



FIVE-YEAR REGIONAL OUTLOOK

# Europe

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**B**y 2025, the COVID-19 crisis is likely to be behind Europe, leaving the European Union (EU) somewhat stronger institutionally, but political divisions at the domestic and European levels probably will continue to limit social and economic reforms. The economic strains of the pandemic, including greater debt, probably will weigh on governments and could exacerbate existing socio-economic divisions, increasing pressure to enact looser monetary and fiscal policies. Longstanding challenges—such as aging populations and lagging technological innovation—will bound European economic growth. A rising generation of non-ideological and opportunistic political leaders could result in greater policy fluctuation and weakened consensus. To navigate the growing US-China rivalry, European powers will seek to strengthen multilateral institutions and establish international standards and norms to protect themselves.

The judgments in this paper were made by the National Intelligence Council in consultation with outside experts and Intelligence Community analysts and do not reflect official US Government policy or the coordinated position of the US Intelligence Community.

## KEY TRENDS

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### Uneven Economic Growth

By 2025, Europe's economies almost certainly will have recovered from the immediate effects of the COVID-19 crisis. Debt incurred during the pandemic, however, will weigh heavily on European governments, compounding longstanding economic challenges and increasing the pressure to raise taxes and loosen monetary policy. Weak and uneven growth is likely to increase intra-regional and rural-urban divides, potentially making politics even more contentious than it is today.

- **Growth.** Most European countries are expected to reach pre-COVID GDP levels in 2022—unless the pandemic's trajectory is even more damaging than anticipated as of January 2021—which will still be low in a global context. The EU's pandemic recovery fund and related European Central Bank support measures should help dampen the worst of the economic hit but differing rates of growth across the Continent will persist. Long-term challenges, such as low productivity growth, ageing and shrinking workforces, and increasing inequality will persist.
- **Rural-urban disparities.** More people will work and live in cities, such as Amsterdam, London, Munich, and Paris, according to a recent study on the future of work in Europe. Rural populations are likely to experience relative economic decline and growing cultural insecurity, potentially intensifying the attractiveness of unconventional political forces in these areas. A rural-urban political and economic cleavage is thus likely to persist and worsen.
- **National Disparities.** Countries with strong finances, such as the Netherlands, or more advanced digital capabilities and strong governance, such as the Baltics and Nordic States, are better positioned within Europe to weather the pandemic and increase their relative economic advantage within Europe. Countries lacking these attributes are likely to fall behind, grow more

susceptible to Russian and Chinese influence, and create tensions within the EU.

Looking forward, the state—both at the national and EU level—is likely to increase spending and play a larger role in the economy as it responds to the pandemic and its economic fallout, for example to strengthen health and digital infrastructures. The EU and several national governments are ramping up public investments to increase research and foster commercial development in sectors such as artificial intelligence, edge computing, and robotics. Europe probably will make progress in these areas, but is not likely to catch up to the United States and China. The pandemic has nudged Europe further away from the fiscal belt tightening that had dominated economic policymaking since the Eurozone crisis of the 2010s. German Chancellor Angela Merkel's advocacy of creating unprecedented EU debt capacity indicates Germany may no longer play its traditional role as the austerity enforcer, thus shifting Europe's monetary and fiscal policy balance toward the more inflationary countries.

### Domestic Politics More Fractured

Politics within European states probably will become somewhat more divisive because of the pandemic and its economic fallout. The pandemic initially strengthened most incumbent governments, but disagreements about how to dampen the wave that began in fall 2020 as well as worsening economic prospects are increasing public discontent and could provide fodder for non-traditional parties.

Mainstream political parties are likely to face more competition from single-issue parties, nationalists and populists, as well as a new generation of less ideological leaders, hampering EU consensus and freedom of maneuver on major policy challenges. A rising generation of more opportunistic political leaders who are less committed to clear ideological foundations could make European politics more prone to policy swings.

- Such fluctuations could make it more difficult for leaders to amass the political capital needed to push through potentially painful domestic reforms or compromise at the EU level. Heterogeneous governing coalitions in many countries may also hamper economic and political reforms.
- Cultural insecurity and populism directed against foreigners may strengthen in some parts of central and southeastern Europe. Climate policy could become a new wedge issue for populists, especially if Green parties come to power and implement policies which workers in traditional industries view as harmful to their interests.

### EU Stronger, But Regional Gaps Remain

Reforms adopted in response to the pandemic are likely to leave the EU institutionally stronger, even as the bloc's underlying politics remain contentious. The European Commission will have acquired new fiscal capabilities and expanded competencies in public health aimed at strengthening Europe's resiliency for future pandemics. The EU has increased powers to raise its own revenue, manage its borders, and oversee health policy and digital infrastructure. Britain's departure from the EU will no longer consume the political and diplomatic energy of the bloc. However, the EU almost certainly will still be weak on security and defense issues, unless a crisis catalyzes spending and cooperation in this area.

Existing divisions between Brussels and Hungary and Poland could intensify during the next five years and potentially deepen. Additional states could join Hungary and Poland in pushing back against perceived overreach from Brussels. Meanwhile, wealthier states could grow more resentful of EU outlays, especially if their economic burdens grow yet rule of law concerns persist.

The economic and political gap between the EU and non-EU southeastern Europe almost certainly will grow; parts of southeastern Europe will still struggle with widespread corruption and weak democratic governance. Chinese

and Russian inroads in southeastern Europe are impeding these countries from making progress toward EU or NATO membership as well slowing efforts to achieve anti-corruption and other reforms. Meanwhile, Serbia is asserting itself regionally in ways likely to hamper the reform efforts of its smaller neighbors and delay their prospects for positive political and economic change in the next five years.

