# EU ECONOMIC COMPETITIVENESS CHALLENGES

MARIO NAVA
Director General – DG Employment, Social Affairs and Inclusion, European Commission

## Tackling labour and skills shortages in the EU: a strategic EU Action Plan

The labour market in the EU has stayed robust despite the challenges related to the COVID-19 crisis, Russia's war against Ukraine and high inflation. The employment rate is at a record high, and even though the economy slowed down recently, labour and skills shortages remain at a historically high level in all Member States. No company, regardless of size or sector is immune to this issue. Nearly two thirds of small to medium-sized enterprises (SMEs) in the EU report difficulties finding employees with the right skills. Shortages are particularly persistent in healthcare, science, technology, engineering, and mathematics fields (STEM), notably information and communications technology (ICT), construction, transport, and certain service-based occupations (e.g., cooks and waiters).

While labour shortages can be a sign of a dynamic economy that gives workers more leverage, such as through higher wages and more flexible working conditions, they have many negative effects. For instance, labour shortages can hinder productivity and innovation in both companies and public institutions, weakening the EU's competitiveness and potentially slowing down the green and digital transitions.

***Key factors driving labour and skills shortages***

The European Commission's Employment and Social Developments in Europe 2023 report highlights **several key factors** behind these persistent labour and skill shortages:

- **Demographic change:** the EU's working population is expected to shrink by almost 27 million people by 2050, an average decrease of almost 1 million workers per year. Additionally, the ageing EU population also increases demands for health and long-term care, further straining sectors already experiencing shortages.
- **Transition to a net-zero economy:** new technological developments linked to the decarbonisation of the economy, as well as artificial intelligence, and evolving defence and security needs will lead to the demand of new skill sets.
- **Poor working conditions and low wages:** they reduce the incentive to work, contributing to labour shortages.

***A comprehensive policy framework to address shortages***

In March 2024, the Commission presented an **Action Plan to tackle labour and skills shortage**s, in close cooperation with social partners. Building on numerous EU initiatives, Member States and social partners outlined **88 new actions**.

These **measures** focus on **five policy areas:** activation, skills, improving working conditions, enhancing intra-EU mobility and legal migration.

1. **Activation:** A key to reducing labour shortages is to make full use of the untapped labour market potential. It is essential to establish measures that help activate women, young people, individuals with lower educational attainment, persons with disabilities, older workers, as well as migrants, who often experience a lower participation rate in the labour market. Through the social innovation strand of the ESF+, the Commission is currently financing projects on zero long-term unemployment and on activating and upskilling NEETs (not in employment, education or training).
2. **Skills:** Skills policies are vital for better job performance and access to higher quality jobs. In March 2024, the Commission proposed to enhance the Quality Framework for Traineeships to improve pathways for young people to gain professional experience, and boost their skills and their access to the labour market.
3. **Working conditions**: Improving working conditions is a priority for addressing labour shortages in specific sectors and occupations in Europe. Following the European Parliament's resolution, the Commission launched the first-step social partners' consultation to propose an initiative on the right to disconnect and telework.
4. **Intra-EU mobility:** While activation, skilling, and working conditions are essential for improving labour market participation, supporting fair intra-EU mobility for workers and learners can help address labour shortages. In cooperation with the European Labour Authority, the Commission will enhance synergies between EURES and EUROPASS to promote fair mobility within the EU.
5. **Legal migration:** Complementing efforts to harness talent within the Union, orderly mobility from third countries also plays a crucial role in addressing labour and skills shortages. In 2023, as part of the Skills and Talent Mobility Package, the Commission proposed establishing an EU Talent Pool to help recruit jobseekers from non-EU countries for EU-wide shortage occupations.

Comprehensive action is crucial for unlocking the EU's growth potential, boosting innovation and investment, and ensuring competitiveness and overall social cohesion. The Commission is committed to supporting Member States and social partners in effectively using available funds and instruments to advance ongoing EU initiatives and promote collective efforts to address labour and skills shortages in the EU.

