

Global Economic Outlook

— July 2024



Foreword

Dear GEO readers,

This is the 163rd issue of Global Economic Outlook, a traditional publication of the Monetary Department, at the establishment of which I was personally present in 2010, then as Executive Director of the Monetary and Statistics Department. Since then, GEO has evolved in terms of both content and visual. However, it still retains its essence, seeking to provide clear information about developments abroad.

For a small open economy, one moreover highly interconnected through trade with other EU states, it is crucial to monitor how both near and geographically distant states are developing. Geographical distance is not always the main factor with today's globalised financial markets, interconnected production chains and high levels of specialisation. The global economy is still dominated by the strong

– and still solidly growing – US economy, with which the Chinese economy is gradually catching up. The world's most populous country, India, whose dynamism is, and very likely will be, an important driver of global economic growth, should also not be forgotten. Yet how is “our” European economy doing? Although it is maintaining its position as the third-strongest economic grouping, its weight in the global economy is unfortunately gradually declining. The various EU or euro area states have their own specific, and sometimes quite different, problems.

The economic themes that resonate in the global and European economy are also reflected in the analytical part of GEO. The July issue focuses on the differences in real economic developments in states that have adopted the euro, especially on the problems of the largest of these, Germany. The main causes of these problems are identified as the exceptionally high vulnerability of the German growth model to the specific shocks that hit Europe after 2020. Examining these processes also allows us to understand why the Czech economy has been characterised by relatively weaker economic dynamics for some time, even compared to other EU states with a similar economic history. The strong interconnectedness of the Czech and German economies, together with the apparently already exhausted Czech growth model, is thus currently a significant drag on the domestic economy.

I wish you a pleasant summer read.

Tomáš Holub,

CNB Bank Board member



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Cut-off date for data

12 July 2024

CF survey date

8 July 2024

GEO publication date

19 July 2024

Notes to charts

ECB, Fed, BoE and BoJ: midpoint of the range of forecasts.

The arrows in the GDP and inflation outlooks indicate the direction of revisions compared to the last GEO. If no arrow is shown, no new forecast is available. Asterisks indicate first published forecasts for given year. Historical data are taken from CF, with exception of MT and LU, for which they come from OE.

Leading indicators are taken from Bloomberg and Refinitiv Datastream.

Forecasts for EURIBOR and LIBOR rates are based on implied rates from interbank market yield curve (FRA rates are used from 4M to 15M and adjusted IRS rates for longer horizons). Forecasts for German and US government bond yields (10Y Bund and 10Y Treasury) are taken from CF.

Contact

gev@cnb.cz

Authors

Luboš Komárek	Editor-in-chief, I. Introduction
Petr Polák	Editor, III.3 United States
Pavla Růžicková	III.1 Euro area, VI. Focus
Michaela Ryšavá	III.2 Germany, III.5 United Kingdom
Martin Motl	III.4 China
Milan Frydrych	III.6 Japan
Adriana Waloszková	III.7 Russia, III.8 Poland
Anna Drahozalová	III.9 Hungary
Jan Hošek	V.1 Oil, V.2 Other commodities

I. Introduction

NATO Summit in Washington: The leaders of NATO member states have promised Ukraine an irreversible path to the North Atlantic Treaty Organization and long-term military assistance. The summit also resulted in promises of new arms supplies from representatives of several states, led by the United States. For the first time, alliance representatives directly identified China as an actor enabling Russia to wage its war, and called on it to end material and political support for Russia's policy of war.

In the opinion of the Bank for International Settlements (BIS), the world economy is on the right track to a 'soft landing', i.e. a decline in inflation without a recession.

In its [Annual Report](#) for this year, however, it also warns of the risk of rising government debt. Given the electoral pressures this year in economically strong states and the general disappointment with their results, this could result in increased volatility in financial markets. This did not happen in the recently concluded French and British elections, yet the autumn presidential elections in the United States will be key for the global economy. Of the longer-term risks, the BIS mentions in particular population ageing, climate change and increasing geopolitical tensions.

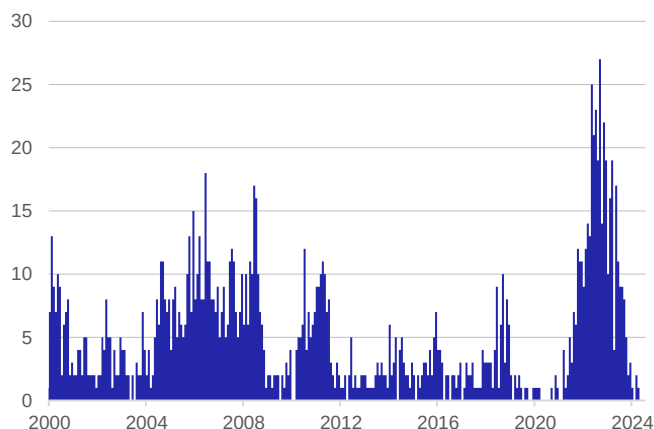
The chart in the current issue shows the unwinding of the monetary tightening cycle, with September 2022 seeing the highest number of rate hikes across central banks on record. Although the outlooks show that monetary policy will be gradually eased this year, BIS data show that some central banks were still tightening their monetary policy at the beginning of this year.

However, there has been no rate hike in the last two months, something that last happened at the beginning of 2021. It can thus be said that the mountain stage of the "Tour de interest rates" is over, and the peloton of central banks has already set out, albeit cautiously, for the interest-rate lowlands.

The theme of this year's [ECB Forum](#) in Sintra, Portugal, was "Monetary policy in an era of transformation". Central bankers and prominent academics discussed the reasons for the rise and fall of inflation in the euro area, the economic aspects of biodiversity, monetary policy cycles and the factors behind productivity developments in the euro area. They also focused on the role of geopolitical shocks on inflation, and the factors affecting the recently much-discussed equilibrium interest rates.

The current issue also contains an analysis: "[The dichotomy of real economic developments in the euro area](#)". The article focuses on the clear difference in the rate of economic growth between the large economies of the southern and western euro area and Germany in recent years. The article sees the primary source of this in the exceptional vulnerability of the German growth model and the combination of specific shocks that have hit the European economy particularly hard in recent years.

Number of rate increases in a given month from the global perspective



Source: Bank for International Settlements, Policy rates

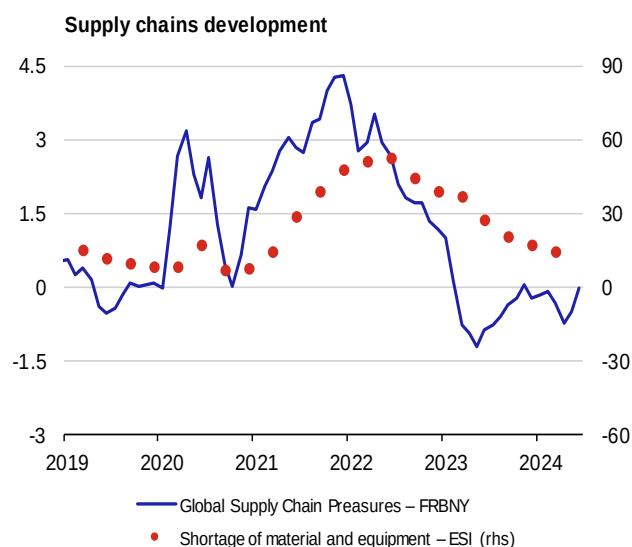
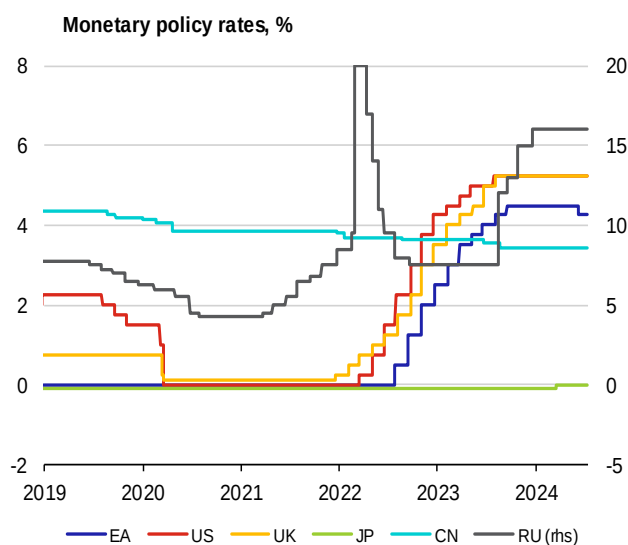
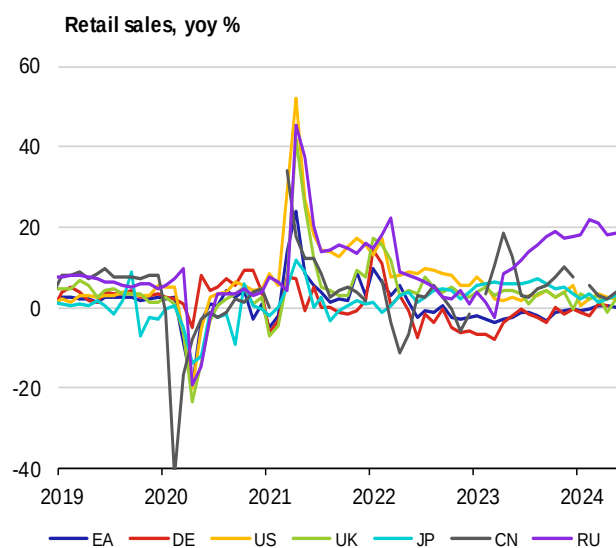
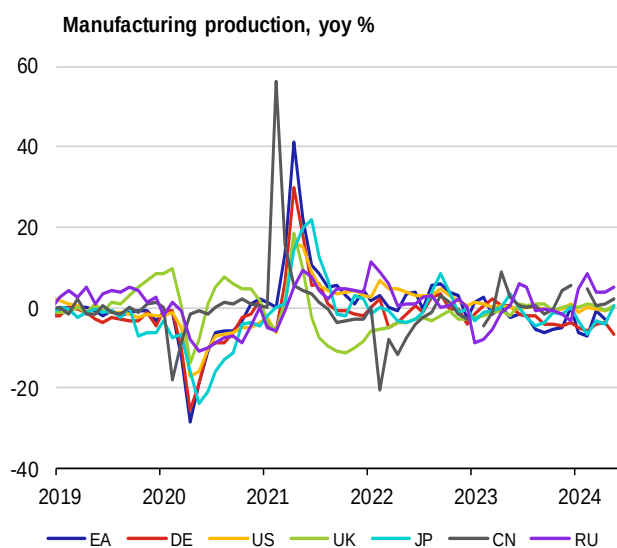
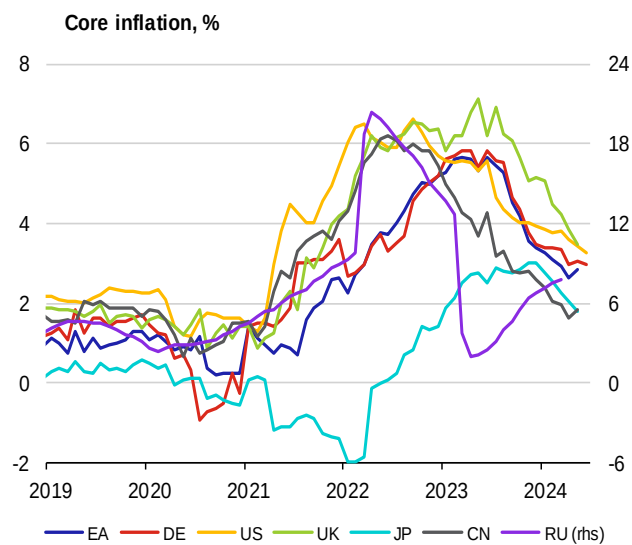
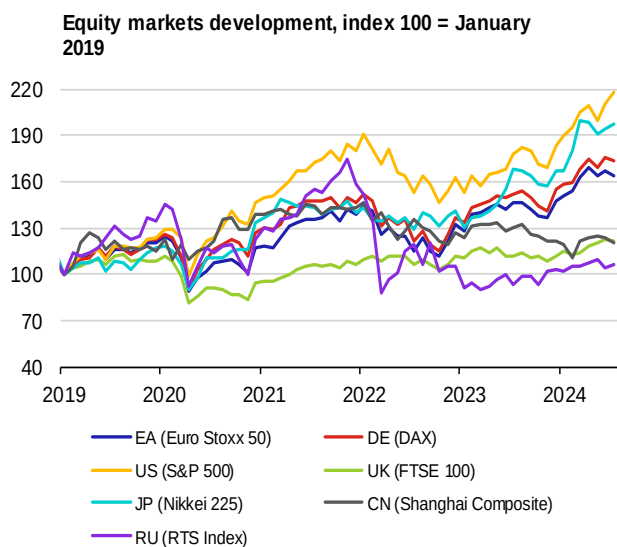
GEO barometer for selected countries

		EA	DE	US	UK	JP	CN	RU
GDP (%)	2024	0.7 ➡	0.2 ➡	2.3 ➡	0.8 ➡	0.1 ➡	4.9 ➡	3.1 ➡
	2025	1.4 ➡	1.1 ➡	1.7 ➡	1.1 ➡	1.3 ➡	4.4 ➡	1.7 ➡
Inflation (%)	2024	2.4 ➡	2.3 ➡	3.1 ➡	2.6 ➡	2.5 ➡	0.6 ➡	5.6 ➡
	2025	2.0 ➡	2.0 ➡	2.3 ➡	2.3 ➡	2.1 ➡	1.5 ➡	4.6 ➡
Unemployment (%)	2024	6.5 ➡	5.9 ➡	4.0 ➡	4.4 ➡	2.5 ➡	3.4 ➡	2.8 ➡
	2025	6.5 ➡	5.8 ➡	4.2 ➡	4.4 ➡	2.4 ➡	3.4 ➡	2.4 ➡
Exchange rate (against USD)	2024	1.09 ➡	1.09 ➡		1.28 ➡	147.6 ➡	7.24 ➡	94.1 ➡
	2025	1.12 ➡	1.12 ➡		1.30 ➡	136.2 ➡	7.10 ➡	95.8 ➡

Source: Consensus Forecasts (CF)

Note: The arrows indicate the direction of the revisions compared with the last GEO.

II. Macroeconomic barometer

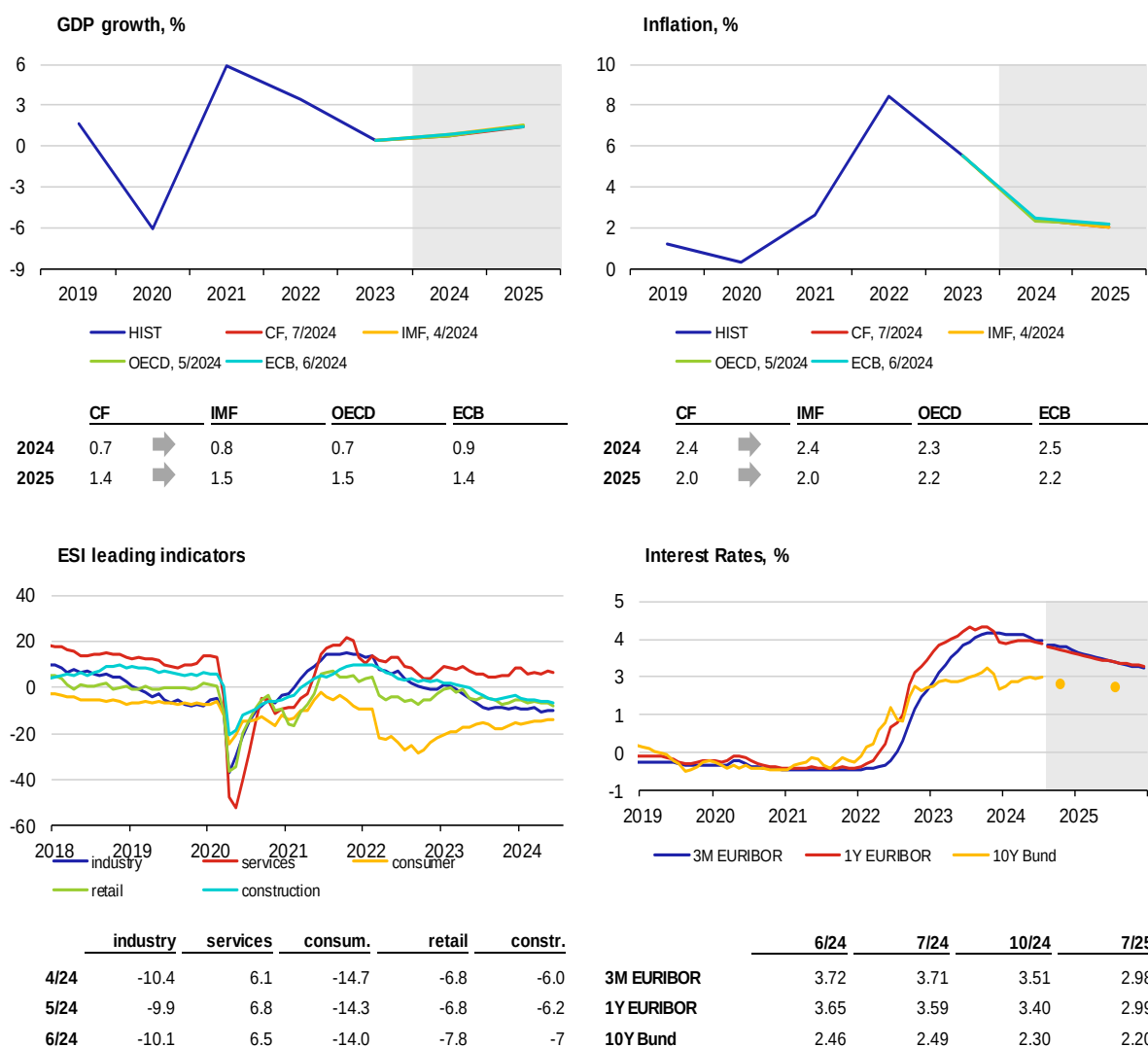


Source: Refinitiv Datastream, European Commission.

III.1 Euro area

The outlook for economic growth in the euro area remains unchanged, with GDP growing by around 0.8% this year and accelerating to around 1.5% next year. After an encouraging start to the year, economic activity likely cooled in the spring. Neither domestic nor external demand for goods has shown any clear growth recently (retail sales increased by only 0.1% in May after a 0.2% decline in April), with interest in services prevailing. However, according to the PMI, activity growth in the services sector slowed in June due to lower external demand. According to the available data for individual economies, industrial production also fell significantly in May and, again according to the PMI, this decline deepened further in June. The composite indicator thus fell to 50.9 points, indicating only a slight expansion. The ESI deteriorated in May not only in services and industry, but also in retail and construction. Consumer sentiment is improving slightly thanks to strengthening real wage growth (nominal wage growth of 5.3% in the first quarter) and record-low unemployment. The short-term outlook thus remains positive. According to a ZEW survey, three quarters of the analysts surveyed in June expected an improvement over the next six months. Over the medium term, as the ECB's monetary policy gradually eases, renewed interest in investment will be added to the recovering growth in household consumption.

