



2026 SPRING ECONOMIC OUTLOOK

GEOPOLITICAL STRESSES
WORSEN EU'S ECONOMIC
OUTLOOK



EXECUTIVE SUMMARY

ECONOMIC SITUATION

Economic growth in Europe is expected to remain subdued over the forecast horizon. We project EU GDP growth at 1.2% in 2026, a downward revision of 0.1 pp compared with our Fall 2025 Outlook. Growth in the euro area is expected to reach 1.0%, 0.2 pp lower than previously anticipated. A modest improvement is foreseen in 2027, with growth rising to 1.4% in the EU and 1.2% in the euro area. The outlook continues to be weighed down by heightened geopolitical tensions in the Middle East, rising energy prices, modest investment momentum, and persistent uncertainty surrounding global trade.

After easing between late 2024 and early 2026, inflationary pressures have reemerged. Consumer prices began accelerating again from March 2026, largely driven by the escalation of the Middle East crisis and the resulting surge in energy costs. Inflation is now expected to average around 2.8% in both the EU and the euro area in 2026 before moderating again in 2027. This development is a major concern for BusinessEurope members. All respondents report concerns about inflation, with around 40% describing themselves as very concerned.

Business sentiment has deteriorated markedly amid geopolitical instability, rising costs, and continued regulatory burdens. A majority of BusinessEurope members report a worsening business climate compared with six months ago, with 62% of respondents reporting a worsening for industry and around half for the service sector. Despite the increasingly challenging environment, investment intentions have remained relatively resilient. As of the end-April 2026 survey cut-off date, none of our members expected investment to decline over the following six months. Most anticipated stable investment levels, with 61% expecting no change in industrial investment and 55% reporting the same for services, while the remainder expected investment to increase. However, the worsening business climate underlines the urgency for action.

Labour markets are expected to remain comparatively resilient despite the weaker economic backdrop. Unemployment should stay close to historically low levels, while employment growth continues at a more moderate pace. However, renewed inflationary pressures could potentially dampen household consumption. Over the medium term, digitalisation and the adoption of AI by companies are expected to support labor productivity growth, albeit the magnitude of these gains remains uncertain.

Public finances continue to face growing pressures. Government deficits are projected to reach 3.5% of GDP in the EU and 3.4% in the euro area in 2026, while average public debt levels are expected to rise to 84.2% and 89.2% of GDP, respectively. In several countries, debt dynamics are raising increasing concerns about fiscal sustainability.

Trade is expected to provide only limited support to growth. Despite the recent signing of new trade agreements, EU export growth is forecast to remain modest – at 1.7% in 2026 and 1.9% in 2027 – constrained by competitiveness challenges, tariffs, persistent global uncertainty, and the lagged effects of the euro's appreciation. Imports are projected to outpace exports, leading to negative net exports. Supported by relatively resilient domestic demand, import growth is expected to hit 2.4% in 2026 and 2.1% in 2027.

The balance of risks remains tilted to the downside. Our estimates may prove somewhat optimistic, as the forecast cut-off date coincided with the early stages of the Middle East crisis and incorporated the assumption of a relatively swift resolution of the Strait blockade. As the disruption has persisted, the risks of higher inflation, weaker investment, and a more pronounced slowdown in economic activity have increased. Depending on how rapidly the traffic disruption in the Strait of Hormuz will be eased by the emerging agreement, the evolution of inflation could change.

POLICY RECOMMENDATIONS:

- The EU should continue to prioritise competitiveness and speed up its action by reducing regulatory burdens, deepening the Single Market, and removing barriers to cross-border trade, investment, labour mobility, and services. At the same time, it must avoid creating new sources of fragmentation and additional burdens for companies at either the EU or national level.
- Against a backdrop of growing geopolitical fragmentation and trade uncertainty, the EU should accelerate efforts to diversify trade partnerships and strengthen security of supplies of critical inputs. This requires the swift ratification and implementation of concluded agreements with Mexico,

Australia, Indonesia, and India, alongside faster progress in ongoing negotiations with Malaysia, Thailand, and the Philippines. The provisional implementation of the EU-Mercosur interim Trade Agreement is a most welcome development. Expanding the EU's network of trade agreements will help support growth, enhance competitiveness, and reduce strategic dependencies. At the same time, we need to stabilise the relationship with the U.S. and find a new balance in the relationship with China.

SPECIAL SECTION 1: ENERGY CRISIS

Energy markets have entered a renewed period of volatility following escalating tensions in the Middle East and disruptions to trade flows through the Strait of Hormuz. While the EU's direct exposure remains relatively limited, the resulting price shocks are being transmitted across European markets. The impact is being felt across transport, industry, agriculture, and energy-intensive manufacturing, while also affecting key supply chains for fertilisers, pharmaceuticals, and critical raw materials such as helium and aluminum.

POLICY RECOMMENDATIONS:

- A reform to the EU Emissions Trading System (ETS) is needed to stabilise carbon prices, limit volatility, prevent carbon leakage, and reduce electricity costs for industry. The EU ETS should better account for competitiveness while preventing environmental ambition and preserving its role as a key market-based instrument for achieving climate neutrality by 2050. This includes adjustments to the Linear Reduction Factor (LRF) to prevent an "ETS endgame" after 2040, a reassessment of the planned phase-out of free allowances across sectors, and further improvements to the Market Stability Reserve to ensure sufficient liquidity and avoid price spikes.
- It is also pivotal to strengthen the business case for decarbonisation by creating more effective enabling conditions for investment in clean technologies by improving long-term contracting mechanisms (PPAs and CFDs), ensuring technology-neutral support frameworks, and using ETS and CBAM revenues to directly support industrial decarbonisation and reduce carbon leakage risks.

SPECIAL SECTION 2: THE EU BANK COMPETITIVENESS

Non-financial firms in the EU remain heavily dependent on bank financing. As a result, the competitiveness of the banking sector, understood as its capacity to provide sufficient and timely funding to the real economy, is a key determinant of European firms' investment conditions and overall competitiveness.

POLICY RECOMMENDATIONS:

- EU prudential banking regulation, including Basel III/CRR3-CRD6, should be recalibrated to improve risk sensitivity.
- The development of securitisation frameworks should be accelerated to free up bank lending capacity, and the competitiveness of the European economy should be explicitly recognised as a secondary objective for EU supervisory authorities.

SPECIAL SECTION 3: SIMPLIFICATION OF EU TAX RULES

Over the past decade, the EU tax framework has become increasingly complex. Successive reforms introduced in response to distinct policy priorities, ranging from post-2008 financial crisis transparency measures and the BEPS agenda to efforts to curb aggressive tax planning, have been layered over time without forming a fully coherent system. This has resulted in a dense and, at times, inconsistent regulatory framework that hinders the competitiveness of EU firms.

POLICY RECOMMENDATIONS:

- The recast of the Directive on Administrative Cooperation in the field of taxation (DAC) should go beyond technical consolidation and aim for genuine burden reduction. This includes removing or substantially narrowing DAC6, centralising notification obligations at group level through a single Ultimate Parent Entity filing and introducing harmonised digital reporting standards across Member State – including a single EU reporting portal.
- In the area of direct taxation and the Tax Omnibus, priorities should include: (i) ensuring coherence between existing anti-avoidance rules and Pillar Two, (ii) improving the proportionality of the Interest Limitation Rule, (iii) removing structural barriers to cross-border capital flows, and (iv) strengthening dispute resolution mechanisms.





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 reflect the GDP-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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CONTENTS

EXECUTIVE SUMMARY	2
ABOUT THE ECONOMIC OUTLOOK	4
OVERALL FORECAST	6
DOMESTIC DEMAND EXPECTED TO CONTINUE SUPPORTING MODEST GROWTH DESPITE EXTERNAL TURMOIL	7
UNCERTAINTY AND INFLATION WEIGH ON BUSINESS CLIMATE, BUT INVESTMENTS ARE EXPECTED TO STAY RESILIENT	12
INFLATION DYNAMICS AND FISCAL POLICY OUTLOOK IN THE EU	16
Costs and prices	16
Fiscal policy	18
LABOUR MARKETS ARE EXPECTED TO REMAIN RESILIENT DESPITE PRESSURES	22
IMPORTS EXPECTED TO OUTPACE EXPORTS AMID TRADE UNCERTAINTY	23
SPECIAL SECTION 1: ENERGY CRISIS	24
Oil price shocks, inflation, and growth	24
The current situation: An impact assessment of the Strait of Hormuz blockade	25
The response to the crisis	27
Possible EU actions	28
SPECIAL SECTION 2: THE EU BANK COMPETITIVENESS	29
SPECIAL SECTION 3: SIMPLIFICATION OF EU TAX RULES	31
COUNTRY DIFFERENCES	33



OVERALL FORECAST

TABLE 1: BUSINESSEUROPE ECONOMIC FORECAST

Main Variables	EU27		Euro area	
	2026	2027	2026	2027
Real GDP (annual % growth)	1.2	1.4	1	1.2
Inflation (%)	2.8	2.3	2.8	2.3
Unemployment (%)	5.9	5.8	6.0	6.0
Government net lending (% of GDP)	-3.5	-3.4	-3.4	-3.4

Source: BusinessEurope staff calculations based on forecasts by Member Federations

- According to our forecasts, we expect economic growth in the EU to remain resilient at 1.2% in 2026 (down 0.1 pp from our November 2025 forecast) and at 1.4% in 2027. The downward revision is more pronounced for the euro area, which we expect to grow at 1% (-0.2 pp) in 2026, then improving slightly to 1.2% in 2027.** After accelerating between the latest quarters of 2024 and the beginning of 2025, supported by temporary export growth linked to frontloading and resilient domestic demand, the EU economy subsequently slowed. The effect of frontloading faded, investment lost momentum, and tariffs began to weigh on activity. Growth nearly stalled in early 2026, while renewed geopolitical tensions in the Middle East and rising energy prices further weakened confidence and increased costs for households and industry. Despite significant differences across EU Member States, domestic demand and investment are expected to continue supporting moderate growth in 2026–2027, although rising energy inflation, international trade, and global uncertainty remain important downside risks. Due to the forecast cut-off date of 27 April, the estimates may reflect an upside estimate, as some national projections were made at the beginning of the crisis, based on the baseline assumption that the blockade of the Strait would be solved in a short time. As the situation has remained unresolved over subsequent weeks, a more negative outcome, involving a sharper reduction in growth, may be possible. In any case, this reinforces the need for continued burden reduction and reforms to make the EU economy more resilient and competitive.
- All BusinessEurope members are concerned about further inflationary increases, with 40% reporting being very concerned.** After broadly aligning with ECB targets through late 2024 and early 2025, inflation re-accelerated from March 2026, reaching 3% in April, driven by energy price surges linked to the Middle East crisis. BusinessEurope expects HICP inflation to reach 2.8% in both the EU and the euro area in 2026 (both values around 1.0 pp above our last forecasts) before easing to 2.2% in both in 2027. As for the growth estimates, these figures likely reflect a rather optimistic scenario, with the probability of higher inflation increasing as the blockade is prolonged. In this context, on 11 June, the ECB has increased its policy rate by 25 basis points to 2.25%, reversing part of its prior easing cycle.
- Despite a moderation in employment growth and renewed inflationary pressures linked to the Middle East crisis, labour markets in the EU and the euro area are expected to remain resilient. **BusinessEurope expects unemployment to remain at low levels, averaging 5.9% in the EU and 6.0% in the euro area in 2026, with only marginal changes projected for 2027.** Employment growth is expected to slow but remain positive, supporting domestic demand despite heightened uncertainty.
- According to BusinessEurope's estimations, the EU government deficit is expected to reach 3.5% (+0.3 pp in relation to our previous forecast) of GDP in 2026 and 3.4% (+0.2 pp) in the euro area, stabilising at 3.4% in both in 2027, likely reflecting increased defence spending and, possibly, measures to ease the effect of energy prices.** We forecast a rise in EU public debt from 84.2% of GDP in 2026 to 84.8% by 2027. While more than half of BusinessEurope members consider the current euro area fiscal stance broadly appropriate, around 37% view their own country's stance as too expansionary. This reflects continued tensions between national fiscal pressures and additional spending; for instance, what is enabled by the defence escape clause.

