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Ons kenmerk
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Uw brief (kenmerk)

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Datum 17 september 2025
Betreft Nazending Presidency Issues Notes Informele Ecofinraad 19 en 20 september

Geachte voorzitter,

In aanvulling op de geannoteerde agenda (GA) van de Eurogroep en de informele Ecofinraad van 19 en 20 september a.s. die uw Kamer eerder ontving[1], zend ik u de *Presidency Issues Notes* die voorliggen tijdens de werksessies van de informele Ecofinraad. Het Deense voorzitterschap heeft deze stukken gedeeld nadat de GA aan uw Kamer was verzonden.

Hoogachtend,

de minister van Financiën,

E. Heinen

[1] https://www.rijksoverheid.nl/documenten/kamerstukken/2025/09/01/geannoteerde-agenda-eurogroep-en-informele-ecofinraad-september-2025

Economic consequences of EU legislation

EU legislation serves many different and important purposes – protecting the environment, improving working conditions and consumer rights, advancing the green transition – and the list goes on. With the potential to harmonize and simplify across 27 legislative frameworks, common EU-rules are furthermore vital to strengthen the Single Market and thereby boost innovation and productivity.

However, EU rules can sometimes create unnecessary complexity and bureaucracy for the private sector and national administrations. As pointed out in the Draghi report, the regulatory burden on European companies is high and continues to grow. The stock of legislation remains large and new legislation in the EU is growing faster than in other comparable economies[1].

Simplification is one of the main priorities of both the Strategic Agenda 2024-2029 and the Budapest declaration on the new European competitiveness deal, in which EU leaders called for a 'simplification revolution'. Sharing this priority, the President of the European Commission has made simplification a top priority and tasked each Commissioner with reducing administrative burdens and simplifying implementation, under the coordination of Valdis Dombrovskis, the first-ever Commissioner for Implementation and Simplification.

The Commission has launched a set of new tools[2] – including implementation dialogues, reality checks, stress-tests, reinforced SME and competitiveness checks – to address the simplification agenda. These new initiatives are treated as a priority within the Competitiveness Council. The Commission has also set out a target of reducing administrative burdens for businesses by at least 25% (35% for SMEs) by 2029, equivalent to EUR 37.5 bn. This has so far materialized into six omnibus packages and other simplification proposals. These initiatives contribute to reducing additional burdens from new EU legislation not yet entered into force burdens from EU-regulation already in place.

To complement these important efforts to simplify and reduce the costs of *the stock* of legislation, European legislators must also take a **forward-looking approach** and monitor *the flow* of new legislation and its costs affecting businesses and public authorities.

However, today it is difficult for policymakers to obtain even a rough horizontal overview of the total costs, burdens and benefits stemming from new EU legislation in the pipeline. There are various reasons for that. As pointed out by the Draghi report, EU decisions are typically made issue-by-issue in different sub-committees, with little coordination across policy areas. Moreover, there is a potential to improve the EU-framework to analyse the costs and benefits of new laws.[3]

As a result, some proposals are negotiated and adopted without a clear and accurate assessment of cost and burdens. Around 70 per cent of proposals under negotiation in the Council are

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[1] Draghi report, pp. 68-69

[2] A simpler and faster Europe: Communication on implementation and simplification, European Commission 2024-2029,

[3] Draghi report, pp. 67, 69

accompanied by an impact assessment from the Commission[4]. And, where available, estimates are often partial, or do not cover all relevant aspects, and costs may be underestimated[5]. Furthermore, the co-legislators are not carrying out impact assessments in relation to substantial amendments introduced during the legislative process.

Consequently, public authorities and other stakeholders sometimes lack overview and clarity concerning the costs and benefits of proposals or experience a disconnect between the costs estimated during the preparation of a legislative proposal and the actual costs when the new legislation is adopted and implemented. This entails a risk that new EU legislation has unforeseen impacts or excessive costs for companies and public authorities. It is also a challenge for national budget planning, when EU legislation requires more funding than expected.

The current flow of new EU legislation: A preliminary overview

The Danish presidency has prepared a preliminary overview (Annex A) that tables the estimated direct gross costs for businesses and public authorities of legislative proposals currently under negotiation and recently adopted EU legislation that has not yet entered into force or been transposed. This overview of the "flow" of new EU legislation (see Box 1 and Annex B for more information on the methodology) is based on the impact assessments by the Commission. Figure 1 and Figure 2 outline the main findings.

Figure 1
Estimated impact on public administrations
One-off costs: more than 1.6-1.8 bn EUR
Recurrent costs: more than 26.5-38.3 bn EUR per year

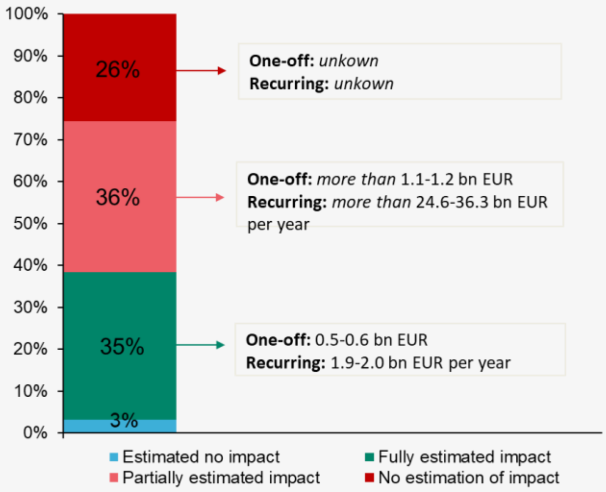
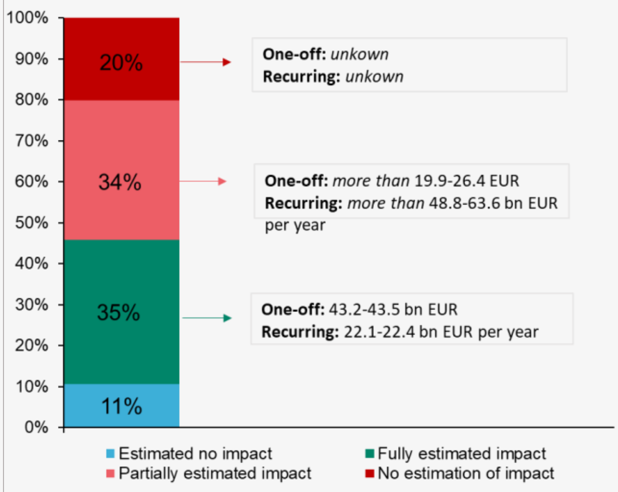


Figure 2
Estimated impact on businesses
One-off costs: more than 63.1-69.9 bn EUR
Recurrent costs: more than 70.9-85.9 bn EUR per year



Note: The figures illustrate to which extend the economic impact of legislative proposals with an impact assessment has been estimated for public administrations (figure 1) and business (figure 2). For each category, the estimated gross costs (one-off and recurrent, respectively) have been accumulated (cf. Table 1 in Annex A).

[4] In line with the 2016 IIA on Better Law-Making not every proposal will require an impact assessment. Where a proposal is not accompanied by an impact assessment, the Commission will in most cases produce a staff working document (SWD) which are not approved by the Regulatory Scrutiny Board (RSB).

[5] For instance, in April 2021 the Commission estimated that the corporate sustainability reporting directive (CSRD) would cost EUR 0.7 billion in one-off costs and EUR 2.1 billion in annual recurring costs for all affected companies in the EU. However, nationally conducted estimates show that costs could have – in the absence of the first omnibus package – amounted to EUR 0.8 billion in one-off costs and EUR 0.7 billion in annual recurring costs in Denmark alone.

The preliminary overview shows that estimated direct gross costs for public administrations of all proposals for new EU legislation amount to more than EUR 1.6-1.8 bn in one-off costs and EUR 26.5-38.3 bn per year in recurrent costs (figure 1).

For businesses, the estimated costs amount to more than EUR 63.1-69.9 bn in one-off costs and EUR 70.9-85.9 bn per year in recurrent costs (figure 2)[6].

