



EURO AREA 2026–2027 SCENARIO

Quarterly – April 2026



Domestic factors are keeping the risk of recession at bay

External pressures are mounting as energy costs rise, widening the competitiveness gap with other regions. The impact on inflation is immediate and weighs on growth, which is more subdued in 2026 but remains in positive territory. Investment and private consumption are also affected and are held back, but continue to support growth despite an extremely accommodative monetary policy.

This scenario is set against a backdrop of military, political and economic uncertainty that makes forecasting the scale of shocks and their macroeconomic impact particularly risky. But one thing is certain: the tightening of external constraints on the Eurozone, which is facing more volatile prices on global energy markets. Whilst, unlike in 2022, the risk is less one of shortages, its vulnerability to global prices has increased and the Eurozone is no longer on the smooth disinflationary path it was on before the war in the Middle East. Even if the scenario is shifting towards a medium-to-long-term risk linked to shipping through the Strait of Hormuz, recession and persistent inflation are relegated to adverse scenarios. Nevertheless, the energy supply shock and its inflationary consequences are amplified by a combination of potential constraints on supply capacity, tighter financial conditions and growing uncertainty: a combination that runs counter to our pre-war scenario of accelerating investment. The solid economic and financial position of private sector players, coupled with a broadly neutral and locally (particularly in Germany) expansionary fiscal policy stance, should nevertheless ensure growth of 0.8% in 2026 and 1.1% in 2027.

Assumptions regarding the international environment

Our geopolitical scenario anticipates that the Iranian regime will remain in power but will also gradually be worn down. Such a scenario implies a complete blockade of the Strait of Hormuz limited to the month of March, followed by a gradual but incomplete reopening of the passage, with a sustained ceiling of 80% over the horizon of our forecast. Added to this interrupted and then imperfectly restored traffic is the destruction of oil and gas infrastructure, which is currently keeping oil and gas prices high. After reaching \$130 per barrel in March, the price of oil remains high in the second quarter of 2026 and begins to fall in the third quarter, at \$100 per barrel, before stabilising at \$85 per barrel until the end of 2027. The projected trend for European gas prices is similar, with a peak in March at \$97 per MWh, a second quarter of 2026 at \$68 per MWh, and a decline that keeps the price at \$51 per MWh until the end of the scenario.

	2024	2025	2026	2027
GDP (y/y, %)	0,9	1,5	0,8	1,1
Domestic demand (contribution to GDP, pps)	0,7	1,8	1,1	1,0
Change in inventories (contribution to GDP, pps)	-0,1	0,2	0,2	0,3
Net exports (contribution to GDP, pps)	0,3	-0,6	-0,6	-0,1
Private consumption (y/y, %)	1,4	1,6	0,9	0,8
Investment (y/y, %)	-2,6	3,1	1,4	1,5
Inflation (y/y, %)	2,4	2,1	3,1	2,1
Unemployment rate (%)	6,4	6,3	6,4	6,4
Fiscal balance (% of GDP)	-3,1	-2,8	-3,1	-3,2

The impact of this supply shock is felt more acutely on European inflation than on US inflation, despite higher initial inflation across the Atlantic. US inflation is projected to average 3.2% annually in 2026 and 2.3% in 2027. Growth is expected to prove resilient to the supply shock, as the US economy is less oil-intensive than in the past and the United States is now a net exporter that can also benefit from rising prices.

“ The disinflationary trend in wages remains unchallenged, but it is expected to continue at a slower pace. ”

With timely fiscal support arriving in 2026 to offset the negative impact of the supply shock and rising tariffs, the US economy is expected to maintain a solid growth rate (2.2% in 2026), albeit at a slower pace (1.9% in 2027). This pace is lower than that forecast last December and makes us more comfortable with our previously aggressive rate forecast, which anticipates the *Federal Reserve's* policy rate remaining at 3.75% this year and a first cut of 25 basis points (bp) in spring 2027. US long-term rates are pricing in the Fed's policy shift, with the term premium widening to 4.55% for 10-year *Treasuries* by the end of 2026 and 4.45% by the end of 2027. The ECB's more aggressive policy, with a 75 bp hike in its key interest rate, is flattening the yield curve, with a 10-year *swap* rate at 3% and a widening of risk premiums in 2026. This proactive stance by the ECB leads us to revise our euro-dollar forecast upwards, with a rate of 1.13 by the end of 2026 and 1.17 by the end of 2027.