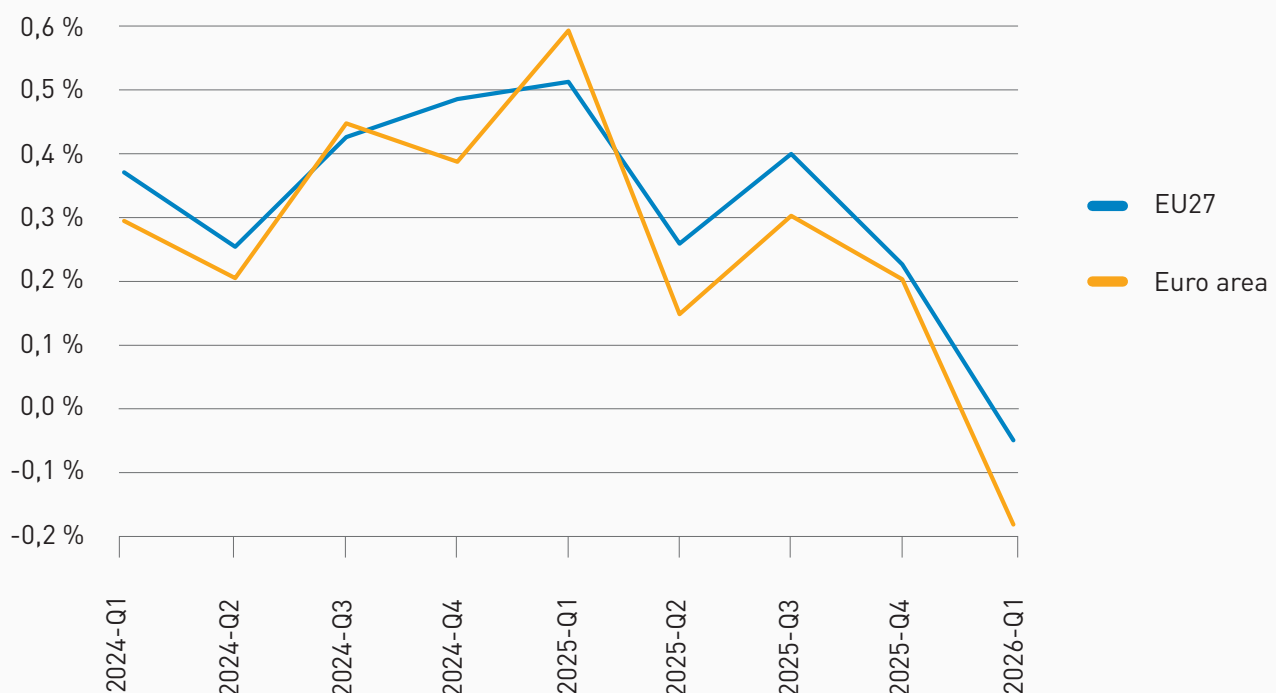
DOMESTIC DEMAND EXPECTED TO CONTINUE SUPPORTING MODEST GROWTH DESPITE EXTERNAL TURMOIL

01

The first part of 2025 was characterised by an acceleration in economic activity on average at the EU level: 0.5% GDP growth in the first quarter of 2025 over the last quarter of 2024. Among the factors driving this push, there was a temporary export growth, boosted by frontloading towards the U.S. ahead of the expected tariff increases, alongside stronger private and public consumption, and a modest increase in fixed capital formation.¹ This acceleration was followed by a slowdown in economic growth, reflecting a decline in exports, linked to the unwinding of frontloading and to the impact of tariffs, particularly in Q2 and Q3. In parallel, there was a loss of momentum in investments. By contrast, household spending continued to increase, supported by recovering real incomes and unemployment remaining close to its historical minimum.

However, output growth stalled in the first quarter of 2026 in the EU, with quarter-on-quarter growth between Q1 2026 and Q4 2025 at -0.05%. The decrease was more marked in the euro area at -0.2% (Chart 1). Industrial production (excluding construction), stood, on average, 1% lower in January and February, compared to the fourth quarter of 2025. Over the same period, retail sales were unchanged, while services production increased marginally in January compared with December. The escalation of the crises in the Middle East began with Operation “Epic Fury”, the joint military strikes by the United States and Israel against the Islamic Republic of Iran, starting on February 28, 2026. This development added further uncertainty and led to a re-acceleration in energy inflation. From March onwards, it also began to weigh on household energy bills and industrial costs. As a result, the outlook for 2026 worsened.

CHART 1: GDP GROWTH IN THE EU AND EURO AREA (QUARTER-OVER-QUARTER)



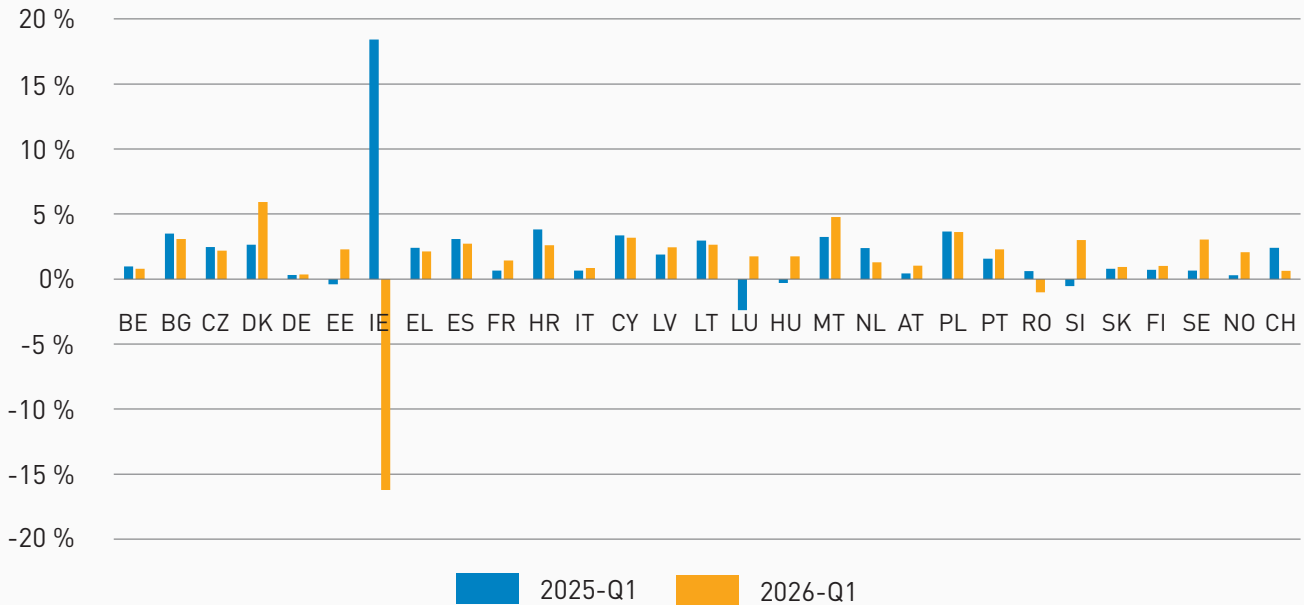
Source: Staff calculations based on Eurostat, namq_10_gdp

Growth dynamics differ across countries. Considering annual growth (Q1 2026 over Q1 2025), among the larger countries, stronger performers included Spain and Poland, while weaker performances were observed in Germany, France, Italy, and the Netherlands. The dynamics of Ireland (high double-digit growth and double-digit contraction in, respectively, Q1 2025 and Q1 2026) are strongly influenced

¹ [European Economic Forecast, Autumn 2025, European Commission, November 2025](#)

by variations in multinational companies' operations, including front-loading of exports (particularly in the pharmaceuticals sector) and profit transfers. Romania is going through a recession, with robust consolidation measures implemented to tackle an excessive deficit, and with high borrowing costs responding to inflation, which slows down economic activity (Chart 2).

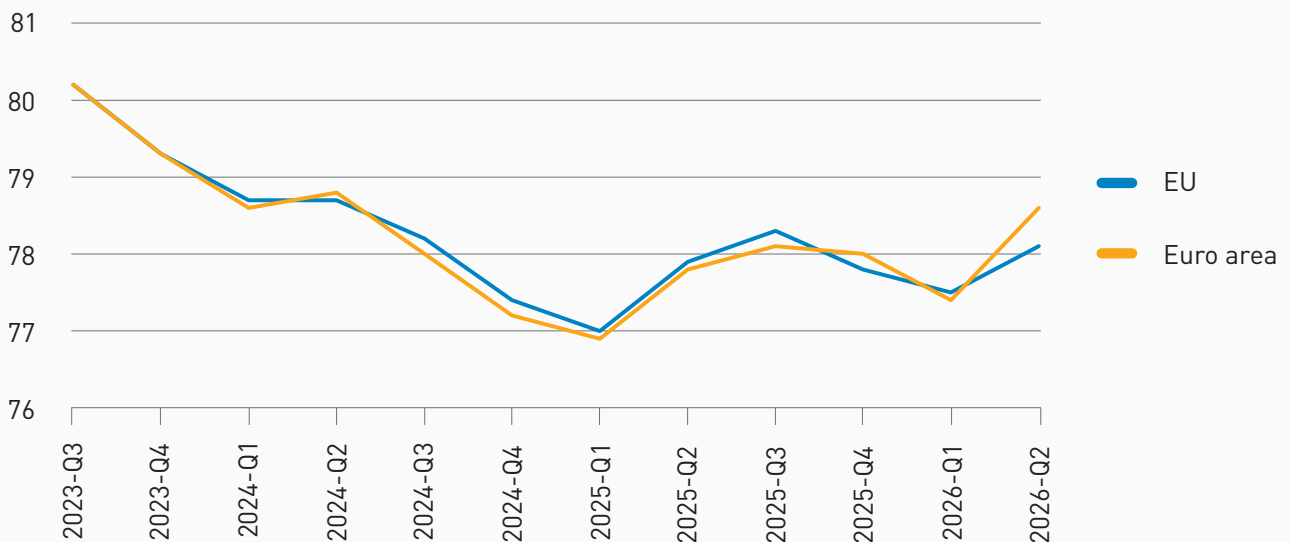
CHART 2: YEARLY GDP GROWTH (OVER THE SAME QUARTER OF THE PREVIOUS YEAR)



Source: Staff calculations based on Eurostat, namq_10_gdp

On the other hand, survey data from the European Commission indicate capacity utilisation in the EU manufacturing sector in Q2 2026 at 78,1%. This ratio is higher than in the preceding two periods, but still far from pre-pandemic levels (Chart 3). This likely reflects higher defence-related spending and fiscal stimulus, particularly in Germany, where capacity utilisation is expected to reach its highest level since Q2 2024. Eurostat manufacturing industrial production index shows a continued, modest increase in February and March 2026, compared to January levels, although it remains comparable to the levels observed in the latest periods of 2025.²

CHART 3: LEVEL OF CAPACITY UTILISATION IN MANUFACTURING INDUSTRY (%)

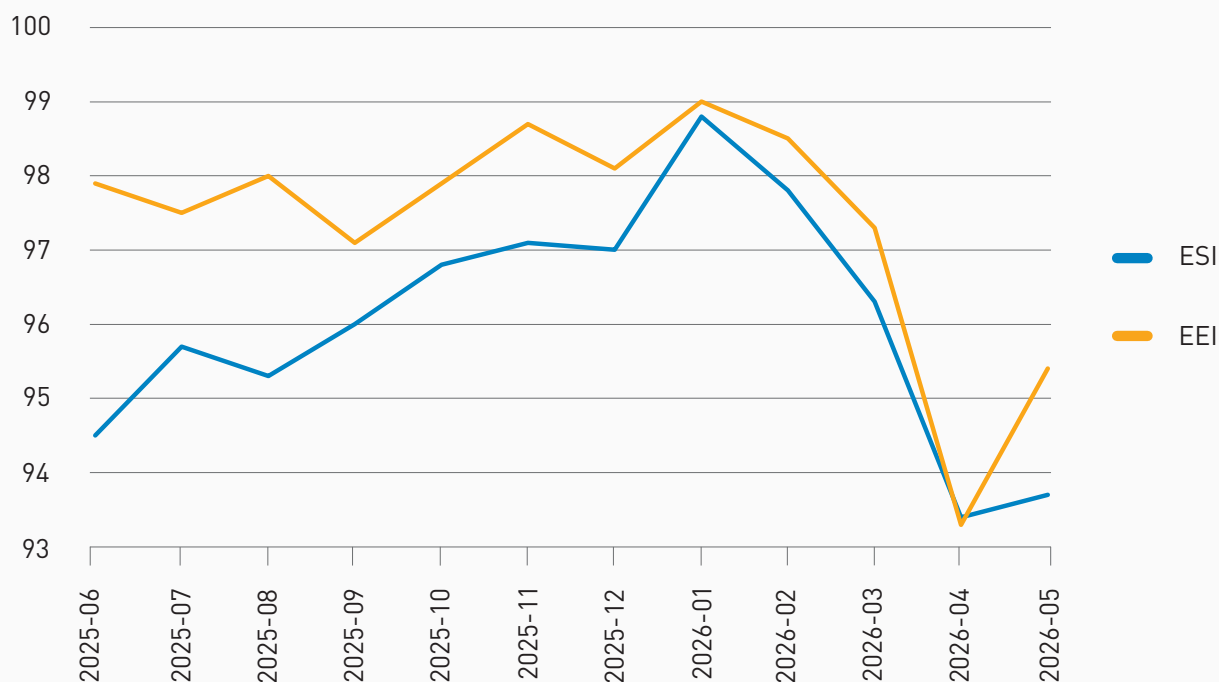


Source: Eurostat, teibs070

² Eurostat, teiis090

Concerns stemming from the blockade of the Strait of Hormuz, as well as broader global geopolitical and trade instability, are already well reflected in the European Commission's Economic Sentiment Indicator (ESI) and the Employment Expectations Indicator (EEI). The former is based on surveys measuring levels of optimism (or pessimism) among businesses and consumers, while the latter tracks short-term corporate hiring intentions. Both indicators, which had been converging back towards 100 (the benchmark representing their long-term average), began to decline in the early months of this year, approaching 93 in April 2026 following the outbreak of the crisis in the Middle East. Data from May displays an improvement, particularly in hiring intentions (Chart 4).

CHART 4: ECONOMIC SENTIMENT INDICATOR (ESI) AND EMPLOYMENT EXPECTATIONS INDICATOR (EEI)



Source: Eurostat, teibs010, ei_bsee_m_r2

Despite the downward risks, BusinessEurope members expect a gradual strengthening of economic growth over the medium term. For 2026, they foresee GDP growth of 1.2% (-0.1 pp) in the EU and 1% (-0.2 pp) in the euro area, increasing to 1.4% in the EU and 1.2% in the euro area in 2027. Clearly, the severity of the impact of the Strait of Hormuz blockade on the outlook depends on its duration and on potential spillovers to the global economy. As such, these estimates are subject to considerable uncertainty. As mentioned above, this point is particularly relevant given the general cut-off date for collecting forecasts (27 April). With the crisis continuing to unfold, there is some likelihood that our forecast errs on the upside. Table 2 displays the downward revisions compared with our previous forecast vs the decreases estimated by other European and International institutions, implying downward revisions of roughly similar magnitude.

TABLE 2: REAL GDP GROWTH FORECASTS

Institution	Current forecast	Revision (pp)
EU		
BusinessEurope <i>April 2026 vs November 2025</i>	1.2%	-0.1 pp
European Commission <i>May 2026 vs December 2025</i>	1.1%	-0.3 pp
EURO AREA		
BusinessEurope <i>April 2026 vs November 2025</i>	1.0%	-0.2 pp
European Commission <i>May 2026 vs December 2025</i>	0.9%	-0.3 pp
ECB <i>March 2026 vs December 2025</i>	0.9%	-0.3 pp
IMF <i>April 2026 vs January 2026</i>	1.1%	-0.2 pp

Note: Revision = current forecast minus previous forecast, in percentage points.

