Navigating Europe’s multifaceted challenges

Pierre Gramegna, ESM Managing Director
“Navigating Europe’s Multifaceted Challenges”
Citi 2025 Central Bank Conference
London, Thursday 22 May 2025

It’s a great pleasure for me to be in London again - a city whose financial heartbeat sets the pace for markets across Europe and the world. London remains Europe’s number one financial centre.

Only a few days ago the EU-UK summit was held here in London. The summit was an opportunity to reset the relationship, by enhancing cooperation on trade and reducing frictions, and strengthening the partnership on security. Let’s not forget that in 2024 the EU accounted for 40% of UK exports. The agreement supports economic stability and growth – key priorities for the ESM.

In my speech, I will give an overview of the complex challenges that Europe faces, followed by a description of the policy response needed to address those challenges.

Europe faces a moment that will shape its path for years to come. It is confronted by a number of challenges, including geo-economic fragmentation, geopolitical tensions, and persistent structural weaknesses. Each of these challenges threatens our economic resilience and future growth.

1. Europe's Challenges: A Complex Landscape

Geo-economic fragmentation

Let me start with geo-economic fragmentation.

It has been weighing on global trade for some time, driven by rising protectionism around the world.

This challenge is now amplified by the current US administration's trade policy. Increasing tariffs have negative consequences for global growth. A key driving engine of growth in the past decades worldwide has been international trade.

If we slow down international trade, because that's what tariff increases will achieve, we will reduce growth around the world.

Another key point to consider is that decades of deeper integration have made the world more interconnected and interdependent.

In such an environment, the stability and prosperity of all economies depend on clear, predictable frameworks for cooperation. Dialogue and rule of law are what should guide international relations.

At the same time, Europe's economy is uniquely vulnerable, with trade in goods and services accounting for over 50% of GDP for the euro area — far higher than the United States at 25% or China at 37%.

Geopolitical tensions

This economic fragmentation leads us to the second challenge: escalating geopolitical tensions that demand urgent attention. Russia's ongoing war in Ukraine has exposed Europe's overreliance on Russian energy sources alongside significant deficiencies in our defence capabilities.

Europe needs to do more on defence spending. Another reason why the recent EU-UK summit was so important. Current defence spending falls far short of requirements, with Europe facing a €800 billion defence investment gap by 2030. This figure necessitates immediate action so that Europe is able to defend the continent.

Structural weaknesses

Turning to the third challenge: structural weaknesses impede Europe's long-term progress. Our economic growth lags behind the United States and China, constrained by low productivity and adverse demographics.

Following a strong post-pandemic rebound, growth in the euro area has gradually declined, remaining below 1% in 2024. In real terms, the euro area has grown by 15% cumulatively over the past decade, compared to nearly 30% for the United States.

One of the reasons behind this divergence is the ageing of Europe's population. It currently has a ratio of three workers for every retiree. By 2050, it is projected to have only two workers per retiree.

This indicates the scale of the demographic shift which will create fiscal pressures through pensions and healthcare systems. It also affects productivity, as older populations are usually less innovative.

2. Response to the challenges

These structural challenges may seem daunting, but Europe's history shows that adversity can be a catalyst for bold action and reform.

Our capacity to overcome obstacles is rooted in our collective resilience and adaptability. Charting a path forward, it is instructive to consider how Europe has risen to the occasion in times of crisis.

During the euro crisis, the ESM was established. It provided critical financial assistance (nearly €300 billion in total) to five countries: Ireland, Portugal, Greece, Spain, and Cyprus. We did not have a lender of last resort for the euro area before this.

More recently, during the Covid pandemic, an unexpected external shock, Europe reacted effectively and decisively, which most would have doubted possible, mobilising the €750 billion Next Generation EU fund.

The ESM also created an instrument – the Pandemic Crisis Support – to help countries. It was not used but acted like an insurance and calmed financial markets.

Necessary measures

Building on this legacy, Europe must now embrace bold reforms to secure its future.

The 2024 reports by Mario Draghi and Enrico Letta provide a comprehensive blueprint for action. Draghi underscores the urgency of investing in technology, while Letta calls for deeper integration of the single market.

