**EUROZONE** 

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### DOMESTIC DEMAND TO DRIVE GROWTH IN 2026

Growth in the eurozone is expected to strengthen in 2026 (1.6%) primarily driven by investment and a resurgence in activity in Germany. Our forecasts indicate that inflation is likely to remain below the 2% target. However, the anticipated recovery in GDP growth may prompt the ECB to keep its rates unchanged until 2027 before raising them. The fiscal impulse is expected to remain largely neutral, as fiscal consolidation in France and Italy offsets the increase in the German deficit. Interest rates on new loans to households and businesses are projected to remain stable in 2026, with new loans continuing to decelerate for both households and businesses. However, sovereign rates are expected to rise moderately.

## GROWTH: NEW MOMENTUM FROM THE CORE

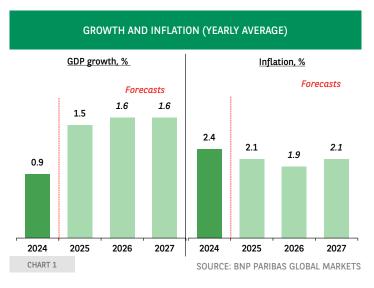
Following a lacklustre performance in 2024 (0.8%), growth in the eurozone is projected to accelerate to 1.4% in 2025, 1.6% in 2026 and 1.6% in 2027. The improvement appears to be gradual. However, GDP growth is expected to stabilise after erratic fluctuations in 2025 due to US tariffs. It is also likely to be less dependent on extraordinary factors, such as Ireland's exceptional performance in 2025, while the major countries (Germany, Italy, and, to a lesser extent, France) have underperformed. In 2026, growth in the eurozone is projected to be driven by its largest economies and mainly fuelled by investment. This investment will be both public, bolstered by the German infrastructure fund and European rearmament efforts, and private, driven by the boom in AI and digital infrastructure.

Household purchasing power gains, on the other hand, are expected to be more limited in 2026 than in 2025, remaining below 2% due to a slowdown in wage growth. However, consumption could exceed expectations<sup>1</sup>, in line with a savings rate that is projected to decline in most countries from a peak (15.4% in Q2 2025, +2.4 pp compared to the pre-COVID level of 2019) and a resilient labour market.

#### FINANCING: STABLE RATES AND SLOWER GROWTH IN VOLUMES

The stability in the rate of new loans to households for house purchases, across all maturities, observed between February and September 2025, is expected to continue largely into 2026 (3.3%). The modest increase in the cost of new fixed-rate loans2 (which account for around 35% of new housing loans in the eurozone) between July and September 2025 was offset by the ongoing, albeit increasingly modest, decrease in the cost of loans with shorter initial period of interest rate fixation (irf) or floating rates. However, we expect rates on floating-rate loans and those with short irf to remain stable. Our forecast of a limited increase in long-term sovereign rates is expected to have no impact on the cost of fixed-rate loans, as the pricing of these loans is based more on changes in swap rates than on changes in sovereign rates3.

While the fall in the cost of credit has been a powerful supporting factor of new housing loans (cumulated over one year, +30.7% y/y in September 2025, a figure that has remained nearly constant since July, starting from a low level), the stabilisation of rates indicates that growth will likely slow in the coming months. As for consumer credit, surveys conducted among banks and households4 suggest that new lending could remain at its current level (cumulated over one year, +1.5% y/y in September 2025). In addition, the average interest rate remains historically high, with no prospect of a significant decrease in the short term (7.4% in September 2025 compared with an average of 5.5% between 2018 and 2022), mainly due to the heightened risks perceived by banks.



After rebounding from a low point in October 2021, new investment loans to businesses have remained steady since June 2025 (cumulated over one year, +15.3% y/y in September 2025). Interest rates have been relatively stable since November 2024, hovering around 3.6% for loans with a maturity of more than five years, and are not a limiting factor in investment decisions, unlike fears of weak growth or sluggish demand.

### LABOUR MARKET: UNEMPLOYMENT RATE EXPECTED TO FALL FURTHER

Unemployment is expected to continue falling in southern European countries, while stabilising in Germany and France. A reduction in the unemployment rate (6.4% in October) to around 6% seems achievable, especially as wage growth is expected to remain on a downward trend in the first half of 20265, which will bolster corporate margins, alongside a moderation in energy prices. However, the dynamics are expected to remain mixed across sectors: competitive pressure from China and diminishing opportunities in the United States are likely to have an adverse effect on industrial employment, but job growth in digital and tech6 should more than compensate for this decline.