The inflation outlook also remains unchanged, with this year's average expected to be around 2.5% and slightly above 2% next year. According to preliminary estimates, annual consumer price inflation slowed to 2.5% in June, while core inflation remained at 2.9%. Inflation expectations fell to 2.8% at the one-year horizon. The process of significant disinflation is already over, and the year-on-year change in the HICP is likely to oscillate around current levels in the coming months, slightly above the inflation target, which it will probably not reach until next year. The subdued inflation will thus allow for a further reduction in ECB rates over the outlook horizon. The CF respondents currently expect this to happen at the September meeting.

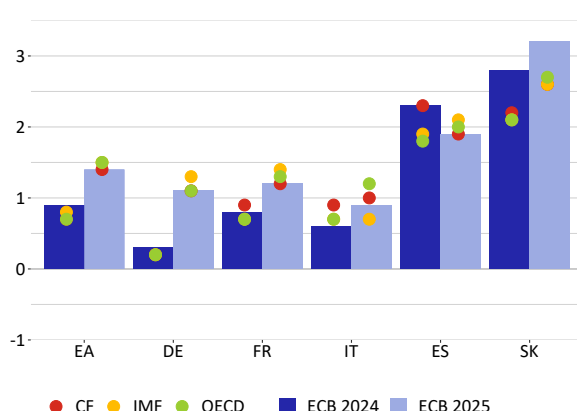


III.2 Germany

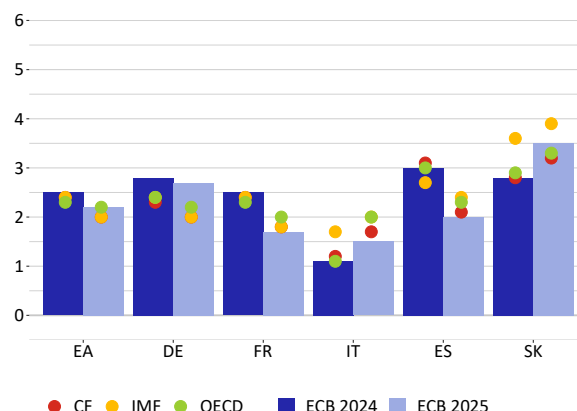
Despite the difficulties, the gradual economic recovery in Germany is continuing. Thanks to some positive news, moderate GDP growth is expected in the second quarter. External demand is showing signs of improvement, tourism could be boosted by higher spending thanks to the UEFA European Championship, and private consumption, which has been subdued, is expected to pick up somewhat. Moreover, consumer sentiment has recently improved significantly, although its recovery temporarily halted in June. This was due to worse economic expectations and a lower willingness to buy, while the willingness to save increased slightly. The Ifo index also plays in favour of some economic recovery. Despite the fact that, according to its June value, business sentiment has deteriorated due to more pessimistic expectations, the business situation in Germany is significantly better than last year. The assessment of the current situation remained unchanged. For the time being, the composite PMI is also showing promising results, and it remained in the expansion zone in June, pointing to the third consecutive month of growth in private sector business activity, although the growth rate slowed slightly (50.4). Growth in the services sector moderated (53.1) while the decline in the manufacturing sector deepened (43.5). According to the new CF forecast, the German economy should grow by 0.2% this year, with growth accelerating to 1.1% next year.

German inflation slowed in June for the first time in two months. According to harmonised data, consumer prices rose by 2.5% year on year in June, down from 2.8% in May. Energy prices fell by more than 2% compared to last June, but food price inflation increased again, rising to 1.1% year on year. Overall, however, energy and food prices have had a dampening effect on headline inflation this year. By contrast, above-average growth in services prices can still be observed, as inflation in services remained just below 4%, unchanged from May. Core inflation excluding food and energy slowed, albeit only slightly, to 2.9%. CF now forecasts inflation at 2.3% in 2024 and 2% in 2025. The decline in industrial producer prices slowed to 2.2% year on year in May (compared to 3.3% in April).

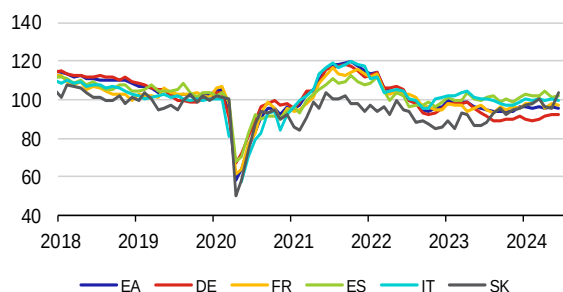
GDP growth in selected euro area countries in 2024 and 2025, %



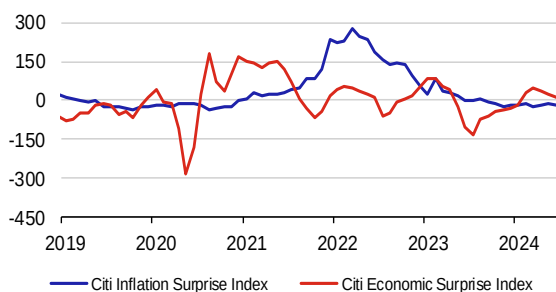
Inflation in selected euro area countries in 2024 and 2025, %



ESI leading indicators



Economic and inflation surprises in the euro area, %



	EA	DE	FR	ES	IT	SK
4/24	95.6	91.5	95.7	104.3	99.5	96.5
5/24	96.1	92.3	97.9	101.3	100.3	95.6
6/24	95.9	92.1	97.2	102.4	99.6	103.6

Inflation expectations based on 5year inflation swap and SPF

	5y5y	SPF
5/24	2.35	2.04
6/24	2.31	2.04
7/24	2.31	

III.3 United States

The new GDP growth outlook for the US economy remains unchanged, but growth is still expected to slow in the second half of this year. The main reasons for the slowdown in growth include worse sentiment in US households and its impact on consumption. According to the latest data, consumption growth slowed to 1.5% year on year in the first quarter. According to preliminary indicators, a weakening of the main source of growth is expected in the second quarter, and this weakening should continue in the second half of the year. The labour market is gradually cooling, with unemployment slowly starting to rise and the unemployed taking longer to find new jobs. In June, unemployment reached 4.1%, and it is estimated to reach 4.5% this year.

Annual consumer price growth reached 3% in June, which was lower than expected. Growth in core prices was also a surprise, as at 3.3% it was also 0.1 percentage point below market expectations. This positive news was reflected in an increase in bets on the first rate cut by the US Federal Reserve, which could happen already this year in September. In month-on-month terms, the consumer price index actually fell by 0.1%, its first decline since May 2020. Price decreases were mainly recorded for fuels, travel costs, used cars and communication costs. According to the new outlooks, inflation should be lower both this year and the next.

The current president of the United States, Joe Biden, met with Republican Donald Trump in their first television duel. The performance of the current president has raised concerns among Democrats about his capability to undertake another term in office. Joe Biden still does not intend to withdraw from the election race and, according to polls, former president Donald Trump, who narrowly escaped serious injury at a weekend meeting with supporters in Pennsylvania, now has a better chance of being elected in this autumn's presidential election.



III.4 China

The year-on-year growth of the Chinese economy slowed to 4.7% in the second quarter of this year from 5.3% in the first quarter. The fragile recovery in economic activity is likely to require further support measures to boost domestic demand to reach the 5% GDP growth target for this year set by the Chinese government in March. Household consumption remains a problem, which was also confirmed by a further slowdown in retail sales in June, which grew by only 2% year on year, the lowest rate for the past 16 months. The CF analysts' July outlooks assume a year-on-year growth rate for the Chinese economy of 4.9% this year, while GDP growth should slow to 4.4% next year.

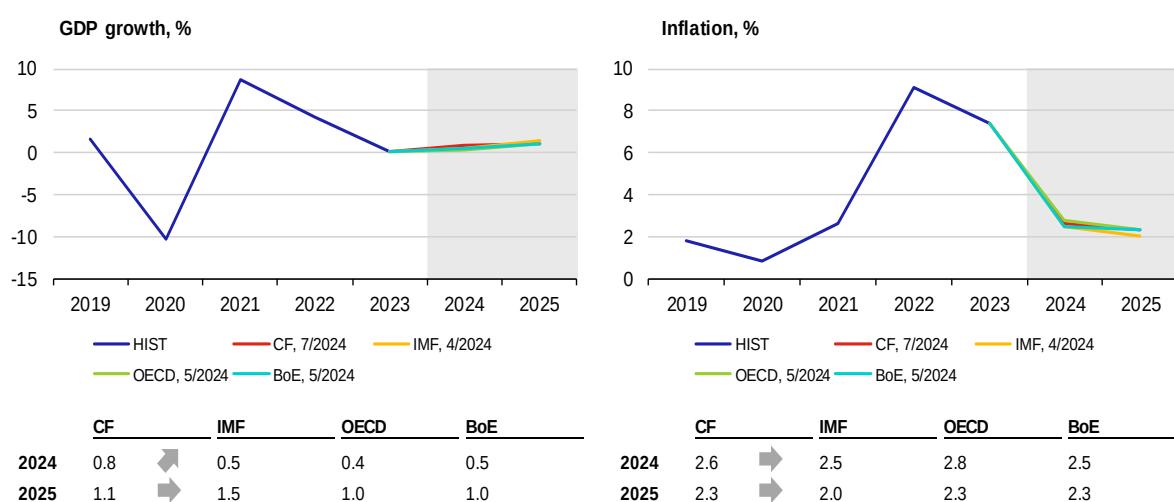
Consumer price inflation remained subdued in June, while producer price deflation moderated further. In June, annual consumer price inflation came in at 0.2%, a slight slowdown from 0.3% in the previous two months. Given the weak domestic demand and high industrial capacity, price pressures remain contained. According to the CF analysts' July outlook, consumer prices will rise by only 0.6% this year, while their growth rate will accelerate to 1.5% next year. Producer prices in China moderated their decline from -1.4% in May to -0.8% in June.

China's record trade surplus in June reflected a significant year-on-year fall in imports and faster-than-expected export growth. Chinese imports expressed in USD fell significantly by 2.3% year on year in June due to very weak domestic demand. By contrast, the policy of actively strengthening domestic production and increasing export capacities, together with the weaker exchange rate of the renminbi against the US dollar, had a positive effect on export dynamics, which increased by 8.6% year on year, i.e. to USD 308 billion, the highest since September 2022, giving a total trade surplus of over USD 99 billion. However, maintaining this trend in the future will be difficult due to the growing protectionist measures in trade with China, as the EU introduced tariffs on imported electric vehicles from China in July after the USA first did so. Any retaliatory actions by China could thus escalate the situation further.



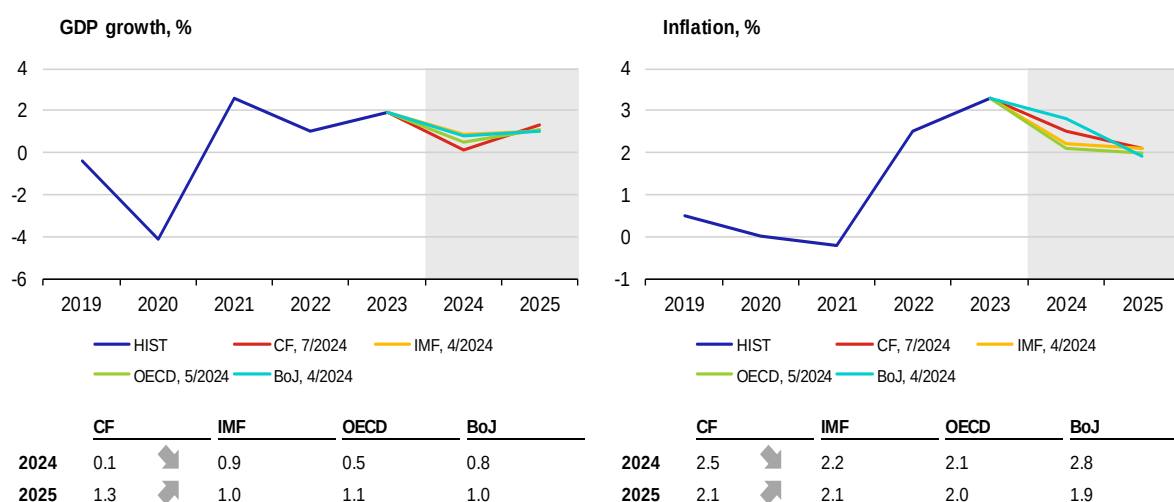
III.5 United Kingdom

The British economy grew faster in the first quarter of this year than originally estimated. According to revised data, GDP grew by 0.7%, its fastest growth since the end of 2021. The BoE expects the solid growth from the beginning of the year to continue in the second quarter (0.5%). At its June meeting, it left the bank rate unchanged at 5.25% despite the fact that May consumer price inflation reached the 2% inflation target for the first time in three years. Inflation was pushed down mainly by a decline in food prices, yet inflation in services and wage growth remain close to 6%. The persistence of these fundamentals underscores the uncertainty about the interest rate outlook. Although headline inflation is slowing, the BoE expects it to rise slightly in the second half of the year. CF continues to forecast inflation of 2.6% for this year and a slowdown to 2.3% next year. In addition, the British voted out the Conservative government in the July general elections after 14 years, and the Labour Party, led by the new prime minister, Keir Starmer, has taken power with an overwhelming majority.



III.6 Japan

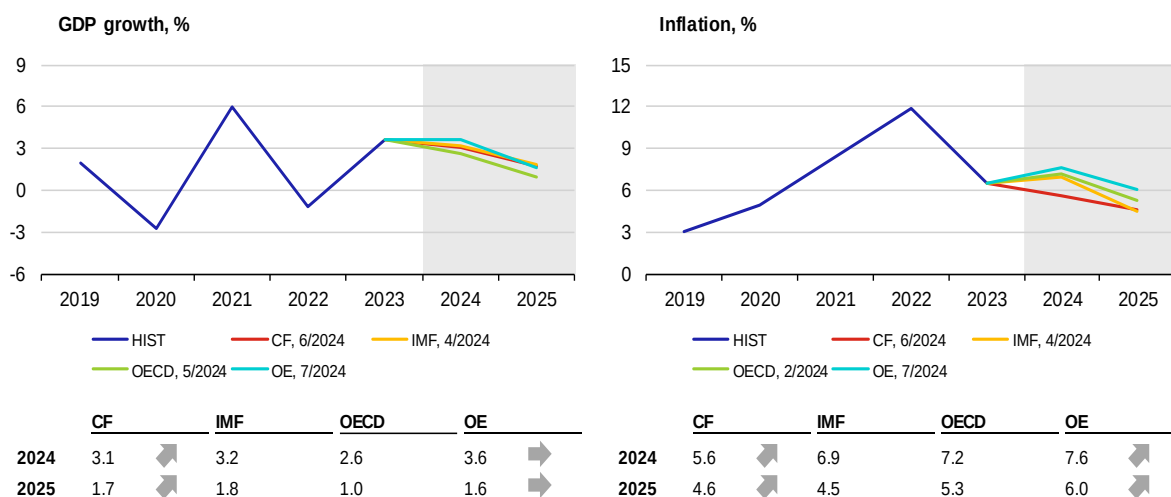
Although still negative in real terms, the solid wage growth in May, the result of the spring wage negotiations, supports the hypothesis that the wage-price cycle is reversing, giving the central bank the confidence to raise rates in July. According to a BoJ survey, households expect record inflation over the next five years – 8.7% year on year – the highest since 2006. Expectations for the following 12 months are even higher, reaching 11.5%. This sharp increase, driven by high inflation and depreciation of the yen, has increased the perception of increased cost of living. This is another impetus for the central bank to raise interest rates, with some analysts predicting a rate hike from the current range of 0% to 0.1% by the end of the month. There is speculation that the Ministry of Finance intervened in the foreign exchange market to limit the weakening of the yen of more than 11% this year. Weaker inflation data in the United States also contributed to the depreciation of the yen.



III.7 Russia

Price growth accelerated in June for the sixth month in a row, with annual inflation rising to 8.6% from 8.3% in May.

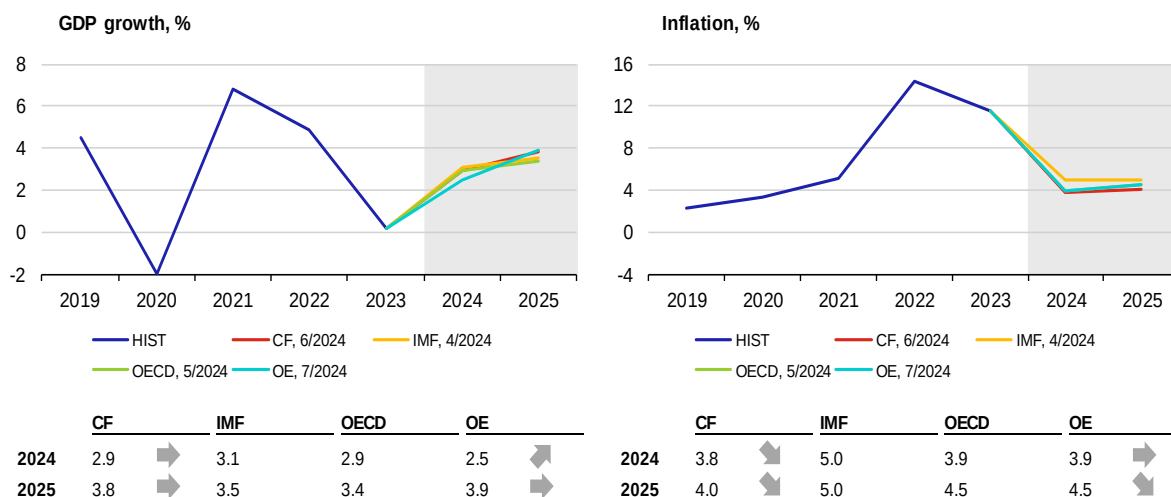
The rise in inflation is primarily the result of rising food and fuel prices, as illustrated by the nearly 34% rise in the price of potatoes in a single month. Inflation continued to accelerate in early July due to planned increases in charges for services and public transport, as well as seasonal increases in airfare and hotel prices. The CBR is expected to raise its key interest rate from the current 16% to 18% at its July meeting. Despite an increase in the scale and frequency of Ukrainian strikes on Russian oil refineries, leading to a drop in revenues from Russian oil exports to a four-month low, Russia posted a budget surplus for the second month in a row. Growth in oil revenues, higher prices for exported commodities and a weakening of the rouble have offset a 46% year-on-year increase in spending due to the war in Ukraine, keeping the budget in surplus. Trading in the Russian foreign exchange market is now almost entirely in China's renminbi, after sanctions forced the Moscow Exchange to halt trading in US dollars and euros.



