BUSINESSEUROPE



AUTUMN ECONOMIC OUTLOOK 2026

SHORT-TERM RESILIENCE MASKS INFLATIONARY AND FISCAL RISKS





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EXECUTIVE SUMMARY

ECONOMIC SITUATION

Economic growth in Europe has proved more resilient than expected in the face of a renewed energy shock. We project EU GDP growth at 1.4% in 2026, an upward revision of 0.2 pp compared with our Spring Outlook, and euro area growth at 1.2%, also 0.2 pp higher than previously anticipated. Growth is expected to remain at 1.4% in the EU and 1.2% in the euro area in 2027, unchanged from our spring projections, supported mainly by domestic demand. So far, the impact of the energy shock on economic activity has remained contained, with the expansion of AI providing support to investment and exports. Preliminary estimates for the third quarter point to continued, though slower, growth, with performance varying widely across countries.

Its effect on prices, by contrast, has been more pronounced. Annual inflation rose to 3.8% in September in both the EU and the euro area, as energy inflation reached 18.9%. Our members now expect inflation to average 3.0% in the EU and 3.1% in the euro area in 2026, above the 2.8% expected in spring, before easing to 2.4% in both areas in 2027. Concerns remain widespread: almost half of our members (46.7%) are very concerned about inflationary dynamics, up from around 40% in spring. A more prolonged energy price shock would add to these pressures, weighing on the competitiveness of businesses of all sizes. The ECB raised its key interest rates in June and September, bringing the deposit facility rate to 2.5%, and its policy continues to enjoy broad support, with around 59% of our euro area members considering it appropriate.

Business sentiment has improved overall since the spring, although the picture remains uneven across countries. In industry, the share of members reporting a positive assessment more than doubled, from 12.5% to 26.7%, while the share reporting a negative assessment fell from 62.5% to 33.0%, and a similar improvement can be observed in services. Nevertheless, our members have revised down their forecast for investment growth for 2026 as a whole to 2.0% in the EU and 1.7% in the euro area, from 2.8% and 2.4% in spring, reflecting uncertainty over energy prices and gradually tightening financing conditions. This means that beyond the short term, the enduring structural investment gap identified in the Draghi report has not narrowed, weighing on productivity, the main determinant of long-term growth, and therefore stressing the long-term challenges to the EU's economic prosperity and the wellbeing of its population. Artificial intelligence offers an opportunity to partly reverse this trend, but its adoption by European firms remains limited and AI-related investment still lags behind the United States. Moreover, closing the structural investment gap requires focus on improved framework conditions for investments, such as competitive energy costs, reduced regulatory and single market barriers and access to finance.

European labour markets also remain resilient. Our members expect the unemployment rate to stand at 6.0% in the EU and 6.2% in the euro area in 2026, easing slightly to 5.9% and 6.1% respectively in 2027, while wage growth continues to moderate. However, employment growth is slowing and unemployment has edged up over the past year, a sign that labour markets will not remain immune if the energy shock persists.

In another sign that the long-standing structural weaknesses of the EU economy have not been resolved by the short-term resilience, public finances remain under pressure. Government deficits are expected to reach 3.5% of GDP in the EU and 3.4% in the euro area in 2026, and 3.6% and 3.4% respectively in 2027. BusinessEurope members have also become more critical of national fiscal policies: 57% consider the fiscal stance of their own country too expansionary, up from 37% in spring. In several Member States, the combination of rising debt, higher interest costs and delayed consolidation is becoming a growing source of vulnerability, as markets are increasingly sensitive to fiscal risks (this increased risk is explored in depth in Special Section 2 of this publication).

External demand has improved, but trade will provide only limited support to growth. Export growth for 2026 has been revised upwards, to 2.0% in the EU and 1.8% in the euro area, strengthening to 2.3% and 2.1% respectively in 2027. Imports are expected to outpace exports in 2026, before export growth slightly exceeds import growth in 2027. At the same time, competitive pressure from China is intensifying: the EU's deficit in trade in goods with China reached €360 billion in 2025, or around €1 billion per day, and has continued to widen in 2026, as Chinese surplus production is increasingly redirected towards Europe. Despite the upward revision signalling the short-term resilience and adaptability of EU companies, short-

term risks remain clearly tilted to the downside and are building on several fronts at once, while most long-term risks have not lessened. For instance, official forecasts rest on the assumption that the energy shock will gradually ease. With tensions no lower than six months ago, this assumption is fragile and a more prolonged shock would mean weaker growth and higher inflation than currently projected (this is further examined in Special Section 1 of this work). Rising sovereign bond yields, a possible correction in AI-related markets and persistent trade policy uncertainty could further tighten financing conditions and weigh on investment.

POLICY RECOMMENDATIONS:

- The EU must move from diagnosis to delivery on competitiveness. Fewer than one in six of the Draghi report's recommendations have been fully implemented. Priority should be given to reducing regulatory burdens, deepening the Single Market, closing the energy cost gap with our main competitors and creating the conditions for firms to invest in and adopt AI and other productivity-enhancing technologies, while mobilising private capital to finance them.
- Moreover, a pivotal challenge for the EU in the coming months will be to reach a timely agreement on the next MFF, possibly by the end of 2026, without compromising the ambition of a budget that strengthens the Union's competitiveness. This means preserving the resources for the European Competitiveness Fund and Horizon Europe.
- Against a background of growing trade fragmentation, the EU should continue to diversify its trade partnerships. This requires the swift ratification and implementation of concluded agreements, including with India, Australia and Indonesia, building on the provisional application of the EU-Mercosur agreement, while working to stabilise trade relations with the United States.
- Towards China, the EU should follow a more effective dual-track approach, being firm where necessary and open where possible. This requires distinguishing genuine security risks from competitiveness risks and making sure that the EU's toolbox applies accordingly, in a targeted manner that will also strengthen the EU's leverage. This approach must go hand in hand with a genuine competitiveness agenda, which remains the most effective way to withstand competitive pressure.

SPECIAL SECTION 1: A PROLONGED ENERGY SHOCK

The energy shock has proved more persistent than assumed in our Spring Outlook, and its composition has changed. While oil prices have fluctuated with developments in the Strait of Hormuz, European gas prices have risen almost continuously, reaching more than double their 2025 average in September, while gas storage has entered the heating season below the lowest level recorded at that date in the past five years. Higher gas prices are also expected to reach consumer bills faster than in 2022. Economic activity has held up so far, but pressures through second round effects on firms are building, and a prolonged shock would increasingly weigh on the competitiveness of businesses, in particular in energy-intensive and export-oriented industries.

POLICY RECOMMENDATIONS:

- In the short term, the priority is to address rising energy costs and ensure security of supply. National relief measures should remain temporary and targeted and avoid fragmenting the internal market, while Member States should reduce taxes, levies and network tariffs, which account for around one third of the industrial electricity bill.
- The Commission's review of the EU ETS responds to the need for a reform that better accounts for competitiveness, limits price volatility and prevents carbon leakage. The co-legislators should, however, address the risk that new conditionalities for free allocation add bureaucratic complexity, in order to give industry predictability on carbon costs.
- Beyond the immediate crisis, the EU should strengthen the Energy Union by investing in cross-border interconnectors, developing its own energy sources, including hydro, renewables and nuclear, and strengthening the business case for decarbonisation through long-term contracts, technology-neutral support and the use of ETS and CBAM revenues, in order to close the energy cost gap with the United States and China.

SPECIAL SECTION 2: PRESSURES ON SOVEREIGN BOND MARKETS

Sovereign bond markets have become a major source of risk for the global economy, including Europe. Since the Spring Outlook, long-term yields have risen to their highest levels since the Global Financial Crisis, reflecting tighter monetary policy, record government borrowing and a growing role of more price-sensitive investors. Higher yields affect businesses through two channels: they raise the cost of finance, particularly for European firms that depend heavily on bank credit, and they reduce the fiscal space available to support the economy and investment. Any loss of confidence in the credibility of national fiscal plans could quickly translate into higher borrowing costs for governments and companies alike, just as investment needs are rising.

POLICY RECOMMENDATIONS:

- Credible medium-term fiscal plans are the first line of defence. EU Member States should implement their plans under the reformed economic governance framework, and the European Commission and Council should apply the framework consistently.
- Consolidation should not come at the expense of investment or through a higher tax burden on companies. Public budgets should prioritise expenditure that raises growth potential and crowds in private investment, while support measures should remain targeted and temporary.
- Accelerating the Savings and Investments Union, together with complementary national efforts to develop capital markets, would broaden the investor base for European public and private debt, making financing conditions more resilient to shocks and reducing firms' dependence on bank credit.

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, their detailed knowledge of their national economies and their ongoing interactions with business.

In particular, our EU27 and euro area forecasts reflect the GDP-weighted economic forecasts for each Member State provided by 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	
	2026	2027	2026	2027
Real GDP (annual % growth)	1.4	1.4	1.2	1.2
Inflation (%)	3.0	2.4	3.1	2.4
Unemployment (%)	6.0	5.9	6.2	6.1
Government net lending (% of GDP)	-3.5	-3.6	-3.4	-3.4

Source: BusinessEurope staff calculations based on forecasts by Member Federations, collected by mid-September 2026

- **According to our forecasts, economic growth in the EU has proved more resilient than expected. We now expect EU GDP to grow by 1.4% in 2026 (up 0.2 pp from our Spring 2026 Outlook) and by 1.4% in 2027.** For the euro area, growth has also been revised up by 0.2 pp, to 1.2% in 2026, and is expected to remain at 1.2% in 2027, unchanged from our spring projections. So far, the impact of the energy shock on economic activity has remained contained, while the AI boom has supported business investment and external demand. Domestic demand is expected to remain the main driver of growth in 2026–2027. However, risks remain tilted to the downside. With tensions in the Middle East no lower than six months ago, a more prolonged shock would mean weaker growth than currently projected. Rising sovereign bond yields, a possible correction in AI-related markets and persistent trade policy uncertainty could further tighten financing conditions and weigh on investment.
- **Concerns about inflation have intensified: almost half of BusinessEurope members (46.7%) are now very concerned about inflationary dynamics, up from around 40% in spring, and a further 46.7% are slightly concerned.** BusinessEurope expects HICP inflation to average 3.0% in the EU and 3.1% in the euro area in 2026 (up 0.2 pp and 0.3 pp from our spring forecast), before easing to 2.4% in both areas in 2027. The probability of higher inflation increases the longer the energy shock persists. In this context, the ECB raised its key interest rates by 25 basis points in June and again in September, bringing the deposit facility rate to 2.5%. Further modest rate increases are expected in the near term.
- Labour markets and wages in the EU and the euro area are expected to remain broadly resilient, but affected by the energy shock. **BusinessEurope expects unemployment to average 6.0% in the EU and 6.2% in the euro area in 2026** (+0.1 pp and +0.2 pp compared with spring), **easing slightly to 5.9% and 6.1% respectively in 2027.** However, employment growth is slowing, although it remains positive, and unemployment has edged up over the past year, reaching 6.1% in the EU and 6.4% in the euro area in August. Wage growth continues to moderate. This is a sign that the labour market will not remain immune if the energy shock persists.
- **According to BusinessEurope's estimates, the government deficit is expected to reach 3.5% of GDP in the EU and 3.4% in the euro area in 2026**, unchanged from our spring forecast. In 2027, it is expected to widen to 3.6% in the EU (+0.2 pp) while remaining at 3.4% in the euro area, probably reflecting rising interest costs, higher defence spending and measures to ease the effect of energy prices. **We forecast EU public debt to rise from 85.1% of GDP in 2026 to 87.1% by 2027.** BusinessEurope members have become more critical of national fiscal policies: 57% now consider the fiscal stance of their own country too expansionary, up from 37% in spring, while 76% consider the euro area fiscal stance broadly appropriate. In several Member States, the combination of rising debt, higher interest costs and delayed consolidation is becoming a growing source of vulnerability, as markets are increasingly sensitive to fiscal risks.

