



Spring 2026 Economic Forecast: Slowdown in growth as energy shock drives up inflation

21 MAY 2026

Key figures



GDP

EU:
2025: **1.5%**



Inflation

EU:
2025: **2.5%**



Deficit

EU:
2025: **-3.1%**



Unemployment

EU:
2025: **6.0%**

2026: 1.1%	2026: 3.1%	2026: -3.5%	2026: 6.0%
2027: 1.4%	2027: 2.4%	2027: -3.6%	2027: 6.0%
<i>Euro area:</i>	<i>Euro area:</i>	<i>Euro area:</i>	<i>Euro area:</i>
2025: 1.4%	2025: 2.1%	2025: -2.9%	2025: 6.3%
2026: 0.9%	2026: 3.0%	2026: -3.3%	2026: 6.4%
2027: 1.2%	2027: 2.3%	2027: -3.5%	2027: 6.4%

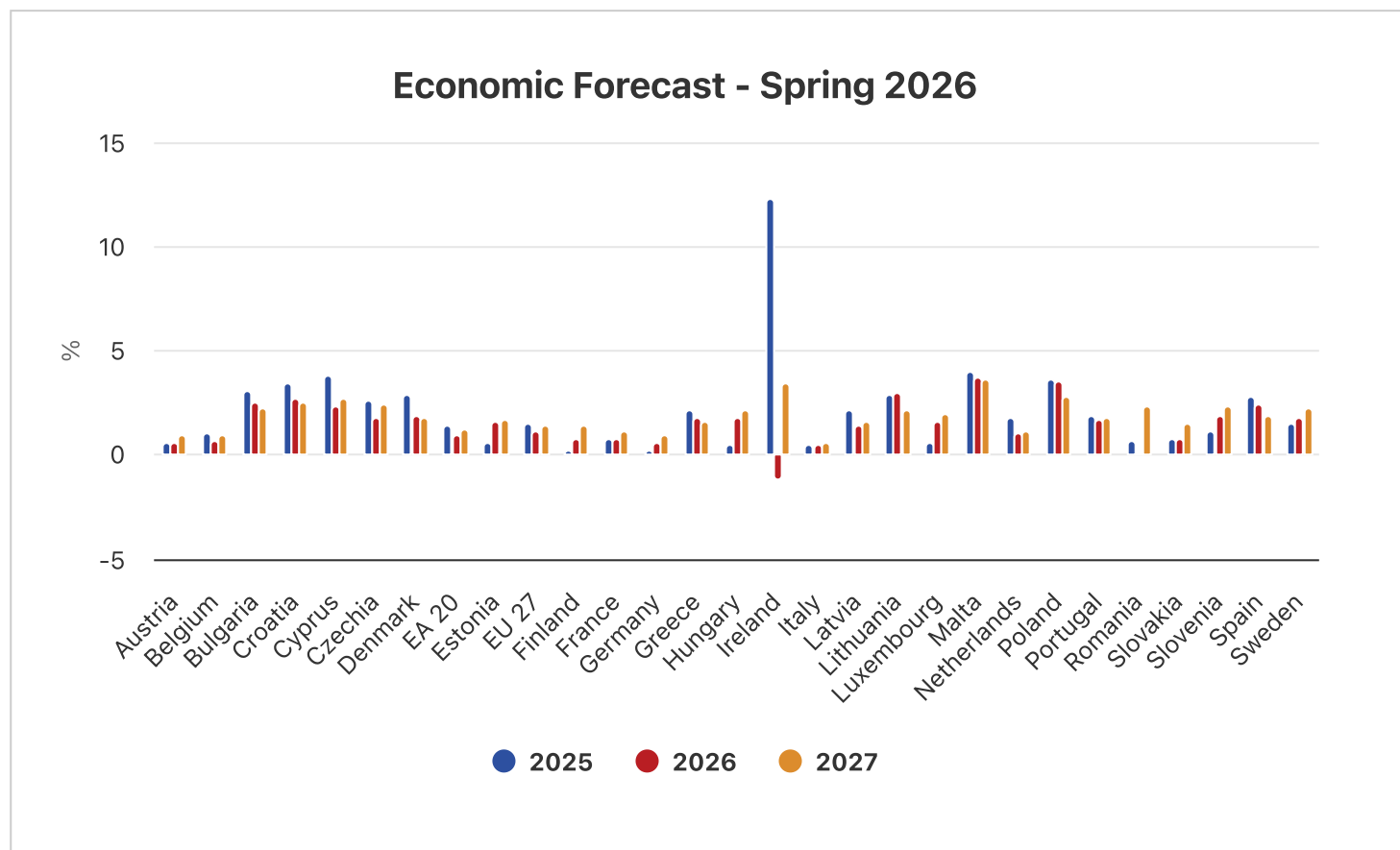
Executive summary

Before the outbreak of the conflict in the Middle East, the global economy was gaining momentum. A challenging geopolitical environment and US tariff uncertainty continued to weigh on growth, but easing inflation and a robust investment cycle related to the unfolding AI revolution provided important support. The EU economy was likewise strengthening while inflationary pressures were further abating. Weak competitiveness was a source of concern and public finances required attention, but the economy also showed resilience, including a robust labour market and solid private sector balance sheets.

The conflict materially changed this picture, delivering one of the most significant global energy supply disruptions in recent history—coming less than five years after the energy shock triggered by Russia’s war of aggression against Ukraine.

The virtual closure of the Strait of Hormuz has curtailed seaborne flows of oil and LNG by around 15% and 20%, respectively.

Moreover, the targeting of energy infrastructure in the region has caused significant damage, including to regional refining capacity. The disruption to exports of refined petroleum products has thus been particularly pronounced, reflecting the Gulf's role as a major refining hub and the limited scope for rerouting fuel exports through alternative transport routes. Between 27 February—the eve of the US and Israeli attacks on Iran—and 29 April—the cut-off date for the technical assumptions underpinning this forecast—gas prices increased by 50% and crude oil prices by 65%, while refining margins for key products such as diesel and jet fuel reached historically elevated levels.



Global growth (excluding the EU) is now projected at 3.1% in 2026 and 3.5% in 2027. For 2026, the small downgrade with respect to the Autumn 2025 Forecast (-0.3 pps.) must be considered in

