



EUROPEAN CENTRAL BANK

EUROSYSTEM

Reviving growth in the euro area

Isabel Schnabel

*Member of the Executive Board
of the ECB*

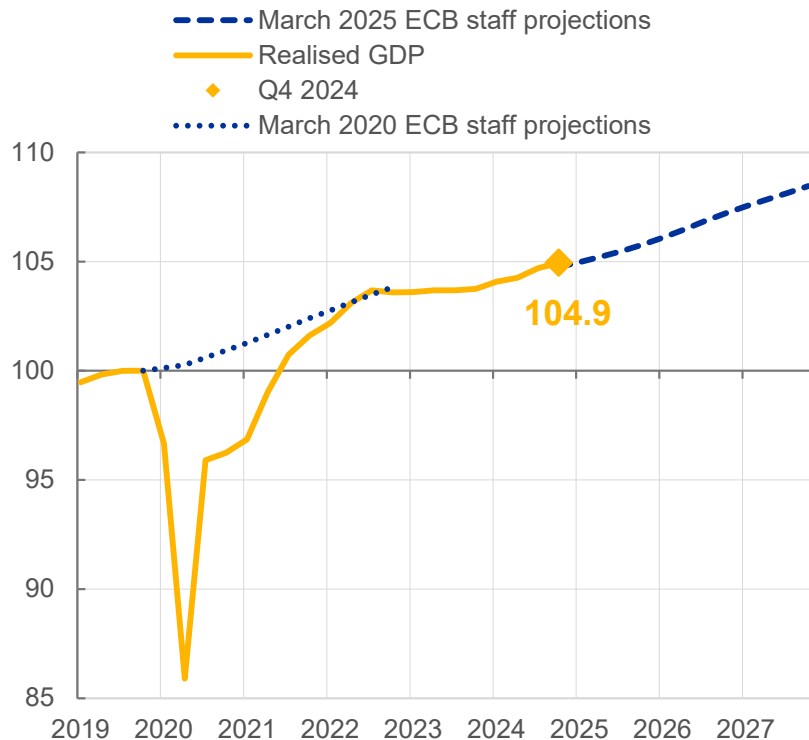


The Outlook for the Economy and Finance 2025
Ambrosetti, Cernobbio, 5 April 2025

Euro area economy is gradually recovering while disinflation remains on track

Real GDP

(index: Q4 2019 = 100)

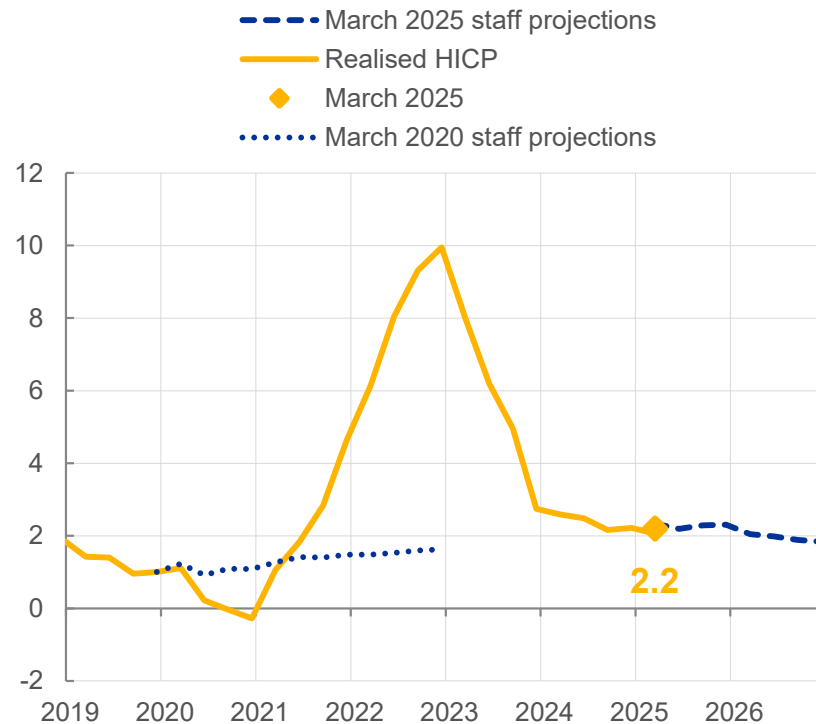


Sources: Eurostat and ECB.

Latest observation: Q4 2024 for realised GDP (diamond).

Inflation

(annual percentage change, quarterly data)

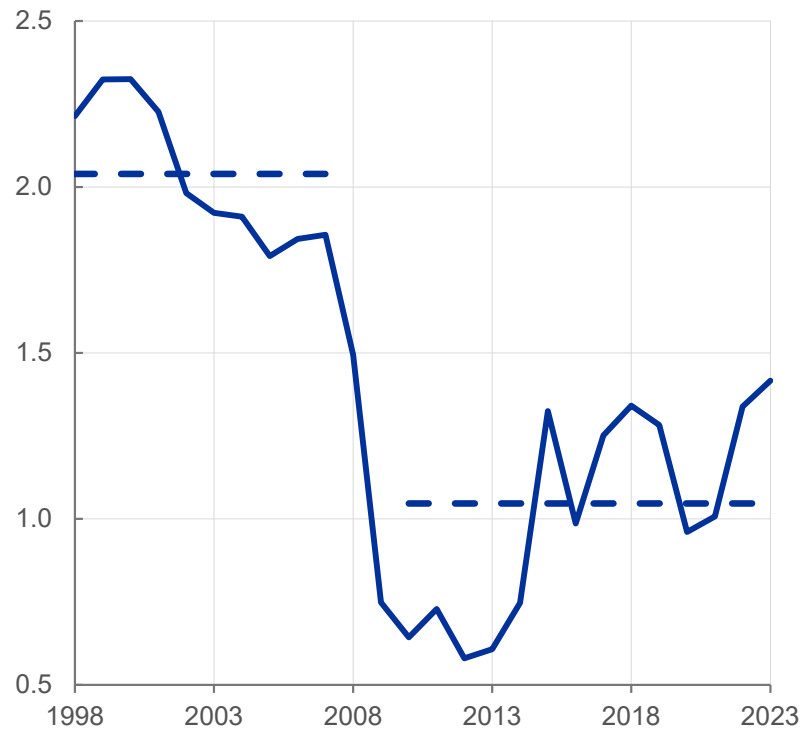


Sources: Eurostat, ECB and Eurosystem.

Latest observation: Q4 2024 for quarterly data, March 2025 for monthly data (diamond).

