EURO AREA
2026–2027 SCENARIO

Quarterly – June 2026

ECO
ÉTUDES ÉCONOMIQUES GROUPE

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Normalisation rather than a rebound

Despite the signing of a memorandum of understanding that reduces the extreme risk posed by rising energy prices, the inflationary episode is weighing more heavily on the euro area's growth outlook than on that of its closest competitors. Factors contributing to a loss of competitiveness are mounting, and weak exports are increasingly eroding growth. However, domestic demand is holding up, supported by improvements in supply (the labour force and productivity) and a more balanced distribution of value added. Although benefiting less from the global investment supercycle, capital accumulation remains a driver of growth. With wages continuing to act as a disinflationary force, the supply shock is unlikely to result in persistent inflation and would allow growth to normalise at a rate slightly below potential.

Assumptions regarding the international environment

Our scenario remains, more than ever, heavily dependent on assumptions regarding the course of the conflict in the Persian Gulf, which shape the energy price scenario.

The memorandum of understanding between the United States and Iran, whilst it appears to rule out the most extreme risk, marks the start of a long and complex negotiation process that remains, in fact, fragile. The resumption of traffic through the Strait of Hormuz faces challenges relating to the clearance of mines in sensitive areas, as well as issues concerning marine insurance and the return of oil tanker and LNG carrier fleets that have been redeployed to the Atlantic basin. Given these constraints, traffic is expected to remain 20 per cent below its pre-crisis level for the foreseeable future, with freight rates for tankers and LNG carriers rising, though without returning to their pre-war levels. In addition to the normalisation of traffic, the issue of oil and gas production in the region arises. Indeed, the damage caused to oil and gas infrastructure in the Gulf by the clashes is expected to allow only a gradual return to normal oil production levels in the region. Finally, in the event of a further prolonged shutdown, the risk of oil stocks running dry (a *'tank bottom'* scenario) by the end of 2026 constitutes an adverse scenario that cannot be entirely ruled out. The gas market faces a similar situation. Qatar's liquefied natural gas (LNG) production capacity has also been partially reduced, depriving Europe of part of its LNG supply and thereby slowing the replenishment of stocks just ahead of the summer restocking period. These stocks are in fact showing a significant shortfall of 18 billion m³, which is lower than the level observed during the 2022 energy crisis. A delayed resumption of gas flows from Qatar could put further pressure on European gas prices as early as this summer.

It is therefore against this backdrop of extreme caution that our scenario is set, with a slightly higher probability of occurrence than a more adverse scenario. It also takes into account the damage to inflation and growth that materialised prior to the signing of the memorandum of understanding.

The first signs of a resurgence in inflation, linked to rising energy prices, began to emerge as early as April; however, the inflationary shock could be less severe than that anticipated in our previous scenario at the end of March. Following the announcement of the memorandum of understanding between the United States and Iran, signs of a de-escalation in the Middle East have led to a reduction in pressure on Brent crude prices, with spot prices now trading below $80, compared with a peak of over $100 per barrel last March. Market expectations have also factored in an extension of the ceasefire and a gradual resumption of shipping traffic through the Strait of Hormuz, as reflected in the *futures* curve, which, as at 17 June when we finalised our forecast, pointed to a stabilisation at around $72 by 2027. Consumer price forecasts for eurozone countries were based on this assumption (as well as on the gas *futures* curve), namely an average annual Brent price of £83 per barrel in 2026 and $75 in 2027.

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

Against this backdrop of energy supply pressures, the US economy stands out as an exception due to its status as a net exporter. Although growth is slowing, it is expected to reach2.1 per cent in 2026 and 1.9 per cent in 2027, and continues to drive the global economy, notably thanks to an investment cycle centred on AI and semiconductors, with its centre of gravity in the Pacific. Whilst US household consumption is expected to slow, weighed down by inflation that remains high at 3.2% in 2026, economic activity is likely to remain buoyant thanks to continued substantial investment in artificial intelligence and fiscal support provided by tax rebates under the *'Big,*

Beautiful Bill'. For 2027, inflation is expected to ease gradually, with second-round effects remaining contained, and inflation forecast at 2.3 per cent. Against this backdrop, the *Fed*, which recently saw the appointment of its new chair, is not expected to change its interest rates throughout 2026, with the upper bound of the *Fed funds* rate remaining at 3.75 per cent, despite a stance that remains cautious and focused on price stability.

