The Eurozone Quarterly: Caught between stagnation, transition and geopolitics

What shape is the eurozone economy really in? What are the pain points, and where are the opportunities? From Berlin to Brussels, Amsterdam to Athens, our team has the answers in January's Eurozone Quarterly

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By Bert Colijn

Article | 18 January 2024

The eurozone: Caught between stagnation, transition and geopolitics

The eurozone as a whole is still struggling to break free from sluggish growth. And with numerous elections this year, efficient decision-making is becoming increasingly difficult. But some countries are doing quite a bit better than others

The war in Ukraine will soon enter its third year. New geopolitical events like the war in Gaza, tensions in the Red Sea, and the energy and green transition at home are still shaping the eurozone economy. Restrictive monetary policy, at least in the first months of this year, is weighing on the bloc's growth outlook. As are less expansionary fiscal policies.

So, here we go again: another year of sluggish growth is in the offing, at best. While many of the external factors have and will continue to hit all eurozone countries, though not to the same extent, there are clearly some differences across the continent.

So, let's start with those common features: the still-unfolding impact of the European Central Bank's rate hikes and potential new supply chain frictions. These are both growth-limiting. On the flip side, relatively solid labour markets and improving real wages could support growth. Where countries differ more significantly is, for example, around the energy transition and the share of industry and fiscal support, be it national or European.

Contrary to past experience, reforms, relief and resilience will not come from the ECB, which is entirely preoccupied with getting inflation back to target. No, it will have to come from businesses, households and governments. Behavioural changes, different levels of risk-taking, innovation and investments are only a few drivers that would improve the eurozone's growth outlook.

We'll soon discover whether this super-election year in Europe will be a blessing or a curse. We've got six parliamentary elections in the eurozone, including the European elections, plus three regional state elections of great importance in Germany. Political fragmentation is the most likely outcome of most of them.

As a result, decision-making is becoming increasingly difficult, leading to more instability or faster government collapses. All in all, this is another year for Europe with lots of economic and political action, and we'll be following every twist and turn.

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Article | 18 January 2024 Germany

Germany: Another year of stagnation and political turbulence

Farmers' protests, train strikes and disappointing macro data; the first weeks of the new year did not wash away a disappointing 2023, in which the economy contracted by 0.3% year-on-year. In fact, it looks like the German economy has entered another challenging year of stagnation and political turbulence

The German Chancellor, Olaf Scholz, is feeling the heat

2023 was another turbulent one, with the German economy in permanent crisis mode. In fact, since 2020, there has been a long list of crises and challenges it's had to face: supply chain frictions resulting from the pandemic and war in Ukraine, an energy crisis, surging inflation, and a tightening of monetary policy, China's changing role from being a flourishing export destination to being a rival that needs fewer German products, and several structural shortcomings. A combination of geopolitical risk events, cyclical headwinds, and home-grown deficiencies.

The hard economic reality does not look pretty

In light of so many challenges, some take comfort in the fact that the economy is "only" stuck in stagnation and has avoided a more severe recession. And, indeed, things could have been worse. But this should be no reason for any complacency. On the contrary, even if the worst of the weakening in sentiment seems to be behind us, the hard economic reality does not look pretty.

Looking ahead, at least to the first few months of 2024, many of the recent drags on growth will still be around and will, in some cases, have an even stronger impact than last year Just think of the still-unfolding impact of the European Central Bank's monetary policy tightening, the potential slowing of the US economy, new uncertainty stemming from recent fiscal woes or fresh supply chain frictions as a result of military conflict in the Suez Canal. A recent illustration of the longer-term impact of energy prices, higher interest rates and changing economic structures is the gradual increase in insolvencies since mid-2022.

On a more positive note, what could lift economic sentiment and GDP are positive real wage growth, a rebound in Asia and, further down the road, some rate cuts from the European Central Bank. Also, a turn in the inventory cycle could bring some relief in early 2024, although this turn has not yet happened and would probably only be short-lived.

All in all, we expect the current state of stagnation and shallow recession to continue. In fact, the risk that 2024 will be another year of recession is high. We expect the German economy to shrink by 0.3% YoY this year. It would be the first time since the early 2000s that Germany has gone through a two-year recession, even though it could prove to be a shallow one.

The 'sick man of Europe' debate

It was the big summer theme in Europe, and Germany is still debating it: weak growth, worsening sentiment and pessimistic forecasts have brought back headlines and public discussion about whether Germany is once again the 'sick man of Europe'. The Economist reintroduced the argument this summer, more than two decades after its ground-breaking front page. The infamous headline seems currently justified when looking at the state of the German economy and the fact that the former stronghold of Europe has become a growth laggard.

Germany's international competitiveness had already deteriorated before the Covid-19 pandemic and the war in Ukraine. These events have only exposed structural weaknesses like the lack of investment in energy transition, digitalisation, infrastructure and education. These are weaknesses that are the flipside of fiscal austerity and wrong policy preferences over the last decade.

What Germany needs is a full menu card of policy measures

What Germany needs is a full menu card of policy measures. These measures could be categorised into those boosting confidence and giving companies security and clarity, as well as supply-side improvement measures. In the first category, think of an energy price cap for industry, not for one winter but for several years. Such a measure should be accompanied by a clear schedule for the energy transition. This would prevent more companies from exiting the country and producing elsewhere. Combined with fast depreciation rules of investments in digitalisation and renewable energies, this could safeguard the economy's industrial backbone. With subsidies for sectors such as artificial intelligence, batteries or hydropower, the government could support innovation.

