



Forged in Crisis: European Economy Rebuilt Better

**GLOBSEC
TATRA SUMMIT 2021
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TOP TAKEAWAYS

GLOBSEC Tatra Summit 2021: Forged in Crisis: European Economy Rebuilt Better

Jean Monnet famously proclaimed that “*Europe will be forged in crisis and will be the sum of the solutions adopted for those crises.*” Europe is no stranger to crises, and as envisioned by Monnet, crises catalyzed some of the most powerful breakthroughs in its architecture. As the pandemic gradually subsided, heads of states, central bankers, international organization chiefs, private sector leaders and the civil society convened at the 10th edition of GLOBSEC Tatra Summit to discuss how to best seize this opportunity for Europe.

GLOBSEC Tatra Summit 2021 provided a single conversation juncture for discussions on the prospects of **European economic recovery** being challenged not only by the pandemic, but also other forces, including digitalization, take up on new technologies, the future of monetary policy, the quest for sustainability, green growth and more. The conference provided for a cosy environment for high-level networking, **bilateral and multilateral meetings with partners**, and informal discussions at its side-lines.



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Policy Processes:

Official First Presentation of the Sustainability Memorandum by Slovak Banking Association

The 'Memorandum on Permanently Sustainable Business and Development' was introduced by Alexander Resch (President, Slovak Banking Association & CEO, VUB Bank), Michal Liday (CEO, Tatra Bank) and Maria Valachyova (Head of Strategy, SLSP) and endorsed by the Slovak Prime Minister Eduard Heger. The memorandum highlights the commitment from the Slovak financial sector to work closely with the public sector on common goals and to contribute to financial stability as well as sustainable and inclusive growth by financing society's long-term needs that could benefit all Slovak citizens.

CEE Charging Infrastructure Resembles EU Road to (e-)Success

Clean mobility should be considered a pillar of EU citizens' basic rights. However, as around 85 % of EU's electric vehicles (EVs) are sold in and 75 % of charging points are located in North and Western Europe, there is a real risk of a two-speed West vs East uptake of EVs. This trend could hamper future EU integration with dumping and selling of increasingly cheaper second-hand combustion cars from richer to poorer countries in Europe. Whilst endorsing the Slovak and Polish private sector-led 'CEE Green Transport Initiative' which aims to boost the e-charging infrastructure roll-out in the region, the following key policy recommendations were concluded to reach the EU's goal of 1 million charging points installed by 2025:

1. A unified and standardized EU charging payment system is needed;
2. The Energy Performance of Buildings Directive (EPBD) should be more ambitious and include a binding charging infrastructure regulation, at least 2 times what is currently proposed for residential buildings and a higher charging point density along freeways (from 60 km to 40 km);
3. The Slovak Ministry of Finance should update the excise duty and vehicle taxation based on tail pipe emissions;

4. CEE vehicle subsidy schemes should target second hand electric vehicle purchases becoming available from first mover countries like Norway, the Netherlands and Germany;
5. Most new vehicle purchases in CEE are for company fleets where it is easier to impose stricter emission standards and support the rollout of charging points in cities.

Shaping the CEE Clean Energy Platform

This platform was launched with the support of the Offices of the Presidents from Croatia and Slovakia at last year's Tatra Summit. After several consultations, it was agreed the platform will aim to boost regional public-private cooperation on clean energy projects, aligning the key sectors: energy, transport, and buildings. Within the energy sector, the focus will be on cross-border infrastructure, energy transition and (smart) grid modernization. The transport sector will concentrate on improving the battery value chains and charging infrastructure across the CEE region. The buildings sector will further focus on energy efficiency, renewable energy sources, EPBD, and overcoming energy poverty. The finance sector will also be involved to leverage and fast-track the required changes to reach the specific CEE 2030 and 2050 energy and climate targets.

