Global trade and economic tensions: impacts on the EU

1. Varying impacts of the EU-US trade agreement in Member States

1.1 Competitiveness and sovereignty

Competitiveness is a prerequisite for preserving economic sovereignty, particularly in a context of declining international cooperation. He recalled that the European Commission has launched several initiatives to strengthen the EU's competitive position, including the Competitiveness Compass, the Green Industrial Deal, and the Union of Skills.

Around 20% of EU exports are destined for the United States, supporting approximately five million jobs. Exporters and importers may be able to absorb part of the impact of tariffs and the dollar's depreciation by compressing their margins, which would prevent these changes from being immediately reflected in prices. However, this strategy would likely increase pressure to renegotiate the agreement.

If margins cannot be compressed and costs are passed on to consumers, the consequences could be negative in the short term, although potentially less damaging in the long run. According to Commission estimates, the overall impact on EU employment will be relatively contained, with potential export reductions in the range of 5% to 8%. Nevertheless, such external shocks typically affect countries and sectors unevenly, creating differentiated pressures across the Union.

1.2 Short-term gain; long-term pain

A regulator argued that, from a market perspective, the EU–US trade agreement is viewed positively overall, mainly because it helped avert a worse outcome. Its immediate economic impact appears limited, it has reduced uncertainty, and Europe is performing comparatively well relative to other regions. This perception clearly supports short-term growth.

However, this optimistic assessment does not address the underlying competitiveness challenges, particularly in sectors that have historically underpinned European productivity, such as manufacturing and automotive. If these sectors experience disproportionately negative effects, the EU's long-term growth potential and competitiveness could be structurally weakened.

Additional external risks also persist, including Chinese overcapacity, closer strategic alignment among BRICS countries, and geopolitical tensions that could further disrupt established trade patterns.

Against this backdrop, the agreement may indeed be beneficial in the short term, but it should be regarded as a net negative over the longer horizon, due to its potential to deepen existing structural vulnerabilities. Following 2 April, strong capital outflows were observed. The traditional "dollar smile" pattern no longer applies, as the dollar's safe-haven status has weakened. Instead of large portfolio reallocations, investors are increasingly hedging against depreciation, purchasing insurance and diversifying their exposures. Notably, demand for European assets—particularly bonds—has increased, reflecting shifting risk perceptions.

1.3 Adapting to divergent impacts across countries and sectors

An industry representative opened by underlining a fundamental shift in global trade dynamics: whereas past trade policy relied on broad multilateral agreements built on consensus and long-term stability, the current environment is increasingly characterised by frequent bilateral agreements, narrower in scope and negotiated over shorter cycles, and prone to renegotiation. This evolution requires greater agility from both EU Member States and European companies.

Although any trade agreement helps reduce uncertainty, it inevitably entails economic redistribution effects. The overall growth impact of the EU–US agreement is modest, which reflects the EU value-added exports of 1% of GDP. However, the distribution of this impact is highly uneven across Member States and sectors. For example, Ireland sends approximately 8% of its value-added exports to the US, while Denmark sends about 2%, compared to the EU average of 1%. This illustrates why national contexts and sectoral structures matter greatly in determining the agreement's real impact in the economy.

At the corporate level, the need for agility is even more pronounced. A survey of over 900 major EMEA (Europe Middle East and Africa) firms found that 10% are directly affected by tariffs through changes in costs, revenues or financing conditions. In the US, the equivalent figure is 18%, suggesting that the burden is shared on both sides of the Atlantic.

Sectoral exposure also differs significantly. The EU automotive industry is particularly vulnerable: around 20% of its value-added exports go to the US, and its profitability is projected to decline by €10 billion in 2025, equivalent to roughly one-fifth of the sector's annual profits. By contrast, the pharmaceutical industry is less affected thanks to significant local US manufacturing and higher profit margins, which offer greater room for adjustment.

The agreement also involves major headline commitments. By 2028, the EU has pledged to invest $600 billion in the US and to purchase $750 billion worth of US energy. Meeting this target would require tripling annual EU energy imports from the US, covering 85% of Europe's needs. Such volumes could place significant strain on US export capacity, creating new bottlenecks and dependencies.

