

Global and European setting

Global economic developments

Subdued global economic activity

The global economy continued to see only moderate growth in the final quarter of 2022 owing to various headwinds. The main factors behind this slowdown were high inflation rates, the continued tightening of monetary policy in many industrial countries and the European energy crisis triggered by Russia's war on Ukraine. Accordingly, there was weak economic momentum in the euro area and in the United Kingdom. In the United States, gross domestic product (GDP) rose markedly in the fourth quarter, but the underlying economic momentum remained subdued there too. In China, economic growth was initially halted by fresh lockdowns and then by a massive wave of infections after all of the containment measures were suddenly lifted. At the global level, the subdued economic activity was mainly the result of weakening aggregate demand. Global industrial output fell distinctly in the fourth quarter as a consequence. Activity in the services sector was probably also muted, as indicated by the results of surveys among purchasing managers.

Sentiment brightened slightly at turn of the year

At the turn of 2022-23, sentiment amongst entrepreneurs and consumers worldwide brightened slightly. This is probably due in part to the distinct easing of the European energy crisis. Inflationary pressures also relented somewhat. Finally, the end of the zero-COVID policy in China is likely to pave the way for the country's economic recovery. Against this backdrop, the prices of some non-energy commodities picked up somewhat of late, especially those of industrial metals.

Energy prices much lower

By contrast, energy prices have fallen significantly in recent months. The efforts of European gas consumers to cut back on usage bore fruit. That, along with comparatively mild winter temperatures and high imports of liquefied

natural gas, means that Europe is likely to emerge from the winter with its gas storage facilities well filled. European wholesale gas prices thus fell sharply. At the Dutch TTF trading point, a megawatt hour of gas recently cost €52, which is around 40% less than in November 2022. Forward prices for future deliveries and gas prices in other regions of the world both followed a similar pattern. Crude oil prices abated somewhat, partly owing to the persistently high level of Russian crude oil exports. Russia is still managing to redirect its oil exports away from sanctioning countries towards others, notably China and India. As this report went to press, the price of a barrel of Brent crude oil stood at US\$84. Forward prices suggest further slight declines are on the cards.

As energy commodity prices abated, consumer price inflation in industrial countries also weak-

Global economic indicators*

Seasonally adjusted

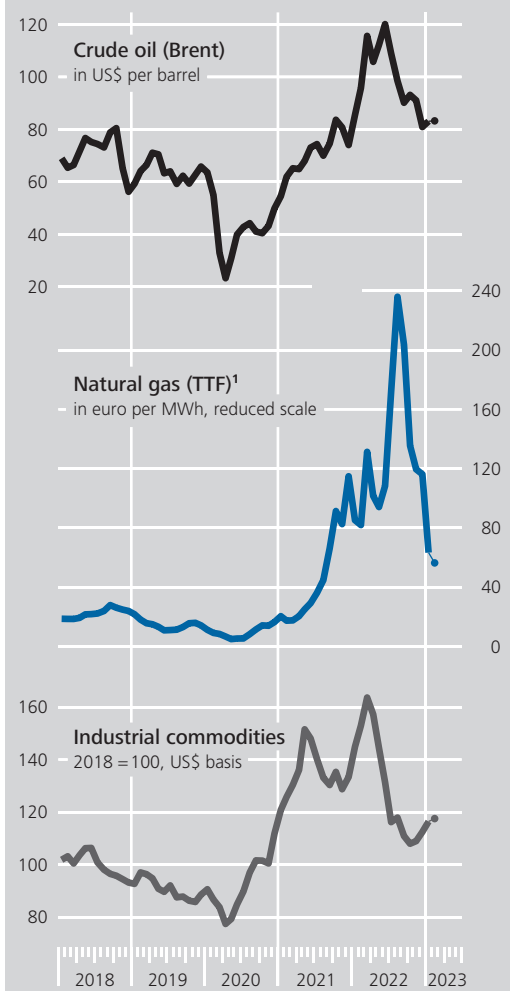


Sources: CPB, national data, Haver Analytics, S&P Global and Bundesbank calculations. * Groups of countries vary due to differences in data availability. 1 Components for output (manufacturing) and business activity (services).

