EUROZONE SCENARIO 2025-2026

BETWEEN NEW DIVIDES AND NEW CONVERGENCES

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

SUMMARY

BETWEEN NEW DIVIDES AND NEW CONVERGENCES

Forecast as of 30/03/2025
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Scenario highlights

- **The economic and financial situation of private agents remains solid**
- **Potential for catching up with consumption not yet exhausted**
- **German fiscal stimulus and defence spending support investment**
- **Less restrictive monetary policy bites into investment**

- **A negative shock from US economic policies on growth and inflation**
- **Uncertainty has a negative impact on investment decisions**
- **A recalibration of risks with a downside risk to growth and inflation**

	2023	2024	2025	2026
GDP (y/y, %)	0,5	0,8	1,0	1,5
Domestic demand (contribution to GDP, pps)	1,1	0,7	1,4	1,6
Change in inventories (contribution to GDP, pps)	-0,8	-0,3	0,2	0,1
Net exports (contribution to GDP, pps)	0,3	0,4	-0,5	-0,2
Private consumption (y/y, %)	0,6	1,0	1,2	1,2
Investment (y/y, %)	1,9	-2,1	1,8	3,2
Inflation (y/y, %)	5,4	2,4	2,0	1,8
Unemployment rate (%)	6,6	6,4	6,4	6,3
Fiscal balance (% of GDP)	-3,4	-2,7	-2,4	-2,4

Sources: Eurostat, Crédit Agricole S.A./ECO

A transatlantic rift has opened. It had been incorporated into our forecast last December in the form of a downward revision to growth to take account of the negative impact of the rise in tariffs on steel and aluminium to 25%, as well as an alignment of the average US tariff with that of the EU. into a downward revision to growth of 0.2 percentage points (pp) as a direct result of lower exports and a further 0.1 pp as a result of increasing uncertainty over investment decisions.

The increase in customs duties on vehicles to 25% has been integrated into this March 2025 scenario; this increase would result in an 8% drop in automotive production in Western Europe with a drain on Eurozone growth of -0.1 pp in 2025. But Europe has also committed more spending on infrastructure investment and on the military, the impact of which offsets the negative effect of US policies, bringing the zone's growth to 1% in 2025 and then to 1.5% in 2026.

The tariffs introduced on 2 April (Libération Day) are therefore not included in our central scenario, but their impact has been quantified in a risk scenario. Assuming no symmetric retaliatory measures from the EU, this scenario introduces a further 0.1 pp decline in GDP growth in 2025, 0.3 pp in 2026 and 0.2 pp in 2027 for the Eurozone.

THE SCENARIO IN BRIEF

THE RECOVERY OF CONSUMPTION IS PROVEN, THAT OF INVESTMENT STIMULATED

A transatlantic rift has opened. We had factored it into our forecast last December in the form of a downward revision to Eurozone growth considering a double negative impact from both tariff hikes and the uncertainty surrounding the Trump administration's policies. This fault line translated into different growth and inflation trajectories on both sides of the Atlantic, with the corollary of higher interest rates in the US.

But in response, Europe is playing defence and intends to deploy economic policies designed to stimulate demand and supply, freeing up resources for infrastructure investment and military spending. Europe's response has led to an upward revision of our growth forecasts for the Eurozone: the impact of these measures offsets the negative effect of US policies, reducing the differential in growth, inflation and interest rates. **Eurozone growth is expected to reach 1.0% in 2025 and 1.5% in 2026.** The intensification of the trade confrontation with the US, which is not included in our central scenario, nevertheless poses a downside risk on both sides of the Atlantic.

.**Recent developments confirm our past narrative. Eurozone GDP grew by 0.2% in the fourth quarter of 2024; Growth averaged 0.9% per year in 2024**. Among the major economies in the zone, only Spain experienced sustained growth at the end of the year (0.8%), while Italy (+0.1%), France (-0.1%) and, even more, Germany (-0.2%) were almost flat. Domestic demand contributed favourably to growth in the fourth quarter thanks to private consumption, whose growth (+0.4% over the quarter) confirmed our scenario of a moderate recovery in household spending.

Our scenario continues to assume a continued moderate recovery in household consumption (+1.2% in 2025 and 2026).

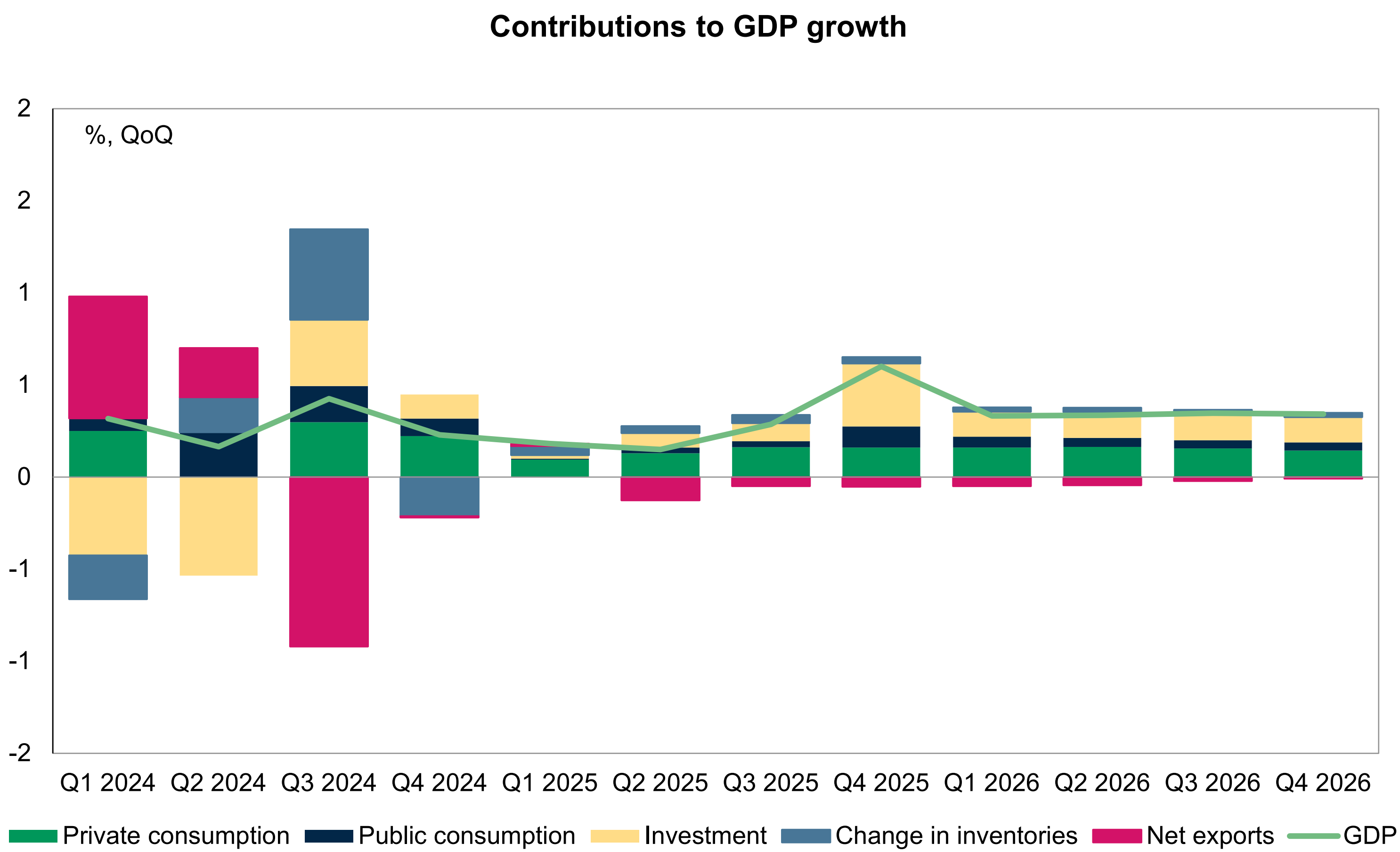
The growth of disposable income is certainly expected to be slowed by the deceleration in wages, but wages are maintaining a higher dynamic than inflation in forecasts, continuing to produce gains in purchasing power. While job creation has lost momentum, it remains positive and **we expect the unemployment rate to rise slightly in 2025 and to fall modestly in 2026, barely visible on the annual average (6.4% in 2025 and 6.3% in 2026).** Our scenario of stabilising housing investment was also confirmed in the fourth quarter of 2024 and is extended in our forecast.

The fundamentals of productive investment have not radically improved. Investment in machinery and equipment fell again at the end of the year, while new loans to non-financial corporations are growing, but at a historically low pace. We expect a modest recovery in productivity and margins, but uncertainty about trade policy developments continues to dampen investment decisions. **However, these negative factors must be weighed against European ambitions and German decisions.** This combination supports the investment profile and justifies an upward revision of our investment forecast in construction, machinery and equipment, and transport goods. **As a result of Germany's new spending measures on infrastructure and defence, as well as the general increase in defence spending by European countries, investment growth will rise from 1.5% to 1.8% in 2025 and from 2% to 3.2% in 2026.**

The faster growth in public spending on defence and investment, mainly concentrated in low-debt countries, would simply result in a **slowdown in the deficit reduction path in 2025, a slight deterioration in 2026** (from 2.9% in 2024 to 2.6% of GDP in 2025 and 2.7% in 2026) **and an increase in the debt-to-GDP ratio** (from 88.2% in 2024 to 88.9% in 2025 and 89.5% in 2026).

BETWEEN NEW DIVIDES AND NEW CONVERGENCES

THE RECOVERY OF CONSUMPTION IS PROVEN, THAT OF INVESTMENT STIMULATED



Sources: Eurostat, Crédit Agricole S.A./ECO

INTRODUCTION

THE INTERNATIONAL CONTEXT

Global economic growth is expected to slow in 2025 and accelerate modestly in 2026, mainly due to the dynamics of advanced economies. As for emerging countries, growth is expected to rise from 4.3% in 2024 to 4% in 2025 and 2026. We expect growth in China to continue to slow in 2025, with exports likely to be severely dampened by higher U.S. tariffs and the gradual recovery in domestic demand. GDP growth is expected to slow to 4.6% in 2025 and 4.3% in 2026, from 5.0% in 2024.

US growth is expected to slow in 2025 to a pace of 1.7% in 2025, before rebounding to 2.2% in 2026. Inflation is expected to follow this slowdown in early 2025 before rebounding at the end of the year with an annual average of 2.7% in 2025 and 2026. The Fed, after a pause, should eventually restart its rate cut process with two more 25 bps cuts in June and September, before starting an extended pause with a ceiling set at 4.00%. Long-term rates could fall slightly in the second quarter of 2025 in response to the negative impact of tariffs on growth and the resumption of rate cuts by the Fed expected in June.

Yields on 10-year *Treasuries* are expected to be 4.45% at the end of 2025 and 4.75% at the end of 2026.

The ECB's easing is nearing its end and we expect a final rate cut, of 25 basis points in June 2025, after which the deposit rate would be kept at 2.25% until the end of 2026. The German ten-year yield is expected to remain above 3% (3.1% at the end of 2026). The steepening of the German curve and the prospects of increased growth in the Eurozone suggest a further tightening of sovereign spreads, with the OAT premium at 55bp at the end of 2026 and the BTP premium at 105bp. The euro could reach 1.12 against the dollar in the fourth quarter of 2025, a level that is not expected to be exceeded due to an expected new rebound in the US economy, Treasury yields and therefore the dollar in the second half of 2026.

OPEC+'s recent announcement to increase production is expected to cause prices to drop moderately to $71 per barrel on average in 2025 and $70 per barrel in 2026. The use of natural gas inventories during this colder winter than the previous ones is expected to strain the liquefied natural gas market in the coming months.

