Pierre Gramegna in interview with Le Grand Continent (France)

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Pierre Gramegna, ESM Managing Director
Interview for *Le Grand Continent*
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Le Grand Continent: The European economy is facing a triple threat: growth has been stagnant for a decade, its energy model has been compromised, and it now has to live under the threat of tariffs. How can the Union overcome this?

Pierre Gramegna: We live in geopolitical turmoil, conflicts are increasing in number and density.

In Europe, we have a tendency to only speak about the conflicts that are close to us and neglect others. But we have rarely encountered so many conflicts at any point in recent history, with many involving nuclear powers. While the US president is implementing a unilateral withdrawal from multilateralism. We must not underestimate the consequences of that.

The international order that we have known since the end of World War II — which was, in fact, crafted by the United States — is being undermined.

There are many elements that would indicate that this world order is not going to come back, certainly not as we knew it. And that means that we will also have to change as Europeans — not in terms of who we are, but in terms of how we do things.

So, these are epochal changes?

Yes — with nuances.

Firstly, we have to be prepared for a world that is more divided, but that could lead to more solidarity and closer ties at the regional level. Take Europe, for example. We have a highly integrated Union, it is the most sophisticated case of supranational cooperation on the planet. For us, it is our natural framework. We know how to move in this context much better and more confidently than other parts of the planet, so at a time in which we question the order of things, we are very well placed to build new partnerships.

Secondly, some of the measures put forward by President Trump aren’t necessarily new; they existed in the previous administrations too. Under Obama, the US began to concentrate on China which is considers its main rival. And the American strategy within NATO, that is to make Europeans pay more, started with Obama too. These are constant elements that indicate a strategic shift from the United States. President Trump is doing it faster and with little regard for multilateral rules. But the logical conclusion for Europeans remains the same: we will have to take care of our security, defence, and put our own house in order. We have to look after ourselves too.

How do we do that?

Europe has always achieved the greatest progress in difficult times.

During the financial crisis, we created the European Stability Mechanism and the European Central Bank took unprecedented measures and we established the basis of the banking union. Our banks today are resilient, well capitalised, and liquidity is no longer a weak point. The collapse of Credit Suisse, which could have been a systemic event for the European banking sector, had almost no impact on our banks. We are much stronger now.

During the pandemic, we crafted a common response in a very short period of time. It was a test of solidarity that I am not sure would have been accepted a decade ago. If you had told me at the start of the pandemic that we would end up putting together an 800-billion-euro programme backed by joint European debt, I would have hesitated at first.

The same applies to Ukraine. We have managed to create instruments to uphold our support, to approve unprecedented sanctions, and to bring Kyiv closer to us. We faced Russia's energy shock together and succeeded. Let's not forget that at the height of the energy crisis many argued that the lights would go off in Europe, that we risked blackouts — it did not happen.

In crisis, we become smarter, more creative and ultimately manage to get it done. The point is that we have to stay together and do it as one.

Every response and reaction you describe has an element of commonality: so far, the response to higher defence spending and Trump falls mostly on domestic capacity and national budgets.

The Commission created the SAFE programme, encompassing €150 billion available to member states. They will be exempted from fiscal rules for defence spending. We are also mobilising resources from different areas into defence. It is a direct, European response.

One must not forget that defence is still understood as a national competence.

Germany put forward a €500 billion package. That is a signal that Europeans are taking security seriously. … Some countries in the EU are calling for common financing for defence. But, we should primarily ask ourselves how to work better together: what can we buy together? What weapons do we need for collective defence? What is our long-term strategy? These are the questions that are starting to surface at the Eurogroup when finance ministers come together.

Putting the question of financing before we know what we need is putting the cart before the horse.

The Commission is working on its multi-annual financing framework. It is a first step. There is an appetite and a readiness for joint procurement, which is an equally important question. You can spend money on capabilities, but that does not mean you will be well equipped if there is no common vision and coordination beforehand.

In my view, there are still many steps left before getting to the question of common defence bonds, if we want to call it that.

Since 2023, growth in Europe has remained stuck on average below 1%. We have a growth issue in front of us. In the past 10 years, the United States has grown twice as fast as Europe. We can spend all day complaining about international relations, conflicts, war, natural catastrophes and demographics. But this is an issue that we have to face without blaming externalities. Fixing this is our responsibility, no one else can do this for us and more debt when you barely grow is not a silver bullet. It can make you vulnerable to financial markets without a credible plan for growth.

What is the plan then?

The single market is a great success story, but it needs to be updated and be made fit for purpose as our economies are very different from 30 years ago; think of digitalisation and AI, for example

The report by Enrico Letta points to this. The Draghi report also stresses the need to mobilise private capital to a much higher degree, arguing that 80% of the resources needed should come from the private sector.

In Europe we often have this instinct to manage things top-down. I believe we have overregulated in some areas, and the ongoing simplification goes into the right direction. It does not mean re-deregulating. This is not the European approach, and it will never be: firstly, because we have a social equilibrium to maintain and, secondly, also because business does not want that either.

The value of the single market and the Union in general is that rules *do* apply.

While President Trump is trying to de-globalise trade, we should maintain our approach and work more intensely and closer with countries that also want to trade with us in a rules based system.

We should not underestimate the positive impact that the rule of law has in an economy, and carries for investors.

What role could the rule of law play in this particular context?

Before leading the European Stability Mechanism, I was the Finance minister of Luxembourg.

