ECB-PUBLIC

EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB staff macroeconomic projections

March 2025

Contents

1 Overview

Persistently high geopolitical and policy uncertainty is expected to weigh on euro area economic growth, slowing down the anticipated recovery. This follows slightly weaker than expected growth at the end of 2024. Both domestic and trade policy uncertainty are high. Although the baseline projection only includes the impact of new tariffs on trade between the United States and China, the negative effects of uncertainty regarding the possibility of further changes in global trade policies, particularly vis-à-vis the European Union, are assumed to weigh on euro area exports and investment. This, coupled with persistent competitiveness challenges, is assessed to lead to a further decline in the euro area's export market share. Despite these headwinds, the conditions remain in place for euro area GDP growth to strengthen again over the projection horizon. Rising real wages and employment, in the context of a strong, albeit cooling, labour market, are expected to support a recovery in which consumption remains a key contributor to growth. Domestic demand should also be supported by an easing of financing conditions, as implied by market expectations about the future path of interest rates. The labour market should remain resilient, with the unemployment rate expected to average 6.3% in 2025, edging down to 6.2% in 2027. As some of the cyclical factors that have recently reduced productivity start to unwind, productivity is expected to pick up over the projection horizon, although structural challenges remain. Overall, annual average real GDP growth is expected to be 0.9% in 2025, and to strengthen to 1.2% in 2026 and to 1.3% in 2027. Compared with the December 2024 Eurosystem staff macroeconomic projections, the outlook for GDP growth has been revised down by 0.2 percentage points for both 2025 and 2026, but is unchanged for 2027. The weaker outlook is mainly due to downward revisions to exports and, to a lesser extent, to investment, reflecting a stronger impact of uncertainty than previously assumed, as well as expectations that competitiveness challenges will likely persist for longer than had been anticipated.[1]

Headline HICP inflation has increased over recent months but is projected to moderate marginally in the course of 2025 and then to decline and hover around the ECB's inflation target of 2.0% from the first quarter of 2026. At the start of the projection horizon upward base effects in the energy component and higher food price inflation are expected to broadly offset downward impacts from a decline in HICP inflation excluding energy and food (HICPX). The rise in energy commodity prices at the turn of the year will carry over into the annual rate of change in energy prices in 2025. Although oil and gas prices are assumed to decline in line with futures prices, energy inflation is likely to continue to record positive rates, albeit below the historical average, over the entire projection horizon. In 2027 energy inflation is seen to be driven up by the introduction of new climate change mitigation measures. Food inflation is projected to rise until mid-2025, mainly driven by recent robust increases in food commodity prices, before declining to stand at an average

1 The cut-off date for the technical assumptions and the projections for the global economy was 6 February 2025. The macroeconomic projections for the euro area were finalised on 19 February.

of 2.2% in 2027. HICPX inflation is expected to start to decline in early 2025 as the effects of lagged repricing fade, wage pressures recede and the impact from past monetary policy tightening continues to feed through to consumer prices. The decline in HICPX inflation is expected to be mainly driven by a decrease in services inflation – which has thus far been relatively persistent. Overall, HICPX inflation is projected to moderate from 2.2% in 2025 to 1.9% in 2027. Wage growth should continue to follow a downward path from the current still elevated levels as inflation compensation pressures fade. Coupled with the anticipated recovery in productivity growth, this is expected to lead to significantly slower growth in unit labour costs. As a result, domestic price pressures are projected to continue to ease, with profit margins recovering over the projection horizon. External price pressures, as reflected in import prices, are expected to remain moderate assuming that EU trade tariff policies remain unchanged. Compared with the December 2024 projections, the outlook for headline HICP inflation has been revised up by 0.2 percentage points for 2025 on account of higher energy commodity price assumptions and the depreciation of the euro, while it has been marginally revised down for 2027 owing to a slightly weaker outlook for the energy component at the end of the horizon.

Trade and fiscal policy announcements after the finalisation of these projections have raised uncertainty regarding the outlook for economic growth and inflation in the euro area.

Table 1

Growth and inflation projections for the euro area

(annual percentage changes, revisions in percentage points)

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
Real GDP	0.8	0.9	1.2	1.3	0.1	-0.2	-0.2	0.0
HICP	2.4	2.3	1.9	2.0	0.0	0.2	0.0	-0.1
HICP excluding energy and food	2.8	2.2	2.0	1.9	-0.1	-0.1	0.1	0.0

Notes: Real GDP figures refer to annual averages of seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. Revisions are calculated from rounded figures. Data are available for downloading, also at quarterly frequency, from the Macroeconomic Projection Database on the ECB's website.

2 The international environment

Global growth momentum temporarily strengthened at the end of 2024, but recent US trade policies imply headwinds.[2] Global growth picked up in the fourth quarter of 2024, broadly in line with the December 2024 projections, as fiscal stimulus boosted activity in China and robust household spending supported real GDP growth in the United States. Incoming data suggest a slight softening of global growth in the first quarter of 2025, with the services sector, which had been the main driver of growth in the second half of 2024, showing early signs of a deceleration, while the manufacturing sector remains weak. In addition, trade policy uncertainty has spiked since November 2024 amid US tariff announcements and is expected to act as a drag on global investment.

Table 2

The international environment

(annual percentage changes, revisions in percentage points)

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
World real GDP (excluding the euro area)	3.4	3.4	3.2	3.2	0.0	-0.1	-0.1	0.0
Global trade (excluding the euro area)[1)]	4.4	3.5	3.1	3.2	0.4	-0.1	-0.2	0.0
Euro area foreign demand[2)]	3.4	3.2	3.1	3.1	0.3	-0.3	-0.2	-0.1
World CPI (excluding the euro area)	4.2	3.3	2.7	2.5	0.0	0.1	-0.1	-0.1
Export prices of competitors in national currency[3)]	2.3	1.7	2.3	2.1	0.1	0.0	0.0	0.0

Note: Revisions are calculated from rounded figures.
1) Calculated as a weighted average of imports.
2) Calculated as a weighted average of imports of euro area trading partners.
3) Calculated as a weighted average of the export deflators of euro area trading partners.

Global growth is projected to remain moderate, slowing slightly over the projection horizon. Global real GDP is projected to grow by 3.4% in 2025, as in 2024, and to decrease to 3.2% in 2026 and 2027 (**Table 2**). While it is still difficult to gauge the timing and degree of commitment from announcements of US trade policies, the March 2025 projections incorporate additional US tariffs on China and the partial retaliation from China (see **Box 2**). This is in addition to US policies already embedded in the December 2024 projections, namely stricter immigration policies and the extension of personal and corporate income tax cuts that had been set to expire in 2025. Compared with the December 2024 projections, global growth has been revised down by 0.1 percentage points for 2025 and 2026 as the newly imposed tariffs and the persistently high trade policy uncertainty weigh on activity. The slight deceleration in global GDP growth in 2026-27 reflects an expected economic slowdown in China, owing to unfavourable demographics, and slower growth in the United States, owing to the negative medium-term impact of policies

[2] Unless explicitly mentioned, references to world and/or global aggregates of economic indicators throughout this section exclude the euro area.

(e.g. lower immigration). The risks related to further US tariffs, beyond those currently incorporated into the March 2025 projections, are discussed in **Box 2**.

Global trade growth is projected to slow in the context of a less favourable composition of demand, elevated trade policy uncertainty, and the impact of US tariffs on China. Global trade in 2024 was supported to some extent by firms frontloading their imports of foreign inputs ahead of possible trade disruptions, notably in the United States. However, this temporary factor is expected to progressively fade away. Against this background, global trade is expected to moderate in 2025 amid a less favourable composition of activity – as a consequence of earlier frontloading – and elevated trade policy uncertainty. In addition, global trade is expected to be significantly affected over the projection horizon by bilateral tariffs on trade between the United States and China. Euro area foreign demand growth is projected to moderate as well, declining from 3.4% in 2024 to 3.2% in 2025 and then to 3.1% in 2026 and 2027. Downward revisions to the projections for global trade compared with the December 2024 projections reflect mostly the impact of tariffs on US imports from China.

Global inflation is projected to remain on a declining path over the projection horizon, while growth in euro area competitors' export prices is expected to hover just above 2%, unchanged from the December projections. Although disinflation in headline consumer price index (CPI) inflation across advanced economies appears to have stalled at the end of 2024, global inflation is projected to resume its gradual downward path and to decline from 4.2% in 2024 to 2.5% in 2027. The cooling of labour markets across advanced economies is expected to drive down nominal wage inflation, allowing headline inflation to gradually converge towards central bank targets. In emerging economies, headline inflation is also projected to decrease progressively. Compared with the December 2024 projections, global inflation is expected to be higher in 2025 reflecting the pass-through of tariffs to consumer prices in the United States and China as well as stronger inflation dynamics at the turn of the year than previously anticipated. For 2026 and 2027, global inflation has been revised down as the upward impact of tariffs is more than compensated by downward revisions to inflation in China amid entrenched deflation in producer prices and the impact of excess supply. Growth in euro area competitors' export prices, in national currency and in annual terms, turned positive in 2024 as the impact from past declines in commodity prices dissipated. It is expected to continue to hover around 2% over the projection horizon, broadly in line with the historical average. The profile is broadly unchanged from the December 2024 projections owing to offsetting effects from higher global food prices and lower producer prices in China. In addition, the impact of tariffs is reflected more directly in import prices for euro area competitors, while the effect on export prices is relatively indirect, being transmitted via higher input costs in supply chains, notably in the United States and China.