COUNTRY DIFFERENCES

	Real GDP (annual % growth)		Inflation (%)		Unemployment (%)		Government net lending (% of GDP)	
	2026	2027	2026	2027	2026	2027	2026	2027
AT	0.5	1.3	3.0	2.3	5.8	5.6	-3.9	-3.6
BE	0.5	1.0	3.6	3.4	6.0	6.2	-5.2	-5.4
BG	2.8	2.7	5.0	3.5	3.3	3.1	-5.7	-3.8
CY	2.7	2.9	4.5	2.5	4.5	4.5	2.3	2.8
CZ	2.0	2.7	2.1	2.7	3.2	3.0	2.5	3.5
DE	1.0	0.9	2.9	2.7	4.1	3.9	-3.7	-4.1
DK	3.7	1.8	1.6	1.7	6.4	6.8	1.2	0.0
EE	2.4	2.5	3.4	2.7	6.5	6.4	-4.4	-4.5
EL	1.9	1.9	3.8	2.6	8.2	7.8	1.7	0.8
ES	2.6	2.1	3.4	2.1	10.0	9.5	-2.4	-2.2
FI	1.7	1.6	2.4	1.4	10.3	9.8	-4.5	-4.0
FR	0.4	0.7	2.5	1.7	8.3	8.5	-5.3	-5.2
HR	2.5	2.4	5.0	3.0	4.8	4.6	-3.0	-3.0
HU	1.8	2.7	1.8	2.3	4.5	4.3	-7.5	-4.6
IE	3.3	3.7	3.5	2.9	5.1	5.2	1.5	1.2
IT	1.0	0.6	3.2	2.2	6.1	6.1	-2.9	-2.8
LT	2.8	2.2	5.2	3.1	6.8	6.7	-2.3	-2.8
LU	1.6	1.7	2.1	2.2	5.9	6.1	-1.2	-1.2
LV	2.3	2.0	3.6	3.3	6.6	6.4	-3.3	-3.9
MT	3.8	3.6	2.2	2.4	3.4	3.4	-1.9	-1.7
NL	1.4	1.2	3.0	2.6	4.1	4.2	-2.8	-2.1
PL	3.6	3.0	3.0	2.8	3.1	3.3	-7.3	-7.1
PT	1.8	1.6	3.1	2.4	5.9	6.0	-0.2	-0.5
RO	-0.5	2.0	6.5	4.0	6.5	6.0	-6.0	-5.1
SE	2.9	2.7	1.3	1.9	8.6	8.0	-1.8	-1.9
SI	3.8	2.5	3.1	2.7	3.9	3.9	NA	NA
SK	0.5	1.9	4.0	2.9	6.0	6.3	-4.4	-5.0
CH	1.2	1.2	0.8	1.0	4.9	4.7	0.0	-0.5
IS	1.4	1.9	NA	NA	5.9	5.2	-1.5	-0.6
NO	1.3	1.4	3.2	2.7	4.6	4.3	NA	NA

Source: Member Federations' forecasts, collected by mid-September 2026

MAIN AGGREGATES

The first part of 2026 was characterised by a slowdown in the EU economy, following a period of subdued economic growth at the end of 2025, with GDP growth stalling in Q1 amid weaker external demand, subdued investment and increased uncertainty linked to geopolitical and trade developments.

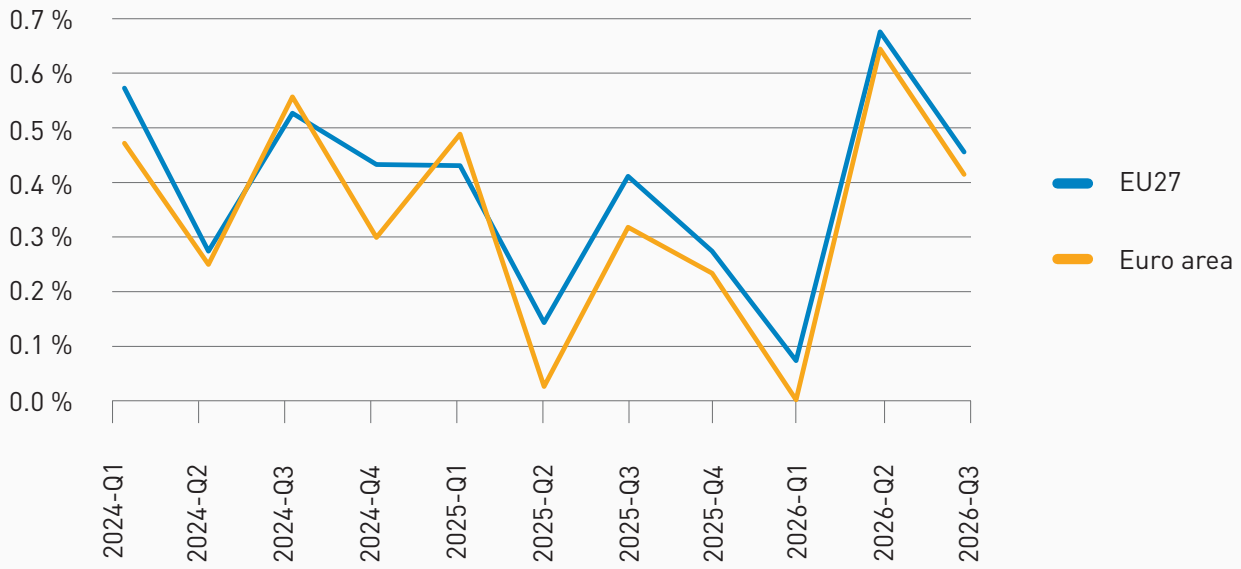
Since then, headline growth has picked up. According to the seasonally adjusted GDP data from Eurostat, GDP increased by 0.7% in the EU and 0.6% in the euro area in Q2 compared to the previous quarter (Chart 1), after 0.1% and 0.0% respectively in Q1 2026, and 0.3% and 0.2% in Q4 2025[1]. However, these swings largely reflect the volatility of Irish GDP, which fell by 7.8% in Q1 and rose by 10.2% in Q2: adjusting for the volatility in Irish data, euro area GDP grew by 0.3% in both quarters[2].

Underlying growth has therefore been moderate but steady, and stronger than expected. This indicates that, so far, the effects of persistent uncertainty related to the conflict in the Middle East have remained relatively contained at the aggregate EU level; moreover, positive impulses from the ongoing AI boom may have supported business investment and external demand[3].

According to Eurostat data, the highest contribution to GDP growth came from net exports, which contributed positively in both the euro area (+0.9 percentage points) and the EU (+0.8 pp). Household final consumption expenditure also made a positive contribution of +0.2 pp in both areas. Gross fixed capital formation had a negligible contribution in the euro area, while contributing +0.1 pp in the EU. Government final consumption expenditure had a negligible impact in both the euro area and the EU. By contrast, changes in inventories had a negative contribution of -0.5 pp in both areas[4].

Nonetheless, the latest data point to a moderation in the third quarter. Eurostat's preliminary flash estimate shows GDP growth of 0.5% in the EU and 0.4% in the euro area compared with the previous quarter[5]. The slower pace largely reflects a smaller increase in Irish GDP, but growth also eased in some of the largest economies: it slowed in Germany (0.2%) and stalled in Italy (0.0%), while France contracted (-0.1%).

CHART 1: GDP GROWTH IN THE EU AND EURO AREA (QUARTER-ON-QUARTER, %)



Source: Staff calculations based on Eurostat, namq_10_gdp

1 Eurostat, GDP and main components, quarterly data (namq_10_gdp).

2 The adjusted measure uses modified domestic demand instead of GDP for Ireland. ECB, ECB staff macroeconomic projections for the euro area, September 2026, Section 2.1.

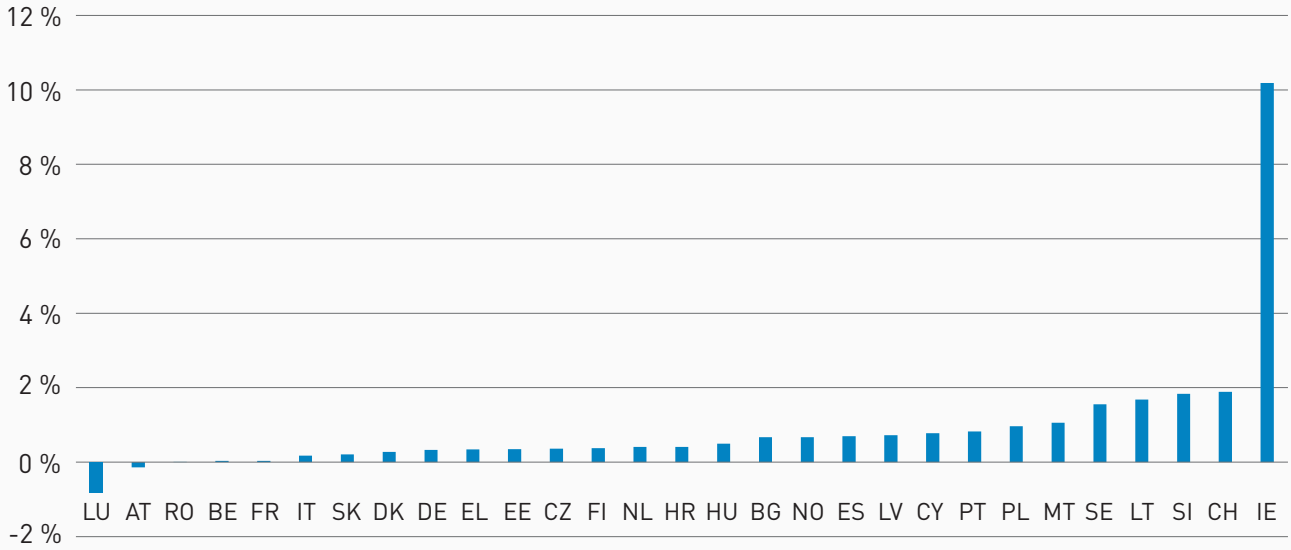
3 ECB, ECB staff macroeconomic projections for the euro area, September 2026.

4 Eurostat, GDP up by 0.6% and employment up by 0.1% in the euro area, September 2026.

5 Eurostat, GDP up by 0.4% in the euro area and by 0.5% in the EU, October 2026.

Growth was heterogeneous across EU countries[6] (Chart 2), with Ireland being the largest outlier, recording the highest growth rate (+10.2%), reflecting the volatility of national accounts dominated by the activities of large multinational companies. Luxembourg and Austria were the only countries to experience negative GDP growth compared to the previous quarter (-0.9% and -0.1% respectively).

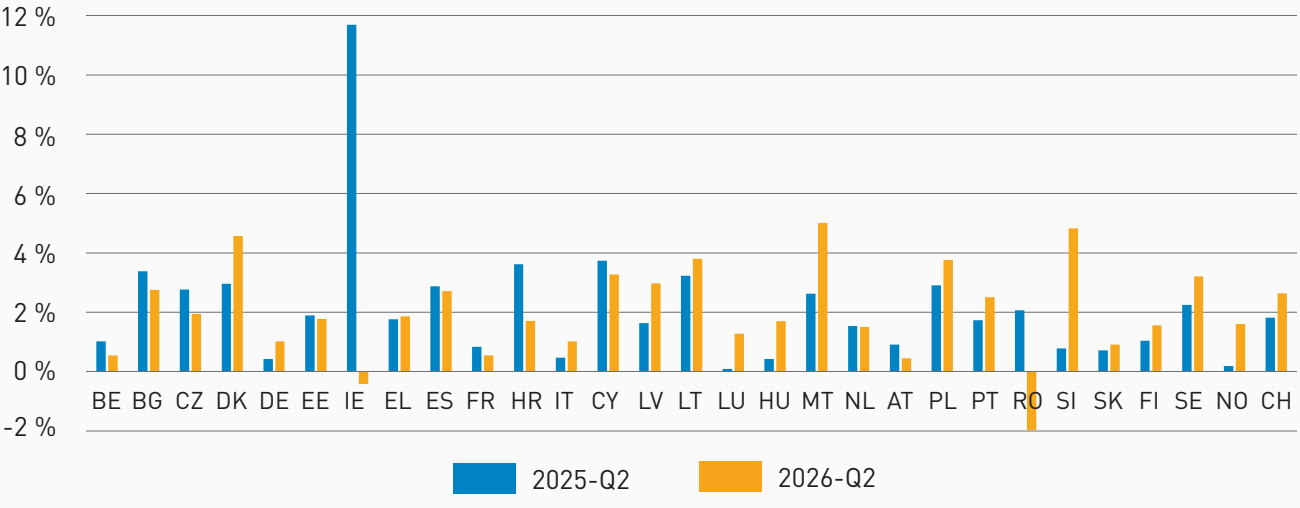
CHART 2: GDP GROWTH BY COUNTRY, Q2 2026 (QUARTER-ON-QUARTER, %)



Source: Staff calculations based on Eurostat, namq_10_gdp

Comparing annual GDP growth in Q2 2025 (vs Q2 2024) with Q2 2026 (vs Q2 2025) shows that the pace of growth has evolved differently across countries (Chart 3). Several countries posted stronger annual growth in Q2 2026 than a year earlier, including Malta, Slovenia, Denmark and Poland, while others slowed markedly or turned negative. Ireland is the clearest case: after recording the highest annual growth rate in the EU in Q2 2025, it moved into negative territory in Q2 2026, a swing largely explained by the volatility typical of its multinational-dominated national accounts mentioned above. Romania also recorded negative annual growth in Q2 2026. This suggests that, behind the aggregate figures, the underlying strength of the recovery remains somewhat uneven across countries.

CHART 3: GDP GROWTH BY COUNTRY, Q2 2025 AND Q2 2026 (YEAR-ON-YEAR, %)



Source: Staff calculations based on Eurostat, namq_10_gdp

[6] As country-level data for the third quarter are not yet available for all Member States, the comparison across countries refers to the second quarter.

BusinessEurope members expect growth of 1.4% and 1.2% in 2026 in the EU and euro area respectively, and 1.4% and 1.2% in 2027 (Table 1). This represents an upward revision of the expected growth for 2026 of 0.2 percentage points for both the EU and the euro area, compared with BusinessEurope figures from the spring, while the outlook remains unchanged for 2027.

TABLE 2: MAIN COMPONENTS OF GDP GROWTH

Main Variables	EU27		Euro area		EU27 + EFTA	
	2026	2027	2026	2027	2026	2027
Private consumption (%)	1.2	1.3	0.9	1.2	1.1	1.4
Public consumption (%)	1.7	1.3	1.6	1.0	1.7	1.3
Investment (%)	2.0	2.1	1.7	2.0	1.9	2.0
Exports (%)	2.0	2.3	1.8	2.1	1.9	2.2
Imports (%)	2.3	2.2	2.0	2.0	2.1	2.1

Source: BusinessEurope staff calculations based on forecasts by Member Federations, collected by mid-September 2026

According to BusinessEurope's questionnaire, economic growth is expected to remain primarily supported by domestic demand in 2026 and 2027. Private consumption growth is projected to increase slightly in 2027 across the EU, euro area and EU27+EFTA, while public consumption growth is expected to moderate in all three areas.

