

Competitiveness for Sustainable Growth - speech and presentation by Pierre Gramegna



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“Competitiveness for Sustainable Growth”
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Ministers, colleagues, thank you for the opportunity to share the ESM's perspective on Europe's competitiveness challenge.

We live in a world of radical uncertainty, shaped by growing geopolitical fragmentation.

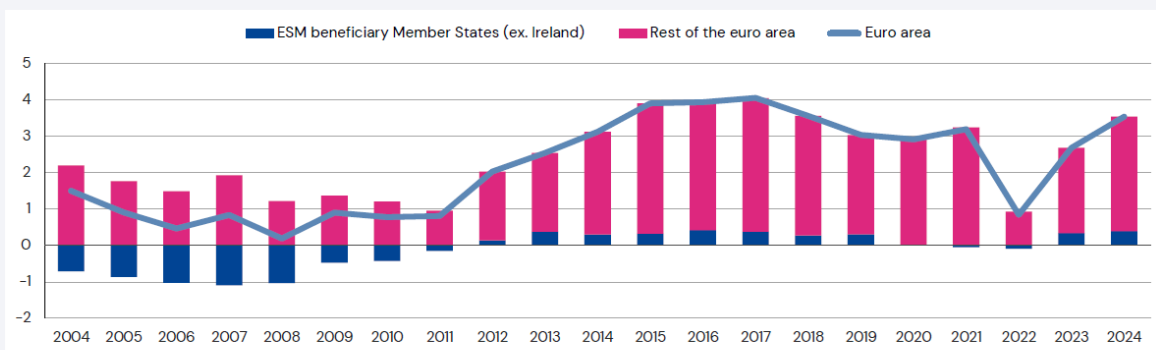
The war in Ukraine continues, while the situation in the Middle East has escalated with no clear end in sight, adding significant pressure on energy prices. Power politics has returned to the forefront of international relations.

In this shock-prone world, further strengthening Europe's resilience is imperative.

In my presentation, I will aim to briefly sketch how Europe's competitiveness has evolved since the euro crisis and what the future direction of travel should be.

Since the sovereign crisis, euro area external performance strengthened by reforms and global tailwinds

Trade balance of goods and services
(% of GDP)



Source: ESM calculations based on ECB and Eurostat

Let me begin by setting the scene on Europe's external position.

From the sovereign debt crisis through to 2022, our continent's external accounts improved very substantially.

We overcame deep imbalances through hard reforms. Internal cost adjustments, together with a favourable global environment, supported a remarkably dynamic export sector.

ESM beneficiary Member States, in particular, made striking progress, turning what had been large external deficits into aggregate surpluses.

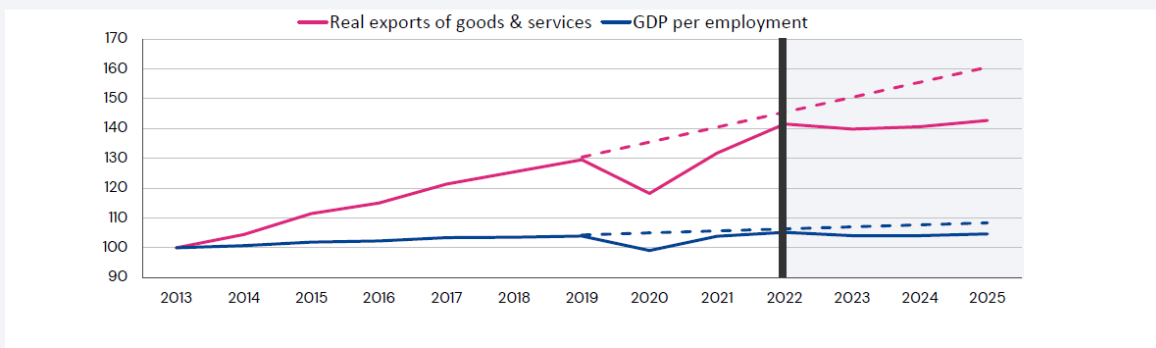
A weaker euro in the wake of the sovereign crisis also helped.