Assessing the strengths

The transmission of the supply shock depends, on the one hand, on the starting point and, on the other, on the factors driving growth in the Eurozone at the start of 2026. Whilst 2025 began amid a climate of considerable uncertainty, under the threat of a sudden distortion of export and import flows linked to US customs policy, the adjustments proved less severe than initially anticipated and growth returned to a composition more in line with domestic drivers. After recording a quarterly growth rate of 0.6% in the first quarter, driven by strong exports in anticipation of the tariff hike, growth moderated without, however, falling to zero in the second quarter (0.1%), before regaining momentum in the summer at rates of 0.3% and 0.2% in the third and fourth quarters respectively. By the end of the year, the annual growth rate (1.3% compared with the end of 2024) was slightly above potential and, in any case, higher than the trend rate of the past decade. **This performance leaves GDP at the end of 2025 6.8% higher than pre-Covid levels.**

Average annual growth of 1.5% in 2025 marked an acceleration compared with 2024 (0.9 percentage points), driven by a marked strengthening of the contribution from domestic demand (1.8 percentage points) and a positive contribution from changes in inventories (0.2 percentage points), which more than offset the negative impact of net external demand, which subtracted 0.6 percentage points from growth.

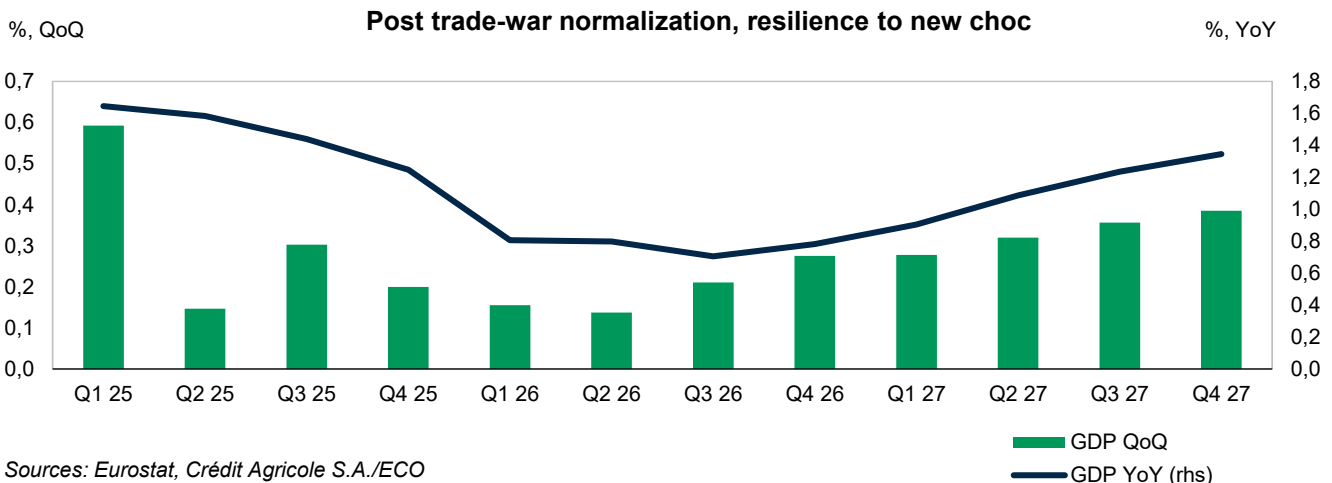
Resilience of domestic demand

The resilience of growth in the face of the international trade shock in the first half of 2025 is explained by very buoyant domestic dynamics, with household consumption growth settling at an annual rate of 1.4% by the end of the year and public consumption remaining dynamic (1.5% year-on-year in the fourth quarter). Household consumption can rely on a still-robust increase in the wage bill (3.9% year-on-year), which, despite slowing, remains above inflation (2.3% for the private consumption deflator). This

growth is driven by continued positive job creation (+0.7% year-on-year in Q4 2025), albeit at a slower pace than economic growth (1.3%). Average earnings per capita are also slowing (3.3% year-on-year), but, after four years of declining purchasing power, they finally exceed their 2019 level in 2025. Since the Covid crisis, real wages will ultimately have risen by just 1.4%. **Continued gains in purchasing power were factored into our pre-Middle East war disinflation scenario: this source of growth could be jeopardised if the inflationary shock proves stronger than currently anticipated in our new scenario.**

Investment has also been gaining momentum, growing at a rate of 3.2% year-on-year in the fourth quarter, driven by the recovery in housing investment since the summer, following two years of decline. Investment in equipment (machinery, transport and ICT) is also growing at a steady pace (2.8% year-on-year) thanks to the recovery in investment in transport equipment. The contribution from investment in intellectual property remains robust, although it has moderated following its sharp rise in early 2025, linked to moves in anticipation of rising tariffs in the chemical and pharmaceutical sectors.

