

ECONOMIC SURVEY

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

In the third quarter of 2025, real GDP grew briskly in the United States, slowed down in the United Kingdom and expanded at a faster pace in the euro area. The unemployment rate rose slightly in the United States and in the United Kingdom while it remained unchanged in the euro area.

Consumer price inflation rose further, mainly reflecting energy price dynamics. In the United States, inflation rose to 3.0% in September from 2.7% in June, in the United Kingdom, inflation increased to 3.8% in September from 3.6% three months earlier while, in the euro area, inflation edged up to 2.2% in September, compared to 2.0% in June. Both the Federal Reserve Bank (Fed) and the Bank of England lowered their key interest rates during the quarter under review, whereas the ECB kept interest rates unchanged.

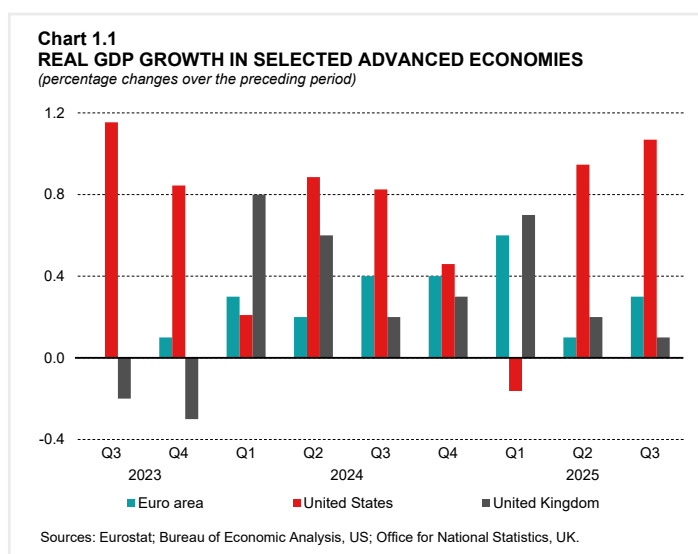
Brent oil and European natural gas prices fell further in the review period, mainly reflecting demand and supply dynamics and geopolitical developments.

Key advanced economies

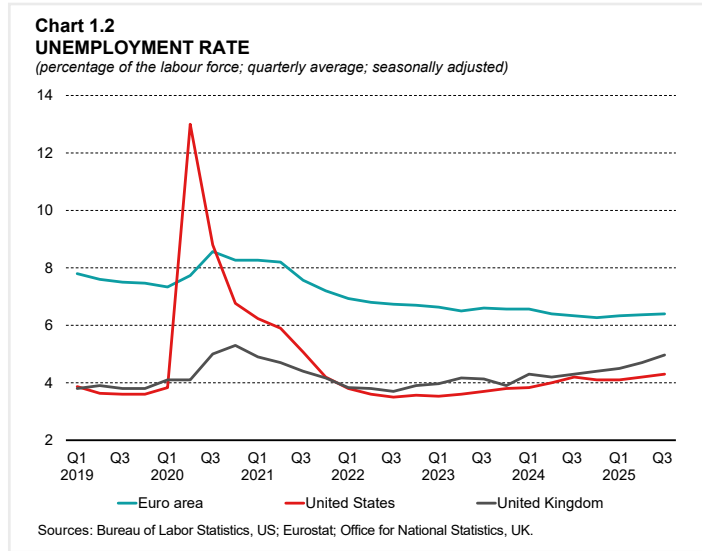
US economic activity grows at a faster pace

In the United States, real GDP grew at a quarterly rate of 1.1% in the third quarter, up from 0.9% in the preceding quarter (see Chart 1.1). This expansion in economic activity was primarily driven by personal consumption expenditures, which grew at a faster pace when compared to the previous quarter. Net exports improved notably, as exports rose while imports fell further following the frontloading of purchases earlier in the year ahead of the coming into force of new US tariffs. Government expenditure rebounded moderately. By contrast, gross private domestic investment shrank slightly as a decline in private inventories, mirroring developments in imports, outpaced an increase in fixed investment. The latter reflected a rise in non-residential investment that outweighed a drop in residential investment.

