

## Europe Economic Weekly

## Still the year rates go below 2%

## Weekly view: a mildly rosier global outlook

It's that time of the year again, when we review our forecasts globally. The tariff rollercoaster rumbles on as geopolitical risks re-emerge, but global growth remains resilient. Meanwhile, NATO agreed a 5% target (3.5% of hard expenditure) - a slow move towards 3-3.5% remains part of our base case. And the German budget and planning details confirmed that the fiscal package is indeed a paradigm shift.

## Euro area: Still the year policy rates go below 2%

Our growth forecasts stand at 0.9% in 2025 and 2026 (10bp lower for 2026). We now expect growth at 1.4% in 2027. We forecast headline inflation of 1.8% (+10bp), 1.5% (+10bp) and 1.8% in 2025, 2026 and 2027, respectively. We still expect a small core inflation undershoot throughout. We see the ECB terminal depo rate at 1.50%, in Dec.

## UK: BoE terminal remains at 3.5%

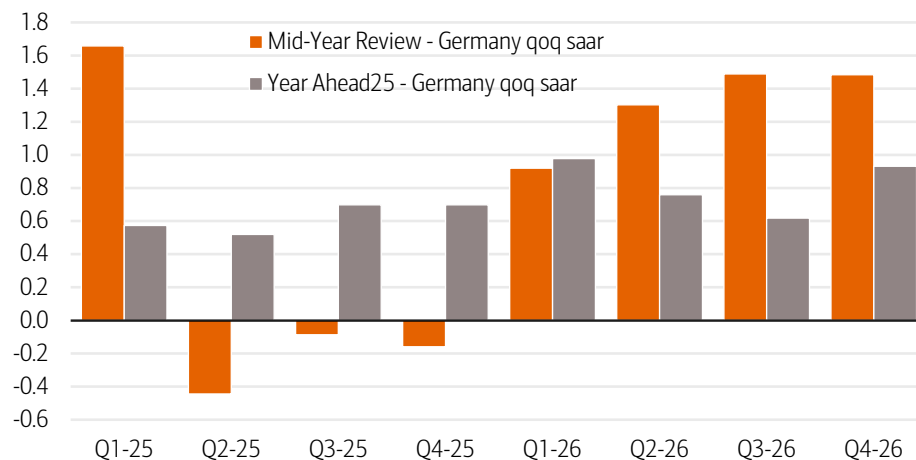
Growth at 1.2%/1.3%/1.5% in 2025/26/27, weighed by tariffs and taxes. Inflation at 3.1%/2.2% in 25/26 and at target in 2027. Three cuts to reach 3.5% by end 2025 (Aug, Sept, Nov) with risks of delay to early 2026. High bar of cutting less than quarterly.

## Next week:

Euro area: M3 (Mon), June HICP at 2.0% with core at 2.2% (Tue), German factory orders (Fri). UK: Q1 GDP (Mon), welfare bill reading (Tue). ECB: Sintra (30 June-2 July), CES (Tue), June minutes (Thu).

## Exhibit 1: Macro impact of German fiscal paradigm shift in 2H26

Germany GDP growth profiles – Mid-Year Review vs Year Ahead25



Source: BofA Global Research, Eurostat

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See Team Page for List of Analysts

See glossary of acronyms and abbreviations on page 14

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## Weekly view

### Mid-year review: a mildly rosier global outlook

It's that time of the year again when we take a look back to see how our Year Ahead forecasts are performing. Long story short, for the global economy, the tariff rollercoaster rumbles on as geopolitical risks re-emerge, but global growth remains resilient. Against that backdrop, our colleagues raised our 2025 global growth forecast by 20bp ([Global Economic Viewpoint: Mid-Year review: Resilient growth in a precarious world 24 June 2025](#)), largely explained by China benefiting from the trade truce. Elsewhere changes are pretty much fine-tuning, with the main calls unchanged. We expect the global economy to grow 3% in 2025 and 2026, accelerating to 3.3% in 2027. We forecast global inflation to hover around 2.5% as economies absorb the tariffs shock.

### Euro area: a similar story to six months ago, with caveats

In our Year Ahead report, our Euro area base case was for growth close to 1% in 2025/26, an inflation undershoot vs target, and an ECB terminal depo rate at 1.50%. And that's still a good description of what we expect (Exhibit 14). True, we now have the ECB getting to 1.5% by December 2025, a quarter later than before. But as we have been arguing, our conviction on the exact timing for those cuts was never that strong. As at the end of last year, we still strongly believe that we will see at least two more cuts in this cycle. We also expect policy rates to normalize, in March and June 2027 (one quarter later than in our previous call) to 2%.

The growth story is still one of two halves. In short, our forecasts stand at 0.9% in 2025 and 2026 (10bp lower for 2026). We now expect growth at 1.4% in 2027. In the Euro area (we see pretty much no growth in 2H25) but acceleration towards 1.5% annualised in late 2026 and through 2027. This is large by European standards, but not immediate. In the near term, tariffs and uncertainty will be a significant drag.

### The paradigm shift

This week NATO agreed a 5% target, with 3.5% of hard expenditure, by 2035, with regular monitoring and a proper review by 2029. Also, as expected, we didn't get any short-term commitments. The focus turns now to the credibility of that shift, particularly in Europe, where limited fiscal space, little appetite for mutualisation, and distance to Russia are all key ingredients for a lack of more aggressive efforts in some countries. That political conundrum will eventually, but not fast, need to be resolved, we hope, since a slow move towards 3-3.5% is part of our base case.

Meanwhile, the details of the 2025 German budget and the 2025-29 financial planning confirmed what we have written before – that the German fiscal package agreed a few months back is indeed a paradigm shift (see [Europe Economic Weekly: Paradigm shift 07 March 2025](#)). The deployment of the effort is actually a bit more frontloaded than we initially thought. The German government wants to move to Defence spending of 3.5% of GDP as soon as 2029. This year they target 2.4%. That is 0.4% more than we anticipated but we think it will add little to growth given potentially very high import intensity.

Infrastructure is also moving faster, with EUR37bn of the special fund already being deployed in 2025. Details matter, though, with the funds devoted to the rail network and digital most likely to have an impact on growth in the near term. We have added a cumulative 20bp of growth in 2H25 as a result of this stronger-than-expected frontloading. In consequence, the acceleration into 2026 is a bit softer, but still quite strong.

