Europe
Dynamic Briefing

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Europe

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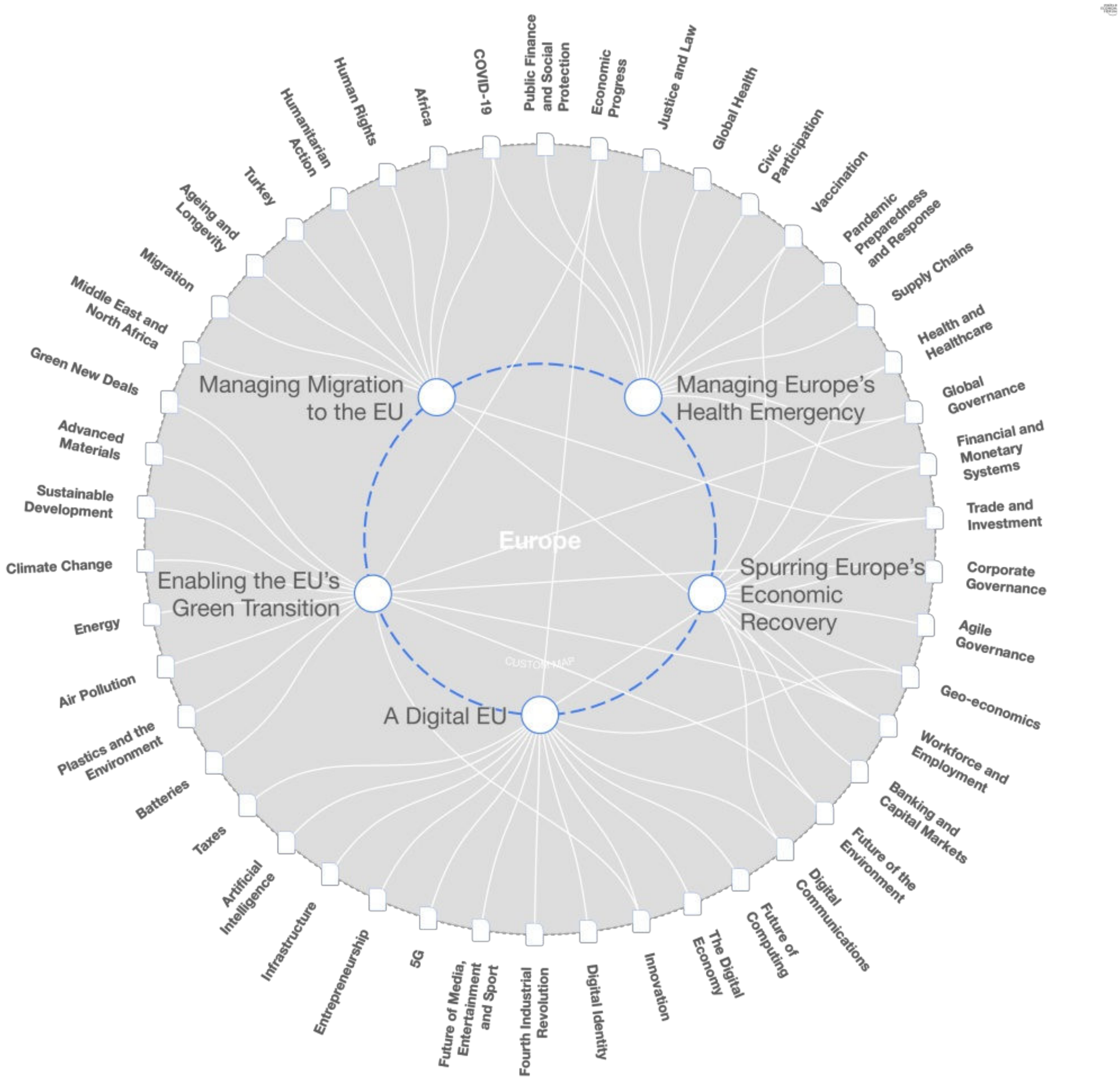
About

This dynamic briefing draws on the collective intelligence of the Forum network to explore the key trends, interconnections and interdependencies between industry, regional and global issues. In the briefing, you will find a visual representation of this topic (Transformation Map – interactive version available online via intelligence.weforum.org), an overview and the key trends affecting it, along with summaries and links to the latest research and analysis on each of the trends. Briefings for countries also include the relevant data from the Forum's benchmarking indices. The content is continuously updated with the latest thinking of leaders and experts from across the Forum network, and with insights from Forum meetings, projects communities and activities.