Potential growth fell discernibly after global financial crisis and has not recovered

Potential GDP growth in the euro area (annual percentage change)

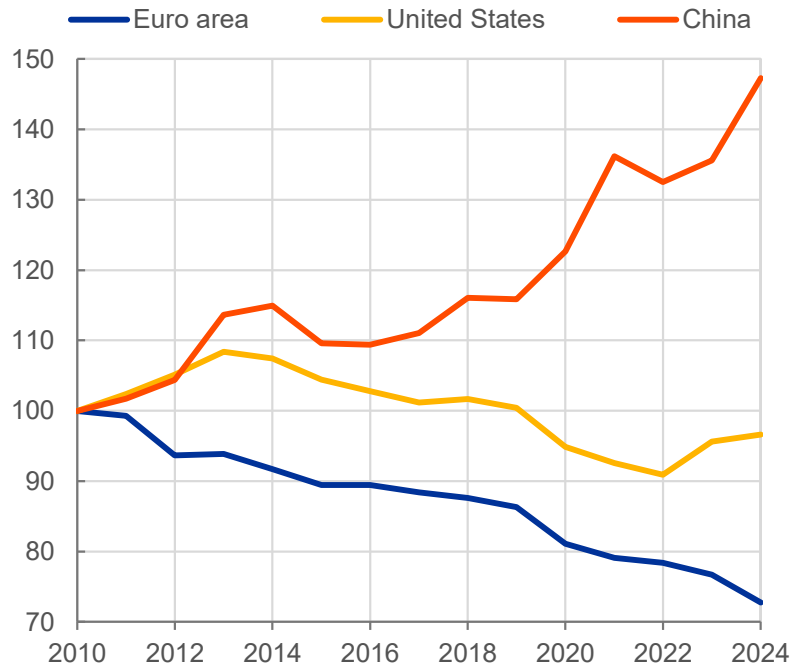


Source: European Commission's Autumn Forecast (November 2024)

Notes: This euro area series excludes Croatia. The solid line represents the annual percentage change, the first dashed line represents the average annual growth from 1998 to 2007, and the second dashed line represents the average annual growth from 2010 to 2023. Latest observation: 2023.

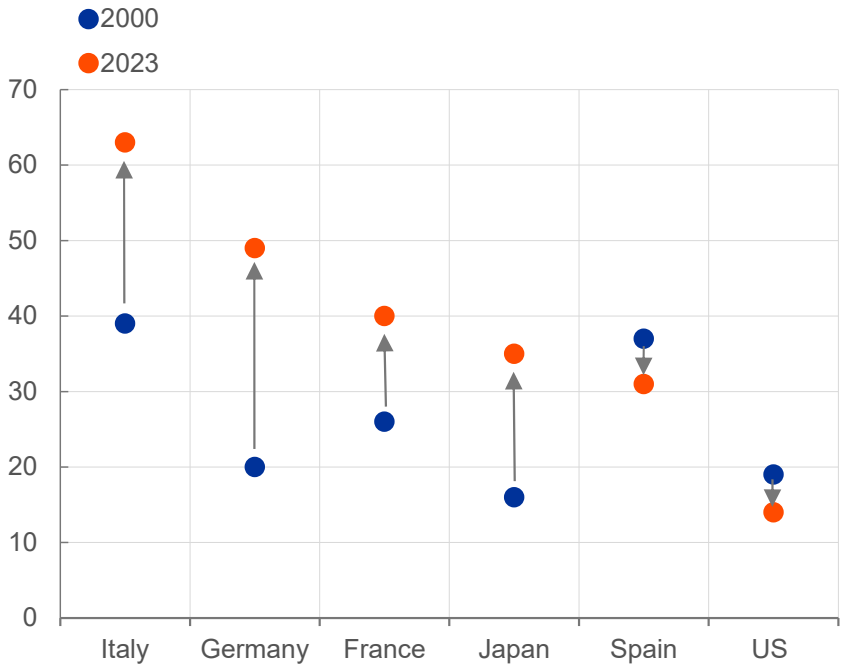
EA export market shares have declined steadily with China as main competitor

Global export market shares of non-energy goods volumes (index: 2010 = 100)



Sources: CPB, TDM and ECB staff calculations.
 Notes: Long-run trends in export market shares in volume terms should be interpreted with caution. Euro area export volumes and world import volumes are not fully consistent, as each statistical office employs specific methodologies for deflating and outlier cleaning. These methodologies may differ in terms of outlier detection and replacement and quality adjustment. Based on this, the volumes (excluding energy) series used to compute the export market shares shown in the chart are calculated by taking CPB (CPB Netherlands Bureau for Economic Policy Analysis) volumes (in 2005 chain linked billion euros) and subtracting the share of energy exports. This share of energy exports is based on TDM (Trade Data Monitor) values and includes HS2 sectors 25, 26, 27, 97, 98, 99.
 Latest observation: 2024.

Number of product categories with comparative advantage of both China and another country

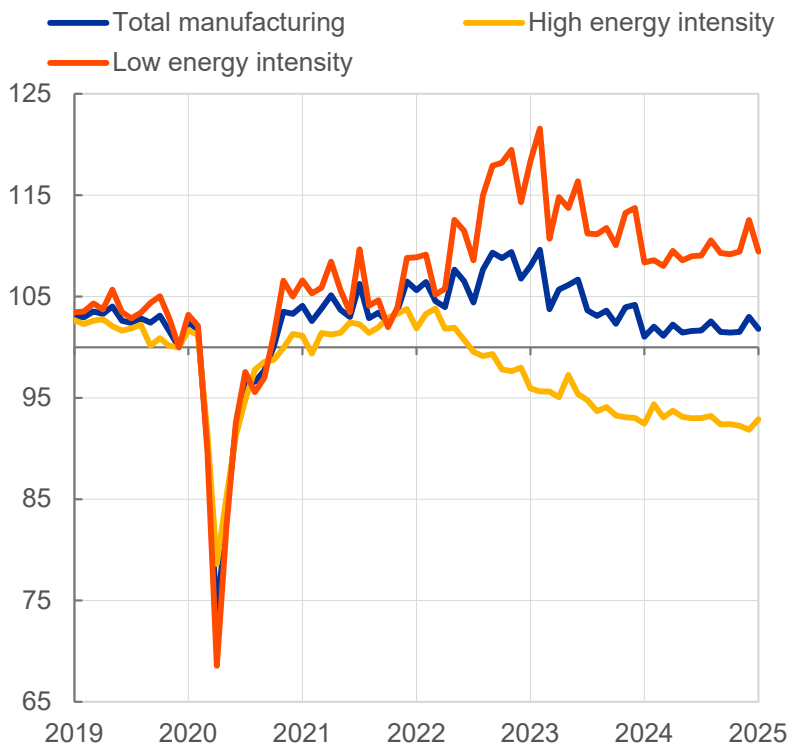


Sources: UNCTAD and ECB staff calculations.
 Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as a whole. A country has comparative advantage if the value of this ratio is above 1. For instance, if Italy and China both specialise in the same specific product category, they are likely to directly compete for exports.
 Latest observation: 2023.