ALFRED KAMMER

Director, European Department – International Monetary Fund (IMF)

# Scaling up the single market to grow Europe's firms

**Europe's startling income divergence from the US began around the turn of the century, coinciding with the onset of the tech boom in the US, and has deep firm-level roots.** Today, per capita incomes in the EU are on average one-third lower than in the US. While fewer total working hours explain some of this gap, the primary driver is a productivity gap at the firm level.

**Among large leading firms, productivity and innovation have diverged markedly across both sides of the Atlantic.** Since 2005, the stock market valuation of US listed firms has more than tripled, while Europe's has grown by only 60 percent. This reflects different growth expectations, but our analysis shows that US listed firms' productivity growth has also far outpaced Europe's. The divergence is present in all sectors, but particularly pronounced in the tech sector: While European productivity in tech has stagnated since 2005, US productivity has surged by nearly 40 percent. This is supported by a significant difference in innovation efforts: R&D expenses account for around 10 percent of sales for listed US tech firms, but only a meagre 4 percent for their European counterparts.

**Europe also lacks the productivity gains coming from innovative young firms that expand rapidly.** Instead, it has an overabundance of very small firms that grow little. Firms with at most 10 employees account for nearly twice as much of employment in Europe as in the US, indicating a lack of scale. This contrasts with the dearth of young, high-growth firms that often drive disruptive innovations in the US. Firms under the age of two represent 20 percent of all firms in the US, versus only 8 percent in Europe. Upon entry, these promising European firms find it more challenging to grow, with the share of total employment of top-performing young firms being around 6 times larger in the US.

**Europe's weaker business dynamism reflects constraints to scaling up—particularly in innovation efforts.** In forthcoming work, we highlight insufficient market size and access to finance as key forces behind the lagging performance of European firms.

- Market size. A European firm cannot exploit economies of scale as a US firm does—which is especially crucial in tech, where network effects are important. While the EU and US markets are comparable in size, the EU's market is fragmented. Trade intensity within the EU is less than half the level observed between US states.
- Access to finance. US listed firms access equity issuance at twice the rate of European firms. Equity is crucial to protecting intangible investments against short-term economic fluctuations. Equity is also better for intangible investments, which cannot easily be pledged as collateral. Indeed young, high-growth European firms with a high share of intangibles pay 2 percentage point higher rates on debt than incumbents. Venture capital (VC) can help these firms, yet VC in the EU is only one-fourth of what it represents for the US economy.

**Addressing the root causes of Europe's lagging performance is essential for restoring competitiveness and preparing for future technological waves.** This will require significant action at both the EU and domestic levels.

Deepen the single market to significantly lift constraints on firm growth: Removing remaining barriers to trade within the EU would incentivize firms to undertake R&D and other investments that only pay off with a large customer base. Completing the banking union will improve the allocation of bank credit across the EU. Advancing the capital markets union will be critical for innovation-intensive firms. It would lead to more consistent R&D efforts from large firms by increasing the availability of equity financing, and promote innovative startups without tangible collateral by reducing constraints inhibiting VC. And increasing the portability of pensions can create a larger pool of cross-border long-term capital and promote innovation clusters requiring talent agglomeration.

> **A deeper single market and a thriving business sector are key to closing Europe's productivity gap.**

**Strengthen domestic efforts that match EU-level ambitions:** Easing administrative barriers would encourage new business formation. Innovation-enhancing labor market regulations should protect workers, not jobs. This means combining more flexible layoff procedures with adequate unemployment benefits and strong active labor market policies that support job search and skill development. Firm size-based tax and regulatory incentives should also be made temporary to incentivize firm growth. Closing performance gaps in education will also help foster ideas creation and diffusion.

Deepening the single market and creating a thriving business sector is key to closing Europe's productivity gap. This bold and comprehensive approach will not only restore Europe's competitiveness but also better prepare it for future technological advancements. The time for action is now.

