



Europe 2026: (Still) Limping Along

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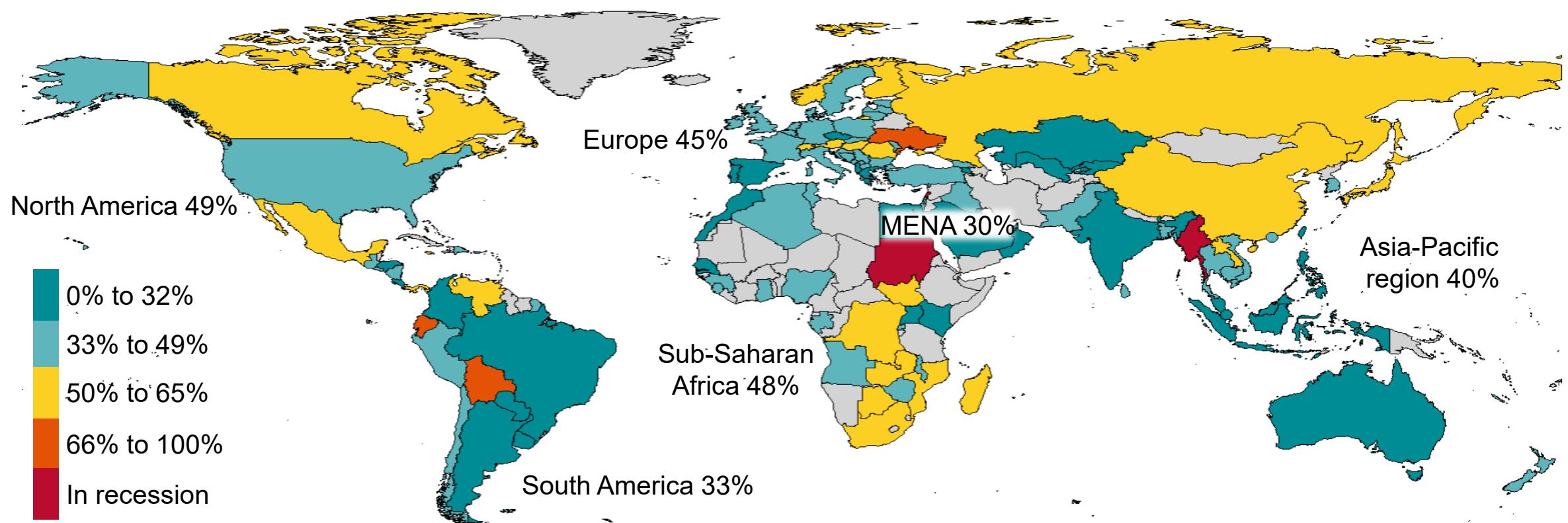
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December 2025

Probability of a Recession Starting in the Next 12 Months

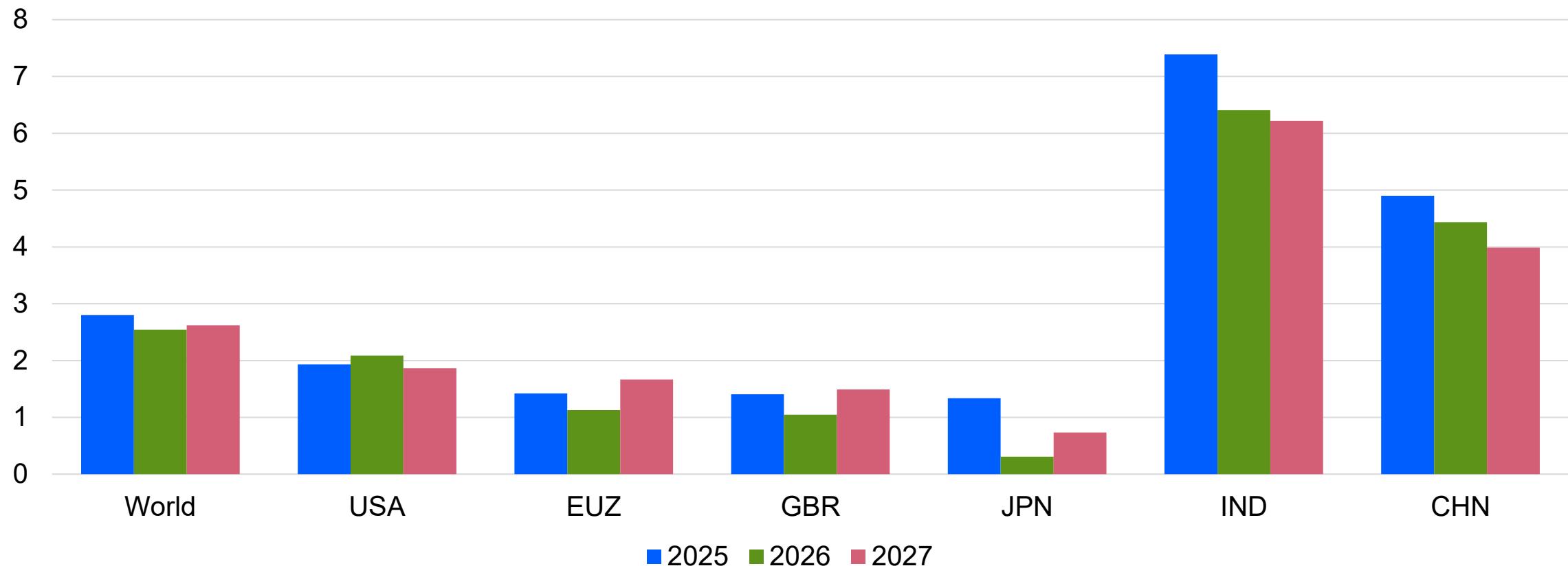
Regional aggregates, weighted by real GDP at PPP



Source: Moody's Analytics

Global Growth Remains Resilient

Real GDP, %, Moody's Analytics Dec baseline

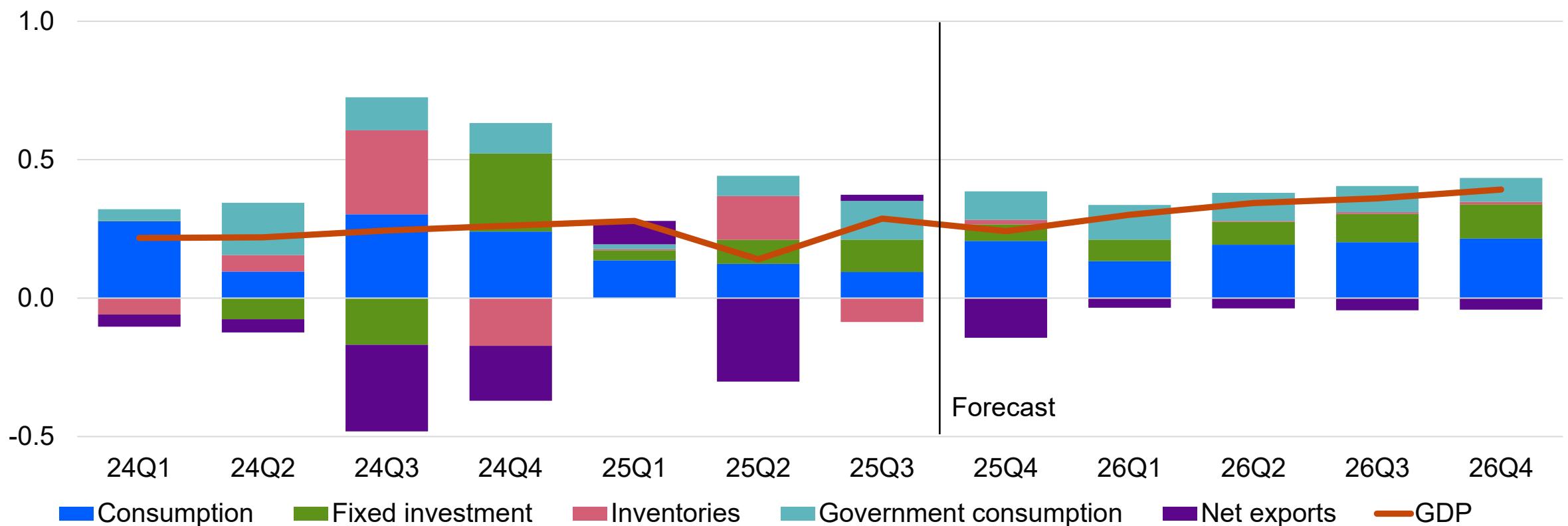


Sources: National statistics offices, Moody's Analytics

Euro Zone Outlook

Growth Is Set to Pick Up, Driven by Consumption and Fixed Investment

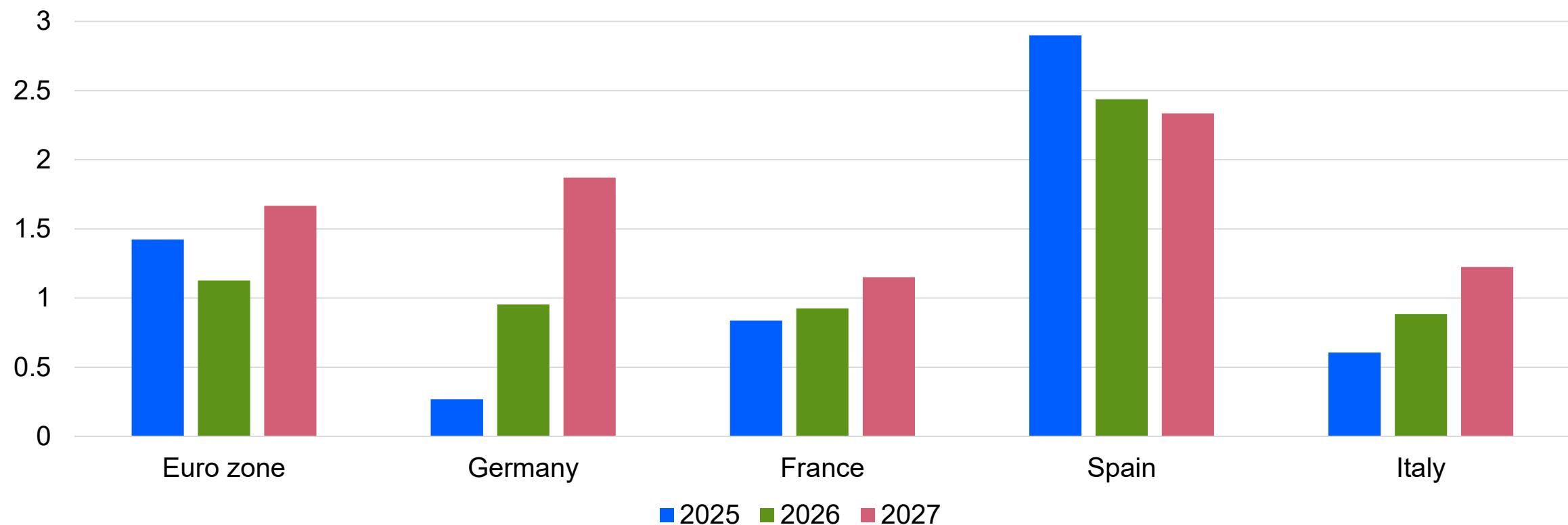
Euro zone GDP ex Ireland, % change qtr ago; contributions, ppts



