Flash Economics

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Why has euro zone growth withstood the sharp rise in energy prices?

Euro zone growth stood at 1.2% year-on-year in the second quarter of 2026. This pace is close to that recorded in 2025 (1.4%) and higher than in 2024 (0.9%). Yet oil prices have risen sharply (from USD 60 per barrel at end-2025 to USD 106 on 28 September 2026), as have natural gas prices (from EUR 30 per megawatt hour at end-2025 to EUR 71.3 per megawatt hour on 28 September 2026). This rise of almost 100% in the price of imported fossil fuels has reduced euro zone real income by the equivalent of 2% of GDP. One would therefore have expected the euro zone to fall into a severe recession in 2026, all the more so as long-term real interest rates have risen; instead, growth has held up.

This resilience stems from:

- the narrowing of the current account surplus, a sign that the euro zone is lending a smaller share of its income to the rest of the world;
- the rise in the government deficit (from 2.9% of GDP in 2025 to around 3.2% of GDP in 2026), reflecting in particular higher military and infrastructure spending in Germany;
- the support for activity from the European Union's NextGenerationEU plan;
- the decline in the household saving rate (from 15% in the second quarter of 2025 to 14.3% in the second quarter of 2026).

The sources of this resilience may nonetheless give cause for concern: public borrowing (including at EU level) and dissaving.

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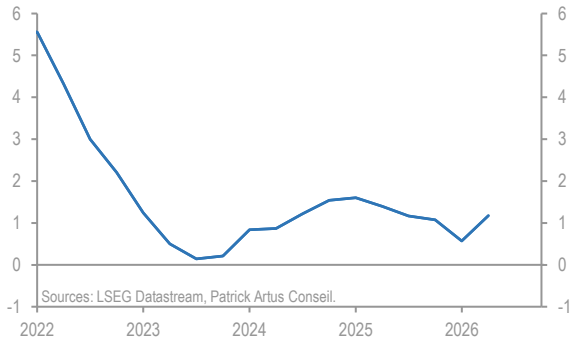
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Euro zone growth in the second quarter of 2026 is in line with past rates

Chart 1 shows year-on-year growth in the euro zone (1.2% in the second quarter of 2026), which has not slowed markedly compared with 2024 and 2025.

Chart 1
Euro zone: Real GDP (Y/Y as %)



Yet the environment is particularly unfavourable for growth, with:

- the rise in energy prices (Charts 2A and 2B);
- the rise in long-term real interest rates (Chart 3).

Chart 2A
Oil price (Brent, $/bbl)

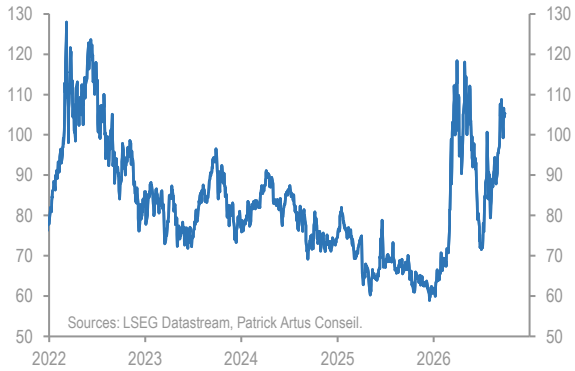


Chart 2B
Europe: Natural gas price (TTF, €/MWh)

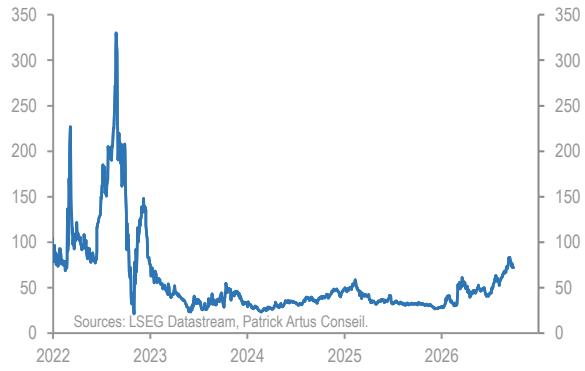
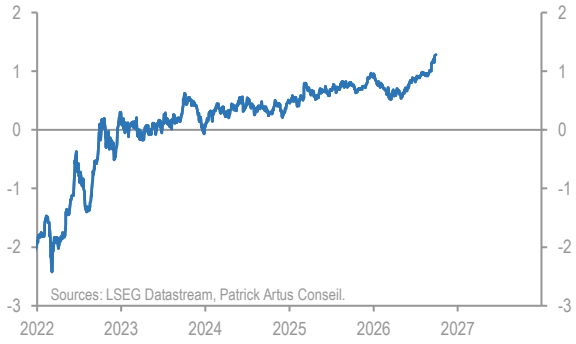