Labour market conditions weakened somewhat. Non-farm payroll data show that employment grew by 0.1% on average during the review period, compared to 0.2% in the previous quarter. The increase during the third quarter was entirely driven by employment in the private sector, while government employment decreased marginally. In turn, within the private sector, employment growth was driven by services and was most pronounced in education and

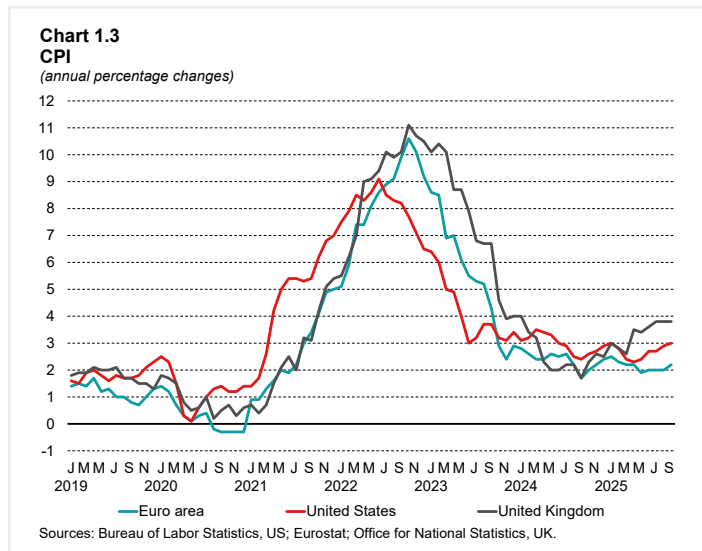


health, followed by leisure and hospitality. By contrast, during the review period, employment in most of the remaining services sub-sectors fell, particularly professional and business services, as did employment in manufacturing and construction. The participation rate decreased slightly to average 62.3% during the third quarter, compared to 62.4% during the previous three months. Meanwhile, the unemployment rate edged up to 4.3% in the quarter under review, from 4.2% recorded in the previous one (see Chart 1.2).



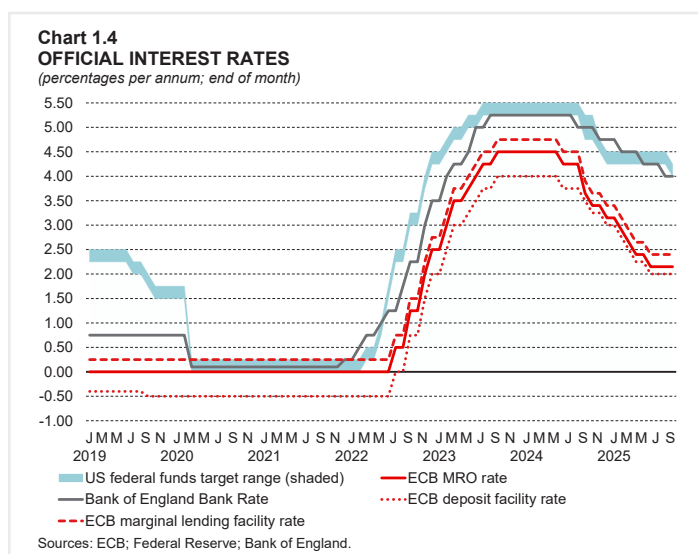
Headline inflation continued to rise in the quarter under review, mainly reflecting a marked increase in energy inflation, significantly higher goods (excluding food and energy) inflation and a marginal increase in food and beverages inflation. By contrast, services inflation fell slightly. Thus, the annual inflation rate based on the consumer price index (CPI) stood at 3.0% in September, compared to 2.7% three months earlier (see Chart 1.3). Annual energy inflation turned positive, rising to 2.8% in September, from -0.8% in June. The prices of goods, excluding food and energy, were up by 1.5% in the year to September, compared to a 0.7% increase recorded in the twelve months to June, amid some signs that the tariffs imposed by the US administration were beginning to affect prices of durable goods.¹ Meanwhile, food and beverages inflation inched up to 3.0% in September, compared to 2.9% three months before. On the other hand, services inflation fell to 3.6% in September, from 3.8% in June. As a result, underlying inflation, as measured by inflation excluding food and energy, edged up to 3.0% in September, from 2.9% three months earlier.

