

# ECONOMIC POLICY CHALLENGES FOR THE EUROPEAN UNION IN A CHANGING GEOPOLITICAL ENVIRONMENT

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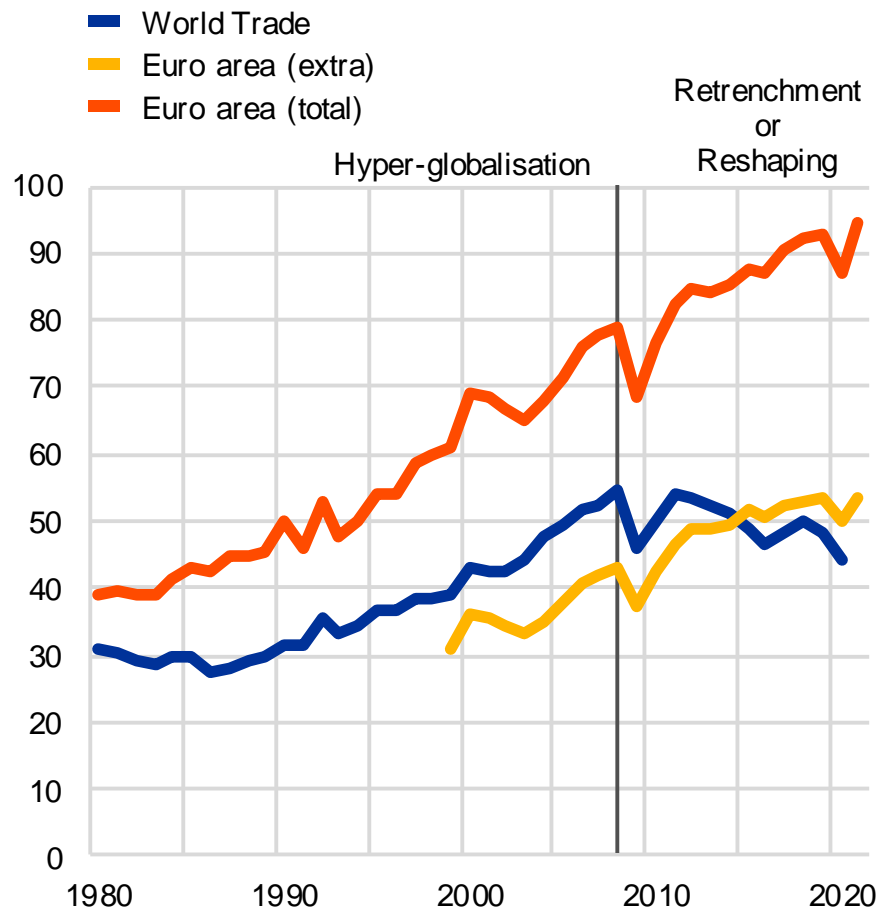
JEAN MONNET CONFERENCES ON EUROPEAN UNION ECONOMY

Universidad Carlos III de Madrid  
10 October 2022



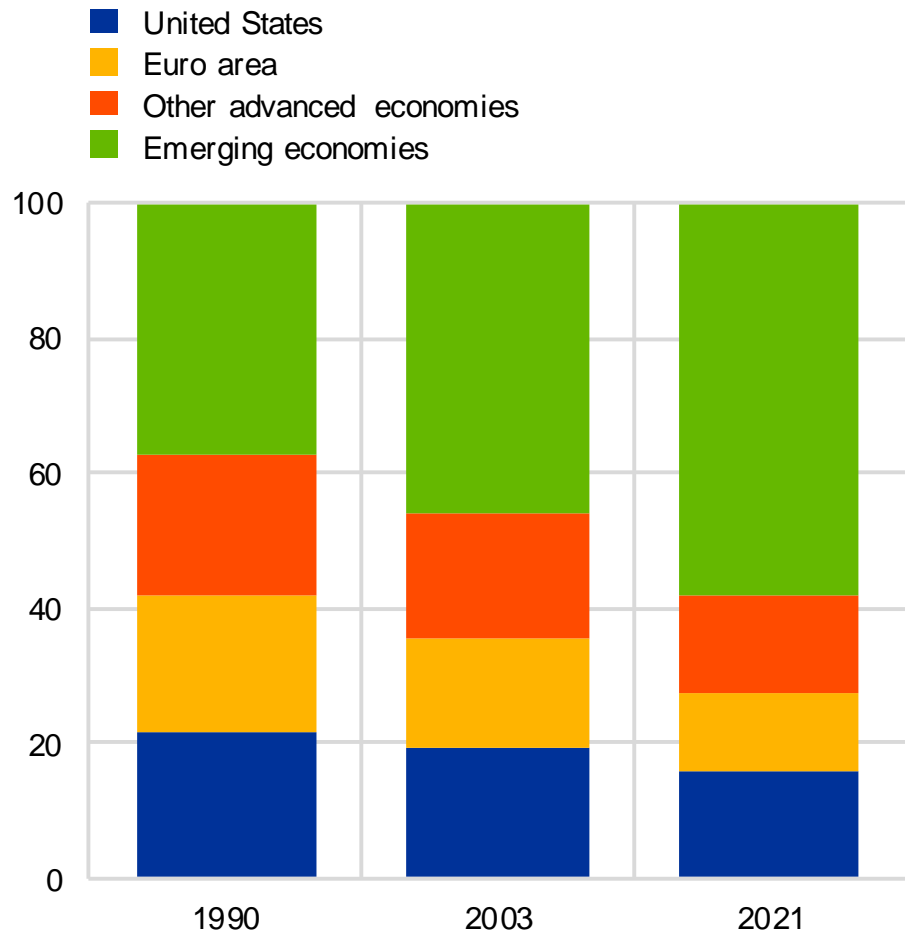
TRADE OPENESS

(percentage of euro area and world GDP)

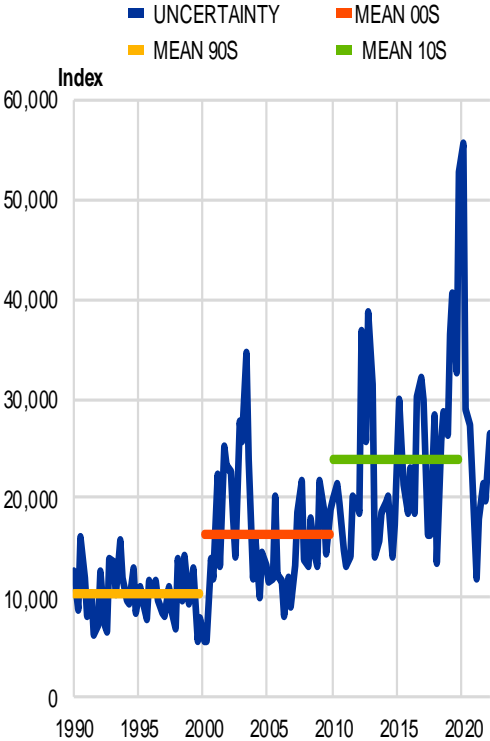


WORLD GDP: SHARE BY REGION

(percentages, at market exchange rates)

