Mario Draghi

XVIII COTEC Europe Summit - 14.05.2025

First of all, thanks to all of you for this beautiful day, fantastic concert.

All this sort of quoting me actually makes me feel a little embarrassed.

But having said that, I really wish to thank the President of the Republic of Portugal for the honor of this invitation and I wish to thank the King of Spain and the President of the Republic of Italy, Sergio Mattarella.

I also wish to thank the Cotec for its fantastic contribution to spread and promote innovation not only in the three countries, but I believe all across Europe.

Now, ladies and gentlemen, I am very happy to be with you today to reflect together on the challenges for Europe coming from this period of profound change in trade and international relations.

These changes have been in the making for several years and the situation was deteriorating even before the recent tariff upheaval.

So far, internal political fragmentation and sluggish growth have hindered an effective European response, but recent events are a breakpoint.

The vast use of unilateral actions to settle trade grievances and the definitive disenfranchisement of the WTO have undermined the multilateral order in a way that's hardly reversible for large economy.

The the EU is highly open to trade.

Almost one fifth of our total value added comes from exports, double the figure in the United states.

More than 30 million jobs are supported by exports, or around 15% of our employment, and we also run a large current account surplus of around 3% each year, implying that in net terms we absorb demand from the rest of the world.

This openness vastly increases the exposure of our growth and employment to the policy actions and the economic cycles of our trading partners, and our main exposure is to the United States.

We are exposed directly as the US is our largest export market with over 20% of our goods exports heading over the Atlantic.

And we are exposed indirectly as the United States is the main source of demand for our trading partners.

This means that if U.S.

demand falters, our partners imports from Europe will also falter.

And analysis by the European Central bank shows that in the case of a shock to the United States gdp, these indirect effects on the euro area actually outweigh the direct effects.

The recent actions of the US Administration are therefore certain to affect the European economy.

And even if trade tensions de escalate, uncertainty is likely to linger and act as a headwind for investment across the European Union manufacturing sector.

Now we should ask why we ended being in the hands of United States consumers to drive our growth, and we should ask how we can grow and generate wealth by ourselves.

Realistically, we cannot diversify away from the US in the short run, we can and should seek to unlock new trade routes and grow new markets.

But any hopes that opening to the world will substitute for the US are likely to be disappointed.

The US accounts for almost two thirds of the global trade deficit in goods.

The next two largest economies, China and Japan, also run persistent current account surpluses.

So we'll have to strike a deal with US that keeps our access open.

But in the longer run, it is a gamble to believe that we will return to normal in our trade with the United States after such a major unilateral breakdown in this relationship, or that new markets will grow fast enough to fill the gap the US leaves behind.

If Europe truly wants to be less reliant on US growth, it will have to produce growth by itself.

The first action that we need to take is to change the macroeconomic policy framework that we ourselves designed after the great financial crisis and the sovereign debt crisis about 15 years ago.

Up until this point, the EU had had a broadly balanced current account position and adequate domestic demand.

But faced with the aftermath of these crises, a slow recovery and high public debt, governments sought to reorient the economy towards world markets and import demand from abroad.

And the framework had three main elements.

The first was contractionary fiscal policy.

From 2009 to 2019, the collectively collective cyclically adjusted fiscal stance in euro area averaged 0.3%.

So a surplus or 0.3% of GDP, compared with minus 3.9 in the US a deficit of almost 4% in US for 10 years while we were running a surplus.

The main casualty of this fiscal consolidation was public investment, which dropped by almost a percentage point as a share of GDP and did not recover its pre crisis element until the pandemic.

The second element was a focus on external competitiveness over domestic productivity.

Since 2000, annual labor productivity yearly growth in EU has been just one half of what's been in the United States, causing a cumulative productivity gap of 27 percentage points over the whole period.

But instead of trying to reverse the trend in productivity, we adapted our labor policies around it.

Especially after the crisis.

We made a deliberate effort to suppress wage growth to increase external competitiveness.

Our real wages failed to keep pace even with our slow productivity, while U.S.

real wages rose 9 percentage points more than wages in euro area at this time.

This wage suppression held down consumption and reinforced the heat to domestic demand from contractionary fiscal policy.

Before 2008, domestic demand in the euro area grew at around the same pace as in the United States.

Since then, domestic demand in the US has grown more than twice as fast.

The third element was essentially giving up on developing the internal market as a source of growth.

Rules were not enforced, with infringement proceedings falling by 75% after 2011.

And there was little progress in lowering internal barriers in services.

Remarkably, external barriers in services fell faster than internal ones, redirecting demand outside of the European Union.

In this setting, no wonder that rates of return for investors were depressed and that capital was pushed outside the European Union in search of opportunities.

From 2015-22, large European public companies had a rate of return on invested capital which was about 4 percentage points lower than their US peers.

