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Ditchley conference report: Europe's precarious bid for third pole economic power

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Years of angst about Europe's stagnating growth and declining competitiveness have given way to cautious optimism. The second Trump administration's erratic policies, erosion of US institutions and research excellence, and trade wars have dented confidence in American economic exceptionalism. Trump's capriciousness has sparked renewed investor interest in Europe, pushing up the euro and enabling European borrowing at relatively low cost. Germany's reform of the debt brake – enabling a €1 trillion package of investment in defence and infrastructure – offers the first real hope in years that the EU's largest economy might escape stagnation. Meanwhile, the UK is seeking a thaw in its relationship with the EU in an effort to revive growth. Across Europe, rising defence spending offers a potential new source of demand to counteract the drag caused by shrinking export markets, US tariffs, and state-led Chinese industrial competition. And Mario Draghi's vision for revitalising the European economy remains very much on the table.

But a shift in sentiment is not a strategy. Europe's structural problems remain unresolved: weak productivity, underdeveloped capital markets, a fragmented internal market, sluggish technology adoption, and political constraints on co-ordinated fiscal policy. As the US and China pose new challenges for the global trading system, Europe must stoke domestic demand and strengthen its trade with other partners. Meanwhile, the continent's energy transition still calls for large-scale investment, even as defence spending and demographic pressures strain public finances – and some European politicians seek to slow climate action. Europe will need to exploit its economic potential better if it is to hold its own amid intensifying great power competition between China and the US.

In November 2025, at its annual Ditchley economics conference, the CER convened leading politicians, government officials, academics, journalists and thinkers to discuss the causes of Europe's slow economic growth and what the continent should do about them.

The debate revolved around five central questions:

1) Can Europe defend openness in a world of protectionism and great-power rivalry?

2) Is the euro finally poised to play a larger global role?

3) What price will Europe pay to rearm?

4) Does manufacturing still have a future on the continent?

5) Can Europe mobilise its own savings to finance investment, innovation and security?

This paper reflects the main takeaways from these debates and provides broader lessons for Europe's economic strategy.

These are the main conclusions:

★ Europe's growth outlook has brightened, but this reflects changes in the external environment—most notably greater US policy uncertainty and Germany's fiscal expansion—rather than meaningful progress in addressing Europe's structural weaknesses."

★ The euro is unlikely to rival the dollar soon. But a more fragmented world may create greater demand for alternatives to a US-centric financial system. Europe can seize this opportunity if it builds the missing foundations: deeper capital markets, larger safe assets, and stronger digital and security capabilities.

★ Rearmament is fiscally manageable for Europe. The harder challenge is institutional: overcoming fragmented procurement, weak defence innovation and the absence of a coherent European strategy.

★ Europe's manufacturing problem is not cyclical but structural. High energy prices, technological disruption, and Chinese industrial overcapacity are forcing difficult choices about what industries Europe wants to preserve, grow or let go.

★ Responding to these structural challenges industrial policy is moving from taboo to necessity. But successful industrial policy requires sharp priorities, strong EU co-ordination and credible exit strategies – not permanent protection for incumbents.

★ Europe's biggest economic paradox remains intact: it is rich in savings but poor at turning them into productive investment. Without deeper capital markets and more integrated financial infrastructure, Europe will struggle to finance defence, decarbonisation and technological development.

★ Europe can no longer assume that open trade and multilateral rules will constrain major powers. Preserving openness now requires a more muscular mix of trade defence, industrial policy and domestic reform.

★ Strategic autonomy rests less on individual policy instruments than on Europe's ability to combine growth, innovation, security and institutional integration. Europe cannot become a credible "third pole" while remaining fragmented at home.

★ The central tension running through the discussions was whether Europe can preserve the benefits of openness while adapting to a world in which trade, finance, technology and security have become inseparable.

★ Resolving this tension will depend less on developing new policy tools than on Europe's ability to overcome its persistent constraints: a lack of scale, integration and political co-ordination. The question is increasingly not what Europe should do, but whether it can act collectively enough to do it.

Can Europe save free trade?