High energy prices and demographic change pose structural challenges

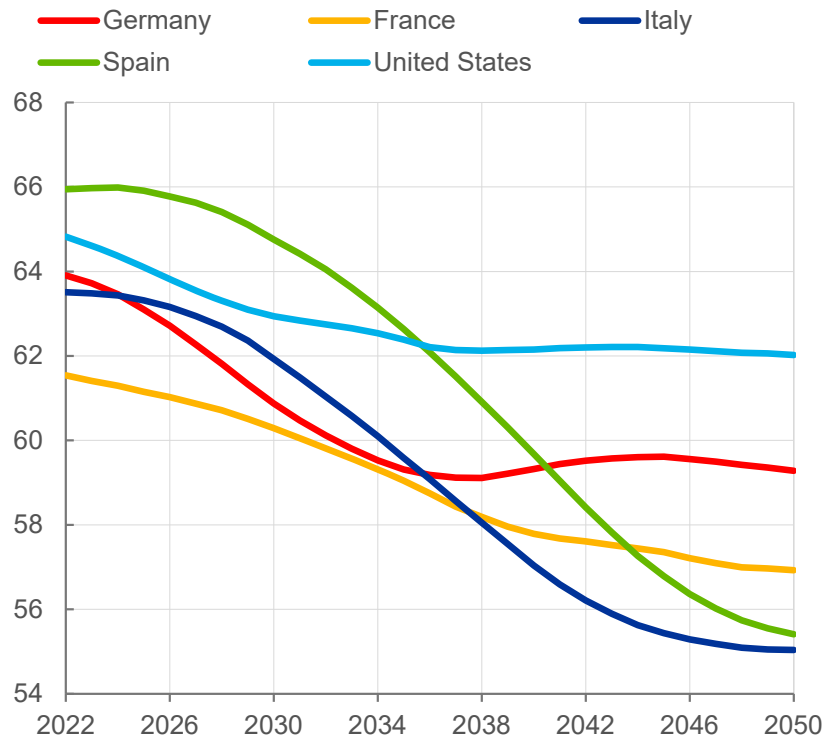
Industrial production: manufacturing sector

(index: December 2019 = 100)



Working-age population projections

(as % of total population)



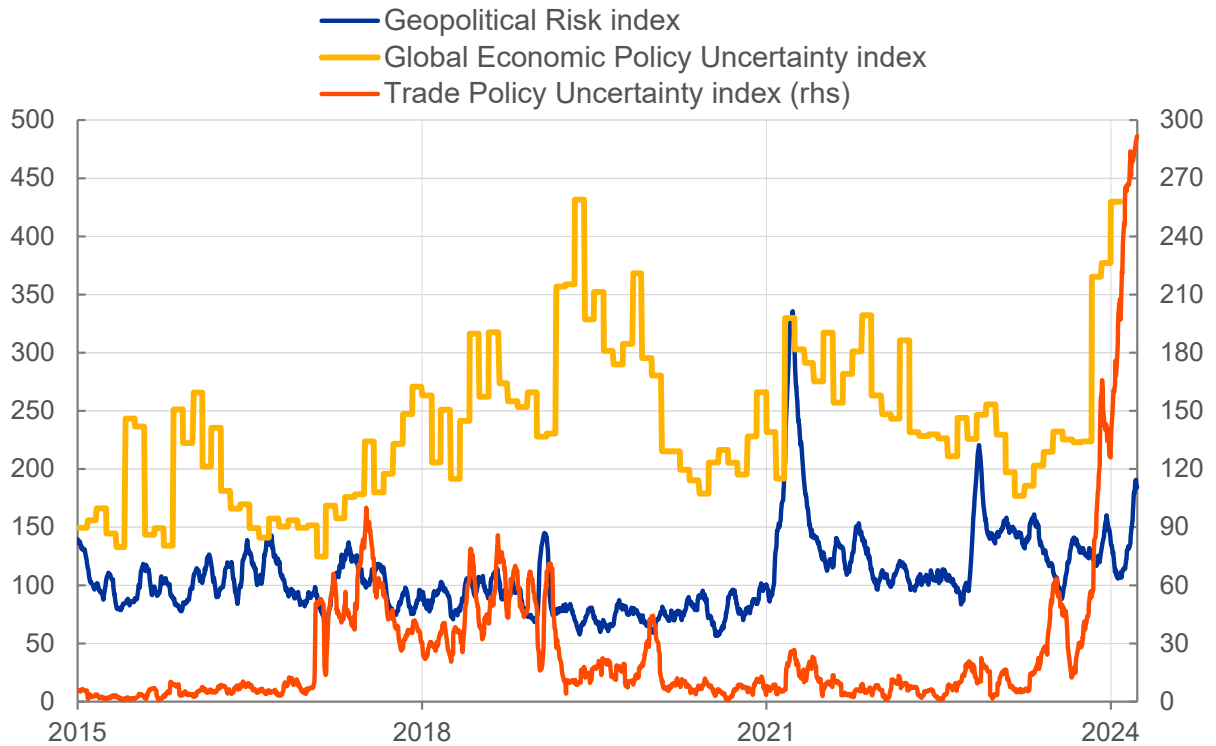
Sources: Eurostat, Trade Data Monitor and ECB staff calculations.
 Notes: Data are seasonally-adjusted. Industrial production indices for individual sectors are aggregated with value-added weights. Low (high) energy-intensity sectors are defined as those with an energy intensity lower (higher) than that of the median sector. For more details, see [Chiacchio, De Santis, Gunnella and Lebastard \(2023\)](#).
 Latest observation: January 2025.

Sources: European Commission Europop 2023 and US Census Bureau.
 Notes: Baseline scenario. Projections start in 2022.

Uncertainty about geopolitics, protectionism and economic policy has surged

Uncertainty indices

(lhs: index, rhs: percent of 2018 peak)

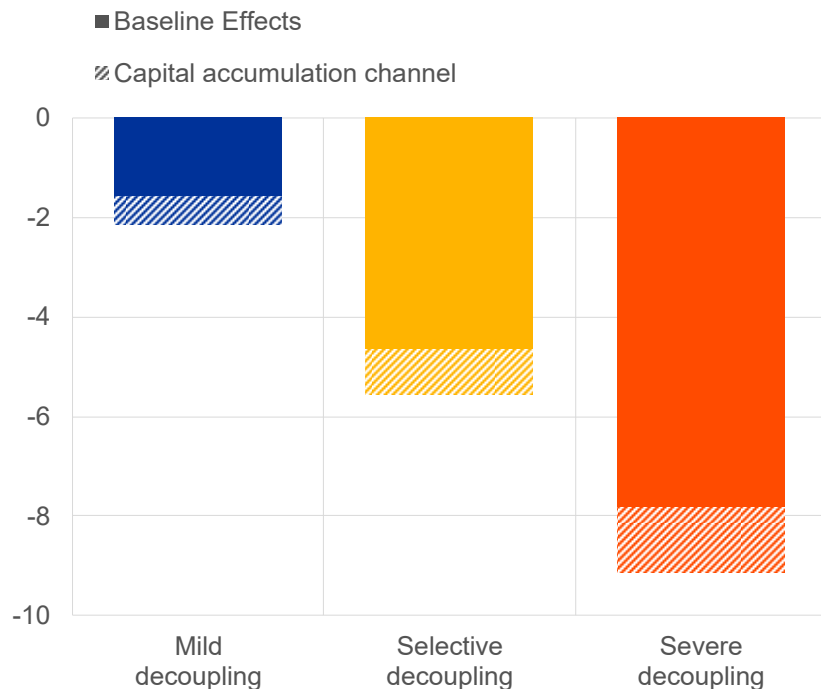


Sources: Bloomberg, Caldara and Iacoviello (2022) and Goldman Sachs research.
Notes: The GPR index is based on ten newspapers and is constructed by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles). The TPU index counts the number of articles that contain key TPU words scaled by the total number of articles. The GEPU Index is a GDP-weighted average of national EPU indices for 21 countries.
Latest observation: 24 March 2025 (GPR), 11 March 2025 (TPU) and January 2025 (GEPU, monthly data).

