



AIECE GENERAL REPORT AUTUMN MEETING 2025

PART 1

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The report has been closed on 12th November 2025.

We would like to thank all AIECE member institutes who participated in the AIECE General Report survey. Their answers greatly contributed to this document. The AIECE General Report is published to elicit comment and to encourage debate. The views expressed are those of the author(s) alone and do not necessarily reflect the views of their Institutes.

The AIECE report is the result of a collaborative effort, coordinated by Carlos Llano, with the contribution of Juan José Méndez-Alonso, Julián Moral-Carcedo, Santiago José Pérez-Balsalobre and Julián Pérez-García, members of CEPREDE and the Universidad Autónoma de Madrid (UAM).

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Executive Summary

The IMF projects stable global growth at **3.2% in 2025** and **3.1% in 2026**, despite persistent geopolitical tensions and U.S. protectionist measures. Trade war impacts remain uneven across European economies, with export-dependent sectors—particularly **automotive**—facing challenges from tariffs and strong Chinese competition. Energy prices are expected to decline (Brent at \$68.6 in 2025 and \$64.6 in 2026), reducing inflationary pressures, though risks from OPEC decisions and geopolitical shocks persist.

The Eurozone shows **moderate growth**, with forecasts around **1.1% in 2025** and **1.0% in 2026**, supported by **domestic demand** and **public-private investment initiatives**. Private consumption is projected to expand by **1.6–1.7%**, while public consumption and capital investment remain positive, though uneven across countries. Spain and other non-core economies outperform traditional drivers like Germany, which faces industrial slowdown.

Average GDP growth among AIECE members is **1.46% in 2025** and **1.44% in 2026**, with notable divergence: **Ireland, Croatia, Spain, Denmark, Greece, and Norway** exceed 2%, while **Germany, Austria, Italy, and France** lag. Investment dynamics vary widely, with exceptional spikes in Ireland and Greece in 2025, moderating thereafter. Private consumption growth depends heavily on real wage trends and fiscal support.

Inflation has stabilized post-2022 surge, averaging **2.1% in 2025** and **1.8% in 2026**, above pre-crisis levels but trending downward. Risks remain linked to external shocks and wage dynamics, though most institutes expect moderate real wage increases without significant inflationary impact. Employment growth slows, with unemployment stable at **6.2%**, but disparities persist—Spain remains above 10%, while Germany faces industrial job losses.

Fiscal policy is expected to stay **mildly expansionary**, shifting slightly more supportive in 2026, driven by NRRP funds, green/digital transition, and defense commitments. Public debt ratios remain high (Greece ~170%, Italy ~140%, France >115%), raising sustainability concerns. Monetary policy is projected to move toward **neutrality**, signaling confidence in inflation control but limiting stimulus capacity. The combined stance aims for balanced growth amid debt risks.

Major risks include **weak external demand**, **U.S. trade war**, and **geopolitical instability**, alongside structural competitiveness issues. Panelists stress the need for stronger EU industrial policy, innovation, and energy strategy to counter vulnerabilities. Recent EU–U.S. trade agreements, imposing tariffs on EU exports, highlight Europe’s limited leverage and reinforce calls for assertive measures under the **Open Strategic Autonomy** framework.

Europe faces a **moderately positive but fragile trajectory**, with growth supported by domestic demand and fiscal measures, yet constrained by external shocks, high debt, and competitiveness challenges. Strategic priorities include **industrial modernization**, **energy transition**, and **coordinated fiscal-monetary policies** to sustain resilience in an increasingly polarized global environment.

1. External Environment

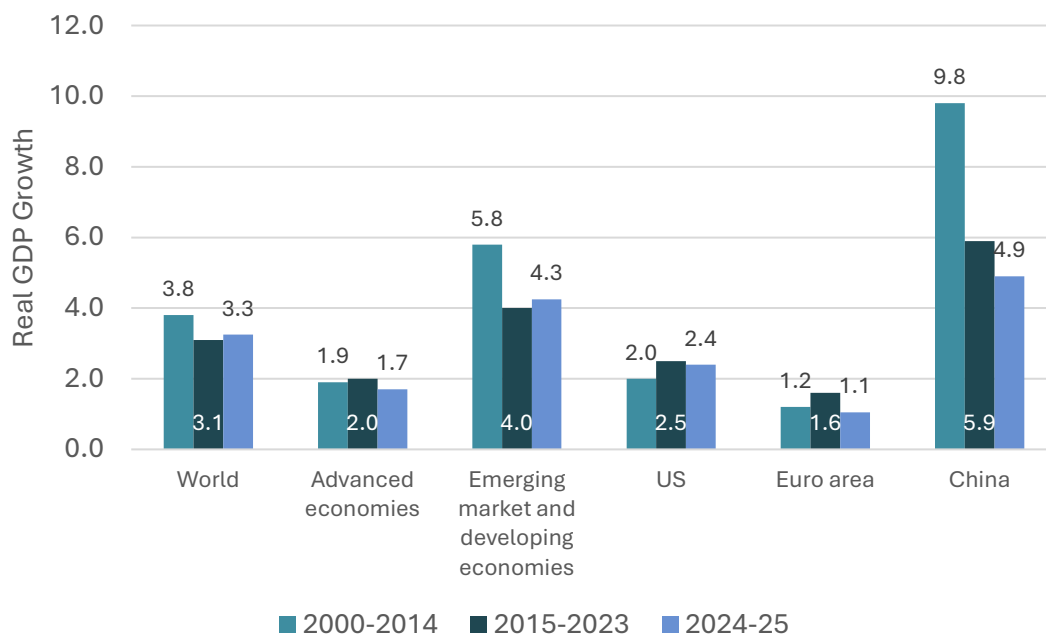
According to forecast by the IMF, global growth is stable, with similar rates from 2024 to 2026. In particular, 3,2% and 3,1% respectively for 2025 and 2026.

Armed conflicts and geopolitical tensions cause high uncertainty, to which is added the protectionist policy of the United States, applying new tariffs depending on the products and countries.

Some European member states, more than others, may be affected by the trade war caused by the United States' tariff measures, but to varying degrees, depending on the percentage of exports they maintain to the destination country; similarly, some sectors may be more affected to the extent that they import goods that carry direct price increases or second-round effects, raising their costs.

A special mention is required for the European automotive sector, because it is undergoing major changes, on the one hand stimulus campaigns to encourage the purchase of hybrid or electric vehicles and, on the other hand, strong competition from Chinese companies.

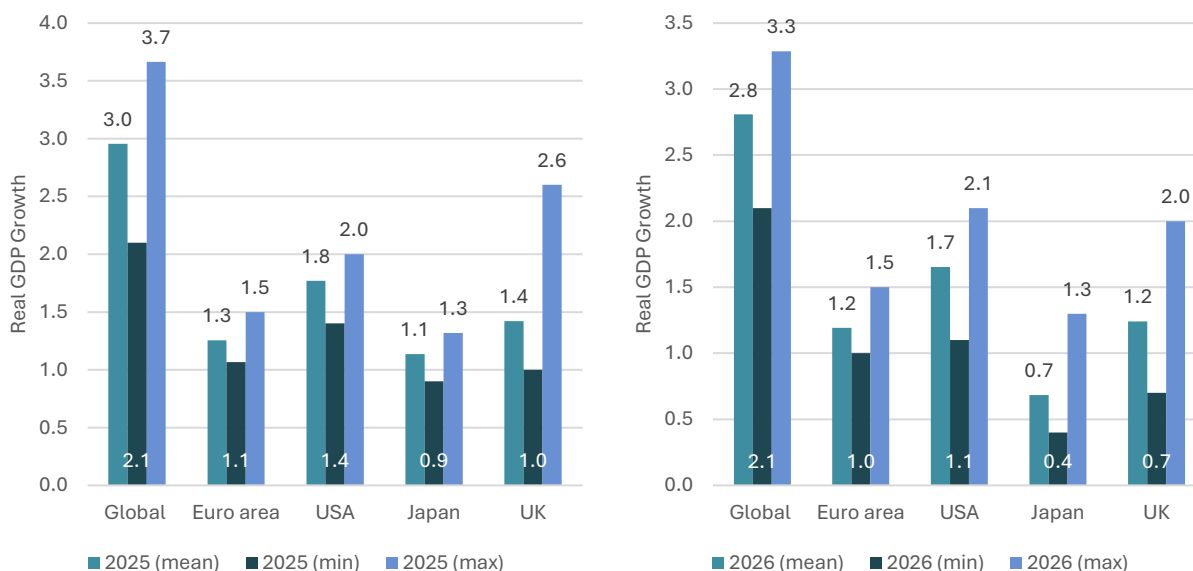
Figure 1-1. Global forecast by the IMF (% , average for the period)



Source: World Economic Outlook, WEO. IMF. October 2025.

The forecasts by AIECE members are in line with the IMF data, recently published in October, and they have revised upward the forecasts for this year and the next. The IMF indicates 1.2% and 1.1% respectively for 2025 and 2026, while the AIECE members are a tenth of a percentage point higher in both years.

Figure 1-2. Global forecasts by AIECE institutes for 2025-2026 (percentage annual growth)



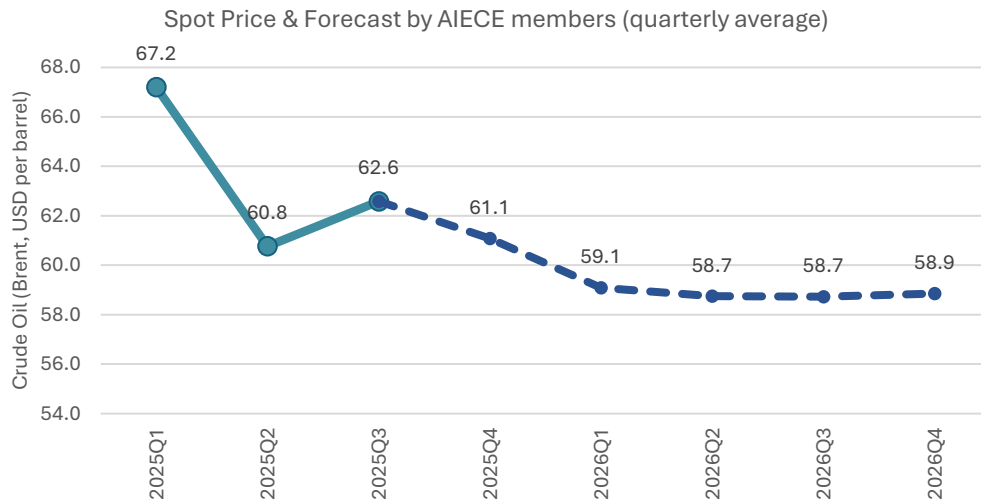
Source: AIECE Institutes.

Obviously, the forecast produced by each AIECE institution depends on the context and a set of assumptions. Among these factors we usually revise the cost of energy, the evolution of international trade and the main exchange rates.

For this year, the average price of Brent crude oil per barrel is estimated at \$68.6, while for 2026 it would settle at \$64.6, with a clear decrease compared to the 2024 price.

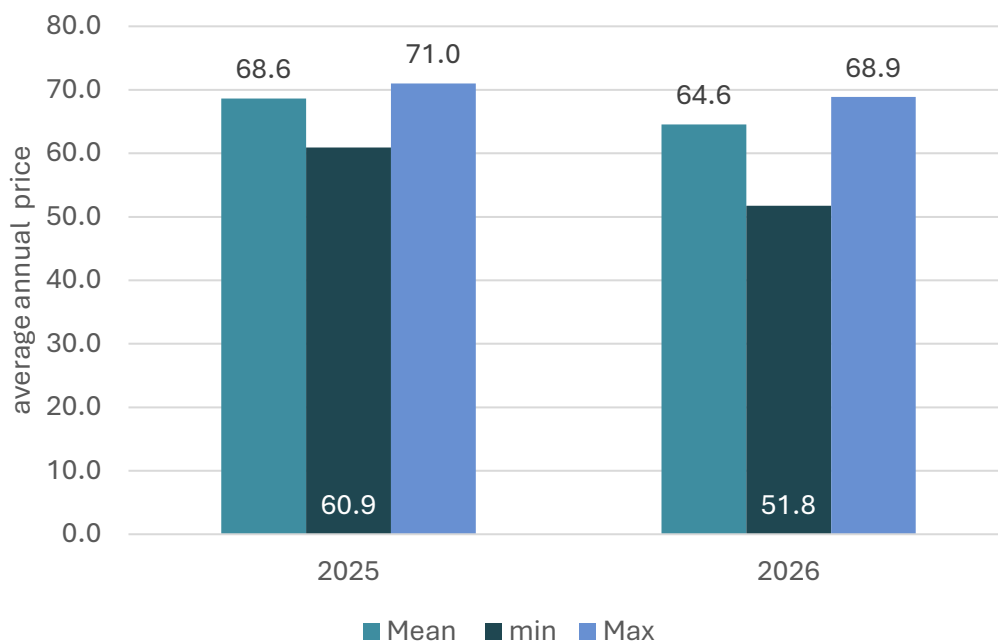
Therefore, no significant pressures are expected through this channel on domestic inflation. Another issue is the uncertainty in the face of shocks, potential attacks, or changes in OPEC's decisions, which could lead to adjustments outside the baseline forecast. The range of forecasts from AIECE members is quite wide, from \$51.8 to \$68.9 for the 2026 horizon. In any case, the trend is clearly a slowdown in price levels.

Figure 1-3. Development of oil prices



Source: AIECE Institutes

Figure 1-4. Energy price forecasts by AIECE Institutes



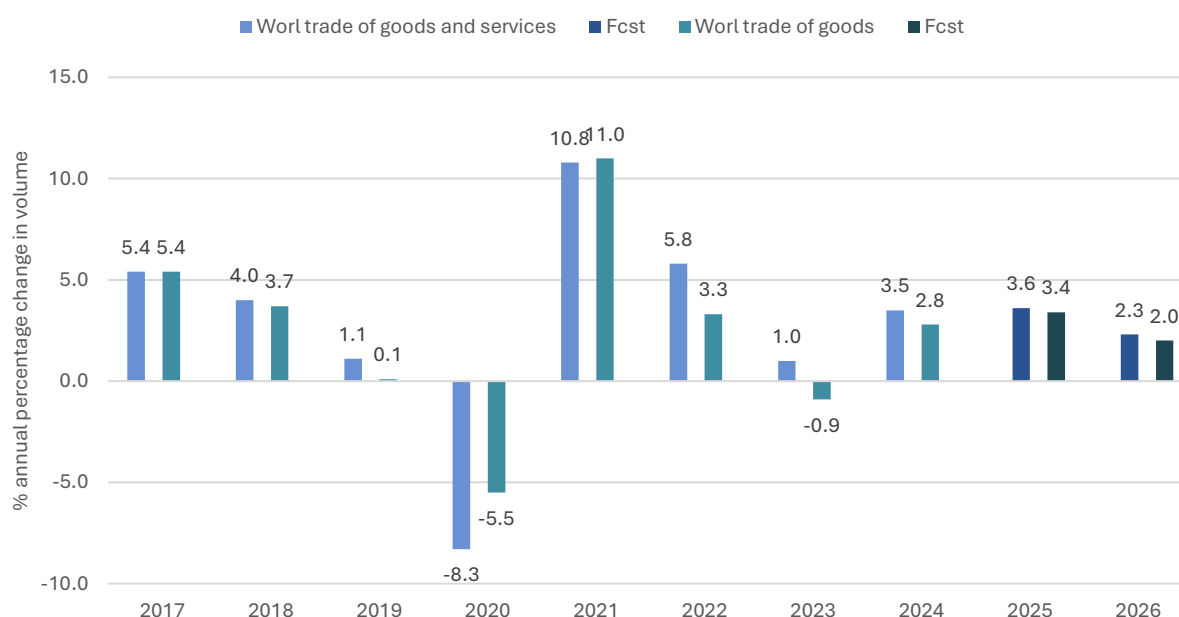
Source: AIECE Institutes.

In the context of global trade in goods and services, the IMF has revised its forecasts upward. Indeed, the adjustment made initially upon learning of the tariff measures imposed by the United States, along with the expected reactions and effects, was very difficult to estimate. Therefore, the reality has been less unfavorable, and ultimately this year's growth stands at 3.6%, and 3.4% for trade in

goods. In fact, according to the Dutch CPB office, growth in trade in goods this year would be slightly higher; based on figures accumulated through August, the annual average is above 4%.