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Commodity prices

Monthly averages

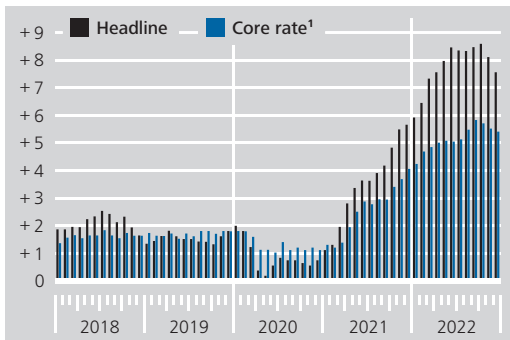


Sources: Bloomberg Finance L.P., Haver Analytics, ICE and HWWI. • Latest figures: Average of 1 to 10 February 2023, or 1 to 16 February 2023 for crude oil and natural gas. ¹ Price for the front-month futures contract.

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Consumer prices in industrial countries*

Year-on-year percentage change



Sources: Bundesbank calculations based on national data. * EU, Canada, Japan, Norway, Switzerland, the United Kingdom and the United States. ¹ Consumer prices excluding energy and food; additionally excluding alcoholic beverages and tobacco products for the EU, Norway, Switzerland and the United Kingdom.

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ened slightly. Headline inflation in this group of countries fell to 7.6% in December 2022; it had been almost 1 percentage point higher three months earlier. Looking ahead, lower prices for energy commodities are likely to dampen inflation further. Producer prices for intermediate goods in the manufacturing sector have fallen recently in most advanced economies. This is likely to curb inflation for goods in particular. However, the underlying inflationary pressures may prove to be more persistent given the robust labour market situation and high wage growth. Inflation excluding energy and food has so far retreated only tentatively to 5.4%.

Decline in inflation rates, underlying price pressures persistently high

The International Monetary Fund (IMF) also expects to see elevated inflation in the medium term, as forecast in the regular update to its World Economic Outlook in January.¹ Inflation rates in the advanced economies are still likely to be above the monetary policy targets come the end of 2024. At the same time, the IMF staff raised their forecast for global GDP growth in 2023 slightly to 2.9%. The end of the zero-COVID policy in China and the easing of the European energy crisis were key motivating factors behind the upward revision. That said, the IMF continued to warn of risks to global growth. It also cautioned that there was still a danger of inflation expectations de-anchoring, which could prompt a further tightening of monetary policy.

IMF raises its global growth forecast for 2023 slightly and expects elevated inflation rates over the medium term

China

In China, economic developments at the end of 2022 were largely shaped by the country's policy for dealing with COVID-19. As late as November, the authorities had still responded to smaller-scale outbreaks in various parts of the country with stringent restrictions. In December, they then unexpectedly abandoned the strict zero-COVID policy which had been in force for nearly three years. This move was followed by a huge wave of infections, and eco-

Economic stagnation in Q4

¹ See International Monetary Fund (2023).

conomic life was once again severely disrupted. Averaged over the final quarter of 2022, real GDP stagnated compared with the previous quarter, in seasonally adjusted terms. In year-on-year terms, it rose by 2.9%. On the expenditure side, private consumption, in particular, is likely to have flagged. In addition, exports of goods fell away steeply as consumption cooled in major advanced economies. Given the sluggish performance of the real economy, consumer price rises remained muted; inflation stood at 2.1% in January.

Recovery likely to be bumpy

Now that the wave of infections has subsided, the Chinese economy is likely to rebound to some extent over the next few months. However, a prolonged, robust upswing does not look likely from today's perspective. For one thing, household incomes in China suffered heavily during the pandemic. This limits the scope for catch-up effects in terms of private consumption. For another, the crisis that has been simmering for some time now in the macroeconomically significant housing market looks set to continue. At the end of 2022, the number of new construction starts fell to its lowest level in many years. This suggests that construction activity will remain depressed over the coming months.

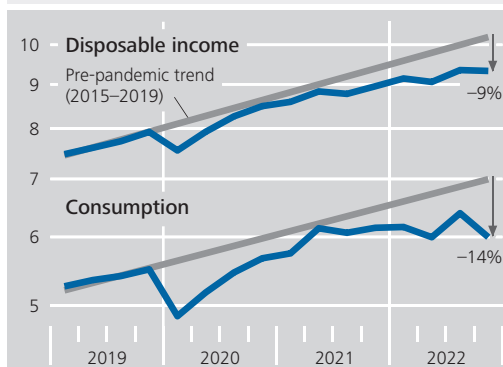
Other selected emerging market economies

India's economy still on growth trajectory

India's economy probably continued on its growth trajectory as 2022 drew to a close. Although official GDP data are not yet available, the results of purchasing managers' surveys point to sustained strong economic expansion. This means that India is likely to have been one of the fastest-growing major economies last year, propelled primarily by the robust growth of the significant domestic market. At the same time, multinationals increasingly utilised the country as a base for exports. Consumer price inflation cooled markedly to 6.1% in the fourth quarter, as food prices increased less sharply. With core inflation still high, the Indian central

China: Household consumption and disposable income*

Thousands of yuan, per capita basis, log scale



Sources: National Bureau of Statistics of China and Bundesbank calculations. * Original data decumulated and seasonally adjusted.