GLOBSEC Tatra Summit 2021: Main Sessions Summary

Forged in Crisis: European Economy Rebuilt Better

The COVID-19 pandemic presents Europe with a great opportunity to rebuild better: greener, smarter, and more sustainable. Panelists have shared their optimism about the future, emanating from Europe coming together and **generating needs-based solutions with unprecedented speed**, be it the Next Generation EU instrument, the coordinated monetary-fiscal response, or the unprecedented development of vaccines. Banks entered the pandemic-induced crisis in a much sounder position than during the previous crisis, owing to significant progress in strengthening global financial regulations in the 2008-2009 Great Recession's aftermath. The urgency to act eradicated a lot of the political difficulties and discomfort that accompanies such solutions in 'normal' times. As a result, **robust recovery of the global economy is underway**: economic growth has picked up, and the OECD and other international organizations have repeatedly revised their real growth projections upwards.



The crisis has accelerated the thinking on a shared vision for Europe, as set out in the Next Generation EU recovery plan. But **execution and implementation remain the biggest downside risks** ahead. We should use the momentum created by the successes in fighting the pandemic for powering ahead on green and digital agendas. In doing so, we (1) must **stay focused on the long-term** as we have seen how short-termism can undermine economic resilience and shared economic prosperity; and (2) **forge and maintain globally coordinated and comprehensive approach**. A prime example would be the recent reform of international tax arrangements

led by the OECD, which strives for fairer and more effective taxation in the face of digitalization and globalization.

We need a **similar level of ambition** and comprehensive approach **to fighting climate change and reducing carbon emissions globally**. We cannot have the approach of merely shifting things around - our response must be coordinated to ensure all countries and their citizens carry a proportional burden on the road towards global net zero. **The dialogue and cooperation between key actors is essential** in laying down the standards and blueprints, such as the green taxonomy, across the board. More funding will need to be mobilized to achieve climate targets, which necessitates private investment. New funding should not come in the form of donations but funds that create sustainable value. Political support and broad public consensus are also key ingredients of success, forged by sparking conversations, increasing awareness, and making sure constituencies understand the urgency of the climate crisis challenge.

Tatra Chat: The Aftermath of German Elections

With Angela Merkel stepping down after sixteen years, German national elections have been closely watched across Europe. Throughout the Merkel years, the German government's mantra about its role in the EU was always to keep the union together. There have been crisis and tricky moments in Europe's history where **Merkel acted as the driving force bringing the Council together**. She was undeniably a leader in Europe and the role she played is irreplaceable.



Hence, it does not come with a surprise that no one wants to step into her shoes and that is for two reasons: 1, There is an increasing realization that **Germany plays a crucial role in the EU**, and without Germany the EU is unable to move forward. 2, It is not only about Germany but also about all the member states and increasingly about the European Parliament and European Commission coming into an agreement, which comes with a responsibility to please a lot of people. In general, **German leadership is very much wanted**. Nonetheless, when you speak about Germany history is never too far away. The leadership role that Europe is expecting from Germany will not be forthcoming any time soon. Germans are one of the many and are definitely a team player, however, to go beyond that and assume the leadership role will take couple of more generations to come.

Pulling it Together: The Quest for fiscal-monetary policy alignment?

The conceptual framework after the inflationary developments in the 70s and the 80s has been that monetary policy is to do the heavy lifting in terms of controlling the cycle, and fiscal policy will be relatively passive, and assume a role of an automatic stabilizer. In the past decade or so, the problem became **the constraint of the lower bound for monetary policy effectiveness, and the need for monetary policy to be conjoined by fiscal policy** to do its job. There is a broad consensus on the need of the two policies to work in tandem. The good news is that monetary policy has been successful despite being constrained by the lower bound. (To this end, the key metrics of effectiveness has been the ability of central banks to push interest rates below g ($r < g$) which allowed for fiscal response without having a bad debt dynamic.)



What has been the **most impressive about the COVID-19 crisis response was how quickly it was possible to find intellectual consensus**. Politically, drafting up the policy response and agreeing on it has been the easier bit of the crisis. The hard part lies ahead with difficult choices on the timing and extent of exit from monetary and fiscal support. **This opens up some big questions about the euro area**

architecture, including whether this complementarity at the lower bound calls for some sort of formal framework. On one hand, such a discussion may jeopardize central banks' independence and result in finding solutions for one specific type of a crisis but not for crises in general. On the other hand, shared fiscal capacity as the next step may be indispensable for the euro area in order to function better.