Sources: Eurostat, Moody's Analytics

2026 Should Bring a Revival of the German Economy

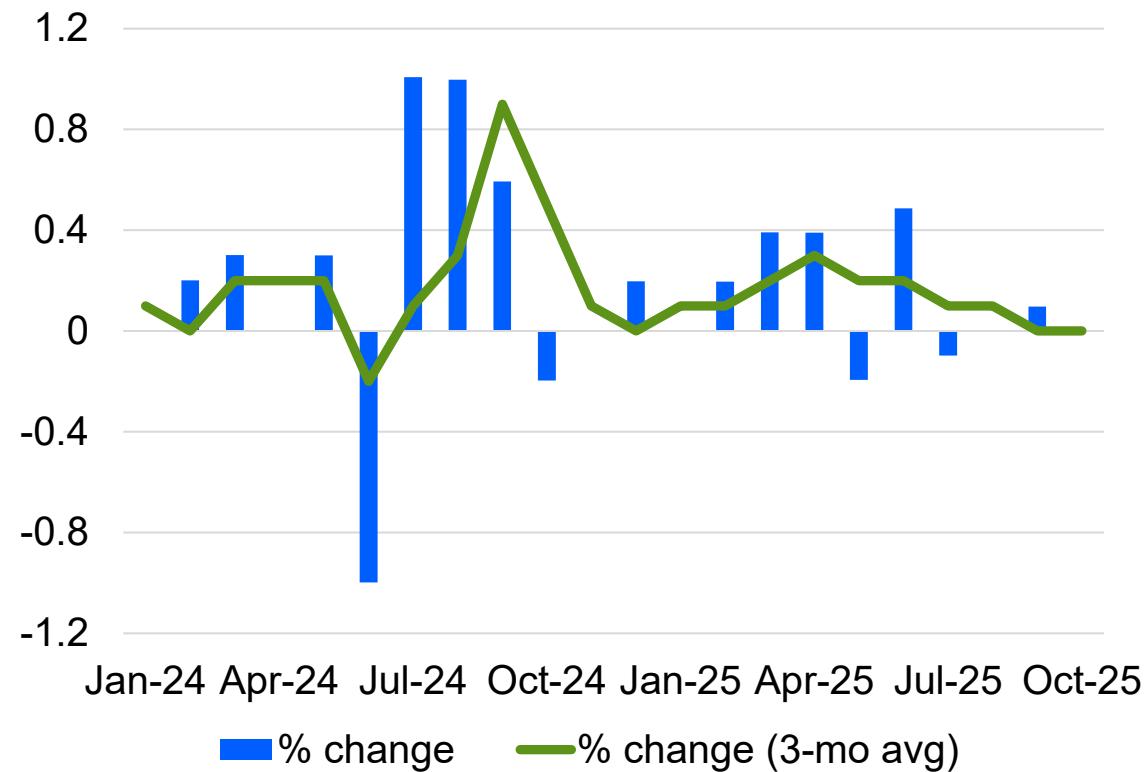
Real GDP growth, % change, Dec baseline



Source: Moody's Analytics

Consumers Will Need to Shake Off the Gloom

Euro zone retail sales, SA, % change



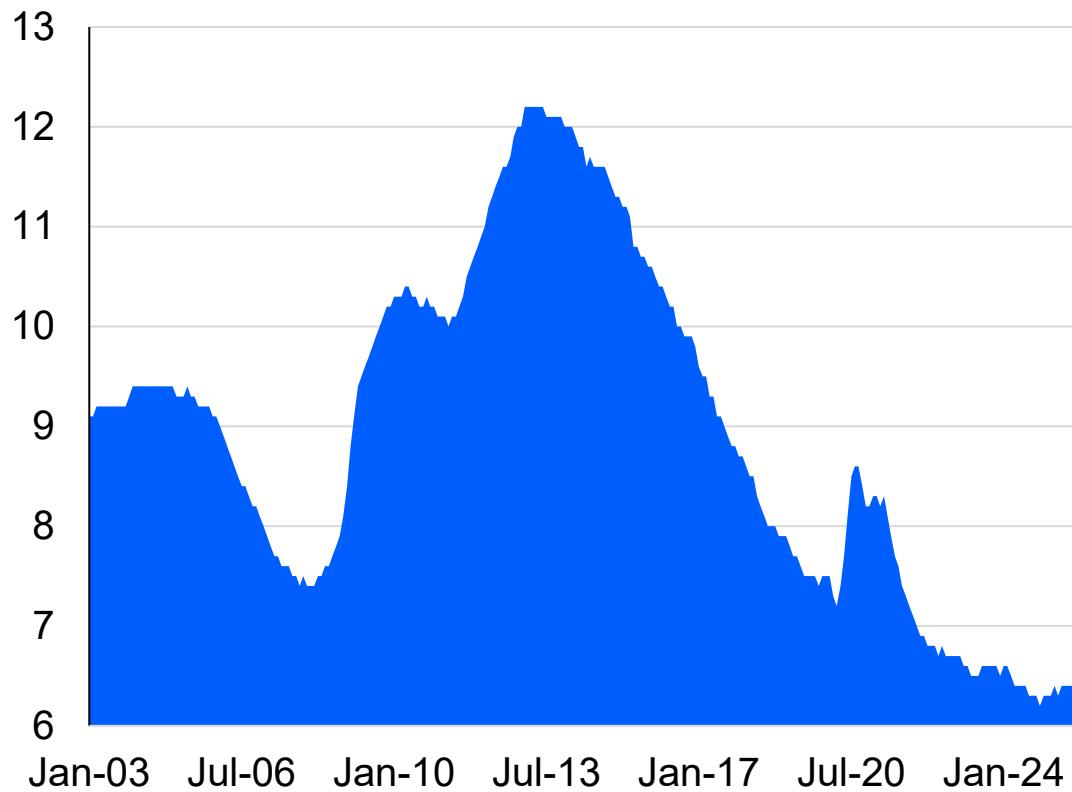
Euro zone economic sentiment indicator, long-term avg=100



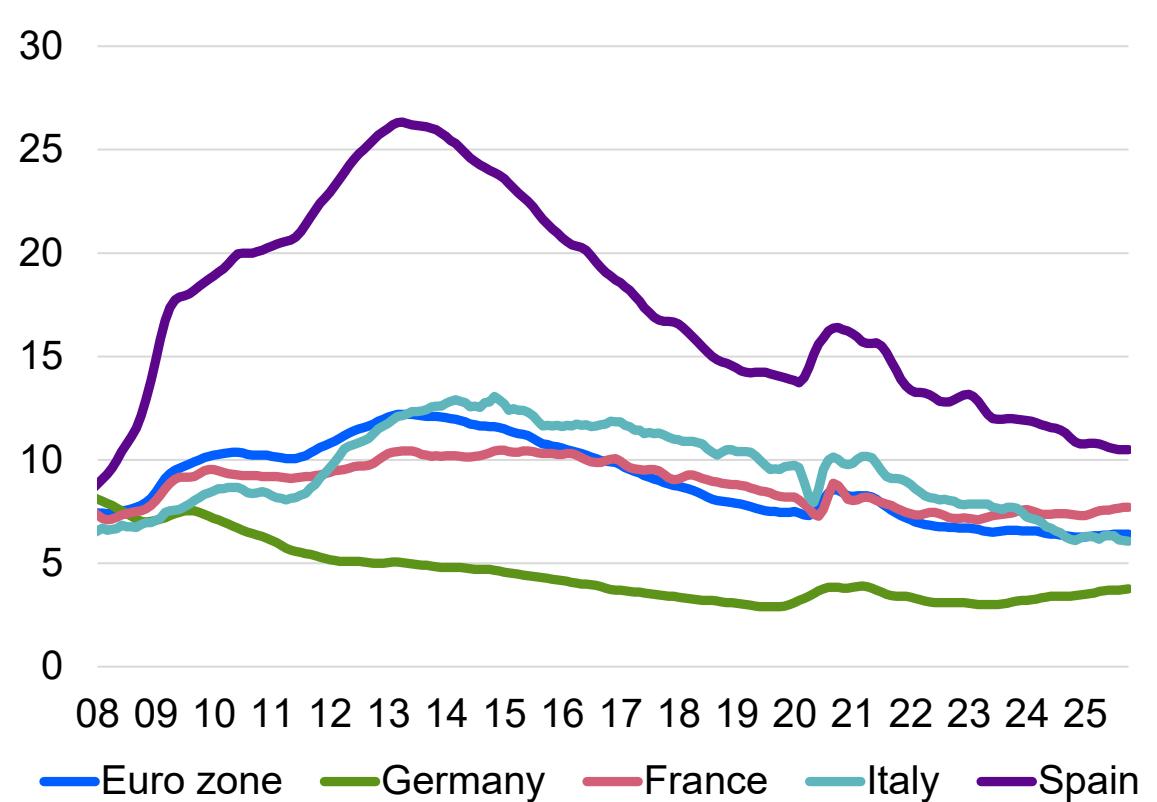
Sources: European Commission, Moody's Analytics

