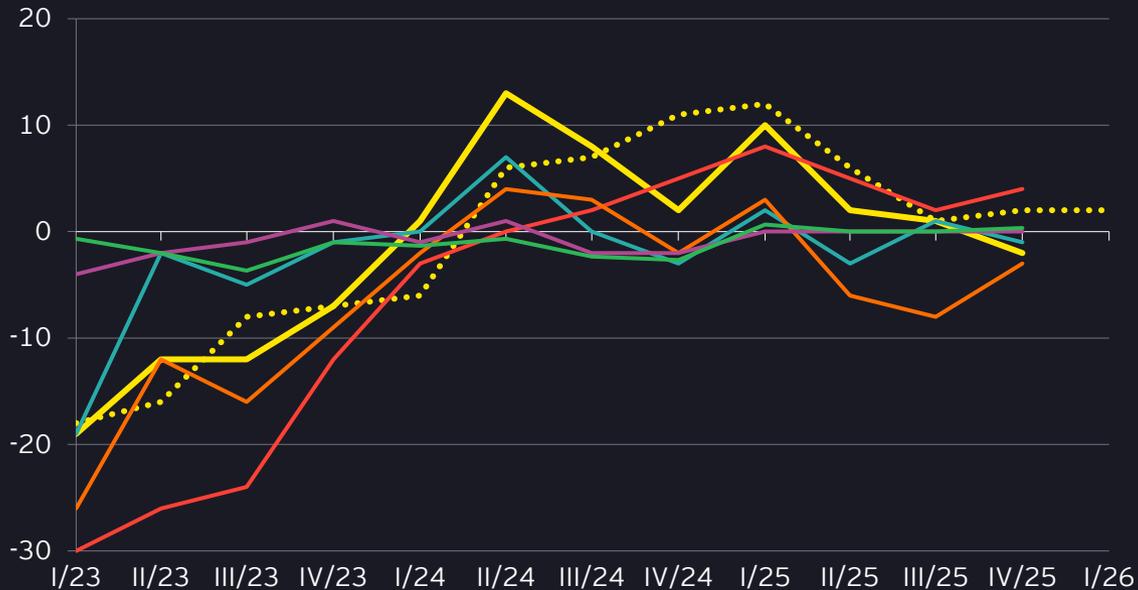
Annual transaction growth in consumer loans* (in percentage)



... although banks continued to tighten credit conditions and recent data point to some softening in demand

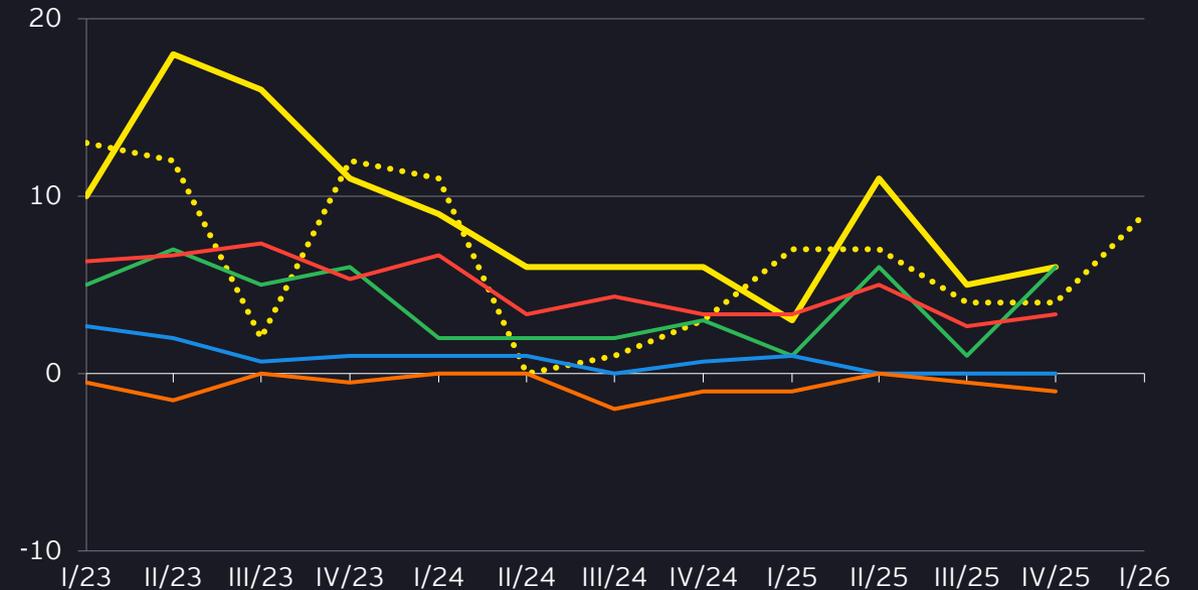
- ▶ Demand for consumer loans has softened slightly in recent months, reflecting subdued household confidence and cautious borrowing behavior. Expected demand also remains weak, pointing to limited near-term momentum.
- ▶ Credit conditions indicate binding supply-side constraints. Banks continue to tighten consumer credit standards amid elevated risk aversion, limiting the pass-through from relatively supportive interest rates to higher lending volumes. Weak expected demand reinforces this effect.

Changes in demand for consumer loans in the euro area and contributing factors (net percentages)



- Demand - actual
- Demand - expected
- Consumer confidence
- Consumption expenditure (real estate)
- Spending on durable goods
- Use of alternative finance
- General level of interest rates

Changes in credit standards on consumer loans in the euro area and the contributing factors (net percentages)



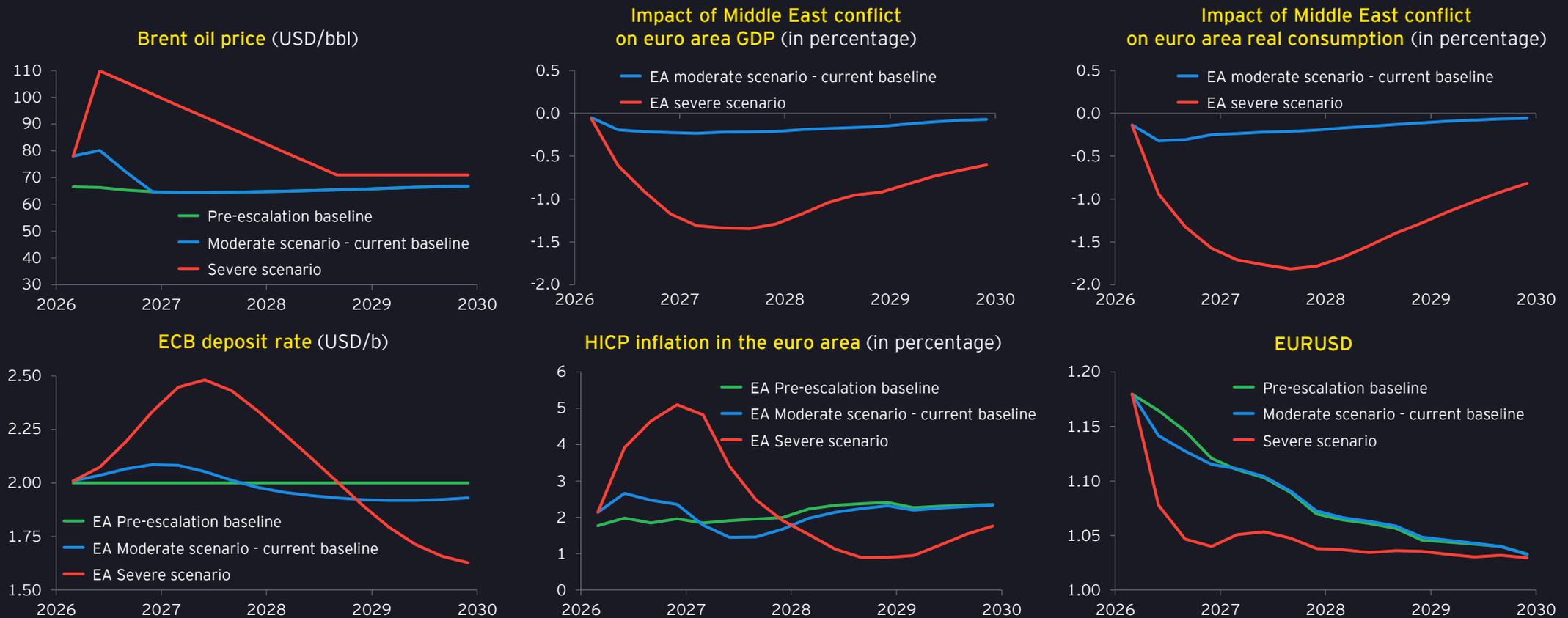
- Credit standards - actual
- Credit standards - expected
- Cost of funds and balance sheet constraints
- Bank's risk tolerance
- Risk perceptions
- Competition

Chapter 2

Short-term drivers of the economic and consumer outlook

Due to the conflict in the Middle East, we revised euro area inflation upward by 0.5 pp and lowered our 2026 GDP forecast by 0.2%, while more adverse scenarios remain a risk.

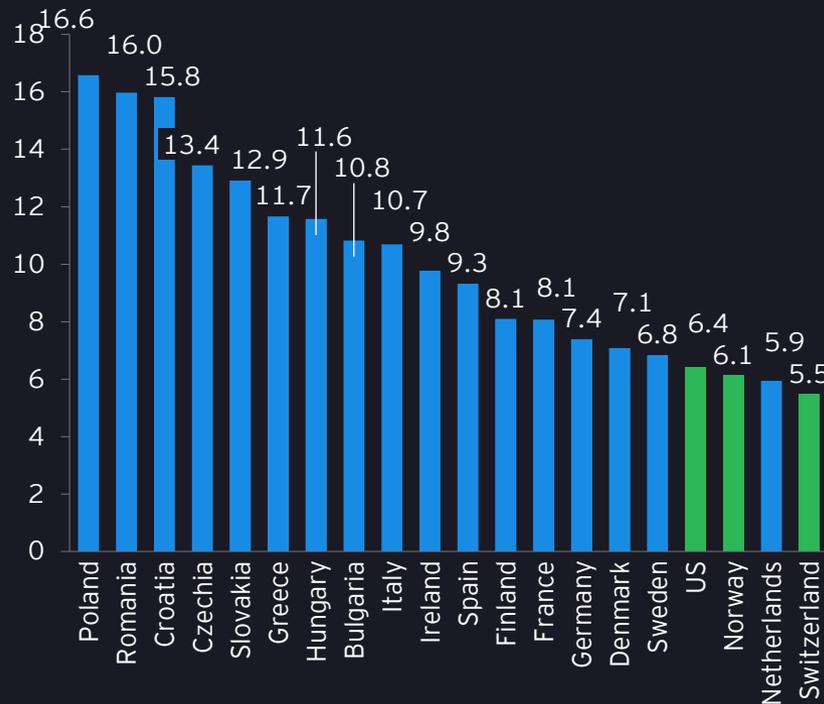
- ▶ Following developments in the Middle East conflict, the European Economic Outlook baseline was revised. Supply disruptions in oil and gas markets, higher commodity prices, weaker confidence, and some trade frictions are expected to push euro area inflation up by 0.5 pp in 2026 and lower GDP and private consumption by 0.2%, an impact insufficient on its own to prompt ECB action. However, recent escalations suggest that even a swift end to the conflict may not allow a rapid return to pre-conflict production levels, particularly for natural gas, implying structurally higher European gas prices over the medium term and more adverse economic effects than captured in the current baseline.
- ▶ In a severe scenario involving a prolonged conflict, reduced Iranian oil supply and a sustained closure of the Strait of Hormuz could raise oil prices by over USD 40/bbl, European gas prices by USD 20/MMBTU and coal prices by 35% in 2026 Q2, with the shock fading only gradually thereafter. We estimate that such a scenario would reduce euro area GDP by 1.3% and private consumption by 1.8% by 2027, pushing HICP inflation to around 5%, while core inflation would rise more moderately (by up to 0.9 pp). Given the opposing forces of weaker growth and higher inflation—but with only a limited increase in core inflation—the ECB would tighten policy only modestly. As Europe would be hit harder by elevated gas prices than the US, our simulations indicate that the euro would depreciate by over 8% against the USD.



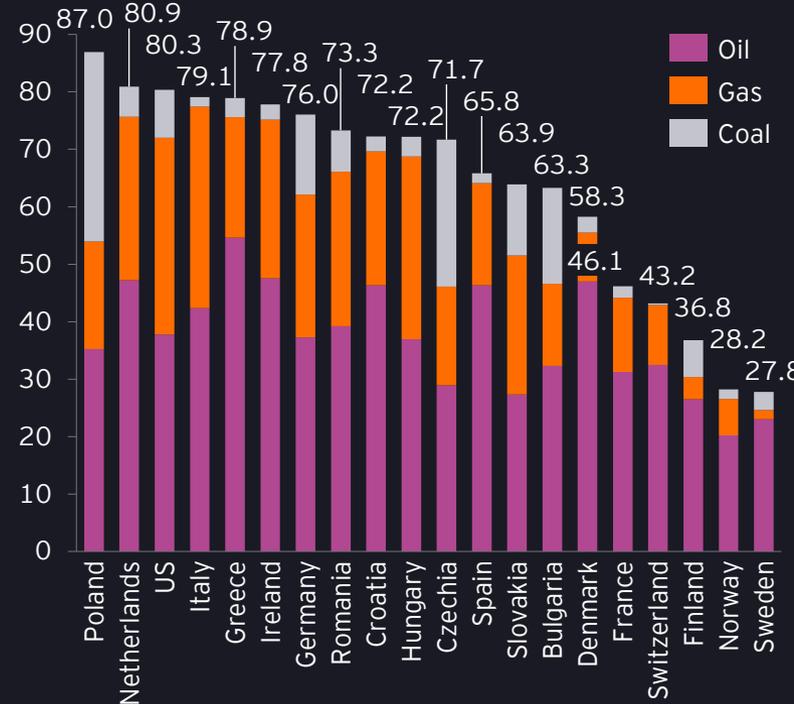
Country-specific impacts on CPI inflation depend on the share of fossil fuels in the energy mix, the weight of energy in the CPI basket, and the degree of energy price regulation

- ▶ CEE countries are generally more exposed to energy shocks due to a relatively large share of energy in CPI baskets. However, a high degree of electricity and natural gas price regulation dampens the immediate pass-through to consumer prices.
- ▶ Italy and the Netherlands are more exposed than other Western European peers, reflecting a higher reliance on oil and gas and a relatively swift transmission of commodity price shocks to consumer energy prices. In the Netherlands, this effect is partly mitigated by a low energy weight in the CPI basket.
- ▶ Nordics tend to be less exposed due to more favorable energy mixes and a low share of energy in CPI baskets. That said, commodity price shocks transmit relatively quickly to consumer prices, particularly in Sweden.
- ▶ Relative to Europe, the US is less exposed, as local gas prices are less affected by the Middle East conflict, despite a relatively unfavorable energy mix and a high degree of energy price flexibility.

