# European Economic Outlook
*(Abridged Version)*

EY Economic Analysis Team

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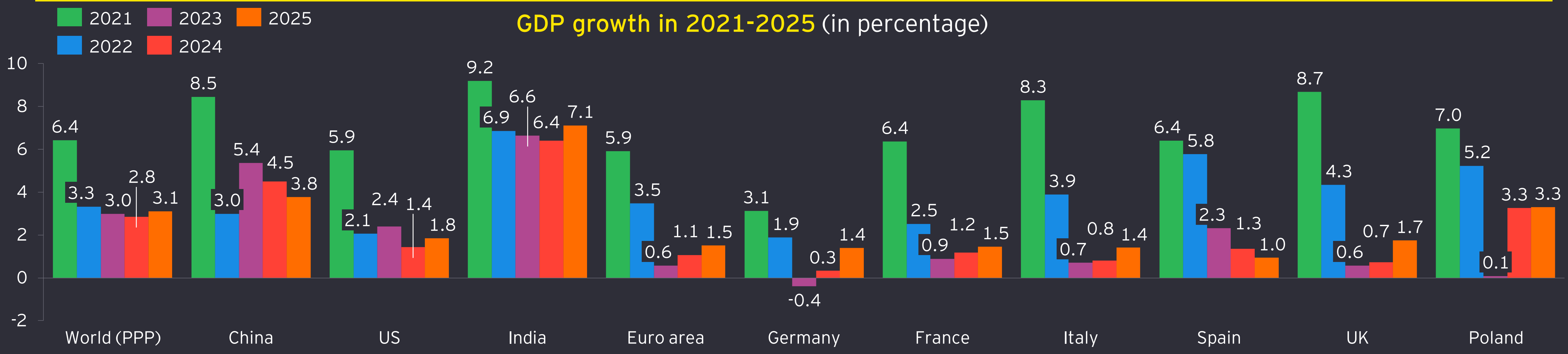
# Europe’s economic malaise persists, but recovery is just around the corner

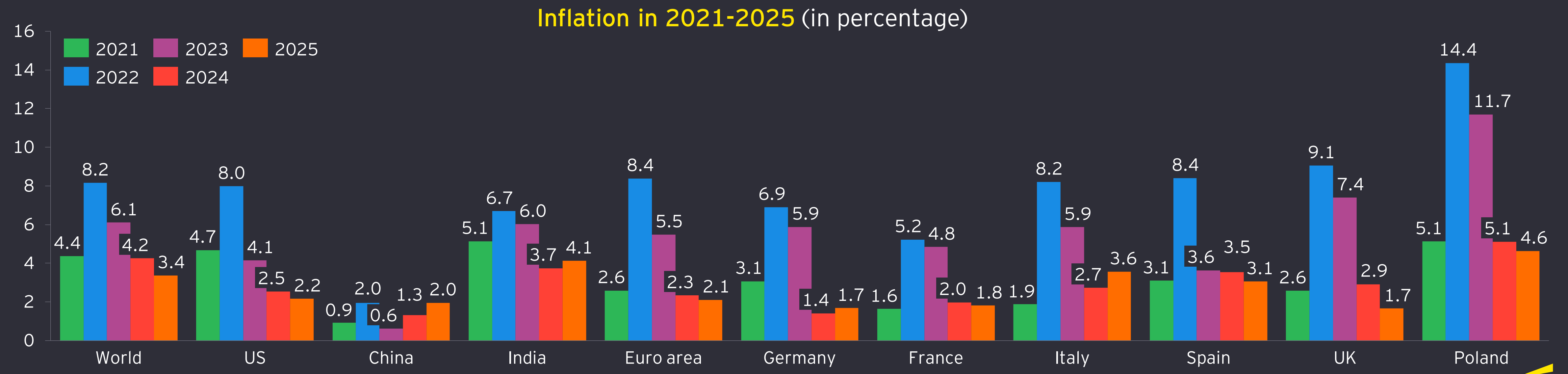
- The European economy has stagnated since summer 2022. The still high inflation continues to weigh on real incomes and thus consumer spending. Weak consumer demand, earlier increases in energy prices, diminished inventory growth and the spending rotation from goods back to services have all depressed activity in European manufacturing and hence exports. Monetary policy tightening has taken its toll, too. The recovery in tourism and other services, easing supply bottlenecks and robust labor markets have helped Europe to avoid a recession, but have not been sufficient to prevent GDP growth from stalling.
- However, Europe’s aggregate numbers hide substantial sectoral and national divergences. With services recovering and industry – especially energy-intensive sectors – in recession, GDP in Southern and Southeastern Europe has continued to grow, while Germany, most of Central Europe (Poland, Austria, Czechia, Hungary) and the Baltics (most adversely impacted by the war in Ukraine) have fallen into a recession.
- Economic malaise continued into Q3 2023 and we estimate that euro area GDP declined slightly (or at best stagnated) as momentum in services petered out and activity in manufacturing remained depressed.
- The good news is that Q3 likely marks the trough of this cycle. Rapidly declining inflation is supporting real incomes and consumer demand, with real wage growth turning positive. Government investment will continue to support activity as the absorption of NextGenEU funds is stepped up. Headwinds to manufacturing activity will gradually die out. As such, we expect economic activity to gradually improve in the coming months, with GDP returning to growth at the turn of 2023/24.
- Nevertheless, the recovery is likely to be sluggish since tight monetary policy will continue to weigh on activity and we anticipate only a gradual recovery of external demand. The withdrawal of fiscal measures introduced in response to the pandemic and the energy shock will also weigh on demand.
- Therefore, after the slowdown from 3.5% in 2022 to 0.6% in 2023 (vs. 0.7% forecast in our July outlook), we expect only a modest acceleration of GDP growth in the euro area to 1.1% (1.2% in our July outlook) in 2024 and 1.5% (1.4%) in 2025.
- Compared to Western Europe, we forecast a much stronger rebound in Central and Eastern European (CEE) countries that will realize their much higher potential growth, supported by rapid disinflation. Despite this, almost all European economies will remain well below pre-Covid trends over the projection horizon, pointing to the long-term negative effects of the pandemic and the war in Ukraine.

# Disinflation continues, but the last mile will be the hardest

- Inflation in Europe has continued to decline, falling in the euro area to 4.3% in September from its peak of 10.6% in October 2022. Easing supply bottlenecks, weak demand and the earlier decline in commodity prices have continued to filter through to core goods and food prices. Still, higher oil prices, local food price shocks and persistent inflation in services have slowed down disinflation a bit, with inflation turning up slightly higher than previously anticipated.
- We forecast inflation to decline further over the remainder of the year as disinflation in food and core goods components continues, while services inflation softens further following the decline in September. This view is supported by leading indicators such as PPI inflation and price expectations of companies, which continue to decline.
- In 2024, as the indirect effects of past energy and other supply shocks gradually fade, "free lunch" disinflation will peter out and labor costs will play an increasingly important role as a driver of inflation. With tight labor markets, workers are using their bargaining power to recoup lost income which will maintain upward pressure on wage growth and prices, especially in the services sector, where the share of wages in direct input costs is twice as high as in manufacturing.
- As such, while we anticipate headline inflation in the euro area to fall below 3% by the end of 2023, its further decline will be more problematic. We expect headline inflation to remain slightly above the European Central Bank's 2% target throughout 2024, reaching 2% only in 2025. Core inflation should be even higher in 2024 but is also likely to reach the target in 2025.
- Trends in inflation are similar across European economies, but inflation levels vary significantly. This is primarily due to differences in sensitivity to experienced commodity price shocks, varying levels of labor market tightness and some methodological quirks in how inflation is measured. The highest inflation rates continue to be seen in CEE countries (in the 7%-12% range, as of September 2023), largely due to their fossil fuel-based energy mixes, higher shares of food and energy in inflation baskets and tight labor markets. The lowest, close to zero, inflation rates are observed in the Netherlands, Denmark and Belgium – countries where energy prices are calculated based on the prices of new contracts only, which has resulted in deeply negative energy inflation.
- However, these national disparities will continue to diminish, and we expect that most EU economies will see 2024 headline inflation in the 1.5%-3.0% range. Price pressures are likely to remain elevated in some CEE countries though, most notably Poland and Hungary, where tight labor markets, expansionary fiscal policy and the phasing-out of temporary indirect tax cuts and energy price freezes will keep inflation elevated for longer.

# GDP and inflation forecasts




Source: Oxford Economics, EY EAT forecast (baseline scenario).

# While the monetary tightening cycle is over (almost everywhere), central bank rates are likely to stay higher for longer

- In our view, all major central banks are finished with rate hikes, but given persistent price pressures and elevated wage growth, interest rates will stay higher for longer. We expect the ECB, Fed and the Bank of England (BoE) to cut rates for the first time in June 2024 and continue gradual easing afterwards.
  - As we expected, the ECB ended the tightening cycle with a 25bp hike in September, while flagging that interest rates will stay at current levels for some time.
  - In line with our expectations, the Fed stayed put in September. While the dot plot indicated one more hike this year, we stick to our view that the tightening cycle in the US has come to an end.
  - Following a 25bp hike in August, the BoE surprisingly paused in September, which likely marks the end of the tightening cycle.
- CEE monetary policy authorities have already begun or are about to begin easing policy, the Swiss central bank has concluded its hiking cycle, while Nordic central banks continue tightening.
  - The Polish central bank (NBP) surprised with a 75 bp cut in September, followed by a 25 bp cut in October. The decisions were driven by the political cycle (elections on 15 October). With the opposition likely to form a new government, uncertainty over the central bank's next moves has increased. We anticipate the NBP continuing easing, but at a slower pace than expected before the parliamentary elections.
  - Hungarian CB has been normalising interest rates from very high levels and is expected to continue doing so. Czech (CNB) and Romanian (BNR) CBs have stayed put at recent meetings. We anticipate the CNB to start cutting rates by the end of this year and to continue interest rate reductions at a relatively rapid pace next year. The BNR in turn is likely to initiate a very gradual easing cycle early next year.
  - The Swiss National Bank surprised by pausing in September and is now expected to keep rates unchanged for an extended period, as far as early 2025. Nordic CBs have continued monetary policy tightening and we expect one more rate hike in each case. Given weak currencies and relatively persistent underlying inflation, initial rate cuts are likely to come a few months after the ECB's first interest rate reduction.
- The effects of monetary policy tightening are delayed and will be fully felt only next year. Debt servicing costs will continue to go up as an increasing share of debt is refinanced at elevated rates. As inflation falls and nominal rates stay unchanged, real rates will continue going up, resulting in effective policy tightening. The effects of monetary policy vary across countries, not least due to differences in the level of indebtedness and the popularity of fixed rate loans.
- The effects of rising interest rates have become apparent in negative credit growth, a strong contraction in commercial real estate activity and declining housing starts. House prices stabilised in nominal terms, following rapid rises, but have fallen in real terms.
- Bond yields have increased significantly in recent months, though in Europe they have increased less than in the US. Yields have increased both at the short end, reflecting the higher-for-longer scenario, and at the long end. The latter has resulted both from the repricing of natural interest rates and an increase in term premia, which may be related to the expectation of permanently more expansionary fiscal policy and higher supply of government bonds. Still, the impact of the recent increase in bond yields on the European economy is likely to be very limited.

We  put at your disposal an abridged version of the EY Economic Analysis Team's report on the European Economic Outlook. October 2023

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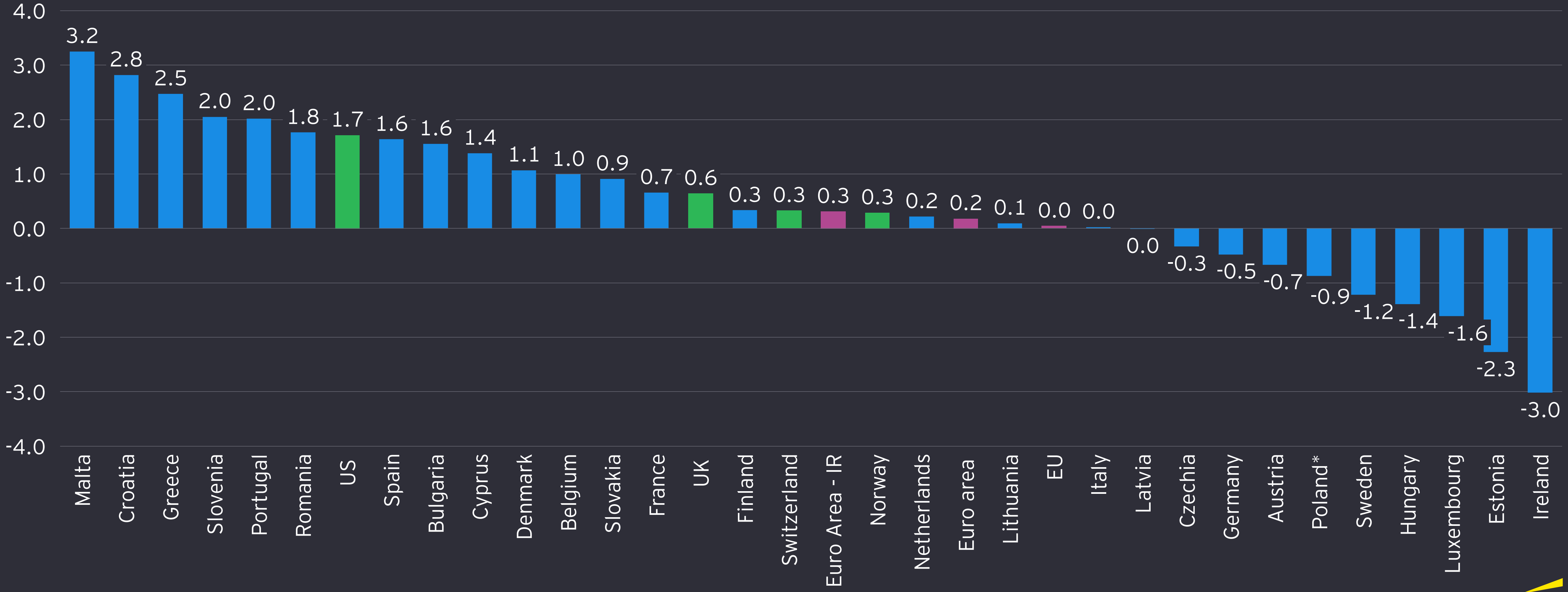
# Since summer 2022, the European economy has remained in stagnation. However, aggregate numbers hide substantial national divergences

- Several countries entered into a recession, especially in Central Europe (most notably Germany, but also Poland, Hungary, Austria and Czechia) and Nothern Europe (Sweden, Estonia).
- Irish GDP continued to be highly volatile on the back of distortions caused by tax-related transactions of multinational corporations
- On the other side of the spectrum, GDP continued to expand at a healthy pace in Southern Europe and the Balkans

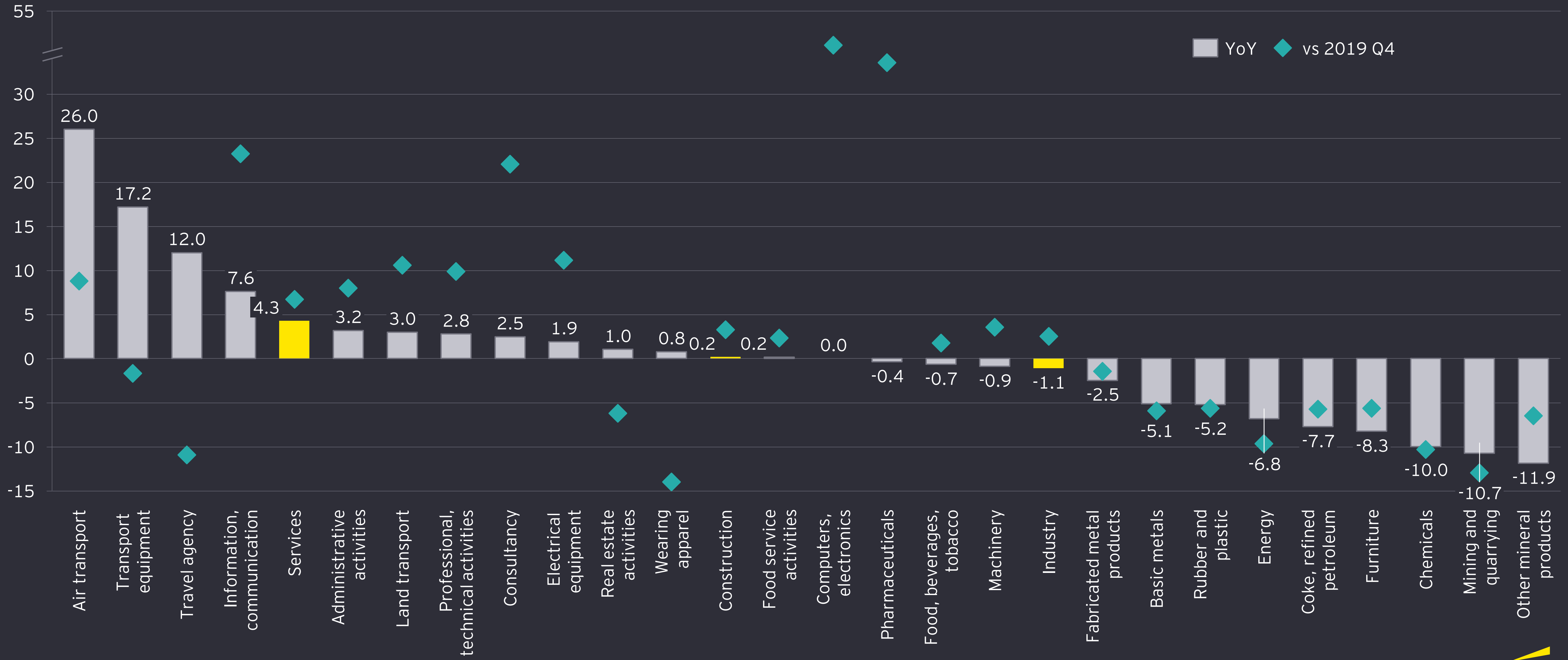
**GDP change from 2022 Q3 to 2023 Q2** (In percentage)




Source: Eurostat, Oxford Economics.
* For Poland, data seasonally adjusted by EY.