We would warn though that implementation risks persist, as we flagged before. First, because it remains to be seen if all of this can be deployed this year. Second, because what goes under the infrastructure "label" has been broadened significantly, risking a lot smaller fiscal multipliers. And third, because beyond the next year and a half the German fiscal push will face challenges from European fiscal rules but also the German debt

brake. Indeed, under current plans EUR22bn of undefined budget cuts will be needed elsewhere, a number that will continue to grow thereafter, adding to those implementation risks.

### **UK: so far, so good, with risks**

In our Mid-Year Update, we slightly raised our 2025 growth forecast from 1.1% to 1.2% on the back of the UK/US trade deal. We remain at 1.3% for 2026, lower than our Year Ahead forecasts, and see growth at 1.5% in 2027. Near-term growth is likely to be weighed down by tariffs and the NICs rise. Risks to growth are on the downside from further escalation of trade tensions, Autumn fiscal consolidation and sharper loosening of the labour market. We expect inflation at 3.1%/2.2% in 2025/26 and at target in 2027. Inflation is likely to be elevated in coming months, but we think underlying risks are lower post tariffs and taxes. We continue to expect cuts in August, September and November to terminal 3.5%, with a small acceleration in H2. Even though there are risks of delay to early 2026, we think the bar to cut less than quarterly is high.

In the meantime, fiscal risks are back this week. The government faces a potential rebellion on its £5bn package of welfare cuts next Tuesday. Around 126 Labour MPs have signed an amendment aimed at blocking the bill. The government has a working majority of 165. If 83 Labour MPs vote against the bill along with the opposition, it won't be passed.

The government is trying to offer concessions as well as apply pressure to reduce the scale of the rebellion. A compromise could eventually be reached, but, if not, the government could be forced to reverse the cuts. This would lower the Chancellor's already thin headroom by half and increase the amount of fiscal consolidation needed in the Autumn. Moreover, it highlights the political difficulty the government faces in implementing welfare cuts, which sets up for a politically challenging Autumn Budget. But we think it is unlikely to represent a confidence vote in the government. The UK also signed up to the NATO pledge of 3.5% of core defence spending by 2035, but given the challenged fiscal position, no timeline or firm commitment has been announced beyond the planned increase to 2.6% of GDP by 2027.

### **Next week:**

The data calendar is rich next week. For the Euro area, the week starts with ECB M3 and credit data (Mon). Inflation will take centre stage: we expect June HICP inflation at 2.2% in Germany, 1.9% in Italy (Mon), and 2.0% in the Euro area with core at 2.2% (Tue). Note that this temporary increase in headline inflation numbers is due to the spike in oil and it should correct in July. "Final" PMIs should decline on a mom basis (Tue for manufacturing PMIs and Thu for services), with composite PMIs for both Italy and Spain still above the 50-threshold. German factory orders for May should still display tariff-related volatility (Fri). May IP should edge higher. For the UK, focus will be on the final reading of Q1 GDP and mortgage approvals (both Mon) as well as the welfare bill reading (Tue).

As for the central banks' agenda, the ECB Forum on Central Banking starts on Monday (30 June-2 July), where the ECB's Lagarde, Guindos, Schnabel and Lane as well as the BoE's Bailey and Taylor will speak. We also have Taylor and Villeroy (both on Fri). We will also monitor the ECB Consumer Expectations Survey (Tue) and the minutes of the June ECB meeting (Thu).

# Euro area

## Still the year policy rates go below 2%

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## A similar story to six months ago, with caveats

In our year ahead report, our Euro area base case was for growth close to 1% in 2025/26, an inflation undershoot to target, and an ECB terminal depo rate at 1.50%. And that's still a good description of what we expect (Exhibit 2). True, we now have the ECB getting to 1.5% by December 2025, a quarter later than before. But as we have been arguing, our conviction on the exact timing for those cuts was never that strong. As at the end of last year, we still strongly believe that we will see at least two more cuts in this cycle. We also expect policy rates to normalize, in March and June of 2027 (one quarter later than in our previous call), to 2%.

### Exhibit 2: Close-to-1% growth in 2025/26, further recovery to 1.4% in 2024. ECB rates at 1.5% till 2027, first hike in March27. Inflation undershoot view intact also for 2027

Euro area main macro forecasts – Mid-Year Review vs Year Ahead25

		2025F	2026F	2027F
Mid Year Review	GDP	0.9	0.9	1.4
	CPI inflation	1.8	1.5	1.8
	ECB policy rate	1.5	1.5	2.0
Year Ahead 2025	GDP	0.9	1.0	
	CPI inflation	1.6	1.6	
	ECB policy rate	1.5	1.5	

Source: BofA Global Research

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This is not driven by an overheating economy – by 2027 the output gap is still likely to be negative and inflation still undershooting. Rather, higher rates will reflect a simple recalibration of rates towards neutral. In a way, at the end of 2024, we were worried Europe was heading towards a 2018 scenario, with a chronic and persistent insufficiency of aggregate demand. In that event, the ECB would struggle to generate 2% inflation and need to keep policy rates low, with a small easing bias, for a long period of time. While we can't claim the region is completely out of the woods, the German fiscal package together with an eventual move towards more defence expenditure in Europe gives us a chance of avoiding that scenario.

## Growth: a tale of two halves

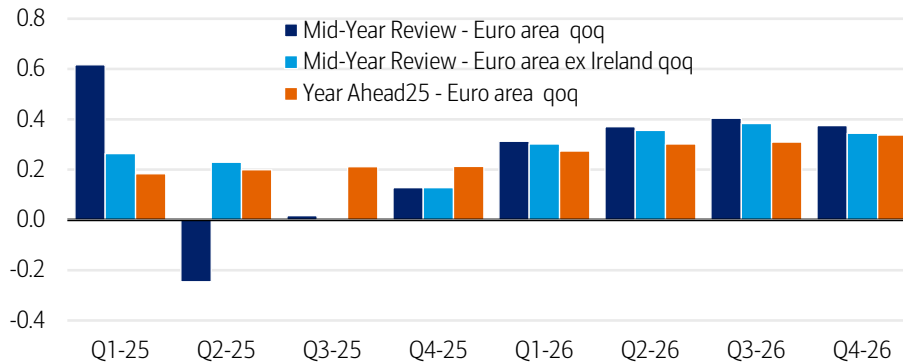
In short, our growth forecasts stand at 0.9% in 2025 and 2026 (10bp lower for 2026). We now expect growth at 1.4% in 2027. Our Euro area growth profiles foresee pretty much no growth in 2H25 (Exhibit 3), while it should accelerate towards 1.5% annualised in late 2026 and through 2027. This is large by European standards, but not immediate. In the near term, tariffs and uncertainty will be a significant drag.

