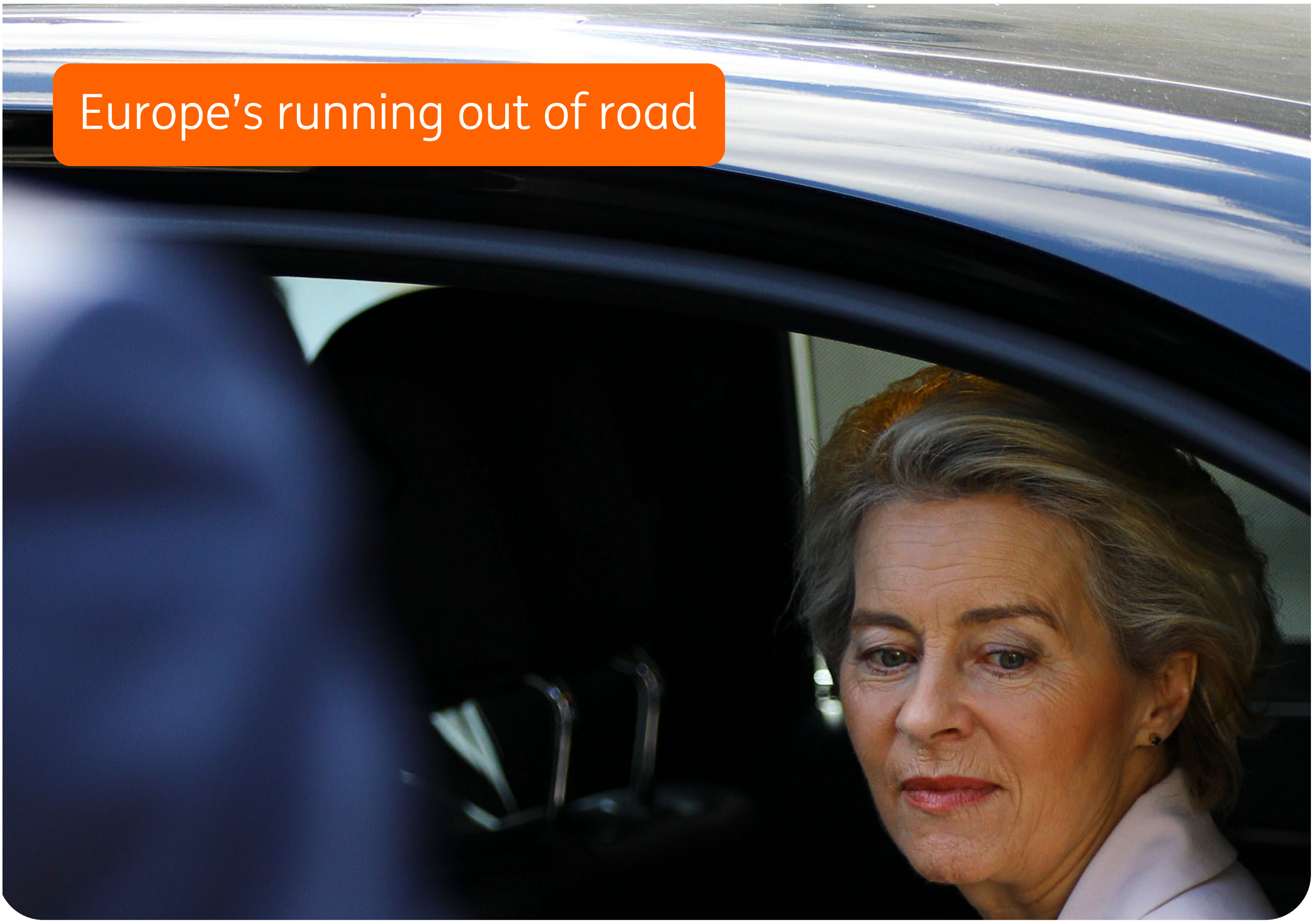
THINK Economic and Financial Analysis

Eurozone Countries Outlook 2025

January 2025



Europe’s running out of road

You'd be forgiven for thinking that European leaders love a crisis and relish finding a way out just at the last minute. But something's changed. The continent is, again, facing extreme difficulties. But this time, it feels different and more profound. The can it's been kicking for years is rapidly running out of road

Over the last fifteen years, Europe has seen too many make-it-or-break-it moments. Think of the sleep-depriving, nerve-wracking weekend meetings of European leaders during the euro crisis. But Brexit, the pandemic, and the Russian invasion of Ukraine also saw several make-it-or-break-it moments for Europe.

The good thing is that Europe is still there. Whether it’s still there stronger than ever is an entirely different story. For the first time since the end of the pandemic, Europe is not starting the year with optimism and hope for at least a cyclical recovery. Instead, 2025 has started on a weak footing and an eery feeling that growth could disappoint once again.

The list of potential downside risks is long. The new US administration's looming tariffs and industrial policies are a short and long-term risk to the eurozone economy. Tax cuts, deregulation, and lower energy prices in the US could cannibalise European growth structurally.

But that’s not all. With two relatively lame ducks leading German and French governments, political and policy uncertainty in the two largest European economies is likely to weigh on sentiment and growth, at least in the first few months of the year.

Donald Trump’s second term in office comes at a time when the European economy is in a much weaker shape than eight years ago. Then, Europe didn’t have a war in its backyard, a competitiveness and energy issue, and China was still a flourishing export destination and not a system rival.

Europeans, not least this one, can be prone to drama. And while I don't want to sound particularly histrionic, because yes, there are still chances for a positive growth surprise, Europe's structural issues and challenges are not going to simply disappear.

A complacent shrug or a knee-jerk response to any soundbite coming out of the White House or Mar-a-Lago won't be enough. Europe needs to take back control of its own destiny. And it already has a blueprint for that in last year's Mario Draghi report. Step up investments in infrastructure, digitalisation, education and defence. Reduce bureaucracy and intensify cross-border cooperation and integration on key issues such as energy, telecommunications, and so much more.

It can't happen in a few weeks or months. But if Europe doesn't show clear and tangible signs that it's moving in the right direction, the risk of being stuck in stagnation is high.

So 2025 really is a make-it-or-break-it moment for Europe. And not like in the old days of last-minute crisis summits. The kicked can has finally run out of road. Europe needs to change. And change fast.

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Watch: Europe has some serious questions to answer

Will 2025 be a year when Europe finally retakes the initiative? Or will it remain in stagnation, buffered by events, not least by storms from Washington? ING's Carsten Brzeski says this is a make-or-break year... and few are convinced that the 'right' decisions will be made.

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Germany: how to make the economy great again

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In Germany's case, the often-repeated saying that the upcoming election is crucial holds true. The February elections will determine the economic direction for the coming years

An election campaign poster of German Chancellor Olaf Scholz on display in Berlin

A crucial topic in the election campaign is the dire state of the German economy, which has now been in contraction for two consecutive years. However, economic problems have been around for longer. In fact, the economy is currently the same size as it was in early 2020, marking five years of de facto stagnation.

The reasons for this stagnation have been discussed endlessly here. In short, a combination of cyclical and structural headwinds has paralysed the economy. While cyclical headwinds like high inflation, high interest rates, high inventory levels, or even high policy uncertainty can fade away rather quickly, the structural headwinds remain.

Germany has realised that the old macro business model of cheap energy and easily accessible large export markets is no longer working. Ten years of underinvestment, deteriorating competitiveness, and China's shift from an export destination to a fierce industrial competitor have taken – and will continue to take – their toll on the German economy. For more on Germany's three most pressing structural problems, read here.

The near-term outlook doesn't look rosy

Even if some of the cyclical headwinds fade away, it doesn't look like this will happen in the near term. Looming tariffs and the expected modern version of 'beggar-thy-neighbour' policies by the new US administration don't bode well for the German economy. Not just because of the potential impact on German exports, but because of the effect on German investments if companies were to move production to the US. At the same time, the increase in bankruptcies since mid-2023 is likely to enhance the already gradual turning of the labour market, potentially denting hopes for a private consumption rebound.