# Aggregate numbers also hide large divergences across sectors – tourism and the automotive sector have been recovering strongly, ICT continued to grow, while production in energy-intensive industries declined

**Production growth in the euro area, 2023 Q2** (In percentage)

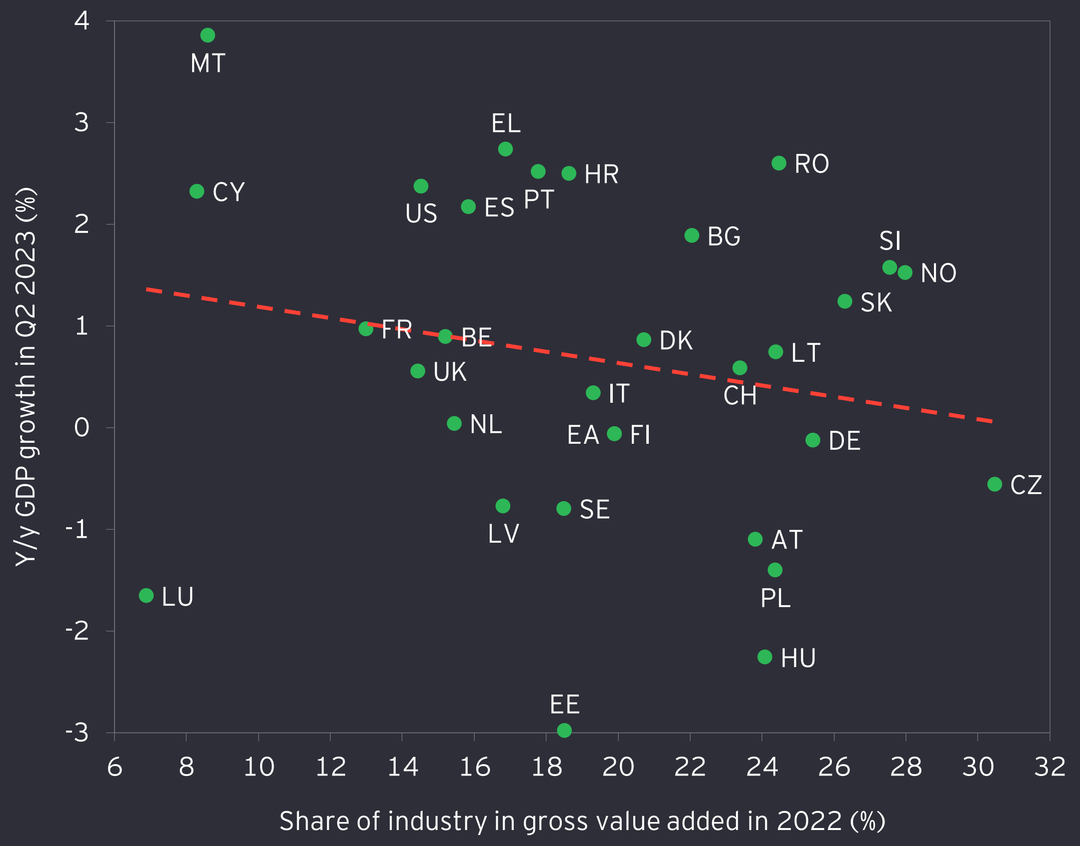




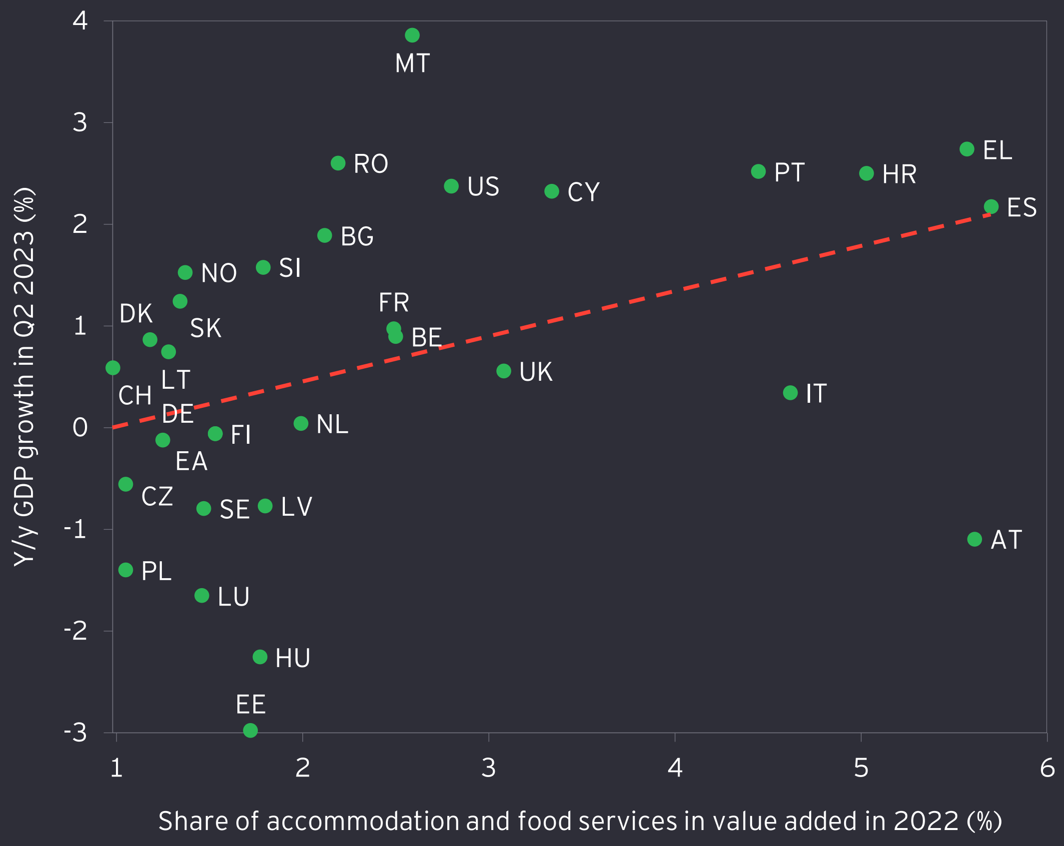

Source: Eurostat.

# Sectoral differences have translated into cross-country differences as service-intensive Southern Europe continued to grow, while industry-intensive Central Europe (including Germany) entered into a shallow recession

## Y/y GDP growth in Q2 2023 vs. share of industry in value added in 2022




## Y/y GDP growth in Q2 2023 vs. share of accommodation and food service in value added in 2022



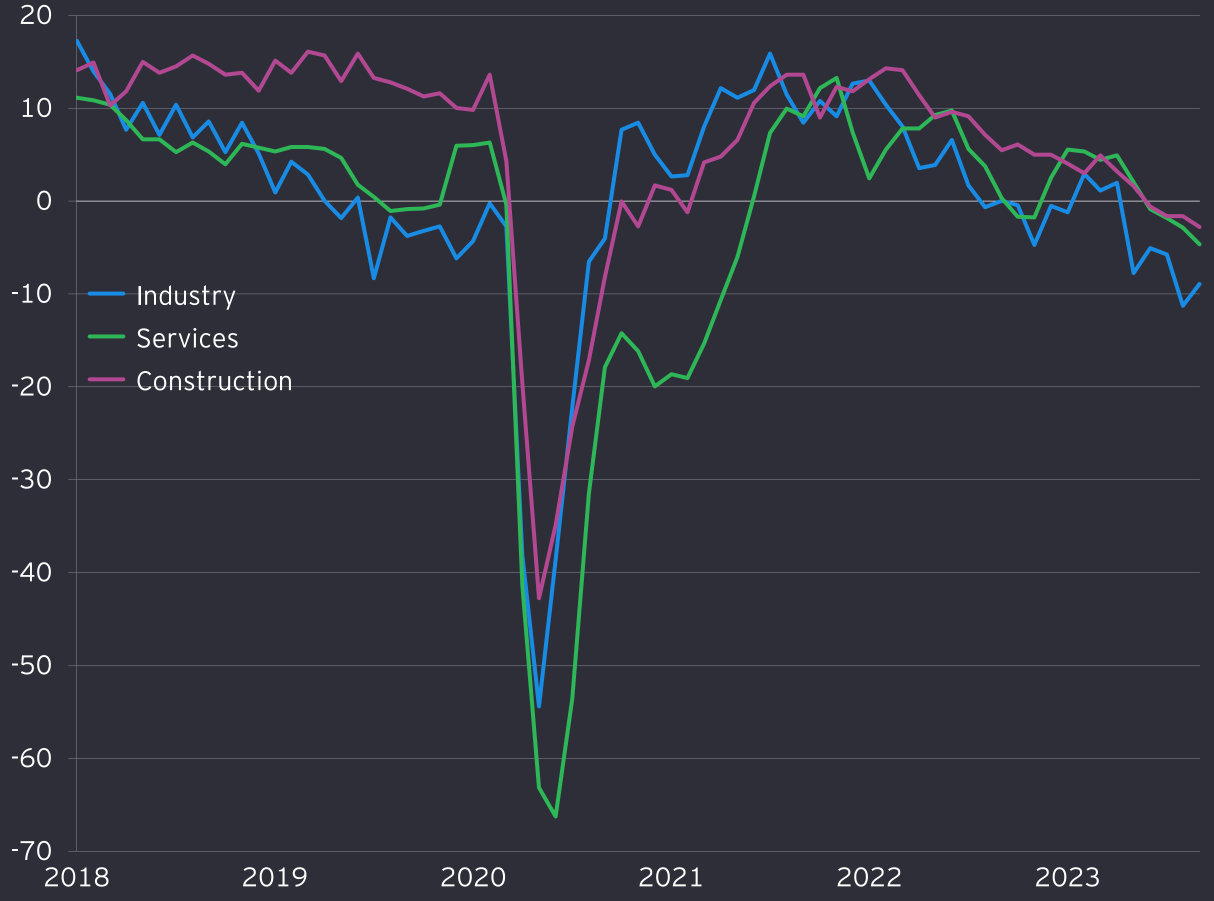



Source: Eurostat, Oxford Economics.

# Business sentiment has kept on deteriorating in recent months, with activity in services losing momentum and manufacturing remaining in recession

- "Hard" data on industrial production and retail sales also point to a slight GDP contraction in Q3

## Survey indicators of current production in the euro area (long-term average = 0)




## PMI in manufacturing and services in the euro area (no change in activity = 50)

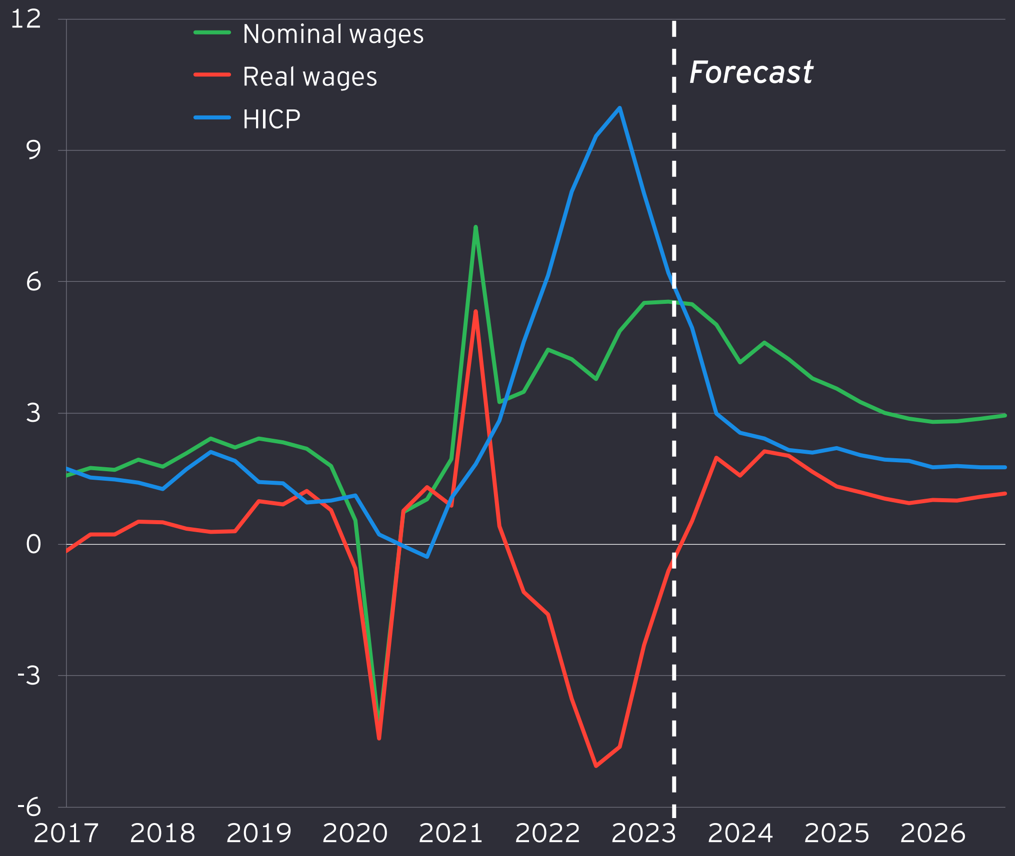

Source: Eurostat; Trading Economics.

Notes: For services, evolution of demand over the past 3 months; for industry and construction, production development observed over the past 3 months. Long-term average since April 1995.

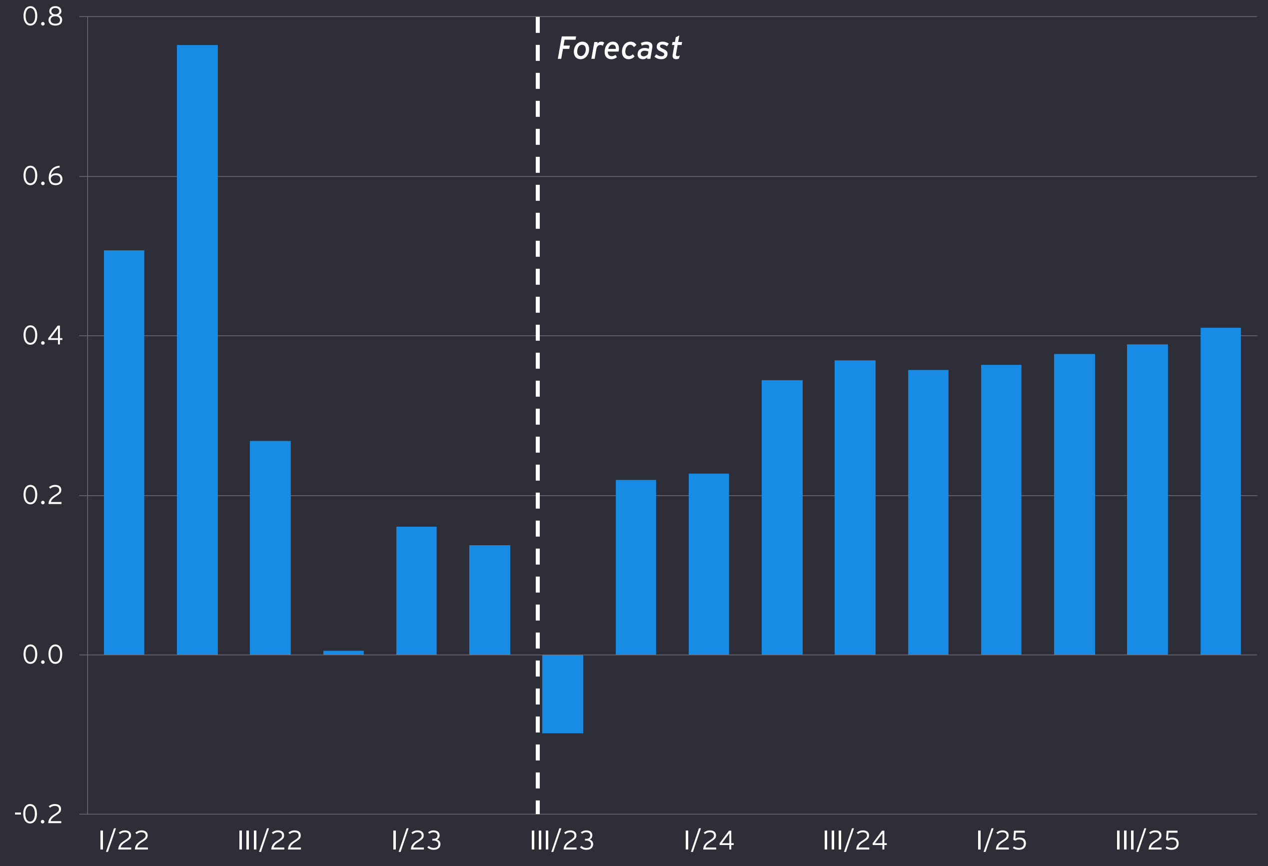
# The good news is that Q3 likely marks the trough of this cycle. Rapidly declining inflation is supporting real incomes and thus consumption. We expect GDP growth to resume at the turn of 2023 and 2024

- Government investment will also continue to support activity as the absorption of NextGenEU funds is stepped up.

**Nominal and real wage growth in the euro area, y/y**
(in percentage)




**GDP growth in the euro area less Ireland**
**(q/q, in percentage)**

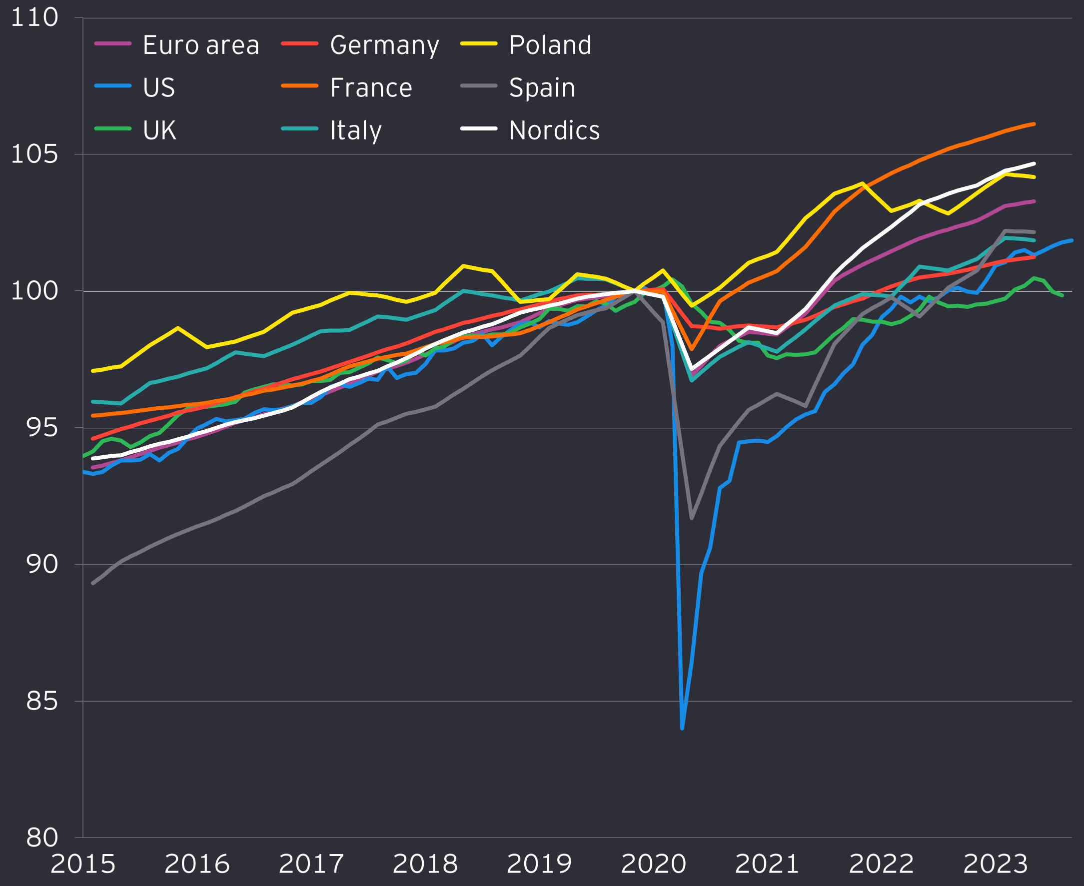



Source: Oxford Economics, EY EAT forecast.

