

# GLOBAL TRENDS SHAPING EUROPE'S FUTURE

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Presentation at Sciences Po

Rolf Strauch, ESM Chief Economist and Management Board Member

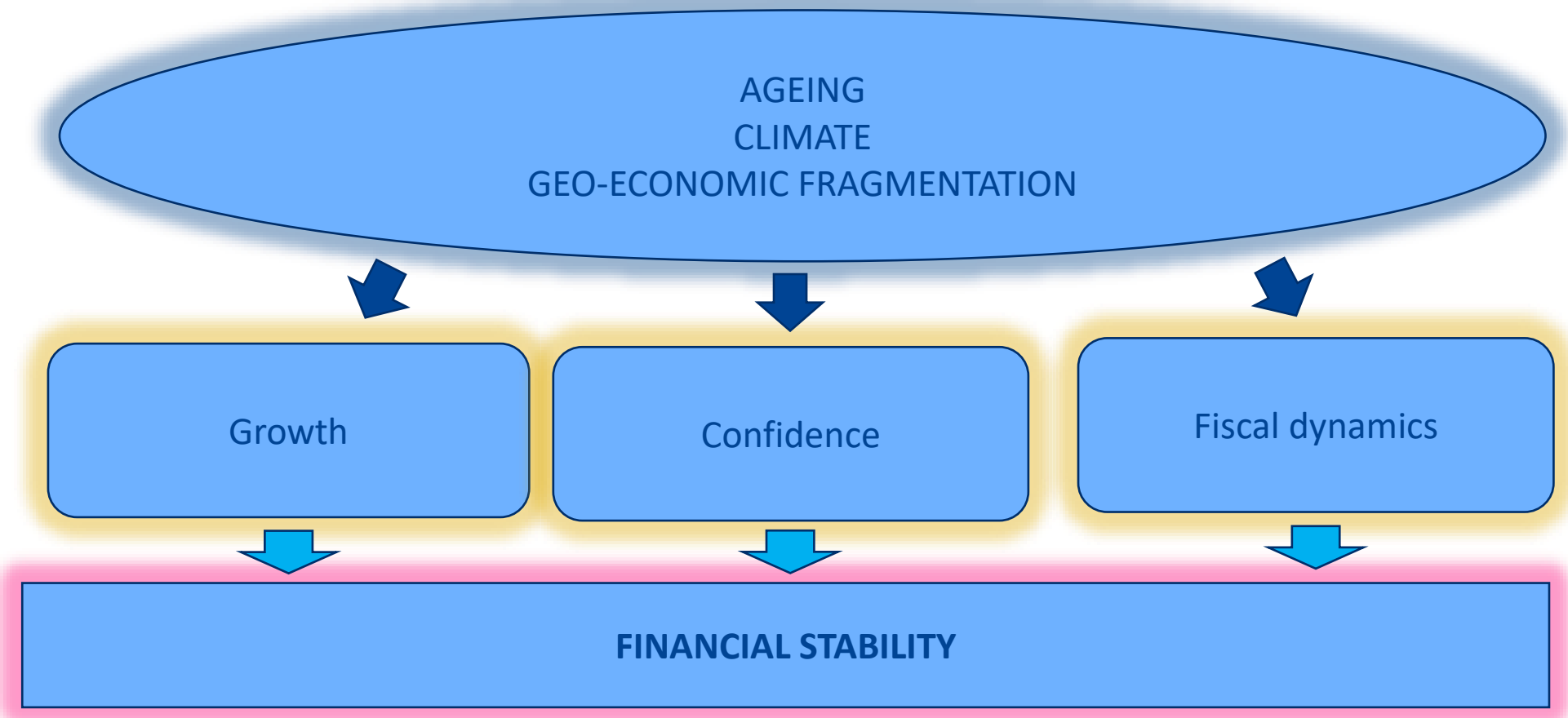
Paris, 9 November 2023





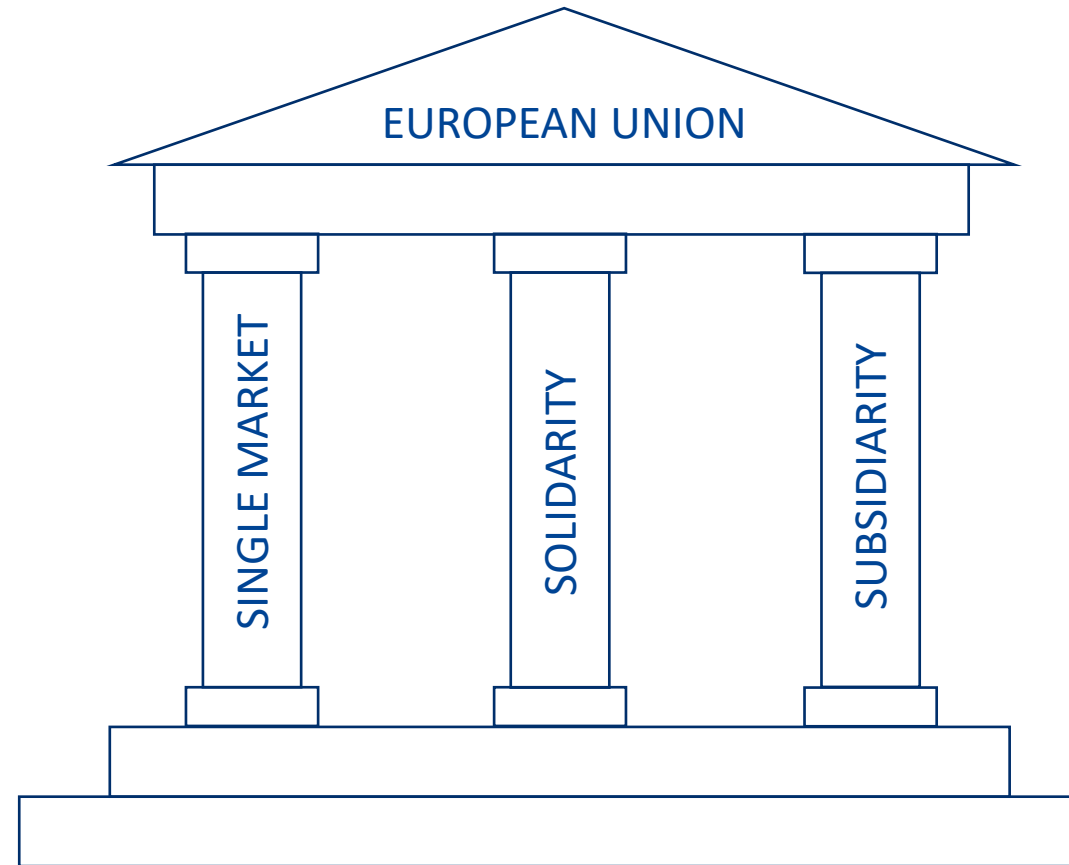
# ESM PERSPECTIVE: LONG-TERM TRENDS AFFECT FINANCIAL STABILITY

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# THREE PRINCIPLES OF EU ECONOMIC INTEGRATION

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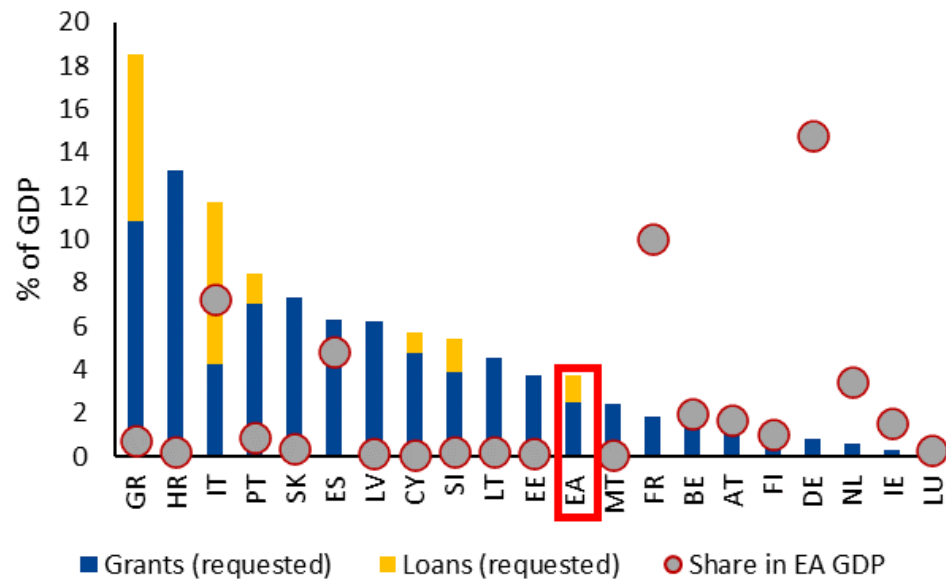
