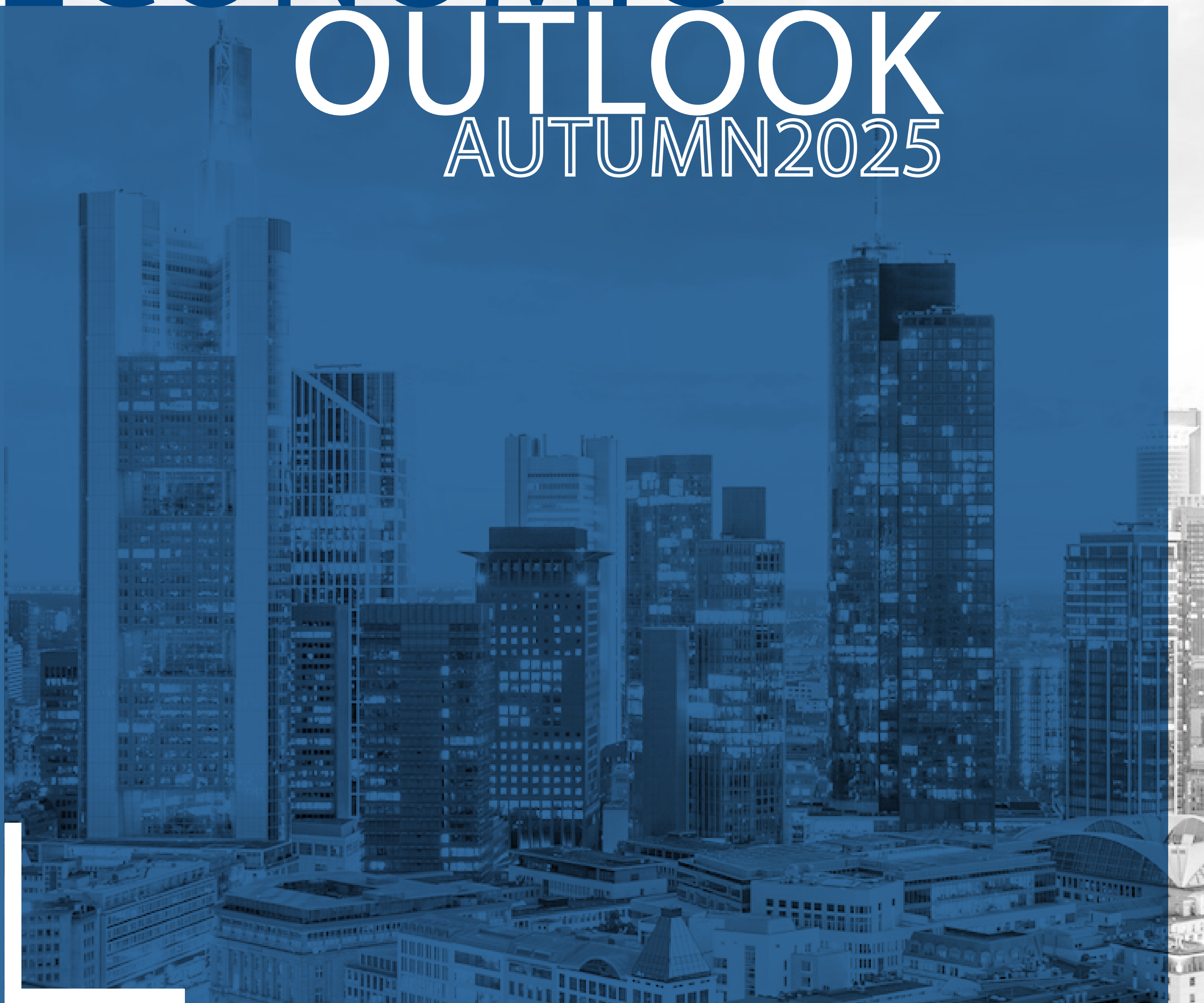
ECONOMIC OUTLOOK AUTUMN2025



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NOVEMBER 2025

EU ECONOMY SHOWS RESILIENCE AMID UNCERTAINTY BUT FACES PERSISTENTLY LOW GROWTH

ECONOMIC SITUATION

- After a modest expansion of 0.9% in 2024, growth is projected to stabilise at approximately 1% in 2025 in line with the Spring edition of the Economic Outlook. A modest increase to 1.3% is forecast for 2026, representing a minor downward revision of 0.1 percentage points from the previous edition. The low expected growth for the current and following years reflects a complicated outlook faced by European businesses, with increasing trade tensions and uncertainty around tariffs, continued competitiveness issues, including high energy costs, insufficient delivery of regulatory simplification, and persistent labour and skills shortages. Frontloaded exports in the initial part of 2025, some stability provided by the EU–U.S. agreement reached in July, and the overall resilience of the EU economy helped avert more severe downside outcomes for the year, although a parallel BusinessEurope's survey published in October 2025 displayed that three out of four companies and industry federations report a moderate to significant negative impact of tariffs on business activity.
- Investment expectations have been revised downwards, with growth projected to remain modest in an environment marked by persistent uncertainty. BusinessEurope's Member Federations now anticipate that gross capital formation in the EU will grow by only 0.6% in 2025, a significant downward revision of 0.8 percentage points from the spring economic outlook, which projected a 1.4% increase. In 2026, however, investment growth is expected to rebound more strongly, reaching 2.2%, which is closer to the June 2025 forecast of 2.4%.
- Both inflation and unemployment are projected to continue their downward trend. Headline inflation is expected to average 2.1% in the EU in 2025, almost aligning with the ECB's target, before easing further to 1.8% in 2026. Meanwhile, unemployment is forecast to remain at 4.8% in both 2025 and 2026, down from the previously projected 5.5% and 5.4%, respectively.

POLICY RECOMMENDATIONS

- The EU should continue to pursue efforts to revitalise its competitiveness by becoming a more attractive environment for companies to invest, grow, and innovate. Both the EU and Member States must act swiftly to implement measures and reforms that lower energy prices, reduce regulatory burdens, simplify administrative procedures, create a predictable legal framework, remove duplicate and overlapping obligations, and promote a simpler, and less distortive tax system. Barriers within the Single Market (which, according to the IMF, are estimated to be equivalent to tariffs of 44% for goods and 110% for services) should be removed to encourage investment and healthy competition between businesses across Member States, which would increase productivity and innovation. At the same time, skills and labour shortages need to be addressed through better matching of vacancies with skilled legal migrants, a modernised and more responsive tertiary education, and strengthened vocational training. The EU should also continue diversifying its trade partners by completing the ongoing trade negotiations to unlock new destination markets and sources of inputs.
- To close the EU's investment gap, particularly in R&D, the green and digital transitions, and defence, the Savings and Investment Union must be taken forward. This would enhance cross-border competition among financial intermediaries, improving capital provision, lowering financing costs, and fostering innovation. Key to this is removing barriers to cross-border liquidity flows, including dividends, to boost bank-led investment and improve financing conditions for businesses. Member States should also mobilise household savings via simple, flexible retail investment products, and incentivise insurers and pension funds to increase allocations to long-term risk capital, including venture capital and private equity. In 2022, EU pension funds allocated just 0.02% of assets to venture capital, compared to nearly 2% in the US. Regulatory barriers remain a major obstacle: Basel IV must balance risk management with global competitiveness; level 2 and 3 acts by the European Supervisory Authorities should remain proportionate, including flexible default definitions; and ESG risk assessment requirements should be simplified to ease administrative burdens, especially for SMEs.

SPECIAL SECTION 1: MFF

- The proposed 2028–2034 Multiannual Financial Framework (MFF) will be crucial in shaping Europe's competitiveness and resilience amid intensifying global and technological competition. As the EU's long-term budget, it provides a key opportunity to strengthen the Union's industrial base, foster innovation, and advance the green and digital transitions, while supporting territorial and social cohesion. Given limited resources, programmes must be made more efficient, leaner, and subject to systematic evaluation, ensuring that every euro delivers maximum impact.
- BusinessEurope welcomes the Commission's focus on competitiveness, simplification, and flexibility, as well as the proposed creation of a European Competitiveness Fund, incorporating different programs targeting EU's strategic priorities (including digital, health, biotech, cleantech, space, and defence). Preserving the Commission's proposed budget increases through the European Competitiveness Fund (ECF) and for flagship programmes and instruments such as Horizon Europe, the Connecting Europe Facility (CEF), Global Europe, and InvestEU will be essential to sustain innovation, strengthen connectivity, and reinforce the EU's global role.
- The success of the next MFF will depend also on ensuring social partners' effective involvement in the Strategic Stakeholders Board, to contribute to the governance of ECF's policy windows, and the design of National Regional Partnership Plans (NRPPs), and striking the right balance between flexibility (to respond to unforeseen challenges and invest in emerging technologies) and predictability, which is vital for long-term investment. Simpler, more transparent procedures, coupled with greater involvement of social partners, regions, and territories in programme design and governance, will help maximise impact. At the same time, the EU must avoid introducing new levies that could undermine the competitiveness of European companies.

SPECIAL SECTION 2: INVESTMENT GAP

- EU investment activity weakened in 2024, with gross fixed capital formation declining by 1.9% compared to 2023, mainly due to tighter financial conditions, subdued demand, and uncertainty. While infrastructure and commercial real estate investment rose slightly, steep declines were recorded in residential real estate, machinery, and, crucially, in intellectual property products, signalling weaker corporate investment and slower innovation. BusinessEurope's Member Federations identified significant investment gaps in infrastructure, manufacturing, and real estate, with limited expectations that EU funding alone can close them.
- The investment shortfall is not primarily about the total volume of spending but its composition. The EU lags in funding in key strategic areas, notably green, digital, and R&D-related investments. Meeting the EU's climate and digital transition goals will require hundreds of billions in additional annual investments. Studies also show that the EU invests roughly the same share of GDP as the U.S., but far less in high-tech and intangible assets such as R&D and software, therefore, targeting these specific areas of investments will be critical for relaunching EU's long-term competitiveness.

ABOUT THE ECONOMIC OUTLOOK

BusinessEurope publishes a biannual Economic Outlook that provides business insight into recent and projected economic developments in Europe.

In producing our economic projections and assessing current challenges and developments in the international and regional economy, BusinessEurope works closely with its Member Federations and draws on their specialist expertise and detailed knowledge of their national economies and ongoing interactions with business.

In particular, our EU27 and euro area forecasts are a reflection of the GDP-size weighted economic forecasts from each Member State from the economic research departments of our national Member Federations. Our economic projections are therefore informed by leading country experts with in-depth knowledge and day-to-day monitoring of the economic situation in every EU Member State.

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OVERALL FORECAST

TABLE 1: BUSINESSEUROPE ECONOMIC FORECAST

Main Variables	EU27		Euro area	
	2025	2026	2025	2026
Real GDP (annual % growth)	1	1.3	0.8	1.2
Inflation (%)	2.1	1.8	2	1.7
Unemployment (%)	4.8	4.8	5.1	5.1
Government net lending (% of GDP)	-3	-3.2	-3	-3.2

Source: BusinessEurope staff calculations based on Member Federations

The first half of 2025 was marked by heightened policy uncertainty, particularly regarding trade relations, in anticipation of the EU-U.S. agreement reached on 27 July. This uncertainty around tariffs contributed to a slowdown in investments and business activity across Europe. Additionally, the waning impact of the frontloading of exports, which had supported growth earlier in the year, is expected to contribute to further weakening in growth in the rest of 2025.[1] [2] The outlook for 2026 is notably more optimistic, underpinned by more robust consumption, renewed investment momentum, and easing inflation.

Based on input from Member Federations, we expect:

- The EU economy to grow by 1% in 2025, with growth increasing slightly to 1.3% in 2026. While the situation is unchanged for 2025, there is a minimal (0.1 p.p.) downward correction with respect to our Spring economic outlook.[3] The weak, but stable, growth outlook is likely due to the balancing out of the negative effect of the increase in tariffs in the U.S., causing a loss of competitiveness of the EU's exports, and the partial decrease in uncertainty following the July trade agreement and frontloading, together with overall resilience.
- Both industrial and service investments to increase in the next six months, for most respondents, despite the overall high, although partially decreasing, policy uncertainty of the recent months; however, a considerable minority of our Member Federations has a more pessimistic assessment. Additionally, our forecast suggests that gross capital formation in the EU will return to growth, signalling improving financing conditions, although weakly, at 0.6% in 2025 (a 0.8 p.p. reduction with respect to our previous survey) and 2.2% in 2026, following a contraction of 1.9% in 2024.
- Headline inflation to average close to 2.1% in the EU and 2% in the euro area in 2025, bringing it in line with the ECB's 2% target. In 2026, headline inflation is expected to further decrease to 1.8% in the EU, and 1.7% in the euro area.
- Unemployment to continue its downward trend in the EU and euro area to 4.8% and 5.1% respectively, in 2025. These levels are expected to stabilise in 2026.

