

# The Future of Europe

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Capital Economics

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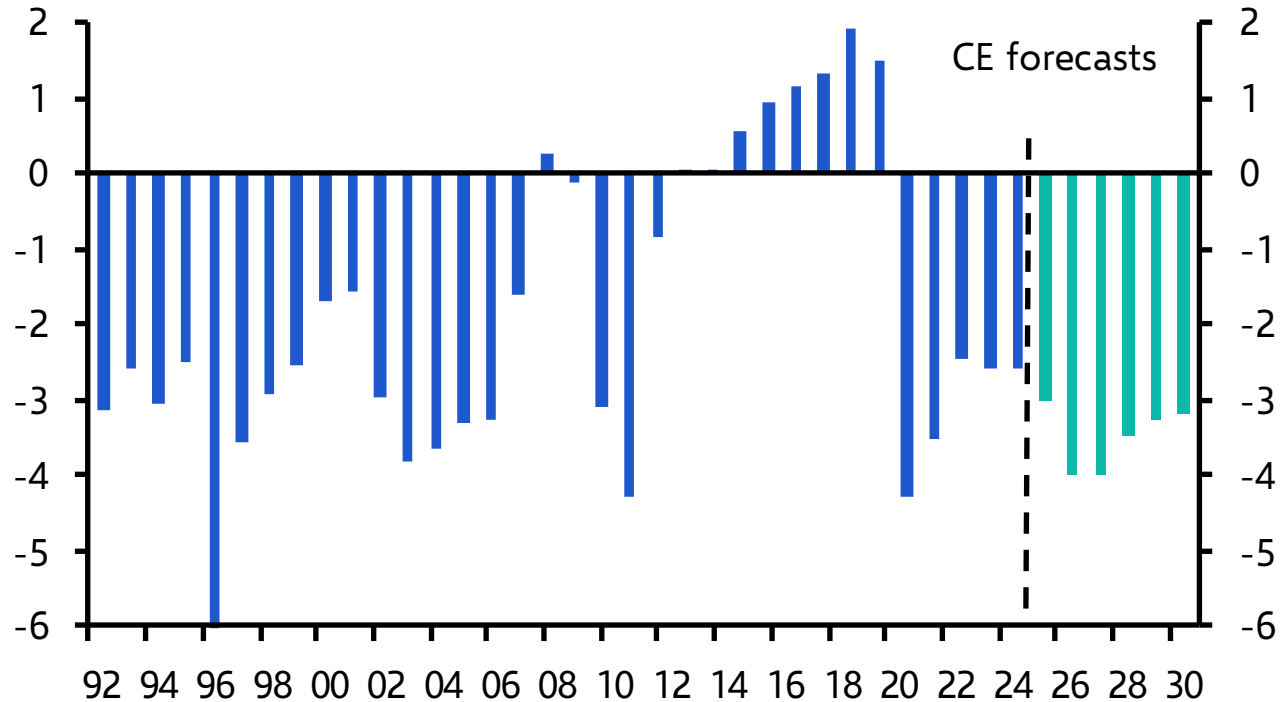


# Agenda

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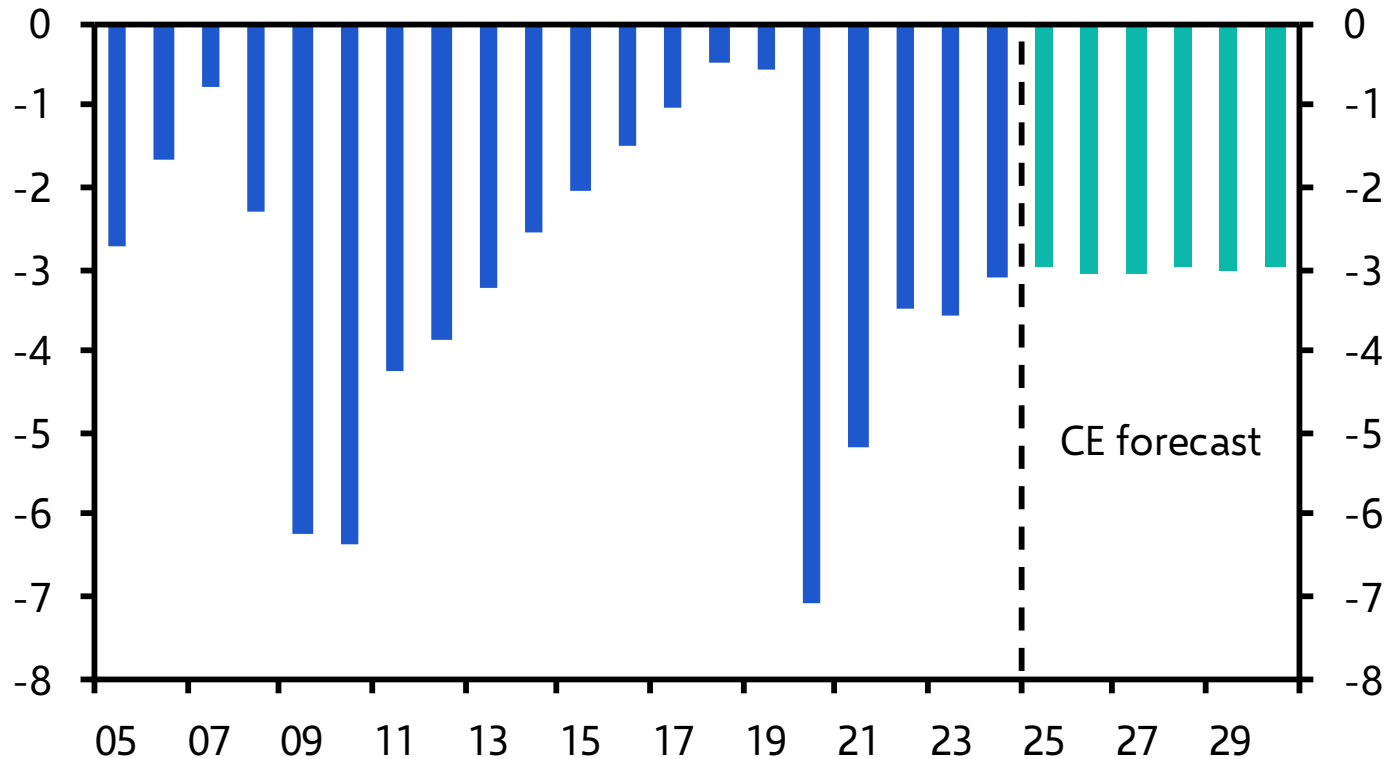
- Defence spending and fiscal stimulus.
- Public finances: systemic and national risks.
- Europe's place in the world; tariffs and trade.