The Next Generation EU plan with its mutualized debt instrument has been duly acknowledged as a big breakthrough but labelled as 'just a seed' for preceding larger shifts in the EU architecture. Such shifts should include a fiscal rule reform to make EU fiscal rules simpler and more transparent, accompanied by a fair and functional enforcement mechanisms. A reform like this would also allow authorities to stay in their lanes and stick with their mandates.

The normalization of monetary policy should be driven by data. Current inflationary pressures are transitory, and a long-term view should be taken. **Monetary authorities have a lot of work ahead of themselves to fully understand the links between climate change**, inflation, price stability, and other variables, and to get a full grasp of the risks. **Monetary policy should not play a role in allocative efficiency**: it would mean opening a Pandora's box and broadening a mandate of monetary policy too much - if monetary policy is to stimulate green transition and combat climate change, then why should it also not forge innovation, help inclusion and diversity and other causes. The panel views the role of central banks in fighting climate change as merely marginal – it is a prime mandate of democratically elected governments.

Strategic Transformation of CEE-Economy: A K-shaped Recovery?

The crisis did not ensue from an economic shock (sovereign debt or financial shock) in its origins. Governments reacted much better this time, learning from their past mistakes, than in response to the financial crisis ten years ago. Among the portfolio of fiscal measures introduced, one of **the most successful measures in fighting the COVID-19 pandemic fallouts in Slovakia has been Kurzarbeit (short-time work scheme) coupled with bank loan guarantee schemes and liquidity injections** across the region of Central and Eastern Europe (CEE). The former has mitigated losses on the employment side and the latter worked very efficiently as a liquidity booster. One of the metrics used to evaluate the effectiveness of these measures was corporate tax revenue, which decreased only marginally from 2019 to 2020. Naturally, **the losses were not distributed evenly across sectors** with tourism, services, and culture sectors suffering disproportionately with app. 40% tax revenue loss. However, on a macro-economic level, the response to the crisis has been a success and speed was of the essence. **The pandemic has accelerated pre-existing megatrends**, such as climate change, energy transition, digitalization – including manufacturing processes, tech competition between global superpowers, and the need for a highly skilled and educated workforce. In addition, the strategy will overrule profits economic logic looking ahead. Those firms, industries, and countries that can understand this dynamic and adjust their business models to it will reap the benefits and end up at the upper side of the ‘K’.



The CEE region could build on its core competency in the automotive industry and benefit from the green mobility transition by establishing battery alliances and similar ventures. **“Everything-digital” are definitive winners from the pandemic and in the “K-shaped” recovery dynamic.** The digital payment infrastructure has become the most important element in conducting business during the pandemic and beyond, and private sector leaders prioritized accessibility in that regard, especially for small and

medium-sized enterprises (SMEs). The pandemic underscored both the scope and the need for public-private partnerships, since the resilience provided by digital infrastructure is also a public interest, and so is data generated to assess consumer behavior. New areas of cooperation opened up in sectors such as sustainability.

Going forward, policymakers need to resolve what to do with the high amount of debt taken out in a very low-interest rate environment. The transitory inflationary pressures are frequent after such crises, but the question is whether inflation will remain. If so, many central banks of the world are trapped in a dilemma whether they should increase interest rates as that would be in line with their price stability mandate but if they do so, they may bankrupt their governments. **Secondly, there is an emerging scope to start rolling some of the fiscal support back in a selective fashion, to prevent zombification of our economies.** The remaining support should not be over-compensating the need for firms to adjust to the accelerated structural changes. This means shifting the focus of the policy support from compensating business losses to help businesses undergo the necessary structural changes, especially for SMEs. This support should not be emanating from public resources (financial or others) as there are private sector leaders happy to participate in the robust change ahead in the spirit of “do well by doing good”.

