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# Ten issues to watch in 2023

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## IN-DEPTH ANALYSIS

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Members' Research Service  
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This EPRS publication seeks to put into context and offer insights on 10 key issues and policy areas that have the potential to feature prominently in public debate and on the political agenda of the European Union in 2023. It has been coordinated and edited by Isabelle Gaudeul-Ehrhart of the Members' Research Service, based on contributions from the following policy analysts: Polona Car (Cyber-resilience in the EU), Anna Caprile (Russia, *quo vadis?*), Maria Diaz Crego (Protecting media freedom and journalists), Angelos Delivorias (Goeconomics in an age of empires: What does Africa risk?), Alina Dobрева (Budgeting in times of crises and war), Gregor Erbach (Climate and socio-economic tipping points), Martin Höflmayr (The Janus-faced fiscal-monetary policy mix), Monika Kiss (How will increasing fuel prices impact transport?), Silvia Kotanidis (Heading towards the 2024 European elections), and Marin Mileusnic (EU recovery instrument: Lessons for public investment in the EU). The cover image was produced by Samy Chahri.

Further details of the progress of on-going EU legislative proposals, including all those mentioned in this document, are available in the European Parliament's Legislative Train Schedule, at: <http://www.europarl.europa.eu/legislative-train/>.

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## Introduction

As 2023 starts, our attention is of course still focused on Russia's war on Ukraine; a definitive marker of the year 2022, a human tragedy on our European continent, and a geopolitical 'tectonic shift' – to quote the Heads of State or Government in the Versailles declaration of March 2022. The war on Ukraine touches on all the issues raised in our brainstorming to prepare this paper, and thus does so for each of the 10 ultimately selected for this 2023 edition of our annual publication: growth and inflation, transport, cyber-attacks, energy and climate, the future of Russia, etc.

Yet, it is not with Ukraine as such that we start our series of ten issues. With democracy and the Ukrainian Parliament (the *Rada*) under attack, we turn the spotlight to a democracy of almost half a billion citizens who will elect their representatives next year, and one that remains robust even when targeted. With the financial means to act and react to the unexpected being critical, to budgeting in times of crises and war. With citizens and businesses looking to the recovery, to lessons for public investment. With the 24/7 news cycle perhaps distracting us from meta-challenges such as global warming, to climate tipping-points. And with media being banned and journalists threatened, to protecting media freedom and journalists in the European Union.

On these issues and the others covered in our 2023 edition, the European Parliament is active in its various legislative, budgetary, supervisory, and diplomatic roles. This does not divert its attention from the war on Ukraine: on the contrary, with the re-introduction of question time, the European Parliament has reactivated a tool of scrutiny of the European Commission, first used 50 years ago, to address, in particular, the consequences of the war on Ukraine. The President of the European Parliament, Roberta Metsola, was the first President of an EU institution to travel to Ukraine after Russia had launched its war, where she delivered a speech to the *Rada*.

The European Parliament, active in so many ways on so many fronts, externally and internally, will go back to EU citizens next year. The 705 Members will end their mandate in spring 2024, and hundreds of millions of European citizens will have the task of electing a new assembly, the 10th legislature. The Parliament has come a long way, from the assembly that first met in Strasbourg in 1952 (with celebrations of its 70th anniversary held at the end of 2022) to the present-day Parliament, but it recognises that it still has work to do on improving its own standards.

For the seventh consecutive year, the European Parliamentary Research Service (EPRS) asked its policy analysts to identify ten issues to watch in the New Year. EPRS then tasked the experts selected to explain why these issues matter particularly in 2023 and what we might expect in the year to come. Readers will find our analysis on other issues in previous editions of this publication (listed under the 'Further reading section') and in the thousands of publications EPRS has issued online and in paper over the years.

We hope that you will enjoy reading this latest edition of 'Ten Issues to Watch' and that it will stimulate your own reflection and ignite your curiosity as you explore the challenges and opportunities of 2023.

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# 1. Heading towards the 2024 European elections



The year 2023 will be a crucial one in the run-up to the 2024 European elections, with Parliament facing several major political challenges. Some of these are linked to the nature of European elections and to long-standing efforts to involve the electorate more and to 'Europeanise' the elections. Other challenges are linked to recent events that have exposed the need for internal reflection within Parliament and for reforms on transparency and ethics.

As [announced](#) promptly by President Roberta Metsola on 12 December 2022 following the wave of investigations into [illicit lobbying activities](#), and [reiterated](#) by [Members](#) in a [resolution](#) the same week, Parliament supports a reform process that touches, inter alia, upon the [transparency register](#), an interinstitutional ethics body and a special inquiry committee. How these and other matters are handled by Parliament and the other EU institutions in 2023 will play an important role in the tone of the electoral campaign, in citizens' trust in the EU and ultimately in their participation in the 2024 European elections.

In addition, at least three elements – less linked to current events, but more to the nature of European elections and to ongoing institutional work to make them more prominent – are expected to be at the heart of discussions in 2023. The first such element is whether the lead candidate, or [Spitzenkandidaten](#), process will be repeated at the 2024 European elections. This process was intended to build a more democratic link between the only EU institution directly elected by citizens – the European Parliament – and the EU executive – the European Commission. In doing so, the hope was also to increase voter turnout, which had been steadily decreasing over the years (see Figure 1). To achieve this, inspiration was derived from the explicit link that the Lisbon Treaty reform establishes between the European elections and the election of the President of the Commission, whereby 'Taking into account the elections to the European Parliament' the European Council, acting by a qualified majority, proposes to the European Parliament a candidate for President of the Commission, who shall be elected by the Parliament by a majority of its component members ([Article 17\(7\) TEU](#)). Under this non-formalised process, European political parties agreed to propose candidates for the position of President of the Commission, with the party that wins the most votes in the European elections, or that is capable of marshalling a parliamentary majority around a candidate, rewarded with the power to nominate their candidate to the Commission presidency.

Under the motto '[this time is different](#)', the lead candidate process was run in the campaign for the 2014 European elections, with a rather successful outcome as Jean-Claude Juncker, the EPP lead candidate, was agreed upon – not without [resistance](#) – as the European Council candidate, and then proposed to Parliament which ultimately voted him into office on [15 July 2014](#). That successful experiment was less successful at the 2019 elections when Ursula von der Leyen, an outsider in terms of the lead candidate process, was elected Commission President on [16 July 2019](#) by a slim absolute majority (383 votes in favour, 327 against, and 22 abstentions).

The *Spitzenkandidaten* process is based on the crucial role of European political parties, which each select a person to run as their lead candidate. Each political party runs a selection process for its lead candidate, according to its own internal rules and political strategy. From the Parliament's perspective, it is a process that enhances Parliament's role in the choice of the most important EU executive position, an influential role that it would not wish to give up. The year 2023 will therefore be crucial for the European parties in deciding whether, in the absence of any formalisation of the process, to repeat the experiment a third time. With the 2024 elections approaching (the precise dates have yet to be decided) the political will of European parties would have to crystallise by spring/summer 2023, i.e. in good time to select the lead candidates in autumn 2023. It is said that the [chances of success](#) of the *Spitzenkandidaten* process, whose automaticity the European Council has explicitly [rejected](#), would be higher if the outgoing President of the Commission were to run as a lead candidate. European political parties being the protagonists in this process, some positive

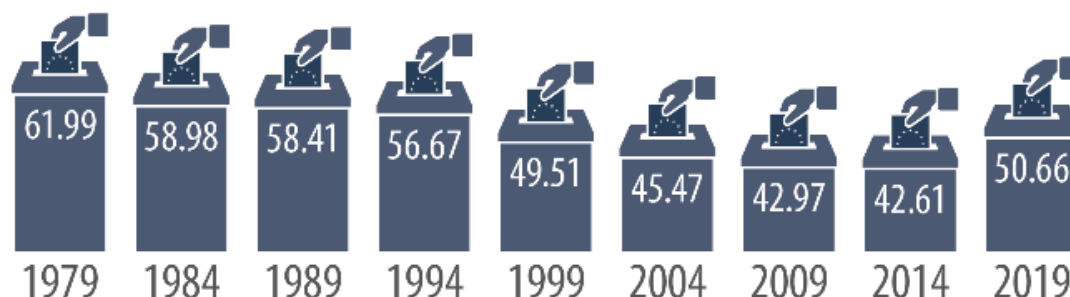
impact could also derive from the enhancement of their [access to EU funds](#), should the [proposal](#) on funding of European political parties and foundations be adopted by the co-legislators in 2023.

The second element is the pending **electoral reform** contained in the [draft legislative act](#) adopted by Parliament on 3 May 2022. That too is very much linked to the lead candidate process. [This reform](#), one of the many [attempted](#) over recent decades to 'Europeanise' the European elections, would innovate in two respects. First, by addressing the current fragmentation into 27 different electoral systems, it would make electoral rules more uniform within the EU (e.g. uniform minimum common voting age, right to vote in third countries, 9 May as fixed election day). Next, by seeking to emancipate European elections from national-focused debates and to bring citizens closer to European affairs, it would introduce a Union-wide constituency in which 28 Members of Parliament would be elected through transnational lists, with geographical balance ensured between small, medium and large countries through a set alternation of candidates coming from these three groups. The proposal would also provide for the new Union-wide constituency – a major step towards the Europeanisation of European elections – to be accompanied by the formal introduction of a lead candidate process, with a political agreement between the European political entities and with an interinstitutional agreement between Parliament and European Council.

