Europe outlook 2025

Trump's tariff threats and a spotlight on competitiveness



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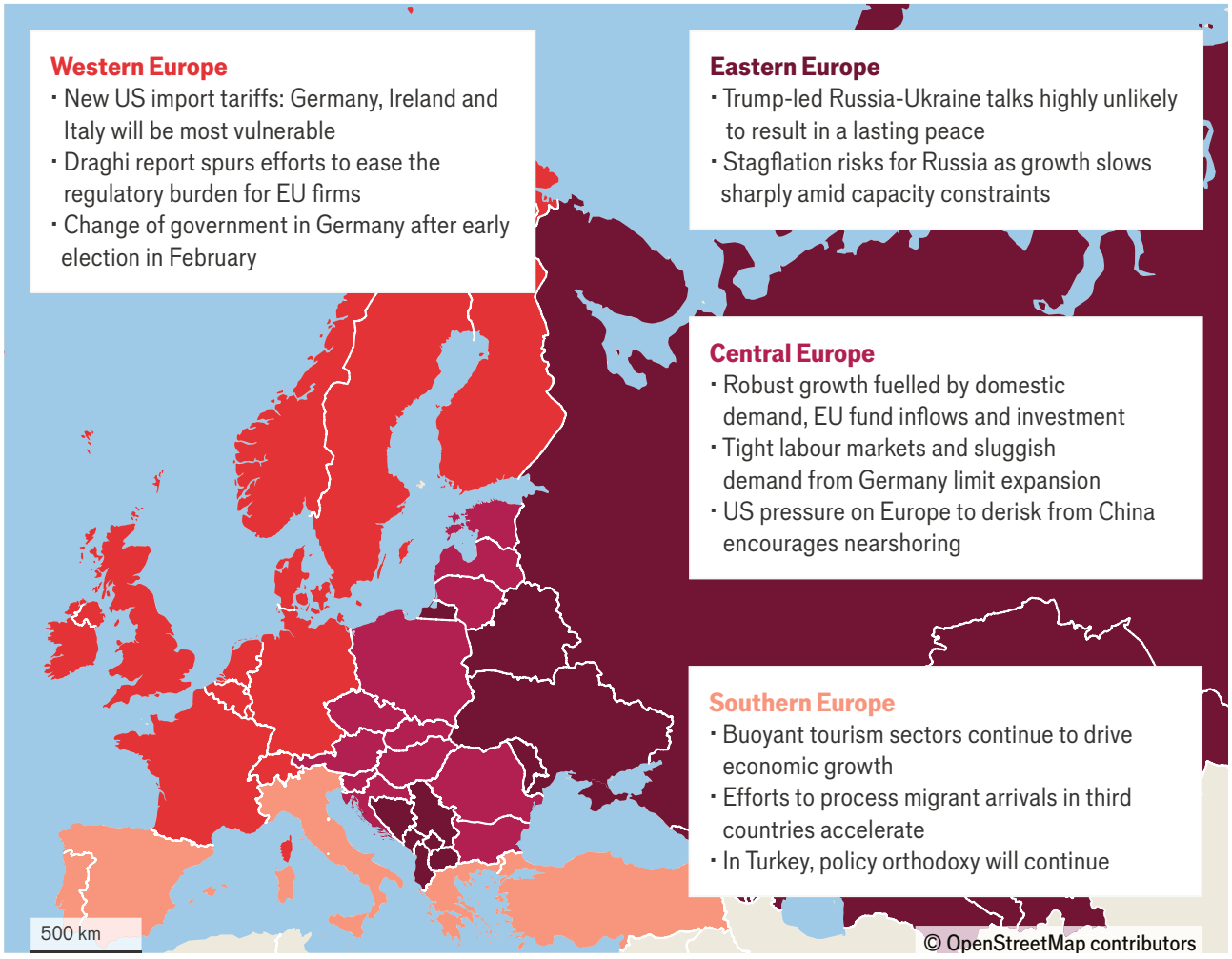
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Europe outlook 2025

- **Europe faces a challenging 2025. Sluggish economic growth plus the protectionist trade policies of the incoming Trump administration in the US mean that recession risks will be high.**
- **At the same time, the Draghi report has sounded the alarm about the region's loss of global competitiveness, and policymakers will be grappling with how to address this.**
- **Difficult decisions will be made harder by an increasingly fragmented political scene, with immigration a dominant political concern.**

What to watch in 2025: Europe



Source: EIU.

