

EUROZONE

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GROWTH SET TO STRENGTHEN

Growth in the Eurozone has so far proved fairly resilient to shocks (accompanied in particular by an acceleration in new lending against a backdrop of falling interest rates) and should gradually accelerate. Exports will continue to be weakened by Chinese competition and US protectionism. However, the foreseeable rebound in German growth will benefit economic activity in the Eurozone as a whole. Moreover, the buoyant labour market is supporting household purchasing power, without generating inflationary pressures, giving the ECB visibility and room for manoeuvre if necessary.

GROWTH: RESILIENCE IN 2025, ACCELERATION THEREAFTER

Growth was uneven in H1 2025, due in particular to the sharp increase in exports to the United States in Q1 (Germany, Ireland), followed by a contraction in Q2. Even so, activity remained relatively sustained (0.3% q/q on average over the first half of the year), despite the increase in US customs tariffs. Growth should be similar in H2 2025 (+0.2% in Q3, +0.3% in Q4), before strengthening in 2026 (+0.5% on average per quarter). Increased military spending in Europe and plans to support public and private investment in Germany should add 0.3 and 0.5 points of growth in 2025 and 2026 respectively. In particular, a buoyant labour market and moderate inflation should support household consumption. The industrial recession should come to an end (the manufacturing PMI rose back above 50 in August for the first time in three years), enabling [Germany](#) and [Italy](#) to gradually return to growth. The need to step up spending linked to the energy and ecological transition, combined with the past cut in ECB rates and the resulting rise in the volume of credit, will also support business investment.

MOMENTUM IN NEW LENDING COULD BE MODERATED

New NFC investment loans remained sustained in July 2025 (year-to-date, +15.2% y/y) while interest rates have been relatively stable since February (around 3.6% for those with an initial rate fixation period >5 years). The rate on new treasury loans (variable rate and initial rate fixation period <3 months) continued to fall in July 2025 (-5 bp m/m to 3.31%), but should stabilise. New treasury loans cumulated over one year accelerated in July 2025 to 9.0% y/y, which could reflect cash flow difficulties for some businesses or an increase in inventories.

As far as households are concerned, the stability in the average rate of new loans for house purchases across all maturities in H1 2025 (3.3% between February and July) could broadly continue in H2. The pricing of fixed-rate loans (around 75% of new home loans in the Eurozone) is largely based on the 10-year/3-month swap rate (plus a liquidity premium), whose fall since 2024 contrasts with the rise in sovereign rates. As a result, the cost of new fixed-rate loans (over 10 years) remained stable at 3.12% between April and July 2025. This is likely to remain the case as the ECB is no longer expected to cut rates in our scenario. As a result, new home loans will lose the main factor underpinning their recent dynamism (year-to-date, +28.7% y/y in July 2025). What is more, some households taking a wait-and-see approach could be encouraged to buy if they no longer anticipate a further fall in interest rates. With banks and households expecting demand for consumer credit to remain relatively stable, consumer credit should continue to grow at a rate close to that currently seen (year-to-date, +1.3% y/y in July 2025), while the rate remains historically high (7.5% in July 2025 compared with an average of 5.5% between 2018 and 2022).

GROWTH AND INFLATION (YEARLY AVERAGE)

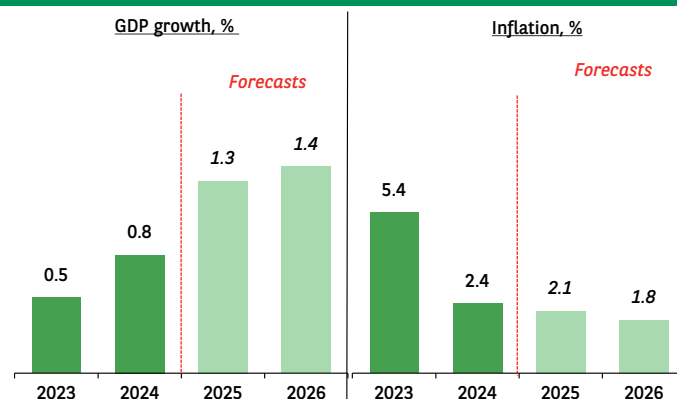


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

TENSIONS ON THE LABOUR MARKET MAY INCREASE

At 6.2% in July, the unemployment rate in the Eurozone was comparable to its historic low and should continue to fall. Heterogeneity between countries is narrowing. The rise in unemployment seen in France and Germany over the past year has been limited (+0.2 points and +0.3 points over one year). This is largely offset by the improvements seen in southern Europe, which are set to continue. With the European Commission estimating that the minimum unemployment rate required to prevent inflation from accelerating (NAIRU) in the Eurozone is 6.5%, the labour market is already under pressure. A further fall in the jobless rate could be accompanied by greater wage pressures. At the same time, the rebound in productivity gains is insufficient to lower unit labour costs (+3.1% y/y in Q2), which are the most relevant indicator of production costs. Nevertheless, in the short term (to the end of 2025), wage rises should ease, helping to bring down inflation in services (see [chart 2](#)).

INFLATION: LITTLE DEVIATION FROM TARGET

Inflation should remain stable at around the 2% target, and the risks balanced: while internal dynamics (tighter labour market, wage growth outstripping productivity gains) are likely to fuel price rises, particularly in services, exogenous factors should moderate them: the EUR/USD should continue to appreciate moderately (to 1.22 at the end of 2026, according to our forecasts), the stabilisation of hydrocarbon prices should ease the energy component, while freight costs have continued to normalise after the tensions of 2024. In addition, the rise in imports


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from China has been amplified by the fall in the yuan, and this trend could continue. From this perspective, this imported disinflation would limit the risk of a reacceleration in inflation in the Eurozone.

