



Q&A

VALDIS DOMBROVSKIS

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

Towards a stronger and more dynamic European economy

Over the past two decades, the EU has been falling behind the US and China in terms of productivity growth and innovation, despite demand support and stabilization measures. Why is this happening, and how can we deliver a durable recovery in productivity and competitiveness? Max 2000 characters with spaces

For over two decades, Europe has not kept pace with other major economies due to a persistent gap in productivity growth. We are not short of ideas, but we are failing to turn these ideas into new, marketable technologies, and integrating them into our industrial base. This structural challenge is now compounded by additional vulnerabilities, such as high energy prices, red tape and geopolitical challenges.

The European Commission has placed competitiveness at the centre of its agenda to respond to these challenges and reignite Europe's economic dynamism. Our Competitiveness Compass has set out the roadmap to build a more competitive Europe. We have begun its implementation, focussing on three key areas: cutting red tape, completing our Single Market, strengthening our trade network.

First, on simplification. The European Commission has already presented ten major proposals that could save companies at least €15 billion per year. By 2029, we will review the entire body of EU law to remove unnecessary regulatory requirements. This is the 'deep regulatory housecleaning' that President von der Leyen has called for.

Second, on completing the Single Market. By removing remaining barriers, we can unlock scale and opportunity for our businesses to thrive. Our Savings and Investments Union, for example, can break down barriers in Europe's fragmented financial markets.

Third, on trade. The weaponisation of dependencies informs our determination to derisk and diversify our trade network. We

are decisively expanding our trade network. New agreements with Mercosur and India are strengthening Europe's resilience and global reach.

While the work implementing the Compass is well underway, more progress is urgently needed across the board. The European Commission is preparing a One Europe, One Market Roadmap and Action Plan for the March meeting of the European Council. This will set out the next steps across the various competitiveness building blocks with clear timelines and targets.

With public debt rising and spending needs increasing, what policy priorities should governments focus on to support competitiveness while ensuring sustainable public finances? How can the EU's new fiscal framework strengthen the credibility and enforcement of fiscal rules across Member States?

Over the past five years, fiscal policy has played a decisive role in supporting Europe's response to various crises. This has obviously had an impact on public debt ratios. Looking ahead, we are faced with permanent spending needs related to our ageing population, competitiveness and security.

The EU's new fiscal framework was designed precisely to help strike the right balance between accommodating higher expenditure on urgent priorities and preserving debt sustainability. Under these rules, Member States design national plans setting out their fiscal targets, priority reforms, investments and measures to address any possible macroeconomic imbalances. This greater national ownership combined with a stronger focus on medium-term debt sustainability enhances the economic and political credibility of the framework.

Overall, ensuring that governments can achieve policy priorities when fiscal space is more limited requires a stronger emphasis on reprioritisation and efficient public spending. This means shifting resources towards emerging priorities which may require scaling back some other expenditure items. On defence spending, Member States can benefit from temporary flexibility under the EU rules to immediately ramp up investment. It is important that the period of flexibility is used well to reprioritise budgets and to prepare for a structurally higher level of defence spending. We must also look at the revenue side, for example by making taxation more growth-friendly.

The new rules establish a strengthened enforcement regime to ensure Member States deliver on their commitments. The fact that the new framework relies on a single indicator leads to higher transparency, more predictability and easier enforcement.

In Member States that have benefited most from NGEU, notably Italy and Spain, how far has the programme delivered lasting productivity gains rather than temporary demand support? What concrete lessons should be drawn for the design of future EU-level investment instruments?

The aim of the Recovery and Resilience Facility (RRF) was clear: to support Europe's economic recovery in the short-term, and to help it become stronger and more resilient in the long-term. It delivered on both fronts. The full impact of the RRF in terms of long-term productivity gains will only become clear in time.

One of the key innovative features of the RRF is that it goes beyond funding investments. It also provides financial incentives for the implementation of reforms at an unprecedented scale.

The Italian and Spanish recovery and resilience plans both include a significant number of productivity-enhancing structural reforms. Both countries, for example, are implementing reforms of the justice system to simplify procedures and increase digitalisation, aiming to increase legal certainty and efficiency. They are also implementing reforms of public procurement and administrations, the labour market and business environment, as well as reforms that stimulate innovation and digitalisation, such as the Spanish reform of the Science, Technology and Innovation Law. All these measures lay the foundations for significant productivity gains.

The synergies between investments and reforms can be very substantial. Take the example of the justice system. The joint implementation of a reform of procedures to speed up judicial proceedings and an investment in digital equipment can

compound gains, delivering a higher combined impact than either measure could have delivered alone.

The European Commission will take the lessons learned from the implementation of the RRF into account when shaping future EU financing instruments.

As long as financing conditions remain supportive, governments may continue to benefit from the protection offered by the euro. Why has this not translated into stronger productivity and competitiveness gains in many Member States? What concrete adjustments should governments be delivering while this window remains open?

The euro provides euro area Member States protection in good times and in bad. It provides the essential stable foundations that facilitate and encourage the investments that drive productivity.

There is a real cost to the wide gap that has opened across different metrics between the EU and other economic powers. That is why we can say that Europe has reached a moment of reckoning. We can no longer be content with modest growth in a changing and challenging world. We need to undergo a profound transformation in terms of our competitiveness to brace ourselves for new geopolitical realities and secure our long-term prosperity.

Delivering a more competitive Europe demands determined action both at the EU and the Member State level. We must all pull in the same direction to reach the outcome we all need.

For EU Member States, this means implementing productivity-enhancing reforms and investments. The European Commission presents guidance on such measures with targeted recommendations as part of the European Semester framework for policy coordination. The implementation rate of these recommendations has clearly improved as a result of the link with RRF funding. The EU's next long-term budget will build on this approach, supporting targeted investments and reforms designed to address current challenges.

Beyond reforms by Member States, the most powerful means to boost Europe's growth and potential growth would be to complete the Single Market, implement our ambitious simplification agenda and close the productivity gap by investing in innovation. For Europe, AI represents a once-in-a-generation opportunity for productivity gains that we cannot afford to miss. We must invest in research, infrastructure and skills to ensure the EU becomes a global leader in AI development and adoption, safely but surely.