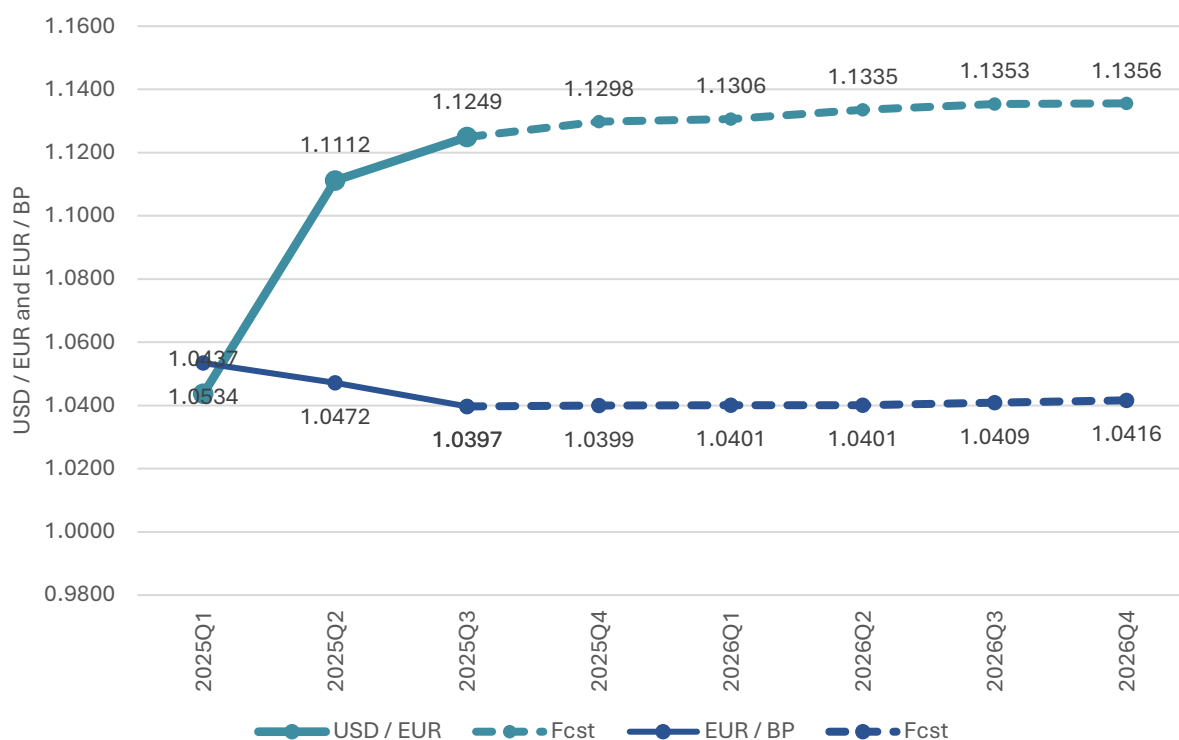
In any case, the forecasts for 2026 are not very optimistic, because delayed effects could emerge over time. In addition, for the countries in the euro area, the appreciation of the euro against the dollar affects export competitiveness in markets in the Americas.

Figure 1-5. World trade development



Source: IMF, WEO, October 2025.

Figure 1-6. Exchange rate trends according to the AIECE members



Source: AIECE Institutes.

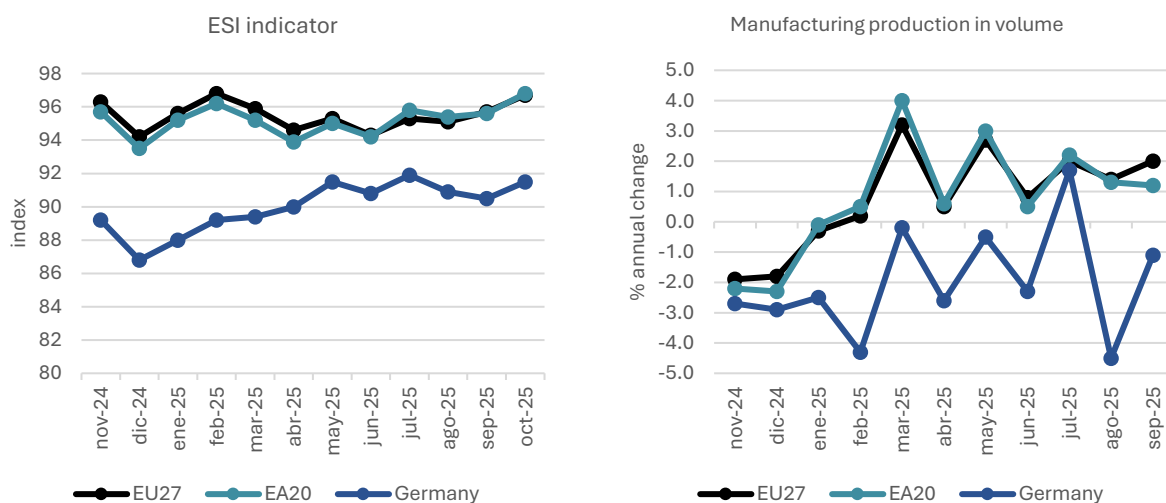
2. The outlook for Europe

2.1. Euro Area

The economy of the euro area continues to show moderate activity, although the ESI indicator has improved slightly in recent months. Germany still shows worrying signs and very weak activity, aside from factory closures and workforce adjustments. On a positive note, Spain shows dynamism above the euro area average.

From another analytical perspective, we can say that we are facing a situation in which the Eurozone is passing the baton; in this case, economies that have not usually been the driving force of the Eurozone's dynamism are taking over from the large, traditional core economies. This can be seen as a versatility that reflects the consolidation of the Eurozone, as well as a sign that all member countries have continued to make efforts.

Figure 2.1-1. Business trend indicator in Europe

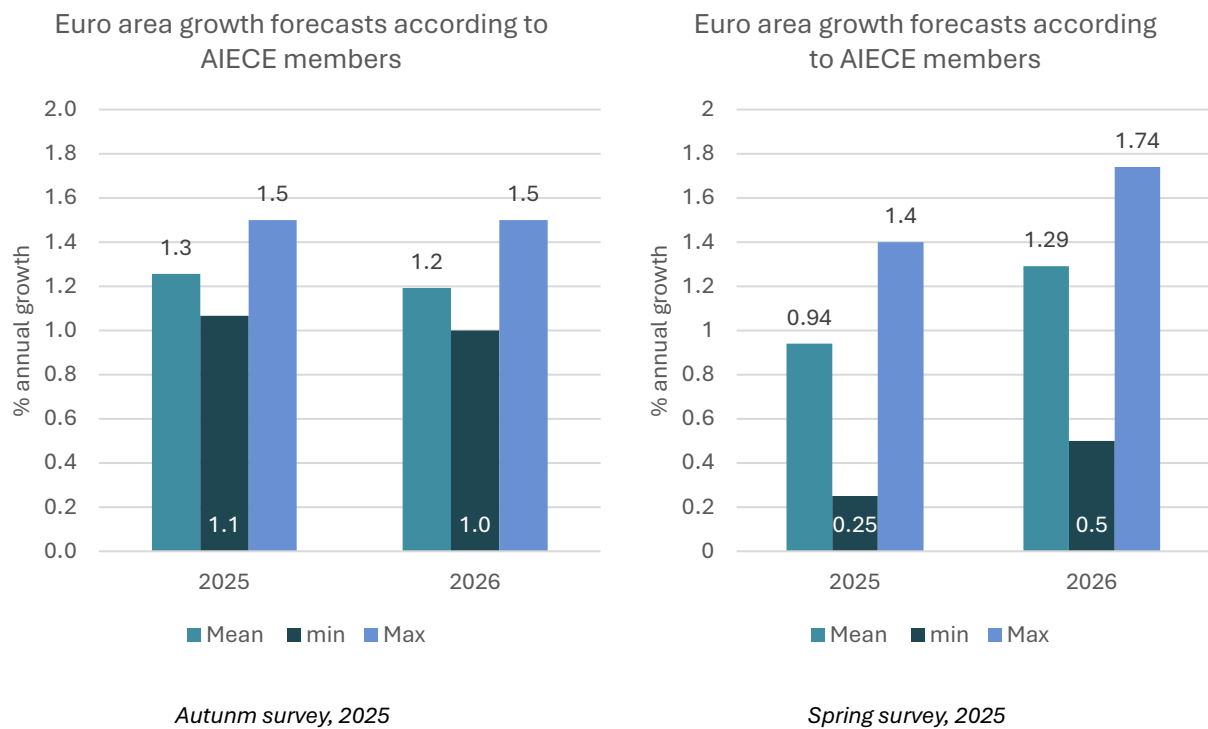


Source: European Commission and EUROSTAT.

For the AIECE members, the Eurozone is expected to grow by 1.1% this year and 1% next year. The consensus is quite narrow, and the most optimistic foresee 1.5% growth for both years.

Regarding the central scenario, the aforementioned 1.1% for 2025 reflects a clear improvement compared to the figure from six months ago (0.25%). Once again, the evolution of the year has shown data less affected by adverse circumstances, and the productive sector has been able to operate with more dynamism. Fortunately, this has not harmed unemployment rates.

Figure 2.1-2. GDP forecast by AIECE Institutes for the period 2025-2026



Source: AIECE Institutes

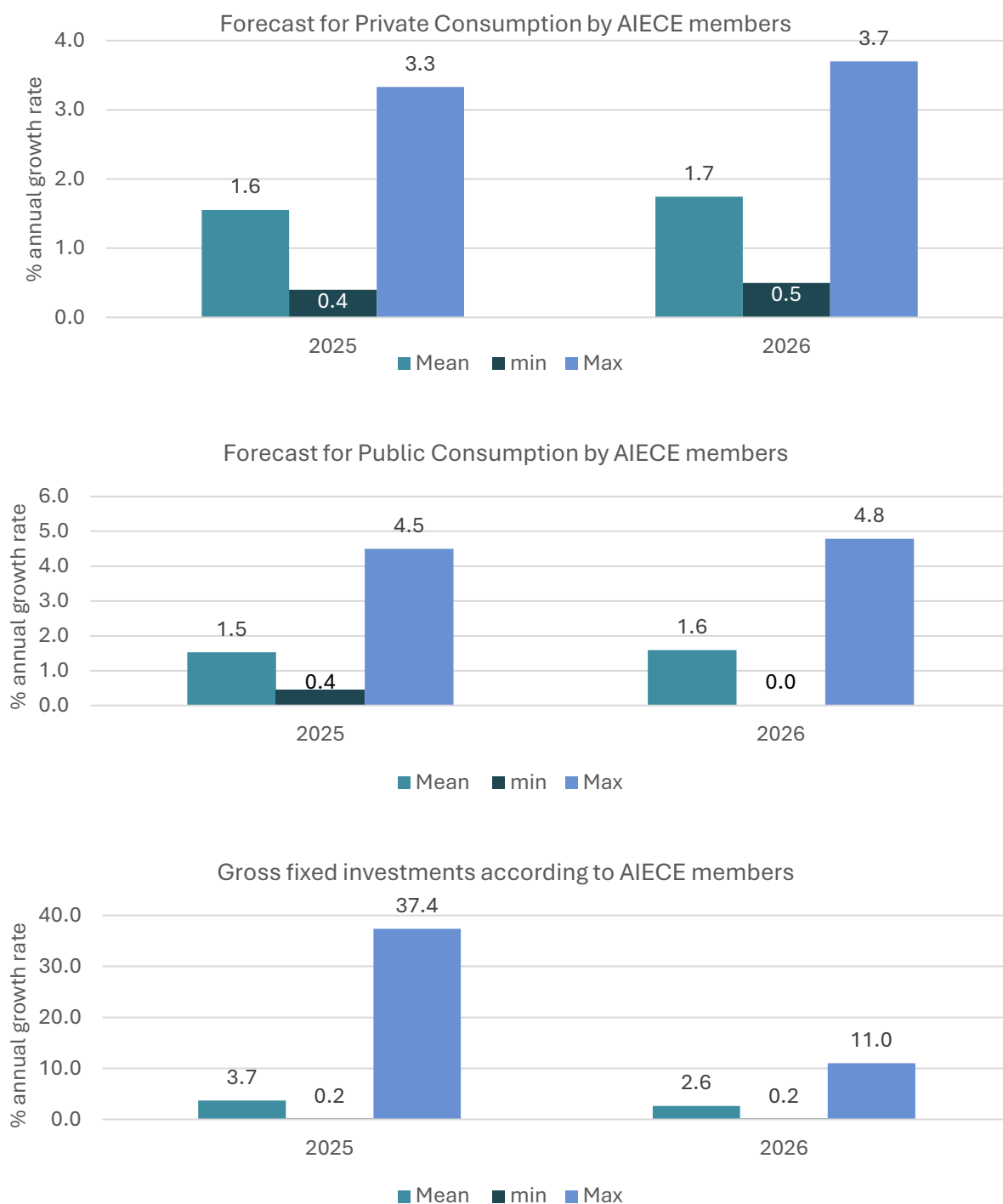
Regarding the components of growth for the Eurozone, the AIECE members show significant domestic demand, with an expansion of private consumption of around 1.6% (1.7% for 2026), higher than the 1.4% forecast six months ago.

Likewise, gross fixed capital investment shows favorable growth for both years, with clear differences depending on each economy.

The public consumption component is also playing a clear role in growth, channeling funds through the public-private partnership scheme in many economic activities, and it is expected to grow by 1.5% and 1.6%, respectively, for 2025 and 2026.

However, the autumn survey reflects a lower growth rate than that reported by the AIECE members in the spring survey, six months ago, it was 1.8% and 1.9% for the respective years.

Figure 2.1-3. Forecast on the development of GDP components in the Euro Area by AIECE institutes

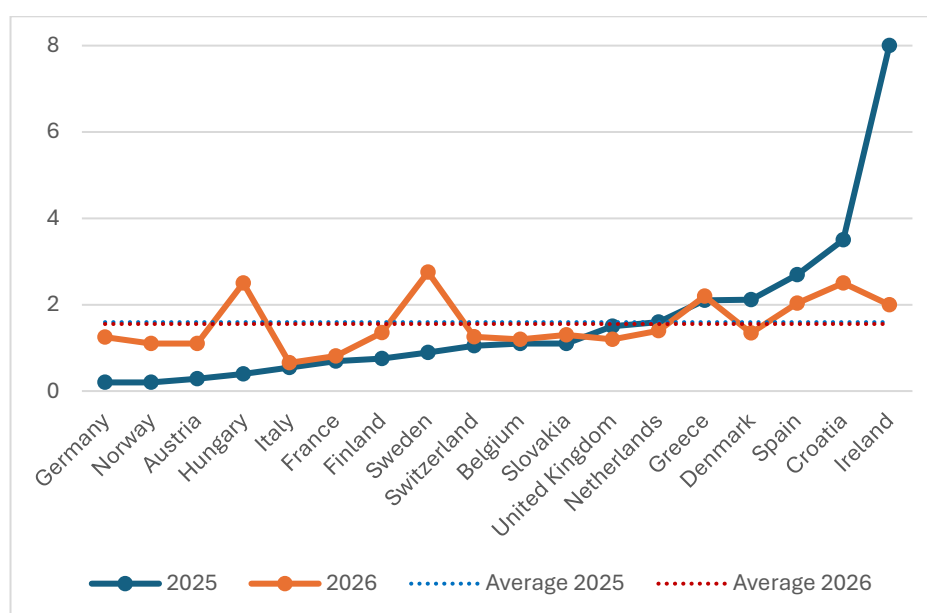


Source: AIECE Institutes

2.2. AIECE Institutes' countries outlook

Looking at the country forecasts of the AIECE member countries (See **Figure 2.2-1**), in both 2025 and 2026, moderate but positive average GDP growth is forecasted with an average growth of 1.46% for 2025, while in 2026, the average growth is expected to be 1.44%. Germany, Norway, Austria, Hungary, Italy, and France stand out as the countries with the weakest forecasted growth among the AIECE members. Conversely, Ireland, Croatia, Spain, Denmark, Greece, and the Netherlands stand out with forecasted growth rates exceeding 2% for 2025. However, the forecasts of the AIECE members for 2026 stand out due to the greater convergence of countries around the forecasted average growth rate.

Figure 2.2-1. GDP forecasts for AIECE countries

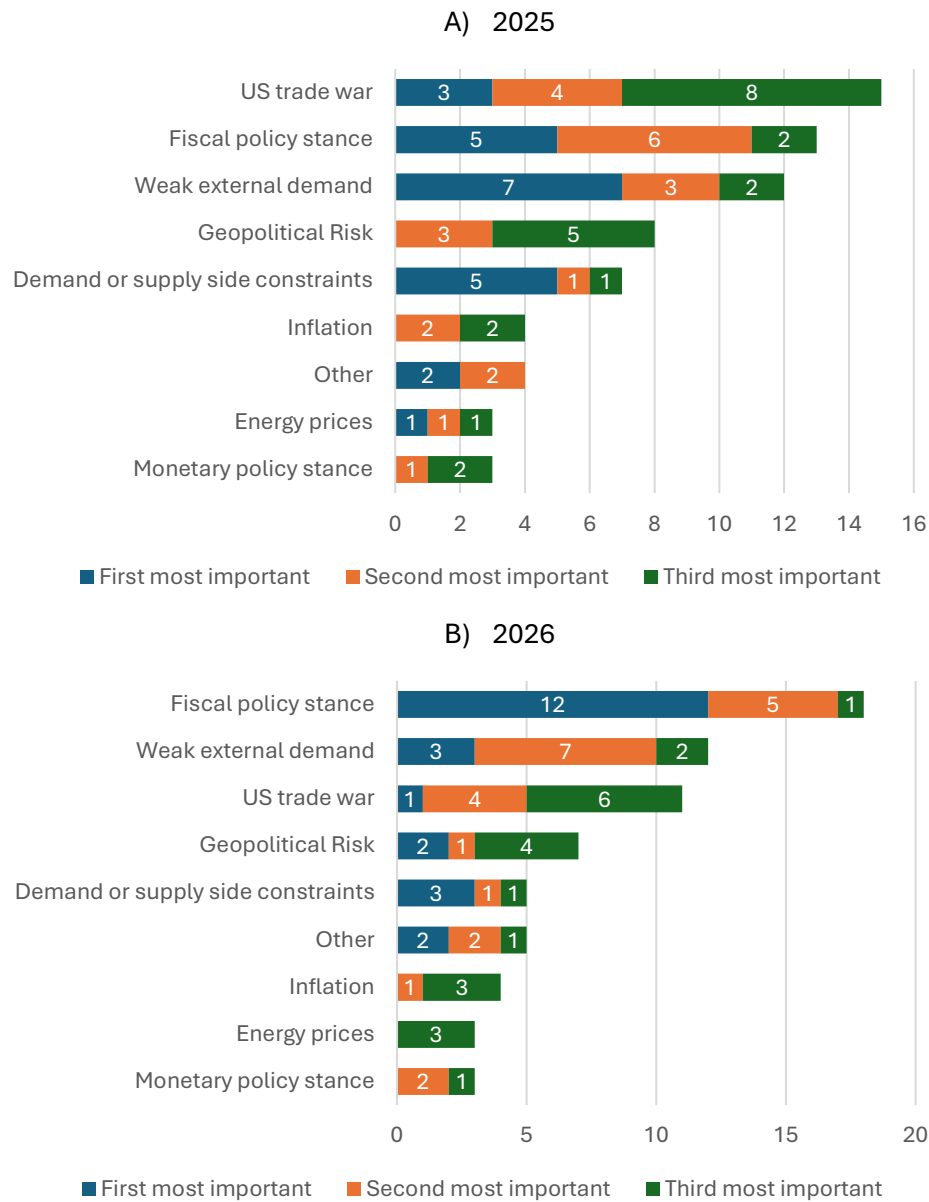


Source: AIECE Institutes

Based on the responses of AIECE institutes regarding **the most important factors that could affect economic growth in each of the countries covered by AIECE in 2025**, there is no clear consensus. The *US trade war* emerges as the most repeated concern; however, it is not identified as the first important risk for the institutes. *Weak external demand* is the concern most often cited by AIECE members as the most important factor hindering growth, followed by *fiscal policy stance* and *demand or supply-side constraints*. *Geopolitical risks* also stand out due to the importance assigned to them by members, although none identify them as the main risk to growth. (See **Figure 2.2-2, Panel A**)

When we asked AIECE members about the most important factors affecting **economic growth in 2026** (**Figure 2.2-2, Panel B**), there is a large consensus in *Fiscal policy stance* as the first most important concern. The second and third most important factors identified by the institutes are the *weak external demand* and the *US trade war*. In both cases, concern about the effect of these two risks on growth in 2026 is somewhat lower than for 2025. These would be followed by the potential effects of *geopolitical risk* and *demand or supply-side constraints*.