In the first quarter of 2026, growth is proving resilient but is losing momentum

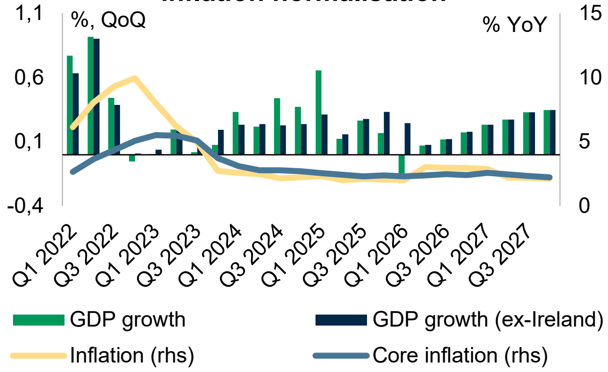
Against a backdrop of global growth underpinned by the manufacturing and investment *supercycle* in Asia – and revised upwards since last summer – growth in the euro area had gradually strengthened following its slowdown between 2022 and 2024. It was above all **the acceleration in domestic demand that gained momentum in the second half of 2025**, with this increase offsetting the negative contribution from net foreign demand. Indeed, since the tariff shock, net exports have reduced growth by an average of 0.3 percentage points per quarter, in line with our forecasts of the impact of this shock. Growth in 2025 therefore settled at a pace slightly below potential.

The relative strength of its fundamentals and the transitory nature of the inflationary shock enable the euro area economy to avoid a recession.

Buoyed by a well-advanced process of disinflation, stabilised interest rates, a labour market that remained resilient and the sound economic and financial position of non-financial private sector agents, the euro area was well placed to start the year on a positive note. Admittedly, firms had gradually reduced their abundant liquidity and were operating in an environment less favourable to their pricing power, but the slowdown in labour costs was limiting the erosion of margins. As for households, disinflation was helping to restore their purchasing power, even though past inflation had reduced the real value of the substantial savings accumulated during the post-pandemic period.

Indicators for the first quarter point to a loss of momentum, with growth nevertheless holding steady at a year-on-year rate of 1%. Excluding the distortion caused by Ireland's growth (-12.7%)[1] , GDP growth in the euro area stands at +0.3%, in line with our forecast from last March. Indeed, **growth proved stronger than anticipated in Germany and Italy (+0.3%), as well as in Spain (+0.6%), offsetting the underperformance of French growth (-0.1%).** Taking into account the dip at the start of the year due to Irish GDP, growth is negative (-0.2%) and the carry-over effect for 2026 is now just 0.1%, compared with 0.5% in our forecast last March. Excluding the Irish effect, the carry-over of 0.7% is more in line with economic activity expanding at a pace slightly below potential.

Normalisation of growth after inflation normalisation



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

Excluding the exceptional factors responsible for the decline in the euro area GDP – and even before the negative impact of the war in the Persian Gulf has had a chance to take effect – **the weakening of the drivers of growth is nevertheless evident**. In the first quarter, the slowdown in household consumption (+0.2%, down from +0.4 %in Q4) affected all the major economies in the area, with the exception of Italy. This slowdown is a cause for concern in Germany, where, following a recovery in 2025, the loss of momentum in private consumption has been particularly marked (0%, down from 0.6 %in Q4): since 2019, it has grown by just 2.6%. By contrast, growth in public consumption remains robust, at +0.6% per quarter, driven by the acceleration in German spending that has been underway since last summer (+1.1%, following +1.5% in Q4 2025). This rise is more modest elsewhere, and public consumption is even declining in Italy. Investment has fallen in the eurozone (-0.3%), thereby halting the recovery observed since late 2024. It fell in Germany (-1.5%, offsetting the sharp rise in Q4 2025) and in France (-0.6%); in Italy and Spain, it continues to rise, but at a slower pace.