Finally, less bureaucracy, more investment into e-government, and consequently faster public tenders and the implementation of federal investments at the regional level would strengthen the supply side of the economy. It is a long list that can easily be extended and broadened. One thing, however, is clear: any overhaul of the economy will be almost impossible as long as fiscal austerity remains the dominant tune.

The German Constitutional Court's ruling at the end of 2023, however, has brought austerity back to the political centre stage. There is some wiggle room in the constitutional debt brake, but generally speaking, there is no political majority in favour of going all in with a large deficit-funded fiscal stimulus or reform programme. That means structural changes will rather have to come from the corporate world.

European and three state elections likely to add to policy uncertainty

The combination of four years of economic stagnation, a long list of structural transitions and policy uncertainty has led to protests, strikes and the falling popularity of the current government. In Germany, governments hardly ever collapse or abdicate. However, with European elections along with three state elections in the East, there is a high chance that the right-wing AfD will further increase its support, adding to political uncertainty and complicated decision-making. Over the last two decades, Germany has been the symbol of both economic and political stability in Europe. It will require some effort to keep this picture intact.

The German economy in a nutshell

	2022	2023F	2024F	2025F
GDP	1.9	-0.3	-0.1	1.3
Private consumption	4.4	-1.1	-0.5	0.2
Investment	0.6	0.7	1.6	3.0
Government consumption	1.2	-2.0	1.9	2,0
Net trade contribution	-0.5	0.5	-0.5	0.5
Headline CPI	8.7	6.1	3.0	2.0
Unemployment rate (%))	3.2	3.2	3.5	3.3
Budget balance as % of GDP	-2.5	-2.0	-1.5	-1.3
Government debt as % of GDP	66	67	61	60

Source: Thomson Reuters, all forecasts ING estimates

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Article | 18 January 2024 France

France: We're expecting weak and below-consensus growth numbers

The French economy is likely to remain very sluggish at the start of 2024, before picking up a little more momentum in the second half of the year. We expect growth to be weak and below the consensus forecasts

What a lovely looking baguette! President Macron and his impressed wife, Brigitte

The stagnation continues

The best we can say about the outlook for France this year is that it'll be moderate. The economy appears to be stabilising, but activity is subdued. And that means the country will probably escape a prolonged recession. There are few signs of a dynamic recovery in the short run. On the contrary, persistently high inflation (3.7% in December), the very negative impact of restrictive monetary policy on investment and the construction sector, the slowdown in the global economy and the geopolitical risks weighing on confidence will continue to be a drag on the French economy. Weak growth of 0.1% is expected for the first quarter.

2023 marked the end of France's post-pandemic recovery. The year's final quarter was disappointing, although slightly better indicators for December give us hope that the country has avoided a further contraction in activity. Over 2023 as a whole, French GDP will have grown by around 0.8% after the dynamic recovery of 2022 (+2.5% over the year).

Consumption expected to pick up in the second half

Inflation should continue to fall in 2024, although not as quickly as in other European countries. Indeed, despite lower energy prices on commodities markets, household energy bills are likely to continue rising in France, albeit at a slower rate than last year due to the end of various government support mechanisms. It should ease in the second half of the year, to end the year close to 2%.

> *Consumption should contribute more to French economic growth*

As inflation falls, we expect real purchasing power to pick up again, with wages expected to rise more strongly than prices. This will enable consumption to contribute more to French economic growth than in 2023, leading us to expect growth to accelerate from the spring and during the second half of the year. Although it will compensate more for inflation, nominal wage growth should nevertheless slow during 2024 due to the expected slowdown in the labour market.

As a result of weaker demand, job losses and a moderate rise in unemployment are expected over the coming quarters, which will limit the pace of the recovery. Against this backdrop, the savings rate is likely to remain historically high. A slight boost from the Olympic Games in the third quarter will be welcomed. By 2025, growth should benefit from an improvement in investment, as the effect of tighter financial conditions will peter out. We expect GDP growth to be on the weak side in 2024, averaging 0.5%. In 2025, growth should pick up to around 1.3% for the year.

Public finances still in a very poor state

Public finances are set to remain troublesome over the next few quarters, against a backdrop of a still expansionary fiscal policy. However, it will be less noticeable than in recent years. The public deficit is set to fall slightly over the next two years but will remain well above 4% of GDP, which will not allow the public debt ratio to be reduced as a percentage of GDP. In fact, because of the higher interest burden, the debt ratio could start to rise again and be close to 113% in 2025, while at the same time other European countries could be seeing their debt ratio decline.