The only hope for a cyclical rebound in the early months of the year comes from technical factors, such as a shift in the inventory cycle or an increase in private consumption. An unusually prolonged period of high inventory levels has sparked hopes for a turning inventory cycle. However, instead of decreasing, inventories have recently risen again. Additionally, order books have not yet started to recover, indicating that any turnaround in the inventory cycle is not imminent.

In terms of private consumption, real incomes will return to their early 2020 levels this year, which together with lower interest rates could re-spark consumption. However, as the labour market begins to deteriorate, policy uncertainty remains high, and there is growing awareness of the unsustainability of the public pension system. These are all strong reasons to remain cautious about a rebound in private consumption this year.

What to expect from the elections

After five years of de facto stagnation, last year finally brought broad awareness in German politics and society that the economic problems are not just cyclical. The country is still one of the richest economies in the world, but it needs an overhaul to stop its gradual deterioration. Just addressing the main issues of energy, China and competitiveness will be a challenge. Add to this unfavourable demographics and the impact on healthcare and pension systems and it's clear that there is no easy way out of the current situation.

In the absence of any new policy initiatives after the elections, the German economy looks set for another year of stagnation and possibly even a third consecutive contraction. A sad new record.

Looking at the economic ideas of the political parties, it is becoming increasingly clear that even in a best-case scenario with reforms and investments, any new government will not try to overhaul the old economic business model, but rather try to rejuvenate the old one. Less red tape, some tax cuts to stimulate spending and investments, possibly attempts to lower energy costs and infrastructure investment – all of which feature in any European economist's wish list, and a growth booster for the economy; at least temporarily. However, a closer look at the proposals shows that they are often rather superficial and that the financing of the ideas is anything but solid.

Our hope still is that any new German government will decide on a longer-term plan for economic reforms and investments. Just to make up for the investment gap accumulated over the last decade, Germany would need additional investments of 1.5% GDP per year over the next 10 years. This is not all public investments, but the government will have to play an important role in providing public goods like infrastructure and education and creating incentives for private investments. This is why in our base case scenario, we see some reforms combined with infrastructure investments after the elections. If we are right, this should bring at least a small boost to confidence and growth from the second half of the year onwards.

Whether these measures will be sufficient in competing against China and the US is a completely different question. What Germany gets after the elections is a refurbished model of its economy – better than the old one with cracks, battery failures and very few gadgets, but also not a shiny, sprinkling new model that makes the competition speechless. The biggest risk we are currently seeing is that the political system in Germany will be even more fragmented after the elections, making coalition negotiations complicated and increasing the risk that any new government will start with the smallest instead of the largest common denominator.

To make the German economy great again, the country will need time. A decline that took more than a decade cannot be turned around in a few months. The February elections will be crucial for the fate of the economy. It simply cannot afford further stagnation.

The German economy in a nutshell

	2023	2024F	2025F	2026F
GDP	-0.1	-0.2	-0.2	1.3
Private consumption	-0.2	0.0	0.0	0.8
Investment	-0.7	-4.7	2.4	2.5
Government consumption	-0.1	2.2	2.6	2.8
Net trade contribution	0.2	-0.2	-1.0	1.0
Headline CPI	6.0	2.5	2.5	2.3
Unemployment rate (%)	3.2	3.4	3.6	3.5
Budget balance as % of GDP	-2.6	-2.6	-2.5	-2.3
Government debt as % of GDP	67	67	61	60

Source: Thomson Reuters, all forecasts ING estimates

France: political uncertainty will weigh on the economy

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The French economy is expected to face significant challenges in 2025 due to ongoing political instability, more restrictive fiscal policy, and a challenging international environment. GDP growth is projected to slow as a result

French Prime Minister François Bayrou

The last few months have been turbulent

France has experienced considerable political turbulence in recent months. Following the dissolution of the French National Assembly in June and the subsequent legislative elections over the summer, Michel Barnier formed a minority government. However, this government lasted only three months, as a budget vote led to a vote of no confidence in the National Assembly. Consequently, a new government was established at Christmas, with centrist François Bayrou as prime minister, but it has yet to pass a budget. As a result, 2025 has begun with a caretaker budget, mirroring that of late 2024. This situation is unfolding against a backdrop of extremely tight public finances, with the deficit expected to have reached 6.1% in 2024, significantly higher than the forecast in January 2024.

From an economic perspective, France enjoyed a dynamic third quarter in 2024, with GDP growth of 0.4% quarter-on-quarter, largely due to the Paris Olympic Games. However, the economic situation has since deteriorated sharply. Uncertainty over future budget adjustments, including potential tax hikes for businesses and households, along with political instability, the aftermath of the Olympics, and a less favourable international environment, have weighed on fourth-quarter activity and the economic outlook.

Political uncertainty remains high

Although the new government escaped a motion of censure on 16 January - the Socialists and the far-right RN having decided to abstain from voting on it - the political situation is still unstable and the risk of another vote of confidence in the coming months is high. The next crucial moment will be the vote on the budget. To avoid a motion of censure in early January, François Bayrou had to announce a number of concessions to the Socialists, which will complicate the budget process.

The new government's goal is to reduce the deficit to 5.4% of GDP in 2025, a less ambitious target than the Barnier government's 5% deficit goal for the same year. However, achieving this will be challenging in the context of weak growth. Budget discussions are expected to be tense, as will those on pension reform, raising the possibility that the French government could fall again. New parliamentary elections cannot be held before July 2025 so if the Bayrou government were to fall before then, another minority government would once again have to be formed. In short, political uncertainty will remain high throughout the year.

Activity is likely to be weak in 2025

This uncertainty will weigh heavily on the economic outlook for 2025. The year has started poorly, with surveys indicating a decline in consumer and business confidence. Domestic demand will continue to be affected by fiscal consolidation measures and the surrounding uncertainty. Household consumption is expected to remain very moderate. Despite falling inflation and rising real wages, increased fears about unemployment and uncertainty are likely to lead to a further rise in the household savings rate. Uncertainty and the low potential for long-term rate declines also suggest that household and business investment will fall again in 2025.

With exports likely to be hit by the resurgence of trade tensions, there is every reason to believe that industrial activity in France will be very moderate over the coming months. The services sector should continue to fare better than industry, but here companies are becoming less optimistic too, signalling a slowdown in services as well. Order books in the construction sector are still falling, indicating another difficult year.

Ultimately, GDP growth should be just 0.6% in 2025, compared with 1.1% in 2024 and 2023. A recovery is expected in 2026, but given the challenging international environment and restrictive French fiscal policy, it may be limited to 1%.

Inflation in France should remain below 2%

Harmonised inflation ended the year at 1.8%, down from 3% at the start of 2024, due to falling food and energy prices. Despite rising energy prices on international markets, the 15% reduction in regulated electricity tariffs in February should keep energy inflation very low in 2025. The normalisation of wage trends is expected to moderate services inflation, while food and goods prices may see a slight acceleration. Overall, inflation is expected to remain close to the current level throughout the year, before returning to around 2% in 2026.

