THINK Economic and Financial Analysis

Eurozone Countries Outlook 2026

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

European leaders need to change their tune

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

A genteel tea dance

On the surface, Europe's 2026 economic story looks reassuringly boring. After years of crises, that 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 minds 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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Germany: The corn's about to pop

After years of stagnation, the German economy looks set for a cyclical rebound. Whether that morphs into a substantial recovery highly depends on politics

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The German Chancellor, Friedrich Merz, in India this week

Hopes of an early German recovery were quickly shelved

Hopes for an end to German stagnation in 2025 had to be quickly shelved. After the U-turn on fiscal stimulus and the new government coalition agreement, optimism returned to the country, only for it to enter a new phase of national depression in the second half of the year, driven by doubts about creative budget accounting and a clear lack of structural reforms. Since the end of 2022, there have been only two quarters in which the economy actually grew.

Still, this dreadful economic performance had at least one upside: at the end of the year, everyone seems to have finally understood that Germany's economic problems are not just a fatal concatenation of unfortunate circumstances but rather the result of years of underinvestment, a lack of structural reforms and the rise of China from export destination to system rival. US tariffs and the stronger euro only aggravated the problems, but they are not the root cause.

Time to get more positive about Germany

At first glance, the past year gave little reason for optimism but rather sent the entire country into national depression. There are good reasons to finally be more positive about the German economy. The latest macro data indicates a clear turning point in industry. Industrial orders have now increased for three consecutive months, and even the argument that the November surge was driven by bulk orders does not really concern us; with the fiscal spending programme, more of these bulk orders will come this year.

By 2026, bulk orders could be the new normal, not the exception. Which brings us to the main reason for optimism: fiscal stimulus. The announced infrastructure and defence investment plans will finally begin to reach the economy this year. Critics often overlook the sluggishness of Germany's federal decision-making process. It took until late last year for parliament to approve the 2026 budget and almost 30 military procurement contracts. With the rapid expansion of production capacity in the defence industry,

that a large part of the defence spending will stay in the domestic economy and not leak to other counties that a large part of the defence spending will stay in the domestic economy and not leak to other counties, there is a good chance that a large part of the defence spending will stay in the domestic economy and not leak to other counties. In fact, we see the defence sector as a potential positive surprise in 2026. Last but not least, even though corporates don't get tired of complaining about elevated energy costs, the government's decision to bring those costs down to one-third of their current levels should bring further relief, if it's implemented.

Private consumption will lag behind

While industry should stage a decent rebound, private consumption will remain muted in 2026. Over the last four years, German unemployment has increased by some 500,000 people. This gradual worsening reflects textbook economics: with the economy effectively stagnating for more than five years and industry facing severe structural challenges, a deterioration in the labour market was inevitable. This deterioration of the labour market appears set to continue, as the number of corporate insolvencies has not yet declined. With ongoing uncertainty about the future of Germany's pension system and anticipated higher costs associated with demographic change, it remains difficult to foresee a significant pickup in private consumption in the near term.

The three Rs: from rebound to recovery… only with reforms

An economic liftoff is clearly in the making, and we expect some 1% GDP growth for this year. However, the economy's problems are deeply rooted, often structural and largely self-made, except for the China problem. Solving these issues quickly is impossible. This is a completely different challenge from some twenty years ago, when Germany had also been the 'sick man of Europe'.

France: The growth outlook remains under fiscal clouds

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After a positive surprise in 2025, French growth shows signs of further recovery in 2026 but remains hampered by political and budgetary uncertainty

France's Emmanuel Macron is facing economic and political storms

A positive surprise in 2025

French economic growth delivered an upside surprise in 2025, driven largely by strong output in the aerospace sector and buoyant public consumption, which grew faster than GDP. In contrast, domestic political and fiscal uncertainty, combined with a challenging global backdrop, weighed on household spending and private investment, both of which saw only marginal gains.

Despite a sharp drop in inflation and robust real wage growth, consumption remained sluggish, and households increased savings to a record high due to uncertainty. The main driver of 2025 growth was an inventory build-up, with significant imports and stockpiling of aircraft parts in the first half of the year, followed by partial destocking and export flows in the second half.

Fiscal and political clouds loom over 2026

As 2026 begins, uncertainty remains elevated. The 2026 state budget has not yet been approved, leaving France operating under the 2025 framework. Talks have resumed, but an agreement looks distant amid a deeply deteriorated fiscal position.

The deficit likely reached 5.4% of GDP in 2025, after 5.8% in 2024. The government aims to keep it near 5% this year, already above the previously promised 4.6%, pushing public debt close to 120% of GDP. For a budget to pass, centrist, right-wing (LR) and left-wing (PS) blocs must find common ground, which seems unlikely given entrenched positions and looming elections: municipal polls in March 2026 and presidential elections in 2027.

If a budget agreement were ultimately passed, it would likely result in a deficit exceeding 5% of GDP and further complicate discussions on the 2027 budget. Failure to agree may require the government to force it through, via Article 49.3 of the Constitution, which would lead to a vote of no confidence and possibly early parliamentary elections. Overall, political and fiscal uncertainty is set to remain high throughout the year. Even if fiscal consolidation proves milder than expected, it is unlikely to translate into faster economic growth, as prolonged fiscal uncertainty may lead to increasingly wait-and-see behaviour among households and businesses.

