European Forum Alpbach 2026
Finance & Economy Report

Europe's Economic Challenges: Lessons from the European Forum Alpbach 2026

BY BRUEGEL
AS FINANCE & ECONOMY REPORTING PARTNER

Costanza Greppi-Maturana

Executive summary

The Finance & Economy Track at the European Forum Alpbach 2026 asked what it would take for Europe to act. Under the annual theme “How Europe Wins”, the track identified a set of interlocking constraints: a triple geopolitical shock in which technology, energy, chips and payment systems have become instruments of leverage; a savings paradox that prevents Europe’s substantial household savings from being channeled into productive domestic investment; and a compute deficit that leaves roughly 5% of global installed artificial-intelligence capacity inside the European Union.

How does Europe win in a time of slow productivity growth, fragmented capital and energy markets, demographic pressures, climate risks and growing demands on Europe’s welfare systems. Defense, decarbonization, technological transformation, and social cohesion must all be financed, within an institutional framework built for a different time.

However, the track has also generated concrete proposals. **Europe’s main challenge has shifted from announcements to effective delivery.** It now needs to move beyond caution and fragmentation by translating these commitments into concrete actions, backed by clear political decisions, dedicated resources and accountability for delivery. The focus must be on implementation.

Acknowledgment

This report was prepared based on sessions, discussions, and informal exchanges attended during the European Forum Alpbach 2026 Finance & Economy Track. It reflects the themes, debates and ideas that emerged across panels, hikes, labs and side conversations during the Forum’s Conference Days, with a focus on the economic and financial questions shaping Europe’s capacity to act. It is not a session-by-session summary.

The author is grateful to the European Forum Alpbach and Bruegel for their organisational and financial support before, during, and after the conference.

Introduction

The 2026 European Forum Alpbach took place at a moment when years of reports, recommendations and political commitments has made Europe's challenges increasingly clear but has yet to translate that clarity into decisive action. This tension was captured in the theme “How Europe Wins”, which the Forum's president, **Othmar Karas**, framed as a call to move beyond identifying what is wrong with Europe and towards deciding what it will take to act.

At its core, Europe's economic agenda remains centred on boosting productivity and strengthening security against military threats, economic vulnerabilities and climate change. Neither is new: both have been central to the debate since the Draghi report. What has changed is the growing pressure on the resources and political room available to address these challenges.

Costanza Greppi-Maturana
Bruegel — Finance & Economy Track Reporting Partner, European Forum Alpbach 2026
www.bruegel.org

This year's conversations reflected that heightened urgency. Since 2025, several developments have added to these pressures. China, for instance, recorded a record trade surplus, while its exports to the EU increased. The accelerating AI race is creating new dependencies as Europe struggles to keep pace. The conflict involving Iran and record-breaking heatwaves have further highlighted the links between energy security and climate policy. All this is unfolding while negotiations on the 2028–2034 financial framework reveal how far Europe remains from agreeing on how to fund its response.

This report synthesises the challenges, insights and proposals that emerged during and between sessions of the Finance & Economy Track. While concrete solutions were widely debated, the central challenge remains setting clear priorities and building the political will to act.

Key challenges for Europe's economic and financial system

1. The economic, geopolitical and security shock(s)

As **Klaus Welle** put it during one of the sessions, Europe is facing three interconnected shocks: Russia's invasion of Ukraine, the United States' growing willingness to use economic and political pressure against its allies, and China's industrial overcapacity, which is contributing to increased exports to European markets and putting pressure on European industry. **Welle's central argument was that these challenges cannot be addressed in isolation.** Strengthening defence capabilities alone is insufficient if Europe's economy remains weak and its technological competitiveness continues to decline. Without a strong industrial base and a competitive economy, Europe will lack the capacity to sustain its defence ambitions in the long term.

