



EUROPE'S ECONOMIC OUTLOOK

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A REALISTIC VIEW ON EUROPE



Poor economic performance in recent years easy to explain



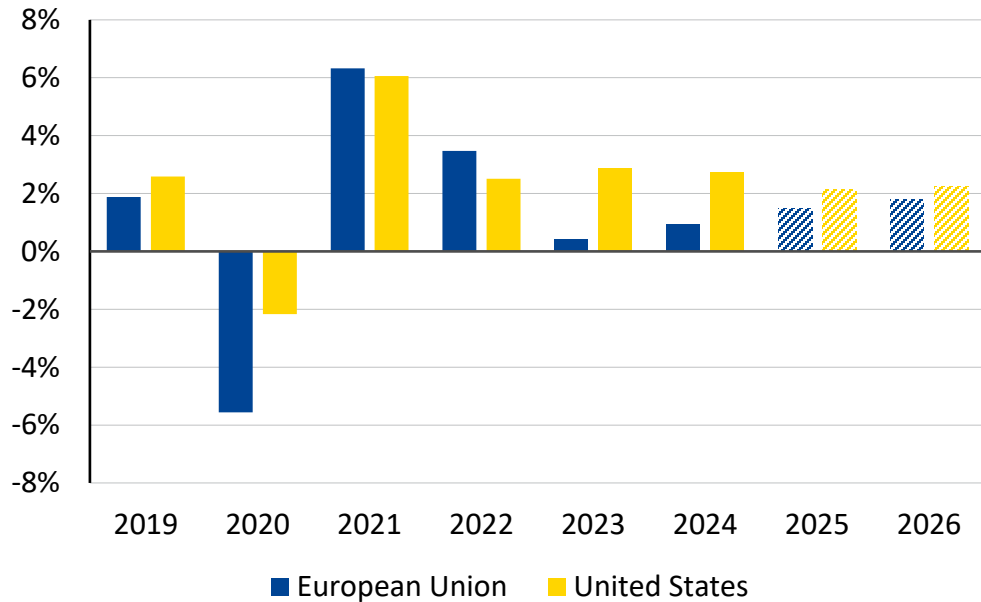
Long-term performance very similar to US performance



Tough challenges ahead

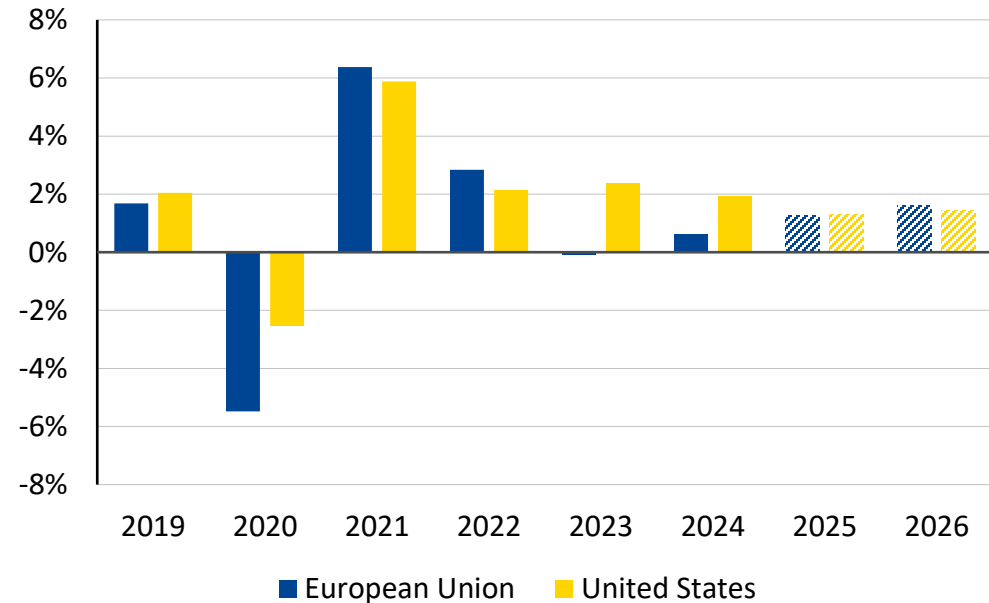
THE US HAVE RECENTLY OUTPERFORMED EUROPE

Real GDP growth (year-on-year growth rate, %)



Source: AMECO. Note: 2025 to 2026 values are AMECO projections.