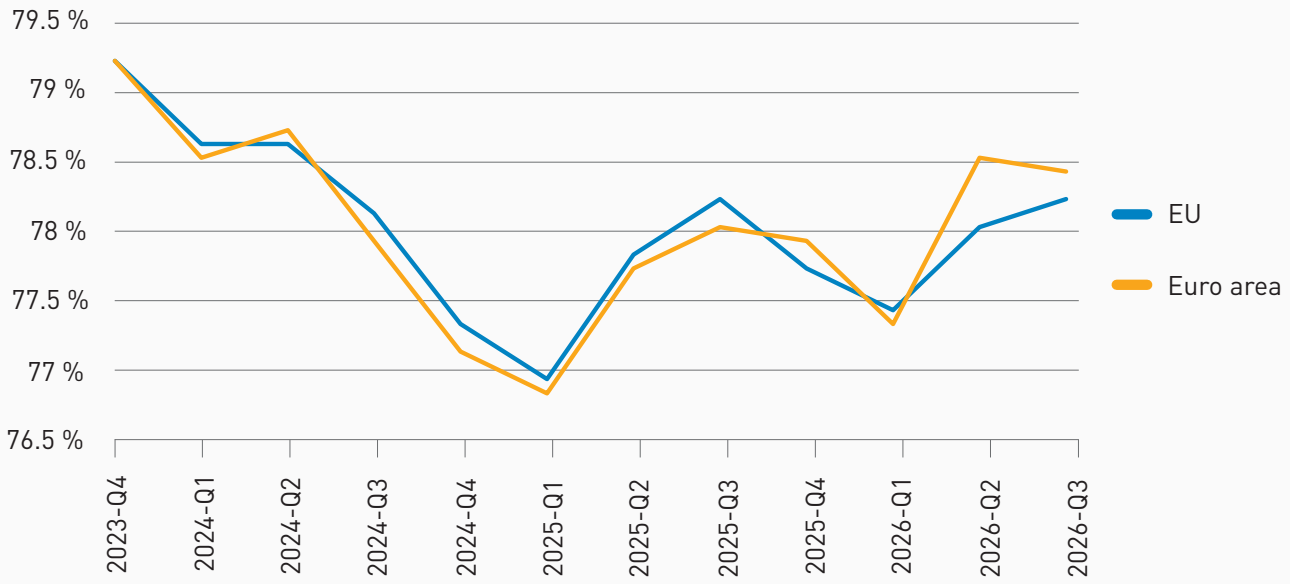
Investment (gross fixed capital formation) is also expected to remain resilient, with growth increasing slightly in 2027 across all three aggregates. However, its 2026 growth forecast has been revised downwards compared with the previous Outlook. Moreover, contrary to six months ago, gross fixed capital formation no longer records the highest growth rate among the GDP components, as imports are now expected to grow faster.

Expectations for external demand have improved compared with the previous Outlook. Export growth for 2026 has been revised upwards by 0.3 percentage points in the EU and by 0.2 percentage points in the euro area. Export growth is expected to increase further in 2027 across all three aggregates. At the same time, import growth has been revised downwards for 2026 by 0.1 percentage points in the EU and by 0.2 percentage points in the euro area, and is expected to moderate further in the EU in 2027, while remaining broadly stable in the euro area and EU27+EFTA.

Capacity utilisation in manufacturing (Chart 4) remained stable in Q3 2026 compared to Q2 2026, standing at 78.3% for the EU and 78.5% for the euro area[7]. Despite the pick-up in headline GDP growth in Q2, capacity utilisation data shows that significant spare capacity remains in the manufacturing sector.

[7] Eurostat, Current level of capacity utilisation in manufacturing industry (teibs070).

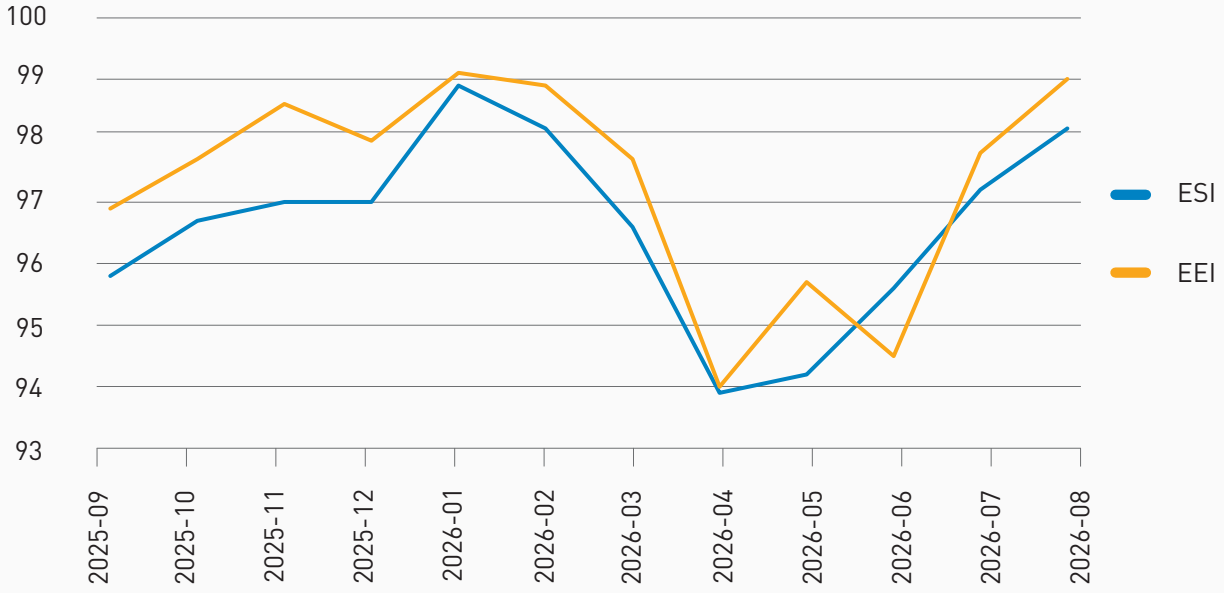
CHART 4: CAPACITY UTILISATION IN MANUFACTURING INDUSTRY



Source: Eurostat, teibs070

Turning to confidence indicators, the Economic Sentiment Indicator (ESI) and the Employment Expectations Indicator (EEI), which capture the level of optimism among businesses and consumers and short-term corporate hiring intentions, respectively, both started to decline at the beginning of the year, reflecting the uncertainty raised by the outbreak of the crisis in the Middle East. As shown in Chart 5, both indicators started to recover from June onwards, converging again towards the levels observed at the beginning of the year[8].

CHART 5: ECONOMIC SENTIMENT AND EMPLOYMENT EXPECTATIONS

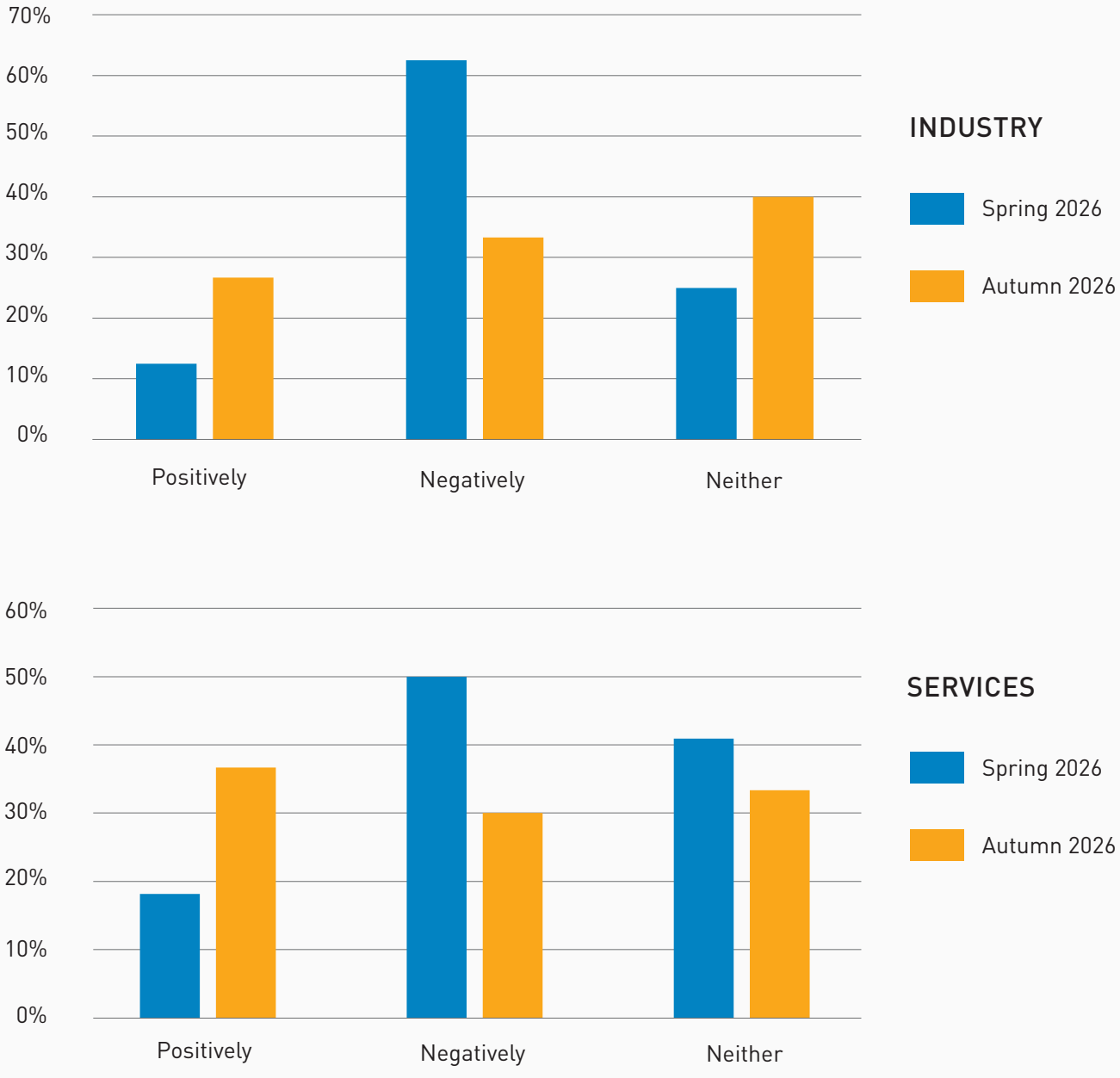


Source: Eurostat, teibs010, ei_bsee_m_r2

[8] Eurostat, Economic sentiment indicator (teibs010) and Employment expectations indicators, monthly data (ei_bsee_m_r2).

In line with the latest Eurostat figures, BusinessEurope members' assessment of business sentiment has broadly improved since the Spring Outlook (Chart 6). In industry, the share of members reporting a positive assessment of business sentiment more than doubled, rising from 12.5% in spring to 26.7% in autumn, while the share reporting a negative assessment declined from 62.5% to 33.0%. A similar improvement can be observed in services, where the share of members assessing business sentiment positively increased from 18.2% to 36.7%, while the share reporting a negative assessment fell from 50% to 30%.

