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The Summer of 2026: Heatwaves, Wildfires, and Droughts — Weather Extremes Are Stacking Up

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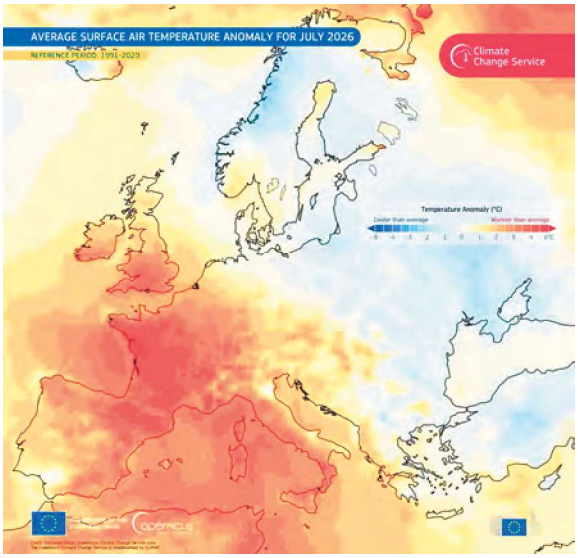
This summer has shown how weather extremes can stack up, cause damage, and disrupt economic activity. Extreme heat in most of Europe has been accompanied by very dry conditions. Below average rainfall has led to widespread dryness that, together with successive heatwaves, has intensified drought across Europe. Globally, droughts are becoming more frequent and severe, with research on the economic effects of extreme weather and natural disasters suggesting that droughts are increasingly damaging. The credit rating implications of climate hazards for most of the sovereigns that we rate remain limited, given the manageable costs at the sovereign level. Still, severe droughts affect agriculture, fluvial trade, industry, and energy generation, as the current drought in Europe is demonstrating.

Earlier this year, we introduced our Hazard Exposure Analytics and Trends (HEAT) dataset (*Climate Risk Navigator – Physical Climate Risk Signals in Credit: Longitude, Latitude, and Exposure*), showing how physical climate risk varies across locations, regions, and time horizons. In this commentary we look at the intensity of recent heatwaves and droughts, their potential economic impacts, and how the stacking of risks calls for further climate adaptation.

A Scorching Summer, Especially in Europe

According to the Copernicus Climate Change Service (C3S), there was a clear contrast in Europe in July 2026, with temperatures well above average in Western Europe and below average in the Nordic countries. Of note, France, like Southern England, experienced its warmest July on record (**EXHIBIT 1**)

EXHIBIT 1 Europe: Average Surface Air Temperature Anomaly, July 2026

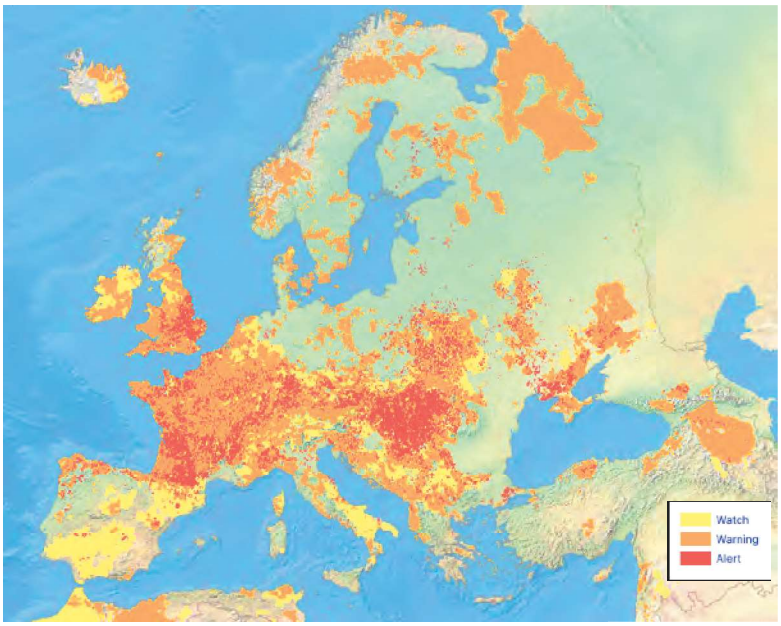


Sources: European Union and Copernicus Climate Change Service Data.