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Europe

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Spurring Europe's Economic Recovery

COVID-19 elicited a comprehensive response, but war in Ukraine threatens the region's growth

As COVID-19 spread, the European Union was forced to confront its steepest economic downturn since 1929. Mobility restrictions designed to keep people safe dampened business activity and consumer spending, industrial output, investment, trade, and capital flows. Supply chains were disrupted. The EU's economy contracted by 6.8% in 2020, and unemployment rose. By March 2022, over 72% of the EU's total population had completed a full primary course of vaccination. Despite new variants and record numbers of new cases, countries across the bloc began rapidly relaxing travel restrictions, protective measures, and vaccine passport requirements. That was a far cry from the early days of in the pandemic, when the European Central Bank had to act to ensure adequate liquidity flows into the economy. To spur a recovery, national governments have implemented dramatic domestic fiscal stimulus measures, raising the EU's public deficit (temporarily) to record heights. To help the hardest-hit member states recover and rebuild without incurring excessive additional debt, the European Council - following a proposal by the European Commission - agreed in July 2020 on a ground-breaking, €750 billion recovery fund, and enabled the Commission to borrow on open markets and distribute grants and loans.

Together with the long-term, €1.1 trillion EU budget for 2021-2027, these financial measures are designed to prevent further economic divergence among member states. They are also, importantly, meant to help the region increase investment in sustainability, digital platforms and access, social services, and climate resilience. The Commission has an expectation that member states will return to pre-pandemic economic growth by the end of 2022 - after a strong economic rebound in 2021 (with GDP up 5.8%), growth was projected at 4% for 2022 and at 2.8% in 2023. However, Europe's recovery faces serious uncertainties. Inflation accelerated to a record rate of 4.6% by late 2021, and is expected to grow further in 2022. Russia's invasion of Ukraine has weighed heavily on economic growth expectations. Crippling sanctions on Russia's economy, individuals, and its financial system also entail high costs for Europe and the US. Supply chain disruptions, energy shortages, and the ripple effects from a declining Russian economy will be felt across the globe. Shortfalls in food and fertilizer production, resulting from the impact of the war on Ukrainian and Russian agriculture, will drive price hikes and may cause food crises in some regions.

Related insight areas: Banking and Capital Markets, Workforce and Employment, Digital Communications, Future of the Environment, Health and Healthcare, Corporate Governance, Geo-economics, Trade and Investment, Vaccination, Agile Governance, Financial and Monetary Systems

VoxEU

Dual interest rates and the transmission of monetary policy

13 October 2022

The recent experience in the euro area with dual interest rates – central bank funding at rates below the rate on reserves – offered an unprecedented large-scale example of their effect. This column looks at the experience of TLTRO III during the pandemic and finds that on top of supporting bank credit, central bank funding with dual interest rates enables an easing of bank lending conditions without the increased risk appetite that a standard rate cut might bring about, especially if considered after a prolonged period of low or negative interest rates. The findings suggest that dual interest rates can constitute a new form of monetary accommodation.

VoxEU

The ECB's asset purchase programme granted debt sustainability in the pandemic. Its termination should not derail it

24 September 2022

The pandemic threatened to spark another debt crisis in the euro area. Instead, it prompted a strong fiscal response that buffered the shock and underpinned a shift recovery. The ECB's policy reaction was crucial in the outcome, in particular through its massive asset purchase programme, the Pandemic Emergency Purchase Programme. Using a stochastic approach, this column shows that the programme has kept debt sustainable and that it will remain so with a high probability, even if the programme is reversed.