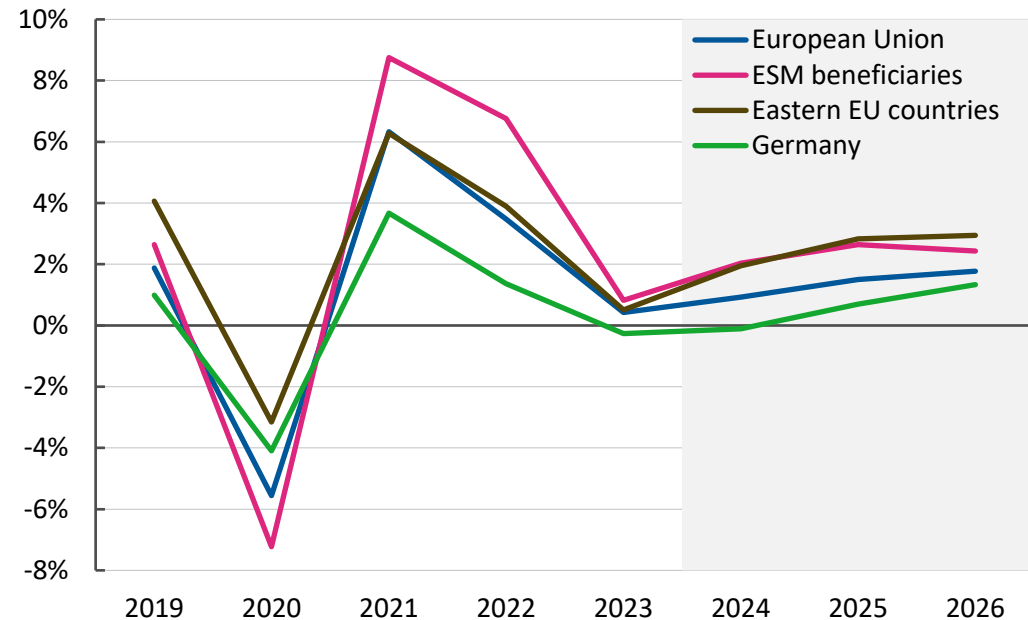
Real GDP growth, per capita (year-on-year growth rate, %)



Source: AMECO. Note: 2025 to 2026 values are AMECO projections.

BUT EU AVERAGES MASK CROSS-COUNTRY HETEROGENEITY

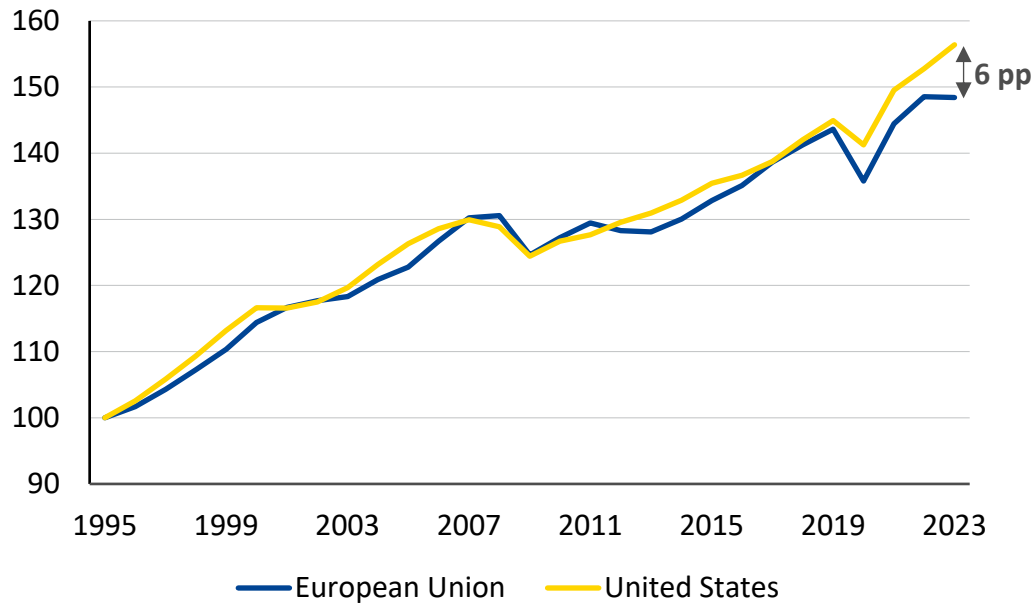
ESM beneficiaries and Eastern EU countries (annual real GDP growth rates, %)



Source: IMF WEO. Note: 2024 to 2026 values are IMF projections, marked by shaded area. For country groups, growth rates are weighted averages.

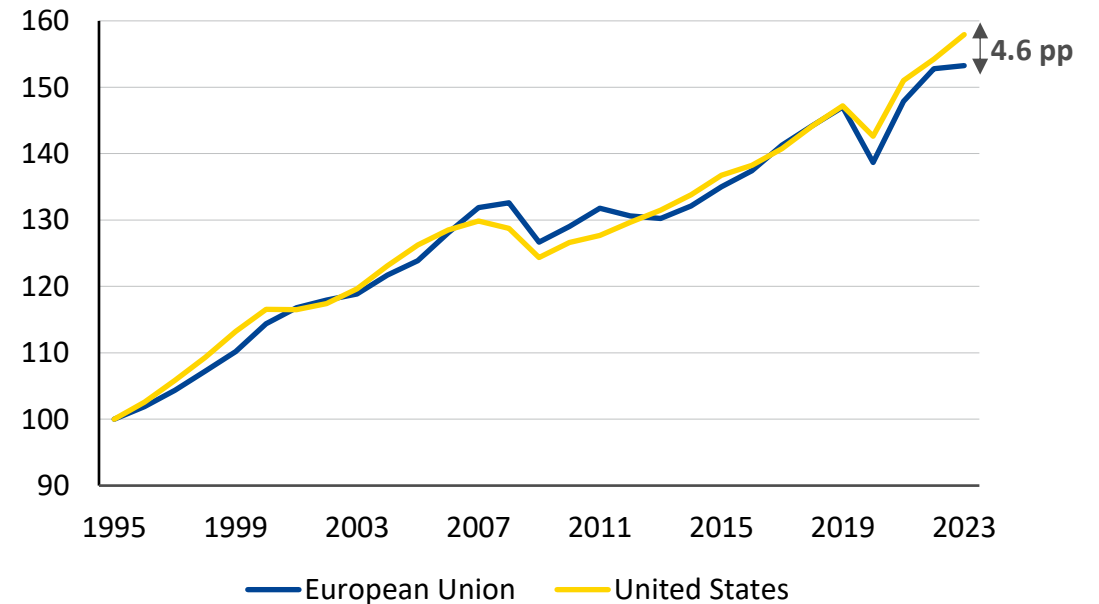
LONGER-TERM PERSPECTIVE: GROWTH DIFFERENCES ARE SMALL

Real GDP per capita, local currency units
(indexed, 1995=100)



Source: AMECO. Note: Constant 2015 local currency units.

