

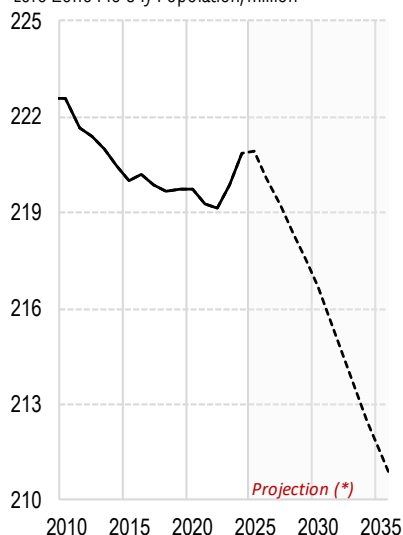
MAINTAINING POTENTIAL AS WE AGE: THE CASE OF THE EUROZONE

The Eurozone is experiencing rapid population ageing, which, at first glance, does not inspire much optimism regarding its growth prospects. However, the decline in its working-age population can be countered by effective migration policies (as seen in Italy and Spain), as well as by an increase in labour force participation rates. Furthermore, much will depend on a recovery in productivity, which experienced a sudden stop following the Covid-19 pandemic.

MAINTAINING GROWTH MOMENTUM IN THE EUROZONE: THE FACTORS INVOLVED

1. DECLINE IN THE WORKING-AGE POPULATION

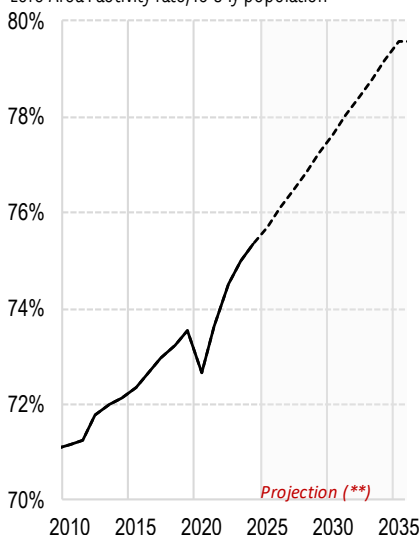
Euro Zone : 15-64y Population, million



(*) Eurostat baseline (***) Consistent with maintaining an annual growth rate of around 1.3%

2. INCREASE IN PARTICIPATION RATES

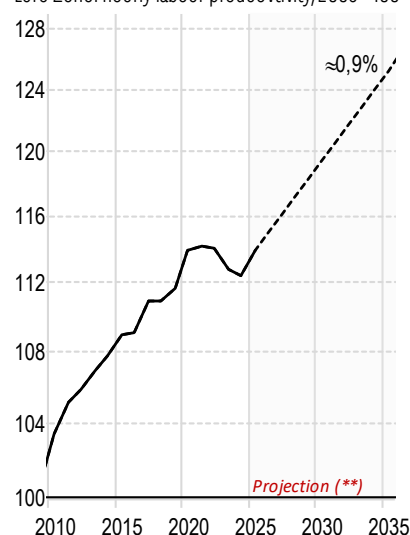
Euro Area : activity rate, 15-64y population



Projection (**)

3. PRODUCTIVITY RECOVERY

Euro Zone: hourly labour productivity, 2005=100



SOURCE: EUROSTAT, BNP PARIBAS

Population ageing is a phenomenon seen in all countries, both developed and emerging, and is fundamentally a positive development. It reflects the fact that, due to advances in medicine and improvements in living and health conditions (such as the expansion of vaccination coverage, water supply and electricity networks), life expectancy is rising. Globally, life expectancy at birth has increased from 46 years in 1950 to 73 years in 2024; in Western societies, it surpasses 80 years.

However, the ageing of populations is also attributed to declining birth rates. Globally, the fertility rate (the average number of children per woman) has been in almost continuous decline since the early 1970s. In the Eurozone, it fell below the natural replacement level as early as 1975, reaching a record low of 1.3 in 2024.

As the large post-war generations enter their senior years, they are not being replaced by a comparable number of younger individuals. According to Eurostat, people aged 65 and over are projected to account for more than a quarter of the Eurozone population by 2035 (numbering 95 million) compared with just 15% in the early 1990s¹.

Even when immigration is taken into account, the so-called 'working-age' population (those aged 15-64) is expected to see an accelerated decline (see below).

Under these circumstances, the risk repeatedly highlighted by the 'Draghi' report² is that Eurozone will struggle to generate sufficient wealth (in terms of GDP) to meet the challenges that lie ahead (such as the green transition, rearmament, and ensuring the sustainability of healthcare and pension systems).

Its so-called 'potential' growth – defined as the maximum rate at which its economy can grow without generating inflationary pressures – is presently estimated at 1.3% per year. But what about the future? The answer to this question typically involves examining the two key factors that drive economic growth: on the one hand, the total number of hours worked, and on the other, the productivity of each of those hours (as GDP is simply a combination of the two).

¹ See Eurostat, 'EUROPOP' database, available here: [Database – Population and demography – Eurostat](#). The estimates presented here are based on the central projections from the 2023 version of the EUROPOP database.

² See Draghi M. (2024), *The Future of European Competitiveness*, September.



WORK MORE?

From a macroeconomic perspective, 'working more' does not necessarily translate in an increase in individual working time. In fact, as technological progress occur and lead to productivity gains, working hours per head often decrease. During the year 2025, an employee in the Eurozone will have worked 120 hours less on average than in 1995, while simultaneously generating an additional €15,000 in GDP (at constant 2025 prices).

