

CareEdge Global Ratings **EdgeSphere**

A 360° view on Europe
in a shifting global order

March 2026



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Structural headwinds

-  Weak growth
-  Ageing population
-  Slowing productivity and loss of competitiveness
-  Debt and fiscal concerns

Structural anchors

-  Low debt servicing costs
-  Global leader in services
-  Strong external sector
-  Secular fall in unemployment rates
-  Decrease in NPL ratios across the region

Systemic risks

-  Competition from China
-  US-EU's evolving dynamics
-  Elevated geopolitical tensions

Strategic upside catalysts

-  Southern European economies' growth outperformance
-  Rise in EU public investments
-  Rise in investor interest towards euro-denominated assets
-  Increase in retirement age across Europe

Note: Europe and the European Union (EU) have not been used interchangeably. The EU represents 27 member states and Europe represents all countries in that region as specified. by IMF

Section A: Our insights on Europe

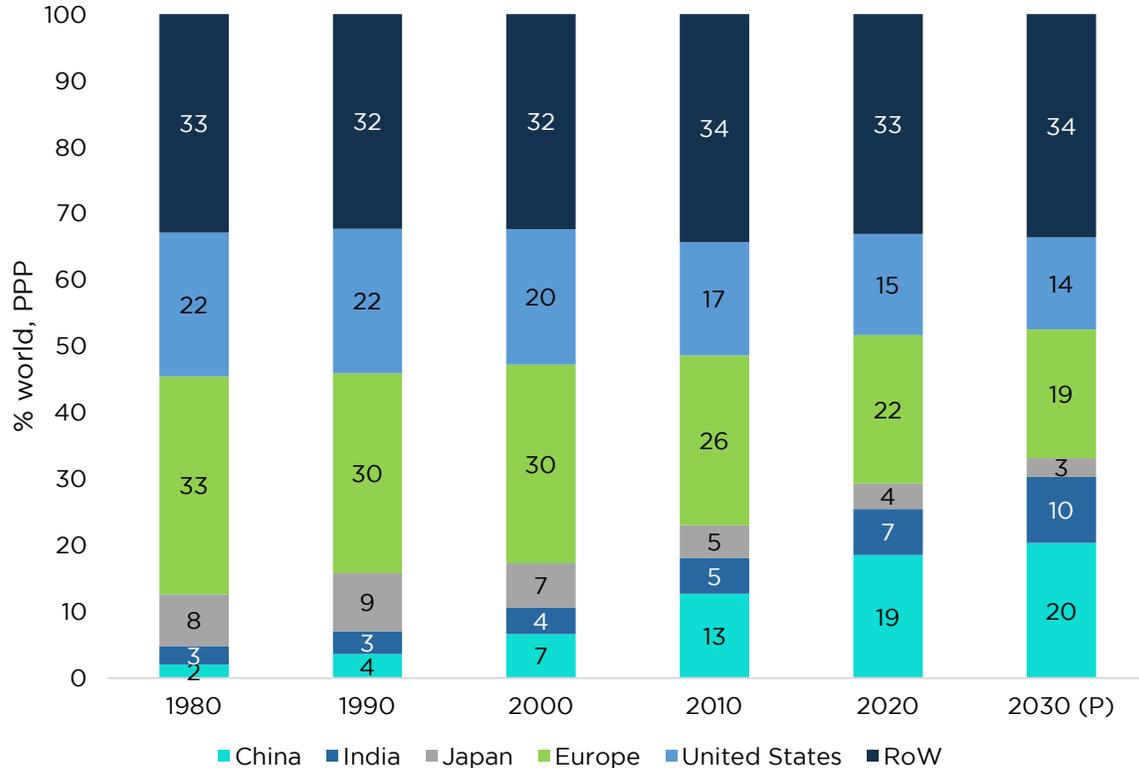


Structural headwinds

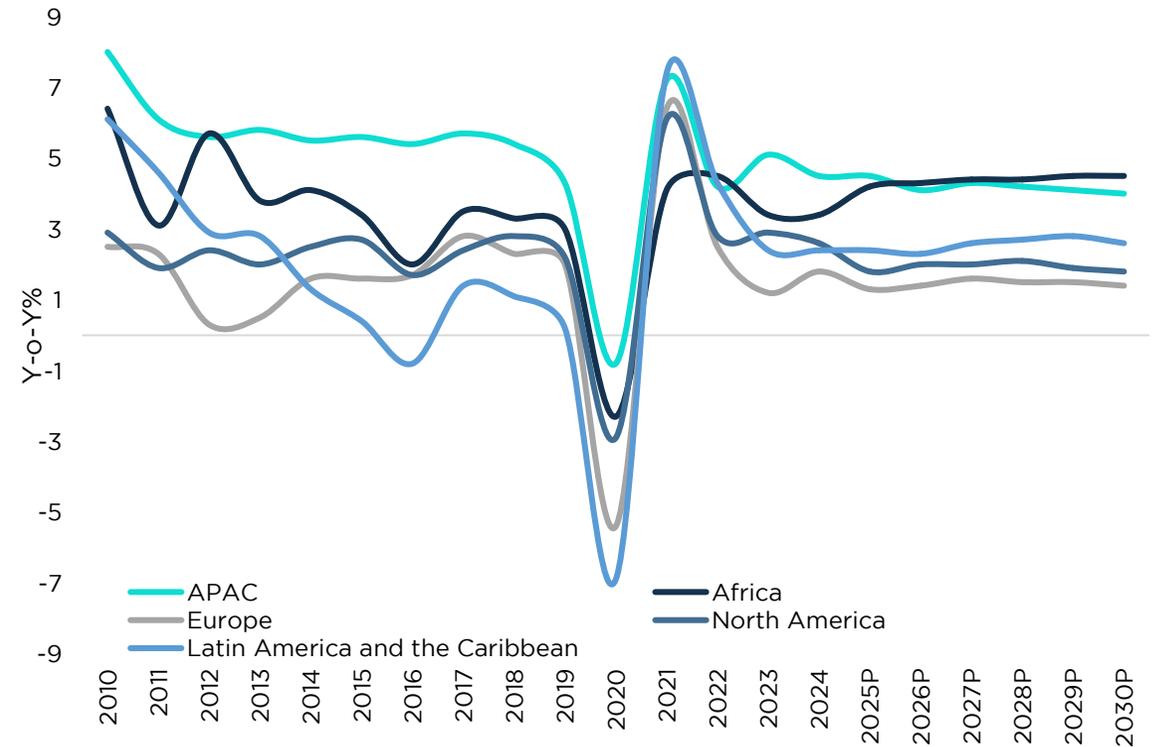


Notable reset: Europe's shrinking share in global GDP

Europe's share in global GDP has declined substantially



Europe is the slowest growing region



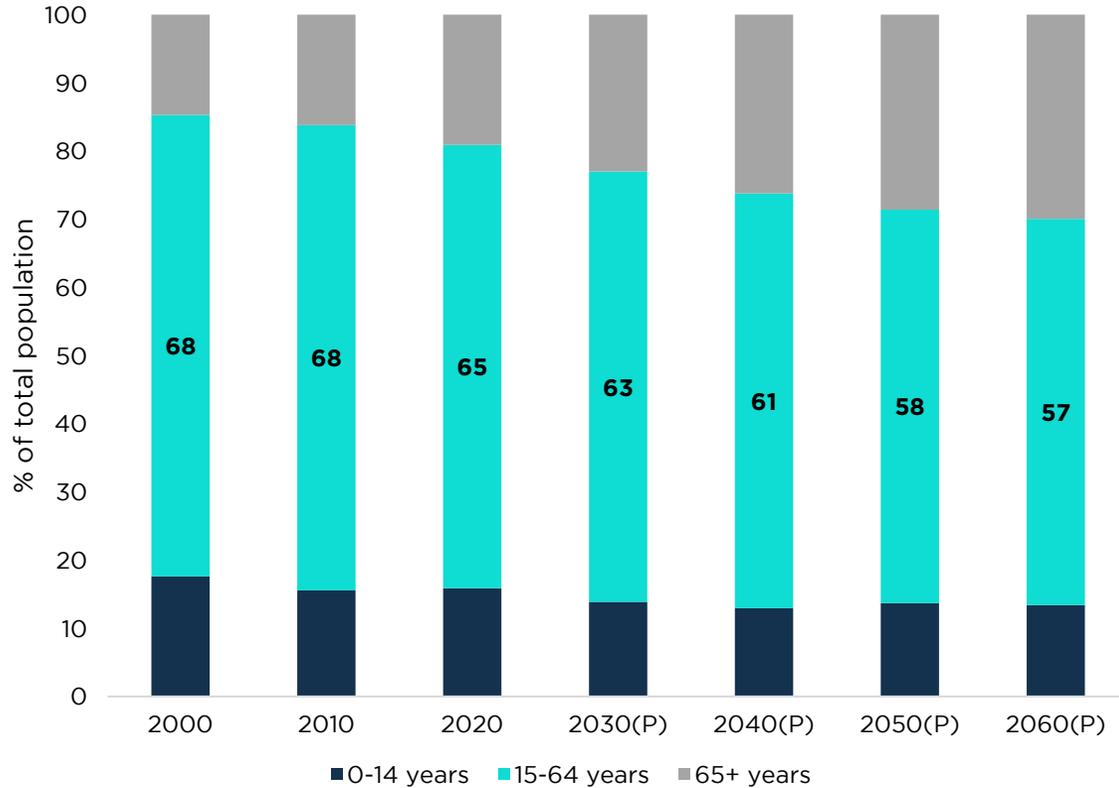
Source: IMF WEO, CGIL
Note: P = Projections

Source: IMF WEO, CGIL
Note: P = Projections

- Europe's share in global GDP is projected to decline from nearly 30% in the early 2000s to about 19% by 2030, reflecting the rise of emerging economies such as China and India.
- Concurrently, the region is now the world's slowest-growing major economic bloc.

Demographic pressures from ageing population

The shrinking share of working-age population in Europe



Source: UN World Population Prospects (WPP), CGIL
Note: P = Projections

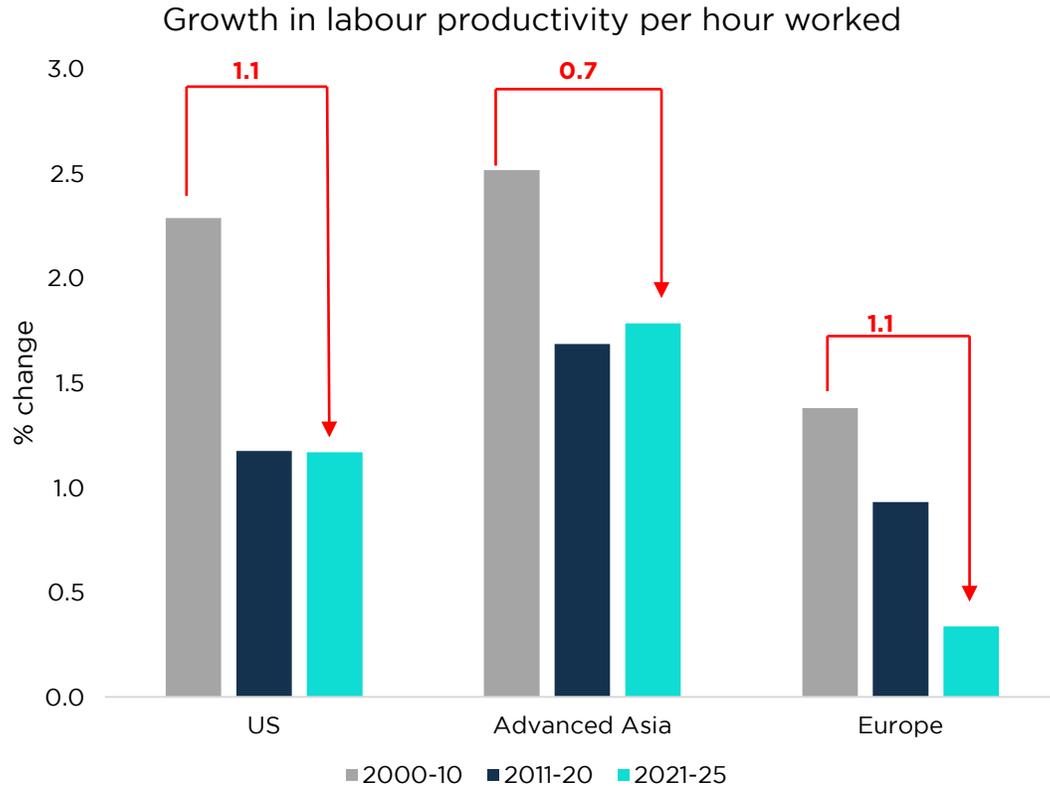
Net migration inflows to slow down in future