KEY HIGHLIGHTS

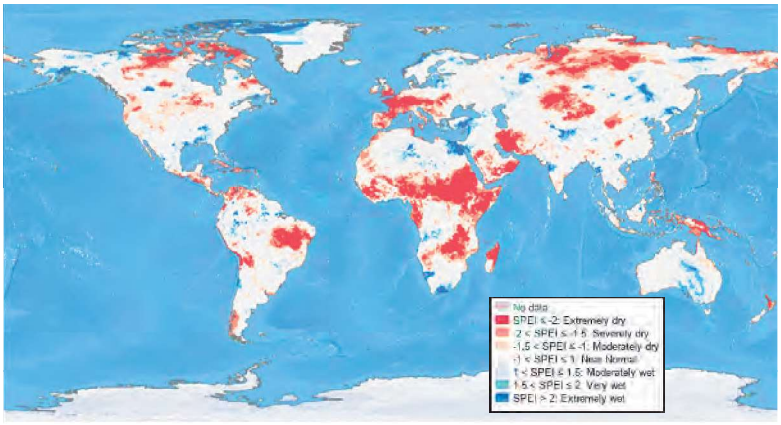
- A series of climate hazards has stacked up this summer, with consecutive heatwaves and dryness leading to droughts in many parts of Europe.
- The adverse impact of droughts on economic growth can be larger than other hazards. In Europe, the severe drought is affecting the farming sector, inland shipping, and energy generation.
- In the long-term, the economic impact of climate physical risks will largely depend on adaptation efforts and the path of climate change and weather patterns.

EXHIBIT 2 Europe: Drought, end of July 2026



Sources: European Drought Observatory (EDO) and Global Drought Observatory (GDO).

EXHIBIT 3 Global: Drought Overview, end of July 2026



Sources: European Drought Observatory (EDO) and Global Drought Observatory (GDO).

following the hottest June ever recorded in Western Europe. Most European countries, including the UK, have experienced five heatwaves so far this summer. Europe is warming faster than other continents, according to the European Environment Agency.

At the same time, the extreme heat has been accompanied by very dry conditions in most of Europe, after above average rainfall in winter. In England and Wales, July 2026 was the dryest on record. In continental Europe, extreme heat, severe dryness, and strong winds contributed to large wildfires. This was the case in France, Spain, and Greece in July. The wildfires in Spain and France—the worst in decades—moved beyond being a mainly rural disaster as they approached areas with larger concentrations of homes, tourism assets, transport links, and commercial activity, increasing the risk of damages (*Fire at Europe's Urban Edge: Wildfires in Spain and France Test Insurers' Secondary Peril Defences* and *Beyond the Burned Area: What the 2026 Wildfires Mean for French and Spanish RMBS*). But not only Europe has experienced large wildfires this summer: In Canada, a series of wildfires in Northwestern Ontario prompted evacuation orders and disrupted transportation (*As Smoke Sweeps Across Canada, Insurers Remain Relatively Unscathed*).

After the Heatwaves, Here Come the Droughts

Overall, droughts are becoming more frequent, prolonged, and severe with climate change, according to the Organisation for Economic Co-Operation and Development (OECD). Across Europe, below average rainfall has led to widespread dryness that, together with successive heatwaves, has intensified drought conditions, according to World Weather Attribution. In the UK, the government declared that about 72% of England, including London, and all of Wales were officially in drought at the beginning of August. The UK Environment Agency specifically referred to a "flash drought", defined as one that develops rapidly from a combination of very low rainfall and higher temperatures. The Met Office reported that Southern England received only 3% of its long-term average rainfall for July. This is the third drought England has faced over the past five years (2022, 2025, and 2026).