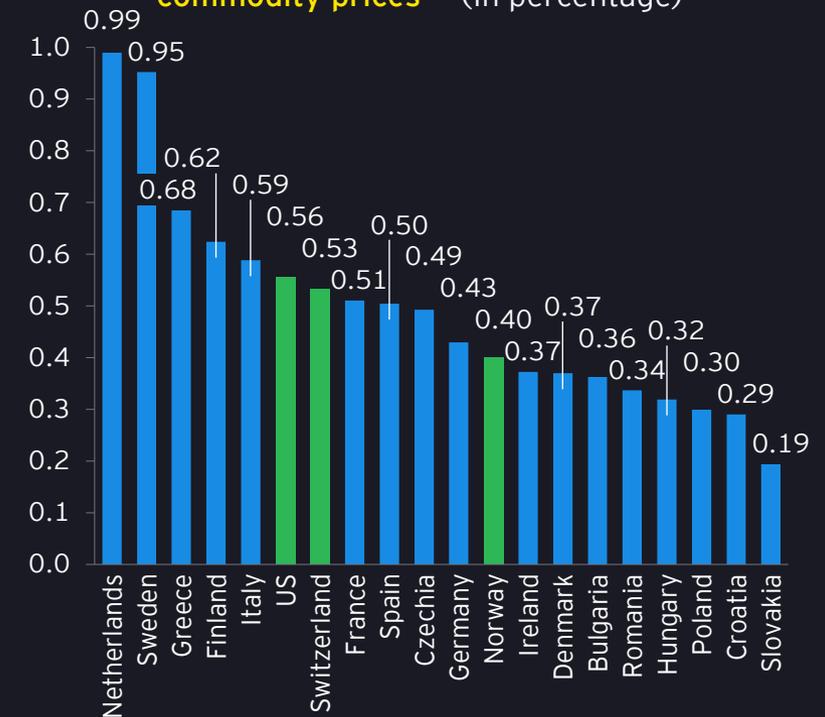
Share of energy in the CPI basket in 2025
(In percentage)



Share of fossil fuels in the energy mix in 2024*
(In percentage)



Estimated average annual response of consumer energy prices to a 1% increase in underlying energy commodity prices** (In percentage)



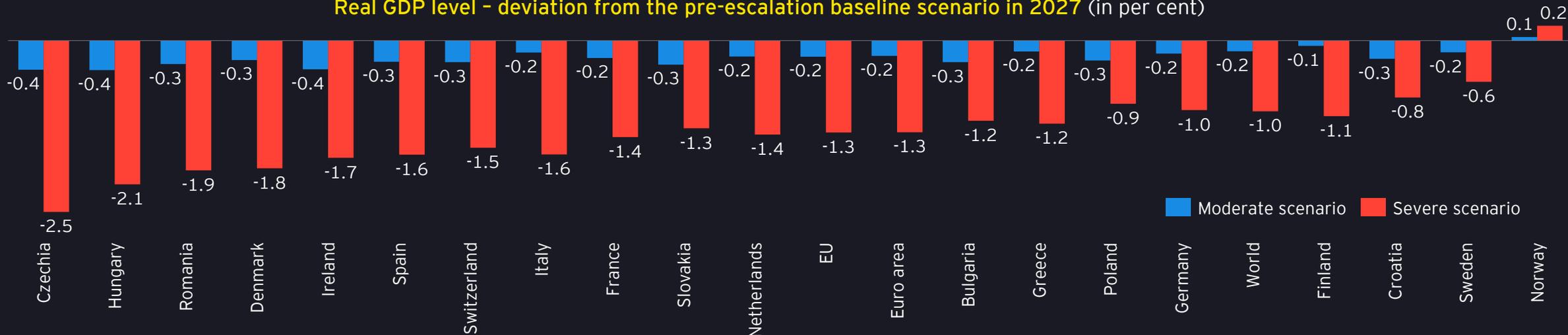
Source: Oxford Economics; Our World in Data; EY EAT analysis.

24 * While Gulf countries are not a major supplier of coal, its price has increased due to a rise in oil and gas prices.

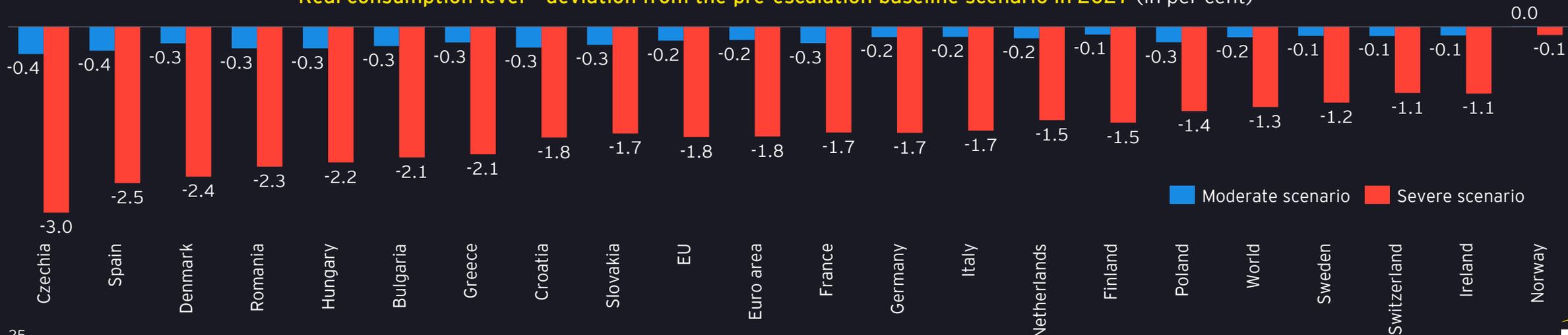
** Underlying energy commodity prices are demand-weighted prices of oil, natural gas, coal, and electricity. The chart shows 2026 response of energy CPI to a shock assumed under the severe scenario.

The adverse impact of the conflict on GDP and consumption peaks in 2027, with consumption responding more strongly than GDP due to confidence and real income channels. Effects are highly uneven across countries

Real GDP level - deviation from the pre-escalation baseline scenario in 2027 (in per cent)



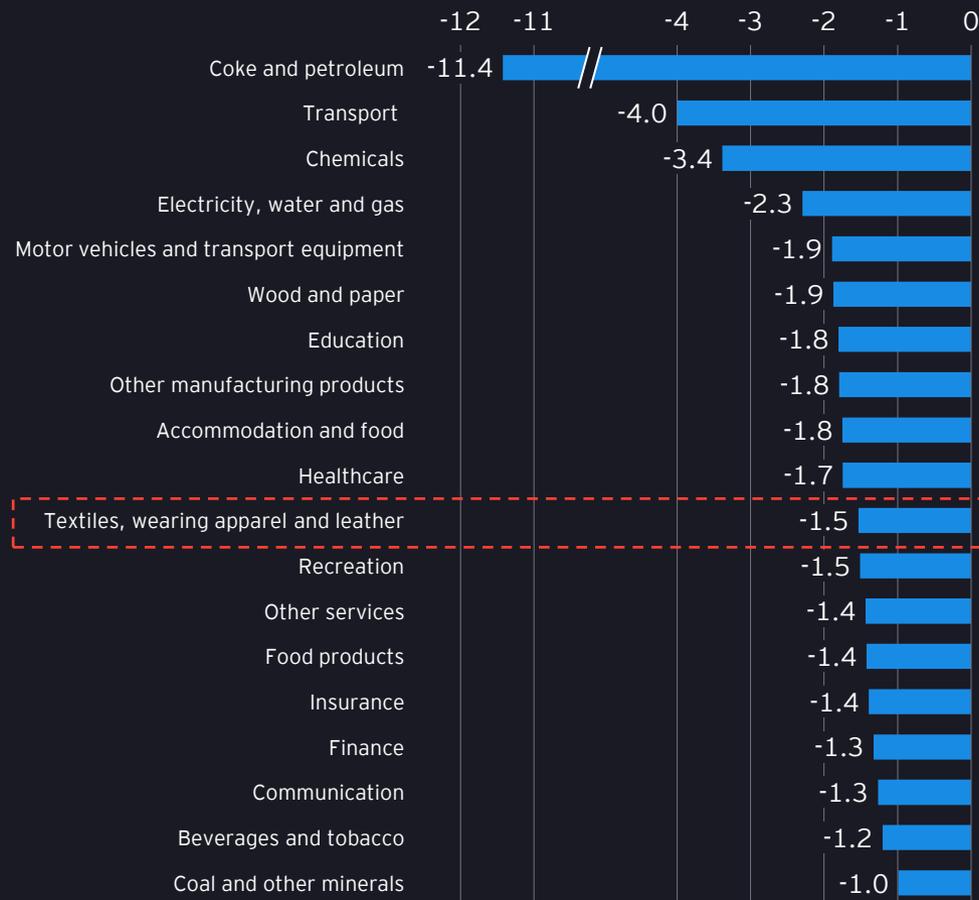
Real consumption level - deviation from the pre-escalation baseline scenario in 2027 (in per cent)



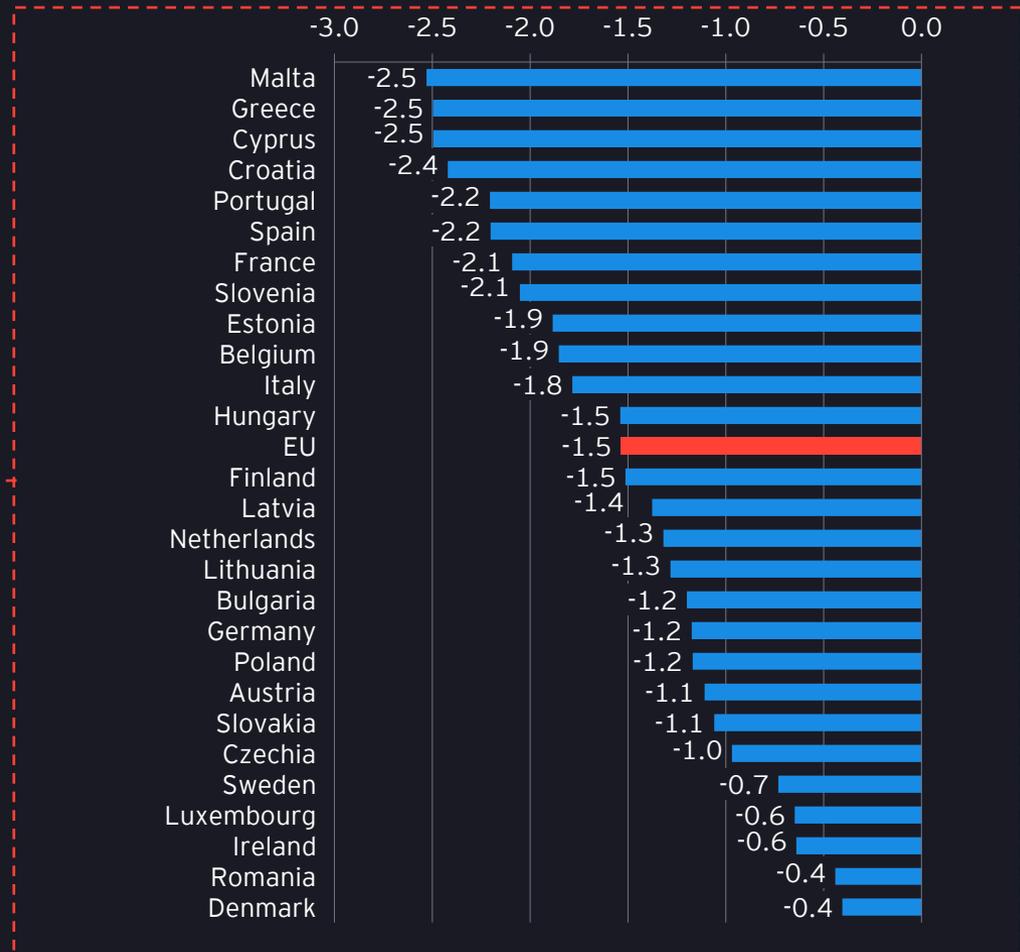
Under further escalation (severe scenario), the impact on consumption varies significantly across sectors, with the strongest effects concentrated in sectors closely linked to commodity prices

► Within individual sectors, the impact also varies markedly across countries. For example, the most adverse effects in the clothing sector are observed in Southern Europe.

EU real household consumption by sector - deviation in the severe scenario from the pre-escalation baseline in 2027 (in %)



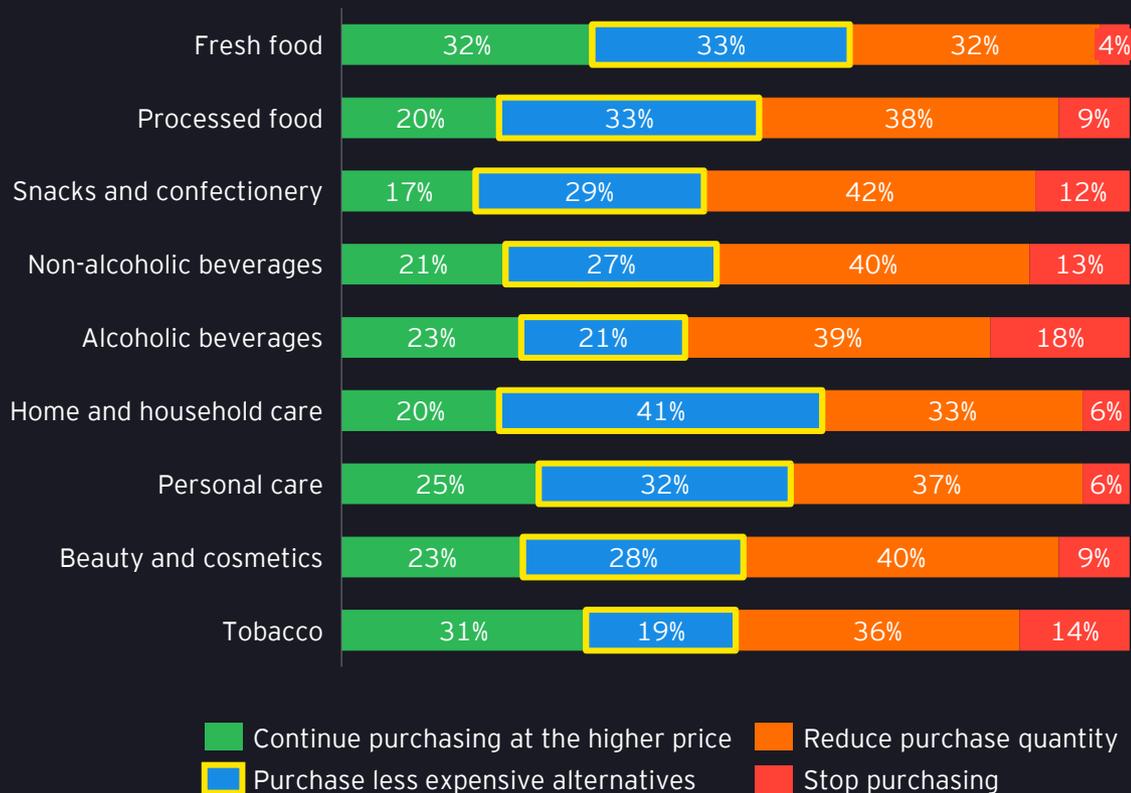
EU real household consumption of textiles, wearing apparel and leather by country - deviation in the severe scenario from the pre-escalation baseline in 2027 (in %)



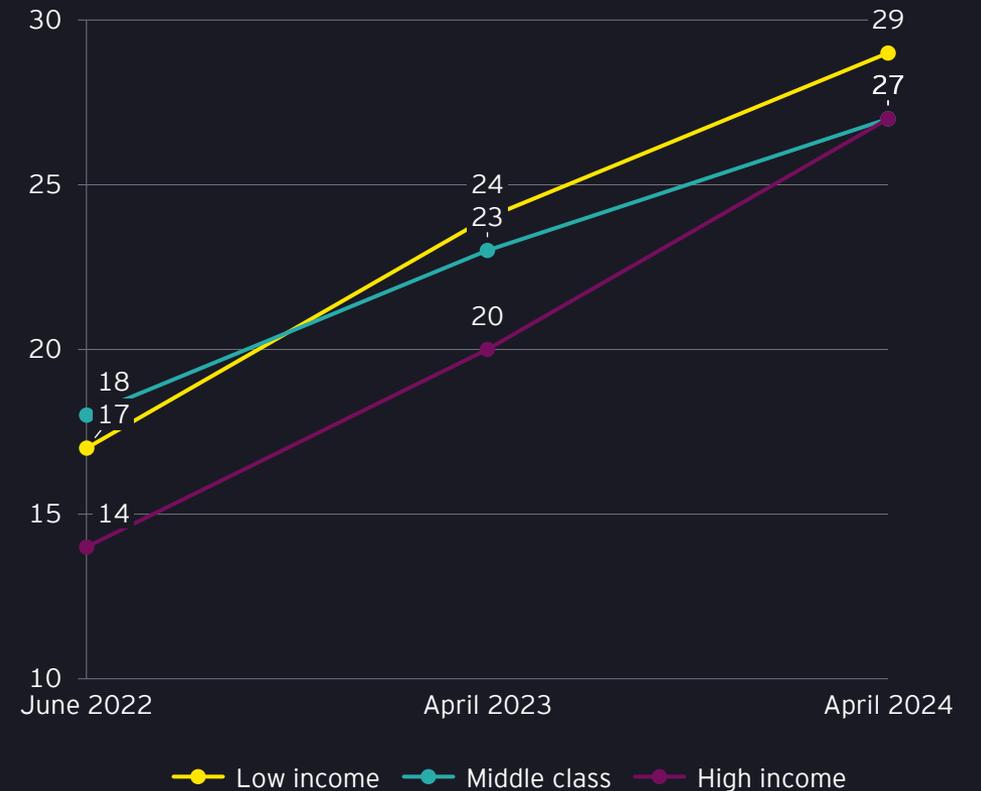
Inflation shocks—such as those triggered by the Middle East conflict—affect not only the level of consumption, but also its composition

- ▶ Rising prices lead consumers to reassess purchasing decisions rather than simply reducing overall spending. Evidence from the EY Future Consumer Index shows a shift toward more affordable alternatives, with many consumers trading down instead of cutting back entirely. This behavior is most pronounced in home and household care, food, and personal care, and less evident in tobacco and alcoholic beverages.
- ▶ These patterns are consistent with declining brand loyalty and the growing appeal of private labels, which are gaining popularity across all income groups among European consumers.

