

EURO AREA: NAVIGATING A SHIFTING GLOBAL ENVIRONMENT

Executive Dialogues, Danske Bank

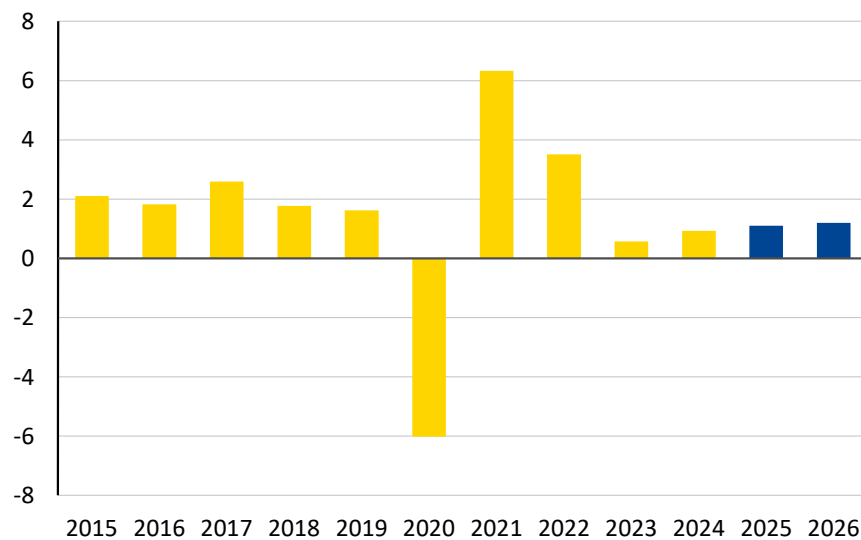
Rolf Strauch, Chief Economist

15 September 2025



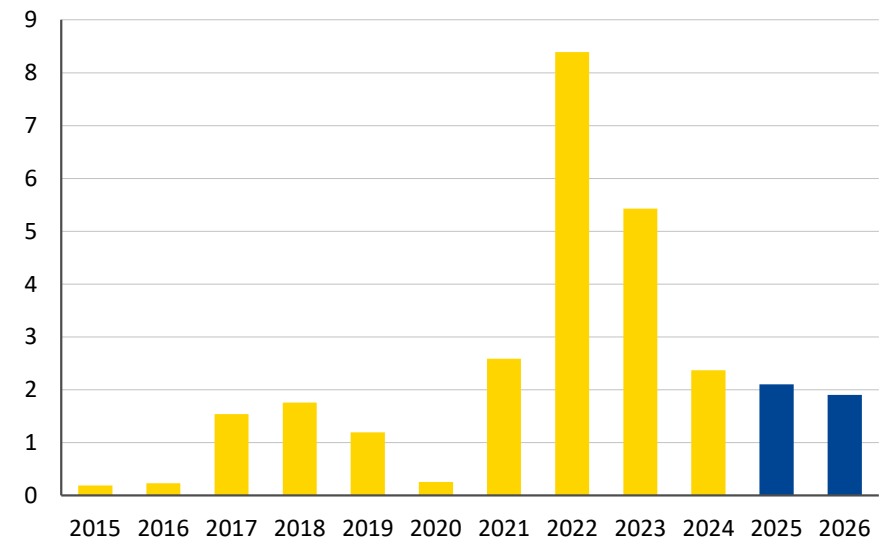
RECENT DEVELOPMENTS: MILD GROWTH, DISINFLATIONARY PROCESS COMPLETED

Euro area annual GDP growth 2015–2026
(% annual growth rates)



Note: 2025 and 2026 reflect Focus Economics forecasts (26 August 2025).
Sources: Eurostat and FocusEconomics




Euro area inflation 2015–2026
(% annual growth rates)



Note: 2025 and 2026 figures reflect Focus Economics forecasts (26 August 2025).
Sources: Eurostat and FocusEconomics

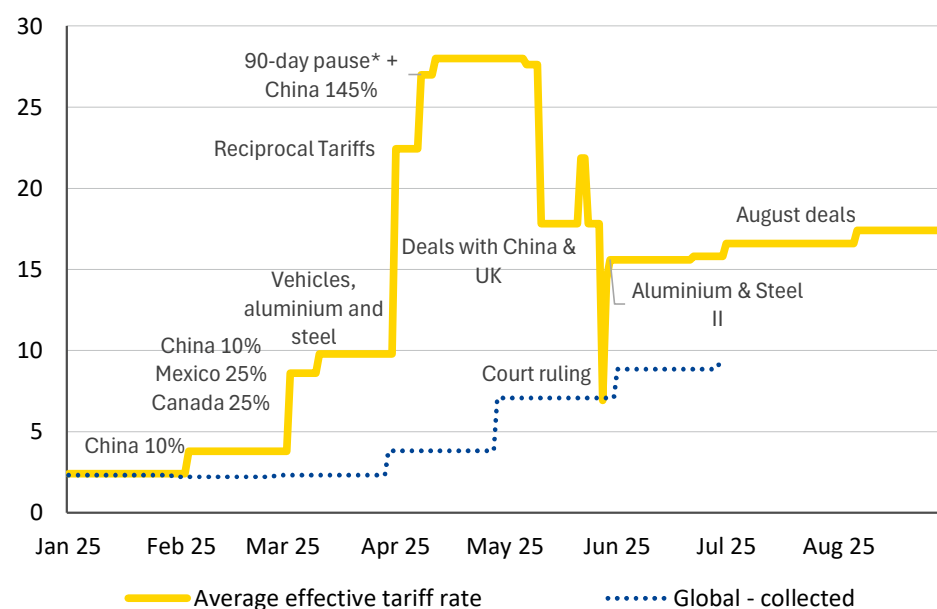
RISK OUTLOOK: NAVIGATING A SHIFTING GLOBAL LANDSCAPE

