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The 2026 Annual Single Market and Competitiveness Report

{SWD(2026) 30 final}

Introduction

Europe's competitiveness faces unprecedented challenges in a volatile geopolitical situation. EU industry is coming under mounting pressure as third country overcapacities are directed towards the EU, important international currencies depreciate and rules-based international trade is challenged. The systemic and strategic application of increased tariffs, export controls and weaponisation of dependencies by major global actors highlight the need to strengthen the resilience of EU's supply chains.

The Single Market is our best asset to counter external pressure, and it is time to build on its strengths. It acts as a home market for our companies, as a springboard to scale and as a basis to advance the European interest. It provides a stable business environment, with strong institutions and a full commitment to the rule of law. However, significant barriers remain within the Single Market, notably at national level. As a result of the external pressure and internal barriers, Europe's industrial base is eroding, leading to a loss of manufacturing jobs and factory closures. There is an urgency to act effectively at both national and EU levels.

This Annual Single Market and Competitiveness Report takes stock of the functioning of the Single Market and of EU competitiveness. The focus is on the main drivers for Europe's competitiveness along four pillars, with particular emphasis on the Single Market and tracking progress in the implementation of the Single Market Strategy. This Report assesses competitiveness bottlenecks and progress in addressing them making use of 29 Key Performance Indicators (KPIs). This Report also includes the first annual Single Market Enforcement Agenda which sets out measures to forcefully address national barriers.

Since the start of this mandate, the Commission has put competitiveness at the core of its action. The Competitiveness Compass, presented in January 2025, was the first major initiative of this Commission mandate setting a path for Europe to regain competitiveness and secure sustainable prosperity. While this has sent a clear signal, these competitiveness enhancing measures need time to show tangible outcomes. This is also reflected in the Report's analysis and its KPIs which measure annual evolutions. Out of 29 KPIs, 6 show a clear improvement, 6 show a clear deterioration compared to last year, 15 remain broadly unchanged and for 2 there is not yet a second observation to assess the trend. Integration in the Single Market has reached a plateau (KPI 2) and most barrier-relevant KPIs show limited progress. At the same time, EU efforts to reduce administrative burdens on companies and administrations are starting to bear fruit (KPI 3). Expenditure in Research and Development remains below the 3% of GDP target (KPI 12) and is too low to close the innovation gap. Private investment has fallen (KPI 18), while Venture Capital investment remains below peers (KPI 20). The renewable build-out continues (KPI 24 and 25) and starts decreasing prices in some areas, although the overall level of energy prices remains high (KPI 22). The EU maintains a strong position in international trade amid fierce global competition (KPI 27), but strategic dependencies remain elevated (KPI 29).

Several supporting documents underpin this Report. Annex 1 provides an overview of the long-term trends of the KPIs underpinning the analysis. Annex 2 updates on progress with the implementation of policy actions under the Commission Competitiveness Compass, Clean Industrial Deal and Single Market Strategy. To put European competitiveness in the international context, Annex 3 gives an overview of resilience measures by selected global players. In

addition, the 2026 edition of the online Single Market and Competitiveness Scoreboard assesses the performance of different Single Market policy areas and monitors the countries' performance in implementing the four freedoms. The annual report of the Single Market Enforcement Taskforce (SMET) is also published in conjunction with this Report. SMET identified and developed strategies to tackle the 'Terrible Ten' barriers outlined in the Single Market Strategy, breaking them down into specific challenges and organising efforts to address them effectively.

SECTION 1 – A functioning Single Market

Persistent barriers at the national and European level hold back the Single Market, forgoing economic potential. Labour productivity, measured as GDP per hour worked in purchasing power adjusted terms, is one of the highest in the world, reflecting European competitiveness and prosperity. Still, there is a gap of around 20% compared with the US (KPI 1), mainly due to Europe lagging behind in the production and adoption of digital technologies[1]. Recent trends risk widening this gap. The Single Market has raised EU GDP by 3-4% annually[2] and created more than 3.5 million jobs. Further integration has reached a plateau (KPI 2), with trade in goods inside the Single Market broadly stable over the recent years and falling in 2024 compared to 2023[3], with trade in services still increasing but at a slow pace.

KPI	What it measures	Latest EU values
KPI 1: Labour productivity	GDP per hour worked in Purchasing Power Parity (PPP) terms.	At 78.5% of US levels (2024) At 78.0% of US levels (2023)
KPI 2: Integration in the Single Market	Share of EU GDP represented by trade between EU Member States.	22.0% for goods (2024) 23.5% for goods (2023) 7.9% for services (2024) 7.7% for services (2023)
KPI 3: Simplification of EU rules	Projected annual administrative savings from Commission's adopted omnibus simplification proposals and other initiatives.	EUR 15 bn (2025)
KPI 4: Conformity deficit	Share of transposed EU Single Market Directives for which infringement proceedings for incorrect transposition were launched. **Target <= 0.5%.**	1.1% (2025) 0.9% (2024)
KPI 5: Ease of regulatory compliance	Replies to the survey question: '… how easy is it for companies to comply with government regulation and administrative requirements[4]?'	3.89 out of 7 (2025) 3.66 out of 7 (2024)
KPI 6: Recognition of professional qualifications	Positive recognition rates as % (EU average) of all received requests.	82.2% (2023) 77.3% (2022)
KPI 7: Length of standard-setting procedures	Average length (in years) of the drafting stage of standards.	4.0 (2024) 3.2 (2023)
KPI 8: Circular material use rate	Share of material recovered and fed back into the economy. **Target = 24% in 2030.**	12.2% (2024) 12.1% (2023)
KPI 9: Product compliance monitoring	Median number of product investigations per million inhabitants in EU Member States[5].	102 (2024) 82 (2023)
KPI 10: Services trade restrictiveness	Restrictiveness of regulation in selected service sectors[6].	4.2% (2024) 4.2% (2023)

[1] Draghi report: The Draghi report on EU competitiveness.
[2] Lionel Fontagné, Yoto V. Yotov, Reassessing the Impact of the Single Market and Its Ability to Help Build Strategic Autonomy, Single Market Economics Papers, June 2024. Studies like J. in 't Veld, Quantifying the Economic Effects of the Single Market in a Structural Macromodel, February 2019, estimate much higher effects.
[3] Fluctuations in the past years can to a large part be attributed to energy price fluctuations.
[4] Index values from 1 to 7, with higher values indicating greater ease of doing business.
[5] Measuring product investigations carried out by market surveillance authorities which are notified in ICSMS.
[6] OECD's STRI showing the share of catalogued restrictions to trade in services being present in selected sectors.