The uncertainty surrounding the implementation of the new U.S. tariffs since early 2025 caused firms to frontload exports towards the U.S., particularly in the pharmaceutical sector. The agreement with the EU, reached in July 2025, although imposing a considerable disadvantage on EU's exports towards the U.S., provided more certainty, and avoided further escalations. This resulted in downward revisions in GDP growth estimates reported by our Member Federations of solely 0.03% for 2025, followed by an expected more sizeable decrease of 0.5% in 2026.

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1 Eurostat, namq_10_gdp

2 ECB, Macroeconomic Projections, June 2025

3 Spring Economic Outlook, BusinessEurope, June 2025

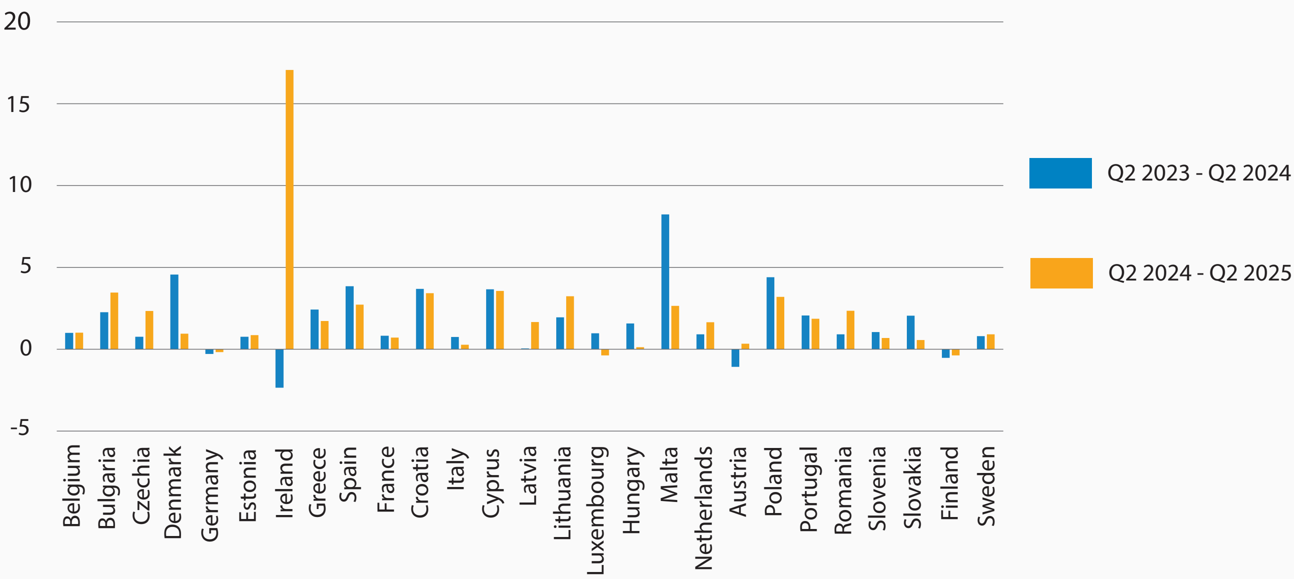
FUTURE EXPORT AND INVESTMENT GROWTH PROSPECTS OFFER CAUTIOUS OPTIMISM AMID PERSISTENTLY LOW GROWTH AND LOSS OF COMPETITIVENESS.

01

According to Eurostat's data, the EU economy expanded by 0.5% in the first quarter of 2025, maintaining the same pace as in the final quarter of 2024.[4] This modest growth reflected a gradual recovery in consumer spending, supported by rising real disposable incomes amid ongoing disinflation, along with companies increasing their exports in anticipation of U.S. tariffs. However, growth slowed to 0.2% in the second quarter, likely due to the fading impact of frontloading of exports, where exporters accelerating shipments ahead of the implementation of new tariffs, started to decelerate the deliveries. Notably, recent international developments, including China's more restrictive policies on export of critical raw materials and legacy chips, have not been factored in.

Between Q3 2024 and Q3 2025, the European economy expanded by 1.5%, according to Eurostat's preliminary data,[5] 0.2 p.p. higher than the level observed in between Q3 2023 and Q3 2024 (1.3%). However, performance varied significantly across Member States (Chart 1). Data for the Q2 2024 - Q2 2025 period, the latest complete Eurostat' data available, illustrate that growth in Italy and France slowed further, remaining subdued at 0.3% and 0.7% respectively, reflecting persistent structural weaknesses, and, in the case of France, political instability and additional fiscal strains. Germany continued the contraction from -0.3% (Q2 2023 – Q2 2024)) to -0.2% in the following period, still underlining the challenges it faces in overcoming a prolonged loss of industrial competitiveness. This weakness has been compounded by the shift away from cheaper Russian energy and intensified competition in export markets, particularly in the automotive sector. By contrast, Spain stood out among the larger economies, recording growth of about 2.7% (almost double the EU average) driven by a strong rebound in tourism, robust domestic demand, rising ICT and services activity, and effective use of NextGenerationEU (NGEU) funds. Outliers included Ireland, which reported a remarkable 17% surge in GDP over the Q2 2024 – Q2 2025 period, largely explained by multinational "frontloading" of exports ahead of potential U.S. tariffs. In March 2025 alone, pharmaceutical exports to the U.S. rose by 243% year-on-year. Yet, alternative indicators of the Irish domestic economy paint a more moderate picture: the "modified domestic demand" (MDD) rose by just 0.8% in Q1 2025 compared with Q4 2024.[6]

CHART 1: GDP GROWTH ACCELERATED MODESTLY OVER THE LAST TWO YEARS, WITH HETEROGENEITY ACROSS COUNTRIES (%)



Source: BusinessEurope staff calculation based on Eurostat [namq_10_gdp; Chain linked volumes (2010), million euro; seasonally and calendar adjusted values]

4 Eurostat namq_10_gdp

5 GDP up by 0.2% in the euro area and by 0.3% in the EU - Euro indicators - Eurostat

6 "Irish GDP jumps 9.7% q/q on tariff-beating pharma exports to US," Reuters, June 2025

For 2026, the respondents to the survey forecasted an increase in the contribution provided by investments (from 0.6% in 2025 to 2.2% in the EU) and exports, which are set to recover following higher expected global demand (from 0.7% in 2025 to 1.7%), while private and public consumption are expected to continue growing, although at a stable rate, as real wages growth slows down following to the strong inflation and wage catch-up of the previous years, and as some countries face budget constraints and enter in a less expansive fiscal stance compared with the pandemic and the early post-pandemic period.

TABLE 2: PRIVATE AND PUBLIC CONSUMPTION GROWTH EXPECTED TO STABILISE, WHILE INVESTMENTS AND EXPORTS GROWTH TO PICK UP IN 2026

Main Variables	EU		Euro area		EU27 + EFTA	
	2025	2026	2025	2026	2025	2026
Private consumption (%)	1.5	1.4	1.3	1.3	1.5	1.5
Public consumption (%)	1.4	1.4	1.2	1.2	1.4	1.4
Investment (%)	0.6	2.2	0.5	2	0.6	2
Exports (%)	0.7	1.7	0.6	1.6	0.7	1.5
Imports (%)	2.4	2.2	2.4	2.1	2.3	2.1

Source: BusinessEurope staff calculations based on Member Federations

In 2024, public consumption played a major role in supporting economic growth, but its contribution is expected to decline in 2025 and 2026 as governments adapt to the new EU fiscal framework. Many Member States are now under Excessive Deficit Procedures, which constrain their ability to deploy fiscal stimulus, even as the economic recovery remains fragile. To address increased defence financing needs, the European Commission introduced the "ReArm Europe Plan / Readiness 2030" in March 2025, which includes an "escape clause" permitting defence spending to be excluded from EU deficit limits. By October 2025, the Council had activated this clause for 16 Member States. The measure provides flexibility for four years, from 2025 through 2028, with an annual excess capped at 1.5% of each Member State's GDP. Germany has gone further by enacting its own defence exemption, creating additional fiscal space for military expenditures. The country also established a €500 billion defence fund to support defence and infrastructure projects over the next 12 years. Despite its phased rollout, the programme is believed to have already helped steer Germany's growth trajectory in a more positive direction, driven by stronger domestic demand, while industrial exports continue to face headwinds.

Investment activity is recovering after the 2024 contraction, supported by the ECB's continued monetary easing (current deposit facility rate lowered to 2.00% in June 2025) and improving financing conditions, though smaller firms still face constraints. According to the EIB Investment Survey 2025, 86% of EU firms plan to invest, mainly in intangible assets such as R&D and software, but with limited capacity expansion amid geopolitical uncertainty.[7] Key barriers include uncertainty, skills shortages, and high energy costs. As the EU Recovery and Resilience Facility (RRF) disbursement deadline on December 2026 approaches, it is foreseen an acceleration of disbursement of funding from that instrument, followed by a possible cliff effect in 2027. However, this will likely be offset by increased national spending on defence, green technologies, and digital infrastructure, alongside rising private investment as confidence and financing conditions continue to improve.

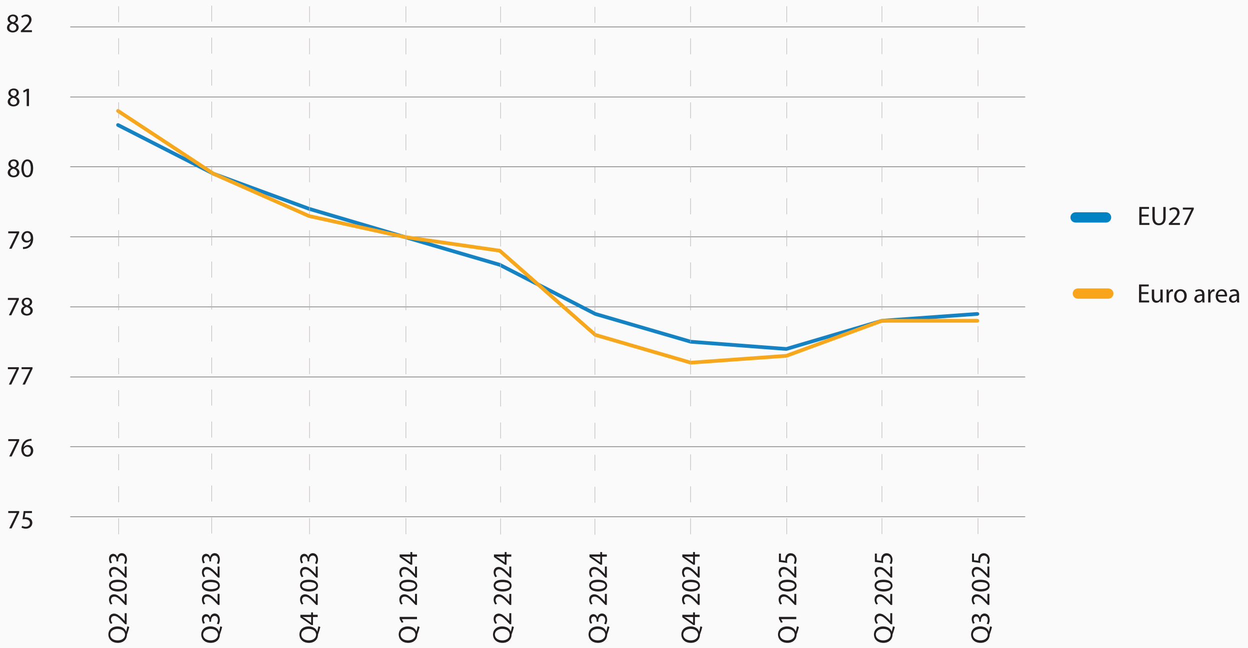
The external sector presents a mixed picture. While exports are forecast to recover as global trade flows improve and supply chain pressures ease, weak external demand and persistent cost competitiveness gaps continue to hinder European producers, particularly in manufacturing. Recent euro appreciation, higher U.S. tariffs, and ongoing trade policy uncertainty add further headwinds. Import growth is projected

[7] EIB Investment Survey 2025

to outpace exports as domestic demand strengthens, resulting in a slightly negative contribution from net exports to overall growth in the coming quarters.

