

## Our three calls for the eurozone

From fiscal reforms to wage growth to inflation; these are three significant challenges for the eurozone in 2022



Eurogroup President Paschal Donohoe, top, European Commission President Ursula von der Leyen, bottom left, and ECB President Christine Lagarde

### 1 Still no fiscal reforms but silent power shift towards Brussels

The long-awaited discussion on how to modernise the eurozone's fiscal rules will gain momentum in the second half of the year after the French presidential elections. The new German government has kept the door open to some reforms, even if we warn against too much optimism. There have hardly been any coalition agreements in any eurozone country in the past, spelling out upfront a roadmap to eurozone reforms. On substance, we don't expect changes to the numerical fiscal rules but a shift towards a more pragmatic country-specific approach, balancing between debt sustainability and the need for investments. In this setup, the European Commission will play a more decisive and prominent role. In the meantime, the frontloading of investments planned by the new German government will find many eurozone followers, postponing any austerity to 2023.

### 2 Expect a rebound in wage growth for 2022

The pandemic has killed off the modest rise in wages seen in 2019 resulting in negotiated wage growth falling to an all-time low in the third quarter of 2021. However, this is where that low wage growth stops. Labour shortages have returned far quicker than expected, improving workers' bargaining power. The soaring inflation rate has already and will continue to result in higher wage demands from unions, while countries with inflation indexation will automatically see wages rise.

Finally, strong profits give corporates room to increase salaries. Admittedly, union power has weakened in recent years and differences between countries are big in job market pressures, which could dampen the average jump in nominal wages. Still, we expect an increase to 3-3.5% in 2022, which is above the peak seen in 2019.

### 3 Inflation will fall below 2%, but the ECB's medium-term target will be met

We agree with the ECB that the disappearing effect from the German VAT increase in 2021, an improvement of supply chain disruptions and a more favourable base effect for energy prices are likely to push inflation towards 2% in the second half of 2022. However, the output gap in the eurozone will turn positive next year and will be significantly marked in 2023 and beyond. In this environment we expect wages to increase more rapidly (see above) and some demand-driven price pressures will emerge, especially as services will be in a good position to increase prices. On top of that, the green transition will, at least in the first few years, lead to structurally higher energy prices. The ECB's staff forecasts from December 2022 are likely to show an inflation rate of around 2% over the forecasting horizon, a backdrop that would justify an initial rate hike in the first half of 2023.

#### Author

##### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

##### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

##### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto: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](http://www.ing.com).