1.4 External pressures fuel uncertainty, volatility and economic fragmentation

1.4.1 Potential worsening of low-growth and high-debt trends

An official acknowledged that there have been positive macroeconomic developments within Europe, notably the completion of the disinflation process. The ECB has reached its terminal rate of 2%, and rising real wages, combined with easier financial conditions, are expected to support domestic consumption and investment.

However, US trade measures represent a significant headwind for European economies. It is estimated that the impact of tariffs through reduced external demand will lower EU GDP by 0.2% in 2026, while persistent uncertainty could subtract a further 0.2%. In addition, the appreciation of the euro compounds the challenges faced by European exporters.

Another source of concern is the potential decoupling of China and the US, which could lead to significant trade diversion effects. Current tariff levels are projected to increase EU imports by 1.5%. Thus far, however, most diverted trade flows have been redirected to ASEAN countries, rather than to the EU, limiting potential benefits.

Europe's medium-term growth outlook remains weak. Addressing this requires improving productivity and growth potential, not just per capita income. Long-term spending pressures are set to intensify, driven by demographic ageing—which affects pensions and healthcare—alongside defence requirements and the financial demands of the green and digital transitions.

Without decisive fiscal measures, average EU debt levels could double within 15 years, reaching 135% of GDP, and potentially exceeding 155% when weighted by country size. This trajectory is unsustainable, making fiscal action and structural reforms imperative.

1.4.2 Uncertainty, volatility and fragmentation

An official cautioned that, despite the trade agreement, a high degree of systemic uncertainty persists, contributing to market volatility and the risk of global economic fragmentation.

One clear indicator of this is the marked increase in sovereign bond yield volatility, which, at the end of last year, reached above pre-crisis and pre-pandemic levels, complicating accurate pricing and risk assessment. Moreover, during the pandemic, median OECD sovereign yields in the primary market were close to zero. In 2024, they averaged around 4%, reflecting a fundamentally different interest rate environment.

Additionally, a large proportion of corporate and sovereign bonds will mature within three years. Refinancing this debt at higher market rates will increase cumulative interest payments, which, for OECD sovereigns, are already higher than defence spending. This combination of higher volatility, elevated borrowing costs and compressed refinancing timelines risks amplifying fragmentation pressures within the EU financial system.

Stronger international cooperation is essential to mitigate these risks. Without coordinated policy responses, divergences in financing conditions and economic performance across Member States could widen further, undermining both financial stability and the cohesion of the single market.

1.5 Nordic outlook

An industry representative presented the perspective of a pan-Nordic financial institution operating across borders, noting that its outlook is shaped by specific Nordic characteristics, particularly the small size and high openness of the region's economies. As a result, Nordic countries rely heavily on the EU's capacity to act as a unified player in addressing external risks.

The existence of the EU–US trade agreement is viewed positively from a Nordic standpoint. By securing preferential access to the US market, EU Member States avoid the higher tariffs imposed on other countries, which helps sustain transatlantic trade flows. US demand for EU imports is expected to remain robust, given the structural constraints on expanding US domestic production.

For Denmark, exports to the US represent around 2% of GDP, while the total export share is approximately five times higher. A substantial portion of these exports is produced in the US but recorded as Danish exports under national accounting rules. These activities fall outside the scope of the trade agreement, creating potential vulnerabilities that are particularly significant for smaller economies. The Nordic perspective underscores the need for broader analytical frameworks that go beyond traditional trade definitions to capture evolving international production and investment patterns. Smaller countries remain more exposed to external shocks and therefore depend on effective collective EU action to mitigate risks and maintain economic resilience.

2. Fiscal discipline, structural reforms and EU initiatives

2.1 Europe's growth agenda

2.1.1 National reforms and EU integration

An industry representative stressed that a combination of national and EU-level reforms is essential to address Europe's structural challenges effectively. Given the significant divergence in country-specific dynamics, tailored national solutions must be complemented by coordinated EU action.

Individual nations continue to face several socio-economic challenges and differ in their capabilities. France continues to face persistent fiscal pressures, now compounded by recent political instability, which could slow efforts to reduce deficits and exacerbate already high debt and borrowing costs. By contrast, while Germany also faces growth challenges, it benefits from greater fiscal space, allowing it to tackle growth challenges more flexibly. Italy and Spain, despite weaker credit profiles than larger economies, are showing gradual improvement, highlighting the need for differentiated national policy approaches.