Figure 2.2-2. Most important factors affecting economic growth in 2025 and 2026



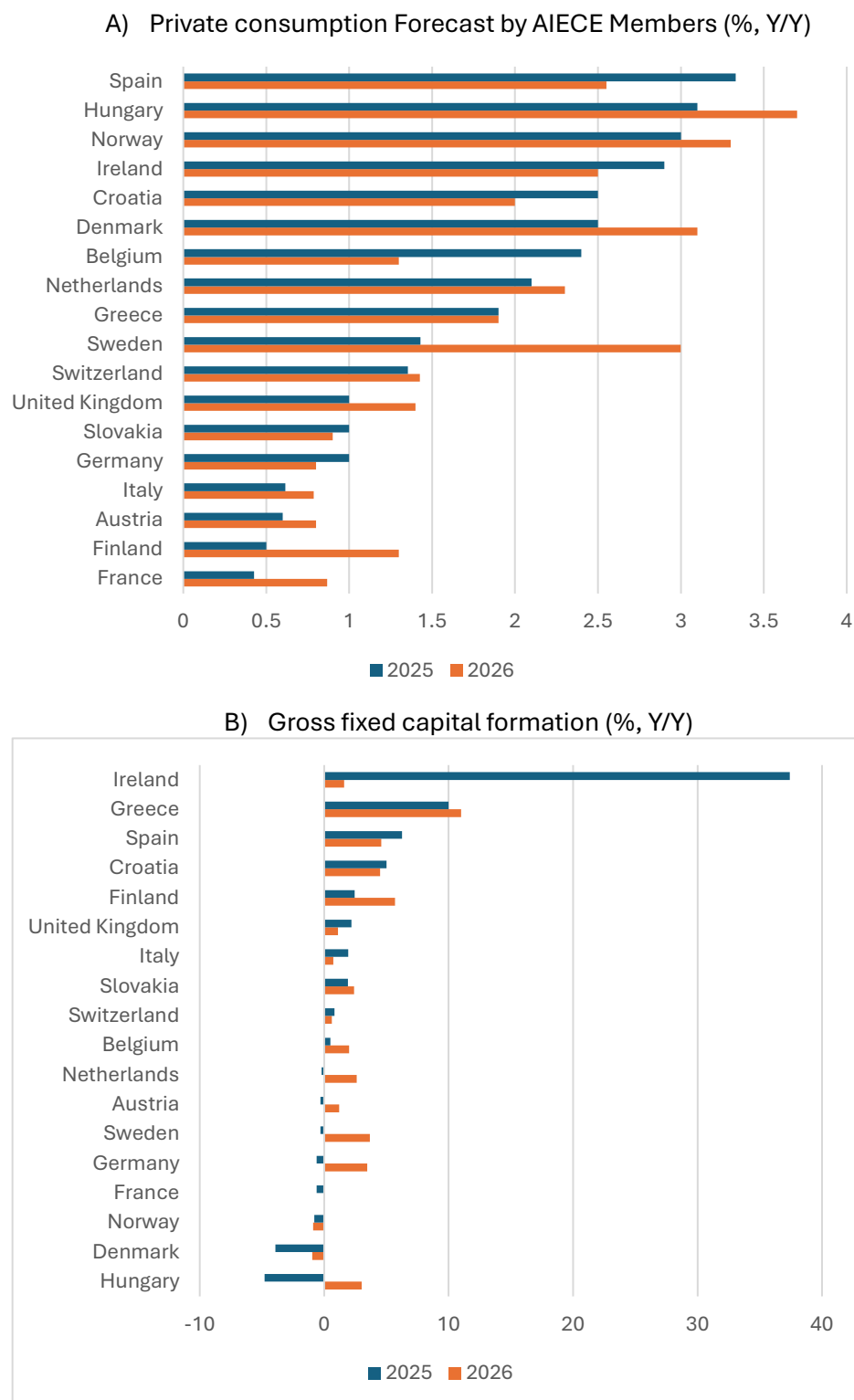
Source: AIECE Institutes

Concerning **private consumption**, differences among AIECE countries remain quite marked. Spain, Hungary, Norway, Ireland, and Croatia are expected to record strong expansion in 2025, with growth rates around or above 2.5%. By contrast, in Austria, Finland, France, Italy, Germany, or Slovakia, private consumption will increase only moderately, remaining below 1%. In 2026, the outlook becomes more heterogeneous again: some countries with already strong growth in 2025—such as Hungary and Norway—will continue to expand, while others like Spain or Ireland are expected to decelerate. In contrast, countries with weaker performance in 2025, such as Sweden and Finland, are expected to accelerate, the former showing a particularly strong rebound next year (See **Figure 2.2-3. Panel A**).

As regards to **gross fixed capital formation**, growth dynamics are even more diverse. The exceptionally high increase projected for Ireland in 2025 (close to 40%) likely reflects specific one-off factors. Greece also stands out with an expected double-digit expansion. In several countries—including Spain, Croatia, Hungary and Finland—investment activity is set to remain relatively robust, while in others, such as Belgium, France, Germany, Denmark, Austria, or Sweden, the outlook appears rather subdued. For 2026, a mixed picture emerges again: investment growth moderates in countries with exceptionally strong performance in 2025 (such as Ireland) but gains momentum in others like Germany, Belgium, Hungary and Finland. (See **Figure 2.2-3. Panel B**)

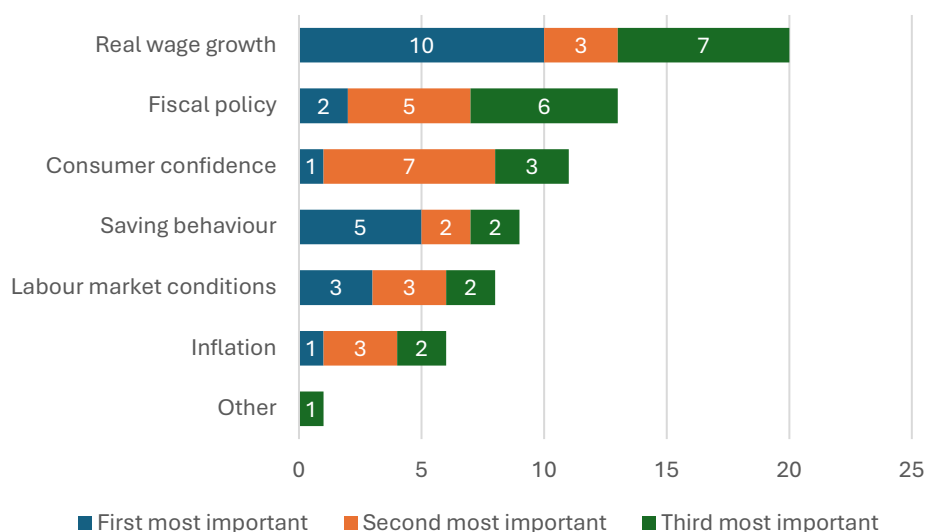
AIECE members were asked to identify the **main factors expected to influence private consumption** in their countries during 2026. Real wage growth clearly emerges as the dominant determinant, reflecting the crucial role of income dynamics in shaping household spending. While in some countries rising wages are expected to support consumption, in others slower nominal adjustments or high inflation may dampen real purchasing power. Fiscal policy and consumer confidence are also seen as important drivers, underlining the relevance of government measures and the psychological component of household behaviour. Saving behaviour and labour market conditions continue to play a significant role, particularly where uncertainty remains high or employment growth is moderating. Inflation is mentioned less frequently as a direct factor, yet it remains an underlying element influencing most of the other determinants of private consumption. (See **Figure 2.2-4.**)

Figure 2.2-3. Development of GDP components in case of AIECE countries. 2025&26



Source: AIECE Institutes

Figure 2.2-4. The most important factors according to their effect on private consumption until the end of 2026 in case of AIECE countries (number of answers)

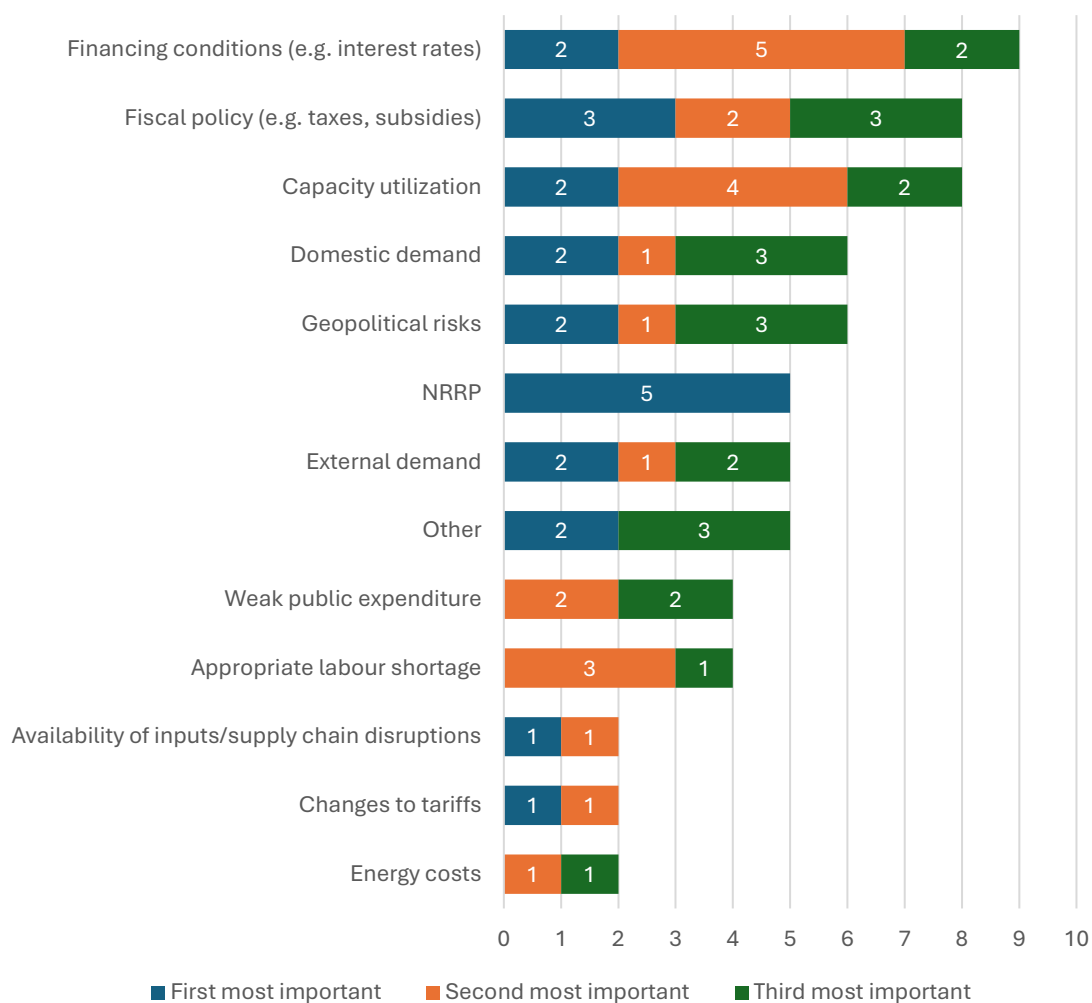


Source: AIECE Institutes

When asked about the **main factors shaping private investment** developments in their countries during 2026 (**Figure 2.2-5**), AIECE members provided quite diverse responses. *Financing conditions*, including interest rate developments, were most frequently mentioned as a key determinant, reflecting the sensitivity of investment decisions to borrowing costs. *Fiscal policy* and *capacity utilization* also appear among the most important factors, highlighting the role of public incentives and production bottlenecks. *Domestic demand*, *geopolitical risks*, and the *availability of NRRP funds* (National Recovery and Resilience Plan) are likewise seen as crucial, with their effects varying significantly across countries.

While improving financing conditions and the disbursement of NRRP funds are expected to support investment activity, capacity constraints, geopolitical uncertainty, and weak external demand may continue to weigh on private investment. In some economies, labour shortages and supply chain issues remain additional obstacles.

Figure 2.2-5. Main factors according to their effect on private investment until the end of 2026



Source: AIECE Institutes

2.3. Inflation

After the sharp surge observed between 2021 and 2022, inflation moderated significantly in the subsequent periods, remaining relatively stable since the fourth quarter of 2024.

Although the inflationary episode appears to have been overcome, the new equilibrium levels are slightly higher than those recorded previously, with an average rate hovering around 2.2% from late 2024 to the present, compared to the 1.5% average observed between 2018 and 2019.

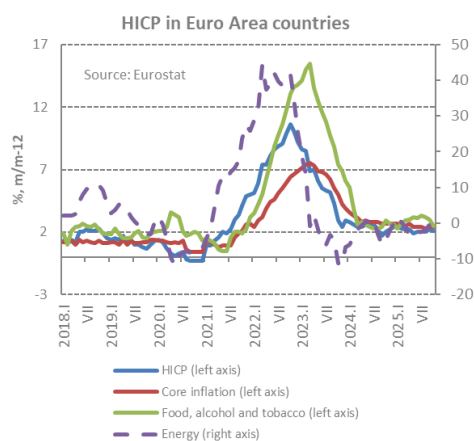
Throughout the current year, 2025, a certain gap has persisted between **headline inflation** and **core inflation**, driven by the continued **decline in energy prices**, even as unprocessed food items have shown a moderate rebound during the middle months of the year.

Taking the 2.4% growth recorded in 2024 as a reference, **all AIECE institutes anticipate a reduction in average inflation for 2025**, which is expected to fall within the range of 2.0% to 2.3%, with a central estimate of 2.1%.

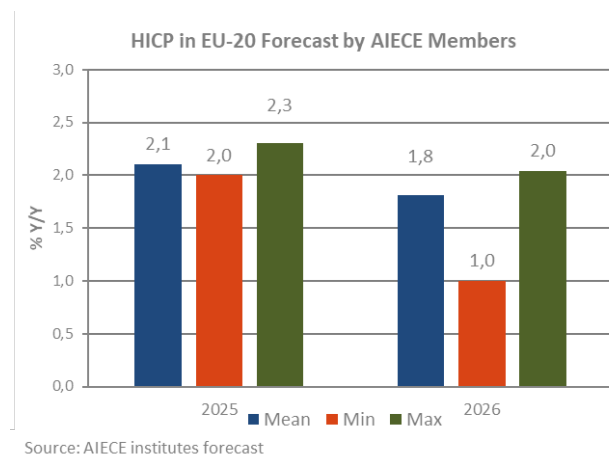
Looking ahead to 2026, expectations remain for a continued containment of inflation, with the average rate projected to settle around 1.8%. This figure would still stand above pre-inflationary episode levels, and no institute foresees a potential uptick in inflation for the coming year.

When comparing the current estimates with those presented six months ago, a downward adjustment can be observed, which could be interpreted as an improvement in the outlook for inflation trends across European economies.