Trade fragmentation is structurally harmful for economic growth and inflation

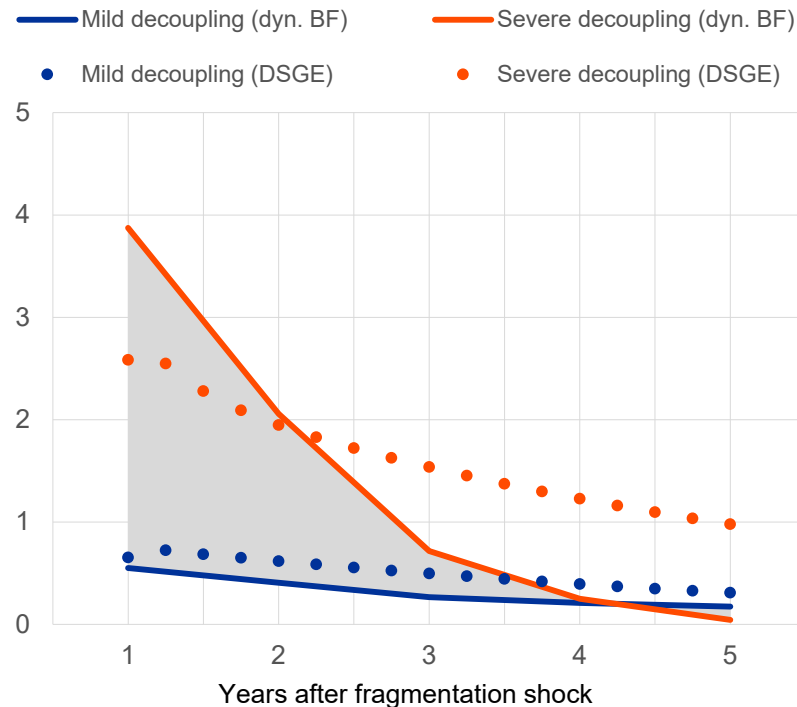
Global real GDP

(percentage deviation from steady state)



Global inflation

(annual percentage changes, deviation from baseline of no fragmentation)



Sources: Conteduca et al., (2024b), OECD TiVA, EORA, and authors' calculations.

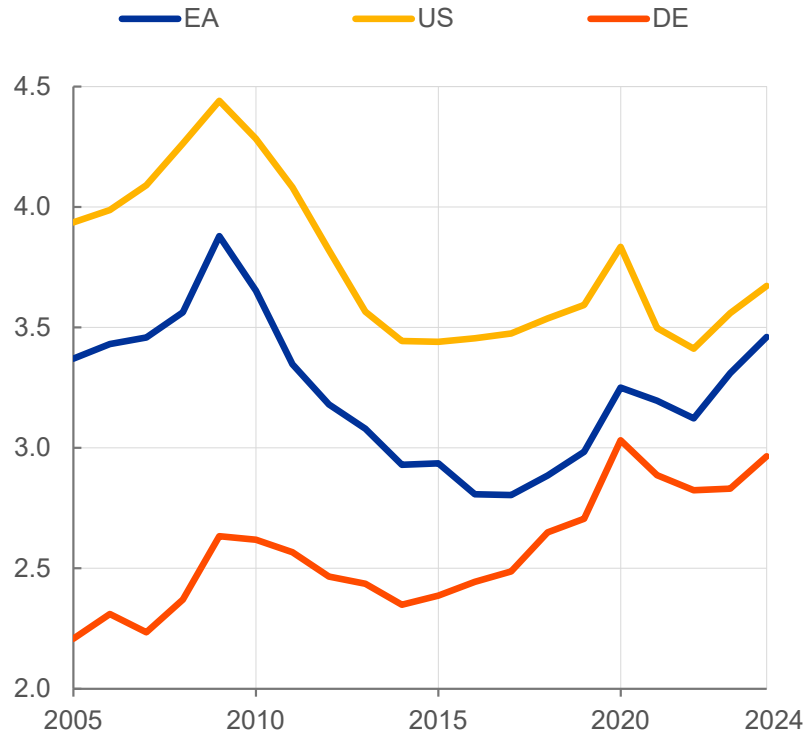
Notes: Non-linear impact simulated through 25 iterations of the log-linearised model. The additional impact from capital accumulation is based on Quintana (2024a). Effects of the capital accumulation channel for Selective decoupling (not feasible in Quintana, 2024a) are interpolated from mild and severe decoupling. In the mild decoupling scenario, partial trade restrictions are imposed between the East and West bloc on all products. The selective decoupling scenario assumes a full trade ban between the East and the West on high tech products and critical products. The severe decoupling scenario refers to a full trade ban between the two blocs.

Sources: Quintana (2024a), Lechthaler and Mileva (2024), OECD TiVA, EORA and authors' calculations.

Notes: "Dyn. BF" refers to the dynamic extension of the Baqaee-Farhi model by Quintana (2024a) and "DSGE" refers to the Dynamic Stochastic General Equilibrium model by Lechthaler and Mileva (2024).

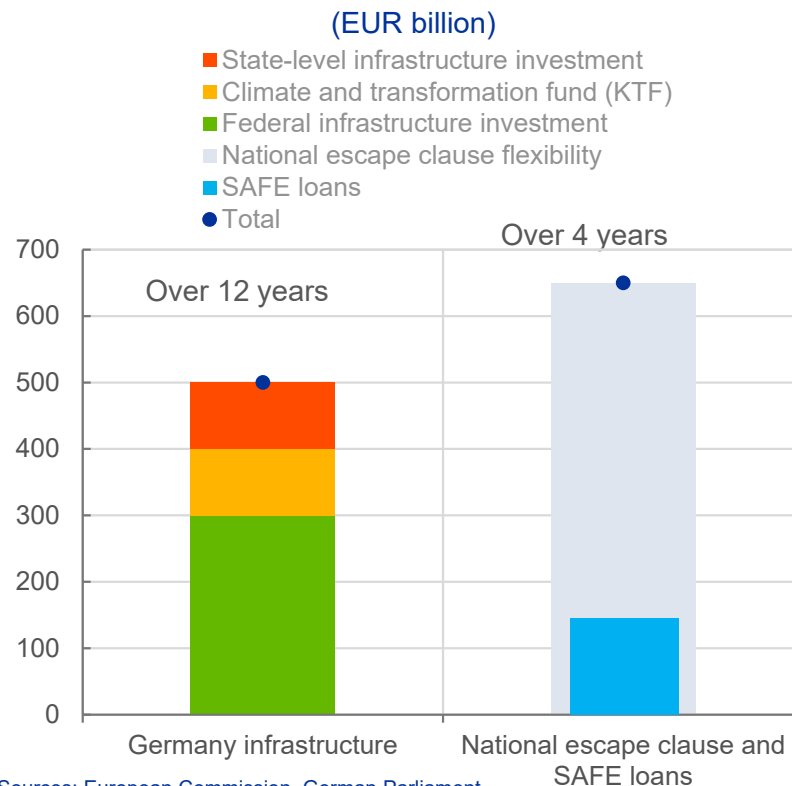
After years of low public investment, large increase in public spending is expected

Public investment (share of GDP)



Sources: European Commission (AMECO) and ECB staff calculations.
Latest observations: 2024.