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Emily Mansfield
Regional director, Europe

Donald Trump's decisive victory at the US presidential election has increased the risk of a downturn in Europe.

The EU is the biggest trading partner of the US, and its export-oriented economies would be heavily exposed to blanket US import tariffs. We expect tariffs to be imposed in late 2025, probably at closer to 5-10% than the 20% he has threatened, with the main impact in 2026. Still, renewed uncertainty about the global economic outlook—with rising trade protectionism and growing geopolitical risks—could undermine external demand and consumer confidence, pushing the European economy into recession. Germany, Ireland and Italy are most vulnerable; in contrast, growth in 2025 will be boosted in eastern Europe by nearshoring, and in southern Europe by tourism.

What to watch:

Europe's economy could benefit from US firms front-loading orders in 2025 to beat the tariffs and the stronger US dollar making European exports more competitive. Downside risks include a flood of cheap imports from China into Europe.

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Can Europe arrest its slide in global competitiveness?

Mario Draghi's warnings about the future of European competitiveness will add urgency to the EU policy agenda in 2025.

Mr Draghi, a former European Central Bank president, has warned that the region faces "slow agony" if it does not boost productivity, with its ageing population otherwise leading to economic stagnation over the longer term. Already, Europe's investment into advanced technologies has lagged that of China and the US, and the EU has fallen substantially behind the US in terms of real GDP per head. The European Commission that takes office in December will be tasked, at least in part, with parsing Mr Draghi's 400 pages of policy recommendations and deciding how to address this.

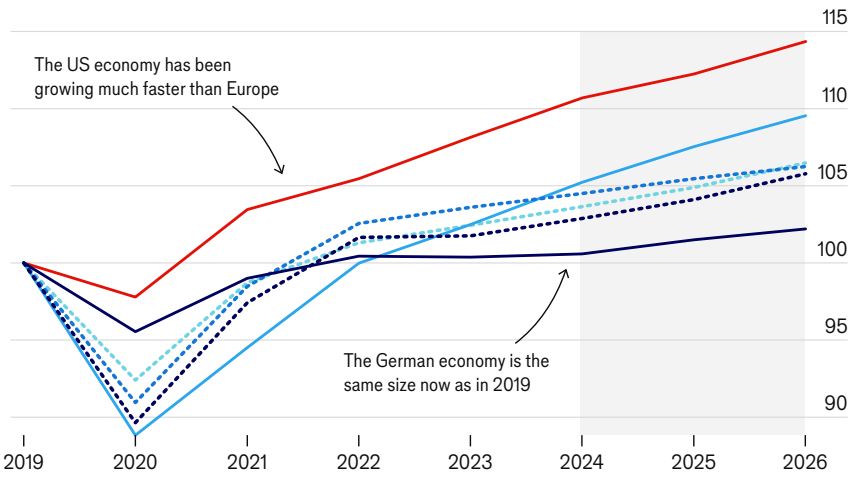
What to watch:

Wins are likely in 2025 on the more uncontroversial proposals, such as reducing regulatory requirements for firms. Finding consensus on transformational policy areas, like reducing EU capital market fragmentation, will remain challenging.

The European economy has been falling behind the US

Real GDP per head; 2019=100





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What will the dominant political issue be?

The cost of living will still be front of mind for voters in 2025, but concerns about immigration will have the greatest impact on policy.

The public consensus on migration has shifted dramatically to the right in Europe over the past decade, with ideas that used to be considered extreme becoming normalised and adopted by mainstream parties. In 2025, in the interim period before the EU's new Migration and Asylum Pact comes into force in mid-2026, many governments will take unilateral action to speed up the processing of asylum applications and the deportation of those who fail to qualify.

What to watch:

The most significant vote will be the snap German federal election in February, which the centre-right–taking a tough line on immigration–is set to win. Political stability in France, where a snap election will become feasible from end-June, will also be important to monitor.

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Meet the EIU team



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Find out more

Emily Mansfield is the Regional director for Europe at EIU, leading the coverage of European political and economic affairs, and managing a large team of analysts, with the goal of producing market-leading analysis and accurate forecasts.

Her specialist areas are France, Germany, the UK and Europe-wide issues. Emily joined EIU in 2011, having previously worked in France and the US. She holds a graduate diploma in economics from Birkbeck, as well as bachelor and master's degrees from the University of Cambridge.

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