Project Syndicate

The End of the EU's Free Lunch

02 August 2022

For many years, the European Central Bank was able to print money to purchase member states' government debt without having to worry about causing high inflation. But now that stagflationary conditions have set in, the ECB finds itself on the horns of a dilemma.

Enabling the EU’s Green Transition

The bloc has committed to ambitious climate goals, though details of its plans are still being hashed out

The European Commission has made transitioning to a more sustainable economy one of two primary strategic goals for the European Union (alongside digital development), as part of what’s been dubbed the “European Green Deal.” The invasion of Ukraine and related concerns about energy security cast a shadow over these efforts. However, the invasion also offers an opportunity to speed up the green transition, even if fossil fuels must be deployed more aggressively in the short term. The EU has committed to climate neutrality (no new human-made greenhouse gas emissions on a net basis) by 2050, and to an emissions reduction target of at least 55% by 2030 from 1990 levels. That is a step up compared with the EU’s initial pledge made under the Paris Agreement, which was to reduce emissions by 40% by 2030. The EU’s Emissions Trading System, a flagship climate instrument meant to ensure cost-effective emission reductions, should be further bolstered. Other measures, such as emission-performance standards for passenger cars, and renewable-energy policies, are also being strengthened - every sector of the economy will be impacted by increased stringency and the need for enhanced energy efficiency.

One particularly novel measure is a carbon border adjustment mechanism, which would require certain carbon intensive importers to pay a levy based on the emissions embodied in energy intensive goods. Negotiations on this are underway; a three-year startup phase has been proposed, which would see the implementation of reporting obligations before payments would become due on imports starting in 2026. Within the €1.1 trillion EU budget and €750 billion pandemic recovery fund, the bloc has earmarked 30% of its annual spending and at least 37% of each member state’s funding from the Recovery and Resilience Facility for investments specifically related to the European Green Deal. Future spending will focus on innovation, industrial transformation, investment in public goods (such as digital- and energy-related infrastructure), and a “just transition” to retrain workers for low-carbon jobs or help poorer households and energy-intensive industries faced with high energy prices. Much of this will rely on higher amounts of capital spending via the European Investment Bank, as well as public and private funds. The collective ambition of these initiatives suggests low-carbon technologies are seen as a potential new engine of economic growth - and an enabler of greater energy security.

Related insight areas: Corporate Governance, Sustainable Development, Hydrogen, Economic Progress, Future of the Environment, European Union, Climate Change, Workforce and Employment, Energy, Green New Deals, Air Pollution, Plastics and the Environment, Batteries, Advanced Materials, Global Governance, Innovation

Centre for European Policy Studies (CEPS)

ECRI Statistical Package 2022

20 October 2022

The ECRI Statistical Package provides a comprehensive overview of the trends and composition of the lending to non-financial corporations and households. It covers 45 countries including the EU Member States, UK, EU candidates and EFTA countries as well as the US, Canada, Japan, Australia, Russia, Mexico and Saudi Arabia. The package provides nominal and real data on major time series such as outstanding consumer credit, loans for house purchase, other loans to households, loans to non-financial corporations and national accounts. It also provides the breakdowns of the various credit statistics by maturity and currency. Please click here for the table of contents. The ECRI statistical package can be purchased in the following forms: A comprehensive package focusing on Lending to Households and Non-Financial Corporations in Europe.

German Institute for International and Security Affairs

More EU Decisions by Qualified Majority Voting – but How?

19 October 2022

Legal and political options for extending qualified majority voting In the debate on how to strengthen the European Union's (EU) capacity to act, calls for an extension of qualified majority voting (QMV) are growing louder. The Council of the EU is currently discussing using the so-called passerelle clauses in the Treaty on European Union (TEU). With these clauses, more decisions by QMV could be introduced without a major treaty change or a convention. However, abolishing national vetoes in this way would first require unanimity as well as, in some cases, additional national approval procedures. Such unanimity is currently not in sight, as resistance is prevailing in smaller and medium-sized member states, which fear that they could be regularly outvoted.