On 17 September, the Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by 25 basis points



¹ See Maximiliano A. Dvorkin, Fernando Leibovici and Ana Maria Santacreu, Federal Reserve Bank of Saint Louis, "How Tariffs Are Affecting Prices in 2025", October 2025.

to 4.0%-4.25% (see Chart 1.4). The Committee noted that while uncertainty about the economic outlook remained elevated and inflation moved up, activity moderated and downside risks to employment had risen. The FOMC reaffirmed that it was attentive to the risks to both price stability and employment, and reiterated its commitment to supporting maximum employment and returning inflation to its 2% objective over the longer run. The Committee also decided to continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at an unaltered pace.²



UK economic growth slows down

Real GDP in the United Kingdom grew by 0.1%, on a quarter-on-quarter basis, in the third quarter, down from 0.2% in the previous three months (see Chart 1.1). Growth was mainly driven by higher gross fixed capital formation (GFCF) as well as household consumption. To a lesser extent, government consumption also contributed. Together, these outweighed a decrease in inventories and a marginal deterioration in net trade. The latter reflected a rise in imports, which outpaced exports.

Labour market conditions weakened somewhat. The employment rate fell to 75.0%, on a quarterly-average basis in the third quarter, from 75.3% in the previous three months. Moreover, the unemployment rate continued to rise gradually, averaging 5.0% during the review period, up from 4.7% in the previous quarter (see Chart 1.2).

Consumer price inflation in the United Kingdom rose further during the quarter under review, with the annual inflation rate hitting 3.8% in September, compared to 3.6% three months earlier (see Chart 1.3). This mainly reflected a strong rise in energy inflation, due to base effects, which outpaced a decline in non-energy industrial goods (NEIG) inflation and marginally lower food and alcoholic beverages and tobacco inflation. The annual rate of energy price inflation increased to 4.3% in September, from -0.7% three months before, despite a fall in prices during the quarter reviewed, reflecting earlier increases in regulated prices. By contrast, NEIG inflation eased to 1.5% in September, from 1.8% in June, while food, alcoholic beverages and tobacco inflation edged down to 4.9% in September, from 5.0% three months before. Services inflation stood at 4.7% in September, unchanged from June. Underlying inflationary pressures eased slightly though remaining high, reflecting still elevated labour costs, with the annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco standing at 3.5% in September, compared to 3.7% three months earlier.

² At each of the meetings held in October and December, the FOMC decided to lower the target range for the federal funds rate by 25 basis points, bringing it down to 3.50%-3.75% by the end of the year. Additionally, on 29 October, the Committee decided to conclude the reduction of its aggregate securities holdings on 1 December 2025. Starting as from this date, it also decided to reinvest all principal payments from the Fed's holdings of Treasury and agency securities into US Treasury bills.

On 6 August, the Bank of England’s Monetary Policy Committee (MPC) decided narrowly to lower the Bank Rate by 25 basis points, to 4.0%, citing substantial progress on disinflation (see Chart 1.4). The MPC reiterated that a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. The Committee stated that the timing and pace of future reductions in the restrictiveness of policy would depend on the extent to which underlying disinflationary pressures would continue to ease. On 17 September, the MPC kept the Bank Rate unchanged. However, it decided to reduce the stock of UK government bond purchases held for monetary policy purposes by GBP 70 billion over the 12-month period starting October 2025, compared to a reduction amounting to GBP 100 billion effected during the previous 12 months.³

The euro area

Economic growth in the euro area picks up moderately

Economic activity in the euro area grew at a faster pace in the third quarter. In real terms, GDP rose by 0.3% on a quarter-on-quarter basis, compared to 0.1% in the previous quarter. Economic growth was entirely driven by domestic demand, as the contribution of net exports remained negative (see Table 1.1). In terms of sectoral value added, growth was underpinned by services.

Meanwhile, the European Commission’s Economic Sentiment Indicator (ESI) rose on average compared to the previous quarter even though it remained below the long-term average. The increase in the ESI reflected higher confidence in all surveyed sectors, possibly reflecting the agreement reached in July between the EU and the United States that led to an easing of trade tensions. Nevertheless, sentiment remained negative in all sectors, except the services sector.