The French economy in a nutshell

	2022	2023F	2024F	2025F
Demand and output				
GDP	2.5	0.8	0.5	1.3
Private consumption	2.3	0.6	1.0	1.6
Investment	2.3	1.3	-0.4	1.4
Government spending	2.5	0.5	0.8	0.7
Net trade contribution (% points of contribution to GDP)	-0.6	0.3	-0.2	-0.1
Labour market				
Unemployment rate (% eop, Eurostat)	7.3	7.3	7.8	8.0
Government finances				
Budget balance as a % of GDP	-4.7	-5.0	-4.8	-4.8
Government debt as a % of GDP	112	111	111	113
Prices				
Inflation (HCPI)	5.9	5.7	3.2	1.9

Source: Refintiv Datastream, ING forecasts

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Italy: Exit from stagnation looks set to be slow

As the impact from any upcoming monetary easing will be only gradual, Italy's growth profile over 2024 will also depend on how fast and effective the investment leg of the EU recovery plan will be

The Italian Prime Minister, Giorgia Meloni, may have more reasons to smile later in the year

End of 2023 should confirm a stagnating Italian economy

The restrictive rate cycle and the joint effect of various geopolitical factors have pushed the Italian economy into stagnation mode. In the third quarter of 2023, GDP expanded a meagre 0.1% QoQ, as the positive contribution of private consumption and net exports just outweighed the inventory drag. The consumption drive likely benefited from the push from a particularly positive foreign tourism season. Balance of payments data shows that nominal travel credits increased by 11.2% YoY in the third quarter and were 21% higher than in the summer of 2019.

> *The turn of the year looks set to confirm the stagnation theme*

The turn of the year looks set to confirm the stagnation theme. Confidence data released over the fourth quarter has consistently signalled that industry was performing worse than services, and poor industrial production data for November offered hard evidence in support, suggesting that industry would be a growth drag in the fourth quarter. As services might not fully compensate, we are pencilling in a minor GDP contraction in 4Q23, confirming stagnation.

Headline inflation set to rebound temporarily

Inflation dynamics will play a relevant role in shaping this year's growth profile. We should not expect the sharp fall in the headline measure seen over the last quarter of 2023 (in December, it reached 0.6% YoY) to persist in 2024, as favourable base effects in the energy sector will fade with the suppression of tax rebates and the reintroduction of cost items which temporarily suppressed energy bills.

Still, the steady decline in the core measure (at 3.1% YoY in December) justifies expectations of a stabilisation of the headline measure in the 2-2.5% range in the middle of the year. If confirmed, this would represent a good omen for a gradual economic acceleration over the second half of 2024, driven by private consumption and investment, hopefully supported by labour market developments.

Resilient labour market and wage growth should support consumption

Notwithstanding flat economic growth, the labour market is resilient, confirming an effective hedge against short-run recession risks. In November, employment expanded by 0.1% on the month and 2.2% on the year. Fairly solid hiring intentions in services for the first quarter of 2024 point to decent labour demand ahead.

The pace of wage dynamics (hourly wages were growing by 2.7% YoY in November), while unspectacular, will help support real disposable income. The transmission to consumption will likely be piecemeal, though, as it will be likely tamed by a gradual convergence of households' saving ratio (at 6.9% in the third quarter of 2023) towards the pre-Covid 8% average. The consumption boost will thus be contained, at least in 2024.

Investment developments more uncertain

Developments in private investment look more uncertain but susceptible to possible positive surprises. If the machinery component seems set to continue suffering from still high interest rates and existing spare capacity in the manufacturing sector, developments in the construction component are less clear-cut. On the one hand, the combination of high interest rates and vanished super bonus schemes will likely weigh negatively on the residential component. On the other, the non-residential element of construction investment looks set to benefit from inflowing EU recovery and resilience funds. Should the disbursement of the fourth tranche be channelled into new investments quicker than we anticipate, upward risks to our growth forecast could materialise.

While crucial in setting the tone for growth, the national recovery plan doesn't appear to be top of ministers' minds right now. Things might change soon if growth, as we expect, continues to disappoint through the first quarter of 2024. The growth gap between an ambitious 1.2% government assumption for 2024 and actual developments might open a fiscal gap and increase the sense of urgency. The government's budgetary plan, aiming at stabilising the debt /GDP ratio rather than a decline, has left almost no room for fiscal manoeuvre. Prioritising the investment leg of the RRF might thus become necessary, and the campaign for the upcoming European elections (due on June 9th) could become an effective platform for their promotion. A clear move in this direction could add upside risks to our current base case forecast of 0.4% GDP growth for Italy.

The Italian economy in a nutshell

	2022	2023F	2024F	2025F
GDP	3.9	0.7	0.4	1.0
Private consumption	5.0	1.5	0.5	1.0
Investment	10.0	1.5	-0.4	1.2
Government consumption	0.7	0.8	0.1	0.4
Net trade contribution	-0.5	-0.4	-0.5	0.3
Headline CPI	8.7	6.0	2.2	2.0
Unemployment rate (%))	8.1	7.7	7.8	7.7
Budget balance as % of GDP	-8.0	-5.4	-4.5	-3.7
Government debt as % of GDP	141.7	140.2	141.3	141.3

Source: LSEG Datastream, all forecasts ING estimates

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Article | 18 January 2024 Spain

Spain: Whisper it! A Spanish recovery may already be happening

We see tentative signs that the slowdown in the Spanish economy is over and that growth may gradually accelerate this year. But, like in 2023, it will be characterised by a strong service sector while industry continues to languish

Some reasons to be cheerful for Spain's Prime Minister, Pedro Sánchez

Tourism remains a key driver of growth as industry struggles

Spain should see a gradual acceleration of economic growth in 2024. However, it will still be markedly held back, especially in the first half of the year, by the European Central Bank's tighter monetary policy dampening investment and consumption. What helps the figures is the relatively greater weight of the service sector, specifically tourism in the overall Spanish economy, which means a shrinking industry weighs less in the country's growth numbers.

