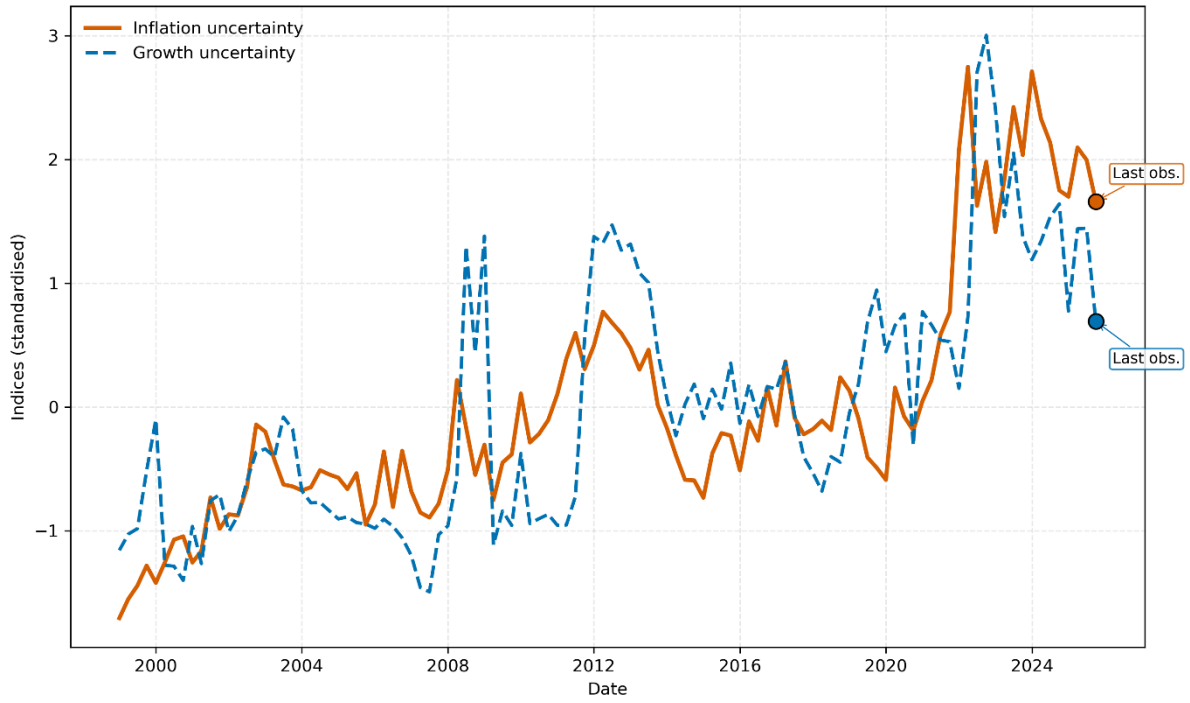
Inflation and growth: professional forecasters continue to express high levels of uncertainty

By Eric Vansteenberghe

Professional forecasters in the euro area are unanimous in expecting inflation in 2026 to be close to the 2% euro area target. This blog post introduces an uncertainty measure adjusted for level effects surrounding inflation and economic growth and shows that the risks perceived by professional forecasters remain historically high.

Chart 1: Uncertainties surrounding inflation and GDP growth over a one-year horizon in the euro area



Source: Quarterly ECB Survey of Professional Forecasters (individual distributions over a one-year horizon) and author's calculations.

Note: Uncertainty corresponds to dispersion adjusted for effects related to the level of the forecast (see details below). The latest available data point is the fourth quarter of 2025. The latest observations indicate heightened simultaneous macroeconomic uncertainty.

The ECB's quarterly Survey of Professional Forecasters in Europe provides insights into both the most likely trajectory of the euro area economy and the risk distribution around the baseline expectations. These two dimensions – trajectory and uncertainty – are essential to the monetary policy decision-making of central banks. This blog post considers more

