



Research Findings

Eastern Europeans Relieve the Tight German Labour Market

Supplement: M&A Report

Have M&A Deals Become Greener?

Opinion

Lessons from the Russia Trap

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War in Ukraine Likely to Trigger Migration Wave from Russia to Germany

More than 5.9 million Ukrainians have fled the country since the start of the war. As a result of the invasion, more and more people are also fleeing from Russia. Reasons for this range from the restricted freedom of expression, fear of political persecution or being drafted into military service, to poor economic prospects following the unprecedented level of sanctions on Russia.

The difference between the Russian migrants currently emigrating to neighbouring countries and the refugees from Ukraine is that the Russian emigration group is better educated than average. This group includes, for example, specialised workers from the IT sector and other creative industries.

Past economic ties between Germany and Russia and the presence of Russian diaspora in Germany such as represented

by ethnic German immigrants (so-called “Spätaussiedler”) will likely contribute to the desire of some Russians to move to Germany in the medium to long run. The researchers’ recommendation to policymakers is therefore to develop an appropriate strategy for dealing with immigrants from Russia. After all, political and fairness considerations suggest that people in fear of political persecution should be welcome in Germany. In order to design smart policies, it is important to take strategic arguments into account, to specifically adapt immigration policies to Russian immigrants and to maintain sufficient capacities for dealing with Russian immigrants in the future.

If more people from Russia migrate to Germany in the future, it can be assumed that they will roughly follow the existing ethnic networks. At the end of 2020, a total of 263,305 Russian citi-

zens were registered in Germany. Russian nationals are currently mainly located in large cities such as Berlin, Hamburg and Munich, with the highest population shares in Baden-Baden (1.7 per cent), Bayreuth (1.1 per cent), and Schweinfurt (0.9 per cent). In contrast, the number of ethnic German immigrants is larger and somewhat more evenly distributed throughout Germany, albeit concentrated in the states of North Rhine-Westphalia and Baden-Württemberg.

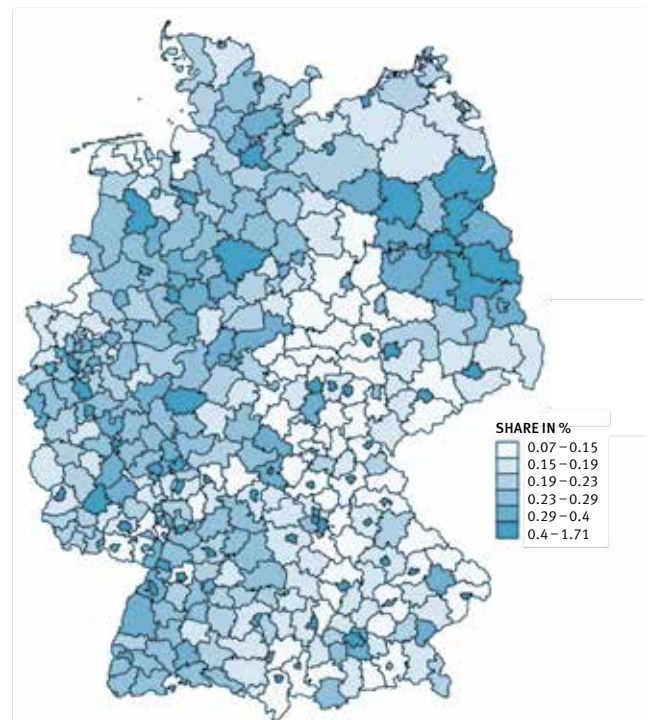
Due to the current flight and other travel restrictions, Germany has not yet experienced an immediate wave of Russian migration. But examples from countries that are geographically and culturally closer to Russia are indicative of what can be expected in Germany in the medium term.

Although no official estimates are yet available, there are indications that the number of Russian immigrants to former Soviet countries in the Caucasus and Central Asia, as well as Turkey, is currently rising rapidly. Armenia, for example, is estimated to have taken in up to 75,000 people from Russia in the first three weeks of the war alone, which is equivalent to 2.5 per cent of its population. The number of daily flights between the capital Yerevan and various destinations in Russia is reported to have quadrupled compared to pre-war levels, while local prices for rental housing and office space are skyrocketing in the face of the demand shock.

The ZEW expert brief can be downloaded (in German only) at: www.zew.de/PU83292-1

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SHARE OF RUSSIAN NATIONALS IN THE POPULATION (31.12.2020)



Notes: The following districts were combined because they are only processed by one foreigners authority and therefore cannot be presented separately: Kassel city and the district of Kassel, all districts in Saarland, Cottbus and the district of Spree-Neiße.
Source: Federal Statistical Office, GENESIS-Online, Table 12521-0041, own presentation.

Eastern European Migrants Help Relieve the Tight German Labour Market

Germany heavily depends on workers from other EU countries. As a result of the EU's free movement of workers, the number of immigrant workers has more than quadrupled since 2011: in 2020, 1.3 million Eastern Europeans were working in Germany subject to social security contributions. Mainly, they worked in the postal and warehousing sectors, as drivers and in cleaning. Most of them pay into the German social security system, while employment as mini-jobbers and postings play a minor role among Eastern Europeans.