KPI 11: Digitalisation of Single Market procedures	Share of Single Market relevant administrative procedures fully online for cross-border users.	20.6% (2024)

Legend for KPI tables:	Improvement year-on-year	Stable	Worsening year-on-year	Single observation

Removing the most harmful Single Market barriers is key to unlocking further growth across the EU. Although there is considerable variation between studies[7] estimating the size of Single Market barriers, the evidence consistently shows that they remain highly detrimental to economic outcomes. Further removal of national barriers impeding cross-border trade in goods could result in welfare gains of approximately 1.3%[8]. The Single Market Strategy[9] identified the Terrible Ten as the most pressing barriers[10], requiring action at both EU and national level (see Box 1). Accordingly, of the 11 KPIs measuring Single Market–related aspects in this Report, eight pertain to the Terrible Ten barriers, while burdensome procedures for posting of workers and territorial supply constraints are not covered. This section therefore discusses progress on the Terrible Ten and then addresses digitalisation and SMEs in the Single Market.

BOX 1: THE ROAD TO REMOVE THE TERRIBLE TEN BARRIERS AT THE NATIONAL LEVEL

The Single Market Strategy has identified the most harmful barriers affecting the Single Market, the so-called Terrible Ten. The Commission has conducted an analysis to break down the Terrible Ten into a more detailed list of priority problems and has started to discuss with Member States how these problems materialise at the national level. The aim of this exercise is to reach a mutually agreed state of play regarding how Member States perform on each of these issues. The overview will provide a basis for action to remove the identified barriers at the national level. The process of working on barriers has been endorsed by the Competitiveness Council and its concrete implementation will be launched in 2026.

Fragmented national rules continue to make it complex and costly to establish and operate companies across the EU, with no progress to date. The perception of ease of regulatory compliance has been broadly stable in the EU over past years (KPI 5), showing also that establishing a permanent presence in another Member States remains cumbersome, in particular as companies need to assess and comply with the national company law in each Member State.

Performance of EU market surveillance is still insufficient. This is illustrated by the fact that while the number of investigations is slowly increasing, national authorities notify that only 102 parcels are checked per one million inhabitants (KPI 9). In parallel, the exponential surge of e-commerce imports, reaching 4.6 bn small value consignments in 2024, puts pressure on customs and market surveillance authorities, posing a major challenge for checking compliance and safety, amplified by uneven national control performance and inefficient cooperation between authorities[11]. This results in an uneven playing field for rules-abiding EU businesses. More generally, the EU product legislation framework regulating harmonised products, known as the

[7] IMF 'Scaling Up the Single Market to Boost Productivity' (2024), or Head and Mayer 'No, the EU does not impose a 45% tariff on itself' (2025).

[8] Roberto Bernasconi, Naïm Cordemans, Vanessa Gunnella, Giacomo Pongetti, Lucia Quaglietti, What is the untapped potential of the EU Single Market?, published as part of the ECB Economic Bulletin, Issue 8/2025.

[9] COM(2025) 500.

[10] These are: complicated business establishment and operations, outdated harmonised product rules and lack of product compliance, territorial supply constraints, long delays in standard-setting that weigh on innovation and competitiveness, fragmented rules on packaging, labelling and waste, restrictive and diverging national services regulation, burdensome procedures for posting of workers, recognition of professional qualifications, lack of Single Market ownership by Member States, and overly complex EU rules.

[11] DG GROW-DG TAXUD report on Product Compliance, highlighting uneven level of controls at the border Report on controls on products entering the EU market with regard to product compliance in 2024 - Publications Office of the EU.

New Legislative Framework (NLF)[12], is a major asset of the Single Market, but there is a lack of controls and a need for improvement in addressing market developments, digitalisation, and circularity.

The Single Market for goods is further impeded by territorial supply constraints. They are imposed by some manufacturers of branded consumer goods and hinder retailers and wholesalers from buying products in one Member State and reselling them in another, harming cross-border business to the detriment of consumers.

Over the past decade, the average time needed to establish a new industrial standard has increased. Currently at four years (KPI 7), this slowness is partly due to outdated working methods and the under-utilisation of digital technologies. As a result, standardisation fails to meet market and legislative needs, particularly for new technologies, weighing on the competitiveness of EU industry.

In the area of packaging, labelling and waste, the Single Market remains fragmented, contributing to slow progress towards circularity. National labelling requirements, including those linked to waste sorting, require companies to relabel products or adapt digital content, splitting up the Single Market. Fragmentation of the Single Market for waste runs counter to circularity, with the circular material reuse rate increasing very slowly to 12%, well below the target of 24% set for 2030 (KPI 8).

Regulation of services markets is still complex and inconsistent, with little progress in recent years. The regulation of services can be justified by legitimate general interest objectives, but in practice there is a high level of diversity of restrictions and some services are regulated only in one or a few Member States, which shows that there is significant potential to reduce regulatory burden. Despite efforts to remove restrictions, the level of restrictiveness in services has remained stable in recent years (KPI 10) and deserves a new political impetus.

The temporary posting of workers is an integral part of the freedom to provide services but is still too cumbersome for companies. EU law allows Member States to impose administrative obligations to declare posted workers, where justified and proportionate. This reflects the need to ensure a level playing field and protect the rights of workers, in particular in risk sectors such as construction and agriculture. However, declaration procedures are often complex, while not all situations of posted workers (e.g. skilled specialists) pose the same risks. Reinforced efforts by Member States are needed to implement the best practices identified in the Single Market Enforcement Taskforce, which mostly fall within Member States' regulatory discretion, to reduce administrative barriers in this area[13]. Commission services, together with the European Labour Authority (ELA), are working to develop a KPI for next year's edition of this Report related to the posting of workers.

