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Analysis
Paper

45/2025 17/06/2025

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Europe: a review of geopolitical, economic, social and climate risks



Europe: a review of geopolitical, economic, social and climate risks

This analysis is part of the *Strategic Outlook 2025.*
Issued in March 2025

Abstract:

Europe's role as a global player depends on its ability to adapt to a changing world, balancing its objectives of growth, sustainability, stability and internal cohesion. This chapter identifies the most pressing risks grouped into four blocks (geopolitical, economic, social and environmental), and explores different strategic scenarios that could define Europe's course in the coming decades.
From a scenario of greater integration and consolidation to more pessimistic scenarios of fragmentation and decline, the analysis seeks to offer perspectives to anticipate risks and promote informed decisions. Drawing on lessons learned from previous crises, such as the importance of solidarity among Member States, structural reforms or social cohesion, it argues for a proactive and coordinated approach to address current and future challenges.

Keywords:

Europe, Geopolitical risks, Foreign policy, Draghi plan, Aging, Immigration, Energy transition, Hybrid threats, Social cohesion, Populism.

How to cite this document:

FUENTES CASTRO, Daniel. *Europe: a review of geopolitical, economic, social and climate risks*. IEEE Analysis Paper 45/2025. IEEE web link and/or bie link[3] (accessed day/month/year).

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Introduction

Europe is facing a period of profound transformation marked by geopolitical tensions, economic change, disruptive social dynamics and an increasingly palpable climate crisis. This chapter reviews the main risks of a global context marked by high uncertainty and explores different strategic scenarios that can guide Europe towards a more sustainable and resilient future.

On the geopolitical front, the growing rivalry between the US and China as an emerging power directly challenges Europe and its role in a multipolar world. Meanwhile, Russia's re-emergence as a challenging actor, the war in Ukraine and regional conflicts in the Middle East and North Africa continue to generate instability on its borders. Added to this is the latent threat of international terrorism, new forms of hybrid warfare and cyber-attacks, which underline the need for a coherent and effective European foreign policy, a real unfinished business for an EU weakened by internal fragmentation.

On the economic front, the COVID-19 pandemic and the energy crisis triggered by the Russian invasion of Ukraine, together with the subsequent inflationary episode, have highlighted Europe's vulnerability to disruptions in supply chains and competition for strategic natural resources. Regional inequalities, the rural-urban divide, and the impact of monetary and fiscal policies on economic growth and financial stability will be determining factors in the near future.

Although, across the eurozone, 2024 seems to have been the low point of the post-pandemic economic recovery cycle, economic projections for 2025 and 2026 are still for weak growth (with the exception of Spain), pending successive interest rate cuts by the ECB and the materialisation of the investment plan set out in the Draghi report. Attention should be paid to the economic crisis in Germany, with both structural and cyclical elements, and to the evolution of the public deficit in France and its impact on the public debt markets.

Social and demographic challenges add another layer of complexity. Population ageing, migration and tensions associated with cultural diversity raise questions about social cohesion and the future of European democracies. Moreover, the rise of populist movements, fuelled by social inequalities and the perception of neglect in certain sectors

of the population, represents a direct threat to democratic values and political stability in several countries across the continent.

Climate change and environmental risks are perhaps the most cross-cutting and urgent challenge. Energy transition is a priority for Europe not only because of the need to reduce carbon emissions, but also because of its dependence on external energy sources. This chapter examines how energy diversification, decarbonisation and innovations in sustainable mobility can help Europe meet its climate goals and mitigate the effects of a changing climate that is already impacting the continent.

Finally, the chapter explores different strategic scenarios that could define Europe's course in the coming decades. From a path of integration and consolidation to more pessimistic scenarios of fragmentation and decline, the analysis seeks to provide perspective to anticipate risks and promote informed decisions. Drawing on lessons learned from previous crises, such as the importance of solidarity between member states, structural reforms and social cohesion, it argues for a proactive and coordinated approach to address current and future challenges.

Europe's role as a global actor will depend to a large extent on its ability to adapt to a changing world, balancing its objectives of growth, sustainability, stability and internal cohesion. In this regard, this chapter identifies the most pressing risks and offers a roadmap for building a more secure and prosperous future for all Europeans.

Geopolitical risks

Global tensions and their impact on Europe

The US-China rivalry and its impact on Europe

The growing rivalry between the US and China is a major determinant of global geopolitics with direct implications for Europe. The US, which has historically been Europe's main security ally, has focused its efforts on countering China's rise as a global power. This strategic shift has led to growing uncertainty about the US's long-term commitment to European security, which is accentuated by Donald Trump's return to the White House and reflects a dynamic of strategic competition that places Europe in a delicate position.

- Trump has proposed universal tariffs of 10 per cent and targeted measures against European exports such as cars, putting the transatlantic trade relationship, which was worth €1.6 trillion in 2023, at risk.
- On defence, his scepticism towards NATO and an potential reduction in support for Ukraine could force the EU to take on greater security responsibilities.
- On the other hand, its withdrawal from the Paris Agreement in the past and its sceptical stance on climate change could weaken global decarbonisation efforts, leaving the EU as the lone leader in this agenda.

