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Need for speed - the Draghi report one year on

Marion Muehlberger
Senior Economist
+49-69-910-31815

Ursula Walther
Research Associate

Happy one-year anniversary! One year ago the EC presented the Draghi report, a roadmap on how to improve EU competitiveness in light of a widening EU-US productivity gap. In January, the EU Commission followed up with an answer to Draghi's policy prescriptions, the Competitiveness Compass. It is a selection of flagship measures which stopped short of incorporating the most controversial elements like new joint borrowing and introducing local content requirements.

Overall progress is mixed - no game changers, but some substantial reforms. We visualize the state of EU competitiveness in January with a scoreboard and take stock of which concrete policy actions have been launched since then, especially those that go beyond strategy papers. While purely quantitative analysis by Epic finds that around 11% of Draghi's 383 policy recommendations have been implemented, we assess the materiality of the policy changes (see Figure 1):

- **Most progress in scaling up the defence industry** as the sense of urgency has been strongest here. Increased defence spending already translates into a build-up of defence production capacities (see here) and EU instruments like the EUR 150 bn SAFE loan programme will contribute to further capability build-up. A roadmap on how to close defence gaps by 2030 is set to be presented at the October Council.
- **Some progress with respect to cutting red tape** and eliminating barriers to the Single Market. The EC has launched a series of so-called Omnibus proposals simplifying regulatory requirements, especially for SMEs. Overall cost savings are expected to amount to EUR 9 bn.
- **Limited progress in closing the innovation gap with the US.** The EU has started to target the lack of scale-up financing, computing, cloud and data infrastructure and to foster corporate AI adoption.
- **Only incremental progress with the Savings and Investments Union.** The EU's SIU strategy addresses key shortcomings highlighted by Draghi. It aims to channel more retail investments into capital markets, strengthen the capital-based pension pillar, harmonise supervisory practices, and revitalise the securitisation market. An EU-wide savings and investment account is still to be presented in Q3.
- **Substantial reforms in the next EU budget, but no joint new debt issuance or roll-over of NGEU debt.** The July proposal for the next 7y EU budget is putting Draghi's recommendations "to spend better" into action via more conditionality and allocating EUR 410 bn to competitiveness and defence,

increasing its share of the budget from 14% to 23%.

The EC will further push the competitiveness agenda over the next twelve months. The EC will continue to initiate reforms using the standard legislative procedure where decisions cannot be blocked by a single member state (e.g. in case of domestic political paralysis). Tomorrow's State of the Union address (streamed here) will give further clues as to where most policy action is to be expected. Defence and economic security (e.g trade defence measures against China) are likely to feature prominently. However, key structural reforms for improving EU competitiveness (labour market, pension, tax policy) have to be pursued at the member state level where the political backdrop (e.g. France, right-wing surge) is not conducive to big structural reforms at the moment.

What next? As expected, the Draghi report was most actionable in those areas where national interests are most aligned (cutting red tape) or external pressure was most pronounced (defence ramp up). While crisis management sometimes has to take precedence over structural reforms, there is some urgency now to accelerate structural reforms. Key to watch will be the revision of public procurement and changes to EU merger guidelines, expected for the end of next year at the earliest. In terms of what is guiding VdL's speech and her policy priorities, she is in a narrow path situation. She will have to make sure to emphasize EU sovereignty in decision-making to win support from the EU parliament. At the same time she will have to avoid policies that generate too much resistance from the US administration.

Figure 1: Progress with implementation of the Draghi report

Policy goal	Type	Timeline for proposal	Status	Potential impact*
#1 Reducing dependencies and strengthening security				
> White paper on the future of EU defence & ReArm plan	White paper	Q1 2025	✓ published	●○○○
> SAFE and national escape clause	Legislative proposal	Q1 2025	✓ adopted	●●●○
> Joint Purchasing Platform for Critical Raw Materials	Platform	Q3 2025	✓ launched	●●○○
> Revision of Public Procurement for more EU suppliers	Legislative proposal	Q4 2026	→ forthcoming	●●○○
#2 Reducing the regulatory burden				
> Omnibus packages to streamline EU rules	Legislative proposals	2025	↗ ongoing	●●○○
> Horizontal Single Market strategy	Strategy	Q2 2025	✓ published	●○○○
> CBAM simplifications (part of Omnibus I)	Legislative proposal	Q1 2025	↗ ongoing	●●○○
#3 Closing the innovation gap				
> Startup and scaleup strategy	Strategy	Q2 2025	✓ published	●○○○
> 28th regime for EU startups	Legislative proposal	Q1 2026	→ forthcoming	●●○○
> InvestAI fund supporting AI gigafactories	Fund	Q1 2025	✓ launched	●●○○
> EU Apply AI strategy	Strategy	Q3 2025	→ forthcoming	●○○○
> EU Quantum Strategy	Strategy	Q3 2025	✓ published	●○○○
> Review of horizontal merger control guidelines	Guideline	Q4 2027	→ forthcoming	●●○○
#4 Energy prices and decarbonisation				
> Clean Industrial Deal & Affordable Energy Action Plan	Action plans	Q1 2025	✓ published	●○○○
> New state aid framework for companies in transition	Legislative action	Q2 2025	✓ adopted	●●○○
> Steel and Metal Action Plan	Action plan	Q1 2025	✓ published	●○○○
#5 Horizontal enablers				
> Savings and Investments Union strategy	Strategy	Q1 2025	✓ published	●○○○
> EU multiannual budget for 2028-34	Legislation	Q3 2025	↗ ongoing	●●●○

***Potential impact: ●○○○limited (strategy); ●●○○ incremental reform; ●●●○ substantial reform; ●●●● game changer**

Source : European Commission, Deutsche Bank

Intro

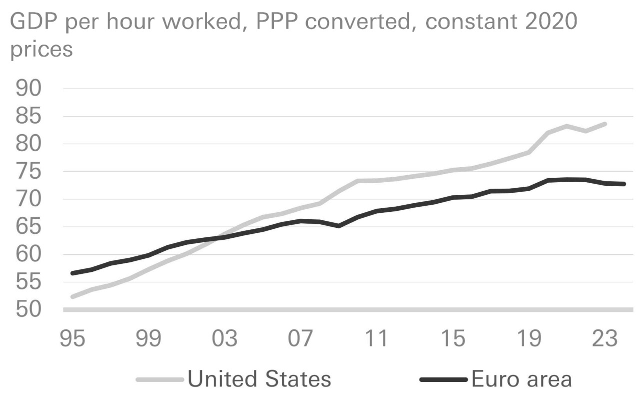
The second VdL Commission has made restoring competitiveness, scaling up the EU defence industry and increasing EU strategic autonomy its key policy priorities. In our analysis one year ago (see here), we concluded that there would be some sweet spots for reforms, but that the Draghi report would be most actionable in those areas where national interests are most aligned. As expected, reforms were unlikely to happen in areas where national interests diverge: common industrial policy and how to fund it, allowing for scale and the creation of European champions, harmonization of taxation and insolvency rules to achieve financial market integration.