Domestic demand contributed 0.5 percentage points to GDP growth during the quarter under review. Higher government consumption expenditure, a rebound in GFCF, an increase private consumption and a rise in inventories outweighed a negative contribution from net exports. The

Table 1.1
CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA⁽¹⁾

Percentage points; quarter-on-quarter percentage change

	2023		2024				2025		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	-0.1	0.1	0.3	0.1	0.3	0.3	0.1	0.1	0.1
Government consumption	0.1	0.2	0.0	0.2	0.1	0.1	0.0	0.1	0.2
GFCF	0.1	0.2	-0.4	-0.5	0.3	0.2	0.5	-0.4	0.2
Changes in inventories ⁽²⁾	-0.4	-0.5	0.0	0.2	0.6	-0.2	-0.2	0.5	0.1
Exports	-0.5	0.3	0.1	0.8	-0.7	0.1	1.1	-0.2	0.4
Imports	0.8	-0.3	0.3	-0.5	-0.2	-0.1	-1.0	0.0	-0.6
GDP	0.0	0.1	0.3	0.2	0.4	0.4	0.6	0.1	0.3

Source: Eurostat.

⁽¹⁾ Data are seasonally and working day adjusted. Figures may not add up due to rounding.

⁽²⁾ Including acquisitions less disposals of valuables.

³ On 17 December, the MPC decided to lower the Bank Rate by 25 basis points, to 3.75%. The Committee stated that although CPI inflation was above the 2% target, it was then expected to fall back towards target more quickly in the near term. It also stated that, based on the current evidence, the Bank Rate was likely to continue on a gradual downward path.

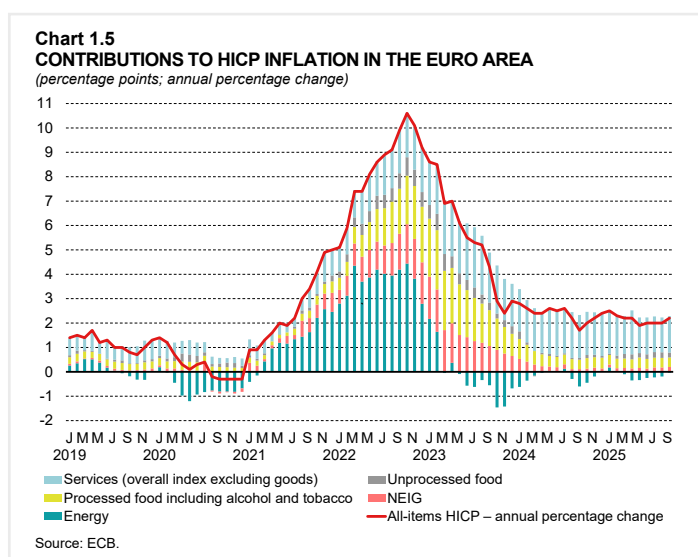
latter reflected an increase in imports that outpaced a rise in exports, with net exports pulling GDP growth down by 0.2 percentage points as a result.

Labour market remains robust

The labour market in the euro area continued to show resilience. Employment grew at a quarterly rate of 0.2% during this period, compared to 0.1% in the preceding quarter.⁴ Meanwhile, the seasonally adjusted unemployment rate stood at 6.4% in September, unchanged from June. It averaged 6.4% in the quarter under review, also unchanged from the previous quarter (see Chart 1.2).

Inflation edges up⁵

Inflation in the euro area increased slightly in the third quarter. The annual rate of inflation based on the HICP stood at 2.2% in September, compared to 2.0% in June (see Chart 1.5). The rise in overall inflation mainly reflected higher energy inflation and, to a lower extent, higher NEIG and unprocessed food inflation, which outweighed a marginal drop in services inflation. Meanwhile, processed food inflation remained unchanged.



Turning to the major HICP components, the annual rate of change of energy prices rose to -0.4% in September, from -2.6% in June. This partly reflects base effects as energy prices had fallen considerably in September 2024. The annual rate of NEIG inflation rose to 0.8% in September, from 0.5% three months earlier. Unprocessed food prices increased at an annual rate of 4.7% in September, compared to 4.6% in June. On the other hand, services inflation eased to an annual rate of 3.2% in September, from 3.3% in June. The annual rate of processed food inflation (including alcohol and tobacco) stood at 2.6% in September, the same as in June.

Underlying inflationary pressures edged up during the review period. Thus, one prominent measure of underlying inflation, the annual rate of HICP inflation excluding energy and food, stood at 2.4% in September, compared to 2.3% in June.