Details matter. Since our year ahead, the tariff shock has been larger than we expected. But the persistent uncertainty shock we included was not far from expectations. The biggest surprise was the announcement of the German fiscal package, a proper paradigm shift (see report: [Euro Area Watch: Germany: game changer](#)). We still assume the 90-day "pause" on reciprocal tariffs will become permanent, making a hike to US import tariffs on EU products to 20% a risk scenario. But we think tariffs of around 10% is a reasonable base case from here.



**Exhibit 3: Lower Euro area growth in the short term, stronger recovery will follow in 2H26**

Euro area GDP growth profiles – Mid-Year Review vs Year Ahead25



Source: BofA Global Research, Eurostat

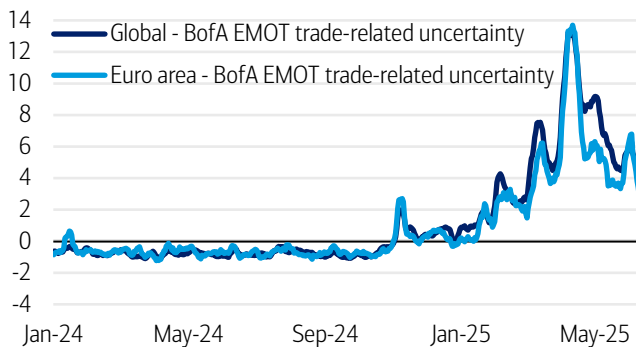
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Timing and lags also matter. Trade developments will hit growth for the next few quarters. The German fiscal push will take time to be fully visible in growth. And a swift increase in defence spending is likely to come with high import content initially. Infrastructure spending will probably take until 2H26 to translate into growth, although we now factor in some impact in late 2025 given recent headlines on the budget for this year (Exhibit 1).

Finally, we still assume that defence expenditure in the medium term will move to a range of 3-3.5% of GDP in a structural way for the region, with some form of mutualisation (one-third mutualised somehow, one-third through cuts elsewhere, one-third via more debt). But near term, as we have argued, there are plenty of pools of money that have not been used, hence our assumption of little new money.

**Exhibit 4: Trade-related policy uncertainty still well above normal**

BofA EMOT trade-related policy uncertainty tracker (7dMA)



Source: BofA Global Research, GDELT Project ([www.gdeltproject.com](http://www.gdeltproject.com)). The tracker identified as an EMOT above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This tracker was not created to act as a benchmark. Note: data as of 13 June. Normalized over the sample up to 31-Dec-24.

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Our conviction on the exact timeline for deteriorating growth is still low. We have seen the impact of inventory buildup in the US in 1Q data, particularly in Ireland. Tariff news since makes it uncertain how quickly that build-up will unwind. Our forecasts excluding Ireland (Exhibit 3) probably better depict what we expect from here in terms of underlying growth momentum.

**A persistent inflation undershoot**

Our inflation forecasts have changed marginally. We now expect slightly stronger headline and core in 2025 and 2026. We forecast headline inflation of 1.8% (+10bp),

1.5% (+10bp) and 1.8% in 2025, 2026 and 2027, respectively. We still expect a small core inflation undershoot throughout, starting in the last part of this year, with yearly averages of 2.1%, 1.8% and 1.8% in 2025, 2026 and 2027. We, like the ECB, include the ETS2 (Emissions Trading System) in 2027, so excluding that effect the undershoot is more persistent.

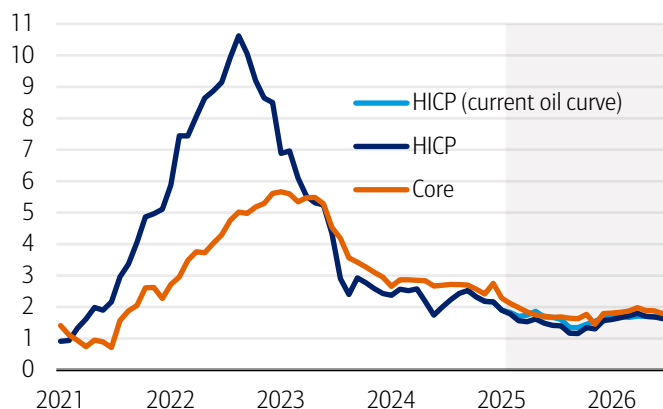
We don't need much improvement in core momentum to get to that undershoot. In fact, momentum has been pretty decent already for quite a few months (Exhibit 6).

What has changed? We always argued that a bilateral trade war between the US and the rest of the world, particularly if uncertainty was persistent, would constitute a demand shock for the global economy ex US. That was part of our base case in our year ahead and it is now playing out.

At this stage, we are not taking on board (1) the German VAT cut in early 2026 on select restaurant prices, which could reduce German and Euro area services inflation by 15bp and 5bp, respectively; or (2) the German electricity price cut of EUR 5 cents for corporates and households, which could lower German and Euro area inflation by 30bp and 10bp, respectively. And we don't make any strong assumption on global goods disinflation from potentially higher China (or pan-Asian) goods flows into the EU.