Source: UN World Population Prospects (WPP), CGIL
Note: P = Projections

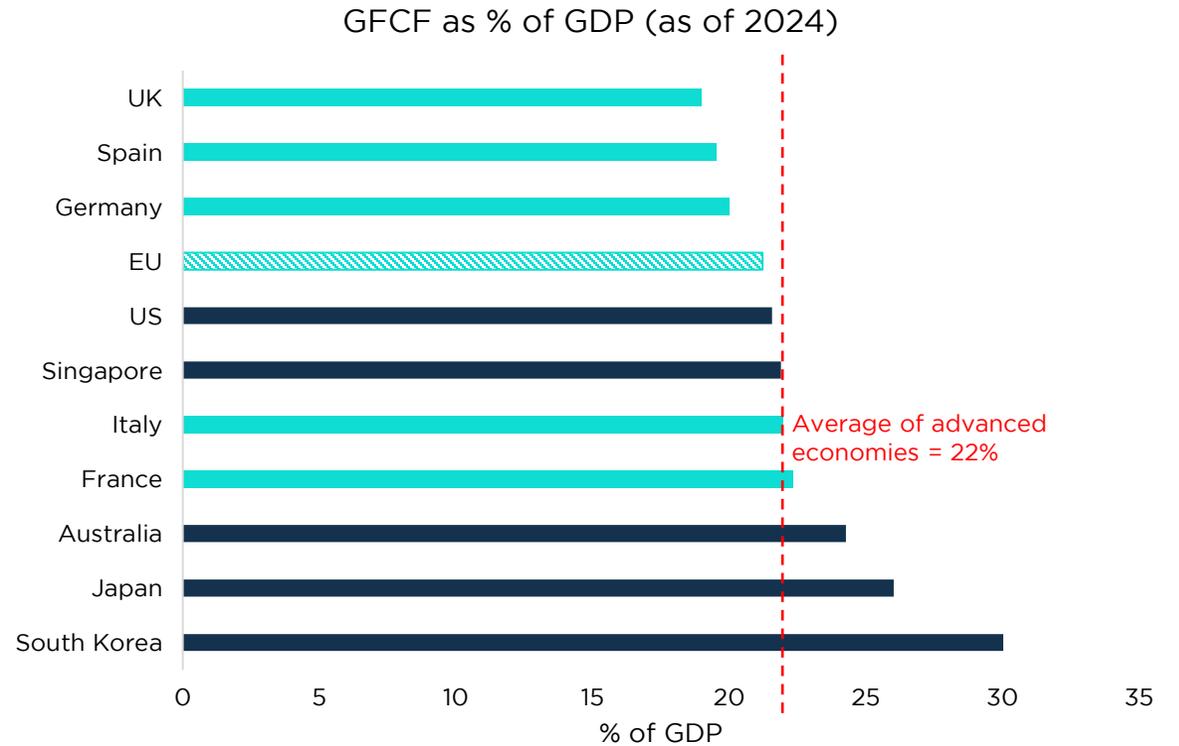
- Europe is already the world's oldest region by median age, at 43 years in 2025.
- While migration currently helps cushion labour shortages, it is unlikely to fully offset ageing pressures over the long term.

Labour productivity slows in Europe



Source: The Conference Board, CGIL
Note: Advanced Asia includes Australia, Japan, Singapore, and South Korea

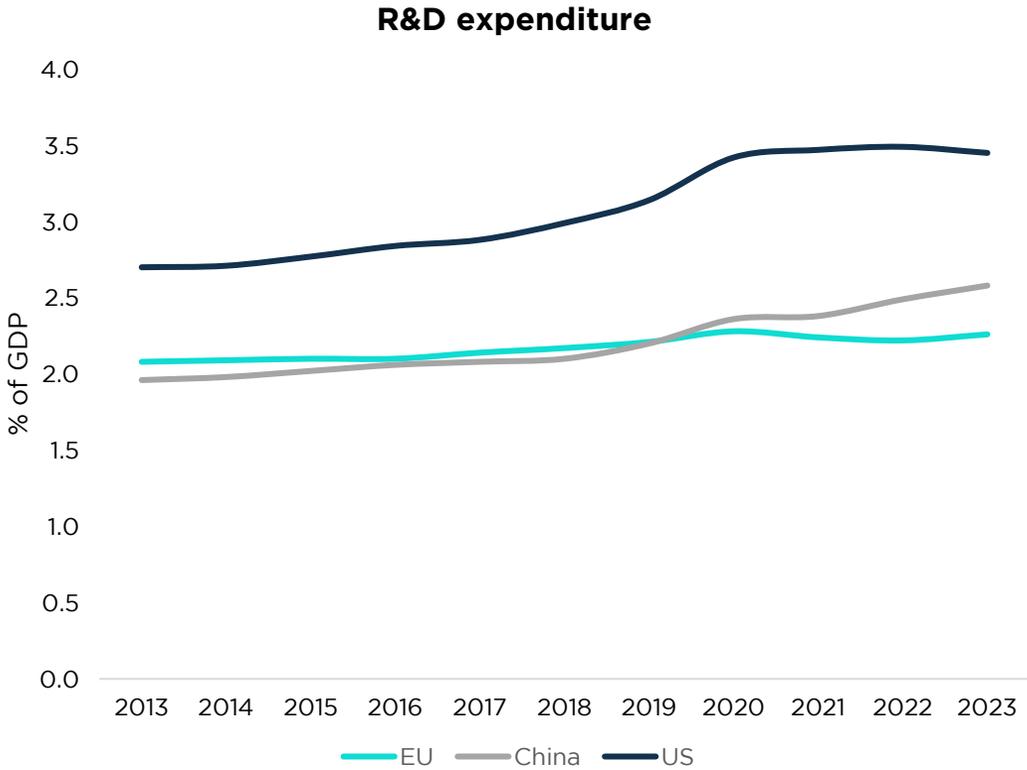
European economies lag in investment vis a vis other advanced economies



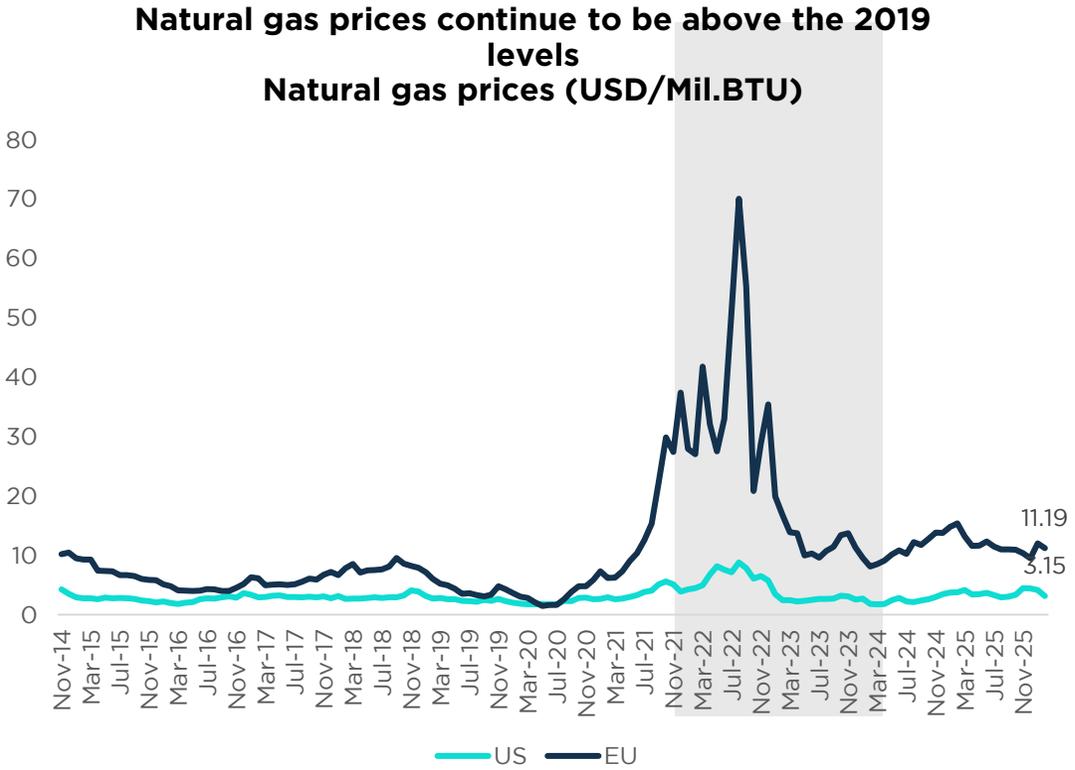
Source: World Bank, CGIL
Note: **Teal Blue** represent European Economies while **Dark Blue** represent Other Advanced Economies

- Europe trails its advanced peers in labour productivity growth and capital formation rates.
- With the working-age population now shrinking, future growth must rely disproportionately on productivity gains.

Lagging innovation and rising cost pressures



Source: World Bank, CGIL

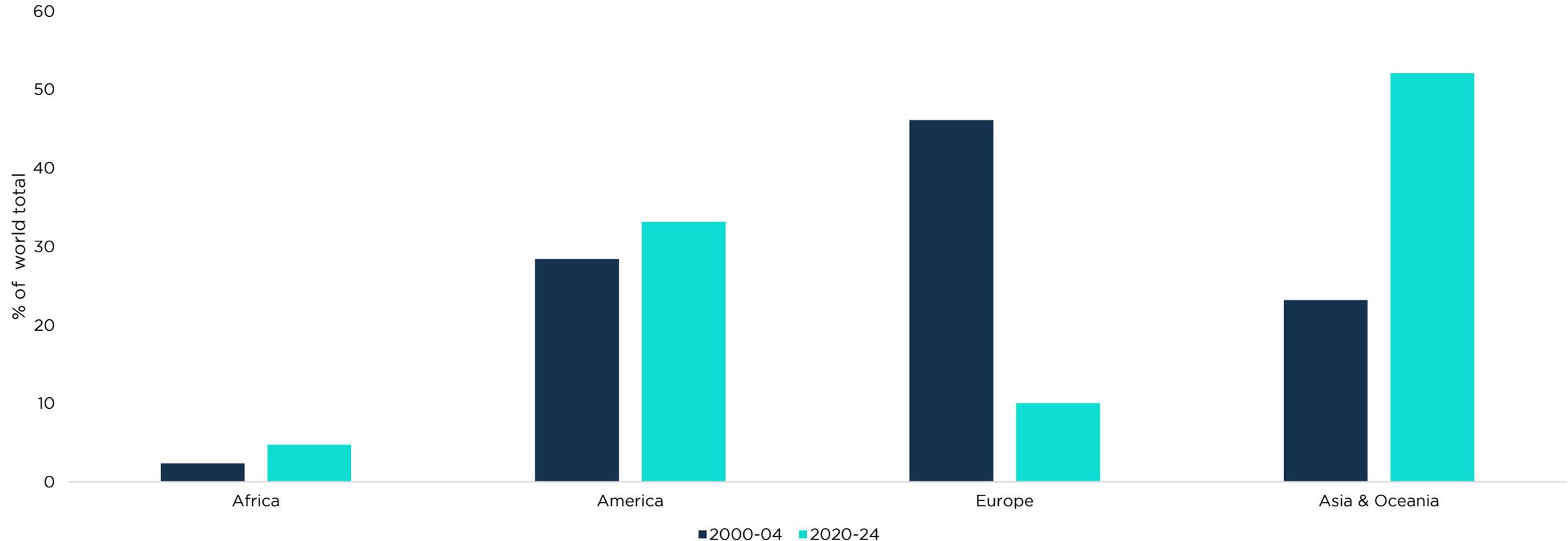


Source: Haver Analytics, CGIL
Note: The grey shaded area represents onset of Russia-Ukraine war

- Europe faces a significant gap in key high-growth technology sectors such as AI and semiconductors compared with the US and China.
- Traditional sectors are also facing cost pressures due to high natural gas prices.

Europe is losing ground as a top destination for FDI

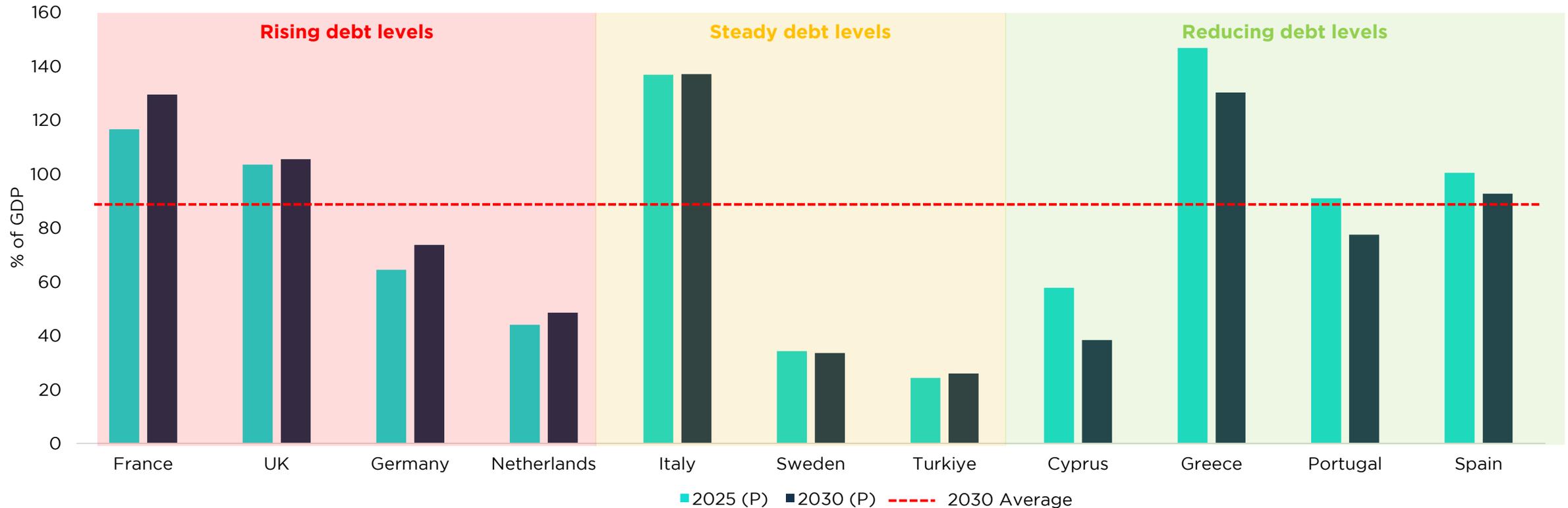
Inward gross FDI measured as a flow concept



Source: UNCTAD, CGIL

- Europe has seen a marked decline in FDI inflows, increasingly losing ground to fast-growing emerging economies such as India and China, while the US has attracted strong and stable investment flows.

