GLOBAL TRENDS SHAPING EUROPE’S FUTURE

Presentation at Sciences Po

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Paris, 9 November 2023
THE FUTURE OF EUROPE
ESM PERSPECTIVE: LONG-TERM TRENDS AFFECT FINANCIAL STABILITY

AGEING
CLIMATE
GEO-ECONOMIC FRAGMENTATION

Growth
Confidence
Fiscal dynamics

FINANCIAL STABILITY
THREE PRINCIPLES OF EU ECONOMIC INTEGRATION

EUROPEAN UNION

SINGLE MARKET

SOLIDARITY

SUBSIDIARITY
A QUICK LOOK BACK TO PREVIOUS CRISES
EUROPE’S RESPONSE TO THE PANDEMIC

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

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

Source: European Commission.

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)

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 WILL DRAG DOWN GROWTH...

The continent is ageing ...

... with negative effects on growth

Source: Eurostat, U.S. Census Bureau

Source: www.ntaccounts.org.
... AND CREATE BUDGETARY PRESSURES

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

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


Source: Eurostat 2023 Europop Population Projections
CLIMATE
CLIMATE CHANGE IN THE NEWS
CLIMATE CHANGE, A GLOBAL PHENOMENON

Global temperature is rising fast ...

... requiring collective action


Source: Our World in Data. Notes: share of CO₂ emissions in 2021, as a % of global emission.
Global economic losses from weather-related catastrophes have been on the rise...

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

Source: SwissRe (2020)

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

- 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”)

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

Source: AMECO and own calculations.

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

Note: Countries in black are under sanctions; China is shaded in grey.
THE WAY FORWARD: POLICY IMPLICATIONS
# THE ROLE OF MEMBER STATES AND EU VALUE-ADDED

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<td>• Innovation and technological change</td>
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<td><strong>Climate change</strong></td>
<td>• Single market (carbon pricing, financing)</td>
<td>• Investment (mitigation &amp; adaptation)</td>
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<td>• Technological progress</td>
<td>• Dealing with stranded assets</td>
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<td>• Insurance and risk-sharing</td>
<td>• Tax incentives for innovation (directed technological change)</td>
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<td><strong>Geo-economic fragmentation</strong></td>
<td>• Trade policy</td>
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EUROPE’S FUTURE IS YOUR FUTURE

THANK YOU!
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