Tourism to Spain after the pandemic was the key driver to its recovery, giving it a solid lead over other eurozone countries early last year. In fact, in the first quarter, international visitors increased by 42% from 2022. That soon dropped back, given the slowdown in the global economy, but private consumption helped cushion the blow. But as tighter monetary conditions took hold, that too slipped back; notably, we saw a lessening in loan demand.

The roll-out of European funds and the extension of some government support measures are also helping spur growth, although the latter's impact will fade towards the end of the year when most measures will be phased out. For this year, we are currently assuming an average growth rate of 1.3%, which will accelerate to 2.2% in 2025.

The outlook for industry remains gloomy

Last year, we saw a strong dichotomy in the Spanish economy, with the service sector being particularly buoyant while the more interest-rate-sensitive manufacturing and construction sectors feeling the pain. And the outlook for manufacturing remains gloomy for this year. The manufacturing PMI, a good gauge of general business sentiment in the sector, fell again slightly in December to 46.2, well below the neutral level of 50 that distinguishes growth from contraction. There are some glimmers of hope, though. Order books in the manufacturing sector seem to be gradually recovering. In contrast, the services PMI rose to 51.5 in December from 51 in November, suggesting that growth there is picking up.

The European Sentiment Indicator also improved in its latest release. Spain was the only country to end the year above 100 points, including a 2.4-point rise in December. Along with better consumer confidence, these soft indicators are fuelling hopes the slowdown is over, and the Spanish economy is gaining some momentum.

More Spanish service companies are planning price increases in 2024

The growing optimism in the services sector could well have the downside of wage growth picking up a bit more strongly than expected this year. This poses an upside risk to our inflation forecast. The European Commission's Price Selling Indicator shows that more Spanish service companies plan to raise prices further in the coming months. The strengthening of employment expectations could boost wage growth, putting additional upward pressure on the inflation rate. As those government spending measures fade and energy prices soften, we should see headline inflation hovering around 3% this year, falling to 2.3% in 2025.

The Spanish economy in a nutshell

	2022	2023F	2024F	2025F
GDP	5.8	2.4	1.3	2.2
Private consumption	4.7	2.2	2	2
Investment	2.4	1.8	2.4	3
Government consumption	-0.2	2.2	0.5	1.8
Exports	15.2	1.0	0.0	3.3
Imports	7.0	-0.4	1.0	3.3
Headline CPI	8.4	3.6	3.0	2.3
Unemployment rate (%))	12.9	12.1	11.9	11.3
Budget balance as % of GDP	-4.7	-3.8	-3.6	-3.5
Government debt as % of GDP	111.6	107.3	106.5	107.2

Source: Thomson Reuters, all forecasts ING estimates

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The Netherlands: From stagnation to modest expansion

Encouraging household and public sector consumption was the main driver of the positive growth story for the Dutch economy in the last quarter of 2023. With below-2% inflation, high wage growth and government intervention, we expect modest growth figures this year

The outgoing Dutch Prime Minister, Mark Rutte

End of recession thanks to consumption growth in last quarter of 2023

The recent contraction of the Dutch economy, which started in the first quarter of last year, may already have come to an end. October and November showed decent Month-on-Month growth in domestic household consumption, and consumer confidence rose for the fourth month in a row in December. Contractual wage increase accelerated to 6.9% Year-on-Year while HICP consumer price inflation rate fell to 0.4% YoY in the fourth quarter (and core to 3.9%). That improvement in household consumption supports our view that the Dutch economy is looking rosier after three quarters of decline.

That, combined with expanding public consumption, is expected to bring GDP growth into positive territory again in the last quarter of 2023, albeit at a sluggish pace due to weak exports and investment. This would mean that 2023 as a whole would have had an annual GDP growth rate of 0.1%, or in other words, “stagnation”.

Households and the government are the main growth drivers for 2024

Households, especially those with lower to middle incomes, will see gains in purchasing power in 2024, profiting from below-2% inflation combined with continuing high contractual wage growth of 4 to 6% and government interventions, such as a further increase in the minimum wage and its related old age and welfare benefits. This suggests that household consumption will expand further in 2024.

> *Public spending is expansionary and is a main driver of growth*

This year, public spending is expansionary and remains a main driver of GDP growth. This is the result of discretionary measures (such as a willingness to comply with NATO norms on military spending) as well as demographics (which, for instance, causes an expansion of publicly financed health care). While the Netherlands currently has a caretaking government and a new government is still in the early process of being formed, many spending policies planned for 2024 continue to be implemented.

3 calls for the Dutch economy in 2024

Investments contract further, while export growth resumes slow but positive growth

Investment, which started to contract in 3Q23, will increasingly become a drag on growth, as increased financing costs are still in the process of affecting the real economy, and the worldwide business outlook isn't as buoyant as some time ago.

Exports are projected to return to positive growth again during 2024. However, given the mediocre outlook of the globally oriented manufacturing industry and an expected US recession, the Dutch trade expansion is expected to be small. Because of statistical carry-over, the annual export growth figure is even negative.

Modest growth in 2024

These developments add up to the projection of a modest 0.7% GDP expansion, which shows that the economy is still not entirely free from the spectre of stagnation. While the underlying growth momentum may normalise by the end of the year, we will have to wait until 2025 for an annual growth rate close to the Dutch economy's potential. In the meantime, the labour market should evolve from very strained to merely strained, with the unemployment rate increasing only slightly to 4.0%. Price pressures are expected to gradually normalise as businesses' selling price expectations are only slightly above long-term averages and core inflation is clearly on a downward trend.