# A QUICK LOOK BACK TO PREVIOUS CRISES

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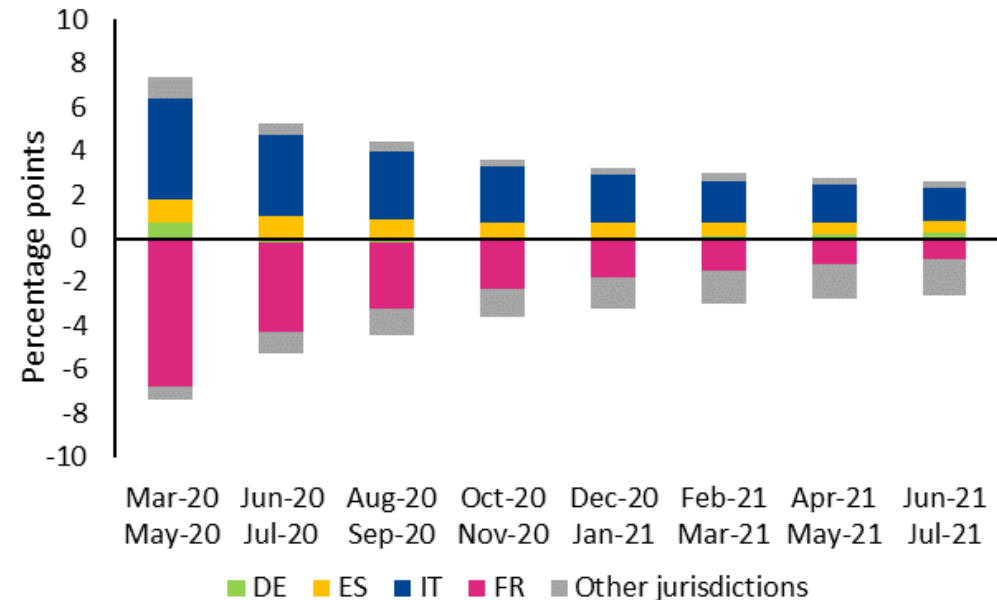
# EUROPE'S RESPONSE TO THE PANDEMIC

## Recovery and Resilience Facility allocation by country (as a % of 2020 GDP)



Source: European Commission.

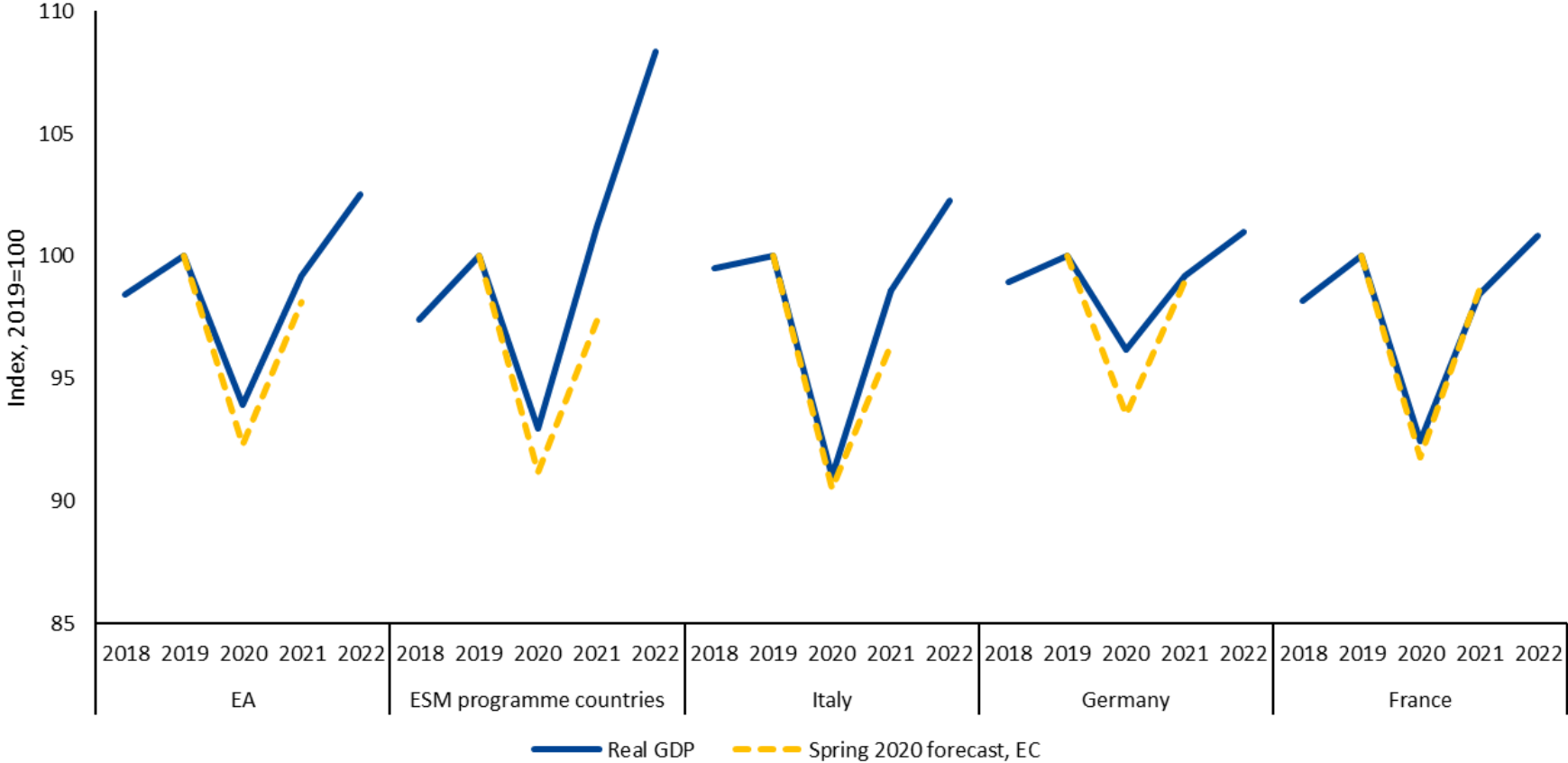
## Cumulated deviations from ECB capital key under the Pandemic Emergency Purchase Programme (in percentage points)



Source: European Central Bank. Capital key deviations for public sector purchases calculated in bi-monthly stock terms.

