



European  
Commission



# EUROPE IS BACK

Economic, Financial, Social  
and Technological Trends in  
a Changing World

European **Political**  
**Strategy** Centre |

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# EU27 on solid path of growth, job creation, investments, innovation and inclusion

The EU27 and the euro area have surprised economists with a stronger than expected recovery, and forecasts show a continuation of this trend for the foreseeable future. Employment in Europe is at its highest level ever. And this is no coincidence. The reforms taken in response to the financial crisis – to stabilise European economies, to create a sounder financial sector and to support SMEs, entrepreneurs and start-ups – are now paying off.

Europe's economies are today more resilient and competitive, public debt is on a downward trend and past institutional weaknesses of the euro area have largely been corrected. In addition, alongside the emergence of a new generation of European political leaders, the reforms currently being implemented by the Juncker Commission will add further momentum to the EU's future trajectory.

Bold steps have been taken to deepen and enlarge the EU's greatest asset – its Single Market. Strengthening Europe's digital and energy

connectivity, as well as its pan-European banking and capital markets, will add to the EU's growth potential. It is widely expected that the next wave of innovation – in deep tech, Artificial Intelligence and robotics – will play to Europe's strength in science, engineering and industry.

A greater usage of innovative financing instruments in the EU budget, such as the European Fund for Strategic Investments (ESFI), is attracting additional private sector investments and expertise, with a focus on key economic sectors with high-return potential.

Finally, as the euro area is the undeniable economic core of the EU27 – accounting for over 86% of its GDP – wide-ranging reforms of its governance will add to resilience and help maintain the EU on the path of sustainable and inclusive growth.

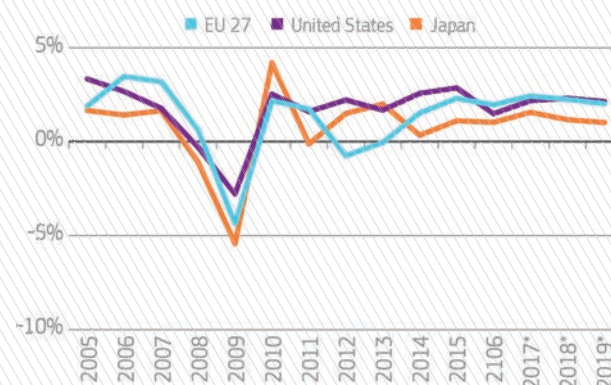


# Economic growth has returned

- **Real GDP growth rates in the EU27** have remained stable at a **healthy 2%** since 2014, **surpassing other large advanced economies**, like the US and Japan as of 2016.
- On the back of continuously improving fundamentals, growth rates are projected to remain at **similar levels in 2018 and 2019**.
- This positive outlook is supported by market-based forward-looking indicators like the Purchasing Managers' Index (PMI). The **euro area PMI manufacturing index reached its highest level ever in 2017**, since the survey began in mid-1997.
- The **upswing is broad-based**, self-sustaining and tangible for the vast majority of companies and households.

## *The crisis is now firmly in the past*

Year-on-year real GDP growth



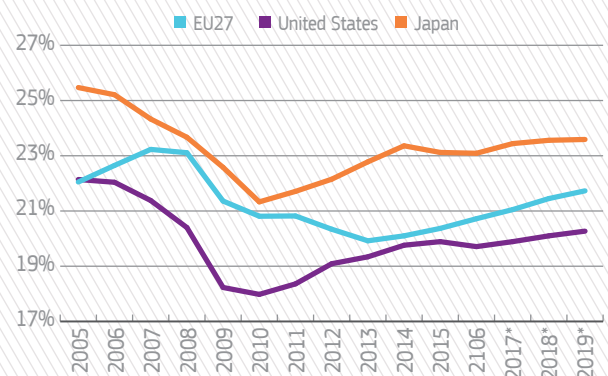
Source: European Commission, Annual Macro-Economic Database (AMECO)

