Eurogroup

4 November 2024

Statement of the Eurogroup in inclusive format on the competitiveness of the European economy

1. Significant shifts in the geopolitical landscape, fragmentation in global trade flows, rapid technological advancements, climate change and the energy crisis are converging to create a highly complex and dynamic global environment. The fallout from Russia's unprovoked war of aggression against Ukraine has created further challenges. The European economy has been particularly hit by the resulting shockwaves that have dampened growth, increased inflation, tightened financial conditions and worsened supply bottlenecks amid recovery from the Covid-19 pandemic. At the same time, Europe's long-standing challenges, compounding low growth, stagnating productivity, insufficient innovation performance and demographic challenges remain unresolved. In this context, it is imperative and urgent to address the lagging performance of the European economy by increasing its productive capacity and enhancing its competitiveness through ambitious investment and well-calibrated structural reforms.

2. In November 2023, the Eurogroup in inclusive format launched a series of discussions on our competitiveness challenges and has drawn valuable policy insights, supported by inputs from the Institutions and distinguished external contributors. We considered the new European Competitiveness Deal agreed by the European Council on 17-18 April 2024, alongside the conclusions of Enrico Letta's 'Much more than a market' high-level report and Mario Draghi's report on 'The Future of European competitiveness'. Our discussions covered key issues, including energy price trends, trade fragmentation, the European Union (EU)'s innovation and productivity gap and the role of industrial policy, as well as the funding gap to finance EU strategic investments. From these discussions, we have converged on a set of policy priorities and actions to meet these emerging and persistent challenges.

Addressing the EU's innovation and productivity challenges to boost growth

3. Productivity growth is at the heart of income growth and prosperity. However, over the years, the productivity gap has widened between the EU and its trading partners, such as the United States of America (US), while emerging economies like China continue to increase competitive pressure. In response, we see it as a priority to address Europe's underperformance in **productivity** by facilitating conditions for European businesses to invest and innovate. The EU productivity gap stems from a lagging **innovation** ecosystem, which has led to the EU falling behind in high-value-added sectors, particularly in

information and communication technology and digital industries. We agree that it has become urgent to stimulate investment in research and development (R&D), particularly by a market-based approach to facilitating private sector spending through enhanced framework conditions for investment, structural reforms and by improving coordination of public funding, including at the EU level. Mobilising venture capital – particularly for start-ups and scale-ups – through deep, well-functioning and integrated European capital markets is key to channelling savings and risk capital, both from inside and outside the EU. This will more effectively allow European innovative companies to scale up and drive long-term growth and ultimately help the EU become a global leader in innovation.

4. Enhancing **human capital** is essential, particularly in light of the recent decline in student performance compared to global competitors. Education and training systems must better address skill mismatches and shortages by improving upskilling and reskilling schemes, supported by greater labour market flexibility, greater labour mobility within the EU and policies that attract and retain talent to ensure an adequate provision of human capital required to strengthen the EU's innovation potential. Increasing labour market participation, in particular that of under-represented groups, as well as attracting talent from abroad, are also crucial to mitigate the consequences of population ageing.

Reducing the cost of energy and building EU energy resilience through coordination and integration

5. The **energy** price shock has demonstrated the extent to which our economies are reliant on affordable energy, while the coordinated EU response has highlighted the benefits of common action at EU level. The deployment of energy efficient, net-zero and low-carbon solutions will be needed. We recognise that a well-planned green transition and energy security are not only complementary imperatives, but can also present our economies with significant opportunities to achieve both our competitiveness and decarbonisation objectives by leveraging inexpensive, sustainable energy and reduce dependence on external sources. The transition towards renewable sources of energy, like wind and solar energy is well underway, but the intermittent nature of these sources requires a broad range of responses, including investments in demand flexibility, storage and energy infrastructure. Insufficient interconnections and grid capacity, compounded by the inefficient use of existing grids, impede the stabilisation of local fluctuations and fragmented national strategies risk leading to inefficient investments, high costs for taxpayers and consumers, and volatile electricity prices.

6. We agree that to address these challenges an EU-wide strategy to complement and bring together national strategies would be essential for effective electrification and the green transition. In particular, better and cost-effective grid interconnections, in particular cross-border, are crucial for connecting producers and consumers across wide geographic areas. An integrated and flexible European electricity market, connecting the renewable potential to areas of high demand within the Union, will lead to lower and more stable

prices, attract private investment, reduce the need for storage and public subsidies for energy production, including renewable energy production, and strengthen our energy security. This, in turn, would lower fiscal pressures by reducing the need for energy subsidies and support economic growth by lowering costs for businesses and households. Well-functioning European energy infrastructure is of European common interest and vital for the EU's competitiveness.

