MODERATE GROWTH AMID GLOBAL TRADE UNCERTAINTY

EXECUTIVE SUMMARY

The EU growth outlook has deteriorated, while inflation decelerates more swiftly.

This Spring Forecast projects real GDP growth in 2025 at 1.1% in the EU and 0.9% in the euro area– broadly the same rates attained in 2024. This represents a considerable downgrade compared to the Autumn 2024 Forecast (AF24), largely due to the impact of increased tariffs and the heightened uncertainty caused by the recent abrupt changes in US trade policy and the unpredictability of the tariffs' final configuration. Despite these challenges, EU growth is expected to rise to 1.5% in 2026, supported by continued consumption growth and a rebound of investment. Growth in the euro area is projected to reach 1.4% in 2026. Disinflation is anticipated to proceed more swiftly than expected in autumn, with new disinflationary factors from ongoing trade tensions outweighing higher food prices and stronger short-term demand pressures. After averaging 2.4% in 2024, headline inflation in the euro area is expected to meet the ECB target by mid-2025—earlier than previously anticipated—and to average 1.7% in 2026. Starting from a higher level in 2024, inflation in the EU is projected to continue easing to 1.9% in 2026.

The EU economy started the year on a slightly stronger footing than expected.

In the fourth quarter of last year, the EU economy grew by 0.4%, slightly surpassing the autumn projections. For the entire year, GDP growth reached 1.0%. The volume of government consumption expanded vigorously and provided a larger-than-expected contribution to EU growth, mainly through employment growth in the government sector. Growth in private consumption also exceeded expectations

Table 1: **Overview – the Spring 2025 Forecast**

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Belgium	1.0	0.8	0.9	4.3	2.8	1.8	5.7	6.1	5.8	-0.2	-0.7	-1.0	-4.5	-5.4	-5.5
Germany	-0.2	0.0	1.1	2.5	2.4	1.9	3.4	3.6	3.3	6.1	5.3	5.3	-2.8	-2.7	-2.9
Estonia	-0.3	1.1	2.3	3.7	3.8	2.3	7.6	7.6	7.3	-2.0	-2.1	-2.0	-1.5	-1.4	-2.4
Ireland	1.2	3.4	2.5	1.3	1.6	1.4	4.3	4.3	4.4	17.0	12.6	11.6	4.3	0.7	0.1
Greece	2.3	2.3	2.2	3.0	2.8	2.3	10.1	9.3	8.7	-8.3	-8.2	-7.9	1.3	0.7	1.4
Spain	3.2	2.6	2.0	2.9	2.3	1.9	11.4	10.4	9.9	3.1	2.7	2.8	-3.2	-2.8	-2.5
France	1.2	0.6	1.3	2.3	0.9	1.2	7.4	7.9	7.8	-0.9	-0.6	-0.6	-5.8	-5.6	-5.7
Croatia	3.9	3.2	2.9	4.0	3.4	2.0	5.0	4.6	4.5	-0.7	-1.1	-1.1	-2.4	-2.7	-2.6
Italy	0.7	0.7	0.9	1.1	1.8	1.5	6.5	5.9	5.9	0.9	1.3	1.6	-3.4	-3.3	-2.9
Cyprus	3.4	3.0	2.5	2.3	2.0	2.0	4.9	4.7	4.6	-7.0	-6.5	-5.9	4.3	3.5	3.4
Latvia	-0.4	0.5	2.0	1.3	3.0	1.7	6.9	6.8	6.6	-3.3	-3.9	-3.5	-1.8	-3.1	-3.1
Lithuania	2.8	2.8	3.1	0.9	2.6	1.2	7.1	6.8	6.6	2.6	2.0	1.9	-1.3	-2.3	-2.3
Luxembourg	1.0	1.7	2.0	2.3	2.1	1.8	6.4	6.6	6.4	2.3	0.8	0.3	1.0	-0.4	-0.5
Malta	6.0	4.1	4.0	2.4	2.2	2.1	3.1	3.1	3.1	3.6	3.7	3.4	-3.7	-3.2	-2.8
Netherlands	1.0	1.3	1.2	3.2	3.0	2.0	3.7	3.9	4.0	10.0	10.2	10.6	-0.9	-2.1	-2.7
Austria	-1.2	-0.3	1.0	2.9	2.9	2.1	5.2	5.3	5.2	2.0	2.4	2.3	-4.7	-4.4	-4.2
Portugal	1.9	1.8	2.2	2.7	2.1	2.0	6.5	6.4	6.3	1.7	1.2	0.9	0.7	0.1	-0.6
Slovenia	1.6	2.0	2.4	2.0	2.1	1.9	3.7	3.7	3.8	4.6	4.7	4.8	-0.9	-1.3	-1.5
Slovakia	2.1	1.5	1.4	3.2	4.0	2.9	5.3	5.3	5.3	-1.6	-2.3	-2.5	-5.3	-4.9	-5.1
Finland	-0.1	1.0	1.3	1.0	1.7	1.5	8.4	8.6	8.3	-0.8	-0.7	-0.7	-4.4	-3.7	-3.4
Euro area	0.9	0.9	1.4	2.4	2.1	1.7	6.4	6.3	6.1	3.3	3.0	3.0	-3.1	-3.2	-3.3
Bulgaria	2.8	2.0	2.1	2.6	3.6	1.8	4.2	4.0	3.8	-0.8	-1.1	-1.0	-3.0	-2.8	-2.8
Czechia	1.1	1.9	2.1	2.7	2.2	2.0	2.6	2.6	2.6	1.2	0.8	0.5	-2.2	-2.3	-2.2
Denmark	3.7	3.6	2.0	1.3	1.6	1.5	6.2	6.2	6.3	13.0	13.7	13.5	4.5	1.5	0.6
Hungary	0.5	0.8	2.5	3.7	4.1	3.3	4.5	4.4	4.3	2.4	2.0	1.5	-4.9	-4.6	-4.7
Poland	2.9	3.3	3.0	3.7	3.6	2.8	2.9	2.8	2.8	0.2	1.0	0.7	-6.6	-6.4	-6.1
Romania	0.8	1.4	2.2	5.8	5.1	3.9	5.4	5.3	5.2	-8.5	-7.9	-7.0	-9.3	-8.6	-8.4
Sweden	1.0	1.1	1.9	2.0	2.2	1.6	8.4	8.7	8.4	7.0	6.8	7.0	-1.5	-1.5	-0.8
EU	**1.0**	**1.1**	**1.5**	**2.6**	**2.3**	**1.9**	**5.9**	**5.9**	**5.7**	**3.2**	**3.0**	**3.0**	**-3.2**	**-3.3**	**-3.4**