The EU economy is more trade-oriented than those of its peers. The bloc has stayed committed to rules-based trade even as protectionism rises in third countries in recent years. But open trade is now under full-blown siege. China, which has long flouted WTO rules, is rapidly expanding exports while suppressing imports, and under Donald Trump, the US is raising tariffs to levels last seen in the Great Depression. The EU and the UK, alongside Japan and South Korea, accepted sizeable American tariffs to stabilise relations with Trump. The EU's efforts to align climate and trade policy, including through carbon border taxes, are heavily criticised, especially by developing countries. In response to all these challenges, Brussels is resetting its relations with the UK and accelerating new free trade deals with MERCOSUR and others – but, at best, these will only add a few decimal points to GDP. Should the EU continue to stick rigidly to WTO rules of the embattled institution? If not, what is Europe's plan B? Can it re-imagine a global trading system with the countries that remain committed to open trade and the green transition, offering them a liberal alternative to reliance on China or the US?

During the session, participants agreed that the intellectual assumptions underpinning trade policy over the past three decades have largely eroded. The belief that acceptance of multilateral rules would steadily expand and discipline the major powers no longer holds, leaving Europe – the most trade-dependent of the large economies – particularly exposed.

There was broad scepticism about the notion that Europe could 'save' global free trade on its own. The US has moved decisively away from its post-World War II role as guardian of the system. President Trump's hostility to open trade is long-standing and unusually consistent, and even the Biden administration showed little appetite to treat China as a normal member of the WTO framework.

Participants also discussed China's economic model and how it poses an even greater challenge. Beijing supports openness when it facilitates exports but has pursued two decades of policies aimed at localisation, import substitution and technological self-sufficiency. Imports of manufactured goods have been falling as a share of GDP, while subsidies and industrial policy have helped Chinese firms dominate an expanding range of sectors. Europe's trade with China has consequently become highly asymmetric: exports have surged while import growth has been close to zero. This imbalance has turned trade from a question of efficiency into one of strategic vulnerability.

For Europe the implications are stark. The continent relies heavily on its tradable sector for innovation and productivity growth, yet it risks being squeezed between a protectionist US and an export-driven China. A model in which Europe specialises in high-end consumer goods while importing critical intermediates could prove fragile if supply chains are weaponised while Chinese exports move up the value chain. At the same time, participants noted that with the exception of its trade with China, the picture for Europe elsewhere was less bleak. Japan, Canada, Mexico, Vietnam and many others remain interested in reciprocal trade, suggesting scope for a coalition of countries committed to preserve relatively open exchange among themselves.

The discussion therefore shifted from defending "open trade" in the abstract to building rules-based and resilient trade. Europe will need to use trade-defence instruments more actively to counter dumping and subsidies, while continuing to uphold multilateral trade principles. The fact that most countries apart from the US and China – who tilt the playing field against different trading partners in different ways to coerce them - still respect the most-favoured-nation rule provides a platform on which Europe can work. But resilience will also require domestic reform: stronger capital markets, greater energy security and a more integrated single market were seen as essential complements to a more muscular external policy.

Participants emphasised that strengthening ties with third countries was a priority. The EU's traditional preference for comprehensive, all-encompassing agreements might need to give way to more pragmatic, sector-specific deals, particularly on services and digital trade. Participants also warned that Europe's own regulatory agenda risks undermined this objective. Measures such as the deforestation law and forthcoming circular-economy rules can impose heavy costs on developing countries, many of whom perceive these measures as disguised protectionism. Ensuring coherence between internal regulation and external strategy will be crucial if the EU is to remain an attractive trading partner.

On engaging the US and China, a differentiated approach was considered unavoidable, rather than treating both in the same way. Engagement with the US remains vital given shared security interests and its more compatible market-economy model, even if negotiations are likely to be transactional and sometimes unbalanced. China, by contrast, is increasingly seen as a systemic rival requiring robust tools to address economic distortions and to manage economic security risks in areas such as semiconductors and critical minerals. The challenge will be to defend European interests without sliding into indiscriminate protectionism that ultimately damages Europe itself.

The debate also touched on the domestic politics of trade. Earlier rounds of liberalisation may have pushed beyond what publics were willing to accept, with modest economic gains accompanied by visible social costs, in increased foreign competition and some jobs moving abroad. Rebuilding support for market openness will require clearer evidence of reciprocity, fair taxation and the protection of strategic industries. Trade policy can no longer be treated as a purely technocratic exercise.