According to our survey, EU GDP growth is expected to remain driven primarily by domestic demand in both 2026 and 2027, although some moderation is projected over time. Private consumption growth is forecast to increase slightly from 1.2% in 2026 to 1.3% in 2027, reflecting gradually improving household purchasing power and resilient labour markets. However, consumer prices, which are projected to accelerate in 2026 primarily because of energy inflation linked to the Middle East crisis, and to moderate again in 2027 (assuming a return to more normal conditions), are likely to influence purchasing power negatively in 2026. This, in turn, could pose a downside risk to our overall forecast. Retail trade volumes, a proxy for consumer confidence, declined in April 2026, falling by 0.4% in the euro area and 0.5% in the EU, following strong growth in March.³

Public consumption growth is expected to slow, from 1.8% in 2026 to 1.4% in 2027, possibly reflecting fiscal consolidation trajectories, while still providing support to overall activity.

Gross fixed capital formation is projected to remain the strongest domestic growth component, although its expansion is expected to ease from 2.8% in 2026 to 2.1% in 2027. This trend likely reflects the end of the Recovery and Resilience Facility (RRF) program, counteracted by increased investments in defence and infrastructure (particularly in Germany), and private investments.

External demand is expected to improve only gradually, with export growth increasing slightly from 1.7% in 2026 to 1.9% in 2027, consistent with a possible stabilisation of global trade conditions. At the same time, imports are projected to remain relatively dynamic, though moderating from 2.4% to 2.2%, consistent with continued domestic demand resilience across the EU.

³ [Volume of retail trade down by 0.4% in the euro area and by 0.5% in the EU, European Commission](#)

TABLE 3: MAIN COMPONENTS OF GDP GROWTH

Main Variables	EU27		Euro area	
	2026	2027	2026	2027
Private consumption (%)	1.2	1.3	1.0	1.1
Public consumption (%)	1.8	1.4	1.6	1.2
Investments (%)	2.8	2.1	2.4	1.9
Exports (%)	1.7	1.9	1.6	1.6
Imports (%)	2.4	2.1	2.2	1.9

Source: BusinessEurope staff calculations based on forecasts by Member Federations



UNCERTAINTY AND INFLATION WEIGH ON BUSINESS CLIMATE, BUT INVESTMENTS ARE EXPECTED TO STAY RESILIENT

02

Economic uncertainty negatively affected most GDP components in both the EU and the euro area, with the majority of the expected 2026 values somewhat below our earlier forecasts. **Investment levels** are the exception to this picture: despite worsened borrowing conditions, we expect investments to increase above our earlier forecasts, with gross fixed capital formation in the EU to grow by 2.8% in 2026, followed by a further increase of 2.1% in 2027. In the euro area, growth is projected at 2.4% in 2026 and 1.9% in 2027. Investment in 2026 is likely to be sustained by the higher utilisation rate of Next Generation EU (NGEU) funds ahead of the programme's closure. Private investment is expected to compensate for the slowdown in public investment in 2027–28 following the expiry of the program.

This outlook is supported by increased defence, AI, and infrastructure spending and, once the current situation normalises, by improving domestic and external demand and receding uncertainty. The beginning of Q1 was characterised by improving company investment with growing corporate profits, healthy balance sheets and the strong demand for digital technologies.⁴ Downside risks stem from a potential slowdown in domestic and global demand, further increases in input prices (particularly energy prices), tighter borrowing conditions, and possible supply chain disruptions, which could affect manufacturing, semiconductors, and data centre construction. Combined with higher uncertainty, these factors are likely to result in the postponement or scaling down of capital expenditures.

According to the ECB's Bank Lending Survey (BLS) for Q1 2026, euro area banks continued to tighten credit standards on loans and credit lines to firms, with a net tightening of 10%. Looking ahead, this trend is expected to accelerate, with 19% of banks anticipating further tightening in Q2 2026. On the demand side, loan appetite among firms was slightly negative in Q1 2026, with a net balance of -2%. Country-level dynamics were mixed: credit demand rose in Germany, held steady in France, and declined in both Italy and Spain. Banks project a more pronounced contraction in demand in Q2 2026, concentrated in long-term loans, with the net balance expected to fall by 10%.⁵

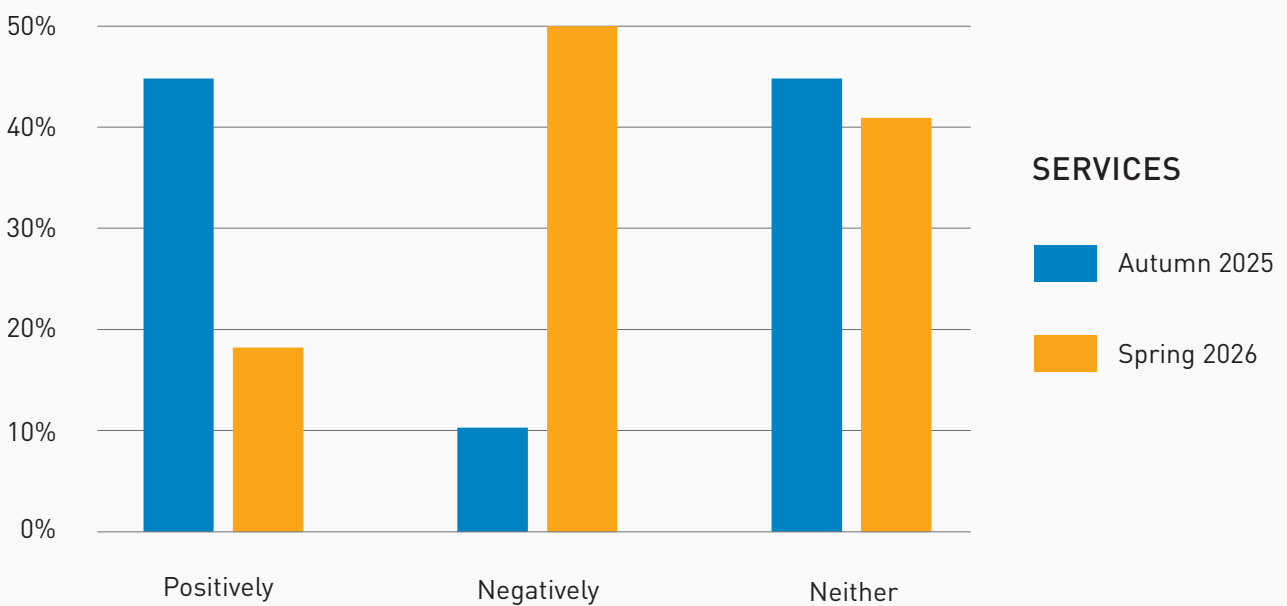
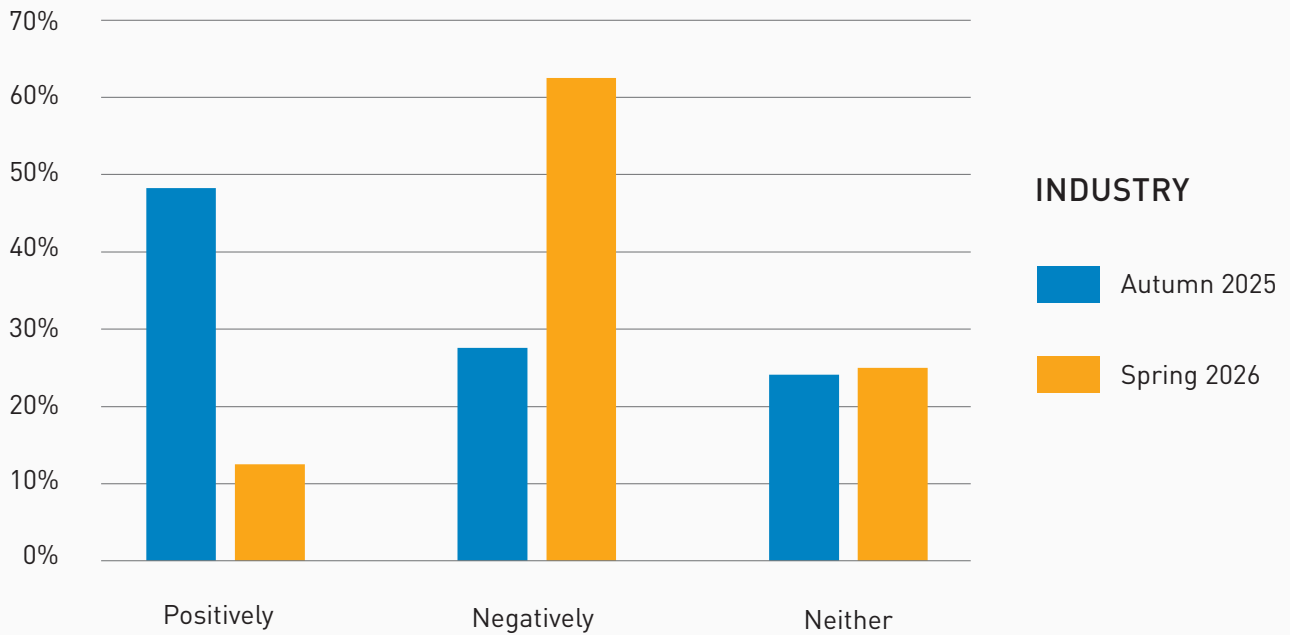
As shown in Chart 5, developments in the Middle East have negatively affected the investment climate across BusinessEurope members, particularly in industry. Indeed, 62% of our members report a deterioration in the investment climate in industry compared with six months ago. A worsening is also reported by half of the members concerning services. This likely reflects concerns over rising production and transport costs linked to energy inflation, as well as the broader negative impact of increasing inflationary pressures and heightened uncertainty on the economic outlook. The slowness and lack of concrete ambition by most governments and the EU in undertaking the necessary reforms to address the Union's structural issues are likely also weighing on the outlook.

This assessment is very different from what we gathered in the 2025 Autumn edition of the Outlook, when nearly half of BusinessEurope's Member Federations (48% for industry and 45% for services) perceived an improvement in the investment climate compared to six months before. At the time, only 28% of members reported a worsening of the climate for industry (and 10% did for services).

⁴ [Economic Bulletin Issue 3, ECB](#)

⁵ [The euro area bank lending survey, First quarter of 2026](#)

CHART 5: HOW BUSINESSEUROPE MEMBERS SEE THE OVERALL BUSINESS CLIMATE COMPARED TO 6 MONTHS AGO?

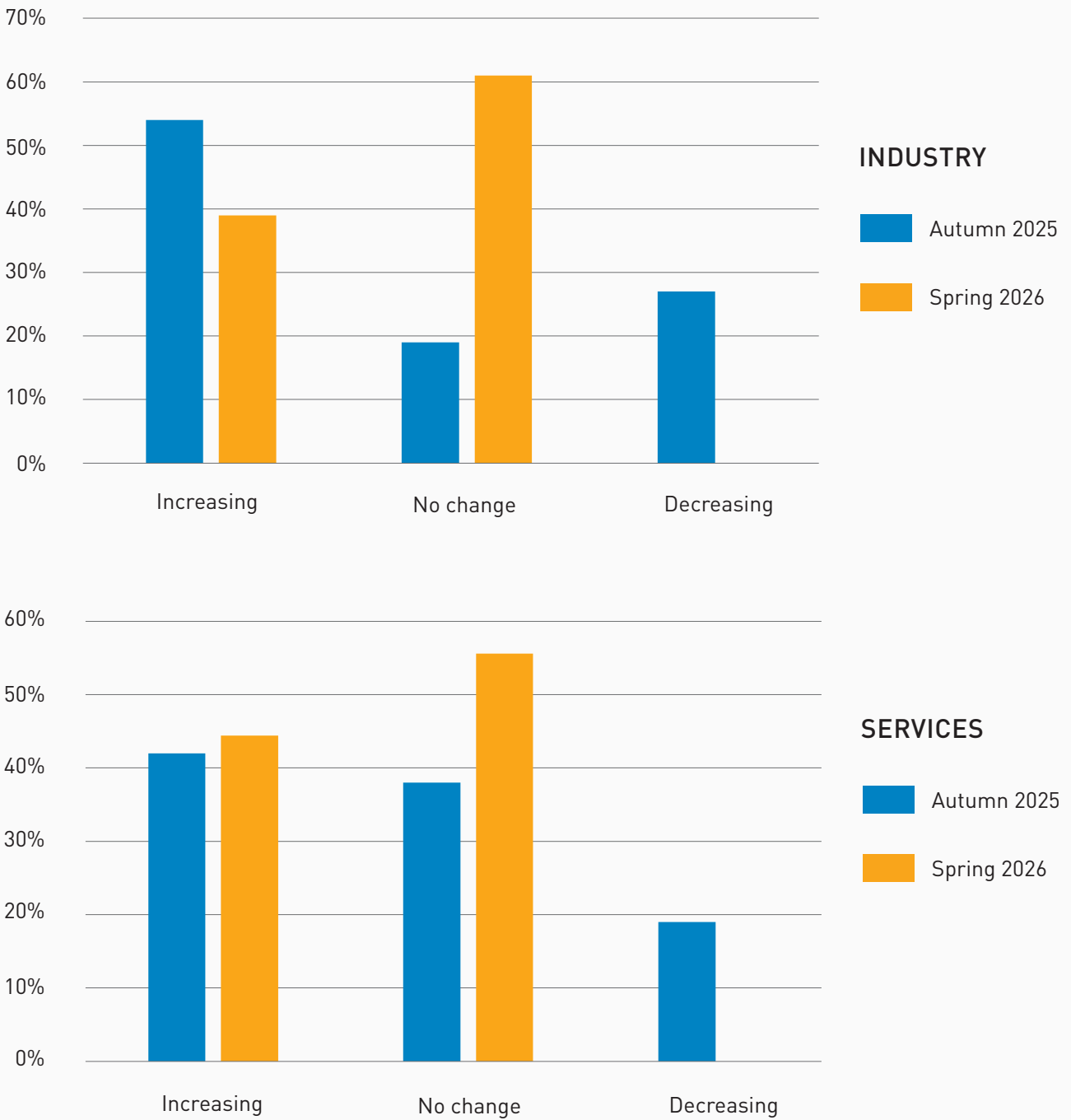


Source: BusinessEurope staff calculations based on forecasts by Member Federations

Despite the downside risks to our forecast, as of the end-April cut-off date, none of our members expected a decline in investment over the next six months. A majority anticipated stable investment levels, with 61% expecting no change in industrial investment and 55% expressing the same view for services. The remaining members expected investment to increase over the period (Chart 6).