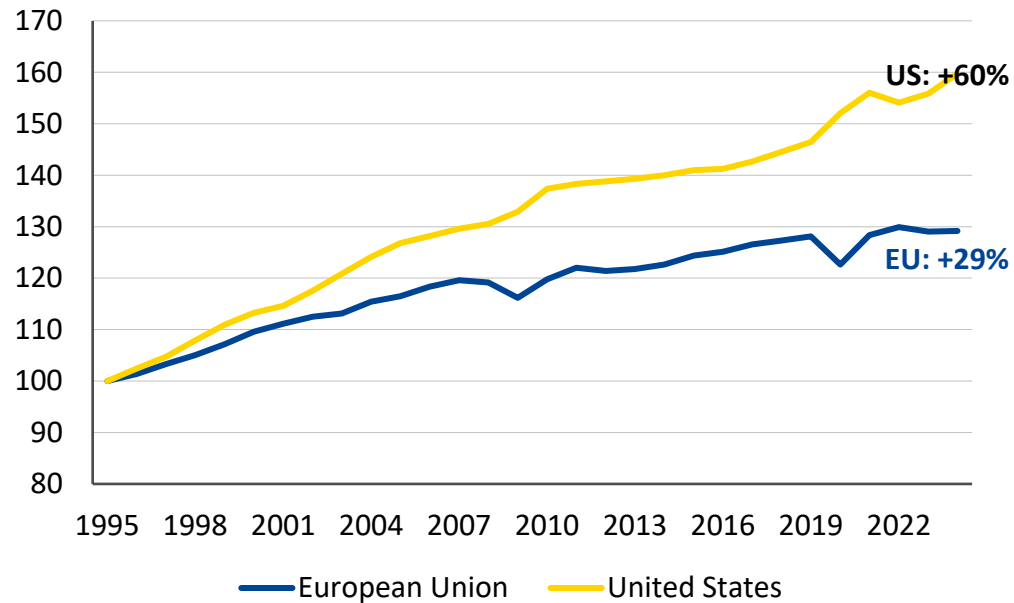
Real GDP per capita, PPP terms
(indexed, 1995=100)



Source: World Bank WDI. Note: Constant 2021 PPP US\$

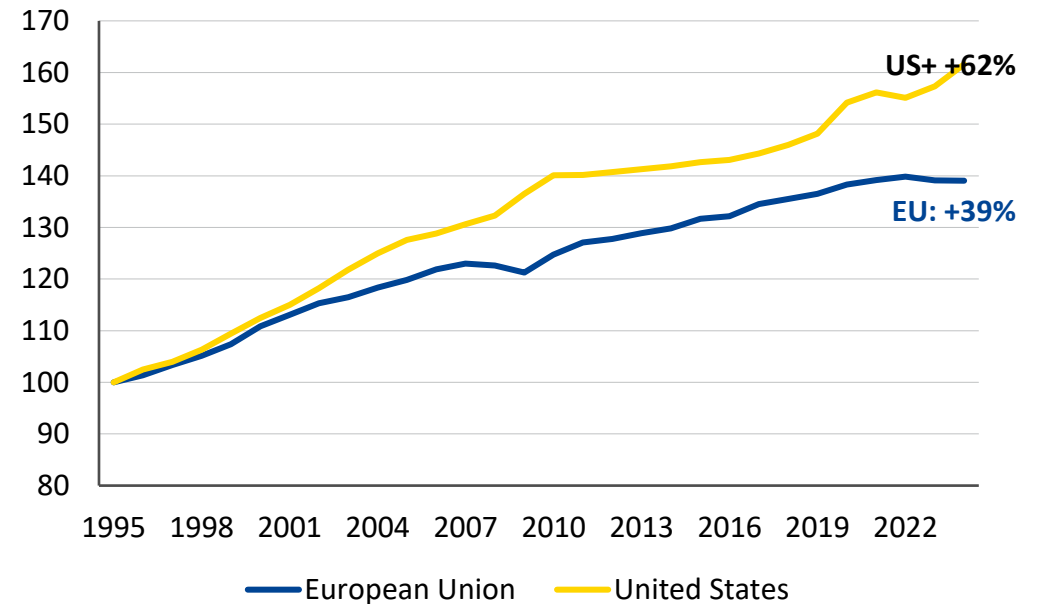
PRODUCTIVITY EXPLAINS SOME OF THE GROWTH DIFFERENTIAL

Labour productivity, per employee
(indexed, 1995=100)



Source: ESM calculations based on AMECO. Note: 2024 is a projection by AMECO.

