EUROPEAN CENTRAL BANK

EUROSYSTEM

Discussion of “Key takeaways from the EC's 2025 Alert Mechanism Report”

SUERF BAFFI Bocconi webinar

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The views expressed are those of the author and do not necessarily reflect those of the ECB.

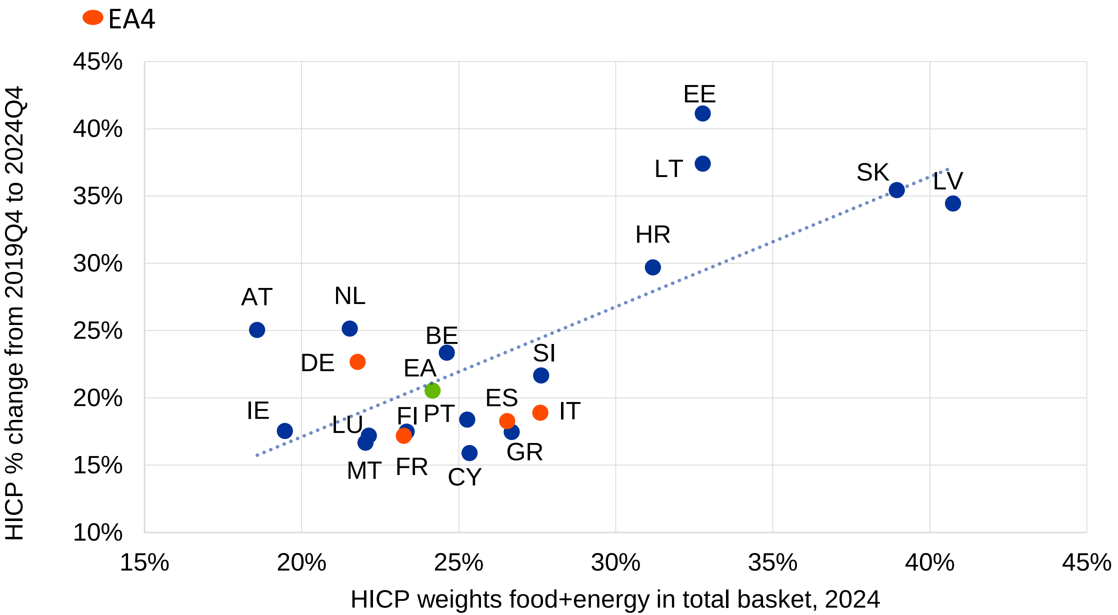
Overall assessment and main imbalances

- Inflation differentials have declined, but **cumulated divergences in inflation** in recent years pose a risk of price competitiveness losses for some **smaller countries**.
- Concerns about the **longer-term growth outlook**, particularly for the euro area's **largest economies**, due to population ageing and climate change, combined with lack of innovation and large dependence on traditional industries.
- Policy measures introduced during the sovereign debt crisis and its aftermath helped to reduce imbalances in **former EU-IMF programme countries.**
- **Geopolitical threats and security risks** could exacerbate imbalances. How should the "new global map" be taken into account in the risk assessment?
- Key to complement the "Indicator-by-indicator" approach in the AMR with **more in-depth analysis** on determinants of imbalances (in subsequent parts of the European Semester).

While inflation differentials have declined, cumulated divergences in inflation have been large

HICP cumulated inflation and weights of energy and food components in overall consumption basket

(percent)