Lengthy and cumbersome procedures for the recognition of skills and qualifications can prevent EU citizens from exercising their profession in other Member States. Overly stringent regulation and cumbersome recognition procedures create barriers to entry and reduce labour market mobility, thereby contributing to skills mismatches and labour shortages at both national and EU level. Despite an improvement in 2023, the rate of positive recognition decisions

[12] New legislative framework - Internal Market, Industry, Entrepreneurship and SMEs.

[13] The annual report of the Single Market Enforcement Taskforce (SMET) provides a detailed update.

remained broadly unchanged over the past five years (KPI 6). Further, recognition procedures are still often paper based and could be significantly sped up by full digitalisation.

The Commission is stepping up efforts to address the conformity deficit, measuring the share of incorrectly transposed Single Market directives, which remains too high. It is crucial that Member States assume full ownership of the Single Market. The conformity deficit has increased to 1.1% in 2025, remaining much above the target of 0.5% (KPI 4), with wide variation among Member States. Regulatory fragmentation comes at an important cost to businesses and households. A strong compliance culture is needed across the Single Market and is key to ensuring that preventive instruments, in particular the Single Market Transparency Directive, the Services Directive and the Proportionality Test Directive, can deliver their full effect. There is no point in removing barriers if we constantly create new ones. To drive effective legal action where barriers persist, the Commission sets out for the first time an Annual Single Market Enforcement Agenda (see Box 2). While Single Market barriers largely stem from regulatory and administrative requirements set at national level, differences in their practical application and enforcement by national, regional and local authorities can affect how businesses benefit from market integration, contributing to uneven outcomes in the functioning of the Single Market.

BOX 2: THE ANNUAL SINGLE MARKET ENFORCEMENT AGENDA 2026

The Commission pursues appropriate legal action as the cornerstone of enforcement of the Single Market rules. Based on the Terrible Ten barriers, the first Annual Single Market Enforcement Agenda therefore identifies the following priority areas for horizontal investigations and specific enforcement actions:

- Late payments in transactions between undertakings and public authorities.
- Obstacles in construction and installation services related to the green transition.

These investigations and enforcement actions, where necessary, will cover potentially most or all Member States and will include open dialogue and, where necessary to remove clearly identified barriers, infringement proceedings. The enforcement priorities will not be set to the detriment of the treatment of other existing or future obstacles to the free movement of goods and services. To enhance transparency on enforcement, when specific enforcement actions are decided, clear explanations regarding the objectives pursued, the expected benefits as well as the results achieved will be published.

Significant progress has already been made to reduce administrative burdens. These burdens weigh on businesses and administrations and are estimated at EUR 150 bn per year across the EU, with the target to reduce these by at least 25%, and by at least 35% for SMEs, by the end of this mandate. The Commission has already proposed ten omnibus packages as well as other initiatives[14] which, at the time of their adoption by the Commission, are projected to reduce the recurrent administrative annual burdens by around EUR 15 bn, of which EUR 11.9 bn from omnibus proposals and EUR 3.1 bn from other initiatives adopted in 2025 (KPI 3)[15]. Moreover, new initiatives, such as European Business Wallet Regulation has a potential to contribute

[14] Other initiatives (14) are those resulting in administrative cost savings for businesses and public administrations at the time of their adoption by the Commission. They cover targeted revisions of existing EU acquis (e.g SFDR Review or Targeted revision of the EU rules for medical devices and in-vitro diagnostics).
[15] These savings were estimated using the EU standard cost model.

significantly to the overall administrative cost reduction for businesses and public administrations, with minimum EUR 13.5 bn. The Commission is carefully assessing and bringing forward additional means to reduce administrative burdens. Public procurement is a case in point: the current framework is fragmented with numerous sectoral acts creating uncertainty and inconsistency in interpretation and application. Simplifying these rules would greatly help over 44 000 public authorities in the EU purchasing services, works and supplies, as well as companies bidding for these tenders, worth around 15% of GDP (≈ EUR 2.5 trillion).

The roll-out of digital tools and interoperable public services is still at an early stage and holds potential to reduce administrative time and compliance costs while strengthening legal certainty for businesses and citizens. The Single Digital Gateway (SDG) Regulation[16] – expanded across an increasingly wide set of policy areas – establishes Your Europe as the EU's main e-government entry point, giving citizens and business access to reliable, multilingual information on rights, obligations and administrative procedures in all Member States, as well as links to national portals and key online procedures. Yet, SDG implementation remains at an early stage and uneven across Member States and policy areas, with only 21% of key procedures fully online in 2024 (KPI 11). The EU business wallet, which was proposed at the end of 2025, will allow companies to securely identify and exchange data with governments and other businesses across the EU with full legal effect and trust.

The EU Single Market increases opportunities for SMEs to grow, despite persisting barriers. In 2024, a quarter of EU SMEs exported goods or services to other EU countries while about one in ten exported to countries outside the EU[17]. The main barriers for SMEs include regulatory obstacles and administrative burden, followed by challenges related to financing and skills. In addition, 73% of SMEs report suffering from late payments, which hampers their growth and investment potential and threatens their survival.

SECTION 2 – Closing the innovation gap

Europe risks losing its edge in the race for innovation. Despite boasting world-leading universities, growing employment rates and a highly qualified workforce, R&D expenditure and patenting rates in the EU remain flat. Start-ups and scale-ups struggle to grow, while digitalisation is progressing more slowly than in competing economies. Labour shortages and skills gaps in areas such as IT and clean tech hamper innovation.