III.8 Poland

At its July meeting, members of the NBP's Monetary Policy Council left the benchmark interest rate at 5.75%, suggesting that discussions on a potential interest rate cut could start in the second quarter of 2025 at the earliest.

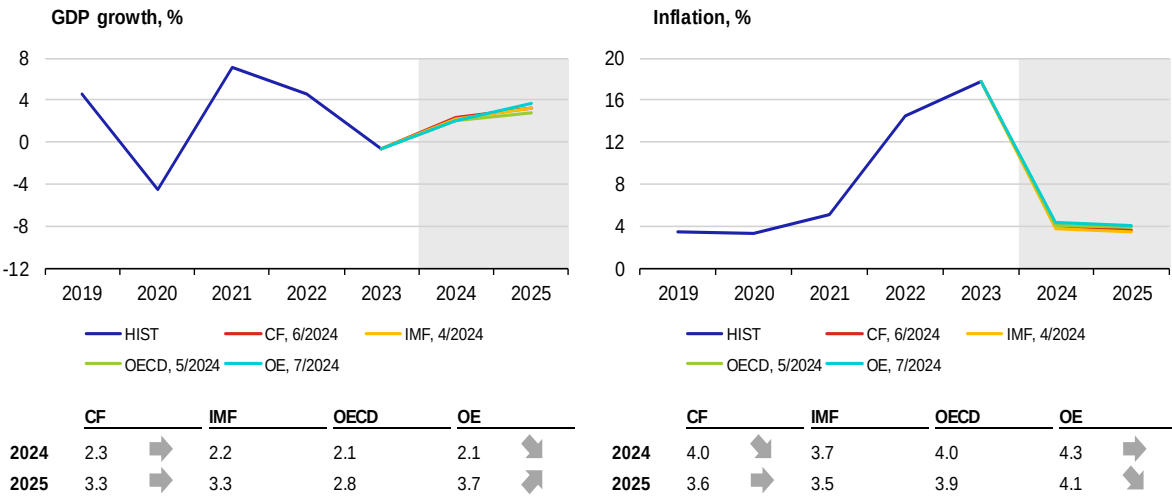
However, Governor Glapiński considers it possible that this will not happen before 2026. Concerns about Ukrainian workers departing to western EU states due to the mobilisation decree have led Polish employers to fear labour shortages, especially in construction, logistics and agriculture. This situation could potentially adversely affect Poland's economic growth. At the same time, Poland is planning to help Ukraine in the winter by supplying electricity generated from coal and thus reduce its payments for emission allowances, although the plan may face regulatory obstacles from the EU. According to analyses by Polish commercial bank Pekao, Poland is experiencing a significant increase in foreign investors' interest in government bonds and other assets, which is affecting the zloty's exchange rate, which strengthened against the euro in June.



III.9 Hungary

According to the ECB's¹ newly published Convergence Report, Hungary does not yet meet the conditions for adopting the euro. Further reforms and the stabilisation of key economic indicators will be necessary. The main obstacles include non-compliance with legislative requirements, mainly due to the incomplete independence of the central bank, and non-compliance with the rules of the European System of Central Banks (ESCB). Average annual inflation in Hungary was 8.4% in May 2024, well above the reference value of 4.1%. The forint does not participate in the ERM II exchange rate mechanism, and the Hungarian currency experienced significant depreciation against the euro in 2022 and 2023. Long-term interest rates, averaging 6.8%, also exceeded the reference value (5.5%), as did the government deficit, which widened to 6.7% of GDP in 2023 (the reference value is 3% of GDP). In addition, Hungary is facing macroeconomic imbalances, including strong price pressures and increased external financing needs. Finally, despite a high level of trade integration with the euro area, problems persist in the Hungarian economy regarding the quality of regulation and control of corruption.

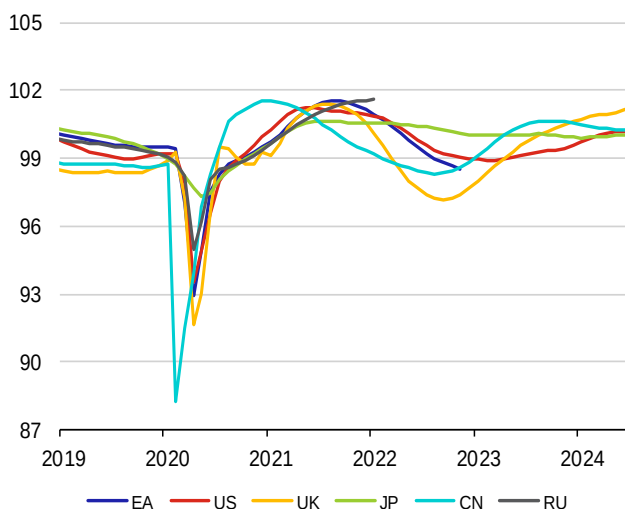
Annual inflation fell to 3.7% in June, compared to market expectations of 4%. At its June meeting, the Hungarian central bank therefore lowered its base rate by 25 percentage points to 7%, the ninth cut since the start of monetary policy easing in October and in line with market estimates. The CF analysts revised their inflation outlooks for 2024 slightly downwards.



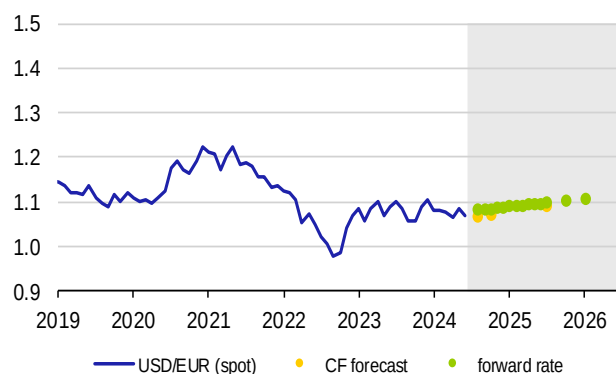
¹ Convergence Report 6/2024 (ECB), available at: <https://www.ecb.europa.eu/press/other-publications/convergence/html/ecb.cr202406~475c2172bc.en.html>

IV. Leading indicators and exchange rate outlooks

OECD Composite Leading Indicator

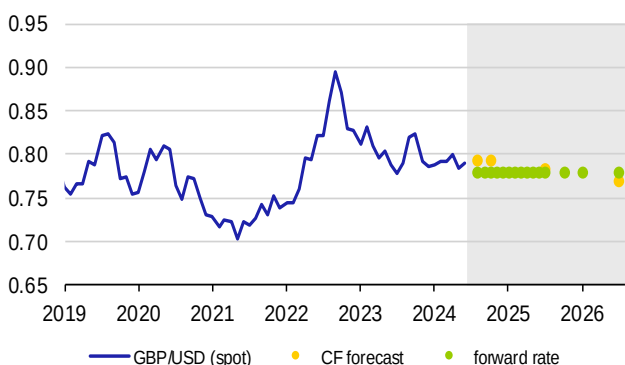


The US dollar (USD/EUR)



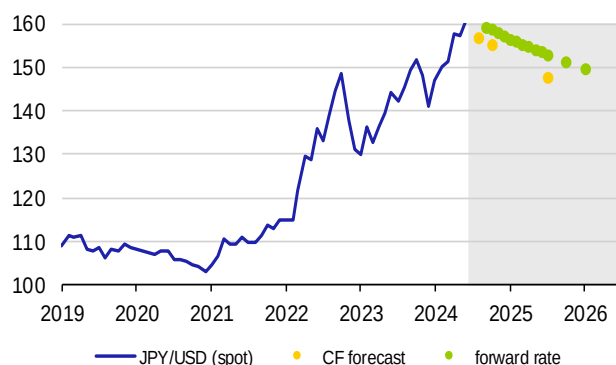
	8/7/24	8/24	10/24	7/25	7/26
spot rate	1.083				
CF forecast		1.070	1.072	1.094	1.123
forward rate		1.084	1.087	1.100	1.116

The British pound (GBP/USD)



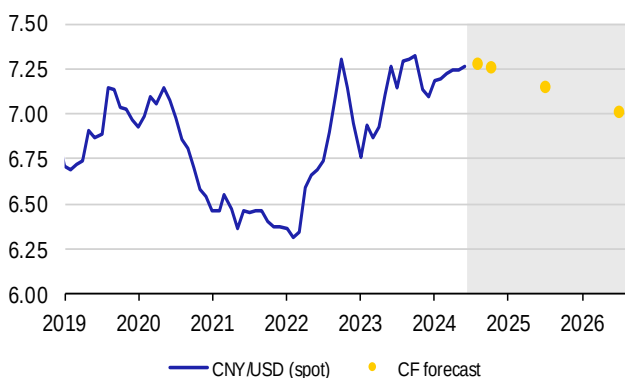
	8/7/24	8/24	10/24	7/25	7/26
spot rate	0.779				
CF forecast		0.793	0.793	0.784	0.771
forward rate		0.781	0.780	0.779	0.779

The Japanese yen (JPY/USD)



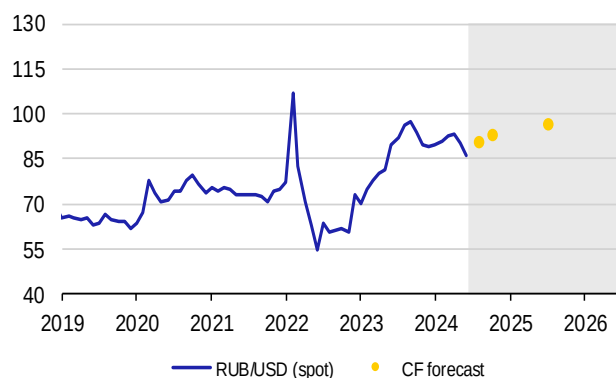
	8/7/24	8/24	10/24	7/25	7/26
spot rate	160.6				
CF forecast		156.9	155.1	147.6	136.2
forward rate		160.0	158.6	153.0	147.2

The Chinese renminbi (CNY/USD)



	8/7/24	8/24	10/24	7/25	7/26
spot rate	7.287				
CF forecast		7.279	7.265	7.152	7.018

The Russian rouble (RUB/USD)



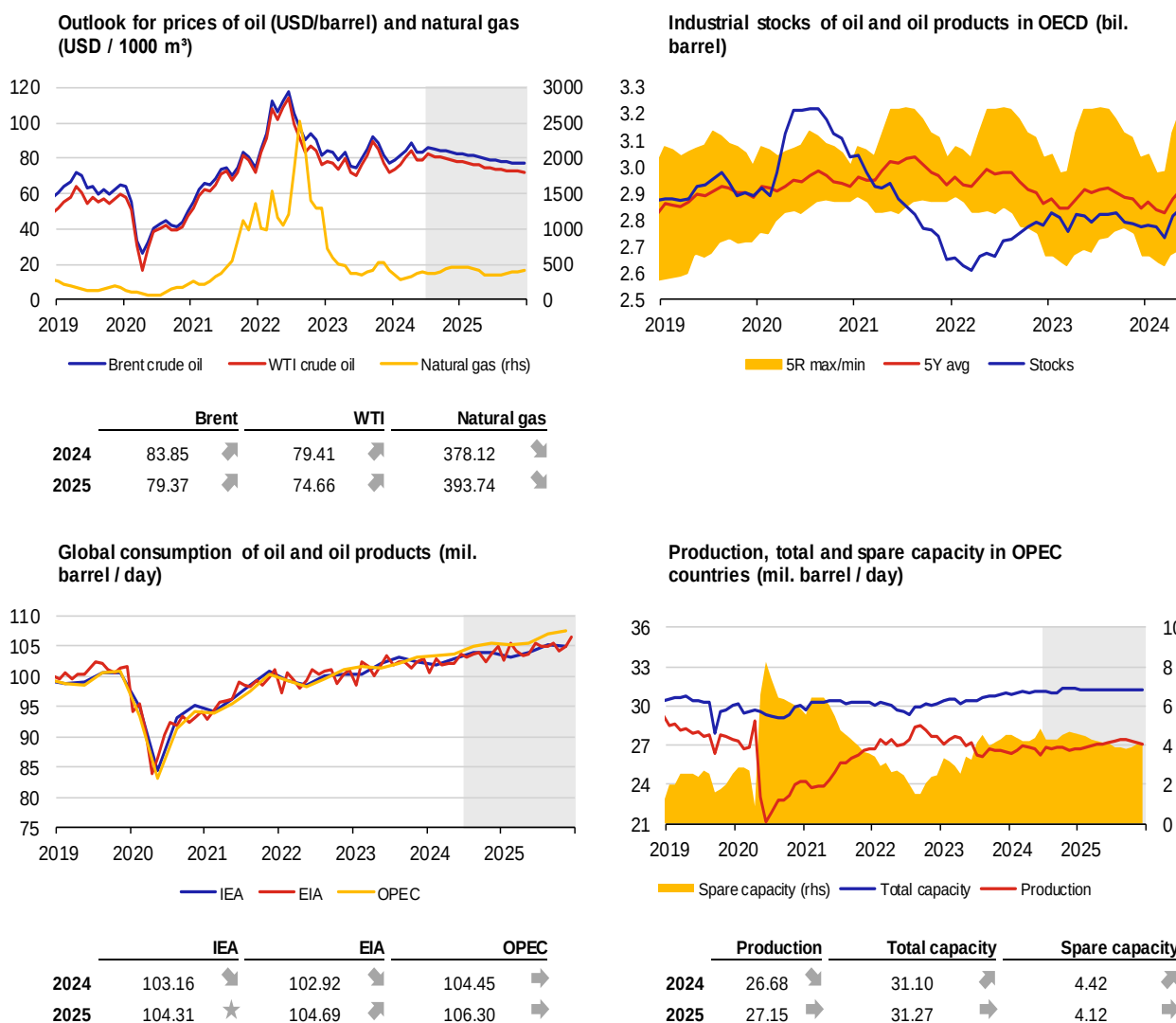
	8/7/24	8/24	10/24	7/25	7/26
spot rate	88.00				
CF forecast		90.72	93.36	96.74	94.36

Note: Exchange rates as of last day of month. Forward rate does not represent outlook; it is based on covered interest parity, i.e. currency of country with higher interest rate is depreciating. Forward rate represents current (as of cut-off date) possibility of hedging future exchange rate.

V.1 Oil

The price of Brent crude oil continued its strong growth in the second half of June and topped USD 87 per barrel at the beginning of July. This was due to renewed growth in geopolitical tensions in the Middle East and Ukraine, as well as signs of improved physical demand for petrol and aviation fuel in the USA. At the beginning of July, concerns about Hurricane Beryl disrupting oil production and processing around the Gulf of Mexico, also contributed to the growth. It did not cause major damage to the oil infrastructure on the US coast, and the price of Brent crude oil was close to USD 85 per barrel in mid-July. The analysts strongly differ in their assessment of market fundamentals, especially the current level of, and outlook for, demand (due to, among other things, the fragile development of the Chinese economy and the Fed's ambiguous signals regarding future monetary policy). Market sentiment thus changes rapidly and financial investors are contributing to high price volatility by changing their positions sharply. On the other hand, there is consensus on the assessment of oil production outside the OPEC+ alliance, which continues to grow strongly (especially on the American continent), thus complicating the alliance's intention to start gradually increasing its subdued production from the fourth quarter of 2024. Refinery margins in the Atlantic region have been falling for several months and in June approached multi-year lows (especially for petrol).

The market outlook for Brent crude oil prices in the first half of July returned from around USD 85 per barrel to USD 78 and USD 75 per barrel at the end of 2025 and 2026, respectively, consistent with the IEA's pessimistic view, forecasting a strong slowdown in global oil demand growth due to weak global economic growth and the accelerated deployment of renewables. The EIA, however, expects global crude oil inventories to fall further in the coming quarters, leading to a rise in the price of Brent crude oil to USD 91 per barrel at the beginning of next year and only then to a gradual decline. The July CF is also strongly above the market curve, expecting the price of Brent crude oil to be USD 83.2 per barrel at the one-year horizon.



Source: Bloomberg, IEA, EIA, OPEC, CNB calculation

Note: Oil price at ICE, average natural gas price in Europe – World Bank data. Future oil and gas prices (grey area) are derived from futures. Industrial oil stocks in OECD countries – IEA estimate. Production and extraction capacity of OPEC – EIA estimate.

V.2 Other commodities

The price of natural gas in Europe has been trending down since the second half of June, and in mid-July was only slightly above 30 EUR/MWh. Reserves are at a seasonally high level (about 80% of capacity in mid-July) and Norwegian and LNG gas supplies remain quite stable. At the same time, demand continues to be weak. The price of coal on the European market fell slightly at the end of June due to weaker demand and stockpiling in Chinese ports.

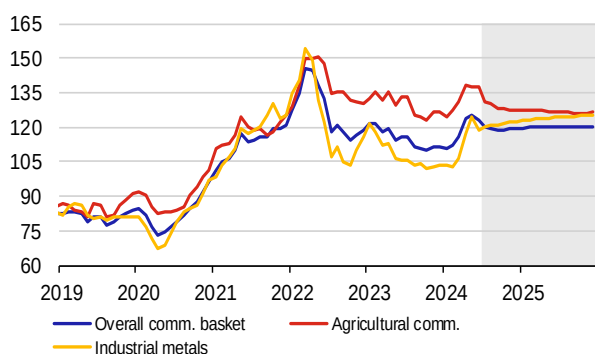
The industrial metals price index fell in June from a two-year high in May, then rose slightly in the first half of July.

The price of copper developed similarly, with an unexpected decrease in imports to China and an increase in exports from there contributing to the decline. LME copper inventories also grew. The price of aluminium fell during most of June as rains in parts of China boosted the output of local hydroelectric power plants, allowing production of the pure metal to increase. The price of nickel also recorded a strong decline in June due to high global inventories. The price of iron ore fell sharply in early June when the PMI pointed to a deteriorating situation in the steel industry in China. The price then remained under pressure due to the build-up of inventory in Chinese ports.

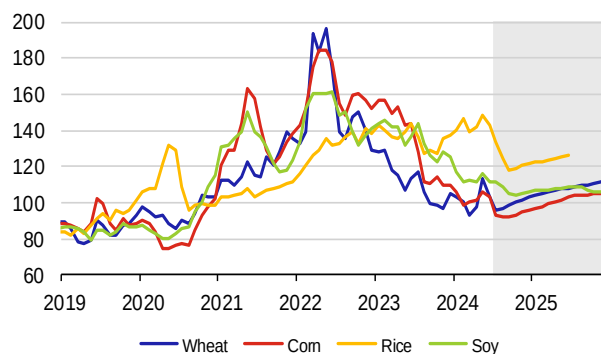
The food price index remained at a high level on average in June, but recorded a decline in the first half of July.