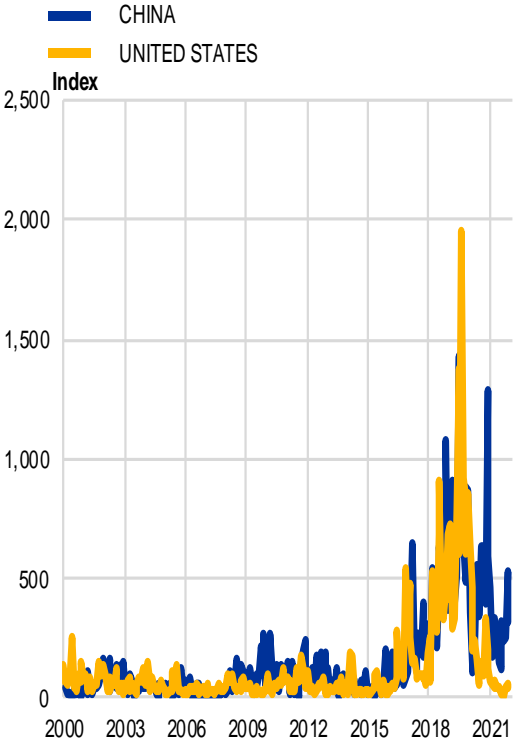


World uncertainty index

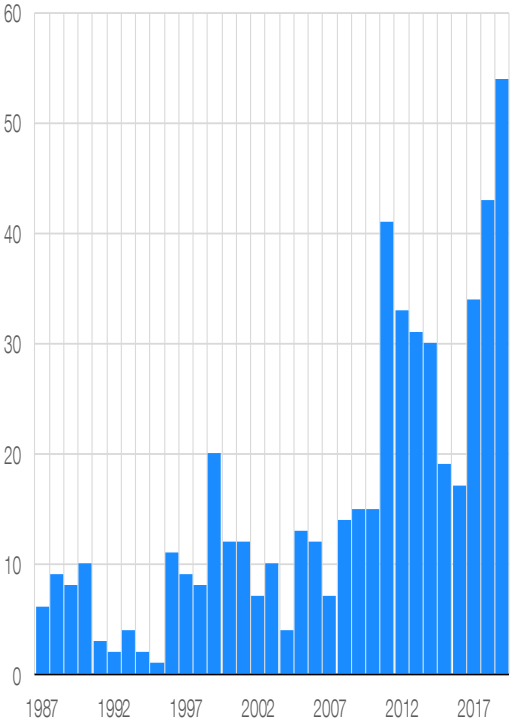


GDP weighted average of countries

Trade policy uncertainty

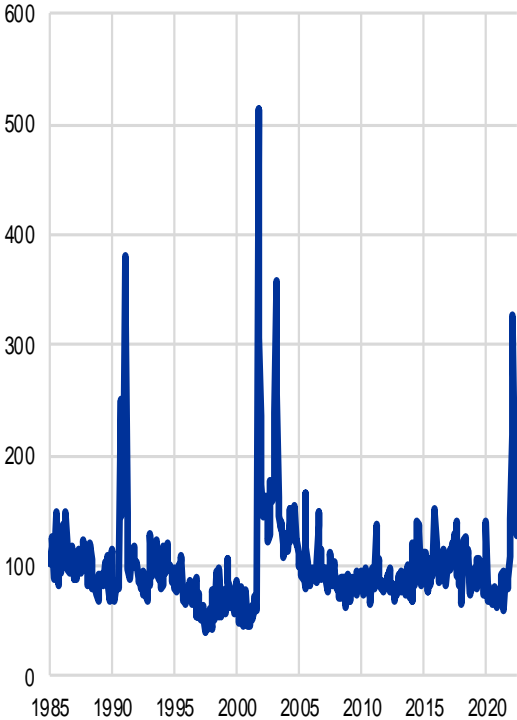


Social Unrest Index

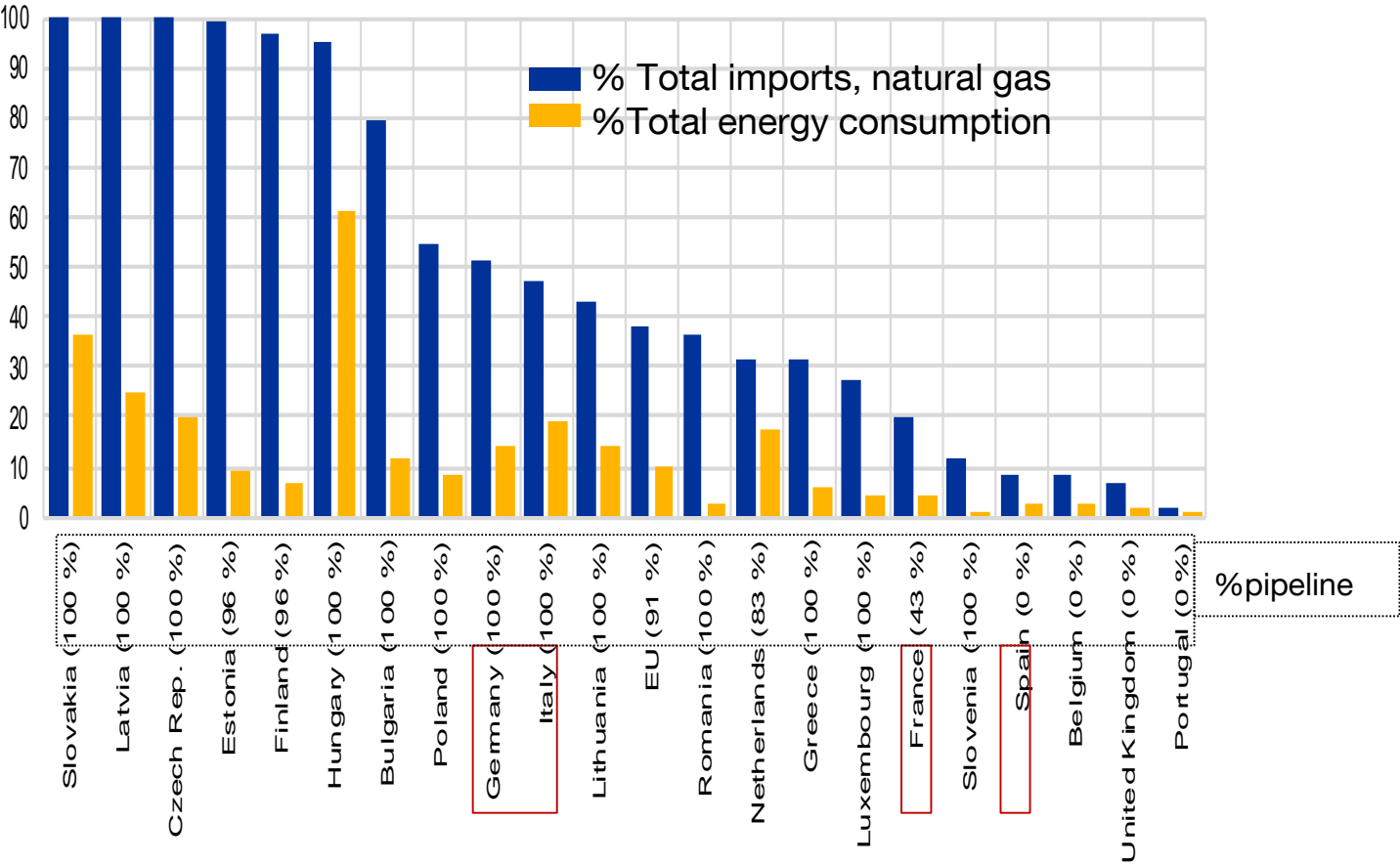


IMF, number of unrest events

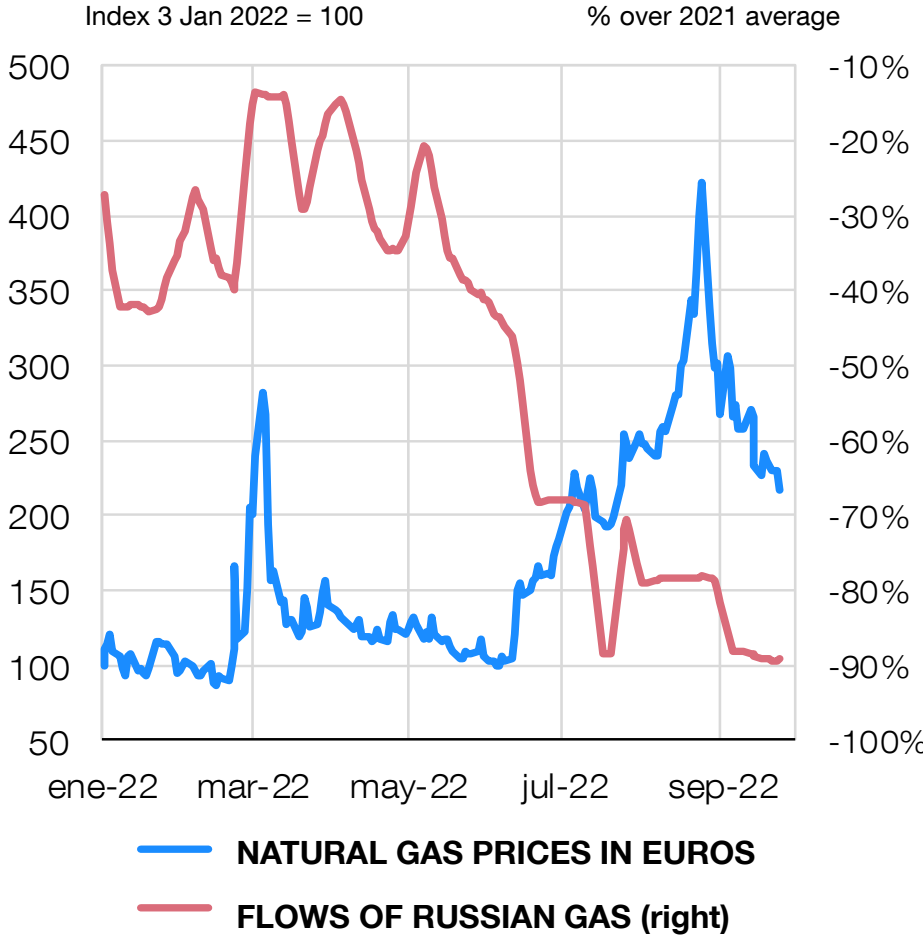
Geopolitical risk index



EU dependency on Russian natural gas,  
by country (2019), %



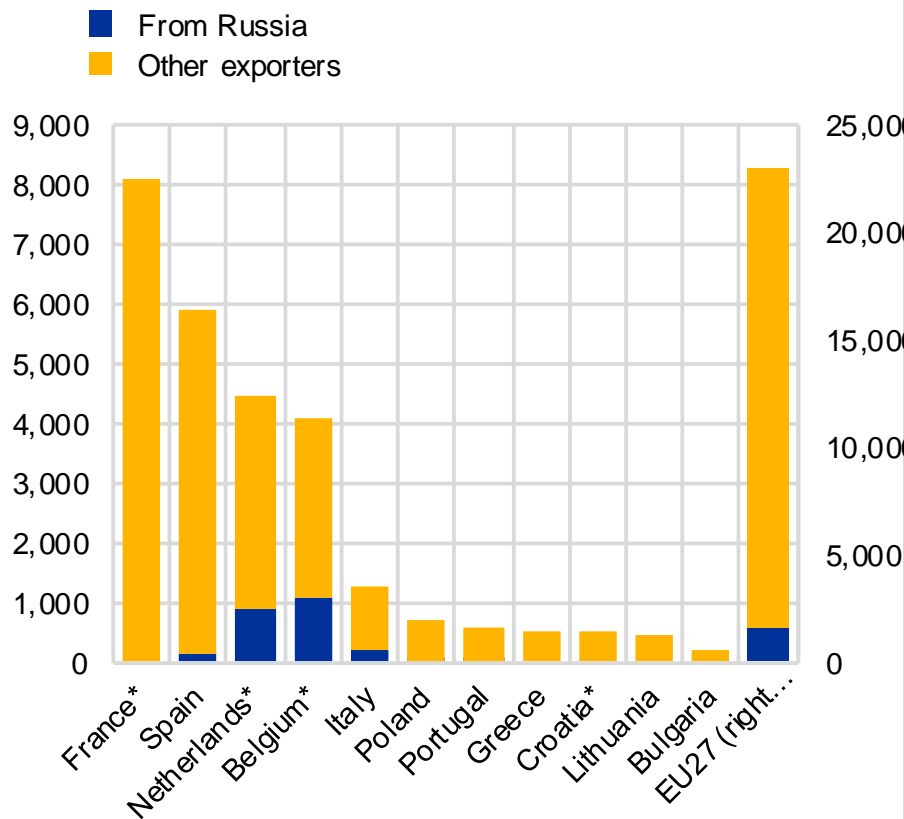
Natural gas in the EU: recent evolution  
of prices and Russian gas flows



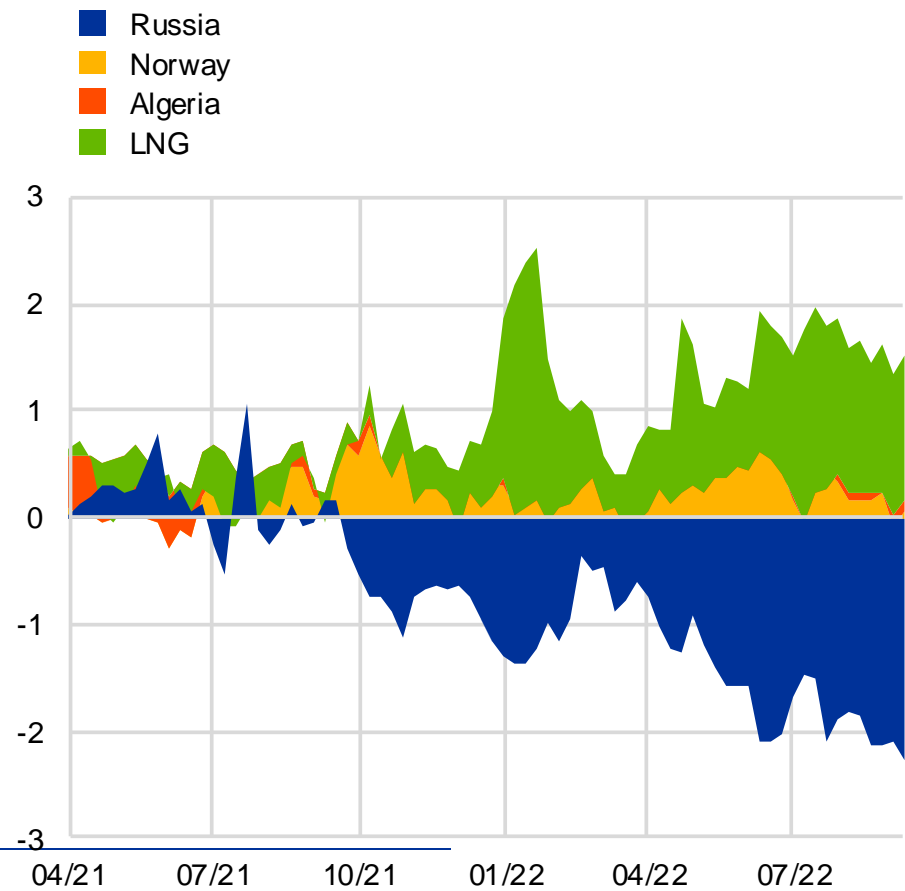
Source: Own calculations, based on Eurostat data  
Notes: Dependency on Russian natural gas is depicted as a percentage of total gas imports (blue bars) and as a percentage of total energy consumption (yellow bars). Figures in the country labels represent the percentage of gas imports from Russia via pipeline