#### Exhibit 5: Still on the way to a (headline and core) undershoot

Euro area headline and core inflation forecasts (% yoy)

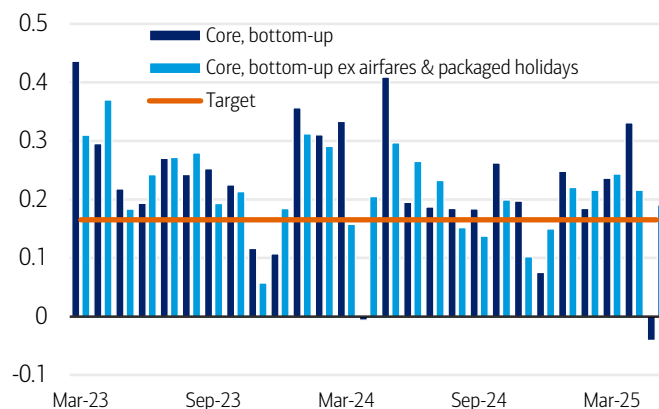


Source: Eurostat, BofA Global Research

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#### Exhibit 6: Even ex volatile categories, m/m core was close to target

Euro area, m/m% core ex airfares/packaged holidays, SA



Source: BofA Global Research, Eurostat

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## ECB: reluctantly cutting

For simple economists like us, looking at the Euro area, we see an economy with a negative output gap that is unlikely to close in the near term, with plenty of uncertainty about whether it will happen in the next two years, and inflation already below target and likely to stay there for some time. But nothing is so "easy" when it comes to the Euro area and the ECB. We have always worked on the assumption that data would need to push the ECB to go lower from here. Given our growth and inflation outlook, we still have strong conviction in at least two more cuts in this cycle. And we can think of many more scenarios in which we might see more than two cuts than we can scenarios with less than two.

## Risks: where to start?

US tariffs are still a key asymmetric risk. It is hard to see much smaller tariffs than the region faces today, while it is easy to imagine much worse scenarios.

Geopolitics and energy prices are also key to watch from here, with different angles. First, the region is facing pressure to step up its individual defence effort, perhaps even in the very short term. There is limited fiscal space in national budgets. There is also little appetite for further common borrowing. Faced with a new reality, that could serve as an incentive to do more and better. We think we will get there, but not immediately. If

we are wrong, and there is more political capital for a joint EU response to the challenges the region faces before the outlook deteriorates, that could be a significant upside surprise.

On the other hand, recent developments increase the risk of a persistent and large oil price shock. We would expect a more “normal-sized” shock than that at the beginning of the war in Ukraine. This would come with less growth and a short-lived bout of inflation. The ECB, facing a more traditional supply-side shock, would probably eventually be inclined to look through it and accommodate the damage to growth. This could delay the cuts we have in our forecasts, particularly if the persistent inflation undershoot takes longer to materialize (Exhibit 5). But we doubt the end point would be different, certainly not higher and, if the shock is large enough, probably lower.

# UK

## BoE terminal remains at 3.5%

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### Tariffs shock and taxes weighed on forecasts

In our Year Ahead we expected the economy to grow by 1.5%/1.4% in 2025/26 with downside risks due to tariffs and taxes (i.e. National Insurance Contributions- NICs rise). We expected inflation at 2.6% /2.1% in 2025/26 with upside risks and argued that progress in domestic inflation is likely to allow the BoE to cut rates at a gradual, quarterly pace to 3.5% with 100bps of cuts in 2025 and one cut in early 2026.

Since then, downside risks have materialized. Even though Q1 GDP held up better than expected, the UK and global economy has been hit with tariffs which along with the rise in employment costs (NICs) is likely weighing on the economy and the labour market. We therefore expect weaker growth relative to our Year Ahead forecasts in 2025/26 at 1.2%/1.3%, though slightly higher than before. Inflation has been higher than our Year Ahead forecasts, but the upside has been driven by one-offs. Inflation is likely to be elevated in coming months, but we expect progress in underlying inflation to continue.

The BoE cut rates quarterly in February and May as we expected, and we still expect BoE terminal rate at 3.5%. Weaker growth, looser labour market and likely lower inflation risks post tariffs and taxes could mean going forward the BoE cuts rates a bit faster than our Year Ahead base case of quarterly cuts. We expect cuts in August, September and November to 3.5%, though we acknowledge risks are tilted towards quarterly cuts.

### Exhibit 7: Growth weaker, inflation higher vs. Year Ahead forecasts, faster BoE to unchanged terminal 3.5%

UK forecasts

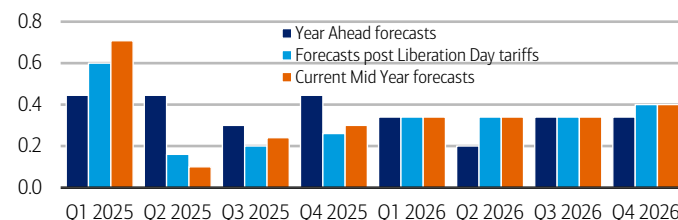
	2025E			2026E			2027E
	YA (Nov 24)	Prev.	Now	YA (Nov 24)	Prev.	Now	Now
Growth %	1.5	1.1	1.2	1.4	1.3	1.3	1.5
CPI %	2.6	3.0	3.1	2.1	2.2	2.2	2
BoE rate	3.75%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Source: BofA Global Research

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### Exhibit 8: Growth expected to be weaker vs. Year Ahead forecasts

UK GDP growth forecasts (%q/q)



Source: BofA Global Research

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### Growth: near term outlook impacted by tariffs and taxes

Our growth forecasts move up slightly for 2025 to 1.2% (+10bps) relative to before and remain at 1.3% for 2026, lower than our Year Ahead forecasts of 1.5%/1.4%. We see growth at 1.5% in 2027. Q1 GDP was stronger than expected boosted by higher exports to the US and frontrunning/stockpiling ahead of tariffs. But this bounce has been short-lived, and growth slowed in April more than expected due to tariffs (with exports to the US falling to lowest level since Feb 2022) and NICs rise. We downgrade Q2 GDP growth from 0.2% to 0.1% to reflect the weaker than expected April GDP and May retail sales.

For H2, we slightly revise up growth relative to before due to the UK/US trade deal and US de-escalation with China, which is likely to provide some sectoral relief (car tariffs are reduced but there is no timeline on steel tariff reduction) and cap severe downside growth risks. Reduction in car tariffs to 10% reduces the hit from US tariffs on UK growth by 10bps. But at 1.2%, 2025 growth is still likely to be lower than our Year Ahead forecasts due to 10% tariffs, high trade uncertainty, weak confidence, NICs rise, looser labour market and softer global growth. October fiscal stimulus and consumer spending pickup driven by real income growth and monetary easing should act as tailwinds.





