Q&A

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A more integrated Europe for higher productivity and investment

Europe's productivity problem is often discussed as a European challenge. To what extent is it also a national reform challenge? What reforms and investments are needed at Member State level to boost productivity, preserve fiscal sustainability and support economic convergence?

Enhancing Europe's competitiveness requires action across all fronts and on all levels. We must take steps to facilitate stronger growth at national and EU level at the same time.

The European Commission is advancing an ambitious competitiveness agenda through proposals that include cutting red tape, eliminating barriers in our Single Market, and strengthening our trade network.

But many of the policy areas critical to enhancing our competitiveness are a national competence. This means that the needed investments and reforms must also come from Member States.

The EU is playing an important role to clarify the objectives of common interest and coordinate policy action at the national level to maximise their aggregate impact across the European economy. To that end, the framework of economic surveillance of the EU has been re-focused with greater attention to competitiveness-related objectives. The European Semester provides tailored recommendations to each Member States on policy actions aligned with the EU's competitiveness agenda. This includes the promotion of policies to help channel savings towards productive investments, close the innovation gap, making the most of the single market, and promote skills and training.

The EU's new fiscal framework also places a greater emphasis on encouraging investments and reforms at the national level that help raise the growth potential and preserve the sustainability of public finances.

The sum of our collective efforts will build the more competitive Europe we urgently need.

How do persistent divergences in productivity, competitiveness and public finances affect trust, risk-sharing and the political feasibility of deeper European integration?

European citizens expect and deserve an EU that delivers. Trust in further European integration is derived from integration resulting in real, tangible benefits. The EU has been identified as a 'great convergence machine', to use the term coined by the World Bank. Indeed, convergence has always been at the core of our policies. Over the years, the Union has adopted a broad array of policies aiming to reduce divergences among Member States in productivity, competitiveness and public finances. Nowhere is that more evident than in my country, Latvia. In less than forty years, it has emerged from the grip of a failed Soviet system to develop into a thriving, open and liberal market economy.

The Commission is taking forward work to strengthen competitiveness and productivity, including through a deeper Single Market and a new Savings and Investments Union with integrated capital markets. These measures aim to mobilise savings for productive investment, support European companies to scale up and foster access to the Single Market. Going forward, it will be important to ensure continued upward convergence, strengthening the economic foundations for further integration. This is urgent given today's geopolitical environment. And there is clear public support, with the Eurobarometer showing that 90% of Europeans want a more united response to global challenges.

Looking ahead, we need to ensure that the European project keeps delivering real protections and opportunities for our citizens. That is what will make the case for further integration.

What are the main obstacles preventing the Single Market from delivering its full productivity potential? How can a deeper Single Market help European firms scale up and compete globally without disproportionately benefiting non-EU competitors?

The Single Market is a cornerstone of European integration and has been a major driver of productivity. It enhances economic efficiency through economies of scale, stronger competition and increased innovation.

The Single Market does not disproportionally benefit non-EU competitors. On the contrary, it is our safe haven in a context of global geoeconomic tensions, and a pre-requisite for EU firms to scale up to reach continental size and be able to compete at a global level. This said, where unfair competition threatens our Single Market, we do not hesitate to use the tools at our disposal, such as trade defence instruments.

Nonetheless, barriers to deepening the Single Market persist, and new obstacles continue to appear. Although some of these barriers result from national rules pursuing legitimate policy objectives, addressing them will reduce unnecessary fragmentation while maintaining EU protection standards. Further progress is needed in services, digital and energy markets, the 'fifth freedom' for knowledge and innovation, and public procurement. And in this respect, the Commission is implementing a concrete action plan to address the most harmful barriers with particular attention to services.

More broadly, the EU Competitiveness Agenda also contains many initiatives with a Single Market dimension, as they are interconnected with competitiveness objectives: the Savings and Investments Union, which aims for deeper and more integrated capital markets, the Union of Skills, which aims at improving labour matching but also labour mobility, or the Startup and Scaleup Strategy to facilitate innovative firms to grow and reach continental scale.

What are the priorities for simplifying EU banking regulation and supervision while preserving financial resilience? How can the cumulative impact of microprudential, macroprudential and resolution requirements be better coordinated and simplified?

This is part of the wider simplification and competitiveness agenda, alongside the already tabled Omnibus package on sustainability reporting. The ambition is clear: simpler, more proportionate, more effective rules, while preserving financial stability.

In July, the European Commission set out measures to strengthen Europe's banking sector and support growth, advancing across three fronts. First, fostering integration with appropriate safeguards for cross-border banking groups. Second, implementing international standards while respecting EU specificities, particularly for smaller banks. Third, simplifying the framework itself by reducing regulatory and prudential overlaps and reporting costs.

Capital and liquidity trapped by overlapping requirements is capital that cannot support lending and growth. Here, simplification is a competitiveness issue as much as a prudential one. But simplification does not mean deregulation. The objective is to remove unnecessary complexity and duplication while preserving the resilience of the banking sector.

Successive reforms have created overlaps, duplication and unnecessary complexity, without a corresponding benefit for financial stability. We therefore propose stronger coordination between the authorities responsible for microprudential, macroprudential and resolution rules to set requirements more coherently. We will also review the process for adopting level 2 and level 3 measures and consider moving certain rules into directly applicable regulations to improve consistency across the Union.