China, for its part, has expanded its global influence not only in Asia, but also in Europe through investments in key infrastructure, such as the New Silk Road project, and its thriving presence in technology markets. Reports by the European External Action Service (EEAS)[1] highlight how this strategy has been designed to gain influence in critical sectors and warn of economic dependencies and lack of opportunities for European companies. While many European countries, including Spain, have sought to strengthen trade relations with China, the rise of geopolitical competition between the US and China places Europe in a vulnerable position in balancing its relationship with both global actors.

China's economic and trade policies, especially its focus on controlling strategic supplies and technological development, are reshaping global dynamics. According to the OECD's *Economic Outlook 2024*[2] , these policies directly affect the economic interests of Europe, which faces the dilemma of securing its interests without compromising its geopolitical autonomy or its ability to form strategic alliances with Western powers. The risk of Europe being caught in a conflict of interests between the US and China is significant, and Spain is no stranger to this pressure.

Russia's re-emergence as a challenging power

The resurgence of Russia as a challenging power for Europe has been one of the most significant developments in global geopolitics over the past two decades. The Russian invasion of Ukraine marked a turning point in international relations and exposed Europe's

[1] Report leaked to the media and available at: https://www.dw.com/en/report-eu-countries-to-be-straitjacketed-by-chinas-new-silk-road/a-43437084

[2] OECD (2024). *OECD Economic Outlook* [online]. OECD. [Accessed: 2025]. Available at: https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2-2024-issue-2_d8814e8b-en.html

vulnerabilities to external military aggression. For Spain and the rest of Europe, this conflict has had a direct impact in terms of energy security, migration flows, and internal political stability.

Russia, under Vladimir Putin's leadership, has adopted an increasingly aggressive posture, using its military and energy power as tools to influence European policy. According to NATO's annual report 2023[3] , this strategy has revealed Europe's inadequacy to prepare for direct military threats in its immediate neighbourhood. Despite the Alliance's existence as a guarantor of collective security, the growing tension with Russia highlights the need to strengthen defensive capabilities and deterrence strategies.

Spain, in its role as a member of NATO and the EU, has been affected not only by direct security challenges, but also by the economic repercussions of the sanctions imposed on Russia, especially in the energy and trade sectors. Gas supply disruptions and rising energy prices have had a direct impact on the Spanish economy, exacerbating already existing social and economic tensions. Several reports by the European Union Agency for Cybersecurity (ENISA)[4] underline the increase in cyber threats from Russia that represent a continuous challenge to the cybersecurity of European countries.

Regional conflicts and international terrorism

Conflicts in the Middle East and North Africa

Protracted conflicts in the Middle East and North Africa remain a major source of global instability with direct implications for Europe.

The war in Gaza is of great relevance to the EU both internationally and domestically. Instability in the region can have direct effects on security in Europe by increasing the risk of terrorism and extremist activities within its borders. In addition, internal tensions within the EU have intensified due to differences on how to respond to the conflict, which could strengthen far-right movements and generate greater Islamophobia. The humanitarian

[3] NATO (2023). *Annual Report 2023* [online]. The NATO SPS Programme. [Accessed: 2025]. Available at: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/4/pdf/240419-SPS-AnnualReport2023.pdf
[4] ENISA (2022). *ENISA Threat Landscape 2022* [online]. ENISA. [Accessed: 2025]. Available at: https://www.enisa.europa.eu/publications/enisa-threat-landscape-2022

crisis could also provoke an increase in migration flows to Europe, which would put member states' migration and border management policies to the test.

This is compounded by developments in the Syrian civil war, the frozen conflict in Libya and tensions in the African Sahel.

Spain, due to its geographical proximity, is at the frontline of the effects of these conflicts, especially in relation to migration flows and border security. According to the United Nations High Commissioner for Refugees (UNHCR), between January and September 2023 alone, 281 924 people were registered as having left North Africa for Europe on irregular maritime journeys. [5]

The threat of international terrorism

International terrorism remains one of the most persistent threats to Europe. Although large-scale terrorist attacks have decreased in recent years, radicalisation and violent extremism continue to pose risks to the internal security of European countries. Attacks perpetrated by groups such as Al-Qaeda or the Islamic State have left a deep mark on Europe's collective memory and continue to drive strict security policies.

Jihadist terrorism remains a concern, particularly in countries such as Spain, which has been a target of terrorist groups in the past. The radicalisation of young Muslims in major European cities, exacerbated by a lack of social and economic integration, continues to be a major challenge for internal cohesion and security. Furthermore, the phenomenon of lone wolves—individuals radicalised in isolation—has generated a new type of threat that is difficult to predict and prevent.

Challenges in cybersecurity and hybrid warfare

Rise in cyber threats

Cybersecurity has become a major concern for European governments due to the rise of cyber attacks and hybrid warfare. Cyber attacks, from both state actors and criminal

[5] UNHCR (2024). *West and Central Mediterranean situation* [online]. UNHCR. [Accessed: 2025]: Available at: https://reporting.unhcr.org/operational/situations/west-and-central-mediterranean-situation

groups, are designed to destabilise countries and affect their critical infrastructure, including financial, energy and health systems.

Cyber warfare has become a key tool in geopolitical strategies, with Russia and China at the forefront of cyber threats. According to ENISA[6] , these threats are increasingly sophisticated and affect both public and private entities. In the case of Spain, cyber threats have intensified in recent years, with attacks targeting critical infrastructures.