International background assumptions

	2023	2024	2025	2026	2024				2025				2026			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP Euo area (YoY, QoQ, %)	0,9	0,9	1,0	1,5	0,3	0,2	0,4	0,2	0,2	0,1	0,3	0,6	0,3	0,3	0,3	0,3
GDP United States (YoY, QoQ, annualised, %)	2,9	2,8	1,7	2,2	1,6	3,0	3,1	2,4	0,8	1,5	1,2	1,8	2,5	2,5	2,4	2,4
GDP China (YoY, QoQ, %)	5,4	5,0	4,6	4,3	1,5	0,9	1,3	1,6	1,3	0,7	0,9	1,0	1,3	1,1	1,0	1,0
GDP World (YoY, QoQ, %)	3,3	3,1	2,8	3,0	-	-	-	-	-	-	-	-	-	-	-	-
ECB Deposit rate (period end, %)	4,00	3,00	2,25	2,50	4,00	3,75	3,50	3,00	2,50	2,25	2,25	2,25	2,25	2,25	2,25	2,50
Fed Funds rate (period end, %)	5,50	4,50	4,00	4,00	5,50	5,50	5,00	4,50	4,50	4,25	4,00	4,00	4,00	4,00	4,00	4,00
Exchange rate (average, EUR/USD)	1,08	1,08	1,10	1,11	1,09	1,08	1,10	1,07	1,11	1,08	1,10	1,12	1,12	1,11	1,10	1,10
Brent (average, USD/barrell)	82,2	79,9	71,3	69,3	81,9	85,0	78,9	74,0	75,1	73,0	70,0	67,0	65,0	70,0	70,0	72,0

Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole SA / ECO

HOUSEHOLDS

OUR MODERATE RECOVERY NARRATIVE IS CONFIRMED

The increase in private consumption (+0.4% over the quarter) confirmed our scenario of a moderate recovery in household spending. While consumption increased again sharply in the Iberian Peninsula (Spain +1% and Portugal +2.9%), it was more timid but positive in Germany (+0.1%), Italy (+0.2%) and France (0.3%).

After the various shocks suffered, household consumption has returned to a composition more in line with its historical average: growth in the consumption of services is normalising and allowing the consumption of durable and non-durable goods to accelerate and recover, respectively, without returning to its pre-pandemic level. This normalisation is guided by relative prices for services and goods that are converging towards their historical trend.

Our scenario continues to assume a continued moderate recovery in household consumption (+1.2% in 2025 and 2026). The growth in disposable income would certainly be slowed by the deceleration in wages (4% year-on-year for per capita wages in Q4 after 4.5%). But the latter maintain a dynamic higher than inflation in forecast (+3.4% in 2025 and +2.8% in 2026); Households are therefore benefiting from gains in purchasing power that exceed our forecast for consumption growth and imply a savings rate that is still rising moderately. While the surveys (Commission and ECB) agree on the improvement in expectations of net income and the financial situation of households, they send a mixed signal on consumption expectations: the first signals that purchase expectations are recovering, the second that spending expectations are falling. After improving in the first three quarters of 2024, household confidence deteriorated again at the end of 2024 and, at the beginning of the year, remains well below its historical average.

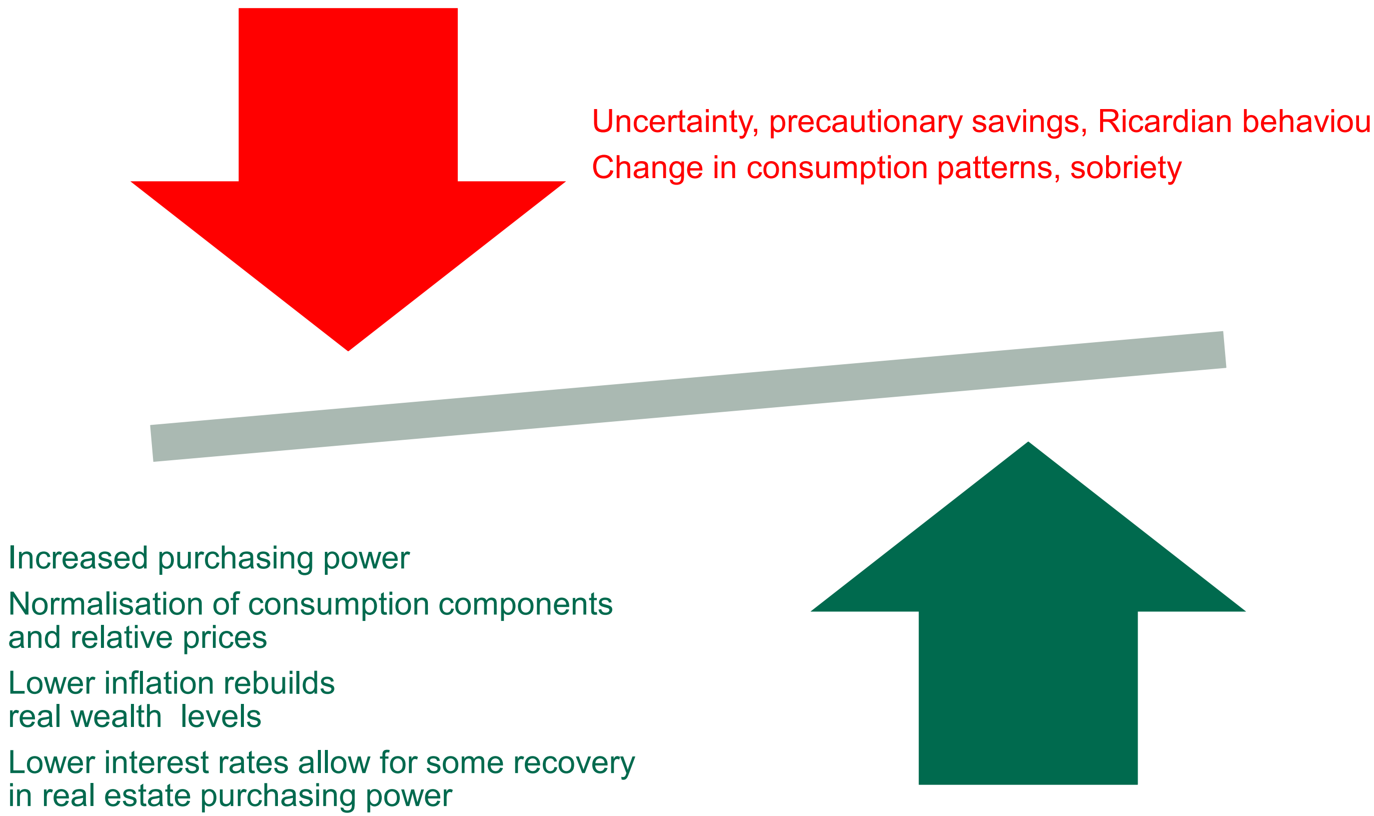
The key factor, likely to influence the willingness and ability of households to consume more, is continued job creation. The latter lost strength (0.7% year-on-year in the fourth quarter, after 0.9%) but remain positive despite the pause in the employment rate after its continuous rise in recent years. The job vacancy rate (2.5% in Q4) has stabilised after a sharper decline in the course of 2024. Despite this slowdown in employment, the decline in the number of unemployed accelerated and exceeded that of the working population, facilitating the decline in the unemployment rate (6.1% in February). According to surveys, consumers continue to anticipate a rise in unemployment and a decrease in the probability of finding a job, but the probability of losing one's job is also perceived to be decreasing. Surveys still indicate the desire of companies to retain employees in employment even if their employment expectations have deteriorated since the autumn. **We expect the unemployment rate to rise slightly in 2025 and to fall modestly in 2026, barely visible on the annual average (6.4% in 2025 and 6.3% in 2026).**

Our scenario of stabilising housing investment was also confirmed in the fourth quarter of 2024 (-0.3%) and is extended in our forecast. Falling house prices offset the deceleration in disposable income and keep buying accessible. Interest costs are falling as rates on new loans continue to fall (3.3% in January).

HOUSEHOLD CONSUMPTION

THE INFLATION SHOCK ALMOST ABSORBED, THE SHOCK OF RISING RATES IS FADING

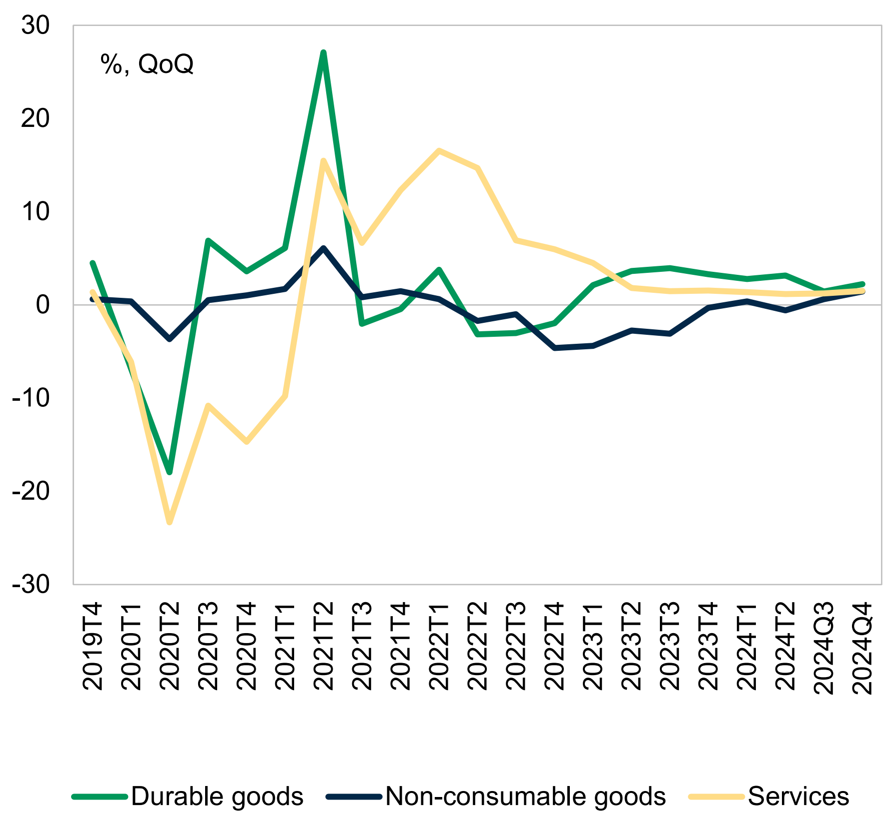
Supports and brakes on household spending



HOUSEHOLD CONSUMPTION

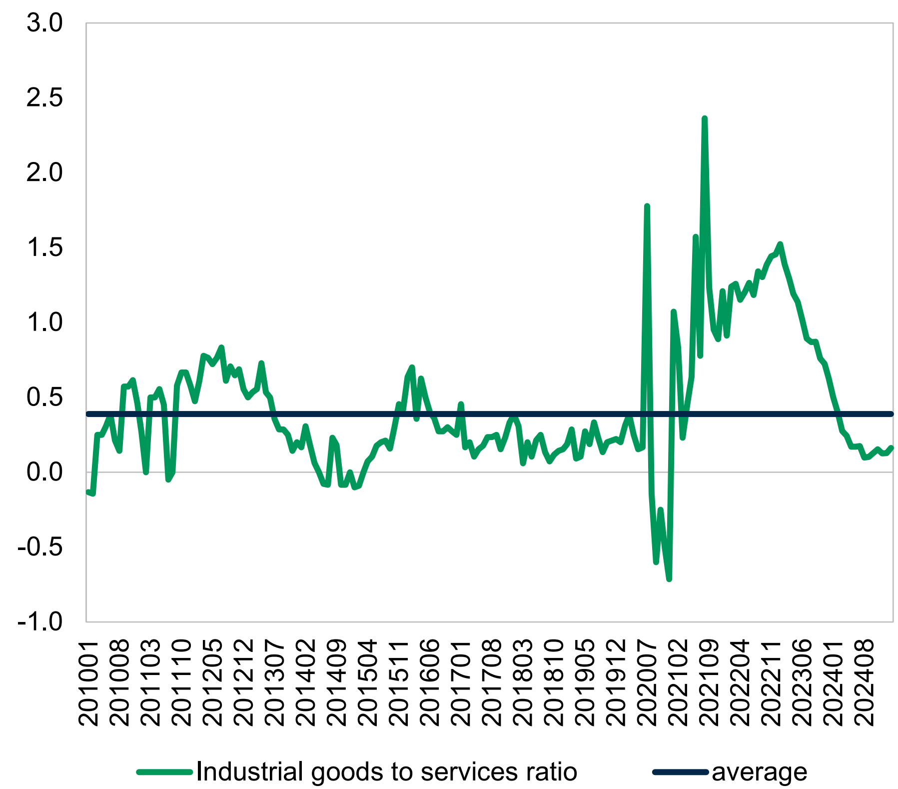
NORMALISATION IN CONSUMING PATTERNS AND PRICES

Normalisation of consumption between the different components



Sources: Eurostat, Crédit Agricole S.A./ECO

Normalisation of inflation components



Sources: Eurostat, Crédit Agricole S.A./ECO

INVESTMENT

THE WEAK UNDERLYING DYNAMICS OF PRIVATE ACCUMULATION STIMULATED BY PUBLIC INVESTMENT

The fundamentals of productive investment have not radically improved. Investment in machinery and equipment was down again (-1.5% over the quarter) at the end of the year; New loans to non-financial corporations are growing, but at a historically low pace. While business surveys point to continued weakness in demand for loans, they also point to a deterioration in credit availability, coupled with financing conditions that businesses anticipate to be more restrictive. We expect a modest recovery in productivity and margins, but uncertainty about trade policy developments continues to dampen investment decisions.