The outlook is for a further decline. The price of wheat fell throughout June thanks to strong harvests in Russia and the USA. The decline in soybean and corn prices intensified in July thanks to good harvests in both the USA and South America. The price of rice fell sharply at the end of June. The prices of sugar (due to high production in Brazil and growing stocks in India) and coffee (due to weak exports from Vietnam and bad weather in Brazil) moved in the opposite direction in June. The price of cocoa fell in June thanks to better weather in West Africa, but reverted to growth in July due to strong global demand. The price of beef is near its all-time high.

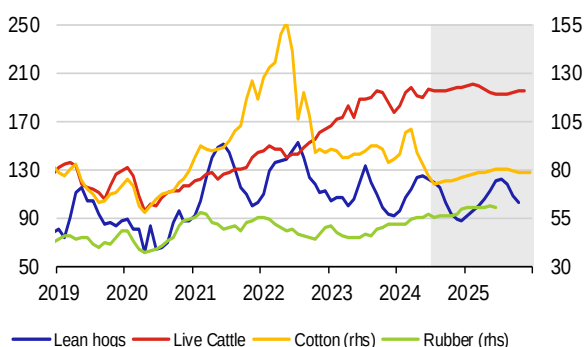
Non-energy commodities price indices



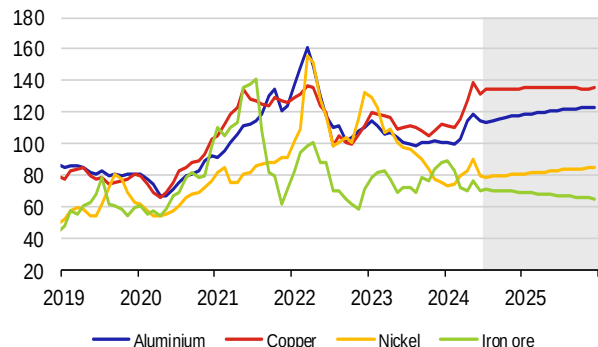
Food commodities



Meat, non-food agricultural commodities



Basic metals and iron ore



Source: Bloomberg, CNB calculations.

Note: Structure of non-energy commodity price indices corresponds to composition of The Economist commodity indices. Prices of individual commodities are expressed as indices 2010 = 100.

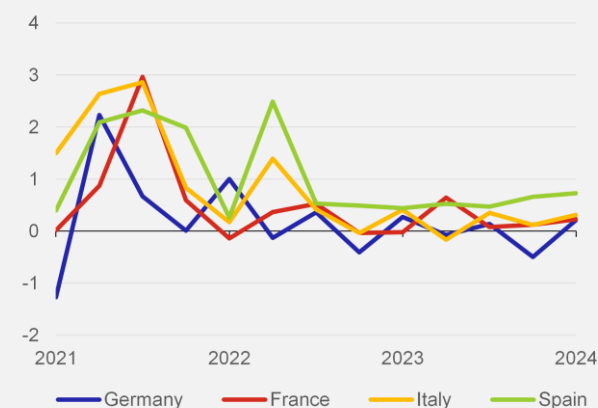
The dichotomy of real economic developments in the euro area²

Since around mid-2022, a clear difference in economic growth rates has been observed between the large economies of the southern and western euro area and Germany. The Italian economy is doing well, the Spanish economy is even excelling, while the French economy is slightly lagging behind its potential yet is still far from the situation of its German neighbour, which has now been stagnating for some time. This article identifies the main causes of this dichotomy, seeing the primary ones as the exceptional vulnerability of the German growth model and the combination of specific shocks that have hit the European economy in particular in recent years. By contrast, the southern euro area states' labour markets are not as tight and these countries support their economies through significantly looser fiscal policies. Some have invested massively and, in addition, have benefited significantly from the EU's ambitious post-pandemic recovery plan. Recent changes in consumer preferences, triggered by external intervention in the form of the pandemic, have also played into their hands. This year, however, the difference in growth rates between the German economy and the southern euro area economies has narrowed considerably. Further developments will nevertheless mainly depend on overcoming structural challenges.

The German economy has been stagnant over the past two years or so, while other large euro area economies have managed to improve their economic performance at least moderately. Looking at its average GDP growth rate since mid-2022,³ we see net zero. The second-largest economy in the euro area, France, grew at an average rate of 0.2% over the same period. Although this is hardly a dazzling performance by its standards, it is at least positive growth. Italy also maintained the same growth rate in the period under review. This was, however, a much better result, as this growth rate roughly corresponds to its potential. Fourth-placed Spain has recently been the clear leader of the Big Four. Its economic output is increasing at a steady half a percent per quarter. We thus observe a clear dichotomy in real economic developments in the Germanic⁴ and Romance parts of the euro area (Charts 1 and 2).

Chart 1 – GDP growth in the large euro area economies

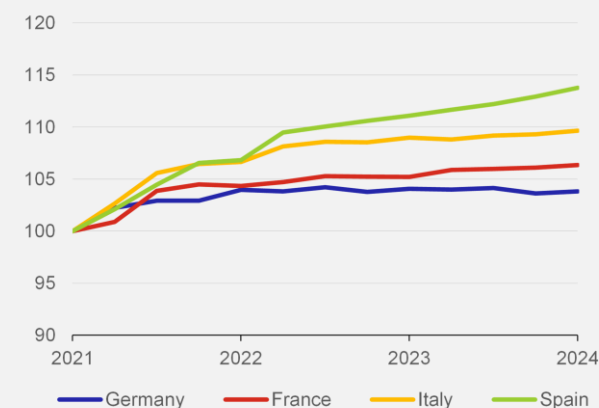
(y-o-y growth in %)



Source: Eurostat

Chart 2 – GDP growth in the large euro area economies

(index 2021 Q1 = 100)



Source: Eurostat

Specific features of the German economic strategy

What distinguishes the German economy from the Romance ones is above all the growth model chosen. Unlike those of the other states mentioned above, the German economy has long been oriented towards strong industrial production combined with a clear emphasis on exports. It built its competitive advantage on the use of cheap Russian gas and the legendary high quality of “Made in Germany” workmanship. In Germany, gross value added generated in industry and construction represents about 27% of GDP, while in France it is a full ten percentage points less.⁵ Italy and Spain are only slightly more industry-intensive than France, with shares just above 20%. The pro-export nature of the German economy is evidenced by the share of net exports in GDP, which is on average twice as high as that for the second-placed

² Written by Pavla Růžicková. The views expressed in this article are those of the author and do not necessarily reflect the official position of the Czech National Bank. The estimate of the impact of the reduction in the spread between Italian and German government bond yields on Italian GDP growth was prepared by Soňa Benecká. Valuable comments on natural gas prices were provided by Jan Hošek and the graphical representation of the data on the recovery plan was prepared by Petr Polák. I thank them all for their sterling work.

³ At the time this article was being prepared, the latest available data were for 2024 Q1. The average is thus for the last seven available quarters.

⁴ Similarly to Germany, Austria has recently been stagnating. A sharp drop in 2023 Q2 meant that its average growth in the last seven quarters has actually been negative (-0.2%).

⁵ The average for 2019–2024 (the latest available data are for 2024 Q1, and for 2023 Q4 for Italy) is 27.1% for Germany, 22.6% for Italy, 20.3% for Spain and 17.3% for France.

Spain, in turn followed at a slight distance by Italy. France is traditionally a net importer.⁶ While the share of net exports in Germany and France has recently returned to roughly the baseline level after the fluctuations during the COVID and energy crises, and even significantly exceeded it in Spain, in Italy it has not yet reached its pre-COVID level (Chart 3).

Chart 3 – Share of net exports in GDP

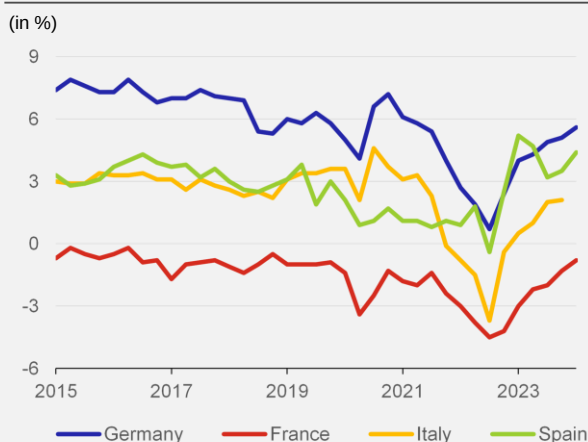
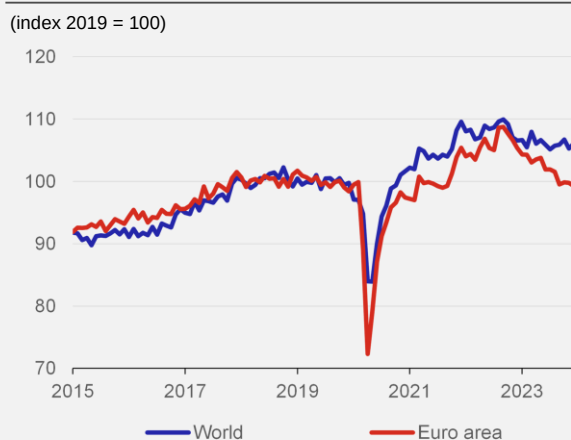


Chart 4 – Developments in the volume of world trade



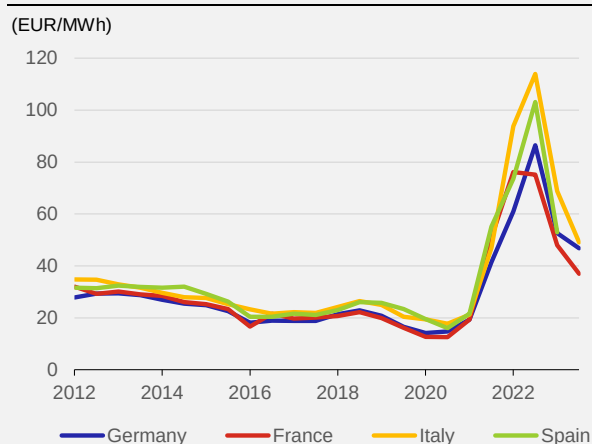
The pandemic, which temporarily paralysed world trade, dealt a heavy blow to Germany's growth model. The supply-chain problems that restricted the supply side of the economy and the turbulent structural shifts in demand for goods and services brought about by the COVID pandemic resulted in a sharp drop in international trade (Chart 4). While the COVID-related drop in trade volumes in the last three years has been more than compensated worldwide, the euro area has lagged significantly behind in this respect. It started catching up a year later, but its trade volume had barely returned to its 2019 baseline in 2021, and it was only in 2022 that volumes increased significantly. Moreover, the effect faded very quickly.⁷ As a result, the pro-export Germany suffered much greater damage to its economy compared to France, which is a predominantly importing state. Given that the problems in international trade lasted for a relatively long time, and were accompanied by structural shifts in the global economy that were difficult to predict both in production (whether for operational or protectionist reasons) and in consumption, and the uncertainty of future developments was enormous during the COVID years, it could have been impossible for many industrial plants to adapt to the changes quickly enough or to just wait for such a long time for the turbulence to pass and the view to clear.

German energy-intensive industry

The subsequent energy crisis attacked the weak spots of German industry. The price of natural gas for supplies to industrial companies increased more than sevenfold between March 2021 and September 2022, while the price of electricity more than tripled in the same period and the price of heating oils doubled, according to the German Federal Statistical Office (Destatis, 2024). Of course, the situation in Germany was far from unique. Energy commodity prices rose much higher in some other European states. In the second half of 2022, final consumers in industry and other sectors of the economy, excluding households, paid about 30% more (after deducting taxes and other fees) for natural gas in Italy than their German counterparts, while in Spain prices were just under 20% higher (Chart 5).

However, there has always been energy price heterogeneity in the euro area. The price of natural gas in individual states is strongly affected by their distance from important commodity fields and commodity suppliers.

Chart 5 – The price of natural gas for non-households



⁶ The average for 2019–2024 (the latest available data are for 2024 Q1, and for 2023 Q4 for Italy) is 4.7% for Germany, 2.3% for Spain, 1.8% for Italy and -2.1% for France.

⁷ The escalating energy crisis in Europe caused by the war in Ukraine played a significant role in this.

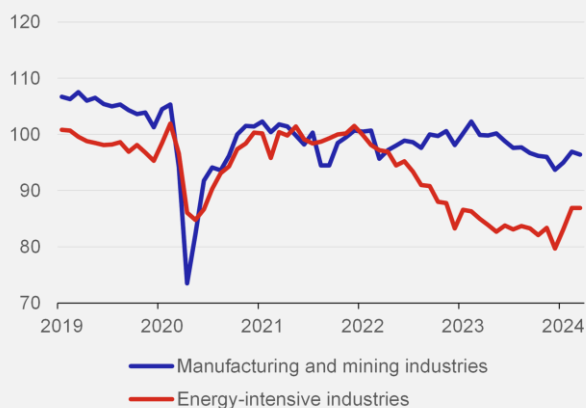
Depending on the available, and possibly preferred, supply alternatives, each economy has its own transport infrastructure for gas imports. As a result, demand for this commodity shows very low short-term price elasticity in most economies. If we focus on natural gas, the difference between its price for companies in Spain and Germany oscillated around 4 EUR/MWh between 2012 and 2020 (Chart 5). Germany has long benefited from lower natural gas prices thanks its imports of cheaper gas from Russia, while it heavily invested in the construction and further expansion of transmission infrastructure for this source (e.g. the Nord Stream gas pipeline system, which is no longer active). In addition, it is also conveniently located to receive supplies of gas extracted by other European states in the North Sea. By contrast, due to its geographical location, Spain covers a major part of the natural gas it consumes through LNG brought in by sea, the price of which has long been higher than that of Russian gas.

The long-term lower energy prices led Germany to develop many energy-intensive industries in previous decades. It was thus taking advantage of a clear competitive advantage in terms of lower production costs to satisfy demand for the final products of these industries from foreign destinations that were not afforded such an advantage. By contrast, Spain and Italy never had an incentive for economic specialisation in this direction. As a result, energy-intensive industries hold a prominent position in the German economy. Industry was still the country's most important final energy consumer in 2021, accounting for 30% of total energy consumption, i.e. more than households or transport (AG Energiebilanzen e.V., 2023). The chemical industry clearly consumed the most, followed by the production and processing of metals (324 TWh and 254 TWh consumed in 2021, respectively (Destatis, 2024)). The Federal Statistical Office also ranks coking plants and mineral oil processing, and glass and paper production (annual consumption between 70 TWh and 100 TWh) among energy-intensive industries. These five industries have particularly high energy consumption compared to other industrial sectors in relation to their gross value added using the production method.⁸ Natural gas is by far the most important energy source in German industry, accounting for almost a third of industrial energy consumption in 2021 (followed by electricity at 21% and coal at 16%). The chemical industry is primarily dependent on natural gas, using it not only as a source of energy but also as a raw material, e.g. for the production of fertilisers.

Production in German energy-intensive industries started to fall very steeply in 2022, following the sharp increases in energy prices. With the start of sanctions against Russia in March 2022, the rise in natural gas, electricity and oil prices significantly intensified. The pace of the decline in production in energy-intensive industries⁹ was particularly high during the first year of the war, but production volumes fell almost continuously until the end of last year (Chart 6). Thus, production in energy-intensive industries dropped by almost one fifth (18.8%) between February 2022 and December 2023. The most significant slump was in the chemical industry (Chart 7), where a significant part of production suddenly ceased to be price-competitive. Energy-intensive industrial companies were logically hit harder by the sharp rise in energy prices than those in other industries, so the trend in their production was clearly decoupled from that of total industrial production, which fell by only 7% in the same period. Without the significantly negative impact of the energy crisis on a selected part of German industry, total industrial production would have contributed much more significantly to the creation of gross value added in the German economy.

Chart 6 – Industrial production in Germany

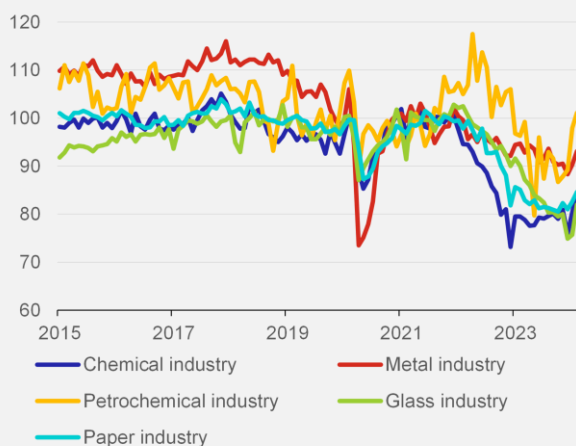
(index 2015 = 100, seasonally adjusted, constant prices)



Source: Destatis

Chart 7 – Production in energy-intensive industries

(index 2015 = 100, seasonally adjusted, constant prices)



Source: Destatis

⁸ This was 17% in 2021. However, these sectors accounted for 77% of all energy consumption in German industry before the energy crisis (Destatis, 2024).

⁹ The production index for energy-intensive industries is calculated as the weighted average of the industrial production indices for the relevant economic sectors. The weights correspond to the relative gross value added to the cost of the factors of production in the base year of 2015. For more information, see Vogel et al. (2023).

However, the latest data have brought some (almost unexpected) encouragement. Energy prices in Germany have performed an about-face and entered a sharp decline since the hot phase of the energy crisis in Europe subsided at the end of 2022. They reached less than half their maximum levels last spring. For a long time, however, it seemed that this had little effect on the development of production in Germany's energy-intensive industry. There was concern that the sector might not recover from the shock. The loss of global market shares is not easily repaired. And, for example, the resumption of production at a steelworks or glass furnace after it has been shut down requires considerable fixed costs. However, the continuing, albeit more gradual, fall in energy prices together with the time lag needed for production in heavy industry to adapt to new conditions eventually bore fruit. Energy-intensive industry production started to rise in January this year (Chart 6). It has so far only reached its level of production at the beginning of 2023. This applies to the petrochemical, metal and paper industries (Chart 7). The glass industry is currently lagging behind, while the chemical industry is doing a little better. However, only time will tell how much of the original energy-intensive production in Germany will be restored. Some operations have already ceased to exist in the meantime, and their reopening does not make much economic sense. The future of the German economy already lies elsewhere than in heavy industry.