Manufacturing industrial capacity utilisation in the EU is experiencing a small rebound, with 78.3% of current capacity utilisation in Q3 2025 after falling to 77% in Q1 2025. The persistent slack reflects weakness largely related to muted external demand, elevated energy costs, and lingering supply-chain inefficiencies, which together have constrained production despite a gradual easing in input price pressures (Chart 2).

CHART 2: MANUFACTURING INDUSTRIAL CAPACITY UTILISATION EXPERIENCE A SMALL REBOUND AFTER 5-YEARS LOW



Source: BusinessEurope staff calculation based on Eurostat [teibs 070] Current level of utilisation, seasonally adjusted data

In September 2025, the EU and euro area saw a slight rise in economic sentiment, with the Economic Sentiment Indicator reaching 95.5 in both regions (+0.6 points in the EU, +0.2 in the euro area), while Employment Expectations fell (EU: 97.1, -0.9 points; euro area: 96.4, -1.3 points), keeping both below their long-term average of 100. Flash estimates of consumer confidence also edged up (+0.5 p.p. in the EU, +0.6 p.p. in the euro area), though levels remained well below historical averages at -14.3 (EU) and -14.9 (euro area), reflecting a broadly stable but subdued trend since April 2025.[8]

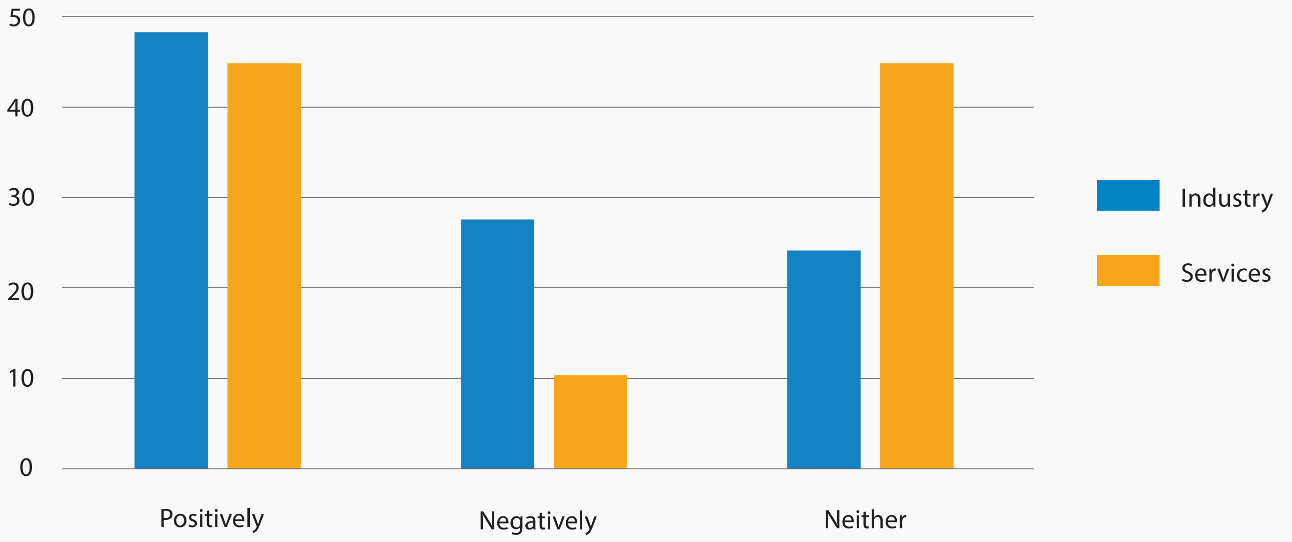
The global geopolitical landscape continues to fuel significant uncertainty, with ongoing conflicts in the Middle East and the protracted war in Ukraine undermining business confidence and creating volatile trade conditions. At the same time, China's economic growth, historically a key driver of external demand for several major EU economies, remains well below its pre-pandemic trajectory. This slowdown reflects a structural shift that is weighing heavily on export-oriented EU manufacturing sectors. Meanwhile, Chinese exports are gaining competitiveness at the expense of European producers, not only in low-cost goods, but increasingly in high value-added segments such as vehicles and specialised machinery, as China moves up the global value chain. These developments, coupled with intensifying global competition, underscore the urgent need for more resilient and adaptable supply chains across the EU. To safeguard competitiveness and foster sustainable growth, EU businesses should accelerate the adoption of advanced technologies, including AI and automation, while the Union and Member States should undertake the actions and reforms needed to address their structural vulnerabilities.

8 Latest business and consumer surveys, October 2025

Chart 3 shows that nearly half of BusinessEurope's Member Federations (48% for industry and 45% for services) perceive an improvement in the investment climate compared to six months ago. Reports of a worsening outlook are more pronounced for industrial investments (28%) than for services (10%). A significant share of respondents reported no change, particularly in the services sector (45%). This mixed assessment marks nonetheless a notable improvement compared to the previous edition of the survey, published in June 2025, when half of the respondents viewed the investment climate for industry as deteriorating, and around 38% held the same view for services.

CHART 3: BUSINESSEUROPE'S MEMBER FEDERATIONS SHARED A MIXED BUT IMPROVING ASSESSMENT OF THE INVESTMENT CLIMATE WITH RESPECT TO SIX MONTHS AGO

How do you view the overall investment climate with respect to previous 6 months in your country? (%)



Source: BusinessEurope Member Federations

2025 INVESTMENT EXPECTATIONS WERE DOWNGRADED WHILE THE 2026 OUTLOOK LOOKS MORE FAVOURABLE

02

Due to high policy uncertainty, European businesses face an unfavourable, although modestly improving, investment climate, while also contending with significant investment needs and the challenge of maintaining global competitiveness. According to Eurostat's data, gross fixed capital formation in the EU grew by 2.2% in Q2 2025 compared with the same period in 2024 but declined by 1.7% relative to Q1 2025.[9] In the second quarter of 2025, the household investment rate in the euro area held steady at 9.0%, with gross fixed capital formation rising in line with gross disposable income. By contrast, the business investment rate declined from 22.1% to 21.6%, driven by a 1.4% drop in business gross fixed capital formation, despite a 0.9% increase in gross value added.[10]

Member Federations expect gross capital formation in the EU to expand modestly by 0.6% in 2025 and more substantially by 2.2% in 2026. While 2026 expectations are only slightly lowered with respect to the Spring iteration of the survey (-0.2 p.p.), BusinessEurope's Member Federations revised their 2025 forecast sharply downward by 0.8 p.p.. The relatively positive outlook for 2026 may reflect the improving confidence and financing and credit condition for private investments, the approaching 2026 deadline for the Recovery and Resilience Facility, which could accelerate fund disbursement, and increased needs for investment in defence, and continued investments in green and digital transition. By contrast, the downward revision for 2025 suggests that, despite frontloaded investments early in the year and the July trade agreement with the U.S., persistent uncertainty and structural challenges continue to slow down business activity.

The October 2025 Euro Area Bank Lending Survey reported a mixed picture of credit conditions. Banks reported a small and unexpected tightening of credit standards for loans or credit lines for firms in Q3 2025 (net 4%), while housing loans were unchanged, and consumer credit tightened, albeit less than in Q2 (net 5%, instead of 11%). Loan demand by firms increased modestly (net 2%), remaining weak, as well as consumer credit (net 1%), while housing loans increased more strongly (net 28%), driven mainly by lower interest rates and improved housing market prospects, while global uncertainty and trade tensions dampened firm demand.[11]

Chart 4 indicates that 54% of BusinessEurope's Member Federations now expect industrial investment to increase, a slight decline of 3 p.p. compared to the previous survey. Meanwhile, the share of respondents anticipating a decrease in industrial investment rose modestly from 25% to 27%, suggesting a mildly deteriorated outlook. Expectations for services go in the direction of a more stable outlook for the next six months: both the proportion of respondents forecasting an improvement and those anticipating a decrease in service-sector decreased (respectively from 57% to 43%, and from 27% to 19%), to the advantage of expectations of no change that are standing at around 38%. Overall, the industrial sector seems to exhibit greater volatility than services, which may be attributed to persistent uncertainties in trade policy.

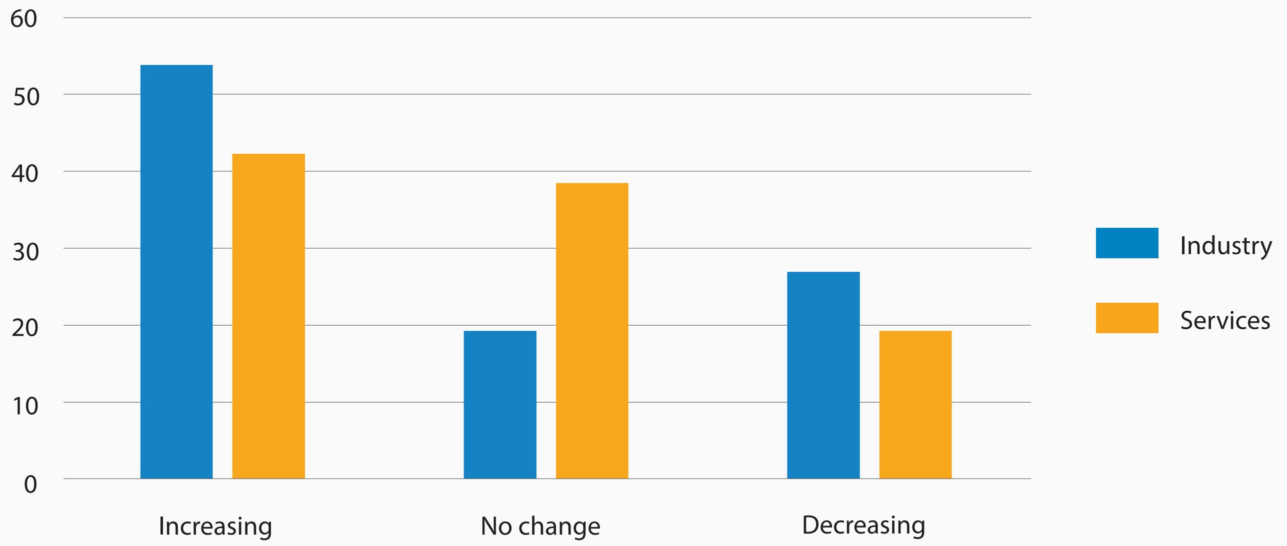
9 Eurostat teina040

10 Household saving rate increases to 15.4% in the euro area - Euro indicators - Eurostat

11 ECB, The euro area bank lending survey, October 2025

CHART 4: MODEST INVESTMENT OPTIMISM AMONG MEMBER FEDERATIONS. INDUSTRY OUTLOOK REMAINS STRONGER THAN SERVICES

Compared to the last 6 months, what is likely to be the trend in investment over the next 6 months? (%)



Source: BusinessEurope Member Federations[12]