The Dutch economy in a nutshell

	2022	2023F	2024F	2025F
GDP	4.3	0.1	0.7	1.7
Private consumption	6.5	0.1	0.9	1.3
Investment	1.8	3.2	-3.3	-0.2
Government consumption	1.6	3.3	2.1	1.8
Net trade contribution (%-point)	1.0	-0.6	-0.2	0.5
Headline HICP	11.6	4.1	1.1	2.1
Unemployment rate (%)	3.5	3.6	4.0	4.2
Budget balance (% of GDP)	-0.1	-2.5	-3.2	-3.3
Government debt (% of GDP)	50.1	49.4	51.1	53.8

Source: Macrobond, all forecasts ING Research estimates

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Article | 18 January 2024 Belgium

Belgium: Defying the laws of economics

The Belgian economy is holding up well, with domestic demand so far having offset external trade weakness. Nevertheless, the first half of the year is likely to be difficult, and we're still awaiting a recovery in the manufacturing sector

The economic outlook's still a bit cloudy for the Belgian PM, Alexander De Croo, pictured with the EC's Ursula von der Leyen

There are some cloudy skies

Let's start with the not so great news news. As elsewhere, and certainly in Germany, the industrial sector is suffering from weak demand and very high inventories of manufactured goods. As a result, the manufacturing sector has already lost 3.9% of activity since mid-2022. It is, therefore, hardly surprising that Belgian exports have fallen by more than 6% over the same period. Restrictive monetary policy has led to a sharp slowdown in activity in the residential construction sector, with household investment in housing down by more than 11.5% since mid-2021. And let's not forget that in recent years, the economy has continued to be shaken by the turmoil of the pandemic, problems in supply chains, the sharp rise in the price of energy and most commodities, and growing geopolitical uncertainty. Considering that the Belgian economy is one of the most open in the world, you have all the ingredients for an economic downturn.

A surprising resilience

And yet, the Belgian economy continues to defy the laws of economics. Although the figure for the fourth quarter of 2023 is not yet available, GDP is expected to have grown by 1.4% in 2023, which is probably close to its potential. This is all the more astonishing given that Germany's GDP contracted by 0.3% in 2023. At other times, such poor health in Belgium's main trading partner would have caused a negative shock to its economy. So, what on earth is going on?

Against expectations, business investment is growing strongly

Several factors are contributing to the resilience of the Belgian economy: first, the automatic indexation of incomes has maintained household purchasing power more than elsewhere. In fact, private consumption is a main driver of the economy. It is expected to have grown by 1.3% in 2023. Second, against all expectations, business investment has been growing strongly. This alone should contribute 1.4 percentage points to GDP growth in 2023. So it seems that, despite the weakness of activity in the industrial sector, companies are investing to prepare for their digital and climate change transition. Third, fiscal policy in Belgium remains very accommodating overall. Admittedly, this has resulted in the largest public deficit in the eurozone, but since it has not led to any consequences so far (apart from a few reprimands from the European Commission), no major overhaul of public finances is planned for the time being.

No perfect immunisation?

Despite the lacklustre backdrop, domestic demand seems sufficiently solid to support activity. The question is, how long can this situation last? We believe that the weakness of industry, compounded by the loss of competitiveness caused by automatic wage indexation, will eventually weigh on growth in the first part of 2024. Although the construction sector has so far been able to offset the weakness in residential activity with other activities, business confidence here has plummeted in recent months.

Although employment trends have so far remained positive, the momentum is slowing, and the number of jobseekers is already up by more than 10% year-on-year. Add to all that the uncertainty surrounding the international geopolitical environment and the tense political climate in Belgium just a few months ahead of federal and regional elections that are crucial for the country's future could weigh on consumers and business leaders' confidence. So, we expect growth to be weak in the first half of the year. It is only in the second half of 2024, thanks to a global recovery in the industrial sector (when the inventory correction will be over), that growth is likely to return to a level close to its potential. For the whole of the year, we expect 0.8% GDP growth.

While inflation rates in Belgium are now below the eurozone’s average, this is only a temporary phenomenon. As a matter of fact, energy price trends have a stronger than average impact on the country's inflation. However, the favourable energy base effect will peter out in the course of the year. Underlying inflation is clearly above the eurozone’s average on the back of the automatic wage indexation. Therefore, average headline inflation is likely to come in at 3.2% for the year, compared with 4% in 2023.

The Belgian economy in a nutshell

	2022	2023	2024F	2025F
GDP	3.0	1.4	0.8	1.4
Private consumption	3.2	1.3	0.9	1.2
Investment	-0.2	5.1	2.1	1.5
Government consumption	4.2	-0.2	1.1	1.6
Net trade contribution	0.1	-0.9	-0.4	-0.3
Headline CPI	9.6	4.0	3.2	2.1
Unemployment rate (%))	5.6	5.5	5.7	5.7
Budget balance as % of GDP	-3.9	-4.8	-5.0	-5.0
Government debt as % of GDP	105.2	104.6	106.1	107.5

Source: Thomson Reuters, all forecasts ING estimates

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Article | 18 January 2024 **Austria**

Austria: Economic weakness sets the scene for this election year

The Austrian economy is starting this 2024 election year on a weak footing. High inflation and declining international competitiveness remain the key economic and political issues

The Austrian Chancellor Karl Nehammer with Italy's Giorgia Meloni in May last year

Austria has entered a recession and the outlook looks rather bleak

After a contraction in the second quarter, the Austrian economy shrank by a further 0.5% Quarter-on-Quarter in the third, entering a technical recession. Looking ahead, leading indicators paint a mixed picture. Consumer confidence is slowly recovering but remains well below the long-term average. Sentiment in industry worsened again in the last two months of 2023, while the services sector looked less negatively into the future at the end of the year.