The political will to engage in a path where European transnational lists are combined with a lead candidate process was endorsed by the EPP, S&D and Renew Europe groups in a January 2022 political agreement, [Our priorities for Europeans](#). It is unlikely, however, that the draft legislative act containing the electoral reform described above will be unanimously adopted by the Council, receive the consent of an absolute majority in Parliament and then be ratified by all Member States according to [Article 223 TFEU](#) in time for the 2024 European elections. Account should also be taken of the safeguard enunciated by the [Venice Commission](#): that electoral reforms should enter into force at least one year prior to elections. Discussions on the proposal will however likely take place during 2023, giving an indication of the political appetite of Member States to truly make the long-awaited leap to make European elections more European.

A third element is the effect of the [Conference on the Future of Europe](#), and in particular that of the involvement of [citizens](#) in what was considered a true exercise of [participatory democracy](#). This engagement might not only have raised the interest of citizens on European affairs, hence possibly also having a positive effect on electoral turnout in the next elections, but has also produced concrete results as far as the role of European elections is concerned. [Recommendation 16](#) of the citizens' panels suggests harmonising electoral conditions, while [proposal 38\(4\)](#) of the Conference on the Future of Europe calls for citizens to have a greater say on who is elected President of the Commission, either by a direct election or through the lead candidate process. While such forward-looking and innovative suggestions must be considered for implementation by the three institutions in the coming months, they represent a clear indication of the desire to make European elections a truly salient moment in European democratic life.

Figure 1 – Turnout in European elections across all Member States (%) since 1979



## 2. Budgeting in times of crises and war



Just as [Next Generation EU](#) (NGEU, see issue 3) launched, the EU budget has had to respond to the multiple new crises created by Russia's invasion of Ukraine: security, humanitarian and energy crises, and high inflation. In 2023, attention will focus on how the EU employs various budgetary and off-budget financial instruments to address these crises while dealing with two major challenges: available revenue and flexibility in spending.

### Budgeting designed for times of peace and stability

An investment budget, the EU budget is designed to implement long-term policies, to provide continuity and stability rather than flexibility. The long-term policy priorities and their scope of implementation (i.e. financial allocation ceilings on expenditure) are determined by the multiannual financial framework (MFF). This leaves limited possibility for flexibility, responsiveness and dynamism in the face of unforeseen circumstances, despite Parliament's long-standing [position](#) in favour of strengthening flexibility. With the MFF's seven-year duration, plus the time from the Commission's initial draft to its final adoption, the expenditure framework at the disposal of policymakers might have been conceived as long as ten years before a crisis hits the Union.

According to Article 311 of the Treaty on the Functioning of the EU (TFEU), the EU shall provide itself with the means necessary to attain its objectives, i.e. to deliver on its policy commitments as well as to address emerging challenges. The reform of own resources in 1988 was the first, and only, major reform to date. However, the competences and therefore policies covered by the EU budget have grown significantly over that period. Even without crises, the sufficiency of EU budget revenue can become an issue of concern. In its 2017 [resolution](#) on the reflection paper on the future of EU finances, the European Parliament stressed that additional political priorities should be supported with additional financial means and not be financed to the detriment of existing EU policies.

### Budgeting when crises comes

Although the EU budget is not designed to respond to crises and has only limited possibilities to respond to unforeseen events, it does do so, and [citizens' expectations](#) are growing. On the one hand, regardless of the latter, EU policymakers and leaders can act only within the limitations of the EU Treaties and the competences they provide to EU institutions, which can be far below the challenges the crises create. On the other hand, when crises have global impact, responses are more efficient when executed at EU rather than national or regional level. Under the [subsidiarity and proportionality](#) principles, the EU budget provides European added value by supporting actions that can be more efficient, effective or synergetic than actions taken at national or lower level.

For slightly more than a decade, the EU budget had to provide financial means for policy responses to several major crises – the European debt crisis, the migration crisis, the COVID-19 pandemic and its economic consequences, as well as to act in the conditions of a worsening humanitarian situation across the world and changes related to Brexit.

### Flexibility in spending

The agreed MFF provides tight expenditure ceilings under which annual budgets and their amendments are adopted. A more significant amendment to the MFF could be done in a mid-term review, but the mid-term review/revision of the 2014-2020 MFF did not provide adequate response



to the crises back then. The President of the European Commission confirmed in her September [2022 letter of Intent](#) that an MFF review will be done in 2023, as [called](#) for by some Members of Parliament. It remains to be seen how and to what extent it will provide a response to current crises.

Over the years, the flexibility instruments of the EU budget have developed after the insistence of the European Parliament, and have been used frequently due to the multiple crises facing the Union. They constitute a minimal share of the EU budget, which Commissioner Johannes Hahn, responsible for the budget, estimates to be around 1 % of the overall EU budget (not linked to pre-allocations), and experience has shown their insufficiency. Flexibility has been much debated but the views of the Commission, the Parliament and the Council vary significantly, with the Parliament repeatedly calling for more flexibility of the EU budget. Future needs might see incorporation of more flexibility instruments in the EU budget rather than, as currently, using a galaxy of off-budget instruments, which are not subject to democratic parliamentary scrutiny.

## Sufficient revenues

In its [resolution](#) on the 2021-2027 MFF and own resources, the European Parliament states that the 2014-2020 MFF had proven inadequate to finance the EU's pressing needs and political priorities. [Experts](#) also doubt if the EU budget has been sufficiently expanded and reformed to reflect the deepening Union and its expanding competences. The currently pressing needs related to the Russian invasion of Ukraine and its consequences are expected to be even more significant than those resulting from previous crises. Unlike national budgets, the EU budget cannot run a deficit or fund expenditure through borrowing. It can increase expenditure only through an increase of its revenue, known as own resources. Borrowing, however, is a funding mechanism for off-budget instruments such as NGEU (although repayment of the debt it generates will come from the EU budget). The future €18 billion fund to support the reconstruction of Ukraine is again funded by borrowing – loans that will be guaranteed (but not repaid) by the EU budget.

An own-resource reform found [interinstitutional agreement](#) (IIA) as part of the package on the 2021-2027 MFF and NGEU. One aim was securing resources to cover new budgetary expenditure such as on NGEU debt repayment. The first step was the [Own Resources Decision](#) (ORD), which entered into force in June 2021, introducing a new own resource based on non-recycled plastics. In December 2021, six months later than initially scheduled in the IIA roadmap, the Commission [proposed a new own resources package](#), comprising part of the revenues deriving from an extended emissions trading scheme (ETS), a carbon border adjustment mechanism (CBAM), and a share of the reallocated profits of very large multinational companies (based on Pillar 1 of the OECD/G20 agreement). The proposal is to introduce the new own resources gradually as of 1 January 2023, but at the time of publishing, the proposal had still not been adopted by the Council. Over the 2026-2030 period, revenue for the EU budget then have the potential to reach up to €17 billion a year (in constant 2018 prices). The Commission committed to making a proposal with a further package of new own resources in 2023 (earlier than the deadline of June 2024 set in the IIA).

The progress of own resources reform will be a key issue to watch during 2023, because any delay to the already lengthy adoption and implementation might put in jeopardy the future stability, reliability and continuity of the EU budget. Even if the IIA is fulfilled as planned, there are still concerns whether the amounts generated will be sufficient due to the increased interest rates on NGEU repayments (the principal is due only at the end of the current MFF) and the additional funds needed to address the consequences of the Russian invasion of Ukraine. Insufficiency of resources might lead to a need to increase the own resource based on gross national income (GNI) and/or limiting the funding of existing programmes and MFF commitments.

### 3. EU recovery instrument: Lessons for public investment in the EU



The swift execution of the Recovery and Resilience Facility (RRF) will remain vital in 2023, while the constant geopolitical and economic challenges will require new resources. These efforts will be supported by the revision of the EU fiscal framework, which is one of the major policy initiatives scheduled for 2023.

#### Lessons learned

With over [19%](#) of its resources disbursed, the implementation of the RRF is well under way, and the Member States are utilising the available funds to make their economies more resilient and future-proof by executing reforms and investments in key areas of European and national interest. The focus on the twin transitions has been particularly important, and the cumulative expenditure planning in all national recovery and resilience plans (NRRPs) [exceeds](#) the minimum thresholds for green and digital measures of 37% and 20% respectively. With regard to performance, [7%](#) of all milestones and targets embedded in the plans have been fulfilled thus far. [Direct management](#) of the facility by the European Commission in the implementation phase could reduce administrative burden and bureaucracy linked to the disbursement of funds, and thus improve overall effectiveness. Nevertheless, the [audit](#) of the only RRF payment in 2021 revealed weaknesses in the Commission's assessment of milestones and targets linked to it. This was possibly due to the first-time application of the performance-based approach to such vast spending. The ongoing [discharge procedure](#) for the 2021 EU budget is examining the initial implementation of the RRF.

