



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Economic, financial and monetary developments

Summary

At its meeting on 10 September 2026, the Governing Council decided to raise the three key ECB interest rates by 25 basis points. The conflict in the Middle East continues to generate inflation pressures, and inflation is set to remain well above target for an extended period. The decision to raise interest rates underscores the Governing Council's commitment to setting monetary policy to ensure that inflation stabilises at its 2% target in the medium term.

The baseline of the September 2026 ECB staff macroeconomic projections for the euro area sees headline inflation averaging 3.0% in 2026, 2.5% in 2027 and 2.1% in 2028. For inflation excluding energy and food, the baseline foresees 2.5% in 2026, 2.6% in 2027 and 2.3% in 2028. Compared with the June 2026 Eurosystem staff macroeconomic projections for the euro area, the baseline projection for inflation in 2026 is unchanged, while it has been revised up for 2027 and 2028. The baseline projection for economic growth is 0.9% for 2026, 1.4% for 2027 and 1.5% for 2028. This is an upward revision for both 2026 and 2027, mainly reflecting the greater than expected resilience of the euro area economy.

The outlook remains highly uncertain, with risks to the upside for inflation and to the downside for economic growth. In relation to the energy shock, the updated scenarios put together by staff illustrate the broad range of outcomes for how growth and inflation would evolve under different assumptions about its intensity and duration, as well as its indirect and second-round effects. These scenarios were published as part of the [September 2026 projections](#) on the ECB's website.

With its decision on 10 September, the Governing Council remains well positioned to navigate the uncertainty caused by the conflict in the Middle East. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

Economic activity

The economy proved resilient in the second quarter of 2026, despite headwinds from the energy shock. Growth was broad-based across countries and sectors. This pattern is likely to have continued into the third quarter. Manufacturing continues to perform solidly as governments spend more on defence and infrastructure.

Consumer confidence has rebounded from low levels, helping services recover from the initial energy shock. Increased AI-related activity is visible in digital services, business investment and exports.

The labour market has remained robust, with the unemployment rate unchanged in July at 6.4%. Growth in employment and the labour force continues to slow, while productivity has gradually picked up.

Looking ahead, the near-term growth outlook has improved compared with the June 2026 projections, reflecting, in particular, the resilience of private consumption and public spending. Over the medium term, consumption should be supported by gradually falling energy prices and a strong labour market. Growth will increasingly be bolstered by business and housing investment. Export growth should benefit from rising foreign demand but is being held back by competitiveness challenges and uncertainty about global trade policies.

Higher potential growth requires structural reform and has to be underpinned by sound public finances. Simplifying and harmonising rules across the EU's Single Market, accelerating the energy transition and completing the savings and investments union are key building blocks. As the process for agreeing on the legal framework for the digital euro moves into its final stage, the Governing Council reiterated the importance of reaching agreement on the Single Currency package as quickly as possible. Fiscal responses to the energy shock should be temporary, targeted and tailored.

Inflation

In August 2026 inflation increased to 3.3%, from 2.9% in July. Energy price inflation rose to 14.3%, after 10.3% in July. This increase is likely to reflect, in particular, a strong contribution from refining margins on liquid fuels, as well as higher energy commodity prices. Food price inflation remained unchanged at 1.2%. Inflation excluding energy and food edged down to 2.4%, from 2.5% in July, with goods inflation increasing from 0.9% to 1.2% and services inflation falling from 3.3% to 3.0%.

Most measures of underlying inflation were broadly stable in July. Wages do not show a material response to the energy shock at this stage. Compensation per employee grew at an annual rate of 3.3% in the second quarter of 2026, down from 3.5% in the first quarter. Rising labour productivity has also helped contain growth in unit labour costs, which slowed to 2.6%, from 3.5% in the first quarter. At the same time, growth in unit profits rose from 0.3% to 2.2%. Looking ahead, the ECB's wage tracker points to a modest uptick, to 2.7%, in negotiated wage growth in the first half of 2027. Inflation expectations over shorter horizons remain at elevated levels, but most measures of longer-term inflation expectations stand at around 2%, supporting the stabilisation of inflation around target in the medium term.

The conflict in the Middle East and recent developments in Russia's unjustified war against Ukraine have pushed the path of energy prices up further. This is likely to

keep headline inflation well above target into the first half of 2027. Thereafter, energy inflation should decline and turn negative up to mid-2028, bringing headline inflation down. Higher energy prices are expected to feed through gradually to core and food price inflation. The improved economic outlook should also contribute to slightly higher core inflation, which is expected to keep rising until early 2027 and stay elevated for the rest of the year, before moderating in 2028. Overall, headline inflation is expected to return to around target towards the end of 2027, supported by the effects of higher interest rates. The Governing Council will continue to monitor closely the size and persistence of the energy price increase and how it feeds through to price and wage-setting, inflation expectations and overall economic dynamics.

Risk assessment

The risks to the growth outlook are to the downside. This is due, in particular, to the Middle East conflict and developments in Russia's unjustified war against Ukraine. Renewed disruption of energy supplies could cause energy prices to rise further and for longer than currently expected. This would weigh on real incomes, spending and investment. A worsening of global financial market sentiment or spillovers in global bond markets could tighten credit conditions and thereby dampen demand. A resurgence of trade tensions between major economies could also further disrupt supply chains, reduce exports and weaken consumption and investment. By contrast, growth could turn out to be higher if the economy and energy markets were to adapt more quickly than expected to the disruption caused by the ongoing conflicts or if these were resolved sustainably. Moreover, the adoption of new technologies by euro area firms and spending on defence and infrastructure, as well as reforms to enhance productivity and complete the EU's Single Market, may drive up growth by more than expected.

The risks to the inflation outlook are to the upside. This is due, in particular, to the Middle East conflict and developments in Russia's unjustified war against Ukraine. The energy shock could intensify further and its effects on other prices and wages could be stronger than currently expected. Gas prices, in particular, could increase in the event of further supply disruptions or an unusually cold winter coinciding with low storage levels. The longer energy prices stay high, the more likely they are to drive up broader inflation through indirect and second-round effects. Renewed trade tensions could give rise to more fragmented global supply chains, curtail the supply of critical raw materials and worsen capacity constraints in the euro area economy. Extreme weather events, potentially reinforced by intensifying "El Niño" conditions, and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected. By contrast, inflation could turn out to be lower if ongoing geopolitical conflicts were resolved sustainably or if indirect or second-round effects from the recent energy price shock proved less pronounced than anticipated. More volatile and risk-averse financial markets could weigh on demand and thereby lower inflation as well.

Financial and monetary conditions

Market interest rates have increased since the Governing Council's meeting on 23 July 2026, reflecting similar moves in global markets. Following the interest rate increase in June 2026, bank lending rates for firms have risen, to stand at 3.8% in June and July, from 3.6% in May. The cost of market-based corporate debt stood at 4.0% in July, which was similar to previous months and well above its level before the conflict in the Middle East. The annual growth rate of bank lending to firms, which usually responds to changes in monetary policy with a longer delay, increased further to 4.4% in July, from 4.0% in May and June. The annual growth rate of corporate bond issuance was 3.4%, after 3.6% in June and 3.3% in May. Mortgage rates were unchanged in June and July, at 3.5%, while mortgage lending growth softened to 3.0% in July, from 3.1% in May and June.

Monetary policy decisions

At its meeting on 10 September 2026, the Governing Council decided to raise the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility were increased to 2.50%, 2.65% and 2.90% respectively, with effect from 16 September 2026.

The asset purchase programme and the pandemic emergency purchase programme portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

Conclusion

The Governing Council is committed to setting monetary policy to ensure that inflation stabilises at its 2% target in the medium term. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. The Governing Council's interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

In any case, the Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at its medium-term target and to preserve the smooth functioning of monetary policy transmission.

The global economy remained resilient in the second quarter of 2026 as sustained investment related to artificial intelligence (AI) offset headwinds from the conflict in the Middle East. Activity held up better than expected as stronger momentum in AI-exporting economies, such as Malaysia, South Korea and Taiwan, and positive surprises in India more than offset weaker growth in the United States and China. Global trade surprised markedly on the upside, supported by AI-related shipments and temporary frontloading of tariff-sensitive and energy-intensive goods. Incoming indicators point to continued resilience in the third quarter. Global inflation rose in the second quarter in line with the June 2026 Eurosystem staff macroeconomic projections as higher energy costs fed through to consumer prices, while price pressures also intensified for AI-related goods. The global growth outlook in the September 2026 ECB staff macroeconomic projections has been revised slightly upwards compared with the June projections, reflecting easing supply shortages, stronger AI investment and lower oil prices. Global trade growth has been revised up more substantially, reflecting stronger second-quarter outturns and the high trade intensity of AI infrastructure investment. The global inflation outlook is unchanged, as the downward effect of lower crude oil prices and easing supply shortages is broadly offset by higher refining margins for petroleum products, higher gas prices and stronger price pressures for AI-related goods.

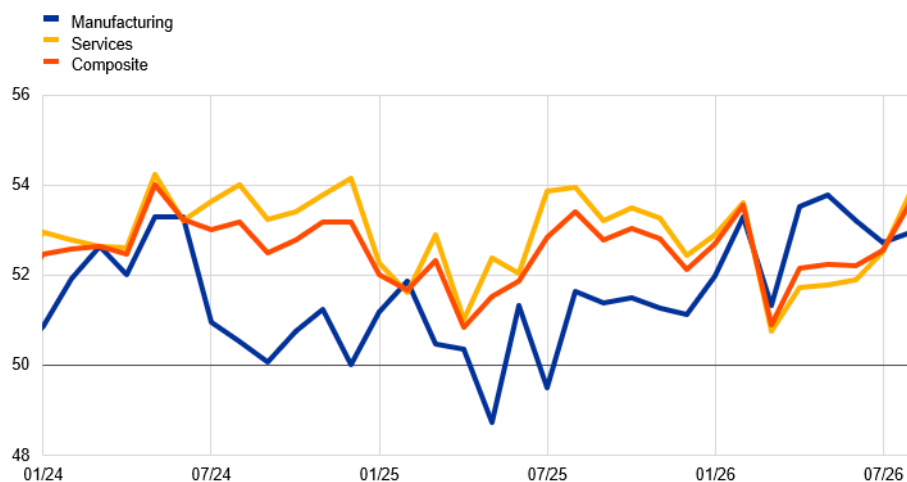
Global activity remained resilient in the second quarter of 2026, and incoming indicators point to continued strength in the near term. Available national accounts releases suggest that global real GDP excluding the euro area expanded by 0.8% quarter on quarter in the second quarter of 2026. Weaker growth in the United States and China was more than offset by stronger outturns in AI-exporting economies, such as Malaysia, South Korea and Taiwan, and by positive surprises for growth in India. Survey indicators strengthened further in August amid a strong increase in the global services output Purchasing Managers' Index (PMI) and a global manufacturing index firmly in expansionary territory (Chart 1, panel a). Granular sectoral surveys continue to identify the technology sector as a key source of strength, whereas activity in consumer goods manufacturing moderated with the fading of the temporary boost from frontloading. Global PMI data indicate that supply shortages in energy-related sectors have eased markedly since May, while other sectors have remained unaffected – except for the semiconductor industry where shortages intensified amid strong AI-related demand (Chart 1, panel b). Incoming data point to robust global growth in the third quarter, with the ECB staff nowcasting tool indicating quarterly growth of around 1.0%, broadly in line with consensus expectations among private forecasters.

Chart 1

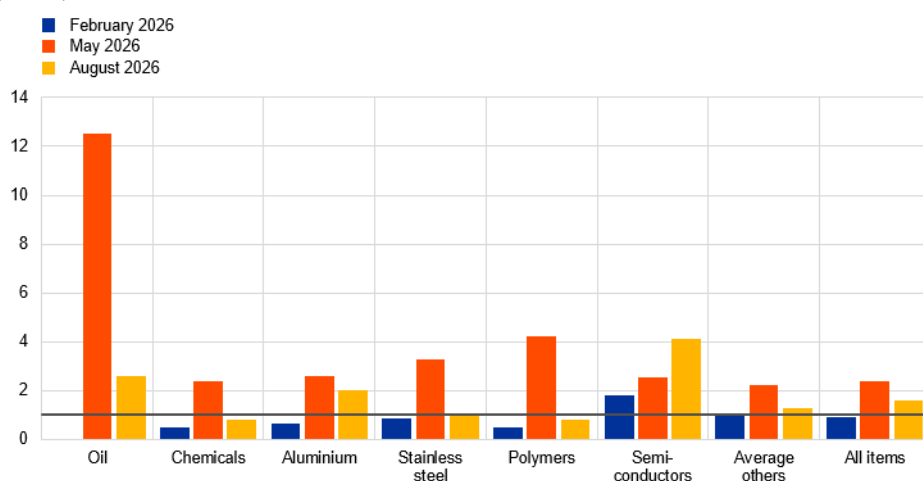
Global output PMI (excluding the euro area) and supply shortages

a) PMIs

(diffusion indices)

**b) Supply shortages**

(z-scores)



Sources: S&P Global Market Intelligence and ECB staff calculations.

Notes: In panel a), the horizontal line at 50 marks the neutral baseline dividing expansion and contraction. In panel b), "Average others" reports the average supply shortages for sectors not listed individually. Supply shortages are calculated from the number of purchasing managers that report a specific item to have been in short supply during the survey month and expressed in z-scores. A value of 1.0 (indicated by the grey line) means that supply shortages are in line with the long-run average. Values above (below) 1.0 indicate that supply shortages are assessed to be higher (lower) than normal. The latest observations are for August 2026.

The global growth outlook has been revised slightly upwards in the September 2026 ECB staff macroeconomic projections, reflecting stronger AI-related investment, easing supply shortages and more resilient private consumption in the United States. Global real GDP growth excluding the euro area is projected to moderate from 3.7% in 2025 to 3.1% in 2026, before recovering gradually to 3.3% in 2027 and 3.4% in 2028. Compared with the June 2026 projections, growth has been revised up by 0.1 percentage points for each year of the projection horizon (2026-28). The upward revisions reflect stronger investment in AI infrastructure in economies integrated into the technology value chain, a reassessment of the resilience of US consumption and a less adverse supply shock as supply shortages

have eased since June. Nevertheless, projected global growth remains below its pre-pandemic average over the projection horizon.¹

Renewed tensions in the Middle East pushed both oil and gas prices higher, with the increase in European gas prices amplified by low inventory levels. Oil prices rose by 18% over the review period (11 June to 9 September 2026), leaving prices 54% above levels prior to the conflict in the Middle East. Prices declined at the beginning of the review period following the signing of the Memorandum of Understanding between the United States and Iran but subsequently rebounded as the agreement failed to deliver a lasting de-escalation of the conflict. More recently, renewed strikes between the two parties raised concerns about the normalisation of oil flows through the Strait of Hormuz, adding further upward pressure. The price increase was partly offset by weaker demand, as elevated refining margins, driven by Middle East tensions and Ukrainian strikes on Russian refineries, weighed on oil consumption. European gas prices also rose sharply, by 62%, to around 150% of their levels prior to the Middle East conflict, as upward pressure from the conflict was compounded by historically low European inventories. Although low inventories may partly reflect previous reluctance to refill storage at high prices, they nevertheless raise concerns that market participants may need to rush to secure supplies ahead of the winter. Food prices increased by 22%, reflecting a rise in cocoa prices, as continued upward revisions to the strength of the El Niño episode this year heightened worries about the supply of cocoa. Price increases were also supported by wheat and corn prices, as the recent escalation of Russia's war against Ukraine threatens cereal exports from the region. Metal prices rose by 1%, driven by London-traded copper prices. The increase reflected fears that the United States could impose tariffs on copper, prompting investors to redirect shipments to the United States ahead of their introduction and thereby raising prices outside the United States.

Global inflation declined in June and July 2026, after rising markedly in previous months, with energy inflation coming down. Global headline inflation across the member countries of the Organisation for Economic Co-operation and Development (OECD) excluding Türkiye declined to 3.0% in June and remained stable in July, after peaking at 3.5% in May (Chart 2). While the contribution of higher energy costs remained elevated, energy inflation fell from 16.0% in May 2026 to 11.9% in July as supply chain pressures eased. At the same time, price pressures increased for technology-related goods, especially in economies integrated into AI-related value chains. However, the exposure is concentrated in a narrow range of products with small weights in consumer baskets, such as laptops and smartphones. In the September 2026 ECB staff macroeconomic projections, global headline inflation is projected to rise from 3.1% in 2025 to 3.5% in 2026, before declining to 3.0% in 2027 and 2.5% in 2028.² The outlook is unchanged from the June projections, as the downward impact of lower crude oil prices and easing supply shortages are broadly offset by higher gas and food prices, wider refining margins

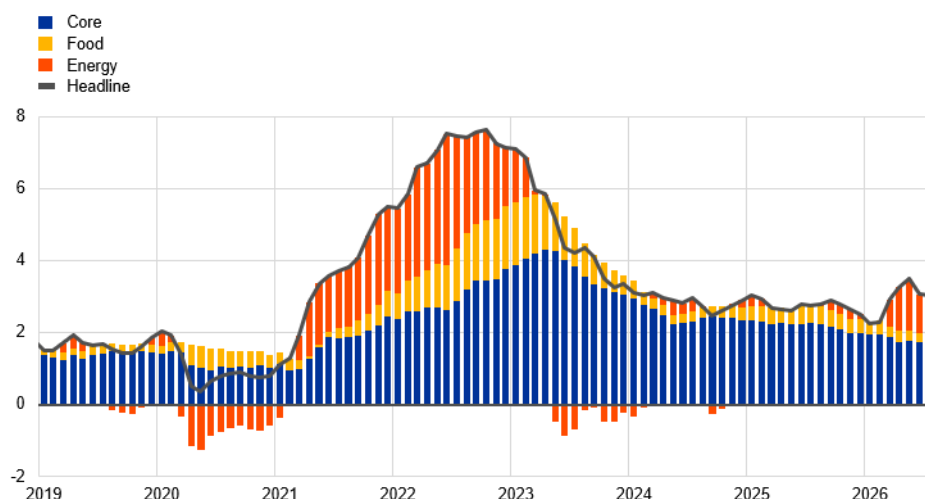
¹ For further details, see Box 1 of "[ECB staff macroeconomic projections for the euro area, September 2026](#)", published on the ECB's website on 10 September 2026.

² The ECB staff projections for global headline CPI inflation cover a broader set of countries than the OECD aggregate typically shown in the Economic Bulletin, including major emerging market economies such as Brazil, China, India and Russia.

and stronger price pressures for AI-related goods. The unresolved conflict in the Middle East, possible second-round effects and a stronger El Niño episode leave risks to global inflation tilted to the upside.

Chart 2
OECD CPI inflation

(year-on-year percentage changes, percentage point contributions)



Sources: OECD and ECB staff calculations.

Notes: The OECD aggregate includes euro area countries that are OECD members and excludes Türkiye. It is calculated using OECD consumer price index (CPI) annual weights. The latest observations are for July 2026.

Global import growth remained buoyant in the second quarter, driven by AI-related trade and temporary frontloading. Available national accounts releases indicate that global imports expanded by 1.8% quarter on quarter in the second quarter of 2026, markedly above the June 2026 Eurosystem staff macroeconomic projections. The large upside surprise reflects stronger-than-expected trade among Asian technology exporters, frontloading of US imports of consumer goods ahead of anticipated tariff measures in July and precautionary purchases of energy-intensive goods amid concerns about further supply disruptions. The temporary effects from frontloading are expected to fade, but the global AI investment cycle should continue to support trade. The strength of imports relative to activity reflects the high import-intensity of investment in data centres and related AI infrastructure, amplified by propagation through geographically dispersed global technology value chains. In the September 2026 ECB staff macroeconomic projections, global import growth is projected to stand at 4.7% in 2026 and 4.5% in 2027, before slowing to 3.5% in 2028. Compared with the June projections, this represents an upward revision of 0.5 percentage points for 2026 and 0.9 percentage points for 2027 owing to stronger second-quarter outturns and sturdier trade in AI and technology-related goods.

In the United States, domestic demand has remained resilient, supported by consumption and AI-related investment. Real GDP growth slowed to 0.4% quarter on quarter in the second quarter of 2026, as inventories and net trade weighed on activity, while final domestic demand remained robust. Private consumption expanded strongly, and investment continued to benefit from the AI build-out. However, the sources of growth have become more concentrated.

Technology-related activity is estimated to have contributed one-third of GDP growth in the second quarter. The household saving rate fell to 2.7% in June, while wealth gains have accrued predominantly to higher-income households with sizeable equity holdings, leaving consumption more exposed to a correction in financial markets. Some correction from the strong second-quarter consumption spending is likely, with retail sales softening in July as temporary supporting factors and frontloading faded. In the September 2026 ECB staff macroeconomic projections, real GDP growth is projected to stand at 2.0% in each year from 2026 to 2028. Compared with the June projections, growth has been revised down by 0.1 percentage points in 2026 following the weaker second-quarter outturn, but up by 0.2 percentage points in 2027 and 0.1 percentage points in 2028 on account of more resilient private consumption and more dynamic AI infrastructure investment.

US inflation remains above target, while the signals from measures of underlying price pressures are mixed. Headline CPI inflation eased to 3.4% in July as energy prices declined, but price pressures have become visible in some technology-intensive consumer products, even though their weight in the overall inflation basket is limited. Core personal consumption expenditure (PCE) inflation remained above 3% in June, while trimmed-mean PCE inflation was close to 2%, highlighting the divergence across measures of underlying price pressures. This divergence may reflect the concentration of supply-side shocks in energy, tariffs and AI-related goods and makes it difficult to assess the extent to which inflationary pressures are easing. At the same time, the labour market appears broadly balanced and wage pressures remain contained, with the Employment Cost Index slowing in the second quarter and strong productivity growth limiting unit labour cost pressures. In the September 2026 ECB staff macroeconomic projections, headline CPI inflation is projected to average 3.4% in 2026, before declining to 2.9% in 2027 and 2.2% in 2028. The projection for 2026 has been revised up by 0.2 percentage points, mainly owing to stronger second-quarter outturns and higher prices for AI-related imports. At its July meeting, the Federal Open Market Committee kept the target range for the federal funds rate unchanged at 3.50-3.75%.

In China, the deterioration in domestic demand extended into the third quarter, despite continued support from exports and AI-related investment. Real GDP growth slowed to 0.9% quarter on quarter in the second quarter of 2026, reflecting weak household demand and the drag from higher energy prices. Activity indicators for July surprised on the downside, with annual growth in retail sales, industrial production and fixed asset investment all coming in significantly below consensus expectations. The residential property downturn continued to weigh on confidence, consumption and investment, while weaker income and labour market conditions added to the headwinds facing households. A People's Bank of China household survey points to steadily weakening confidence in future income and current employment, consistent with slowing wage bill growth. Exports remained resilient, supported by AI-related demand, but imports also increased strongly. China's goods surplus with the European Union (EU) continued to widen, reflecting the limited exposure of the EU to AI-related import demand in China. Export prices moved out of deflationary territory, with AI-related products accounting for about two-thirds of total export price inflation in May 2026. In the September 2026 ECB staff

macroeconomic projections, real GDP growth is projected to decline from 5.1% in 2025 to 4.5% in 2026, 4.3% in 2027 and 4.0% in 2028. Compared with the June projections, growth has been revised down by 0.2 percentage points in 2026 following the weak second-quarter outturn, but up by 0.2 percentage points in 2027 owing to stronger AI infrastructure investment. Headline CPI inflation is projected to remain subdued at 1.2% in 2026, 1.3% in 2027 and 1.5% in 2028 amid persistent economic slack and weak household demand.

In the United Kingdom, economic activity proved more resilient than expected in the second quarter, while higher household energy bills pushed inflation up in July. Real GDP expanded by 0.4% quarter on quarter in the second quarter of 2026, supported mainly by private investment and consumption, and survey indicators pointed to modest growth at the start of the third quarter. In the September 2026 ECB staff macroeconomic projections, real GDP is projected to grow by 1.2% in both 2026 and 2027 and by 1.5% in 2028. The projections for 2026 and 2027 have been revised up by 0.2 and 0.1 percentage points respectively, reflecting the stronger second-quarter outturn and easing supply shortages. Headline CPI inflation rose from 2.6% in June to 2.9% in July, mainly owing to the increase in the regulated energy price cap, while core inflation remained unchanged at 2.6%. Evidence of indirect and second-round effects remains limited, with household inflation expectations easing and private wage growth moderating. Headline inflation is projected at 3.0% in 2026, 2.7% in 2027 and 2.0% in 2028. At its July meeting, the Bank of England kept its policy rate unchanged at 3.75%.

2 Economic activity

Euro area growth exceeded expectations in the second quarter of 2026, rising to 0.6%, quarter on quarter, supported by domestic demand and exports as well as a strong rebound in Irish GDP. Even excluding volatile Irish data, economic growth remained robust at 0.3%, quarter on quarter, despite the conflict in the Middle East. Recent information points to continued growth in the third quarter, although the geopolitical landscape remains challenging. Manufacturing should continue to benefit from spending on defence and digital technologies, as well as from firms building up inventories to mitigate supply chain risks. Meanwhile, activity in the services sector is set to continue its recovery, following the marked weakening caused by the energy shock in the wake of the conflict in the Middle East, supported, inter alia, by strong demand related to artificial intelligence (AI). At the same time, firms appear to be cautious in their staffing decisions, hiring less but also not displacing an increasing number of workers, leaving the unemployment rate unchanged. Over the medium term, strengthening private consumption, investment in new digital technologies and AI-related activity, government spending on defence and infrastructure, along with some recovery in exports, should all support growth momentum.

This outlook is reflected in the September 2026 ECB staff macroeconomic projections for the euro area, which foresee annual average real GDP growth of 0.9% in 2026, 1.4% in 2027 and 1.5% in 2028. Compared with the June 2026 Eurosystem staff macroeconomic projections for the euro area, GDP growth has been revised slightly up for 2026, reflecting a greater than expected resilience, as illustrated by upward data surprises and positive survey indicators. The more positive than anticipated developments in 2026 imply a carry-over effect in 2027, leading to an upward revision, while headline growth is unrevised for 2028. The economic outlook for the euro area remains highly uncertain amid the ongoing conflict in the Middle East and continued volatility in energy prices. To take account of this uncertainty, the baseline is complemented by updated versions of the milder, adverse and severe scenarios contained in the June 2026 projections.³

The euro area economy proved resilient in the second quarter of 2026, with broad-based growth across sectors and countries. According to the latest Eurostat estimate, euro area real GDP rose by 0.6%, quarter on quarter, in the second quarter of 2026, after displaying zero growth in the first quarter. When excluding volatile data for Ireland, real GDP growth came out at 0.3%, the same as in the first quarter. Growth dynamics in the domestic demand components varied in the second quarter (Chart 3). Private and public consumption growth both remained positive, while investment contracted slightly further. At the same time, changes in inventories contributed negatively to GDP growth. Although net trade was strongly positive in the headline figures, it was more muted when volatile Irish trade flows were excluded. Production in the second quarter was driven by both industry and services, with the latter once again supported by the information and communication services sector. Momentum in the construction sector strengthened vis-à-vis the first quarter, leading to a rebound in growth. Developments in the manufacturing sector

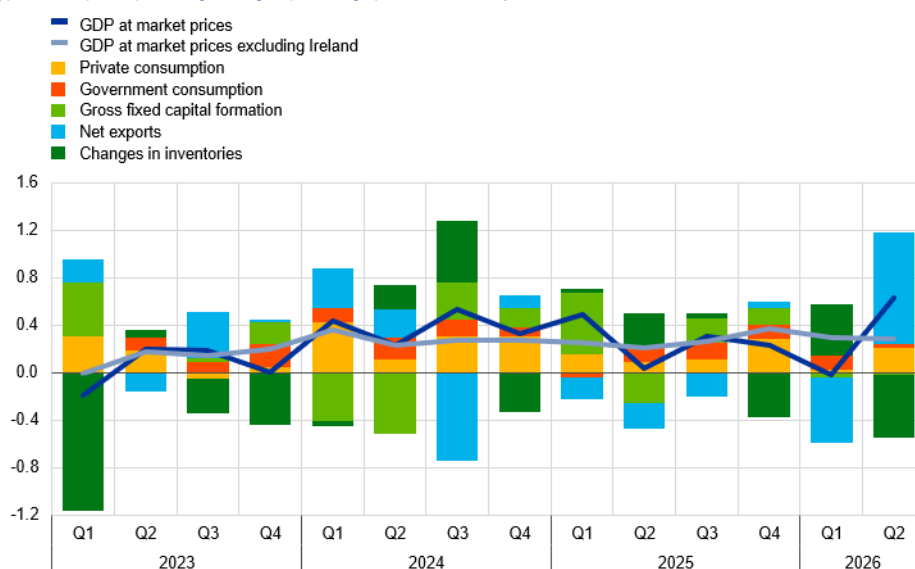
³ See “[ECB staff macroeconomic projections for the euro area, September 2026](#)”, published on the ECB’s website on 10 September 2026.

were mostly positive across the euro area economies but were strongly affected by volatility in some countries – in particular, a 22% increase reported by Ireland. While the sector is still facing headwinds stemming from higher tariffs and geopolitical uncertainty, it is also being supported by increasing production related to the defence industry. Notwithstanding the notable differences across countries, most Member States displayed positive GDP growth in the second quarter of 2026.

Chart 3

Euro area real GDP and its components

(quarter-on-quarter percentage changes; percentage point contributions)



Sources: Eurostat and ECB calculations.

Notes: The chart also shows GDP excluding Ireland, as Irish data are particularly volatile. However, the subcomponents display the GDP breakdown including Ireland. The latest observations are for the second quarter of 2026.

Recent information points to continued growth in economic activity in the third quarter of 2026, even though the geopolitical landscape remains challenging.

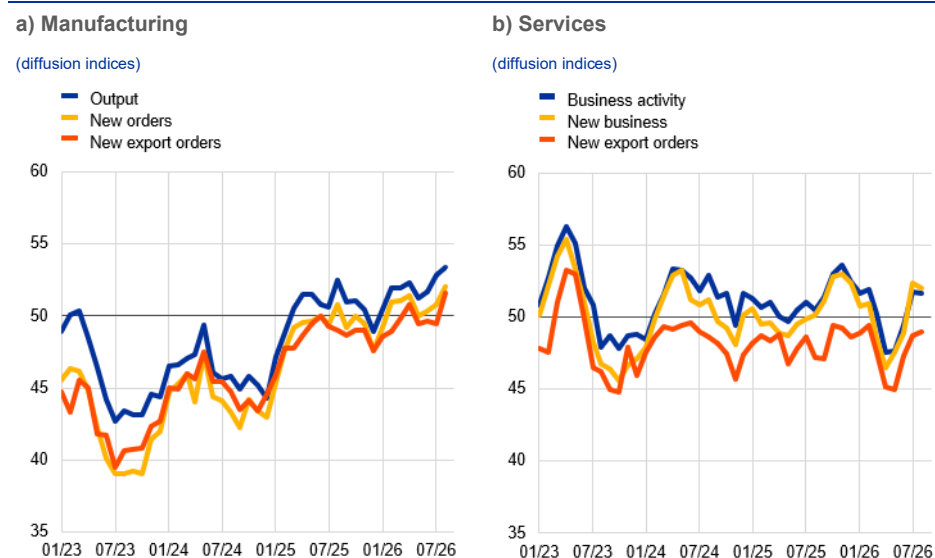
The euro area composite output Purchasing Managers' Index (PMI) rose to an average of 52.0 over July and August, a clear improvement compared with the contractionary signals seen in the second quarter (49.1). This improvement was broad-based across sectors, pointing to a continued resilience of the euro area. While the manufacturing output index rose from 51.8 to 53.1 over the same period, the services business activity index recovered from 48.2 to 51.7 (Chart 4). This suggests that the manufacturing sector should continue to hold up on the back of defence and infrastructure spending, as well as firms accumulating inventories to mitigate supply chain risks.⁴ Meanwhile, activity in the services sector is set to continue its recovery, following the marked weakening induced by the energy shock. Forward-looking survey results for new orders indicate a more pronounced improvement in services than in industry. Moreover, while supplier delivery times are assessed to be longer than normal, they shortened in July and August compared

⁴ See the article entitled "Defence spending and its short and longer-term macroeconomic effects" in this issue of the Economic Bulletin.

with the second quarter. The European Commission's business and consumer surveys portray a similar picture of strengthening across sectors in the third quarter.

Chart 4

PMI indicators across sectors of the economy

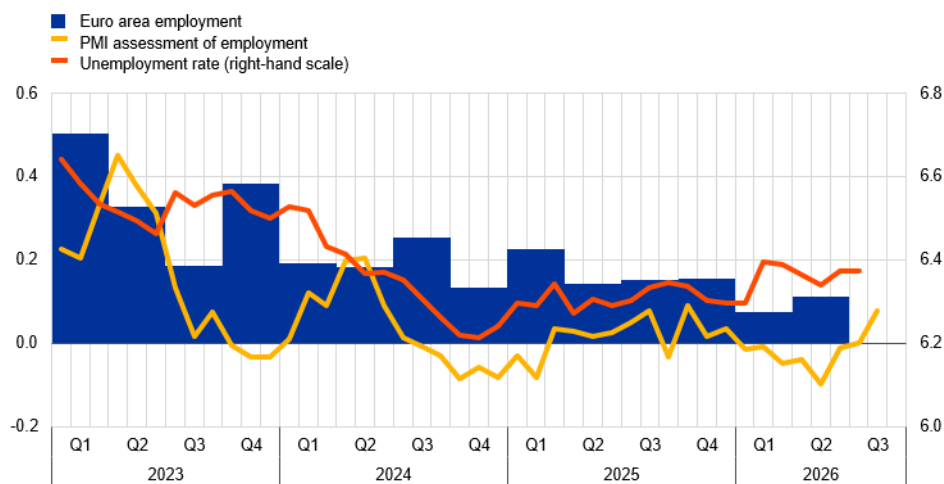


Source: S&P Global Market Intelligence.
Note: The latest observations are for August 2026.

The labour market continues to cool down but at a slower pace than in recent months. Firms continued to reduce hiring, with year-on-year employment growth rates easing slightly to 0.50% in the second quarter of 2026 from 0.53% in the first quarter and an average of 0.7% in 2025. At the same time, workforce adjustment appears to be gradual, with no significant increase in layoffs, leaving the unemployment rate at 6.4% in July, unchanged from June. The unemployment rate has been broadly stable since mid-2024 (Chart 5). Furthermore, growth in the labour force slowed in the second quarter compared with the first quarter, partly reflecting a decline in inward migration, which had strongly supported this growth between 2022 and 2024 (see [Box 3](#)). Coinciding with the moderation in employment growth and the pick-up in GDP growth, annual productivity growth edged up to 0.7% in the second quarter, after recording no growth in the first quarter. Productivity excluding the effects of volatile GDP data from Ireland also grew 0.7%, year on year, in the second quarter, and has shown a persistent and strengthening recovery over recent quarters.

Chart 5**Euro area employment, PMI assessment of employment and unemployment rate**

(left-hand scale: quarter-on-quarter percentage changes, diffusion index; right-hand scale: percentages of the labour force)



Sources: Eurostat, S&P Global Market Intelligence and ECB calculations.

Notes: The two lines indicate monthly developments, while the bars show quarterly data. The PMI is expressed in terms of the deviation from 50, then divided by 10 to gauge quarter-on-quarter employment growth. The latest observations are for the second quarter of 2026 for euro area employment, August 2026 for the PMI assessment of employment and July 2026 for the unemployment rate.

Short-term labour market indicators suggest that the weakening labour market may be showing early signs of bottoming out.

The monthly composite PMI employment index increased in August for the third month in a row. The subindices for services and manufacturing rose, pointing to still muted, but slightly improving employment sentiment, while the subindex for construction declined. At the same time, online job postings on Indeed continued to fall in August, albeit at a slower pace than in recent months, and soft information from corporate earnings calls suggests that firms are talking less about both hiring and firing. Additionally, fears that the conflict in the Middle East would leave a significant mark on the labour market have, so far, not materialised, with firms participating in the Survey on the Access to Finance of Enterprises reporting that the conflict has had a minimal impact on their employment expectations (see [Box 2](#)).

Private consumption accelerated in the second quarter of 2026, but momentum is likely to moderate in the near term.

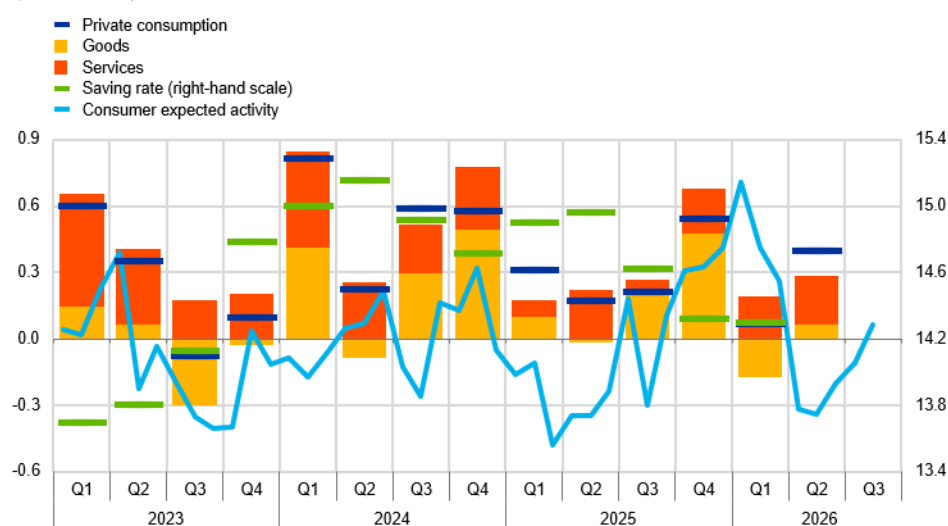
Private consumption expanded by 0.4%, quarter on quarter, in the second quarter of the year, after showing nil growth in the previous quarter (Chart 6). Domestic spending was supported by both services, amid favourable tourism flows, and goods, despite a decline in spending on non-durables. The saving rate remained stable at 14.3% in the first quarter. Turning to the third quarter, high-frequency indicators point to a moderation in household spending momentum as the economic impact of the conflict in the Middle East gradually unfolds (see [Box 4](#)). Retail sales declined by 0.6%, month on month, in July, standing 0.4% below their average level in the second quarter, mainly owing to a drop in online sales, as well as electronic equipment and fuel. The European Commission's consumer confidence indicator recovered in July and August on average, mainly owing to households' expectations for the general economic outlook. The rebound is helping services recover from the initial energy shock.

Based on the European Commission's business surveys across sectors, consumer expected activity also improved in July and August, driven by retail trade, accommodation and food services, travel services, and food products, partly offset by energy products. These signals were confirmed by the Consumer Expectations Survey (CES), which indicated that consumer confidence and spending partly recovered in July, especially for discretionary items, such as travel services. Looking ahead, elevated energy prices and uncertainty related to the conflict in the Middle East should weigh on consumption. Moreover, tight – albeit softening – credit supply conditions could further weigh on household spending momentum according to the CES and the euro area bank lending survey. However, these negative effects may be cushioned by resilient income and wealth dynamics, which have supported private consumption since the end of 2022, amid historically low household indebtedness and leverage levels.

Chart 6

Household consumption, consumer expected activity and household savings

(quarter-on-quarter percentage changes, percentage point contributions; standardised percentage balances; percentages of gross disposable income)



Sources: Eurostat, European Commission and ECB calculations.

Notes: "Consumer expected activity" refers to a weighted average of business expectations for the next three months with regard to production for manufacturing, employment for construction, business for trade and demand for services from the European Commission business survey, weighted according to the sectoral shares in euro area private consumption from the FIGARO input-output tables for 2023. The series is standardised for the whole sample from January 1999. The latest observations are for the first quarter of 2026 for the saving rate, the second quarter of 2026 for private consumption, goods and services, and August 2026 for consumer expected activity.

Business investment contracted somewhat in the second quarter of 2026 but is expected to gather pace in the second half of the year, underpinned by continued spending on digitalisation and expanding defence. Non-construction investment (excluding volatile Irish intellectual property products) contracted by 0.1%, quarter on quarter, in the second quarter of the year, amid heightened uncertainty and elevated energy costs (Chart 7, panel a). Intangible investment contributed positively while machinery and equipment weighed on business investment. Both tangible and intangible assets are gaining momentum in the third quarter of 2026, as shown by rising confidence in the capital goods and digital services sectors. Expected investment in the second half of 2026 and beyond continues to be driven by AI technology and digitalisation. Tangible investment is

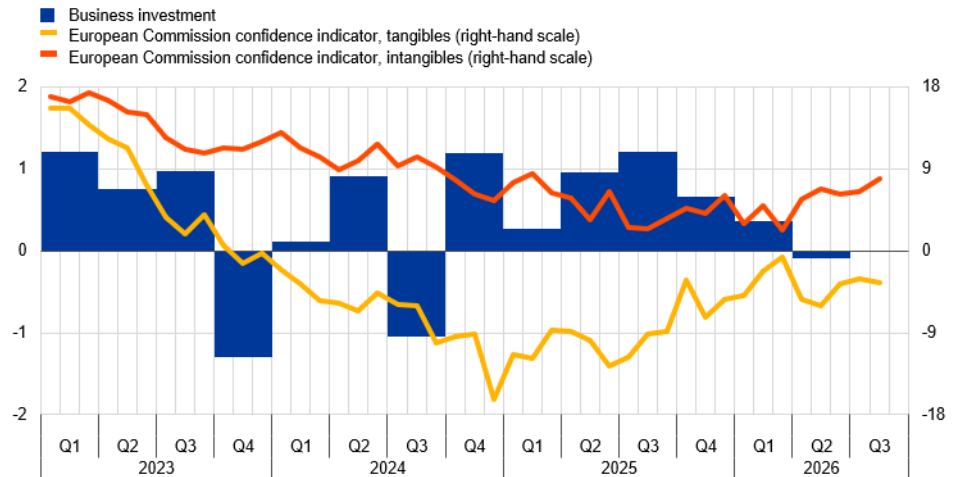
being boosted by demand for AI-related hardware, robotisation and defence-related products, especially in semiconductor-producing countries. In the capital goods sector demand is now less of a limiting factor than space and equipment, according to a European Commission survey. Intangible investment continues to be spurred by digitalisation. Cloud expansion and the adoption of AI are leading to data centres now being increasingly built in southern European countries thanks to their renewable energy, land and access to Next Generation EU funds. At the same time, shortages of skilled workers and concerns about energy availability, permit complexity and the implementation of new EU regulations pose challenges to digitalisation. Looking ahead, investment growth should be underpinned by rising demand, an increasing gross operating surplus and improving confidence, while higher interest rates and uncertainty about the Middle East remain a drag (see [Box 2](#)).

Chart 7

Real investment dynamics and survey data

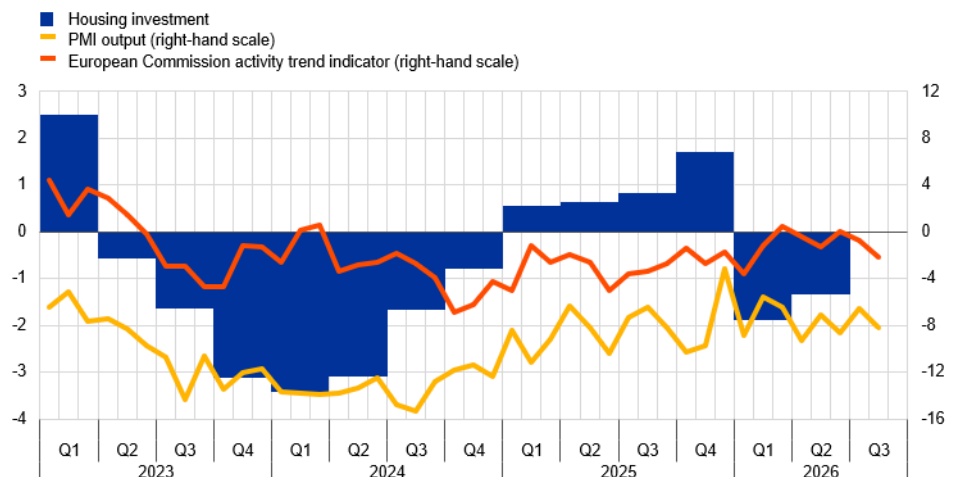
a) Business investment

(quarter-on-quarter percentage changes; percentage balances and diffusion index)



b) Housing investment

(quarter-on-quarter percentage changes; percentage balances and diffusion index)



Sources: Eurostat, European Commission, S&P Global Market Intelligence and ECB calculations.

Notes: The lines indicate monthly developments, while the bars refer to quarterly data. The PMIs are expressed in terms of the deviation from 50. In panel a), business investment is measured by non-construction investment excluding Irish intangibles. For the confidence indicators, "tangibles" refers to the capital goods sector (the producers of tangible machinery and equipment) and "intangibles" is a weighted average of the subsectors supplying investment related to intellectual property products, i.e. publishing activities (NACE J58); computer programming and consultancy (NACE J62); and information activities (NACE J63). In panel b), the line for the European Commission activity trend indicator refers to the weighted average assessment of the building and specialised construction sectors of the trend in activity over the preceding three months, rescaled to have the same standard deviation as the PMI. The line for PMI output refers to housing activity. The latest observations are for the second quarter of 2026 for investment, and August 2026 for PMI output and the European Commission indicators.

Housing investment continued to decline in the second quarter of 2026 but is expected to return to positive growth in the near term. Housing investment fell by 1.3%, quarter on quarter, in the second quarter, following a decline of 1.9% in the previous quarter (Chart 7, panel b). The decline was relatively broad-based among the largest euro area countries, but particularly pronounced in Italy, where some of the weakness may reflect timing effects related to the phasing-out of financial renovation incentives. Meanwhile, production in building construction and specialised construction activities was, on average, 0.8% higher in the second quarter than in

the preceding quarter. Survey-based activity indicators provide mixed signals for the third quarter, with the PMI housing output index standing, on average, above its second-quarter level in July and August, while the European Commission's indicator of recent trends in building and specialised construction activity fell below its second-quarter level, and weather-related constraints reached record highs. At the same time, residential building permits continued to increase, with the three-month-on-three-month growth rate standing at 1.2% in May. According to the European Commission's consumer survey, households' intentions to undertake home improvements rebounded in the third quarter, while intentions to purchase or build a home remained broadly stable. However, the ECB's July euro area bank lending survey points to some weakening in credit demand, with banks reporting lower demand for housing loans in the second quarter and expecting a further decline in the third quarter. Overall, housing investment is likely to return to positive growth in the near term, although the recovery is expected to remain gradual.

The recent rebound in euro area goods exports does not yet point to a broad-based strengthening in export momentum. Extra-euro area goods export volumes increased by 2.1% in the three months to June, following a weak first quarter. National accounts data for the second quarter also show total exports rising by 3.4%, quarter on quarter. However, this outcome should be interpreted with caution, as it was affected by volatile Irish exports linked to multinational enterprise activity, which have limited links to underlying euro area trade momentum. Exports to the United States also edged up in June, but the increase was concentrated in goods not directly affected by tariffs, including some AI-related products such as data centre computing, memory, storage and networking equipment, while tariffed exports continued to falter. This suggests that higher US trade barriers imposed last year may still be weighing on affected categories. Survey indicators remained subdued, with PMI new export orders only just rebounding into positive territory after four and a half years, although technology-related export orders continued to show relative strength, supported by the global AI buildout. The conflict in the Middle East appears to have been less disruptive than previously expected, with supply constraints remaining limited and receding, but higher costs and uncertainty continue to weigh on the outlook. Overall, euro area exports are projected to grow more slowly than foreign demand in the shorter term, implying a further decline in export market shares. This partly reflects the recent strength of global demand for AI-related goods, especially core data centre components such as computing, storage and networking hardware, where the euro area is less specialised than some competitors. Over the rest of the projection horizon, market shares are expected to remain under pressure from broader competitiveness challenges. On the import side, national accounts data show imports rising by 1.5%, quarter on quarter, in the second quarter, implying a positive contribution from net trade to euro area GDP growth of 0.9 percentage points.

The baseline projections foresee annual real GDP growth of 0.9% in 2026, 1.4% in 2027 and 1.5% in 2028. Compared with the June 2026 projections, GDP growth has been revised up slightly for 2026, reflecting data surprises and positive survey indicators, which imply a carry-over effect in 2027. The near-term growth outlook has improved compared with the last round of staff projections, reflecting, in particular,

the resilience of private consumption and public spending. Over the medium term, gradually falling energy prices and a strong labour market should bolster household incomes and, in turn, support consumption. Growth will increasingly be supported by business and housing investment. Export growth should benefit from rising foreign demand but is being held back by competitiveness challenges and uncertainty about global trade policies. The economic outlook for the euro area remains highly uncertain amid the ongoing conflict in the Middle East and continued volatility in energy prices. To take account of this uncertainty, the baseline is complemented by updated versions of the three alternative scenarios contained in the June 2026 projections – a milder scenario, an adverse scenario and a severe scenario (see [“ECB staff macroeconomic projections for the euro area, September 2026”](#)).

Annual euro area headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), rose to 3.3% in August 2026, up from 2.9% in July. This increase was driven by a surge in energy inflation caused by the conflict in the Middle East, while food inflation was unchanged.⁵ The HICP excluding energy and food (HICPX) edged down to 2.4% in August, from 2.5% in July, owing to a fall in services inflation that more than offset the increase in non-energy industrial goods (NEIG) inflation. Indicators of underlying inflation have been broadly stable in recent months. Wages have not shown a material response to the energy shock so far. Annual growth in compensation per employee decreased to 3.3% in the second quarter of 2026, down from 3.5% in the first quarter of 2026.

The September 2026 ECB staff macroeconomic projections for the euro area foresee headline inflation averaging 3.0% in 2026, before declining to 2.5% in 2027 and 2.1% in 2028.⁶ Compared with the June 2026 Eurosystem staff macroeconomic projections for the euro area, headline inflation in 2026 is unchanged, while it has been revised up for 2027 and 2028. The outlook remains highly uncertain, with risks to the upside for inflation. To illustrate this uncertainty, the baseline projections are complemented by updated versions of the three alternative scenarios contained in the June 2026 projections. These scenarios differ in terms of their assumptions regarding the magnitude and persistence of the Middle East conflict and the energy price shock, the impact of the shock on the international environment and on uncertainty, as well as the strength of indirect and second-round effects on inflation.

According to Eurostat's flash estimate, euro area HICP inflation rose to 3.3% in August 2026, up from 2.9% in July (Chart 8). This increase was driven by a surge in energy inflation alongside stable food inflation and a slight decrease in HICPX inflation. The annual rate of change in energy prices soared to 14.3% in August from 10.3% in July, owing to a 2.9% month-on-month increase in energy prices and a significant positive base effect.⁷ Food inflation stood at 1.2% in August, unchanged from July. Within the food component, processed food inflation ticked down in August, to 0.6%, from 0.7% in July, while unprocessed food inflation increased to 2.7% from 2.4% over the same period. The month-on-month changes in unprocessed food prices were stronger than usual for August, possibly reflecting some upward pressure stemming from the hot and dry weather in Europe over the summer. HICPX inflation edged down to 2.4% in August from 2.5% in July. This decline was due to the drop in services inflation, from 3.3% to 3.0%, which more than offset the increase in NEIG inflation, from 0.9% to 1.2%.

⁵ The cut-off date for data included in this issue of the Economic Bulletin was 9 September 2026. According to the full HICP data release published by Eurostat on 17 September 2026, annual euro area inflation stood at 3.2% in August 2026.

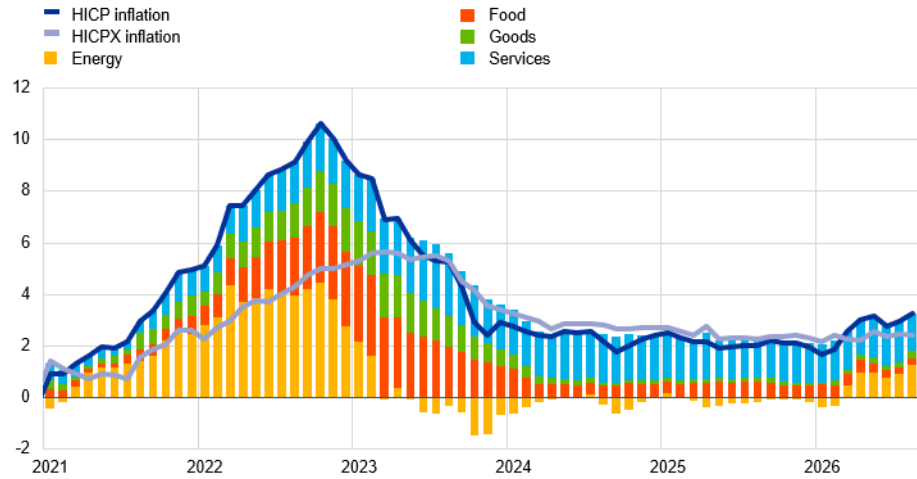
⁶ See [“ECB staff macroeconomic projections for the euro area, September 2026”](#), published on the ECB's website on 10 September 2026.

⁷ For an analysis of electricity and gas prices paid by consumers, see the box entitled [“The uneven journey of wholesale gas and electricity prices to consumer bills”](#) in this issue of the Economic Bulletin.

Chart 8

Headline inflation and its main components

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB calculations.

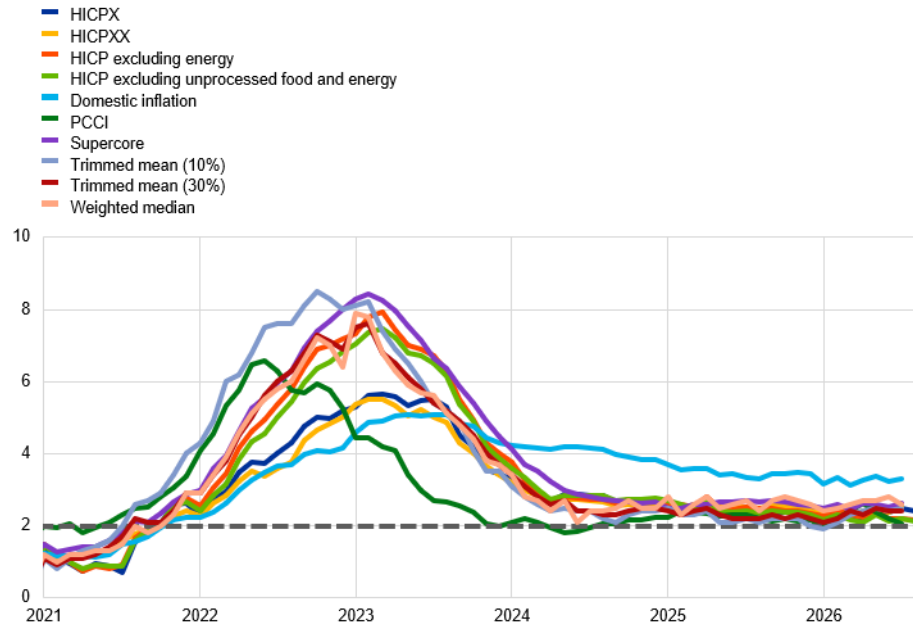
Notes: "Goods" refers to non-energy industrial goods; HICPX stands for HICP excluding energy and food. The latest observations are for August 2026 (flash estimate).

Indicators of underlying inflation have been broadly stable in recent months

(Chart 9), ranging between 2.1% and 2.6% in July 2026. After edging up in July, exclusion-based measures of inflation available for August eased slightly. Regarding model-based indicators, the Persistent and Common Component of Inflation (PCCI) ticked down to 2.1% in July, from 2.2% in June, while the PCCI excluding energy remained unchanged at 2.1%. The Supercore indicator, which comprises HICP items sensitive to the business cycle, went up slightly to 2.6% in July from 2.5% in June. Over the same period, domestic inflation, which comprises items with a low import content (mainly services items) also ticked up to 3.3% from 3.2%.

Chart 9**Indicators of underlying inflation**

(annual percentage changes)



Sources: Eurostat and ECB calculations.

Notes: The grey dashed line represents the Governing Council's inflation target of 2% over the medium term. HICPX stands for HICP excluding energy and food; HICPXX stands for HICP excluding travel-related items, clothing and footwear. The latest observations are for August 2026 (flash estimate) for HICPX, HICPXX and HICP excluding energy, and July 2026 for the remaining indicators.