The French economy in a nutshell

	2020	2021	2022	2023	2024F	2025F	2026F
Demand and output							
GDP	-7.6	6.8	2.6	1.1	1.1	0.6	1.0
Private consumption	-6.5	5.3	3.2	0.9	0.9	0.8	1.1
Investment	-6.2	9.6	0.1	0.7	-1.7	-0.7	1.4
Government spending	-4.4	6.6	2.6	0.8	2.0	0.3	0.1
Net trade contribution (% points of contribution to GDP)	-1.1	-0.1	-0.4	1.3	2.0	0.4	0.2
Labour market							
Employment net variation	-17	1,225	553	128	0	-1	0
Labour force net variation	-150	622	349	54	0	0	0
Unemployment net variation	-163	-100	-26	-141	349	54	0
Unemployment rate (% eop, Eurostat)	8.0	7.9	7.3	7.4	7.5	7.7	7.8
Government finances							
Budget balance as a % of GDP	-9.1	-6.5	-5.0	-5.5	-6.3	-5.7	-5.5
Government debt as a % of GDP	113	111	110	111	114	117	118
Prices							
Inflation (HCPI)	0.5	2.1	5.9	5.7	2.3	1.7	2.0

Source: Refintiv Datastream, ING forecasts

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Italy: moderate growth in an uncertain environment

We see another year of moderate growth in Italy, driven by private consumption. Investments are likely to be more mixed, with opportunities hinging on an acceleration in spending of EU recovery funds. Fiscal discipline will help in consolidating credibility, not economic growth

Italian Prime Minister Giorgia Meloni arrives for Donald Trump's inauguration ceremony on Monday

The Italian economy is no longer outperforming the eurozone average

After outperforming in the post-Covid period, the Italian economy is now aligning with the euro area average. In the third quarter of 2024, GDP growth was flat (+0.4% year-on-year), with a strong positive contribution from private consumption offset by a significant drag from net exports. The small positive impact of inventories and the negative effect of gross fixed capital formation balanced each other out. Supply-side data confirmed that manufacturing remained a hindrance, placing the burden of growth on the services sector.

A marginally positive fourth quarter would set average GDP growth at 0.5% in 2024

The fourth quarter should not bring about substantial changes to this pattern. A resilient labour market, with the unemployment rate at 5.7% (the historic low of the current series) in November, yearly wage growth hovering at 3.8% and inflation averaging at 1.4% over the quarter remain favourable conditions for further gains in real disposable income, potentially supporting consumption.

On the other hand, net exports might have acted as a drag. Gross fixed capital formation could tilt the balance. We expect continued weakness in the machinery and transport equipment components, but also possible positive surprises on the construction front, where the push coming from the implementation of the infrastructural component funded by EU recovery funds could combine with a smaller drag of the residential component.

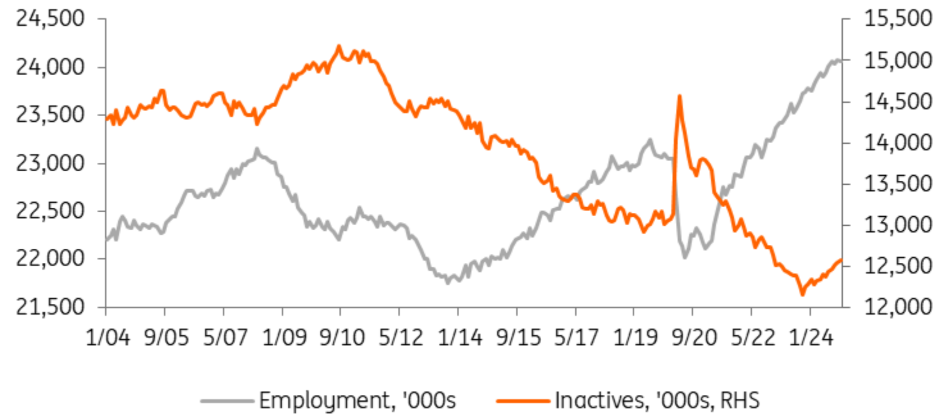
We see a minor GDP expansion in the fourth quarter, which would leave average 2024 growth at 0.5%, and a poor carry-over effect for 2025.

2025 to start on a soft-ish tone against a very uncertain external backdrop

2025 will likely start on a soft-ish foot, with multiple external factors keeping uncertainty elevated. In Europe, the sources of uncertainty will be France and Germany, the top two destinations for Italian exports. Political instability, tighter fiscal policy in France and a lack of policy direction in Germany before the February elections will likely continue to weigh on Italian exports.

US developments on tariffs under the new Trump administration are the obvious third source of uncertainty, again relevant as the US contends with France as the second largest market for Italian exports. Elevated uncertainty about exports will likely have a bearing on Italian manufacturing, which has been in recession since early 2023. Soft order book data until December has been pointing to a stabilisation in production rather than a recovery in the current quarter, once again leaving the onus of growth on services.

Still positive employment picture is a helpful anchor for consumption in 2025



Source: LSEG Datastream

Household consumption will be the strongest growth driver in 2025

Private consumption looks set to remain the key growth driver for Italy. The resilience in employment developments legitimises some optimism. Employment growth is decelerating with economic activity, but we do not see strong signals of imminent job shedding. Persisting labour supply mismatches makes it hard to fill vacancies with the right profiles, possibly inducing selective labour hoarding.

The marginal increase in the unemployment rate that we anticipate should result in a small deceleration in wage growth without jeopardising gains in gross disposable income. In turn, the gradual increase of inflation from the current low levels of 1.3% towards 2% that we project by the end of the year looks compatible with some more catch-up in purchasing power.

Energy price increases over the first part of the year are not expected to compound with accelerating prices in other goods and services inflation. Against an uncertain backdrop with soft demand, businesses may still prefer not to pass through higher costs, keeping profit rates under pressure.

Investment soft, but an acceleration of recovery fund expenditure is a distinct possibility

Developments on the investment front will be exposed to a higher degree of uncertainty. The start of the year will likely be soft in the machinery domain, given the low level of capacity utilisation, and the same should hold for transport equipment.

Construction investments will likely remain soft in the residential sector, penalised by the phasing out of the super bonus incentive scheme, but stronger in the infrastructural sector, boosted by the implementation of the investment part of the recovery plan.

As the year unfolds, the positive drive of the Recovery and Resilience Plans might extend to the machinery domain, favoured by the recent simplifications of procedures foreseen by the Industry 5.0 incentive scheme (worth some €6.3bn) which is due to expire by the end of the year.

The gradual monetary easing by the ECB should also help investment by reducing the cost of funding. As we approach the 2026 deadline for its completion, the implementation of the investment part of the recovery plan could thus be more and more relevant. With only a third of available funds having been spent (as of the end of September 2024), an acceleration in 2025 seems likely.

Fiscal discipline and political stability are set to help credibility, not growth, for the time being

As was the case in 2024, political stability and public finance developments should act as stabilisation factors in 2025. Notwithstanding frictions among the ruling coalition partners on the choice of candidates who might emerge in a possible (not certain) regional election round this year, risks to the government's survival remain low, in our view. Political stability, in turn, should help the implementation of the budget.

Finance Minister Giancarlo Giorgetti has set out another budget for 2025 aimed at securing a path of fiscal consolidation, devoting available resources to transforming temporary amendments to low-income personal tax rates and social contribution cuts into permanent measures. Notwithstanding a restrictive fiscal stance (by some 0.5% of potential output), the debt/GDP ratio looks set to rise from c.136% to c.139% as the tax credits of the super bonus will be cashed in.

All in all, we see some room for average Italian GDP growth to increase slightly to 0.7% in 2025, with some downside risks related to a very uncertain external environment.

The Italian economy in a nutshell (% YoY)

	2023	2024F	2025F	2026F
GDP	0.8	0.5	0.7	0.9
Private consumption	1.0	0.7	1.4	0.9
Investment	8.7	0.0	-0.5	2.2
Government consumption	1.9	0.5	0.1	0.1
Net trade contribution	0.4	0.5	-0.7	-0.5
Headline CPI	6.0	1.1	1.7	2.1
Unemployment rate (%))	7.7	6.4	6.0	6.1
Budget balance as % of GDP	-7.2	-3.9	-3.5	-3.0
Government debt as % of GDP	134.8	136.5	138.2	138.6

Source: LSEG Datastream, all forecasts ING estimates

Spain: sustained growth amid shifting drivers

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Post-Covid growth in Spain was fuelled by strong service exports, population growth, and government consumption, despite a challenging inflationary and restrictive monetary policy environment. Looking ahead, Spain's economic growth drivers are expected to shift to private consumption and investment as credit becomes more affordable

Spanish Prime Minister Pedro Sanchez

Spain has emerged as a key driver of economic growth in the eurozone since Covid-19. After experiencing one of the deepest downturns during the pandemic, with GDP plummeting 22% below pre-Covid (Q4 2019) levels in Q2 2020, Spain has achieved one of the strongest recoveries in the eurozone. The Spanish economy now stands 6.7% above pre-Covid levels, compared to the 4.7% growth at the eurozone level. Moreover, Spain is on a globally aspirational growth trajectory, having expanded by 4.3% since January 2023, closely matching the US economic growth rate of 4.5%.