Having exhausted the favourable effects linked to anticipation of US tariffs, the euro area's exports of goods and services have been contracting since the autumn (-0.2% in Q1 2026). However, this trend is not uniform: in Germany and Italy, where exports had been in almost continuous decline since 2024, overseas sales have rebounded (+3.3% and +2.2% respectively); by contrast, after three years of strong growth (an average annual rate of over 2 per cent), exports fell sharply in France (-3.5 per cent over the quarter) and more moderately in Spain (-0.5 per cent).

Conversely, weaker domestic demand and slower stockpiling did not dampen imports (+0.4% over the

[1] The fall in GDP is attributable to a 27 per cent decline in the output of multinational companies, which led to a 35 per cent fall in value added in the manufacturing sector.

quarter), which further reduced the contribution of net exports to growth.

The most severe scenario has been ruled out for the time being

The conflict in the Persian Gulf has raised the risk of a double shock, unfolding in two stages and likely to extend beyond the horizon of our forecast: first a supply shock, then a delayed shock involving a collapse in demand, amplified by rising interest rates.

Survey data signalled an immediate deterioration in confidence: the S&P Global PMI® index for the eurozone indicated in May the sharpest contraction in the eurozone economy in eighteen months. With the pace of deterioration slowing in June, particularly in the services sector, the index points to a stabilisation of GDP in the second quarter.

The memorandum of understanding between the United States and Iran, despite its fragility, has been factored into our central scenario, with a partial reopening of the Strait of Hormuz as a corollary. It rules out the risk of a severe double shock, although growth has been revised downwards compared with our scenario from last March, particularly in 2027.

Despite the already visible fall in energy prices, 'normalisation' is expected to be very gradual: a return to full capacity utilisation would occur slowly, and energy prices would remain higher than before the conflict. Whilst our scenario from last March forecast a return of inflation to below the ECB's 2% target, our current forecasts now place it above that threshold, at 2.1 % in December 2027. After peaking in May (3.2 %), inflation is expected to remain above 3 % until February 2027. The negative contribution from energy prices, leading to a fall in inflation for non-energy industrial goods, would then push inflation downwards, whilst the late peak in food inflation (above 3% throughout 2027) would slow this decline. The process of disinflation in services has indeed been interrupted by the conflict and, although no second-round effects are anticipated, the inflation rate is inertial and is expected to remain above 3 %in this sector. Inflation is projected to average 2.7% annually in 2026 and 2.4% in 2027. Core inflation is expected to be more persistent in both directions, averaging 2.4% annually in 2026 and 2027.

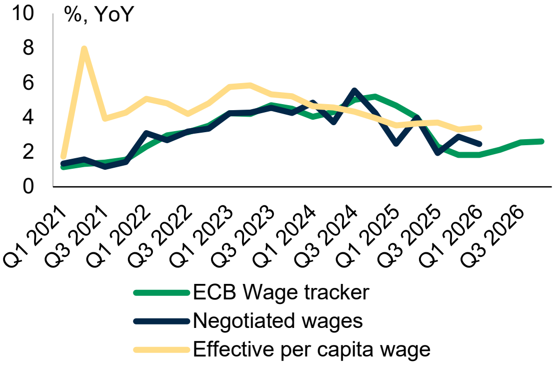
Our inflation forecast therefore assumes a temporary shock, with limited second-round effects. The current inflationary episode differs from that seen following the outbreak of the war in Ukraine, against a backdrop of sustained demand and pre-existing pressures on several non-energy inputs linked to the post-Covid recovery.