% share of consumers with specific reactions to price increases (February 2025)

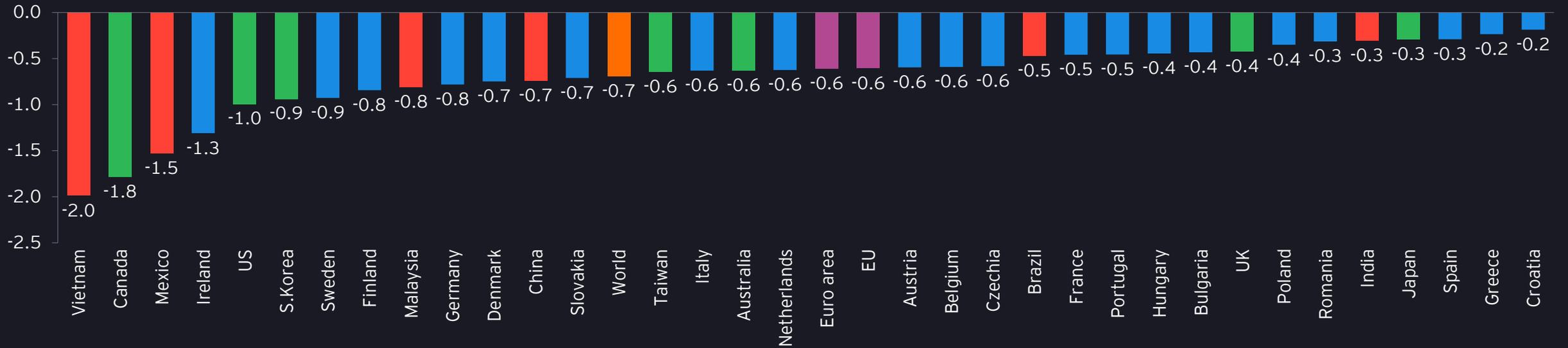


% of European consumers who plan to buy more private label in the future

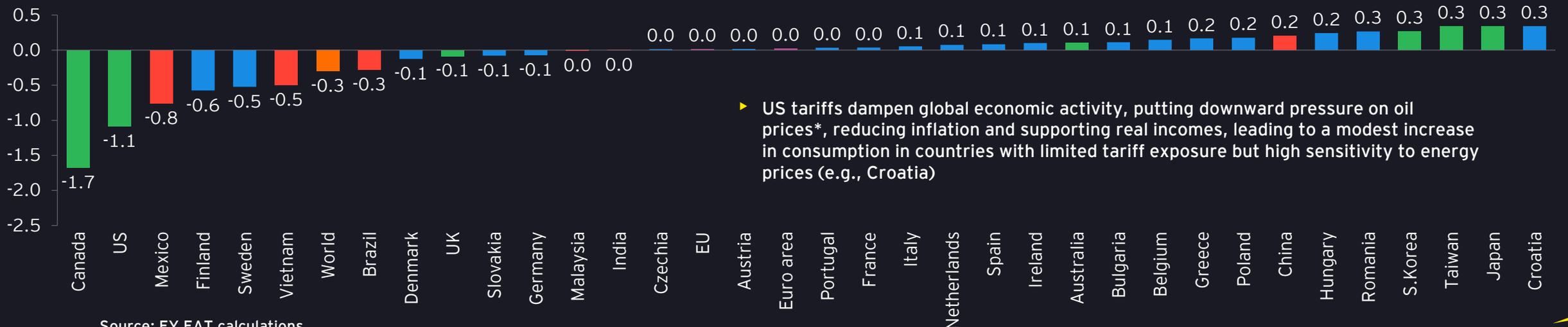


The impact of tariffs adjustments on consumption in Europe is likely to remain limited, in contrast to more pronounced effects on investment and exports

Real GDP level - deviation from the no-tariff scenario in 2026 (in per cent)



Real private consumption level - deviation from the no-tariff scenario in 2026 (in per cent)



► US tariffs dampen global economic activity, putting downward pressure on oil prices*, reducing inflation and supporting real incomes, leading to a modest increase in consumption in countries with limited tariff exposure but high sensitivity to energy prices (e.g., Croatia)

Source: EY EAT calculations.

*This assessment isolates the impact of US tariffs on global activity and oil prices, abstracting from the upward pressure on energy prices stemming from the escalation of the Middle East conflict.

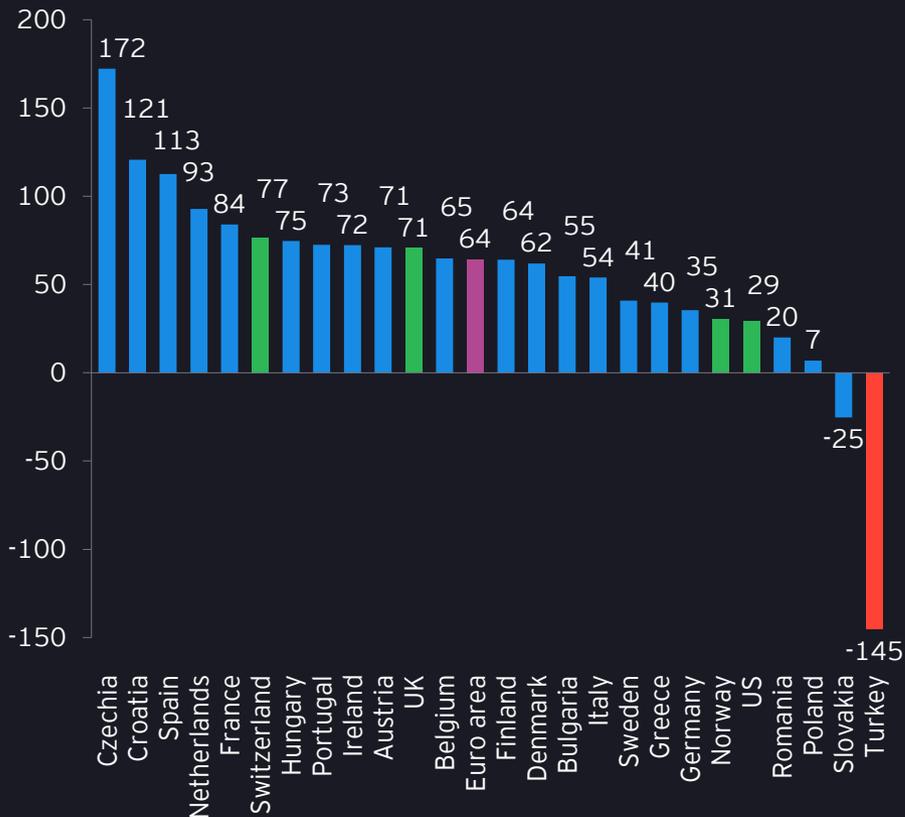
The impact of the assumed tariffs on household consumption is highly sector-specific. According to our simulations, tariffs may increase consumption of clothing (higher imports from China and Vietnam), while the sharpest declines are observed in pharmaceuticals and transport equipment



Saving buffers accumulated in recent years remain a source of upside risk to the consumption outlook. However, under the baseline scenario, we do not expect these buffers to be materially drawn down

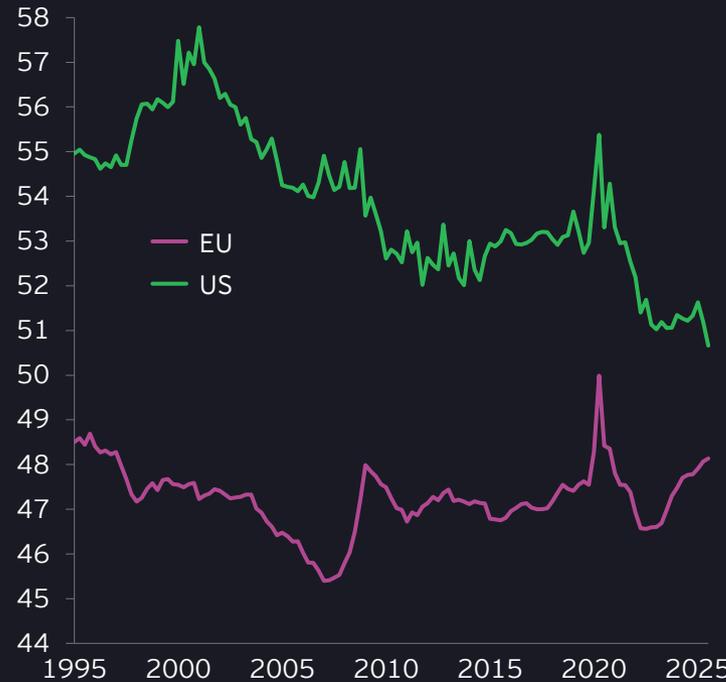
- ▶ Czech, Croatian, and Spanish households accumulated the largest savings buffers, in contrast to Slovak households.
- ▶ The share of compensation of employees in GDP has increased in most EU countries. By comparison, the US has seen a long-term decline in the labor-compensation share of GDP, which - if this trend continues - will negatively influence the consumption outlook through a gradual erosion of the purchasing power of consumers.

Accumulated post-pandemic excess savings* (In percentage of quarterly disposable income)

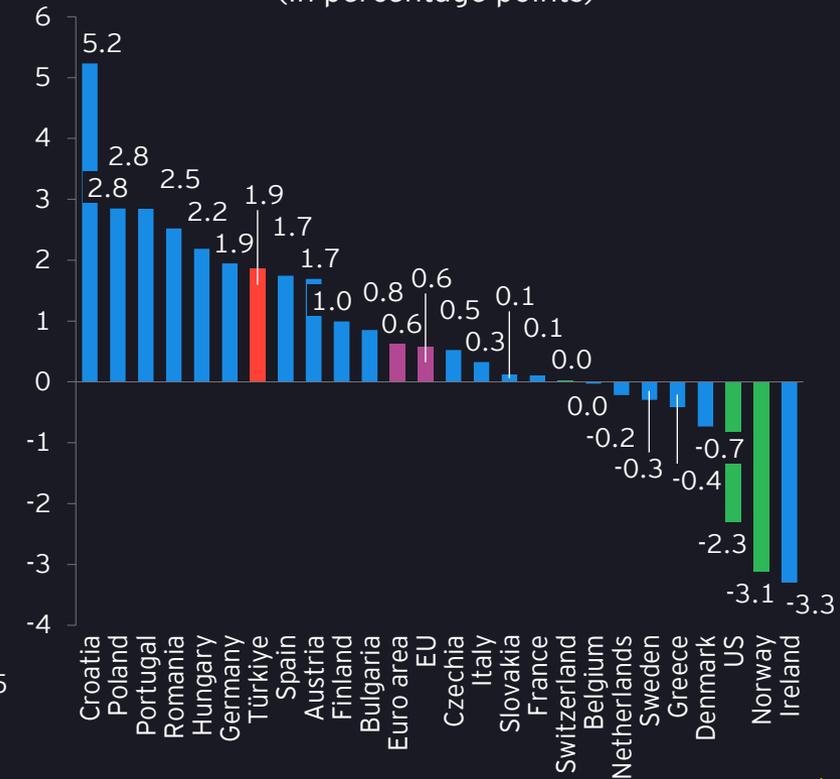


Share of compensation of employees in GDP
(In percentage of disposable income)

Over time (In percentage)



Change, 2025Q3 vs. 2019Q3
(In percentage points)



Source: Oxford Economics; Eurostat; FRED.

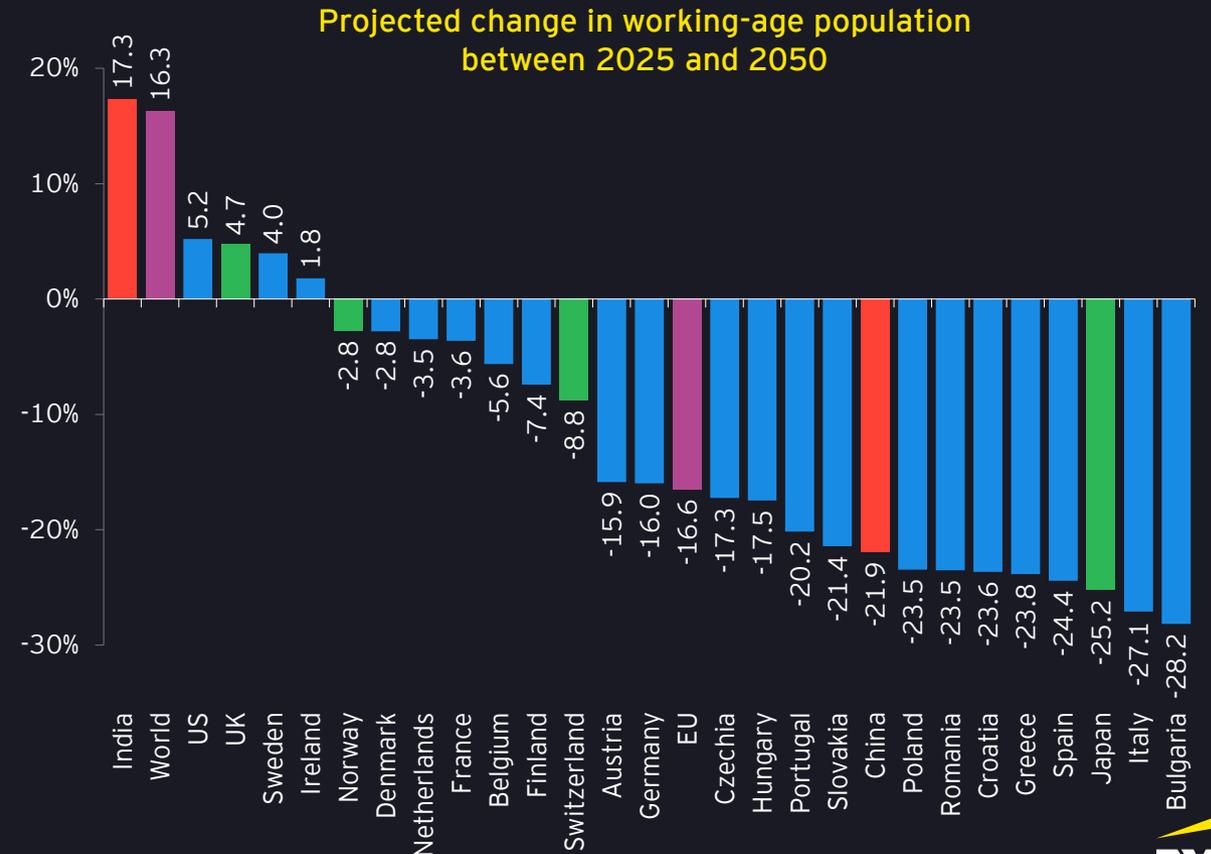
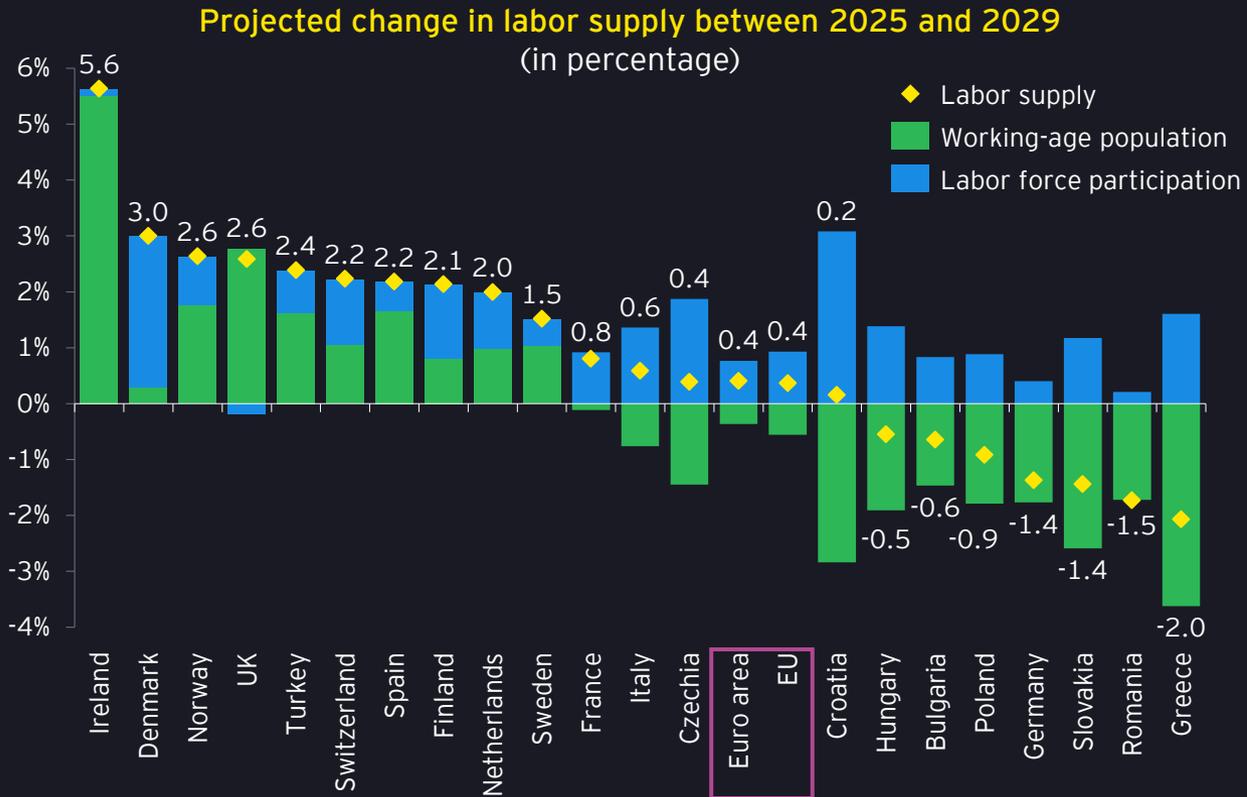
* Excess savings defined as an accumulated difference in saving rates between 2020Q1-2025Q4 and 2015Q1-2019Q4.