Gross general government debt



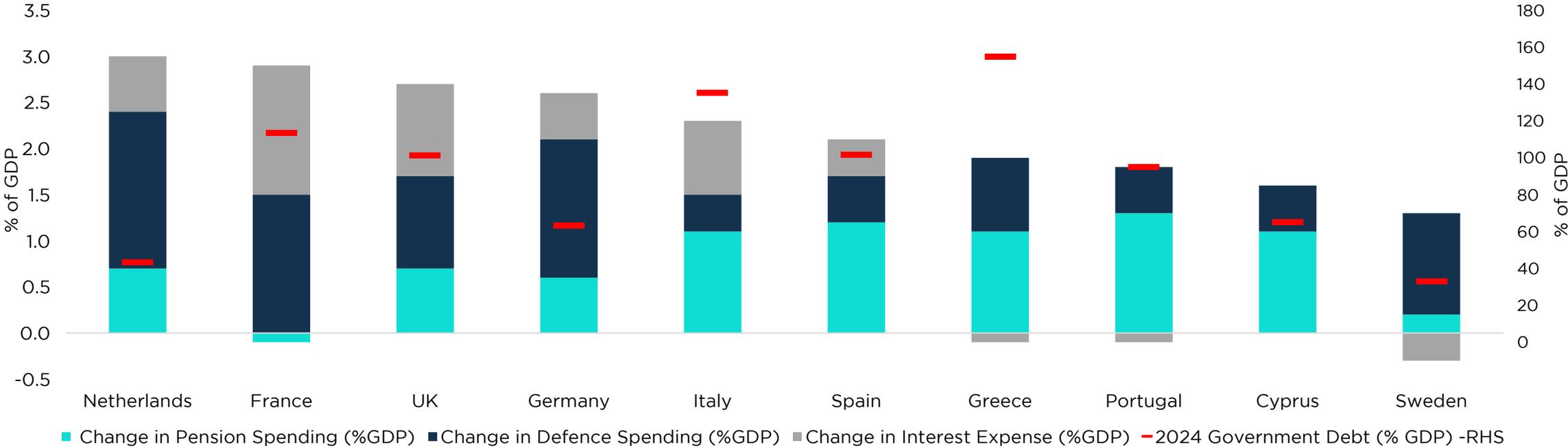
Source: IMF, CGIL

Note: GGG = Gross General Government, P = Projections

- France and the UK's debt levels are expected to rise because of high social spending and will remain above the EU average.
- Germany's debt is expected to rise sharply on account of fiscal loosening but likely to be below the EU average.
- Italy's debt, while broadly stable, is projected to remain well above the EU average, making it the most indebted government in the EU by 2030.
- Cyprus, Greece, Spain, and Portugal are expected to see a sharp reduction in debt levels. Despite this improvement, Greece's debt will remain well above the EU average, the second highest in the region by 2030.

Medium-term fiscal pressures arising from pension, defence and interest

Expected cumulative gross changes over 2024-2030



Source: EU Ageing Report, OBR, IMF, Budget Reports, CGIL

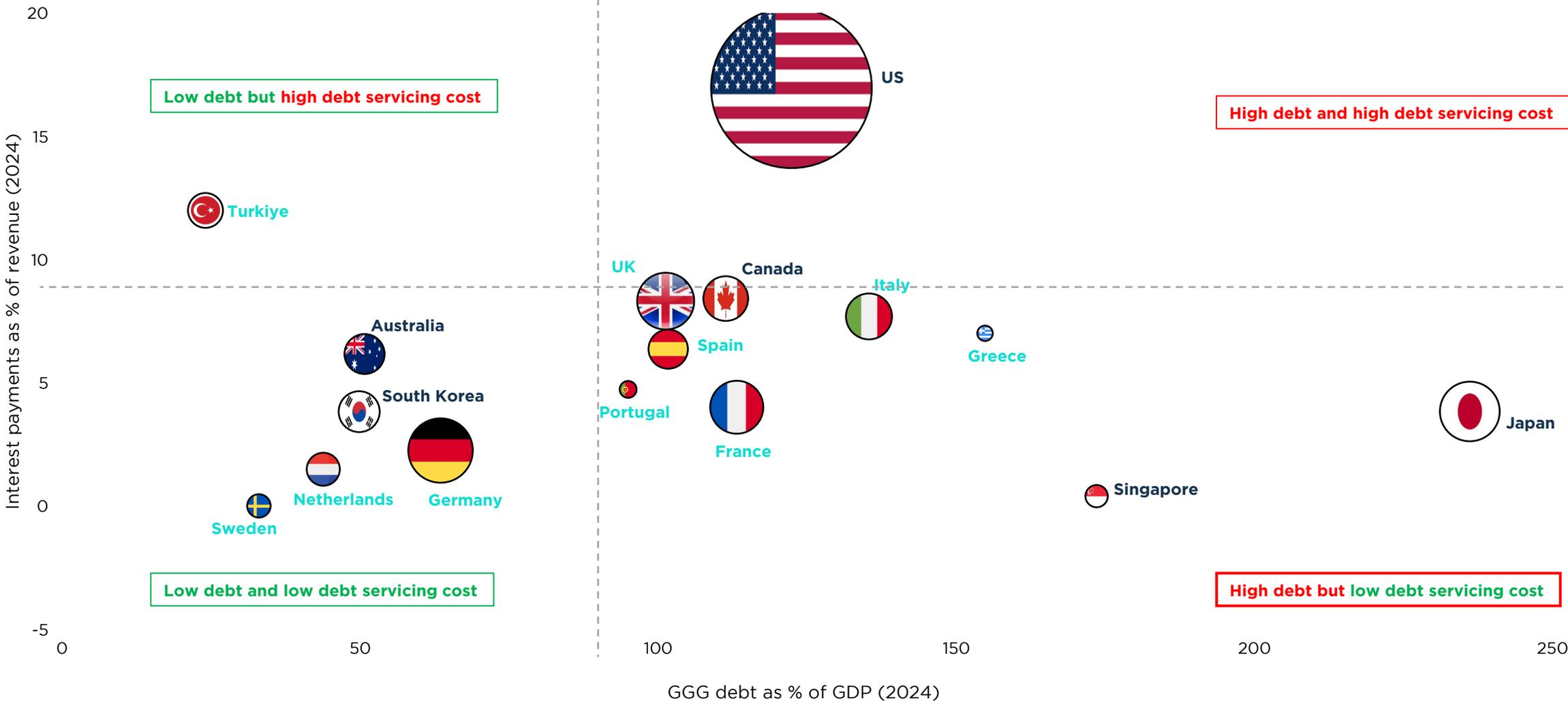
- Low general government debt helps the Netherlands absorb rising interest, defence, and pension costs.
- Across Northern and Western European economies (the Netherlands, France, the UK, Germany, Sweden), higher expenditure is largely driven by defence spending.
- In Southern European economies (Italy, Greece, Portugal, Cyprus) , rising pension spending drives medium-term expenditure pressures.
- France, the UK, and Italy are expected to face a higher interest-rate burden over the medium term.

Structural anchors



Low debt servicing cost

European economies in comparison to other advanced economies

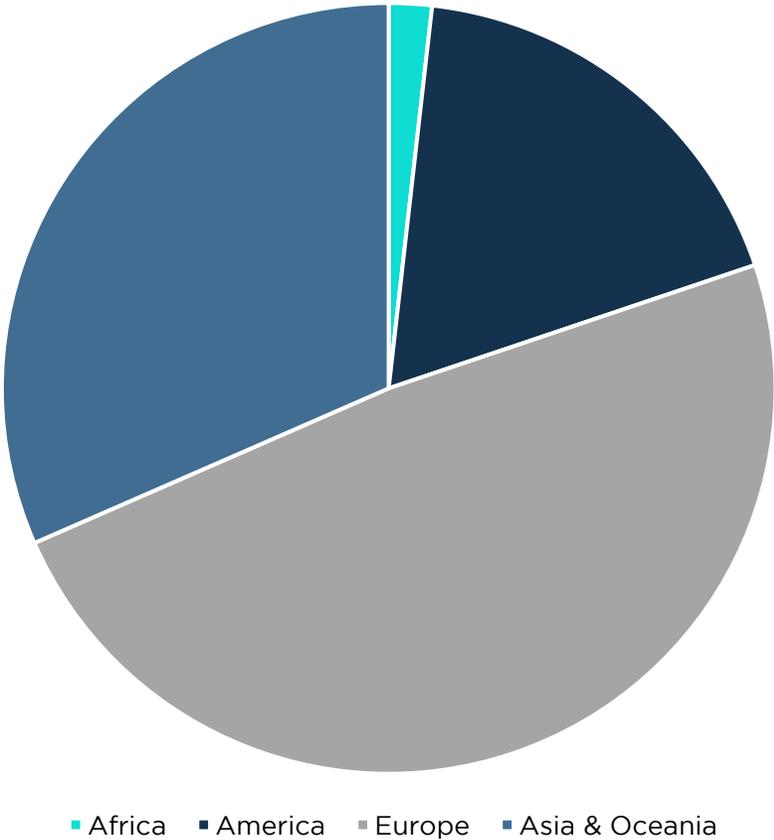


Source: IMF WEO, National Sources, CGIL

Note: Size of the bubble represents nominal GDP as of 2024

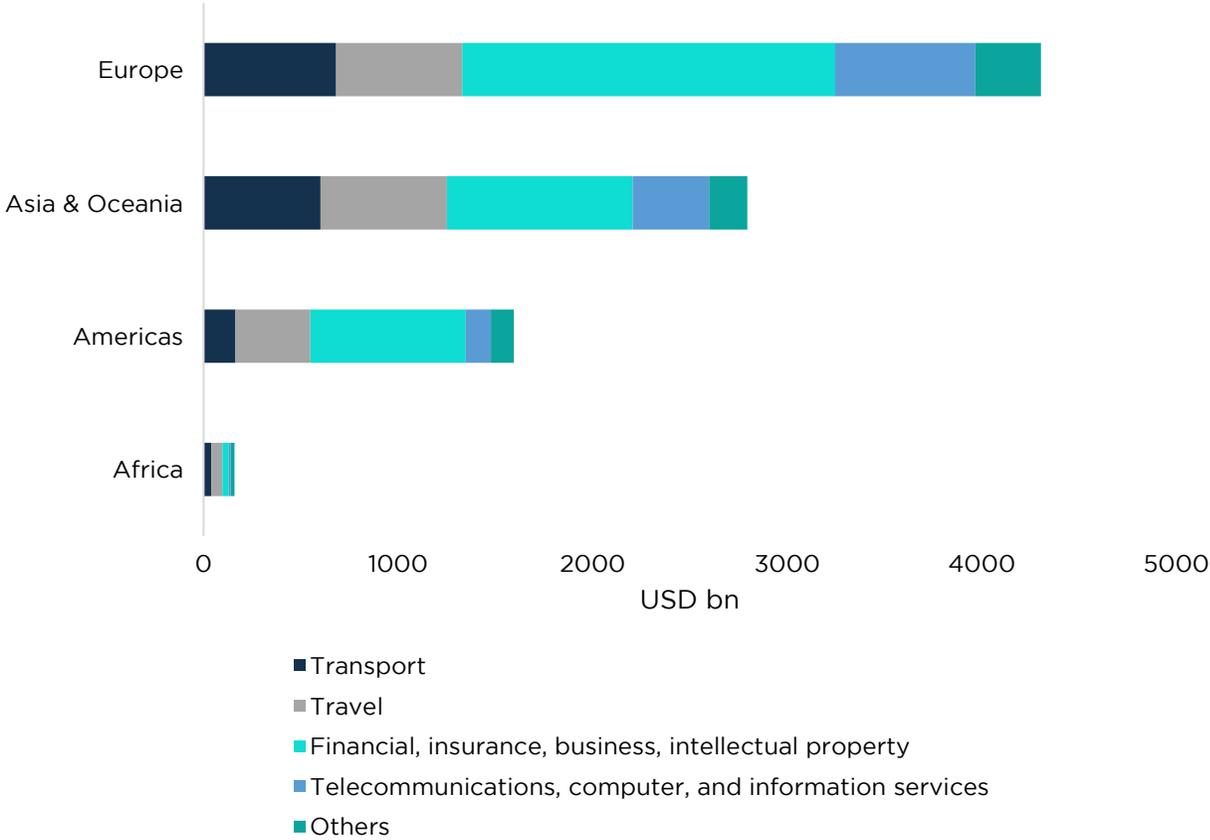
Teal Blue represent European economies while Dark Blue represent other advanced economies