# COORDINATED RESPONSE CONTRIBUTED TO FASTER RECOVERY...

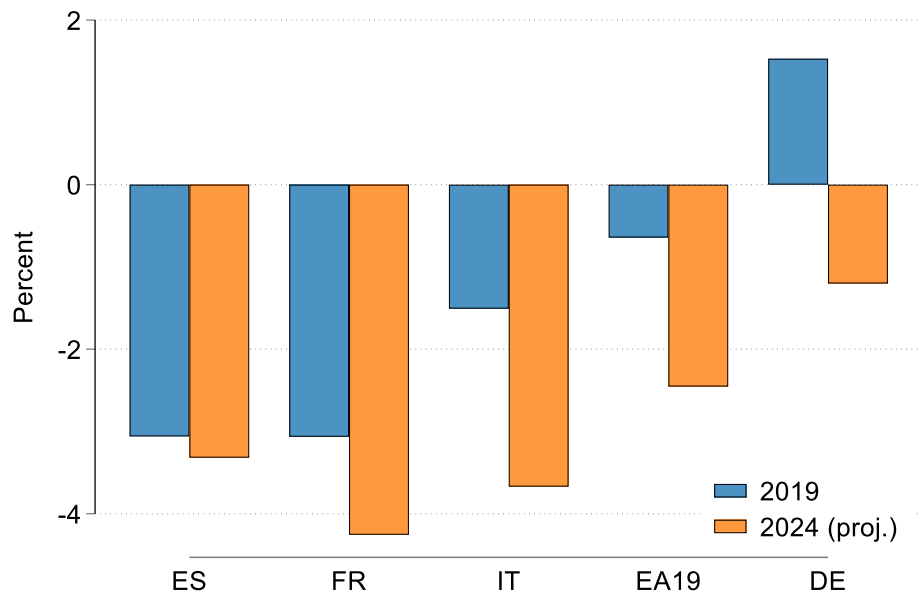
Real GDP growth, Spring 2020 EC forecast compared with actual growth (2019=100)



Source: European Commission. ESM programme countries include Cyprus, Greece, Ireland, Portugal and Spain.

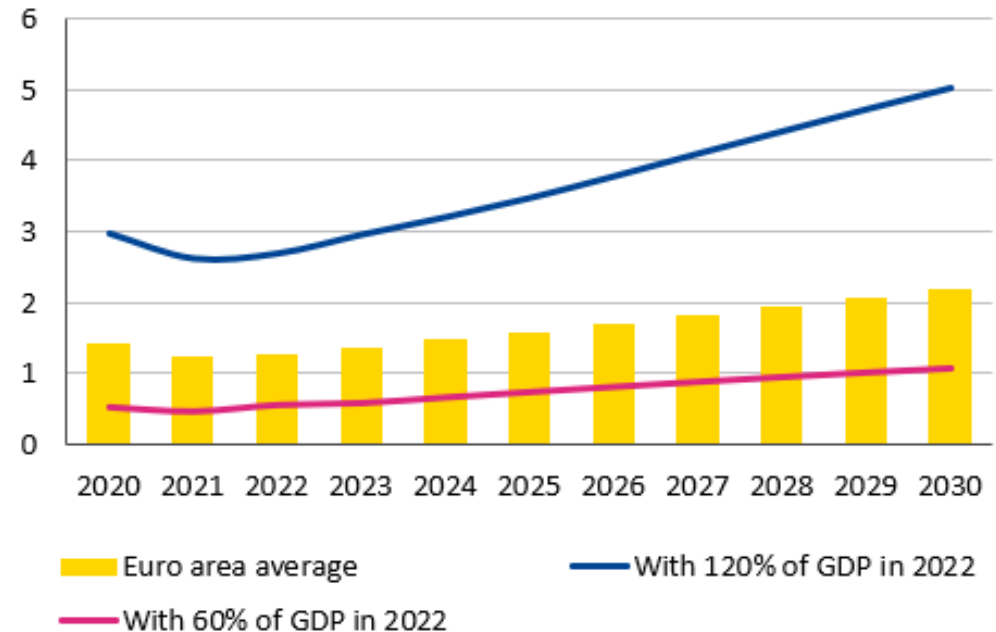
# ...BUT LOOKING FORWARD THE SPACE IS MORE LIMITED

**Fiscal balance in selected countries: pre-pandemic and projected**  
(in % of GDP)



Source: AMECO.

**Interest cost of existing marketable debt, EA av., as % of 2023 GDP**



Note: The calculation is based on market forward rates as of 4 September 2023, assuming unchanged debt maturity composition. Maturing debt is rolled over at the forward rates of the average maturity of the portfolio. The data shown is the simple average of euro area member states. Source: ESM based on ECB and Bloomberg