The *global cybersecurity index* (GCI), produced by the International Telecommunication Union (ITU), assesses countries' level of preparedness in terms of cybersecurity. According to the GCI 2024, although many countries have made progress in terms of cybersecurity , there are still significant gaps in key areas such as legislation, technical measures and capacity building .[7]

The EU needs to strengthen its cyber defences through increased public and private cooperation, as well as by boosting the training of specialised personnel to deal with cyber attacks. However, the increasingly sophisticated nature of attacks, which often come from non-state actors or states with surreptitious intentions, makes combating these risks extremely complex.

Hybrid warfare strategies

Hybrid warfare, which combines conventional and unconventional tactics (such as disinformation, cyber-attacks and covert operations), is another key challenge to Europe's security. The threat of disinformation campaigns and media manipulation has grown, especially from Russia, with the aim of destabilising European democracies and undermining trust in institutions. These attacks on the internal cohesion of EU member states are a latent risk to social and political stability.

Spain, like other European countries, has been the target of disinformation and *fake news* operations that have had a direct impact (difficult to estimate) on electoral processes, social polarisation and public opinion. The manipulation of social networks and digital

[6] ENISA (2022). *ENISA Threat Landscape 2022* [online]. ENISA. [Accessed: 2025]. Available at: https://www.enisa.europa.eu/publications/enisa-threat-landscape-2023

[7] ITU (2024). *Global CyberSecurity Index* [online]. International Telecommunication Union. [Accessed: 2025]. Available at: https://www.itu.int/en/ITU-D/Cybersecurity/Documents/GCIv5/2401416_1b_Global-Cybersecurity-Index-E.pdf

media has become a powerful tool to influence the internal and external politics of countries, and it is necessary to strengthen defence capacities in this area.

European foreign policy: a challenge for strategic coherence

A fragmented Europe

Tensions between Eastern and Western European countries, differences in migration policies and the growing rise of populist and nationalist movements are clear examples of how global dynamics affect the EU's internal cohesion. Various European Council on Foreign Relations (ECFR) notes have for years analysed how these tensions hinder joint action in European foreign policy .[8]

Brexit was a clear demonstration of how internal tensions in Europe, exacerbated by dissatisfaction with the EU, can lead to the departure of a key member. This event has generated economic and political uncertainty and raised questions about the future of European integration. Populist movements in countries such as Hungary, Poland, Italy, and to a lesser extent Spain, also reflect growing mistrust towards European institutions and their ability to manage global crises.

This atmosphere of mistrust is exacerbated by technological competition between Europe, the US and China, especially in strategic sectors such as artificial intelligence (AI), telecommunications (5G) and cybersecurity. In the report presented during the 2024 annual meeting in Davos, the World Economic Forum (WEF) stressed that Europe needs to invest more in clean technologies, artificial intelligence, semiconductors and other strategic sectors. In addition, it emphasised the importance of balancing international collaborations with reducing dependencies in critical value chains.

The common foreign policy: a challenging road ahead

The EU's Common Foreign and Security Policy (CFSP) was designed to promote peace, stability and human rights globally. However, the implementation of this policy has been

[8] Zerka, P. (2019). The benefits of political fragmentation, *ECFR*.
Dennison, S. *et al*. (2019). How to govern a fragmented EU: What Europeans said at the ballot box, *ECFR*.

a constant challenge due to political differences between member states, which vary according to their history, geographical location and economic priorities.

The lack of a unified stance on global crises—such as the Israeli-Palestinian conflict, the war in Ukraine, or the crisis in Syria—has weakened the EU's influence on the international stage. The EU's inability to deliver a forceful response to Russia's 2022 aggression or to Israel's disproportionate reaction to the October 2023 Hamas attacks, for example, has highlighted the urgent need to move towards a more coherent foreign policy that is less dependent on dynamics between different Member States.

Moreover, growing populism within the EU, which calls into question the core values of European integration, further complicates the creation of a cohesive external strategy. Despite this, the EU remains a global power in terms of trade and diplomacy, and its capacity to influence the global agenda—especially in areas such as climate change, human rights, and peace—remains considerable.

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Economic and financial risks

Global and regional economic impacts

The energy crisis and inflation

In recent years, Europe has faced its most severe energy crisis since the 1970s, marked by rising gas and electricity prices and the resulting inflation. This situation has been exacerbated by three factors: supply chain bottlenecks during the post-COVID recovery phase, Russia's invasion of Ukraine, and the (until then) excessively slow transition to renewable energies..

In Germany, dependence on Russian gas (which accounted for 55% of supply before the conflict) aggravated the situation when supplies were disrupted. In 2022, gas prices in the EU increased by 1000% compared to historical values[9] , contributing to record inflation of 10.4% in October of that year according to the Harmonised Index of Consumer Prices (HICP). To mitigate the effects, the German government approved a EUR 200 billion fund to subsidise energy costs and support households and businesses, which

[9] See: Council of the EU infographics, available at: https://www.consilium.europa.eu/es/infographics/a-market-mechanism-to-limit-excessive-gas-price-spikes/#:~:text=En%20agosto%20de%202022%20los,y%20los%2035%20%E2%82%AC%2FMWh

required the temporary suspension of a constitutional limit on public borrowing[10] . In 2024, inflation has been around the ECB's 2 % target, with a low of 1.6 % in September.