Demographic ageing is a shared challenge across the EU and beyond. Currently, 2.7 working-age people support each person over 65 in the EU, but this ratio is expected to fall to 2:1 within two decades, requiring comprehensive productivity strategies to increase labour participation. Denmark's initiatives in this area offer relevant insights. However, degree of the challenge varies across the EU, and hence solutions also vary nationally.

Several cross-border challenges also call for coordinated EU responses, particularly in areas intersecting with national policies. These include innovation, regulatory simplification, and capital market deepening. Although the EU creates around 10% more start-ups than the US, it often struggles to scale them, not only due to funding gaps but also because of regulatory fragmentation.

Additional barriers include limited access to financing, fragmented capital markets, and a more conservative investment culture compared to the US. European pension funds allocate around 7% of their venture capital funding to new ventures, versus 20% in the US. While European households save 35% more than their American counterparts, a smaller share of these savings is invested in financial assets. According to an ECB study, aligning EU household allocations with US levels could unlock €350 billion in additional capital for innovation.

Finally, private credit—currently around €500 billion assets under management in Europe — nearly 30% of global private credit AUM — could play an active role in the development of a securitisation market, provided EU and national policymakers strike the right balance between opportunity and risk when interpreting Europe's growth potential.

2.1.2 EU, national and budgetary reforms

An official emphasised that Europe has the capacity to address its structural challenges - including low productivity, insufficient growth, and fiscal sustainability - through a coordinated set of reforms at both EU and national levels.

Three main reform levers were highlighted:

1. European-level reforms should focus on product market integration to enable firms to operate at scale and ensure labour mobility. Advancing the Savings and Investment Union (SIU) will help allocate risk capital more efficiently. A European energy strategy that increases renewable capacity while ensuring sufficient baseload power is also essential to lower energy prices sustainably.
2. Domestic structural reforms can significantly boost growth. If each Member State were to close half the gap with the best performers in five priority areas, EU GDP could increase by around 6%. Achieving this requires strong political commitment.
    - The first priority is labour: developing a skilled, flexible workforce that can move between sectors. Denmark's flexicurity model offers a compelling example.
    - The second priority is fiscal reform, particularly concerning pension systems and public investment management in Eastern European countries.
    - The third involves business regulation and innovation, supported by further progress on the Capital Markets Union (CMU).
3. Reforming the EU budget is also crucial. The Commission proposes making it more performance-based, with increased support for European public goods. This would involve raising spending from 0.4% to 0.9% of GNI, particularly in defence, R&D, and energy infrastructure, thereby enhancing policy effectiveness and lowering costs for Member States.

All these objectives are achievable, but political obstacles must be overcome and compensation mechanisms provided for those negatively affected by reforms

2.1.3 Managing global debt

An official explained that sustained long-term growth relies on two core pillars: sound fiscal policies and deep structural reforms. This is particularly pressing given the unprecedented scale of global debt.

Global outstanding bonds now amount to around $100 trillion, of which 65% are sovereign and 35% corporate, following record annual issuance of $25 trillion in 2024. Crucially, a significant share of this debt will mature within the next three years and will likely have to be refinanced at higher interest rates. Rising geopolitical and economic tensions could magnify refinancing risks.

The OECD Global Debt Report 2025 underscores that governments can justifiably intervene during crises with expansionary fiscal policies. Despite this, after the 2008 financial crisis and the COVID-19 pandemic, debt levels were not subsequently reduced, leaving fiscal positions structurally more fragile.

At the same time, monetary policy shifts have transformed the investor base. Over the past four years, the share of OECD sovereign bonds held by central banks diminished by 10 percentage points, increasing the share of price-sensitive investors, such as households and foreign entities.

Several policy instruments could help address these challenges. Expanding retail investor participation, both direct and indirect, could enhance financial stability and reduce sovereign vulnerabilities to sudden shocks in financial markets. For example, investment savings accounts could mobilise household savings more effectively. Boosting investors' financial literacy is necessary to support these efforts.

Strengthening occupational pension funds with limited withdrawal options and creating incentives for long-term equity investment are also key. Moreover, following the financial crisis, much of the rise in corporate bond issuance was channeled into share buybacks and dividends, rather than productive investment, a pattern that must change.

