

Europe's 2026 Economic Outlook: ECB Rate Hikes, Fiscal Shifts, and Geopolitics

European Economics · Answer Key · 3 Questions

1. What was the European Central Bank's (ECB) decision regarding its three key interest rates in June 2026, in response to re-emerging inflationary pressures?

- A) Decreased by 25 basis points.
- B) Remained unchanged to assess market volatility.
- C) Increased by 25 basis points.**
- D) Increased by 50 basis points.

2. Under the new EU fiscal framework, which became effective in April 2024, what specific allowance is made for member states while aiming to keep deficits below 3% of GDP and debt below 60% of GDP?

- A) A temporary suspension of all deficit targets for green investments.
- B) Flexibility for increased defence spending.**
- C) A permanent exemption for countries with high unemployment rates.
- D) Increased borrowing limits for digital infrastructure projects only.

3. Which significant mechanism, designed to level the playing field for carbon emissions and prevent carbon leakage, became fully operational in the EU in 2026, coinciding with the phasing out of free allowances for some industrial sectors?

- A) The Renewable Energy Directive (RED III).
- B) The European Energy Security Framework.
- C) The Carbon Border Adjustment Mechanism (CBAM).**
- D) The EU Emissions Trading System (ETS) for maritime transport.