Q&A

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The imperative of enhancing the EU's competitiveness in challenging times

What are the expected impacts of deglobalisation (encouraged by the recent wave of protectionism from the US administration) on inflation and growth in Europe and how should we deal with them?

The world is changing quickly. For decades, economic integration, trade liberalisation and cross-border production sharing have been drivers of economic growth and prosperity. Today, globalisation is facing significant challenges and this risks coming at a high economic cost.

In a world of highly integrated global supply chains, tariffs can cause significant economic disruption. They also have the potential to ignite a chain reaction of retaliatory measures. These developments are particularly significant for the EU, given our deep commitment to free trade, economic integration and its openness to trade and investment.

The trade relations between the EU and the United States are the biggest in the world. Trade has created millions of good jobs on both sides of the Atlantic, driving economic growth and prosperity. We therefore share a joint interest in upholding high standards, fair competition, and stability in global markets.

Our analysis points out that the imposition of tariffs would weaken the US economy by reducing consumers' purchasing power, real wages and making imported intermediate inputs more costly. Domestic inflationary pressure and a stronger the dollar would also make US exporters less competitive in global markets compared to their trading partners. Therefore, US exports would decline along with imports, making tariffs unlikely to durably reduce US trade deficits.

Rising trade uncertainty and productivity losses stemming from a more fragmented global trade landscape would exacerbate the negative economic effects further.

The EU is ready to act to protect consumers and businesses in the face of any unjustified tariffs. As the United States are applying tariffs worth $28 billion, we have signalled our intention to respond with countermeasures worth €26 billion. The countermeasures we have announced are, therefore, strong, but proportionate.

The question is, how could Europe successfully navigate an era of deglobalisation?

First, as emphasised in the Draghi Report, by deepening the integration of the Single Market, we could also boost intra-EU trade that could counter the adverse effects of rising external trade barriers.

Second, stronger domestic demand in Europe can play a role in offsetting the negative economic effects of the tariffs, as it could compensate for weakened external demand in utilizing our productive capacities. The recent developments in Germany, for instance, are therefore encouraging.

Third, supply-side reforms that boost the productivity of the European economy not only enhance the competitiveness of European exports in the face of tariffs, but raise our living standards in general.

Finally, on the external side, lowering trade barriers with third countries could have beneficial effects that could contribute towards mitigating the adverse effects of US tariffs, as well as towards maintaining an open global trading system.

What are your main priorities for improving the competitiveness of European economies? How remove obstacles and unlock entrepreneurial potential of Europeans?

The freedoms that we enjoy and the values that we cherish can no longer be taken for granted in a complex and more conflictual world.

For the EU, they also depend on maintaining and further developing our economic base by adapting, innovating, and competing in the world.

This is why the Commission has prioritised enhancing Europe's competitiveness in this new mandate.

The Compass also lists five cross-cutting "horizontal enablers" of competitiveness, which include regulatory simplification. I am responsible for coordinating the Commission's work on this agenda.

Cutting red tape is another important element to achieve a more competitive Europe. Put simply, we cannot hope or expect to successfully compete in a perilous world with one hand behind our backs. The past five years have been a period of intense regulatory activity. And our commitment to securing the green transition has not wavered, but at the same time, we must acknowledge that this has come at a cost, generating a large regulatory burden on people and businesses.

As we take stock, we see that this accumulation of rules, and their increased complexity, are limiting our economic potential and our prosperity. Today, regulation is seen by more than 60% of EU companies as an obstacle to investment. 55% of SMEs are flagging regulatory obstacles and administrative burdens as their greatest challenge.

Simplification is about making sure that EU rules help deliver – rather than impede – the achievement of our economic, social, environmental and security goals. It is about achieving those goals in a smarter and less burdensome way. Less bureaucracy means more innovation and investment that will secure our long-term prosperity.

We have already presented our first proposals under the simplification agenda. This work will continue throughout the mandate.

What are the consequences of the growing economic divergences between the main EU countries in terms of public deficit and debt and current account balances for the functioning of the monetary union?

The new economic governance framework, which entered into force in 2024 will help to tackle economic and fiscal divergences in the EU.

This new framework aims to strengthen public debt sustainability and to promote sustainable and inclusive growth across all EU countries. Divergences in terms of economic performance and debt-sustainability risks are fully considered in the country-specific risk-based approach of the framework.

EU Member States have now more ownership of the policies to address their economic and fiscal challenges. If a fiscal adjustment is needed, this can be made over a period of up to seven years if the government commits to a package of meaningful reforms and investments with a positive impact on fiscal sustainability and economic growth. Where needed, such measures must also address economic imbalances.

Importantly, we expect that fiscal policy will remain growth-friendly in terms of composition in the coming years, with further increase in investment financed by both national budgets and at EU level, in particular through the Recovery and Resilience Facility.

To sum up, I would say that prudent fiscal policy together with structural reforms and investments, financed both at the national and the EU level, are the key elements to promote sustainable and inclusive growth and resilience in the EU. This will help to address the divergences which exist in the EU.

How can the most indebted Member States of the EU increase their defence spending without jeopardising their financial solvency?

Russia's war of aggression against Ukraine and its repercussions for European and global security constitute an existential challenge for the EU.

The necessary rebuilding of European defence and the ramping-up of European defence industry production capacity require an urgent increase in defence spending.

In view of the current extraordinary situation, the Commission has proposed to unlock additional flexibility for higher defence expenditure through a coordinated activation of the national escape clause of the Stability and Growth Pact.

The activation of the national escape clause will allow Member States to deviate from the net expenditure paths set out in their medium-term plans. To ensure that the additional flexibility is compatible with fiscal sustainability over the medium term, the Commission has clearly framed the timing and scope of the national escape clause.

This additional flexibility will help Member States to transition to the needed level of defence spending in a few years. The flexibility is temporary and is focused only higher defence expenditure. That means that the additional fiscal space should be used for defence spending, and not in a general manner, as during the COVID crisis.

Member States will also benefit from €150 billion of EU loans under the new SAFE instrument, which will allow them to fund – at low interest rates and long maturities – investment in pan-European defence capability, for instance investment in air and missile defence systems, drones and anti-drone systems, cyber security and military mobility. The expenditure funded by those loans will automatically benefit from the flexibility under the national escape clause.

The impact of increased national defence expenditure, and in particular of expenditure for investment, on the EU's growth potential and competitiveness can be amplified by Member States spending collaboratively and sourced from within European industry, as foreseen in the SAFE instrument.

With this approach, I am confident that we can keep the EU fiscal framework working as normally as possible, preserve its credibility and avoid endangering fiscal sustainability in any Member State.