By combining the significant financial support with the implementation of measures established in the NRRPs, the RRF has the potential to effectively address key European as well as country-specific challenges and, as some [analyses](#) find, reduce the public investment gap. While a number of Member States had already witnessed [under-investment](#) trends even before 2008, the financial and economic crisis affected the EU as a whole and [further amplified](#) the investment lacuna. The average share of RRF grants in the overall investment by Member States is [14%](#), which makes the significant additional growth projections realistic. Investments to address the challenges of the pandemic have been further facilitated through additional RRF loans, as well as the Stability and Growth Pact (SGP), namely the [temporary departure](#) from the usual budgetary requirements. Contrary to the low investment outcomes after the financial crisis, Member States managed to sustain public investment, without significant pressures from breaching EU fiscal rules and having to endure the [corrective procedures](#) and [market discipline](#).

#### Ongoing and new challenges

The RRF continues to be pertinent as there are outstanding [structural challenges](#) in the Member States that still need to be addressed, and substantial resources to be disbursed. Swift implementation of the planned measures enshrined in the individual NRRPs in the course of 2023 therefore remains vital. Notwithstanding the [well-timed](#) RRF funding to recover from the pandemic, a full economic recovery is already being hindered by new challenges, thus reaching a state of, what some analysts have dubbed as, '[permacrisis](#)'. In particular, the energy crisis, caused by Russia's war on Ukraine, exposed the EU's considerable dependence on Russian fossil fuels. To differentiate the energy mix of the Member States, deal with high-energy prices and accelerate the green transition, the Commission proposed the [REPowerEU](#) plan under which part of the RRF is to be repurposed and its grant allocation increased by €20 billion. However, the energy challenges are [expected](#) to remain

acute in the medium to long run and therefore surpass both the financing potential and the life span of the Facility, set to expire in 2026. The [proposed](#) grant envelope under REPowerEU, in addition to almost [18%](#) of the existing national allocations devoted to energy measures in all NRRPs, remains a relatively small source of funding compared to the private and public investment needs of the EU energy sector, which are estimated at [€390 billion](#) per year. The short horizon for investment and reform is also [posing challenges](#) both for the implementation of projects of strategic weight, which may need longer time, and for national authorities to run them properly.

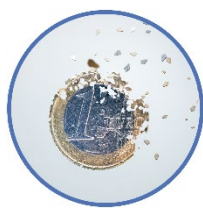
Moreover, with the amassed €600 billion devoted to [Green Deal](#) actions, NGEU and the 2021-2027 multiannual financial framework (MFF) are an important source of funding, but still represent only a fraction of what is needed to fulfil all the climate goals for carbon neutrality of the EU by 2050. The RRF may also only [partly](#) deliver on the ambitious [digital transformation](#) set for 2030, due to the above-noted size and lifetime limitations. Besides this, there has been a relatively slow uptake of the RRF loans (around [€165 billion](#) out of €386 billion). One reason is that loan-based investment increases national public debt and can make countries non-compliant with the EU [fiscal rules](#), especially after the deactivation of the [general escape clause](#) at the end of 2023. Another reason is reflected in [better borrowing conditions](#) for some countries compared to those linked to the RRF loans. Nonetheless, repayable RRF support can still be requested until the end of August 2023, while REPowerEU will put the allocations still available for loans [at the disposal](#) of those Member States that wish to pursue additional investment in energy measures.

## Keeping investment in the EU alive

In the years to come, the investment needs in the EU will remain huge, predominantly in relation to the twin transitions, but also in the areas of common defence, security and other fields of interest for EU [sovereignty](#) and [strategic autonomy](#). To address these long-term challenges, the EU economic governance framework will face [revision](#) in 2023. The revamped fiscal rules are to draw from the RRF model, particularly the positive interplay between investments and reforms and financing, to enable the Member States to stay on higher investment and growth paths while remaining fiscally prudent. The review should also support countercyclical fiscal policies for countries to build capital buffers during good times and utilise them during times of recession. In addition to this, a possible revision of the MFF will be discussed in 2023. In a December 2022 [resolution](#), the European Parliament deemed the multiannual budget [overstretched](#) in financing various initiatives, and underlined that it should be made bigger and more flexible in order to ensure appropriate investment levels in the EU and to endure future crises. Such a budget should shy away from the [juste retour principle](#). The Parliament is also [advocating](#) the introduction of new [own resources](#) needed to repay the recovery instrument and to finance common priorities.

Providing strategic sector-specific common public goods will require considerable resources and time for implementation. Some [analyses](#) stress that the RRF model, underpinned by common debt, could be continued to achieve these objectives. Still, the future instrument should be made [larger and permanent](#), and continue to [strengthen](#) national ownership based on common EU priorities (as is the case with the current RRF). According to the [International Monetary Fund](#), the size of such a fiscal capacity should range between 0.5 % and 1 % of EU gross domestic product (GDP) on a yearly basis. The investment capacity at EU level should be [additional](#) to national funding, as it would address challenges of a cross-border nature, thus being more effective and value adding. Any future fiscal instrument should also be fully integrated into the existing budget to [provide](#) a high level of public accountability and auditing. Further political debate is expected due to differing views on such an instrument.

## 4. The Janus-faced fiscal-monetary policy mix



The Russian war of aggression against Ukraine has drastically reversed the dynamics of the [unexpectedly](#) strong economic recovery from the COVID-19 pandemic in Europe. Supported by decisive fiscal and monetary policies, the EU economy was already back to its pre-crisis output levels in the third quarter of 2021, though with large differences across Member States. The economic growth dynamic extended to the second quarter of 2022, firmly entrenched in a [monetary and fiscal policy mix aligned](#) in their goal to support the recovery. In 2023, the policy objectives of fiscal and monetary policy, like a Janus face with sharply contrasting characteristics, face significant [trade-offs](#) between taming inflation and mitigating the impact of high energy prices.

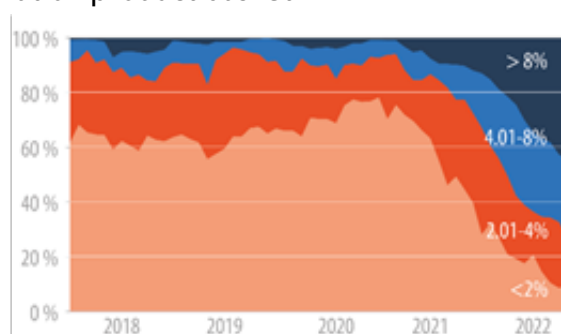
### Why did we get two opposing faces?

Alongside the humanitarian impact of the war, the EU has been hit by a substantial shock in import prices, in particular energy prices, which has severely dented the economic outlook since early 2022, prompting [concerns](#) about more persistent inflation, a cost-of-living crisis and public debt sustainability. As a result, since early 2022, economic forecasts have seen significant downward revisions (Figure 2). Analysis by the IMF serves as a stark illustration of the EU's severe economic losses from the war. In 2023, Europe's output will be nearly half a trillion euros lower than pre-war forecasts. According to the latest Commission forecast, the EU is expected to experience a '[technical recession](#)', i.e. two consecutive quarters of shrinking output. This forecast crucially hinges on the assumption that the EU can avoid crippling gas shortages, thus significantly tilted to the downside. Moreover, inflation has increased to record high levels worldwide so that central banks across the globe entered a [synchronised monetary policy tightening](#) cycle. In the EU, [energy prices](#) have been the main contributor to inflation, especially gas and electricity tariffs. However, price pressures are starting to translate into broader price dynamics as the share of items in the product basket above 2% – the central banks' inflation target – has increased significantly (Figure 3). At the same time, the current economic environment is underpinned by the strongest labour market in decades. Unemployment rates are at [record low levels](#), while participation and [employment rates](#) are at record highs. Despite the looming recession, unemployment is expected to increase only [marginally](#) due to high [vacancy rates](#) and labour shortages.

Figure 2 – Gross domestic product (GDP) growth in the EU



Figure 3 – Change in annual inflation by item in the ECB inflation product basket



Source: [Eurostat](#).

## How to synchronise contradictory voices

Against this backdrop of trend reversals, there is an increasing wedge between fiscal and monetary policy objectives. During the pandemic, both fiscal and monetary policies worked in tandem and [complemented](#) each other. In an environment of slowing growth, high inflation, elevated post-pandemic debt levels and eroding real incomes, fiscal and monetary objectives are diverging.