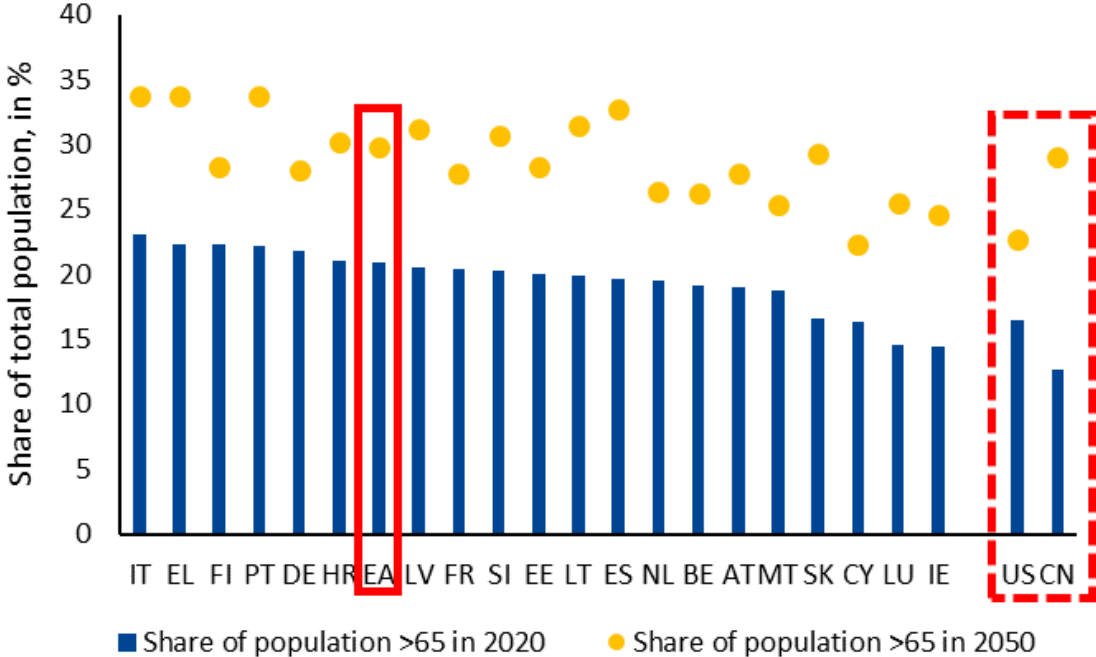
# AGEING

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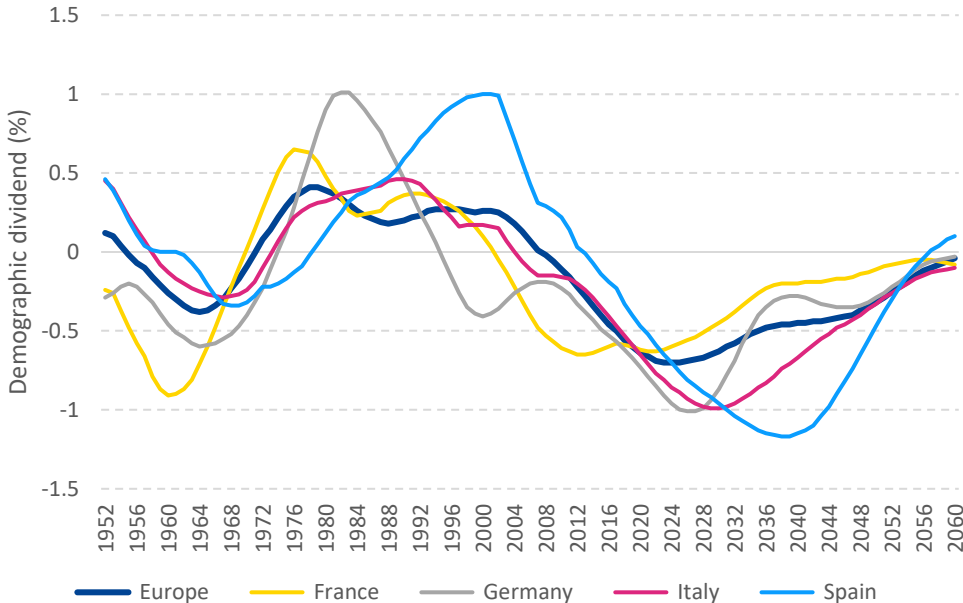
# AGEING WILL DRAG DOWN GROWTH...

The continent is ageing ...



Source: Eurostat, U.S. Census Bureau

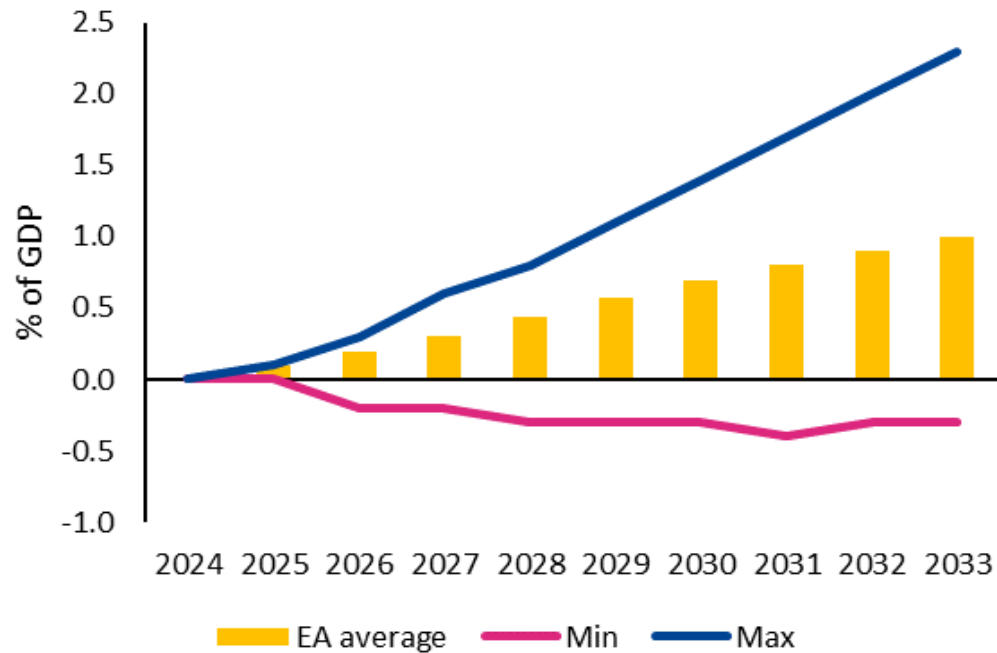
... with negative effects on growth



Source: [www.ntaccounts.org](http://www.ntaccounts.org).

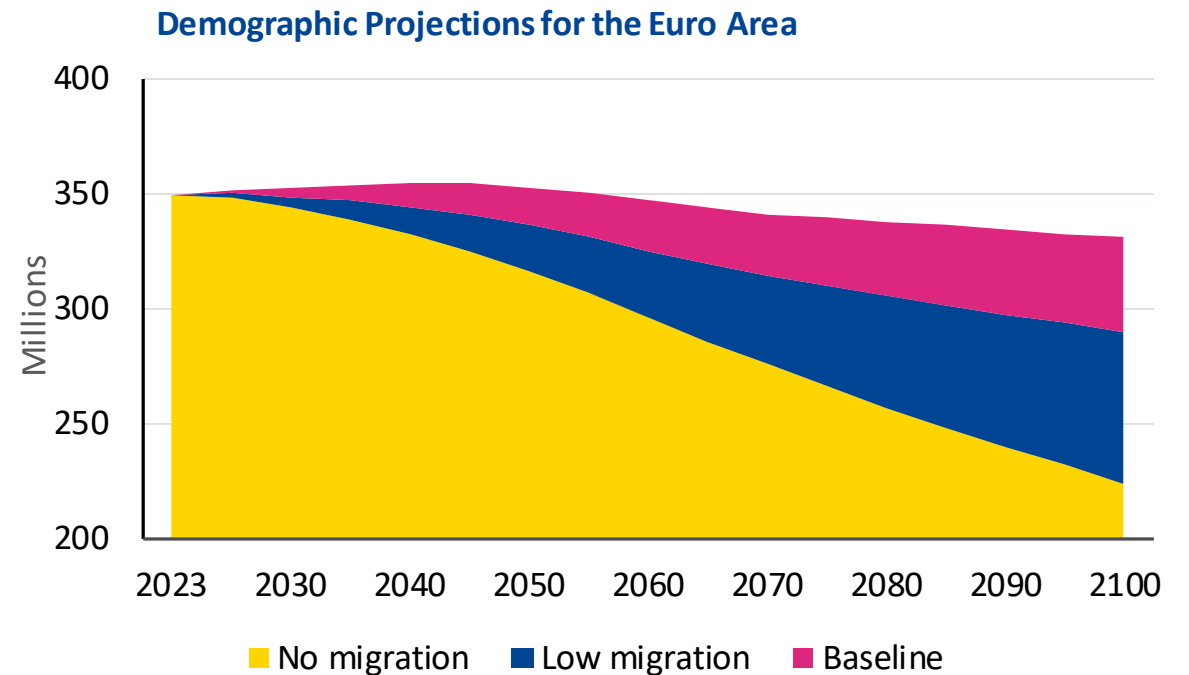
# ... AND CREATE BUDGETARY PRESSURES

Ageing-related expenditure will rise (strongly) in most countries...