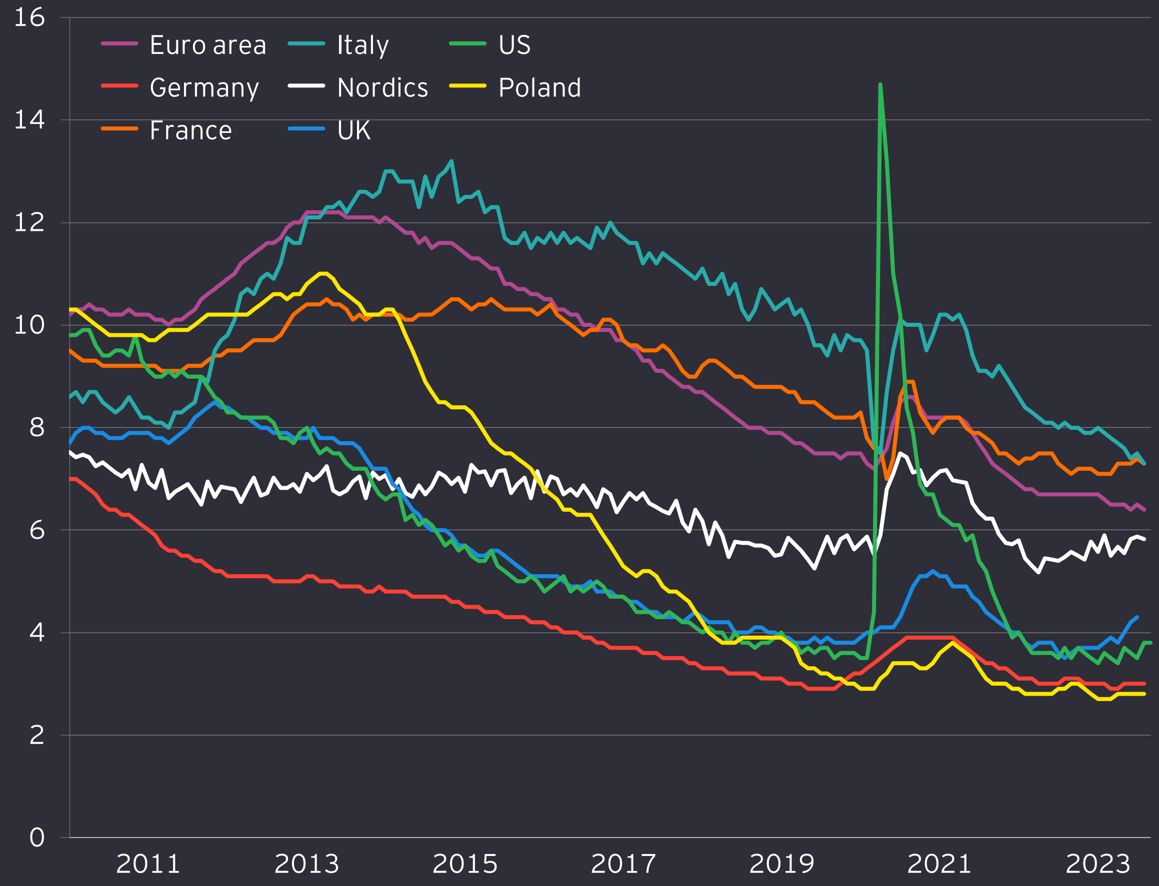
Notes: for EU countries, wages and salaries per employee based on national accounts deflated with HICP. For US Employment Cost Index: Total Compensation deflated with CPI.

# Economic growth in Europe is supported by resilient labor markets, with employment continuing to grow in most countries and unemployment continuing to decline or stabilising at levels close to historical lows

**Employment***
(Index, Q4 2019 = 100, seasonally adjusted data)



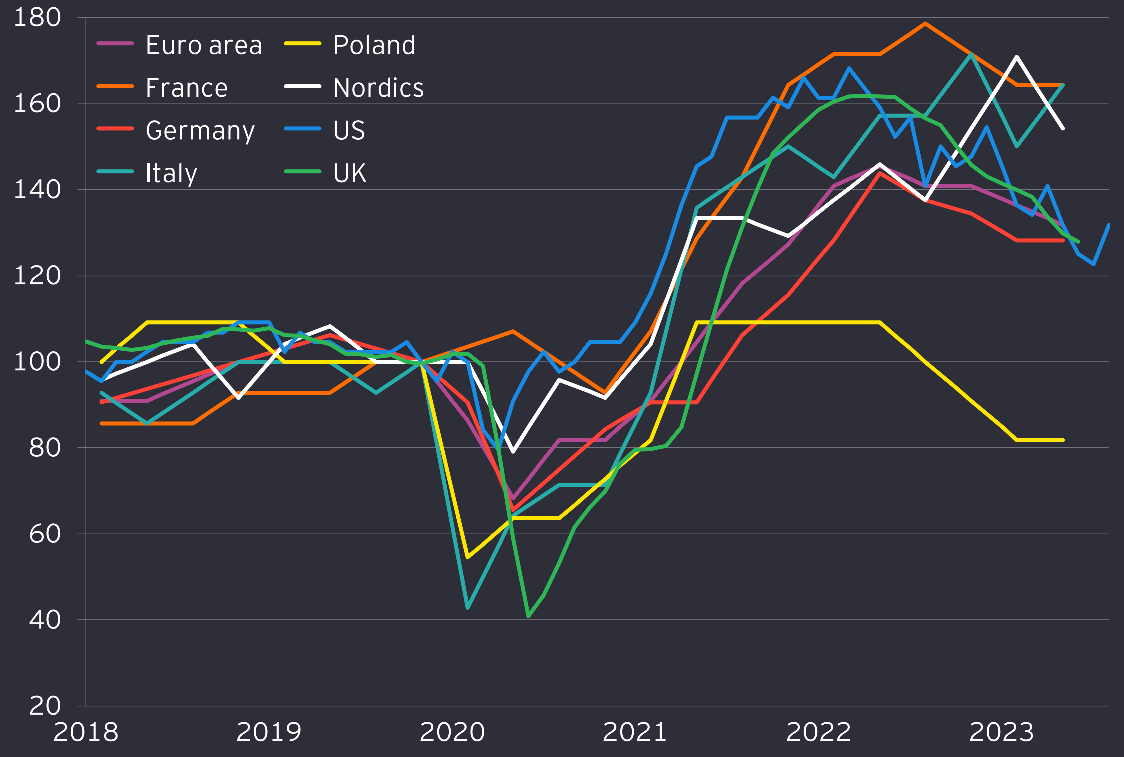

**Unemployment rate over time** (in percentage)



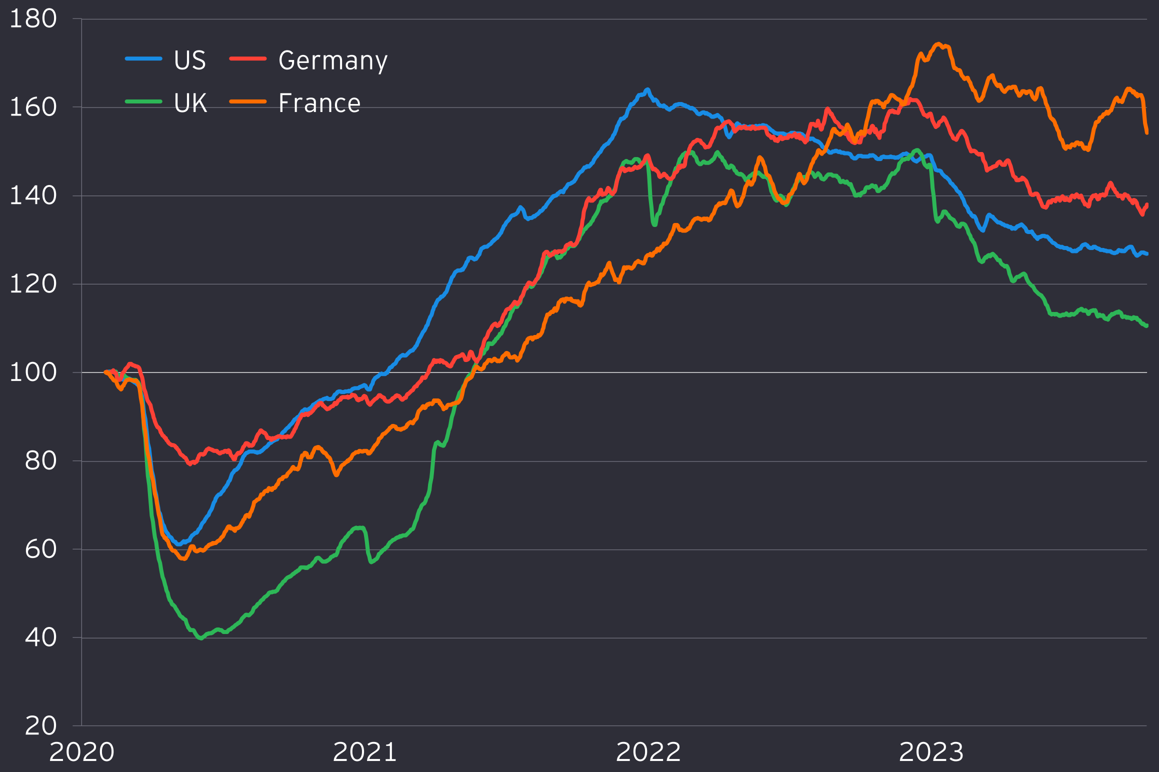

Source: Eurostat, FRED, ONS, Oxford Economics, EY calculations.
* 2023 Q1 vs 2019 Q4

# Due to economic slowdown, demand for labor has softened a bit, but remains high

**Vacancy rate [1] ***
Index, 2019 Q4 =100

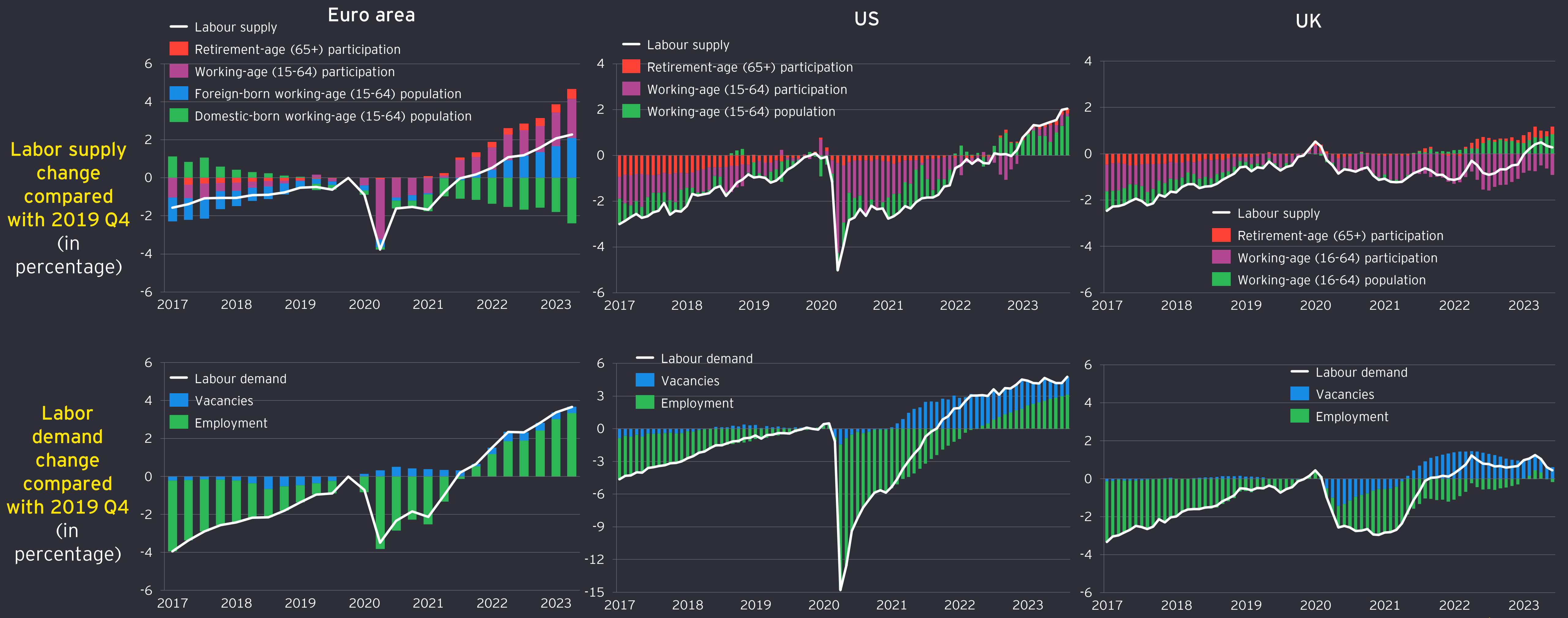



**Indeed Job Postings Index[2],**
(Index, Feb 01 2020 = 100)




Source: [1] Eurostat, ONS, FRED, EY EAT calculations. [2] Data on online job postings is based on GitHub - hiring-lab/job_postings_tracker: Regularly updated data series for external use.
Notes: Vacancy rate is the number of vacancies divided by the total number of filled positions (for the UK, total number of people employed). For the EU countries, quarterly data; for the UK and the US, monthly data. For France, vacancies reported by firms employing at least 10 employees. Nordics is an average of vacancy rates in Sweden, Finland and Norway.

# Labor markets have recently been rebalancing, not only due to some softening in demand growth (in the UK, even an outright decline in demand), but even more so due to an increase in supply on the back of increased immigration and labor force participation



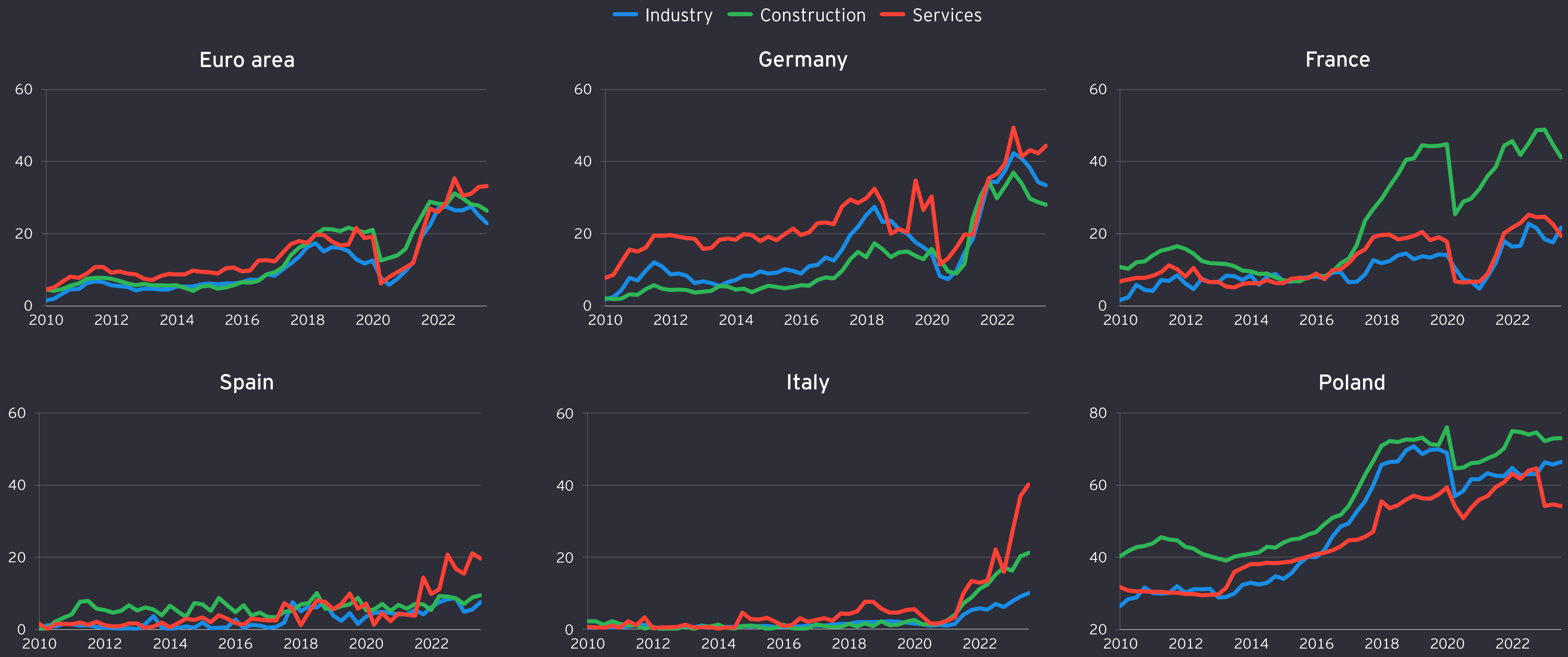



Source: Eurostat, BLS, FRED, ONS.