France, being less dependent on Russian gas due to its extensive nuclear infrastructure, also experienced tensions in the energy market. Maintenance issues at several nuclear plants reduced generation capacity, necessitating electricity imports. This contributed to a 6.2% inflation rate in October 2022, the highest in decades. The French government capped electricity tariff increases at 4% and offered support to the most affected households. In 2024, inflation has hovered near the ECB target, with a minimum of 1.2% in September.

Altogether, the eurozone reached a historic inflation peak of 10.6% in October 2022. The crisis has led Europe to prioritise the energy transition through initiatives such as REPowerEU, which seeks to reduce dependence on Russian fossil fuels and promote the use of renewables.

Regional inequalities and the urban-rural divide

One of the most concerning consequences of the succession of economic crises of the last fifteen years (2008 international financial crisis, 2012 euro crisis, 2020 covid crisis and 2022 inflationary crisis) is the deepening of economic inequalities, both within and between countries. These inequalities are reflected in differences in income, access to basic services and job opportunities that affect both social cohesion and sustainable economic development.

At the regional level, there is a marked difference in GDP per capita between the more developed regions in the north and west of Europe and the less developed regions in the east and south. In 2023, Luxembourg's GDP per capita was the highest in the European Union, at 139% above the EU average, while Bulgaria had the lowest, at 36% below average, according to Eurostat. These disparities are compounded by differences in investment in infrastructure, education and technology between regions.

[10] The Federal Government of Germany (2022). *Relief for electricity and gas prices: 200 billion euros for economic protective shield* [online]. The Federal Government. [Accessed: 2025]. Available at: https://www.bundesregierung.de/breg-en/news/protective-shield-2131014

Thus, for example, economic inequality between eastern and western Germany persists decades after reunification. According to the Halle Institute for Economic Research (IWH), average incomes in the east of the country are about 16% lower than in the west, and labour productivity is also lower in the eastern regions.

The rural-urban divide is also a growing concern. In rural areas, employment rates are generally lower, with limited access to essential services such as education and health care. The disparity in the risk of poverty or social exclusion in rural regions remains significant and stands out in countries such as Romania and parts of southern Italy, where rates are particularly high. In contrast, in many European capitals, risk levels are significantly lower due to better economic opportunities and access to services .[11]

In addition, digitalisation and automation are rapidly changing labour markets, implying new challenges for skills and the restructuring of national economies. The risk of large parts of the population being left behind in this process is high, especially for those working in low-skilled jobs or in industries that are being replaced by more efficient technologies.

Competition for natural resources

Growing economic nationalism and competition for natural resources is a geopolitical trend affecting Europe as it transitions to a more sustainable future. As natural resources, such as rare metals needed for renewable energy technologies and transport electrification, become scarcer and more in demand, geo-economic tensions between major global powers, such as the United States, China and the European Union, intensify .[12]

Spain, with its growing focus on renewable energy and its commitment to electrifying the economy, faces the need to secure access to critical resources such as lithium, cobalt, and graphite, which are essential for manufacturing batteries and other technological devices. Europe's dependence on China for the supply of these materials presents a significant risk to its economic security. Indeed, the protectionist policies of certain

[11] Eurostat. (2014). *Risk of poverty or social exclusion in regions* [online]. Eurostat. [Accessed: 2025]. Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20241015-1

[12] European Commission (2020). *Critical Raw Materials for Strategic Technologies and Sectors in the EU: A Foresight Study*. European Commission.

countries have made global supply chains more fragile and have fostered a more aggressive competitive environment for access to these resources.

Economic outlook and forecasts

Economic projections for 2025

The European Central Bank (ECB) forecasts moderate economic growth for the euro area in 2025 and 2026, with rates of 1.4% and 1.6% respectively, supported by improving domestic demand and a more controlled inflation environment[13] . Headline consumer price inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is projected at 2.2% in 2025 and 1.9% in 2026, which is close to the ECB's target of 2%. This reflects declining inflationary pressures, especially in food and energy, thanks to stabilising commodity prices and moderating labour costs.

Among the risks to these projections are geopolitical tensions, such as the intensification of the conflict in Ukraine or escalation in the Middle East, which could destabilise energy markets. Additionally, the effects of climate change—such as extreme weather events—pose a threat to economic stability. On the domestic front, structural problems in manufacturing and a more severe-than-expected fiscal adjustment could slow growth.

As strengths, the labour market continues to show resilience, with historically low unemployment rates at around 6.3% in the euro area. Moreover, the ECB's monetary policies have dampened credit demand and contributed to a gradual reduction in inflation without generating a disproportionate impact on economic growth.

As for interest rates, they have moderated recently thanks to falling inflation, which is close to the ECB's 2% target, and the need to give oxygen to weak economic growth. At its last meeting in 2024, the ECB cut the deposit rate to 3% and current projections indicate that it could be around 2% or 2.25% by the end of 2025.

In contrast, markets expect fewer cuts for the Fed in 2025 than for the ECB, reflecting the greater strength of the US economy and the need to maintain a vigilant stance on inflation on the other side of the Atlantic. In any case, there is still some indirect coordination

[13] ECB (2024). *Macroeconomic projections* [online]. European Central Bank. [Accessed: 2025]. Available at: https://www.ecb.europa.eu/press/projections/html/index.en.html

between the monetary policies of the ECB and the Fed, albeit with differences that may be significant in their pace and objectives depending on the economic situation in each economic area.