Other factors favouring the growth of the Romance economies

The German economy differs from the large Romance economies of the euro area in other respects than just its orientation towards industry and exports. Its potentially available sources of economic growth are much more limited than those of France, Italy and Spain. For example, human capital (especially skilled labour) has long been a highly scarce commodity in Germany. This is a basic ingredient in theoretical models of economic growth. How economic development is financed offers another perspective. The southern euro area states are growing much more using debt than Germany, and only time will tell whether this is a wise strategy. If they can invest the borrowed funds appropriately in productivity growth, there is hope that borrowing now will actually pay off in the future. However, if they fail to ensure the efficient use of the funds, the final report card might be disappointing. The solidarity-based redistribution of funds within the European Union, from which, generally speaking, the Romance economies benefit more than the richer Germany, is another chapter.

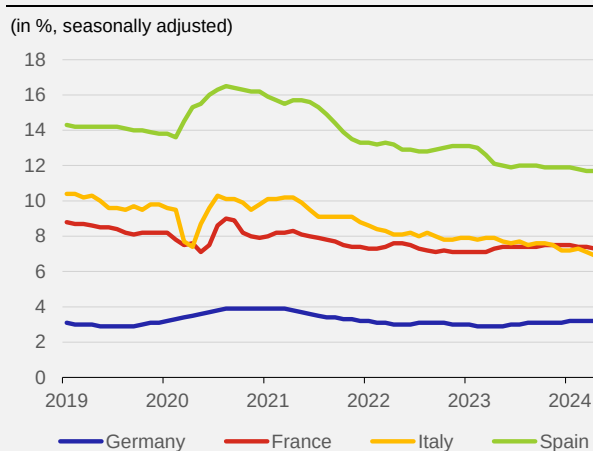
One of the barriers to German economic growth continues to be the lack of labour. The causes of the record-low unemployment in the euro area, both cyclical and structural, including the heterogeneity of many labour market characteristics in selected euro bloc economies, were discussed in detail in an article in the December issue of Global Economic Outlook (Růžicková, 2023). The situation on the labour markets in the euro area has not changed much since it was prepared. Overall unemployment remains at its historical low (6.4%).¹⁰ It has been growing slightly in some of its economies in recent months, while in others it is still falling (Chart 8). In Germany, it has increased only marginally so far, from 2.9% in May 2023 to 3.2% in March this year, the latest date for which data are available. The share of unemployed persons in France has risen slightly less since last autumn (currently 7.3%). In Italy, by contrast, unemployment is now at its lowest level since 2008 (6.3%) and is not yet set to reverse the downward trend. Spain is very similar in this regard (11.7%). With the highest share of unsatisfied job seekers, it still has the most room for a further fall of the four economies reviewed.

Another factor significantly supporting economic growth in the southern euro area states is their fiscal policy.

The economies of France, Italy and Spain are growing much more using debt than Germany. Their budgetary performance has been much worse over the long term. Their budget deficits as a percentage of GDP have more than double that of Germany over the last few years (Chart 9). However, all four economies have clearly been trying to put their budgets into better order since COVID. Yet while Germany had already complied with the Maastricht 3% standard in 2022, the other three states have not yet done so. Spain is the best performer in terms of these consolidation efforts. In Italy, by contrast, deficits are declining only very unwillingly. In France, the deficit even worsened last year.¹¹

These consolidation efforts, together with real economic developments, were among the factors leading to the recent fall in long-term interest rates. For example, the surprisingly more positive development of the Italian economy than the German one was reflected in a reduction in the spread between Italian and German government bond yields. For the ten-year maturity, the spread fell to its lowest level since November 2021 (Chart 10). The financial markets were positive not only about

Chart 8 – Unemployment rate

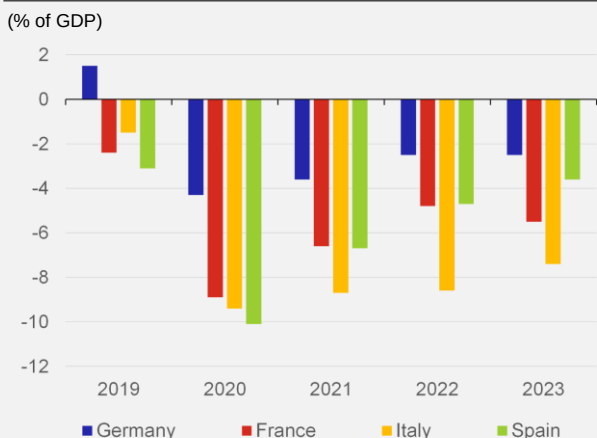


Source: Eurostat

¹⁰ Data for March 2024. However, as a result of frequent revisions and refinements of the time series, the actual value of the reported historical minimum may vary slightly at any given moment, but usually only by a tenth of a percentage point.

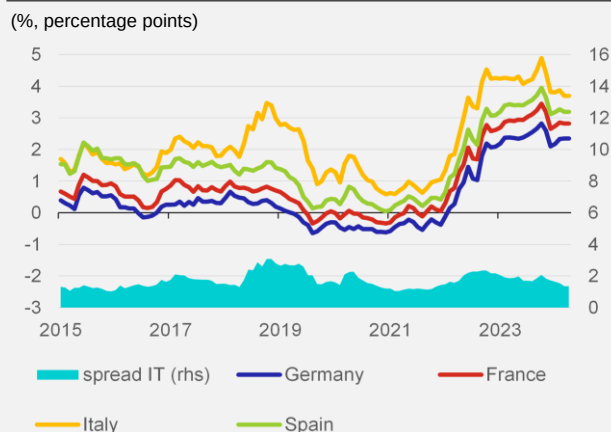
¹¹ The evaluation remains qualitatively the same even in the case of deficits in absolute terms.

Chart 9 – State budget deficit/surplus



Source: Eurostat

Chart 10 – 10-year government bond yields



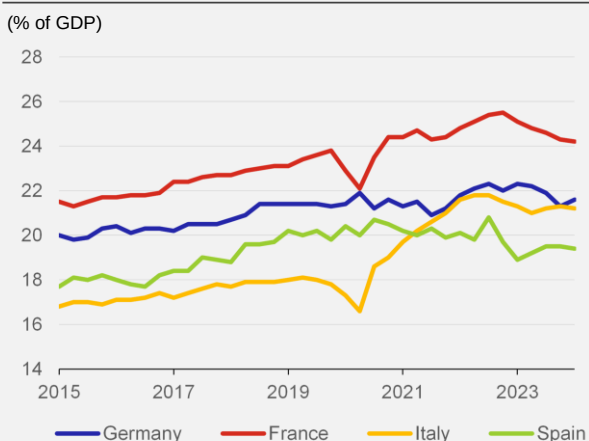
Source: Eurostat

Note: The right-hand scale shows the yield spread between the Italian and German 10-year bonds.

the performance of the Italian economy last year and the improvement in the country's credit rating, but also about the favourable prospects for its growth this year, in particular due to the expected drawdown of EU funds. The structure of the Italian debt was also supported by the issuance of BTP Valore bonds aimed at Italian small savers. In the optimistic scenario, a more sustained reduction in the range could translate into 0.1–0.2 percentage point higher Italian economic growth.¹²

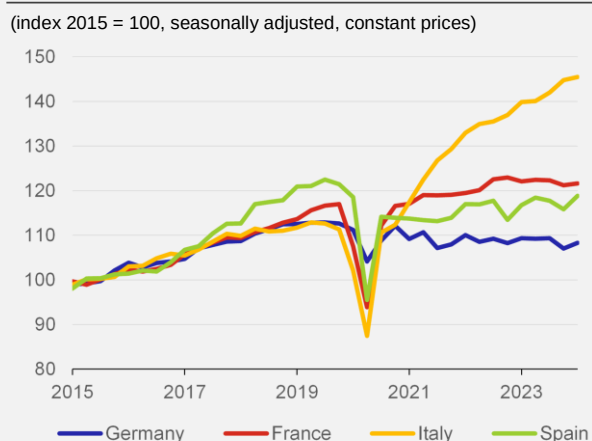
The large euro area economies also differ in how actively they have invested over the past few years. The share of investment to German GDP has been broadly constant since 2018, fluctuating around 21% (Chart 11). Spain is in a similar situation, as this indicator remained close to 20% but fell to around 19% at the end of 2022.¹³ By contrast, the share of investment in French GDP has long been higher than in the first two economies and had been steadily rising until 2022, when it reached more than 25%.¹⁴ The case of Italy is even more remarkable. Its share of investment in GDP was less than 17% ten years ago, but has been steadily increasing, and its growth rate rose sharply during the coronavirus pandemic. It is thus now roughly at Germany's level. The absolute value of investment provides a different perspective. While investment grew at a roughly similar rate before COVID in these economies, with Spain clearly standing out in this comparison, since 2020, investment has been broadly flat at constant prices in Germany, France and Spain, but has risen sharply in Italy (Chart 12).

Chart 11 – The share of investment in GDP



Source: Eurostat

Chart 12 – Investment developments



Source: Eurostat

¹² We tried to estimate the impact of the current range reduction on Italian GDP growth using the Oxford Economics (OE) model. If the range were to remain at the currently lower values of around 120 basis points until the end of the year, the model indicates it would have an impact of 0.1 percentage point. The expected impact is lower than the Bloomberg analysts' estimate, according to whose model a range reduction of 40 basis points could add up to 0.2 percentage point to growth in 2024. Due to the different methodologies, the main text provides an estimate of the impact in the form of an interval.

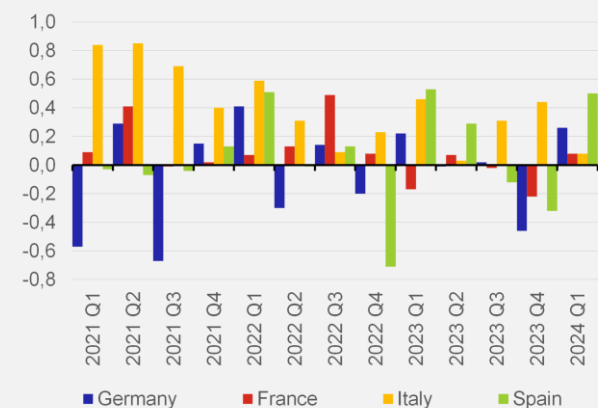
¹³ At that time, the European Central Bank started tightening monetary policy in the most intensive way. The key interest rate increased by 4.5 percentage points between July 2022 and September 2023. The end of the cheap money period led to a deterioration in the return on investment made using debt, and thus to a reduction in investment activity in the euro area.

¹⁴ It has fallen to around 24% since then.

Investment activity has significantly boosted economic growth over the past three years, especially in Italy. The contribution of investment to quarter-on-quarter GDP growth in Italy has been clearly positive throughout this period. It was particularly high in 2021, when it averaged 0.7 percentage point (Chart 13). Investment contributed less significantly to economic performance in Spain and France. And in Germany, the contribution was actually negative approximately every second quarter. Looking at a more detailed breakdown of Italian investment, it is particularly evident that there is an above-proportional contribution of investment in the construction sector (Chart 14). This is related to a specific measure taken by the Italian government (the Superbonus, see Box), which was supposed to help the economy get out of the COVID-induced crisis by supporting the modernisation of buildings.

Chart 13 – Investment contributions to GDP growth

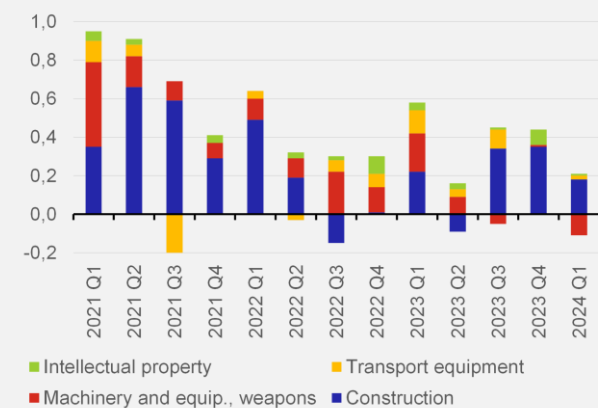
(percentage points; contributions to quarter-on-quarter GDP growth)



Source: Eurostat

Chart 14 – Contributions of Italian investment to GDP growth – breakdown

(percentage points; contributions to quarter-on-quarter GDP growth)



Source: Eurostat

The convergence of the weaker EU economies to the stronger ones has traditionally been facilitated by the solidarity aspect of the European Union budget. All Member States contribute to it, and the funds collected are then reallocated during the individual multi-annual programming periods with the aim of encouraging the development of territories and reducing inequalities across areas. In terms of accounting, the individual EU economies can be divided into net contributors to the EU budget and net recipients of funds. Germany is by far the largest 'payer' into the EU budget. France and Italy, as very advanced economies, are also net payers. Spain, on the other hand, is still a net beneficiary, which is another of the impulses helping it to increase economic growth.

The importance of EU funding has recently grown significantly. In addition to the traditional redistribution of funds collected into the common treasury, the economic development of selected EU Member States is now strongly supported by the post-pandemic recovery plan known as Next Generation EU (NGEU). This aims to help with economic recovery after the COVID-19 pandemic raged in the EU Member States. This is also why it is mainly directed towards states hit particularly hard by the pandemic. Out of the total of EUR 750 billion, around EUR 200 billion is allocated to Italy only (equivalent to around 11% of its GDP). Spain accounts for around EUR 160 billion (14% of GDP). On the other hand, France is only entitled to around EUR 40 billion (2% of GDP) and Germany to less than EUR 30 billion (1% of GDP). The RRF¹⁵ does not operate on the principle of redistributing its own collected funds, being rather based on funding that the European Commission raises on behalf of the Member States by issuing debt on international capital markets. Part of the RRF funds will be provided to EU Member States in the form of grants and part in the form of loans,¹⁶ on the basis of submitted National Recovery Plans. Guaranteed loans in particular significantly increase the allocations for the states hit hardest by the pandemic.

However, the individual economies vary considerably in the speed of implementation of projects that qualify for funds from the NGEU recovery plan. France and Italy have already received around 60% of the grant funds to which they are entitled (Graph 15). Spain has already drawn almost half of its funds. However, Germany has so far drawn less than a quarter. Italy also excels in the drawing of guaranteed loans, of which it has already taken about half. Spain, on the other hand, has not even started drawing them. (Germany and France are not eligible for NGEU loans.) Given their huge volume, the funds from the post-pandemic recovery plan are having a significant impact on the economic growth of the supported states. This is already clearly visible in the case of the faster-drawing states, while for the others they represent a medium-term opportunity.

The differing economic growth dynamics may also reflect differing consumer behaviour. The individual economies are characterised by differing household preferences. In southern European states, for example, households prefer consumption over savings more than is usual in Central and Western Europe (Chart 16). Regardless of the possible

¹⁵ Recovery and Resilience Facility.

¹⁶ Out of a total of EUR 750 billion, EUR 390 billion is for grants and EUR 360 billion for loans.

Box 1 – The Italian Superbonus

Superbonus is the name of the current Italian tax deduction system to support the renovation of buildings. The programme, introduced by the government in May 2020 to support recovery from the pandemic, initially allowed homeowners to claim transferable tax credits of up to 110% for specific work relating to energy efficiency, seismic-resistant modifications, the installation of photovoltaic systems and infrastructure for charging electric vehicles in buildings. Since then, it has been amended several times and the scope of the tax benefit has been gradually reduced. It was 90% last year, only 70% this year and will fall to 65% next year.

The measure had a devastating impact on Italian public finances. It has already cost the state budget more than EUR 200 billion, as stated in documentation for the lower chamber of the Italian Parliament (Camera dei deputati, 2024). According to this report, more than 11% of Italian apartment buildings and just over 4% of buildings classified as residential had benefited from the Superbonus by this spring. This has resulted in a massive increase in the state's debt. However, so far no government has been able to abolish the measures, naturally very popular among the population.

The economic impact of the Superbonus on GDP growth is indisputable, and is currently cumulatively about 3 percentage points. A study (Svimez, 2024) has concluded that the Superbonus has increased private

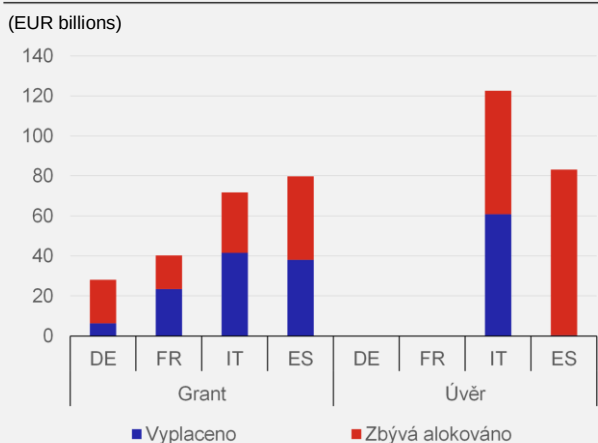
investment in the construction sector by about 40% since its launch, which in turn has contributed to cumulative GDP growth of 3.6 percentage points. Earlier, the Parliamentary Budget Office (**Ufficio parlamentare di bilancio, 2023**) reported that, according to national accounts data, the contribution of housing investment to GDP growth in 2021–2022 was 2 percentage points, of which, according to a deeper analysis, about half is directly attributable to the shock caused by the tax stimulus. Subsequently, Istat (2023) quantified the cumulative contribution to real GDP growth in 2021 and 2022 (compared to the counterfactual scenario without incentives) as 1.4-2.6 percentage points based on a simulation of additional investment in the construction sector associated with the Superbonus and façade bonus (depending on the method used).

Despite the above estimates, however, this fiscal experiment will not pay off for the Apennine economy overall. The Italian government itself has commented on the impact of the Superbonus on the national economy, saying that the stimulus provided by the measures to economic activity and tax revenues was not sufficient to compensate for their costs (Ministro dell'Economia e delle Finanze, 2023). According to Balmer and Fonte (2024), Italy should instead have invested in healthcare or education, because then most of the funds would have gone directly to salaries, while sending them to the construction sector created less added value due to high production costs.

reasons for this behaviour (such as higher interest rates, lower GDP per capita, younger populations or different socio-cultural roots ("Catholics vs. Protestants")), this has implications for economic development. While in Germany the saving rate averaged 18% between 2015 and 2019 (while the trend was increasing slightly), in Italy it was only 10% and in Spain even lower. The COVID pandemic led to a sharp rise in the savings rate across states, which was more pronounced in economies with lower previous saving rates. It thus briefly climbed to 30% in Germany and exceeded 20% in Italy. It then decreased gradually again. With the exception of Italy, however, it remains higher than before COVID (the difference is 2 percentage points in Germany and slightly higher in France). This is another of the pro-growth impulses in favour of the Italian and Spanish economies compared to Germany.