If the total number of hours worked is nevertheless increasing, it is due to a growing number of individuals participating in the workforce. In the Eurozone, the labour force participation rate (which refers to the proportion of the population within a specific age group that is either in employment or actively seeking employment) is on an upward trend. Among 15-64 year-olds, this rate has increased by nearly 6 percentage points over the past two decades, reaching nearly 76% in 2025, a figure that exceeds that of the United States (73.7%). It is also rising among those aged 65 and over, although it remains below the OECD average.

This can be seen as the result of structural measures taken across Europe, which have included the relaxation of labour market regulations, notably to encourage the hiring of young people; raising the statutory retirement age and enhancing vocational training to boost the participation of older workers; and promoting women's participation in the workforce, in line with the objective set out in the Treaty of Lisbon.

Despite the ageing and shrinking of its working-age population, Eurozone has not yet seen a decline in the number of people in work (see *Chart 1*). Looking ahead, however, the question remains, especially as the demographic landscape is becoming increasingly challenging. Some countries, such as Italy and Spain, are already opting for greater immigration³, which remains a key factor in economic projections for the next ten to fifteen years (since they focus on populations that are already born). In its central scenario for 2035, Eurostat does not foresee a decline in net inflows of foreign workers into the Eurozone, which are expected to remain at around 1 million per year (*i.e.* the average over the last ten years, excluding the exceptional influx of refugees from Ukraine). Based on this premise, the working-age population is still expected to decline: *ceteris paribus*, we estimate that it would fall by between 5 and 6 million people by 2035. Maintaining a positive trend therefore requires a continued rise in labour force participation rates, which cannot be simply decreed but depends on public policy decisions, which by their very nature are rarely easy to implement.

A DEMANDING ROADMAP

Assuming that efforts to integrate or retain people in the labour market continue at the same pace, labour force participation rates for those aged 15-64 and those aged 65 and over are projected to reach 80% and 10% respectively by 2035 (*Chart 2*). Although these targets may appear daunting for the Eurozone as a whole, they have in fact already been surpassed in Germany; by contrast, France stands out for its low participation rate among older people (4.4% for those aged 65 and over).

The roadmap has its local nuances and is not without its challenges; nevertheless, it offers an alternative to a future that could otherwise be rather bleak. Under the conditions outlined above, the 'Euroland' labour force would no longer be destined for decline, but would continue to grow, albeit at a slower pace (+0.3% per year between 2025 and 2035, compared with +0.7% per year between 2015 and 2025).

The decline in structural unemployment is a fairly widespread trend (in France, it is estimated to have fallen by 1.3 percentage points over the past decade⁴), and its continuation could further improve the outlook. By targeting an unemployment rate of 5% in the Eurozone by 2035 (down from just over 6% today), employment growth would exceed that of the labour force, standing at +0.4% per year. A conservative estimate regarding individual working hours suggests a similar rate of growth in the total number of hours worked (+0.4% per year). While this trend remains positive, it would still be slower than the previous decade's rate (+1% per year from 2015 to 2025).

WORKING MORE EFFICIENTLY?

To remain on a growth trajectory of +1.3% per year, or even higher, the Eurozone ultimately has no choice but to sustainably improve hourly labour productivity, which has stalled since the Covid-19 pandemic. The long-term goal should be at least +0.9% per year, which, once again, cannot be mandated by decree but is contingent on political decisions, which the Draghi report has done much to highlight. In line with the work of Philippe Aghion, winner of the 2025 Nobel Prize in Economics, it would be essential to promote innovation and all that facilitates it. The European Economic Simplification Act, aimed at facilitating business activity (which was recently adopted in France), is clearly part of this trend. The 'One Europe, One Market' initiative, which aims to enhance the integration of capital markets and foster the development of venture capital at EU level, is another example.

As an encouraging sign, and after years of decline or stagnation, hourly productivity in the Eurozone is reported to have recently rebounded (+1.4% in 2025 according to Eurostat estimates). The pressing question at hand is: what could be the impact of the widespread deployment of artificial intelligence (AI)?

Here, several viewpoints clash. The most pessimistic forecasts predict that, in the long run, we may see the 'end of work' – that is, the replacement of all or part of human tasks by machines, leading inevitably to increased unemployment. Conversely, the most optimistic analysts note that history is punctuated by episodes of 'creative destruction', during which waves of innovation do indeed eliminate jobs, but also create new ones that drive progress. An extensive report on the implications of AI produced by BNP Paribas Global Markets highlights that the internet revolution of the 1990s and 2000s did not result in a fundamental increase in unemployment, particularly in the United States, where it originated⁵. This results in quite optimistic conclusions: well positioned in the deployment of AI, and also poised to make significant investments through Germany, the Eurozone is likely to counterbalance the adverse impacts of its ageing population through enhanced productivity gains. Compared to a baseline 'business as usual' scenario, its GDP could potentially rise by as much as 0.2 percentage points per year over the next ten years.

Jean-Luc Proutat

jean-luc.proutat@bnpparibas.com

³ In Italy, a three-year decree on migration flows signed in 2025 authorises nearly 500,000 new arrivals by 2028, in addition to the 450,000 work permits already issued between 2023 and 2025.

⁴ See Banque de France (2026), *Labour market reforms and the decline in structural unemployment in France: a retrospective 2015-2025*, Bulletin No 264, May.

⁵ BNP PARIBAS Markets 360 (2026), *A Hitchhiker's Guide to the Macro Impact of AI*, Deep Dive, 15 April.