Figure 2.3-1. Inflation estimates for Euro Area by AIECE institutes



Source: AIECE Institutes



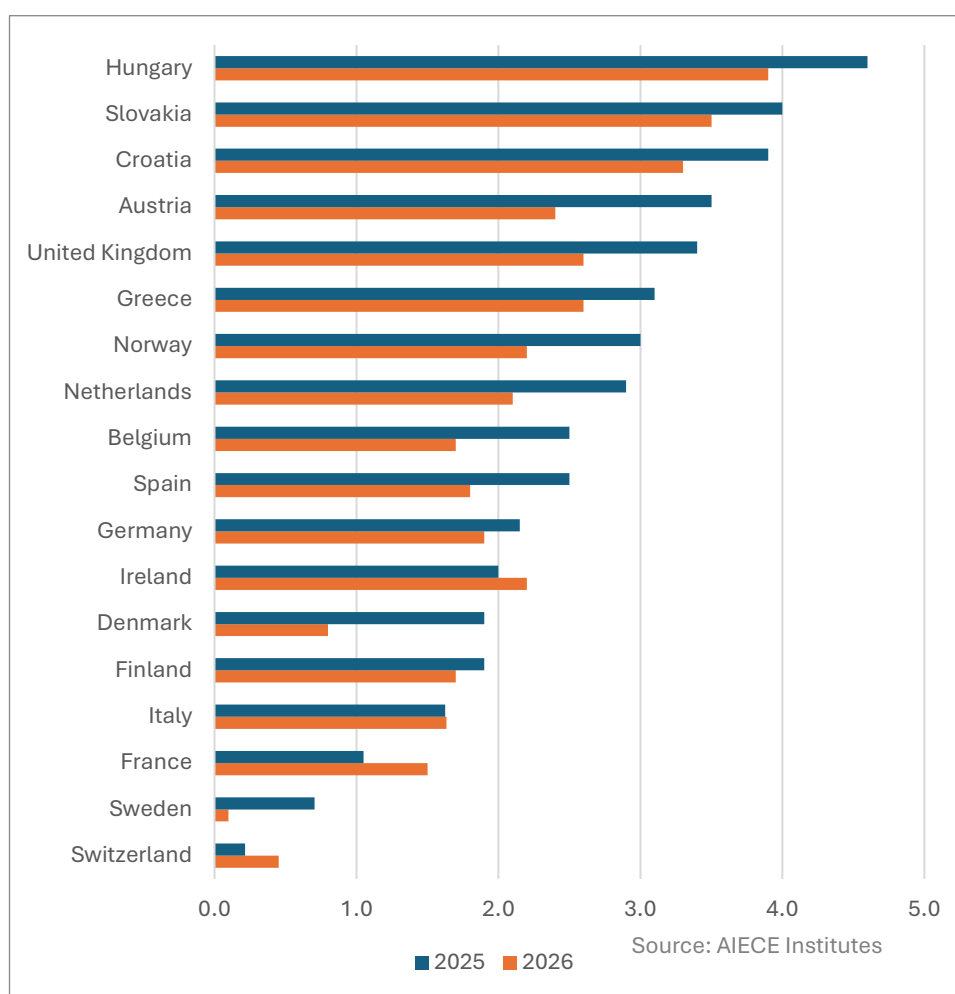
For the upcoming year 2026, although a slight reduction in this dispersion range is anticipated, substantial differentials of 3.8 points remain between the countries with the highest and lowest expected inflation rates.

While overall inflation expectations tend to moderate across European economies, during 2025, 45% of the institutes forecast a certain rebound in inflation within their respective countries, whereas for 2026, only one in four institutes anticipates an increase in inflation.

In 2025, notable inflationary increases are expected in Hungary, Slovakia, and Finland, approaching 1%, while on the opposite end, the largest reductions would occur in Belgium (-1.8 points), France, and Switzerland (-1.3 points).

For 2026, projected changes are somewhat more moderate, with increases close to half a point in France and reductions of 1.1 points in Austria or 0.8 points in the Netherlands, the United Kingdom, and Norway.

Figure 2.3-2. Inflation trends in various AIECE countries (% , Y/Y)



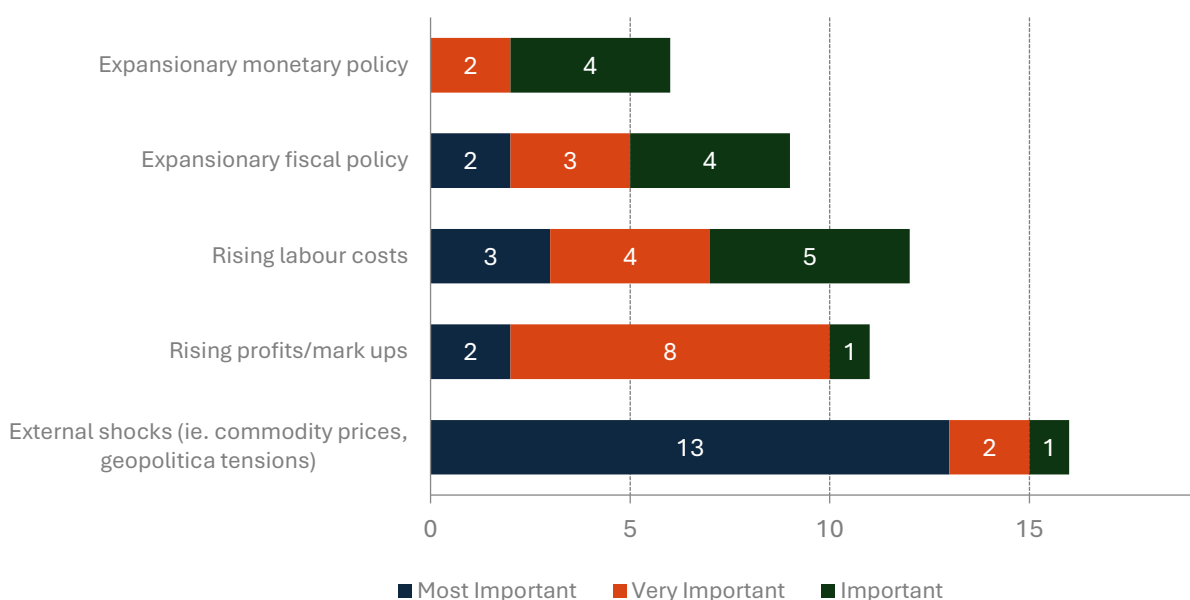
Source: AIECE Institutes

The perception of risks regarding inflation outlooks assessed by the various institutes has not changed significantly over the past six months. Approximately 63% of responses remain in a neutral range, 27% point to upside risks (Spain, the Netherlands, Ireland, Croatia, Slovakia, and Belgium), and only 9% indicate potential downward corrections (Germany and Switzerland).

When asked about the different risk factors that could alter current inflation projections, most institutes continue to identify **external shocks as the primary source of risk**, followed—though at a considerable distance—by rising labour costs and rising profits.

Regarding **the impact of economic policy on inflation** prospects, AIECE institutes have slightly reduced their assessment of the influence of expansionary fiscal policy, while concerns about the potential inflationary effects of monetary policy have increased significantly compared to evaluations made six months ago.

Figure 2.3-3. The three most important factors that may influence inflation in 2025-2026 (number of answers)

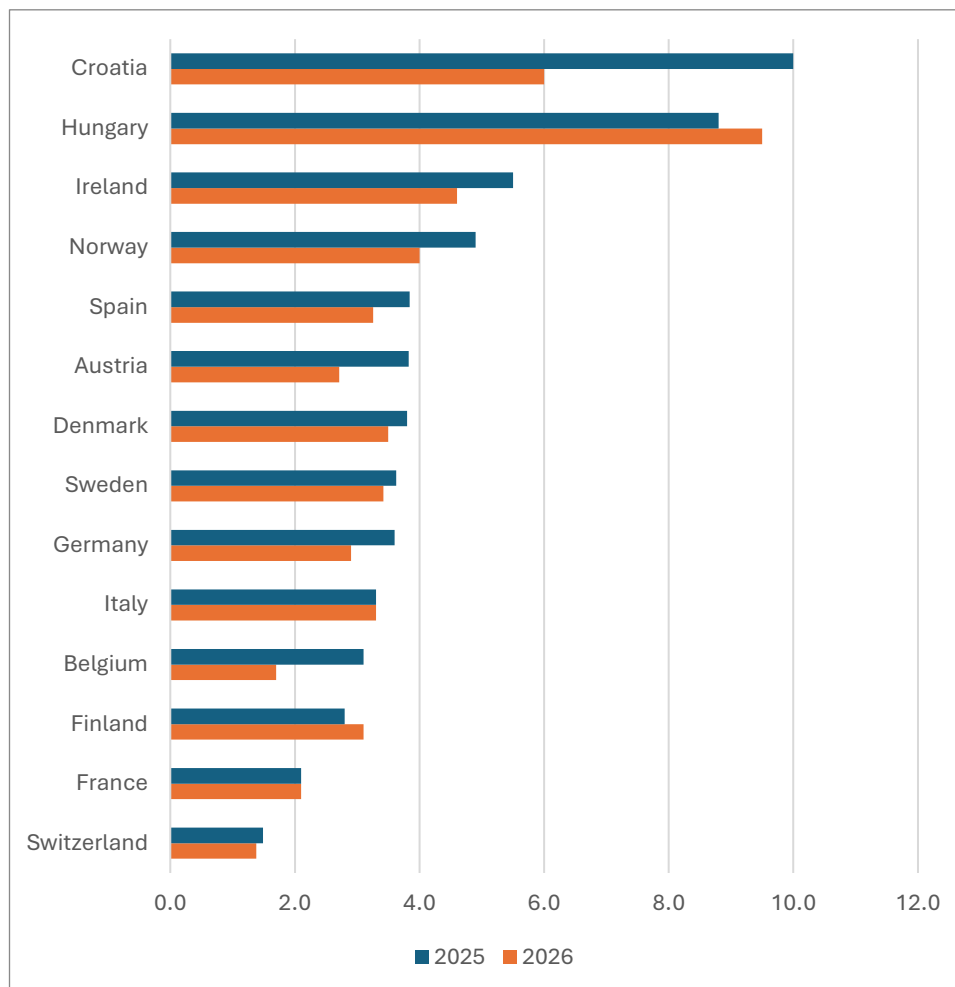


Source: AIECE Institutes

Although most countries anticipate some containment in wage growth for 2025 and 2026—with a few exceptions such as Hungary and Finland—a **significant share of AIECE institutes (71% in 2025 and 81% in 2026) project a moderate increase in real wages, albeit unevenly distributed.**

However, when asked to what extent wage increases are exerting upward pressure on inflation in each country, four out of ten institutes believe that wage growth is not generating inflationary effects, while the remainder consider the impact to be very moderate.

Figure 2.3-4. Nominal hourly gross wage rate (in LCU)



Source: AIECE Institutes

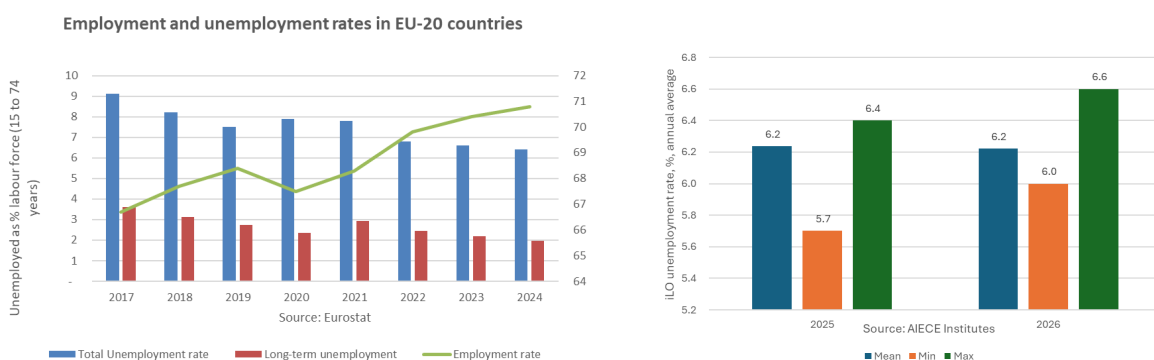
2.4. Labour market

Employment performance in Europe in 2025 is still positive, with year-on-year growth of 0.6% in the second quarter 2025. However, there are signs of a slowdown and marked divergence between countries.

The complex international environment and prevailing uncertainty appear to be impacting job creation. According to Eurostat data, employment growth has been slowing down, as have vacancies and employment expectations, on a quarter-by-quarter basis since 2022. This slowdown was anticipated in the latest AIECE report, and the data that have been published have confirmed these expectations.

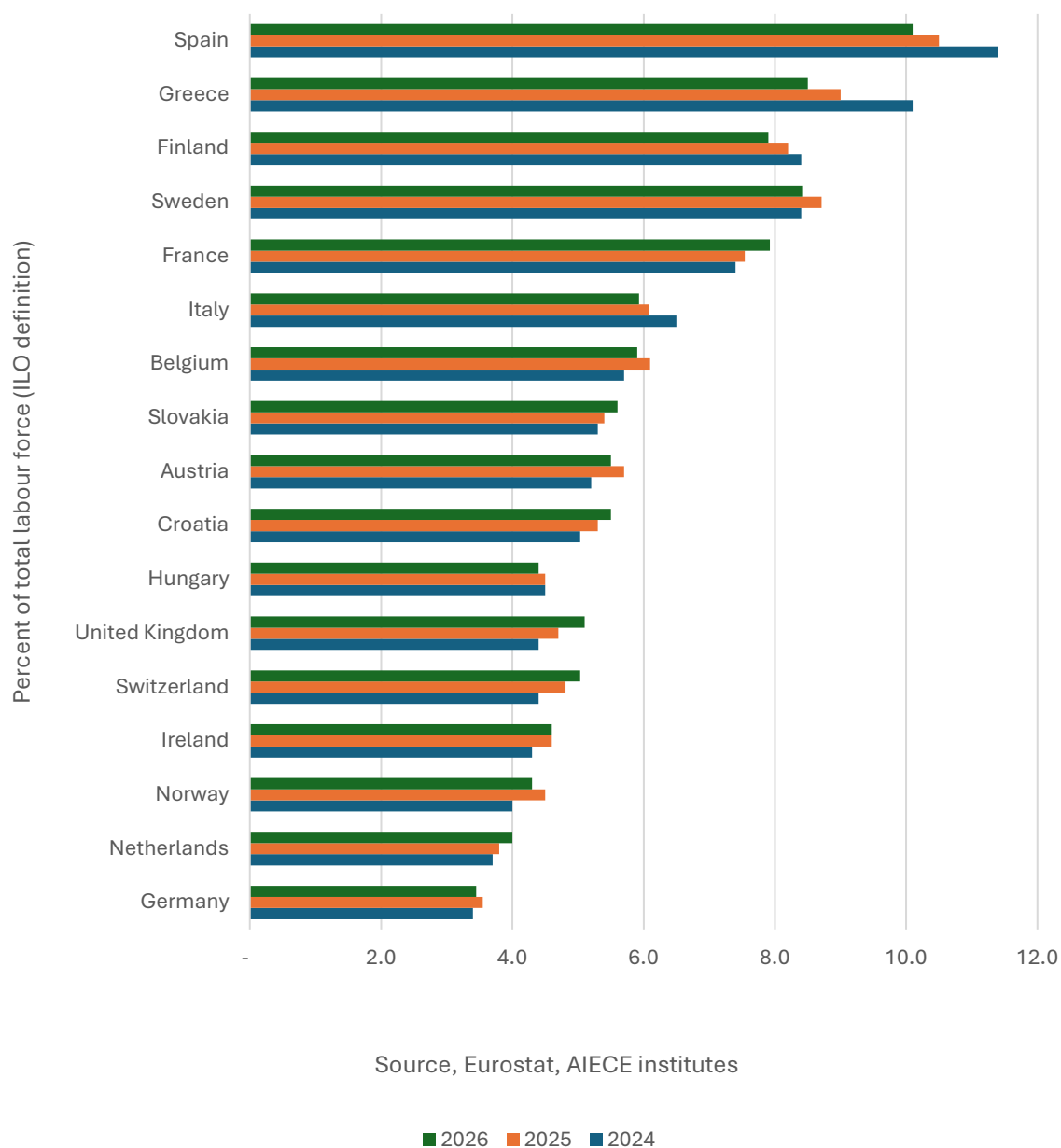
The annual data displayed in **Figure 2.4-1** does not yet reflect the current stagnation, which translates into an unemployment rate that is virtually stable at 6.3% throughout 2025. AIECE institutes expect an average rate of unemployment of 6.2% in 2025 and 2026. As seen in **Figure 2.4-2**, there are significant differences between the various EA countries regarding job creation and unemployment rates. Despite its greater capacity for job creation, Spain is still experiencing higher unemployment, with rates remaining above 10% this year. This figure is almost three times higher than Germany's unemployment rate. The AIECE institutes anticipate a slight rise in unemployment across many economies between 2024 and 2025, with concerns highlighted in Austria, Belgium, the United Kingdom, Switzerland, and the Netherlands. This could indicate a slight economic slowdown or a reduction in job creation at the beginning of the projected period.