Source: EC Debt Sustainability Monitor, 2022.

...even though migration will substantially ease the economic burden from ageing.



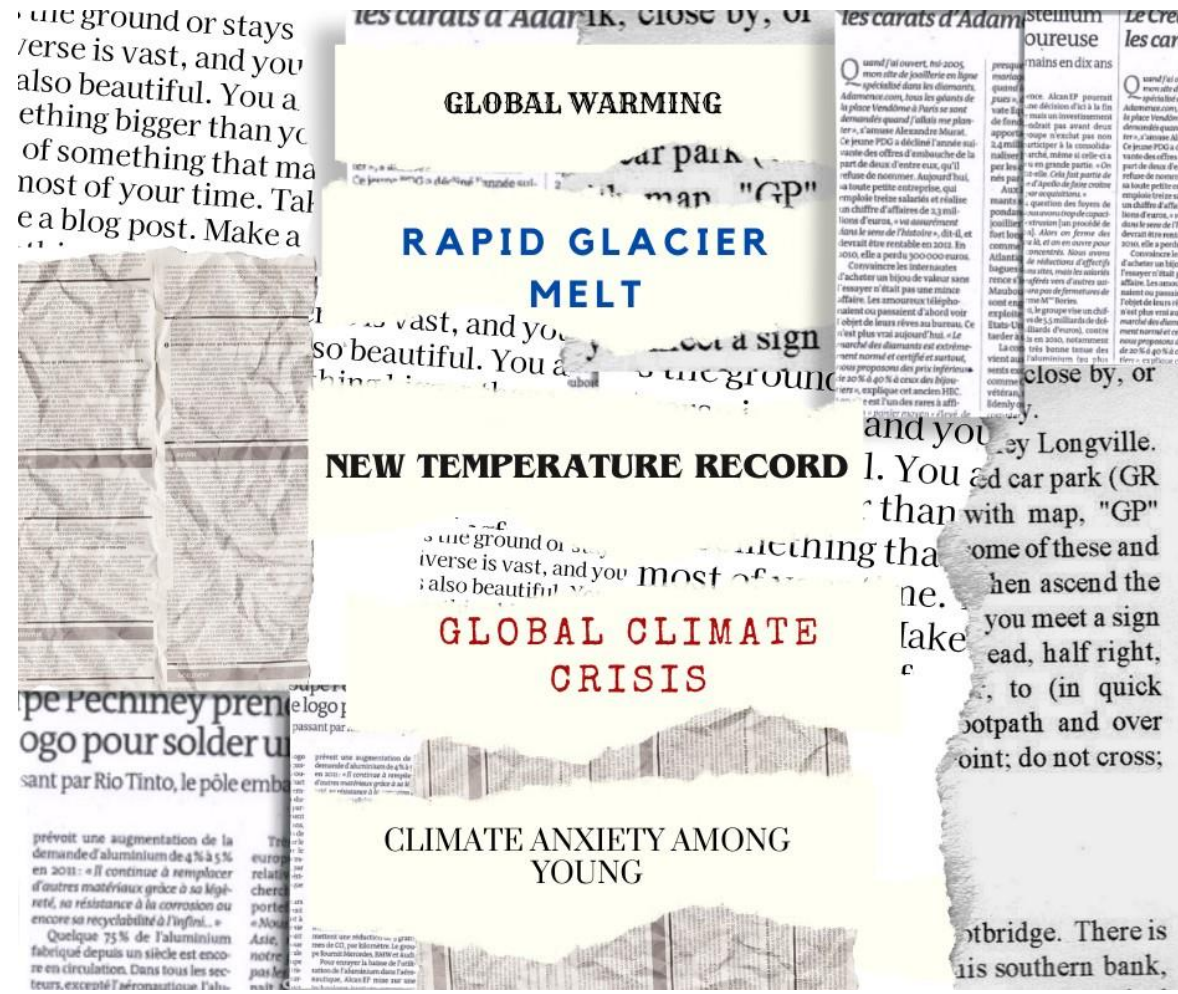
Source: Eurostat 2023 Europop Population Projections

# CLIMATE

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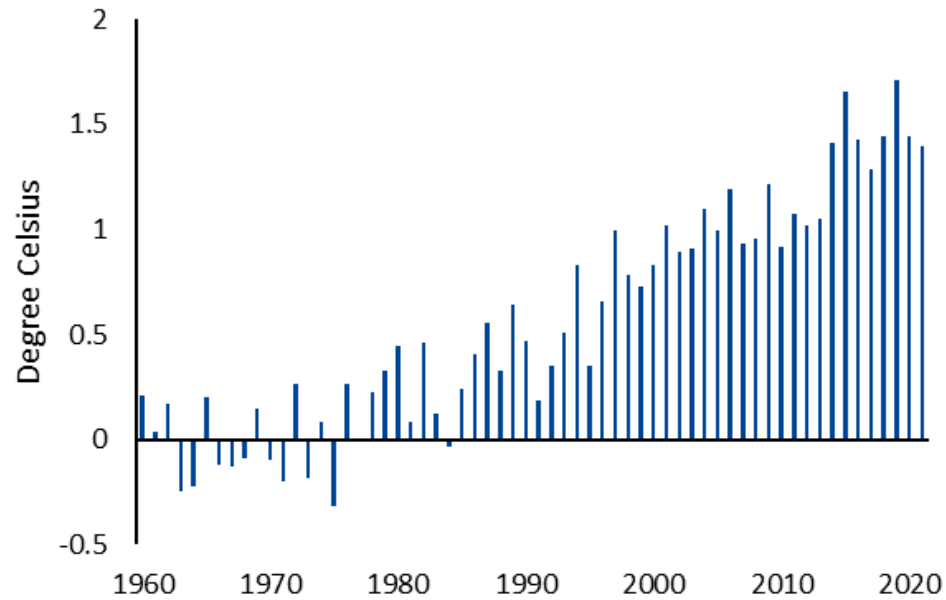