Growth seen around 1%

Despite these headwinds, the outlook for 2026 is still moderately upbeat, with GDP growth expected to average around 1%. Business sentiment has improved in recent months, particularly in industry, alongside higher capacity utilisation, which is a positive signal for the French manufacturing sector against a backdrop of European industrial recovery on the back of the German recovery plan. The overall increase in defence spending should also continue to benefit French industry, with France ranking as the world's second-largest arms exporter. Aerospace exports will remain a growth pillar, provided production keeps pace with well-filled order books.

Against all odds, consumer confidence has been strengthening, and job fears have eased significantly, pointing to a lower household savings rate - though still above its historical average - and a recovery in consumption in a context where inflation is expected to remain well below 2% and real wages are expected to rise. Household investment should also recover slightly during the year, but will be hampered by the upward impact of the fragile public budget finances on long-term interest rates. High financing costs and budgetary uncertainty will keep a lid on the recovery in business investment.

The modest growth momentum should carry into 2027, with GDP growth expected to average 1.1. Overall, political and fiscal uncertainty is likely to keep French growth below the eurozone average.

The French economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
Demand and output				
GDP	1.1	0.8	1.0	1.1
Private consumption	1.0	0.4	0.9	1.0
Investment	-1.3	-0.1	0.8	1.3
Government spending	1.4	1.4	0.6	0.6
Net trade contribution (% points of contribution to GDP)	1.3	-0.7	0.5	0.2
Labour market				
Unemployment rate (% eop. Eurostat)	7.4	7.6	7.7	7.8
Government finances				
Budget balance as a % of GDP	-5.8	-5.5	-5.2	-5.2
Government debt as a % of GDP	112	115	118	120
Prices				
Inflation (HCPI)	2.3	0.9	1.3	1.2

Source: Refintiv Datastream, ING forecasts

Italy: A modest pick-up on a domestic demand drive

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Italy's expected modest acceleration in GDP growth will likely be driven mainly by consumption and investment, the latter fuelled by the upcoming deadline for the EU-funded recovery plan. Neutral fiscal policy will continue, indirectly helping the economy by containing financing costs.

Italian Prime Minister Giorgia Meloni at a press conference last week

In 2025 modest GDP growth, fueled by domestic demand

2026 looks set to start along the same lines as last year. We're likely to see modest growth, with private investments again the leading driver, almost on par with private consumption.

When fourth-quarter GDP data is released, 2025 will likely confirm a year of steady growth consolidation. The pickup in consumption was gradual; apparently, the substantial gains in purchasing power resulting from resilient employment, moderate wage growth, and decelerating inflation were insufficient to induce a decline in the savings ratio. Net exports should have acted as a drag, hit by direct and indirect effects of the US tariff saga.

Investments will be spurred by the end of the recovery plan

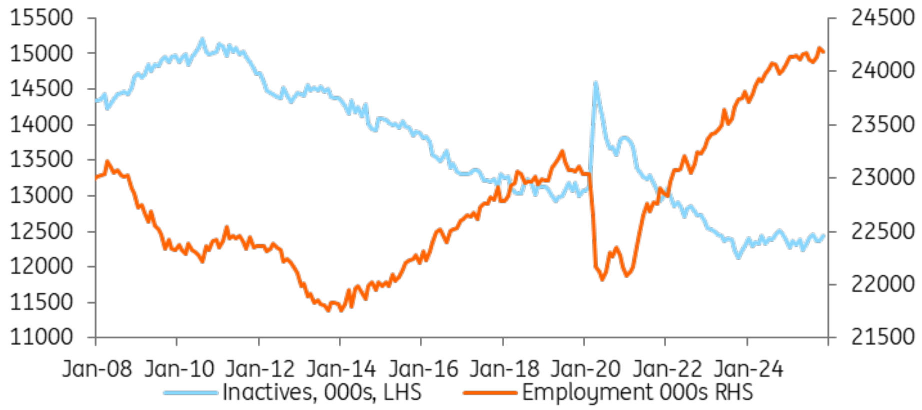
The investment camp will likely be led by the infrastructural component of construction, spurred by the upcoming deadline (August 2026) of the EU-funded recovery and resilience plan. This will induce an acceleration in investment over the first half of the year, but not a free fall over the second half, in our view. Indications are that unspent funds will be channelled into a financial vehicle and will be spent over time after the plan's official deadline.

The dwelling component of construction will likely continue to exert a modest drag, reflecting the tapering of tax incentives for renovations. Developments in machinery investment will be closely tied to industrial production, which should resume growth in 2026, albeit at an unspectacular pace. Some last-minute incentives added to the final version of the budget law could marginally help spur the machinery component.

Private consumption driven by further purchasing power gains

Private consumption should also be confirmed as a key growth driver in 2026, provided the labour market proves resilient and purchasing power continues to improve. We expect both conditions to hold, with marginally increasing employment and hourly wages growing faster than inflation. The contribution of private consumption to GDP growth should broadly replicate what we've seen in 2025, as households' prudent approach is unlikely to disappear, barring rapid improvements in the external geopolitical environment.

