



Europe 2026: (Still) Limping Along

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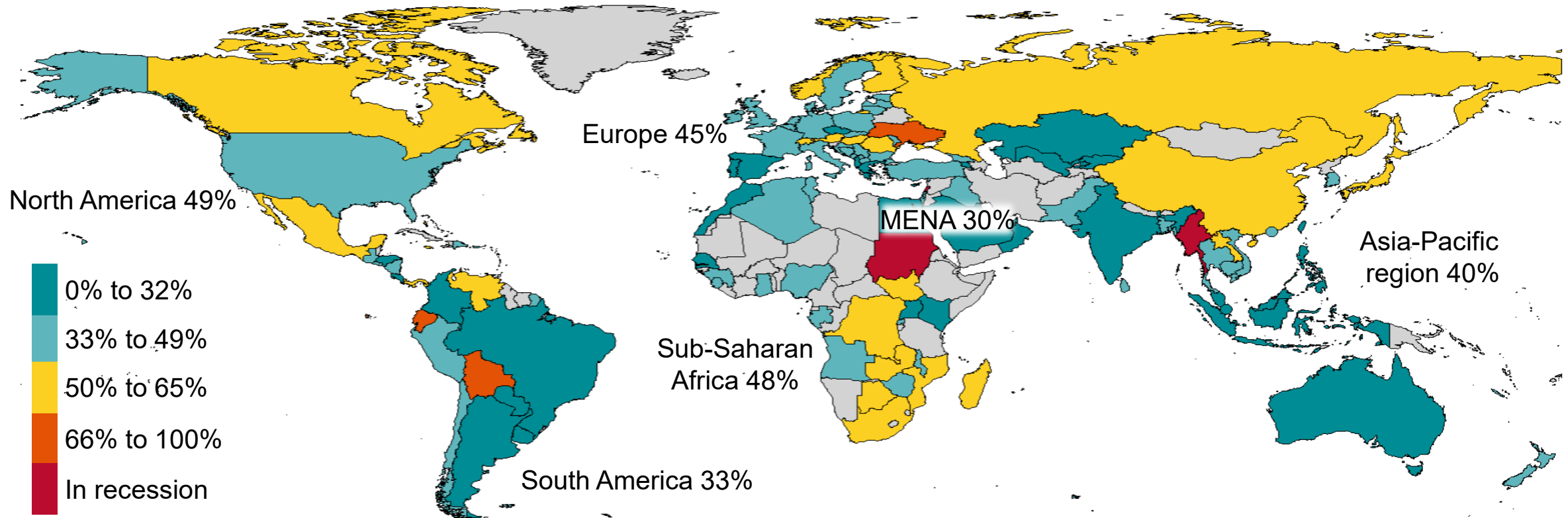
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December 2025

Probability of a Recession Starting in the Next 12 Months

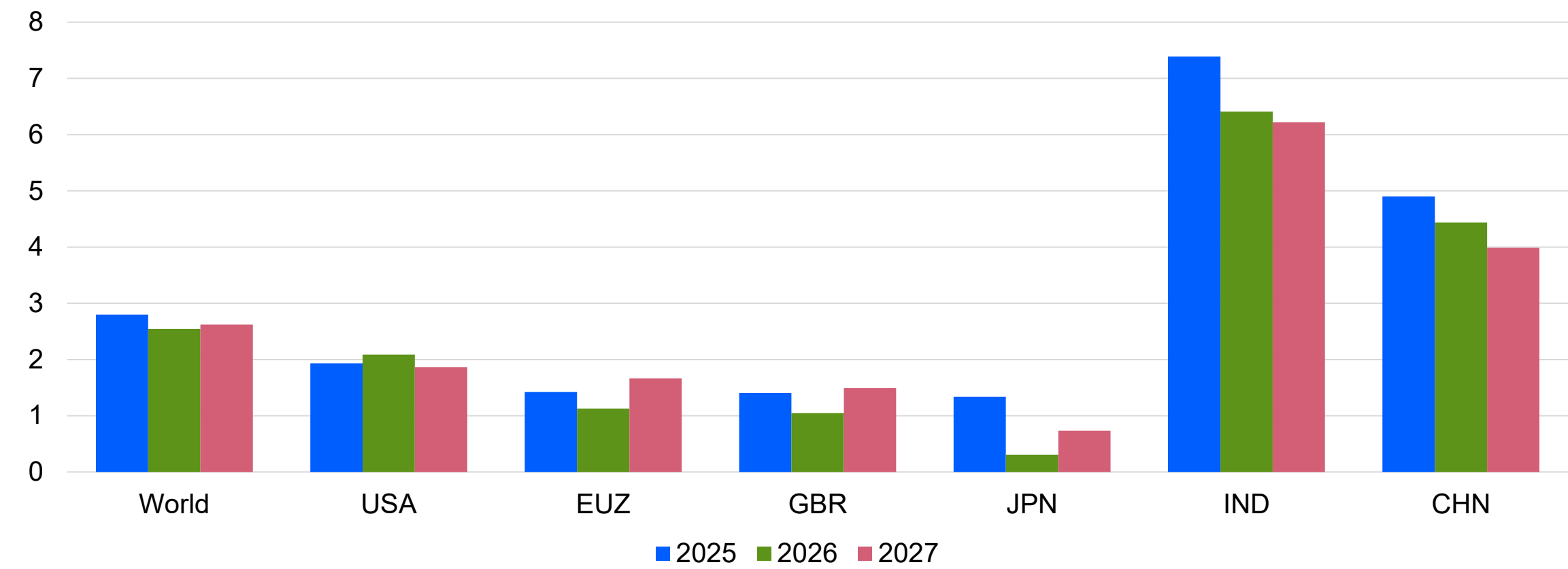
Regional aggregates, weighted by real GDP at PPP



Source: Moody's Analytics

Global Growth Remains Resilient

Real GDP, %, Moody's Analytics Dec baseline



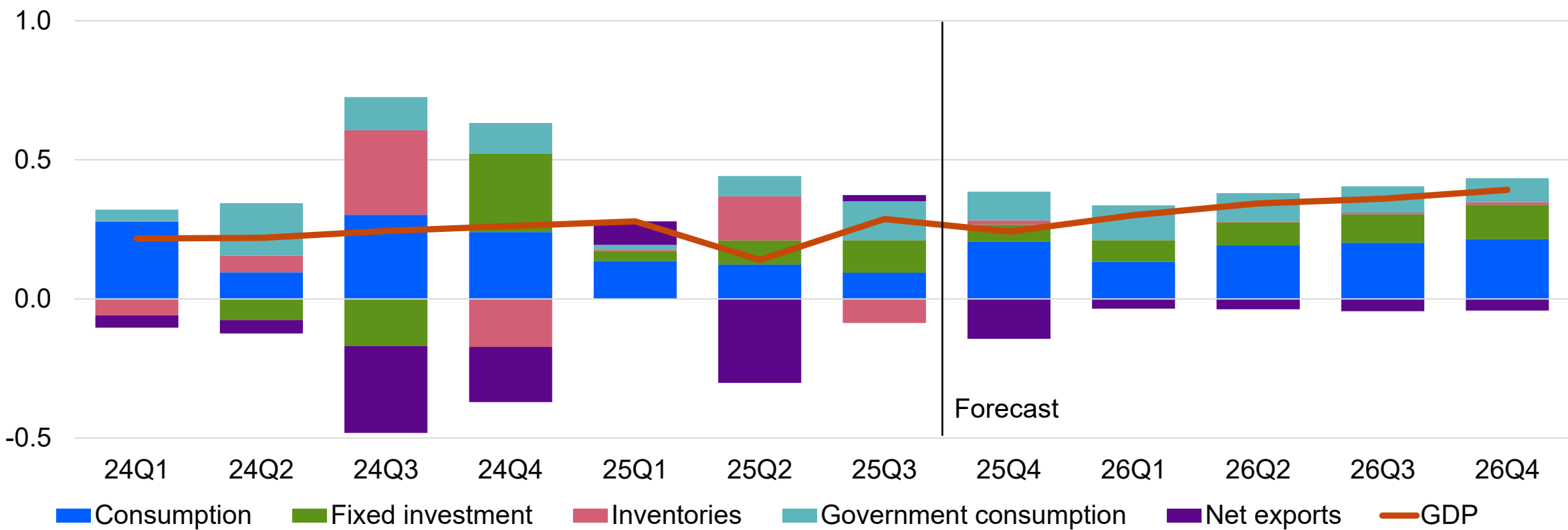
Sources: National statistics offices, Moody's Analytics

The background of the slide is a solid dark blue. Overlaid on this are several sets of thin, light blue wavy lines. These lines form a complex, layered pattern that resembles a stylized landscape or a series of overlapping waves. The lines are most concentrated in the upper left and lower right areas, creating a sense of depth and movement. The overall effect is modern and sophisticated.

Euro Zone Outlook

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

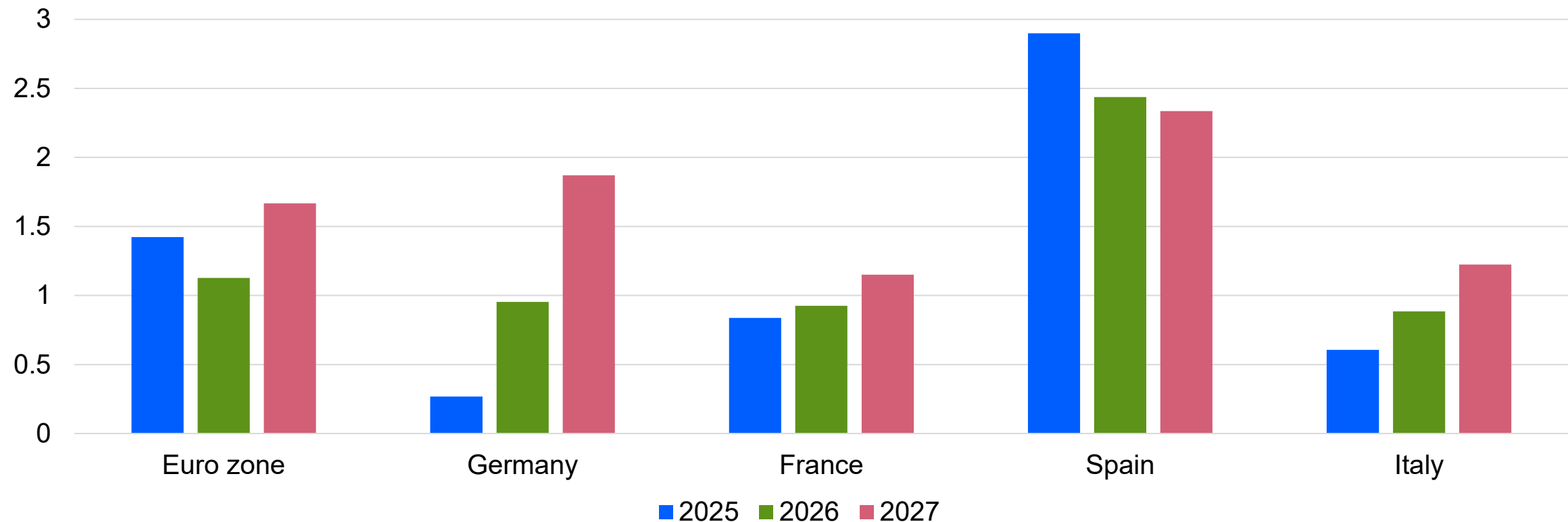
Euro zone GDP ex Ireland, % change qtr ago; contributions, ppts