CHART 6: BUSINESS SENTIMENT

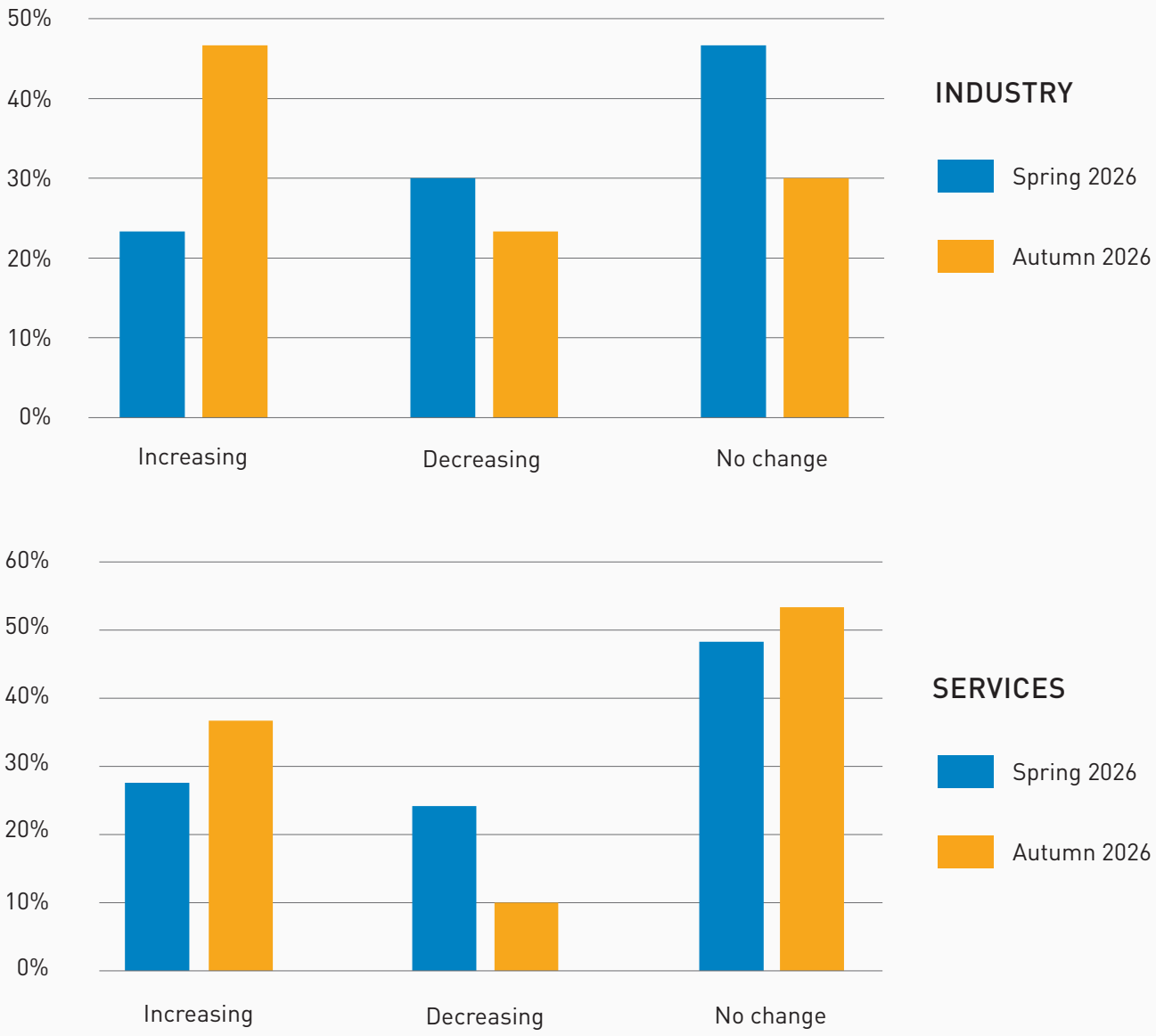


Source: BusinessEurope staff calculations based on forecasts by Member Federations

INVESTMENT AND FINANCING 02

BusinessEurope members' investment expectations have improved since the Spring Outlook, mainly driven by industry (Chart 7). As of the mid-September survey deadline, 47% of our members expect industrial investment to increase over the next six months, up from 23% in spring, while the share expecting a decline fell from 30% to 23% and the share expecting no change fell from 47% to 30%. In services, expectations have also improved, with 37% of members expecting an increase (28% in spring), 10% expecting a decline (24% in spring) and 53% expecting no change (48% in spring)[9].

CHART 7: INVESTMENT SENTIMENT



Source: BusinessEurope staff calculations based on forecasts by Member Federations

[9] BusinessEurope staff calculations based on Member Federations' replies to the 2026 Autumn Economic Outlook questionnaire.

At the same time, our members' forecast for investment growth in 2026 has been revised down to 2.0% in the EU and 1.7% in the euro area, from 2.8% and 2.4% respectively in the Spring Outlook, before increasing to 2.1% and 2.0% in 2027[10].

Risks to investment remain tilted to the downside because of the uncertainty surrounding the Middle East conflict, related to energy prices and supply bottlenecks, and to gradually tightening financing conditions[11].

Long-term sovereign bond yields have risen to multi-year highs in most major advanced economies, reflecting concerns about the sustainability of public finances and heavy corporate bond issuance by AI firms, which raises borrowing costs throughout the economy, although broader financial conditions remain supportive[12] (see Special Section 2 for a wider look on the higher costs of fiscal pressures).

Beyond the short-term outlook, the structural investment gap identified in the Draghi report has not yet narrowed. According to a recent BDI analysis, the EU's investment ratio stood at 21.5% of GDP at the start of 2026, almost the same level as at the start of 2024[13]. The increase in investment in recent years has come mainly from public investment, which rose from just under 3% of GDP in the mid-2010s to just under 3.9% in 2025, while corporate investment has remained broadly stable at around 12.8% of GDP[14]. Meanwhile, estimated investment needs have increased: while the Draghi report put the additional investment needed at €750-800 billion per year, more recent ECB estimates, which factor in higher defence requirements, put the additional strategic expenditure needed between 2025 and 2031 at about €1.2 trillion per year[15].

The persistence of this investment gap is closely linked to Europe's weak productivity performance, the main determinant of long-term growth. EU labour productivity, which had converged to 95% of the US level in 1995, has since fallen back below 80%, with digital technology the main driver of the widening gap[16]. Artificial intelligence could help reverse this trend, but only with sufficient investment: evidence from European firms shows that AI adoption raises labour productivity by around 4%, with gains depending on complementary investment in software, data and skills[17]. ECB staff estimate that swift and broad adoption could add 0.3 to 0.4 percentage points a year to euro area productivity growth over the next decade, yet only 7% of euro area firms report significant use of AI, and AI-related investment still lags behind the United States[18]. Without a stronger investment effort, the EU risks losing further ground, with lasting consequences for its competitiveness.

A fundamental question is how this supplementary investment could be financed. Around four-fifths of investment in the EU has historically been undertaken by the private sector[19], and the additional effort comes at a time when financing conditions are tightening and large technology firms are competing for capital (see Special Section 2). European firms also face a structural disadvantage: only 5% of global venture capital funds are raised in the EU, compared with 52% in the United States and 40% in China, and many high-growth EU companies as a result prefer to seek financing from US investors[20]. Progress on the reforms needed to address these weaknesses has been slow: only 15.7% of the Draghi report's recommendations had been fully implemented by July 2026, with digitalisation and deeper capital markets among the weakest areas[21]. Speeding up their implementation will be key for Europe to translate the potential of AI into sustained productivity growth.

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[10] BusinessEurope staff calculations based on Member Federations (Table 2); BusinessEurope, 2026 Spring Economic Outlook, June 2026, Table 3.

[11] ECB, ECB staff macroeconomic projections for the euro area, September 2026, p. 7.

[12] OECD, OECD Economic Outlook, Interim Report September 2026: Weathering Successive Shocks, September 2026, paragraphs 9-10, p. 12.

[13] BDI, Is the EU on track in terms of innovation and investment? An interim review of the Draghi agenda, BDI Research Paper, September 2026, p. 17.

[14] BDI, Is the EU on track in terms of innovation and investment? An interim review of the Draghi agenda, BDI Research Paper, September 2026, p. 18.

[15] ECB, Time to be strategic: how public money could power Europe's green, digital and defence transitions, The ECB Blog, July 2025.

[16] European Commission, The future of European competitiveness, Part A: A competitiveness strategy for Europe, September 2024, pp. 23-24.

[17] BIS, AI adoption, productivity and employment: evidence from European firms, Working Papers No 1325, January 2026.

[18] ECB, Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, introductory statement by Christine Lagarde, September 2026.

[19] European Commission, The future of European competitiveness, Part A: A competitiveness strategy for Europe, September 2024, p. 18.

[20] European Commission, The future of European competitiveness, Part A: A competitiveness strategy for Europe, September 2024, p. 29.

[21] EPIC, Draghi Implementation Index, July 2026 Update, July 2026.

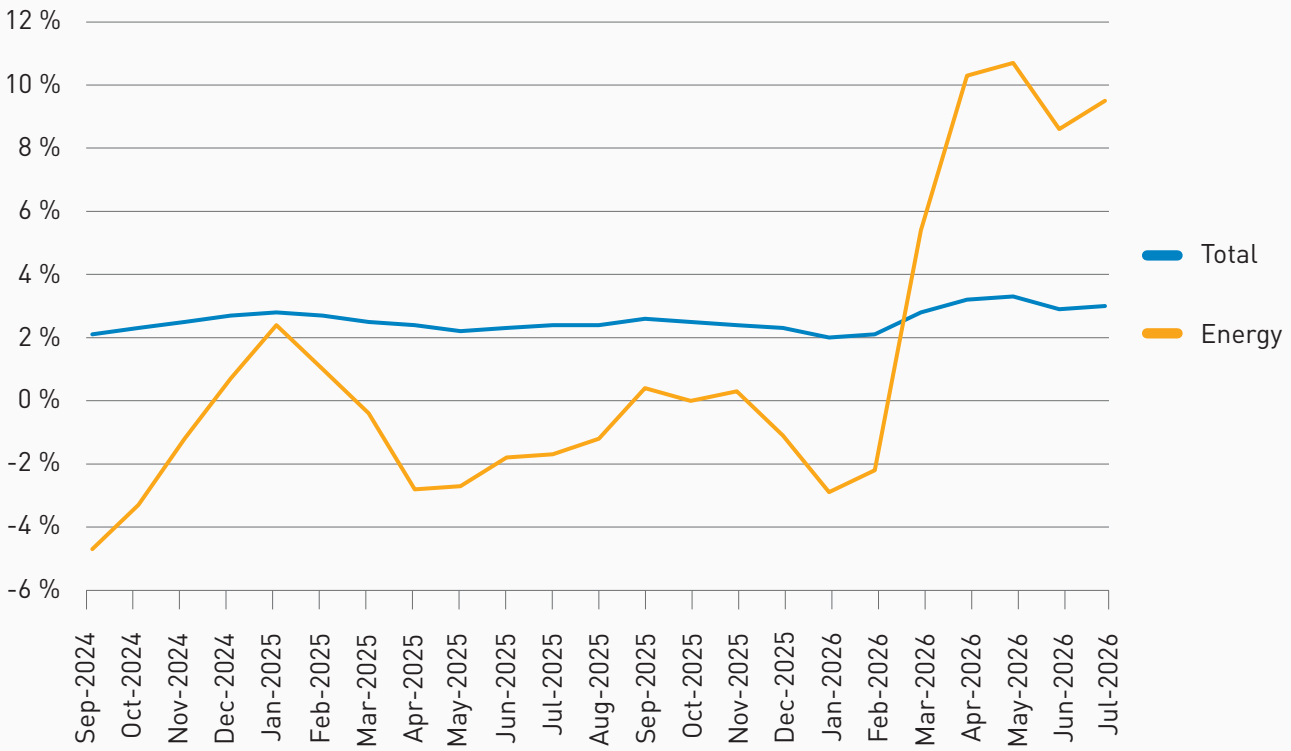
MONETARY AND FISCAL POLICY 03

MONETARY POLICY

In response to continued energy-related inflation pressures stemming from the conflict in the Middle East, the ECB Governing Council decided on 10 September to raise the three key ECB interest rates by 25 basis points, after a first increase in June[22]. The deposit facility rate now stands at 2.5%. According to the Governing Council, inflation "is set to remain well above target for an extended period", while the outlook "remains highly uncertain, with risks to the upside for inflation and to the downside for economic growth". ECB staff expect headline inflation to average 3.0% in 2026, 2.5% in 2027 and 2.1% in 2028, and inflation excluding energy and food 2.5%, 2.6% and 2.3% respectively[23]. The OECD also expects further modest rate increases in the euro area in the near term[24].

As shown in Chart 8, EU inflation rose from 2.1% in February to 3.3% in May, before easing to around 3% over the summer. Energy inflation has been much more volatile, increasing from -2.2% in February to 10.7% in May and standing at 9.5% in July[25]. Price pressures have since picked up again. Euro area inflation rose to 3.2% in August, with services providing the largest contribution, and to 3.8% in September, when energy became the main driver, as energy inflation climbed from 14.3% to 18.9%[26] (see Special Section 1 for a deeper analysis of the persistent energy shock that European business face).

CHART 8: INFLATION IN THE EU: ANNUAL RATE OF CHANGE

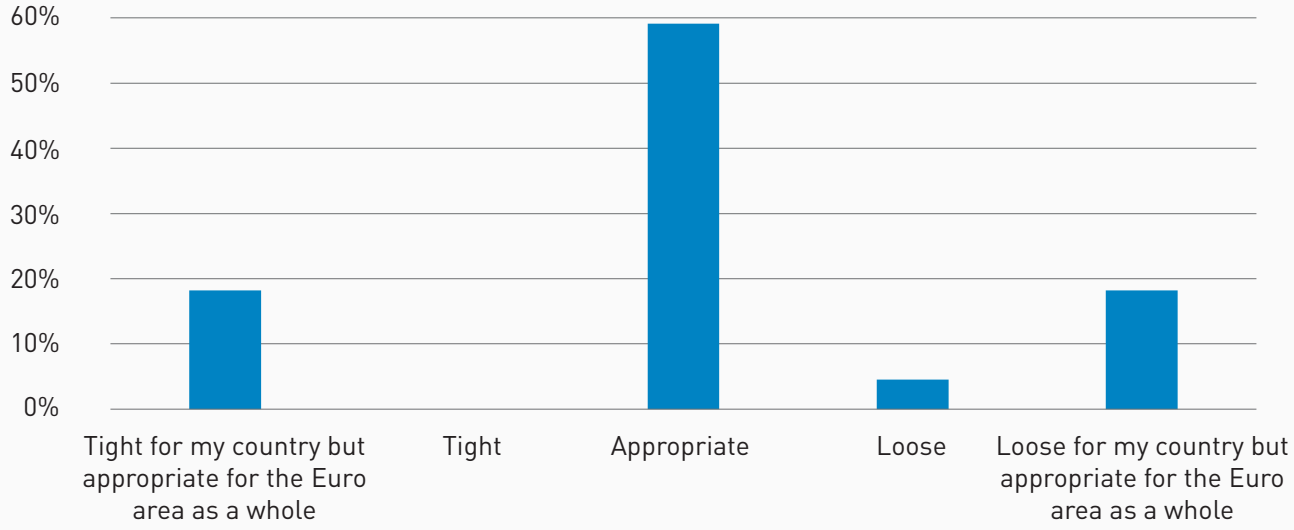


Source: Eurostat, prc_hicp_minr

[22] ECB, Monetary policy decisions, September 2026.
[23] ECB, Monetary policy decisions, September 2026.
[24] OECD, OECD Economic Outlook, Interim Report September 2026: Weathering Successive Shocks, September 2026, paragraph 30, pp. 19-20.
[25] Eurostat, HICP – monthly data (annual rate of change) (prc_hicp_minr).
[26] Eurostat, Annual inflation up to 3.2% in the euro area, September 2026; Eurostat, Annual inflation up to 3.8% in the euro area, October 2026.