A purely quantitative analysis by the think tank EPIC finds that around 11% of Draghi's 383 policy recommendations have been implemented to date. Our analysis of progress with implementing the Draghi report is based on the materiality of the policy changes, classifying them according to their potential impact ranging from "limited" to "game changer" (see Figure 1).

1) Recap – what were the key policy recommendations of the Draghi report

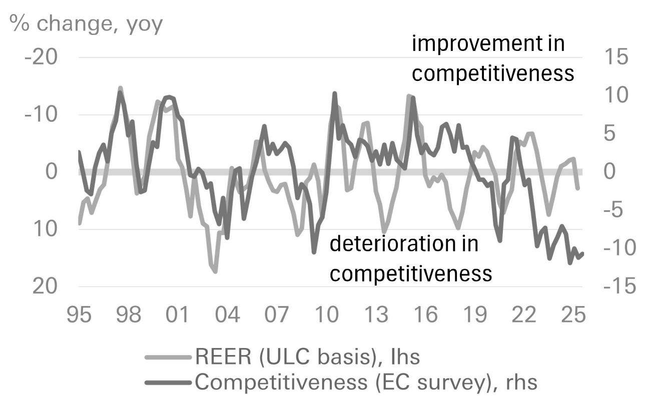
The widening US-EU productivity gap (see Figure 2) had necessitated a comprehensive assessment of how to improve potential growth in the EU at the start of Commission President von der Leyen's second mandate. Major pain points with respect to EU competitiveness were found to be comparatively high electricity prices, an incomplete single market (lack of capital market integration), its static industrial structure, extensive external dependencies and a high administrative burden.

Figure 2: US-EU productivity gap has widened



Source : OECD, Deutsche Bank

Figure 3: Deteriorating EU export competitiveness



Source : European Commission, Deutsche Bank

Draghi's recommendations were centered around **four policy goals** (for more details please see Figure 22 in the Annex):

- Scaling up the defence industry and reducing dependencies
- Reducing the regulatory burden and making EU decision making more efficient
- Closing the innovation gap with the US with respect to digital technology

(“tech”)

- Bringing down high energy prices and turning decarbonisation into a source of growth

In January, the EU Commission followed up with an answer to Draghi’s policy prescriptions, the Competitiveness Compass. This is a selection of flagship measures which stopped short of incorporating the most controversial elements like new joint borrowing and introducing local content requirements.

Each year the EU benchmarks its competitiveness against a selection of competitiveness metrics. We visualize the January competitiveness scoreboard in Figure 4. It shows a mixed starting point for EU competitiveness with access to private capital and investment standing out as a particular weak spot.

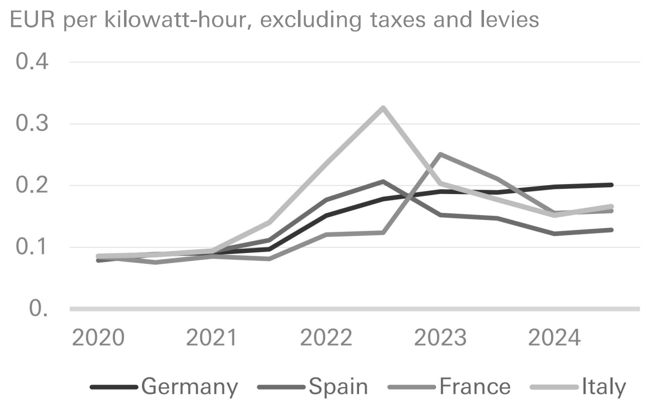
In the below analysis we now take stock of which concrete policy actions have been launched since January with respect to the above policy goals.

Figure 4: EU competitiveness moving sideways

	latest	previous	trajectory
A functioning Single Market			
Trade over GDP in %	23.8	26	↓
Conformity with EU directives	0.9	1.1	↑
Regulatory burden and simplification			
Index of World Economic Forum	3.87	3.8	→
Access to private capital and investment			
Private investment as share of GDP	18.5	19.3	↓
VC investments as share of GDP	0.05	0.09	↓
Public investment (as share of GDP)	3.49	3.24	↑
Research and innovation			
R&D expenditure (as share of GDP)	2.21	2.2	→
Patent applications per million inhabitants	152.8	151.8	→
Energy			
Share of energy from renewable sources	25.4	23	↑
Industrial electricity prices (EUR/kWh)	0.16	0.2	→
Circular material use rate	11.8	11.5	→
Digitalisation			
Digital intensity in SMEs	69.3	61.4	↑
Digital technologies adoption by companies	na	na	
Education and skills			
Adult employment rate	75.3	74.6	↑
ICT specialists in % of employment	4.8	4.6	↑
Average PISA test scores for 15-year olds	474	492	↓
Trade and open strategic autonomy			
Trade with the rest of the world (% of GDP)	14.8	17.4	↓
Exports of goods and services as a share of the rest of the world's imports	20.4	16.1	→