Against this backdrop, Commissioner **Magnus Brunner** offered a more positive assessment of Europe's position. Although often perceived as bureaucratic and slow, Europe is also seen as reliable, predictable and bound by rules. Many regions of the world are seeking closer ties with Europe precisely for these reasons, yet Europe has not fully capitalised on this advantage. Brunner argued that Europe should diversify its international relationships and raise its global profile, making better use of the existing demand for closer cooperation. The Forum's broader message was that Europe already possesses the economic scale and capabilities to act as a global player, what remains lacking is the political will to act collectively. From this perspective, European sovereignty depends on the strength that comes from working together.

2. Europe's savings and investment paradox

A recurring theme that kept coming back during the Forum was Europe's combination of high savings and low domestic investment, due to the distortions within the single market.

European companies, especially small and medium-sized enterprises, continue to rely heavily on banks. European households hold large volumes of liquid, low-yielding assets in currency and deposits instead of participating directly or indirectly in capital markets. European banks may be large by national standards but are often too domestically focused and politically

constrained to compete on a genuinely global scale. Capital markets remain substantially less integrated than those of the United States.

Euro-area households possess substantial savings, yet nearly a third which amount to around €10 trillion are still held in cash and low-yield bank deposits. While these assets offer liquidity and security, they are less effective at funding long-term, risk-taking investments than equity and other capital-market instruments. Approximately 80% of households do not own shares or other market-based financial products like bonds and mutual funds.

Europe struggles to turn savings into productive, long-term investments that could boost competitiveness, foster innovation, and drive economic growth.

Financial intermediaries can be useful in bridging this gap. Banks mainly convert deposits into loans. Pension funds and insurance companies pool individual savings into larger portfolios, enabling capital allocation across corporate equity, bonds, infrastructure, and other long-term assets. Funded pension systems create a structural link between household savings and capital markets, providing institutional investors with capital for productive investments.

Countries like Denmark, the Netherlands, and Sweden, which have funded pension systems show higher household holdings of pension and insurance assets and rely less on cash and deposits. Their experience indicates that financial architecture influences not only savings levels but also their ultimate destinations.

European firms, especially innovative companies and SMEs, face ongoing issues in accessing the equity and long-term financing needed for growth potential. Many turn to the United States for capital and opportunities, resulting in a persistent scale-up gap where promising European companies transfer ownership, intellectual property as well as future returns overseas.

Barriers are not solely institutional. Trust, risk appetite, and financial literacy were cited as key constraints. An example given during the forum was that retail investors who experienced losses during the 2008 financial crisis have mostly not re-engaged with capital markets, and financial wealth remains concentrated among older generations. Restoring participation will require safeguards, education, credible products, and market integration.

These conversations are not likely to be over soon, especially as income will shift increasingly from labor to capital, limited household engagement in capital markets could prevent many Europeans from sharing in the gains of technological and economic advances.

3. Technological sovereignty and the risk of dependency

Artificial intelligence (AI) was discussed as both a major opportunity for productivity growth and a potential source of economic and social disruption. As one participant warned, Europe risks becoming a “technology colony” of the United States and China. The expression captures a concern that Europe could become increasingly dependent on technologies developed elsewhere, rather than developing and controlling the infrastructure, companies and intellectual property that underpin the AI economy.

This dependence has several dimensions. European businesses and public institutions are increasingly adopting AI, but much of the underlying technology and infrastructure remains

controlled by foreign companies. The risk is not simply that Europe imports technology, but that it has limited influence over the conditions under which it accesses and uses it. This could leave European businesses and institutions vulnerable to changes in access or service provision and confidentiality, particularly if geopolitical tensions disrupt supply. It could also mean that a significant share of the economic value generated by AI adoption accrues to companies outside Europe.

The scale of the infrastructure gap is considerable and raises questions about the European Union's technological sovereignty. According to **Bertin Martens** and **Tillman Schenk** at Bruegel, the EU holds around two gigawatts of operational artificial-intelligence compute capacity, approximately 5% of global installed capacity. The United States has roughly 35 gigawatts, or 78% of the global total, nearly eighteen times the European figure, while China's capacity exceeds twice that of Europe.

