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EC Winter Interim Forecast: Lower growth outlook for 2024

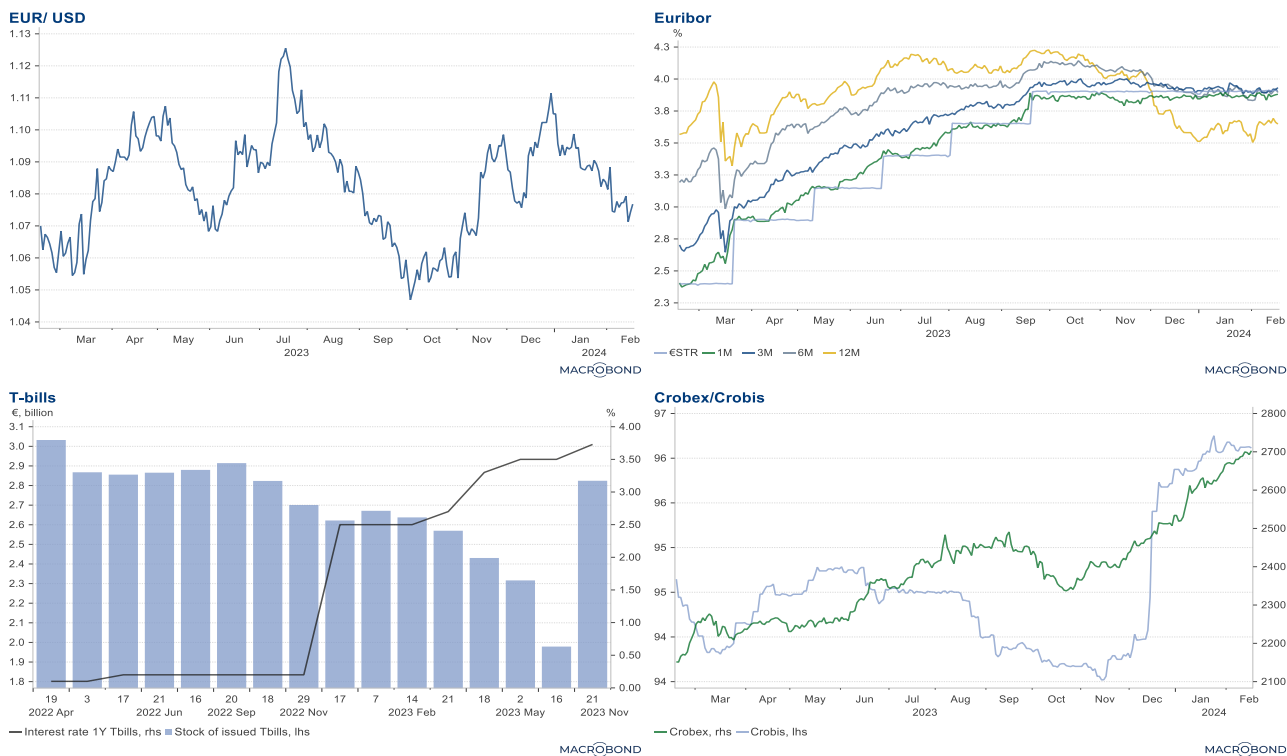
- Estimated EA's GDP growth has been revised down to 0.8% y-o-y in 2024, -0.4 p.p. compared with Autumn forecasts and only mildly better compared to the 0.5% growth registered in 2023. Forecasts for Germany, France, and Italy have been lowered, while Spain's remains unchanged. In Germany GDP is expected to grow by 0.3%, instead of 0.8% as sentiment indicators remain weak and labour shortages suggest subdued economic growth as well as tighter fiscal policies, although eased market financing and rising real wages may support consumption. Spain GDP growth is forecast to moderate to 1.7% in 2024, unchanged compared to the Autumn Forecast, owing to the combination of several factors. Externally, waning tourism and Spain's trading partners' weak economies will curb export growth, internally, past interest rate hikes weigh on domestic demand, exacerbated by high but decreasing debt-to-GDP ratios. France's 2024 GDP has been revised down to 0.9%, vs 1.2% in the Autumn Forecast due to a weaker 2H23. Economic activity will pick up in the second half of 2024, driven by private consumption supported by a declining inflation. Investments are also expected to recover later in the year, while net exports won't contribute to GDP growth. The annual GDP growth in Italy is projected at 0.7%, slightly lower than the autumn forecast of 0.9%. Economic growth is expected to be slow, with household purchasing power benefiting from disinflation and wage increases. Investments, driven by government and RRF-funded projects, are set to offset lower housing construction expenditure. In 2024, real GDP in Croatia is forecasted to grow by 2.6%, slightly above the 2.5% in the Autumn Forecast, driven by strong domestic demand and wage growth. Despite decelerating investment and public consumption growth, and a small negative contribution from net exports, the economy is expected to remain solid.
- On the inflation front, overall faster inflation decline is now expected in 2024 compared to the Autumn Forecast. EA Inflation is expected to decrease from 5.4% in 2023 to 2.7% (-0.5 p.p. compared to the previous forecast). Germany's inflation is projected to reach 2.8%, driven mainly by the services sector, Spain's inflation is expected to moderate to 3.2%, although phasing out of government measures to mitigate high energy prices will exert some upward pressure. France's inflation is expected to reach 2.8%, while Italy's inflation is projected at 2.0%. At the same time EC sees inflation in Croatia easing to 2.5%, with a risk of slower-than-expected decline due to wage cost pressures.
- Overall, it needs to be considered that heightened geopolitical tensions, particularly Russia's war against Ukraine and Middle East conflicts, pose risks to the EU economy. These tensions, along with global policy uncertainty, could disrupt supply chains, affect trade, and increase prices. China's economic trajectory and the US's disinflation process also impact global financial conditions, while the historic number of elections in 2024 adds to policy uncertainty.

Croatia among a handful of countries with improved outlook

Inflation set to fall faster

Risks skewed to the downside

- Favourable trends in the U.S. economy continued to support the dollar, with the EUR/USD at \$1.0768 to the euro at the end of the week, almost unchanged week-on-week.
- Euribor recorded only minor shifts last week so on Friday 3M and 6M were both 3.9%, unchanged week-on-week. This week begins the first round for subscription of the MF's Treasury bills in which they will be offered to natural persons. The subscription of €250 million of 3-month bills is planned with a yield of 3.75% and €300 million of 12-month bills with a yield of 3.65%.
- The ZSE maintained a positive climate, so Crobex achieved an increase of 0.6% week-on-week to 2,703 points due to the growth of almost all the most significant sectoral indices (CROBEXindustry +2.9% to 1,786, CROBEXnutris -0.3% to 944, CROBEXtourist +0.6% to 4,431). Crobis stagnated at 96.1 points.



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