We expect a recovery in 2026/27 due to improving global growth, rate cuts, potential normalization of savings rate and some small boost from supply side planning reforms.

Unemployment has picked up to 4.6% likely driven by higher employment costs and tariffs. We expect a further rise to 4.7% in H2 2025 (up from 4.6% before). This would imply a further loosening but not a sharp slowdown of the labour market. Redundancies are low. Our composite indicator of employment growth is pointing to 0.3%/y% in Q2.

Risks to growth are on the downside from risks of further escalation of global trade tensions, fiscal consolidation in the Autumn and sharper than expected loosening of the labour market. We worry about the payrolls data, which has been falling for past eight months. Payrolls need to be treated with caution, as they are often revised, but falling payrolls add to the risks that the labour market could loosen more than expected. Moreover, the Chancellor's low headroom raises risks of fiscal consolidation in the autumn (including tax rises) driven by risks of higher yields and potential growth and productivity downgrades. This would add downside risks later in the year.

### **Progress in underlying inflation to continue**

Our 2025 inflation forecast moves up from 3.0% to 3.1% on the back of stronger May food and core goods inflation. We expect 25/26/27 inflation at 3.1%/2.2%/2.0% and core at 3.4%/2.3%/1.9%, higher than our Year Ahead forecasts. The upside in inflation has been driven by one-offs such as rise in energy/water bills/NICs/duties and volatile components. Services inflation excluding indexed and volatile components fell from 4.4% in March to 4.0% in May, showing continued progress in underlying inflation. Pay growth is moderating faster than expected.

Inflation is likely to be elevated in coming months (with quarterly peak at 3.4% in Q2/Q3), but we don't expect strong second round effects. We think underlying inflation risks are likely lower post tariffs and taxes. We see scope for inflation to be lower than the BoE's estimates on the back of continued progress in domestic inflation/pay growth, further loosening of the labour market, weaker growth, easing inflation expectations and potential disinflationary impact from tariffs. Inflation and wage expectations continue to grind lower and BoE Agents 2025 pay settlements are expected at 3.7%, lower than current levels. We expect services inflation at 4.4% and pay growth at ~3.5% at year end.

### **BoE terminal at 3.5%**

We expect cuts in August, September and November to 3.5%, with a dovish pivot and small acceleration in H2. In June the MPC noted more confidence in significant slowing in pay growth, greater conviction that the labour market is loosening and higher sensitivity to growth and labour market weakness. There isn't a strong signal yet that they are ready to accelerate, but greater sensitivity to labour market/ growth and higher confidence in disinflation mean data can get them there. Even though we acknowledge that elevated domestic inflation, gradual guidance and rising energy/ food prices puts our call for September cut at risk, we think the bar for the BoE to cut less than quarterly is high. We expect terminal at 3.5% by end 2025 and no cuts in 2026 and 2027.

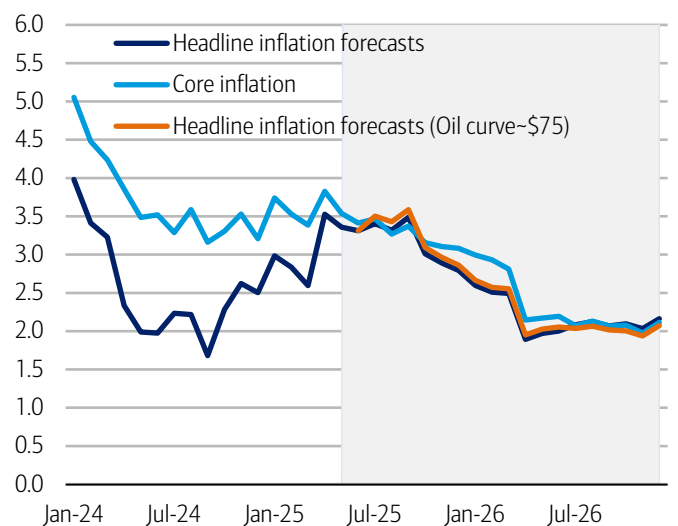
While somewhat faster inflation progress and weaker growth/labour market imply the BoE could get to terminal earlier, we think above-target inflation would prevent further cuts once we get to 3.5%, which we estimate is close to neutral. If BoE skips September and sticks with quarterly cuts, September cut would likely then be delayed to Q1 2026.

Recent geopolitical developments increase the risks of a large and persistent energy price shock. For now, the moves are relatively muted for it to affect the BoE's reaction function. But if we see a large and persistent shock, it could likely lead to delays in cuts as the BoE waits to judge the second-round impact of higher energy prices. Having said that it is unlikely to prevent additional cuts assuming the shock is not as large as during the war in Ukraine.

We expect the BoE to slow the pace of Quantitative Tightening (QT) to £60bn from current £100bn pace in QT year 25/26 ([UK Viewpoint: Quantitative Tempering](#)). We think QT is likely tightening monetary conditions and having a restrictive impact and a slowdown in pace would be sensible with the end of abundant reserves in sight.

#### Exhibit 9: Progress in underlying inflation to continue

Headline and core inflation forecasts (%/y) in grey shaded area



Source: ONS, BofA Global Research

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#### Exhibit 10: Progress in underlying inflation to continue

BofA CPI and RPI forecasts (%/y)