The Letta and Draghi reports: Europe needs investment

The Letta report and the Draghi reports, both published in 2024, agree on the urgency of taking integrated and ambitious measures to secure the economic and social future of the European Union.

The Letta report[14] , commissioned by the European Council, addresses the modernisation of the European single market. Letta proposes adding a "fifth freedom" to the single market, the free movement of knowledge and creativity, as a basis for adapting to the challenges of a digital and green economy. He also suggests strengthening financial, energy and telecommunications integration, and simplifying regulation to foster business competitiveness. This single market must boost social cohesion, provide quality jobs in local communities and ensure that EU enlargements are planned and sustainable.

Letta points to an important vulnerability of the European capital market: the existence of abundant private savings that are currently financing investment in other areas, namely the US.

The Draghi report[15] , commissioned by the European Commission, focuses its analysis on the EU's productivity and competitiveness vis-à-vis the United States and China. Draghi highlights the need to invest €800 billion per year (representing around 5 % of European GDP) to close the technological gap and improve productivity, which is key to sustaining the European social model. He proposes measures such as strengthening technological and energy independence, creating a stronger capital market union and prioritising innovation in strategic sectors.

Draghi proposes to finance his investment plan through joint debt issuance at the EU level and along the lines of the NextGenerationEU programme implemented during the

[14] European Council (2024). *Much more than a market* [online]. European Council. [Accessed: 2025]. Available at: https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
[15] European Commission (2024). *EU competitiveness: Looking ahead* [online]. European Commission. [Accessed: 2025]. Available at: https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

COVID-19 pandemic. This proposal faces resistance from some countries, such as Germany and the Netherlands, which fear disproportionate fiscal burdens and argue that the structural problems of some states will not be solved by joint borrowing.

Public debt and its risks to financial stability

Public debt in the euro area remains a central issue for economic stability, in particular because of the challenges associated with compliance with EU fiscal rules and in the context of the investment needs identified in the Letta and Draghi reports. France stands out as a case of concern due to its high government deficit, which will close 2024 above 6% of GDP, and its rising debt trajectory, already above 122% of GDP.

France's high public spending, at almost 60 per cent of GDP (the highest in Europe), and political instability make it difficult to implement the necessary reforms. The short-lived Barnier government proposed €60 billion in adjustments combining cuts and tax increases that were rejected in the motion of censure that put an end to its term in Matignon and which, *de facto*, has led to the extension of the current budget for the financial year 2025.

Although the risk of a generalised sovereign debt crisis in the eurozone is currently low, the French situation could have repercussions. Its risk premium has even surpassed that of Greece, reflecting market concerns. Moreover, the European Commission has reactivated excessive deficit procedures, which will force France to implement tighter adjustments in the coming years to avoid financial stress across the region.

Social and demographic risks

Demographic changes and challenges for social cohesion

Ageing population

One of the most European social risks is the ageing of the population. In many countries, such as Spain, Italy, Greece and Germany, the proportion of older people is increasing rapidly, while the young population is stable or declining. This demographic phenomenon has profound implications for social, economic and political systems, as it implies increasing pressure on pensions, health systems and the labour force.

The ageing of the population requires an adaptation of public policies, as the number of dependent people in Europe will increase significantly in the coming decades. This translates into higher demand for health services, elderly care and pension expenditure, which could put unsustainable pressure on national budgets, as pointed out in the European Commission's *Ageing Report 2024*[16] . In Spain, for example, the population over 65 years of age is expected to reach almost 30% of the total population by 2050, which will force an in-depth review of the sources of funding for social welfare and public health policies.

The challenge lies not only in managing ageing, but also in how to maintain an active workforce that can sustain the continent's economic growth. Pay-as-you-go pension systems, which are common in Europe, are particularly vulnerable to population ageing, as they require a large base of active workers. Given current projections of natural increase, the evolution of immigration flows is of critical importance, as the OECD's *International Migration Outlook* has pointed out in its various updates.

Migration and diversity: opportunities and social tensions

In parallel to population ageing, migration remains a key phenomenon in Europe. While migration can be seen as an opportunity to rejuvenate the population and strengthen the economy, it also generates significant challenges in terms of social cohesion, cultural integration and political management.

Since 2022, Spain has experienced a migration *boom* from countries such as Venezuela, Morocco, Ukraine, Latin American countries and Eastern Europe. This phenomenon contributes, in part, to explaining the higher growth of the Spanish economy compared to the European average and, in particular, in sectors such as agriculture, tourism and services in general.

Migration tests the capacity of receiving countries to integrate newcomers effectively and mitigate potential social and political tensions, which to some extent also depends on the

[16] European Commission (2024). *Ageing Report. Economic and Budgetary Projections for the EU Member States 2022-2070* [online]. European Commission. [Accessed: 2025]. Available at: https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en

adaptation of basic public services (education, health, transport, etc.) to the increase in population in the most stressed areas.

In some European countries, nationalist and populist movements have exploited the issue of immigration as a form of political capital, arguing that mass immigration threatens cultural identity and social security. These movements have gained ground in nations such as Hungary, Poland and, to a lesser extent, Spain and Italy, generating growing social polarisation.