Sources: Eurostat, Moody's Analytics

2026 Should Bring a Revival of the German Economy

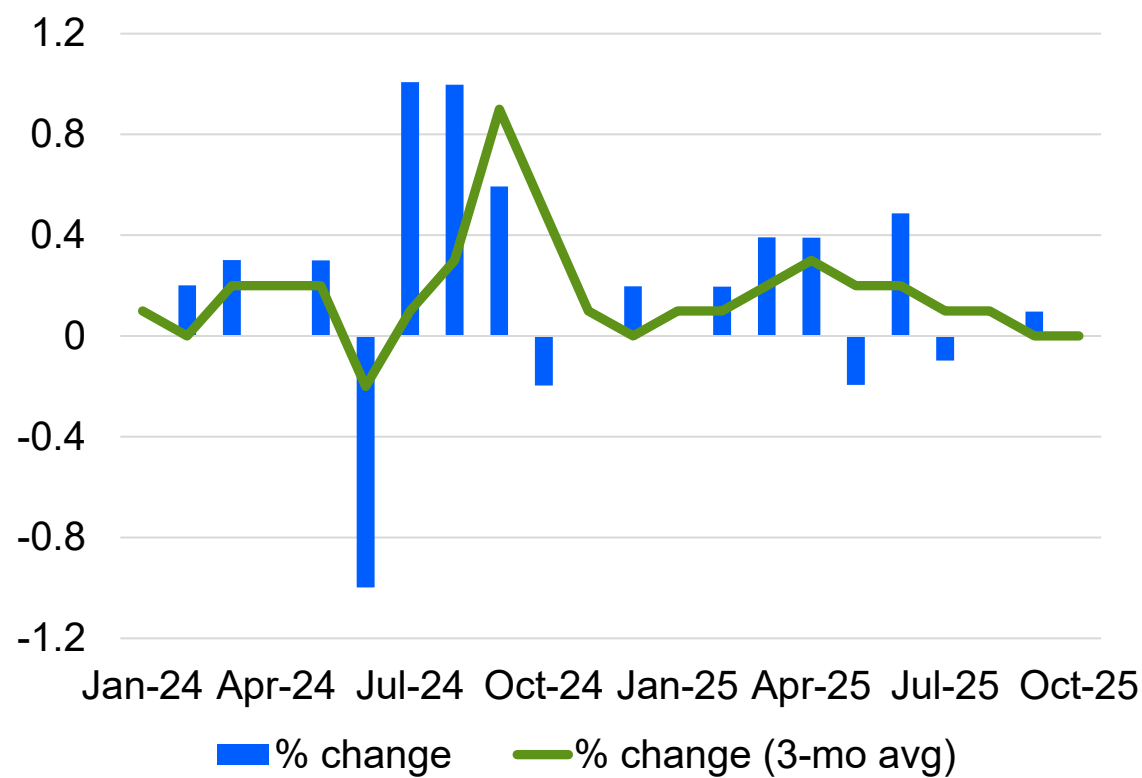
Real GDP growth, % change, Dec baseline



Source: Moody's Analytics

Consumers Will Need to Shake Off the Gloom

Euro zone retail sales, SA, % change



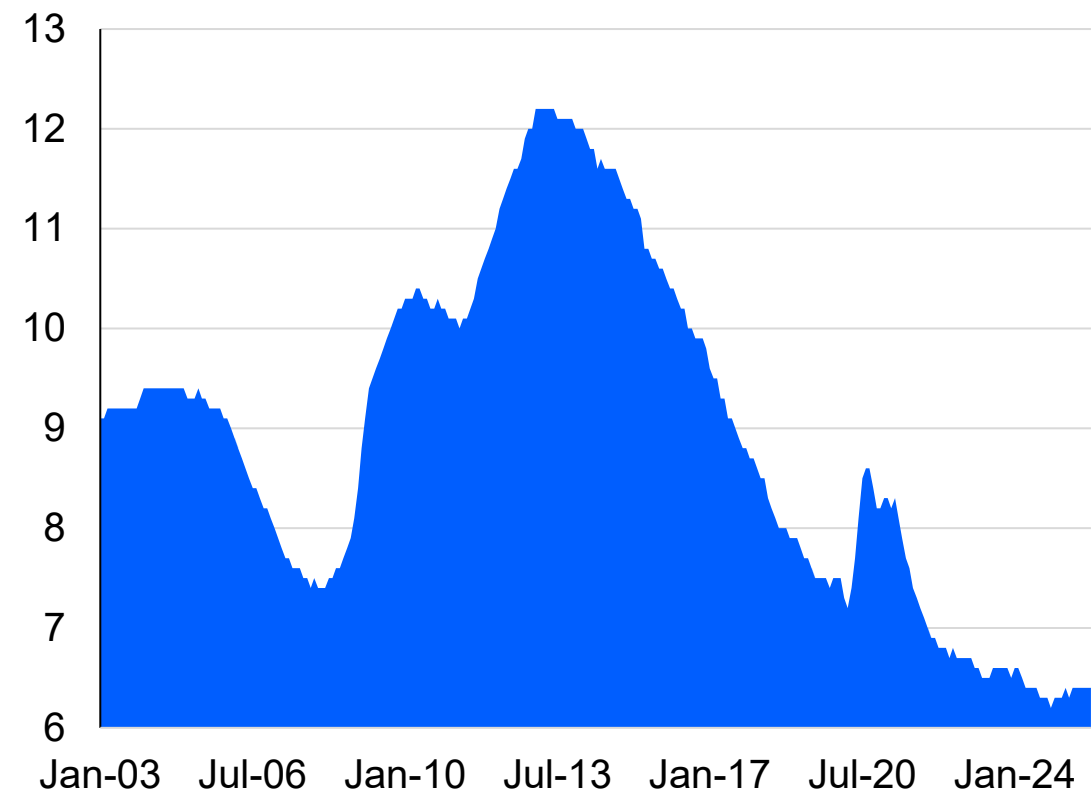
Euro zone economic sentiment indicator, long-term avg=100



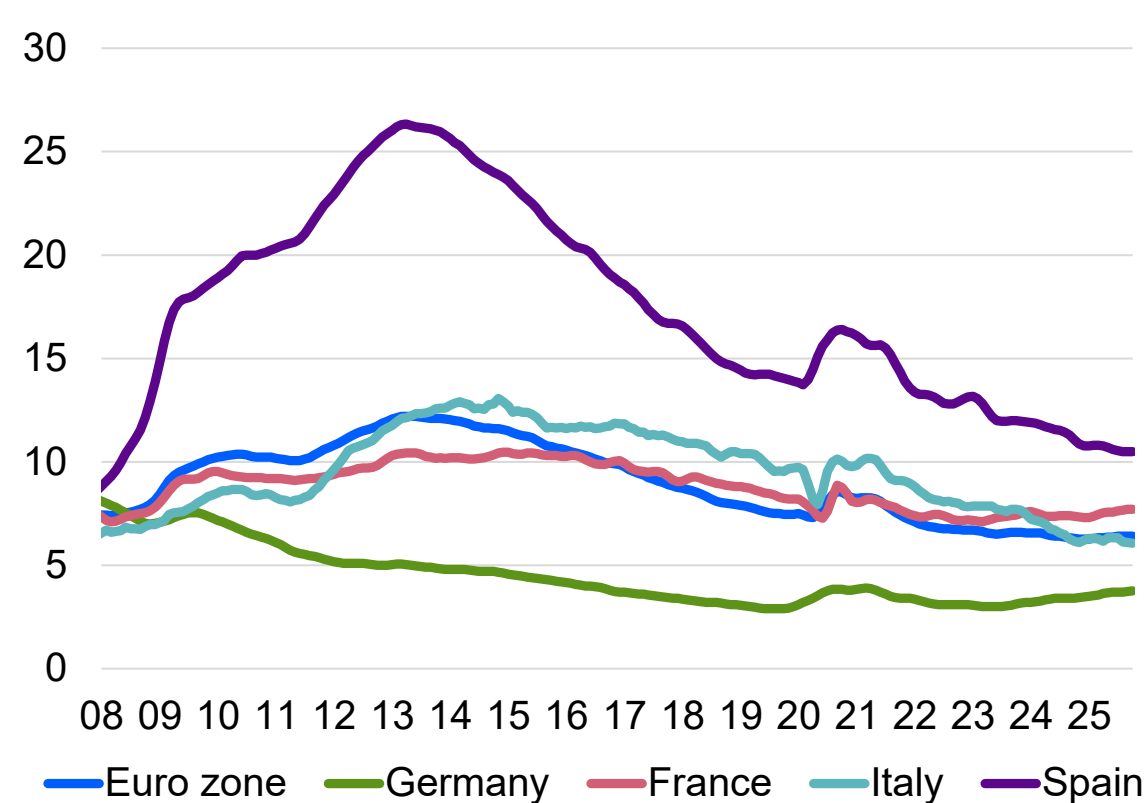
Sources: European Commission, Moody's Analytics