Strengthening EU economic security in a fragmenting global trade environment

7. The fragmenting global environment highlights both the importance and the fragility of open international **trade**, requiring us to be clear-eyed about implications for our economic security. The EU and its Member States have greatly benefited from free trade and should seek to continue doing so. It is in our interest to support an open and sustainable rules-based multilateral trading system, with the World Trade Organisation (WTO) at its core ensuring a global level playing field. Yet, the rules-based system has been increasingly undermined by distortive practices by some trading partners. This calls for strengthening our economic resilience and pursuing a more strategic approach to ensure the EU remains competitive in global markets while upholding fair trade practices. To this end, reinforcing international partnerships, diversifying and maintaining secure and resilient supply chains and proactively identifying risks of dependencies in strategic sectors are essential to safeguard our economic security in an increasingly complex global landscape and mitigate risks of external shocks and associated job losses.

Revitalising the Single Market to preserve European prosperity

8. We reaffirm the importance of the **Single Market** as a pillar of European prosperity and cohesion, emphasising the need to extend, deepen and revitalise it, including by pursuing ambitious structural reforms, while ensuring a level playing field. We therefore look forward to the presentation of the Commission's new horizontal strategy for the Single Market. Further facilitating the cross-border provision of services, including financial services and services essential for the green transition, opens opportunities for further modernisation and deepening of the Single Market. Moreover, further market integration and leveraging the Single Market are essential for businesses to grow and develop economies of scale necessary to build capacities, in particular in strategic sectors, and compete successfully on the global stage.

9. Predictable, competitive and fair framework conditions for businesses are necessary, as well as reducing entry barriers. At the same time, the growing regulatory burden is becoming an increasingly important obstacle for companies, in particular smaller businesses, to innovate, scale up and grow. We must reform and intensify efforts to improve the quality of regulation and effectively reduce administrative burdens.

10. The resurgence of **industrial policy** around the world in recent years is characteristic of a global trend towards securing technological leadership, decarbonising the economy, and reducing dependencies in a context of increased geopolitical tensions. We concur that widespread use of industrial policies, particularly at the national level, should be avoided as it risks undermining the Single Market. We agree that in specific cases industrial policy can address market failures and enhance our resilience and open strategic autonomy. However, it must be carefully designed, coupled with appropriate framework conditions for businesses and properly implemented to avoid risks such as rent-seeking, resource misallocation and trade distortions. Moreover, industrial policies should be limited in scope, future-oriented, aimed at creating a favourable business environment to boost investment and focused on technologies and sectors rather than individual companies. An effective enforcement of EU State aid rules should be maintained to guarantee an effective level playing field.

Coordinating investment strategies to finance EU priorities

11. We acknowledge the significant **financing** needs associated with the green and digital transitions, new defence priorities and R&D. At a time when public finances have been affected by multiple crises and gradual and sustained fiscal consolidation is needed, the necessary investment should come primarily from private sources. Deepening the Capital Markets Union (CMU) is urgent and essential for enhancing financial integration and facilitating the mobilisation of private funds across the EU. We reiterate our commitment to deliver on the priority measures identified in our statement on the future of Capital Markets Union of 11 March 2024 to provide deep, well-functioning and integrated European capital markets for the benefit of consumers and business. Reducing fragmentation and regulatory barriers in access to finance remains crucial and we look forward for the new Commission presenting ambitious proposals in this regard. We are also committed to completing the Banking Union as outlined in our statement on the future of the Banking Union of 16 June 2022.

12. We recognise the need for synergies between public and private funding. Public funds are scarce and best used as a catalyst for leveraging private capital in areas with positive spillovers. In this context, effective ways to catalyse and leverage private capital should be explored at the national and European level, including through the involvement of the European Investment Bank (EIB), in line with its statutory framework. While private investment is vital, public financing also has an important role to play. European financing should focus on areas where public goods can be more effectively delivered jointly.

13. We are committed to addressing these challenges and to take action without delay to ensure a coherent European strategy for competitiveness across key policy areas. We will continue to coordinate and work collaboratively to undertake structural reforms and investments to enhance the competitiveness and resilience of the European economy in the face of ongoing global transformations, while maintaining economic, social and territorial cohesion. Our ability to invest, to innovate, to adapt, to reskill and upskill, to

support a competitive private sector and to maintain sustainable public finances will not only shape our capacity to support European living standards, but also contribute to the resilience of the European economy. We will collaborate closely with the Institutions in implementing the policy priorities set out above and will regularly monitor the competitiveness of the European economy.