SUBSTITUTION OF RUSSIAN PIPELINE GAS WITH ALTERNATIVE SOURCE

Year-on-year change in LNG imports  
(M cu. m., cumulative flows Jan-Jun 2022)



EU imports of natural gas, by origin  
(year on year change)



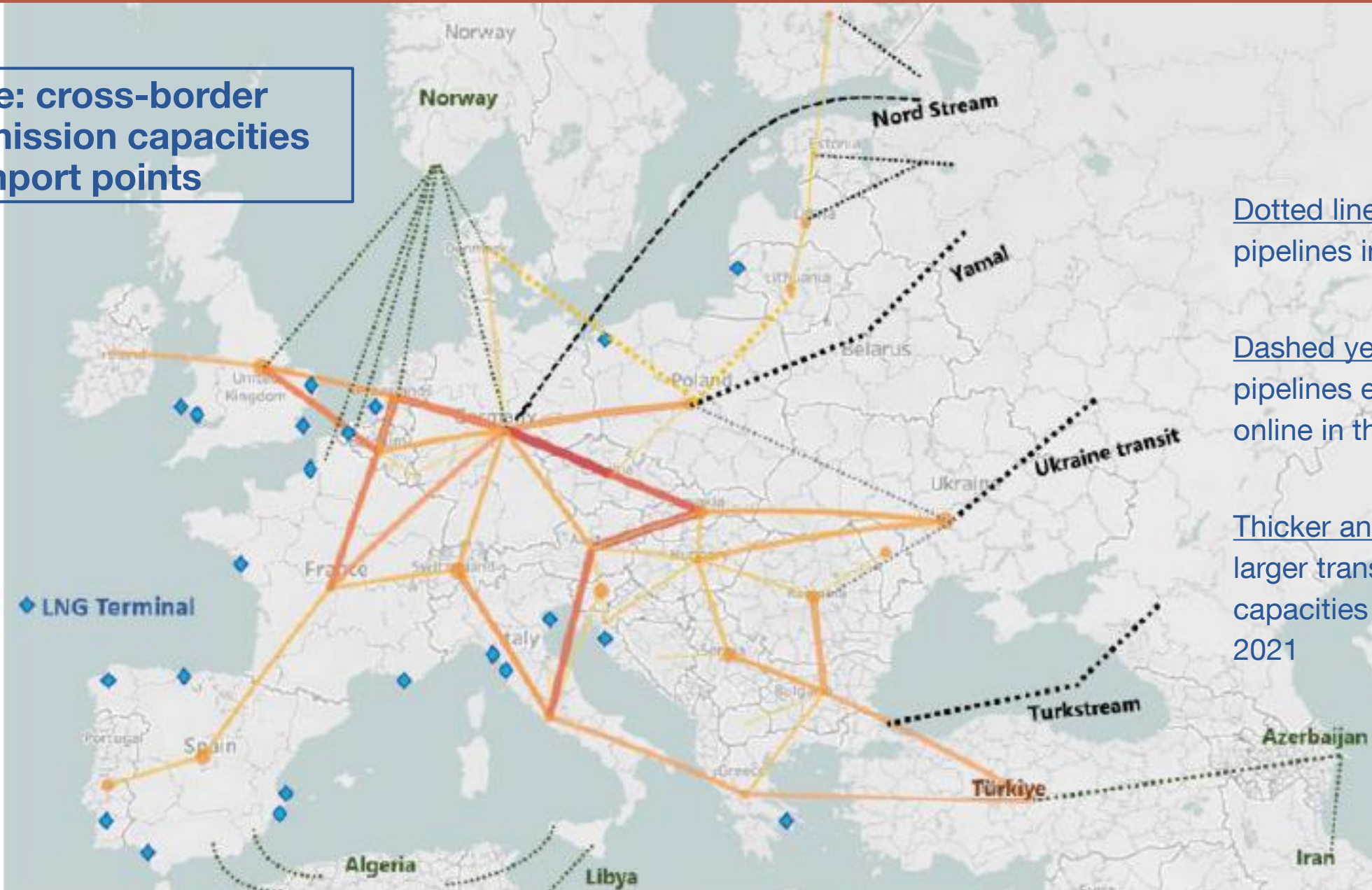
Sources: Own calculations, based on Eurostat (left) and Bruegel (right) figures.  
Notes: Change in LNG imports is shown as the year on year change in cumulated flows (in volume terms) from January to June. Figures for countries with an asterisk (\*) show cumulative flows for the period January-July (instead of January-June). The chart on the right depicts the year-on-year change in weekly flow data (in terms of 4-week moving averages) from different sources of EU gas imports, in order to identify new sourcing patterns (and remaining shortfalls) in the EU's effort in replacing Russian gas in 2022 relative to 2021.



