

Europe's sweet economic music is about to be drowned out

Should you be relieved at the dulcet economic tones coming from the eurozone? Perhaps, after years of crises. The problem is, the rest of the world is dancing to a harder, faster, louder beat. Europe needs to change its tune



European leaders need to change their tune

A genteel tea dance

On the surface, Europe's 2026 economic story looks reassuringly boring. After years of crises, this kind of predictability feels like progress:

Inflation at 2%? Textbook.

Growth around potential? Lovely.

ECB rates normalising without breaking anything? Chef's kiss.

The big problem is that while European leaders may be enjoying a genteel tea dance, they don't seem to have noticed that the rest of the world is losing its mind to a heavy metal stomp.

We've dug deep into individual country developments, and they hardly provide any edge-of-your-

seat entertainment. Southern European countries will benefit once again from support under the European Recovery Fund and earlier reforms, even if some growth momentum could fade. France is likely to pay a price for political instability without falling into stagnation, and Europe's long-standing problem child, Germany, should finally start growing again. Needless to say that a big part of this story depends on Germany actually delivering the announced fiscal stimulus.

Beware dangerous complacency

You know what? Gentility can be beautiful when it reflects genuine stability, when the fundamentals are sound, when you've earned the right to be dull. Japan in the 1980s was boring. America in the 1990s was boring. Boring built on strength is a luxury, a sign you've figured things out.

Europe's mistake is in confusing a simply sung nursery rhyme with a grand orchestral concerto. We've achieved macro stability precisely when we need macro urgency. Inflation is tame just as the competitive landscape explodes. The ECB has reached its 'good place' exactly when the geopolitical ground is shifting beneath our feet. We're congratulating ourselves on blue skies while standing in the rain.

It would be dangerous complacency if European policymakers were to celebrate the return to steady-state economics. In fact, three rather inconvenient facts keep intruding:

- America has decided to flex its economic and military muscles, no matter what.
- China is not only flooding global markets with subsidised overcapacity that European manufacturers can't match, but has also emerged as a system rival for the entire European industry.
- And Europe itself remains institutionally able to master sudden short-lived crises but proves still incapable of making hard choices when the sun is shining.

The heavy metal will drown out more genteel sounds

Partly due to complacency, partly due to naivety, and definitely due to a lack of strategic foresight, Europe has missed out on strengthening strategic autonomy, economic resilience, and, in general, the domestic economy. The buzzwords were all there, but the will and action were missing. These built-up vulnerabilities, vis-à-vis the US and China, explain many of Europe's actions over the last few years. There is some progress – think new trade agreements, efforts to increase defence investments and deregulation. However, a decade's lack of action will not be offset in a year.

This year will be telling for Europe. It needs to change its tune and make up for past complacency. Because you know what? The heavy metal is only going to get louder, drowning out Europe's sweet little dance.

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