Labour productivity, per hour worked
(indexed, 1995=100)

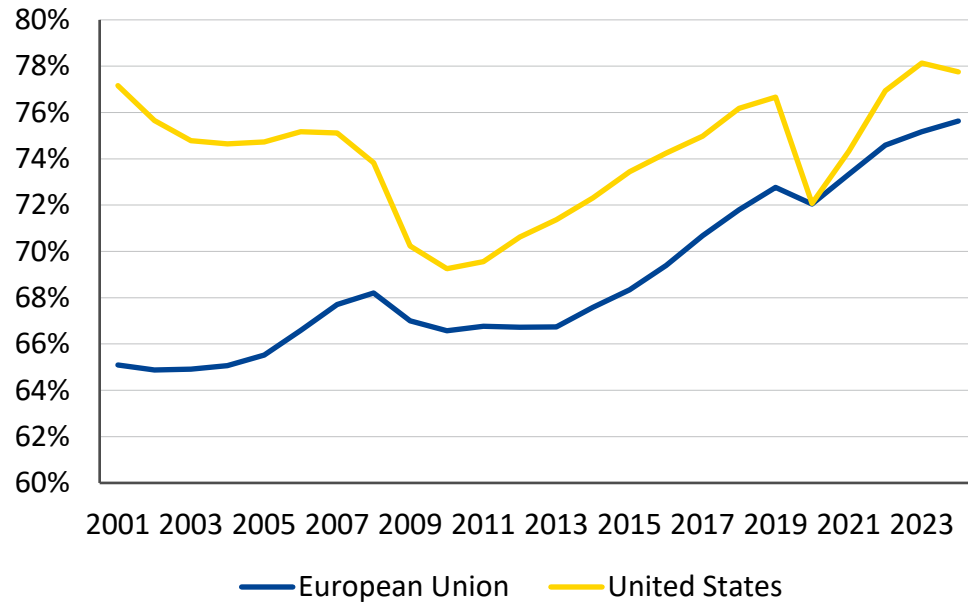


Source: ESM calculations based on AMECO. Note: 2024 is a projection by AMECO.

THE EU HAS FOCUSED ON BOOSTING ITS EMPLOYMENT RATE

Employment rate

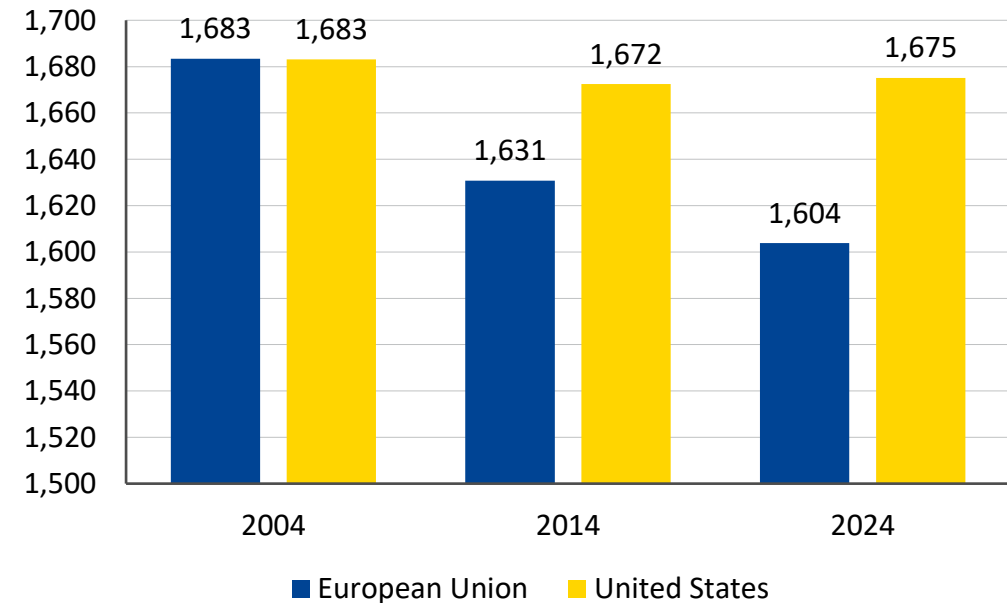
%, as a share of working age population



Source: AMECO. Note: 2024 is a projection by AMECO.

Hours worked per person employed

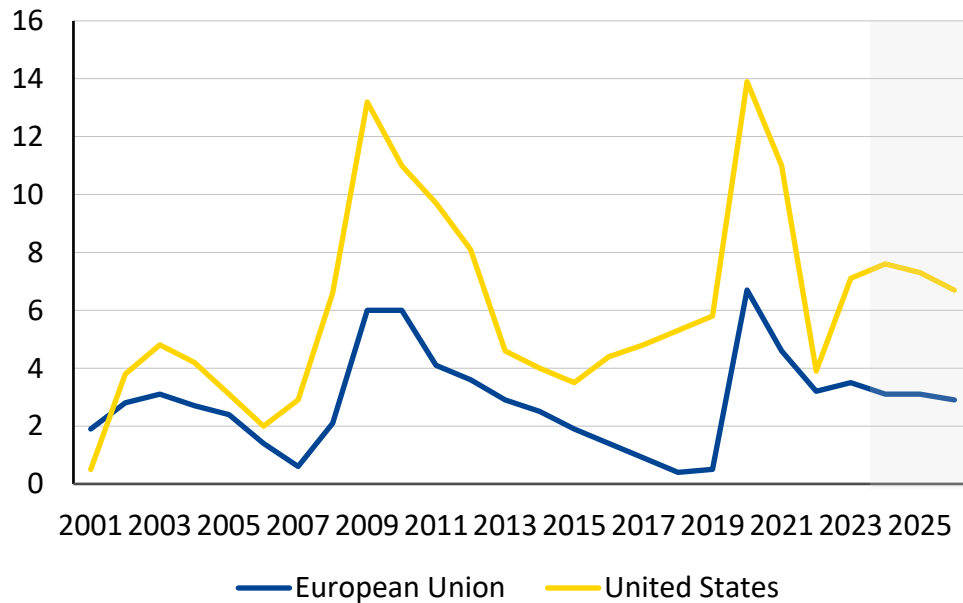
(Average, hours per year)



Source: AMECO. Note: 2024 is a projection by AMECO.