Chapter 3

Structural drivers of the economic and consumer outlook

While EU labor supply is expected to remain broadly stagnant in the medium term, cross-country divergence is pronounced. Over the longer term, labor supply is projected to decline, driven by demographic pressures, weighing on consumption prospects

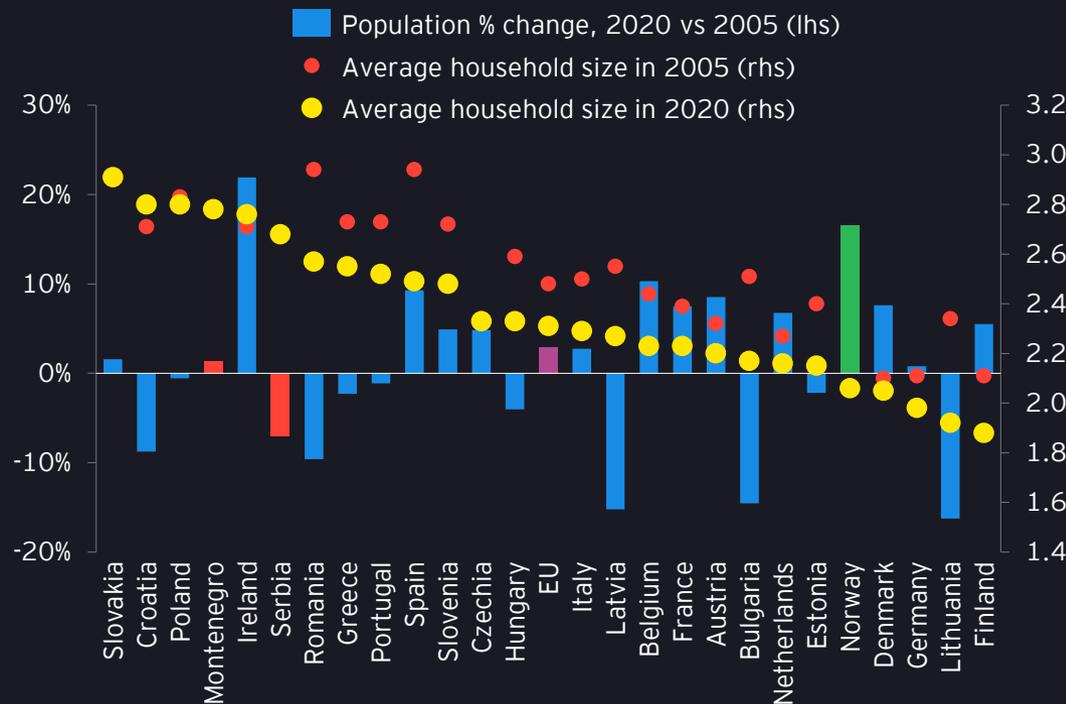
- ▶ On average, EU labor supply is expected to increase only marginally by 2029, as the working-age population remains broadly stagnant and labor force participation rises only modestly. Labor supply dynamics differ markedly across countries. Robust increases are projected in Ireland, the Nordics, Spain, the Netherlands, the UK, and Switzerland, driven primarily by immigration and continued improvement in labor force participation. In contrast, labor supply is set to decline in Germany, Greece, and most CEE economies, where shrinking working-age populations are expected to outweigh gains in labor force participation.
- ▶ Over the longer term, demographic headwinds intensify. Most European countries are projected to face declining working age populations, and as scope for further increases in labor force participation diminishes, this is expected to translate into shrinking labor supply, with CEE and Southern Europe facing the most acute pressures.



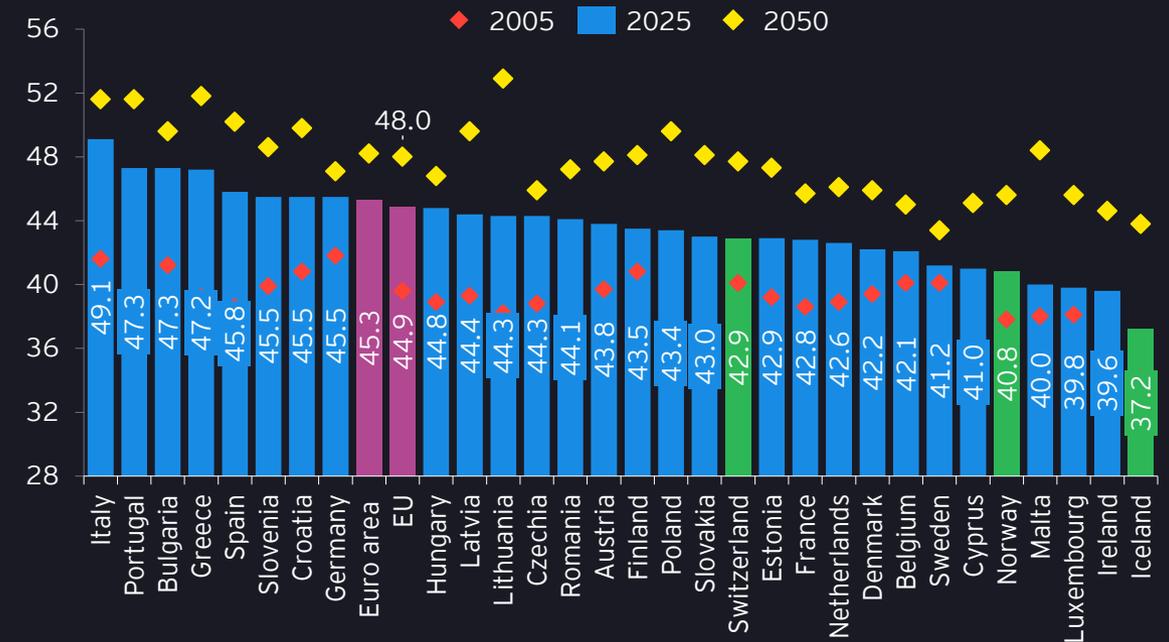
Across Europe, household size is shrinking and average age rising, significantly affecting consumption patterns

- ▶ The average household size in the EU declined from 2.5 persons in 2005 to 2.3 in 2020, with the smallest households (below 2 persons on average) in Finland, Lithuania, and Germany, and the largest (approaching 3 persons) in Slovakia, Croatia, and Poland. Most European countries show a continued downward trend in household size, and this decline appears largely uncorrelated with overall population growth or decline.
- ▶ Smaller household size increases relative demand for housing, household appliances, electronics, furniture, and motor vehicles, while also affecting food consumption patterns (shifting demand toward ready-made meals and eating out).
- ▶ At the same time, Europe is undergoing rapid demographic ageing: the EU median age is projected to rise from 44.9 years in 2025 to 48 years by 2050, with all member states expected to experience significant ageing and several exceeding a median age of 50.
- ▶ Population ageing increases demand for healthcare and pharmaceutical products, but tends to reduce demand for housing and durables, at least partially offsetting the consumption effects of smaller household size.

Change in population and household size

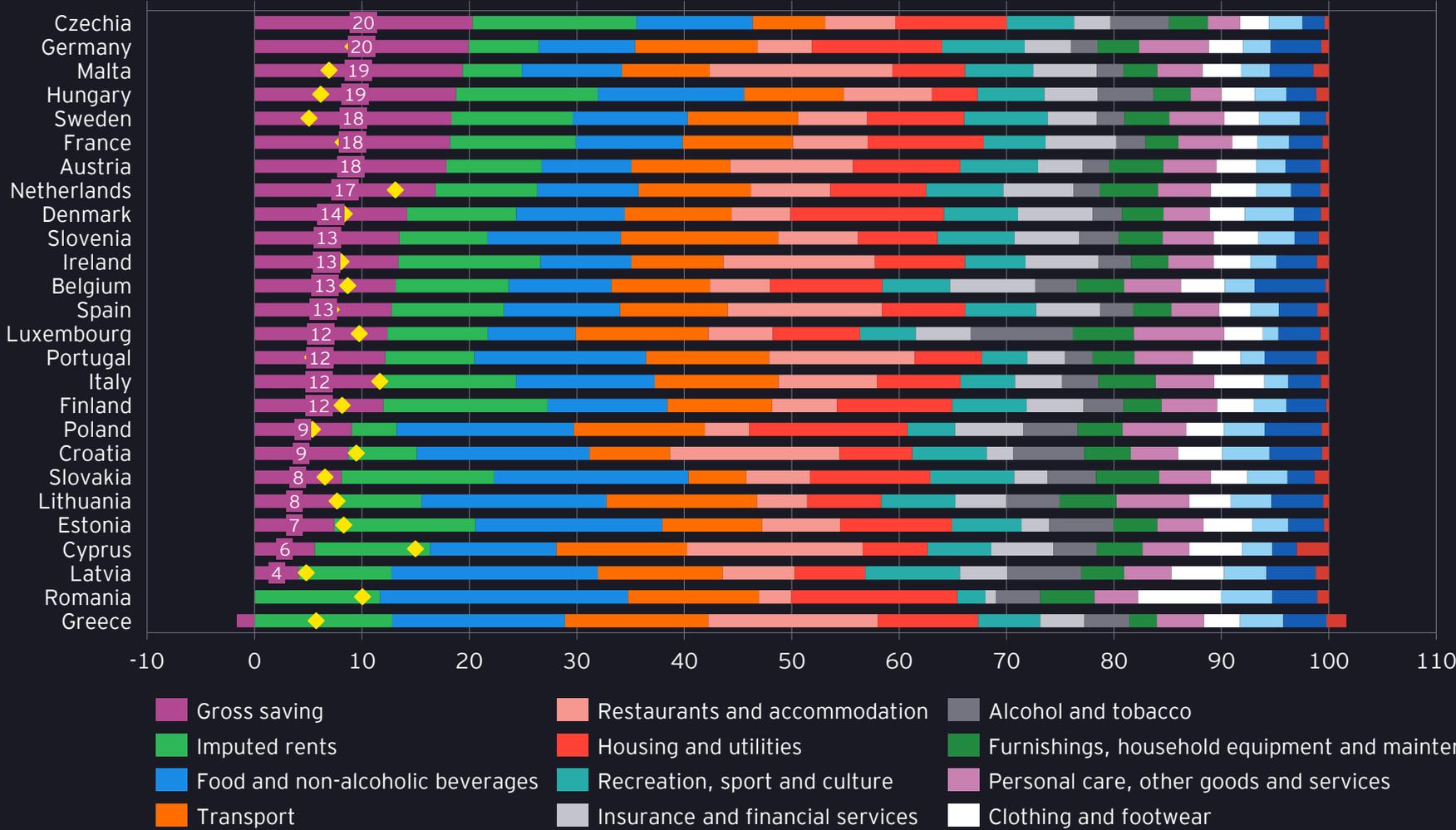


Estimated/projected median age in 2005, 2025, and 2050



On average across the EU, households spend almost 8% of their income on investment (mainly housing purchases) and close to 80% on actual consumption (excluding imputed rents).

Allocation of household disposable income in 2024 (in percentage)

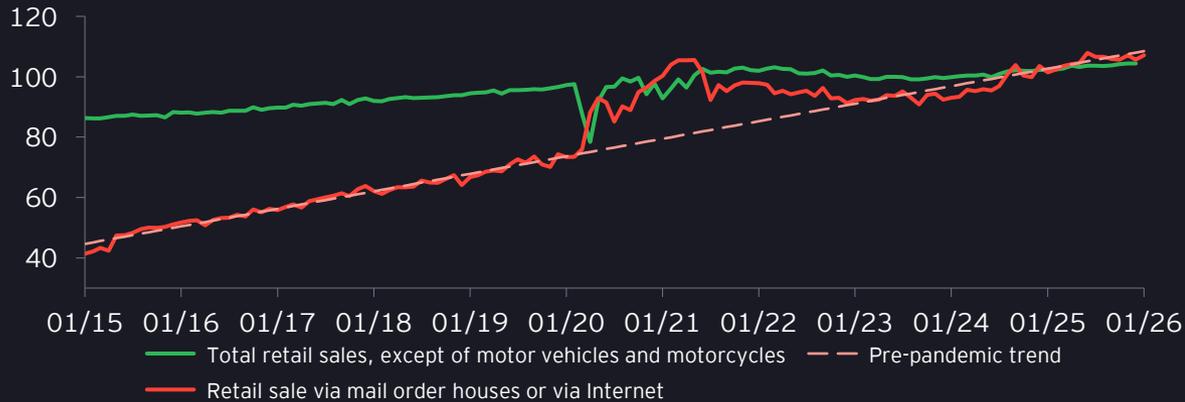


- ▶ Food, transport, and accommodation account for more than 1/3 of total consumption.
- ▶ Saving behavior differs markedly across countries. Households in Czechia, Germany, Hungary, Sweden, France, Austria, and the Netherlands save close to 20% of their income, partly reflecting mandatory pension schemes. In contrast, Greek and Romanian households on average spend all of their income on consumption, financing investment through bank borrowing.
- ▶ Consumption structures also vary significantly. CEE households spend a much higher share of income on food consumed at home than households in Western Europe, while Southern European households spend much more on restaurants and hotels.
- ▶ Housing and utility costs show wide dispersion. Polish, Danish, and Romanian households spend up to 15% of income on housing and utilities, compared with less than 5% in Hungary.