# Germany General Budget Balance (% of GDP)



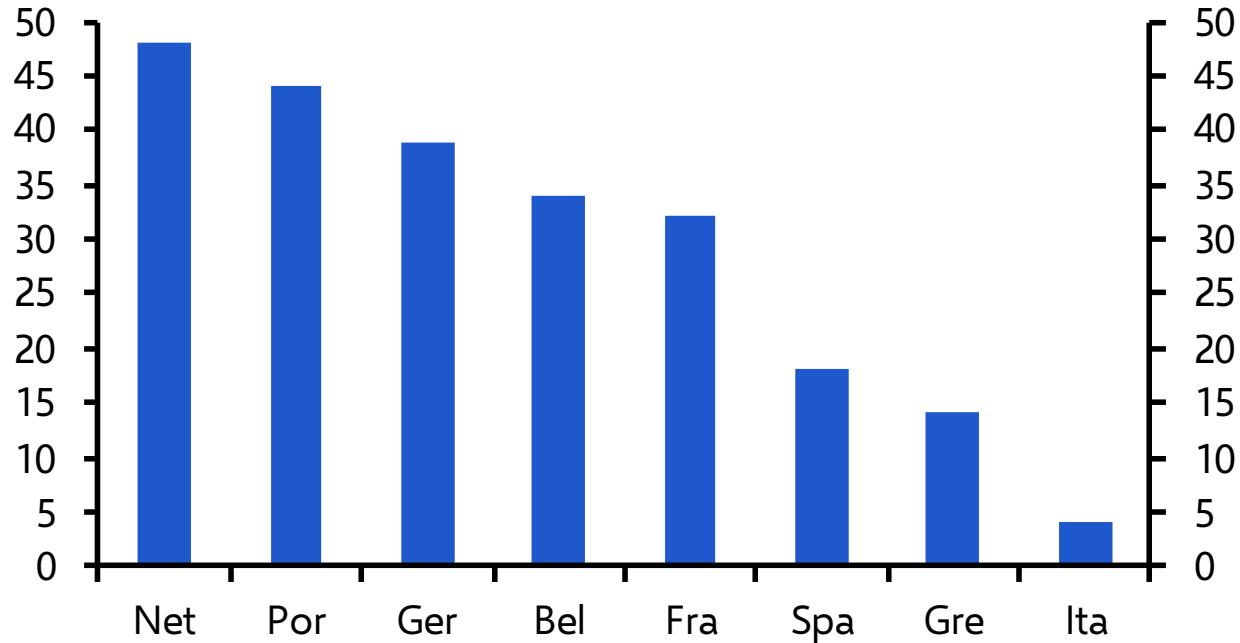
Sources: LSEG, Capital Economics

# Euro-zone General Budget Balance (% of GDP)

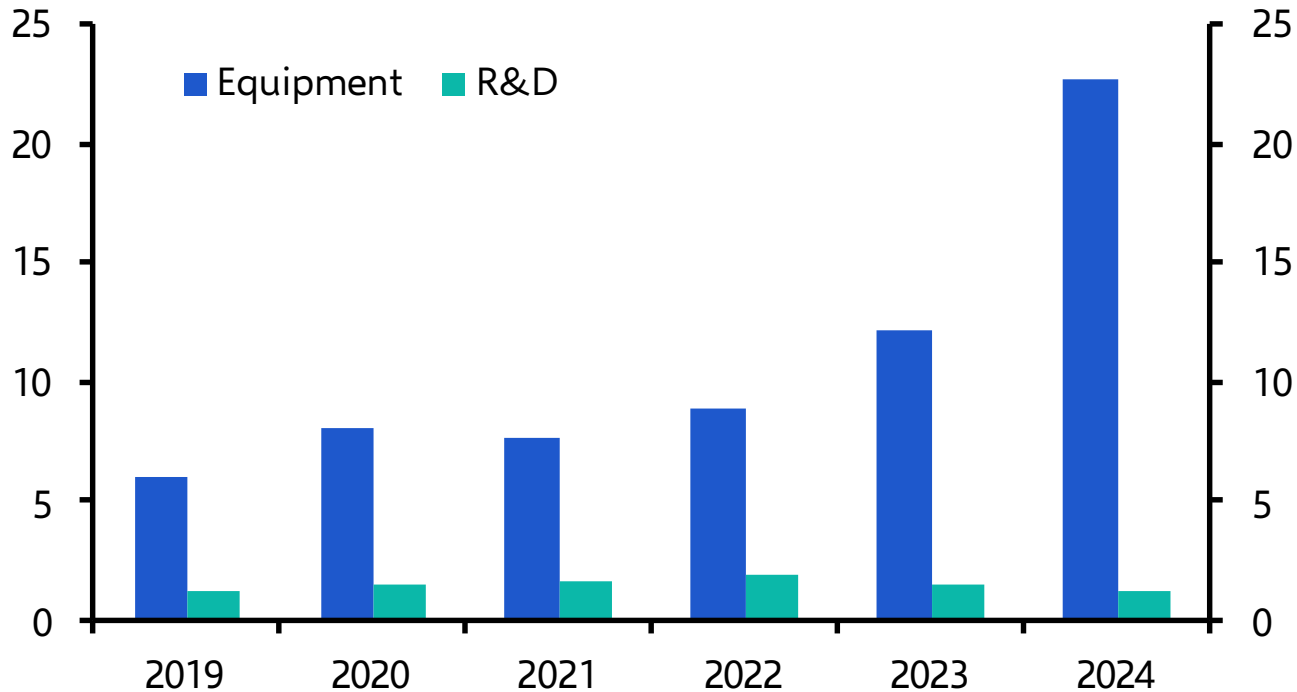


Sources: LSEG, Capital Economics