The challenge of social integration is not only an economic or cultural issue, but also a political one. The EU has developed policies to manage immigration, such as the Pact on Migration and Asylum, but the lack of a common strategy and growing disagreement among member states on the distribution of refugees and migrants has hindered an effective response. The European Union Agency for Fundamental Rights (FRA) highlights the challenges of ensuring the inclusion and fundamental rights of migrants in its *Fundamental Rights Report* 2023.

Social inequality: risk of internal fragmentation

Economic inequality in Europe has evolved differently across regions and policies. According to the World Inequality Lab, in Europe the richest 10% capture 58% of total wealth, while the poorest half own only 4%. This reflects a significant concentration of resources, although less so compared to regions such as Latin America, where the richest 10% own up to 77%.

In terms of income, Europe is characterised by lower inequality thanks to the strong redistributive role of the welfare state. However, the proportion of people at risk of poverty is seen to have increased in two-thirds of member states between 2006 and 2021, and the size of the middle class has declined in several countries. This phenomenon particularly affects young people, the poorly educated and single parents, exacerbated by rising housing prices and the effects of recent inflation.

Strengths such as access to social policies mitigate these impacts, but fiscal progressivity needs to be strengthened and coverage extended to the most vulnerable. In the long term, this will be key to tackling structural inequalities and ensuring social cohesion in the region.

This inequality is not only economic, but also geographical, with rural areas and southern European regions suffering from chronic underinvestment. Educational inequality and lack of access to housing are factors that exacerbate social polarisation and can contribute to social unrest and growing political radicalisation.

Housing: a bottleneck to emancipation

Access to housing is a significant challenge for young people in Europe which has been affected by rising prices and the scarcity of supply available on the market. According to Eurostat, in 2023, 10.1% of young people (15-29 years old) spent more than 40 % of their disposable income on housing, a level higher than the overall EU average of 8.9%. Countries such as Greece (31.1%), Luxembourg (27.5%) and Denmark (27.3%) had the highest rates of housing cost overruns for this age group.

According to Eurostat, house prices in Europe have risen by 48% since 2010, with a disproportionate impact on young people. In fact, the percentage of 25-34 year olds still living with their parents has grown significantly in recent years. For example, in Ireland, this percentage rose from 27% to 40% between 2017 and 2022, while in Spain it increased from 35% to 42%. Factors such as rising rental prices, difficulties in accessing home ownership and the rise of holiday rental platforms exacerbate this situation.

Overcrowding is also a critical problem: 17% of young people in the EU were living in overcrowded conditions in 2023. In countries such as Romania and Bulgaria, this figure rises to 68.3% and 51.6% respectively among 15-19 year olds, reflecting a marked inequality between countries and age groups .[17]

These trends underline the need for public policies focused on increasing the supply of affordable housing and improving access conditions for the younger generation.

[17] European Commission (2024). *Young people - housing conditions* [online]. European Commission. [Accessed: 2025]. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Young_people_-_housing_conditions

Populist movements and the challenge to European democracies

The rise of populist movements

In recent years, Europe has witnessed a resurgence of populist movements, both from the far right and the left, that challenge democratic institutions and the EU's political cohesion. These movements feed on public frustration over declining purchasing power, immigration, and the failure of traditional parties to resolve long-standing or recent socio-economic problems—some stemming from the 2008 global financial crisis, others from the COVID crisis and, more recently, the 2022 energy crisis.

In Spain, the rise of parties such as Vox, with its nationalist and anti-immigration rhetoric, reflects a broader trend in Europe, where dissatisfaction with the *status quo* has led to an increase in voting for parties that oppose European integration, globalisation and immigration. Some Central and Eastern European countries, such as Poland and Hungary, have adopted more authoritarian policies that challenge the EU's democratic principles and core values, such as the rule of law or human rights .[18]

Populist movements are eroding public confidence in democratic institutions and European governance mechanisms. This growing disaffection with traditional parties and formal political structures may lead to a delegitimisation of the democratic system, increasing the risk of political instability and polarisation in the future. The Brexit crisis is a clear example of how popular discontent with European institutions can have profound consequences.

Political instability in Germany and France

In 2024, both Germany and France have experienced political crises reflecting growing instability in their governing systems and the gradual pressure of populism. In Germany, the collapse of the three-party coalition government led by Olaf Scholz has led to early elections scheduled for early 2025. This breakdown was due to irreconcilable fiscal disagreements among coalition members in a context of economic slowdown and pressure from the far right, whose support has grown especially in the east of the country.

[18] International IDEA's Global State of Democracy Report 2022 highlights how populist movements affect the stability of European democracies.

On the other hand, in France, the motion of censure against Prime Minister Michel Barnier barely three months after his appointment and the subsequent appointment of François Bayrou has led to a scenario of legislative paralysis. The lack of consensus in the National Assembly prevents the formation of a stable government while Marine Le Pen's National Rally continues to gain ground and capitalise on social discontent following the controversial pension reform of 2023 and the loss of purchasing power of wages.

It is not inconceivable that, in addition to elections in Germany, new legislative elections could be held in France in 2025 if the parliamentary deadlock continues. Both countries could see support for populist parties consolidate, complicating governance and challenging political stability at the core of the EU.