12 Data missing for Luxembourg

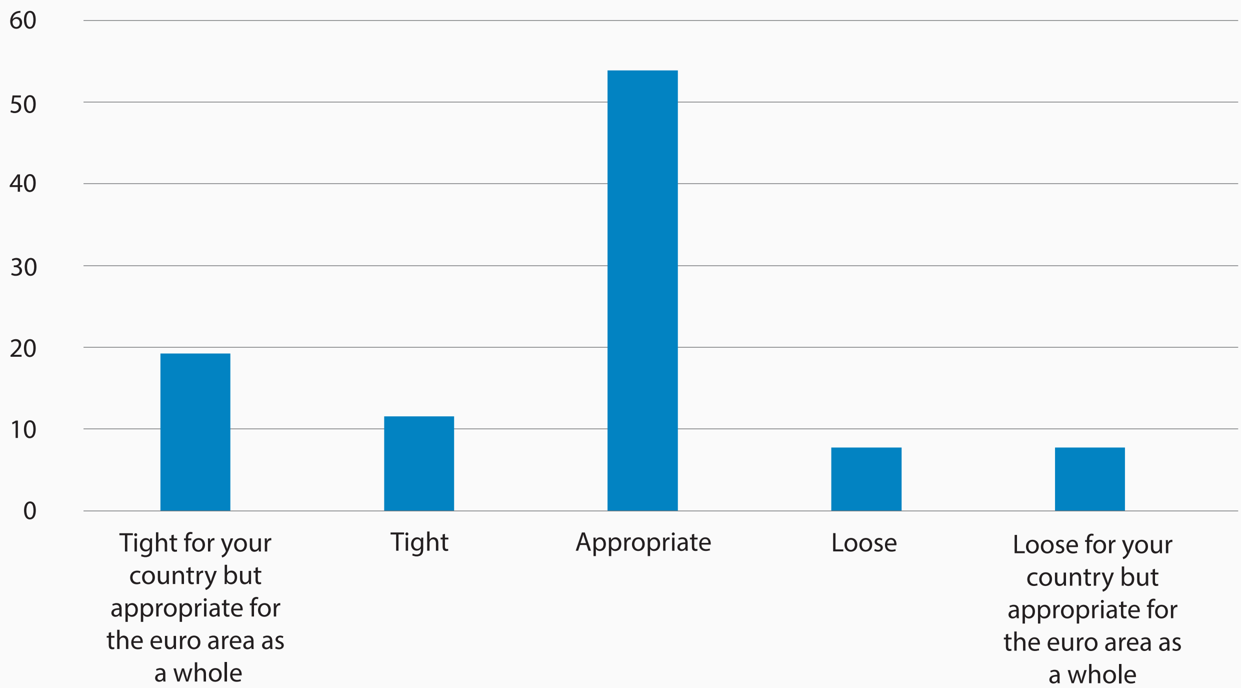
EURO AREA INFLATION & FISCAL POLICY 03

MONETARY POLICY

According to ECB's data, in October 2025, euro area annual inflation is 2.1% in line with October 2024 (2%) and with ECB's target rate.[13] Among the main components, data from September 2025, illustrates that services recorded the highest annual rate at 3.2%, followed by food, alcohol & tobacco at 3.0%, non-energy industrial goods at 0.8%, and energy at -0.4%. Services make up the largest share of household consumption (45.7%), followed by non-energy industrial goods (25.6%), food, alcohol & tobacco (19.3%), and energy (9.4%). While food, alcohol, tobacco, and energy together account for less than one-third of expenditure, their prices are highly volatile and can strongly influence headline inflation.[14] The ECB continued to lower its deposit facility rate until the latest adjustment to 2% in June 2025, with no further rate changes anticipated in the near term. Around 81% of BusinessEurope's survey respondents consider the ECB's current monetary stance appropriate for the euro area. Meanwhile, 12% view it as too tight, and only 8% regard it as too loose. Notably, 19%, including two of the largest EU's economies, believe the stance is appropriate for the euro area but too restrictive for their national context (Denmark, Finland, France, Italy, and Luxembourg), while 8% consider it appropriate overall but too loose for their country (Austria, and Malta), (Chart 5).

CHART 5: MOST RESPONDENTS CONSIDER ECB'S POLICY CORRECT FOR THE EURO AREA

How do you view the overall investment climate compared to the previous 6 months in your country? (%)



Source: BusinessEurope Member Federations

[13] ECB Data Portal

[14] Eurostat, Inflation in the euro area, October 2025

According to Eurostat's data, EU annual inflation rose to 2.6% in September 2025, up from 2.4% in August. Among the main components, services continued to record the highest annual rate at 3.6%, followed by food and non-alcoholic beverages at 3.5%, non-energy industrial goods at 0.9%, and energy, which turned positive at 0.4% after several months of negative rates (Chart 6). The overall index excluding energy, food, alcohol and tobacco stood at 2.6%, marking a slight increase from the previous month. The persistence of strong services and food inflation underscores ongoing pressures from labour-intensive sectors and consumer demand, while the rebound in energy prices contributed modestly to the uptick in headline inflation.

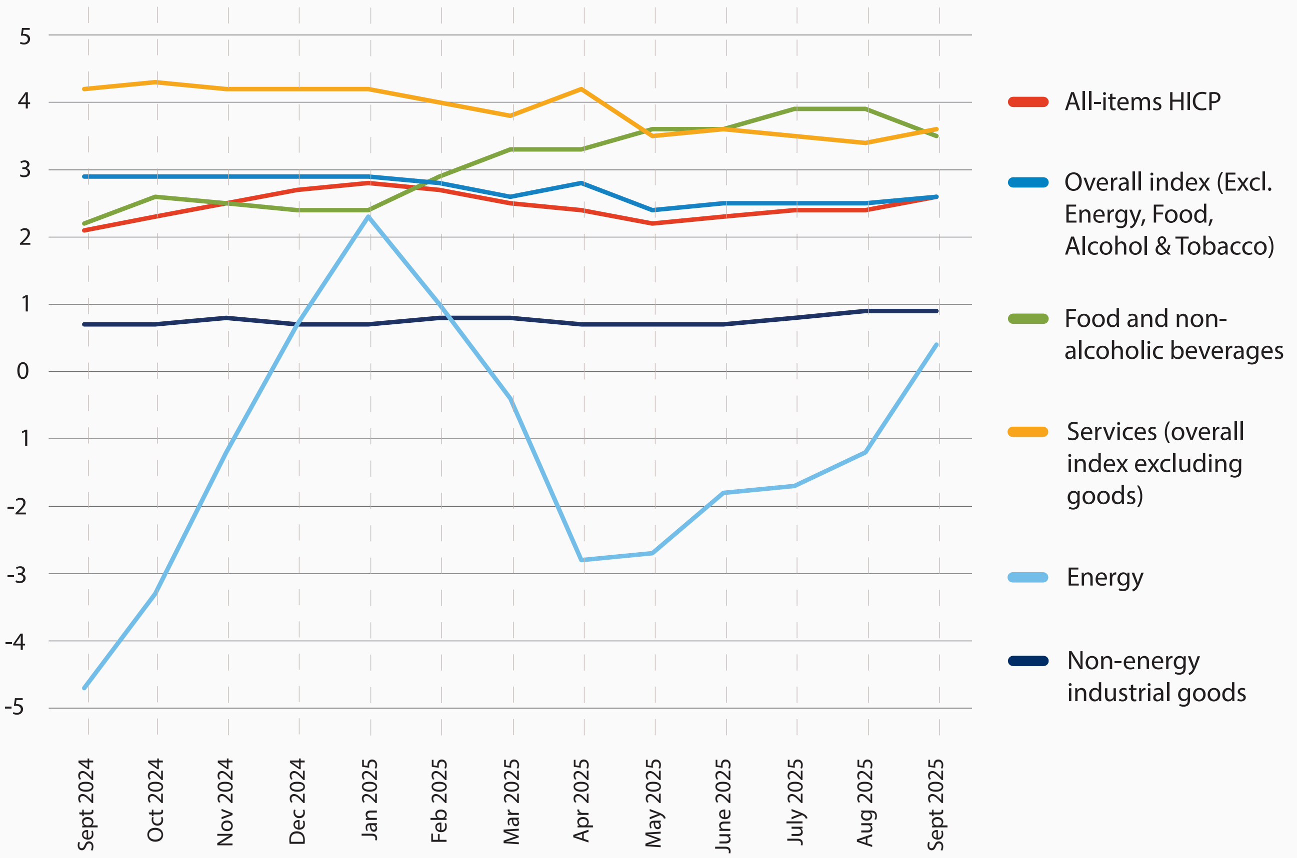
In September 2025, inflation rates across EU Member States continued to vary widely. Romania recorded the highest inflation at 8.6% (driven by especially high energy inflation: 15.5%), followed by Estonia (5.3%) and Croatia and Slovakia (both 4.6%), reflecting persistent price pressures in parts of Central and Eastern Europe. At the other end of the spectrum, Cyprus registered no inflation (0.0%), while France (1.1%) and Greece (1.8%) posted the next lowest rates, indicating relatively contained price dynamics compared to the EU average.

Businesseurope's inflation forecasts for both the EU and the Euro Area are 2% for 2025, with projections for 2026 at 1.8% for the EU and 1.7% for the Euro Area.

At the same time, for BusinessEurope's Member Federations, inflation remains a concern, albeit a moderate one: 11% of survey respondents are very concerned with an increase in it, while approximately 64% are only slightly concerned about upward pressures, and the remaining 25% are not concerned at all.

CHART 6: PERSISTENT SERVICES AND FOOD INFLATION, COMBINED WITH REBOUNDING ENERGY PRICES, LIFT HEADLINE INFLATION TO 2.2%, KEEPING IT CLOSE TO THE ECB TARGET

Annual rate of change of HICP and main components (EU27) (%)



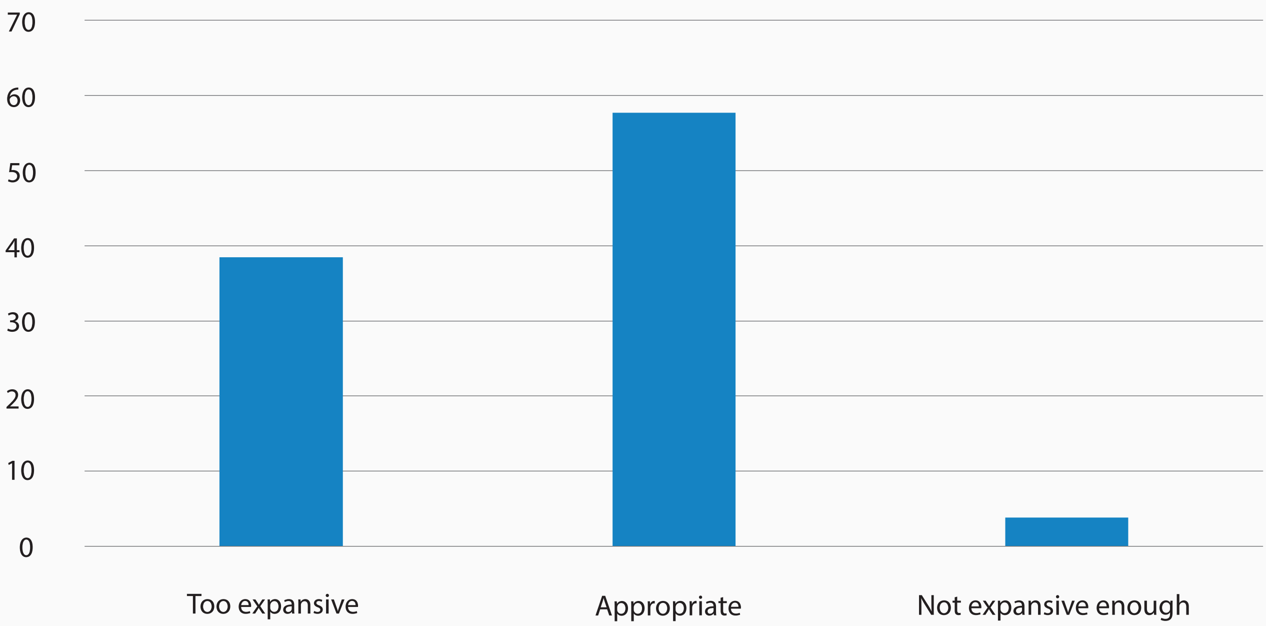
Source: Eurostat prc_hicp_manr

FISCAL POLICY AND EURO AREA

The forecasted aggregate Member States' fiscal budget deficits stand at -3.1% of GDP in 2025 and –3.2% in 2026, in both the EU and the Euro Area. Such trend, projecting a large, and slightly increasing, fiscal deficit, might reflect the expectations of public investment rises, particularly due to increased defence and infrastructure spending in Germany and high NGEU-funded investment growth in Italy, Spain, and other countries. By 2027, the fiscal stance might tighten as NGEU grant financing expires and some non-discretionary factors become more restrictive. This trend aligns with respondents' assessments of current fiscal policy across the EU and euro area countries. Overall, 38% of national federations consider fiscal policy in their country too expansionary, while 58% view it as appropriate, and only 4% deem it insufficiently supportive. This represents a notable shift from the Spring outlook, when fewer respondents (just under 30%) regarded fiscal policy as too expansionary and 63% were satisfied (Chart 7).

