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The eurozone Big 4: Politics is a drag

Political upheaval in Europe's powerhouses of France and Germany is not good at all for the eurozone's growth prospects

French President Emmanuel Macron was in Saudi Arabia as political chaos unfolded back home

France: Political chaos will weigh on growth

The French economy is bracing for a turbulent 2025, with political instability casting a long shadow over its prospects. The constant threat of censure against any government put in place, the impossibility of passing a budget to put the public finances in order, and the prospect of yet more elections is simply fuelling uncertainty. And that's damaging both consumer spending and business investment.

The chaotic debate over the 2025 budget leaves the tax landscape murky, but one thing is clear: the ballooning budget deficit will force the government to tighten its fiscal belt, stifling economic growth. On the international front, looming tariffs and sluggish global economic activity are set to hamper French exports. As a result, GDP growth is projected to slow to 0.6% in 2025, down from 1.1% in 2024.

Germany: Fiscal stimulus is coming, at last

The German economy has been in de facto stagnation since early 2020, and negative headlines from iconic corporations have finally brought the broader political awareness that the economy urgently needs reforms and investments. The unanswered question is still

whether Germany will try to 'only' modernise its old business model, consisting of cheap energy and flourishing exports, or whether it will opt for a complete economic overhaul.

We expect that after the elections in February, a new government will engage in more fiscal stimulus, either by changing the constitutional debt brake or by using special funds. Germany needs an additional fiscal stimulus of around 1.5% GDP per year over the next ten years just to close the investment gap of the last decade. Structural reforms and investments are needed to break the current vicious circle. If delivered, the economy should see a gradual turnaround in 2025. If not, stagnation will be the new normal.

Italy: Private consumption only ray of light

Even though employment growth might be taking a breather, we don't foresee an inversion in the trend. A gradual increase in headline inflation towards the 2% area through 2025, together with 3%+ contractual hourly wage gains, should allow some more catch-up in real wages, helping support a gradual recovery in private consumption.

The investment outlook looks more uncertain. The likely growth drag of the dwelling component following the 'super-bonus' overhang should be partially compensated by a push from the infrastructural construction component activated by EU recovery funds as the 2026 deadline approaches. In the meantime, the risk of a new round of US tariffs on Italian products under the Trump presidency could delay the recovery in the machinery investment component, in principle favoured by the forthcoming ECB monetary easing.

Don't expect much help from fiscal policy, as the limited room for manoeuvre left by the renewed European fiscal governance will mostly be used to refinance existing measures, not new ones.

Spain: A new growth mix

Spain has been a key driver of economic growth in the eurozone since the Covid-19 crisis, and this trend is expected to continue into 2025. However, the drivers of this growth are shifting. Post-crisis growth was fuelled by population increase, strong service exports, and government consumption despite a challenging inflationary and restrictive monetary policy environment. That particularly impacted Spanish households, leading to a decline in their net interest income over the past few years.

With the onset of monetary easing, private consumption and investment are set to rise. Households benefiting from elevated savings and a resilient labour market will increase their consumption in line with disposable income growth. Private investment, especially in the construction sector, is also expected to see a boost from declining interest rates and the EU Recovery and Resilience funds allocation. Together, these factors will keep Spain at the forefront of a sluggish eurozone economy in 2025.

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