A recent expert brief by ZEW has looked at the consequences of the free movement of workers from Central and Eastern Europe for the German labour market. From 2000 to 2010, the share of foreign employees subject to social security contributions remained relatively constant at around 6.5 per cent. Since the free movement of workers from the new EU Member States came into effect in 2011, there has been a strong increase in the number of Eastern Europeans taking up employment in Germany that

is subject to social security contributions. The share of foreign employees subject to social security contributions grew to 12.9 per cent in 2020. On average, just under 107,000 people from the so-called EU-8 and EU-2 countries came to Germany each year. These are Poland, Estonia, Latvia, Lithuania, Slovakia, Slovenia, the Czech Republic and Hungary (EU-8), plus Romania and Bulgaria (EU-2). Overall, more and more Eastern Europeans came to Germany after the EU eastward enlargements.

Most Eastern European employees pay into the German social security system

The employment growth is strongly driven by employees from Eastern Europe who are subject to full social security contributions, and not by mini-jobbers. Eastern Europeans therefore pay into the German social security system and acquire corresponding entitlements, although these may be very small. Other forms of employment such as postings, marginal employment

and self-employment have stagnated at a significantly lower level for years. The share of mini-jobbers fell from almost a quarter to only eight per cent (EU-8) and nine per cent (EU-2) – corresponding to around 90,000 employees – in recent years. For the EU-8 countries, postings are the second most important form of employment, which has levelled off at around 250,000 postings since 2011.

Eastern Europeans work disproportionately often in occupational fields with shortages of skilled workers

A look at the occupational fields in which Eastern Europeans are currently employed also confirms this finding: the employment of EU-8 and EU-2 nationals is highest in the postal and warehousing industry (170,000). This is followed by occupations as drivers in road transport (107,000), as well as in cleaning (102,000). The largest share of Eastern Europeans in an occupational field is in cleaning (36 per cent), food and beverage production (33 per cent), and building construction (32 per cent).

Such occupations in particular are characterised by low requirements for language skills or other non-routine interactive tasks. Many of the employees from the EU-8 and EU-2 work as skilled workers (“Fachkräfte”), but below their qualification

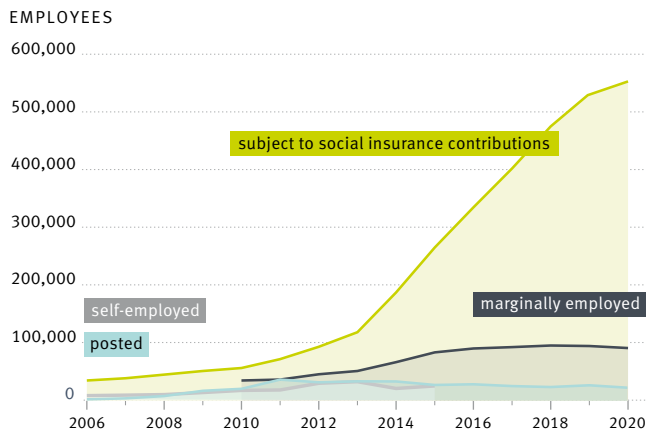
level. For the future, it is therefore necessary to make even better use of immigrants’ skills than before. Therefore, political efforts should aim at opening up appropriate career paths.

In addition, compared to Germans, employees from the new EU countries work disproportionately often in occupational fields where there are shortages of skilled workers, which is why they tend to contribute to relieving the tight German labour market. According to the analysis, six of the top 15 occupational fields in which Eastern Europeans are most frequently employed lack skilled workers. These include nursing and geriatric care, metal construction and agriculture. 43 per cent of EU employees work in occupations with skilled labour shortages, while this is only true for about 32 per cent of Germans. Overall, however, immigration to date has not been sufficient to compensate for the existing shortages of skilled workers and those expected in the future. Whether other migrant groups, such as asylum seekers or the recent influx of Ukrainian refugees, will be able to contribute to eliminating the shortages in the occupations mentioned is still unclear.

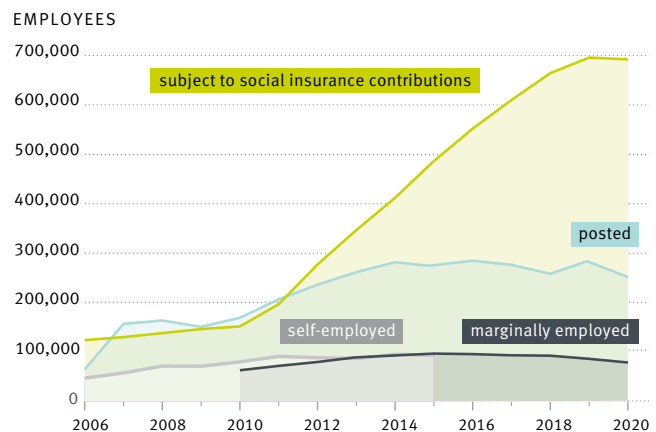
The ZEW expert brief is available to download (in German only) at: www.zew.de/PU83319-1

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TYPES OF EMPLOYMENT: EU-2



TYPES OF EMPLOYMENT: EU-8



SOURCE: Postings: European Commission – HIVA Research Institute for Work and Society, University of Leuven (KU Leuven) for the years from 2012 onwards, and Wagner & Hassel (2015) for the data before 2012. Low-income workers and workers subject to social insurance contributions: Federal Employment Agency for the years from 2010 onwards, Wagner & Hassel (2015) for the years before that. Self-employed: Microcensus (2006–2015), own calculations.

