Europe at a critical crossroads: no room for complacency, time to act

View PDF
01/10/2025
Speeches

Pierre Gramegna, ESM Managing Director
Keynote speech at EC-EIB-ESM Capital Markets Seminar
“Europe at a critical crossroads: no room for complacency, time to act.”
Luxembourg, 1 October 2025

(Please check against delivery)

Introduction

Good afternoon, ladies and gentlemen. I am delighted to open the 7th edition of the annual Capital Markets Seminar.
This event is becoming a tradition, or even a classic, and that, in itself, is good news for the three institutions that organise the seminar: the European Commission, the European Investment Bank, and the ESM.

“Europe at a Crossroads” is a very fitting theme for this year’s event because the choices we make now will determine whether Europe remains a major economic force, shaping the global order, or whether it will be confined to being a mere observer, powerless and vulnerable to shifting global dynamics.
In my speech today, I will:

- First, present the global challenges that Europe faces;
- Second, review Europe’s own economic and structural issues;

- Third, highlight the strengths and opportunities that can guide our response.

1. Global challenges

Europe faces a pivotal moment. The world has changed dramatically since Russia's invasion of Ukraine, which has not only imposed a heavy human and economic toll but also fundamentally reshaped geopolitical dynamics and energy markets.

This crisis has exposed Europe's vulnerabilities and accelerated efforts to strengthen its strategic autonomy, particularly in defence and energy security.
At the same time, these challenges are compounded by the actions of the new US administration whose shift towards economic protectionism and changing trade policies have introduced new uncertainties.

After months of tensions, an EU-US trade agreement that carries several immediate benefits was struck this summer. It reduced uncertainty, avoided a trade war, and averted the US administration imposing its maximum tariff threat. The deal reached in August injects some predictability into cross-Atlantic trade and limits negative outcomes.
We should keep in mind, however, that implementation and enforcement of the deal have not been agreed, and tensions could easily resurface. The deal's 15% tariff on key manufactured goods (such as cars) adds to the challenges facing European industry, further weakening the EU's competitiveness in its largest export market by increasing costs and complicating supply chains already strained by global pressures.

Europe must also contend with intensifying global competition, geo-economic fragmentation, technological disruption, and rising climate risks.
If we only look at the consequences of fragmentation, these are alone quite stark: studies suggest that global output losses could reach up to 5% of GDP if current trends persist.[1]

Traditional multilateral frameworks have weakened, and the risk of regional and global confrontations is higher than at any point in recent memory.
These global pressures are amplified by Europe's economic and structural challenges.

2. Europe's challenges and response needed

You probably know them by heart: slow growth, low productivity, competitiveness gap, population ageing, excessive regulation, insufficient defence capabilities, loss of geopolitical influence.

In most cases, the necessary remedies are also well known. The Letta and Draghi reports have tabled them. Progress in acting upon their recommendations has been uneven, and many pressing challenges remain unaddressed, slowing Europe's ability to fully leverage its strengths.

The Letta Report calls for a comprehensive overhaul of the Single Market, streamlining regulations, and integrating strategic sectors like energy and finance to prepare the EU for future challenges.

The IMF estimated that a 10 percent reduction in barriers to intra-EU goods trade and multinational production would lift GDP by around 7 percent.[2]

A lot of work is needed to develop capital markets in Europe. I remember very well my first Eurogroup meeting about the capital markets union back in 2014. Progress has been limited.

The Draghi Report stressed the need to mobilise massive public and private investment, integrating capital markets, and strengthening strategic autonomy. Enrico Letta smartly suggested that we should aim for a true Savings and Investments Union.

Europe is not lacking in talent, or innovation; it has produced dozens of billion-euro startups, world-class research institutes.

But companies like Spotify and BioNTech all chose to list on NASDAQ or move to the US instead of scaling within Europe. Why? Because capital markets in the Europe remain segmented.

The cost of inaction is staggering: a recent study concludes that Europe's GDP today could be 25–30% higher (about €7.5–8 trillion) had a U.S.-style capital market integration existed since 1995.[3]

Urgent and decisive actions are essential on the Savings and Investments Union, using renewed momentum due to geopolitical pressures.

If we fail, companies and investors face higher costs, reduced access to financing, and greater inefficiencies which collectively hold back Europe's economic potential and global competitiveness.

The fact that our banking sector is now more resilient, with solid capital and liquidity buffers, will make progress easier.

Some recent developments show that progress is possible, even on the most complex fronts. Let me give you 5 striking examples:

I. SAFE

The new SAFE initiative allows the EU to pool financing for defence industries and security projects an unprecedented step for the Union and a direct response to today's geopolitical realities.