# Investment has recovered

- **Total investments in the EU27 are on the rise, closing in on pre-crisis levels and driving EU economic growth.** This recovery also reflects bold EU policy actions like the 'Juncker Investment Plan', the so-called European Fund for Strategic Investments (EFSI), which was launched in 2015.
- **The EU27 currently outperforms the US** on total investment and is narrowing the gap with Japan.<sup>1</sup>
- The EU's firm commitment to sustaining higher rates of investment is reflected in the extension of the mandate of the European Fund for Strategic Investments until 2020, with an **increased investment target of €500 billion.**

## Investment rates on the rise in EU27

Gross fixed capital formation in % of GDP, at 2010 prices



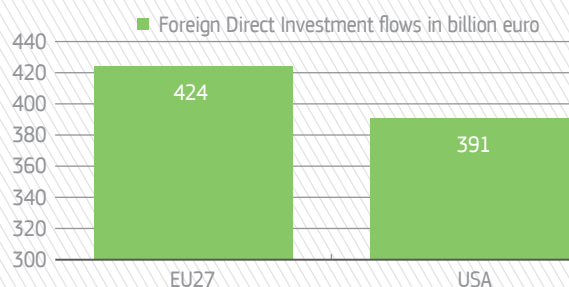
Source: European Commission, Annual Macro-Economic Database (AMECO)

# EU is world's top destination for foreign investment

- The EU27 attracted **€424 billion worth of foreign direct investment (FDI) in 2016**, against €391 billion in the US.
- These foreign direct investment flows have been instrumental in increasing the productivity, competitiveness and efficiency of the European economy, while contributing positively to job growth and capital formation, both in the EU and abroad.

## *The EU27 continues to be the main FDI destination in 2016*

Foreign Direct Investment flows in € billion



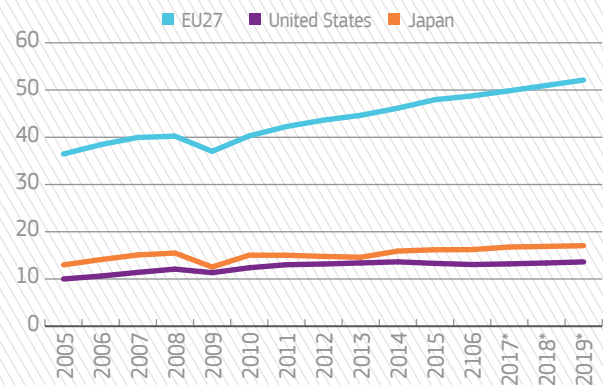
Source: European Commission, Eurostat

# A global trading superpower

- The EU is the **largest trading bloc in the world**.
- **Exports from the EU27 have experienced strong growth, now representing around half of EU GDP**. This is over 30 percentage points higher than in the US and Japan.
- The boost in exports reflects, among other things, **impressive improvements in the competitiveness of many EU Member States** in recent years.
- It also reflects the success of the EU's trade policy, with **45 comprehensive trade agreements already covering 76 countries**. The recent deal with Japan and those currently under negotiation (for instance with the South American trade bloc Mercosur and the Philippines) will increase the total number of countries with which the EU has a trade partnership even further.

## EU exports drive economic growth

Exports of goods and services at 2010 prices, in % of GDP



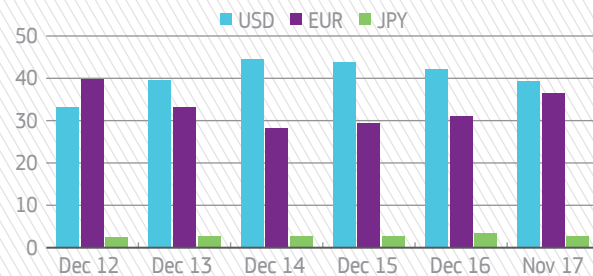
Source: European Commission, Annual Macro-Economic Database (AMECO)

# Euro is world's second largest currency

- The euro rivals the US dollar as the major global means of payment. **Over 36% of global payments are concluded in euro** – just short of the US dollar, which stands at 39%.
- The euro is the **second most traded currency** in the foreign exchange market after the US dollar, reflecting the EU's outstanding export performance.