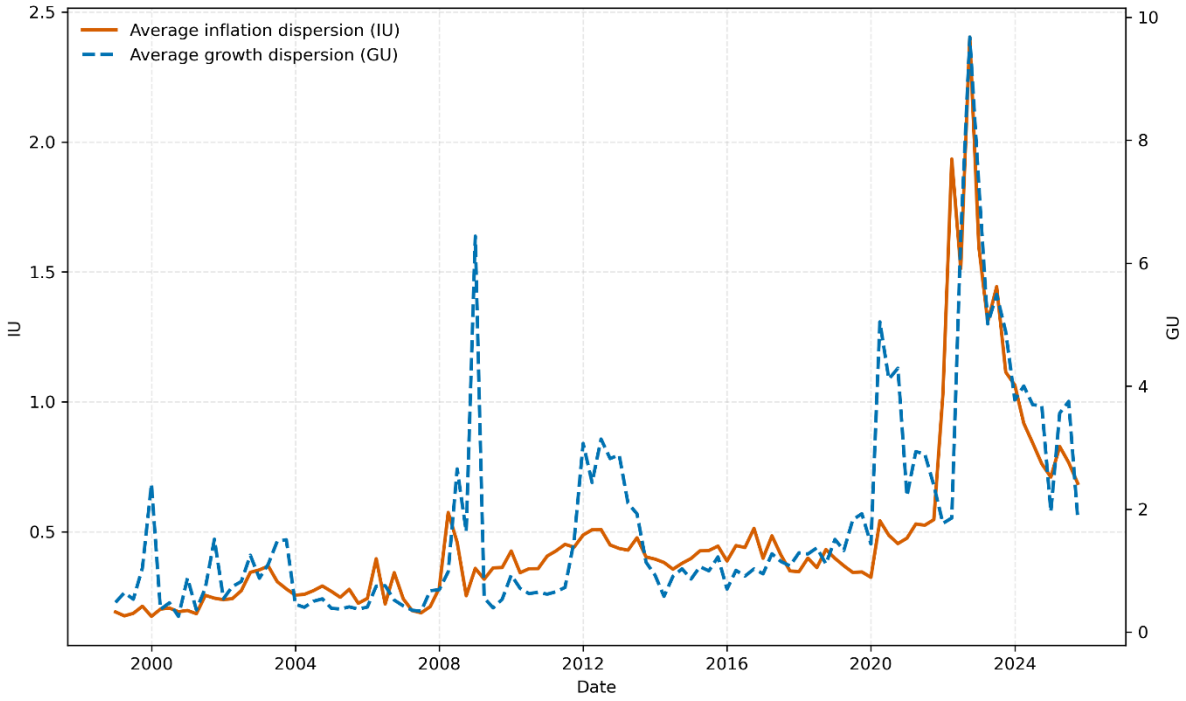
specifically this second dimension – uncertainty –, which relates to the dispersion of expectations.

Less disagreement but heightened uncertainty

The dispersion observed in the responses of professional forecasters with regard to the projected economic outlook for the coming months can be broken down into two parts. The first is disagreement between forecasters: it measures the extent to which their average projections differ. This is currently very low. The recent normalisation of inflation in the euro area has therefore gone hand-in-hand with a decline in disagreement among professional forecasters, with all expectations for 2026 converging towards a level close to the 2% target consistent with the mandate of the European Central Bank (ECB). The second is individual uncertainty: the greater or lesser range of outcomes that each forecaster considers possible. However, this range remains exceptionally wide. In other words, even though, on average, professional forecasters say the same thing, they each continue to envisage numerous possible pathways for the economy, as the detailed responses in the ECB's Survey of Professional Forecasters show (see Chart 2).

Each quarter, every forecaster provides a probability distribution describing the possible outcomes for inflation or growth over a one-year horizon. In concrete terms, the forecaster distributes the 100% probability across several intervals. For example, they may estimate with a 50% probability that inflation will be close to 2%, with a 30% probability that it will be between 1% and 2%, and with a 20% probability that it will exceed 3%. This distribution by intervals describes both the baseline expectation and the perceived degree of uncertainty surrounding it. The dispersion of this distribution, also known as the variance, measures the forecaster's personal uncertainty: the wider the distribution – in other words, the more dispersed the possible outcomes – the more uncertain the forecaster considers the situation to be, according to our definition (we exclude here cases of "fundamental" uncertainty in the Knightian sense, in which no well-defined probability distribution can be specified).

Chart 2: Average individual dispersion of inflation and growth over a one-year horizon in the euro area



Source: Quarterly ECB Survey of Professional Forecasters (individual distributions over a one-year horizon) and author's calculations.

Note: The latest available data point is the fourth quarter of 2025.

