

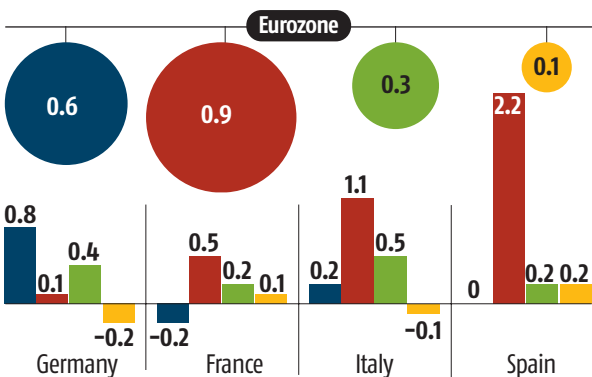
Eurozone Q4 growth defies expectations, skips recession

France registers unexpected GDP expansion while Italy shrinks

GDP WATCH

(QoQ growth in %)

■ Q1 2022 ■ Q2 2022 ■ Q3 2022 ■ Q4 2022



Source: Bloomberg

BALAZS KORANYI

Frankfurt, 31 January

The eurozone eked out growth in the final three months of 2022, managing to avoid a recession even as sky-high energy costs, waning confidence, and rising interest rates took a toll on the economy that is likely to persist into this year.

Gross domestic product across the currency bloc expanded by a tiny 0.1 per cent in the fourth quarter, data from Eurostat showed on Tuesday, outperforming expectations in a *Reuters* poll for a 0.1 per cent drop. Compared to a year earlier, growth was 1.9 per cent, just beating expectations of 1.8 per cent.

Among the biggest eurozone countries, Germany and Italy recorded negative growth rates for the quarter but France and Spain expanded, Eurostat added, based on a flash estimate that is subject to revisions.

Russia's nearly year-old war in Ukraine has proved costly for the eurozone, which now spans 350 million people in 20 countries, given some members' heavy reliance on cheap energy.

Surging oil and gas prices have depleted savings and held back investment while forcing the European Central Bank into unprecedented rate hikes to arrest inflation.

But the economy has displayed some unexpected resilience, too — much like during the Covid-19 pandemic, when growth outperformed expectations as businesses adjusted faster to changed circumstances than policymakers had predicted.

More recent figures like a crucial confidence indicator or the latest PMI data suggest growth may have hit bottom already and a slow recovery is underway, helped by generous government support and a mild winter that has limited energy spending. The overall picture nevertheless remains weak, with a meagre growth forecast for 2023 due to a large drop in real incomes and surging interest rates.

REUTERS