Dominant position in the global services exports



Source: UNCTAD, CGIL
Note: Data as of 2024

Leads in export of high-end services



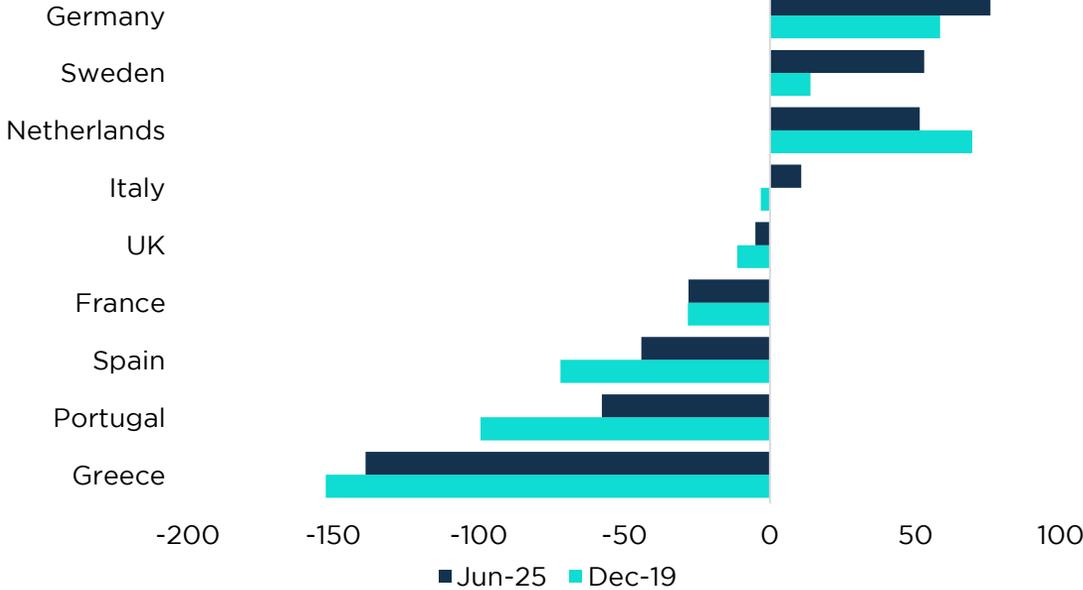
Source: UNCTAD, CGIL
Note: Data as of 2024

- Europe’s competitive edge lies in high-value, knowledge-intensive services, which anchor its external strength and value-added position in global trade.
- As manufacturing growth moderates, these advanced services provide resilience for sustaining exports, income levels, and long-term economic stability.

External sector: Improving buffers, Europe gains share in US imports

Broad improvement in external buffers since pre-pandemic

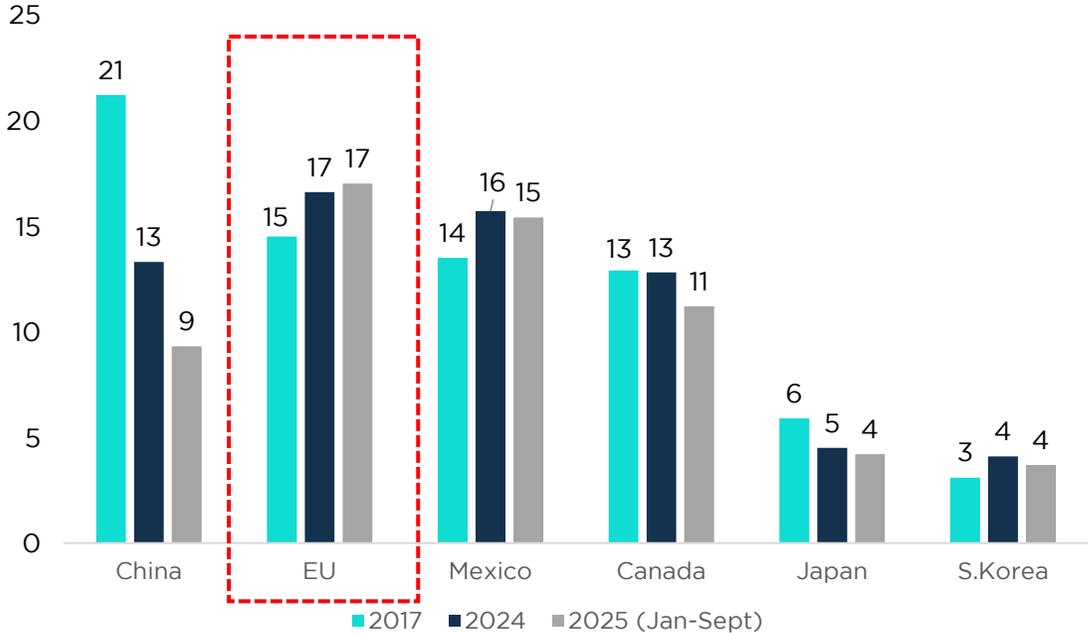
Net International Investment Position (% GDP)



Source: Eurostat, CGIL

Gaining share in US markets

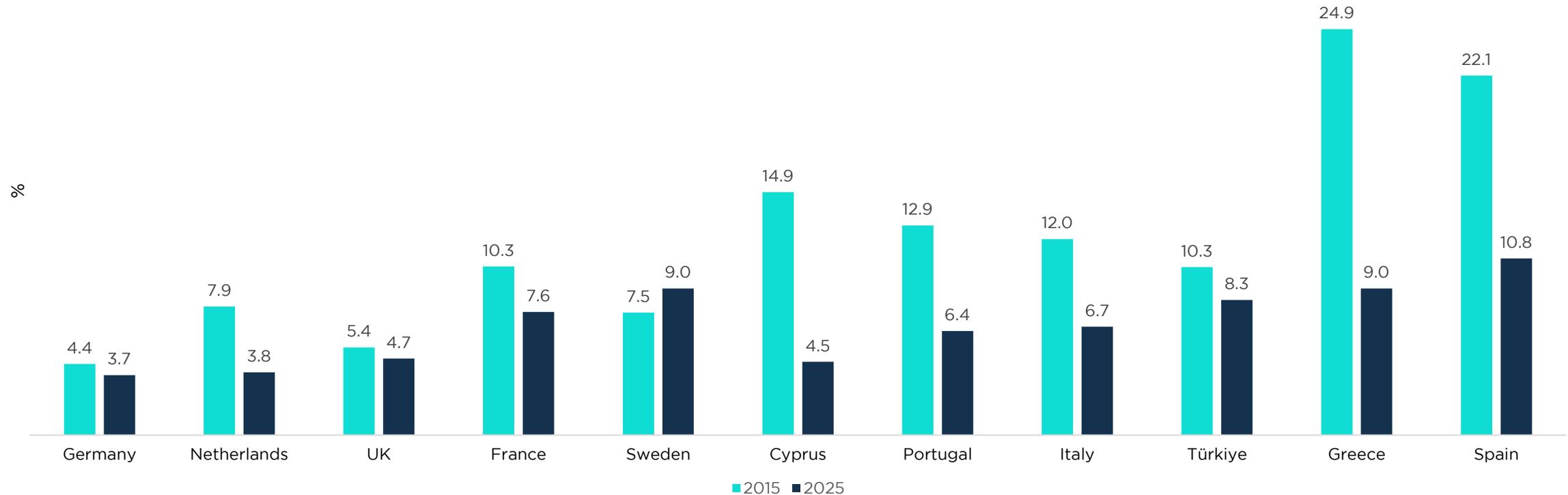
Share in US imports (%)



Source: US Comtrade, CGIL

- Most of the European countries have seen an improvement in the external buffers, with an improvement in the net international position.
- Though the EU has gained share in the US import market, it is a key monitorable owing to volatility and uncertainty around the tariff policy.

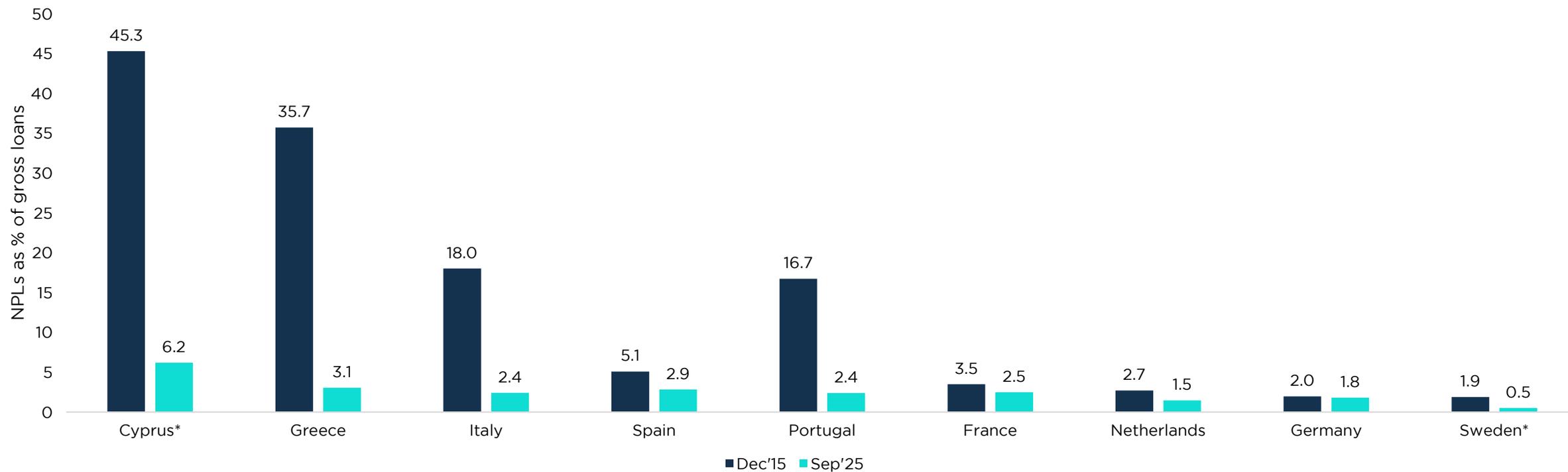
Unemployment levels continue to fall



Source: IMF WEO, CGIL

- Fall in unemployment reflects labour market resilience, helping to stabilise household incomes and cushion domestic demand.
- In turn, stronger employment conditions bolster tax revenues and social security contributions, supporting fiscal balance.

Non-performing loans (NPLs)



Source: World Bank, European Central Bank, IMF, CGIL

Note: *Data for Sweden and Cyprus till Dec'24

- Following the Global Financial Crisis and the EU sovereign debt crisis, NPL ratios have significantly fallen.
- Overall, these improvements strengthen bank balance sheets and enhance the effectiveness of monetary policy transmission across the EU.