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bank raised its policy rate by 25 basis points to 6.5% in February 2023.

In Brazil, economic activity appears to have remained feeble in the final quarter of 2022, following a distinct slowdown in economic growth in the third quarter. The restrictive monetary policy pursued by the country's central bank is likely to have been the chief drag. Besides investment, it likely also weighed on private consumption, as households' expenditure on debt servicing shot up dramatically. That said, the central bank did succeed in reining in the rise in consumer prices. The inflation rate fell to 6.1%, compared with 8.6% in the previous quarter. The Brazilian central bank left the policy rate unchanged at 13.75%.

Economy lacklustre in Brazil

According to an estimate prepared by the Russian central bank, the country's economic output contracted by 2.5% over 2022 as a whole. Revenues from energy exports were very high at times and armaments production expanded, both of which prevented a more severe slump. The available indicators suggest that the macroeconomic contraction may have continued at the end of the year. The mounting labour shortage due to the partial mobilisation ordered in September probably played a part. In addition, there was a marked decrease in revenue from oil and gas exports, chiefly owing to the sharp

Recession probably continued in Russia

fall in oil and gas prices beginning in mid-2022. In recent times, Russia has evidently also had to accept distinct price markdowns against comparable international oil types when selling oil. This is likely to be connected to the European Union's oil embargo, which came into force in December. Amid these developments, the rouble's value has fallen significantly in recent months. Consumer price inflation has continued to weaken, and stood at an annual rate of 11.8% in January 2023. The central bank left its policy rate unchanged at 7.5%.

United States

Solid end to the year

Following a setback in the first half of the year, the US economy finished 2022 in solid shape. The fourth quarter saw GDP rise by 0.7% on the preceding quarter after price and seasonal adjustment. Firms' efforts to re-stock their inventories were a key factor supporting growth. A variety of headwinds meant that the underlying economic momentum remained subdued. Under the influence of high interest rates, the downturn in housing construction continued. Latterly, trade and industry barely expanded their investment at all. In addition, export business waned somewhat, given the gloomier state of the global economy. Imports fell even more strongly, though. Consumer reticence increased over the course of the quarter. Before that, the personal saving rate had dropped close to historical lows.

Robust labour market bolstering economic activity

At the beginning of the new year, many households found their scope for spending increasing again markedly, partly due to the cooling of consumer price inflation. The annual rate of the consumer price index (CPI) fell to 6.4% up to January. In addition, many social security benefits were adjusted to accommodate the soaring cost of living. On top of that, the robust labour market continued to support consumption activity. In January, job creation proceeded briskly and the unemployment rate fell to its lowest level in the last 50 years. As a result, there was barely any let-up in wage growth. In view of

the persistently high domestic price pressures, the central bank continued its policy of tightening. In December 2022 and February 2023, it increased the target range for the federal funds rate by a total of 75 basis points, making it 4.50% to 4.75%.

Japan

The Japanese economy shifted onto a course of modest growth in the fourth quarter. According to the initial official estimate, real GDP in the final quarter of 2022 rose by a seasonally adjusted 0.2% on the previous quarter. Private consumption increased markedly thanks to the easing of the pandemic. The Japanese government also stimulated domestic tourism by means of subsidies and opened up the borders for travellers. As a result, exports of services rose and total exports grew significantly. By contrast, imports faltered. Investment also declined. With the economy in rather good shape overall, the seasonally adjusted unemployment rate fell slightly to 2.5%. The annual CPI rate rose to 4.0% in December, its highest figure in more than 30 years. The weakness of the yen was a key contributor to this development. At the end of 2022, the Japanese central bank widened the target band for ten-year government bond yields under its yield curve control policy; it nevertheless held fast to its expansionary stance overall. It remained of the opinion that consumer price inflation was not yet self-sustaining.