Environmental and climate risks

The energy challenge: transition and external dependence

The challenge of Europe's energy transition

Although the EU has been a pioneer in implementing climate policies, such as the European Green Pact and the goal of achieving carbon neutrality by 2050, the transition to renewable energy presents significant obstacles: the lack of adequate infrastructure, dependence on traditional energy sources (such as gas and oil) and the need to invest heavily in clean technologies.

In the case of Spain, although the country has been one of the European leaders in the development of renewable energies, particularly in solar and wind energy, structural challenges persist. The energy system remains dependent on natural gas, largely due to insufficient interconnection with other European countries. This lack of infrastructure makes Spain highly dependent on gas imports, particularly from Russia, which exposes the country to risks arising from international price fluctuations and the policies of supplier countries. The International Energy Agency (IEA) highlights in its *World Energy Outlook* report the importance of diversifying these sources and strengthening energy infrastructures to minimise risks.

The rise in energy prices, exacerbated by the war in Ukraine and Russia’s energy policy, has exposed Europe’s vulnerability to external shocks in the energy market. The growing

dependence on external sources such as natural gas and oil tests the EU's and Spain's energy security. The global energy crisis has put significant pressure on European households, which have faced rising electricity and gas bills, thereby affecting social welfare and economic competitiveness.

Diversification of sources and energy geopolitics

Europe has begun to diversify its energy sources to reduce dependence on Russia. Spain plays a key role in this strategy, as it has one of the most developed liquefied natural gas (LNG) infrastructures in Europe, which allows it to import gas from different parts of the world, including the United States, Qatar and Algeria. These infrastructures are critical for the region's energy resilience.

In addition, Spain has positioned itself as a leader in renewable energy generation, and investment in energy sources such as solar PV and wind continues to increase. This shift towards more sustainable sources is also aligned with EU targets to reduce CO_2 emissions and comply with the Paris Agreement.

However, the challenge of energy interconnection remains a major obstacle. The lack of a sufficiently developed cross-border infrastructure network between Spain and its neighbours means that renewable energy produced in Spain cannot always be harnessed by other EU countries. This constraint prevents Spain from playing an even more prominent role in the European energy transition and reduces the efficiency of renewable energy distribution.

Regarding nuclear energy, political stances in Europe are divided: some States view it as part of the green transition, while others consider it a temporary or unsuitable solution to current energy challenges. France deems it essential for decarbonisation and energy security. Conversely, Germany has shut down its nuclear plants and prioritises renewables, citing safety and waste concerns. Countries like Sweden and Finland support its use, whereas Spain and Austria oppose new projects.

Decarbonisation of the European economy

Decarbonising the economy is one of the most urgent responses that Europe must implement to mitigate the effects of climate change. The energy transition to renewable energy sources, such as solar, wind and hydro, is essential to reduce greenhouse gas (GHG) emissions and achieve the climate targets of the Paris Agreement. However, this transition presents significant challenges in terms of both infrastructure and investment.

In recent years, Europe has made great strides in the development of renewable energy and the EU has committed to achieving climate neutrality by 2050. However, the transition to a green economy requires a complete transformation of the energy, industrial and transport sectors, which implies substantial investments in infrastructure, clean technologies and innovation policies.

Despite the potential of renewables, the shift towards a clean energy matrix is not without risks. Reliance on intermittent sources of energy, such as solar and wind, can create supply problems at times of low production. Energy storage through technologies such as batteries or green hydrogen is one of the proposed solutions, but its development is still in its early stages and requires investment and an appropriate regulatory framework.

The automotive sector and sustainable mobility

The automotive sector is another key pillar of Europe's energy transition. Internal combustion vehicles are responsible for a significant proportion of CO_2emissions and therefore the electrification of transport is one of the main ways to reduce Europe's carbon footprint.

The European automotive sector is undergoing a transformation driven by the shift to electric vehicles (EVs) and more sustainable mobility. In 2023, EV sales reached 15% of the total in the European Union, thanks to stricter emissions regulations and adoption subsidies. However, challenges remain, especially in Germany, where EV market share was still low—just 2% of total vehicles in 2023—and government targets of 15 million EVs by 2030 seem difficult to meet due to weak local demand and competition from Chinese manufacturers and Tesla.

Other structural challenges for sustainable mobility in Europe are Europe's dependence on China for critical battery materials and the development of charging infrastructure. However, there are promising developments, such as research into solid-state batteries, which promise longer range and lower costs in the medium term.

The most significant risks in the transition to electric vehicles are disruptions in supply chains, job losses in traditional industry and a disadvantaged starting position in the face of rapidly expanding Chinese industry. Europe will need to strengthen its industrial and technological capacity to compete globally.

Climate change: global and local challenges

Climate change is one of the most serious medium to long-term risks facing Europe. As global temperatures rise, European countries are experiencing increasingly frequent extreme weather events such as heat waves, prolonged droughts, floods, intense storms and natural disasters. These events not only have a direct impact on people and infrastructure, but also affect the economy, food security and public health. The European Environment Agency (EEA) has detailed these impacts in several reports and warns of the urgency of implementing adaptive measures .[19]

Spain, due to its geographical location and climatic particularities, is exposed to the effects of climate change. The south of the country, especially the Mediterranean region, has experienced a significant increase in temperatures in recent decades, with hotter and drier summers, increasing the risk of forest fires and "cold drop" episodes, and deteriorating water resources. At as desertification progresses in the most agriculture-intensive regions, food production and water security could be at risk.