Then, in 2022, the energy shock that followed Russia's invasion of Ukraine caused a sharp, but ultimately short-lived, deterioration in the trade balance.

As energy prices came down and imports moderated, that picture improved.

The post-2022 “wake up call”: Europe is falling behind

Euro area real exports and real GDP per employment
(2013=100)



Source: ESM calculations based on European Commission
Note: Dashed line shows a linear trend estimated over 2013–2019.

But 2022 was, in truth, a wake-up call.

The export dynamism of the post-crisis decade had masked an uncomfortable reality: euro-area productivity growth was weak.

It barely increased between 2013 and 2022. We were pleased about the increase in the number of jobs created, but productivity growth basically stagnated.

The energy shock, layered on top of rising geoeconomic fragmentation, marked a turning point for our export model, and we need to be honest about what that means.

Slower productivity growth may no longer be cushioned by strong external demand the way it once was.

Domestic energy prices are likely to stay well above those of our main competitors for some time, weighing on the competitiveness of European firms.

According to the EU Agency for the Cooperation of Energy Regulators, electricity is now about 1.5 times more expensive than in the US, while gas is about 3 times more expensive than in the US.

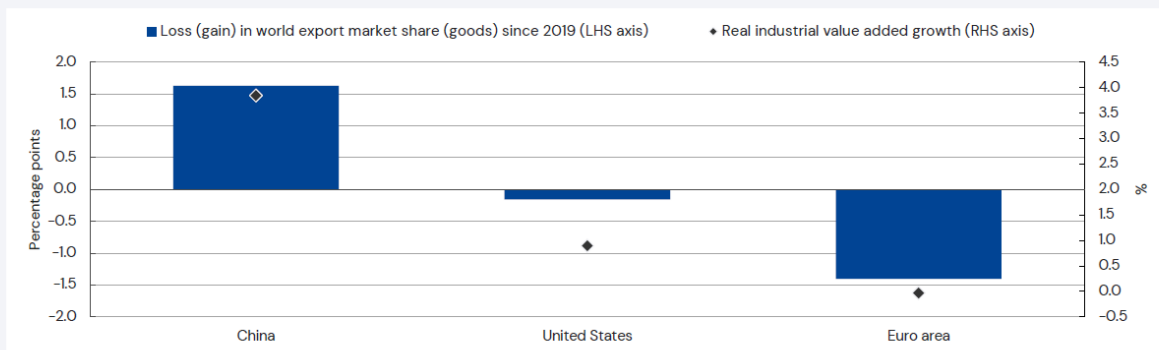
Energy-intensive sectors (machinery and transport equipment, chemicals, basic metals) sit at the core of our industrial export base, and they are under real pressure.

Despite some volatility over time, the exchange rate has also turned gradually less supportive, particularly against the renminbi. Since 2021, the euro has appreciated by about 4-6% in nominal terms against the Chinese currency, bringing the cumulative appreciation since 2015 to around 16%.

To be clear, this does not point to any meaningful global overvaluation of the euro. It is just a fact that the exchange rate has become less supportive overall.

The cost of inaction: erosion of competitiveness

Gain (loss) in world export market share and industrial production since 2019



Source: ESM calculations based on Haver, China National Bureau of Statistics, Eurostat, US Bureau of Economic Analysis and IMF

On top of higher energy costs, we face rising competition from China in a number of manufacturing sectors where European exporters once held a clear comparative advantage.

Rapid productivity gains in China, combined with its specialisation in medium- and high-tech products, have driven a fast expansion of its share of world exports, directly affecting industries that matter to Europe.

That pressure is set to continue in the near term, and the potential diversion of Chinese exports away from the US market may intensify it.

In this new landscape, our traditional export model, which has been built on buoyant global growth, a comparative advantage in medium- and high-tech goods, and cheap energy, is fading.

And so is the sectoral structure that sits behind it.

The cost of doing nothing is high.