It is not possible to conclude from the figures that EU legislation "is too costly". However, with a shared ambition to reduce the burdens of existing regulation, there are indications that new EU legislation could water down these efforts. The overview also indicates that 26%/20% of the proposals accompanied by an impact assessment do not have estimates of the costs for administrations/businesses (at times it may not be required), while 36%/34% of the impact assessments only partially estimate the costs for national administrations/businesses. Consequently, the overall costs may be higher.

The estimated costs of new EU legislation would be additional to the costs of existing rules. According to the Commission, Eurostat has approximated overall recurring administrative costs for businesses of existing rules at EUR 150 bn. in the EU in 2022.

It should be emphasized that EU legislation in general provides benefits, and that both cost and benefits are often difficult to monetize, e.g. improved wellbeing or security. Currently, it is therefore not possible to consistently net any direct benefits nor costs savings, in particular due to differences in methodology, baseline scenarios, time-horizon and categorisation of cost types.

Box 1 Methodology

The estimates of gross costs and benefits are based on the Commission's impact assessments, both for regulations and directives, utilizing the Commission's preferred option retained for its final proposal. If available, each proposal/package is tabled with the estimated direct compliance, enforcement and hassle costs and a short summary of the direct benefits.

When the Commission has aggregated recurrent costs over a number of years, the costs have been distributed across the relevant years by way of a simple average. The Danish Presidency has sought to refrain from adjusting the Commission's numbers, focusing primarily on collecting data from the Commission's impact assessments. Staff working documents are not included.

The overview summarizes the gross direct costs as initially estimated by the Commission when presenting its legislative proposals. It does not capture the impacts of substantial amendments, since none have been assessed by the co-legislators so far or of adopted legislation that has not yet been transposed or entered into force. In addition, it should be noted that national implementation ("gold plating") could introduce potentially higher costs as well as contribute to fragmentation.

The overview also indicates to which extent an impact assessment was carried out. As a rule, the Commission carries out impact assessments for proposals which are expected to have significant economic, environmental or social impacts. However, there are exceptions, mainly for reasons of urgency (In these cases, the Commission will instead produce a staff working document). In addition, quantified estimates are not always provided or sometimes incomplete or lacking in a number of cases.

[6] As outlined in Annex B there are a number of limitations related to aggregation cost and benefit estimates of individual legislative proposals based on impact assessments. The burden reduction stemming from the Omnibus proposals are not included in the aggregation, as only a staff working document was available.

A new role for ECOFIN in monitoring the overall impact of new EU legislation?

Due to their role as “economic and financial guardians” in national governments, ECOFIN ministers are well-positioned to play a key and active role in ensuring that the overall flow of new EU legislation is transparent and does not result in an unintended, excessive growth of total burdens and costs.

The ECOFIN Council could potentially have an overview and discuss the important issue of costs and benefits of new EU legislation on a recurring basis, e.g. once or twice during each presidency, on the basis of an updated and consolidated version of the table providing an overview of costs and benefits for public authorities and businesses (Annex A). Ministers could exchange views on the economic consequences of new proposals in general and perhaps have a focused discussion of a handful of proposals that entail significant burdens. Substantial negotiations on the concrete files will of course remain with the relevant Council formations.

At a later stage, it could be discussed and determined how to develop the table overview (Annex A) in terms of its structure and exact content as well as placing the responsibility for the regular updates and the preparatory discussions leading up to ECOFIN meetings.

Questions for discussion:

1. Do ministers agree that the burdens and costs for public administrations and businesses from new EU legislation present a challenge, and agree that currently an overview of the burdens and costs is missing?
2. Should the ECOFIN Council have a horizontal and permanent role in monitoring the economic impact (burdens and costs as well as benefits) from new EU legislation across policy areas and Council formations on the basis of an overview table?
3. Is the preliminary overview table (Annex A) a valuable tool that should be further developed as well as consolidated and updated on a regular basis to ensure horizontal monitoring?

Simpler financial regulation

8 September 2025

The purpose is to discuss the challenge of complexity in the EU's financial regulation and how to advance work on simplifying financial regulation, including possible principles on financial regulation and simplification.

Context: the need for simpler financial regulation

Simplifying EU regulation is vital for strengthening European competitiveness, economic performance and security, as underlined in the Budapest Declaration on the New European Competitiveness Deal by EU Heads of State or Government, the European Commission priorities, as well as in the Draghi report on EU competitiveness. The work on the Savings and Investments Union (SIU), which aims to create better financial opportunities for EU citizens and channel the massive European savings to productive investments, will also be guided by considerations of simplification, burden reduction and digitalisation.

Delivering on the simplification agenda within the field of financial services has to be done while safeguarding financial stability and preserve consumer and investor protection. It requires both simplifying existing financial regulation *(a backward-looking approach)* and a stronger focus on reducing complexity in new regulation *(a forward-looking approach)*.

The Danish Presidency has asked New Financial to analyse European financial services regulation in view of the objective of simplification. New Financial has presented its findings in a report on European market outcomes and the complexity of regulation as well as suggestions to simplify existing rules and the creation of new rules.

The role of the financial sector in the economy

The global financial crisis and the sovereign debt crisis had severe consequences for the EU economy, public finances and the financial sector. Regulation of the financial sector – globally and within the EU – was rightly strengthened and made more prudent in response. Given the sectors' size and role as an intermediary in the European economy some complexity in financial regulation is unavoidable. However, over time, the regulation has grown increasingly complex. Extensive and complex regulation entails burdens for companies, just as it is also more cumbersome to supervise. As a result, both companies and supervisory authorities risk having fewer resources available to identify and address the most important risks. In addition to the value of reducing burdens, simpler financial regulation can also strengthen the understanding of and compliance with rules by market participants.

The aims of this major overhaul of the financial regulation have been manyfold: ensuring financial stability, protecting public finances from banking crises, investor protection and combatting money-laundering and terror financing activities. Simplification should, as a main rule, not lead to less ambitious regulation, nor the removal of key requirements on e.g. capital, liquidity, resolution, or consumer and investor safeguards. In pursuing such an approach there is room for making regulation simpler and potentially also removing some requirements, while maintaining the purpose of the regulation.

Principles for simplifying financial regulation

In light of the need for simplification and inspired by New Financial's analysis, the future work on simplifying financial regulation could be guided by e.g. the following principles, while allowing for flexibility for the EU to act quickly due to crises or other urgent matters:

I. **The key pillars of financial regulation should be preserved**, as they are essential for financial stability and long term economic prosperity. The key pillars - including in particular robust capital requirements, liquidity requirements and resolution frameworks for credit institutions as well as investor protection, supervision, anti-money laundering and terrorist financing - must be preserved and take international standards into account.

II. **A "sense check": Develop better problem statements at the "level 0":**
- Before work on new rules fully starts, the Commission should at "level 0" go through a limited amount of high-level questions in order to sense check whether a new rule is necessary in the first place and to clarify how a potential new rule can be developed and implemented as simple as possible. The statement should focus on what problem any piece of financial regulation is trying to solve, what sort of market outcomes a successful implementation would deliver, and why existing rules and measures are insufficient to achieve these outcomes. And the result may well be that no further work on a new rule is carried out.
- The Commission should discuss these with the Member States for example in relevant Council working parties or expert groups and potentially the European Parliament.

III. **Simplification of the existing stock of regulation** could focus on a thematic omnibus approach to e.g. identify and eliminate duplications and inconsistent definitions, out-dated provisions, a complete check of need to have and not just nice to have reporting requirements and/or on identifying a few "big hitters" with high impact. The work could be guided by principles of achieving political objectives in the most effective and cost-efficient way.

IV. **There is a need for consistent and better impact assessments throughout the legislative process**, and they should as a minimum include:
- **Realistic cost estimates** at both the EU and, subject to data being made available, national level. This includes detailed analyses of IT and digital platforms requirements, which are especially costly both for private and public entities to develop.
- Assessment of **cross border activities** to support why new legislation is needed at EU-level.
- An assessment of **what existing legislation is made redundant or is now considered to be disproportionality burdensome and might be removed** because of the new legislation.