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Excessive Adherence to Crisis Policies Fosters Zombification of the Economy

As the COVID-19 crisis slowly abates, the EU Member States are now confronted with a new economic crisis as a result of the war in Ukraine. The rapid succession of crises reinforces the need to respond with highly targeted and temporary aid measures to avoid wasting public resources and preserve fiscal buffers.

Against this background, a new study by ZEW Mannheim for the European Parliament has examined which Member States have pursued insufficiently targeted policy measures to cushion the pandemic crisis over the past two years and have remained in crisis mode for too long despite economic recovery. Italy, France and Greece in particular have been too slow in scaling down their aid measures. In the case of Germany, the study criticises in particular that the government has adhered to the very generous short-time work rules for too long.

Vigorous fiscal responses in Europe in 2020 was appropriate

The study stresses that the vigorous fiscal response at the beginning of the pandemic in 2020 was in principle appropriate. However, when comparing the size of the initial aid packages between EU states, it becomes clear that some of them may have been excessive: The scale of support was exceptionally high in Greece, Italy and Germany. This is also true if you put the size of the aid in relation to the severity of the coronavirus-induced recession.

The study argues that two years after the outbreak of the pandemic, the undifferentiated massive aid is no longer appropriate. Based on the experience gained in coping with the pandemic, it is possible to scale back support measures even in recurrent pandemic waves. The analysis also makes clear that several business models will no longer be viable in the 'new normal'. According to the study author, it does not make sense to support companies for years when their business model has become obsolete due to the permanent changes brought about by the pandemic. The survival of non-viable firms as a result of government subsidies or artificially low interest rates leads to so-called

"zombification" of the economy. As a consequence, the survival of zombie firms prevents an efficient reallocation of labour, entrepreneurs and capital and is likely to reduce the growth potential of an economy.

The analysis quantifies the planned normalisation of public budgets by 2023 and shows that the corrective measures in Italy, France and Greece have been particularly slow. Eastern European states such as Estonia, on the other hand, are characterised by a distinctly quick exit from all crisis measures and can thus avoid an unnecessary build-up of public debt. They are therefore much better prepared than others to cope with the new crisis situation.

Short-time work scheme in Germany: False incentives and hindrance of structural change as a consequence

The ZEW study also compares the characteristics of credit and short-time work programmes in the pandemic. In the case of government loan guarantees, Spain has a particularly promising strategy because banks there bear a larger share of the default risk, which creates incentives for them to test the viability of business models.

In terms of short-time work schemes, the schemes differ across countries in terms of precautions taken to avoid zombification risks. Germany stands out negatively because there is a trade-off between protecting businesses and creating false long-term incentives. Unlike in all other EU Member States, in Germany the wage replacement rate increases with the duration of short-time work. This is likely to lead to far-reaching disincentives and obstacles to structural change.

This European comparison provides another important argument to critically question the further extension of the maximum use of short-time work to 28 months recently decided by the German government.

The study is available to download at: [https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/689476/IPOL_IDA\(2022\)689476_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/689476/IPOL_IDA(2022)689476_EN.pdf)

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M & A REPORT

Mergers and Acquisitions in Germany Start off Rather Cautiously in 2022

The ZEW-ZEPHYR M&A Index, established in 2005 to measure mergers and acquisitions (M&A) involving German companies, recorded the weakest start to the year since its introduction in 2022. M&A activity usually peaks in January. This year, however, the index stands at only 87 points at the beginning of the year, while in the last 16 years the average value for January was 131 points.

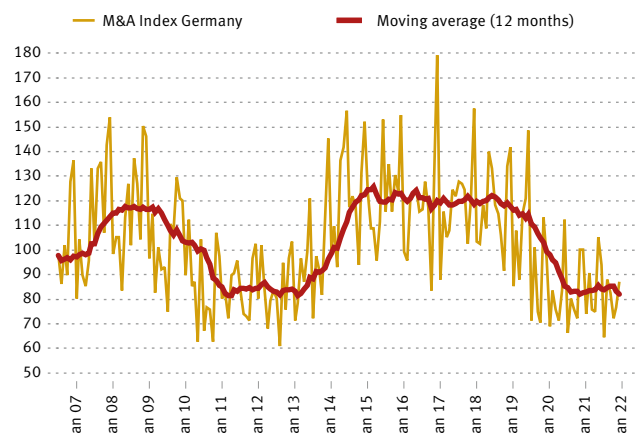
The past three years have been very turbulent for German companies and the start of this year does not suggest any improvement. The German elections should have provided more economic clarity, but the build-up of Russian troops on the Ukrainian border since November and the war have led to more uncertainty in the business landscape and a reluctance to make costly acquisitions. Taking the development of the index in the past as a basis for forecasts for the future, it will take some time

before an increase in mergers and acquisitions involving German companies can be seen again.

One of the most notable deals in the last six months involving a German firm was the takeover of the German automotive parts supplier Hella by its French competitor Fuarecia. The transaction was completed on 31 January, with Fuarecia acquiring Hella for four billion euros. Forvia, the company created by the merger, is now the fourth largest automotive parts supplier in Europe and the seventh largest in the world. Another high-profile deal was the acquisition of Allnex – a German manufacturer of industrial paints and coating materials – by PPT Global Chemical, a petrochemical company based in Thailand, for four billion euros as well. The acquisition was completed on 30 December. Both deals were announced in the summer of 2021.