VoxEU

Immigrants and the distribution of income and wealth in the euro area

15 October 2022

Racial economic disparities in the US are well documented – as being large, persistent, and intertwined with monetary policy – but the corresponding dimensions of inequality in the euro area are under-researched. This column measures differences in income and wealth between persons born in their current country of residence and those born elsewhere. After controlling for demographics, the authors find that differences in wealth are more substantial than differences in wages and income: euro-area immigrants earn on average 30% lower wages than non-immigrants and hold roughly 60% less net wealth.

London School of Economics and Political Science

Interest rate hikes are not the answer to Europe's inflation problem

05 October 2022

Rising inflation throughout 2022 has resulted in central banks substantially increasing interest rates. Patrick Kaczmarczyk argues that rate hikes are the wrong response to the challenges currently facing the European economy. Inflation rates across the Eurozone are putting the European Central Bank (ECB) under pressure to raise rates – whilst economic indicators continue to nosedive. … Continued.

VoxEU

Making the EU macroprudential framework fit for the next decade

04 October 2022

The European Systemic Risk Board has been one of the guardians of financial stability in Europe for more than a decade. Much has been achieved in its first decade, however the framework must evolve to meet new challenges. This column discusses a comprehensive set of proposals developed by the ESRB to adapt the EU macroprudential framework to the challenges of the next decade. These aim to make the financial system more resilient, and for a more consistent, forward-looking, proactive, and countercyclical use of macroprudential instruments, while reducing complexity in the legal framework.

Centre for European Policy Studies (CEPS)

Reform of the electricity market will not solve the EU's energy crisis

04 October 2022

Commission President Ursula von der Leyen has repeatedly made the point that the design of the EU's electricity market urgently needs reform to address the crisis. Several Member States seem to share that view. From this, one could get the impression that this will solve the EU's energy woes. It will not. What's wrong, if anything, with the EU's electricity market? The EU's electricity market functions like any other market. The marginal producer sets the price. First come renewables if the sun shines and the wind blows, then hydro and nuclear. If demand goes up, coal and gas technologies are switched on. Their costs depend inter alia on global gas and coal prices. This ensures that the cheapest sources are used to meet demand. Gas typically covers the peaks, often pushing the wholesale price to high levels but only for short periods.

Managing Europe’s Health Emergency

COVID-19 has tested the ability of EU institutions to respond to a large-scale public health crisis

The pandemic has highlighted the European Union’s need for collective action when it comes to public health. Initially, the response within the bloc was relatively uncoordinated and slow. The virus spread after the capacity of national health systems had been degraded, following years of cuts to public spending. While member states are parties to the World Health Organisation’s International Health Regulations, the EU itself is not a WHO member. The consolidation of health policy and services within EU institutions is at an early stage, and as a result it was criticized for its initial management of the crisis. However, the bloc eventually mustered a substantive collective response. The European Commission enabled flexibility on fiscal rules and state aid, and supported member states’ unemployment schemes. Meanwhile the European Central Bank’s Pandemic Emergency Purchase Programme calmed financial markets, and the European Investment Bank offered financial support to businesses. The EU introduced a framework for coordinating travel restrictions and the EU Digital COVID Certificate, and took charge of vaccine procurement. The effects of these measures, together with decreased mortality related to newer variants, gave member states confidence to lift restrictive measures in Spring 2022.