All proposals should be **accompanied by an impact assessment** when presented by the Commission. In the event that a proposal from the Commission is not accompanied by an impact assessment, the relevant working party could discuss if this is duly justified as the first order of business. If not duly justified, the Presidency could refuse to take the negotiations forward until a comprehensive accompanying impact assessment has been put forward. Both the Council and the European-Parliament should also consider to classify more amendments in the legislative process as "significant" and carry out impact assessments of their amendments.

V. **Better coordination on implementation and new reporting requirements may only enter into force once a year:** Coordination, timing and implementation of legislative files should be improved in order to ease the implementation burden on market participants. Moreover, new or revised reporting requirements should only take effect once a year. This should apply for both level 1 and level 2.

VI. **A regulatory time-out through fewer and more targeted review clauses:** New regulation should be given time to take effect before further rules are introduced. Review clauses with full evaluations after a certain number of years, which focus more on *when* to review legislation than *why* to review, tend to lead to more new legislation rather than finding that the current legislation is sufficient. Instead review clauses should

- Be fewer in number and more clearly justified
- Be targeted towards specific parts of the legislation
- When used, leave time for new regulation to have effect and generally apply five years after implementation, unless sector-specific needs justify otherwise.

This approach reduces administrative burdens and avoids diverting Commission resources from more urgent priorities. At the same time, the Commission with its right of initiative can propose changes any time, if needed.

VII. **A clearer legislative hierarchy:** Many different stakeholders are involved in financial regulation, and every stakeholder has a responsibility in adding complexity. The complexity seems to be a *feature of the system, not a bug*. To ensure well-functioning financial markets, the rulebook must be clear, stable and easy to navigate and with an accessible overview. As a general principle

- Level 1 acts should contain essential political choices, be clear on objectives and measures of success of the rules, and provide fewer and clearer mandates to level 2.
- Level 2 acts:
    i. Should be used more sparingly, be better justified in level 1 and remain focused and technical in nature, within the clearly defined mandates.
    ii. After a political agreement is initially approved by Coreper, the Commission should critically assess the level 2 mandates it has been given and whether new rules at level 2 are actually needed. This analysis should be presented to the co-legislators before the final adoption of the legislative act, in order to highlight possible deficiencies and unjustified complexity and give the co-legislators an opportunity to reflect.

  iii. The ESA's should implement their mandates with a view to ensure a clear, simple and focused outcome.

- Level 3 measures (guidelines etc) should be used more sparingly and with a view to deliver a clear and focused outcome.

With guidance from the ministers and central banks, the 2026 report from the Commission on the banking system in the Single Market, including the evaluation of competitiveness, could also contribute to a way forward on how to advance simplification.

Questions for discussion:
*Do you agree that there is need to simplify the existing **stock** of financial regulation, and do you agree on the principles outlined above? If so, do you have any suggestions for concrete action and potential "big hitters" in the existing stock, e.g. simplifying and strengthening usability of capital buffers, reducing reporting requirements or the amount and complexity of consumer and investor information?*

*Do you agree that there is a need to ensure that the **flow** of new financial regulation is simpler, and do you agree on the principles outlined above? In particular, do you agree on the idea of a 'sense-check' addressing overall questions on the value-added etc. of new regulation ahead of possible proposals, and the suggestion to have more clarity on objectives and material rules at level 1 and more focus on fewer and shorter technical standards at level 2 and guidelines at level 3?*

Do you support that the Council should work on principles to guide the Commission, co-legislators and Member States in simplifying existing and new financial legislation? Do you support laying down such principles in Council conclusions and what principles would you consider especially important?

Would you support Council conclusions asking the Commission to provide an analysis of how the legislative process for financial regulation could be improved, and possibly a proposal on how to institutionalise a process, which reduces the amount and complexity of level 2 mandates?

THE SIMPLIFICATION OF EU FINANCIAL REGULATION

ANALYSIS OF THE COMPLEXITY OF THE EU REGULATORY FRAMEWORK FOR BANKING AND FINANCE, THE IMPACT ON THE FINANCIAL SYSTEM AND WIDER ECONOMY, AND HOW TO SIMPLIFY IT

August 2025

By William Wright, Maximilian Bierbaum, Christopher Breen, and James Thornhill

Prepared for the Informal ECOFIN meeting in Copenhagen in September 2025 hosted by the Danish Presidency of the Council of the European Union

> *This report frames the complexity of EU financial regulation in the context of market outcomes in EU banking, finance, and capital markets; analyses the evolution of this complexity and its main drivers; and outlines some broad principles for the simplification of both the 'stock' of the existing framework and the 'flow' of future initiatives.*

A call to action

Since the global financial crisis, the financial services industry has (with good reason) been subject to extensive regulatory reform. However, the increased volume and complexity of regulation in the EU has reached a point at which the overall burden of regulation imposes significant direct costs and, perhaps more importantly, indirect costs on market activity and the wider economy.

Given the focus across the EU on growth and competitiveness and on building more integrated capital markets, and the important role that the financial sector can play in supporting that growth, there is a strong case for simplifying the rulebook without undermining the core tenets of financial stability, market integrity, and consumer protection.

We think it is important to evaluate the EU regulatory framework in the context of the sort of market outcomes you might hope for under a well designed, robust, and flexible framework. The starting point for this report is our analysis of market outcomes in the EU over the past decade across more than 30 metrics of activity in different sectors of banking, finance, and capital markets. Unfortunately, in most cases these outcomes have not turned out as well as you might have hoped: EU capital markets are smaller relative to GDP than the US and a group of comparable economies in roughly 80% of metrics; the value of activity relative to GDP shrunk in around half of all sectors; and grew more slowly than the US from a lower base in three-quarters of metrics.

While the analysis of these market outcomes focuses primarily on the capital markets, the main principles of our analysis and our main recommendations can be applied to all areas of the financial markets including banking and insurance.

We are not pointing fingers at anyone or blaming the regulatory framework in isolation for these market outcomes. And it is very clear that an extensive amount of work is already underway in the EU to simplify financial regulation. But we need to ask ourselves whether this really is the best possible framework for addressing risk *and* for enabling investment - and if it isn't (and our analysis suggests that it isn't), what we can do more to make things better.

Done right, a simpler framework would be easier to understand, explain, implement, and supervise - and could lead to better (and stricter) regulation.

The first section of this paper is a short version of the report in eight pages. The second part analyses in more detail how complexity is added at every stage of the rulemaking process in the EU; and what the EU, member states, national supervisors, and the banking and finance industry can do about it.

The challenges that this paper identifies cannot be solved overnight, and we do not have all the answers, but we hope our paper provides useful insights and encourages a productive debate. We would like to thank the more than 30 organisations who shared their views and insights with us, and the Danish Ministry of Economic Affairs for their feedback and support of this project.

NEW FINANCIAL
Rethinking capital markets

New Financial is a think tank that believes Europe needs bigger and better capital markets to help drive growth and prosperity.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work.

We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: rebooting UK capital markets; reforming EU capital markets; driving sustainability; and driving diversity.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry.

For more information on our work, visit: www.newfinancial.org

Disclaimer: this report represents New Financial's views and analysis of the simplification of EU financial regulation. It does not necessarily reflect the views of the Danish EU Presidency or of the organisations that took part in this project.

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Here is a 10-point summary of this paper:

1. **The context:** reforms since the global financial crisis have made the EU financial system much stronger. It has weathered many market events in the past decade - from the fallout from the euro crisis to Brexit, Covid, the Russian invasion of Ukraine, and the 2023 'mini' banking crisis. But given the renewed focus across the EU on growth and competitiveness, and the important role that the financial sector can play in supporting that, there is a strong case for simplifying the complex framework of EU financial regulation without undermining the core tenets of financial stability, market integrity, and consumer protection.

2. **A focus on market outcomes:** our starting point is our analysis of market outcomes in the EU over the past decade across more than 30 metrics of activity in different sectors of banking, finance, and capital markets. EU capital markets are smaller relative to GDP than the US and a group of other comparable economies in roughly 80% of these metrics; the value of activity relative to GDP shrunk in around half of all sectors; and grew more slowly than the US from a lower base in three-quarters of metrics.