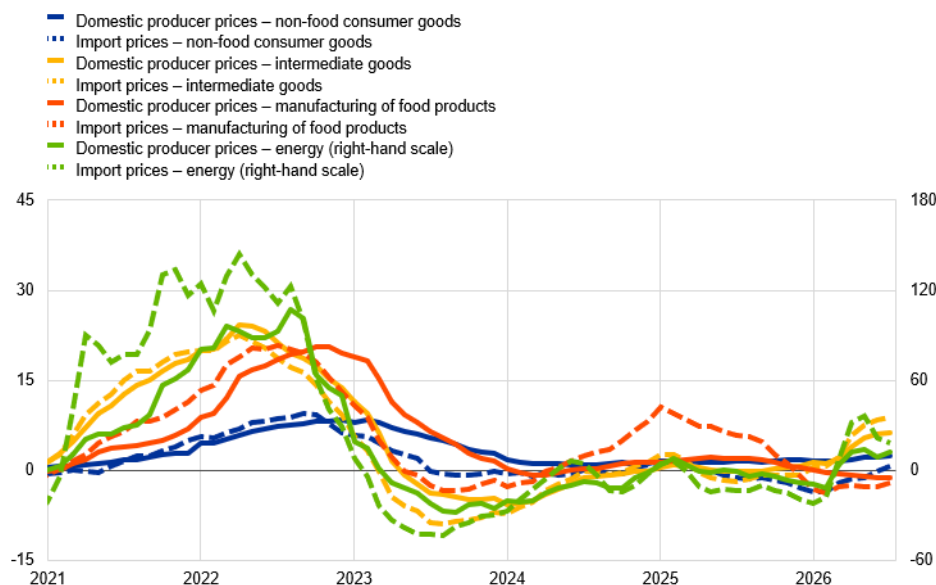
Indicators of pipeline pressures increased at most stages of the pricing chain in July 2026 (Chart 10). At the early stages of the pricing chain, energy producer price inflation rose to 12.9% in July 2026 from 8.8% in June, while energy import price inflation declined to 18.2% from 21.8% over the same period. Nevertheless,

both indicators remained elevated, pointing to continued strong energy-related price pressures. Regarding intermediate goods, pressures also remained elevated on the back of large increases in domestic producer price inflation and import price inflation, which jumped to 6.3% and 8.8% respectively in July. In the same month, at the later stages of the pricing chain, indicators of pipeline pressures on non-food consumer goods signalled stronger inflationary pressures, with increases in both import price inflation and domestic producer price inflation, rising to 0.7% and 2.4% respectively. Following elevated pressures in 2025, pipeline price dynamics on food prices continued to be weak and remained firmly in negative territory. For manufactured food, the annual growth rate of producer prices was unchanged, at -1.2% in July, interrupting the gradual downward trend that had started in September 2025, while that of import prices increased somewhat to -2.0% in July from -2.6% in June. Owing to the ongoing conflict in the Middle East, developments in energy and food prices, as well as pipeline pressures more broadly, are being closely monitored.

Chart 10

Indicators of pipeline pressures

(annual percentage changes)



Sources: Eurostat and ECB calculations.

Note: The latest observations are for July 2026.

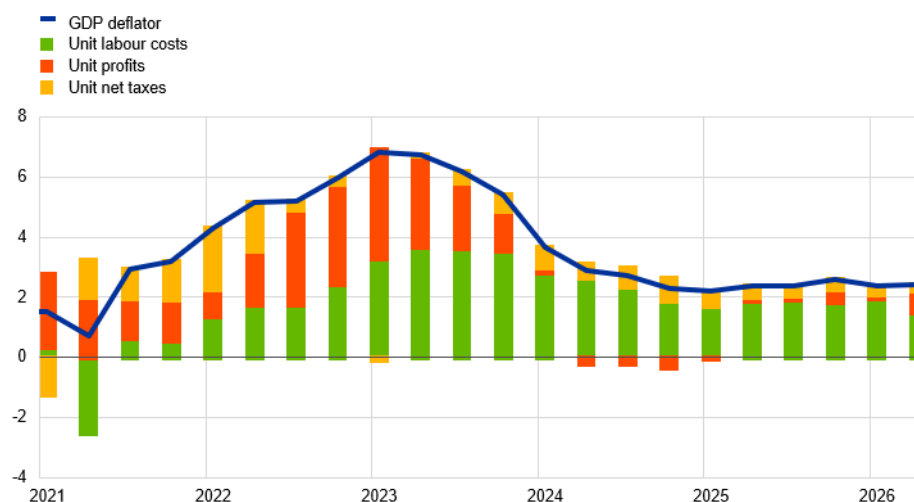
Domestic cost pressures, as measured by growth in the GDP deflator, remained unchanged at 2.4% in the second quarter of 2026 (Chart 11).

This reflects a decline in contributions from unit labour costs (from 2.0% to 1.5%) and from unit taxes (from 0.3% to 0.2%), offset by an increase in contributions from unit profits (from 0.1% to 0.7%). The decrease in the annual growth rate of unit labour costs (from 3.5% to 2.6%) was driven by an increase in labour productivity growth (from 0.0% to 0.7%) reinforced by a decrease in the annual growth rate of compensation per employee (from 3.5% to 3.3%). This latter decrease reflects a decline in the growth rate of negotiated wages, which slowed to 2.4% in the second quarter of 2026, down from 2.6% in the first quarter, as well as a small drop in the contribution from the wage drift component to 0.9 percentage points, down from 1.0 percentage points over the same period. Looking ahead, the ECB wage tracker, which has been updated with data on wage agreements negotiated up to the end of August 2026, suggests that pressures on negotiated wages will stabilise at 2.6% in 2026 before increasing slightly to 2.7% in the first half of 2027.⁸ The September 2026 projections expect the annual rate of growth in compensation per employee to slow from 3.8% in 2025 to 3.3% in 2026. In 2027 and 2028 it is expected to stay at 3.3%, above its long-term average, supported by the improving economic outlook and the resilient labour market. The expected decline in inflation is seen to keep wage pressures contained.

⁸ For further details, see European Central Bank (ECB) (2026), “[New data release: ECB wage tracker points to stable negotiated wage pressures in 2026](#)”, *press release*, 17 June.

Chart 11**Breakdown of the GDP deflator**

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB calculations.

Notes: Compensation per employee contributes positively to changes in unit labour costs; labour productivity contributes negatively. The latest observations are for the second quarter of 2026.

Over the review period from 11 June to 9 September 2026, short-term market-based measures of inflation compensation increased slightly amid heightened volatility, while longer-term inflation expectations were still firmly anchored at around 2% (Chart 12, panel a). Investors' near-term inflation outlook closely followed swings in oil prices and remained highly sensitive to uncertainty surrounding the evolution of the Middle East conflict. Following the signing of the Memorandum of Understanding between the United States and Iran on 17 June 2026, market-based measures of inflation compensation declined. However, by early July they had risen to above the levels seen prior to 17 June as the conflict re-escalated and oil prices rose. At the end of the review period, the one-year forward inflation-linked swap rate one year ahead had increased by around 15 basis points, to stand at 2.3%. For medium and longer-term maturities, inflation compensation measures remained relatively stable, with the five-year forward inflation-linked swap rate five years ahead broadly unchanged over the review period, at around 2.2%. Once adjusted for inflation risk premia, market-based measures of medium and longer-term inflation expectations remained firmly anchored at around 2%. In both the ECB Survey of Professional Forecasters for the third quarter of 2026 and the ECB Survey of Monetary Analysts for September 2026, average and median longer-term inflation expectations remained at 2%.

Chart 12

Market-based measures of inflation compensation and consumer inflation expectations

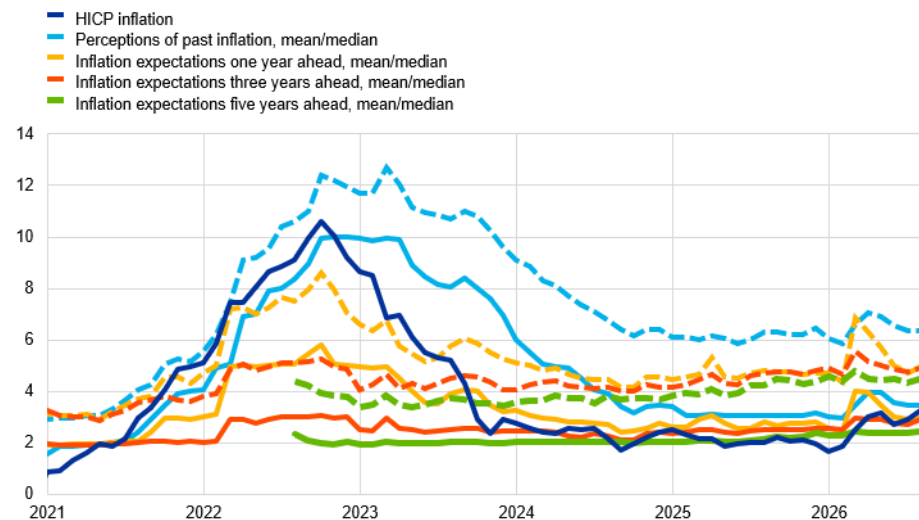
a) Market-based measures of inflation compensation

(annual percentage changes)



b) Headline HICP inflation and the ECB Consumer Expectations Survey

(annual percentage changes)



Sources: LSEG, Eurostat, ECB Consumer Expectations Survey and ECB calculations.

Notes: Panel a) shows forward inflation-linked swap rates over two different time horizons for the euro area. The vertical grey line indicates the start of the review period on 11 June 2026. In panel b), the dashed lines show the mean rate and the solid lines show the median rate. For panel a), the latest observations are for 9 September 2026. For panel b), the latest observations are for August 2026 for both HICP inflation (flash estimate) and the Consumer Expectations Survey.

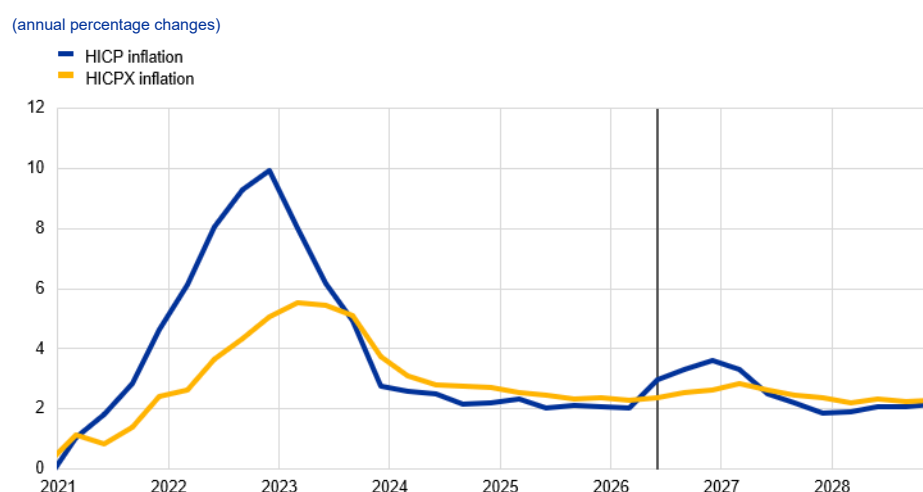
Consumers' short and medium-term inflation expectations edged up in August 2026, while perceptions of past inflation remained unchanged (Chart 12, panel b). According to the ECB Consumer Expectations Survey for August 2026, the median rate of perceived inflation over the previous 12 months remained stable at 3.5%.⁹ Median expectations for inflation over the next 12 months increased slightly to 3.0%, from 2.9% in July, while expectations for three years ahead rose to 2.9% from 2.7% over the same period. At the same time, median expectations for inflation

⁹ The fieldwork for the August 2026 ECB Consumer Expectations Survey concluded on 24 August 2026.

for five years ahead ticked up by 0.1 percentage points, to 2.5%. Looking through monthly volatility, consumers' inflation expectations remain above the levels seen before the Middle East conflict. However, they have been broadly stable in recent months, continuing to signal a return of inflation to target over the medium term.

The September 2026 projections expect headline inflation to increase from 2.1% in 2025 to 3.0% in 2026, before declining to 2.5% in 2027 and then to 2.1% in 2028 (Chart 13). Headline inflation is expected to increase to 3.6% in the fourth quarter of 2026. Energy inflation is projected to peak at the end of 2026, driven by increases in energy commodity prices and by the higher increase in refined transport fuel prices compared with crude oil prices. Energy inflation is then projected to fall sharply in 2027 owing to lower energy commodity prices and negative base effects, before ticking up in 2028, owing to the introduction of the EU Emissions Trading System 2 (ETS2). Food inflation is projected to increase in the short term, amid gradually unfolding indirect effects from past increases in energy prices and the impact of adverse weather, before falling back towards 2% later in the projection horizon. HICPX inflation is expected to rise gradually over the short term and to average 2.5% in 2026 and 2.6% in 2027, reflecting the gradual build-up of the indirect effects of higher energy prices both domestically and globally as import prices and manufacturing input costs increase. It is then expected to decline to 2.3% in 2028. Compared with the June 2026 projections, the outlook for headline HICP inflation has been revised up by 0.2 percentage points for 2027, and by 0.1 percentage points for 2028. HICPX inflation has been revised up by 0.1 percentage points for both 2027 and 2028.

Chart 13
Euro area HICP and HICPX inflation



Sources: Eurostat and ECB staff macroeconomic projections for the euro area, September 2026.

Notes: The grey vertical line indicates the last quarter before the start of the projection horizon. The latest observations are for the second quarter of 2026 for the historical data and the fourth quarter of 2028 for the projections. The September 2026 projections were finalised on 28 August 2026 and the cut-off date for the technical assumptions was 19 August 2026. Both historical and projected data for HICP and HICPX inflation are reported at a quarterly frequency.

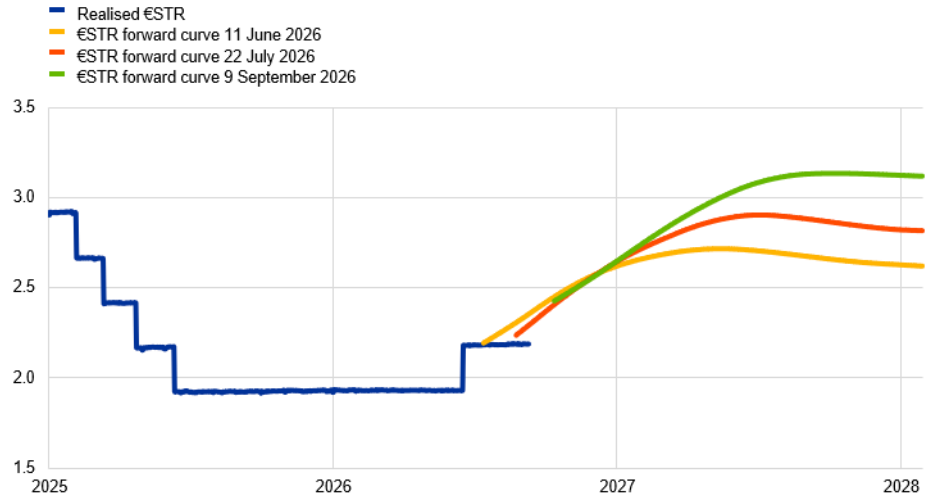
Over the review period from 11 June to 9 September 2026, short-term market rates in the euro area were primarily driven by developments in the Middle East conflict and their effects on energy prices, leading market participants to adjust their near-term inflation outlook. Amid some volatility, short-term risk-free rates ended the review period broadly unchanged. Meanwhile, long-term risk-free rates rose to historically high levels, reflecting a synchronised increase in global bond yields. Euro area sovereign bond yields moved largely in line with risk-free rates. Equity valuations strengthened over the review period, with the euro area and US stock market indices recording broadly similar increases on the back of robust corporate earnings. Gains on both sides of the Atlantic were concentrated in the financial sector, bolstered by a steeper yield curve, while technology stocks remained volatile. Corporate bond spreads narrowed in both the investment-grade and high-yield segments. In foreign exchange markets, the euro appreciated against the US dollar (+1.0%) and in trade-weighted terms (+0.4%).

Euro area short-term risk-free rates ended the review period broadly unchanged, despite some intra-period volatility driven by developments in the Middle East conflict, while longer-term risk-free rates rose globally (Chart 14).

The benchmark euro short-term rate (€STR) stood at 2.19% at the end of the review period, reflecting the Governing Council's decisions to raise the three key ECB interest rates by 25 basis points at its meeting on 11 June 2026 and keep them unchanged at its subsequent meeting on 23 July. Excess liquidity decreased by around €101 billion to €2,117 billion, which mainly reflected the continuing decline in the portfolios of securities held for monetary policy purposes. Short-term rates displayed pronounced intra-period volatility as market participants reassessed the inflation outlook in response to developments in the Middle East conflict and related fluctuations in energy prices. However, short-term rates ended the review period broadly unchanged: the €STR forward curve on 9 September 2026 implied cumulative policy rate hikes of about 40 basis points by the end of the year, which is similar to the level priced in at the beginning of the review period. Looking beyond 2026, €STR forward rates rose relative to their level in June.

Chart 14**€STR forward rates**

(percentages per annum)



Sources: Bloomberg Finance L.P. and ECB calculations.

Note: The forward curve is estimated using spot overnight index swap (OIS) (€STR) rates.

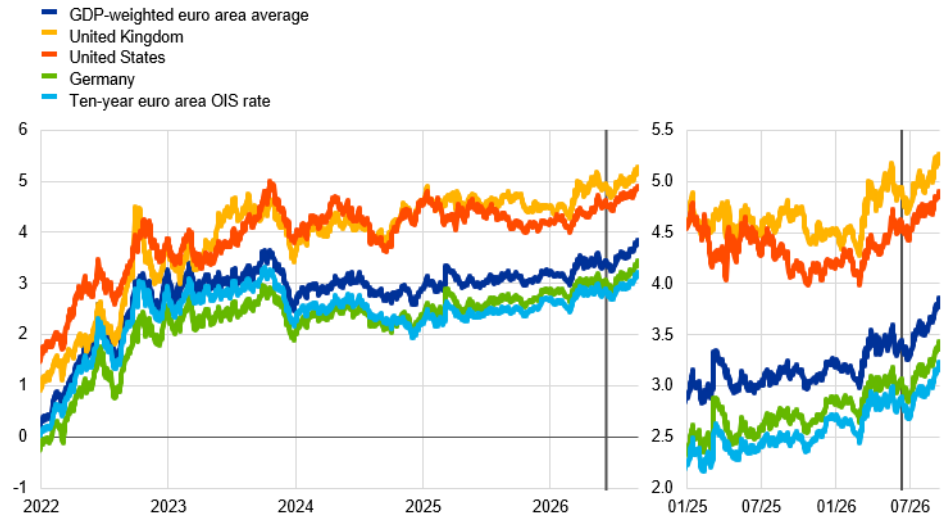
Long-term risk-free rates rose to multi-decade highs over the review period, reflecting a synchronised increase in global bond yields (Chart 15). The ten-year euro area OIS rate moved up by 37 basis points to stand at 3.2%. The ten-year US Treasury yield increased by around 38 basis points to 4.9%, while the ten-year UK gilt yield rose by around 37 basis points to 5.3%, albeit with significant intra-period fluctuations. Yields at maturities longer than ten years reached multi-decade highs. This global repricing occurred against a backdrop of surging corporate debt issuance to fund investment related to artificial intelligence (AI), particularly in the United States. In addition, substantial current and expected sovereign bond issuance worldwide has put upward pressure on yields. The increase in long-term yields over the review period extended an upward trend that has moved broadly in lockstep across jurisdictions since late 2024, driven largely by higher real term premia.¹⁰

¹⁰ Euro area long-term yields hit a local trough in late 2024, following the 2022-23 hiking cycle.

Chart 15

Ten-year sovereign bond yields and the ten-year OIS rate based on the €STR

(percentages per annum)



Sources: LSEG and ECB calculations.

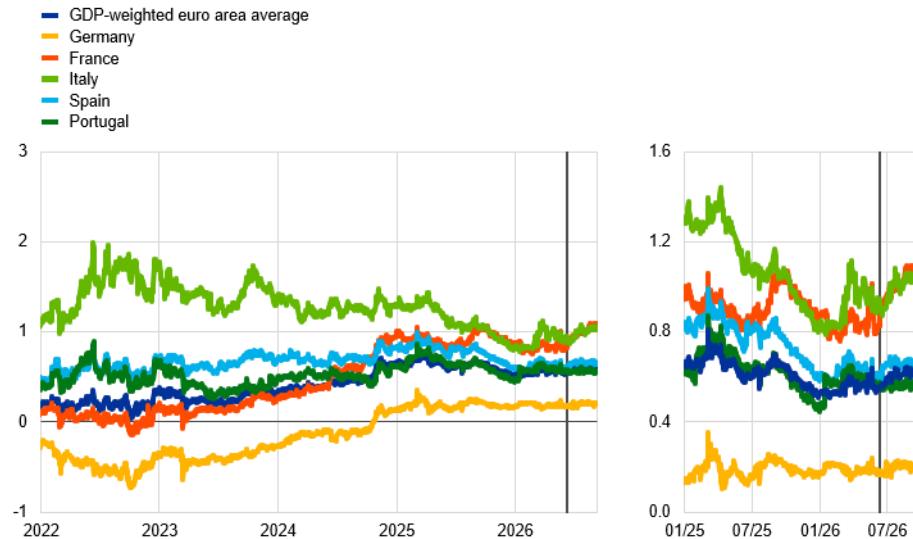
Notes: The vertical grey line denotes the start of the review period on 11 June 2026. The latest observations are for 9 September 2026.

Euro area long-term sovereign bond yields increased over the review period, with spreads relative to risk-free rates remaining broadly unchanged despite some cross-country heterogeneity (Chart 16). The ten-year GDP-weighted euro area sovereign bond yield rose by 45 basis points over the review period, closing at 3.9%. Across the euro area, ten-year sovereign yields broadly tracked movements in risk-free rates, although countries with higher levels of debt saw a slight widening of spreads.

Chart 16

Ten-year euro area sovereign bond spreads vis-à-vis the ten-year OIS rate based on the €STR

(percentage points)



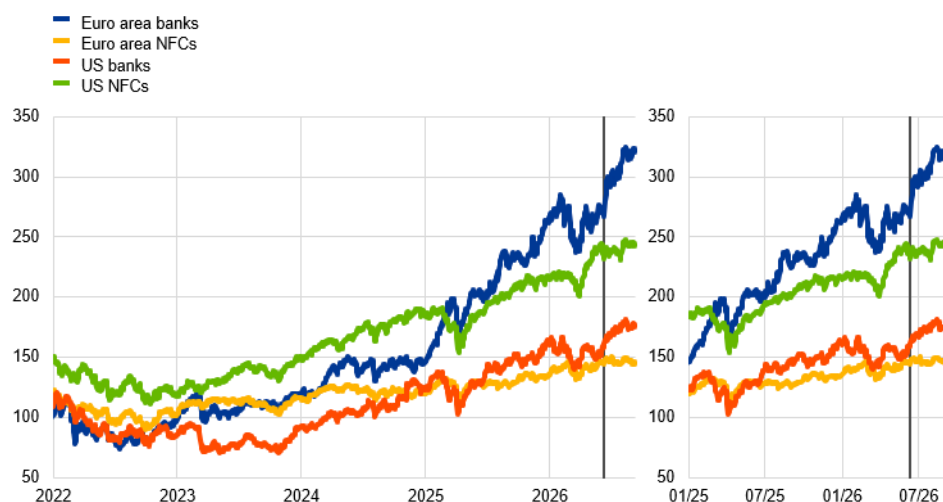
Sources: LSEG and ECB calculations.

Notes: The vertical grey line denotes the start of the review period on 11 June 2026. The latest observations are for 9 September 2026.

Euro area equities strengthened over the review period on the back of a positive earnings season, amid intra-period volatility reflecting developments in the Middle East conflict and concerns around the AI infrastructure buildout (Chart 17). The euro area benchmark stock market index gained 2.7% over the review period, driven primarily by higher valuations in the financial sector. While the sub-index for non-financial corporations (NFCs) lost 1.9%, bank stock prices rose by 19.2%, bolstered by a steeper yield curve and strong earnings season. Equity performance in the United States was comparable: the broad equity market index moved up by 2.8%, with NFCs and banks posting increases of 2.4% and 9.1% respectively. Technology stocks were particularly volatile in both jurisdictions, despite strong earnings, on account of their sensitivity to higher long-term interest rates and recurrent concerns about elevated valuations. This volatility also reflected uncertainty over whether the substantial investment in AI would generate sufficient earnings growth to meet the high expectations embedded in prevailing valuations.

Chart 17**Euro area and US equity price indices**

(index: 2 January 2020 = 100)



Sources: LSEG and ECB calculations.

Notes: The vertical grey line denotes the start of the review period on 11 June 2026. The latest observations are for 9 September 2026.

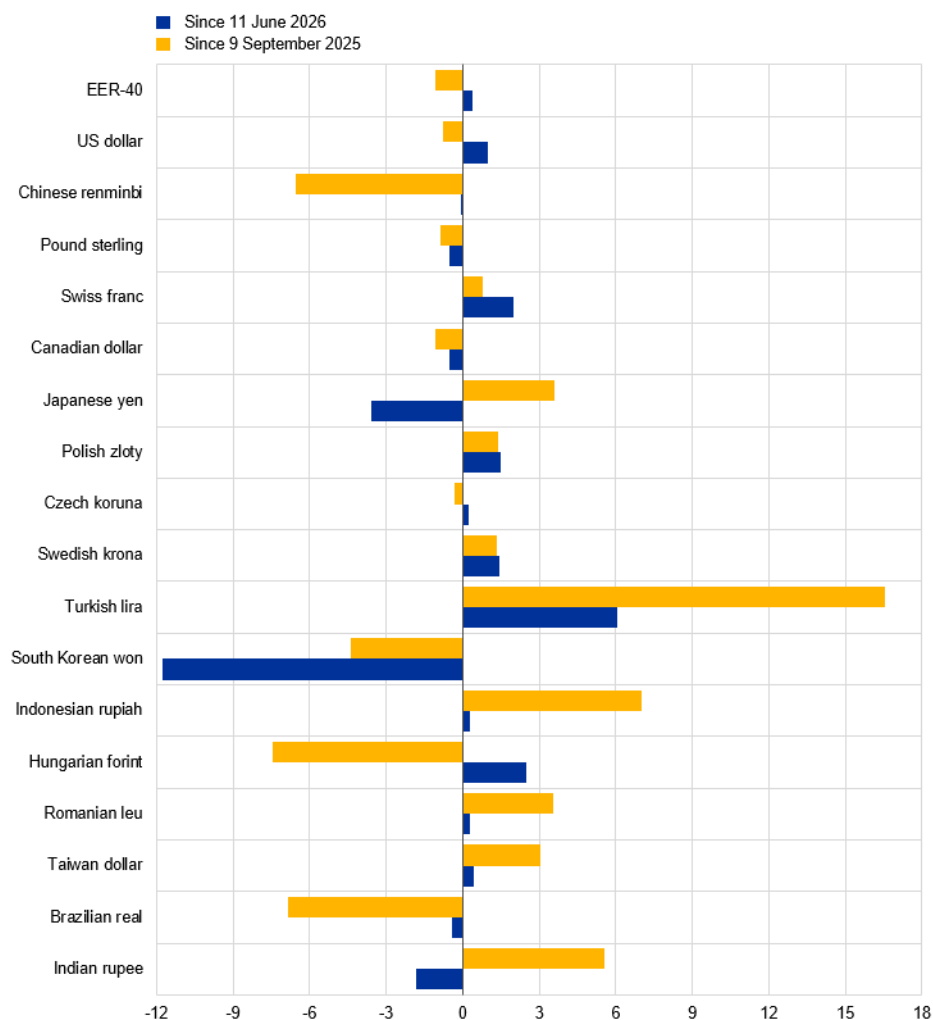
Euro area corporate bond spreads narrowed in both the investment-grade and high-yield segments over the review period. The narrowing was most pronounced in the high-yield segment, where spreads tightened by about 9 basis points. Investment-grade spreads declined by approximately 3 basis points for both NFCs and financial firms.

In foreign exchange markets, the euro appreciated against the US dollar and in trade-weighted terms (Chart 18). The strengthening against the US dollar (+1.0%) was driven mainly by shifts in market expectations concerning the monetary policy stance of the Federal Reserve System. Meanwhile, the nominal effective exchange rate of the euro – as measured against the currencies of 40 of the euro area's most important trading partners – edged up by 0.4% amid mixed bilateral exchange rate developments. The euro appreciated against the Swiss franc (+2.0%), the Polish zloty (+1.5%) and the Hungarian forint (+2.5%), while losing ground against the pound sterling (-0.5%), the South Korean won (-11.8%) and the Japanese yen (-3.6%). The JPY/EUR exchange rate exhibited relatively high volatility during the review period. In late July the United States and Japan launched a coordinated foreign exchange rate market intervention, which initially prompted an appreciation of the yen. However, most of these gains had been reversed by the end of August. The yen appreciated sharply against the euro from the start of September, mainly reflecting shifts in market expectations regarding the Bank of Japan's monetary policy stance.

Chart 18

Changes in the exchange rate of the euro vis-à-vis selected currencies

(percentage changes)



Source: ECB calculations.

Notes: EER-40 is the nominal effective exchange rate of the euro against the currencies of 40 of the euro area's most important trading partners. A positive (negative) change corresponds to an appreciation (depreciation) of the euro. All changes have been calculated using the foreign exchange rates prevailing on 9 September 2026.

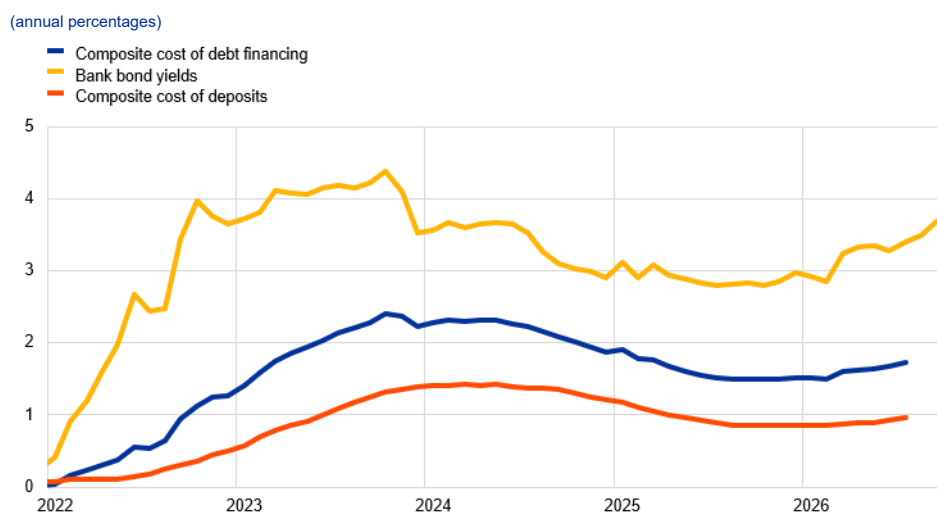
Financing conditions and credit developments

Financing conditions for firms and households have remained broadly stable since the Governing Council's meeting on 23 July 2026. In July, bank lending rates stood at 3.8% for firms, slightly above the levels in May, and remained at 3.5% for households. Over the review period from 11 June to 9 September 2026, both the cost to non-financial corporations of market-based debt and the cost of equity increased, reflecting higher long-term risk-free rates and a higher equity risk premium. Growth in loans to firms increased further in July to 4.4%, while growth in loans to households was broadly unchanged at 3.1%. The annual growth rate of broad money (M3) increased to 3.4%.

Bank funding costs were broadly unchanged in June and July, having been on an overall upward trend since March (Chart 19). The composite cost of debt financing for euro area banks stood at 1.7% in July. Bank bond yields increased slightly in the same month, reflecting upward pressure in global bond markets, but their spreads remained compressed. Interbank rates increased following the Governing Council's decision to raise the three key ECB interest rates in June. The composite deposit rate, which measures the marginal cost of bank deposit funding, edged up slightly to 1.0% in July, reflecting higher interest rates on time deposits as banks passed on the increase in policy rates. At the same time, rates on overnight deposits and savings accounts were broadly unchanged.

Chart 19

Composite bank funding costs in the euro area



Sources: ECB, S&P Dow Jones Indices LLC and/or its affiliates, and ECB calculations.

Notes: The composite cost of debt financing is an average of new business costs for banks for overnight deposits, deposits redeemable at notice, time deposits, bonds and interbank borrowing, weighted by their respective outstanding amounts. The composite cost of deposits is calculated as the average of new business rates on overnight deposits, deposits with an agreed maturity and deposits redeemable at notice, weighted by their respective outstanding amounts. The latest observations are for July 2026 for the composite cost of debt financing and the composite cost of deposits, and 9 September 2026 for bank bond yields.

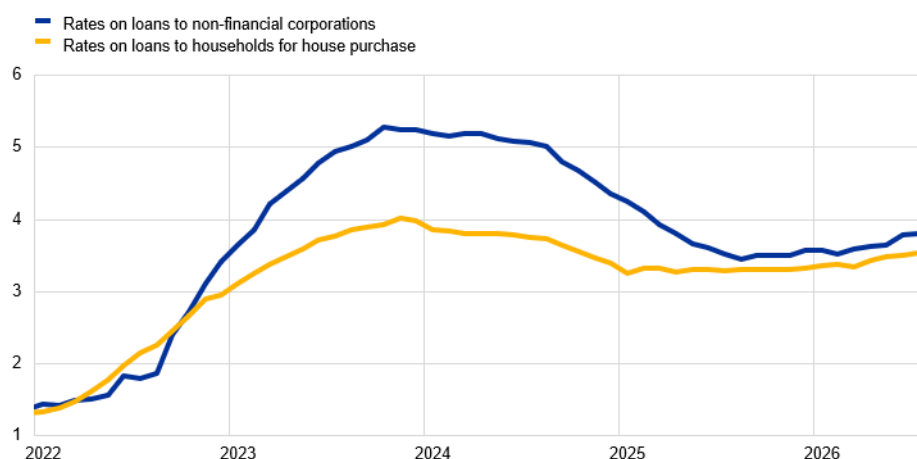
Up to the end of July bank lending rates rose for firms while remaining stable for households (Chart 20). The cost of bank borrowing for non-financial corporations rose to 3.8% in June and July, from 3.6% in May. Rate increases were concentrated in loans with longer fixation periods (over five years). The spread

between interest rates on small and large loans to firms tightened slightly, as lending rates increased relatively less for small and medium-sized enterprises than for large firms. The cost of borrowing for households for house purchase was broadly unchanged at 3.5% in June and July.

Chart 20

Composite bank lending rates for firms and households in the euro area

(annual percentages)



Sources: ECB and ECB calculations.

Notes: Composite bank lending rates are calculated by aggregating short and long-term rates using a 24-month moving average of new business volumes. The latest observations are for July 2026.

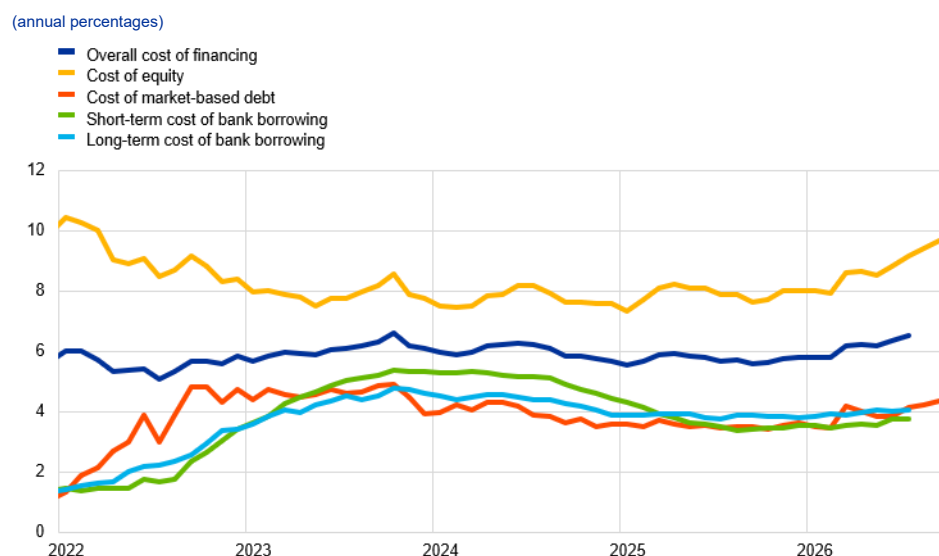
Over the review period from 11 June to 9 September 2026, both the cost of market-based debt issued by firms and the cost of equity financing increased.

The overall cost of financing for non-financial corporations – the composite cost of bank borrowing, market-based debt and equity – rose for the second consecutive month, reaching 6.5% in July (Chart 21).¹¹ The main drivers of this increase were the cost of equity and that of market-based debt financing, while bank borrowing costs increased only marginally. Daily data covering the whole review period show that the rise in the cost of market-based debt was due to higher risk-free rates, which were only partly offset by a small decline in corporate bond spreads, especially in the high-yield segment (see Section 4, “Financial market developments”). The cost of equity financing also increased over the review period, owing primarily to a higher equity risk premium, with the rise in long-term risk-free rates playing a smaller role.

¹¹ Owing to lags in the availability of data on the cost of borrowing from banks, data on the overall cost of financing for non-financial corporations are only available up to July 2026.

Chart 21

Nominal cost of external financing for euro area firms, broken down by component



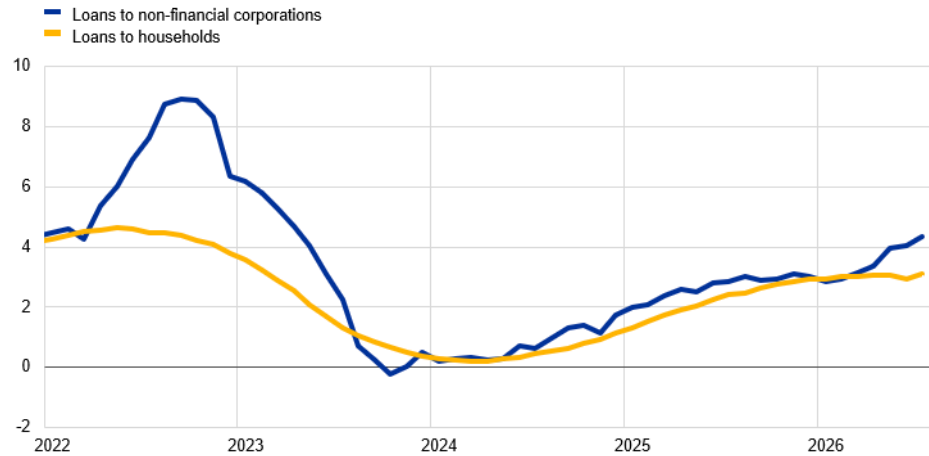
Sources: ECB, Eurostat, Dealogic, Merrill Lynch, Bloomberg Finance L.P., LSEG and ECB calculations.

Notes: The overall cost of financing for non-financial corporations is based on monthly data and is calculated as an average of the short and long-term costs of bank borrowing (monthly average data) and the costs of market-based debt and equity (end-of-month data), weighted by their respective outstanding amounts. The latest observations are for 9 September 2026 for the cost of market-based debt and the cost of equity (daily data), and July 2026 for the overall cost of financing and the short and long-term costs of borrowing from banks (monthly data).

Growth in loans to firms increased further in July, while growth in loans to households remained broadly unchanged from the previous months (Chart 22). The annual growth rate of bank lending to non-financial firms, which usually responds to changes in monetary policy with a longer delay, rose further to 4.4% in July. Having increased from 4.0% in May and June, it stood close to its historical average of 4.3% since the start of 1999. The annual growth rate of external debt financing by firms rose to 4.4% in July, also up from 4.0% in May and June, reflecting stronger growth in borrowing by firms from banks, while net issuance of corporate bonds remained modest. Overall, short-term loans increased strongly in the first half of the year and also in July, likely reflecting higher working capital needs amid the energy shock. The annual growth rate of loans to households was broadly unchanged, standing at 3.1% in July, below its historical average of 4.1% since the start of 1999. Growth in consumer credit and mortgage lending continued to hover around 5% and 3% respectively. Growth in other forms of lending to households, including loans to sole proprietors, remained subdued in line with historical patterns. According to the latest ECB [Consumer Expectations Survey](#) for July 2026, the Middle East conflict is continuing to adversely affect household expectations regarding credit access, although these concerns have moderated somewhat.

Chart 22**MFI loans in the euro area**

(annual percentage changes)



Sources: ECB and ECB calculations.

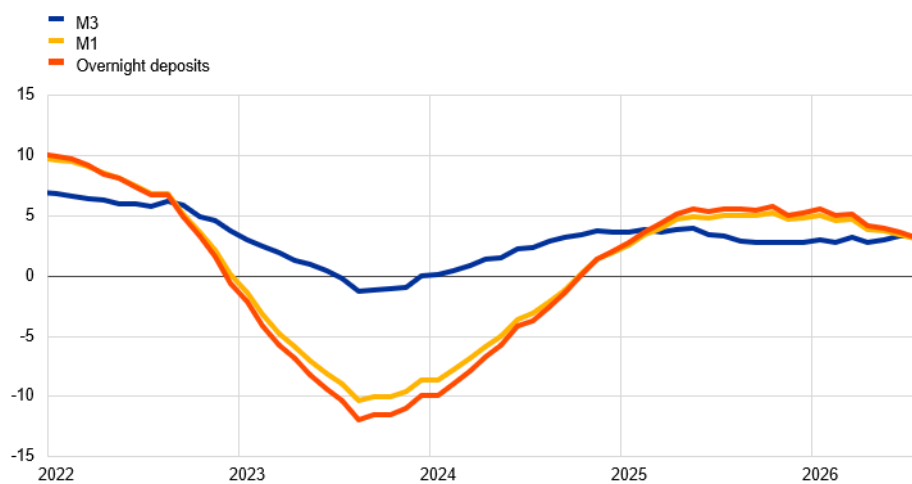
Notes: Loans from monetary financial institutions (MFIs) are adjusted for loan sales and securitisation; in the case of non-financial corporations, loans are also adjusted for notional cash pooling. The latest observations are for July 2026.

The annual growth rate of broad money (M3) increased slightly in June and July but remained moderate overall (Chart 23). Annual growth in M3 went up to 3.4% in July, having hovered around 3% since mid-2025. It remained well below its historical average of 5.2% observed since the start of 1999. However, monthly flows showed increased volatility in the months to July, driven by large monthly swings in net foreign flows. The annual growth rate of narrow money (M1) – comprising currency in circulation and overnight deposits – decreased to 3.1% in July, down from 3.7% in May and 3.5% in June. This decline reflects sizeable deposit outflows from non-bank financial intermediaries in July, which offset some of the inflows seen in the previous months. From a counterpart perspective, domestic credit has played a larger role in money creation since the start of the Middle East conflict. By contrast, the reduction of the Eurosystem balance sheet continued to weigh on M3 growth.

Chart 23

M3, M1 and overnight deposits

(annual percentage changes, adjusted for seasonal and calendar effects)



Source: ECB.

Note: The latest observations are for July 2026.

According to the September 2026 ECB staff macroeconomic projections for the euro area, the euro area fiscal stance is expected to loosen in 2026 before tightening again in 2027 and 2028.¹² The projected loosening in 2026 is broad-based on the expenditure side, while the subsequent tightening reflects the reversal of temporary energy support measures, the expiry of most Next Generation EU (NGEU) financing and non-discretionary factors. The general government budget deficit, which stood at 3.0% of GDP in 2025, is projected to increase markedly to 3.6% of GDP in 2026, peak at 3.7% in 2027 and decline to 3.6% in 2028. The euro area debt-to-GDP ratio is expected rise to just below 90% of GDP in 2028, as the continuous primary deficits and deficit-debt adjustments outweigh the favourable effects of interest rate-growth differentials.

After turning neutral in 2025, the euro area fiscal stance is expected to loosen by 0.5 percentage points of GDP in 2026 before tightening by a similar amount cumulatively over 2027 and 2028.¹³ The loosening in 2026 is broad-based on the expenditure side. Higher government investment reflects increased defence and infrastructure spending, particularly in Germany but also in other, smaller countries, alongside NGEU-funded expenditure. Fiscal transfers are also set to rise, driven by strong growth in pension expenditure and other social payments, as well as by NGEU-funded capital transfers to firms. Temporary energy support measures introduced by governments since the start of the conflict in the Middle East provide an additional stimulus of around 0.1% of GDP in 2026, mainly through lower indirect taxes and higher subsidies. In 2027 the fiscal stance is projected to tighten by around 0.4 percentage points of GDP, partly reflecting the reversal of these energy support measures and the expiry of most NGEU financing. This tightening is broad-based across countries, albeit partly offset by continued fiscal stimulus in Germany. The remaining tightening over 2027 and 2028 is explained by non-discretionary factors, notably fiscal drag and the decoupling of tax bases from GDP.¹⁴ Compared with the June 2026 Eurosystem staff macroeconomic projections for the euro area, revised historical data for Germany and France point to a somewhat looser fiscal stance in 2025, while the outlook remains broadly unchanged thereafter.

The euro area general government budget balance is expected to deteriorate, with the deficit peaking well above the 3% threshold in 2027 (Chart 24). Looking back, the euro area budget deficit declined slightly from 3.1% of GDP in 2024 to 3.0% in 2025. The 2025 figure has been revised up by 0.1 percentage points compared with the June 2026 projections, mainly reflecting revised data for

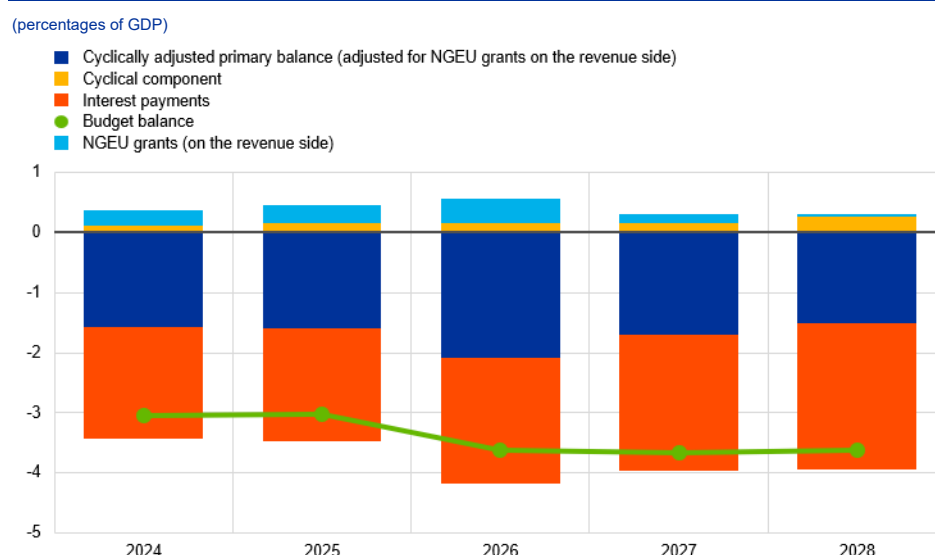
¹² See “[ECB staff macroeconomic projections for the euro area, September 2026](#)”, published on the ECB’s website on 10 September 2026.

¹³ The fiscal stance reflects the direction and size of the stimulus from fiscal policies to the economy beyond the automatic reaction of public finances to the business cycle. It is measured here as the change in the cyclically adjusted primary balance ratio net of government support to the financial sector. Given that the higher budget revenues related to NGEU grants from the EU budget do not have a contractionary impact on demand, the cyclically adjusted primary balance is adjusted to exclude those revenues. For more details on the euro area fiscal stance, see the article entitled “[The euro area fiscal stance](#)”, *Economic Bulletin*, Issue 4, ECB, 2016.

¹⁴ Fiscal drag refers to the increase in tax revenue that occurs when nominal tax bases grow, but the parameters of a progressive tax system are not adjusted accordingly.

Germany. Looking forward, the budget deficit is projected to increase markedly to 3.6% of GDP in 2026, peak at 3.7% in 2027 and decline marginally to 3.6% in 2028. Most of the deterioration in the budget balance is expected to occur in 2026, reflecting the loosening of the fiscal stance. In addition, interest payments are projected to increase by 0.2 percentage points of GDP in 2026 and by a further 0.3 percentage points cumulatively over 2027 and 2028. Over the same period, the favourable cyclical component and the projected fiscal tightening are expected to broadly offset the continued increase in interest payments, leading to a slight improvement in the fiscal position in 2028. Compared with the June 2026 projections, the budget balance remains broadly unchanged over the projection horizon, as the base effect from the higher deficit in 2025 and the slight loosening of the fiscal stance in 2026 are offset by more favourable cyclical developments.

Chart 24
Budget balance and its components

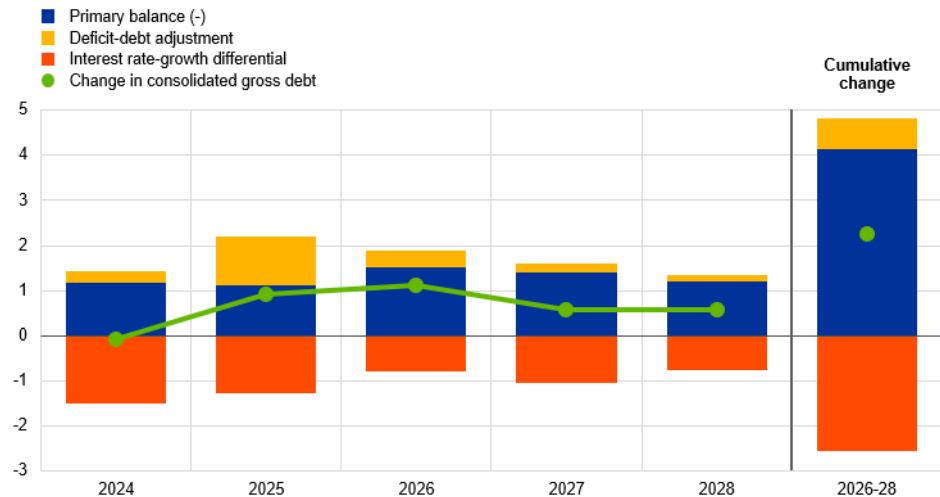


Sources: ECB calculations and [ECB staff macroeconomic projections for the euro area, September 2026](#).
Note: The data refer to the aggregate general government sector of all 21 euro area countries.

The euro area debt-to-GDP ratio is expected to follow an upward path over the projection horizon to reach just below 90% of GDP in 2028. This marks a reversal of the significant decline observed between 2021 and 2024. The debt-to-GDP ratio is expected to increase from 87.1% in 2025 to 89.4% by the end of the projection horizon. This increase reflects continuous primary deficits and small but consistently positive deficit-debt adjustments, which are only partly offset by favourable interest rate-growth differentials (Chart 25). Compared with the June 2026 projections, the general government debt ratio has been revised down throughout the projection horizon. This can be attributed to a lower debt ratio calculated for 2025 and more favourable interest rate-growth differentials owing to higher nominal GDP growth.

Chart 25**Drivers of change in euro area government debt-to-GDP ratio**

(percentages of GDP, unless otherwise indicated)



Sources: ECB calculations and ECB staff macroeconomic projections for the euro area, September 2026.

Note: The data refer to the aggregate general government sector of all 21 euro area countries.

Recent fiscal governance developments have focused on excessive deficit procedures and the scope for extending the national escape clause to energy-related expenditure. The Council of the European Union opened an excessive deficit procedure for Bulgaria on 10 July, while the excessive deficit procedures for six other euro area countries are held in abeyance.¹⁵ The Council of the EU has so far approved the activation of the national escape clause for defence expenditure for 14 euro area countries.¹⁶ On 18 August the European Commission published a Notice providing further details on its earlier proposal to broaden the scope of the national escape clause to energy-related measures, announced as part of the European Semester Spring Package 2026.¹⁷ The Notice explains that the extension covers measures that strengthen the structural security and resilience of the European energy system and accelerate the transition away from fossil fuels. So far only Greece and Italy have requested such an extension, although the Commission has indicated that requests submitted at a later stage would also be considered.

¹⁵ The euro area countries currently subject to an excessive deficit procedure are Belgium, Bulgaria, France, Italy, Austria, Slovakia and Finland.

¹⁶ The national escape clause has been activated for Belgium, Bulgaria, Germany, Estonia, Greece, Spain, Croatia, Latvia, Lithuania, Austria, Portugal, Slovenia, Slovakia and Finland. On 11 September Italy requested its activation for both defence expenditure and energy-related measures. Further information on the [national escape clause for defence expenditure](#) is available on the Council of the EU's website.

¹⁷ For further details, see the Commission Notice "[Guidance to Member States on Broadening the Scope of the National Escape Clause for Energy Security](#)".

Boxes

1 Which countries are most vulnerable to the industrial rise of China? Mapping Europe's uneven exposure

Prepared by Ginevra Aguiari, Francesco Chiacchio, Matteo Falagiarda, Vanessa Gunnella and Emiel Cornelius Marchand

The rapid industrial transformation of China creates an uneven distribution of challenges and opportunities across EU economies. The so-called “China shock 2.0” combines a number of developments in China, including a rapid expansion of high-technology manufacturing, a stronger policy focus on industrial self-reliance and pervasive gains in price competitiveness. While these developments have intensified competitive pressures in some sectors, they may also benefit European economies through lower-cost imports, investment linkages and technological spillovers.¹ The balance of risks and opportunities differs across EU countries, reflecting differences in sectoral specialisation, integration into manufacturing value chains and exposure to sectors in which Chinese firms have rapidly expanded. Understanding this heterogeneity is important from a broader EU perspective, as asymmetric exposure to global shocks can have implications for competitiveness, investment and growth, as well as for macroeconomic convergence and the functioning of the monetary union.

The similarity between the goods export structures of China and several EU countries has increased substantially in recent years. An index measuring the overlap between the sectoral composition of Chinese goods exports and that of each EU country points to rising export similarity across a number of EU countries.² The increase is most pronounced in manufacturing-intensive economies, such as Germany, while it is more limited in countries with more specialised export structures, including some smaller EU countries (Chart A, panel a). Sectoral evidence suggests that this increase was driven mainly by machinery and transport equipment (Chart A, panel b), reflecting the rapid rise of China's automotive industry and a broader move up the value chain towards more advanced and technology-intensive products. This points to intensifying competition in sectors that have been key drivers of growth in some European economies over past decades, including automotive production and industrial machinery.

¹ See, for example, Amicucci et al. (2026), Anaya Longaric et al. (2026) and Lane (2026).

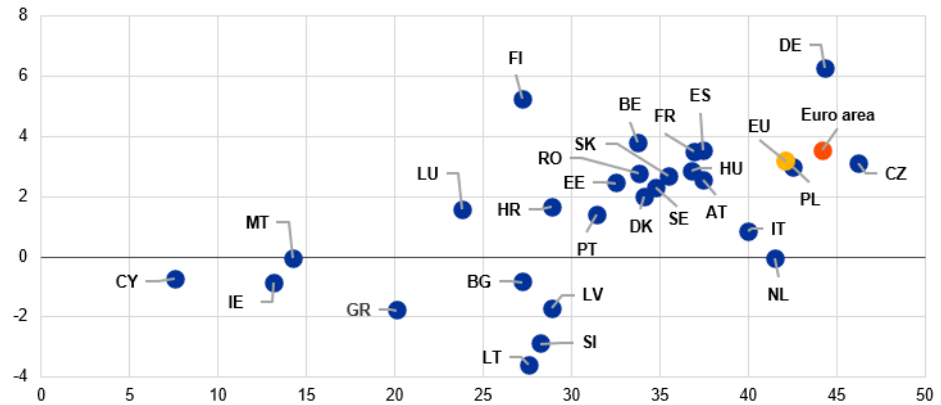
² The Export Similarity Index builds on the measure proposed by Finger and Kreinin (1979). For a recent application to China's trade patterns, see de Soyres et al. (2025).