This strengthening of investment is, however, no longer driven by profitability dynamics as favourable as in the recent past. The profit margin has been falling since its peak at the end of 2022 and is thus returning to its average level of the past decade (2013–2019 average). Unit profits therefore no longer contribute to price growth (in this case, the value-added deflator), which stems solely from unit labour costs. The growth of the latter has been moderated by productivity, which has been recovering since mid-2024 but lost momentum by the end of 2025. The rise in per capita wages, though still robust, is nevertheless driven by an increasingly limited number of sectors: the public sector in Germany and Spain, and real estate services in Germany and Italy. Market services, the main driver of wage growth since the Covid pandemic,



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



showed growth of just 2.9% year-on-year by the end of 2025.

The starting point: a strengthening cycle

Leaving a carry-over effect of 0.3%, GDP growth, in the fourth quarter provides a modest but positive momentum to 2026. Indicators point to a fairly solid start to the year with a recovery in manufacturing activity and confidence. The most recent survey data (March), collected after the start of the war in the Middle East, show a deterioration in activity and confidence in services. It is particularly the services sector, where a slowdown has been reported since October 2025, that is set to suffer: the PMI index indicates stagnation in activity and a contraction in both new business and exports. By contrast, the manufacturing PMI has been recovering since the start of the year and points to an expansion in production in the first quarter, driven by the strong recovery in activity in Germany. Domestic orders in the manufacturing sector are rising, whilst those from abroad are contracting at a slower pace. The ratio of orders to stocks is at its highest since 2022, thanks in part to the continued decline in stocks. Supply chains are, however, already heavily affected by the war in the Middle East, with delays in the delivery of inputs reported in March at their highest level since mid-2022.

Surveys from March indicate that the outbreak of war in the Middle East very quickly led to a sharp rise in cost-push inflation, which reached its highest level in over three years. Inflation in selling prices was significantly less pronounced, and even fell in the services sector, pointing overall to a squeeze on margins.

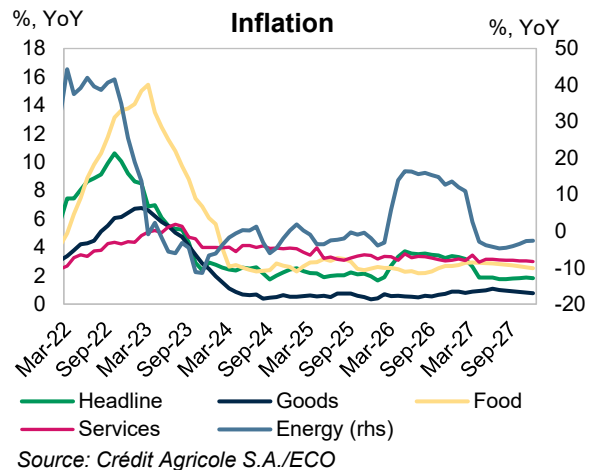
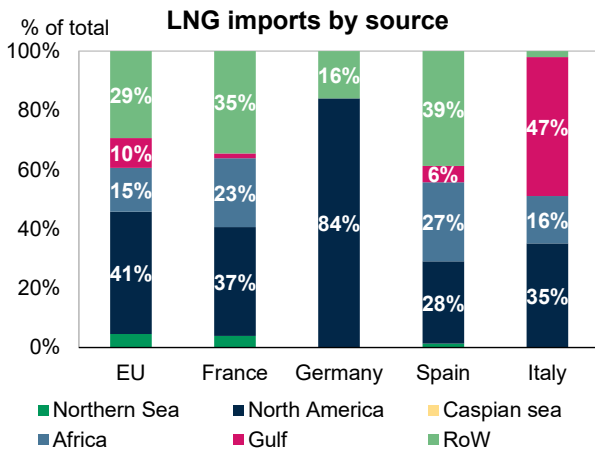
No recession, but a more stagflationary environment

Although Eurozone countries are not heavily reliant on fossil fuels from the Arabian Gulf, they are more vulnerable to international price volatility than in 2022. The expected impact on the harmonised index of consumer prices is immediate.