## “My country should spend more on defence” (Net %, 2024)

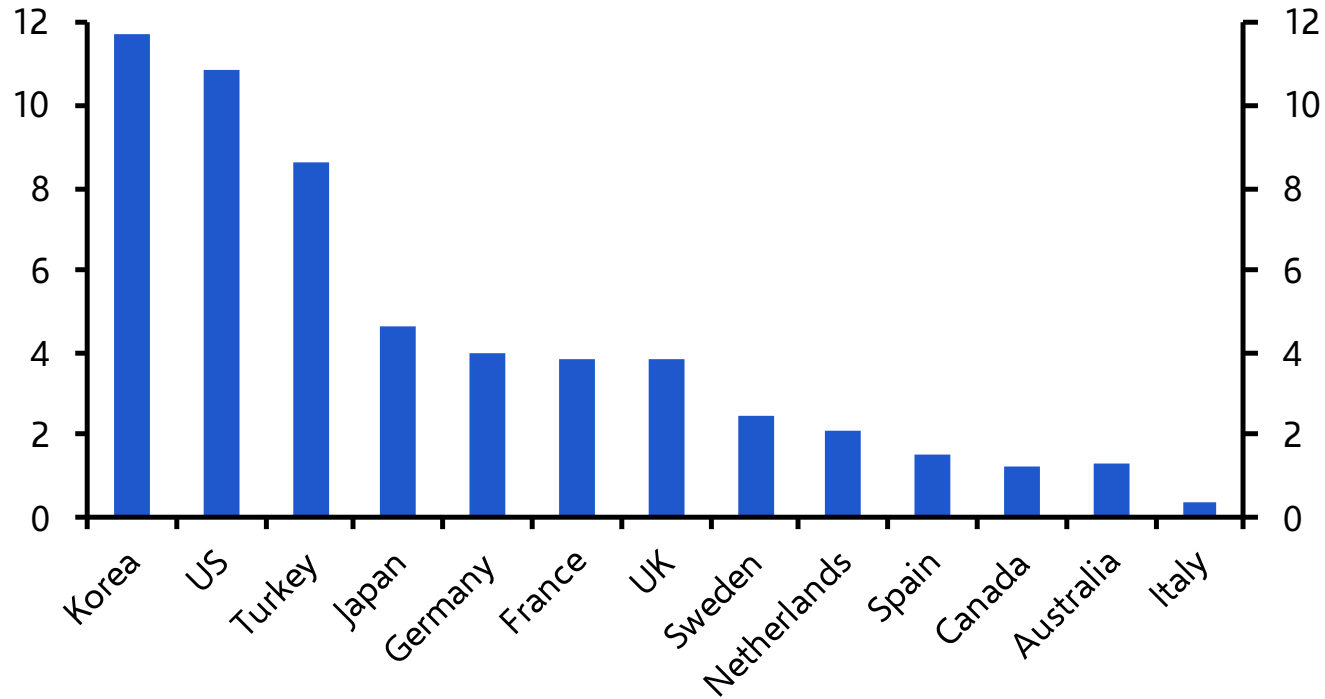


# Germany Defence Spending (€bn)

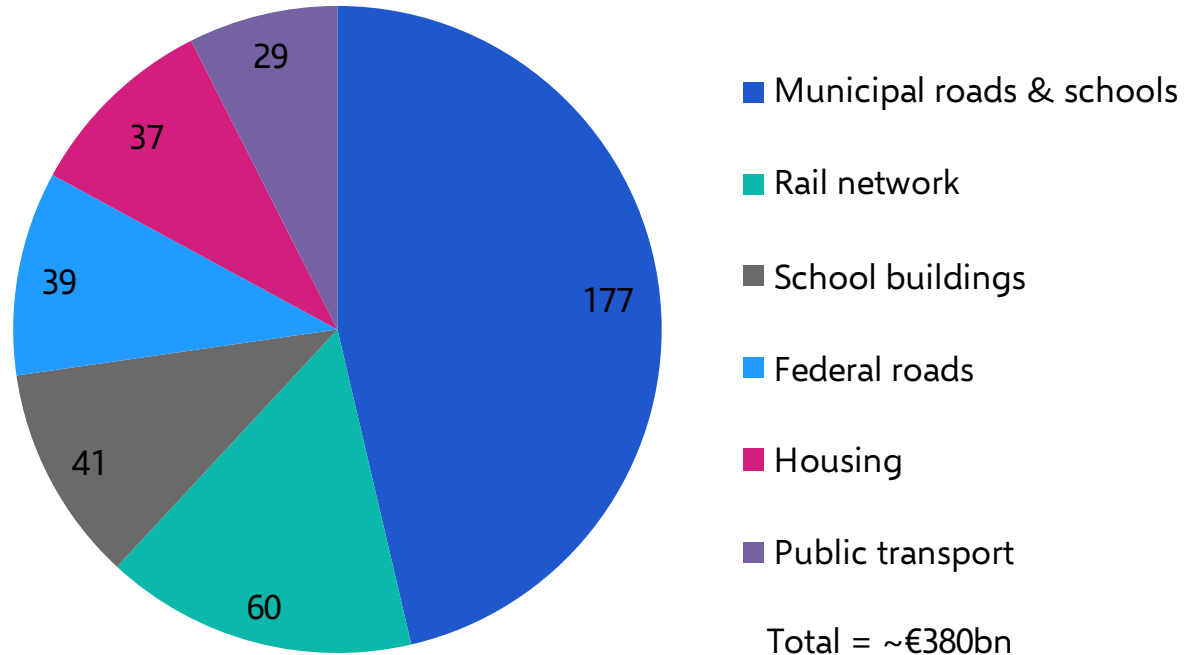


Sources: LSEG, Capital Economics

# Share of Defence Budget Devoted to R&D (2023, %)

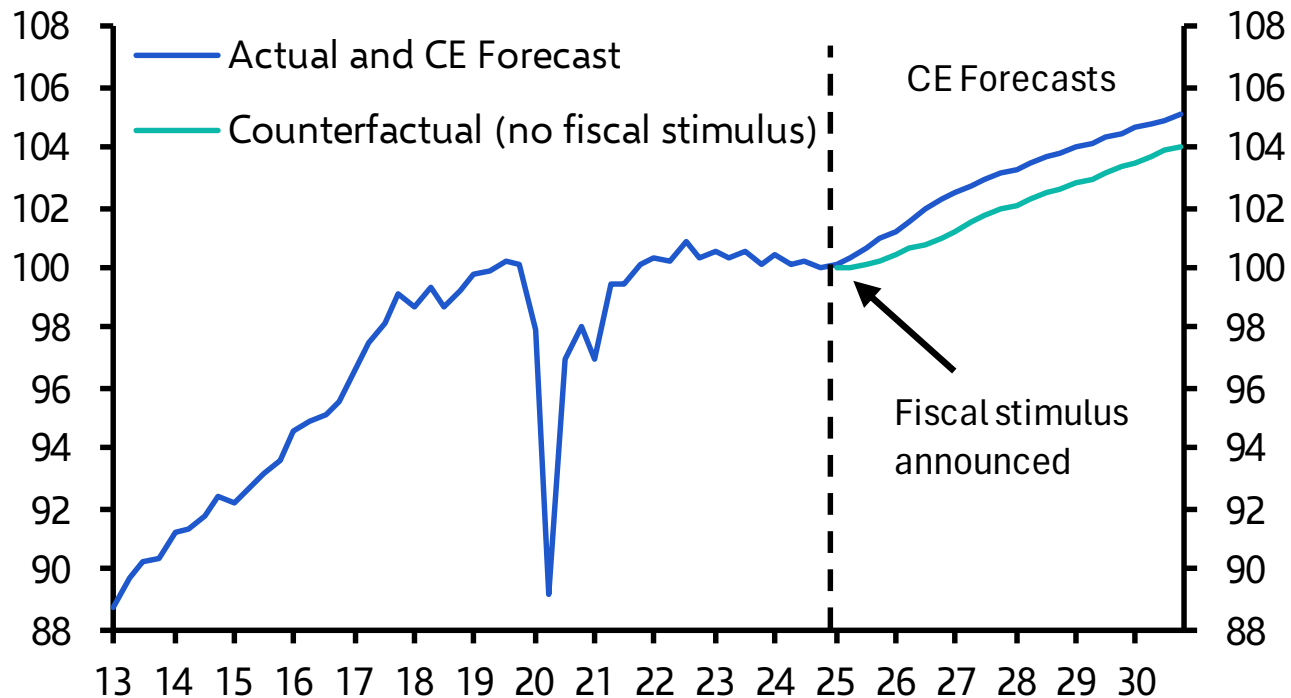