# RECENT EVENTS EXPOSE THE DEPENDENCIES OF THE EU (III)

## ENERGY AS AN EXAMPLE

Europe: cross-border transmission capacities and import points



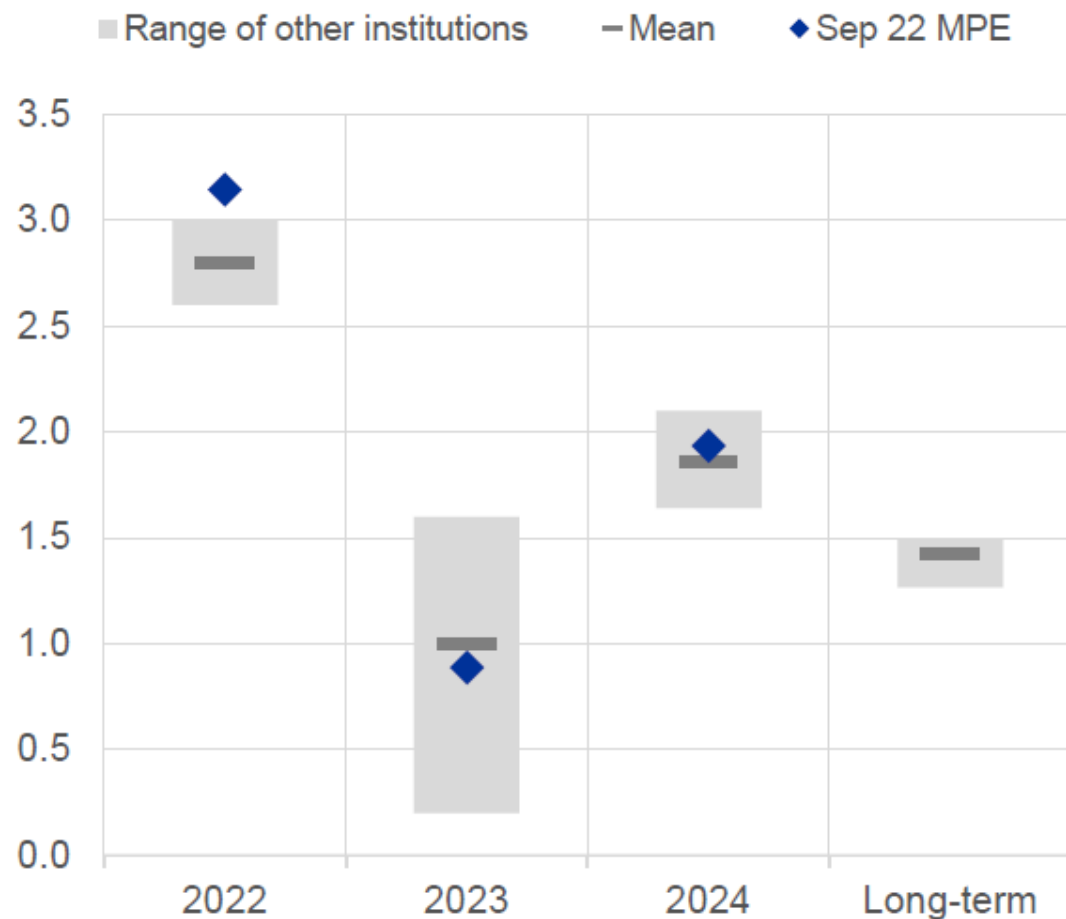
Dotted lines: import pipelines into Europe

Dashed yellow lines: pipelines expected to come online in the next 12 months

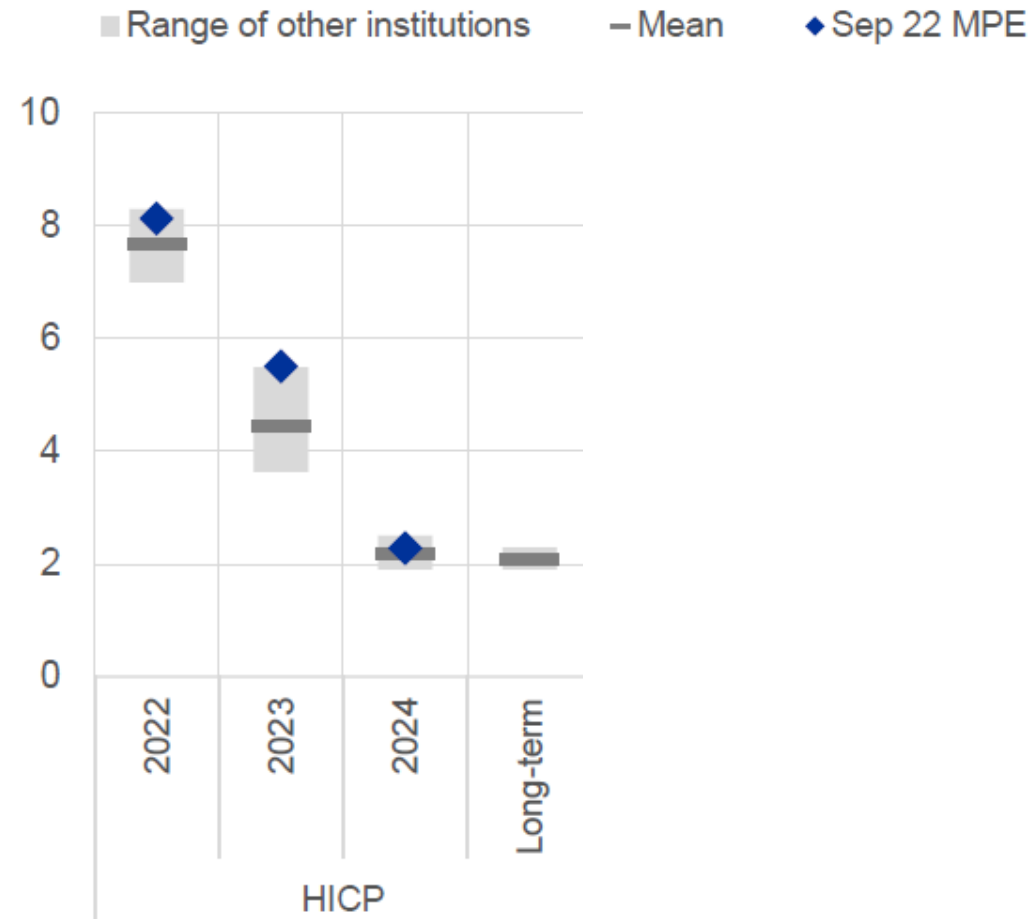
Thicker and darker lines: larger transmission capacities as of December 2021