CHART 6: EXPECTED TREND IN INVESTMENTS OVER THE NEXT 6 MONTHS

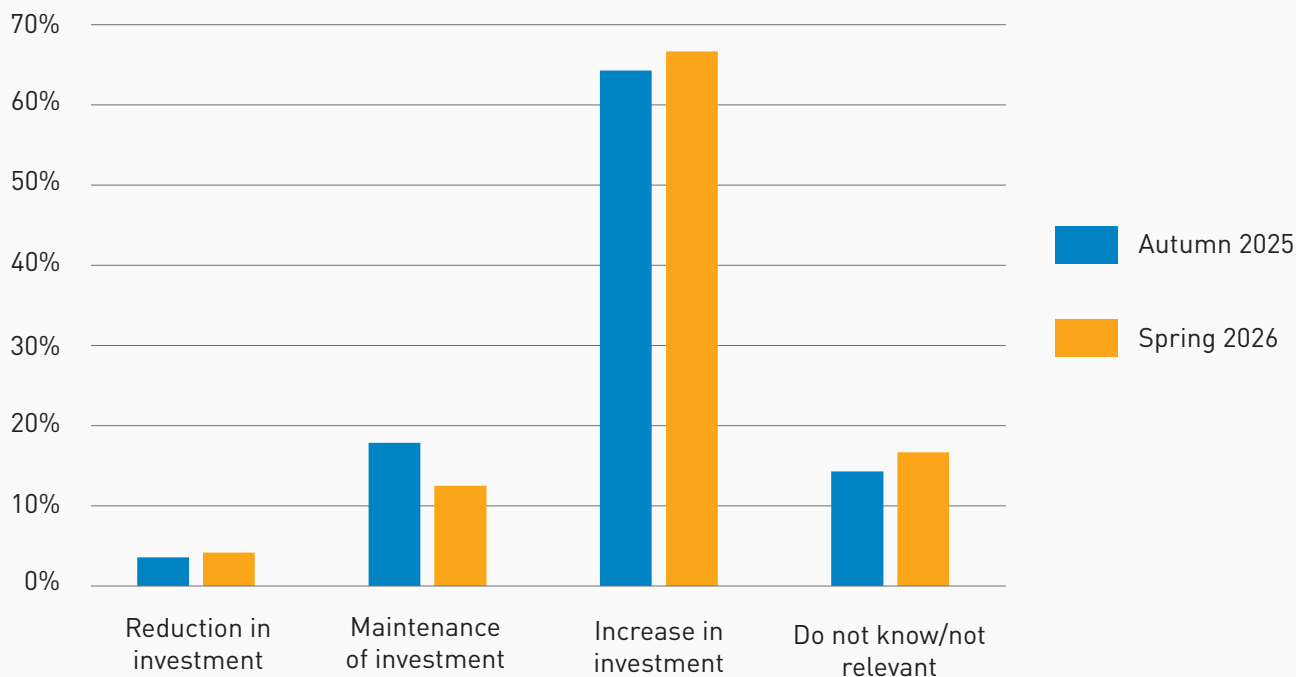


Source: BusinessEurope staff calculations based on forecasts by Member Federations

Unsurprisingly, a large majority of BusinessEurope members also expect investments in the defence industry to continue to increase over the next 6 months (Chart 7). According to the European Parliament, European defence expenditure is projected to have reached approximately €381 billion in 2025, marking an increase of nearly 63% compared with 2020 levels. This upward trend has been largely driven by higher investment spending, which is expected to have approached €130 billion in 2025. In 2024, investment represented 31% of total defence expenditure, with the largest share devoted to equipment procurement, exceeding €88 billion. At the same time, spending on defence research and development has expanded considerably, reaching €13 billion in 2024 and projected to rise to €17 billion in 2025. The EU introduced

a range of supporting measures, including “SAFE”, a €150 billion loan facility, and additional budgetary flexibility through the national escape clause.⁶ Another trend, driven up by investments, is the strong emergence of defence start-ups, with Munich consolidating as a defence tech hub. In 2025, venture capital funding for Defence, Security and Resilience startups increased by 55% year on year, up to €8.7 billion, and is nearly four times higher than five years before. For comparison, the broader European VC market, during the same period, grew by 16%.⁷

CHART 7: EXPECTED TRENDING INVESTMENTS IN DEFENCE INDUSTRY OVER THE NEXT 6 MONTHS



Source: BusinessEurope staff calculations based on forecasts by Member Federations

⁶ [European Parliament, European defence industry](#)

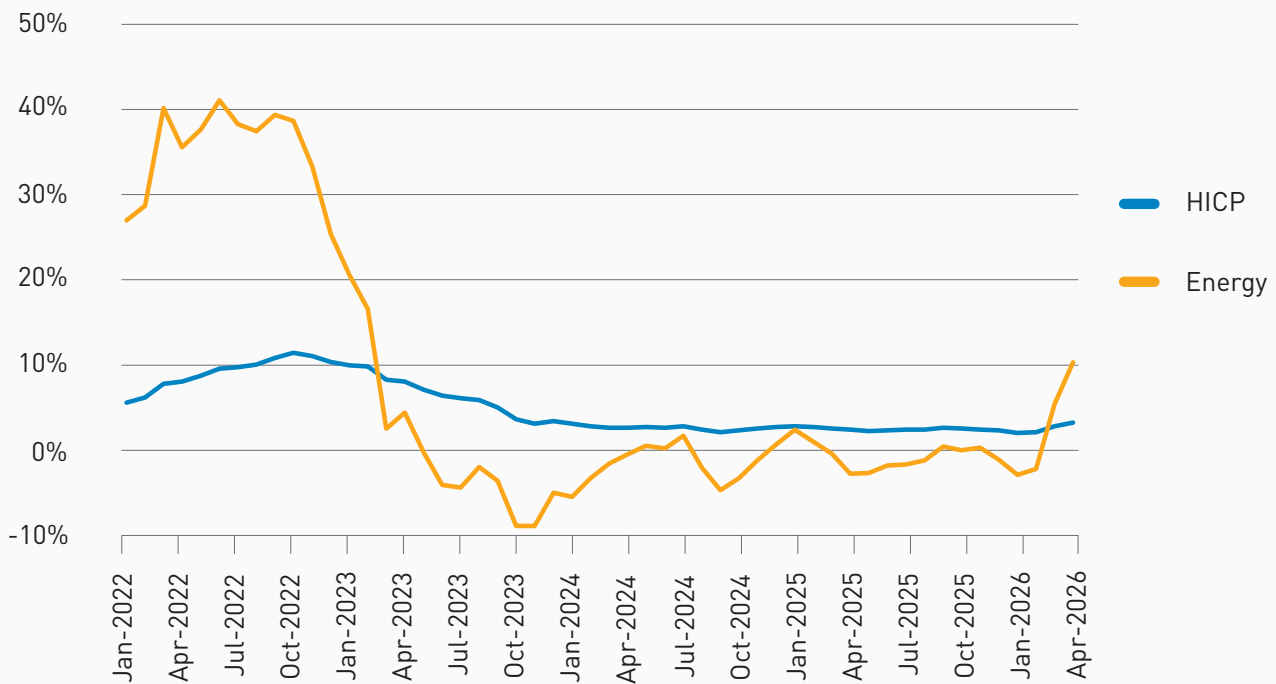
⁷ [NIF, February 2026](#)



COSTS AND PRICES

From the last quarter of 2024 to early 2026, consumer prices growth remained broadly in line with the ECB's objectives. However, from March 2026 onwards, inflation began to accelerate, reaching 3% in April 2026. This increase was driven by strong growth in energy inflation following the escalation of the Middle East crisis. As a result, energy prices in the EU for household consumers in April are expected to be around 10% higher than in the same month of 2025 (Chart 8).⁸ This change is almost entirely driven by the surge of transport fuel. While retail gas and electricity prices have hardly moved due to long-term contracts, administrative price controls, and other features of national markets, transport fuel shot up by 21% between February and April.⁹

CHART 8: INFLATION IN THE EU (YEAR-OVER-YEAR ANNUAL RATE OF CHANGE)



Source: Eurostat, *prc_hicp_minr*

The forecasts we elaborated, based on data collected from National Associations, with a cut-off date at the end of April, place HICP growth in 2026 at 2.8% in the EU and in the euro area. Our estimation for 2027 is 2.2% for both, reflecting an expected return-to-normal conditions and, likely, the postponement of the entry into force of ETS2. However, in an ECB's downside scenario, where the impact of the crisis would be more intense, permanent, and widespread, HICP inflation would rise more sharply, reaching 4.4% in 2026 and 4.8% in 2027, before decelerating to 2.8% in 2028.¹⁰ All of BusinessEurope members report being concerned about inflation increases, with almost 40% being very concerned with an increase.

⁸ [Harmonised index of consumer prices \(HICP\), Eurostat](#)

⁹ [European Economic Forecast, Spring 2026, May 2026](#)

¹⁰ This scenario assumes a stronger and more persistent energy price shock, heightened uncertainty, and significant indirect and second-round effects. Oil prices are assumed to peak at USD 145 per barrel and gas prices at €106 per MWh in the second quarter of 2026, before declining only gradually thereafter.

According to the European Commission forecasts, price pressures are expected to broaden from energy across production chains over the coming months, passing through partially to consumers. The magnitude of the increase is expected to vary across Member States, largely reflecting differences in their energy mixes. Countries such as Hungary, Romania, and Poland are expected to experience stronger effects, while France, Sweden, and Denmark are likely to be relatively more insulated. Unprocessed food inflation is projected to peak near 5% by the end of 2026, driven by high energy and fertiliser costs, while processed food will peak more gradually at 3% in Q2-2027. Similarly, services inflation is set to reverse its recent decline, climbing from 3% in April to 4% by Q1-2027 due to higher input costs and wage pressures. Meanwhile, non-energy industrial goods will remain largely insulated, with under 1% price increases due to strong import competition and a resilient euro.¹¹

TABLE 4: INFLATION FORECASTS

Institution	Current forecast	Revision (pp)
EU		
BusinessEurope <i>April 2026 vs November 2025</i>	2.8%	+1.0 pp
European Commission <i>May 2026 vs December 2025</i>	3.1%	+1.0 pp
EURO AREA		
BusinessEurope <i>April 2026 vs November 2025</i>	2.8%	+1.1 pp
European Commission <i>May 2026 vs December 2025</i>	3.0%	+1.1 pp
ECB <i>March 2026 vs December 2025</i>	2.6%	+0.7 pp
IMF <i>April 2026 vs January 2026</i>	2.6%	+0.6 pp

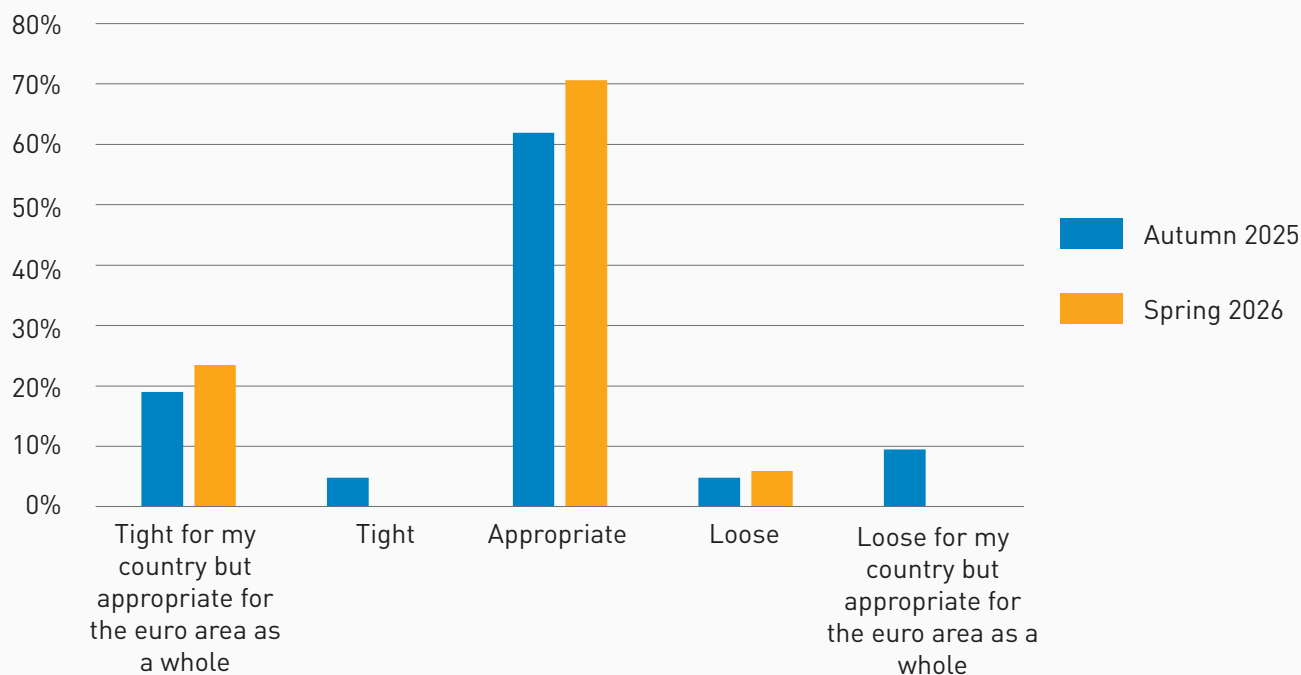
Note: Revision = current forecast minus previous forecast, in percentage points.