KPI 12: R&D expenditure	Total private and public expenditure in research and development as a share of GDP. **Target = Above 3% by 2030.**	2.24% (2024) 2.26% (2023)
KPI 13: Patent applications	Patent applications per million inhabitants[18].	152 (2024) 153 (2023)
KPI 14: Digital technologies adoption by companies	Share of European enterprises that have taken up cloud computing services, data analytics and/or Artificial Intelligence. **Target = 75% by 2030.**	Artificial intelligence: 20% (2025), 13.5% (2024) Data analytics: 39.9% (2025), 33.2% (2023) Cloud computing services: 46.7% (2025), 38.9% (2023)
KPI 15: Employment rate	The share of working-age people employed. **Target = 78% by 2030.**	75.8% (2024) 75.3% (2023)

[16] Regulation - 2018/1724 - EN - EUR-Lex.
[17] Flash Eurobarometer 559 – Startups, scaleups and entrepreneurship.
[18] Patent applications submitted to the European Patent Office.

KPI 16: Labour shortages relevant for the green transition	Number of occupations requiring specific skills for the green transition where at least five Member States reported a shortage.	25 (2024) 13 (2023)
KPI 17: PISA score	15-year-olds' performance in the OECD's PISA tests. High scores indicate better performance.	Maths: 474 (2022), 492 (2018) Reading: 475 (2022), 488 (2018) Science: 484 (2022), 488 (2018)

Notwithstanding the strong foundations of the EU research landscape, R&D investment in the EU still falls short of the 3% of GDP target. Total R&D investment in the EU reached 2.2 % of GDP in 2024, showing little progress over the ten years and remaining below peers (KPI 12). Despite high public R&D investment in the EU, private sector R&D investment trails peers, notably in overall corporate R&D[19] and in digital technology. Innovation outcomes, such as Intellectual Property and patenting activity, which are crucial to commercial success and competitiveness, have also remained broadly flat in recent years (KPI 13). A closer look across the technology spectrum shows that the EU is a frontrunner in green inventions[20], and performs well in health, biotech and pharmaceuticals[21], while it continues to score low in the area of digital[22].

Even in areas where R&D investments are being made and results achieved, starting and scaling up innovative companies remain challenging. Innovative companies are hampered in their efforts to commercialise research and face regulatory fragmentation, heavy administrative burdens, and difficulties in access to finance, particularly venture capital. Even though Europe's tech sector grew by more than 15 000 new startups per year from 2018 to 2023, it produced only one fifth as many new unicorns as in the US[23]. Moreover, the EU's market share in development of digital technologies remain modest, as a result, the EU continues to rely heavily on external providers of notably digital technologies. Fostering the transition from laboratory to market is crucial in this context, as through the Biotech Act[24].

The adoption of digital technologies is increasing, but too slowly[25]. The share of companies in the EU using artificial intelligence, cloud computing and data analytics grew significantly in 2025, yet more slowly than in competing economies and far from being on track to meet the target of a 75% uptake by 2030 (KPI 14). The lagging uptake of digital technologies is most striking among SMEs[26]. Similarly, there is market fragmentation in EU telecommunications further hampering deployment[27]. As a result of these issues, substantial productivity gains remain unrealised. It is estimated that achieving the EU's digitalisation targets would unlock economic gains equivalent to 1.8% of GDP[28].

Employment rates are on the rise, but employment in manufacturing is shrinking. The EU employment rate reached a record high of 75.8% in 2024[29] (KPI 15) and is on track to meet the EU's headline target of 78% in 2030, but a significant gender gap remains. This performance is mostly in line with the US, but below trends in Japan and the UK[30]. However, the weakening

[19] The 2025 EU Industrial R&D Investment Scoreboard.
[20] EU companies lead globally in patenting related to circularity, energy- intensive industries and clean transport, but less so in twin transition patenting.
[21] EIB Investment Report 2024/2025: Innovation, integration and simplification in Europe, European Investment Bank 2025, and 'The 2025 EU Industrial R&D Investment Scoreboard'.
[22] With exception of areas such as Quantum and Photonics.
[23] Start-up companies valued at EUR 1 bn. European Commission services calculations based on Dealroom.
[24] Commission proposes new measures to improve health and the healthcare sector - European Commission.
[25] Eurostat.
[26] EU Digital Intensity Index composition overview 2015-2024.
[27] White Paper – How to master Europe's digital infrastructure needs? COM(2024) 81 final.
[28] State of the Digital Decade 2025: Keep building the EU's sovereignty and digital future. COM(2025) 290 final.
[29] Eurostat.
[30] OECD, Labour force participation rate.

competitiveness of the EU's manufacturing industry led to an average monthly loss of about 27 000 manufacturing jobs over the past two years[31].

Labour shortages and skills gaps remain a challenge, weighing on Europe's ability to innovate and scale up. Nearly 80% of companies refer to them as the second biggest obstacle to investment and growth[32]. Many of the new jobs emerging from the green transition will be in sectors already experiencing increasing labour shortages[33] (KPI 16). Digital skills remain a challenge as well, with just 60 % of Europeans having basic digital skills[34] and the availability of ICT specialists with advanced skills remaining low[35]. Europe is also facing difficulties in the area of basic skills[36] (KPI 17). Challenges relating to the recognition of qualifications across countries and language barriers hinder intra-EU labour mobility. Fostering skills development, including through vocational training, and attracting global talent are essential to addressing labour shortages.

SECTION 3 – Decarbonisation of industry and investment

Investment momentum in the EU is weak, reflecting both general uncertainty over the economic environment and a decline in competitiveness. Private investment and industrial production declined in 2024, although public investment is stable and provides an opportunity to unlock private sector activity through well-aligned policy design. High energy prices hinder industrial competitiveness. Electrification does not progress. The switch to clean energy is accelerating but not yet feeding through to lower electricity prices in the EU as a whole.