While these negative factors remain, they nevertheless deserve to be weighed up by European ambitions and German decisions. This combination supports the investment profile and justifies an upward revision of our investment forecast in construction, machinery and equipment, and transport goods. Germany's new spending measures on infrastructure and defence, as well as the general increase in defence spending by European countries, will particularly benefit the output of the three major economies in the zone. **Investment growth will thus increase from 1.5% to 1.8% in 2025 and from 2% to 3.2% in 2026.**

The German budgetary turnaround

The German fiscal turnaround triggered by the leader of the new German coalition and already voted by both chambers is the main factor in revising upwards our growth forecasts. These measures consist of a new infrastructure investment fund of 500 billion euros to be spent over twelve years (2025-2037), which is complemented by a reform of the debt brake that excludes defence spending above 1% of GDP from the deficit calculation and allows the Länder to post a structural deficit of 0.35% of GDP. Due to supply constraints and administrative delays, we expect a gradual increase in German spending, particularly in the infrastructure component. Additional expenditure (current and investment) would be 0.5% of GDP in 2025, 1% in 2026, and then reach a peak of 1.6% in 2028 and 2029. **German growth is thus expected to gain +0.4 pp in 2025, then +1.2 pp in 2026** with a multiplier of 0.8 for investment and 0.2 for current expenditure (all the higher as the output gap is negative at the beginning of the forecast period). **The contagion to the Eurozone as a whole is positive but limited: with average spillover effects of 0.2, the Eurozone as a whole would benefit from an additional growth of 0.3 pp in 2026.**

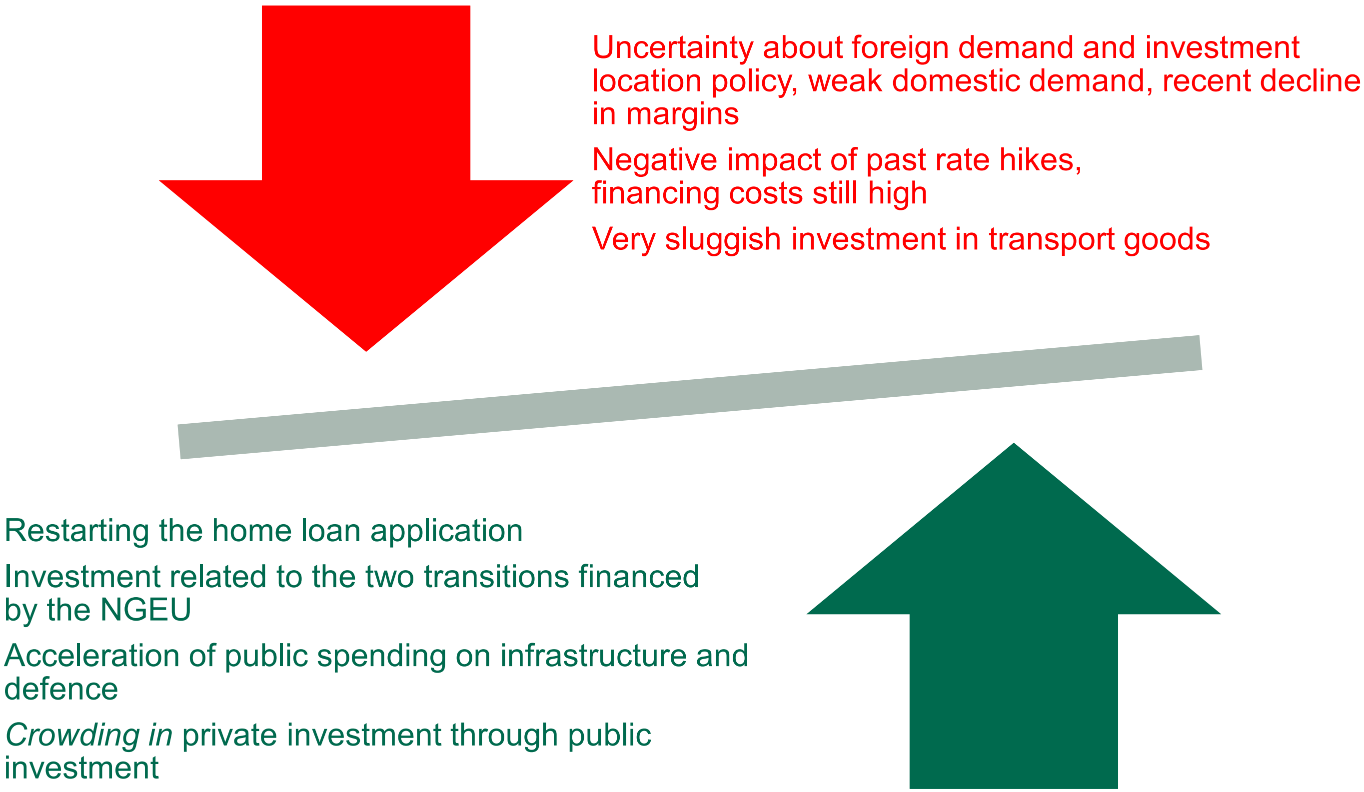
ReArm Europe: our assumptions

The rearmament efforts anticipated by the European Commission's Rearm EU plan will have a limited impact on the horizon of our scenario. Combined with the German spending effort, they nevertheless contribute to the upward revision of our investment scenario. We expect that only low-debt countries will benefit from the additional fiscal space provided by the activation of the Stability Pact's safeguard clause, which excludes defence spending from the deficit calculation for fiscal supervision purposes. Additional spending of 1.5% of GDP over the next four years (i.e. an additional 0.4% per year) on average in the European Union corresponds to the figure of 650 billion euros put forward by the Commission. On the other hand, the additional €150 billion available from the SAFE fund would only benefit countries financing themselves on less favourable terms than the EU. As these countries are also the most indebted, we expect a limited drawdown of these loans, which contributes to increasing the debt stock.

INVESTMENT

THE IMPACT OF THE TRANSMISSION OF THE INTEREST RATE REDUCTION ON DEFERRED PRODUCTIVE INVESTMENT UNTIL 2026, STRONG SUPPORT FOR PUBLIC INVESTMENT

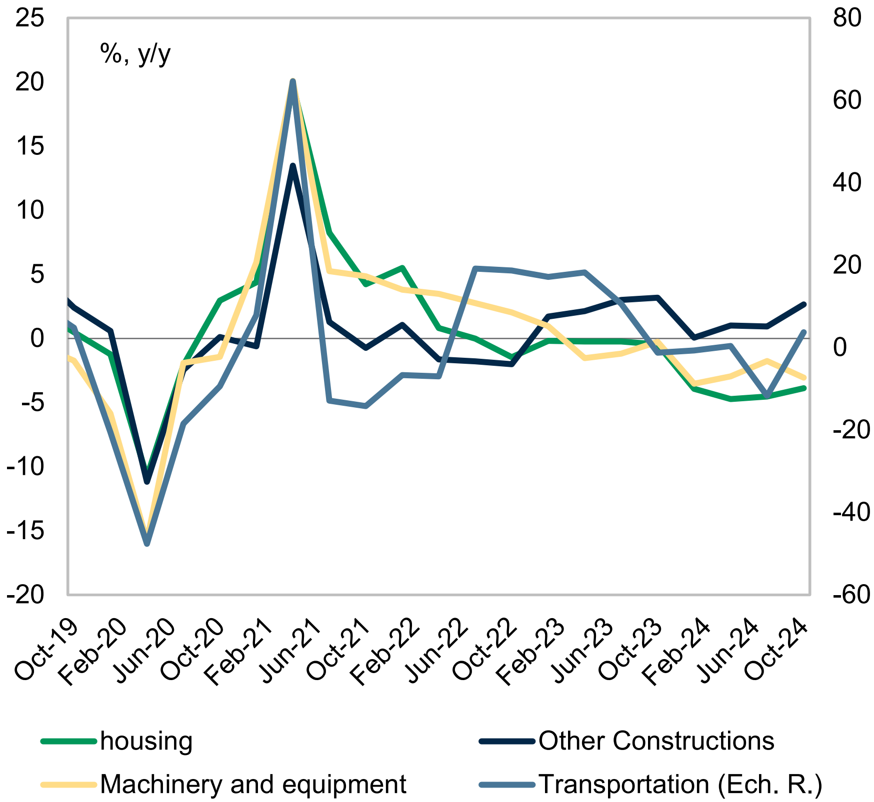
Support and obstacles to investment



INVESTMENT

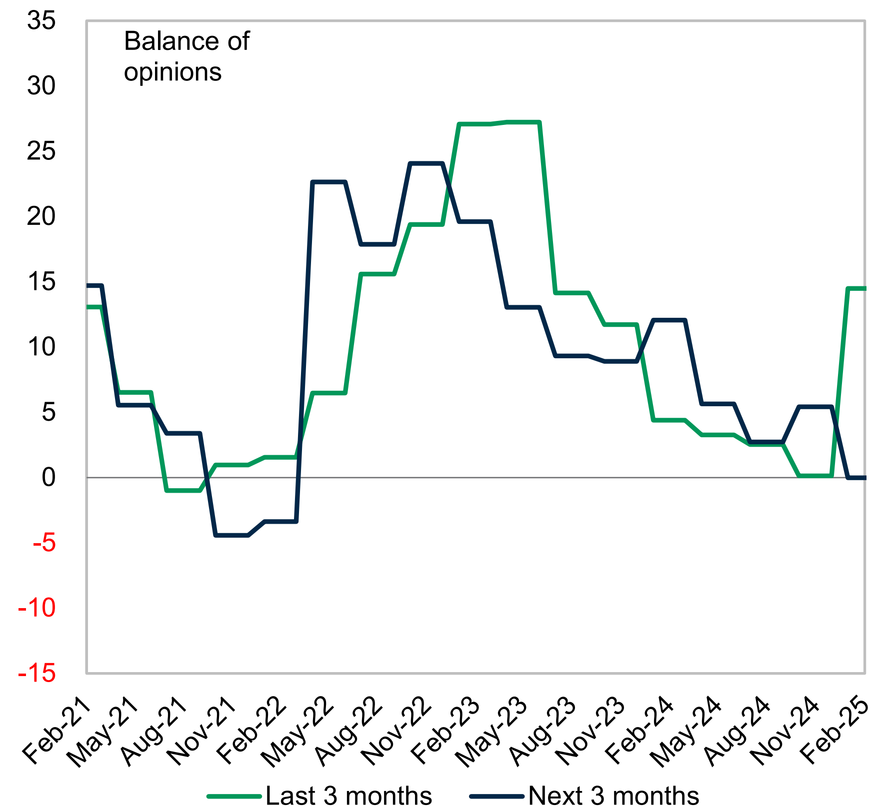
THE PRODUCTIVE COMPONENT CONTINUES TO DETERIORATE