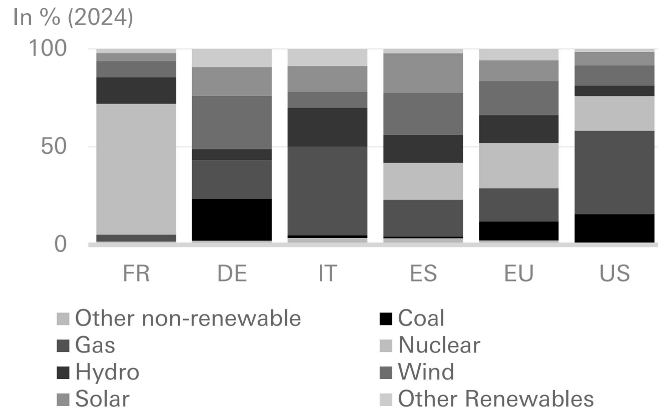
Source : European Commission, Deutsche Bank

Figure 5: Electricity prices for industrial consumers above pre-crisis levels



Source : Eurostat, Deutsche Bank

Figure 6: Electricity from renewable sources: 48% in the EU and 24% in the US



Source : Eurostat, Deutsche Bank

2) Scaling up the defence industry and reducing external dependencies - driven by the strongest sense of urgency

In this first category, the sense of urgency for policy action has been strongest over the past 12 months. This has been driven by doubts about the US commitment to guaranteeing EU national security (after JD Vance's speech at the Munich security conference), an increasing number of hybrid attacks by Russia on the EU [1 2] and China's willingness to "weaponize" its dominant position in processing several critical raw materials and thereby threatening key EU supply chains.

In addition, the largely asymmetric trade deal with the US has shown that the EU’s dependence on the US security umbrella has limited the EU’s leverage in the recent trade negotiations. Europe depends heavily on the US not only for readily deployable troops but also for strategic enablers. The large EU Single Market can only be an asset in trade negotiations if other dependencies are lowered. The fragile trade truce with the US administration shows that deterrence only works if it is credible, and if the EU is willing to accept the potential costs associated with making use of trade defence measures.

2a) Most progress made in scaling up the defence industry

We generally see most progress in scaling up the EU defence industry, with recent policy action both at the national and the supranational level:

- **At the national level:** Germany is taking the lead at the national level by increasing defence spending from EUR 74 bn in 2024 to EUR 109 bn next year (for more see here). Increased defence spending already translates into a build-up of national defence production capacities. At the end of August, a large German defence company inaugurated what will be the EU’s largest ammunition factory.
- **At the supranational level**: New EU instruments like the EUR 150 bn SAFE facility also contribute to higher defence spending in other EU member states than Germany. 19 countries requested cheap loans worth EUR 150

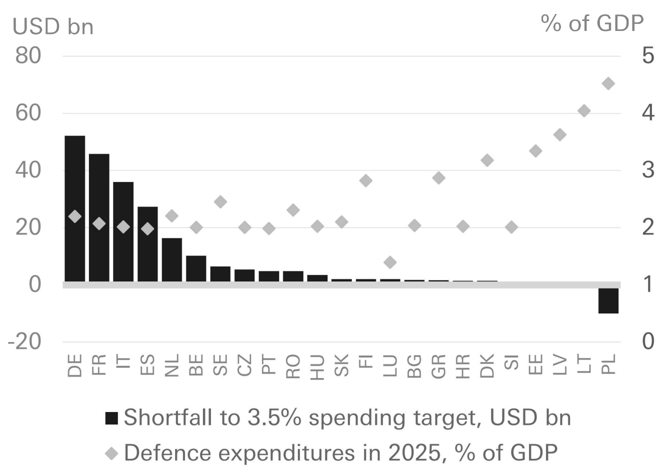
1 IISS, The scale of Russian sabotage against EU critical infrastructure, August 2025 and
2 Statement by the High Representative on behalf of the EU condemning Russia’s persistent hybrid campaigns against the EU, July 18, 2025

bn from the European Commission[3] to boost their defence capabilities and potentially buy arms for Ukraine. Countries will submit the defence projects they intend to carry out under SAFE before a November 30 deadline.

- **What next?** Updated NATO data show an EU defence spending shortfall of USD 226 bn in 2025 compared to the 3.5% of GDP spending target (see Figure 7). Closing this gap will require a further ramp-up of EU defence capabilities. The US global posture review, due at the end of September, will bring more clarity on future US troop presence in Europe and could act as an additional catalyst for EU members' perceived urgency for action. At the October Council, the EU is set to present a roadmap on how the EU plans to close its defense gaps by 2030. The EC will co-lead member states in their projects with Germany expected to take the lead on air defence and the Netherlands on military mobility as well as drone and counter-drone systems.

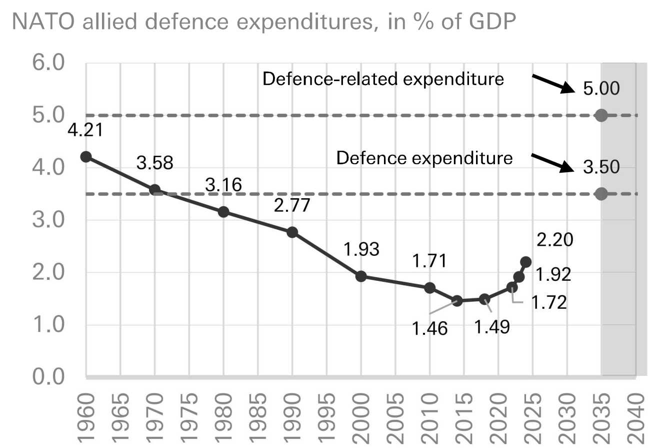
The fact that the recently concluded trade deal with the US contains pledges to 'substantially increase' purchases of US arms is unlikely to significantly hamper the ramp up of the European defence industry. First, reliance on American systems in critical modern capabilities was anyway likely to persist for the time being. Second, as Europeans will likely have to shoulder the bulk of the security guarantees for Ukraine (should some form of peace agreement eventually be concluded), the scale up of the defence industry is likely to continue to progress.