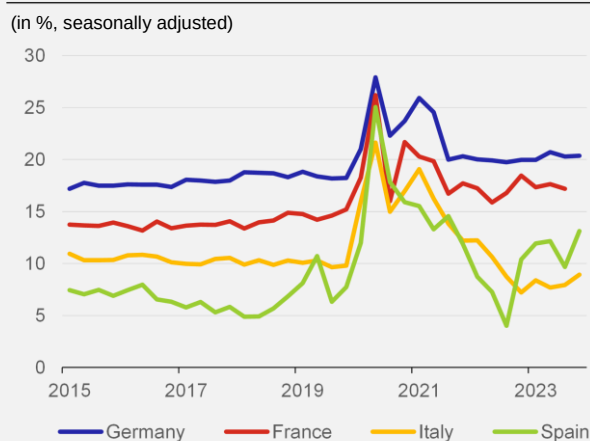
The pandemic also changed household consumption preferences by forcibly shifting part of the demand from services to goods. The gradual increase in the share of services in household final consumption, typical for societies with increasing wealth, which had been evident until then, was interrupted in 2020 by the arrival of the pandemic (Chart 17). Tough anti-COVID measures closed or significantly reduced many service areas, and the sector's share of household consumption fell sharply. Only

Chart 15 – Allocations and drawdowns from the NGEU recovery plan



Source: European Commission
Note: Recovery and Resilience Scoreboard (European Commission, 2024).

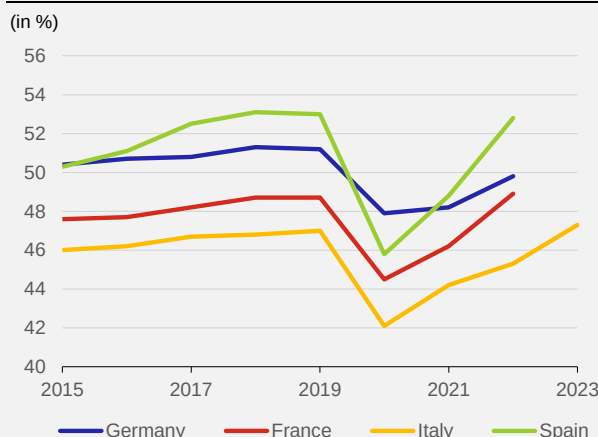
Chart 16 – Household savings rate



Source: Eurostat

France had returned to its pre-COVID level by 2022¹⁷, although Spain was also very close. In Italy, the share of services in final household consumption exceeded the 2019 level last year. This general catch-up in demand for services brings positive points to economic growth for economies specialising in the export of services. As the pandemic particularly negatively affected specific parts of the services sector, such as hospitality and transport, the return to the status quo has recently mainly benefited the economies exporting these types of services, i.e. Spain and Italy among the large euro area economies. However, it seems that this source of growth could already be exhausted, as visitor numbers have already returned to pre-COVID levels. In addition, last year's extremely warm summer perhaps made the experience for tourists in southern Europe more negative than positive. After last year's experience, some of them may head further north this year, something made more likely by the warning reports that the coming La Niña may bring both warmer weather to southern Europe than usual in these places, and in addition it could be very unstable.¹⁸ Or they will change the timing of their holiday. Tourist numbers in Spain were unprecedented in last year's fourth quarter and this year's first (Banco de España, 2024).

Chart 17 – Share of services in final household consumption



Source: Eurostat

Note: Classification of household consumption expenditure according to the COICOP. Services are represented by the CP06–CP12 groups.

Conclusion

Over the past two years or so, a split has been observed, perhaps surprising at first glance, between the growth dynamics of the large southern and western economies of the euro area and those of Germany. In a word, the Spanish economy has done well, with its GDP growing steadily at a quarter-on-quarter rate of 0.5%, which is even slightly above estimates of the equilibrium growth rate for this state. Italy has not been doing badly recently either, with its economy developing roughly in line with its long-term usual potential. On the other hand, France clearly lagged well behind its potential in the post-COVID period. The largest economy in the euro area, Germany, is a chapter unto its own. With its persistent economic stagnation, it has clearly stepped out of line and dragged down the results of the entire euro bloc.

The dichotomy of the economic growth rates observed in the aftermath of the pandemic in the euro area reflects a combination of factors, often very specific ones. A large number of these stem directly from, or are a cascading consequence of, the enormous recent shocks of non-economic origin (the COVID-19 pandemic and the war in Ukraine), while others reflect longer-term structural problems. To understand recent developments in the euro area and to forecast developments in the immediate future, it is crucial to correctly identify these specificities, as they are inherently different in terms of their lifespans. Some of the influences are currently fading away and do not need to be taken into account in the future to the same extent as they have been so far (e.g. high energy prices, catching up with previous service consumption levels, or the Italian Superbonus), while others will still gain strength (e.g. the effect of NGEU investments) and all of them will certainly have their other side effects relating to the behaviour of economic agents and their representation in representative democracy.

The dichotomy of euro area growth seems to have decreased in the first half of this year.¹⁹ The reduction in differences is mostly due to the German economy, which recorded distinctly positive economic growth in Q1 (0.2% quarter on quarter). It probably continued at a similar pace in Q2. In addition to the acceleration of growth in real household income and external demand, which benefit all euro area economies, the release from the acute impacts of the energy crisis is also a significant source of recovery in Germany. By contrast, the other large euro area economies continue to evolve roughly within the story of the past two years described above. In the first half of this year, France apparently retained roughly the same quarter-on-quarter growth rates as in the previous two years (around 0.2%). It still lacks a significant pro-growth stimulus (such as the recovery of energy-intensive industry for Germany, the Superbonus for Italy, or EU funds). The Italian economy accelerated slightly at the beginning of the year (0.3%), but in general it is experiencing the contradictory impacts of many temporary effects. Last year's benefits from the post-COVID tourism boom probably no longer offer much possibility for expansion, and limiting the level of generosity from the Superbonus is dampening GDP growth, but the economy will continue to benefit from the inflow of investment under the EU's post-pandemic recovery plan. At the beginning of the year, the Spanish economy repeated the same strong growth as at the end of last year, with strong exports of services being the main source. Forecasts assume that the 0.7% growth rate is no longer sustainable and that the economy is therefore likely to slow slightly in the course of the year, although it will continue to be greatly helped by the drawdown of EU funds. As a result, the dichotomy between the Germanic and Romance parts of the euro area has significantly eased this year and is no longer a thorny issue.

¹⁷ The last year for which data for all four countries are available.

¹⁸ <https://www.i-meteo.cz/predpoved-pocasi-pro-leto-2024-ocekavame-vliv-el-nina-na-evropu>

¹⁹ At the time of writing, the latest available GDP data were for the first quarter of 2024.

Future developments will depend to a large extent on what the individual economies learn from the COVID and energy-crisis lessons. These shocks have brought to light a number of deeper structural problems that these economies, either all of them without significant differences or only some of them, are facing. Paradoxically, one of the “simpler” ones is the poor condition of the state budgets. This mainly concerns Italy, and to a lesser extent France, yet Spain is guilty to some extent as well. In addition to the acute phase of taming their excessive deficits, the debate is reopening over whether it is necessary to at last achieve balanced finances (or let alone create a reserve for future black swans) or, on the contrary, whether it is necessary to invest using debt for a better future. Population ageing, which receded into the background for a while with the pandemic but has not disappeared, is a heavier-calibre problem. Coping with intensifying climate change, not to mention efforts to slow it down or even avert it, will be an even more difficult obstacle. In addition, the future growth trajectories of the euro area economies will depend on how quickly and efficiently individual states can jump on the wave of technological progress brought about by the current rapid development of artificial intelligence. Given that in Germany there has been a growing general dissatisfaction of economic actors with the proliferating bureaucracy, while other European states are certainly not doing any better, the question is which of the available opportunities the economies can actually use for their development. The growth models that have been touted so far, especially in some large euro area economies, will have to be redefined in the face of (old) new challenges and opportunities. Innovation is key to the future, but these countries do not yet excel in a global comparison.

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Keywords

Economic growth, euro area, energy-intensive industry, fiscal policy, investment, NGEU

JEL Classification

O52, Q43, E22

A1. Change in predictions for 2024

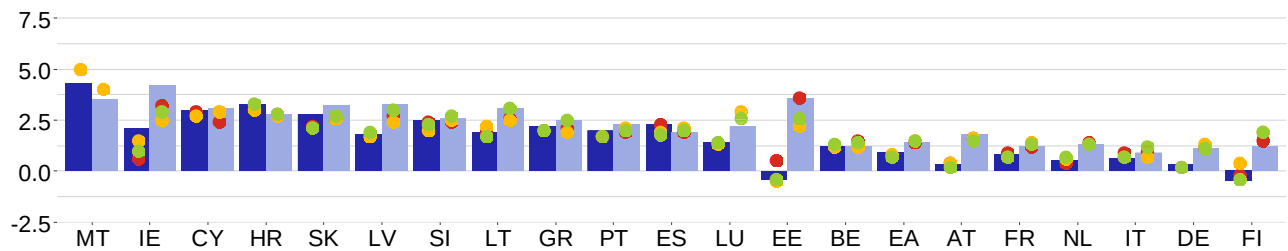
GDP growth, %								Inflation, %									
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EA	0	2024/7	-0.1	2024/4	+0.1	2024/5	+0.3	2024/6	0	2024/7	-0.9	2024/4	-0.3	2024/5	+0.2	2024/6	
		2024/6		2024/1		2024/2		2024/3		2024/6		2023/10		2024/2		2024/3	
US	0	2024/7	+0.6	2024/4	+0.4	2024/5	0	2024/6	-0.1	2024/7	+0.1	2024/4	+0.3	2024/5	+0.2	2024/6	
		2024/6		2024/1		2024/2		2024/3		2024/6		2023/10		2024/2		2024/3	
UK	+0.2	2024/7	-0.1	2024/4	-0.3	2024/5	+0.2	2024/5	0	2024/7	-1.2	2024/4	0	2024/5	-0.3	2024/5	
		2024/6		2024/1		2024/2		2024/2		2024/6		2023/10		2024/2		2024/2	
JP	-0.2	2024/7	0	2024/4	-0.5	2024/5	-0.4	2024/4	-0.1	2024/7	-0.7	2024/4	-0.5	2024/5	+0.4	2024/4	
		2024/6		2024/1		2024/2		2024/1		2024/6		2023/10		2024/2		2024/1	
CN	-0.1	2024/7	0	2024/4	+0.2	2024/5	+0.1	2024/7	0	2024/7	-0.7	2024/4	-0.8	2024/5	0	2024/7	
		2024/6		2024/1		2024/2		2024/6		2024/6		2023/10		2024/2		2024/6	
RU	+0.5	2024/6	+0.6	2024/4	+0.8	2024/5	0	2024/7	+0.3	2024/6	+0.6	2024/4	0	2024/2	+0.7	2024/7	
		2024/5		2024/1		2024/2		2024/6		2024/5		2023/10		2023/11		2024/6	

A2. Change in predictions for 2025

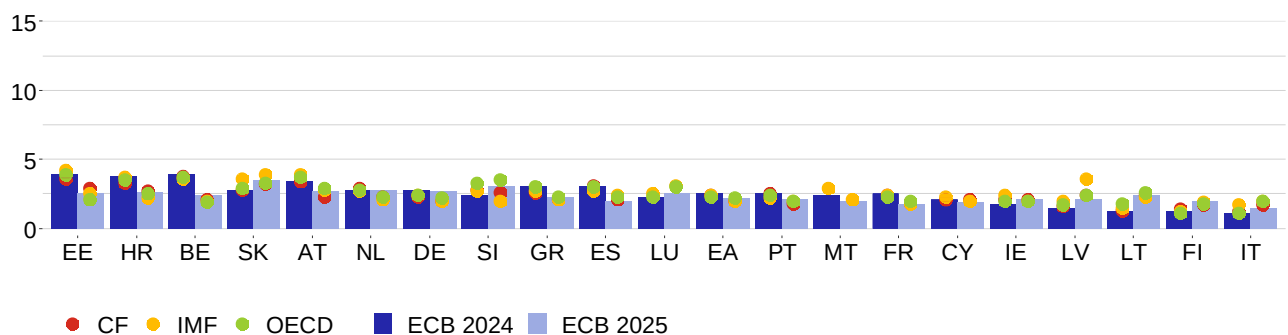
GDP growth, %								Inflation, %									
	CF		IMF		OECD		CB / OE			CF		IMF		OECD		CB / OE	
EA	0	2024/7	-0.2	2024/4	+0.2	2024/5	-0.1	2024/6	0	2024/7	-0.2	2024/4	0	2024/5	+0.2	2024/6	
		2024/6		2024/1		2024/2		2024/3		2024/6		2023/10		2024/2		2024/3	
US	0	2024/7	+0.2	2024/4	+0.1	2024/5	0	2024/6	-0.1	2024/7	-0.4	2024/4	+0.1	2024/5	+0.1	2024/6	
		2024/6		2024/1		2024/2		2024/3		2024/6		2023/10		2024/2		2024/3	
UK	0	2024/7	-0.1	2024/4	-0.2	2024/5	+0.2	2024/5	0	2024/7	-0.1	2024/4	-0.1	2024/5	-0.2	2024/5	
		2024/6		2024/1		2024/2		2024/2		2024/6		2023/10		2024/2		2024/2	
JP	+0.1	2024/7	+0.2	2024/4	+0.1	2024/5	0	2024/4	+0.1	2024/7	+0.2	2024/4	-0.1	2024/5	+0.1	2024/4	
		2024/6		2024/1		2024/2		2024/1		2024/6		2023/10		2024/2		2024/1	
CN	0	2024/7	0	2024/4	+0.3	2024/5	+0.1	2024/7	0	2024/7	-0.2	2024/4	-0.2	2024/5	0	2024/7	
		2024/6		2024/1		2024/2		2024/6		2024/6		2023/10		2024/2		2024/6	
RU	+0.2	2024/6	+0.7	2024/4	0	2024/5	0	2024/7	+0.2	2024/6	+0.5	2024/4	0	2024/2	+0.7	2024/7	
		2024/5		2024/1		2024/2		2024/6		2024/5		2023/10		2023/11		2024/6	

A3. GDP growth and inflation outlooks in the euro area countries

GDP growth in the euro area countries in 2024 and 2025, %



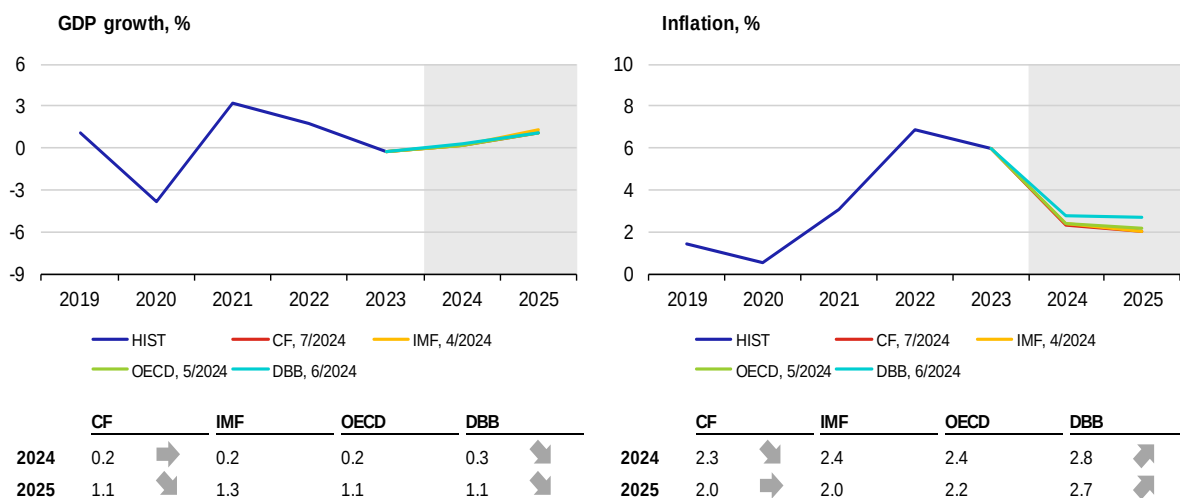
Inflation in the euro area countries in 2024 and 2025, %



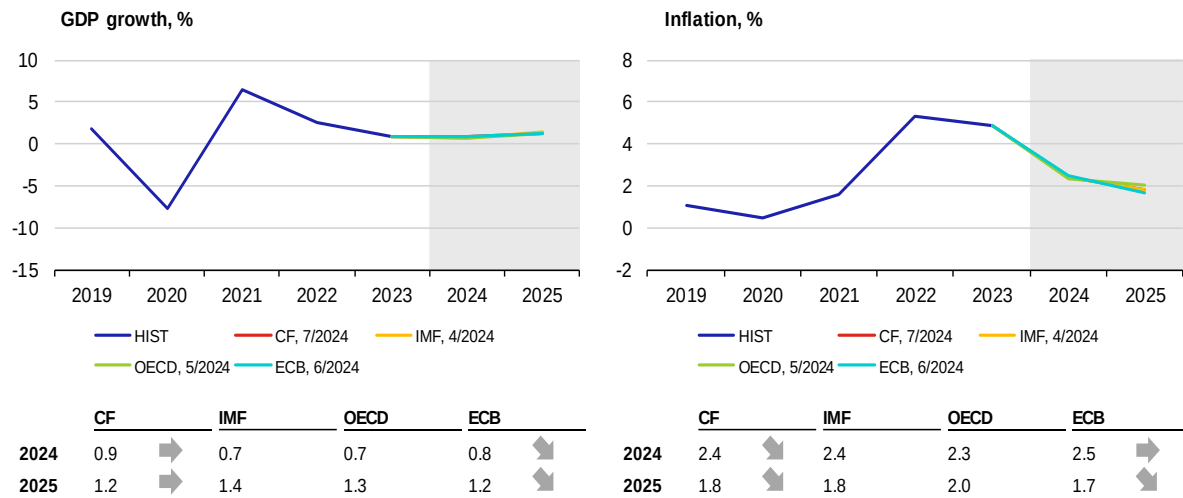
Note: Charts show institutions' latest available outlooks of for the given country.

