

EUROPEAN COMPETITIVENESS, GROWTH AND AI

CEPR Paris Symposium

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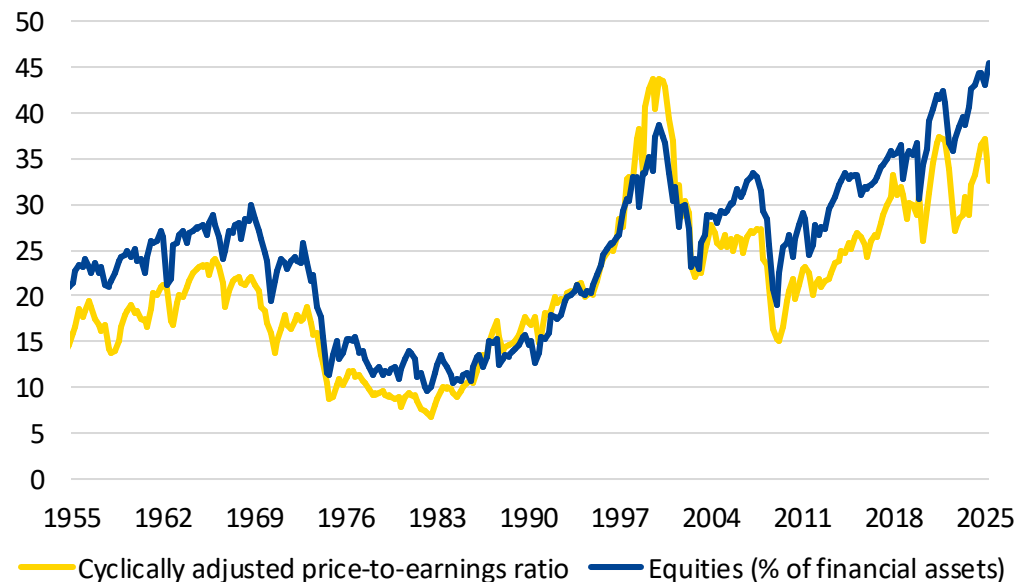
Paris, 6 December 2025



AI RALLY RAISES QUESTIONS ON VALUATIONS AND POTENTIAL PRODUCTIVITY BOOST

Stretched valuations and record-high equity exposures raise financial stability concerns...

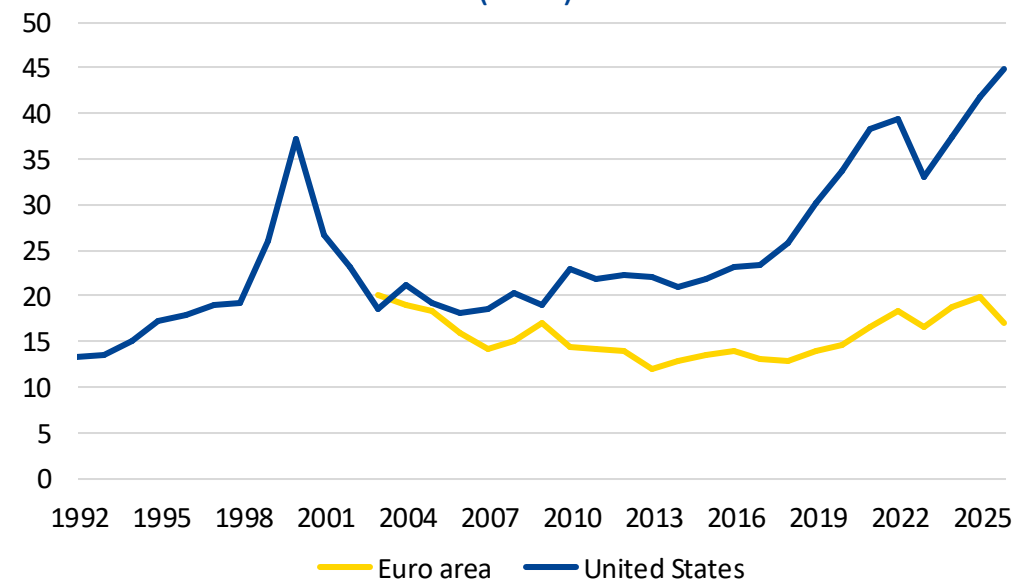
Households' exposures to equities and US equity market valuation metric