Post-crisis growth in Spain was fuelled by strong service exports, population growth, and government consumption, despite a challenging inflationary and restrictive monetary policy environment. Looking ahead, Spain's economic growth drivers are expected to shift to private consumption and investment as credit becomes more affordable. We forecast 2.2% growth for 2025 in a challenging eurozone environment, exceeding the expected growth for the region.

Strong service exports, population growth and government consumption fuelled post-Covid growth

It's no surprise that tourism is vital to the Spanish economy, contributing 12.3% to GDP in 2023. This growth continues, with a record of 88.5 million international tourists in the first 11 months of 2024, a 10.6% increase from 2023. Non-travel services like business services, transport, telecommunications and IT also grew significantly in 2021 and 2022, by 16.1% and 28.9%, respectively, reflecting a global shift towards a more service-oriented economy. Moreover, Spain still has room to grow in this area, as the share of non-travel services in GDP was 1.7 percentage points below the euro area average in 2021, according to the Bank of Spain.

Spain's population dynamics also played a significant role in its economic recovery. Between October 2019 and July 2024, the population aged over 15 grew by 5.6%, compared to the eurozone's growth of 2.61%. The non-EU foreign population in Spain grew significantly, increasing by 40.57%, driven by government policies that facilitated the regularisation of non-EU foreigners, eased student-to-work visa transitions, and introduced the digital nomad visa, attracting more foreign talent. As a result, the evolution of Spanish GDP per capita appears relatively less impressive than overall GDP, having grown 3.5% since the third quarter of 2019, slightly above the eurozone's growth rate of 2.9%.

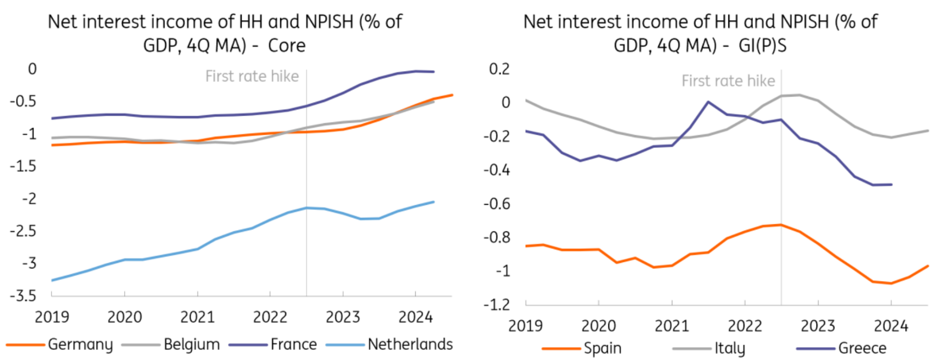
Meanwhile, government expenditure increased to support the economy during the Covid crisis and has since continued to grow above its pre-Covid trend, rising to 45.5% of GDP in 2024 from 42% in 2019. The debt-to-GDP ratio remains around 102.8% in 2024 and is decreasing thanks to strong GDP growth and increased tax revenue collection, partly due to fiscal drag. However, caution is needed to ensure this fiscal drag does not become a true drag on the economy in the future. Total government revenue increased from 39% of GDP in 2019 to 42.5% by the end of 2024.

Monetary policy easing will benefit Spanish households

Spain's strong growth is remarkable given the challenging inflationary environment and restrictive monetary policy. This policy has disproportionately impacted households in southern European countries like Spain (see figure below). Compared to households in core European economies, Spanish households experienced a decline in net interest income – the difference between interest received on assets (such as deposits) and interest paid on liabilities (such as home loans) – while it increased in core economies.

Spanish households were, for instance, relatively more exposed to interest payment increases on mortgages due to a high share of variable-rate mortgage loans compared to fixed-rate ones. With the European Central Bank's continued monetary policy easing, we expect this trend in net interest income to reverse, which will benefit Spanish households.

Monetary policy easing will affect households differently within the eurozone



Note: Net interest income of households (HH) and non-profit institutions serving households (NPISH) is averaged over 4 quarters to smooth out seasonal fluctuations.
Source: LSEG Datastream, ING Economic Research

Private consumption and investment will push growth going forward

The impact of monetary policy easing, a high savings rate and a robust labour market are all expected to push up household consumption in 2025, a trend that started in the last quarters of 2024. Household consumption smoothing after recent rises in real disposable income pushed the household savings rate to 13.1%, five percentage points above its pre-Covid level. Meanwhile, the unemployment rate reached 11.2% in 2024 and is expected to decrease to 10.7% in 2025.

More affordable credit along with the allocation of EU recovery funds will also benefit private investment, especially in the construction sector. Spain is set to disperse the majority of the EU's recovery funds over 2025 and 2026, where infrastructure investment will benefit the construction sector. The Spanish construction industry, which contracted by 25% between 2019 and 2022, has begun to recover and is expected to continue growing in the coming years. The issuance of residential and non-residential permits is on the rise, and Spanish builders are optimistic about their order intakes.

Headline inflation continues to ease

Despite higher headline inflation readings at the end of 2024, underlying inflationary pressures are easing, setting the stage for more subdued inflation moving forward. We expect headline inflation to decrease and stabilise around 2.2% in 2025. Upward risks include rising energy prices and the potential inflationary impacts of US economic policy under the new Trump administration.

For Spain, however, this impact is likely to be small due to its lower exposure to the US compared to the EU. In 2023, Spain's exports to the US were equivalent to 1.26% of its GDP, and imports were 1.64%, whereas the overall EU exposure was 2.9% for exports and 2% for imports.

The Spanish economy in a nutshell

	2023	2024F	2025F	2026F
GDP	2.7	3.0	2.2	2.2
Private consumption	1.8	2.7	2.3	1.6
Government consumption	5.2	4.6	2.8	2.1
Investment	2.1	1.7	2.0	3.6
Exports	2.8	3.4	3.4	3.3
Imports	0.3	2.2	3.8	3.6
Headline CPI	3.4	2.9	2.2	2.1
Unemployment rate (%)	11.8	11.2	10.7	10.3
Budget balance as % of GDP	-3.5	-3.5	-3.2	-3.1
Government debt as % of GDP	105.1	102.8	101.8	100.8

Source: Thomson Reuters, all forecasts ING estimates

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The Netherlands: relying on domestic demand amid supply challenges

The Dutch economy is projected to grow by a modest 1.3% in 2025, primarily fueled by consumption. Weak external demand is unlikely to spur a significant increase in exports and investment, while domestic shortages are also slowing the pace of expansion despite rising consumption

Dutch Prime Minister Dick Schoof

Although the effects of the pandemic and high energy inflation haven't completely faded, Dutch GDP is showing solid recovery and is moving towards a more typical growth rate. By the third quarter of 2024, it had exceeded the pre-energy crisis peak by nearly 1%, marking the second consecutive quarter of robust growth. Mid-2024 saw strong growth as a rebound from earlier weaknesses, driven by an expansion across all expenditures.

The main driver was private consumption, which benefitted from rising real income and suffered less from the many rainy days that suppressed consumption in the second quarter. Inventories finally expanded again in the third quarter, after six quarters of contraction. This suggests that Dutch firms have largely adjusted to the shift from the global goods boom that the pandemic triggered, towards the current scenario (triggered by post-pandemic normalisation and high inflation) that combines spare capacity with weaker global demand growth in line with domestic weakness in China and a slowdown in the US economy.

Moderate growth expected as businesses grapple with supply-side issues

Supply factors, including a slower increase in the number of skilled workers, and shortages in electricity, drinking water (grid connections), building permits, and pollution emission allowances, are constraining the economy's capacity to grow.