## *Euro rivals with dollar on share of global payments*

% of total global payments



Source: SWIFT

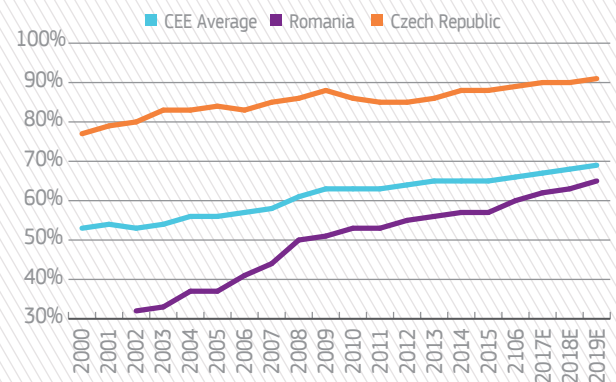


# Economic convergence lifts all boats

- **The EU has acted as a major driver of upwards economic convergence**, with the newest Member States benefiting from markedly higher growth rates than the rest of Europe since joining the Union. Following accession, they have successfully leveraged **access to the single market, structural reform packages** and **EU investment and cohesion funds**.
- **Central and Eastern European Member States are today top performers in a number of areas**, not only in Europe but also globally, whether Estonia on digital technology, Poland on IT skills, or the Czech Republic, Slovakia and Romania in car manufacturing.

## *EU Central and Eastern European Member States steadily improve economic performance*

National Gross Domestic Product as a % of the EU27 average GDP, in PPP



Notes: Central Eastern European (CEE) average includes CEE Member States that are not part of the euro area

Source: European Commission, Annual Macro-Economic Database (AMECO) and Eurostat

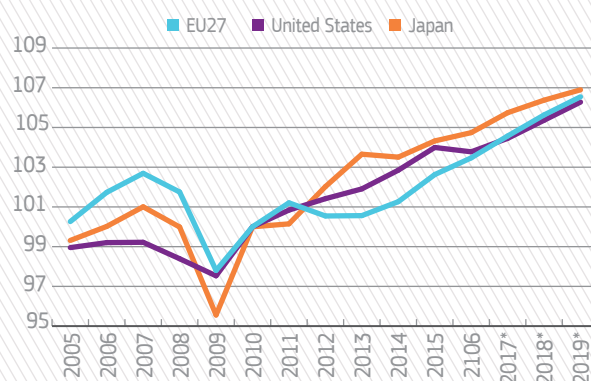


# Productivity growth continues

- **The EU has experienced solid growth in productivity**, which is expected to continue over the coming two years, in line with developments in the US and Japan.
- **Channelling even more investments into fast-growing innovative sectors will be key to accelerating these developments** – an important consideration in upcoming EU and national budgets.<sup>2</sup>

## *EU productivity sees constant improvement*

Total factor productivity, 2010 = 100



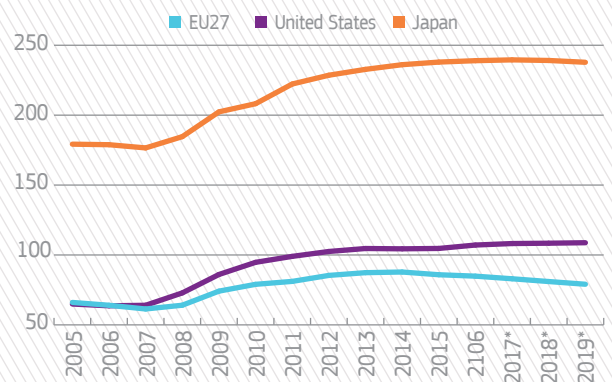
Source: European Commission, Annual Macro-Economic Database (AMECO)

# Fiscal situation significantly improved

- A **careful reduction in budget deficits** – supported by EU-level fiscal frameworks – **has significantly improved the fiscal situation in most Member States**, impacting favourably on economic growth.
- **Public debt in the EU stands about 25 percentage points lower than in the US**, at 83% of GDP, compared to 108% in the US, while Japan stands out with a debt-to-GDP ratio of nearly 240% in 2017.<sup>3</sup>
- This low debt ratio is good news for European companies and citizens as lower public debt reduces the need for future tax rises and increases the room for public support measures where necessary.