Turkey's more assertive foreign policy trajectory has already increased friction with the EU and is unlikely to result in a better economic or political relationship. Turkish actions in North Africa, the Aegean, Eastern Mediterranean, Levant, and Caucasus have extended Turkish influence but at the cost of contention with many regional powers. If such discord persists at its current level, Turkey's relationship with NATO and the EU could change significantly.

### Navigating Great Power Competition

European powers are attempting to navigate competition among the United States, China, and Russia by strengthening multilateral institutions and brokering international standards and norms they believe will protect them from economic, security, and political risks. The EU will seek to exploit its large single market and regulatory capacity to lead on international standards, building on its efforts in data privacy, consumer health and safety, and competition policy. The EU is also likely to prioritize digital, environmental, and trade agreements in both global and multilateral forums.

**Russia.** Europe almost certainly will retain the same posture toward Russia—characterized by diplomacy and deterrence, openness to a moderate level of energy dependence, and the use of economic sanctions. European threat perceptions of Russia will remain varied. Barring direct Russian intervention in Belarus or other new overt instances of Russian aggression, only the United Kingdom, Poland, the Baltic States, Romania, and

potentially the Nordics will keep Russia at or near the top of their security agenda.

- Russia's economic weakness combined with Europe's progress toward improving its energy security and more determined efforts to protect against disinformation and cyber intrusions probably will strengthen European resilience to Russian influence by 2025. States in southeastern Europe outside the EU and NATO, however, will remain most vulnerable to Russian influence efforts, and some could draw closer to Moscow.

**China.** European countries increasingly recognize the threat that China's rise and global ambitions pose to their values, domestic security, and economic future, but they will struggle to protect themselves given their hope for increased access to the Chinese domestic market, interest in future opportunities for technological cooperation, and, in some cases, a pressing need for foreign investment. The EU and its member states may take some steps to diversify supply chains in strategic areas, limit Chinese access to technology, and protect European firms from foreign takeovers, but their economic relationship with China probably will not change in fundamental ways.

**United States.** Most European states will view close transatlantic cooperation across defense, foreign affairs, economic, and political realms as vital to their own security and prosperity, but may worry about Washington's ability to make credible commitments that go beyond the four-year election cycle—a concern that could encourage short-termism in transatlantic relations. European leaders will seek cooperation with Washington on international trade, the Paris Climate Accords and other climate change initiatives, as well as countering Russia, but will not drop their commitment to achieving “strategic autonomy” in some areas.

## Slow Progress on Security Policy

Despite efforts to achieve strategic autonomy, Europe almost certainly will have made only limited, if any, gains in the EU's capacity for military action over the next five years. Outside NATO, the EU probably will not have acquired the capability to conduct even brigade sized military operations outside its borders and probably will not have conducted any major new missions. Allies almost certainly will not have met their stated objective of spending 2 percent of GDP on defense by 2024 because of other priorities and pandemic fallout. However, we do expect some European NATO Allies to develop valuable new capabilities in emerging technologies such as cyber, space, and artificial intelligence during this period.

The threat of terrorist attacks and large migration inflows into Europe will persist. Some European governments, such as France, probably will still view these issues as more serious and immediate threats than the threat posed by Russia or China. In addition to ISIS or other Islamic extremists, many European cities will remain at risk of attacks by lone actor, right-wing terrorists.

- There is a risk that Turkey's regional assertiveness under President Recep Tayyip Erdogan could result in direct military confrontation with Greece, potentially leading to intensified debate about Turkey's membership in NATO.

## KEY UNCERTAINTIES

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Beyond the duration and intensity of the COVID-19 pandemic, other key uncertainties about Europe's future include:

### Impact of Leadership Changes

Elections in France, Germany, Hungary, Italy, Poland, and other European countries could result in changes to the broader balance between traditionalist and

unconventional leaders or lead to long-term changes in European policy or the EU.

- **Germany.** Merkel's successor will lack her domestic and international authority as well as negotiating experience, and a new government may not be as willing to sacrifice parochial German interests for the sake of the EU. Conversely, a new chancellor who is more oriented to the reality of power politics and the hard side of hybrid threats could be more amenable to appeals from France for closer EU security cooperation and might pursue a tougher line on China.
- **France.** A National Rally victory in the 2022 presidential election could immobilize EU decisionmaking and strain European and transatlantic cooperation on Russia and other issues.
- **Italy.** A populist-led government—especially if a populist were elected President in 2022—might reject European Commission oversight and pursue fiscal policies that unsettled markets and set off a chain reaction that could break apart the Eurozone and the EU itself.

### Success or Failure of Brexit

The degree to which Brexit appears to have helped or hindered UK economic growth, national unity, and international influence will affect the EU's internal unity and international image. If the United Kingdom appeared to benefit from its unbinding to EU rules and more independent foreign policy, Euroskeptic movements would become stronger in some EU member states. An unsuccessful Brexit, one in which the UK economy faltered, probably would increase support for Irish and Scottish nationalism and a splintering of the United Kingdom that would undermine its future global role and serve as a cautionary lesson to national leaders unhappy with the EU.

### Controlling Migration

The EU in 2020 was already somewhat better prepared to address migration than it had been in 2015 and will continue to strengthen control of its borders during the next five years. However, a smaller wave of migration could still provoke fears and political backlash—strengthening populist political leaders across the region.