# CLIMATE CHANGE IN THE NEWS



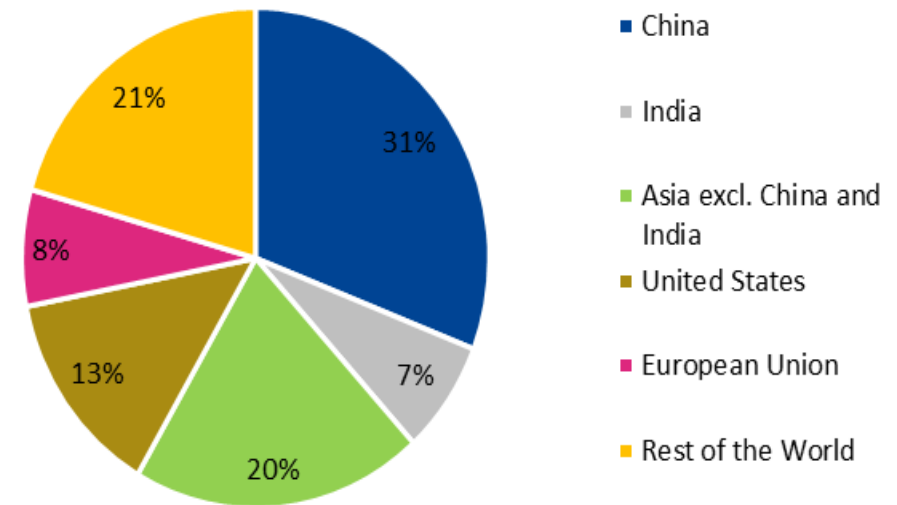
# CLIMATE CHANGE, A GLOBAL PHENOMENON

Global temperature is rising fast ...



Source: FAO Temperature Change. Notes: surface temperature change relative to 1950-1980, global average, degree Celsius.

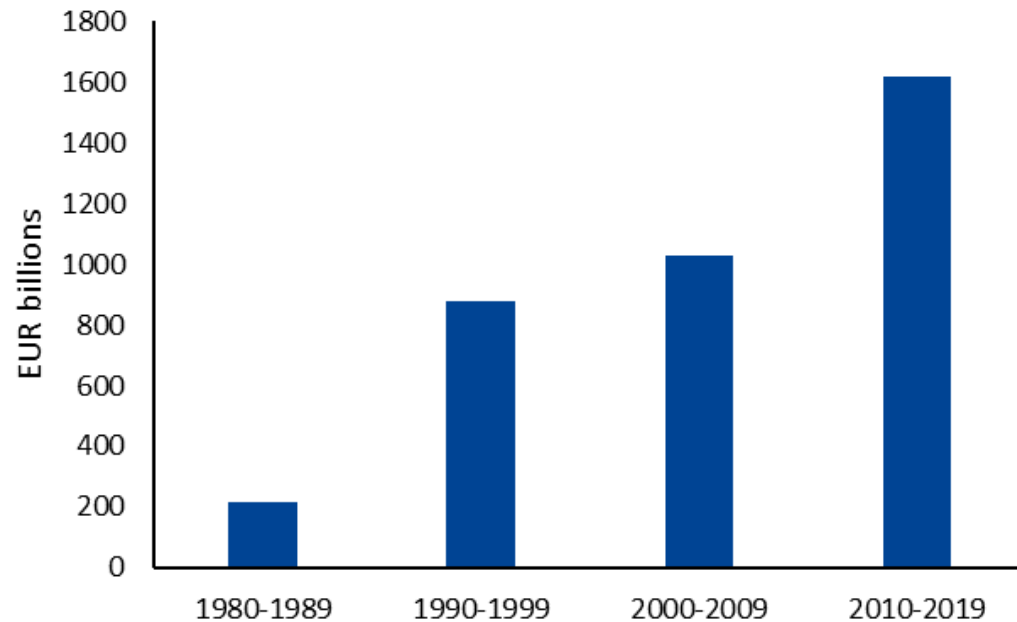
... requiring collective action



Source: Our World in Data. Notes: share of CO<sub>2</sub> emissions in 2021, as a % of global emission

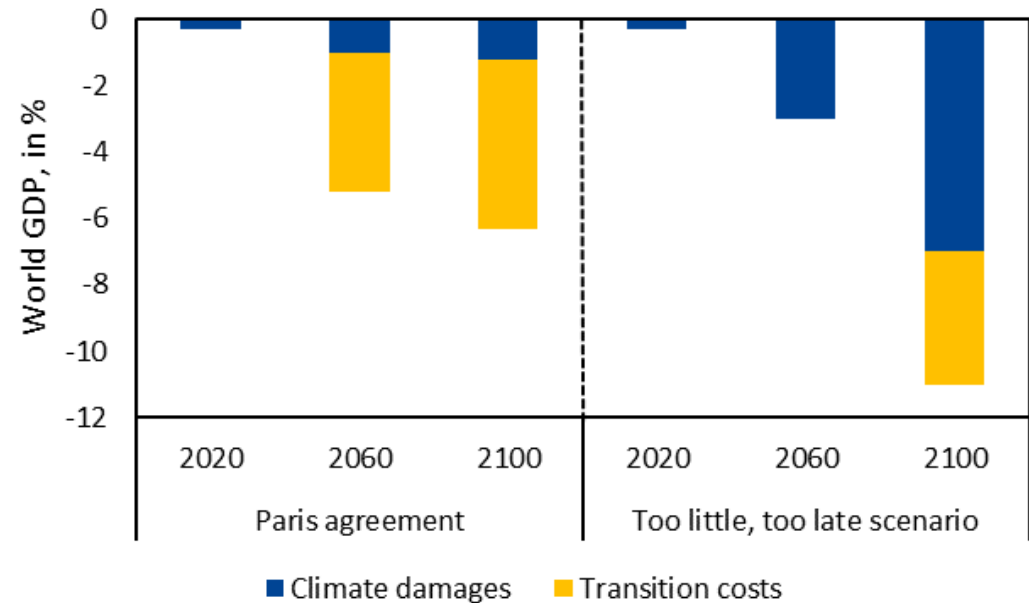
# CLIMATE CHANGE CARRIES IMPORTANT IMPLICATIONS FOR GROWTH AND STABILITY ...

Global economic losses from weather-related catastrophes have been on the rise ...



Source: SwissRe (2020)

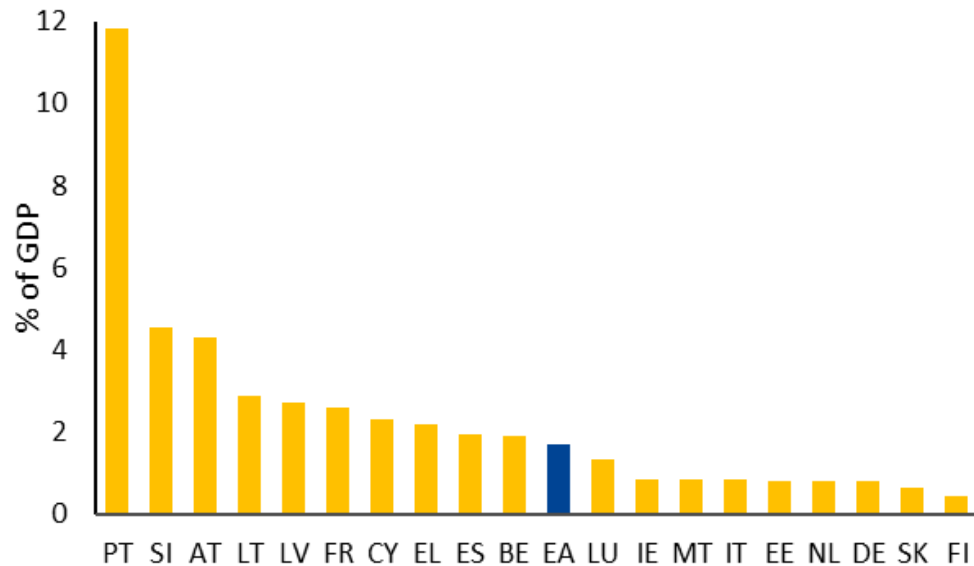
... while long-run GDP losses will depend on the ambition of transition policies.