Real GDP expected to pick up slightly further, inflation around target

According to the Eurosystem staff macroeconomic projections for the euro area, published in December 2025, real GDP is expected to grow by 1.4% in 2025. Economic growth is then projected to ease slightly to 1.2% in 2026, before it rebounds to 1.4% in both 2027 and 2028 (see Table 1.2).

⁴ Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

⁵ This section is based on the HICP index compiled according to the European Classification of Individual Consumption according to Purpose (ECOICOP 1). As of 4 February 2026, new methodological changes were introduced in the HICP and the index is compiled according to the new ECOICOP version 2 (ECOICOP 2). This could result in some minor revisions to historical data in some indices, which could lead to minor discrepancies in HICP contributions as reported in this section.

Table 1.2
MACROECONOMIC PROJECTIONS FOR THE EURO AREA⁽¹⁾

Annual percentage changes

	2024	2025	2026	2027	2028
Real GDP	0.9	1.4	1.2	1.4	1.4
Private consumption	1.2	1.3	1.2	1.3	1.1
Government consumption	2.2	1.8	1.5	1.1	1.2
GFCF	-2.0	2.4	2.2	2.4	2.2
Exports	0.5	1.9	1.6	2.4	2.6
Imports	-0.1	3.2	2.3	2.7	2.8
HICP	2.4	2.1	1.9	1.8	2.0
HICP excluding energy and food	2.8	2.4	2.2	1.9	2.0

Source: ECB.

⁽¹⁾ Eurosystem staff macroeconomic projections for the euro area, December 2025.

Eurosystem staff envisage economic activity to increase moderately in the fourth quarter of 2025, amid continued weakness in the manufacturing sector. As some of the headwinds related to tariffs and trade policy uncertainty should start to fade, euro area growth would be expected to pick up in the first quarter of 2026. Over the medium term, real GDP growth is set to be underpinned by real disposable income growth, reflecting a resilient labour market, receding uncertainty and strong foreign demand. Fiscal stimulus and the impact of earlier monetary policy easing should also support economic activity. Domestic demand, in particular private consumption and, to a lower extent, private investment, is expected to be the main locomotive of economic growth. In turn, private investment growth will likely compensate for the slowdown in public investment following the expiry of the Next Generation EU (NGEU) programme funding towards the end of the projection horizon. Meanwhile, export growth is expected to remain subdued despite improving foreign demand, as euro area exporters face competitiveness challenges, US tariffs and the past strengthening of the euro. Thus, net exports are projected to contribute negatively to real GDP growth in 2025 and 2026, with import growth outpacing export growth. These negative contributions are expected to be partially compensated by a positive contribution from changes in inventories in 2025.

Compared to the September 2025 projections, real GDP growth was revised upwards by 0.2 percentage points in both 2025 and 2026 and by 0.1 percentage points for 2027. The upward adjustment for 2025 reflected revisions to historical data, including the significantly better than expected outcome for the third quarter of 2025. The lower trade policy uncertainty, stronger foreign demand and lower energy commodity prices led to the upward revision to the growth outlook for 2026. Slightly stronger quarterly dynamics and the more robust growth momentum in 2026 both resulted in an upward revision to the outlook for 2027. The largest upward revisions for 2025-27 related to business investment, government investment in 2027 and government consumption in 2025-2026. An upward revision to net trade also contributed to the revision in 2025 and to a lesser extent in 2026.

Compared to the September 2025 projections, the latest projections were conditioned on lower oil and gas prices, a postponement of the introduction of the Emissions Trading System 2 (ETS2) to 2028 and a weaker euro exchange rate. Meanwhile, the assumptions for short-term interest rates were revised only slightly, while the assumptions for long-term rates were revised downwards.

In addition, compared to the September 2025 projections, the effective tariff rates applied by the United States to euro area imports and vis-à-vis all its trading partners are slightly lower following the announcement of further details on the EU-US trade deal and other trade-related developments.