As a result of renewed pressures on prices, the ECB's deposit rate, which was lowered to 2% in June 2025, was increased to 2.25% on 11 June. Subsequent meetings are planned for 22 July and 9 September. ECB policy will depend on the severity of the shock and its transmission dynamics. While the increase in energy prices is likely to generate indirect effects in the coming months, such as higher production costs and potential spillovers to wages and inflation expectations, it could also dampen demand, thereby easing inflationary pressures, particularly if the shock is severe and prolonged. Already tightening credit conditions by European banks can also partially contribute to counteract inflation. BusinessEurope members from the euro area display high levels of trust in the ECB, with more than 90% of them considering their policies appropriate. However, despite the recognised inflationary risks, more than 20% of respondents, while still considering the policy appropriate for the euro area, view it as too tight for their own country (Chart 9).

¹¹ [European Economic Forecast, Spring 2026, May 2026](#)



CHART 9: EURO AREA BUSINESSEUROPE MEMBERS OPINION ON ECB POLICY



Source: BusinessEurope staff calculations based on forecasts by Member Federations

FISCAL POLICY

Before the COVID-19 pandemic, EU fiscal policy was largely shaped by the Stability and Growth Pact (SGP), with a strong emphasis on fiscal discipline, deficit reduction, and debt sustainability following the euro-area sovereign debt crisis of the 2010s. During the pandemic, the EU shifted decisively toward fiscal expansion. Fiscal rules were suspended through the activation of the general escape clause, while member states implemented large-scale support measures for households and businesses. This was complemented by the creation of the NextGenerationEU and the Recovery and Resilience Facility (RRF), marking an unprecedented step toward common EU borrowing and investment support. Following the energy crisis triggered by Russia's invasion of Ukraine, governments again expanded fiscal support through energy subsidies and cost-of-living measures.

In April 2024, the EU formally adopted an overhaul of its fiscal rules under a revised Stability and Growth Pact, replacing the old one-size-fits-all framework with country-specific, medium-term fiscal-structural plans covering 4–7 years. Under the new system, each member state negotiates a net expenditure path to reach the target level based on a debt sustainability analysis, with a timeline of up to 7 years for high-debt countries that commit to growth-enhancing reforms and investments.¹²

In March 2025, the EU activated a national escape clause allowing member states to deviate by up to 1.5% of GDP per year for 2025–2028 for defence spending, even if deficits exceed the usual 3% of GDP limit. By the end of 2025, 17 EU countries were using this clause, enabling roughly €650–800 billion in additional defence expenditure under the EU's Readiness 2030 plan.

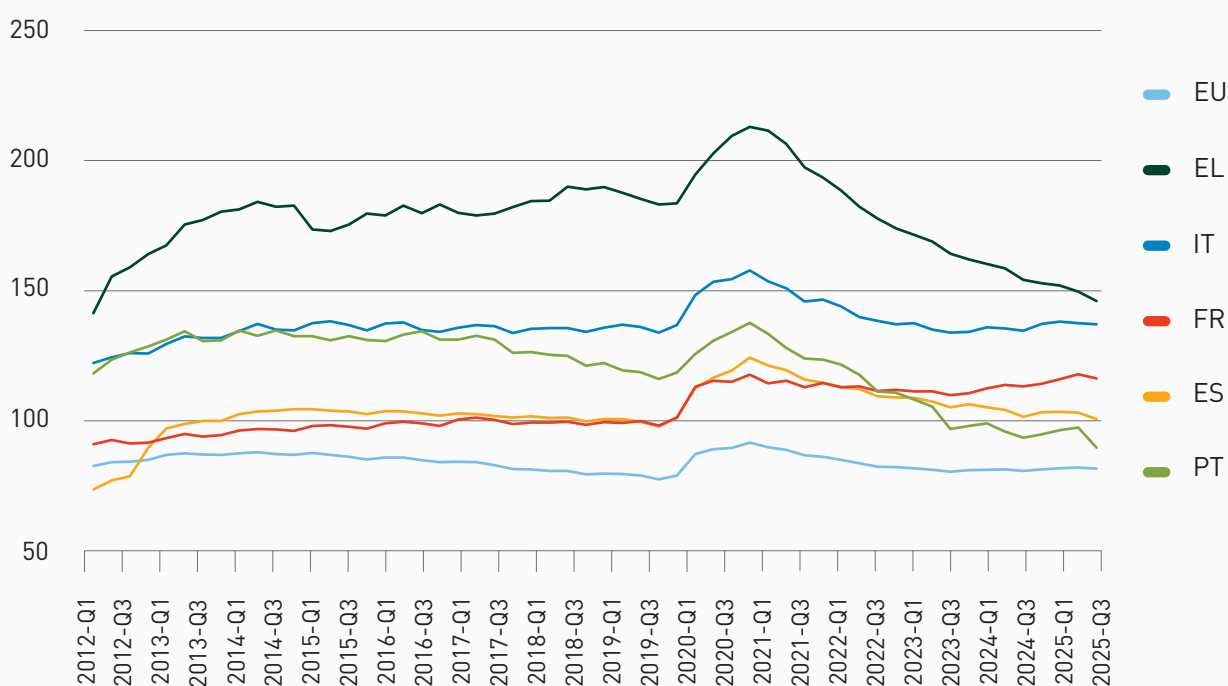
As of late 2025, the EU's average deficit is 3.1% of GDP, just above the 3% requirement, while average debt stands at 81.7% of GDP in the EU. These values in the euro area are respectively 2.9% and 87.5%. Across the 27 members, 10 countries are in an Excessive Deficit Procedure (EDP), including France (deficit –5.1% of GDP in 2025 and 116% debt in Q4 2025), Italy (deficit –3.1%, 137% debt), Belgium (deficit –5.2%, 108% debt), and Poland (deficit –7.3%, 60% debt).¹³

¹² On 8 June 2026, the EP and the Presidency of the Council of the EU reached an agreement on legislation to make the EU economic governance framework more consistent with the 2024 reform of the SGP.

¹³ Eurostat, gov_10q_ggdebt, gov_10dd_edpt1

A group of historically highly indebted EU countries, France, Greece, Italy, Spain, and Portugal, all showed very different debt dynamics over recent years. Greece's debt peaked at 213% of GDP in Q1 2021 during the pandemic, after hovering at around 170-180% in the years following the sovereign debt crisis; and has since fallen sharply to around 146% at the end of 2025, the largest improvement of the group. Italy rose to 158% in over the same period, then decreased slightly to about 137%, making modest gains in terms of debt burden. France displays a different and somewhat concerning trajectory, climbing to 118% during the Pandemic, followed by a period of decline afterwards, and then increasing again to roughly 116% at the end of 2025. Spain and Portugal both surged post-COVID, with Spain reaching 124% in 2021 from 74% at the beginning of 2012, and Portugal peaking at 137% from 120% in 2012, and at the end of 2025, stand at about 101% and 90%, respectively. Overall, Greece and Portugal have climbed down from their pandemic peaks, while France and Italy are still near or above their highest post-2011 levels, and Spain remains well above its pre-crisis starting point (Chart 10). Italy is set to overcome Greece in terms of debt-to-GDP ratio by the end of 2026.¹⁴

CHART 10: DEBT/GDP RATIO (%)

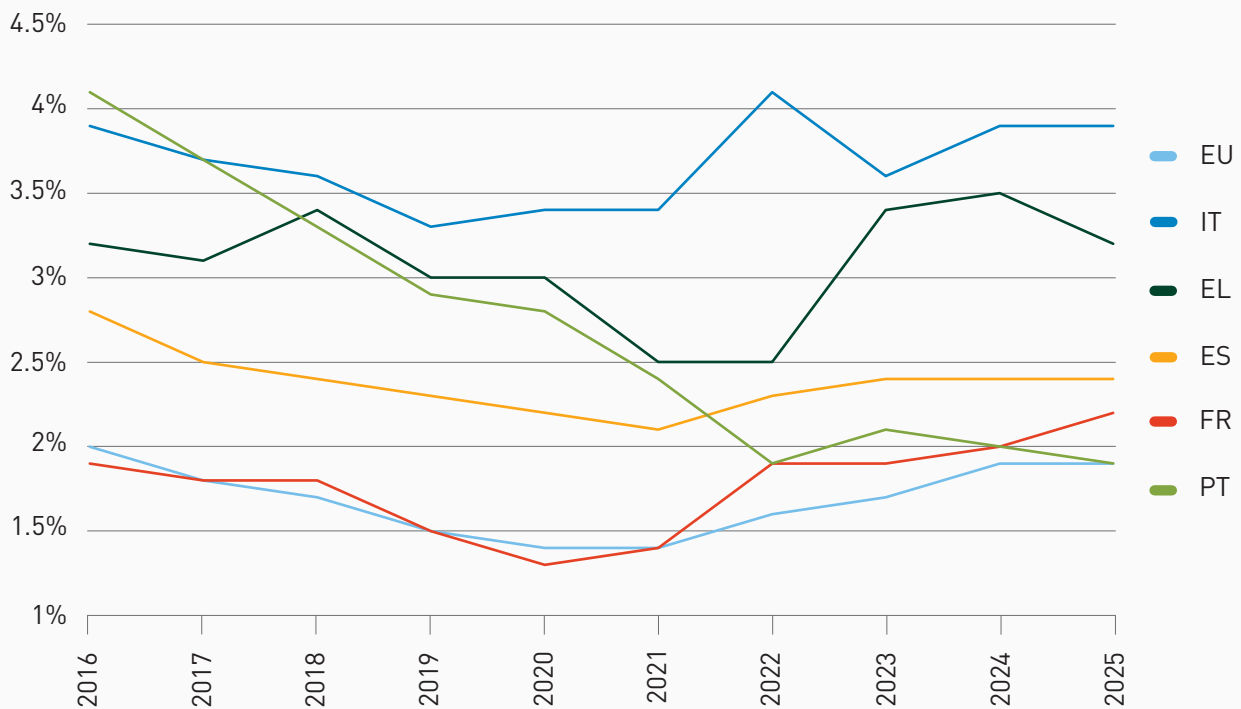


Source: Eurostat, gov_10q_ggdebt

However, reflecting differences in debt structure, notably average maturity and creditor composition, Italy is already spending a higher proportion of GDP on interest payments, reaching almost 4% in 2025 versus 3.2% in Greece (Chart 11). Current tensions have increased the risk premia for certain European sovereign bonds, further increasing borrowing costs.

¹⁴ [Italy set to become euro zone's most indebted country, replacing Greece, Reuters, April 2026](#)

CHART 11: INTEREST RATE EXPENDITURE AS A SHARE OF GDP

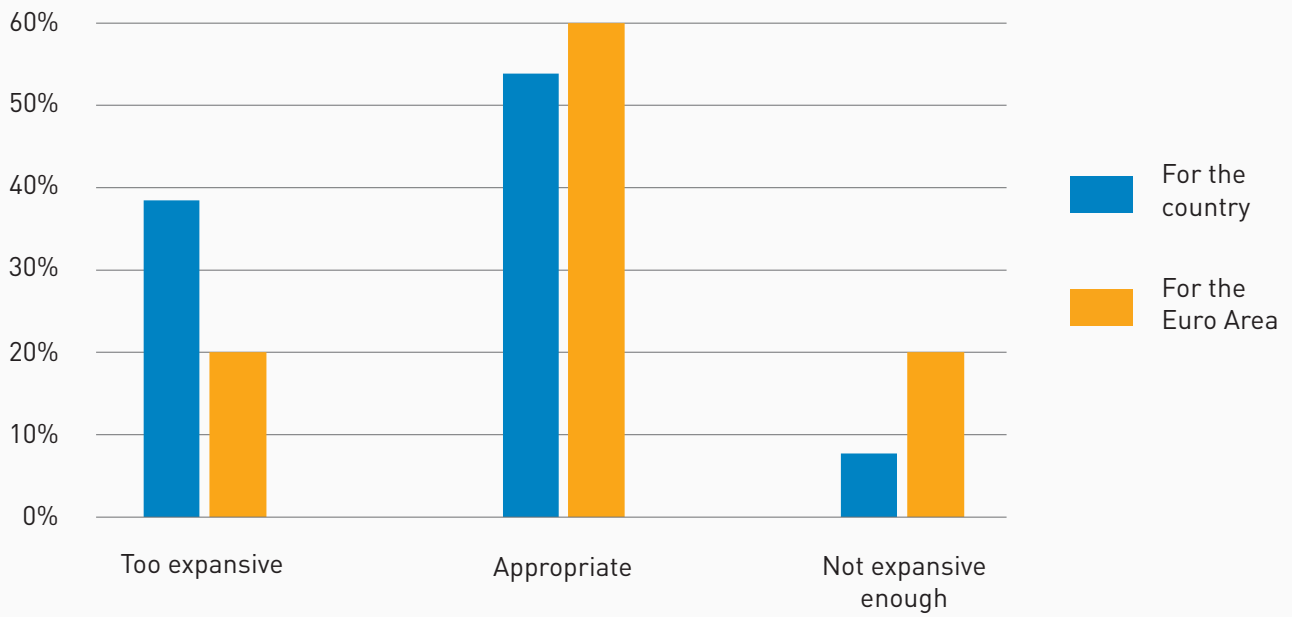


Source: Eurostat, gov_10a_main

According to BusinessEurope’s estimations for 2026, the government deficit is expected to amount to 3.5% in the EU and 3.4% in the euro area, as spending on defence, infrastructure, and measures to tackle the increase in energy prices will continue weighing on public balances. Slower growth is also expected to hit tax revenues. Tighter monetary policy is also expected to weigh on interest payments. The average deficit is projected to stabilise at 3.4% in both the EU and in the euro area in 2027. There is a significant split among Member States, with 21 expected to run deficits in 2026, including large deficits such as Poland (-7.1%) and Hungary (-7.0%), alongside countries expected to maintain surpluses, such as Cyprus (+2.9%) and Greece (+0.7%). According to our projections, EU and euro area average debt is expected to increase to respectively 84.2% and 89.2% in 2026 and 84.8% and 89.8% in 2027.