Labour Markets Will Remain Healthy

Euro zone unemployment rate, %



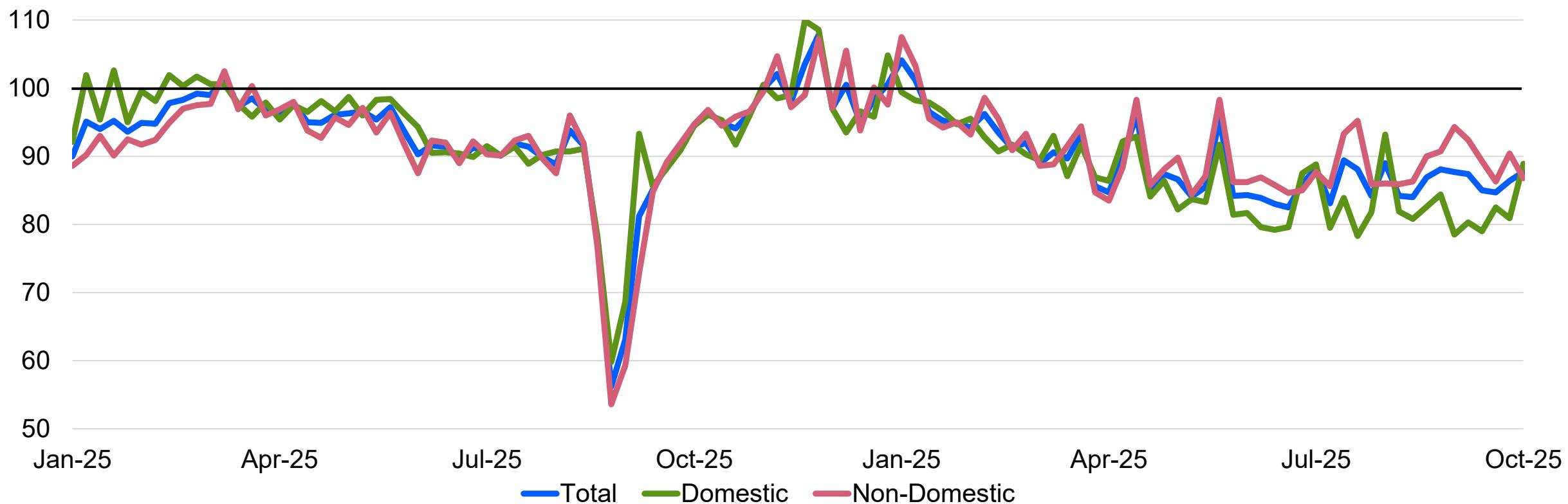
Unemployment rate, 3-mo MA, %



Sources: Eurostat, Moody's Analytics

We Are Betting on a Manufacturing Revival

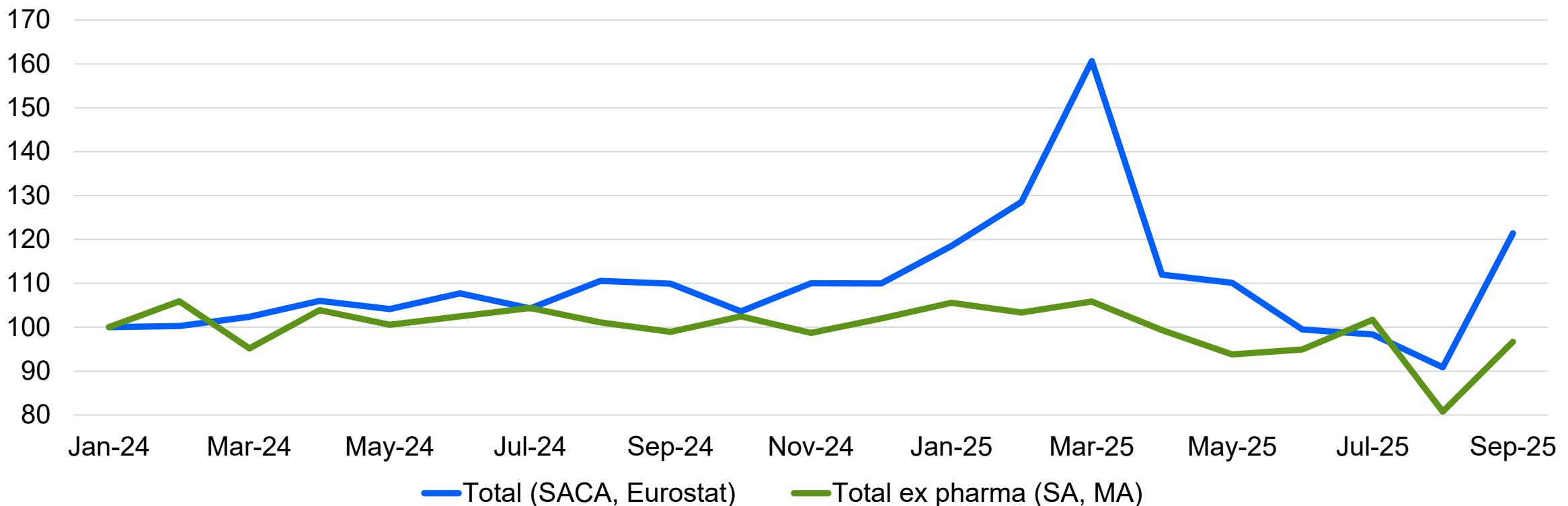
Germany, volume of new manufacturing orders, 2021=100, SA and calendar adjusted



Sources: Destatis, Moody's Analytics

Front-Loading Led to a Delay in the Tariff Impact

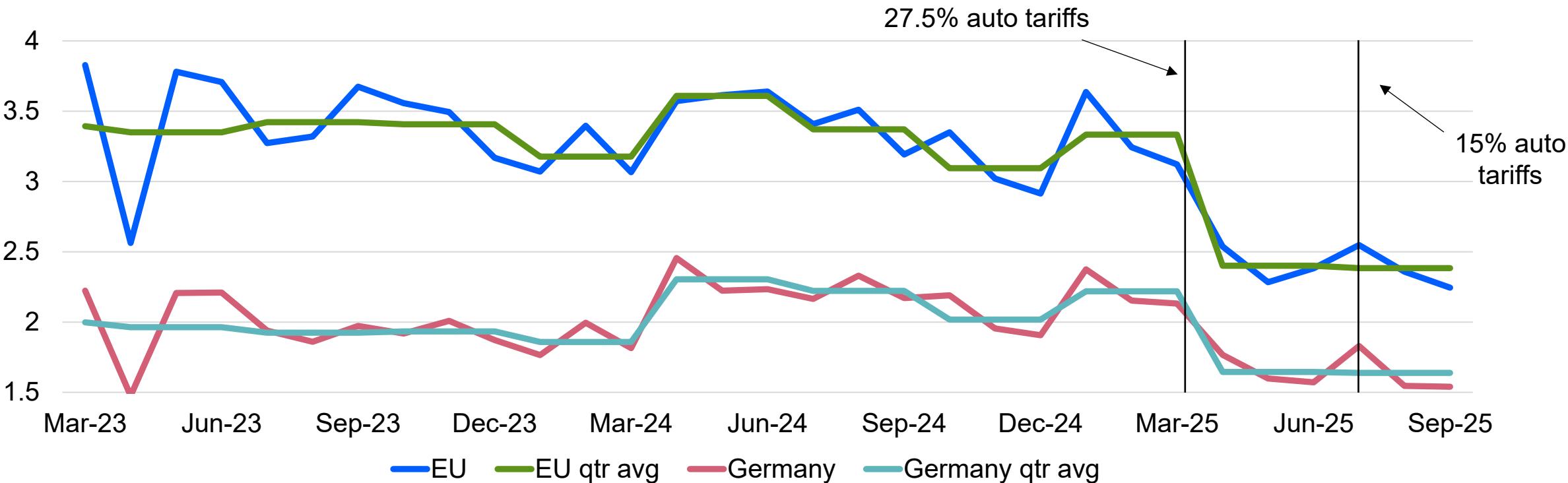
EU exports to the U.S., Jan-24=100, NSA unless otherwise labelled



Sources: Eurostat, Moody's Analytics

Auto Tariffs Are Taking Their Toll on EU Automakers

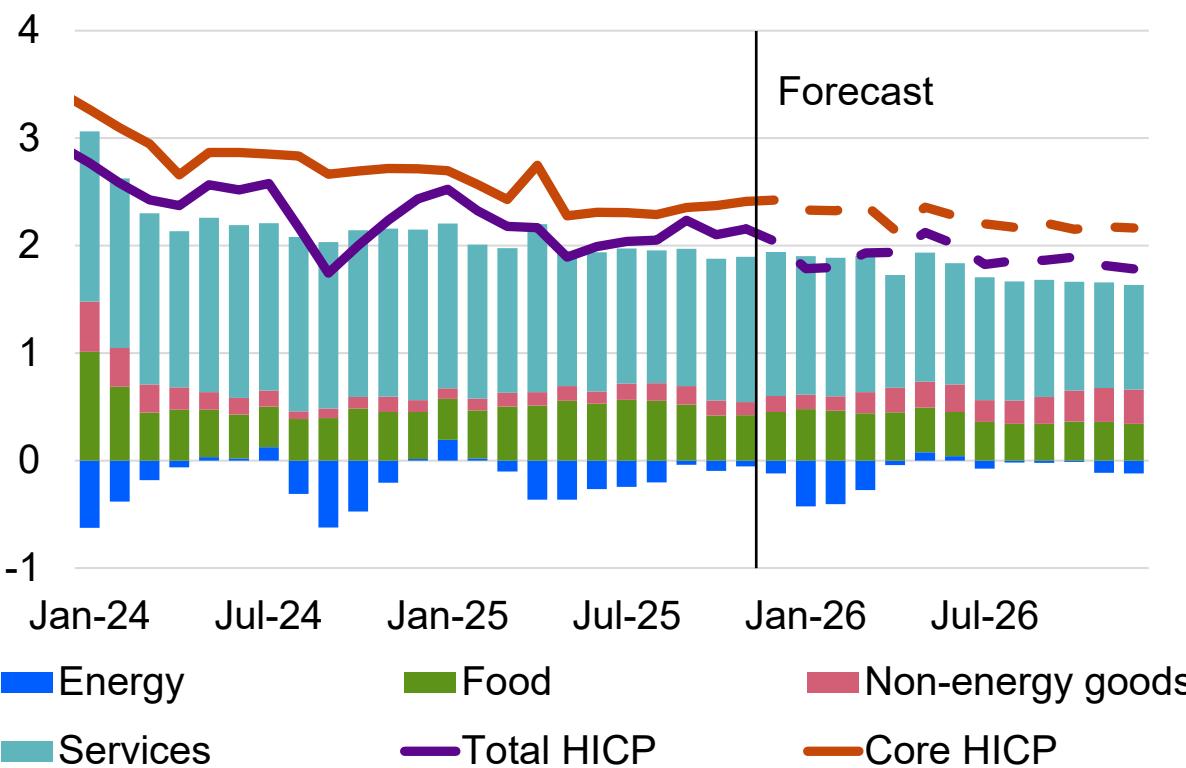
Auto exports to the U.S., mo data and qtr avg, € bil, SA (by Moody's Analytics)