On the back of rising energy bills, eroding the purchasing power of households and companies, governments are trying to cushion the impact on real incomes and investment activity. The resulting expansionary fiscal policies, maintaining demand through measures that mitigate the impact of high energy prices, could undermine the disinflationary policy currently being conducted by central banks to bring down inflation through reducing support for demand. Monetary authorities could therefore be forced to increase policy rates even further at the cost of larger [output](#) and employment losses. According to the [autumn forecast](#) of the European Commission, Member States' fiscal policy measures to mitigate the social and economic impact of high energy prices will amount to 1.2% of gross domestic product (GDP) in 2022, and 1% in 2023. So far, such measures have been implemented in a timely manner, however more than 70% of them were [untargeted](#). Resilient labour market conditions allow governments to focus on targeted cost-of-living policy interventions, as compensating for higher inflation is supporting [wage growth](#) while risks of a [wage-price spiral](#) have been contained so far. Furthermore, reducing energy dependence on imported fossil fuels can be expected to exert [upward pressure](#) on prices of a broad range of products during the transition period. Therefore, [fiscal restraint](#) can help to tackle inflation, and, as argued by the [ECB](#), fiscal measures need to be temporary and tailored to the most vulnerable households and businesses, in order for fiscal policy not to stoke inflation.

The monetary side in the policy mix centres around price stability. To bring inflation back from record high levels to the 2% target, the ECB has so far followed the synchronised tightening cycle of central banks around the world. On the one hand, it tackled inflation by front-loading four consecutive [policy rate](#) increases by a cumulative 2.5 percentage points; and on the other hand, the ECB countered fragmentation concerns by creating a new policy tool, the [Transmission Protection Instrument](#). However, evidence suggests that [simultaneous](#) central bank measures change the trade-off between the growth and inflation impact of monetary policy tightening, as the negative impact on GDP is larger but the impact on inflation is smaller, due to the muted foreign exchange rate channel. Forceful monetary policy tightening would also have an effect on [financial conditions](#). Rising borrowing costs could amplify existing financial vulnerabilities in the corporate sector. Increasing risk premia of sovereign debt and debt spreads across EU countries could raise the risk of financial fragmentation that has given rise to concerns about [fiscal dominance](#). The policy dichotomy is further complicated by the fact that it is, as yet, unclear whether the supply shocks have durably [depressed potential output](#). Evidence suggests that destroying demand also affects supply through [scarring effects](#). Therefore, excessive monetary tightening could result in a permanent loss of output as productive capacity adjusts to persistently lower demand. To preserve productive capacity in a contractionary economic environment is the balancing act of targeted energy and fiscal policies on one side and a sufficiently large withdrawal of monetary policy accommodation on the other side. Thus, monetary authorities must tread a narrow path between taming inflation and averting an excessive decline in demand.

The economic outlook is heavily influenced by the evolution of the geopolitical situation and its reverberations in commodity markets. The impacts on growth and inflation are in opposite directions, which significantly complicates [policy coordination](#). The challenges from COVID and the war on Ukraine pose formidable challenges to reconciling fiscal and monetary policy trade-offs.

## 5. Climate and socio-economic tipping points



### Climate tipping points

[Climate tipping points](#) have received growing attention, in the wake of an international [conference](#) dedicated to the issue, and new [research results](#) on the likelihood of tipping points being reached under current trends.

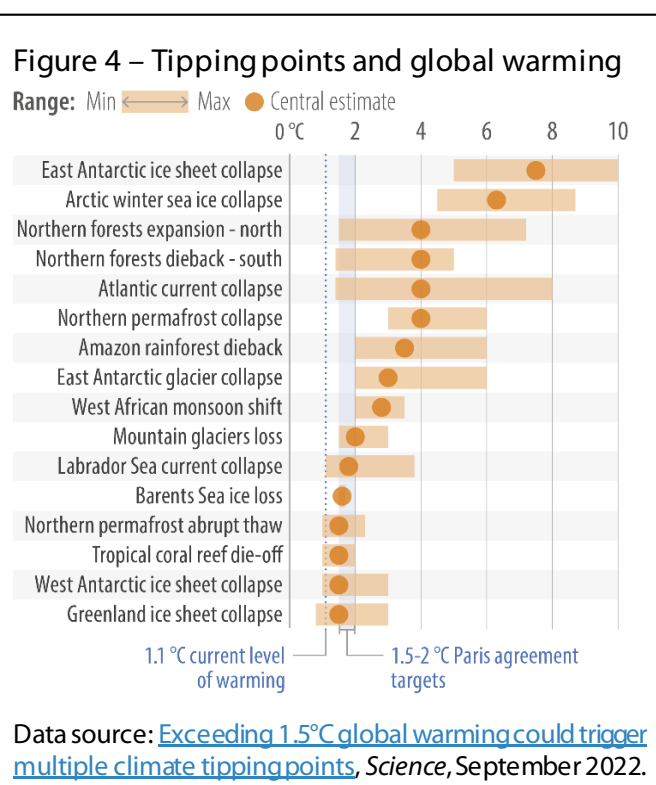
A tipping point is the critical point in a situation, process, or system beyond which a significant and often unstoppable, but [not necessarily abrupt](#), effect or change takes place. Climate tipping points were first [identified](#) by the Intergovernmental Panel on Climate Change (IPCC) in 2001 and further analysed in a 2008 [research paper](#). The latest IPCC assessment report identified 15 potential [tipping points](#), among them global monsoon, tropical and boreal forests, permafrost carbon and the Greenland and Antarctic ice sheets. The [Greenland ice sheet](#) is an element in the climate system with a tipping point: its stability depends on its height, which reaches up to 3 200 metres and helps maintain eternal snow on top. As soon as it loses height, it may enter an irreversible decline.

Late 2022 [research](#) estimates the temperature rise needed to trigger these tipping points (see Figure 4), and concludes that seven tipping points are likely at global warming of 1.5°C, of which five might already be reached at current levels of global warming. The presence of climate tipping points increases the [economic costs](#) that result from emitting a tonne of CO<sub>2</sub> by around 25 %.

Tipping points are often associated with [cascading impacts](#), where one impact leads to another. An example is the melting of the Arctic ice sheets leading to sea level rise, which in turn triggers population movements and economic disruption. Crossing a tipping point may also lead to [reinforcing feedbacks](#), for example the melting of permafrost leading to the release of [methane](#), a powerful greenhouse gas that reinforces global warming and causes further permafrost melting.

### Socio-economic tipping points

Research on [socio-economic tipping points](#) finds that even gradual climate change may alter and disrupt socio-economic systems, leading to major economic costs, especially at a more local level. Socio-economic tipping points identified in this EU-funded research include climate induced agriculture and food shocks, [migration](#) from coastal areas due to extreme sea level rise or major climate impacts, energy supply shocks, transport disruption, large macroeconomic and financial market impacts, and the potential collapse of insurance markets from extreme weather risks. The World Meteorological Organization [warns](#) that higher temperatures and humidity during hot spells could lead to physiological tipping points that make outdoor human labour impossible without technical assistance in some regions.



## Policy implications

To avoid the crossing of tipping points, efforts to contain global warming must be reinforced. Every fraction of a degree may be decisive, even if the lower 1.5 °C target of the Paris Agreement is likely to be breached. The 2022 [emissions gap report](#) projects a temperature rise of at least 2.4 °C even with full implementation of all national pledges, which would trigger multiple tipping points. The sobering [outcome](#) of the [COP27](#) climate change conference has not changed that picture. In light of the limited effectiveness of the Paris Agreement, complementary cooperative approaches, such as [climate clubs](#), are of increasing interest. However, certain [social tipping points](#) may make it harder to achieve consensus on climate action, namely the geopolitical crisis accelerated by the war on Ukraine, the erosion of social consensus by social and [synthetic media](#), a shift from climate mitigation to adaptation driven by faster and larger than expected climate impacts, and the demographic crisis that increases state burdens, reduces productivity and creates intergenerational tensions.

### Impacts on Europe

Europe would be directly affected by a collapse of the Greenland ice sheet, leading to sea level rise, the loss of Alpine glaciers, the [loss of permafrost](#) peatland in Svalbard and Scandinavia, a northward shift of boreal forests, and a collapse of the [Atlantic meridional overturning circulation](#), an ocean current that transports warm water from the tropics to the North Atlantic. The latter would lead to less warming in Europe, but also to prolonged [Mediterranean drying](#). [Research](#) indicates that European forests have already reached a tipping point around the year 2000, induced by a temperature increase as low as 0.5 degrees. This has reduced forests' resilience to fire, windfall and pest outbreaks, potentially affecting 33.4 billion tonnes of forest biomass.

Large-scale [removal of carbon](#) from the atmosphere through nature-based and technological approaches will be critical to keeping global warming well below 2 °C, the upper target of the Paris Agreement. This requires [innovative financing mechanisms](#), such as [advance market commitments](#) that were used successfully for the development of vaccines. Moreover, it may be prudent to initiate a research programme into controversial [solar radiation management](#) techniques, in order to understand their potential and their risks relative to the risks of reaching certain climate tipping points, and to address the associated [governance issues](#).

Although knowledge on tipping points has improved, more research (recommended in Parliament's 2019 [resolution on the environmental action programme](#)), with [involvement](#) of the IPCC, is needed to correctly assess the likelihood and possible impacts and create an [early warning system](#), which the Parliament called for in its [resolution on COP25](#). A broader knowledge base would facilitate smart decisions about potentially costly and disruptive adaptation options such as managed retreat from coastal areas. [Experts](#) on geopolitics recommend that governments and relevant institutions strengthen their risk assessment and act to prepare for and preferably prevent the worst-case scenarios. The EU supports tipping points [research](#) through Horizon Europe, and the Bezos Earth Fund [awarded](#) a £1 million (€1.15 million) grant for research into 'positive tipping points' in socio-economic systems that would help accelerate the transition to a climate-neutral economy.

