

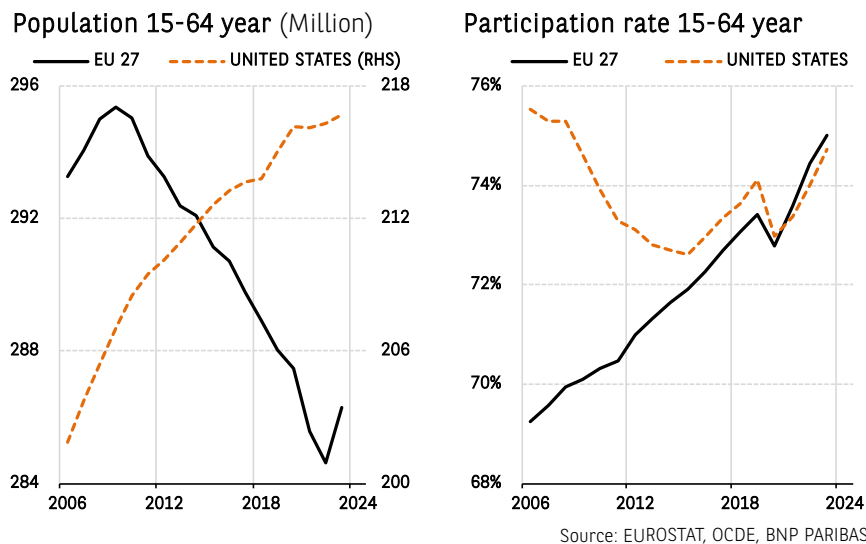
CHART OF THE WEEK

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2nd October 2024

EUROPEAN UNION: A FUTURE BETWEEN AGEING AND GREENING (CONTINUED)

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In a previous article¹, we discussed the major challenge for the European Union (EU): to accelerate its ecological transition while dealing with the consequences of the ageing of its population. It so happens that the stakes have just been clarified in the Draghi report on the future of European competitiveness². In order to preserve their social model or not stall in the face of Chinese and American competition, the EU 27 countries should increase their productive investment by at least EUR 800 billion per year, which entails an unprecedented effort (equivalent to 4.7 GDP points, i.e., at least two Marshall Plans). As Member States are financially constrained, the report calls for common debt and a capital markets union, the only way to unlock private savings, that is ample but remain in silos.

Described as “existential”, the main cause being defended is productivity. In this area, where innovation is key, the EU is being left behind by the United States³, while the comparison of demographic trends is already not in its favour. As a combined effect of life expectancy increase and decline in birth rates, the working-age population in Europe (those aged 15-64) has fallen by nearly nine million since the beginning of the decade starting in 2010, while the population of seniors (aged 65 and over) has increased by nearly 20 million. Although ageing too, the United States is far from experiencing the same fate, particularly because fertility rates (1.7 children per woman) and immigration rates (3.6 net entries per 1,000 inhabitants) are higher than in Europe (see chart, left-hand side)⁴.

“Mankind is the only true source of wealth”⁵. To compensate for the lack of manpower, most EU countries have long been pursuing policies aimed at maximising employment rates (lowering the legal retirement age, tightening unemployment compensation rules, incentives for hiring young people, strengthening vocational training, etc.). The proportion of Europeans aged 15 to 64 participating in the labour market is therefore steadily increasing; at 75% (in 2023), it is now above the US average (see chart, right-hand side). At 6%, unemployment rate has reached an all-time low.

Pausing now is not an option, given the Eurostat population projections, which only exacerbate attrition. All things being equal (i.e., constant productivity gains and no additional workforce inclusion effort), three to four million jobs would be lost in the EU by 2030, while potential growth, currently close to 1.5% per year, would be reduced by one point.

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¹ BNP Paribas Economic Research (2024), *European Union: A future between ageing and greening*, Charts of the Week, 6 March.

² Draghi, M. (2024), *Report on the Future of European Competitiveness*, 9 September.

³ Labour productivity per hour (GDP per hour worked) posts an upward trend from 0.7% to 0.8% per year in the EU, compared to 1.2% to 1.3% per year in the US. Estimation by the Hodrick-Prescott filter, based on data provided by the OECD.

⁴ Sources: World Bank (for net migration rate, average 2010-2022); OECD (for fertility rate, average 2017-2021).

⁵ Jean Bodin (1529-1596).

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Published by BNP PARIBAS Economic Research

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Internet: group.bnpparibas - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago



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