Source: ECB, *Climate-related risk and financial stability*. Notes: The “too-little, too-late” scenario is based on the assumptions defined by the NGFS.

# BUDGETARY PRESSURES FROM REQUIRED PUBLIC INVESTMENT

A strong investment effort is needed from both the public and private sectors



Source: National energy and climate plans. Notes: Green investment needs in 2021-2030 to reach net zero . Average per year, % of 2019 GDP, both public and private investment.

- Europe can materially affect climate change policies through:

- ⇒ **Single market:** create incentive for transition (carbon pricing)
- ⇒ **Technological progress and scale**
- ⇒ **Insurance and risk sharing**
- ⇒ **Policy coordination (“Climate Club”)**



# GEO-ECONOMIC FRAGMENTATION

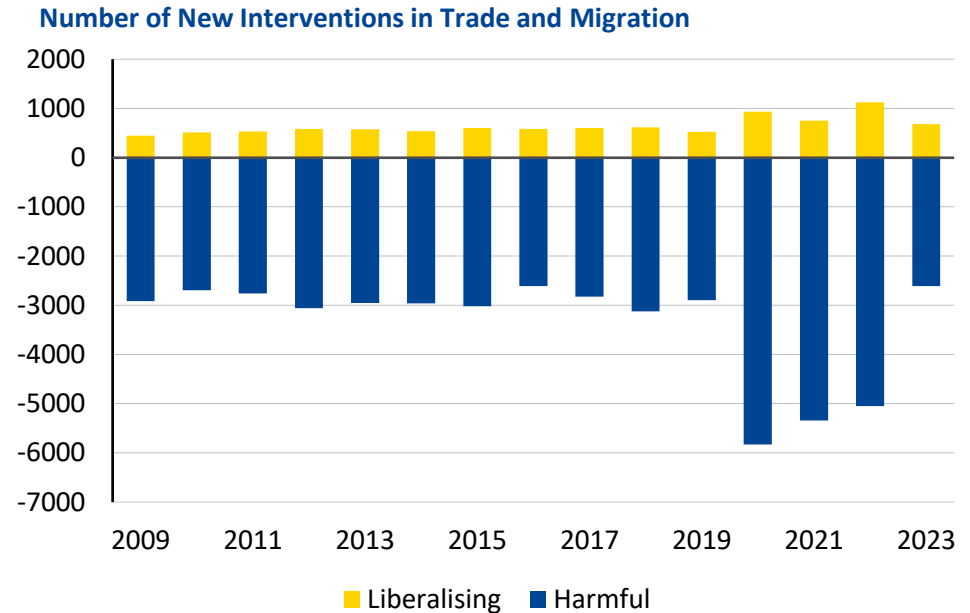
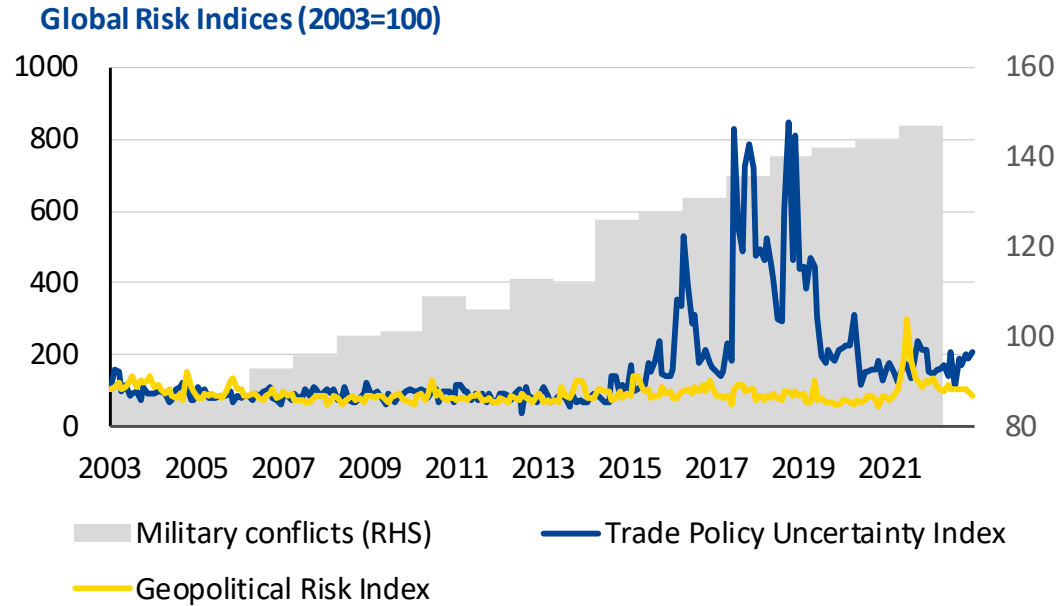
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# GEO-ECONOMIC LANDSCAPE IS SHIFTING

Geo-economic uncertainty is on the rise...

...with real world consequences.



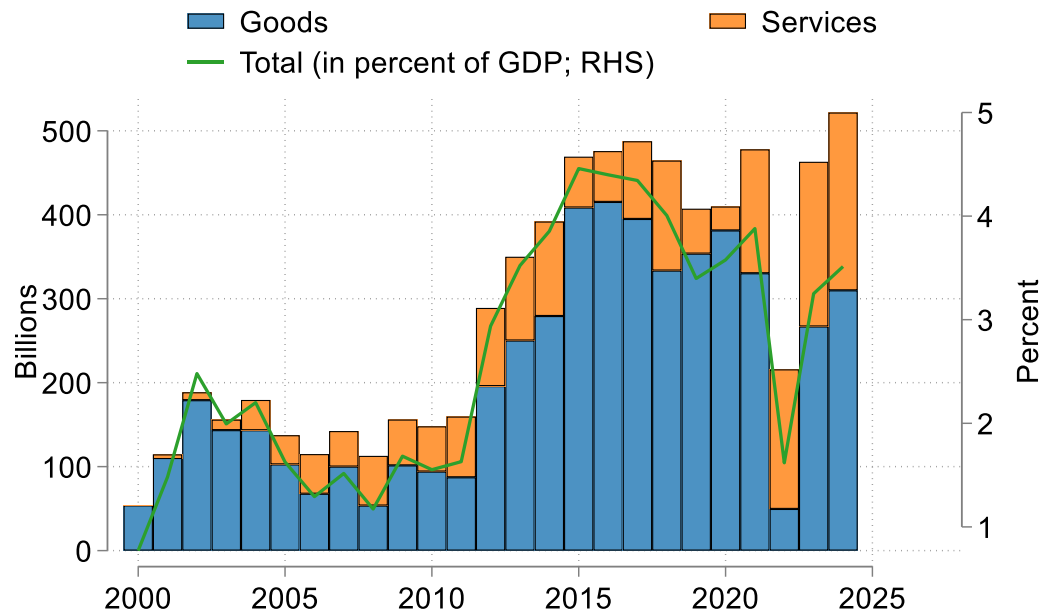
Source: Dario Caldara and Matteo Iacoviello (2022); Dario Caldara et al., (2020); and Uppsala Conflict Data Program.

