

## Eurozone economy grew marginally in the first quarter of 2023, but divergence is high

The eurozone economy carries on along the rim of stagnation. A meagre 0.1% quarter-on-quarter GDP growth in the first quarter with high divergence across member states is better than feared – but clearly no reason to cheer



Source: iStock

The eurozone economy grew by a meagre 0.1 % quarter-on-quarter in the first quarter of the year, from zero in the fourth quarter of 2022. On the year, GDP growth came in at 1.3%. Growth across the eurozone ranged from -2.7% QoQ in Ireland to +1.6% QoQ in Portugal. A homogenous monetary union looks differently.

### Resilience and divergence

More resilient than expected is clearly one label to put on the eurozone's economic performance. In fact, the eurozone economy has now been able to avoid what a few months ago was probably the best predicted recession ever. The warmer winter weather, lower wholesale energy prices, the

reopening of China and fiscal stimulus are the key drivers behind this better-than-expected performance.

However, there is no reason for complacency. First of all, the growth performance is anything but homogenous. While the largest eurozone economy, Germany, remains in recessionary territory, France and Spain today slightly surprised to the upside. Growth in the eurozone ranged from -2.7% QoQ in Ireland to +1.6% QoQ in Portugal. A divergence, which doesn't make the ECB's task any easier. To some extent, this divergence could simply be the result of different time lags for fiscal stimulus and energy price caps. More structurally, however, this divergence could also be the start of a more structural rebalancing of the eurozone economy as Germany's economic business model is clearly the most affected by higher energy prices, energy transition and global trade tensions.

Looking ahead, a short-lived industrial renaissance and the gradual impact of recent wage increases could actually lead to a further acceleration of eurozone growth – at least in the short run. In fact, it will again be a race between two opposing drivers: the positive momentum in industry and wage increases against the impact of monetary policy tightening and a looming US recession. In true European tradition, neither of the two will win. The compromise for the eurozone economy will be subdued growth going into 2024.

## Author

**Carsten Brzeski**

Global Head of Macro

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

## 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).