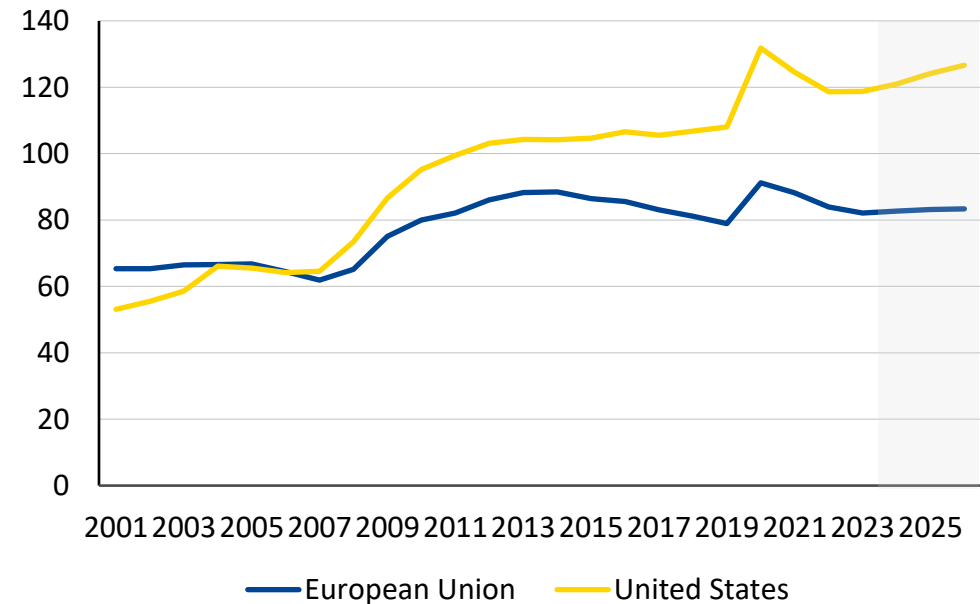
FISCAL SUPPORT BUOYED US GROWTH

Government budget deficit (% of GDP, general government)



Source: IMF WEO. Note: 2024 to 2026 are IMF projections, marked by shaded area.

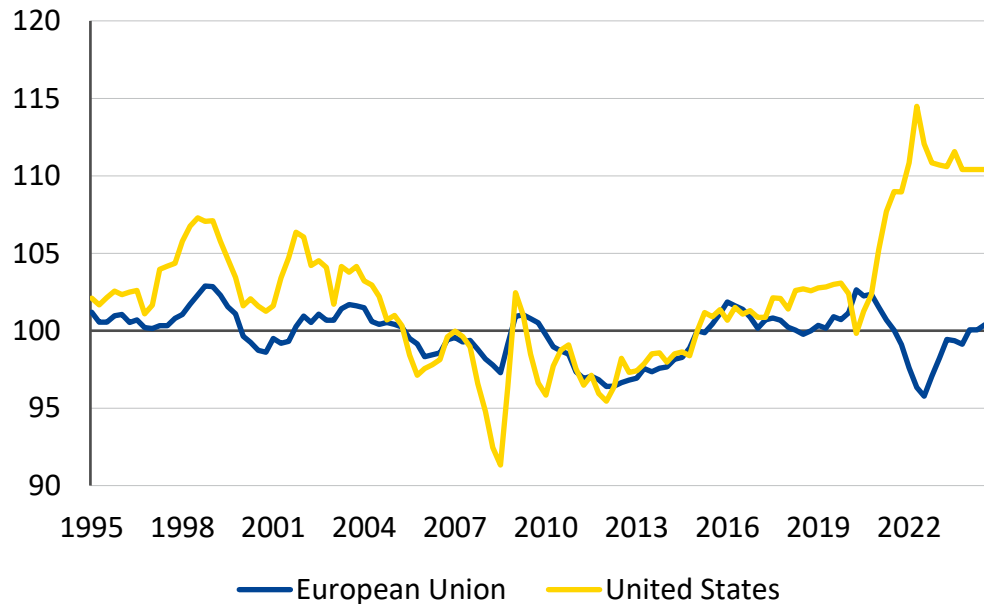
Government debt (% of GDP, general government)



Source: IMF WEO, Global Debt Database. Note: 2024 to 2026 are IMF projections, marked by shaded area.