Moderate GDP growth

United Kingdom

In the United Kingdom, the economy was stagnant at the end of the year. Output in both the manufacturing sector and the services sector – which occupies a key position in the country's economy – remained at their summer levels. Gross value added generated by consumer facing services was still well short of its pre-pandemic level. Activity in the construction sector did, at least, exhibit a slight rise. In keep-

Economy stagnating and inflation rates still very high

ing with the economy’s lacklustre performance, sentiment among firms continued to deteriorate. The Purchasing Managers’ Index for the whole economy slid further below the expansion threshold in January. By contrast, the situation on the labour market remained favourable, although the unemployment rate rose slightly to 3.8% up to December. Wage growth weakened marginally to 5.9% on the year. At the beginning of 2023, consumer price inflation likewise fell only slightly to 10.1%. Against this backdrop, the Bank of England continued its tightening of monetary policy and lifted its policy rate by 50 basis points in both December and February, taking it to 4%.

Poland

Decline in economic activity, with inflation still strong

Poland’s real GDP contracted significantly in the fourth quarter, dropping by 2.4% in seasonally adjusted terms. Whilst industrial output saw a marked recovery from November onwards as supply chain problems eased, losses in purchasing power due to strong consumer price inflation increasingly took their toll on private consumption. Labour market developments remained positive, however. Unemployment dropped to 2.9% in December. Against the backdrop of high inflation and low unemployment, the average wage in the corporate sector rose by 10.3% on the year. Although the increase in consumer prices weakened slightly in December, especially as energy prices stabilised, the core rate continued upwards to 11.5%. According to preliminary estimates, headline inflation rose again to 17.2% in January after the tax cuts for fuels expired. Expecting the international setting to deteriorate, the central bank left its policy rates unchanged.

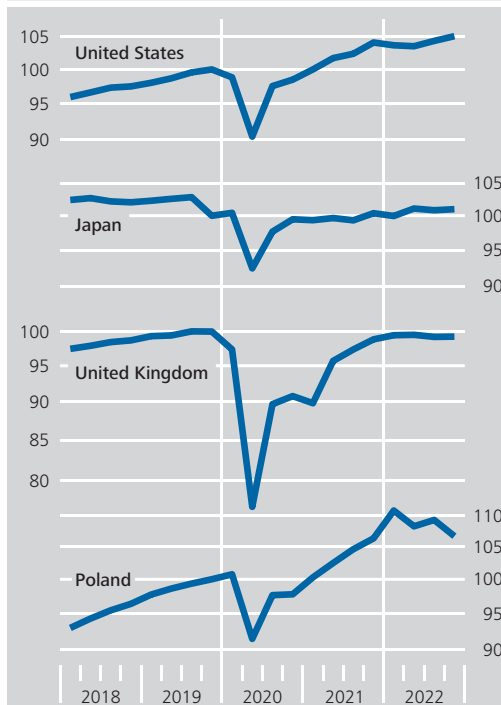
Macroeconomic trends in the euro area

Economic output virtually unchanged in the final quarter

According to Eurostat’s flash estimate, economic growth in the euro area largely came to a halt in the fourth quarter of 2022.² Sharp

Real GDP in selected industrial countries

Q4 2019 = 100, seasonally and calendar adjusted, log scale



Sources: Bureau of Economic Analysis, Cabinet Office of Japan, Office for National Statistics, Statistics Poland and Bundesbank calculations.

Deutsche Bundesbank

price increases, in particular, were a drag on economic activity. Nevertheless, the euro area economy held up better than many had feared just a few weeks prior. One reason for this was the marked easing of the energy crisis, mainly owing to favourable weather conditions, savings made by enterprises and households and the increased supply of liquid gas. In addition, prices eased somewhat at upstream stages of production and supply chain problems continued to diminish. The impact of this could be observed in the motor vehicle industry in particular. Finally, in many places, fiscal relief packages partially propped up economic activity.

Private consumption declined markedly in the fourth quarter. Despite supportive fiscal measures, households’ purchasing power suffered

Distinct reduction in private consumption

² Although real GDP rose by 0.1% in seasonally adjusted terms, this was due, amongst other things, to GDP growth of 3.5% in Ireland resulting from the strategic activities of multinationals.

from the sharp rise in consumer prices. As a result, retail sales continued to decline in price-adjusted terms and turnover in the hotel and restaurant sector fell. By contrast, new car registrations rose, probably owing to the improved availability of vehicles. Overall weak private consumption is in line with depressed consumer confidence – which did, however, brighten somewhat. Households probably cut their energy consumption markedly owing to high prices, the threat of energy shortages and mostly mild temperatures.