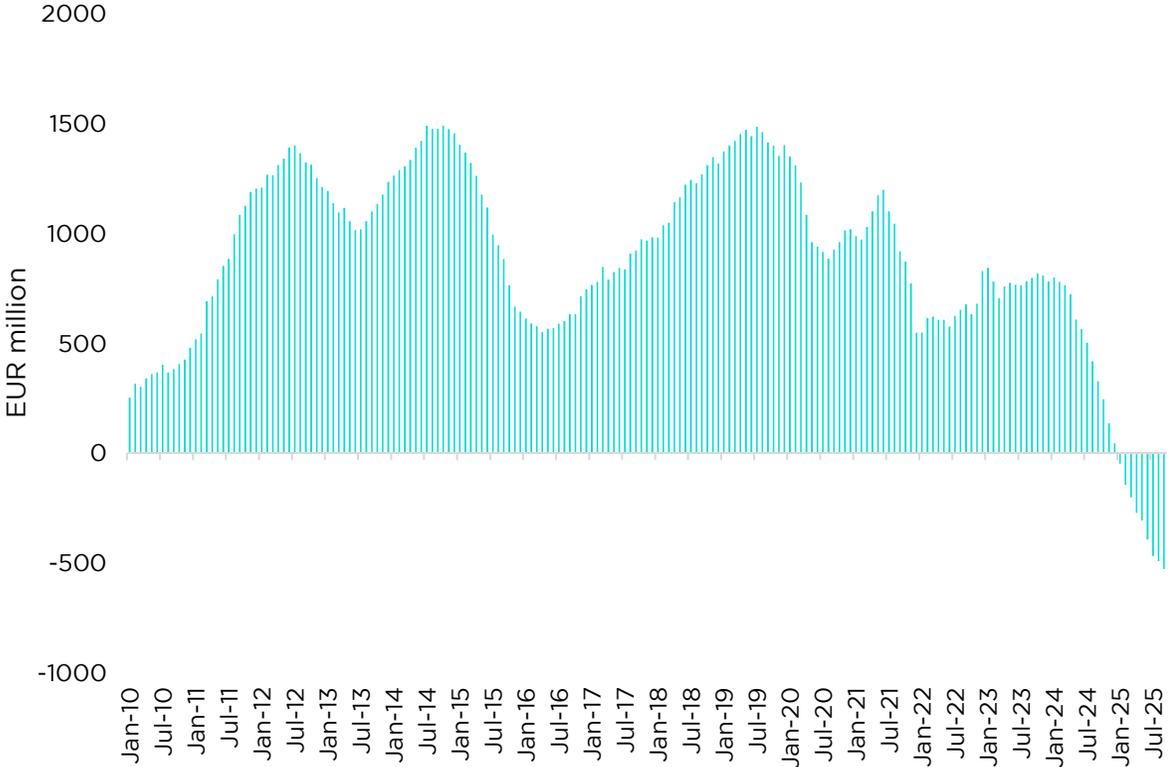
Systematic risks



China's move up the value chain challenges Europe's industrial edge

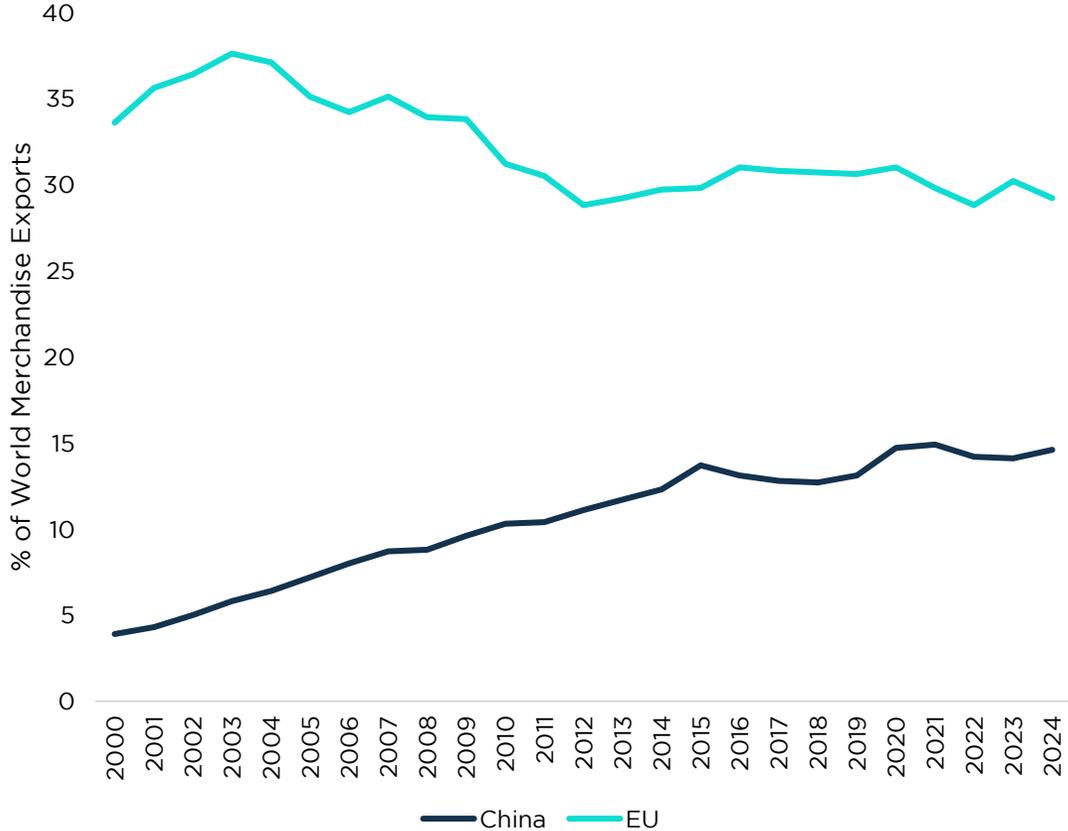
Germany's capital goods trade balance with China

(12-month rolling average)



Source: Eurostat, CGIL

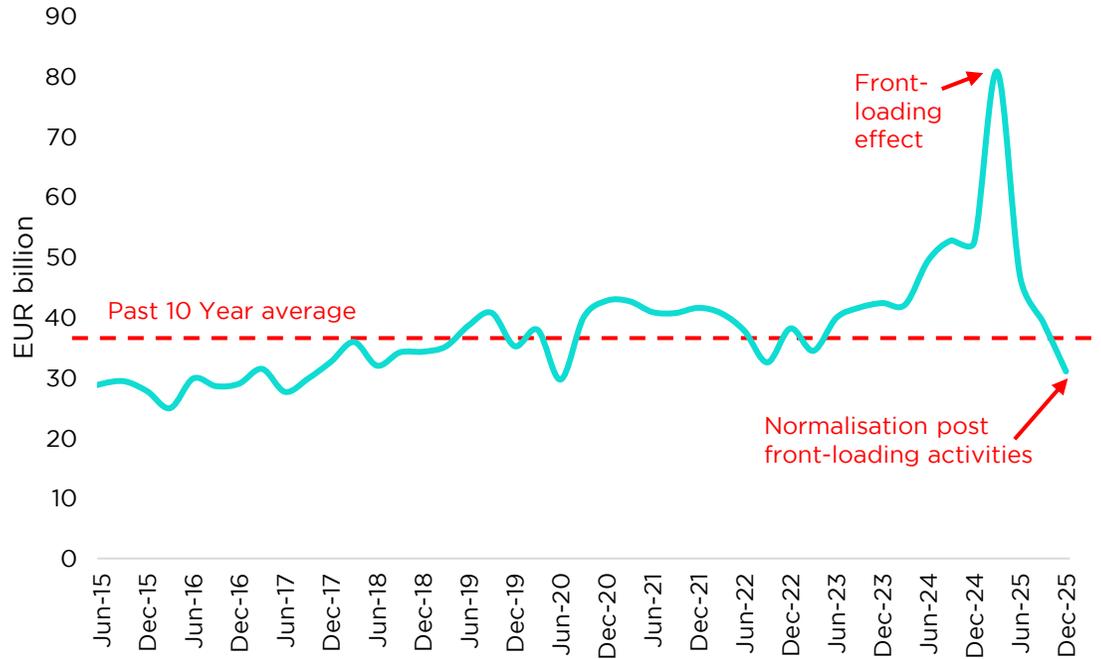
The China threat



Source: UNCTAD, CGIL

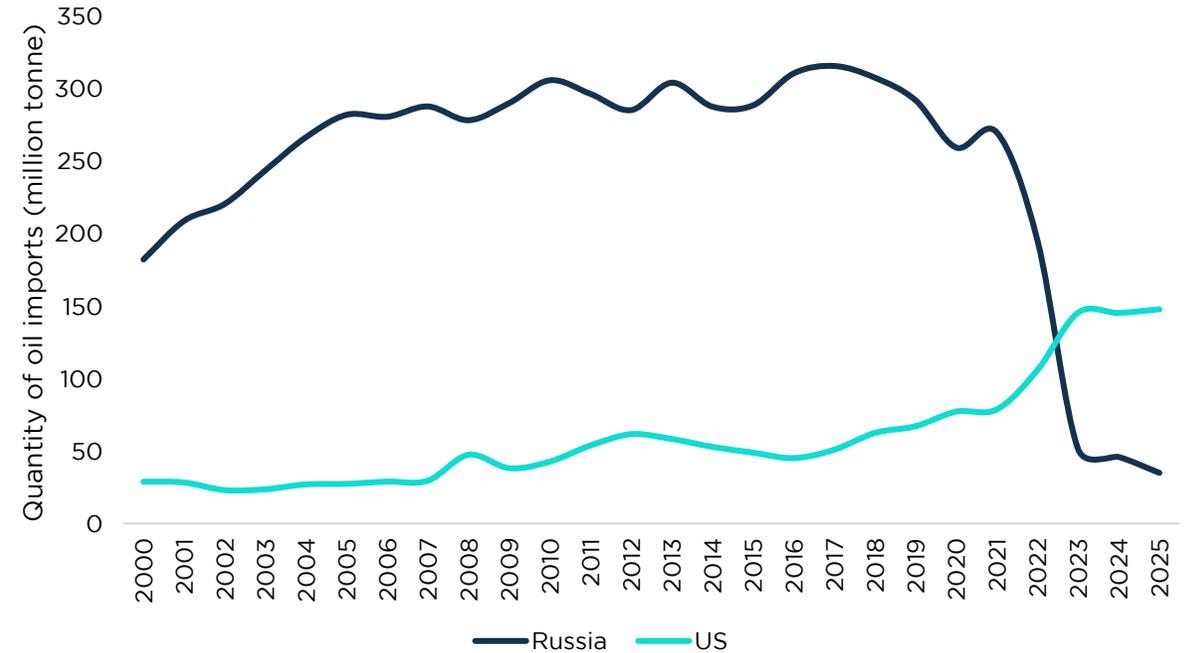
- China, once a key export destination for the EU (particularly for Germany), has increasingly become a net exporter to Europe, reversing traditional trade dynamics.
- At the same time, China's growing technological sophistication and cost competitiveness are intensifying pressure on several of Europe's traditional strongholds, from capital goods to advanced manufacturing.

EU maintains trade surplus with the US



Sources: EuroStat, CGIL

US becomes a major oil supplier to the EU

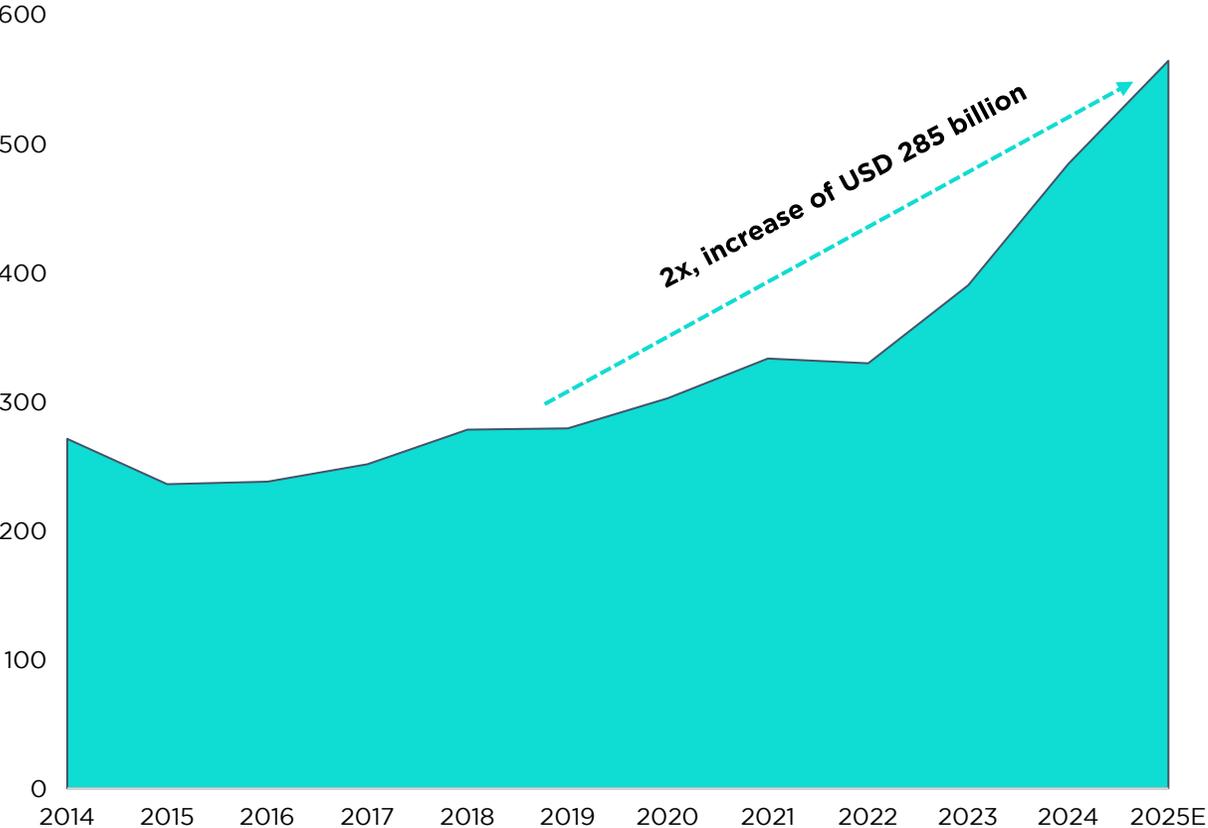


Sources: EuroStat, CGIL

- The US remains an important export market for the EU.
- Post Russia's invasion of Ukraine and the reduction of Russian energy supplies, the EU increased its oil imports from the US, partially offsetting lost volumes and strengthening their trade linkages.
- However, with the resurgence of tariff tensions tied to the Greenland dispute, transatlantic economic cooperation has come under strain and become a point of concern for broader EU-US strategic ties.