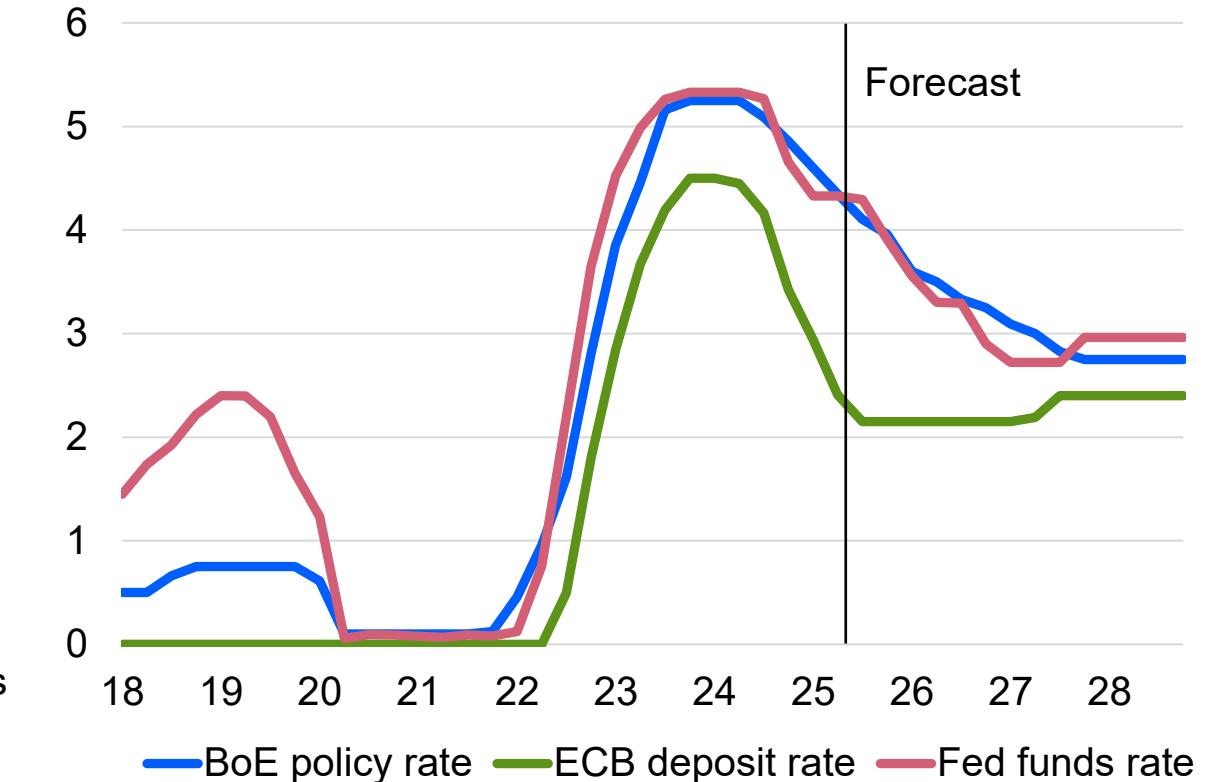
Sources: Eurostat, Moody's Analytics

The ECB Is Done, but the BoE and Fed Will Continue to Lower Rates

Euro zone HICP, % change yr ago; contributions, ppts



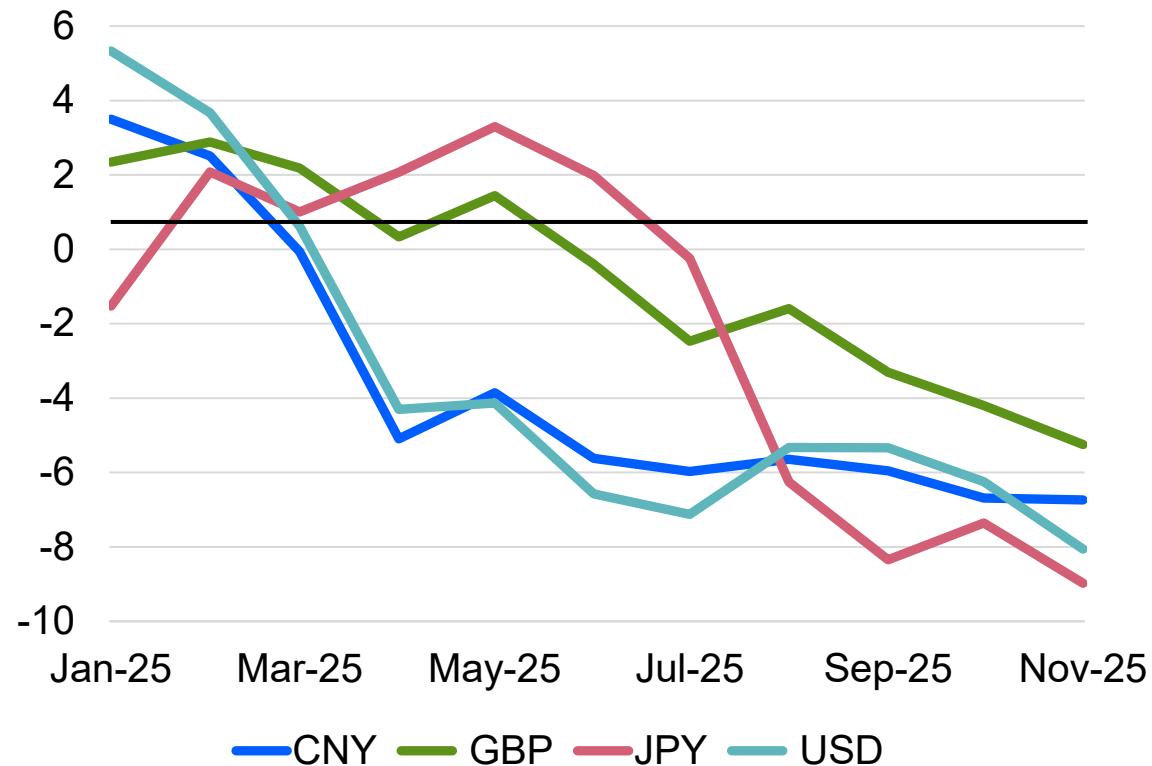
Policy rate, %



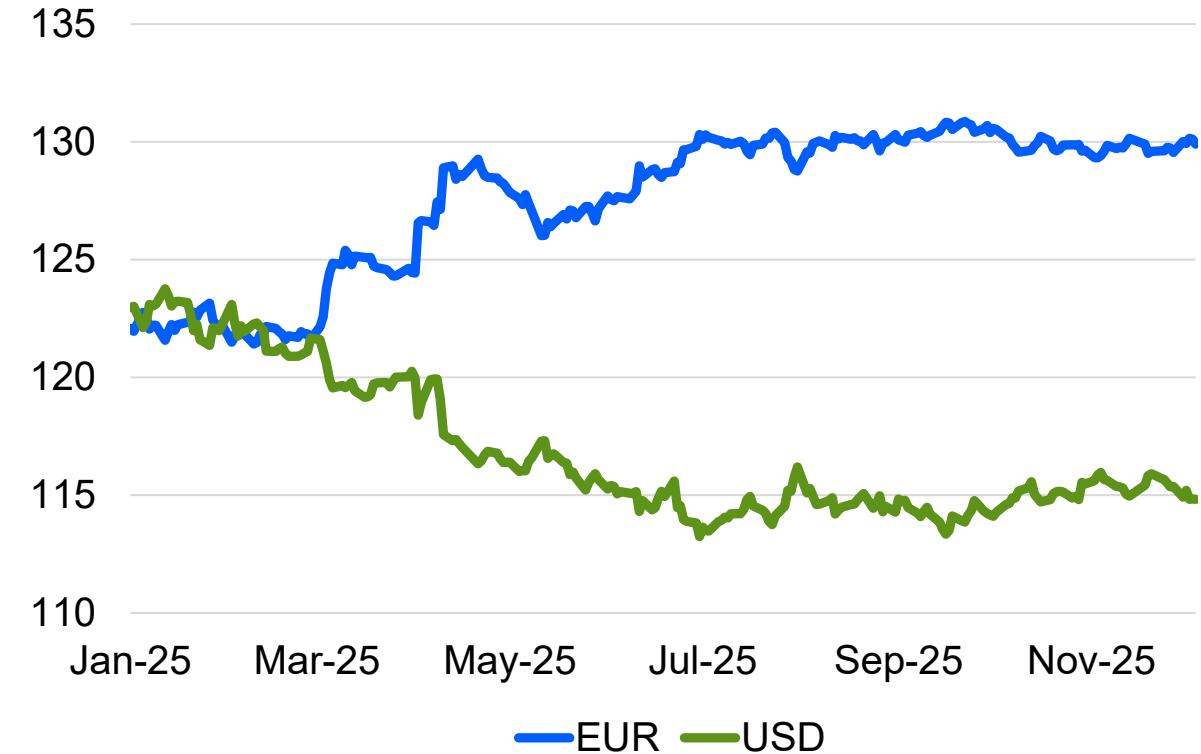
Sources: BoE, ECB, Federal Reserve, Moody's Analytics

