

Snap | 30 January 2025

Eurozone growth stalls as policymakers show sense of urgency

Eurozone GDP growth fell back to 0% at the end of last year. The ECB is expected to continue easing monetary policy as the Commission presents growth plans as economic weakness remains widespread. Don't expect any immediate pickup, as the outlook is still sluggish



EC President, Ursula Von der Leyen, presenting her 'competitive compass' on Wednesday

After a few quarters of moderate growth, the eurozone economic recovery has again come to a standstill. After the energy and inflation shock, we returned to growth at the start of last year, but 2024 ended back in stagnation mode. Growth was negative in France and Germany, with Italy seeing stagnation. Strong growth rates were still seen in Spain and Portugal; Southern Europe remains the bright spot in European economic activity right now.

Consumers still seem to be reeling from the inflation shock, as redeemed purchasing power is not yet translating into a strong consumption recovery. Investment remains under pressure from high inventories in manufacturing, economic uncertainty and high interest rates. The export environment struggles because of weak external demand. Here's the summary: weakness is all around us while other major economies show growth.

Policymakers are catching on. The European Central Bank is set to lower its interest rates by another 0.25 pp later today, and ECB speakers indicate they want to move to a neutral level of

interest rates – where interest rates no longer restrict the economy – of 2% on the deposit rate quickly. We even think that they will go slightly beyond that and lower it to 1.75%.

The European Commission presented a Competitiveness Compass yesterday as President Ursula Von der Leyen takes European competitiveness as a key objective for her second term. The Commission is taking a lot of leaves out of the Draghi playbook to improve productivity, but the big question remains how successful it can be at implementation. If successful, it will only boost the economic outlook for the medium term.

For the moment, the economy seems to be in a slump and we don't expect it to come out of it this winter. The first indications for the first quarter are that the economy will hover around stagnation some more. Over the course of this year, we do expect domestic demand to drive some economic growth again.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@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.