

## **The Future of Europe: Questions, Concepts and Actors**

### **Panel 3 Friday 30 September 2022 09:30h-10:45h**

#### **Factsheet: “The Future of the EU’s Economy”**

Russia’s war against Ukraine, the resulting sanctions from the EU and the worldwide supply chain crisis have global economic effects. They also entail renewed threats of divergence among Eurozone as well as between Eurozone and non-Eurozone members, as the fallout from the war impacts Member States’ national economies differently. The war also reinforced the Covid-19-induced supply-side driven inflation, increasing economic hardship across the Union. The ECB has increased interest rates to limit inflation and has also introduced a new measure to limit borrowing spreads across the EU. Raised interest rates, however, harbor the threat of a recession that would further exacerbate social pressure. In terms of trade, Russia’s war against Ukraine may accelerate tendencies of deglobalization, which present another growth challenge to the highly-globalized EU economy. The immediate need to ensure macroeconomic stability and social justice must therefore be coupled with mid-term strategic goals to reduce asymmetric dependencies and to decarbonize the economy.

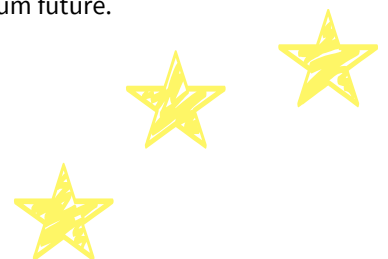
- Are current measures sufficient to counteract the expected recession in the EU or do you deem other measures as necessary?
- How can further divergence between Eurozone/non-Eurozone Member States be avoided?
- How can the EU ensure social justice while also pursuing long-term strategic (economic) goals?

#### **Goals**

- Mitigate the impact of current inflationary pressure on households while preventing a dip into recession.
- Ensure (continued) economic convergence among and fair burden-sharing between EU Member States.
- Make the EU economy more resilient to external shocks by developing a better sense of how to manage asymmetric interdependencies with third actors in strategic sectors.
- Accelerate the decarbonisation of the economy so as to reach a path congruent with self-proclaimed and international commitments.

#### **Challenges**

- EU citizens have already suffered economically from the pandemic, and the looming recession poses a real threat to livelihoods and social cohesion in EU Member States.
- Member States’ exposure to the economic fallout of the Russia’s war against Ukraine diverges significantly, presenting a threat to economic cohesion and the stability of the Euro.
- Russia’s war against Ukraine accelerates processes of economic decoupling among major world centres, which may create further macroeconomic pressure in the near-to-medium future.



- There remains a difficult trade-off in industrial policy between maximization of return-on-investment and economic cohesion among EU Member States.

## **Possible Solutions**

- Deepen cooperation in fiscal matters and coordinate economic stimuli against a recession, orienting them towards decarbonization similar to the Covid-19 emergency fund.
- Redeploy Covid-19 emergency funds or create additional funds to reduce the social impact of the economic crisis.
- Further increase the role of industrial policy to accelerate growth in strategic sectors and diversify international trade relations in these sectors.
- Extend joint borrowing to mitigate the impact of the economic fallout from Russia's war against Ukraine.

## **German Dimension**

As one of the large EU economies, Germany was by far the most exposed to energy dependence on Russia at the start of the Russian invasion. As such, it stands exemplary for several of the goal conflicts currently challenging economic policy in Europe: how to reduce dependence on Russia without incurring high social costs, how to mitigate an economic crisis while keeping a focus on decarbonisation, and how to formulate policy across this array of highly pressing policy goals. At the same time, current Minister of Finance Christian Lindner has made comments that reminded many of the German "European ordo-liberal script" when it comes to joint borrowing and safeguarding EU Member States against debt default, which may become an issue depending on the length of the looming recession. As the EU's largest economy, economic policy decisions taken in Berlin impact all other EU Member States. Different state strategies and fiscal commitments to counteract the economic crisis harbor a potential to exacerbate, rather than mitigate divergence among EU Member States.