A4. GDP growth and inflation in the individual euro area countries

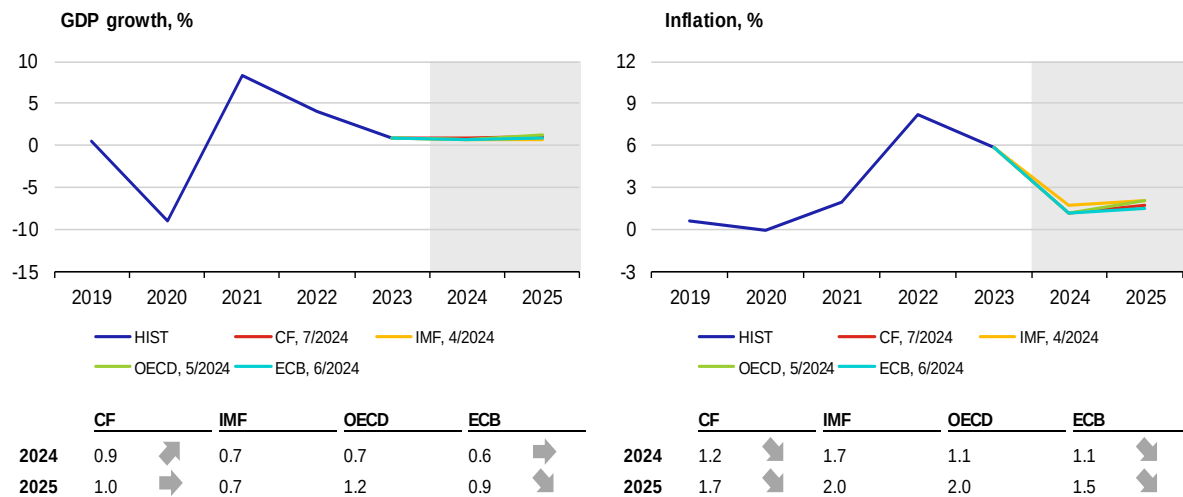
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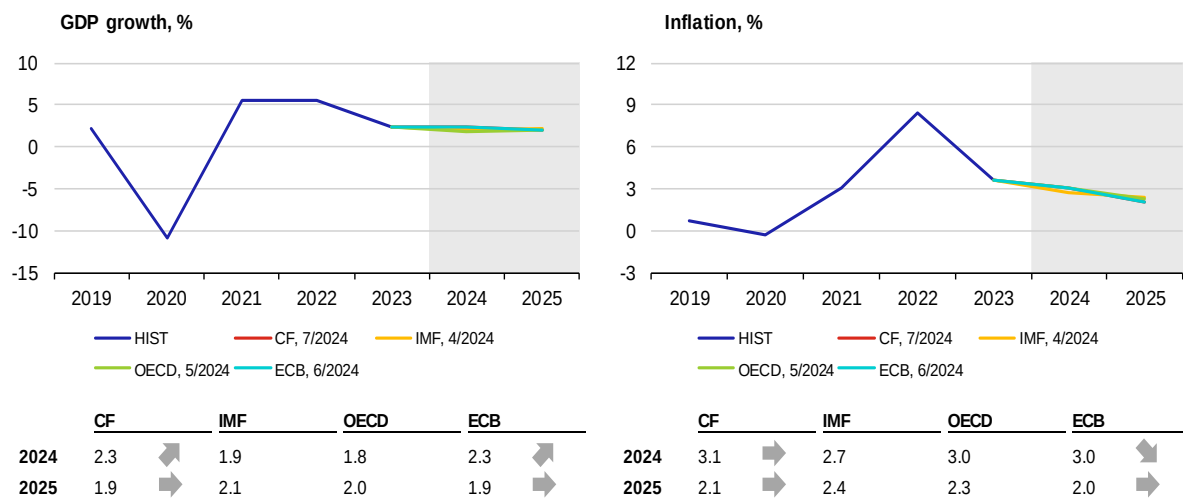
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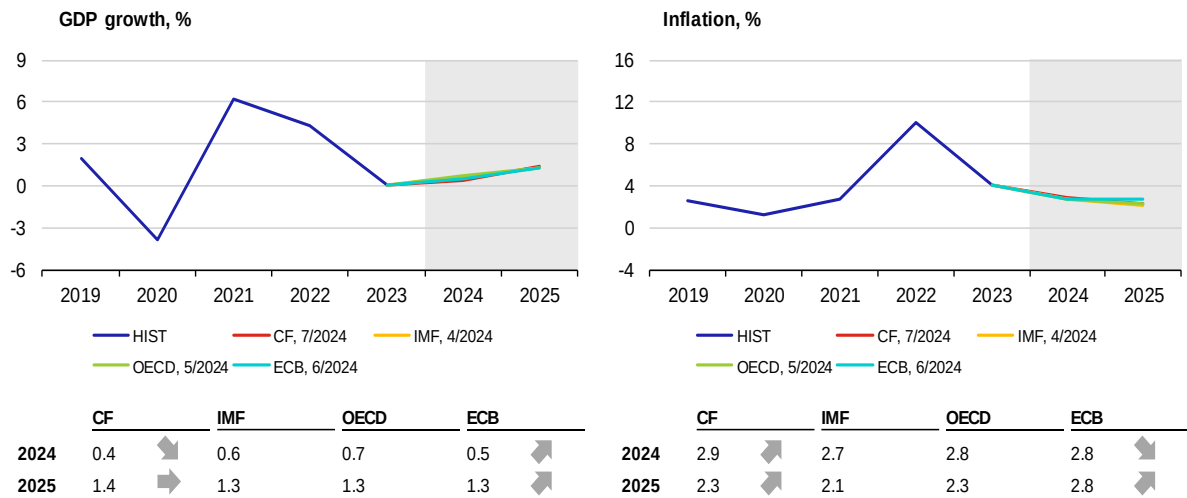
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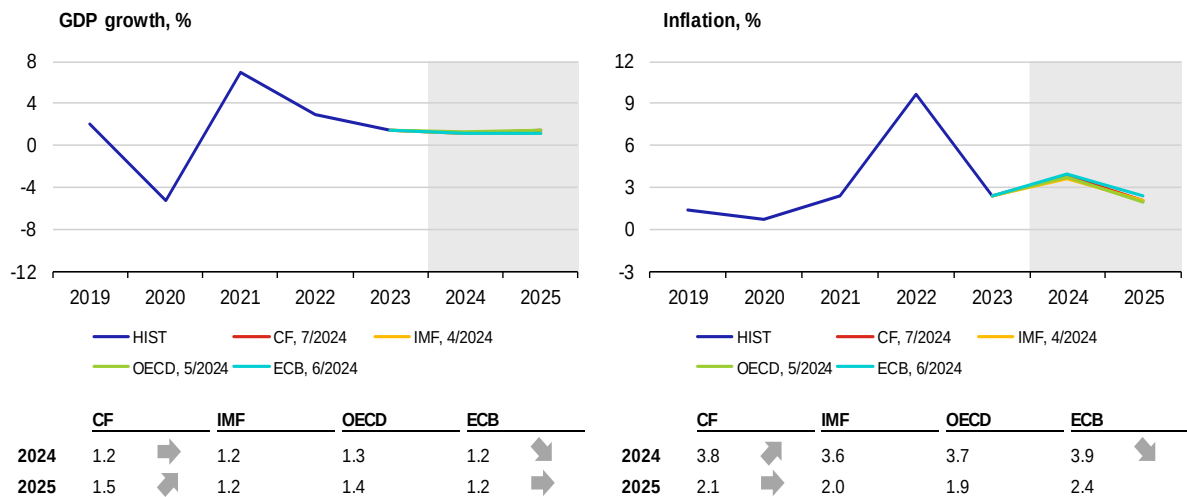
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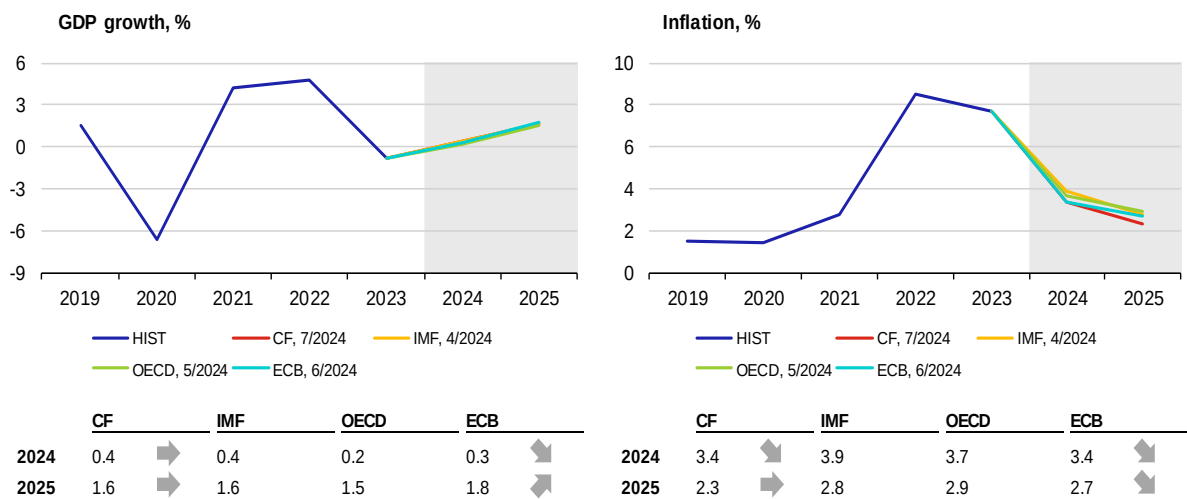
Netherlands



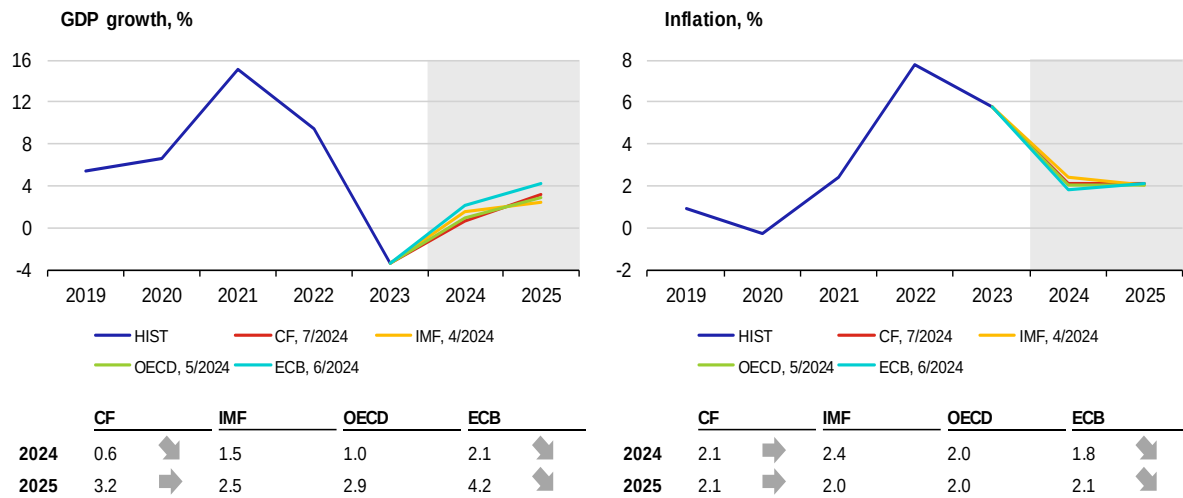
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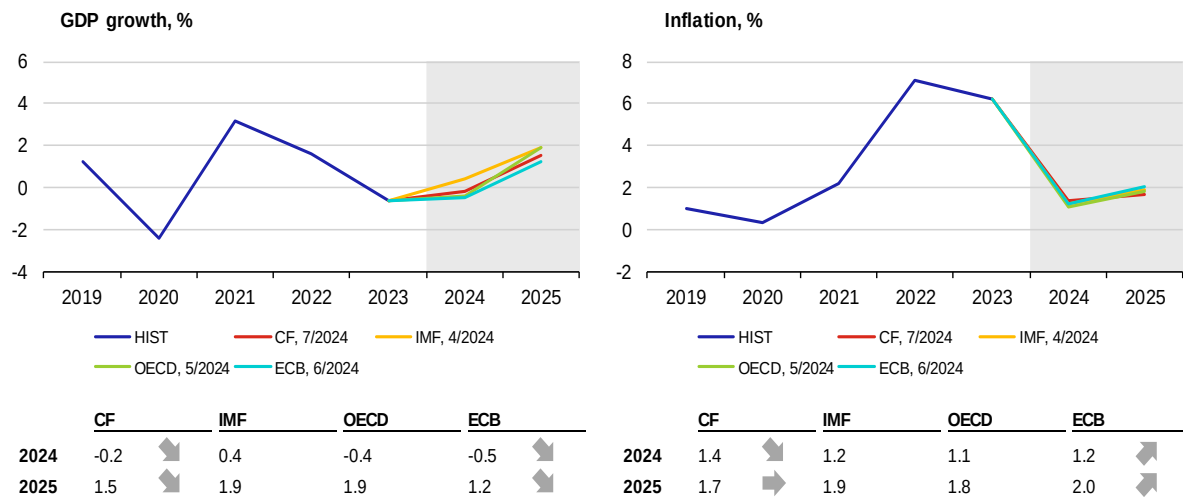
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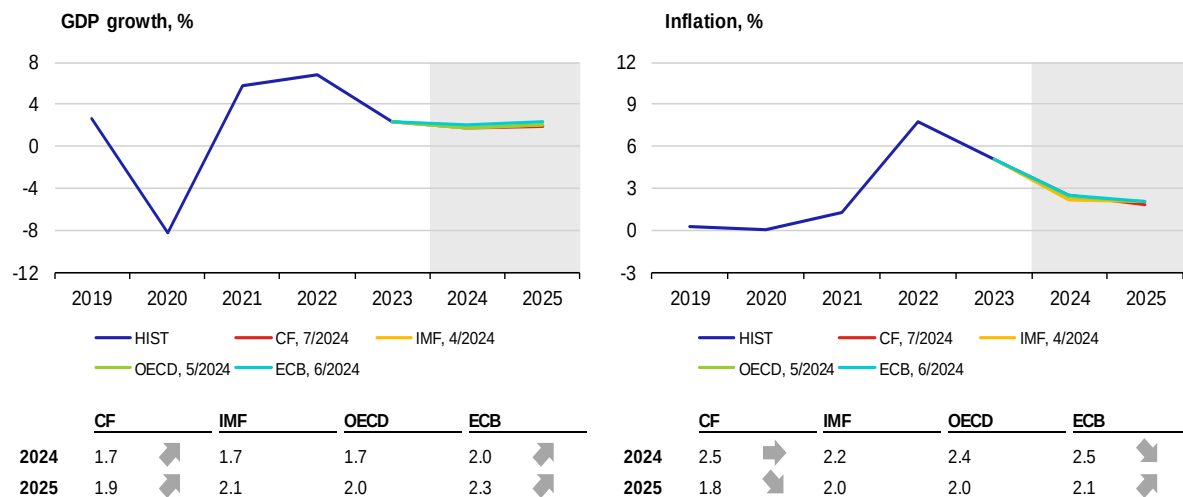
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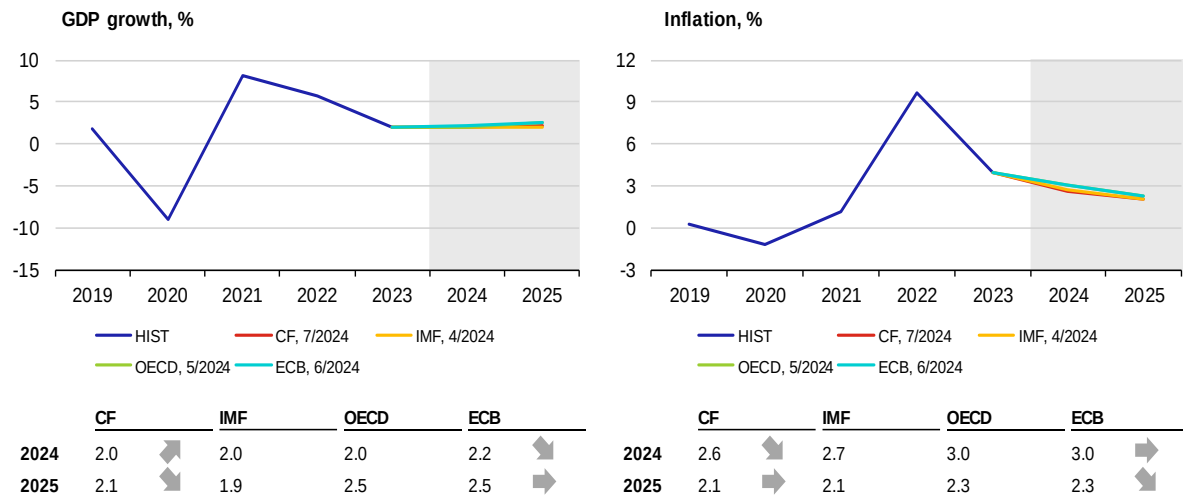
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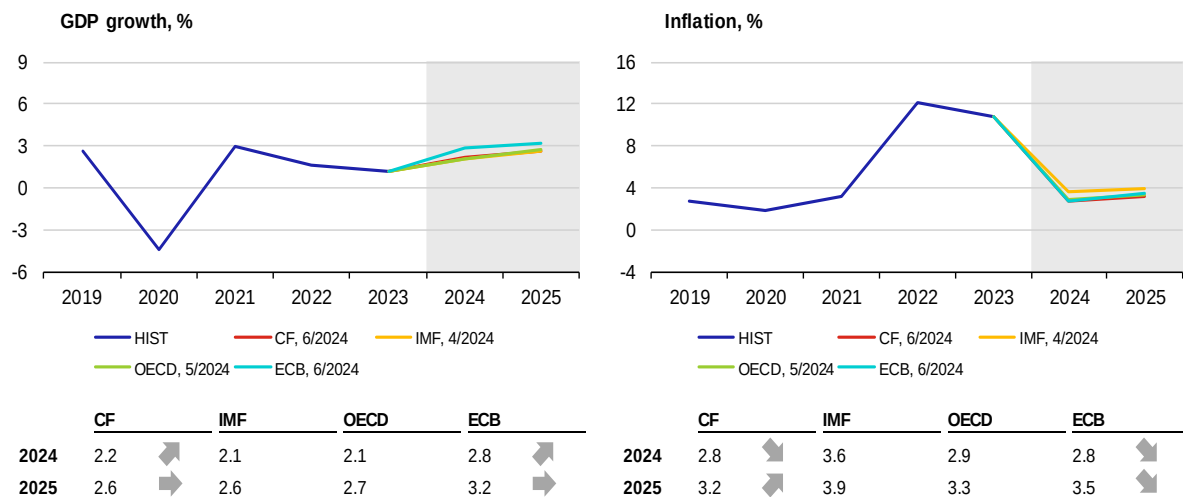
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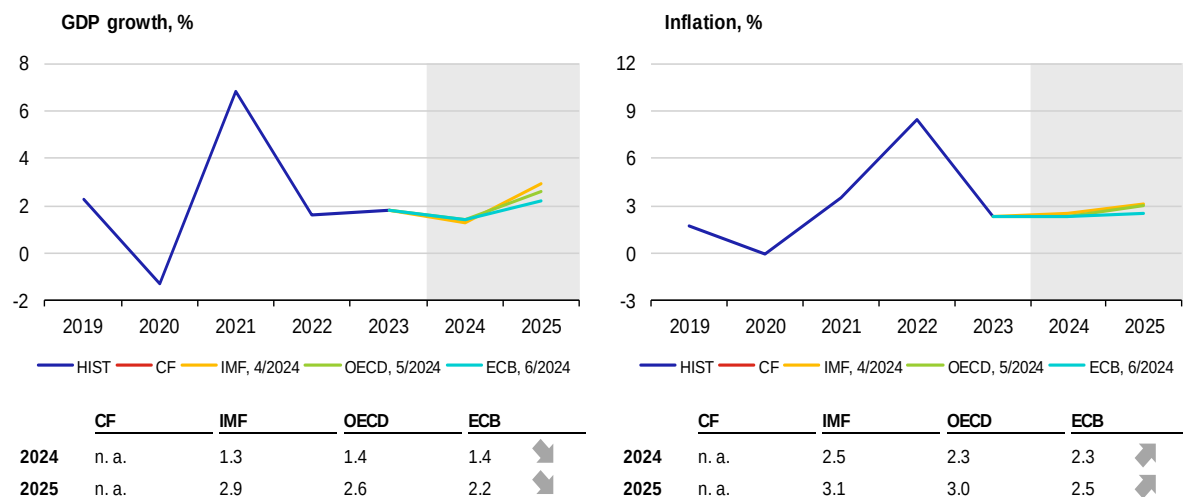
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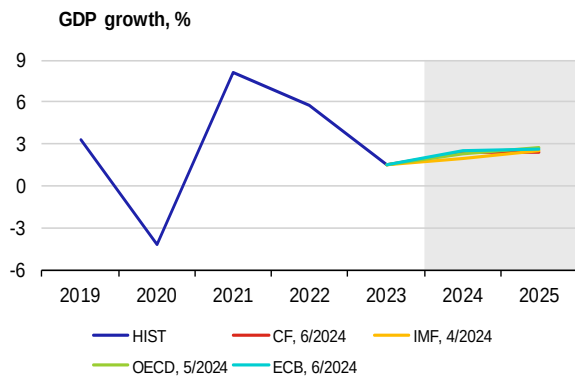
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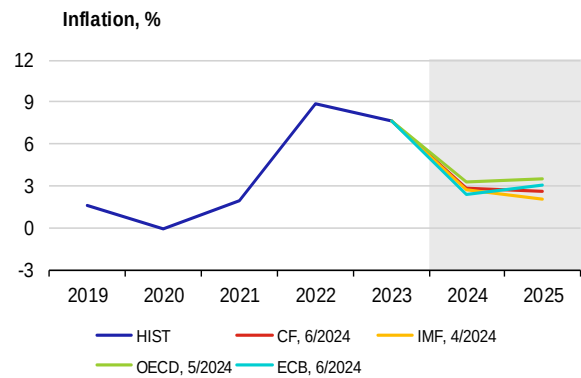
Luxembourg