According to more than half of BusinessEurope members, the current fiscal policy stance in the euro area remains broadly appropriate. However, 37% of members consider the fiscal stance in their own country to be too expansionary, while 20% of euro area members hold the same view regarding the EU common currency block as a whole. By contrast, around 10% believe fiscal policy in their country is not expansionary enough, compared with around 20% when assessing the euro area overall (Chart 12). In the latest edition of the Outlook, almost 30% of euro area members considered fiscal policy for the region as too expansive.

CHART 12: ASSESSMENT OF FISCAL POLICY BY EURO AREA BUSINESS EUROPE'S MEMBERS



Source: BusinessEurope staff calculations based on forecasts by Member Federations



In the first quarter of 2025, real wages in the euro area had largely recovered to pre-pandemic levels, following the decline observed during the high-inflation period of 2022, and stood just 0.5% below their Q4 2021 level.¹⁵ The real-wage catch-up appears to be slowing, with nominal wage growth in the euro area easing from 4.1% in 2024 to 3.8% in 2025 and forecasted to reach 2.6% in 2026.

This is because the inflationary pickup in the EU in 2026, driven by the Middle East crisis, is to temporarily weigh down on real wage growth, before wages gradually re-align with productivity gains. Together with heightened uncertainty and the risk of higher unemployment, this would weigh on private consumption, which has been one of the main drivers of EU economic growth in recent years. With price pressures expanding from energy to other sectors, wage pressures are also expected to pick up, adjusting with a lag to inflation.

Employment growth also slowed during 2025, with the employment level stabilising at 76.1% in Q2 2025, the same level observed in Q1.¹⁶ This measure is very heterogeneous across countries, particularly when looking at data disaggregated by gender. Italy displays a staggering 20 pp difference in employment between males and females. At the same time, unemployment increased in the first two quarters of 2025 to 5.8%, with respect to the last quarter of 2024 when it was 5.6%.¹⁷ Unemployment remains particularly high in Spain (10.3% in Q2 2025), albeit decreasing. It also remains high in Nordic countries like Finland and Sweden, respectively at 8.6% and 7.4% in Q2 2025. In the EU, labour market slack, measuring the gap between people looking for a job and the number of job places available, was stable between 2024 and 2025, at 11.7%, after a continued decrease since 2020.¹⁸

After several years of sustained job creation, employment growth is expected to gradually moderate over the coming years, while unemployment is set to remain at historically low levels. We project the unemployment rate to stay broadly stable at 5.9% in the EU and 6.0% in the euro area in 2026, before easing slightly to 5.8% in the EU while remaining unchanged in the euro area in 2027. At the same time, employment growth is expected to slow but remain positive, at 0.4% in both the EU and the euro area in 2026. In 2027, it is projected to remain stable in the EU and to pick up marginally to 0.5% in the euro area.

In 2025, labour productivity per hour worked grew by 1.4% in the EU over 2024, and by 1% in the euro area. This represents an acceleration with respect to the previous years: growth was 0.4% 2022, -0.8% in 2023, and 0.2% in 2024. There is large heterogeneity among Member states, for instance it increased mostly in Poland (4.1%) and Romania (3.9%), followed by France (1.5%), Germany (0.4%), Spain (0.7%), while decreased in Italy (-0.6%). A broader and more robust adoption of AI, alongside increased digital investment, could help accelerate labour productivity growth in the coming years, particularly if supported by measures that facilitate workforce education and training.¹⁹ Early evidence of productivity gains is already emerging. European Commission consumer surveys indicate that employed individuals in the European Union estimate saving around 7.4 hours of work per month due to AI use.²⁰ However, it remains important to assess whether the time saved is used for professional purposes and to take potential displacement effects into account.²¹

Some analysis expects companies to hoard labour throughout what is expected to be a transitory shock deriving from the Middle East crises. This expected resilience in the EU labour market should sustain demand over the following years. However, pressures to increase wages might drive up costs of labour, eventually hampering job creation.

¹⁵ [Real wage catch-up in the euro area, ECB](#)

¹⁶ [lfsi_emp_q, Eurostat](#)

¹⁷ [une_rt_q, Eurostat](#)

¹⁸ [lfsi_sla_a, Eurostat](#)

¹⁹ [Economic Bulletin, Issue 3/2026, ECB](#)

²⁰ As in 2025 the actual weekly working hours of EU full-time and part-time workers aged 20-64 averaged 35.9 hours, a 7.4 hours reduction would imply a roughly 5% productivity gain.

²¹ [European Economic Forecast, European Commission, Spring 2026](#)

IMPORTS EXPECTED TO OUTPACE EXPORTS AMID TRADE UNCERTAINTY

05

The trade outlook for the EU is still heavily influenced by the turbulent relations with the U.S. On 2 April 2025 (“Liberation Day”), the U.S. administration introduced reciprocal tariffs on all trading partners, including a 20% tariff on most EU products. A turning point came in July 2025, when European Commission President Von der Leyen and U.S. President Trump reached a political agreement on tariffs and trade. The deal, albeit not legally binding, set a tariff ceiling of 15% on most EU exports to the U.S., while the EU committed to reducing tariffs on U.S. industrial goods and extending preferential treatment to agricultural products. Beyond tariffs, the agreement also included a significant commitment by the EU to purchase U.S. energy supplies, specifically LNG, oil, and nuclear power, worth \$750 billion by 2028.

However, the U.S. Supreme Court ruled in February 2026 that the International Emergency Economic Powers Act (IEEPA), used by the Administration to impose the tariffs, does not authorise such a decision, invalidating “Liberation Day” tariffs. Following the ruling, the Administration imposed a 10% global surcharge under Section 122, which came into effect on 24 February 2026. Meanwhile, steel and aluminium tariffs on EU goods remain at 50% under Section 232. New Section 301 investigations have been launched in March 2026 against the EU, but those should be only used to provide another legal basis for tariffs that should remain at 15%. On 20 May, the Council of the EU and the EP reached a provisional agreement for two regulations aimed at implementing tariff-related aspects of the EU-U.S. joint statement.

The current instability in the Transatlantic relationship increased the urgency for the EU to diversify trading partners, with the EU’s trade agenda shifting its attention towards other areas/regions of the world. One of the main developments is the deal with Mercosur. After more than 25 years of negotiations, the EU and Mercosur countries (Argentina, Brazil, Paraguay, Uruguay, excluding Bolivia) signed the agreement in January 2026, and its trade provisions began provisional application on 1 May 2026. However, the final ratification is still pending, as the European Parliament referred it to the European Court of Justice to delay the agreement.

Meanwhile, in January 2026, the EU also concluded a landmark free trade agreement with India, which will reduce tariffs on nearly 97% of EU exports. India’s tariffs on EU cars will fall sharply to 10% over the years.

The EU has also concluded trade agreements with Australia and Indonesia, while the modernisation of the agreement with Mexico should be ratified in the coming months. It is also negotiating agreements with Malaysia, Thailand, the Philippines, and the United Arab Emirates (UAE).

However, even with such a broader set of trade agreements, we expect export growth to remain at the same level of our earlier forecasts (1.7% in the EU and 1.6% in the euro area in 2026), as persistent EU competitiveness challenges, U.S. tariffs and the past appreciation of the euro continue to weigh on export performance, and also because the phase-in of the effects of trade agreements is not immediate. The increase in competition from Chinese exports, following the re-routing of trade flows after U.S. barriers, as well as import substitution in China’s domestic market, is already affecting EU exports, particularly those from German industry. The increase in energy prices is expected to also increase the prices of European exports, thus weighing on their competitiveness. The European Commission expects EU firms to be able to pass through around 60% of the increase in import prices into their export prices in 2026, a share lower than in the post-Pandemic period, due to lower global demand.²² The Middle-East crisis might also impact the global demand for European products and services, particularly in case of a persistent or aggravated situation that might result in a generalised economic slowdown. We expect the export outlook to improve slightly in 2027, with 1.9% in the EU, while remaining around 1.6% in the euro area.

Import prices, diminished by the penetration of Chinese products and by the appreciation of the Euro, are expected to increase due to higher energy prices, and are later expected to moderate, following energy prices dynamics. Supported by resilient domestic demand, imports are expected to grow faster than exports over the forecast horizon (albeit at a slower pace than in our earlier forecast). In 2026, import growth is projected at 2.4% in the EU and 2.2% in the euro area. Growth is expected to remain positive in 2027, albeit at a more moderate pace, with imports increasing by 2.1% in the EU and 1.9% in the euro area.

²² [European Economic Forecast, Spring 2026, European Commission](#)

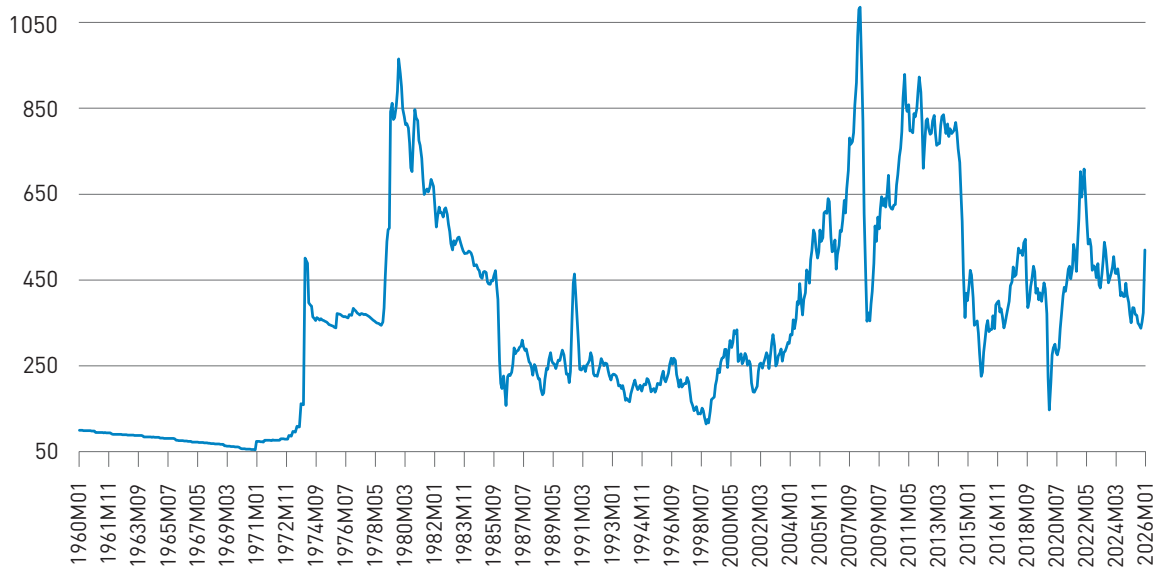
SPECIAL SECTION 1: ENERGY CRISIS

OIL PRICE SHOCKS, INFLATION, AND GROWTH

Energy prices, and more specifically, oil prices (a homogeneous and liquid commodity traded globally), are historically highly volatile, affected by both positive and negative supply and demand shocks.

Before the current situation, two global energy price shocks were caused by actions of major oil producing countries in the Middle-East. The first one started from an oil export embargo that began in October 1973 by the members of the Organization of Arab Petroleum Exporting Countries (OAPEC, the forebear of OPEC), initially targeted at the nations that had supported Israel –e.g., Canada, Japan, the Netherlands, the UK and the U.S.- during the Yom Kippur War (which was fought between Israel and a coalition of Arab states). Between 1972 and 1974 *nominal* average global oil prices increased by a factor of 6. This was followed by a second oil price shock in 1979, this one brought about by the replacement of the Imperial State of Iran by the current theocratic Islamic Republic of Iran, which further increased oil prices by a factor of three. As a result of these negative supply shocks, between 1972 and 1980, *nominal oil prices grew by over 20 times* (Chart 13).

CHART 13: CRUDE OIL PRICE INDEX (1960:1=100): AVERAGE OF OIL PRICE BENCHMARKS (BRENT, DUBAI AND WTI IN \$/BBL), DEFLATED BY US INFLATION.



Source: World Bank, U.S. Federal Reserve, and calculations by the authors.

On the other hand, after the 1980s, prices fell (as more supply came online in different regions of the world, and notably in the U.S.) until the early 2000s, when more robust global growth (including by emerging markets like China) and the bubble-like “financialisation” of commodities trading led to a large upswing. That “bubble” eventually burst with the so-called Global Financial Crisis that started in 2008, starting a largely downward cycle that lasted until the sharp global COVID lockdown recession of the early 2020s. This was followed by another upward price cycle, linked to the fast recovery from the COVID shock (on the demand side) and

the Russian invasion of Ukraine (on the supply side): when those forces abated, real global oil prices again fell, until the tensions related to the current conflict led to another bout of upward price pressure.

However, any persistent effects of such price shocks on inflation and growth depend on the policy reaction function. Namely, while the price increases linked to the two global oil price shocks of the 1970s did affect inflation in many places, that was not the case everywhere: for instance, in Germany, the (then west) German monetary authority, the Bundesbank -which provided a rough model for the ECB,- run a non-accommodative policy towards a laxer domestic fiscal policy, with the result that the effects of the price shocks were considerably more muted than in other countries.²³ That is because policy actions, including fiscal ones like fuel subsidies as a reply to energy price shocks, may generate what economists would call a “demand side” shock, resulting from policies that create a level of demand in excess of what the economy could supply, which, to be counteracted, needs a more restrictive monetary policy stance by monetary authorities. The recent 25 basis point increase in the ECB’s interest rates, from 2% to 2.25%, announced on 11 June, should be read as an example of such non-accommodative stance. Conversely, a monetary policy choice to expand money supply when faced with such a “demand shock” may ultimately lead to an inflationary spiral, as was the case with the so-called “Great Inflation” of the 1970s.

