

Europe in Transition: Rethinking Growth, Innovation, and Economic Resilience

European Forum Alpbach 2025 – Finance & Economy Track Report

Executive Summary

The Finance & Economy Track at the European Forum Alpbach 2025 explored how Europe can remain prosperous and innovative, and resilient in an era of geopolitical uncertainty and technological transformation. Across the many discussions, this report identifies a series of interconnected challenges: Europe's declining competitiveness, the weakness of its venture capital ecosystem and the consequences for the European ability to finance innovation, the erosion of the rules-based trading order, and social strains undermining trust in democratic institutions. Yet the track also surfaced concrete solutions: from mobilising private capital through public anchors to advancing systemic impact investing and deepening the single market for innovation and finance. The debates around trade policy and economic security underscored Europe's need to move from regulation to mobilisation, while the conversations on innovation finance called for a cultural shift toward rewarding risk. This report concludes that Europe's financial renewal depends not on emulating others, but on daring to act with confidence in its own values and capacities.

Acknowledgment

This report was prepared based on sessions, discussions, and informal exchanges attended during the European Forum Alpbach 2025 - Finance & Economy Track. It reflects the themes, debates, and ideas that emerged across panels, hikes, and side conversations during the Forum's "Europe in the World" days, with a focus on the economic and financial challenges shaping Europe's role in a changing global landscape. The author is grateful to EFA and Bruegel for the support received before, during and after the conference as well for the financial support.

Introduction

The 2025 European Forum Alpbach convened at a complex moment for Europe's financial and economic future. Against a backdrop of geopolitical fragmentation, technological acceleration, and deep social transformation, the Finance & Economy Track explored the question of how Europe can safeguard prosperity while remaining true to its values of openness, sustainability, and democracy.

The conversations this year reflected a shared sense of urgency. Global economic structures are shifting rapidly, the rules-based trading system is fraying, and Europe faces growing pressure to remain competitive in innovation, energy, and technology. At the same time, the continent's financial ecosystem, rooted in stability and regulation, is being tested by the need for risk-taking, entrepreneurial investment, and long-term strategic autonomy.

This report synthesizes the key challenges, insights, and solutions that emerged from the track, highlighting common themes across diverse sessions. It also incorporates personal reflections from participation in debates on innovation, capital mobilization, trade policy, and economic security. While not a session-by-session summary, it clusters discussions into coherent narratives around Europe's central economic questions: how to grow sustainably, compete globally, and invest boldly in its own future.

Key challenges for Europe's economic and financial system

1. Europe's strategic vulnerability and competitiveness gap

A recurring theme throughout the Forum was Europe's widening competitiveness gap. Several speakers warned that the continent's economic model (long reliant on regulatory strength and open trade) is ill-prepared for world economy era dominated by industrial policy, state-backed innovation, and technological rivalry.

"Nostalgia is not a strategy" Sabine Weyand reminded participants, encapsulating the collective mood. The collapse of multilateral certainty, the paralysis of the World Trade Organization, and the rise of power-based economic governance have left Europe navigating a harsher global environment.

The EU's dependency on external actors for critical technologies, energy supplies, and digital infrastructure was repeatedly cited as a structural weakness. From the reactivation of nuclear facilities in the US to fuel data centres, to Europe's energy vulnerability post-Ukraine, the continent's challenge lies in ensuring access to affordable, sustainable, and secure sources of growth.

Completing the Capital Markets Union remains crucial. This would unlock Europe's vast savings (€30 trillion, of which €10 trillion sits idle in low-interest accounts) and channel them into productive, sustainable investments.

The Draghi and Letta reports, often referenced during discussions, were seen as blueprints for strengthening the single market. Yet, as multiple speakers observed, the problem is not lack of diagnosis but lack of urgency. In sum, nostalgia not only is not a strategy but also it “will not power the next economy” as one panellist noted in the closing session offering a reflection of Europe's need to move from reactive adjustment to proactive shaping of its economic future.

2. Financing innovation and managing risk

Perhaps the most dynamic and self-critical debate of the Finance Track revolved around innovation finance. Europe's innovation gap was described not as a lack of ideas but as a systemic failure to finance and scale them.