Box 1
Technical assumptions

Compared with the December 2024 projections, the main changes to the technical assumptions are higher commodity prices and a weaker exchange rate, while interest rate assumptions are broadly unchanged. Oil price assumptions have been revised up by 4% for 2025 and are broadly unchanged for the rest of the projection horizon, while those for gas, electricity and Emissions Trading System 1 have been revised up more substantially and throughout the horizon. Energy prices are, however, still assumed to decline over the projection horizon. Non-energy commodity prices have been revised up for 2025 on the back of a rise in global food commodity prices. The euro has depreciated by 2.1% against the US dollar and by 1.0% in nominal effective terms since the previous projections. Market expectations for short-term and long-term interest rates are broadly unchanged.

Table
Technical assumptions

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
Commodities:								
Oil price (USD/barrel)	82.0	74.7	70.3	68.7	0.2	4.0	0.2	-0.7
Natural gas prices (EUR/MWh)	34.4	50.2	40.4	31.7	0.2	17.2	15.5	8.2
Wholesale electricity prices (EUR/MWh)	77.7	100.6	86.2	75.9	1.4	11.8	8.4	3.1
EU Emissions Trading System 1 (ETS1) allowances (EUR/tonne)	65.2	80.5	83.1	85.5	-0.3	15.6	15.7	15.4
EU Emissions Trading System 2 (ETS2) allowances (EUR/tonne)	-	-	-	59.0	-	-	-	0.0
Non-energy commodity prices, in USD (annual percentage change)	9.2	12.0	-1.3	-2.8	0.3	6.2	-0.9	-1.1
Exchange rates:								
USD/EUR exchange rate	1.08	1.04	1.04	1.04	-0.1	-2.2	-2.1	-2.1
Euro nominal effective exchange rate (EER41) (Q1 1999 = 100)	124.1	122.2	122.2	122.2	-0.1	-1.0	-1.0	-1.0
Financial assumptions:								
Three-month EURIBOR (percentage per annum)	3.6	2.2	2.0	2.1	0.0	0.0	0.0	-0.1
Ten-year government bond yields (percentage per annum)	2.9	2.9	3.0	3.2	0.0	0.0	0.0	0.0

Notes: Revisions are expressed as percentages for levels and as percentage points for growth rates and percentages per annum. Revisions for growth rates and interest rates are calculated on figures rounded to one decimal place, while revisions reported as percentage changes are calculated on unrounded figures. The technical assumptions about euro area interest rates and commodity prices are based on market expectations, with a cut-off date of 6 February 2025. Oil prices refer to Brent crude oil spot and futures prices. Gas prices refer to the Dutch TTF gas spot and futures prices. Electricity prices refer to the average wholesale spot and futures price for the five largest euro area countries. The "synthetic" future price for ETS1 allowances (EUA) is derived as the end-of-month linearly interpolated value of the two nearest European Energy Exchange EUA futures. Monthly EUA futures prices are then averaged to produce an equivalent to annual frequency. In the absence of any trading of ETS2 allowances, the price assumptions were set by staff at the threshold price above which additional allowances will be released, with the price updated to 2027 prices (see Box 2 of the December 2024 Eurosystem staff projections report for further details). The paths of commodity prices are implied by futures markets in the ten working days ending on the cut-off date. Bilateral exchange rates are assumed to remain unchanged over the projection horizon at the average levels prevailing in the ten working days ending on the cut-off date. The assumptions for euro area ten-year nominal government bond yields are based on the average of countries' ten-year bond yields, weighted by annual GDP figures. Where the necessary data exist, the country-specific ten-year nominal government bond yields are defined as the ten-year benchmark bond yields prolonged using the forward par yields derived, on the cut-off date, from the corresponding country-specific yield curves. For the other countries, the country-specific ten-year government bond yields are defined as the ten-year benchmark bond yield prolonged using a constant spread (observed on the cut-off date) over the technical euro area risk-free long-term interest rate assumption.

Box 2
The impact of tariffs on the March 2025 staff projections

The new US Administration has announced a wide range of tariffs, some of which have been included in the March 2025 staff baseline projections. While it remains difficult to gauge the degree of commitment from US policy announcements, tariffs that were already in effect when the March 2025 staff projections were finalised (i.e. 19 February 2025) have been included in the baseline – namely the first batch of bilateral tariffs between the United States and China. Other tariffs that were not yet in place at the cut-off date (e.g. US tariffs on steel and aluminium) or that had been postponed (US tariffs on Mexico and Canada) or that have only recently been announced (US tariffs on the EU and additional tariffs on China) have not been included in the baseline projections.

The tariffs included in the March 2025 baseline projections comprise the first batch of bilateral tariffs between the United States and China. On 1 February 2025 the United States announced an additional 10 percentage point tariff on all Chinese goods, marking a significant step in the ongoing trade dispute (**Chart**, panel a). In retaliation, China imposed tariffs on 80 US products, including liquefied natural gas (LNG), coal, and agricultural equipment, effectively increasing the overall effective tariff rate on US imports by 1 percentage point. Furthermore, China implemented export bans on critical metals such as tellurium and tungsten. While US tariffs apply to all Chinese goods, which account for 13% of US imports, China's retaliatory tariffs are more targeted and affect only 1% of Chinese imports. Nevertheless, with these measures the overall effective tariff rates were broadly similar between the two countries.

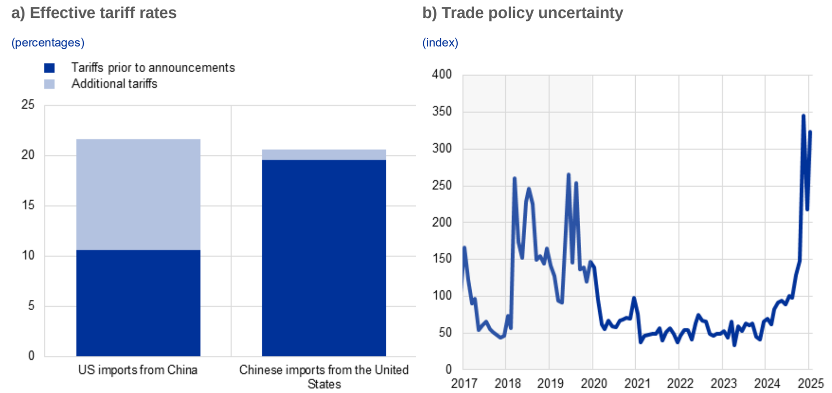
The bilateral tariffs between the United States and China have led to small revisions to the projections for US and Chinese growth and inflation. The impact of the tariffs has been estimated using ECB macroeconomic models, which comprise a range of semi-structural and multi-country, multi-sector models. The US inflation projection has been revised up by around 0.2 percentage points for 2025. The reduction in purchasing power owing to the tariffs has been estimated to reduce US real GDP growth by around 0.1 percentage points in 2025 and by a negligible amount in 2026. The impact of US tariffs on the Chinese economy is seen to be rather modest, although higher than for the US economy, as losses in exports imply a downward revision to Chinese real GDP growth of around 0.2 percentage points for 2025 and a further 0.1 percentage points cumulatively over 2026-27. The impact on Chinese inflation is small (0.1 percentage points higher in 2025).

The impact of these bilateral tariffs on the projections for the euro area is limited, although China could replicate past trade diversion patterns. In 2018 US tariffs on Chinese goods led to a redirection of Chinese exports to other markets, as US supply chains were reconfigured to reduce direct sourcing from China. If China diverts its exports away from the United States, the euro area may suffer a loss of competitiveness both domestically and in third markets. At the same time, the potential for the euro area to gain market share in the United States may be limited, owing to differences in both the quality and prices of its export basket compared with that of China. Overall, however, the impact on euro area growth of these tariffs is expected to be only marginally negative. As regards euro area inflation, the tariffs included in the baseline are seen to have little implications as their upward impact on import prices via higher costs along supply chains is expected to be broadly offset by the downward impact from the higher supply of goods from China in European markets.

The tariff announcements have also increased trade policy uncertainty, which has led to downward revisions to the outlook for global and euro area economic activity. Trade policy uncertainty has increased sharply since the US presidential election (**Chart**, panel b). It is estimated to be dampening investment and exports, and, to a lesser extent, consumption, as businesses and consumers – domestically and abroad – adopt a more cautious stance on spending amid an unpredictable trade landscape. The increase in trade policy uncertainty over recent months is expected to reduce global growth (excluding the euro area) by around 0.1 percentage points cumulated over 2025-26 via lower investment and exports. As the euro area economy has a higher degree of openness, and the composition of its exports is tilted towards durable goods, it is expected to experience a slightly more pronounced impact, with real GDP growth reduced by around 0.2 percentage points in cumulative terms over 2025-26. This explains about half of the cumulative downward revisions to euro area growth in the March 2025 staff projections.