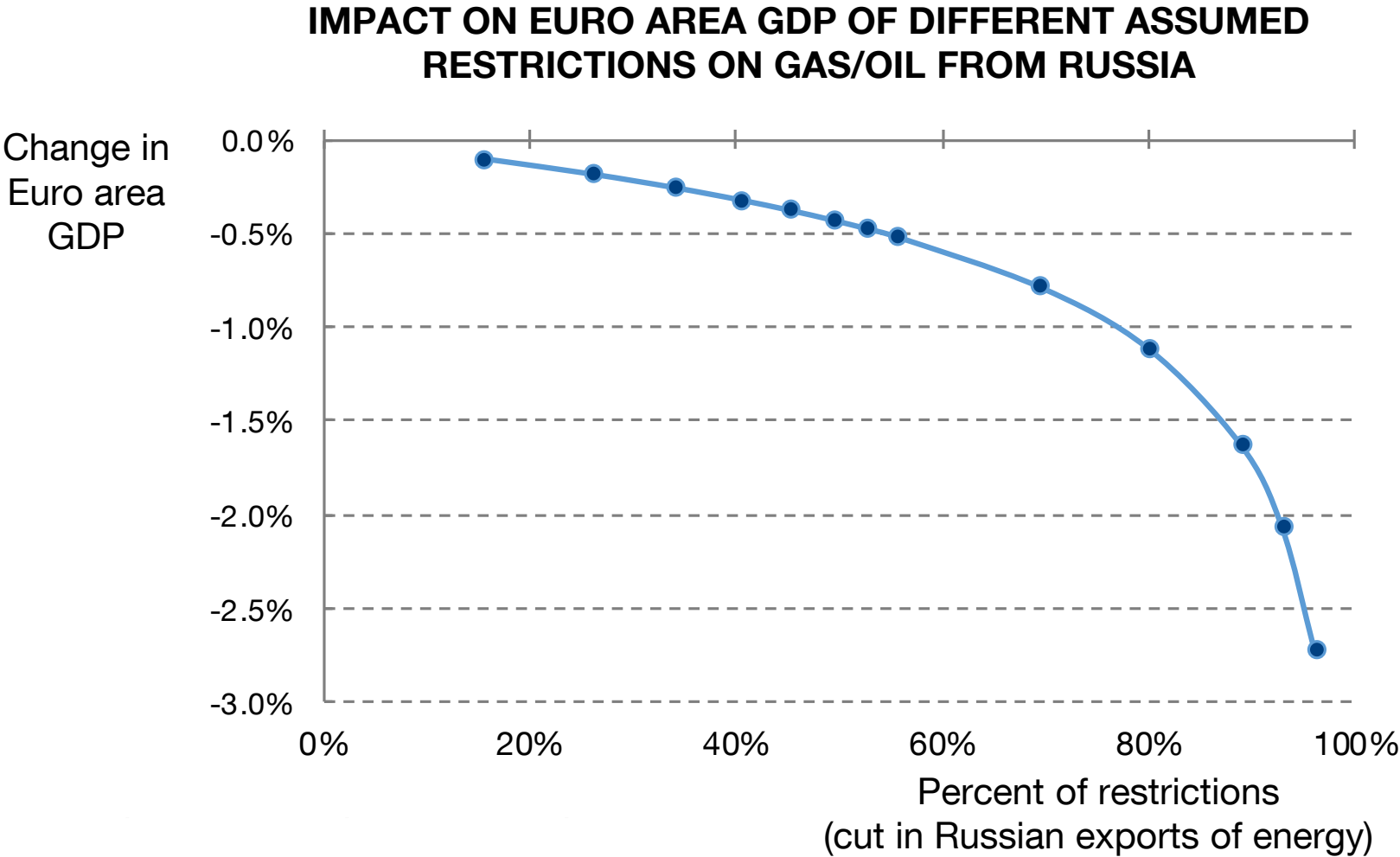
## Euro area

### Real GDP (annual percentage changes)



### HICP (annual percentage changes)





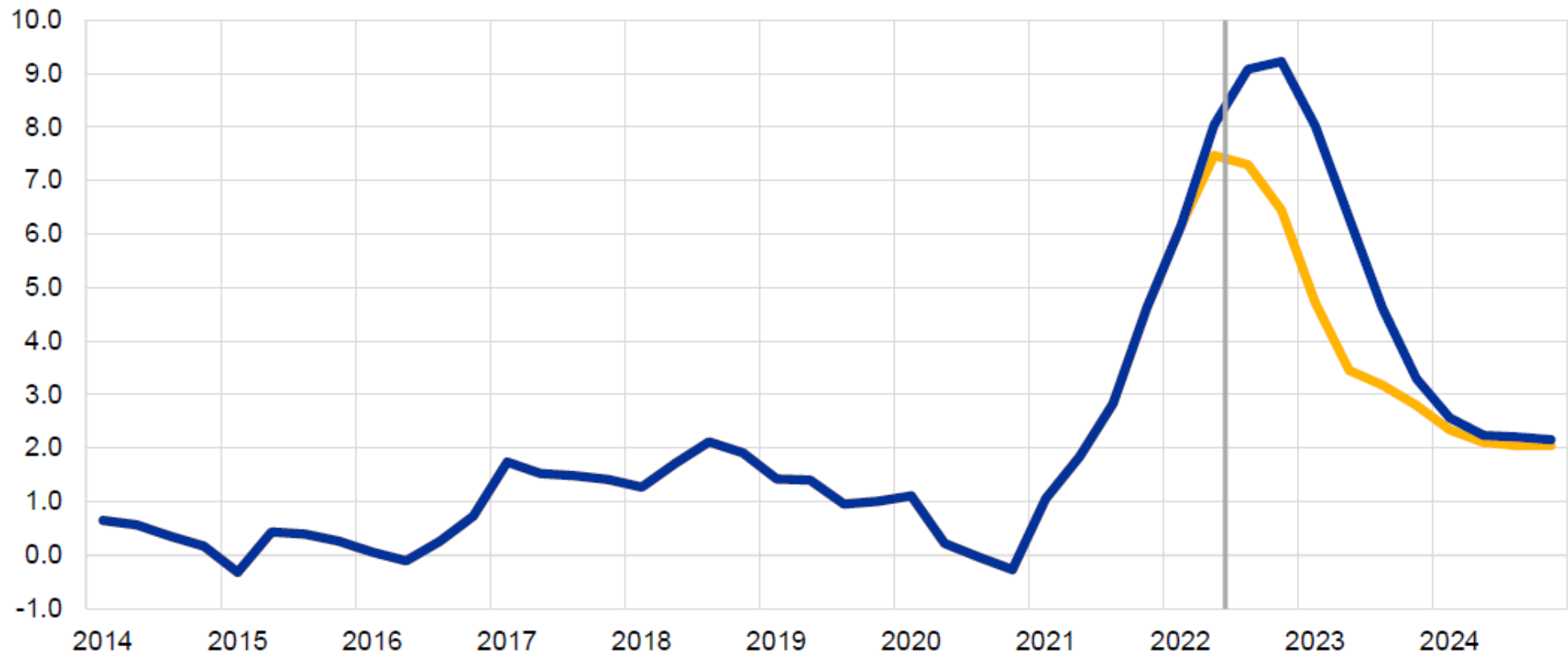
Simulations performed using the model of Izquierdo, Moral-Benito, Prades y Quintana (2022) “The propagation of worldwide sector-specific shocks”, DT Banco de España 2213