Sustained Euro Strength in 2026

EUR per; % change yr ago



Nominal effective exchange rate - 41; 1999Q1=100

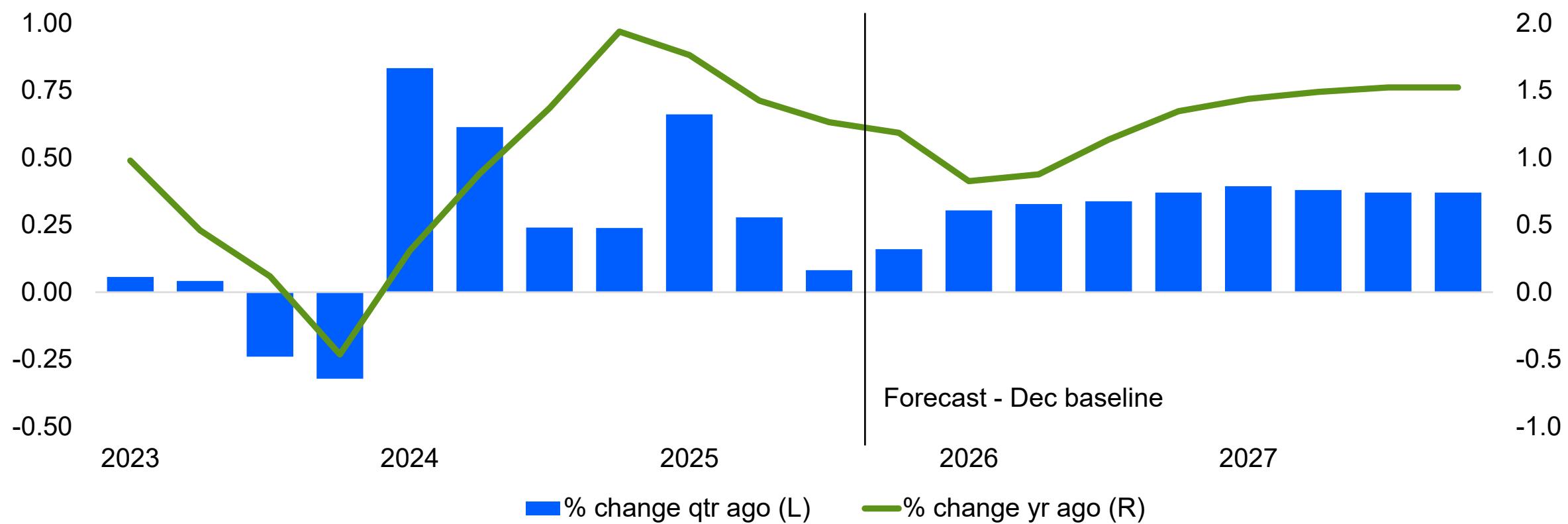


Sources: Eurostat, Moody's Analytics

U.K. Outlook

U.K. Growth to Remain Subdued

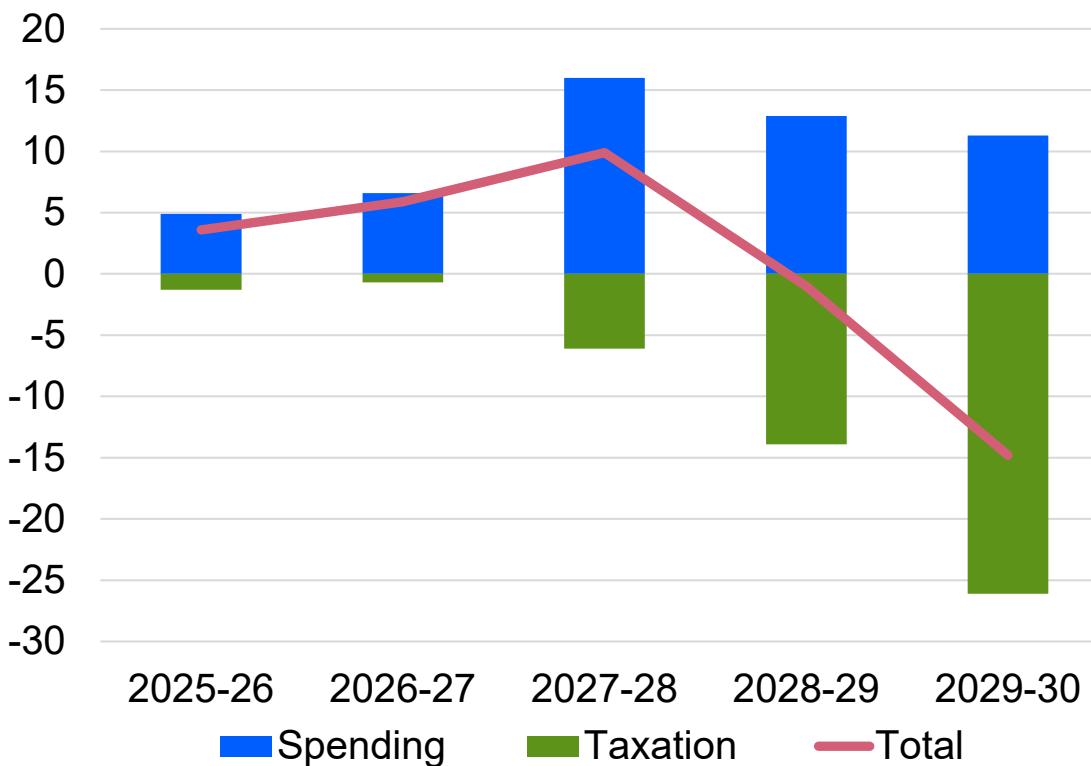
U.K. real GDP



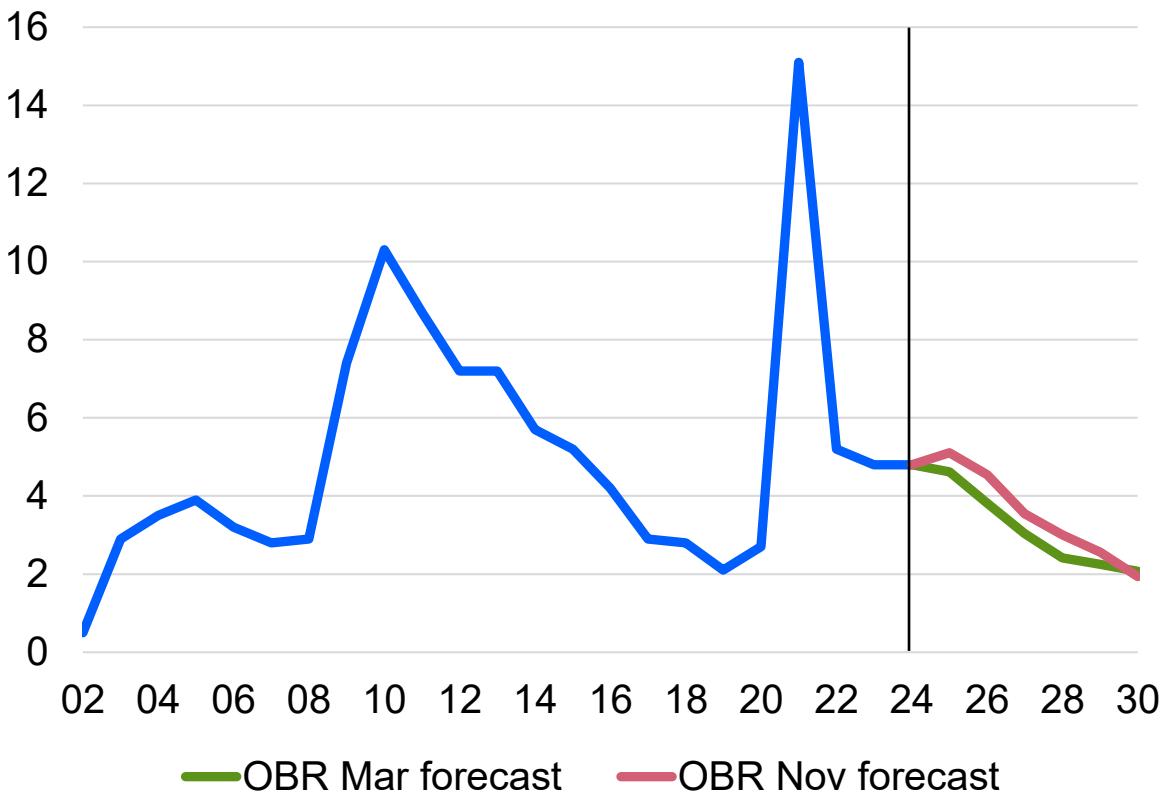
Sources: Office for National Statistics, Moody's Analytics