3. **Defining 'complexity' and 'simplification':** we draw a clear distinction between simplification and de-regulation: simplification makes adjustments to formatting, clarity, detail, volume, process; de-regulation lowers or removes substantive requirements on capital, liquidity, resolution, or consumer safeguards.

4. **The main drivers of complexity:** complexity is added into the EU framework at every stage of the process by all stakeholders through level 1 ambiguity, level 2 proliferation, level 3 expansion, institutional mission creep, silo-based thinking, and national fragmentation. It is a feature of the system, not a bug.

5. **The increase in complexity:** one way of thinking about the complexity of the EU regulatory framework is to look at the sheer volume of texts across the different levels of legislation and regulation. All in, the formal texts around MiFID II across levels 1, 2, and 3 are longer than most versions of the Bible. MiFID II is just one of the 78 main legal texts covering financial services in the EU.

6. **The costs of complexity:** the complexity of EU rules for the financial markets has a real-life impact in terms of the direct costs (on regulators and supervisors as well as market participants) and indirect opportunity costs (on activity, growth, competition, competitiveness, and innovation) that it creates.

7. **Better problem statements at the 'level 0':** we propose to upgrade existing inception impact assessments to include clearer statements on the principles of any piece of financial regulation that focus on what the problem is it is trying to solve, what the sort of market outcomes are that successful implementation would deliver, and why existing rules are insufficient to achieve these outcomes.

8. **Recommendations to simplify the existing rulebook:** simplifying the existing rulebook for financial markets in the EU is much easier said than done. However, we outline three broad principles that EU policymakers could follow in tackling this challenge including establishing a structured and thematic review process; setting clear objectives; and identifying a few 'big hitters'.

9. **Recommendations to simplify the creation of future rules :** the cumulative effects of small, sensible steps to tweak, streamline, and simplify the creation of future EU financial regulation could over time be significant. We make 10 recommendations ranging from strengthening clarity and problem definition at level 1; improving impact assessments across all levels; limiting over-prescription at levels 2 and 3; better coordinating timing; promoting cross-sector, cross-rule, and cross-border consistency; and embedding simplification into regulatory culture and incentives.

10. **Reducing complexity from the bottom up:** we end our paper with a selection of questions for individual member states, finance ministries, and national supervisors to encourage debate about what measures they could take on their own to create a simpler, more efficient rulebook in the EU.

Fig. 1 (Un)intended consequences

This table shows a summary of the depth of 25 different sectors of banking, finance, and capital markets in the EU and how they performed from 2014 to 2024 (or 2023 where data is not yet available). Red shows a negative outcome, green shows a positive outcome. We compared i) the depth of EU capital markets with the US and a basket of developed economies (UK, Australia, Canada, Japan, and Switzerland) ii) growth in activity in the EU in real terms and relative to GDP and iii) the rate of growth in EU capital markets over the past decade versus growth in the US and in the basket of selected markets.

		Depth		Growth		Relative growth	
	Metric	Depth vs US today	Depth vs basket today	Real growth in past decade	Growth vs GDP	Growth vs US	Growth vs basket
Pools of capital	Pension assets	✗ 20%	✗ 31%	✓ 16%	✓	✗	✓
	Insurance assets	✓ 122%	✗ 81%	✗ -10%	✗	✗	✓
	Household financial assets	✗ 50%	✗ 68%	✓ 7%	✓	✗	✓
	Retail investment assets	✗ 25%	✗ 73%	✓ 7%	✓	✗	✓
	Cash deposits	✓ 128%	✗ 58%	✓ 5%	✓	✗	✓
Equity markets	Stock market value	✗ 31%	✗ 44%	✓ 11%	✓	✗	✓
	All equity issuance	✗ 61%	✗ 46%	✗ -68%	✗	✗	✗
	IPOs	✗ 80%	✗ 60%	✗ -61%	✗	✓	✓
	Equity trading	✗ 54%	✓ 103%	✗ -0.4%	✗	✗	✗
Debt capital markets	Value of corporate bond market	✗ 36%	✗ 59%	✓ 8%	✓	✗	✓
	Corporate bond issuance	✗ 65%	✗ 68%	✗ -21%	✗	✗	✗
	High-yield bond issuance	✗ 61%	✓ 113%	✗ -38%	✗	✓	✓
	Securitisation outstanding	✗ 9%	✗ 83%	✗ -50%	✗	✗	✗
	Securitisation issuance	✗ 7%	✗ 33%	✗ -69%	✗	✗	✗
	Leveraged loans	✗ 28%	✗ 88%	✓ 15%	✓	✓	✓
Bank lending	Bank assets	✓ 269%	✗ 80%	✗ -15%	✗	✗	✗
	Stock of bank lending to companies	✓ 339%	✓ 101%	✗ -18%	✗	✗	✗
	Flow of net lending to companies	✓ 1,669%	✗ 82%	✗ -9%	✗	✗	✓
Private markets & venture capital	Private credit	✗ 12%	✗ 31%	✓ 53%	✓	✓	✓
	Private equity fundraising	✗ 33%	✗ 55%	✓ 150%	✓	✓	✓
	Private equity activity	✗ 28%	✗ 42%	✗ -13%	✗	✗	✗
	Venture capital activity	✗ 25%	✗ 61%	✓ 288%	✓	✓	✗
	Early-stage investment	✗ 28%	✗ 62%	✓ 547%	✓	✓	✗
Corporate activity	All M&A	✗ 51%	✗ 61%	✗ -8%	✗	✗	✗
	Domestic M&A	✗ 35%	✗ 56%	✓ 3%	✓	✗	✗
	Number of ✗ negative / ✓ positive	20 / 5	22 / 3	13 / 12	13 / 12	18 / 7	12 / 13

Note: for more details on sourcing and methodology see page 21

A closer look

Here is a summary of the key findings from our analysis of the depth and performance of EU banking, finance, and capital markets across the three broad areas of i) depth ii) growth over the past decade and iii) relative growth over the past decade. In total, we analysed activity in 31 different segments, and compared activity in the three years to the end of 2024 with the three years to the end of 2014.

1) Depth: are EU capital markets deeper than…

…the US?

Yes	No
21%	79%

…comparable markets?

Yes	No
11%	89%

What we measured: for each metric we measured the average value of activity in the three years to the end of 2024 and converted it into a percentage of average GDP. This shows the 'depth' of activity in the EU compared with the US and a basket of comparable economies.

What we found: in nearly 80% of metrics, activity in the EU is less developed than in US and in nearly 90% of sectors activity is less developed than in the basket of comparable developed economies. The majority of sectors where activity in the EU is deeper than in the US is in areas where you might not necessarily want it to be: cash deposits in the EU are about a quarter bigger relative to GDP than in the US, the stock of bank lending to companies is more than three times as large, and the net flow of bank lending is more than 16 times as big.

Pools of long-term capital are much smaller in the EU than in the US: pensions assets are just one-fifth as large relative to GDP, retail investment just a quarter the size of the US, and household financial assets half as big. Equity markets and bond markets are around half as deep as in the US, while venture capital and private markets are less than a third as developed.

2) Growth: has EU activity grown…

…in real terms?

Yes	No
42%	58%

…relative to GDP?

Yes	No
42%	58%

What we measured: for each metric we measured the growth in activity in real terms over the past decade and growth relative to GDP (in other words, has activity got 'deeper' over the past decade).

What we found: in more than half of the sectors activity shrunk in real terms and shrunk relative to GDP over the past decade (in other words, activity has gone backwards over the past 10 years).

In positive news, four of the five measures of pools of capital grew in real terms and relative to GDP. Activity in private markets grew in real terms and relative to GDP in four out of five sectors. Most notably, venture capital investment in the EU nearly tripled and wider early stage investment grew more than fivefold - although they started from a low base.

In less positive news, most metrics under equity markets and corporate bond markets shrunk, suggesting that they have not stepped up to replace the decline in bank lending.

3) Relative growth: has EU activity grown faster than…

…the US?

Yes	No
29%	71%

…comparable markets?

Yes	No
46%	54%

What we measured: we measured the absolute growth of activity over the past decade in the EU and compared it with the rate of growth in the US and in comparable economies.

