Flash Economics

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The European Commission and the IMF are far too optimistic about the euro zone

The European Commission lowered its growth forecasts for the euro zone on 21 May 2026. The downward revision covers both 2026 (0.9% vs. 1.2% previously) and 2027 (1.2% vs. 1.4% previously). In April 2026, the IMF forecasted a euro zone growth of 1.1% in 2026 and 1.2% in 2027.

We believe these forecasts are far too optimistic, even if the blockade of the Strait of Hormuz ends quickly. Indeed:

- The loss of income on the euro zone from higher oil and natural gas prices, given that fuel imports represented 3.7% of GDP before the start of the Middle East war, will amount to approximately 1.5 percentage points of GDP throughout 2026;
- The composite PMI (leading indicator of growth for the economy as a whole) fell for the euro zone from 51.8 in February 2026 to 47.5 in May;
- High uncertainty is weighing on investment and hiring ;
- Since February 2026, fertiliser prices have risen by 30%, polypropylene prices by 33%, polyethylene prices by 20%, and kerosene prices by 47%. This has resulted in a severe negative supply shock for agriculture, the plastics industry, and air transport.

Even if the increase in the euro zone's public deficit partly offsets the income loss, the GDP decline over 2026-2027 will be well above 0.5 percentage points.

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A modest revision of growth forecasts for the euro zone

The European Commission (in May 2026) and the IMF (in April 2026) have made only modest downward revisions to their growth forecasts for the euro zone. For 2026, the Commission projects 0.9% growth, the IMF 1.1%; for 2027, both the Commission and the IMF project 1.2% growth. **Cumulating 2026 and 2027, the downward revision to euro zone growth amounts to 0.5 percentage points**.

Even in a scenario where the Middle East war ends soon and the Strait of Hormuz reopens, for us these **euro zone growth assumptions appear far too optimistic**. As a reminder, euro zone GDP growth was 0.5% in 2023, 0.9% in 2024, and 1.4% in 2025, averaging just under 0.9% per year.

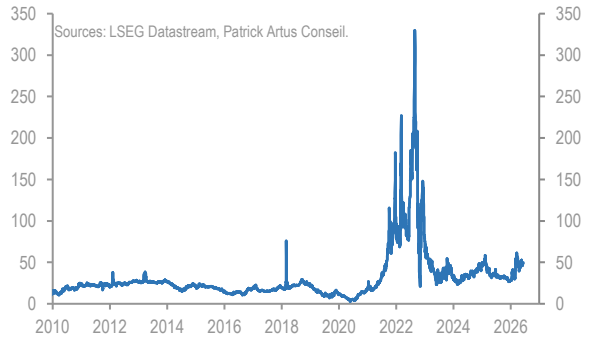
Loss of income from higher fossil fuel prices

Chart 1 shows **crude oil prices**, and **Chart 2 shows natural gas prices** in Europe.

Chart 1
Oil price (Brent, $/bbl)



Chart 2
Europe: Natural gas price (€/MWh)



Let us consider the most favourable scenario, in which, by year-end, oil prices return to $80 per barrel and natural gas prices return to $40 per megawatt-hour. Indeed, the knock-on effects of infrastructure destruction in the Middle East and the blockade of the Strait of Hormuz will persist throughout the year – due to the need to replenish strategic reserves. **In this scenario, relative to January-February 2026 throughout the course of the year, natural gas prices will have risen by 34%, and oil prices by 43%**.

This implies an average annual increase of 40% in fossil fuel prices relative to levels at the start of the year, resulting in an **income loss over the year of 1.5 percentage points of GDP**. **The actual GDP loss is likely to be smaller than this income loss**, thanks to **rising public deficits**, purchasing power support measures (fuel tax cuts), and lower tax revenues from weaker economic activity. Nevertheless, **a loss of at least one percentage point of GDP** will remain, whereas international institutions project only a 0.5 percentage point GDP loss over 2026-2027.

Declining growth prospects

The fall in the composite PMI of the euro zone from its February level has been striking (**Chart 3**). It is above all the **services sector** that is suffering from the sharp deterioration in business outlook (**Chart 4**), while manufacturing is supported by growth in the defense industry and precautionary stockpiling.

