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Recovery, inflation and burden sharing: 3 calls for the eurozone

We should see a recovery in the eurozone next year, but where are the structural reforms? We are watching inflation, which could undershoot, and, if that happens, the ECB may lower rates again. And whisper it: could Eurobonds be back in play in some form or another?

European Commission President Ursula von der Leyen

ING's base call: Manufacturing will see a cyclical recovery

It has to happen at some point - a turnaround in the eurozone manufacturing sector, and we think we'll see it next year. It's been struggling since 2022 on the back of high energy prices, a strengthening euro, intensifying Chinese competition and the trade war. While headwinds from the latter have not disappeared, and some, of course, are structural, both oil and natural gas prices have declined by more than 20% since the beginning of 2025. In addition, Germany intends to significantly lower electricity costs for energy-intensive industries, providing additional breathing space.

On the demand side, we must not forget that the remaining money from the EU's recovery fund must be spent in 2026, while German infrastructure works and increased military spending will also start to have an impact. Capacity utilisation in manufacturing has already risen throughout the year, which might open the window for some pick-up in business investment next year. All in all, it looks as if manufacturing will see growth in 2026, even if

the structural headaches, particularly Chinese competition, seem here to stay.

Our risky call: Eurozone inflation could undershoot significantly in 2026

Even though the economy seems set for a cyclical improvement, inflation could still undershoot more markedly this year, not because of weak domestic demand but rather because of external factors.

Energy prices, for example, could very well come in lower than expected due to sluggish global demand and increased expectations of supply, while the stronger euro is set to weigh on import prices again next year. Furthermore, with growing Chinese competition and European producers redirecting goods that would have been exported to the US back into the European market, the risk of price dumping is real. Consequently, import prices for key goods could face continued pressure.

So, while domestic demand could lead to some improvement in economic growth, there is a clear possibility that inflation undershoots. Sub-1.5% is not unimaginable. Many of these factors are temporary, and medium-term upside risks to inflation remain, but the European Central Bank could feel pressure to lower rates so as not to get caught in a reverse ‘team transitory’ scenario.

Our bold call: Eurobonds are coming but in a different wrapping

More than a year after the release of the Draghi report, tangible progress in Europe – whether on deeper integration, reducing regulation, tackling market and financial fragmentation, or reforming energy and telecommunications - remains elusive. Expecting the full implementation of all of Draghi's recommendations in 2026 would be far too bold a call. Instead, the greater risk is that national governments prioritise their own economies, relegating the European dimension to a secondary concern at best.

Yet, despite persistent resistance, particularly among core eurozone countries, towards burden-sharing at the European level, 2026 could still deliver a surprise. Given the EU’s positive experience with project bonds and the Recovery Fund, a ‘Ukraine bond’ to finance additional military aid or reconstruction could gain broad support. While Germany’s substantial fiscal stimulus has, to some extent, reduced the urgency for new safe assets, such a bond would represent another step towards completing the capital markets union and revive a familiar European tradition: introducing Eurobonds through the back door.

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