What we found: activity in the EU grew at a slower rate than in the US in nearly three quarters of metrics (often from a much lower base) but broadly kept pace with the rate of growth in other markets.

All five metrics under pools of capital grew at a slower rate than in the US over the past decade (in other words, the gap between the EU and US is getting wider) although they all grew at a faster rate than in other comparable markets. The majority of segments of equity markets and corporate bond markets grew at a slower rate than the US. In more positive news, most segments of private markets and venture capital grew at a faster rate than in the US (though it is worth noting that they started from a lower base and that venture capital and early-stage investment grew at a slower rate than in comparable developed economies).

A cumulative impact

The low level of development and poor relative performance in most of the sectors of EU banking, finance, and capital markets over the past decade is not something that can be specifically blamed on the complexity of the regulatory framework. But the regulatory framework should be evaluated in the context of market outcomes, investment, growth, and competitiveness.

Desirable outcomes: the main objectives of EU regulation in banking, finance, and capital markets over the past decade have been to boost financial stability and resilience, improve transparency, and protect investors. While the EU financial system is clearly stronger, more resilient, and more transparent than before, it is not always clear how to reconcile this progress with the EU's wider ambitions of supporting growth, investment, and competitiveness across the wider economy.

Some of the desired outcomes that you might hope for under a robust framework might include: an increase in the flow of capital raising and borrowing by EU companies - particularly risk capital for high growth companies; a shift in the balance between bank lending and market financing; progress towards more integrated capital markets; and a gradual increase in the value of pensions and investment funds. These outcomes combined would all contribute to higher investment, productivity, and growth in the economy.

Actual outcomes: the actual outcomes in EU markets in the decade to 2024 have been disappointing. EU capital markets are smaller relative to GDP than in the US or a basket of comparable economies (the UK, Australia, Canada, Japan, and Switzerland) in roughly 80% of the metrics we analysed (and in many cases significantly less developed). The value of activity declined in real terms and shrunk relative to GDP in over half of sectors. Over the past decade, the rate of growth (often from a much lower base) has been lower than in the US in three-quarters of metrics, although it has been roughly in line with growth in comparable economies. This shows that a) there is plenty of work ahead to build bigger and better capital markets in the EU and b) that the EU economy will be dependent on bank savings and bank lending for the foreseeable future. In each case it is important to ensure that the EU has an appropriate framework.

Unintended consequences: the low level of development of EU capital markets and low relative growth has real-world consequences. When you compare capital markets in the EU with other economies, you get a sense that the long-term health of the EU economy and the future prosperity of its citizens are falling behind. For example, pools of long-term capital are in aggregate much less developed and growing more slowly than in the US, which reduces the amount of capital that could be put to work in the EU economy and lowers the long-term prosperity of the EU.

Of course, there are many different factors that contribute to these market outcomes in the EU and other economies that are beyond the scope of this report. And the complexity of the regulatory framework and process for banking and finance would be a less significant problem if markets were more developed (the structure of financial regulation in the US is very complex and there are growing calls to simplify the US framework). Even within the EU, there is a wide range in the depth of capital markets, in the balance between savings and investments, and between bank lending and market-based financing (with markets like Sweden, the Netherlands, and Denmark leading the way) which suggests that the development of capital markets is as much a member state issue at the national level as an EU one.

But at a time when the EU economy needs all the help it can get it is important to evaluate whether and how the complexity of EU financial regulation may have contributed to these outcomes. This also provides a lens to help connect 'simplification' with improving competitiveness, boosting investment, and supporting growth to ensure that simplification does not become a technical exercise or an end in itself.

Introducing more structure and clear principles

A huge amount of work is already underway in the EU to simplify its rulebook in all areas of the economy including the financial markets. In response to calls from the European Council for a 'simplification' revolution, the current European Commission has a dedicated Commissioner tasked with overseeing and coordinating the simplification process; ESMA has launched a data strategy to reduce duplication and improve timing and coordination; the EBA has established a simplification taskforce; EIOPA is reducing the volume of prudential reporting; and DG FISMA is reviewing the relevance of upcoming level 2 measures and has pressed pause on nearly one-third of them.

There is a real need to simplify EU financial regulation through more discipline and focus across levels 1 to 3, but we think it is even more important to get more clarity at the beginning of the process at the 'level 0' on i) whether a new rule is necessary in the first place and ii) how this rule can then be developed and implemented as simply as possible considering other already existing regulations. The Commission already prepares 'inception impact assessments' that aim to provide this clarity, but we received near universal feedback from market participants that in many cases it still is not clear (enough) what new rules are trying to achieve and how they will interact with the existing framework.

We propose to upgrade these inception impact assessments to include a much clearer statement on the principles of any piece of financial regulation that really focuses on what the problem is it is trying to solve, what the sort of market outcomes are that successful implementation would deliver, and why existing rules and measures are insufficient to achieve these outcomes. This can ensure simpler and more effective new rules, reduce overlaps and contradictions, and achieve better timing and sequencing. Co-legislators, ESAs, and other stakeholders would be invited to share feedback on and discuss these principles. Upgraded inception impact assessments should also indicate a true openness *not* to introduce new rules if their benefits are not crystal clear (in theory, this is already the case today but in practice it is very rare for the Commission not to continue working on a proposal after an inception impact assessment).

Here are some suggested questions that upgraded inception impact assessments could address:

1) What is the overall objective of this measure? A clearer problem statement including what a measure is aiming to achieve would better help guide the drafting of any legal texts and steer level 2 and 3 negotiations, changes, and technical standards. It would also enable stakeholders to better understand the purpose of new rules and help them suggest different, perhaps simpler ways of achieving objectives. (And the answer to this question cannot (only) be: 'to regulate a market segment or activity that was not regulated before'…)

2) What sort of market outcomes could this measure help deliver? A best guess on the change in market activity - with potentially the inclusion of which market outcomes the Commission is going to use to measure progress of this particular measure. ('We think this measure will encourage more European companies to go public and lead to a reduction in the number of companies choosing to list overseas or to delist.')

3) Which other existing rules does this measure touch? Better coordination between different rules and frameworks (think, for example, GDPR and AI) would help identify overlaps or might even make the introduction of new rules unnecessary if existing rules are identified that can be used to meet stated objectives.

4) How does this measure relate to other planned future rules? This would help policymakers sequence incoming new rules better (to avoid a repeat of the problem that was created when SFDR was introduced before CSRD) and enable market participants to better prepare for their implementation.

5) What existing data points and disclosures could be used? Too often different authorities and different rules ask for very similar or even the same data points but in slightly different ways. This question would encourage policymakers to assess how existing data and disclosures could support and inform new rules instead of developing new data asks and reporting requirements.

Recommendations to simplify the stock of existing EU financial regulation

Simplifying the existing rulebook for financial markets in the EU is much easier said than done. Here are three principles that EU policymakers could follow when trying to tackle this difficult challenge:

1) **Establish a structured and thematic review process:** focus more on the 'why' and 'how' to contextualise broader quantitative targets which can be useful but should not be an end in themselves.

2) **Set clear objectives to avoid unintended consequences:** test simplification measures against the savings they will generate and how they will help the EU make progress towards more growth and competitiveness.

3) **Identify a few 'big hitters':** a good starting point could be to review legislative initiatives that are already underway but have not been implemented yet - and then apply learnings to the existing stock of regulation.

Recommendations to simplify the creation of future EU financial regulation

Here are 10 recommendations to tweak, streamline, and simplify the creation of future EU financial regulation. The cumulative effects of these small, sensible steps could over time be significant:

1) **Develop better problem statements at the 'level 0'** through upgraded inception impact assessments that sense check proposals for new rules before work on them fully starts.

2) **Strengthen strategic clarity and problem definition at level 1** to enable the Commission to draft a clearer proposal, narrow down what it would like to achieve, better negotiate feedback and changes proposed by Council and Parliament, and give fewer but clearer mandates to ESAs on what to focus on at levels 2 and 3.