Supercharging the Recovery in CEE: Towards the Danube Tech Valley

The Danube Tech Valley (DTV) is an initiative launched by GLOBSEC and supported by the Austrian and Slovak governments to make the CEE region more innovative. It has been launched at an important juncture for policymaking as the pandemic presents a unique historical opportunity for CEE to transform its growth paradigm into greater prosperity, sustainability, productivity, higher quality of life, better jobs, and to morph the region into a source of talent and innovation. **Resting on the idea that such aim should not be limited by fragmented national policy landscape or small market size, the initiative aims to drive regional economic development and upgrade the region’s standing in Europe** and the global stage through creating a regional innovation ecosystem along the Danube-river. This will be achieved through regional policy coordination and cooperation between all actors, namely, policymakers (P to P), policymakers and business (P to B), and between businesses (B to B). The initiative aims to create a network of institutions, universities, innovators, accelerators, and incubators to achieve these goals.

Against this backdrop, the panel expressed broad consensus that education and talent pools are the most important fundamentals to unleash innovation. Countries that invest in this arena set themselves up for success. Focus on this aspect translates into initiatives aimed at talent, skills and capacity building at home, attracting talent from abroad, as well as retaining talent in the region. Joining forces to achieve this makes sense as the European and global marketplaces represent significant competitors. Reaching critical size is important which makes regional cooperation crucial to ensure international success.



The DTV aims to create an environment of open collaboration and risk-sharing to structure investments in the right way. Public grants from the EU will not suffice to fund the green and digital transitions. **There is a huge scope for regional collaboration on research and development. The Slovak government has passed hundreds of small, concrete solutions in the last few years to improve the business environment in the Slovak Republic.** The potential harmonization of rules under the DTV should not jeopardize individual competitiveness of each country. Any agreements should create pro-business incentives and enabling policy conditions. But there is a big market failure in the region when it comes to innovation and entrepreneurship support alone will not resolve this failure without active industrial and innovation policy and serious public commitment.

Getting the Just Transition Right for the European Green Deal



Just transition alludes to the idea of leaving no country, region or sector behind in common goals, including the European Green Deal regulatory mechanism. This mechanism represents **financial means that have been developed to facilitate an inclusive transition with the purpose to move away from carbon-intensive sectors and regions.** It is essential to focus on dedicated public-private funding schemes to **make the necessary green transition happen and to ensure it is equitable** while making sure it is aligned with the EU Taxonomy to prevent greenwashing. This entails **inclusive investments in the energy sector** such as renewable energy sources, the **construction sector with renovation of residential buildings**, the **automotive sector with new green infrastructure**, as well as instruments such as **funding for SMEs and upskilling to create new job opportunities.** It is vital to utilize advisory capacity and to develop long-term, economically viable, and socially inclusive plans for sectors and regions affected by the green transition.

Getting Road and Rail Ready for the Mobility of Tomorrow



Although **improving electric mobility is key to achieve the 2030 and 2050 climate targets**, there is a risk of developing a two-speed Europe with divisions between North and South and East and West. Although electric vehicles (EVs) are getting more affordable, **lower purchasing power, poor**

road infrastructure, and less charging stations in the CEE hamper its full European market potential. 85 % of EU's EVs are sold in Northern and Western Europe and this is where 75 % of the current 230 000 charging points are located. At the EU level, an ambitious EU Alternative Fuel Infrastructure Regulation would advance the Fit for 55 goals. In the CEE region, focus on infrastructure, including ensuring reliable roads and resilient electricity grids, needs to be the priority and the European Investment Bank is ready to support this.

Recouping Europe's Competitiveness: A New Chapter in International Supply?

There are several key developments driving the need to restructure our economies, including the quest for ecology, geopolitical rivalry and international politics, demographics, and the growth paradigm driven by debt. The pandemic has accelerated pre-existing megatrends and the need for economic policies to react to changing circumstances. The European economy is marked by a lack of flexible economic mechanisms in both labor and product markets. The resulting Schumpeterian creative destruction should then unleash the necessary qualitative changes needed to keep up with these megatrends.