In continental Europe, the severe drought has affected large areas in France, with over 85% of the country under drought warning or alert conditions since mid-July 2026, according to the European Drought Observatory. Likewise, some central and eastern European countries, including Hungary, Poland and Germany, and the Balkans, have been hit by flash drought (**EXHIBIT 2**). Prolonged heat and low rainfall have led to very low water levels in rivers. The current European drought follows one of the worst in 2022. Globally, drought conditions are also present in other regions (**EXHIBIT 3**).

Droughts Can Have Larger Economic Impacts Than Other Climate Risks

According to the OECD, about 40% of the planet now faces frequent and intense droughts. The economic cost of droughts has also increased sharply, with the OECD estimating that losses and damages are rising at an annual rate of 3.0% to 7.5% globally. The OECD has also calculated that an average drought in 2035 is projected to cost at least 35% more than such a drought in 2025[1]. A recent International Monetary Fund (IMF) working paper[2] shows that an extreme drought can reduce GDP growth by almost one percentage point (ppt) in the short term, with the most pronounced effects observed in lower-income economies. The impact of droughts is greater than the impact of extreme heatwaves on growth, estimated at about 0.5 ppt in the near term. The working paper also shows that, while the impact of heatwaves on GDP growth has lessened in recent decades, the impact of droughts has become increasingly damaging, likely reflecting a lower degree of adaptation in agriculture and water-intensive sectors, as well as a greater vulnerability to water scarcity.

Overall, droughts not only cause productivity losses in agriculture, but also affect fluvial trade, industry, and energy generation, according to the OECD. Droughts can also add to inflation through different channels. For example, the severe drought in Europe is having three direct effects at the moment—on the farming sector, river transport, and energy generation. France—one of Europe's largest agricultural producers—and Hungary have both seen large losses in grain production, including maize and wheat. In the UK, the prolonged heat and dry weather have led to the earliest harvests in decades with reduced crop yields, according to the Environment Agency. Reduced production can contribute to higher prices in soft commodities and lead to higher food inflation.

Meanwhile, the lowest water levels in eight years on the Rhine river have disrupted inland shipping in Germany. Alternatives to fluvial transport can be costlier and increase producer prices, or do not fully replace river transport, which can lead some industrial plants to cut production. Moreover, the record-low water levels of the Danube river have led to the shutdown of nuclear reactors in Hungary's nuclear power plant. Even Norway has been affected by drought conditions after a dry winter, with reservoirs falling to low levels and leading the country to curb some hydropower production. This increases the risk of reduced hydroelectricity exports to the UK and continental Europe. Lower electricity production could lead to higher energy inflation.

1. OECD. Global Drought Outlook: Trends, Impacts and Policies to Adapt to a Drier World. OECD Publishing, Paris. 2025. https://doi.org/10.1787/d492583a-en
2. Nguyen Ha, et al. The Growth Effects of Natural Disasters: Evidence From a Novel Global Dataset Over 1970–2023. IMF Working Papers 2026 (106).

There could also be a fiscal impact from droughts as governments respond either by providing support or compensation to the most affected sectors or investing in more resilient infrastructure and in more adaptation initiatives. For example, the current drought has prompted the UK government to consider adopting financial support measures for affected farmers.

Weather Hazards Stacking Up Over Time

The summer of 2026 shows how weather extremes can stack up, cause damage, and disrupt economic activity. Moreover, after heatwaves and wildfires, droughts can increase the risk of flash floodings where the ground has hardened. Our HEAT database includes "stacked" hazards in addition to single acute and slow-onset hazards that can result in property damage: riverine flood, pluvial flood, sea level rise, extreme winds, wildfires, landslides, cyclones, and hurricanes. Our dataset also includes heatwaves as a hazard, although there is no direct relationship between heatwaves and property damage.

