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# Eurozone economy defies tariffs and turmoil

## Eurozone 2025Q4 GDP

### RaboResearch

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## Summary

- Eurozone GDP grew 0.3% q/q in the final quarter of 2025, outperforming expectations. This lifts the growth rate for 2025 to 1.4% y/y after 0.8% y/y in 2024.
- Overall the Eurozone economy has proven to be more resilient than expected against the backdrop of US tariffs, geopolitical developments and uncertainty, an expensive currency and persistent structural weaknesses.
- If anything, a strong labour market and real income gains have supported household consumption, while improved financing conditions have supported investment.
- Going forward, we think that improved financing and moderate inflation, higher defense spending, and resilient households will continue to soften the blow of ongoing trade and geopolitical tensions, public fiscal restraints and manufacturing competitiveness issues.
- We expect that GDP growth will continue to hover around 0.3% q/q in the coming quarters. We project growth to average around 1% in 2026 and 1.2% in 2027. Downside risks mainly stem from changing geopolitics and upside risks from possible productivity gains.

## GDP growth again outperforms expectations

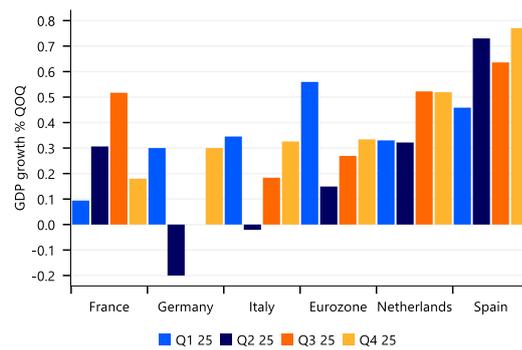
Eurozone GDP expanded by 0.3% q/q in the final quarter of the year, the same rate as in the previous quarter. This means that, once again, the Eurozone economy showed more resilience than expected, amid tariffs, an uncertain global backdrop, an expensive currency and persistent structural weaknesses. Consensus had pencilled in 0.2% q/q and we had projected a more pessimistic 0.1%.

As always, expenditure details will follow with a delay. Available member states' data suggest that household and government consumption were the main drivers, supported by low unemployment and continuous growth in real income. Data on net exports is so far inconclusive, but countries that have already reported specifics do show positive export growth. Monthly data suggests that this is not because US tariffs don't hamper US demand for EU goods (they do), or because the trade relationship between China and the EU -and Germany in particular- isn't changing. Yet it is intra-EU trade, among others, that is offering compensation here, in combination with trade in services.

The Q4 growth figure lifts that of 2025 to 1.4% y/y, up from 0.8% y/y in 2024.

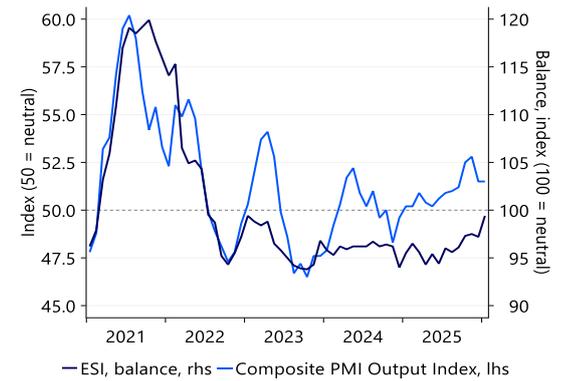
Spain continues to lead among the largest member states as growth reaccelerated to 0.8% q/q. The Netherlands posted another 0.5% q/q, while growth in Germany and Italy picked up to 0.3% q/q. In France growth slowed to 0.2% q/q after a very strong Q3.

Figure 1: GDP growth accelerates to 0.3% QOQ



Source: Macrobond, RaboResearch 2026

Figure 2: Surveys paint a different trajectory, but suggest moderate growth at the start of 2026



Source: Macrobond, RaboResearch 2026

## Outlook

Looking ahead, recent surveys again paint a somewhat different picture (figure 2). On the one hand, the European Commission's sentiment index suggests activity accelerated in January, but remained just below the neutral level. On the other, PMI surveys suggest Eurozone private sector activity grew moderately at the start of the year, in line with December.

The flash composite PMI output index remained flat at 51.5. It points to softening activity *growth* compared to the 25Q4 average. Yet it still suggests the Eurozone economy continues to be able to offset the malaise caused by US trade tariffs, worsened manufacturing competitiveness and the rupture in post-WWII world order. Meanwhile, confidence about the outlook improved, to reach a 20-month high, with companies in both manufacturing and services expecting output will increase. While confidence about the outlook doesn't necessarily match with reality, it may actually support future investment decisions.

While it remains to be seen which of the surveys pictures the right narrative and direction of travel, it does mean that the historically wide gap between the two surveys has tightened somewhat.