Labour Markets Will Remain Healthy

Euro zone unemployment rate, %



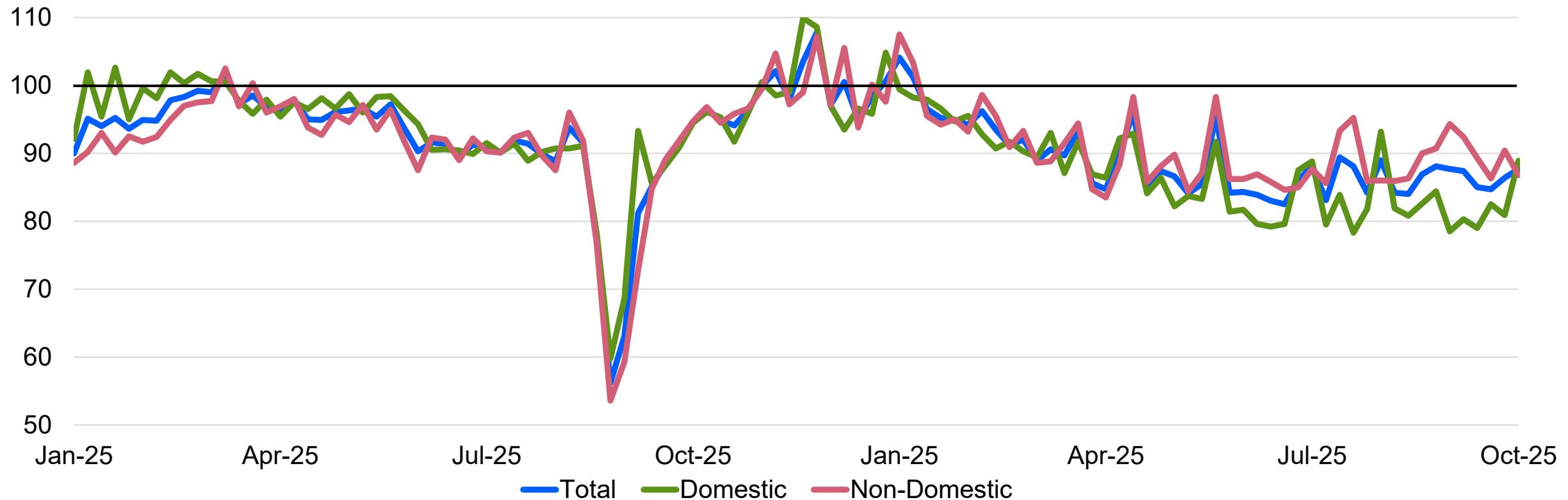
Unemployment rate, 3-mo MA, %



Sources: Eurostat, Moody's Analytics

We Are Betting on a Manufacturing Revival

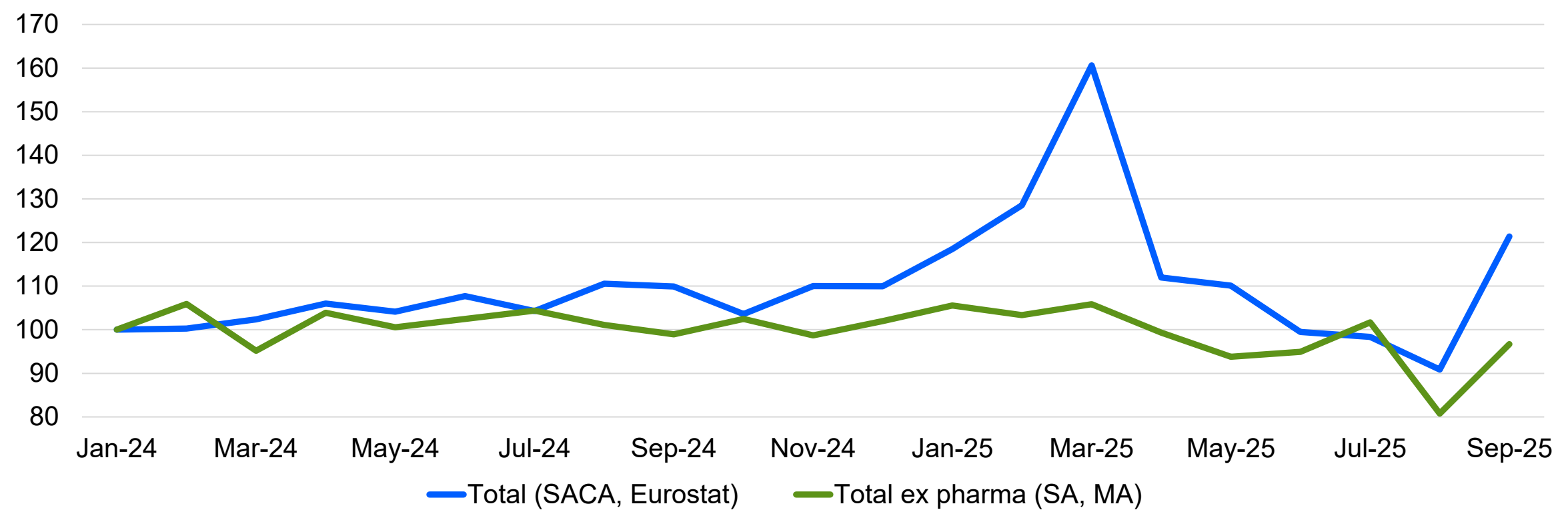
Germany, volume of new manufacturing orders, 2021=100, SA and calendar adjusted



Sources: Destatis, Moody's Analytics

Front-Loading Led to a Delay in the Tariff Impact

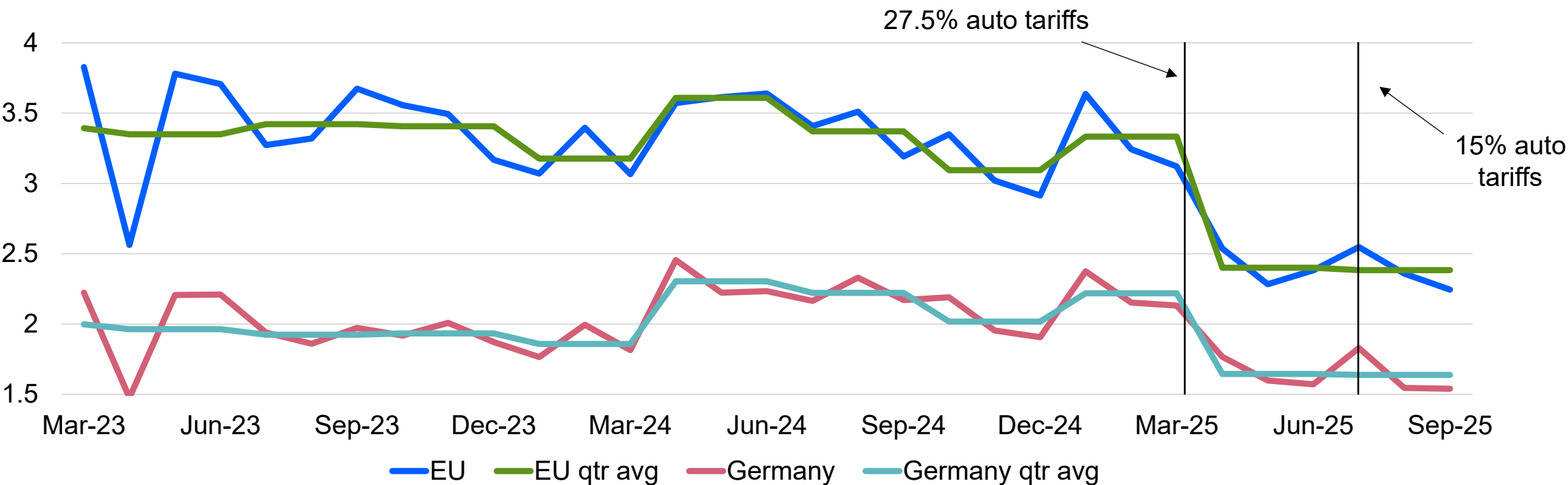
EU exports to the U.S., Jan-24=100, NSA unless otherwise labelled



Sources: Eurostat, Moody's Analytics

Auto Tariffs Are Taking Their Toll on EU Automakers

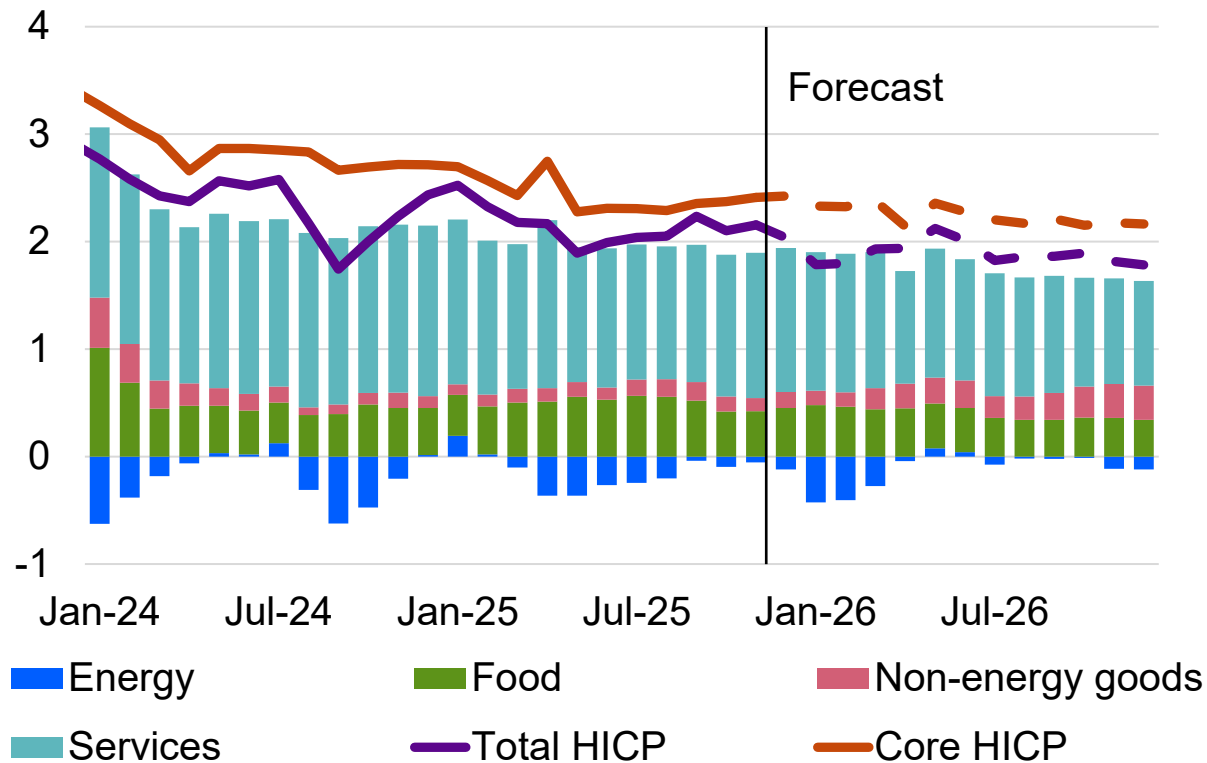
Auto exports to the U.S., mo data and qtr avg, € bil, SA (by Moody's Analytics)