Chart 3
Germany: Real 10-year government bond yield (in %)



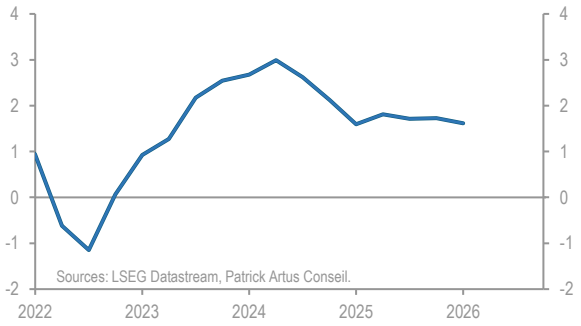
One might have expected domestic demand and growth to slow, yet growth has held up, as shown above. We therefore investigate the causes of the European economy's resilience.

Why has euro zone growth held up despite the adverse environment?

First explanation: the narrowing of the current account surplus

The rise in energy prices entails **a transfer of income from the euro zone to the rest of the world**. For this transfer to have no adverse effect on either consumption or investment, **the current account surplus must narrow**, which is indeed what we observe (**Chart 4**).

Chart 4
Euro zone: Current account balance
(as % of nominal GDP)



The narrowing of the current account surplus means that part of the income previously lent to the rest of the world is now used to finance consumption or investment within the euro zone.

Second explanation: the widening of the government deficit

Higher military spending and infrastructure investment have widened the government deficit in Germany (from 2.7% of GDP in 2025 to a likely 3.5% of GDP in 2026). France continues to run a high government deficit, probably above its 2025 level (5.1% of GDP); Spain and Italy are aiming to keep their deficits stable between 2025 and 2026. Overall, **the euro zone government deficit is likely to rise from 2.9% of GDP in 2025 to 3.2% of GDP in 2026**.

Third explanation: support for activity from the NextGenerationEU plan

The European Union's **NextGenerationEU plan**, which finances the Recovery and Resilience Facility and tops up other programmes (notably REACT-EU, Horizon Europe, InvestEU and the Just Transition Fund), **provides EUR 801 billion to Member States** in the form of loans and grants. By the end of the second quarter of 2026, 61.65% of these funds had been disbursed, an amount equivalent to 2.6% of EU GDP (more than 0.4% of EU GDP a year from 2021 to 2026); they finance investment in renewable energy, the digital transition, transport infrastructure, health and education.

Fourth explanation: the fall in the household saving rate

Euro zone households have responded to weak growth in their disposable income (**Chart 5**) by **lowering their saving rate** (**Chart 6**), **which reflects the same mechanism as the narrowing of the current account surplus** described above.

Chart 5
Euro zone: Real household gross disposable income per capita (Y/Y, %)

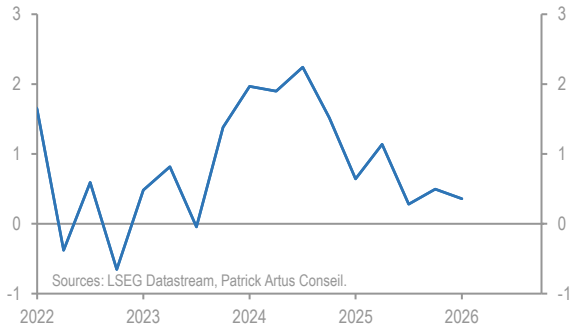
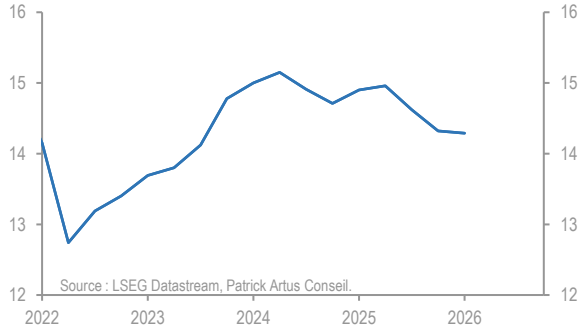


Chart 6
Euro zone: Household gross saving rate (as % of gross disposable income)



Summary: the resilience of European growth may be a cause for concern

Euro zone growth has withstood the rise in energy prices and in long-term real interest rates owing to:

- support from public spending (at both national and EU level);
- the simultaneous decline in the current account surplus and in the household saving rate.

These sources of growth resilience in Europe are potentially worrying, given:

- the high level reached by the euro zone government debt-to-GDP ratio;
- the need for saving to finance future-oriented investment (the energy and digital transitions).

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