Investment by component



Sources: Eurostat, Crédit Agricole S.A./ECO

Corporate credit conditions: more restrictive



Sources: ECB, Crédit Agricole S.A./ECO

GERMAN BAZOOKA: IMPACT ON THE OUTLOOK

MORE INVESTMENT AND PUBLIC SPENDING

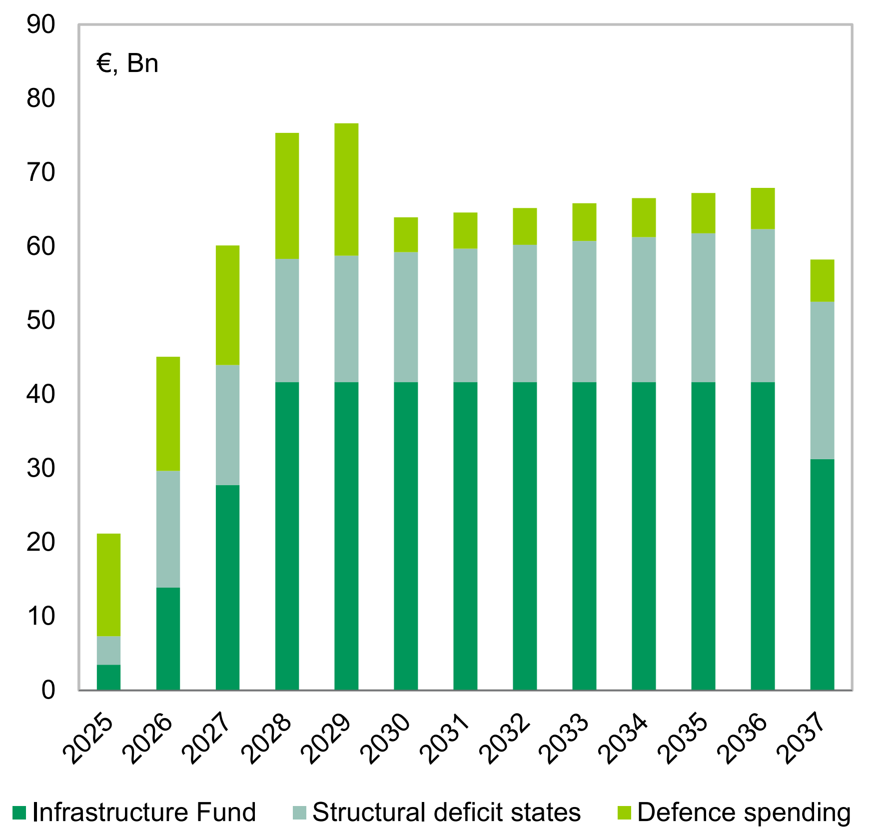
What measures have been adopted?

Investment fund of 500 billion euros over 12 years (2025-2037).

Reform of the debt brake:

- the *Länder* will be able to record a structural deficit of 0.35% of GDP;
- defence spending above 1% of GDP will be exempted from the deficit calculation.

Additional expenditure

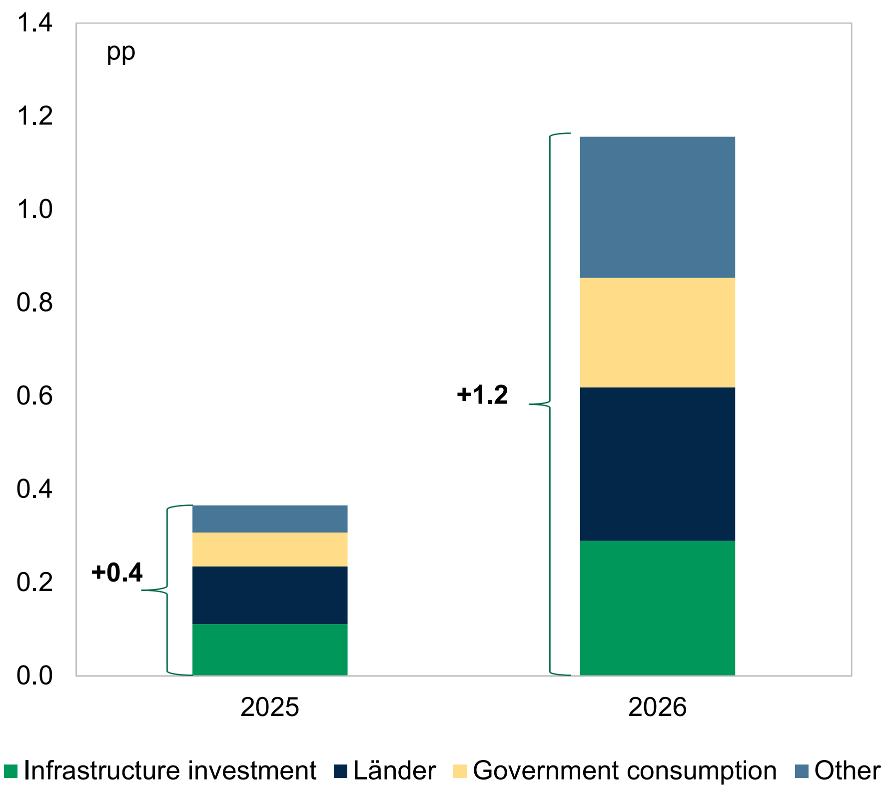


Sources: Crédit Agricole S.A.

GERMAN BAZOOKA: IMPACT ON THE OUTLOOK

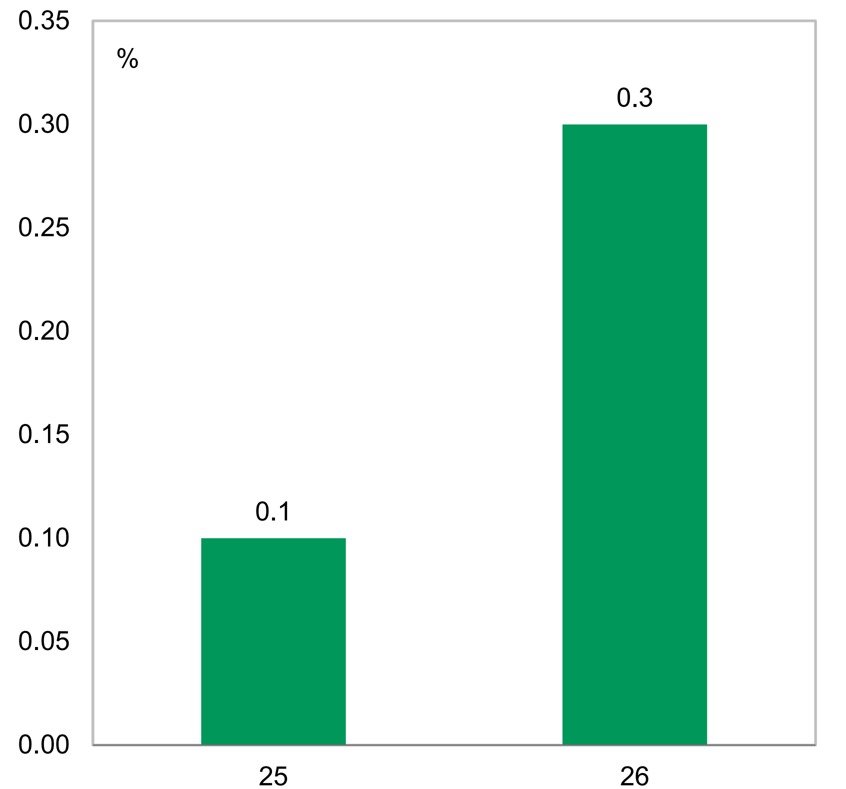
A PERMANENT INCREASE IN GROWTH

Impact on German GDP growth



Sources: Crédit Agricole S.A.

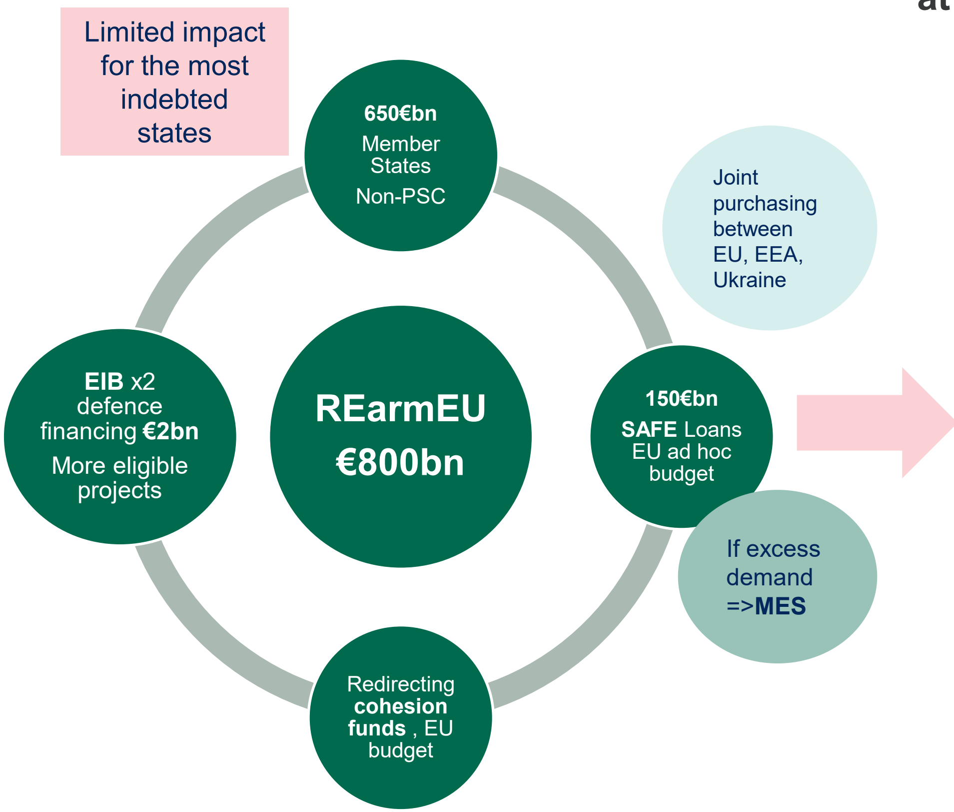
Impact on Euro area GDP growth



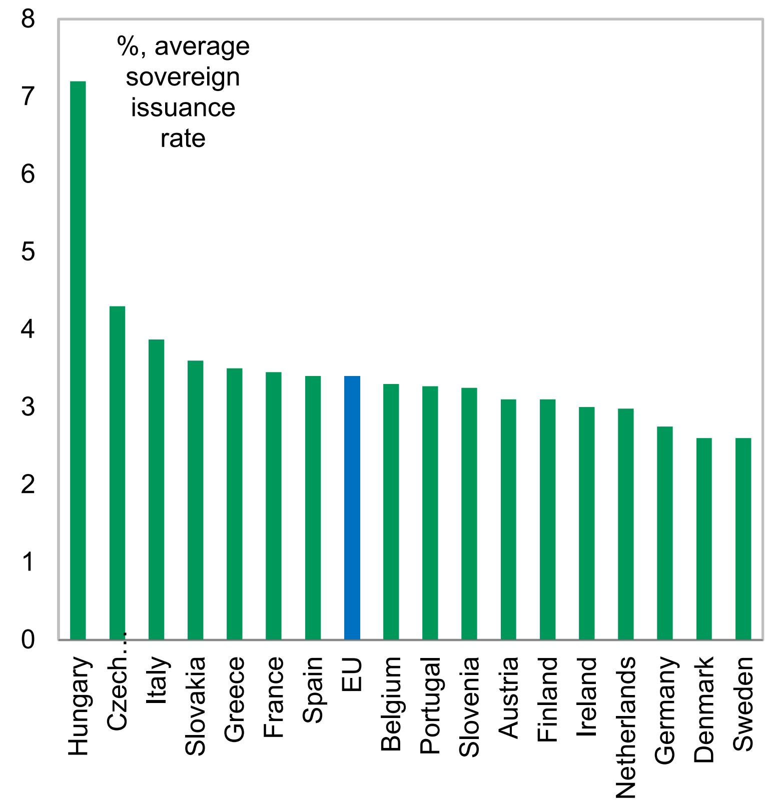
Sources: Crédit Agricole S.A.

EUROPEAN DEFENCE: REARMING THE UNION

AN ADDITIONAL BOOST TO INVESTMENT



Only countries that finance themselves at a higher rate than the EU have an interest in using loans



Sources: Refinitive, European Commission, Crédit Agricole S.A.

TARIFF INCREASES: OUR BASELINE SCENARIO

AT THE ORIGIN OF THE CONFRONTATION, UNBALANCED TRADE

The United States is by far the EU's largest economic partner. The EU imports more goods from China, but not services. The EU has a much more balanced relationship with the United States in trade in services.