Chart

Effective tariff rates between the United States and China and developments in trade policy uncertainty



Sources: OECD TiVA, CEPII BACI, PIIE, Haver Analytics, Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A. and Raffo, A., "The economic effects of trade policy uncertainty", Journal of Monetary Economics, Vol. 109, January 2020, pp. 38-59, and ECB staff calculations.
Notes: In panel a), tariffs prior to the recent announcements are based on the revenue approach using 2024 data. The additional tariffs are calculated by weighting announced tariffs by the import shares of affected goods. In panel b), the grey area denotes the period of the first Trump presidency. The trade policy uncertainty index is based on automated text searches of seven newspapers (Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post). The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalised to a value of 100 for a 1% article share (see the trade policy uncertainty index website).

The US tariffs on Canada and Mexico, which have not been incorporated into the March 2025 staff baseline projections, could have a large impact, especially on the affected economies. Tariffs on Mexico and Canada were announced on 1 February but postponed a few days later. At the time of the finalisation of the March 2025 projections they remained too uncertain to be included in the baseline. Simulations using the ECB-Global model show that such tariffs could lead to significantly higher inflation and weaker real GDP growth in the United States – respectively 0.6 percentage points higher and 0.1 percentage points lower – cumulatively over the projection horizon. Additional simulations using the ECB-BASE and ECB-Global models indicate that the impact on the euro area real economy would be limited owing to offsetting forces: a gain in competitiveness for the euro area would counterbalance a decline in global demand. However, prices in the euro area could be slightly negatively affected.

Further US tariff announcements, that were not in place when the March 2025 staff projections were finalised, have also not been included in the baseline, as there is a high degree of uncertainty surrounding their implementation. The US Administration announced on 10 February that a 25% tariff rate on steel and aluminium would be reinstated on 12 March. Owing to the small share of these goods in US imports (2%), the impact is expected to be limited on aggregate. President Trump directed his advisers to devise a comprehensive plan for so-called reciprocal tariffs on 12 February, announced global tariffs on cars, pharmaceuticals, and semiconductors on 18 February, argued for a review of trade partners with regard to digital services on 21 February, launched an investigation of copper tariffs on 25 February, and announced a 25% tariff on imports from Europe on 26 February as well as additional 10% tariffs for imports from China on 27 February. Finally, the "America First Trade Policy" memorandum signed by President Trump on 20 January 2025 could pave the way for additional tariffs, notably on the grounds of national security. Overall, there is currently high uncertainty with respect to the target, size and timing of future tariffs, as well as the response by the countries that would be affected. Given the high degree of openness of the euro area economy, with the United States being a key trading partner, the implementation of further tariffs by the US Administration and the associated uncertainty pose risks to the economic outlook for the euro area.

3 Real economy

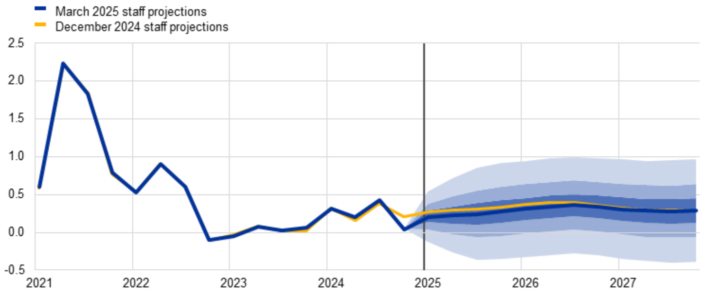
Euro area economic activity increased by 0.1% in the fourth quarter of 2024 (Chart 1). Private and government consumption made positive contributions to growth although these were largely offset by falling exports. The outturn was 0.1 percentage points lower than expected in the December 2024 staff projections, owing to weaker exports, although real GDP growth in previous quarters was slightly revised up. Both private and government consumption were somewhat stronger than expected in the second half of 2024. Across sectors, industrial activity likely continued to decline in the fourth quarter, amid subdued demand for goods, still some negative impact of the past monetary policy tightening, ongoing competitiveness losses and significant trade policy uncertainty. Activity in the services sector likely continued to grow.

Chart 1

Euro area real GDP

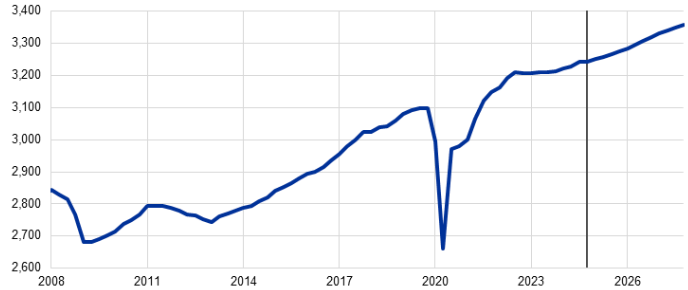
a) Real GDP growth

(quarter-on-quarter percentage changes, seasonally and working day-adjusted quarterly data)



b) Real GDP level

(chain-linked volumes (2020); in EUR billions)



Notes: Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. The vertical line indicates the start of the current projection horizon. In panel a) the ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of real GDP growth will fall within the respective intervals. For more information, see the box entitled "Illustrating the uncertainty surrounding the projections" in the March 2023 ECB staff macroeconomic projections for the euro area.

Incoming data suggest modest services-led growth at the start of 2025, dampened by significant domestic and trade policy uncertainty. Survey indicators remain subdued, although most of them ticked up in January. For example, the composite output Purchasing Managers' Index (PMI) stood at 50.2 in January, up from an average of 49.3 in the fourth quarter of 2024. The incoming data continue to point to sectoral differences. The industrial sector remained very weak, with the manufacturing output PMI for January still standing in contractionary territory. At the same time, services activity continued to increase, with the PMI for services output and new business in expansionary territory in January, indicating ongoing growth.[3] Although the baseline projection only incorporates the impact of new tariffs between the United States and China, the negative effects of uncertainty regarding the possibility of further changes in global trade policies, particularly vis-à-vis the European Union, is expected to weigh on euro area exports and investment (see **Box 2**). Overall, euro area economic activity is projected to expand by 0.2% in the first three quarters of 2025.

In the medium term real GDP growth is expected to strengthen, supported by consumption growth, improving investment and foreign demand, and by the fading of dampening effects from past monetary policy tightening (Table 3). An ongoing increase in households' purchasing power, owing to resilient wage and employment growth and easing inflation, should sustain private consumption growth. Household spending is projected to continue to underpin the recovery in the medium term, supported also by a decline in the household saving rate from the current still elevated levels. The resilient, albeit cooling, labour market and the assumed gradual recovery in consumer confidence should also support private consumption growth. Investment is projected to gradually strengthen over the projection horizon, mostly reflecting the waning drag from past monetary policy tightening, as well as support from increasing profits, the deployment of Next Generation EU (NGEU) funds and improving domestic and foreign demand. The latter is also expected to support export growth, however, trade policy uncertainty, together with protracted euro area competitiveness issues, implies continued losses in export market shares. The ongoing withdrawal of the discretionary fiscal support measures implemented in response to the pandemic and the energy crisis is estimated to continue to have a small negative effect on GDP growth in 2025-27.

3 Data released after the finalisation of the projections show that the sectoral divergence continued in February, with the manufacturing output PMI remaining in contractionary territory, despite an uptick in the month. This was offset by a further moderation in the services PMI, leaving the composite output PMI unchanged at 50.2 in February.

Table 3
Real GDP, trade and labour market projections

(annual percentage changes, unless otherwise indicated, revisions in percentage points)

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
Real GDP	0.8	0.9	1.2	1.3	0.1	-0.2	-0.2	0.0
Private consumption	1.0	1.4	1.2	1.2	0.1	0.1	-0.1	0.0
Government consumption	2.5	1.2	1.1	1.0	0.2	0.0	-0.1	0.0
Investment	-1.8	1.2	1.7	1.4	-0.1	0.0	-0.5	-0.2
Exports[1)]	0.9	0.8	2.3	2.7	-0.1	-0.8	-0.7	-0.3
Imports[1)]	0.1	1.9	2.6	2.8	0.0	-0.4	-0.5	-0.1
Contribution to GDP from:								
Domestic demand	0.7	1.2	1.3	1.2	0.1	0.0	-0.1	0.0
Net exports	0.4	-0.5	0.0	0.1	-0.1	-0.3	-0.1	0.0
Inventory changes	-0.3	0.1	0.0	0.0	0.0	-0.1	0.0	0.0
Real disposable income	2.5	0.9	0.8	0.7	0.2	0.1	-0.2	-0.1
Household saving ratio (% of disposable income)	15.1	14.7	14.4	14.0	0.0	0.0	-0.1	-0.2
Employment[2)]	0.9	0.4	0.4	0.4	0.1	0.0	-0.2	-0.1
Unemployment rate	6.4	6.3	6.3	6.2	0.0	-0.2	0.0	0.1
Current account (% of GDP)	2.6	2.0	2.2	2.3	-0.1	-0.6	-0.5	-0.6

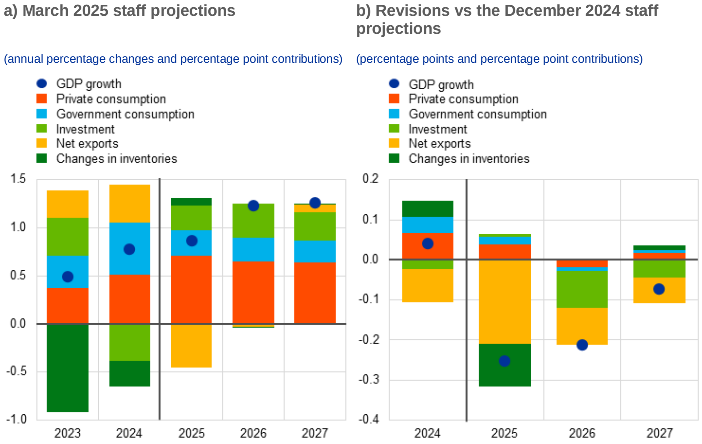
Notes: Real GDP and components refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. Revisions are calculated from rounded data. Data are available for downloading, also at quarterly frequency, from the Macroeconomic Projection Database on the ECB's website.
1) This includes intra-euro area trade.
2) Persons employed.