Turning to the outlook for prices, the Eurosystem staff foresee headline HICP inflation to decline to an average of 2.1% in 2025 from 2.4% in 2024, and to ease further to 1.9% in 2026 and 1.8% in 2027, before edging up to 2.0% in 2028. The lower average rate for headline inflation for 2026 reflects a decline in underlying inflation owing to a moderation in services inflation, alongside weaker food inflation. The rise in inflation to 2.0% in 2028 is mainly due to energy inflation and, in particular, the expected introduction of the ETS2 scheme in that year.

Compared to the September 2025 projections, the outlook for headline HICP inflation was kept unchanged for 2025, but was revised upwards by 0.2 percentage points for 2026 and downwards by 0.1 percentage points for 2027. The upward revision for 2026 was mainly driven by stronger than expected outcomes in recent months for energy, services and NEIG inflation. On the other hand, the downward revision for 2027 mainly reflected the expected postponement of the ETS2 scheme to 2028. However, this was partly counterbalanced by stronger services inflation.

HICP inflation excluding energy and food is expected to decline to an average of 2.4% in 2025 from 2.8% in 2024, and ease further to 2.2% in 2026 and then to stabilise at or close to 2% in the later years of the projection horizon, as labour cost pressures on services inflation wane. Services inflation is set to ease over the projection horizon, supported by an expected continued moderation in wage growth. NEIG inflation is expected to remain subdued in the coming months, supported by the strengthening of the euro, before gradually rising towards its historical average by late 2027.

Compared to the September 2025 projections, the outlook for underlying inflation was kept unchanged for 2025, but was revised upwards by 0.3 and 0.1 percentage points for 2026 and 2027, respectively.

ECB keeps interest rates unchanged

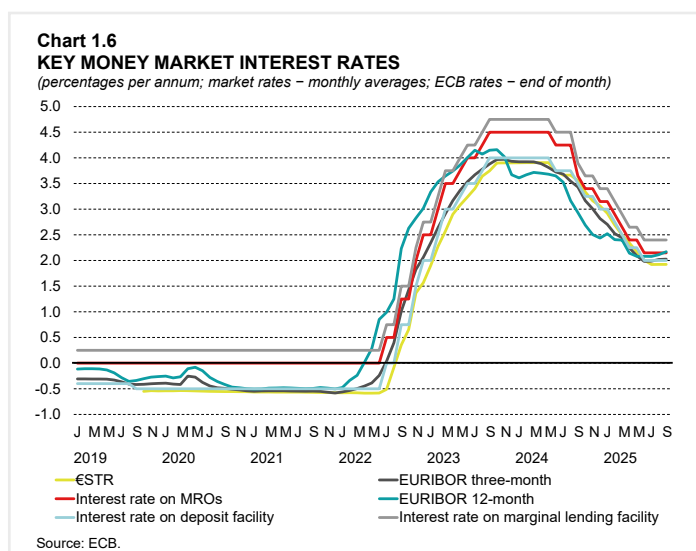
In July, the Governing Council kept the three key ECB interest rates unchanged as inflation was at the ECB's 2% medium-term target and the economy was proving resilient in a challenging global environment. Accordingly, the interest rates on the deposit facility (DFR), the MROs and the marginal lending facility stood at 2.00%, 2.15% and 2.40%, respectively. The Governing Council decided to keep interest rates unchanged in September as inflation was at around the ECB's 2% medium-term target and as updated economic projections confirmed the Governing Council's previous assessment of the inflation outlook. The Governing Council stated that it was determined to ensure that inflation would stabilise at its 2% target in the medium term. It reaffirmed that it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance and that it was not pre-committing to a particular rate path. Meanwhile, the APP and the PEPP portfolios continued to decline at a measured and predictable pace.⁶

⁶ At both the October and December meetings, the Governing Council kept the three key ECB interest rates unchanged. The Governing Council reaffirmed that it stood ready to adjust all its instruments within its mandate to ensure that inflation would stabilise at its 2% target in the medium term and to preserve the smooth functioning of monetary policy transmission.

Money market rates move slightly

Money market interest rates in the euro area changed marginally during the review period, after official interest rates were kept unchanged. Hence, the Euro Short Term Rate (€STR) averaged 1.92% in September, compared to 2.01% in June (see Chart 1.6).⁷ By contrast, the three-month euro interbank offered rate (EURIBOR) averaged 2.03% in September, as against 1.98% three months earlier. The 12-month EURIBOR averaged 2.17% in September,

compared to 2.08% in June.⁸ The 12-month EURIBOR thus stood further above the DFR, compared to June, indicating that market players increasingly did not expect additional policy rate cuts.