US policies and domestic fiscal vulnerabilities, key sources of risks to euro area growth and financial stability

			
Policy area/Risk	Trade/tariffs	Finance & institutional quality	Fiscal policies
Spillovers/ Short-term impact	Growth & inflation	Capital flows – exchange rate dynamics	Long-term interest rates & defence
EU long-term challenges	EU competitiveness	International role of the euro	Spending needs debt sustainability

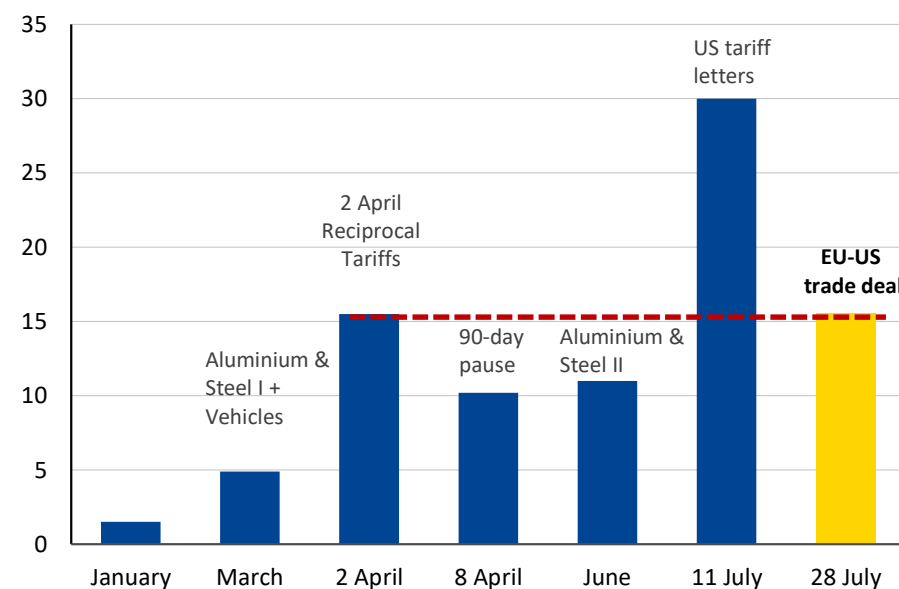
SIGNIFICANT RISE IN US TARIFFS, WORST-CASE SCENARIO AVOIDED

US global tariff rates
(average effective tariff rate, %)



Notes: Global – collected calculated as duties/customs value. The “90-day pause” modified the Reciprocal Tariffs from 2 April.
Sources: ESM, Yale Budget Lab, US International Trade Commission, and Bloomberg

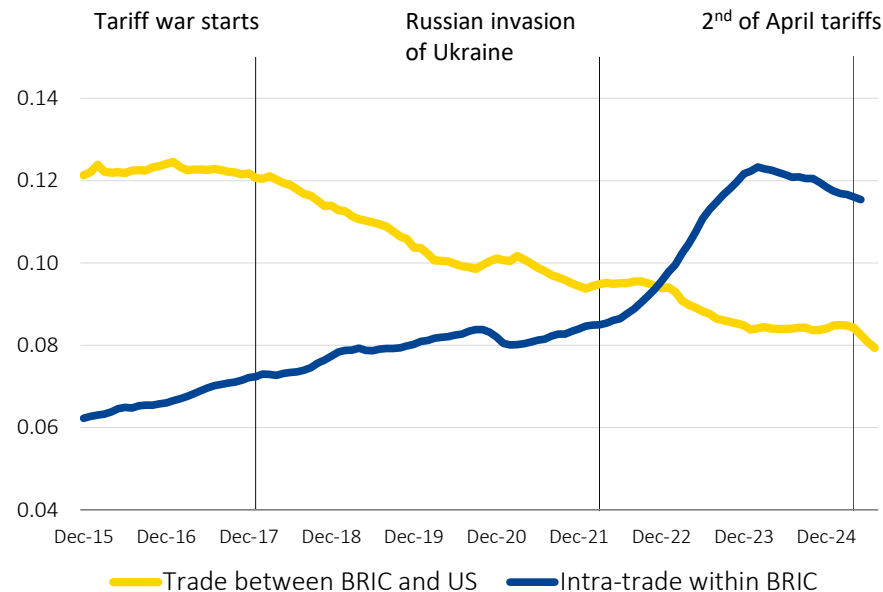
US tariff rates announced on EU exports
(average effective tariff rate, %)