> *There are plenty of signs that industry will continue to weigh on economic output*

One reason for the improvement in sentiment in services could be the surprisingly strong demand in the tourism sector. In last year's summer season, the number of overnight stays totalled almost 81 million, an increase of some 4% on the previous year and 2.5% on the pre-pandemic level. If this trend continues in the winter season, there should be some resistance to the economic headwinds stemming from the struggling industrial sector. And there are plenty of signs that industry will continue to weigh on economic output. In December, the order book situation was as weak as we last saw in summer 2020 and there is still no sign of a trend reversal in the inventory cycle. Poor external demand will put additional weight on Austrian industry and exports.

Concerns about Austria's lack of competitiveness are growing

International competitiveness, or the lack thereof, has become a pressing problem for Austrian industry. At the end of 2023, Austrian companies rated their own competitiveness outside the EU lower than ever. Reasons for that are high inflation, labour shortages, high energy prices, and faster wage growth than in the eurozone as a whole.

In the third quarter, wages and salaries rose by almost 7% YoY in Austria and by more than 20% compared to pre-pandemic levels. In the eurozone, wages and salaries increased by 5.6% in 3Q 2023, or by 14% from pre-pandemic levels.

Concerns about Austria's competitiveness could become one of the dominant election issues. Last week, the Minister of Economic Affairs proposed a gradual reduction in non-wage labour costs (such as unemployment insurance contributions). As we head towards the national elections this autumn, that sort of talk is likely to be only one part of the larger debate about the underlying structural challenges and transitions the Austrian economy is facing, not least on environmental issues, a lack of skilled workers and changing trade flows. Far-reaching investments and incentives will be required to meet these challenges and mitigate further losses in competitiveness.

So, given the persistently high level of uncertainty and the weakness in industry, which will continue to dominate in the first half of this election year, don't expect any rapid reforms; the Austrian economy is likely to stagnate in 2024, with risks clearly tilted to the downside.

The Austrian economy in a nutshell

	2022	2023F	2024F	2025F
GDP	4.9	-0.7	0.0	1.5
Private consumption	4.4	-0.5	1.0	1.5
Investment	0.3	-1.0	0.3	2.0
Government consumption	2.9	-0.1	0.4	1.0
Net trade contribution	-0.1	-0.3	0.2	1.4
Headline CPI	8.6	7.8	2.9	2.1
Unemployment rate (%))	4.8	4.9	4.5	4.4
Budget balance as % of GDP	-3.2	-2.8	-1.3	-1.0
Government debt as % of GDP	78.4	77.0	75.0	72.0

Source: Refinitiv Datastream, all forecasts ING estimates

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Article | 18 January 2024 Greece

Greece: Getting ready for a rebound

In a decelerating environment, the Greek economy is expected to outperform over 2024, helped by Europe's Recovery and Resilience Facility-funded investments and its rating upgrade

Hands up if your economy's expected to outperform this year! The Greek PM, Kyriakos Mitsotakis, appears confident

Surprisingly soft recent growth numbers

After a solid second quarter, Greek seasonally adjusted GDP came in surprisingly soft in the third quarter of 2023, flat on the quarter (from 1.1% in 2Q23) but still amply positive on the year at +2.1% (from 2.6% in 2Q23). Lower government expenditure and soft exports were part of the explanation, together with slower consumption as pent-up demand weakened. However, consumption data looked somewhat puzzling given the country's strong inward foreign tourism flows over the summer.

Growth-wise, the impact of floods which hit central Greece in September should have been contained in the third quarter, but more might show up in fourth quarter data, even though public funds might partly compensate. Having hit a relevant food-producing area, the floods have likely already had a role in keeping upward pressure on food prices, which, in November, were still growing at a strong 9% yearly rate.

The jury's still out

The growth picture might improve slightly in the fourth quarter, but the jury is still out. Business surveys are sending mixed signals, with manufacturers turning more pessimistic and service providers more upbeat into the year-end. Consumer confidence has been more volatile but supported by a resilient labour market. In November, the unemployment rate was confirmed at 9.4%, the lowest level since early 2009, well before the government debt crisis. Consumption-wise, a weak reading of October retail sales (in volumes) seems to be leaving the onus of growth on services, where a prolonged tourism season might have a say.

Greece set to outperform in the eurozone thanks to RRF funds

The Greek economy looks set to remain an outperformer in the eurozone in 2024. While exposed to the same geopolitical risks as its peers, it will be able to leverage the EU RFF funds when the plan foresees a bigger role for investment than for reforms. The investment channel will thus be key, possibly helped over the second half of the year by the expected loosening of the European Central Bank's rate policy.

Consumption developments will be tied to what happens to the labour market. We suspect that employment growth could possibly slow, but the combination of demographic factors and worker scarcity in specific sectors, such as construction, will still support labour hoarding, limiting the scope for any substantial increase in the unemployment rate.