The European automotive industry is a textbook case: it is being squeezed simultaneously by higher energy costs, a profound technological transition, and intensifying Chinese competition.

Since 2019, European exports of goods lost more than 1.5 percentage points of global market share, with tangible consequences for domestic production.

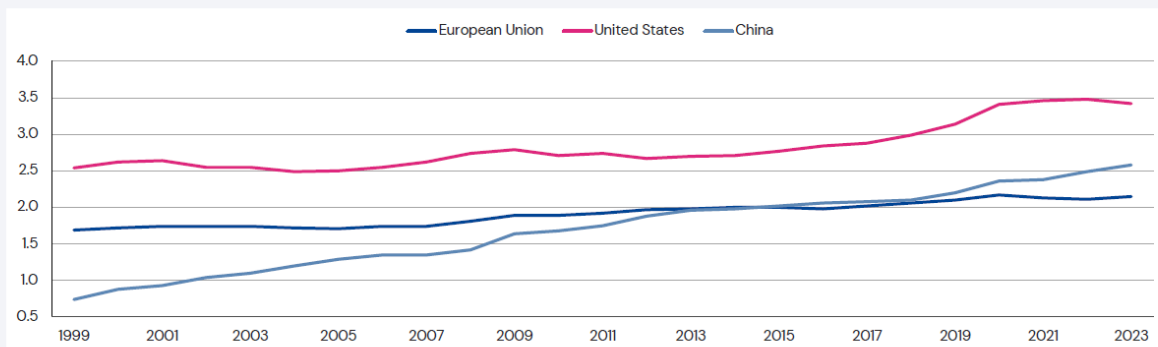
Staying competitive therefore requires us to do two things in parallel.

First, address the long-standing productivity problem.

Second, facilitate the reallocation of resources towards the sectors where Europe genuinely can compete and where it can build a stronger comparative advantage.

Closing the innovation gap: Europe saves, US innovates

Total R&D spending
(% of GDP)



Source: ESM calculations based on OECD Science and Technology Indicators
Note: R&D spending is defined as Gross Domestic Expenditure on R&D.

Let me take each in turn, starting with productivity.

Europe has been facing persistently low productivity for many years.

In real terms, the euro area has grown by roughly 15% cumulatively over the past decade, compared to nearly 30% for the United States.

The US economy basically has grown twice as fast in real terms as the euro area.

Raising productivity means, above all, boosting innovation.

Stepping up investment in research and development is critical, because R&D is the catalyst that turns ideas into productivity gains.

This is all the more important given the widening innovation gap between the euro area and its main competitors.

R&D spending in relation to GDP has barely increased in Europe over the past decade, while it has accelerated in the United States, and even more so in China.

As a result, R&D intensity in both the US and China is now higher than in the EU, and the gap is widening.

As mentioned by Kyriakos Pierrakakis at the EIB Forum back in March, R&D intensity in the EU is around 2.3% of GDP, compared with roughly 3.4% in the United States. In China, around 2.7%.

Europe is also falling behind on Artificial Intelligence.

According to recent research by CEPR, 43% of US workers reported using generative AI for work in early 2026, compared to just 26–36% in surveyed European countries.

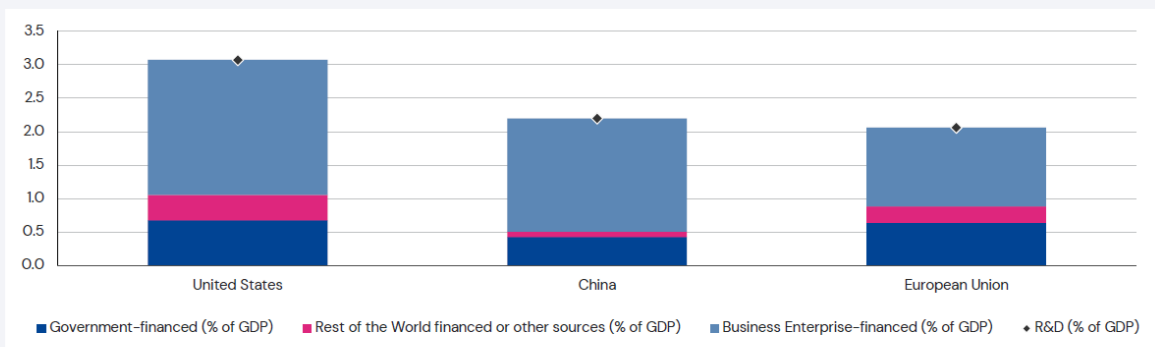
Intensity also differs sharply: 5.2% of US work hours are spent using AI, while in certain large European countries, the figure is less than one-third of that.

