

Sabine Mauderer: Navigating global challenges - what's in it for Europe?

Speech by Dr Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank, at the International Capital Market Association (ICMA) Annual General Meeting & Conference, Frankfurt am Main, 5 June 2025.

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1 Introduction

Ladies and gentlemen.

I don't know what your early morning routine looks like, but mine has changed significantly. Every morning when I get up, the first thing I do is to check the news for developments that I would not have expected even some months ago. Global uncertainty and tectonic shifts are everywhere.

Today, I would like to take a closer look at what this means for Europe. More specifically: how can Europe make the most of the current circumstances, where many international investors look for new investment opportunities?

2. Global threats: Weak growth and high debt

Let me recap some of the challenges our world is facing.

First, the global economy is experiencing a longer period of relatively weak growth. The reasons for this are manifold:

1. Growing trade barriers,
2. overcapacity in China and
3. concentration risks along the supply chain.

All these factors are becoming a more pressing issue. Trade barriers, such as tariffs and export restrictions, fragment international markets and reduce the efficiency of global trade. Overcapacity in China in key industries can lead to further price pressure, especially in Europe. Concentration in either critical industries like the chip industry or commodities, such as rare earths, can create economic dependencies.

Besides significant headwinds resulting from geopolitical tensions, we have country-specific challenges. These include:

1. Demographic change, causing a shortage of skilled workers.
2. Small and medium-sized companies not using the full potential of digitalisation.
3. Slow administration and high degree of bureaucracy.

These factors matter, especially in Europe.

And in addition to all this, we are facing broader challenges that you all are aware of. A short list: climate change, degradation of nature and the effects of artificial intelligence (AI) on our economies.

We also need to talk about rising global debt. Fiscal deficits and public debt-to-GDP ratios have grown significantly in emerging markets and developing economies (EMDE). In 2025, even in advanced economies the debt-to-GDP ratio has reached an average level of 110%.^{[1](#)}

High debt is a significant risk for financial stability. High debt also limits governments' room for manoeuvre.

3. Uncertainty causes high volatility in financial markets

At the same time we face significant uncertainty that is evident in the high volatility on financial markets. This year alone, volatility indicators in many market segments spiked at various occasions:

In early March, when the new German government presented its fiscal plans. In April, markets reacted strongly to the announcement of "reciprocal" tariffs by the US administration. Recently, we have seen rising yields in many countries, particularly at the long end of the yield curve.

In part this increase in rates can be seen as a normalisation, as central banks are slowly withdrawing from bond markets. But rising term premia may also reflect heightened awareness of fiscal sustainability with regard to a number of countries, including the US.

This shows that: Fiscal leeway is not infinite. This is what even leading government bond markets are telling us.

In such an environment, market participants have to deal with remarkable changes. Probably the most prominent one involves rising US Treasury yields, which normally go hand in hand with a rising US dollar. Recently, however, this correlation has been reversed.

Potential vulnerabilities also originate from non-bank financial institutions (NBFIs). We saw high margin calls affecting hedge funds, to mention just one example. We have to keep a close eye on NBFIs, not least since they control roughly 50% of global financial assets.^{[2](#)}

Bottom line: In recent months we have experienced significant volatility in financial markets. The good news: Financial markets remained quite resilient, despite this high volatility. But with all these uncertainties and rising debt levels also in advanced economies it is clear: We are not out of the woods.

4. Europe has benefited so far

Europe, in particular, has been holding up relatively well amid this uncertainty and volatility. The euro has appreciated against the US dollar and against the currencies of other major trading partners. European equity markets have been outperforming their peers in other regions. German government bonds have served as a stability anchor and a safe haven, especially amid the uncertainty around tariffs.

Looking at government bond spreads in Europe, there were no signs of fragmentation even in times of market stress. We are seeing more and more non-European entities issuing bonds in euro instead of US dollar. Finally, the German government's fiscal package was well received. The biggest part of the rise in Bund yields following news about the spending plans reflected an improved medium-term growth outlook.

So, that's the good news, but let's also be honest: Part of the market reaction towards Europe is due to positive expectations about future outcomes. It seems that to some extent we are being praised for reforms we have yet to implement.

Beyond that, the strength that Germany and Europe have shown is more relative in nature, so far. In other words, we have also benefited from higher uncertainty in other parts of the world.

But it is also true that many investors are discovering Europe to be a safe haven. It is a place where democracy, the rule of law and the principle of checks and balances are part of the DNA.

5. How can Europe benefit in the future?

Against this backdrop, how can Germany and Europe preserve and build on these positive developments? Or, put differently, how can we ensure that the current tailwind does not become a lukewarm breeze?

First, we have to make sure that democracy, rule of law and the principle of checks and balances remain the backbone of Europe.

Second, any fiscal space needs to be used in a smart way, fostering growth. This means that financial resources must be channelled into productive investments.

Third, growth requires not only smart support from the government. The biggest effort must come from the corporate sector itself.

European companies have to become more competitive to keep pace with global dynamics. This includes making advances in digitalisation and AI, as well as driving innovation in disruptive technologies and areas.

Companies have to stay alert and agile. They have to adapt to the speed of key developments and remain open to change. For that, they need to recruit skilled people.

To get skilled people, Europe must ensure a well-functioning education system, including good universities. We must secure that everyone has access to educational institutions.

That leads me to my last point: We need a social system that ensures social cohesion. At the same time, a social system has to be balanced to provide incentives for work and to avoid overburdening fiscal capacities.

I could go on listing all the areas where Europe needs to improve. But let me come to an end.

6. Conclusion

Ladies and gentlemen.

The momentum is now on Europe's side, but it will not be endless. Europe needs to speed up. The public and private sector both need to accelerate and intensify their efforts to ensure their economies remain globally competitive. That's what investors expect.

A major cornerstone of Europe's promise as a safe haven lies in its democracy, its rule of law and its system of checks and balances. These are some of Europe's greatest treasures.

Being a passionate European, I will do my best to safeguard these treasures. In my case, by stressing the value of central bank independence.

¹ International Monetary Fund (2025): World Economic Outlook, 14 April 2025.

² Financial Stability Board (2024): Global Monitoring Report on Non-Bank Financial Intermediation, 16 December 2024.