Return to investment grade adds upside risks to growth forecasts

The public finance backdrop looks set to remain positive. Budgetary developments have consistently been positive over the last few quarters, and 2023 could end with a deficit of around 2.2% of GDP and a primary surplus of 1%. Solid growth and deficit developments have brought about much-awaited rating upgrades. After Fitch's upgrade in December, Greece now has two (the other being S&P, which affirmed its ratings in October) out of three major rating agencies assigning an investment grade status (with a stable outlook) to its debt. Markets have taken note, pushing the GGB spread on 10-year German Bunds to the 110bp area. Beyond the sheer reduced debt servicing cost effect, the regained status could also help Greece by making it more attractive to inward FDIs. This adds upside risks to our Greek GDP forecasts, which are currently set at 1.3% in 2024.

Geek economy in a nutshell

	2022	2023F	2024F	2025F
GDP	5.7	2.0	1.3	2.0
Private consumption	7.6	0.9	0.8	1.5
Investment	11.6	5.2	3.3	5.6
Government consumption	2.3	1.7	0.4	0.4
Net trade contribution	-2.8	0.9	-0.3	0.4
Headline CPI	9.3	4.2	2.7	2.0
Unemployment rate (%)	12.4	10.7	9.9	9.7
Budget balance as % of GDP	-2.3	-2.2	-1.6	-1.3
Government debt as % of GDP	171.3	160.1	154.2	149.5

Source: LSEG Datastream, all forecasts ING estimates

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Article | 18 January 2024 Portugal

Portugal: Starting 2024 on a weaker footing after tourism recovery falters

One of the big drivers of growth, a further recovery in the tourism sector, will fall away this year. Combined with modest consumption dynamics, we assume average Portuguese growth will slow down this year.

Things are not quite so sunny for Portugal's Prime Minister, Antonio Costa and his country's economy

Portuguese economy made strong start in 2023, but growth quickly stalled

Portugal's economy started 2023 strongly but slowed down sharply afterwards. The country still benefited from a further recovery in the tourism sector in the first few months of the year, but this positive effect on growth gradually faded throughout the year as visitor numbers rose back to pre-Covid levels. A weakening of foreign demand caused by the economic slowdown in many other European countries also pulled negatively on the growth rate. The relative greater weight of the service sector in the economy, partly due to the importance of tourism, has allowed the Portuguese economy to grow faster than the eurozone average.

Weak consumption means we will not see a strong recovery

In the coming year, a recovery in real incomes through the combination of lower inflation and accelerating wage growth will support consumption, but several other factors will counter this positive effect. First, a weakening labour market. Although unemployment is still very low, business surveys show that hiring intentions among entrepreneurs are weakening. In addition, households will have to repay more on their loans due to rising interest rates, which will also dampen consumption. So, a combination of sub-par economic growth, a weakening labour market and geopolitical uncertainty is likely to encourage households to increase their savings rate again.

> *Measures to help to households will start to be withdrawn this year*

Some government measures which were introduced to support households against high inflation, such as the application of zero VAT on a range of basic foodstuffs that benefited households last year, will be abolished in 2024. All these factors are likely to dampen the positive impact of a rise in real incomes on consumption, meaning that part will not be a strong growth driver this year.

In the second half of the year, growth is expected to rebound on the back of a gradual easing of monetary policy and a pick-up in external demand. Also, European funds will have a positive impact on the growth figures for this year. Overall, we expect the Portuguese economy to grow by 0.8% on average in 2024, which is above our euro area forecast but well below last year's 2.1% growth. In 2025, we expect growth to accelerate again to 2.2%.

Headline inflation could temporarily rebound, but it's nothing to be worried about

Inflation could rebound temporarily this year as favourable base effects due to lower energy prices last year will gradually fade away. In addition, the discontinuation of some support measures will also put upward pressure on the inflation rate. We assume an average inflation rate of 2.4% this year, which is expected to normalise further to 2.1% in 2025.

Portuguese economy in a nutshell

	2022	2023F	2024F	2025F
GDP	6.8	2.1	0.8	2.2
Private consumption	5.6	1.0	0.7	1.7
Investment	3.0	0.9	2.1	5.2
Government consumption	1.4	1.1	0.7	0.9
Exports	17.4	4.3	2.1	4.0
Imports	11.1	1.3	2.5	4.1
Headline CPI	7.8	4.4	2.4	2.1
Unemployment rate (%))	6.1	6.5	7.2	7.3
Budget balance as % of GDP	-0.3	1.1	0.2	0.2
Government debt as % of GDP	112.4	101.4	97	92.4

Source: Thomson Reuters, all forecasts ING estimates

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Ireland: The engines stuttered in 2023 but the potential remains strong

Ireland underperformed last year, but mainly due to one-off factors. The underlying potential remains strong. But don't expect a barnstorming performance as higher rates continue to weigh on the economy

Ireland's Prime Minister or Taoiseach, Leo Varadkar

A weak 2023...

The Irish economy has seen spectacular growth figures over recent years, often inflated by multinational (accounting) activity, but last year underwhelmed. So far, Ireland has seen three quarters of very negative growth - marking a technical recession - and is expected to have rounded out the year with a negative annual growth rate of -1.8%. This shows that the multinational activity in Ireland doesn't just have an inflating effect on GDP growth; it can also work the other way around.