The panel on European innovation emphasized that access to capital is not the bottleneck (since global capital exists and it is accessible to Europe) but that Europe systematically fails to retain the value created by its innovators. The story of BioNTech's mRNA vaccine, developed in Germany but scaled through Pfizer, became a powerful symbol of Europe's chronic “value leakage”.

Speakers argued that the EU must rethink how it allocates and rewards risk. Venture capital in Europe remains anaemic: only 0.01% of European pension fund assets are invested in venture capital, compared to around 5% in the US. This is not just a financial statistic: it represents a structural barrier to Europe's ability to compete in deep tech, AI, and clean energy.

Participants called for a cultural and regulatory shift: risk-taking should be viewed not as recklessness but as a contribution to the collective good. “The problem is not risk itself, but the cost of taking risk” one panellist noted. The EU's heavily bank-based financing system offers stability but little flexibility. Without mechanisms to reward risk-taking, especially in early-stage innovation, Europe will remain dependent on others to commercialize its breakthroughs.

Across the board, what is necessary is creating a culture of risk and reward: Europe needs to normalize failure in innovation ecosystems. In the US, failure signals experience; in Europe, it signals exclusion. Adopting a portfolio mindset where some losses are accepted as the cost of innovation could transform Europe's financial DNA.

A recurring idea was that innovation policy must be “co-investment policy”. European public money (for example, through European Commission's Innovation Fund) should mobilize private capital, echoing the US model where public funds de-risk private innovation. This also requires reforming who sits on investment committees, ensuring technical and scientific expertise among decision-makers so they can evaluate complex, high-impact ventures.

3. Globalization, trade, and strategic autonomy

Trade policy discussions, particularly those led by Sabine Weyand, Joseph Stiglitz, Gabriel Felbermayr, and others, underlined the erosion of the multilateral order and the need for Europe to find its voice in a world of transactional geopolitics.

Weyand described the new reality succinctly: “Trade as an isolated policy no more”. Trade, technology, and security now form an inseparable triangle. The EU’s task is to redefine economic openness under conditions of strategic interdependence while protecting its industrial base without sliding into protectionism. The weakening of the WTO’s dispute system, the spreading of unilateral tariffs, and the politicization of supply chains all reflect the shift from a rule-based to a power-based order.

The EU-US trade dynamic surfaced as a symbol of this tension. The EU-US framework agreement, presented by Sabine Weyand as politically necessary to sustain US security guarantees in Ukraine and “the best possible agreement given the circumstances”, was criticized for lacking firmness on EU regulatory autonomy. At the same time, speakers acknowledged that retaliation or disengagement was unrealistic emphasizing the need for pragmatic coalition-building.

The debate reflected a deep anxiety: how can Europe remain a rule-maker rather than a rule-taker? The answer, many argued, lies in indispensability: building technological and economic capacities others depend on. In sectors like semiconductors, AI, and clean technologies, indispensability becomes the new comparative advantage. Yet achieving this requires political courage, industrial coordination, and a willingness to act collectively.

This involves new or improved tools: inbound and outbound investment screening, risk assessments for strategic technologies, and economic security agreements with trusted partners like Japan and Canada. This also means incurring costs: in fact, Weyand admitted that “efficiency losses are the price of avoiding the law of the jungle”.

Participants called for a mindset shift: from 27 national strategies to a single European economic strategy, capable of leveraging the continent’s scale and internal market. The phrase “united in delivery” - an expression offered by an attendee of the Brown Bag Lunch with Stiglitz and Weyand - captured the Forum’s new realism.

4. Social pressures and economic cohesion

The finance track also engaged with the intersection of economics and democracy, especially through sessions on housing affordability and social trust. The erosion of access to housing was framed not just as a social issue but as a macro-financial challenge undermining political stability.

Declining home ownership rates, rising rents, and postponed family formation are reshaping Europe's demographic and economic fabric. The panellists warned that the "unsatisfied expectations" of younger generations (expectations of mobility, security, and opportunity) are feeding populism. "It is more dangerous to lose the young than to upset older voters" one panellist remarked.

This linked to a broader insight: finance and economic policy cannot be detached from the social contract. If citizens no longer perceive prosperity as shared, democratic legitimacy weakens. The housing debate thus underscored the moral dimension of the economy by asking how to ensure that financial systems serve the goal of human security and democratic resilience.