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ZEW-ZEPHYR M&A INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

The **ZEW-ZEPHYR M&A Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over 1.9 million mergers and acquisitions, IPOs, and private equity transactions around the world.



BUREAU VAN DIJK
A Moody's Analytics Company

Have Mergers and Acquisitions Become Greener in the Past Decade?

Climate change is one of the key challenges of the 21st century and beyond. Over the last decade, people have become more aware of the perils of climate change, and movements such as Fridays for Future have emerged. In politics, too, climate issues are now high on the agenda, and green parties are experiencing a rise in popularity. For example, the German green party 'Bündnis 90/Die Grünen' are one of the coalition parties forming in the current federal government, having won the third most votes in last autumn's federal election. There is also a discernible trend in business towards more environmentally friendly technologies. An important question is whether this trend has also reached M&A deals.

To answer this question, it is worthwhile to look at the M&A rationales, i.e. the reasons that the companies involved in a merger or acquisition give for their transactions. This way, it is possible to see from their perspective why a takeover is advantageous for themselves and for society.

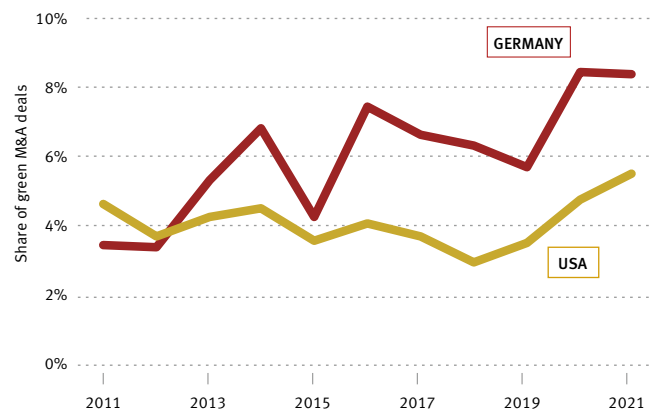
The number of deals in which 'green' keywords – such as 'sustainability' or 'renewable' – are mentioned in connection with a merger or acquisition has indeed increased in Germany and the USA over the last ten years. In Germany, only 3.5 per cent of the justifications for a merger or acquisition contained at least one green keyword in 2011; by 2021, this share had more than doubled, rising to 8.4 per cent. In the US, the share of green mergers and acquisitions did not grow quite as strongly. Between 2011 and 2021, the share increased from 4.6 to 5.5

per cent and actually declined by 2019. However, in both countries, the rise in the share of green M&A deals was particularly strong in the last two years.

It remains to be analysed whether this trend towards green M&A rationales is driven by companies that are actually concerned about sustainability or whether it is a case of greenwashing, i.e. an attempt to present themselves as environmentally conscious in order to improve their corporate image.

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SHARE OF GREEN M&A DEALS



Source: ZEW

M&A Transactions in the Utilities Sector – Are There Signs of a Trend Reversal?

Even before the start of the COVID-19 pandemic, the transaction volume in the electricity, gas and water supply sector in the European Union had decreased significantly. This trend has continued, especially in 2020 and 2021. In these two years, the number of acquisitions of companies from the utilities sector reached its lowest level in the last ten years.

Electricity supply sector suffers greatest pandemic-related losses

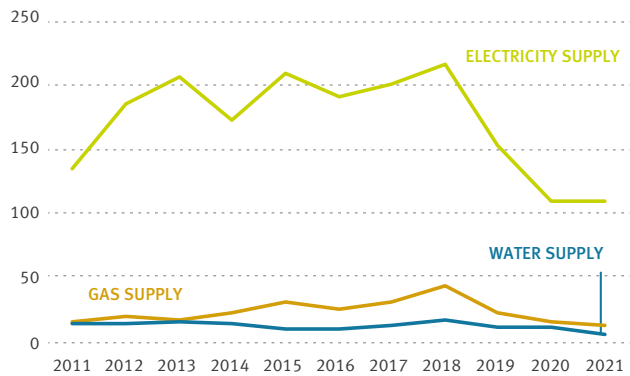
As in previous years, the electricity supply sector continues to record the largest number of takeovers. At the same time, this sector has also seen the heaviest losses as a result of the coronavirus pandemic.

The number of takeovers in the gas supply sector essentially follows a similar trend as in the electricity sector. Here, too, a significant decline can be observed in the years following a peak in transactions in 2018. The development of takeovers in the water supply sector, on the other hand, is somewhat different. Over the course of the years 2011 to 2021, it has remained at a relatively low but constant level.

However, the first signs of a reversal of this negative trend in the number of company takeovers in the utilities sector can be seen when looking at the development in industries that are closely related to this sector. For example, electricity, gas and water supply in particular are also infrastructure-intensive activities in which many other companies are involved, such as engineering firms or construction companies.



NUMBER OF COMPANY ACQUISITIONS IN THE UTILITIES SECTOR



Number of company acquisitions in the electricity, gas and water supply sectors in the years 2011 to 2021. The number of acquired companies within the European Union is considered and classified by sector. Some companies are active in several supply sectors. The sample encompasses a total of 2,281 acquisitions. Source: ZEW

Looking at the development of the number of company takeovers in engineering and planning offices linked to the utilities and energy sector, underground line construction and other utility-related services, 2021 shows a clear increase again for the first time.