CHART 7: AN INCREASING NUMBER OF RESPONDENTS EVALUATE THEIR COUNTRIES' FISCAL STANCE AS TOO EXPANSIVE, ALTHOUGH THE MAJORITY DEEMS IT APPROPRIATE

In light of the economic situation, how do you assess fiscal policy for your country? (%)



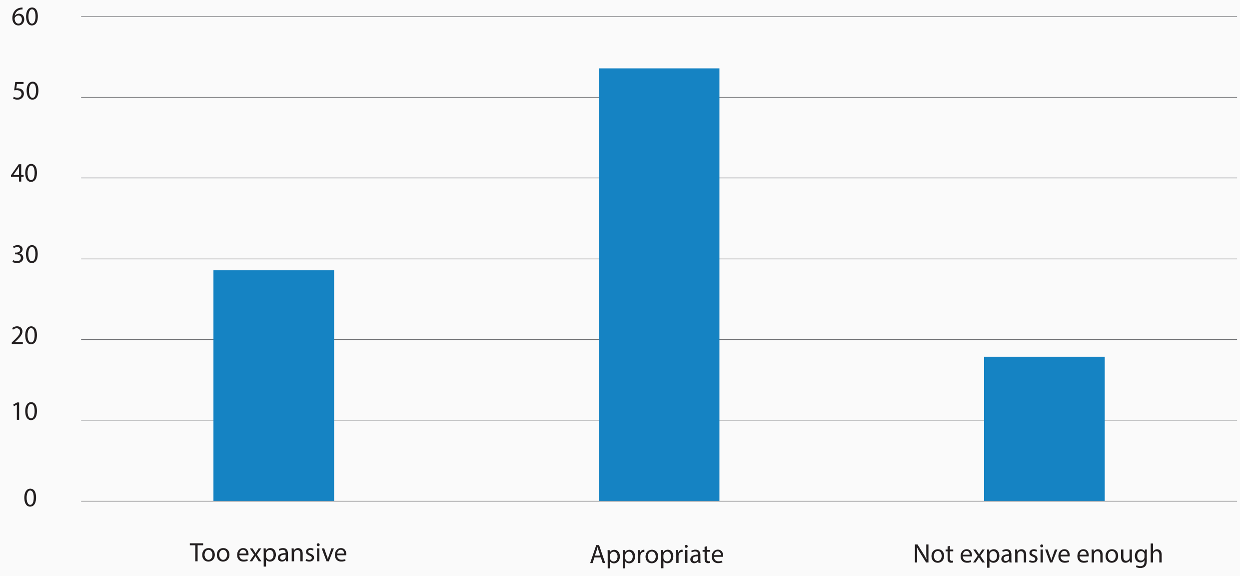
Source: BusinessEurope Member Federations[15]

Within the euro area, satisfaction levels are comparatively lower with respect to Spring Outlook, with a clear shift towards considering the policy stance as too expansive: 54% of respondents consider the fiscal stance appropriate, 29% view it as too expansionary, and 18% call for additional fiscal stimulus; while six months ago, 68% considered euro area fiscal policy appropriate, 18% too expansionary, and 14% not expansionary enough (Chart 8).

[15] Germany, Denmark, Slovenia missing from this data.

CHART 8: WHILE APPRECIATION FOR EURO AREA FISCAL STANCE PREVAILS, MANY RESPONDENTS DIVERGE IN CONSIDERING THAT MORE TIGHTENING OR MORE STIMULUS IS NEEDED

In light of the economic situation, how do you assess fiscal policy for the Euro Area? (%)



Source: BusinessEurope Member Federations

Overall, the fiscal outlook remains surrounded by high uncertainty, stemming from not yet specified defence spending plans following the June 2025 NATO summit, incomplete information on national budget plans for 2026 and beyond, under the EU fiscal framework, and political risks in several Member States.

GLOBAL TRADE UNDER UNSTABLE POLICY ANNOUNCEMENTS

04

The trade agreement reached in July 2025 between the EU and the U.S. established a ceiling on U.S. tariffs at 15% for most EU exports. This agreement marked a significant step in reducing transatlantic trade tensions, lowering trade policy uncertainty compared to the heightened levels observed earlier in the year. Nevertheless, uncertainty remains elevated relative to historical standards, reflecting ongoing geopolitical risks and broader global trade dynamics.

More precisely, according to the ECB, the average effective tariff rate for euro area exports of goods is assumed to be 13.1%,[16] as the joint U.S.-EU framework agreement implied that the tariff rate to be applied would be an average of 15% with some exceptions for sectors that are either exempted or subject to higher tariffs. The U.S. administration also increased Section 232 tariffs on steel and aluminium from 25% to 50%[17] and introduced a new 50% tariff to be applied on the aluminium and steel content of 407 products. Furthermore, 50% tariffs were also imposed on imports of semi-finished copper products and intensive copper derivative products. Section 232 is part of the Trade Expansion Act from 1962, and under this provision, U.S. presidents are allowed to impose trade restrictions in quantities and circumstances due to national security decisions. Pharmaceutical products, semiconductors, and lumber are still under Section 232 investigation; therefore, the US government is examining whether to increase the tariffs in the cited above sectors. Considering also trade in services, the effective overall tariff projected is 8.1%.[18]

More broadly, considering all trading partners, the overall U.S.'s effective rate on goods imports has increased to 21.0% compared to the 16.8% of June. Higher reciprocal rates were introduced due to lack of a trade deal (India and Switzerland), while an increase in tariffs was implemented on Brazilian (50%) and Canadian exports (35%), and secondary tariffs on India (+25%). In contrast, the effective tariff applied to EU exports remains comparatively lower, potentially offering a relative advantage for EU-origin goods over those from other trading partners.

The IMF's World Economic Outlook, published in October 2025, includes two risk scenarios illustrating the potential impact of evolving trade policies on global and euro area activities. In the adverse scenario, the GDP of the euro area would decline by about 1 percentage point below baseline in 2026, with only a modest rise in inflation of 0.1–0.2 percentage points. Conversely, in a more favourable environment, the output of the euro area could increase by around 0.7–0.8 percentage points above baseline, supported by stronger investment and confidence. These simulations suggest that the euro area remains less directly exposed to tariff shocks than other regions, even though its performance remains sensitive to shifts in global demand and uncertainty.[19]

According to the ECB's projections, the combined effect of higher U.S. tariffs and trade policy uncertainty since March is projected to weigh on real GDP growth in the euro area, with a cumulative reduction of 0.7 percentage points over the period 2025–27. The impact on inflation is expected to remain negligible. The limited impact reflects both the relatively small changes in the EU's effective tariffs and the fact that tariff hikes are larger for other trading partners. At the same time, the reduction in trade policy uncertainty since June is expected to provide a slight positive boost to growth. Overall, these partly offsetting factors result in a net effect of -0.7 percentage points on the euro area's GDP growth.

These projections align with the responses provided by BusinessEurope's Member Federations. As illustrated in Chart 9, the estimated impact of trade tensions on GDP growth is limited in 2025, being around -0.03 p.p for the euro area and the EU, but increases significantly in 2026, reaching levels of respectively -0.6 p.p. and -0.5 p.p.. This pattern suggests that firms expect the bulk of the economic impact to materialize with a delay. One key factor driving this delay is frontloading: companies systematically accelerated shipments to the U.S. ahead of the higher tariffs to avoid higher costs. A similar trend was observable in BusinessEurope's Spring outlook, where, in most countries, the estimated negative impact on growth was stronger in 2026 compared to 2025.

16 ECB staff macroeconomic projections for the euro area, September 2025

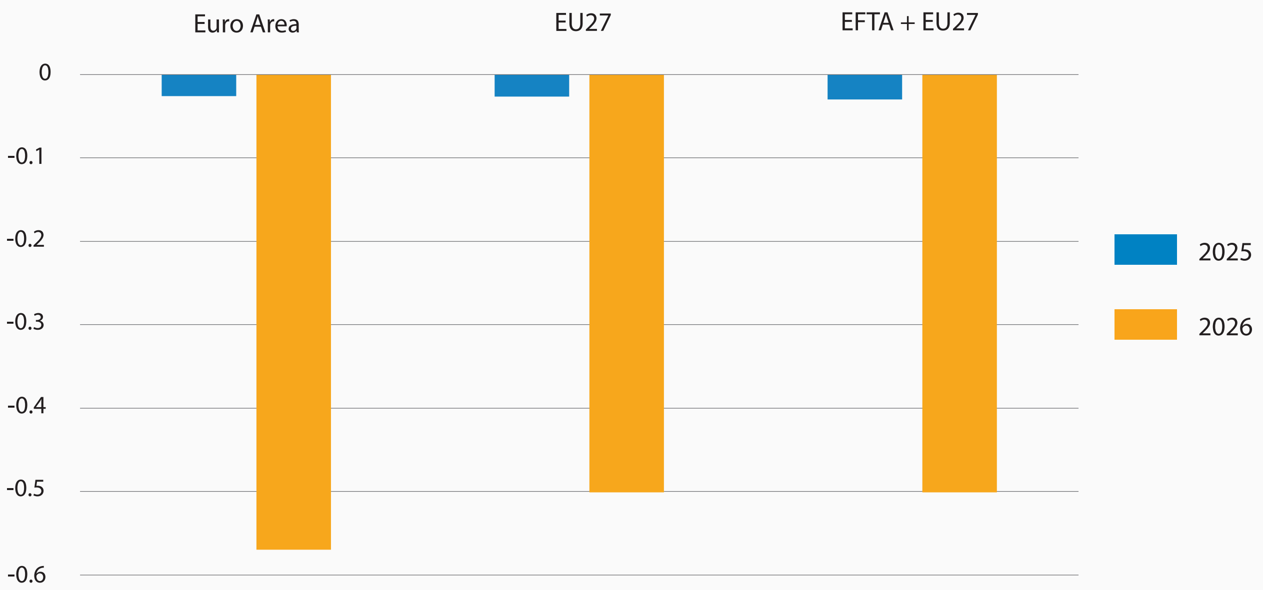
17 Adjusting imports of aluminum and steel into the United States, June 2025

18 ECB staff macroeconomic projections for the euro area, September 2025

19 World Economic Outlook, IMF, 2025

CHART 9: RESPONDENTS FORECAST MINOR CORRECTION IN 2025, AND A LARGER IMPACT IN 2026

Adjustment to GDP growth estimate for trade tensions (percentage points change)



Source: BusinessEurope Member Federations

Even though the agreement reached last July mitigated uncertainty, companies still express concerns about the lack of predictability. According to a survey published by BusinessEurope[20] in October 2025, 73% of the responding companies declared a moderate to significant negative impact on their business activity. Concerning specifically Section 232 tariffs, 47.5% of respondents stated that they expect such unpredictability to significantly damage them. The most impacted sectors are expected to be those subject to existing or forthcoming Section 232 tariffs, specifically on steel, aluminium, and copper.

Overall, the EU-U.S. trade deal has provided a clearer framework for business planning and reduced near-term trade uncertainty, and the expected impact is only slightly more negative than anticipated in June, as effective tariffs increased more for other trading partners. However, the delayed economic effects of tariffs, shaped by frontloading, and the remaining unpredictability surrounding Section 232 tariffs, underscore the persistent medium-term challenges for global trade and growth.

[20] The main factors impacting European companies in the U.S. market – a BusinessEurope survey

LABOUR MARKET: LOW UNEMPLOYMENT CONTINUES

05

The EU labour market remains robust, with low unemployment, broadly in line with the levels reported in the previous Outlook.

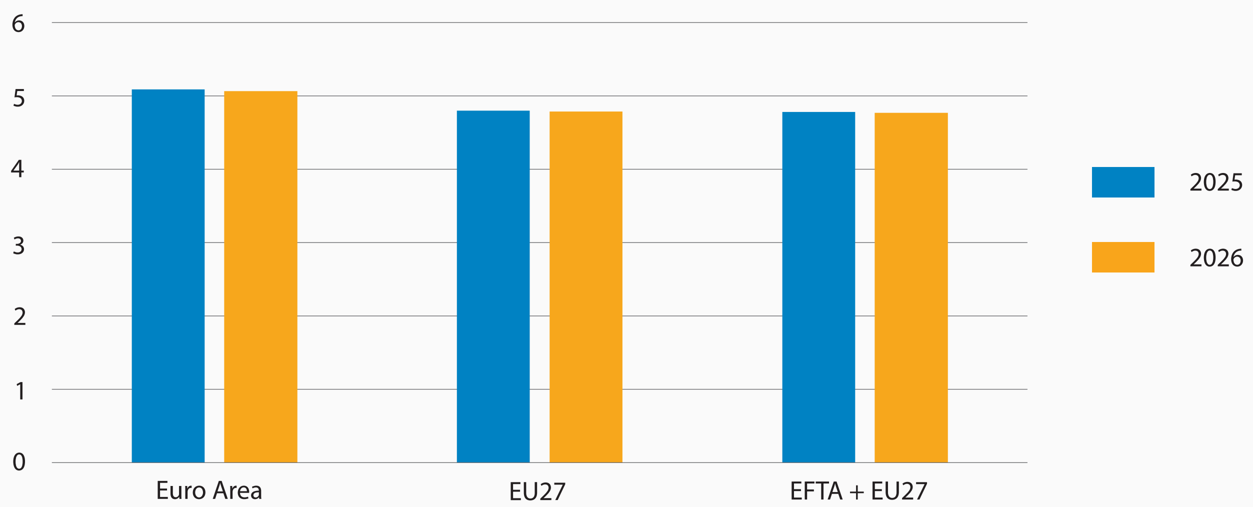
According to Eurostat, the EU's employment rate rose to 76.2% in the second quarter of 2025, up from 76.1% in the first quarter.[21] According to the latest ECB's macroeconomic projections, employment is expected to grow by 0.6% in 2025. The employment growth in 2025 is partially due to a robust labour force growth, expected to slow down in the next years.[22]

Meanwhile, the seasonally adjusted unemployment rate in the euro area remained stable at 6.3% from July to September, while in the EU it slightly increased from 5.9% in July to 6.0% in August and remained stable in September.[23]

Consistent with what was included in the Spring outlook, BusinessEurope' forecasts a gradual decline in unemployment. As observable in Chart 10, the unemployment rate in the EU is projected to remain stable at around 4.8% in 2025 and 2026. Similarly, in the euro area, it is expected to stabilise at 5% in 2025 and 2026.