Further insights and debates

The Finance Track was marked by a series of vibrant intellectual confrontations. Several exchanges captured the diversity of perspectives within Europe's economic community.

1. AI, productivity, and the role of regulation

The "AI and Productivity" hike highlighted contrasting worldviews. Some argued that Europe's productivity gap with the US stems from energy costs, regulatory rigidity, and slower technological adoption. For others, like mathematician Cédric Villani, the obsession with matching the US or China misunderstands Europe's mission: "The EU stands for democracy, sustainability, and peace and not just speed".

Villani defended the AI Act as a necessary moral compass, not a handicap. The true weakness, he said, lies in capital shortages, fragmented security strategies, and inadequate infrastructure. His intervention reframed the debate: Europe's distinctiveness in ethics and human-centred technology could be a competitive asset, not a liability.

2. Green growth vs. industrial pragmatism

Sessions on climate, security, and prosperity revealed an evolving narrative. Europe's Green Deal moment is being reinterpreted through an industrial lens: the transition from regulation to delivery. Policymakers called for a pivot from norm-setting to implementation ensuring that green policies drive competitiveness and growth, not deindustrialization.

Speakers from foundations and funds described systemic investing as the next frontier: aligning academia, investors, and governments to finance long-term transformations. Case studies like Namibia's green hydrogen project demonstrated both the promise and challenge of financing energy transitions in the Global South: where project finance without concessional support remains prohibitively expensive.

In a nutshell, Europe's new industrial activism must go beyond subsidies to foster ecosystems. Examples include semiconductor joint ventures and innovation funds linking public and private actors. Economic security should coexist with competitiveness, not replace it.

3. Impact and systemic investing

Another distinctive conversation explored how finance can become a driver of systemic change. With \$1.5 trillion in impact investment globally but only \$190 billion in the EU, Europe is both a leader and a laggard.

Impact investing (defined by intention, measurable social and environmental outcomes, and financial return) emerged as a key instrument for aligning profit with purpose. Clean energy and climate dominate the field, but other Sustainable Development Goals, such as peace and strong institutions, remain underfunded.

The debate underscored Europe's potential to lead in values-driven finance, provided it can combine patient capital with transparency and measurable impact.

Reflections and outlook

Personally, what struck me most across the Finance & Economy Track was the coexistence of deep realism and quiet optimism. There was realism in the recognition that Europe cannot simply legislate its way to prosperity; but there was optimism in the conviction that finance, when reimaged, can be a force for renewal.

Two lines of debates left a lasting impression on me.

First, the debate on innovation and venture capital. The recurring diagnosis (that Europe does not lack ideas but the courage to finance them) felt both sobering and empowering. The discussion on risk and reward resonated personally. I found myself reflecting on how cultural and institutional risk aversion has quietly shaped our financial systems, from pension funds to public procurement. Europe's next leap will not come from more regulation, but from trusting its own innovators.

Second, the conversation on trade and economic security. Listening to Sabine Weyand describe the shift from a rule-based to a power-based world, I was reminded how fragile and yet how necessary multilateralism remains. Europe's challenge is to remain open without being naïve to defend its autonomy not by withdrawal, but by building indispensability in technologies, ideas, and partnerships.

Across sessions, I felt a subtle but important transformation in tone. The question is no longer whether Europe should act, but how boldly it will do so. The mood was pragmatic but forward-looking: a sense that Europe's greatest strength lies in its capacity to learn, coordinate, and act with purpose.

For me, the Forum offered a rare combination of intellectual honesty and human connection: moments on the hikes where policy arguments gave way to shared reflection about the kind of Europe we want to inhabit. That balance of realism and hope, I believe, is the spirit that should guide Europe's future.

Conclusion

The 2025 Finance & Economy Track revealed a Europe in transition caught between regulation and innovation, caution and courage. The challenges are profound: declining competitiveness, fragmented capital markets, social inequality, and a shifting global order.

Europe can lead not by imitating others, but by mobilizing its distinct assets: a stable financial base, a values-driven investment culture, and a renewed appetite for collaboration. The task ahead is to turn regulation into mobilisation, and values into competitive advantage.

If there was one unifying message from Alpbach, it was this: Europe's future prosperity will depend less on defending the past and more on daring to build the future.