The gap seems to be even more stark at the firm level.

Inevitably, this contributes to the productivity differential.

Financing R&D: similar public effort than peers, but more limited private engagement

Total R&D spending
(% of GDP, average 2013–2023)



Source: ESM calculations based on OECD Science and Technology Indicators
Note: R&D spending is defined as Gross Domestic Expenditure on R&D.

Now, supporting innovation does not necessarily mean spending more public money.

European public support for R&D is broadly comparable to that in the United States.

The problem lies on the private side: it is private investment in innovation where Europe is lagging behind.

Over the past ten years, US businesses have invested about 2% of GDP annually in R&D, nearly double the 1.2% of GDP that European businesses did.

The real challenge, then, is to create the conditions in which private capital flows into innovative investment.

From headwinds to action: private capital to raise innovation and productivity



That brings me to the second priority: rethinking our export model.

Europe now operates in a new global regime, and the old export model is no longer enough on its own.

Recalibrating our industrial and export base has become an urgent priority.

And let me stress: competitiveness must be pursued in a way that is compatible with our broader strategic objectives: geoeconomic autonomy, the green transition, and the digital transition.

Governments will need to anticipate, monitor, and manage these risks proactively, not reactively.

History tells us that narrowly targeted industrial policies have produced mixed results, (ranging from the structural success of Airbus, a coordinated European effort

that built a global aerospace leader, to less successful ones such as the German photovoltaic industry), and they are in any case constrained by fiscal realities.

What is needed is a holistic approach: supporting the key sectoral transitions, green and digital, while putting in place the framework conditions that allow firms to scale and attract productive investment.

Action is required at every level.

At the national level, that means safeguarding fiscal sustainability and pursuing the structural reforms that lift productivity: prioritising investment in innovation, upskilling the workforce, and cutting administrative burdens.

At European level, advancing the Savings and Investments Union is essential to integrate our capital markets and channel European savings into long-term investment.

Digital finance can be a facilitator in this regard. It can lower costs, simplify cross-border investing, improve access to capital for innovative firms, and encourage greater retail participation in capital markets. Therefore, I support the ECB's digital euro initiative, both for retail and wholesale.

Financing Europe's strategic priorities will require substantial investment, estimated at an additional €1.2 trillion per year over the coming years.

The bulk of this financing will need to come from the private sector. As highlighted by Mario Draghi, around 80% of the required investment is expected to rely on private capital.

And deepening the Single Market will reduce inefficiencies and help firms to scale.

Globally, regaining competitiveness requires us to stay anchored in a rules-based trading system.

Joining a rising wave of protectionism will not solve our underlying competitiveness problem; it risks damaging growth and, in the longer run, eroding competitiveness further.

Protectionist measures against Chinese exports may shield specific industries from the effects of subsidies, but they will not, on their own, address the reality of China's continued move up the technological ladder.

Let's also keep another lever in mind: the European Commission's drive toward simplification.

Simplification can strengthen Europe's competitiveness by reducing administrative burdens, lowering compliance costs, and making it easier for companies to invest, innovate, and grow across the European Union.

Ministers, colleagues, the diagnosis is clear and so is the agenda.

The cost of inaction is high; the opportunity, if we act together, is real.

We need more Europe. Not less.

The ESM stands ready to support Member States as Europe takes on this challenge.

Thank you.

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