The acceleration in the energy component of the index would interrupt the decline that has been underway for a year, peaking in May, then beginning a sharp decline in March 2027, with a subsequent negative contribution to the Harmonised Index of Consumer Prices (HICP). This should translate into a peak inflation rate of 3.7% in May 2026, an index above 3% until February 2027 and below 2% from April 2027 onwards, driven by base effects in the energy sector. The trend in the core inflation index would be more sluggish, peaking at 2.5% in May 2026 but remaining above target over the forecast horizon. Second-round effects on the prices of non-energy industrial goods (whose growth was only 0.4% at the start of 2026) would push their inflation to an annual average of 0.9% in 2027. Whilst service prices are expected to accelerate, their disinflation would continue, albeit at a slower pace of 3%, by the end of 2027.

This impact of energy on prices is exacerbated by shortages of a range of inputs for industry and agriculture (helium, aluminium, fertilisers) and by the rise in transport costs for goods and raw materials.

The rise in input costs would only be partially passed on to final prices by firms, which are facing sluggish demand. We therefore anticipate a squeeze on margins, leaving little room for a positive response to any wage demands aimed at offsetting inflation. The disinflationary trend in wages is therefore not called into question, but it is expected to continue at a slower pace, remaining below 3% in 2027. This further squeeze on margins would dampen investment decisions, which are already hampered by greater uncertainty, tighter financial conditions and weaker demand from businesses. The negative impact of rising prices on household consumption and investment would be of a similar magnitude to that observed for businesses; it would manifest itself mainly through rising electricity and fuel prices, on the one hand, and interest rates, on the other.



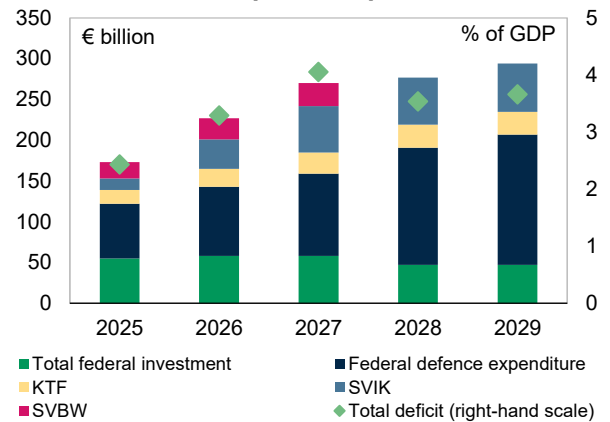


Our scenario envisages a swift and aggressive response from the ECB, with three 25-basis-point (bp) hikes in the key interest rate by July and the deposit rate remaining at 2.75% until September 2027, before a first cut. Although the ECB has stated that risks relate to both growth and inflation, we anticipate a pre-emptive rate hike to avoid any risk of inflation expectations becoming unanchored, which would fuel more powerful second-round effects. This restrictive monetary policy amplifies the negative impact of the supply shock on Eurozone growth. The fiscal policy response would remain limited and uncoordinated, with fiscally constrained countries prioritising their budgetary targets. By contrast, Germany's stimulus through infrastructure and defence spending would not be called into question. Relying largely on earmarked funds, it would reach the targets set out in the long-term plan by 2026, without, however, making up for the cumulative shortfall by 2025, particularly regarding the infrastructure component of the special funds (KTF and SVIK). This additional effort would generate a fiscal impulse of 0.9 percentage points in 2026 in Germany, thereby supporting the acceleration in growth despite the supply shock linked to the war in the Middle East. In addition to this German effort, 2026 will see investment expenditure linked to the NGEU fund and a general acceleration in defence spending.

Despite this public support, the pace of investment growth is expected to weaken (1.4% and 1.5% in 2026 and 2027, following 3.1% in 2025). We also forecast a slowdown in household consumption to 1.6% in 2026 and 1.3% in 2027. The contribution of net external demand is expected to remain negative over the forecast horizon, with trade flows disrupted by US trade policies and restrictions on shipping in the Persian Gulf. Compared with our December 2025 forecasts, our new scenario therefore introduces a 0.4-point decline in growth this year and a 0.2-point decline next year, of which 0.1 points is attributable to rising

interest rates. After 1.5% in 2025, GDP growth is expected to reach only 0.8% in 2026 and 1.1% in 2027.

