

Three calls for the eurozone's big three

Our main calls for Germany, France and Italy in 2024



Concerns over the French labour market, Italian growth and Germany's reputation as the 'sick man of Europe' are set to take centre stage in the eurozone in 2024

Germany: Still bedridden

The narrative for Germany should be well-known by now. As a result of cyclical headwinds and a long list of structural challenges, its economy was stuck between recession and stagnation in 2023. Admittedly, due to enormous efforts and mild winter weather, the country managed to avoid an even worse energy crisis. However, avoiding the worst never automatically leads to a brighter economic outlook. In fact, the recent fiscal woes are set to bring new policy uncertainty – and more paralysis to the economy as a result.

The chances of two consecutive full years of recession for the first time since the early 2000s have never been higher. The list of challenges keeps on growing, and it will again be a growth laggard in 2024. Following a summer of debate over whether or not Germany is again the sick man of Europe, its economy will probably be bedridden in 2024.

France: Labour market taking a turn for the worse

As in many European economies, the labour market has been one of the strongholds of the French economy. This will change in 2024 – and signs of weakening are already beginning to emerge. The rise in unemployment is set to accelerate in 2024 on the back of job destruction, the economic slowdown and a sharp increase in the working population triggered by the recent pension reform delaying the retirement age. We expect the unemployment rate to reach 7.9% by the end of 2024, compared with 7.4% at present.

This weakening of the labour market is likely to limit the anticipated rebound in household consumption, despite an expected rise in real wages thanks to the fall in inflation. More generally speaking, lacklustre growth, higher interest rates and higher unemployment will weigh on tax revenues, leading to a further deterioration of public finances.

Italy: Rating agencies should help maintain debt sustainability

The quasi-promotion of the Italian draft budget by the European Commission does not mean that the Italian debt sustainability issue will disappear from the radar screen. In fact, the big challenge for Italy will be increasing its potential output to help stabilise the debt-to-GDP ratio. Incidentally, this is the target of the Recovery and Resilience Plan (RRP), a mix of reforms and investments to be completed by the end of 2026. To get there, pressure from rating agencies might help; in the recent round of rating updates, all involved agencies stressed that future ratings would be highly contingent on the thorough implementation of the RRP. This represents a powerful incentive for the Italian government to speed up its implementation and supports our view that – after the winter soft patch – the Italian GDP could well again expand at a 1% yearly rate by the end of 2024.

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