the context of a stronger-than-expected momentum in the run-up to the conflict. Moreover, the aggregate figure masks significant heterogeneity across countries and regions. The outlook for the US—a major net energy exporter—has strengthened, supported by the robust AI-related investment cycle and favourable terms-of-trade. In China, growth is expected to gradually moderate amid subdued consumption. By contrast, the outlook has weakened for most energy-importing economies, especially emerging markets in Asia, reflecting their high energy intensity. Growth prospects in the Middle East and North Africa region have also weakened markedly, owing to the more direct effects of the conflict.

Both the nature of the current crisis and the economic context in which it unfolds differ in important respects from those prevailing after Russia's full-scale invasion of Ukraine. First, at the time, Europe was heavily reliant on pipeline gas from Russia, with limited scope for substitution and strong dependence on fixed infrastructure. The abrupt disruption of gas flows led to unprecedented price spikes of fifteen to twenty times compared to the autumn 2021 levels. By contrast, the current shock affects globally traded energy commodities—oil and liquified natural gas (LNG). These markets are highly fungible, allowing supply to be reallocated across regions, spreading price pressures more evenly across the global economy. As a result, although energy prices have risen rapidly, oil and especially gas prices remain below the peak levels reached in 2021–22. Second, the EU has significantly reduced its reliance on fossil fuels, both through the expansion of renewable energy, which is weakening the pass-through from gas to electricity prices (see Box I.6.1), and a sizeable reduction in energy use by industry and households (see Special Issue 1). Finally, the EU economy entered the current crisis in a more mature and stable phase of the business cycle than in 2021–22, when the post-pandemic recovery had fuelled inflation and labour market pressures.

After reaching 1.5% in 2025, EU GDP growth is now projected to slow down to 1.1% this year—0.3 pps. lower than in the Autumn 2025 Forecast—while inflation is expected to rise to 3.1%, an upward revision of a full percentage point compared to the Autumn 2025 Forecast.

The impact of the energy shock is set to extend into 2027, with GDP growth picking up to a modest 1.4% and inflation easing to 2.4%—still some 0.3 pps. higher than projected in autumn 2025. The downward revision to growth in 2026 compared to autumn partly reflects slightly stronger-than-expected growth conditions at the beginning of 2026. Moreover, the inflation forecast for 2027 is influenced by the postponement of the roll-out of new EU Emissions Trading System (ETS2), which, in the previous forecast round, was estimated to add 0.2 to 0.3 pps. to inflation.