Investment likely up once again

Investment probably continued to rise in the fourth quarter, although the pace of growth likely declined significantly.³ Investment in machinery and equipment, in particular, is likely to have increased again. At the very least, the sales of capital goods producers in the euro area rose markedly in price-adjusted terms. Registrations of commercial motor vehicles also continued to recover. Investment in information and communication technologies and intellectual property is also likely to have grown again. By contrast, according to initial country data, construction investment probably declined once more.

Exports up moderately

According to foreign trade statistics, euro area exports of goods to non-euro area countries increased in the final quarter in price-adjusted terms after having declined in the third quarter. Growth was broadly based across product classes and was strongest among capital goods. Given the continued sharp rise in prices, there was an even larger increase in terms of value. This was particularly true of exports of goods to the United States and Switzerland, although exports to the United Kingdom also increased somewhat. By contrast, exports to China fell significantly. According to current account statistics, exports of services to non-euro area countries fell for the first time in just over two years. Imports of goods declined both in price-adjusted terms and in terms of value. In particular, considerably fewer intermediate goods were imported.

Despite the energy crisis in Europe, manufacturing output rose slightly in the fourth quarter. Production activity was restricted further in energy-intensive sectors such as the chemicals industry, however, with output having fallen by just under 20% since the beginning of last year. By contrast, the production of capital goods increased and motor vehicle production continued to close in on its pre-pandemic level as supply chain problems eased. Consumer goods production also increased again, with the pharmaceutical industry playing a key role in this regard. Capacity utilisation remained virtually unchanged between October and January, still slightly exceeding its long-term average. The rise in industrial producer prices weakened considerably at the current end, but remained exceptionally strong at just over 20% on the year.

Manufacturing output up slightly

Construction activity, which is particularly sensitive to interest rates, is likely to have weakened further in the autumn. Construction output increased only slightly against the backdrop of a decline in the number of building permits for private dwellings. Complaints about shortages of personnel and materials subsided. Instead, concerns about weak demand have become more pressing.

Construction activity increasingly weaker

It is likely that economic output in the services sectors barely increased in the final quarter. The output of services certainly remained virtually unchanged overall in October and November. Business activity in the hotel and restaurant sector and in real estate services declined. There was still a small increase in the information and communication sector as well as in transport and business-related services.

Expansion in the services sectors came to a standstill

Economic growth slowed in the fourth quarter in the vast majority of member countries. This was primarily down to strong inflation, the tense situation in the energy markets and fad-

Slowdown widespread across member countries

³ Excluding Ireland, where the statistical recording of investment has been strongly influenced by the strategic activities of multinationals for several years now. See Deutsche Bundesbank (2018).

ing catch-up effects following the loosening of pandemic-related restrictions.

Growth in the French economy slowed further

According to preliminary estimates, economic growth in France slowed to 0.1% by year's end. Private consumption in particular showed a significant drop. Exports also declined. By contrast, investment increased markedly, although it lost momentum. In particular, spending on means of transport did not maintain its high pace from the previous quarter. Expenditure on construction stagnated again. Imports recorded a substantial decline.

Italian economy showing slight decline in GDP

According to the statistical office's flash estimate, economic output in Italy fell slightly by 0.1% in the fourth quarter. Industrial output decreased markedly, especially in several energy-intensive sectors. Given the erosion of their purchasing power, households probably cut back their spending significantly. There was still growth in the construction sector, but less than previously.

Low GDP growth in Spain, but marked deterioration in economic activity

In Spain, preliminary estimates show GDP growth of 0.2%, as in the previous quarter. Economic momentum was thus considerably weaker when compared with the first half of 2022. There was nevertheless a small increase in both services and manufacturing, although construction output fell. Private consumption was hampered considerably by weak purchasing power and investment declined markedly. The slump in domestic demand was accompanied by a sharp decline in imports.