# German Public Investment Needs over Next Ten Years (€bn)

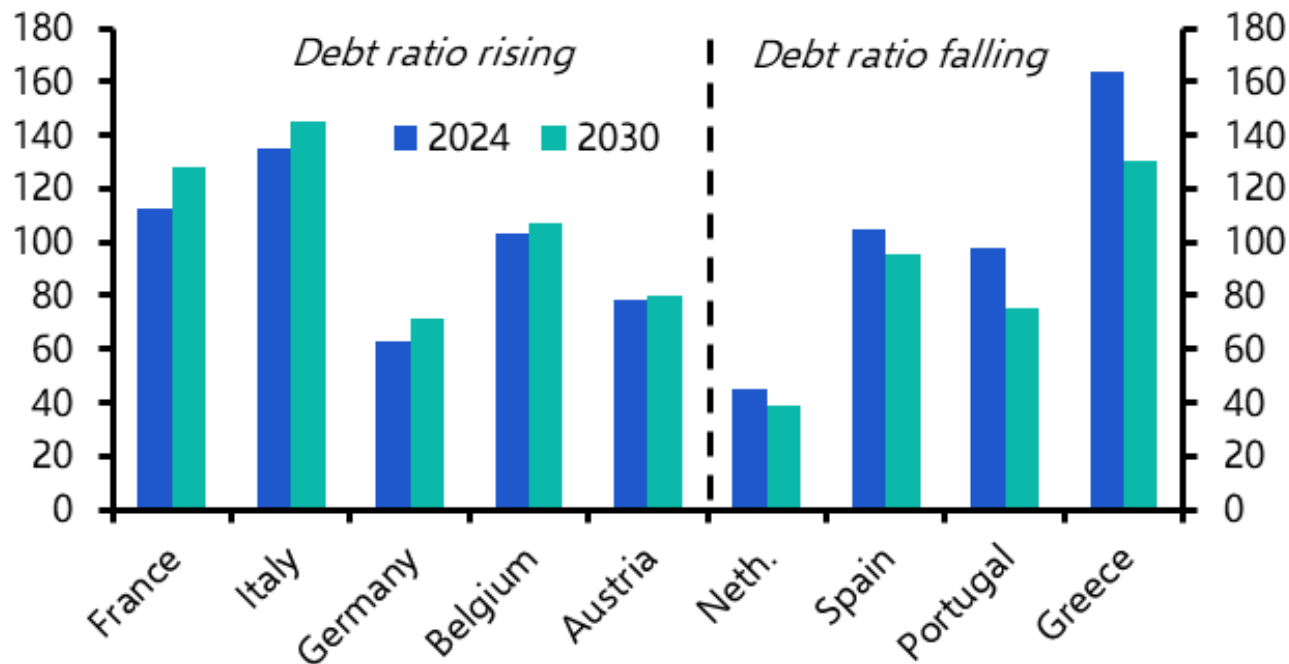




# Germany GDP (Q4 2019 = 100)

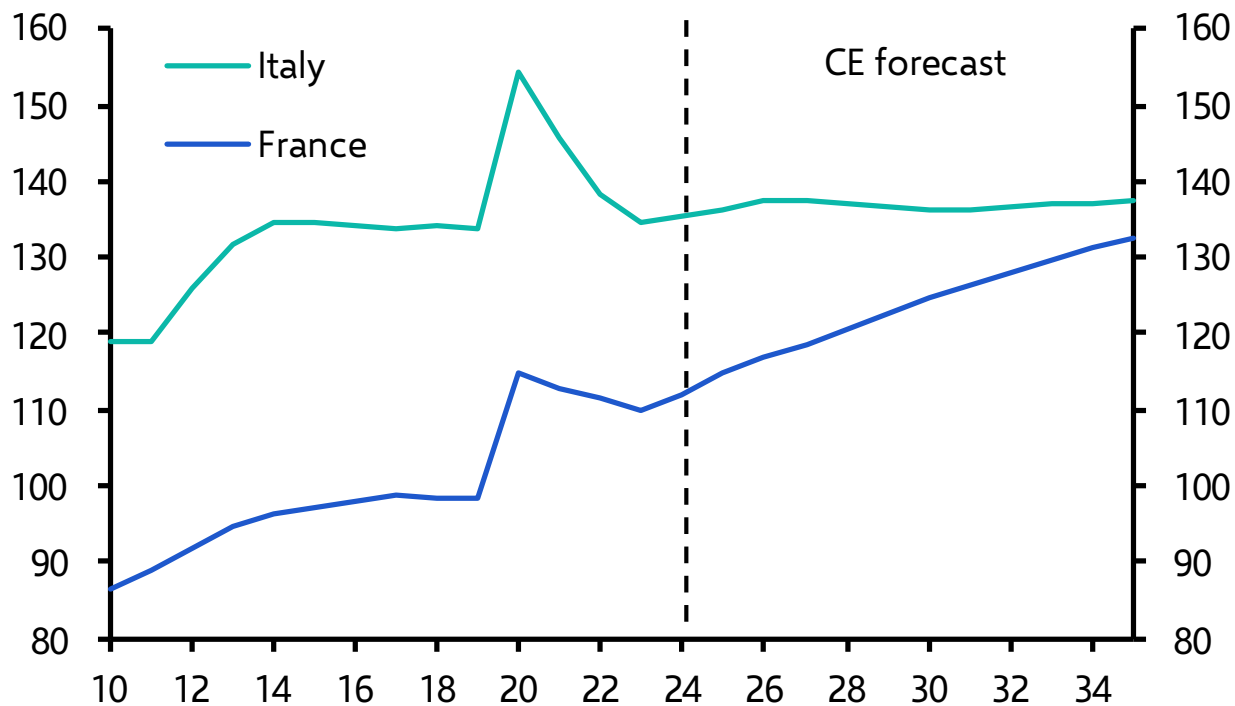


# Gross Government Debt (% of GDP)



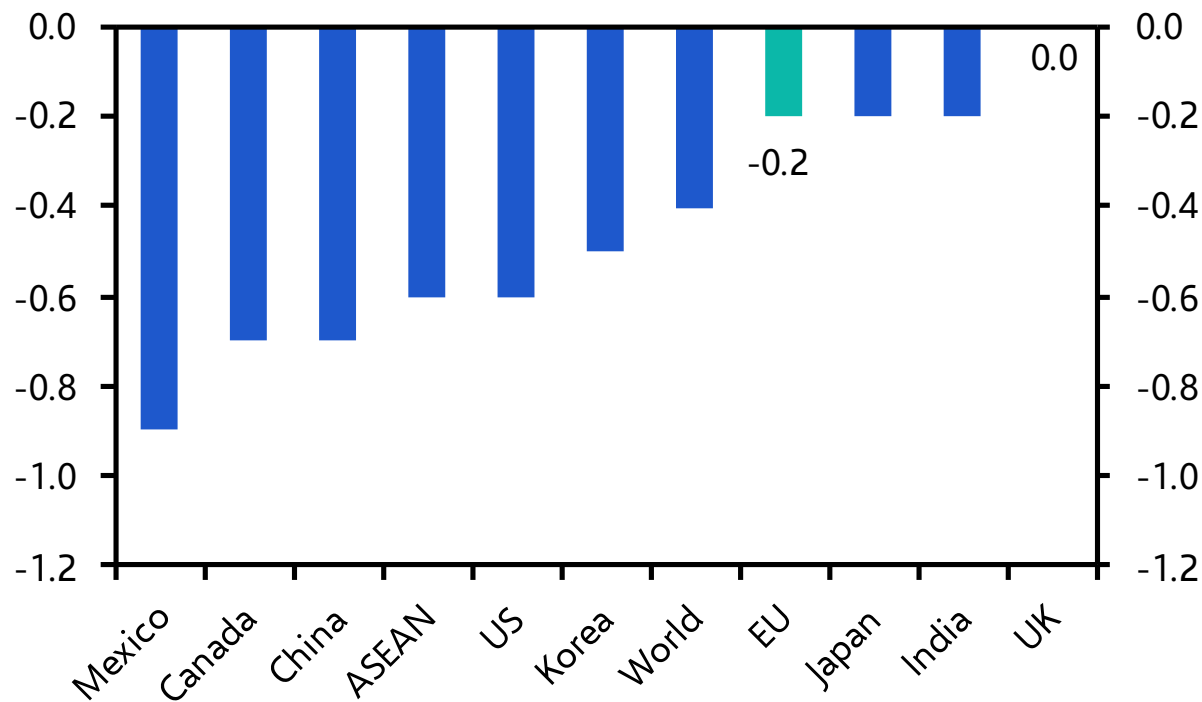