The impact on growth of past monetary policy tightening is estimated to have peaked in 2024 and is expected to fade away over the projection horizon, supported by the ongoing reduction in policy rates. The impact of the monetary policy measures implemented between December 2021 and September 2023 continues to feed through to the real economy. However, most of the downward impact on growth should have already materialised. Following the policy rate cuts since June 2024, and based on market expectations regarding the future path of interest rates at the time of the cut-off date for the projections (**Box 1**), the negative impact of past monetary policy tightening on economic growth is expected to fade away during 2025. There is however considerable uncertainty surrounding the exact timing of this fading-out.

Compared with the December 2024 staff projections, real GDP growth has been revised down by 0.2 percentage points for both 2025 and 2026, and is broadly unrevised for 2027 (Table 3 and Chart 2, panel b). The downward revision for 2025 in part reflects the carry-over from much weaker outturns for investment and exports in the fourth quarter of 2024, which are not expected to be recouped in 2025. Moreover, quarter-on-quarter growth rates have been revised down in both 2025 and 2026 on account of persistent policy uncertainty and competitiveness challenges. Despite some carry-over of these revisions into 2027, the projected growth rate in that year is unchanged at 1.3%. Overall, the changes in the assumptions have only a small impact over the projection horizon, as upward impacts from the depreciation of the euro exchange rate and changes in fiscal assumptions are largely offset by weaker foreign demand and higher energy price assumptions (see **Section 2** and **Box 1**).

Chart 2

Euro area real GDP growth – decomposition into the main expenditure components



Notes: Data are seasonally and working day-adjusted. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. The vertical line indicates the start of the projection horizon. Revisions are calculated based on unrounded figures.

The expected recovery in private consumption is supported by robust increases in labour compensation, on the back of rising wages and falling inflation. After a strong outturn for the third quarter of 2024, private consumption growth is likely to have moderated in the fourth quarter, partly owing to the unwinding of the temporary factors that had supported it in the summer. Household spending is seen to strengthen from an annual rate of increase of around 0.9% in 2023-24 to 1.3% in 2025-27 (**Chart 3**). Private consumption is supported by increasing real disposable income, mainly owing to still strong wage growth – although this is seen to moderate with the dissipation of the catching-up of real wages – as well as robust non-labour income (in particular, income from self-employment and from financial and non-financial assets). In addition, private consumption growth should benefit from a moderate decline in the saving ratio from its current elevated level, reflecting a gradual normalisation of consumer spending behaviour. An expected recovery in consumer confidence, as well as consumption-smoothing behaviour – i.e. a delayed reaction of household spending to the increase in purchasing power – are also foreseen to contribute to the gradual decline in savings. However, the household saving ratio is expected to remain elevated, reflecting the still high household lending and deposit rates and tight credit access. Compared with the December 2024 projections, private consumption growth has been revised up by 0.1 percentage points for 2024 and 2025, reflecting stronger dynamics in past data on real disposable income. Despite a marginal downward revision for 2026, private consumption dynamics in the medium term remain broadly in line with the December 2024 projections.

Chart 3

Decomposition of euro area real private consumption growth

(annual percentage changes and percentage point contributions)

Notes: Data are seasonally and working day-adjusted. An increase in the household saving ratio implies a negative contribution of savings to consumption growth. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. Statistical discrepancies between the national and sectoral accounts and their different publication schedules result in minor differences between the figures for private consumption growth and the respective contributions from income and the (inverted) change in the household saving ratio. The vertical line indicates the start of the projection horizon.

Housing investment is projected to decline slightly further in the short term before picking up as financing conditions gradually ease and household real incomes continue to rise. Housing investment is likely to have continued its prolonged decline in the fourth quarter of 2024 and is expected to decrease slightly further in the short term. This reflects the ongoing weakness in housing demand, which is mirrored in the continued decline in residential building permits. Housing investment is expected to recover from the second half of 2025, as the decline in mortgage rates since the end of 2023 is likely to have a positive effect on housing demand, which is also seen to be supported by the continued increase in household real incomes. On an annual basis, after the significant decline in 2024 and the expected smaller contraction in 2025, housing investment is projected to increase in 2026 for the first time since 2022, and to grow further in 2027.

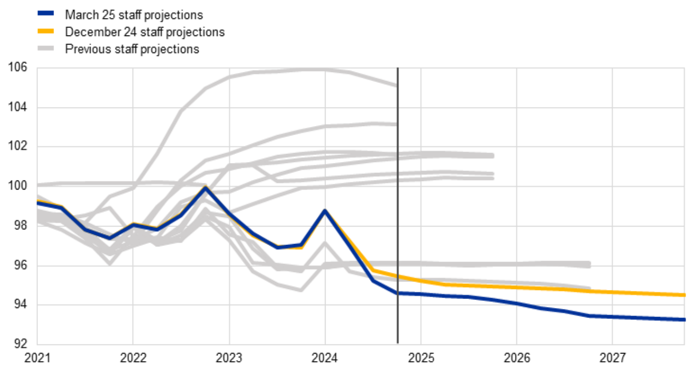
Business investment is expected to contract in the short term, amid heightened uncertainty, but should recover later in the horizon, supported by gradually improving demand, easing financing conditions and positive spillovers from NGEU funds. Euro area business investment is estimated to have contracted in 2024. It is expected to remain weak in the short term, given ongoing uncertainties related both to domestic political developments and to wider geopolitical and trade concerns at the global level. Barring major disruptions to global trade, investment is expected to gradually recover over the projection horizon, as current uncertainties resolve and financing conditions gradually improve, and because the ongoing disbursement of NGEU funds is expected to crowd in further private investment. Overall, business investment is expected to grow modestly in 2025-26 before picking up more strongly in 2027.

After sharp falls in late 2024 euro area export growth is expected to remain hampered by competitiveness challenges. Recent data indicate persistent underperformance, with euro area exports failing to keep pace with global demand. In recent projection exercises, euro area exports and export market shares consistently surprised on the downside (**Chart 4**). Notably, euro area foreign demand did not experience similar downward revisions, underscoring competitiveness issues. Euro area exports and export market shares both fell in the fourth quarter of 2024, and although volatile Irish data contributed to the decline, the recent weakness is consistent with survey indicators that suggest modest export growth in the short term. Heightened trade policy uncertainty is further dampening the prospects for euro area export growth. Consequently, only a weak recovery in export growth is foreseen for 2025, at rates below historical averages. Over the medium term, while a recovery in foreign demand is expected to support euro area export growth, challenges such as competition from China, high energy costs and increasing competitiveness issues in some high-technology sectors continue to cloud the outlook. Euro area exports are therefore seen to grow at a rate below historical averages. Imports are also projected to grow at a subdued rate, somewhat below their long-term trend, driven down by the slowdown in exports and investment. Overall, net trade is expected to make a negative contribution to growth in 2025 (-0.5 percentage points, compared with a contribution of -0.2 percentage points in the December 2024 projections) and a broadly neutral contribution over the rest of the projection horizon.

Chart 4

Euro area export market shares

(index, 2019 = 100)

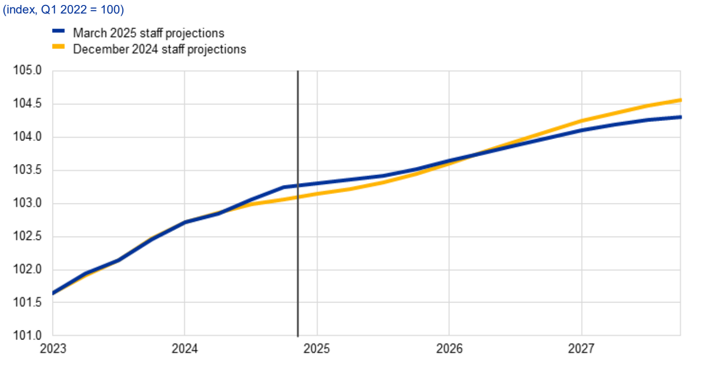


Notes: The vertical line indicates the start of the current projection horizon. The lines in grey indicate previous staff projections since March 2020. Euro area export market shares are calculated by dividing extra-euro area exports by euro area foreign demand.