THE ECB IN A GOOD POSITION

Given the inflation outlook, the ECB is in a comfortable position. At the current 2% on the deposit facility rate, the cycle of interest rate cuts is over, in our view, as activity is expected to strengthen. Faced with a more frequent risk of a shock to prices and activity, the ECB will tolerate even prolonged deviations from the target, as long as they are not too large and do not jeopardise the anchoring of inflation expectations - an objective that has been achieved so far (according to the ECB, the median long-term inflation expectations of households (5 years) were stable at 2.1% in July). This tolerance is reflected in the ECB's latest autumn macroeconomic projections (September 11), with inflation forecast to be below the 2% target in 2026 (1.7%) and 2027 (1.9%). Nevertheless, in the event of a negative shock implying a persistent downside risk to inflation forecasts, the ECB has left the door open to further cuts in its key rates. At the same time, the process of quantitative tightening should continue with a policy of passive sales, leading to a further reduction in the ECB's balance sheet in 2026.

THE INCREASE IN THE BUDGET DEFICIT SHOULD REMAIN UNDER CONTROL

European fiscal policy will be moderately expansive in 2026. The public deficit in the Eurozone is set to increase in 2025-26, but will remain close to the 3% of GDP target. The increase in Germany's deficit would be offset by an improvement in the primary balance in France, Italy and Spain. The rise in bond yields would have a relatively limited short-term effect on debt servicing, due to the lengthening of the average maturity of sovereign debt (8.3 years on average in the Eurozone) but would gradually increase the fiscal consolidation effort in the least well-positioned countries, France in particular. The launch of the European defence lending facility (SAFE, with European countries having to submit their requests to the Commission by 30 November) and the escape clause (allowing national governments to increase their defence investment by up to 1.5% of GDP for 4 years, without this being taken into account in the calculation of the public deficit) will nonetheless facilitate part of the consolidation effort at national level.

EXPORTS ARE FACING INCREASING HEADWINDS

Tariff shock in the US, appreciation of the euro, China's move up the value chains: the obstacles to European exports are adding up in 2025. While the evolution of US trade policy remains uncertain, the agreement with the United States (taxing the majority of European exports at 15%) is more favourable than for most countries (notably because, in the case of the EU, this 15% includes pre-existing and, in principle, future tariffs). Competition from China, which is a major structural brake on European exports, has become tougher since Covid and the depreciation of the yuan, which began in 2022: Eurozone export volumes to China have fallen by 33% (Dec. 2019-June 2025, see chart 3) and by 27% to ASEAN over the same period. The structural decline in activity in intermediate sectors (chemicals, plastics, iron & steel), against a backdrop of economic decarbonisation, will be particularly difficult to reverse. At the same time, European imports from China have soared by 41%. Faced with the risk to demand from the US and China, the EU is seeking greater diversification (Mercosur, India, Philippines, Indonesia), but first and foremost it will have to boost its internal trade.

EUROZONE: EVOLUTION OF WAGES AND INFLATION

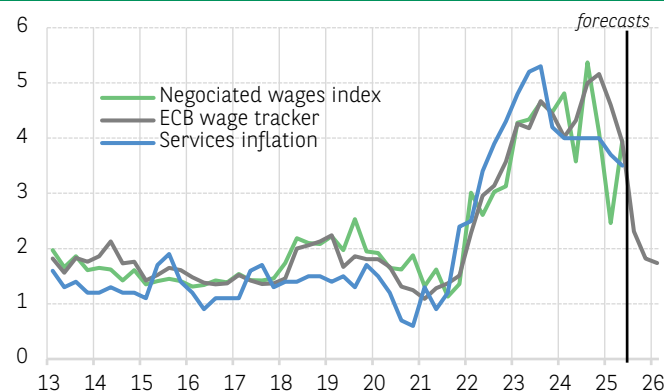


CHART 2

SOURCE: ECB, EUROSTAT, BNP PARIBAS

EUROZONE: BILATERAL TRADE WITH CHINA

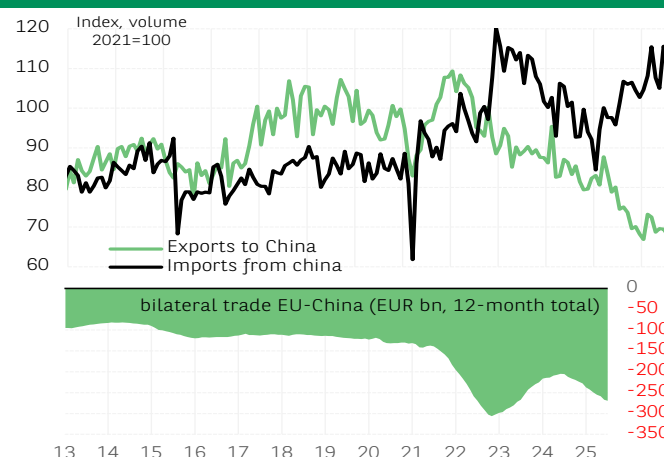


CHART 3

SOURCE: ECB, EUROSTAT, BNP PARIBAS

Intra-Eurozone exports have in fact fallen by 2% since the end of 2019 (see our [focus](#) in this issue for a more global overview of the latest developments in international trade).

Trade tensions between the EU and China have been rising steadily since autumn 2024, when European taxes on Chinese electric vehicles were introduced (China has also retaliated by imposing taxes on spirits and pork). However, the imbalance between the two zones continues to grow. Once the post-Covid normalisation effect had worn off (imports from China and the EU's bilateral deficit had surged in 2020-2021), the deficit started to rise again from 2024 onwards. Competition from Chinese goods in Europe therefore continues to grow and is likely to increase with the probable rerouting of Chinese exports to the United States to Europe.

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