Notes: Corporate equities directly and indirectly held by households and nonprofit organisations. Cyclically adjusted price-to-earnings ratio is defined as the current value of S&P 500 divided by the average of inflation-adjusted earnings over the previous 10 years. Sources: Federal Reserve FOF, Schiller Data

...but limited participation in technology development
might further weaken European competitiveness

Share of Information and Communications Technology (ICT) sector in market capitalisation (in %)

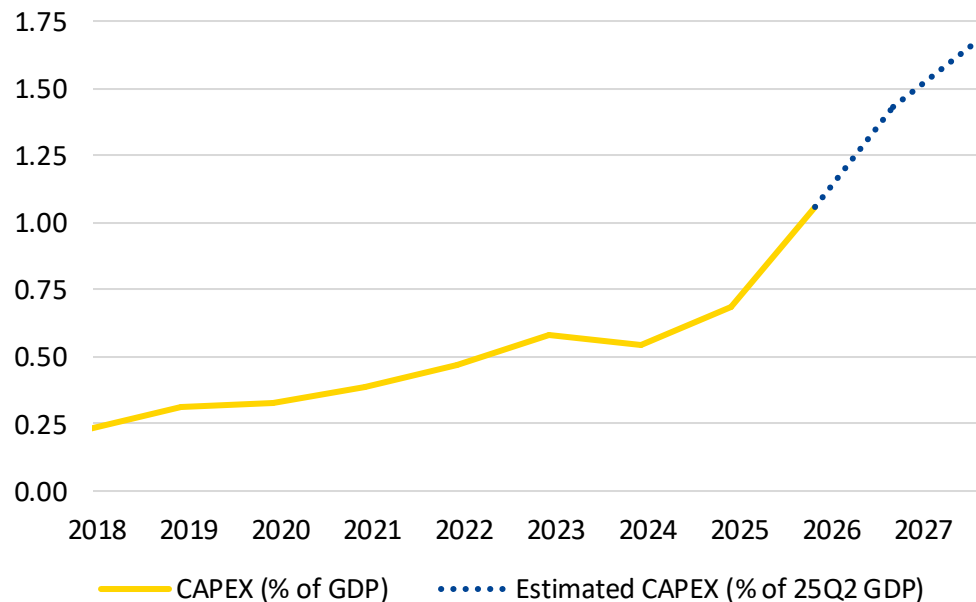


Note: United States (share of IT and communication services in S&P 500), euro area (share of technology, telecommunications, and media in EURO STOXX).
Sources: Bloomberg, ESM calculations

TECHNOLOGICAL RACE: EUROPE IS FALLING BEHIND

AI-related capital expenditures boost US GDP, but also raise questions about potential overinvestment

Investments of "Magnificent 7" companies
(in %)

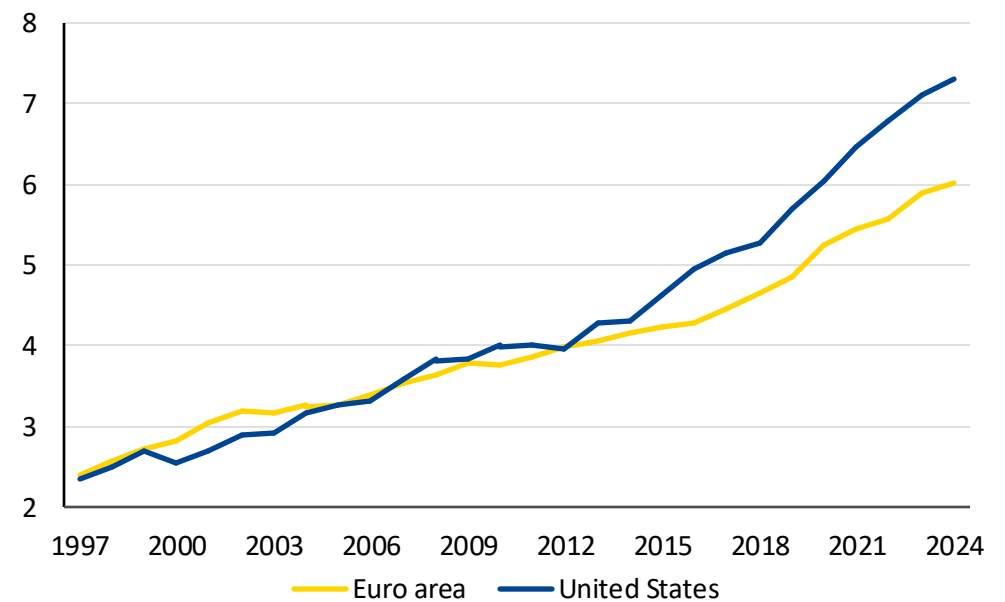


Note: "Magnificent 7" consists of Alphabet, Amazon, Apple, NVIDIA, Meta, Microsoft, and Tesla.