TIBOR TÓTH
State Secretary – Ministry of Finance, Hungary

# Bridging the gap: revitalizing European competitiveness

Since the beginning of this decade, Europe has been facing continuous challenges. These include the twin transition towards a green and digital economy, addressing the productivity and competitive gap, ensuring the energy security of the EU and manoeuvring through the increasingly challenging geopolitical environment. Additionally, there is a significant high-tech, research and innovation gap that needs to be bridged. The efforts to fight climate change, managing slow growth, high indebtedness among member states and the process of enlargement also present substantial challenges.

The crises of recent years inflicted significant negative shocks on the EU's economy compared to the USA. Although the EU is one of the leading economies, it suffers from its structural deficiencies, such as high vulnerability to supply chain disruptions especially in regard to its energy import dependency, the low level of R&D investments and an aging population. Concerning human capital, despite having a skilled human capital base, Europe faces severe shortages in many professions essential for future growth for example in the field of science and technology. Declining educational standards coupled with an aging population may significantly disadvantage Europe competitively.

The European economy is still highly dependent on its automotive industry. Although, the European car producers are carrying out investments in the EV sector, their position significantly deteriorated in the new technology compared to their stand within the traditional vehicle production segment. Whilst the phase-out of traditional combustion engines is on the way, production of electric vehicles faces challenges with cost-effectiveness and innovation, despite achieving technology quality comparable to leading global manufacturers. While the political support for the EVs expands in Europe, the current trends show a major fall in their sales (around 10% in 2024) as many countries have started to terminate their subsidy programmes.

European firms also lack political support as their main competitor, the USA, introduced the Inflation Reduction Act in 2022, which allocates $400 billion in federal aid until 2030 to support clean energy, electromobility and the rebuilding of the US industrial base. Europe is yet to find an answer to this measure, which targets sectors where European firms were traditionally strong. In 2020 the EU also launched its own support package, the NGEU, which aims to help member states recover from shocks caused by the pandemic. The NGEU also focuses on digitalization and the green transition, requiring that certain funds be spent in these areas. However, the disbursement of these funds has been slower than anticipated, which could have a further negative impact on European competitiveness compared to the US. Therefore, accelerating the disbursement process is crucial.

Amidst rapid technological advancements and evolving innovation trends, R&D expenditures are crucial for overcoming current challenges, particularly in improving productivity. Regarding R&D expenditure, the EU's most dire problem is its low business spending, which shows the largest gap between European and American companies. Whilst US firms maintain their lead among the top 2,500 corporate R&D spenders (with more than 40% share of total R&D investments), the global trend of declining shares of the EU continues with around 18%. The competitive edge increasingly comes from frontier technologies, yet Europe lags in areas such as microchips, AI and quantum computing. The US invests significantly more in AI than Europe, which will deepen competitiveness gaps unless human capital and financial capacity can shift the trajectory.

Enhancing competitiveness in Europe involves several strategic priorities. Increasing productivity across sectors through technology adoption and workforce upskilling is crucial. Transforming the innovation environment requires robust support for R&D and fostering collaborations between academia, industry and start-ups. Europe's economic size can be leveraged through joint procurement, collaborative R&D initiatives and strategic mergers to drive down costs and boost innovation in energy, defence, telecommunications and other critical sectors. Developing deeper capital markets will facilitate greater private investment, particularly in emerging technologies and innovative enterprises. Increasing R&D investments, especially in high-impact areas like healthcare and digital transformation, is essential for improving competitiveness and addressing social challenges.

**Increasing R&D investments is essential for improving competitiveness.**

Investments are pivotal for sustainable development, focusing on renewable energy, green technologies and securing supply chains for critical raw materials. It is important to stress that, if investments are not accompanied by growth enhancing framework conditions, the different incentives will not be sufficient enough. Regulatory and tax policies can also be vital for European firms to compete on the global stage.