Indeed, lower energy consumption by households and industry, as well as a greater share of low-marginal-cost energy sources in electricity generation, should limit – compared with 2022 – the pass-through of rising gas prices to electricity prices. Furthermore, with profits and real disposable income currently falling, demand conditions differ from those seen during past periods of inflation. These conditions, which are unfavourable to the spread of inflationary pressures, are reinforced by high uncertainty and weakened confidence, as well as by more restrictive economic policies.

Admittedly, all surveys conducted since the outbreak of the conflict point to an upward revision of the inflation outlook (PMI index, ESI survey, SAFE business survey and SPF survey of professional forecasters, CES consumer survey). However, in all cases, the anticipated acceleration in prices is perceived as being temporary and concentrated over the next year, albeit with a risk perceived as being on the upside. The sharp rise in input costs is squeezing corporate margins. The PMI and SAFE surveys report a much more pronounced increase in input prices than in selling prices, with a significant compression of margins. The trade-off between employment and wages appears to have been settled in favour of the former, with firms anticipating wage moderation against a backdrop of labour hoarding . The CES consumer survey shares these expectations: it points to both a slowdown in nominal disposable income over the next year and a fall in the unemployment rate.

The distribution of value added has gradually become less favourable to profits. Following the last peak in early 2023, profit margins eroded sharply and, after stabilising in 2025, were once again on the decline in Q1 2026. productivity growth has slowed more sharply than per capita wages, thereby contributing to a rise in unit labour costs, which, however, is not being passed on to selling prices. Wage dynamics remain disinflationary. Wages negotiated up to the end of May imply an annual wage growth rate (including bonuses) of 2.6% in 2026, marking a slowdown (from 3% in 2025). This rate is lower than that recorded for per capita wages in Q1 2026 (3.4%), which has nevertheless been slowing since spring 2023 across all sectors and in the euro area's major economies.

Euro area: a disinflationary pressure from wages



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

A scenario of normalisation rather than a rebound

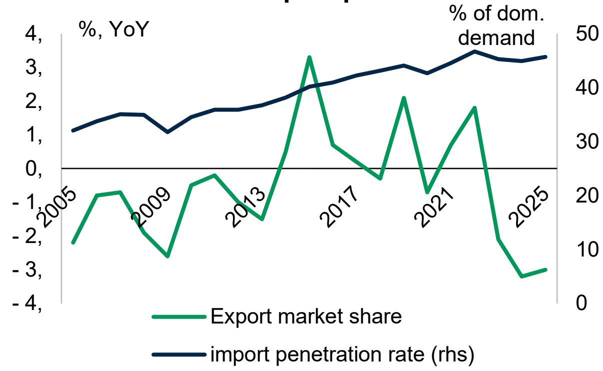
The relative strength of its fundamentals and the transitory nature of the inflationary shock are enabling the euro area economy to avoid recession. Despite weak quarter-on-quarter growth until the end of 2026, the high level of accumulated growth means that the growth rate (excluding Ireland) will stand at 0.8 % this year. We have doubts as to whether Irish growth can rebound sufficiently to offset the negative impact of the first quarter. Taking Irish GDP into account, growth for the eurozone would be just 0.2% in 2026. In 2027, our scenario anticipates a normalisation of growth at a pace that remains below potential, in line with its performance since 2024. Without a genuine rebound, GDP growth would not exceed 0.9 %.

Household consumption would not return to its recent pace (0.8% in 2026 and 2027, following 1.5% in 2025). Its trend would follow, with a lag, the slowdown in real disposable income. Nominal disposable income (up 3% year-on-year in the first quarter) is expected to slow, in line with the trend in total wage bill, at a rate barely above that of inflation (above 3% until Q1 2027). The savings rate is expected to provide only limited support: after falling in 2025, it stabilised at 14.3 %in the first quarter of 2026. Cumulative savings over recent years have also eroded in real terms. A slowdown in incomes and rising interest rates are likely to curb investment in housing. Despite credit flows remaining resilient in Q1 2026 (up 2.9 % year-on-year), the household investment rate fell for the first time since autumn 2024.