Budget Points to Fiscal Consolidation, Eventually

Impact of Nov budget policies on govt borrowing, £ bil



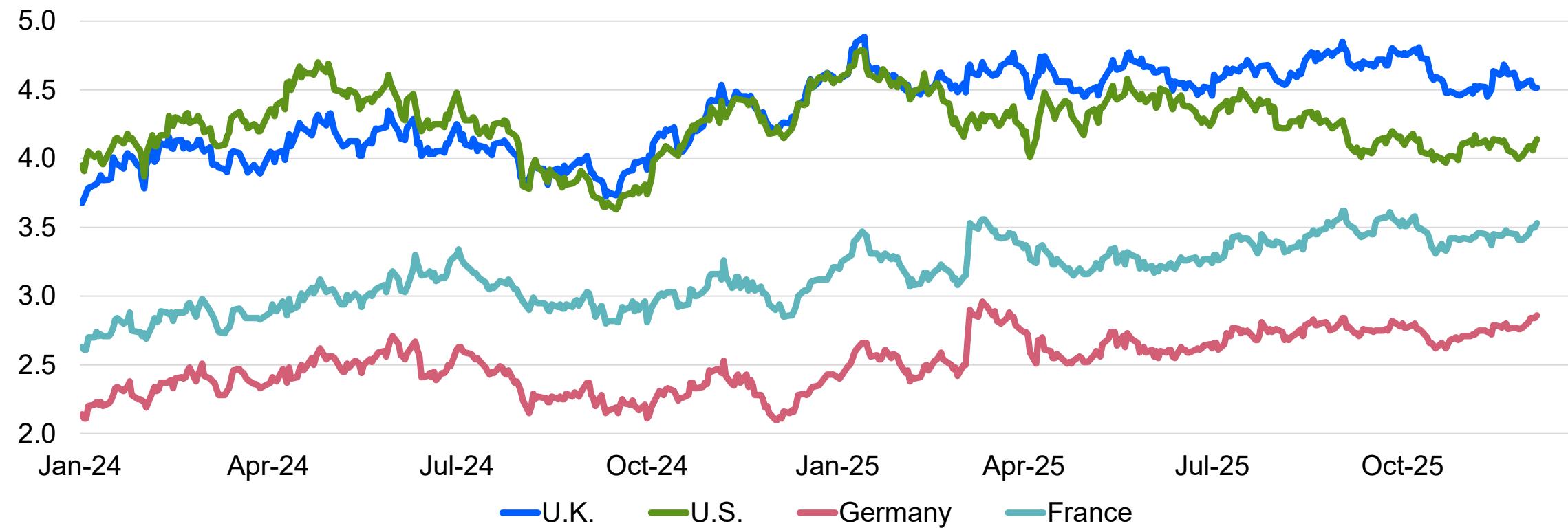
Public sector net borrowing, % of GDP



Sources: Office for Budget Responsibility, Moody's Analytics

U.K. Bond Yields Edge Down but Still Exceed Peers

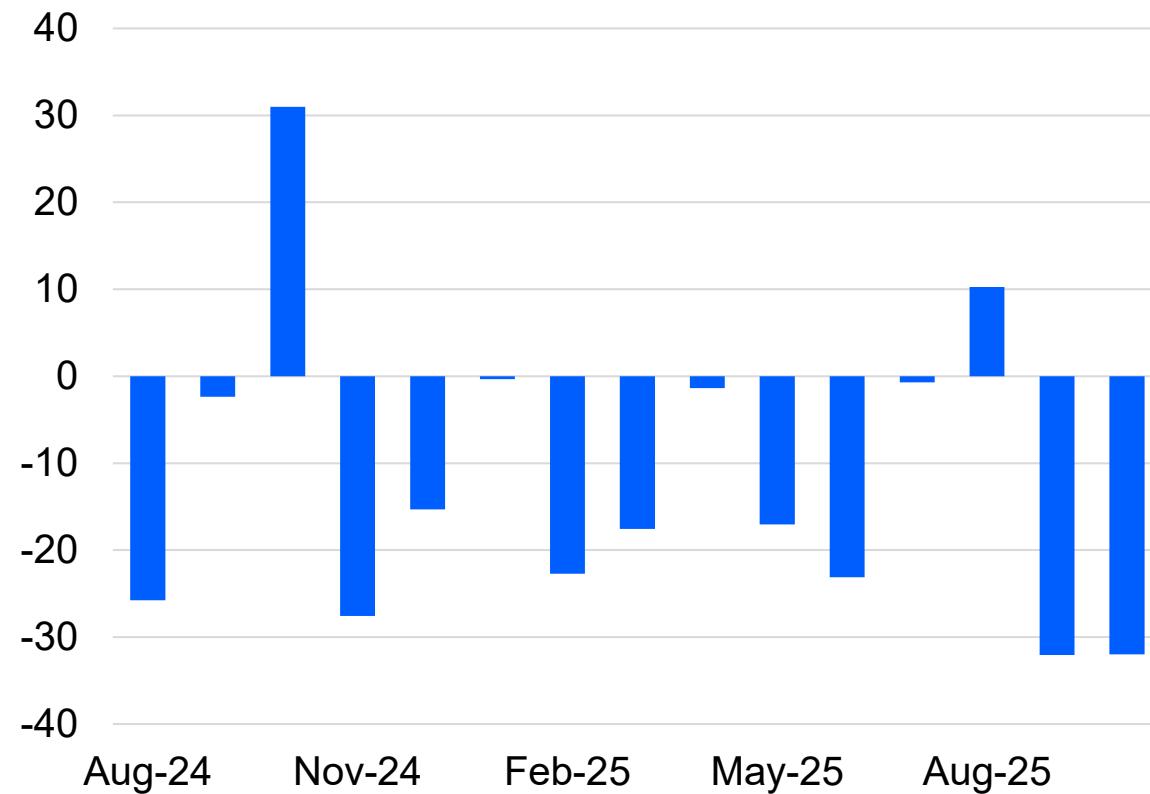
10-yr government bond yields, %



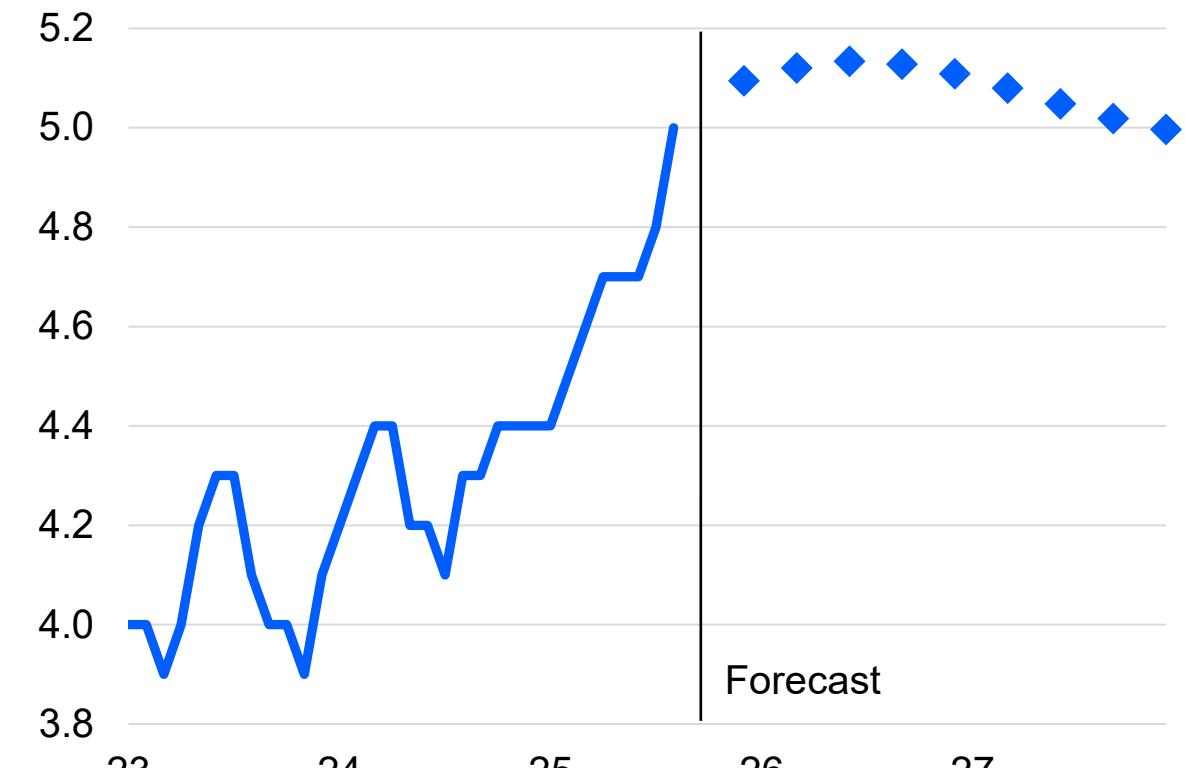
Sources: Federal Reserve, BoE, ECB, Moody's Analytics

Unemployment to Rise Only Slightly Further in 2026

Payrolled employees, mo change, ths



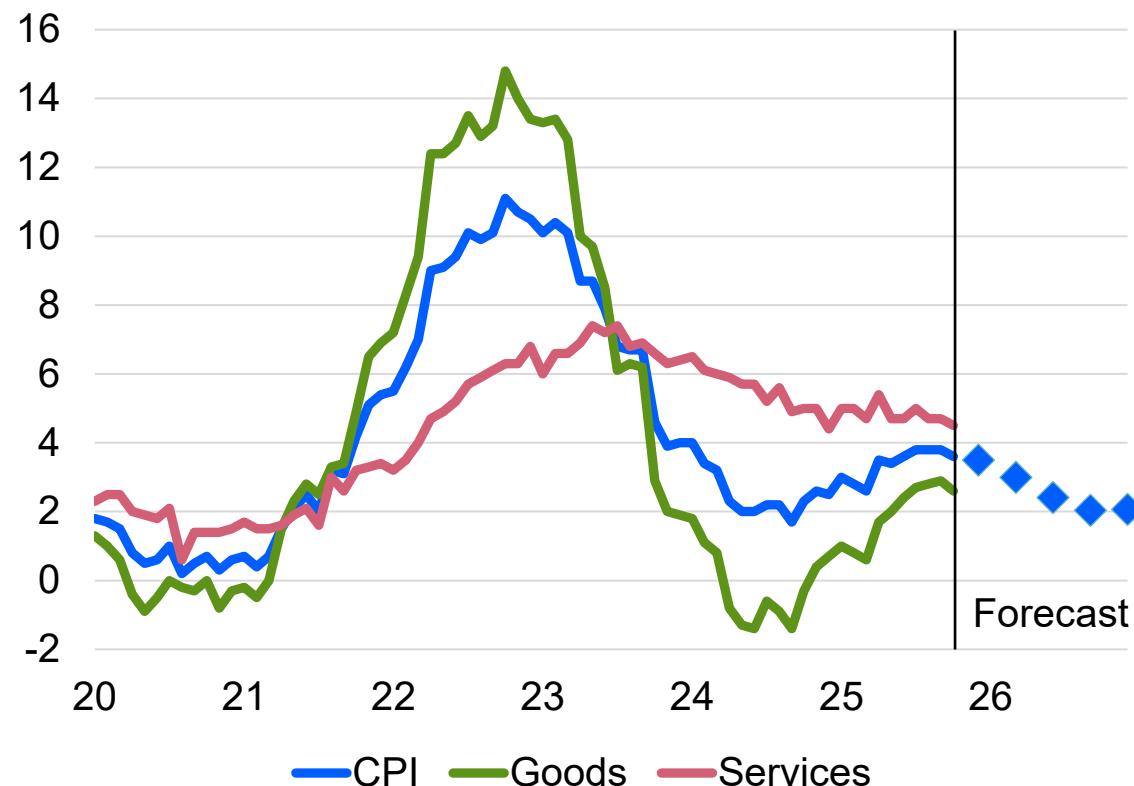
Unemployment rate, %



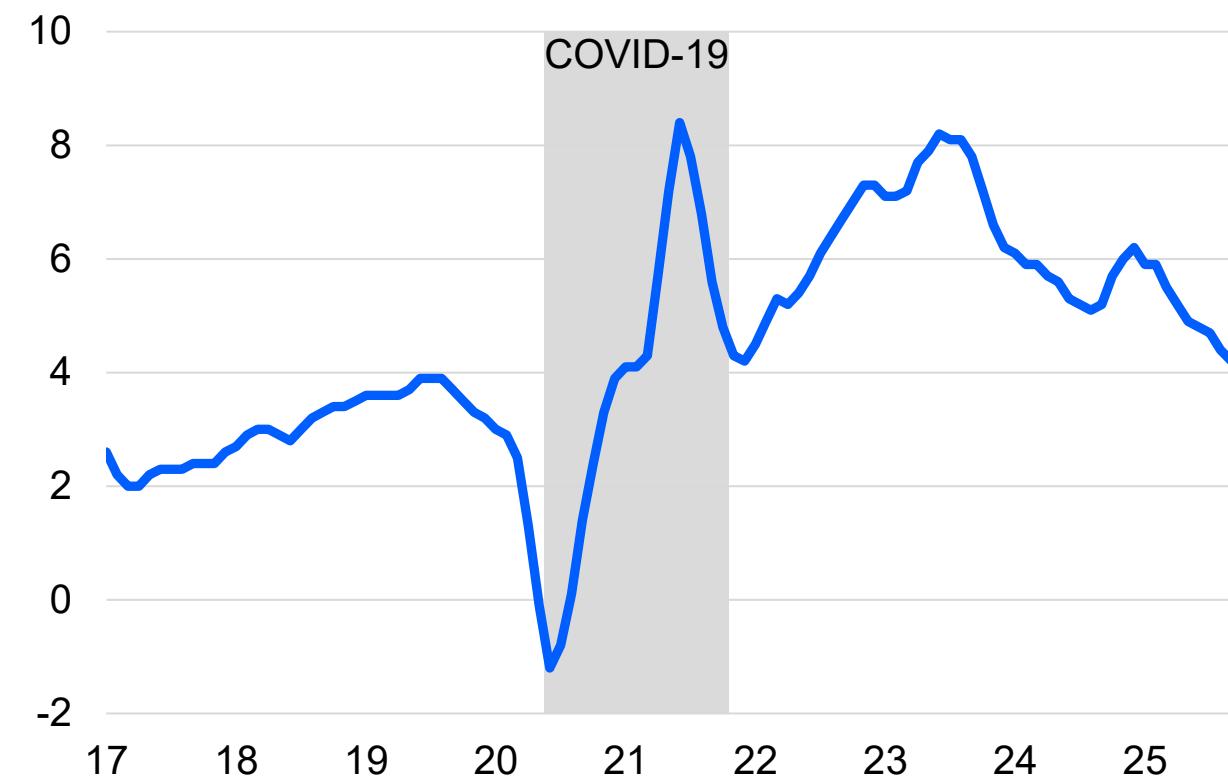
Sources: HMRC, ONS, Moody's Analytics

Inflation to Moderate Through 2026; Wage Growth Is Easing

Consumer price index, % change yr ago



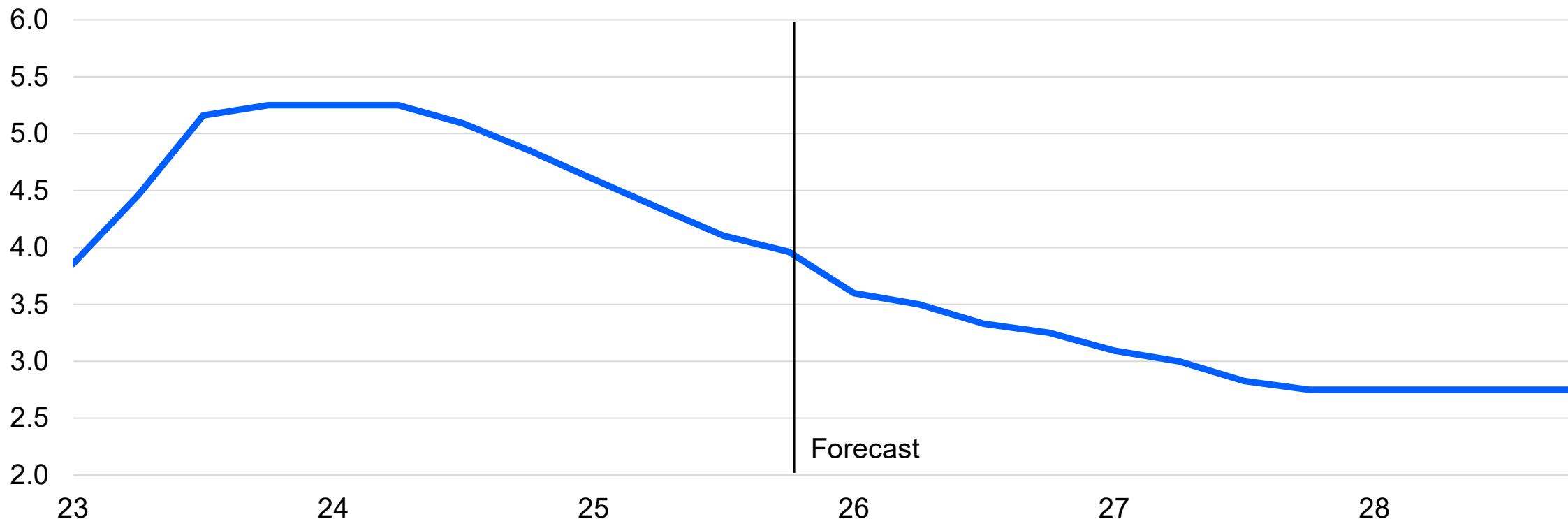
Private sector regular avg wk earnings, % change yr ago