After at first encountering serious procurement bottlenecks, the EU achieved one of the highest rates of full vaccination among adults by the end of summer 2021. In addition to delivering hundreds of millions of doses to its own population, the EU had exported over 1 billion doses to more than 150 countries as of October 2021. Efforts to strengthen health security and preparedness have been tied to the EU's Multiannual Financial Framework (2021-2027), and the EU4Health recovery programme was devised to boost preparedness for major cross-border health threats, strengthen national health systems, and invest in medical research. HERA, the European Health Emergency preparedness and Response Authority, is designed to detect and prevent future health risks, and facilitate crisis response by building capacities to develop, produce, and distribute medicines and medical supplies. In addition, the mandates of the European Centre for Disease Prevention and Control and the European Medicines Agency are slated to be reinforced, and a new biomedical-research agency is being created in line with the EU's pharmaceutical strategy. The essential building blocks for a future European Health Union have been formed.

Related insight areas: Health and Healthcare, COVID-19, Economic Progress, Global Health, Vaccination, Global Governance, Civic Participation, Justice and Law, Financial and Monetary Systems, Public Finance and Social Protection, Supply Chains, Pandemic Preparedness and Response

VoxEU

Euro area government bond spreads: A tale of different ECB policy regimes

04 October 2022

Euro area government bond spreads have changed significantly in the past 25 years. This column empirically analyses the factors driving euro area government bond spreads, using a combination of macro fundamental-based and market risk-based models. It finds that there is a growing disconnect with macro fundamentals, and a growing importance of market risk-based factors in explaining these spreads. Most importantly, it shows that the ECB has waged a mounting influence on euro area government bond spreads, particularly after 2012/2013. This coincides with the shift in the ECB's monetary policy, from conventional to increasingly unconventional.

London School of Economics and Political Science

Can unconventional monetary policy help tackle climate change?

30 August 2022

During its 2021 monetary policy strategy review, the European Central Bank stated that it would include climate change considerations in its decision-making. Drawing on a new study, Alice Eliet-Doillet and Andrea Giulio Maino assess how effective monetary policy can be in helping to tackle climate change. Scaling up green finance is essential for reaching climate … Continued.

VoxEU

Deciphering monetary policy shocks

01 August 2022

Central banks around the globe face new challenges in the form of adverse supply shocks, rising inflation rates, and the consequential need to tighten monetary policy without causing dislocations in financial markets and the real economy. In addressing these, the accompanying communication of central banks is often seen to be as important as the actual policy actions. This column shows that market responses can be directly linked to topic-specific news revealed in the communication of central banks.

A Digital EU

Despite daunting competition, efforts are underway to reposition Europe as a digital leader

COVID-19 has highlighted the central role played by the digital revolution in European societies, and in the European Union's economic development. Remote work, digital entertainment, and e-commerce quickly became more prevalent, and the overwhelming shift to digital accelerated demand for new infrastructure. Yet, there are relatively few world-beating digital companies in Europe; most have a marginal presence in global markets. The fragmentation of the internal EU market, coupled with relatively risk-averse domestic regulation, can make it a less hospitable environment for aspiring firms than the US or China. This has revived talk of designating strategic companies to supply digital infrastructure, which also reflects concerns about the penetration of European markets by American and Chinese firms that may bring with them added security issues (the EU's foreign investment screening regulation and its toolbox on 5G cybersecurity are important in this regard). Russia's invasion of Ukraine further underscored the growing importance of cyber defense, while issues related to the fair taxation of US tech multinationals with large presences in Europe remain unsettled - though commitments to a global corporate tax minimum of 15% may have an impact on this situation.

In 2020, the European Commission presented its "Shaping Europe's Digital Future" strategy, which aims to reposition Europe as a digital leader. It proposed new rules including the Digital Markets Act (DMA) and Digital Services Act (DSA), which are expected to be adopted in 2022 and meant to foster innovation and competitiveness - while creating a digital space that safeguards fundamental rights. The EU continues to use its regulatory power to set digital standards and shape relations with non-European countries and companies - through, for example, the General Data Protection Regulation and the Directive on Copyright in the Digital Single Market. However, to achieve the "European tech sovereignty" Commission President Ursula von der Leyen has called for, Europe must address strategic areas where it lags behind. In 2021 the Commission proposed ways to turn Europe into "the" global hub for trustworthy artificial intelligence, and the first-ever legal framework on AI and a new Coordinated Plan with Member States aims to guarantee the fundamental rights of citizens and businesses while spurring AI use, investment, and innovation. Meanwhile the Commission also proposed the "European Chips Act" to strengthen the region's position in the vitally-strategic area of semiconductor production.