Europe’s ability to capture more of the economic value generated by AI depends, in part, on having the computing infrastructure needed to develop and deploy these technologies within its own economy. This will require more investment in European data centres and more resilient cloud infrastructure. The private sector is best placed to provide much of this investment, but the conditions for building and operating data centres in Europe can make projects less commercially attractive. Access to electricity is a major constraint: limited grid capacity and delays in securing connections can increase costs, postpone projects or make them unviable. High electricity costs and lengthy permitting processes can further weaken the case for investment. The challenge, therefore, is not simply to mobilise more capital, but to create the conditions in which private investment in Europe's computing capacity makes commercial sense. These disparities raise questions not only about Europe's ability to compete in the development of advanced AI systems, but also about its capacity to capture the economic value generated by their adoption.

This sense of urgency in the AI race was also reflected in the “Europe 2031” project, which outlined a five-year scenario of Europe's potential decline towards technological irrelevance, as well as the measures still available to alter this trajectory.

Alongside infrastructure, governance was another central theme. Safety and speed were often seen as competing goals, with “regulate smarter” proposed as a balanced approach. A Commission representative cited Eurobarometer data indicating that Europeans are curious about artificial intelligence but overwhelmingly oppose leaving its development solely to market forces.

Europe needs to uphold public trust and implement meaningful safeguards without allowing regulation to hinder innovation and competitiveness. Participants urged institutions to avoid hype while acknowledging that Europe's regulate-then-test approach can contrast with the United States' often first-deploy, then-litigate strategy.

4. Climate and energy

The ongoing conflict in Iran, alongside the unprecedented heatwave this summer, has highlighted the close links between climate action and energy security. Europe's heavy dependence on imported energy, exposed during the 2022 energy crisis, revealed the

vulnerabilities of an industrial system which relies heavily on affordable external supplies. Reducing this dependence is therefore not only a climate objective, but also a matter of economic and strategic resilience.

In this context, decarbonisation can also serve as an import substitution strategy. Replacing imported fossil fuels with domestically generated renewable energy would reduce Europe's exposure to external supply disruptions and geopolitical pressure.

However, these new dependencies carry different risks. Fossil fuels are a flow dependency: if supplies were interrupted, the effects would be felt quickly, as Europe relies on continuous imports to meet its energy needs. Clean technologies, by contrast, are largely a stock dependency. Once installed, wind turbines, solar farms and batteries continue to operate even if imports of critical raw materials or components are restricted. Such restrictions would instead affect the expansion of clean-energy capacity and the replacement of existing equipment. This makes dependence on critical raw materials a real strategic concern, but a less immediate risk than dependence on imported fossil fuels.

This transition also raises a broader policy challenge. Affordable clean technologies from China, including batteries, solar panels and electric vehicles, can help Europe decarbonise more quickly and at lower cost. At the same time, the EU is seeking to strengthen its own manufacturing base and reduce reliance on foreign suppliers. Measures such as tariffs on imported electric vehicles, the Net-Zero Industry Act and local-content requirements are intended to support European production and attract investment but can also increase the cost of clean technologies and slow their deployment. The challenge is therefore to expand access to affordable technologies while building the domestic industrial capacity needed to support the transition over the longer term. As discussed in the industrial policy sessions, 'Made in Europe' approaches are also intended to create incentives for investment in European production, rather than simply shield existing producers from competition. The balance between these objectives remains a central question for Europe's climate and industrial strategies.

Olivia Lazard pointed out a key methodological issue: economic policymaking still tends to treat climate change as an externality, even though its effects do not manifest as a single variable but as a complex set of interconnected impacts across ecosystems, sectors, and regions. She mentioned the impact of various shocks, disasters, structural scarcity as well as the migration of species, and above all the disaggregation of risk. **Climate risk is not uniform.** Damages fall unevenly on particular places, sectors and supply chains, so aggregate national figures understate how concentrated the losses are. Electricity prices, vital for competitiveness, depend heavily on grid infrastructure and interconnections, the same bottlenecks that constrain Europe's AI development. Energy infrastructure is therefore critical for technological sovereignty. The sequencing challenge is clear with climate adaptation remaining underfunded; future carbon pricing uncertain; and key grid investments needed for decarbonisation and digital growth must compete with defense and welfare spending, all within a tight political schedule ahead of 2027 elections.