Sources: LSEG, Capital Economics

# Gross Government Debt (% of GDP)



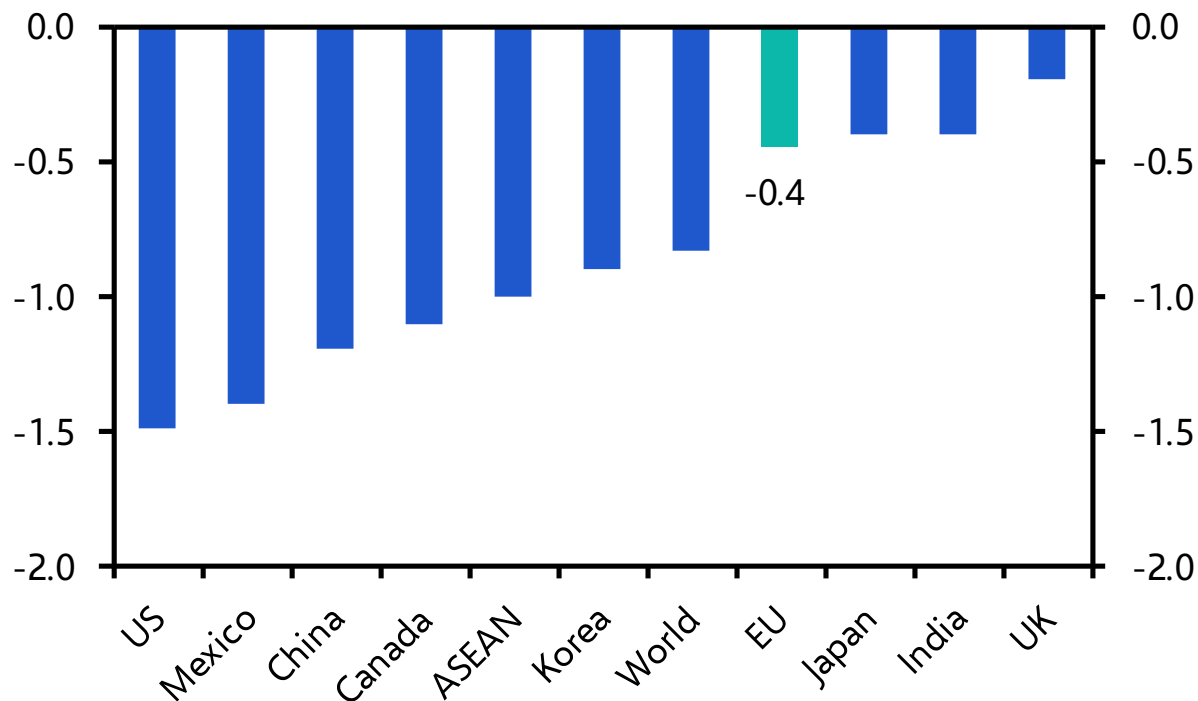
Sources: LSEG, Capital Economics

# Hit to GDP if Tariffs in Line with CE Assumptions (%)



Sources: LSEG, Capital Economics