German public expenditure



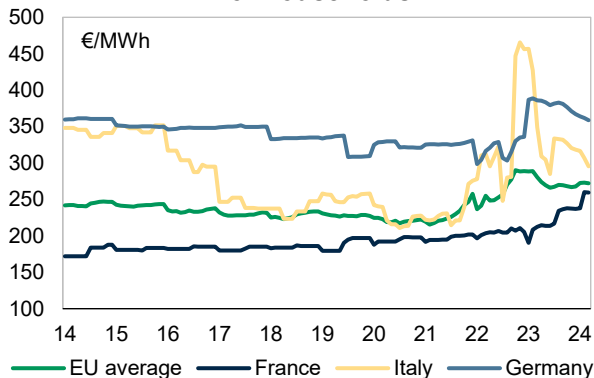
Sources: Ministry of Finance, Crédit Agricole S.A./ECO

A differentiated impact, depending on the pass-through of rising energy costs

The impact of the supply shock varies significantly from one country to another within the eurozone, depending on their degree of exposure to the Persian Gulf in terms of oil and gas imports (highest for Italy), but also on the electricity generation mix (more or less reliant on gas) and the energy intensity of the economy (higher for Germany and Italy, due to their specialization in energy-intensive manufacturing sectors). It also depends on distribution network costs and taxes and excise duties. Consequently, the final price paid by Italian and German businesses and households is higher than that paid in France.

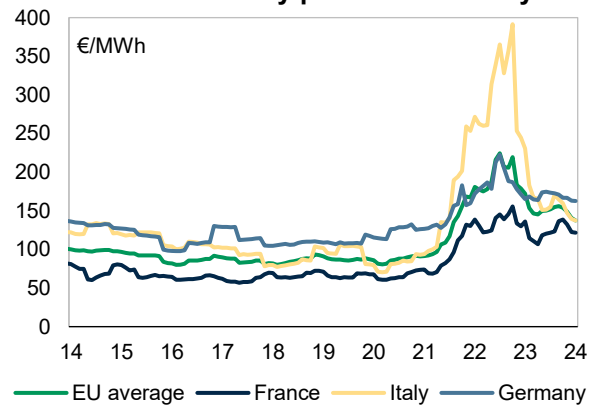
This energy price differential fuels a consumer price inflation rate that is higher in Italy and Germany than in France, which will result in a more negative impact of the supply shock on these two economies.

Retail electricity prices for households

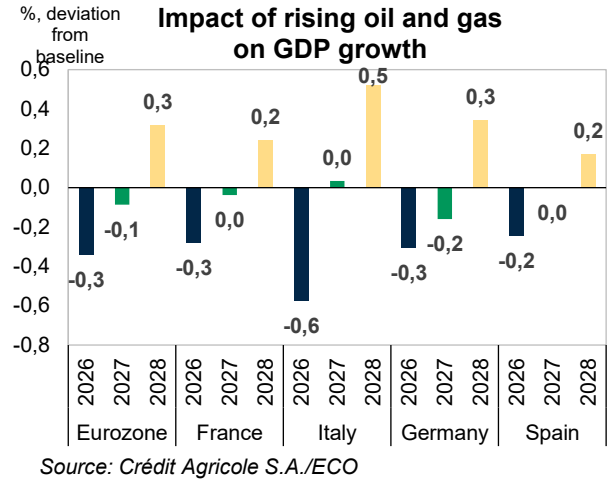
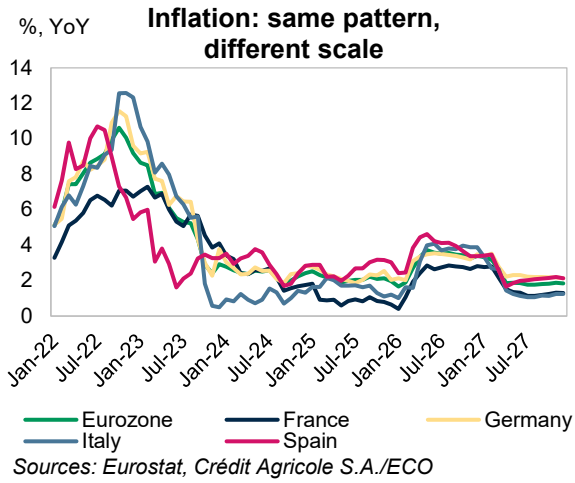