Slovenia

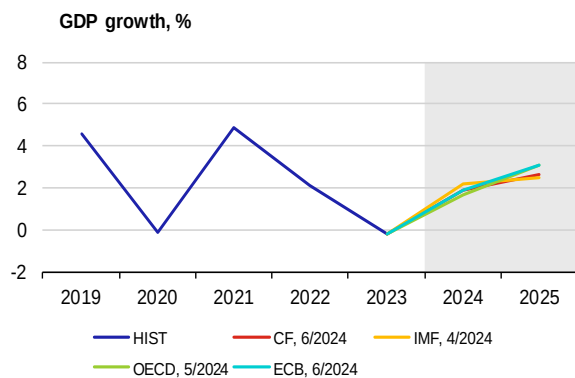


	CF	IMF	OECD	ECB
2024	2.4	2.0	2.3	2.5
2025	2.4	2.5	2.7	2.6

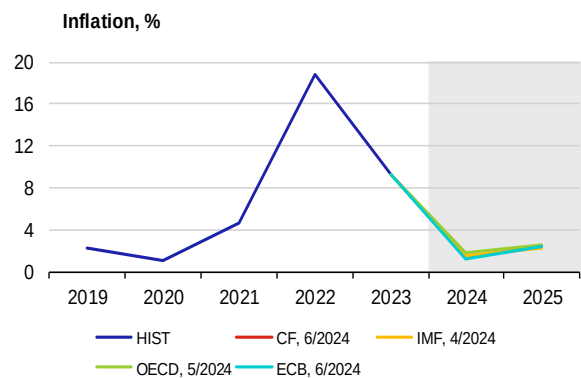


	CF	IMF	OECD	ECB
2024	2.8	2.7	3.3	2.4
2025	2.6	2.0	3.5	3.0

Lithuania

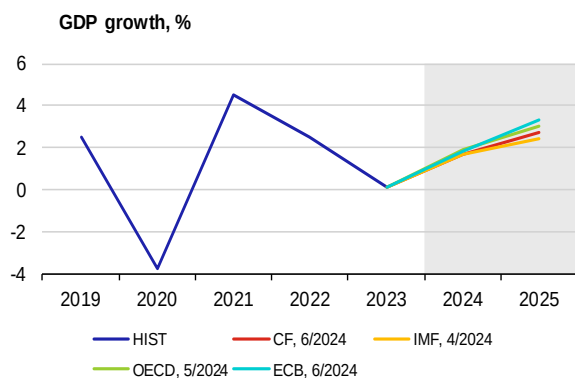


	CF	IMF	OECD	ECB
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2025	2.6	2.5	3.1	3.1

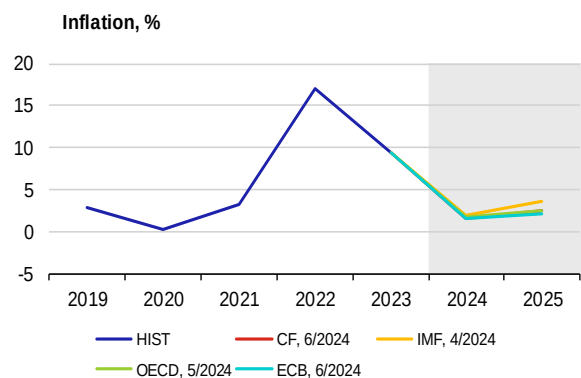


	CF	IMF	OECD	ECB
2024	1.3	1.5	1.8	1.2
2025	2.4	2.3	2.6	2.4

Latvia

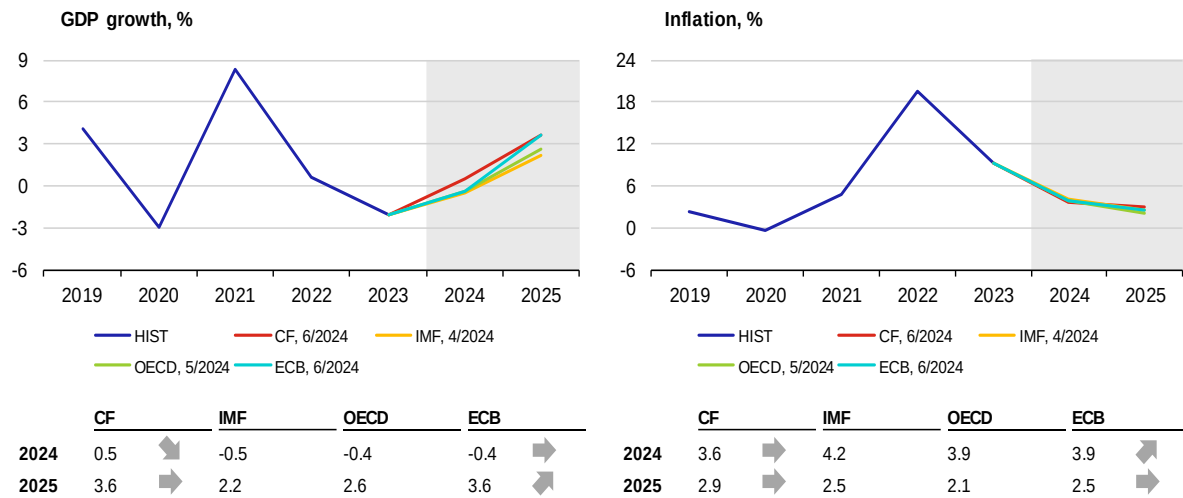


	CF	IMF	OECD	ECB
2024	1.7	1.7	1.9	1.8
2025	2.7	2.4	3.0	3.3

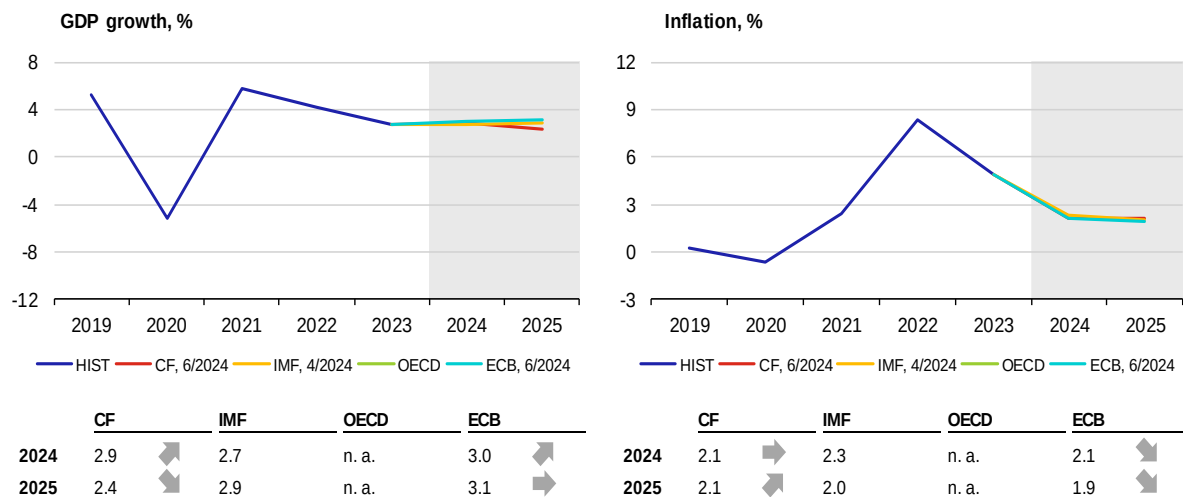


	CF	IMF	OECD	ECB
2024	1.6	2.0	1.7	1.5
2025	2.4	3.6	2.4	2.1

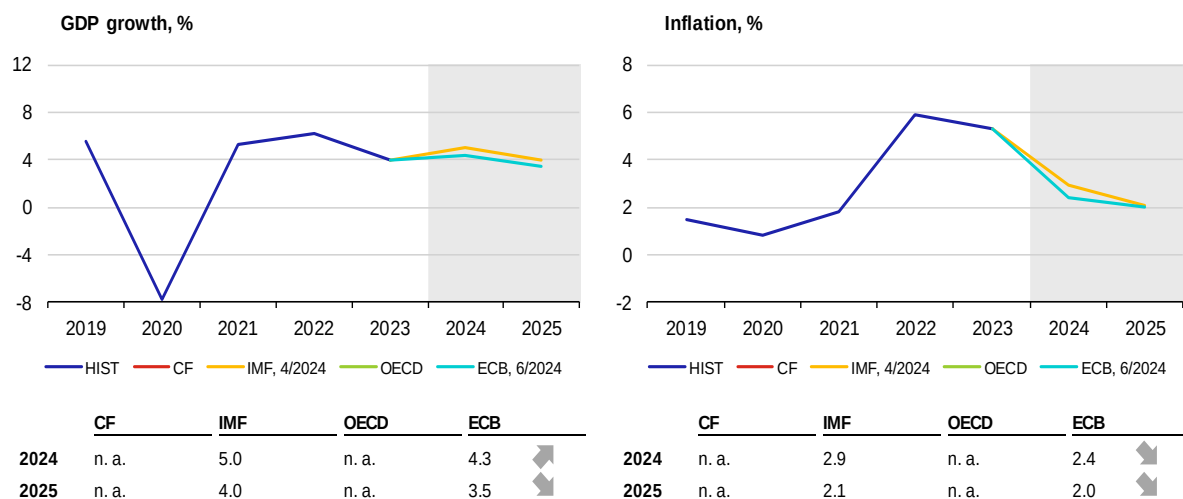
Estonia



Cyprus

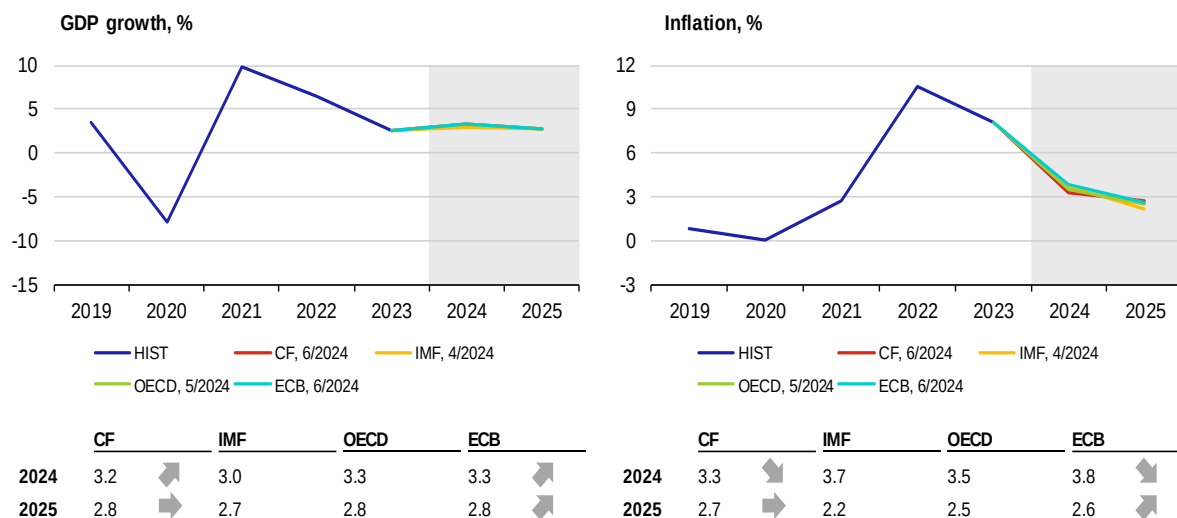


Malta



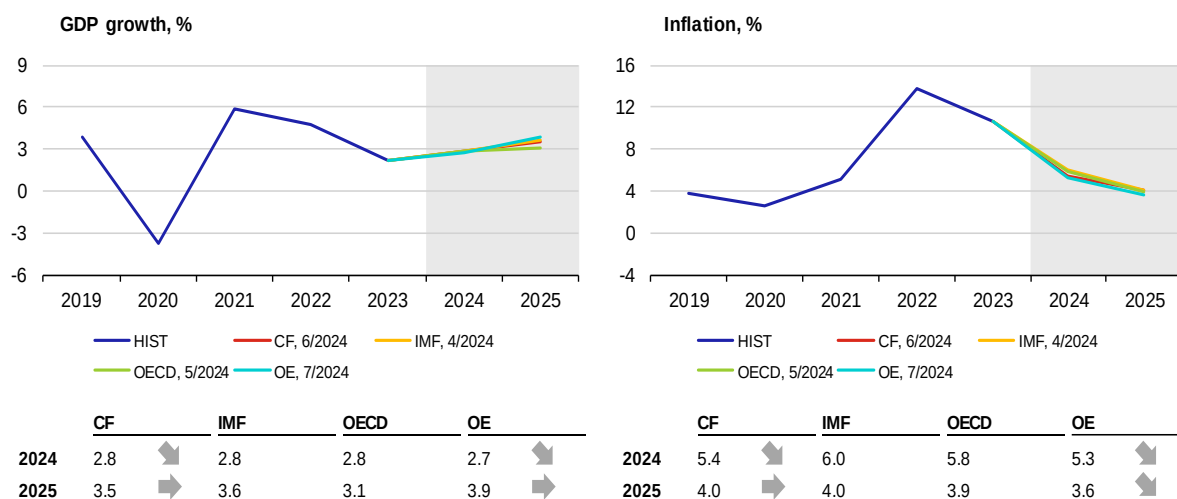
Ddd

Croatia



A5. GDP growth and inflation in other selected countries

Romania



A6. List of abbreviations

AT	Austria	IRS	Interest Rate swap
bbl	barrel	ISM	Institute for Supply Management
BE	Belgium	IT	Italy
BoE	Bank of England (the UK central bank)	JP	Japan
BoJ	Bank of Japan (the central bank of Japan)	JPY	Japanese yen
bp	basis point (one hundredth of a percentage point)	LIBOR	London Interbank Offered Rate
CB	central bank	LME	London Metal Exchange
CBR	Central Bank of Russia	LT	Lithuania
CF	Consensus Forecasts	LU	Luxembourg
CN	China	LV	Latvia
CNB	Czech National Bank	MKT	Markit
CNY	Chinese renminbi	MNB	Magyar Nemzeti Bank (the central bank of Hungary)
ConfB	Conference Board Consumer Confidence Index	MT	Malta
CXN	Caixin	NBP	Narodowy Bank Polski (the central bank of Poland)
CY	Cyprus	NIESR	National Institute of Economic and Social Research (UK)
DBB	Deutsche Bundesbank (the central bank of Germany)	NKI	Nikkei
DE	Germany	NL	Netherlands
EA	euro area	OE	Oxford Economics
ECB	European Central Bank	OECD	Organisation for Economic Co-operation and Development
EE	Estonia	OECD-CLI	OECD Composite Leading Indicator
EIA	Energy Information Administration	OPEC+	member countries of OPEC oil cartel and 10 other oil-exporting countries (the most important of which are Russia, Mexico and Kazakhstan)
ES	Spain	PMI	Purchasing Managers' Index
ESI	Economic Sentiment Indicator of the European Commission	pp	percentage point
EU	European Union	PT	Portugal
EUR	euro	RU	Russia
EURIBOR	Euro Interbank Offered Rate	RUB	Russian rouble
Fed	Federal Reserve System (the US central bank)	SI	Slovenia
FI	Finland	SK	Slovakia
FOMC	Federal Open Market Committee	SPF	Survey of Professional Forecasters
FR	France	TTF	Title Transfer Facility (virtual trading point for natural gas in the Netherlands)
FRA	forward rate agreement	UK	United Kingdom
FY	fiscal year	UoM	University of Michigan Consumer Sentiment Index - present situation
GBP	pound sterling	US	United States
GDP	gross domestic product	USD	US dollar
GR	Greece	WEO	World Economic Outlook
HICP	Harmonised Index of Consumer Prices	WTI	West Texas Intermediate (crude oil used as a benchmark in oil pricing)
HR	Croatia	ZEW	Centre for European Economic Research
ICE	Intercontinental Exchange		
IE	Ireland		
IEA	International Energy Agency		
IFO	Leibniz Institute for Economic Research at the University of Munich		
IMF	International Monetary Fund		

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Contact:
ODBOR KOMUNIKACE SEKCE KANCELÁŘ
Tel.: 224 413 112
Fax: 224 412 179
www.cnb.cz