## Government debt falls in the EU27

General government consolidated gross debt in % of GDP at current prices



Source: European Commission, Annual Macro-Economic Database (AMECO)

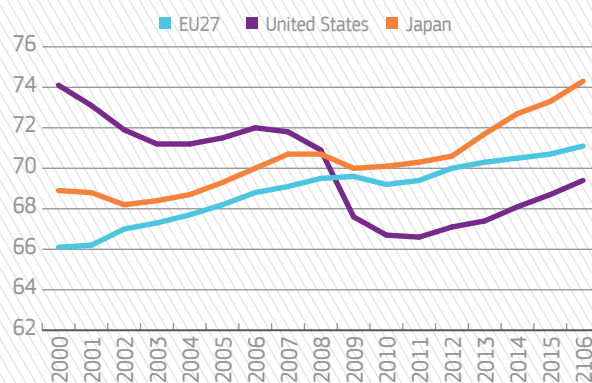


# EU employment at historic high

- Employment rates have soared across the Union since 2013, **surpassing the US**.
- Roughly **9 million jobs have been created in the EU since 2014**. By 2019, this number is forecast to rise to 12 million.

## EU27 employment rates reach new high

Employment rate % of active population, 15-64



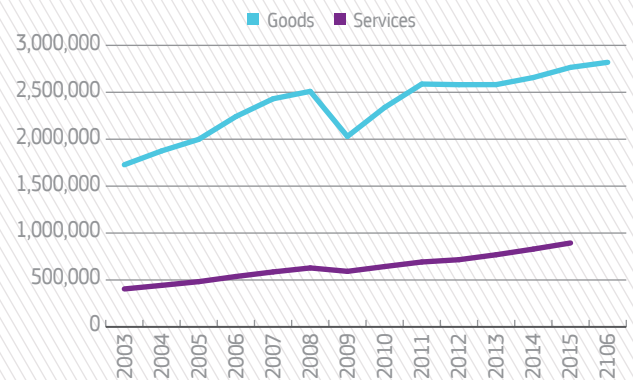
Source: European Commission, Eurostat; Organisation of Economic Cooperation and Development

# EU Single Market goes from strength to strength

- Thanks to the Single Market, the **EU has become the second largest economy in the world** with a total GDP of €12.5 trillion.
- The **total value of trade in goods and services has seen near continuous growth** with total intra-EU trade in goods today amounting to €2.8 trillion, and intra-EU trade in services worth €894 billion.

## *Intra-EU trade in goods and services on the rise*

Total exports of goods and services, in € million



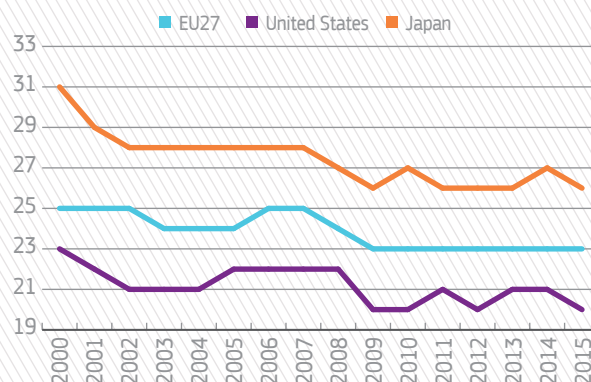
Source: European Commission, Eurostat

# World-class manufacturing provides springboard for Industry 4.0

- The EU is home to a **high value-added manufacturing and industry base, which currently accounts for roughly 23% of GDP.**
- The **digitisation of traditional manufacturing products and services is expected to add more than €110 billion of revenue per year** in Europe over the next five years.<sup>4</sup>
- The EU, Member States and industry have agreed to a far-reaching digital strategy that includes combined investments of **more than €50 billion in support of digitising European industry until 2021**, as well as the development of a pan-European high-performance computing and data infrastructure.