Chart A

Similarity between the EU's and China's goods exports

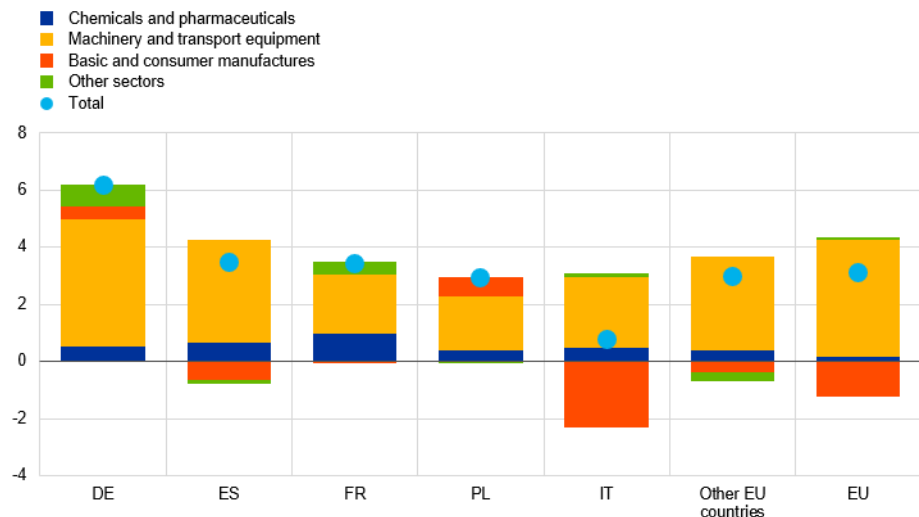
a) Export similarity with China in 2025 and change since 2019

(x-axis: similarity, percentages; y-axis: change, percentage points)



b) Sectoral contributions to changes in export similarity with China between 2019 and 2025

(percentage points and percentage point contributions)



Sources: Trade Data Monitor and ECB calculations.

Notes: The Export Similarity Index measures the overlap between the goods export structures of China and EU countries across sectors. Higher values indicate more similar export baskets. EU, euro area and "Other EU countries" aggregates exclude trade flows among countries within each aggregate. Panel b): Positive contributions indicate sectors in which export structures have become more similar over time, while negative contributions indicate increasing divergence. Sector classifications are based on Standard International Trade Classification (SITC) categories, with selected categories aggregated for presentation.

Alongside rising export competition, China appears to have become less dependent on European industrial imports.

The similarity between the goods export structures of EU countries and Chinese goods imports has decreased across the EU since 2019 (Chart B, panel a). The fall is most pronounced in economies integrated into European manufacturing and automotive value chains, including Germany and several central European economies. This largely reflects developments in machinery and transport equipment (Chart B, panel b), sectors in which these economies are highly specialised. This is consistent with greater competition from Chinese producers, substitution by other foreign suppliers, shifts in the composition of Chinese demand and recent weakness in domestic demand in

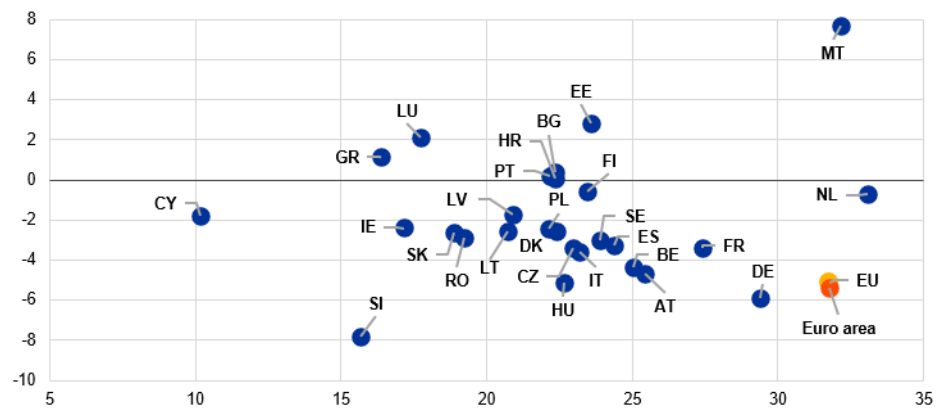
China. These developments have been accompanied by a marked decline in EU exports to China since 2019 (Chart C). While the decline is broad-based across EU countries, it has been particularly pronounced in Germany, reflecting the country's specialisation in manufacturing and capital goods.

Chart B

Similarity between EU goods exports and China's goods imports

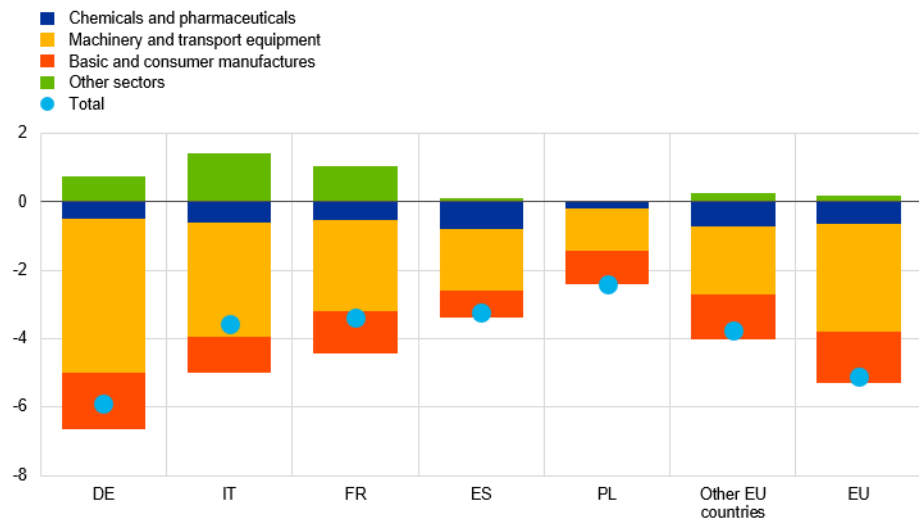
a) Partner similarity with China in 2025 and change since 2019

(x-axis: similarity, percentages; y-axis: change, percentage points)



b) Sectoral contributions to changes in partner similarity with China between 2019 and 2025

(percentage points and percentage point contributions)



Sources: Trade Data Monitor and ECB calculations.

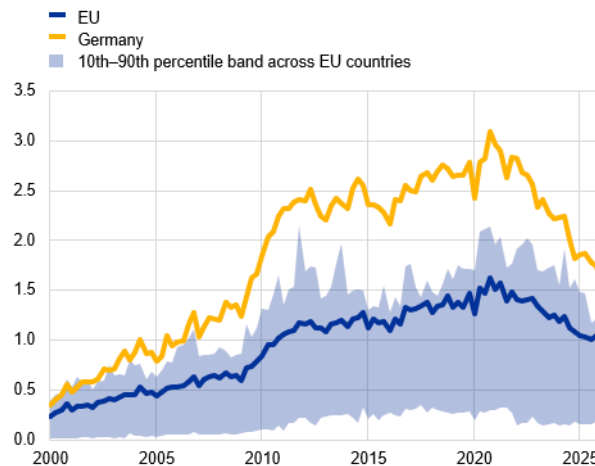
Notes: The Partner Similarity Index (de Soyres et al., 2025) measures the overlap between the goods export structures of EU countries and the sectoral composition of Chinese goods imports. Higher values indicate a closer match between EU exports and Chinese imports. EU, euro area and "Other EU countries" aggregates exclude trade flows among countries within each aggregate. Panel b): Positive contributions indicate sectors in which EU export structures have become more similar to the sectoral composition of Chinese imports over time, while negative contributions indicate increasing divergence. Sector classifications are based on SITC categories, with selected categories aggregated for presentation.

Chart C

EU exports of goods to China

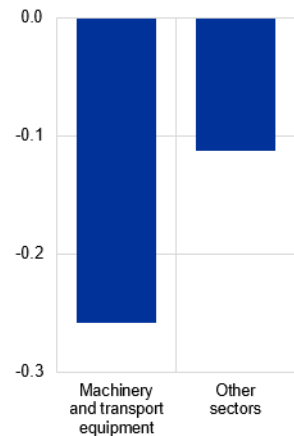
a) EU exports to China

(percentages of GDP)



b) Change in EU exports to China between 2019 and 2025

(percentage points of GDP)



Sources: Trade Data Monitor, Eurostat and ECB calculations.

Note: The chart shows 12-month cumulative exports to China as a percentage of nominal GDP.

Rising competition from China and declining Chinese dependence on European imports are weighing on EU export performance.

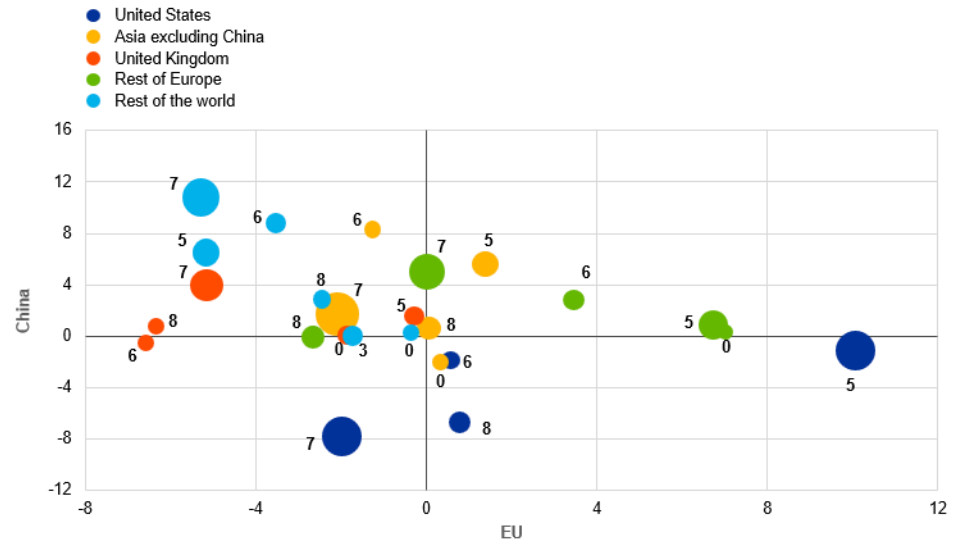
Although global trade has continued to expand in recent years, the EU's share in global goods exports has declined, particularly in sectors and destinations where China has strengthened its global presence, notably machinery and transport equipment (Chart D). In Asia, it is likely that China's deep integration into regional supply chains and its growing strength in intermediate and capital goods are amplifying competitive pressure. In more price-sensitive third markets, Chinese firms may also be benefiting from cost advantages and broader product ranges.³ By contrast, EU countries have increased their export market shares in the United States, while China's share has declined, which may reflect trade reorientation linked to recent US-China trade tensions. These gains have been concentrated in higher-value-added sectors, highlighting areas in which European firms remain internationally competitive.

³ Rising competition from Chinese exporters may affect European firms not only through lower export market shares but also through reduced pricing power and lower profit margins in competing sectors (Al-Haschimi et al., 2024).

Chart D

Changes in EU and Chinese goods export market shares for selected products and destinations between 2019 and 2025

(changes in export market shares, percentage points)



Sources: Trade Data Monitor and ECB calculations.

Notes: The bubbles refer to the following SITC sectors: 0 (Food); 3 (Energy); 5 (Chemicals and pharmaceuticals); 6 (Basic manufactures); 7 (Machinery and transport equipment); 8 (Consumer manufactures). The colour indicates the export destination, while the bubble size reflects the share in extra-EU exports in 2025. Only sectors accounting for more than 1% of extra-EU exports are shown.

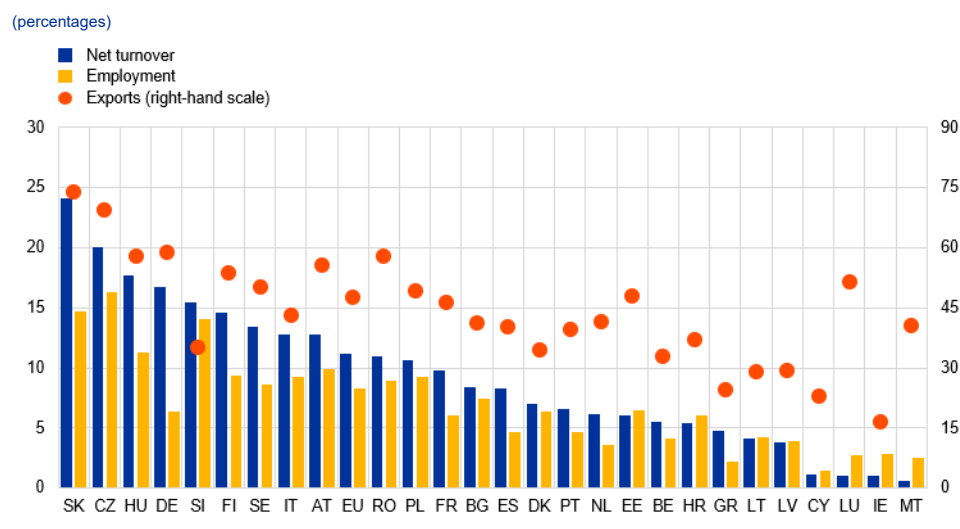
The industrial rise of China is redefining global trade, leaving European economies unevenly exposed.

While the aggregate picture is largely shaped by manufacturing-intensive economies, the effects vary considerably across countries and sectors. Economies specialised in machinery, transport equipment and other capital goods appear more exposed to rising competition from Chinese firms and declining Chinese demand for imported industrial goods. By contrast, some sectors have shown greater resilience so far, highlighting areas in which European firms remain internationally competitive.⁴ In addition, some of the economies most exposed to rising competition from China are also highly reliant on sectors dependent on critical raw materials (Chart E), highlighting potential vulnerabilities in strategic supply chains and to Chinese export restrictions on these materials (Attinasi et al., 2025; Banin et al., 2025). Understanding the uneven impact of China's rise across countries and sectors can help inform policy responses at the EU and national levels. For the most exposed economies, diversifying supply chains, strengthening domestic industrial capacity and fostering innovation may be important to enhance resilience and adapt to a changing global trade environment.

⁴ The analysis focuses on goods trade and does not reflect strengths in services trade, where several European economies maintain strong international positions. Nor does it capture the potential benefits of deeper economic linkages with China, including through investment flows and technology transfer.

Chart E

Dependence on critical raw materials by country



Sources: Eurostat, Trade Data Monitor and ECB calculations.

Notes: Blue bars show the share of firms' net turnover in sectors dependent on critical raw materials (NACE sectors 24-30). Yellow bars denote the corresponding share of employment. Orange dots denote the corresponding share of total goods exports. Employment and turnover data refer to 2024; export data refer to 2025.

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Navigating uncertainty: how the Middle East conflict is shaping expectations and coping strategies of firms

Prepared by Katalin Bodnár, Davide Fantino, Sara Lamboglia and Laura Lebastard

The Survey on the Access to Finance of Enterprises (SAFE) in the euro area for the second quarter of 2026 sheds light on the exposure of firms to the conflict in the Middle East, its impact on their expectations, and their coping strategies.¹ Building on earlier analysis based on the survey for the first quarter of 2026, which revealed a significant shift in expectations among firms surveyed after the outbreak of hostilities in the Middle East on 28 February 2026, ad hoc questions included in the wave for the second quarter provide further evidence on how the conflict is affecting euro area firms.² The latest survey round also allows us to assess whether the distribution of firms' answers shifted after the announcement of the Memorandum of Understanding (MoU) between Iran and the United States on 14 June, with about a quarter of respondents replying after the announcement was made.³ Maritime attacks subsequently resumed in early July, highlighting the continued relevance of firm-level analysis on the impact of the conflict.

Firms in the trade sector, exporters and small and medium-sized enterprises (SMEs) reported the highest exposure to the conflict in the Middle East. On average, large firms reported being less exposed to the conflict than SMEs, with 28% reporting an exposure score of over seven on a scale of one to ten, compared with 35% for SMEs (Chart A). Exporting firms reported a higher degree of exposure on average than non-exporters. This likely reflects two factors: (i) exporting firms may operate in geographically distant markets that are more directly affected by the conflict in the Middle East than the euro area; and (ii) exporters are more likely to engage in importing activities (Bernard et al., 2012), heightening their vulnerability to global supply chain disruptions. While exporters tend to be larger firms, the greater exposure of SMEs suggests that size and internationalisation may affect firms through different channels: exporters are more exposed given their stronger integration into global trade networks, whereas SMEs may have limited ability to absorb cost shocks or adjust supply chains. SMEs are also more reliant on consumer demand and more sensitive to the energy shock associated with the conflict.⁴ Across sectors, the largest share of highly exposed firms is found in the trade sector (comprising wholesale and retail trade) and the smallest share in other services. The lower exposure of firms in the other services sector likely reflects their smaller share in energy costs and a stronger domestic focus. These heterogeneities are confirmed when looking at average exposure scores as an alternative metric of the exposure of firms to the conflict.

¹ For more information, see the ECB's SAFE report for the second quarter of 2026.

² For previous analysis see Fantino et al. (2026).

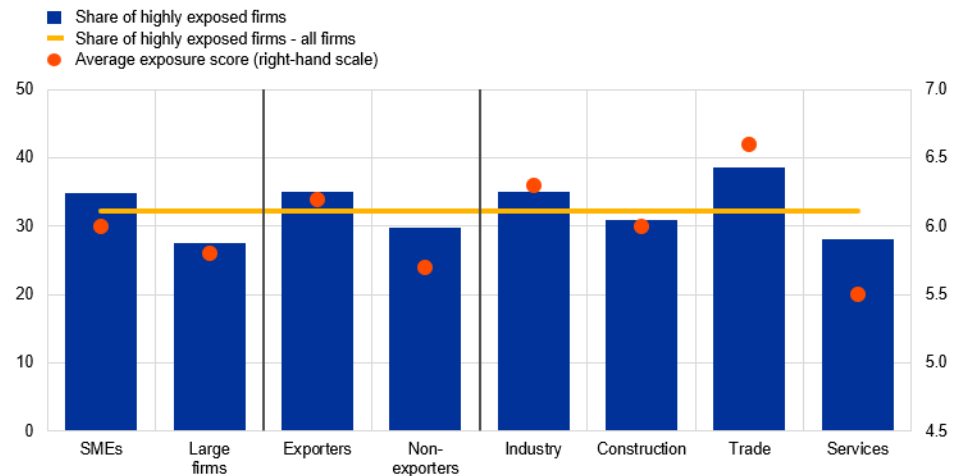
³ The fieldwork took place between 21 May and 26 June 2026.

⁴ See Dausà i Noguera et al. (2026).

Chart A

Share of firms that are highly exposed to the conflict in the Middle East and average exposure score, by firm type

(percentages and score 1-10)



Sources: SAFE and ECB staff calculations.

Notes: Survey-weighted results. "Highly exposed firms" refer to those that indicated a score of over seven on a scale of one to ten for the question "To what extent has the war in the Middle East (including higher energy prices, supply chain and shipping disruptions) affected your firm's business?" "Trade" stands for wholesale and retail trade. All the differences between average scores are statistically significant. The latest observations are for the second quarter of 2026.

The conflict in the Middle East has primarily affected firms' expectations for nominal variables and demand, while the impact on other real variables is seen as muted.

Firms reported that the conflict has had the largest effect on expectations for nominal variables, with a net 79% of firms expecting higher input costs, a net 58% higher selling prices and a net 43% higher wages over the next 12 months (Chart B). While more highly exposed firms reported an upward impact on expectations for input costs and selling prices than those that are less exposed, the effect on wage expectations was broadly the same across firms. This suggests that firms view wage developments as being driven primarily by broad-based inflationary pressures – as workers may seek compensation for expected increases in the cost of living – rather than by the degree of exposure of their sector or firm. A net 40% of firms reported that the conflict has had a negative impact on profit expectations. Looking at real variables, a net 14% of firms reported lower expectations for demand. By contrast, firms anticipated no change in their expectations for employment, average hours worked and investment growth, with net percentages for these variables close to zero. However, looking solely at highly exposed firms, a net 11% reported that the conflict has had a negative impact on their expected investment growth. Splitting the sample before and after the date of the MoU announcement showed little change in the distribution of answers. This suggests that the announcement had a limited effect on firms' assessment of the economic implications of the conflict.

Chart B

Impact of the conflict in the Middle East on firms' expectations

(net percentages)



Sources: SAFE and ECB staff calculations.

Notes: Survey-weighted results. In response to the question "How does the war in the Middle East and the associated changes in energy prices affect your firm's expectations over the next 12 months?", firms were able to report whether their expectations had increased, decreased or remained unchanged. Net percentages were calculated as the share of firms replying that their expectations had increased minus those replying that their expectations had decreased. "Low exposure" refers to firms that indicated a score of less than five on a scale of one to ten for the question in Chart A. The latest observations are for the second quarter of 2026.

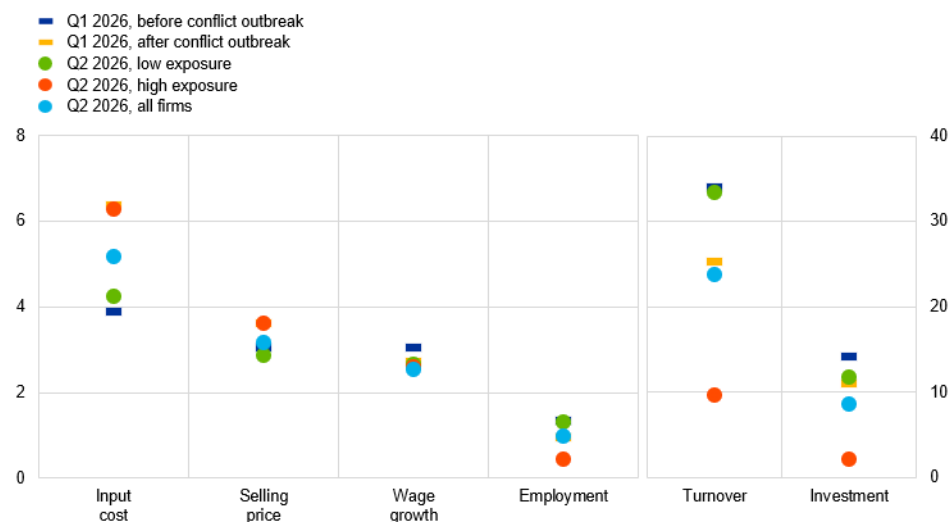
Firms' quantitative expectations for changes in input costs and selling prices remained elevated overall and above pre-war levels, but wage growth expectations eased (Chart C).

Firms that were highly affected by the conflict reported higher cost and price growth expectations – comparable to those observed in responses collected just after the outbreak of the conflict on 28 February – whereas the expectations reported by less affected firms aligned more closely with pre-conflict survey responses. By contrast, wage growth expectations eased somewhat compared with the previous round, both for highly exposed and less exposed firms. The easing of wage growth expectations in the second quarter compared with the first quarter appears to contrast with the net 43% of the firms that reported higher wage expectations following the outbreak of the conflict. However, this likely reflects that if the conflict had not existed, wage growth expectations would have slowed more significantly. This interpretation also seems to be consistent with the qualitative responses in the ECB's Corporate Telephone Survey on expectations for selling prices and wages (see Elding et al., 2026).

Chart C

Firms' expectations by exposure and interview date

(left-hand scale: percentage changes over the next 12 months; right-hand scale: net percentages of expected increases over the next three months)



Sources: SAFE and ECB staff calculations.

Notes: Survey-weighted average expectations of changes. Regular SAFE questions about expectations. Input cost, selling price, wage and employment expectations refer to the next 12 months. Turnover and investment expectations refer to three months ahead. Net percentages of expected increases were calculated as the share of firms replying that their expectations had increased minus those replying that their expectations had decreased. The "high exposure" and "low exposure" groups are classified as in Chart B. The latest observations are for the second quarter of 2026.

Qualitative expectations for turnover and investment growth over the next three months and employment growth expectations for the next 12 months weakened in the second quarter compared with pre-conflict levels.

The expected moderation was noticeably more pronounced for turnover than for investment. Highly exposed firms drove the expectations down, with only a net 10% of firms expecting turnover to increase and a net 2% expecting investment to rise – well below the figures recorded among all firms before the outbreak of the conflict in the first quarter (a net 34% and a net 14% respectively). Employment growth expectations over the next 12 months stood at 1.4% in the first quarter, before the outbreak of the conflict, and decreased to 1.0% in the second quarter when highly affected firms expected lower growth (0.5%).

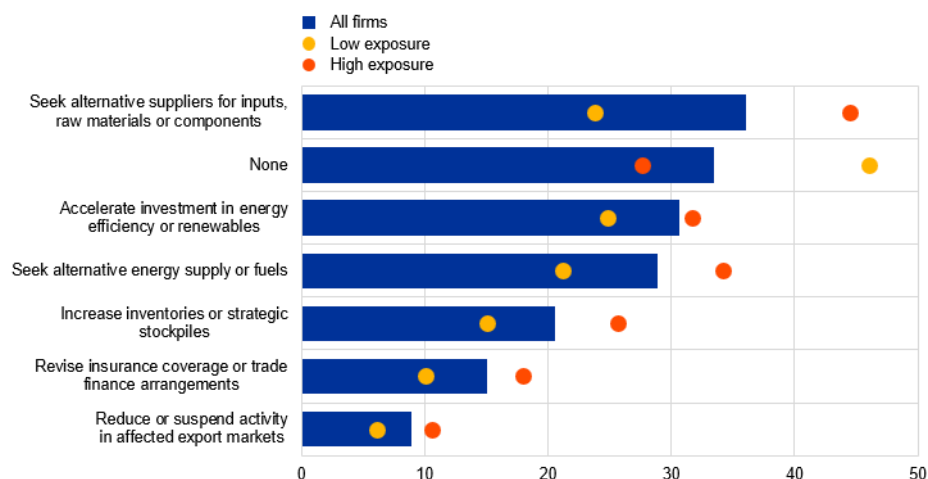
About two-thirds of respondents are taking action in response to the conflict by seeking alternative suppliers and accelerating investment in energy efficiency (Chart D).

The most common strategies reported by firms in response to the conflict were: seeking alternative suppliers for inputs, raw materials or components (36%), accelerating investment in energy efficiency or renewables (31%), and seeking alternative energy suppliers or fuels (29%). Almost half of low exposure firms reported taking no action, compared with only 28% of highly exposed firms. For the second group, the most common strategy was to seek alternative suppliers for inputs (44%). Very few firms reported having reduced, or planning to reduce, their activity in affected export markets. At the same time, a significant share of the firms that reported a low degree of exposure are also taking action to hedge against future shocks stemming from geopolitical tensions.

Chart D

Strategies of firms in response to the conflict in the Middle East

(percentages of respondents)



Sources: SAFE and ECB staff calculations.

Notes: Survey-weighted percentages of firms answering the question "Which of the following actions has your firm already taken or which plans has it made for the next 12 months in response to the geopolitical tensions in the Middle East?" Firms were able to select multiple options. The "high exposure" and "low exposure" groups are classified as in Chart B. The latest observations are for the second quarter of 2026.

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Main results of the latest euro area demographic projections

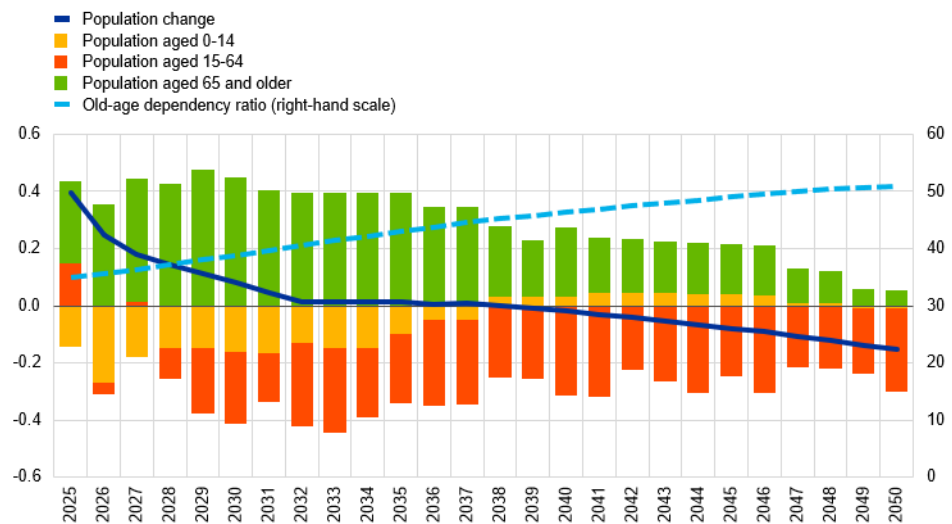
Prepared by Stephan Haroutunian, Leo Orlygsson and Joachim Schroth

The latest demographic trends suggest that the euro area population will rise temporarily before declining to stand at 358 million in 2050, the same as in 2025, albeit with a different age structure (Chart A). According to the EUROPOP 2025 projections, which were published on 16 April 2026, the population of the euro area is expected to edge up to a peak of 361.4 million in 2037 before falling afterwards.¹ The structure of the population will change significantly: the number of people aged 65 and over will increase, while the number of children (aged 0-14) and people of working age (aged 15-64) will decline.² The strong increase in the older population up to the middle of the next decade reflects the fact that a large contingent of the “baby boomer” generation will reach retirement age. There is then a decline in the 15-64 age group as those born during the recent period of low birth rates reach working age.

Chart A

Total population growth projections, age-group contributions and old-age dependency ratio

(left-hand scale: annual percentage changes and percentage point contributions; right-hand scale: percentages)



Sources: Eurostat and ECB calculations.

Notes: The solid blue line shows the projected annual percentage change for the total population in EUROPOP 2025 and the bars represent the percentage point contributions of the different age cohorts. The dashed blue line indicates the old-age dependency ratio, which is defined as the proportion of individuals aged 65 or older relative to the working-age population.

After 2050 the population decline is projected to broadly continue at the same rate and in the same composition as predicted for 2050. This decline – at an

¹ See European Commission (2026).

² The working age is commonly defined as people aged between 15 and 74 years old. However, for the economic and fiscal analysis of demographic change the 15-64 age group is more indicative.

average growth rate of around -0.2% per year – is mostly driven by a decrease in the working-age population. It results in an increase in the old-age dependency ratio, which is projected to increase from 35% in 2025 to 51% in 2050 and 62% in 2100.³ In other words, at present, for every one elderly person there are currently just under three people of working age; this will fall to around two working-age people for every one elderly person in 2050 and significantly below that in 2100.

Population projections for the next two decades have been revised up on account of higher migration inflows (Chart B). Net immigration flows into the euro area over the period from 2022 to 2024 were significantly higher than anticipated in the previous EUROPOP projections, which were published in 2023. This reflects stronger economic immigration and Russia's war in Ukraine lasting longer than anticipated. For the period from 2022 to 2050, average net immigration was revised up from 1.2 million people per year to around 1.4 million people per year. Spain accounts for more than half of this revision, with the country receiving one-third of the euro area's projected net inward migration. In line with past patterns, 77% of migrants are projected to be of working age. A further 20% are aged under 15 and thus likely to enter the labour force in the future, boosting potential economic growth.⁴ However, these migration projections are surrounded by great uncertainty and imply a ratio of net migration to population that is markedly higher than the long-run historical average. Furthermore, projected inward migration is concentrated in countries like Spain, where migration flows fluctuate considerably over the business cycle and can quickly reverse.

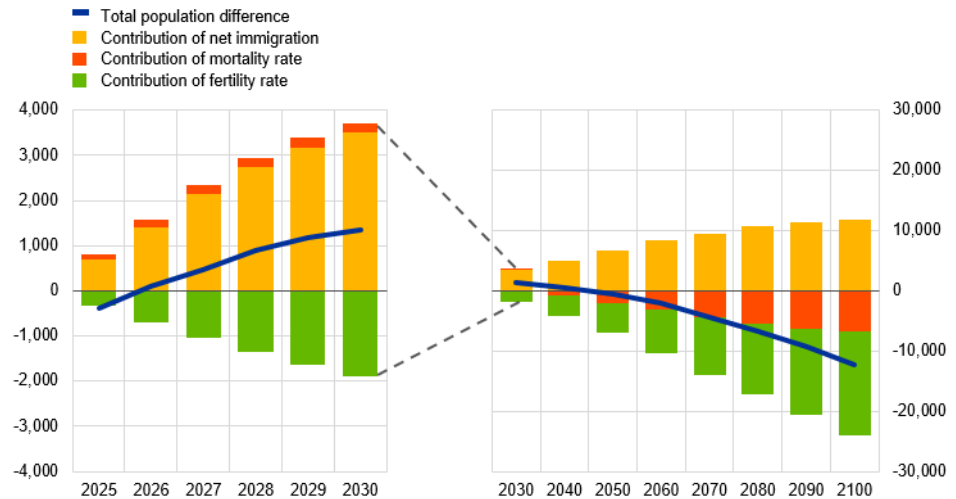
³ The projected decline in the aggregate population masks large cross-country heterogeneity. The population is projected to increase between 2025 and 2100 in seven euro area countries, notably in Luxembourg (+36.4%) and Malta (+26.0%). Among the 14 countries for which a population decline over this period is projected, Latvia (-34%), Lithuania (-33.4%) and Greece (-30.1%) are of particular note.

⁴ As discussed in Arce et al. (2026), over the past few years migration has generally contributed to an increase in the euro area labour force and supported economic growth. See also Consolo et al. (2026).

Chart B

Revisions to the euro area population outlook compared with EUROPOP 2023

(absolute difference in thousands of persons)



Sources: Eurostat and ECB calculations.

Notes: Revisions are calculated as the difference between the EUROPOP 2025 and the EUROPOP 2023 demographic projections for the change in population levels relative to 1 January 2025. The left-hand panel shows the yearly difference between the two sets of projections until 2030 and the right-hand panel shows the differences on a decade-by-decade basis. The blue line shows revisions to population stocks on 1 January, including a projection error of around -400,000 for 1 January 2025, while the stacked bars show cumulative revisions to population changes up to and including the respective year.

The euro area population in the longer run has been revised down from the previous EUROPOP projections as a result of significantly lower fertility rates.

In EUROPOP 2023 the total fertility rate was assessed to have fallen temporarily because of the pandemic, but the latest data show a more persistent decline. The total euro area fertility rate stood at 1.33 children per woman in 2024 and is projected to decline further until 2026. Like previous projections, EUROPOP 2025 predicts that the fertility rate will recover over the projection horizon, albeit to a lower level. This downward revision is based on certain cross-country convergence assumptions.⁵ It can also be explained by several socioeconomic factors affecting fertility around the world, some of which may not reverse in the near future. These include higher levels of female education and economic independence (Kim, 2026), housing shortages (Li, 2024) and the divergence in political opinions between young men and young women (Milosav et al., 2026) potentially making finding a compatible partner more difficult.

The most recent revision to the fertility rate has been the largest since the first EUROPOP in 2008 (Chart C).

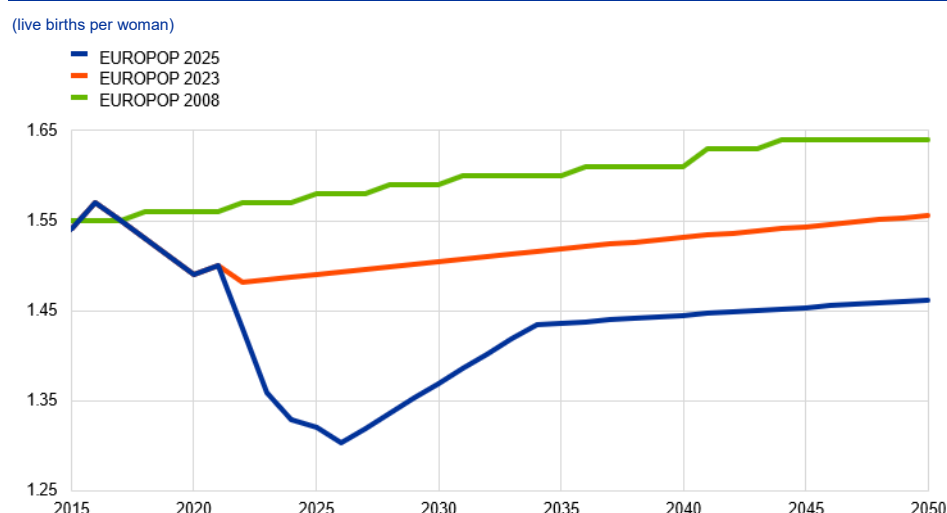
The European Commission has successively revised down fertility rates across EUROPOP vintages. However, the revision to the fertility rate compared with EUROPOP 2023 is as large as all previous revisions since 2008 – the first year the population projections were published in their current format – combined. Compared with EUROPOP 2008, 13 million fewer children were born or are projected to be born over the period 2020-50. The downward revision compared with EUROPOP 2023 was also sizeable, at -5.7 million. Together with the moderate upward revision to mortality rates, which had not fully returned to pre-pandemic

⁵ The decline of the fertility rate in 2025 and 2026 is based on the number of live births for the first half of 2025.

levels by 2024, this fully offsets the stronger net inward migration by 2050. In the second half of the century, despite an assumed further recovery in the fertility rate from 1.46 children per woman in 2050 to 1.53 by 2100, the decline in population is more pronounced than in EUROPOP 2023, with the population in 2100 lower by 12 million. The biggest contributors to this fall are Germany (-9.4 million) and Italy (-5.4 million). This is only partly compensated for by Spain (+4.6 million), whose population is projected to be higher than that of Italy in 2100. While the strongest downward revisions are in the 0-14 population group, the working-age population in 2100 is also predicted to be 7 million people lower than projected in EUROPOP 2023. At 175 million, it is significantly lower than the current level of 228 million. However, if future pension reforms result in increased labour force participation, this decrease may not imply such a large drag on the potential growth component.

Chart C

Euro area fertility rate projections across different EUROPOP vintages



Sources: Eurostat and ECB calculations.

Note: The fertility rate is defined as the average number of children born to a woman over her lifetime.

The latest demographic outlook is likely to ease the cost-of-ageing pressures on public finances initially before intensifying them later on. The Commission's 2024 Ageing Report shows that age-related expenditure in the euro area – i.e. public spending on pensions, healthcare, long-term care and education – is projected to increase by 1.3 percentage points under the baseline scenario to reach 26.4% of GDP in 2050. The increase is due mainly to increasing pension and long-term care costs and, to a lesser extent, healthcare costs. Education costs are projected to decrease given the low fertility. According to EUROPOP 2025, the more benign demographic outlook up to around 2050, driven by stronger net immigration, is projected to lead to a lower old-age dependency ratio compared with EUROPOP 2023. This will somewhat ease the funding pressure on age-related expenditure until this migrant population retires. However, the persistence of net immigration is subject to great uncertainty, as the resolution of conflicts, for example, can lead to a reversal of some of these flows. At the same time, the lower fertility rates, a dimension which is more structural in nature than the evolution of net immigration, are lowering the population. This latter factor translates into smaller cohorts entering

the labour market, which in turn raises the old-age dependency ratio and the associated funding pressures on pension systems. Therefore, the more positive population developments compared with EUROPOP 2023 for the period up to 2050 should not lead to complacency on the need for pension system reforms.

Overall, a shrinking and ageing population continues to pose significant challenges for the euro area economy. Labour market and pension reforms should be geared towards increasing labour force participation. Higher age-related expenditure and a smaller tax base in the working-age population is likely to put increasing pressure on public finances.⁶ In particular, countries that already have vulnerable public finances should refrain from rolling back past pension reforms that have helped improve the sustainability of their pension systems. Rebuilding fiscal buffers that were depleted during the pandemic and energy crises and improving the growth-friendliness of public finances would make it easier to manage the increasing ageing-related costs.

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⁶ See also Bodnár and Nerlich (2022).

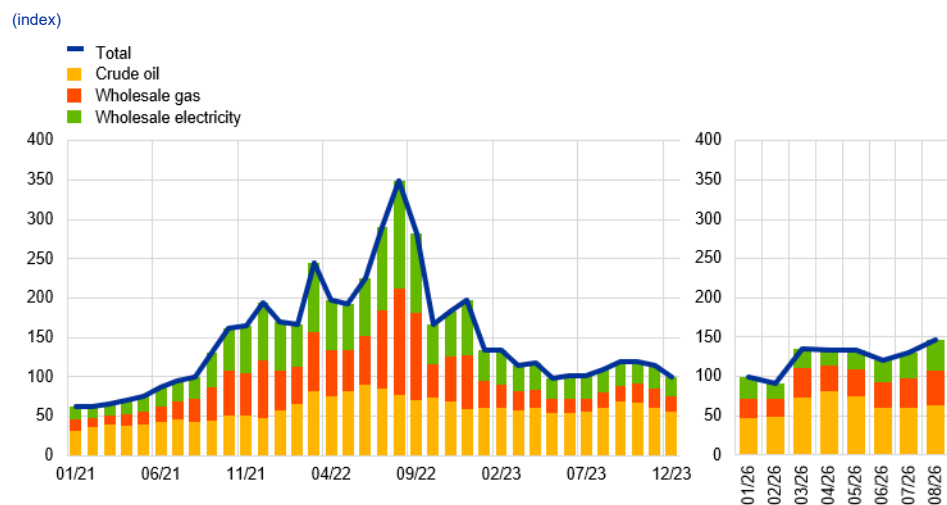
The uneven journey of wholesale gas and electricity prices to consumer bills

Prepared by Friderike Kuik, Eliza Lis and Johannes Schäfer

The sharp rise in energy prices in the first half of 2026 evoked memories of the 2021-22 energy price shock, but the nature of the shock in 2026 is different in several ways. So far, the 2026 energy price shock has been smaller in scale, with more limited increases in wholesale gas and electricity prices than during the last energy crisis (Chart A).¹ The impact of wholesale gas prices on wholesale electricity prices – which is typically strong with gas prices being the marginal price-setter for electricity prices – was dampened by a shift towards electricity generated from renewables. In addition, the way in which wholesale gas and electricity prices pass through to retail prices has evolved. This box examines how changes in wholesale gas prices are transmitted to consumers, focusing on their impact on wholesale electricity prices as well as retail price-setting for gas and electricity.²

Chart A

Total energy cost index for the euro area



Sources: LSEG Eurostat and ECB calculations.

Notes: Wholesale gas prices refer to the Dutch TTF gas prices. Crude oil prices (in EUR/barrel), wholesale gas prices (in EUR/MWh) and wholesale electricity prices (in EUR/MWh) are indexed to August 2021 = 100 and January 2026 = 100, and then aggregated. Aggregation weights for the total energy cost index are based on the respective contribution of oil, gas and electricity to EU final energy consumption, based on data up to and including 2024 and held fixed thereafter. The latest observations are for August 2026.

Pressures on electricity prices have been lower in 2026 compared with 2021-22, in part owing to higher shares of electricity generated from renewables. In 2021-22 droughts reduced hydropower generation and a large number of French nuclear power plants were under maintenance. This led to a high reliance on gas for electricity generation across Europe at a time when gas supplies were severely reduced following the outbreak of the war in Ukraine (Chart B, panel a).³ So far in

¹ See also European Central Bank (2026) and Demuth et al. (2026).

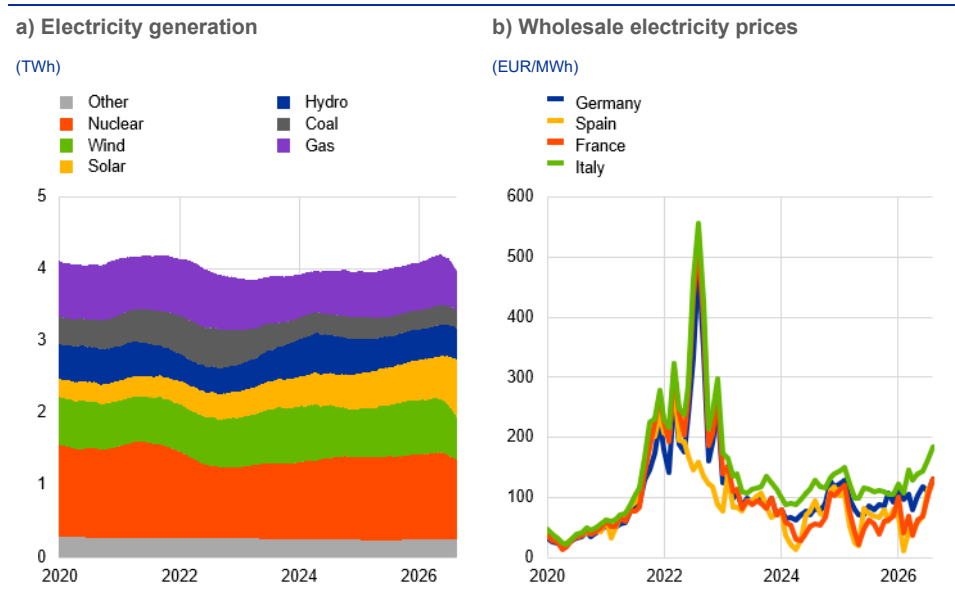
² For an analysis of the pass-through of crude oil to consumer fuel prices, see Kuik et al. (2026).

³ Kuik et al. (2022).

2026, gas market pressures have been comparably lower.⁴ Furthermore, many countries have increased their low-carbon electricity generation, particularly through renewables (Chart B, panel a). As a result, wholesale electricity prices have increased more modestly in 2026 compared with 2021-22. They have also diverged across European markets since the 2021-22 energy price shock (Chart B, panel b).

Chart B

Aggregate electricity generation and wholesale electricity prices in euro area countries



Sources: European Network of Transmission System Operators for Electricity, LSEG and ECB calculations.

Notes: In panel a), the data are based on a 365-day centred moving average of the sum of daily electricity generation in Germany, Spain, France and Italy. "Other" comprises electricity generated from various smaller sources, including biomass, geothermal energy, other renewables, oil, oil shale, peat and waste. In panel b), the data are based on monthly averages. The latest observations are for 20 August 2026 for panel a) and August 2026 for panel b).

The effect of rising shares of electricity generated from renewables on wholesale electricity prices is negative, non-linear and uneven across countries (Chart C). At the same time, there are substantial cross-country

differences in renewable electricity capacity and generation.⁵ Together, these factors can cause uneven price developments. In Spain, where the share of electricity generated from renewables is highest, the number of hours in which electricity prices are set by gas prices is consistently lower and has decreased substantially over the years (Chart D). Similar developments are seen in France, where nuclear power often dominates the electricity mix and price-setting. By contrast, in Italy, electricity prices are still frequently determined by gas prices.

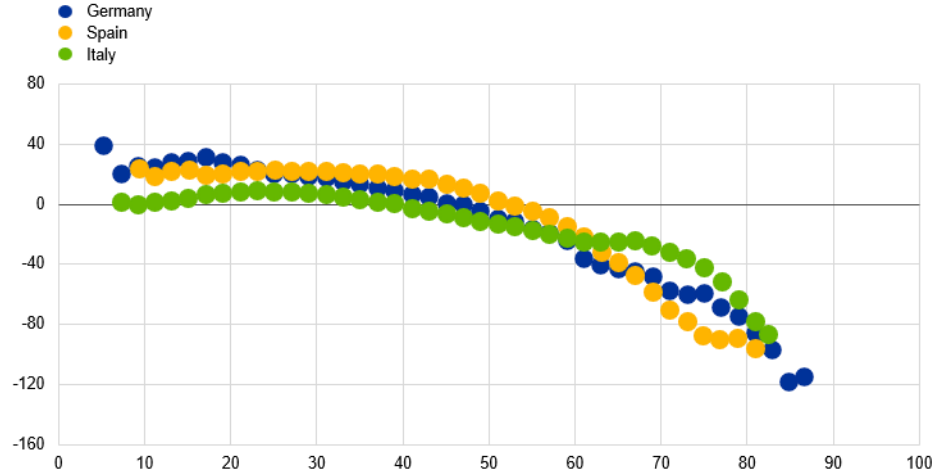
⁴ Demuth et al. (2026).

⁵ See European Commission (2026). For an explanation of broader policy considerations to meet EU energy security and climate neutrality objectives, see Grynberg et al. (2026).

Chart C

Wholesale electricity prices and renewable electricity generation

(x-axis: percentage share of renewable electricity generation, y-axis: percentage deviation from price expected)



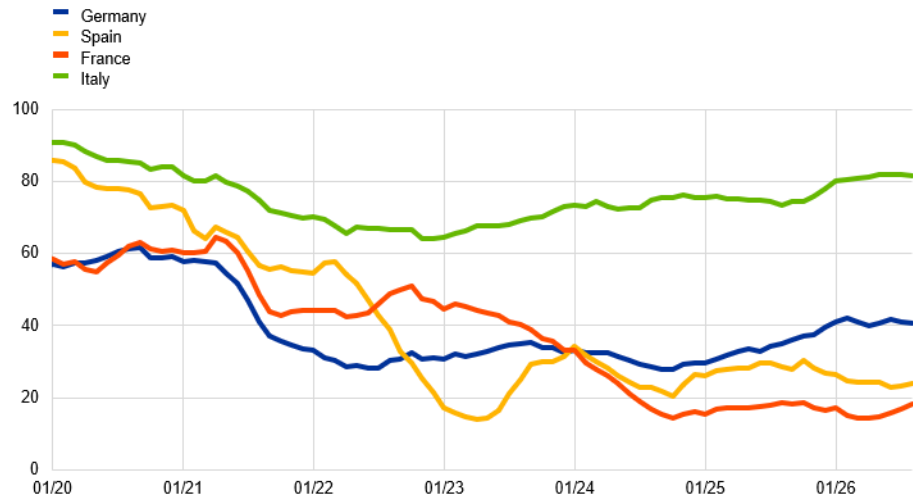
Sources: European Network of Transmission System Operators for Electricity, LSEG and ECB calculations.

Notes: Based on Quintana (2024), day-ahead wholesale electricity prices are regressed on natural gas and EU Emissions Trading System allowance prices. The regression residuals capture the deviation from the price expected with gas as the marginal price-setter, primarily reflecting the role of technologies other than gas as the marginal price-setter. Residuals are aggregated within 2 percentage point-wide bins of the corresponding renewable share. France is excluded given the outsized role of nuclear power in terms of both the share of electricity generation and price-setting. The data are from 2015 onwards. The latest observations are for July 2026. The data for June 2022 to February 2023 are excluded for Spain because the "Iberian exception" was in place, a policy measure decoupling wholesale electricity prices from gas prices.

Chart D

Hours in which gas sets the price of electricity

(average percentage share of hours within a month, 12 months centred moving average)



Sources: European Network of Transmission System Operators for Electricity, LSEG and ECB calculations.

Notes: The electricity price in a given hour is classified as gas price-setting if the hourly wholesale electricity price is equal to or greater than the short-run marginal cost of gas-fired electricity. This cost of gas-fired electricity is calculated from the daily wholesale gas price and the daily EU Emissions Trading System price, assuming 2 MWh of gas input per 1 MWh of electricity output and an emission factor of 0.4 tons of CO₂ per MWh of electricity produced with gas. The latest observations are for August 2026.

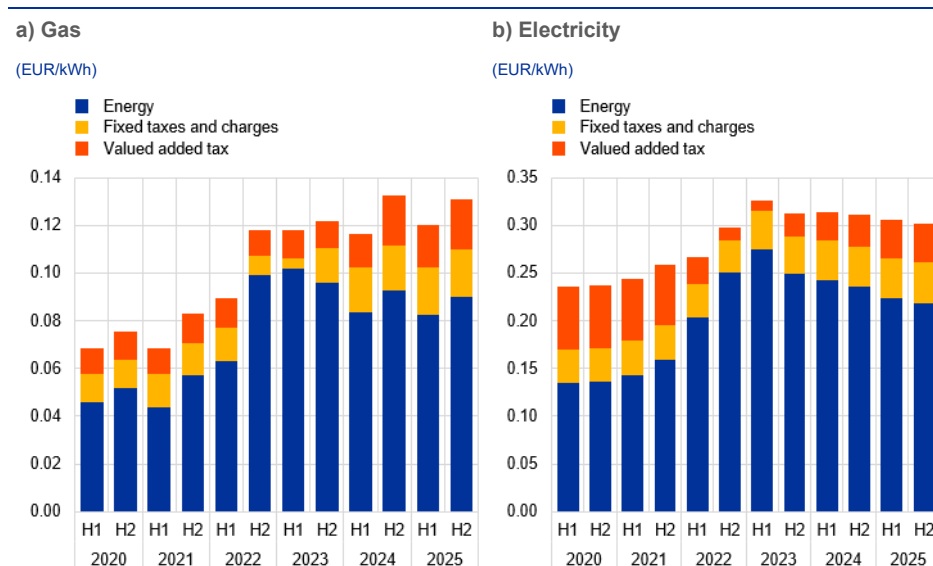
The pass-through of wholesale gas and wholesale electricity prices to gas and electricity inflation, as measured by the Harmonised Index of Consumer Prices (HICP), depends on retail price-setting mechanisms and price composition.

Retail prices can be regulated or market-based and can be adjusted flexibly or at

fixed intervals in both sectors. The pass-through rate is fastest when prices are market-based and flexibly adjusted. Relatively slow-moving taxes and charges dampen the transmission of wholesale energy price changes to HICP gas and electricity inflation. In 2025 taxes and charges accounted for 31% of gas prices and 27% of electricity prices, on average, in the euro area (Chart E).⁶ The strength of pass-through can also depend on the duration of the energy price spike. For example, in countries where energy providers buy electricity and gas years in advance on the futures market and offer longer-term contracts to their customers, a short-lived spike in wholesale prices may only have a limited impact on consumers.

Chart E

Retail price composition in the euro area



Sources: Eurostat and ECB calculations.

Notes: The retail prices shown apply to consumers who fall within the median consumption bands of 20-199 GJ for gas and 2000-4999 kWh for electricity. Aggregated data for euro area countries are based on HICP weights using each country's contribution to euro area gas and electricity.

The pass-through of wholesale prices to retail prices has sped up for gas prices overall, but the broad pattern of lagged and uneven transmission remains for both gas prices and electricity prices (Chart F).

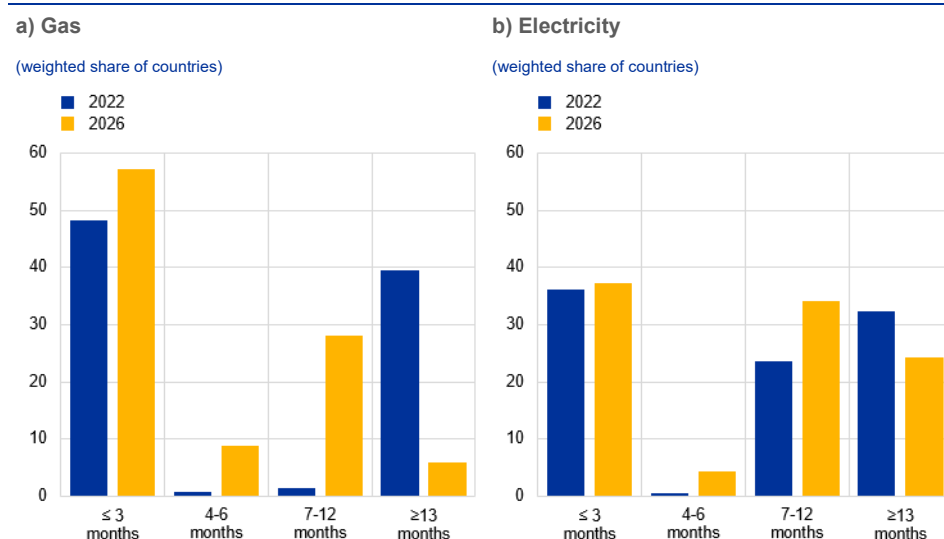
In several euro area countries, electricity and gas retail markets have been increasingly liberalised. New contract types tend to shorten the duration of fixed-term contracts or introduce more flexible tariffs. These tariffs often have closer links to wholesale prices, which increases the frequency of retail price changes. A 2026 survey of Eurosystem national central banks found that changes in wholesale gas prices are expected to be passed on to HICP gas inflation within 1-3 months in more than half of the euro area, within 4-6 months in around one-tenth of the euro area and within 7-12 months in around one-third of the euro area – all higher than in 2022. Notably, the share of countries to report a slow pass-through within 13-24 months has decreased from

⁶ The compilation of HICP gas and electricity price indices also plays a role in how quickly and intensely retail price changes show up in the HICP. Until 2023 some countries only recorded part of their existing contracts in the HICP (e.g. only new contracts), resulting in the HICP not being fully representative of the actual costs households face in times of high wholesale price swings. This methodology has now been adjusted to a representative coverage of different contract types.

around 40% to around 5% since 2022. The rate of pass-through for electricity prices is distributed more widely (between less than a month and up to two years) and is still estimated to be roughly the same as in 2022.

Chart F

Pass-through of changes in wholesale prices to HICP gas and electricity inflation in euro area countries



Source: ECB.

Notes: Based on a survey of Eurosystem national central banks. Answers are weighted by the contribution of each country to euro area HICP gas and electricity inflation.