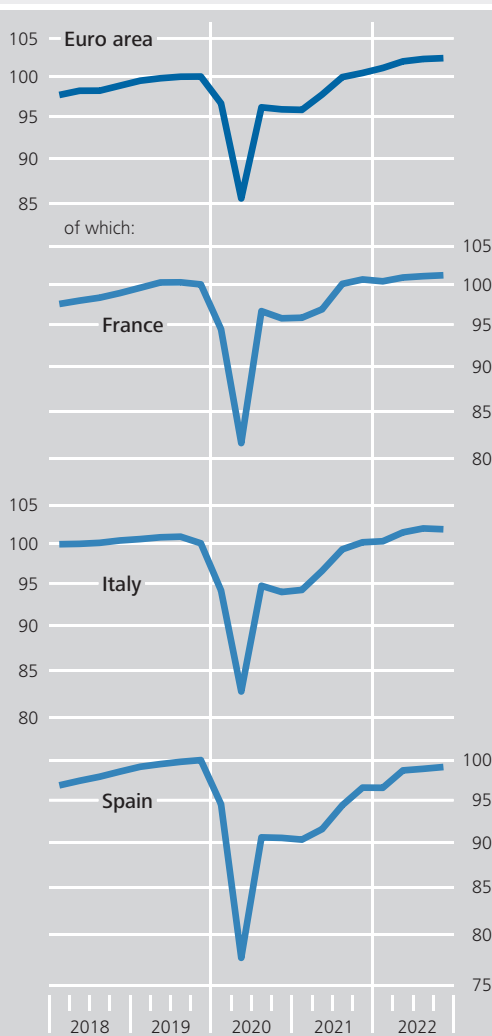
Marked differences in the smaller member countries

Economic output also increased moderately in Belgium, Portugal and Latvia in the fourth quarter. Real GDP increased quite strongly in the Netherlands and – owing to the strategic activities of multinationals – very strongly in Ireland. By contrast, economic activity declined somewhat in Finland and significantly in Austria and Lithuania.

The euro area labour market remained robust in the fourth quarter of 2022. The unemployment rate remained at a record low of 6.6% in

Aggregate output in the euro area

Real GDP, Q4 2019 = 100, seasonally and calendar adjusted, log scale



Sources: Eurostat and Bundesbank calculations.
 Deutsche Bundesbank

December. Employment increased again on the quarter. According to the surveys, labour shortages in industry and among service providers remained considerable, but declined somewhat. Wage growth is likely to have been around as strong as it was in previous quarters (4.5% on average year on year). While this was still well below inflation, it went beyond what would be considered compatible with price stability in the medium term given the very modest productivity gains.

Labour market remains robust, wage growth lower than inflation

Euro area consumer prices increased exceptionally sharply in the last quarter of 2022, too, rising by no less than 2.3% on the quarter in sea-

Inflationary pressures still very strong in 2022 Q4

Croatia adopts the euro

On 1 January 2023, Croatia adopted the euro as legal tender and became the 20th member of the euro area. Croatia's journey to the euro began when it joined the European Union (EU) in 2013, pledging to adopt the euro and meet the required legal and economic convergence criteria. Joining the Exchange Rate Mechanism II (ERM II) in July 2020 was an important step in this process.¹

After Croatia joined the EU, its economic output rose almost continuously until the slump triggered by the coronavirus crisis. This hit Croatia hard, partly because of the major role played by tourism in its economy. However, activity in industry, construction and information and communication services rebounded in the second half of 2020. Together with the recovery in tour-

ism, this provided a strong boost to growth. Real GDP exceeded its pre-crisis level by more than 10% in the third quarter of 2022.

This strong recovery also led to a significant improvement in the labour market situation, with the unemployment rate falling to 6.4% by December 2022. The rate, however, remains above pre-crisis levels and is in fact higher than in most other central and eastern European EU Member States.

Overall, Croatia's economic output has grown by just under 30% since the country joined the EU. This corresponds to an average growth rate of 2.5% per annum. Economic growth was also accompanied by significant progress toward convergence. Calculated at purchasing power parities, GDP per capita stood at 61% of the EU average when Croatia joined the EU, and at 70% in 2021. This put Croatia ahead of Greece, for example, but significantly behind Slovenia, which achieved 90% of the EU average in 2021.²

Sufficient price stability is a key criteria for joining the euro area. Croatia has been very successful in this regard for a long time. Up to mid-2021, HICP inflation was mostly below 2%. This was helped by the fact that the Croatian central bank stabilised the exchange rate of the kuna against the euro. It was only in the wake of the economic recovery after the coronavirus crisis and the surge in energy and food prices that consumer prices rose considerably, as was the

Economic development in Croatia

Quarterly



Source: Eurostat.
 Deutsche Bundesbank

¹ This was also accompanied by a commitment to join the Banking Union and implement various measures in the areas of banking supervision, anti-money laundering and the compilation of statistics. See European Central Bank (2020).