Labour market resilience helping support Italian consumer purchasing power



A neutral fiscal stance will help keeping financing costs under control

As in 2025, there won't be any significant growth push from fiscal policy. The Italian government has set fiscal discipline as a top priority, which has been rewarded by shrinking government bond spreads, now at their lowest levels since 2008. The 2026 budget is almost neutral and aims to bring the deficit-to-GDP ratio to 2.8% (from an expected 3% in 2025). It's too early to see a decline in the debt/GDP ratio; we're only likely to see this in 2028, when the delayed cash impact of now-expired generous 'superbonus' tax credits will no longer appear in debt data.

Among the benefits of fiscal discipline will likely be the opportunity to exit the EU excessive deficit procedure by the first half of 2026: this would allow Italy to take advantage of the safeguard clause, which permits it to finance defence expenditure in deficit for an amount of 0.15% of GDP. To sum up, fiscal policy continues to follow a piecemeal approach. To assess measures powerful enough to meaningfully affect Italian potential growth, if any, we will likely have to wait for the next legislature.

Overall, we expect Italian GDP to expand by 0.8% in 2026, following an estimated 0.6% in 2025.

The Italian economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
GDP	0.7	0.6	0.8	0.8
Private consumption	0.6	0.8	0.7	0.8
Investment	0.0	3.2	2.2	1.1
Government consumption	1.0	0.3	0.4	0.1
Net trade contribution	0.1	-0.5	-0.3	-0.2
Headline CPI	1.1	1.7	1.6	1.9
Unemployment rate (%))	7.7	6.1	5.9	5.9
Budget balance as % of GDP	-3.4	-3.0	-2.8	-2.6
Government debt as % of GDP	134.9	136.8	138.2	138.3

Source: LSEG Datastream, all forecasts ING estimates

Spain: Still searching for quality rather than quantity-driven growth

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Spain was again a eurozone outperformer in 2025 and enters 2026 with solid fundamentals but faces the challenge of shifting from quantity-driven growth to a sustainable, productivity-led model. Investments, particularly EU-funded projects, will be pivotal in shaping this trajectory, while easing inflation should provide a supportive backdrop

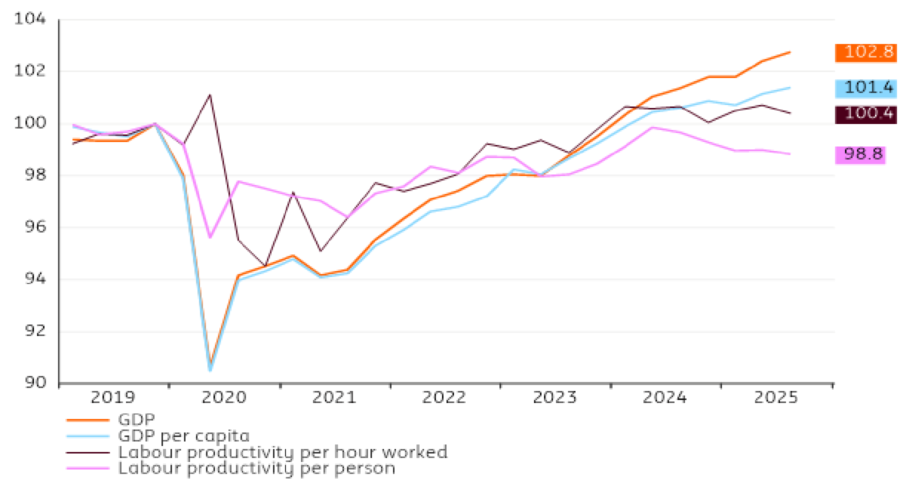
The Spanish Prime Minister, Pedro Sanchez, at the Conference of Ambassadors last week

2025 marks another year of strong growth

Spain remains a eurozone outperformer, with GDP growth projected at 2.9% in 2025, following 3.5% growth in 2024. Since the end of 2019, Spain's economy has grown 2.8 percentage points faster than the eurozone's, despite the tourism sector being severely affected during the pandemic. Yet, much of this momentum has been quantity rather than quality-driven. Immigration policies have boosted the labour force by 6.4% over the same period, compared to 3.6% in the eurozone.

This demographic tailwind masks weaker productivity dynamics: GDP per capita outpaced the eurozone by only 1.4% and labour productivity per hour barely improved (+0.4%), while it even declined when measured per person (-1.2%) relative to the eurozone.

Spanish immigration policy fuels quantity-driven growth
Variable evolution compared to eurozone, 4Q 2019 = 100



Source: LSEG Datastream, ING economic research

2026: normalisation and investment-led growth

Although Spain's statistical office expects immigration flows to moderate in the coming years, they should remain sufficient to sustain average population growth of about 1% over the next five years, even as the Spanish-born population declines. So immigration will continue to help support consumption, though its impact will gradually fade. With monetary easing likely concluded, a structurally higher savings rate, and a labour market expanding at a slower pace, household spending growth is expected to moderate.