Sources: Bloomberg, ESM calculations

Euro area ICT share is rising, but still lags the US in level and growth

Weight of evolution of ICT on output
(in %)

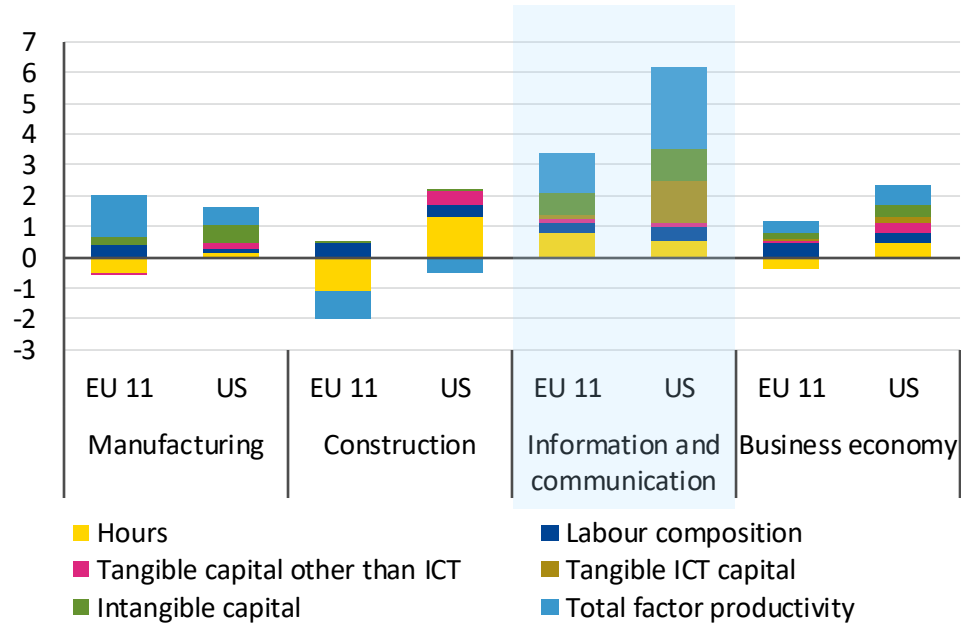


Source: Haver, US Bureau of Economic Analysis, and Eurostat

IT IS NOT ONLY ABOUT QUANTITY, BUT WHERE ICT IS INVESTED

US leads by innovating in ICT and more effectively at turning investment into productivity gains

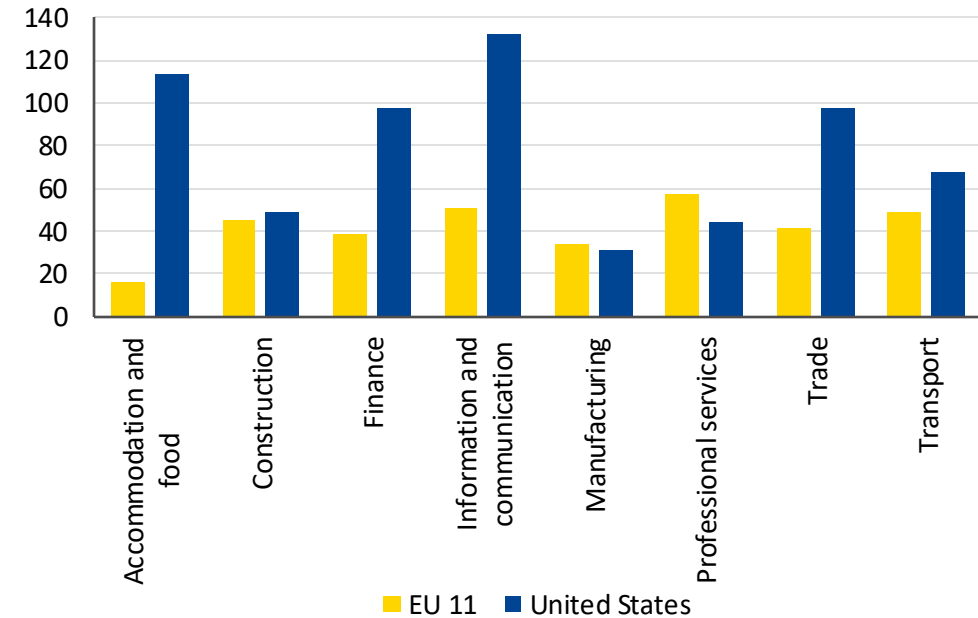
Annual growth in value added by sector
(%, 2010–2020, average decomposition)