The HEAT dataset estimates both expected and tail-risk asset damage (as a percentage of the buildings destroyed) for various weather and climate hazards (except heatwaves) under multiple climate change scenarios, and four sets of time horizons. The database also assesses the impact of heatwaves on productivity, measured as the share of revenue in manual-labour-intensive industries exposed to productivity losses caused by elevated temperatures and humidity (wet-bulb index).

EXHIBIT 4 ranks European countries by the expected average annual productivity losses on industry from heatwaves, under the SSP2-4.5 climate scenario by 2050. **EXHIBIT 5** ranks European countries by the expected average annual property damage on average from wildfires, under the SSP2-4.5 climate scenario by 2050. Portugal stands out as one of the European countries most exposed to both direct physical damage from wildfires and indirect productivity losses resulting from heatwaves.

EXHIBITS 4 AND 5 show aggregate regional data. As we note in *Climate Risk Navigator – Physical Climate Risk Signals in Credit: Longitude, Latitude, and Exposure*, for most hazards, aggregate

EXHIBIT 4 Europe: Country Ranking by Climate Score, Heatwaves, Industry, Top 30 (SSP2-4.5 scenario)

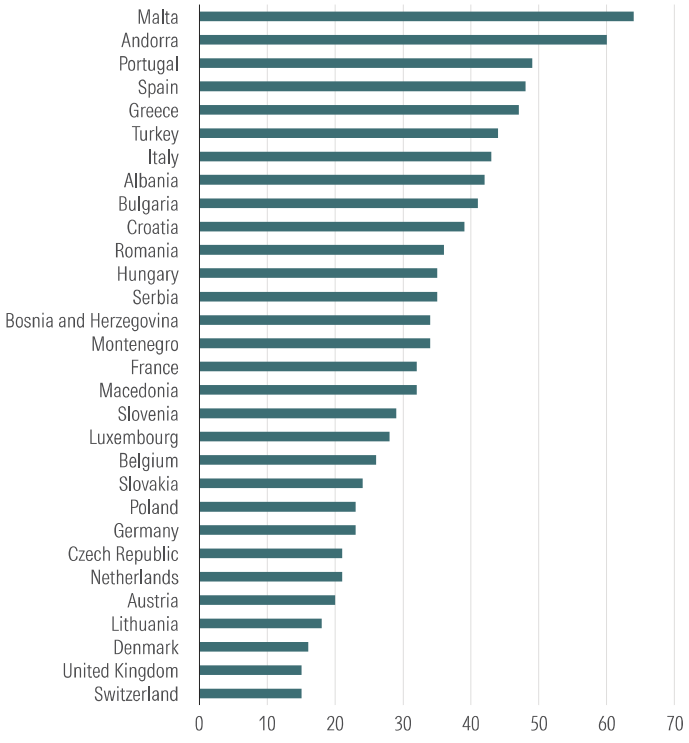
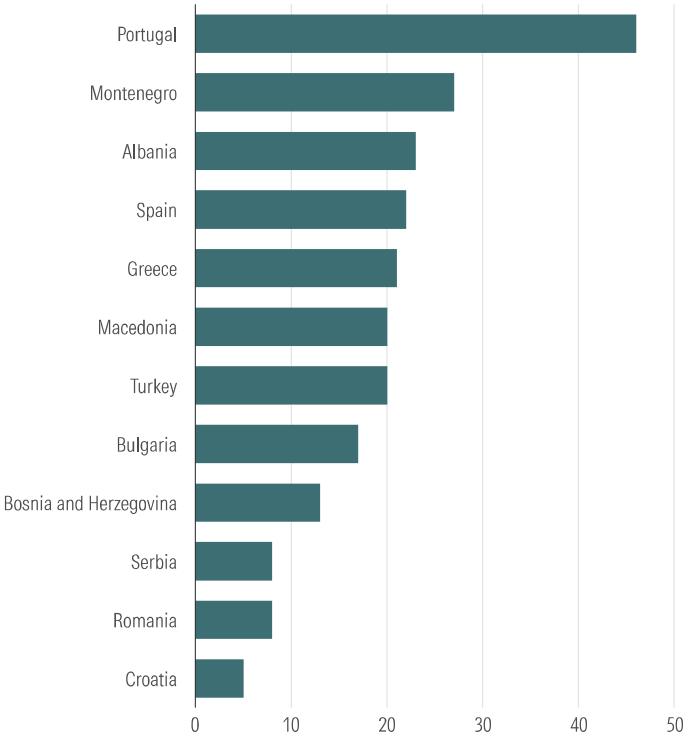