The labour market is set to remain resilient overall, although employment growth is seen to slow in comparison with recent years. Employment grew modestly in the fourth quarter of 2024, broadly in line with the December projections. It is projected to continue to expand at similarly subdued quarterly growth rates over the projection horizon. In annual terms, employment growth is expected to decline from 1.4% in 2023 to 0.9% in 2024 and to 0.4% over 2025-27 (0.2 percentage points lower in 2026 than foreseen in the previous projections and 0.1 percentage points lower in 2027) (**Chart 5**). The cyclical factors that have supported employment more than usual in recent years – such as labour hoarding owing to significant labour shortages, as well as high profit growth, weak real wages and robust labour force growth – will gradually fade away. Compared with the previous projections, the fading-out of some of these supportive factors is now assessed to become more pronounced. Consequently, employment growth is projected to be somewhat more subdued relative to GDP growth than was assumed in the previous projections.

Chart 5

Employment



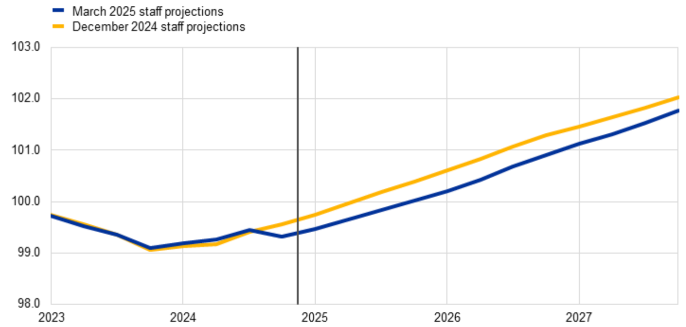
Note: The vertical line indicates the start of the projection horizon.

Labour productivity growth is expected to strengthen at a more moderate pace in 2025-26 than anticipated in the previous projections. Productivity growth (per person employed) surprised on the downside in the fourth quarter of 2024 and is expected to recover at a slower pace in 2025 than was foreseen in the previous projections. It is seen to rise from -0.1% in 2024 to 0.4% in 2025 and to 0.8-0.9% in 2026-27. This compares with the historical average annual growth rate of productivity per person employed of 0.6% in the period 2000-19. The cyclical factors in the recent past which led to increased labour hoarding, weak real wages and robust labour force growth are now projected to dissipate somewhat faster than foreseen in the previous projections, (**Chart 6**). Consequently, productivity growth is now assumed to be stronger at the end of the projection horizon. As in the previous projections, the speed of the recovery in 2025 and 2026 is considered to be limited by structural factors, such as the gradual reallocation of economic activity towards the services sector, transition costs towards the greening of the economy, a more lasting adverse impact of the energy price shock, a slower than expected adoption of highly innovative AI technologies, and demographic change.

Chart 6

Labour productivity per person employed

(index, Q1 2022 = 100)



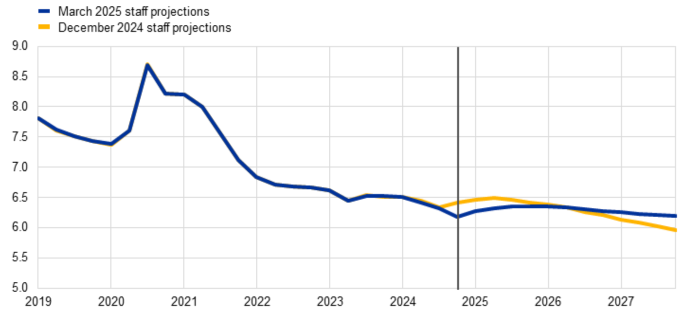
Note: The vertical line indicates the start of the projection horizon.

The unemployment rate is expected to remain relatively stable at low levels over the projection horizon (Chart 7). The unemployment rate in the fourth quarter of 2024 was 0.2 percentage points lower than had been expected in the previous projections. It is expected to increase marginally during 2025. Thereafter the ongoing economic recovery, though modest, could lead to a renewed decline in the unemployment rate from the second quarter of 2026, reaching 6.2% in 2027. The unemployment rate has been revised down by 0.2 percentage points for 2025, on account of recent data outturns, and revised up by 0.1 percentage points for 2027 as a result of the expected slower employment growth in line with the revisions to the growth outlook. As in the December 2024 projections, labour force growth is projected to moderate to rates well below those seen in recent years.

Chart 7

Unemployment rate

(percentage of labour force)



Note: The vertical line indicates the start of the projection horizon.

4 Fiscal outlook

After a significant tightening estimated for 2024, the euro area fiscal stance[4] is projected to tighten only slightly in 2025, to be neutral in 2026 and to tighten again, somewhat more strongly, in 2027 (Table 4). The extent of the fiscal tightening in 2024 was determined by sizeable non-discretionary factors, as well as the withdrawal of most of the energy and inflation support measures. The non-discretionary factors mostly reflected strong revenue developments in some countries, largely on account of composition effects (tax bases growing faster than nominal GDP) and other factors that were assessed to be of a temporary nature. For 2025, the discretionary fiscal policy measures – reflecting euro area governments' budget plans, some of which are still not fully approved by national parliaments – point to a tightening, reflecting mainly increases in taxes and social security contributions. This tightening is largely offset by rising public investment and higher fiscal transfers, as well as fiscal loosening on account of non-discretionary factors.[5] For 2026, the fiscal stance is projected to remain broadly neutral. For 2027, the relatively pronounced tightening of the fiscal stance and discretionary measures primarily reflects lower assumed public investment and fiscal transfers related to the expiry of the NGEU grant funding.[6] Overall, the cumulative fiscal stance over 2020-27 remains accommodative, reflecting the fact that the large fiscal support provided since the pandemic has only been partly withdrawn.

Table 4

Fiscal outlook for the euro area

(percentage of GDP; revisions in percentage points)

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
Fiscal stance[1)]	**0.9**	**0.2**	**0.0**	**0.5**	**0.0**	**0.1**	**-0.1**	**-0.1**
General government budget balance	**-3.2**	**-3.2**	**-3.3**	**-3.3**	**0.0**	**-0.1**	**-0.3**	**-0.4**
Structural budget balance[2)]	-3.0	-3.0	-3.1	-3.1	0.1	0.0	-0.1	-0.2
General government gross debt	**87.7**	**88.4**	**89.4**	**89.8**	**-0.1**	**0.1**	**0.7**	**1.2**

1) The fiscal stance is measured as the change in the cyclically adjusted primary balance net of government support to the financial sector. The figures shown are also adjusted for grants under the Next Generation EU (NGEU) programme, which do not have an impact on the economy on the revenue side. A negative (positive) figure implies a loosening (tightening) of the fiscal stance.
2) The structural budget balance is calculated as the government balance net of transitory effects of the economic cycle and measures classified under the European System of Central Banks definition as temporary.

4 The fiscal stance of the euro area is defined as the change in the cyclically adjusted primary balance, further adjusted for the NGEU grants on the revenue side. While the fiscal stance is a top-down measure of the orientation of fiscal policy, discretionary fiscal measures are gauged using a bottom-up approach. These measures capture changes in tax rates, fiscal entitlements and other government spending that have been passed or are likely to be passed by the national parliaments of euro area countries.

5 An additional source of tightening in 2025 is the further scaling-down of the remaining energy support measures. The loosening of non-discretionary factors is due to revenue shortfalls and other tax residuals, while the composition effects, which were strongly positive in 2024, are projected to be neutral both in 2025 and over the rest of the horizon.

6 The NGEU grants (with no macro impact on the revenue side of the budget) are estimated at 0.4% of GDP for 2026 and (close to) zero for 2027.

Compared with the December 2024 projections, the discretionary fiscal policy measures point to some fiscal loosening. This is mostly on account of higher government consumption, particularly in 2024, lower direct and indirect taxes in 2025 and higher fiscal transfers in 2026-27. The revisions to policy measures broadly translate into a fiscal stance that is cumulatively slightly looser over the projection horizon.

The euro area fiscal outlook has worsened compared with the December projections, with the budget balance set to only stabilise below the -3% of GDP threshold and the debt ratio set to rise (Table 4). The euro area budget balance is projected to remain broadly unchanged over the horizon (standing at -3.3% of GDP in 2027). This path mostly follows the cyclically adjusted primary balance, which is seen to have improved substantially in 2024 and to improve only very slightly thereafter. The cyclical component is projected to continue worsening in 2025 and to remain broadly unchanged in 2026-27. Interest payments are projected to increase gradually over the projection horizon. Compared with the December projections, the budget balance has been revised down for 2025-27. This reflects the cumulative fiscal loosening in discretionary measures and the worsening of the macroeconomic outlook. The euro area debt-to-GDP ratio is seen to be on an increasing path as the continuous primary deficits and positive deficit-debt adjustments more than offset favourable interest rate-growth differentials. Compared with the December projections, the debt ratio has been revised up mainly on account of the higher primary deficits and interest rate-growth differentials. The euro area fiscal projections continue to be surrounded by high uncertainty. This stems from several sources, including the ongoing geopolitical tensions and measures that euro area governments could take in response, particularly those related to higher defence spending.