Related insight areas: The Digital Economy, Innovation, Future of Computing, Digital Identity, Geo-economics, Future of Media, Entertainment and Sport, Taxes, Economic Progress, Fourth Industrial Revolution, Trade and Investment, Infrastructure, 5G, Entrepreneurship, Artificial Intelligence, Digital Communications

No Knowledge

We don't have any recent, relevant knowledge available on A Digital EU, but you can check back later using Strategic Intelligence if you would like to monitor A Digital EU in real-time. You can find more information on how by looking at the "Continue the experience online" page later on in this briefing.

Managing Migration to the EU

EU institutions gave immediate protection to those fleeing Ukraine, but divisions over asylum and migration policies remain

The UN Refugee Agency (UNHCR) has estimated that four million people will flee Ukraine by July 2022. European Union institutions reacted quickly to the humanitarian emergency. In March 2022, the Council of the European Union unanimously decided to activate, for the first time, the 2001 Temporary Protection Directive (TPD). This grants the right to move freely, live, work, and access education and social services throughout the EU for at least 12 months to designated categories of people including Ukrainian nationals residing in Ukraine before 24 February 2022 and their family members, and stateless persons and nationals of third countries other than Ukraine who benefited from international protection or equivalent national protection in Ukraine before that same date (and their family members). The swift adoption of the TPD received universal praise, and followed years of disputes over EU migration and asylum policies. Commentators noted that the response to refugees from Ukraine represents a paradigm shift from 2015-16, when about 1.5 million asylum seekers who arrived from outside of Europe had to apply for a separate and weaker protection system.

Furthermore, the protection directive for Ukrainians contrasts starkly with policies meant to ward off asylum seekers from Afghanistan, Iraq, and Syria who have attempted in recent years to reach EU member states via Belarus. Responsibility-sharing and the question of relocation - or the transfer of people from an EU country with heavy inflows to one with fewer arrivals - continue to cause friction among member states, however, and related political fault lines do not yet seem to be alleviated by the shared stance on protections afforded to arrivals from Ukraine. The creation of legal migration pathways to foster economic growth and counter the impacts of ageing European populations remains another area of contention. Presently, legal migration is one of the least-developed areas of EU cooperation. As COVID-19-related restrictions recede, economic reconstruction will likely rely heavily on migrant workers. Both the experience of the Ukrainian refugee crisis and the need to sustain a post-COVID economic recovery may speed up legislative reform of asylum and migration policies - and hasten the creation of common EU standards in these areas.

Related insight areas: Migration, Human Rights, Trade and Investment, Ageing and Longevity, Africa, Workforce and Employment, COVID-19, Türkiye, Humanitarian Action, Middle East and North Africa

No Knowledge

We don't have any recent, relevant knowledge available on Managing Migration to the EU, but you can check back later using Strategic Intelligence if you would like to monitor Managing Migration to the EU in real-time. You can find more information on how by looking at the "Continue the experience online" page later on in this briefing.

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- Deciphering monetary policy shocks, VoxEU, voxeu.org

4. A Digital EU

- No recent knowledge

5. Managing Migration to the EU

- No recent knowledge

Acknowledgements

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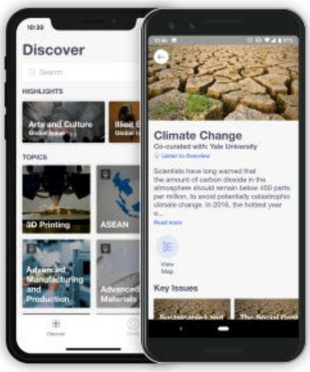

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