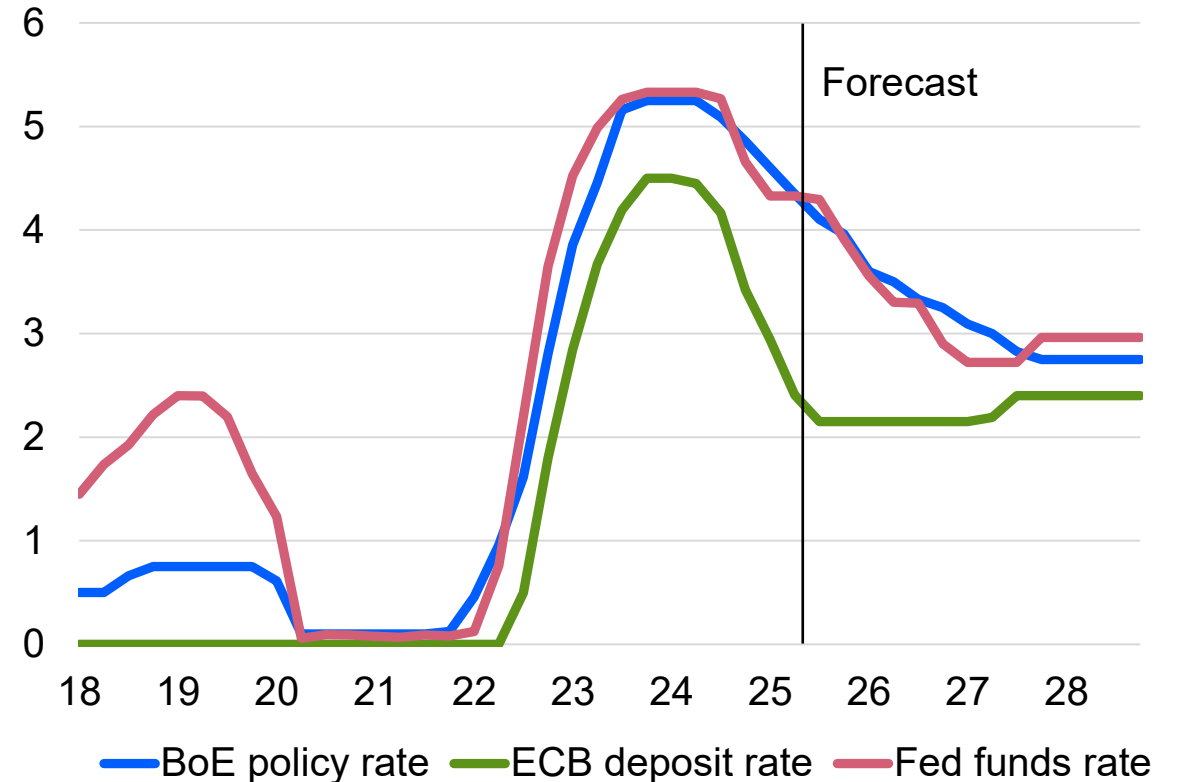
Sources: Eurostat, Moody's Analytics

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

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



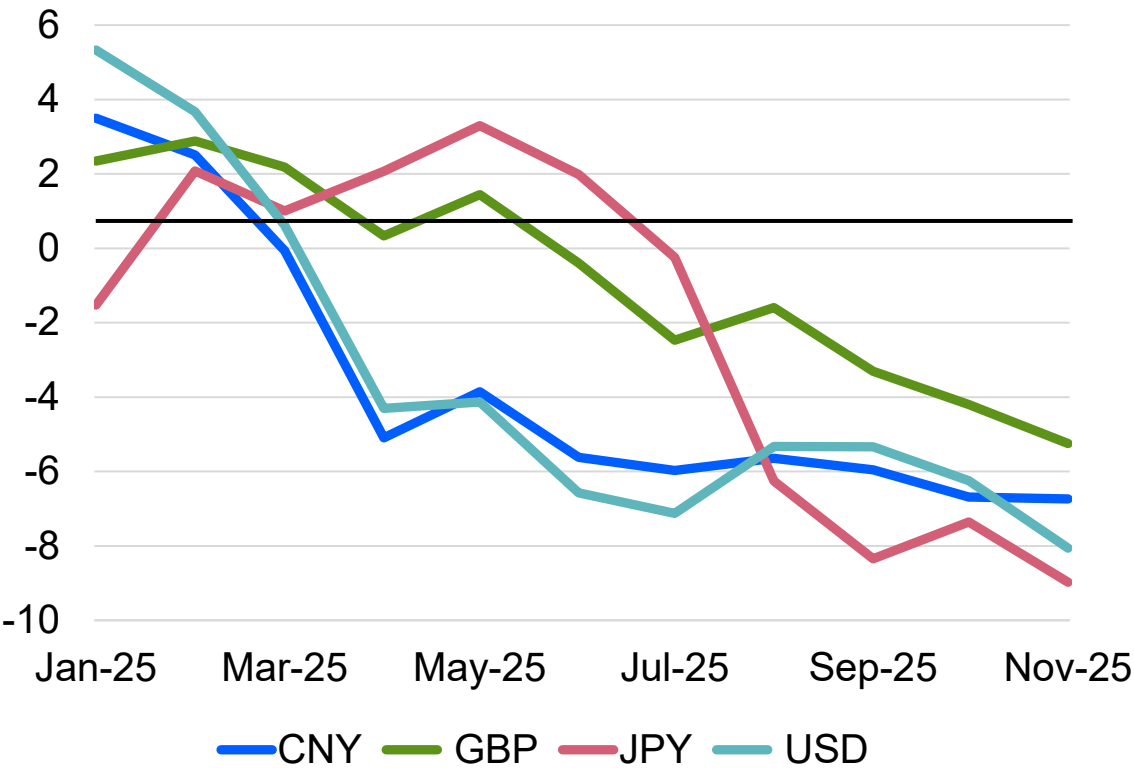
Policy rate, %



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



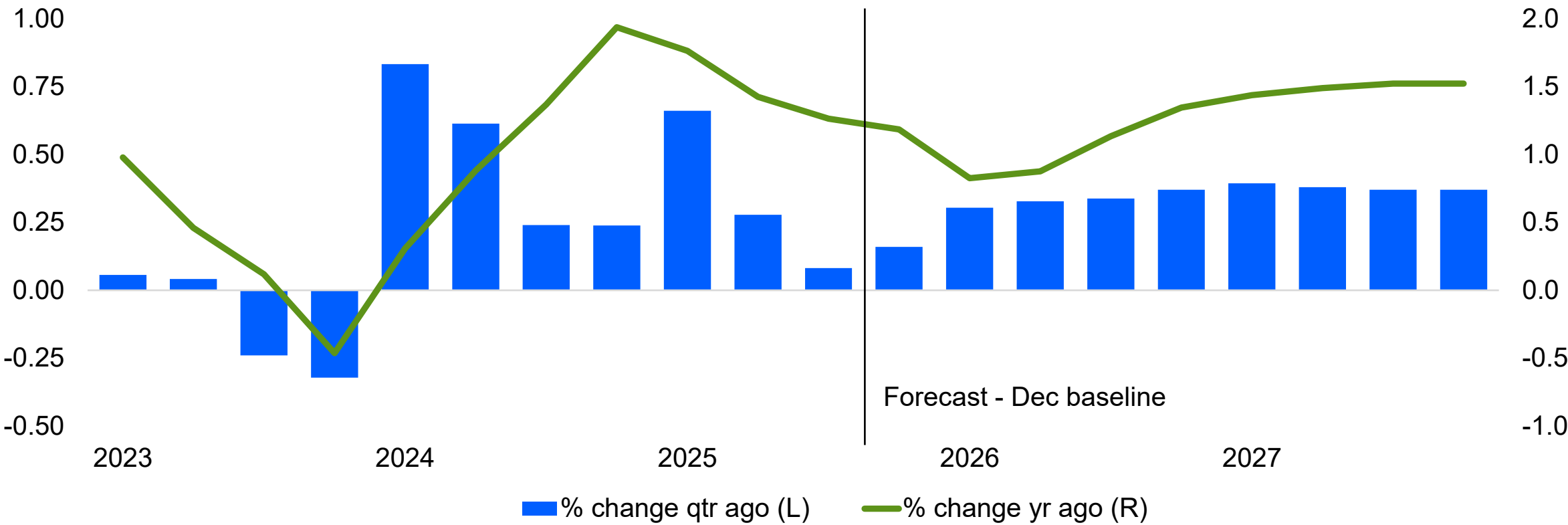
Sources: Eurostat, Moody's Analytics

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U.K. Outlook

U.K. Growth to Remain Subdued

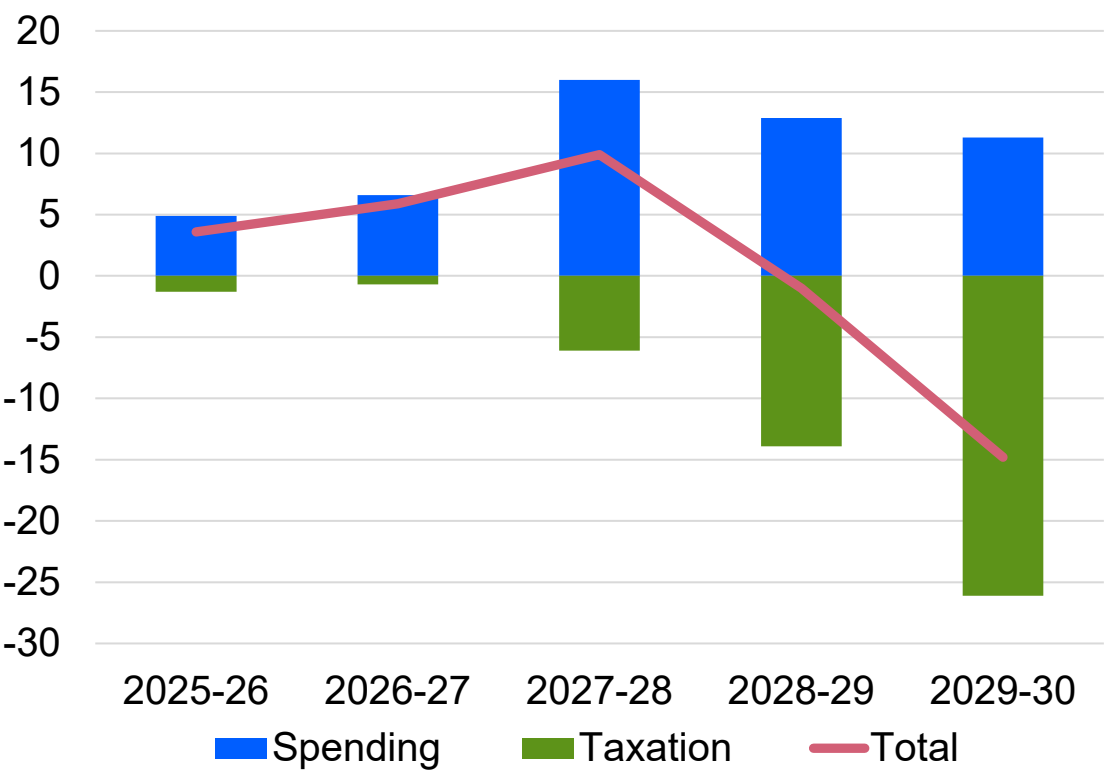
U.K. real GDP