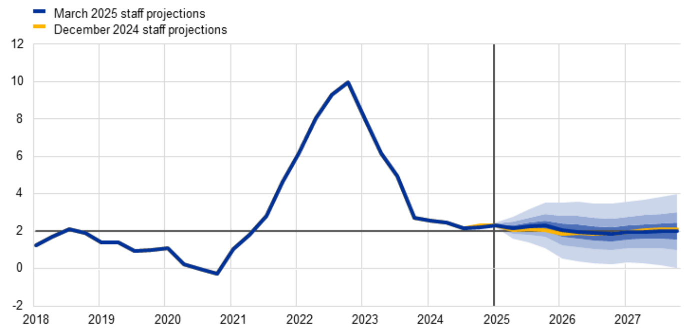
5 Prices and costs

In the short term headline inflation is expected to moderate only marginally to average 2.3% in 2025, before declining to 1.9% in 2026 and 2.0% in 2027 (Chart 8 and Chart 9). Headline inflation is expected to decline only slightly during 2025. This is mainly due to higher food inflation and upward base effects in energy prices that largely offset downward impacts from declining HICPX inflation. As the base effects in energy inflation fade away, headline inflation is expected to decline to 2.0% in early 2026 and stay at or slightly below the inflation target of 2% until the end of the projection horizon. In 2027 the projected inflation rate of 2.0% includes a temporary upward impact from energy inflation owing to the introduction of a new Emissions Trading System (ETS2). HICPX inflation is anticipated to decline throughout the projection horizon, reaching 1.9% by 2027.

Chart 8

Euro area HICP inflation

(annual percentage changes)

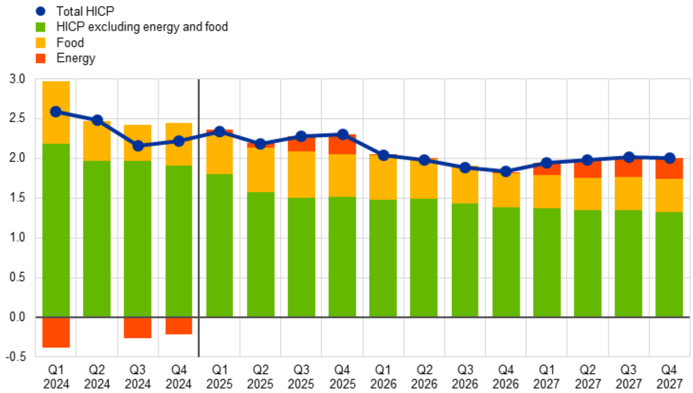


Notes: The vertical line indicates the start of the current projection horizon. The ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICP inflation will fall within the respective intervals. For more information, see the box entitled "Illustrating the uncertainty surrounding the projections" in the March 2023 ECB staff macroeconomic projections for the euro area.

Chart 9

Euro area HICP inflation – decomposition into the main components

(annual percentage changes, percentage points)



Note: The vertical line indicates the start of the current projection horizon.

Energy inflation is projected to remain positive throughout the projection horizon after two years of negative growth. Following a base effect-related pick-up in the second half of 2025, energy inflation is expected to remain muted. Rates are seen to be positive but below historical averages in both 2026 and 2027, despite a significant downward base effect in the first quarter of 2026 and an assumed decline in energy commodity prices (**Chart 10**, panel a). The increase from 0.1% in 2026 to 2.3% in 2027 largely reflects a temporary upward impact from the implementation of the EU Fit-for-55 package, in particular ETS2 for heating of buildings and for transport fuels.[7]

Food inflation is expected to temporarily increase during 2025 before edging down and moving broadly sideways thereafter (Chart 10, panel b). The easing in food price inflation over recent months is expected to reverse, returning to rates around 3.0% in the third quarter of 2025, driven at least initially by an upward base effect in unprocessed food inflation and reflecting the assumption of robust increases in commodity prices thereafter. Food inflation is then projected to decline to an average of 2.2% by 2027 – clearly below its longer-term average level – owing to receding cost pressures.

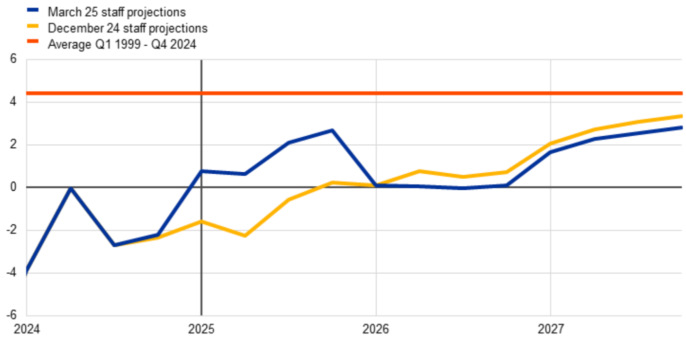
[7] See the box entitled "Assessing the impact of climate change transition policies on growth and inflation" in the December 2024 Eurosystem staff projections report.

Chart 10

Outlook for HICP energy and food inflation

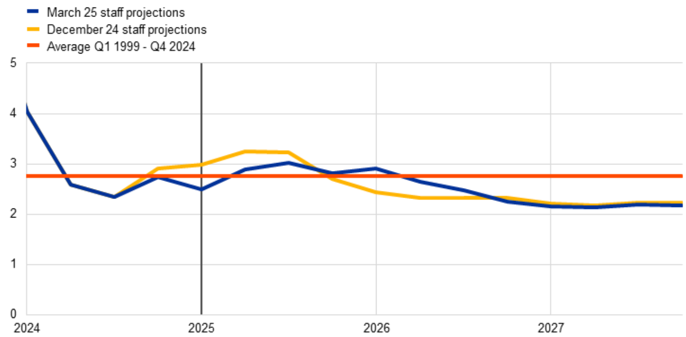
a) HICP energy

(annual percentage changes)



b) HICP food

(annual percentage changes)



Note: The vertical line indicates the start of the current projection horizon.

Table 5

Price and cost developments for the euro area

(annual percentage changes, revisions in percentage points)

	March 2025				Revisions vs December 2024			
	2024	2025	2026	2027	2024	2025	2026	2027
HICP	2.4	2.3	1.9	2.0	0.0	0.2	0.0	-0.1
HICP excluding energy	2.9	2.4	2.2	2.0	0.0	-0.1	0.2	0.0
HICP excluding energy and food	2.8	2.2	2.0	1.9	-0.1	-0.1	0.1	0.0
HICP excluding energy, food and changes in indirect taxes	2.8	2.2	2.0	1.9	0.0	-0.1	0.1	0.0
HICP energy	-2.2	1.5	0.1	2.3	0.1	2.6	-0.4	-0.5
HICP food	2.9	2.8	2.6	2.2	-0.1	-0.2	0.2	0.0
GDP deflator	2.9	2.5	2.0	2.0	0.0	0.1	-0.1	-0.1
Import deflator	-0.7	2.4	1.7	1.5	-0.1	0.8	-0.1	-0.2
Compensation per employee	4.6	3.4	2.8	2.6	0.0	0.1	-0.1	-0.2
Productivity per employee	-0.1	0.4	0.8	0.9	0.0	-0.4	-0.1	0.1
Unit labour costs	4.7	3.0	2.0	1.7	0.0	0.4	0.0	-0.3
Unit profits[1)]	-1.7	1.2	1.9	2.5	-0.8	-0.8	-0.1	0.1

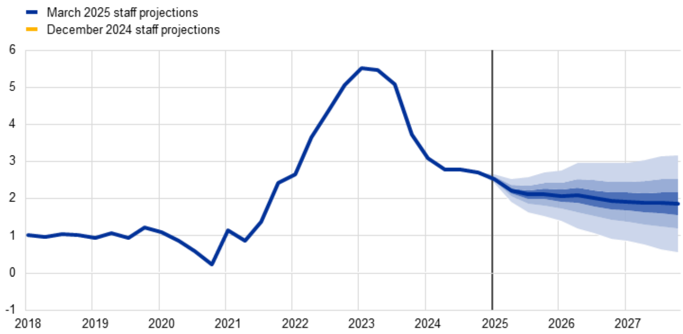
Notes: Revisions are calculated using rounded figures. The figures for the GDP and import deflators, unit labour costs, compensation per employee and labour productivity refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections. Data are available for downloading, also at quarterly frequency, from the Macroeconomic Projection Database on the ECB's website.
1) Unit profits are defined as gross operating surplus and mixed income (adjusted for the income of the self-employed) per unit of real GDP.

HICPX inflation is expected to decline from 2.8% in 2024 to 1.9% in 2027, mainly owing to a moderate unwinding of services inflation as the effects of past large shocks continue to fade. HICPX inflation has been relatively flat since early 2024 but is expected to moderate from the first quarter of 2025 **(Chart 11)**. The projected moderation in HICPX inflation from 2025 is due to a gradual decline in services inflation, as the delayed adjustments to general price trends fade out and the moderation in labour cost pressures feeds through. In addition, the disinflation process related to HICPX inflation reflects a residual downward impact from moderating indirect effects of past energy price movements and the continued feed-through of the downward impact from past monetary policy tightening.