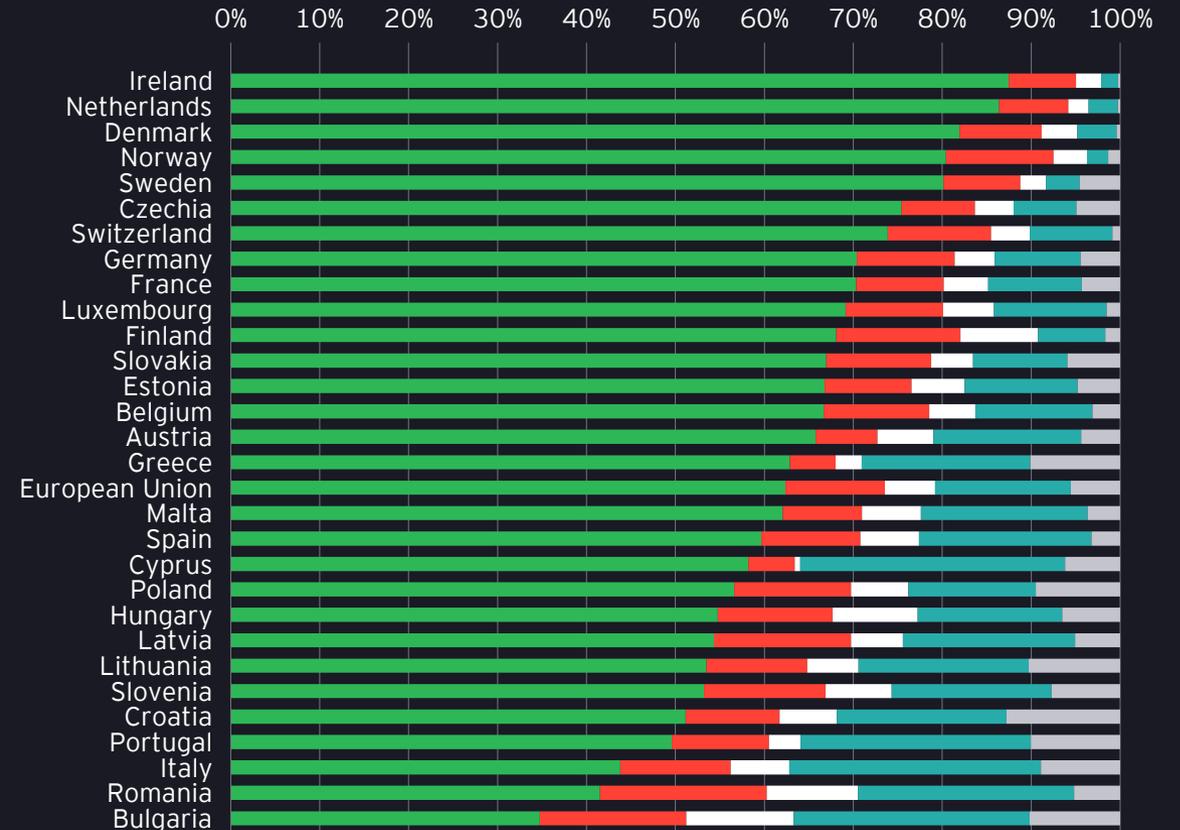
While brick-and-mortar retail sales volumes remain broadly stable, online sales have returned to a pre-pandemic upward trend, following the temporary surge observed during the pandemic

- ▶ Online purchasing participation has been rising steadily across all age groups. Penetration is highest among prime-age consumers, while older cohorts continue to show meaningful catch-up gains. Cross-country differences remain pronounced. Online purchasing penetration is highest in Northern and Western Europe, where a large share of internet users regularly shop online.

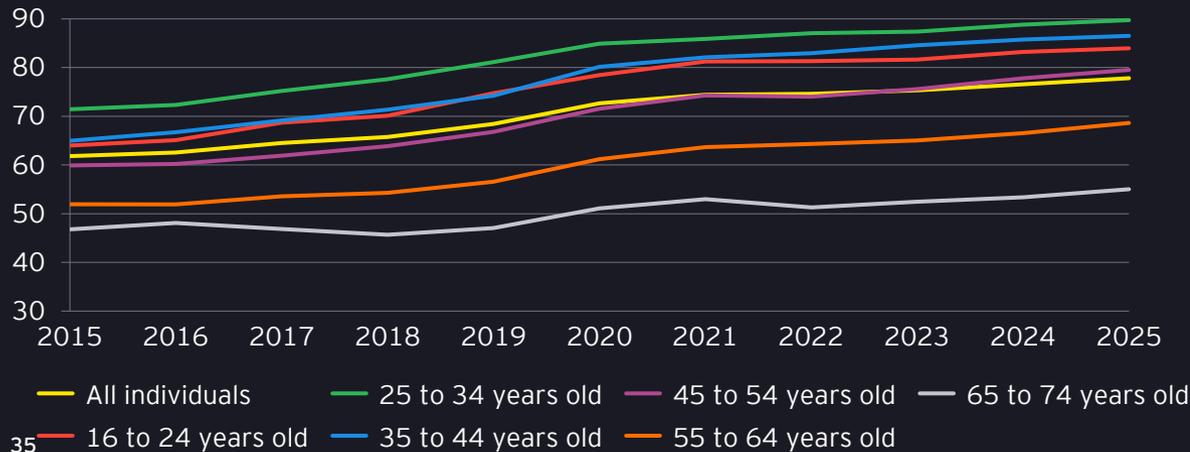
Retail sales volume according to the channel of sales (index 2015 = 100, monthly data)



Last online purchase (% of individuals who used internet within the last year, yearly data for 2025)



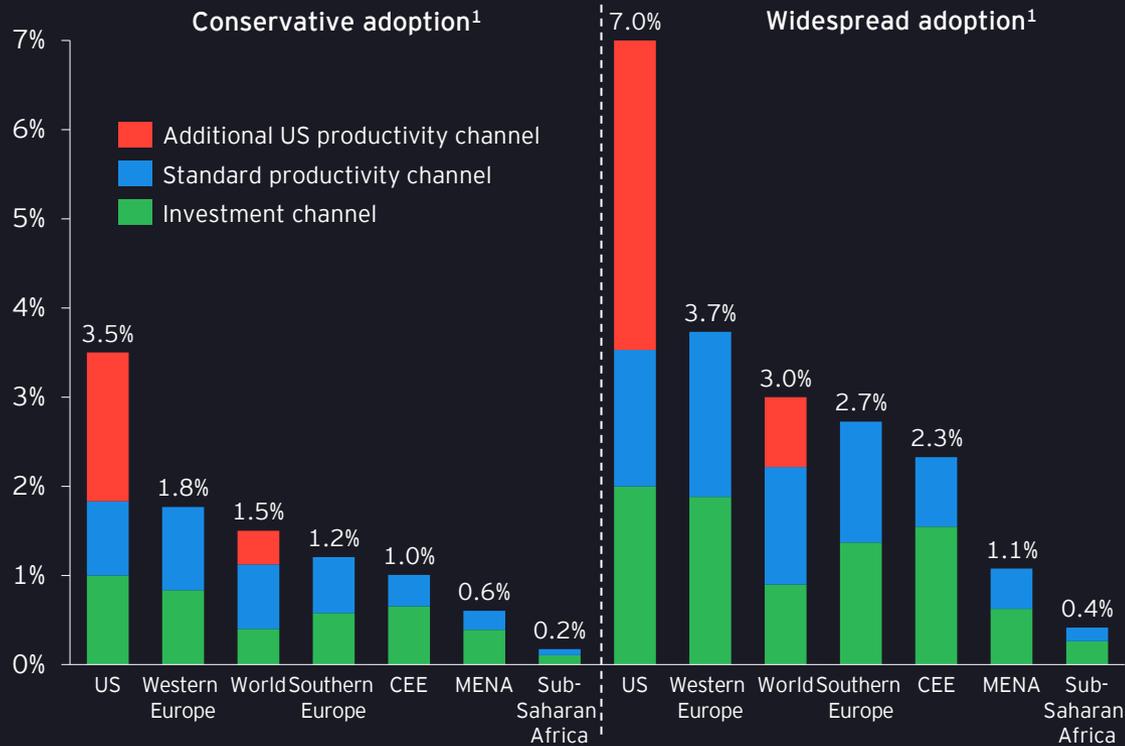
Internet users who bought or ordered goods or services by age group, EU (% of individuals who used internet within the last year, yearly data for 2025)



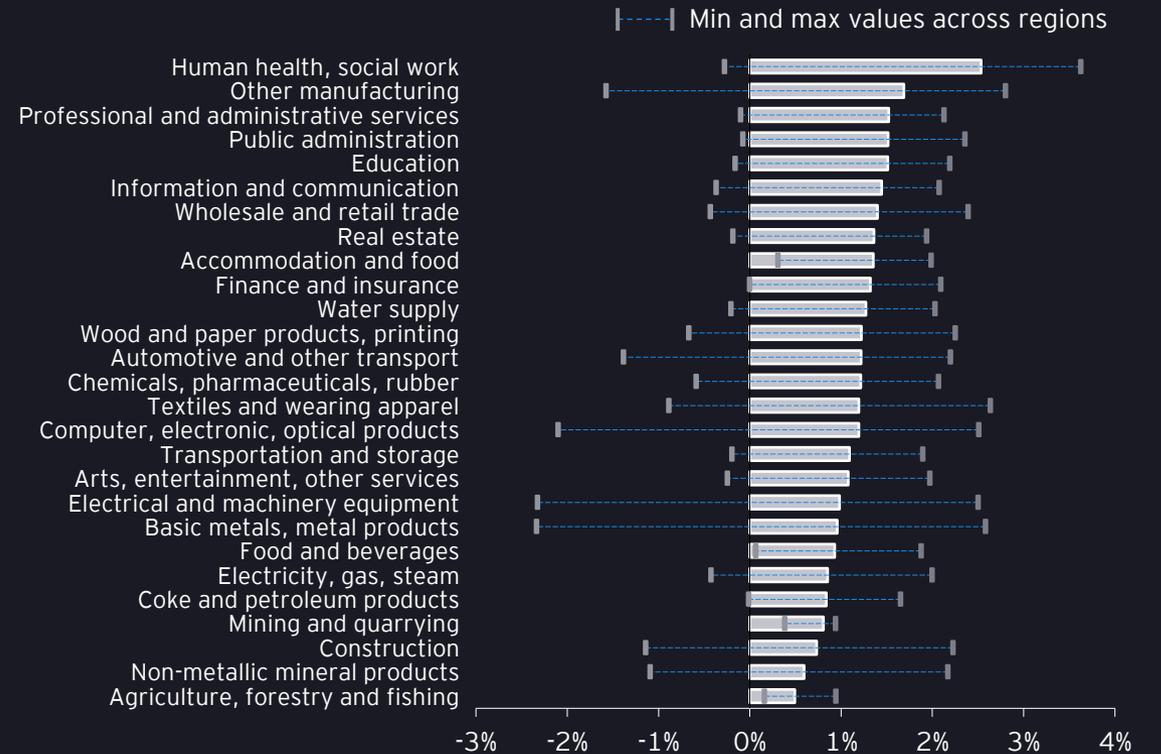
Source: Eurostat, Oxford Economics, FRED.

The generative AI (GenAI) revolution is a key driver of economic outlook in the medium and longer term, potentially adding one to two years of global growth over the next decade, though its effects will vary significantly across countries and sectors

Impact of artificial intelligence (AI) on real GDP level in 2033²
Relative to no-AI scenario; in percentage



Global aggregate impact of AI on real value added by sector in 2033³
Relative to no-AI scenario; in percentage; widespread adoption scenario



Explore our series on the economic impact of AI for business leaders [here](#) as well as a regional and sectoral perspective [here](#).

1. The widespread AI adoption scenario follows the 1990s-2000s adoption rate of information and communications technology (ICT). The conservative scenario assumes 60% slower integration, based on existing relationship between AI and ICT adoptions.
2. The standard productivity channel is computed using a refined approach of Acemoglu (2024) as described [here](#). The US productivity impact is computed by analogy to the ICT revolution as described here. The additional US productivity channel denotes the difference between the latter and former approach.
3. AI's impact on real value added by sector captures investment and sector-specific productivity shocks. Sectoral results were estimated based on the EY UPGRADE CGE model, which accounts for crowding-out effects that temper the net impact of AI on overall investment and the economy.

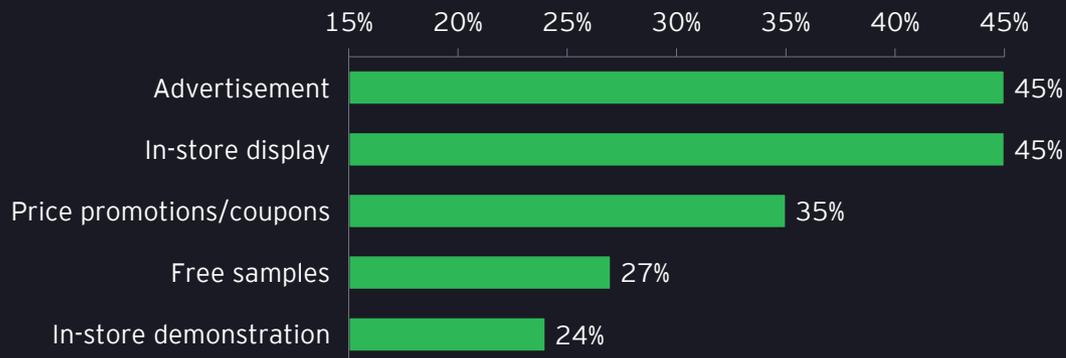
Source: EY UPGRADE CGE model; EY analysis

The growing adoption of e-commerce and AI is reshaping how consumers discover products and make purchasing decisions, enabling more informed choices

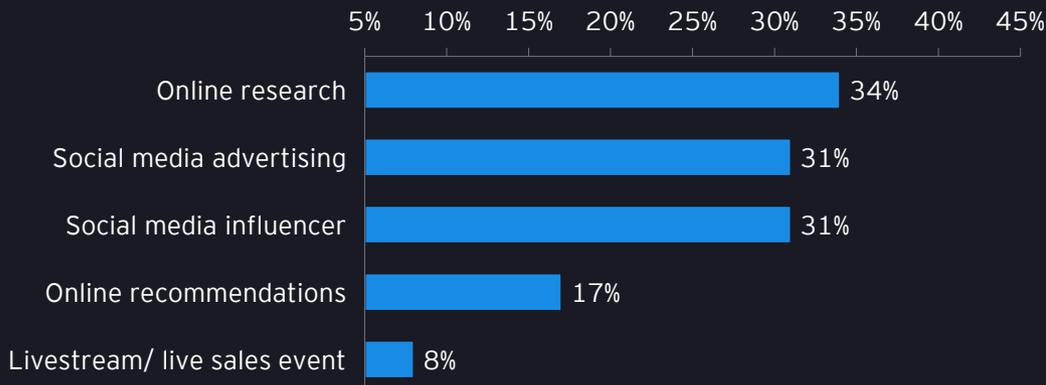
- ▶ Globally, in-store advertising and displays remain the primary channels for brand discovery. However, online research, social media ads, and influencer marketing have become almost equally important, particularly among younger consumers.
- ▶ AI is contributing to a more informed consumer base. According to 2025 EY AI Sentiment Study, 21% of consumers globally use AI to find product recommendations, 19% to search for discounts, and 15% report making purchases based on AI-driven suggestions.

