Prospects

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EURO ZONE – Economic Outlook – GDP Flash Estimate

Growth is slowing in the core

- **With GDP growth limited to 0.2 per cent, excluding Ireland, in Q3 2026, the slowdown we had highlighted in our latest forecast has materialised at the heart of the Eurozone and is more pronounced there.**
- **Household consumption appears to be slowing, with a declining contribution from total wages and salaries, gross mixed income, and social benefits and transfers.**
- **Investment remains sluggish, although it remains driven by structural factors such as spending on the twin transitions.**
- **Whilst credit growth remains robust and partly offsets the negative impact of tighter financing conditions, a tightening of credit standards is anticipated by the end of the year.**

A more pronounced slowdown

The first estimate of Eurozone GDP for Q3 2026 shows growth of 0.4 per cent quarter-on-quarter. Irish growth (+5.5 per cent Q3/Q2) once again skewed the overall picture, contributing 0.2 percentage points to growth. Excluding Irish GDP, Eurozone growth stood at 0.2 per cent, in line with our forecast from late September[1]. GDP growth proved weaker than expected in France (-0.1 per cent instead of +0.1 per cent), Italy (0 per cent instead of +0.1 per cent) and Portugal (+0.2 per cent instead of +0.3 per cent). By contrast, it was in line with our forecasts in Germany (+0.2%). The slowdown anticipated in our latest forecast has therefore materialised at the heart of the Eurozone, where it is more pronounced. Elsewhere, however, growth proved more robust than anticipated, particularly in Spain and the Netherlands, where it remains strong (+0.6%)

The carry-over effect in the third quarter (+1 per cent) is in line with our latest forecast for average annual growth in 2026. This forecast is therefore likely to be exceeded if our projection of 0.2 per cent GDP growth in Q4 materialises. This is also the case for growth in Spain and the Netherlands, whilst in Germany, our September forecast remains unchanged. However, maintaining the growth forecast for Italy and France would require a more pronounced acceleration in GDP in Q4 than that included in our latest forecasts.

We only have GDP components for a few countries in the Eurozone, and analysis of these suggests that the contribution from domestic demand is in line with our forecasts (0.2 pp), with consumption slowing slightly and investment remaining sluggish. The contribution from net exports, which had underpinned growth in Q2, is thought to have turned negative, with a slight decline in exports and a marked slowdown in imports.

The drivers of private consumption are losing momentum

At 3.3 per cent, average inflation in Q3 is in line with our forecasts (core inflation is slightly higher, at 2.5 per cent). It is therefore up on Q2 (3 per cent).

[1] World – Scenario 2026-2027: layers of risk are piling up

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Whilst we do not yet have the GDP components for Q3, an analysis of the factors determining agents' spending behaviour in Q2 – which were unknown to us when we drew up our latest forecast in September – enables us to gauge their economic and financial health and to project possible developments in Q3. In Q2, household disposable income also accelerated, enabling real per capita disposable income growth to remain in positive territory, albeit at a much weaker rate than since the start of 2025. Consumption in value terms also accelerated, at a faster rate than income, leading to a fall in the savings rate (to 14.2 per cent). This decline was common across the Eurozone's major economies, with the exception of Germany. The downward trend in the savings rate, which has been underway since its peak in Q2 2024, has therefore been confirmed.

With inflation expected to rise, it is difficult to foresee real disposable income maintaining its positive momentum in Q3. What appears worrying is that only property income drove the growth in household disposable income in Q2. Wages contributed little to this growth, the contribution from social benefits and transfers is falling, and that from mixed income is negative.

Household investment, in value terms, has recovered, but it has not returned to its 2025 growth rate, and the decline in the investment rate in the first half of the year has halted the recovery that began in early 2025. Whilst it rose in Germany and Spain, it fell in France and Italy.

For the third quarter, we can rely on data on the trend in monetary aggregates and qualitative data from the ECB's *Bank Lending Survey* (BLS), which can already provide insights into the borrowing behaviour of private sector agents in support of their spending. Growth in housing loans remained stable in 2026 (+3 per cent year-on-year in September), following the acceleration recorded from spring 2024 onwards (+0.4 per cent in March 2024). New lending has ceased to grow due to the gradual rise in the cost of borrowing (up since the start of the year, to 3.62 per cent in September, compared with 3.3 per cent at the end of 2025), as well as more cautious demand. Whilst consumer credit remains buoyant (+4.8 per cent year-on-year in September), its growth has been slowing since the summer. It now serves the liquidity needs of the most vulnerable households. During Q3 2026, the BLS reported a sharp fall in demand for mortgage lending, as well as a decline in consumer credit. Rising interest rates and deteriorating household confidence would explain this decline, as well as a weakening in spending on durable consumer goods. Whilst mortgage lending conditions remained stable in Q3, a significant tightening is anticipated towards the end of the year.

Investment buoyed by structural factors

Investment by non-financial corporations, in value terms, returned to positive and sustained growth in the first half of the year, following the decline that began in spring 2025. It accelerated in Q2 (+2.9 per cent), enabling the investment rate to return to its average level since 2023, following the low point at the end of 2025.

A recovery in the productivity cycle and moderation in labour costs have enabled profit margins to recover, bringing an end to the erosion that began in spring 2023. The acceleration in lending to non-financial corporations in Q2 reflects structural factors driving demand, notably investment needs in energy infrastructure and artificial intelligence. More cyclical factors have also played a part, with the rise in working capital requirements linked to higher energy prices, which increases the need for short-term financing. This has resulted in drawdowns on credit facilities, but also in the build-up of liquidity buffers with a concomitant rise in deposits. A tighter bond market has also prompted larger, higher-rated companies to increase their demand for credit. The acceleration observed since the end of 2023 came to a halt during the summer, but the pace of credit growth remained robust in Q3 (+4.2 per cent in September year-on-year). The increase in demand for credit recorded in Q2 does not appear to have continued into Q3, according to the ECB's BLS survey. Demand is reportedly being adversely affected by rising interest rates, with, in particular, lower demand for investment financing from SMEs, but demand for working capital and for debt refinancing and restructuring remains on the rise. Banks report a tightening of credit conditions due to rising risk. The cost of borrowing for new loans to non-financial corporations rose to 3.9 per cent in September. Banks anticipate a further tightening of their lending conditions in Q4 2026 across the euro area.

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☑ **Our opinion** – *The drivers of private consumption lost momentum in Q2, whilst business investment is being driven by structural factors but is facing tighter financing conditions. According to the ECB's new financial conditions indicator, the Broad Intermediation Gauge, growth in credit volumes has so far helped to limit the tightening of financial conditions, thereby mitigating the negative impact of upward pressures on the index's interest rate components.*

The ECB will therefore closely monitor the ongoing tightening of credit conditions, which comes on top of the upward trend in bond yields, a trend that has already pushed up the long end of the yield curve. The calibration of monetary policy will in fact depend on the strength of the transmission mechanism already at work in the system, of which financial conditions are the main vehicle.

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