Futures energy prices—which underpin the technical assumptions to the forecast—point to a relatively swift, albeit partial, normalisation of supply conditions, with oil and gas prices expected to peak in the current quarter and decline to around 20% above pre-war levels by end 2027. Futures prices provide an objective and market-based benchmark for energy price assumptions in macroeconomic forecasting but are not perfect predictors of future spot prices, particularly when energy markets are affected by major disruptions and elevated uncertainty. In such circumstances, futures curves reflect not only expectations regarding future demand and supply but also changing risk premia, liquidity conditions and hedging requirements. Given the unusually high degree of uncertainty regarding the future path of energy commodity prices—and the narrowing window for a rapid normalisation of supply conditions—the baseline projections are complemented by a model-based analysis

assessing the economic impact of a more severe and long-lasting disruption to energy supply. In such less favourable scenario, energy commodity prices are assumed to rise significantly above futures curves, peaking in late 2026 before gradually realigning with them by the end of 2027. Global growth and economic sentiment would be hit harder—further dampening the baseline's projected easing of inflation and wiping out the rebound in real GDP projected for 2027.

While the current shock differs in many respects from the 2022 energy crisis, it is expected to transmit through the economy along similar channels. Inflation data for March and April 2026 already point to a strong surge in energy prices. Energy inflation in the EU is expected to peak above 11% in the second quarter of 2026 and remain above 10% for the rest of the year, before declining in early 2027, and turning negative from the second quarter onwards. Price pressures are set to broaden progressively, as rising energy costs feed through the production chain and are partially passed through to consumers. Agriculture, distribution, and transport services are set to be hit first. Unprocessed food inflation is expected to increase quickly before easing in 2027. The progressive spread of input and transport cost increases is likely to push up prices across all inflation components, including the non-energy intensive services. This upward pressure will be reinforced by stronger-than-previously-expected wage pressures, as workers seek to preserve purchasing power. Inflation in Central and Eastern Europe is expected to remain higher, reflecting both the region's greater share of energy in consumption baskets and more dynamic nominal wage growth.

In response to higher inflation, the ECB and most other EU central banks are expected to tighten their monetary policy stance or, at a minimum, delay previously anticipated easing measures. Long-term interest rates have risen, and risk premia have widened, as reflected in higher spreads on some sovereign bonds. The latest bank lending survey points to tightening credit standards in the first quarter of the year, particularly for firms. At the same time, credit demand from firms and

consumers has weakened, with demand for mortgages stalling. At the cut-off date of this publication, EU equity indices had recouped most of the losses recorded following the outbreak of the Middle East conflict. However, the recovery has been driven by a limited number of sectors—particularly energy and defence—while most consumer-facing firms continue to underperform. This pattern is even more pronounced in the US, where just a handful of advanced technology firms are driving a strong market rally.

Higher financing costs and weaker profits weigh on firms' capacity to finance investment, while elevated uncertainty prompts many to postpone or scale back investment plans. Despite a strong carryover from 2025, gross fixed capital formation is now expected to grow by only 2.2% in 2026 and 2.0% in 2027—a marked deceleration from the 2.8% increase in 2025, and a downward revision compared to the Autumn 2025 Forecast (−0.5 pps. in both years). The impact is uneven across asset classes. Equipment investment is set to be hit harder, while construction is expected to prove more resilient in the near term. Housing investment typically adjusts with a lag to higher interest rates and non-residential construction continues to be supported by RRF in 2026. Other investment—including software and R&D—is expected to remain relatively resilient, expanding at around 2%.

Employment expanded by 0.5% in 2025, bringing the total number of jobs created since 2019 to around ten million. Employment growth was largely driven by rising labour market participation. However, labour market conditions had already begun to soften before the outbreak of the conflict in the Middle East (see Box I.5.1).

With employment growth now projected to slow to 0.3% in 2026 and 0.4% in 2027, the unemployment rate is expected to stabilise at around 6%. Nominal wages are set to decelerate less than previously expected in 2026, and remain sustained, growing by around 3.5% in 2027, as they adjust with a lag to higher inflation.

Productivity growth is expected to slow to 0.7% in 2026, as firms retain labour in a context of uncertain demand prospects, before recovering to 1% in 2027.