Sources: Eurostat, Crédit Agricole S.A./ECO

Retail electricity prices for industry



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



Completed on 30 March 2026



ECONOMIC AND FINANCIAL FORECASTS

EUROPEAN MACROECONOMIC SCENARIO

International forecasts

	2024	2025	2026	2027	2025				2026				2027			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
Eurozone GDP (y/y, q/q, %)	0,9	1,5	0,8	1,1	0,6	0,1	0,3	0,2	0,2	0,1	0,2	0,3	0,3	0,3	0,4	0,4
United States GDP (y/y, q/q, annualised, %)	2,8	2,1	2,2	1,9	-0,6	3,8	4,4	0,7	3,0	1,8	2,1	2,1	2,0	2,1	1,9	1,8
China GDP (y/y, q/q, %)	5,0	5,0	4,7	4,5	-	-	-	-	-	-	-	-	-	-	-	-
ECB deposit rate (end of period, %)	3,00	2,00	2,75	2,50	2,50	2,00	2,00	2,00	2,00	2,00	2,50	2,75	2,75	2,75	2,50	2,50
Federal Reserve funds rate (end of period, %)	4,50	3,75	3,75	3,50	4,50	4,50	4,25	3,75	3,75	3,75	3,75	3,75	3,75	3,50	3,50	3,50
Exchange rate (average, EUR/USD)	1,08	1,13	1,14	1,15	1,05	1,13	1,17	1,16	1,16	1,14	1,12	1,13	1,13	1,14	1,16	1,17
Brent (average, USD/barrel)	81,2	69,3	96,0	85,0	76,0	68,0	69,0	64,0	89,0	110,0	100,0	85,0	85,0	85,0	85,0	85,0

GDP trends

	2024	2025	2026	2027	2025				2026				2027			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0,9	1,5	0,8	1,1	0,6	0,1	0,3	0,2	0,2	0,1	0,2	0,3	0,3	0,3	0,4	0,4
Germany	-0,5	0,4	0,5	0,8	0,4	-0,2	0,0	0,3	0,2	0,1	0,1	0,2	0,2	0,2	0,2	0,3
France	1,1	0,9	0,9	0,9	0,1	0,3	0,5	0,2	0,2	0,1	0,1	0,2	0,2	0,3	0,3	0,3
Italy	0,6	0,7	0,3	0,6	0,3	0,0	0,2	0,3	0,0	-0,1	0,1	0,1	0,1	0,3	0,3	0,3
Spain	3,5	2,8	2,0	1,6	0,5	0,7	0,6	0,8	0,5	0,3	0,3	0,5	0,4	0,4	0,4	0,4
Netherlands	1,1	1,9	1,3	1,0	0,3	0,3	0,5	0,5	0,3	0,2	0,2	0,2	0,3	0,3	0,4	0,4
Belgium	1,1	1,0	0,4	0,5	0,4	0,2	0,3	0,1	0,2	0,0	0,0	0,1	0,1	0,2	0,3	0,3
Ireland	2,5	12,4	-0,6	2,5	7,7	-0,6	0,0	-3,8	1,4	0,7	0,7	0,7	0,5	0,6	0,6	0,6
Portugal	2,2	1,9	1,8	1,6	-0,3	0,7	0,6	0,9	0,1	0,3	0,4	0,5	0,4	0,4	0,4	0,2
Greece	2,1	2,2	1,9	1,5	0,4	0,5	0,7	0,8	0,4	0,2	0,4	0,4	0,4	0,4	0,4	0,3
Finland	0,4	0,1	0,7	0,9	0,0	-0,3	-0,3	0,6	0,3	0,1	0,2	0,2	0,2	0,3	0,3	0,3
Luxembourg	0,3	0,6	1,6	1,2	0,6	0,6	1,2	-0,1	0,5	0,2	0,3	0,4	0,1	0,3	0,4	0,4
Austria	-0,8	0,7	0,5	0,6	0,3	0,0	0,3	0,0	0,1	0,1	0,1	0,1	0,2	0,2	0,2	0,2
Slovenia	1,7	0,9	1,6	0,6	-0,6	0,9	0,9	0,4	0,3	0,3	0,2	0,2	0,1	0,1	0,1	0,1
Malta	6,2	4,0	3,7	1,7	1,4	1,7	1,1	2,1	1,2	-0,2	-0,2	0,6	0,6	0,6	0,6	0,6