Increase in takeovers in utilities-related industries

In the years before, the development in these sectors had essentially followed the trends generally prevailing in the utilities sector. However, it remains to be seen to what extent this renewed increase in takeover activity in the utility-related sectors of the economy will also herald a general trend reversal for the utilities and energy sector.

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Iron Curtain in M&A Activities Between Eastern and Western Europe

Since the collapse of the Soviet Union and the fall of the Iron Curtain 30 years ago, Eastern European countries have been striving to integrate into Western economies. Although they have made progress and some Eastern European countries are now members of the European Union, they still have a lot of catching up to do, as GDP in Western Europe is more than twice that in the East. They also lag behind in terms of mergers and acquisitions: companies based in Eastern Europe almost exclusively acquire Eastern European firms.

An analysis of 176,215 M&A deals that took place in Europe between 2005 and 2021 shows that in less than one per cent of transactions involving a Western European target, the acquiring company was from Eastern Europe. This could be due to the economic disadvantage many companies in the former communist countries experience.

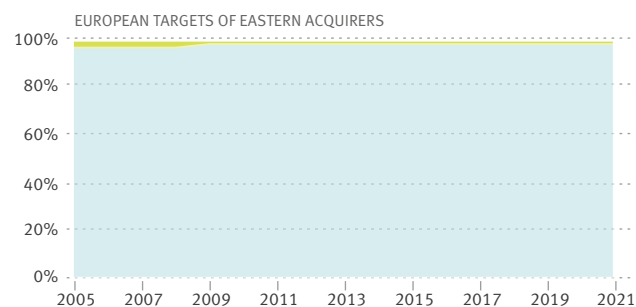
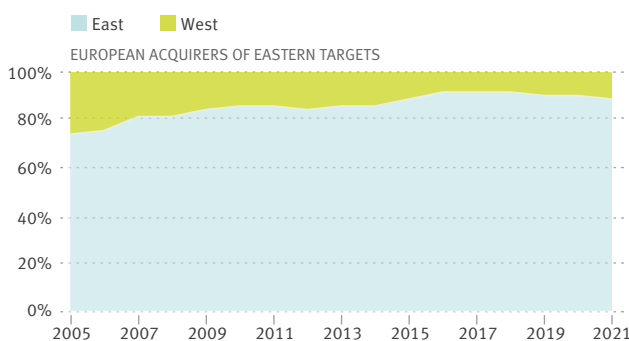
The picture is different for Eastern European target companies: at the beginning of the 2000s, the acquiring company came

from Western Europe in around 25 per cent of European M&A deals in which an Eastern European company was taken over. Until 2010, hopes were high that Eastern European countries would integrate economically and politically with the West; by 2007, eleven Eastern European countries had joined the EU. But since then, the share of intra-European deals with Western acquirers has gradually decreased to just eleven per cent in 2021. Following the events that took place in Ukraine in 2014, including the Maidan revolution, the start of the Donbas war and Russia's annexation of Crimea, the decline has accelerated.

This trend is probably the result of growing uncertainty about geopolitical developments in the region, especially with regard to Russian ambitions. Russia's attack on Ukraine took many companies by surprise, which could result in even less M&A activity between Western and Eastern Europe. The Iron Curtain may not have fallen completely after all.

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M&A ACTIVITIES BETWEEN EASTERN AND WESTERN EUROPEAN COMPANIES (2000 – 2021)



Source: ZEW



Photo: © Jürgen Fälchle/stock.adobe.com

To What Extent Do Natural Disasters Influence Climate Change Beliefs?

People who are convinced of the existence of man-made global warming are confirmed in their belief when a flood disaster occurs in their immediate vicinity. But does such an experience of a flood also convince climate change sceptics?

Public support for environmental policies depends crucially on citizens' beliefs regarding climate change. Individuals who are convinced of the existence of climate change are more likely to approve of climate policy measures than sceptics who do not believe in global warming. But how are these individual beliefs influenced by personal experience of a natural disaster that might be directly related to climate change? This question was examined in a recent ZEW analysis.

The study is based on the Socio-Ecological Panel (Green-SÖP), a data set that relies on surveys conducted jointly by the RWI – Leibniz Institute for Economic Research and the market research institute forsa in the years 2012 to 2015. The Socio-Ecological Panel contains data on 11,194 households whose geographical location and distance from the flood event were precisely determined. The survey participants were divided into two groups, according to whether they were already convinced of the existence of man-made climate change at the time before the flood or not. Undecided respondents were not considered. These data were combined with satellite images of the flood in May/June 2013.

Major flood event in 2013: Tens of thousands evacuated, billions in damages

The flood was triggered by extremely heavy rainfalls, and particularly affected regions along the Danube and Elbe rivers and their tributaries. The insured damage amounted to 1.8 billion dollars, while the total economic damage to households, businesses, and public infrastructure in Germany was estimated at 6.2 billion dollars. They mainly occurred in the federal states of Saxony, Saxony-Anhalt and Thuringia, but also in Baden-Württemberg and Bavaria. Approximately 600,000 people were af-

ected by this major flood event, about 80,000 had to be evacuated, and 14 people died.