Several structural features have evolved since the 2021-22 energy price shock and changed the transmission of wholesale gas prices to consumer bills. The growing share of renewables in electricity generation has weakened the mechanical link between wholesale gas and wholesale electricity prices. The pass-through of changes in wholesale prices to HICP gas inflation has accelerated. Alongside improvements in HICP electricity and gas price indices that better represent consumer costs, these developments suggest that shifts in wholesale gas prices may feed through to HICP gas inflation somewhat more swiftly than in the past, but less intensely for HICP electricity inflation, with cross-country variation remaining in both cases. Energy supply and demand continue to be affected by the conflict in the Middle East but were also affected by the extreme weather events during the summer. This implies that wholesale energy price dynamics require close monitoring, as their pass-through to consumer prices remains an important source of near-term volatility in HICP inflation.

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The evolution of financial conditions in the euro area and the United States: a Macro-Finance FCI perspective

Prepared by Tilman Bletzinger, Giulia Martorana and Jakub Mistak

Shifts in market expectations for the stance of US monetary policy can influence global financial conditions, including through spillovers to the euro area. Market expectations for US policy interest rates were revised significantly in both directions over the summer, amid heightened geopolitical risks and an uncertain economic outlook. As risks and uncertainty persist, policy rate paths for both the United States and other advanced economies remain subject to further reassessments. For the United States, the impact of such monetary policy reassessments is unlikely to remain confined to the domestic economy: a large body of empirical literature finds that US monetary policy shocks are transmitted strongly to euro area financial conditions.¹

To shed light on these spillovers, this box extends the Macro-Finance Financial Conditions Index (FCI), originally developed for the euro area, to the United States. The framework has several features which carry over to the US case.² The FCI is estimated through a vector autoregressive (VAR) model to summarise the information contained in a set of financial prices in a single index that is relevant for macroeconomic dynamics.³ It incorporates financial variables with minimal transformation and is expressed in units and a scale comparable to those of a policy rate. The US specification combines the effective federal funds rate, the ten-year Treasury yield, the real two-year forward Treasury rate one year ahead and real five-year spot Treasury rate, the mortgage and corporate bond spreads over Treasuries, the cyclically adjusted equity price-to-earnings (CAPE) ratio and the nominal effective exchange rate of the US dollar.

The estimated coefficients point to a dominant role for interest rates, alongside smaller contributions from credit spreads and equity valuations (Chart A, panel a). The effective federal funds rate carries the highest coefficient (0.63), followed by the two real rates (around 0.45 each) and the ten-year Treasury yield (around 0.40). The mortgage and corporate bond spreads enter with smaller coefficients (of about 0.11 each), capturing risk premia and borrowing costs for households and firms. The CAPE ratio carries a negative coefficient, consistent with higher equity valuations implying looser financial conditions. The dollar exchange rate receives the smallest positive weight, reflecting the relatively low trade openness of the US economy and the role of the US dollar as a global currency.⁴

¹ See, for example, Ca' Zorzi et al. (2023).

² For details of the methodology and a specification for the euro area, see Bletzinger et al. (2026).

³ The FCI is estimated jointly with the VAR on monthly data from January 1999 to December 2025. Inflation enters as the gap between annual personal consumption expenditures (PCE) inflation and the Federal Reserve's 2% inflation target, and economic output as its deviation from potential output.

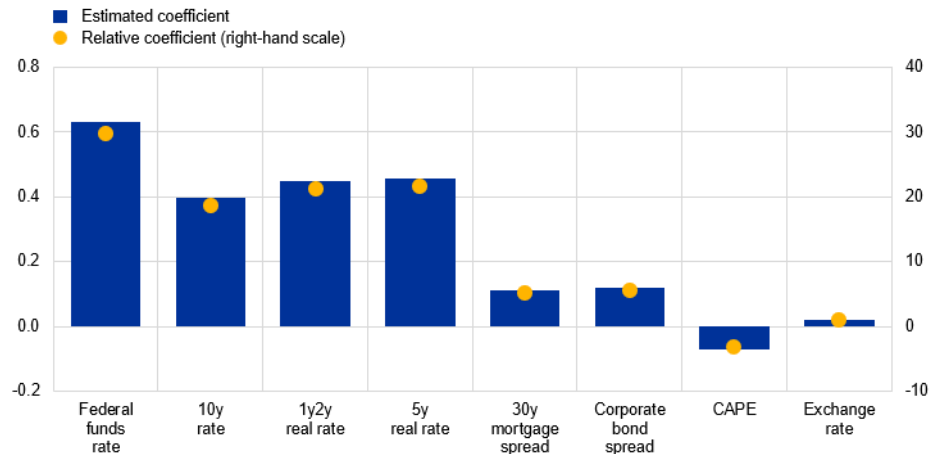
⁴ As in the euro area version of the Macro-Finance FCI, the coefficients are normalised such that the sum of their squared values is equal to 1.

Chart A

The US Macro-Finance FCI

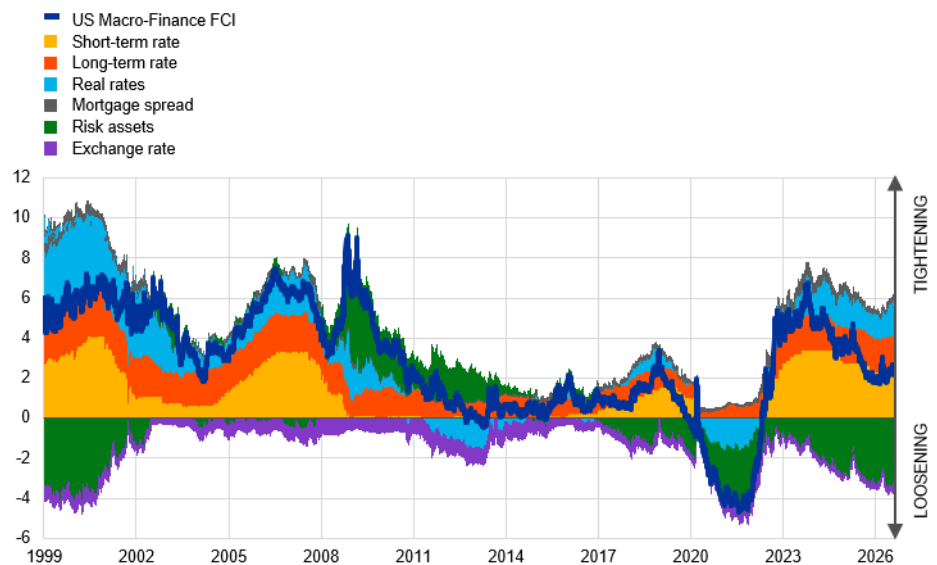
a) FCI coefficients

(coefficients)



b) The US Macro-Finance FCI and its decomposition

(index)



Sources: LSEG, Haver Analytics and ECB staff calculations.

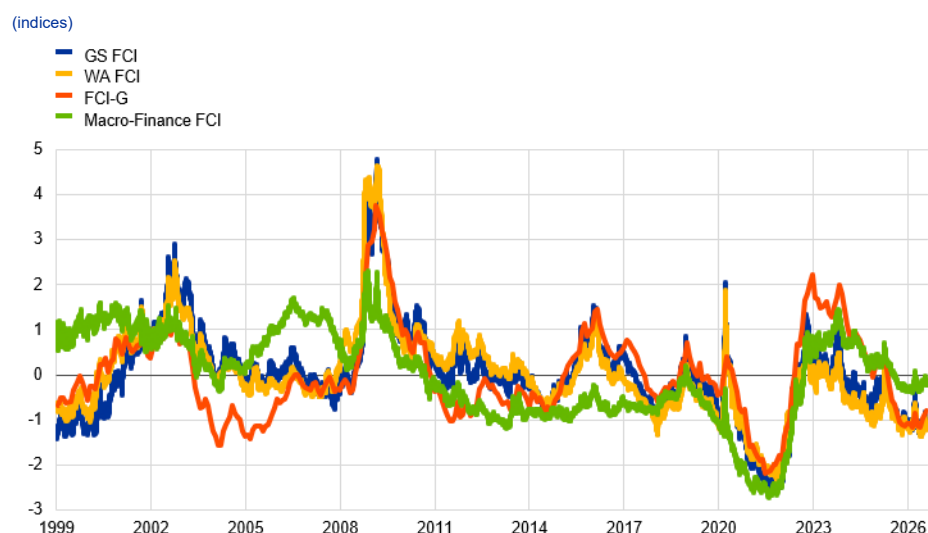
Notes: In panel a), the blue bars show the estimated coefficients of the variables entering the US Macro-Finance FCI; the yellow markers show the same coefficients normalised to sum to 100. In panel b), the index is decomposed into "short-term rate" (effective federal funds rate), "long-term rate" (ten-year Treasury yield), "real rates" (real two-year forward Treasury rate one year ahead and real five-year spot Treasury rate), "mortgage spread" (30-year mortgage rate less the 30-year Treasury yield), "risk assets" (A-rated corporate bond spread over the ten-year Treasury and the CAPE ratio) and "exchange rate" (nominal effective exchange rate of the US dollar). The latest observations are for 28 August 2026.

The US Macro-Finance FCI tracks the key economic and financial episodes in the United States since 1999 (Chart A, panel b). The index tightened persistently during the Federal Reserve System's 1999-2001 interest rate hiking cycle and reached its all-time high during the global financial crisis, with a tightening stemming from risk assets. It was stable over the period 2010-14, with the federal funds rate near the effective lower bound, and fell to its lowest level in August 2021 following the policy easing related to the COVID-19 pandemic. The most pronounced tightening in the sample was the 2022-24 hiking cycle. The financial conditions then

loosened throughout 2025 as the Federal Reserve began cutting rates, before tightening following the outbreak of the war in the Middle East. The index broadly co-moves with established US benchmarks, particularly during episodes of financial market stress, although it diverges at times owing to the benchmarks' heavier reliance on equity prices (Chart B).⁵

Chart B

The US Macro-Finance FCI and other US FCIs



Sources: LSEG, Haver Analytics and ECB staff calculations.

Notes: "GS FCI" is the Goldman Sachs FCI, "WA FCI" the weighted-average FCI and "FCI-G" the Financial Conditions Impulse on Growth. All FCIs are z-scored. The latest observation for the FCI-G is for July 2026. For all others, the latest observation is for 28 August 2026.

The US and euro area Macro-Finance FCIs display broadly synchronised dynamics, with the correlation between US and euro area financial conditions primarily explained by risk assets. Chart C plots the two indices in terms of gaps versus their model-implied unconditional means, such that zero corresponds to financial conditions consistent with inflation at target and output at potential in the respective VAR models, making the indices broadly comparable.⁶ Chart D captures this co-movement through the rolling correlation between the two indices, decomposed into the additive contributions of the main channels. The correlation remains positive throughout the sample and increases during episodes of global stress, such as the post-global financial crisis period and the pandemic. Risk assets are the dominant channel linking the two indices, while real and long-term rates make smaller but persistent positive contributions, particularly between 2022 and 2025, when the Federal Reserve and the ECB responded in broadly similar ways to a common inflation shock. By contrast, the foreign exchange channel reduces the correlation between the US and euro area FCIs during periods of monetary policy divergence between the ECB and the Federal Reserve.

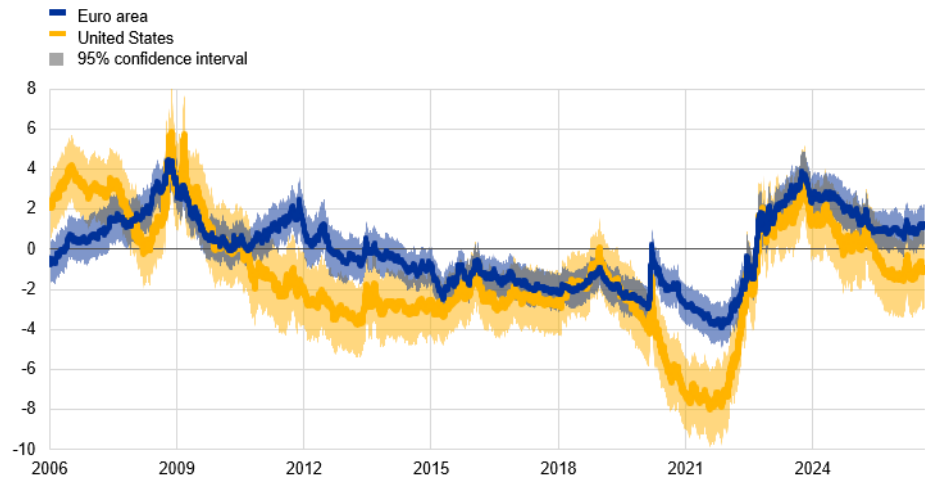
⁵ See Hatzius et al. (2017), Arrigoni et al. (2022) and Ajello et al. (2023).

⁶ The VAR model-implied unconditional mean provides a benchmark for financial conditions, analogous to the FCI* concept of Caballero et al. (2025), but with the limitation that the benchmark is constant over time.

Chart C

The Macro-Finance FCI gaps for the United States and the euro area

(indices)



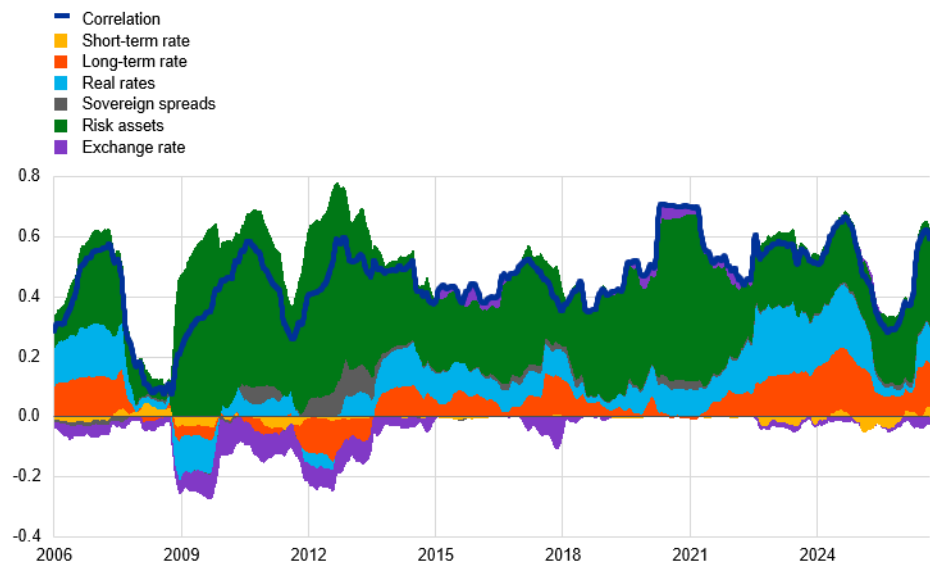
Sources: LSEG, Haver Analytics and ECB staff calculations.

Notes: Each Macro-Finance FCI is shown in terms of a gap versus its unconditional mean, which is the value consistent with inflation at target and a closed output gap. The shaded bands reflect parameter estimation uncertainty. The latest observations are for 28 August 2026.

Chart D

Time-varying correlation between US and euro area financial conditions, decomposed by channel

(correlation coefficients)



Sources: LSEG, Haver Analytics and ECB staff calculations.

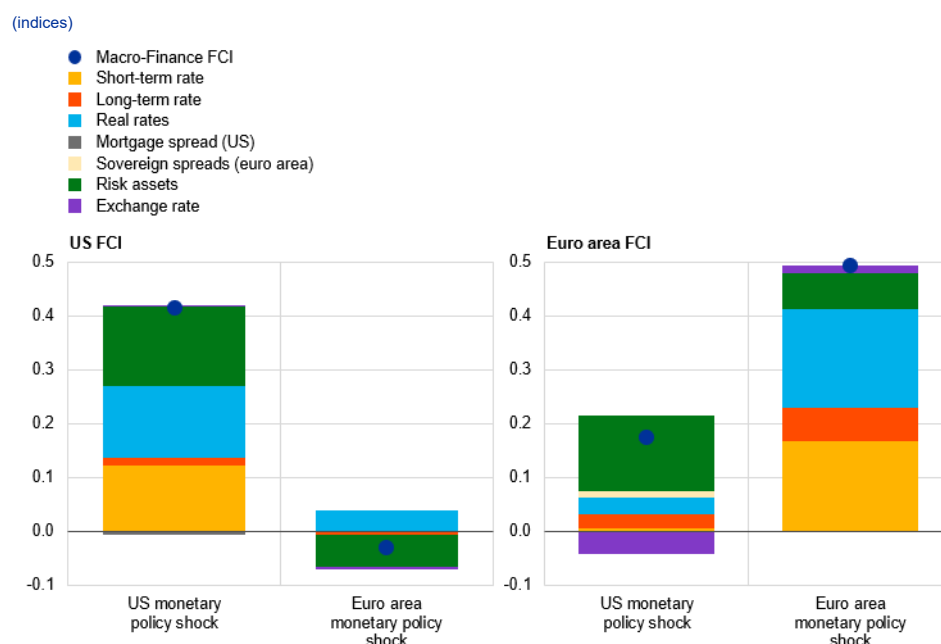
Notes: The chart shows the rolling correlation between the five-trading-day changes in the US and euro area Macro-Finance FCIs, computed over a trailing window of 252 trading days and decomposed into contributions from the euro area channels, which are shown as coloured bands. The sample starts on 5 January 2006. The latest observations are for 28 August 2026.

Unexpected changes in US policy rates significantly affect euro area financial conditions, with the spillover transmitted mainly through risk assets. Chart E shows the estimated one-day responses of the US and euro area FCIs to an

unexpected 25 basis point tightening shock in either jurisdiction.⁷ A Federal Reserve tightening shock raises both the US FCI and, to a smaller extent, the euro area FCI, with the spillover driven primarily by risk-asset repricing and partly offset by the exchange rate channel.⁸ An equally sized ECB tightening shock raises the euro area FCI across long-term rates, real rates and risk assets, while having little impact on the US FCI.

Chart E

Decomposition of the Macro-Finance FCI responses to US and euro area monetary policy shocks



Sources: LSEG, Haver Analytics, Jarociński and Karadi (2020) and ECB staff calculations.

Notes: Responses of the US (left panel) and euro area (right panel) Macro-Finance FCIs to 25 basis point Federal Reserve and ECB monetary policy shocks, identified from high-frequency surprises around the respective policy announcements. The dark blue markers show the response of the headline index; the coloured bars show the additive contributions of the individual channels.

Looking ahead, changes in the expected US policy rate path could affect euro area financial conditions, with risk assets likely to remain a key propagation channel. The estimates presented in this box suggest that risk assets account for most of the response of euro area financial conditions to US monetary policy shocks, by far the largest and statistically most robust of the channels considered. This reflects the high degree of integration of global equity and corporate bond markets and means that changes in the compensation required for holding US risk assets tend to spill over to euro area risk assets, transmitting US monetary policy to euro area financial conditions. Any reassessment of market expectations regarding the US policy rate path could therefore be followed by a broad-based repricing of risk

⁷ Daily changes in the two Macro-Finance FCIs and their components are regressed on US and ECB monetary policy shocks identified using high-frequency surprises around the respective policy announcements, following Jarociński and Karadi (2020).

⁸ The pass-through from US monetary policy shocks to euro area equities is consistent with previous evidence from Grothe et al. (2021).

assets and a spillover to euro area financial conditions irrespective of the ECB's policy stance.

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Prepared by Magdalena Grothe, Bruno Lopes Mendes, Ana-Simona Manu and Luca Tondo

In recent years US equity valuations have been supported by strong realised and expected earnings linked to the artificial intelligence (AI) boom. The “AI boom” refers to the fast pace of innovation and growing use of AI technologies since the public release of ChatGPT in November 2022, leading to investment opportunities in many sectors across the economy and rapidly rising equity valuations. Seen through the lens of a dividend discount model, increasing equity valuations can be supported by three main factors: higher earnings expectations, lower discount rates and lower risk premia.¹ The earnings seasons earlier this year saw many US companies report strong results, with the overall earnings growth for S&P 500 firms again outperforming earlier expectations.² Strong earnings have fed into expectations of further increases in profits, supported by the continued expansion of AI-related investment and expectations of associated productivity gains. One way to gauge the role of earnings, interest rates and risk premia in equity returns is by applying a dividend discount model, which breaks down returns into these key components. The model decomposition shows that expectations of continued rising corporate profitability are the main factor fuelling risk asset prices in the United States (Chart A, panel a). As well as supporting valuations, high earnings expectations also dampened equity risk, as shown by a decomposition of market-based estimates of tail risks to equity prices using quantile regressions (Chart A, panel b).

¹ For a broader historical discussion of technology-driven boom and bust cycles in equity markets, see Andersson et al. (2026).

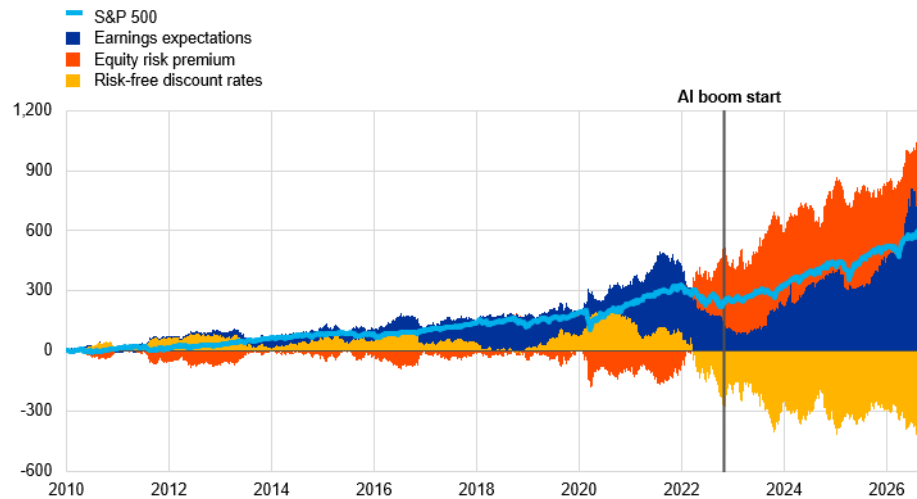
² For related analyses of US equity market developments, strong earnings performance, growing market concentration and related risks, see Grothe et al. (2024) and the ECB’s *Financial Stability Review* (2026).

Chart A

Drivers of US equity prices

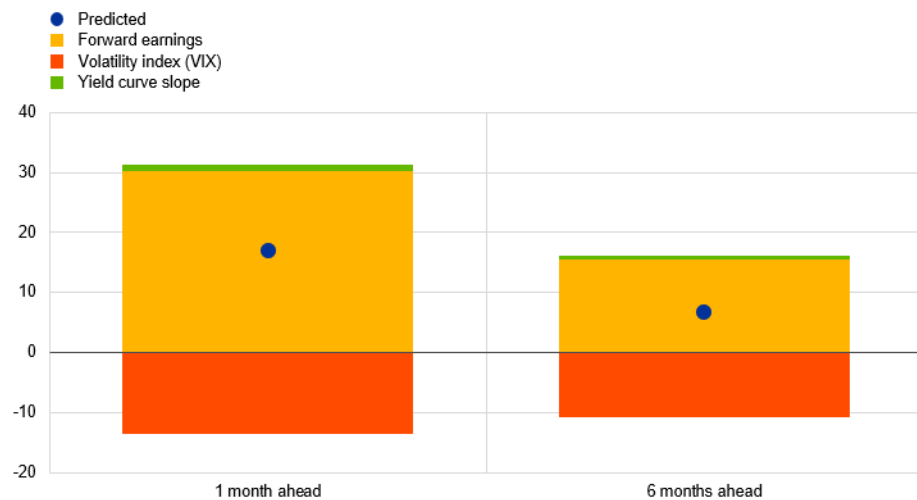
a) Decomposition of S&P 500 returns

(cumulative changes and contributions since January 2010 in percentage points)



b) Decomposition of predicted 10th percentile of S&P 500 returns

(year-on-year percentage changes)



Sources: Bloomberg, Cboe Global Markets, LSEG, Haver analytics and ECB staff calculations.

Notes: Panel a): The decomposition is based on a dividend discount model. The model includes share buybacks, discounts future cash flows with interest rates of appropriate maturity and covers three expected dividend growth horizons. The residual from decomposing the returns into earnings expectations and discount factors, shown in red, can be interpreted as the contribution from the equity risk premium. A higher contribution means a lower equity risk premium. Positive contributions can be interpreted as risk-on sentiment, supporting equity prices beyond the contributions from earnings expectations and discount rates. "AI boom start" refers to end-October 2022. Panel b): The dots denote the expected 10th percentile of year-on-year S&P 500 returns for one-month and six-month horizons estimated with quantile regressions. The variables in the model are the term spread (10y-2y), implied equity volatility (Cboe Volatility Index (VIX)) and 12-month forward earnings per share growth. The latest observations are for 21 August 2026 (panel a, weekly data) and 31 August 2026 (panel b).

During the AI boom, risk appetite in US equity markets has been strong and the compensation investors expect to receive for equity risk has fallen to low levels. The equity risk premium is a common measure of the compensation demanded by investors for bearing equity risk, which can be interpreted as the excess return of equities over risk-free assets. It can be approximated as the difference between a company's earnings yield, which is a measure of the earnings a company is expected to generate over the next 12 months relative to its stock

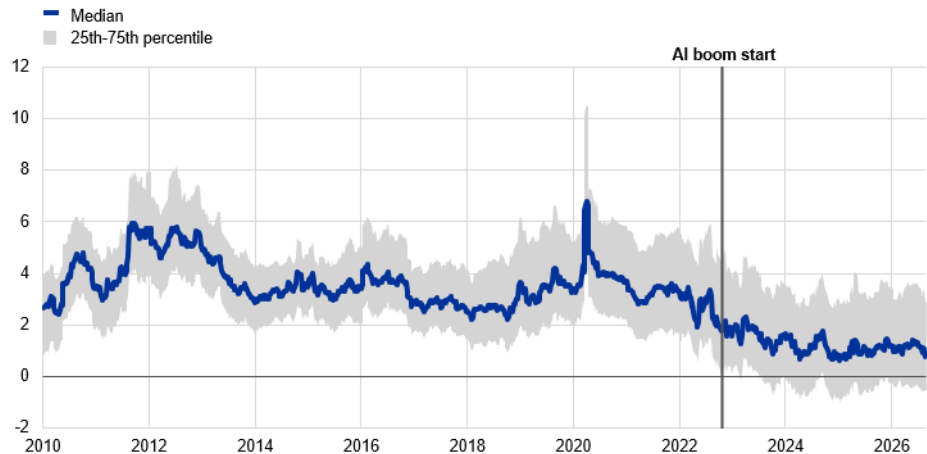
price, and the 10-year US Treasury bond yield. From a historical perspective, the distribution of equity risk premia across individual S&P 500 stocks has become compressed, falling close to zero for the 25th percentile (Chart B, panel a). A closer look at intra-sectoral firm-level distributions reveals that risk pricing in the equity market has become subdued across several US sectors. The trend is particularly marked in the technology sector, where many AI-related companies are classified, but can also be observed in other sectors such as industrials (Chart B, panel b). This likely reflects investors' heightened appetite for AI-related exposure, as well as broader optimism about the potential benefits to be gained from AI adoption. In addition, higher-risk stocks within sectors have benefited from more favourable risk pricing, as shown by the compression of the upper tails of the sectoral risk distributions, which is a sign of broader investor risk appetite across sectors.

Chart B

Equity risk pricing across S&P 500 companies

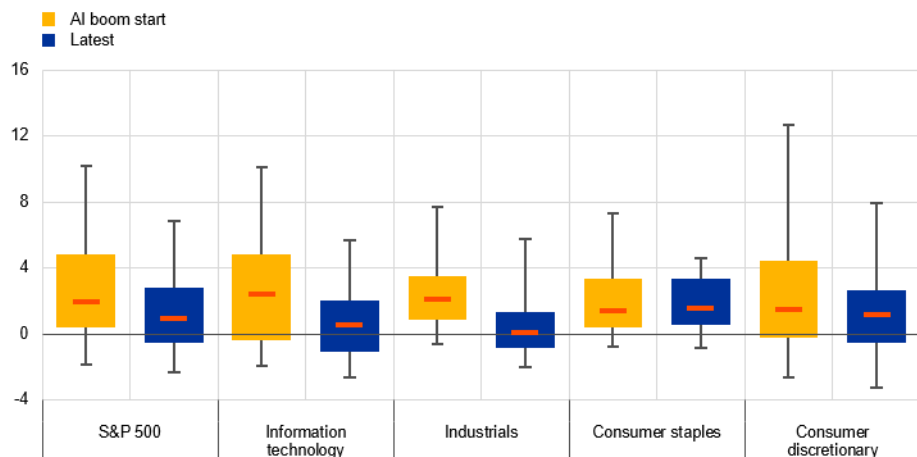
a) Distribution of S&P 500 equity risk premia

(percentage points)



b) Distribution of equity risk premia for S&P 500 sectors

(percentage points)



Sources: LSEG and ECB staff calculations.

Notes: The equity risk premium is proxied for each company in the S&P 500 index as the difference between the company's earnings yield and the 10-year US Treasury bond yield. In panel a), "AI boom start" refers to end-October 2022. In panel b), the red horizontal lines depict the median, the whiskers represent the 5th and 95th percentiles and the yellow and blue bars cover the 25th to 75th percentile range. The latest observations are for 28 August 2026 (weekly data).

Strong earnings and ample investor risk appetite have helped US stock markets stay resilient to pressures related to higher longer-term US interest rates and geopolitical headwinds.

The AI boom has kept US equity markets unusually insulated from large adverse shocks. This can be shown by comparing the reaction of the US equity risk premium to shocks before and after the start of the AI boom, using local projections and model-derived structural shocks. Since the start of the AI boom in autumn 2022, US equity risk premia have shown lower and insignificant reactions to adverse US macro shocks and to global risk-off shocks, contrasting sharply with the re-pricing patterns observed previously (Chart C, panel a). The high resilience of the US equity market to adverse geopolitical shocks was particularly evident during the initial weeks of the conflict in the Middle East. An

event study analysis helps summarise the reactions of equity returns to sharply increasing geopolitical risk during the first three months of the conflict. The results show that during the initial phase of the conflict in March 2026, the AI-related segment of the US market (here proxied by the “Magnificent 7” group of firms) and the information technology sector more broadly remained largely insulated from the shock, while other sectors such as consumer staples experienced a fall in equity returns (Chart C, panel b).³ In April and May the broader US equity market stayed resilient to geopolitical headwinds, led by the AI-related segments.

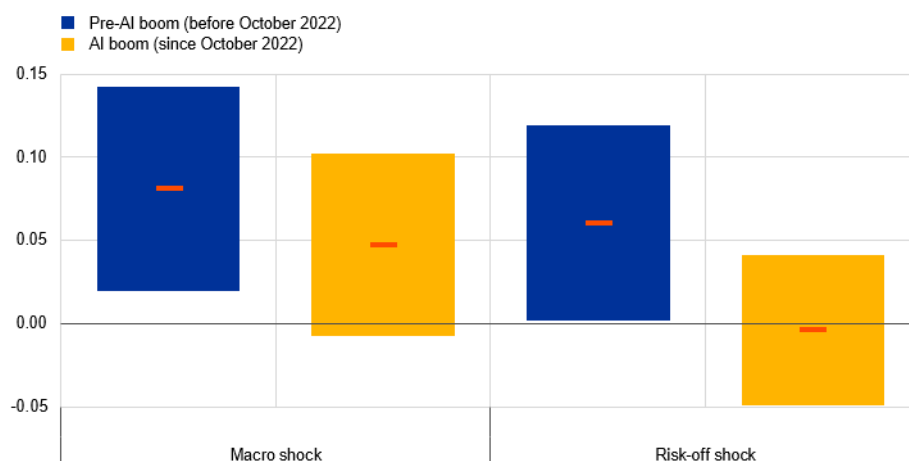
³ See also a related analysis of recent market reactions to geopolitical shocks in Ferrari Minesso et al. (2026).

Chart C

Sensitivity of US equity risk pricing to adverse shocks

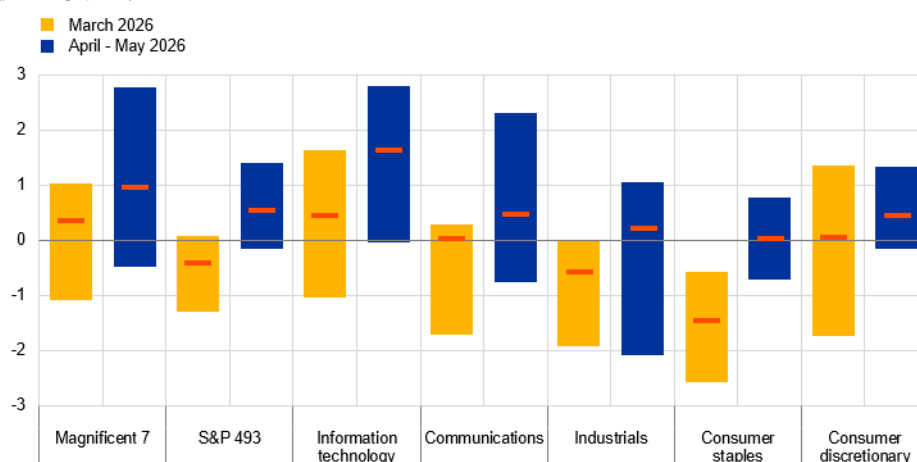
a) Response of US equity risk premia to adverse structural shocks before and since the start of the AI boom

(percentage points)



b) US equity returns around peaks in geopolitical risk – March to May 2026

(percentage points)



Sources: Bloomberg, LSEG, Haver analytics and ECB staff calculations.

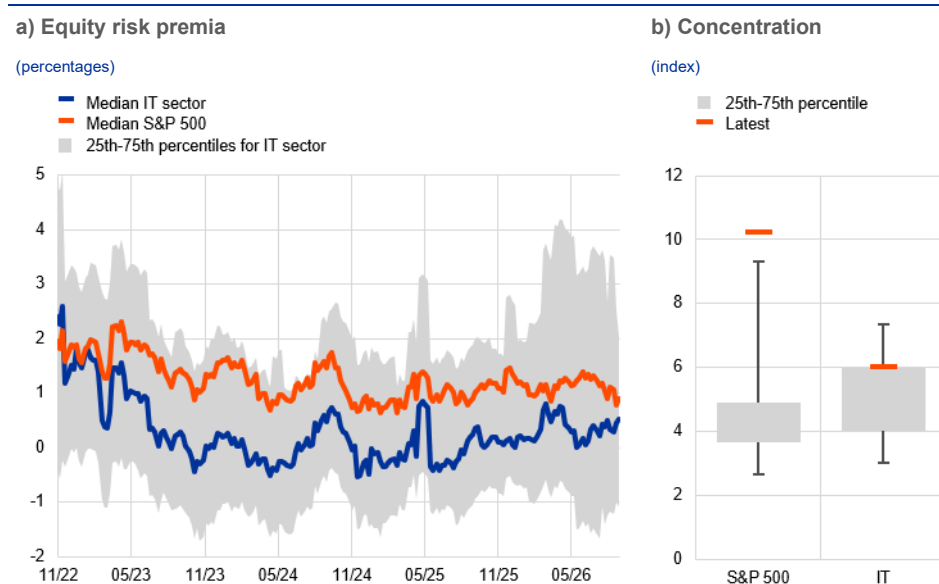
Notes: Panel a) shows the sensitivity of the median equity risk premium across companies in the S&P 500 index to adverse US macro shocks and adverse global risk-off shocks, estimated using local projections. The shocks are identified in a two-country BVAR model as in Brandt et al. (2026) and are calibrated to a one-week decline in the equity price of 3% for the adverse macro shock and 2% for the risk-off shock. The blue and yellow bars represent the 95% confidence interval while the red line represents the mean response. Panel b) shows the range of equity returns across selected events causing high levels of geopolitical risk. Equity returns are computed for selected sectors two days around the events. The event days are selected based on the ten highest levels of the geopolitical risk index during the initial phase of the Middle East conflict in March 2026 and during the more recent period since the initial ceasefire announcement. The red horizontal lines depict the median. The latest observations are for 31 August 2026 (panel a, weekly data) and for 29 May 2026 (panel b).

Despite favourable risk pricing, weakening sentiment towards the AI-driven rally and increasing price differentiation across technology firms are creating risks of broader adjustments in an increasingly concentrated market. A closer look at the distribution of equity risk premia across individual technology stocks illustrates that – while the median risk price has remained significantly compressed in recent months – the tails of the distribution have widened (Chart D, panel a). This indicates that some parts of the market, particularly the higher-risk stocks within the upper tail of the risk premium distribution, are vulnerable to fading investor risk

appetite, with investors starting to demand higher risk compensation for their investments. Furthermore, a sell-off in a small number of such firms could cause broader market declines, given the highly concentrated nature of the equity market. The Herfindahl-Hirschman Index, a measure of market concentration, is above its historical 95th percentile for the broader S&P 500 and above its 75th percentile for the IT sector (Chart D, panel b). This concentration amplifies the risk that significant underperformance by a few mega-cap stocks – particularly those tied to substantial AI-related investments – could spill over to the broader market. That could also raise broader concerns about whether optimistic profit expectations can materialise simultaneously for firms and whether large-scale, debt-financed investments will remain sustainable amid rapidly evolving technology.

Chart D

Equity risk pricing and concentration in US technology sector and S&P 500



Sources: Bloomberg, LSEG and ECB staff calculations.

Notes: Panel a): The equity risk premium is computed for each company in the S&P 500 technology sector as the difference between the company's earnings yield and the 10-year US Treasury bond yield. Panel b): Concentration is measured by an adjusted Herfindahl-Hirschman Index ranging from 1 to the number of companies considered. The whiskers represent the 5th and 95th percentiles of the distribution of the index computed since 1990. The latest observations are for 28 August 2026 (panel a, weekly data) and 29 August 2026 (panel b, weekly data).

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Liquidity conditions and monetary policy operations from 6 May to 28 July 2026

Prepared by Samuel Bieber and Christian Lizarazo

This box reviews the Eurosystem liquidity conditions and monetary policy operations in the third and fourth reserve maintenance periods of 2026.

Together, these two maintenance periods ran from 6 May to 28 July 2026 (the “review period”).

Average excess liquidity in the euro area banking system continued to decline.

Liquidity provision decreased over the review period, owing primarily to lower Eurosystem holdings under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) following the discontinuation of APP reinvestments at the beginning of July 2023 and PEPP reinvestments at the end of December 2024. An increase in net autonomous factors also contributed to the overall reduction in excess liquidity.

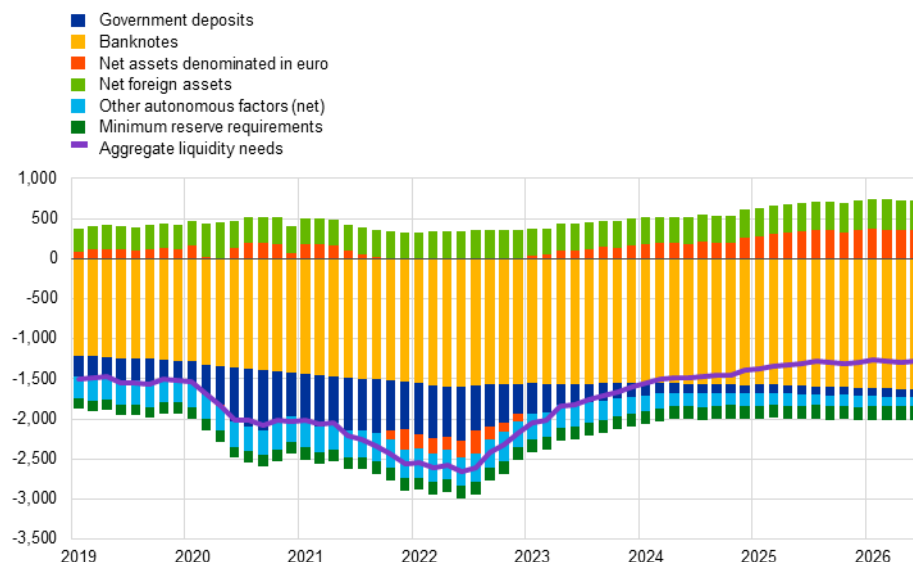
Liquidity needs

The average daily liquidity needs of the euro area banking system, defined as the sum of net autonomous factors and reserve requirements, increased by €11 billion to €1,284 billion over the review period (Table A). The higher level of liquidity needs was driven by a rise in net autonomous factors, mainly reflecting a decline in liquidity-providing autonomous factors (Table A). Minimum reserve requirements rose by €2 billion to €174 billion, also contributing to the increase in liquidity needs.

Chart A

Aggregate liquidity needs by reserve maintenance period

(EUR billions)



Source: ECB.

Notes: Each bar shows the averages for each maintenance period. There are eight maintenance periods a year, with the eighth period extending into the following calendar year. The latest observations are for the fourth maintenance period of 2026.

Liquidity-providing autonomous factors declined by €11 billion over the review period, owing primarily to a decrease of €15 billion in net assets denominated in euro. This reduction was attributable to a rise in euro-denominated non-monetary policy deposits, which are liquidity-absorbing. At the same time, net foreign asset holdings increased by €4 billion, partly offsetting the decline in liquidity-providing autonomous factors.

Liquidity-absorbing autonomous factors decreased more modestly by €2 billion over the review period. This reflected an increase of €16 billion in the average value of banknotes in circulation, which was more than offset by declines of €10 billion in net other autonomous factors and €8 billion in government deposits held with the Eurosystem.

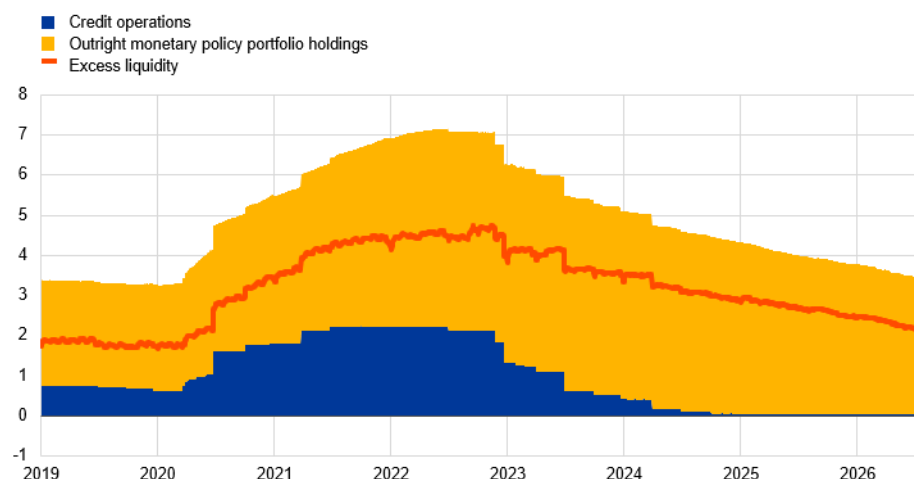
Liquidity provided through monetary policy instruments

The average amount of liquidity provided through monetary policy instruments fell by €147 billion to €3,485 billion over the review period (Chart B). This decrease in liquidity provision was primarily due to a €150 billion reduction in Eurosystem outright monetary policy portfolio holdings, following the continued redemption of APP and PEPP holdings in the absence of reinvestment. As a result, the amount of liquidity provided by these portfolios declined to €3,458 billion over the review period.

Chart B

Liquidity provided through open market operations and excess liquidity

(EUR trillions)



Source: ECB.

Note: The latest observations are for the fourth maintenance period of 2026.

The average amount of liquidity provided through credit operations increased by €3 billion to €27 billion over the review period. The average outstanding amounts of main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs) rose by €1 billion and €2 billion respectively. Participation in these regular operations remained limited, reflecting the ample liquidity position of banks and the ready availability of alternative market-based funding sources. However, the number of banks testing the viability of their participation has continued to grow in 2026, indicating that they are building up their operational readiness to access these operations.

Excess liquidity

Excess liquidity fell by €157 billion to €2,201 billion over the review period (Chart B). Excess liquidity is the sum of the reserves that banks hold in their current accounts in excess of the minimum reserve requirements and their recourse to the deposit facility net of their recourse to the marginal lending facility. It reflects the difference between the total liquidity provided to the banking system via monetary policy instruments and the liquidity needed by banks to cover their minimum reserves. Having peaked at €4,748 billion in November 2022, excess liquidity has declined steadily.

Interest rate developments

During the review period, the Governing Council raised the three key ECB interest rates by 25 basis points, including the deposit facility rate through which it steers the monetary policy stance. Following this increase, the rates on

the deposit facility, MROs and the marginal lending facility stood at 2.25%, 2.40% and 2.65% respectively (Table B).

The average euro short-term rate (€STR) rose by 25 basis points over the review period, in line with the increase in the deposit facility rate. On average, the €STR remained 6.8 basis points below the deposit facility rate over the review period, unchanged from the first and second maintenance periods of 2026.

The average euro repo rate, as measured by the RepoFunds Rate Euro index, remained closer to the deposit facility rate than the €STR did over the same period. On average, the repo rate exceeded the deposit facility rate by 1.6 basis points, up from 0.7 basis points in the previous review period.

Table A
Eurosystem liquidity conditions

(averages; EUR billions)

	Current review period: 6 May-28 July 2026						Previous review period: 11 February-5 May 2026	
	Third and fourth maintenance periods		Third maintenance period: 6 May-16 June 2026		Fourth maintenance period: 17 June-28 July 2026		First and second maintenance periods	
Liquidity-providing factors								
Autonomous factors	730	(-11)	728	(-6)	731	(+2)	740	(+35)
- Net foreign assets	376	(+4)	377	(+3)	375	(-2)	371	(+8)
- Net assets denominated in euro	354	(-15)	352	(-9)	356	(+4)	369	(+28)
Monetary policy operations	3,485	(-147)	3,514	(-78)	3,456	(-59)	3,632	(-145)
- MROs	14	(+1)	13	(-1)	15	(+1)	13	(-0)
- LTROs	13	(+2)	13	(+1)	14	(+1)	11	(+0)
- Outright portfolios	3,458	(-150)	3,488	(-78)	3,427	(-61)	3,608	(-144)
- Other liquidity provision	0	(+0)	0	(+0)	0	(+0)	0	0
Liquidity-absorbing factors								
Autonomous factors	1,840	(-2)	1,844	(+4)	1,836	(-8)	1,842	(-0)
- Banknotes in circulation	1,628	(+16)	1,623	(+7)	1,632	(+9)	1,612	(+5)
- Government deposits	96	(-8)	97	(-5)	94	(-3)	104	(+2)
- Other autonomous factors (net)	116	(-10)	123	(+2)	110	(-13)	126	(-8)
Monetary policy operations								
- Other liquidity absorption	0	(+0)	0	(+0)	0	(+0)	0	(+0)
Liquidity and standing facilities								
- Credit institutions' current accounts	253	(+76)	179	(+0)	328	(+150)	177	(+3)
- Minimum reserve requirements ¹⁾	174	(+2)	174	(+2)	174	(+0)	172	(+3)
- Marginal lending facility	0	(+0)	0	(+0)	0	(+0)	0	(-0)
- Deposit facility	2,121	(-231)	2,221	(-88)	2,022	(-198)	2,353	(-112)
- Excess liquidity ²⁾	2,201	(-157)	2,225	(-90)	2,177	(-49)	2,358	(-112)
Other liquidity-based information								
- Aggregate liquidity needs ³⁾	1,284	(+11)	1,289	(+12)	1,279	(-10)	1,273	(-33)
- Net autonomous factors ⁴⁾	1,110	(+9)	1,115	(+10)	1,105	(-10)	1,102	(-35)

Source: ECB.

Notes: All figures in the table are rounded to the nearest €1 billion. Figures in parentheses denote the change from the previous review or maintenance period. MROs stands for main refinancing operations and LTROs for longer-term refinancing operations. The historical time series of Eurosystem liquidity conditions can be found in the ECB Data Portal under the [table tab of the liquidity report](#).

1) Memo item that does not appear on the Eurosystem balance sheet and should therefore not be included in the calculation of total liabilities.

2) Computed as the sum of current accounts above minimum reserve requirements and the recourse to the deposit facility minus the recourse to the marginal lending facility.

3) Computed as the sum of net autonomous factors and minimum reserve requirements.

4) Computed as the difference between autonomous liquidity factors on the liabilities side and autonomous liquidity factors on the assets side.

Table B**Interest rate developments**

(averages; percentages and percentage points)

	Current review period: 6 May-28 July 2026				Previous review period: 11 February-5 May 2026			
	Third maintenance period: 6 May-16 June 2026		Fourth maintenance period: 17 June-28 July 2026		First maintenance period: 11 February-24 March 2026		Second maintenance period: 25 March-5 May 2026	
MROs	2.15	(+0.00)	2.40	(+0.25)	2.15	(+0.00)	2.15	(+0.00)
Marginal lending facility	2.40	(+0.00)	2.65	(+0.25)	2.40	(+0.00)	2.40	(+0.00)
Deposit facility	2.00	(+0.00)	2.25	(+0.25)	2.00	(+0.00)	2.00	(+0.00)
€STR	1.93	(-0.00)	2.18	(+0.25)	1.93	(-0.00)	1.93	(+0.00)
RepoFunds Rate Euro	2.01	(+0.00)	2.27	(+0.26)	2.01	(-0.00)	2.01	(+0.01)

Sources: ECB, CME Group and Bloomberg Finance L.P.

Notes: Figures in parentheses denote the change in percentage points from the previous review or maintenance period. MROs stands for main refinancing operations and €STR for euro short-term rate.

Articles

1 Scaling up European firms: the case for an EU company law regime to unlock cross-border investment, innovation and growth

Prepared by Adam Baumann, Zakaria Gati, Daphne Momferatou, Laura Parisi and Lucia Quaglietti

1 Introduction

There is a clear structural weakness at the heart of Europe's competitiveness challenge: European firms struggle to reach sufficient scale and face barriers to cross-border operations. EU firm entry rates are broadly comparable to those in the United States, but firms systematically fail to grow into the large, research and development (R&D) intensive enterprises that drive productivity and wage growth (Draghi, 2024, Letta, 2024). In addition, some observers argue that Europe focuses on incremental rather than breakthrough innovation (Fuest et al., 2024).

A specific dimension of this competitiveness challenge is the fragmentation of company law across the EU. Firms operating across borders in the EU must navigate multiple legal regimes, which can limit cross-border capital formation, innovation, investment and economic growth (Schnabel, I., 2026). To address this, in March 2026 the European Commission proposed introducing an optional corporate form (EU Inc.), establishing a harmonised legal framework to complement national company law.

This proposal is important from the ECB's perspective. By lowering barriers to cross-border corporate activity and investment, EU Inc. has the potential to support the Single Market, by strengthening competition, innovation and productivity growth, with positive implications for resource allocation, price stability and the transmission of monetary policy. In addition, EU Inc. can help deepen European capital markets, a key objective of the savings and investments union agenda. It could be conducive to a more efficient allocation of savings and more effective risk-sharing within the euro area.

This article examines how these barriers limit the ability of EU firms to scale up and explores how a single company law could help address them. It identifies the conditions under which the proposal could have a meaningful impact as well as the gaps that, if left unaddressed, may limit its effectiveness.

2 The European scale-up challenge: stylised facts

Europe creates firms but struggles to scale them up, with consequences for productivity. While annual firm birth rates in Europe are similar to those in the United States, at around 10% per year (Adilbish et al., 2025), a significant divergence emerges later on, when successful firms seek to expand, raise capital and operate across borders.¹ Firms that employ fewer than ten workers in the EU account for just over 20% of total employment, around double the share of that in the United States (Chart 1, panel a). This is important for labour productivity (Chart 1, panel b): large enterprises generate roughly twice as much value added per employee as micro-enterprises, benefiting from economies of scale, greater managerial specialisation, stronger intangible capital accumulation, higher R&D expenditure and better integration into international markets (Andrews et al., 2016, Eurosystem, 2021, CompNet, 2025, OECD, 2026). A counterfactual exercise suggests that around one-third of the aggregate EU-US productivity gap can be attributed to differences in firm-size composition, based on the productivity gains that would arise were the EU to have the same employment distribution across firm sizes as that of the United States.²

¹ Firm birth rate measurements differ depending on harmonisation and birth definitions. Measurement of 10% is based on the OECD DynEmp project. See also Eurostat elaborations in Fedotenkov and Vandeplas (2026).

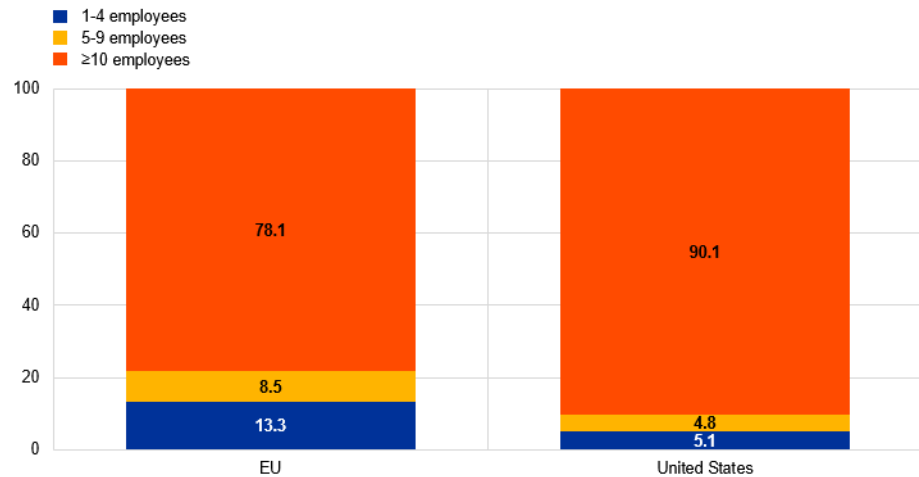
² This estimate is a rough computation of the labour productivity-level gap, which computes what the aggregate EU labour productivity level would be were the EU to have retained its observed productivity level within each firm-size class but had the same employment distribution across firm sizes as that of the United States. EU labour productivity by firm size is measured as value added per person employed (Eurostat SBS, 2023). As the figure for US value added by firm size is unavailable outside manufacturing, the Bureau of Economic Analysis' sectoral value added is allocated across firm-size classes using the receipt shares from the 2022 Economic Census, assuming a constant value-added-to-receipts ratio within sectors. To improve comparability, US non-employer businesses are partially allocated to the smallest firm-size class, as Eurostat includes working proprietors and zero-employee enterprises in this class, whereas US firm-size data cover employer businesses only. Values are converted using real GDP (purchasing power parities); within-class productivity is held fixed in the counterfactual exercise.

Chart 1

Firm size distribution and labour productivity by firm size in 2023

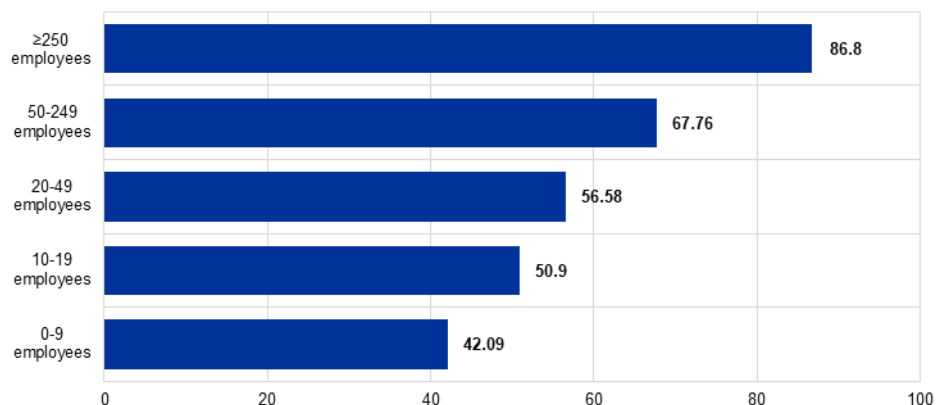
a) Size distribution, EU and United States

(percentage of total employment)



b) Labour productivity by enterprise size, EU

(EUR thousands per person employed)



Sources: Eurostat business demography statistics and structural business statistics and US business dynamics statistics.

Notes: EU data refer to enterprises and US data to firms, which are broadly comparable. Coverage includes NACE Rev. 2 sections B-S (excluding O and S94). Labour productivity is measured as value added at factor cost per person employed.

Limited access to market-based finance is a major reason why innovative

European firms struggle to scale up. Innovative firms need successive funding

rounds and access to deep pools of risk capital, but EU capital markets remain relatively shallow, nationally fragmented and dominated by domestic institutional investors (Böninghausen et al., 2025, Baumann et al., 2026). Chart 2, panel a) shows that approximately 85% of employment in the EU is accounted for by domestically-controlled firms. By contrast, venture capital (VC) financing is considerably more international: non-EU lead investors are associated with more than half of the aggregate VC deal value, with US investors playing a particularly important role in later-stage financing rounds (Chart 2, panel b), (Baumann et al. 2026). This is consistent with recent evidence that innovative European firms increasingly relocate their headquarters, intellectual property or selected business functions abroad, most often to the United States (Weik et al., 2024, European

Investment Bank (EIB), 2026a). As firms mature, many European start-ups adopt US corporate structures, most commonly as Delaware corporations, to access internationally recognised governance arrangements, VC financing and deeper initial public offering markets. The Delaware corporate law framework is discussed in Box 1.