CHART 10: MEMBER FEDERATIONS EXPECT LOWER DECREASE IN UNEMPLOYMENT RATES OVER THE NEXT YEARS

Forecasted unemployement rate (%)



Source: BusinessEurope Member Federations

21 "Employment rate up in Q2 2025," Eurostat, September 2025
22 Macroeconomic projections, ECB, 2025
23 Eurostat une_rt_m

Eurostat data also show that the job vacancy rate in the EU reached 2.1% in Q2 2025, down from 2.2% in Q1 2025 and 2.4% in Q2 2024. In the euro area, the job vacancy rate declined to 2.2% in Q2 2025, from 2.4% in Q1 2025 and 2.6% in Q2 2024.[24] This decline in the job vacancy rate seems to reflect a reduction in labour demand rather than an improvement in the matching of labour demand and supply.

ECB data indicate that labour productivity growth is expected to remain positive, with projected growth rates of 0.7% in 2025, 0.2% in 2026.[25] Growth in unit labour costs continued to ease in 2025, reaching 2.8% compared with 4.7% in 2024. A further decline is expected in the coming year, with 2.2% in 2026[26].

The dynamic of wages is well illustrated in ECB's latest wage tracker update, published in September 2025. The data shows that negotiated wage growth in the euro area is easing and becoming more stable, suggesting a continued moderation of wage pressures in the first half of 2026. The tracker, which is based on collective bargaining agreements signed up to the end of August 2025, shows negotiated wage growth of 4.6% in 2024 and 3.2% in 2025 (smoothed for one-off payments). Excluding one-off payments, growth stood at 4.1% in 2024 and 3.8% in 2025, clearly above inflation.[27]

When measured in real terms, wages in the EU rose by 2.7% in 2024[28] and are projected to grow by 1.3% in 2025 and 1.1% in 2026.[29] Meanwhile, Eurostat data show that the profit share of non-financial corporations declined from 42% in Q1 2023 to 39.1% in Q2 2025, as well as their investment rate from 22.6% to 21.6%.[30] This suggests that reduced corporate margins have partly been accompanied by an increase in purchasing power of employees. To further sustain these gains without eroding profitability and corporate investment rates, structural measures that incentivise corporate investments and enhance productivity growth will be essential.

24 Job vacancy statistics, Eurostat, September 2025

25 ECB staff macroeconomic projections for the euro area, September 2025

26 ECB staff macroeconomic projections for the euro area, September 2025

27 New data release: Early signals from ECB wage tracker suggest lower and more stable wage pressures in first half of 2026, ECB, 2025

28 Labour market and wage developments in Europe, European Commission, 2025

29 Real wage catch-up in the euro area, ECB, 2025

30 Household saving rate increases to 15.4% in the euro area, Eurostat, 2025

SPECIAL SECTION 1: THE 2028-2034 EU BUDGET

The Multiannual Financial Framework (MFF) is the EU's long-term budget, setting expenditure ceilings over a seven-year period. It provides funding for the Union's policy priorities such as for the single market, energy and transport connectivity, strategic industries, research and innovation, territorial and social cohesion, agriculture, fisheries, enlargement, and external action. On 17 July 2025, the European Commission presented its proposal for the 2028–2034 MFF, followed by a second legislative package on 3 September. The proposal will now undergo discussions, negotiations, and amendments by the European Parliament and the Council throughout 2026 and potentially beyond.

The next MFF represents a crucial opportunity to reinvigorate the EU's competitiveness and strengthen its industrial and innovation base. With limited resources available, the efficient allocation of funding will be essential to target strategic priorities that reinforce Europe's economic resilience and technological sovereignty, while advancing decarbonisation, digitalisation, and reducing territorial and social disparities. Resource constraints are compounded by the need to repay the capital and interest associated with NextGenerationEU (NGEU), particularly the Recovery and Resilience Facility (RRF). Despite this, the proposed overall MFF envelope rises only modestly (from 1.14% of GNI in the 2021–2027 period to 1.26%, including 0.11 percentage points dedicated to debt servicing).

BusinessEurope welcomes several aspects of the proposal, notably the Commission's efforts to enhance social parts' involvement in various programs, including with the creation of a Strategic Stakeholder Board, to supervise the design and governance of ECF's policy windows, and with their involvement in the design of NRPPs, although clarification is needed on membership, roles, and responsibilities. Moreover, the focus on strengthening the overall flexibility of funding to respond to the changing context and emerging needs is appreciated, although a degree of predictability should be maintained when necessary for investments and research needs, and to increase the emphasis on competitiveness. Finally, the proposed simplifications to administration, reporting, and application processes, including the reduction in the number of programmes, are particularly welcome, although further details are missing for a proper analysis.

A key innovation in the new proposal is the creation of the ECF, consolidating multiple existing programmes under a single governance framework and strengthening budgetary support for strategic EU priorities such as digital technologies, health, biotech, cleantech, decarbonisation, defence, security, and space. The ECF's introduction of a common "rulebook" and the accompanying toolbox instruments and simplification measures could improve the efficiency of fund delivery, support SME participation, and improve the overall impact of the program. The proposed "investment journey" approach, supporting strategic sectors from fundamental research to commercialisation, illustrates a positive attempt to link research and innovation with industrial deployment. However, the absence of operational details makes it difficult to assess the feasibility of these proposals, and further clarity will be needed on the role of the Strategic Stakeholders Board and the coordination between the ECF and Horizon Europe.

Horizon Europe, the EU's flagship research and innovation programme, is expected to continue playing a central role in strengthening Europe's scientific and technological capacity. The proposed increase in budgetary support is welcome and should be maintained throughout the negotiations. The new program should enhance the role of collaborative and industry-led research under Pillar II while continuing to recognise European Partnerships as key instruments to deliver it. The proposed new focus on dual-use technologies, inspired by a "DARPA-like" approach modelled on the U.S. agency supporting breakthrough innovations with potential civil and defence applications, while being potentially interesting, lacks further information about its proposed implementation, for it to be properly assessed.

The reinforcement of InvestEU, managed by the European Investment Bank and providing EU guarantees to de-risk strategic investments, through additional resources and an increased provisioning rate, is another welcome development. InvestEU has proven effective in leveraging private capital. However, its risk appetite should be expanded to support more disruptive and emerging technologies if it is to make a stronger contribution to Europe's technological and industrial leadership.

The Connecting Europe Facility (CEF) remains vital to Europe's competitiveness and cohesion by funding cross-border transport, and energy networks, as well as military mobility infrastructure. The proposed strong increase in CEF resources, particularly concerning energy connectivity, should be maintained throughout the negotiations, given its importance in fostering the EU's industrial competitiveness by lowering energy costs.

The proposal also introduces performance-based elements to cohesion policy and the Common Agricultural Policy (CAP), drawing lessons from the RRF in linking funding to results. This could enhance the impact of these programmes and incentivise structural reforms and investments. Nevertheless, it is essential that funding remains aligned with cohesion and agricultural objectives and that performance criteria do not distort their territorial or sectoral focus. Under the proposed framework, cohesion and agricultural policies would be integrated into a national plan (the so-called National and Regional Partnership Plans - NRPPs) developed by national governments with the involvement of regions, territories, and social partners, subject to approval by the European Commission and the Council. While this approach could improve coherence and accountability, the extent of regional and stakeholder involvement remains unclear, raising concerns about a possible dilution of territorial focus and the limited input from the private sector, which is best placed to strengthen the competitiveness of these programmes. BusinessEurope also advocates the maintenance of a standalone successor to the European Social Fund Plus (ESF+), with at least 50% of resources dedicated to upskilling and reskilling workers, and 15% earmarked for employer-led training. This would help match the needs for skilled workforce by European companies and facilitate the creation of quality jobs in Europe.

Regarding Global Europe, the EU's main external action instrument, the proposed shift toward greater flexibility between thematic and geographic policy windows is welcome, provided it maintains adequate predictability and stability of commitments. The instrument's role in supporting development cooperation, neighbourhood stability, and strategic partnerships remains essential to the EU's global influence.

Finally, the financing of the MFF must avoid measures that could undermine competitiveness. Introducing new levies on European companies, particularly the proposed turnover-based levy (so-called CORE), risks being distortive, as firms with high turnover but low profitability could still face disproportionate costs. BusinessEurope estimates that around 33,000 non-financial companies in the EU could be affected by this proposed tax. Ensuring that the MFF strengthens Europe's productive capacity and mobilises private investment, rather than creating new fiscal burdens for its enterprises, is essential to achieving the Union's economic and strategic objectives.

Overall, the proposed 2028–2034 MFF provides a valuable opportunity to align the EU's budget with its long-term ambitions for competitiveness, research and innovation, resilience, and cohesion. Success will depend on clear prioritisation, effective simplification of instruments, and a governance framework that involves social partners in the design of programs. Maintaining robust funding for key programmes such as Horizon Europe, the Connecting Europe Facility, InvestEU, and Global Europe, while ensuring targets for social policies and an effective performance-based framework for cohesion policy, will be crucial to building a more competitive, innovative, and resilient European economy.

CONTINUED GROWTH IN INVESTMENTS IN THE DEFENCE INDUSTRY 06

The current international context, characterised by increased instability, military conflicts, and hybrid security threats, has prompted a revamp in global defence spending, reaching €2.5 trillion in 2024, up from €2.2 trillion in 2023, and marking a 7.4% real-term increase.[31] According to the Stockholm International Peace Research Institute (SIPRI), EU's defence expenditure accounted for €343 billion in 2024, marking a 19% increase from 2023, bringing defence expenditure to 1.9% of GDP.[32] Of that amount, around 30% (€102 billion) was directed towards defence investments, reflecting a major shift from pre-Ukraine invasion levels, when ,after reaching 21% in 2010, the quota of investments on total spending remained subdued and grew back to 22% only in 2019. Nearly all EU's Member States (26 out of 27) expanded their defence budgets in 2024, and 16 of them recorded increases of over 10% compared to 2023. Germany and Poland registered the most significant jumps.[33] Moreover, still according to SIPRI, 13 EU Countries surpassed the 2% of GDP in defence spending, representing the old target agreed by NATO leaders back in 2014. According to NATO's estimates, based on different methodologies of calculating military spending, the Member States reaching or surpassing the target were 16.[34]

However, the EU military industry suffers not only from years of underinvestment but also from significant fragmentation. This fragmentation leads to a lack of scale and duplication of military platforms across Member States, reduces countries' bargaining power in procurement, and undermines long-term planning, resulting in frequent sub-efficient "off-the-shelf" purchases.

Member States are also seeking to modernise their military platforms and adapt their capabilities to the rapidly evolving realities on the battlefield; developments made particularly evident in the ongoing Russian war of aggression in Ukraine. The growing prominence of drones and counter-drone systems has fundamentally reshaped the nature of combat operations. Since the start of 2022, the EU's defence technology start-up sector has experienced a remarkable surge, raising approximately €2.4 billion, up from just €30 million in 2020 and €150 million in 2021.

The EU institutions are trying to address these structural fragmentation and underinvestment issues through several initiatives. Back in March 2024, the European Commission published the European Defence Industrial Strategy (EDIS), establishing several non-binding targets for 2030 aimed at strengthening European defence cooperation and industrial autonomy. By that year, EU Member States should jointly purchase at least 40% of their defence equipment, allocate at least half of their defence procurement budgets to products made in the EU, and ensure that at least 35% of defence trade takes place within the EU rather than with non-EU countries. This initiative seeks to enhance collaboration and coordination among EU Member States while reducing the proportion of defence procurement sourced from outside the Union. Currently, a significant share of EU defence orders is fulfilled by foreign producers. For example, a report from the French Institute for International and Strategic Affairs noted that of more than €100 billion in EU defence purchases during the fifteen months following Russia's 2022 invasion of Ukraine, approximately 78% consisted of armaments sourced from outside the EU, of which 80% from the U.S., 13% from South Korea, 3% from both Israel and the UK each.