EY

# Firms report some reduction in labor market tensions, but in most countries the labor market remains much tighter than before the pandemic

**Labor as factor limiting production in the EU** (in percentage, seasonally adjusted)



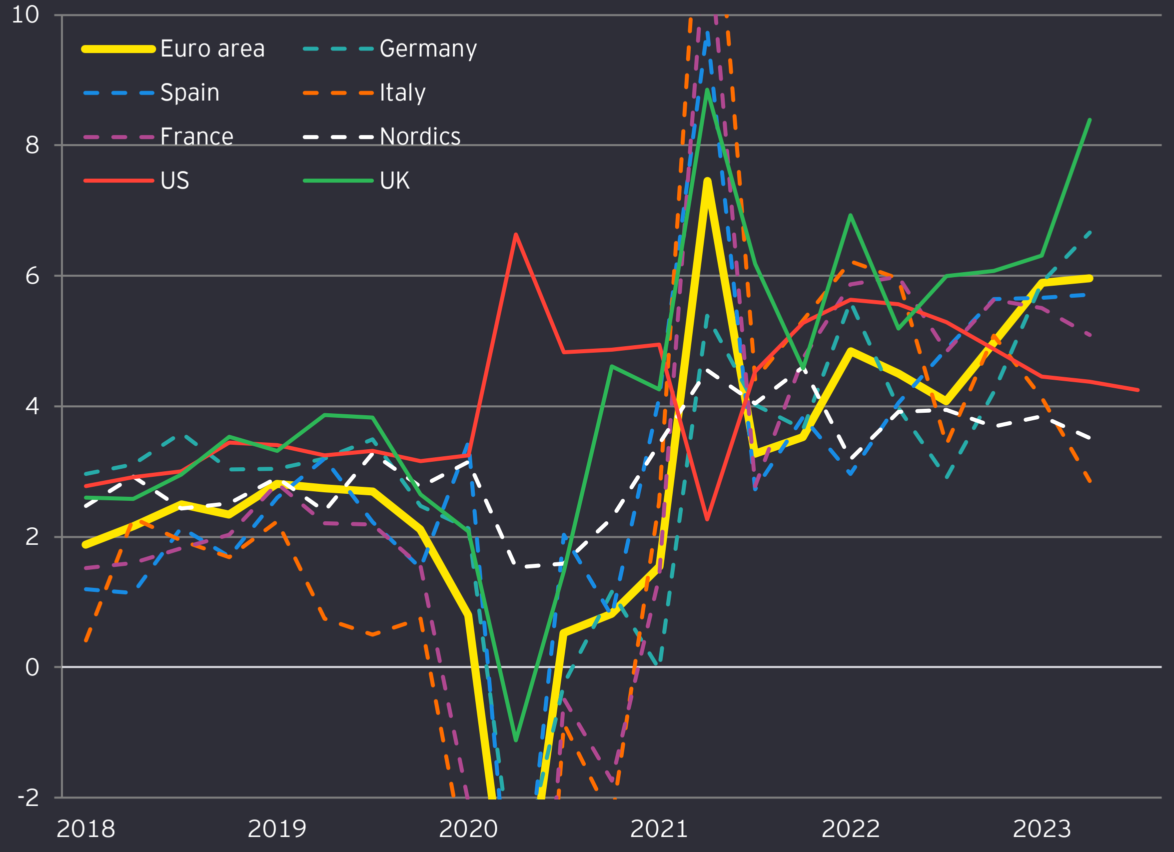



Source: Eurostat.
Note: Percentage of firms indicating labor shortages in a survey question: What main factors are currently limiting your production?.

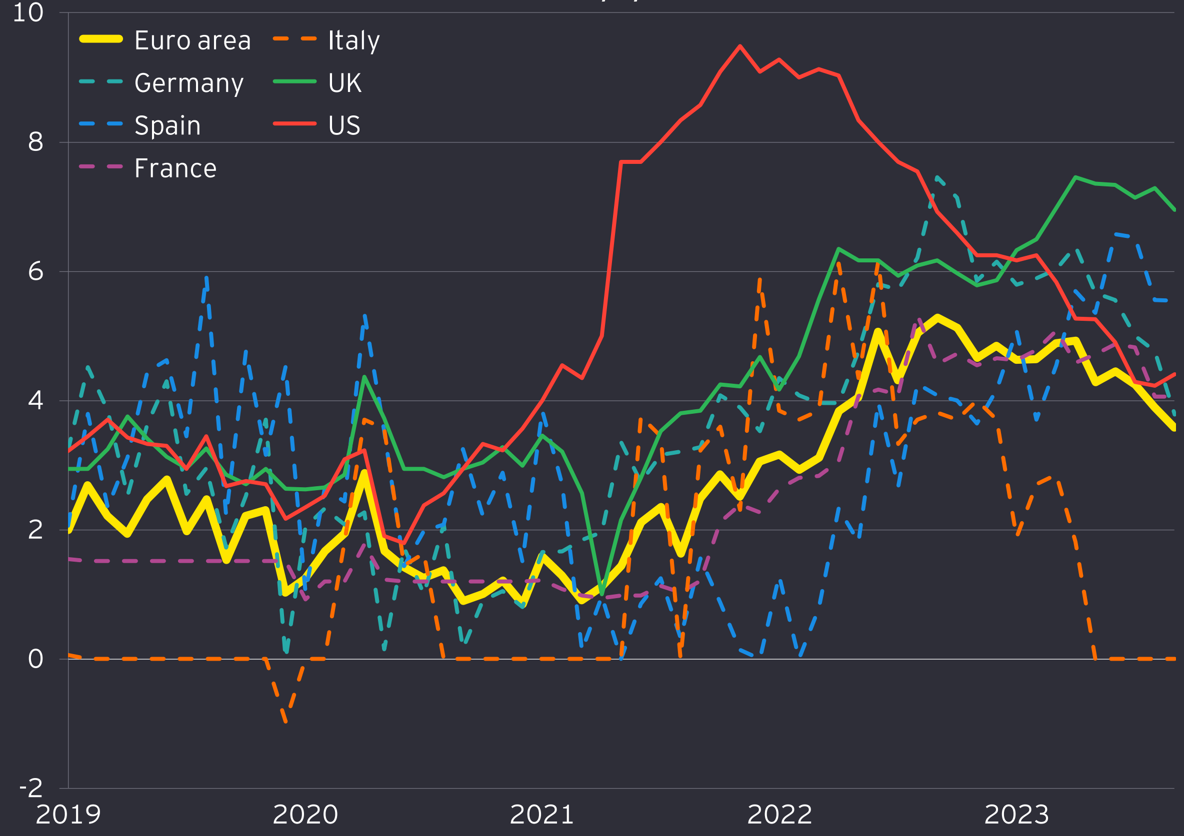
# Despite economic slowdown and some labor-market cooling, nominal wage growth remains elevated, helped by wage indexation to past inflation

- On one hand, the ongoing economic slowdown reduces employees' bargaining power, while on the other the still-tight labor market, indexation to past inflation and minimum wage hikes in many countries help maintain wage growth momentum
- For these reasons, we expect wage growth to remain elevated at least until mid-2024, despite some decline in wage growth in job postings

## Wage growth (y/y, in percentage)




## Wage growth in job postings[2] (y/y, %)

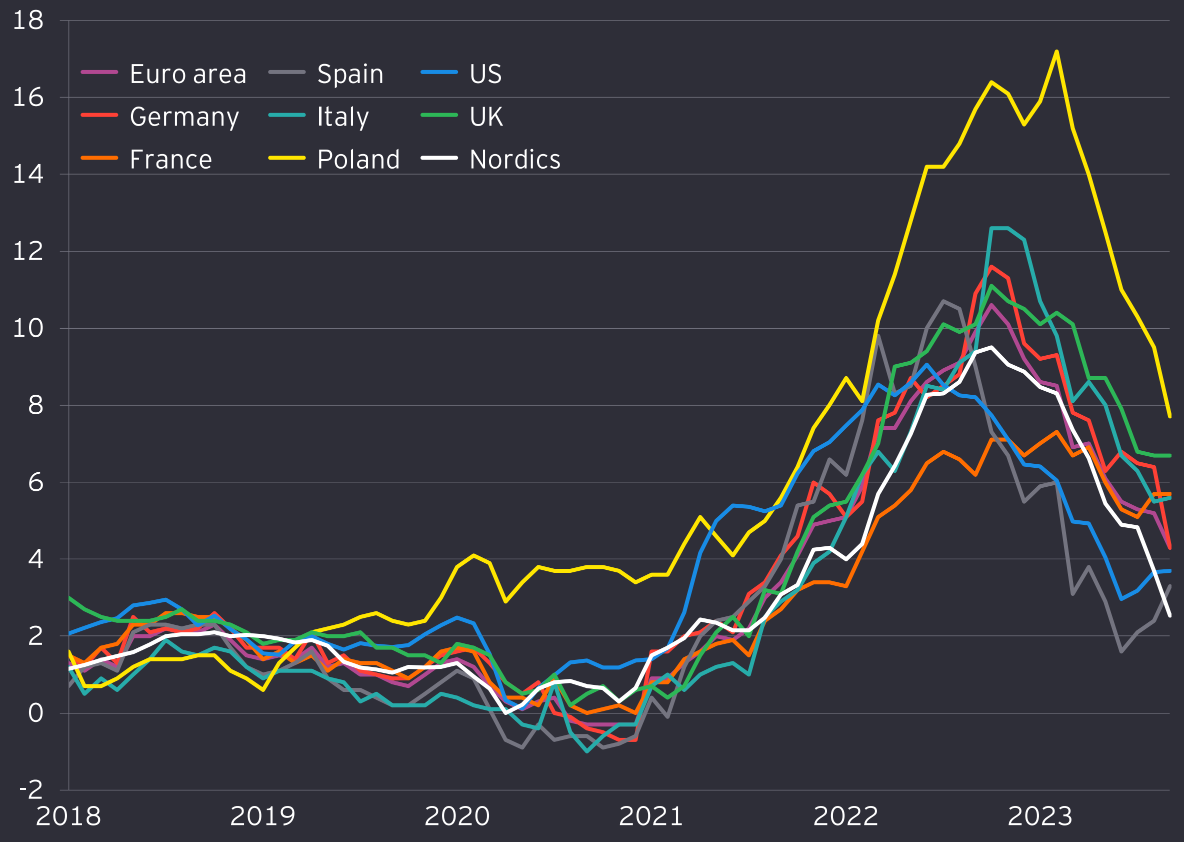



Source: [1] Eurostat, ONS, FRED, Oxford Economics
For the European area countries, Total Earnings (quarterly data); for the UK, average weekly earnings in the whole economy, total pay (monthly data); for the US average hourly earnings of All Employees, Total Private (monthly data). Nordics as Norway, Sweden, Finland and Denmark arithmetic average.
[2] Source: Indeed wage tracker

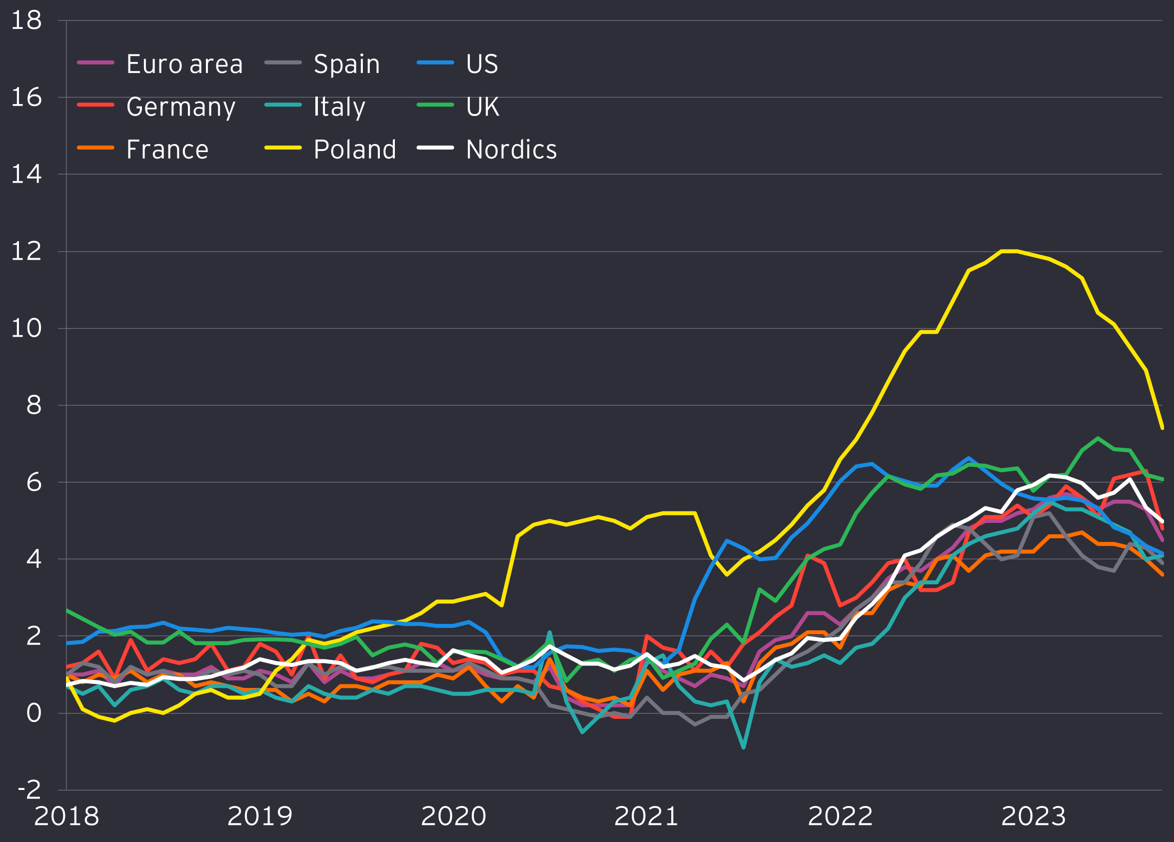
Inflation

# Despite tight labor markets and strong nominal wage growth, headline inflation has been declining rapidly. Core inflation has also passed its peak, but shows more persistence

**Headline inflation** (y/y, in percentage)




**Core inflation** (y/y, in percentage)

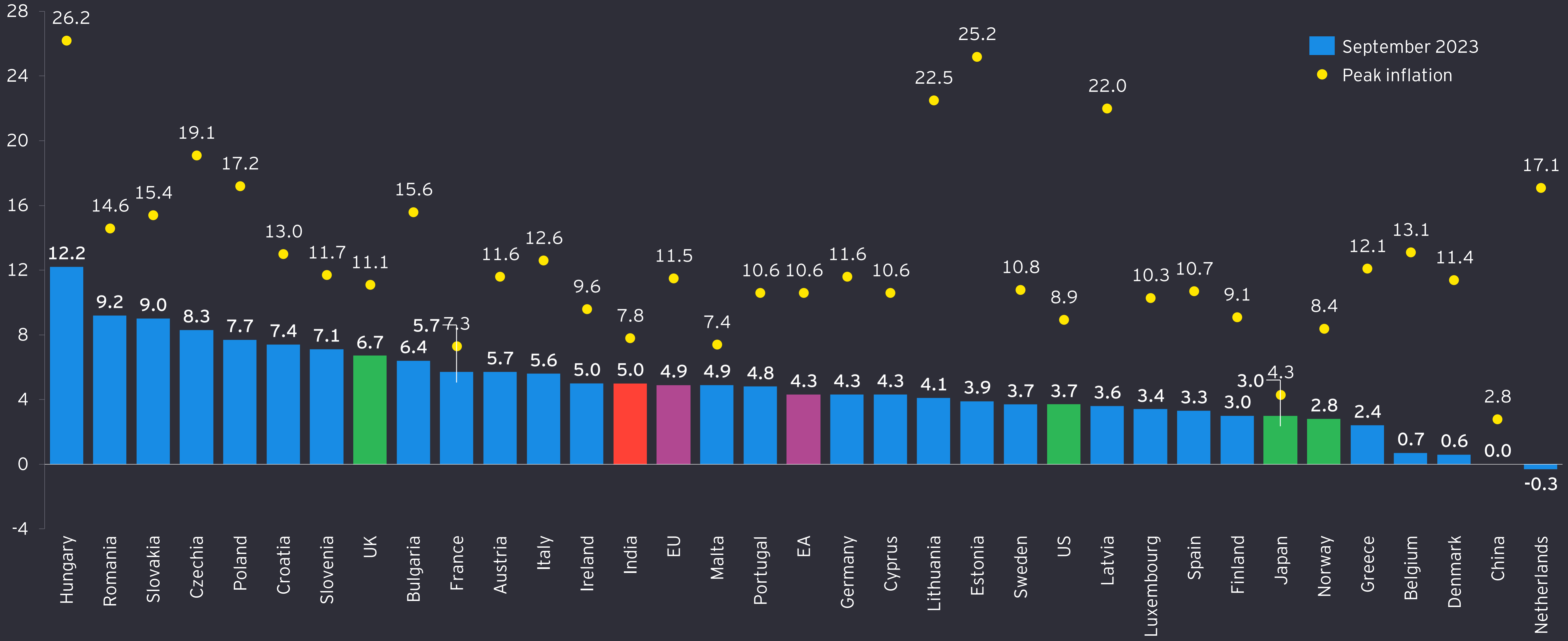



Source: Eurostat; ONS, FRED.

Notes: Nordics as arithmetic average of Norway, Sweden, Finland and Denmark.

# While inflation has declined significantly from its peak, it remains elevated in most countries. Inflation varies across Europe, with highest rates recorded in CEE countries

**HICP inflation in September 2023** (y/y, %)




Source: Eurostat, FRED, ONS, national statistical bureaus.
Note: For non-EEA countries, CPI inflation.