Note: Calculations are based on US announcements.
Source: ESM calculations

THE GLOBAL TRADE ORDER IS CHANGING, AND EUROPE IS AT THE CROSSROADS

Rising trade integration among BRIC countries, distancing from the US (share of BRICs trade)



Notes: Trade links are measured as the sum of imports and exports in merchandise goods. Last data points: July 2025 for US-BRIC trade, May 2025 for intra-BRIC trade.
Sources: US Census Bureau and IMF Direction of Trade Statistics

Strategic trade integration among non-aligned countries

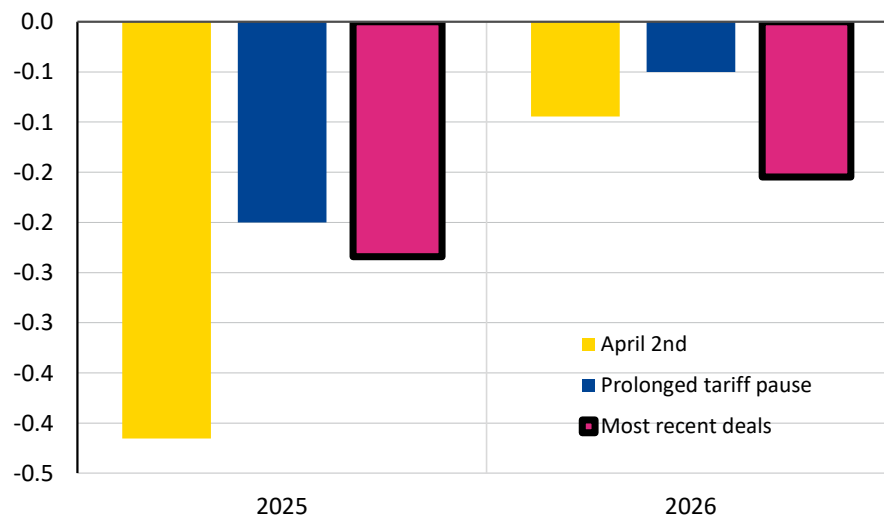
Trade diversion & China's overcapacity

Europe's external dependencies, vulnerability to global disruptions

ECONOMIC EFFECT FROM TARIFFS MANAGEABLE IN THE SHORT RUN, THOUGH UNEVEN ACROSS SECTORS AND COUNTRIES...

Impact of US tariffs on euro area economic activity

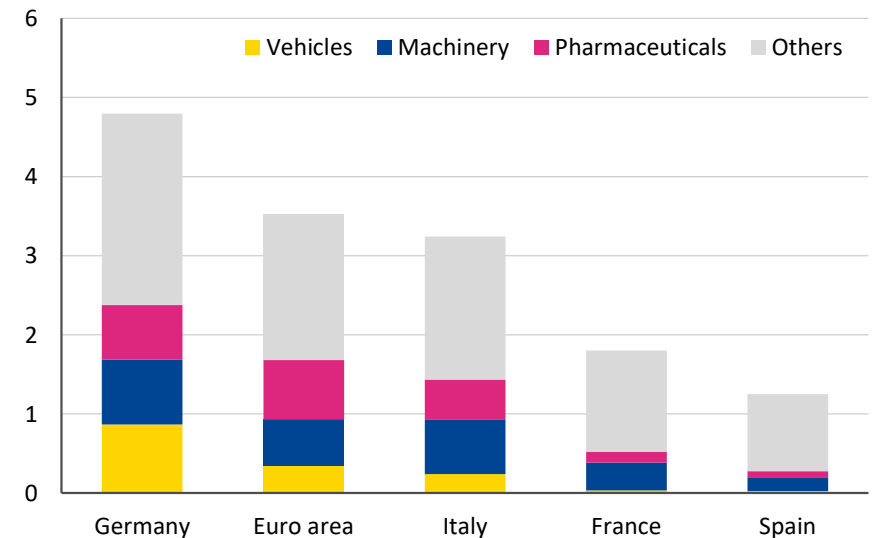
(percentage point annual growth rate deviation from no tariff baseline)



Notes: "April 2nd" is based on the announced tariff rate from the so-called "reciprocal" tariffs as announced on 2 April. "Prolonged tariff pause" assumes that the so-called "pause" would have been prolonged. "Most recent deals" refers to the recent agreements reached between the US, China, Japan, the EU, India, the UK, and other countries.

Source: ESM estimates

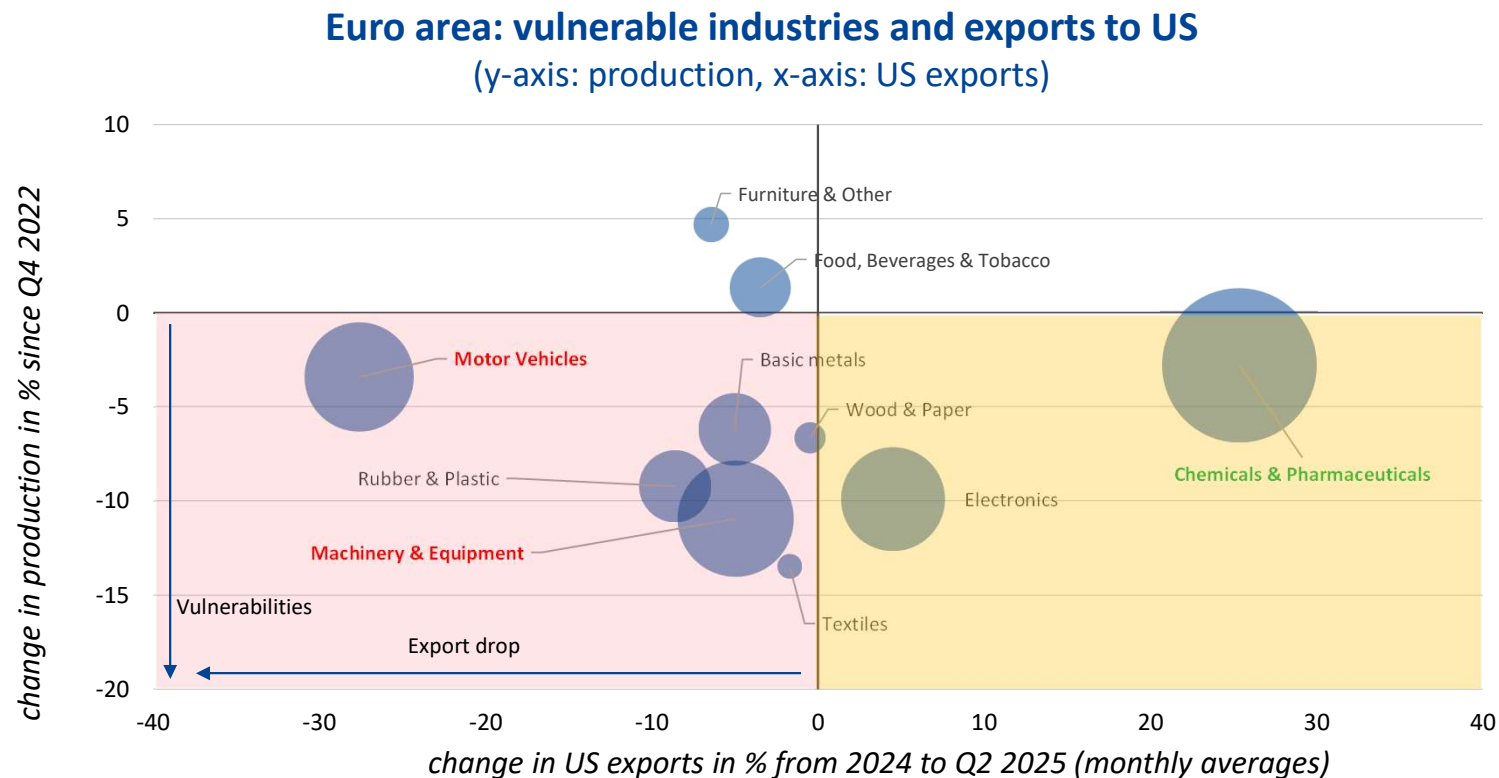
Importance of products at risks through tariffs (goods-specific exports to US in % of gross value added)



Notes: Gross value added from 2024. The chart shows the sum of exports to US as share of gross value added. Machinery is a short label for "Nuclear reactors/Boilers/Machinery".

Sources: Eurostat and ESM calculations

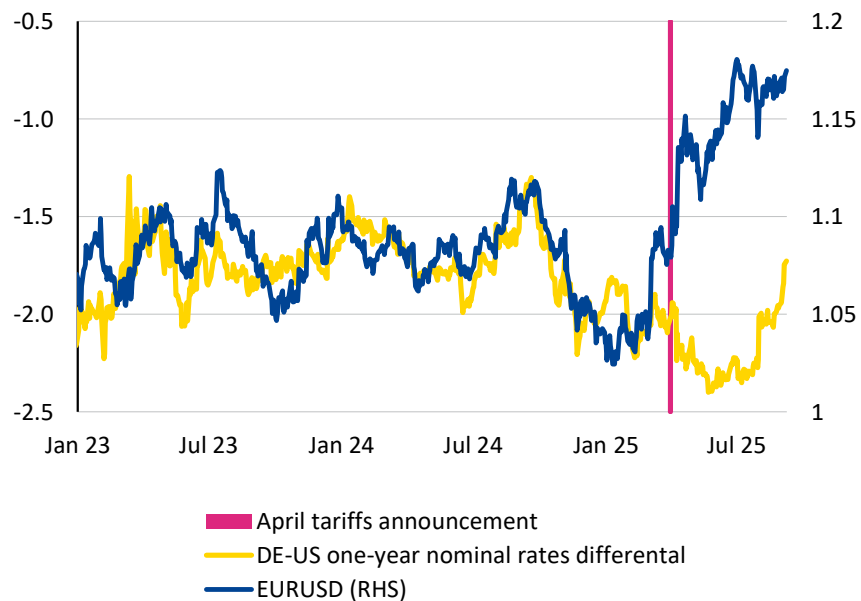
... AND THE IMPACT HARMS LONG-TERM COMPETITIVENESS



Notes: The vertical axis reports the change of respective sectors' production from Q4 2022 to Q2 2025 in %. The horizontal axis shows monthly exports in Q2 2025 (averages) relative to monthly exports in 2024 (averages). Bubbles represent the US exports to gross value-added ratios.
Sources: Eurostat and ESM calculations

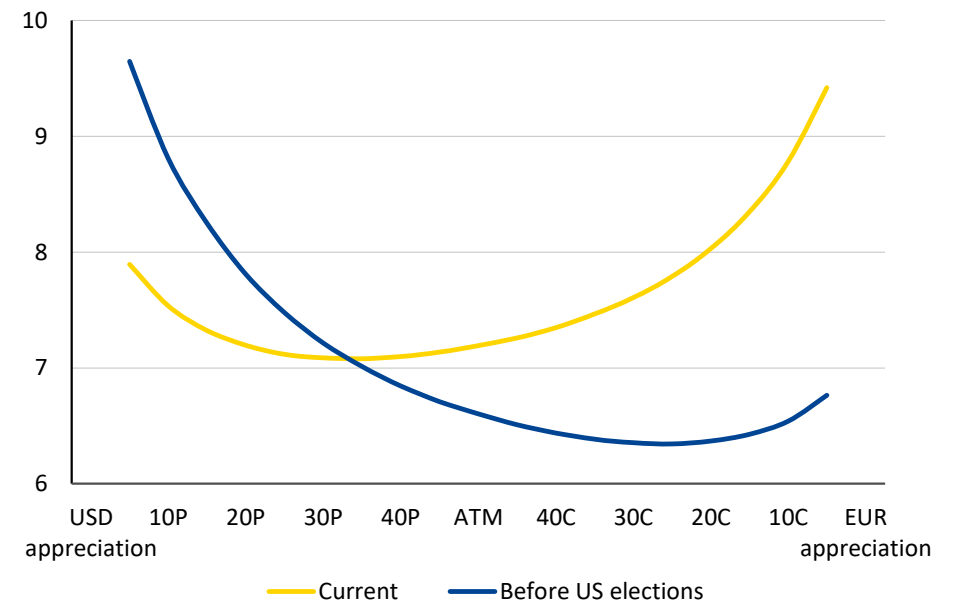
MARKETS ARE QUESTIONING THE US SAFE-HAVEN STATUS...

EURUSD and DE-US rates differential delinked
(LHS: percentage points, RHS: exchange rate)



Source: ESM calculations based on Bloomberg data

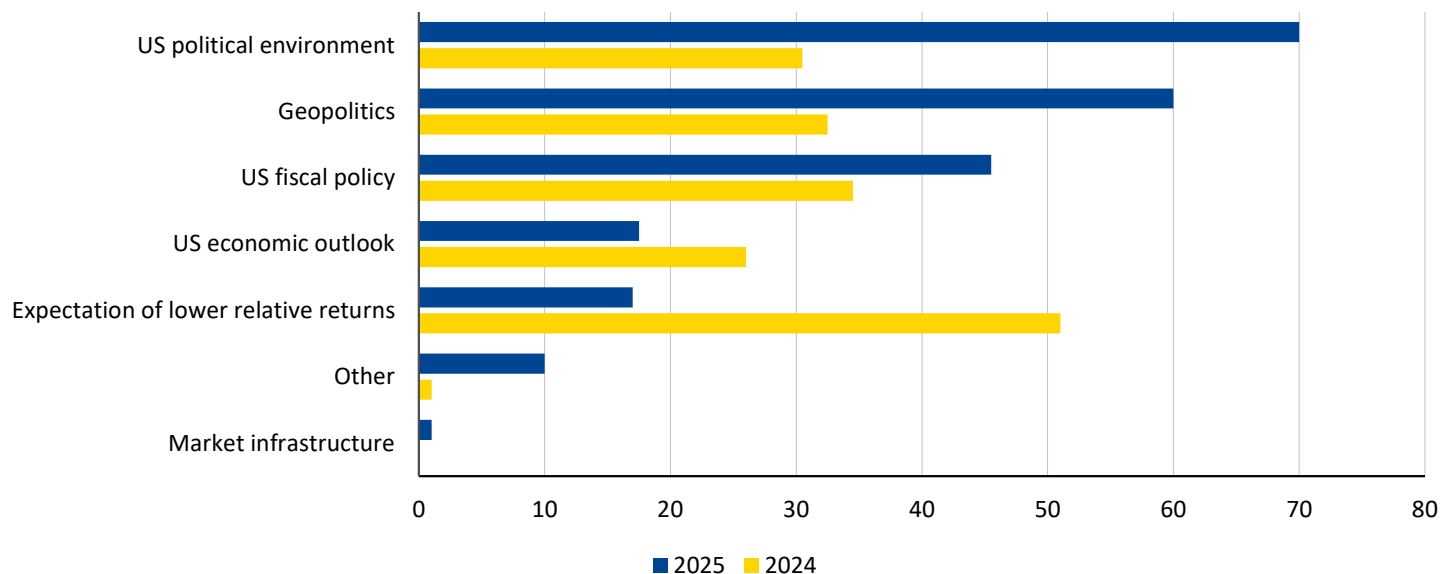
EURUSD one-year implied volatility
(percentage points)