Chart 3
Euro zone: Composite PMI

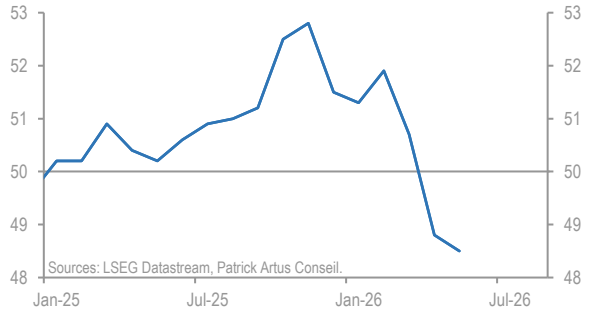
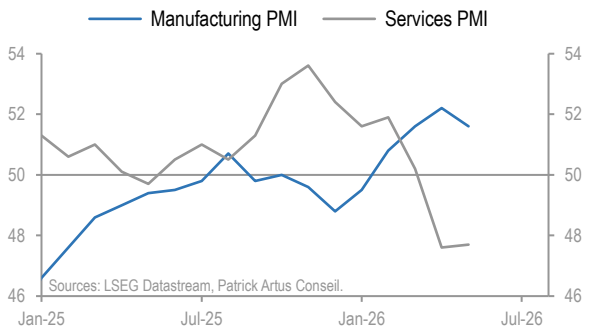


Chart 4
Euro zone: Manufacturing and services PMI (indices)



Effects of uncertainty

Uncertainty is high regarding the geopolitical situation and energy prices, **prompting businesses to exercise caution** regarding:

- **Their investment decisions** (**Chart 5**);
- **Their hiring decisions** (**Chart 6**).

Chart 5
Euro zone: Investment of non-financial corporations
(in value terms, as % of nominal GDP)

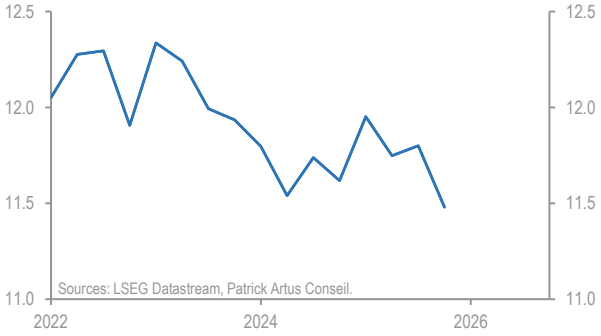
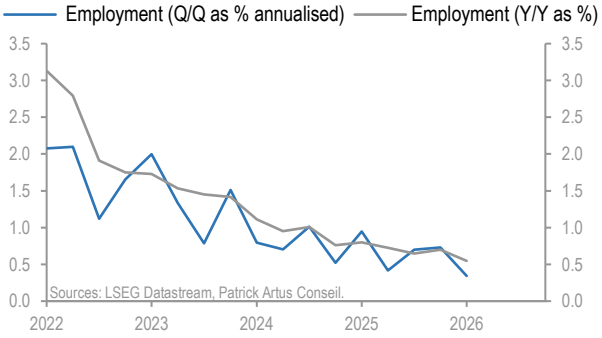


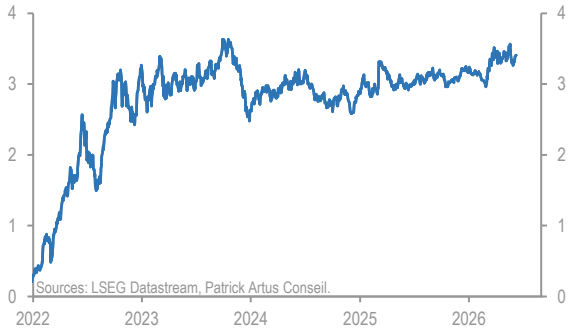
Chart 6
Euro zone: Employment



A **decline in investment and employment** can be expected **in 2026**, a side effect that international institutions are not forecasting.

Furthermore, the rise in long-term interest rates (**Chart 7**) will lead to a **weakening of investment in housing**.

Chart 7
Euro zone: Interest rate on 10-year government bonds
(as %)



Negative supply shock across many sectors

The rise in energy prices is leading to:

- **A negative demand shock**, through the erosion of consumer purchasing power;
- **A negative supply shock** for energy-intensive industries (cement, steel, aluminium, agri-food, wood and paper, chemicals).

However, the sharp rise in prices of **products manufactured from oil and natural gas must be taken into account**. In particular, since February 2026, kerosene prices have risen by 47%, **fertiliser** prices by 30%, polyethylene prices by 20%, and polypropylene prices by 33%. This results in a **negative supply shock** for agriculture, the plastics industry, and air transport.

Summary: a larger-than-expected loss of growth, even if the Strait of Hormuz reopens

We believe that the loss of growth in 2026 and 2027 resulting from the Middle East war will be significantly larger than what the European Commission and IMF are projecting, even if the conflict ends in early June. When one accounts for the time needed to normalise oil and natural gas supplies, even in a scenario of conflict cessation, it is clear:

- That the direct GDP loss from higher oil and natural gas prices will be of the order of 1 percentage point;
- That uncertainty will weigh on investment and job creation;
- That there is a negative supply shock in many industries (energy-intensive industries, agriculture, plastics, air transport).

A two-year GDP loss of 0.5 percentage points, as anticipated by international institutions, is a far too optimistic scenario.

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