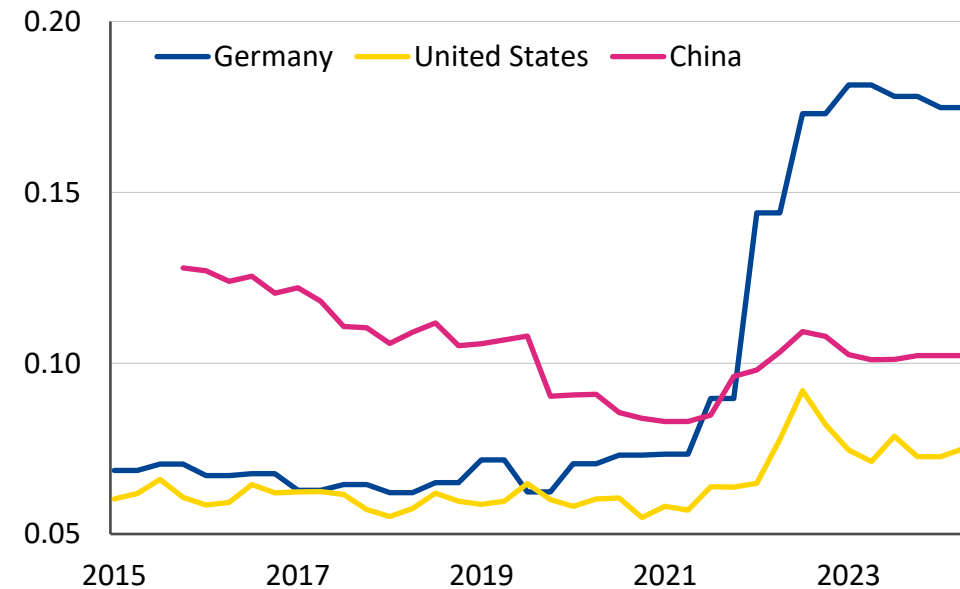
TERMS OF TRADE AND ENERGY PRICES WORKED IN US'S FAVOUR

Terms of trade in goods (index, 2015Q1=100)



Source: Haver. Note: ratio of goods exports to goods imports price indices (implicit price deflators). A higher index is more favourable.

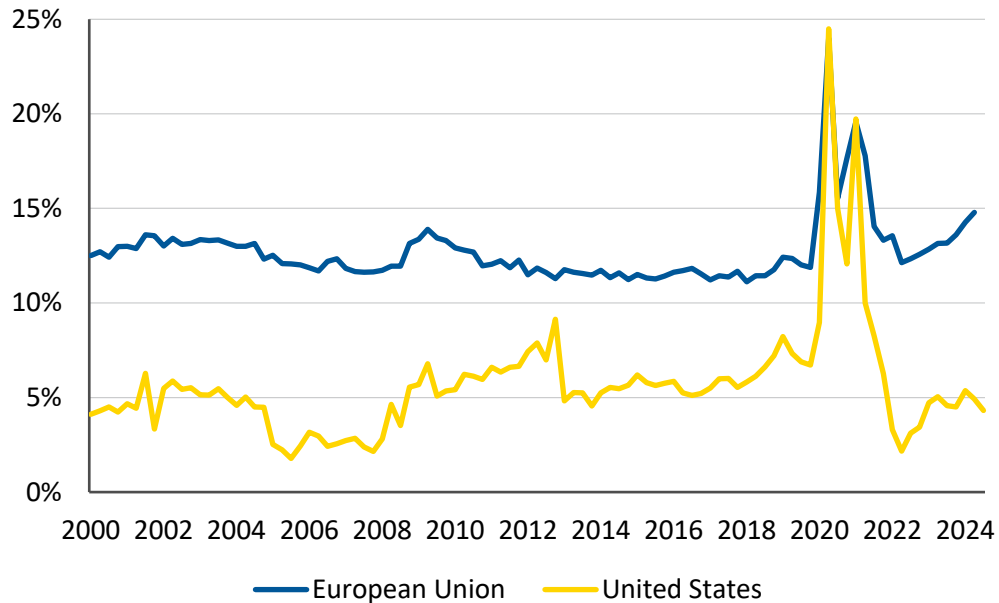
Electricity prices in industry (Euro/KWh)



Source: Eurostat, EIA and IMF

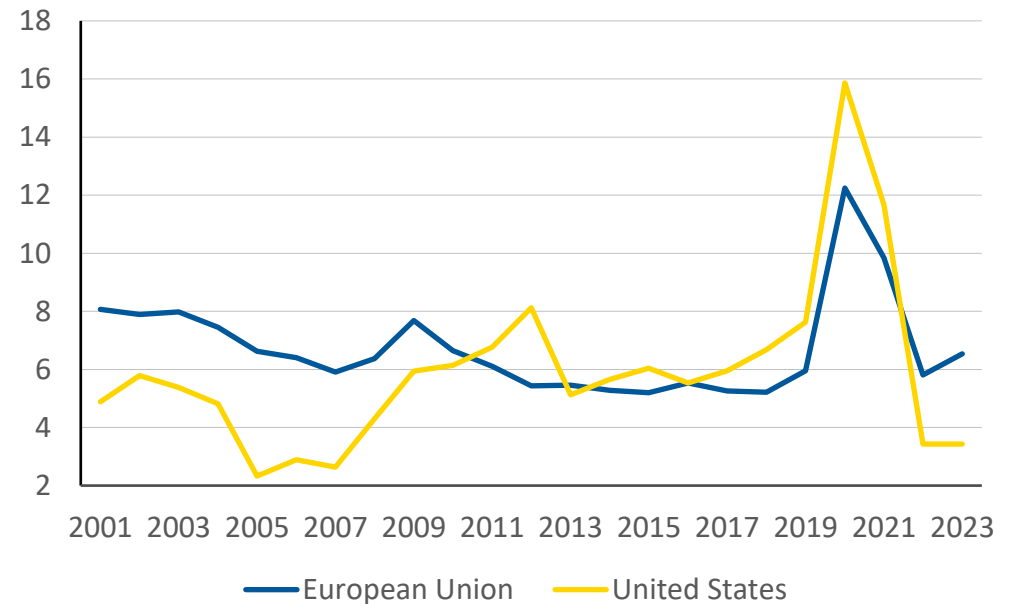
LOWER US SAVINGS RATES CONTRIBUTE TO HIGHER US GROWTH

