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Presidency Note

The urgent need to strengthen Europe's long-term competitiveness and preserve the EU's economic resilience in an increasingly uncertain world

Over the past years, the EU has experienced weaker productivity growth compared with key international partners, while investment and innovation gaps have widened. At the same time, the global environment has become increasingly volatile and fragmented, adding further pressure on Europe's growth and economic resilience. A central driver of the EU's competitiveness gap is persistently low productivity growth. This reflects structural weaknesses, including insufficient investment in research and development (R&D), comparatively lower spending on innovation, and limited capacity for European firms to scale up and grow into global leaders. Fragmented markets, regulatory complexity and barriers to cross-border financing continue to constrain entrepreneurship, technological diffusion and business expansion. Competitiveness is also negatively affected by persistently high energy prices, Europe's reliance on imported energy, and the limited depth and integration of European capital markets. Administrative burdens further increase costs for businesses and delay investment decisions. These factors weigh on industrial competitiveness, reduce export performance and undermine Europe's ability to develop strategic sectors and compete globally.

This diagnosis has been clear for some time, and the EU has therefore launched an encompassing competitiveness agenda. Only in March 2026 the European Council has reiterated "the pursuit of the European Union's objective of a highly competitive social market economy "and acknowledges that this requires renewed determination. Further deepening and integrating the single market provides huge potential in this respect and is key to allow companies to operate seamlessly across borders.

The erosion in Europe's world export market share and weaker industrial production highlights the need to implement structural reforms. The rapid increase in competition from major global economies adversely affect the key exporting industries in the EU. The EU should continue to move forward with structural reforms to ensure the sustainability of its exports and maintain its industrial base. This requires the reallocation of resources towards sectors that can compete in the global economy in the medium to long run. It is also equally important that those sectors chosen are supported by the other reforms the EU is pushing forward to accelerate the transition, such as for instance strategic trade agreements, the energy market reform including the grids package, the Net-Zero Industry Act or the Critical Raw marerials Act. The challenge is not only to raise productivity and mobilise investment, it is to do so in a way that does not increase inequality, does not undermine social cohesion and is compatible with structural diversity across member states.

Recent geopolitical developments have highlighted once again the urgent need to improve EU competitiveness and resilience. The conflict in the Middle East, following earlier shocks such as the COVID-19 pandemic and Russia's invasion of Ukraine, underlines the risks associated with external dependencies, particularly in energy. These developments also create renewed uncertainty for the EU growth and inflation outlook through higher energy costs, supply chain disruptions and increased market volatility. More broadly, a high-risk global environment has become the new norm. The EU's implementation of the EU's comeptitiveness agenda has therefore become even more urgent. The combined effects of geopolitical tensions, trade fragmentation, climate risks and shifts in major international economic policies — including policies pursued by the new US administration — require the EU to strengthen its resilience and strategic autonomy.

Against this backdrop, it is essential to demonstrate greater political determination and accelerate progress on key EU-level reforms aimed at restoring competitiveness and supporting sustainable growth. While policy makers consistently acknowledge the urgent need to strengthen competitiveness and address the Union's structural vulnerabilities, tangible progress on the implementation of the necessary reforms remains too often limited. In light of recent geopolitical developments, decision-makers should demonstrate greater determination by intensifying efforts, accepting necessary compromises, and accelerating the adoption and execution of these reforms. A stronger sense of urgency and collective responsibility is essential to ensure that agreed priorities translate into concrete and timely actions, such as:

- advancing the green transition in a cost-effective and growth-friendly manner - according to recent analysis by the IMF, our efforts to improve energy efficiency and develop renewable energy over the past five years have reduced the impact of energy shock on households by 12% percent under current pricing;
- reducing strategic dependencies, particularly in the energy sector, and enhancing energy security;
- implementing the simplification agenda to reduce administrative burdens and accelerate investment;
- deepening the Savings and Investment Union to mobilise private capital and improve access to finance;
- strengthening support for R&D, innovation and digital transformation;
- facilitating the scaling-up of European businesses and improving the functioning of the Single Market, and
- recalibrating our industrial and export base and shifting resources to sectors that can compete in the global economy.

The current environment reinforces the urgency of moving decisively and concretely on reforms that strengthen Europe's long-term competitiveness and preserve the EU's economic resilience in an increasingly uncertain world.

Questions for discussion:

1. *Which specific political steps are needed at EU level to achieve significant progress on reducing Europe's strategic vulnerabilities and strengthening the Union's economic resilience — particularly in energy, innovation and financing?*
2. *Which are the causes of low private spending in R&D? To what extend will the completion of the savings and investment union contribute to the financing of R&D spending?*
3. *What actions are required at European level, within the mandate of the Ecofin Council, to promote the transition of our export model and industrial base towards key sectors that will increase the EU exports base?*
4. *Are the structurally different economic/industrial models across the EU undermining our efforts to boost competitiveness?*
5. *How can the EU accelerate productivity growth and close the competitiveness gap with other major economies while preserving Europe's social model and strategic priorities?*