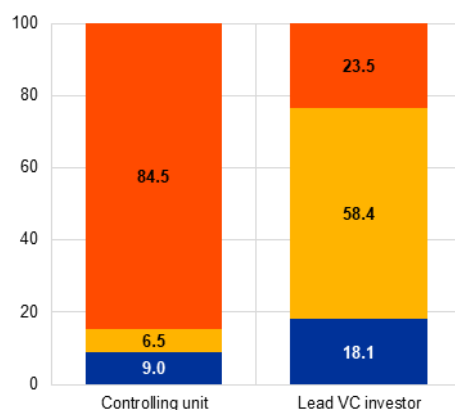
Chart 2

Source of control and venture capital financing of EU firms

a) Overall distribution in origin of control and venture capital lead investor
b) Venture capital lead investor by deal stage

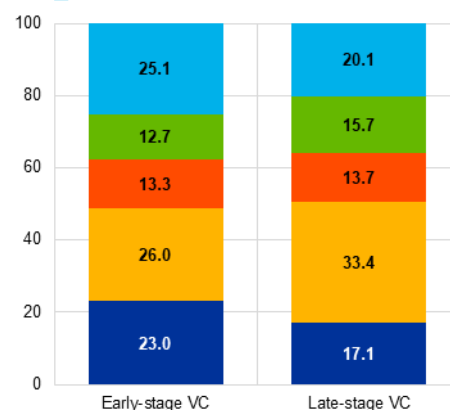
(percentage of employment; percentage of value)

■ Intra-EU
■ Extra-EU
■ Domestic country



(diffusion indices)

■ Intra-EU
■ United States
■ United Kingdom
■ Rest of world
■ Domestic



Sources: Eurostat inward foreign affiliates statistics and PitchBook.

Notes: In panel a), inward foreign affiliate trade statistics classify enterprises by the country of their ultimate controlling institutional unit, attributing all employment to the controlling country. Intra-EU and extra-EU values denote control by another EU Member State and from outside the EU respectively. The latest data are for 2023. Panel b) shows the distribution of venture capital deal value by the location of the lead (or sole) investor and the VC stage. PitchBook may report multiple lead or sole investors for a transaction.

Beyond the overall availability of risk capital, where it is allocated also matters: future scale-ups tend to be younger, more productive and more innovation-intensive, while there are substantial differences in the profiles of VC-backed scale-ups in the EU and the United States. With regard to the

observed characteristics of firms before scaling up, Chart 3, panel a) shows that future scale-ups are systematically younger, more productive, more likely to have previously received venture capital and more frequently active in knowledge-intensive sectors. This is consistent with the literature showing that successfully scaling up is typically preceded by substantial investments in capabilities and organisational transformation (OECD, 2021). Chart 3, panel b) extends this analysis to a sample of EU and US scale-ups that received VC funding. Relative to their EU counterparts, VC-backed scale-ups in the United States are younger and less profitable, but larger in terms of employment and more leveraged – a pattern consistent with US venture capital reaching firms earlier and those firms then growing faster. This may reflect differences in investor selection or differences in the population of firms seeking VC funding, which the estimates cannot separate.

Chart 3

Firm characteristics associated with scaling up

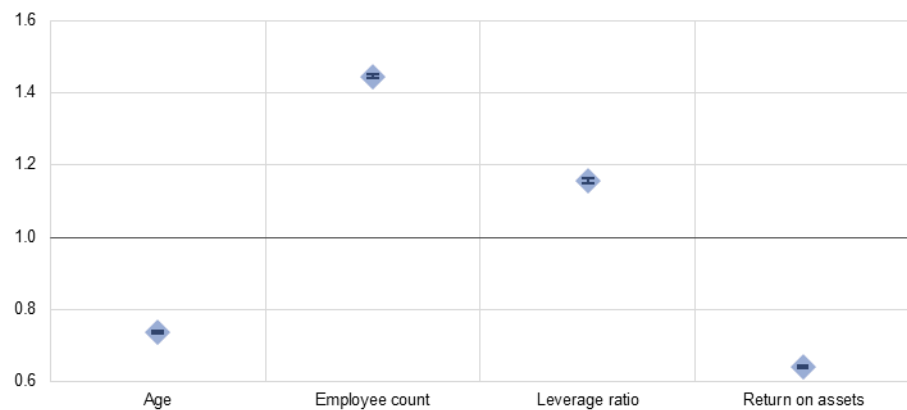
a) Characteristics before scaling up

(odds ratios)



b) Difference in characteristics for EU and US scale-ups that received VC funding

(odds ratios)



Sources: S&P Capital IQ, Preqin, Orbis, PitchBook and ECB staff calculations.

Notes: Coefficients from logistic regressions with 95% confidence intervals; covariates are standardised. In panel a), scaling up is defined as annualised employment growth of at least 10% over three years, for firms with at least ten employees and more than one year old. Covariates are measured one year before the scale-up period, with year, country and sector fixed effects. "Received VC" (Preqin deal data matched to Orbis) refers to one to three years before the scale-up period. ICT is defined from NACE two-digit activities. Covariates are winsorised at 2%. Panel b) shows a logistic regression of an indicator for US (vs EU) headquarters on standardised firm characteristics, with sector and year fixed effects. It features a PitchBook sample of 962 US and EU scale-ups in 2025 that received VC funding in 2021-24; the estimation is based on 2021-22 observations. "Return on assets" is measured as earnings before interest, taxes, depreciation and amortisations over total assets.

Box 1

The Delaware stock corporation regime: legal infrastructure for US high-growth firms

Prepared by Zakaria Gati

In the United States, incorporation can be separated from the location of economic activity to a far greater extent than in the EU, allowing state corporate law to operate as a portable legal framework for firms active across the country. This contrasts with the European tradition of "real seat" approaches, under which legal recognition and applicable company law were historically linked more closely to the company's central administration or principal place of business, as pointed out

by Gelter (2017).³ A Delaware stock corporation may be headquartered, hire workers, hold assets, raise capital and generate revenues outside Delaware, whereas Delaware law governs its internal corporate affairs. The firm remains subject to operational, tax, labour and sectoral regulation in the jurisdictions where it operates businesses, but it does not need to adopt a new legal identity. This portability helped make Delaware the standard corporate law framework – or what Broughman et al. (2014) call a legal “lingua franca” – for founders, investors and legal intermediaries operating across state lines. In the EU, cross-border mobility is already protected by freedom-of-establishment case law, but firms remain incorporated under one of many national company law regimes.

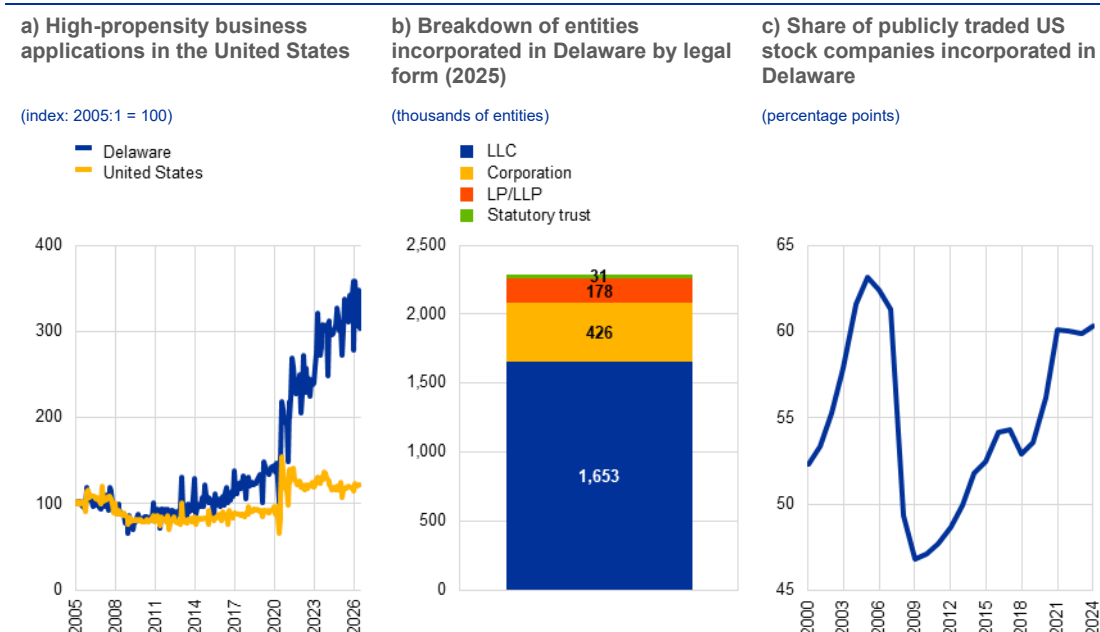
The Delaware regime is distinctive not because it allows a single corporate form, but because it offers a complete institutional ecosystem for company formation and growth. At its core is the Delaware stock corporation, supported by flexible laws, specialised courts, extensive case law, efficient administration and a sophisticated legal services industry. This combination provides legal certainty and standardised governance and financing tools – such as preferred shares, options, convertible securities, liquidation preferences, veto rights and board representation – making Delaware a common template for start-ups, scale-ups and geographically dispersed investors.

The attractiveness of the regime is clear: Chart A, panel a) shows the sustained growth in the share of high-propensity business applications made in Delaware, and Chart A, panel b) illustrates the large number of legal entities already administered in the state. Additionally, Delaware incorporation becomes increasingly prevalent as firms scale up: Broughman et al. (2014) find that 67.8% of VC-backed start-ups were initially incorporated in Delaware. This rises to 79% once subsequent re-incorporations are taken into account. Alon-Beck (2025) finds that around 97% of US unicorns in their sample were incorporated in the state, and Chart A, panel c) shows that more than half of publicly traded US companies are incorporated in Delaware. Delaware’s dominance is also self-reinforcing owing to its increasing precedents and familiarity, and it now effectively operates as a national standard.

³ This distinction has been softened, but not eliminated, by the Court of Justice of the European Union’s freedom-of-establishment case law. In the *Centros*, *Überseering* and *Inspire Art* cases, the Court limited Member States’ ability to refuse recognition of companies validly incorporated in another Member State, thereby expanding corporate mobility within the EU.

Chart A

Business demographics in Delaware



Sources: US Census Bureau, Annual Report Statistics – Delaware Division of Corporations, Spamann and Wilkinson's dataset of historical states of incorporation of US stocks and ECB staff calculations.

Notes: High-propensity business applications are employer identification number applications that the US Census Bureau identifies as being likely to become employer businesses, based on characteristics associated with payroll business formation (e.g. legal form, planned hiring, business acquisition and industry). The data are seasonally adjusted. In panel c), the state of incorporation is from Spamann and Wilkinson using filings from the US Securities and Exchange Commission's electronic data gathering, analysis and retrieval system. It refers to the legal domicile, not to the headquarters or business operations.

The advantages for firms incorporating in Delaware come with important trade-offs. Critics argue that this concentrated ecosystem can favour managers, controlling shareholders and repeat-player lawyers, limiting transparency and accountability (Cary, 1974, Whitehead, 2025). Recent cases of entities leaving Delaware for Nevada and Texas also illustrate the tension between healthy regulatory competition and regulatory arbitrage, as firms may seek lower litigation exposure and weaker shareholder constraints.

3 Barriers to scaling up and EU Inc.: a corporate life cycle perspective

EU firms face a broad set of legal and regulatory barriers that increase the costs of growth and cross-border expansion within the Single Market.⁴ Survey-based evidence indicates that, compared with the United States, regulatory and administrative requirements are a major obstacle to investment and a sizeable burden for EU firms (Chart 4, panel a). The share of staff and managerial resources devoted to compliance activities also varies significantly across EU countries and can be especially high for smaller firms, as compliance costs have a substantial fixed-cost component (Chart 4, panel b). These costs are compounded by regulatory

⁴ ECB estimates suggest that remaining Single Market barriers are equivalent to tariffs of around 67% for goods and 95% for services (Bernasconi et al., 2025), while barriers to EU equity markets have declined only modestly over the past decade (Anaya Longaric et al., 2026).

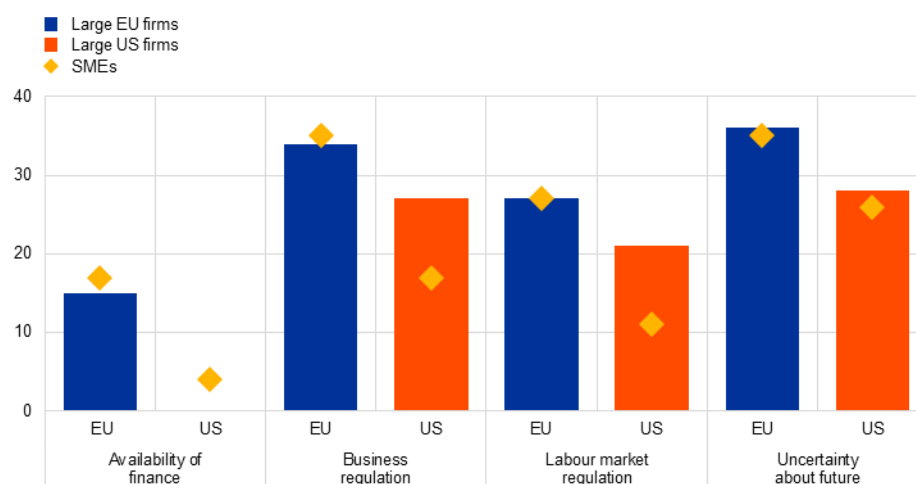
fragmentation across Member States, with most EU firms reporting that they must comply with different standards and procedures when operating across borders (EIB, 2026b).⁵

Chart 4

Structural barriers to investment for EU and US firms

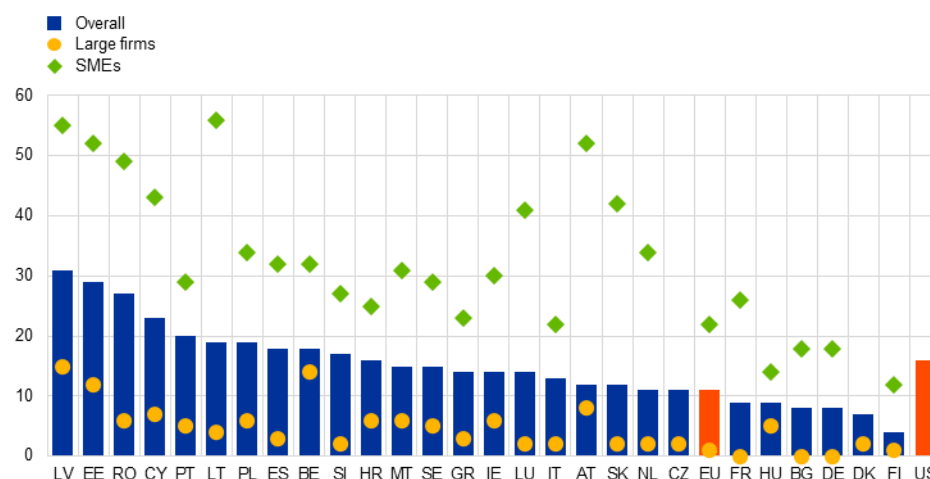
a) Major obstacles to investment

(percentage of respondents)



b) Firms with more than 10% of employees working on regulatory compliance activities

(percentage of respondents)



Sources: EIB Investment Survey and ECB staff calculations.

Notes: In panel a), the bars represent the share of firms that identify each factor as a major barrier to long-term investment; the diamonds show the corresponding shares for SMEs. EU and US refer to the respective EIB Group Survey on Investment and Investment Finance aggregates. Higher values indicate that more firms perceive the factor as a major obstacle. In panel b), EU data refer to the 2025 survey and US data refer to the 2024 survey. Size breakdowns are unavailable for the United States.

Company law is one of the most fragmented dimensions of the Single Market.

The legal regime under which a company is incorporated determines the financing instruments it can offer investors, the governance arrangements it must adopt as it operates and expands and the procedures it faces when exiting the market. Unlike

⁵ Over 60% of EU firms reported that they need to comply with different regulatory standards across Member States (EIB, 2026b).

many other regulatory areas, company law changes each time a firm establishes or reorganises a legal entity in another Member State, something which is often required, or economically advantageous, for companies establishing a stable presence in another Member State.⁶ As a result, firms wanting to expand or invest across the EU must navigate the company law applicable to them and to their new subsidiaries, which can mean up to 27 different regimes. Differences in company law can increase the cost of operating across borders through subsidiaries and potentially limit investment, innovation and productivity growth.

The economic implications of company law fragmentation across the Single Market can be best understood through the lens of the corporate life cycle (Figure 1).⁷ National differences become binding constraints at successive stages of firms' development. The European Commission's 2025 public consultation confirmed this pattern, with firms perceiving fragmentation of company law as a significant obstacle throughout their development, with incorporation procedures, corporate mobility, financing arrangements and governance the most frequently cited issues.⁸

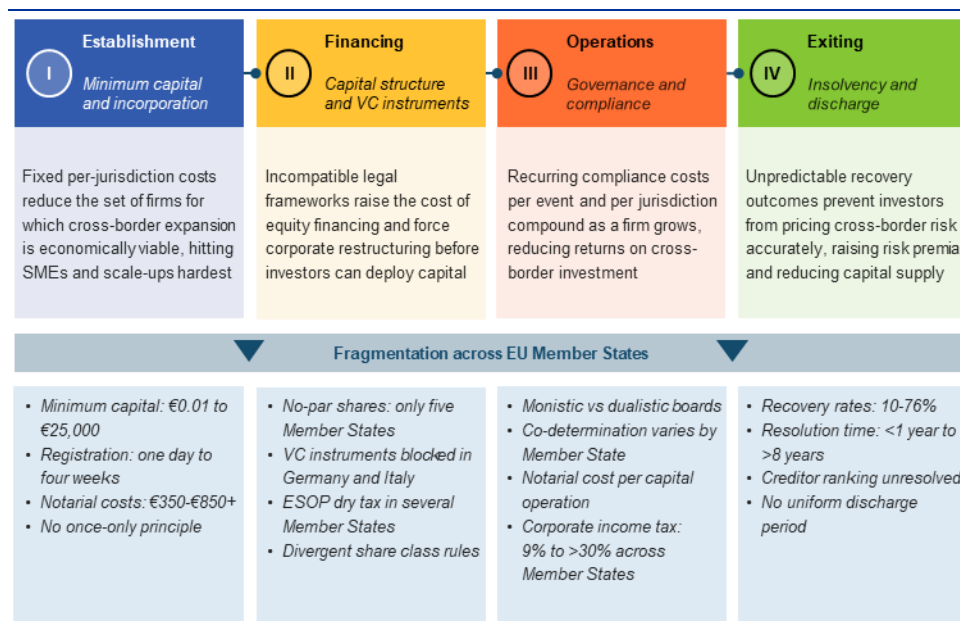
⁶ While the EU fundamental freedoms allow cross-border trade and service provision from a single Member State of incorporation, local establishment is often required or economically advantageous owing to host-country labour, tax and licensing requirements, lower transaction costs and investor preferences for locally incorporated entities.

⁷ The corporate life cycle framework draws on industrial organisation literature on firm dynamics, which distinguishes between the formation, growth, maturity, and exit phases of firm development (Klepper, 1996). The framework used in this article is an analytical adaptation which focuses on the stages at which company law becomes economically relevant for firms operating across Member States.

⁸ See the European Commission's [public consultation on a single harmonised set of rules for innovative companies throughout the EU – 28th regime](#).

Figure 1

Company law fragmentation across the Single Market: a corporate life cycle perspective



Source: ECB staff.

Note: Minimum capital refers to the statutory capital required to incorporate a company; no-par shares are shares without a fixed nominal value; VC instruments are financing instruments commonly used in venture capital, such as convertible instruments and warrants; ESOP refers to employee stock ownership/option plans; monistic/dualistic boards refer to one-tier/two-tier corporate governance structures; co-determination refers to employee representation in corporate governance; and recovery rates, resolution time, creditor ranking and discharge periods capture key features of national insolvency frameworks. These examples illustrate differences across EU Member States.

In response, the Commission published on 18 March a proposal establishing a new corporate form, EU Inc. The proposed Regulation introduces a fully harmonised, optional legal form of limited liability company with a clearly identifiable label (EU Inc.) available across the national legal systems of all Member States. All companies in the EU, no matter their size or corporate purpose, will be able to opt in. As a directly applicable Regulation, it creates a single rulebook for some of the most relevant aspects of company law, with the same content and scope regardless of the Member State of incorporation.⁹ Its objective is to reduce the fragmentation of company law and make the legal framework governing firms simpler and more conducive to establishment, investment and cross-border expansion. The proposal builds on the suggestions of the Letta and Draghi reports and follows past attempts that fell short of expectations, such as *Societas Europaea*.¹⁰ The following sections analyse the proposal throughout the corporate life cycle.

⁹ The proposal primarily concerns cross-border corporate activity, namely the establishment, financing, governance and restructuring of companies operating across Member States, rather than cross-border trade in goods and services.

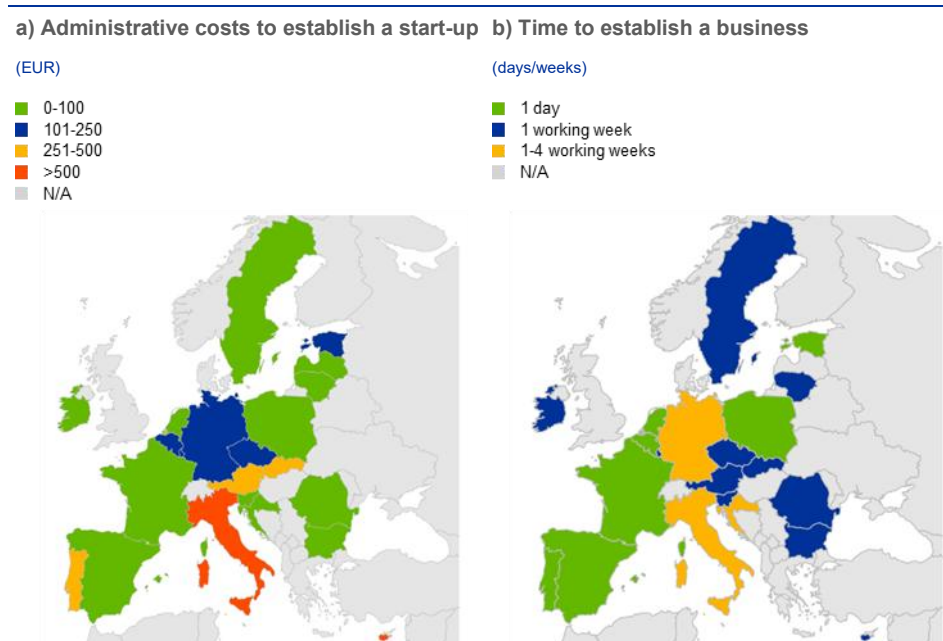
¹⁰ The *Societas Europaea* framework, which was introduced in 2001, fell short of expectations, largely because it continued to defer to national law on key aspects of company regulation. Uptake has remained limited, with around 3,000 registrations, and is concentrated among large firms able to meet the €120,000 minimum capital requirement. Empirical evidence attributes this low uptake to this continued reliance on national rules, the high capital threshold and complex cross-border formation requirements.

3.1 Cross-border establishment

Establishing a legal presence in another EU Member State can entail substantial fixed costs (Figure 2). While firms can in principle serve another EU market without incorporating in that Member State, they often establish subsidiaries as new legal entities when they seek a stable local presence. In this case, fragmentation of company law becomes relevant, as the subsidiaries are incorporated under the law of the host country. This means that they have to adhere to different incorporation procedures and minimum capital rules while managing the associated administrative costs and the time required to establish a business.

Figure 2

Cost and time required to establish a new firm in 2025



Sources: Europe Startup Nations Alliance SNS Scoreboard and Natural Earth (for map data).

Notes: Values based on expert consultation, in the context of ultimately reaching a final committed company registration cost of under €100 and within one day for start-ups. The observations are for 2025.

To reduce these costs, the proposed Regulation introduces a simplified and harmonised corporate form. The form can be incorporated through a common digital interface, building on the Business Registers Interconnection System, with a target incorporation period of 48 hours and a maximum administrative cost of €100. The proposal removes mandatory minimum capital requirements, applies the once-only principle for administrative procedures and allows companies to establish an EU Inc. through several pathways, including new incorporation, cross-border mergers, divisions and conversions.

These measures could substantially reduce firms' entry costs as well as the costs of expanding into other Member States, although the expected benefits will depend on how the measures are implemented in the Member States. They have the potential to reduce fixed entry, legal adaptation, contracting and compliance costs, and to lower the expected costs of future expansion by allowing firms to adopt

the regime without changing their legal identity. Since the regime is open to all limited liability companies, it also avoids complicated eligibility criteria based on firm size or innovation status. However, EU Inc. firms remain subject to national tax, employer registration and licensing and sector-specific administrative requirements. Furthermore, incorporation and enforcement continue to rely on interconnected, albeit still national, company registers. As a further step, the European Commission plans to establish a central EU register from 2030 to gradually move registration away from the current country-based architecture.

3.2 Cross-border financing

National regimes differ in their treatment of equity instruments and employee stock options (Table 1). These differences increase legal complexity and can make some jurisdictions less compatible with VC financing models. This friction is particularly relevant for innovative firms, whose growth typically depends on successive rounds of equity financing involving changing investor rights and increasingly complex capital structures.

Table 1

Comparison of employee stock option frameworks across Member States

	Employee tax rate	Employee tax timing	Employer taxation	Minority shareholders and bureaucracy	Plan scope	Strike price
EE						
LV						
LT						
FR						
PT						
DE						
CZ						
GR						
AT						
IT						
PL						
IE						
NO						
SE						
ES						
DK						
BE						
NL						
FI						

Sources: Not Optional Latest Country Rankings and ECB staff.

Notes: Not Optional, an initiative created by Index Ventures and some of Europe's leading entrepreneurs to improve the competitiveness of European start-ups, scores the "friendliness" of national employee stock option regimes on a scale from one (least favourable – dark red) to five (most favourable – dark blue) across six dimensions: employee tax rate, employee tax timing, employer taxation, minority shareholders and bureaucracy, plan scope and strike price. More specifically, the "employee tax rate" is the applicable tax and social contribution burden; the "employee tax timing" defines when the tax liability is incurred; the "employer taxation" is the corresponding tax and social contribution costs for the company; the "plan scope" captures which companies and employees are eligible for favourable treatment; minority shareholders and bureaucracy are the costs and constraints associated with creating the plan and with employees becoming minority shareholders and the "strike price" is the flexibility to set exercise prices below the latest financing valuation.

To address these constraints, the proposed Regulation introduces a harmonised financing framework applicable across all Member States. It allows no-par value shares, differentiated share classes, preferred equity, warrants and convertible instruments to be used while explicitly recognising financing arrangements commonly used in VC markets, such as Simple Agreement for Future Equity (SAFE) and Keep It Simple Security (KISS)-style instruments.¹¹ The proposal also establishes an optional European Employee Stock Ownership Plan (EU-ESOP), which is aimed at facilitating equity-based remuneration and improving firms' ability to attract and retain highly skilled workers. In addition, it allows EU Inc. companies to seek admission to trading on a multilateral trading facility, supporting their capacity to scale up.

These provisions could improve financing conditions through two complementary channels. First, standardising financing instruments reduces legal uncertainty and transaction costs by limiting the need for jurisdiction-specific legal

¹¹ SAFE and KISS are standardised early-stage financing instruments that allow investors to provide capital to a start-up in exchange for the right to receive equity during a future financing round, thereby deferring valuation to a later stage and simplifying the terms of seed-stage investment.

adaptations and facilitating the use of common investment documentation. The impact assessment conducted by the European Commission estimates savings of around €1,100 per financing round and between €1,780 and €2,850 for secondary share transfers. These gains are particularly relevant at the seed and early-growth stages, where fixed legal costs are large relative to deal size. A recognisable EU Inc. form and interconnected registers could also reduce screening and due diligence costs for non-domestic investors, facilitating greater cross-border participation in European VC markets. Second, the proposed EU-ESOP could improve the ability of firms to attract and retain talent by deferring taxation until the disposal of the underlying shares rather than at grant, vesting or exercise. This would reduce the cash burden associated with illiquid equity. Nevertheless, Member States would retain discretion over tax rates and the classification of employee equity income, while broader differences in eligibility conditions, valuation rules and administrative procedures would continue to limit the portability of employee stock ownership across the Single Market.

3.3 Cross-border operations

As firms expand across the Single Market, they encounter recurring compliance costs arising from differences in governance arrangements, shareholder rights and board structures across Member States.¹² Additional variation in co-determination, audit and reporting requirements further increases organisational complexity for firms operating in multiple jurisdictions.¹³

The proposed Regulation establishes a common governance framework applicable across all Member States. EU Inc. provides a high degree of contractual flexibility through harmonised articles of association and adopts a one-tier board structure as the default governance model. It also enables and standardises the use of digital-by-default processes for a broad range of corporate procedures, including shareholder meetings, capital operations and amendments to articles of association. The elimination of mandatory notarial intervention for capital operations could be significant for companies undertaking successive financing rounds as they grow, and harmonised rules on shareholder rights may reduce legal uncertainty for minority shareholders and external investors, lowering due diligence burdens and transaction costs. However, under the proposal, employee participation rules remain subject to the law of the Member State where the board is located. Requirements concerning the involvement of employees in company decision-making may therefore continue to vary across jurisdictions, even for companies incorporated under the EU Inc. regime.

¹² Board structures, shareholder rights, voting arrangements and board composition differ across Member States. Some countries (e.g. Sweden) mandate monistic models while others (e.g. Germany) mandate dualistic models. Tax differences add a further layer of complexity, with corporate income tax rates ranging from 9% in Hungary to over 30% in Germany, and rules on R&D deductions, depreciation and interest deductibility also diverge.

¹³ Co-determination thresholds and their attachment to national legal forms have prompted some debate, particularly in Germany, over firms using foreign legal forms or converting to a European Company (Societas Europaea), which fixes the participation level at formation. Such structures have been upheld as lawful and safeguards are under negotiation in the 28th regime file.

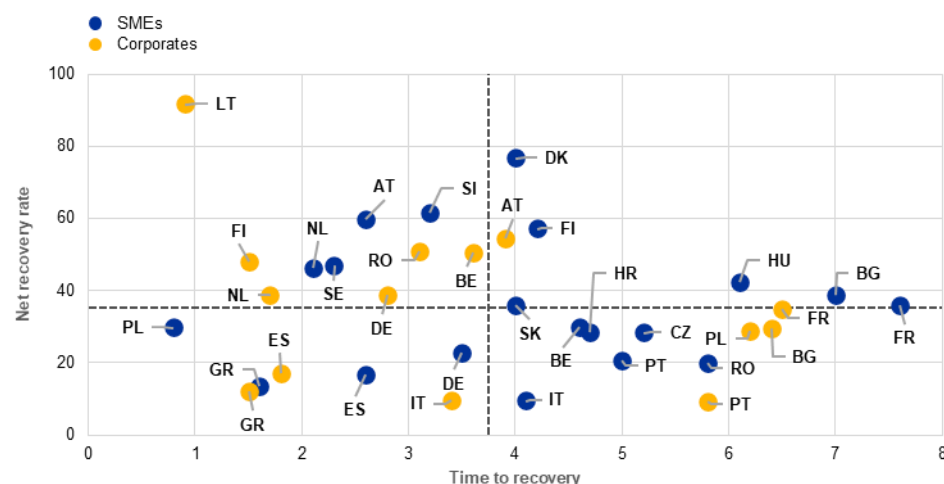
3.4 Exit

Efficient exit mechanisms are essential for reallocating resources following business failure and for supporting entrepreneurial risk-taking, as they determine the expected returns of investors. Exit and restructuring costs weigh heavily on innovative high-tech sectors, where the risk of failure is inherently higher (Coatanlem and Coste, 2025, Bothner et al., 2026). Nevertheless, national insolvency frameworks continue to differ substantially with respect to recovery rates, resolution times and entrepreneurial discharge (Chart 5). This increases legal uncertainty and could discourage cross-border investment.

Chart 5

Heterogeneity of insolvency across the EU for SMEs and corporates

(x-axis: years; y-axis: percentages)



Source: European Banking Authority (2025).

Notes: Net recovery rate and time to recovery are weighted means. Loans to SMEs and corporates subject to formal enforcement procedures, by country of enforcement; loans are weighted by the notional amount outstanding at the time of default. EBA underlying data are based on AnaCredit and dedicated bank data collections. Countries with fewer than 500 SMEs or ten corporate reported loans are excluded to ensure country averages are based on a sufficient number of observations. Dashed lines denote the cross-country medians. Observations are for the third quarter of 2023.

The proposed Regulation introduces fully digital and expedited liquidation procedures for solvent companies and establishes simplified insolvency arrangements for innovative start-ups. These include streamlined procedures and electronic auctions. These provisions can lower the administrative costs associated with corporate dissolution, improve procedural efficiency and increase the predictability of liquidation outcomes, reducing the uncertainty premium that investors currently attach to cross-border exposure. Faster and more transparent exit procedures may also lower the costs associated with business failure, facilitate entrepreneurial re-entry and improve the reallocation of capital and labour towards more productive uses. Armour and Cumming (2008) show that more efficient exit regimes have a positive effect on self-employment and firm entry rates, suggesting that improvements in exit efficiency feed back into the upstream decision to start and scale up high-risk ventures.

At the same time, the proposal leaves much of the European's broader exit environment unchanged. Here, the Regulation takes a more targeted approach

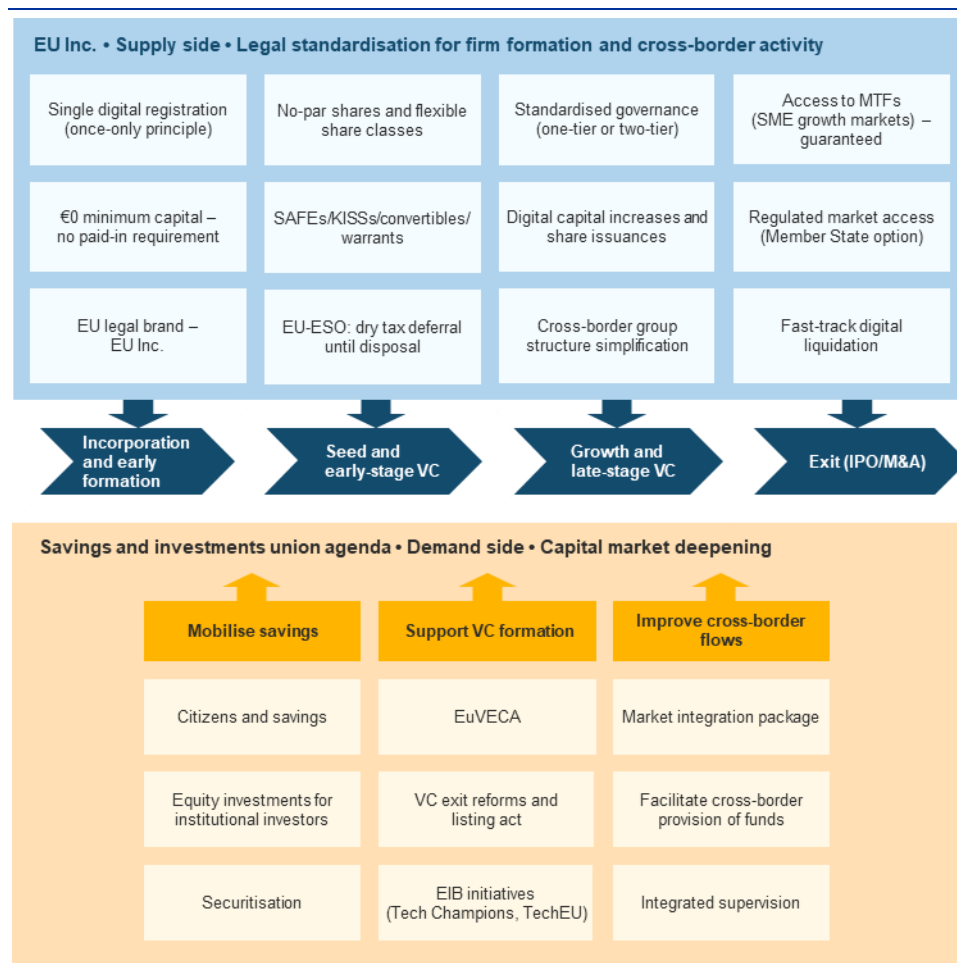
compared with the rest of the provisions discussed above, which are open to all firms opting to register as an EU Inc. The simplified insolvency framework applies only to innovative start-ups, leaving most firms subject to existing national regimes. Furthermore, insolvency procedures, creditor hierarchies and judicial processes largely continue to be governed by national legislation, implying that the considerable heterogeneity in recovery rates and resolution times is likely to persist.

At the other end of the firm life cycle, the proposal does not address obstacles that prevent successful firms from scaling up and exiting through public equity markets. The proposal establishes access to multilateral trading facilities, which are particularly important for younger firms, but it does not provide an equally integrated pathway to regulated markets for firms that are maturing and require deeper pools of capital. Leaving such access to the competence of national law does not address fragmentation at the scale-up and exit stage, potentially constraining IPOs and weakening VC exit opportunities and valuations.

The financing provisions of EU Inc. complement the objectives of the savings and investments union more broadly. EU Inc. seeks to reduce legal frictions that affect the ability of firms to access external equity by creating a harmonised corporate framework. The savings and investments union aims to mobilise savings and improve the allocation of risk capital by deepening and integrating capital markets. In this sense, EU Inc. supports the supply of investible corporate vehicles, while the savings and investments union seeks to expand the demand for cross-border investment.

Figure 3

Interactions between EU Inc. and the savings and investments union agenda



Source: ECB staff.

This complementarity is particularly evident in VC markets. By reducing legal transaction costs and standardising corporate financing instruments, EU Inc. lowers the barriers to cross-border investment and facilitates more integrated capital markets. However, its effectiveness ultimately depends on the availability of investors willing to deploy capital across borders. Conversely, a deeper and more integrated European capital market is likely to succeed when firms operate under a common corporate framework. This is especially true for alleviating the financing gap during the later stages of firm development in Europe, where opportunities are limited by fragmented public equity markets and relatively shallow secondary markets. EU Inc. and the savings and investments union should be seen as mutually reinforcing initiatives: one reduces company law fragmentation while the other expands the pool of capital to finance growth.

4 Conditions for the economic effectiveness of EU Inc.

EU Inc. will operate as an optional corporate regime alongside existing national company law frameworks. Quantifying its macroeconomic impact is beyond the scope of this article, since its effectiveness will depend on firms' adoption decisions and complementary policy reforms. Nevertheless, International Monetary Fund simulations suggest that reforms reducing barriers to firm entry and improving insolvency frameworks can generate sizeable economic gains (Dizioli et al., 2026).

A first condition for success is that the regime remains sufficiently attractive to achieve broad market adoption. The incentives for firms to adopt an EU Inc. are likely to differ across Member States. Adoption is likely to be highest where national legal frameworks remain comparatively restrictive or impose an administrative burden. The impact assessment conducted by the European Commission estimates that around 300,000 companies could adopt an EU Inc. over a ten-year horizon, resulting in administrative savings to firms of between €328 million and €440 million.¹⁴ These savings are expected to be driven primarily by simpler registration procedures, the once-only principle, the elimination of minimum share capital requirements and digitised closure procedures.

A second condition is consistent implementation across the EU. Although the Regulation establishes a common substantive company law framework, important aspects, such as registration procedures, administrative practices, dispute resolution and parts of the incorporation process, remain embedded in national legal systems. Divergent administrative practices or judicial interpretation could reduce legal certainty and weaken the harmonisation benefits. To address concerns related to enforcement and dispute resolution, the Commission suggests that Member States should consider setting up specialised judicial chambers dedicated to EU Inc. cases.

Third, EU Inc. should be complemented by broader Single Market reforms to support firms' growth and cross-border expansion. Taxation, labour market regulation including co-determination, insolvency and sector-specific legislation continue to be governed largely by national frameworks.¹⁵ While the proposal has the potential to reduce the company law dimension of fragmentation, it does not eliminate the broader regulatory complexity associated with operating across Member States. Its contribution to firms' scaling-up decisions will therefore depend on complementary progress in other areas, including the savings and investments union agenda. This potential is explored in Box 2.

Finally, the long-run impact of EU Inc. is likely to depend on self-reinforcing network dynamics. As adoption increases, investors, legal advisers, financial intermediaries and courts are likely to accumulate experience with a common

¹⁴ European Commission (2026), "Commission Staff Working Document – Impact assessment report accompanying the document Proposal for a Regulation of the European Parliament and of the Council on the 28th regime corporate legal framework – 'EU INC'".

¹⁵ The Commission's approach partly reflects Treaty constraints: while company law harmonisation can be pursued through a Regulation under Article 114 of the Treaty on the Functioning of the European Union (TFEU) by qualified majority, several of the interacting domains, corporate taxation under Article 115 of the TFEU and certain aspects of labour law require unanimity in the Council of the European Union, making comprehensive cross-domain harmonisation politically and legally difficult to achieve in a single instrument.

corporate framework, reducing legal uncertainty, standardising contractual practices and further lowering transaction costs. The experience of the Delaware corporate law framework illustrates how these network effects can gradually transform an optional legal regime into a widely recognised market standard. It also highlights the importance of complementing legal harmonisation with specialised courts, accumulated legal expertise, deep capital markets and a unified federal legal environment.

Box 2

Next steps: constraints and pragmatic pathways

Prepared by Daphne Momferatou and Leo Orlygsson

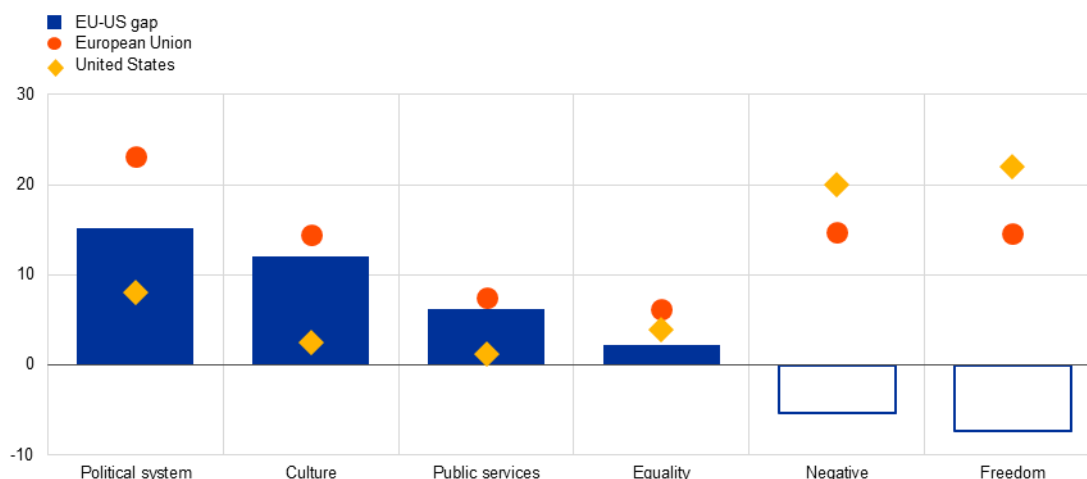
The European Commission's proposal is under discussion in the European Parliament and the Council of the European Union, with a final agreement expected by the end of 2026. Debates on the proposal and any future expansion beyond company law are likely to be shaped by broader societal and political preferences around risk-taking, taxation, labour markets and other sensitive issues.

Survey evidence suggests that Europeans attach greater value to their political systems and public services, while Americans place greater emphasis on freedom and opportunity (Chart A). Evidence on EU-US differences show that lower market participation in the EU points to lower risk tolerance, weaker trust in markets and gaps in basic financial literacy (Christelis et al., 2026). These preferences help explain differences in institutional frameworks, including the balance between stability, redistribution, regulation and support for entrepreneurial risk-taking. They also suggest that support for reforms involving significant social trade-offs is likely to vary across countries and stakeholders.¹⁶

Chart A

Sources of national pride in the European Union and the United States

(share of respondents mentioning what makes them proud of their country; percentage point difference between EU and US shares)



Sources: Pew Research Center and ECB calculations.

Notes: Responses to the Spring 2025 Pew Global Attitudes Survey. EU values are GDP-weighted averages across nine Member States (Germany, Greece, Spain, France, Italy, Hungary, Netherlands, Poland and Sweden). Positive values indicate higher shares in the EU than in the United States. The "Negative" category refers to answers expressing a lack of pride.

¹⁶ See also the relevant discussion in Wunsch and Langenus (2026).

A fully harmonised EU framework for company law is difficult to achieve. An optional regime available in parallel with the 27 existing national regimes therefore represents a pragmatic alternative, allowing firms to opt into a common framework while preserving national systems. Three complementary pathways could support its gradual development, including into areas which remain outside the scope of the proposal.

The first pathway is differentiated integration through enhanced cooperation or coalitions of those willing to cooperate among certain Member States.¹⁷ The unitary patent and the Unified Patent Court illustrate how an optional EU-wide framework can emerge where unanimity is otherwise difficult to achieve. For EU Inc., such cooperation could support adjacent modules such as specialised courts, standardised investment documentation and common reporting tools.

The second pathway involves regulatory experimentation through sandboxes or pilot regimes. For EU Inc., this could test whether harmonisation is effective, especially as regards regulation, before the regime is rolled out in full across the EU. The DLT Pilot Regime demonstrates how controlled experimentation with new market infrastructures can coexist with investor protection and financial stability objectives.¹⁸ The proposed EU Inc. framework for corporate law could also helpfully complement technological solutions across Member States.¹⁹ A similar approach to successfully implemented EU-wide sandboxes could be applied to taxation and labour law.

A third pathway is market-led convergence towards voluntary adoption. If EU Inc. proves attractive to young cross-border firms and investors, voluntary adoption could itself drive further integration. Competitive pressure may encourage national authorities to modernise their frameworks, allowing convergence to emerge through the independent adjustment of market practices rather than top-down harmonisation. Over time, this could promote wider convergence beyond firms directly using EU Inc.

5 Concluding remarks

The competitiveness challenge facing Europe is increasingly recognised as a scale-up and internationalisation challenge, but the company law dimension remains largely unaddressed. The coexistence of 27 national company law regimes means that firms expanding across the Single Market continue to face legal fragmentation in establishment, financing, governance and exit.

Against this backdrop, the proposed EU Inc. regime marks an important step towards greater harmonisation of company law. By introducing an optional common corporate framework, it has the potential to reduce legal fragmentation, lower transaction costs and improve the predictability of cross-border corporate

¹⁷ Enhanced cooperation is a formal EU Treaty-based mechanism allowing a group of EU Member States to adopt binding EU rules among themselves, whereas a coalition of the willing is an informal arrangement for cooperation outside a specific EU legal framework.

¹⁸ The ECB has welcomed the regime and its extension, but emphasises the need for a broader legal framework for tokenised assets. See [Keynote speech](#) by P. Cipollone at an event on "Building Europe's integrated digital asset ecosystem: from vision to implementation" hosted by the House of the Euro.

¹⁹ In his keynote speech entitled "Building the rails for Europe's tokenised financial markets", P. Cipollone stressed that technological solutions alone cannot overcome legal fragmentation and highlighted the potential of progress that could be achieved with the underlying EU Inc. legal framework.

activity. It could therefore become an important part of a more integrated European business and investment landscape. However, its full economic benefits will depend on complementary progress under the Single Market and savings and investments union agendas, notably deeper capital market integration and further reductions in regulatory fragmentation.

Experience from other corporate law regimes suggests that the benefits of harmonisation extend beyond the legal text. The effectiveness of a common corporate framework depends on its formal design as well as the legal certainty, market practices and institutional experience that develop around it over time. The ultimate impact of the proposal will depend on whether the legislative process preserves a sufficiently harmonised framework and on whether it is implemented in a manner that is coherent enough to foster a recognised European corporate standard capable of supporting the growth of firms across the Single Market.

EU Inc. is not a silver bullet for the scale-up and internationalisation challenge facing Europe. As an optional regime, its economic impact will depend on the willingness of firms to adopt it and on consistent implementation across Member States. Moreover, the proposal deliberately focuses on company law, so it does not address complementary factors that determine the growth of firms, such as taxation and labour market regulation. Likewise, several constraints that become particularly relevant during the later stages of firms' development, such as broader insolvency frameworks, the depth of public equity markets and the availability of late-stage growth capital and judicial integration, fall largely outside the scope of the proposal. Negotiations on the EU Inc. regime are ongoing, with the Council of the European Union calling on the co-legislators to reach an agreement by the end of 2026.²⁰ The final text will help determine whether Europe can create an environment in which innovative firms not only start, but scale up, invest and remain in Europe.

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²⁰ The European Commission's proposal is currently being negotiated under the ordinary legislative procedure, with discussions ongoing in both the Council of the European Union and the European Parliament. The final text may therefore differ from the European Commission's proposal, as the co-legislators will form their own stance.

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Defence spending and its short and longer-term macroeconomic effects

Prepared by Cristina Checherita-Westphal, Marta Rodríguez-Vives, Tibor Lalinský and Miles Parker

1 Introduction

Most European countries have committed to substantially increasing their spending on defence over the coming decade. This trend is underpinned by efforts towards reaching a higher target for defence spending by the North Atlantic Treaty Organization (NATO) and by recent European initiatives aiming to accelerate investment in defence and strengthen Europe's strategic autonomy. At the June 2025 NATO summit, NATO member countries committed to spending 5% of GDP annually by 2035. At the July 2026 NATO summit, its member countries reaffirmed both that spending commitment and their support for Ukraine. The target of 5% of GDP consists of 3.5% core defence spending and 1.5% of GDP that can be devoted to other defence and security-related activities.

Most European countries significantly reduced their defence spending over the past three decades, following the end of the Cold War. This reallocation of public resources supported other policy priorities. However, it has also contributed to underinvestment in defence capabilities, a fragmented EU defence technological and industrial base (EDTIB) and a growing dependence on non-EU (primarily US) suppliers for critical military systems. Such fragmentation implies significant economic costs through duplicated procurement, limited economies of scale and reduced incentives for innovation capacity. Rebuilding defence capacities and strengthening the EDTIB will require sustained funding, greater coordination across EU Member States and more integrated procurement strategies.

Several EU-wide initiatives now support growth in defence spending and the EDTIB. The Readiness 2030 plan was launched by the European Commission in March 2025. First, the plan supports an increase in defence spending at the national level. Accordingly, under the Stability and Growth Pact (SGP), the activation of the national escape clauses (NECs) allows EU Member States to increase investment and other defence spending beyond previously agreed limits. The deviation is limited to a maximum of 1.5% of GDP during the period 2025-28 and is conditional on preserving medium-term debt sustainability. Second, the plan includes the Security Action for Europe (SAFE) instrument, with a total capacity of €150 billion, to provide loans to EU Member States to foster defence investments through common procurement. Third, the Readiness 2030 plan tasks the European Investment Bank with widening and scaling up the scope of its lending for defence and security projects. Finally, several other EU initiatives are boosting security assistance for

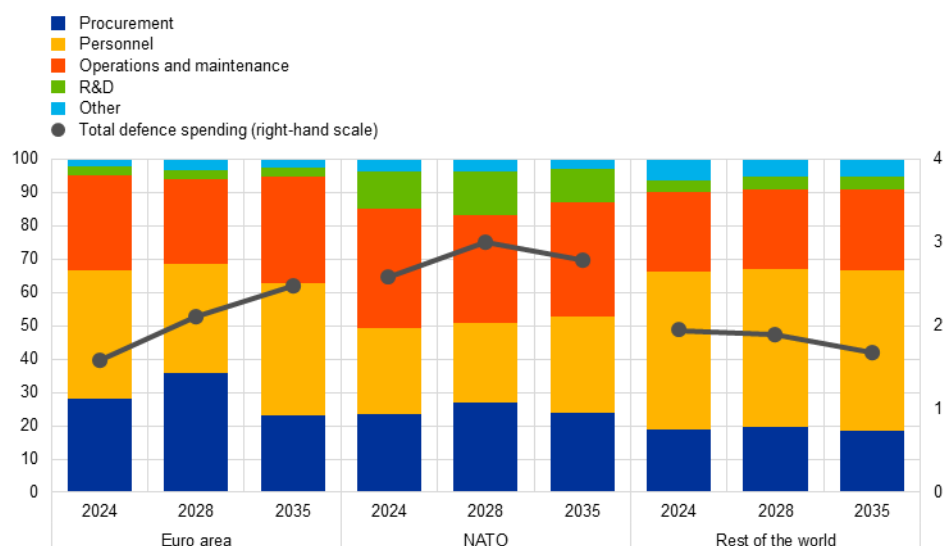
Ukraine. They may not have a direct impact on the euro area economy, but may contribute indirectly to improved security and military capability in Europe.¹

Aggregate euro area spending on defence could increase by almost 1 percentage point of GDP over the next decade and reach 2.5% of GDP in 2035, according to JANES budget database.² A breakdown by type of expenditure shows that in the medium term procurement will likely drive the increases in spending, while over longer horizons spending on personnel as well as on operations and maintenance are expected to dominate (Chart 1). Investment in defence research and development (R&D) in the euro area is marginal, in contrast to the expected contribution for the whole of NATO.

Chart 1

Defence spending trends by expenditure type (2024-35)

(left-hand scale: shares of total defence spending; right-hand scale: percentage of GDP)



Sources: JANES database and ECB staff calculations.

Notes: The euro area aggregate excludes Malta and Cyprus. The NATO aggregate excludes the non-NATO euro area countries Austria, Cyprus, Ireland and Malta. "Rest of the world" excludes the NATO member countries. Based on JANES data. R&D stands for research, development, testing and evaluation.

Higher defence spending in Europe has several macroeconomic implications.

Military spending affects economic output through three principal channels: demand, supply and security (Dunne et al., 2005). In the short to medium run, government spending on infrastructure, military personnel and defence materiel stimulates domestic demand. The extent to which this affects economic activity depends, among other factors, on the degree to which the spending remains within the

¹ See European Commission (2025), "Commission unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030", *press release*, 19 March, and subsequent documentation. More recently, the European Council approved legislation underpinning a €90 billion loan to Ukraine. See European Council (2026), "Council finalises €90 billion support loan to Ukraine", *press release*, 23 April. This loan will be financed through EU borrowing on the capital market, which will be backed by the EU budget headroom.

² JANES defence budget (JDB) database is a commercial database that provides defence budget data and projections for 112 countries for 2005-36. Whenever possible, JDB uses budget data from official government sources: ongoing and announced programmes, white papers, defence strategies, funding announcements, and ten-year forecasts based on equipment replacement cycles. Box 1 only compares the official COFOG data and those from the NATO database.

domestic economy. In the longer term, defence spending can increase aggregate supply by increasing the economy's capital stock and encouraging innovation and technological development. Finally, greater domestic security can help alleviate the negative effects of geopolitical uncertainty on consumption and investment (Brignone et al., 2026). In what follows, Section 2 takes stock of defence spending in the euro area countries and discusses defence spending statistics. Section 3 shifts to the short and medium-term macroeconomic effects of increased defence spending, focusing on the horizon of the Eurosystem staff macroeconomic projections. Finally, Section 4 considers the longer-run influences on the supply side and economic growth.