Recent reports tasked by the President of the European Commission and by the European Council provide a roadmap for a new policy framework.

Among other pieces of policy advice, they propose higher investments and the dismantling of barriers that hamper the functioning of the internal market.

These measures are self reinforcing.

Higher investments can generate a strong internal demand impulse, offsetting any headwinds coming from weaker US demand.

But lower internal barriers.

But lower internal barriers are today more than necessary, more necessary than ever to help our industries to cope with competition from China and to free their capacity to respond.

They will also temper inflationary pressures emanating from higher investment, especially if world trade becomes more fragmented.

In parallel, a well functioning single market will raise productivity growth, lifting rates of return and pulling in more private investment.

And that will in turn lead to higher wages and consumption, both to compensate higher productivity and because a strong demand market means less focus on external competitiveness.

But to finance higher investments, Europe is mostly relying on national budgets.

The European Union has recently reformed its fiscal rules to enable higher investments as well as activating the so called escape clause to facilitate higher defence spending.

But so far, only five of the 17 Euro area countries have opted for an extended adjustment period under the new rules.

And several countries have indicated that they will not use the escape clause owing to lack of fiscal space.

This underscores that when debt is already high, making categories of public expenditure exempt from fiscal policy from fiscal rules can only go so far.

In this context, issuing common EU debt to fund common spending is a key component of the policy roadmap.

It can ensure that aggregate spending doesn't fall short.

And it can ensure, especially for defence, that more spending will take place in Europe and that it will contribute to operational effectiveness and to higher economic growth than otherwise than if we spend all of our money for buying arms from other countries.

Moreover, issuing common debt would provide the missing link in Europe's fragmented capital markets, which is the Absence of a common, safe asset.

This would help make capital markets deeper and more liquid, creating a virtuous circle between higher rates of return and greater financing opportunities.

Altogether, this roadmap would both increase our growth and show that we are able to produce wealth for our citizens at home.

Does our past performance suggest that we are credible in carrying it out?

Well, it's often said that Europe only moves forward in a crisis, but in truth, our Crisis began almost 20 years ago.

It was at this time that the geopolitical construct that was created after World War II and which peaked with the fall of the Soviet Union, began crumbling.

And it was at this time that our position in global innovation and technology started to fall behind.

But for much of this time, we ignored all signs.

Consider energy.

Consider energy.

Our gas imports from Russia kept growing even after its invasion of Crimea and well after Putin's hostility to the west and the European Union had been widely stated.

We paid a high price when the gas was cut off, losing more than one year of economic growth.

And we are now attempting to accelerate the transition to renewables to to strengthen our energy independence.

But this requires a fundamental transformation of our energy system which we have not been able to deliver yet.

We are hampered by the inherent intermittency of renewables, by our inadequate grids and by long bureaucratic delays for new installations.

We see frequent surges in energy prices when renewables are not generating and expensive backup power sources need to be used.

High energy prices and the shortcomings of the network are first and foremost a threat to the survival of our industry, a major obstacle to our competitiveness and an unbearable burden for our households.

And if not addressed the major threat to our decarbonization strategy.

Three courses of action are necessary.

First, we need to carry out a large investment plan at European level to build the grids and interconnectors that necessary to make a renewables based network adequate to the energy transformation we aspire to.

Second, we need to reform how our energy market operates, working to loosen the link between the prices of gas and renewables.

It's really disheartening to see how Europe has become hostage to entrenched vested interests.

The European Commission, which has already created a task force on transparency of the energy market, may also want to launch an independent inquiry into the overall functioning of the European Union energy markets.

And because sun and wind cannot guarantee security of supply under any scenario, we need to be ready to use all possible clean energy sources and to be neutral towards new energy solutions.

Now, consider technology as the cloud computing and AI revolutions have gained steam.

Europe has been left out, but we have continued to create an environment that actually hinders radical innovation.

The fragmentation of our single market has hampered tech startups from reaching the scale necessary to succeed in this sector.

Our competition policies have been unable to adapt to the nature of the technological transformation that was taking place in front of our eyes.

Among other changes, innovation should have played a greater role in competition decisions.

And we have allowed regulation to grow as digital services have expanded.

This was motivated by a well founded concern for consumer protection.

But it didn't consider the effect on small European tech firms that, unlike their large US competitors, lacked the capacity to comply with such massive regulation.

Now we face a regulatory framework nowadays that is not only excessive in some key areas, but even worse, it's fragmented.

In other words, we have too many rules and they're all different.

Across 27 member states right now, there are over 270 regulators active in digital networks across all member states.

It is said that artificial intelligence is a transformational technology, like electricity was 140 years ago.

But AI is actually based on an orchestration of at least four other technologies.

Cloud and its capacity to store large quantities of data.

Supercomputing and its ability to carry out huge numbers of operations per unit of time.

Cybersecurity, which protects data in highly sensitive sectors like science, defense, health, finance and data network and transmission, such as 5 and 6G fiber optic and satellites.