# Disinflation began with energy components, followed by food and core goods, with services last to join the party

- In the euro area, energy and food played a relatively more important role in driving inflation than in the US, UK or CEE
- In the UK, price pressures are more persistent due to stronger nominal wage growth and the consequences of Brexit and the pandemic
- In CEE, inflation has been much higher due to stronger pass-through from commodity price shocks and higher demand. Core inflation began to ease earlier than in the euro area, though

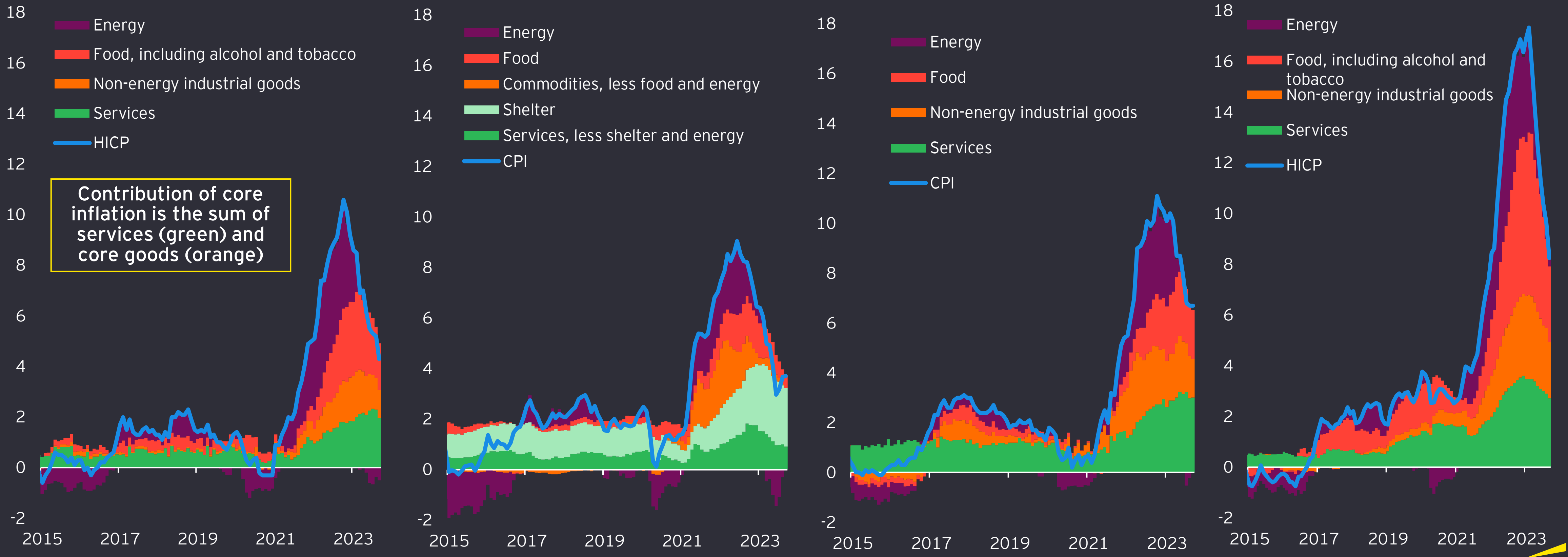
**Statistical decomposition of y/y inflation** (in percentage)

a) Euro area

b) US

c) UK

d) CEE



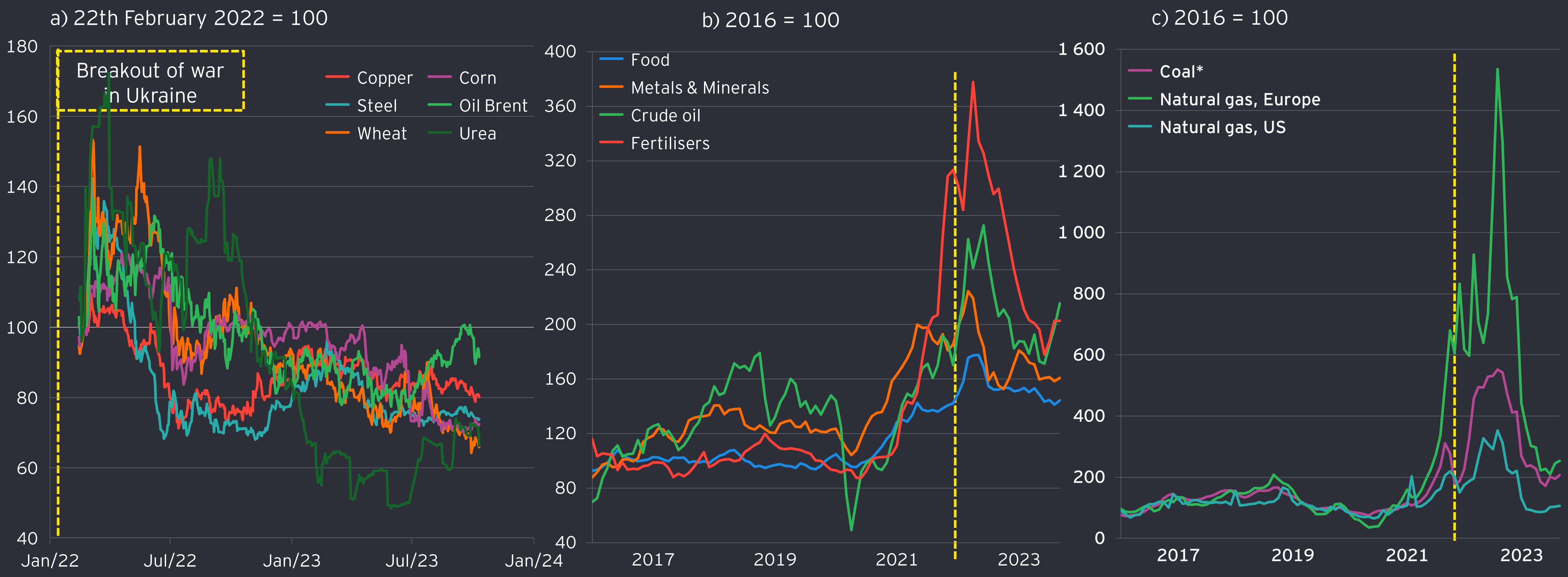



Source: Eurostat; FRED; BLS; ONS; EY EAT calculations.
Note: CEE includes Czechia, Hungary, Poland, Romania and Slovakia.

# Energy and food inflation have been going down not only due to base effects (elevated prices a year before) but also thanks to the decline in commodity prices well below the pre-war levels

- The recent increase in oil prices will slow down disinflation, but not derail it

**Global commodity prices** (index)

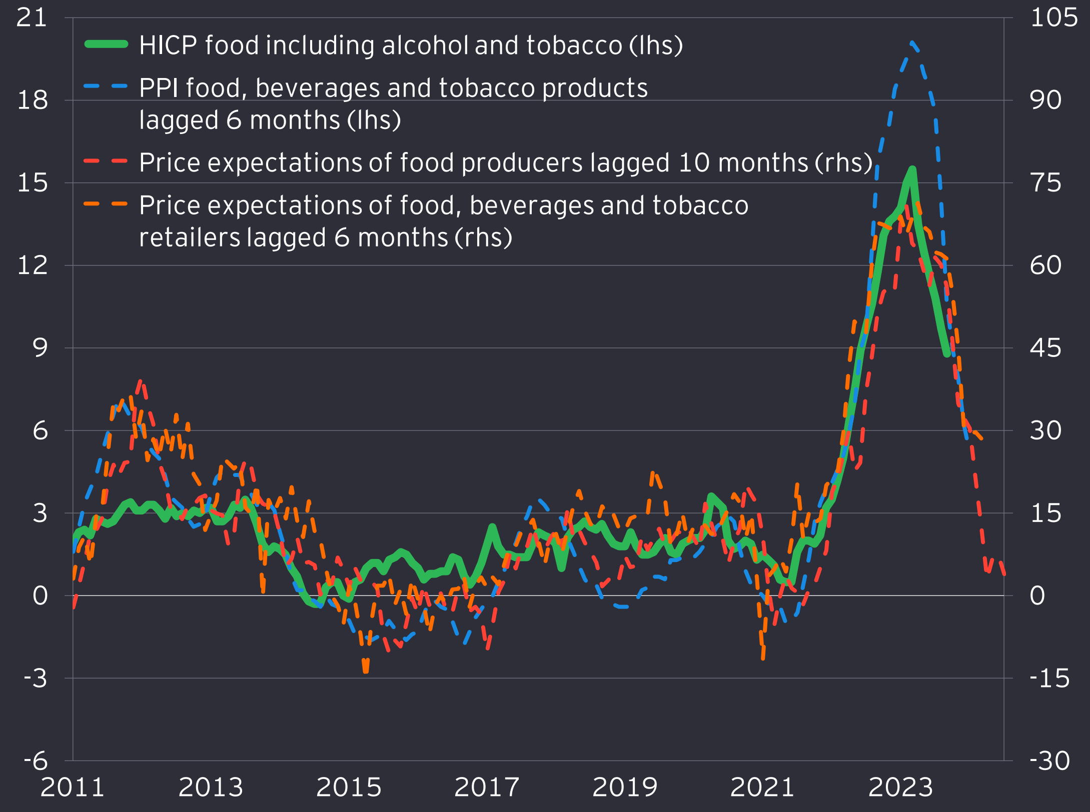



Source: World Bank Commodity Prices; stooq.pl.
* ICE Rotterdam coal price.

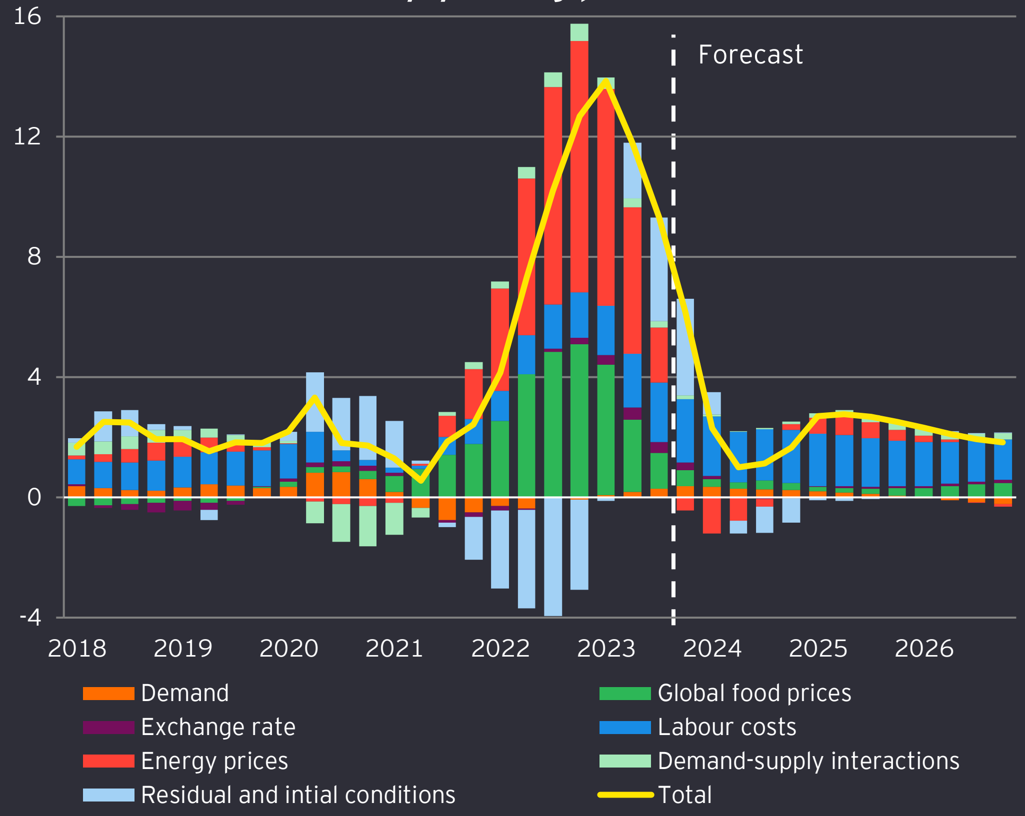
# Food price disinflation has proceeded at a relatively fast pace. Leading indicators signal further rapid disinflation in the coming months. Significant upside risks have not materialised so far

- Food prices react with a long lag and in a strongly non-linear fashion to global food and energy commodity prices. We expect food inflation to rapidly decelerate towards ~1% in the euro area as past declines in commodity prices filter through to food prices
- Extreme weather conditions over the summer led to local and product-specific price spikes (fruit, olive oil), slowing down disinflation. Similar factors may come into play in the coming months, but they are highly unlikely to derail disinflation altogether as global food prices are stable or falling

## Food HICP and its leading indicators in the euro area



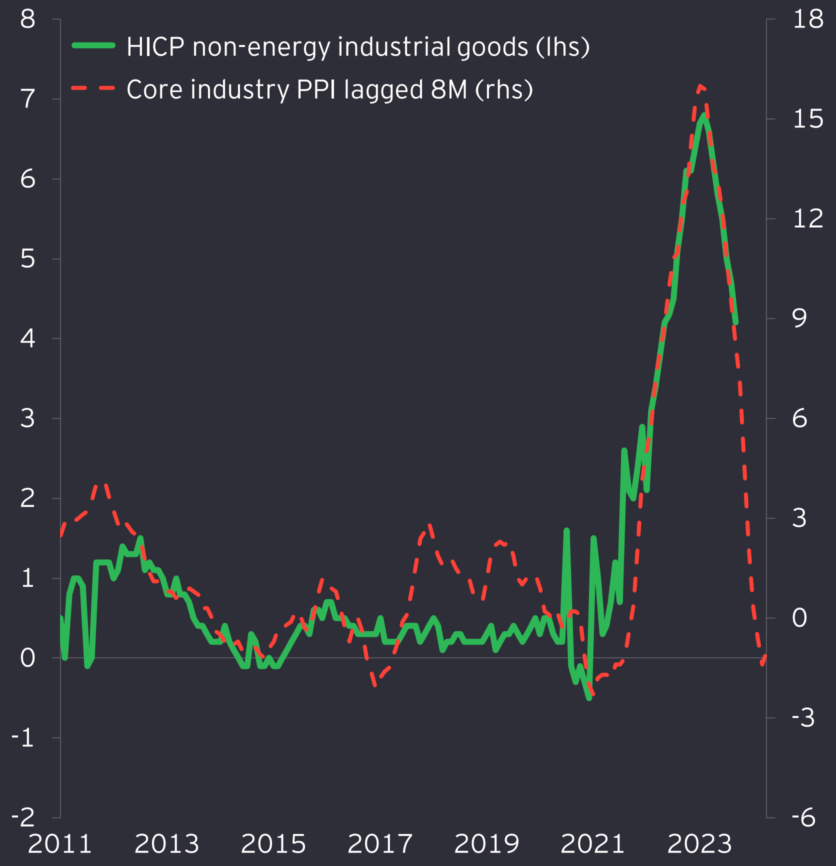

## Model-based decomposition of food inflation in the euro area (y/y, in log points)

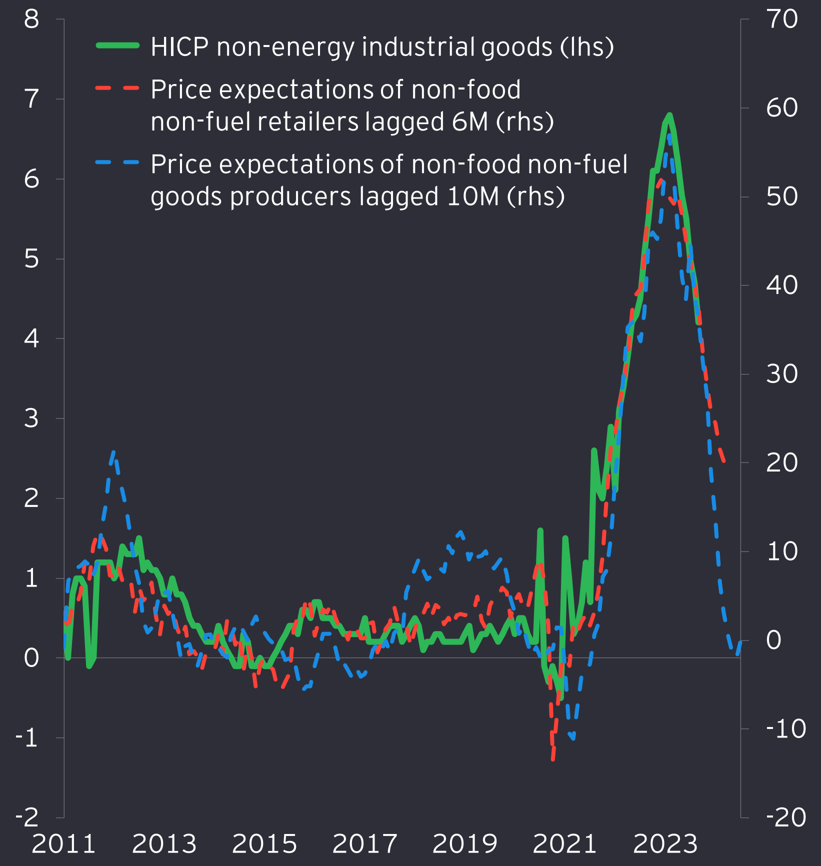



Source: Eurostat, European Commission, Oxford Economics, EY calculations.
Demand includes output gap and y/y consumption growth; exchange rate is NEER; Energy prices are country-specific demand-weighted averages of oil, natural gas, coal and electricity prices; global food prices is World Bank food commodity price index denominated in local currency; labour costs include average nominal wages in the whole economy and unit wage costs in manufacturing; demand-supply interactions are interactions between output gap and energy or global food prices.