BusinessEurope members from the euro area continue to show a high level of trust in the ECB. Around 59% consider its monetary policy appropriate, while a further 18% see it as tight for their own country and another 18% as loose for their own country, but in both cases appropriate for the euro area as a whole. Only around 5% consider ECB policy too loose (Chart 9). In the Spring Outlook, before the June rate increase, more than 20% of respondents considered ECB policy too tight for their own country[27].

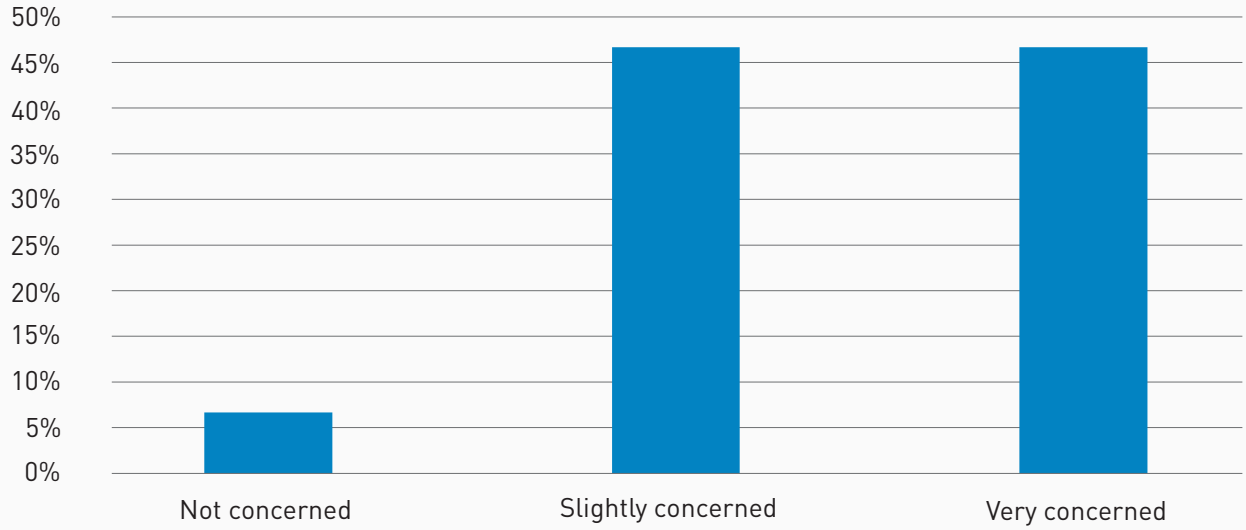
CHART 9: ASSESSMENT OF ECB POLICY BY EURO AREA MEMBERS



Source: BusinessEurope staff calculations based on forecasts by Member Federations

Concerns about inflation remain widespread. Almost half of our members (46.7%) are very concerned about inflationary dynamics, up from around 40% in the Spring Outlook, and the same share are slightly concerned, while 6.7% are not concerned (Chart 10)[28]. Our members now expect inflation to average 3.0% in the EU and 3.1% in the euro area in 2026, slightly above the 2.8% expected in spring, before easing to 2.4% in both areas in 2027 (Table 1)[29].

CHART 10: BUSINESSEUROPE MEMBERS' CONCERNS ABOUT INFLATIONARY DYNAMICS



Source: BusinessEurope staff calculations based on forecasts by Member Federations

[27] BusinessEurope staff calculations based on Member Federations' replies to the 2026 Autumn Economic Outlook questionnaire; BusinessEurope, 2026 Spring Economic Outlook, June 2026, p. 17.

[28] BusinessEurope staff calculations based on Member Federations' replies to the 2026 Autumn Economic Outlook questionnaire; BusinessEurope, 2026 Spring Economic Outlook, June 2026, p. 16.

[29] BusinessEurope staff calculations based on Member Federations (Table 1); BusinessEurope, 2026 Spring Economic Outlook, June 2026, Table 1, p. 6.

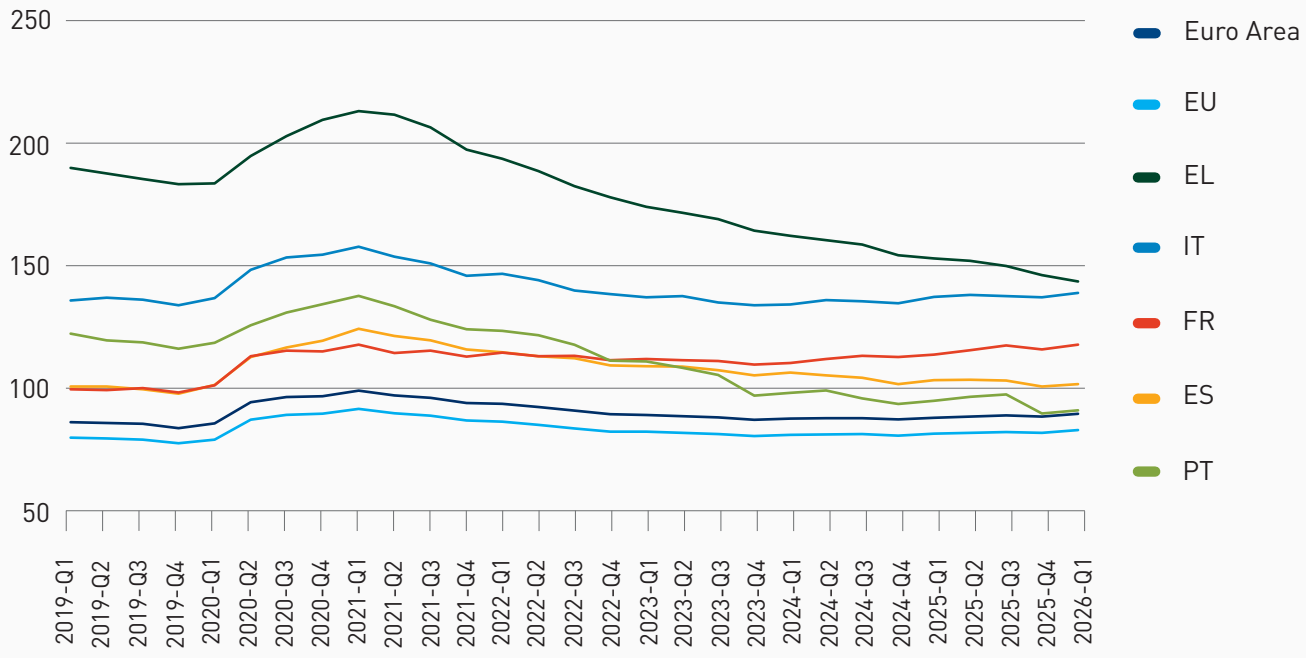
FISCAL POLICY

In the first quarter of 2026, the seasonally adjusted government deficit improved slightly, reaching 3.1% of GDP in both the EU and the euro area, compared with 3.4% and 3.2%, respectively, in the previous quarter. This reflected a decline in government expenditure relative to GDP, which more than offset the slight decrease in government revenue[30].

As shown in Chart 11, government debt ratios have followed divergent paths across Member States since the COVID-19 pandemic. Greece and Portugal have continued to reduce their debt-to-GDP ratios from their pandemic peaks, and Spain has also gradually lowered its debt burden, although it remains well above pre-pandemic levels. By contrast, debt ratios in France and Italy have remained broadly elevated, with France experiencing a renewed increase in recent quarters. At the end of the first quarter of 2026, government debt stood at 82.9% of GDP in the EU and 88.9% in the euro area, up from 81.8% and 87.7% respectively at the end of 2025. The highest ratios were recorded in Greece (143.5%), Italy (138.9%) and France (117.6%)[31].

Looking ahead, fiscal policy is set to become more expansionary in the short term. BusinessEurope members expect the government deficit to reach 3.5% of GDP in the EU and 3.4% in the euro area in 2026, and 3.6% and 3.4% respectively in 2027, compared with 3.4% expected in spring for the EU in 2027 (Table 1)[32].

CHART 11: QUARTERLY GOVERNMENT DEBT, AS A PERCENTAGE OF GDP



Source: Eurostat, gov_10q_ggdebt

BusinessEurope members have become more critical of fiscal policy at national level. More than half (57%) consider the fiscal stance in their own country too expansionary, up from 37% in the Spring Outlook, while the remaining 43% see it as appropriate. For the euro area as a whole, 76% of members consider fiscal policy appropriate, 14% too expansionary and around 10% not expansionary enough (Chart 12)[33].

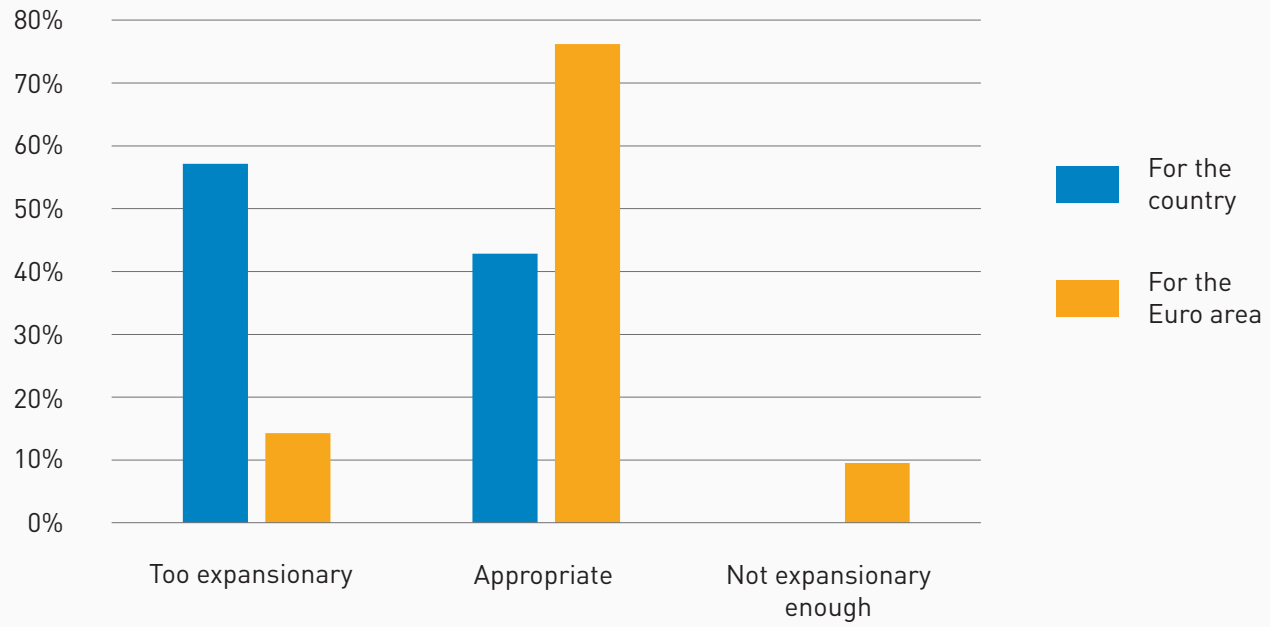
[30] Eurostat, Seasonally adjusted government deficit at 3.1% of GDP in the euro area, July 2026.

[31] Eurostat, Government debt at 88.9% of GDP in euro area, July 2026.

[32] BusinessEurope staff calculations based on Member Federations (Table 1); BusinessEurope, 2026 Spring Economic Outlook, June 2026, Table 1, p. 6.

[33] BusinessEurope staff calculations based on Member Federations' replies to the 2026 Autumn Economic Outlook questionnaire; BusinessEurope, 2026 Spring Economic Outlook, June 2026, p. 20.

CHART 12: BUSINESSEUROPE MEMBERS' ASSESSMENT OF FISCAL POLICY



Source: BusinessEurope staff calculations based on forecasts by Member Federations

LABOUR MARKET 04

According to seasonally adjusted Eurostat data, employment increased by 0.1% in both the EU and the euro area in Q2 2026 compared with the previous quarter. Compared with the same quarter of the previous year, employment increased by 0.4% in the EU and 0.5% in the euro area[34].

Unemployment has edged up slightly over the past year. In August 2026, the unemployment rate stood at 6.1% in the EU and 6.4% in the euro area, unchanged from July but up from 6.0% and 6.3% respectively in August 2025. Youth unemployment reached 15.4% in the EU and 15.0% in the euro area[35].