% share of consumers discovering new brands (February 2025)

a) through in-store activities

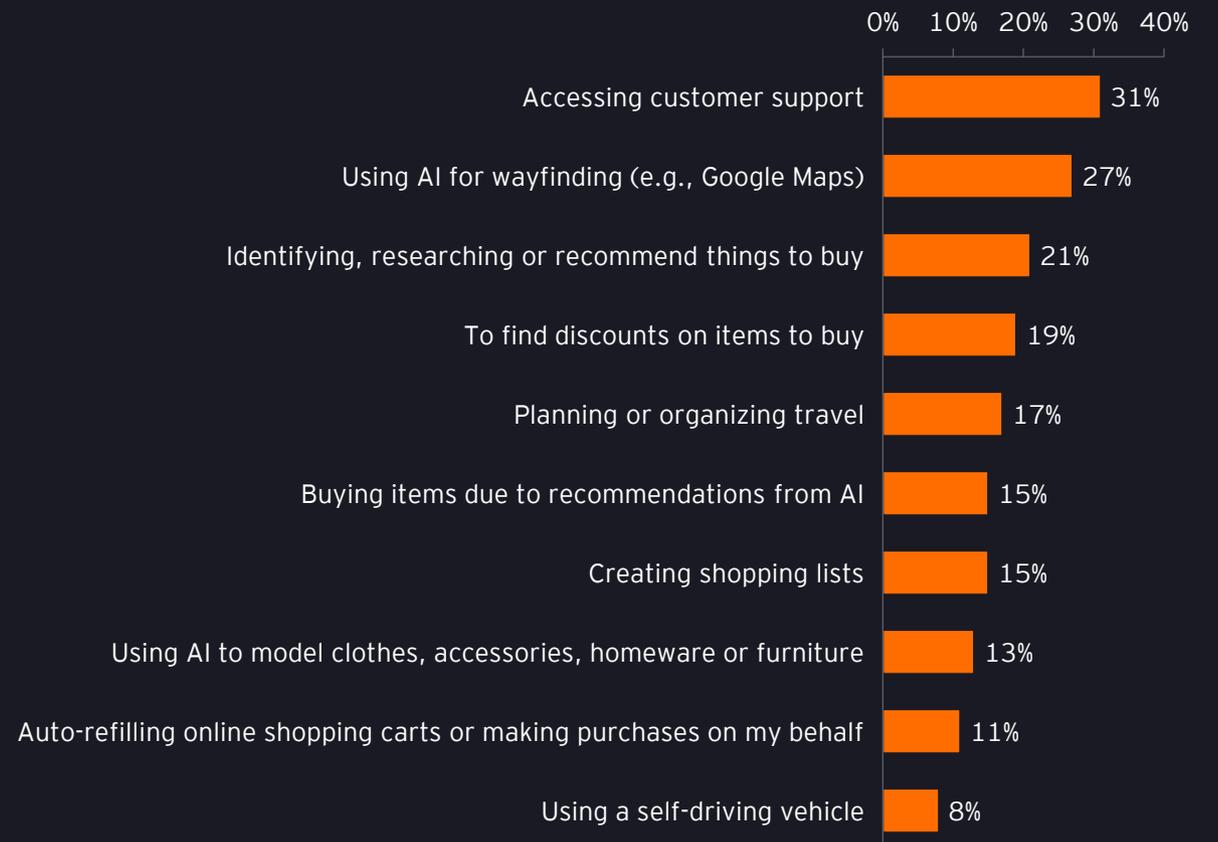


b) through online activities



Source: EY Future Consumer Index

% of consumers that have consciously interacted with AI for customer experience over the last 6 months (January 2025)



Source: EY AI Sentiment Index Study

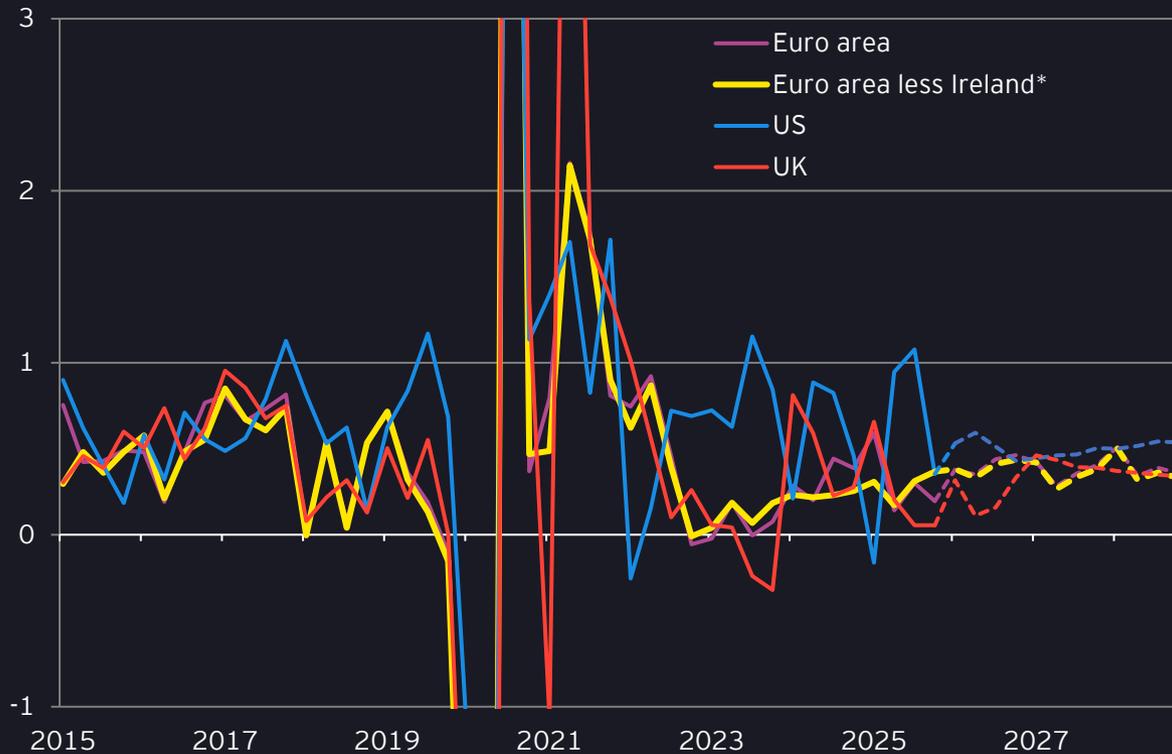
Chapter 4

Economic outlook

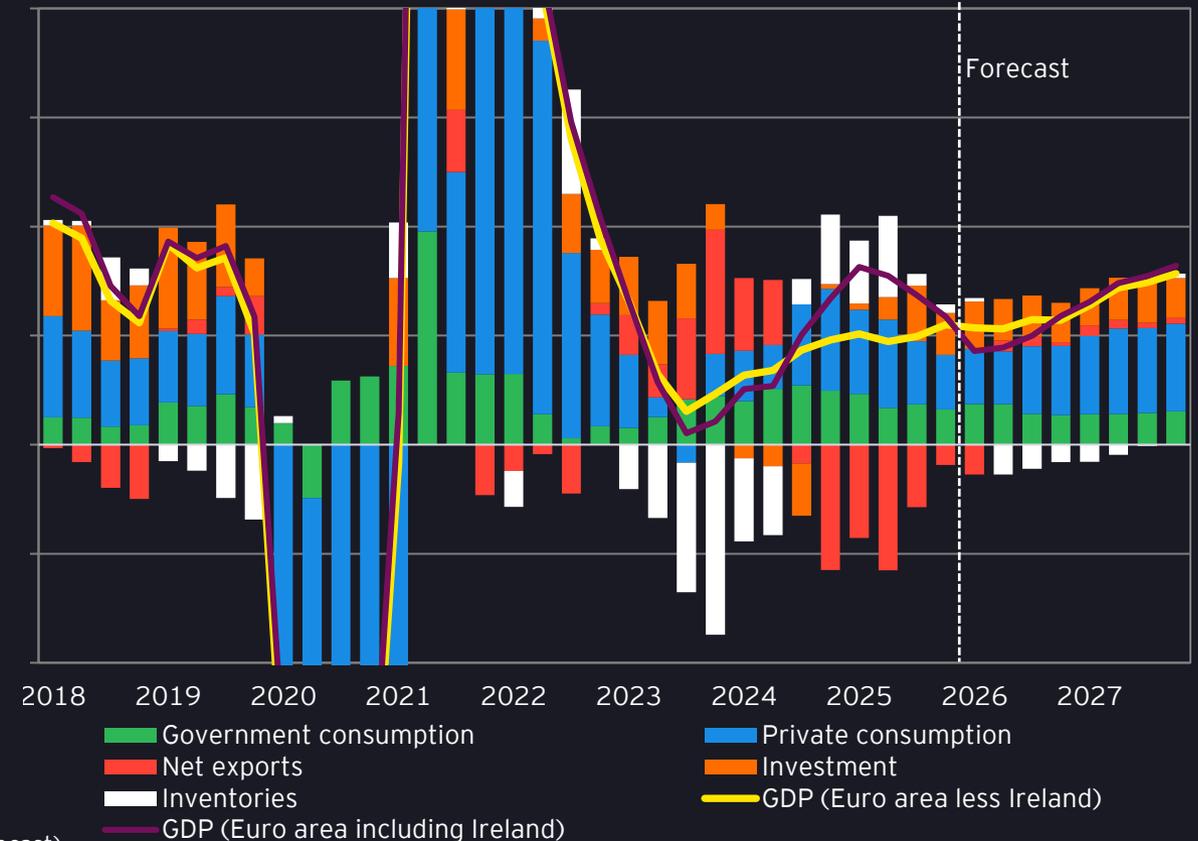
Euro area GDP growth is forecast to slow to 1.0% in 2026, down from 1.5% in 2025, largely reflecting a GDP contraction in Ireland following its double-digit growth in 2025

- ▶ Excluding Ireland, euro area growth is expected to remain close to 1% as external headwinds (conflict in the Middle East, US tariffs) offset tailwinds from fiscal easing and lower interest rates.
- ▶ Excluding Ireland, investment is set to continue its recovery, supported by reduced interest rates, rebounding profits, and an expansion of government spending.
- ▶ Exports are expected to keep growing despite a challenging external environment, while consumer spending is projected to slow slightly as the Middle East conflict weighs on real incomes and consumer sentiment.

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



Decomposition of y/y GDP growth in the euro area less Ireland* (in percentage)



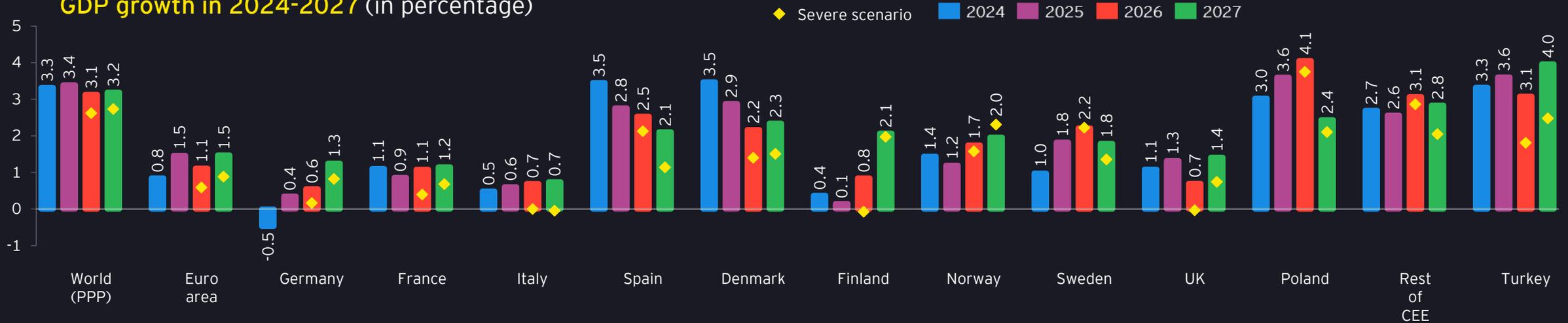
Source: Eurostat, FRED, ONS, EY EAT forecast, EY Parthenon (US forecast), EY Item Club (UK forecast).

Dashed lines denote forecast

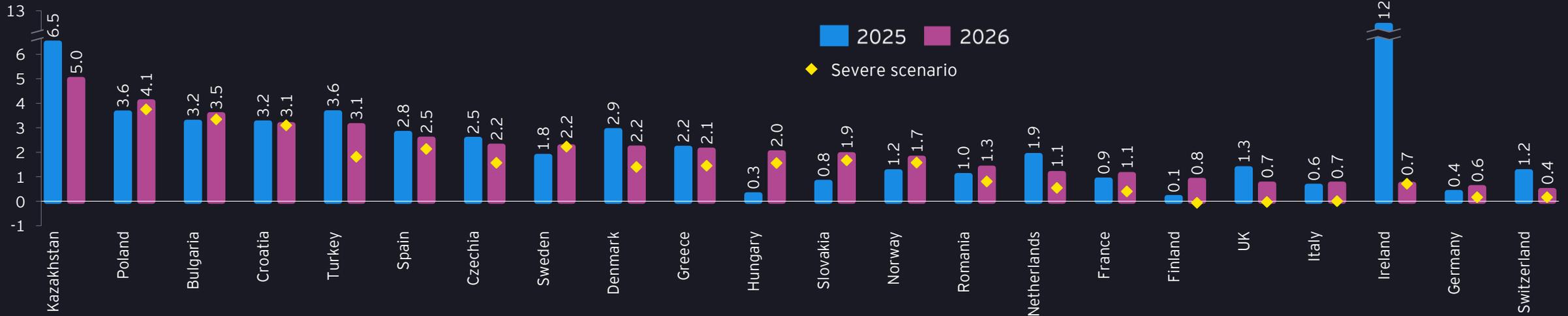
* Ireland is excluded as its GDP tends to be very volatile, reflecting the outsized role multinational corporations play in the economy.

Poland is set to be the fastest-growing EU economy in 2026. By contrast, Germany, Italy, the UK, and Switzerland are expected to be among the slowest-growing, although Germany should finally emerge from stagnation unless a severe Middle East scenario materializes

GDP growth in 2024-2027 (in percentage)



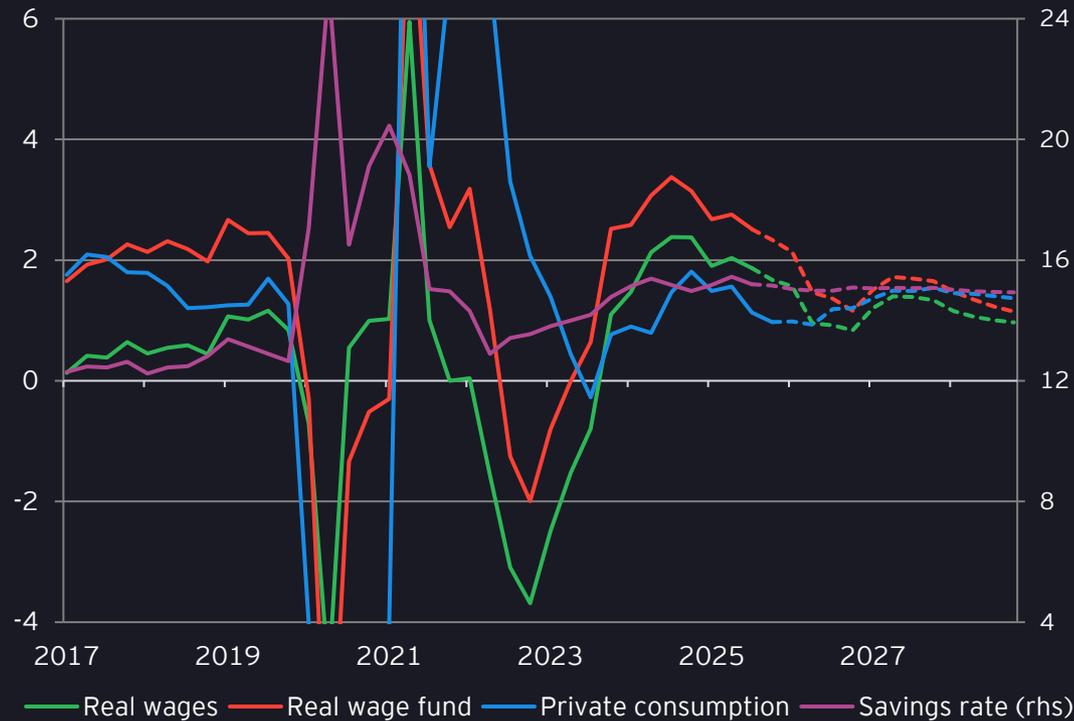
GDP growth in 2025 and 2026 (in percentage)