	Headline CPI	Core	Core goods	Services	Food	Energy	RPI	RPI index
	y/y%							Index
Apr-25	3.53	3.83	1.08	5.42	3.43	-0.94	4.47	402.20
May-25	3.36	3.54	1.57	4.68	4.42	-1.68	4.27	402.90
Jun-25	3.31	3.41	1.58	4.47	4.16	-0.78	4.03	402.91
Jul-25	3.40	3.47	1.52	4.58	3.93	0.22	4.17	403.67
Aug-25	3.32	3.27	1.33	4.38	3.96	1.10	4.01	405.53
Sep-25	3.49	3.37	1.27	4.58	3.64	2.88	4.17	404.80
Oct-25	3.01	3.15	0.95	4.42	3.48	-1.40	3.60	404.78
Nov-25	2.89	3.11	0.97	4.34	3.35	-2.03	3.41	404.22
Dec-25	2.79	3.08	0.74	4.43	3.23	-3.02	3.56	406.06
Jan-26	2.60	3.00	0.68	4.33	2.55	-3.97	3.24	404.39
Feb-26	2.51	2.93	0.94	4.07	2.72	-4.39	3.07	406.11
Mar-26	2.49	2.81	0.90	3.90	2.73	-3.28	3.00	407.16
Apr-26	1.89	2.15	0.65	3.00	2.25	-3.88	2.23	411.17
May-26	1.97	2.17	0.44	3.16	2.12	-2.79	2.48	412.90
Jun-26	2.00	2.19	0.62	3.09	2.13	-2.58	2.55	413.16
Jul-26	2.08	2.07	0.37	3.05	2.07	0.47	2.86	415.20
Aug-26	2.12	2.13	0.45	3.10	1.98	0.43	2.90	417.30
Sep-26	2.07	2.07	0.57	2.92	1.89	0.54	2.86	416.38
Oct-26	2.10	2.08	0.61	2.92	2.05	0.62	2.85	416.32
Nov-26	2.03	1.98	0.42	2.87	2.12	0.67	2.85	415.74
Dec-26	2.16	2.11	0.58	2.99	2.32	0.71	2.99	418.18

Source: ONS, BofA Global Research

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# European forecasts

## Exhibit 11: Euro area economic forecasts

We expect the ECB to cut rates to 1.50% by Dec-25. A first ECB hike can follow in 2027.

		2024	2025	2026	2027	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
GDP	% qoq					0.3	0.2	0.4	0.3	0.6	-0.2	0.0	0.1	0.3	0.4	0.4	0.4
	% qoq ann.					1.0	0.9	1.6	1.2	2.5	-1.0	0.1	0.5	1.3	1.5	1.6	1.5
	% yoy	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.4</b>	0.5	0.6	0.9	1.2	1.5	1.1	0.7	0.5	0.2	0.8	1.2	1.5
Private Consumption	% qoq					0.5	0.1	0.5	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% yoy	<b>1.1</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	0.9	0.6	1.1	1.6	1.3	1.5	1.2	1.1	1.1	1.1	1.1	1.1
Government Consumption	% qoq					0.3	0.9	0.7	0.4	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	% yoy	<b>2.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	2.1	2.6	2.8	2.4	2.1	1.3	0.9	0.7	1.0	1.1	1.2	1.3
Investment	% qoq					-1.9	-2.4	1.8	0.7	1.8	-2.0	-0.1	-0.1	0.3	0.5	0.6	0.6
	% yoy	<b>-1.8</b>	<b>1.0</b>	<b>0.4</b>	<b>2.1</b>	-0.7	-3.0	-1.4	-1.8	1.9	2.3	0.4	-0.5	-1.9	0.5	1.3	2.0
Final Domestic Demand <sup>1</sup>	% qoq					-0.1	-0.2	0.8	0.5	0.5	-0.2	0.2	0.2	0.3	0.3	0.3	0.3
	% yoy	<b>0.7</b>	<b>1.1</b>	<b>0.9</b>	<b>1.3</b>	0.7	0.3	0.9	0.9	1.5	1.5	0.9	0.6	0.4	0.9	1.1	1.3
Net exports <sup>1</sup>	% qoq					0.6	0.3	-1.0	0.1	0.3	0.0	-0.2	-0.1	0.0	0.1	0.1	0.1
	% yoy	<b>0.4</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.2</b>	0.6	1.2	0.0	0.0	-0.3	-0.6	0.1	0.0	-0.3	-0.2	0.1	0.2
Stockbuilding <sup>1</sup>	% qoq					-0.2	0.1	0.5	-0.2	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
	% yoy	<b>-0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	-0.8	-0.9	0.1	0.2	0.3	0.2	-0.4	-0.1	0.1	0.1	0.1	0.0
Current Account Balance	EUR bn	<b>416</b>	<b>394</b>	<b>381</b>	<b>358</b>	109	133	90	83	108	80	99	107	103	82	89	107
	% of GDP	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>	<b>2.2</b>	2.9	3.5	2.4	2.2	2.8	2.1	2.5	2.7	2.6	2.1	2.2	2.6
Industrial production	% qoq					-1.2	0.0	-0.2	-0.3	1.2	0.2	-0.3	-0.8	0.3	0.8	1.1	1.4
	% yoy	<b>-3.0</b>	<b>0.7</b>	<b>1.1</b>	<b>3.0</b>	-4.7	-4.0	-1.6	-1.7	0.6	0.9	0.8	0.3	-0.6	0.0	1.4	3.7
Unemployment rate <sup>3</sup>	%	<b>6.6</b>	<b>6.9</b>	<b>7.0</b>	<b>6.9</b>	6.8	6.7	6.7	6.6	6.9	6.9	7.0	7.1	7.1	7.1	7.0	7.0
	% qoq					0.2	1.5	0.2	0.2	0.3	1.1	-0.1	0.1	0.1	1.4	0.1	0.0
CPI (harmonised) <sup>4</sup>	% yoy	<b>2.4</b>	<b>1.8</b>	<b>1.5</b>	<b>1.8</b>	2.6	2.5	2.2	2.2	2.3	1.9	1.6	1.4	1.2	1.5	1.7	1.7
	% qoq					0.0	2.1	0.5	0.2	-0.2	1.9	-0.1	0.0	-0.2	1.9	0.2	0.0
CPI (core) <sup>4</sup>	% yoy	<b>2.7</b>	<b>2.1</b>	<b>1.8</b>	<b>1.8</b>	3.1	2.8	2.8	2.7	2.6	2.4	1.9	1.7	1.7	1.7	1.9	1.9
	% qoq																
General govt balance	% of GDP	<b>-3.1</b>	<b>-3.6</b>	<b>-3.8</b>	<b>-3.6</b>												
General govt debt	% of GDP	<b>87.5</b>	<b>90.2</b>	<b>92.0</b>	<b>91.8</b>												
Deposit rate		<b>3.15</b>	<b>1.65</b>	<b>1.65</b>	<b>2.15</b>	4.50	4.25	3.65	3.15	2.65	2.15	1.90	1.65	1.65	1.65	1.65	1.65

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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## Exhibit 12: UK economic forecasts