At the same time, government consumption will remain subdued in the absence of a new budget, supporting fiscal consolidation under favourable growth conditions. Public debt is forecasted to fall below 100% of GDP again in 2026, from 101.6% in 2024.

Net exports are also set to soften, reflecting a stronger euro and the normalisation of tourism exports after record tourism in 2024-2025. Tourism remains critical, accounting for 12.6% of GDP in 2024, so slower growth will be felt, even as non-tourism services such as IT and business services continue to expand.

The main growth driver in 2026 will, therefore, be investment. Spain still has around €20 billion in EU Recovery and Resilience Facility (RRF) grants to disburse by August 2026, roughly 6% of annual investment spending. Importantly, 45% of firms using NGEU funds would not otherwise have invested, making these flows largely additive. With ECB estimates suggesting euro area potential growth could rise by 0.10-0.15 percentage points per year over 2020-2033 due to these funds, effective use of them could mark the start of a shift towards quality-led growth for Spain.

Inflation set to ease

Headline inflation started 2025 on a declining trend but rebounded to 3% by year-end, driven mainly by energy and food prices, while services inflation also stayed above the 2% target. The spike in energy inflation reflected the expiry of pandemic-era tax reductions and price adjustments, which had driven the sharp declines in 2024; these factors will not recur in 2026.

As these effects fade and real wage growth slows, inflation is expected to ease from 2.6% in 2025 to 2.2% in 2026. Meanwhile, unemployment will likely continue its downward trend, reaching 10.7% in 2026 (from 11.8% in 2024), supporting household income but at a more moderate pace.

The Spanish economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
GDP	3.5	2.9	2.3	2.1
Private consumption	3.1	3.4	2.9	1.9
Government consumption	2.9	1.9	2	2.1
Investment	3.6	5.9	3.8	1.7
Exports	3.2	3.7	2	3.8
Imports	2.9	6.2	3.9	3.6
Headline HCPI	2.9	2.6	2.2	2.2
Unemployment rate (%)	10.8	10	10	10
Budget balance as % of GDP	-3.2	-2.5	-2.1	-2.1
Government debt as % of GDP	101.6	100	100	98

Source: ING economic research

The Netherlands: Relying on consumers' purchasing power

We expect the Dutch economy to slow from 1.8% in 2025 to a more moderate 1.3% this year as exports and public consumption expand more slowly. Talks on a new government continue to drag on, so the economy is perhaps more reliant on households' willingness to spend

Rob Jetten is among the favourites to become the next Dutch PM once negotiations end

International developments will continue to play a crucial role in the open Dutch economy this year, as they did in 2025. While goods exports proved resilient last year despite the trade war, a stronger euro and rising geopolitical uncertainty, export growth is expected to slow in the coming year. The positive impact of front-loading ahead of trade barriers has largely dissipated, and secondary effects, such as intensified Chinese competition in non-US markets, are likely to increase. This is somewhat mitigated by the increased German infrastructure spending and higher European defence spending, providing support for international trade to expand, albeit at a moderate pace.

Weak private investment growth looking for decisive government action

Such public investment is also increasing within the Netherlands, but remains too modest to support an optimistic outlook for gross capital formation in 2026. Housing continues to be a bright spot; however, other private investment is expected to remain subdued. This weakness reflects not only low capacity utilisation in certain manufacturing sectors, but also persistent structural supply-side constraints, such as nitrogen-emission restrictions, electricity grid congestion, and labour shortages. Following the October general elections, businesses are closely watching the ongoing government formation process, hoping for a coalition that prioritises addressing these challenges. While any policy measures will take time to translate into tangible improvements in productive capacity, such an announcement could provide a near-term boost to business sentiment.

Private consumption should accelerate despite still high savings rate

Growth in public consumption is expected to slow compared to last year, reflecting the earlier frontloading of government measures aimed at supporting household purchasing power and the reduction in central government civil servants initiated by the previous administration. As a result, household consumption will remain the primary driver of growth in 2026. While we anticipate an acceleration in household spending, consumer confidence remains too subdued for it to fully offset the weaker expansion in public consumption and international trade. Consequently, GDP growth is projected to ease to 1.3% in 2026, down from 1.8% in 2025.

Household savings rates are expected to stay near recent highs, though a slight decline is possible as confidence continues to improve. Lower inflation should reinforce this trend, as high prices have been a key factor behind cautious spending. Importantly, household purchasing power will rise further in 2026, surpassing gains seen last year. This improvement will be particularly significant for pensioners, who benefit from the transition from a defined-benefit to a defined-contribution pension system, enabling faster indexation of benefits. Several pension funds implemented this change at the start of 2026, with more scheduled to follow in July 2026 and later the following year. Wage growth also continues to provide a solid boost to purchasing power, supported by a labour market that remains relatively tight.