Sources: ONS, Moody's Analytics

BoE to Cut Rates in December and Twice in 2026

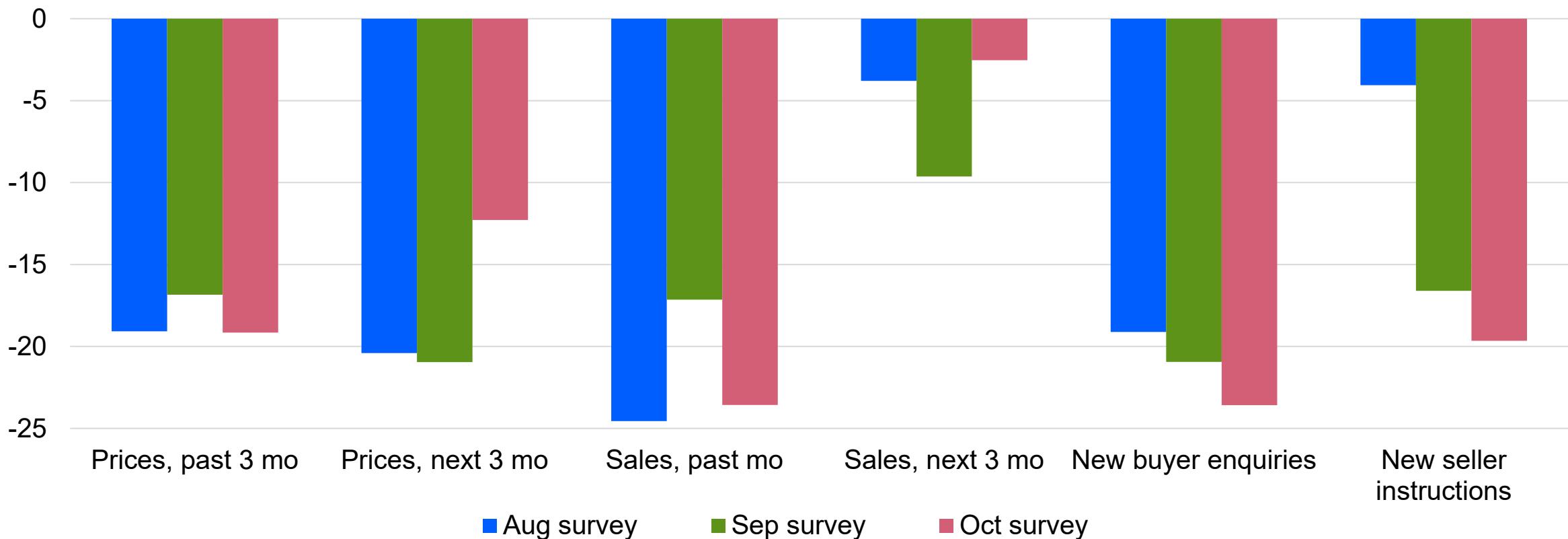
BoE policy rate, %



Sources: BoE, Moody's Analytics

Housing Market Sentiment Deteriorated Prior to the Budget

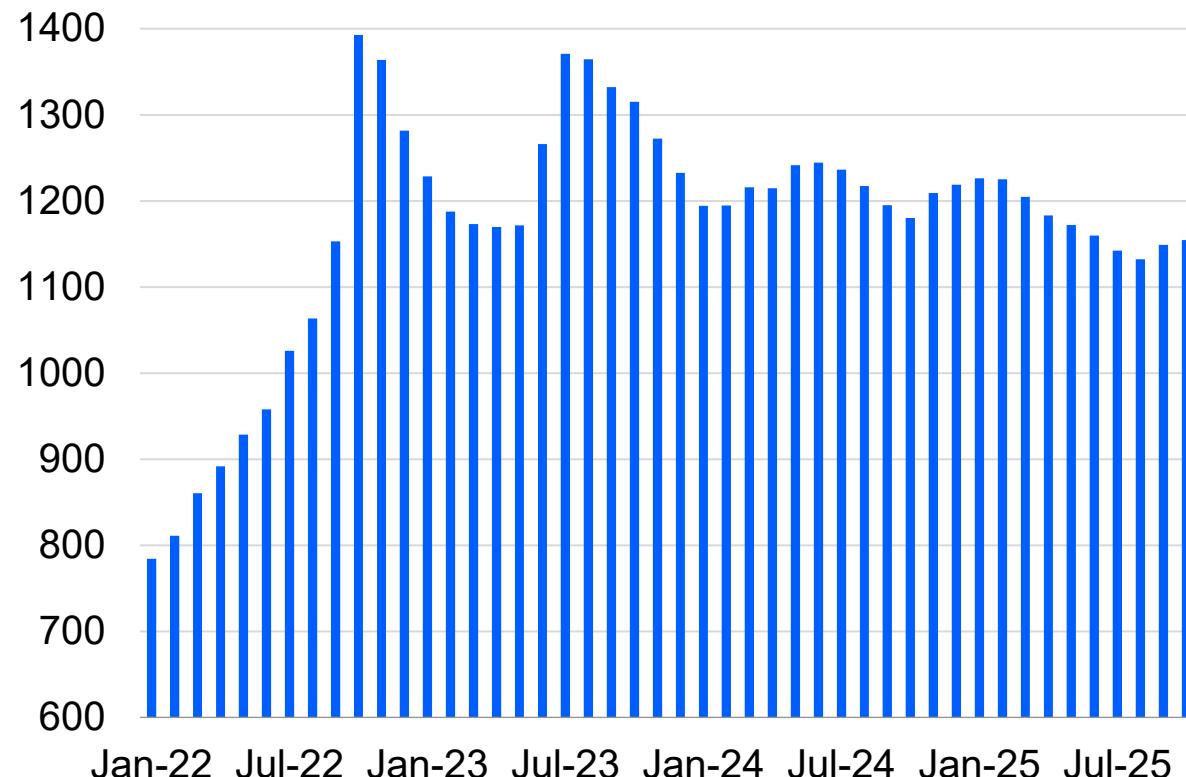
Net percentage balance of chartered surveyors



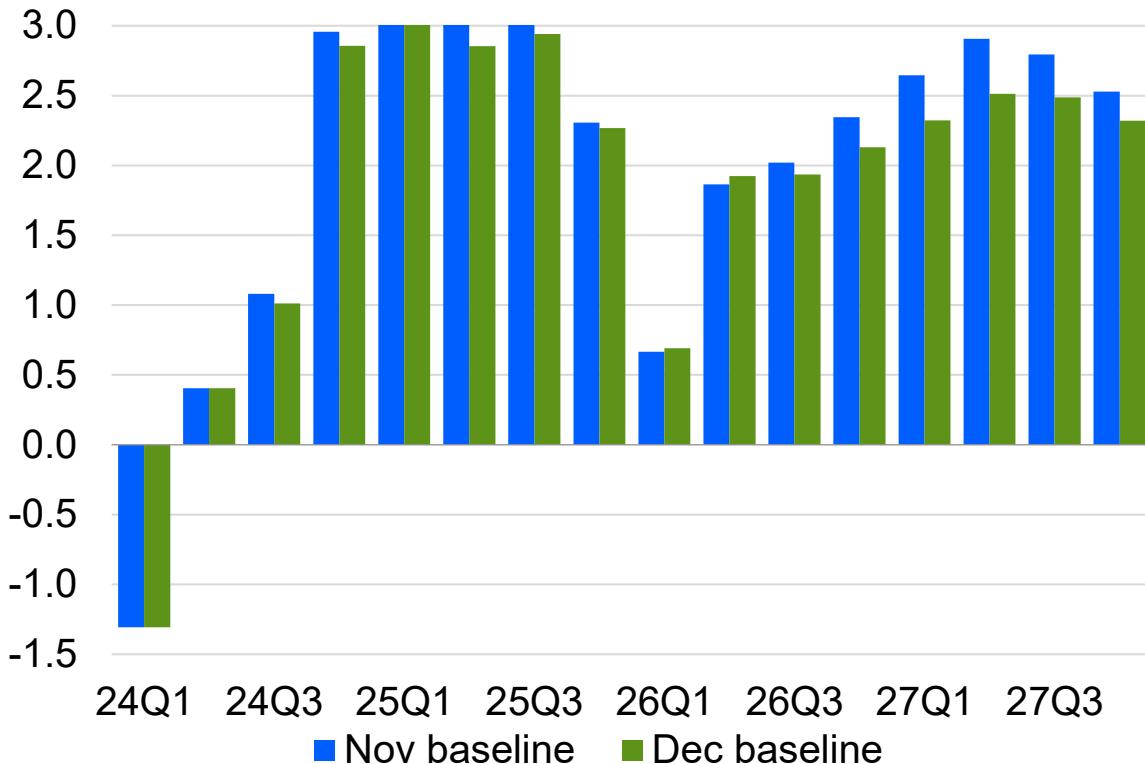
Sources: Royal Institute of Chartered Surveyors, Moody's Analytics

Mortgage Payment Affordability Remains a Constraint on Housing Demand

Monthly mortgage payment on the avg-priced house, £



House price growth forecast, % change yr ago



Note: Mortgage calculation is based on the avg U.K. house price, 2-yr fixed-rate 85% LTV mortgage, repayment term of 30 yrs

Sources: Nationwide, BoE, Moody's Analytics

Russia-Ukraine

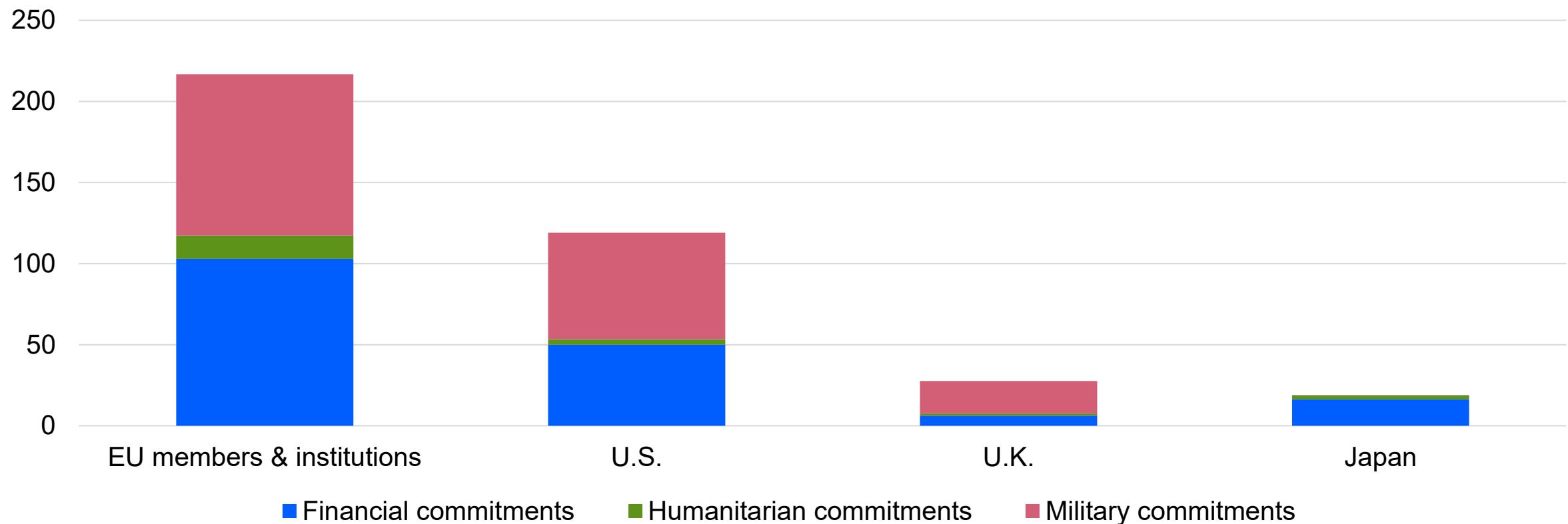
Peace in Ukraine Remains Elusive

- This year, the U.S. has made several attempts to bring the war in Ukraine to an end.
- The latest 28-point peace plan, aligned with Russia's political interests, is proving to be unworkable.
- The U.S. has:
 - imposed tariffs on India for purchasing Russian oil.
 - Sanctioned Russian oil companies.
- The EU has also taken a number of steps:
 - A 19th sanctions package and dynamic oil price cap continue to squeeze Russia.
 - A €210 billion loan backed by frozen Russian assets.
 - A reiteration of its commitment to exit Russian gas.
- Russia's economy continues on a war footing with high inflation and low growth.

