

EDITORIAL

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EUROPEAN PRODUCTIVITY: A DECLINE THAT MUST BE PUT INTO PERSPECTIVE, AND PROSPECTS FOR IMPROVEMENT

In the European Union (EU), the post-Covid period was marked by a significant slowdown in productivity, which contrasts with the dynamic trend observed in the United States. However, there are reasons to put Europe's decline into perspective. Over a twenty-year period, real GDP per hour worked has grown more in the EU-27 than in Japan or the United Kingdom. The lag behind the United States is not continuous, but is linked to periods of crisis during which the US federal government intervened on a massive scale to support private-sector companies. The result is a public finance situation which appears much more favourable in Europe, allowing it to address a challenging future.

IN BRUSSELS, A GROWING AWARENESS OF THE HARSH REALITIES OF THE WORLD

Almost two years ago, the Draghi report¹ sounded the alarm over European loss of competitiveness and called on the EU to adopt a more pragmatic and cohesive approach in the face of ever-tougher competition from China and the United States. This was followed by a series of initiatives aimed at easing life for businesses (relaxing regulatory constraints, administrative burdens and reporting obligations, etc.), at protecting heavy industries at risk of relocating abroad (steel, metals, chemicals), at securing supplies of critical metals, at facilitating corporate mergers and, most recently, at strengthening Europe's digital autonomy and resilience.

Coupled with intense legislative activity, this mobilisation on all fronts has gone well beyond the planning stage. According to the Institut Montaigne, the EU has already implemented nearly a third of the recommendations from the Draghi report². Reacting to a harsher world, and far from the image of stagnation sometimes attached to it, Europe

is gearing up for action, more quickly than it might appear³. As a sign of encouragement, and following years of stagnation, its productivity is improving: Eurostat indicates a 1.4% rise in real GDP per hour worked by 2025, the fastest growth in a decade.

PRODUCTIVITY: AN AMERICAN EXCEPTION RATHER THAN A EUROPEAN WEAKNESS

Against a backdrop of accelerated demographic ageing and a shrinking working-age population, a recovery in productivity is not an option, but an imperative. Failing this, the EU will struggle to generate sufficient wealth (in terms of GDP) to meet the challenges that lie ahead: the green transition, rearmament, and ensuring the long-term sustainability of healthcare and pension systems⁴. It is to be hoped that the 2025 rebound is not merely cyclical, but marks the start of a sustainable recovery.

3 A quiet transformation already highlighted in these pages. See Mateos y Lago, I. (2026), 'Europe's Quiet Metamorphosis, Powered by Five Underappreciated Boosters' BNP Paribas EcoWeek, June.