Figure 7: EU defence spending shortfall still sizeable - at EUR 226 bn in 2025



Source : NATO, Deutsche Bank

Figure 8: Still some way to go to reach the new NATO spending targets



Source : NATO, Deutsche Bank

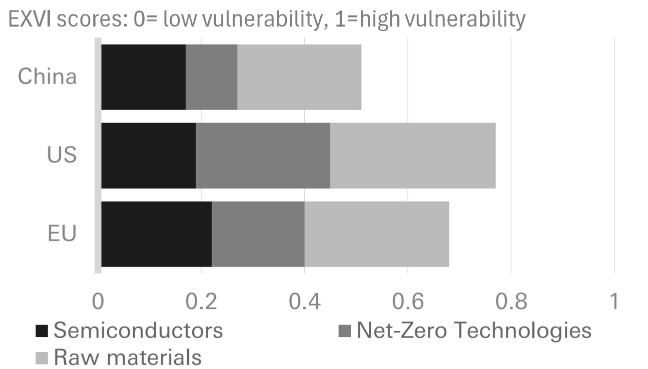
2b) Reducing external dependencies – joint platform for the purchase of critical raw materials has been launched

China is the largest (and sometimes sole) supplier of critical raw materials for the EU, raising the risk of supply chain disruptions as currently witnessed in the automotive industry. The EU's Critical Raw Material Act (CRMA) aims to ensure European extraction, processing and recycling of strategic raw materials meet 10%, 40% and 25% of the EU's demand by 2030, respectively. While these are ambitious long-term goals, the EC has taken some steps to advance on these goals:

3 EC President VdL press conference with Finnish PM, August 29, 2025

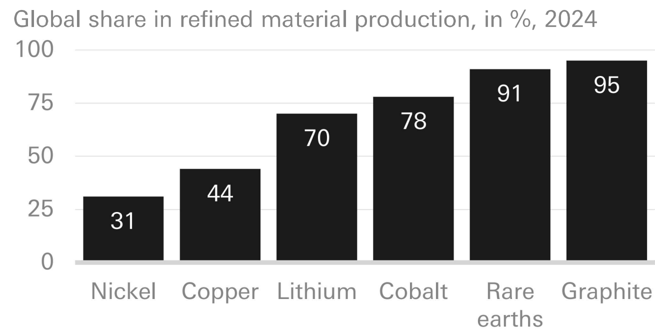
- **Launch of the joint purchasing platform in July.** In July, the EC launched the EU's joint purchase platform for critical raw materials. The platform brings together procurement mechanisms for hydrogen, biomethane, LNG, natural gas and over 30 identified critical raw materials. So far, the Commission has conducted 7 matching rounds for natural gas where a joint platforms exists since April 2023.
- **Enhance domestic extraction/recycling of critical raw materials.** The EU identified 47 domestic "strategic projects" to extract, process and recycle critical raw materials across 13 member states, requiring a total investment of EUR 22.5 bn.

Figure 9: External vulnerabilities are lowest in China



Source : European Commission, Deutsche Bank, based on the latest BACI database (2022)

Figure 10: China has a dominant position in processing several critical raw materials



Source : IEA, Deutsche Bank

3) Making the EU more efficient - some progress in reducing the regulatory burden and barriers to the Single Market

In this second category, tapping the potential of the Single Market has become even more urgent than before given more restrictive access to the US market for EU exports after the recent EU-US trade deal. According to IMF research[4] remaining internal barriers lead to an estimated ad valorem equivalent extra cost for intra-EU trade of 44% for the average manufacturing sector and 110% for the service sector.

3a) Reducing the regulatory burden - omnibus simplification and the 28th regime

The Commission has launched a series of so-called Omnibus proposals (Figure 11), simplifying regulatory requirements across multiple legislations. A key goal is to refocus the EU's regulatory framework on the largest companies and provide relief with respect to reporting requirements for SMEs. Overall cost savings are expected to amount to EUR 9bn.

- Omnibus I, Omnibus II and Omnibus IV aim to simplify regulatory requirements in the fields of sustainable finance reporting, sustainability due diligence, EU Taxonomy, carbon border adjustment mechanism, data protection rules, and European investment programmes.
- Three **proposed sectoral omnibuses** intend to streamline regulations for

4 IMF (2024). Europe's Declining Productivity Growth: Diagnosis and Remedies. Regional Economic Outlook Notes for Europe. November 2024

defence procurement, agriculture and chemicals.

- Further omnibuses for environmental regulations, the energy sector and digital rules are expected by the end of the year.

Figure 11: A series of omnibus proposals to reduce the regulatory burden

No	Area	Provisions	Expected cost savings (EUR bn)*	Proposal	Trilogue negotiations	Adoption
I	Sustainability	1) Postpone reporting obligations under the Corporate Sustainability Reporting Directive (CSRD) to 2028	6.3	26-Feb-25	✓ concluded	✓ concluded
		2) Simplified reporting, especially for SMEs, under the CSRD, CSDDD and Taxonomy			→ in preparation	× outstanding
II	InvestEU	Reporting simplifications for SMEs, increased EU guarantee to unlock additional investments (EUR 25 bn expected)	0.4	26-Feb-25	→ in preparation	× outstanding
III	Agriculture	Simplified payment scheme, requirements and controls	1.6	14-May-25	→ in preparation	× outstanding
IV	SMEs & small mid-caps	Eased compliance obligations for small mid-caps, incl. record-keeping under the GDPR and more digital processes	0.4	21-May-25	→ in preparation	× outstanding
V	Defence	Aims to remove bottlenecks in public procurement, permitting, reporting obligations, and cross-border cooperation		17-Jun-25	→ in preparation	× outstanding
VI	Chemicals	Simplified hazardous chemical labelling rules, clarifications in EU cosmetics regulations, eased registration for fertilizers	0.4	08-Jul-25	→ in preparation	× outstanding
VII	Environment	Simplified rules concerning the circular economy, industrial emissions and waste management	tbd	Q4 '25 **	× outstanding	× outstanding
VIII	Digital	Streamlined data and cybersecurity rules	tbd	Q4 '25 **	× outstanding	× outstanding
IX	Energy	Potential simplifications of the energy efficiency directive, and methane regulation, and accelerating build out of renewable energies	tbd	tbd	× outstanding	× outstanding
Total expected cost savings for the economy so far			**9.0**			

Source : European Commission, Deutsche Bank
**Expected cost savings for the economy; **preliminary timeline*

The legislative proposals have been submitted to the European Parliament and the Council for their consideration and adoption. Thus, actual relief might only come with a time lag with the above table outlining the envisaged implementation schedule.

In addition to the omnibuses, the Commission is planning further simplifications and harmonisations of EU-wide rules to ease the administrative burden for companies.