KPI 18: Private investment	Private investment (share of GDP).	17.6% (2024) 18.6% (2023)
KPI 19: Public investment	Public investment (share of GDP).	3.7% (2024) 3.6% (2023)
KPI 20: Venture capital investment	Venture capital investment (share of GDP).	0.06% (2024) 0.06% (2023)
KPI 21: EU investments supporting industrial transition	Cumulative volume of InvestEU investments supporting industrial transition.	EUR 115.5 bn (Jun 2025) EUR 52.7 bn (Jun 2024)
KPI 22: Electricity prices for non-household consumers	Electricity prices for non-household consumers (EU ID price band, large commercial users)[37].	EUR 0.164 per kWh (2025) EUR 0.163 per kWh (2024)
KPI 23: Electrification	Electricity as a share of the total (final) energy consumption. **Objective = 32% in 2030[38].**	22.9% (2023) 22.9% of (2022)
KPI 24: Share of energy from renewable sources	Renewable energy generation as share of energy consumption. **Target = 42.5% in 2030.**	25.2% (2024) 24.5% (2023)
KPI 25: Annual growth in renewable electricity generation	Annually added capacity to generate renewable electricity. **Objective = +100 GW per year[39].**	+68 GW (2024) +67 GW (2023)

EU private investment declined in 2024, among headwinds for industry. As a result, private investment as a share of GDP dropped to 17.6% of GDP in 2024 and stood on par with US levels,

[31] European Commission based on Eurostat annual national accounts and Short-Term Statistics data and other sources.
[32] EIB Investment Survey (EIBIS).
[33] Recent analysis identified 24 occupations relevant to the green transition with labour shortages across multiple Member States. Such occupations include plumbers and pipe fitters (20 Member States), insulation workers, civil engineers and air conditioning and refrigeration mechanics (14), civil engineering technicians (12) and roofers (11). They require technical and manual expertise essential to the green transition. See also EURES Reports on Labour Shortages and Surpluses (2024 and 2025 editions.
[34] Eurostat, based on EU survey on the use of ICT in households and by individuals.
[35] Eurostat.
[36] OECD PISA database.
[37] Electricity prices here exclude levies and taxes that companies can recover.
[38] This objective was set by the Commission in its "Clean industrial Deal" Communication.
[39] This objective was set by the Commission in its "Clean industrial Deal" Communication.

after being broadly stable and higher than in US in recent years (KPI 18)[40]. Industrial production in the EU declined by 1.5% in 2023 and a further 2.4% in 2024. The financing of EU business investment is still too reliant on bank lending (accounting for more than 51% of business investment in 2024). Venture capital investment in the EU is only equivalent to 0.06% of GDP (KPI 20), one-tenth of US levels. Currently only 44% of EU households' financial savings are invested in company bonds, listed shares, investment funds and similar, which is much lower than in other jurisdictions[41], despite a higher volume of savings in the EU[42]. Increasing the share of EU households' savings flowing towards productive investments in companies would strengthen capital markets and corporate financing structures[43]. With this aim and to strengthen capital market integration, in 2025 the Commission adopted under the Savings and Investments Union strategy[44] policy initiatives that target among others securitisation, financial literacy, savings and investment accounts, supplementary pensions, market integration and supervision[45]. Under the next Multiannual Financial Framework, the National and Regional Partnership Plans will support reforms that advance, among others, the Savings and Investment Union and strengthen the development of market-based funding options.

Public investment remains on a firm footing and EU tools have successfully mobilised investment for the industrial transformation. In 2024 public investment in the EU reached 3.7% of GDP confirming the positive trend seen in recent years (KPI 19), also supported by the Multiannual Financial Framework, including cohesion policy[46] and the Recovery and Resilience Facility. As of June 2025, InvestEU, the EU's main tool for attracting public and private sector investment, had mobilised almost EUR 300 bn (of which 68.7% from the private sector)[47] in investments. More than one third of it, EUR 115.5 bn (KPI 21), supports the industrial transition. Under the Rearm Europe plan, EUR 800 bn is being unlocked for defence spending, with sizeable spillovers into investment and industrial production. From 2028 onwards, the European Competitiveness Fund will anchor EU-level public investment in Europe's industrial transformation, mobilise private capital at scale, and create a seamless pipeline from Horizon Europe–funded research to industrial deployment.

Aligning national public investment with EU industrial policy priorities is key to making the most of synergies and achieving impact. The new Clean Industrial Deal State Aid Framework, consistently with EU industrial policy priorities, simplifies the process to grant aid to accelerate investments in renewables, industrial decarbonisation, clean tech manufacturing and de-risk private investments. This will help align funding. As for Important Projects of Common European Interest (IPCEIs), there are already 11 approved IPCEIs[48] (of which four for hydrogen and two for batteries) and eight IPCEI candidates in the design phase[49]. The new

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[40] AMECO database.

[41] See: "2025 – List of indicators to monitor progress towards the capital markets union objectives", EC, DG FISMA, 5 September 2025.

[42] See: "European Financial Stability and integration Review", EC, DG FISMA 2025.

[43] https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp241122~fb84170883.en.html

[44] Savings and investments union - Finance - European Commission.

[45] Based on existing estimates in the literature and simplifying assumptions, the package on market integration and supervision alone could add EUR 1.3 to 3.6 trillion to GDP over the next 30 years. The benefits of having integrated capital markets in the EU are estimated to be significantly higher. See the impact assessment of the Market Infrastructure Package SWD(2025)643.

[46] Cohesion policy represents almost 13% of total government investment in the EU as a whole and 51% in less developed Member States, and encourages significant private investments. See Ninth Cohesion Report on economic, social and territorial cohesion.

[47] InvestEU - Performance - European Commission.

[48] See https://competition-policy.ec.europa.eu/state-aid/ipcei/approved-ipceis_en. They enable a total investment of EUR 104.4 bn based on aid of EUR 37.6 bn.

[49] Advanced Semiconductor Technologies, Artificial Intelligence, Circular Advanced Materials for Clean Technologies, Compute Infrastructure Continuum, Innovative Nuclear Technologies, Biobased Chemicals, Biobased Materials, Biotechnologies for Food and Feed. See Joint European Forum for IPCEI - Competition Policy - European Commission.

Competitiveness Coordination Tool[50] is being tested through two ongoing pilots on AI Gigafactories and on charging infrastructure for e-trucks. Under the next Multiannual Financial Framework, the National and Regional Partnership Plans will be able to support IPCEIs and contribute to strengthening the Union's industrial base, in line with EU priorities and country-specific challenges.