In addition, to provide Member States with greater fiscal flexibility for increasing defence spending, the European Commission introduced the "ReArm Europe Plan / Readiness 2030" in March 2025. The initiative includes an "escape clause" allowing defence-related expenditures to be excluded from EU deficit calculations. The provision grants four years of flexibility (2025–2028), during which Member States may exceed deficit limits by up to 1.5% of their GDP annually. By October 2025, the Council had activated this clause for 16 Member States. Alongside more fiscal flexibility, the initiative includes a €150 billion loan instrument, called Security Action for Europe (SAFE), to help Member States financing their spending in missile defence, drones, and cyber security. The funds will be raised on capital markets and disbursed to interested Member States upon demand, based on national plans. The initiative was

31 SIPRI, Military Expenditure Database.

32 Defence data, EDA, 2025

33 55 EDA, Annual Report 2024

34 EU Member States' defence budgets, EP Think Tank, 2025

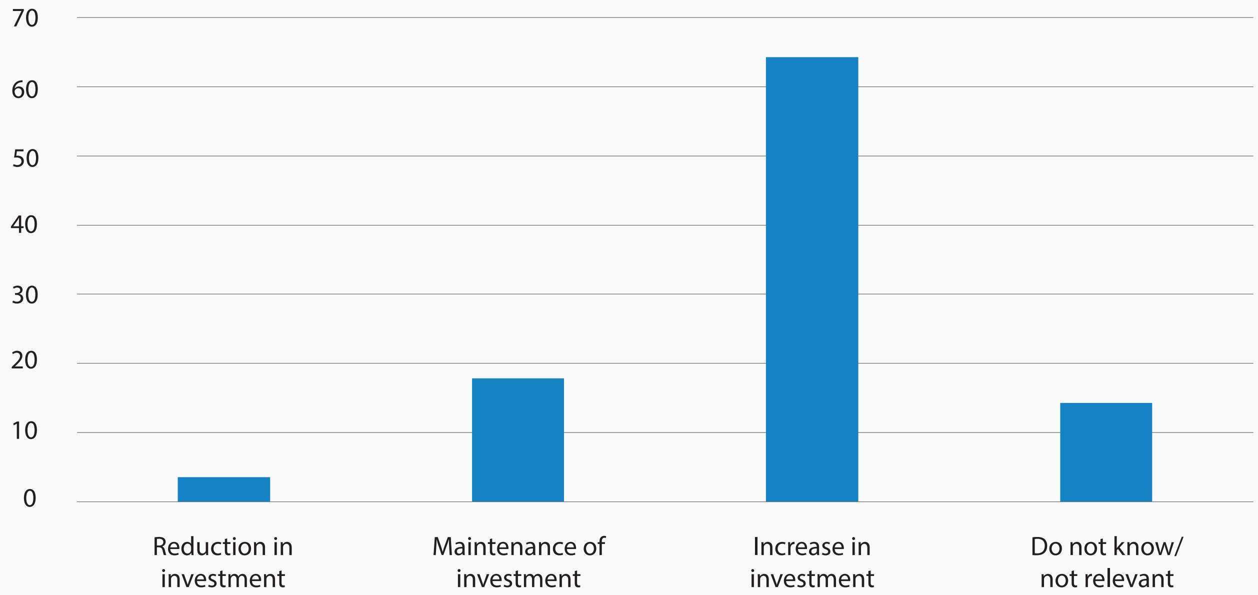
followed by the launch of a proposal by the Commission, consisting in a "Defence Readiness Omnibus," a package of proposed simplifications and to speed up defence and infrastructure capabilities deployment.

Further steam to defence spending came in June 2025, at the NATO Summit in The Hague, where NATO Members agreed to raise the defence spending benchmark from 2% to 5% of GDP by 2035, with 3.5% specifically on "core defence requirements," consisting in weapons, equipment, and ammunitions, while the remainder should be spent on broader defence-related infrastructure and preparedness. If implemented, the huge boost in military spending represented by all the EU's NATO countries reaching the new 3.5% target would reach up to an annual €635 billion.

The trend of increased spending, observed since the start of the war in Ukraine, is thus expected to continue over the following years. According to the European Defence Agency (EDA), Member States may reach beyond the old 2% NATO guidelines already in 2025, to €392 billion (current prices, €381 billion in constant 2024 prices) or 2.1% of GDP, an 11% rise over 2024. This trend is also reflected in the survey results. However, since the change has already partially entered in motion, the variation compared with the previous edition of the survey is less pronounced. Most Member Federations (64%) expect investment in the defence industry to increase over the next six months, while 18% foresee it stabilising, and only the Dutch federation anticipates a decline (Chart 11). This indicates a more moderate increase compared with the Spring outlook, when over 70% of respondents expected growth and none anticipated a decrease.

CHART 11: MOST RESPONDENTS EXPECT AN INCREASE IN INVESTMENTS IN THE DEFENCE INDUSTRY

Expectations about investment on defense industry over the next 6 months (%)



Source: BusinessEurope Member Federations

SPECIAL SECTION 2: INVESTMENT GAP

According to Eurostat's data, gross fixed capital formation (GFCF) in the EU fell by 1.9% in 2024, with respect to 2023, signalling a slowdown in investment after years of moderate recovery. The decline reflected tighter financial conditions, weaker demand, and persistent uncertainty weighing on both households and firms. When looking at the investment gap - defined as the difference between actual investment and an optimal level required to ensure their business success going forward, into Eurostat's sectoral sub-divisions a more nuanced picture emerges (Table 3). Investment in residential real estate contracted sharply by 5.0%, probably driven by higher interest rates. In contrast, commercial real estate and infrastructure investment rose slightly (+1.5%), supported by ongoing public projects and EU Recovery and Resilience Facility funding. Investment in machinery, equipment, and weapons systems decreased by 1.4%, suggesting weak corporate investment, while intellectual property products fell by 2.6%, pointing to a slowdown in innovation and R&D spending. Overall, the data show that Europe's investment level is falling, with infrastructure spending providing only partial support. In particular, the decline in productive and innovation-related capital formation raises concerns about the EU's long-term competitiveness.

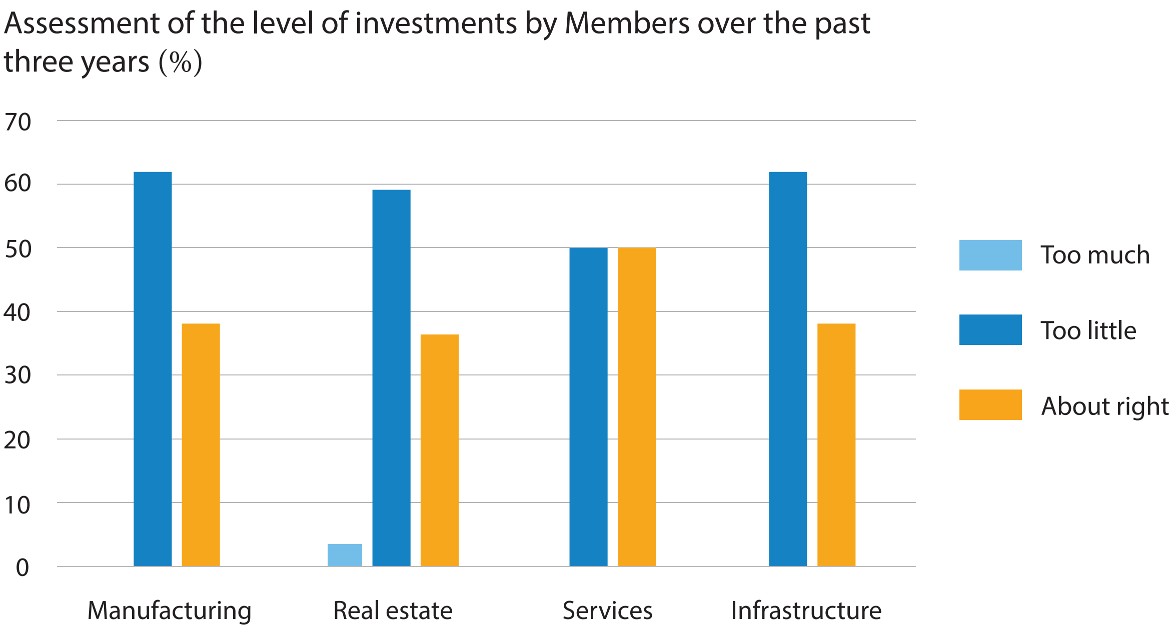
TABLE 3: CHANGE IN FIXED GROSS CAPITAL FORMATION IN THE EU BETWEEN 2023 AND 2024

Sector	2024 year-over-year growth in fixed gross capital formation 2024
Residential real estate	-5%
Commercial real estate and infrastructure	+1.5%
Machinery, equipment, weapon systems	-1.4%
Intellectual property	-2.6%
Total	-1.9%

Source: Eurostat's data nama_10_an6

Most BusinessEurope's Member federations reported a large investment gap across three sectors: infrastructure, manufacturing, and real estate, with 62%, 62%, and 59% of countries, respectively, indicating insufficient investment. In contrast, for the services sector, the number of Member States reporting an investment gap is roughly equal to those reporting adequate investment. Overinvestment is observed only in the real estate sector in Bulgaria (Chart 12).

CHART 12: MOST RESPONDENTS REPORT AN INVESTMENT GAP IN INFRASTRUCTURE, MANUFACTURING AND REAL ESTATE



Source: BusinessEurope Member Federations

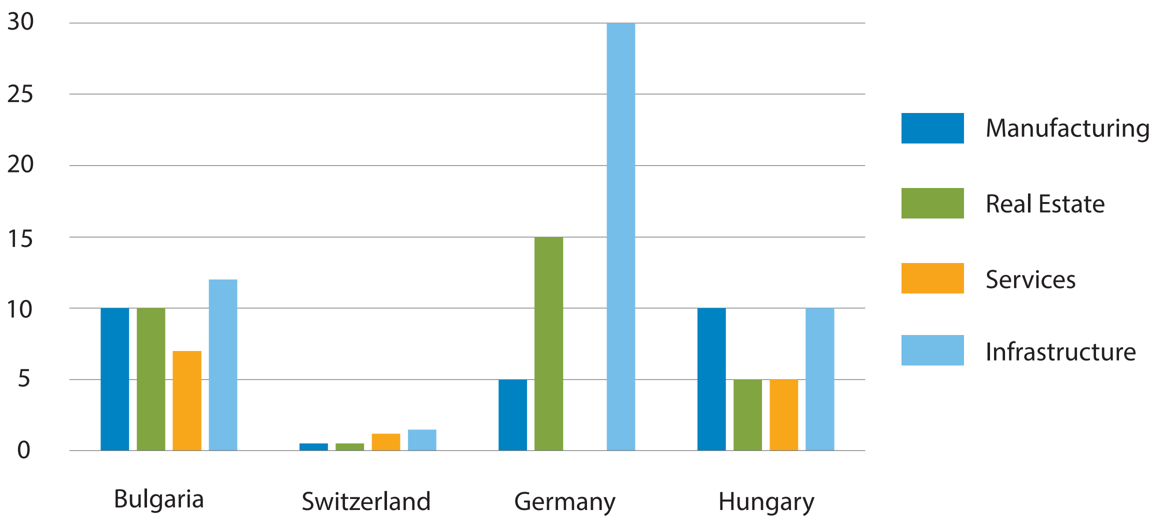
When respondents who reported an investment gap were asked whether part of it could be addressed through EU funding (e.g., the MFF), only seven EU countries responded positively.[35] Among these, infrastructure emerged as the most frequently mentioned area where EU intervention could help reduce the gap (cited by seven out of eight respondents), followed by manufacturing (five), real estate (three), and services (two).

A subset of respondents also provided a quantification of their investment gaps. When asked to estimate the shortfall over the past three years, defined as the difference between investment and an optimal level, their responses are summarized in Chart 13 below. The most striking finding concerns Germany, which shows a particularly large investment gap in the real estate (15%) and particularly infrastructure sectors (30%). This gap may be partially addressed by the Infrastructure Plan approved in March 2025 by the German Government, allocating €500 billion over a 12-year period to finance new infrastructure projects.

[35] Bulgaria, Czech Republic, Germany, Greece, Ireland, Latvia, Malta,

CHART 13: QUANTIFICATION OF THE INVESTMENT GAP BY A SUBSET OF MEMBER FEDERATIONS

Average investment gap over the last three years (% difference from the optimal)



Source: BusinessEurope Member Federations

These headline numbers and surveys suggest a large investment shortfall, but a closer examination indicates that the EU's main challenge lies in the sector and type of investment, and not just on the total amount. First, in recent years, the EU identified two main priority areas for investments, which are the green and digital transitions (defence, another emerging area for investments in the EU, due to global instability and rise in conflicts, has been treated in a previous section of the document).