Figure 2.4-1. Labour market trends in the EA countries



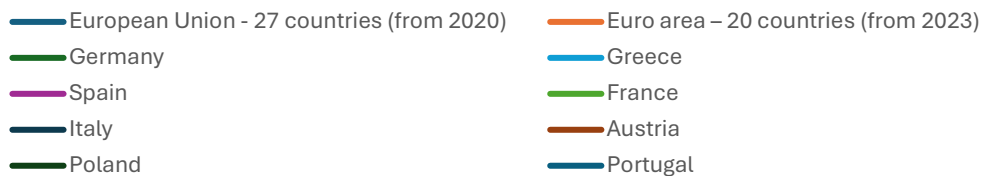
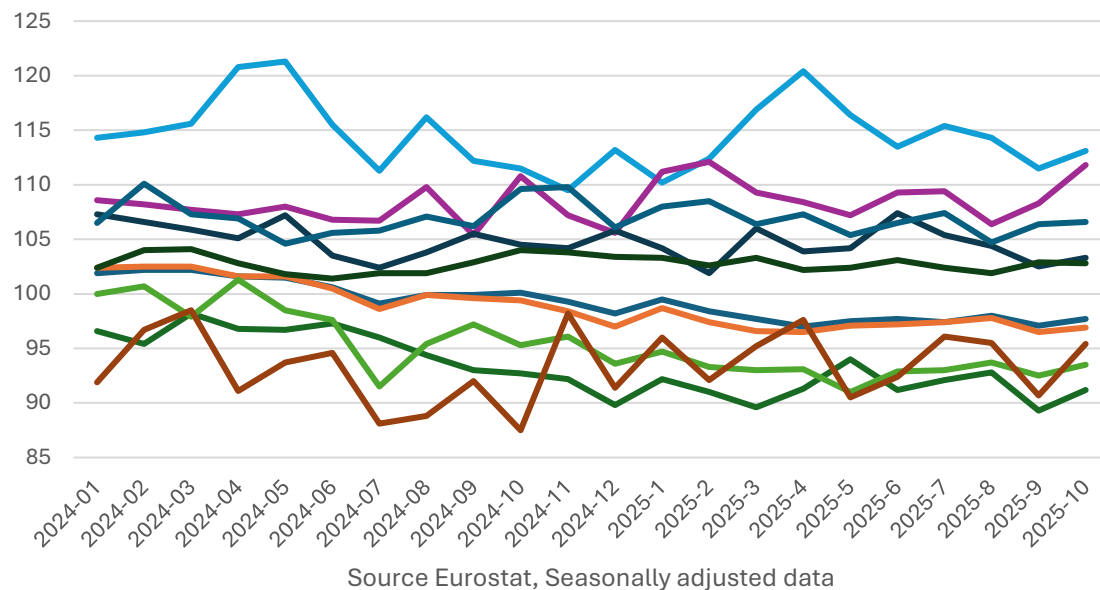
Source: AIECE Institutes

Figure 2.4-2. Unemployment rate trends in the various AIECE countries



Source: AIECE Institutes

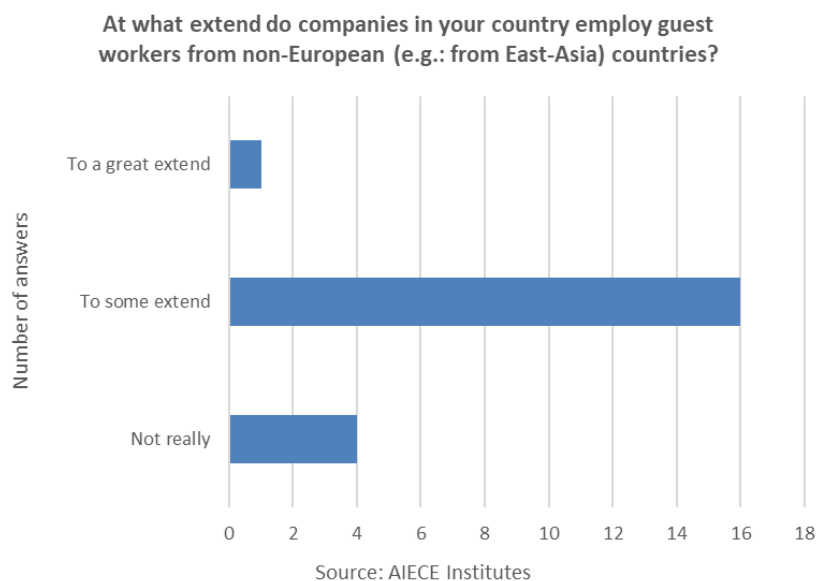
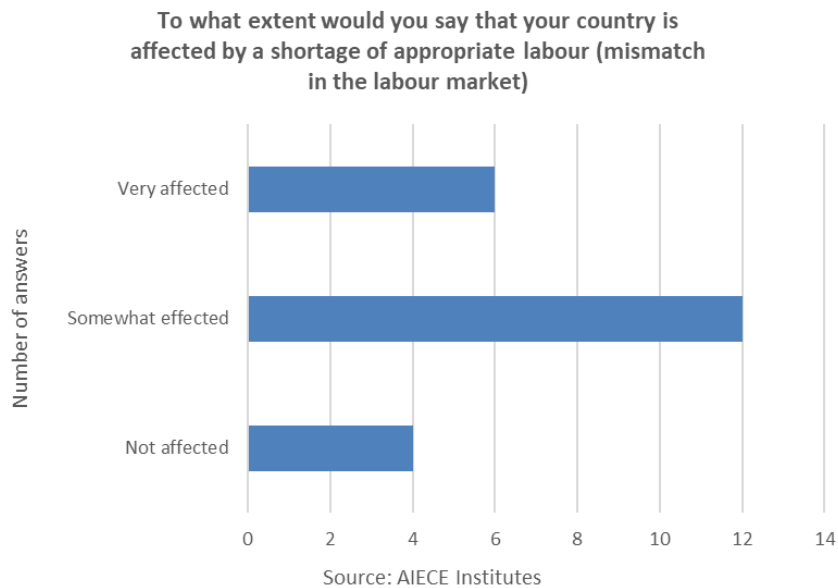
Figure 2.4-3. Employment expectations indicator over the next 3 months.



Source: AIECE Institute

The Employment Expectations indicator over the next three months also clearly shows the differences between countries. In the case of the EU and the EA, it signals a slightly falling trend and has been moving below 100 points since 2024, showing an easing in the labour market (**Figure 2.4-3**). In Spain, Greece, Portugal and Poland, this indicator shows an optimistic trend, well above the average, reflecting resilience in their labour markets (perhaps driven by tourism and services). Germany is set to experience a significant decline in employment, with current expectations being particularly pessimistic for 2024-01. This contraction is expected to persist throughout 2025, reflecting the slowdown in its industrial sector.

We inquired about AIECE members to what extent they are affected by **labour shortage problems**, or, to put it another way, by a shortage of appropriate labour. Most of the institutes that responded (12 in total) indicated that their countries are only somewhat affected, so labour shortage is not a real problem for them. Six institutes indicated that their countries are very much affected. According to the findings of our survey, a shortage of suitable labour is particularly affecting certain segments of the economies of the Nordic countries, the Netherlands, Croatia, Greece and Germany. In contrast, other countries have reported that this problem is not relevant in their labour markets, as is the case in Austria, France and Switzerland.

Figure 2.4-4. Factors influencing labour market developments

Source: AIECE Institutes

In this report, we have continued to inquire with AIECE institutes about the **attitude of companies employing guest workers from non-European countries (Figure 2.2-4)**. Most respondents (16 out of 21) indicated that companies attempt to meet their labour demand by employing guest workers to some extent, even in case of Spain the answer was “to a great extent”. Countries experiencing labour mismatch, such as Germany, tend not to place significant reliance on foreign workers from non-European countries. It can therefore be deducted that the reported labour supply inadequacies cannot be met by workers from abroad.

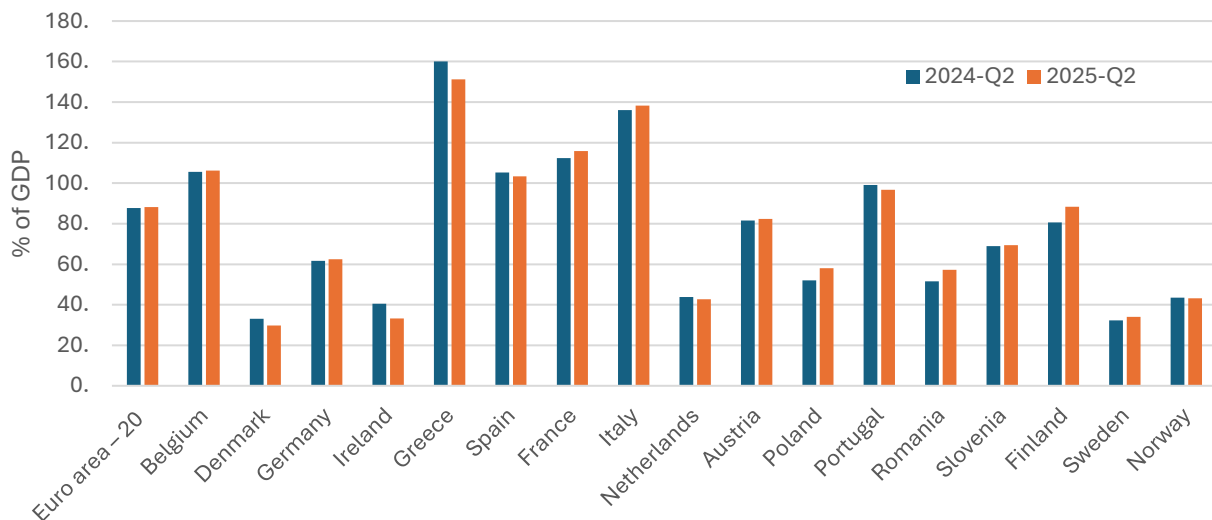
3. Policy Environment

During the era of global economic uncertainties, rising geopolitical and trade tensions, sluggish GDP growth, reviving inflation, companies refraining from investing and households with a fear of consumption economies would need a supportive fiscal and monetary policy.

Figure 3-1. compares the public debt-to-GDP ratio for European countries between Q2 2024 (blue bars) and Q2 2025 (orange bars). Interestingly, the Euro area average remains high, slightly increasing. Countries with the highest debt ratios include Greece (around 170%), Italy (close to 140%), and France (above 115%), all showing slight upward trends. Moderate increases are visible in Spain, Belgium, and Portugal, while Germany, Ireland, and Netherlands maintain relatively lower levels (below 70%). Nordic countries like Sweden, Finland, and Norway remain at the lower end (around 40–50%).

As it is known, although in some countries high levels of public debt are endemic, the current generalization has no recent antecedents. Among the risks from this situation are the following: threatening fiscal sustainability, limiting room for counter-cyclical policies; persistent divergence among member states may strain euro area cohesion, increasing vulnerability to shocks and complicating monetary policy coordination. Moreover, higher debt burdens could raise borrowing costs and amplify risks in case of tighter financial conditions or slower growth.

Figure 3-1. Public debt in % of GDP: AIECE countries



Source: OECD

3.1. Fiscal policy

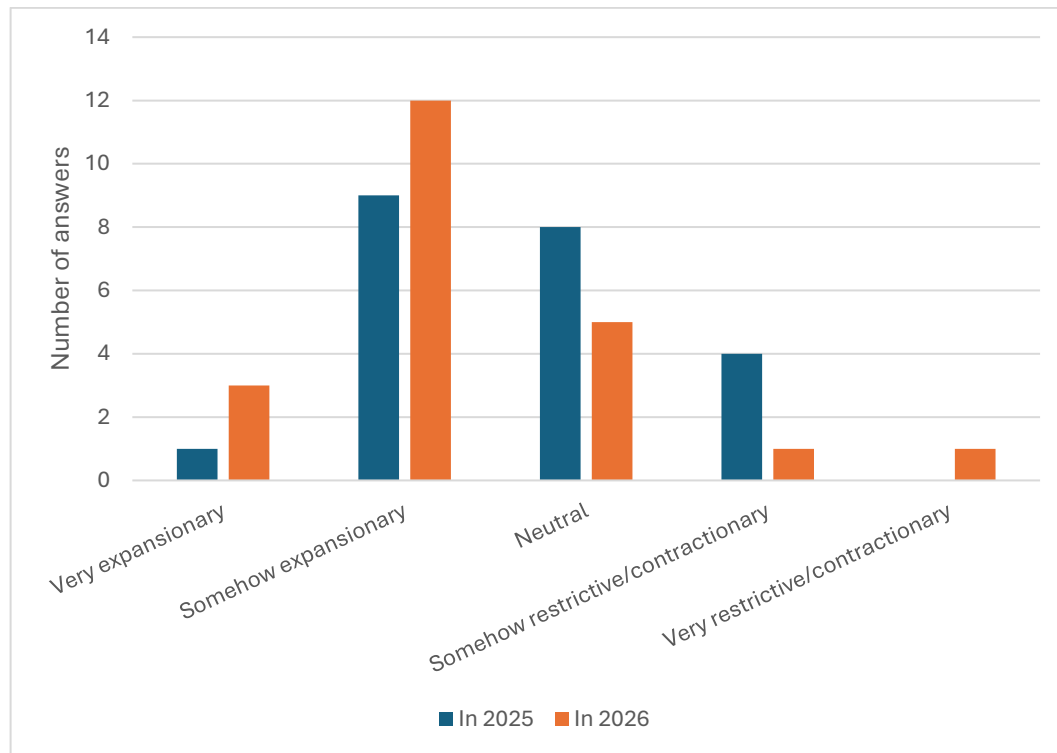
In this section, we ask AIECE members to share their views about the fiscal policy, observed and desired, both for 2025 and 2026.

Figure 3.1-1. illustrates how panelists perceive fiscal policy to be expected to remain mildly supportive of growth in both years, with a slight tendency toward more expansion in 2026, suggesting limited concerns about austerity but also no strong stimulus. More specifically, for 2025 (blue bars), most responses cluster around “somewhat expansionary” (around 9 answers) and neutral (8 answers), with a few seeing it as restrictive (4 answers) and very few as very expansionary (1 answer). For 2026 (orange bars), the majority expect a shift toward “somewhat expansionary” (12 answers), fewer see it as neutral (5 answers), and only a small number anticipate restrictive or very restrictive stances (1–2 answers).

As commented in the previous AIECE report (Spring 2025), several factors explain this mild expansionary fiscal policy even in a situation of unsustainability risk of public debt. The German government is embarking on a significant fiscal stimulus, potentially injecting almost €2tn into the economy over the next decade without hindering growth. Moreover, in some countries, the last resources associated to the NRRP will flow into their economy by the end of 2026. In addition, the expansionary fiscal policy expected could be associated with the need for a clearer effort in terms of industrial policies related to the digital and green transition, but more clearly, to the deployment of the political commitments with respect to the rise in defence expenses, as well as other implications related to trade war.

The responses suggest that “fiscal policy in the euro area is expected to remain mildly supportive in 2025 and even more so in 2026”, with most panellists anticipating a “somewhat expansionary” stance and very few predicting restrictive measures. This indicates that policymakers are likely prioritizing growth and resilience over aggressive debt reduction in the short term. Something that might be considered as contradictory with the negative situation in terms of public indebtedness commented before.

A continued expansionary approach could help cushion the economy against external shocks and support investment. However, if debt ratios remain high (as seen in previous charts), sustained fiscal loosening may increase long-term sustainability risks, particularly for highly indebted countries such as Italy, Greece, and France. The challenge for the euro area will be “balancing growth-oriented policies with credible fiscal frameworks” to maintain market confidence and avoid pressure on the euro.

Figure 3.1-1. The expected fiscal policy in the Euro Area

Source: AIECE Institutes

Next, **Figure 3.1-2.** shows how panelists perceive the fiscal policy stance in the euro area for 2025 and 2026 comparing the expected and the desired one. In general, AIECE members perceive a mismatch—fiscal policy is expected to remain more expansionary than what many consider suitable, suggesting concerns about balancing growth support with fiscal sustainability. Such concern is growing from 2025 to 2026 stance. Elaborating on the discrepancy between actual and desired policy, most panelists expect a somewhat expansionary stance, but many believe the suitable policy should be neutral or even somewhat restrictive, indicating a gap between expectations and what is considered appropriate.