BoE to cut rates to 3.5% by end 2025

		2024	2025	2026	2027	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
GDP	% qoq					0.9	0.5	0.0	0.1	0.7	0.1	0.2	0.3	0.3	0.3	0.3	0.4
	% qoq ann.					3.7	1.8	0.0	0.4	2.9	0.4	1.4	1.2	1.4	1.4	1.4	1.6
	% yoy	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.5</b>	0.7	1.1	1.2	1.5	1.3	0.9	1.3	1.5	1.1	1.3	1.3	1.4
Private Consumption	% qoq					0.7	0.0	0.4	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
	% yoy	<b>0.6</b>	<b>1.0</b>	<b>1.4</b>	<b>1.7</b>	0.3	-0.1	1.1	1.2	0.7	1.1	1.0	1.3	1.4	1.4	1.5	1.4
Government Consumption	% qoq					0.7	1.0	0.3	0.5	-0.5	1.0	1.1	0.6	0.3	0.1	0.1	0.4
	% yoy	<b>3.0</b>	<b>1.8</b>	<b>1.9</b>	<b>1.5</b>	4.6	3.1	1.9	2.6	1.3	1.3	2.2	2.3	3.1	2.2	1.2	1.0
Investment	% qoq					0.8	1.1	1.0	-0.6	2.9	-1.4	-0.1	0.3	0.5	0.5	0.6	0.5
	% yoy	<b>1.5</b>	<b>2.2</b>	<b>1.1</b>	<b>2.4</b>	-1.4	1.2	3.8	2.2	4.4	1.9	0.8	1.7	-0.7	1.2	1.8	2.1
Final Domestic Demand <sup>1</sup>	% qoq					0.7	0.4	0.5	0.0	0.5	0.2	0.4	0.4	0.4	0.3	0.3	0.4
	% yoy	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.8</b>	0.9	0.8	1.8	1.6	1.5	1.3	1.2	1.6	1.4	1.6	1.5	1.4
Net exports <sup>1</sup>	% qoq					0.2	-2.5	1.0	-1.6	0.4	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
	% yoy	<b>-1.3</b>	<b>-1.4</b>	<b>-0.6</b>	<b>-0.2</b>	0.5	-1.7	-1.2	-2.9	-2.7	-0.6	-1.8	-0.4	-0.8	-0.6	-0.5	-0.3
Stockbuilding <sup>1</sup>	% qoq					0.0	2.6	-1.5	1.6	-0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
	% yoy	<b>1.1</b>	<b>1.2</b>	<b>0.4</b>	<b>-0.2</b>	-0.7	2.0	0.5	2.7	2.5	2.0	1.8	0.3	0.5	0.3	0.3	0.3
Current Account Balance	% of GDP	<b>-2.8</b>	<b>-3.3</b>	<b>-3.8</b>	<b>-3.8</b>	-2.3	-3.7	-1.7	-3.3	-2.9	-3.2	-3.4	-3.6	-3.7	-3.7	-3.8	-3.8
Manufacturing output	% qoq					1.1	-0.9	0.1	-0.5	0.9	-1.2	-0.5	0.0	0.4	0.6	0.6	0.6
	% yoy	<b>0.0</b>	<b>-0.8</b>	<b>0.8</b>	<b>2.4</b>	1.8	-0.8	-0.7	-0.2	-0.4	-0.7	-1.4	-0.8	-1.3	0.5	1.6	2.2
Unemployment rate <sup>2</sup>	%	<b>4.3</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	4.3	4.2	4.3	4.4	4.5	4.6	4.7	4.7	4.7	4.7	4.8	4.8
	% yoy	<b>3.6</b>	<b>3.8</b>	<b>2.8</b>	<b>2.6</b>	4.6	3.0	3.3	3.5	3.4	4.3	4.1	3.5	3.1	2.4	2.9	2.9
CPI Inflation (harmonised) <sup>2</sup>	% yoy	<b>2.5</b>	<b>3.1</b>	<b>2.2</b>	<b>2.0</b>	3.5	2.1	2.0	2.5	2.8	3.4	3.4	2.9	2.5	2.0	2.1	2.1
	% qoq	<b>3.7</b>	<b>3.4</b>	<b>2.3</b>	<b>1.9</b>	4.6	3.6	3.3	3.3	3.6	3.6	3.4	3.1	2.9	2.2	2.1	2.1
General govt balance <sup>5</sup>	% of GDP	<b>-4.7</b>	<b>-3.9</b>	<b>-3.2</b>	<b>-2.5</b>												
General govt debt <sup>3,5</sup>	% of GDP	<b>101.3</b>	<b>102.1</b>	<b>104.1</b>	<b>104.3</b>												
Bank Rate <sup>4</sup>	%	<b>4.75</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>	5.25	5.25	5.00	4.75	4.50	4.25	3.75	3.50	3.50	3.50	3.50	3.50

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

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# Calendar for the week ahead