# Hit to GDP if Tariffs Return to Liberation Day Levels (%)



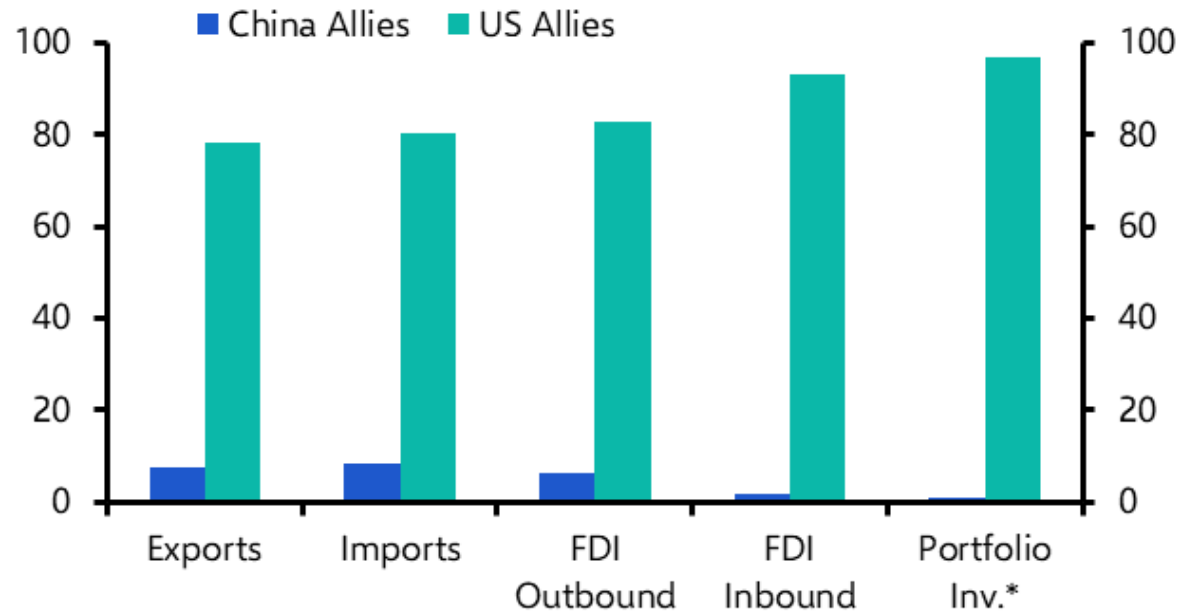
Sources: LSEG, Capital Economics

# Europe and the Fracturing Global Economy

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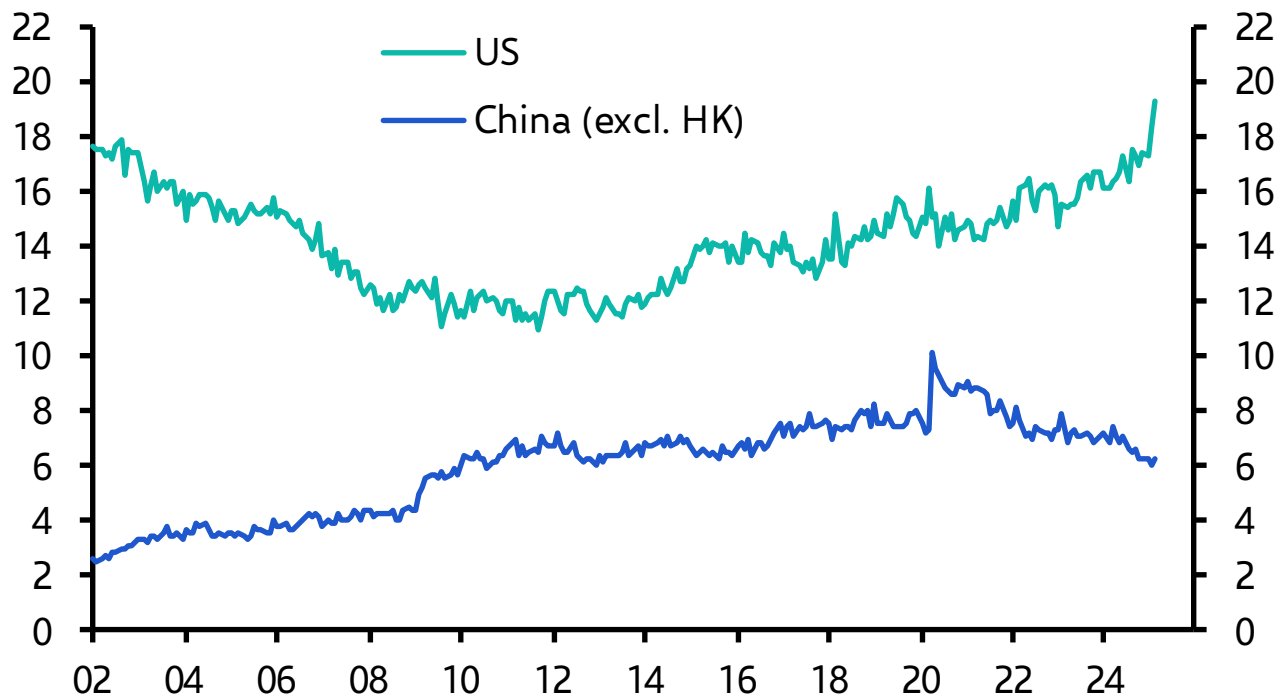
- Increased tensions between US and Europe.
- Europe will not lead a “third bloc”.
- Economic and security links to US are very deep.
- Europe will de-risk from China and use trade defence measures...
- ...but will also aim to maintain trade and investment ties.