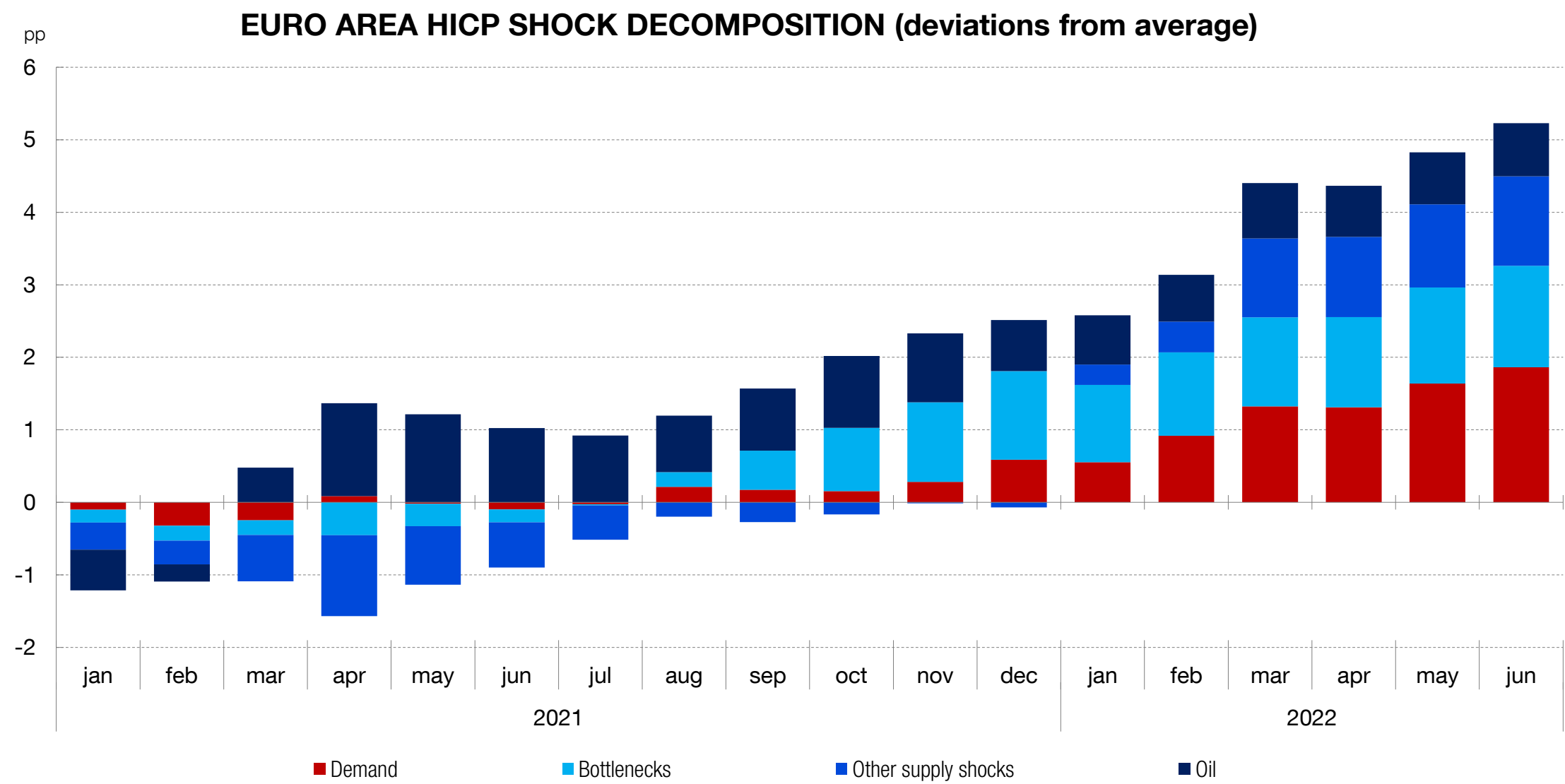


# Euro area HICP

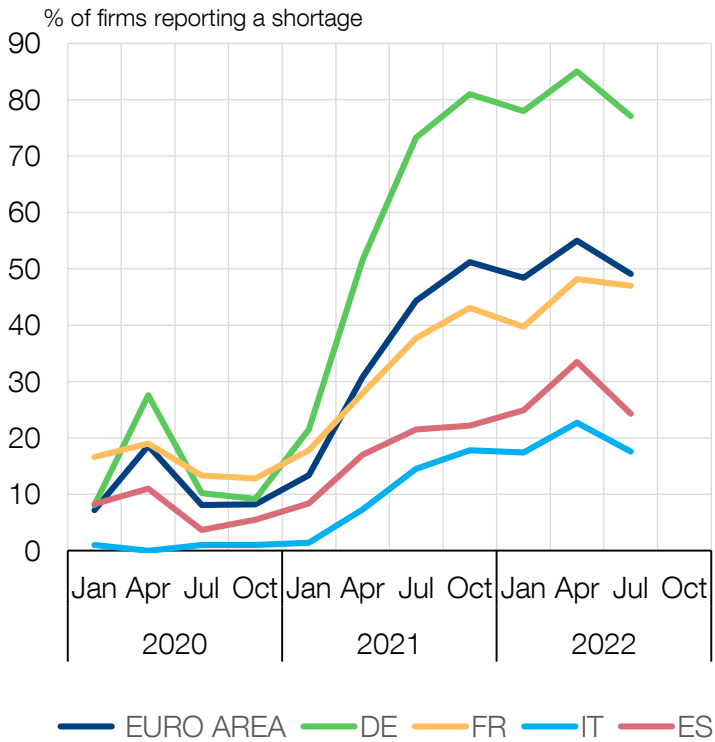
(annual percentage changes)

- June 2022 Eurosystem staff projections
- September 2022 ECB staff projections

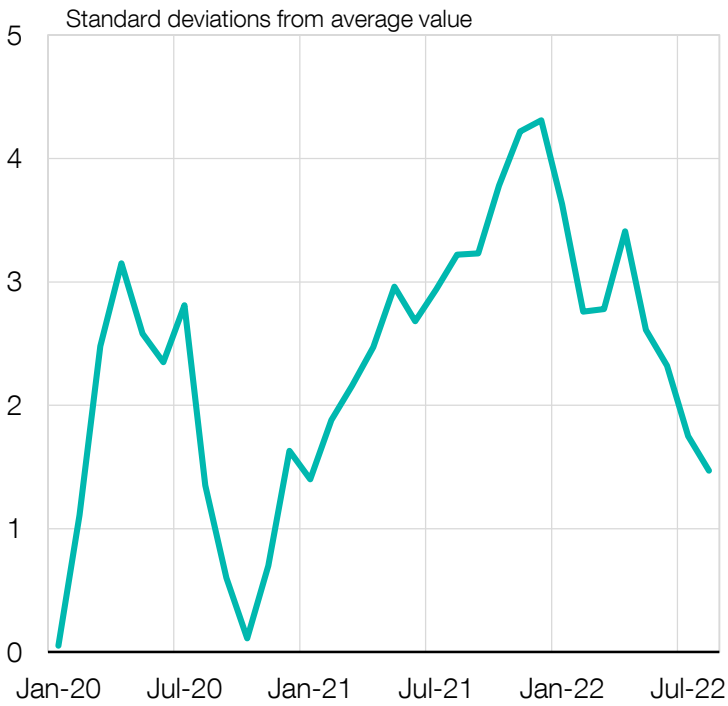




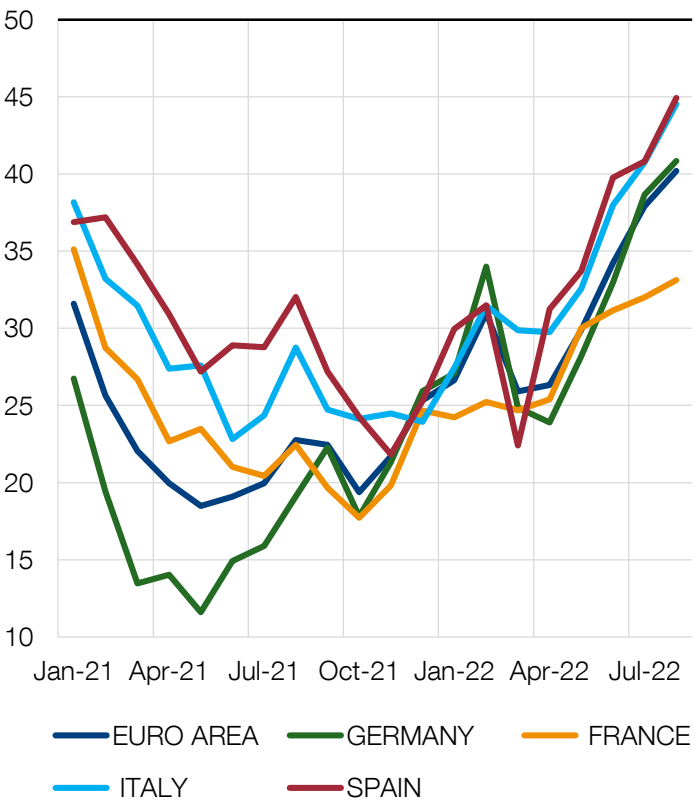
SHORTAGE OF MATERIAL AND/OR EQUIPMENT IN PRODUCTION OF MANUFACTURES



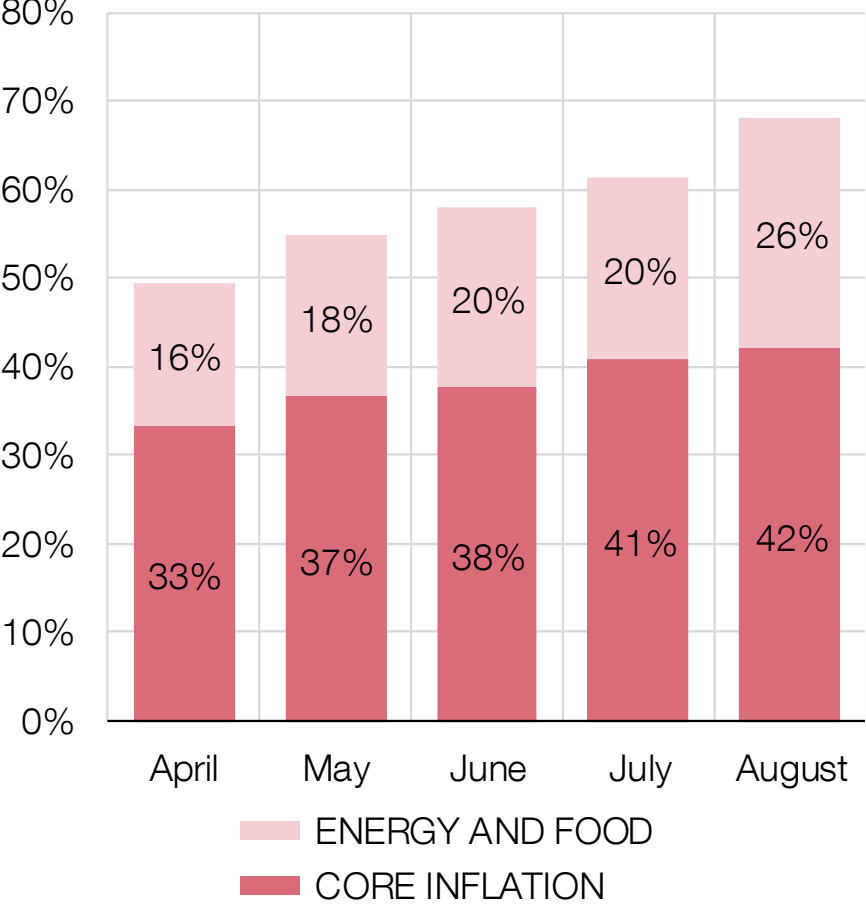
GLOBAL SUPPLY CHAIN PRESSURES  
NY FED BAROMETER