Chart 11

Euro area HICP inflation excluding energy and food

(annual percentage changes)



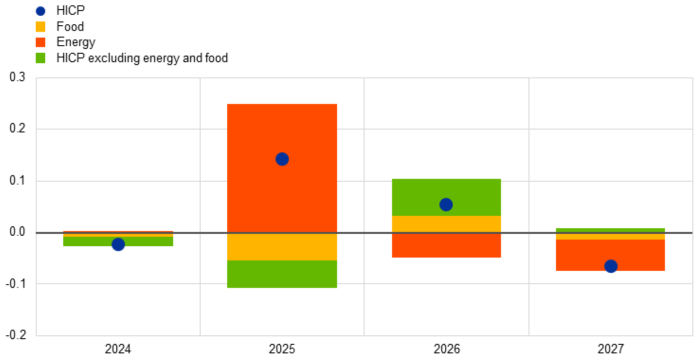
Notes: The vertical line indicates the start of the current projection horizon. The ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICPX inflation will fall within the respective intervals. For more information, see the box entitled "Illustrating the uncertainty surrounding the projections" in the March 2023 ECB staff macroeconomic projections for the euro area.

Compared with the December 2024 projections, the outlook for headline HICP inflation has been revised up by 0.2 percentage points for 2025, is unrevised for 2026, and has been revised down by 0.1 percentage points for 2027 (Chart 12). The upward revision for 2025 is primarily driven by energy inflation owing to stronger than expected data and the upward revision to oil, gas and electricity price assumptions (see **Box 1**). This is partly offset by small downward revisions to the HICPX and food components largely related to recent data outturns. For 2026, HICPX inflation has been revised slightly up by 0.1 percentage points. This is due to an upward impact from the changes to the assumptions, notably the weaker euro exchange rate, and an upward revision to unit labour costs for 2025, which is only partly offset by the negative impact from the weaker outlook for demand. For 2027, the two effects are more evenly balanced resulting in no revision in net terms to HICPX inflation. Energy inflation has been revised slightly down for 2026 and 2027 as a result of an assumed steeper decline in oil and gas prices compared with the December projections. While the revisions to energy inflation are offset by the upward revision to HICPX inflation for 2026, they imply a small downward revision to headline inflation for 2027.

Chart 12

Revisions to the inflation projection compared with the December 2024 projections

(percentage points)



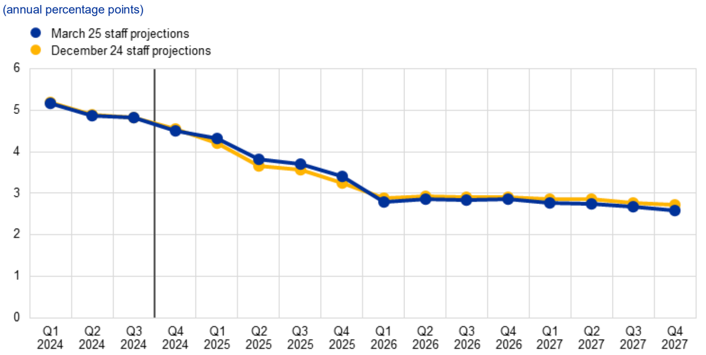
Note: Revisions are shown based on unrounded data.

Nominal wage growth is projected to initially remain elevated but then to decline gradually, reflecting inter alia the fact that real wages will have caught up to the levels prevailing before the inflation surge. Growth in compensation per employee is estimated to have declined to 4.3% in the fourth quarter of 2024 (0.1 percentage points above the level foreseen in the December projections). Wage growth is projected to continue its decline, moderating from an average of 3.4% in 2025 to 2.6% in 2027 (**Chart 13**). This decline mainly reflects an expected decrease in negotiated wage growth and a small impact from a lower increase in minimum wages, and is in line with the projected wage share slowly returning to the longer-term average.[8] Real wages are estimated to have returned to early 2021 levels in the third quarter of 2024, as foreseen in the December 2024 projections. While this implies less pressure from inflation compensation, labour markets are still tight, which in part explains why average wage growth over the projection horizon remains somewhat elevated compared with historical levels (2.5% in the period from 1999 to 2024. Compared with the December 2024 projections, growth in compensation per employee has been revised up by 0.1 percentage points for 2025 but down by 0.1 percentage points for 2026 and by 0.2 percentage points for 2027.

8 For 2025, minimum wage growth is expected to decrease to 3.3%, from 4.2% in 2024. The direct mechanical contribution to overall wage growth in 2025 amounts to around 0.1 percentage points.

Chart 13

Compensation per employee



Note: The vertical line indicates the start of the current projection horizon.

Growth in unit labour costs is projected to decline in 2026 and 2027, aided by both falling wage growth and rising productivity growth. Unit labour cost growth is estimated to have been 4.1% in the fourth quarter of 2024 and it is expected to decline to an average of 1.7% by 2027, in line with the historical average. Compared with the December 2024 projections, growth in unit labour costs has been revised up by 0.4 percentage points for 2025, mainly owing to lower productivity growth, and down by 0.3 percentage points for 2027, mainly owing to the downward revisions to growth in compensation per employee.

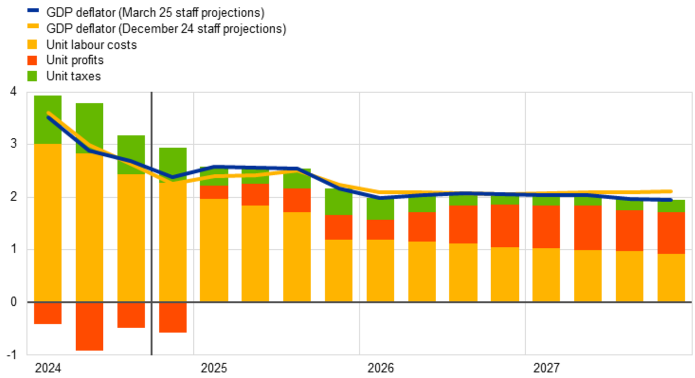
Overall, domestic price pressures, as measured by the growth of the GDP deflator, are projected to continue to decrease, despite growth in profit margins gathering pace in the second half of the horizon in line with the economic recovery (Chart 14). The annual growth rate of the GDP deflator fell quickly during 2024, and is estimated to have averaged 2.9% for the year (after 5.9% in 2023). This was triggered by a fall in the contribution from labour costs and a negative contribution from unit profits. However, GDP deflator growth is projected to decline more gradually from this year, to stand at an average of 2.0% in both 2026 and 2027. As growth in unit labour costs moderates and other input cost dynamics remain contained, unit profit growth is expected to recover somewhat from 2025, aided by the economic recovery, strengthening productivity growth and a temporary boost in 2027 related to the statistical treatment of ETS2.[9] Compared with the December 2024 projections, GDP deflator growth has been revised slightly down for 2026 and 2027. Unit profit growth has been revised down for 2025 and slightly up for 2026, largely offsetting the corresponding upward and downward revisions to unit labour cost growth.

9 The ETS2 scheme is expected to be recorded in the national accounts as a tax on production when the emission permits are surrendered, i.e. the year after the auctioning. The ETS2 revenues for 2027 will thus only be recorded in the national accounts in 2028, while final prices are expected to already increase in 2027. The gross operating surplus is therefore expected to be temporarily boosted in 2027.

Chart 14

GDP deflator and its components

(annual percentage changes, percentage point contributions)



Note: The vertical line indicates the start of the current projection horizon.

Import price inflation is expected to pick up strongly in 2025 before moderating again towards the end of the projection horizon. Growth in the import deflator is expected to rise from -0.7% in 2024 to 2.4% in 2025, before easing to 1.5% in 2027. The revisions to import price inflation (namely a notable upward revision for 2025 and a small downward revision for 2026-27) are in line with changes to energy commodity prices and the depreciation of the euro implied by the technical assumptions.[10]

[10] The projection for euro area import prices assumes EU tariff policies remain unchanged. See Box 2 for more details,

6 Sensitivity analyses

Alternative energy price paths

Future energy commodity price developments remain uncertain and alternative paths for oil and gas commodity prices would have a significant impact on the outlook, especially for inflation. While the staff projections are based on the technical assumptions outlined in **Box 1**, in this sensitivity analysis alternative downside and upside paths are derived from the 25th and 75th percentiles of the option-implied neutral densities for both oil and gas prices.[11] Alternative paths for oil prices are symmetrically distributed around the baseline. Upside risks from stricter US sanctions on Russian or Iranian oil exports are counterbalanced by downside risks associated with trade disputes or with significant spare capacity from OPEC+. By contrast, the gas price distribution indicates upside risks to the technical assumptions (**Chart 15**), likely reflecting supply uncertainties. These uncertainties are associated with disruptions in the global liquefied natural gas (LNG) market, including a decline in Russian LNG exports owing to US sanctions or further delays in planned LNG projects, and with risks originating in the European market, such as difficulties in meeting regulatory gas storage targets for November 2025. Downside risks are also present, particularly if there is significant progress in resolving the Russian war against Ukraine. A constant price assumption is also considered for both oil and gas prices. In each case, a synthetic energy price index (a weighted average of the oil and gas price paths) is computed and the impacts are assessed using ECB and Eurosystem staff macroeconomic models. The results are shown in **Table 6** and suggest overall somewhat stronger upside than downside risks for inflation and more limited risks for GDP growth.

