

Europe Navigates Trade Pressures While Growth Holds Steady

The AIECE General Report (Autumn 2025), whose core purpose is to assess the forecasts and evaluations of AIECE institutes across Europe, highlights a European economy that grows moderately but is exposed to geopolitical pressures, structural weaknesses, and shifting global conditions.

Moderate Growth Outlook, Cooling Labor Markets

On average, the institutes anticipate that Euro area growth will remain modest, reaching 1.1 percent in 2025 and 1.0 percent in 2026. These expectations are slightly more cautious than those in the European Commission's Autumn 2025 Economic Forecast (1.3 and 1.2 percent) and the IMF's Autumn 2025 World Economic Outlook (1.2 and 1.0 percent). The core economies are no longer the primary drivers of European growth. Instead, countries such as Spain, Ireland, Croatia, Denmark, Norway, and Greece are outperforming, while Germany, Italy, Austria, and France continue to trail behind.

Inflation is projected to moderate to 2.1 percent in 2025 and 1.8 percent in 2026, though external shocks remain the dominant risk. Labour markets are cooling, with persistent divergence across countries: Spain maintains double-digit unemployment, Germany faces industrial headwinds, and several Nordic countries report shortages of skilled labour.

Fiscal and Monetary Policy: Mild Support, Rising Risks

Fiscal policy is expected to remain mildly expansionary through 2026 due to investment programs, green and digital transition needs, and rising defence commitments. Monetary policy is projected to shift toward neutrality as inflation stabilizes. Many institutes warn that the current policy mix may fall short in addressing Europe's high public debt and competitiveness challenges.

EU-US trade agreement: Temporary Uncertainty Reduction

A central topic of this edition is the assessment of the EU-US trade agreement reached in July 2025. Under this agreement, the United States will apply a 15 percent tariff on most EU products, including cars, and a 50 percent tariff on metallurgy. The EU will expand imports of US gas and defence goods and encourage European investment in the United States. AIECE institutes overwhelmingly view the agreement as negative but unavoidable. Many describe it as a bad deal that nonetheless prevents something worse, while also highlighting Europe's limited leverage in global negotiations. Across institutes, the perceived macroeconomic impact is mostly neutral, though some anticipate higher inflation and trade diversion. The main benefit cited is a temporary reduction in uncertainty.

US-China Decoupling: Call for More Assertive EU Strategy

The report also documents near-unanimous concern that US-China decoupling will slow global growth over the next five years. Most institutes support a more assertive EU strategic posture under the Open Strategic Autonomy framework, with greater protection against unfair competition and stronger export controls. Support for laissez-faire approaches is low. Protective

measures, including responses to unfair competition and tools to prevent carbon leakage, receive higher support.

Key Challenge: Long-term Resilience

The AIECE Autumn 2025 report concludes that Europe faces a moderately positive but structurally fragile economic path. Strengthening industrial capacity, tackling the high cost of energy in some countries, accelerating innovation, and reinforcing strategic autonomy emerge as key priorities for enhancing long-term resilience.

Autumn 2025 AIECE General Report

The Autumn 2025 AIECE General Report, authored by CEPREDE (Spain), offers a comprehensive macroeconomic outlook for the European economy. It also includes detailed assessments from member institutes on key cyclical, policy, and structural issues.

Link to the report: <https://www.aiece.org/general-meetings>

About the AIECE

The AIECE Association of European Economic Research Institutes, founded in 1957, brings together 40 member institutes and observers from 19 countries and five international organizations. The association convenes twice a year to exchange views on the economic outlook for European economies and discuss economic policy as well as structural economic developments. The AIECE serves as an independent, transnational forum for the regular and systematic assessment of Europe's economic outlook. More information is available at: <https://www.aiece.org/about-aiece>.