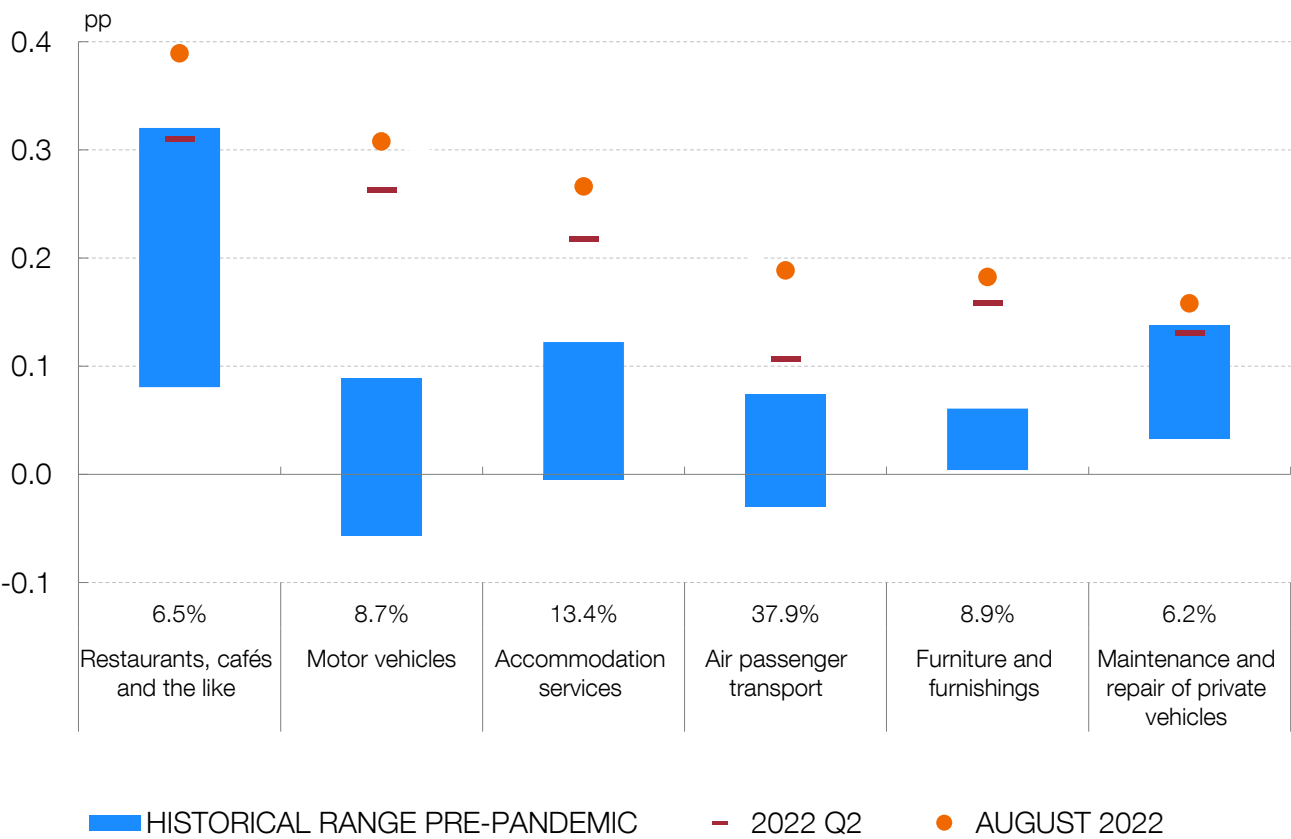
MANUFACTURES DELIVERY TIMES



Share of HICP items with  
inflation rate over 4%

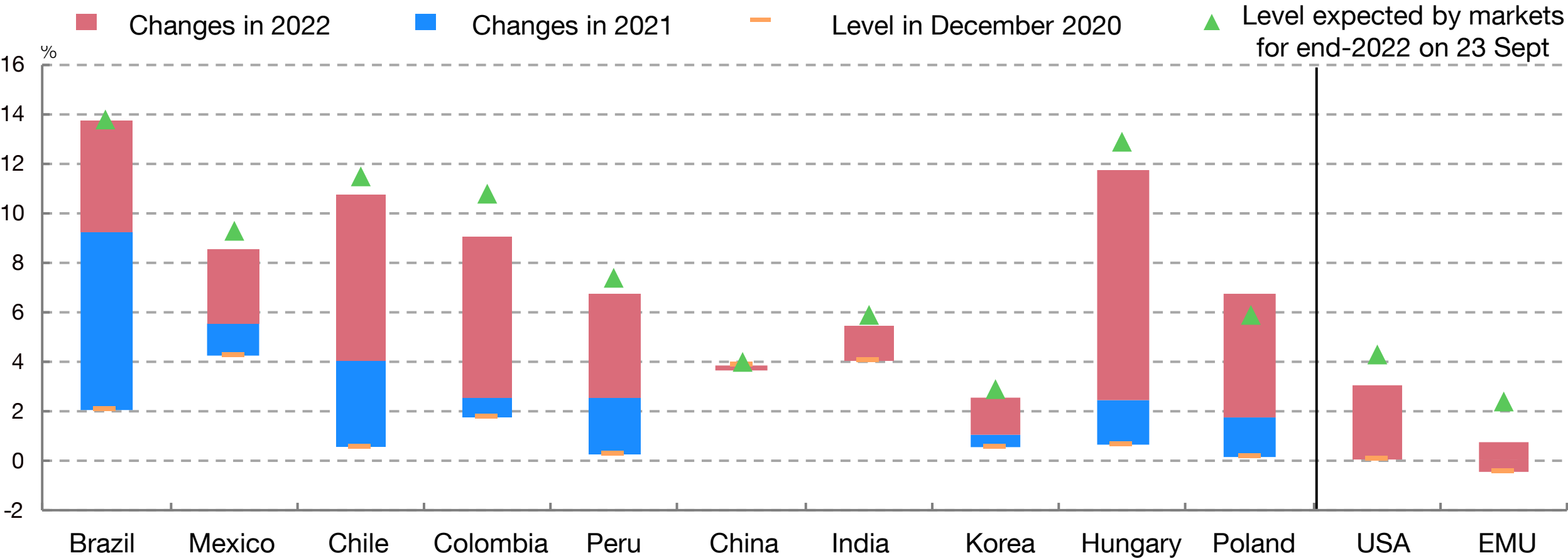


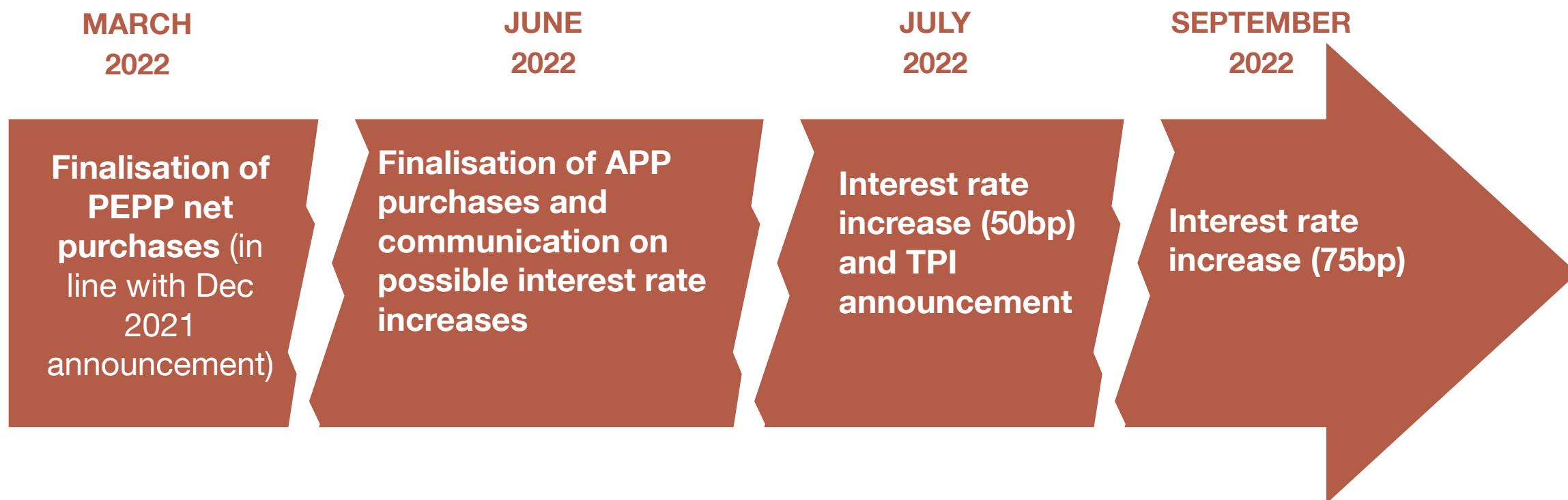
Main core inflation components  
with inflation rate over 4%