towards the end of the year, driven by solid increases in disposable income as the economy added over 1.7 million jobs, and nominal wages recovered the purchasing power lost to surging inflation. Despite a minor rise in the saving rate (from a still high level), consumption expanded by 1.3%. Net exports also bolstered growth, buoyed by a robust rise in services exports. The EU's economic expansion continued in the first quarter, with real GDP growth increasing by 0.3%. However, investment fell short of expectations due to high financing costs and already high economic policy uncertainty. The considerable contraction in equipment investment and residential construction was only partially offset by infrastructure investment. High frequency data and partial information from national sources point to a relatively strong performance of consumption, non-residential construction and exports.

High uncertainty surrounding the landing zone for the tariffs requires technical assumptions.

Since its inception, the US administration has announced a series of tariffs, culminating on 2 April in sizeable tariffs on imports from virtually all US trading partners. Following fierce market reactions, the tariffs were suspended on 9 April, accompanied by a number of carve-outs and exemptions for specific sectors and products. Nonetheless, trade tensions with China escalated when China retaliated. By the cut-off date of this forecast, US tariffs on Chinese imports stood at 145%, while Chinese tariffs on US goods were 125%. Given the high uncertainty on how the tariffs will eventually be implemented—i.e. affecting which countries or products, their duration, possible exemptions, and retaliatory actions—economic forecasts must rely on working assumptions. This forecast assumes that the high tariffs announced on 2 April will not be reinstated and that US tariffs on imports from the EU and nearly all other countries will stay at 10% (the level generally applied on 9 April), except for higher tariffs on steel, aluminium, and cars (25%), and exemptions on some products like pharmaceuticals and microprocessors. This technical assumption hinges upon the customary no-policy change assumption underpinning the European Economic Forecasts, in the sense that the pledged reinstatement of the tariffs announced on 2 April does not appear credible, if anything because it is conditional upon the outcomes of bilateral negotiations with the trade partners, which cannot be anticipated. Moreover, the baseline projections do not include any retaliatory tariffs by the EU. Finally, the forecast assumes a significant reduction in trade flows between the US and China, even though at tariff rates significantly lower than those in effect at the cut-off date, which were not assessed as tenable. The suspension of the high bilateral tariffs agreed on 12 May vindicates this assessment.