It is astonishing how little support innovation gets in the CEE region from the public sphere, especially when it comes to funding. The whole economic model of CEE has been built upon cost efficiency which is reflected in the region's thinking on innovation and associated support. Weak rule of law and legacy emanating from the past do not help. Both formal and informal rules are changing slowly. Tax incentives have previously lured foreign investors, but they do not build economies from bottom-up, creating ecosystems to attract and retain talent, for the talent to put down roots on the promise of dynamically evolving economies and the promise of good lives, and ultimately building higher-value add core competencies. As members of the EU, the CEE region needs to make most of labor mobility to attract talent but should be mindful that industry can also be flexible and can move from countries where

it lacks skill and a level of quality of education. These are fundamentals for the next generation of CEE economy that cannot be bypassed and will not be fixed through simply 'throwing money at the problem', i.e., EU funds partly due to the associated bureaucracy and partly due to the need to mobilize private and public investment. and set up a one-stop-shop. Inclusion of women, including in the top managerial positions, is also necessary for helping the region to economically rise up to the next level.

Democracies & Disorder in the New Geopolitics: How to uphold the West



Liberal democracy provides necessary individual freedoms without which there would be no jobs, no opportunities, no growth, and no prosperity. Even though open liberal democracies are in the best position to tackle the post-pandemic adversity and challenges, the international liberal order is being questioned by opponents of the values entrenched in the current system. However, the criticism of liberal democracy and its values is not only coming from the external opposition, but it is also coming from within. If Europe fails to safeguard a proper cooperation with its liberal democratic partners, it will risk a considerable fragmentation into the American West and European West, which would reinforce the already existing external challenges to the values of liberal international order. Democracy is hard work and countries must be willing to put in the necessary work, including efforts to regain the trust of citizens in government institutions. Additionally, special focus must be paid to disinformation campaigns targeting Western democracies. Social media conglomerates, such as Google and Facebook, cannot be fully responsible for combatting disinformation. The solution on how to duly tackle disinformation must be found through enhanced cooperation and mutual effort of social media platforms and governments working together.

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Focus Groups Summary:

Focus Group: From the European Green Deal to Advancing Innovative Central European Building Practices



For public buildings, the Ministry of Transport and Construction can lead inter-ministerial coordination to drive ambition and standards and ministries can outsource implementation to professional agencies or establish an in-house agency. With private/residential housing, the process must be de-centralized and focus on regional / municipality engagement for development, education, and ownership through one-stop shops.

Focus Group: Harnessing Disruption to Address Innovation, Digitalization and Skill Gaps in the CEE-region



Key takeaways from the focus group entitled “Harnessing Disruption to Address Innovation, Digitalization and Skill Gaps in CEE”, which was also a carrying flagship side discussion of the GLOBSEC Tatra Summit Insight Report 2021, rest on the premise that upskilling, digitalization of SMEs and innovation are key ingredients and the ultimate enablers of a new growth paradigm in CEE, that’s cleaner, smarter, more sustainable, brings better quality jobs, growth

that’s more inclusive, in this way forges new social and economic contracts. Discussants shared their Covid19 experience that put their business models on trial, and forced them to digitize, innovate and rethink the status quo, ultimately forging a quantum leap forward for their business and fueling business expansion. Policymakers and business leaders reached a broad agreement this may be a new era for public-private cooperation, given the scale of the challenges ahead. Top-down education reform is always system’s best bet, but in its absence, private sector-driven initiatives may effectively fill in the void. This is also a policy opportunity for cross-border regional cooperation in selected strategic areas, for example, infrastructure for the mobility of tomorrow and founding an innovation ecosystem. The recovery fund money can be pooled to anchor the financing of such projects.

Focus Group: Energy Transition Taskforce Roundtable: The 2030 Roadmap for Central European Power Grid Investment and Integration



A key sentiment coming out of the discussion was to not let a good crisis go to waste - the EU energy price hike is the result of a perfect storm of circumstances rooted in global natural gas market dynamics. However, it can serve as a driving force for much needed energy efficiency and renewable energy investments to reduce our dependency on fossil fuels. Fundamentally, the focus of the energy transition needs to move from low carbon energy production to modernization of the grid through flexibility and storage to efficiently integrating intermittent renewable sources and meeting the growing demand from the electrification of buildings and transport.