# 🗞 INFLATION: BELOW TARGET IN 2026, AND MODERATELY ABOVE IT IN 2027

Inflation is expected to dip below the 2% target in 2026, held back by both domestic and external factors. Wage growth is projected to continue to slow, allowing for more pronounced disinflation in services,



See BNP Paribas EcoInsight Household consumption: Heading for a rebound in the Eurozone and a slowdown in the United States? 3 December 2025. Initial period of interest rate fixation (irf) greater than 10 years See in particular T. Humblot, Eurozone: the bulk of the decrease in borrowing costs is behind us, BNP Paribas, 9 October 2025. ECB Bank Lending Survey - Third quarter of 2025 and Consumer Expectations Survey results - September 2025. The ECB's wage tracker indicates that wage inflation in the eurozone will stabilise from the second half of 2026 onwards. See BNP Paribas Chart of the week: Job creation in the technology sector is a driver of the Eurozone's labour market, 19 November 2025.

with a slowdown below 2.5% possible by spring 2026. Moderate energy prices, with stable oil and gas/TTF prices projected for 2026, a stronger euro, and disinflationary pressures imported from China will limit the rise in goods prices. After a period of stability in H2 2026, inflation is expected to pick up slightly in 2027 (2.2% y/y in Q4 2027). This increase will be driven by stronger economic activity and greater constraints on production capacity, particularly in Germany. Furthermore, the significant inflation gap between countries in 2025, which was relatively high in Germany and Spain, but low in France and Italy, is expected to narrow in 2026

# **MONETARY POLICY: PROLONGED STATUS QUO**

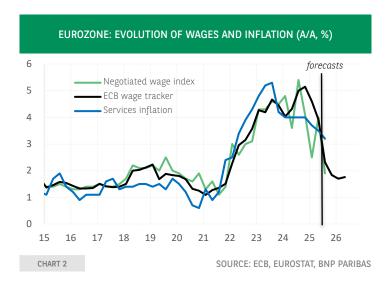
The ECB is expected to maintain its key interest rates at their current levels in 2026 and into the first half of 2027 (effectively resulting in nearly two years of stable rates overall). However, a further cut cannot be ruled out if inflation significantly and persistently drops below the 2% target. However, the disparities noted in inflation across the eurozone, although expected to decrease, could complicate the ECB's assessment of the inflation trajectory. In this scenario, the Central Bank will aim to stabilise household inflation expectations, which have tended to rise this autumn (with a median of 2.8% in October for 12-month expectations). Furthermore, any reduction in inflation below the target is likely to be temporary: stronger economic activity in 2026, with growth projected to be around 0.2 to 0.3 pp above its potential rate<sup>7</sup>, would elevate inflation sufficiently to warrant two 25 bp rate hikes in H2 2027. Consequently, at 2.5%, the deposit facility rate would be at the upper end of our neutral rate range (1.5-2.5%).

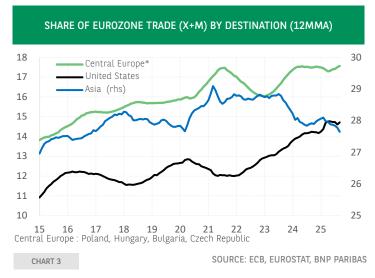
## PUBLIC FINANCES: BROADLY NEUTRAL FISCAL IMPULSE

The increase in Germany's public deficit, coupled with the anticipated improvement in budget balances in France, Italy and Spain, is expected to lead to a slight deterioration in the eurozone budget balance in 2026 (by around 0.1 pp, to -3.3% of GDP). The fiscal impulse in the eurozone is projected to remain broadly neutral, transitioning to a slightly restrictive stance in 2027, due to ongoing efforts to adjust public finances in France and Italy<sup>8</sup>. However, defence investment plans and the intent of several countries to consolidate public finances without curbing growth in social spending should mitigate the effects of consolidation on GDP growth. Interest expenditures, on the other hand, are expected to rise for the four largest countries in the eurozone (from 1.4% of GDP in Germany to 4.2% in Italy by 2027), although this increase will be moderated by the high average residual maturity of government bonds (averaging 8.3 years in the eurozone as of November 2025), which will delay the increase in the apparent interest rate (see the focus section in this issue for more details).

## ≒ FOREIGN TRADE: STRENGTHENING EUROPEAN SYNERGIES

Exports are likely to continue facing constraints due to competitive pressure from China, bolstered by a weak renminbi. At this stage, the decline in eurozone exports to Asia (-12.6% y/y and -5.6% cumulatively over the first nine months of 2025, specifically concerning China and ASEAN) is not offset by an increase in trade with the United States (+5.6% y/y, driven by pharmaceutical sector exports), nor by trade within the Eurozone, which stagnated in 2025. Eurozone exports to the rest of Europe were more dynamic, particularly to non-Eurozone EU countries (1.2%) and EFTA (Switzerland, Norway, Iceland and Liechtenstein, which saw a rise of 1.3%).





Although this does not fully counterbalance the decline in exports to third countries at this stage, trade between the eurozone and Central European countries has nevertheless intensified as these countries have advanced industrially and increased their significance in European value chains (see chart). The medium- and high-tech sectors<sup>9</sup>, in which these countries specialise, are highly intensive in intermediate goods and are partially complementary to the export segments of Western European countries. These synergies are set to strengthen in 2026 and beyond.

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7 The European Commission estimates potential growth in the eurozone at 1.2% in 2026.
8 For an overview of our public finance forecasts in Europe, see BNP Paribas Ecopulse: Public debt set to increase in most countries by 2030, 18 November 2025
9 This category includes the chemical, armaments, electrical equipment, machinery, motor vehicles, other vehicles and medical equipment sectors. For more details, see C. Kalasopatan Antoine, Central Europe: Moving up the value chain, BNP Paribas, 4 February 2025.