Ireland's pharmaceutical sector is huge

This correction to GDP is not the familiar statistical noise related to accounting. It can also, in part, be derived from the pharmaceutical sector, which is huge in Ireland as it represents about 2% of total employment. It has seen a large correction this year, which came after an extraordinary boom during the pandemic years, from which the Irish economy profited. The current moderation of production has also resulted in a decline in pharmaceutical exports for Ireland, as most production is for external demand.

However, the decline is not fully explained by multinational activity. The domestic economy has also performed much more sluggishly than in recent years. The Irish preferred measure for looking at economic activity is modified domestic demand (MDD), which grew by 7.7 and 11.6% in 2021 and 2022; it's expected to have grown by just 1.5% in 2023, according to the Central Bank of Ireland. While there are no signs of recession, it does show much more moderation in the country's domestic growth.

The underlying economy remains very healthy

But while the growth engine stuttered a bit over the course of 2023, there is no sign of broader weakness. Employment growth was strong in the first three quarters for which information is available. The unemployment rate did creep up a bit over the course of the year, but it was coming from historical lows and having returned to 4.9% in December, similar to pre-pandemic levels. Overall, the labour market still seems to be in good shape.

And public finances continue to look very healthy. Ireland was running a budget surplus of 2.4% in the second quarter of last year, the largest surplus in the EU. As a result, government debt-to-GDP is coming down rapidly. In 2Q 2022, it was still 50.5%, but it has dropped to just 43.1% in 2Q 2023. The main worries are whether public finances are still too stimulating in nature for inflation to fall or not. That does not seem to be the case, given how rapidly inflation has also been coming down. In December, Irish HICP was at 3.2%, down from 8.2% a year earlier.

2024 is likely to be muted

For 2024, expectations are on the modest side. While the pharma sector is expected to do better than last year, concerns about the impact of higher rates weigh on the economy. Investment will, therefore, continue to be under pressure. The sluggish global economic environment makes significant export growth challenging, and a recovery in domestic consumption is the most promising path for decent economic activity. With real wage growth recovering quickly, this is not a farfetched prospect for the Irish economy.

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Finland: Eurozone headwinds hit harder in Finland

Finland likely ended 2023 in recession and only a modest recovery is expected for 2024. Some of the bigger headwinds for eurozone markets hit harder in Finland

Finland's Prime Minister Petteri Orpo, right, weathering another storm with his Swedish counterpart

The third quarter was a tough reality check for the Finnish economy. It had slowly started economic recovery after a recession in the second half of 2022, but the third quarter of last year poured cold water on recovery hopes. A decline of 0.9% Quarter-on-Quarter brought Finnish economic activity back to the lowest level since Autumn 2021. This makes Finland one of the worst-performing countries in the eurozone in recent years.

Larger concerns than elsewhere for Finland

Worries experienced elsewhere in the eurozone appear to be larger in Finland for the moment. Like other markets, Finland faces headwinds from exports, but being a relatively open economy with its largest trade partners being Germany and Sweden, those concerns are somewhat bigger than average. Besides that, Finnish competitiveness is suffering partly because of losing cheap Russian inputs.

Higher interest rates are dampening economic activity

Another big driver of economic weakness in the eurozone comes from higher interest rates, dampening investment and general economic activity. In Finland, the economy responds rather directly to higher rates as mortgages are more variable than in most European markets. Prices for one-family houses have corrected by more than 12%, and the number of transactions has almost halved from its 2021 peak. In recent months, as longer-term rates have fallen somewhat, there have been tentative signs of recovery in the Finnish housing market, but it's safe to say the impact of the housing market on the economy has been largely negative this year.

Just modest upsides for 2024

For the coming year, the residual impact of higher rates on investment will continue to be felt. The construction market has already been hurt significantly by higher costs and lower house prices, adding to concerns about longer-term investment weakness in the sector. Elsewhere, investment is set to be impacted by weak global demand and higher rates, which will likely drag well into the year. Then again, given Finland's higher sensitivity to rates, it could also benefit earlier from some relief once the ECB starts cutting and longer-term lower rates come in.

So, we only expect some recovery towards the end of this year. With inflation having come down more quickly than average in the eurozone, it does look like purchasing power can be restored in 2024, making a modest consumption-led recovery a realistic prospect. Lower ECB rates could be helpful there as well. But with just 0.4% GDP growth expected, there is no real revival of the Finnish economy in the making either.

Are more budget efforts going to be on the table in 2024?

The weak economic environment is not helpful to Finland's fiscal position either. A budget deficit of around 3% is a realistic expectation for the coming years, and debt levels are on the rise and could come close to 80% in 2025, according to the European Commission. The Finnish government has announced plans to gradually bring back the deficit to -1% of GDP in 2027, but with economic headwinds mounting, it could be difficult to achieve these targets. The question is whether those concerns will cause the Finnish government to make more budget-cutting efforts in 2024 or whether worries about short-term growth will prevail.

The Finish economy in a nutshe

	2022	2023F	2024F	2025F
GDP (%)	1.6	-0.4	0.4	1.2
Private consumption (%)	1.7	-0.6	0.4	0.9
Investment (%)	3.2	-4.9	1.2	3.4
Government consumption (%)	0.8	3.2	0.2	0.2
Net trade contribution (%)	-1.9	1.8	0	0.2
Headline CPI (%)	7.2	4.4	2	1.7

Macrobond, all forecasts ING estimates

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