In this position, the first thing investors ask you is: what does the regulation look like and how can I be sure that it won't change arbitrarily?

Certainty, predictability: this is a great asset and Europe can offer both.

Lately, there have been many questions around the hegemony of the dollar. What are your views?

Christine Lagarde, the President of the European Central Bank, is very committed to bolstering the international role of the euro. I can only agree.

There is a unique window of opportunity.

I see it at every international gathering and even our own operations. The ESM is active on financial markets as we have close to €300 billion worth of bonds that we finance and refinance. I see a strong appetite for euro-denominated bonds and assets.

The idea of making the euro a global super currency that can rival the dollar is not necessarily new — why is this time different?

The US administration is taking actions that weaken the dollar.

Donald Trump has said it himself: he wants a weaker dollar. That pushes interest rates higher and ultimately inflation. Let me be clear: this will not be an overnight process. The euro currently represents roughly 20% of the reserves of world currencies compared to the United States dollar, which accounts for 50 to 60%. No other currency has the liquidity that the US dollar enjoys.

But we can build our position.

We have the rule of law, we are building our trade relations with the rest of the world faster and deeper, we are a reliable partner, and we have fiscal rules in place.

Why do you think this is a strength?

The euro is a unique case in the history of currencies. We voluntarily pooled our national currencies to make a single one and made that our sovereign decision. In history, for something like that to happen, it is usually the product of imposition or dominance — from the Romans to America.

For us, it was a sovereign choice: we want to be part of this common project that we call Europe. Since its launch, no country has left the eurozone — but more have joined.

We also have strict budgetary rules that we have refined and modernised recently and which obviously reassure markets. And we have an independent central bank that no European government would dare to threaten in public to sway its decisions.

Still, after the turmoil around Liberation Day, investors turned to gold — not the euro — as an alternative. Some argue that the euro will not reach its full potential until a joint European safe asset is firmly in place.

I appreciate the intellectual debate behind it.

Bolstering Europe’s defence capabilities and the necessary financing of it would increase the supply of euro-denominated safe assets, which are in high demand. This would strengthen financial stability, which is our mandate.

But when we focus our conversation around a common safe asset *only*, we risk running in circles.

We should also focus on attracting private investment: the more private investment you are able to attract, the bigger the market gets. That means more transactions in euros. The more international trade you conduct, the more you enlarge the role of the euro. We tend to put a great deal of focus on the public and government side in Europe, and less so on the private sector. But behind all of these transactions, this build-up of euro denominated operations is the private sector.

A currency gets “stronger” by the amount of people that use it and trust it: it is not something you can mandate.

As it stands, we have a combined €1.3 to €1.4 trillion of euro-denominated assets between the European Commission, the European Investment Bank and the European Stability Mechanism.

It is a significant amount, but it is not enough.

We need a real Savings and Investment Union. Europe has one of the highest private savings rates in the world — about €30 trillion according to the Letta report — but a large amount of it is going to the United States.

Why?

Because the US has growth: it makes an attractive case for businesses. Their population is also much more financially literate, even if we have one of the most educated people in the world.

These are things we can address, I think, with little political resistance — as opposed to a common European asset, which is facing tension among member states.

So, promoting business rather than completing the euro's architecture should be the priority?

We have a market of 450 million consumers. We have bargaining power, we have purchasing power: let's complete our single market and scale up.

Businesses still encounter internal barriers within our common market: we should remove those. If you want to invest in Europe, let's facilitate that. Right now, if you are a company, you still need different physical offices across Europe, you pay taxes differently — there is still a lot of paperwork involved in what should be a single market in principle. The concept of a 28th regime which would be chosen in every single jurisdiction is one that I find to be precious. We have built a resilient banking sector, but we still do not have a common deposit insurance system, which would build confidence.

Let's learn from one another. The Netherlands and Sweden, for example, have been very successful in deploying capital-based pension systems. A pan-European pension product already exists but it is too complex. Let's look at products that work, make them accessible and encourage Europeans to put their money to work rather than park it in a savings account.

We can debate in depth about the future of Europe and crossing red lines. But for the private sector, sometimes all it takes is a signal without these fundamental questions attached to it to put capital to work. And we need capital.

How confident are you that they will respond to that signal beyond their corporate interests?

Mario Draghi put it best: Time is not on our side.

The alternative is anaemic growth and decline. I am encouraged by this Commission: it is moving fast and there is a sense of urgency. There is also a sense that we need to deliver. You can also hear it in the language of President Lagarde. These issues are driving policy in a way that was not the case five years ago.

Businesses see that. They recognise that we want to achieve a better balance. They are right when they say reporting standards became too complex, for example. For a small to medium sized company, that is a real problem. There is also a real sense that the exodus of capital to the United States has to be re-directed and stay in Europe. Simplification was needed and we are doing just that.

The challenge for us going forward is that the pendulum doesn't swing too hard in the opposite direction either. Climate is not as present in the public debate as it was before. But it would be an error to ignore that. It's still one of the greatest challenges for humanity. The same goes for maintaining our European social cohesion. My conviction comes hand in hand with having a strong, European private sector that creates jobs, mobilises capital and becomes an integral pillar of the actions we are taking. But trying to achieve these changes without listening to the needs and comments of the private sector would be a mistake.

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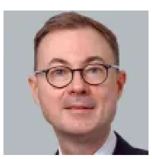

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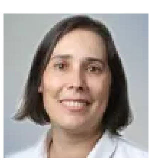

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