Notes: 'Current' refers to 11 September 2025, while 'Before US elections' to 4 November 2024. XXP stands for XX percent delta Put options, while XXC stands for XX percent delta Call options. ATM stands for at-the-money options.
Source: ESM calculations based on Bloomberg

...AND THE DOLLAR IS LOSING SOME APPEAL

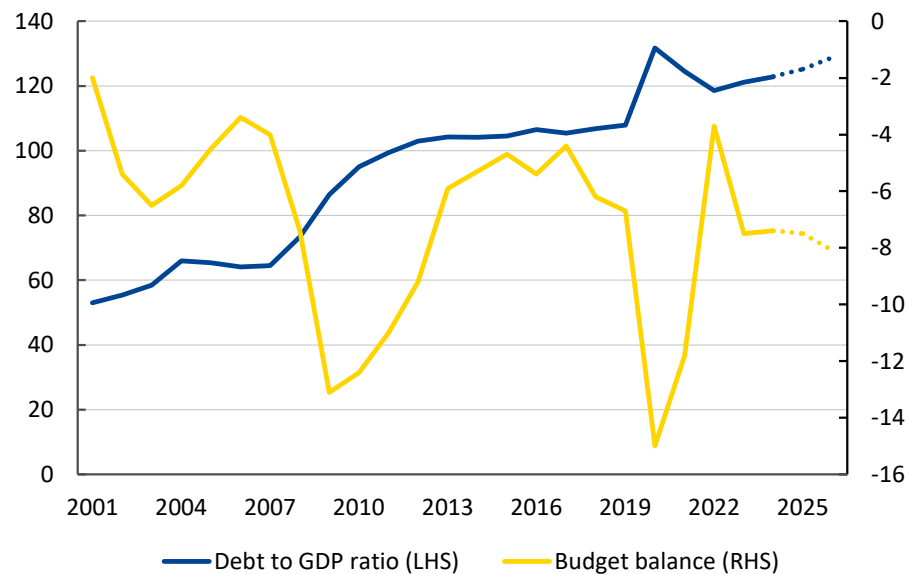
Reserve managers survey:
‘Which of the following factors discourages you from investing in the US dollar?’
(percentage share of respondents)



Source: OMFIF Global Public Investor, June 2025. Report available at: <https://www.omfif.org/global-public-investor-2025>

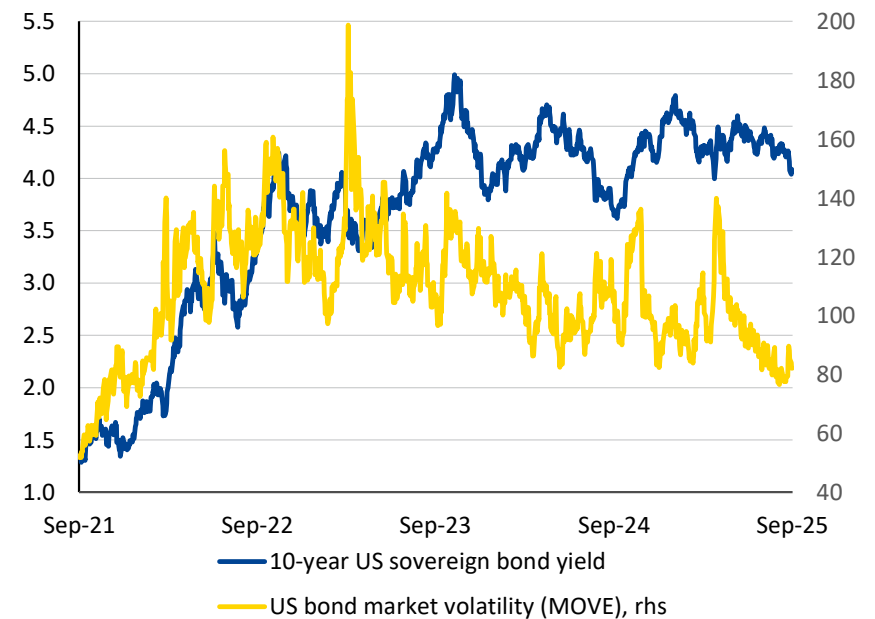
CONCERNS ON US FISCAL DYNAMICS ARE RISING

US debt-to-GDP ratio and budget balance
(2000–2026; percentages)