## EU27 maintains strong manufacturing base

Share of industry in overall economy, as % of total GDP



Source: United Nations Conference on Trade and Development



# Vibrant tech hubs emerging throughout Europe

- Unlike other places, **Europe has a plethora of vibrant tech hubs** spread throughout the continent. As a result, **investments in the EU27 tech sector surged to €11.2 billion in 2017** – a fivefold increase since 2011.<sup>5</sup>
- The EU27 is now **home to 28 'unicorns'** (companies valued at more than one billion dollars). Stockholm, with its 6.3 unicorns per million inhabitants, ranks second only to Silicon Valley.<sup>5</sup> Cities such as Paris, Berlin, Bucharest, Tallinn, Barcelona and Lisbon are also making their mark, attracting start-ups and investors, multinationals and research facilities.
- In the **growing app economy**, Europe is a globally competitive player, with a **sector that has seen a growth rate of roughly 15% in the past year**. It now employs some 1.4 million people in Europe.<sup>6</sup>
- **Europe boasts 5.5 million professional developers**, compared to 4.4 million in the US.<sup>5</sup>
- It is widely expected that **the next wave of digital innovation** – which will merge the physical and digital world – **will play to Europe's strong traditions in science, research and deep tech**.

## *EU is becoming a start-up powerhouse*

Digital start-up intensity across Europe



Source: European Digital City Index

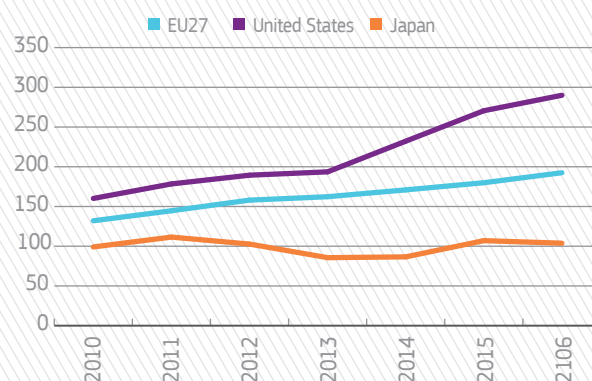


# R&D investment on the rise

- **EU companies increased their R&D investments by 7% in 2016**, marking the sixth consecutive year of significant increases in R&D investments. The rise is similar to that observed in the US (7.7%) but substantially above Japan (- 3.0%).<sup>7</sup>
- **Among the world's top 2,500 companies measured by R&D investment, 567 are based in the EU**, with 822 in the US, 365 in Japan, 746 in the rest of the world.<sup>7</sup>
- The EU's Horizon 2020 is the **world's largest public funding programme for research and innovation**, at €80 billion over seven years. It is expected to be increased in the next EU budget.
- Europe has **32 Artificial Intelligence (AI) research institutions in the global top 100** compared to 30 from the US and 15 from China.<sup>5</sup>

## EU R&D investments see continuous growth

R&D investments in billion €



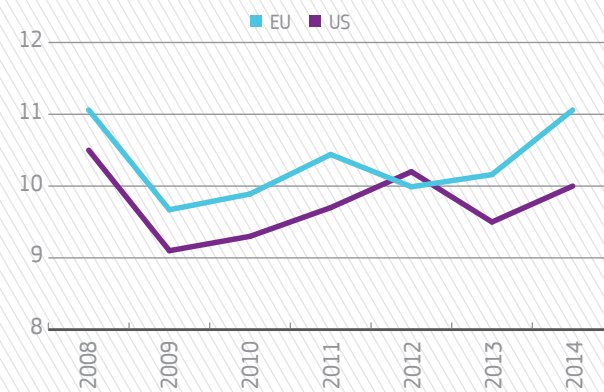
Source: European Commission, EU Industrial R&D Investment Scoreboard (years 2010 to 2017)

# EU a breeding ground for entrepreneurs

- Europe has a proud tradition of entrepreneurship. The EU27 is home to **much higher rates of self-employment than the US or Japan**. Roughly 14% of all working people are self-employed, compared to 10.5% in Japan and 6.4% in the US.
- In addition, the EU has a healthy rate of company creation. The number of newly-born enterprises **stood at 11% in the EU, against 10% in the US**.