The session concluded that the era of frictionless globalisation is over. Europe cannot restore free trade alone, but it can help shape an order better suited to geopolitical realities today. This requires deeper partnerships with balanced traders, protecting the single market from distortive practices and aligning internal regulation with external goals. Regionally or geopolitically aligned blocs could stabilise the EU's position in the world, and even enhance its attractiveness for trade and investment, for example for the direct EU neighbourhood. The central task is to preserve the productivity benefits of openness, while adapting to a world where trade is inseparable from geopolitics.

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Is the euro finally poised to rival the dollar?

Firms, banks and investors hold dollars to execute cross-border transactions safely and cheaply. But the dollar system may be fraying. The BRICS countries are settling more trade, especially commodities, in their own currencies to evade US sanctions. Central banks are buying record amounts of gold. And investors worry about the decline of the rule of law in the US and threats to the Federal Reserve's independence. Could Europe take advantage of this? A more internationalised euro would lower borrowing costs, boosting investment in defence and the green transition. The euro is already the world's second reserve currency and, in some areas such as trade settlement, close to the dollar. A militarily stronger Europe could also enhance allies' faith in the currency. But the euro faces natural limits: it cannot absorb the world's trillions in dollar reserves as the eurozone has a current account surplus and no external funding need. Member-states are also unwilling to take two major steps needed to rival the dollar – creating deeper capital markets and issuing Eurobonds. Still, euro area banks could provide euro financial settlement in third countries, and the ECB could supply more safe short-term assets through expanded swap and repo lines, whereby the ECB provides euro liquidity to foreign central banks in exchange for euro assets or foreign currencies. What helps Europe is that China's renminbi cannot rival the dollar because it is constrained by capital controls and a shallow bond market. But like 19th-century Britain, Beijing could instead lend yuan abroad, allowing others to build balances to spend on Chinese goods. Are de-dollarisation jitters overblown, however, with the dollar set to remain dominant for lack of alternatives? Or are we moving towards a multi-currency system akin to the interwar years? Can the euro grow into a genuine global currency despite its limits? Will the EU and ECB rise to the challenge, or will China seize the opportunity a faltering dollar offers?

The session explored whether jitters about the dollar are finally creating an opening for the euro to play a larger international role. Participants were broadly sceptical. The dollar's dominance may be under greater scrutiny than at any point in recent years, but there was little sense that the euro is on the verge of displacing it.

Several participants argued that reports of de-dollarisation remain exaggerated. The international monetary system still rests on familiar foundations: military power, technological leadership, deep capital markets and abundant safe assets. On most of these metrics, the US remains dominant, while China is rising fast. Europe, by contrast, is a significant economic power but not a geopolitical or financial hegemon. Even the recent search for alternatives to the dollar has often benefitted gold rather than the euro. Central banks worried about geopolitical fragmentation have accumulated bullion, not European assets.

Others cautioned against reading too much into recent market volatility. The brief doubts surrounding the dollar after "Liberation Day" tariffs may have reflected a temporary shock rather than a structural turning point. The dollar's global role has repeatedly been declared unsustainable, yet its erosion has, so far, been slow and uneven. Still, some participants argued that the combination of fiscal strain, pressure on institutions and a more transactional US approach to allies raised legitimate questions about the long-term durability of dollar dominance.

The debate quickly moved beyond monetary mechanics to questions of power. Europe remains one of the world's central trade and financial hubs. But economic weight alone no longer guarantees influence in a world increasingly shaped by sanctions, technology controls and war. Europe's dependence on the US for defence, digital infrastructure and payment systems limits its room for manoeuvre. The euro's weakness, several participants suggested, is therefore not primarily monetary but geopolitical.

Digital sovereignty emerged as an unexpectedly prominent theme. Europe's reliance on American-controlled payment rails, cloud infrastructure and digital platforms was described as a major vulnerability. Against that backdrop, initiatives such as the digital euro, central bank digital currencies and European payment systems appeared less like technical curiosities meant to drive efficiency and more like instruments of strategic resilience. Participants were divided on the likely role of dollar-denominated stablecoins: some saw them as an extension of US monetary reach; others dismissed them as opaque instruments confined largely to crypto markets and weak financial systems. Regulated digital money, tokenised deposits and faster payment systems may ultimately prove more consequential.