Wage growth continues to moderate. In the second quarter of 2026, hourly labour costs rose by 3.1% in the euro area and 3.2% in the EU compared with a year earlier. Wages and salaries alone increased by 3.0% in the euro area and 3.2% in the EU, down from 3.4% and 3.7% respectively in the first quarter[36]. Real wage developments also differ across countries: according to the OECD, in the first quarter of 2026, real wages were still below their Q1 2021 level, before the post-pandemic inflation surge, in 13 of the 37 OECD countries analysed, including Czechia, Denmark, Italy and Sweden[37].

BusinessEurope members expect the unemployment rate to stand at 6.0% in the EU and 6.2% in the euro area in 2026, easing slightly to 5.9% and 6.1% respectively in 2027 (Table 1). For the euro area, this is in line with the ECB's projections[38].

[34] Eurostat, GDP up by 0.6% and employment up by 0.1% in the euro area, September 2026.

[35] Eurostat, Euro area unemployment at 6.4%, October 2026.

[36] Eurostat, Annual increase in labour costs at 3.1% in euro area, September 2026.

[37] OECD, OECD Employment Outlook 2026, Chapter 1: From resilience to risk: Employment and wages under pressure, July 2026.

[38] BusinessEurope staff calculations based on Member Federations (Table 1); ECB, ECB staff macroeconomic projections for the euro area, September 2026, Table 2, p. 10.

TRADE 05

Trade policy uncertainty remains elevated, due to both changes in tariffs and rising export restrictions. In the U.S., new Section 301 tariffs took effect in late July 2026, replacing the flat 10 percentage point tariff previously applied across all countries. The EU continues to diversify its trade partnerships. Alongside the agreements concluded with India, Australia and Indonesia, the trade provisions of the EU-Mercosur agreement have applied provisionally since 1 May 2026[39]. The modernised agreement with Mexico should also enter into force soon. The EU is also deepening its relationship with Canada, while CETA is still awaiting ratification by 10 Member States. EU-Canada trade in goods and services reached €130 billion in 2025, around 80% higher than in 2016, before CETA's provisional application[40].

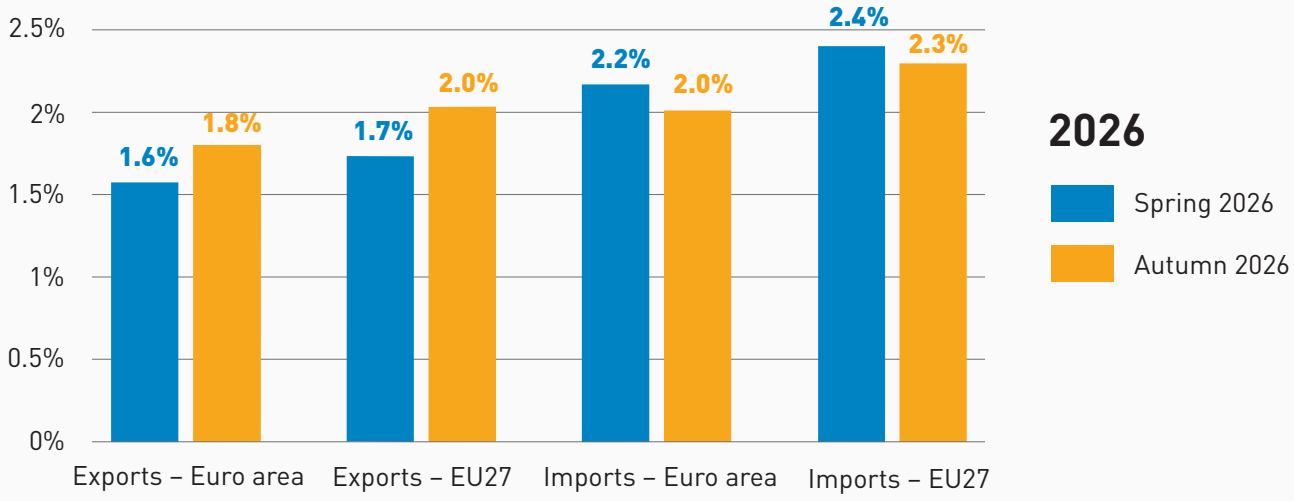
According to Eurostat, the EU recorded a deficit of €46.1 billion in trade in goods with the rest of the world in January-August 2026, compared with a surplus of €76.4 billion a year earlier, as the value of extra-EU exports increased by 0.4% while that of imports rose by 7.7%. The deficit widened further in August, to €25.2 billion from €7.5 billion a year earlier, as imports grew by 18.2%, twice as fast as exports (9.4%)[41].

Globally, merchandise trade recovered gradually after the initial impact of the Middle East conflict, supported mainly by AI-related goods[42]. The ECB projects euro area foreign demand to grow by 3.6% in 2026 and 4.0% in 2027, reflecting stronger-than-expected global trade in the second quarter and higher AI-related investment. However, these gains are concentrated in AI-related goods, where euro area exporters have a relatively small market share[43].

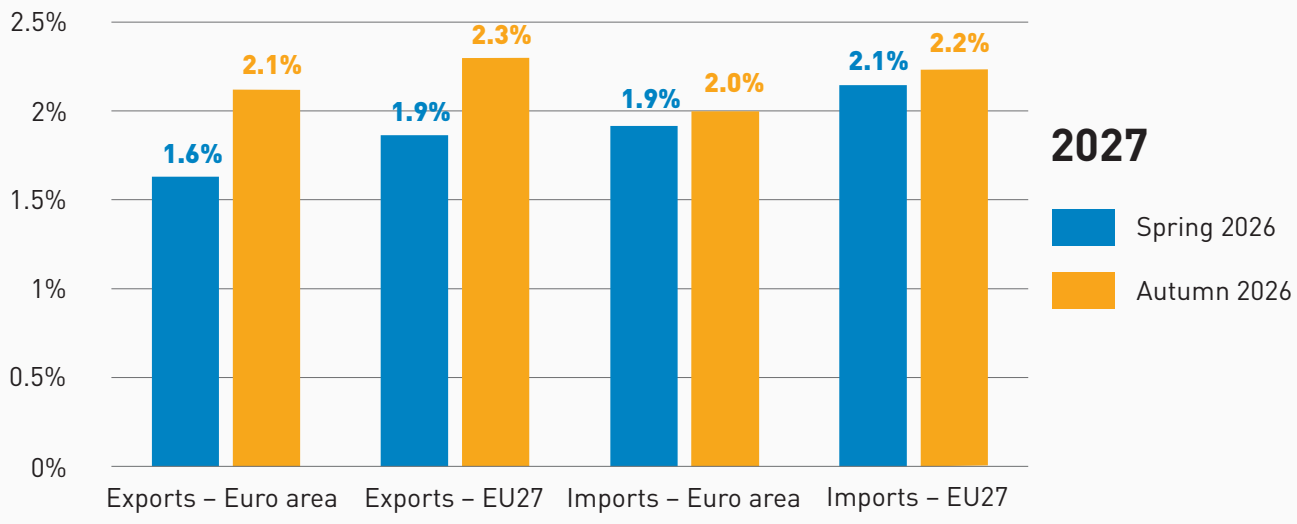
Euro area exports are projected to grow by 2.1% in 2026 and 3.2% in 2027, although export competitiveness is expected to remain weak, as the past appreciation of the euro, higher U.S. tariffs and the Middle East conflict continue to constrain exports. In addition, the euro area's share in global export markets is expected to decline slightly further.

BusinessEurope members share the view of a gradual improvement in external demand, while remaining more cautious. They have revised their export forecasts upwards. In volume terms, export growth is now expected at 2.0% in the EU and 1.8% in the euro area in 2026 (from 1.7% and 1.6% in spring), strengthening to 2.3% and 2.1% respectively in 2027. Import growth has been revised slightly down for 2026, to 2.3% in the EU and 2.0% in the euro area, and is expected at 2.2% and 2.0% in 2027 (Chart 13)[44]. Imports are therefore expected to outpace exports in 2026, while export growth should slightly exceed import growth in 2027.

CHART 13: EXPORT AND IMPORT GROWTH FORECASTS: SPRING VS AUTUMN



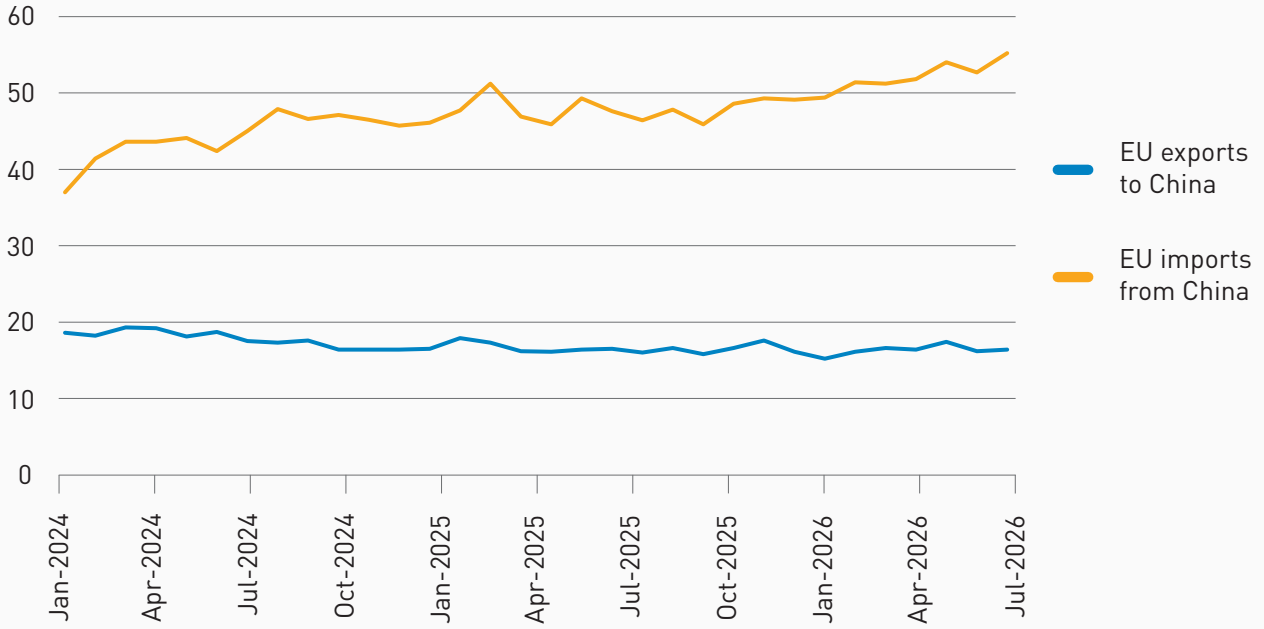
[39] BusinessEurope, 2026 Spring Economic Outlook, June 2026, p. 22.
[40] European Commission, EU trade relations with Canada.
[41] Eurostat, Euro indicators: International trade in goods, August 2026, October 2026.
[42] OECD, OECD Economic Outlook, Interim Report September 2026: Weathering Successive Shocks, September 2026, paragraph 3, p. 9.
[43] ECB, ECB staff macroeconomic projections for the euro area, September 2026, Box 1, p. 12.
[44] BusinessEurope staff calculations based on Member Federations (Table 2); BusinessEurope, 2026 Spring Economic Outlook, June 2026, Table 3.



Source: BusinessEurope staff calculations based on forecasts by Member Federations

Trade with China deserves particular attention. In 2025, the EU's deficit in trade in goods with China reached €360 billion, close to €1 billion a day, as exports fell by 6.5% and imports rose by 6.4%[45]. The gap has continued to widen in 2026: in August, imports from China were 19.7% higher than a year earlier, while exports rose by only 3.2%, bringing the monthly deficit to €38.4 billion, from €30.1 billion in August 2025[46]. As US tariffs restrict access to the American market, a growing share of China's surplus production is being redirected towards Europe: between January and April 2026, Chinese exports to the EU rose by 19% year-on-year, while those to the United States fell by 10.2%[47]. Competitive pressure is spreading to an increasing number of sectors such as chemicals, machinery and industrial equipment, and is affecting European exporters in third markets[48].

CHART 14: EU TRADE IN GOODS WITH CHINA, € BILLION (SEASONALLY ADJUSTED)



Source: Eurostat, ext_st_eu27_2020sitc

[45] Eurostat, Trade in goods with China in 2025, April 2026.
[46] Eurostat, Euro indicators: International trade in goods, August 2026, October 2026.
[47] General Administration of Customs of the People's Republic of China, trade statistics, 2026.
[48] BusinessEurope, What is the way forward for EU-China relations? Views from European business, October 2026.

This competition often rests on unfair conditions. China's export-oriented model is supported by industrial subsidies that the IMF puts at 4.4% of GDP, or roughly $800 billion a year[49], while Chinese household consumption, at around 40% of GDP, is too weak to absorb domestic production, so that surplus output is channelled to foreign markets[50]. Estimates also suggest that the renminbi is undervalued by between 16% and 30%, which further supports the price competitiveness of Chinese exports[51]. In its recent position paper, BusinessEurope considers that the current trajectory is not sustainable and calls on the EU to defend its interests through a targeted use of its trade and economic security instruments, while maintaining dialogue with China, which remains an important economic partner. Such measures cannot, however, replace the reforms needed to strengthen Europe's long-term competitiveness, in particular closing the energy cost gap, completing the Single Market and reducing the regulatory burden. Greater competitiveness remains the most effective way to withstand competitive pressure from China and to engage with it from a position of strength[52].

[49] CER, China shock 2.0: The cost of Germany's complacency, May 2026.