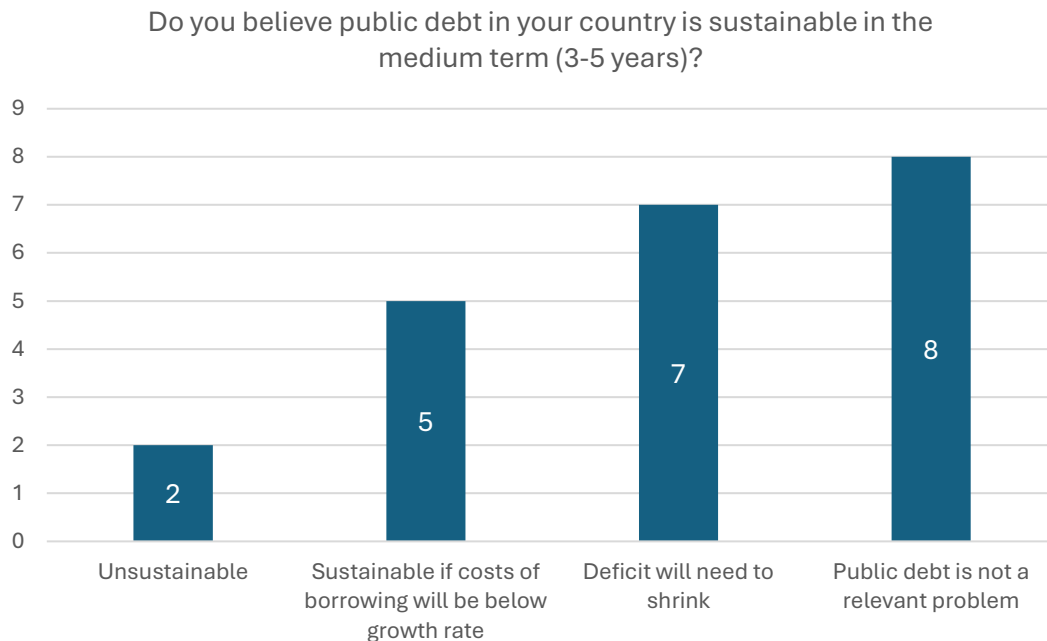
Figure 3.1-2. Expected vs suitable fiscal policy in the Euro Area in 2025 and 2026



Source: AIECE Institutes

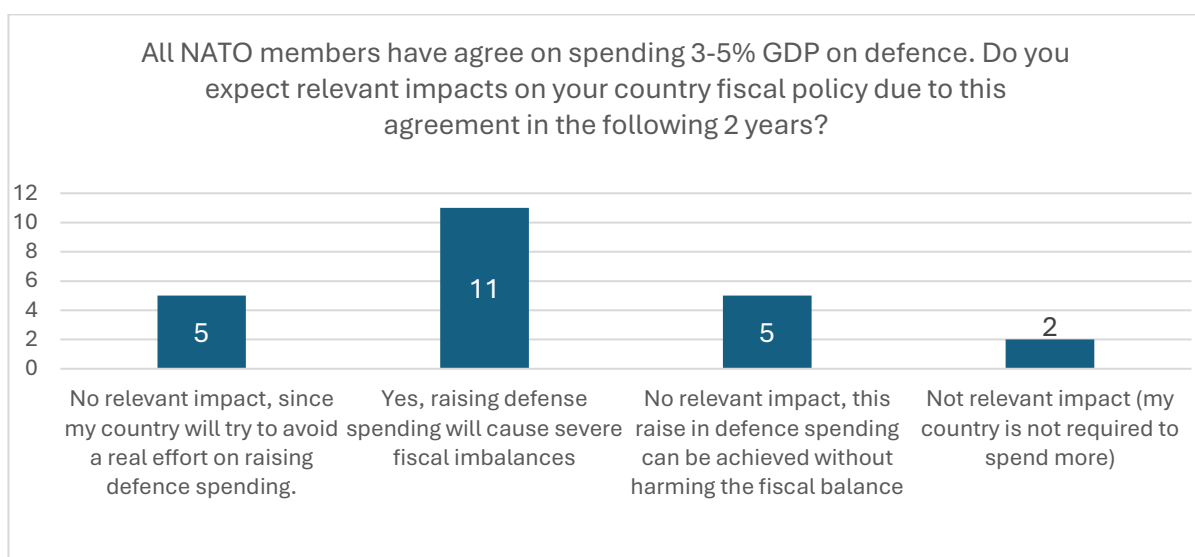
Expanding this idea, the AIECE members are also asked about the public debt sustainability in the following years (**Figure 3.1-3.**). Surprisingly, the largest share of panelists consider that the public debt level is not a relevant problem, although the rest opts for the other three alternatives that imply different risks, trade-offs or additional efforts towards fiscal consolidation.

Figure 3.1-3. Question about unsustainable public debt levels



Source: AIECE institutes.

Figure 3.1-4. The opinion on the potential impact of a rise in defense expenses.



Source: AIECE institutes.

Complementary, **Figure 3.1-4.** reports the views of the AIECE members with respect to the potential effect of the NATO members having agreed on spending 3-5% GDP on defense (*Do you expect relevant impacts on your country's fiscal policy due to this agreement in the following 2 years?*). The largest share of panelists considers that the increase in defense expending will cause severe fiscal imbalances (11), while 2 suggest that there will be no impact since they are already spending enough. Other 5 expect no relevant impacts due to the capacity of achieving this goal without harming public accounts, while 5 suggest that their country will try to avoid a real effort on raising defense spending.

3.2. Monetary policy

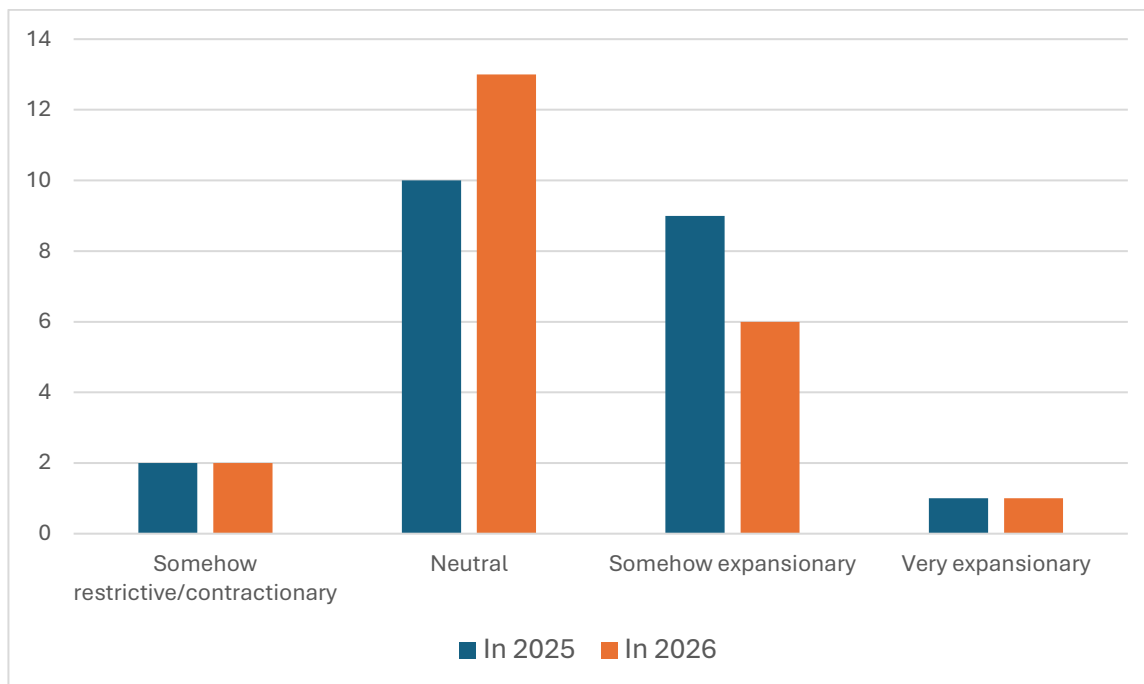
Since the publication of the last AIECE Spring Report, considerable attention has been given to the complex interplay between the U.S. trade war and its potential impact on growth, trade, and inflation, as well as the response of major central banks. Discussions have focused on their commitment to controlling inflation while mitigating possible downturns in economic activity. Key themes include the independence of central banks, the classic trade-off between unemployment and inflation, and renewed fears of stagflation on both sides of the Atlantic.

When the AIECE members are asked to evaluate the monetary policy stance in the euro area for 2025 and 2026, their views are reported **Figure 3.2-1.**, suggesting that monetary policy is expected to remain broadly accommodative but not aggressively expansionary, with a clear shift toward neutrality in 2026. This suggests confidence that inflationary pressures will ease, allowing the ECB to maintain stability without strong stimulus. More specifically, for 2025 (blue bars), most responses are split between “neutral” (10 answers) and “somewhat expansionary” (9 answers), with only 2 expecting a “restrictive stance” and 1 predicting “very expansionary” policy. Meanwhile, for 2026 (orange bars), the majority anticipate a “neutral stance” (13 answers), followed by “somewhat expansionary” (6 answers). Very few expect restrictive or very expansionary policies (1–2 answers).

If this were the case, a neutral stance might indicate that the ECB expects inflation to be under control and economic conditions relatively stable, reducing the need for aggressive stimulus or tightening. This approach supports predictability for markets but may limit monetary support for growth if external shocks occur. Since fiscal policy is expected to remain mildly expansionary (as seen in previous charts), the combined stance suggests a balanced macroeconomic mix, aiming to sustain growth without reigniting inflation. However, if debt levels continue rising, the ECB’s neutral stance could signal pressure on governments to maintain fiscal discipline, reinforcing the importance of structural reforms over short-term stimulus.

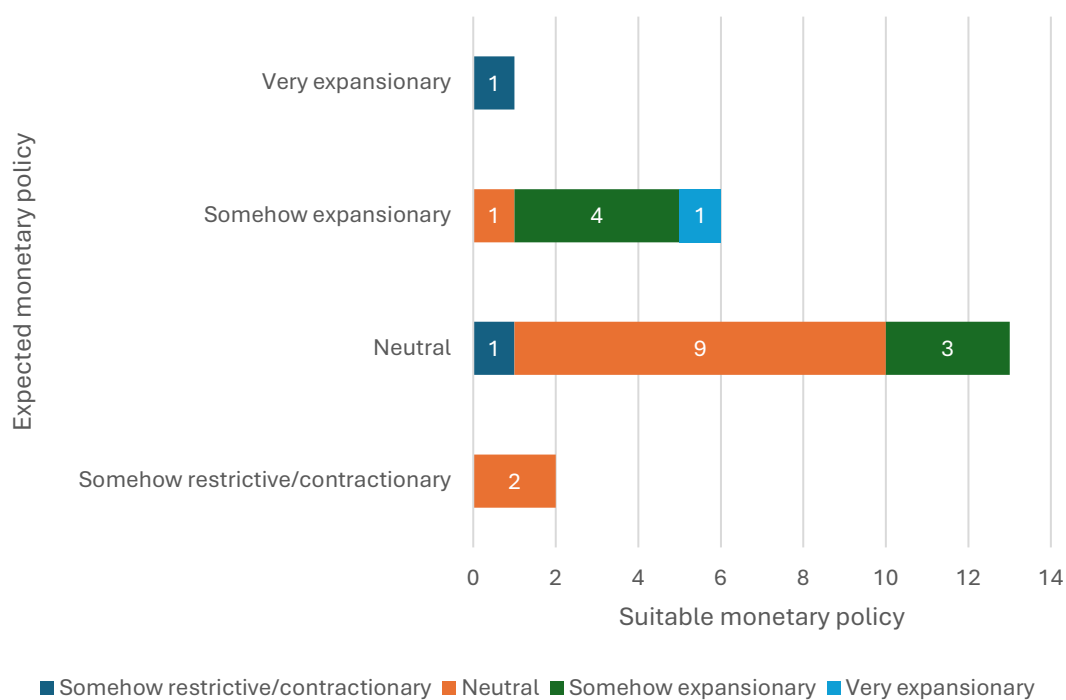
Combining the expressed views regarding fiscal (mildly expansionary) and monetary policy (neutral or even mildly expansionary), it could be interpreted that policymakers are prioritizing growth and resilience over aggressive debt reduction in the short term. However, given the persistent high debt ratios in several member states (Italy, Greece, France), this approach could “increase long-term sustainability risks”, especially if interest rates rise or growth slows. The challenge will be to balance supportive fiscal measures with credible fiscal frameworks to maintain market confidence and euro area cohesion. Thus, the euro area’s policy mix for 2025–2026 appears moderately growth-oriented but constrained by debt sustainability concerns. Effective coordination between fiscal and monetary authorities will be crucial to ensure stability.

Figure 3.2-1. Monetary policy in the Euro Area in 2025 and 2026



Source: AIECE Institutes

Figure 3.2-2. Expected versus suitable monetary policy in the Euro Area in 2026



Source: AIECE Institutes

4. Risks and assumptions related to the outlook

The aim of this section is to revise some remarkable issues that might affect the evolution of the European economy in the future. A variety of topics related to the effect of the trade war, political instability in certain countries in Europe, potential difficulties in the sustainability of public debt, EU problems of competitiveness, or the need for a more clear industrial policy lead by the EU in the field of digital, green economy, and more recently, with an additional effort on defence.

This section gives continuation to the ones covered in previous AIECE reports, digging deeper in the relevancy of geopolitical factors affecting the economic performance. To this regard, most of the questions can be related to the derisking process and the raising rivalry between US and China, the disruption exerted by the President Donald Trump, and the well-known obstacles faced by the EU as described by the Draghi and Letta reports.

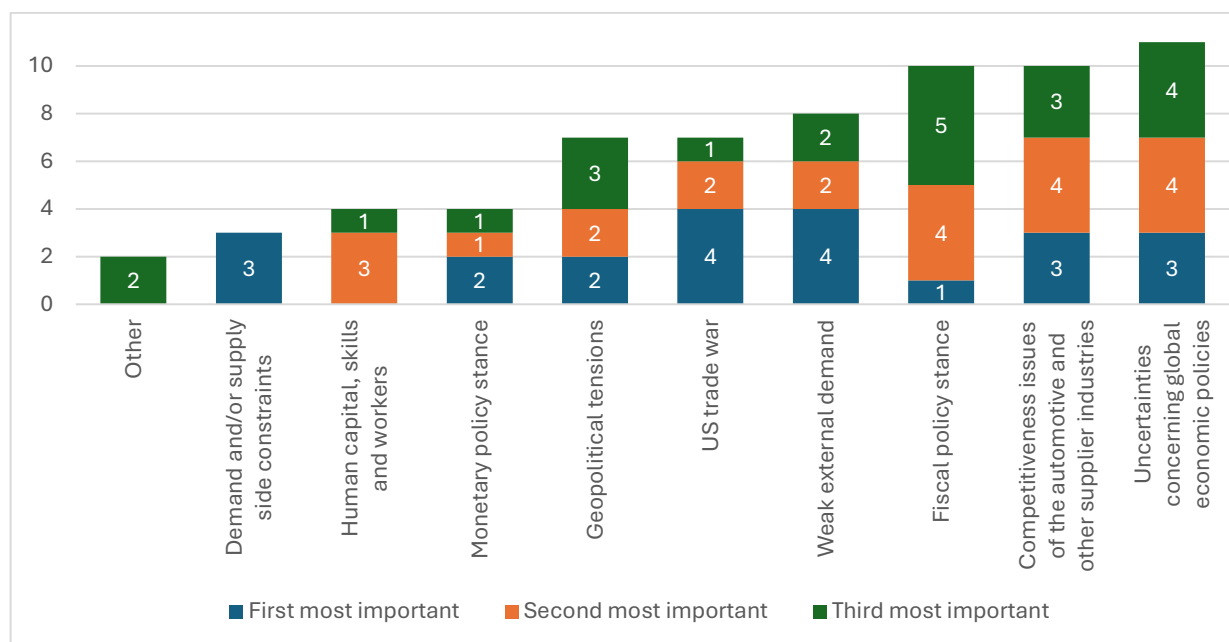
In the following **Figure 4-1.**, the AIECE members identify the three main risks currently facing the European economy, ranked by importance of the first factor. The two factors more cited as “first most important” ones are: *weak external demand* and *US trade war*, which can be probably linked to the same event.

Then, the most frequently cited risks include across all three categories are: i) Uncertainties concerning global economic policies (highly ranked across all three categories); ii) Fiscal policy stance and iii) competitiveness issues in the automotive and other sectors are also significant concerns.

Overall, the chart highlights that policy uncertainty and structural competitiveness issues dominate the risk landscape, while trade tensions and demand weakness remain critical external threats.

These results are like the ones reported for each of the countries.

Figure 4-1. Three main risks for the GDP growth in the EU according to the AIECE institutes



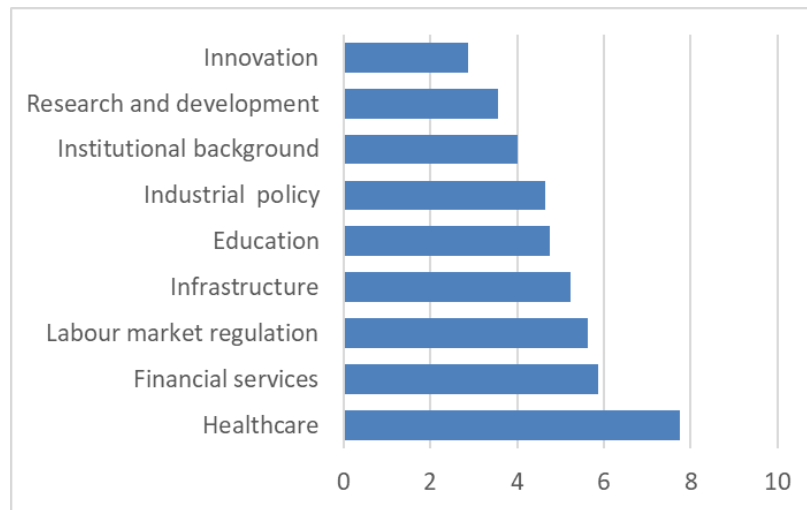
Source: AIECE Institutes

Next **Figure 4-2.** reports the factors identified by the AIECE institutes as the main ones explaining European competitiveness from most to least important. To this extent, “Innovation” and “Research & Development” are considered the top drivers of competitiveness, followed by the “Institutional background” and “Industrial policy”. Mid-level factors include “Education”, “Infrastructure” and “Labour market regulation”, which support productivity and flexibility, while “Financial services” and “Healthcare” are ranked as less critical compared to the others, though still relevant for overall competitiveness.

In short, the emphasis is on technological progress and strong institutional frameworks as the foundation for Europe’s competitive edge.