China loomed large in the discussion, though not primarily as a monetary challenger. While the renminbi has gained ground in some trade transactions, participants pointed to capital controls, weak bond market returns, financial repression (where returns are suppressed by state intervention) and slowing growth as enduring obstacles to its internationalisation. The more contentious question concerned Europe's relationship with China. Some argued that Europe and China retained deep mutual economic dependence and that Europe might eventually be pushed towards accommodating China's industrial policy and its sway over Europe's foreign and economic policy. If Europe wants a different relationship with China, it may first have to demonstrate that it can credibly impose costs.

The discussion repeatedly returned to Europe's own institutional shortcomings. If the euro is to play a larger international role, Europe needs deeper capital markets, more integrated financial infrastructure and a larger pool of safe assets. But how to achieve this remains contested. Some participants saw common borrowing for strategic purposes – such as defence – as a pragmatic route toward creating a genuine European safe asset. Others argued that Europe should simply scale up existing common issuance mechanisms rather than tying monetary ambition to any single policy agenda.

A deeper tension also surfaced: does Europe actually want what comes with reserve-currency status? International currencies confer leverage, but also obligations and vulnerabilities. A more global euro could lower financing costs and strengthen Europe's strategic autonomy, but it would also expose Europe more directly to global capital flows, external shocks and demands for crisis liquidity provision. The debate hinted that Europeans may be attracted to the privileges of monetary power without being fully comfortable with its burdens.

Several voices stressed that policy-makers cannot engineer an enhanced international role for the euro in isolation from other policy debates. Currencies follow economic strength, institutional depth and geopolitical credibility. Europe cannot build a reserve currency first and hope power follows later. Rather, the sequence probably runs in the opposite direction: growth, deeper markets, greater fiscal capacity, stronger technological capabilities and more credible security arrangements are prerequisites that would eventually pull the euro upward with them.

The session concluded on a note of cautious realism. The euro is unlikely to rival the dollar anytime soon. But a more fragmented world may increase demand for alternatives to a US-centric system, particularly among countries seeking insurance against sanctions, coercion or geopolitical volatility. Europe possesses more latent monetary power than it often realises. The question is whether it is prepared to build the political, fiscal, technological and security foundations required to unlock it.

What price will the EU and the UK pay to rearm?

As the US drastically reduces its military support to Ukraine and scales back its role in European defence at large, Europeans are rearming at a considerable fiscal cost. Germany alone will take on hundreds of billions in new debt to ramp up defence spending. EU-wide joint borrowing could have lowered financing costs and encouraged joint procurement, but apart from €150 billion in cheap European Commission loans, most spending will fall on member-states. While the EU has loosened its fiscal rules, many member-states, burdened by existing debt and weak growth, lack the fiscal space to shoulder the burden. The UK has similarly struggled, cutting aid budgets to make room for more defence spending. Military Keynesianism offers a lifeline to Europe's ailing industry and a chance to build dual-use technologies, from batteries to rare earth magnets. But Europe's defence industry remains weakened by fragmented, bespoke production, and the EU devotes just 4.5 per cent of its military budget to R&D, compared with 16 per cent in the US. That raises the risk that spending will have few positive spillovers into the broader economy. Can the EU and UK afford the defence ramp-up, and at what price? Will it fuel inflation or consume the fiscal resources needed to fight the climate crisis? Will defence exemptions weaken fiscal rules and undermine budget discipline? Or will Europe's turn to military Keynesianism lift growth?

The discussion explored both the fiscal costs of rearmament and a deeper question: whether Europe – including both the EU and the UK - can spend much more on defence without reproducing the fragmentation and inefficiencies that have long weakened its military-industrial base.

Participants disagreed on how manageable the fiscal burden would be. Some argued that the scale of the challenge remained widely underestimated. The 23 EU member-states that are also in NATO currently spend around 2.1 per cent of GDP on defence. Raising that to 3.5 per cent over the next decade would require roughly €2.2 trillion in additional spending. In broad terms, there were only three funding options: cuts to other spending, higher taxation, or more public debt – either at the national or European level.

Several participants cautioned, however, against overstating the fiscal novelty of the task. Defence spending at 3 to 3.5 per cent of GDP would be high by recent European standards but not historically unprecedented. In the short run, modest increases in debt could help accelerate the build-up of defence capacity. Over time, however, because much of defence spending is recurrent and switches from new kit to salaries, pensions and upkeep, governments would have to confront difficult trade-offs within national budgets. The politics of rearmament would ultimately lie less in headline spending numbers than in deciding what to cut, tax or borrow against.