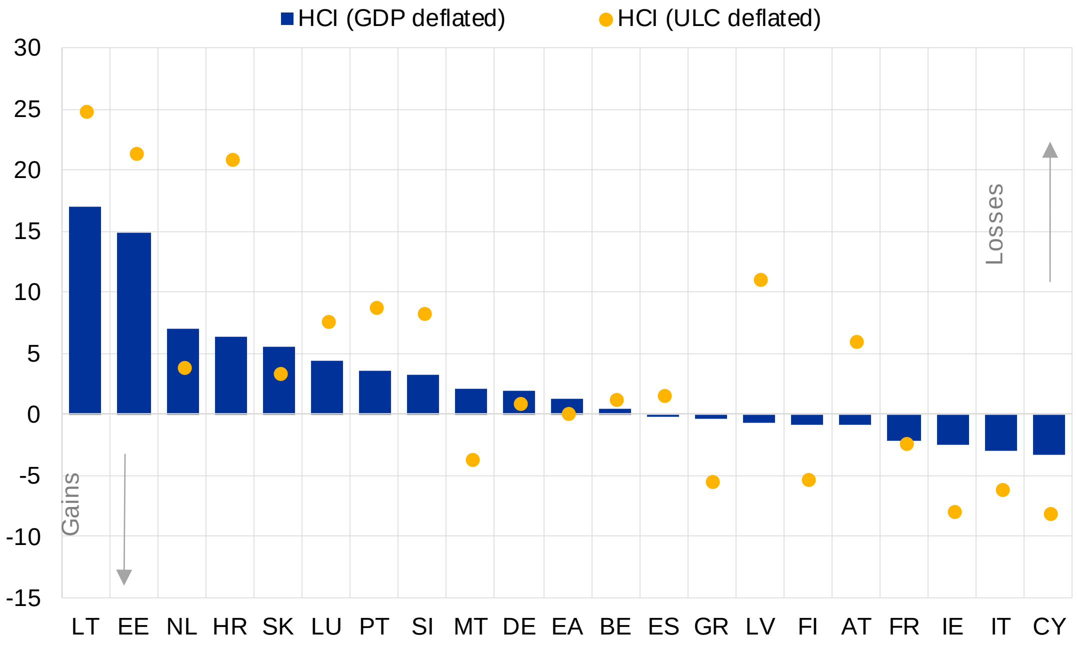


Source: Eurostat and ECB calculations.

Price and cost competitiveness losses mostly in smaller economies

Harmonised competitiveness indicators (HCI) GDP and ULC deflated

(% change from 2019Q4 to 2024Q3)

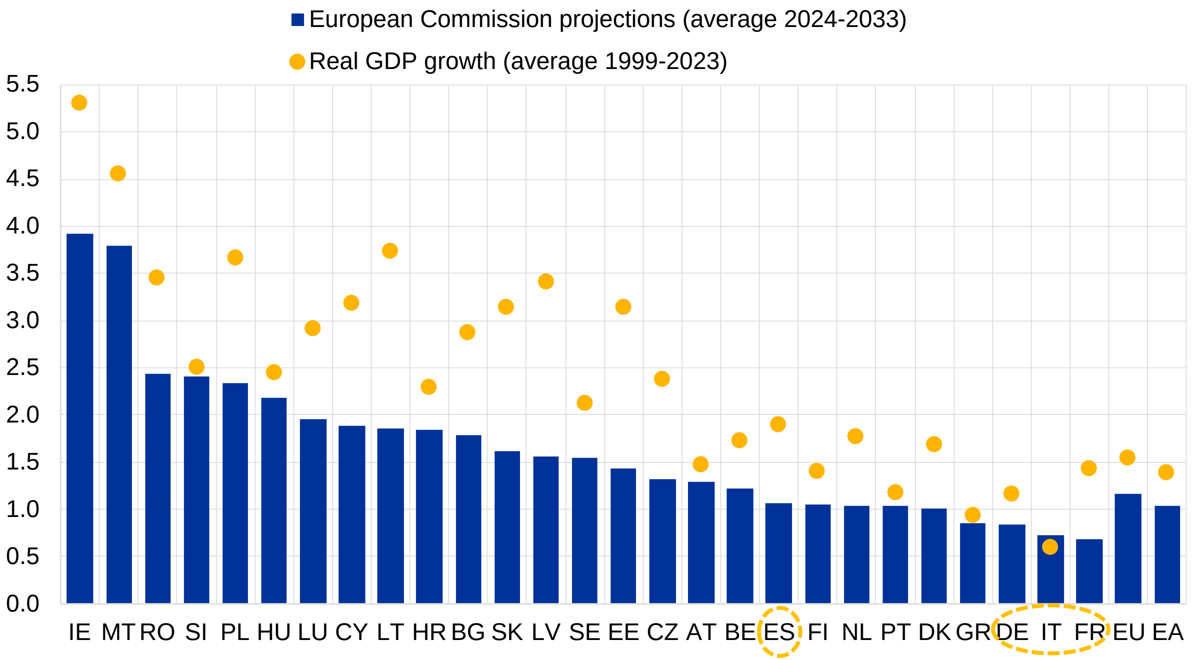


Sources: Eurostat and ECB.
Notes: Positive (negative) values of HCIs denote a loss (gain) in price and cost competitiveness.

