Q&A

VALDIS DOMBROVSKIS

Commissioner for Economy and Productivity; Implementation and Simplification – European Commission

Building a stronger, more competitive and dynamic European economy

With Member States facing different challenges — from indebtedness in France, to pressure on the German economic model, to fears of war in the Baltic and Nordic countries — on what basis can European economic and financial cooperation be revived and strengthened?

The EU and the euro area have shown remarkable resilience to a series of unprecedented shocks in recent years. Indeed, Europe is today navigating a period of heightened global uncertainty, with volatile trade and security conditions.

This overall context has weighed on economic growth. In parallel, while public debt has declined in many countries in recent years, overall levels remain close to historic maximum. This comes at a time when public spending faces intense and increasing pressures, including the urgent need to enhance Europe's defensive capabilities. Finally, productivity growth has also underperformed compared to other major economies for the last two decades.

These challenges share a common denominator: the need to improve competitiveness. Following on from last year's Draghi Report, the European Commission issued its Competitiveness Compass in January. It sets out our strategic roadmap aimed at restoring Europe's dynamism and enhancing economic growth.

The challenges we face can only be addressed through concerted and coordinated action. It is vital that the EU continues to coordinate the economic policies of its Member States effectively to enhance competitiveness and secure our long-term prosperity.

This year's country-specific recommendations, which provides tailored policy guidance to EU Member States, translate the priorities set out in the Compass into concrete policy actions. This guides Member States towards play their vital part in enhancing Europe's overall competitiveness. They include recommendations on, for example, improving and simplifying the business environment, fostering innovation, and increasing access to finance.

Our work to implement the Competitiveness Compass is already well underway. The challenge now is to stay the course and, working together with Member States, ensure that our competitiveness agenda delivers on its full potential.

How is systemic uncertainty — notably around tariffs and the global trade system — reshaping investment, inflation, and financial integration in the EU? What policy priorities at EU and Member State level are needed to safeguard resilience, competitiveness, and stability?

The high level of uncertainty when it comes to global trade policy has disrupted essential transatlantic supply chains, to the detriment of businesses, consumers and patients on both sides of the Atlantic, and indeed around the world. The heightened uncertainty has profound implications for economies worldwide, with the European Union being particularly susceptible given its high degree of trade openness.

The EU-US trade deal agreed at the end of July provides a framework for greater stability and predictability for citizens and businesses on both sides of the Atlantic. However, the EU will now have to navigate elevated tariffs while, more broadly, uncertainty surrounding global trade policy persists.

Trade uncertainty deters European firms from investing, expanding and creating jobs as they adopt a "wait and see" approach. Such investment restraint will have cascading effects on economic growth and the labour market, particularly in highly open economies like the EU. According to the European Commission's assessments, high uncertainty has been playing an important role in dampening the growth outlook in recent months and is set to continue weighing growth prospects and trade performance.

To counter these challenges and support sustainable prosperity, strengthening competitiveness and making the most of the EU's biggest asset - the Single Market - are essential. Here again, the Competitiveness Compass will be our lodestar, placing the need to enhance Europe's competitiveness at the centre of the EU's agenda for the next five years.

There is a real momentum for bold action and the work is already well underway.

We are making the most of our main economic asset, the Single Market of 450 million consumers, by tearing down its remaining barriers to boost the EU's economy, while attracting global talent and investment. We are simplifying rules and regulations to empower our business to expand, innovate and create jobs. We are integrating European capital markets through our Savings and Investments Union to better channel our household savings – estimated at €10 trillion – towards productive investments. We are closing Europe's innovation gap and mobilising financing for innovative businesses to scale-up. We are investing heavily in strategies to develop the skills needed for future labour markets, including digital skills. We are reducing Europe's energy costs while decarbonising our economies. We are also working hard to deepen our cooperation with existing trade partners and finding opportunities with new ones.

How can Member States shift from demand support to supply-side investment? What should be the priorities for reforms and could loose monetary policy and high deficits hinder long-term savings and capital formation?

The European Commission recognizes the crucial importance and urgency of supply side reforms.

Mobilising investment requires efforts to foster a more productive and innovation-driven economy, in line with the objectives of the Competitiveness Compass. This work is cross-cutting, including, for example, supporting a more business-friendly environment through simplified and predictable regulatory frameworks, investing in key areas such as infrastructure and research, improving access to finance, and developing skills.

At a European level, in line with the objectives of the Competitiveness Compass, the European Commission has issued policy guidance to Member States targeting persistent challenges to competitiveness such as low productivity growth, underinvestment in research and innovation, supply chain dependencies, skills mismatches, and barriers to business scale-up.

At the national level, EU Member States are playing their part. In plans presented to the European Commission, they have outlined key reforms and investments aimed at boosting productivity and competitiveness. They are taking steps, for example, to ensure the long-term sustainability of pension systems, streamline administrative procedures to reduce burdens on businesses, increase investment in research and innovation, and improve the quality of public spending.

Why has completing the Single Market in services, energy, and digital stalled for decades? Should there be a greater focus on innovation and productive investment in Europe?

Our Competitiveness Compass transforms the recommendations of the Draghi and Letta reports into a roadmap for action. One year on from the presentation of these reports, we remain focused on delivering on their promise.

The Competitiveness Compass places a special and specific emphasis on the need to lower barriers in the Single Market.

The Single Market is the EU's biggest economic asset. Global economic uncertainty underlines the necessity of taking all action within our power to strengthen our economy. Nowhere is this more important than in completing the Single Market and ensuring that it fulfills its full potential.

The Single Market is a key driver of productivity by providing scale for business to grow, and by stimulating knowledge spillovers, competition and innovation. It is therefore an important part of Europe's response to revamp competitiveness and increase economic security.

However, barriers persist. Estimates show that non-tariff barriers to trade remain between EU Member States, and that completing the Single Market could double the aforementioned gains. The bottom line is that to reap the full benefits of the Single Market, we must tear down its remaining barriers. The European Commission is determined to make this happen.

As we move to an increasingly service-based and digital economy, it has become all the more urgent and relevant to deepen the Single market for services. The European Commission has just issued a new Single Market Strategy to remove barriers to intra-EU trade, which has a special emphasis on services and SMEs. The focus is on a limited number of key barriers, the so-called "terrible ten". These include recognition of professional qualifications, restrictive and diverging national services' regulation, rules on packaging and labelling; or burdensome procedures for posting of workers, to name a few.

At the same time, building the Savings and Investment Union and continuing to implement our agenda of regulatory simplification will also be key elements to reducing barriers within the Single Market.