EXHIBIT 5 Europe: Country Ranking by Climate Score, Wildfires, Residential, Top 12 (SSP2-4.5 scenario)



Related Research

- *Beyond the Burned Area: What the 2026 Wildfires Mean for French and Spanish RMBS*, 28 July 2026.
- *Fire at Europe's Urban Edge: Wildfires in Spain and France Test Insurers' Secondary Peril Defences*, 27 July 2026.
- *As Smoke Sweeps Across Canada, Insurers Remain Relatively Unscathed*, 22 July 2026.
- *Climate Risk Navigator: The EBA's 2027 EU-Wide Stress Test Integrates Climate Risk for Banks*, 14 July 2026.
- *Climate Risk Navigator - European RMBS HEATMap*, 13 May 2026.
- *Physical Climate Risk Signals in Credit: Longitude, Latitude, and Exposure*, 19 March 2026.
- *Recent Flood Events in France: Impact on Rated Securitisations*, 16 March 2026.
- *Impact of Storm Nils and Heightened Climate Losses on the French NatCat Framework*, 19 February 2026.
- *Climate Risk Navigator: Can Insured Losses Become a Proxy to Climate Costs?*, 3 February 2026.
- *One Year Later: Consequences of the Los Angeles Area Wildfires for the Insurance Sector*, 6 January 2026.

regional data have shortcomings. Because the dataset focuses on property damage, it trends towards lower risk the larger the region. For wildfires, for example, it is important to recognise that our data express the risk of property damage, which is still considered low on average in urban areas. Thus, the dataset highlights the value of looking at more disaggregated levels (i.e., regions or cities).

The Impact of Weather Hazards Emphasizes the Importance of Adaptation Policies

Overall, in the near to medium term, climate and weather risks, such as extreme heat and droughts, are likely to affect real GDP growth to some extent. In the longer term, the economic impact of physical climate risks will largely depend on adaptation efforts and preparedness as well as on the path of climate change and weather patterns.

Climate adaptation policies in Europe have been in place for years. In the European Union (EU), the current EU Adaptation Strategy, adopted in 2021, aims to enhance adaptation, integrating climate risk management into major economic sectors, macro-fiscal policies, and local governance. In the UK, under the Climate Change Act 2008, the government is required to adopt a National Adaptation Programme (NAP) every five years, setting out how it will manage the physical risks from climate change. The latest programme, NAP3, was published in July 2023, covering key areas for adaptation actions, including increasing the resilience of infrastructure to higher temperatures, shifts in crops and agriculture, and shifts in business practices. However, the UK's Climate Change Committee (CCC) has reported that the country's plans for climate change are inadequate and that further adaptation investment is needed from both the public and private sectors. It has estimated investment needs at around GBP 11 billion per year, equivalent to 0.4% of GDP. The CCC has compared this with the potential climate change costs of GBP 60 to GBP 260 billion per year by 2050 (2% to 9% of GDP).

The credit rating implications of climate hazards for most of the sovereigns that we rate remain limited, given the manageable costs at the sovereign level. In the *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings*, we incorporate climate and weather risks as an Environmental factor. For governments at various levels, we assess whether climate change and adverse weather events could potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy. For example, we consider whether extreme heat and frequent droughts lead to more forest fires, resulting in infrastructure damage and increased public expenditure or contingent liabilities. We also take into account climate resilience and governments' adaptation policies. Depending on the degree of the credit impact from adverse weather events, the Climate and Weather Risks factor can be deemed either relevant or significant for sovereign and public finance credit ratings.

About Morningstar DBRS

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