Focus Group: Shifting of Consumers’ Lifestyle Choices Towards Better Outcomes through Effective Regulation

Three policies are the most likely to succeed in decreasing the rate and intensity of smoking in Slovakia. Firstly, policies directed to incentivize the switch of consumption towards reduced-risk products (RRPs). Such a policy could be a differential taxation based on products ‘risk-profile. Secondly, a ban on smoking in public places and around children and thirdly, a community-based approach in prevention and education.



Public health measures and policies are effective tools to improve those variables that determine health. Among them individual risk and behavioral factors (dietary factors, smoking, alcohol). Differential taxation can nudge consumers towards the consumption of better products, improving health outcomes. An evidence-based approach is fundamental in order to make the correct policy decisions, hence to improve the policy outcomes. Data-driven policy is the only, realistic, way to reduce damages and improve the health levels of the population.

Focus Group: The Future of European Strategic Autonomy in a Changing Geopolitical Environment



European Union’s strategic autonomy should be complementary and supportive towards innovation, diversification, smart industries, competitiveness, open economy, and cooperation. The business

community is in support of free market, free trade, globalisation, and worldwide competitiveness. But to achieve strategic autonomy, European Union and its member states need to stand together when facing current and future challenges.

Strategic autonomy should not be perceived as a binary choice of having strategic autonomy or not. Instead, it should be viewed as a spectrum between several different strategic partners. Europe needs to introduce and support strong industrial strategies, market initiatives, open trade strategies and cooperation, not only among member states but also when it comes to trade agreements with third parties. Europe is facing many challenges, such as migration, the Covid-19 pandemic, terrorism, and others, which need to be tackled through cooperation and introduction of the right policies, including an enhanced political will and focus on strategic autonomy. Europe needs to become more resilient, especially towards other possible future crises, as well as strengthen its attractiveness for its strategic partners globally.

Focus Group: A Regional Approach to Central European Charging Corridors and Circularity



While acknowledging CEE charging infrastructure is lagging behind, especially in commercial and residential areas, the underlying issue for the region is lower purchasing power when compared to the West. This means that people cannot afford to buy new vehicles, whether they be combustion engine vehicles or their greener alternatives. Therefore, the diesel leakage - the flow of combustion vehicles from West to East must be addressed through environmentally aligned vehicle registration and taxation policies. Governments should also consider subsidizing the purchase of second-hand electric vehicles from early adopters.

Focus Group: Fintech and Digital Currencies: Three Forces Competing



Despite recent bad publicity and scams emerging from cryptocurrencies, it is undeniable that blockchain technology will continue to transform the financial industry. However, there is a pressing need for global regulations around digital assets in order to 1) insure consumer protection against the high volatility of cryptocurrency speculative markets, 2) create a level playing field for a competitive market and 3) enhance security and transparency to combat financial crime. Ultimately, fintech companies play a pivotal role in financial inclusion, creating new sets of financial products for underserved and unbanked communities. But there is a right balance to strike between speed and systemic risk mitigation in order to support innovation in financial services.

Focus Group: Win-Win: How Wo(men) can benefit Central and Eastern Europe in the post-COVID19 recovery



In recent years there has been an increase in talks on gender equality globally, but there is now a crucial need for implementation and action. First, there is a significant economic benefit from the inclusion of women in the workforce. While quotas to create positions for women in various sectors and at various levels of leadership have been controversial, they are necessary to create space for women in the workforce that they deserve. Second, diversity in leadership teams has proven to have immeasurable added value for companies and has shown to

be beneficial for individuals too. Third, more women represented in government and public sector positions creates more trust in government among citizens – a benefit that can be felt nationally, regionally, and globally. Lastly, the need for mentorship and sponsorship of young women by current industry leaders, both female and male, is as necessary as ever and will only make a positive difference in future. Change towards creating gender balance in the workplace is no easy feat. It is important to remember that these challenges facing women will not disappear in a generation or two, it will take decades of hard work to create a fairer working environment for all.

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