Common debt offered a possible solution, especially for high-debt countries such as France, Italy and Belgium that would struggle to finance a sustained military expansion on their own. But here, too, participants stressed the scale of the challenge. A European defence fund of the order required would dwarf the pandemic recovery fund. The market appetite for EU debt appeared robust – the EU's stock of bonds and bills will soon approach €1 trillion, and recent issuance has been absorbed with little difficulty. But debt servicing would eventually require the EU to find new sources of revenue. Common borrowing, as several participants warned, is not a free lunch.

The discussion repeatedly returned to a second question: what Europe would actually get for the money. The core problem, many argued, was not an inability to fund defence but Europe's fragmented expenditures. In other words, the continent spends large sums inefficiently: Europe fields around 121 major weapons systems such as tanks or fighter aircraft, compared with roughly 20 in the US, leading to duplication, small production runs and high unit costs. National procurement biases remain pervasive. Simply increasing defence budgets without changing the framework risks undermining its impact.

Several participants argued that Europe had been too passive in treating defence as a fiscal burden rather than an economic and technological challenge. Defence spending on the scale now envisaged – potentially €700 billion annually across Europe – would rival other major areas of public expenditure, and outpace other major economies, including Russia, Europe's main security threat. The question was therefore not only how to pay for rearmament, but how to maximise its economic and strategic returns.

Here, the debate touched on the promise and limits of 'military Keynesianism'. Defence spending could support industrial activity and stimulate technological upgrading, particularly in dual-use sectors such as batteries, robotics, advanced software, satellite systems, semiconductors and rare earth supply chains. History demonstrates that military R&D can have positive spillovers, from aerospace to digital technologies. Yet Europe currently captures relatively little of these benefits. Only a small share of defence spending goes to R&D, defence procurement remains fragmented, and dependencies on foreign suppliers – including China, in areas such as drones and critical inputs – remain pervasive. Some participants warned against assuming that defence spending would automatically generate innovation spillovers. Without stronger links between civilian and military ecosystems, and a greater focus on next-generation technologies rather than legacy platforms, they argued that much of the economic upside could remain elusive.

The discussion also questioned whether Europe was preparing for the right kind of conflict. Russia's war against Ukraine has underlined the importance not only of conventional capabilities but also of drones, cyber capabilities, electronic warfare, logistics resilience, missile defence and protection against sabotage and hybrid attacks. Participants noted that some of the most valuable technologies on the battlefield were low-cost, rapidly adaptable and tightly integrated with civilian supply chains. Europe risks preparing for the last war rather than the next one if procurement systems remain geared toward legacy systems.

This pointed to a broader co-ordination problem. Participants broadly agreed that Europe lacked a clear strategic plan defining what capabilities it needed, how much it should produce, and which functions should be organised jointly. Strategic enablers – such as airlift, intelligence, missile defence and next-generation technologies – emerged as promising candidates for deeper co-operation and common funding. But political obstacles remain formidable. Defence is still treated by member-states as a core attribute of national sovereignty. Even recent initiatives such as Security Action for Europe (SAFE), the €150 billion loans to member-states for defence capability investments, revealed resistance to joint procurement requirements, with some governments seeking to weaken co-operation provisions.

Some participants remained cautiously optimistic. Coalitions of the willing, focused initially on strategic enablers or future technologies, could provide a pragmatic route forward. Others worried that the deeper obstacle was a lack of mutual trust among Europeans themselves. If member-states fear dependence on one another almost as much as dependence on external powers, especially in view of the rise of nationalistic far-right parties, building a genuinely integrated European defence system will prove exceedingly difficult.

The discussion concluded that Europe's defence challenge is not simply one of finding more money. The continent possesses ample fiscal and industrial capacity to rearm. The harder task is institutional: defining a common strategy, reducing fragmentation, and ensuring that additional spending produces cheaper, more innovative and more autonomous capabilities rather than reinforcing existing inefficiencies.

Does manufacturing have a future in Europe?