Notes: The total economy is like the business economy sector, represented by the market economy in the KLEMS database. EU11 denotes the 11 EU economies for which data is available (AT, BE, DK, FI, FR, DE, IT, NL, ES, and SE).
Source: ESM calculations based on EU KLEMS

US outpaces EU in ICT capital, especially for those sectors that matter most for productivity

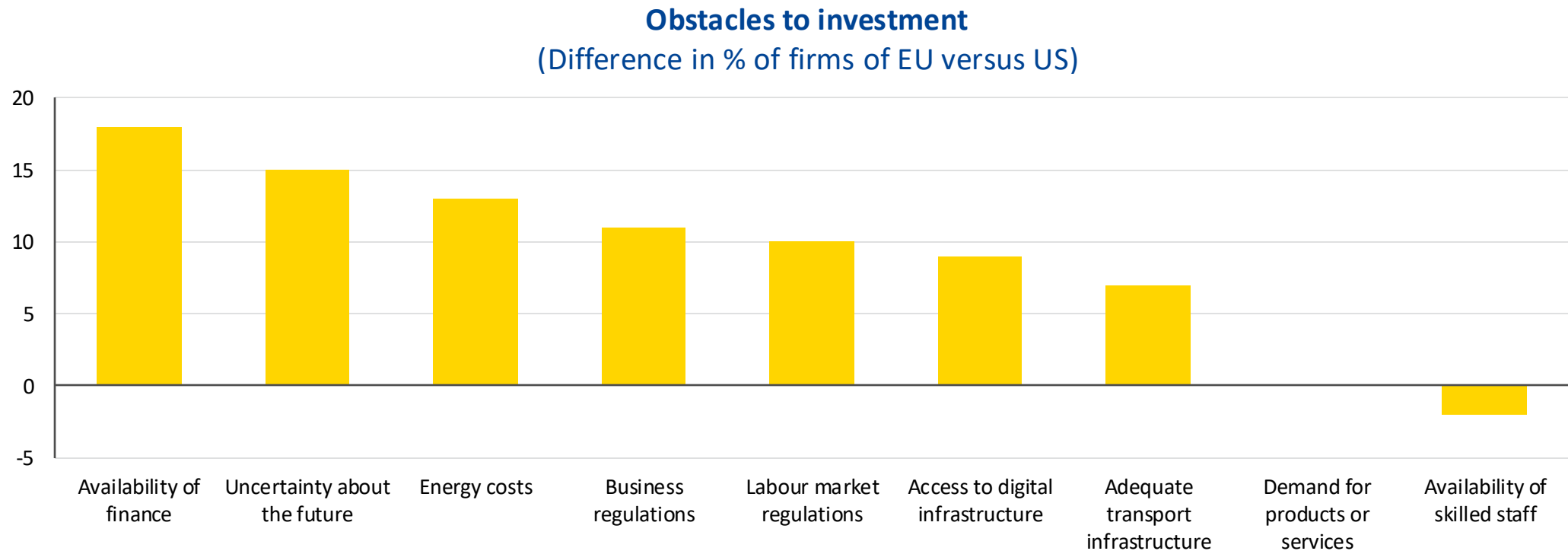
Cumulative growth in real ICT capital by sector
(%, 2010–2020)



Note: Real ICT capital is defined as computing equipment, communications equipment, and software and databases. EU11 denotes 11 EU economies for which data is available (AT, BE, DK, FI, FR, DE, IT, NL, ES, and SE).
Source: ESM calculations based on EU KLEMS

EURO AREA NEEDS TO BOOST ITS ATTRACTIVENESS FOR AI

- Euro area excels in AI research and education, but
- Among various investment barriers, the availability of finance and energy costs remain a major constraint for EU firms, higher than in the US.