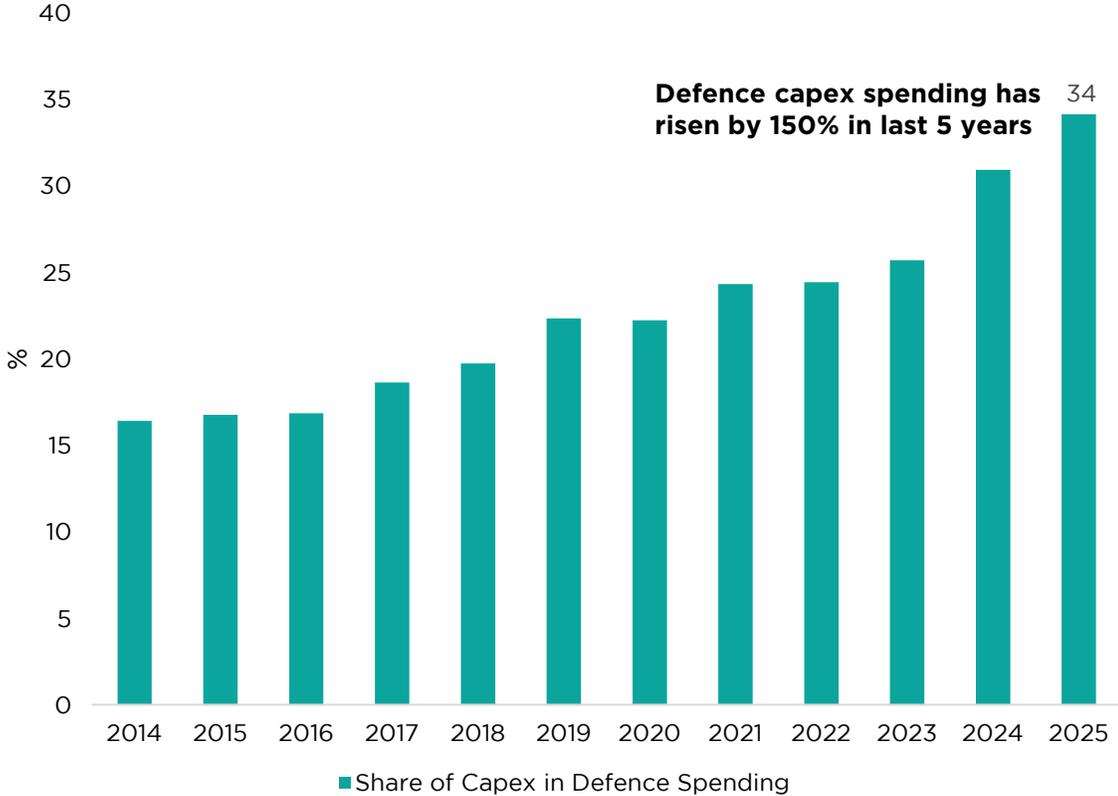
Rapid rise in defence spending amidst geopolitical uncertainty

Core defence spending by NATO Europe, USD billion



Sources: NATO, CGIL

A large part of rise in defence expenditure directed towards capex

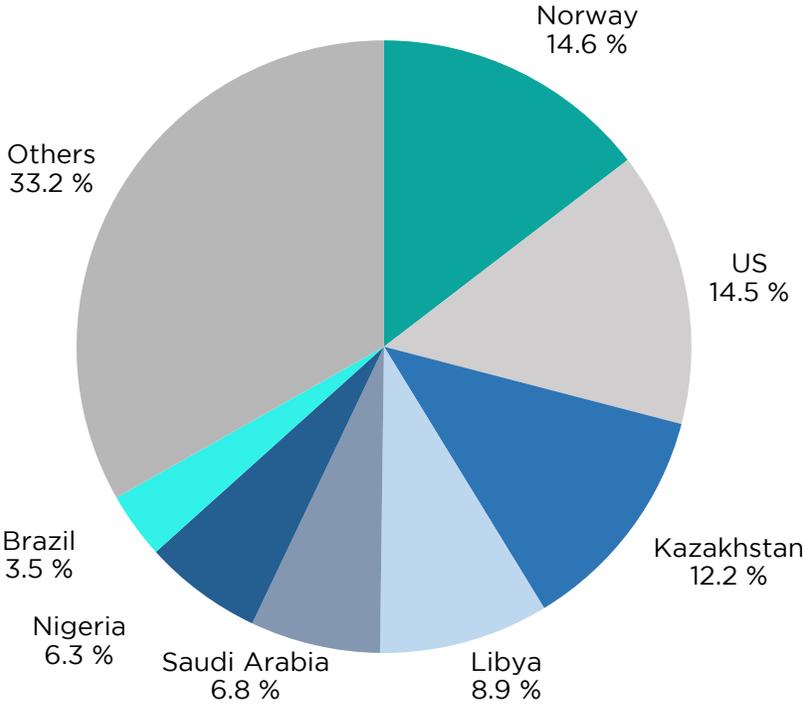


Sources: EU Defence Agency, CGIL

- There has been a significant acceleration in defence commitments across the EU member states.
- The rise has been unprecedented and directed towards strengthening their defence capabilities.

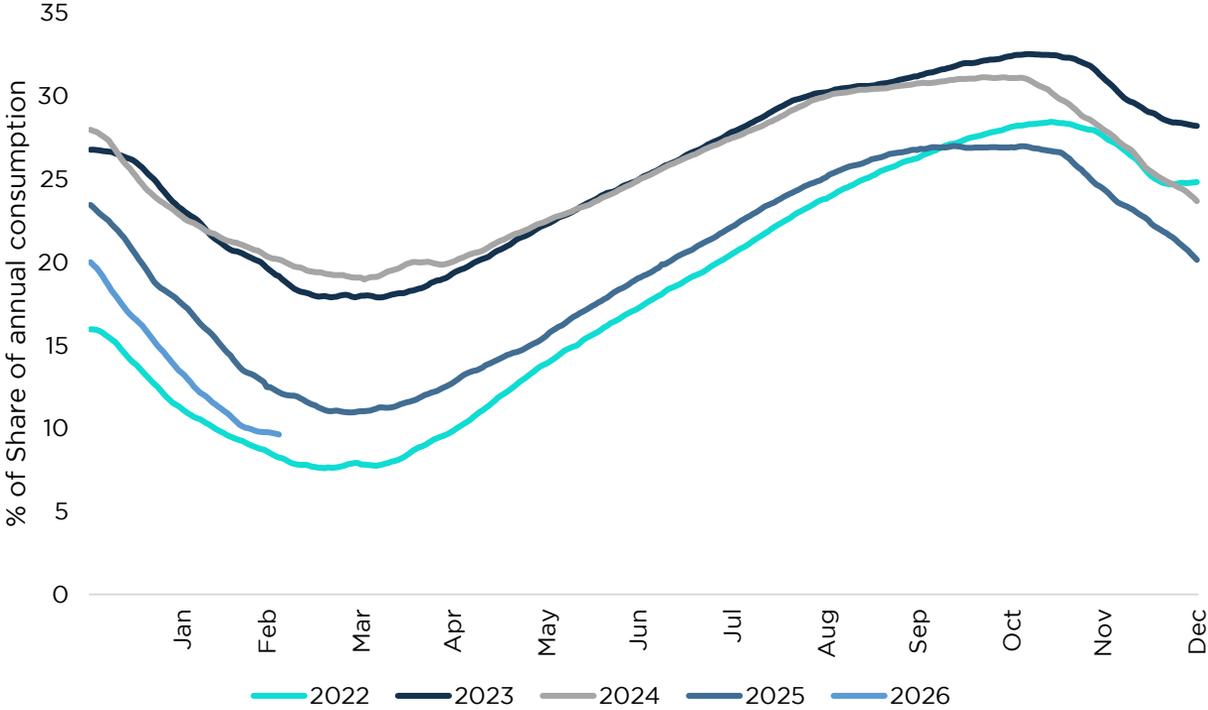
Iran war implications; low energy dependence on Middle East, high oil price sensitivity

EU imports of petroleum oil by partners in Q3 2025



Source: Eurostat database (Comext) and Eurostat estimates, CGIL

Current EU gas storage levels are below previous years



Source: Gas Infrastructure Europe, CGIL

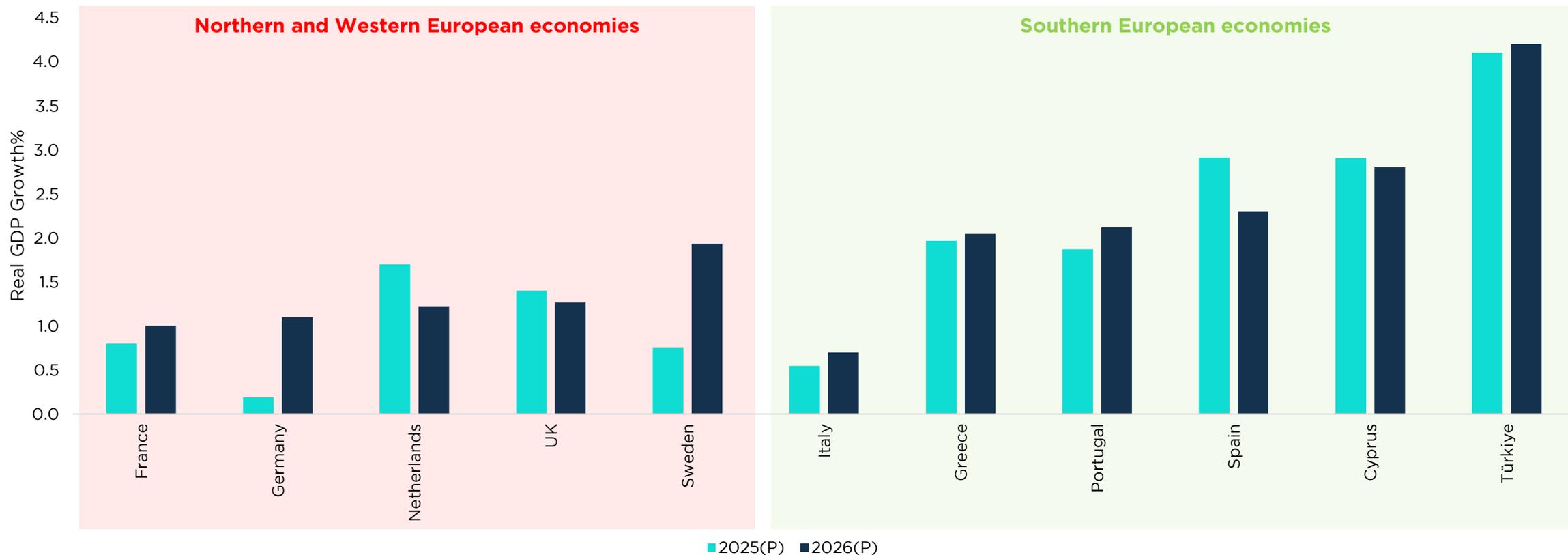
- The EU has significantly reduced its dependence on energy from the Middle East and pivoted towards Norway and the US since mid-2022.
- Europe’s reliance on imported energy and low gas inventories in 2026 expose it to global price volatility, driven by rising risk premiums and elevated transportation costs.

Strategic upside catalysts



Southern economies have been leading in growth

Growth led by Southern European economies



Source: IMF WEO, CGIL

Note: P = Projections

- Traditionally strong European economies such as Germany and France are now experiencing weaker growth momentum.
- In contrast, the post-pandemic recovery has been driven largely by Southern European economies, especially Spain and Portugal, which are currently providing much of the region's growth impulse.