² See Deutsche Bundesbank (2022).

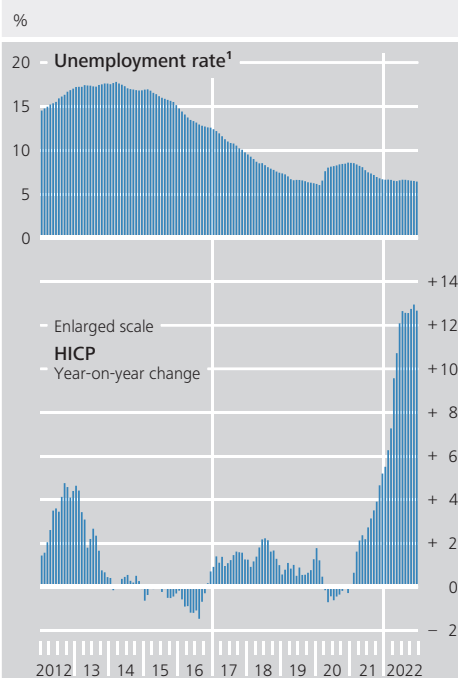
case in other European countries. In November 2022, inflation reached its highest level yet, at 13%. Although this was higher than the euro area average, it was lower than in the other central and eastern European EU Member States, with the exception of Slovenia.

Fears recently emerged that the introduction of the euro as legal tender and the rounding of prices in the new currency could lead to a further surge in prices. To address this problem, displaying prices in both currencies has been mandatory according to the national implementation plan for the introduction of the euro since September 2022 and will remain so until the end of 2023.³ A study by the Croatian central bank concludes that converting prices to “attractive” figures in euro could lead to additional price increases that would strengthen consumer price inflation by up to 0.5 percentage point. However, in the current inflationary environment, such prices could also be achieved within the framework of regular price adjustments.⁴ The Eurostat flash estimate put consumer price inflation in January 2023 at 12.7%, just as in December 2022.

Joining the euro area and simultaneously becoming part of the Schengen area should boost Croatia’s competitiveness and economic growth over the medium term. Travellers from the euro area, who account for a large share of the tourist industry’s clients, will no longer have to pay for currency exchange or border controls. However, the real economic impact of the introduction of the euro should not be overestimated either, as Croatia had already effectively stabilised the exchange rate with the euro beforehand.

Addressing the Croatian economy’s structural problems will be the more pressing

Unemployment and consumer prices in Croatia



Sources: Eurostat and Bundesbank calculations. ¹ ILO definition, seasonally adjusted.
 Deutsche Bundesbank

issue. These include its heavy reliance on tourism, which makes a direct contribution to GDP of more than one-tenth, and an indirect contribution of one-quarter.⁵ There is also a pronounced shortage of skilled workers. The free mobility of labour within the European Union triggered a strong wave of emigration, which saw the working age population decline from over 2.8 million in 2015 to under 2.6 million in 2021.

In addition, public sector capacity to absorb EU funding should be increased, especially in the area of public investment management.⁶ However, supply chain adjustments are likely to provide Croatia with opportu-

³ See Hrvatska Narodna Banka (2020) and Croatian Parliament (2022).

⁴ According to the study, rounding could increase prices for food by up to 2.2%, for non-alcoholic beverages by 2.6% and for alcoholic beverages by 1.8%. See: Hrvatska Narodna Banka (2022).

⁵ See International Monetary Fund (2021).

⁶ See International Monetary Fund (2021).

ities for investment by EU trading partners. Capital market reforms would be helpful in making it more attractive to foreign investors.⁷

Funds from the Recovery and Resilience Plan under the European Union's NextGenerationEU programme should help tackle the structural problems. The national implementation plan approved by the European Commission and the European Council provides for grants of up to €6.3 billion for Croatia by 2026. This comes to around 11% of the country's annual GDP. Of this amount, €2.2 billion has already been paid out. The funds are to be used to invest in the energy transition and in digital transformation.⁸ This is also likely to ease the burden on public finances. Although the annual budget deficit has remained below 3% of GDP of late (except in 2020, during

the coronavirus crisis), government debt stood at over 75% of GDP in 2021.

⁷ See OECD (2021).