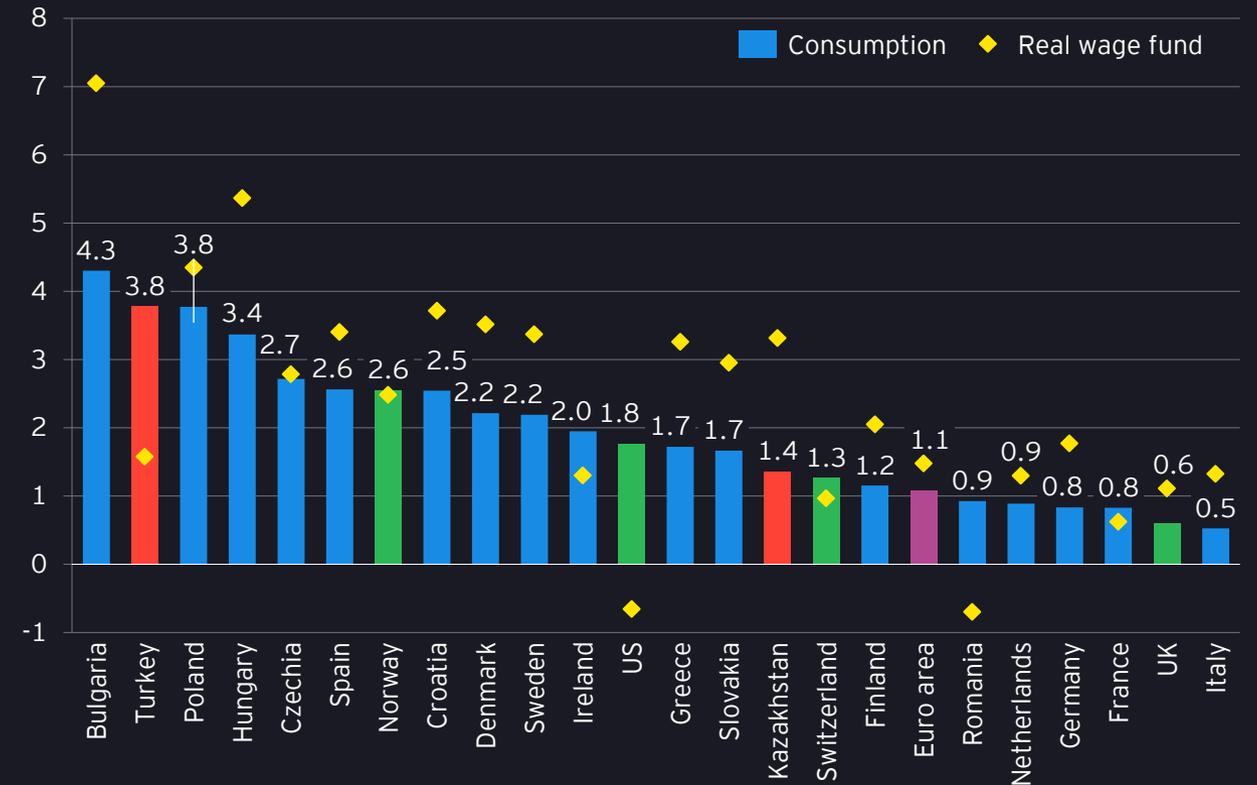
Consumption growth is expected to slow to 1.1% y/y in 2026, from 1.3% y/y in 2025, reflecting the dampening effects of ongoing geopolitical tensions on real incomes and consumer confidence

- ▶ Relative to the European Economic Outlook baseline, we have lowered our 2026 consumption growth forecast by 0.2pp, due to the Middle East conflict, while relative country rankings remain broadly unchanged.
- ▶ Contrary to earlier expectations, elevated uncertainty is likely to keep household saving rates high, despite easing financial conditions, limiting the pass-through to consumption.
- ▶ CEE economies (Poland, Bulgaria, Hungary) are set to record the strongest consumption growth, supported by robust real wage gains, while growth is expected to be weakest in Italy, the UK, France, and Germany.

Y/y growth in real wages, real wage fund, real private consumption and savings rate in the euro area
(In percentage)

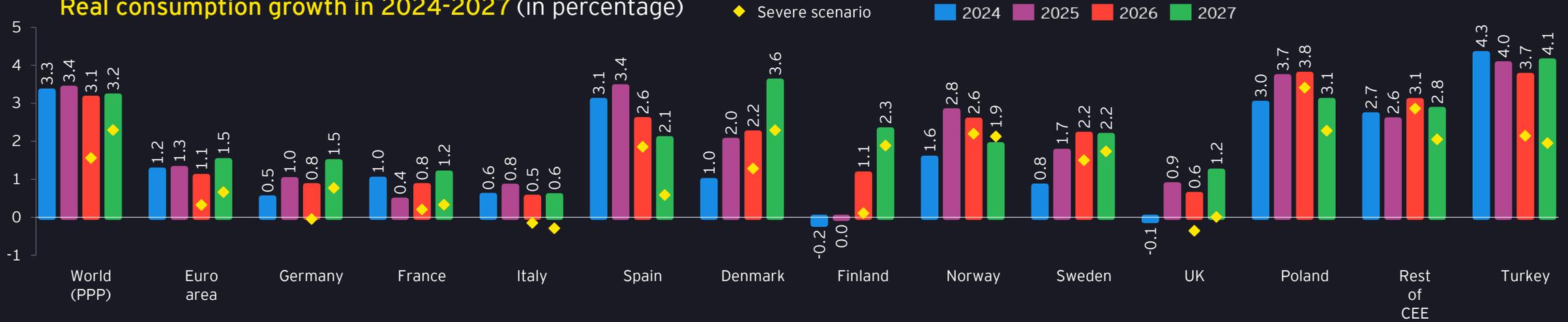


Projected real private consumption and real wage fund growth in 2026 (In percentage)

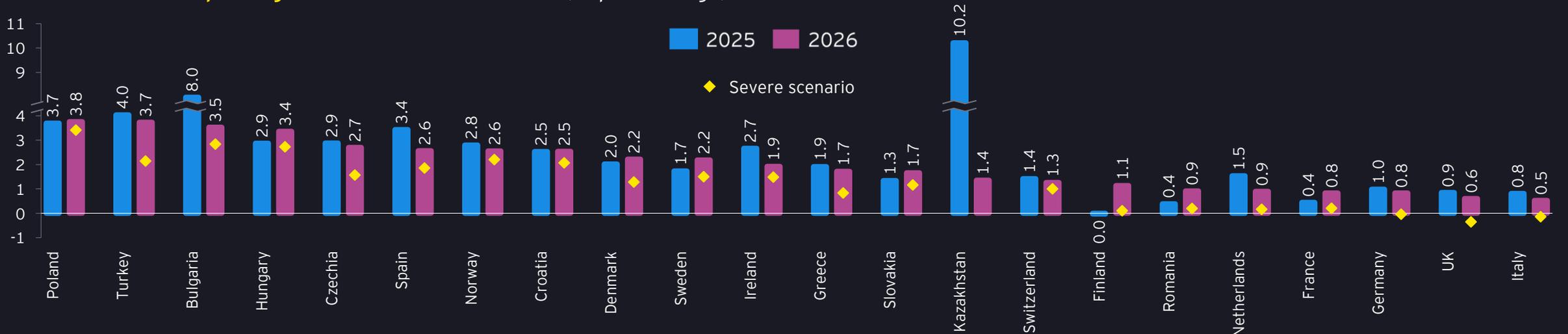


Regional differences in consumption growth broadly mirror with the dispersion in GDP growth. Under the severe scenario, consumption growth weakens more materially, reflecting a stronger macroeconomic shock triggered by further escalation of the Middle East conflict

Real consumption growth in 2024-2027 (in percentage)



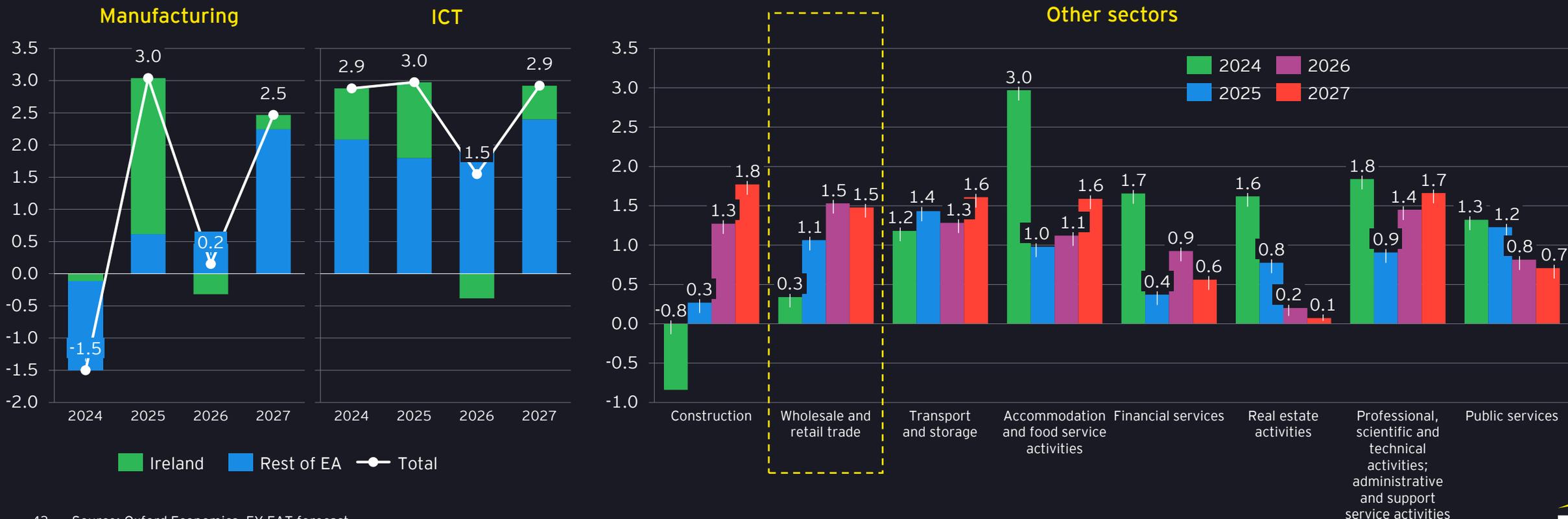
Real consumption growth in 2025 and 2026 (in percentage)



Wholesale and retail trade is set to maintain solid growth through 2026-27 and, unlike manufacturing or ICT, is not distorted by Irish statistical effects

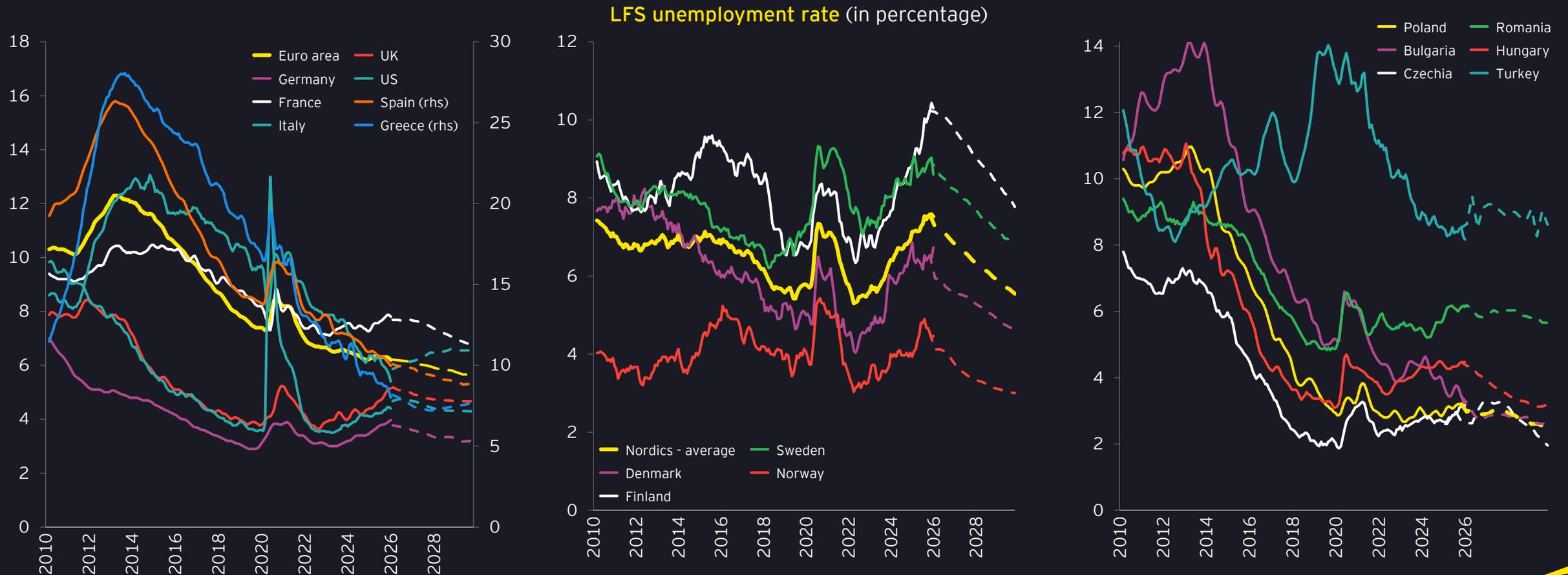
- ▶ Wholesale and retail trade is among the stronger-growing Gross Value Added (GVA) sectors in 2025 and is expected to sustain a solid pace of expansion in 2026, as the consumer recovery gradually broadens from services to goods. Irish multinational activity has a negligible impact on retail and wholesale GVA, enhancing cross-country comparability.
- ▶ Manufacturing posted strong growth in 2025, driven largely by a tariff-related surge in pharmaceutical production in Ireland. Outside Ireland, the sector has begun a gradual recovery, which is expected to continue in 2026 despite tariff-related headwinds, with a more pronounced pickup anticipated in 2027.
- ▶ The ICT sector should remain a top performer, although activity by multinationals in Ireland may lead to some moderation this year.
- ▶ A cyclical recovery in construction is set to continue, supported by reduced interest rates and expanding government investment.
- ▶ Despite weaker growth last year, tourism-related and professional services are anticipated to remain among the strongest-performing sectors in the medium term.

GVA growth by sector in the euro area (y/y, in percentage)



Labor market adjustment is expected to occur primarily through wages rather than employment, with unemployment rates remaining low due to structural factors

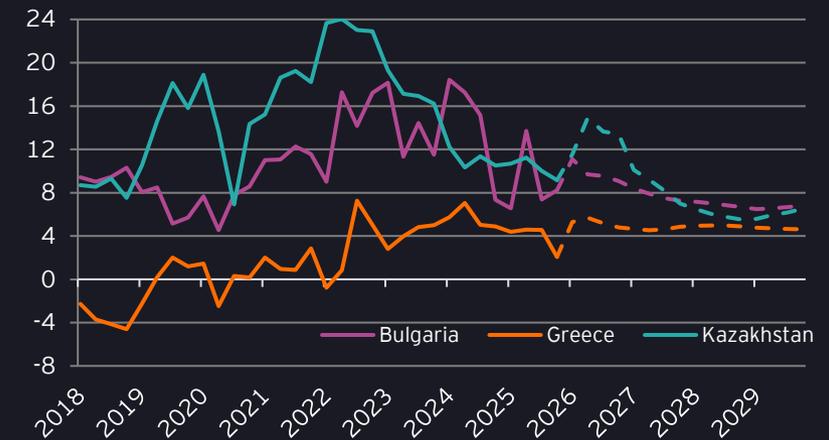
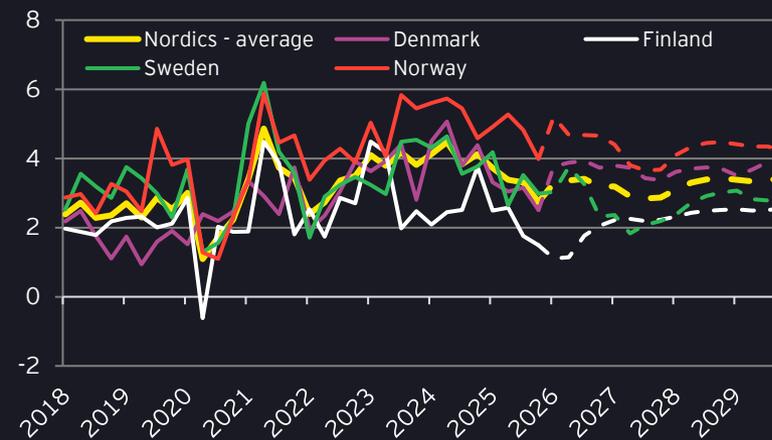
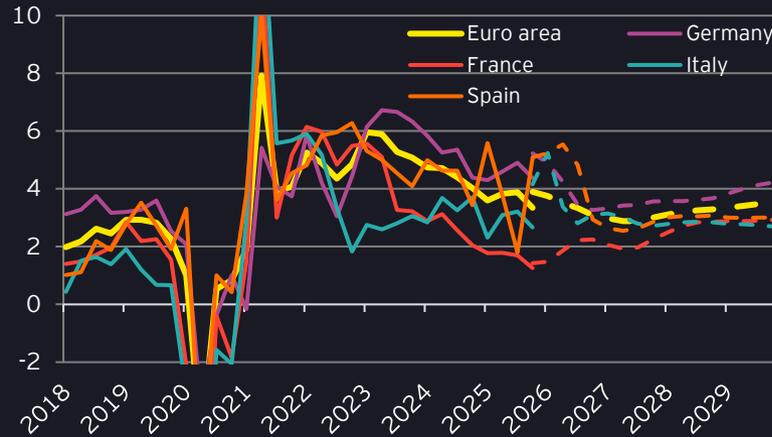
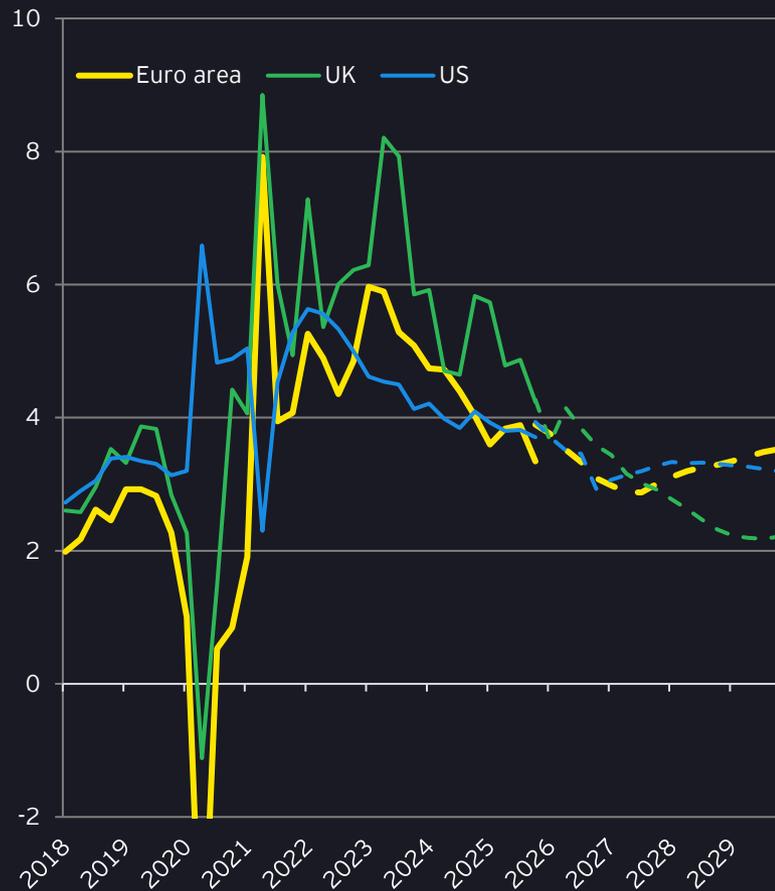
- ▶ Employment growth in the euro area is expected to slow from 0.7% in 2025 to 0.5% in 2026 and 0.3% in 2027, reflecting a tightening labor supply driven by demographics. Despite this moderation, the unemployment rate is projected to continue a gradual, steady decline.
- ▶ In the Nordics, the unemployment rate is expected to begin a sustained decline from 2026 onward, continuing through the forecast horizon (to 2029).