The EU obviously exports more goods to the United States than it imports and in 2024 a further increase in the Old Continent's surplus over its American partner was recorded.

EU exports to the US increased by 5.5% in 2024 (€531.6 billion) while imports fell by 4% (€333.4 billion). The European trade surplus with the United States therefore stands at €198.2 billion in 2024, up 21.2%. It can also be observed that European exports to the United States have been on the rise since 2023 while imports have been declining since the post-Covid period, which contributes greatly to the increase in this trade surplus.

Both areas remain important trading partners in terms of traded goods. This is evidenced by the fact that the United States is the leading destination for European (non-EU) exports of goods, with 20.6% of goods exported there in 2024. Next are the United Kingdom (13.2% of exports) and China (8.3%). Within the Eurozone, exporters' exposure to the US market is above average for Germany (4.2% of GDP) and Italy (3.6%), and below average for France (1.7%) and Spain (1.5%).

For the United States, exports of goods to the EU in 2023 represented 1.2% of GDP and imports from the EU 1.9% of GDP. Indeed, 13.7% of the Old Continent's imports come from the United States, making it the second largest source of EU goods imports in 2024 behind China (21.3%). More specifically, Germany, the Netherlands (€68 billion) and France (€44 billion) import the most from the United States (around 15% of their total imports).

20 out of 27 countries will generate a surplus in their trade in goods with the United States in 2024. Germany is in the lead (€92 billion in surplus) with Italy (€38 billion). France, on the other hand, is coming out with a slight surplus of €2 billion. Conversely, among the seven countries with a deficit, the Netherlands has the most pronounced (€24 billion) followed by Spain (€6 billion).

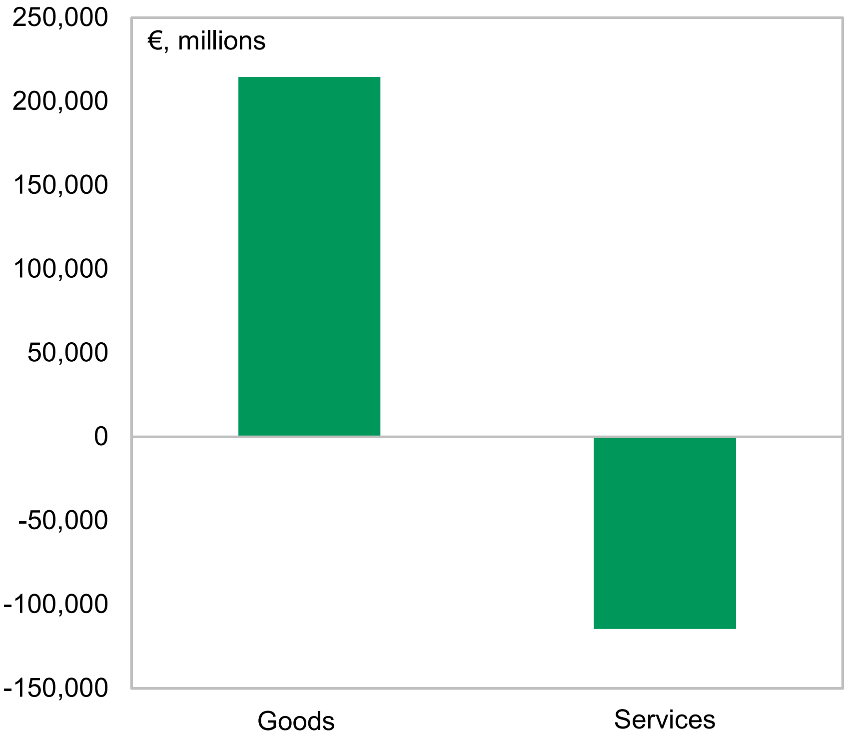
In terms of sectors, the Eurozone's exposure is concentrated in vehicles, machinery, aeronautics, pharmaceuticals, chemicals and food products. In terms of the nature of the goods traded, manufactured goods (chemicals, machinery and automobiles and other manufactured goods) dominate trade. Indeed, in 2024, they accounted for 91% of European exports to the United States, compared to 8% for primary goods (food, raw materials and energy). In detail, machinery and vehicles (€102 billion) and chemicals (€92 billion) generated solid surpluses. In terms of imports, the debate is more balanced. Manufactured products now account for only 69% while primary products account for 29%, notably because of the significant import of American energy following the decision to turn away from Russian gas (European deficit of €65 billion on energy).

The imbalance in the relationship in favour of the EU in terms of trade in goods is mitigated by trade in services, since the EU's balance is in deficit in trade in services (-€114 billion). The sectoral composition of its exports, oriented towards services, intellectual products, and energy, makes the United States less exposed to the consequences of targeted trade tensions on manufactured goods

TARIFF INCREASES: OUR BASELINE SCENARIO

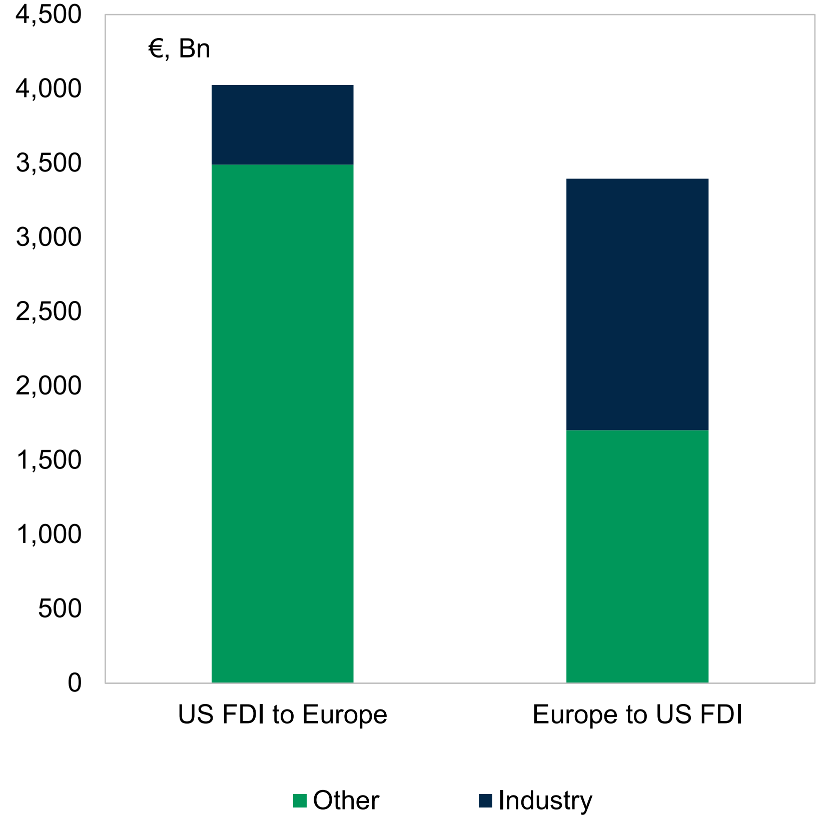
IMBALANCE ON GOODS IN FAVOUR OF THE EU, ON SERVICES IN FAVOUR OF THE US

EU: balance vis-à-vis the US



Sources: Eurostat, Crédit Agricole S.A.

FDI: EU main investor in the US contributing to 3.5 million jobs

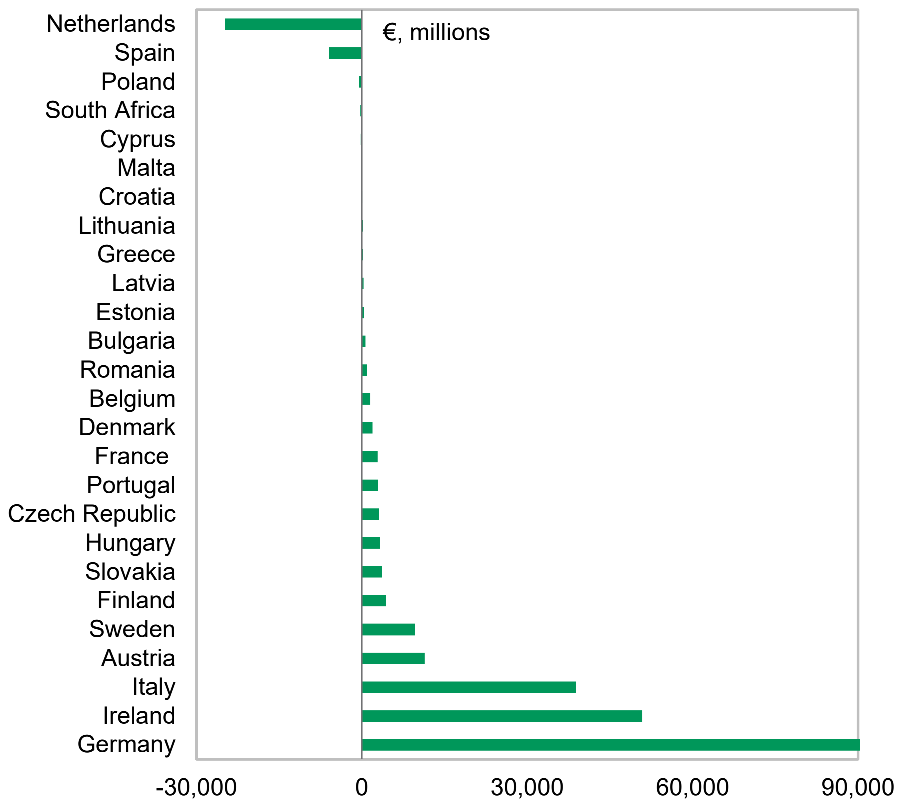


Sources: Eurostat, Crédit Agricole S.A

TARIFF INCREASES: OUR BASELINE SCENARIO

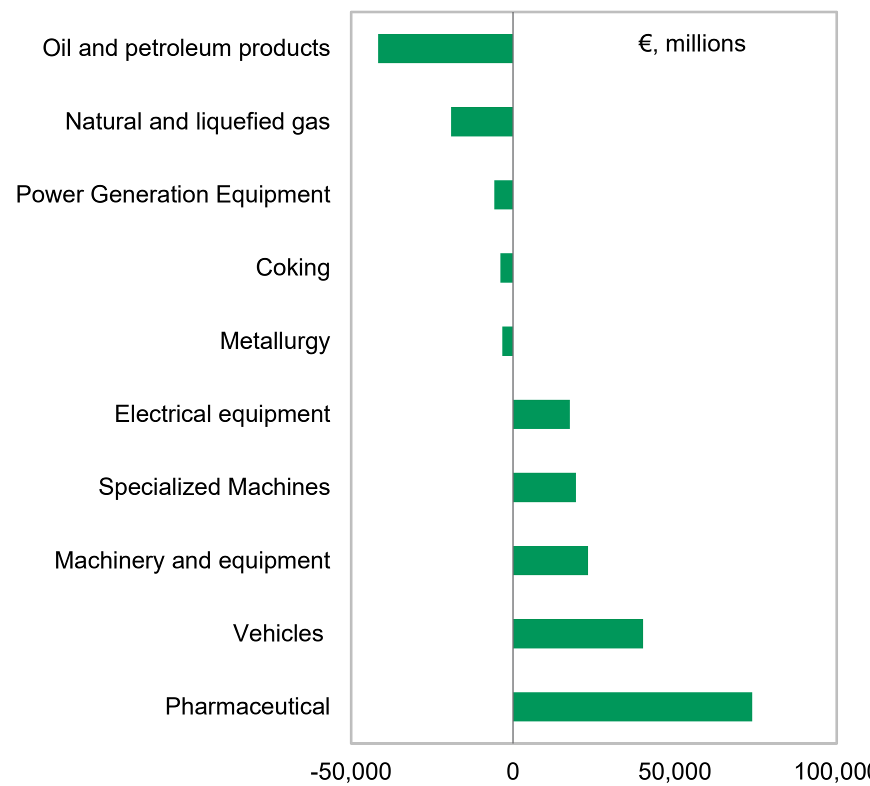
DEFICITS CONCENTRATED IN A FEW COUNTRIES AND SECTORS

EU countries: balance of trade in goods with the US



Sources: Eurostat, Crédit Agricole S.A.

