

How far has the EU progressed on the Competitiveness Compass?

In 2024, the Letta and Draghi reports identified the EU's competitive bottlenecks and proposed reforms to reignite medium-term economic growth.¹ On this basis, in 2025 the European Commission presented the Competitiveness Compass: a roadmap to deepen economic integration, close the innovation gap with the US and reconcile growth and decarbonisation.² In 2026, in a more complex geopolitical environment, the overall assessment is positive in terms of direction and debate, but limited in progress, with key decisions still pending and with an uncertain outlook. Looking ahead to 2027, with limited fiscal space, the end of NGEU and the negotiation of the next budget, the priority is to accelerate the reform agenda in order to tackle present and future challenges.

Progress on regulatory simplification and diversification of economic relations

Almost 500 days after the presentation of the Competitiveness Compass, the balance is mixed and the same applies to progress on the Draghi report's recommendations: as of January 2026, only 15% had been fully implemented and 24% partially.³

The most visible progress is concentrated on three fronts: (i) financing instruments, such as SAFE loans linked to new defence commitments;⁴ (ii) the continuation of initiatives already deployed, such as the Net-Zero Industry Act – the industrial pillar of the Green Deal –, IPCEI projects in clean technologies, strategic projects under the Critical Raw Materials Act and the decoupling from Russian energy driven by REPowerEU; and (iii) targeted adjustments to streamline existing regulation, such as the Omnibus packages – of which the Commission has adopted 6 of the 10 planned, including the digital and sustainability packages –⁵ and the creation of the small mid-caps segment to extend administrative regulatory relief beyond SMEs.⁶ In addition to this we find initiatives falling strictly within EU-level competences, especially in trade policy and strategic partnerships, such as the agreements with MERCOSUR, Indonesia, India and Australia, which are currently pending ratification⁷ and are aimed at diversifying the EU's economic relations.⁸

In addition, the Commission continues to follow up on the recommendations of Letta and Draghi through strategies

and action plans in various areas, although their translation into tangible results will depend on the co-legislators and national implementation. In the context of the single market, the One Europe, One Market framework aims to reduce frictions and strengthen the enforcement of existing rules.⁹ The roadmap focuses on addressing the so-called «terrible ten» – the 10 barriers identified by the Commission as being the most detrimental to the internal market – through measures ranging from regulatory simplification to regulatory harmonisation in services. One element of this approach is EU Inc. (the 28th regime), a proposal for an optional corporate framework with fully digital corporate operations – online incorporation within 48 hours at a cost of under 100 euros – insolvency procedures adapted to micro-enterprises and start-ups, application of the once-only principle in corporate information and greater capital flexibility to facilitate the scaling of innovative companies.

In the financial sector, the Savings and Investment Union (SIU) plays a cross-cutting enabling role. The roll-out is gradual: the first legislative package presented by the Commission focuses on the securitisation market, aiming to reactivate an underutilised segment and release additional financing capacity. In parallel, progress has been made in designing savings-investment products in order to boost retail participation in capital markets. The most delicate initiatives – integration, market scale, and supervision – are left for later stages and will require broader political agreements. For its part, the digital euro – key to financial autonomy and resilience – is progressing in its preparatory phase led by the ECB, although its impact and timeline remain subject to pending legislative decisions.

In innovation and technological adoption, the Commission has presented the AI Continent action plan, which organises the European agenda for the deployment of this technology. This includes the Apply AI strategy, aimed at accelerating adoption in strategic sectors through pilot projects, dedicated infrastructure – including factories and gigafactories – and providing specific support for SMEs to reduce barriers to entry. In human capital, the Union of Skills complements this agenda with measures aimed at bolstering training in STEM and digital skills, improving the recognition of qualifications and facilitating labour mobility, which are key to alleviating bottlenecks in sectors linked to the green and digital transition.

What remains pending (and most critical): a genuine internal market at scale

Despite the correct strategic orientation, critical components of the Competitiveness Compass for the integration of the single market remain blocked, representing a significant drag on medium-term growth. Some require greater coordination – such as the provision of European public goods (defence, networks, interconnections) or in the design of pan-European projects under the State aid framework – but others demand

1. M. Draghi (2024). «The Future of European Competitiveness» and E. Letta (2024), «Much more than a market».

2. See the Focus «A shift in the EU's political priorities» in the MR04/2025.

3. EPIC (2026). «The Draghi Observatory Implementation Index Update: Assessing EU Delivery of the Draghi Report».

4. See the Focus «5% of GDP on defence: Why? What for? Is it feasible?» in the MR09/2025.

5. The estimated savings for companies from these six packages stands at 7 billion euros.

6. See the Focus «Firm size and productivity gaps in the EU» in the MR10/2025.

7. On 23 March, the Commission notified the members of MERCOSUR that the interim treaty will come into force on 1 May.

8. See the Focus «EU export diversification beyond Trump's tariffs» in the MR12/2025.

9. European Commission (2026), «The 2026 Annual Single Market and Competitiveness Report».

agreements, if not unanimity, among Member States, in areas where national incentives are not always aligned: regulatory harmonisation in services, fiscal and labour convergence, revision of the competition framework and progress towards a genuine capital markets union.