Europe trails the US in tech but retains a much larger manufacturing base, which drives the little productivity growth it still achieves. It is also investing heavily in greening industry. But manufacturing has been hit by one shock after another: the pandemic snarled supply chains, and gas prices surged after Russia's invasion of Ukraine, slashing production in energy-intensive industries. German industrial production has now fallen for seven years, dragging businesses in its supply chains from Italy to Central and Eastern Europe down with it. At the same time, the most formidable challenge comes from China. Since its property bubble burst in 2021, China has doubled down on investment in vehicles, machine tools, clean tech and aviation – despite weak domestic demand. By exporting its overproduction, and through the rising sophistication of its goods, China is cutting into European producers' global and home markets. Is there any hope for European manufacturing? Would slowing or abandoning green ambitions help, or should the EU instead deploy more aggressive trade defences and expand industrial policy to protect its existing expertise and build new capacities in pursuit of strategic autonomy? Or would such protections from international competition only accelerate Europe's deindustrialisation, and raise the cost of products and services? Should the bloc cut its losses and prioritise services over its "old" industrial base?

Participants broadly agreed that Europe faces not a single shock but a structural transformation. Recent crises have exposed the costs of strategic dependencies, whether on imported energy today or on rare earths, batteries and the digital infrastructure of tomorrow. The China shock could have particularly far-reaching consequences for regions whose prosperity depends on industrial supply chains, with major political implications for governments facing anxious voters, high energy prices and threatened legacy industries.

Responding to this challenge requires more than incremental policy changes. Several participants argued that Europe needed a more ambitious industrial strategy, capable of enabling the creative destruction necessary for new sectors to emerge. Europe's car industry, slow to shift from combustion engines to electric vehicles, was cited as an example of how industrial inertia can undermine competitiveness.

Industrial policy in the decarbonisation era must therefore combine 'sticks' with 'carrots'. Carbon pricing and regulation remain necessary to drive the green transition, but they need to be complemented by support for innovation and scaling: R&D subsidies, public procurement, risk capital, workforce reskilling, and investment in enabling infrastructure such as power grids and digital networks. EU-level co-ordination will also be essential – both to deepen the single market and financing ecosystem, and to ensure that national industrial support does not undermine competition. Several participants stressed that industrial policy requires clear exit strategies: governments must know when to withdraw support rather than become a permanent lifeline for certain businesses.

China sharpened the debate over trade policy. Ensuring a level playing field requires closer alignment between Europe's trade and industrial strategies. EU trade-defence instruments remain comparatively reactive and piecemeal compared with the policies pursued by the Biden and Trump administrations, and are still used sparingly even in sectors facing persistent subsidies or dumping. But participants disagreed over how much protection European industry needs, what form it should take, and whether the EU should pursue a harder line in concert with other advanced economies confronting similar pressures.

Energy emerged as another critical fault line. High energy prices continue to undermine the competitiveness of Europe's energy-intensive industries. Modernising grids, expanding clean power and decarbonising industrial production will take time and substantial investment. The challenge is then how to strike a balance between temporary protection for vulnerable sectors and preserving incentives for them to modernise and decarbonise.

The discussion also highlighted deeper structural barriers to innovation. Some participants pointed to regulation as constraining digital innovation, while others argued Europe's problem runs deeper: weak risk-taking cultures, shallow venture capital markets and limited incentives to invest in frontier technologies. Tackling these weaknesses could require broader reforms, including redirecting more of Europeans' long-term savings – for example through pension reform – toward productive risk capital.

The session concluded that industrial policy could not treat all sectors alike. Batteries, wind technologies, critical medicines, digital infrastructure and defence supply chains each raise different economic and security considerations and require distinct policy approaches. The hardest task for policymakers may be choosing where Europe should concentrate its scarce resources. Strategic sectors are numerous, fiscal capacity is limited, and the niches where Europe can credibly build or preserve a competitive advantage are finite. Yet some participants noted that the US's increasingly erratic industrial and trade policies could create openings for Europe to attract investment, talent and innovation in sectors ranging from clean energy to biotech and pharmaceuticals.

Will Europe risk its (capital) markets taking off?

Both the Draghi and Letta reports highlight fragmented and underdeveloped capital markets as a key impediment of European growth. European equity markets lag behind US peers in valuation and liquidity, and Europe's few high-profile tech firms have gone public in New York. As a result, European companies remain too reliant on bank loans, and start-ups face thinner venture capital funding than in the US. The Banking Union and the Capital Markets Union, now rebranded the 'Savings and Investments Union', could change this. Deeper, more integrated markets would also help finance public goods such as industrial decarbonisation. Will EU-level reform succeed this time, or should countries look to national success stories like Sweden and the Netherlands? Can Europe leverage its strengths in green finance to expand globally? Is there a tension between the current focus on deregulation and the need for European-level reform to harmonise markets?