Further insights and debates

1. Artificial intelligence, employment and the future of work

Alongside questions about Europe's technological competitiveness, the Forum's discussions highlighted concerns about how AI will affect employment and how its benefits will be distributed. If AI makes businesses more productive but also displaces workers, who will capture the gains? Will they translate into higher wages and better jobs, or accrue mainly to the companies that develop and deploy the technology? As **Anja Meierkord** from the OECD notes, the overall effects and the distributional effects are still unclear in the data. While labor-market conditions have worsened in some sectors, much of this decline predates the rise of generative AI.

A more immediate challenge is ensuring that workers have the skills to adapt to changing demands and avoid shortage of foundational and digital skills. Nearly one in three adults lacks basic literacy or numeracy for daily life and work, while demand grows for data analysis, problem-solving, communication, and teamwork skills. As ageing populations place additional pressure on labour markets, upskilling and reskilling will become increasingly important. The discussions emphasised that responsibility for this should not fall solely on individuals: employers, governments and education systems all have a role to play. The European Social Fund+ and apprenticeship programs were mentioned as potential tools, along with stronger social dialogue.

2. The moral economy and the financing of Europe's welfare commitments

Financing Europe's welfare state is becoming as much a political challenge as a fiscal one. Governments face growing demands on public resources, but their ability to meet these demands also depends on whether citizens consider the distribution of costs and benefits fair. This is the central idea behind the concept of the *moral economy*: economic choices are shaped not only by financial incentives, but also by shared expectations about fairness, solidarity and mutual responsibility. The concept originates in the work of E. P. Thompson, who examined how market-based exchange challenged traditional expectations of collective rights and economic fairness. Karl Polanyi explored a related transformation in *The Great Transformation*. More recent research has questioned the idea that markets and moral principles are separate, showing instead how perceptions of fairness continue to influence economic behaviour. For the welfare state, this matters because public support for redistribution depends not only on what people pay or receive, but also on whether they consider the system fair and legitimate.

These questions are becoming more pressing in Europe. Population ageing, rising inequality and weak productivity growth are putting pressure on existing welfare commitments. At the same time, governments must find resources for defence, climate adaptation, energy infrastructure and technological innovation. The result is growing competition for public funds, while citizens continue to expect reliable pensions, healthcare and social protection. Maintaining the social contract which is the balance between what citizens contribute, what they receive and what they expect from the state is therefore becoming more difficult.

Several parts of this contract are under pressure simultaneously. The intergenerational contract is challenged by an ageing population, as a smaller share of working-age people must support a growing number of pensioners. The social contract is strained by inequality and disagreements over who should be entitled to public support. The employment contract is also changing as technological developments and new forms of work challenge traditional relationships between employers, workers and the welfare system. Together, these pressures make it harder for governments to reconcile rising expectations with limited public resources.

Yet, when participants were asked whether the welfare state had become unaffordable, the response was that affordability was the wrong way to frame the question. The underlying challenge was political: who is willing to pay, who benefits and what kind of social settlement do Europeans want to preserve? One historical argument raised during the discussion was that the post-war welfare settlement between capital and labour developed under the pressure of an alternative economic and political system. With the end of state socialism, this competitive pressure disappeared. The uncomfortable observation, and one that stayed with participants, was that nobody is currently making a convincing political case for saving the welfare state.

This debate has implications well beyond social policy. Every proposal discussed in the Finance & Economy Track whether from deeper capital markets and AI infrastructure to public procurement and skills investment depends on public institutions retaining enough credibility to explain and justify difficult choices. If citizens lose confidence in how the costs and benefits of economic change are distributed, support for the wider reforms Europe needs may weaken too. The legitimacy of the welfare state is therefore not separate from Europe's economic competitiveness: it is one of the conditions that makes long-term investment and reform politically sustainable.

As **Lea Ypi** put it, we must first agree on what Europe is if we want it to “win” and protect it.