Trade tensions dampen the global growth and trade outlook, but also commodity prices.

In 2024, stronger-than-expected growth in China and robust performance in the US pushed global growth (excluding the EU) to 3.6%. Looking ahead, growth momentum is expected to weaken. Global growth outside the EU is projected at 3.2% for both 2025 and 2026, below the 3.6% anticipated in autumn. Although trade growth remained robust in the first quarter of 2025, likely due to advance purchases ahead of tariffs, global trade (outside the EU) is expected to expand at a rate well below global economic activity over the forecast horizon. Weakening global demand weighs heavily on energy commodity prices, especially in a context of expanding oil production. By the cut-off date of this forecast, Brent oil prices hovered just above $60 per barrel—a notable 10% drop from the futures price for the second quarter of 2025 observed last autumn. TTF gas prices saw similar declines.

Lower external demand for EU goods detracts from economic growth.

EU exports are expected to grow by a modest 0.7% this year and 2.1% in 2026, in line with the lower global demand for goods. This marks a significant downward revision from the autumn projections (at 2.2% and 3.0%, respectively). Weakness in exports is amplified by competitiveness losses, as well as heightened trade uncertainty. Although EU firms are adapting their trade strategies in response to geopolitical tensions and trade fragmentation (see Special Issue 2), many might hesitate to bear the high fixed costs associated with e.g. product adaptation, regulatory compliance, and finding new distribution networks, necessary to enter new export markets. Growth in imports was also revised down, in line with lower export growth and weaker domestic demand, although the re-routing of some Chinese exports and the euro's appreciation lend some support to import growth. Consequently, in 2025, net external demand is set to subtract nearly 0.5% from growth, but this drag is expected to fade in 2026. Despite adverse trade volume developments, the sharp drop in energy commodity prices, cheaper industrial goods imports, and a stronger currency will enhance the terms of trade further. These movements in terms of trade help maintain a largely unchanged inflow of income from the rest of the world. As a result, the current account surplus is expected to fall only slightly from 4.4% of GDP in 2024 to 4.2% in both succeeding years.

Elevated uncertainty and a tightening of financial conditions exert a drag on investment growth.

Following a 1.9% contraction in 2024, gross fixed capital formation is expected to expand over the forecast horizon. With a growth rate of 1.5% in 2025 and 2.4% in 2026, the expected rebound and acceleration are significantly less pronounced than projected in autumn. Depressed capacity utilization lowers investment needs, while uncertainty heightens the option value of deferring investment. Moreover, despite ongoing easing of monetary policy, the adverse and volatile market response to trade tensions negatively affect financing conditions. In the first quarter, banks reported some tightening of credit standards—even before the financial turmoil of early April. While corporate bond spreads narrowed again after the suspension of tariffs, longer-term interest rates remain above their level in the AF24. Equipment investment is expected to be disproportionately affected by this challenging environment, barely expanding this year and only modestly picking up in 2026. After contracting for two years, residential construction is poised to recover in 2025 and enter more vigorous expansion in 2026. Conditions for households appear slightly more favourable than for corporates. Infrastructure, as well as R&D investment, are set to expand more vigorously—partly supported by RRF and the deep digital transformation needs of businesses.

Labour markets remain resilient and real wages expand further.

The modest GDP growth achieved in 2024 still led to further employment expansion. The job intensity of growth has begun to decline from high levels and is expected to normalize further over the forecast horizon, with employment expanding by about 1% cumulatively over 2025 and 2026—slightly less than the autumn projection, but still adding 2 million jobs. As the labour force expands more modestly, the EU unemployment rate is projected to decline to a new historic low of 5.7% in 2026. Tight labour markets and improving productivity are set to drive further wage growth. After increasing by 5.3% in 2024, growth in nominal compensation per employee is expected to slow to 3.9% in 2025 and 3.0% in 2026. On aggregate in the EU, this year, real wages should fully recover the purchasing power losses accrued since mid-2021, though in a few Member States the recovery in real wages is still lagging behind.

Consumption continues to expand, though it remains constrained by a still elevated saving rate.