Public investment revival under RRF funds

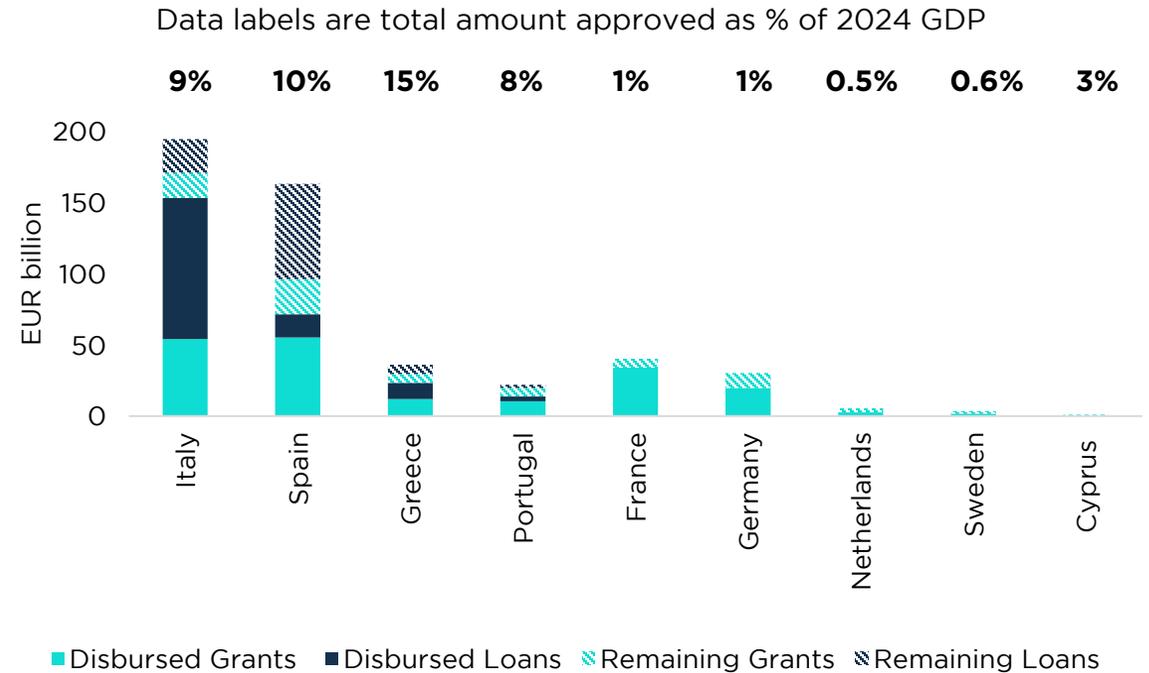
EU overtakes US in public investment



Source: EuroStat, FRED, CGIL

Note: For EU, GFCF by the government has been used as a proxy for Government Investment

EU RRF payments till December 2025

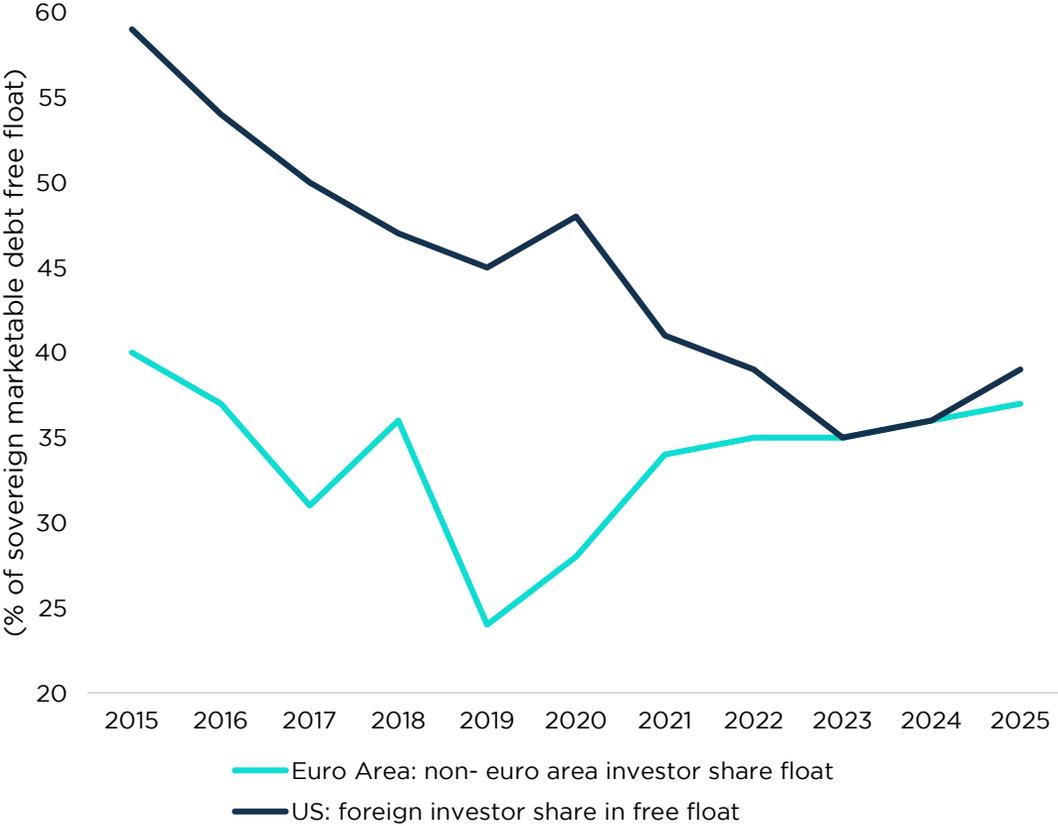


Source: European Commission, CGIL

- A key driver behind this increase is the Recovery and Resilience Facility (RRF) funds, which provide an unprecedented EUR 577 billion in grants and loans to the EU member states to support infrastructure, green/digital transition and reforms.
- Among the EU member states, Germany, France, Italy, Greece, and Portugal have the highest RRF disbursement rates, indicating significant progress in investment implementation.
- Effective deployment of these funds would continue to be a key monitorable.

Strong investor sentiment for Euro assets

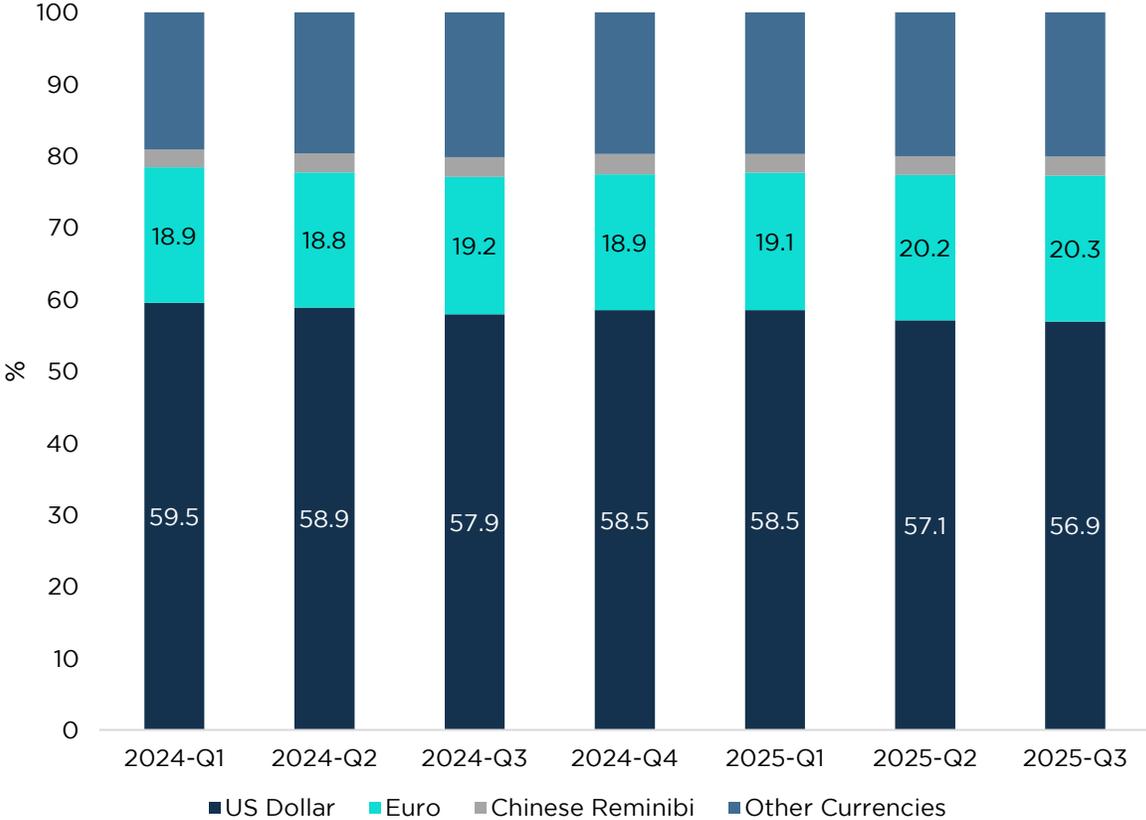
Foreign investors' footprint



Source: ESM calculations based on European Central Bank and the US Department of the Treasury data, CGIL

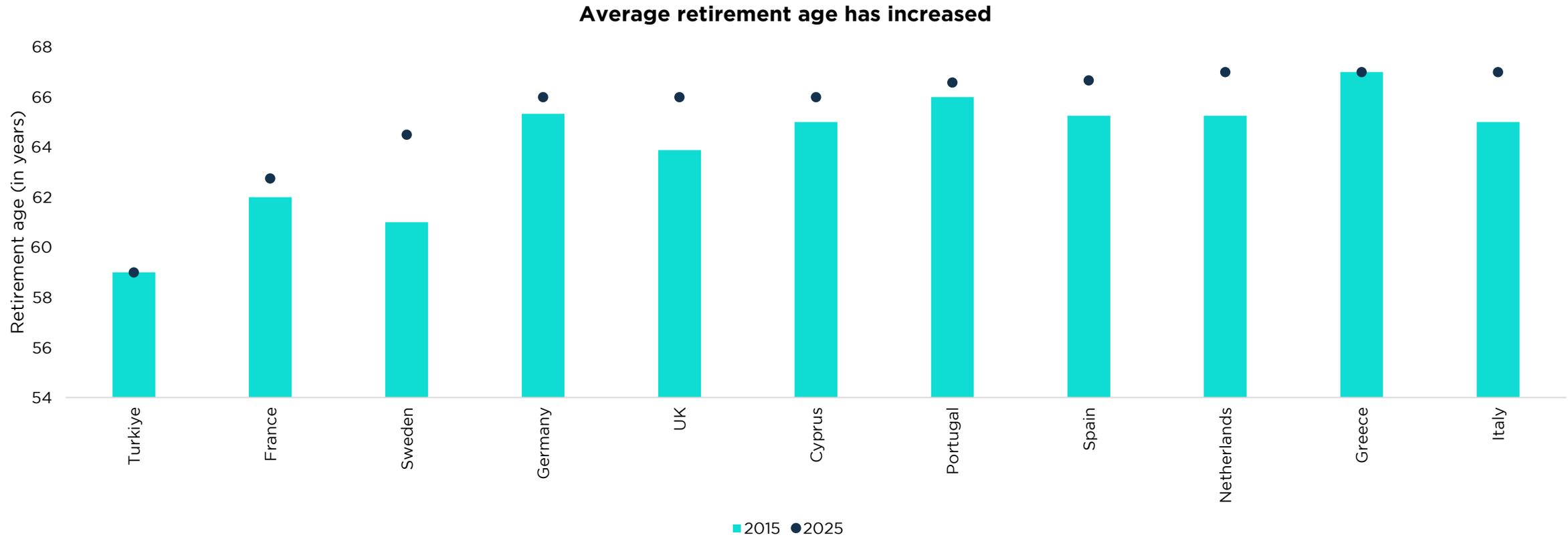
Note: Up to Q2 2025. Sovereign marketable debt free float is defined, for the US, as Federal debt net of Federal Reserve holdings, and for the euro area, as government debt securities issued by 10 countries net of domestic government and Eurosystem holdings.

Euro's share in total foreign currency reserves up



Source: IMF COFER, CGIL

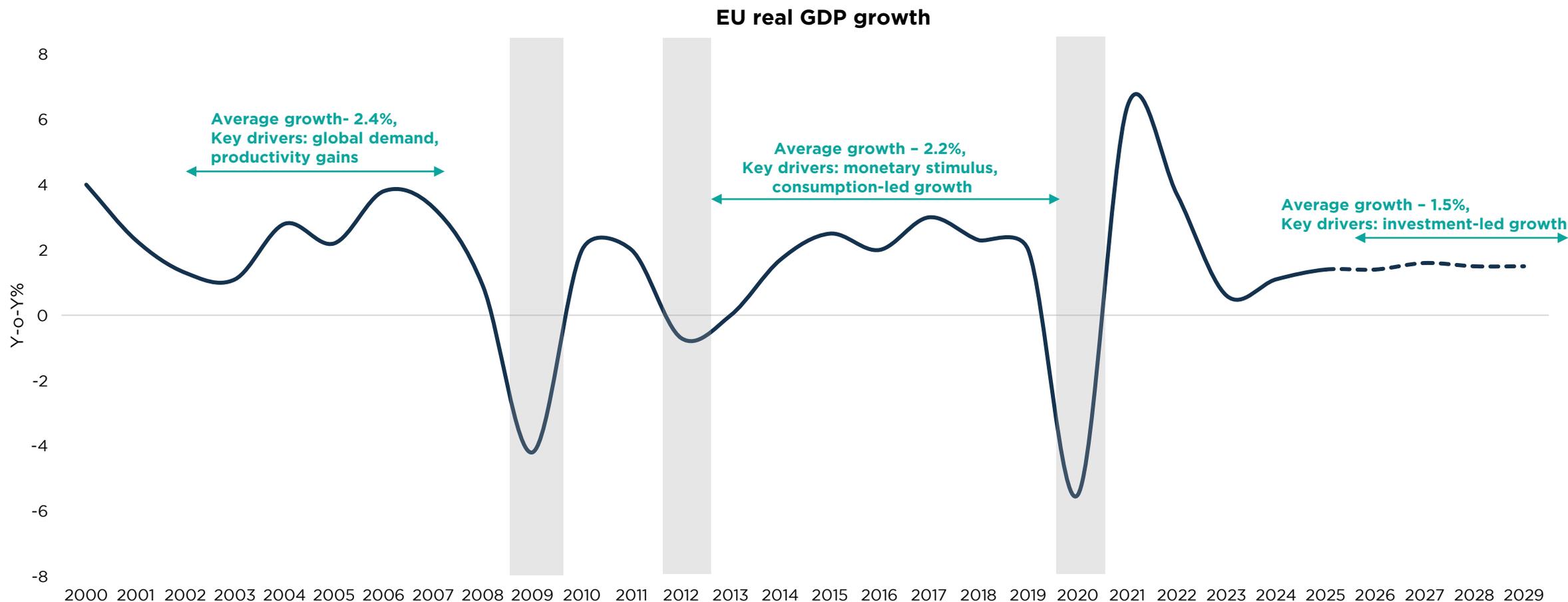
Increasing retirement age to help fiscal sustainability



Source: Official Sources, CGIL

- Retirement age across Europe has been rising to offset shrinking working-age population and sustain labour supply.
- Extending working lives is becoming critical to ease pension pressures and strengthen long-term fiscal sustainability.