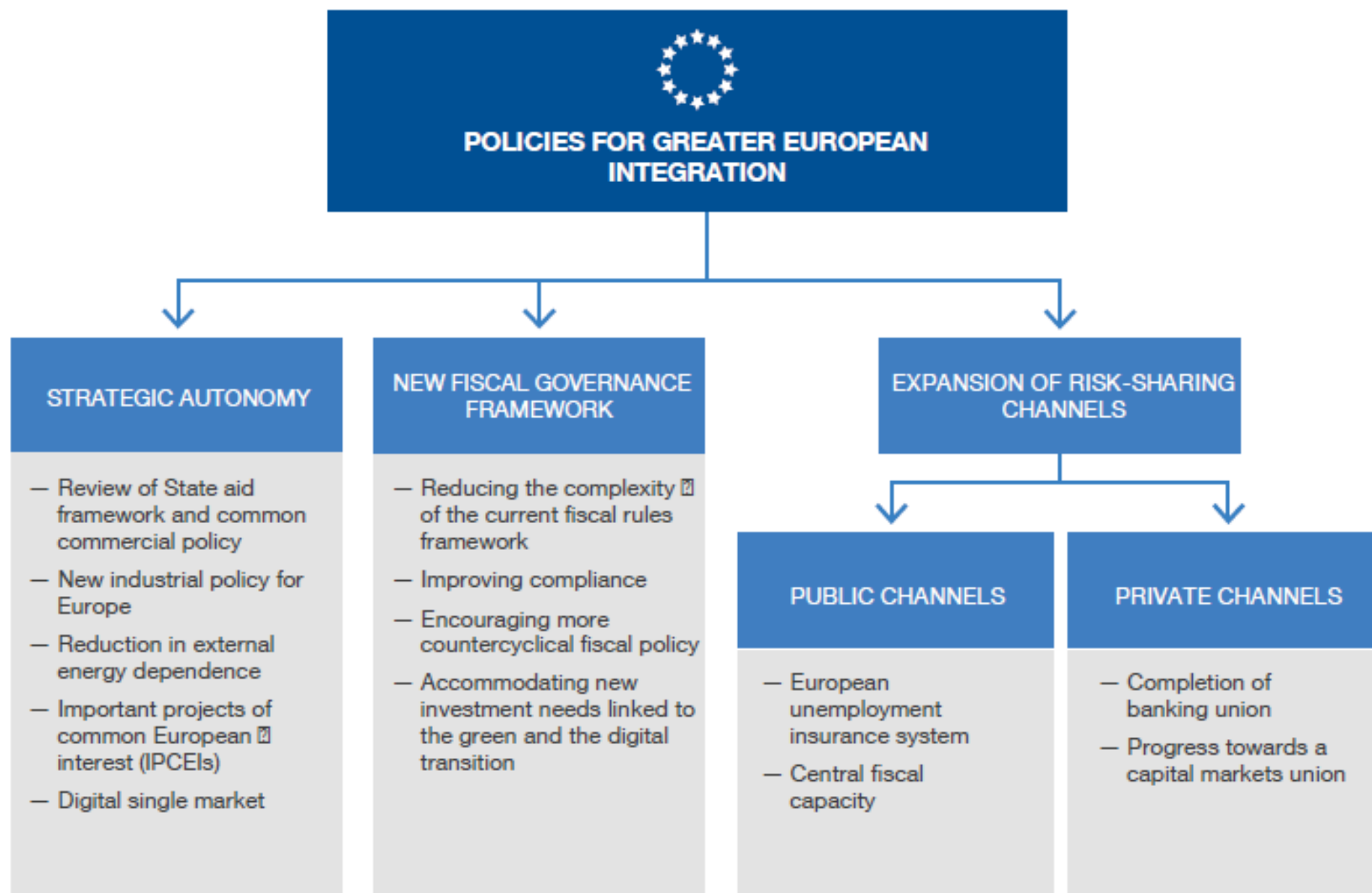
Official interest rates

(%, 23 September 2022)









## Dependencies on non-EU players in payments, financial market infrastructures and digital financial services

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### Payment systems

Dominant position of non-EU PSPs

Heavy reliance of EU PSPs on non-EU critical service providers

### Financial market infrastructures

Dependence of EU market participants on third-country clearing services

### Cybersecurity

Vulnerability to cyber-attacks on the financial system and critical financial infrastructures

### Big Tech

Dominant position of foreign-based Big Tech companies

**PROCYCLICAL: NO MARGINS  
IN GOOD TIMES**

**WEAK IMPLEMENTATION:  
COMPLEXITY, “WILLINGNESS”**



**Focus on national  
responsability:** simplification;  
better anchors; better  
governance (watchdogs;  
European Semester – with  
growth focus)



**NO EURO AREA FISCAL  
STANCE**

**FINANCIAL FRAGMENTATION:  
A MP WITHOUT A FP?**

**INTERNALISATION OF GLOBAL  
TRENDS?**  $r^*$ , health,  
demographics, globalisation, ...

**ARE SOME SHOCKS TOO BIG  
FOR A COUNTRY?**

**“SOCIAL DOMINANCE” IN  
PUBLIC SPENDING**



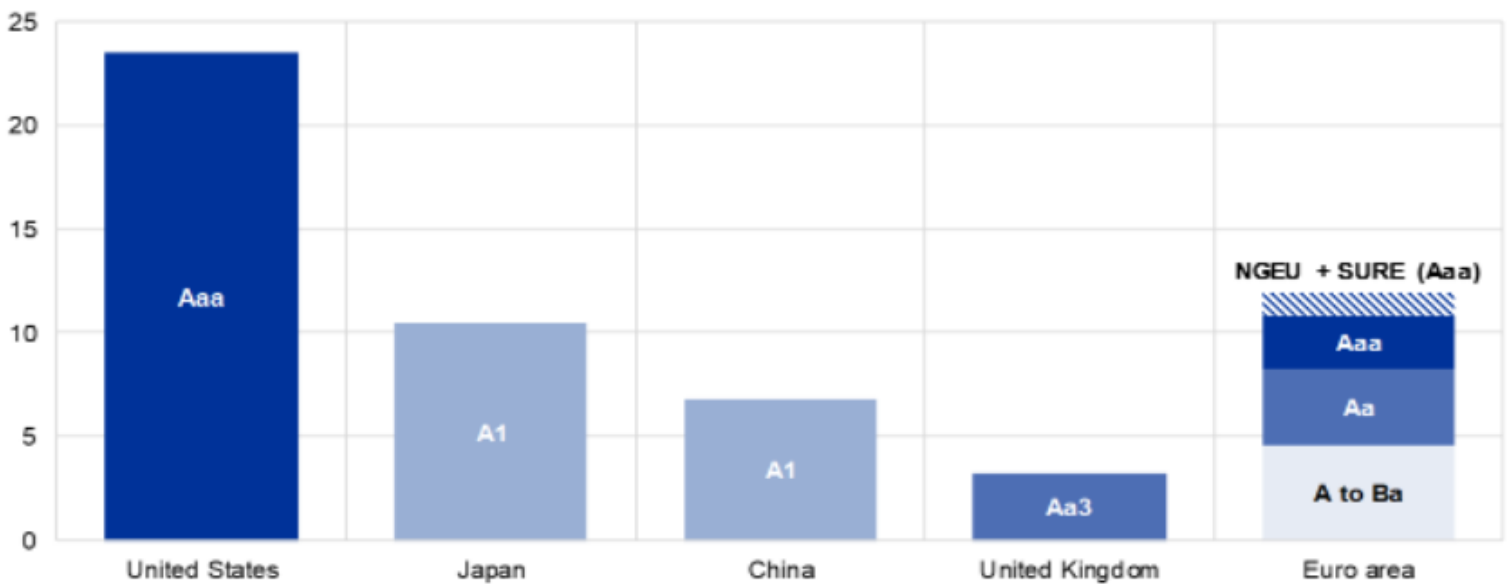
**Focus on supra national  
issues:** automatic macro-fiscal  
stabilisation; CMU (euro safe  
assets); BU; joint investment  
efforts (externalities)



Public debt markets in the euro area remain fragmented compared with those in the United States

Outstanding general government debt securities

(USD trillions)



Sources: BIS, Haver Analytics, Bloomberg, European Commission and ECB calculations.

Notes: The data refer to total debt securities issued by the general government. Planned issuance for NGEU. The latest Moody's local currency long-term sovereign debt rating is reported for each country and NGEU. The observations are for the third quarter of 2020 for the amount outstanding of debt securities and for March 2021 for credit ratings.

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THANKS FOR YOUR ATTENTION