Continued gains in employment and wages, along with decelerating inflation and a slight decline in net interest payments (see Box I.4.2), support a further increase in household gross disposable income. However, the drop in consumer confidence in March, and more markedly in April, suggests that consumption might continue to be restrained by precautionary saving motives. This is in addition to efforts to rebuild wealth buffers eroded by inflation and a decline in real estate valuations (see Box I.3.1). Consequently, the saving rate is expected to decline more gradually than previously thought, from 14.8% in 2024 to 14.2% in 2026. Real private consumption is forecast to grow by 1.5% this year, with a strengthening anticipated in 2026. In contrast, growth of public consumption is projected to slow to 1.7% in 2025 and, under the customary no-policy-change assumption, to decelerate further to 1.3% by the forecast's final year.

Inflation is set to return to target already in 2025 and fall below 2% in 2026, while monetary policy turns neutral.

Several factors exert downward pressure on EU inflation. First, significantly lower energy commodity prices and downward-sloping forward curves are driving consumer energy inflation into negative territory this and next year. Second, as the trade relationship between the US and China unwinds, competitive pressures on non-energy industrial goods in the EU are intensifying, leading to a decrease in this component's inflation. Third, the appreciation of the euro and other EU currencies amplifies disinflationary pressures on imported commodities and goods. These forces are partially offset by higher inflation in food and services. Headline inflation in the euro area is expected to decrease from 2.4% in 2024 to an average of 2.1% in 2025 and 1.7% in 2026. In the EU, inflation is set to follow similar dynamics, dropping from a slightly higher rate in 2024 to 1.9% in 2026. Underlying price pressures remain somewhat sustained but broadly consistent with the headline target. As disinflationary pressures intensify, markets anticipate a marginally looser monetary policy over the forecast horizon. Based on market pricing, policy rates are expected to reach the lower end of the 1.75%-2.25% range that the ECB considers neutral.

The fiscal stance is also set to turn broadly neutral in 2025

Following a slightly contractionary fiscal stance in 2024, the forecast suggests that the fiscal stance will turn broadly neutral in 2025 on average in both the EU and the euro area. For 2026, the no-policy-change forecast continues to indicate a neutral fiscal stance. After falling to 3.2% of GDP (3.1% of GDP in the euro area) in 2024, the EU general government deficit is anticipated to rise by more than 0.1 percentage points in 2025 and only marginally in 2026, reaching 3.4% of GDP in 2026 (3.3% in the euro area). Eleven Member States reported a deficit exceeding 3% of GDP in 2024, and this figure is projected to decrease to nine by 2026. After stabilizing in 2024 at around 82% (89% in the euro area), the debt ratio is expected to edge up to about 84.5% of GDP in 2026 (91% in the euro area), with five Member States exceeding a 100% debt ratio. This modest increase is attributed to a less favourable interest-growth-rate differential, alongside significant stock-flow adjustments. The impact of activating the National Escape Clause of the Stability and Growth Pact, providing flexibility for higher defence expenditure over 2025-2028, is not yet fully visible in this forecast (see Special Issue 3). While by the cut-off date of the forecast a majority of Member States had requested its activation, their defence spending plans were not specified enough to be included in the baseline projections. The same applies to the German parliament's decision to boost defence and investment spending (see Box I.4.1).

Risks to the outlook are tilted to the downside

An escalation of trade tensions between the EU and the US could depress GDP and rekindle inflationary pressures. Intensified trade tensions between the US and other major trading partners could also have ripple effects on the EU economy (see Special Issue 1). Recent market stress episodes have highlighted the potential for contagion from non-bank financial institutions, which—if affecting the banking sector—could impair credit flows. Persistent inflation in the US, potentially due to tariff-induced supply shocks, might compel the Federal Reserve Bank to tighten monetary policy again, leading to adverse spillovers on global financial conditions and EU external demand. On the upside, the trade deal between the US and China agreed on 12 May, which set tariffs significantly lower than assumed in this forecast, can be seen as a positive upside risk to the baseline projections, though possibly weakening some of the disinflationary pressures. A reduction in EU-US trade tensions, along with renewed momentum in trade negotiations with other countries and regions, would support EU growth Moreover, external headwinds could prompt faster progress on EU structural reforms, especially in the Single Market and the Savings and Investment Union. Germany's planned increase in infrastructure and defence spending could support economic activity, lifting growth in Germany and in the EU (see Box I.4.1). Additional defence spending, leveraging on the Stability and Growth Pact's flexibility, might also stimulate economic activity—albeit as a secondary benefit to the primary goal of enhanced security for the EU as a whole (see Special Issue 3). Lastly, the increasing frequency of climate-related disasters underscores a persistent downside risk. Without stronger climate adaptation and mitigation efforts, the economic and fiscal costs of such events are likely to rise, further undermining resilience and growth.