PAWEŁ KARBOWNIK
Undersecretary of State – Ministry of Finance, Poland

## Regaining competitiveness and preserving European way of life

The productivity and income gap between the EU and the United States has been widening for a long time. The differences in productivity mean that although both economies were of the same size in 2011 (GDP in current prices of around $15 billion according to the IMF), today the US economy is by 52% larger. Among the 50 biggest global companies measured by market capitalization, only five are from the EU, while 31 are from the US. If Europeans continue on a declining path, our way of life will be jeopardized sooner than one might expect.

To avoid the doomsday scenario, Europeans debate how to close these gaps and enhance EU competitiveness. The single market is Europe's biggest asset. Its completion is the most cost-effective measure to increase EU's productivity and welfare. The top priority in this context should be the completion of the single market in all its aspects, not least services. Instead of fully exploring this phenomenon, we are quite often taking steps back on this road, notably in the transport sector or concerning regulated professions. On top of this, fair taxation should be the backbone of the European economic model. The EU and its Member States should avoid any discriminatory tax practices. Harmonization of EU VAT legislation, including for digital services, and the Union Customs Code would be important milestones in this context.

Another pillar of the single market is the free movement of capital. However, the Union's capital market still does not meet expectations. The European economy is already mostly financed by banks, and not by capital markets. In the EU, banks account for 90% of household debt and 70% of business debt. By comparison, these figures are just 40% and 20% respectively in the US. The problematic issue is overregulation. The capital market infrastructure should be used for providing capital to the economy instead of focusing on implementing increasing regulatory requirements. Further integration of capital markets is an opportunity to increase the EU's capital liquidity and market attractiveness, but it also raises the risk of deepening a multi-speed Europe and capital peripheralization. Therefore, it is necessary to include a pan-European view and not just focus on needs of the most developed markets. A pan-European view that would take into account concerns of smaller jurisdictions, while creating an attractive enough global market for capital to compete with the US or Asia thus ensuring that ever more European savings are invested in the EU.

Ensuring a level-playing field in the single market is key to its effective functioning. Nevertheless, there are significant disruptions in this regard. According to the most recent data, in 2022 just two Member States were responsible for 51.9% of total state aid expenditure in the Union. This is a clear threat to the cohesion of the single market. On the other hand, the EU should develop its toolkit to protect the single market from exogenous disruptions. Existing trade defence instruments should be used assertively to protect our interests against unfair trade practices of our global partners.

Finally, cheap and reliable energy is key for the competitiveness of European companies and preserving our social model. In this context, we must adjust our climate policy, so that necessary green regulation is followed by adequate private and public funding to allow for a smooth energy transition. Otherwise the risk is that people will continue to reject the green transition for its lack of funding. The rethink is also needed regarding technology neutrality – nuclear energy seems to be the low-hanging fruit – and developing new technologies in electricity generation, transmission, and storage. The EU investments in research and development should be geographically balanced and European patents more accessible, also for smaller entities to ensure cohesion. We should also remember the bitter lessons learnt from dependence on resources and technologies provided by undemocratic partners.

**Completion of the single market is the most cost-effective measure to increase EU's welfare.**

Since 2019, we have experienced at least two large external shocks: the pandemic and Russia's full scale invasion of Ukraine. The EU's response was quick and decisive in the short term, but once we had weathered the initial storms, we returned to business as usual. The Recovery and Resilience Facility, which provided a very useful fiscal stimulus in 2020 and 2021 with its relatively-easy-to-get prefinancing, has in the following years become too often a bureaucratic nightmare. More trust and less control are much more efficient in dealing with similar challenges as proven by the US Inflation Reduction Act. Hence Europe needs to become less regulated and more business friendly if it wants to preserve its global role.

Last but not least, to maintain our way of life we must be able to protect ourselves. This will require massive investments in our defence industry and European capabilities. The European project has emerged from the lesson of war and we cannot allow this lesson to be forgotten.