Introducing a 28th regulatory regime. This essentially means that companies anywhere in the EU could opt into this voluntary regulatory regime and thus opt out of their national regimes. The main goal is to empower innovative firms to easily expand and grow across the EU. The scope of the regulation is currently still being developed, both in terms of the eligible companies and the regulatory aspects covered (e.g. corporate law, insolvency procedures, labour law and taxation).[5] Overall, it appears to be a difficult undertaking. While a very far-reaching proposal might not gain sufficient political buy-in, a proposal that is too narrow could have limited uptake by companies and hence little impact. A legislative proposal is planned for Q1 2026.

3b) Reducing barriers to the Single Market

The EU Single Market Strategy, presented in May, intends to address the ten most harmful barriers[6] (Figure 12), such as harmonized packaging, labelling and waste

5 See the EU Commission's call for evidence on the planned 28th regime
6 See Businesseurope (2025). Examples of Single Market barriers for businesses – 2025. May 21

rules, as well as facilitating the cross-border posting of qualified professionals. A hurdle that remains largely unaddressed is the difficulty for exporting companies to gain an overview of the national and EU rules they must comply with. According to EIB surveys (see here), 60% of EU exporters and 74% of innovators report that they have to comply with significantly different regulations across EU countries, with the services sector hit hardest. Next to harmonisation, enforcement of common rules is key for the success of the single market.

Better enforcement is also key. The strategy proposes some measures for better enforcement (e.g. an annual single market enforcement agenda and single market sherpas in each member state). However, success will also critically hinge on member states taking more ownership for achieving a fully integrated single market. [7]

Figure 12: The "terrible" 10 barriers to reaping the potential of the Single Market

No	Barrier	Description	Action
#1	Overly complex EU rules	Complicated and overlapping regulation causing uncertainty and barriers resulting in costs, especially for SMEs	Omnibus packages
#2	Lack of Single Market ownership by Member States	15% of national rules or their drafts were potentially restricting fundamental freedoms of the Single Market	Sherpa
#3	Complicated business establishment and operations	Fragmented legal rules across member states, impeding companies to scale-up and establish themselves in other EU countries	28th regime
#4	Recognition of professional qualifications	Lengthy and physical recognition process of professions of EU and third-country nationals, missing out on talents	Digital tools
#5	Long delays in standard-setting	Absence of harmonized standards imply more costly, legally uncertain conformity assessments	Common specifications
#6	Fragmented rules on packaging, labelling and waste	Divergent requirements for labelling and waste require different national product versions, disincentivizing going European	Harmonize rules
#7	Outdated harmonized product rules and lack of product compliance	Uncoordinated responses to non-compliant EU-products posing a risk and insufficient review of third-world products	EU market surveillance authority
#8	Restrictive and diverging national services regulation	Differences in national authorization and certification requirements restrict pan-EU services covering 22% of the EU workforce	Harmonize rules, based on EU law
#9	Burdensome procedures for temporary posting of workers	Varying national declaration requirements for temporary cross-border workers discourages the provision of these services within the EU	Revision of Social Security coordination
#10	Territorial supply constraints	Deviating consumer prices that are not due to regulatory or labor cost differences but suppliers limiting the quantity sold to retailers	Penalize non-dominant operators

Source : European Commission, Deutsche Bank

4) Some progress with respect to closing the innovation gap

The US has a more dynamic industrial structure than the EU. This can be visualized by looking at the top firms' research and development spending, which is still dominated by auto companies in the EU vs. tech companies in the US (see Figure 14). Moreover, while Europe's share of global patents is comparable to the US and

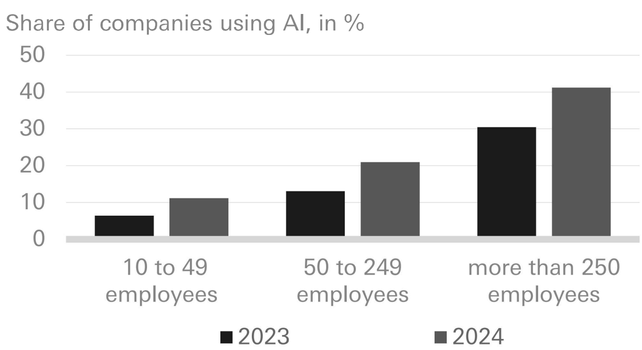
7 Bruegel (2025). The European single market: restarting the perpetual revolution. July 18

China, only one third of patents registered by EU universities are commercially exploited.[8]

In order to close the innovation gap with the US and not to fall further behind in the technological frontier, the EU has started to foster corporate AI adoption, target the building blocks of AI (computing, cloud and data infrastructure), and address the lack of scale-up financing (see Figure 15):

- **InvestAI initiative launched in February – tenders for AI gigafactories planned for Q4.** InvestAI aims to mobilise EUR 200 bn for investment in AI, including a new European fund of EUR 20 bn for AI gigafactories. This large AI infrastructure is needed to allow open, collaborative development of the most complex AI models and to make Europe an AI continent. An official call for tenders for the construction of AI gigafactories in the EU is planned for the fourth quarter of 2025 with some key players already having applied (see here).

Figure 13: Corporate AI adoption is slowly picking up

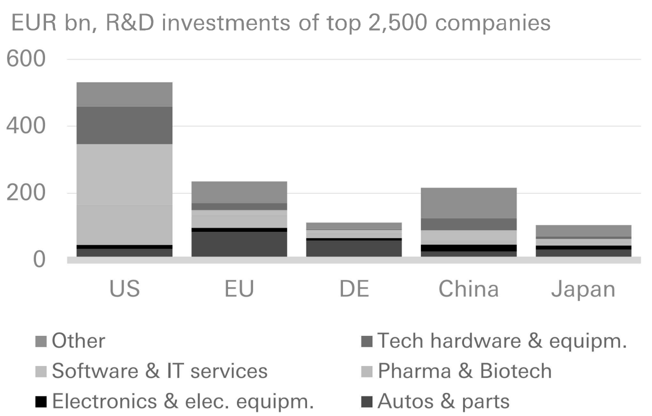


Source : Eurostat, Deutsche Bank

- Moreover, an **EU Apply AI strategy to be announced in Q3**, with the aim of helping companies to adopt AI in their businesses. In 2024, the share of EU businesses that adopted AI was 13% for businesses with more than 10 employees with considerable difference depending on company size.
- The **EU startup and scaleup strategy launched in May** aims for a more innovation- and SME-friendly framework. This includes simplified rules to reduce the administrative burden, the introduction of regulatory sandboxes, and an ambitious plan to create a single set of rules for EU companies (28th regime).
  - To improve the funding of typically capital-intensive deeptech startups in strategic sectors, the EU plans to establish a so-called "**Scaleup Europe Fund**" with private co-financing. The fund is to be launched in 2026 with the volume still unknown (target is a "double-digit billion euro" figure).[9] As these companies build on novel scientific or engineering breakthrough technologies (e.g. AI, quantum computing, green hydrogen), they are particularly important for closing the EU's innovation gap with the US and raising Europe's growth potential.