The IMF estimates that internal barriers in the EU are equivalent to tariffs of 44% for goods (compared to 15% in the US) and of up to 110% for services, illustrating the magnitude of the challenge.¹⁰ Progress towards a single market for services goes beyond administrative simplification and requires harmonising substantive aspects: licences and professional requirements, sectoral regulations, rules on data use and transfer, and even elements related to economic regulation that influence prices, margins, and service delivery models. Many of these policy areas are anchored in long-established national models and modifying them will require significant political capital. A similar issue arises with EU Inc., the impact of which will be limited if there is no progress towards broader convergence in taxation, labour framework and insolvency procedures.

Similarly, the strategy for the SIU provides direction, but it is still far from constituting a true capital markets union as envisaged by Letta and Draghi deem essential in order to achieve scale and efficiency in channelling financing towards innovative activities. Removing structural frictions is essential to allow capital to flow freely across Europe: align insolvency and debt enforcement frameworks; simplify cross-border procedures and taxes that currently deter investment on a European scale; effectively integrate stock and private fixed-income markets, including their clearing and settlement systems; move towards convergent supervision to avoid a fragmented application of the single rulebook; and complete the banking union with a pan-European deposit guarantee fund.

In the industrial sector, strategic dependencies remain substantial.¹¹ In March, the Commission presented the Industrial Accelerator Act, with measures intended to generate demand for European products and technologies with a low carbon footprint (via public procurement and support schemes) and to accelerate permitting procedures in strategic sectors. These tools will only be effective if they strengthen the single market and if the reduction of dependencies is supported by productivity, innovation and scale, and not by quantitative import substitution targets that increase the cost of inputs and erode competitiveness.¹² In technological development and adoption, bottlenecks persist along the value chain, with upstream dependencies (semiconductors and computing power) and gaps in access to data, financing, human capital and energy.

In decarbonisation, two central challenges persist: regulatory certainty and reduction of energy costs. Beyond networks, interconnections and permits, the European agenda acknowledges that the final price of electricity

end-user prices depend on market rules and the stability of the framework. The 2024 electricity market design reform introduced improvements to reduce exposure to gas price volatility and incentivise long-term contracts, although its impact on prices remains limited. In parallel, the revision of the ETS scheduled for 2026 must balance carbon price stability and investment signal without undermining its central role in the transition.¹³ Without credible progress in energy costs, the price gap relative to other economies will continue to weigh on industrial competitiveness.

From strategy to full implementation

Looking ahead to the second half of 2026 and 2027, there is a window of opportunity, but the margin is narrow. The end of NGEU coincides with the negotiation of the 2028-2034 EU budget, greater investment needs in defence, energy and critical technologies, and a context of demographic ageing and low productivity.¹⁴ This is compounded by an increasingly demanding geopolitical environment – an entrenched conflict in Ukraine and recent tensions in the Middle East, a reconfiguration of global trade, and episodes of energy volatility – which increases the value of resilience but also intensifies competition for limited public resources.¹⁵

In this context, the competitive agenda will only gain credibility if it translates into actionable decisions. Firstly, this means making the single market operational in areas with the greatest potential – services, data, business and talent mobility – and prioritising the elimination of the most costly barriers to scaling. Secondly, it means implementing the SIU in real integration and growth financing, and making progress on insolvency, fiscal frictions and supervisory convergence. Thirdly, it must lead to a structural reduction in energy costs, so that decarbonisation also enhances industrial competitiveness. Fourthly, it requires an acceleration in the technological race, with AI at the core, and relying on strategic alliances in order to secure critical inputs and open new spaces for economic cooperation.

The proposal for a Competitiveness Fund in the next budgetary framework could help organise instruments and concentrate resources, but it does not replace the need to reach political agreements on integration and governance. If part of the agenda progresses through coalitions of countries, then the base should be broad enough not to erode the internal market nor lead to a multi-speed Europe that undermines social and territorial cohesion.¹⁶ Ultimately, the decisive step in the coming quarters is to move decisively from strategies and action plans to implementation.

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13. CEPS (2025). «Reforming the EU ETS: Balancing price stability and investment signals».

14. See the Focus «[The 2028-2034 EU budget: An impossible mission?](#)» in the MR09/2025, and the Dossiers «[The transformative capacity of NGEU and other fiscal stimulus plans](#)» in the MR03/2025, «[Challenges and policies in the age of longevity](#)» in the MR09/2025 and «[An analysis of European productivity](#)» in the MR01/2026.

15. See the article «[Europe's medium-term fiscal dilemma](#)» from the Dossier in the MR11/2025.

16. J. Zettelmeyer *op. cit.*

10. IMF (2024). «A Recovery Short of Europe's Full Potential».

11. See the Focus «[Import dependencies and competitive emergencies for Europe's industry](#)» in the MR06/2025.

12. J. Zettelmeyer (2025). «Draghi on a shoestring: the European Commission's Competitiveness Compass».