Electricity prices remain too high in the EU. In the first semester of 2025, electricity prices for large industrial users were 0.16 EUR/KWh (KPI 22), which is lower than at the peak in 2023. However, electricity prices for business in the EU remain very high in international comparison, more than twice as high as in the US, as higher natural gas prices impact electricity wholesale markets. Energy intensive industries are particularly affected by high electricity and energy prices.

Electrification has stagnated over the last ten years. Electricity meets just 22.9% of the EU's total final energy consumption (KPI 23)[51]. High electricity taxes coupled with lengthy permitting and insufficient build-out of grids have a negative impact on electrification projects and the electrification of industrial processes and transport.

The ongoing switch to clean energy is accelerating and the EU is broadly on track to reach its climate targets. The roll-out of clean energy sources is expected to significantly reduce the costs of importing fossil fuels, improving the EU's resilience and industrial competitiveness in the medium term. Greenhouse gas emissions fell by 2.5% in 2024 compared with 2023, and now stand at 37.2% below 1990 levels, while the EU economy is 71% larger than it was in 1990. The EU is on track to meet its 2030 target of 55% emission reduction compared with 1990, if all Member States deliver on the measures agreed at EU level and those set out in their National Energy and Climate Plans. The shift to renewables is estimated to reduce fossil fuel imports by EUR 2.8 trillion between 2031 and 2050, compared with the 2011-2020 average[52]. Renewable energy generation has been growing remarkably: in 2024 it accounted for 25.2% of total energy consumption (KPI 24). The annual increase in the capacity to generate renewable electricity has been accelerating. In 2024 68 GW of renewable capacity was added, more than double the amounted added in 2020 (KPI 25) but still below the annual objective[53].

Circularity is progressing slowly due to diverging rules in the Single Market. As mentioned in section 1, the share of recycled material injected back into the economy as a proportion of the overall use of materials increased very slowly, from 11.8% in 2023 to 12.2% in 2024 (KPI 8). This is well below the EU target of 24% in 2030 and not sufficient to reduce the demand of primary materials and related dependencies on third countries. For instance, today, although almost 38% of electrical and electronic waste is collected in the EU, less than 1% of rare earth elements are recycled[54]. Diverging national rules or schemes on waste and recycled materials[55], combined with lower prices for virgin feedstock, hinder the development of markets for secondary materials. Furthermore, strategic raw materials like metal scrap or black mass remain unused. For some materials, such as aluminium and copper, high-grade wrought scrap is exported to foreign markets[56], which may undermine investment in domestic refining capacity.

[50] Competitiveness Compass for the EU, COM(2025)30 final.
[51] Eurostat.
[52] See COM(2025)484 final. Furthermore, energy efficiency can reduce fossil fuel import bills by around 25%.
[53] See also: Assessment of progress towards the Energy Union and Climate Action objectives (SWD) - Energy.
[54] Eurostat (Waste statistics - electrical and electronic equipment - Statistics Explained - Eurostat).
[55] COM(2025) 500 final.
[56] COM(2025) 125 final.

SECTION 4 – Increasing security and reducing dependencies

Sweeping changes in the global trade landscape expose the vulnerabilities and strategic dependencies in Europe's supply chains. The EU has a strong position in international trade, but is increasingly coming under pressure, in particular in manufacturing. This is fuelled by third country overcapacities, weak domestic demand in certain third countries and the depreciation of important international currencies. The strengthening of EU supply chains is progressing, but strategic dependencies remain stubbornly elevated and at increasing risk of being weaponised.

KPI 26: Trade with the rest of the world as a share of GDP	The EU's degree of economic integration with the rest of the world.	13.9 % for goods (2024) 14.7% for goods (2023) 8.1% for services (2024) 7.8% for services (2023)
KPI 27: Exports of goods and services as a share of worldwide imports	The EU economy's market share.	12.6% for goods (2024) 11.9% for goods (2023) 25.0% for services (2024) 25.4% for services (2023)
KPI 28: Domestic clean tech manufacturing capacity	Share of clean tech components tracked in the Net-Zero Industry Act that meet the domestic manufacturing benchmark. **Target = 100%.**	6 out of 27 (22%) technology components exceed the benchmark rate (2024)
KPI 29: EXVI External Vulnerability Index	External vulnerabilities for strategically important industrial products[57]. On a scale from 0 to 1, higher value: greater vulnerability.	0.20 (2023) 0.19 (2022)

A reconfiguration of global trade flows is underway. In 2021-2024, EU trade with countries outside EU free trade agreements dropped by 2.3 percentage points, compensated for by sourcing within the EU increasing by 1.3 percentage points and trade with EU free-trade-agreement partners, both near and far, increasing by 1 percentage point[58]. Global trade flows show similar patterns with re-allocation according to geopolitical blocks[59].

After a long period of growing trade integration with the rest of the world there are now signals pointing to a slow-down or even a reversal of this trend. EU trade in goods with the rest of the world (average of imports and exports as a share of GDP) continues to decline for the second year in a row, corresponding to 13.9% of GDP[60] in 2024. While it can to some degree be attributed to energy price fluctuations, it also shows the trend of a deteriorating global trading climate. EU trade integration in services with the rest of the world has also slowed but remains on an increasing trajectory, reaching 8.1% of GDP in 2024[61] (KPI 26).