Note: Data accounts only for responses to major and minor obstacles.

Source: ESM calculations based on EIB Investment Survey 2025: European Union overview (2025)

EU FUNDING LANDSCAPE FOR AI AND DIGITAL TRANSITION

CROSS-CUTTING PRIORITY

EU budget 2021–2027
€199.4 billion

EU budget 2028–2034
€409 billion

Digital Europe
Programme
€7.5 billion

Connecting
Europe Facility –
Digital
€2.07 billion

Horizon Europe:
Digital
€6.8 billion

InvestEU
€26.2 billion

European
Competitiveness
Fund
€409 billion

EU4Health
€4.4 billion

Creative Europe
MEDIA
€2.44 billion

Recovery and
Resilience
Facility: Digital
€150 billion*

Horizon Europe
programme
€175 billion

European Investment Bank + European Commission + EU member states

Private Sector

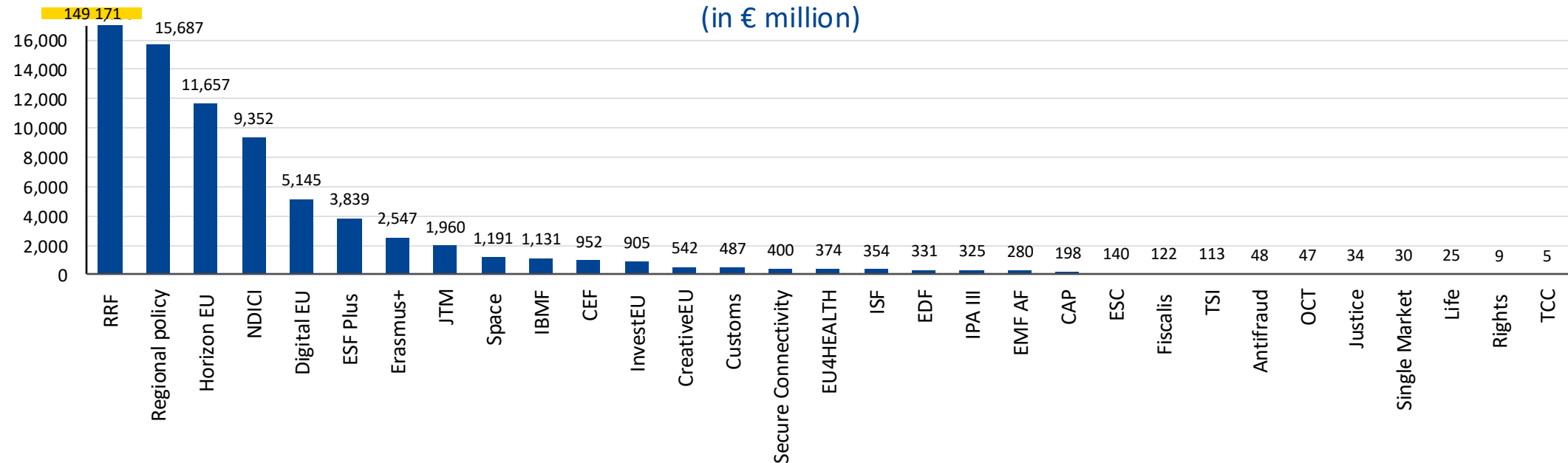
Note: The amounts given denote total envelopes for all programmes except for Recovery and Resilience Fund /Next Generation EU. *The amount for the Recovery and Resilience Facility reflects the conclusions of the first European Commission's 2025 stock-taking (2021–2023).

Source: European Commission (2025)

EU FINANCING TO SUPPORT DIGITAL TRANSITION

EU budget including Next Generation EU dedicated €208.1 billion to the digital transition between 2021–2024 representing almost 15.1% of the total EU budget for that period

Estimated EU budget programmes contributions to digital transition in 2021–2024, cumulatively
(in € million)