Long-term potential growth projections below historical averages and particularly subdued for larger economies

10-year potential growth projections (percent)

"If the EU were to maintain its average labour productivity growth rate since 2015 of 0.7%, it would only be enough to keep GDP constant until 2050." (Draghi Report 2024)

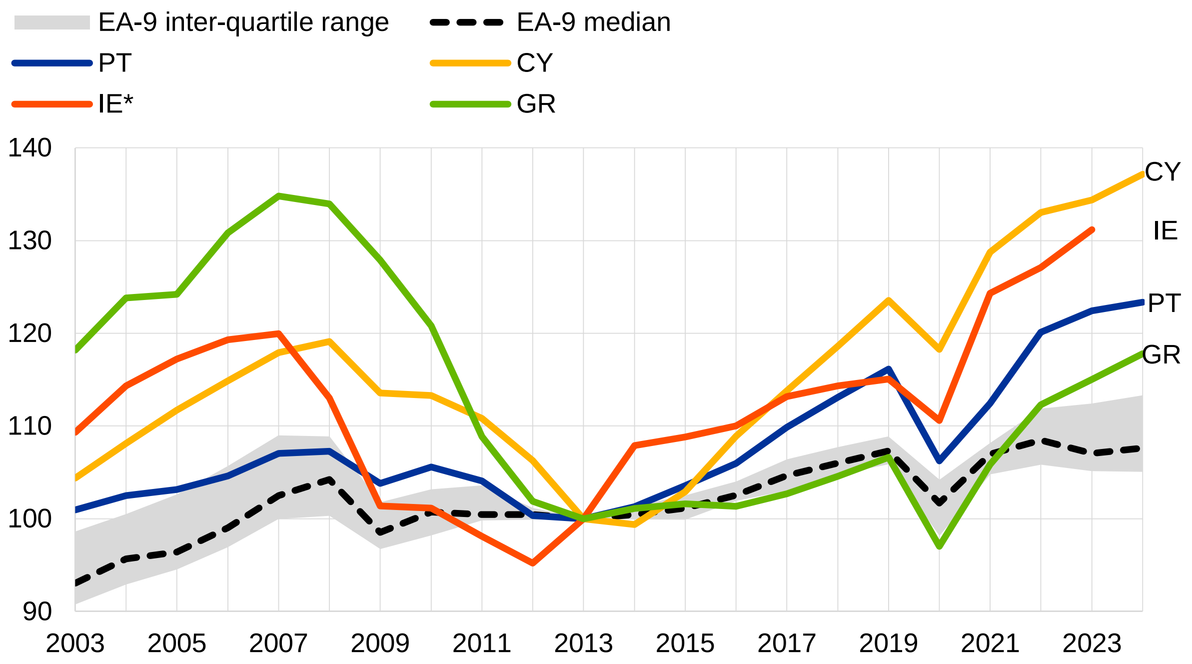


Source: Eurostat and European Commission.
Note: European Commission projections based on autumn 2024 forecast round.

Post-programme countries have recorded higher real growth than other early euro area countries since 2013

Real GDP per capita

(2013=100)



Sources: Filip, Masuch, Setzer and Valenta (2024), Greece, Ireland, Portugal and Cyprus: Crisis and Recovery, ECB blog, December.
Notes: EA-9 refers to the nine countries which had joined the euro from the beginning in 1999 and did not have an adjustment programme (Germany, France, Italy, Spain, Austria, Finland, Luxembourg, Netherlands, and Belgium). The inter-quartile range is the difference between the 75th and 25th percentile of the cross-country distribution of EA-9. For IE modified gross national income (GNI) is used since GDP is distorted by specific activities of multinational enterprises. Latest observation is 2024 (2023 for IE).*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