Note: Budget balance and debt-to-GDP figures refer to the general government.
Source: OECD Economic Outlook June 2025

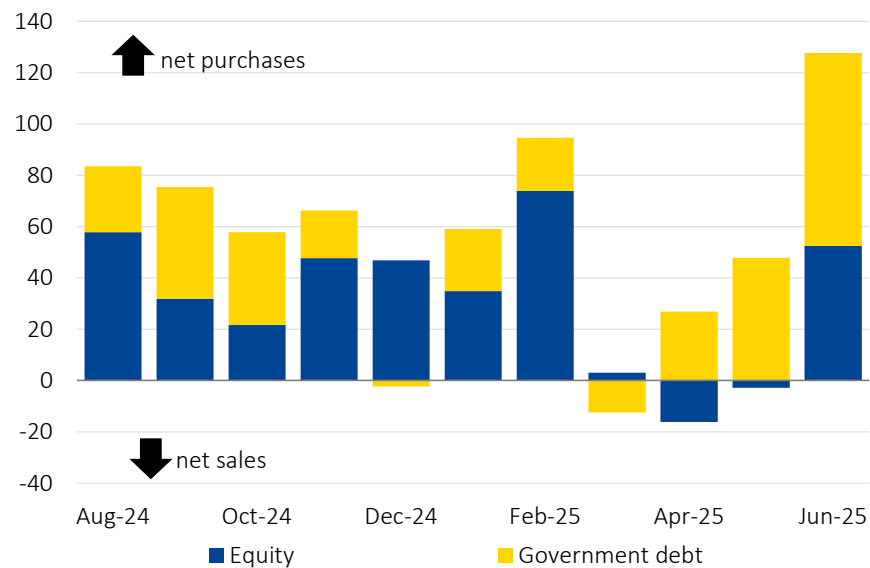
US Treasury bond yields and implied market volatility



Source: Bloomberg

INVESTOR CONFIDENCE IN THE EURO AREA REMAINS STILL STRONG...

Large foreign flows into euro area sovereigns since April
(monthly net purchases of securities by foreign investors, in € billion)



Note: Government debt comprises both short-term and long-term government securities.
Source: ESM calculations based on ECB's BPS data

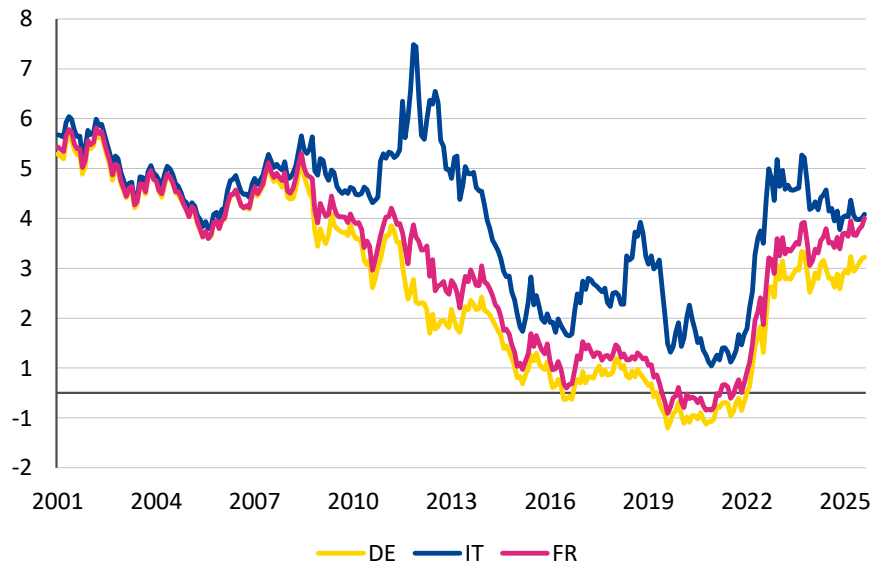
The euro area equity market rebounded rapidly
(index)



Source: Bloomberg

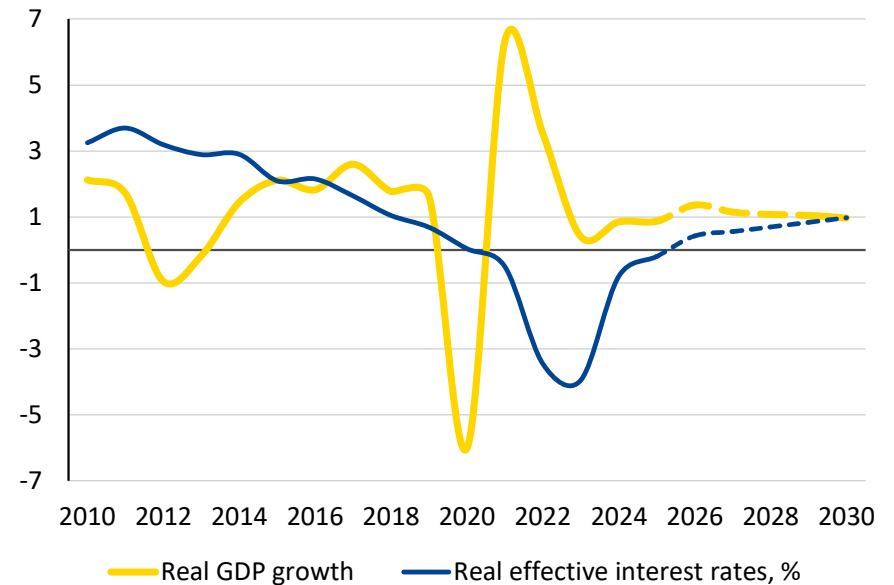
...ALTHOUGH SOVEREIGNS NAVIGATE A TIGHT FISCAL SPACE...