THE CURRENT SITUATION: AN IMPACT ASSESSMENT OF THE STRAIT OF HORMUZ BLOCKADE

The ongoing conflict in the Middle East has had immediate consequences for global energy markets. The traffic through the Strait of Hormuz, a chokepoint for roughly 15% of global oil and 20% of LNG trade, is still disrupted.^{24 25} Direct attacks on energy transport infrastructures have also affected the exporting capacity of Gulf countries: the Ras Laffan LNG export hub in Qatar, the largest in the world, suffered extensive damage and lost an estimated 17% of its capacity, with some analysts claiming that up to 3-5 years would be needed to fully restore it.²⁶

About 6.2% of EU crude oil imports and 8.7% of the LNG imported from non-EU member states pass through the Strait of Hormuz²⁷. While these shares are considerably lower than those of Asian economies, both commodities are traded globally, meaning price shocks transmit directly to European markets. Most BusinessEurope members report an impact on energy costs and expect further increases.

Crude benchmarks have surged sharply, with WTI reaching a peak of roughly \$112 per barrel in early April²⁸ and sitting at \$109 as of 15 May (a more than 70% increase from before the U.S.-Israeli strikes on Iran).²⁹ European gas prices (TTF) have reached more than €60 per MWh around March 20, but as of 15 May had fallen to around €50 per MWh, driven by tighter LNG supply and competition from Asia (still a roughly 55% increase from before the spike).

²³ See Lehment, H., (1982), “[Economic policy response to the oil price shocks of 1974 and 1979: The German Experience](#)”, European Economic Review, 18 (2): 235-242 and Beyer, A., Gaspar, V., Gerberding, C. and Issing, O., (2009), “[Opting Out of the Great Inflation: German Monetary Policy after the Breakdown of Bretton Woods](#)”, Discussion Paper Series 1: Economic Studies Deutsche Bundesbank (the latter paper also makes the point that Switzerland also followed the German example and eschewed the “Great Inflation”). Of course, several other factors beyond just monetary policy –from the pricing of oil imports in U.S. dollars to the usage of energy per unit of GDP, the energy mix of a given country and its reliance on import hydrocarbons– potentially also explain the different price sensitivities to external oil price shocks (see Summers, P., (2005), “[What Caused The Great Moderation? Some Cross-Country Evidence](#)”, Federal Reserve Bank of Kansas City, Economic Review).

²⁴ https://www.eia.gov/international/content/analysis/special_topics/World_Oil_Transit_Chokepoints/

²⁵ [The Middle East and Global Energy Markets](#), IEA

²⁶ [QatarEnergy expects 3-5 years to repair LNG facilities after strikes](#), S&P Global

²⁷ [The Role of the Strait of Hormuz for Germany and the EU](#), Ifo

²⁸ [Crude Oil - Price - Chart - Historical Data - News](#)

²⁹ Trading economics

Price increases are also observed in helium, polystyrene, and the broader petrochemical and plastics complex. The EU faces particular exposure in middle distillates: jet fuel prices have surged by up to 95% since the strikes on Iran, triggering widespread flight cancellations, with big airlines operators warning, in one case, of possible cuts of up to 10% of flights through summer, and drawing up contingency plans to reduce operations. While warnings were raised in March and April, including by the Association of European Airports, regarding potential fuel shortages, recent increases in plant production and the diversification of supply sources have helped to ease these concerns.³⁰ Diesel prices have risen by 13% on average in March 2026 over the same period one year before.³¹ Fertiliser access has started to tighten, with prices rising sharply by around 50%, and supply constraints expected to materialise fully within two to three months, foreshadowing downstream pressure on the primary sector. The food industry more broadly is facing simultaneous shocks across energy, logistics, and raw materials, with limited ability to pass on costs given consumer purchasing power constraints.

Looking ahead, the array of sectors impacted is projected to broaden. Pharmaceutical supply chains, jet fuels, plastic products, and industrial fertilisers are all flagged as vulnerable. Critical inputs are emerging as a particular concern: the constraints at Ras Laffan have removed roughly a third of global helium supply, shifting the market from oversupplied to undersupplied, with significant implications for electronics, semiconductors, telecommunications, cryogenics, and aerospace. Sulphur is also seen as a potential bottleneck, with major consequences for fertiliser, metals, and refining industries. Gulf producers account for around 7 million tonnes (approximately 10% of global aluminium output), and aluminium prices have already risen to a four-year high. Active pharmaceutical ingredients (APIs) originating in Asia face delays and cost pressures, and while no major shortages have been reported yet, risks to cold-chain products such as vaccines and biologics are growing if the crisis persists.

Some firms are also reporting that international suppliers of critical inputs are being directed by their governments to prioritise domestic customers, creating additional risks for EU importers. The imposition of export controls by third countries, spanning energy, agricultural products, fertilisers, and metals, risks compounding scarcity across multiple value chains. The indirect pass-through of higher freight rates and insurance premiums represents a further downside threat: several major shipping lines have suspended or restricted operations in high-risk areas, rerouting via the Cape of Good Hope, adding 10 to 14 days of transit time and driving up freight and charter rates. Some European ports are already recording declining container throughput. Parts of Middle Eastern airspace are still closed or partially inaccessible, pushing airfreight rates higher as well.

Moreover, a broader macroeconomic and behavioural impact is also taking shape. On the observed side, elevated uncertainty is already feeding into higher borrowing costs, exchange rate volatility, and precautionary front-loading of production by firms anticipating higher inflation. Most companies are responding by passing costs on to consumers and taking cost-cutting measures, some are postponing investments, seeking alternative suppliers, or hedging against price increases. A pressing concern for some relates to fixed public procurement contracts, where price indices agreed at signing no longer reflect actual cost levels, leaving companies absorbing losses on contracts they cannot renegotiate.

Furthermore, tighter monetary policy stances, looser fiscal responses, weakening external demand, investment delays, and mounting disruptions to global supply chains collectively point to a possible prolonged and multi-dimensional shock extending beyond the energy sector itself. In the short term, members consider consequences manageable, but bearing in mind the reaction function of policy makers mentioned above, the longer the crisis persists, the more structural the economic impact may become.

Despite the already visible impact and rising risks, the EU corporate sector has, on average, entered the energy crisis with a relatively strong degree of resilience. The first months of 2026

³⁰ [European oil refiners and airlines have 'almost zero' jet fuel shortage concerns](#), FT

³¹ [Significant increase in fuel prices in March 2026](#)

were marked by improving corporate profits, healthy balance sheets, and strong demand for digital technologies, all of which supported investment activity. As reflected in our survey, business investment is therefore likely to have continued expanding in the short term despite the outbreak of the conflict. Looking ahead, however, investment dynamics are expected to weaken in the second half of the year, with the outlook largely dependent on the duration of the war in the Middle East and the degree of uncertainty it generates.³² Compared to the 2021–22 crisis, firms now have stronger balance sheets and lower debt levels, although the liquidity buffers accumulated during the pandemic have diminished.³³ Overall, while the current shock is clearly adverse, firms' underlying financial strength and the momentum built up earlier in the year are likely to cushion part of its impact.

THE RESPONSE TO THE CRISIS

National governments have responded predominantly through fiscal measures targeting fuel and energy costs. Bruegel estimates that these fiscal measures amount to a total of €11 billion, as of 5 May, with Spain alone accounting for almost half of the total, followed by Germany. 72% of the total so far consists of untargeted measures, such as general excise duty or VAT cuts, lacking a clear target group or conditionality. The OECD reports (June 2026) indicate that the remaining, targeted measures are focused on those most exposed to fuel price increases, such as agriculture and road freight transport, while fewer than half of all measures were explicitly temporary.³⁴ Such measures, if not coordinated, risk creating market distortions and arbitrage opportunities (e.g., if one country subsidises fuel while its neighbour does not).

The most widespread action has been the temporary reduction or suspension of excise duties on road diesel and gasoline. Estonia decided not to proceed with its planned fuel excise duty increase, while Lithuania went further by requesting Orlen Lietuva – the only crude oil refinery in the Baltic States – to release part of its oil reserves to stabilise fuel supply and mitigate immediate price pressures. Several governments have deployed broader relief packages: Greece launched a €300 million package combining diesel subsidies, a Digital Fuel Card for consumers, and financial support for farmers to offset fertiliser costs. Spain adopted a measure reducing its “Special Electricity Tax” from 5.1% to 0.5%, suspending the 7% electricity generation tax, cutting hydrocarbons tax to EU minimum levels, and introducing temporary VAT reductions on electricity, gas and fuels. Spain's package also includes structural measures extending beyond short-term relief, notably an 80% reduction in electricity grid charges for electro-intensive industry, up to €600 million in indirect CO₂ cost compensation, reinforced support for vulnerable consumers, reforms to grid access rules prioritising mature and strategic projects, the creation of Renewable Acceleration Zones with simplified permitting, and support for electrification and industrial decarbonisation through carbon contracts for difference. Several other governments have maintained or introduced retail energy price subsidies for households and businesses, implemented special electricity pricing for industry, or deployed targeted energy support packages. Additional examples include compensation schemes for household electricity and gas bills, fuel allowances for low-income households, and targeted support for households dependent on bottled gas or heating oil.

Fuel market interventions have also been common, including the capping of trader margins, enhanced market monitoring to counter speculative pricing, and – in some cases – restrictions on fuel exports. As mentioned above, these interventions also bear risks and inefficiencies: they create distortions across the markets and run counter to efforts to moderate energy demand, which is the appropriate response when facing supply shortages. Some governments have also strengthened competition oversight and market transparency in fuel markets, while others have introduced consumer protection measures such as restricting energy supplier disconnections during billing disputes. A smaller number of governments have introduced

³² [Economic Bulletin, Issue 3/2026, ECB](#)

³³ [European Economic Forecast, Spring 2026, May 2026](#)

³⁴ [OECD Economic Outlook, Under Pressure, June 2026](#)

sector-specific support: direct transfers to road hauliers, inflation compensation premiums for employees, and extended regulated tariffs for residential gas consumers. In addition, some countries provided temporary tax-payment and social-security contribution deferrals for firms in agriculture, fisheries, and transport.

Demand-side measures such as encouraging teleworking, carpooling, and energy efficiency in buildings have been adopted in a few countries as a complement to supply-side relief. Other measures included temporary reductions in public transport fares to encourage shifts away from private vehicle use and reduce fuel demand.

POSSIBLE EU ACTIONS

Based on replies and comments from BusinessEurope members to this Outlook survey, the most broadly shared request directed at the EU is a reform of the EU Emissions Trading System (ETS) to stabilise carbon prices, limit volatility, prevent carbon leakage, and reduce electricity costs for industry. Specifically, there is consensus in our membership to adapt the EU ETS to better account for competitiveness while preserving environmental ambition and maintaining the system as a key market-based tool to reach climate neutrality in 2050, by adjusting the Linear Reduction Factor (LRF) to avoid the “ETS endgame” after 2040, reconsidering the planned phase out of free allowances for all sectors and introducing more changes to the Market Stability Reserve to safeguard sufficient liquidity in the market and avoid price spikes.

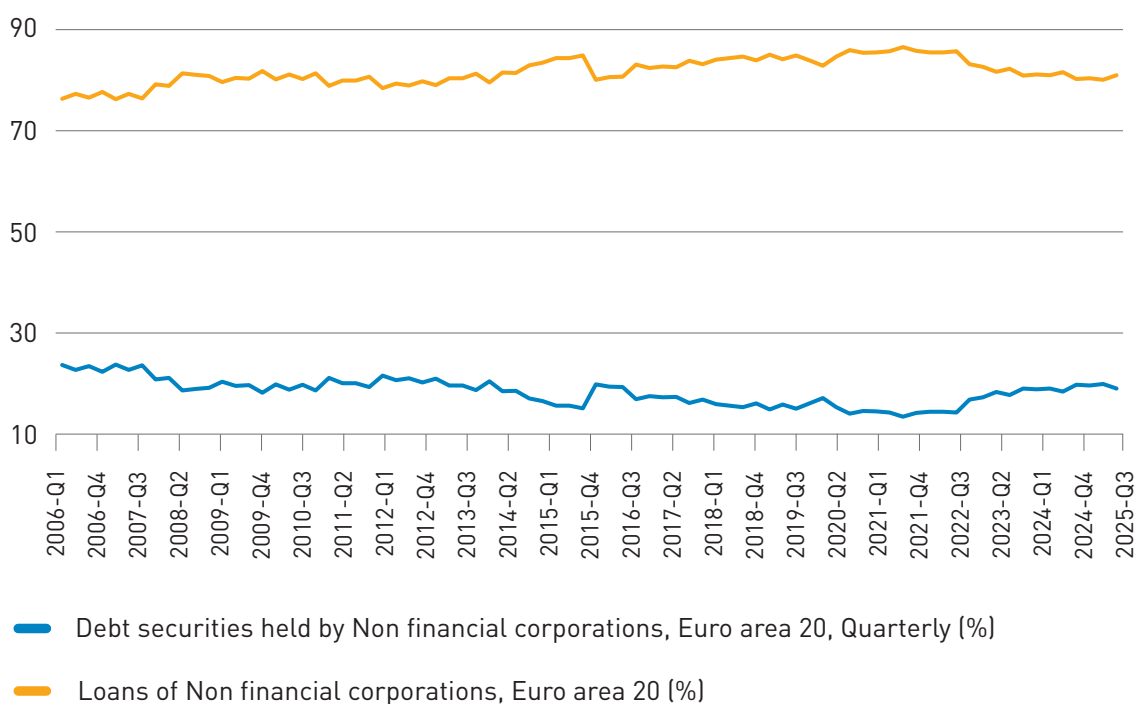
Beyond the ETS, respondents consistently call on the EU to deepen the single market, harmonise national support measures to preserve a level playing field, and reduce regulatory and administrative burdens through genuine simplification, including on labour mobility rules. On energy supply, there is broad support for strengthening the Energy Union, investing in cross-border infrastructure by balancing interconnectors deployment with responsibilities for individual Member States to build electricity systems that contribute to wider system benefits, developing our own energy sources (ex: hydro, renewable, nuclear) and diversifying the European Union energy supply to ensure that the EU has sufficient energy capacity that is affordable, clean, and secure. Finally, the EU should accelerate the conclusion of trade agreements, in order to diversify its trading partners.