Will the elusive EU growth make a comeback?



Source: IMF WEO, CGIL

Note: Grey shaded areas denote recession for Europe

- Dips in the economic growth have been followed by periods of economic growth.
- The average growth rate is expected to be lower than previous growth surges and primarily driven by investments.

Regional summary: Europe

	Germany	AAA
	Netherlands	AAA
	Sweden	AAA
	United Kingdom	AA-
	Portugal	A+
	France	A+
	Spain	A
	Cyprus	BBB+
	Italy	BBB
	Greece	BB+
	Türkiye	BB-

Positive Outlook

Stable Outlook

Negative Outlook



Risks

- **Fragile growth**
The EU is expected to grow 1.1% on average in the next 5 years, lowest among all regions
- **Elevated debt burden**
Fiscal pressures from ageing, defence, and interest costs
- **Geopolitical tensions**
Escalation in the Russia-Ukraine war and developments in Greenland likely to be growth-negative
- **Risks from political fragmentation**
Pace of reform orientation may slow



Buffers

- **Institutional strength**
Proven effective crisis response mechanism
- **Monetary credibility**
Inflation near the central bank's target
- **High revenue base**
Total revenue at 44% of GDP
- **External deleveraging**
External debt declining



Tailwinds

- **EU support**
The EU's monetary support (RRF, SAFE*) to continue to be growth-supportive
- **Energy independence**
Progress towards energy independence has been good, critical to restore competitiveness
- **Healthy banking sector**
Banking sector health has improved across the EU, continuity remains a monitorable

* RRF- Resilience and Recovery Fund (EUR 630 billion), SAFE- Security Action For Europe (EUR 150 billion)

Section B: Expert insights



Experts



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Spain



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France



Mr. Marco Bodellini

Academician, Banking and
Financial Law, University of
Bergamo,
Italy



**Ms. Franziska
Ohnsorge, Ph. D.**

Chief Economist, South Asia
South Asia Vice Presidency,
World Bank,
United States

The session was moderated by Rajani Sinha (Chief Economist, CareEdge Ratings) and Luc Marchand (Sovereign Risk Specialist, UK)



Shift in Europe's growth model

- Historically, Europe's economic framework has relied on three key pillars: access to cheap Russian energy, security and technological support from the US, and strong market access to China.
- However, geopolitical developments over the past few years have weakened each pillar, exposing structural dependencies.
- This shift is not viewed as a temporary cyclical shock but as a deeper transformation in the global economic and geopolitical landscape.



Strategic autonomy

- Strategic autonomy has increasingly emerged as an economic necessity rather than a political objective.
- Europe currently faces significant dependencies in certain areas: the dominance of US companies in global cloud computing services and China's control over the supply of critical rare earth minerals used by European industries.
- Policymakers recognise that Europe cannot realistically replicate the full technological and industrial capabilities of the US or China across all sectors.
- Instead, the focus is on ensuring sufficient capacity in areas that are critical to economic and national security. These include defence capabilities, energy security, digital infrastructure, and resilient financial systems capable of mobilising capital for large-scale investments.



Defence and geopolitics

- Geopolitical developments, particularly the war in Ukraine, have acted as a wake-up call for Europe. The conflict exposed vulnerabilities in Europe's security and energy architecture, and accelerated policy debates on strengthening defence capabilities and reducing strategic dependencies.
- As a result, areas that previously saw limited political consensus, such as defence cooperation, energy security strategies, and coordinated industrial policies, are now receiving greater attention.
- Defence spending is expected to increase across many European countries, reflecting the growing recognition that security considerations are now closely intertwined with economic policy and industrial competitiveness.



Infrastructure, strategic investment, and AI

- Infrastructure investment is increasingly being viewed not only as a financial asset class but also as a strategic instrument for economic transformation.
- Traditionally, infrastructure investments were valued primarily for their stable cash flows, predictable long-term returns, and inflation protection. However, the current economic environment has shifted this perspective.
- Infrastructure is now seen as a pathway to enhance productivity, support industrial transformation, and strengthen economic resilience. Investors are, therefore, placing greater emphasis on the long-term strategic value of infrastructure assets, including their ability to remain relevant and viable under changing regulatory, technological, and environmental conditions.



Financial system and banking stability

- While the direct financial exposure of European banks may be limited, prolonged geopolitical instability could still affect economic conditions in Europe,
- The European banking system has become significantly more resilient compared with the Eurozone crisis period.
- The current Middle East tension has introduced new forms of risk that need to be considered. These risks can affect banks either directly through exposure to counterparties in affected regions or indirectly through other macroeconomic channels.



Fiscal constraints and investment needs

- Europe faces a complex fiscal challenge as governments attempt to balance rising investment needs with limited fiscal space. Public spending pressures are increasing due to higher defence expenditure, energy transition, innovation policies, demographic aging, and rising interest payments on public debt.
- Economic growth remains relatively subdued in the medium term. This creates constraints on the governments' ability to stimulate growth through fiscal policy alone.
- One potential solution could be the expansion of common European financing mechanisms, similar to the NextGeneration EU initiative, which could enable joint borrowing to fund large-scale investments in public goods such as defence, climate transition, and digital infrastructure.



Europe-South Asia economic relations

- The evolving global economy is creating new opportunities for stronger economic cooperation between Europe and South Asia.
- Trade agreements could expand market access for South Asian economies, while giving European firms entry to large, fast-growing markets.
- For countries such as India, deeper trade integration with Europe could help integrate domestic industries into global value chains and support stronger growth.
- Europe could also benefit from South Asia's large and increasingly skilled workforce, particularly in technology, healthcare, and engineering sectors.



Domestic growth as future driver

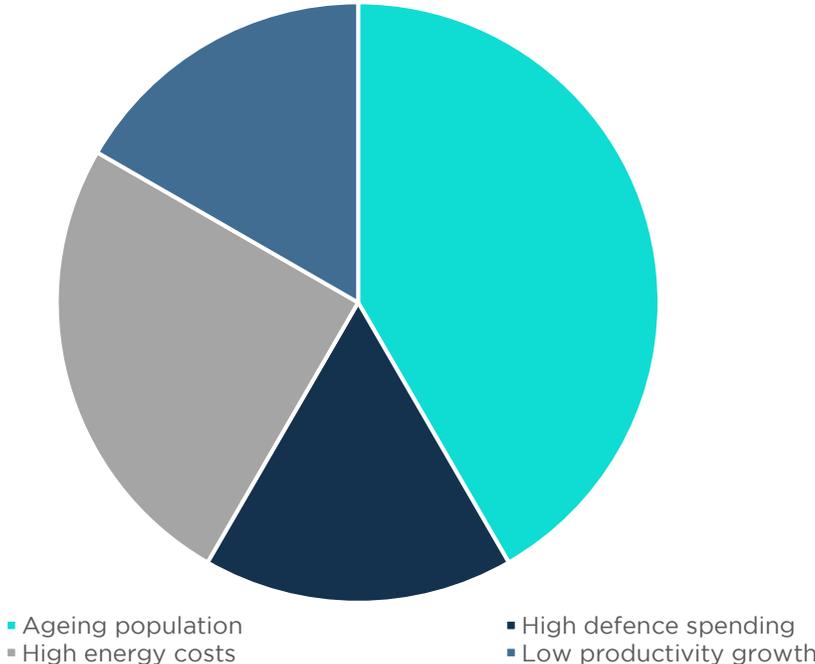
- Slowing global trade growth means that export-led growth strategies may become more difficult for many economies, including Europe. As a result, greater emphasis will need to be placed on strengthening domestic growth drivers.
- Productivity improvements, innovation, and stronger domestic demand will be critical in sustaining long-term economic expansion.

Section C: Audience sentiment



What is the biggest structural challenge for Europe?

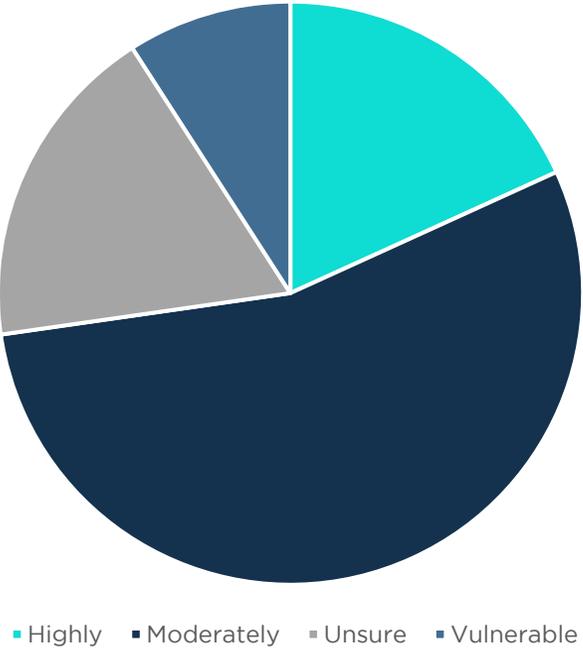
Share of responses (%)



Ageing population emerges as Europe’s most significant structural challenge, cited by 42% of respondents. High energy costs rank second at 25%. High defence spending and low productivity growth were identified by 17% of respondents each.

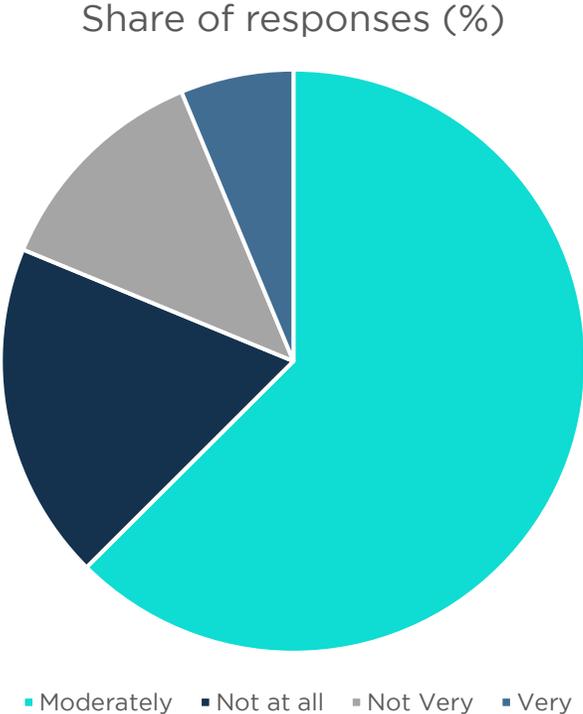
How resilient is Europe’s financial system to global economic shocks?

Share of responses (%)



A majority (55%) expect Europe’s financial system to show moderate resilience to global shocks, with 18% anticipating high resilience, 9% seeing vulnerability, and 18% undecided.

Overall, how confident are you that Europe can reassert its position in a shifting global order?



Confidence remains largely moderate, with 63% expressing moderate confidence in Europe’s ability to reassert its global position, 31% reporting low or no confidence, and just 6% very confident.

CareEdge Global: Sovereign Ratings Portfolio



Our portfolio: 41 sovereigns Long-Term Foreign Currency Ratings*

AAA	AA+	AA-	A+	A	A-
<ul style="list-style-type: none">  Germany  Netherlands  Singapore  Sweden 	<ul style="list-style-type: none">  Australia  Canada  US 	<ul style="list-style-type: none">  Japan  S. Korea  UAE  UK 	<ul style="list-style-type: none">  Portugal  France 	<ul style="list-style-type: none">  China  Spain 	<ul style="list-style-type: none">  Chile  Malaysia  Thailand
BBB+	BBB	BBB-	BB+	BB	BB-
<ul style="list-style-type: none">  Botswana  Cyprus  India  Philippines 	<ul style="list-style-type: none">  Indonesia  Italy  Mauritius 	<ul style="list-style-type: none">  Mexico  Morocco  Peru 	<ul style="list-style-type: none">  Brazil  Colombia  Greece  Vietnam 	<ul style="list-style-type: none">  South Africa 	<ul style="list-style-type: none">  Türkiye
B	B-	CCC+	D	<p>*Note: As on Mar 03, 2026; Unsolicited Ratings Rating Outlook - Positive Stable Negative Outlook not applicable for CCC Category and D</p>	
<ul style="list-style-type: none">  Nigeria  Kenya 	<ul style="list-style-type: none">  Egypt 	<ul style="list-style-type: none">  Bangladesh  Ecuador  Argentina 	<ul style="list-style-type: none">  Ethiopia 		

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