HARALD WAIGLEIN

Director General for Economic Policy and Financial Markets – Federal Ministry of Finance, Austria

## Innovation is the key to competitiveness

Competitiveness is again high on the agenda. But this time, it comes with strings attached: decarbonisation, digitalisation, economic, energy and military security should be strengthened, while remaining competitive against countries less committed to climate protection and less exposed to security challenges. Finding the right balance between rival objectives is the EU's main challenge in the coming years.

How large is the competitiveness gap? The euro area's current account is in surplus and the IMF's External Sector Report considers it broadly in line with fundamentals. The 2022 energy price-induced decline was short-lived. The euro's real-effective exchange rate (CPI deflated) has been broadly stable since 2012, while the US and China saw appreciations, suggesting they rather than we have lost competitiveness. Based on these aggregate figures, the EU's external sector seems to be relatively strong.

And yet there are problems. The IMF estimates[1] that output per hour worked has grown 30% less than in the US since 2000. Scarce business R&D is one factor explaining the divergence. Another factor is a weakness in commercialising new technologies and scaling up innovative start-ups. This is related in part to burdensome regulation and in part to the limited availability of risk capital. Absent collateral, Europe's bank-based financing system cannot provide funding. Weak innovative capacity is reflected in the trade balance: the EU imports significantly more intellectual property and R&D services than it exports.

The incomplete nature of the Single Market is another problem. Fragmentation relates to national regulation, taxes and insolvency regimes. Barriers have remained particularly high in services trade, limiting economies of scale. Accordingly, intra-EU trade in services has barely grown during the past years and the EU has not been able to benefit from the global rise in services trade. This does not bode well for an advanced economy that generates 65% of its GDP from services.

In the energy sector, a variety of national subsidy schemes, combined with uncertainties around the future regulatory environment (regarding the phase-out of subsidies, taxation, the future of the combustion engine and of Russian gas), have rendered it impossible to calculate net present values of investments into the green transition. According to the EIB's 2023 Investment Survey, uncertainty around prices and regulation is almost as much a concern to businesses as the level of energy prices itself.

**The Single Market, our most important asset, should be prioritised over external competitiveness.**

Supply-chain disruptions, coercive practices by trade partners and Russia's war in Ukraine have eventually exposed trade-related vulnerabilities. Strategic autonomy and economic security concerns have since reshaped the EU's policy agenda. The increase in energy prices is just the tip of the iceberg. Yet the answer to vulnerabilities arising from political decisions elsewhere cannot be putting EU money at the service of external competitiveness. Political threats have to be addressed by political means, even if this implies foregoing some of the benefits from trade.

Most of the recipes to strengthen competitiveness are well known, but need to be pursued more rigorously. Tax incentives should be used to promote business R&D and the green transition; the overhaul of the Energy Taxation Directive should be a priority at EU level. The momentum regarding the capital market union should be exploited to improve access to finance for innovative start-ups. State aid should be scaled back and only used where markets fail or public goods have to be provided. CBAM and trade defence instruments should be the first line of defence towards unfair or polluting practices in trade partners.

**The Single Market, our most important asset, should be prioritised over external competitiveness**, i.e. safeguarded from further distortions and deepened by removing barriers, in particular in the area of services. EU funds should be used only for purposes with positive externalities, such as innovation or projects of common interest. Common funding for state aid should be a no-go. Instead, all EU funds should be "Single Market proof", i.e. support rather than undermine the basis of our success.

The RRF can clearly not be a model, as it allocates the largest amounts of funds to the economically weakest spots. It is an instrument for convergence, but not for innovation and external competitiveness. Similarly, pouring money into ailing firms will not generate the innovation we need to remain competitive on the world stage. Still, there is room to further exploit the use of the EU budget to stimulate reforms in Member States.

There is no need for additional funds, but there is need to use EU money wiser. There is also a need to refocus on the EU's fundamental values: the free flow of goods, services, capital and labour and perhaps a need to expand these four freedoms. A deeper and broader Single Market can better power competitiveness than NGEU or state aid.