# Disinflation of non-food non-energy (core) goods has also proceeded at a rapid pace (even faster than we expected) on the back of reduced supply bottlenecks, weak demand, lower shipping costs and lower energy prices. Leading indicators point to a further rapid disinflation in the coming months

## Core goods HICP and its leading indicators in the euro area



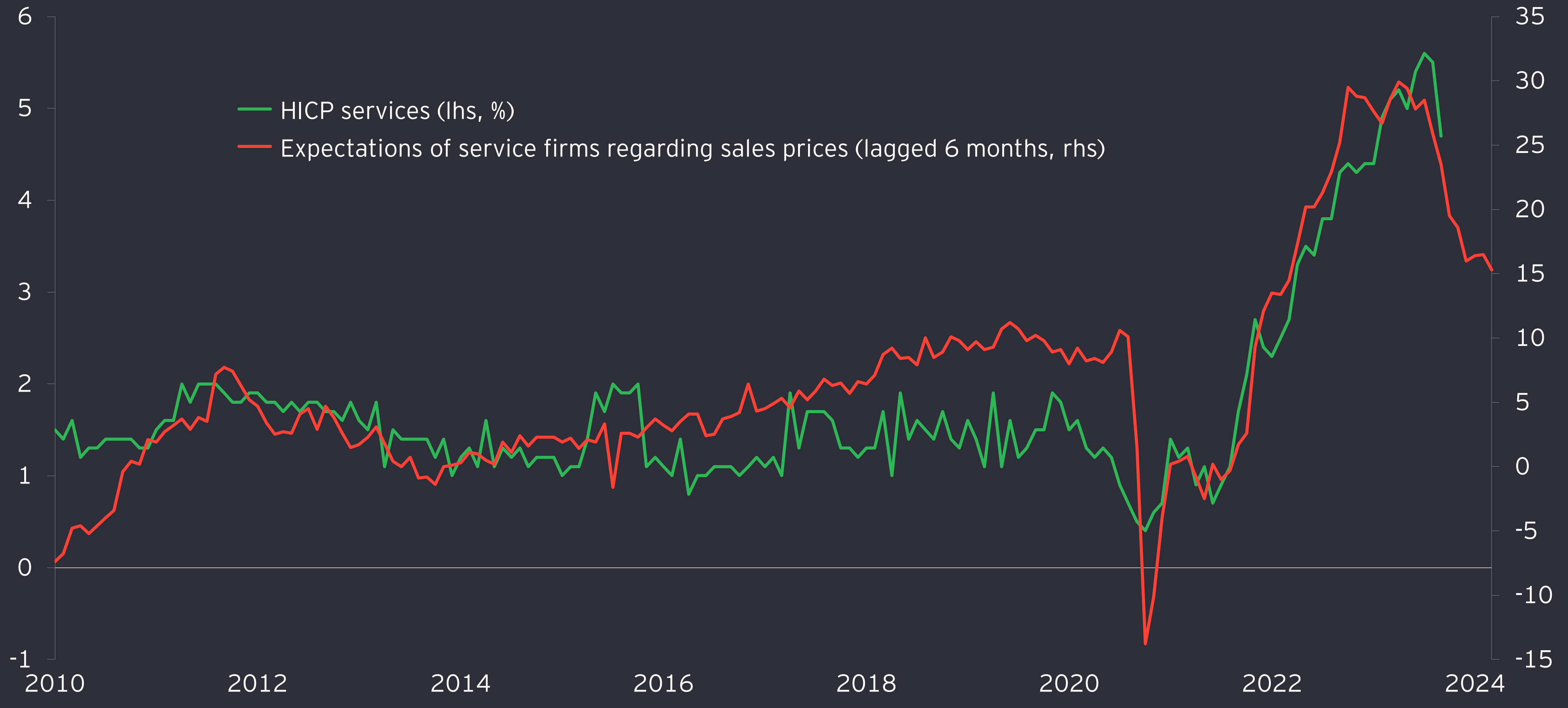

## Global Supply Chain Pressure Index (GSCPI)*


Source: Eurostat; European Commission; Federal Reserve Bank of New York Liberty Street Economics; EY calculations.
Note: Core industry PPI includes mining and quarrying; manufacturing (except MIG energy), except food, beverages and tobacco. Price expectations of non-food non-fuel goods producers is an arithmetic average of price expectiations in NACE sections 13-18 and 20-32.
* Index scaled by its standard deviation (0=average value).

# Services inflation kept on surprising to the upside through most of Q3, but the larger-than-expected decline in September likely marks the beginning of a disinflationary trend, in line with firm expectations

- Lower commodity prices, reduced supply pressures and weakening demand (especially post the holiday season) support disinflation
- Still, services price disinflation is likely to be relatively gradual as strong nominal wage growth adds to cost pressures

## Y/y HICP services vs. expectations of service firms regarding sales prices in the euro area

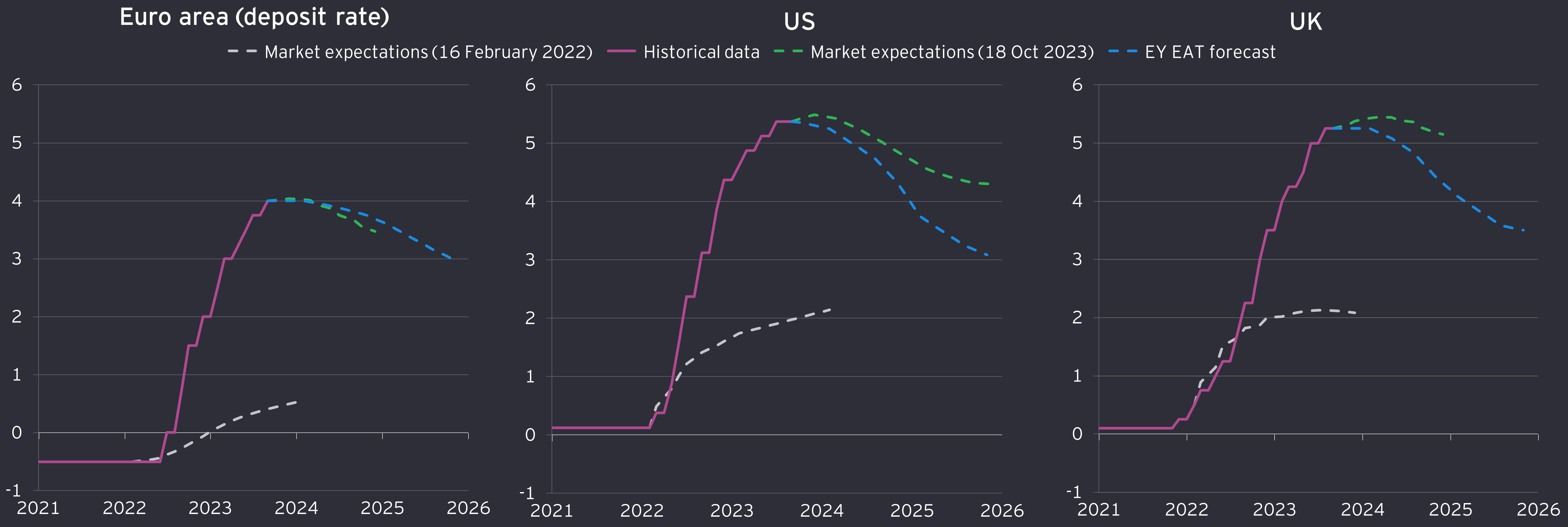



Source: Eurostat.

# Major central banks are finished with rate hikes, but interest rates will stay higher for longer

- As we expected, the ECB ended the tightening cycle with a 25bp hike in September, while flagging that interest rates will stay at current levels for some time. We continue to expect the first rate cut in June 2024
- In line with our expectations, the Fed stayed put in September. While the dot plot indicated one more hike this year, we stick to our view that the tightening cycle has come to an end. The first cut will come in June 2024.
- Following a 25bp hike in August, the Bank of England surprisingly paused in September, which likely marks the end of the tightening cycle.

## Historical and expected* central bank interest rates (In percentage)

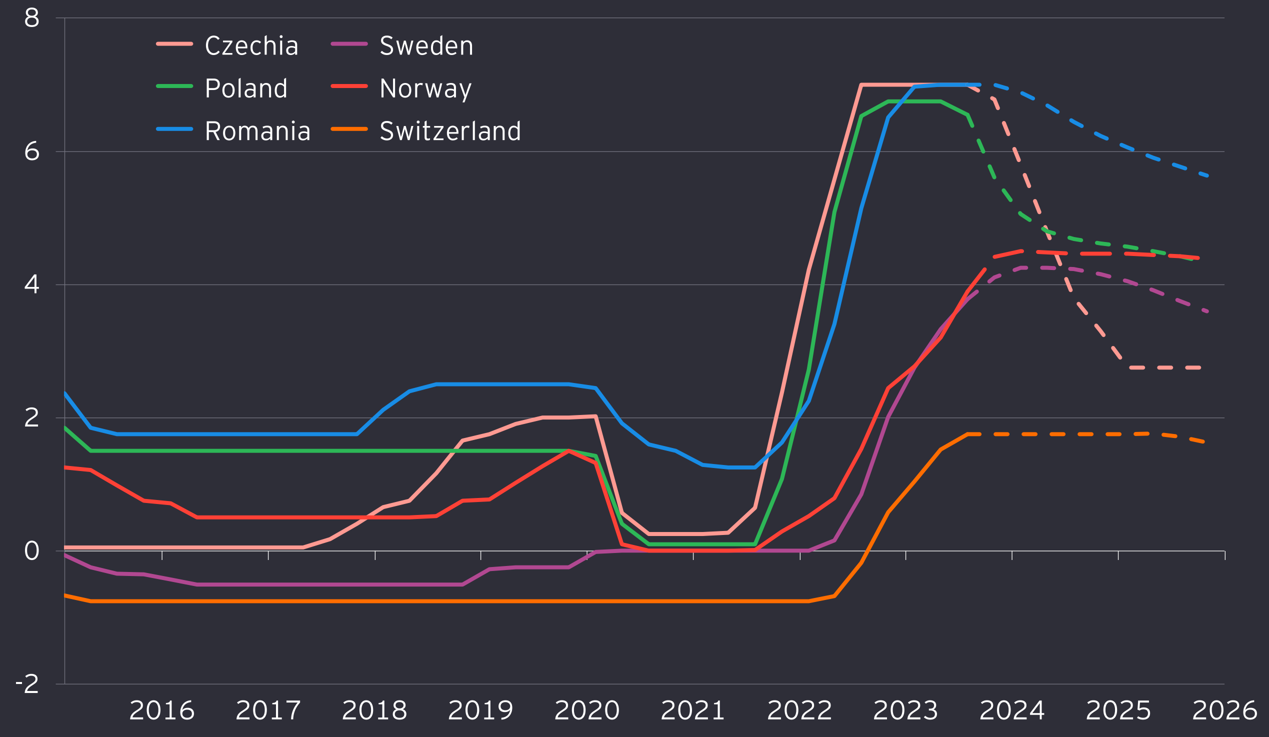


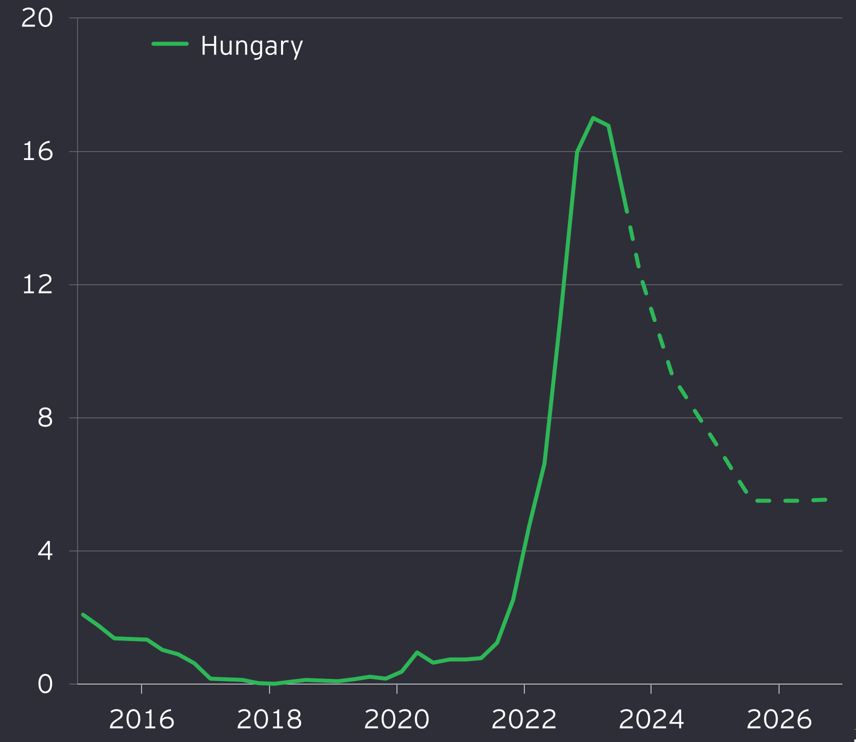

Source: ECB; Fed; BoE; Refinitiv; Eurostat; Oxford Economics; EY EAT forecast.
* For the euro area and the UK on 16 February 2022 and 18 October 2023 and for the US on 16 February 2022, expected interest rates from Refinitiv; for the US on 18 October 2023, expected interest rates from Atlanta Fed Market Probability Tracker. For expectations from 16 February 2022, the curve was prolonged using data on instantaneous government bond forward yield curves.

# CEE central banks have already begun or are about to begin easing policy, the Swiss central bank has concluded its hiking cycle, while Nordics keep on raising rates

- The Polish central bank (NBP) surprised with a 75 bp cut in September, followed by a 25 bp cut in October. The decisions were driven by the political cycle (elections on 15 October). We anticipate the NBP continuing easing, but at a slower pace than expected before the parliamentary elections.
- The Hungarian central bank has continued normalising interest rates from very high levels and is expected to continue doing so, The Czech (CNB) and Romanian (BNR) central banks have stayed put at recent meetings. CNB is expected to start cutting rates by the end of this year and to continue interest rate reductions at a relatively rapid pace. The BNR in turn is likely to initiate a very gradual easing cycle early next year.
- The Swiss National Bank surprised by pausing in September and is now expected to keep rates unchanged for an extended period, as far as early 2025.
- CBs of Sweden and Norway have continued tightening and we expect one more rate hike in each case. Given weak currencies and relatively persistent underlying inflation, first rate cuts are likely to come a few months after the ECB's first interest rate reduction.

**Historical and forecast central bank interest rates*** (In percentage)

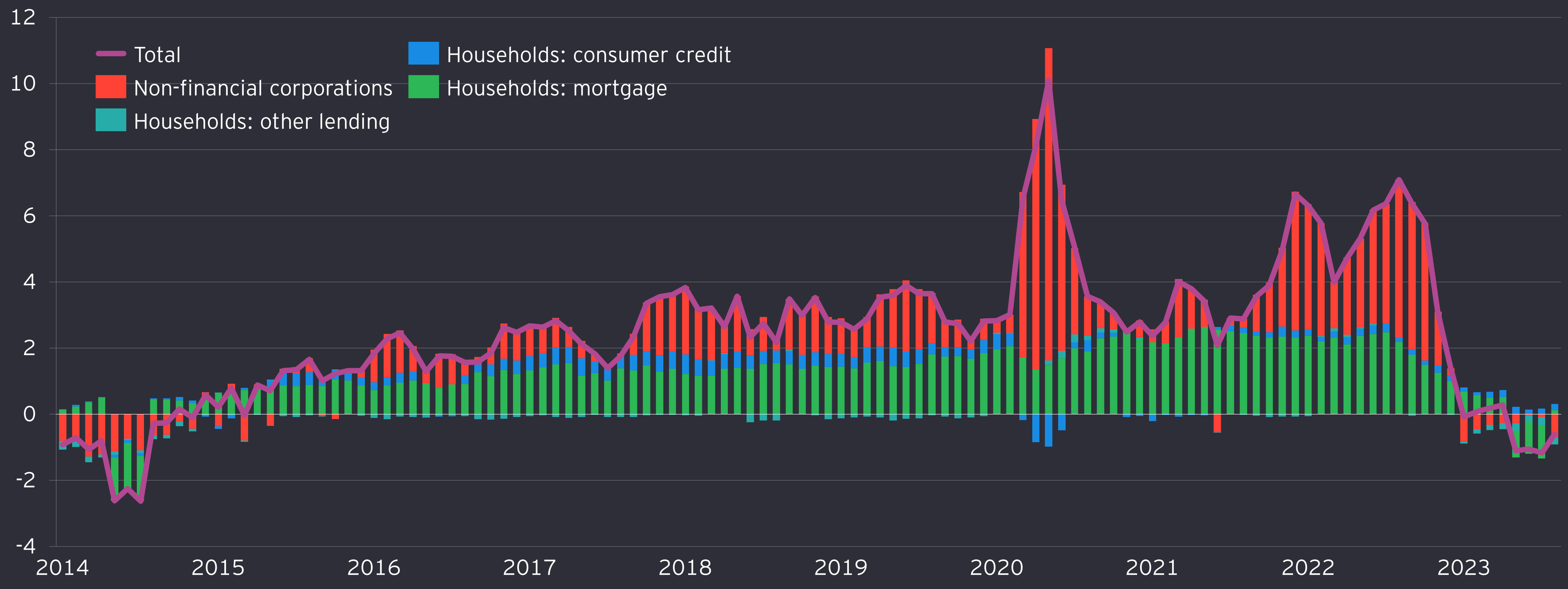



Source: Oxford Economics; EY EAT forecast.
* For Hungary, 1-month interbank rate.

# Monetary and credit tightening have translated into slowing credit growth

**Monthly growth in loans to households and non-financial corporations in the euro area**
**(in percentage, annualised and seasonally adjusted, 3-mth moving average)**

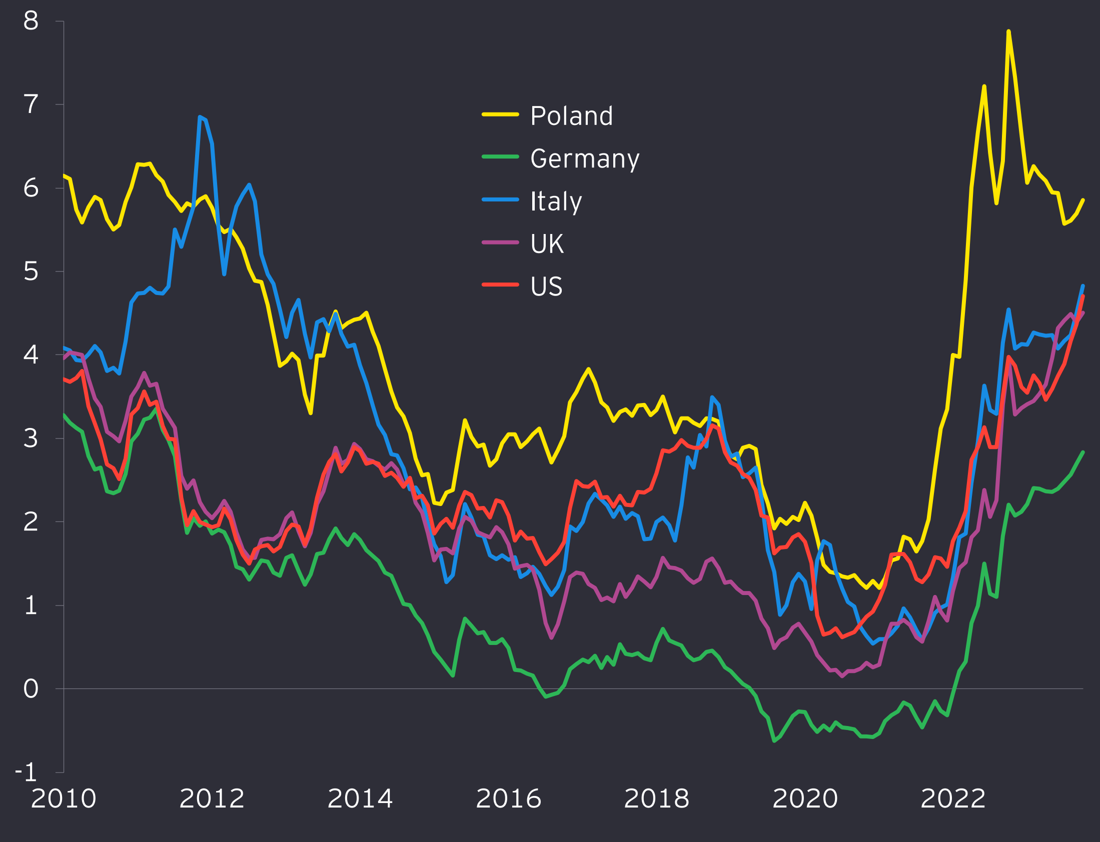



Source: ECB, EY calculations.
Note: Series for households include NPISH.