[50] Reuters, Calls grow for China's household sector to be bigger economic driver, July 2025.

[51] Reuters, China's yuan is undervalued, maybe not as much as you think, April 2026.

[52] BusinessEurope, What is the way forward for EU-China relations? Views from European business, October 2026.

SPECIAL SECTION 1: A PROLONGED ENERGY SHOCK

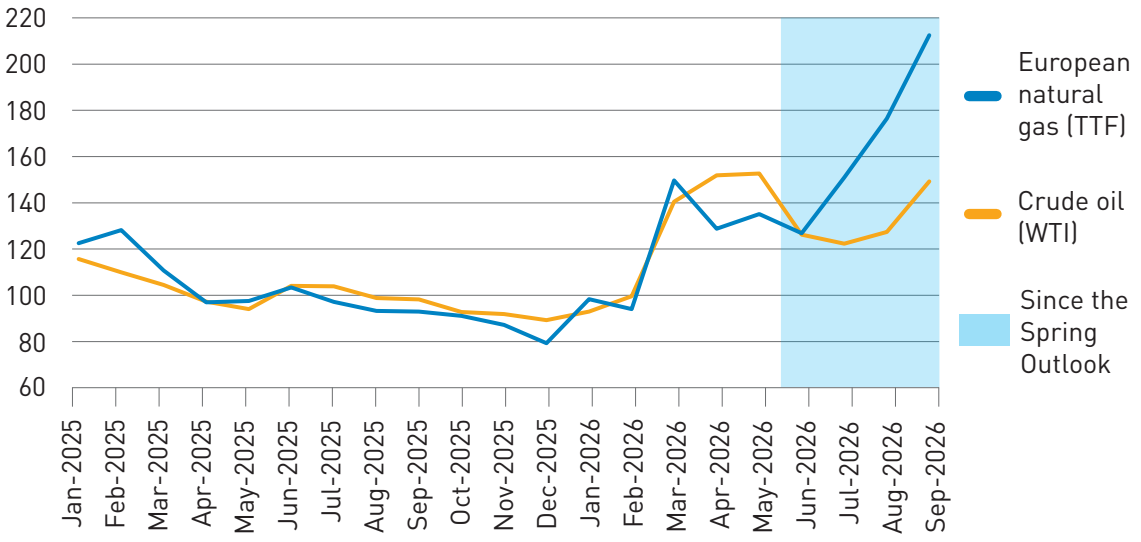
DEVELOPMENTS SINCE THE SPRING OUTLOOK

The Spring Outlook was prepared on the working assumption of a relatively swift resolution of the disruption in the Strait of Hormuz, while noting that its estimates could prove somewhat optimistic[53]. Since then, the disruption has persisted. According to the IEA, flows through the Strait remain severely constrained, and diplomatic efforts have not yet led to an agreement[54]. The most notable development is the change in the composition of the energy shock, with a decoupling of oil and gas prices (Chart 15). Throughout 2025, the two moved broadly in parallel, and both rose sharply after the beginning of hostilities on 28 February: in March, oil prices were around 40% and European gas prices 50% above their 2025 average. Their paths have since diverged: while oil prices have fluctuated with developments in the Strait, European gas prices have risen almost continuously.

Oil prices peaked in May, when the WTI benchmark averaged $99.1 a barrel, and eased to $79.4 in July, reflecting the adjustment of oil flows, including through alternative routes, as well as weaker global demand[55]. They rebounded to $96.9 in September, almost 50% above their 2025 average[56], as renewed hostilities in the Middle East disrupted supplies, including the bombing on 11 September of Saudi Arabia's East-West pipeline, one of the main routes bypassing the Strait. This shows that oil prices remain highly sensitive to developments in the Strait and in the negotiations between belligerent parties, which adds to uncertainty for businesses[57].

European gas prices, by contrast, have risen steadily since June. In September, they averaged $25.4/MMBtu, two thirds higher than in June and more than double their 2025 average[58]. Unlike oil, LNG supply has not shown a comparable recovery. Flows through the Strait had accounted for almost 20% of global LNG supply, and LNG loadings from Qatar and the United Arab Emirates declined by 35 bcm year-on-year between March and June. At the same time, storage has been filling more slowly ahead of the Northern Hemisphere winter[59].

CHART 15: CRUDE OIL AND EUROPEAN GAS PRICES SINCE JANUARY 2025 (INDEX, 2025 AVERAGE = 100)

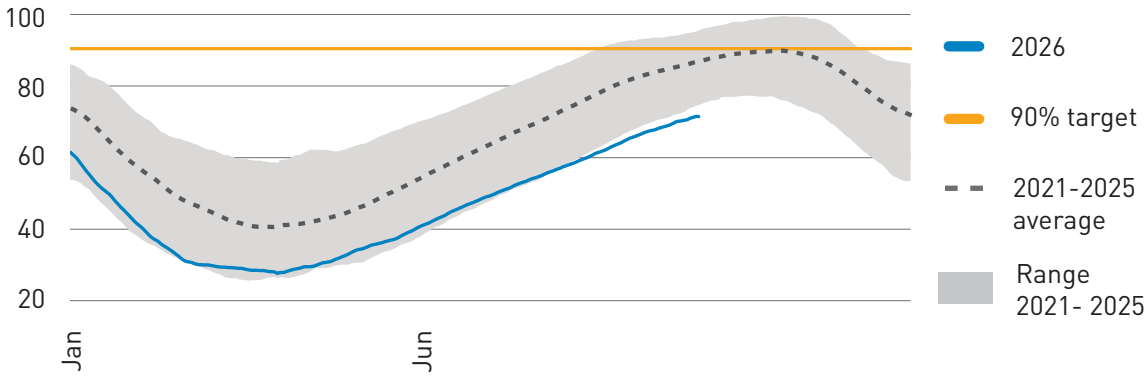


Source: World Bank, calculations by the authors.

[53] BusinessEurope, 2026 Spring Economic Outlook, June 2026.
[54] IEA, Oil Market Report, September 2026.
[55] IEA, Oil Market Report, September 2026.
[56] World Bank, Commodity Price Data (Pink Sheet), October 2026, monthly prices; calculations by the authors.
[57] IEA, Oil Market Report, October 2026.
[58] World Bank, Commodity Price Data (Pink Sheet), October 2026, monthly prices; calculations by the authors.
[59] IEA, Gas Market Report, Q3-2026.

Low gas storage levels add to the market uncertainty and leave Europe exposed to potential further supply shocks and/or cold winter spells driving up gas demand. At the end of September, EU gas storage was around 72% full, 11 percentage points lower than a year earlier and almost 16 percentage points below the 2021-2025 average, and below the lowest level recorded at that date in the past five years (Chart 16)[60]. In June, the IEA had estimated that reaching an 80% fill level by the start of winter would require around 26% more injections in July-October than in the previous year[61]. According to the European Commission, heatwaves in Europe have also driven up gas demand for power generation, due to cooling needs[62].

CHART 16: EU GAS STORAGE FILLING IN 2026 AGAINST THE 2021-2025 RANGE (% OF CAPACITY)



Source: GIE AGSI+, calculations by the authors.

The Commission and Member States consider that, despite lower storage levels, there is no immediate risk to the security of gas supply, and that the EU is better prepared than during the 2021-22 shock that originated from the full scale illegal invasion of Ukraine by Russia[63]. The Commission nevertheless invited Member States to reduce gas and electricity demand and to use the flexibility of the Gas Storage Regulation, which sets a 90% filling target but permits deviations in difficult market conditions, by lowering the target to 80%[64].

TRANSMISSION TO FIRMS, PRICES AND GROWTH

The cost of the energy shock is significant. EU countries are reported to have spent more than €100 billion in additional energy import costs since the start of the conflict, without any increase in volumes. In some European countries, fuel prices at the pump are reported to be nearly 50% higher. Diesel represents a specific vulnerability: Europe relies on imports, and supplies from the Gulf have fallen sharply ahead of the winter. A possible US restriction on diesel exports would remove another key supply source[65].

The way these costs reach consumers has also changed since 2022. According to an ECB survey of national central banks, changes in wholesale gas prices are expected to be passed on to consumer gas prices within one to three months in more than half of the euro area, and the share of countries with a slow pass-through of 13 to 24 months has fallen from around 40% to around 5% since 2022. Electricity prices appear less exposed: a higher share of renewable

[60] GIE, AGSI+ Aggregated Gas Storage Inventory, data to September 2026; calculations by the authors.
[61] IEA, Gas Market Report, Q3-2026.
[62] European Commission, Gas Coordination Group: No immediate security of supply risk, September 2026.
[63] European Commission, Gas Coordination Group: No immediate security of supply risk, September 2026.
[64] Euronews, EU tells countries to curb energy demand as gas prices face winter squeeze, September 2026.
[65] Associated Press, Europe's combined energy bill is more than $113 billion higher since Iran war began, September 2026.

generation has weakened the link between gas and electricity prices, although gas still frequently sets the electricity price in some countries, such as Italy[66].

Economic activity has so far proved more resilient than these price developments might suggest. The flash composite PMI rose to 53.1 in September, the fastest expansion since April 2023, and manufacturing output reached a 55-month high on the back of AI and defence spending.

This resilience rests on the assumption, shared by official forecasts, that the energy shock will gradually ease. With tensions no lower than six months ago, this assumption may be seen as doubtful. Meanwhile, pressures on firms are building: input costs and output prices rose at their sharpest rate in four months[67]. Firms entered the crisis with relatively solid balance sheets, although these buffers are now being tested[68]. Energy-intensive industries are particularly affected, especially where gas is used as feedstock as well as a fuel. Member Federations confirm this picture, with several pointing to high energy costs as a drag on the competitiveness of energy-intensive and export-oriented industries.

THE POLICY RESPONSE: NATIONAL MEASURES AND POSSIBLE EU ACTIONS

National support has so far remained limited in size, with a significant share of untargeted measures. By mid-June, European governments had committed more than €11.8 billion, with Spain alone accounting for almost half[69]. More than 54% of this amount consisted of untargeted measures, such as excise duty or VAT cuts, compared with 72% at the time of the Spring Outlook. In the euro area, the ECB estimates new discretionary support at around 0.1% of GDP and considers the measures predominantly temporary, with only a marginal impact on growth[70].

At EU level, the framework for national action has been adapted in two respects. On State aid, the Middle East Crisis Temporary State Aid Framework (METSAF), adopted on 29 April and applicable until 31 December 2026, allows aid of up to 70% of the extra fuel and fertiliser costs borne by firms in agriculture, fisheries and transport. It also raises electricity price relief for energy-intensive industries under the Clean Industrial Deal State Aid Framework from 50% to 70% of eligible costs[71]. Concerning EU fiscal rules, Member States may extend the national escape clause to measures that enhance energy security and reduce dependence on fossil fuels, within a dedicated cap of 0.3% of GDP per year and 0.6% of GDP cumulatively over 2026-2028[72].

This additional room comes with conditions on the design of national measures. European institutions have stressed that price measures should be targeted and temporary, in order to avoid sustaining gas demand and distorting the internal market[73]. Ahead of the winter, the Commission has also encouraged Member States to use the flexibility of the storage rules, which can help to reduce gas demand when supply is tight[74].

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[66] ECB, The uneven journey of wholesale gas and electricity prices to consumer bills, Economic Bulletin, Issue 6/2026, September 2026.

[67] S&P Global, Flash Eurozone PMI, September 2026.

[68] BusinessEurope, 2026 Spring Economic Outlook, June 2026.

[69] Bruegel, 2026 European energy crisis fiscal response tracker, June 2026; BusinessEurope, 2026 Spring Economic Outlook, June 2026.

[70] ECB, Assessing the scope for compensatory fiscal measures in response to the recent energy shock, Economic Bulletin, Issue 5/2026, August 2026; ECB, ECB staff macroeconomic projections for the euro area, September 2026.

[71] European Commission, Middle East Crisis Temporary State Aid Framework (METSAF), April 2026.

[72] European Commission, 2026 European Semester Spring Package, COM(2026) 200 final, June 2026; European Commission, Guidance to Member States on broadening the scope of the national escape clause for energy security, OJ C/2026/4514, August 2026.

[73] Council of the European Union, Remarks by Kyriakos Pierrakakis following the Eurogroup meeting of 18 September 2026, September 2026.

[74] European Commission, Commission calls on EU countries to start preparing for winter amid Middle East energy disruption, March 2026.

POSSIBLE EU ACTIONS

In the coming months, the priority should be to address the rising energy costs and ensure security of supply. It is positive that AccelerateEU gives further guidance to Member States to implement national relief measures addressing high energy prices in the short-term while maintaining the necessary long-term changes to successfully decarbonise the economy. The short-term measures in response to the Middle East situation should remain temporary and targeted, and should not lead to internal market fragmentation. Since taxes, levies and network tariffs represent around one third of the industrial electricity bill, Member States should take further actions to reduce these cost components, thereby alleviating pressure on industry, while maintaining coherent price signals across energy carriers.

Carbon costs add to the pressure on energy-intensive industry. The review of the EU ETS tabled by the Commission[75] responds to the request most widely shared by our members: a reform that better accounts for competitiveness, limits volatility and prevents carbon leakage[76]. BusinessEurope has acknowledged the Commission's urgent need for reform, while warning that the new conditionalities for free allocation risk increasing bureaucratic complexity while the enabling conditions for a business case for decarbonisation are still largely missing[77]. The co-legislators should address this issue to give industry predictability on carbon costs.