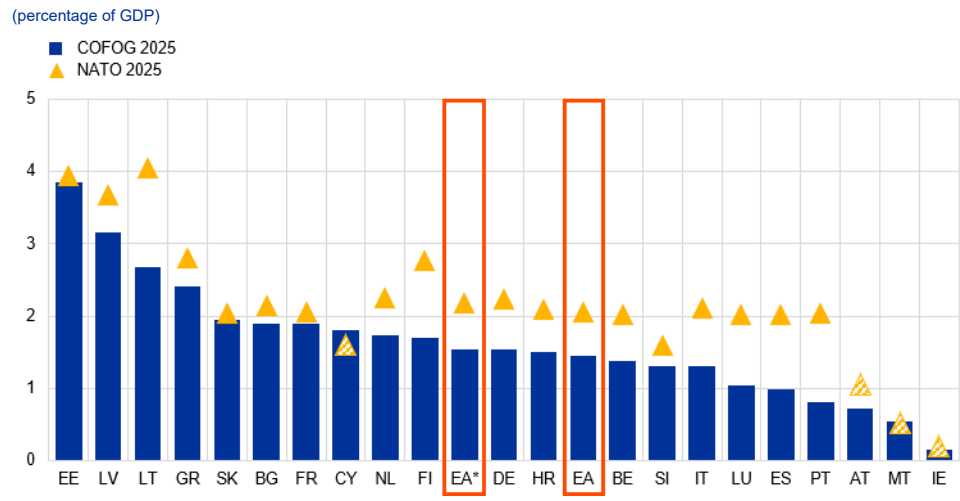
2 Cross-country comparison of defence spending in the euro area

Defence spending as a share of GDP increased in most European countries in 2025 compared with 2024, although only four euro area countries are above 2% (Chart 2). Classification of the Functions of Government (COFOG) data on defence expenditure are the key reference for analysing how much governments spend on defence using national accounts. It is also the metric used in the European fiscal framework for assessing the activation of the NECs. According to these data, among the euro area countries that are NATO members, the Baltic countries and Greece spent more than 2% of GDP on defence in 2025, while Slovakia, Bulgaria and France were close to that threshold. By contrast, the expenditure of non-NATO euro area countries continued to be low (e.g. Ireland 0.1% of GDP or, equivalently, 0.3% of GNI*,³ Malta 0.5% of GDP and Austria 0.7% of GDP) except for Cyprus, which spent 1.8% of GDP. Compared with 2024, the estimated euro area aggregate increased slightly by 0.1 percentage points to almost 1.5% of GDP in 2025. The estimated average for 2025 is slightly higher than 1.5% of GDP when taking into account only NATO member euro area countries.

³ Modified gross national income (GNI*) is an indicator published by Ireland's Central Statistics Office designed to measure the size of the Irish economy by excluding globalisation effects. It subtracts the depreciation on intellectual property, the depreciation on leased aircraft and the net factor income of redomiciled public limited companies from headline GNI.

Chart 2

Defence spending across COFOG and NATO data sources



Sources: Eurostat (2026b, April), NATO (July 2026) and European Defence Agency.

Notes: The European Defence Agency (EDA) collects data from the defence ministries of all EU Member States and some non-EU countries, regardless of NATO membership. The ordering of countries is according to COFOG defence spending as a share of GDP in 2025. For Ireland, Spain and the Netherlands, the 2025 COFOG data shown are proxied by 2024 COFOG data and the growth in defence investment over 2024-25. For Italy and Cyprus, the 2025 COFOG data shown are proxied by 2023 COFOG data and the growth in defence investment over 2023-25. For the non-NATO EU Member States, 2025 NATO defence spending is approximated by the latest available EDA defence spending data for 2025 and marked by the patterned yellow triangles. There are two estimated euro area aggregates displayed: euro area (EA) contains all 21 countries, while euro area* (EA*) only contains the NATO member euro area countries.

The defence spending-to-GDP ratios have increased for most euro area countries according to NATO data.

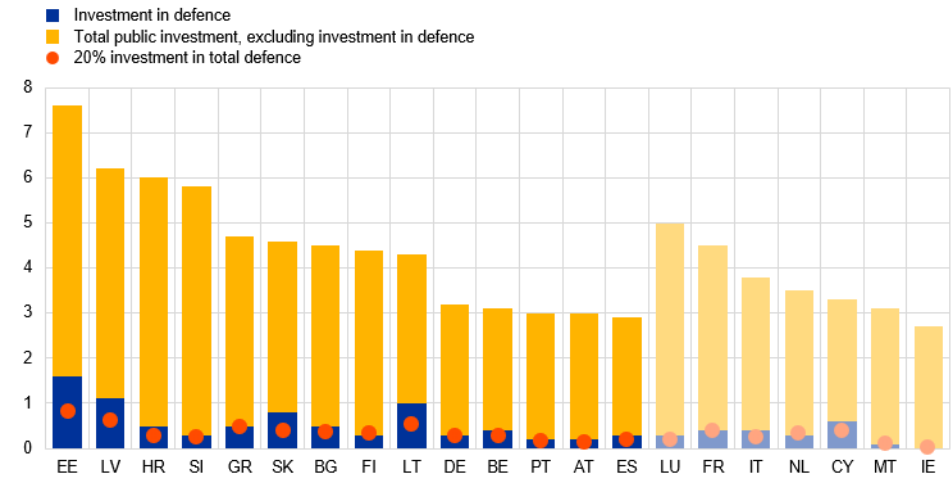
The differences between the COFOG and NATO databases arise from several factors, as explained in Box 1. The differences between the two data sources generally widened in 2025, which may have been driven by timing differences in the recording of major purchases of equipment. For example, COFOG 2025 data show a ratio of 1.5% of GDP for Germany in 2025, whereas NATO data indicate 2.2% of GDP. All the euro area NATO member countries, except Slovenia, have already reached 2% of GDP in defence spending according to the NATO measure. Hence, the estimated euro area NATO aggregate was close to 2.2% of GDP in 2025 (and at 2.0% of GDP for the aggregate across all euro area countries).

For most euro area countries, public investment in defence increased in 2025 and represented more than 20% of the defence budget (Chart 3).

Expenditure on defence is mostly allocated to compensation of employees, followed by intermediate consumption and investment, with the composition being rather stable over time. After limited change in 2024, however, in 2025 most euro area countries reported a growing defence investment-to-GDP ratio. Overall euro area aggregate defence investment spending increased by 0.3 percentage points of GDP relative to 2024. Moreover, in 2025 most euro area countries allocated more than 20% of their defence budget to investment. Although in most euro area countries defence investment accounts for a relatively low share of total public investment, it is becoming both a more structural component and more relevant for Europe's long-term growth and fiscal strategy. Over time, this may also lead to higher current expenditure (intermediate consumption) due to the specific costs associated with maintaining a higher stock of military equipment.

Chart 3**Public investment and investment in defence in 2025**

(percentage of GDP)



Source: Eurostat (2026b, April).

Notes: The ordering of countries is according to total public investment spending (P.51G) as a percentage of GDP in 2025. Investment in defence is defined in the SGP as gross fixed capital formation (P.51G). The euro area countries are grouped into countries that have activated the national escape clause (NEC; bars on the left) and non-NEC countries (lighter bars, on the right).

Box 1**Understanding defence spending statistics**Prepared by **Marta Rodríguez-Vives**

Assessing the recent increase in defence spending is not straightforward, as different statistical frameworks coexist. The two most widely used sources are the national accounts-based COFOG and NATO defence expenditure statistics. While both are broadly similar in scope, aiming to capture resources devoted to defence, they differ in terms of accounting principles and statistical objectives.

COFOG defence spending (division 02) provides a functional classification of government expenditure within the European System of Accounts (ESA 2010) and is therefore the preferred framework for analysing the role of defence spending in public finances and fiscal policy in the EU. NATO statistics, by contrast, are designed to monitor defence efforts and military capabilities across Alliance members and follow a slightly broader concept. NATO figures for defence expenditure are hence generally higher than those for COFOG defence spending (see Eurostat, 2026a, 2026b). Several factors explain the discrepancies between the two measures.

1. NATO expenditure is largely recorded on a cash basis, whereas national accounts follow the accrual accounting principle: expenditure is recorded when economic ownership changes, not when payments are made. This can generate substantial differences in individual years during re-arming periods, when large military procurement projects with long delivery times are ongoing. However, the cash-accrual discrepancies will tend to diminish in the long run once ownership has been fully transferred.

2. The scope of core defence expenditure is broader under NATO's 3.5% of GDP commitment. Notably it includes military pensions, healthcare spending for military personnel, and other defence and security-related costs. In national accounts, pensions for military employees are recorded under social protection (COFOG category 10) and healthcare for military personnel under health (COFOG category 07).
3. A more significant challenge arises from NATO's additional 1.5% of GDP commitment, for which there is no single equivalent COFOG category. The component "other defence and security-related expenditure" includes protection of critical infrastructure, defence networks, civil preparedness and resilience, innovation, and strengthening the defence industrial base. In national accounts, this expenditure is distributed across several COFOG functions, notably general public services (category 01), public order and safety (category 03) and economic affairs (category 04).
4. Another statistical clarification concerns defence capabilities, as the composition of spending is at least as important as its aggregate level. Compensation of employees and intermediate consumption – covering the goods and services used in the day-to-day provision of defence services, such as fuel, maintenance and repair, logistics and other operational inputs – primarily contribute to maintaining existing capabilities. By contrast, capital formation reflects the accumulation of assets that expand or modernise defence capabilities. In national accounts (Table A), government investment in defence (P51G) comprises gross fixed capital formation classified under COFOG division 02 (Defence), including military weapon systems and military infrastructure.⁴ However, a significant component of military capability-building may be recorded under changes in inventories (P52). Ammunition, missiles, rockets, bombs and other single-use military items are not treated as fixed assets in national accounts. Rather, they are treated as inventories until they are used and afterwards classified as intermediate consumption. Excluding inventories would underestimate the resources devoted to strengthening defence capabilities in the current geopolitical environment. As highlighted by the European Commission (2025), capital formation captures long-term investments in military capabilities. It covers not only military infrastructure and weapon systems, such as aircraft, warships and tanks, but also the accumulation of ammunition and missile inventories. For this reason, and as shown in Table A, future analysis of defence investment could focus on gross capital formation (P5) rather than on gross fixed capital formation (P51G) alone, as the former provides a more comprehensive measure of the resources devoted to strengthening military capabilities.
5. Finally, COFOG and NATO rely on different sources for the GDP denominator.

⁴ According to ESA 2010 (paragraph 20.190), military weapon systems comprise vehicles and other equipment – such as warships, submarines, military aircraft, tanks and missile launchers – that are used continuously for more than one year to provide defence services.

Table A

Defence expenditure in national accounts: which components relate to military capacity?

Component (ESA code)	Examples	Relevance for capacity building
Compensation of employees (D1)	Military salaries and allowances	Maintains existing forces
Intermediate consumption (P2)	Fuel, maintenance costs, logistics, training	Supports operational readiness. Training is important for current and future military capabilities.
Social benefits (D62)	Military pensions and related benefits	Limited direct impact on current capabilities
Gross fixed capital formation (P51G)	Aircraft, warships, tanks, military infrastructure, weapon systems	High
Changes in inventories (P52)	Ammunition, missiles, rockets, bombs, spare military supplies	High
Gross capital formation (P5 = P51G + P52)		Best measure of investment in future military capabilities

Source: Authors, based on ESA 2010.

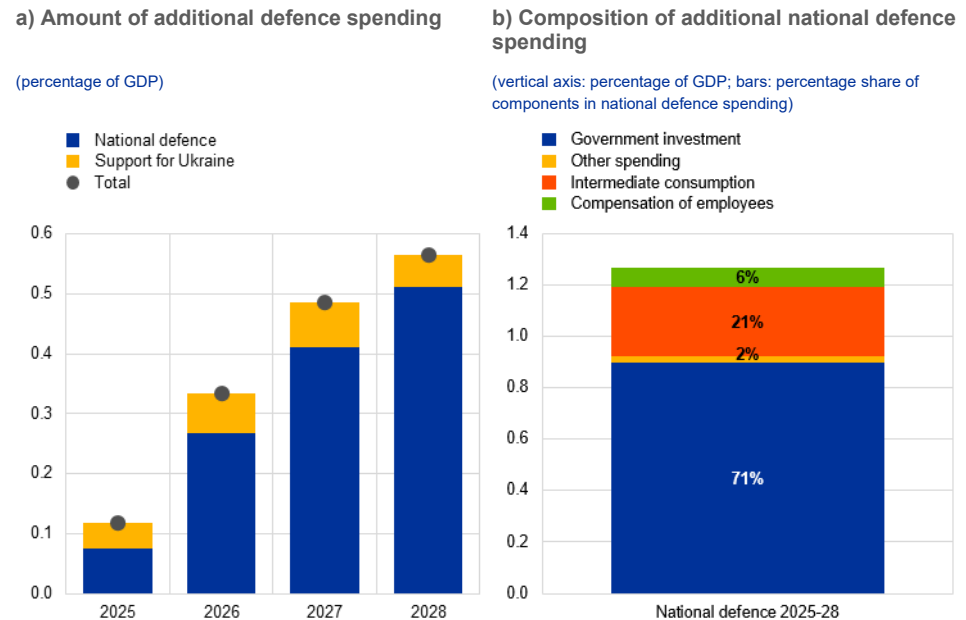
3 Fiscal and macroeconomic implications of rising defence spending over the short and medium term

The additional euro area defence spending since the Munich Security Conference in early 2025 is incorporated in the June 2026 Eurosystem staff projection baseline, and reaches 1.5% of GDP cumulatively over 2025-28 (Chart 4, panel a). This spending includes military support to Ukraine (0.24% of GDP cumulatively over 2025-28). The estimates have been revised upwards by about 0.4 percentage points compared with the Eurosystem staff's first estimate in the June 2025 projections.⁵ In part, this reflects more countries specifying new defence plans in enough detail to be incorporated into the staff projection baseline. Germany continues to account for the bulk of these new measures, including most support for Ukraine. Purely in terms of additional national defence spending, which is relevant for assessing the direct macroeconomic impact, Germany accounts for somewhat more than 70% of the total incorporated in the June 2026 projection baseline. Only the Baltic countries rank higher on defence spending as a share of GDP. The majority of the additional national spending over the period 2025-28, at the euro area aggregate level and in most countries, relates to investment (71%). The rest is mostly for government consumption, tilted more towards intermediate consumption (21%) than personnel expenditure (6%; Chart 4, panel b).

⁵ For an overview, see Checherita-Westphal et al. (2025).

Chart 4

Additional defence spending incorporated in the Eurosystem staff projections baseline since the Munich Security Conference (early 2025), euro area aggregate



Sources: Eurosystem staff macroeconomic projections for the euro area, June 2026 and ECB calculations.

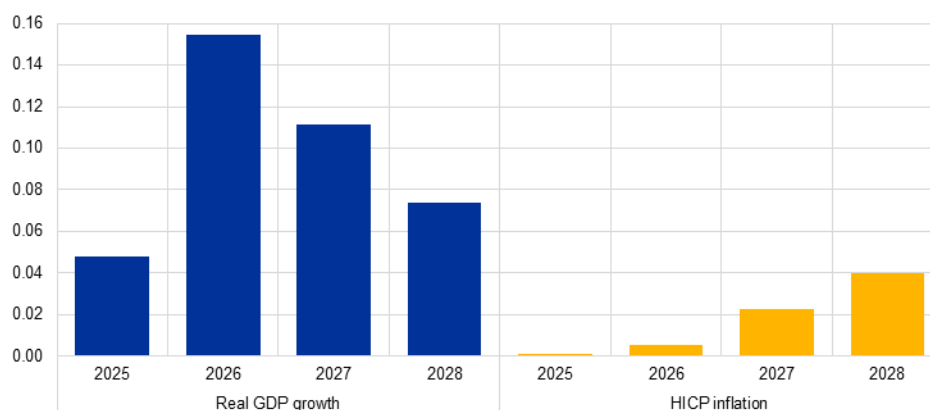
In terms of macroeconomic impact, defence spending is a notable driver of euro area growth over the projection horizon, while the inflation impact is projected to be muted (Chart 5). The additional defence spending incorporated in the baseline since the Munich Security Conference is estimated to increase real GDP growth by 0.4 percentage points cumulatively over 2025-28, with a peak effect in 2026.⁶ While increasing towards the end of the horizon, the expected impact on euro area inflation is limited and less than 0.1 percentage points cumulatively over 2025-28. This result primarily reflects the projected composition of the additional defence spending (mostly on capital with a low share of personnel spending, which tends to have limited inflationary effects as shown in Box 2, part 2).

⁶ The impact on real GDP "growth" is determined by the annual change in the additional spending for each year and is hence lower in cumulative terms than the impact on the real GDP "level".

Chart 5

Macroeconomic effects of the additional national defence spending on the Eurosystem projection baseline, euro area aggregate

(percentage points)



Sources: Eurosystem staff macroeconomic projections for the euro area, June 2026 and ECB calculations.

Notes: The macroeconomic effects are aggregated at the euro area level based on country-specific estimates using simulation models provided by the Eurosystem's national central banks. They are expressed as a percentage point deviation from a baseline without the additional defence spending, keeping monetary policy, exchange rate and financial spreads fixed at their baseline values. The fiscal shocks used in model simulations are calculated in marginal terms (corresponding to the annual change in the national defence spending component shown in Chart 4, panel a). HICP stands for Harmonised Index of Consumer Prices.

The baseline estimates are subject to uncertainty. The risks to the baseline are, overall, assessed to be tilted towards higher defence spending (see Box 2, part 1). Furthermore, the relatively high growth but low inflation impact of the additional defence spending over the Eurosystem projection horizon and beyond is contingent on several factors. In particular, the impact hinges on the response of the supply side and whether, in future, spending on capital will increase relative to spending on personnel (see the next section and the analysis in Box 2, part 2). Other factors, such as the expectations of households and firms, will also play a role. In the euro area, households' expectations about the impact of defence spending on the economy and their financial wellbeing are closely linked to their beliefs about how such spending will be financed and their country's level of public debt (see Baumann et al., 2025).⁷ Finally, there is also considerable estimation uncertainty regarding the GDP fiscal multipliers of defence spending with respect to, among other factors, the composition of spending, the timing of announcements, and transmission mechanisms (see the empirical analysis in Box 2, part 2).⁸

⁷ The study uses data from the ECB Consumer Expectations Survey conducted in May 2025. While the overall impact of different defence spending beliefs on expectations remained limited, most households surveyed expected inflation to increase somewhat in response to higher defence spending, while their expectations about the impact on growth were more varied and broadly pessimistic.

⁸ Beyond the factors discussed in Box 2, multipliers depend on other factors. GDP multipliers tend to be lower when monetary policy is active (in response to the increase in inflation) and higher during recessions or when fiscal space is ample. See Bokan et al. (2025) for a recent model-based analysis for the euro area, and Ilzetzi (2025), Checherita-Westphal and Særkjær (2025) for recent reviews of the empirical literature.

Box 2

The macroeconomic effects of defence spending beyond the projection baseline: model-based scenario analysis and empirical evidence

Prepared by Cristina Checherita-Westphal, Georg Müller and Laust Særkjær

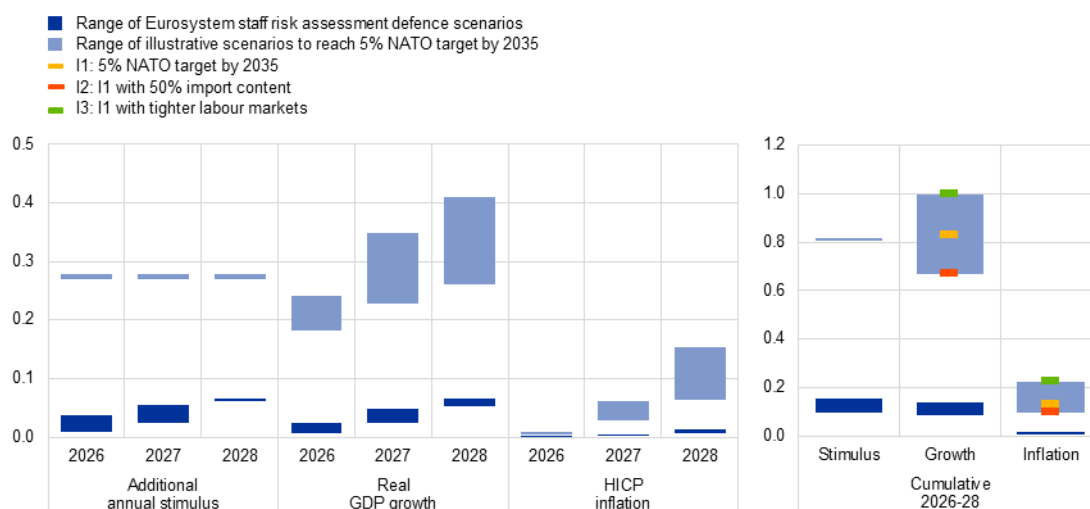
1. Scenario analysis of risks to the euro area June 2026 projection baseline from higher defence spending

First, Eurosystem staff assessed the risks of additional defence spending over 2026-28 as stemming mostly from government announcements that were insufficiently detailed to be included in the baseline at the cut-off date of the June 2026 projections. Such risks, based on country-specific expert judgement, were found to be limited at the euro area aggregate level (Chart A, dark blue bars). Staff also assessed the likely composition of such additional defence spending (tilted towards government investment) and its possible financing through higher taxes and/or cuts in other spending (assessed as being limited). Macroeconomic simulations of such risk scenarios indicate that the cumulated real GDP growth effects would be limited to below 0.1 percentage points over 2026-28, while the inflation impact would be negligible.

Chart A

Scenario analysis of risks to the euro area projection baseline from higher defence spending over 2026-28

(percentage points of GDP and percentage point deviation from the baseline)



Source: ECB staff calculations based on Eurosystem staff risk assessments in the context of the June 2026 projections.

Notes: HICP stands for Harmonised Index of Consumer Prices. The left-hand panel shows the calibration and the effects of scenario ranges on an annual basis, while the right-hand panel shows them in cumulative terms over 2026-28 for three illustrative scenarios (I1-I3). The range of the dark blue bars is given by the scenarios for additional defence spending both with compensatory financing measures (assessed as being limited) and without (fully debt-financed). In the illustrative scenarios (light blue bars), the fiscal shock from scenario I1 (gradually increasing defence spending to reach the 5% of GDP NATO target at euro area level by 2035) is calibrated without compensatory measures (full debt financing). The range of macroeconomic results is based on simulations with the ECB's main euro area projection model (ECB-BASE), keeping monetary policy, exchange rate and financial spreads fixed at their baseline values.

Second, illustrative risk scenarios considered higher additional defence spending to reach the 5% of GDP NATO target at euro area level by 2035. These scenarios could yield more significant growth effects (between 0.7 and 1 percentage points cumulatively over 2026-28). The impact on inflation, albeit increased, would remain limited over the projection horizon (Chart A, light blue bars). The range of macroeconomic effects depends on various assumptions on the underlying parameters. In particular, increasing the import content of public spending from a 19% average benchmark value

(in the central scenario I1) to 50% (scenario I2) lowers the growth effect by about 0.2 percentage points cumulatively, with milder impacts on inflation. Higher labour market tightness (scenario I3) leads to a larger inflation impact owing to higher wage pressures (while also boosting the estimated growth impact due to an increase in households' disposable income). Finally, the estimates in these illustrative scenarios can be regarded as upper limits. The analysis abstracts from possible financial market tensions if government debt ratios are not put on a declining path over the medium term in line with the requirements of the Stability and Growth Pact, particularly in the highly indebted euro area countries (see Bouabdallah et al., 2025 for more detailed analyses on the sustainability implications).

2. Empirical analysis of the macroeconomic effects of defence spending across EU Member States over 1999-2025

This part complements the model-based results above with an empirical analysis across EU Member States drawing from Checherita-Westphal and Særkjær (2026). It contributes to the empirical literature in several ways. First, it goes beyond GDP multipliers, which are the focus of most empirical studies, to investigate in detail the price effects of defence spending. Second, in exploiting Eurostat's COFOG functional classification of government expenditure (see Box 1), the analysis aims at improving the estimation of the timing of the fiscal "shock" to account for the fact that purchases of large military equipment are only recorded as defence spending upon delivery – and therefore with a lag. To this end, it adjusts the capital component of COFOG defence spending data using a country-specific "delivery time delay" proxy constructed based on the SIPRI Arms Transfers Database.⁹ Third, the analysis captures very recent developments in the EU Member States' defence build-up by using defence spending data up to and including 2025, as available.

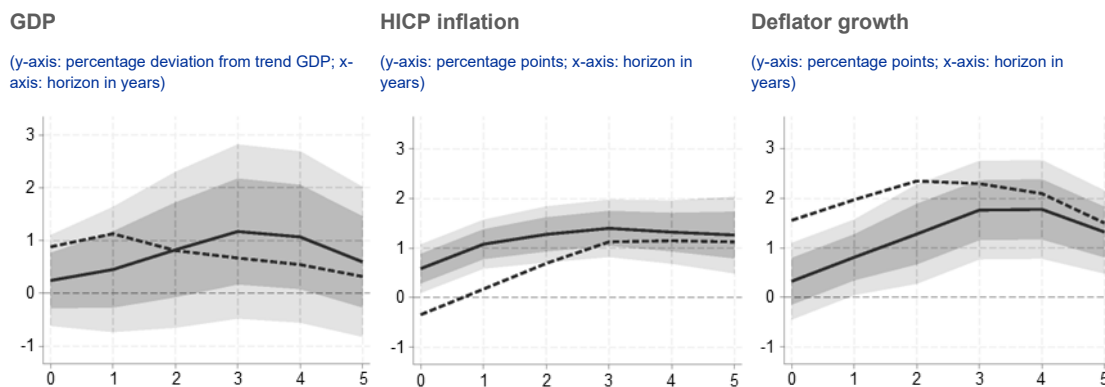
The analysis finds that aggregate defence spending generates a cumulative GDP multiplier of around unity at its peak, which occurs later and is more prolonged in the "adjusted" specification (Chart B, left panel). Price effects are positive and statistically significant, with GDP deflator growth effects higher than inflation according to the Harmonised Index of Consumer Prices (HICP). This reflects the fact that defence-specific cost pressures go beyond pressures on consumer prices and are more directly captured through government spending deflators (Chart B, middle and right panels). The cumulative HICP inflation effect after a 1% of GDP increase in defence spending peaks at 1.3 percentage points in the third year in the "adjusted" specification, where the effects are stronger than in the unadjusted one. Nonetheless, as shown below, this relatively high impact on inflation depends heavily on the composition of defence spending. Larger delivery delays than the historical norm in a situation of high demand for military equipment and supply constraints would mean a more delayed peak in GDP effects and an earlier and higher onset of inflation. Finally, the GDP effects are surrounded by substantial uncertainty, as indicated by the wide confidence bands.

⁹ This dataset records the order date and actual delivery year for all international transfers of major conventional weapons since 1950. Based on these data, the analysis estimates country-specific procurement delivery lags for capital-relevant categories such as aircraft, ships and armoured vehicles at up to four years, with a median for the sample at two years.

Chart B

Impact of total defence spending and propagation channels

Defence spending with “adjusted” capital (dashed line: unadjusted)



Source: Authors' calculations.

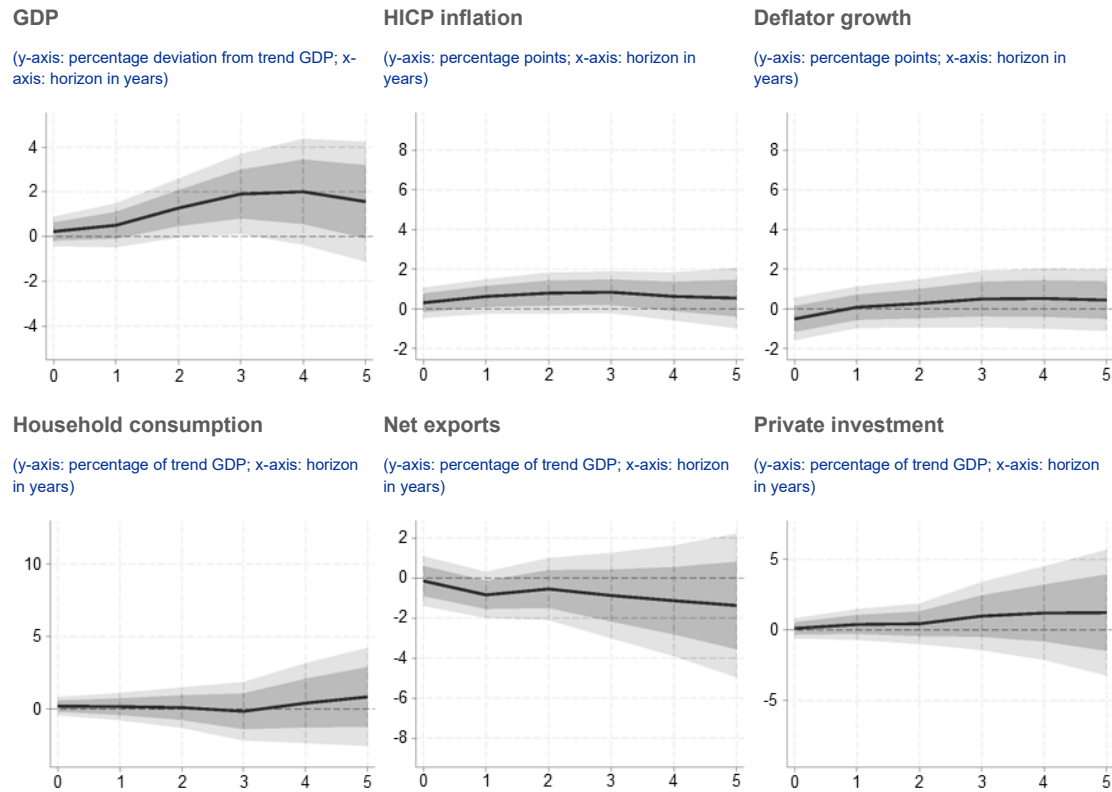
Notes: Estimates for the sample of 27 EU Member States for 1999 to 2025 estimated dynamically using the Panel Local Projection method of Jordà (2005). The panels show cumulative effects over a five-year horizon after a 1% of trend GDP increase in defence spending (the fiscal shock occurs in year 0). The cumulative GDP multiplier follows the specification of Ramey and Zubairy (2018). The GDP variable is expressed in real terms and is normalised to lagged trend GDP. The baseline includes a range of lagged control variables as well as country and time fixed effects. The levels indicated by the confidence bands are: grey 68%; light grey 90%.

The macroeconomic effects and the propagation channels depend on the type of defence spending (Chart C). Capital defence expenditure is the primary source of GDP increases, whereas higher personnel spending generates relatively stronger deflator effects. Personnel spending, which has the largest share in total defence spending (over 50% in our sample), mostly acts through increasing households' consumption while crowding out private investment. Its very large effect on the GDP deflator growth on impact (at time 0 when the shock occurs) in part reflects a direct effect on the government consumption deflator through the channel of higher public wages. Both capital and personnel spending contribute to a deterioration in the trade balance. For capital spending, as opposed to personnel costs, there is no evidence for crowding out of private investment (crowding-in effects, while not statistically significant in the full sample, are strong if outlier observations are excluded).

Chart C

Breaking down total defence spending: the impact of capital and personnel spending

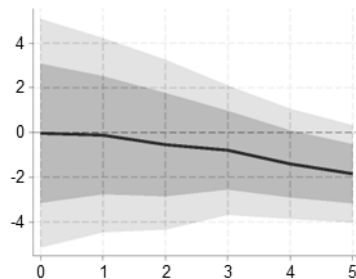
a) Cumulative impact of “adjusted” capital spending



b) Cumulative impact of personnel spending

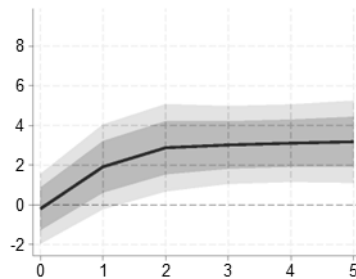
GDP

(y-axis: percentage deviation from trend GDP; x-axis: horizon in years)



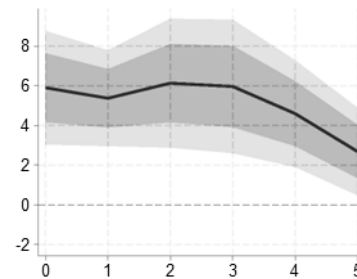
HICP inflation

(y-axis: percentage points; x-axis: horizon in years)



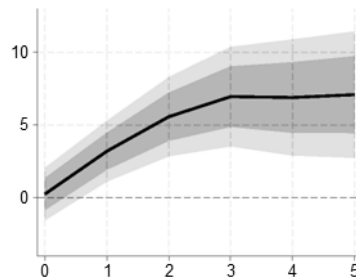
Deflator growth

(y-axis: percentage points; x-axis: horizon in years)



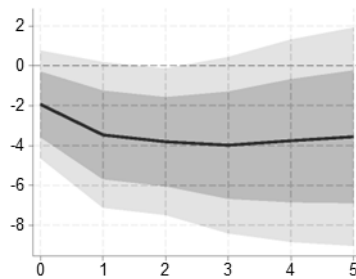
Household consumption

(y-axis: percentage of trend GDP; x-axis: horizon in years)



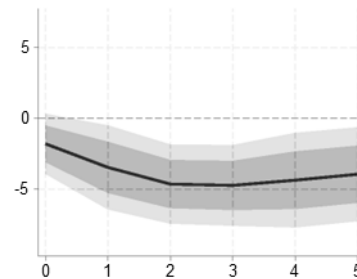
Net exports

(y-axis: percentage of trend GDP; x-axis: horizon in years)



Private investment

(y-axis: percentage of trend GDP; x-axis: horizon in years)



Source: Authors' calculations.

Notes: The estimates for the sample of 27 EU Member States from 1999 to 2025 were prepared using the Panel Local Projection (LP) method of Jordà (2005). The panels show cumulative effects over a five-year horizon after a 1% of trend GDP increase in defence spending (fiscal shock in year 0). The cumulative GDP multiplier follows the specification of Ramey and Zubairy (2018). GDP and all other variables, apart from inflation and GDP deflator growth, are expressed in real terms and normalised to lagged trend GDP. The baseline includes a range of lagged control variables as well as country and time fixed effects. The levels indicated by the confidence bands are: grey 68%; light grey 90%.

4 Longer-term impact on output and productivity

Defence spending can boost longer-term economic activity and productivity if it brings about structural change, notably through delivering economies of scale, reallocating current production as well as creating technological spillovers to civilian production. There are productivity benefits arising from economies of scale, learning by doing and technological spillovers (see Ilzetzki, 2025). The size of such productivity gains depends on the type and location of spending as well as a number of structural factors. Defence equipment usually involves high-tech manufacturing, so higher domestic defence production can improve productivity if it causes capital and labour to be reallocated from less productive activities. The impact of this reallocation will be smaller if a large share of defence equipment is imported. Defence R&D spending can also generate productivity spillovers to the civilian sector. By contrast, spending on military personnel has been shown to have a lower impact on growth (see Box 2), since it can potentially move workers away from more productive roles in the civilian sector.

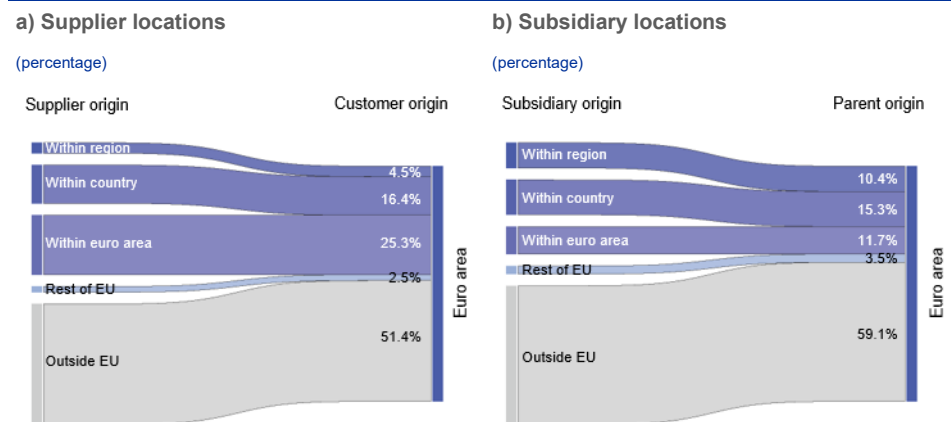
There is some evidence of a pivot towards domestic arms manufacturing and concurrent improvements in labour productivity. Greater domestic production provides more opportunity to generate economies of scale and lower the unit cost of production. The annual accounts of major European defence contractors show that between 2021 and 2024 their revenues increased and they also posted higher value added per worker. Further economies of scale may be obtained by focusing European procurement on a narrower set of pan-European major weapon systems. At present, European defence spending is fragmented along national lines with a proliferation of systems relative to the United States. Attempts to create joint European systems, such as the Franco-German-Spanish Future Combat Air System, have at times run into difficulty.

Knowledge spillovers may occur within regions where defence production takes place, or along supply chains. The production of major European defence firms is highly concentrated in certain regions. The 12 largest euro area defence firms and their subsidiaries exceed 5% of total manufacturing employment in several euro area NUTS1 regions.¹⁰ When also taking into account defence companies' suppliers, the degree of regional concentration is smaller. Less than 20% of suppliers of the top euro area defence firms operate in the same region or country, with an additional 25% of suppliers located elsewhere in the euro area, and about 50% outside of the EU (Figure 1, panel a). The location of subsidiaries indicates somewhat stronger regional ties, with around 10% of subsidiaries located within the same region (Figure 1, panel b). However, the overall intra-euro area or intra-EU subsidiary network covers only 40% of all subsidiaries. That may limit the potential for knowledge spillovers across the euro area, although there may also be opportunity for knowledge transfer from imported equipment. At the same time, the large share of non-EU suppliers highlights the EU's dependence on, and vulnerability to, external providers for key inputs and potentially critical defence systems.

¹⁰ NUTS 1 is the highest major regional level in the European Union's Nomenclature of Territorial Units for Statistics.

Figure 1

Top defence firms' linkages with suppliers and subsidiaries



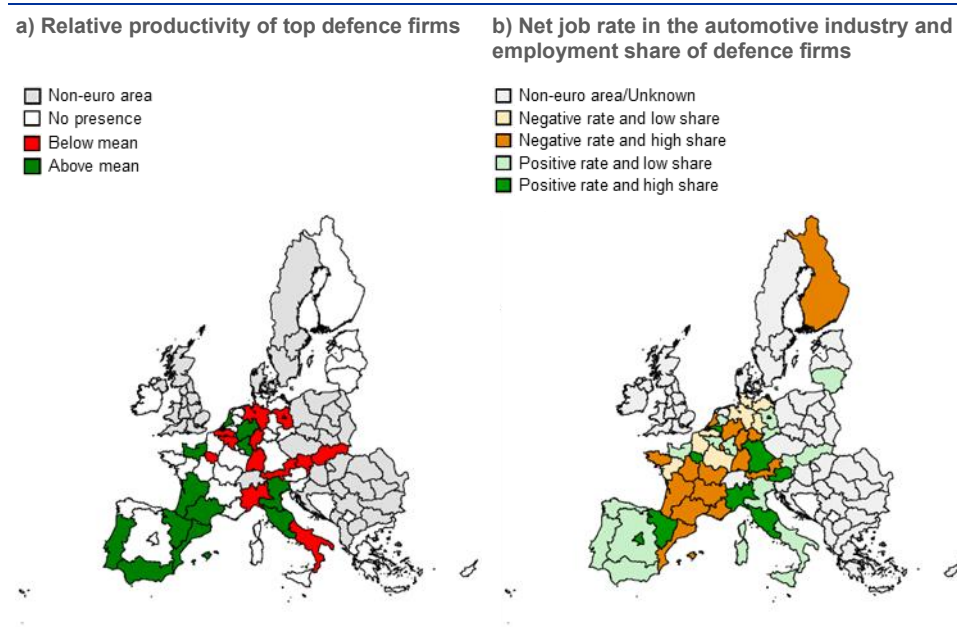
Sources: Bloomberg Finance L.P. and Moody's.

Notes: Panel a) shows the share of suppliers relative to the total number of suppliers to top euro area defence firms. Panel b) shows the share of subsidiaries relative to the total number of subsidiaries of top euro area defence firms.

Higher defence production may also improve aggregate productivity by reallocating resources away from less productive activities. Major defence firms are, on average, more productive than other manufacturing firms in about half of the regions where they are present (Figure 2, panel a). Reallocating employment from civilian to defence firms in those regions could therefore increase aggregate productivity as a result of a direct composition effect.

Figure 2

Defence sector productivity and employment dynamics



Sources: Moody's and Eurostat.

Notes: Panel a) shows the mean value added per employee in top defence firms and their subsidiaries operating in the manufacturing sector over the mean value added per employee in the manufacturing sector in NUTS1 regions in 2023. Below (above) mean figures represent a productivity share below (above) mean productivity in the manufacturing sector. Panel b) shows the net job rate calculated as the difference between the intra-regional job creation and job destruction rates in firms from the automotive industry (C29 in the NACE Rev. 2 classification) between 2018 and 2023. Low and high shares indicate whether employment in top defence firms, including their suppliers and subsidiaries, accounts for a below or above-median share of total employment in the region in 2023 respectively.

Higher labour demand by defence firms might create opportunities for productivity-enhancing labour reallocation without creating regional labour market tensions.

Between 2018 and 2023 the share of total manufacturing employment in total employment declined in several euro area regions. Notably, employment in the automotive industry fell in most euro area regions over the same period. These are regions in which top defence firms employ a higher share of workers (Figure 2, panel b, orange regions). In those regions an increase in defence spending may therefore be absorbed without intensifying labour market pressures.

The final channel through which higher defence spending can bolster long-run output and productivity is through spillovers from defence R&D to civilian productivity.

Public spending, notably on basic research, appears to have particularly high economy-wide returns. ECB analysis shows that increasing the government subsidies for R&D and technology adoption by 1% of GDP could raise output by 1.5% in the long run (ECB, 2024). An increase in defence spending of 1% of GDP has been estimated to increase total factor productivity by 0.3% over the long run, primarily through spillover effects from public R&D (Antolin-Diaz and Surico, 2025). A recent study also finds that increasing public R&D spending by 10% results in private sector R&D increasing by 5-6% (Moretti et al., 2025).

To bolster the long-run growth impact of defence spending, it is crucial to increase the relatively low rates of defence R&D spending in Europe. Public defence R&D accounted for just 0.03% of GDP in the EU in 2022, compared with

0.08% in the United Kingdom and 0.3% in the United States. Assuming defence-related R&D has the same economic effect as government-funded R&D, catching up to the US rate could increase EU GDP by 0.5% in the long run (see Box 3). Beyond this direct impact, public sector R&D also raises the returns to private sector R&D, stimulating further private sector spending on R&D. According to estimates from a model calibrated to the Spanish economy, this could add a further 0.15 percentage points to annual GDP growth over the long run (see Box 3).

Box 3

Economic benefits of higher public R&D defence spending

Prepared by Rubén Domínguez-Díaz and Miles Parker

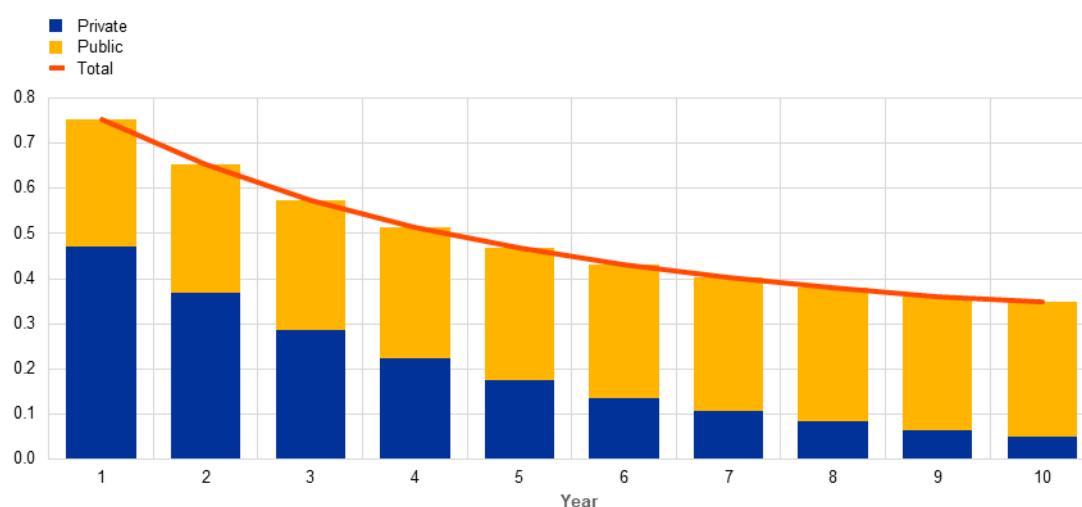
Using an off-the-shelf endogenous growth model calibrated to the Spanish economy as an illustrative case, this box analyses the effects of defence R&D spending on long-run output. In the model, households and companies choose how much to invest in physical capital and labour. Firms can also invest in innovation, which boosts their total factor productivity (TFP). We represent defence R&D as public investment in basic research that increases the available stock of knowledge and so enhances the returns to private sector R&D. We calibrate the magnitude of these spillovers using available firm-level empirical evidence on the impact of public R&D on private R&D investment from the United States.

We consider a large permanent increase in the public R&D-to-GDP ratio of 0.3 percentage points, to approximately the same level as defence R&D in the United States. Reaching such a level would be challenging, but it serves as a benchmark for estimating the upper bound of the potential effects of defence R&D. Chart A shows the total response of R&D spending as a share of GDP over a ten-year horizon. The stock of knowledge generated by public R&D quickly benefits the private sector owing to high elasticity of private R&D with respect to public R&D, creating positive spillovers that encourage firms to themselves allocate more resources to R&D.

Chart A

Change in R&D spending

(percentage point share, as a percentage of GDP)



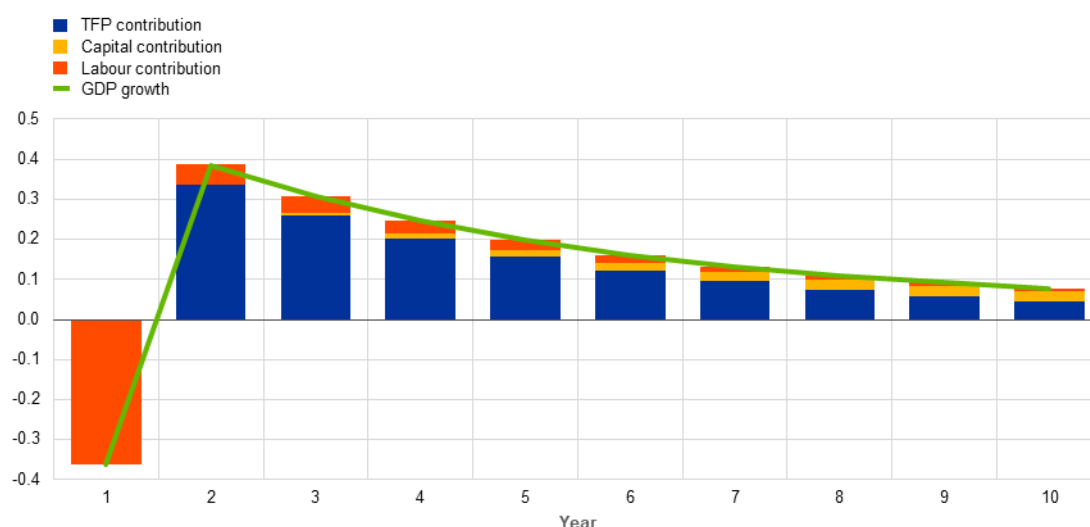
Source: ECB staff calculations based on Domínguez-Díaz et al. (2025).

Higher R&D spending by private firms raises TFP, boosting long-run GDP growth by roughly 0.15 percentage points per year, on average (Chart B). On impact, however, GDP declines, reflecting the trade-off inherent in R&D spending: resources are allocated today towards innovation that yields future productivity gains rather than immediate output. That initial reallocation of resources results at first in lower output than if these resources had continued to be allocated to consumption or investment. At the same time, any increase in labour demand in R&D-intensive sectors is partly offset by firms' shift toward more capital and knowledge-intensive innovation activities, temporarily lowering labour intensity. Over time the productivity gains prevail. Higher productivity also spills over to private investment, increasing the returns on private capital and boosting the capital contribution.

Chart B

GDP growth and contributions

(percentage point deviation from steady state for contributions; percentage points for GDP growth)



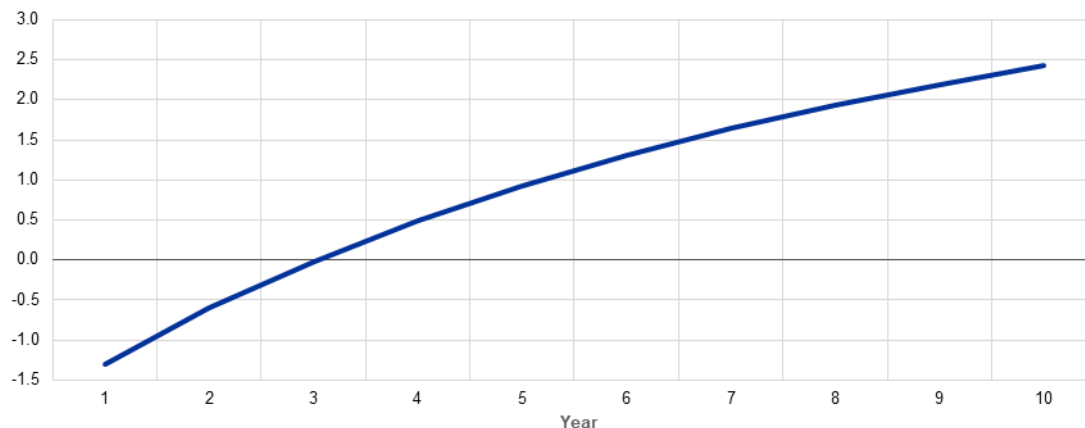
Source: ECB staff calculations based on Domínguez-Díaz et al. (2025).

Finally, Chart C shows the cumulative multiplier of public R&D spending, which captures by how much GDP increases for each euro of public R&D invested. While the multiplier is negative in the short term, reflecting the initial reallocation of resources discussed above, it is well above unity in the long term, as private sector R&D and investment increase. Over the long run each €1 of additional government R&D spending can generate almost €2.5 of GDP.

Chart C

Cumulative R&D multiplier

(increase in GDP per €1 of public R&D investment)



Source: ECB staff calculations based on Domínguez-Díaz et al. (2025).

5 Conclusions

Most European countries have committed to substantially increasing their defence spending over the coming decade. As a response to the intensification of geopolitical tensions and the agreement on higher NATO defence spending targets of 5% of GDP by 2035, most euro area countries increased their defence spending, including defence investment, in 2025. Looking ahead, based on the plans that have been announced, the major efforts to boost national defence spending are expected to be concentrated in Germany and the Baltics.

In the short and medium term, defence spending is expected to be an important driver of growth in the euro area if these spending plans materialise.

The expected cumulative percentage point contribution to growth over the period 2025-28 ranges from 0.4 in the projection baseline to 1 in the most favourable risk scenario. The expected impact on inflation is limited. The actual impact would depend on several factors, such as the composition of spending, with capital as opposed to personnel spending having the potential to lift growth while keeping inflation contained.

Over the longer run, higher defence spending will have only a limited impact on the level of economic activity in the euro area unless there are changes to its composition. The historically large share of imported defence equipment limits the potential for higher domestic productivity growth, as does the relatively high share of spending on personnel. Substantially increasing the spending on R&D could generate larger productivity and growth effects over longer horizons, as dual-use technologies and knowledge spillovers improve the returns to private sector R&D and bolster innovation. Increasing the domestic share of production and reducing the degree of fragmentation of spending could also bolster the productivity gains.

The macroeconomic effects of defence spending analysed here are surrounded by high uncertainty, also in relation to the sustainability of higher spending. At present, higher defence spending is compatible with the EU fiscal framework thanks to the activation of the NECs from 2025 to 2028, provided that a higher pace of consolidation is subsequently implemented to preserve debt sustainability.¹¹ Limitations to the fiscal space in some highly indebted countries may warrant consideration of the size and composition of their fiscal budgets after the transitory period. This may lead to a greater need to prioritise defence spending over other government functions or to increase taxation. However, reducing spending on, for example, health and education comes with opportunity costs that can affect economic growth negatively over the long run. Failing to increase spending to match greater threats to national security also comes with potential costs, ranging from rising geopolitical uncertainty to the economic effects of sabotage and, at the limit, invasion.

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¹¹ Bouabdallah et al. (2026) analyse the implications of activating the NEC for medium-term debt sustainability. They stress the need for a higher pace of consolidation in subsequently implemented national medium-term fiscal-structural plans and for governments to update these plans based on prudent macroeconomic assumptions.

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Statistics

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Further information

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Conventions used in the tables

- data do not exist/data are not applicable
- . data are not yet available
- ... nil or negligible
- (p) provisional
- s.a. seasonally adjusted
- n.s.a. non-seasonally adjusted

1 External environment

1.1 Main trading partners, GDP and CPI

	GDP ¹⁾ (period-on-period percentage changes)						CPI (annual percentage changes)				
	G20	United States	United Kingdom	Japan	China	Memo item: euro area	United States	United Kingdom (HICP)	Japan	China	Memo item: euro area ²⁾ (HICP)
	1	2	3	4	5	6	7	8	9	10	11
2023	3.3	2.9	0.3	0.7	5.4	0.4	4.1	7.4	3.3	0.2	5.4
2024	3.2	2.8	1.0	-0.2	5.0	1.2	2.9	2.5	2.7	0.2	2.4
2025	3.4	2.2	1.3	1.1	5.0	1.2	.	3.4	3.2	0.1	2.1
2025 Q3	0.9	1.1	0.1	-0.6	1.1	0.3	2.9	3.8	2.9	-0.2	2.1
Q4	0.7	0.1	0.1	0.2	1.1	0.2	.	3.4	2.7	0.6	2.1
2026 Q1	0.8	0.5	0.6	0.5	1.3	0.0	2.7	3.1	1.4	0.8	2.0
Q2	.	.	.	.	0.9	0.6	3.9	2.7	1.5	1.1	3.0
2026 Mar.	-	-	-	-	-	-	3.3	3.3	1.5	1.0	2.6
Apr.	-	-	-	-	-	-	3.8	2.8	1.4	1.2	3.0
May	-	-	-	-	-	-	4.2	2.8	1.5	1.2	3.2
June	-	-	-	-	-	-	3.5	2.6	1.6	1.0	2.8
July	-	-	-	-	-	-	3.4	2.9	1.9	0.5	2.9
Aug.	-	-	-	-	-	-	.	.	.	.	3.3

Sources: Eurostat (col. 6, 11); BIS (col. 7, 8, 9, 10); OECD (col. 1, 2, 3, 4, 5).

1) Quarterly data seasonally adjusted; annual data unadjusted.

2) Data refer to the changing composition of the euro area.

