Q&A

VALDIS DOMBROVSKIS

Executive Vice-President for an Economy that Works for People, with responsibility for Trade – European Commission

Staying competitive in a changing world: building a Europe fit for the future

What are the key challenges affecting Europe's competitiveness? How can they be addressed and what are the priorities for the next Commission in this regard?

Improving Europe's competitiveness is a longstanding challenge.

Our productivity growth has been lacklustre for many years. We are facing structural challenges such as ageing and more recently, geopolitical uncertainty. Also, in the context of the green and digital transitions, we must ensure that we sustain our competitiveness.

We need to do more to improve global conditions for competition, strengthen our innovation capacity, reduce labour and skills shortages, as well as address EU companies' high energy prices and improve their access to financing.

For the next Commission, the 2024-29 political guidelines show that its first priority will be to boost the EU's sustainable competitiveness and prosperity. They include a wide range of initiatives that will together substantially boost the competitiveness of EU companies.

Above all, this involves strengthening the single market, and completing it in areas such as services, energy, defence and finance, to unlock its potential for innovation and growth.

Investments and reforms such as those supported by the Recovery and Resilience Facility, are paramount, both now and in the coming years.

Our companies also need the right conditions to flourish. This means making it easier and faster to do business in Europe: in a transparent environment, with legal certainty and underpinned by simple, smart and targeted regulation.
This will help to unlock the innovative investments needed for the EU to remain competitive. However, innovation requires a lot of risk capital, which is why we need stronger and more integrated capital markets since the bulk of the funding will have to come from the private sector.

Financial markets integration will remain firmly on the agenda for the next mandate, particularly with a proposal for a European Savings and Investments Union as recommended in the Letta report. As part of its proposal for a reinforced budget in the forthcoming multiannual financial framework, the next Commission will prioritise research spending and include a European Competitiveness Fund. It also plans to boost and refocus skills funding.

How is economic convergence evolving in the EU and how can it be improved? What can be expected from the revised EU fiscal rules?

Each crisis puts EU convergence at risk. In the two decades before 2019, we managed to reduce the dispersion in per capita GDP across the EU. While the pandemic and Russia's war against Ukraine partially undid this progress, we must still be serious about addressing convergence. Countries in central and eastern Europe, as well as the Baltic States, are more affected by the war in Ukraine and this entire region needs our support.

Convergence needs to be supported by policy. This is where EU instruments play an important role, such as cohesion policy funds and the Recovery and Resilience Facility.
For example, the RRF has provided more funding to vulnerable Member States hit hardest by the pandemic. This gave extra impetus to strengthen the EU's economic convergence.

Overall, macroeconomic imbalances in the euro area have reduced over the last years. However, fiscal positions have become more divergent.

Pursuing gradual fiscal consolidation where debt is high, along with investments and reforms, will be vital to address

the causes of divergence, build up resilience to shocks, and improve productivity by allocating resources more efficiently.

This is the key objective of the revised EU fiscal rules.

All Member States must present medium-term fiscal-structural plans. For those with fiscal sustainability challenges, it is important that their plans set out how they will adjust in a realistic, gradual and sustained way, while protecting growth-enhancing spending.

The Commission is working intensively with Member States so that they can submit plans on time and start putting them into effect from 2025.

Sustained convergence will also be underpinned by deepening the single market.

Creating a Savings and Investments Union is vital for making the EMU more resilient. The resulting stronger economic, fiscal and financial integration could support real convergence and make it sustainable over time.

How to explain the lack of productive investment in Europe during the past years and how can it be increased? What can be expected from NGEU in particular?

The EU's productivity growth has slowed since the early 2000s and still lags behind that of economies such as the United States and China.

We are also far off our 3% GDP spending target on research, development and innovation.

There are several ways to boost productive investment – for example, by reducing administrative burdens, incentivising R&D investments, removing barriers to the single market, as well as creating attractive and supportive business environments.

NextGenerationEU is a good example.

It has the potential to boost real GDP in the EU by up to 1.4% in 2026, raise employment by up to 0.8%, and increase raise real wages in the medium term.

Its centrepiece instrument, the Recovery and Resilience Facility, allows for public schemes to be created that stimulate private investment and develop capital markets.
For example, Spain will channel €76 billion to incentivise private investment in key areas. These include a regional fund to support public and private entities to invest in social and affordable housing, urban development, sustainable tourism and the energy transition.

Italy is stimulating private investment via several channels. As part of its national recovery plan, it is providing companies with tax credits to finance assets linked to specific policy objectives such as digitalisation and energy efficiency.

More broadly, we are trying to limit the high amount of administrative work - especially unnecessary burdens - that is required for Member States to implement the RRF.

What are the key priorities for enhancing the integration of EU banking and capital markets? To what extent are the Banking Union and Capital Market Union initiatives complementary?

Deeper integration of Europe's banking and capital markets is vital for unlocking Europe's sustainable prosperity and competitiveness. This is at the core of the European Savings and Investments Union announced in President von der Leyen's 2024-29 political guidelines.

EU banking and capital markets have a vital role to play to ensure our long-term economic growth. Firstly, by making sure that our banking system is sound and resilient; secondly, by deepening EU capital markets and broadening options for our companies to access resources.

On financial services more specifically:

Strong banks operating across the EU single market can provide better and cheaper banking services and products, allowing investors and banks to allocate funding more efficiently.

Deep and integrated capital markets would reduce the EU economy's reliance on bank funding; facilitate financing for innovative companies, especially mid-caps; help to diversify financial risks and reduce the probability that European companies relocate abroad at the IPO stage or earlier.

It is possible, and also desirable, to advance on banking and capital markets integration at the same time. This would greatly increase the ability of EU companies to raise financing, as well as boost their competitiveness and that of the EU economy as a whole.

Developing a true Savings and Investments Union would be facilitated by a more integrated market for banking services.

Banks operating on an EU-wide scale are the necessary vehicle to exploit economies of scale and provide the essential services to develop a single European capital market, such as trading and listing activities, investment banking, treasury, and depository services.

Developing a European Savings and Investments Union will be a priority in the next mandate as a way to unlock financing: we need to sustain the EU's growth and competitiveness as well as the green and digital transitions.