Household savings rate (% of disposable income)



Source: Bureau of Economic Analysis and Eurostat. Note some differences in how savings rates are calculated for the EU and US.

Net household savings rate (% of disposable income)



Source: AMECO

CHALLENGES AHEAD

Geopolitical risks

**De-globalisation and
fragmentation**

Demographics

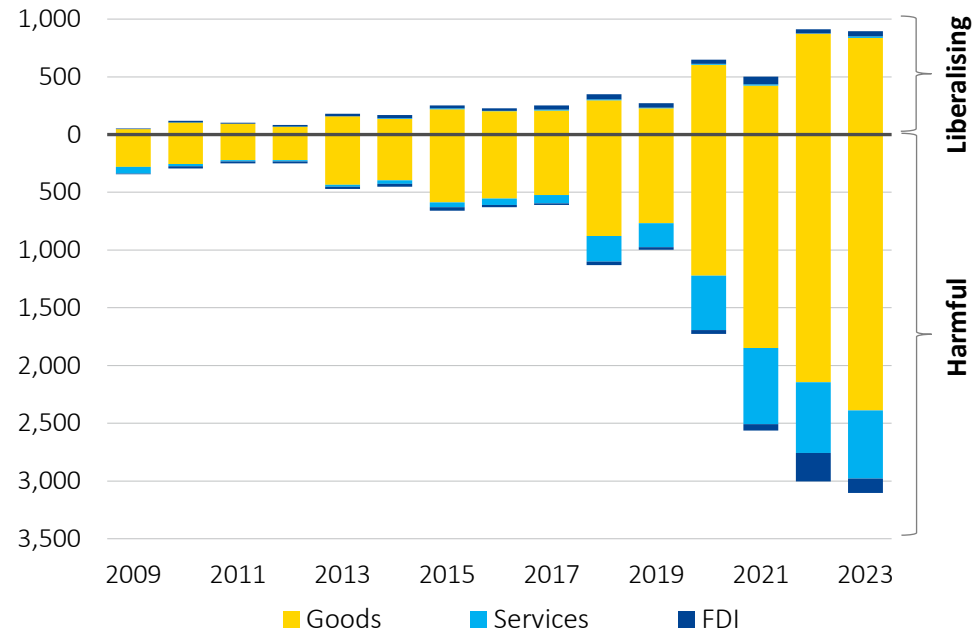
Climate change

**EU enlargement and
governance reform**

**Growing political
diversity inside the EU**

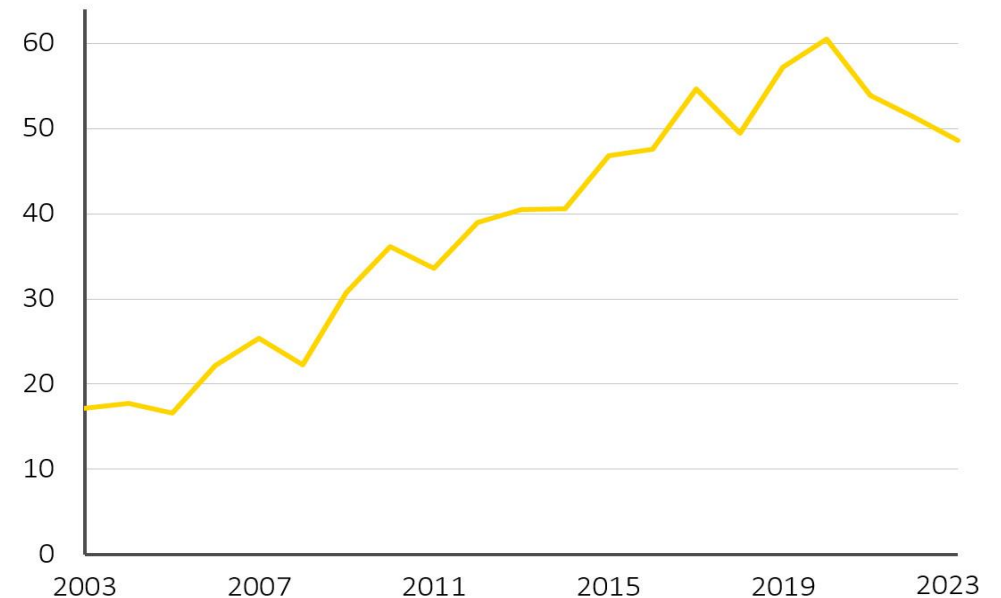
EUROPE IS HIGHLY EXPOSED TO GLOBAL TRADE

New trade and FDI measures globally (number per year)



Source: ESM Discussion Paper 23, based on Global Trade Alert. Note: includes measures by gov. bodies and by nat. and int. financial institutions.