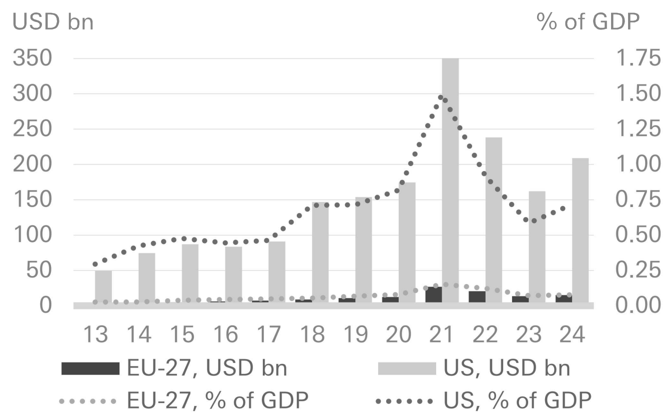
8 EU Commission (2025), Annual Single Market and Competitiveness Report.
9 Reuters (2025). EU plans tech scale-up fund to narrow gap with US, China. May 28.

Figure 14: EU seems to be caught in the middle technology trap



Source : Industrial R&D Investment Scoreboard 2024, Deutsche Bank

Figure 15: Risk capital investments - much lower in the EU than in the US



Source : OECD, Pitchbook/NVCA, Invest Europe, EBAN, Deutsche Bank Research

5) Horizontal enablers - capital markets and common EU budget

5a) Savings and Investments Union – only incremental progress so far

A fully integrated capital market is central to boosting competitiveness, as it would enable better mobilization and more efficient allocation of private investments across the EU. The establishment of an EU Capital Markets Union (CMU) has so far been an incremental process, with the ECB's financial integration composite indicator recently pointing to some progress (Figure 16). However, EU capital markets are still fragmented and remaining barriers in the financial service sector are equivalent to a 100% tariff, according to IMF estimates. [10]

Channelling more retail investments into capital markets is one key policy recommendation of the Draghi report. A recent study finds that (under current investment patterns) a one-time reallocation of 10% of household savings from deposits to the insurance and pensions sector could generate EUR 416 bn of investment in EU capital markets.[11]

The EU's new Savings and Investments Union Strategy (SIU) addresses key shortcomings highlighted by Draghi. It aims to channel more retail investments into capital markets, strengthen the capital-based pension pillar, harmonise supervisory practices, and revitalise the securitisation market. However, past experience with the CMU has shown that divergent national interests, especially when it comes to supervision, pensions, as well as to tax and insolvency rules, often hamper further integration of capital markets.

- As a first step, the Commission presented the review of the EU securitisation framework. It foresees simplifications for transparency and due diligence requirements as well as lower capital requirements in some cases. At the same time, the proposal risks introducing some new

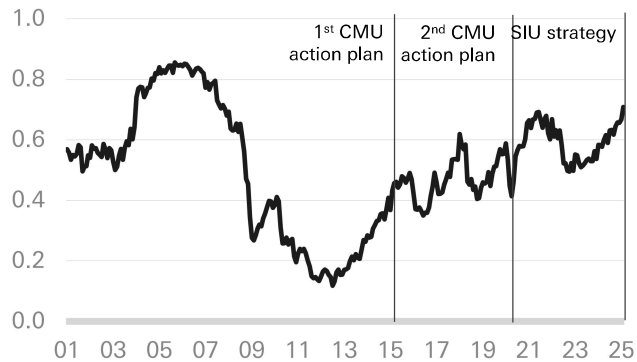
10 IMF (2024). Europe's Declining Productivity Growth: Diagnoses and Remedies. Regional Economic Outlook Notes for Europe. November 2024.

11 This is based on the assumption that 10% of the roughly EUR 1tn of total cash and deposits would be reallocated as such: 41% would flow into EU listed equity and debt securities, 25% would flow into listed equity and debt securities issued outside the EU, while about 34% would flow into other asset types and cannot be tracked further because of data limitations.

complexity and hence raises concerns about the framework's ultimate effectiveness (see here).

Figure 16: Savings and Investments Union - financial market integration is slowly progressing

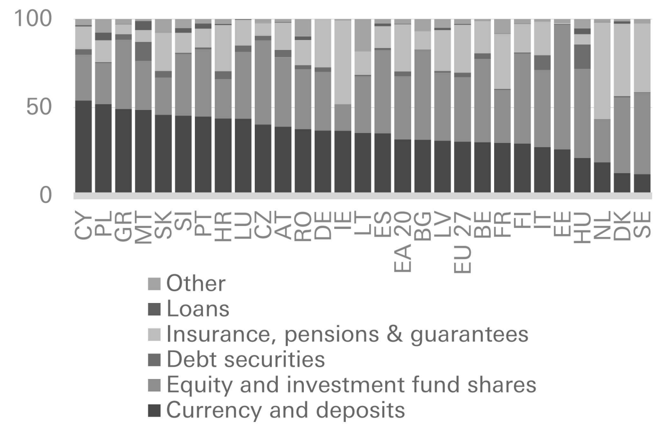
Price-based financial integration composite indicator, 1 = perfect integration, 0 = complete segregation



Source : ECB, Deutsche Bank

Figure 17: Asset allocation of households differs across EU countries

% share of total financial assets of households in 2024 (EUR 40tn in total)



Source : Eurostat, Deutsche Bank

- **Further initiatives to follow soon**: A blueprint for a European savings and investment account is expected for Q3.[12] Its success will likely depend on further supporting framework conditions (e.g., tax incentives) in the member states. Further measures to stimulate equity investments by institutional investors, a market infrastructure package to further integrate trading and post-trading infrastructures, and a proposal for a more unified and efficient market supervision should follow in Q4.