## *EU home to steady business creation*

Enterprise birth rate, as a % of total active enterprises



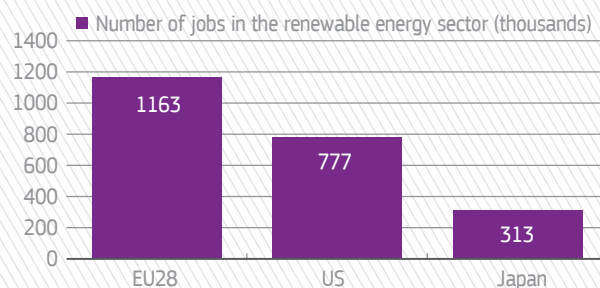
Source: European Commission, Eurostat; US Census Bureau



# EU leads on clean economy transition

- Thanks to its first mover advantage in the green transition, **some 9 million Europeans are already working in the clean energy sector. This includes more than 1.17 million jobs in the renewable energy sector** – more than the US and Japan combined – as well as jobs in energy efficiency and the construction sector. These are local jobs that cannot be outsourced and figures are expected to double by 2030.
- **European companies today hold 40% of the world's patents for renewable technologies** – a sector which already generates **€130 billion in turnover** each year, including **€35 billion in exports**.
- Most of the **€30 billion of the 'Infrastructure and Innovation' window of the European Fund for Strategic Investment (EFSI) is devoted to clean energy and transport**, to help mobilise private-sector investment.

## EU boasts most renewable energy jobs

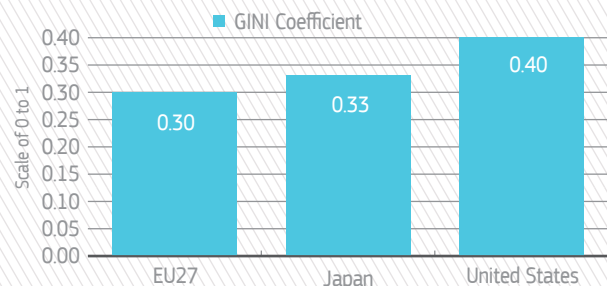


Source: International Renewable Energy Agency (2017)

# EU world leader in inclusive growth and quality of life

- By global standards, European societies are prosperous and inclusive places to live. They have the highest levels of social protection in the world and **rank at the top in terms of wellbeing, human development and quality of life.**
- Europe is also home to the most equal societies in the world, faring better than both the US and Japan in **fair income distribution.**
- The EU's **proven ability to maintain high-quality public institutions** that are supportive of human development **is critical for the realisation of inclusive economic growth and for political stability.** The EU Structural Reform Support Service (SRSS) supports Member States wishing to reform their public administration.<sup>8</sup>

## *EU leads the world on fair income distribution*



Note: Romania, Bulgaria, Croatia, Cyprus and Malta are not available due to data limitations. EU Average is weighted based on population. The lower the coefficient, the more equal the income distribution)

Source: Organisation of Economic Cooperation and Development; European Commission, Eurostat, 2013

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1. These projections do not yet take fully into account the latest US corporate tax cut, which is likely to increase investments in the US. Economic theory would suggest that the net increase over the long run depends on the negative effect of higher public debt [see Figure 8 and footnote 3].
  2. European Commission, [Reflection paper on the future of EU finances](#), June 2017.
  3. Similarly to the likely positive effect on investments [see footnote 1], the projections do not fully account for the increase in public debt following the recent corporate tax cut in the US.
  4. European Commission, 'Commission sets out path to digitise European industry', April 2016.
  5. ATOMICO, 'The State of European Tech 2017', November 2017, <http://www.atomico.com/news/great-companies-can-come-from-anywhere> and Murad Ahmed in The Financial Times, 'Stockholm: the unicorn factory', 31 March 2015, <https://www.ft.com/content/e3c15066-cd77-11e4-9144-00144feab7de>.
  6. Progressive Policy Institute, 'The App Economy in Europe: Leading Countries and Cities', 2017.
  7. European Commission, '2017 Industrial R&D Investment Scoreboard', December 2017.
  8. European Commission, [Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation \(EU\) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective](#).

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