Some of the ways to at least partially address the negative effects imposed on EU business by the ongoing geopolitical, and energy price shocks is the continued pursuance of a burden reduction, structural reform and market integration strategy, which would not only make the EU more resilient but also enhance its – currently – low growth potential. Concerning that, the sections below cover two particularly important areas for those aims, namely, enhancing the competitiveness of the EU banking system and simplifying its tax framework.

SPECIAL SECTION 2: THE EU BANK COMPETITIVENESS

Non-financial corporations in the EU are traditionally very bank-dependent in terms of their financing (Chart 14). Therefore, bank competitiveness (understood as the capacity of the bank system to provide adequate levels of funding to companies) is a key concern for European firms.

CHART 14: % OF LOANS AND SECURITIES IN THE FUNDING OF EURO AREA NON-FINANCIAL CORPORATIONS



Source: ECB, calculations by the authors.

In our reply to the Commission consultation on the Competitiveness of the EU Banking Sector³⁵, BusinessEurope welcomed the European Commission's recognition of the crucial role banks play in financing companies and supporting the EU's competitiveness. This publication emphasises the need for a robust, trustworthy, and agile EU banking sector that can provide competitive funding, especially given the continued reliance on bank debt and the time needed for capital markets to mature. BusinessEurope Position Paper strongly advocates for urgent, concrete legislative proposals to amend the prudential framework, aiming to enhance the banking sector's capacity to finance the European economy while safeguarding financial stability and preserving a global level playing field, and it calls for increased risk sensitivity and the removal of unnecessary conservatism in regulation. The key concerns and recommendations expressed in that work are:

Prudential Regulation Impact: Despite the EU banking sector's strength, current regulatory reforms, particularly the implementation of Basel III (CRR3/CRD6), are projected to significantly increase capital requirements for EU banks (+14.8% for EU G-SIBs), contrasting sharply with proposed reductions in the US (-4.8%). BusinessEurope argues this is unjustified and jeopardises the EU's financing capacity.

³⁵ [Competitiveness of the EU Banking Sector – Commission consultation – a BusinessEurope position paper, April 2026](#)

Risk Sensitivity and Conservatism:

- The Standardised Approach for credit risk needs recalibration to be more risk-sensitive, especially for real estate exposures, unrated corporates, and counterparty risk on derivatives.
- Securitisation packages should be developed to free up bank capacity.
- The “competitiveness of the European economy” should become a secondary objective for EU supervisory authorities.

Other specific policy adjustments that we see as necessary:

- Unrated Corporates: Maintain current treatment until a viable, capital-neutral solution is found, introducing this into the standardised approach without forcing external ratings.
- SME Financing: Exclude SME financing with a financial sponsor from ECB leverage transaction guidance and introduce greater flexibility in applying the SME supporting factor.
- Mortgages: Make permanent transitional arrangements for mortgages and introduce them into the standardised approach.
- Market-Making: Align the Fundamental Review of the Trading Book (FRTB) implementation with the US (postponement or neutralisation of impact) and make permanent the transitional measure to reduce counterparty risk for derivatives Standardised Approach for Counterparty Credit Risk (SA-CCR), integrating it into the standardised approach. Review the Credit Valuation Adjustment and Prudent Valuation Adjustment (CVA/PVA) framework to avoid international divergences.
- Trade Finance: Make permanent transitional arrangements for unconditionally cancellable commitments (UCCs) to maintain 0% credit conversion factors (CCFs) and revise the definition of trade finance to avoid higher CCFs.
- Guarantees: Address the punitive treatment of guarantees exceeding one year by recalibrating capital regulation and adjusting the definition for public procurement.
- Specialised Lending: Revise prudential treatment for specialised lending and Acquisition, Development, and Construction (ADC) to remove excessive penalties and ensure preferential risk weights for low-risk residential real estate.
- Software Deductions: Remove software deductions from capital requirements to facilitate bank investments in new technology.
- Default Definition: Adopt a more flexible approach to the “new definition of default” and the Net Present Value variation criterion, particularly the strict 1% threshold, for sound companies affected by temporary crises.

Finally, as for the broader and essential matter of completing the stalled Banking Union project, BusinessEurope advocates for unlocking cross-border consolidation to achieve economies of scale and enhance competitiveness, ensuring that liquidity and capital flow freely between Member States, while preserving a diverse ecosystem of banks.

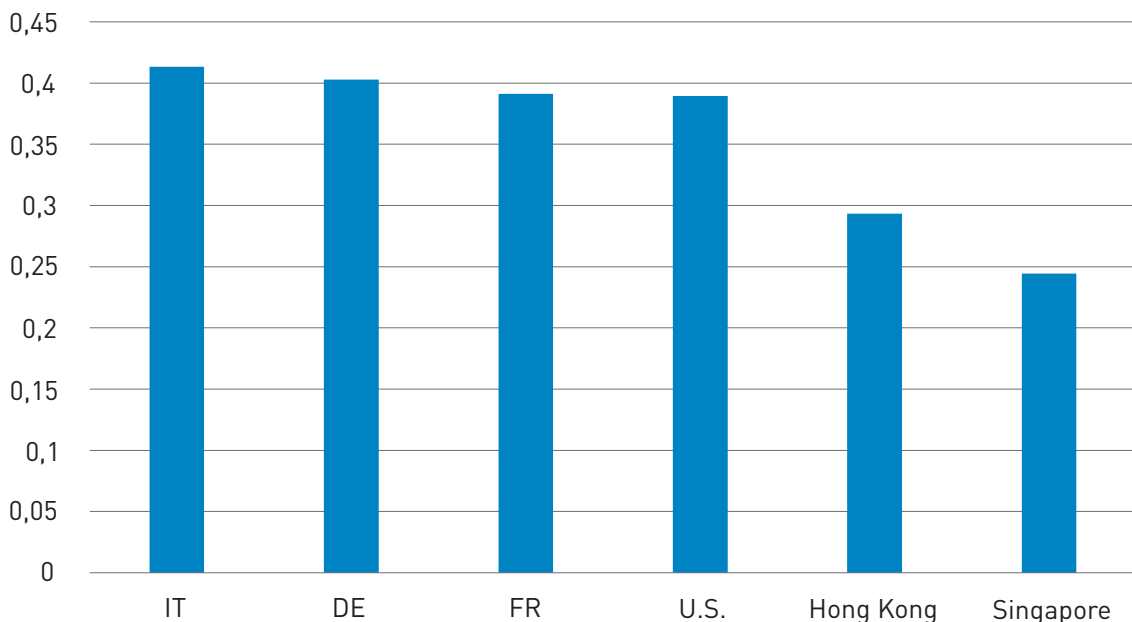
SPECIAL SECTION 3: SIMPLIFICATION OF EU TAX RULES

The complexity of the EU tax framework has increased markedly over the past decade. Successive legislative initiatives, each introduced in response to a particular political moment, whether the post-2008 financial crisis push for transparency, the BEPS agenda, or the drive to address aggressive tax planning, were designed to tackle specific problems rather than to function as a coherent whole. Layered one on top of another over time, they have created a dense and at times incoherent regulatory environment (Chart 15). The EU's early implementation of the OECD/G20 Global Minimum Tax rules (Pillar Two) has added a further layer to an already extensive framework. As highlighted in the Draghi Report, this regulatory complexity represents a tangible obstacle to European growth and investment, diverting corporate resources away from productive activity and deterring cross-border operations within the Single Market. Reflecting this, BusinessEurope members have ranked taxation as the number one reform priority for 2026.

Two ongoing European Commission initiatives offer a significant opportunity to address this situation: the recast of the Directive on Administrative Cooperation in the field of taxation (DAC) and the Tax Omnibus on direct taxation.

On the DAC recast, BusinessEurope contributed to the targeted consultation in February 2026.³⁶ Businesses' central concern is that the DAC framework, following nine successive amendments, has become increasingly fragmented, generating overlapping reporting obligations and disproportionate compliance costs. This is felt most acutely under DAC6, the mandatory disclosure regime for cross-border tax arrangements, where companies consistently report that compliance requires significant staff resources per jurisdiction per year, with limited corresponding benefit for tax administrations in terms of identifying genuinely aggressive arrangements.

CHART 15: TAX COMPLEXITY INDEX 2024



Source: taxcomplexity.org

³⁶ [Recast of the Directive on Administrative Cooperation in the field of direct taxation – BusinessEurope contribution to the public consultation, February 2026](#)

Generic hallmarks routinely trigger reporting of entirely routine commercial transactions, while the Main Benefit Test has proven highly subjective in practice. The policy rationale for DAC6 has also weakened considerably: with Pillar Two now addressing low-taxation structures comprehensively, much of what DAC6 was originally designed to capture is already covered. Duplicative notification requirements, for example, under DAC4 and DAC9, compound the problem further, imposing recurring administrative costs on multinational groups across several Member States without generating meaningful additional transparency.

BusinessEurope's expectations for the recast are that it goes beyond technical consolidation and delivers genuine burden reduction, through the removal or substantial narrowing of DAC6, the centralisation of notification obligations at group level via a single Ultimate Parent Entity filing, and the introduction of harmonised digital reporting standards across Member States, including a single EU reporting portal.

On direct taxation more broadly, BusinessEurope responded to the Commission's Call for Evidence on the Tax Omnibus in March 2026.³⁷ Key priorities centre on four areas:

1. First, ensuring coherence between existing anti-avoidance rules and Pillar Two: where the same income is already captured under the Income Inclusion Rule, Controlled Foreign Company (CFC) rules should not apply, generating overlapping compliance costs without any corresponding gain in protection against base erosion.
2. Second, improving the proportionality of the Interest Limitation Rule, which has produced unintended pro-cyclical effects in the current environment of elevated interest rates, constraining access to financing precisely when investment needs across Europe are most pressing, including for the green and digital transitions.
3. Third, removing structural barriers to cross-border capital flows, in particular by eliminating withholding taxes on intra-group and cross-border investment flows and moving towards greater relief at source rather than lengthy refund procedures under the Parent-Subsidiary and Interest and Royalties Directives.
4. Fourth, strengthening dispute resolution mechanisms: the increasing complexity of the EU tax framework, particularly following Pillar Two implementation, is already generating new areas of legal uncertainty between Member States, and the existing framework is not equipped to handle the growing caseload this will produce.

The Tax Omnibus, expected later this year, will be an important test of the Commission's commitment to its stated objective of reducing administrative burdens by 25% for businesses and 35% for SMEs. At a time when major economies are actively reforming their tax systems to attract investment, the coherence and proportionality of the EU's tax framework are direct determinants of European competitiveness and should be treated as such.

³⁷ [Simplifying EU tax rules on direct taxation – BusinessEurope contribution to the call for evidence, March 2026](#)

COUNTRY DIFFERENCES*

	Real GDP (annual % growth)		Inflation (%)		Unemployment (%)		Government net lending (% of GDP)	
	2026	2027	2026	2027	2026	2027	2026	2027
AT	0,5	0,8	2,9	2,4	5,7	5,6	-4,1	-4,1
BE	0,7	1,2	3,2	2,9	6,5	6,5	-4,8	-5,0
BG	3,0	2,9	3,7	3,2	3,4	3,1	-3,0	-3,0
CY	3,0	3,0	2,8	2,5	4,6	4,6	2,9	3,7
CZ	2,4	1,9	2,9	3,5	3,0	3,1	-2,5	-2,2
DE	0,4	0,9	3,0	2,8	3,7	3,6	-3,8	-4,2
DK	1,8	1,8	1,8	2,0	6,4	6,4	0,5	-0,1
EE	2,8	2,5	3,8	2,2	6,8	6,7	-4,3	-4,9
EL	1,9	1,3	2,6	2,0	6,3	6,3	0,7	0,1
ES	2,3	1,8	2,9	1,9	9,9	9,5	-2,3	-2,0
FI	1,0	1,5	1,8	1,5	9,4	9,0	-3,5	-3,4
FR	0,6	0,8	2,5	1,6	8,3	8,4	-5,0	-4,9
HR	2,5	2,4	5,0	2,8	4,8	4,6	-3,0	-2,8
HU	1,3	2,5	4,0	3,0	4,7	4,8	-7,0	-4,5
IE	2,8	3,2	2,9	2,6	4,9	5,1	0,7	1,0
IT	0,5	0,6	2,5	2,2	5,8	5,8	-2,8	-2,7
LT	3,1	2,3	3,7	2,4	6,8	6,9	-2,6	-2,8
LU	1,9	2,2	1,8	1,9	5,7	5,5	-0,6	-0,8
LV	2,0	1,8	4,6	3,5	6,6	6,2	-3,0	-4,0
MT	3,7	3,7	2,3	2,1	2,8	2,8	-2,8	-2,4
NL	1,4	1,1	2,1	1,9	4,1	4,3	-2,6	-1,9
PL	3,5	3,1	3,0	2,6	3,1	3,0	-7,1	-6,9
PT	1,8	1,6	2,8	2,3	5,9	5,8	0,1	-0,4
RO	1,0	2,2	6,5	3,2	6,1	5,8	-6,2	-5,1
SE	2,3	2,9	1,2	1,5	8,5	8,0	-2,1	-2,2
SI	2,0	2,0	2,5	2,2	3,8	3,8	-2,7	-2,6
SK	0,5	2,0	3,9	2,5	6,0	6,4	-4,4	-5
CH	0,9	1,4	0,8	1,0	4,9	4,3	0,0	-0,5
NO	1,6	2,0	3,2	2,9	4,3	3,9	NA	NA

*CZ, DE, FR, SE provided revisions of their forecasts after the cut-off date of 28 April.