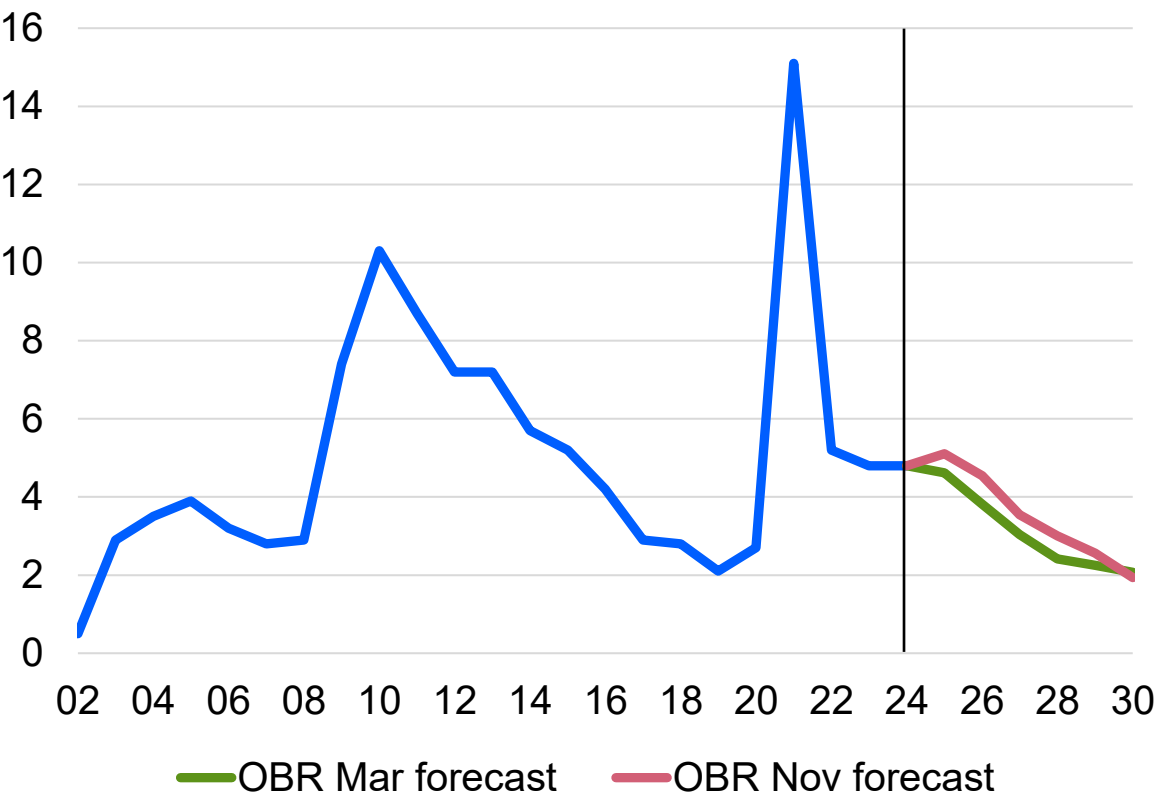
Sources: Office for National Statistics, Moody's Analytics

Budget Points to Fiscal Consolidation, Eventually

Impact of Nov budget policies on govt borrowing, £ bil



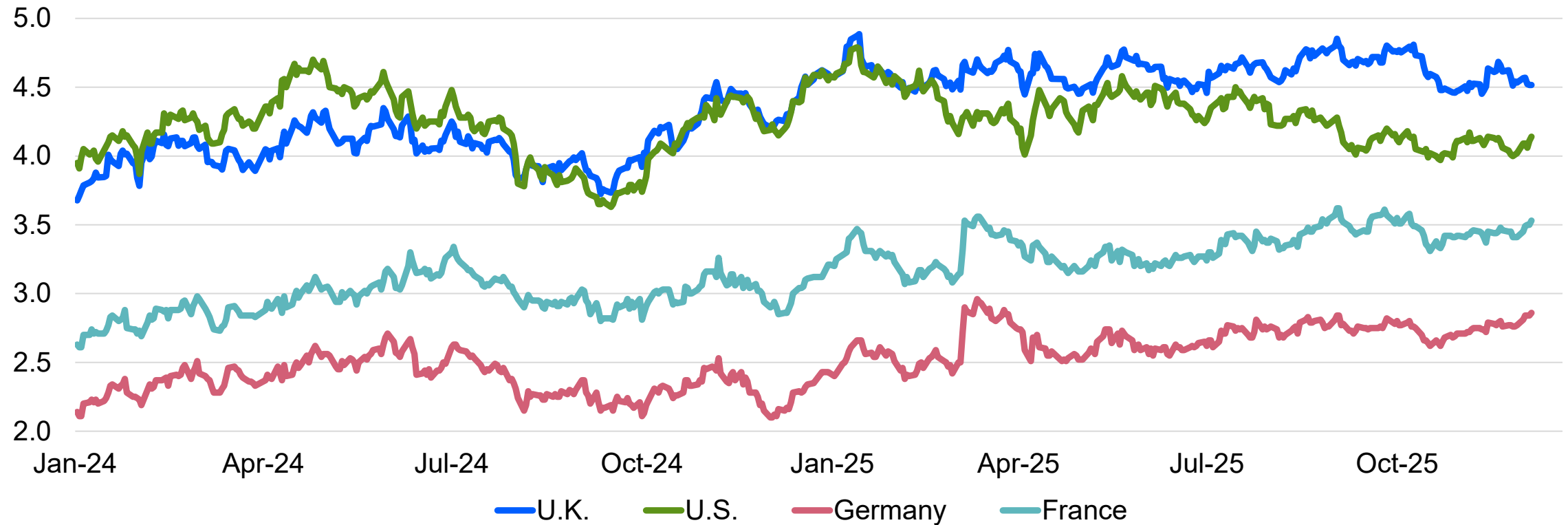
Public sector net borrowing, % of GDP



Sources: Office for Budget Responsibility, Moody's Analytics

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

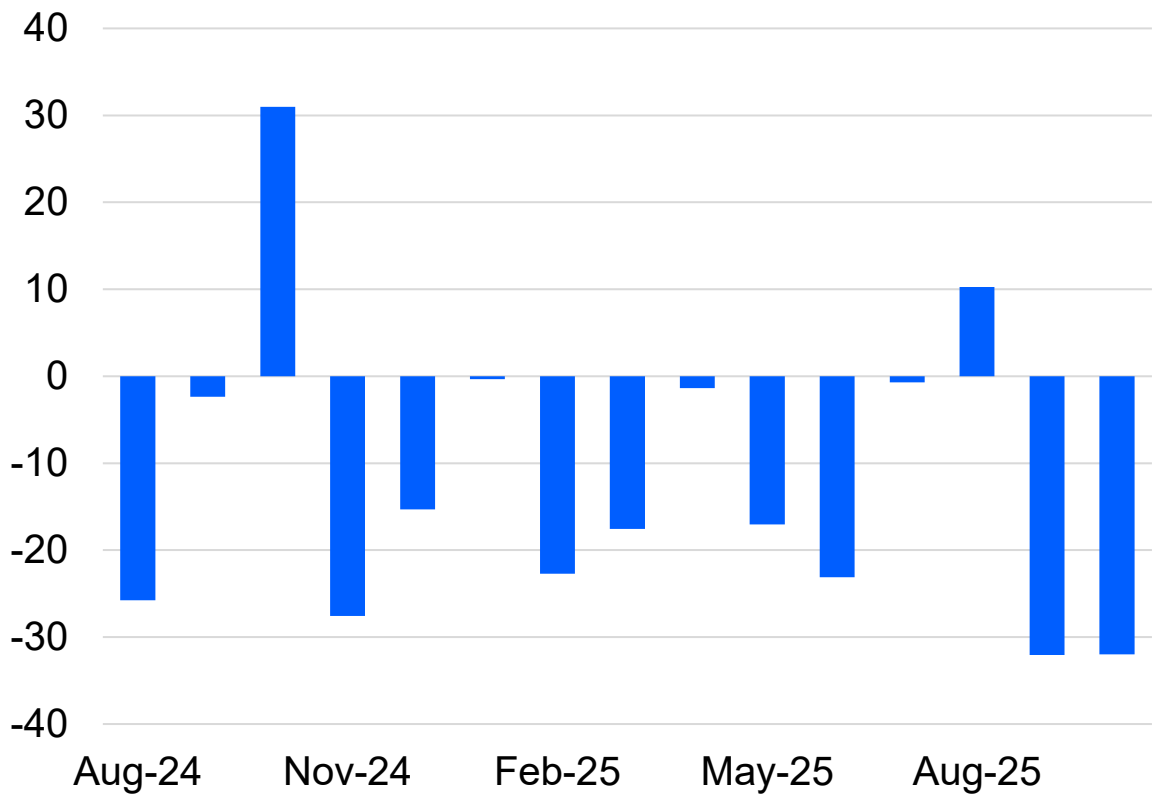
10-yr government bond yields, %



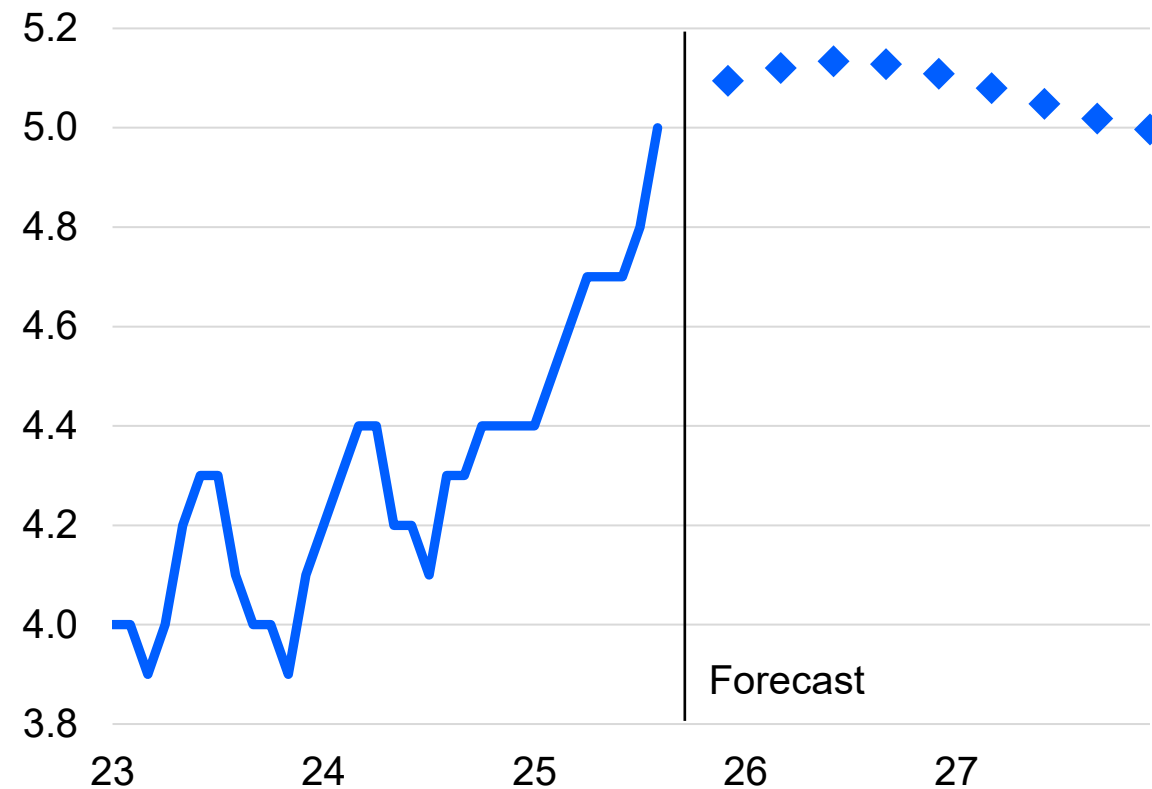
Sources: Federal Reserve, BoE, ECB, Moody's Analytics