4 See Proutat J.L (2026), 'Maintaining potential as we age: The case of the Eurozone', BNP Paribas EcoWeek, June.

Three Reasons To Put Europe's Decline into Perspective

1. Hourly labour productivity

Relative index, 2005 = 100

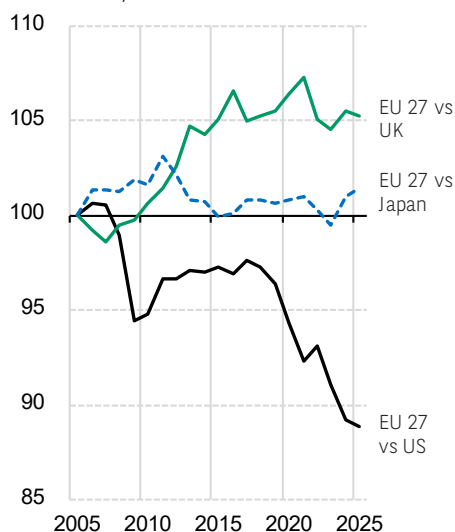


CHART 1

2. Gross public debt

Difference, % of GDP

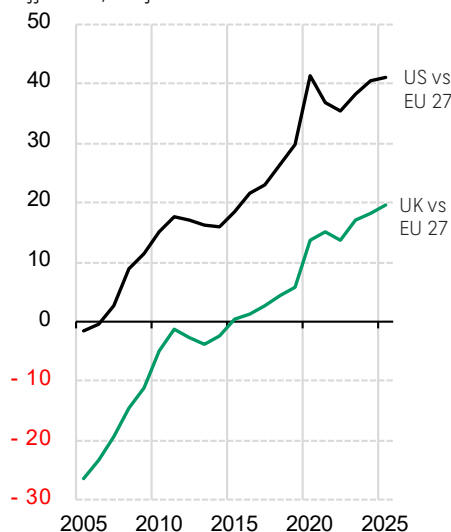


CHART 2

3. Low carbon electricity generation

Renewables + Nuclear, % of Total

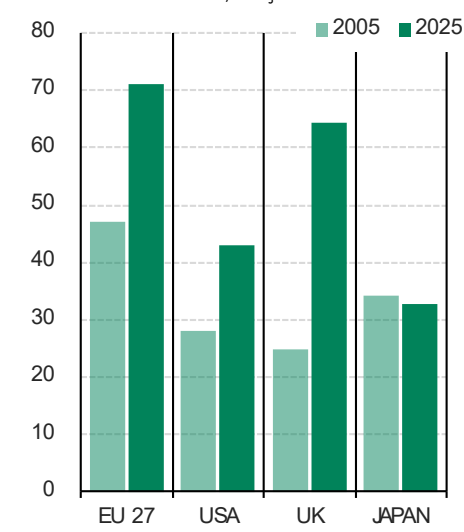


CHART 3

SOURCE: OECD, IMF, EMBER, EST. BNP PARIBAS



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There are arguments in favour of this, starting with the fact that Europe's loss of momentum should be put into perspective. The parallel with China is not relevant, insofar as the Asian giant is in the midst of catching up in terms of living standards (its GDP per capita remains half that of the EU5). Generally speaking, the law of diminishing returns means that, in an economic region such as ours, where a great amount of capital has already been accumulated, productivity is not set to increase as rapidly as in emerging economies.

Among major advanced economies, the EU has little to be ashamed of in this comparison. It is keeping pace with Japan – a highly technology-driven country – in terms of hourly productivity gains, and is significantly improving its position relative to the United Kingdom (see Chart 1). It is only really losing ground compared to the United States, which is therefore the exception rather than the rule.

FUELS OF PUBLIC DEBT: MAY BE TOO GENEROUS IN THE US, NOT ENOUGH IN EUROPE

Over the past twenty years or so, the transatlantic productivity gap has not widened continuously, but rather in fits and starts, when crises have struck. The Great Recession of 2009, followed by the Covid-19 pandemic, thus mark the two main stages of Europe's falling behind the United States, almost as if the hysteresis effects – the after-effects of the two shocks – had affected only Europe.

The fact is that America's ability to continue investing and innovating, whilst others are licking their wounds, is striking: during the post-Covid period (2020–24), corporate spending on research and development (R&D) grew by 5% per year in real terms in the United States, almost twice as fast as in the rest of the OECD, and four times as fast as in the European Union. Combined with the boom in artificial intelligence (AI) and amounting to around USD 800 billion a year – or 2.7% of GDP (in 2024) – these figures are now among the highest in the world.

However, the current vitality of Corporate USA cannot be separated from the massive financial transfers that the US federal government has provided to support its national champions. As seen with the American Recovery and Reinvestment Act (2009), the Coronavirus Aid, Relief and Economic Security Act (2020), the Inflation Reduction Act and the CHIPS Act (2022): from Barack Obama to Joe Biden including Donald Trump, every president who has held office in the White House over the past twenty years has used the same tools (direct payments, tax credits, grants) to protect or strengthen the sectors they deemed strategic. In the United States, the additional public spending or debt forgiveness from which private-sector benefited during the Covid period was considerable: 25.5 percentage points of GDP in 2020–21, a transfer that had no equivalent anywhere else in the world⁵.

Whilst not remaining passive (as the health crisis led it, for the first time, to issue joint debt), Europe went much less far: barely four percentage points of GDP were committed under the 'whatever it takes' approach. As a result, the comparison, when viewed through the prism of public finances, falls largely in its favour: starting from a similar level in 2015 (around 65% of GDP), European and US public debt ratios have diverged significantly, standing at 83% and 124% of GDP respectively in 2025 (a gap of 40 percentage points, see Chart 2).

Although it does not explain everything, such a disparity in debt regimes inevitably has an impact in terms of comparative economic performance. For years, the United States was able to run large deficits by benefiting from the 'exorbitant privilege' of issuing debt in dollars, the world's main reserve currency.

But the exercise may be reaching its limits: in 2025, interest payments by US general government amounted to 4.7% of GDP – the highest ratio in 28 years – whilst they did not exceed 2% of GDP in the EU. Rarely have debt burdens diverged so widely on either side of the Atlantic, a situation that the markets – quicker to question the dollar's safe-haven status when setbacks occur – are becoming aware of.

The fact that the EU still has fiscal room for manoeuvre, and may even be able to use the lever of joint debt once again, is far from trivial in view of the 'wall of investment' that lies ahead (EUR 750 to 800 billion in additional annual expenditure to address the challenges of digitalisation, competitiveness and the green transition, according to the Draghi report). Mobilising private financing channels – still too fragmented – will be just as important, if not more so. However, even though there is still much to be done, the EU doesn't sit around⁷.

Significant fact: the euro continues to gain ground as international reserve currency. In a recent report⁸, the European Central Bank (ECB) highlights the strong growth in international debt issuance denominated in euros, including green and sustainable bonds. The EU is thus confirming its leader status in the green transition. Whilst its energy mix is certainly not the most cost-competitive at present, it is by far the most decarbonised (see Chart 3). From this perspective, Europe is on the right track.

Jean-Luc PROUTAT

jean-luc.proutat@bnpparibas.com

⁵ That is, in terms of purchasing power parity (PPP): USD 31,600 for China in 2026 compared with USD 68,000 for the EU (IMF estimates).

⁶ According to IMF estimates, see [Fiscal Policies Database](#)

⁷ See Quignon L. (2025), 'How can we finance the extra investment needed in the European Union?', BNP Paribas EcoWeek, May.

⁸ ECB (2026), [The international role of the euro](#), June.



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