The EU's Green Deal aims to achieve climate neutrality by 2050 and reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. Achieving these targets requires significant investment: according to the ECB, over the past decade, the EU invested an average of €746 billion per year in measures to reduce greenhouse gas emissions, corresponding to 4.8% of EU GDP in 2022; however, the European Commission estimates that reaching the 2030 climate target will require an additional €477 billion per year, bringing total green investment needs to €1,241 billion, or 7.8% of GDP. According to the ECB, most of this investment is expected to target greening the transport sector and improving the energy efficiency of residential buildings. Independent analyses confirm the scale of the challenge. As reported by Bloomberg New Energy Finance (BloombergNEF), total green investment needs could reach €1,039 billion by 2030, while the Institute for Climate Economics (I4CE) estimates a slightly lower figure of €813 billion. [36]

The EU also faces a substantial digital investment gap. As reported by the European Commission in a study from 2024, private-sector ICT investment between 2014 and 2020 averaged €46 billion per year. However, the Commission estimates that an additional €125 billion per year will be needed to meet the digital targets of the Digital Compass strategy. Specifically, achieving "one gigabyte connectivity" will require €114 billion, and providing full

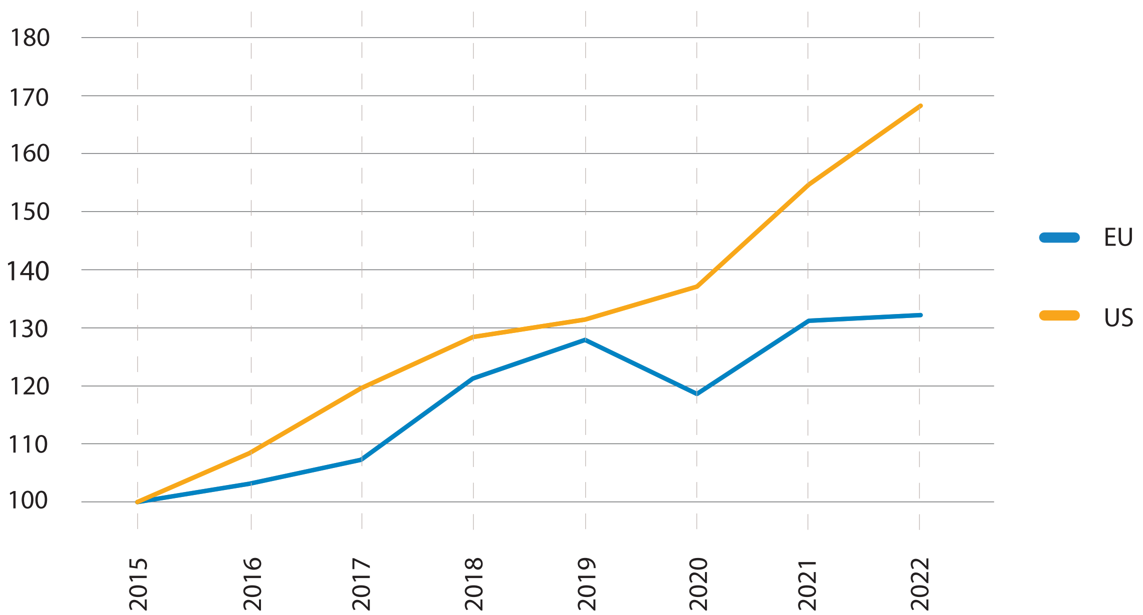
[36] "Massive investment needs to meet EU green and digital targets," ECB, 2024

5G service an additional €33 billion. Including infrastructure-related digital investments in roads, railways, and waterways (€26 billion), the total digital connectivity investment gap is at least €173 billion per year.

Moreover, when examining which level of the business journey the investment gap is concentrated in, several analyses indicate that research and development (R&D) represents the main shortfall. This area appears to offer the highest positive spillover effects and is therefore crucial for enhancing the EU's overall competitiveness. By contrast, the returns on other types of investment are dampened by structural obstacles and weaknesses in the current framework, including excessive regulatory burdens, fragmentation of the Single Market, and the absence of a fully integrated and efficient capital markets. These factors discourage investment within the EU and instead drive investors to allocate capital to other global regions, such as the U.S..

This also shown by Chart 14, comparing investments in ICT equipment in a subset of 22 EU Member States and in the U.S.[37]

CHART 14: DIVERGING TREND IN INVESTMENT IN ICT EQUIPMENT BETWEEN 22 EU MEMBER STATES AND THE U.S. IN THE 2015-2022 PERIOD



Source: Staff calculations based on OECD data

A Centre for Economic Policy Research (CEPR) study named "How large is the investment gap in the EU and how to close it?," published in March 2025, shows that total EU investment as a share of GDP (22.9%) was comparable to the U.S. (22.6%) during the 2016-2019 period. However, the EU significantly lags in high-tech sectors, including ICT equipment, R&D, IT software, and intellectual property (IP) products, with investments standing at about only 4.6% of GDP compared to 8.3% in the U.S. Regional disparities are also evident: over the same period Nordic countries invested 6.4% of GDP in innovative technologies, Mediterranean countries 3.3%, Continental Europe 4.4%, and Eastern Europe 2.5%.[38]

[37] Austria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Bulgaria, Croatia, Romania, Italy, Belgium.

[38] "How large is the investment gap in the EU and how to close it?," CEPR, 2025

Similar findings are supported by a study from the Institute for European Policymaking (IEP) at of Universitá Bocconi titled "What investment gap: quality instead of quantity," published in July 2024. Looking at the EU investment landscape through a qualitative lens, aggregate investment in dwellings, buildings, and industrial machinery is actually higher in the EU than in the U.S. The EU's shortfall is concentrated in intangibles, especially R&D and software development. EU firms spend roughly the same on tangible assets as U.S. firms, but only one-third as much on R&D. This reflects the EU's industrial structure, which favours mid-tech sectors (like automotive) over high-tech sectors that typically drive R&D.[39] The authors of the study further note that simply increasing public R&D spending will not close this gap between the EU and the U.S. Public R&D expenditures are already similar. Instead, structural reforms are needed to encourage private R&D investment in high-risk, high-reward projects, including fiscal and corporate law reform, the creation of a capital markets union, and modernizing education. Finally, as reported by the EU Industrial R&D Scoreboard, while gaps in tangible business investment (CAPEX) are modest, the real shortfall is in business R&D spending. EU companies invest approximately €200 billion annually in R&D, only one-third of U.S. level. In this sense, the "investment gap" is primarily an R&D gap, underscoring that the EU's challenge is related also with the quality and direction of investment and not solely on the quantity of overall investments.

The 2024 EU Industrial R&D Investment Scoreboard reveals strong growth in research and innovation investments by EU-headquartered companies (+9.8%), surpassing both U.S. (+5.9%) and Chinese (+9.6%) counterparts for the first time since 2013. Nonetheless, only 322 EU-based companies feature among the world's top 2,000 R&D investors, representing 18.7% of total global R&D investment, compared to 681 U.S. firms (42.3%) and 524 Chinese firms (17.1%). This underscores that, despite encouraging trends, the R&D investment gap with the U.S. remains far from being closed.[40]

To improve the situation, the EU and national governments should work closely to remove the standing barriers to cross-border investment within the EU, deepening financial integration and strengthening cross-border competition. This includes channelling household savings into capital markets through simple and flexible EU savings and retail investment products, free from excessive administrative burdens or long lock-in periods. Educational initiatives should be launched to promote financial literacy among citizens. Policymakers should also enhance market efficiency and innovation by supporting venture capital and private equity, encouraging institutional investors such as pension funds and insurers to invest in long-term risk capital, and incentivising private R&D investment in high-tech sectors, including ICT, software, and intellectual property products. For example, in 2022, EU pension funds allocated just 0.02% of total assets to venture capital, compared with almost 2% for U.S. pension funds.[41] Moreover, this percentage is applied to a much larger asset base: over 140% of GDP in the United States compared with around 30% in the EU.

At the same time, enabling liquidity, including bank dividends, to flow freely across Member States is essential for completing the SIU. This, in turn, would allow a more open competition among credit institution, which could have major positive spillover effects such as better financing conditions for EU businesses and more innovation. To achieve these results, acting on the regulatory side to make it leaner is crucial: the implementation of Basel IV should balance companies' needs for capital and risk management products while maintaining a level playing field with other major jurisdictions. Regulatory measures, including level 2 and level 3 acts from the European Supervisory Authorities (ESA), should remain proportionate and flexible, especially regarding definitions of default. Finally, simplifying ESG risk assessment requirements for banks and financial institutions, and improving citizens' financial literacy, will help unlock private capital, support entrepreneurship, and drive sustainable long-term growth across the EU.

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[39] "What investment gap? Quality instead of quantity," IEP Bocconi, 2024

[40] EU companies lead global R&D investment growth, breaking decade-long trend - The Joint Research Centre: EU Science Hub, 2024

[41] Rebooting the Capital Markets and Banking Union: Savings and Investment Union, BusinessEurope, 2025

When it comes to EU's public funding instruments such as the MFF, regulatory reforms should be introduced to reduce red tape, as speed in disbursement is crucial to ensuring the timely uptake of new ideas, and keeping the pace with evolving technologies. At the same time, clear and predictable legal frameworks are needed to foster private investment. In this context, the MFF should establish effective links between the ECF and Horizon Europe to support the entire investment journey, from research and innovation to market deployment.

COUNTRY DIFFERENCES

Growth rates are expected to vary significantly across Europe. The economies of Malta (3.9%), Croatia (3.8%), and Poland (3.7%), are forecast to grow robustly this year, while the largest EU Member States are set to have no or low growth: Germany (0.0%), France (0.7%), and Italy (0.5%).

	GDP		Inflation		Unemployment		Government net lending (% of GDP)	
	2025	2026	2025	2026	2025	2026	2025	2026
AT	0.4	0.9	3.5	2.4	5.5	5.4	-4.5	-4.2
BE	0.9	1	2.1	1.3	6	6.5	-5.9	-5.6
BG	2.9	2.7	3.8	3.8	3.6	3.4	-3	-3
CY	3.1	3.1	1.9	2.1	4.7	4.7	3.5	3.7
CZ	2.1	2.1	2.6	2.5	2.7	2.8	-2	-2
DE	0	1.3	2.3	2.1	3.6	3.5	-2.2	-3.1
DK	2	2	1.9	1.1	6.5	6.6	2.3	1.4
EE	0.6	3.2	5.3	3.1	7.8	7.2	-1.3	-4.5
EL	2.2	2.4	2.6	2.2	9.1	8.6	0.6	-0.1
ES	2.9	2.3	2.5	2	10.4	9.7	-2.6	-2.3
FI	0.8	1.4	1.8	1.3	9.3	8.8	-4	-3.5
FR	0.7	0.9	1	1.5	7.5	7.8	-5.3	-5
HR	3.8	2.7	4.3	2.9	4.7	4.5	-3	-2.8
HU	0.5	2.5	4.5	4	4.6	4.6	-4.5	-6
IE	2.6	2.2	1.9	1.7	4.6	4.8	2.6	2.9
IT	0.5	0.7	1.8	1.8	6	5.8	-3.1	-2.6
LT	2.7	3.2	3.5	3.1	7.1	6.6	NA	NA
LU	1	2	2.1	1.8	6.2	5.9	0	-0.8
LV	1.1	2.1	4	2.3	6.9	6.3	-2.9	-3.3
MT	3.9	3.5	2.3	2.1	2.8	2.7	-3.4	-3
NL	1.6	1.4	2.9	2.1	3.8	4	-1.9	-2.7
PL	3.7	3.2	4.2	3.3	2.9	3	-6.9	-6.5
PT	1.9	2.2	2.2	1.9	6.2	6.3	0	-0.6
RO	0.6	1.2	7.1	5.8	6	6.1	-8.4	-6.4
SI	0.8	2.1	2.5	2.4	3.6	3.6	-0.9	-2
SK	0.8	1.3	4.2	3.6	5.4	5.6	-5.2	-5.3
SE	0.9	2.9	2.6	1.5	8.7	8.4	-0.9	-2.1
NO	2	1.8	2.7	2.3	4.6	4.3	NA	NA
CH	1.1	0.9	0.2	0.5	4.5	4.7	-1.1	0

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