Euro area government bond yields rise

Sovereign bond yields generally rose in the euro area, amid an improvement in global financial markets' sentiment, which made riskier securities such as equities relatively more attractive. The latter was supported by the continued AI boom in the United States, solid corporate earnings, a US Fed interest-rate cut and diminishing concerns regarding the US trade policy, even though global uncertainty remained elevated. Fiscal developments in the euro area also played a role.

Consequently, the euro area ten-year benchmark government bond yield rebounded during the third quarter. This yield was 3.23% at end-September, compared to 3.08% three months earlier.

In Germany, ten-year sovereign bond yields increased during the quarter, standing at 2.69% at end-September, up by 17 basis points when compared to end-June. Increased German government borrowing to finance higher spending on infrastructure and defence helped push up yields. In addition, a more favourable economic outlook for the euro area encouraged investors to move out of safe-haven sovereign bonds, such as German sovereign bonds, in favour of riskier assets.

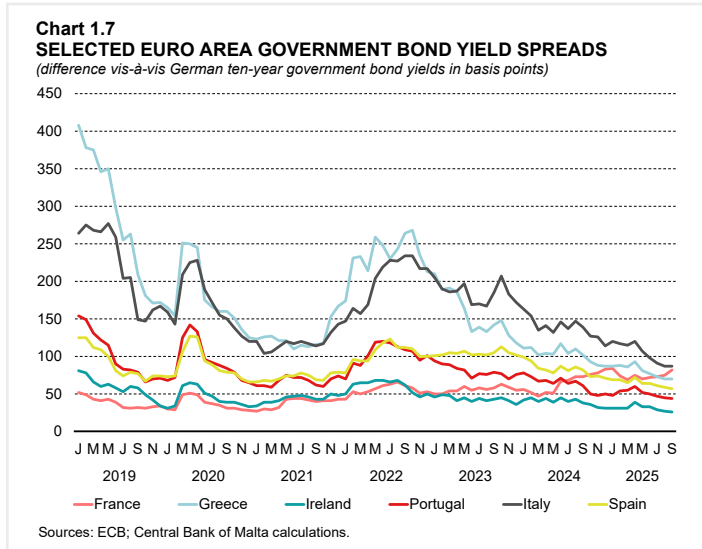
In France, yields extended a general upward trend evident since the beginning of the year, rising by 27 basis points, to 3.51%. This mainly occurred on concerns about political developments in France, especially after prime minister François Bayrou was forced to step down soon after his package of budget cuts and tax rises failed to win support in parliament. In September, the French sovereign credit rating was downgraded in light of persistent deficits, very high public debt and protracted political instability.

⁷ The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. The €STR is published on each T2 business day based on transactions conducted and settled on the previous T2 business day.

⁸ The EURIBOR is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.

In Portugal, the ten-year bond yield rose by 11 basis points, to 3.13%. Meanwhile, in Greece, Ireland and Spain yields increased by 10 basis points individually, to 3.39%, 2.95% and 3.26%, respectively. In Italy, the ten-year bond yield rose by 6 basis points, to 3.56%. Yields increased to various degrees in almost all the other euro area jurisdictions.

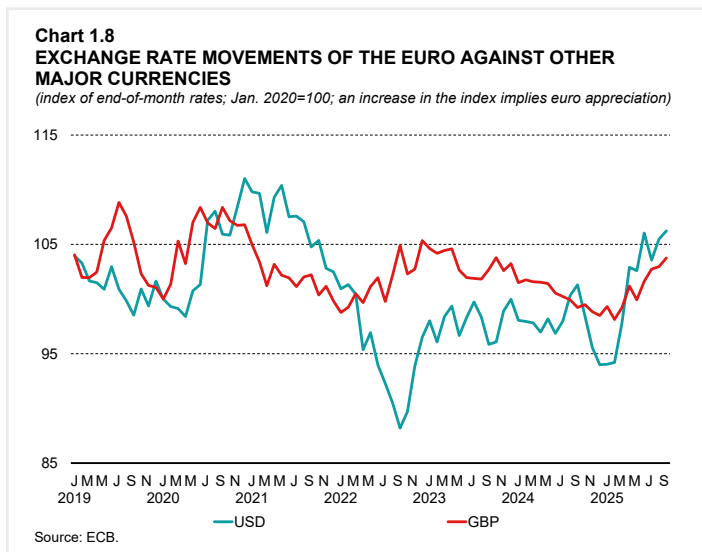
As a result, spreads against the ten-year German bond narrowed for many euro area jurisdictions, including Italy, Portugal, Greece, Ireland and Spain. By contrast, the spreads in a few other euro area countries – including France – widened (see Chart 1.7).