2.1.4 European initiatives to strengthen growth and resilience

A regulator noted that limited fiscal space - due to spending pressures, higher interest rates, and increased demands on public resources for defence and security - makes it essential to mobilise private capital and pursue European-level initiatives to support growth and resilience.

Proposals for the Savings and Investment Union (SIU) are expected soon, alongside a comprehensive set of new Commission initiatives later in the year. While the

Commission aims to deepen the single market, certain areas, such as pensions, remain under national competence, which constrains regulatory harmonisation.

Progress will therefore depend heavily on bottom-up dynamics, requiring financial education, greater awareness among policymakers, and innovative solutions tailored to national specificities that currently hinder market integration. While some services are best delivered at the national level, a creative approach is needed to build towards a genuinely European market. Political education on the SIU is also crucial to generate broad support.

Regarding the EU budget, the existing flexibility mechanisms, national prioritisation, and new strategic focus mark a bold step forward. The Commission's proposal deserves recognition for its ambition and pragmatism, which could make EU-level financing more effective in supporting structural transformation.

2.2 Building a more competitive and resilient Europe

2.2.1 Completing the EU internal market for consumers

An industry representative argued that enhancing the functioning of the EU internal market is a central priority for strengthening competitiveness and resilience. While some Member States resist further integration, often citing consumer protection concerns, a fully integrated single market would ultimately benefit consumers the most through lower prices, greater choice, and enhanced competition.

An official highlighted that reducing intra-European trade barriers by the equivalent of a 1.5 percentage point cut in ad valorem tariffs could offset much of the negative impact of US trade measures. Similarly, reducing trade costs for other partners by 3 percentage points, from their current level of around 85%, would further cushion the shock. These calculations demonstrate that, while the external headwinds are significant, they are not insurmountable if Europe deepens its internal economic integration.

2.2.2 The need for cooperation between Member States and the Commission

An official stressed that strong cooperation between Member States and the European Commission is essential to deliver meaningful progress on competitiveness and resilience. A bottom-up approach, similar to that used for the Savings and Investment Union (SIU) and the Capital Markets Union (CMU), should be prioritised. Such an approach would strengthen ownership of projects at the national level and encourage Member States to align their priorities with European objectives.

Effective cooperation also requires ensuring clarity and consistency in interpretation between national authorities and EU institutions, so that initiatives can be implemented uniformly across the Union.

2.2.3 Long-term resilience requirements

An official observed that there is broad consensus at Eurofi that uncertainty remains the greatest risk to Europe's long-term resilience, and that the mere existence of the EU–US trade deal is valuable. However, addressing long-term strategic challenges is equally critical.

Security and energy dependencies affect the EU as a whole and cannot be addressed by individual Member States alone. Active participation in global supply chains is essential, but neither most EU countries nor the US have the capacity to sustain large deficits indefinitely.

The EU must therefore pursue open strategic autonomy, combining economic strength and defence capabilities to engage internationally on more equal terms.

Europe's long-term success will depend on competitiveness, productivity, and a more proportionate regulatory framework. This requires a pragmatic acceptance of shifting global realities and a focus on building partnerships rather than barriers. For both the EU and its Member States, the strategic task is to build bridges, deepening cooperation and positioning Europe more effectively on the global stage.

2.2.4 Lessons from the Nordics

An industry representative underlined the importance of focusing on practical implementation measures, drawing lessons from Nordic experiences.

Denmark's flexicurity model has proven highly effective but requires substantial financial investment, particularly in active labour market policies. Adjusting the retirement age is also crucial for addressing demographic challenges, strengthening public finances, and supporting sustainable growth. The Danish approach questions the widespread assumption that longer lifespans must necessarily entail lower retirement incomes, instead encouraging extended workforce participation.

Nordic countries typically enjoy higher levels of political and societal trust, which has resulted in less fragmentation and more cost-effective crisis management, as demonstrated by their relatively efficient responses during the pandemic in terms of lockdowns, production losses, and public spending.

Key growth sectors in the region include pharmaceuticals, life sciences, green technologies, and the green transition, supported by high education levels and a strong start-up culture. With an effective policy framework, these industries can underpin sustainable growth. Moreover, profitable niches in traditional sectors, such as food production and shipping, highlight the importance of maintaining a broad and diversified economic base.