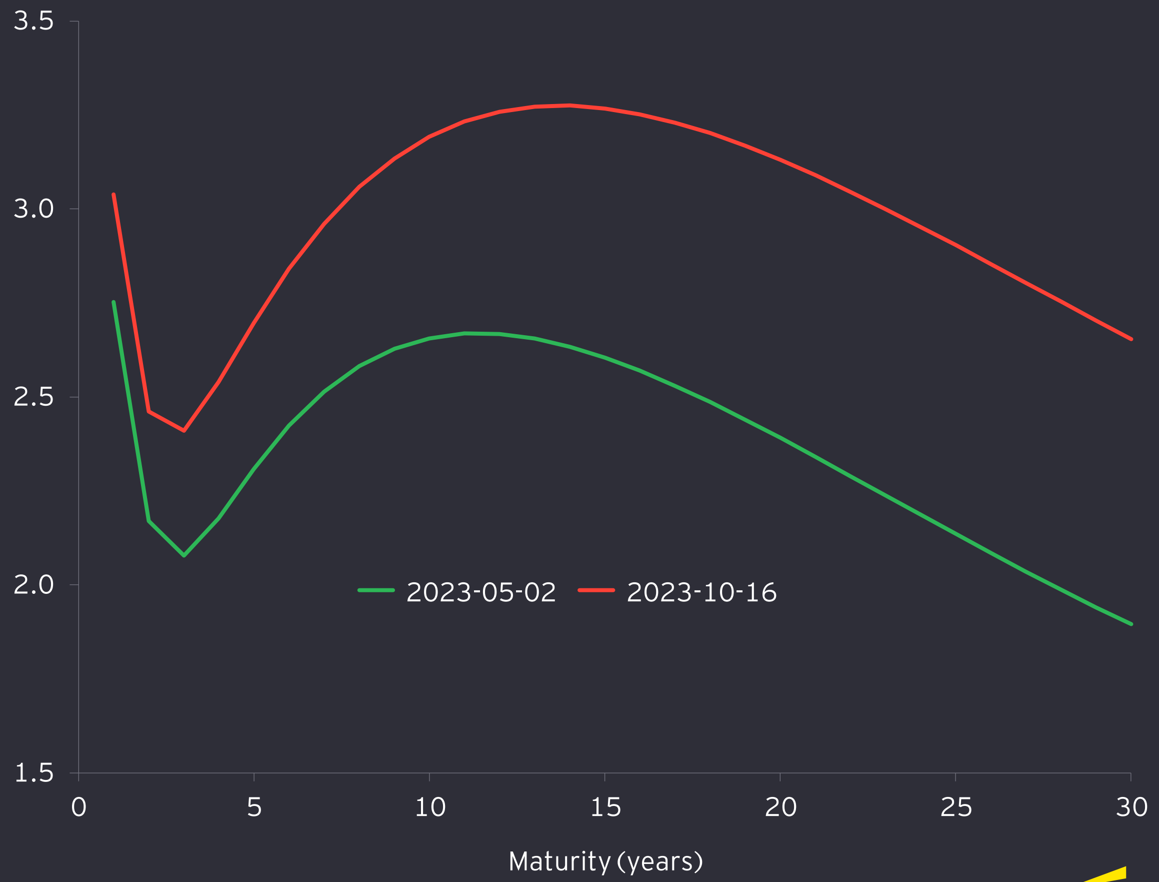
# Bond yields have been creeping up in recent months, both at the short end (as markets increasingly priced in that central bank rates will stay higher for longer) and at the long end

- The increase at the long end has been induced by a rise in both the term premia and expected interest rates, reflecting a repricing of natural interest rates and an increase in risk premia
- The rise in risk premia may be related to the expectation of a permanently more expansionary fiscal policy

**10-year government bond yield** (in percentage)




**Instantaneous forward yield curve for AAA rated bonds in the euro area** (in percentage)



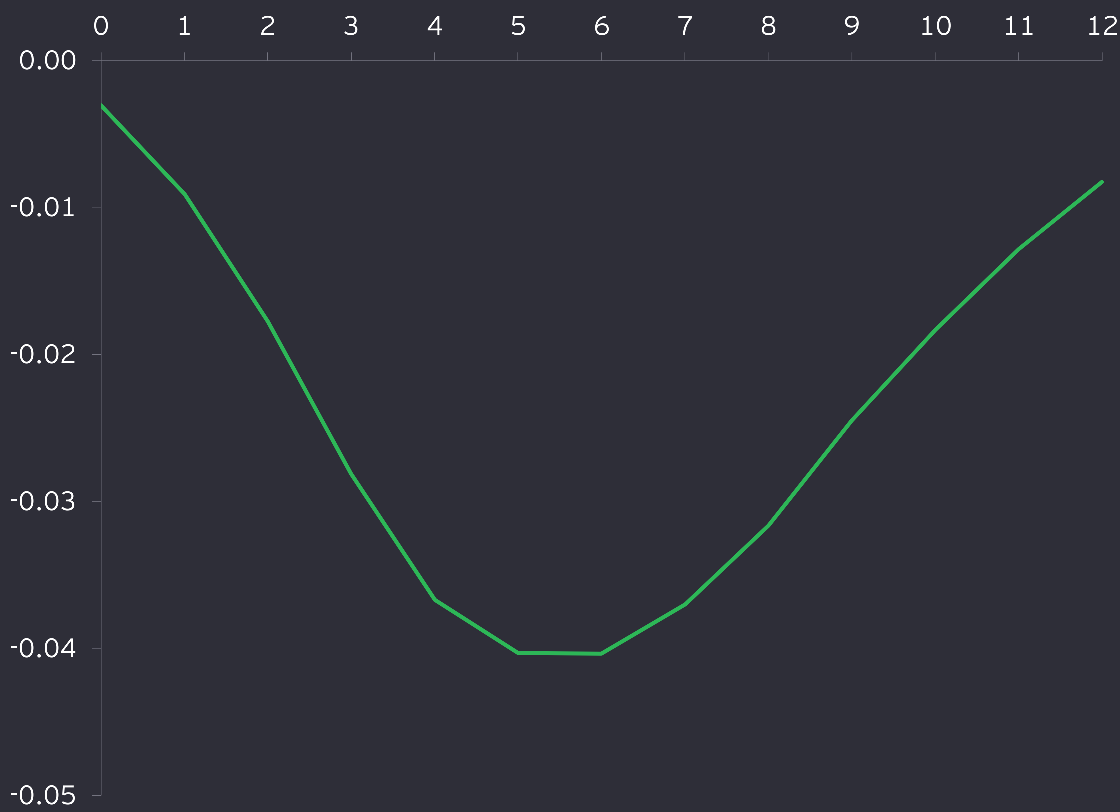



Source: investing.com, Eurostat.

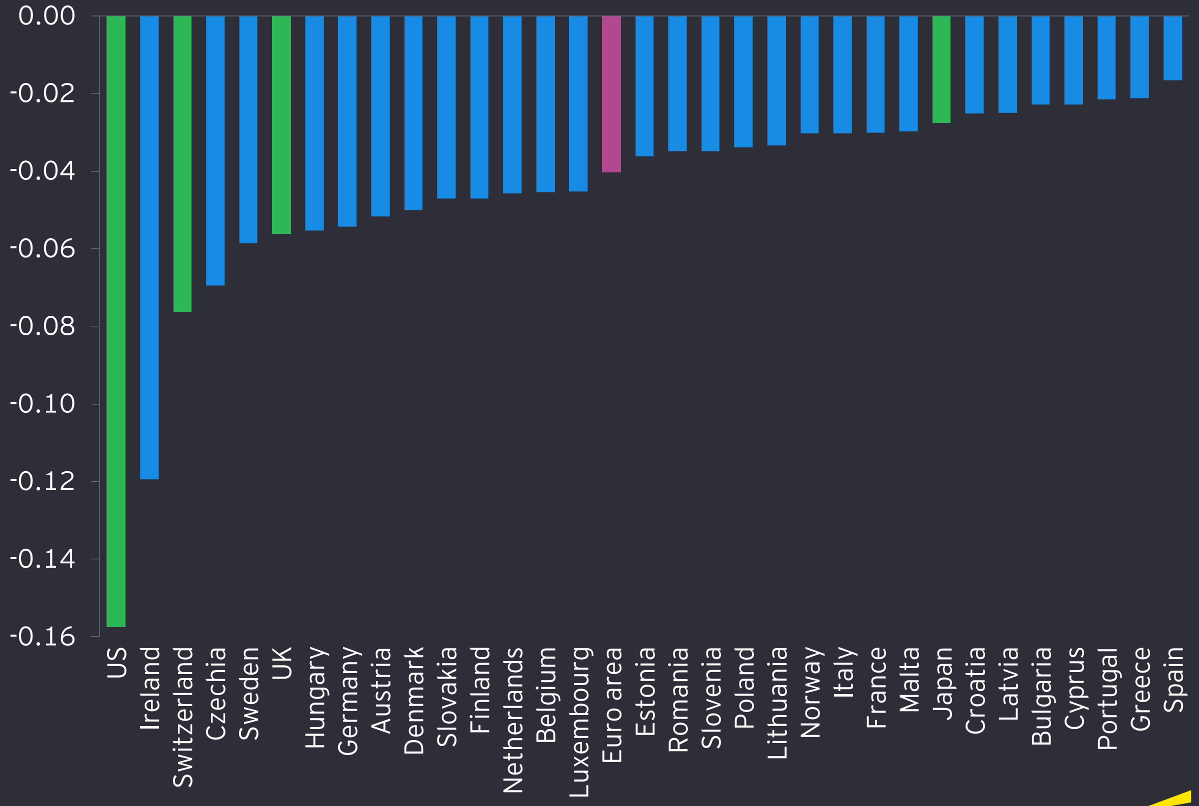
# The impact of the recent increase in bond yields on the European economy will be very limited, though

- Both the scale of the increase in bond yields and its pass-through to real activity are weaker in Europe than in the US

**Impact on the euro area's GDP of the increase in bond yields from April to October 2023** (in percentage)



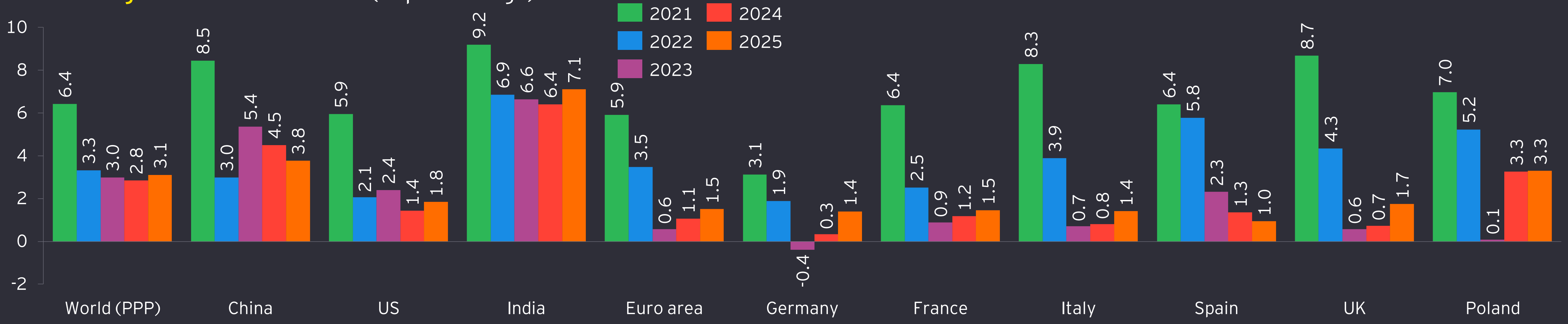

**Peak impact on GDP of the increase in bond yields from April to October 2023** (in percentage)



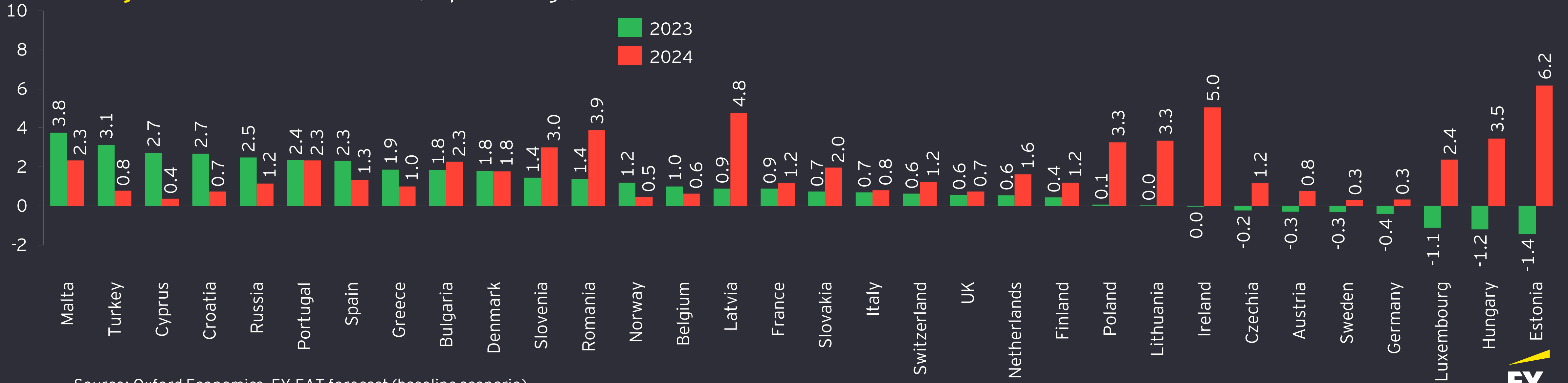

Source: EY calculations.

# The recovery in Europe will be sluggish, with high interest rates weighing on growth In 2024. Growth in industry and services should be similar, and so will GDP growth across major euro area economies. CEE countries will stand out as they return to their (much higher) potential growth

**GDP growth in 2021-2025** (in percentage)



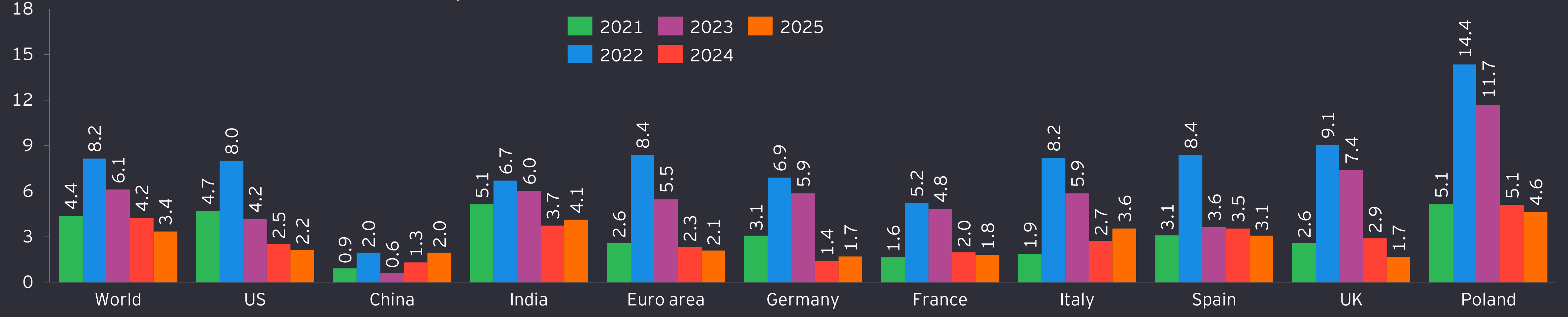

**GDP growth in 2023 and 2024** (in percentage)



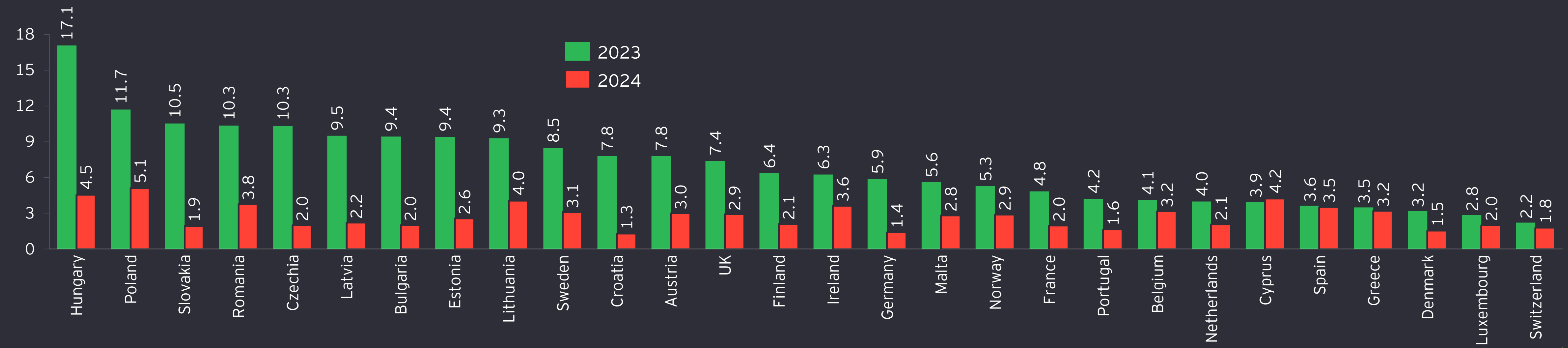

 Source: Oxford Economics, EY EAT forecast (baseline scenario).