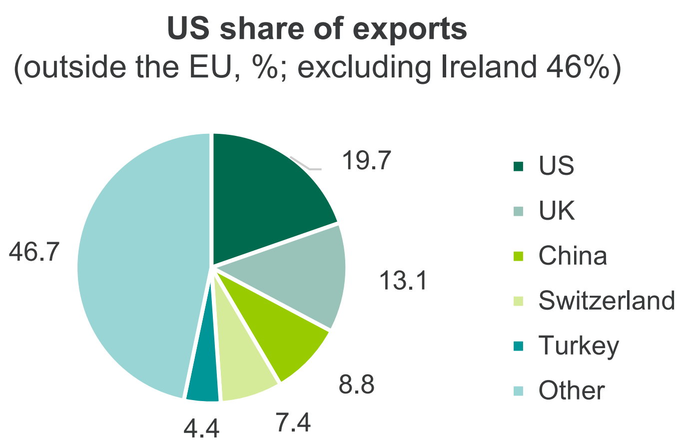
EU: Sectors with the largest surpluses and deficits vis-à-vis the US

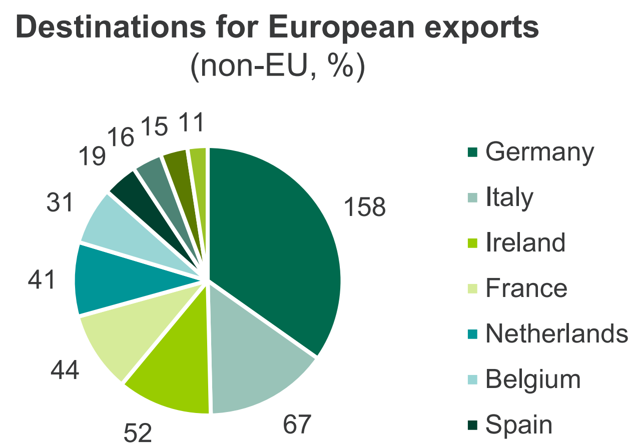


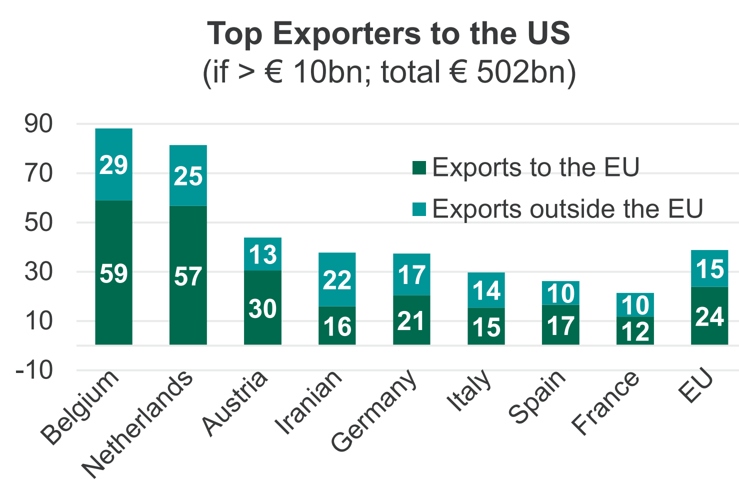
Sources: Eurostat, Crédit Agricole S.A

TARIFF INCREASES: OUR BASELINE SCENARIO

UNITED STATES: AT THE CORE OF EUROPEAN TRADE







Sources: Eurostat, 2023 data, Crédit Agricole S.A./ECO

TARIFF INCREASES: OUR BASELINE SCENARIO

A NEGATIVE SHOCK ON GROWTH AND INFLATION

Our scenario last December had already factored in the negative impact of the 25% increase in tariffs on steel and aluminium, as well as an alignment of the average US tariff with that of the EU. This translated into a downward revision to growth of 0.2 percentage points (pp) as a direct result of lower exports and a further 0.1 pp as a result of increasing uncertainty over investment decisions.

The latest announcements of an increase in customs duties on vehicles to 25% would result in an 8% drop in automotive production in Western Europe, with a differentiated impact on the major economies of the zone depending on the share of this production in total activity. In Germany, in the eye of the storm, the impact on growth would be -0.2 pp in 2025 and 2026. **The drain on growth in the Eurozone would be -0.1 pp in 2025.**

This decline would be the result of a decline in American imports of European vehicles, as the American consumer can no longer absorb such a price increase and European producers can no longer eat away at their margins. It would also result from a rapid relocation of production to the factories of European producers in the United States, which are currently operating at low capacity utilisation rates. However, car manufacturers, unable to create a local *automotive supply chain from scratch* in less than two or three years, will have to continue to import components in large quantities.

An imbalance in trade, but not in tariff barriers

The average rate of customs duties weighted by the value of each imported good on reciprocal imports is not, initially, very different between the EU and the United States (2% and 1.7%). More than three-quarters of the value of US exports to the EU is duty-free, compared to only two-thirds of European exports to the US market. Of the products subject to tariffs, half of them have a higher tariff imposed by the EU than the United States, and in 25% of cases the tariffs are equivalent. In only a quarter of cases are US tariffs higher than those of the EU.

Aligning US tariffs with European tariffs would correspond to an increase of only 0.3 percentage points in the weighted average rate. This is what we have integrated into our central scenario. In addition to this increase, there was an increase of 0.8 points linked to the increase to 25% of duties on steel and aluminium and of 2.8 points linked to the increase to 25% of duties on vehicles. This would bring the weighted average US rate on imports from the EU to 5.6%.

TARIFF INCREASES: OUR BASELINE SCENARIO

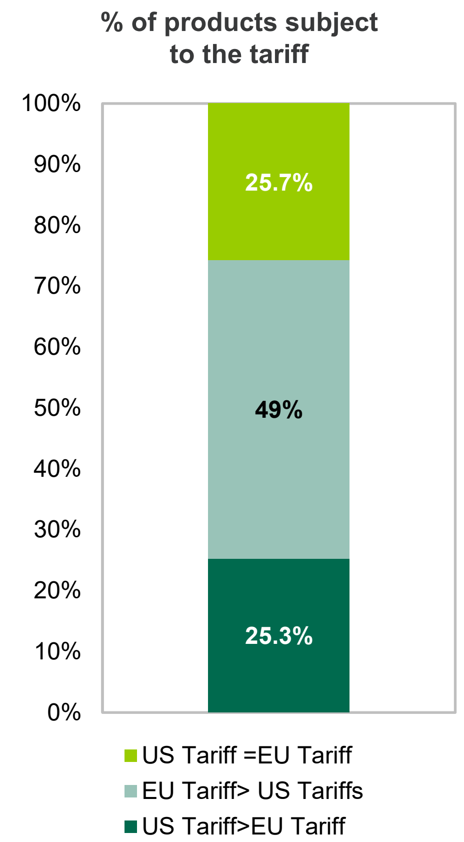
THE EU INITIALLY IMPOSES SLIGHTLY HIGHER TARIFFS

Tariffs on goods from the EU to the US

Importations US (valeur $,Mds)	Moyenne MFN		Duty free	
	Simple	Moyenne pondérée	% des droits	% de la valeur
		Total produits		
532	3,9	1,7		
		Produits agricoles		
34,8	6	4,7	22,8	37
		Produits non agricoles		
497,2	3,1	1,2	41,9	65,6

Tariffs on goods from the US in the EU

Importations UE (valeur $,Mds)	Moyenne MFN		Duty free	
	Simple	Moyenne pondérée	% des droits	% de la valeur
		Total produits		
334	4	2		
		Produits agricoles		
12,6	10,8	4,6	13,8	48,7
		Produits non agricoles		
321,4	3,9	1,6	23,4	78,4



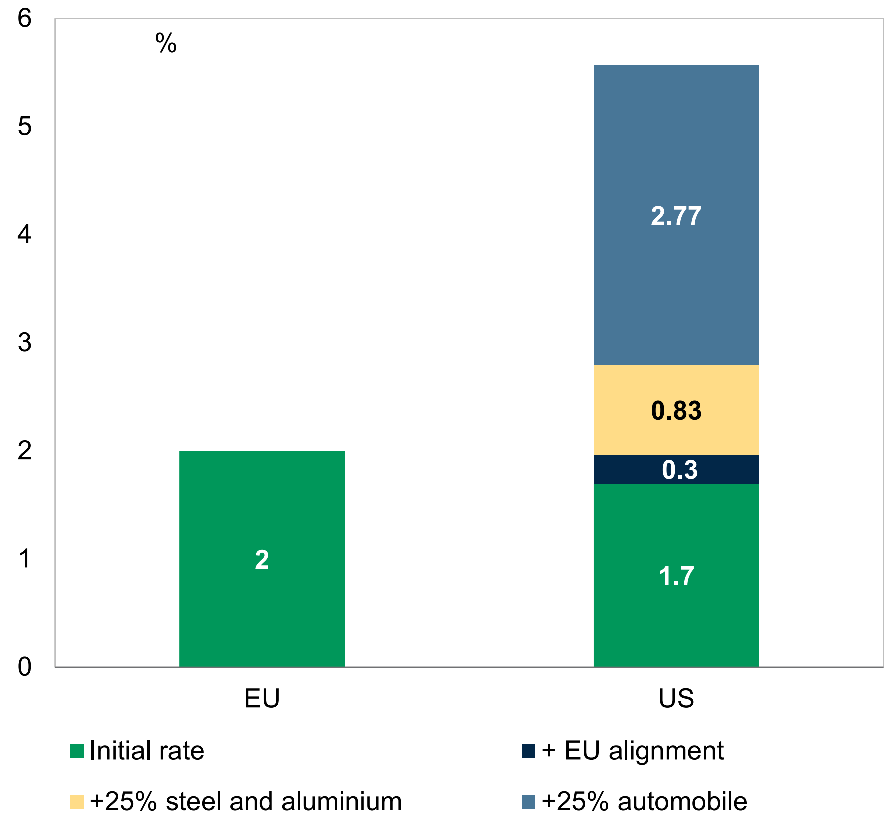
TARIFF INCREASES: OUR BASELINE SCENARIO

25% ON STEEL, ALUMINIUM AND CARS AND ALIGNMENT WITH EU TARIFFS

Increase in the average effective rate of US customs duties on our exports:

+0.8% (25% steel and aluminum)
+2.8% (cars at 25%)
+0.3% alignment with EU rates

Increase in the average effective rate of US tariffs



Sources: WTO, Crédit Agricole S.A.

TARIFF INCREASES: OUR BASELINE SCENARIO

A NEGATIVE SHOCK ON GROWTH AND INFLATION

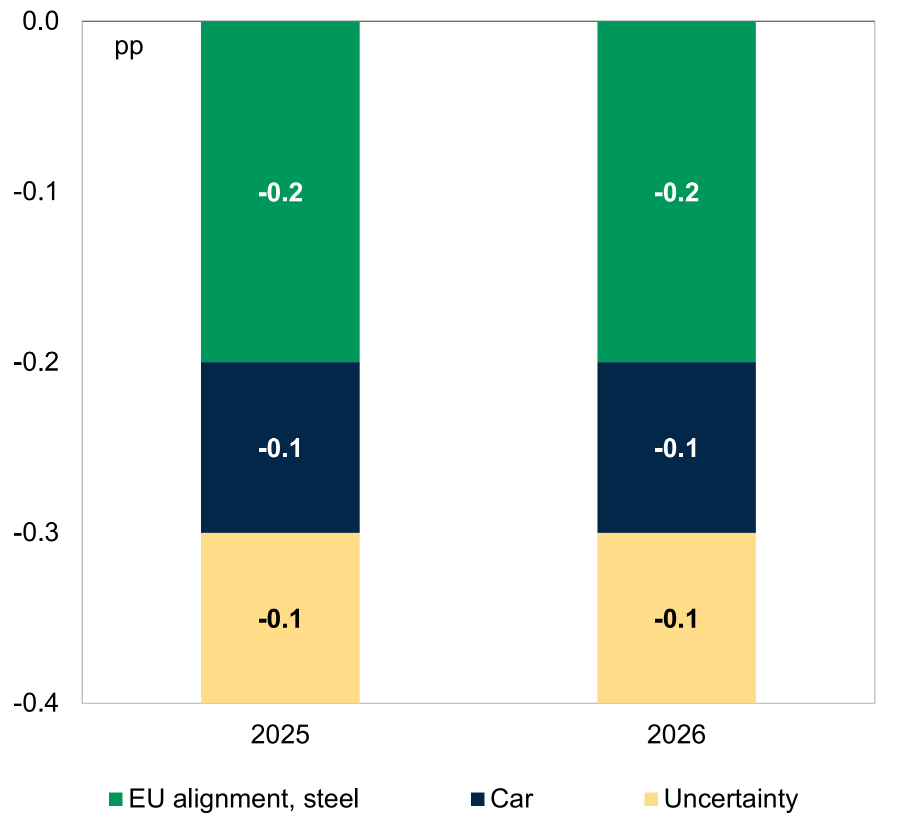
GDP growth:

- 0.2 pp (steel, aluminum, EU alignment)

- 0.1pp uncertainty

- 0.1 pp extra (cars)

Central scenario: a negative but limited impact on GDP growth



Sources : Oxford Economics, FMI WEO, Crédit Agricole S.A./ECO

TARIFF INCREASES: OUR BASELINE SCENARIO

TRANSMISSION CHANNELS TO THE EUROZONE

Increasing **U.S. tariffs on imports from the Eurozone would directly reduce demand for European producers**. The previous experience of 2017-2019 between the United States and China revealed a **unitary elasticity** with an increase in customs duties reducing the amount of American imports by an equivalent percentage. Thus, the extent of this mechanism and its impact on companies depend on the share of the American market in European exports.