Inflation just approaching the target

At the same time, HICP consumer price inflation is forecasted to approach the 2% target during 2026, after 3% in 2025. Selling price expectations of businesses remain elevated historically, suggesting that a final downward push requires a bit more time. Especially service inflation needs to come down further, but since wage hikes are expected to remain historically quite high, this remains a challenge for 2026. Inflation of food and housing is expected to be lower than in 2025, while energy costs are already falling and the euro exchange rate helps in keeping import inflation suppressed. But government policy is contributing to more inflation, as the VAT-rate on accommodation was raised from 9% to 21% and the fuel tax increased at the start of the year. Looking further ahead to 2027, an even larger increase of the fuel tax is still looming, which might bring inflation back just above the 2%-target that year.

The Dutch economy in a nutshell (%YoY)

	2024F	2025F	2026F	2027F
GDP	1.1	1.8	1.3	1.5
Private consumption	1.1	1.5	1.8	1.3
Investment	-0.4	0.7	1.5	3.5
Government consumption	3.6	2.3	1.6	1.6
Net trade contribution (%-point)	-0.2	0.1	-0.3	-0.2
Headline HICP	3.2	3.0	2.0	2.2
Unemployment rate (%)	3.7	3.9	4.1	4.1
Budget balance (% of GDP)	-0.9	-1.3	-2.2	-1.3
Government debt (% of GDP)	45.3	43.8	47.1	46.9

Source: Macrobond, all forecasts ING Research estimates

Belgium: Those care-free days are over

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Belgium's economy has proven resilient over the last few years, but with new austerity measures and waning purchasing power, the country is bracing for a challenging time ahead. It's the price to pay for making public finances more sustainable and to ensure growth can reach its true potential

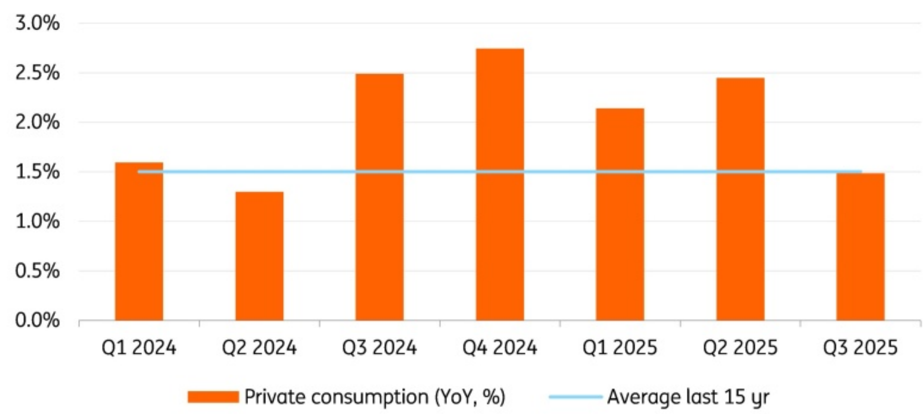
Belgium's Prime Minister Bart De Wever at a new year party rally

Resilience in 2025

In 2025, Belgium's economic growth reached 1.1%, slightly below its potential rate of around 1.3%, yet surpassing initial forecasts. This resilience suggests the economy weathered last year's shocks better than anticipated. The anticipated US tariffs, factored in early, had only a limited effect on annual trade. Most notably, household consumption proved robust, rising by 1.8% over the year. In contrast, household investment in new construction contracted further, declining by 9% in 2025. Since early 2023, this contraction has exceeded 19%, significantly dampening activity in the construction sector.

Private consumption has been particularly dynamic

Private consumption growth (YoY, %) compared to 15 yr average. It was particularly dynamic between 3Q 2024 and 2Q 2025



Source: National Bank of Belgium; Computation: ING

Pressure on purchasing power

Two main factors sustained household consumption in 2025. First, the increase in job volume (+0.4%) and automatic income indexation resulted in a 0.8% increase in household purchasing power. Second, unlike trends elsewhere in the eurozone, Belgium's household savings rate dropped by nearly one percentage point.

However, this momentum is unlikely to continue into 2026. The savings rate has little room to fall further, and new government reforms, prompted by deteriorating public finances and the need for labour market reforms, will affect household incomes, reducing their purchasing power. Key measures include limiting unemployment benefits to two years (impacting nearly 200,000 people), temporarily capping automatic salary indexation above €4,000 and social benefits above €2,000, adjusting VAT rates on certain goods and services, introducing a tax on financial capital gains, and doubling the tax on financial assets above 1 million euro. These changes are expected to slow household consumption, probably keeping Belgian economic growth below the eurozone average.

A new era of austerity

Although the term "austerity" remains sensitive, Belgium has unmistakably entered a period of fiscal restraint. Prime Minister Bart de Wever openly acknowledges the challenge, warning of a difficult decade ahead. With the deficit projected to exceed 5% of GDP in 2025, alternatives were limited. While these reforms will gradually benefit public finances and potential growth, the deficit is unlikely to drop below 5% this year and may only stabilise at 4.5% by 2027. The efforts to date are insufficient, leaving Belgium vulnerable to a sovereign rating downgrade, especially as political tensions rise among coalition partners, complicating future negotiations.