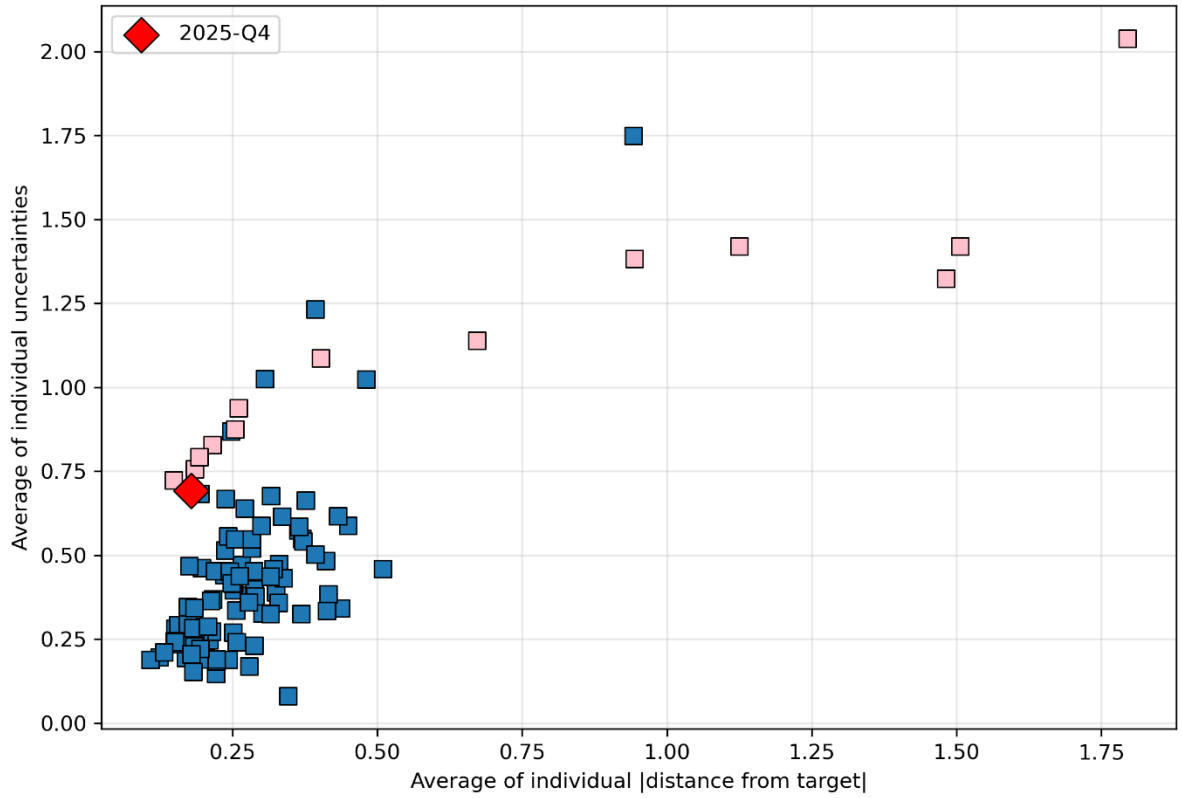
The unadjusted individual dispersion gives an initial impression of perceived uncertainty, but it depends mechanically on the expected level of inflation or growth: the higher the expected level, the wider the range of scenarios considered plausible, even if the degree of uncertainty remains unchanged. Therefore, this essentially statistical relationship does not necessarily reflect an increase in economic uncertainty in the strict sense. To isolate the component of dispersion purely linked to uncertainty, we propose an adjustment of this scale effect using a statistical correction similar to a "coefficient of variation" normalisation, but adapted to inflation. Rather than expressing the dispersion relative to the average, we express it relative to the *expected* dispersion given the distance of expectations away from the 2% target. A more comprehensive analysis of this method and its implications for lending to firms is presented in a related working paper.

A standardised uncertainty indicator for comparing periods

The unadjusted measure of uncertainty tends to increase mechanically when the average forecast moves away from the target. An expectation of higher inflation is often accompanied by a broader dispersion of possible scenarios, as shown in Chart 3. Chart 3 describes, for each professional forecaster and for each quarter, the individual variance of the distribution of expected inflation based on the difference between their baseline expectation and the 2% target. This relationship reflects a simple mechanism: when expected inflation shifts significantly from the target, the unadjusted variance increases mechanically, not because forecasters necessarily become more uncertain, but because a higher level automatically widens the range of possible values. To isolate the uncertainty from this mechanical dispersion, we develop a standardised indicator based on a method similar to a variance-stabilising transformation. For inflation, it neutralises the effect linked to the level of the

forecast, based on the observed relationship between the reported dispersion and the distance of the forecast from the 2% target. We apply the same approach to growth, but this time comparing it to a target that corresponds to what economists call the euro area's potential growth, i.e. the growth rate that the economy can sustain over the long term without an acceleration or deceleration of inflation. To estimate this, we use a method that extracts the long-term trend from the euro area GDP series, isolating sustainable movements from temporary fluctuations linked to the cycle.