In addition, rising sea levels in coastal areas pose a direct threat to many European cities, such as Valencia or Barcelona, which face risks of flooding and loss of maritime ecosystems. Coastal erosion is also a growing problem in many areas of the Spanish Mediterranean coastline, which could affect tourism and local communities.

Climate change is also associated with an increase in climate-related diseases, such as respiratory and cardiovascular diseases caused by air pollution, as well as vector-borne

[19] EEA (2022). *European Climate Risk Assessment, EEA Report No 1/2024* [online]. EEA. [Accessed: 2025]. Available at: https://www.eea.europa.eu/publications/european-climate-risk-assessment

diseases such as Dengue fever and Zika, which have been more pronounced in Europe due to the proliferation of mosquitoes in warmer climates.

General conclusion

Reflecting on future scenarios: possible outcomes based on current strategic decisions

Europe's future largely depends on the strategic decisions taken today, both at national and European level, as geopolitical, economic, social and environmental risks are becoming increasingly complex.

Scenario 1: integration and consolidation

If EU countries are able to overcome current internal divisions and advance political and economic integration, the continent could emerge more united and resilient in the face of global challenges. Internal cohesion, solidarity on issues such as security, immigration and energy transition, and the drive towards a green economy could strengthen Europe's global position, allowing it to compete more effectively with powers such as the United States and China. In this scenario, Spain would play a key role as a bridge between Europe and other areas of the world, especially Latin America and North Africa, thanks to its strategic geographical location and its growing economic and political influence within the EU.

Scenario 2: fragmentation and decline

In a more pessimistic scenario, growing political polarisation and internal tensions could lead to further fragmentation of the EU, with some countries adopting more isolationist or nationalist policies and others seeking greater integration. Mutual distrust could weaken European institutions and slow down efforts to address global challenges such as climate change, energy security or technological competition. In this context, Spain could be caught between the pressure of having to respond to internal tensions and its commitment to European solidarity, which could affect its economic development and its pro-European tradition.

Scenario 3: sustainable transition and resilience

A third possible scenario is that Europe, including Spain, manages to lead a sustainable transition in economic, social and environmental terms. The drive towards renewable energies, the circular economy and digitalisation could offer an opportunity to reduce dependence on external resources and strengthen Europe's competitiveness in key economic sectors. Here, social welfare policies addressing inequality (with a particular focus on access to housing for young people) and ageing populations could be key to ensuring a cohesive society and an inclusive labour market. If properly managed, these reforms could make Europe a global model of resilience in the face of social and economic risks.

Scenario 4: rising geopolitical tensions

Competition for natural resources, tensions with powers such as Russia and China, and the risk of armed conflict could lead to a scenario of unstable geopolitics in Europe. In this context, security would become a top priority, which could imply an increase in military spending and collective defence policies. Spain, as a key NATO member, would play a crucial role in strengthening Europe's defences and managing potential crises in its neighbourhood, especially in the Mediterranean and Africa. However, this scenario could also accentuate economic disparities within Europe, with the regions most vulnerable to conflict lagging behind in terms of development and the deterioration of current standards of social cohesion.

Lessons learned from past crises: how they can guide future policies

Past crises, such as the 2008 global financial crisis, the 2015 migration crisis and the covid pandemic, offer valuable lessons to guide Europe's future policies. These crises have not only revealed the region's structural vulnerabilities, but also the EU's capacity to adapt and learn from its challenges.

Lesson 1: the importance of European solidarity

One of the main lessons of the sovereign debt crisis and the migration crisis is that, in times of uncertainty and pressure, solidarity among EU member states is essential to address common problems. The unified response to the covid health crisis, through the centralised purchase of vaccines or the Next Generation EU funds, showed how cooperation and financial solidarity can be a powerful tool to overcome economic challenges. This experience should guide future policies, where the union is not just an abstract principle, but a concrete strategy to address geopolitical and economic risks.

Lesson 2: the need for structural reforms

Past crises have also highlighted the need for structural reforms in key areas such as the labour market, pensions and fiscal management. Spain, like other countries, has had and will have to continue to make significant adjustments to its social welfare and fiscal systems to ensure economic sustainability. Reform policies should be seen as an opportunity to strengthen the foundations of the economy, ensure social equity and improve global competitiveness. Ageing populations and labour challenges require far-reaching reforms that not only ensure a sufficient and viable pension system, but also encourage quality job creation and promote education and retraining.

Lesson 3: the importance of social cohesion versus divisions

The crises have also highlighted social risks stemming from growing economic inequality and political tensions. The rise of populist and nationalist movements in Europe reflects the unease of those who feel excluded from the benefits of economic progress. To prevent this social polarisation from becoming a systemic risk, Europe must invest in social cohesion by promoting policies that reduce inequality and strengthen democratic values. Social inclusion and access to opportunities must be key priorities to ensure that the benefits of economic growth are distributed fairly.

Lesson 4: the need to anticipate geopolitical risks

Finally, recent experiences show the need to be more proactive in the face of geopolitical risks. The war in Ukraine, tensions with China and the global energy crisis highlight the importance of anticipating strategic risks and acting quickly. Energy security and technological autonomy should be key objectives for Europe in its future geopolitical strategy. Spain, due to its strategic geographical position, has a key role to play in European security policy and can contribute significantly to regional stability.

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