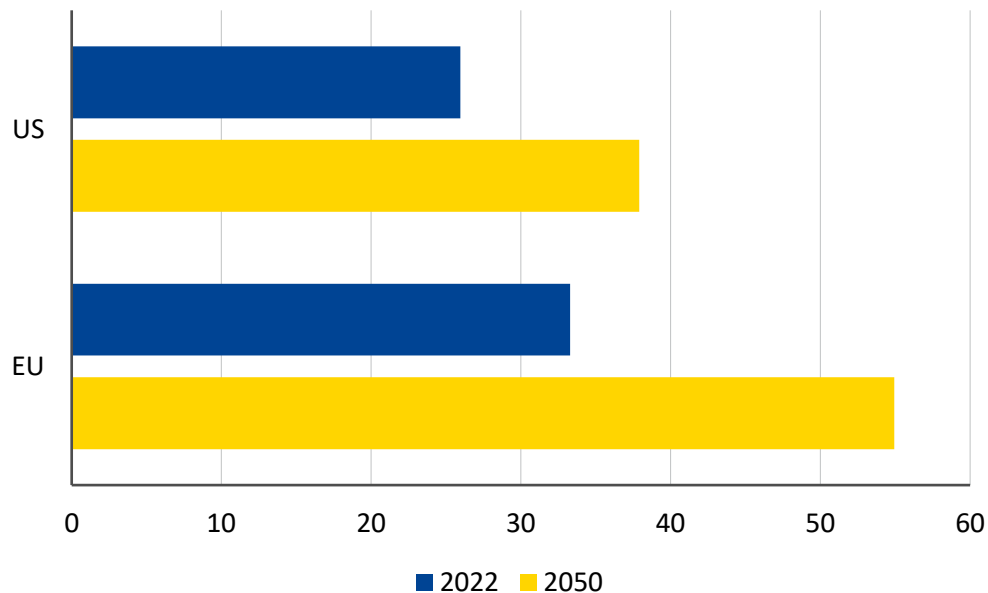
EA financial exposure to fragmentation risk (% EA GDP)



Source: ESM blog, "Goeconomic fragmentation looms over euro area financial stability", 8 October 2024. Note: figure plots bilateral positions that are weighted with a geopolitical proximity index.

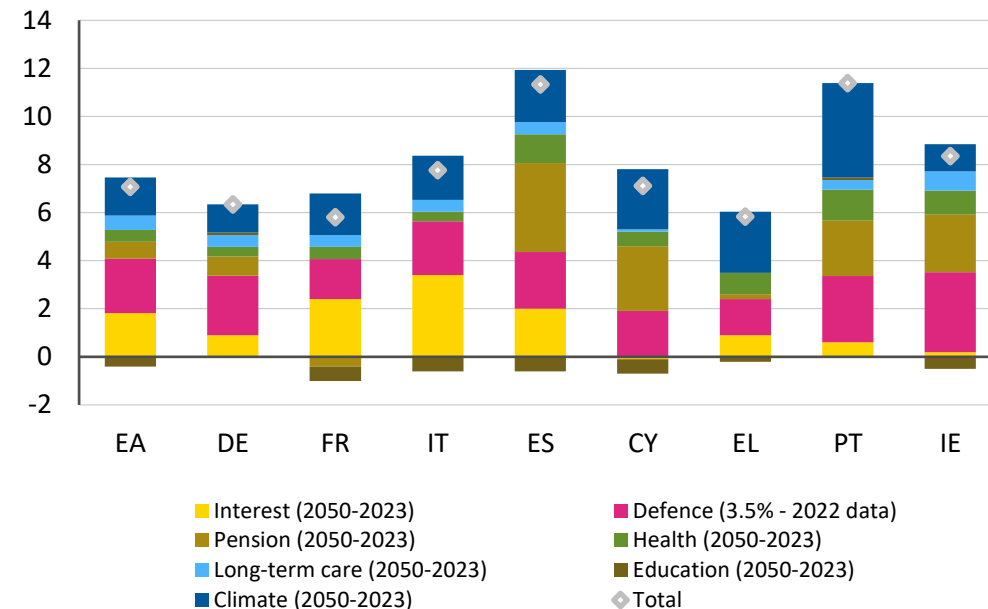
DEMOGRAPHICS COMPLICATE THE EU FISCAL OUTLOOK

Old-age dependency (% of working-age population)



Source: World Bank. Note: ratio of people older than 64 to the working-age population.

Additional spending needs in Europe (projections, % of GDP)



Source: European Commission (2024 Ageing Report and 2023 Debt Sustainability Monitor), Eurostat, ESM staff calculations. Note: Defence expenditure is the difference between the 2022 level and the 3.5% recently voiced target.

POLICY RECOMMENDATIONS FOR EUROPE

- **Manage geopolitical risks:** develop defence capabilities and play a more active role internationally
- **Increase productivity:** more public and private investment, de-regulation
- **Increase labour supply:** raise participation rate of currently underrepresented groups
- **Coordinate industrial policy:** for strategic autonomy and competitiveness
- **Balance competing fiscal objectives:** “smart” consolidation to recreate fiscal buffers where necessary, exploit fiscal space for investment where possible
- **Continue the transition:** continue the green and digital transitions to reduce emissions, energy dependence and regulatory uncertainty
- **Deepen and enlarge the union:** deepen the single market, move to more qualified majority voting, increase and restructure the EU budget, accept new member states



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