An increase in customs duties on China, which is higher than on Europe, hasmitigated the negative effect on the activity of European producers by the loss of competitiveness of Chinese products on the American market. The mitigation would be all the more important if China were to retaliate against the United States.

However, the **risk of a reorientation of Chinese exports** towards the Eurozone market, in competition with European producers, is significant, which would weigh on activity (and inflation) in the Eurozone.

A depreciation of the euro against the dollar would logically be expected as a result of divergent inflation trajectories. This is not what is observed for the moment. It would strengthen the price competitiveness of European exporters and activity in the Eurozone, but would increase the price of imports (high level of invoicing of imports in dollars).

An **increase in uncertainty** around these various tariff measures (targeting, scope, implementation timing, retaliation) would have a **negative impact on activity in the Eurozone, particularly on investment,** due to the greater wait-and-see attitude on the part of European exporters.

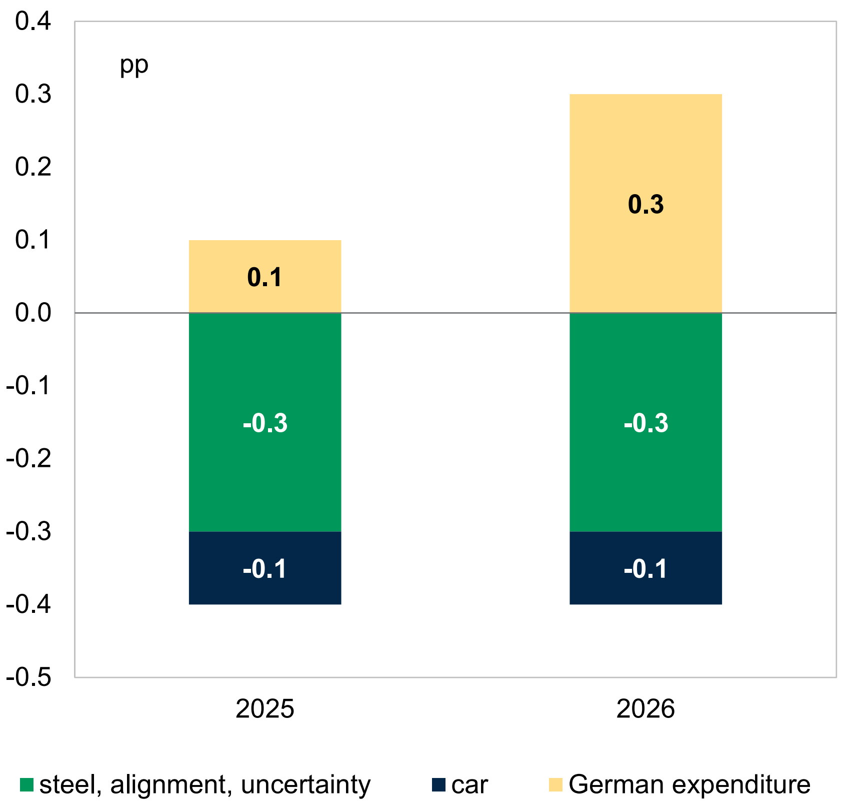
Transmission channels

Shock	GDP	Inflation	Channel
US export duties ZE	↓	↓	European competitiveness in foreign markets
Loss of competitiveness in the US and China	↑	↑	European competitiveness in foreign markets
EU export duties	?	↑	Impact of European tariffs on prices
Chinese export diverted to ZE	↓	↓	European competitiveness in the single market
Depreciation €	↑	↑	Exchange rate channel, more restrictive Fed policy
Uncertainty	↓	↓	Investment, risk premium

TARIFF INCREASES: OUR BASELINE SCENARIO

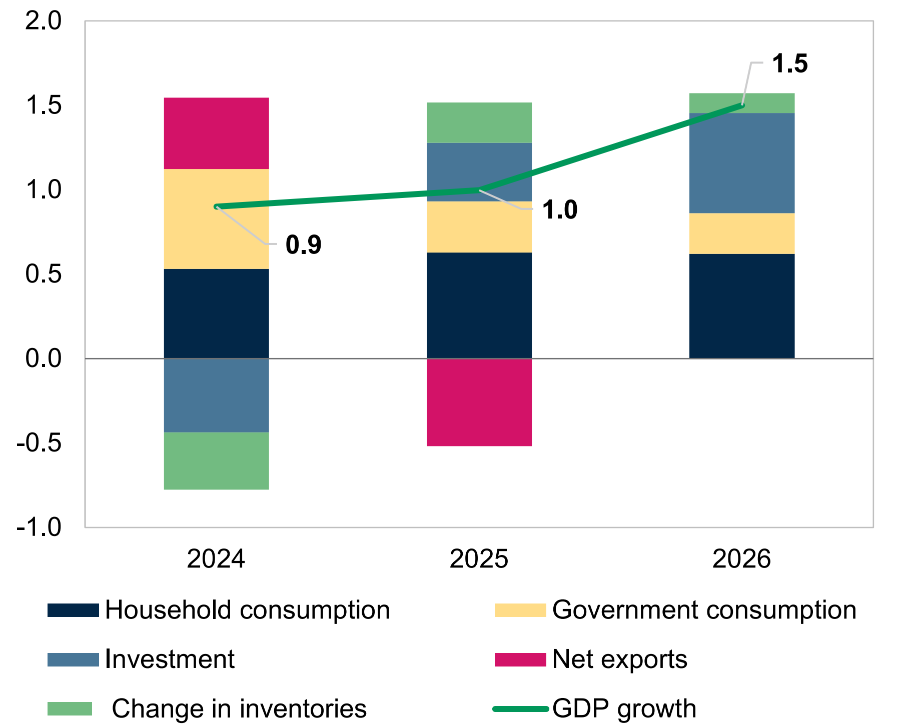
GROWTH (EXCLUDING *LIBERATION DAY*) REVISED UPWARDS WITH A DOWNSIDE RISK

Final impact on our scenario



Sources: Crédit Agricole S.A.

Our scenario



Sources: Crédit Agricole S.A.

FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

A NOT SO UNBALANCED RELATIONSHIP, NOT SO DIFFERENT CUSTOMS DUTIES

The further escalation of the trade confrontation with the US, announced on *Liberation Day*, which is not yet included in our central scenario, poses a new downside risk to our forecasts.

With this new round of tariff increases, the Trump administration is turning the clocks back a century. The weighted average rate rises from 1.7% to 20.7% if we take into account all the increases implemented since the beginning of his second term.

The US administration justifies the increase in customs duties imposed on the EU to 20% by the desire to align them with the duties set by the EU against it, but also to impose compensatory measures on countries imposing taxes and other measures deemed discriminatory, like European regulations (in particular those on digital, DMA and DSA). The notion of reciprocity mentioned by the US administration is misleading, since the average rate of customs duties weighted by the value of each imported good is not, initially, very different between the EU and the United States (2% and 1.7%). The additional part would take into account reciprocity on non-tariff barriers. The calculation of this compensatory component has not been explained and seems to date to be totally arbitrary.

The tariffs introduced on 2 April are therefore not included in our central scenario, but their impact has been quantified in a risk scenario (now proven).

Assuming no retaliatory measures from the EU, this scenario introduces a further 0.1 pp decline in GDP growth in 2025, 0.3 pp in 2026 and 0.2 pp in 2027 for the Eurozone.

This decrease would be greater for Germany and Italy (-0.4 pp in 2026) and less for France (-0.2 pp in 2026).

An EU response of the same magnitude as the one inflicted on it by the US on goods would imply an additional loss of growth for the EU of 0.2 pp. Symmetrical retaliation seems complicated because if WTO and MFN rules are to be respected, the new rights must apply to all other countries with which there is no free trade agreement. It is possible that U.S. trading partners may exercise more restraint than the U.S. in enforcing tariffs, limiting retaliation, or granting concessions without compensation.

Europe's high exposure to the US market shows the dilemma that European chancelleries will face when it comes to choosing how to respond to US tariffs. The first European reaction to Trump's threats was conciliatory. U. von der Leyen has proposed increasing purchases of liquefied natural gas (LNG) from the United States, which have already tripled during the three years of the Russian-Ukrainian war; It also extended the suspension of retaliatory measures on American products until April 14, in the hope of defusing the escalation. After all, during Trump's first term, the Union had eased trade hostilities by promising to buy more soybeans and LNG.

These proposals do not seem to have met with much interest. So far, Brussels has played the classic trade war scenario, preparing to respond on iconic U.S.-made products like jeans, bourbon and Harley-Davidson. But the Commission could decide to raise the stakes by retaliating on the services sector.

FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

THE ARM WRESTLING HAS BEGUN

Trump 1.0

June 2018
Steel and aluminium
€8 billion
EU retaliation
€2.8+6.3 billion

January 2020
steel derivatives €40bn
EU retaliation
€21 billion

June 2021
Suspension of all measures on negotiated quotas
Until 31/03/2025

Trump 2.0

March 2025
US reintroduced 2018
Increases right from 10% to 25%
Extends to other derivatives
€28 billion

April 1, 2025
EU reintroduces retaliation 2018 €8bn
Prepares 18€Bn countermeasures package