The euro strengthens slightly further against the US dollar and in nominal effective terms

During the review period, the euro appreciated by 0.2% against the US dollar, modestly extending the substantial gains it had recorded in the first half of 2025. The US dollar fluctuated in line with market sentiment, while it was negatively affected by narrowing interest-rate differentials between the euro area and the United States. Developments in US trade policy and geopolitical instability contributed to further currency fluctuation (see Chart 1.8).

The euro continued to rise versus the British pound, gaining 2.1% over the quarter, as the latter was adversely affected by persistently high inflation, elevated public borrowing and weak economic growth in the United Kingdom. The euro also strengthened by 2.7% against the Japanese yen, which was undermined by the political situation in Japan, weak economic activity and the country's trade deficit. Meanwhile, the euro also rose against most other major currencies, including the Canadian and Australian dollars and the Chinese renminbi. By contrast, the single currency depreciated against the Swiss franc, the Hungarian forint, the Czech koruna and the Polish zloty.



Overall, the nominal effective exchange rate (EER) of the

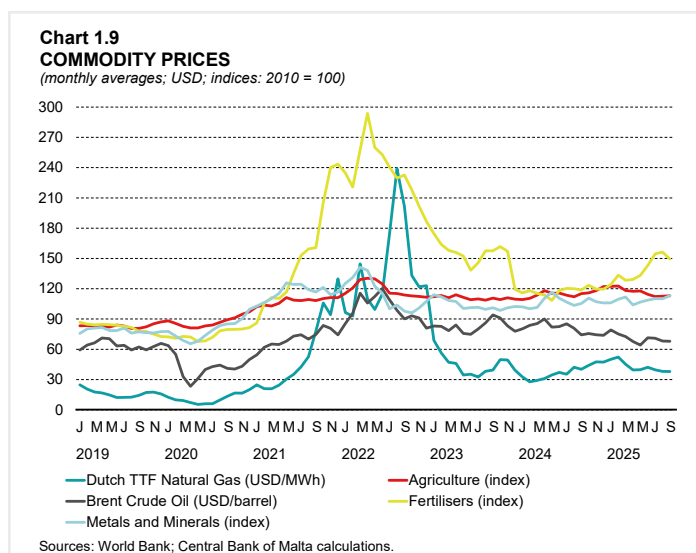
euro against the EER-18 group of countries rose by 0.4% in the three months to end-September, reinforcing notable gains it recorded in the first half of 2025.⁹

Commodities

Oil and especially natural gas prices fall further

Oil prices fell further during the third quarter of 2025 mainly reflecting excess supply, noted since the start of the year. This oil surplus dampened the bullish impact on prices emanating from an escalation of tensions in Ukraine and new sanctions against Russia and Iran. According to the International Energy Agency, although global oil demand rebounded from the previous quarter, global supply rose massively on the back of increases in output by both OPEC+ and non-OPEC+ producers.¹⁰ Overall, the price of Brent crude oil averaged USD 68.0 per barrel in September, 4.9% lower than the level prevailing three months earlier. Meanwhile, the price of European natural gas continued to fall. This mainly reflected lower demand in Europe, weak growth in total non-European liquefied natural gas (LNG) demand and rising global LNG supply. Against this background, the average price of Dutch TTF natural gas stood at USD 37.90 per megawatt hour in September, 10.1% lower than in June (see Chart 1.9).

World Bank data show that non-energy commodity prices rose by 0.6% during the quarter under review as higher prices for fertilizers as well as for metals and minerals outweighed lower prices for agricultural products. Meanwhile, prices of precious metals were up by 10.7%, as they continued to be supported by safe-haven flows.



⁹ The EER-18 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

¹⁰ See International Energy Agency, Oil Market Report, October 2025.