Source: Global Trade Alert (2023).

# DEEPER INTEGRATION OFFERS LARGE BENEFITS

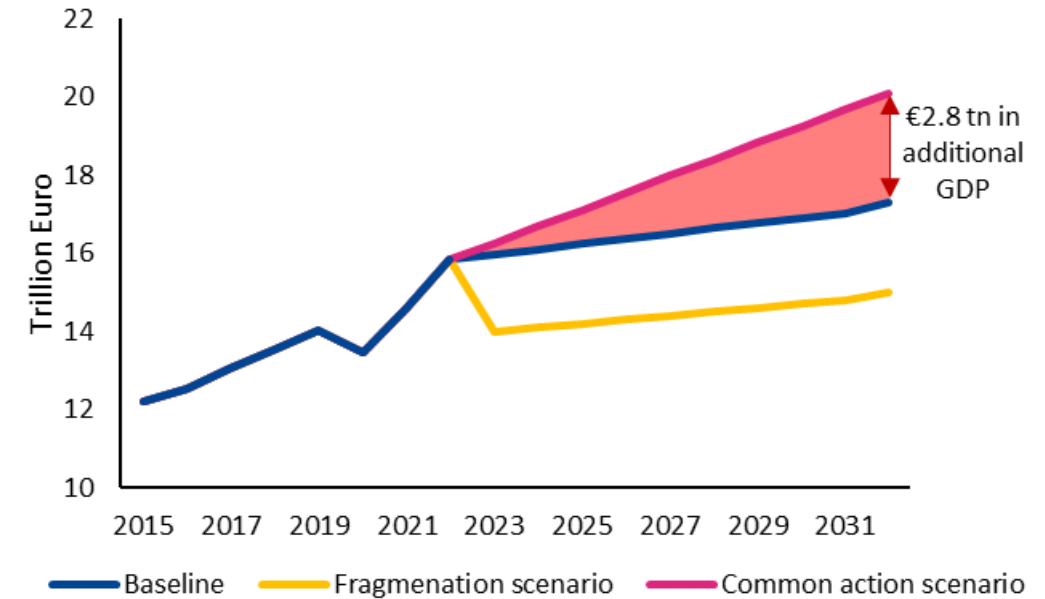
Exports-driven growth model will be harder to sustain, but...

EA19 - Net Exports of Goods and Services to Rest of the World



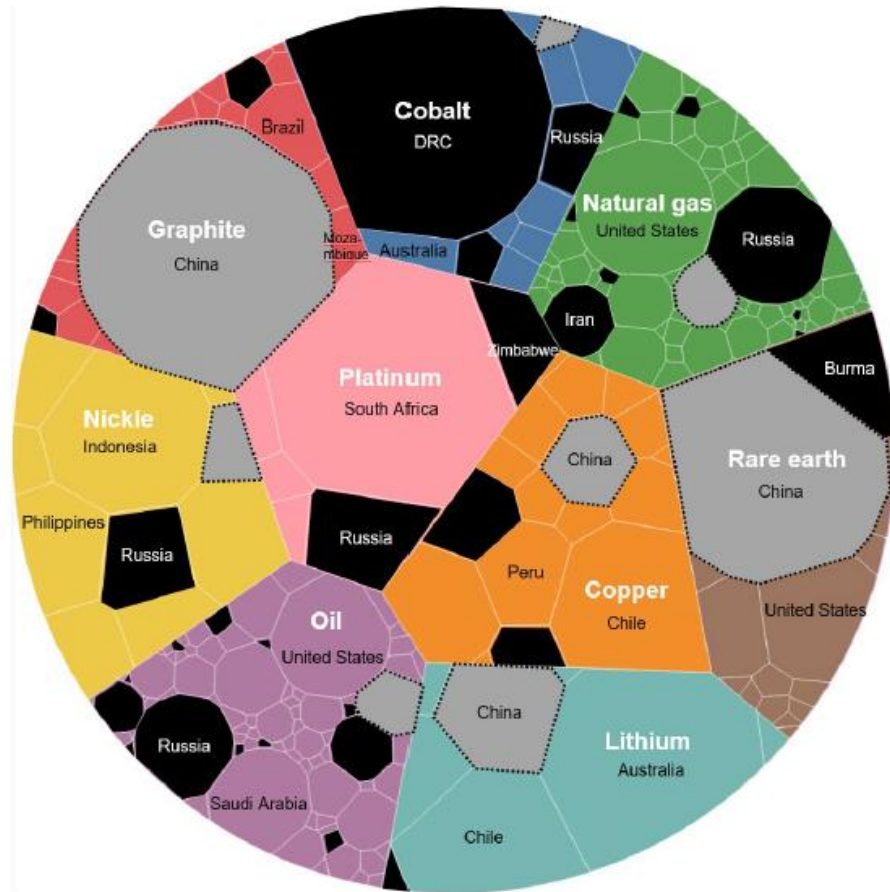
Source: AMECO and own calculations.

...deeper integration within Europe could offset any negative economic impact (untapped potential of €2.8 trillion).



Source: European Parliamentary Research Service: Mapping the Costs of non-Europe (2023).

# MESSAGES AND ROLE OF EUROPE



- Achieving strategic autonomy in critical commodities and minerals will be challenging...
- ... but “friend-shoring” is a way forward, as Europe has scale.
- A more integrated Europe offers diversification and risk-sharing

Source: IMF SDN Goeconomic Fragmentation and the Future of Multilateralism (2023).

Note: Countries in black are under sanctions; China is shaded in grey.

# THE WAY FORWARD: POLICY IMPLICATIONS

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# THE ROLE OF MEMBER STATES AND EU VALUE-ADDED

	EU	Member States
<b>Ageing</b>	<ul style="list-style-type: none"> <li>• Innovation and technological change</li> <li>• Immigration policy</li> </ul>	<ul style="list-style-type: none"> <li>• Labour market reform</li> <li>• Pension system reform</li> <li>• Long-life learning</li> <li>• Integration policies</li> </ul>
<b>Climate change</b>	<ul style="list-style-type: none"> <li>• Single market (carbon pricing, financing)</li> <li>• Technological progress</li> <li>• Insurance and risk-sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Investment (mitigation &amp; adaptation)</li> <li>• Dealing with stranded assets</li> <li>• Tax incentives for innovation (directed technological change)</li> </ul>
<b>Geo-economic fragmentation</b>	<ul style="list-style-type: none"> <li>• Trade policy</li> <li>• Competition policy and anti-trust</li> <li>• Insurance and risk sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Competitiveness policies (tax incentives, regulation, business climate)</li> <li>• Subsidies/state-aid</li> </ul>

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EUROPE'S FUTURE IS YOUR FUTURE

THANK YOU!



# CONTACT

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