Positive tipping points are already happening, for example the switch to electric vehicles enabled by lighter and cheaper batteries, public opinion and policy support. Positive tipping points in the energy system may be triggered by the ever-falling cost of renewable energy together with advances in energy storage. Researchers apply system analysis to identify effective [policy interventions](#) by various agents that would enable a [cascade](#) of positive changes to rapidly and profoundly transform technology, economy and society, instead of improving incrementally.

## 6. How will increasing fuel prices impact transport?

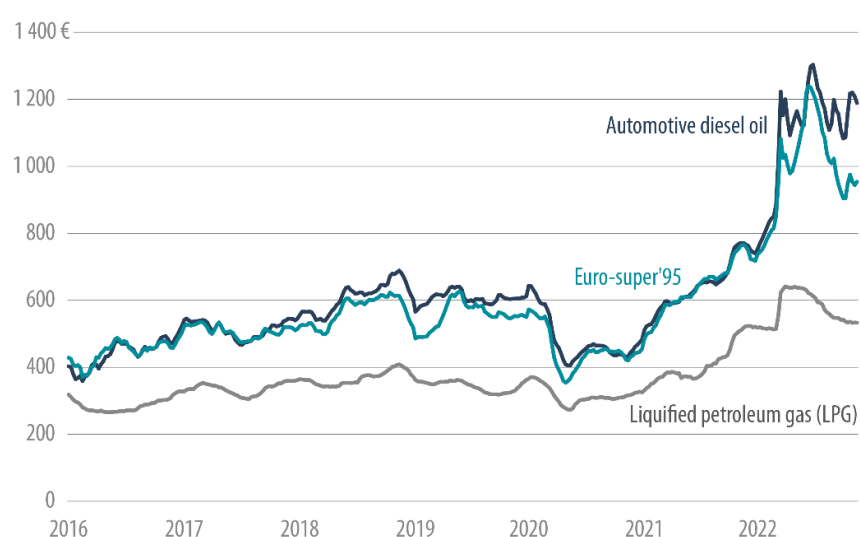


### Increasing fuel prices

The war on Ukraine and the subsequent uncertainties and sanctions have caused shortages and disruption in supply of resources, including for petroleum products. Furthermore, the [sixth EU sanctions package](#) of 3 June 2022 [introduced](#) a partial ban on the import of oil and petroleum products from

Russia. Russian oil imports into the EU fell from 2.5 million barrels per day (bpd) in January 2022 to 1.4 million bpd in October 2022. An [EU ban on Russian crude oil imports](#) became effective on 5 December 2022, and one on refined petroleum products will do so on 5 February 2023. As a consequence, the [increase](#) in prices of diesel, petrol (Euro-super 95), as well as liquefied petroleum gas (LPG) has been exceptionally fast. After the decreasing prices during the pandemic, the contrast was strong.

Figure 5 – Price without taxes - EU weighted average



Source: [Oil Bulletin](#), European Commission. The final fuel prices depend on taxes and measures, such as price caps applied by Member States.

### Transport, a sector already in transformation

Europe's transport sector is transforming due to the decreasing use of fossil fuels and the increasing use of greener transport modes, encouraged through financial incentives in Member States, and EU initiatives and legislation with binding targets and deadlines. Most transport modes (road, air, sea) are reliant on [petroleum products](#). Only rail has been electrified to a large degree in the EU. In road transport, around 40% of [cars](#) depend on petrol, and about 20% on diesel, while more than 95% of [trucks](#) still rely on diesel. The share of energy from [renewable sources](#) used for transport in the EU increased from under 2% in 2005 to 10.2% in 2020. Meanwhile, policymakers are increasingly focussing on greening transportation. As outlined in the [European Green Deal](#) and enshrined in the [European Climate Law](#), the EU aims to achieve climate neutrality by 2050, and the transport sector has an important role to play in this. The [sustainable and smart mobility strategy](#), presented in December 2020, outlines how the EU transport system can achieve a green and digital transformation and become more resilient to future crises. It [aims](#) to reduce dependence on fossil fuels by 2030 and encourage alternative choices, such as the use of high speed railway and inland waterways. The [fit for 55](#) package is a set of proposals on climate, energy, transport and taxation policies aimed at reducing net greenhouse gas emissions to at least 55% by 2030, compared to 1990 levels. It also promotes the growth of the market for zero- and low-emission vehicles and aims for zero emissions from new cars by 2035. Furthermore, it proposes to extend carbon pricing to the aviation and maritime sectors.



## The multifaceted impact of rising fossil fuel prices on transport

As most transport modes rely on the use of petroleum products, a rise in fossil fuel prices impacts several dimensions of the transport system.

Possible [structural impacts](#) are, for instance, **changes in usage levels** – users limiting or rationalising their usage, for example by abandoning, postponing or combining their trips. Operators might also reduce service frequency. **Modal shifts** can occur – part of the traffic can shift to a more energy efficient mode that suffers less from increasing petrol fuel prices, for instance road freight transport to rail or inland waterways. [Air transport](#) might also be significantly impaired after the increase by 70% of jet fuel prices during the first 6 months of 2022 and the already low profit margins. This might lead to a shift towards rail or maritime. **New network configurations** in terms of gateways, hubs, routing, and corridors are also among the consequences. Rising fuel prices will also impact different parts of **supply chains** – procurement, manufacturing, distribution) and a reconfiguration of the whole chain might become necessary.

The impact also has a [temporal dimension](#): while at first passengers (or companies) could simply absorb the higher costs by reducing usage, trimming their profits or cutting their spending in other areas, in a subsequent phase, there would be changes in commuting patterns (like ridesharing or carpooling), attempts to use public transport, rapid adoption of vehicles with high fuel efficiency, and a search for other transport alternatives.

Concerning the transport of persons, increasing fuel prices can lead to higher transport prices, causing an additional burden to households and possibly [transport poverty](#), unless this is compensated at regional or national level. Low-income households that own a car, and rural households spending a higher share of their income on transport fuels, are particularly [impacted](#).

In the domain of [freight transport](#), companies have the choice to work at a loss or to increase their prices to compensate. Price increases will also have an impact on [transport services](#) and the prices of the goods transported, which can lead to further inflation. In both passenger and [freight](#) transport, there is an increasing number of [strikes](#) of transport providers and workers in all transport modes and this tendency will most probably continue, leading to further disruptions.

Increasing fossil fuel prices can also have important side effects., for example shortages in the production of AdBlue, a liquid used in diesel vehicles to neutralise nitric-oxide emissions. Because its production is not profitable due to high gas prices, some manufacturers have already stopped producing it, which could lead to the standstill of a huge number of trucks, and consequently job losses and logistical problems.

Another question is whether the increase in fossil fuel prices will have a favourable impact on the speed of [transition](#) towards greener transport modes or the use of more renewable energy, and if it will lead to a reduction in greenhouse gas emissions. As the majority of [greenhouse gas emissions](#) from transport are [carbon dioxide \(CO<sub>2</sub>\)](#) emissions from the combustion of petroleum-based fuels, reduced consumption of fossil fuels as a result of increasing prices could in fact lead to [lower emissions](#) of greenhouse gases. This could have the result that emissions targets can be reached more quickly. Emissions can also be reduced through the use of higher shares of advanced biofuels and a more ambitious quota for renewable fuels of non-biological origin such as hydrogen. This is encouraged at EU level in the proposed revision of the [Renewable Energy Directive](#) and the [REPowerEU plan](#), aiming for a higher [renewable energy target](#).

The use of fuels produced using renewable sources of energy (such as electricity produced from solar or wind energy), and the use of biofuels is less costly and leads to lower emissions. Nevertheless, this can be a solution only in the long or medium term, as it requires [technical adaptation](#), or even the construction of new types of engines. Recent [research](#) also shows that the use of [e-fuels](#) – fuels in gas or liquid form that are produced from renewable (solar or wind power, for example) or decarbonised electricity – such as e-methane, e-kerosene and e-methanol, costs 47% more than battery-electric vehicles. In the long run, however, technological developments will make it possible to reverse this tendency and to advance on the road to greener transport.

## 7. Cyber-resilience in the EU



As cyber-attacks proliferate, 2023 is expected to see progress on several EU legislative and non-legislative proposals aimed at protecting infrastructure, connected devices, and the whole information and communications technology (ICT) supply chain to counter the wave of cyber-attacks.