Beyond the immediate crisis, the structural priorities set out in the Spring Outlook remain valid[78]. The EU should strengthen the Energy Union, invest in cross-border interconnectors while ensuring that each Member State builds an electricity system that contributes to wider system benefits, develop its own energy sources, including hydro, renewables and nuclear, and strengthen the business case for decarbonisation through long-term contracting (PPAs and CfDs), technology-neutral support frameworks and the use of ETS and CBAM revenues to support industrial decarbonisation. European industry paid €0.199 per kWh for electricity in 2024, against €0.075 in the United States and €0.082 in China[79]. The current crisis underlines the cost of dependence on imported fossil fuels, and the value of a deeper and better integrated European energy market in closing this gap.

[75] European Commission, Proposal for a Directive amending Directive 2003/87/EC and Decision (EU) 2015/1814 as regards driving competitiveness and cost-effective decarbonisation, COM(2026) 616 final, July 2026.

[76] BusinessEurope, Priorities for the EU ETS review, February 2026.

[77] BusinessEurope, ETS revision: key issues addressed, but overall impact raises concerns, July 2026.

[78] BusinessEurope, 2026 Spring Economic Outlook, June 2026.

[79] BusinessEurope, High cost of energy, data hub, 2024 data.

SPECIAL SECTION 2: PRESSURES ON SOVEREIGN BOND MARKETS

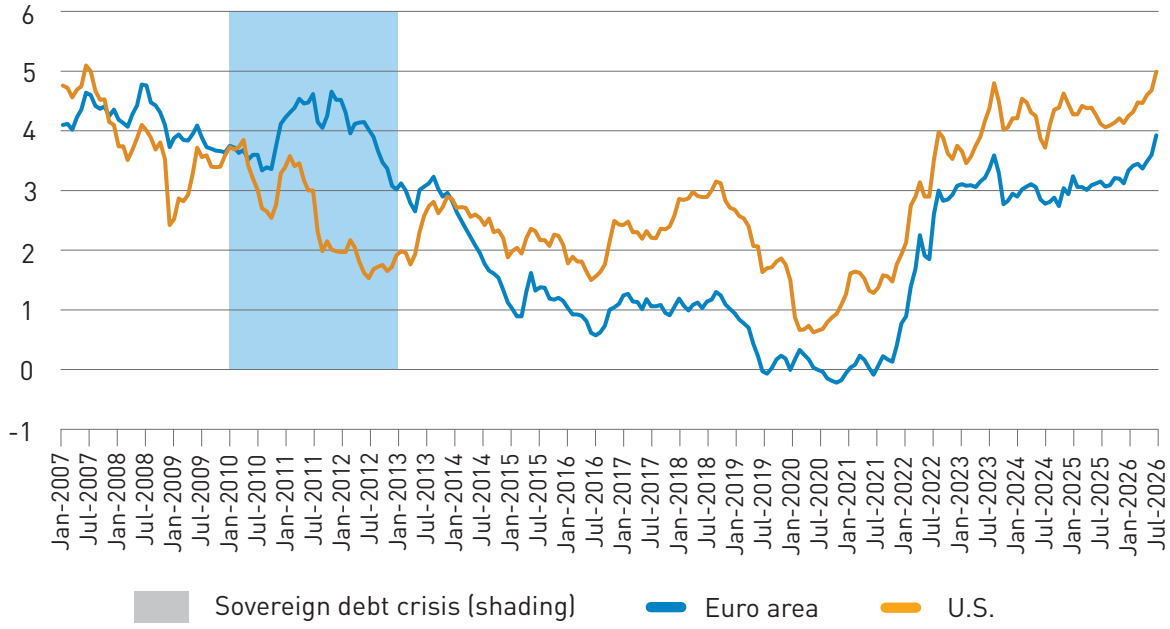
A GLOBAL RISE IN LONG-TERM YIELDS

Sovereign bond markets have become a major source of risk for the European economy[80]. Since the Spring Outlook, long-term yields have risen markedly in the United States and in Europe, reaching their highest levels since 2007 and 2012 respectively, as the persistence of the energy shock has led central banks to tighten monetary policy[81]. In September, both the Federal Reserve and the ECB raised their policy rates by 25 basis points, to a range of 3.75-4% and to 2.50% respectively[82].

In the United States, the ten-year Treasury yield rose from 4.1% in February to 5.0% in September[83]. The increase reflects expectations of tighter monetary policy, but also concerns about the fiscal position. The Congressional Budget Office projects a federal deficit of 5.8% of GDP in 2026 and debt held by the public rising from 101% of GDP in 2026 to 120% in 2036, with net interest outlays increasing from 3.3% to 4.6% of GDP over the same period. These projections assumed a ten-year yield of 4.1% in 2026, well below current levels[84].

In the euro area, ten-year yields have risen less in absolute terms, but from lower levels. The GDP-weighted average of ten-year yields increased from 3.1% in February to 3.9% in September (Chart 17), and yields rose in virtually all Member States. Spreads over the German Bund widened by around 25 to 30 basis points in some of the larger Member States over the same period, while remaining broadly stable in others[85].

CHART 17: TEN-YEAR GOVERNMENT BOND YIELDS, EURO AREA AND UNITED STATES, MONTHLY AVERAGES (%)



Source: Eurostat, U.S. Federal Reserve.

[80] ECB, Financial Stability Review, May 2026.

[81] Eurostat, EMU convergence criterion bond yields, monthly data to September 2026; Federal Reserve, Selected Interest Rates (H.15), monthly averages to September 2026.

[82] Federal Reserve, Federal Reserve issues FOMC statement, September 2026; ECB, Monetary policy decisions, September 2026.

[83] Federal Reserve, Selected Interest Rates (H.15), monthly averages to September 2026.

[84] Congressional Budget Office, The Budget and Economic Outlook: 2026 to 2036, February 2026.

[85] Eurostat, EMU convergence criterion bond yields, monthly data to September 2026; calculations by the authors.

Beyond monetary policy, the rise in yields reflects the volume of debt to be financed and the changing composition of its holders. According to the OECD, government borrowing reached record levels in 2025, while the emergence of a new investor base is transforming sovereign markets[86]. Price-sensitive investors, such as investment funds, hedge funds, foreign investors and households, now hold at least half of the sovereign debt of the largest advanced economies, and economies with higher debt (net of central bank holdings, as central banks are far less risk-sensitive to such holdings) face higher long-term yields and term premia[87]. At the same time, the most stable holders are stepping back: between 2021 and 2025, the share of government bonds held by domestic central banks in advanced economies fell from 27% to 17%, and that of foreign official investors from 15% to 13%. Geopolitical tensions could accentuate this trend, by disrupting capital flows and reducing the perceived safety of assets traditionally seen as safe havens[88]. As demand from price-sensitive investors may waver in an inflationary environment, their growing presence increases rollover risks and could amplify any abrupt repricing of sovereign risk, in particular in highly indebted countries where fiscal expansion strains public finances[89].

Governments are also competing with the private sector for capital. Large technology firms have stepped up bond issuance, especially at longer maturities, to finance investment in artificial intelligence, with possible crowding-out effects on government bond markets[90]. The IMF warns that a correction in AI-related investment could spread through the financial system, and identifies private credit as an additional channel of amplification, as these assets are illiquid and difficult to sell in times of stress[91].

In the euro area, public finances were already under pressure before the energy shock. The Commission expects the deterioration of budget balances in 2026 and 2027 to reflect subdued activity, higher interest expenditure, rising defence spending and the new measures adopted to shield consumers and firms from high energy prices[92]. ECB staff project the euro area deficit at 3.6% of GDP in 2026 and the debt ratio rising to 89.4% of GDP by 2028, with interest payments increasing by 0.2 percentage points of GDP in 2026 and by a further 0.3 points over the following two years[93]. Positions differ widely across Member States, and market scrutiny has concentrated on those combining high debt, persistent deficits and uncertainty about the implementation of consolidation plans. Political developments could intensify market scrutiny. An electoral outcome perceived as calling fiscal consolidation into question could trigger an abrupt repricing of sovereign risk, with spillovers to other Member States. Beyond these near-term risks, budgetary pressures will persist over the longer term. Most Member States have committed, as NATO members, to raise defence spending to 5% of GDP by 2035, including 3.5% for core defence[94], and will need to make room in their budgets for this permanently higher level of spending.

IMPLICATIONS FOR BUSINESS

Higher sovereign yields affect businesses through two channels. The first is the cost of finance. Government bond yields set the floor for the cost of bank credit and for corporate bond yields. This matters particularly in Europe, where non-financial corporations are traditionally very bank-dependent: loans account for around 80% of the debt funding of euro area firms, against around 20% for debt securities[95], and equity market capitalisation stood at

[86] OECD, Global Debt Report 2026, March 2026.
[87] IMF, Global Financial Stability Report, April 2026.
[88] BIS, Annual Economic Report 2026, June 2026.
[89] ECB, Financial Stability Review, May 2026.
[90] BIS, Yields climb, yet risk appetite holds firm, BIS Quarterly Review, September 2026.
[91] IMF, Global Financial Markets Face Rising Risks From AI, Bond Yields, and Cyberattacks, IMF Blog, October 2026.
[92] European Commission, Spring 2026 Economic Forecast: Slowdown in growth as energy shock drives inflation, May 2026.
[93] ECB, ECB staff macroeconomic projections for the euro area, September 2026.
[94] NATO, The Hague Summit Declaration, June 2025.
[95] BusinessEurope, 2026 Spring Economic Outlook, June 2026.

66% of GDP in Europe in 2022, compared with 157% in the United States[96]. As higher sovereign yields raise banks' own funding costs, they are passed on to firms, including SMEs, which rely largely on bank credit. The composite cost of borrowing for new bank loans to euro area corporations rose from 3.51% in February to 3.77% in August, and the rate on new loans to households for house purchase from 3.37% to 3.60%[97].

These higher costs are unlikely to be temporary. After a decade of exceptionally low interest rates, real long-term rates have returned to positive territory, and the very low rates observed after the Global Financial Crisis now appear to be an anomaly rather than the norm. Firms should therefore plan their investment on the assumption that financing costs will remain higher than in the past decade. Other sources of finance are also at risk: share prices remain high relative to company earnings, and the extra return investors require to lend to companies rather than governments remains low. Both could adjust abruptly if market sentiment deteriorates, making it harder and more costly for firms to raise funds[98].

The second channel is fiscal space. A rising interest bill leaves less room for support to households and firms over the winter, for public investment and for defence. The Eurogroup stressed in September that any new energy measures should be targeted, temporary and consistent with the fiscal rules, and that staying on the agreed fiscal path is essential to maintain favourable financing conditions[99]. The flexibility granted for energy security measures under the national escape clause is itself capped at 0.3% of GDP per year[100]. The policy response to the energy shock, discussed in Special Section 1, therefore has to be designed with sovereign markets in mind.

POSSIBLE EU ACTIONS

The two channels described above show that tensions in sovereign bond markets are not only a matter for public finances, but a direct cost for companies. Economic activity has so far proved resilient, but risks are building on several fronts at once: a renewed energy shock, or political developments that call into question the credibility of national fiscal plans, could trigger an abrupt repricing of sovereign risk. Should these risks materialise together, financing conditions for companies could tighten sharply, just as investment needs are rising. Preserving market confidence is therefore a shared responsibility of Member States and the EU, and requires action on three fronts: credible fiscal plans, better quality of public spending and deeper capital markets.

Credible medium-term fiscal plans are the first line of defence. Member States should implement their plans under the reformed economic governance framework, and the Commission and the Council should apply the framework consistently. Market scrutiny of public finances has increased, and uncertainty about the implementation of consolidation plans is now quickly reflected in borrowing costs.

The quality of public spending matters as much as its level. Our members are concerned about the direction of national budgets: 57% of them consider the fiscal stance of their own country too expansionary. Consolidation should not come at the expense of investment or through a higher tax burden on companies. With additional investment needs estimated at €750 to €800 billion a year (or €1.2 trillion when including defence), public budgets should prioritise expenditure that raises growth potential and crowds-in private investment, while support measures should remain targeted and temporary[101]. Stronger growth is also the most effective way to contain the interest burden over time.

[96] BusinessEurope, Reform Barometer 2025, March 2025.

[97] ECB, Euro area bank interest rate statistics: February 2026, April 2026; ECB, Euro area bank interest rate statistics: August 2026, October 2026.

[98] ECB, Financial Stability Review, May 2026.

[99] Council of the European Union, Remarks by Kyriakos Pierrakakis following the Eurogroup meeting of 18 September 2026, September 2026.

[100] European Commission, Guidance to Member States on broadening the scope of the national escape clause for energy security, OJ C/2026/4514, August 2026.

[101] BusinessEurope, Reform Barometer 2026: 18 months after Draghi, from diagnosis to delivery, March 2026.

At EU level, deeper and more integrated capital markets would broaden the investor base for European public and private debt and reduce reliance on volatile flows. Accelerating the Savings and Investments Union, an initiative supported by BusinessEurope[102] and that the ECB considers essential to support growth and competitiveness while safeguarding financial stability[103], should remain a priority.

[102]BusinessEurope, Rebooting the Capital Markets and Banking Union: Savings and Investment Union, October 2025.
[103]ECB, Financial Stability Review, May 2026.

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BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for enterprises of all sizes in 36 European countries whose national business federations are our direct members.

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