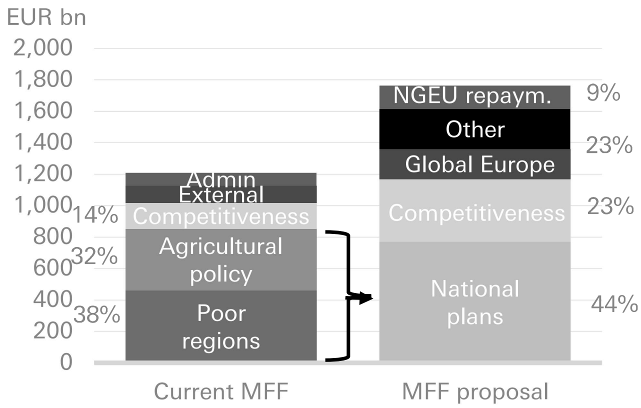
5b) The next long-term EU budget – not bigger but better

One of the most discussed recommendations of the Draghi report is the call for joint EU borrowing for EU public goods. While there is so far no appetite for another round of common EU borrowing, the draft for the next EU budget is at least putting Draghi's recommendation "to spend better" into action. However, in the upcoming two years of negotiating the next 7y EU budget, the next MFF will have to balance investment in Europe's competitiveness and security with the complex realities of member state preferences and fiscal limits.

The EU Commission presented its EUR 1.8 tr plan for next 7-year budget in mid July. The proposal lays down the EU budget figures for 2028 to 2034, providing an indication of how much resources can be allocated to new EU priorities like defence or competitiveness. As we previewed here, we expect the next EU budget ultimately (at the end of 2y negotiations) not to be bigger in relative terms, but to put Draghi's recommendations "to spend better" into action (at least to some extent) via more conditionality and a streamlined structure.

12 EC, Recommendation on savings and investment account

Figure 18: How the next EU budget might look like



Source : European Commission, Deutsche Bank

Figure 19: EU programmes to be included in the competitiveness fund

Area	EU programme	MFF 2021-27* (EUR bn)
Research	Horizon Europe (to remain self-standing)*	93.5
Green and digital transition	Innovation Fund**	28.0
	Invest EU*	10.3
	Single Market Programme (SME Strand)	4.2
	Digital Europe Programme	7.6
	Connecting Europe Facility - Digital	1.5
	Programme for Environment and Climate Action (LIFE)	5.4
Health	EU4Health	5.8
Defence	European Defence Fund	8.0
	Act in Support of Ammunition Production (ASAP)	0.5
	European Defence Industry Reinforcement through Common Procurement Act (EDIRPA)	0.3
	European Defence Industry Programme (EDIP)	1.5
	European Space Programme	14.9
	IRIS2	1.7
Total		**183.2**

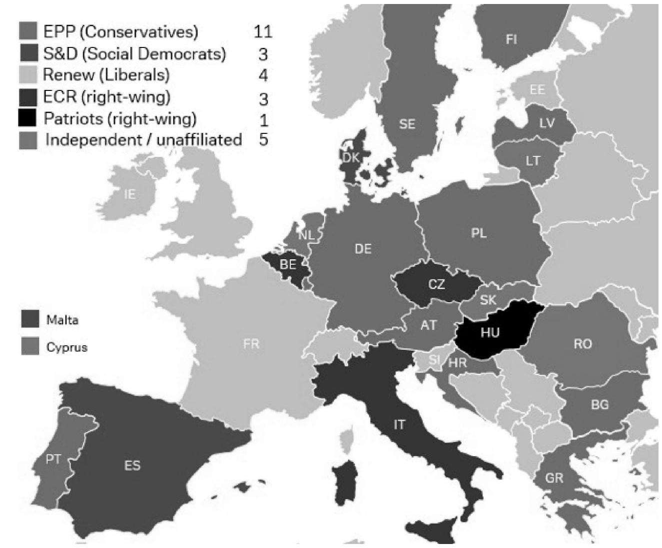
Source : European Commission, Deutsche Bank
** Including a total of EUR 11.5 bn from the NGEU*
*** Annualised figures, EUR 40 bn for 2020-2030. So far, outside the MFF and financed through ETS revenues*

- **Bigger envelope – likely to be negotiated down.** The EC plans to increase the EU's 7-year budget to EUR 1.8 tr, equivalent to 1.26% of the EU's GNI, up from the current EUR 1.2 tr or 1.1% of GNI. This higher envelope was expected given that it will likely be negotiated down (potentially to EUR 1.5 tr) as member states currently have little appetite and/or fiscal space to increase their contributions to the EU budget or agree on significant new own resources.
- **More money for defence and competitiveness:** The draft budget allocates EUR 410 bn to competitiveness and defence, significantly increasing its share of the budget from 14% to 23%. Agriculture and cohesion funds will remain heavyweights even though their share is set to shrink from 70% to 48%.
- **Most controversial part - new crisis instrument.** The new EUR 400 bn crisis management tool is planned outside the EU budget and is meant to be financed with joint debt. This is the most controversial part of the proposal, which might see fierce resistance from "frugal" countries.
- **NGEU repayment.** NGEU repayment and interest costs will amount to EUR 24 bn per year, thus EUR 168 bn in total. A roll-over of NGEU borrowing is not part of the proposal.