⁸ Croatia has a fairly good energy supply. 70% of its electricity is already produced from renewable energy sources. Moreover, since 2021, it has had an LNG terminal that can cover the country's entire gas needs.

sonally adjusted terms as measured by the Harmonised Index of Consumer Prices (HICP). Both energy and food prices continued to rise sharply. Inflationary pressure on services actually intensified, with only industrial goods seeing it ease somewhat. The annual inflation rate reached a new high of 10% in the fourth quarter. The core inflation rate did the same, rising considerably to 5.1%.

*Historically high
inflation rates in
2022*

As a whole, the year 2022 was characterised by exceptionally strong inflation. The first signs were already evident in the summer of 2021, when the inflation rate exceeded 2% for the first time in a long period. The unexpectedly rapid recovery following the pandemic-induced economic slump initially pushed energy prices up. In addition, demand for other industrial goods rose sharply worldwide, as many services had only been available to a limited extent owing to the pandemic. This surge in demand was not always directly met, supply chains already disrupted by the pandemic con-

tinued to come under pressure and prices at the upstream stages increased considerably. Russia's invasion of Ukraine pushed energy prices up further, especially in Europe. This also had an effect on food prices and intensified cost pressures in industry and for service providers. As a result of all these developments, consumer prices rose by an average of 8.4% in 2022, compared with 2.6% in 2021. Inflation increased considerably in all euro area countries. It grew particularly strongly in countries with a high dependence on energy imports. In some cases, measures to ease the burden on consumers slowed the rise in prices. The highest inflation rates were recorded in the Baltic countries, at almost 20%. France recorded the lowest rate at 5.9%, mainly owing to government measures to dampen the rise in energy prices.

Eurostat's estimate put euro area inflation at 8.5% in January 2023, representing a 0.7 percentage point decline compared with Decem-

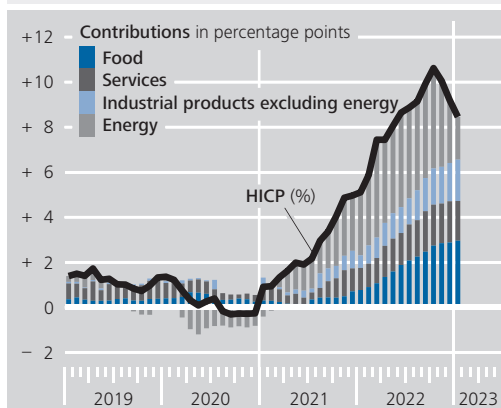
According to the flash estimate, price dynamics weakened in January due to energy but remained high for core components

ber. However, this figure is subject to substantial uncertainty, as the Federal Statistical Office was unable to provide an estimate for Germany due to a technical malfunction. Therefore, the preliminary euro area result included a value estimated for Germany by Eurostat. According to the flash estimate, inflation in the euro area weakened mainly as a result of lower energy prices. By contrast, the core rate remained at the unusually high level of 5.2%. The final HICP figures will be published on 23 February together with the new HICP weights for 2023. The latter are generally derived from the consumption structure of 2022.⁴ It is not yet possible to assess the extent to which the reporting of the inflation rate was influenced by the changed weights. The new country weights for 2023, including the newest euro area member, Croatia, will also first be published alongside the final HICP figures for January.

No economic upturn expected in the current quarter

Economic output in the euro area is unlikely to rise much in the current quarter, either. According to surveys, sentiment has improved in all sectors and among consumers, and expectations have brightened. The situation in the energy markets is much less tense than it was just a few weeks ago. It is highly likely that a supply shortage can be avoided this winter. The labour market is still in good shape and the employment outlook is still tilted to the upside. Nevertheless, there is some evidence against a marked improvement in economic activity in the short term. Consumer price inflation has only eased slightly so far and consumer confidence therefore remains very low. For enterprises, while the previously very pronounced shortage of materials and labour has eased considerably, the lack of demand has become a more pressing issue. Stronger impetus from

Contributions to the euro area inflation rate (HICP)



Sources: Eurostat, ECB and Bundesbank calculations.
 Deutsche Bundesbank

Sentiment indicators for the euro area*

Seasonally adjusted



Sources: European Commission and Bundesbank calculations.
 * Deviations from the respective average since 2000.
 Deutsche Bundesbank

outside the euro area is not expected for the time being. Moreover, uncertainty remains high owing to the ongoing war in Ukraine and the medium-term outlook for energy supply.

⁴ On top of this, there will also be a larger adjustment for Germany. See p. 57 of this report.

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