2 Economic activity

2.1 GDP and expenditure components

(quarterly data seasonally adjusted; annual data unadjusted)

	GDP											
	Total	Domestic demand								External balance ¹⁾		
		Total	Private consumption	Government consumption	Gross fixed capital formation				Changes in inventories ²⁾	Total	Exports ¹⁾	Imports ¹⁾
					Total	Total construction	Total machinery	Intellectual property products				
	1	2	3	4	5	6	7	8	9	10	11	12
Current prices (EUR billions)												
2023	14,796.8	14,282.3	7,860.3	3,108.7	3,244.3	1,653.8	942.7	641.3	69.0	-514.5	7,456.0	6,941.5
2024	15,404.3	14,759.1	8,170.9	3,281.7	3,243.5	1,650.7	942.7	643.6	62.9	-645.2	7,592.3	6,947.0
2025	15,968.9	15,397.4	8,457.5	3,437.2	3,397.9	1,708.7	974.1	708.3	104.8	-571.5	7,765.8	7,194.4
2025 Q3	4,005.3	3,866.5	2,119.4	864.2	852.5	429.5	245.7	175.5	30.4	-138.8	1,938.1	1,799.3
Q4	4,050.5	3,904.4	2,144.2	878.3	863.7	436.9	249.0	176.0	18.2	-146.1	1,952.8	1,806.7
2026 Q1	4,068.1	3,940.2	2,162.6	882.0	868.3	435.9	250.4	180.2	27.3	-127.9	1,964.8	1,836.9
Q2	4,118.5	3,969.2	2,192.9	891.0	876.7	442.7	251.3	180.9	8.8	-149.3	2,080.5	1,931.2
as percentage of GDP												
2025	100.0	96.4	53.0	21.5	21.3	10.7	6.1	4.4	0.7	-3.6	-	-
Chain-linked volumes (prices for the previous year)												
quarter-on-quarter percentage changes												
2025 Q3	0.3	0.5	0.2	0.7	1.0	0.5	1.3	1.8	-	-	0.6	1.1
Q4	0.2	0.2	0.5	0.5	0.7	1.1	0.7	-0.3	-	-	0.4	0.4
2026 Q1	0.0	0.6	0.1	0.5	-0.2	-1.0	0.2	1.4	-	-	-0.6	0.6
Q2	0.6	-0.3	0.4	0.2	-0.1	0.1	-0.3	-0.2	-	-	3.4	1.5
annual percentage changes												
2023	0.4	0.0	0.6	1.2	2.6	1.2	2.9	5.9	-	-	-1.1	-1.8
2024	1.2	0.9	1.6	2.7	-1.9	-2.2	-1.6	-1.9	-	-	1.0	0.4
2025	1.2	2.0	1.4	1.5	2.8	1.1	2.1	8.1	-	-	1.9	3.5
2025 Q3	1.2	1.7	1.3	1.4	3.0	2.0	3.9	4.2	-	-	2.3	3.6
Q4	1.1	1.7	1.2	1.6	2.9	2.6	3.3	3.1	-	-	2.2	3.6
2026 Q1	0.6	1.5	1.0	2.3	0.3	0.7	3.5	-4.8	-	-	-0.1	1.9
Q2	1.2	1.0	1.2	1.9	1.4	0.6	1.9	2.7	-	-	3.9	3.6
contributions to quarter-on-quarter percentage changes in GDP; percentage points												
2025 Q3	0.3	0.5	0.1	0.1	0.2	0.1	0.1	0.1	0.0	-0.2	-	-
Q4	0.2	0.2	0.3	0.1	0.1	0.1	0.0	0.0	-0.4	0.1	-	-
2026 Q1	0.0	0.5	0.0	0.1	0.0	-0.1	0.0	0.1	0.4	-0.5	-	-
Q2	0.6	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	-0.5	0.9	-	-
contributions to annual percentage changes in GDP; percentage points												
2023	0.4	0.0	0.3	0.2	0.6	0.1	0.2	0.3	-1.1	0.4	-	-
2024	1.2	0.8	0.8	0.6	-0.4	-0.2	-0.1	-0.1	-0.1	0.3	-	-
2025	1.2	1.9	0.7	0.3	0.6	0.1	0.1	0.3	0.2	-0.6	-	-
2025 Q3	1.2	1.7	0.7	0.3	0.6	0.2	0.2	0.2	0.0	-0.5	-	-
Q4	1.1	1.6	0.7	0.3	0.6	0.3	0.2	0.1	0.0	-0.5	-	-
2026 Q1	0.6	1.5	0.5	0.5	0.1	0.1	0.2	-0.2	0.4	-0.9	-	-
Q2	1.2	0.9	0.6	0.4	0.3	0.1	0.1	0.1	-0.4	0.3	-	-

Sources: Eurostat and ECB calculations.

1) Exports and imports cover goods and services and include cross-border intra-euro area trade.

2) Including acquisitions less disposals of valuables.

2 Economic activity

2.2 Value added by economic activity

(quarterly data seasonally adjusted; annual data unadjusted)

	Gross value added (basic prices)											Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing energy and utilities	Construction	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
	1	2	3	4	5	6	7	8	9	10	11	12
Current prices (EUR billions)												
2023	13,387.1	225.0	2,637.9	713.9	2,485.8	704.4	604.6	1,520.0	1,612.8	2,470.8	411.8	1,409.7
2024	13,874.5	234.9	2,638.6	736.5	2,563.6	740.8	637.7	1,584.2	1,679.1	2,623.0	436.2	1,529.8
2025	14,349.5	246.0	2,687.0	768.8	2,640.3	781.5	658.0	1,619.4	1,743.8	2,751.8	452.9	1,619.3
2025 Q3	3,596.7	62.4	666.4	193.6	662.5	197.0	165.6	406.1	439.1	690.1	113.9	408.6
Q4	3,643.3	60.8	679.6	196.5	669.5	199.7	167.5	410.6	443.5	701.0	114.6	407.2
2026 Q1	3,649.2	59.8	671.0	196.3	675.3	200.0	170.1	412.6	445.6	703.3	115.2	418.9
Q2	3,703.4	57.2	692.9	199.0	685.0	203.5	171.4	417.3	449.9	711.4	115.9	415.1
as percentage of value added												
2025	100.0	1.7	18.7	5.4	18.4	5.4	4.6	11.3	12.2	19.2	3.2	-
Chain-linked volumes (prices for the previous year)												
quarter-on-quarter percentage changes												
2025 Q3	0.4	0.3	1.0	0.1	0.2	1.1	0.2	0.0	0.3	0.1	0.0	-0.2
Q4	0.2	0.2	-1.0	0.6	0.3	1.0	1.0	0.6	0.2	0.4	0.2	0.7
2026 Q1	-0.1	-0.1	-0.8	-0.9	0.1	0.4	-0.5	0.4	0.3	0.1	0.2	0.4
Q2	0.8	0.0	1.7	0.4	0.7	0.9	0.2	0.4	0.7	0.5	0.4	-0.5
annual percentage changes												
2023	0.7	-2.8	-1.7	1.6	-0.1	7.3	-3.0	2.4	1.7	0.8	3.4	-1.9
2024	1.2	-0.3	1.3	-0.8	0.3	2.5	0.9	1.7	1.1	2.0	2.2	0.8
2025	1.2	1.9	0.9	0.6	1.4	4.3	0.3	1.0	1.1	1.1	0.5	1.6
2025 Q3	1.2	2.2	0.5	1.2	1.5	4.6	0.4	0.9	1.2	1.1	-0.5	1.3
Q4	1.1	1.4	0.1	1.8	1.4	4.2	1.2	1.0	1.3	0.9	0.8	0.4
2026 Q1	0.5	-0.3	-2.6	0.3	1.3	3.4	0.2	1.4	1.3	1.0	0.7	1.5
Q2	1.3	0.3	1.0	0.3	1.3	3.4	0.9	1.4	1.5	1.2	0.9	0.3
contributions to quarter-on-quarter percentage changes in value added; percentage points												
2025 Q3	0.4	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	-
Q4	0.2	0.0	-0.2	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	-
2026 Q1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Q2	0.8	0.0	0.3	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.0	-
contributions to annual percentage changes in value added; percentage points												
2023	0.7	0.0	-0.3	0.1	0.0	0.4	-0.1	0.3	0.2	0.2	0.1	-
2024	1.2	0.0	0.3	0.0	0.1	0.1	0.0	0.2	0.1	0.4	0.1	-
2025	1.2	0.0	0.2	0.0	0.3	0.2	0.0	0.1	0.1	0.2	0.0	-
2025 Q3	1.2	0.0	0.1	0.1	0.3	0.2	0.0	0.1	0.1	0.2	0.0	-
Q4	1.1	0.0	0.0	0.1	0.3	0.2	0.1	0.1	0.2	0.2	0.0	-
2026 Q1	0.5	0.0	-0.5	0.0	0.2	0.2	0.0	0.2	0.2	0.2	0.0	-
Q2	1.3	0.0	0.2	0.0	0.2	0.2	0.0	0.2	0.2	0.2	0.0	-

Sources: Eurostat and ECB calculations.

2 Economic activity

2.3 Employment ¹⁾

(quarterly data seasonally adjusted; annual data unadjusted)

	Total	By employment status		By economic activity									
		Employ-ees	Self-employed	Agricul- ture forestry and fishing	Manufac- turing, energy and utilities	Const- ruction	Trade, transport, accom- modation and food services	Inform- ation and com- munica- tion	Finance and in- surance	Real estate	Professional business and support services	Public adminis- tration, education, health and social work	Arts, enter- tainment and other services
	1	2	3	4	5	6	7	8	9	10	11	12	13
Persons employed													
<i>as a percentage of total persons employed</i>													
2023	100.0	85.9	14.1	3.1	14.2	6.4	24.3	3.4	2.3	1.1	14.1	24.7	6.5
2024	100.0	85.9	14.1	3.0	14.1	6.4	24.4	3.4	2.3	1.0	14.1	24.8	6.5
2025	100.0	85.9	14.1	2.9	13.9	6.4	24.3	3.4	2.3	1.1	14.1	25.0	6.5
<i>annual percentage changes</i>													
2023	1.5	1.6	1.0	-1.1	0.8	1.6	2.0	3.8	0.7	1.8	1.8	1.3	1.6
2024	1.0	1.0	0.7	-1.6	0.3	1.1	1.0	2.2	1.6	-0.4	0.8	1.5	1.1
2025	0.7	0.7	0.8	-1.7	-0.4	1.1	0.6	0.1	1.1	2.2	1.0	1.3	1.3
2025 Q3	0.7	0.6	0.9	-1.6	-0.4	1.2	0.5	-0.2	1.1	2.4	0.9	1.2	1.0
Q4	0.7	0.6	1.1	-1.1	-0.5	1.3	0.5	-0.9	1.1	0.5	1.4	1.2	1.4
2026 Q1	0.5	0.4	1.3	-0.9	-0.1	1.7	0.3	-1.6	1.0	0.9	0.9	1.0	0.5
Q2	0.5	0.5	0.6	-2.2	-0.4	1.4	0.4	-1.7	1.5	1.0	0.7	1.2	0.5
Hours worked													
<i>as a percentage of total hours worked</i>													
2023	100.0	81.9	18.1	3.9	14.7	7.3	25.1	3.6	2.4	1.1	14.1	21.9	5.9
2024	100.0	82.0	18.0	3.8	14.6	7.3	25.1	3.7	2.4	1.1	14.1	22.1	5.9
2025	100.0	82.0	18.0	3.7	14.4	7.3	25.0	3.7	2.4	1.1	14.2	22.3	6.0
<i>annual percentage changes</i>													
2023	1.7	2.0	0.4	-1.8	1.0	1.5	2.0	4.0	0.8	1.7	2.2	1.7	2.4
2024	1.3	1.4	0.7	-0.9	0.4	1.1	1.2	2.6	1.8	0.3	1.5	2.0	1.7
2025	0.3	0.3	-0.1	-2.6	-0.9	0.7	-0.1	-0.1	0.6	1.5	0.7	1.0	1.9
2025 Q3	0.6	0.6	0.6	-2.5	-0.3	1.2	0.3	-0.4	0.7	3.1	1.1	1.3	1.8
Q4	0.4	0.5	0.3	-2.0	-0.6	1.1	-0.1	-0.6	1.0	-1.3	1.2	1.1	1.9
2026 Q1	0.5	0.5	0.7	-1.3	0.2	1.1	0.3	-1.7	0.4	0.5	0.8	1.2	0.5
Q2	0.5	0.6	0.5	-1.8	-0.1	1.6	0.7	-1.7	1.0	1.0	1.0	1.1	-0.4
Hours worked per person employed													
<i>annual percentage changes</i>													
2023	0.2	0.4	-0.6	-0.7	0.2	-0.1	0.1	0.1	0.1	-0.2	0.3	0.4	0.8
2024	0.3	0.4	0.0	0.7	0.1	0.0	0.2	0.3	0.3	0.7	0.7	0.4	0.6
2025	-0.5	-0.4	-1.0	-0.9	-0.5	-0.4	-0.7	-0.2	-0.5	-0.7	-0.3	-0.3	0.6
2025 Q3	0.0	0.0	-0.3	-0.9	0.1	-0.1	-0.2	-0.2	-0.4	0.7	0.1	0.1	0.7
Q4	-0.3	-0.2	-0.7	-0.9	-0.1	-0.2	-0.5	0.3	-0.1	-1.8	-0.2	-0.1	0.5
2026 Q1	0.0	0.1	-0.6	-0.4	0.3	-0.6	0.0	0.0	-0.6	-0.3	0.0	0.2	0.1
Q2	0.0	0.1	-0.1	0.4	0.3	0.2	0.2	0.0	-0.5	0.0	0.3	-0.1	-0.9

Sources: Eurostat and ECB calculations.

1) Data for employment are based on the ESA 2010.

2 Economic activity

2.4 Labour force, unemployment and job vacancies

(seasonally adjusted, unless otherwise indicated)

	Labour force, millions	Under-employment, % of labour force	Unemployment ¹⁾											Job vacancy rate ³⁾
			Total		Long-term unemployment, % of labour force ²⁾	By age				By gender				
						Adult		Youth		Male		Female		
			Millions	% of labour force		Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	% of total posts
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
% of total in 2025			100.0			78.7		21.3		51.5		48.5		
2023	172.769	2.9	11.295	6.6	2.4	8.990	5.7	2.305	14.5	5.711	6.2	5.584	6.9	3.0
2024	174.342	2.8	11.102	6.4	2.1	8.756	5.5	2.347	14.7	5.693	6.1	5.409	6.7	2.6
2025	175.916	2.8	11.182	6.4	2.1	8.798	5.5	2.384	14.9	5.764	6.2	5.418	6.6	2.2
2025 Q2	175.902	2.8	11.240	6.4	2.1	8.884	5.6	2.356	14.7	5.843	6.2	5.397	6.5	2.2
Q3	176.000	2.8	11.299	6.4	2.0	8.910	5.6	2.389	14.9	5.819	6.2	5.481	6.6	2.1
Q4	176.295	2.8	11.074	6.3	2.0	8.662	5.4	2.412	15.1	5.718	6.1	5.357	6.5	2.2
2026 Q1	176.393	2.8	11.044	6.3	2.0	8.641	5.4	2.403	15.1	5.641	6.0	5.403	6.5	2.3
2026 Feb.	-	-	11.292	6.4	-	8.874	5.5	2.418	15.2	5.802	6.2	5.489	6.6	-
Mar.	-	-	11.284	6.4	-	8.860	5.5	2.424	15.3	5.779	6.2	5.504	6.6	-
Apr.	-	-	11.245	6.4	-	8.840	5.5	2.405	15.1	5.781	6.2	5.464	6.6	-
May	-	-	11.199	6.3	-	8.790	5.5	2.409	15.1	5.754	6.1	5.445	6.6	-
June	-	-	11.265	6.4	-	8.868	5.5	2.397	15.0	5.804	6.2	5.461	6.6	-
July	-	-	11.264	6.4	-	8.893	5.5	2.371	14.9	5.773	6.2	5.491	6.6	-

Sources: Eurostat and ECB calculations.

1) Where annual and quarterly Labour Force Survey data have not yet been published, they are estimated as simple averages of the monthly data. Fully break-free euro area and EU time-series were published for the first time in February 2022, following the implementation of the Integrated European Social Statistics Framework Regulation in 2021. For details of the break correction, see Eurostat (2024) EU labour force survey – correction for breaks in time series, Statistics Explained, updated 13 September 2024.

2) Not seasonally adjusted.

3) The job vacancy rate is equal to the number of job vacancies divided by the sum of the number of occupied posts and the number of job vacancies, expressed as a percentage. Data are non-seasonally adjusted and cover industry, construction and services (excluding households as employers and extra-territorial organisations and bodies).

2.5 Short-term business statistics

	Industrial production						Construction production	Retail sales				Services production ¹⁾	New passenger car registrations
	Total (excluding construction)		Main Industrial Groupings					Total	Food, beverages, tobacco	Non-food	Fuel		
	Total	Manufacturing	Intermediate goods	Capital goods	Consumer goods	Energy							
	1	2	3	4	5	6	7	8	9	10	11	12	13
% of total in 2021	100.0	88.7	32.4	33.2	22.5	11.9	100.0	100.0	38.1	54.4	7.5	100.0	100.0
annual percentage changes													
2023	-1.7	-1.3	-6.1	3.1	-1.0	-5.4	2.4	-1.9	-2.4	-1.2	-1.5	2.3	14.6
2024	-3.0	-3.2	-4.0	-4.9	-0.1	-0.1	-1.4	1.3	0.8	1.8	0.6	1.5	-0.1
2025	1.6	1.7	-0.7	1.1	5.4	1.0	2.2	2.4	1.5	3.2	2.4	2.0	1.1
2025 Q3	1.5	1.6	-0.7	1.0	5.0	0.6	2.6	2.0	0.9	2.9	1.6	2.4	6.3
Q4	1.9	2.0	0.5	2.7	2.4	1.4	2.1	2.3	1.3	3.1	1.9	1.0	3.9
2026 Q1	-1.7	-2.1	-1.5	1.3	-7.9	2.5	-3.1	2.0	1.2	2.8	0.9	0.8	3.8
Q2	0.1	0.2	0.8	2.1	-4.0	1.6	0.1	1.5	1.4	2.6	-4.9	1.8	7.0
2026 Feb.	-1.0	-1.1	-1.6	1.9	-5.3	1.3	-4.1	1.3	1.0	1.7	0.4	1.0	2.3
Mar.	-2.8	-3.0	-1.1	1.9	-12.4	0.0	-0.4	2.4	0.9	3.8	1.3	0.4	7.7
Apr.	0.4	0.4	0.7	3.5	-4.9	2.0	0.0	1.0	1.2	1.9	-4.8	1.7	5.3
May	-0.1	-0.1	1.2	2.9	-6.4	1.8	0.7	2.0	2.2	3.0	-5.7	2.3	7.3
June	0.1	0.2	0.4	0.1	-0.7	0.9	-0.7	1.4	0.7	2.8	-4.2	1.5	8.5
July	.	.	.	.	.	.	.	0.6	1.6	0.2	-3.1	.	.
month-on-month percentage changes (s.a.)													
2026 Feb.	0.3	0.8	0.5	1.0	1.3	-2.2	-0.5	-0.4	-0.5	-0.5	0.1	-0.3	2.2
Mar.	0.4	0.5	0.9	1.4	-4.3	-1.8	1.9	0.9	0.0	1.6	1.0	0.2	2.5
Apr.	0.3	0.4	0.7	-0.3	2.7	-0.2	-0.1	-0.4	0.7	-0.6	-3.5	0.5	0.1
May	0.3	0.2	-0.2	0.5	2.8	2.6	0.2	0.3	0.4	0.5	-1.7	0.7	0.6
June	0.0	-0.1	-0.8	-1.4	2.7	1.5	-1.3	0.2	-0.6	0.5	1.8	-0.3	1.5
July	.	.	.	.	.	.	.	-0.6	0.4	-1.4	-0.8	.	.

Sources: Eurostat, ECB calculations and European Automobile Manufacturers Association (col. 13).

1) Excluding trade and financial services.

2 Economic activity

2.6 Opinion surveys

(seasonally adjusted)

	European Commission Business and Consumer Surveys (percentage balances, unless otherwise indicated)							
	Economic sentiment indicator (long-term average = 100)	Manufacturing industry		Consumer confidence indicator	Construction confidence indicator	Retail trade confidence indicator	Service industries	
		Industrial confidence indicator	Capacity utilisation (%)				Services confidence indicator	Capacity utilisation (%)
	1	2	3	4	5	6	7	8
1999-22	117.7	14.3	38.7	-6.3	9.1	3.7	17.2	.
2023	96.3	-6.1	80.6	-16.1	-1.1	-4.1	6.7	90.4
2024	95.9	-10.8	78.4	-12.6	-4.2	-6.8	6.3	90.1
2025	95.9	-10.1	77.6	-13.4	-2.6	-6.6	4.1	90.0
2025 Q4	97.0	-8.6	77.9	-13.0	-1.5	-6.6	4.9	89.9
2026 Q1	98.1	-7.0	78.0	-13.7	-1.9	-6.3	6.0	89.8
Q2	94.5	-7.6	78.2	-19.0	-3.9	-9.8	3.6	90.0
Q3	.	.	78.3	.	.	.	.	90.1
2026 Mar.	96.8	-6.9	.	-16.3	-2.2	-7.5	5.6	.
Apr.	93.7	-7.5	78.2	-20.5	-2.9	-9.7	2.7	90.0
May	94.2	-7.7	.	-18.9	-4.0	-10.5	3.8	.
June	95.6	-7.5	.	-17.6	-4.8	-9.2	4.5	.
July	97.1	-6.1	78.3	-15.9	-5.2	-6.8	5.1	90.1
Aug.	98.4	-5.3	.	-15.5	-5.0	-5.7	5.8	.

Source: European Commission (Directorate-General for Economic and Financial Affairs).

2.7 Summary accounts for households and non-financial corporations

(current prices, unless otherwise indicated; not seasonally adjusted)

	Households							Non-financial corporations					
	Saving rate (gross)	Debt ratio	Real gross disposable income	Financial investment	Non-financial investment (gross)	Net worth ²⁾	Housing wealth	Profit rate ³⁾	Saving rate (gross)	Debt ratio ⁴⁾	Financial investment	Non-financial investment (gross)	Financing
	Percentage of gross disposable income (adjusted) ¹⁾		Annual percentage changes					Percentage of gross value added		Percentage of GDP	Annual percentage changes		
	1	2	3	4	5	6	7	8	9	10	11	12	13
2023	14.1	84.3	1.3	1.9	2.4	4.0	1.6	37.6	6.3	68.5	1.9	3.4	1.0
2024	14.9	81.4	2.3	2.2	-7.5	5.6	4.7	36.0	4.7	67.1	1.9	0.9	1.0
2025	14.7	81.2	0.9	2.6	3.0	5.0	4.5	35.9	4.3	65.5	2.2	6.5	1.4
2025 Q2	14.9	81.3	1.3	2.7	0.2	5.5	5.2	35.9	4.2	66.5	2.6	11.7	1.7
Q3	14.8	81.3	0.4	2.6	5.0	4.9	4.8	35.8	4.3	66.1	2.3	5.6	1.5
Q4	14.7	81.2	1.0	2.6	6.3	5.0	4.5	35.9	4.3	65.5	2.2	2.0	1.4
2026 Q1	14.6	81.0	0.7	2.9	5.4	3.9	3.2	35.7	4.5	65.6	2.2	0.6	1.4

Sources: ECB and Eurostat.

1) Based on four-quarter cumulated sums of saving, debt and gross disposable income (adjusted for the change in pension entitlements).

2) Financial assets (net of financial liabilities) and non-financial assets. Non-financial assets consist mainly of housing wealth (residential structures and land). They also include non-financial assets of unincorporated enterprises classified within the household sector.

3) The profit rate is gross entrepreneurial income (broadly equivalent to cash flow) divided by gross value added.

4) Defined as consolidated loans and debt securities liabilities.

2 Economic activity

2.8 Euro area balance of payments, current and capital accounts

(EUR billions; seasonally adjusted unless otherwise indicated; transactions)

	Current account											Capital account ¹⁾	
	Total			Goods		Services		Primary income		Secondary income			
	Credit 1	Debit 2	Balance 3	Credit 4	Debit 5	Credit 6	Debit 7	Credit 8	Debit 9	Credit 10	Debit 11	Credit 12	Debit 13
2025 Q3	1,483.9	1,427.0	56.9	723.7	633.1	387.6	358.1	323.8	339.7	48.8	96.1	24.5	22.3
Q4	1,495.4	1,432.4	63.0	712.7	636.7	391.2	345.6	343.2	346.7	48.3	103.5	42.2	20.5
2026 Q1	1,526.6	1,448.7	78.0	714.1	653.2	405.8	367.6	356.4	326.2	50.4	101.6	37.0	26.8
Q2	1,580.2	1,501.8	78.5	760.5	706.4	411.9	366.4	359.2	331.7	48.6	97.3	21.9	13.5
2026 Jan.	505.0	466.2	38.8	234.4	205.0	135.6	121.3	118.2	106.4	16.8	33.5	15.2	13.7
Feb.	512.5	487.3	25.2	240.3	219.2	135.2	124.3	119.8	110.4	17.2	33.4	10.4	8.2
Mar.	509.2	495.1	14.1	239.3	228.9	135.1	122.1	118.4	109.4	16.4	34.6	11.4	4.9
Apr.	523.4	505.9	17.5	252.5	234.2	135.9	120.8	118.3	118.6	16.6	32.2	6.7	3.8
May	526.6	500.8	25.8	252.2	234.7	138.3	123.6	120.6	109.6	15.5	32.8	7.3	5.5
June	530.3	495.1	35.1	255.8	237.5	137.6	122.0	120.3	103.4	16.5	32.3	8.0	4.1
12-month cumulated transactions													
2026 June	6,086.2	5,809.9	276.3	2,911.0	2,629.4	1,596.5	1,437.7	1,382.5	1,344.3	196.1	398.5	125.6	83.0
12-month cumulated transactions as a percentage of GDP													
2026 June	37.5	35.8	1.7	17.9	16.2	9.8	8.9	8.5	8.3	1.2	2.5	0.8	0.5

Source: ECB.

1) The capital account is not seasonally adjusted.

2.9 Euro area external trade in goods ¹⁾, values and volumes by product group ²⁾

(seasonally adjusted, unless otherwise indicated)

	Total (n.s.a.)		Exports (f.o.b.)					Imports (c.i.f.)					
	Exports	Imports	Total				Memo item:	Total				Memo items:	
			Total	Intermediate goods	Capital goods	Consumption goods	Manu- facturing	Total	Intermediate goods	Capital goods	Consumption goods	Manu- facturing	Oil
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2025 Q3	1.4	2.5	724.4	340.0	145.8	222.7	600.6	698.4	380.3	121.4	179.2	514.2	64.6
Q4	0.3	0.5	719.2	332.0	145.0	223.7	592.5	695.1	375.4	124.0	175.9	518.6	57.6
2026 Q1	-6.3	-0.9	726.0	341.7	144.7	220.7	589.8	709.8	389.2	127.8	177.1	520.2	64.9
Q2	6.3	10.9	766.8	.	.	.	619.5	771.2	.	.	.	540.4	.
2026 Jan.	-7.3	-7.3	238.5	112.2	47.5	73.4	195.2	227.6	122.8	41.6	57.6	169.4	18.9
Feb.	-6.6	-2.2	240.7	113.0	47.8	73.4	196.5	234.6	129.6	42.0	58.4	173.0	19.4
Mar.	-5.3	6.4	246.8	116.6	49.4	73.8	198.1	247.6	136.7	44.3	61.1	177.8	26.7
Apr.	4.6	9.5	254.1	122.2	50.5	74.9	204.8	254.1	143.4	44.7	60.0	177.5	32.3
May	-0.1	10.1	255.2	120.1	50.6	78.0	207.0	261.3	147.3	45.3	63.1	182.3	33.6
June	14.4	13.1	257.6	.	.	.	207.7	255.7	.	.	.	180.6	.
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2025 Q2	-2.7	1.4	93.7	86.8	89.6	108.7	93.6	101.1	95.4	101.7	111.9	101.8	135.5
Q3	0.2	3.5	94.6	87.5	95.1	105.7	94.9	102.4	96.6	104.6	112.2	103.2	140.7
Q4	-0.9	2.8	92.2	84.1	91.8	105.6	91.7	102.7	95.6	106.4	111.0	104.3	141.2
2026 Q1	-5.5	1.0	92.2	84.6	92.6	104.8	90.9	101.7	95.0	106.6	110.9	103.2	145.4
2025 Dec.	2.7	9.1	90.9	82.5	91.3	104.5	90.6	103.4	96.3	106.2	112.2	106.1	146.4
2026 Jan.	-6.9	-3.9	91.2	82.9	92.1	105.3	91.0	99.3	91.1	103.1	108.7	100.9	139.6
Feb.	-5.0	0.5	92.8	85.9	92.8	105.3	92.0	102.1	95.8	106.2	109.9	103.3	145.0
Mar.	-4.7	6.0	92.6	85.0	92.9	103.9	89.7	103.7	98.2	110.6	114.1	105.4	151.7
Apr.	1.7	2.5	95.0	88.9	94.6	105.0	93.7	102.5	96.5	109.4	111.4	103.8	148.4
May	-5.6	-0.6	93.3	85.4	95.5	104.8	92.5	102.9	97.1	107.3	112.3	103.7	161.0

Source: Eurostat.

1) Differences between ECB's b.o.p. goods (Table 2.8) and Eurostat's trade in goods (Table 2.9) are mainly due to different definitions.

2) Product groups as classified in the Broad Economic Categories.

3 Prices and costs

3.1 Harmonised Index of Consumer Prices ¹⁾ (annual percentage changes, unless otherwise indicated)

	Total					Total (s.a.; percentage change vis-à-vis previous period) ²⁾						Administered prices	
	Index: 2025 = 100	Total		Goods	Services	Total	Processed food	Unpro- cessed food	Non- energy indus- trial goods	Energy (n.s.a.)	Services	Total HICP excluding adminis- tered prices	Adminis- tered prices
		Total	Total excluding food and energy										
	1	2	3	4	5	6	7	8	9	10	11	12	13
% of total in 2026	100.0	100.0	72.0	53.2	46.8	100.0	13.8	5.1	25.2	9.0	46.8	87.5	12.5
2023	95.7	5.4	4.9	5.7	4.9	-	-	-	-	-	-	5.5	4.9
2024	97.9	2.4	2.8	1.1	4.0	-	-	-	-	-	-	2.3	3.3
2025	100.0	2.1	2.4	1.0	3.4	-	-	-	-	-	-	2.0	2.9
2025 Q3	100.4	2.1	2.3	1.2	3.2	0.6	0.8	1.1	0.3	0.3	0.7	2.0	2.7
Q4	100.6	2.1	2.4	0.9	3.4	0.5	0.4	0.3	0.0	-0.1	0.9	2.0	2.3
2026 Q1	100.9	2.0	2.3	1.0	3.3	0.8	0.1	1.8	0.2	3.3	0.7	2.0	2.2
Q2	103.1	3.0	2.4	2.8	3.2	1.1	0.0	0.7	0.3	6.3	0.9	3.0	3.2
2026 Mar.	102.0	2.6	2.3	2.0	3.2	0.8	0.0	0.3	0.0	7.0	0.3	2.6	2.5
Apr.	103.0	3.0	2.2	3.1	3.0	0.5	0.0	0.7	0.2	3.0	0.3	3.0	3.0
May	103.1	3.2	2.6	2.9	3.5	0.0	0.0	-0.4	0.1	-1.2	0.2	3.2	3.2
June	103.0	2.8	2.4	2.3	3.2	-0.1	0.0	-0.5	-0.1	-1.8	0.3	2.7	3.3
July	103.2	2.9	2.5	2.6	3.3	0.5	0.1	0.0	0.4	2.7	0.2	2.9	3.6
Aug. ³⁾	103.7	3.3	2.4	.	3.0	0.4	0.1	0.5	0.3	2.9	0.1	.	.

	Goods						Services					
	Food (including alcoholic beverages and tobacco)			Industrial goods			Housing		Transport	Communi- cation	Recreation and personal care	Miscel- laneous
	Total	Processed food	Unpro- cessed food	Total	Non- energy industrial goods	Energy	Total	Rents				
	14	15	16	17	18	19	20	21	22	23	24	25
% of total in 2026	18.9	13.8	5.1	34.2	25.2	9.0	9.6	5.8	6.8	2.1	18.2	10.0
2023	10.9	11.4	9.5	2.9	5.0	-2.0	3.6	2.7	5.2	0.4	6.9	4.0
2024	2.9	3.2	2.1	0.0	0.8	-2.2	3.3	2.9	4.2	-0.7	5.0	4.0
2025	2.8	2.6	3.4	0.0	0.6	-1.4	3.2	2.9	3.9	-1.0	3.7	3.9
2025 Q3	3.1	2.8	4.2	0.1	0.7	-1.6	3.2	2.9	3.7	-0.9	3.2	3.8
Q4	2.5	2.3	3.0	0.1	0.5	-1.1	3.2	3.0	3.7	0.6	3.7	3.7
2026 Q1	2.5	1.8	4.3	0.2	0.5	-0.7	3.1	2.8	3.2	0.2	3.8	3.2
Q2	1.9	1.2	3.9	3.2	0.8	10.1	3.1	2.7	3.6	1.4	3.4	3.1
2026 Mar.	2.4	1.7	4.2	1.8	0.5	5.1	3.1	2.7	3.5	0.4	3.6	3.2
Apr.	2.4	1.6	4.6	3.5	0.8	10.8	3.1	2.7	2.7	0.9	3.2	3.1
May	1.9	1.1	4.0	3.5	0.9	10.8	3.1	2.7	4.5	1.7	3.6	3.1
June	1.5	0.9	3.1	2.8	0.7	8.5	3.1	2.7	3.7	1.6	3.3	3.1
July	1.2	0.7	2.4	3.5	0.9	10.3	3.1	2.7	4.0	2.0	3.3	2.9
Aug. ³⁾	1.2	0.6	2.7	.	1.2	14.3	.	.	.	.	.	.

Sources: Eurostat and ECB calculations.

1) Data refer to the changing composition of the euro area.

2) In May 2016 the ECB started publishing enhanced seasonally adjusted HICP series for the euro area, following a review of the seasonal adjustment approach as described in Box 1, Economic Bulletin, Issue 3, ECB, 2016 (<https://www.ecb.europa.eu/pub/pdf/ecbu/eb201603.en.pdf>).

3) Flash estimate.

3 Prices and costs

3.2 Industry, construction and property prices

(annual percentage changes, unless otherwise indicated)

	Industrial producer prices excluding construction ¹⁾										Construc- tion ²⁾	Residential property prices	Experimental indicator of commercial property prices ³⁾
	Total (index: 2021 = 100)	Total		Industry excluding construction and energy						Energy			
		Total	Manu- facturing	Total	Inter- mediate goods	Capital goods	Consumer goods						
							Total	Food, beverages and tobacco	Non- food				
	1	2	3	4	5	6	7	8	9	10	11	12	13
% of total in 2021	100.0	100.0	77.8	72.3	30.9	19.3	22.2	15.7	6.5	27.7			
2023	130.0	-2.2	1.9	3.8	-0.2	4.8	8.3	8.4	5.7	-13.4	6.9	-1.0	-8.2
2024	124.6	-4.2	-0.6	-0.1	-2.4	1.6	1.6	0.3	1.2	-12.2	2.1	2.2	-4.7
2025	125.1	0.4	0.4	1.1	0.4	1.7	2.2	1.7	1.6	-0.8	1.0	5.3	2.3
2025 Q3	124.2	-0.1	0.5	1.0	-0.1	1.7	2.4	2.0	1.5	-2.3	1.1	5.2	1.7
Q4	124.6	-1.2	0.6	1.0	0.5	1.7	2.0	0.9	1.8	-6.0	1.8	5.1	1.9
2026 Q1	126.5	-1.1	1.4	1.2	1.6	1.6	1.3	-0.2	1.7	-5.7	1.9	4.7	.
Q2	129.9	5.1	5.8	2.7	5.2	2.3	0.7	-1.0	2.1	11.7	3.3	.	.
2026 Feb.	124.8	-3.0	0.3	1.1	1.3	1.6	1.2	-0.2	1.7	-11.7	-	-	-
Mar.	129.0	2.0	3.7	1.4	2.0	1.7	1.1	-0.5	1.7	4.0	-	-	-
Apr.	129.8	4.9	6.1	2.3	3.9	2.2	0.8	-0.8	1.9	12.4	-	-	-
May	130.1	5.9	6.2	2.8	5.5	2.3	0.7	-1.0	2.2	14.0	-	-	-
June	129.7	4.6	5.1	3.0	6.1	2.3	0.5	-1.2	2.3	8.8	-	-	-
July	131.8	5.8	5.8	3.1	6.3	2.6	0.4	-1.2	2.4	12.9	-	-	-

Sources: Eurostat, ECB calculations, and ECB calculations based on MSCI data and national sources (col. 13).

1) Domestic sales only.

2) Output prices for residential buildings.

3) Experimental data based on non-harmonised sources (see https://www.ecb.europa.eu/stats/ecb_statistics/governance_and_quality_framework/html/experimental-data.en.html for further details).

Note: Euro area data in columns 1 to 12 include Bulgaria.

3.3 Commodity prices and GDP deflators

(annual percentage changes, unless otherwise indicated)

	GDP deflators								Oil prices (Brent spot, US Dollar)	Non-energy commodity prices (EUR)					
	Total (s.a.; index: 2020 = 100)	Total	Domestic demand				Exports ¹⁾	Imports ¹⁾		Import-weighted ²⁾			Use-weighted ²⁾		
			Total	Private consumption	Government consumption	Gross fixed capital formation				Total	Food	Non-food	Total	Food	Non-food
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
% of total										100.0	45.5	54.6	100.0	50.4	49.6
2023	114.1	6.3	4.9	6.3	3.9	4.1	0.7	-2.1	83.7	-13.2	-14.1	-12.3	-14.0	-14.6	-13.4
2024	117.4	2.9	2.4	2.4	2.8	1.9	0.8	-0.3	82.0	2.7	2.5	3.0	3.7	3.9	3.5
2025	120.2	2.4	2.3	2.1	3.2	1.9	0.4	0.1	69.9	-0.6	0.2	-1.2	-1.1	-0.6	-1.6
2025 Q3	120.4	2.4	2.3	2.1	2.9	1.8	-0.1	-0.5	69.9	-1.9	-1.9	-1.9	-3.0	-3.2	-2.9
Q4	121.5	2.6	2.5	2.3	3.4	2.0	-0.4	-1.0	64.3	-4.8	-9.5	-0.8	-7.3	-11.7	-2.8
2026 Q1	122.0	2.4	2.0	2.2	2.4	2.1	0.6	-0.4	82.9	-6.7	-17.3	2.8	-7.9	-14.5	-0.9
Q2	122.8	2.4	2.6	3.0	2.5	2.9	3.9	4.3	109.4	6.2	-5.7	16.6	5.3	-3.2	14.4
2026 Mar.	-	-	-	-	-	-	-	-	105.7	-3.2	-11.4	4.0	-3.5	-7.7	0.8
Apr.	-	-	-	-	-	-	-	-	133.1	4.5	-8.1	15.9	4.0	-4.3	13.1
May	-	-	-	-	-	-	-	-	111.7	6.6	-6.8	18.6	6.0	-3.3	15.9
June	-	-	-	-	-	-	-	-	86.0	7.6	-1.8	15.5	6.0	-1.9	14.1
July	-	-	-	-	-	-	-	-	82.4	9.8	8.9	10.6	7.7	6.1	9.2
Aug.	-	-	-	-	-	-	-	-	93.7	8.5	4.9	11.3	6.5	3.7	9.2

Sources: Eurostat, ECB calculations and LSEG (London Stock Exchange Group) (col. 9).

1) Deflators for exports and imports refer to goods and services and include cross-border trade within the euro area.

2) Import-weighted: weighted according to 2009-11 average import structure; use-weighted: weighted according to 2009-11 average domestic demand structure.

3 Prices and costs

3.4 Price-related opinion surveys

(seasonally adjusted)

	European Commission Business and Consumer Surveys (percentage balance)				
	Selling price expectations (for next three months)				Consumer price trends over past 12 months
	Manufacturing	Retail trade	Services	Construction	
	1	2	3	4	5
1999-22	47.4	49.5	25.1	39.7	67.3
2023	9.0	28.8	19.6	15.0	75.6
2024	6.1	14.6	15.1	4.7	55.9
2025	9.0	16.9	13.9	4.7	48.9
2025 Q3	8.1	17.0	13.5	3.1	48.0
Q4	10.3	17.9	13.6	7.9	48.4
2026 Q1	14.3	18.3	14.6	8.8	46.7
Q2	26.1	27.0	16.3	16.5	56.5
2026 Mar.	19.6	20.3	15.0	11.1	47.5
Apr.	29.6	27.6	17.6	19.2	56.5
May	26.5	26.9	16.6	17.1	57.4
June	22.2	26.6	14.7	13.3	55.5
July	17.8	22.6	13.7	9.1	53.8
Aug.	16.4	22.1	14.1	8.4	54.9

Source: European Commission (Directorate-General for Economic and Financial Affairs).

3.5 Labour cost indices

(annual percentage changes, unless otherwise indicated)

	Total (index: 2020=100)	Total	By component		For selected economic activities		Memo item: Indicator of negotiated wages ¹⁾
			Wages and salaries	Employers' social contributions	Business economy	Mainly non-business economy	
	1	2	3	4	5	6	7
% of total in 2020	100.0	100.0	75.3	24.7	69.0	31.0	
2023	110.6	4.9	4.7	5.5	5.2	4.2	4.3
2024	115.8	4.7	4.7	4.7	4.7	4.6	4.6
2025	120.2	3.7	3.6	4.1	3.9	3.4	2.8
2025 Q3	116.2	3.4	3.3	3.9	3.5	3.4	2.0
Q4	127.2	3.7	3.4	4.5	3.5	4.1	2.9
2026 Q1	116.1	3.2	3.4	2.8	3.2	3.3	2.6
Q2	128.7	3.1	3.1	3.1	3.4	3.1	2.4

Sources: Eurostat and ECB calculations.

1) Experimental data based on non-harmonised sources (see https://www.ecb.europa.eu/stats/ecb_statistics/governance_and_quality_framework/html/experimental-data.en.html for further details).

3 Prices and costs

3.6 Unit labour costs, compensation per labour input and labour productivity

(annual percentage changes, unless otherwise indicated; quarterly data seasonally adjusted; annual data unadjusted)

	Total (index: 2020 =100)	Total	By economic activity									
			Agriculture, forestry and fishing	Manu- facturing, energy and utilities	Con- struction	Trade, transport, accom- modation and food services	Information and commu- nication	Finance and insurance	Real estate	Professional business and support services	Public ad- ministration, education, health and social work	Arts, enter- tainment and other services
	1	2	3	4	5	6	7	8	9	10	11	12
Unit labor costs												
2023	109.6	6.5	6.5	8.4	4.9	7.8	1.1	10.6	3.0	6.2	5.3	3.8
2024	114.3	4.3	3.9	3.2	6.2	5.0	3.9	5.7	1.8	4.3	4.3	4.3
2025	118.1	3.3	0.5	2.4	4.5	3.0	-0.1	4.1	4.3	4.0	4.2	4.5
2025 Q3	118.3	3.4	0.1	3.1	4.0	3.0	-0.3	3.9	5.3	3.7	4.0	6.1
Q4	119.3	3.3	0.9	3.0	2.9	2.6	-0.9	3.3	3.8	3.3	4.5	3.7
2026 Q1	120.3	3.5	2.8	5.9	4.6	2.8	-0.6	4.1	4.1	3.4	3.3	3.9
Q2	120.7	2.6	0.8	2.2	4.7	2.4	-0.4	3.6	3.2	2.6	3.0	2.9
Compensation per employee												
2023	115.1	5.3	4.7	5.8	4.9	5.6	4.4	6.5	3.5	6.0	4.8	5.7
2024	120.3	4.6	5.3	4.2	4.2	4.3	4.2	5.0	3.9	4.7	4.8	5.4
2025	125.0	3.8	4.3	3.7	4.0	3.8	4.1	3.3	3.0	4.0	4.0	3.7
2025 Q3	125.5	3.9	4.0	4.0	3.9	3.9	4.6	3.1	3.8	4.0	3.8	4.5
Q4	126.7	3.7	3.5	3.6	3.4	3.7	4.1	3.5	4.3	3.2	4.2	3.1
2026 Q1	127.6	3.5	3.5	3.3	3.1	3.8	4.5	3.3	4.6	3.9	3.3	4.1
Q2	128.7	3.3	3.3	3.6	3.5	3.2	4.8	3.0	3.7	3.4	3.0	3.3
Labour productivity per person employed												
2023	105.0	-1.1	-1.7	-2.4	0.0	-2.1	3.3	-3.7	0.6	-0.2	-0.5	1.8
2024	105.3	0.2	1.4	1.1	-1.9	-0.7	0.3	-0.7	2.1	0.4	0.5	1.0
2025	105.8	0.5	3.7	1.3	-0.5	0.8	4.2	-0.8	-1.2	0.0	-0.2	-0.7
2025 Q3	106.0	0.5	3.9	0.9	-0.1	0.9	4.9	-0.7	-1.4	0.3	-0.2	-1.5
Q4	106.1	0.4	2.6	0.5	0.4	1.0	5.1	0.1	0.5	-0.1	-0.3	-0.6
2026 Q1	106.0	0.0	0.7	-2.5	-1.4	0.9	5.1	-0.7	0.5	0.4	0.0	0.3
Q2	106.5	0.7	2.5	1.4	-1.1	0.8	5.2	-0.6	0.4	0.8	0.0	0.4
Compensation per hour worked												
2023	108.7	4.9	4.5	5.6	4.6	5.2	4.3	6.3	3.6	5.5	4.3	4.7
2024	113.2	4.2	5.0	4.1	4.3	3.9	3.9	4.6	3.3	3.6	4.4	4.9
2025	118.0	4.2	4.7	4.2	4.3	4.3	4.5	3.9	4.3	4.5	4.3	3.1
2025 Q3	118.0	3.9	5.1	3.9	4.0	3.8	5.1	3.8	4.5	4.2	3.7	3.9
Q4	119.0	3.8	3.8	3.6	3.7	4.1	4.0	3.6	6.4	3.3	4.2	2.3
2026 Q1	120.0	3.5	4.0	3.0	3.9	3.8	4.7	3.8	5.3	3.7	3.0	3.9
Q2	121.1	3.3	3.4	3.3	3.8	2.9	4.8	3.4	4.0	3.0	3.1	4.2
Hourly labour productivity												
2023	99.0	-1.3	-1.0	-2.6	0.1	-2.1	3.2	-3.8	0.7	-0.5	-0.9	0.9
2024	98.9	-0.1	0.7	1.0	-1.9	-0.9	-0.1	-0.9	1.4	-0.3	0.0	0.5
2025	99.9	1.0	4.7	1.9	-0.1	1.5	4.4	-0.3	-0.5	0.3	0.1	-1.3
2025 Q3	99.7	0.6	4.8	0.8	0.0	1.1	5.1	-0.3	-2.1	0.1	-0.2	-2.2
Q4	99.7	0.6	3.4	0.6	0.7	1.5	4.8	0.2	2.3	0.0	-0.2	-1.0
2026 Q1	99.8	0.1	1.1	-2.8	-0.8	0.9	5.1	-0.2	0.9	0.4	-0.2	0.2
Q2	100.3	0.6	2.1	1.0	-1.3	0.6	5.2	-0.2	0.4	0.5	0.2	1.3

Sources: Eurostat and ECB calculations.

4 Financial market developments

4.1 Money market interest rates

(percentages per annum, period averages)

	Euro area ¹⁾					United States	Japan
	Euro short-term rate (€STR)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	Secured overnight financing rate (SOFR)	Tokyo overnight average rate (TONAR)
	1	2	3	4	5	6	7
2023	3.21	3.24	3.43	3.69	3.87	5.01	-0.03
2024	3.64	3.56	3.57	3.48	3.27	5.15	0.12
2025	2.18	2.12	2.18	2.20	2.22	4.24	0.47
2026 Mar.	1.93	1.93	2.11	2.32	2.57	3.65	0.73
Apr.	1.93	1.97	2.18	2.45	2.75	3.64	0.73
May	1.93	1.96	2.23	2.54	2.80	3.59	0.73
June	2.04	2.15	2.34	2.60	2.80	3.63	0.84
July	2.18	2.21	2.43	2.65	2.86	3.62	0.98
Aug.	2.19	2.22	2.51	2.71	2.95	3.64	0.98

Source: LSEG and ECB calculations.

1) Data refer to the changing composition of the euro area.

4.2 Yield curves

(End of period; rates in percentages per annum; spreads in percentage points)

	Spot rates					Spreads			Instantaneous forward rates			
	Euro area ^{1) 2)}					Euro area ^{1) 2)}	United States	Japan	Euro area ^{1) 2)}			
	3 months	1 year	2 years	5 years	10 years	10 years - 1 year	10 years - 1 year	10 years - 1 year	1 year	2 years	5 years	10 years
	1	2	3	4	5	6	7	8	9	10	11	12
2023	3.78	3.05	2.44	1.88	2.08	-0.96	-0.92	0.64	2.25	1.54	1.76	2.64
2024	2.58	2.18	2.01	2.13	2.45	0.27	0.41	0.63	1.86	1.89	2.50	2.91
2025	1.98	2.02	2.11	2.44	2.95	0.92	0.74	1.14	2.09	2.30	3.02	3.78
2026 Mar.	2.09	2.50	2.59	2.69	3.07	0.58	0.71	1.20	2.74	2.63	3.04	3.75
Apr.	2.20	2.51	2.61	2.73	3.09	0.59	0.72	1.40	2.72	2.68	3.05	3.77
May	2.20	2.41	2.50	2.65	3.02	0.60	0.72	1.54	2.57	2.59	2.99	3.69
June	2.28	2.43	2.48	2.58	2.92	0.49	0.54	1.47	2.53	2.51	2.88	3.57
July	2.38	2.65	2.76	2.89	3.23	0.58	0.73	1.52	2.86	2.87	3.18	3.88
Aug.	2.42	2.71	2.86	3.01	3.34	0.63	0.68	1.44	2.96	3.01	3.29	3.98

Source: ECB calculations.

1) Data refer to the changing composition of the euro area.

2) ECB calculations based on underlying data provided by Euro MTS Ltd and ratings provided by Fitch Ratings.

4.3 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX Indices												United States	Japan
	Benchmark		Main industry indices										Standard & Poor's 500	Nikkei 225
	Broad index	50	Basic materials	Consumer services	Consumer goods	Oil and gas	Financials	Industrials	Technology	Utilities	Telecoms	Health care		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2023	452.0	4,272.0	968.5	292.7	169.2	119.2	186.7	809.8	861.5	367.8	283.1	803.6	4,285.6	30,716.6
2024	502.8	4,870.4	992.6	299.1	161.1	123.9	231.6	951.6	1,069.3	378.7	301.6	792.1	5,430.7	38,395.3
2025	565.6	5,396.9	961.3	270.5	155.2	135.2	321.9	1,153.7	1,104.9	444.9	356.1	855.9	6,216.9	41,794.2
2026 Mar.	606.2	5,693.8	978.4	237.0	154.6	201.2	358.9	1,194.9	1,213.6	561.9	402.5	821.8	6,654.4	53,964.9
Apr.	629.5	5,880.4	1,051.6	239.5	154.3	214.2	382.8	1,235.8	1,252.9	584.3	400.3	829.5	6,957.0	57,245.8
May	638.1	5,942.2	1,048.2	237.5	155.1	217.8	384.9	1,246.4	1,374.0	569.6	426.2	786.0	7,412.6	62,773.7
June	659.8	6,179.0	1,056.2	246.0	158.3	204.8	402.7	1,262.5	1,548.9	576.0	419.6	805.5	7,450.0	68,340.5
July	666.9	6,291.7	1,077.7	244.7	164.9	200.9	429.7	1,265.1	1,477.6	589.3	381.8	841.0	7,481.3	66,505.6
Aug.	682.1	6,483.6	1,101.9	242.4	161.5	208.5	450.1	1,320.7	1,502.2	570.6	385.2	844.3	7,711.3	66,377.8

Source: LSEG.

4 Financial market developments

4.4 MFI interest rates on loans to and deposits from households (new business) ^{1), 2)}

(percentages per annum, period average, unless otherwise indicated)

	Deposits				Revolving loans and overdrafts	Extended credit card credit	Loans for consumption			Loans to sole proprietors and unincorporated partnerships	Loans for house purchase					
	Over-night	Redeemable at notice of up to 3 months	With an agreed maturity of:				By initial period of rate fixation		APRC ³⁾		By initial period of rate fixation				APRC ³⁾	Composite cost-of-borrowing indicator
			Up to 2 years	Over 2 years			Floating rate and up to 1 year	Over 1 year			Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2025 Aug.	0.25	1.22	1.72	2.16	7.28	16.40	7.12	7.54	8.25	4.15	3.59	3.40	3.46	3.18	3.62	3.31
Sep.	0.25	1.21	1.76	2.14	7.34	16.42	6.75	7.46	8.18	4.14	3.52	3.39	3.49	3.17	3.61	3.31
Oct.	0.25	1.21	1.78	2.16	7.32	16.40	6.40	7.42	8.10	4.18	3.52	3.37	3.48	3.16	3.59	3.31
Nov.	0.25	1.21	1.77	2.21	7.25	16.41	6.19	7.45	8.07	4.17	3.53	3.35	3.48	3.15	3.58	3.30
Dec.	0.25	1.22	1.78	2.27	7.23	16.42	6.36	7.24	7.91	4.01	3.55	3.37	3.48	3.13	3.59	3.32
2026 Jan.	0.25	1.23	1.79	2.30	7.27	16.49	7.17	7.62	8.37	4.13	3.51	3.37	3.51	3.23	3.65	3.35
Feb.	0.25	1.17	1.80	2.24	7.26	16.42	6.83	7.59	8.27	4.20	3.48	3.37	3.55	3.26	3.66	3.37
Mar.	0.26	1.17	1.84	2.27	7.30	16.47	7.02	7.50	8.16	4.12	3.50	3.35	3.52	3.24	3.64	3.35
Apr.	0.26	1.17	1.88	2.40	7.23	16.44	7.11	7.65	8.34	4.30	3.56	3.43	3.61	3.31	3.72	3.44
May	0.27	1.17	1.93	2.37	7.19	16.42	7.18	7.67	8.43	4.38	3.60	3.46	3.65	3.32	3.76	3.48
June	0.28	1.17	2.06	2.55	7.29	16.47	7.20	7.54	8.22	4.35	3.65	3.52	3.67	3.34	3.77	3.51
July ⁽⁹⁾	0.28	1.18	2.12	2.57	7.32	16.49	7.45	7.61	8.32	4.48	3.69	3.57	3.73	3.36	3.81	3.54

Source: ECB.

1) Data refer to the changing composition of the euro area.

2) Including non-profit institutions serving households.

3) Annual percentage rate of charge (APRC).

4.5 MFI interest rates on loans to and deposits from non-financial corporations (new business) ^{1), 2)}

(Percentages per annum; period average, unless otherwise indicated)

	Deposits			Revolving loans and overdrafts	Other loans by size and initial period of rate fixation									Composite cost-of-borrowing indicator
	Over-night	With an agreed maturity of:			Up to EUR 0.25 million			over EUR 0.25 and up to 1 million			over EUR 1 million			
		Up tp 2 years	Over 2 years		Floating rate and up to 3 months	Over 3 months and up to 1 year	Over 1 year	Floating rate and up to 3 months	Over 3 months and up to 1 year	Over 1 year	Floating rate and up to 3 months	Over 3 months and up to 1 year	Over 1 year	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2025 Aug.	0.51	1.88	2.29	3.65	3.59	4.04	4.75	3.54	3.41	3.64	3.07	3.35	3.63	3.46
Sep.	0.52	1.90	2.30	3.69	3.59	4.11	4.90	3.50	3.37	3.62	3.14	3.39	3.61	3.50
Oct.	0.53	1.89	2.47	3.66	3.59	4.12	4.81	3.52	3.41	3.63	3.19	3.26	3.54	3.51
Nov.	0.52	1.92	2.37	3.64	3.67	4.18	4.88	3.49	3.44	3.59	3.15	3.33	3.55	3.50
Dec.	0.52	1.94	2.48	3.68	3.65	4.09	4.82	3.53	3.40	3.64	3.31	3.54	3.60	3.57
2026 Jan.	0.52	1.90	2.42	3.68	3.59	4.07	4.71	3.58	3.41	3.71	3.30	3.45	3.57	3.57
Feb.	0.52	1.90	2.36	3.66	3.66	4.14	4.80	3.55	3.42	3.70	3.19	3.15	3.62	3.51
Mar.	0.54	1.95	2.52	3.67	3.64	4.30	4.83	3.55	3.51	3.71	3.28	3.55	3.59	3.59
Apr.	0.54	1.99	2.72	3.70	3.70	4.33	4.84	3.60	3.59	3.81	3.31	3.50	3.68	3.62
May	0.53	2.03	2.61	3.71	3.78	4.47	5.09	3.64	3.74	3.88	3.28	3.57	3.75	3.64
June	0.59	2.20	2.66	3.83	3.91	4.46	5.05	3.72	3.76	3.89	3.56	3.67	3.77	3.79
July ^(p)	0.60	2.25	2.83	3.87	3.83	4.43	4.99	3.84	3.83	3.92	3.49	3.84	3.83	3.80

Source: ECB.

1) Data refer to the changing composition of the euro area.

2) In accordance with the ESA 2010, in December 2014 holding companies of non-financial groups were reclassified from the non-financial corporations sector to the financial corporations sector.