The study looks at people who lived half a kilometre, one kilometre, two kilometres and five kilometres away from the flood. As described, the researchers distinguished between climate change sceptics and people who do not doubt climate change. Climate change sceptics were on average more likely to be male, less educated, more politically conservative, older and more likely to live in eastern Germany.

People convinced of the existence of climate change are confirmed in their belief

The ZEW study investigates whether the flood in 2013 influenced people of these two belief groups differently in their attitude towards climate change. It shows that both the distance to the flood and the prior belief regarding climate change played a role. Thus, the disaster had an effect especially on those people who lived less than one kilometre away and thus experienced the event in their immediate vicinity. This effect was different for the two groups of people, depending on their previous convictions. If the residents were already convinced of the existence of man-made climate change before the flood, they were confirmed in their attitude afterwards.

The climate change sceptics, on the other hand, were rather unimpressed by the floods in their immediate vicinity as far as their beliefs about climate change were concerned. Although a change of mind was observed among them as well, this was not related to their local flood experience.

In this respect, the results of the study illustrate that the occurrence of the flood in the immediate vicinity confirmed previously existing beliefs about the existence of climate change, but had no measurable effect on the views of climate change sceptics.

The study can be downloaded at: <https://www.sciencedirect.com/science/article/pii/S095937802200053X>

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Q&A: How Can Real Estate Provide for Old Age?

“The Market of Annuity Products Is Increasingly Growing in Germany”

Despite owning real estate, many people worry about their income in retirement. To solve this problem, various models for real estate annuitisation have come onto the market in recent years, including life annuity, the sale with usufruct and partial sale. In this interview, Dr. Karolin Kirschenmann sheds light on the different products and explains which people they are suitable for.

Who can benefit from annuitising their own real estate?

In principle, annuitisation of real estate is suitable for owners who do not want to or cannot pass on their house or flat to an heir, for example because they have no descendants or their children live abroad. Trying to avoid inheritance disputes could also be a motive. In addition, the products are particularly suitable for those who, despite owning a property, receive a comparatively small pension and want to maintain their standard of living in old age. This is particularly important given the growing pension gap that affects both current and future generations of pensioners.

In the past, households in Germany have mostly saved for a property with the aim of being able to live rent-free in old age. With property annuitisation, the new idea has come up that one might extract the money from the property itself. Generally speaking, the greater the value of the property and the older you are, the higher the monthly pension you can achieve through an annuity product.

The best-known products are the life annuity with a right to live in the property and the sale with usufruct. What’s the difference between these two?

With the classic life annuity, you sell your house to the life annuity provider and in return you receive either a lifetime annuity or a temporary annuity, depending on the agreement made. At the same time, the seller retains the right to live in the property rent-free, which is also entered in the land register. The right to live in the property usually expires as soon as you move out of it.

If you sell your real estate with usufruct, you receive the purchase price all at once and continue to be responsible for the maintenance of the property yourself. Furthermore, the usufruct only ends with the death of the seller. If the resident moves into a nursing home, for example, he or she can continue to rent out the property as a usufructuary and thus generate income – this is not possible in the case of life annuity with a right of residence.

What opportunities does a partial sale offer?

In a partial sale, senior citizens do not sell their whole property, but only up to half of it. This means that after the sale there will be a co-owner with whom they must agree all further decisions regarding the property. They may continue to use the entire property, but pay a usage fee to the co-owner for the part that no longer belongs to them. The partial sale is particularly

interesting for those who find it important to remain owners of their property.

In general, for all these products, you have to look at the conditions very carefully and consider what works best for you. How long do you want to stay in the property? Do you still want to worry about hiring tradesmen? How young or old are you? Are you still in good health or not? All these things are relevant factors, which is why it is very difficult to find and recommend a blanket solution.

How popular are the products on the German market?

In general, the number of sales is still rather low. One obstacle on the German market, for example, is that uniform product standards are currently still missing. This means that there is a lack of certain quality standards or characteristics that these products have to meet so that consumers have objective criteria to compare the different offers.

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Photo: © Anna Logue Fotografie

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Currently, there is no such regulation in the market. Minimum standards already exist in the United Kingdom, for example. In the UK, there is a larger market for such products, which is completely privately organised, but with corresponding regulatory support.

But what we do see is that the German market is growing more and more. This can also be seen in the increased advertising for these products. Against the background that the pension gap is likely to widen in the future and the fact that we will have to work longer, these products could become significantly more important for future generations of pensioners.

→ Find more about this topic at: www.zew.de/AM8153-1

#ZEWlive on the Economic Impact of the Ukraine War

This year, 8 May, Victory in Europe Day, celebrating the end of the Second World War, was more symbolic than ever. The Russian invasion of Ukraine triggered a serious humanitarian crisis. The consequences of the war are being felt around the world. But what impact does the war in Ukraine have on the economy? This was discussed by US Consul General Norman Thatcher Scharpf and ZEW President Professor Achim Wambach on 10 May 2022 as part of the digital event series #ZEWlive. The event was moderated by journalist Jessica Sturmberg.