Advancing the Savings and Investments Union (SIU), encompassing the Capital Markets Union and the Banking Union, is crucial to channel savings into more productive investments. A strong SIU will enable Europe to address its mounting challenges and boost investment.

Draghi estimates that a minimum additional investment of €750–800 billion per year will be needed until 2030 to master the energy transition and remain competitive in digital technologies and strengthen Europe's strategic autonomy.

Given the scale of this investment gap - around 5% of EU GDP annually - private capital must play the leading role, as public budgets alone are not sufficient.

A significant opportunity lies in mobilising Europe's resources. Private savings could be more efficiently challenged to investment and innovation in Europe. Larger volumes of direct financing through equity and bonds could be paramount for achieving the necessary investment and productivity gains.

Another element is completing banking union. A missing element is the ESM backstop to the Single Resolution Fund. It cannot become operational until the ratification of the revised ESM Treaty is completed. There is one country that has yet to ratify the amended Treaty. The backstop would strengthen the EU's financial safety net, ensuring that bank failures do not disrupt the functioning of the financial system.

Another important initiative, presented this year by the European Commission, is the Omnibus Simplification Package. It aims to reduce administrative burdens and make sustainability reporting less burdensome for businesses. The overarching goal is to foster a more favourable business environment making Europe more attractive for investment.

Turning to defence, the European Commission announced a package that involves the creation of a new instrument called SAFE (Security Action for Europe) providing €150 billion in EU loans for defence purposes and making fiscal space at the national level.

If Member States increased their defence spending by 1.5% of GDP on average, this could create fiscal space of close to €650 billion over a period of four years.

Recent proposals - including those from Enrico Letta and the European Commission's White Paper – suggest that the ESM could use its resources to help Member States finance their defence needs, as a second line of defence.

With a current lending capacity of €427 billion, the ESM could play a pivotal role in supporting a collective European response to security challenges, provided its Member States agree.

Building on this foundation of unity and strategic investment, I would now like to discuss explore how these collective efforts also help boost the euro's global role.

3. Resurgence of the euro

The reforms I've outlined, particularly the savings and investments union, not only strengthen Europe's economy but also position the euro for a greater global role.

Domestically, the euro enjoys robust support. The 2024 Eurobarometer survey shows 79% of euro area citizens endorse the euro – this is a record high level.

In recent weeks, global markets have been more concerned about the impact of US policy decisions on the safe-haven status of the dollar and Treasury bonds.

It is not clear whether this is a permanent or a temporary phenomenon. The euro does not have the same depth as the dollar market. But amid this uncertainty, the euro is experiencing a remarkable resurgence, driven by its growing appeal in global debt markets.

Bolstered by these economic reforms and the euro's rising prominence, European safe assets— bonds issued by the EU, the ESM, and the EIB have reached €1.3 trillion —are emerging as trusted options for investors seeking stability.

This growing confidence in the euro and the strength of Europe's capital markets is not only attracting investors but also prompting major global players to tap into euro-denominated debt.

Notably, US companies have issued a record €40 billion in bonds denominated in euros in 2025. This trust also extends to sovereign issuers outside the euro area. 50 countries outside of the euro area, spanning Asia, Africa, South America, and Europe.

The euro's appeal also extends to central banks, in terms of the amount of euros held as currency reserves. 20% of global foreign exchange reserves are held in euro, second to the dollar's 58%. It is worth noting that the euro area's weight in global GDP amounts to around 14%, so one could say that we are "punching above our weight" with regard to central bank currency reserves.

Finally, the digital euro is essential for Europe's financial innovation and global competitiveness. It is even more important since the US is pushing for softer regulation regarding cryptocurrencies and changing its stance on USD stablecoins, posing a potential risk to European payment systems.

Conclusion

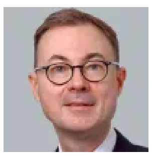
In conclusion, in these turbulent times, geopolitically and economically, Europe remains a pillar of stability and rule of law. So, what we need for the future is more Europe, not less.

Author

Pierre Gramegna

Managing Director

Contacts

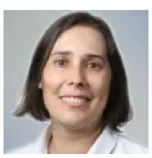


Cédric Crelo

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu

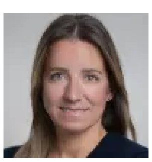


Anabela Reis

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



Juliana Dahl

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu