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**Southern Europe's economic revenge**

Growth in Greece and Spain is expected to exceed 2% this year and in Italy by 1%, while Germany's economy is stagnating and French GDP is struggling to grow.

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The countries of southern Europe, synonymous with the eurozone crisis a decade ago, have become the region's locomotives. Spain's economy is expected to grow by 2.7% this year, and Greece by 2.2%. Portugal is slowing down but its pace remains above the eurozone average, estimated at 1.7% in 2024. Even Italy is no longer the problem country it once was. Yet, at the same time, the German economy has been stagnating for two years, while France's gross domestic product (GDP) is struggling to grow by 1.1% this year.

**In part, this is simply a catch-up effect,** after the collapse of the previous decade. Spanish unemployment, which had reached 27%, has largely bounced back but remains at 11%. Greece, which experienced a greater crisis than the US during the Great Depression of 1929, has not really recovered from the shock: Its economy remains 17% below the 2007 peak.

But the trend has completely reversed, with an improvement that began before the pandemic, and has accelerated since the end of lockdowns. The excellent health of tourism is one of the reasons for this. These countries are also reaping the rewards of the drastic remedy imposed during the years of austerity. The deregulation of labor markets in particular has reduced unemployment and improved the competitiveness of these economies.

In addition, **European solidarity,** which dates back to the pandemic, is a key factor. The southern countries are gradually receiving the money from the common loan of €750 billion agreed in 2020 (NextGenerationEU). Greece is about to receive its third installment, bringing the total to €17 billion, almost 7.5% of GDP. Italy is the big winner in absolute terms, having received its fifth payment in August, bringing the total to €112 billion, equivalent to just over 5% of its GDP. And these payments will continue as almost half of the allocation initially promised has yet to be disbursed.

**Tourism and immigration boost Spain's economy**

The Spanish economy was "moving like a motorcycle," the head of government, Pedro Sanchez, liked to congratulate himself in 2023. At the time, economists considered this expression exaggerated, as part of the 2.5% growth recorded last year could be explained by a delayed catch-up, after the 11% drop in GDP during the pandemic.

In 2024, Sanchez swapped his favorite expression for another: The Spanish economy was now moving forward "like a rocket," he said in May, all smiles. **And even though economists had some reservations about the quality of the jobs created and the production model, and point to an unemployment rate that remained at around 11%, the evidence was clear**. On September 26, the Spanish government announced that GDP **was expected to jump by 2.7% in 2024, and by 2.4% in 2025. "Spain is the economic locomotive of the eurozone,"** concluded Jesus Castillo, economist at Natixis, with growth expected to be limited to 0.8% in 2024 and 1.1% in 2025.

These good results can be explained in part by the **boom in tourism.** After a record year in 2023 (+13% increase in tourism revenues), Spain should see activity generated by this sector jump another 5% in 2024, according to estimates by CaixaBank Research. The kingdom is expected to exceed 90 million foreign visitors by the end of the year.

"We didn't expect tourism to continue growing so strongly," admitted José Emilio Bosca, researcher at the Foundation for Applied Economic Studies (FEDEA) and professor of economics at the University of Valencia. "It can be explained by the success of urban tourism, which is not as seasonal as beach tourism, as well as by the development of hitherto less popular destinations, such as the northern regions, Asturias, Cantabria and Galicia."

**The economy's dependence on a sector – 13% of Spain's GDP this year – that uses a lot of low-skilled, low-paid labor is nonetheless seen as a brake on modernizing the economic model,** improving productivity and raising wages**. Overtourism is also causing major housing tensions and growing social discontent.**

The growth is also driven by population growth. Between 2019 and 2024, Spain was the eurozone country where it has proportionally increased the most, rising from 46.9 to 48.6 million inhabitants (+3.6%), despite a negative natural balance. At the same time, the working population rose from almost 23 million to 24.4 million. According to the Bank of Spain, 13.5% of workers were born abroad.

**"Migration flows, mainly from Latin America, have brought a large workforce into the labor market, boosting GDP,"** said Bosca. "But per capita wealth, which better reflects the health of the economy, has grown very little over the last 15 years." **While GDP grew by almost 5% between 2019 and 2023, real GDP per capita increased by just 0.1%,** according to a report by economist Judith Arnal, for the Real Instituto Elcano foundation.

Additionally, the Spanish economy has benefited from moderate energy prices, thanks to the high proportion of renewable energies, enabling its manufacturing industry to improve its competitiveness against its European neighbors. The rise in public-sector orders has also bolstered activity, while the deployment of funds from the European recovery plan is set to gain momentum in 2025 and 2026, boosting private investment which has so far been disappointing.

**Italy prides itself on its probusiness policy**

Italy is back. At least, that's the message Giorgia Meloni would like to get across, two years after taking office. Since early autumn, discussions between the Italian prime minister and leading economic players have enabled her to put forward the image of renewed attractiveness – relegating to the background retrograde measures taken in the country, such as rolling back freedom of access to abortion.

On Thursday, October 3, the far-right leader met Microsoft president Brad Smith, who announced a €4.3 billion investment in new data centers. The day before, she had a meeting with Larry Fink, president of BlackRock, the world's most powerful investment fund, which could further expand its presence in Italy. On September 24, on the sidelines of her attendance at the United Nations General Assembly, the Italian leader showcased her bond with billionaire Elon Musk, who praised the merits of her economic policy.

In another sign, banking giant UniCredit has set its sights on German group Commerzbank, taking a 21% stake in its capital, with the prospect of a possible merger. Its president, Andrea Orcel, has received the backing of the Italian government and the European Central Bank (ECB). This comes amid a context where the necessary consolidation of the banking market on the continent is receiving renewed attention following the delivery of reports on the single market and competitiveness by Enrico Letta and Mario Draghi – two former Italian prime ministers.

**"Giorgia Meloni has succeeded in projecting an image of stability** in a country used to one government chasing another. What's more, she's showing **the most pro-business disposition imaginable**," said Federico Santi, from risk protection adviser Eurasia Group. Internally, the attention Italy is receiving is fueling the economic nationalism of the far-right leader's electorate, driven by the exaltation of the concept of "made in Italy."

Beyond the political narrative, the figures seem to be proving the optimists right. According to the latest data from the national statistics institute Istat, Italy's gross domestic product has for the first time exceeded the level reached before the 2008 financial crisis. Also according to Istat, the public deficit fell to 3.4% of GDP in the second quarter, compared with 5% in the same period of 2023. "There seems to be a sincere willingness to fully respect commitments" vis-à-vis the new European budgetary rules, believes Lorenzo Codogno, visiting professor at the London School of Economics, in an article on the subject.

**The economy is expected to grow by 1% in 2024, then by 1.1% in 2025 – which is pretty good, by the standards of the country, where activity levels have been chronically low for the past 20 years.** Unemployment, at 6.8%, is three points lower than before the pandemic. Italy can finally boast being the world's sixth largest exporter, with a positive trade balance.

**Despite this good news, the country remains burdened by major structural handicaps, such as declining demographics, the sharp divide between the industrial North and the poverty-ridden South, and public debt peaking at 134.6% of GDP. And in recent months, the industrial sector has shown signs of weakness.** "Manufacturing companies are very much tied to a struggling German economy and are suffering from a drop in overall demand," explained Nicola Nobile of Oxford Economics.

**Greece is growing but still licking its wounds**

"Greece has made considerable progress in terms of investment, but we still have some serious work ahead of us," declared Greek Finance Minister Kostis Hatzidakis on October 3, highlighting the good figures in this area: Between 2017 and 2023, investment rose by 62%, according to the Organization for Economic Cooperation and Development (OECD), the highest increase in the European Union (EU).

This good news comes on top of a series of positive economic results for Athens. In 2023, growth of 2% was one of the highest in the EU, and unemployment fell below 10% – compared with 28% in 2013, at the height of the public debt crisis. **Borrowing costs on international markets are now lower than in Italy and France, which is quite symbolic.**

The banks, bailed out by the state during the crisis, have returned entirely to the private sector for the first time in decades, a sign of their renewed health. On October 3, the government took the final step in this process by finalizing the sale of a 10% stake in the National Bank of Greece, for €690 million. The finance minister predicts, moreover, that public debt will fall to 133% of GDP in 2028, from 160.8% in 2023.

The fact remains that the country has not yet recovered from the shock of the 2008 crisis-related recession, wrote economist Nikos Vettas, in an op-ed published in early September in the newspaper *Kathimerini*. "**The recent positive trajectory has inevitably covered only part of the earlier losses, and many households are still living on low incomes**," explained the director of the Foundation for Economic and Industrial Research.

In fact, GDP remains 20% lower than before the 2008 crisis. **According to the OECD, real wages have fallen steadily until 2022 and are still 30% below the level of 15 years ago.** With the exception of Bulgarians**, Greeks are the Europeans with the lowest purchasing power, according to Eurostat.** The increase in the minimum wage from €780 to €830 gross in 2023 has been absorbed by inflation and rising energy prices, which have hit the country since the start of the war in Ukraine. The average wage, which stands at around €1,200 gross, also remains 20% below its pre-2008 crisis level, affecting almost 60% of employees.

It was against this backdrop that in September the Greek prime minister, Kyriakos Mitsotakis, announced a package of measures designed to support households. By January 1, 2025, around two million pensions will be increased by almost 2.5%. In April 2025, the minimum wage will be revalued, with the aim of reaching €950 gross by 2027. At the same time, social security contributions will be reduced by 1%.

**Many challenges remain. Greece needs to further diversify its economy, which is essentially based on two sectors, tourism and real estate**. Greece is also facing a serious demographic crisis, with the population declining by 3% between 2011 and 2021. And recurring wildfires followed by autumn floods are likely to put a strain on public finances, warned the International Monetary Fund (IMF) in its latest report.

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