Europe has lost ground in AI and in all four of these technologies.

And we must work in all these areas if we are to catch up.

By the way, it wouldn't be realistic to think that we could fill this gap anytime soon.

But what we could do and what we should do is to focus on specific sectors that are key for growth, welfare and security of our citizens.

For example, we should create a European strategic cloud that give us data sovereignty in critical domains such as defense, security and health.

We must invest more to build our common supercomputing infrastructure and like the Euro HPC network.

And we must develop a European cybersecurity capability as we are losing competitiveness in 5G and are weak, very weak in satellite communications today.

There is a material risk that we end up having to depend on US and China in the most sensitive component of which is the safe transmission of data.

All this requires a major industrial strategy in Europe.

And by the way, it's only through pooling together our resources and capabilities that we can actually reach the scale that these technologies do require.

Then let's consider defense.

Rising threats on our eastern border have been evident at least for a decade.

Russia makes no secret that it views us as an enemy to be weakened via hybrid warfare.

Ten years ago it invaded Crimea, and three years ago it proceeded to invade Ukraine.

But as this threat has mounted, we've done little to strengthen our common defense.

Today, Europe has 1.4 million military personnel.

Actually it's 1.6 count in the United Kingdom, making it one of the largest forces in the world.

But it is divided in 27 armies with no common chain of command, with technological fragmentation and a lack of common strategies, all of which make us irrelevant from a military standpoint.

As the US security umbrella is being pulled back, we are waking up to our own weaknesses.

But we should be surprised only by the speed of this change.

The strategy of Russia was announced years ago, and the strategy also of the United States was announced years ago.

Now, we might be too late now to influence short term events, even though we provided around half of the military, aid to Ukraine will probably be bystanders in a peace negotiation that concerns our futures and our future and our values.

But we are not too late to change the outlook five, ten years from now, if we take the right steps today to develop our defense industrial capacity and our strategic capabilities.

We need to reduce the fragmentation of our defence industry and encourage consolidation into a few large players.

We need to create a European Defence Plan based on interoperability across all the military assets we produce, land, sea, air and space.

We need to create a safe European cyberspace through greater coordination and investment in common digital technologies.

And to say that all this is utopia and impossible to achieve is tantamount to accepting our military irrelevance.

And for the space sector, we need to drastically reform the interplay between the European Union and and the national agencies.

And we need much greater involvement of the private sector.

For example, in the US 50% of space investment is financed privately, whereas in Europe public sector finances 80% of total investment.

And that in turn leads to major inefficiencies, such as the principle of geographic return that fragments the European space sector and as it has been hindering progress for decades, should be abandoned very soon.

Soon as possible.

Still.

Still, we shouldn't forget that our founding Fathers have bequeathed to us a Europe we should be proud of.

While we assess the weaknesses of Europe's present, we should look unceasingly for hope in its future.

When in the past the European Union has made a material jump towards greater integration, three factors have typically been present.

First, a crisis that proves beyond doubt that the previous system has become unsustainable.

Second, A large political shock that upends the institutional order.

And third, an already existing action plan that all parties can sign up.

To take the example of the creation of the euro.

This idea had been on the table since the 1960s, but was always seen as beyond real or current possibilities.

I remember I wrote my undergraduate thesis on the one currency in Europe.

It was 1970 and I was very much against it.

So I say something about this idea being on the table since the 1960s, but always seen as beyond the realm of possibilities.

Then, in the short space of time, the three factors came together.

The 1980s saw a series of exchange rate crises that injected unacceptable volatility into the economy and the very system of the European Common Market and made people willing to consider the single currency as an alternative.

Then German reunification happened, which required a new settlement to bind Germany more tightly into Europe.

And the Dilau Report, which had been published in 1989, provided the action plan to capitalize on this political moment.

Today, for the first time in perhaps 30 years, all three factors are present again.

Since 2020, we've lost our growth model, our energy model and our defence model.

Europeans feel the sense of crisis acutely.

Growth, energy and defence are the fundamental areas in which governments must provide for their citizens.

Yet in each one, we have found ourselves hostage to fortune and exposed to the unpredictable decisions of others.

As a result, perceptions among industry, workers, politicians and markets have changed from complacency to alarm.

The material risks we face to our growth, our social values and our identity hang all over our decisions.

Over all our decisions, we are seeing major institutional ruptures.

The political shock from the United States is massive, and this has been matched by a complete change of course in countries like Germany and by a new determination in the European Commission to tackle barriers and bureaucracy.

And we have the beginning of an action plan, which is provided by the recent reports.

Their policy advice has become, if possible, even more urgent.

Today we will invest again in Europe massively and responsibly.

We will take on the vested interests that presently block our path to a future based on innovation rather than privilege.

And we will protect and preserve our freedom.

Thank you.