In fact, 19 Member States have already requested the entire €150 billion available under SAFE, a sign of just how urgent and widely shared the need for action has become.

The €150 billion will increase the European safe assets on the market, which passed the €1 trillion mark last year.

II. Competitiveness Fund

In July this year, the €400 billion Competitiveness Fund was announced as part of the Multiannual Financial Framework for 2028–2034, aiming to boost productivity, innovation, and strategic investment across the continent.

III. Clean Industrial Deal

The Clean Industrial Deal announced at the beginning of this year. It outlines concrete actions to turn decarbonisation into a driver of growth for European industries.

IV. Mercosur

And, after years of negotiation, the EU finally concluded a trade agreement with Mercosur, unlocking new opportunities for European exporters and strengthening ties with South America.

Other trade agreements are in the making. These advances offer hope that, with political will and urgency, Europe can deliver real results where they matter most.

V. Simplification of EU regulation

Simplification does not mean deregulation, but the Omnibus Directive that has been proposed by the EU Commission is important move that was called for by all European governments.

3. Strengths and opportunities

The effective implementation of these responses will rely on Europe's proven strengths and opportunities, which provide a solid foundation for progress.
The EU is a credible, reliable and trusted partner; the euro is the second most important currency in the world. It accounts for about 20% of global central bank foreign exchange reserves.

The euro’s international role can be strengthened, given US policy unpredictability. Investor concerns regarding the US peaked following tariff announcements last April, which marked a clear “sell America” moment.

Foreign investors - mostly private - liquidated over USD 80 billion worth of US assets, reversing two years of continued inflows. This proved to be temporary (foreign demand rebounded in May) but concerns about the safe-haven status of the dollar have not fully gone away.

In contrast, the euro stands as a stable and reliable choice for global trade and finance, helping to diversify the options available to countries and businesses worldwide.

In fact, support for the euro is at an all-time high; 83% of citizens in the euro area support the single currency.[4]

The supply of euro-denominated safe assets is on the rise, and it will continue in parallel with additional common actions of the EU.

Furthermore, investor confidence remains strong, as reflected in significant foreign flows into euro area sovereign bonds since April.

Let us build on this momentum to accelerate the initiative of the ECB to create a central bank digital currency, the digital euro.

Having a digital equivalent to cash would increase the euro's usability in the evolving digital financial ecosystem and reduce reliance on US dollar-denominated stablecoins.

In addition, the Eurozone Composite PMI (covering manufacturing and services) edged up to 51.2 in September, reflecting the fastest pace of private sector expansion in 16 months.

This is good news. Hopefully the EU will grow more than 1 percent in the years to come.

Let me conclude with an update on opportunities for the ESM.

ESM

Bulgaria’s upcoming accession to the euro area in January 2026 is a clear sign that the euro area remains attractive and continues to grow stronger. By joining, Bulgaria will also become the 21st member of the ESM, gaining access to its financial safety net.

This not only reassures investors but also strengthens the collective resilience and confidence of the entire euro area. This is because the ESM plays a crucial role in safeguarding financial stability in the euro area.

The five former beneficiary countries of the ESM and EFSF are currently displaying GDP growth above the euro area average.

The robust economic recovery and improved fiscal positions in countries formerly have significantly reinforced the cohesion of euro area sovereigns enhancing mutual confidence and stability across the currency union.

The ESM currently has €428 billion in available firepower. ESM Members ultimately decide how it could be used; financing defence needs is one such possibility.

As I mentioned, total loan requests for SAFE funds have reached the maximum amount of €150 billion. If more financing is needed, the ESM could be a possible solution, as stated in the White Paper of the European Commission.

In addition, the ESM’s crisis prevention role has increased in recent years; it monitors and assesses various types of risks, including new ones (e.g. geopolitical, tariffs, climate, financial innovation) that may have an impact on financial stability.

EIB

Tomorrow, Nadia Calviño will update you on developments regarding the EIB. The EIB has become an important pillar in financing and supporting Europe’s economic growth, technological innovation, infrastructure, and climate action.

Together, the European Commission, the ESM and the EIB form a strong financial backbone for Europe, combining long-term investment with crisis prevention and financial stability support.

But, there is no room for complacency. In these times of geopolitical turmoil and economic fragmentation, what Europe needs is to act, act, and act.
Today, what we need is more Europe, not less.

Thank you for your attention.

References

1. Navigating Global Financial System Fragmentation, World Economic Forum, January 2025.
2. IMF press release, May 2025.
3. Working paper "Capital Market Fragmentation and Economic Value Migration” by Ravi Balakrishnan (IMF, Bruegel) and Mahmood Pradhan (Global Head of Macro at Amundi Investment Institute), June 2025.
4. Eurobarometer Survey Spring 2025, European Commission.

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