Unemployment to Rise Only Slightly Further in 2026

Payrolled employees, mo change, ths



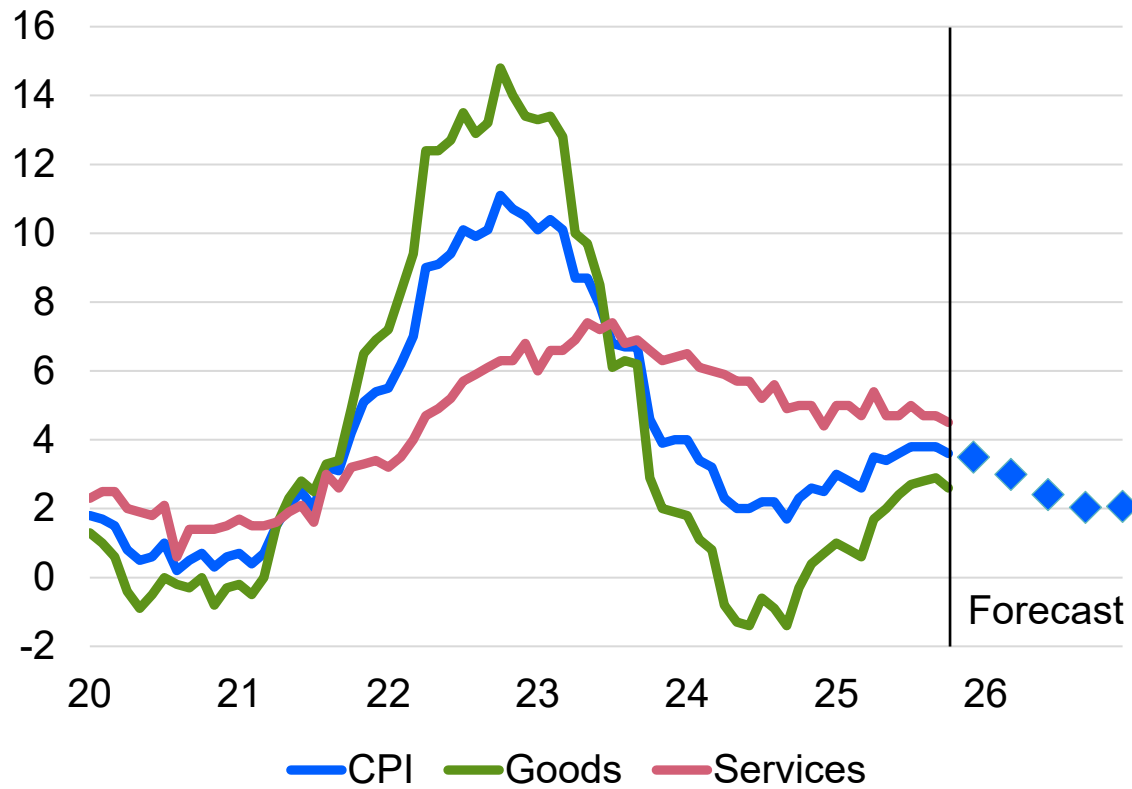
Unemployment rate, %



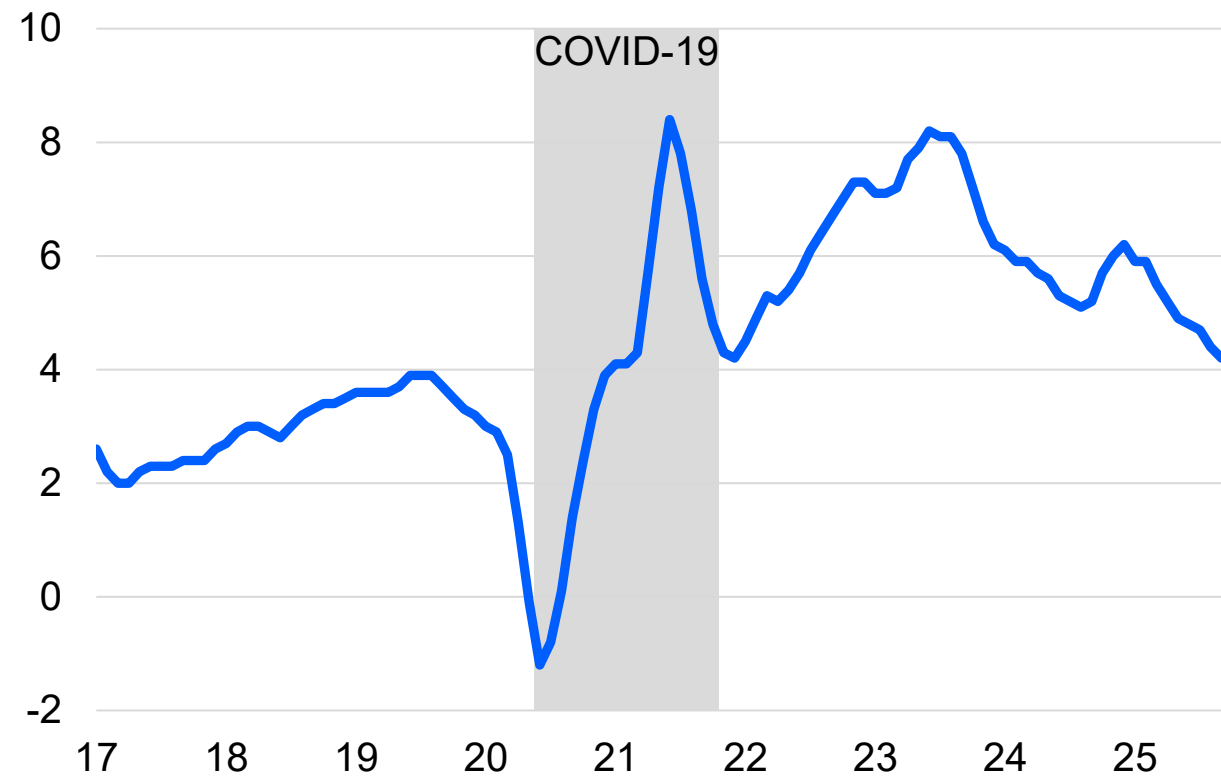
Sources: HMRC, ONS, Moody's Analytics

Inflation to Moderate Through 2026; Wage Growth Is Easing

Consumer price index, % change yr ago



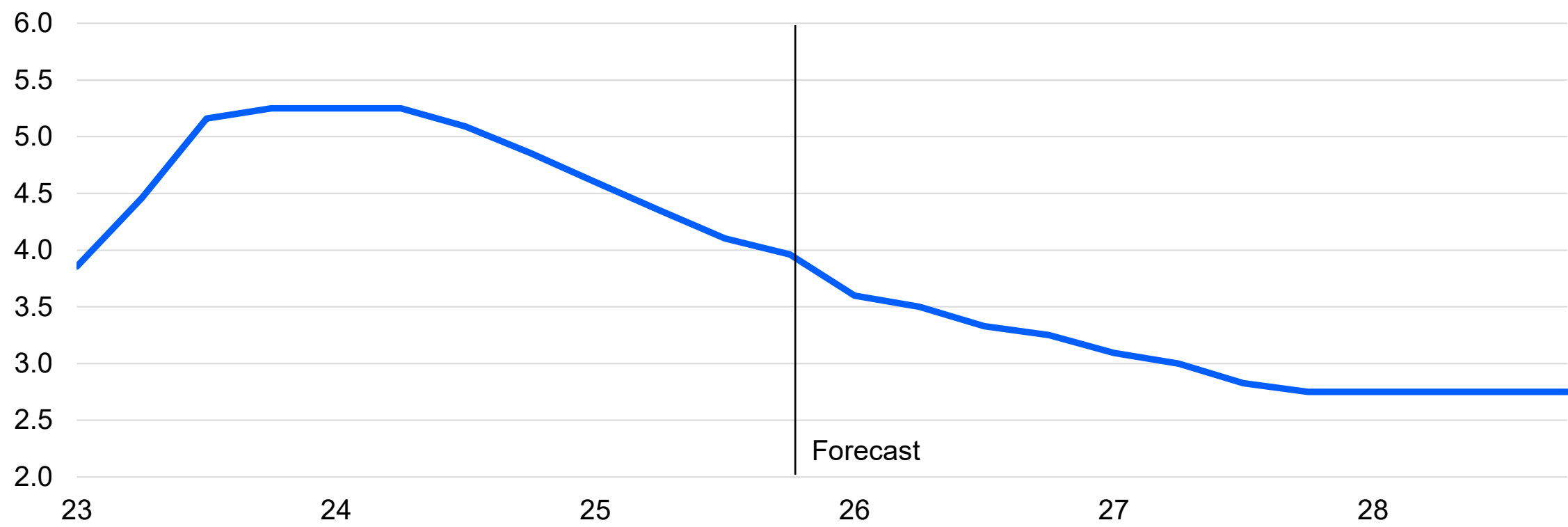
Private sector regular avg wk earnings, % change yr ago