Participants agreed that, despite a decade of initiatives, progress towards financial integration had been disappointing. Europe remains rich in savings but poor at channelling them into productive investment, a weakness that has become more acute as the continent faces huge financing needs for defence, digitalisation and the green transition.

There was broad consensus on the diagnosis. Around 70 per cent of EU household savings are still held in bank deposits, amounting to roughly €10 trillion that is not working for growth. European capital markets remain fragmented along national lines, supervision is divided, and exit options for venture capital are limited. As a result, the returns available to European savers lag far behind those in the US, and private investment in productive assets is markedly lower. The paradox is that Europe saves more than America yet accumulates wealth more slowly.

This weakness has geopolitical as well as economic consequences. Over the past decade US asset managers have rapidly expanded their dominance in European markets, and European savings have increasingly flowed into American equities and government bonds. Recent events illustrated the point: when a retail fund dedicated to European defence stocks was launched, it was an American investment firm that raised €1 billion in a month. In an era when trade and finance are being weaponised, reliance on foreign intermediaries to allocate European capital is no longer just a commercial issue but one of strategic autonomy.

Participants noted that some progress had been made. There has been gradual convergence of insolvency laws, improvements in securitisation frameworks and a series of technical measures to support venture capital and retail investors. Yet these steps have been incremental rather than transformative. The EU still has dozens of central securities depositories, clearing houses and stock exchanges, each with its own rules and infrastructure, generating high transaction costs and discouraging cross-border investment.

A recurring theme was the need for integrated supervision. Fragmented oversight encourages regulatory arbitrage and fosters distrust between national authorities, which in turn leads to ring-fencing of capital and resistance to cross-border mergers. Without a credible European supervisory architecture, efforts to create truly pan-European financial institutions are likely to continue foundering on political obstacles.

Technology was presented as a potential accelerator. Shared ledgers are decentralized, synchronized digital databases, and tokenized securities are traditional financial assets (like stocks or bonds) represented as digital tokens on them, which dramatically speeds up and automates the trading and settlement process. Their development could allow near-instant settlement across borders. The European Central Bank's plans for a wholesale digital euro were seen as an important step, providing a safe settlement asset for digital markets. However, there were warnings that American hyperscale technology firms are providing precisely such services, raising questions of sovereignty over the financial "rails" on which Europe's markets will run.

The scale of the investment challenge dominated the discussion. Estimates suggest Europe needs roughly €800 billion a year in additional investment to close productivity gaps and meet climate and defence objectives. Yet the continent simultaneously exports large volumes of capital: its current account surplus effectively finances US deficits and Treasury markets. Redirecting even part of these flows back into Europe could go a long way towards meeting financing needs.

How to achieve that redirection divided opinion. Some argued for stronger incentives for European investors to deploy capital at home, including tax measures, enhanced write-offs and regulatory changes to reduce the privileged treatment of foreign risk-free assets. Others went further, suggesting that if the US was prepared to restrict trade and migration, Europe should not treat free movement of capital as untouchable. While few advocated formal capital controls, the debate reflected a growing willingness to question long-held orthodoxies.

There was scepticism about relying primarily on building Europe's capital markets by a stronger use of development banks. Such schemes often generate limited private returns and struggle to mobilise genuine risk capital. A true Capital Markets Union and allowing startups to scale more easily through a '28th regime' of common EU business regulations were seen as the more promising route; in March 2026, the Commission tabled a proposal for such a regime. Encouraging retail investment, directing pension funds toward capital markets and creating genuine European safe assets were all identified as essential.

The political obstacles were acknowledged as formidable. Co-ordinating 27 sovereign states is inherently slow, and previous attempts to build cross-border banking champions have collided with national sensitivities. Yet participants stressed that the costs of inaction are rising. Without a more effective mechanism to mobilise its own savings, Europe will struggle to finance rearmament, digital transformation and decarbonisation, and will remain dependent on external capital to shape its economic future.

Participants concluded that the Savings and Investment Union is a strategic necessity. Europe possesses ample savings; the challenge is institutional rather than financial. Boosting EU capital markets required integrated supervision, modernised market infrastructure, stronger incentives for domestic investment and a willingness to rethink the balance between openness and economic security. The alternative is a continent that funds others' growth while under-investing in its own.

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