Eurozone

	2024	2025	2026	2027	2025				2026				2027			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP volume (y/y, q/q, %)	0,9	1,5	0,8	1,1	0,6	0,1	0,3	0,2	0,2	0,1	0,2	0,3	0,3	0,3	0,4	0,4
Domestic final sales (contribution to GDP, pps)	0,7	1,6	1,3	1,4	0,7	0,0	0,5	0,5	0,3	0,1	0,1	0,2	0,3	0,3	0,3	0,3
Private consumption (y/y, q/q, %)	1,4	1,6	0,9	0,8	0,3	0,4	0,3	0,5	0,3	0,0	0,0	0,2	0,2	0,3	0,3	0,3
Public consumption (y/y, q/q, %)	2,3	1,6	1,6	1,3	-0,2	0,4	0,7	0,5	0,2	0,4	0,4	0,3	0,3	0,3	0,3	0,3
Investment (y/y, q/q, %)	-2,6	3,1	1,4	1,5	2,7	-1,4	1,3	0,6	0,4	0,2	0,2	0,3	0,4	0,5	0,5	0,6
Change in inventories (contribution to GDP, pps)	-0,1	0,2	0,2	0,3	-0,2	0,4	0,1	-0,1	0,0	0,1	0,1	0,1	0,0	0,0	0,1	0,1
Net exports (contribution to GDP, pps)	0,3	-0,6	-0,6	-0,1	0,2	-0,2	-0,4	-0,1	-0,1	-0,1	0,0	0,0	0,0	0,0	0,0	0,0
Exports (y/y, q/q, %)	0,5	2,1	0,2	1,0	2,4	-0,5	0,8	-0,4	0,1	0,0	0,1	0,2	0,3	0,3	0,3	0,4
Imports (y/y, q/q, %)	-0,2	3,7	1,5	1,4	2,3	0,0	1,8	-0,1	0,4	0,3	0,2	0,3	0,4	0,4	0,5	0,5
Inflation (y/y, %)	2,4	2,1	3,1	2,1	2,3	2,0	2,1	2,1	2,1	3,5	3,5	3,4	3,0	1,9	1,8	1,8
Core inflation (y/y, %)	2,8	2,4	2,3	2,3	2,6	2,4	2,3	2,4	2,3	2,3	2,3	2,3	2,4	2,4	2,3	2,3
Unemployment rate (%)	6,4	6,3	6,4	6,4	6,3	6,3	6,3	6,3	6,3	6,4	6,4	6,4	6,4	6,4	6,3	6,3
Current account balance (% of GDP)	1,6	2,4	1,6	1,6	-	-	-	-	-	-	-	-	-	-	-	-
General government net lending (% of GDP)	-3,1	-2,8	-3,1	-3,2	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	87,2	87,3	87,4	88,0	-	-	-	-	-	-	-	-	-	-	-	-



Publication Manager: Isabelle JOB-BAZILLE
Editor-in-Chief: Armelle SARDA

Editorial committee

Paola MONPERRUS-VERONI
Alberto ALEDO
Slavena NAZAROVA
Marianne PICARD
Sofia TOZY

Information centre: Elisabeth SERREAU – **Statistics:** Datalab ECO

Layout & Editor: Fabienne PESTY – Sophie GAUBERT

Contact: publication.eco@credit-agricole-sa.fr

This publication reflects the opinion of Crédit Agricole S.A. on the date of publication, unless otherwise specified (in the case of external contributors). Such opinion is subject to change without notice. This publication is provided for informational purposes only. The information and analyses contained herein are not to be construed as an offer to sell or as a solicitation of any kind. Crédit Agricole S.A. and its affiliates shall not be liable in any way for direct, indirect, special or consequential damages, however caused, arising therefrom. Crédit Agricole does not warrant the accuracy or completeness of such opinions, nor of the sources of information upon which they are based, although such sources of information are considered reliable. Crédit Agricole S.A. or its affiliates shall therefore not be liable in any way for any direct, indirect, special or consequential damages, however caused, arising from the disclosure or use of the information contained in this publication.

Visit the Economic Research website and subscribe to our free online publications:

Website: <https://etudes-economiques.credit-agricole.com/en>
Etudes ECO App available on [the App Store](#) and [Google Play](#)