3) **Improve impact assessments and accountability across all levels** to more realistically measure the impact of final rules after levels 2 and 3 changes in the context of what a piece of regulation is trying to achieve.

4) **Limit over-prescription:** clearer problem definition and objectives at level 1 could naturally help reduce the 'scope creep' at levels 2 and 3 and discourage in particular ESAs from drafting an excessive number of technical standards, guidelines, and Q&As.

5) **Simplify and shorten technical standards:** every stakeholder involved at the level 2 should aim to go 'back to the roots' and focus on what level 2 is supposed to do: provide short, unambiguous, technical standards.

6) **Apply proportionality and competitiveness checks consistently** by all stakeholders across all levels.

7) **Coordinate timing and implementation:** clearer sequencing and timing of incoming rules and regulations would ease the implementation burden on market participants and, ideally, better align with business cycles.

8) **Promote cross-sector, cross-rule, and cross-border consistency:** the Commission or another suited body should assume a much stronger 'air traffic control' function which would have a definitive overview of what is happening where and when and could advise on where rules overlap or conflict with each other.

9) **Enhance coordination and roles across institutions** to implement a 'report once' principle, develop and use shared definitions, and build an overall more harmonised framework.

10) **Embed simplification into regulatory culture and incentives:** promote a shift in the EU's regulatory culture towards an approach that is much more focused and nuanced and considers the bigger picture.

The first section of this paper is a short version of the report in eight pages. This second part for more motivated readers and policymakers analyses in more detail what we mean by 'complexity' and 'simplification'; how complexity is added at every stage of the policymaking and legislative process in the EU; and what EU, member states, regulators, and the banking and finance industry can do about it.

Introduction and summary

What is the problem we are trying to solve?

How can we address this problem?

Appendix

Fig.2 What do we mean by 'complexity' and 'simplification' in the context of EU financial regulation?

Complexity

Complexity refers to overlapping, inconsistent, confusing, and overly detailed rules across all levels of the EU rulemaking process, often with unclear purpose or added burden without proportional benefit.

Please find a list of examples of complexity in the appendix.

Simplification

Simplification means making rules easier to understand, implement, and comply with: streamlining text, reporting, and procedures while preserving core objectives such as capital, liquidity, resolution, and consumer protection.

in scope of this paper

De-regulation

We are drawing a clear distinction between simplification and de-regulation: simplification tweaks formatting, clarity, detail, and process; de-regulation lowers or removes substantive requirements such as on capital, liquidity, resolution, or consumer safeguards.

out of scope

An important distinction

The first step to successfully simplify the EU regulatory framework for banking, finance, and the capital markets is to establish a common definition of what we mean by the concepts of complexity and simplification, and how they relate (or do not relate) to de-regulation. Fig.2 shows our understanding of complexity, simplification, and de-regulation:

- **Complexity:** overlapping, inconsistent, confusing, overly detailed rules, often with unclear purpose and benefit.
- **Simplification:** reducing duplication, redundancy, excessive disclosure asks, and tensions between different levels.
- **De-regulation:** reducing substantial requirements such as on capital, liquidity, resolution, or consumer protection.

There is an argument to be made that simplification and de-regulation are points on a continuum, not binary. One way to sense check whether measures and reforms achieve the aim of simplifying rules without interfering with core objectives could be to introduce case-by-case tests. Asking 'will this change (significantly) affect the substance of the regulation?' can be a high level but simple way of testing whether a change is simplification (if the answer is 'no') or de-regulation (if the answer is 'yes').

We think it is important to move on from a very binary debate (any reform equals de-regulation and is therefore bad, and all regulation is bad so any reform therefore good) to a conversation that is much more nuanced and grown-up. But this report will not be exploring or recommending measures to de-regulate on our definition. The key challenge is to reform the framework without putting resilience at risk: another financial crisis would be really, really expensive.

Fig.3 A multi-layered process

This simplified flowchart shows how rules and regulations for the financial services industry in the EU are developed, negotiated, agreed, and implemented under the 'Lamfalussy Process' - and how complexity is added into the process at every stage.

Level 1 - directives and regulations ('hard law')

What happens?

- European Commission sets priorities in mission letters for Commissioners and drafts proposals for new rules
- European Commission, European Parliament, and Council of the EU (the co-legislators) reach agreement on key principles, aims, and mandates through the 'trilogue' process to create the final level 1 text

Scope for complexity:

- Commission's impact assessments on initial proposals are often unrealistic
- Commission may add additional complexity to its initial proposal in anticipation of the response of member states or Parliament
- Political negotiations and trade-offs (often under time pressure and in the middle of the night) further expand and complicate level 1 proposals
- Where political agreement cannot be reached, level 1 texts can remain unclear and / or delegate difficult questions to level 2 or 3
- Impact assessments are rarely updated to reflect the final level 1 agreement

Level 2 - technical standards

What happens?

- Commission and ESAs (and soon AMLA) produce more detailed technical standards to clarify and implement level 1 principles
- These take the form of delegated acts or implementing acts
- Parliament and Council have a right to object to delegated acts (but usually don't)

Scope for complexity:

- ESAs may go beyond legal requirements where level 1 text is vague or where political agreement on an issue could not be reached
- Governance model of ESAs and consultations enable individual member states and industry sectors to influence the final outcomes
- MEPs often do not have the resource and capacity to properly scrutinise delegated acts in Parliament
- Level 2 technical standards are sometimes not ready by the time level 1 legislation enters into force

Level 3 - guidelines, opinions, Q&As ('soft law')

What happens?

- ESAs provide additional guidelines, opinions, and Q&As to explain to member states and the industry how to apply the agreed legislation and technical standards
- The ECB and SRB also provide their own guidelines and recommendations

Scope for complexity:

- While guidelines, opinions, and Q&A are officially not legally binding, in many cases most market participants and member states treat them as hard law and de facto regulation
- ESAs may go beyond legal requirements of the level 1 text and agreed level 2 standards, effectively creating 'own initiative' regulation
- Inconsistencies in definitions and requirements between levels 1, 2, and 3 and between different dossiers in similar areas creates complexity

Implementation at a member state level

What happens?

- National competent authorities (NCAs) in individual member states implement, supervise, and enforce
- ESAs and Commission review and enforce implementation by NCAs

Scope for complexity:

- Directives allow NCAs more discretion to implement slightly different versions of the same rules
- Member states may add additional 'gold-plating' to rules or implement rules in (slightly) different ways
- Supervisory expectations and approaches may differ between NCAs based on national needs, frameworks, and culture

