

# Special Update

March , 2025  
[www.roancp.com](http://www.roancp.com)

## The European Economy: Current State

### Overview

As of March 10, 2025, the European economy exhibits a mix of resilience and fragility amid a challenging global environment. Following a period of stagnation in 2023 and modest growth in 2024, the European Union (EU) and euro area are navigating a gradual recovery, tempered by geopolitical tensions, trade uncertainties, and structural weaknesses. The European Commission's Winter 2024 Economic Forecast projects EU GDP growth at 1.7% and euro area growth at 1.5% for 2025, reflecting a cautious uptick from 0.9% and 0.8% in 2024, respectively [Web ID: 18]. However, downside risks loom large, driven by external pressures and internal disparities.

### Growth and Sectoral Dynamics

### Growth and Sectoral Dynamics

Economic activity in the EU has stabilized after a weak 2023, with real GDP growth estimated at 0.5% for both the EU and euro area [Web ID: 17]. The first quarter of 2024 marked a turning point, with a 0.3% quarterly increase signaling the end of a mild recession in the euro area [Web ID: 0]. Growth in 2025 is expected to accelerate slightly, driven by recovering consumer spending and investment, though it remains below potential [Web ID: 16]. Southern EU economies, like Spain (projected at 3% growth in 2024 [Web ID: 16]), outpace northern counterparts such as Germany, which faces manufacturing contraction and energy price fallout from the Ukraine conflict [Web ID: 9]. This divergence underscores ongoing economic fragmentation, with Malta forecast to lead at 4.3% growth in 2025 [Web ID: 19].

## **Inflation and Monetary Policy**

Inflation continues to ease, providing some relief. EU Harmonized Index of Consumer Prices (HICP) inflation is projected to fall from 6.3% in 2023 to 2.5% in 2025, with the euro area reaching 2.2% [Web ID: 17]. Core inflation remains stubborn at 2.7% as of early 2025, driven by services [Web ID: 16], but the European Central Bank (ECB) anticipates hitting its 2% target by late 2025 [Web ID: 8]. In response, the ECB has adopted a dovish stance, cutting its deposit rate to 2.75% by January 30, 2025, with further reductions expected [Web ID: 9]. This loosening aims to bolster growth amid weak near-term prospects, as noted by ECB President Christine Lagarde [Web ID: 9].

## **Labor Market and Fiscal Position**

The EU labor market remains a bright spot, with the employment rate hitting 75.8% in Q2 2024 and unemployment steady at a historic low of 6.1% in 2023 [Web ID: 10]. However, rising unemployment in countries like Italy (6.2% in December 2024 [Web ID: 9]) and projected euro area increases to 7% by year-end 2025 signal emerging softness [Web ID: 9]. Fiscally, the EU government deficit is expected to decline to 2.9% of GDP in 2025 from 3.0% in 2024, though debt-to-GDP ratios are creeping up to 82.9% [Web ID: 7], highlighting the need for consolidation amid higher interest costs.

## Challenges and Risks

Geopolitical instability—Russia’s war in Ukraine, Middle East conflicts, and potential U.S. tariffs under President Trump—threatens trade and energy security [Web ID: 12]. The EU’s export outlook is clouded by a possible 25% U.S. tariff on steel and aluminum, prompting retaliatory measures [Web ID: 16]. Domestically, productivity stagnation and demographic pressures challenge long-term growth, with labor supply expected to plateau post-2025 [Web ID: 6]. These factors contribute to a subdued outlook, with the Economist Intelligence Unit noting a “sluggish economy” entering 2025 [Web ID: 11].

## Conclusion

The European economy in March 2025 stands at a crossroads: a modest recovery is underway, supported by falling inflation and a robust labor market, yet it remains vulnerable to external shocks and internal weaknesses. Policymakers face the dual task of sustaining growth while addressing fiscal and structural challenges to ensure resilience.

## References:

[Web ID: 0]: European Commission, "Spring 2024 Economic Forecast," May 14, 2024.

[Web ID: 6]: EY, "European Economic Outlook – October 2024," October 24, 2024.

[Web ID: 7]: CEPR, "Gradual expansion of the EU economy ahead," May 28, 2024.

[Web ID: 8]: IMF, "Europe: Turning the Recovery into Enduring Growth," May 13, 2024.

[Web ID: 9]: Vanguard, "Our economic outlook for the euro area," February 20, 2025.

[Web ID: 10]: European Commission, "EU guidance on socio-economic challenges in 2025," December 17, 2024.

[Web ID: 11]: Economist Intelligence Unit, "Europe outlook 2025," December 15, 2024.

[Web ID: 12]: globaleurope.eu, "European Economic Outlook 2025," December 12, 2024.

[Web ID: 16]: The Conference Board, "Economic Forecast for the Euro Area," February 12, 2025.

[Web ID: 17]: Publications Office of the EU, "European economic forecast," 2024.