Additional fiscal expenditures in Germany and the EU (EUR billion)



Sources: European Commission, German Parliament

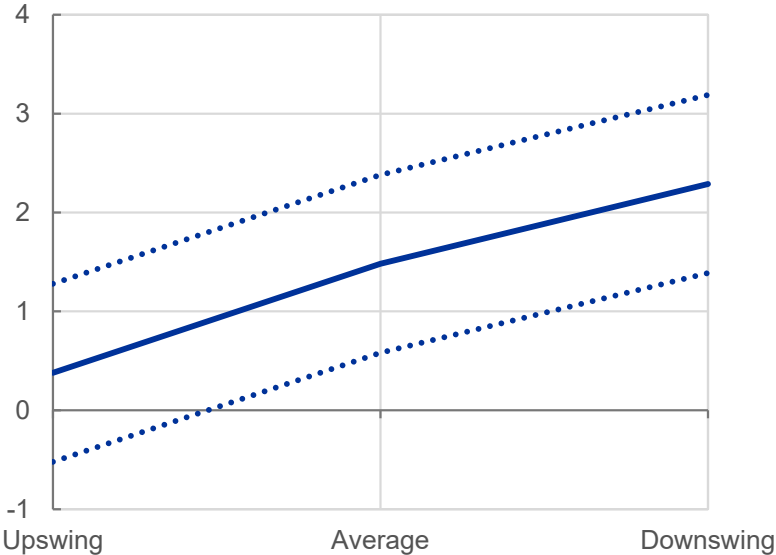
Notes: German basic law amendment (18 March 2025) to allow for up to € 500 bn infrastructure investment and additional investment in defence for which spending above 1% of GDP is exempt from the debt brake (not shown in chart). EU ReArm/Readiness 2030 provides under the SGP's national escape clause flexibility for up to 1.5% of GDP of additional defence spending until 2028 (around € 650 bn). SAFE is a temporary emergency instrument by the European Commission providing loans to Member States to carry out urgent and major public investment in the defence sector.

Fiscal multipliers are largest for public investment and during downturns

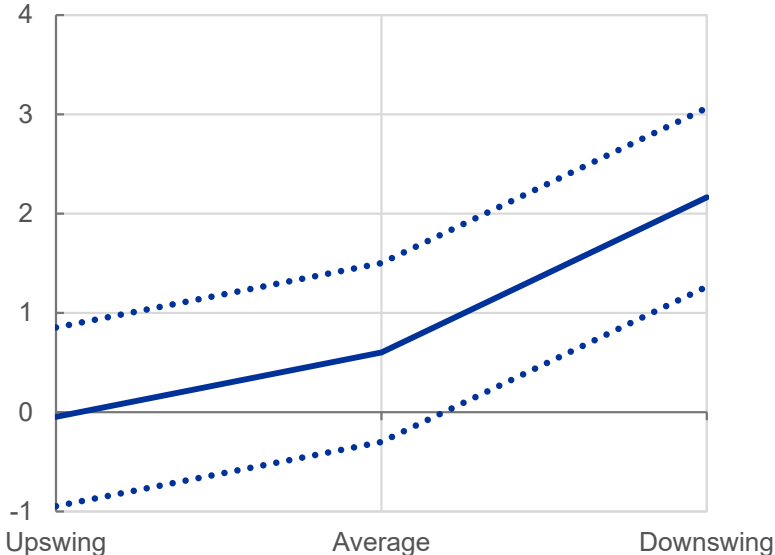
Fiscal multipliers reported in the empirical literature

(y-axis: fiscal multiplier; x-axis: economic state)

Public investment



Military spending

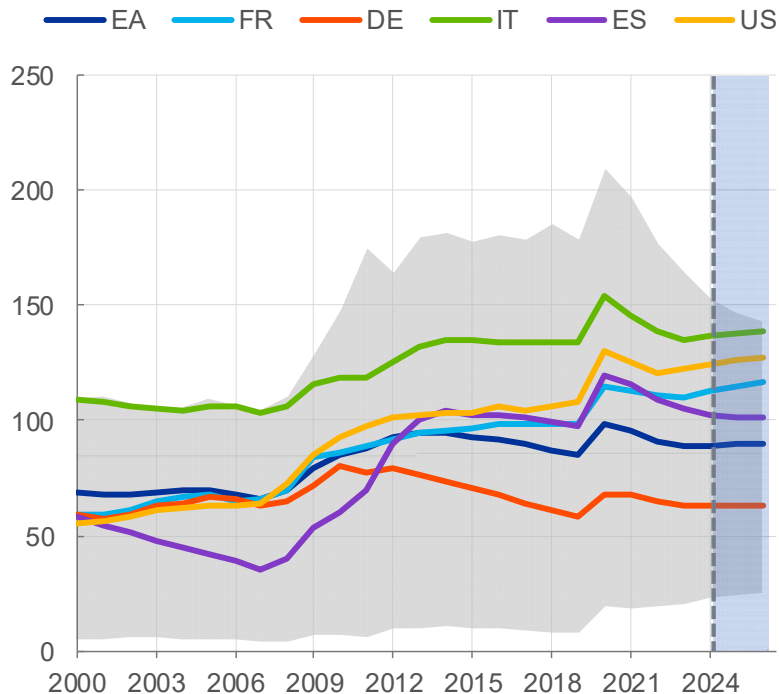


Source: Gechert and Rannenberg (2018).
Notes: Upswing refers to an expansionary regime, downturn to a downturn or crisis regime.

High debt levels and higher interest rates imply rising interest expenditures

Government debt in the euro area and the US

(percent of GDP)



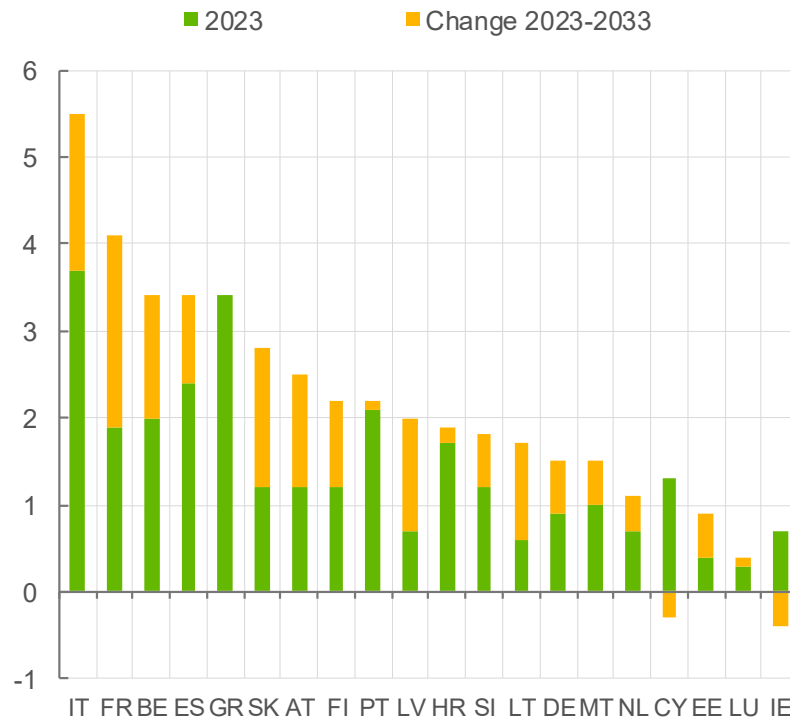
Source: European Commission.