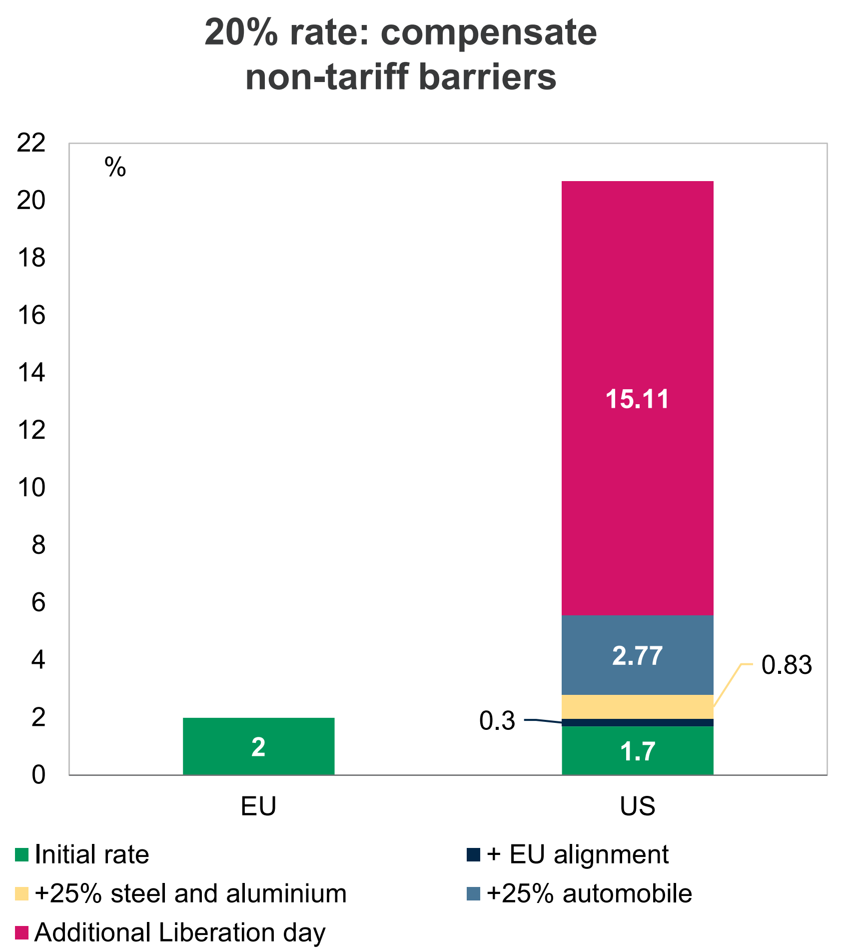
April 2, 2025
US increases right to 20%

May 2025
Possible extension of products subject to 25%

FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

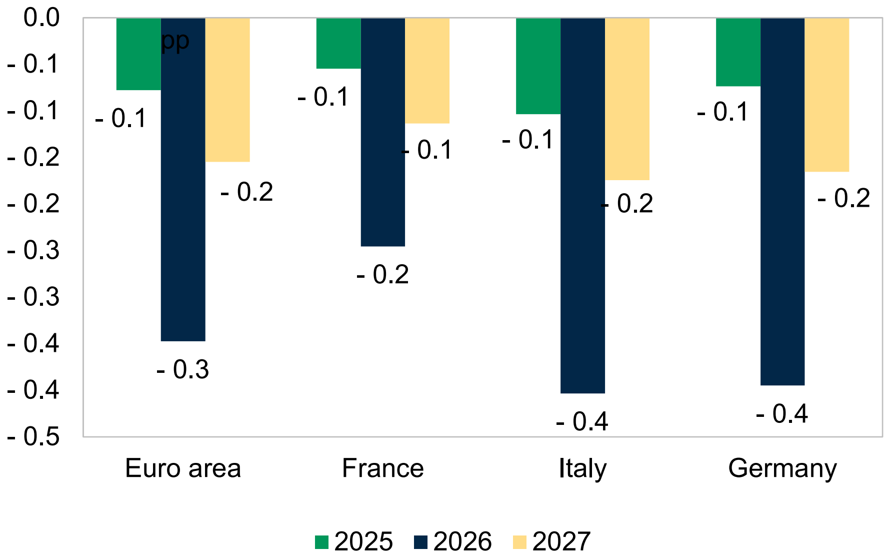
20% CUSTOMS DUTIES ON ALL GOODS

UE: Taux effectifs avant Trump 2.0	
Tarif effectif moyen UE	tarif effectif pondéré UE
4,0	2,0
US : Taux effectifs avant Trump 2.0	
Tarif effectif moyen US	tarif effectif pondéré US
3,9	1,7
US : Taux effectifs au 2 avril	
20,3	20,7

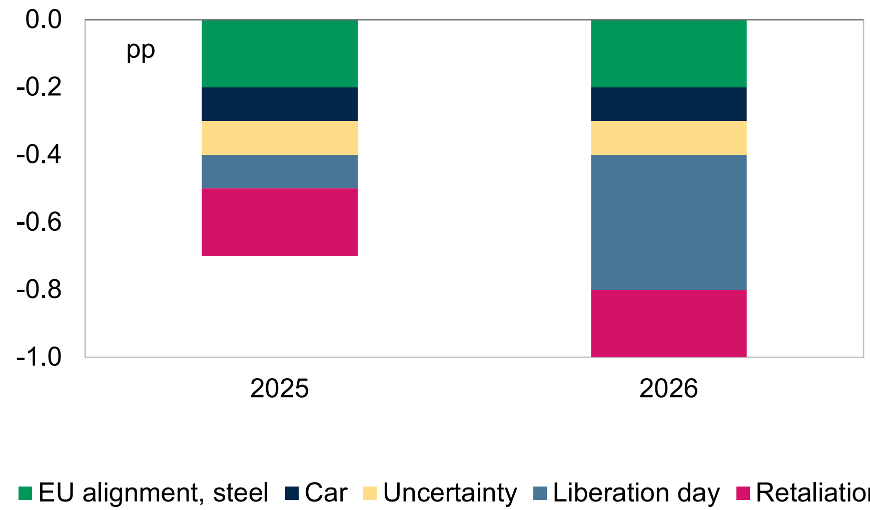


FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

20% CUSTOMS DUTIES ON ALL GOODS



20% scenario: additional impact on GDP growth



GDP growth

- additional cumulative decline in GDP of 0.6pp by 2027
- If we add a symmetrical retaliation from the EU: -0.2 pp

FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

NEGOTIATION STRATEGY

Possible concessions

- LNG purchases (60% of US exports)
- Arms purchases
- Lowering tariffs on vehicles = > WTO or China problem
- CSRD and CSDD Simplification Efforts

Non-negotiable

- VAT cut: 15bn revenue and own resources of the EU budget
- Digital Market Act
- Digital Services Act
- GDPR = consumer protection

Retaliation (products of conservative states)

- Orange juice
- Textile and footwear
- Motorcycles
- Restrict environmental criteria of goods

Anti-coercion Instrument

Applicable if coercion (VAT, digital regulations)

- Import and export restrictions
- EU public procurement
- Limits on FDI
- Intellectual property rights
- ETS Credit Sales Limits

FOCUS: *LIBERATION DAY,* THE RISKY SCENARIO

NEGOTIATION STRATEGY : US EXPORTS OF DIGITAL SERVICES TO THE EU: $307 BILLION

Tightening the screws on US platforms

- Restrict access or revoke licenses
- Permanent bans
- Content taxation
- Extension of Digital Services Taxes
- Facilitating structural measures (dismantling, monopolies)

Limiting access to critical infrastructure

- Designer critical sectors with majority European ownership
- Require storage of critical data in European data centers
- Revoking licences on national security grounds
- Increase controls on IDE in European critical IPs

Restrict the transfer of data

- Suspending or denying new Privacy Shield frameworks
- Incorporate or extend data localisation clauses
- Prohibit the public sector from using services that store data outside the EU

RISKS: RECALIBRATING THE BALANCE

A DOWNSIDE RISK TO GROWTH AND INFLATION

A downward recalibration of risks

Productive investment held back by global policy uncertainty

Risk of contagion from a US rate hike to Eurozone rates

More debt and steepening of the Eurozone curve

Negative contribution from foreign demand

Global excess capacity on the European market (deflation)

Recovery in consumption

Stabilisation of housing investment

Acceleration of public spending

Crowding in private investment through public investment

THE SCENARIO IN NUMBERS

OUR FORECAST IN DETAIL

Eurozone scenario – March 2025
Between new divides and new convergences

	2023	2024	2025	2026	2024				2025				2026			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (y/y, q/q, %)	0,5	0,8	1,0	1,5	0,3	0,2	0,4	0,2	0,2	0,1	0,3	0,6	0,3	0,3	0,3	0,3
Domestic demand (contribution to GDP, pps)	1,0	0,7	1,3	1,5	-0,1	-0,3	0,9	0,4	0,1	0,2	0,3	0,6	0,4	0,4	0,3	0,3
Private consumption (y/y, q/q, %)	0,6	1,0	1,2	1,2	0,5	0,0	0,6	0,4	0,2	0,2	0,3	0,3	0,3	0,3	0,3	0,3
Public consumption (y/y, q/q, %)	1,4	2,8	1,4	1,1	0,3	1,1	0,9	0,4	0,0	0,1	0,2	0,5	0,3	0,2	0,2	0,2
Investment (y/y, q/q, %)	1,9	-2,1	1,8	3,2	-2,0	-2,5	1,8	0,6	0,1	0,4	0,5	1,7	0,6	0,7	0,7	0,7
Change in inventories (contribution to GDP, pps)	-0,8	-0,3	0,2	0,1	-0,2	0,2	0,5	-0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	0,3	0,4	-0,5	-0,2	0,7	0,3	-0,9	0,0	0,0	-0,1	0,0	-0,1	0,0	0,0	0,0	0,0
Exports (y/y, q/q, %)	-0,6	1,0	0,8	2,5	1,1	1,5	-1,4	-0,1	0,5	0,3	0,5	0,7	0,7	0,7	0,7	0,7
Imports (y/y, q/q, %)	-1,3	0,1	2,0	3,2	-0,2	1,0	0,5	-0,1	0,6	0,6	0,7	0,8	0,8	0,8	0,8	0,8
Inflation (y/y, %)	5,4	2,4	2,0	1,8	2,6	2,5	2,2	2,2	2,3	2,0	1,9	1,9	1,6	1,8	1,8	1,9
Core inflation (y/y, %)	4,9	2,8	2,4	2,0	3,1	2,8	2,8	2,7	2,6	2,4	2,3	2,2	2,1	2,0	2,0	2,0
Unemployment rate (%)	6,6	6,4	6,4	6,3	6,5	6,4	6,3	6,2	6,4	6,4	6,4	6,3	6,3	6,3	6,3	6,2
Current account balance (% of GDP)	1,7	2,8	2,4	2,3	-	-	-	-	-	-	-	-	-	-	-	-
Fiscal balance (% of GDP)	-3,6	-2,9	-2,6	-2,7	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	87,5	88,2	88,9	89,5	-	-	-	-	-	-	-	-	-	-	-	-

THE SCENARIO IN NUMBERS

OUR FORECAST BY COUNTRY

	2023	2024	2025	2026	2024				2025				2026			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0,5	0,8	1,0	1,5	0,3	0,2	0,4	0,2	0,2	0,1	0,3	0,6	0,3	0,3	0,3	0,3
Germany	-0,1	-0,2	0,1	1,5	0,2	-0,3	0,1	-0,2	0,1	-0,2	0,1	1,2	0,3	0,2	0,3	0,3
France	1,1	1,1	0,8	1,4	0,1	0,3	0,4	-0,1	0,2	0,2	0,3	0,4	0,4	0,4	0,4	0,4
Italy	0,8	0,5	0,6	1,0	0,3	0,1	0,0	0,1	0,0	0,3	0,3	0,3	0,2	0,3	0,2	0,2
Spain	2,7	3,2	2,5	2,0	1,0	0,8	0,8	0,8	0,5	0,6	0,6	0,4	0,4	0,5	0,5	0,5
Netherlands	0,1	1,0	1,6	1,5	-0,2	1,0	0,8	0,4	0,2	0,2	0,4	0,4	0,4	0,4	0,4	0,4
Belgium	1,3	1,0	1,1	1,5	0,3	0,3	0,3	0,2	0,2	0,3	0,4	0,4	0,4	0,4	0,4	0,4
Ireland	-5,6	1,2	5,2	1,5	1,6	-0,4	4,1	3,6	0,4	0,1	0,1	0,0	0,6	0,5	0,5	0,5
Portugal	2,6	1,9	2,4	1,9	0,6	0,4	0,2	1,5	0,4	0,3	0,5	0,6	0,5	0,5	0,3	0,4
Greece	2,3	2,3	2,3	2,0	0,1	1,2	0,4	0,9	0,3	0,5	0,5	0,7	0,5	0,4	0,5	0,3
Finland	-0,9	-0,1	0,7	1,4	0,5	0,1	0,6	0,0	0,1	0,3	0,2	0,2	0,4	0,4	0,5	0,4
Luxembourg	-0,7	1,0	2,3	2,2	0,6	0,7	-0,9	1,4	0,6	0,6	0,6	0,6	0,5	0,6	0,6	0,6
Austria	-0,9	-1,3	0,5	1,1	0,0	-0,4	-0,2	-0,4	0,5	0,3	0,4	0,4	0,2	0,2	0,2	0,2
Slovenia	2,4	1,3	1,9	2,6	0,0	0,1	0,4	0,6	0,3	0,6	0,7	0,6	0,7	0,7	0,6	0,6
Malta	6,8	6,0	3,0	3,1	1,3	2,8	-0,6	-0,7	1,5	1,4	1,0	0,7	0,7	0,7	0,7	0,7

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