6) Institutional and political hurdles on the path to reforms enhancing competitiveness

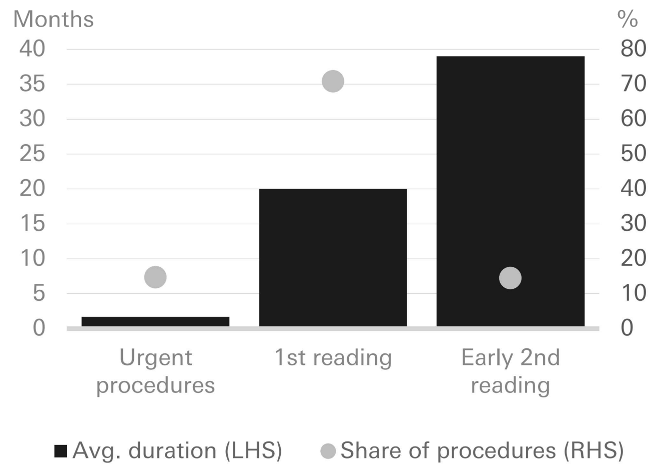
At the EU level, the Commission is the main driving force, but processes remain rather complex and slow. The EU Commission will continue to implement its Competitiveness Compass and initiate reforms with legislative proposals. However, coordination with member states, the EU Parliament, and other stakeholders is often a complex and time-consuming process (Figure 21).

Figure 20: Conservative EU heads of state dominate the Council



Source : European Council, Deutsche Bank

Figure 21: EU legislative procedures took 20 months on average in the 2019-24 term



Source : European Parliament, Deutsche Bank

Standard legislative procedure as most frequent avenue. This means that the Commission's competitiveness proposals need to find a majority in the European Parliament and a qualified majority[13] among the heads of states in the Council. The good news is that most reforms thus cannot be blocked by a single member state. Thus, were a key member state to face political paralysis (e.g. due to a change of government as in France after yesterday's lost vote of confidence), reforms could still progress in the standard legislative procedure. The not so good news is that complex political negotiations between the Council and Parliament often tend to result in lowest common denominator compromises and have a certain status quo bias.

Fast-tracked process (like for SAFE) is the exception not the rule. The Commission can also make use of its emergency power (Art. 122 TFEU) to push through proposals in a fast-tracked process. In that case the Commission only needs approval by the Council (with a qualified majority) but not the backing of the European Parliament. The most recent example of such an approach is the SAFE scheme, which the Commission proposed as part of the ReArm Europe plan in March (see here) and was adopted by the Council in May. However, this instrument is limited to crisis situations and measures introduced under Art. 122 TFEU can only be of a temporary nature. Moreover, the EU Parliament's lawsuit against SAFE[14] illustrates that this process can only be the exception rather than the rule.

Competence over central competitiveness levers lies with the member states. The EU only has limited levers to pull with respect to improving competitiveness. Key structural reform areas like the labour market and tax policy are national policy prerogatives, where structural reforms are currently hampered by an ageing population (making pension reforms more difficult), rising far-right support (making the immigration of qualified professionals more difficult), and strained public finances.

13 At least 15 member states, representing more than 65% of the EU population.
14 Euractiv (2025). European Parliament sues Council over €150 billion defence loan scheme. August 20

7) Preview of tomorrow's "State of the Union" speech

While the annual speech of Commission President von der Leyen usually is a high-level strategic agenda for the next twelve months, it might also contain very concrete new policy measures. For example, in her address in 2023, VdL announced the anti-subsidy investigation into Chinese EV's, the commissioning of the Draghi report, and proposed the Ukraine Facility.

Tomorrow's speech will likely be shaped by the changing international trade order and current geopolitical shifts. How to strengthen EU defence integration is likely to feature prominently. Improving competitiveness will likely remain high on the agenda as well and could include a stronger economic security component (e.g. enhanced trade defence tools and concrete projects and partnerships to reduce Europe's dependence on rare earths from China).

The State of the Union address will start at 9AM CET and will be streamed here. The announced goals and initiatives will find their way into the Commission's work program, which is expected for October.

Annex

Figure 22: The Draghi menu - selection of horizontal policy proposals

Sustaining Investment	Encourage retail investors through the offer of second pillar pension schemes
	Introduce a European SEC
	Issuance of a common safe asset to finance joint investment projects
	Deploy the EU budget more effectively - focus on funding strategic priorities
	Increase the financing capacity of the banking sector (e.g. via securitisation)
Revamp competition	Reform and expand the IPCEIs – cross-border projects funded by state-aid
	Changing anti-trust regulation by including innovation in merger evaluations
Innovation	A better financing environment for disruptive innovation, start-ups and scale-ups
	Promote academic excellence and world-leading institutions by scaling up the budget for fundamental research
Closing the skills gap	Revise curricula in light of changing skills needs
	Improve and harmonise skills certifications
	Attract more highly skilled workers from outside the EU

Source : Draghi report, Deutsche Bank

Figure 23: The Draghi menu - selection of sectoral policy proposals

Energy	Encourage a progressive move away from spot-linked sourcing
	Reinforce joint procurement
Critical raw materials	Enhance domestic production, processing and recycling
Digitalisation and advanced technologies	**High-speed/capacity broadband networks**
	Complete digital single market for telecommunications
	Computing and AI
	Develop and fund a strategy to rapidly enhance the EU's computing infrastructure and AI capabilities
	Semiconductors
	EU Chips Act should be reviewed and expanded towards increasing funding, coordination and speed of public-private cooperation at continental level
Energy-intensive industries	Closely monitor and improve the design of CBAM during the transition phase. Evaluate whether to postpone the reduction of free ETS allowances if CBAM's implementation is ineffective
Clean technologies	Introduce in public procurement an explicit minimum quota for selected locally produces innovative and sustainable products and components
Automotive	Adopt a technology-neutral approach in the review of the Fit-for-55 package
Defense	Substantially increase the aggregation of demand for defence assets between groups of Member States
	Provide EU-level funding for the development of the EU's defense industrial capacities
Space	Establish a multi-purpose EU Space Fund at the EU level
Pharma	Streamline the set-up and management of multi-country trials in the EU
Transport	Increase EU and Member State resources for cross border connectivity, military mobility and climate resilience
	Remove barriers to integration and interoperability in all segments

Source : Draghi report, Deutsche Bank

Appendix 1

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Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Equity Research
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
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Deutsche Bank AG
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1 Austin Road West,Kowloon,
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1-3-1 Azabudai
Azabudai Hills Mori JP Tower
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Tel: (1) 212 250 2500

Deutsche Bank AG
Filiale Singapur
One Raffles Quay, South Tower,
Singapore 048583
TeL: +65 6423 8001