Source: New Financial

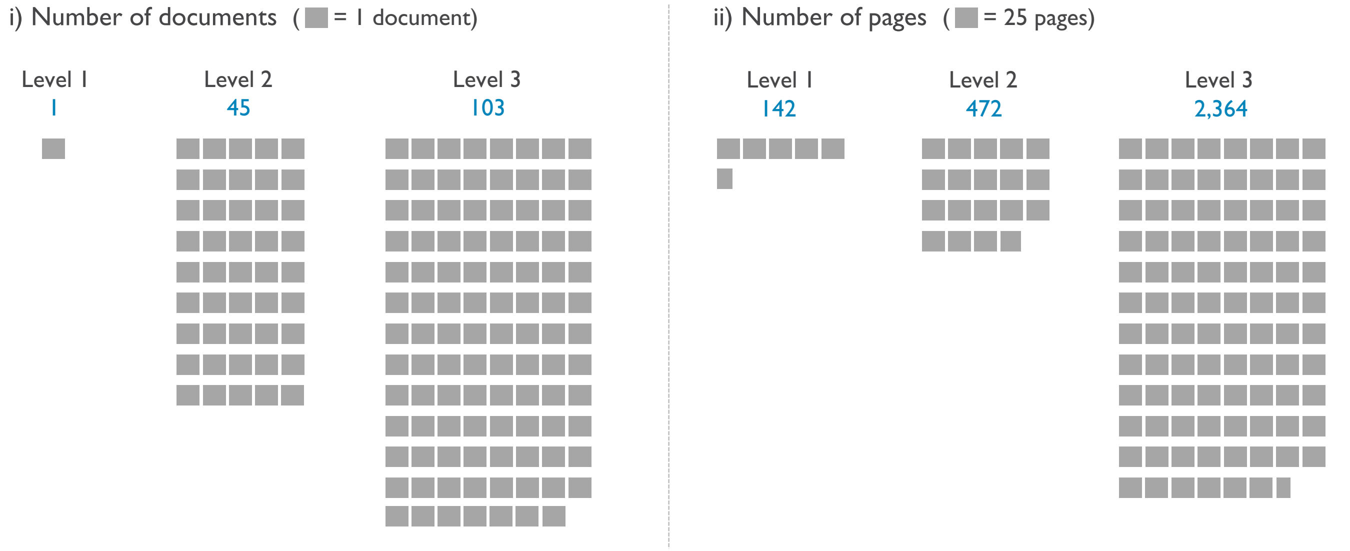
A feature, not a bug

Complexity is added into the EU framework for banking, finance, and the capital markets at every stage of the process. This is paper not intended to be a blame game, a critique of the EU, its institutions, its member states, or the European financial services industry; and we are not aiming to identify individual ‘culprits’. But with every stakeholder behaving rationally within the context of the existing framework, complexity becomes a feature and not a bug of the EU’s unique structure and rulemaking process - and reflects the complex reality of a complex financial sector. Here are some of the main drivers and sources of complexity, ranging from culture and behaviour to the process itself:

- **Level 1 ambiguity:** in an ideal world, EU co-legislators would develop level 1 regulation with clear aims and mandates. In practice, the reality of multi-stakeholder negotiations often bakes in political compromises and stakeholder demands at this first stage already, leading to broad, sometimes conflicting mandates that make use level 2 and 3 regulation as ‘compromise tools’ in political negotiations. To make matters worse, after level 1 there is no further comprehensive impact assessment (which would assess the final new rules and incorporate significant changes introduced at level 2 and 3), and less political accountability.
- **Level 2 proliferation:** with level 1 often not clear enough on aims and objectives, level 2 then has the difficult task to fill gaps and clarify ambiguity. While level 2 should focus on implementation and technical standards, the broad and sometimes vague mandates from level 1 can force level 2 to make decisions that really are political in nature (which may raise questions around their overall democratic legitimacy). To ‘get it right’, there is then often a large volume of level 2 measures adding reporting templates, data points, and requests for frequent updates (even though they were not necessarily outlined at level 1). To outsiders, this can seem like the level 2 focusing on the ‘interesting’ not the ‘necessary’. The long time it takes to develop the level 2 detail creates another problem for market participants which are increasingly often forced to start implementing level 1 regulations when level 2 implementation rules are not ready yet.
- **Level 3 expansion:** guidelines, recommendations, and supervisory expectations issued by ESAs at level 3 can (and often do) exceed original mandates due to level 1 not being clear enough; due to market participants or NCAs asking for more detail and clarification; or because it simply is the job of a rulemaking body to write rules and clarify expectations. While national regulators can decide not to implement these non-binding guidelines, in practice they usually become de facto additional regulation. Market participants, too, have told us that they would never recommend their boards to ignore these guides even though they are intended to be ‘soft law’.
- **Institutional ‘mission creep’:** EU institutions, regulators, and supervisors have responded perfectly well to the incentives that were in front of them after the 2007-2008 global financial crisis, but over the years this has created a culture where more regulation seems to be always the default choice. Each rule and regulation usually is useful, rational, and necessary in its own right. But like the game of Tetris, as more new rules keep coming and layering on top of each other, it becomes harder and harder to fit them together. The prevalent ambition to regulate (seemingly) every detail has led to a large volume of regulation that has become nearly unmanageable and created a slow and complex process where often years pass by before regulatory needs are addressed.
- **Silo-based thinking and sequencing:** every sector of the financial markets has its own legislation, trilogue, and definitions, with level 2 detail written specifically for individual pieces of level 1 regulations, all happening in a linear fashion (‘do regulation X and then move on to doing regulation Y’). This leads to difference in definitions and duplication of reporting requirements.
- **Gold-plating and national fragmentation:** member states often add extra national requirements when implementing EU rules, either by design (gold-plating) or accidentally (through translation errors), creating inconsistent rules across the EU’s 27 jurisdictions.

Fig.4 The exponential increase in the volume of regulation between levels 1, 2, and 3

This chart shows the volume of regulation in terms of i) the number of documents and ii) the number of pages for MiFID II, the EU's second Markets in Financial Instruments Directive.



Source: New Financial analysis of data from the European Commission

A biblical scale

One way of thinking about the complexity of the EU regulatory framework is to look at the sheer volume of financial regulation across the different areas and levels of legislation. We are currently trying to map the entire rulebook for financial services in the EU and our best estimate so far is that there are: 78 level 1 texts, 742 level 2 measures, and 785 level 3 measures (a total of over 1,600 documents). This adds up to 40,200 pages (94,100 including annexes) and a total of 16.1 million words. The chart above zooms in on MiFID II, one of the main directives covering investment firms and securities trading, and shows the number of documents and pages across levels 1, 2, and 3. It is important to note that MiFID II is just one of the 78 level 1 texts covering the main areas of EU financial regulation.

The main level 1 legislative text for MiFID II is 142 pages long, has 97 articles covering specific aspects of the legislation (plus four annexes), and adds up to nearly 57,500 words - not unreasonable for such an important text in a complex field. However, we counted a further 45 level 2 measures under MiFID II (including amendments to previous level 2 measures) which add up to 472 pages and roughly 189,000 words. And then we identified at least 103 additional level 3 measures (such as guidelines and opinions) which contained more than 2,350 pages with nearly 950,000 words. All in, the formal texts around MiFID II add up to 149 different documents, with more than 2,975 pages and just under 1.2 million words. To put that in perspective, most versions of the Bible run to about 750,000 words, and Marcel Proust's *À la recherche du temps perdu* contains about 1.25 million words.

This analysis excludes the dozens of consultations, reports, and reviews from the European Commission and ESMA across levels 1, 2, and 3 of MiFID II (which usually include 25 to 75 pages). It also excludes the regulatory texts and reports published by national supervisors in individual member states in implementing MiFID II. This provides scope for additional complexity: when EU directives are implemented, member states in every corner of the EU often impose additional burdens - a process known as 'gold-plating'. While it is difficult to quantify the extent of gold-plating across the EU, a recent research report by the CFA Society in Poland listed more than 210 specific examples of gold-plating in capital markets law from just nine EU member states, with some countries more prone to it than others. The resulting fragmentation makes it more complex and more costly for businesses to operate across the EU.

Everyone, everywhere, all at once

Different stakeholders add complexity in different ways for different reasons. It is probably fair to say that nobody actively *wants* to make the EU regulatory framework for the financial markets more complex, but through the process that exists within the EU and the many stakeholder that it involves, complexity is almost an inevitable outcome. Not everyone will agree with every point that we make on this page but here is a simplified overview of a few examples of how and why different stakeholders add complexity even when they act as rationally as possible:

European Commission	**How:** by trying to anticipate responses from Parliament and Council (formed of 27 member states with 27 different views) and proposing level 1 regulations that already include compromises and complexity; or by offloading politically challenging questions to levels 2 and 3 or through the frequent use of automatic review clauses. **Why:** to facilitate quicker agreement of proposals at level 1.
Council of the European Union / EU member states	**How:** by securing amendments to, exceptions from, or additions to rules and frameworks in political negotiations, often late at night and in exchange for something else in another section of the text (or even in entirely different, unrelated files); or by gold-plating rules when implementing directives in member states' own jurisdictions. **Why:** to reflect (and protect) national markets, frameworks, regulations, culture, and political views and debates.
European Parliament	**How:** by adding amendments and exceptions to level 1 proposals and often *not* making use of its ability to object to excessive or overly cumbersome level 2 measures. **Why:** the politics of the European Parliament; a lack of time and capacity (between 2019 and 2023, the ECON Committee was asked to scrutinise 193 delegated acts - over three per month…).
European Supervisory Authorities (ESAs)	**How:** by adding (too much) detail and going beyond the (often unclear) objective, remit, and mandates from level 1 when drafting technical standards at level 2 or Q&As, guides, and guidelines at level 3. **Why:** to address ambiguity, fill gaps, and respond to calls for clarification from national authorities and market participants.
National Competent Authorities (NCAs)	**How:** by adapting their approach to regulation and supervision to local market dynamics and then being unable to defer regulation and supervision of entities to authorities in other member states because they do the same thing slightly differently. **Why:** to address their statutory objectives of stability, market integrity, and consumer protection in the best way possible based on national needs, frameworks, and culture.
Financial services industry	**How:** by asking for too many things at once (there are nearly 2,700 organisations with an interest in banking and finance listed in the EU transparency register), lobbying national governments and regulators for one thing and EU institutions for another, and sometimes contradicting itself ('we want principles based legislation but also want to be told exactly what we need to do'); or by over-complying with rules. **Why:** if the industry expects complex, detailed, and burdensome rules, it will ask for exceptions and carve-outs, making the framework even more complex and detailed.