Sources: ONS, Moody's Analytics

BoE to Cut Rates in December and Twice in 2026

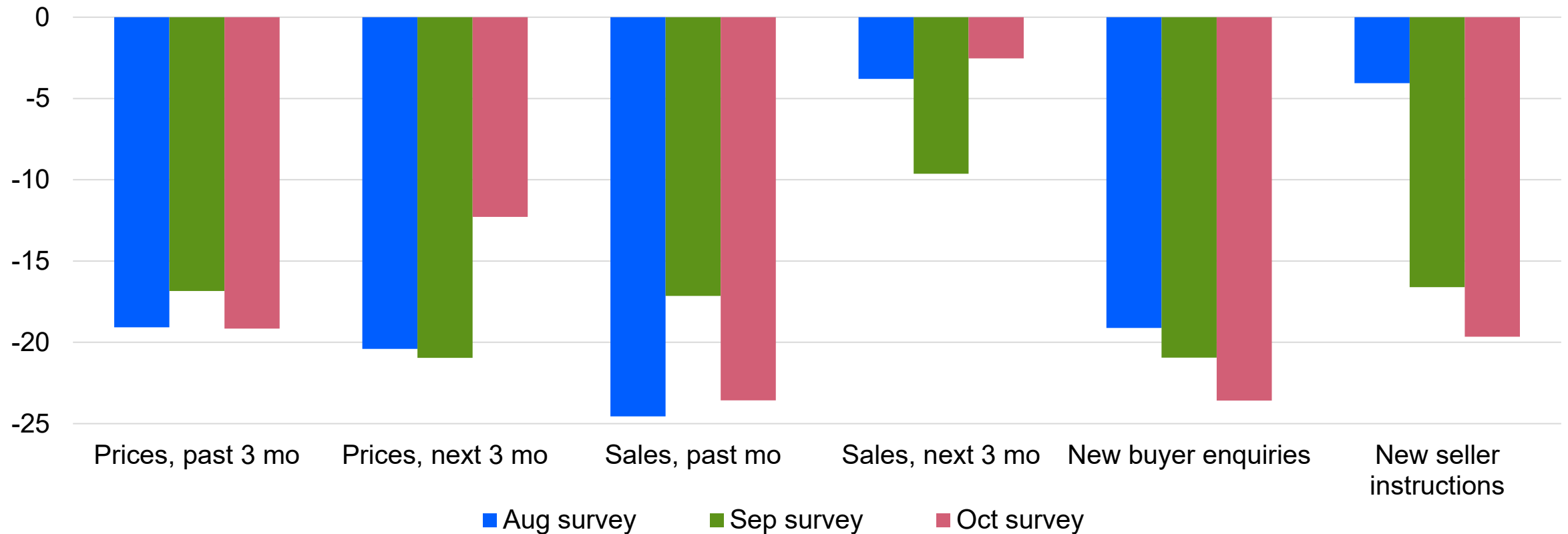
BoE policy rate, %



Sources: BoE, Moody's Analytics

Housing Market Sentiment Deteriorated Prior to the Budget

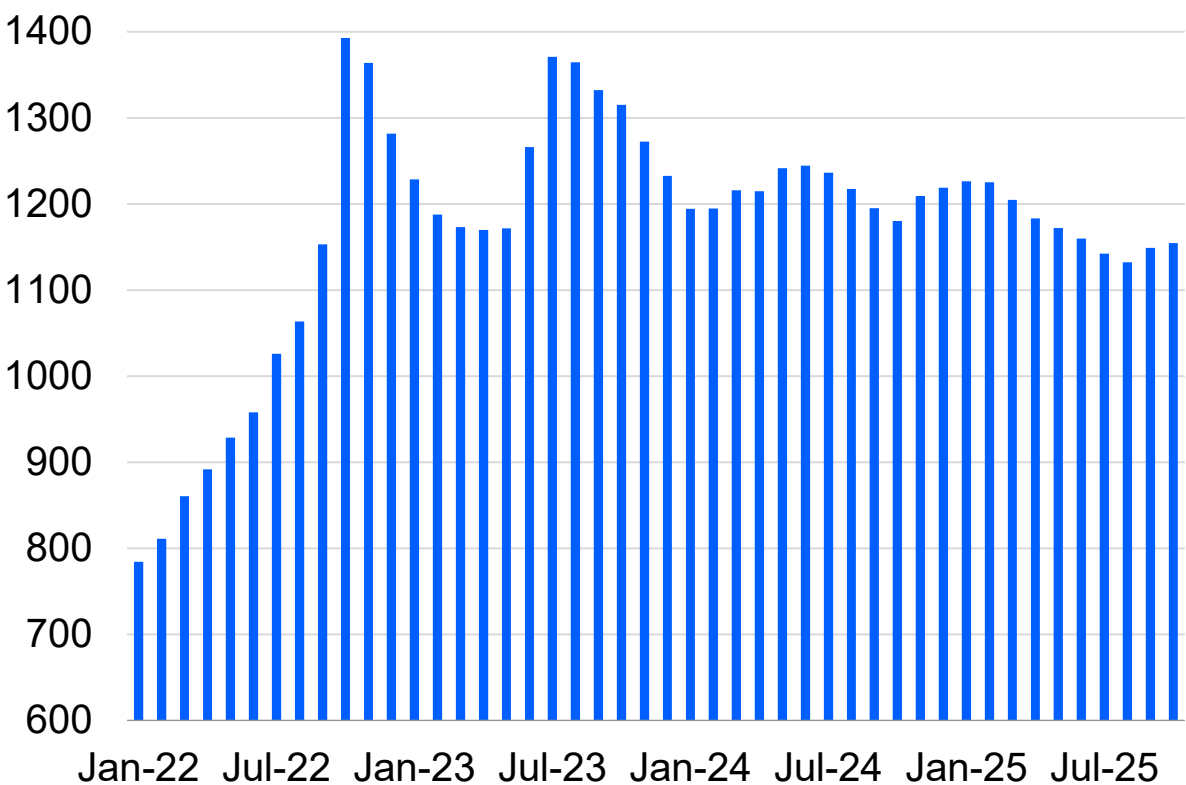
Net percentage balance of chartered surveyors



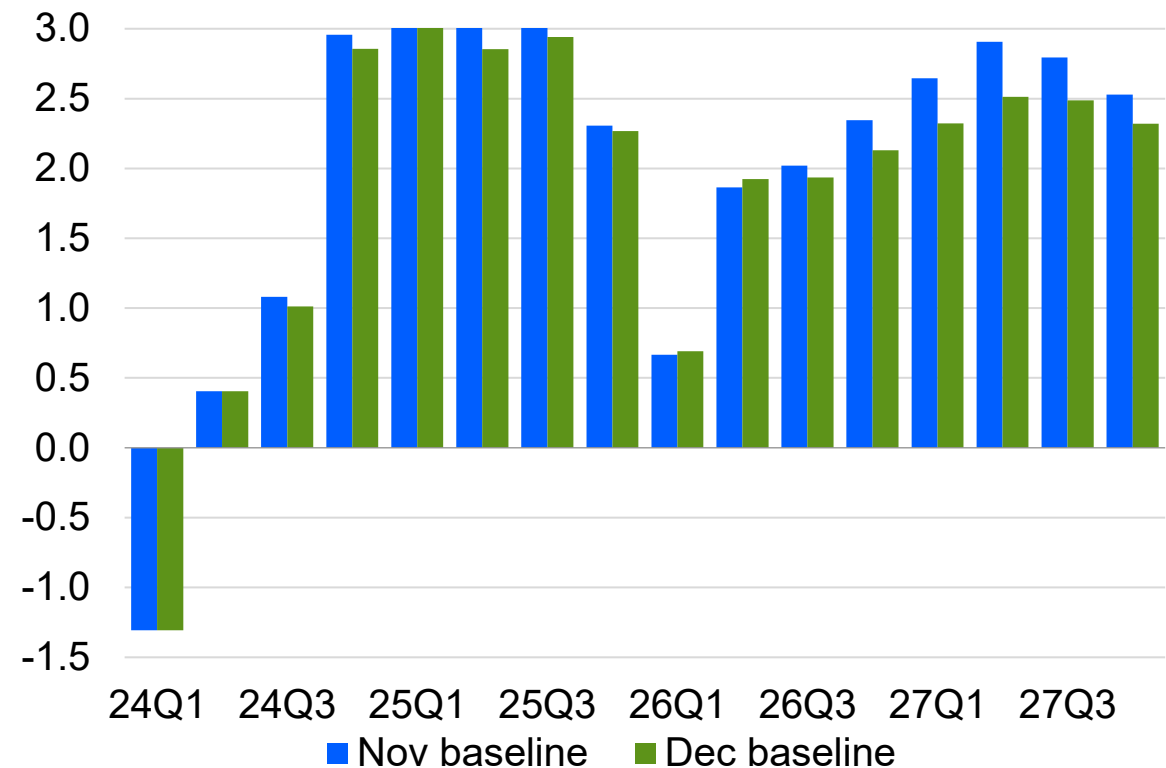
Sources: Royal Institute of Chartered Surveyors, Moody's Analytics

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

The background of the entire image is a solid dark blue. Overlaid on this are several sets of thin, light blue lines that form a complex, wavy pattern. These lines are arranged in a way that creates a sense of depth and movement, resembling a stylized representation of water or a topographical map. The lines are most concentrated in the upper left and lower right areas, with some lines extending across the middle of the frame.