Labor market conditions in the euro area are expected to stabilize further, with wage growth gradually declining toward 3%—still above pre-pandemic levels due to structurally tighter labor markets

- ▶ In Poland, wage growth is expected to stabilize at an elevated level (around 6%), while most euro area economies should move toward the 2.5-3.5% range. Germany is forecast to become a wage-growth overperformer starting in 2027, supported by fiscal stimulus and a declining labor supply.

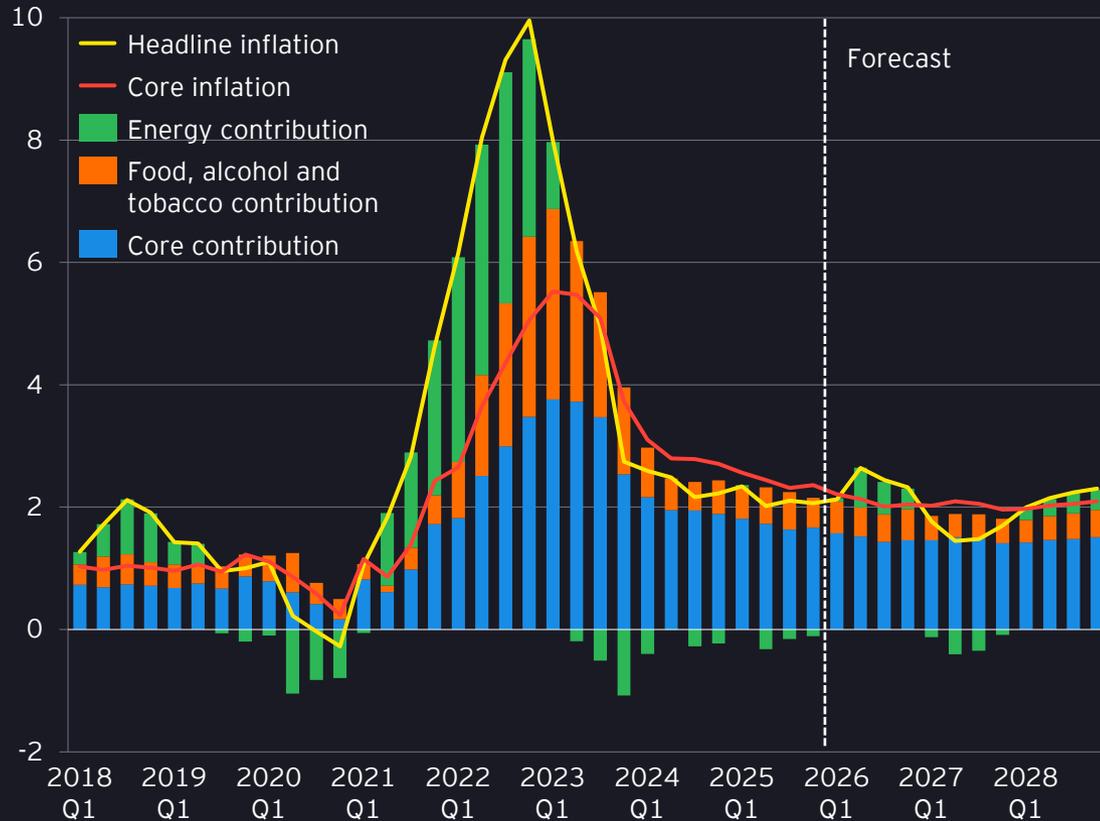
Nominal wage growth (y/y, in percentage)



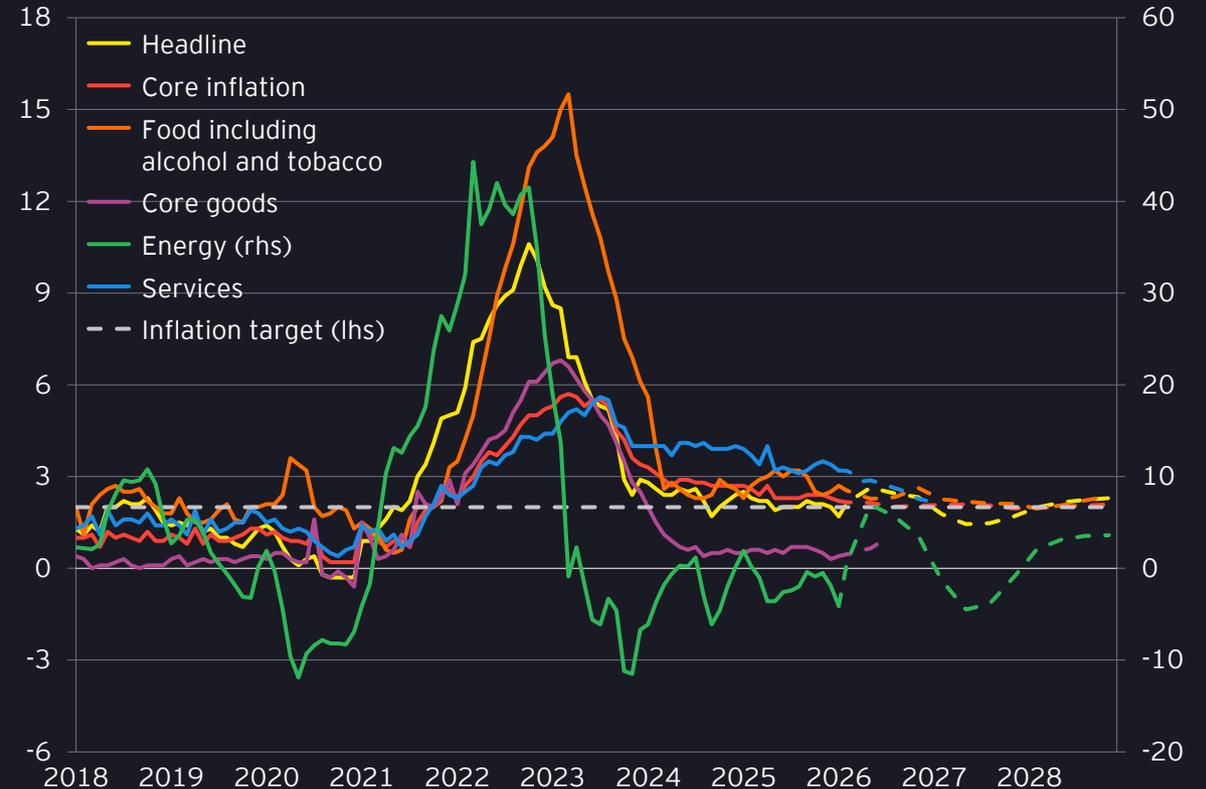
Euro area headline inflation is expected to average 2.4% in 2026 due to increase in energy prices

- ▶ Core and food inflation are projected to decline to around 2% by mid-2026. Services inflation is expected to continue its gradual deceleration, in line with easing nominal wage growth. However, a renewed increase in energy prices—projected at 4.2% y/y—is set to lift headline inflation, which is now expected to average 2.4% y/y in 2026.
- ▶ In 2027, base effects and the partial reversal of earlier energy shocks are expected to push energy prices down by 2.7% y/y. As a result, headline HICP inflation is projected to slow markedly, rising by only 1.6% y/y despite broadly stable core dynamics.
- ▶ Looking further ahead, in 2028 headline inflation may edge slightly above 2% if the planned ETS extension takes effect and puts renewed upward pressure on energy inflation.

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

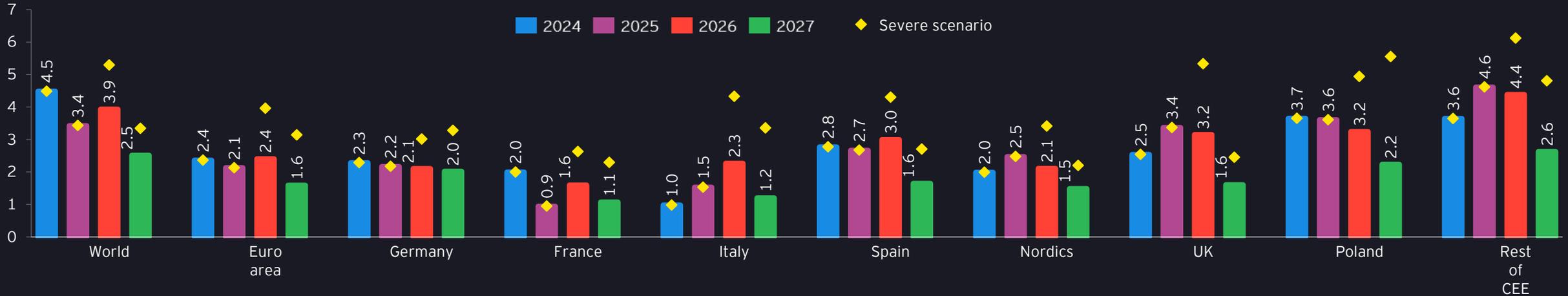


HICP inflation in the euro area (y/y, in percentage)



Inflation is expected to stay elevated in Turkey, Kazakhstan, several CEE countries—particularly Romania—as well as Norway, while remaining subdued in Switzerland, France, Denmark, and Finland

Inflation in 2024-2027 (in percentage)



Inflation in 2025 and 2026* (in percentage)



Source: Oxford Economics, EY EAT forecast, EY Item Club (UK forecast), EY Parthenon (US forecast).
 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.

Geopolitical tensions in the Middle East complicate monetary policy decisions

If the energy shock driven by the Middle East conflict proves temporary, we do not expect central banks to react directly to higher energy prices. However, policymakers are likely to remain cautious on further easing, given uncertainty around the duration of the shock and risks of spillovers into underlying inflation. If the conflict becomes more protracted and/or further escalates, limited interest rate hikes become increasingly likely.

- ▶ **Fed:** We expect the Fed to remain on hold in the first half of 2026, before delivering one additional 25 bp cut toward the end of the year. Risks are tilted toward no easing or even limited tightening, depending on the severity and persistence of the Middle East shock.
- ▶ **ECB:** If the energy shock proves temporary, the ECB is likely to keep rates unchanged. If the Middle East conflict becomes more protracted, we expect at least 50 bp of rate hikes this year.
- ▶ **BoE:** We do not expect the Bank of England to cut rates further this year due to the conflict in the Middle East, with our baseline currently penciling in one 25 bp rate hike over the summer.
- ▶ **SNB:** We anticipate the Swiss National Bank to keep the policy rate at 0% through end-2027, with rates potentially increasing toward the neutral level (around 0.5%) thereafter.
- ▶ **Norway and Sweden:** In Norway, we expect the central bank to resume gradual rate cuts in early 2027, bringing the policy rate to 3% only by 2028, reflecting slow easing in core inflation. In Sweden, we expect one additional cut in 2027, as inflation is likely to undershoot target amid a negative output gap.
- ▶ **Poland:** The National Bank of Poland (NBP) is anticipated to keep rates unchanged in the coming months, with a potential 25 bp cut toward the end of 2026, conditional on commodity price normalization.
- ▶ **Czechia:** The CNB rates should be maintained through 2026, followed by 50 bp of easing in 2027, as core inflation falls to 2%.
- ▶ **Hungary and Romania:** Following the Middle East escalation, both central banks have shifted to a more cautious stance, placing greater emphasis on exchange rate stability and energy-driven inflation risks. As a result, any rate cuts in 2026—if delivered at all—are likely to be back-loaded into the second half of the year and implemented cautiously. In Hungary, we see scope for conditional easing of around 100-125 bps by end-2027. Romania is expected to follow a similar timing and scale, with cautious initial cuts.
- ▶ **Türkiye:** We expect the central bank to remain on hold in the near term, before resuming cuts in the second half of the year, with policy rates potentially falling to 30% by year-end.

Consumer & Retail Outlook – Key Implications for 2026

- ▶ **Consumption growth is set to remain subdued over the coming quarters.** Higher fuel prices and elevated geopolitical uncertainty are weighing on real income growth and keeping saving rates elevated, resulting in modest aggregate consumption growth.
- ▶ **The macroeconomic outlook has weakened relative to earlier assumptions.** Lower euro area GDP growth in 2026 and a temporary, energy-driven inflation uptick are eroding household purchasing power. While the shock is not expected to trigger a monetary policy response (unless the Middle East conflict becomes more protracted and/or further escalates), it reinforces precautionary behavior and limits near-term upside risks to consumption.
- ▶ **Labor market conditions remain supportive but are no longer strengthening.** Slowing employment growth and the normalization of labor demand, together with easing real wage momentum, indicate that the labor market is no longer an incremental driver of consumption growth.
- ▶ **Implications for consumption and retail in 2026:**
 - ▶ **Selectivity of spending.** Household spending is expected to remain highly selective amid elevated uncertainty and still-cautious expectations. While day-to-day consumption continues to be supported by real incomes, discretionary and large-ticket purchases are more easily postponed, reinforcing a “wait-and-see” pattern rather than a broad-based recovery in demand.
 - ▶ **Volumes versus pricing.** Nominal retail growth has become less price-driven in recent quarters, as easing inflation has reduced the scope for broad price increases. However, a persistent energy-driven shock linked to further escalation or prolonged conflict in the Middle East could reverse this pattern, pushing retail growth back toward inflation-led price increases rather than volume-driven demand.
 - ▶ **Uneven recovery across categories and regions.** Consumption normalization is likely to remain fragmented across categories and countries. Essential and services-related spending shows greater resilience, while durable goods recover more slowly, with higher sensitivity to confidence and financing conditions. CEE economies continue to outperform, while Western Europe stabilizes at a lower growth momentum.

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