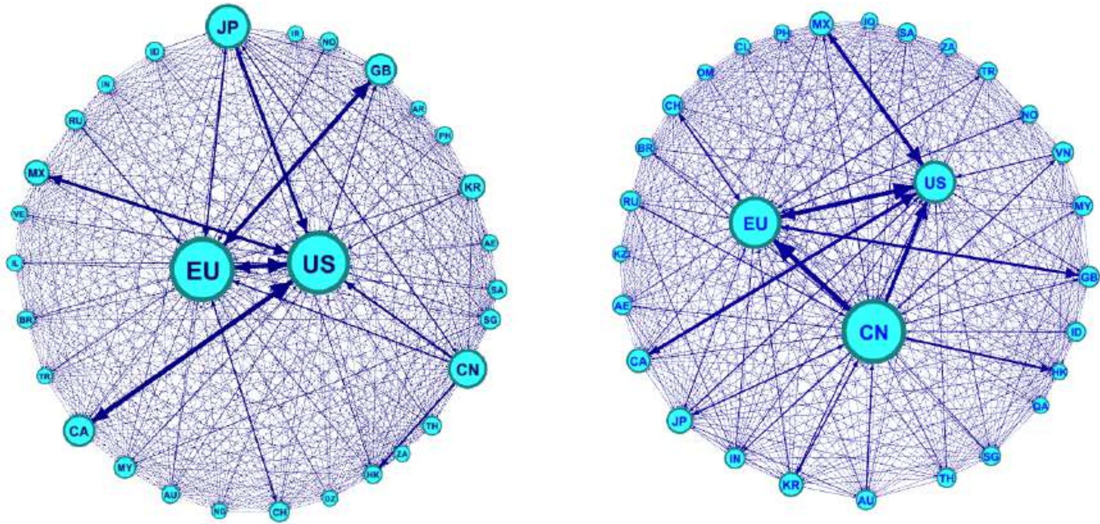
The EU's share of global trade remains stable, but pressure on manufacturing industry is building up. The most striking shift in trade dynamics over the past 25 years is that the previously EU-US centric landscape has shifted to a tri-polar one (see Figure 1 and 2). EU exports of goods account for 12.6% of global imports, slightly above the levels of 10 years ago, showing remarkable resilience. The EU's trade balance in goods has swung back into surplus territory, after a drop related to energy price volatility. However, EU industry is coming under mounting pressure from global competition fuelled by overcapacities in certain third countries, in many cases supported by state subsidies[62], as well as from third country tariffs. This is

[57] KPI 29 assesses the combined vulnerability to external shocks of the product categories within the scope of the Clean Industrial Deal. These broadly include semiconductors, net-zero technologies, raw materials, basic metals, chemicals, machinery and motor vehicles.
[58] R. Arjona, W. Connell, C. Herghelegiu (2024): "Supply Chain Tectonics: Empirics on how the EU is plotting its path through global trade fragmentation", European Commission, Single Market Economics Papers.
[59] World Trade Organisation, World Trade Report 2023.
[60] Eurostat.
[61] Eurostat.
[62] For example in the area of steel and battery-electric vehicles.

particularly the case for energy intensive industries, where the EU trade balance has steadily declined[63]. The depreciation of important international currencies over the past year adds further competitive pressure. For exports of services, the outlook is more encouraging, despite a small decline over the last year, with the past five years having seen the EU's market share grow to reach 25% of global trade in services (KPI 27). The Industrial Accelerator Act will create lead markets for manufacturing in Europe to foster the EU resilience and safeguard quality jobs.

Figure 1: Top 30 trading countries in 2000 and the weight of trade flows in goods between them.

Figure 2: Top 30 trading countries in 2023 and the weight of trade flows in goods between them.



Source: European Commission services (DG GROW Chief Economist Team) calculations based on the CEPII-BACI database (2023)

Europe's share of global incoming foreign direct investment (FDI) has dropped sharply. The EU is a welcoming and predictable location for foreign investment and a traditional haven for FDI with the world's second largest stocks. Nevertheless, the EU's share of world FDI inflows has receded sharply to 14%, from its peak at 27% seven years ago, against a backdrop of a weaker economic outlook and heightened economic uncertainty in past years[64]. FDI generally enables improved competitiveness, technology transfer and the creation of local value. At the same time, there have been noticeable examples of FDI failing to generate these benefits and posing risks to the EU's economic security.

The EU is deepening partnerships across the globe to diversify and reduce dependencies, both in imports and exports. This will also increase prosperity and supply chain resilience. Work is ongoing to conclude broad free trade agreements and targeted partnerships in areas such as raw materials, to the benefit of both the EU and its partners. Similarly, mutual recognition agreements should be concluded with EU competitiveness in mind, in ways that improve market access and reduce paperwork for European industry while preventing the emergence of loopholes

[63] OECD Working Papers, A comprehensive overview of the Energy Intensive Industries ecosystem, 2025/09.
[64] OECD, FDI flows & FDI stocks. See FDI trends over time in the Single Market and Competitiveness Scoreboard's FDI indicators.

that fuel unfair global competition[65]. The EU is also accelerating the economic integration of enlargement countries prior to their accession, including through "Single Market Highways"[66].

Europe's supply chains continue to show significant external dependencies, with increasing risk and evidence of these being weaponised. Among products in sensitive ecosystems where the EU is heavily dependent on a single supplier country, more than half of the EU's dependencies originate from China[67]. The EU's overall dependence on imports of strategically important raw materials, components and industrial products remains largely unchanged, as measured by the EXVI indicator[68] (KPI 29), with the EU being significantly more exposed to external vulnerabilities than China, although less exposed than the US[69]. Export restrictions imposed by China have put these dependencies in the spotlight, in particular for critical raw materials. Dependencies in the space and defence sector as well as for critical medicines deserve particular attention[70].

Europe's main trading partners are increasingly pursuing measures to foster the resilience of their supply chains. Annex 3 to this Report provides an overview of resilience measures by selected global players. It shows a global trend to make more active use of industrial and trade policies to strengthen the resilience of supply chains. The actions include public procurement policies and FDI conditionalities, with focus on key strategic sectors and preferential domestic access.

The EU's efforts to strengthen its manufacturing capacity in key industrial products are starting to bear fruit. The first sets of strategic projects under the Net-Zero Industry Act[71] and the Critical Raw Materials Act[72] have been selected. Looking at products within the scope of the Net-Zero Industry Act, EU manufacturing currently surpasses the benchmark of meeting 40% of EU consumption by domestic manufacturing in six of 27 technology areas. However, for the vast majority of monitored key components in battery technologies, electrolysers, hydrogen and solar, EU manufacturing capacity still significantly trails the benchmark[73] (KPI 28). Completing these measures and re-creating a level-playing field for our businesses is the aim of the Industrial Accelerator Act.