MICHAEL WEST

President – Moody's Investors Service

# Rethinking Europe's economic performance vs the US in a changing world

Europe's economic performance lags peers in some areas and outshines them in others. The reasons for both can be found in a combination of natural and historical factors, societal preferences and policy choices.

As we look ahead, how will relative performance evolve? The answer depends on whether Europe adapts to shifts in technology and climate in ways that spur greater economic dynamism. With its diverse economies, robust social systems, and commitment to sustainability, Europe is well-positioned to navigate this new world order - if policies can fully realize its economic potential.

**Whether Europe is considered an economic laggard or leader depends on the metric you choose.**

Europe's average GDP growth rate has trailed the US, Canada and Australia since the 1980s. Europe's average labor productivity growth was 0.7% between 2010 and 2023 compared to 1.3% in the US as reported by The Conference Board.

However, European economies exhibit consistently improving life expectancy rates, while US life expectancy has declined to the shortest in nearly two decades. Moreover, income inequality in the US is substantially wider than in any European economy.

**Performance on credit trends varies, deep capital markets in the US support dynamism**

Household and government debt as a percentage of GDP are lower in the euro area than in the US. But corporate debt levels are higher in Europe. Bank non-performing loans as a share of gross loans are generally higher in Europe than in the US, with large variation across countries. Still, the trailing 12-month corporate default rate as of June 2024 was 1.5% for Europe compared to 2.9% in the US, driven by the larger high-yield debt market in the US.

The well-developed, capital markets in the US, characterized by high liquidity, diverse financial products, and a broad investor base - something the EU is still striving for - also support economic dynamism and innovation.

**Technology and renewables offer new avenues for productivity and growth**

Aging populations and high government debt levels mean it is critical to find new sources of growth and productivity. These could include renewable energy and the adaptation of physical infrastructure to climate change. Digital technologies could also spur productivity, cost efficiencies and new revenue sources.

In both climate and technology, Europe again exhibits lags and leads.

Europe's leadership in climate policy is reflected in its clean energy investment, sustainable finance issuance and decarbonization.

The share of energy generated from renewable sources in 2022 was 23% in the EU compared to 20% in the US. In 2023, there were 11.2 million electric cars in Europe vs. 4.8 million in the US, according to the International Energy Agency. European issuers accounted for half of sustainable bond volumes and nearly two-thirds of green bond volumes in the first quarter of this year. US emissions per capita remain twice those of Europe.

Europe's initiatives, such as the EU Green Deal in 2021, recognize the importance of policies in spurring adaptation. However, Europe isn't pursuing these goals alone and the US is catching up.

The US Inflation Reduction Act (IRA), along with the CHIPS and Science Act and the Infrastructure and Investment and Jobs Act, has encouraged clean energy investment and we expect it to further boost US green investment, productivity and innovation, and accelerate carbon transition. The 55% increase in manufacturing construction in the US in the year following the passage of the IRA, including in sectors such as semiconductors and electric vehicles, shows that crowding-in of private investment is underway.

**Complementing strong guardrails around technology with incentives for innovation, investment**

The US is a global leader in investment in innovation. US 2022 R&D spending among the top 2,500 companies globally exceeded €500 billion compared to €219 billion in the EU. 17.2% of all global patent applications in 2022 came from the US, compared to 5.6% for Europe. The US's robust financial markets, especially in venture capital, are pivotal in supporting new and transformative technologies and driving advances in a wide range of sectors from biotechnology to AI.

> **Policies can revive Europe's dynamism by strategic adaptation to technology and climate shifts.**

Protections around cybersecurity and data privacy are crucial to promote digital innovation and growth. Here Europe tends to lead and Europe's General Data Protection Regulation (GDPR) is an example of legislation addressing these issues. Still, to bridge the innovation gap, Europe will need to complement guardrails with policies that promote strategic investments in digital infrastructure and digital skills.

In conclusion, as the global economic landscape evolves, the debate is shifting from the past drivers of Europe's relative performance versus peers to how future policies can revive economic dynamism by strategic adaptation to technology and climate shifts.