[11] The market prices used are those prevailing on 6 February 2025 (the cut-off date for the technical assumptions).

Chart 15

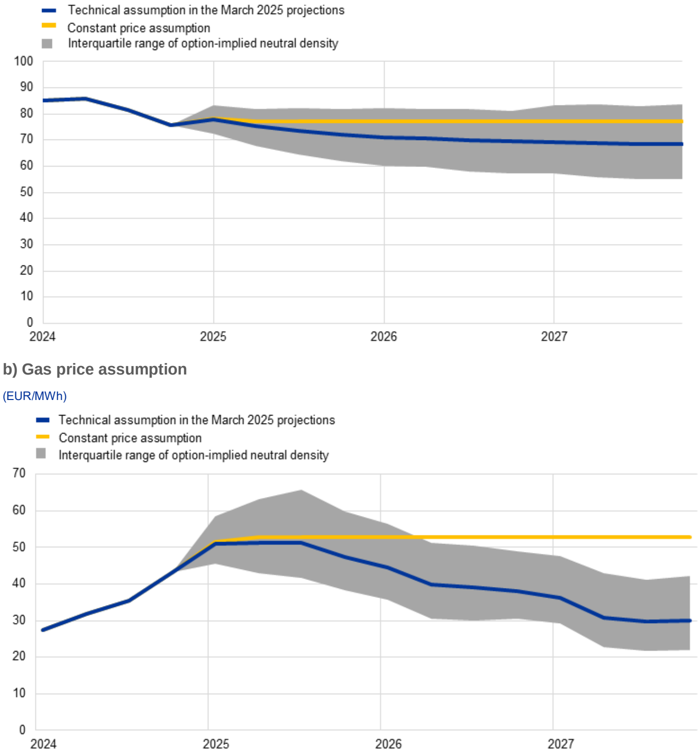
Alternative paths for energy price assumptions

a) Oil price assumption

(USD/barrel)

b) Gas price assumption

(EUR/MWh)



Sources: Morningstar and ECB calculations.
Note: Option-implied densities for gas and oil prices are extracted from 6 February 2025 market quotes for options on ICE Brent crude oil and Dutch TTF natural gas futures with fixed quarterly expiry dates.

Table 6

Alternative energy price paths and impact on real GDP growth and HICP inflation

	Path 1: 25th percentile			Path 2: 75th percentile			Path 3: constant prices		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
(deviation from baseline levels, percentages)									
Oil prices	-10.7	-16.4	-18.8	10.2	16.3	21.3	3.6	9.8	12.3
Gas prices	-16.0	-21.6	-24.6	23.1	28.3	37.0	4.4	30.9	66.4
Synthetic energy price index	-14.4	-18.0	-21.2	19.2	24.7	29.9	3.9	18.2	31.2
(deviations from baseline growth rates, percentage points)									
Real GDP growth	0.0	0.1	0.1	0.0	-0.2	-0.1	0.0	-0.1	-0.1
HICP inflation	-0.5	-0.6	-0.3	0.6	0.7	0.5	0.2	0.6	0.6

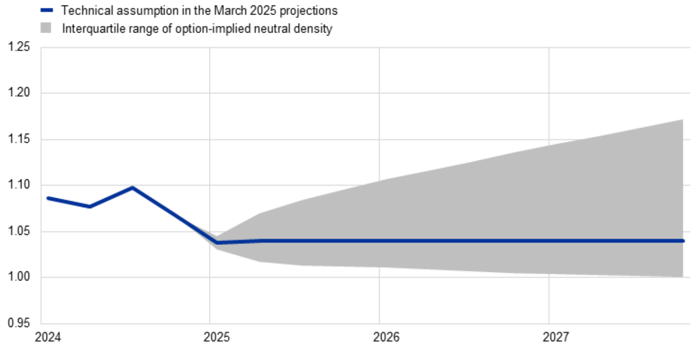
Notes: In this sensitivity analysis, a synthetic energy price index that combines oil and gas futures prices is used. The 25th and 75th percentiles refer to the option-implied neutral densities for the oil and gas prices on 6 February 2025. The constant oil and gas prices take the respective value as at the same date. The macroeconomic impacts are reported as averages of a number of ECB and Eurosystem staff macroeconomic models.

Alternative exchange rate paths

This sensitivity analysis assesses implications for the baseline projections of alternative paths for the exchange rate, which in general indicate downside risks to growth and inflation. The technical assumptions for exchange rates in the baseline projections are held constant over the projection horizon. Alternative downside and upside paths derived from the 25th and 75th percentiles of option-implied neutral densities for the USD/EUR exchange rate on 6 February 2025 point to risks of an appreciation of the euro compared with the baseline (**Chart 16**). The impacts of these alternative paths are assessed using the ECB and Eurosystem staff macroeconomic models. The average impact on output growth and inflation across these models is shown in **Table 7**.

Chart 16

Alternative paths for the USD/EUR exchange rate



Sources: Bloomberg and ECB staff calculations.
Notes: An increase implies an appreciation of the euro. The 25th and 75th percentiles refer to the option-implied neutral densities for the USD/EUR exchange rate on 6 February 2024. The macroeconomic impacts are reported as averages of a number of ECB and Eurosystem staff macroeconomic models.

Table 7

Impact on real GDP growth and HICP inflation of alternative paths for the exchange rate

	Path 1: 25th percentile			Path 2: 75th percentile		
	2025	2026	2027	2025	2026	2027
USD/EUR exchange rate	-2.1	-3.1	-3.7	3.3	7.8	11.4
USD/EUR exchange rate (% deviation from baseline)	-1.1	-1.6	-1.9	1.7	3.9	5.7
(deviations from baseline growth rates, percentage points)						
Real GDP growth	0.0	0.1	0.1	-0.1	-0.2	-0.3
HICP inflation	0.1	0.1	0.1	-0.1	-0.2	-0.3

Sources: Bloomberg and ECB staff calculations.
Notes: An increase implies an appreciation of the euro. The 25th and 75th percentiles refer to the option-implied neutral densities for the USD/EUR exchange rate on 6 February 2024. The macroeconomic impacts are reported as averages of a number of ECB and Eurosystem staff macroeconomic models.

Box 3
Comparison with forecasts by other institutions and the private sector

The March 2025 ECB staff projections are generally within the range of other forecasts for GDP growth and HICP inflation. The staff projection for growth lies at the bottom of the range of forecasts from other institutions and surveys of private sector forecasters. As regards HICP inflation, for 2025 the ECB staff projection is 0.2 percentage points above the other forecasts, likely owing to differences in energy price assumptions. For HICP inflation in 2026 and 2027 and for HICPX inflation throughout the horizon, the ECB staff projections are within the narrow range of other forecasts.

Table

Comparison of recent forecasts for euro area real GDP growth, HICP inflation and HICP inflation excluding energy and food

(annual percentage changes)

		Real GDP growth				HICP inflation				HICP inflation excl. energy and food			
	Date of release	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
ECB staff projections	March 2025	0.8	0.9	1.2	1.3	2.4	2.3	1.9	2.0	2.8	2.2	2.0	1.9
Consensus Economics	February 2025	0.8	0.9	1.2	1.4	2.4	2.1	1.9	2.0	2.8	2.2	1.9	-
Survey of Professional Forecasters	January 2025	0.7	1.0	1.3	-	2.4	2.1	1.9	-	2.8	2.2	2.0	2.0
International Monetary Fund	January 2025	0.8	1.0	1.4	1.3	2.3	2.1	2.0	2.0	-	-	-	-
OECD	December 2024	0.8	1.3	1.5	-	2.4	2.1	2.0	-	2.9	2.4	2.0	-
European Commission	November 2024	0.8	1.3	1.6	-	2.4	2.1	1.9	-	2.9	2.4	2.0	-

Sources: Consensus Economics Forecasts, 13 February 2025 for 2024-25 (data for 2026 and 2027 are taken from the January 2025 survey); ECB Survey of Professional Forecasters, 31 January 2025; IMF World Economic Outlook, 17 January 2025; OECD Economic Outlook, 4 December 2024; European Commission Autumn 2024 Economic Forecast, 15 November 2024.
Notes: These forecasts are not directly comparable with one another or with the ECB staff macroeconomic projections, as they were finalised at different points in time. Additionally, they use different methods to derive assumptions for fiscal, financial and external variables, including oil, gas and other commodity prices. The ECB staff macroeconomic projections report working day-adjusted annual growth rates for real GDP, whereas the European Commission and the International Monetary Fund report annual growth rates that are not adjusted for the number of working days per annum. Other forecasts do not specify whether they report working day-adjusted or non-working day-adjusted data.

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

PDF ISBN 978-92-899-7196-6, ISSN 2529-4466, doi:10.2866/6433353, QB-01-25-095-EN-N
HTML ISBN 978-92-899-7195-9, ISSN 2529-4466, doi:10.2866/4153746, QB-01-25-095-EN-Q

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