Major geopolitical challenges lie ahead for the European and global economy. Policymakers will now need to reconsider notions of sovereignty, international cooperation and security of supply in their decision-making. The direct consequences of war are already being felt. The biggest problem is the dependence on Russian gas and oil supplies. While the United States has already imposed an import ban on Russian oil, Germany and many other countries are far more dependent on Russian supplies. The USA is therefore planning to support the G7 countries in phasing out Russian oil exports. “This will drive the Western economy’s shift away from dependence on Russian oil and gas and, in the long run, accelerate the transition to a green economy,” said U.S. Consul General Norman Thatcher Scharpf. According to ZEW President Achim Wambach, Germany is not yet sufficiently prepared for the consequences of an energy shortage,

so action must be taken quickly. Cooperation with other countries is therefore more important than ever. Both discussion partners emphasised that the war in Ukraine has strengthened cohesion in Europe. Only together can the challenges of the future be mastered. From an economic perspective, however, a paradigm shift is necessary, according to Wambach. Economics and foreign policy are closely intertwined and the new geopolitical framework conditions must be taken into account: “We do not yet have economic models to deal with these situations, so there is still a lot to do,” Achim Wambach concluded.



ZEW Conference on Ageing and Sustainable Finance

How do demographic change and climate change affect financial markets and their actors? In what ways do they influence financial decision-making, pensions, interest rates, and even the architecture and regulation of financial markets and institutions? To explore these questions, ZEW Mannheim organised a conference on “Ageing and Sustainable Finance” from 6 to 8 April 2022.

In addition to two keynote speeches by leading experts in sustainable finance and banking, the event featured presentations and discussions on 13 selected research papers by guests from more than ten different countries. Due to the ongoing COVID-19 pandemic, the conference was held in an online format.

In his keynote speech “Are investors willing to pay for sustainable investments?” Paul Smeets, professor of philanthropy and sustainable finance at Maastricht University in the Netherlands, summarised key findings from several of his studies and experiments on sustainable investment behaviour. In a survey conducted together with a Dutch pension fund, he showed that many investors in Europe do indeed have preferences for sustainable investments. This fact seems to be underestimated by pension fund boards. His work also documents a relatively low sensitivity of investors in Europe to higher fees on sustainable funds. As a caveat, he emphasised that the willingness to ac-

cept higher fees can be exploited by financial advisors – a finding that regulators should bear in mind.

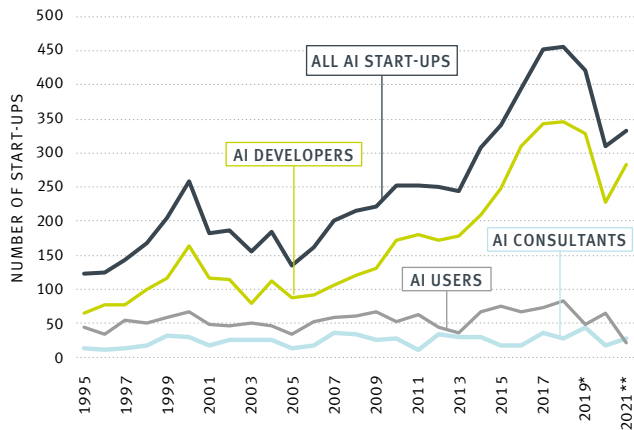
Professor Koen Schoors from Ghent University, Belgium, gave a second keynote on green central banking. He described and discussed various policies to increase the banking sector’s contribution to the transformation towards a greener economy. For instance, he highlighted that policies that only penalise climate-damaging brown assets without simultaneously reducing their profitability could be counter-productive. He also stressed the importance for central banks to take climate change into account when conducting their monetary policy due to its effects on price and financial stability.

In the course of the conference, researchers presented selected papers on sustainable household investment and consumption behaviour, ESG ratings, the role of reverse mortgages for old-age income, the effect of experiencing macro-economic shocks on savings decisions, as well as the consequences of demographic and climate change on different asset classes.

The conference provided an outstanding opportunity for guests to discuss the interconnection between two of the major long-term macroeconomic trends, demographic change and climate change, and to exchange ideas with interested researchers from all over the world.

AI Start-up Activity Experiences Veritable Boom

NUMBER OF AI START-UPS IN GERMANY 1995 – 2021 BY AI BUSINESS MODELS



The years 2014 to 2018 saw a veritable AI start-up boom.

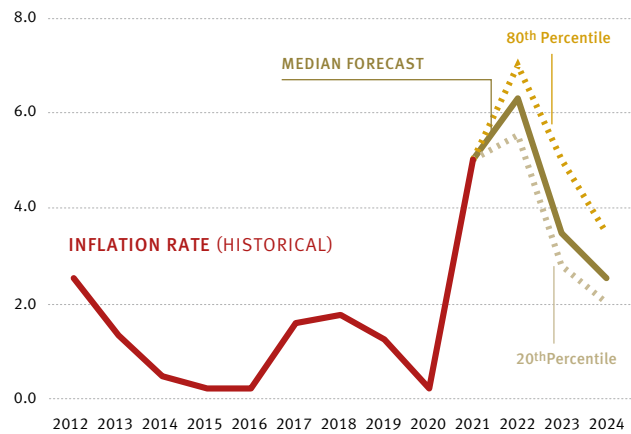
Source: ZEW

Start-up activity in the field of artificial intelligence in Germany has been very dynamic over the past decade, as a ZEW study shows. The years 2014 to 2018 saw a veritable start-up boom with annual figures rising from 250 newly founded companies to over 450. AI start-ups have a high probability of survival in the market and are characterised by strong growth in employee numbers. In 2021, 92 per cent of all the AI start-ups studied, i.e. around 6,000 companies, were still economically active. A look at the field of activity of the AI start-ups shows that approximately two-thirds are involved in the development of AI technologies or AI applications that are either used as products or services for other companies or are a key component of the start-up's range of services. Around ten per cent are AI consultants who offer advice on the topic of AI for other companies or institutions. Around 20 per cent of the AI start-ups surveyed use AI as a process technology for their own products or the provision of services.