Dutch businesses increasingly cite supply-side issues, such as shortages of personnel, equipment, materials, and space, as their primary constraints, more so than demand, compared to their counterparts in other European economies.

Productivity growth is however improving, and investment has so far surprised on the upside. The latter however is likely to be a one-off, since investment in transport equipment probably boomed temporarily in anticipation of increased taxation on the purchase of non-electric vehicles (BPM). This is expected to weigh on investment growth in 2025, which is likely to be positive but slow.

Gradual improvement in uncertain external demand and decent consumer spending growth

We expect a moderate GDP growth rate that is slightly below the structural growth rates of the previous decade. As the US is threatening to impose more trade protectionism, the outlook for the open Dutch economy remains uncertain.

While international trade is likely to improve from stagnation in 2024, we expect private consumption to be the main driver of economic growth in 2025 and public consumption to contribute significantly too.

While consumer willingness to buy still has room for improvement and poses both upward and downward risks, real income growth will likely drive increased consumption in 2025. ING transaction data indicates growing spending for the fourth quarter of 2024, also adjusting for inflation. Looking ahead, this will be supported by significant contractual wage increases and government measures to boost purchasing power.

The expansion of the semi-public sector, driven by increased ambitions in areas like defence and ageing-related expenditures (such as social security and elderly care), will continue to boost overall demand. This could either lead to inflation, given the current labour market pressures, or provide support, considering external risks.

While underlying inflation slowly approaches target, headline rates remain high

While the average profitability of Dutch businesses remains high historically, it is expected to erode because of higher wage costs. This is also due to a fall in businesses' ability to raise prices, even though selling price expectations of businesses are still somewhat elevated historically.

Based on month-on-month core inflation rates adjusted for seasons and tax changes, underlying consumer inflation rates have been on a downward trend since August 2024 towards slightly above 2% annualised. Still, headline consumer price inflation remains above 3% YoY, and will remain so during most of 2025.

These figures are still influenced by earlier policy measures (e.g. excise taxes on alcohol, beverages, and tobacco, charges for infrastructure, and expansionary fiscal policy). Home rent inflation is also high and will most likely stay this way in 2025.

Service inflation in general continues to be elevated due to rising wage costs. All in all, we forecast the HICP consumer price inflation to remain quite constant year-on-year, going from 3.2% in 2024 to 3.1% in 2025, and falling to 2.4% in 2026.

The Dutch economy in a nutshell

	2023F	2024F	2025F	2026F
GDP	0.1	0.8	1.3	1.2
Private consumption	0.8	0.8	1.4	1.6
Investment	1.3	-0.6	0.2	2.8
Government consumption	2.9	2.9	1.7	1.9
Net trade contribution (%-point)	1.0	-0.1	-0.4	-0.7
Headline HICP	4.1	3.2	3.1	2.4
Unemployment rate (%)	3.6	3.7	4.0	4.1
Budget balance (% of GDP)	-0.4	-2.2	-2.6	-3.0
Government debt (% of GDP)	45.1	45.3	47.4	49.4

Source: Macrobond, all forecasts ING Research estimates

Belgium: searching for a glimmer of hope amid weak growth

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Like the eurozone, the Belgian economy is experiencing relatively weak growth, falling short of its potential. An acceleration in the short term seems unlikely due to a lack of competitiveness and increasingly less accommodating fiscal policies

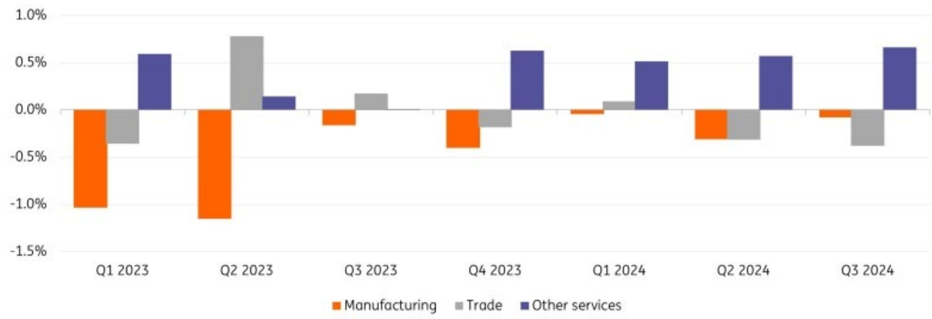
Alexander De Croo, Prime Minister of Belgium (left) and Bart De Wever, the Mayor of Antwerp and the leader of the New Flemish Alliance, are leading the negotiations to form a new government

Contrasting trajectories

Although fourth-quarter data is not yet available, we can provide a preliminary assessment for 2024. While GDP growth in Belgium was positive at around 1.0%, it remained below the economy's potential, estimated at approximately 1.3%. This growth, however, conceals varying trends: the manufacturing sector has been in recession for seven consecutive quarters from early 2023 to the third quarter of 2024. The retail sector also entered a recession in 2024. In contrast, the service sector has performed better, supporting overall economic growth (though part of this is semi-public services, which might be impacted by budgetary consolidation measures in 2025 – see below).

On the demand side, household consumption continues to be a key driver of economic activity. This is due to two main factors: nominal household disposable income increased by an average of 2.2% year-on-year in the first three quarters of 2024, and the household savings rate slightly decreased from its particularly high level in 2023. These factors have enabled household consumption expenditure to grow by over 3% in nominal terms in 2024 (1.7% in real terms). Conversely, foreign trade contracted sharply, with exports falling by more than 10% in volume since 2022, largely due to the weakness of European manufacturing activity.

Only services are supporting economic growth
(non-annualised quarterly growth of the main components of GDP)



Source: NBB, Datastream, computation: ING

Mixed forecasts

Looking ahead, it is highly likely that the Belgian economy will continue to grow at a sluggish pace. The geopolitical context and potential protectionist policies from the Trump administration are not expected to support a recovery in the manufacturing sector, which will continue to weigh on overall economic activity. Additionally, while the labour market remained buoyant until 2023, it has slowed. Job creation remained almost nil in the second and third quarters. This situation is set to continue into 2025, weighing on household incomes.

It should also be noted that the legal pension age has been raised from 65 to 66 as of January 2025. As a result, many workers will stay on the job for another year, limiting the number of retirements this year and probably causing unemployment to rise. Beyond their direct impact on household incomes, these factors will weigh on consumer confidence, encouraging them to maintain a high savings rate. In other words, the capacity for consumption growth will remain limited.

Public finances in the fog

In addition, fiscal policy will inevitably have to become more restrictive to reduce the public deficit. According to the latest data, the budget deficit reached 4.6% of GDP in 2024 and, on an unchanged policy basis, is set to rise to 4.8% this year and exceed 6% in 2027. The European Commission, which placed Belgium under the Excessive Deficit Procedure last July, expects a corrective trajectory by next April at the latest.

Following the general elections in June 2024, the five winning parties (N-VA, the Flemish nationalists; CD&V, the Flemish Christian Democrats; Vooruit, the Flemish socialists; Les Engagés, the French-speaking centrists; and MR, the French-speaking liberals) decided to negotiate a government agreement aimed in particular at undertaking the structural reforms essential to a return to growth, improved competitiveness and fiscal sustainability. Nevertheless, the ambitions of the first weeks of negotiations gave way to classic political wrangling, a lack of trust between negotiators and, ultimately, a questioning of the initial ambitions.

To date, no agreement has been reached. It's due for release at the end of January. However, if disagreements remain at this point, the political crisis could take a completely different turn. In any case, the extent of fiscal consolidation remains uncertain, as does the medium-term impact of the measures to be taken on economic growth and employment. But it is clear that, at least initially, higher taxation and/or lower spending will work against a strong economic recovery.

At the regional level, governments have been set up in Wallonia and Flanders. On the other hand, the political situation in the Brussels Region remains completely frozen. Unblocking this situation is both an economic challenge, as the Brussels Region has the worst public finances and needs to make major restructuring efforts, and a political challenge, as the decaying political situation in Brussels could weigh on federal negotiations.