Russia-Ukraine

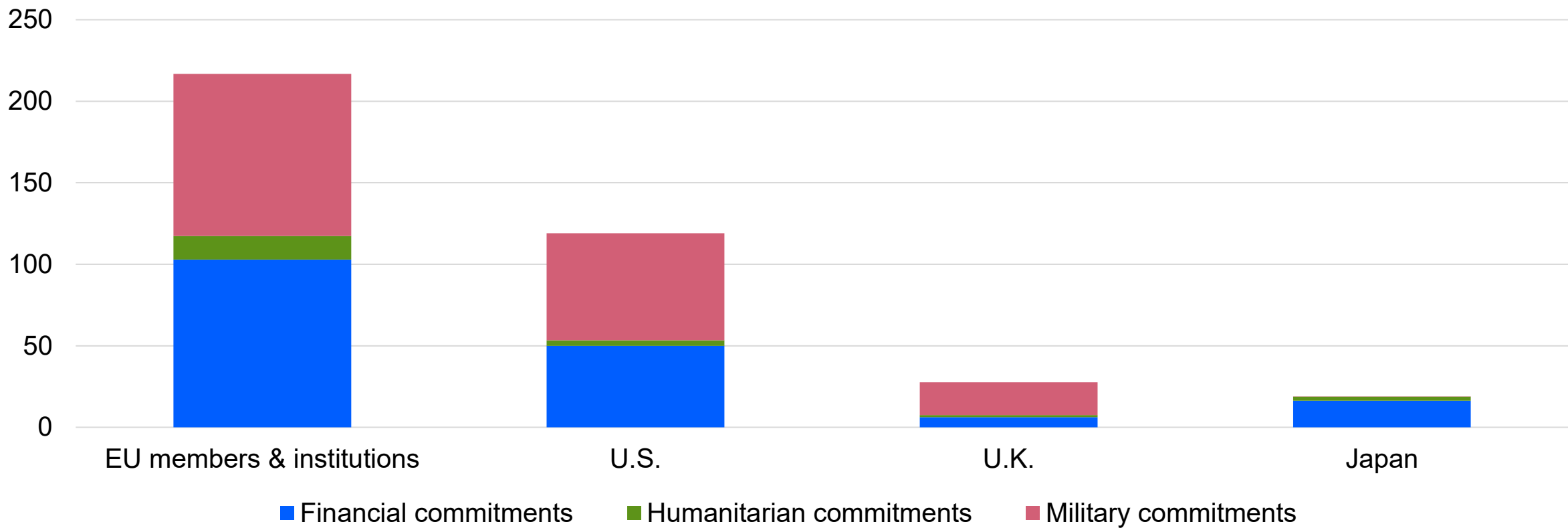
Peace in Ukraine Remains Elusive

- 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

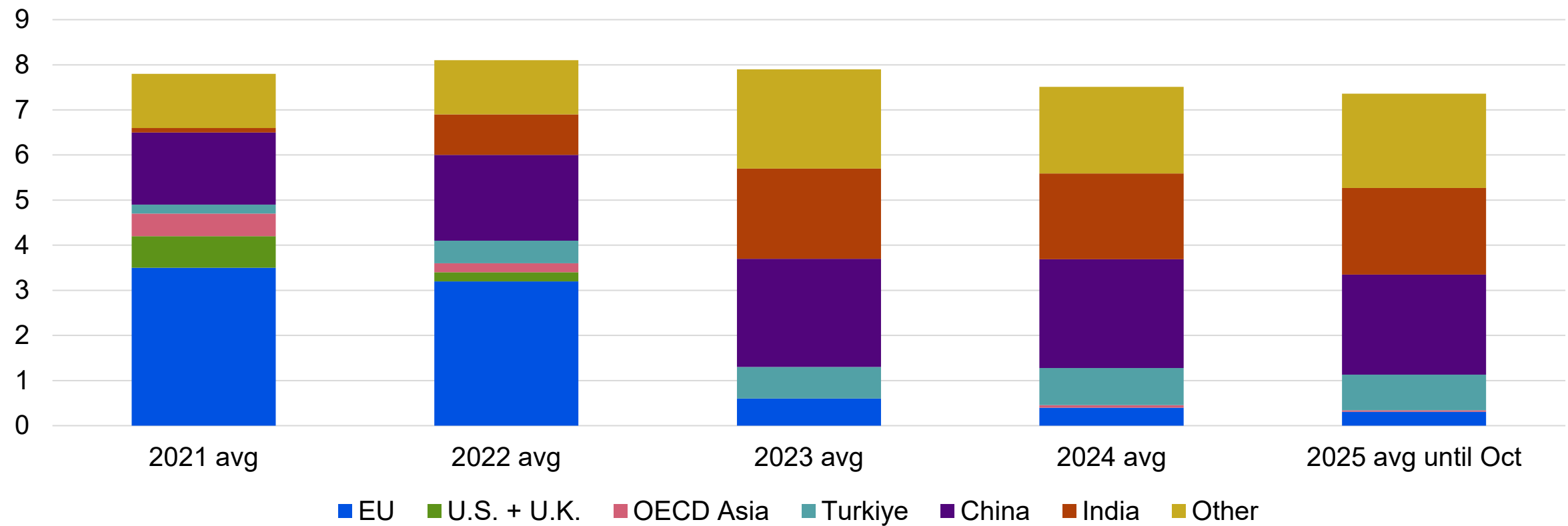
€ bil to date



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

Will Russian Oil Exports Stay Untouched by Sanctions?

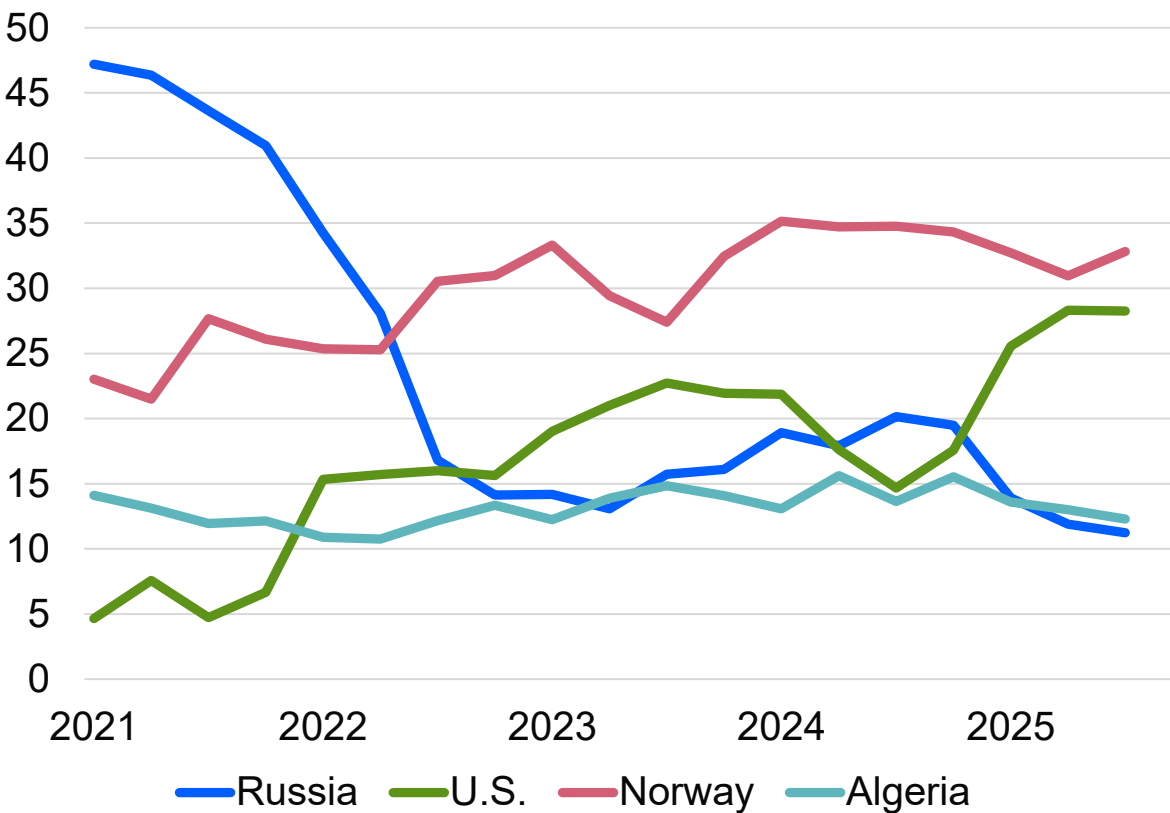
Mil bpd



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



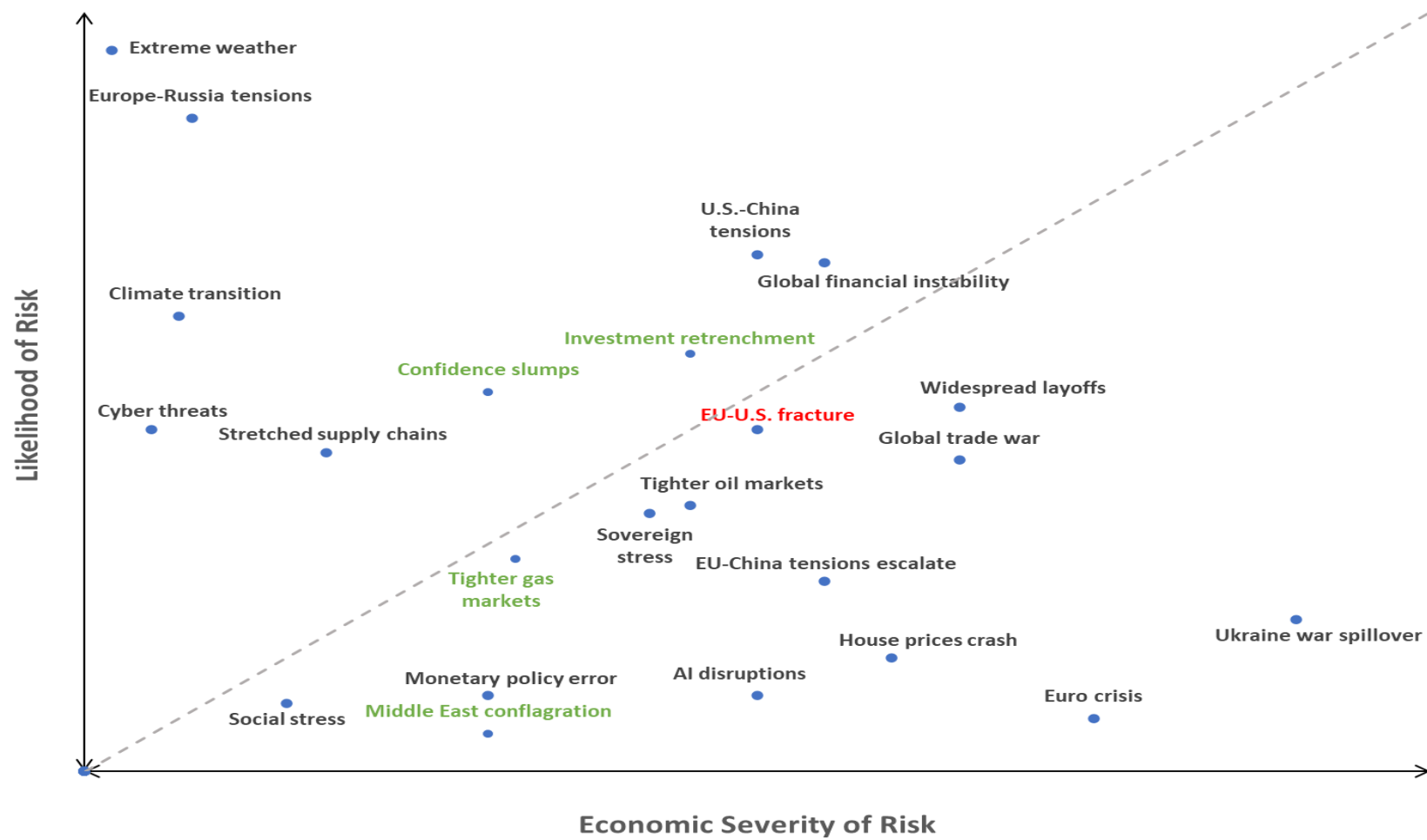
Sources: EU, Bruegel, World Bank, Moody's Analytics

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	?	✓	✓	x	✓✓	-	+
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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