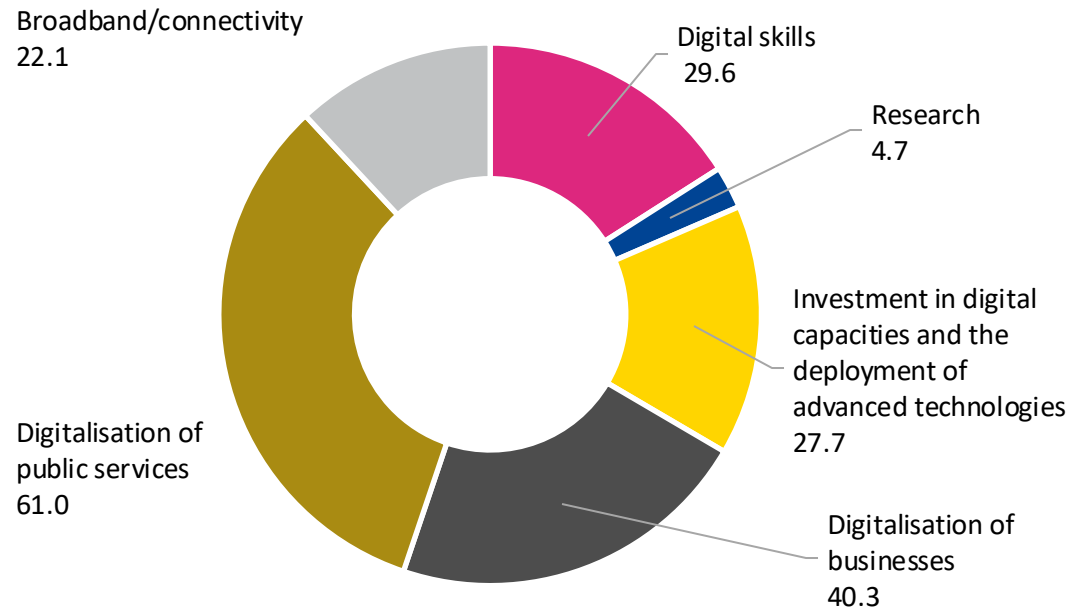
Notes: All numbers in € million. The scale is not consistent as the RRF provides more than 10 times more support to the digital transition than the next most contributing programme. The abbreviations: RRF: Recovery and Resilience Facility; HORIZONEU: Horizon Europe; NDICI: Neighbourhood, Development and International Cooperation Instrument, Global Europe; DIGITALEU: Digital Europe Programme; ESF PLUS: European Social Fund+; JTM: Just Transition Mechanism; SPACE: EU Space Programme; CEF: Connecting Europe Facility; IPA III: Instrument for Pre-accession Assistance III; IBMF: Integrated Border Management Fund; ISF: Internal Security Fund; CREATIVEEU: Creative Europe Programme; CAP: common agricultural policy; EMFAF: European Maritime, Fisheries and Aquaculture Fund; SECURE CONNECTIVITY: EU Secure Connectivity Programme; TSI: Technical Support Instrument; ESC: European Solidarity Corps; OCT: Decision on the Overseas Association, including Greenland; RIGHTS: Citizens, Equality, Rights and Values Programme; TCC: Turkish Cypriot community.

Source: European Commission (2025), based on the first stock-taking

EU SUPPORT FOR DIGITALISATION IN PUBLIC ADMINISTRATION

EU funding supports broad range of activities with special focus on public administration

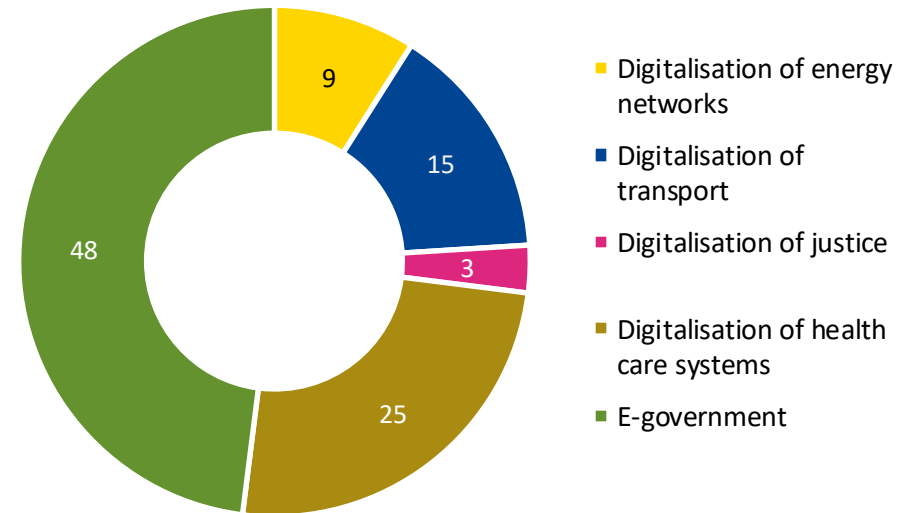
Total 2021–2024
(in € billion)