Labour income over the forecast horizon is only mildly affected in nominal terms, as stronger wage growth broadly offsets weaker employment expansion. However, the upward revision to the inflation forecast reduces growth of households' real disposable income by 1.4 pps. over the forecast horizon. Moreover, the previous inflation episode had shown that consumers are highly sensitive to price developments, with the pre-war disinflation failing to fully translate into lower perceived inflation by the time the conflict broke out. March and April survey data show that consumer confidence has deteriorated markedly, alongside a sharp increase in their inflation expectations. As a result, precautionary saving motives and the desire to protect the real value of financial buffers are expected to lead to a small increase in the saving rate in 2026. Against this backdrop, private consumption growth is projected to decelerate to 1.1% in 2026, before picking up to 1.3% in 2027—representing downward revisions of 0.4 pps. and 0.2 pps., respectively, compared with the Autumn 2025 Forecast.

A strong starting position and early-year momentum—supported by AI-related investment and easing of trade restrictions, including lower US tariffs—underpin the global trade outlook in the short term. However, these favourable global dynamics are not expected to translate into proportional gains for EU firms, as much of the expansion in global trade remains concentrated among Asian economies. This divergence is closely linked to the weakening investment outlook within the EU, compounded by more structural factors. First, the EU's limited presence in fast-growing, trade-intensive AI-related sectors and, second, a gradual loss of competitiveness in key products and geographic markets. Moreover, survey evidence confirms that EU firms are affected by the increasingly challenging external environment, with some responding by scaling back their presence in export markets or adjusting prices (see Box I.4.1). As a result, EU exports are expected to grow by only 0.9% in 2026, before accelerating to 2.1% in 2027. The significant downgrade with respect to autumn is largely due to weaker goods exports, while services remain resilient. Import growth is also revised down to 1.7% in 2026, less markedly than exports, as weaker domestic demand is partially offset by the stronger euro—a development that amplifies

competitive pressures from trading partners, particularly China. As a result, trade is expected to detract around 0.4 pps. from domestic growth this year—slightly more than projected in autumn.

Negative terms of trade for goods, combined with market share losses, lead to a deterioration in the trade balance, with only a partial offset from the services sector. The merchandise balance is expected to decline to 1.2% of GDP in 2026 and 1.1% in 2027. Services remain more resilient, with the balance reaching around 2% of GDP. Overall, the current account surplus is projected to fall from 2.4% of GDP in 2025 to 1.7% in 2026 and 1.6% in 2027.


The EU aggregate general government deficit is projected to gradually widen over the forecast horizon, rising from 3.1% of GDP in 2025 to 3.6% in 2027. This deterioration reflects a combination of subdued economic activity, higher interest expenditure, rising defence spending and new fiscal measures that aim to shield consumers and firms from high energy prices (see Box I.9.1).

Meanwhile, public investment remains broadly stable at elevated levels. The EU debt-to-GDP ratio is also set to rise, from 82.8% of GDP at end-2025 to 85.3% at end-2027, driven mainly by higher primary deficits and an increasingly unfavourable interest-growth differential. Overall, fiscal policy is expected to be slightly expansionary in 2026—supported by the rising utilisation of EU funds as the RRF draws to a close—before turning broadly neutral in 2027.

Risks to the outlook are primarily linked to the evolution of the conflict in the Middle East and its implications for global energy markets. As shown in the scenario analysis, a prolonged conflict and more gradual supply normalisation than implied by futures markets would lead to stronger inflationary pressures and weaker growth. Moreover, a renewed period of high prices could lead households and firms to adjust consumption and investment more sharply, including through cutbacks in energy-intensive activities. Finally, while the risk of overall energy shortages appears contained, critical vulnerabilities remain for specific inputs. The Gulf region remains critically

important in the production and supply of refined fuels, which are critical for transport and heating. Disruptions to the supply of helium and fertilisers could also generate knock-on effects across global production chains, including in the strategically important semiconductor industry, while weighing on food affordability.