Chart 3: Individual uncertainty about inflation depending on distance from target



Source: ECB Survey of Professional Forecasters (individual distributions over a one-year horizon) and author's calculations.

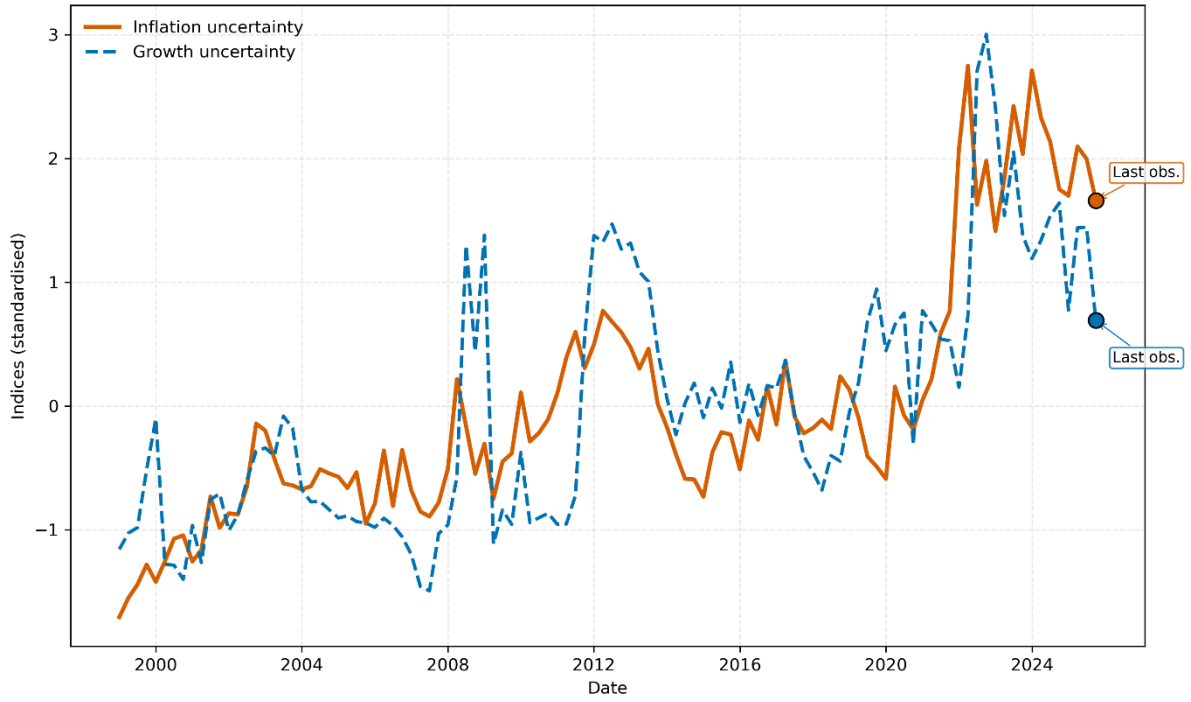
Note: Observations after the fourth quarter of 2021, following the rise in inflation, are highlighted in pink. The latest available data point, for the fourth quarter of 2025, is highlighted in red.

Inflation and growth: current uncertainty levels in the last decile of historical data

A combined analysis of inflation and growth distributions shows that the levels of uncertainty surrounding growth and inflation go hand-in-hand (Chart 4). This relationship strengthens during periods of heightened economic stress, such as during the sovereign debt crisis or the supply shock that occurred after 2021. Conversely, certain past crises – such as the bursting of the dot.com bubble or the global financial crisis – mainly increased uncertainty about growth. The nature of the shock therefore determines the variable perceived as being most at risk.

Over the recent period, average uncertainty expressed by European professional forecasters has been among the highest observed since the surveys began, for both inflation and growth. In other words, the divergences between scenarios remain exceptionally wide, even though inflation is now close to its 2% target and growth is evolving in line with its potential. These relatively high levels of uncertainty likely reflect the current context in terms of geopolitics and trade.

Chart 4: Uncertainties about inflation and growth over a one-year horizon in the euro area



Source: Quarterly ECB Survey of Professional Forecasters (individual distributions over a one-year horizon) and author's calculations.

Note: Uncertainty corresponds to dispersion adjusted for effects related to the level of the forecast. The latest available data point is the fourth quarter of 2025. The latest observations for Normalised Inflation Uncertainty (NIU) and Normalised Growth Uncertainty (NGU) exceed their historical 90th percentile, indicating heightened simultaneous macroeconomic uncertainty.