Notes: The range shows the minimum and maximum of all euro area countries. Figures for 2024, 2025 and 2026 refer to the European Commission 2024 Autumn forecast.

Government debt is defined as in ESA 2010. The borrowing on the markets to finance the RRF grants and loans is considered as debt of the EU. The RRF loans to Member States are recorded as Member States' debt towards the EU. The chart does not include the recently announced fiscal packages. Latest observation: 2026 (projection).

Government interest expenditures

(percent of GDP)

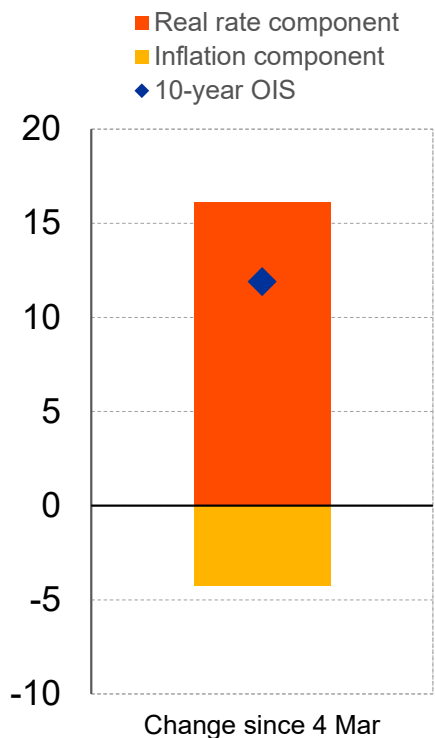


Sources: European Commission, Debt Sustainability Monitor (DSM) 2024.

Notes: Annual government interest expenditures in percent of GDP, DSM 2024 is based on the Commission's 2024 autumn forecast. The chart does not include the recently announced fiscal packages.

Decomposition of 10-year EA OIS into inflation compensation and real rates

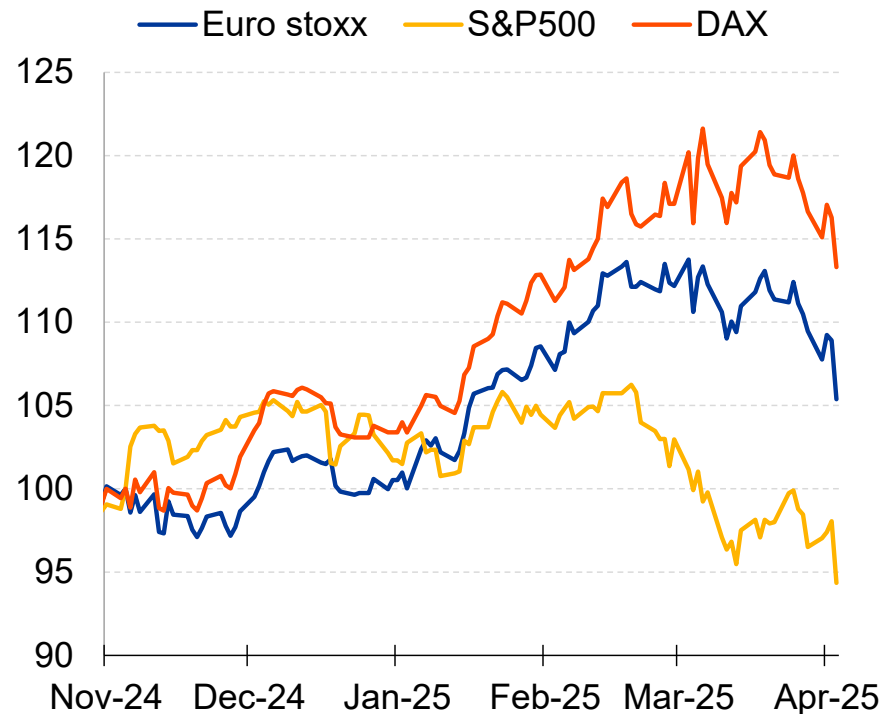
(basis points)



Sources: Bloomberg, LSEG and ECB calculations.
Latest observation: 3 April 2025

Global equity indices

(index: 5 November 2024 = 100)



Source: Bloomberg.

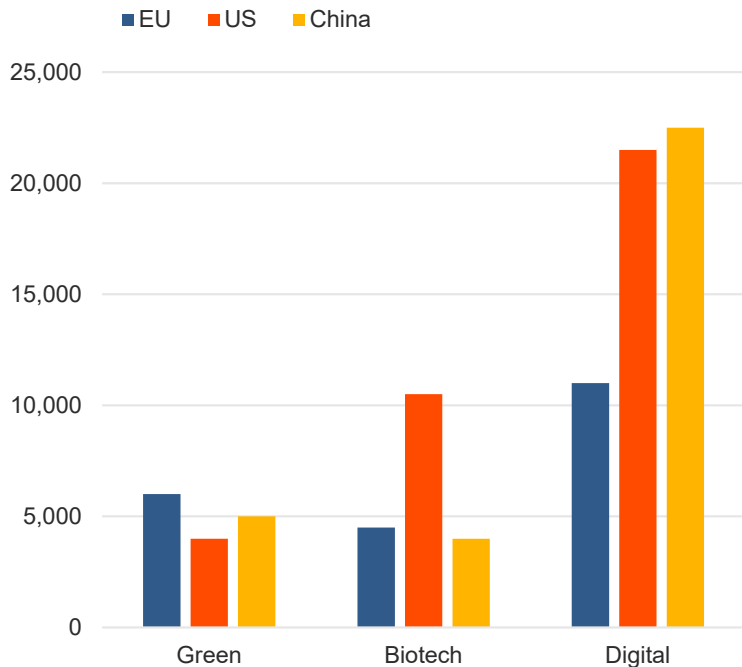
Notes: The series are indexed to 100 on the 5 November 2024, the date of the US election.

Latest observation: 03 April 2025.