Inflation normalizes

Inflation in Belgium steadily declined throughout 2025, dropping from 4.1% in January to 2.1% by December, primarily driven by falling energy prices. However, food prices temporarily pushed inflation upward, and service costs continued to climb, registering more than 4% year-on-year increase in December. Policy changes affecting VAT rates, along with rising higher-education expenses, may contribute to inflation in the coming year. Despite the persistent challenges in certain sectors, overall inflation is expected to remain close to 2% for the year ahead.

The Belgium economy in a nutshell (%)

	2024	2025F	2026F	2027F
GDP	1.1	1.0	0.9	1.3
Private consumption	2.0	1.8	1.1	1.5
Investment	2.0	-0.6	1.6	1.0
Government consumption	1.8	1.1	1.2	1.2
Net trade contribution	0.1	-0.2	0.0	0.0
Headline CPI	3.1	2.7	2.0	2.1
Unemployment rate (%))	5.7	6.3	6.4	5.6
Budget balance as % of GDP	-4.5	-5.2	-5.0	-4.8
Government debt as % of GDP	104.4	106.6	108.6	110.0

Source: NBB, Refinitiv Workspace Datastream, computation and forecasts : ING

Austria: A brighter year ahead, if you don't look too closely

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After years of soaring inflation and sluggish growth, Austria is finally seeing glimmers of hope. But don't mistake it for a full recovery. At best, this year's improvements will conceal deeper structural challenges. Think of it as a winter sunrise in the Alps: brighter skies, but the chill remains

The Austrian Chancellor, Christian Stocker, still faces significant economic challenges

Inflation cools and growth returns

On a positive note, inflation, one of Austria's biggest economic headaches in 2025, is set to ease. At 3.6% YoY, Austrian headline inflation ranked among the highest in the eurozone last year, driven by negative base effects in energy prices after government relief measures, like the "electricity price brake", expired at the end of 2024. In 2026, this reversal effect will have disappeared. Due to inflation-indexation in many parts of the economy, these favourable developments will have broader positive ripple-through effects.

Growth numbers will look better as well. After three years of near-stagnation, with the economy shrinking by an average of 0.1% per quarter, Austria is poised for a modest rebound. External demand will lead the way: recovery in Germany and Eastern Europe should lift Austrian industry and exports. Domestic demand, however, remains a weak link. Households remain cautious, with high savings rates and a low appetite for spending. A softer labour market may ease inflation, but could reinforce precautionary saving too.

The economic slump is over, but don't expect fireworks. We forecast Austrian GDP to grow by some 1% in 2026 – a step forward, but hardly a leap.

Competitiveness remains on thin ice

Furthermore, short-term gains won't fix Austria's competitiveness problem. Structural weaknesses remain, such as high energy prices, labour costs and shortages, along with the consequences of too little investment over the past few years. Without bold reforms, growth prospects are set to remain anaemic.

he Austrian government's late-2025 stimulus package – a €1 billion mix of investment incentives, digital upgrades, and bureaucracy cuts – sounds promising. But when you dig deeper, things are perhaps not so great. Only around 20% of the funds, those earmarked for boosting investment allowances, are truly new. The rest was already included in the 2025/2026 budget. As a result, the extra fiscal stimulus totals only 0.04% of GDP.

Still, there's potential. Plans to cut non-wage labour costs, as outlined in the coalition agreement, could help to rebuild price competitiveness. However, the implementation will be dependent on the fiscal and economic situation. Unfortunately, with an ongoing excessive deficit procedure, the fiscal playing field is tight, making transformational measures - and extra growth effects - harder to deliver.

For the Austrian economy, 2026 arrives like an Alpine sunrise: brighter skies, softer light, and a sense that the worst is behind us. But walk to the ridge, and the ice tells a quieter story – thin layers, old cracks, careful steps.

The Austrian economy in a nutshell (%YoY)

	2024	2025F	2026F	2027F
GDP	-0.7	0.6	1.3	1.7
Private consumption	1.0	0.6	0.7	0.9
Investment	-4.3	1.5	1.9	2.3
Government consumption	3.8	3.2	1.3	1.5
Net trade contribution	0.1	-1.2	1.0	1.5
Headline CPI	2.9	3.6	2.2	2.1
Unemployment rate (%)	5.2	5.7	5.5	5.2
Budget balance as % of GDP	-4.7	-4.1	-4.0	-4.2
Government debt as % of GDP	79.9	82	82.4	82.6

Source: LSEG Datastream, all forecasts ING estimates

Greece: It's set to remain a growth outperformer

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A domestic demand drive, fed by a solid labour market, the recovery and resilience plan's deadline, and by an accommodative fiscal stance, should confirm Greece as a growth outperformer once again in 2026