**Overall, for the coming two years we expect GDP growth to continue at broadly the same pace as in 2025H2. We project growth to average around 1% in 2026 and 1.2% in 2027, down from 1.4% in 2025 – which was boosted by frontloading exports at the start of the year. We expect that improved financing and price conditions, higher defense spending, and resilient households will continue to soften the blow of ongoing trade and broader geopolitical tensions, public fiscal restraint and manufacturing competitiveness issues.**

The impact of geopolitical and trade policy developments, and subsequent changing value chains, are still key downside risks to our outlook. If the European Parliament approves the trade deals with Mercosur and India, that would of course provide a boost to the free-trade spirit, but it would very likely be insufficient to compensate for the ruptures caused by US -and China- trade policy. Especially in the near term.

Importantly, the recent spat over Greenland shows that tariff threats can reappear at all times, that the EU-US trade deal hasn't put uncertainty to bed, and that NATO's future is no longer sacrosanct. While tensions have abated for the time being, as a negotiating framework is being developed, they are likely to reappear at some point.

Possible productivity gains stemming from AI adoption and increased defense and clean tech R&D spending are among the main upside risks. All are expected to impact businesses and GDP growth to some extent at some point, but the exact impact is hard to catch in a single GDP growth figure.

## Resilient households

Household consumption is expected to remain a key driver of growth, supported by real wage gains. Soft employment growth may limit momentum, but we do not anticipate a significant rise in the unemployment rate that would undermine household spending power. Furthermore, households are still saving a significantly larger portion of their income than prior to the pandemic.

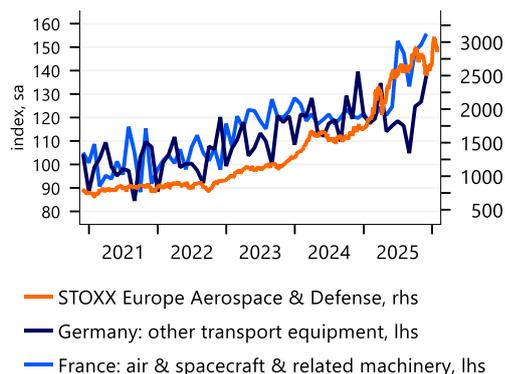
Both energy and food price inflation have further moderated in recent months and with the underlying trend in inflation still pointing more down than up, this could further strengthen the rising notion among households that we have left the higher inflation environment behind. This, in turn, should support consumer confidence. For the year 2026 as a whole, a 1.8% inflation rate now looks attainable, after 2.1% last year.

A return to pre-pandemic propensity to consume, helped by improving consumer confidence, would obviously further lift consumption. At the same time, changed habits combined with uncertainty regarding geopolitical developments, strained government budgets and a weakening outlook for pension income may actually induce higher saving rates for longer. To the upside, improved household financial buffers should mitigate any negative effect coming from income and price shocks.

## A defense spending boom?

Defense spending is also set to become a key growth driver in 2026–2027 following last year's decision to raise NATO's spending target to "3.5% + 1.5%" by the mid-2030s. Fiscal constraints in multiple member states raise the risk it will come at the detriment of other spending, but overall, defense spending commitments loosen the fiscal stance compared to the status quo in the coming two years - with Germany taking the lead. As we noted in our recent [monthly](#) outlook publication, the defense spending impulse appears to be gaining traction with booming orders. While clearly a substantial part of these orders will be imported, there is also a significant domestic component to these purchases.

**Figure 3: Defense production starting to gain traction?**



Source: Macrobond

For example, in November, domestic orders for 'other transport equipment' were already up 227% y/y, orders for fabricated metal products +27% y/y and computer, electronic and optical products +25% y/y. These should become visible in the data in the coming months, as contracts are signed. Output in defense-oriented sectors has also already been on the rise, both in Germany and France.

That said, significant production capacity constraints in defense production areas put a limit to the number of orders being turned into actual production, at least in the short term.

Still, manufacturing production should feel the support over the coming years and it will likely help to soften the blow to European manufacturing from lost competitiveness and US trade tariffs.

## Stronger unity or rupture?

Tensions over Greenland seem to have changed the tone in Brussels. The escalation seems to have made it clear to many that the EU cannot fully bank on its Transatlantic partnership.

This doesn't mean the EU is likely to give it up, partly due to its dependencies – and opinions vary among the EU's member states, as always. But the recent crisis has likely served as (yet!) another wake-up call for Europe to strengthen its defense and economic resilience. Expect a further shift toward realpolitik: higher government spending or tough trade-offs elsewhere and a more intense "buy Europe" strategy. Action is not necessarily limited to public and formal policy action, but could push all kinds of organisations and private companies to explore alternatives for US (digital) services, even though options are still limited at this point.

On the downside, however, the rupture between the US and EU could also drive a further wedge between EU member states in favour of maintaining close ties and those to move forward quickly with the to untangle. For example, several EU leaders have refused to join Trump's peace board, but some (such as Hungary) have actually accepted. That said, a more internally-oriented focus and speeding-up of initiatives under the Draghi Agenda / Competitiveness Compass could increasingly be seen as a the path of least resistance.

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A summary of the methodologies used by Rabobank can be found on our [website](#).

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