Economists pin EU growth hopes on Germany

Berlin's €1tn spending plan expected to play key role in bloc's performance next year

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Europe's hopes of a return to growth next year rest largely on Germany's €1tn debt-funded spending drive on infrastructure and defence, according to a Financial Times survey.

Yet the 88 economists polled are split over whether Berlin's fiscal push will deliver a "European renaissance" or fade amid entrenched structural weaknesses and geopolitical uncertainty.

With its largest economy stuck in recession since late 2022, Europe needed a return of "animal spirits" to power a recovery driven by domestic demand, said Nick Kounis, chief economist at ABN Amro.

Eurozone growth is expected to slow by 0.2 percentage points next year to 1.2 per cent, before picking up to 1.4 per cent in 2027, according to the FT survey. The forecast broadly matches the European Central Bank's staff projections.

Last year's prediction of 0.9 per cent growth for 2025 proved too downbeat, after the bloc's economy expanded by 1.4 per cent. Concerns voiced by economists in last year's FT poll that the ECB had been too slow to cut rates now appear misplaced. "Overall, we have been positively surprised about growth resilience in 2025," said Pia Fromlet, an economist at Nordic bank SEB.

But economists were unsure "whether the fiscal impulse can translate into durable domestic momentum rather than merely cushioning external shocks", said Léa Dauphas, chief economist at TAC Economics. TD Securities analyst James Rossiter predicts a "tug of war" between geopolitical uncertainty and expansive fiscal policy.

Optimists expect that underlying resilience will be reinforced by fiscal stimulus next year. Jan von Gerich, chief strategist at Nordea and among the most bullish respondents with a 2026 growth forecast of 1.5 per cent, said "private consumption has a lot of potential to surprise to the upside".

Reijo Heiskanen, chief economist at Finnish lender OP Pohjola, is even more sanguine, predicting a "comeback of [Europe's] north".

While views on growth are split, there is broad consensus that the ECB has brought inflation back under control. A large majority of economists expect it to meet its medium-term 2 per cent target in 2027, after undershooting slightly at 1.9 per cent in 2026.

Three-quarters of respondents expect the ECB to keep its key deposit facility rate unchanged at 2 per cent through the end of 2026. By the end of 2027, economists on average foresee a single rate rise to 2.25 per cent.

Looking ahead, growth would “hinge less on monetary policy and more on fiscal execution, confidence and progress on structural reforms”, said Sabrina Khanniche, an economist at Pictet Asset Management.

But not everyone is convinced that Berlin can deliver. “Increased government spending will mechanically lift German growth, but the key question is whether or not it translates into a broader recovery,” said Henry Cook, an economist at MUFG Bank.

Sceptics warn that billions of euros in new borrowing could end up funding welfare and other spending rather than investment, while the money allocated to defence might have only a limited impact on growth.

“Anyone expecting a significant bounce in Germany’s economic fortunes in 2026 is likely to be disappointed,” warned Aberdeen economist Felix Feather.

At the same time, large parts of Europe’s industrial base are under mounting pressure from US President Donald Trump’s 15 per cent tariff rate and intensifying competition from Chinese rivals.

While US tariffs “so far have not had a meaningful negative impact on Eurozone growth”, said Fabio Balboni, HSBC euro area economist, “we might only have seen the tip of the iceberg”. A narrow majority of poll respondents believed that more than half of the overall negative impact from the tariffs had already materialised.

Apolline Menut, economist at French asset manager Carmignac, warned about the fierce competition from Chinese exporters threatening to “further hollow out” EU industry. The bloc as a whole and individual governments were pursuing a “too little, too late approach” to deal with an intensifying “China shock”, she said.

A bursting of what some economists describe as an “AI bubble” in US equity markets could also weigh on Europe’s growth. “A sharp correction in US tech valuations remains the biggest global risk,” warned Christian Schulz, chief economist at Allianz Global Investors. Falls in US equities and the dollar would “reverberate also through Europe”, potentially pushing up borrowing costs for governments and companies.

But some economists sketch more optimistic scenarios, including an end to the war in Ukraine — or at least a durable ceasefire. If a peace deal were “credible and not unfavourable to Ukraine”, it could “significantly reduce geopolitical uncertainty and improve confidence”, argued Christophe Boucher, chief investment officer at ABN Amro Investment Solutions.

In that scenario, energy prices could fall while investment and exports rise. Combined with fiscal stimulus from government spending programmes and a potential reversal of households’ high saving rates, this could even trigger a “virtuous cycle” and a “European renaissance”, said Reinhard Cluse, an economist at UBS.