No wonder Greek PM Kyriakos Mitsotakis is smiling - the economy's doing great

The Greek economy posted solid growth in 2025

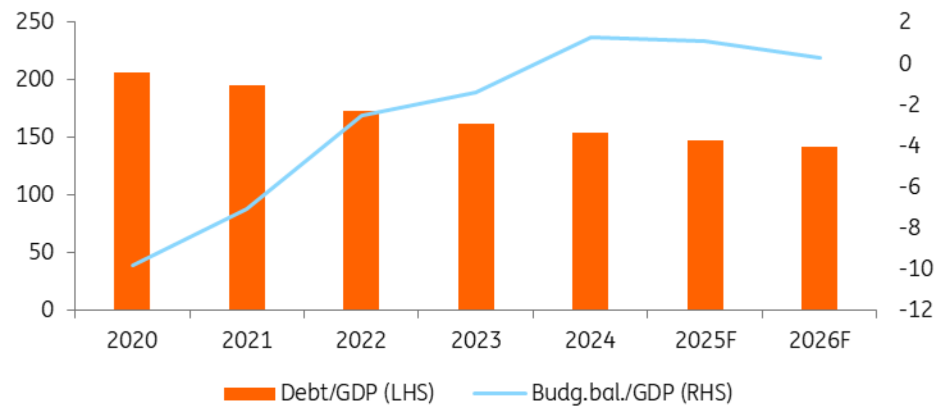
As expected, 2025 proved a solid year for Greek economic growth, which outperformed the eurozone, despite geopolitical headwinds. Greek GDP growth was driven by private consumption and investment, with net exports also contributing positively; together, these more than offset the inventory drag. At the heart of the consumption boost were further improvements in the labour market, which helped propel real disposable income, together with decelerating inflation. The investment drive resulted from accelerating lending to businesses and the inflow of European funds from the Recovery and Resilience Facility. Should the last quarter of 2025 broadly replicate the pace of economic growth observed in the third quarter, as we expect, average annual GDP growth in 2025 should end at 2%.

Expect a re-run in 2026, driven by investment and private consumption

We expect 2026 to follow in last year's footsteps, with economic growth continuing to outperform the eurozone average on a domestic demand-driven basis. We suspect that investment might receive an additional boost, ultimately contributing to GDP growth comparable to that of consumption. The main reason for this catch-up is the upcoming deadline for the Recovery and Resilience Plan, due in August this year, which will likely trigger a final rush in the infrastructure and energy investment components of the plan, which have so far been affected by substantial implementation delays. The credit cycle may decelerate slightly from boom levels observed in 2025, but this should not impede investment growth. Given the high import content of investment, the side effect of fast-growing investments will likely be stronger imports and, consequently, a small drag on net exports on GDP growth.

If investment accelerates, private consumption is expected to remain a key driver of growth. Once again, further gains in employment and above-inflation wage growth should support real disposable income, thereby propelling consumption. Employment growth looks set to continue, if at a decelerating pace. However, for further substantial gains in employment to materialise, an increase in the participation rate, particularly among women, would be necessary. On the wage front, decent growth seems highly likely, supported by sectoral labour market tightness and the upcoming income tax reform, as foreseen in the 2026 State Budget, in the form of tax reliefs for households and young people, public-sector salary increases, and pension increases.

Declining debt/GDP and ample primary surpluses are creating some fiscal room



Source: Sd

The good budgetary position is creating room for some fiscal push

The last set of measures is made possible by the Greek State's strong fiscal position, characterised by an ample primary surplus of around 3.6% of GDP, a nearly balanced budget, and public debt on a solidly declining path at around 146% of GDP. These solid readings enabled the Greek government to engineer an expansionary budget, while keeping the debt-to-GDP ratio below the 140% threshold in 2026.

The Greek economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
GDP	2.1	2.2	2.2	2.0
Private consumption	2.3	2.5	2.0	1.9
Investment	4.1	7.3	8.0	1.5
Government consumption	-2.5	1.3	0.8	0.6
Net trade contribution	-1.3	1.5	-0.1	-0.3
Headline CPI	3.0	2.9	2.5	2.2
Unemployment rate (%)	10.1	8.8	7.9	7.5
Budget balance as % of GDP	1.3	1.1	0.3	0.0
Government debt as % of GDP	153.6	147.6	142.1	138

Source: LSEG Datastream, all forecasts ING estimates

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Portugal: Domestic demand to drive growth in challenging international environment

Portugal saw strong growth in 2025, but underlying productivity remains weak. With exports slowing, fiscal support from national and EU measures should help fuel another robust year in 2026, though sustaining momentum hinges on tackling structural issues

Luis Montenegro, Portugal's Prime Minister, at a defence summit in Paris in January

Strong headline growth in 2025 masks sluggish productivity

Portugal's growth is projected to outpace the eurozone average once again. Since the end of 2019, the country's growth has been 3.3 percentage points more than the eurozone average. This is an even stronger performance than its Spanish neighbour, largely due to its Covid-induced downturn being less severe. 2025 did start relatively slowly after a bumper fourth quarter in 2024, but it's managed to regain momentum.

However, this headline growth hides a less encouraging picture when adjusted for population and productivity. GDP per capita has only outpaced the eurozone by 1.4 percentage points, and labour productivity per person has barely improved, rising just 0.4%. In fact, compared with the wider eurozone, labour productivity per hour worked has declined by 1.2%, underscoring persistent structural challenges that weigh on long-term growth potential.