Sovereign bond yields rising
(10-year sovereign bond yields, %)



Source: Bloomberg

Fiscal space from favourable r-g is dissipating
(percentage points)

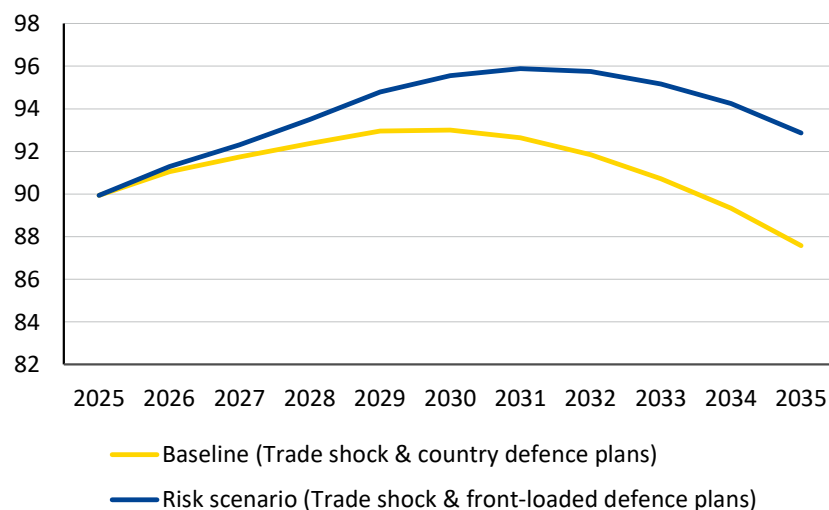


Note: Real effective interest rate estimates based on marketable debt securities and 10-year forward curves.

Source: ESM calculations based on Eurostat, European Commission, and Bloomberg data

.. AND THERE ARE RISKS TO DEBT SUSTAINABILITY

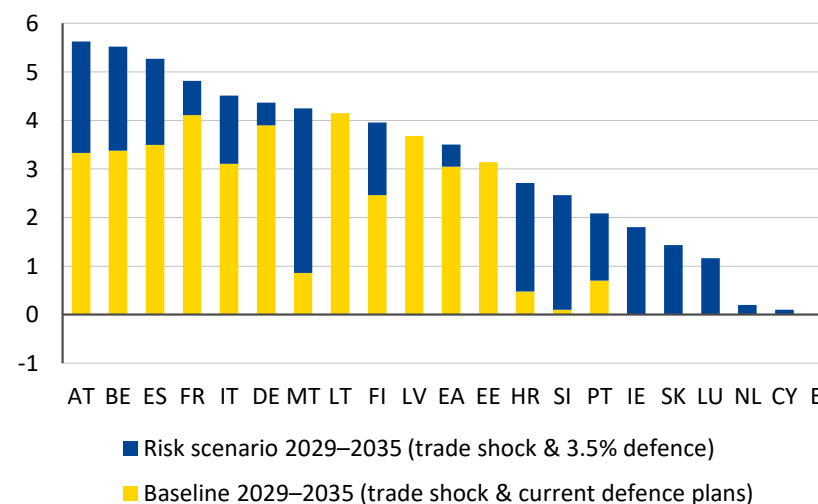
Defence spending puts euro area debt on an upward path until 2030, under escape clause
(public debt, % of GDP)



Source: ESM calculations

Stability and growth pact compliance after 2028 requires unprecedented adjustments

(cumulative adjustment needs as of 2029, % of GDP)



Source: ESM calculations based on a seven-year adjustment plan

POLICY PRIORITIES IN A SHIFTING GLOBAL ENVIRONMENT

Manage geopolitical risks

- ✓ Defence capabilities
- ✓ Strategic autonomy
- ✓ Strengthen international role of the euro

Foster competitiveness and productivity

- ✓ Deepen single market
- ✓ Savings and investments union
- ✓ Structural reforms

Ensure sustainability

- ✓ “Smart” fiscal consolidation
- ✓ Strengthen European financing
- ✓ Green transition

CONTACT

Rolf Strauch
Chief Economist

r.strauch@esm.europa.eu



European Stability Mechanism
6a Circuit de la Foire Internationale
L-1347
Luxembourg

Follow the ESM on Twitter:
[@ESM_Press](https://twitter.com/ESM_Press)