Article | 15 October 2026

Increased bond market tensions likely to weigh on eurozone growth

Eurozone growth likely remained solid in the third quarter, but higher energy prices, rising long-term interest rates and sovereign bond tensions will weigh on activity. Inflation is still too high, pointing to another ECB rate hike, although quantitative tightening could be halted



Higher energy and borrowing costs continue to weigh on the eurozone economic outlook

October is the cruellest month

October is budget season in Europe, when cash-strapped member states must show they can put their finances in order. France's minority government has proposed a budget that curbs expenditure growth but would still fail to stabilise the debt ratio next year. With presidential elections due in April and May 2027 and street protests mounting, few parties are willing to back austerity. We still expect the government to invoke Article 49.3 to pass the budget without parliamentary approval, but tensions may rise first.

As for the rest of the eurozone, contagion has already widened bond spreads in other highly indebted member states, tightening eurozone financial conditions. This will increase pressure on governments to adopt austerity measures, resulting in a less accommodative fiscal stance in 2027.

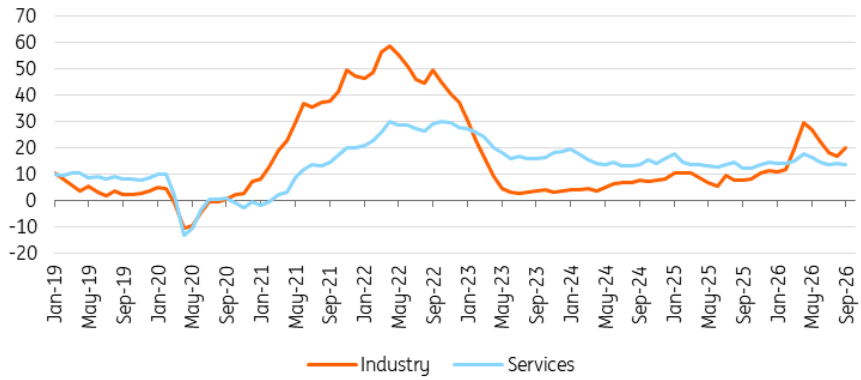
Growth likely to slow temporarily

Energy prices remain relatively high, while wage growth is failing to keep pace with inflation. Households drew on savings in the second quarter and may need to do so again to support spending. Yet signs of a weakening labour market and renewed falls in consumer confidence point to softer consumption growth in the coming quarters.

Residential construction may also gradually feel the impact of higher bond yields. Business sentiment suggests GDP growth remained moderate in the third quarter, but strengthening headwinds are likely to weaken the fourth quarter and the first quarter of next year. Following a very strong second quarter, artificially boosted by Irish GDP figures, we now expect average growth of 1.0% in 2026. Assuming energy prices normalise in 2027, growth should average 1.2% next year.

Second round effects remain more moderate than in 2022-23

Survey on selling price expectations



Source: LSEG Datastream

Second-round inflation effects remain moderate

The eurozone's harmonised index of consumer prices (HICP) inflation rose to 3.8% in September, with underlying inflation at 2.5%. Energy prices are likely to lift the headline rate further in the coming months, while food prices, which are highly sensitive to energy costs, are also trending higher. Inflation is therefore likely to end the year above 4%.

At the same time, second-round effects remain muted. They may still emerge, but we do not expect a repeat of the full-blown inflation wave of 2022-23. Business surveys show that selling-price expectations have risen less than they did four years ago, suggesting firms have less pricing power as consumers turn more cautious. We expect inflation to fall back to an average of 2.5% next year.

One last rate hike?

We still expect one more European Central Bank rate hike, although higher bond yields are already doing much of the ECB's work. Markets have moved towards our view, scaling back expectations from almost four increases to around one. Given the bond market unrest, we also expect the ECB to halt quantitative tightening before year-end, echoing earlier moves by the Federal Reserve and the Bank of England.

Author

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (**"ING"**) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.