Despite falling margins, the investment rate of non-financial corporations rebounded in Q1 2026 after three consecutive quarters of decline, supported by a resilient credit cycle (2.6 % year-on-year). Driven increasingly by intangible assets, investment saw a stronger-than-expected rebound in 2025. **Defence spending continues to be a driver of investment, as does spending on the energy transition.** German infrastructure spending, which is as yet not very visible, is also expected to contribute more. After hitting a low in 2026 (1%, down from 3.2%), investment is therefore expected to accelerate in 2027 (1.8%).

The euro area is expected to benefit less from the global AI investment *supercycle*, and its exports are expected to continue growing (0 %in 2026 and 1.3 % in 2027) **at a slower pace than their historical average and that of world trade**. The loss of market share is set to continue, with increased competition from China in products where the eurozone still holds a comparative advantage. This competition is taking place both in third-country markets and in the domestic market, as confirmed by the sharp rise in the import penetration rate, which is contributing to a smaller contribution from net exports to growth.

Euro area : market share loss and increased import penetration



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

The recalibration of monetary policy is expected to be only temporary. A key concern for the ECB is that the recent disinflationary process has not been fully reflected in lower perceived inflation. Hence the risk of unanchored inflation expectations, which could fuel more persistent inflation. Following an initial 25 basis point (bp) rise in key interest rates in June, we anticipate two further rises of 25 bp each , in September and December 2026. The ECB would then implement its first cut in September 2027, whilst core inflation (at 2.3%), although still above its target, would nevertheless be on a downward trend.

Fiscal policy is expected to provide only limited support for economic activity. Whilst the deficit is expected to worsen in the euro area in 2026 (3.4 % in 2026 and 2027, following 2.9 % in 2025), this would be mainly attributable to Germany, Spain, the Netherlands, Portugal and Finland. Despite a widespread increase in defence spending, the other countries remain committed to reducing their deficits. However, this trend appears to be more at risk in France and Belgium.

Forecasts finalised on 17 June 2026
Article finalised on 23 June 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
Euro area GDP (YoY, QoQ, %)	0,9	1,5	0,2	0,9	0,7	0,1	0,3	0,2	-0,2	0,1	0,1	0,2	0,2	0,3	0,3	0,3
United States GDP (YoY, QoQ, annualised, %)	2,8	2,1	2,1	1,9	-0,6	3,8	4,4	0,5	1,6	2,5	1,8	1,8	2,0	2,0	1,9	1,9
China GDP (YoY, QoQ, %)	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	2,25	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	1,14	1,13	1,13	1,14	1,16	1,17
Brent (average, USD/barrel)	81,2	69,3	94,3	80,8	76	68	69	64	89	110	91	87	82	85	78	78

GDP trends

	2024	2025	2026	2027	2025				2026				2027			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Euro area	0,9	1,5	0,2	0,9	0,7	0,1	0,3	0,2	-0,2	0,1	0,1	0,2	0,2	0,3	0,3	0,3
Germany	-0,5	0,3	0,6	0,9	0,4	-0,2	0,0	0,2	0,3	0,0	0,1	0,2	0,2	0,3	0,3	0,4
France	1,4	0,9	0,6	0,8	0,1	0,3	0,4	0,2	-0,1	0,1	0,1	0,2	0,2	0,2	0,3	0,3
Italy	0,6	0,7	0,5	0,6	0,3	0,0	0,2	0,3	0,3	-0,2	0,0	0,1	0,2	0,2	0,4	0,3
Spain	3,5	2,8	2,1	1,6	0,5	0,7	0,6	0,8	0,6	0,3	0,3	0,3	0,4	0,4	0,5	0,5
Netherlands	1,1	1,8	1,0	1,0	0,4	0,3	0,5	0,4	0,1	0,2	0,2	0,2	0,3	0,3	0,4	0,4
Belgium	1,1	1,0	0,7	0,7	0,4	0,2	0,2	0,1	0,2	0,1	0,1	0,2	0,1	0,2	0,3	0,3
Ireland	2,6	12,4	-6,7	5,1	8,8	-1,0	-0,2	-4,2	-12,1	11,2	2,2	1,5	0,0	0,1	0,2	0,2
Portugal	2,2	1,9	1,7	1,6	-0,3	0,7	0,6	0,9	0,0	0,3	0,3	0,5	0,4	0,4	0,4	0,3
Greece	2,1	2,2	1,7	1,5	0,5	0,4	0,6	0,7	0,2	0,2	0,4	0,4	0,3	0,4	0,4	0,3
Finland	0,4	0,2	1,3	0,9	0,1	-0,2	0,0	0,3	0,9	0,1	0,2	0,2	0,2	0,3	0,3	0,3
Luxembourg	0,3	0,6	1,0	1,1	0,4	0,5	1,2	0,0	0,0	0,2	0,3	0,3	0,1	0,3	0,4	0,4
Austria	-0,8	1,0	0,8	0,6	0,4	0,1	0,4	0,2	0,2	0,1	0,1	0,1	0,2	0,2	0,2	0,2
Slovenia	1,7	0,9	2,1	0,7	-0,7	1,0	1,0	0,4	0,7	0,3	0,2	0,2	0,1	0,1	0,1	0,1
Malta	6,2	3,6	2,6	1,7	1,7	1,1	0,9	1,1	1,1	-0,2	-0,2	0,5	0,6	0,6	0,6	0,6