# We expect inflation to fall into the 1.5-3.0% range in most countries as the effects of supply shocks partially revert and food and energy price disinflation bring down headline inflation. Poland and Hungary are major exceptions where inflation is likely to remain elevated for longer

## Inflation in 2021-2025 (in percentage)




## Inflation in 2023 and 2024 (in percentage)

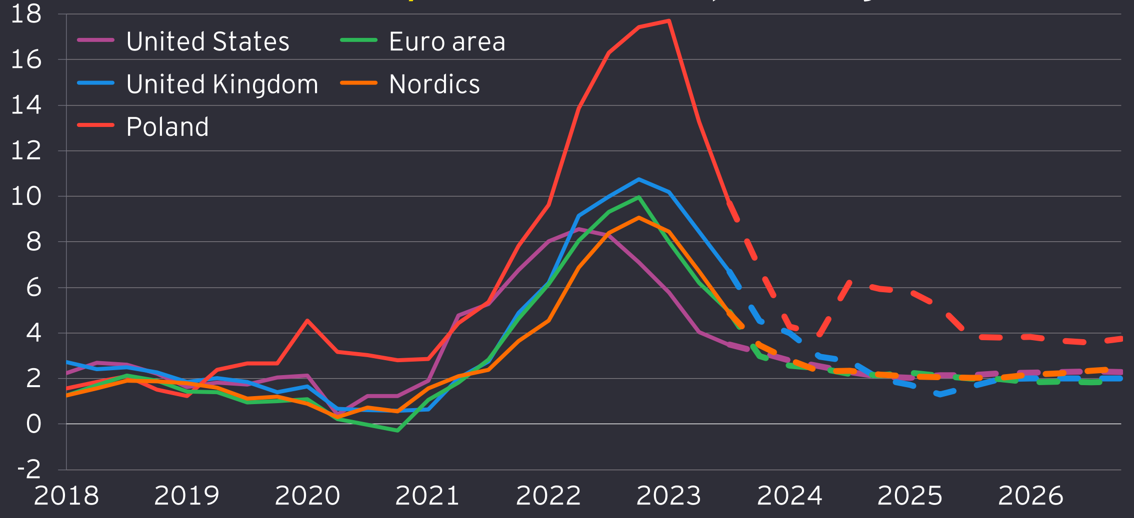


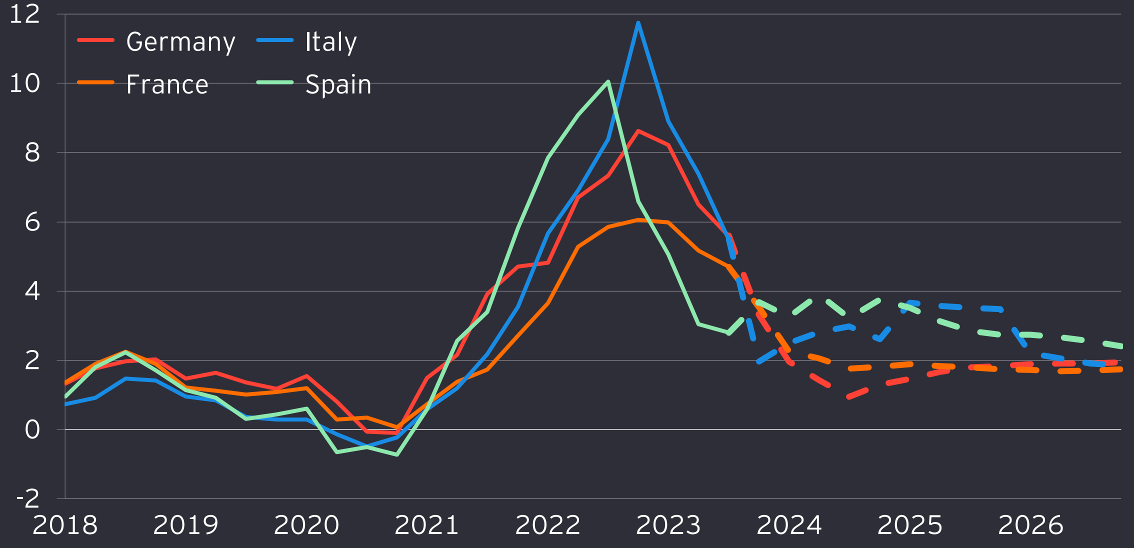

Source: Oxford Economics, EY EAT forecast (baseline scenario).

Outlook

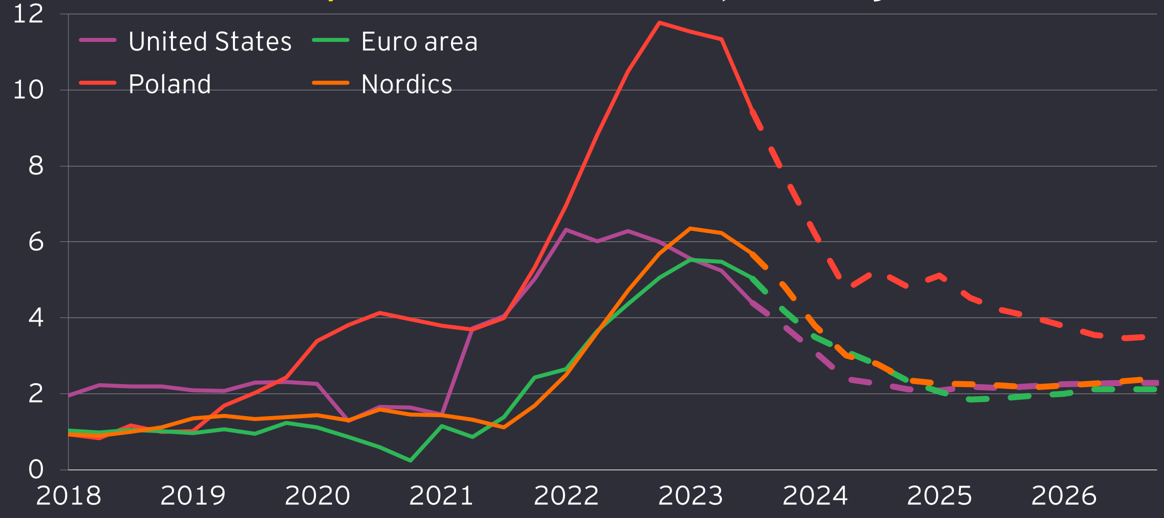
# We expect inflation to fall relatively quickly over the remainder of 2023. Afterwards, the disinflation process should slow down. In the euro area, inflation will lkely stay slightly above the ECB target in 2024 and reach it in 2025. In Poland and Hungary, inflation is expected to stay above central bank targets until 2026

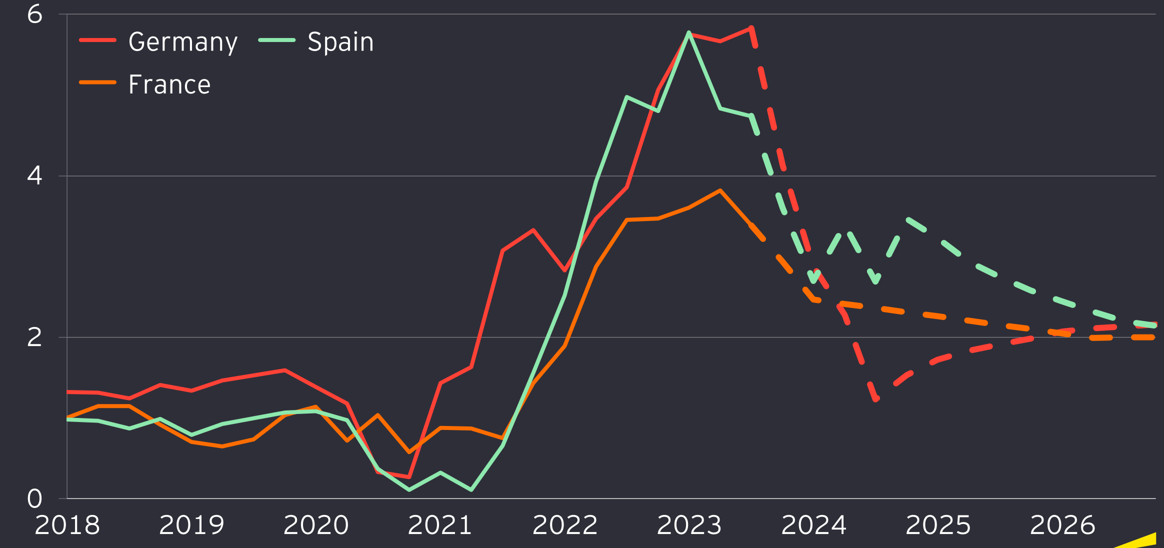
## Y/y CPI inflation (In percentage)




## Y/y Core CPI inflation (In percentage)





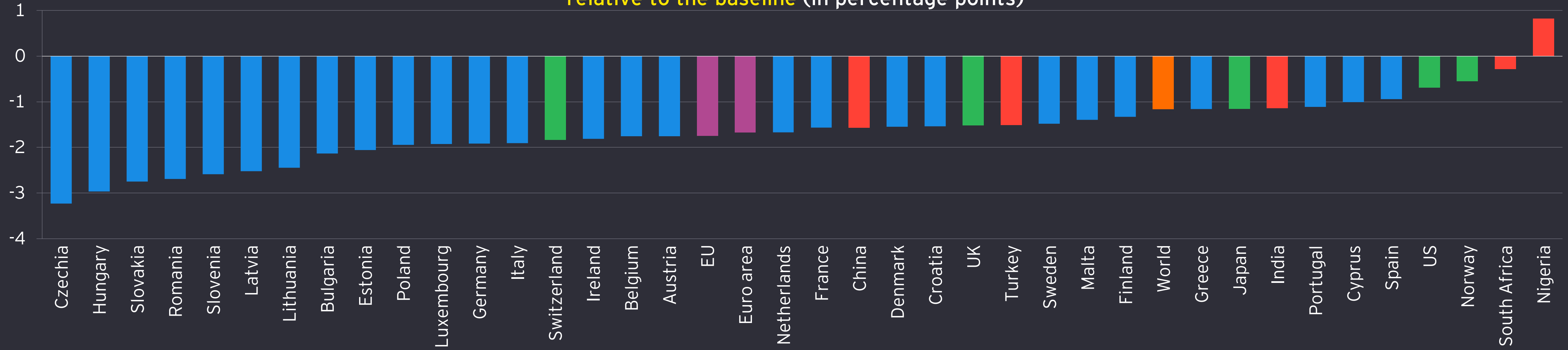

Source: Eurostat; FRED; ONS, Statistics Poland, EY EAT forecast (baseline scenario).
*Nordics as average of CPI: Denmark, Finland, Norway, Sweden.

# The balance of risks continues to lean to the downside

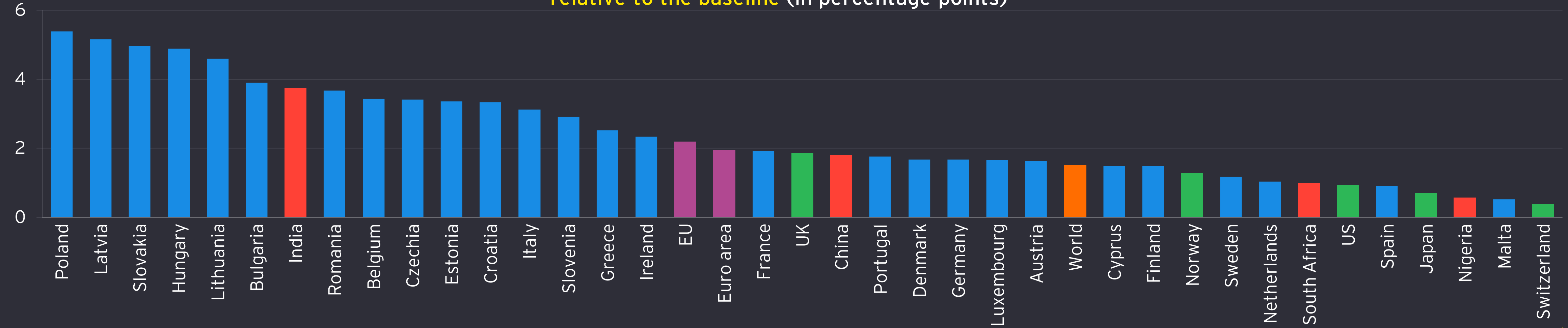
- **Geopolitical tensions** have again come to the forefront, with the eruption of the Israel-Hamas conflict. At the current stage, the effects of the conflict on the European and global economy are likely to be very limited (less than 0.1% of GDP) and come mostly in the form of increased volatility in oil prices and in broader financial markets. However, should the conflict escalate throughout the Middle East, it could lead to a spike in oil prices, supply chain disturbances and a tightening of financial conditions. In addition, the war in Ukraine and potential China-Taiwan tensions continue to be important sources of risk for the global economic outlook.
- **Energy and food prices** are also likely to be volatile, remaining a key source of risk for the inflation and growth outlook:
  - While natural gas storage levels in Europe are very high, thereby reducing the short-term energy security risk, Europe remains vulnerable to energy shocks as gas imports remain fragile and the increase in renewable energy sources makes energy supply more unpredictable.
  - Weather conditions (droughts, heatwaves or late spring frosts) remain an important source of risk for food prices.
- **More persistent elevated inflation**: High nominal wage growth, if not absorbed by corporate profit margins, poses a risk of more prolonged cost-push and demand-pull inflation, resulting in more persistent inflation in services. This would extend the era of high interest rates even further, with negative consequences for consumer spending and business investment.
- **Additional pressures stemming from a tight monetary policy**: a resumption of banking sector stress, commercial real estate fragilities and other unknown unknowns could trigger severe funding pressures on businesses, drive further bank failures and place a significant strain on the availability and cost of credit.
- **Elevated debt levels** increase vulnerability to financial market turbulence, especially among emerging markets and developing economies. They also limit the fiscal space to offset new negative shocks and their impact on households and businesses.
- An upside risk to the outlook stems from a **faster disinflationary cycle** and a more rapid supply and productivity rebound supported by a more rapid labor market rebalancing, easing wage pressures and less cost passthrough. In such a scenario, reduced inflation would lead to a lower interest rate path, thereby supporting stronger growth.

# If the risk of an increase in energy prices materialised, Europe would be impacted more than other major economies. CEE and Baltic countries would be most vulnerable to adverse energy shocks

Cumulative GDP growth over 2023-25 in the higher energy prices scenario relative to the baseline (in percentage points)

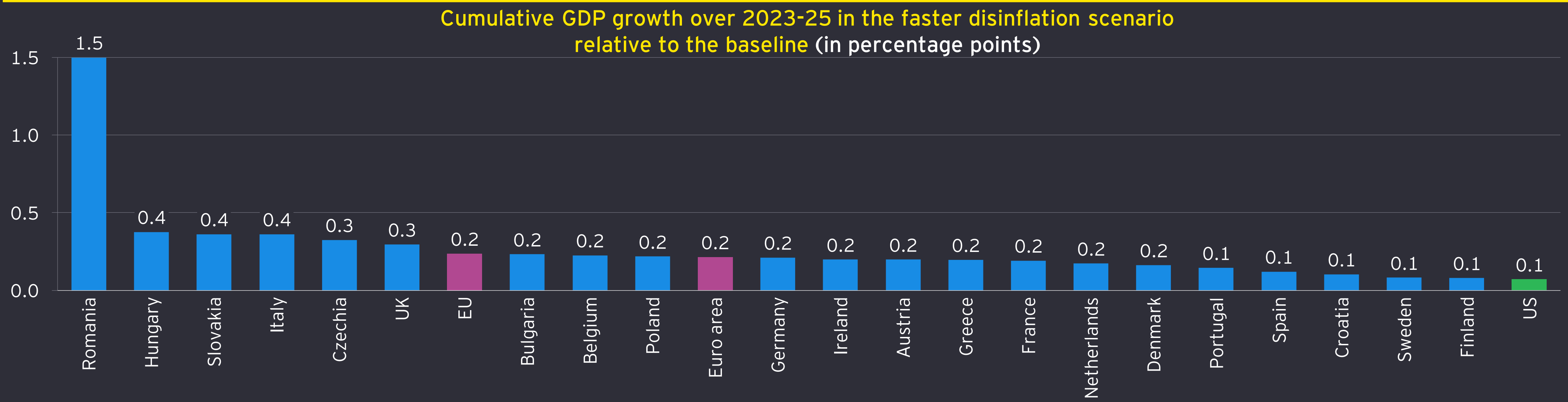


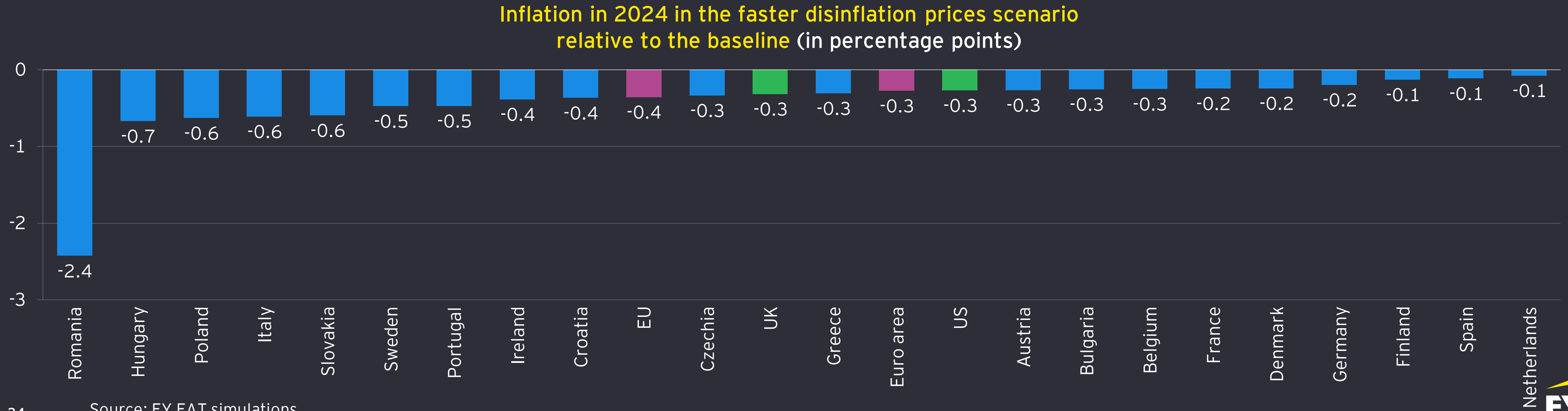

Inflation in 2024 in the higher energy prices scenario relative to the baseline (in percentage points)




Source: EY EAT simulations.

# In the faster disinflation scenario, inflation rates are just a few tenths lower and GDP growth a couple of tenths higher than in the baseline, with the exception of Romania




Source: EY EAT simulations.

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## Forecast and country-specific outlook sources

- Baseline forecasts for most economies and alternative scenarios for all countries have been prepared by EY Economic Analysis Team (EY EAT) using the Oxford Global Economic Model (GEM)
  - EY EAT have adjusted GEM equations, assumptions and data inputs
- Baseline scenario for the US, China and Japan has been prepared by EY-Parthenon Macroeconomics Team
  - Contact: https://www.ey.com/en_us/strategy/macroeconomics
- Baseline scenario for the UK has been prepared by EY ITEM Club
  - Contact: parnold@uk.ey.com
- Baseline scenario for Italy in 2023-24 has been prepared by EY Italy
  - Contact: alberto.caruso@it.ey.com

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