3. Risk, incentives and Europe’s culture of caution

A recurring theme across discussions on finance, technology, institutions and public administration was Europe's tendency to favour caution over risk-taking. As the behavioural scientist, **Susann Fiedler** explained, there are behavioural biases that help explain this tendency. For example, hindsight bias makes outcomes appear more predictable after they have occurred, while omission bias leads people to judge decisions not taken more leniently than decisions that were taken but failed. In practice, this means that an unsuccessful decision is often more visible and easier to attribute to an individual than the cost of a missed opportunity. Where the benefits of action take years to materialise, this imbalance can strongly discourage risk-taking.

The central question is whether a system designed to minimise failure can also produce decisive leadership. The discussion focused on how institutions shape behaviour, including through what they discourage or prevent. Europe's safeguards and regulatory frameworks are not necessarily obstacles to risk-taking in themselves. Rather, the incentives within institutions often reward caution and penalise visible mistakes. This tendency is reinforced by organisational cultures and the lasting effects of past crises.

The 2008 financial crisis, for example, eroded public trust in financial markets and reduced the appetite for retail investment risk. Within public institutions, unsuccessful initiatives are highly visible, while the costs of delays and inaction are often spread across society and become apparent only over time. Political leaders and public officials may therefore have stronger incentives to avoid identifiable mistakes than to pursue uncertain opportunities with potentially significant long-term benefits.

The challenge is not simply that Europe takes too few risks. It is that its institutional environment often makes avoiding failure more attractive than pursuing opportunities. As a result, caution can be individually rational even when it produces collectively harmful outcomes.

Changing this culture requires more than regulatory reform. Financial education, public communication, engagement with the media and visible examples of successful European projects can all help rebuild confidence and encourage responsible risk-taking. Political and institutional leaders also need to demonstrate that failure within reasonable limits can be part of experimentation and professional development, while persistent inaction should carry its own consequences.

The goal is not to imitate a US approach or abandon Europe's safeguards, but to build institutions in which responsible action is possible and the safest career move is not always to delay decisions.

Reflections and outlook

Building momentum after Alpbach

Alpbach 2026 reinforced the impression that Europe is moving from a period of identifying its challenges towards a more decisive debate about how to address them. Across the Finance & Economy Track, there was broad agreement on the need to strengthen Europe's competitiveness, mobilise investment, build technological capabilities and preserve the social foundations of its economy. The challenge is no longer simply to establish what needs to change, but to decide which priorities should come first, how they should be financed and who should take responsibility for delivering them.

The overall impression from Alpbach was therefore one of urgency, but also of opportunity. Europe has much of the analysis, expertise and policy thinking it needs. **The task ahead is to bring these elements together into a coherent course of action.**

Conclusion

The 2026 Finance & Economy Track portrays a Europe that is not short of ideas, ambition or resources, but struggles to turn them into coordinated action. It has substantial savings, a large internal market, world-class research institutions, a skilled workforce and a reputation for stability. Yet these strengths have not been fully translated into the investment, technological capabilities and strategic influence needed to respond to today's challenges.

Costanza Greppi-Maturana
Bruegel — Finance & Economy Track Reporting Partner, European Forum Alpbach 2026
www.bruegel.org

Many proposals are already in place: the Savings and Investments Union is drafted, retail participation is expanding, defense instruments are established, and the compute deficit is quantified. **What remains absent is political leadership and a clear sequence of commitments.**

Jean Monnet's approach from identifying opportunities, committing to concrete action and empowering those with the authority to deliver remains relevant. Europe's path forward does not lie in copying other models, but in making better use of its own strengths and turning existing commitments into results. This means accepting difficult trade-offs, making responsible risk-taking part of institutional culture and recognising that delaying decisions also carries costs.

Ultimately, the question is no longer simply what Europe needs to reform, but whether it can build the political and institutional capacity to act together, at the scale and speed the current moment demands. The discussions at Alpbach offered reasons for confidence: the expertise, proposals and willingness to engage are already there. What matters now is whether Europe can turn this shared understanding into sustained collective action. As one speaker put it: “We know what to do; now it's up to us to execute.”

Costanza Greppi-Maturana
Bruegel — Finance & Economy Track Reporting Partner, European Forum Alpbach 2026
www.bruegel.org