Innovation can be an engine of growth but requires risk capital

Patents by technology domain

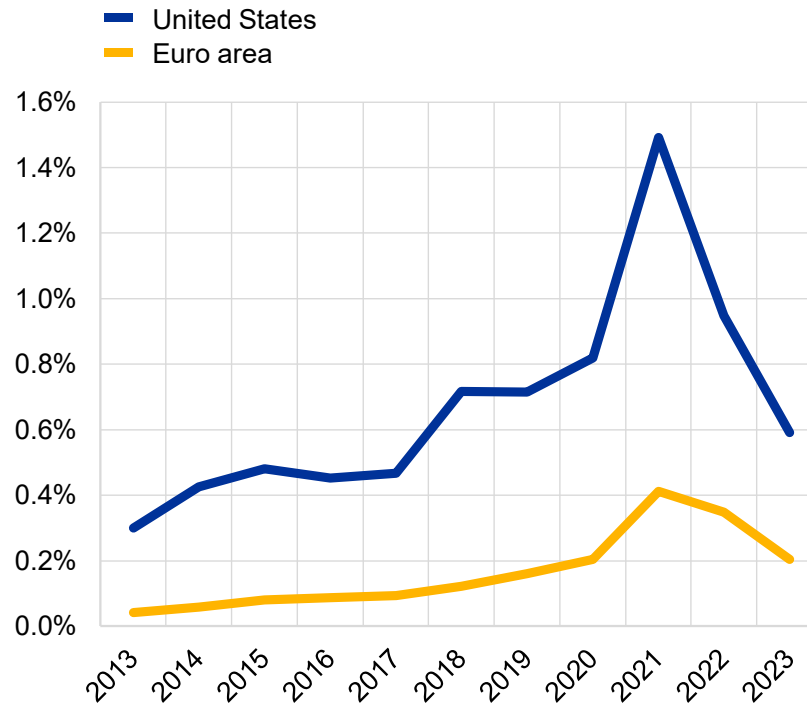
(number of patents issued in 2020)



Sources: EU Industrial R&D Investment Scoreboard and Patstat.

Venture capital investment

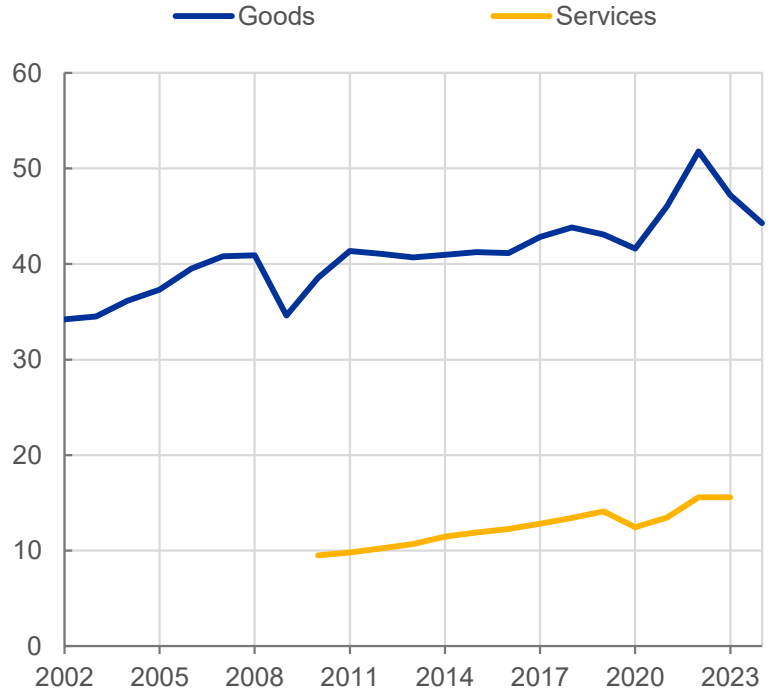
(percent of nominal GDP)



Source: ECB calculations on Pitchbook data.

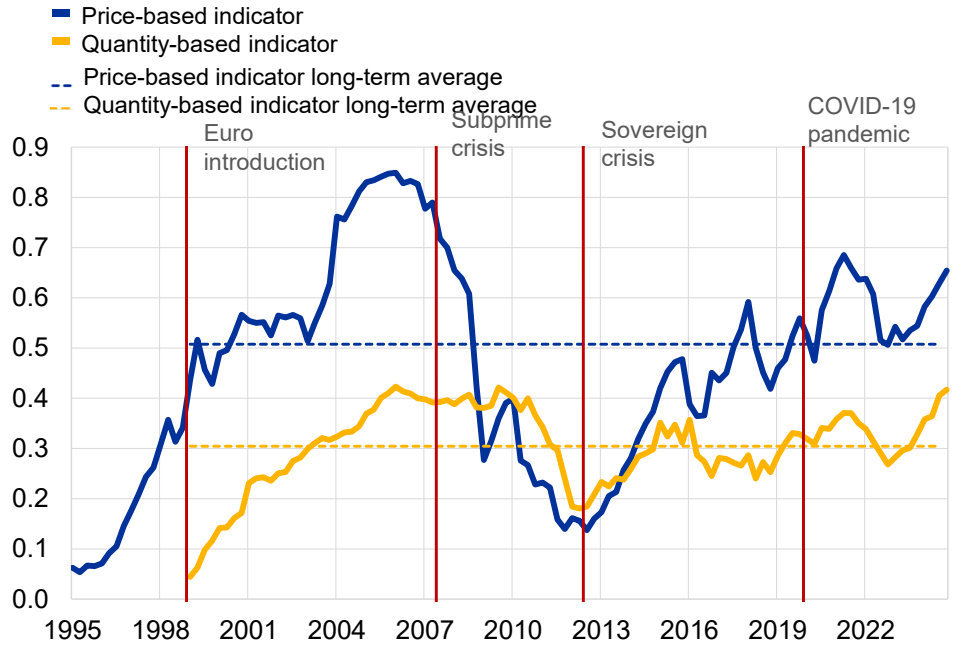
Single market offers large opportunities, especially in services and capital

Intra-EU trade in goods and services (annual, in percent of GDP)



Sources: Eurostat and ECB staff calculations.
 Notes: Intra-EU trade is obtained by summing intra-exports and imports as a ratio of GDP, measured in euros.
 Latest observation: 2024 for goods and 2023 for services.

Price- and quantity-based indicators of financial integration in the euro area (index)



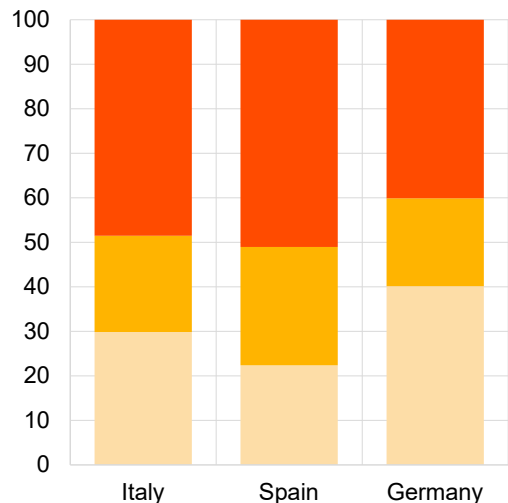
Source: ECB staff calculations.
 Notes: The price-based composite indicator aggregates ten indicators for money, bond, equity and retail banking markets; the quantity-based composite indicator aggregates five indicators for the same market segments except retail banking. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration.
 Latest observation: December 2024.