4 Financial market developments

4.6 Debt securities issued by euro area residents, by sector of the issuer and original maturity

(EUR billions; transactions during the month and end-of-period outstanding amounts; market values)

	Outstanding amounts							Gross issues ¹⁾							
	Total	MFIs	Non-MFI corporations			General government		Total	MFIs	Non-MFI corporations			General government		
			Financial corporations other than MFIs		Non-financial corporations	Total	of which central government			Financial corporations other than MFIs		Non-financial corporations	Total	of which central government	
			Total	FVCs						Total	FVCs				
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
Short-term															
2023	1,575.2	623.6	164.6	104.6	85.2	701.8	659.1	537.2	242.2	117.8	91.3	48.7	128.5	104.6	
2024	1,600.6	581.1	206.4	119.9	71.3	741.8	674.7	517.3	206.4	133.6	103.9	40.1	137.2	110.2	
2025	1,617.6	575.6	218.6	134.5	77.6	745.8	662.7	555.2	226.7	151.9	120.2	42.0	134.7	107.8	
2026	Feb.	1,690.3	622.5	222.1	126.7	92.5	753.2	659.4	557.8	230.9	153.5	117.1	41.3	132.1	99.9
	Mar.	1,667.4	580.0	222.8	129.8	90.9	773.7	682.6	625.9	234.7	173.7	136.8	48.2	169.2	144.4
	Apr.	1,666.5	577.1	202.7	109.5	100.6	786.0	700.2	629.3	222.1	171.0	127.5	62.3	173.9	144.8
	May	1,674.2	577.3	205.2	107.6	97.2	794.5	710.0	588.0	213.9	171.7	123.5	53.0	149.4	123.8
	June	1,730.1	613.1	209.2	104.5	93.4	814.5	730.9	657.1	254.4	189.8	135.0	55.0	158.0	137.2
	July	1,708.2	601.0	212.8	101.1	93.1	801.3	726.8	632.0	233.5	190.3	137.1	51.3	157.0	134.6
Long-term															
2023	19,445.4	4,456.3	3,255.6	1,429.7	1,544.6	10,188.9	9,449.7	322.0	93.4	68.3	31.0	21.2	139.2	130.7	
2024	20,544.5	4,773.1	3,537.9	1,523.8	1,635.1	10,598.4	9,826.3	350.6	89.2	85.9	35.2	27.0	148.6	137.9	
2025	21,428.3	4,888.9	3,793.2	1,692.7	1,738.9	11,007.3	10,214.2	384.1	93.0	102.4	44.7	31.1	157.7	146.6	
2026	Feb.	22,001.2	4,991.5	3,824.7	1,690.9	1,773.5	11,411.6	10,584.2	387.4	88.4	87.7	32.8	23.1	188.3	174.3
	Mar.	21,698.8	4,939.6	3,816.9	1,711.2	1,730.3	11,212.0	10,394.8	443.9	113.4	128.4	64.1	20.8	181.2	163.9
	Apr.	21,756.7	5,003.1	3,806.6	1,688.0	1,747.1	11,199.9	10,382.3	438.3	129.1	93.8	36.3	34.1	181.3	170.8
	May	22,005.3	5,043.9	3,859.7	1,707.0	1,773.3	11,328.4	10,499.1	439.7	113.5	103.7	37.2	45.2	177.3	164.8
	June	22,307.4	5,123.7	3,894.5	1,728.3	1,797.1	11,492.1	10,646.3	512.6	149.1	112.9	45.7	45.2	205.4	188.8
	July	22,171.9	5,149.1	3,898.0	1,728.9	1,783.8	11,341.0	10,508.9	425.3	143.5	95.8	29.3	26.9	159.1	153.0

Source: ECB.

1) In order to facilitate comparison, annual data are averages of the relevant monthly data.

4.7 Annual growth rates and outstanding amounts of debt securities and listed shares

(EUR billions and percentage changes; market values)

	Debt securities							Listed shares			
	Total	MFIs	Non-MFI corporations			General government		Total	MFIs	Financial corporations other than MFIs	Non-financial corporations
			Financial corporations other than MFIs		Non-financial corporations	Total	of which central government				
			Total	FVCs							
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amount											
2023	21,020.5	5,079.9	3,420.2	1,534.3	1,629.9	10,890.6	10,108.8	9,642.3	625.3	1,386.1	7,630.4
2024	22,145.1	5,354.2	3,744.3	1,643.7	1,706.4	11,340.1	10,501.0	10,147.6	753.4	1,586.2	7,807.6
2025	23,045.9	5,464.5	4,011.8	1,827.2	1,816.5	11,753.2	10,876.9	11,702.7	1,315.7	1,850.5	8,536.0
2026 Feb.	23,691.6	5,614.0	4,046.8	1,817.5	1,865.9	12,164.8	11,243.5	12,301.8	1,320.4	1,872.6	9,108.3
Mar.	23,366.3	5,519.6	4,039.7	1,841.0	1,821.3	11,985.7	11,077.4	11,330.9	1,177.3	1,770.7	8,382.4
Apr.	23,423.2	5,580.3	4,009.3	1,797.5	1,847.8	11,985.9	11,082.5	11,922.0	1,269.2	1,840.8	8,811.5
May	23,679.4	5,621.2	4,064.9	1,814.7	1,870.5	12,122.8	11,209.1	12,297.7	1,328.6	1,841.6	9,127.1
June	24,037.5	5,736.7	4,103.7	1,832.7	1,890.4	12,306.6	11,377.2	12,600.3	1,425.3	1,927.5	9,247.0
July	23,880.1	5,750.1	4,110.8	1,830.0	1,876.9	12,142.3	11,235.7	12,591.0	1,499.3	1,978.5	9,112.8
Growth rate ¹⁾											
2025 Dec.	5.3	3.3	10.1	12.6	4.1	4.9	4.9	0.1	2.9	-1.7	0.1
2026 Jan.	5.5	3.3	9.8	11.4	4.8	5.3	5.1	0.2	2.6	-0.6	0.0
Feb.	5.4	3.8	9.3	10.8	4.9	5.0	4.8	0.2	2.3	-0.9	0.1
Mar.	5.4	2.9	9.3	10.9	4.3	5.5	5.5	0.3	2.3	-0.6	0.3
Apr.	5.4	5.1	7.5	7.3	4.7	4.9	4.9	0.2	1.6	-1.0	0.3
May	5.1	3.9	7.5	8.0	3.6	5.2	5.2	0.2	1.6	-1.0	0.3
June	5.5	4.8	6.8	6.0	3.8	5.6	5.5	0.4	1.2	-0.5	0.4
July	5.6	5.8	6.5	5.2	3.7	5.5	5.6	0.1	1.2	-0.9	0.2

Source: ECB.

1) For details on the calculation of growth rates, see the Technical Notes.

4 Financial market developments

4.8 Effective exchange rates ¹⁾

(period averages; index: 1999 Q1=100)

	EER-17						EER-40	
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI
	1	2	3	4	5	6	7	8
2023	97.9	93.6	98.0	88.9	58.1	87.7	122.1	94.0
2024	98.2	94.0	98.3	89.4	56.6	88.7	124.4	94.2
2025	100.4	96.0	100.4	91.7	54.8	91.2	128.3	96.1
2025 Q3	102.1	97.7	102.1	93.3	55.4	93.1	130.8	97.8
Q4	101.9	97.4	101.9	93.3	55.1	93.0	130.7	97.5
2026 Q1	101.4	97.2	101.6	92.8	54.8	92.9	130.3	97.2
Q2	100.8	96.9	100.9	.	.	.	129.7	96.7
2026 Mar.	100.8	96.8	101.4	-	-	-	129.6	96.8
Apr.	101.3	97.6	102.1	-	-	-	130.2	97.4
May	100.8	96.9	101.0	-	-	-	129.7	96.7
June	100.3	96.4	99.8	-	-	-	129.0	96.1
July	99.9	96.3	99.1	-	-	-	128.7	96.1
Aug.	100.4	97.0	99.4	-	-	-	129.6	96.9
Percentage change versus previous month								
2026 Aug.	0.5	0.7	0.3	-	-	-	0.7	0.8
Percentage change versus previous year								
2026 Aug.	-1.6	-0.6	-2.5	-	-	-	-0.8	-0.8

Source: ECB.

1) For a definition of the trading partner groups and other information see the technical notes, available in the "Methodology" section of the ECB Data Portal.

4.9 Bilateral exchange rates

(period averages; units of national currency per euro)

	Chinese renminbi	Czech koruna	Danish krone	Hungarian forint	Japanese yen	Polish zloty	Pound sterling	Romanian leu	Swedish krona	Swiss franc	US Dollar
	1	2	3	4	5	6	7	8	9	10	11
2023	7.660	24.004	7.451	381.853	151.990	4.542	0.870	4.9467	11.479	0.972	1.081
2024	7.787	25.120	7.459	395.304	163.852	4.306	0.847	4.9746	11.433	0.953	1.082
2025	8.119	24.688	7.463	397.767	169.043	4.240	0.857	5.0424	11.066	0.937	1.130
2025 Q3	8.360	24.498	7.464	395.800	172.286	4.258	0.866	5.0703	11.121	0.935	1.168
Q4	8.250	24.272	7.469	386.506	179.223	4.237	0.875	5.0884	10.952	0.930	1.163
2026 Q1	8.103	24.328	7.471	384.158	183.596	4.235	0.868	5.0939	10.695	0.917	1.170
Q2	7.910	24.298	7.473	360.169	185.336	4.250	0.866	5.1919	10.886	0.919	1.163
2026 Mar.	7.970	24.438	7.472	389.186	183.399	4.271	0.866	5.0954	10.761	0.909	1.156
Apr.	8.000	24.381	7.473	368.960	186.206	4.250	0.869	5.0991	10.835	0.921	1.171
May	7.935	24.313	7.473	358.231	184.710	4.241	0.866	5.2296	10.861	0.915	1.167
June	7.804	24.208	7.474	353.939	185.114	4.257	0.864	5.2421	10.955	0.921	1.152
July	7.737	24.207	7.475	359.468	185.539	4.318	0.854	5.2372	11.046	0.926	1.142
Aug.	7.809	24.179	7.476	363.382	184.102	4.310	0.856	5.2493	11.023	0.936	1.159
Percentage change versus previous month											
2026 Aug.	0.9	-0.1	0.0	1.1	-0.8	-0.2	0.3	0.2	-0.2	1.1	1.5
Percentage change versus previous year											
2026 Aug.	-6.4	-1.4	0.2	-8.3	7.2	1.1	-1.1	3.6	-1.2	-0.3	-0.3

Source: ECB.

4 Financial market developments

4.10 Euro area balance of payments, financial account

(EUR billions, unless otherwise indicated; outstanding amounts at end of period; transactions during period)

	Total ¹⁾			Direct investment		Portfolio investment		Net financial derivatives	Other investment		Reserve assets	Memo: Gross external debt
	Assets	Liabilities	Net	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities		
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts (international investment position)												
2025 Q2	35,885.5	34,552.7	1,332.8	12,598.6	9,747.0	14,352.2	16,775.2	2.9	7,469.8	8,030.5	1,462.1	16,902.4
Q3	36,820.9	35,270.8	1,550.1	12,645.5	9,803.7	15,080.5	17,416.7	-11.4	7,484.0	8,050.5	1,622.2	17,013.6
Q4	37,696.7	36,045.6	1,651.1	12,883.2	9,857.0	15,500.5	18,128.4	-3.2	7,541.3	8,060.2	1,774.9	16,959.7
2026 Q1	38,475.1	36,677.5	1,797.6	12,933.3	9,896.0	15,575.6	18,269.6	20.0	8,038.1	8,511.9	1,908.1	17,524.9
Outstanding amounts as percentage of GDP												
2026 Q1	239.2	228.0	11.2	80.4	61.5	96.8	113.6	0.1	50.0	52.9	11.9	109.0
Transactions												
2025 Q3	316.1	263.1	53.0	45.1	35.3	281.9	203.8	-4.4	-12.5	24.0	5.9	-
Q4	406.9	312.2	94.7	209.4	-3.3	142.6	277.5	-24.3	70.5	38.0	8.6	-
2026 Q1	628.9	596.7	32.2	66.3	55.7	219.5	274.3	-11.4	348.8	266.7	5.7	-
Q2	605.6	558.5	47.1	31.5	-16.6	176.0	367.1	49.7	346.0	208.0	2.4	-
2026 Jan.	370.7	356.0	14.7	10.7	-4.8	170.0	100.9	-23.6	212.6	259.9	1.1	-
Feb.	305.3	283.9	21.4	15.4	14.7	112.0	132.3	-8.5	184.1	136.9	2.3	-
Mar.	-47.1	-43.2	-3.9	40.2	45.8	-62.5	41.1	20.7	-47.9	-130.1	2.3	-
Apr.	183.6	146.5	37.1	21.1	16.4	46.8	35.9	14.7	104.0	94.3	-3.0	-
May	198.5	198.7	-0.2	4.1	0.0	75.4	72.8	17.3	95.5	125.9	6.3	-
June	223.5	213.3	10.2	6.2	-32.9	53.7	258.4	17.8	146.6	-12.2	-0.8	-
12-month cumulated transactions												
2026 June	1,957.4	1,730.5	226.9	352.4	71.1	820.0	1,122.8	9.6	752.8	536.7	22.6	-
12-month cumulated transactions as percentage of GDP												
2026 June	12.1	10.7	1.4	2.2	0.4	5.1	6.9	0.1	4.6	3.3	0.1	-

Source: ECB.

1) Net financial derivatives are included in total assets.

5 Financing conditions and credit developments

5.1 Monetary aggregates ¹⁾

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period; transactions during period)

	M3											Total
	M2						M3-M2					
	M1			M2-M1			Total					
	Currency in circulation	Overnight deposits	Total	Deposits with an agreed maturity of up to 2 years	Deposits redeemable at notice of up to 3 months	Total	Repos	Money market fund shares	Debt securities with a maturity of up to 2 years	Total		
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2023	1,534.0	8,811.6	10,345.6	2,305.6	2,451.9	4,757.5	15,103.1	183.5	743.6	69.4	996.6	16,099.7
2024	1,554.5	9,036.5	10,591.0	2,544.5	2,456.1	5,000.6	15,591.6	253.8	885.7	33.2	1,172.7	16,764.3
2025	1,587.5	9,503.0	11,090.5	2,419.9	2,564.8	4,984.7	16,075.2	257.4	855.7	11.8	1,125.0	17,200.2
2025 Q3	1,574.9	9,328.1	10,903.0	2,348.8	2,543.7	4,892.6	15,795.6	258.6	922.6	12.3	1,193.5	16,989.1
Q4	1,587.5	9,503.0	11,090.5	2,419.9	2,564.8	4,984.7	16,075.2	257.4	855.7	11.8	1,125.0	17,200.2
2026 Q1	1,602.1	9,676.0	11,278.1	2,422.7	2,574.0	4,996.7	16,274.8	223.3	900.9	40.3	1,164.4	17,439.2
Q2 ^(a)	1,609.3	9,715.4	11,324.7	2,516.1	2,576.2	5,092.3	16,416.9	233.4	916.5	48.1	1,198.1	17,615.0
2026 Feb.	1,598.0	9,615.3	11,213.3	2,435.6	2,574.5	5,010.2	16,223.5	206.9	884.1	19.0	1,109.9	17,333.4
Mar.	1,602.1	9,676.0	11,278.1	2,422.7	2,574.0	4,996.7	16,274.8	223.3	900.9	40.3	1,164.4	17,439.2
Apr.	1,602.9	9,676.0	11,278.9	2,445.6	2,579.5	5,025.1	16,304.0	200.8	900.7	44.0	1,145.4	17,449.4
May	1,606.4	9,690.1	11,296.5	2,472.7	2,580.6	5,053.3	16,349.8	213.3	911.4	48.7	1,173.5	17,523.3
June	1,609.3	9,715.4	11,324.7	2,516.1	2,576.2	5,092.3	16,416.9	233.4	916.5	48.1	1,198.1	17,615.0
July ^(a)	1,612.7	9,680.1	11,292.8	2,569.4	2,574.2	5,143.6	16,436.4	220.0	907.0	50.6	1,177.5	17,614.0
Transactions												
2023	-5.3	-967.1	-972.4	927.2	-104.0	823.2	-149.2	39.8	94.7	22.2	156.7	7.6
2024	21.2	178.3	199.5	205.5	6.8	212.3	411.7	75.6	131.5	-36.4	170.7	582.4
2025	33.0	475.1	508.1	-123.3	101.4	-21.9	486.2	8.9	-5.2	-13.3	-9.6	476.6
2025 Q3	11.0	84.3	95.2	-52.6	29.2	-23.4	71.9	1.4	1.4	-13.3	-10.5	61.4
Q4	12.6	139.9	152.6	56.6	21.1	77.7	230.3	-0.3	-34.2	2.2	-32.3	198.0
2026 Q1	7.0	89.9	96.9	-18.4	8.7	-9.7	87.2	-8.4	43.2	29.3	64.1	151.3
Q2 ^(a)	7.2	24.2	31.4	92.1	2.2	94.3	125.7	13.1	12.6	1.7	27.4	153.1
2026 Feb.	1.0	13.6	14.6	23.5	5.2	28.7	43.3	-24.4	24.8	-19.0	-18.6	24.7
Mar.	4.1	53.3	57.4	-16.4	-0.7	-17.1	40.3	15.3	16.1	22.4	53.8	94.1
Apr.	0.8	-6.1	-5.3	25.0	5.6	30.6	25.3	-21.8	-1.4	0.9	-22.4	3.0
May	3.5	11.1	14.6	26.5	1.1	27.7	42.2	12.4	9.9	2.1	24.4	66.6
June	2.9	19.3	22.1	40.6	-4.5	36.0	58.2	22.5	4.1	-1.3	25.3	83.5
July ^(a)	3.5	-33.5	-30.0	54.3	-2.0	52.3	22.3	-13.2	-10.3	2.0	-21.5	0.8
Growth rates												
2023	-0.3	-9.9	-8.6	67.2	-4.1	20.9	-1.0	32.6	14.6	42.3	19.1	0.0
2024	1.4	2.0	1.9	8.9	0.3	4.5	2.7	41.6	17.6	-54.4	17.2	3.6
2025	2.1	5.3	4.8	-4.9	4.1	-0.4	3.1	3.6	-0.6	-52.4	-0.8	2.8
2025 Q3	2.1	5.5	5.0	-8.4	4.5	-2.1	2.7	11.2	7.0	-72.8	4.3	2.8
Q4	2.1	5.3	4.8	-4.9	4.1	-0.4	3.1	3.6	-0.6	-52.4	-0.8	2.8
2026 Q1	2.3	5.1	4.7	-3.6	3.4	-0.1	3.2	4.0	3.5	26.8	4.1	3.2
Q2 ^(a)	2.4	3.6	3.5	3.2	2.4	2.8	3.3	2.4	2.7	90.3	4.4	3.3
2026 Feb.	2.0	5.1	4.6	-3.4	3.8	0.2	3.2	-10.4	0.5	-26.1	-2.4	2.8
Mar.	2.3	5.1	4.7	-3.6	3.4	-0.1	3.2	4.0	3.5	26.8	4.1	3.2
Apr.	2.3	4.2	3.9	-1.7	3.3	0.8	2.9	-11.7	3.3	31.2	0.9	2.8
May	2.4	3.9	3.7	-0.2	3.0	1.4	3.0	-3.1	3.4	45.1	3.2	3.0
June	2.4	3.6	3.5	3.2	2.4	2.8	3.3	2.4	2.7	90.3	4.4	3.3
July ^(a)	2.4	3.3	3.1	5.6	2.0	3.8	3.3	2.8	2.1	91.2	4.2	3.4

Sources: ECB.

1) Data refer to the changing composition of the euro area.

5 Financing conditions and credit developments

5.2 Deposits in M3 ¹⁾

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period; transactions during period)

	Non-financial corporations ²⁾					Households ³⁾					Financial corporations other than MFIs and ICPFs ²⁾	Insurance corporations and pension funds ¹²⁾	Other general government ⁴⁾
	Total	Overnight	With an agreed maturity of up to 2 years	Redeemable at notice of up to 3 months	Repos	Total	Overnight	With an agreed maturity of up to 2 years	Redeemable at notice of up to 3 months	Repos			
	1	2	3	4	5	6	7	8	9	10	11	12	13
Outstanding amounts													
2023	3,318.2	2,403.6	772.2	130.9	11.6	8,406.5	5,105.8	1,014.1	2,285.3	1.3	1,258.9	226.7	542.4
2024	3,417.1	2,479.2	793.5	133.3	11.1	8,734.0	5,188.5	1,255.1	2,289.0	1.3	1,359.9	231.6	548.3
2025	3,505.8	2,575.3	774.3	150.4	5.9	8,989.8	5,472.0	1,136.3	2,380.2	1.3	1,472.1	224.2	553.2
2025 Q3	3,468.6	2,538.4	778.4	145.7	6.0	8,908.2	5,405.8	1,138.3	2,363.0	1.1	1,335.8	229.4	537.2
Q4	3,505.8	2,575.3	774.3	150.4	5.9	8,989.8	5,472.0	1,136.3	2,380.2	1.3	1,472.1	224.2	553.2
2026 Q1	3,568.1	2,626.1	786.5	152.4	3.1	9,103.9	5,566.9	1,150.9	2,385.4	0.7	1,425.4	244.0	554.5
Q2 ^(p)	3,642.9	2,641.0	842.4	153.3	6.2	9,148.7	5,590.0	1,171.8	2,385.9	1.0	1,437.2	242.9	569.4
2026 Feb.	3,557.7	2,610.2	790.3	152.5	4.6	9,087.2	5,553.7	1,147.8	2,384.9	0.9	1,376.6	244.2	566.6
Mar.	3,568.1	2,626.1	786.5	152.4	3.1	9,103.9	5,566.9	1,150.9	2,385.4	0.7	1,425.4	244.0	554.5
Apr.	3,572.1	2,612.7	800.6	153.6	5.3	9,138.5	5,587.2	1,159.6	2,390.9	0.8	1,400.8	237.1	553.3
May	3,606.9	2,623.7	823.4	153.8	6.0	9,145.2	5,589.4	1,164.9	2,389.9	0.9	1,387.4	245.0	572.3
June	3,642.9	2,641.0	842.4	153.3	6.2	9,148.7	5,590.0	1,171.8	2,385.9	1.0	1,437.2	242.9	569.4
July ^(p)	3,654.7	2,626.7	869.6	151.7	6.7	9,172.9	5,591.3	1,194.7	2,385.9	0.9	1,397.0	238.3	580.8
Transactions													
2023	-38.3	-313.8	271.4	-1.6	5.6	13.8	-459.5	571.7	-98.9	0.5	-47.7	-2.1	-29.6
2024	89.5	69.8	16.5	3.1	0.2	290.0	48.5	236.1	5.3	0.1	79.6	3.8	3.2
2025	115.8	111.9	-12.3	17.0	-0.8	262.1	294.7	-116.4	83.9	-0.1	86.1	-4.9	3.0
2025 Q3	35.2	32.6	0.2	2.0	0.4	63.4	71.4	-35.9	27.8	0.0	-25.3	-3.8	-7.2
Q4	39.6	38.7	-3.6	4.6	-0.2	81.2	66.4	-2.6	17.2	0.2	86.9	-5.0	14.6
2026 Q1	34.8	26.5	9.0	2.0	-2.8	57.0	52.8	-0.2	5.0	-0.6	-31.7	12.7	-1.0
Q2 ^(p)	74.3	14.8	55.6	0.9	3.1	33.6	12.0	20.8	0.4	0.4	18.3	-1.3	6.6
2026 Feb.	20.5	9.0	11.6	-0.2	0.1	23.4	17.4	2.7	3.3	-0.1	-18.4	4.5	-12.0
Mar.	5.0	11.9	-5.3	-0.1	-1.5	16.7	13.7	2.7	0.5	-0.2	42.6	-0.6	-12.1
Apr.	6.0	-12.1	14.8	1.2	2.2	25.4	10.7	9.1	5.4	0.2	-20.8	-6.6	-1.3
May	35.2	11.7	22.5	0.3	0.7	5.8	1.5	5.2	-0.9	0.1	-8.6	7.8	10.9
June	33.1	15.3	18.3	-0.6	0.2	2.4	-0.1	6.6	-4.1	0.1	47.7	-2.5	-3.0
July ^(p)	12.9	-13.7	27.7	-1.5	0.5	24.6	1.6	23.1	0.0	-0.1	-38.8	-4.5	11.4
Growth rates													
2023	-1.1	-11.5	54.2	-1.2	90.8	0.2	-8.3	129.4	-4.1	64.0	-3.5	-0.9	-5.2
2024	2.7	2.9	2.2	2.4	2.0	3.4	0.9	23.2	0.2	3.7	6.2	1.7	0.6
2025	3.4	4.5	-1.6	12.7	-8.4	3.0	5.7	-9.3	3.7	-4.3	6.1	-2.1	0.5
2025 Q3	3.1	5.5	-5.6	15.4	-9.2	3.2	6.1	-9.4	3.9	-0.5	2.7	0.0	-2.6
Q4	3.4	4.5	-1.6	12.7	-8.4	3.0	5.7	-9.3	3.7	-4.3	6.1	-2.1	0.5
2026 Q1	4.2	5.3	0.1	9.7	-50.6	2.9	5.2	-7.1	3.1	-37.9	3.6	4.6	2.1
Q2 ^(p)	5.3	4.5	7.8	6.6	6.7	2.7	3.8	-1.5	2.2	-6.6	3.4	1.2	2.4
2026 Feb.	3.9	5.2	-1.1	11.9	-37.1	3.0	5.5	-8.0	3.3	-19.1	1.5	4.0	3.3
Mar.	4.2	5.3	0.1	9.7	-50.6	2.9	5.2	-7.1	3.1	-37.9	3.6	4.6	2.1
Apr.	3.8	4.4	1.2	9.4	-24.6	3.0	4.9	-5.1	3.0	-8.4	0.4	-3.5	1.9
May	4.2	4.3	3.0	8.5	3.9	2.8	4.3	-3.6	2.6	-12.9	0.9	3.6	3.3
June	5.3	4.5	7.8	6.6	6.7	2.7	3.8	-1.5	2.2	-6.6	3.4	1.2	2.4
July ^(p)	5.3	3.6	10.8	5.1	11.1	2.6	3.4	0.6	1.8	-4.4	4.1	3.8	3.8

Sources: ECB.

1) Data refer to the changing composition of the euro area.

2) In accordance with the ESA 2010, in December 2014 holding companies of non-financial groups were reclassified from the non-financial corporations sector to the financial corporations sector. These entities are included in MFI balance sheet statistics with financial corporations other than MFIs and insurance corporations and pension funds (ICPFs).

3) Including non-profit institutions serving households.

4) Refers to the general government sector excluding central government.

5 Financing conditions and credit developments

5.3 Claims on euro area residents ¹⁾

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period; transactions during period)

	Claims on general government			Claims on other euro area residents								
	Total	Loans	Debt securities	Total	Loans					Debt securities	Equity and non-money market fund investment fund shares	
					Total		To non-financial corporations ²⁾	To households ²⁾	To financial corporations other than MFIs and ICPFs ³⁾			To insurance corporations and pension funds
1	2	3	4	5	6	7	8	9	10	11	12	
Outstanding amounts												
2023	6,297.5	988.8	5,283.4	15,501.0	13,045.4	13,251.0	5,130.8	6,649.1	1,127.6	137.8	1,559.1	896.5
2024	6,251.2	986.9	5,238.4	15,788.1	13,258.0	13,502.0	5,189.5	6,678.6	1,250.9	139.0	1,578.8	951.2
2025	6,294.6	1,020.5	5,247.9	16,247.8	13,630.3	13,903.7	5,294.8	6,853.2	1,334.8	147.4	1,572.2	1,045.3
2025 Q3	6,287.7	1,017.1	5,244.5	16,020.7	13,447.1	13,719.9	5,243.5	6,808.9	1,258.7	136.1	1,567.0	1,006.6
Q4	6,294.6	1,020.5	5,247.9	16,247.8	13,630.3	13,903.7	5,294.8	6,853.2	1,334.8	147.4	1,572.2	1,045.3
2026 Q1	6,307.8	1,047.9	5,233.6	16,420.8	13,798.8	14,069.7	5,357.1	6,932.2	1,357.1	152.4	1,571.8	1,050.2
Q2 ^(p)	6,309.0	1,055.4	5,227.3	16,551.7	13,946.8	14,220.0	5,430.9	6,971.6	1,393.4	150.9	1,524.1	1,080.8
2026 Feb.	6,327.9	1,045.0	5,256.7	16,393.4	13,744.2	14,007.8	5,335.7	6,918.8	1,337.1	152.5	1,585.6	1,063.6
Mar.	6,307.8	1,047.9	5,233.6	16,420.8	13,798.8	14,069.7	5,357.1	6,932.2	1,357.1	152.4	1,571.8	1,050.2
Apr.	6,271.1	1,049.0	5,195.8	16,404.2	13,820.5	14,092.4	5,380.5	6,938.0	1,353.8	148.1	1,529.2	1,054.5
May	6,306.2	1,049.2	5,230.7	16,478.4	13,886.0	14,159.6	5,405.0	6,956.2	1,375.3	149.4	1,530.7	1,061.7
June	6,309.0	1,055.4	5,227.3	16,551.7	13,946.8	14,220.0	5,430.9	6,971.6	1,393.4	150.9	1,524.1	1,080.8
July ^(p)	6,248.9	1,059.0	5,163.3	16,609.3	13,996.1	14,264.7	5,456.3	6,989.9	1,392.2	157.6	1,528.4	1,084.7
Transactions												
2023	-161.9	-17.3	-144.9	51.0	23.2	73.3	-6.5	8.5	29.5	-8.3	-17.1	44.9
2024	-63.7	-1.2	-62.9	286.9	228.9	274.3	76.6	45.2	106.2	0.9	10.9	47.1
2025	49.8	33.4	16.0	455.6	406.1	440.4	144.4	187.4	65.5	8.7	-4.5	54.0
2025 Q3	19.1	8.3	10.7	65.5	45.2	47.5	32.3	44.7	-23.4	-8.4	-6.6	26.9
Q4	10.2	4.7	5.3	182.1	167.1	176.9	57.6	48.4	49.8	11.2	5.9	9.1
2026 Q1	14.5	25.0	-10.5	141.1	136.1	131.4	46.6	56.1	33.0	0.5	0.4	4.6
Q2 ^(p)	-27.0	7.5	-34.5	117.8	161.0	163.4	75.9	54.2	32.3	-1.5	-50.5	7.3
2026 Feb.	-61.3	5.2	-66.5	29.0	36.5	25.8	27.5	20.7	-13.0	1.3	-5.2	-2.3
Mar.	26.4	2.5	24.0	40.7	53.8	61.8	19.8	17.9	16.4	-0.2	-9.7	-3.4
Apr.	-40.6	1.2	-41.8	-7.7	37.3	38.6	22.1	19.1	0.3	-4.2	-42.8	-2.2
May	18.8	-0.6	19.4	70.1	67.2	69.3	26.3	19.0	20.7	1.3	-0.5	3.3
June	-5.1	6.8	-12.0	55.5	56.5	55.5	27.5	16.2	11.3	1.4	-7.2	6.2
July ^(p)	-31.0	3.2	-34.3	67.3	54.4	49.9	24.5	19.6	3.5	6.8	7.1	5.9
Growth rates												
2023	-2.5	-1.7	-2.7	0.3	0.2	0.6	-0.1	0.1	2.7	-5.7	-1.1	5.3
2024	-1.0	-0.1	-1.2	1.9	1.8	2.1	1.5	0.7	9.4	0.7	0.7	5.2
2025	0.8	3.4	0.3	2.9	3.1	3.3	2.8	2.8	5.2	6.3	-0.3	5.6
2025 Q3	0.6	3.8	0.0	2.7	2.7	2.8	2.7	2.5	3.7	2.0	0.1	7.3
Q4	0.8	3.4	0.3	2.9	3.1	3.3	2.8	2.8	5.2	6.3	-0.3	5.6
2026 Q1	0.4	4.9	-0.4	3.1	3.3	3.4	3.1	2.9	5.8	8.1	0.6	4.1
Q2 ^(p)	0.3	4.5	-0.6	3.2	3.8	3.8	4.1	3.0	7.1	1.2	-3.2	4.9
2026 Feb.	0.1	4.4	-0.8	2.9	3.1	3.2	3.0	2.8	4.2	9.2	0.7	4.4
Mar.	0.4	4.9	-0.4	3.1	3.3	3.4	3.1	2.9	5.8	8.1	0.6	4.1
Apr.	-0.4	4.8	-1.4	2.9	3.3	3.4	3.3	2.9	4.9	5.2	-2.3	5.3
May	0.1	3.9	-0.7	3.2	3.7	3.8	3.8	3.0	6.7	5.0	-2.2	5.1
June	0.3	4.5	-0.6	3.2	3.8	3.8	4.1	3.0	7.1	1.2	-3.2	4.9
July ^(p)	-0.5	4.3	-1.4	3.5	4.1	4.1	4.4	3.1	7.7	11.1	-2.7	4.0

Source: ECB.

1) Data refer to the changing composition of the euro area.

2) Adjusted for loan sales and securitisation (resulting in derecognition from the MFI statistical balance sheet) as well as for positions arising from notional cash pooling services provided by MFIs.

3) In accordance with the ESA 2010, in December 2014 holding companies of non-financial groups were reclassified from the non-financial corporations sector to the financial corporations sector. These entities are included in MFI balance sheet statistics with financial corporations other than MFIs and insurance corporations and pension funds (ICPFs).

4) Including non-profit institutions serving households.

5 Financing conditions and credit developments

5.4 MFI loans to euro area non-financial corporations and households ¹⁾

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period; transactions during period)

	Non-financial corporations ²⁾					Households ³⁾				
	Total		Up to 1 year	Over 1 and up to 5 years	Over 5 years	Total		Loans for consumption	Loans for house purchase	Other loans
	Total	Adjusted loans ⁴⁾				Total	Adjusted loans ⁴⁾			
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2023	5,130.8	5,135.7	915.6	1,089.6	3,125.7	6,649.1	6,867.2	731.1	5,229.1	688.9
2024	5,189.5	5,200.3	930.7	1,097.9	3,160.9	6,678.6	6,929.4	744.8	5,255.6	678.2
2025	5,294.8	5,324.3	949.8	1,122.1	3,222.9	6,853.2	7,111.6	777.2	5,403.4	672.7
2025 Q3	5,243.5	5,281.7	926.6	1,126.6	3,190.3	6,808.9	7,061.1	767.3	5,369.2	672.4
Q4	5,294.8	5,324.3	949.8	1,122.1	3,222.9	6,853.2	7,111.6	777.2	5,403.4	672.7
2026 Q1	5,357.1	5,383.6	966.3	1,142.1	3,248.6	6,932.2	7,188.0	796.4	5,465.3	670.4
Q2 ^(a)	5,430.9	5,466.1	983.5	1,160.1	3,287.2	6,971.6	7,224.5	803.9	5,507.7	660.0
2026 Feb.	5,335.7	5,356.7	952.9	1,129.9	3,253.0	6,918.8	7,175.0	791.7	5,453.9	673.3
Mar.	5,357.1	5,383.6	966.3	1,142.1	3,248.6	6,932.2	7,188.0	796.4	5,465.3	670.4
Apr.	5,380.5	5,409.1	969.6	1,148.5	3,262.5	6,938.0	7,191.2	798.5	5,480.7	658.8
May	5,405.0	5,442.4	980.5	1,157.6	3,266.9	6,956.2	7,207.4	802.0	5,496.9	657.3
June	5,430.9	5,466.1	983.5	1,160.1	3,287.2	6,971.6	7,224.5	803.9	5,507.7	660.0
July ^(a)	5,456.3	5,489.7	993.6	1,170.2	3,292.5	6,989.9	7,240.8	807.9	5,521.8	660.2
Transactions										
2023	-6.5	23.7	-44.8	10.5	27.8	8.5	26.8	19.1	10.3	-20.9
2024	76.6	88.0	21.8	14.7	40.1	45.2	77.6	26.6	28.3	-9.7
2025	144.4	156.7	31.5	35.6	77.4	187.4	205.0	38.8	148.3	0.3
2025 Q3	32.3	33.6	-1.5	11.6	22.2	44.7	46.8	11.2	36.3	-2.8
Q4	57.6	49.4	26.0	-4.0	35.6	48.4	61.7	12.0	34.5	2.0
2026 Q1	46.6	43.7	10.8	19.8	16.0	56.1	52.5	9.4	45.8	0.9
Q2 ^(a)	75.9	84.4	18.3	19.7	38.0	54.2	51.2	9.5	43.0	1.8
2026 Feb.	27.5	17.1	3.7	7.0	16.9	20.7	18.9	2.6	17.8	0.3
Mar.	19.8	27.0	13.1	12.4	-5.7	17.9	17.2	5.4	12.0	0.5
Apr.	22.1	23.1	4.3	7.3	10.5	19.1	17.1	3.3	15.7	0.1
May	26.3	34.5	11.7	8.7	5.9	19.0	17.2	4.0	16.4	-1.4
June	27.5	26.8	2.3	3.6	21.6	16.2	16.9	2.2	10.9	3.1
July ^(a)	24.5	22.4	9.0	10.2	5.3	19.6	17.0	4.5	14.4	0.7
Growth rates										
2023	-0.1	0.5	-4.6	1.0	0.9	0.1	0.4	2.7	0.2	-2.9
2024	1.5	1.7	2.4	1.4	1.3	0.7	1.1	3.7	0.5	-1.4
2025	2.8	3.0	3.4	3.3	2.5	2.8	3.0	5.2	2.8	0.0
2025 Q3	2.7	2.9	2.9	4.5	2.1	2.5	2.6	5.0	2.5	-0.1
Q4	2.8	3.0	3.4	3.3	2.5	2.8	3.0	5.2	2.8	0.0
2026 Q1	3.1	3.2	4.8	3.2	2.6	2.9	3.0	5.3	2.9	0.2
Q2 ^(a)	4.1	4.0	5.8	4.2	3.5	3.0	3.0	5.5	3.0	0.3
2026 Feb.	3.0	3.0	3.5	3.1	2.8	2.8	3.0	5.1	2.8	0.1
Mar.	3.1	3.2	4.8	3.2	2.6	2.9	3.0	5.3	2.9	0.2
Apr.	3.3	3.4	4.7	4.0	2.7	2.9	3.0	5.3	2.9	0.2
May	3.8	4.0	6.2	4.7	2.8	3.0	3.0	5.6	3.0	0.0
June	4.1	4.0	5.8	4.2	3.5	3.0	3.0	5.5	3.0	0.3
July ^(a)	4.4	4.4	7.3	4.8	3.5	3.1	3.1	5.7	3.0	0.7

Source: ECB.

1) Data refer to the changing composition of the euro area.

2) In accordance with the ESA 2010, in December 2014 holding companies of non-financial groups were reclassified from the non-financial corporations sector to the financial corporations sector. These entities are included in MFI balance sheet statistics with financial corporations other than MFIs and insurance corporations and pension funds (ICPFs).

3) Including non-profit institutions serving households.

4) Adjusted for loan sales and securitisation (resulting in derecognition from the MFI statistical balance sheet) as well as for positions arising from notional cash pooling services provided by MFIs.

5 Financing conditions and credit developments

5.5 Counterparts to M3 other than credit to euro area residents ¹⁾

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period; transactions during period)

	MFI liabilities						MFI assets			
	Liabilities to central government ²⁾	Longer-term liabilities to other euro area residents					Net external assets	Other		
		Total	Deposits with an agreed maturity of over 2 years	Deposits redeemable at notice of over 3 months	Debt securities with a maturity of over 2 years	Capital and reserves		Total	Repos with central counterparties ³⁾	Reverse repos to central counterparties ³⁾
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2023	477.8	7,338.3	1,827.0	90.5	2,415.1	3,005.6	1,853.9	263.3	152.1	152.6
2024	396.8	7,851.0	1,842.3	117.2	2,590.7	3,300.8	2,664.0	308.8	140.4	136.0
2025	399.1	8,372.4	1,872.6	131.7	2,621.6	3,746.5	3,240.9	188.4	324.1	235.1
2025 Q3	430.8	8,092.8	1,842.7	132.5	2,589.9	3,527.6	3,052.7	151.5	168.3	168.2
Q4	399.1	8,372.4	1,872.6	131.7	2,621.6	3,746.5	3,240.9	188.4	324.1	235.1
2026 Q1	427.7	8,549.2	1,890.8	133.2	2,652.3	3,873.0	3,529.8	157.8	396.2	257.3
Q2 ^(a)	402.1	8,501.2	1,858.2	136.2	2,733.5	3,773.2	3,508.4	149.2	460.8	289.0
2026 Feb.	426.9	8,697.6	1,884.9	132.1	2,626.2	4,054.4	3,616.7	119.9	405.2	255.9
Mar.	427.7	8,549.2	1,890.8	133.2	2,652.3	3,873.0	3,529.8	157.8	396.2	257.3
Apr.	426.1	8,517.0	1,849.9	132.9	2,669.3	3,864.9	3,519.0	198.3	386.7	277.0
May	430.8	8,559.9	1,853.4	134.9	2,702.4	3,869.3	3,556.8	172.7	417.1	272.8
June	402.1	8,501.2	1,858.2	136.2	2,733.5	3,773.2	3,508.4	149.2	460.8	289.0
July ^(a)	400.2	8,500.5	1,863.1	137.2	2,750.6	3,749.7	3,497.8	158.7	457.4	270.0
Transactions										
2023	-199.0	325.0	24.9	40.2	227.5	32.5	436.9	-192.4	17.1	9.0
2024	-80.6	279.4	15.2	26.7	164.7	72.8	530.5	27.5	-11.7	-16.7
2025	2.3	193.3	33.2	16.3	104.9	38.8	297.5	-130.7	8.6	29.2
2025 Q3	19.2	38.1	9.2	3.6	29.1	-3.8	63.6	-29.6	-9.6	2.3
Q4	-32.2	108.8	24.0	-0.8	32.9	52.7	83.7	-1.4	-19.3	-3.0
2026 Q1	19.0	45.6	14.3	1.3	21.9	8.1	141.6	-81.2	70.8	21.0
Q2 ^(a)	-25.6	73.9	-33.0	3.0	74.8	29.1	96.4	14.1	64.5	34.6
2026 Feb.	-55.2	31.9	0.9	0.6	8.4	22.1	24.3	9.5	3.9	6.1
Mar.	0.8	28.8	4.0	1.0	10.5	13.2	57.5	-1.0	-9.0	1.4
Apr.	-1.7	-14.2	-39.2	-0.3	25.2	0.1	-13.1	48.6	-9.5	22.5
May	4.8	51.3	3.2	2.0	31.9	14.3	46.5	-12.7	30.4	-4.2
June	-28.7	36.8	3.1	1.3	17.7	14.7	63.0	-21.7	43.6	16.2
July ^(a)	-2.0	35.1	5.5	1.0	22.7	5.8	-7.8	5.5	-3.3	-19.0
Growth rates										
2023	-29.5	4.7	1.4	80.3	10.7	1.1	-	-	12.4	6.0
2024	-16.9	3.8	0.8	29.5	6.9	2.2	-	-	-7.7	-10.9
2025	0.6	2.4	1.8	14.0	4.1	1.0	-	-	31.4	26.4
2025 Q3	6.1	2.1	0.8	17.9	3.3	1.5	-	-	-9.0	-10.7
Q4	0.6	2.4	1.8	14.0	4.1	1.0	-	-	31.4	26.4
2026 Q1	7.7	2.9	2.8	9.9	4.6	1.3	-	-	23.0	16.1
Q2 ^(a)	-4.4	3.2	0.8	5.5	6.2	2.2	-	-	47.0	28.1
2026 Feb.	0.2	2.5	2.4	11.3	4.2	1.0	-	-	17.3	16.6
Mar.	7.7	2.9	2.8	9.9	4.6	1.3	-	-	23.0	16.1
Apr.	-3.6	2.8	0.7	7.7	5.8	1.5	-	-	12.8	17.4
May	-6.7	3.0	0.9	7.2	5.9	1.8	-	-	30.5	12.9
June	-4.4	3.2	0.8	5.5	6.2	2.2	-	-	47.0	28.1
July ^(a)	-1.5	3.5	1.0	3.9	6.7	2.5	-	-	49.6	20.4

Sources: ECB.

1) Data refer to the changing composition of the euro area.

2) Comprises central government holdings of deposits with the MFI sector and of securities issued by the MFI sector.

3) Not adjusted for seasonal effects.

6 Fiscal developments

6.1 Deficit/surplus

(as a percentage of GDP; flows during one-year period)

	Deficit (-)/surplus (+)					Memo item:
	Total	Central government	State government	Local government	Social security funds	Primary deficit (-)/surplus (+)
	1	2	3	4	5	6
2022	-3.4	-3.7	0.0	0.0	0.3	-1.7
2023	-3.5	-3.5	-0.2	-0.2	0.4	-1.8
2024	-3.0	-2.6	-0.2	-0.3	0.1	-1.2
2025	-2.9	-2.6	-0.2	-0.3	0.2	-1.0
2025 Q2	-2.9	.	.	.	.	-1.0
Q3	-3.0	.	.	.	.	-1.1
Q4	-3.0	.	.	.	.	-1.1
2026 Q1	-3.1	.	.	.	.	-1.2

Sources: ECB for annual data; Eurostat for quarterly data.

6.2 Revenue and expenditure

(as a percentage of GDP; flows during one-year period)

	Revenue						Expenditure						
	Total	Current revenue				Capital revenue	Total	Current expenditure					Capital expenditure
		Total	Direct taxes	Indirect taxes	Net social contributions			Total	Compensation of employees	Intermediate consumption	Interest	Social benefits	
	1	2	3	4	5	6	7	8	9	10	11	12	13
2022	46.4	45.7	13.2	12.9	14.5	0.8	49.8	44.6	9.8	5.9	1.7	22.3	5.2
2023	45.8	44.9	13.1	12.4	14.4	0.9	49.3	43.9	9.8	5.9	1.7	22.2	5.3
2024	46.3	45.5	13.3	12.4	14.7	0.8	49.4	44.4	10.0	6.0	1.9	22.7	5.0
2025	46.8	46.0	13.3	12.4	15.1	0.8	49.7	44.6	10.1	5.9	1.9	22.9	5.1
2025 Q2	46.7	45.8	13.3	12.4	14.9	0.8	49.6	44.6	10.0	5.9	1.9	22.9	5.0
Q3	46.7	46.0	13.3	12.5	15.0	0.8	49.7	44.7	10.0	6.0	1.9	22.9	5.1
Q4	47.0	46.1	13.4	12.5	15.1	0.8	49.9	44.8	10.1	6.0	1.9	23.0	5.1
2026 Q1	47.0	46.2	13.4	12.5	15.2	0.8	50.1	44.9	10.1	6.0	1.9	23.1	5.2

Sources: ECB for annual data; Eurostat for quarterly data.

6.3 Government debt-to-GDP ratio

(as a percentage of GDP; outstanding amounts at end of period)

	Total	Financial instrument			Holder			Original maturity		Residual maturity			Currency	
		Currency and deposits	Loans	Debt securities	Resident creditors		Non-resident creditors	Up to 1 year	Over 1 year	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Euro or participating currencies	Other currencies
					Total	MFIs								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2022	88.9	2.6	13.1	4.8	52.1	39.2	36.8	8.6	80.3	15.9	28.1	44.9	88.0	0.9
2023	86.5	2.4	12.1	4.6	48.9	35.5	37.6	7.7	78.8	14.8	27.8	43.9	85.7	0.8
2024	86.6	2.1	11.7	4.8	46.5	33.5	40.1	7.7	78.9	14.3	28.0	44.2	85.8	0.8
2025	87.4	2.1	11.8	4.6	44.4	31.3	43.0	7.6	79.8	14.6	28.2	44.6	86.7	0.7
2025 Q2	87.8	2.2	11.6	73.9	.	.	.	.	.	.	.	.	.	.
Q3	88.2	2.2	11.7	74.2	.	.	.	.	.	.	.	.	.	.
Q4	87.7	2.1	11.8	73.7	.	.	.	.	.	.	.	.	.	.
2026 Q1	88.9	2.3	11.7	74.9	.	.	.	.	.	.	.	.	.	.

Sources: ECB for annual data; Eurostat for quarterly data.

6 Fiscal developments

6.4 Annual change in the government debt-to-GDP ratio and underlying factors ¹⁾

(as a percentage of GDP; flows during one-year period)

	Change in debt-to-GDP ratio ²⁾	Primary deficit (+)/surplus (-)	Deficit-debt adjustment								Interest-growth differential	Memo item: Borrowing requirement
			Total	Transactions in main financial assets					Revaluation effects and other changes in volume	Other		
				Total	Currency and deposits	Loans	Debt securities	Equity and investment fund shares				
	1	2	3	4	5	6	7	8	9	10	11	12
2022	-4.5	1.7	-0.1	-0.2	-0.6	0.3	0.1	0.1	0.6	-0.5	-6.1	2.7
2023	-2.4	1.8	-0.3	-0.4	-0.5	-0.1	0.1	0.1	0.6	-0.5	-3.8	2.6
2024	0.0	1.2	0.3	0.0	-0.4	0.1	0.2	0.1	0.2	0.1	-1.4	3.1
2025	0.9	1.0	1.2	0.7	0.4	0.0	0.2	0.2	0.3	0.2	-1.4	3.8
2025 Q2	0.5	1.0	0.8	0.6	0.3	0.0	0.1	0.1	0.2	-0.1	-1.3	3.5
Q3	1.0	1.1	1.0	0.6	0.4	0.0	0.2	0.1	0.2	0.2	-1.2	3.8
Q4	1.1	1.1	1.2	0.7	0.4	0.0	0.2	0.2	0.3	0.2	-1.2	3.9
2026 Q1	1.7	1.2	1.5	0.9	0.4	0.1	0.2	0.2	0.3	0.3	-1.1	4.3

Sources: ECB for annual data; Eurostat for quarterly data.

1) Intergovernmental lending in the context of the financial crisis is consolidated except in quarterly data on the deficit-debt adjustment.

2) Calculated as the difference between the government debt-to-GDP ratios at the end of the reference period and a year earlier.

6.5 Government debt securities ¹⁾

(debt service as a percentage of GDP; flows during debt service period; average nominal yields in percentages per annum)

	Debt service due within 1 year ²⁾					Average residual maturity in years ³⁾	Average nominal yields ⁴⁾						
	Total	Principal		Interest			Outstanding amounts					Transactions	
		Total	Maturities of up to 3 months	Total	Maturities of up to 3 months		Total	Floating rate	Zero coupon	Fixed rate		Issuance	Redemption
										Total	Maturities of up to 1 year		
	1	2	3	4	5	6	7	8	9	10	11	12	13
2023	12.7	11.4	4.1	1.3	0.3	8.1	2.0	1.2	1.9	2.0	1.6	3.6	2.0
2024	12.3	10.9	4.0	1.4	0.4	8.2	2.1	1.3	1.9	2.2	1.9	3.5	2.9
2025	12.5	11.1	3.9	1.5	0.4	8.2	2.2	1.2	1.5	2.3	1.7	2.8	2.5
2025 Q3	12.7	11.2	3.5	1.4	0.4	8.2	2.2	1.3	1.5	2.2	1.9	2.9	2.6
Q4	12.5	11.1	3.9	1.5	0.4	8.2	2.2	1.2	1.5	2.3	1.7	2.8	2.5
2026 Q1	12.6	11.1	4.1	1.5	0.4	8.2	2.2	1.2	1.6	2.3	1.6	2.8	2.4
Q2	12.7	11.1	3.8	1.6	0.4	8.2	2.2	1.3	1.6	2.3	1.6	2.8	2.2
2026 Feb.	12.7	11.2	4.2	1.5	0.4	8.2	2.2	1.2	1.5	2.3	1.6	2.8	2.4
Mar.	12.6	11.1	4.1	1.5	0.4	8.2	2.2	1.2	1.6	2.3	1.6	2.8	2.4
Apr.	12.4	10.8	3.7	1.5	0.4	8.3	2.2	1.2	1.5	2.3	1.6	2.8	2.3
May	12.4	10.8	3.5	1.6	0.4	8.3	2.2	1.3	1.7	2.3	1.6	2.8	2.3
June	12.7	11.1	3.8	1.6	0.4	8.2	2.2	1.3	1.6	2.3	1.6	2.8	2.2
July	12.7	11.1	3.7	1.6	0.4	8.2	2.3	1.3	1.7	2.4	1.6	2.9	2.3

Source: ECB.

1) At face value and not consolidated within the general government sector.

2) Excludes future payments on debt securities not yet outstanding and early redemptions.

3) Residual maturity at the end of the period.

4) Outstanding amounts at the end of the period; transactions as 12-month average.

6 Fiscal developments

6.6 Fiscal developments in euro area countries

(as a percentage of GDP; flows during one-year period and outstanding amounts at end of period)

	Belgium	Bulgaria	Germany	Estonia	Ireland	Greece	Spain	France	Croatia	Italy	Cyprus
	1	2	3	4	5	6	7	8	9	10	11
Government deficit (-)/surplus (+)											
2022	-3.5	-2.9	-1.9	-0.9	1.6	-2.6	-4.6	-4.7	0.0	-8.1	2.7
2023	-4.1	-2.0	-2.5	-2.7	1.4	-1.4	-3.3	-5.4	-1.1	-7.1	1.7
2024	-4.4	-3.0	-2.7	-1.1	4.1	1.3	-3.2	-5.8	-2.3	-3.4	4.1
2025	-5.2	-3.5	-2.7	-2.0	1.8	1.7	-2.4	-5.1	-3.0	-3.1	3.4
2025 Q2	-4.7	-3.4	-2.2	-1.5	3.9	2.1	-3.3	-5.6	-2.9	-3.2	3.9
Q3	-5.0	-2.7	-2.2	-1.5	1.2	2.5	-3.0	-5.5	-2.8	-3.3	3.4
Q4	-5.2	-3.5	-2.8	-2.0	1.9	1.7	-2.4	-5.1	-3.1	-3.1	3.4
2026 Q1	-5.2	-4.6	-3.1	-1.8	2.0	1.5	-2.4	-5.1	-3.2	-3.0	3.3
Government debt											
2022	103.3	22.5	64.4	19.2	43.0	177.8	109.3	111.4	68.5	138.4	80.1
2023	102.5	22.9	62.3	20.2	41.8	164.3	105.2	109.5	60.9	133.9	71.1
2024	103.9	23.8	62.2	23.5	38.3	154.2	101.6	112.6	57.4	134.7	62.7
2025	107.9	29.9	63.5	24.1	32.9	146.1	100.7	115.6	56.3	137.1	55.0
2025 Q2	106.2	26.3	62.3	23.2	34.4	152.0	103.4	115.4	57.4	138.1	61.1
Q3	107.1	28.4	63.0	22.8	34.5	149.8	103.1	117.3	57.1	137.5	60.3
Q4	107.9	29.9	63.5	24.1	34.8	146.1	100.7	115.7	56.3	137.1	55.0
2026 Q1	109.1	28.5	64.4	25.2	37.0	143.5	101.6	117.6	58.4	138.9	54.6

	Latvia	Lithuania	Luxembourg	Malta	Netherlands	Austria	Portugal	Slovenia	Slovakia	Finland
	12	13	14	15	16	17	18	19	20	21
Government deficit (-)/surplus (+)										
2022	-4.9	-0.7	0.2	-5.3	0.0	-3.4	-0.3	-3.0	-1.6	-0.2
2023	-2.3	-0.7	-0.7	-4.4	-0.4	-2.6	1.1	-2.6	-5.3	-2.9
2024	-1.8	-1.3	0.9	-3.4	-0.7	-4.6	0.6	-0.9	-5.3	-4.4
2025	-2.5	-1.8	-2.0	-2.2	-1.6	-4.2	0.7	-2.5	-4.5	-3.4
2025 Q2	-2.0	-1.8	-0.2	-4.3	-1.4	-5.0	0.7	-1.7	-4.8	-4.0
Q3	-2.6	-1.8	-0.8	-4.2	-1.5	-4.7	0.2	-1.5	-4.6	-3.8
Q4	-2.5	-1.8	-1.8	-2.2	-1.6	-4.2	0.7	-2.5	-4.5	-3.8
2026 Q1	-2.3	-1.7	-2.4	-3.2	-1.7	-3.9	0.5	-2.7	-4.4	-4.1
Government debt										
2022	44.4	38.3	24.9	50.3	48.4	78.1	111.2	72.8	57.8	74.0
2023	44.4	37.1	24.7	46.9	45.8	77.8	96.9	68.3	55.8	77.0
2024	46.2	38.0	26.3	45.9	43.8	80.0	93.5	66.4	59.7	82.4
2025	46.9	39.5	26.5	46.4	44.4	81.5	89.7	65.7	61.4	88.5
2025 Q2	47.6	39.0	25.0	46.6	43.0	82.0	96.5	69.5	62.9	88.4
Q3	44.8	40.6	27.5	46.4	42.7	83.4	97.4	67.7	62.3	86.7
Q4	46.9	39.5	26.5	46.4	44.7	81.3	89.7	65.7	61.4	88.5
2026 Q1	46.9	42.3	29.2	45.9	43.8	83.3	91.0	64.8	62.5	89.7

Source: Eurostat.

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For specific terminology please refer to the [ECB glossary](#) (available in English only).

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