Sticky inflation

In 2024, Belgian inflation hovered around 3.5%, ending the year at 3.2% – still far too high. While the exceptional measures taken in response to the energy price crisis and their statistical treatment in the measurement of inflation continued to disrupt the inflation figures, these factors don't explain everything.

On the one hand, the recent rise in gas prices has pushed inflation higher. In December 2024, the price of the gas bill included in the price index was up by more than 56% year-on-year. In the case of electricity, the increase is 12.6%. What's more, the recent rise in oil prices is also likely to push up fuel prices, further fuelling the rise in the "energy" component of the consumer price index.

On the other hand, food prices, which were temporarily down in 2024, have also started to rise again (+1.8% in December 2024), helping to keep inflation too high.

Lastly, prices for other categories of goods and services are struggling to return to normal growth. At the end of last year, prices in bars, hotels and restaurants were still up 4.1% year-on-year, while leisure and culture prices were up 2.8% over the same period. This may be due to the indirect effects of the above-mentioned factors, but also to the sharp rise in wage costs through automatic wage indexation. Since the beginning of 2021, wages have risen by over 20% as a result of automatic wage indexation.

To conclude...

So, once again, 2025 may not be a vintage year for the Belgian economy. After GDP growth of around 1% in 2024, it is likely to be limited to 0.9% this year. As a result, job creation will remain subdued at best. Inflation, meanwhile, is set to fall slowly over the year, but could remain close to 2.5% on average for the year as a whole, due to renewed upward pressure from abroad and the delayed effects of wage indexation.

The Belgium economy in a nutshell (%)

	2023	2024F	2025F	2026F
GDP	1.3	1.0	0.7	1.1
Private consumption	0.6	1.7	1.2	1.2
Investment	3.5	1.0	1.0	1.4
Government consumption	3.2	3.9	1.8	1.6
Net trade contribution	-0.2	0.0	-0.1	0.0
Headline CPI	4.1	3.0	2.5	2.0
Unemployment rate (%))	5.5	5.7	5.7	5.6
Budget balance as % of GDP	-4.4	-4.6	-4.8	-4.9
Government debt as % of GDP	103.1	104.7	106.5	108.0

Source: Thomson Reuters, all forecasts ING estimates

Austria: outlook remains bleak amid political and economic crises

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When news comes from Austria, it's often big. At the turn of the year, Austria's economic crisis was exacerbated by a political crisis, potentially worsening the economic situation

Interim OeVP chairman Christian Stocker (L) and Chairman of the Freedom Party of Austria (FPOe) Herbert Kickl

The upturn that never was

If you had to sum up the state of the Austrian economy in one word, "disillusioning" would be a good choice. Positive growth surprises were repeatedly followed by downward revisions, resulting in an economic loop that has now been ongoing for more than two years. Since the second quarter of 2022, the Austrian economy has, on average, contracted by 0.3% each quarter.

Most recently, the economy shrank by 0.1% quarter-on-quarter in the third quarter of 2024, revised downwards from an initial +0.3%. Unless an economic miracle happened at the end of last year, with the economy having defied gravity like the Wicked Witch of the West, 2024 will have marked the second consecutive year of recession.

The outlook

Economic weakness has hit all sectors, with private consumption yet to recover. Although nominal wages have risen by some 22% in Austria between Q4 2020 and Q3 2024, clearly outpacing eurozone wage growth of 15%, various factors have driven an above-average propensity to save and below-average willingness to spend among consumers. Despite strong wage growth, real incomes only returned to their 2020 levels by the end of the third quarter of 2024. Added to this are concerns about a cooling labour market. Looking ahead, the recovery in purchasing power should help private consumption to accelerate somewhat, however, as a result of uncertainty and related precautionary savings, the upturn will be limited.

Industry has been one of the greatest strains on the Austrian economy in recent years and, looking ahead, little is likely to change soon. The European Commission's most recent industry survey revealed that order books are still thinning out by the month, while inventories are now at their highest levels since the Global Financial Crisis. Given the ongoing weakness in industry, it's no surprise that Austrian exports fell by almost

4% YoY in the first 10 months of 2024, with exports to the rest of the eurozone recording one of the sharpest declines, at almost -6% YoY. Austrian exports to the US, on the other hand, were higher than a year ago, growing by almost 14% YoY between January and October.

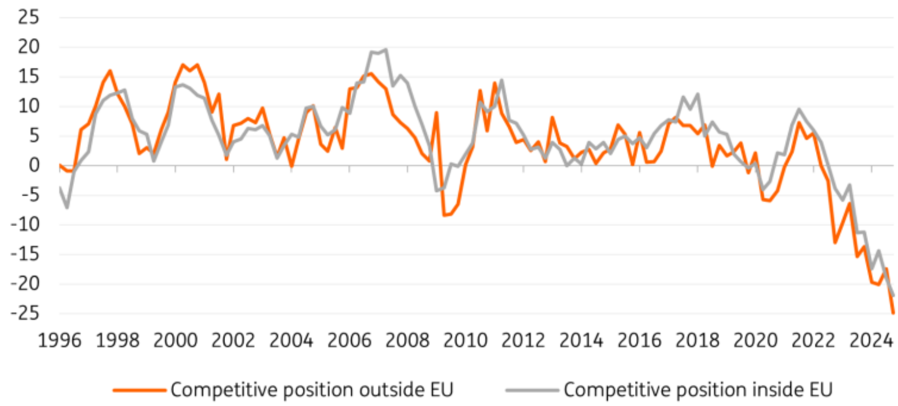
Looking ahead, exports are likely to remain under pressure. The eurozone economy is slowing and prospects of a much tighter trade policy under the Trump administration cast doubts on the future of the US as a reliable destination for Austrian goods.

A political crisis with the potential to further weaken the economic outlook

The persistent economic weakness has already taken its toll on competitiveness over the past two years, with companies' assessment regarding their own competitiveness reaching an all-time low at the end of 2024. Therefore, the question of how to restore competitiveness was a key issue in the run-up to last September's parliamentary elections. Restoring competitiveness requires targeted investments to address structural weaknesses such as the lack of skilled workers and changing trade flows.

DG ECFIN Industry Survey: Competitive Position

(net balance)



Source: LSEG Datastream

However, the three parties involved in coalition talks following the elections, the ÖVP, the SPÖ and the NEOs, were divided on how to finance such investments. While the need for investment is high, Austria faced the risk of an excessive deficit procedure from the EU. At 83.2% of GDP, Austria's debt ratio is already well above the debt ceiling stipulated in the European Stability Pact.

The NEOs favoured spending cuts, while the Social Democrats proposed new taxes. These differences led the NEOs to pull out of coalition talks, and the ÖVP and SPÖ also ended their discussions. Subsequently, Karl Nehammer resigned as ÖVP party leader and Chancellor. What had previously been ruled out now seemed less impossible – the ÖVP announced its willingness to hold coalition talks with the right-wing FPÖ, now tasked with forming a new government. This is the first time in Austrian history that a joint government with the FPÖ as chancellor party is possible and to some extent has made the public finance issue the kingmaker.

Initial progress has been made relatively quickly concerning the budget and the avoidance of an EU excessive deficit procedure. The two parties laid out a savings plan to the EU Commission which temporarily averted the excessive deficit procedure. However, a review is due to follow in April. This savings plan particularly targets the spending side. A total of almost €3.2bn, roughly half of the total savings planned for 2025, is expected to be saved by cutting subsidies, such as the climate bonus, the climate ticket, or financial support for educational leave.

The proposal also includes adjustments to the tax system, and a reform of spending efficiency and the federal ministries should generate a stability contribution. The parties' respective positions in individual policy areas are now to be defined in further talks. While there are major similarities when it comes to fiscal policy, foreign policy differences remain significant, with the FPÖ's Eurosceptic stance and calls to end military support for Ukraine contrasting with ÖVP's pro-European position. The FPÖ also takes a much more radical stance on migration.