Euro area

	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	0,2	0,9	0,7	0,1	0,3	0,2	-0,2	0,1	0,1	0,2	0,2	0,3	0,3	0,3
Domestic final sales (contribution to GDP, pps)	0,7	1,6	1,3	1,4	0,7	-0,1	0,5	0,5	0,2	0,2	0,2	0,2	0,3	0,3	0,4	0,4
Private consumption (y/y, q/q, %)	1,3	1,5	0,8	0,8	0,4	0,3	0,2	0,4	0,2	0,0	0,1	0,1	0,2	0,3	0,3	0,3
Public consumption (y/y, q/q, %)	2,3	1,4	2,0	1,3	-0,2	0,4	0,7	0,6	0,5	0,3	0,4	0,3	0,3	0,3	0,4	0,4
Investment (y/y, q/q, %)	-2,5	3,2	1,0	1,8	2,7	-1,4	1,2	0,8	-0,3	0,3	0,3	0,4	0,4	0,5	0,5	0,6
Change in inventories (contribution to GDP, pps)	0,0	0,2	0,1	0,0	-0,4	0,5	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net exports (contribution to GDP, pps)	0,3	-0,5	-0,9	-0,2	0,3	-0,3	-0,3	-0,4	-0,3	-0,1	-0,1	-0,1	0,0	0,0	0,0	0,0
Exports (y/y, q/q, %)	0,6	2,2	0,0	1,3	2,8	-0,7	0,7	-0,6	-0,2	0,4	0,3	0,4	0,3	0,3	0,4	0,4
Imports (y/y, q/q, %)	-0,1	3,6	2,1	1,9	2,3	-0,2	1,4	0,3	0,5	0,6	0,4	0,6	0,4	0,4	0,5	0,5
Inflation (y/y, %)	2,4	2,1	2,7	2,4	2,3	2,0	2,1	2,1	2,0	3,0	3,0	3,0	2,9	2,2	2,2	2,1
Core inflation (y/y, %)	2,8	2,4	2,4	2,4	2,6	2,4	2,3	2,4	2,3	2,4	2,5	2,4	2,6	2,5	2,3	2,2
Unemployment rate (%)	6,4	6,3	6,3	6,4	6,3	6,3	6,3	6,3	6,3	6,3	6,3	6,4	6,4	6,4	6,4	6,4
Current account balance (% of GDP)	1,7	2,7	1,7	1,3	-	-	-	-	-	-	-	-	-	-	-	-
General government net lending (% of GDP)	-3,0	-2,9	-3,4	-3,4	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	88,0	88,7	90,1	91,0	-	-	-	-	-	-	-	-	-	-	-	-

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