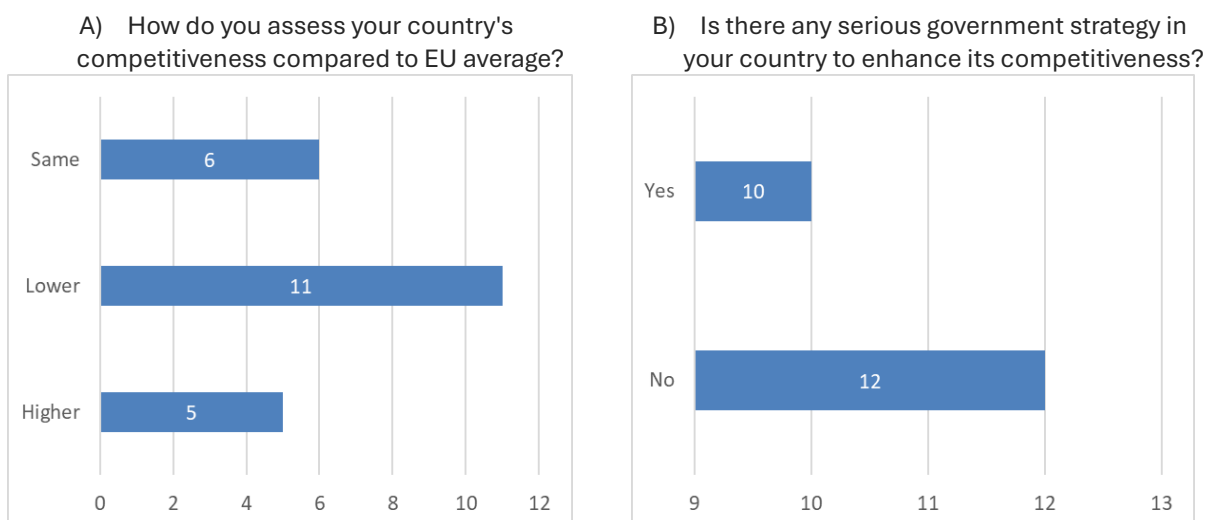
Figure 4-2. The most salient drivers of competitiveness for the AIECE institutes

(1 - most important; 9 - least important)



Source: AIECE Institutes

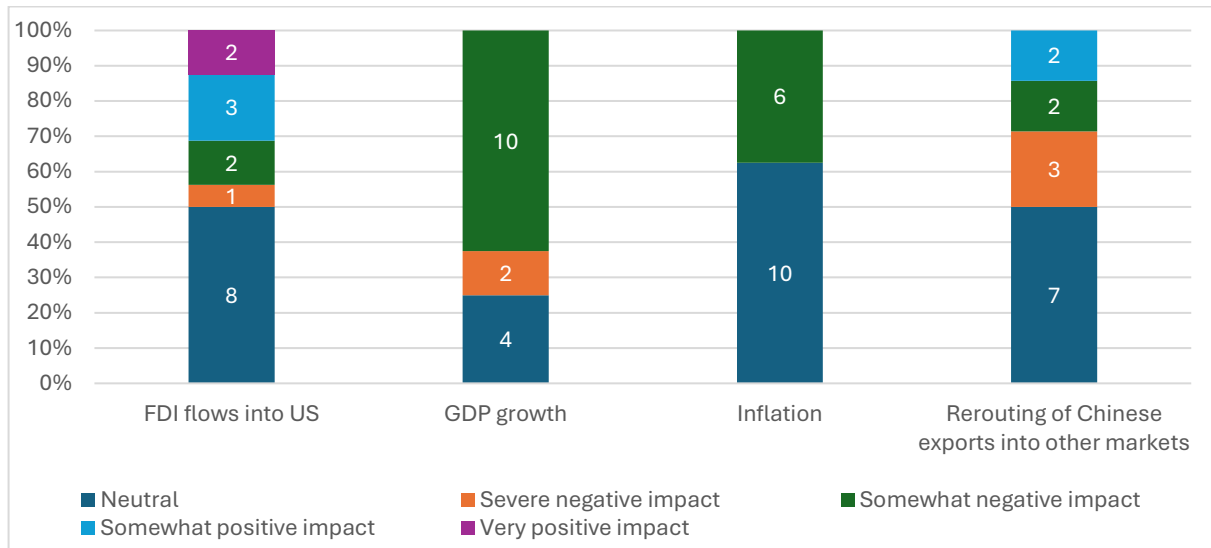
In the next **Figure 4-3.**, AIECE members dig deeper into the differential degree of competitiveness between their country and the EU average, as well as the potential effort done by their corresponding national governments to close this gap. To this regard, in panel A, when panellist is asked to compare their country's competitiveness with the EU average, 11 suggest that it is below the average, 6 equal, and 5 higher. Regarding panel B) just 10 institutions positively react to the question about the existence of a serious government strategy to enhance such competitiveness.

Figure 4-3. Competition problems in the opinion of AIECE institutes

Source: AIECE Institutes

The next **Figure 4-4.** reflects how panelists assessed the potential impact of new U.S. tariffs on the EU27 across four variables

Figure 4-4. The potential impact of US tariff measures on the EU27 and each AIECE countries



Source: AIECE Institutes

In summary, US tariffs are perceived as having limited or neutral effects on GDP and inflation, with slightly more concern about inflationary pressures and trade diversion, while FDI responses are mixed. Digging deeper into the answers reported, in relation to **FDI flows into the U.S.**, most responses are neutral (8), with some expecting a somewhat positive impact (3) or somewhat negative impact (2). A few foresee severe negative (1) or very positive effects (2). Regarding **GDP growth**, opinions are also largely neutral (4), but two panelists anticipate a severe negative impact, while none expect positive effects. In relation to **inflation**, the majority (10) consider the impact neutral, while six expect a somewhat negative effect. Finally, when focusing on **Rerouting of Chinese exports into other markets**, most of answers are neutral (7), with some somewhat positive (2) and somewhat negative (2) views, and three predicting severe negative consequences.

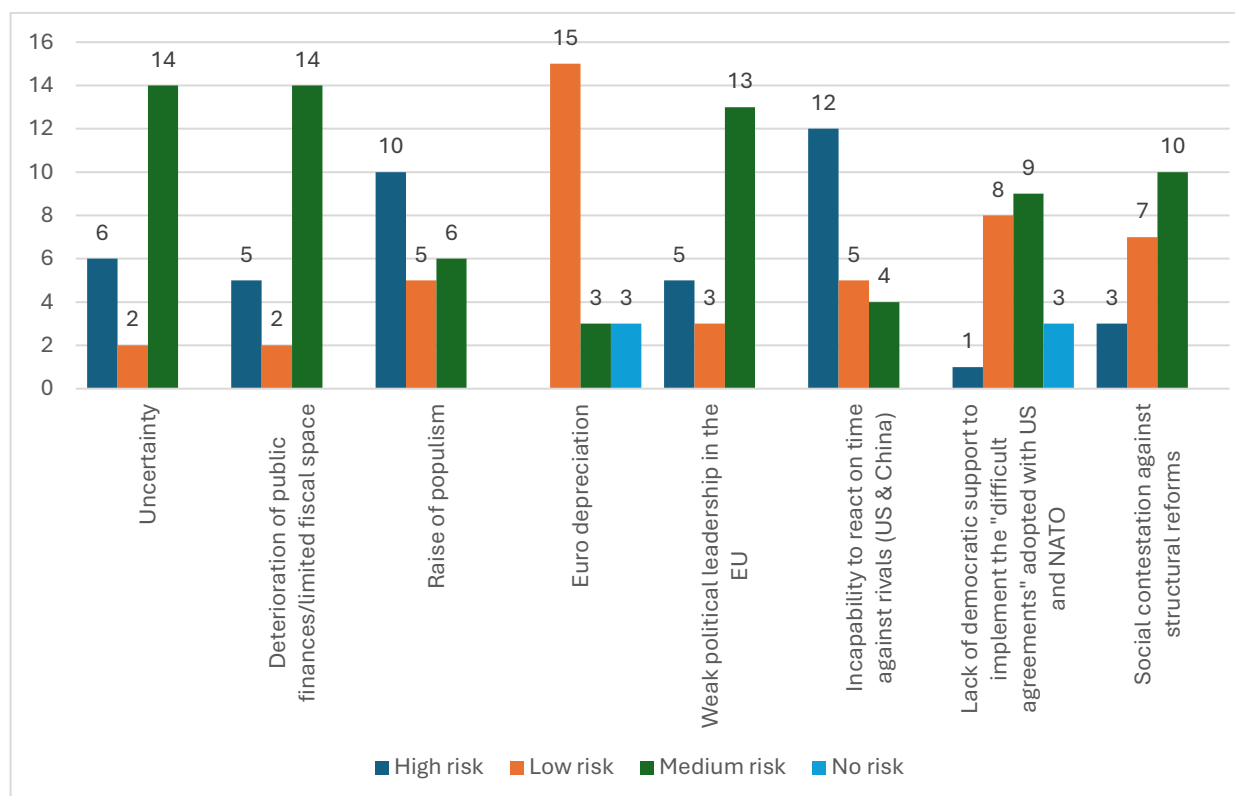
Moreover, the AIECE institutes are invited to judge the trade agreement reached in July 2025, by the EU and the US. In summary, in such agreement the EU agreed that the US will impose a generalized tariff of 15% to almost all EU products including cars, and a 50% to metallurgy. The EU also agree on expending in US products (i.e. gas, defence...) and promote European firms to invest in the US. No tariff will be applied to US products. To synthesize the reaction of the panellist, **Figure 4-5** presents a word cloud with the most salient words included in the reactions, which are reported in the Appendix. In general, most answers highlight that the agreement reached by the European Commission is bad for Europe, but is better than nothing, since reduce uncertainty and limit the exposure to the higher tariffs announced against the automotive sector. The reactions also highlight the political weakness shown by EU, which is explained by its low leverage power in other matters (defence, technology, geopolitics).

Figure 4-5. Is the EU-USA trade agreement good for the EU and your country?



Source: AIECE Institutes. Note: automatic word cloud generated based on the qualitative answers provided by AIECE members. More details in the Appendix

Figure 4-6. Political instability in Europe

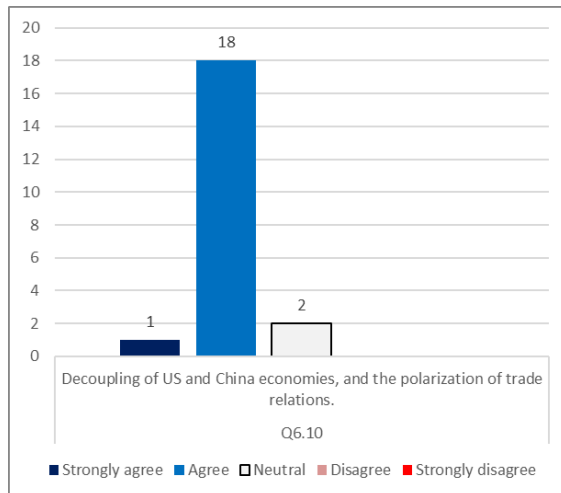


Source: AIECE Institutes

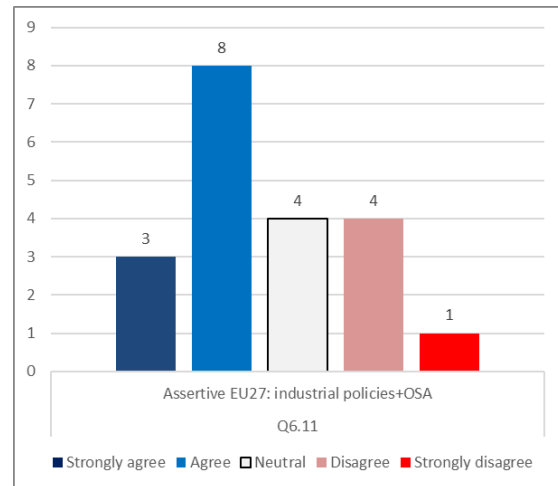
In **Figure 4-6** we report the reaction of the panelists with respect to the potential consequences of political instability affecting various EU countries. In general, *political instability* is perceived as a major threat, primarily through *incapability to react on time against rivals*, the *raise of populism* and *uncertainty* ("high risk"), but also through *deterioration of public finance*, *weak political leadership in the EU* and *social contestation against structural reforms* ("medium risk"). To this regard, it is important to remark that institutional quality was identified as a key driver of EU competitiveness. *Euro depreciation* is considered as low risk.

Figure 4-7. Questions about some potential risks for future growth

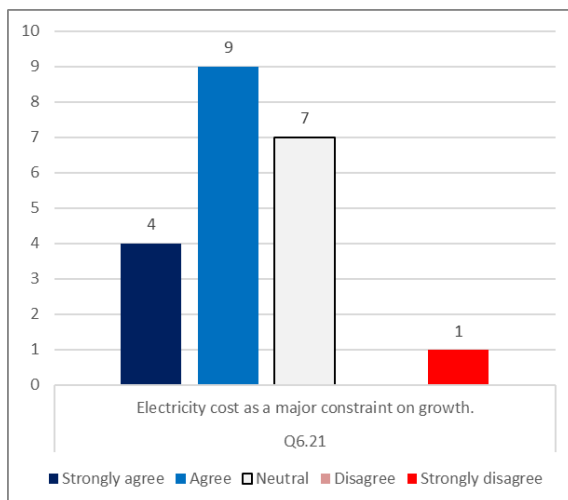
A) Decoupling of US and China economies will lead to slower global growth over the next five years.



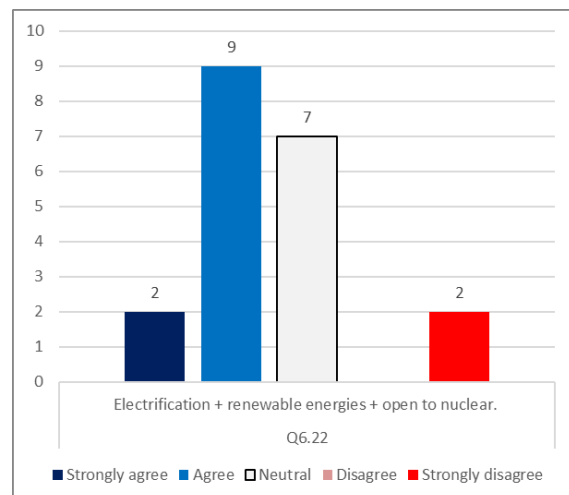
B) With the raising rivalry between the EU and China, the EU should be more assertive using all tools within the Open Strategic Autonomy?



C) The high cost of electricity for industrial users in the European Union relative to other big economies, is a substantial constraint on growth?



D) In addition to the reduction of fossil fuels and the adoption of renewable energies, the EU should invest more on other sources, remaining open to nuclear.



Source: AIECE Institutes

Figure 4-7 reports the results for four relevant questions answered by the AIECE institutes related to key factors affecting EU economic growth in the following years. In Panel A, we show how the panelists' views on the impact of the **decoupling between the U.S. and China and the polarization of trade relations** on medium-term growth. The main **takeaway** is that there is a strong consensus that such polarization will have adverse effects on medium-term growth, with very few neutral or

dissenting opinions. In particular, 18 out of 21 institutions agree with such negative outcome, while 1 selected “strongly agree”.

Complementary, in panel B) panelist shared their views **on whether the EU27 should adopt a more assertive stance in response to the growing U.S.–China rivalry, particularly through industrial policies and the Open Strategic Autonomy (OSA) framework**. While the majority lean toward agreement, opinions are divided, indicating moderate support for a more proactive EU stance but with notable reservations. More in detail, 11 panelists are in favor of assertiveness (3 opt for strongly agree, and 8 for agree); 4 panelists are undecided, while 5 are against (4 opted for “disagree”, and 1 for “strongly disagree”)

In panel C), we posed another relevant aspect for the future of EU competitiveness highlighted in the Draghi report, namely, whether **electricity costs represent a major constraint on EU growth**. Most respondents (13 combined for “agree” and “strongly agree”) perceive high electricity costs as a substantial barrier to EU growth, though a notable share remains neutral.

Finally, in panel D) we show the panelists’ opinions on whether the **EU should intensify efforts in decarbonization, renewable energy, and investment in new sources, while remaining open to nuclear energy**. Most respondents lean toward supporting a balanced energy strategy that prioritizes electrification and renewables but does not exclude nuclear, although there is some resistance (2 panelist “strongly disagree”) and a significant neutral stance (7 panelist opted for “neutral”).

To conclude, **Figure 4-6** reports the results for nine relevant questions answered by the AIECE institutes related to some of the approaches and tools that are being discussed in relation to the required new attitude of the EU in face of a more aggressive international context. Such tools, considered in the OSA and in the Draghi report, are aimed to keep certain international relevancy in a new set-up of geopolitics, where the language of power and the aggressive intervention of markets with the excuse of “natural security” is substitution the previous framework, based on multilateralism and diplomatic relations.

In panel A) we share the panelists’ preferences regarding five potential EU industrial and trade policy responses in a more hostile global environment shaped by U.S.–China rivalry¹. To interpret the results 1 means “more preferred” and 9 “less preferred”. **Overall, the results show a bias towards more intervention and assertive position**, valuing more (closer to 1) the questions Q6.13-Q6.20, which are all defined in terms of a “more protectionist” EU against unfair competition or in fields where the EU faces clear disadvantages. In contrast, the questions Q6.12 and Q6-13, which are defined in line with a more “liberal” and “classic” approach of the EU against this new aggressive environment, received less support.

¹ Questions: Digging deeper in your understanding for this new paradigm of industrial policies in the EU27, please, assign a value to the following tools, from more (1) to less relevant (9):

Q6.12 EU industrial policies are inefficient. I suggest applying the subsidiarity principle and the laissez-faire.

Q6.13 The EU should be loyal to its values: free trade, respect of international law and the multilateralism. The EU cannot assume a requiem for the OMC.

Q6.14 EU tariffs are needed to avoid unfair competition, for example, against Chinese subsidized products.

Q6.15 EU tariffs are needed to avoid unfair competition in agriculture products (i.e. imports from Morocco if they have lower phytosanitary and environmental standards)

Q6.16 EU tariffs are needed to avoid carbon leakage (i.e. CBAM).

More in detail, the lowest support (average score 6.1) is for maintaining the “subsidiarity principle and a laissez-faire approach”, suggesting a low inclination toward minimal intervention and preserving market autonomy. The option of “EU values such as multilateralism and adherence to WTO rules” rank second (4.8), which could be interpreted as neutral.