The new government might fail to restore popularity

Without a roadmap back to competitiveness, Austria's economic outlook remains bleak. The second consecutive year of recession will be followed by a phase of consolidation rather than a strong recovery. The prospect of a government on an austerity course led by a right-wing chancellor does not provide much optimism. Investment in a sustainable economy and spending cuts appear contradictory, and Austria risks becoming less attractive for foreign skilled workers, worsening the skills shortage in sectors like hospitality.

The Austrian economy in a nutshell (%YoY)

	2023	2024F	2025F	2026F
GDP	-0.8	-0.9	0.4	1.3
Private consumption	-0.7	-0.5	0.5	1.5
Investment	-3.2	-3.3	0.5	2.1
Government consumption	1.2	0.3	0.1	0.1
Net trade contribution	-0.1	-0.3	0.1	1.4
Headline CPI	7.8	2.9	2.2	2.1
Unemployment rate (%))	5.0	5.2	5.3	5.0
Budget balance as % of GDP	-2.6	-3.6	-3.1	-2.8
Government debt as % of GDP	78.6	83	80	77

Source: LSEG Datastream, all forecasts ING estimates

Greece: another year of growth overperformance in sight

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Greece should continue to outperform the eurozone average this year as it did in 2024. The economy is being driven by domestic demand. Beware of the composition, however, as a likely decline in the contribution of inventory adjustments might not be fully compensated by other demand components

Greece's Prime Minister Kyriakos Mitsotakis

Greece has been an undisputed growth outperformer in post-Covid times

The Greek economy has been an undisputed outperformer since the Covid pandemic. Revised national account data from last November shows that gross fixed investments and private consumption had a bigger role than originally reported. In particular, the upward revision of machinery and other investments, in principle conducive to higher productivity, suggests that the Greek economy might remain on a solid growth path for some time.

Domestic demand is a key driver

In the third quarter of 2024, Greek GDP expanded by 0.3% on the quarter (+2.4% on the year), driven by strong private consumption, inventory accumulation and exports. The key engine of consumption growth has been the continued improvement in labour market conditions, with solid employment growth and the unemployment rate falling to 9%, the lowest level since 2009. Coupled with solid wage growth and, indeed, an increase in the minimum wage, this translated into a further catch-up in real disposable income, notwithstanding stubborn inflation.

Developments in the fourth quarter should follow a similar, positive pattern. Employment improved further, possibly creating better conditions for a decline in the saving ratio, which was still high at 15.3% in the third quarter. A possible negative surprise might come from inventories, which had provided an uncommonly high contribution to GDP growth at the same time. We thus see a slight slowdown in quarterly GDP growth in the fourth quarter, with average GDP growth ending the year at 2.2%.

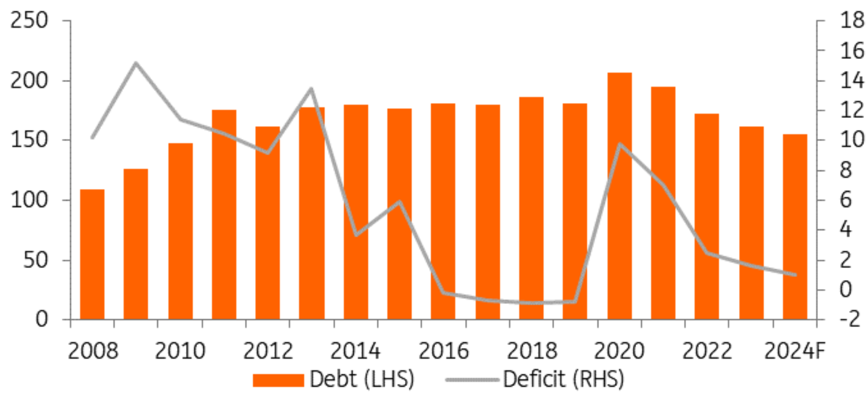
Consumption and fixed investments playing an important role

Private consumption should, in principle, be confirmed as a major growth driver in 2025. Labour market strength looks set to continue, but the pace of employment gains could cool due to increasing difficulties in overcoming skills mismatches and remaining structural bottlenecks. However, decelerating inflation over the course of the year should help to compensate, supporting real disposable income and, ultimately, private consumption.

Investments are expected to increase their contribution with respect to 2024. On the one hand, the unfavourable base effect due to the substantial upward revision of pre-2024 fixed capital formation data will ease away. On the other, it is sensible to expect an acceleration in the investment part of the Greek Recovery and Resilience Plan as the 2026 deadline approaches. Greece has so far received €18 bn in grants and loans from the EU Recovery Fund, out of a total of €36bn for which it is eligible.

Should this materialise, given the strong import content of investments, the drag of imports on growth might increase.

Greece's improving fiscal position is creating more fiscal room



Source: LSEG Datastream

An almost neutral fiscal stance might also help

A substantial comparative advantage for the Greek economy vs many eurozone countries in the current phase lies in the positive situation of public accounts. While still burdened by a high debt-to-GDP ratio (likely around 155% in 2024), Greece can already boast a very low level of deficit (around 0.8% of GDP in 2024). Last year, Greece fiscally overperformed on the back of government underspending and rising tax revenues and posted a primary surplus at around 2.5% of GDP. This reflected a restrictive fiscal stance, entailing a fiscal drag of around 0.5% of GDP on the year.

Based on the budget, the Greek fiscal stance is expected to turn almost neutral in 2025, which is good news for growth resilience. This should not jeopardise a further decline in the debt to GDP ratio to about 148% in 2025, in our view.

The main reason for concern for 2025 is the abnormally high contribution to GDP growth from inventory accumulation seen in 2024. Its normalisation could subtract substantially from yearly growth, possibly unmatched by other components.

All in all, we continue to believe that Greece will remain a growth overperformer in the euro area context. However, we suspect that in 2025, the growth pace might slightly decelerate, with average growth at around 1.7%.

The Greek economy in a nutshell

	2023	2024F	2025F	2026F
GDP	2.3	2.2	1.7	2.0
Private consumption	1.7	1.9	1.8	1.9
Investment	7.0	2.3	5.5	7.6
Government consumption	2.5	-4.0	2.0	0.6
Net trade contribution	0.2	-1.9	0.4	-0.3
Headline CPI	0.6	9.3	4.3	2.4
Unemployment rate (%)	11.1	10.3	9.8	9.7
Budget balance as % of GDP	-1.6	-1.0	-0.8	-0.8
Government debt as % of GDP	161.9	155.0	148.6	144.4

Source: LSEG Datastream, all forecasts ING estimates

Portugal: growth pickup after a challenging year

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2024 was challenging for the Portuguese economy, with growth slowing throughout the year. However, the economy is still outpacing the eurozone, driven by the service sector and tourism. In 2025, private consumption and investment are set to improve, supported by increasing income, more affordable credit, and funds from the EU's Recovery and Resilience Plan

Portuguese Prime Minister Luís Montenegro

A challenging year for the Portuguese economy...

2024 was a challenging year for the Portuguese economy. Like 2023, the year began strongly, supported by a robust fourth quarter in 2023, with 0.6% quarter-on-quarter growth in the first quarter of 2024. However, economic activity gradually weakened, with only 0.2% growth in the third quarter.

Despite yearly growth expected to fall slightly below the pre-Covid trend growth rate of 1.8%, the Portuguese economy is projected to grow faster than the eurozone in 2024. This can largely be attributed to the significant weight of the service sector, particularly tourism.

...but growth will pick up in 2025

A positive takeaway from 2024 heading into 2025 is the steadily increasing contribution of private consumption to GDP growth. Lower inflation and accelerating wage growth have led to a recovery in real income. However, consumption has not yet fully responded, reflecting the typical smoothing of consumer spending in response to income increases. This smoothing is evident in the gross saving rate rising to a historical high of 11.9% in 2024, 3.9 percentage points above its pre-Covid level.

