Growth gears grinding in the eurozone

Political instability in France and delays in implementing fiscal stimulus in Germany suggest that sluggish growth in the eurozone is likely to persist until the second half of 2026. Inflation is likely to fall again, though the European Central Bank seems determined to keep rates at the current level for some time

'Austerity Politics: That's Enough', reads a recent protest banner in Paris

Back to reality

It sounds like a cliché, but each time optimism builds around a European growth acceleration, reality steps in. The political upheaval in France and the possibility of snap elections are set to prolong uncertainty in the eurozone's second-largest economy, dampening short-term growth prospects.

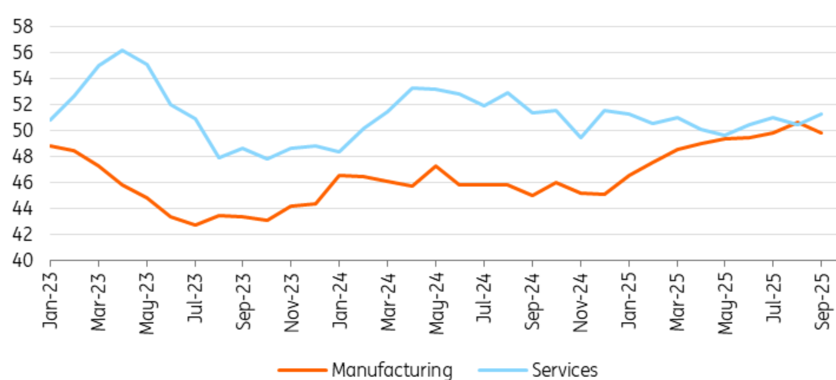
Meanwhile, expectations of a substantial German fiscal boost driving eurozone momentum in the coming years require nuance. The German government is reallocating regular public investment from the budget to the infrastructure fund, which reduces the net fiscal impulse. While a stimulus will still materialise, its magnitude in 2026 is likely to be more modest. Moreover, the absence of meaningful structural reforms suggests that Germany's fiscal plans will not permanently raise its potential growth.

Still weak but positive growth

Current data offer little hope of a breakout from the eurozone's subdued growth trajectory. The contraction in German industrial output in both July and August points to a correction following the pre-tariff export surge to the US. Consumption remains tepid, with retail sales inching up just 0.1% in August after a 0.4% decline in July.

That said, consumer sentiment surveys hint at a marginal improvement in the coming quarters, and there are early signs of stabilisation in the construction sector. These indicators support the view of a weak but ongoing recovery, with a gradual acceleration expected in the second half of 2026. We maintain our GDP growth forecast of 1.3% for 2025, but revise our 2026 projection down to 1.0%.

Eurozone PMIs suggest a continuation of the subdued recovery



Source: LSEG Datastream

Inflation to fall below 2% again

September's HICP inflation surprised slightly on the upside at 2.2%, but we do not expect this trend to persist. Underlying inflation, currently at a cruising speed of 2.3%, still has room to ease as wage growth moderates. Headline inflation is likely to dip below 2% again, driven by favourable base effects in energy prices – though these effects will peter out in the second half of 2026.

We now forecast average inflation at 2.1% in 2025 and 1.9% in 2026. Beyond that, inflation is unlikely to stay below 2% for long. The launch of the EU ETS2 system in 2027 will raise consumer energy costs, adding several tenths of a percentage point to headline inflation. Without a productivity surge, supply constraints could also re-emerge, pushing inflation higher in the coming years.

Steady as she goes

In this context, the ECB appears committed to a wait-and-see approach, with most board members favouring stable interest rates for the foreseeable future. We concur, although further rate cuts cannot be ruled out if the eurozone slips into recession or faces significant financial turbulence. A sharp appreciation of the euro could also prompt additional easing. According to the ECB's September Staff projections, one risk scenario sees eurozone inflation at 1.5% in 2026 and 1.6% in 2027 if the EUR/USD exchange rate reaches 1.24 and 1.28, respectively.

Author

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.