## Exhibit 13: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 30 Jun								
★★	00:01	UK	Lloyds Business Barometer	Jun	n.a.	--	50.0	
★★★★	07:00	Germany	Retail Sales (mom)	May	0.5%	--	-1.1%	
★★★★	07:00	UK	GDP (qoq, F)	1Q	0.7%	--	0.7%	
★★★★	07:00	UK	GDP (yoy, F)	1Q	1.3%	--	1.3%	
★★★★	07:00	UK	Private Consumption (qoq, F)	1Q	0.2%	--	0.2%	
★★★★	07:00	UK	Government Spending (qoq, F)	1Q	-0.5%	--	-0.5%	
★★★★	07:00	UK	Gross Fixed Capital Formation (qoq, F)	1Q	2.9%	--	2.9%	
★★★★	07:00	UK	Exports (qoq, F)	1Q	3.5%	--	3.5%	
★★★★	07:00	UK	Imports (qoq, F)	1Q	2.1%	--	2.1%	
★★★★	07:00	UK	Total Business Investment (qoq, F)	1Q	5.9%	--	5.9%	
★★★★	07:00	UK	Total Business Investment (yoy, F)	1Q	8.1%	--	8.1%	
★★★★	08:55	Germany	Unemployment Change (000's)	Jun	n.a.	--	34k	
★★★★	08:55	Germany	Unemployment Claims Rate (sa)	Jun	6.4%	--	6.3%	
★★★★	09:00	Euro area	M3 Money Supply (yoy)	May	4.0%	--	3.9%	
★★★★	09:30	UK	Net Consumer Credit	May	n.a.	--	1.6bn	
★★★★	09:30	UK	Consumer Credit (yoy)	May	n.a.	--	6.7%	
★★★★	09:30	UK	Net Lending Sec. on Dwellings	May	n.a.	--	-0.8bn	
★★★★	09:30	UK	Mortgage Approvals	May	60K	--	61k	
★★★★	09:30	UK	Money Supply M4 (mom)	May	n.a.	--	0.0%	
★★★★	09:30	UK	M4 Money Supply (yoy)	May	n.a.	--	3.2%	
★★★★	09:30	UK	M4 Ex IOFCs 3M Annualised	May	n.a.	--	3.0%	
★★★★	10:00	Italy	CPI NIC incl. tobacco (mom, P)	Jun	n.a.	--	-0.1%	
★★★★	10:00	Italy	CPI NIC incl. tobacco (yoy, P)	Jun	1.7%	--	1.6%	
★★★★	10:00	Italy	CPI EU Harmonized (mom, P)	Jun	n.a.	--	-0.1%	
★★★★	10:00	Italy	CPI EU Harmonized (yoy, P)	Jun	1.9%	--	1.7%	
★★★★	13:00	Germany	CPI (mom, P)	Jun	0.2%	--	0.1%	
★★★★	13:00	Germany	CPI (yoy, P)	Jun	2.2%	--	2.1%	
★★★★	13:00	Germany	CPI EU Harmonized (mom, P)	Jun	0.3%	--	0.2%	
★★★★	13:00	Germany	CPI EU Harmonized (yoy, P)	Jun	2.2%	--	2.1%	
Tuesday, 1 Jul								
★★	00:01	UK	BRC Shop Price Index (yoy)	Jun	n.a.	--	-0.1%	
★★	07:00	UK	Nationwide House PX (mom)	Jun	n.a.	--	0.5%	
★★	07:00	UK	Nationwide House Px (nsa, yoy)	Jun	n.a.	--	3.5%	
★★★★	08:15	Spain	Manufacturing PMI	Jun	50.2	--	50.5	
★★★★	08:45	Italy	Manufacturing PMI	Jun	48.8	--	49.2	
★★★★	08:50	France	Manufacturing PMI (F)	Jun	47.8	--	47.8	
★★★★	08:55	Germany	Manufacturing PMI (F)	Jun	49.0	--	49.0	
★★★★	09:00	Euro area	Manufacturing PMI (F)	Jun	49.4	--	49.4	
★★★★	09:30	UK	Manufacturing PMI (F)	Jun	47.7	--	47.7	
★★★★	10:00	Euro area	CPI Estimate (yoy, P)	Jun	2.0%	--	1.9	
★★★★	10:00	Euro area	CPI (mom, P)	Jun	0.3%	--	0.0%	
★★★★	10:00	Euro area	CPI Core (yoy, P)	Jun	2.2%	--	2.3%	
Wednesday, 2 Jul								
★★★★	09:00	Italy	Unemployment Rate	May	6.0%	--	5.9%	
★★★★	10:00	Euro area	Unemployment Rate	May	6.3%	--	6.2%	
Thursday, 3 Jul								
★★★★	08:15	Spain	Services PMI	Jun	51.1	--	51.3	
★★★★	08:15	Spain	Composite PMI	Jun	51.2	--	51.4	
★★★★	08:45	Italy	Services PMI	Jun	52.9	--	53.2	
★★★★	08:45	Italy	Composite PMI	Jun	52.1	--	52.5	
★★★★	08:50	France	Services PMI (F)	Jun	48.7	--	48.7	
★★★★	08:50	France	Composite PMI (F)	Jun	48.5	--	48.5	
★★★★	08:55	Germany	Services PMI (F)	Jun	49.4	--	49.4	
★★★★	08:55	Germany	Composite PMI (F)	Jun	50.4	--	50.4	
★★★★	09:00	Euro area	Services PMI (F)	Jun	50.0	--	50.0	
★★★★	09:00	Euro area	Composite PMI (F)	Jun	50.2	--	50.2	
★★★★	09:30	UK	Services PMI (F)	Jun	51.3	--	51.3	
★★★★	09:30	UK	Official Reserves Changes	Jun	n.a.	--	-0.4bn	
★★★★	09:30	UK	Composite PMI (F)	Jun	50.7	--	50.7	
Friday, 4 Jul								



**Exhibit 13: European Economic calendar**

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
☆☆☆	07:00	Germany	Factory Orders (mom)	May	n.a.	--	0.6%	
☆☆☆	07:00	Germany	Factory Orders (wda, yoy)	May	n.a.	--	4.8%	
☆☆☆	07:45	France	Industrial Production (mom)	May	0.4%	--	-1.4%	
☆☆☆	07:45	France	Industrial Production (yoy)	May	n.a.	--	-2.1%	
☆☆☆	07:45	France	Manufacturing Production (mom)	May	0.4%	--	-0.6%	
☆☆☆	07:45	France	Manufacturing Production (yoy)	May	n.a.	--	-1.6%	
☆☆☆	08:00	Spain	Industrial Production (mom)	May	0.5%	--	-0.8%	
☆☆☆	08:00	Spain	Industrial Output (sa, yoy)	May	n.a.	--	0.6%	
☆☆☆	08:00	Spain	Industrial Output (nsa, yoy)	May	n.a.	--	-5.7%	
☆☆☆	09:00	Italy	Retail Sales (mom)	May	-0.1%	--	0.7%	
☆☆☆	09:00	Italy	Retail Sales (yoy)	May	n.a.	--	3.7%	
☆☆☆	09:30	UK	Construction PMI	Jun	n.a.	--	47.9	
☆☆☆	10:00	Euro area	PPI (mom)	May	n.a.	--	-2.2%	
☆☆☆	10:00	Euro area	PPI (yoy)	May	n.a.	--	0.7%	

**Source:** BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; μ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. \*Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

# Acronyms and abbreviations

## Exhibit 14: Common acronyms/abbreviations used in our reports

This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
Bol	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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