### A changing cybersecurity threat landscape

Russia's war against Ukraine has put cyber-resilience in the spotlight. Russia's aggression includes massive cyber-attacks on Ukraine but also on Ukraine's partners in the EU. Even before the war, cyber-attacks were a great concern for the European private and public sectors (such as the [cyber-attack against the German Bundestag](#) in 2021). A [ransomware](#) attack occurred [every 11 seconds](#) in 2021, expected to accelerate to every 2 seconds by 2031, costing [US\\$10.5 trillion annually](#) by 2025. Cybercrime is the fastest-growing wealth transfer worldwide, inflicting increasing costs on the world economy with malicious actors becoming increasingly sophisticated. Rapid digital transformation, accelerated by the COVID-19 pandemic and geopolitical tensions, has increased the playing-field for cybercriminals. The [2022 ENISA report](#) on the threat landscape in the EU revealed that 10 terabytes of data are stolen every month. Ransomware, which scores highest on the list of cyber-attacks in the EU, is followed closely by [distributed denial of service](#) (DDoS) attacks, with the largest ever DDoS attack in Europe recorded in July 2022. The [Cisco annual internet report](#) estimates that DDoS attacks will double from 7.9 million in 2018 to 15.4 million globally by 2023. Health service providers, pipelines, airports, ministries, hotel chains, banks and digital service providers are just a few examples of entities that have suffered from [cyber-attacks](#) over the past few years. Russia's aggression against Ukraine is also provoking the rise of [hacktivism](#) and a surge in disinformation. Of particular concern are the growing capabilities of malicious actors, now using attacks against complete supply-chains.

### Protecting the critical infrastructure

Especially disturbing are attacks against critical infrastructure such as energy, health and finance, which increasingly rely on IT, becoming extensively vulnerable to cyber-attacks. Russia's hybrid approach, merging physical and cyber-attacks, has demonstrated that disruption of essential services is a realistic threat to the EU. For example, the [attack on the satellite communication](#) provider just one hour before Russia's attack on Ukraine affected internet services and wind farms across Europe. The Directive on the Resilience of Critical Entities ([CER](#)), together with the revised Directive on the Security of Network and Information Systems ([NIS2](#)), respond directly to this challenge. However, the fast-evolving threat landscape, and incidents such as the [cyber-attack against the Danish railway network](#) in November 2022, demand accelerated implementation of the new legal framework. Hence, the Council adopted a [recommendation](#) in December 2022, to step up efforts aimed at protecting critical infrastructure, and foster inter- and intra-EU cooperation. In particular, it would urge Member States to implement measures under the [5G cybersecurity toolbox](#), considering the high dependency of essential services on 5G and its importance for the development of digital services. The subsequent [EU policy on cyberdefence](#) aims to increase the EU's cyberdefence capabilities and synergies between military and civilian cyber communities. The connectivity of critical infrastructure will be provided by the infrastructure for resilience, interconnectivity and security by satellite ([Iris<sup>2</sup>](#)), a sovereign space-based secure connectivity system, to be functioning in orbit by 2024.

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## Advancing operational capacity

NIS2 formally establishes the EU cyber-crises liaison organisation network (CyCLONe), rapid crisis-management coordination in case of large-scale cross-border cyber-incidents while the Joint Cyber Unit ([JCU](#)) ensures a coordinated response between civilian, law enforcement, diplomatic and cyberdefence communities, and should be fully implemented by 30 June 2023. EU cybersecurity capacity-building will be done in the framework of the European cybersecurity competence centre ([ECCC](#)), which is to become operational by March 2023. The centre aims to improve technological sovereignty through strategic cybersecurity investments. Together with the network of national coordination centres (NCCs), it will form the cybersecurity shield for the EU, powered by artificial intelligence (AI) and complemented by [EU supercomputing infrastructure](#) developed by the European high-performance computing joint undertaking. The [first six quantum computers](#) are expected to be available by the second half of 2023.

## Protecting connected devices

Connected devices, such as home security applications, toys connected to the internet and smart cameras, expected to amount to [three times](#) in number the global population by 2023, have the potential to open the door to malicious actors and impact the whole supply chain, if hacked. To address this threat, the cyber resilience act ([CRA](#)) proposal would impose cybersecurity obligations on a very wide range of digital products before they are placed on the market. The proposal would impose high fines for non-compliance and ban products that do not abide by the rules. This could have an impact beyond EU borders, becoming an international reference for the cybersecurity of digital products. Intensive negotiations are expected on this proposal in 2023.

## Protecting the supply chain

The October 2022 [Council conclusions on ICT supply chain security](#) should be materialised in the creation of the ICT supply chain security toolbox, to complement the coordinated supply chain risk assessment for ICT products under NIS2. The 5G security toolbox criteria could serve as an example when defining [high-risk vendors](#) – such as Huawei – for the security of ICT supply chains.

Progress is expected too on domain name systems (DNS) resolver (converting domain names such as [www.name.eu](#) into computer friendly IP-addresses, e.g. 192.168.2.1). A public [European DNS resolver](#) service ([DNS4EU](#)) should develop in 2023 as an alternative to public (non-EU) resolvers prevailing on the market, which would enhance the EU's cybersecurity abilities and contribute to its digital sovereignty. We can also expect the finalisation of the EU certification schemes for cybersecurity of ICT products (EUCC) and for cloud services (EUCS), where it remains to be seen if disputed [sovereignty requirements](#) will be comprised in the scope of the latter.

## Bridging the cybersecurity skills gap

The EU response to cyber-threats will depend immensely on having a sufficient and sufficiently trained cybersecurity workforce. The [European cybersecurity skills framework](#) (ECSF) will play an important role in defining the cybersecurity profession. The cybersecurity skills academy, which the European Commission has announced for the third quarter of 2023, could address the cybersecurity gap.

## 8. Protecting media freedom and journalists in the EU



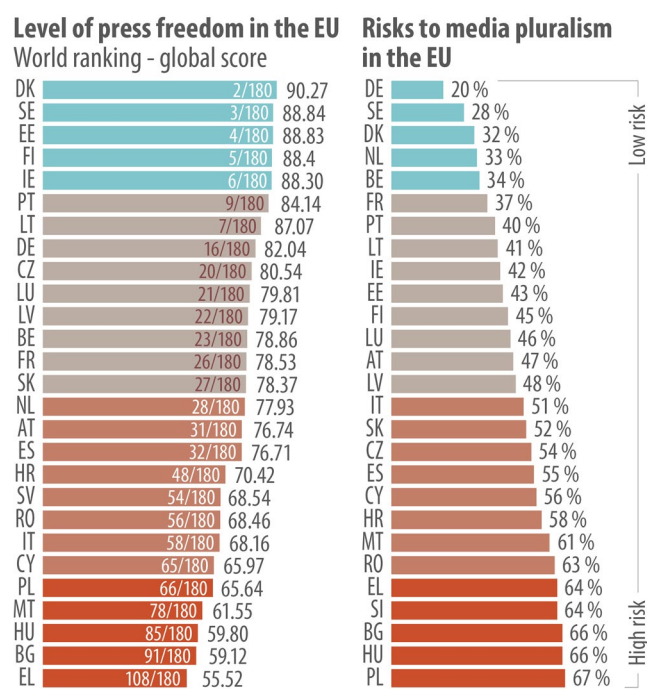
The year 2023 is expected to be marked by the adoption of innovative EU legislative proposals in the area of media freedom and pluralism, notably the anti-SLAPPs directive and the European media freedom act. The focus of EU institutions in this area in the run-up for the 2024 European elections has to be linked to the key role media play in contemporary democracies.

Media freedom and pluralism, entrenched as fundamental rights in both the [Charter of Fundamental Rights of the EU](#) and the [European Convention on Human Rights](#), are indissociable from democracy as they protect the pluralism, tolerance and broadmindedness without which democratic societies cannot flourish. Media not only provide the information that citizens need to make sound political choices but they also play other important roles, such as: i) acting as 'watchdogs' of our democracies and increasing the accountability of our representatives; ii) providing analysis of what is happening and helping citizens to understand an increasingly complex world; iii) boosting inclusiveness and making the voices of minorities heard; and iv) acting as a public forum for dialogue among citizens and groups with diverse points of view.

For media to play an effective role in a democratic society, citizens must have 'access to a variety of information sources, opinion, voices etc. in order to form their opinion without the undue influence of one dominant opinion-forming power', as highlighted by the [European Commission](#). Past and current battles for control of media outlets clearly show how powerful media can be when it comes to shaping the views of citizens, and how they can be used to ensure the survival of a specific regime by extolling its achievements and reducing critical comments to a minimum.

No European Union Member State is free from risks to media freedom and pluralism, although the extent and gravity of those risks varies greatly across Europe, as confirmed by the [World Press Freedom Index](#), the [Media Pluralism Monitor](#) and the Commission rule of law [annual reports](#) (see Figure 6). The 2022 editions of the latter two show a negative shift as regards the journalistic profession, due to an increase in the number of threats to journalists (two journalists were murdered in the EU in 2021, whereas none were in 2020) and in the number of strategic lawsuits filed against media for providing information on issues of public interest (also known as 'strategic lawsuits against public participation' or [SLAPPs](#)). Both 2022 reports highlight concerns relating to the high concentration of news media on the continent, as well as to the need for further transparency of media ownership in many EU Member States. Editorial autonomy, understood as the protection against undue external interference in the editorial

Figure 6 – Media freedom and pluralism in the EU



Source: [World Press Freedom Index 2022](#), Reporters without Borders, for the first bar chart and [Media Pluralism Monitor 2022](#), EUI, for the second.

news-making process, and the risk of political control, especially as regards public media, are also considered indicators of particular concern for the EU area in both 2022 reports.