Combined with a robust labour market, the unemployment rate is expected to decrease to 6.5% by the end of 2025, suggesting that money can be put back to work in 2025 to support consumption. Services sentiment is already improving due to the strong evolution of demand, a trend that is expected to continue.

Another driver of growth for 2025 is investment which remained subdued in 2024 but is expected to benefit from more affordable credit due to the ECB's easing policy and the EU's Recovery and Resilience Fund. Portugal, having been allocated a total of €22.2bn of this fund, can still disburse €10.8bn across 2025 and 2026. This will positively impact investment, particularly in the construction sector. Construction sentiment has been improving, with order books and business activity trending upward in recent months.

The Portuguese economy in a nutshell

	2023	2024F	2025F	2026F
GDP	2.5	1.7	2.2	2.2
Private consumption	2	2.8	2.7	2
Investment	3.6	1.9	5.4	4
Government consumption	0.6	1	0.9	0.8
Exports	3.5	3.6	2.6	3.7
Imports	1.7	5.1	4.2	3.5
Headline CPI	5.3	2.7	2.1	2.2
Unemployment rate (%)	6.5	6.7	6.5	6.3
Budget balance as % of GDP	1.2	0.4	0.2	0.2
Government debt as % of GDP	112.4	101.4	97	92.4

Source: Thomson Reuters, all forecasts ING estimates

Source: Thomson Reuters, all forecasts ING estimates

Eurozone house prices back at their peak, but pace of growth will slow in 2025

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While the eurozone housing market should still benefit from the delayed impact of falling interest rates at the end of last year, the pace of recovery is likely to be hindered by a weakening labour market and minimal improvements in affordability

A 'For Sale' sign in France

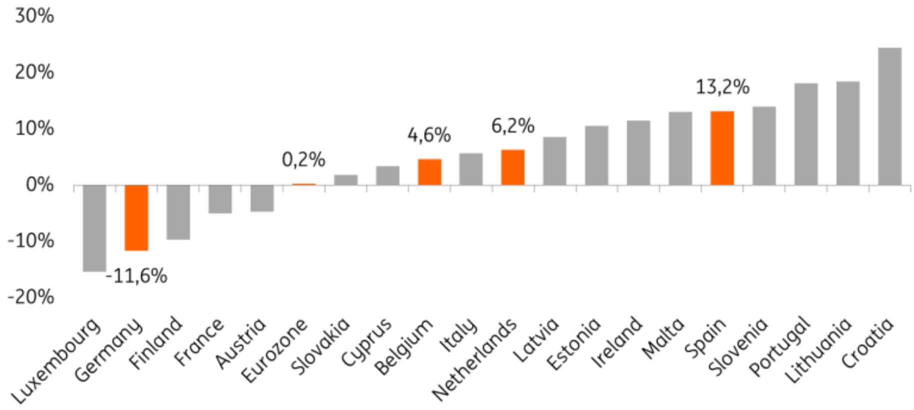
House prices rise again...

The European Central Bank's shift in interest rates during 2022 and 2023, from ultra-low levels to the highest since the start of the monetary union, also triggered a turnaround in the eurozone housing market. A bleak mix comprising a sharp rise in the cost of living, which wage growth couldn't offset, high house prices, and significantly increased financing costs led to a steep decline in demand. Consequently, home sellers had to lower their price expectations. According to Eurostat, house prices fell by 1.2% in 2023 after nearly a decade of annual increases. At the country level, the eurozone figure hides notable differences: Germany saw an 8.5% drop in prices, the Netherlands experienced a 1.9% decline, while prices in Belgium and Spain actually rose by 2.3% and 4%, respectively.

Expectations of an interest rate turnaround 2.0, which the ECB eventually engaged in last summer, turned the tables for the eurozone housing market. For mortgage rates, there has only been one direction since the beginning of 2024: lower. At 3.72%, the eurozone interest rate on new mortgage loans to households reached its lowest level since spring 2023 in November. Furthermore, higher real wages and the fall in house prices helped to improve the affordability of purchasing a home. Accordingly, demand for housing loans started to pick up again. As ECB data shows, by November, new lending to households for house purchases was up by 4% YoY in 2024, yet some 30% below its 2022 and 2021 levels.

House prices rose as demand increased. After stagnating in the first quarter of 2024, eurozone house prices grew strongly by 1.9% quarter-on-quarter in the second quarter. Quarterly growth slowed slightly to 1.4% in the third quarter, but this was still sufficient to push house prices back to their 2022 highs. Beneath the surface, however, there are substantial differences between member states and property prices.

House prices in 3Q24 vs their peak in 2Q/3Q22 (%)



Source: Eurostat; ING

In Germany, improved affordability and the corresponding increase in demand resulted in house price growth of 1.5% and 0.3% in 2Q and 3Q 2024 respectively. However, house prices were still almost 12% below their peak levels reached in the second quarter of 2022.

In Spain, on the other hand, house price growth has continued at an almost unabated pace in recent years. At the end of 3Q 2024, house prices were up by more than 13% compared to the same quarter two years ago.

The Belgian and Dutch housing markets quickly rebounded from the interest rate shock, too. Structural factors, such as the mismatch between supply and demand, outweighed the impact of high financing costs, leading to a recovery in house prices.

...yet the upswing looks set to slow

Looking ahead, the eurozone housing market upswing is likely to decelerate somewhat before gaining momentum again next year. In the fourth quarter of 2024, the housing market should still have been supported by relatively low interest rates and continued strong real wage growth. Since the end of December, however, eurozone bond yields have risen by more than 50bp and it is difficult to see how mortgage rates will not follow suit.

Furthermore, wage growth is likely to slow substantially. While wage growth accelerated again in the third quarter of 2024, the ECB's Wage Tracker suggests that eurozone wage growth is likely to have slowed in the final quarter of 2024. This slowdown is not only likely to continue, but to intensify as a result of the turning labour market. The affordability of purchasing a home, which is additionally negatively impacted by the fact that real incomes have not yet returned to their 2020 levels, is therefore unlikely to improve significantly throughout 2025.

Add to this subdued consumer confidence on the back of labour market fears and ongoing reports of business insolvencies and the prospect of a slowing recovery is almost certain.

Structural factors and regulatory changes are a major topic for 2025

In addition to cyclical factors, structural issues will shape developments in the housing market too. One of these structural issues is the mismatch between supply and demand. In Spain, for example, supply is starting to catch up with demand, easing upward pressure on prices. In other eurozone countries, however, the mismatch between supply and demand is expected to intensify, exerting upward pressure on prices.

In the Netherlands, the construction sector, which faces various bottlenecks such as a lack of building land and lengthy permit procedures, is struggling to meet persistently high demand. In Germany, demand is recovering slowly, but given the increasing number of insolvencies, depleted order books and a lack of financing, residential construction activity is not expected to accelerate significantly in 2025. The situation is similar in Belgium, where demand remains the main limiting factor in the construction sector and finding skilled workers is becoming increasingly difficult.

Furthermore, existing and possibly new regulations will impact price developments in 2025. In the Netherlands, recently implemented government measures, including rental price regulation, have reduced the return on rental properties, making them less attractive. As a result, investors are increasingly selling off their property portfolio, slowing down price growth.

In Spain, the regulatory environment remains uncertain. Recent, not-yet-approved government proposals aim to stabilise house prices by increasing investment in public housing, altering the taxation of real estate companies, and raising taxes on non-EU residential investors. In Belgium, the relaxation of renovation obligations may lead to stronger price increases for energy-consuming homes. However, this effect will be tempered by eliminating reduced registration fees and additional incentives for homes with poor energy scores.

In Germany, political uncertainty will likely slow the housing market recovery somewhat. Yet, it remains to be seen what new opportunities and challenges the housing market will meet, particularly in terms of the green transition, following the federal elections in February.

Given all these different drivers, we expect eurozone house prices to rise by around 3% this year, still short of the growth rates seen between 2016 and 2022.

Disclaimer