2026 growth to be led by domestic demand

2026 is expected to mirror 2025 in terms of growth drivers, with domestic demand remaining the key engine. Private consumption will continue to play a central role, supported by government tax measures, most notably the reduction in personal income tax. These measures follow on from election pledges made during the 2025 snap polls. This led to a minority government that approved a 2026 budget, increasing expenditure at a faster pace than revenues. Nevertheless, favourable growth conditions should allow Portugal to continue reducing its debt-to-GDP ratio.

Exports are likely to remain under pressure as tourism momentum fades and the impact of US tariffs persists. According to the Portuguese national bank, exports to the US declined by an average of 7 percentage points relative to other destinations, a significant shock given that the US accounted for 7.7% of Portugal's export market share in 2024. A modest recovery could occur in 2026 if eurozone growth picks up, particularly on the back of increased German investment, as Germany represents 11.6% of Portugal's total exports.

Investment dynamics will be shaped by the final disbursements of EU Recovery and Resilience Facility (RRF) funds. As the programme winds down in 2026, Portugal still has around €6 billion in grants to allocate, equivalent to nearly 10% of annual investment spending. This mirrors the situation in Spain, where effective use of these funds could mark the beginning of a shift toward improved productivity dynamics and higher potential GDP. The ECB estimates that euro area potential growth could rise by 0.10-0.15 percentage points per year over 2020-2033 due to these funds. For Portugal, effective use of this support could help defy the OECD's current projections of declining potential GDP growth.

Moderate inflation in 2026

On the pricing side, inflation eased early in 2025, reaching 1.9% year-on-year in March, but this trend reversed as prices for unprocessed food rose. While these upward pressures should ease this year, persistent labour market tightness is expected to keep services inflation elevated. Overall, we expect inflation to end 2025 at 2.2% and moderate slightly to 2.1% in 2026.

The Portuguese economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
GDP	2.1	1.9	2.2	2.1
Private consumption	3	3.4	2.4	1.8
Government consumption	1.5	1.7	1.8	1.9
Investment	4.2	3.7	5.4	2.5
Exports	3.1	1	2.5	2.9
Imports	4.8	5.2	3.8	2.5
Headline HCPI	2.7	2.2	2.1	2
Unemployment rate (%)	6.6	5.8	5.6	5.6
Budget balance as % of GDP	0.5	-0.1	-0.6	-0.9
Government debt as % of GDP	94	92	89	88

Source: ING economic research

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Eurozone housing: Consolidation, complexity and nuance

After two years of steady recovery, the eurozone housing market enters 2026 in consolidation mode. The rebound that began in 2024 and extended through 2025 is losing momentum, but prices aren't falling. Growth is slowing, yet values continue to edge higher

Energy-efficient homes being built in North Rhine-Westphalia, Germany

Momentum is slowing, but prices kept rising

Housing markets move differently than other asset classes; they're slower, stickier, and often defy simple cycles. This is what we saw in 2025. While general economic activity cooled, prices continued to rise.

After having surged by nearly 50% Year-on-Year in the first quarter in the entire eurozone, new lending growth slowed to around 20% YoY by the third. Early data for Q4 suggests the deceleration continued. Part of this is down to base effects, but affordability played a big role too. Average mortgage rates in the eurozone edged up: while they remained roughly 35 basis points below their annual average for 2024 during the second half of 2025, they stood some 5 basis points higher than the average for the first half of 2025 at the same time.

At 10 and 20 basis points, respectively, Germany and the Netherlands saw the sharpest increases. In Germany, expectations of higher government debt pushed up bond yields, while in the Netherlands, pension system reforms rippled through capital markets. With mortgage lending rates closely tied to government bond yields, financing costs rose accordingly. Yet prices didn't flinch. In the third quarter, Dutch house prices rose 7.8% YoY, and German prices posted solid gains of 3.3% YoY as well.

Spain, however, was the outlier. Lending rates continued to fall, fuelling demand and accelerating momentum. At 12.8% YoY, house price growth there outpaced other major eurozone countries, driven by a persistent mismatch between supply and demand, a gap that's set to widen as household formation outstrips new construction.

Belgium's story was different. Tax changes in 2025 – lower registration fees for the main residence in Flanders and Wallonia – boosted demand despite rising interest rates, and house prices were up by 4.4% YoY in the third quarter of 2025 as a result. But the tax effect seems to be only temporary. With interest rates set to rise further in 2026 and affordability declining, Belgium's market looks set to moderate.

Cyclicals may contain momentum, but structural factors will sustain recovery in 2026

Regional differences will remain stark in 2026. In Germany, elevated uncertainty, weak consumer sentiment, and affordability constraints will temper momentum, whereas in the Netherlands, slowing wage growth is a key headwind. Structural factors – supply shortages, high rents, and, in the case of Germany, low homeownership ratios – will be strong enough to keep both markets on a growth path, albeit at a slower pace. Spain will continue to lead the pack, while Belgium appears poised to shift towards moderation.

Across the eurozone, the decisive question is how structural forces weigh against cyclical ones, and how timing shapes the outcome. One-off effects will fade, but imbalances won't disappear overnight. 2026 won't be a year of boom or bust; it will be a year of diverging growth trajectories. The housing market tends to mirror the broader economy. And in today's eurozone, that means complexity, nuance, and plenty to watch.

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