

## 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.

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