Maintaining sovereignty requires de-risking strategies of firms and policymakers

Actions taken to reduce exposure to China

(percentage of firms relying on critical Chinese inputs)

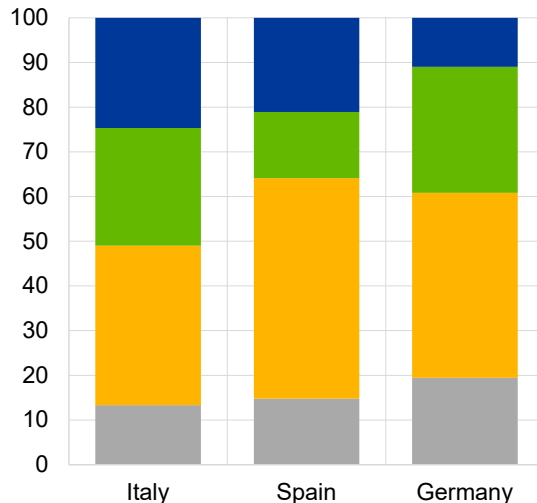
- De-risking action
- Considering de-risking action
- No de-risking on the way



De-risking strategies implemented

(percentage of firms taking de-risking actions)

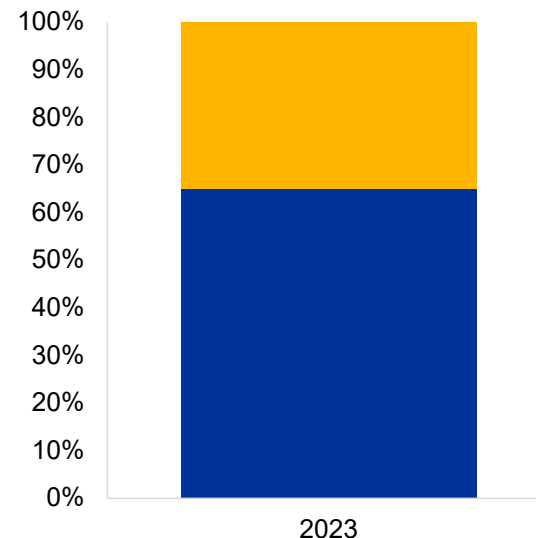
- Other strategies
- Replacing Chinese critical inputs with others from EU countries
- Replacing Chinese critical inputs with others from non-EU countries
- Replacing Chinese critical inputs with domestic inputs



Card transactions in the euro area

(percent)

- International card schemes
- Domestic schemes



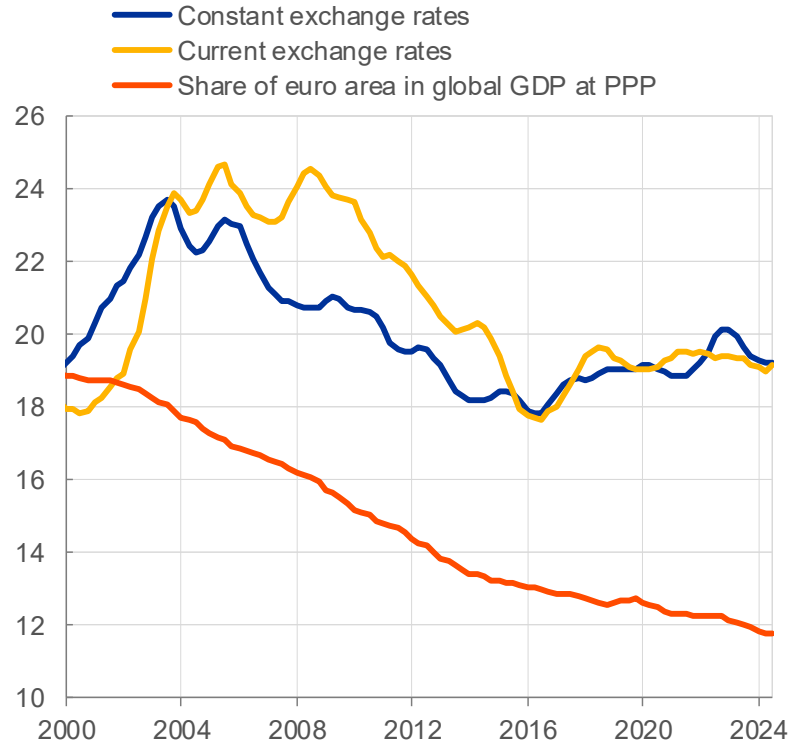
Sources: Banca d'Italia, Deutsche Bundesbank and Banco de España. Manufacturing firms only. See Balteanu et al. (2024) and Bottone et al. (2024).

Source: ECB payment statistics. Latest observation: 2023

The euro's international role remains strong and could be strengthened further

Composite index of international role of the euro and share of euro area in global GDP

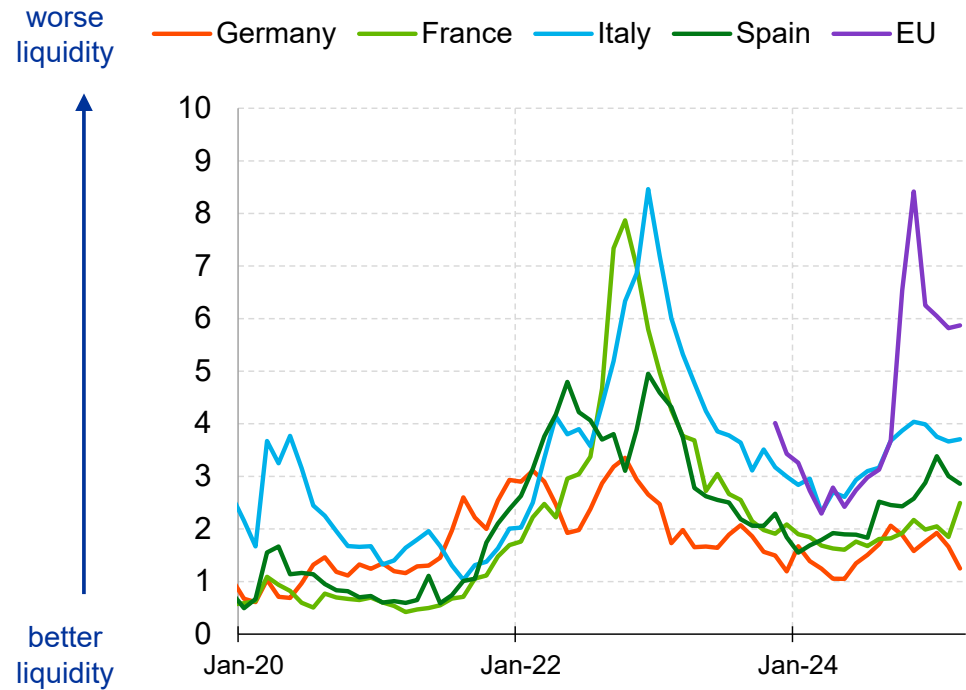
(percent)



Sources: BIS, IMF, CLS Bank International, Ilzetzi, Reinhart and Rogoff (2019) and ECB calculations.
Notes: Arithmetic average of the shares of the euro at constant (current) exchange rates in stocks of international bonds, loans by banks outside the euro area to borrowers outside the euro area, deposits with banks outside the euro area from creditors outside the euro area, global foreign exchange settlements, global foreign exchange reserves and global exchange rate regimes. Since 2010, estimates of the share of the euro in global exchange rate regimes are based on IMF data; pre-2010 shares are estimated using data from Ilzetzi, E., Reinhart, C. and Rogoff, K. (2019). Latest observation: Q3 2024.

Liquidity in sovereign bond markets

(basis points)



Source: ECB calculations.
Notes: Spline spreads show the differences in interest rates or yields across maturities by using smooth curves. Higher values indicate worse liquidity.
Latest observation: 28 March 2025.

Thank you very much for your attention!