Note: Not all programmes could be considered due to methodological limitations. Approximately 89% of the reported expenditure could be disaggregated into the above categories.
Source: European Commission, 2025

Estimated EU budget contributions to the public services digitalisation

Total 2021–2024
(in %)



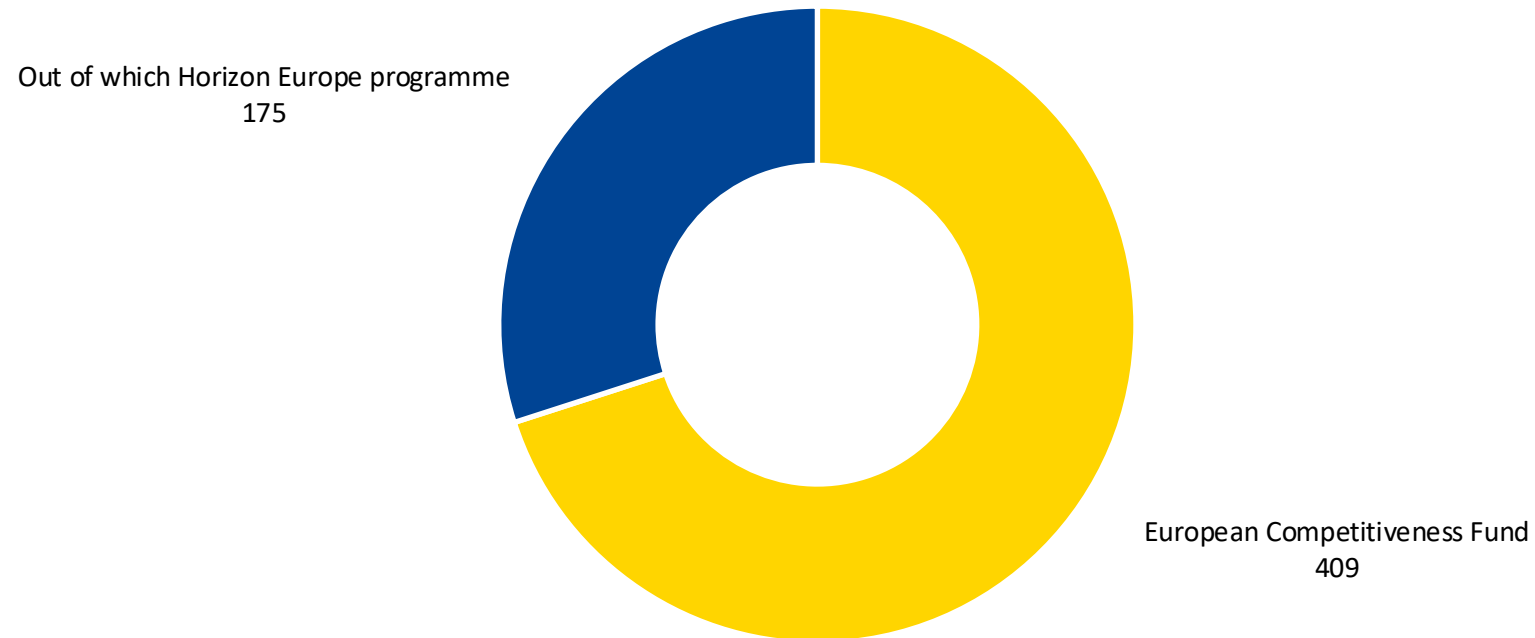
Note: These amounts are the result of the first stock-taking exercise conducted for the years 2021 to 2023 and exclude the external action programmes and the common agricultural policy due to methodological limitations.
Source: European Commission

EU SUPPORT FOR 2027–2034 UNDER DISCUSSION

Future support for digital and AI under discussion

Envisaged consolidation of financing sources

(in € billion)



Notes: So far, no precise allocation has been made. AI and digital priorities are to be financed primarily from the two programmes. The amounts are in current prices.

Source: European Commission, 2025

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