Conclusion and way forward

The Single Market is the shock absorber and resilience driver needed in uncertain times. It is the foundation of Europe's prosperity, competitiveness, and industry. Removing remaining barriers within the Single Market could lift Europe's GDP by several percentage.

Nevertheless, persistent challenges remain, and new ones arise amid geopolitical tensions, putting increasing pressure on Europe's competitiveness. Barriers and fragmentation in the

[65] Commission Staff Working Paper: Priorities for Bilateral/Regional trade related activities in the field of Mutual Recognition Agreements for industrial products and related technical dialogue, Brussels, 25 August 2004, SEC(2004)1072.
[66] The Single Market Highways will integrate the business communities of the Western Balkans, Ukraine and Moldova into the EU Single Market by accelerating regulatory alignment, building industrial alliances and strengthening value chains.
[67] European Commission Chief Economist, based on Eurostat data and FIGARO tables (2023).
[68] William Connell García, Victor Ho, EXternal Vulnerability Index (EXVI), Single Market Economics Briefs.
[69] China finds itself in the least dependent position with a score in the EXternal Vulnerability Index of 0.12, with the EU at 0.20 and the US at 0.28 (see KPI 29).
[70] Critical Medicines Act - Public Health - European Commission.
[71] Strategic projects under the Net-Zero Industry Act.
[72] Strategic projects under the Critical Raw Materials Act.
[73] European Commission, DG GROW. For more information about domestic manufacturing of key net-zero technologies, consult the section on Global trade & economic security in the Single Market and Competitiveness Scoreboard.

Single Market persist. Administrative burdens are too high. Energy prices remain persistently high and weigh on industry. Innovative entrepreneurs continue to lack access to finance at scale. Foreign overcapacities and third-country state subsidies are increasing and tilt the global playing field against Europe, while strategic dependencies are being weaponised.

Against this backdrop, it is urgent to mark a turning point and fully exploit the potential of the Single Market. If we want a strong, independent and prosperous Europe, we need to take a decisive commitment to complete the Single Market and implement the policy actions adopted by the Commission. Annex 2 provides a detailed overview tracking the implementation of the Competitiveness Compass, the Clean Industrial Deal and the Single Market Strategy. Bold action at national and European level is needed to complete the Single Market, close the innovation gap, foster investments and decarbonisation and strengthen the resilience of supply chains.

A new impetus is underway to remove barriers in the Single Market at both national and European level and to reduce administrative burdens. The Single Market Strategy has identified the 'Terrible Ten' as the most significant barriers for businesses, workers and citizens in the Single Market, to be addressed as a top priority. These barriers originate at both the European and national level and therefore require bold action at both levels. The Commission is working with Member States to unpack and address the most pressing barriers at the national level. The first annual Single Market Enforcement Agenda lines out the enforcement priorities for 2026. At the European level, the upcoming Product Act, Construction Services Act and Delivery Act will enhance the functioning of the Single Market. The Public Procurement Act will simplify and accelerate procedures, ensuring best use of the 15% of GDP spent via public procurement. The Commission has already brought forward simplification proposals, ten omnibus packages and additional initiatives expected to cut annual administrative burdens by EUR 15 bn; more will come in 2026. Under the next Multiannual Financial Framework, the National and Regional Partnership Plans will include relevant reforms to further remove barriers, notably by improving the efficiency and digitalisation of public procedures.

This work on barriers, fragmentation and administrative burden needs to be accompanied by renewed ambition. We need to complete the Single Market in those sectors that were left aside by Jacques Delors 35 years ago and still operate along national lines. Key measures are needed to set uniform rules for a predictable environment with scale for citizens and businesses alike in telecoms, energy, services, capital, company law, research and innovation. Creating political ownership and commitment to this endeavour will be the purpose of the Single Market Roadmap.

The Commission is putting forward measures to close the innovation gap. The 28th regime (EU Inc.) will provide a single set of rules for companies to set up, operate and grow throughout the EU, creating fertile ground for start-ups, scale-ups and European unicorns. The European Innovation Act will expedite the market journey for innovations across sectors, while the multi-billion Scaleup Europe Fund will partner with private investors to aid company growth. The European Research Area Act will seek to remove barriers to knowledge sharing and promote the 5th freedom. The Digital Networks Act will reduce fragmentation in the Single Market. The Cybersecurity Act, the Quantum Act and the Cloud and AI Development Act will strengthen the sovereignty and security of European technologies and infrastructures**.** The implementation of the Union of Skills aims to build skills for quality jobs.

Targeted industrial policies are setting the stage for the re-industrialisation of Europe. The Industrial Accelerator Act will boost economic security and industrial capacities in key strategic sectors. The Battery Booster mobilises EUR 1.8 bn to strengthen battery manufacturing and the automotive industry in Europe. Besides these initiatives, the accelerated build-out of clean energy will pave the way for lower energy costs. Effective follow up on the Commission's recommendations and legislative proposals under the Savings and Investments Union will support EU businesses in accessing investment capital.

The Commission is actively addressing vulnerabilities and strengthening the resilience of supply chains. The RESourceEU Action Plan tackles Europe's overdependence on third country suppliers of critical raw materials. It also accelerates EU-relevant projects with the potential to reduce dependencies by up to 50% by 2029, mobilising up to EUR 3 bn in 2026 to this end. Furthermore, the Commission will work to facilitate a steady supply of critical raw materials to EU industries through rapidly deploying the instruments at its disposal (e.g. the Anti-Coercion Instrument) in cases when a third country restricts the supplies of critical raw materials to the EU, conditioning access to the Single Market. The EU is putting in place frameworks to ensure that FDI creates European value added. The Commission will propose targeted measures to ensure availability of aluminium scrap and, if necessary, additional measures to ensure availability of other metal scrap and black mass to strengthen strategic capacities. Efforts to advance on further free trade agreements will diversify supply chains and create new opportunities for businesses.

Mastering today's challenging environment requires prompt, joint and coordinated action at the European and national level. The 2026 Annual Single Market and Competitiveness Report will act as a foundation for policy debates with the Council, the European Parliament, Member States and the business community.