Source: Moody's Analytics

The EU Is Ukraine's Largest Benefactor

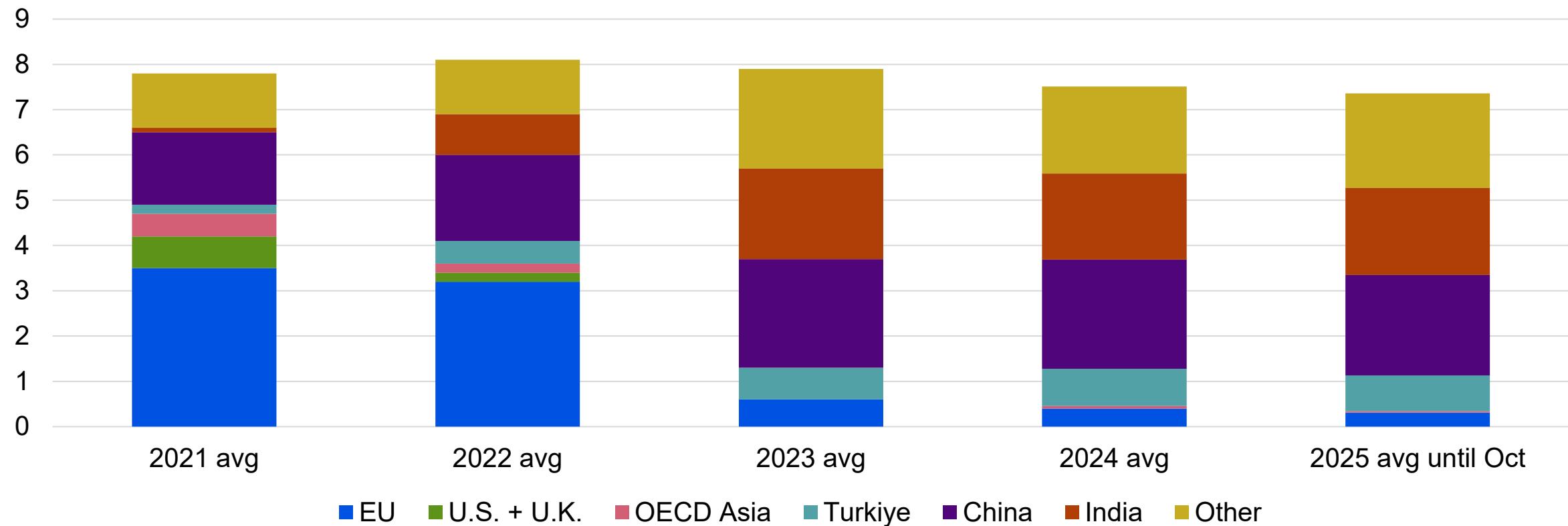
€ bil to date



Sources: Kiel Institute Ukraine Support Tracker, Moody's Analytics

Will Russian Oil Exports Stay Untouched by Sanctions?

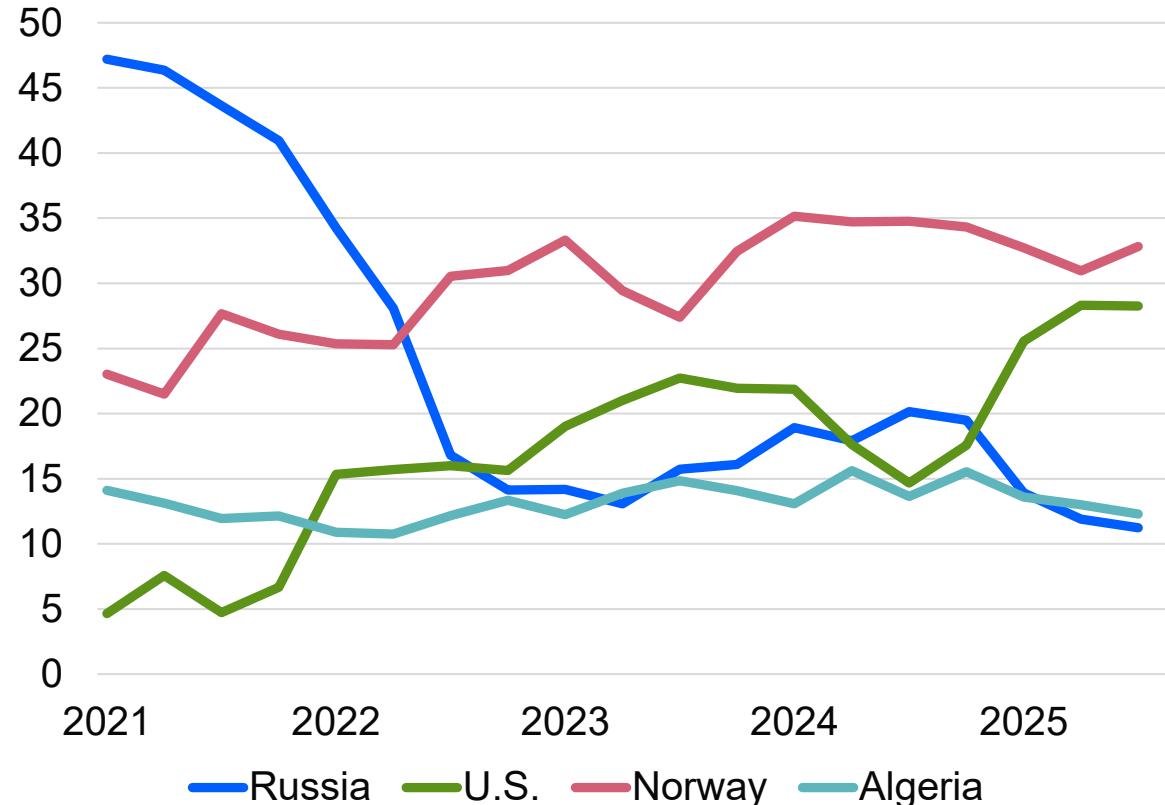
Mil bpd



Sources: IEA, Moody's Analytics

Europe's Reliance on Russian Gas Continues to Decline

EU 27 gas supplier dependency, % of total imports



Europe natural gas price, € per MWh



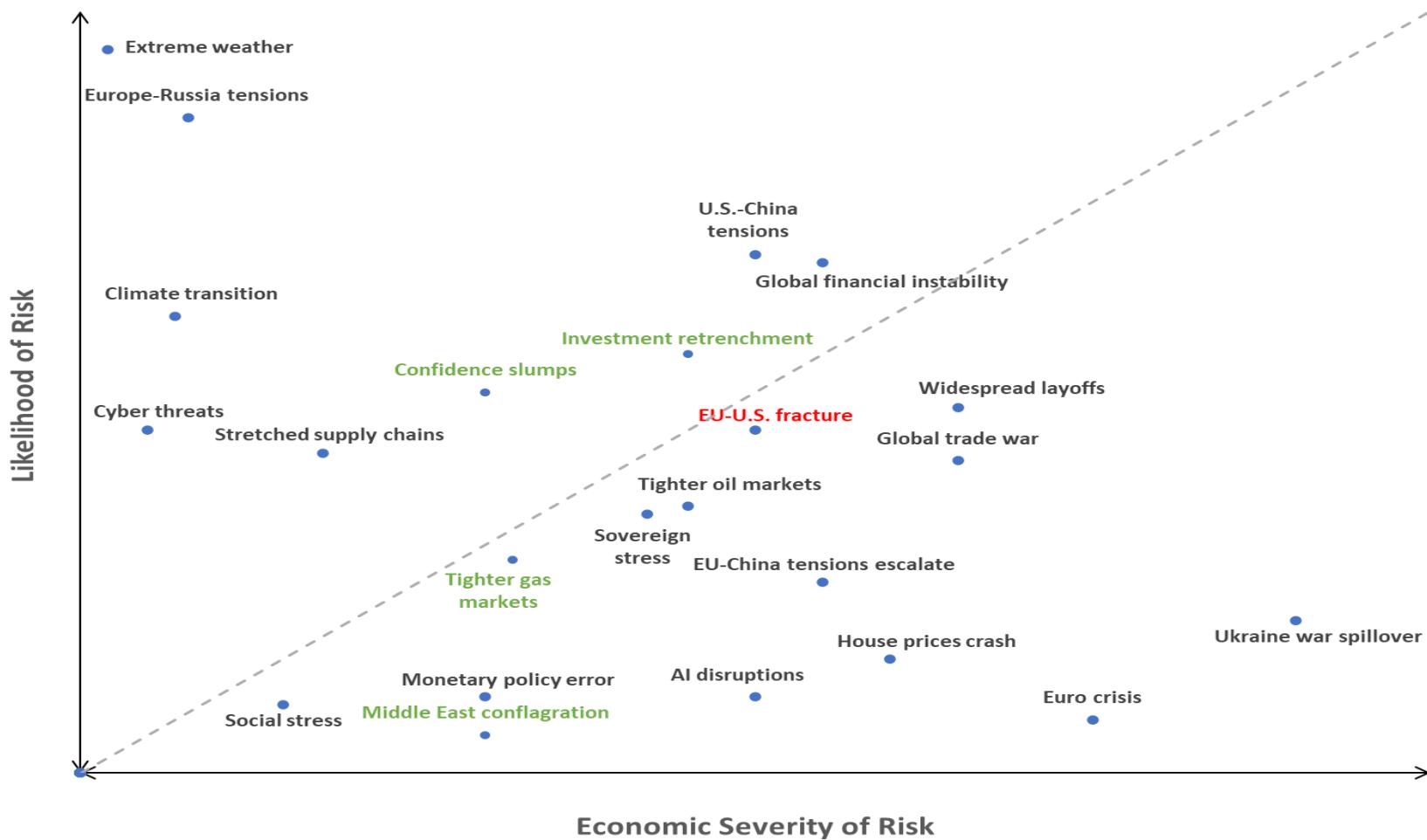
Sources: EU, Bruegel, World Bank, Moody's Analytics

Russia-Ukraine: Potential Outcomes

	U.S. Military Aid	EU Peacekeeping	EU Defence	Broader Threats to Europe	Reconstruction of Ukraine	EU Inflation	EU Growth
Enduring Peace	?	✓	✓	✗	✓✓	-	+
Frozen Conflict	✗	✓	✓	✓	✓	+/-	+
War of Attrition	✗	✗	✓	✓	✗	+/-	+
Russia Prevails	✗	✗	✓✓	✓✓	✓	+	-

Source: Moody's Analytics

European Risks Are Centred Around U.S. Policy



Source: Moody's Analytics

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