



Warsaw, 4 April 2025

Dear Colleagues,

Trade wars have a negative effect on economies and jobs. Yesterday, 2.5 trillion dollars were wiped off the US stock market, with other markets also taking a hit as a result of the American administration's political decision to engage in an unprecedented trade dispute with the rest of the world. It is our responsibility to prepare the European economy for the challenges ahead.

While the European Commission is attempting to negotiate with our American partners to avoid the unnecessary economic repercussions, we must not overlook the reality that trade tariffs will have a significant macroeconomic impact, threatening the prosperity of our people and businesses. Disrupted supply chains and rising costs for companies will affect European growth ratios and currencies. In turn, this will have adverse social consequences, increasing prices for consumers and leaving citizens more vulnerable.

As such, I have placed the macroeconomic consequences of trade at the centre of next week's discussions among European finance ministers during the informal Ecofin in Warsaw. EU trade ministers will address the trade aspects on Monday, while we will focus on the broader economic implications during the ministers-only lunch session on Friday. This discussion will be smoothly coordinated with the Eurogroup debate on macroeconomics.

In considering an appropriate response, we must reflect on the European internal market, which is our key engine for growth and job creation. According to the IMF, current regulatory barriers within the EU are equivalent to tariffs of over 40% in goods, and 110% in financial services. A natural response should be to bring down these barriers as a matter of urgency.

A key objective of our discussion must also be to demonstrate the unity of the European Union. Our strength lies in our solidarity.

However, we must not allow trade tensions to overshadow the fact that there is an actual war taking place on European soil. Defence financing has become a major issue, with governments planning to spend hundreds of billions of euros on rearmament. This money must be spent wisely. Without a coordinated approach, fragmented defence markets will prevent us from achieving that. Given the need to maintain prudent fiscal positions, defence investment cannot proceed without proper coordination.

To support our work in this area, we have commissioned the Bruegel think tank to prepare an analysis assessing the adequacy of recent EU efforts and to propose additional solutions to the persistent challenge of insufficient defence financing. The resulting paper presents two potential options to address current shortcomings in European defence policy.

The first is an EU-wide approach, ensuring broad participation but falling short in effectively addressing specific needs and therefore lacking in impact. The second proposes the creation of a new intergovernmental institution. As defence spending remains a national prerogative, this intergovernmental model may offer a more effective response. Nonetheless, we must ensure a coherent approach, involving the Commission and other EU institutions, especially as our countries deliver on their NATO commitments.

The Bruegel paper represents the sole responsibility of its authors but should serve as a candid and constructive basis for our discussions on the second day of the Ecofin.

I look forward to welcoming you to Warsaw and to engaging in these important discussions.

Kind regards,

A handwritten signature in blue ink, appearing to be 'D. Stur', with a horizontal line extending to the right from the end of the signature.

For the attention of:

ECOFIN Members
Managing Director of the European Stability Mechanism