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Eurozone: Medium-Term Inflation and Interest Rate Expectations Rise Again

POINT FORECAST OF THE ANNUAL INFLATION RATE IN THE EURO AREA (percentage change in the average annual growth rate of the HICP)



Source: ZEW

According to a survey among financial market experts conducted by ZEW in May 2022, inflation in the euro area is expected to be well above the ECB's two per cent target in 2022 before declining to 2.5 per cent in 2024. The mean prognosis is 6.2 for 2022, 3.8 for 2023 and 2.9 for 2024. The median forecast is 6.3 per cent, with the lowest (highest) 20 per cent of submitted inflation forecasts being smaller (larger) than 5.5 per cent (7.0 per cent). For 2023 and 2024, the median forecasts are lower at 3.5 and 2.5 per cent respectively. Sixty per cent of respondents predict inflation to be between 2.8 and 5 per cent (2023) and between 2.0 and 3.5 per cent (2024). The main drivers are developments in energy prices, raw materials, supply chain disruptions and the war in Ukraine. The trade war, wages, exchange rates and the green transformation are also likely to contribute positively to inflation. Due to these high inflation expectations, financial market experts expect to see a more aggressive monetary policy.

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Second IMES Workshop

ZEW's Junior Research Group "Integration of Migrants and Attitudes Towards the Welfare State" (IMES) is pleased to announce its second international workshop on 22 and 23 September 2022 in Mannheim. The event brings together international scholars from different social sciences studying the impact of migration in the host countries. The keynote speakers will be Marueen Eger (Umeå University) and Giovanni Peri (UC Davis). Please submit an extended abstract or a full paper (preliminary versions are welcome) to immigration@zew.de no later than 31 May 2022. More Information: www.zew.de/VA3804-1

Labour Market Workshop

ZEW is happy to announce the fifth workshop on Spatial Dimensions of the Labour Market to be held on 5 and 6 October 2022. The event focuses on a broad range of topics related to regional labour markets. This year, a special focus is on aspects revolving around the COVID-19 crisis. The workshop aims to bring together frontier research of labour economists, regional economists, sociologists, geographers and scholars from related fields. It provides a forum that allows scientists to network while fostering the exchange of research ideas and results. More information: www.zew.de/VA3822-1



Photo: Anna Logue

Lessons from the Russia Trap

The war in Ukraine is a sad reminder that economic policy issues cannot be separated from security policy issues. Being vulnerable to economic blackmail limits the scope for action in security policy. Economic policy now has a new focus, namely to avoid dependency. Germany

has made itself dependent on Russian energy supplies. We have lived long and well in the belief that economic policy and security policy were independent policy areas, and that trade relations in particular help to strengthen stability. Former Federal Foreign Minister Hans-Dietrich Genscher summed this up as early as 1987 when he stated that “foreign trade has an eminently peace-securing function.”

The international orientation of the economy and the liberalisation of energy markets may bring prosperity, but also make them more vulnerable. This insight is not entirely new. For some years now, especially because of China’s striving for dominance, calls have been growing louder for a “sovereign Europe” that would be less dependent on third countries.

One approach to increasing sovereignty is to relocate production sites to Europe. In addition to local production, diversification, i.e. the establishment of parallel supply chains, also offers opportunities to reduce dependencies. Diversification is part of every company’s purchasing policy. They commonly pursue dual sourcing strategies, i.e. they contract with two or more suppliers for the same product. If one supplier fails, another can step in. Given the current dependencies, it should be made easier for companies to diversify. An important instrument for this is international trade agreements, which can simplify cross-border supply relationships and open up alternative markets. The EU should therefore speed up planned agreements, such as those with Latin American (Mercosur) and Asian states (ASEAN).

However, diversification through companies alone is not enough when it comes to systemic risks that can cause an entire system to falter. Just think of the systemic risks in the financial crisis

of 2008/09, when the collapse of Lehmann Brothers crippled the banking system and states had to step in with massive aid programmes. Systemic risks also exist in the energy market, as seen in Texas in 2021, when the power supply was interrupted for several days due to extreme weather conditions and caused severe damage.

This experience can be used to address systemic risks along supply chains. In the banking sector, the European Central Bank regularly conducts stress tests to check the resilience of the sector. In the energy sector, many countries rely on capacity markets, where long-term contracts are concluded to ensure security of supply. Similar considerations should be taken into account to strengthen European sovereignty: In important sectors, companies should have to prove that they have sufficiently diversified their supply chains and are hedged against shortages, including through long-term contracts. Stress tests, such as simulating a supply freeze from China, would help to check the resilience of the respective markets.

Avoiding economic dependencies is an essential part of economic policy in terms of security and supply. The role that companies play in this should be brought more into the focus of policymakers. Facilitating the diversification of supply chains and drawing on the experience of markets with systemic risks can help make the economy more resilient.

President of ZEW, Prof. Achim Wambach, PhD

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