Action in the media sector, originally aimed at establishing a single market for media services, is not new to the EU and dates back to the 1980s and the adoption of the [Television without Borders Directive](#), repealed by the current [Audiovisual Media Services Directive](#). However, the focus of attention of EU institutions in this particular area seems to be changing and partly moving towards a policy more centred on fundamental rights and the protection of media freedom and pluralism as a prerequisite for the proper democratic functioning of our institutions.

In this vein, as committed in the [European democracy action plan](#) (2020), in November 2021 the Commission adopted a [legislative proposal](#) on political advertising. The proposal aims to establish safeguards against manipulative techniques in political advertising and ensure the political pluralism that allows democratic institutions to thrive. It would [establish](#) common European rules on transparency of political advertising, requiring publishers to clearly label political advertisements as such and include information such as who is the sponsor, who paid, and how much, for it, and the election(s) or referendum(s) to which the advertisement is linked. In addition, the proposal would include a partial ban on the use of targeting and amplification techniques for political purposes, and prohibit those that involve the processing of sensitive personal data. The ban seeks to address the [risks](#) of fragmentation of the political debate and manipulation of voters raised by some techniques of political (micro-)targeting frequently used in political campaigns.

To address challenges faced by journalists to inform independently and safely on issues of public interest, and respond to [growing concerns](#) over the prevalence of SLAPPs within the EU, the Commission presented a [proposal](#) on 27 April 2022 for an anti-SLAPPs directive that aims to protect not only journalists, but also anyone exercising freedoms of expression and/or information as regards issues of public interest, from abusive and manifestly unfounded lawsuits. As the proposal would apply to civil SLAPP cases with a cross-border dimension only, it was issued together with a [recommendation](#) setting out guidance for Member States to take effective measures to address purely domestic SLAPP cases, including in the area of criminal or administrative law.

In September 2022, the European Commission adopted a [proposal](#) for a European media freedom act that aims to set common European rules ensuring media freedom and pluralism in different areas. It would protect journalistic sources, and media and journalists from the use of surveillance technologies. Moreover, it would focus on media ownership transparency and the editorial independence of media providers providing news and current affairs content, by requiring them to inform about their direct and indirect ownership and imposing on them an obligation to establish internal safeguards geared at guaranteeing the independence of individual editorial decisions, once the editorial line of the media outlet has been defined. As the proposal would leave a wide margin of discretion to media providers as to the internal safeguards to put in place, it is accompanied by a [recommendation](#) setting out a catalogue of voluntary best practice to strengthen editorial independence. Finally, the proposal would also establish common rules for transparent and non-discriminatory allocation of state advertising to media and to ensure further independence of public media, among other things by requiring that their funding is adequate and stable and their governing board and head of management is appointed in a transparent and non-discriminatory manner and cannot be dismissed before the end of their term except in specific cases defined by national law. These legislative initiatives are all currently being analysed by the co-legislators. If approved, they would definitively shape the media ecosystem of Europe and the way media exercise their watchdog function for years to come.

## 9. Russia, *quo vadis?*



Russia's unprovoked invasion of Ukraine has [shaken](#) the geopolitical foundations of Europe, opening a colossal security and identity rift in the Eurasian space. Its outcome will shape Europe's and Russia's futures, in seemingly drastically divergent directions. In 2023 and beyond, the EU will have [consequential choices](#) to make, which will determine when and how these paths converge again, no matter how [difficult](#) this might seem today.

### The war seen from Moscow: An evolving narrative

The war Russia is fighting now is not the war the Kremlin prepared for. The 'special operation' in Ukraine, started on 24 February 2022, was planned as a necessary intervention to 'fix', at last, the 'Ukrainian issue' – a permanent source of [trouble](#) for Moscow practically since the auto-dissolution of the Soviet Union in 1991. As 2023 starts, nothing has gone 'according to plan' for the Kremlin, and the Russian army has suffered a series of humiliating defeats, to which Putin has responded by doubling down: mobilisation of 300 000 additional men, illegal annexation of [15 %](#) of Ukrainian territory, and the less-than-subtle threat to resort to [nuclear weapons](#). The Kremlin has changed the war narrative accordingly: it is no longer an intervention against a 'puppet-Nazi' government; it has become an existential fight against the 'imperialist' West and its attempts to 'destroy Russia'. 'The goal of that part of the West is to weaken, divide and ultimately destroy our country' were Putin's [opening words](#) at the solemn ceremony of the illegal incorporation of the four annexed regions, on 21 September 2022, addressing the whole Russian nomenclature.

The response of the Russian public has also evolved, under [brutal suppression](#) of anti-war movements and an increasingly [controlled information](#) environment. [Levada Centre](#) opinion polls, so far considered reliable, show majority support for the Russian army, but with growing concerns and an overwhelmingly pessimistic view of the future amongst Russians who have not [fled](#) the country. Most consequently, above the noise of the Kremlin's professional pundits, there seems to be a decisive [shift](#) amongst influential Russian intellectual elites, including those who [initially condemned](#) the invasion, towards the belief that the vital interest of the Russian state are *now* at stake. As a showcase, the article published in May 2022 by [Dmitri Trenin](#), director of the Carnegie Moscow Centre until early 2022, and now member of the Russian International Affairs Council ([RIAC](#)): 'How Russia must reinvent itself to defeat the West 'hybrid war': Russia's very existence is under threat.'

### Russia next: The way backward?

The [retreat](#) of the Russian army from Kherson, the only Ukrainian provincial capital they controlled, and allegedly part of the Russian Federation after the illegal annexation, is a crucial moment in the war. Different military [scenarios](#) are in view, with [momentous decisions](#) ahead for all parties. Yet, no matter how the conflict evolves, the path Russia has set itself appears dramatically clear already. The Russia that will emerge from this conflict, even if it manages to obtain something that it can depict as a victory at home, will be economically, militarily, and geopolitically [weaker](#). Economically, the cumulative effect of the [unprecedented sanctions](#) is starting to [mount](#), decoupling Russia from international finance, [foreign investment](#) and high technology components. The [exodus](#) of highly educated professionals has [moved](#) a vibrant part of the economy away, with GDP [declining](#) 3.2 % in 2022 and a similar forecast for 2023. With the progressive [decoupling](#) of EU countries from Russian oil and gas, Putin is turning towards other markets, such as China and India, where he has [less negotiation space](#), to preserve his main source of revenue. Militarily, Russia has so far suffered an

estimated [100 000 casualties](#), depriving itself of its best units and revealing its extraordinary weaknesses, and consumed a large [arsenal](#) of costly weaponry, difficult to replenish under the sanctions regime. Geopolitically, Russia has achieved the opposite of the declared objectives: NATO will become larger and closer to Russian borders with the incorporation of [Sweden and Finland](#), Ukraine's [national identity](#) has been reinforced and its European aspirations, alongside Moldova's and Georgia's, have been firmly [consolidated](#). Meanwhile, Russia is rapidly [losing space](#) in what it considered a safe sphere of influence in the [Southern Caucasus](#) and [Central Asia](#). Internationally, Russia finds itself increasingly cornered with the status of a *pariah* state: [self-excluded](#) from the Council of Europe, banned from cultural and sports events, [condemned](#) and held [accountable](#) by the UN General Assembly, designated a state [sponsor of terrorism](#) by the European Parliament, [following](#) similar resolutions by several EU national parliaments. The [G20](#) meeting in Indonesia was a resounding [diplomatic blow](#) for Russia, which will find itself [increasingly dwarfed](#) by its alleged regional partner, China. The challenges ahead for the Kremlin are multiple, mounting and feeding each other. The immobility until 2036, which Putin assured for himself with the 2020 constitutional [amendments](#), is [less sure](#) than before, and [speculation](#) on possible scenarios multiply.

Under a **first scenario**, already under way [now](#), Putin's regime evolves into a 'boosted' version of itself, towards an increasingly entrenched over-authoritarian, over-centralised, semi-totalitarian regime. Ever-harder political [repression](#) and, possibly, the full application of [martial law](#) allow federal and regional governments to meet war requirements, including a [new mobilisation](#) wave. In parallel, various existing [indoctrination](#) programmes, especially addressed to young people, would be accelerated and enlarged. Internal think-tanks have already anticipated a [blueprint](#) with different development models for this scenario, under self-explanatory titles: the most promising, according to the authors, appears to be 'USSR 2.0'; the most controversial, 'Nation Z'. Stretching further what is already an over-centralised and over-authoritarian regime could lead, however, to paralysis in Kremlin decision-making, with fatal consequences, especially on the battlefield.