PIER CARLO PADOAN

Chairman of the Board of Directors – UniCredit S.p.A.

# Closing the competitiveness gap with the US leveraging on NGEU lesson

Over the last 25 years, labor productivity in the EU increased annually well below than in the US (on avg 0.9% vs 1.5%), but EU still lacks a comprehensive strategy on how to address its increasing underperformance and make its economy more resilient to shocks.

Several factors fuel this gap. Investment in R&D and intangible capital is far lower in the EU, with negative implications for the adoption of new productivity-enhancing technologies. Moreover, the EU economy suffers from structural rigidities that hamper the allocation of resources to the most productive sectors. Acting on these fronts requires a comprehensive strategy aimed at channeling necessary public and private resources towards key strategic investments, primarily in the twin transition, at a time of shrinking fiscal space, and at reducing red tapes and enhancing coordination of national policies.

Currently, EU savers allocate an excessively high share of their financial assets to low-yielding investments, while fragmentation of EU capital markets often leads to diversion of domestic savings towards the US. In this context, fully progressing on the Capital Market and Banking Unions is key.

Two key questions have to be addressed: the macroeconomic scenario and the channels through which the private sector is involved. The Initial impact on productivity and growth of climate change strategy is negative according to most analysts. A necessary condition for the sustainability of green growth is that capital turns from brown to amber and then to green. This is the big reallocation effort which requires that the major financial support must be directed to companies that are able to quickly move towards green capital. Initial evidence on capital markets reallocation towards green investment is mixed at best.

The sustainable growth strategy must rest on three pillars: investments to replace brown energy-intensive capital with green capital, resources to facilitate the transition to a new paradigm of consumption and welfare, resources to activate private investments in innovations.

Investments in the transition process are driven by public spending while private contribution will become important in the m/l term. Involving the private sector requires appropriate incentives and a set of instruments that are up to the challenge, including pollution taxes, R&D subsidies, a transition fund to minimize the costs of adjustment and an effective regulation.
A more coordinated approach to investments in strategic industries is also needed. Looking at growth of patents for green innovations, it emerges that applications in the peripheral countries of the EU have underperformed, increasing the risk of widening disparities. Due to its features, the EU cannot develop, finance and roll out large-scale measures such as the IRA in the US. Therefore, the EU should strengthen its governance framework to enhance coordination across policies. Over the longer term, the EU should move towards EU-wide supervision of national polices to reduce the risk that fragmented national measures disrupt the level playing field and fail to deliver the needed scale of investments.
EU should also refrain from endorsing wide-ranging protectionist policies that endanger the openness of the Single Market, fair competition and the supply of critical materials/products the EU cannot produce, particularly those that are important for the twin transition.

NGEU provides an interesting lesson. The first goal of NGEU, i.e. boosting the post-pandemic recovery particularly in the weakest member countries, seems to have already been largely achieved, as such countries have recorded stronger growth rates.

The jury is still out on whether the second goal of NGEU, fueling reform momentum and raising potential growth, will be fulfilled. It takes time for reforms to bear fruit and most of the program's funds are yet to be spent. However, conditionality attached to disbursements of NGEU money should increase the likelihood of a successful reform effort.

NGEU has also succeeded when it comes to a third goal, i.e. enhancing confidence in the commitment of member countries to the European project. Although it is difficult to disentangle this effect from other concomitant factors, the compression of sovereign spreads across the eurozone has, to some extent, reflected the bold political message embedded in NGEU.

**NGEU has shown that financing common strategic priorities through extra funds is an important option.**

Going forward, it is not clear whether an NGEU-like framework can be replicated but it has shown that financing specific common strategic priorities through extra-budgetary, temporary funds and the issuance of common debt is likely to be an important option available to European policymakers. Ideally, however, this set-up should serve as bridge towards a framework for the longer term where more comprehensive action should be designed within the EU budget, which should provide a meaningful central fiscal capacity.