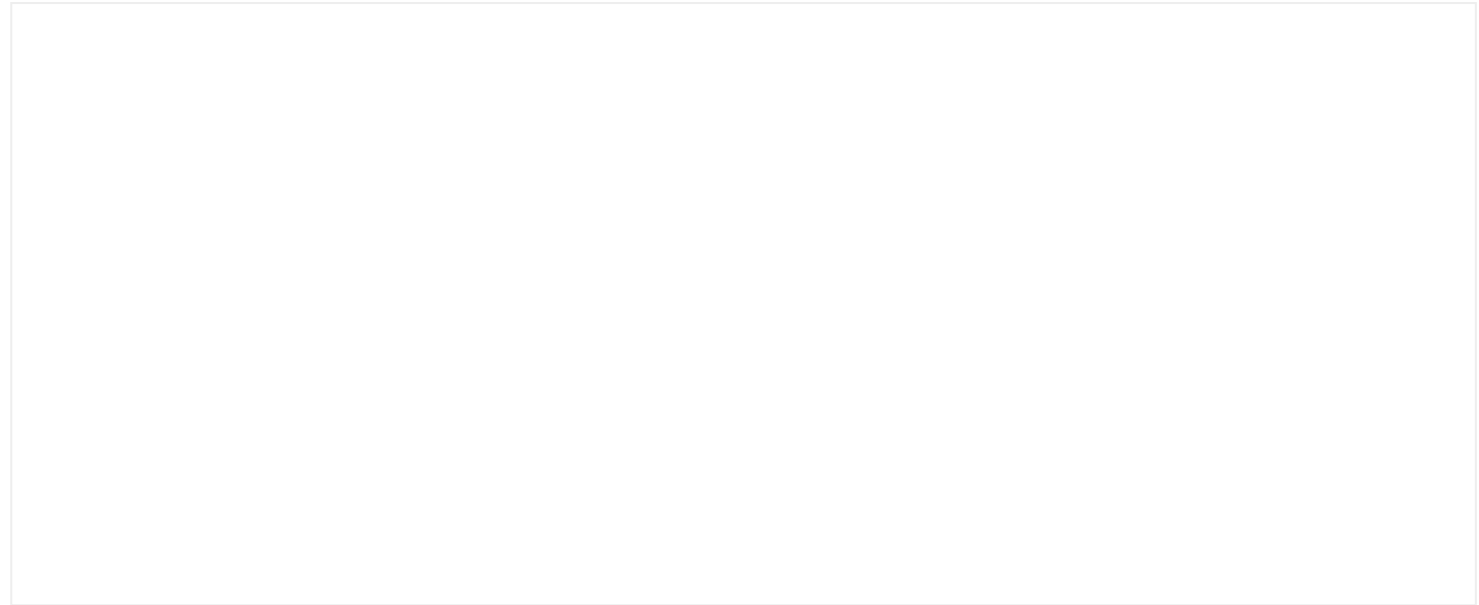
Beyond the conflict, the outlook remains exposed to geopolitical, technological and climate-related risks. Continued uncertainty surrounding trade policies by main global players and the ensuing trade diversions, as well as the ongoing reconfiguration of geopolitical and trade relationships could disrupt crucial value chains, weighing on industrial production and employment. By contrast, a just and lasting resolution of Russia's war of aggression against Ukraine would constitute a clear net positive for the EU and globally. Importantly, the recent softening of labour demand—evidenced by declining job vacancies and hiring rates—may prove a prelude to a sharper downturn in employment growth. The erosion of purchasing power by persistent high inflation could also put strain on social cohesion.



Climate-related shocks could further disrupt economic activity and put more pressure on food prices. Artificial intelligence represents both an upside opportunity and a source of disruption: productivity gains could support investment and growth, but job displacement could weigh on confidence (see Special Issue 2) and demand, and a significant correction of AI-related equity valuations in the US could reverberate in global financial markets.

Domestically, faster implementation of structural reforms addressing long-standing bottlenecks to EU competitiveness and growth remains the main upside risk to the outlook. Resolute progress in energy transition would further boost resilience.

GDP growth map



Scenario Analysis

As the conflict in the Middle East drags on, oil and gas prices could stay high for longer than assumed in the baseline projections. A larger and more persistent disruption would not only affect oil and gas markets, but also weaken global growth and trade, depress confidence, and raise risk premia.

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'The conflict in the Middle East has triggered a major energy shock. The EU must learn from past crises: keep support temporary and targeted, safeguard public finances, reduce reliance on imported fossil fuels, and accelerate reforms.'

Valdis Dombrovskis, Commissioner for Economy and Productivity

Document

21 MAY 2026

European Economic Forecast (incl. Statistical Annex). Spring 2026

English (4.56 MB - PDF)

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Database

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Boxes - Spring 2026



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EU energy markets: evolving gas-electricity price linkages in a more volatile system

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21 May 2026

Policy measures in EU Member States to address the 2026 energy price shock

According to our forecast, the announced budgetary policy measures, aimed at mitigating the social and economic impact of high energy prices due to the Middle-East conflict, reach €14.5 billion. This box analyses these measures.



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Media

[Press release of 21 May 2026](#)

[EC press conference by Commissioner Valdis Dombrovskis on the Spring 2026 Economic Forecast](#)