Support for “protective tariffs” is notably high across all specific cases, since they are ranked as preferred options below 5: tariffs to counter unfair competition from Chinese electric vehicles (3.9), tariffs for agricultural products (4.4), and tariffs to prevent carbon leakage through mechanisms like CBAM (3.9).

In addition, Panel B) illustrates panelists’ assessment of the relevance of four complementary EU policy tools², also being commented in the context of the OSA: overall, the panelists lean toward proactive measures in technology and sustainability leadership, while showing only moderate support for trade diversification and investment screening.

In particular, the highest-rated measure is stronger EU export restrictions on sensitive goods (arms, chips, dual-use items) with an average score of 4.4, signaling moderate support for tightening controls on strategic technologies. Close behind is the idea that the EU should lead in green and digital transformation combined with defense capabilities (4.2), reflecting recognition of long-term competitiveness and security priorities. Moreover, EU free trade agreements aimed at de-risking score (3.8), similar to the national and EU-level FDI screening schemes.

Although the previous comments center in the mean, the range of options observed in these highly delicate questions are wide, pointing out to a diversity of mindsets and national views.

² The exact questions answered by the panelists are: Digging deeper in your understanding for this new paradigm of industrial policies in the EU27, assign a value to the following tools, from more to less relevant:

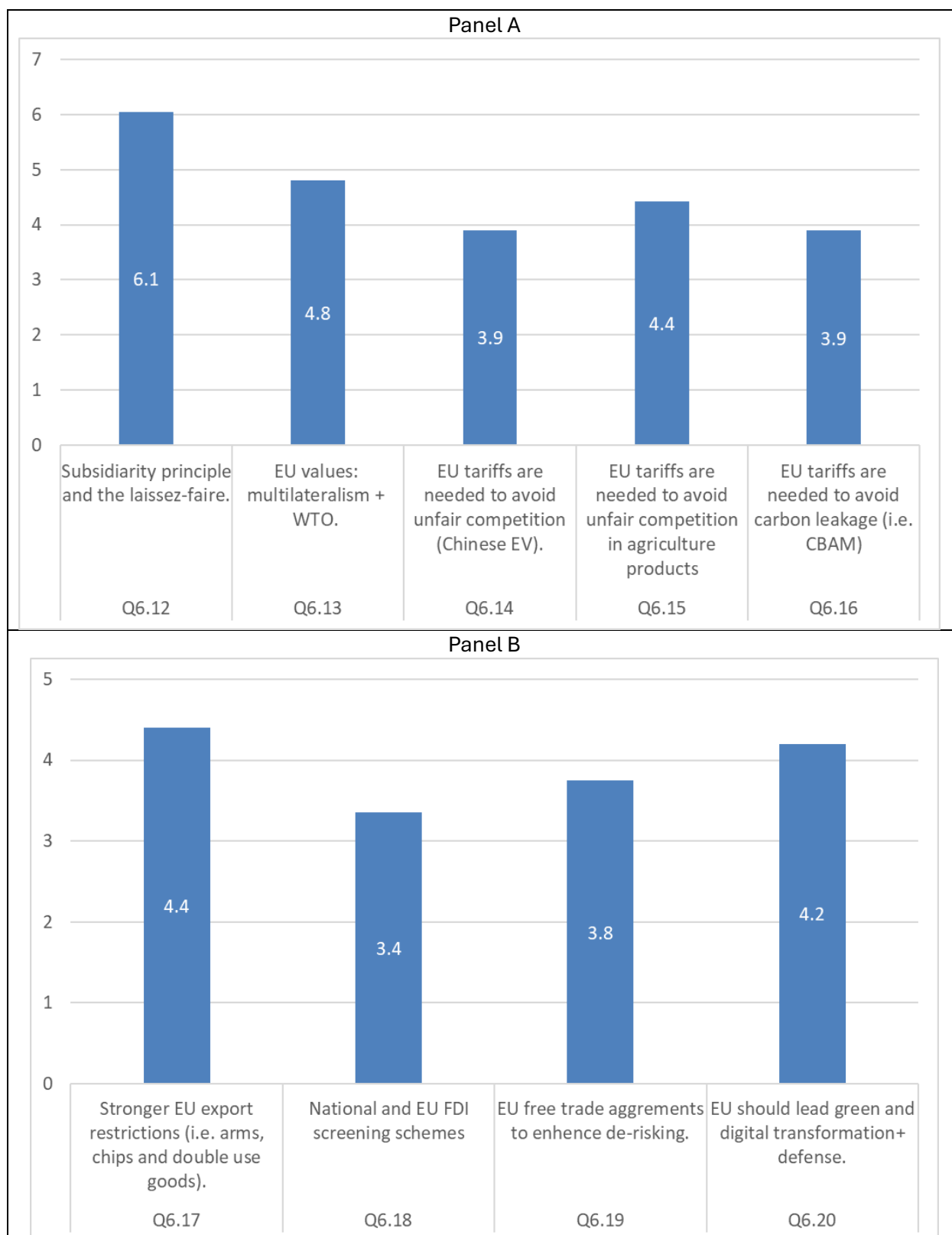
Q6.17 Stronger EU export restrictions are needed for advanced technological products (i.e. exports of arms, chips and double use goods to unfriendly countries).

Q6.18 National and EU FDI screening schemes to reduce dependence from potentially unfriendly countries in critical sectors

Q6.19 The EU should use free trade agreements (i.e. with Mercosur, India or Canada) to enhance de-risking and reduce its dependency in the provision of Key Raw Materials from China or Russia.

Q6.20 The EU should lead joint policies such as the green and digital transformation, and the new impulse in defense.

Figure 4-8. Questions about the breadth and depth of industrial policy



Source: AIECE Institutes. Note: each institution had value each question with a number between 1 and 9: 1 (more agree); 9 (less agree). More details in the Appendix.

5. Concluding remarks

The European economy enters 2026 with cautious optimism but under the shadow of persistent uncertainty. Growth prospects remain positive, yet modest, supported by domestic demand and selective investment initiatives. Inflation appears contained, and employment broadly stable, but structural challenges—such as competitiveness gaps and high public debt—continue to weigh on the outlook.

Policymakers face difficult trade-offs: sustaining growth through fiscal support while preserving debt sustainability and maintaining monetary stability without stifling investment. At the same time, Europe must navigate an increasingly fragmented global environment, marked by trade tensions, geopolitical risks, and the urgent need for industrial modernization and energy transition.

The coming months will be decisive. External shocks, policy responses, and global rivalries could reshape the economic landscape faster than anticipated. For businesses, governments, and analysts alike, close monitoring of economic signals and proactive adaptation will be essential in an era that is not only uncertain but also more aggressive and competitive than before.

AIECE GENERAL REPORT AUTUMN MEETING 2025

PART 1

Thanks!

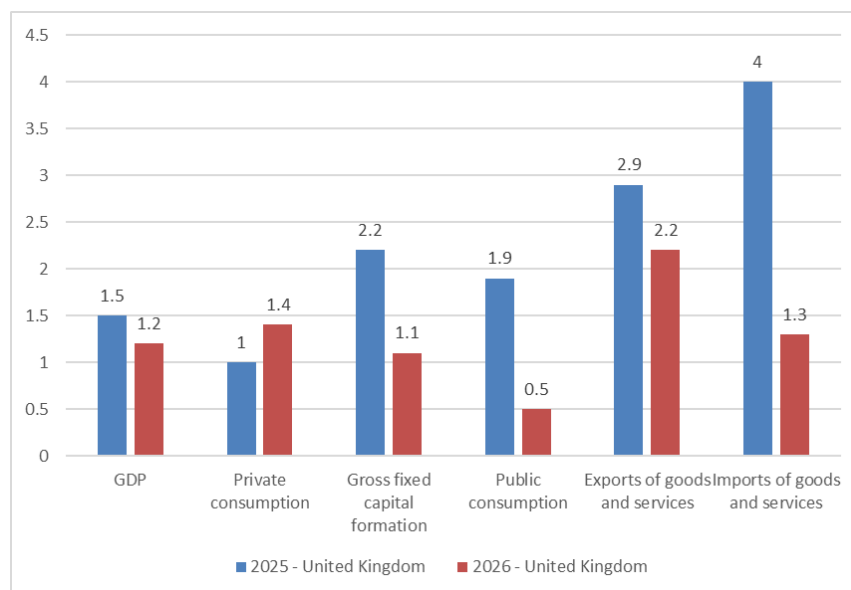
Merci !

¡Gracias!

6. Appendix

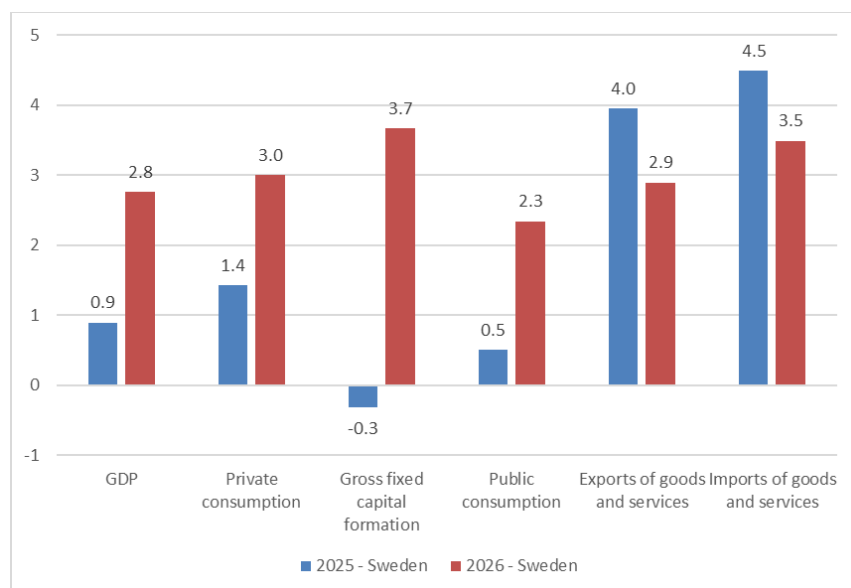
6.1. Non-Euro Area countries: further details.

Figure 6.1-1. Macroeconomic outlook for Denmark



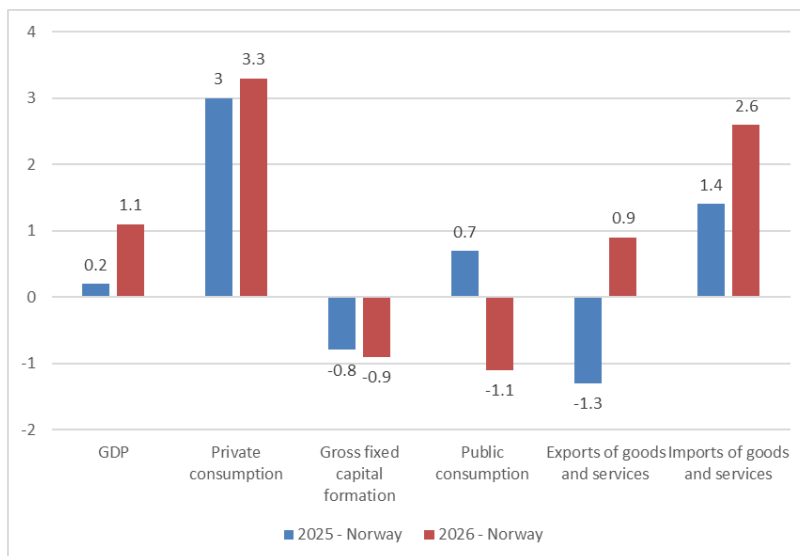
Source: AIECE Institutes

Figure 6.1-2. Macroeconomic outlook for Sweden



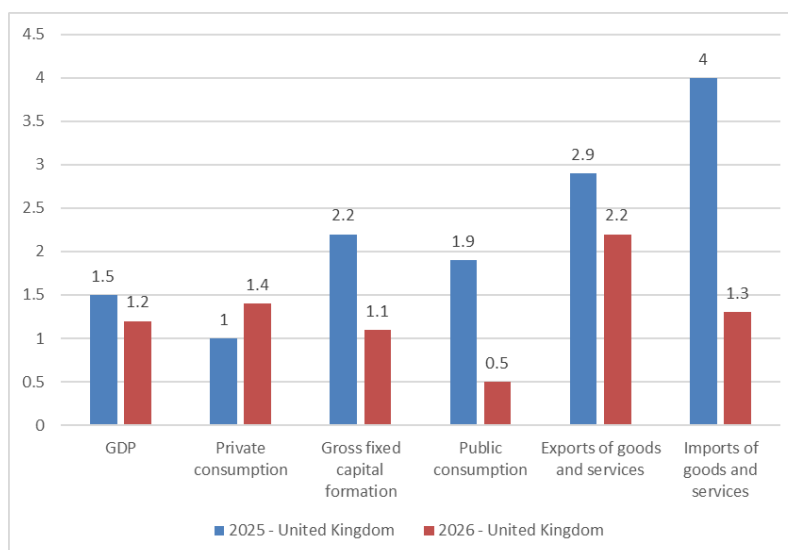
Source: AIECE Institutes

Figure 6.1-3. Macroeconomic outlook for Norway



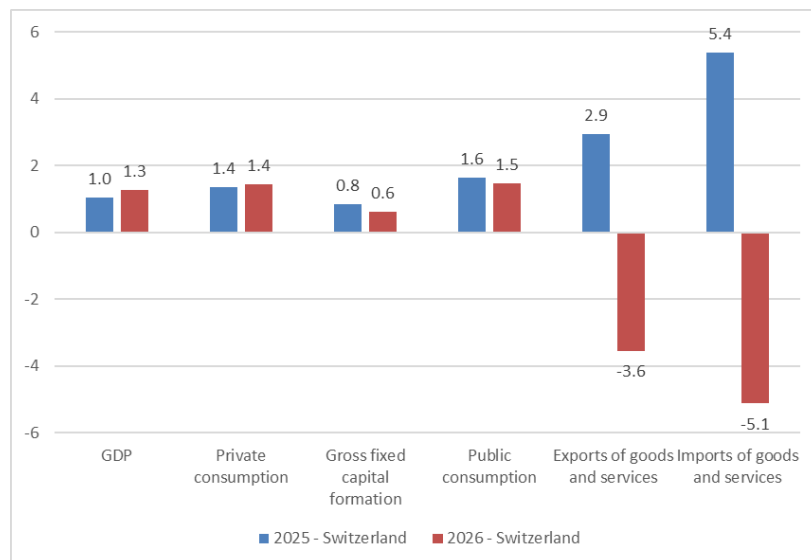
Source: AIECE Institutes

Figure 6.1-4. Macroeconomic outlook for the UK



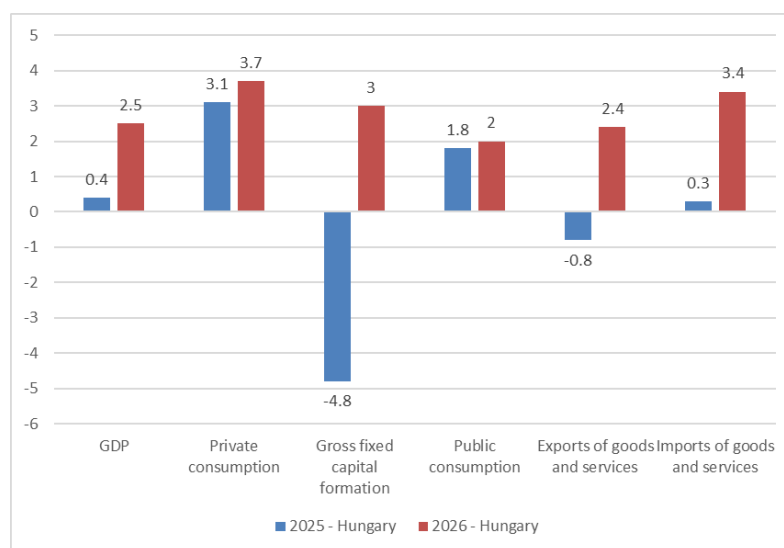
Source: AIECE Institutes

Figure 6.1-5. Macroeconomic outlook for Switzerland



Source: AIECE Institutes

Figure 6.1-6. Macroeconomic outlook for Hungary



Source: AIECE Institutes

Figure 6.1-7. Is the EU-USA trade agreement good for the EU and your country?

See below some reactions by the AIECE members, summarized in the word cloud.

- *No. It is a bad agreement, but probably, it is the best we can do without harming us more. The EU show weakness, and it is probable that US and China will continue putting further pressure on the EU.*
- *It is a lesser evil but shows that Europe is totally unable to stand its ground for lack of sovereignty (technological, military, financial...).*
- *All trade tariffs are a bad outcome. However, counter-tariffs by the EU to the US would increase uncertainty on the world trade market...*
- *Compared to the state of summer 2024, this is clearly a massive worsening of trade conditions. Compared to the state of high tariffs and even higher uncertainty before the agreement was struck, conditions have improved for my country and the automotive sector...*
- *Relative to the pre-existing trade arrangement, this represents significant new barriers to trade. Their impact on a small open economy is likely to be negative. However, the reduction in uncertainty is welcome, particularly regarding investment.*
- *No, it's not good. Probably it could have been worse though.*
- *Yes, in as much as it represents some certainty at a time when it is impossible to know what the US administration will do next week or whether it will stick to agreed positions somehow*
- *For EU, the agreement is good, given the current circumstances. Tariffs are still low enough to keep the majority of European products competitive for the US markets.*
- *Of course it is not. The upside is at least temporary decrease in uncertainty, but the deal does not really preclude additional surprise shocks from the US.*