# Germany Exposure to US and China Blocs (Latest, %)



Sources: LSEG, Capital Economics; \* Average assets and liabilities

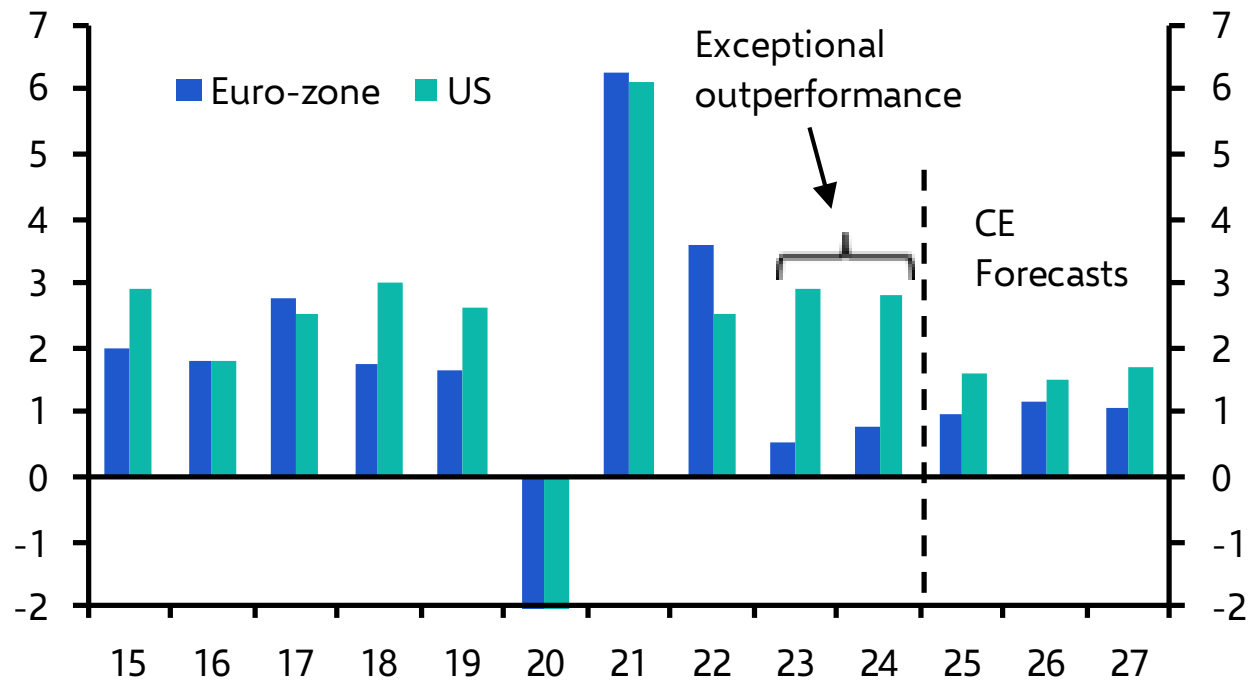
# Euro-zone Goods Exports to US and China (% of Total)



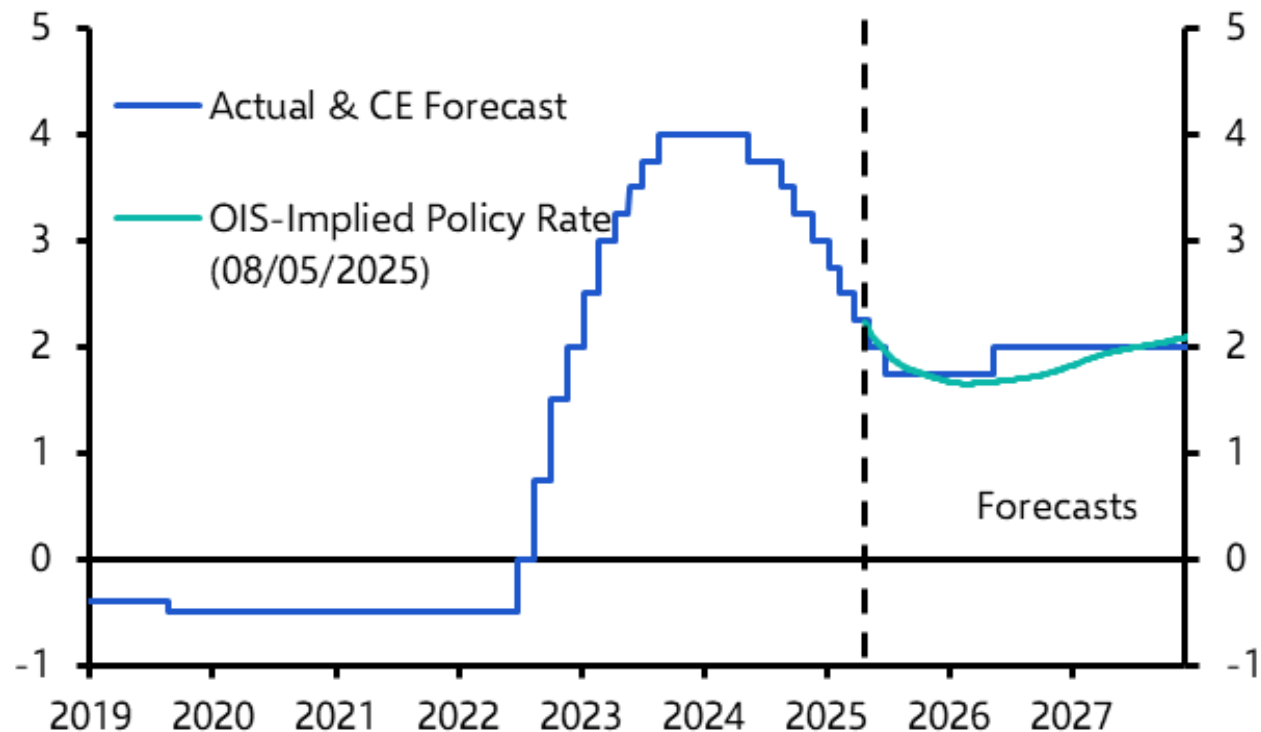
Sources: LSEG, Capital Economics; \* Average assets and liabilities



# Euro-zone and US GDP (% y/y)



# ECB Deposit Rate (%)



Sources: LSEG, Capital Economics

# Key points

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- Europe will remain a relatively low-growth region – but degree of underperformance will be smaller in future.
- Fiscal boost is mostly a Germany story.
- Systemic risks have diminished, national risks still high.
- No “hard decoupling” from the United States.

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