This leads to a **second scenario**: the [meltdown](#). An accumulation of military setbacks and crises, and a growing sense of abandonment by disenfranchised [groups of population](#) and [regions](#), would erode both regional and economic elites' support, as well as popular confidence in the current regime, setting it in the direction of collapse. The [outcome](#) may be very different, also depending on the situation on the battlefield. The regime could try to avoid its collapse by **replacing Putin** with a new [figure](#) with more political space who could re-conduct Russia out of the impasse – through a timely manoeuvre blessed by the security services, either with Putin's consent or on grounds of alleged or real Putin health problems. [2024 presidential elections](#), should they not be postponed under martial law, to avoid a [Belarus](#)-type scenario, could be the chosen moment for a change of 'roof', keeping safe the very same [power elites](#) under an appearance of legality. Putin's replacement may, however, prove impossible, either because too many different clashing interests would block each other, or because by that time the war would have become untenable. The meltdown could then [degenerate](#) into a period of **ungovernable chaos**, where the para-military actors now [boosted](#) by the Kremlin (such as [Yevgueny Prigozhin](#) and his [Wagner group](#), and [Ramzan Kadyrov's](#) Chechen militias), would have a reigning hand. From there onwards, the space for speculation would open up widely: it could, finally, be the moment for a true [regime change](#), perhaps around well-known opposition leaders such as [Alexey Navalny](#). However, a power vacuum could also bring the rise of [far-right](#) movements, increasingly empowered under the war rhetoric. And it could also lead, perhaps simultaneously, to the still unlikely, but extremely dangerous, **fragmentation** of the Russian Federation. Some analyst already see Russia as the next [failed state](#). Whatever scenario unfolds, it will probably emerge, at least, as a [failed empire](#).

## 10. Geoeconomics in an age of empires: What does Africa risk?



For 30 years after the end of the Cold War, the US was the global [military](#) and economic hegemon. As the [EU](#) widened and deepened, and great powers such as Russia and China, but also [emerging middle powers](#) such as Brazil, India, and [Turkey](#), used [economic means](#) to increase their global influence and pursue geopolitical aims, scholars argued that the world was becoming [multipolar](#). The past decade, however, marked the [limits](#) of [multilateralism](#) (and need for reform), leaving room to growing power rivalry. Countries with regional or great power ambitions have used soft power, but also threats and the use of force, to alter the status quo in their favour. This brought supply chains, critical minerals and great power politics to the centre of conversations, and led some [analysts](#) and [politicians](#) to [support](#) the idea that the world has entered a 'new Age of Empires'. The competition for power deriving from access to materials and influence through investment and economic advantage becomes particularly striking when narrowing the focus to regions of overlapping involvement of major and middle powers with aspirations of expanding influence. To illustrate this, it is interesting to compare the strategies of three different countries towards Africa, a [key partner](#) of the EU and a continent undergoing [great changes](#) and with [great potential](#) for growth, because of its critical raw materials and the opportunities it presents for infrastructure investments, as well as its [vulnerability](#) to food and economic crises.

**China** has been Africa's largest [trading partner](#) for 12 years and is its fourth-biggest investor. China's trade with Africa, [limited](#) until the millennium, began increasing substantially around 2005 and has kept increasing ever since, reaching US\$113 billion in exports and US\$78 billion in imports in 2019. In 2019, total Chinese foreign direct investment (FDI) in Africa amounted to US\$44 billion (vs US (the top investor) FDI of US\$78 billion). One third of Chinese FDI in Africa is channelled to infrastructure and construction, while one fourth goes to mining and extraction of raw materials. Similarly, since the early 2000s, China has emerged as Africa's largest bilateral lender (62 % of African [bilateral debt](#)). [Chinese credits](#) to Africa amounted to US\$148 billion in 2019, with US\$44 billion for investments in infrastructure, US\$36 billion to energy, and US\$18 billion to mining and extraction. These loans have helped finance large-scale investments but have also resulted in the build-up of debt-service burdens. They also contain [clauses](#) that make debt less transparent, making debt estimation, renegotiation and restructuring [more difficult](#). Through its relations with Africa, China aims at [accessing](#) the continent's natural resources, markets to export its manufactured goods, and allies in the diplomatic isolation of Taiwan. Its [activities](#) in Africa prioritise economic over political and security interests. Nonetheless, to support its interests, China has also offered military and [law-enforcement assistance](#), and established a naval base in Djibouti. Xi Jinping's [third term](#) should contribute to maintaining the trend. At the same time, the [slowing down](#) of the Chinese economy as a result of COVID-19, and the increasing tensions between the US and China may change the Chinese strategy. Similarly, the [opaqueness](#) of some Chinese loan deals with African governments and labour issues on the ground may increase African countries' reticence towards increased ties.

If the 1990s post-Soviet turmoil [ended](#) many of **Russia's** global ambitions, including in Africa, recent years have seen [renewed](#) Russian interest in the continent. Since 2010, [Moscow's strategy](#) and [activities](#) have pursued the aim of strengthening its position in the intensifying struggle over access to commodities, transit routes and markets, by developing infrastructure connecting different regions and forging diplomatic and economic links across different continents. Efforts already intensified in the middle of the decade and culminated in 2019 with Russia's co-hosting (with Egypt) of the inaugural [Russia-Africa summit](#). Russia has [modest trade](#) with Africa, ([US\\$20 billion](#) per year), which is heavily imbalanced toward Russian exports of arms and grain (Russia controls [49%](#) of the



overall arms market), and import of minerals, diamonds and oil contracts. Russia has also attempted to negotiate nuclear power deals with several African countries (including Egypt, Nigeria, Ghana and Kenya). Beyond the supply of weapons, Russia is involved militarily in Africa, through its military instructors, its [private military](#) companies such as the Wagner group, and through the role played by its navy and air force (deployments, military exercises, basing agreements). While the stated aim is to protect strategic resources and transit routes, there are also [allegations](#) (especially for private groups) that they also engage in smuggling and transnational crime. The country also uses [credit policy](#) channels (debt write-offs, export credits, credit from its state-owned companies, as well as unpaid USSR claims to African countries it inherited). Going forward, it is difficult to say whether the presence of Russia in Africa will grow or diminish. On the one hand, 25 African states chose [not](#) to condemn Russia's invasion of Ukraine, acknowledging historic ties with the Soviet Union and the Russian presence on the continent. On the other hand, the fallout of food and energy inflation may change the perception of some African countries. Lastly, while scenarios for a post-conflict Russia are still unclear (see issue 9: Russia, *quo vadis?*), its strategy may change as a result of the significant blow to its economy and the evolution in public opinion, following its invasion of Ukraine.

The primary motivation of **Turkey**, an emerging [middle power](#), for stronger relations with African countries is [economic](#). Africa has natural resources that Turkey needs for its manufacturing and industrial sectors, including oil and gas. In that context, [trade](#) has grown from US\$5.4 billion in 2003 to US\$25.3 billion in 2021, and Turkey's president promised in 2021 to [double](#) that amount. FDI has similarly increased from US\$100 million in 2003 to US\$6 500 million in 2021. To further increase trade and to counter the influence on the continent of the Gülen movement, accused of being behind the 2016 failed coup attempt in Turkey, the country also tries to expand Turkish cultural-religious influence on the continent, notably by investing a lot in [education](#) projects. Aside from trade and investment, Turkey uses [soft power](#) instruments such as humanitarian aid and development assistance programs (e.g. Turkish Red Crescent). Lastly, in 2017, Turkey opened its first military base in Africa, in Somalia. Turkey benefits from the fact that, contrary to some EU countries, it has no colonial past haunting its relations with Africa; in contrast with China, it has not been accused of [debt trap](#) diplomacy; and contrary to Russia, it maintains a pro-sovereignty narrative, which resonates in the area. Against possible expansion is the country's economic crisis. Also, the presidential elections scheduled for June 2023 may result in a change in strategy.

In the aforementioned context, **the EU**, for which multilateralism is both a foundational principle and part of strategic operational guidance, has positioned itself in Africa through several initiatives, including the [European Peace Facility](#) and the [Global Gateway](#) strategy, which will [mobilise](#) up to €300 billion of investment ([half of which](#) has been pledged to Africa) in strategic sectors up to 2027. To maximise results on the continent, it has suggested using the Global Gateway to [mobilise finance](#) and tackle the root causes of food insecurity, [merging](#) the strategy with the European Green Deal, to mutually reinforce them, or considering [debt-for-climate](#) swaps with African countries.

The European Parliament has [expressed its concern](#) that, in many areas, Africa has become a new arena of great power competition. It has criticised human rights violations by private military and security companies in Africa, [particularly the Wagner group](#). It called for human rights and the environment to be preserved in [fossil fuels projects](#), stressed the [benefits of multilateralism](#) and concerted action at international level, and called for increased investment in Africa to realise the potential for [EU-Africa partnership](#) in agriculture and the environment, economic development and sustainable and inclusive growth.

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The topics analysed encompass the 2024 European elections, budgeting in times of crises and war, lessons for public investment in the EU from the EU recovery instrument, the fiscal and monetary policy mix, climate and socio-economic tipping points, the impact of increasing fuel prices on transport, cyber-resilience in the EU, protecting media freedom and journalists, the future of Russia, and geoeconomics in an age of empires.

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