A real-world impact

The complexity of the EU framework for the financial markets has a real-life impact in terms of the direct and indirect opportunity costs that it creates. While it is virtually impossible to build a comprehensive dataset of the total costs across the EU, here is a headline overview of the direct costs of complexity on supervisors and market participants:

- **Supervisory cost and resources:** there is a direct impact on the ability of NCAs in the EU to efficiently regulate and supervise the markets. In particular smaller member states' NCAs are increasingly feeling the pressure of not having enough resource to follow, assess, and adequately implement all legal texts and changes. Not every NCA has the capacity to actively participate in all of the roughly 200 working groups by the ESAs. And in a letter to the chairs of the ESAs last year, the Nordic NCAs estimated the cost for the IT development for the European Single Access Point (ESAP) to be €3-6m per authority (!) when the initial estimated cost from the Commission's impact assessment was €50,000.
- **Industry & customer cost and resources:** complexity increases compliance costs as firms need more staff, technology investments, and IT upgrades to comply with the regulatory framework. Overlapping reporting requirements, for example, increase costs as each required report needs its own development, testing, rollout, maintenance, and IT connections with supervisors. A large volume of meetings with supervisors, examinations, and data requests often involve senior management and frontline executives. While it is difficult to quantify these costs across the European financial services industry, the ECB's spending on supervision was €681m in 2024 (+27% since 2020), while the combined budget of the ESAs increased by 30% to €165m over the same period. This increase will have been amplified across the financial services industry, and these additional costs will have been passed on to customers in the real economy.

Impact assessments in theory are a good way to estimate costs before implementing new rules, but currently in the EU process impact assessments are done at the level 1, and not updated after level 2 and 3 if significant changes and clarifications have been made, meaning that assessments do not capture the bulk of complexity that is being added.

An even bigger problem are the indirect, opportunity costs of a complex framework. A simpler regulatory regime on its own is not enough to magically create deep, liquid, effective, and competitive capital markets, but complexity is acting as a drag on activity, growth, competition, innovation, and ultimately European competitiveness through:

- **Raising barriers to entry and growth:** new firms with innovative ideas might launch or scale their businesses in jurisdictions outside of the EU with less complex and burdensome rules, or - after starting in one EU member state - might struggle to enter another member state with their business models because slightly different rules apply and cross-border activity is more complicated than it should be.
- **Reducing competition:** the complexity of framework and process means that 'smaller' firms (which may well be big firms in smaller member states) do not always have the resource and capacity to track ongoing legislative initiatives which puts them at a competitive disadvantage in relation to their bigger peers.
- **Stifling competitiveness and innovation:** a too complex web of rules creates an opportunity cost on market activity, growth, and participation when firms spend their limited resources on compliance and IT upgrades instead of product innovation and serving their clients and the real economy better. This contradicts the EU's stated aim to boost economic growth and increase its global competitiveness. The market outcomes that we outlined earlier in this paper cannot be specifically blamed on the EU regulatory framework, but the way it has been designed, implemented, and expanded has played a role.

At the same time, another financial crisis would be even more expensive. The key challenge is to reform the framework without putting core objectives such as capital, liquidity, resolution, and consumer protection at risk.

Recommendations to simplify the stock of existing EU financial regulation

The work done by the EU in the last decade or so has resulted in a hugely complex rulebook for the financial markets. Every stakeholder in this debate agrees in principle that simplification efforts by the EU should focus on the existing stock of financial regulation too. But this is much easier said than done, and when pressed for specific examples of how to do this, many experts in supervisory authorities and the industry became surprisingly shy. Realistically it may not be feasible to comprehensively simplify the stock of existing EU financial regulation - but here are three principles that EU policymakers could follow when trying to tackle this difficult challenge:

1) Establish a structured and thematic review process: quantitative targets ('we're cutting X% of data reporting requirements') can be a useful north star but on their own do not necessarily help in simplifying the existing rulebook and could make things worse by cutting the wrong sections and having a negative impact on the consistency and coherence of the framework as a whole. A thematic omnibus approach that establishes i) where there are duplications ii) where there are differences in definitions iii) where there are provisions that are no longer needed iv) how changes in one text interact with other texts (for example how changes of rules for funds would affect distribution legislation) v) how these changes would help deliver more positive market outcomes and increase the EU's competitiveness without affecting the core objectives of regulation could be much more useful in identifying areas for simplification. The use of artificial intelligence and large language models could support the more manual tasks, for example when it comes to identifying duplications, differences in definitions, and interconnections between rules.

2) Set clear objectives to avoid unintended consequences: every change of existing rules (even if it is something as 'simple' as an operational reporting template) has to be agreed by all relevant stakeholders in the process and implemented by market participants, ESAs, and NCAs leading to another round of extra negotiations, extra efforts, and extra costs. There is an additional risk that wanting to make a few small tweaks in texts here and there might lead to opening a can of worms and inviting stakeholders to using this opportunity to address all the other bits and pieces of a text that they do not like.

Any measure to simplify the existing rulebook should be tested against the level of savings it will generate (factoring in any new implementation costs), and whether and how it will help the EU make progress towards more growth and competitiveness. In some cases the results of this test may be that it would be better to leave rules as they are and accept the sunken costs. In others, the test could help identify which bits of a rule (and other, interconnected rules) are worth tweaking and ensure co-legislators and other stakeholders focus on what is necessary not what is interesting in the simplification process.

3) Identify a few 'big hitters': instead of trying to do everything at once it would be useful for the Commission initially to identify a few high impact areas that could show its simplification drive is on the right track (like it has done with the sustainability omnibus directive). These could be individual files that have turned out to be too complex, or areas that cut across files such as more integrated disclosure and reporting. A good starting point could be to review legislatives initiatives that are already underway but have not been implemented yet, and then apply learnings to the existing stock of regulation. (A radical but perhaps warranted step would be to hit snooze and pause all initiatives that are in train to assess what they are aiming to achieve and whether they actually make sense before continuing to work on them.)

At the same time, an example of how difficult this all is the Commission's DG FISMA pausing 122 level 2 measures that were coming down the pipeline. On the one hand this is exactly what market participants are asking for. But on the other, firms now are raising questions about whether this will make it more difficult for them to implement and comply with the level 1 measures that have already been agreed.

Recommendations to simplify the creation of future EU financial regulation

If you were to design the EU's rulemaking process for financial regulation from scratch today you probably would not start from where we are now. A simpler regulatory framework can strengthen understanding and compliance of rules by market participants and help make progress towards the sort of more positive market outcomes that the EU would like to see. The cumulative effects of small, sensible steps to tweak, adjust, streamline, and simplify the creation of future EU financial regulation could over time be significant. Here are 10 ideas and recommendations that can help policymakers and market participants in the EU simplify the creation of future rules:

1) Develop better problem statements at the 'level 0': upgraded inception impact assessments as proposed earlier in this report can help focus minds, create simpler and more effective rules, reduce overlaps and contradictions, and achieve better timing and sequencing. They would focus on what the problem is that any new piece of financial regulation is trying to solve, what sort of market outcomes a successful implementation would deliver, and why existing rules are insufficient to achieve these outcomes.

2) Strengthen strategic clarity and problem definition at level 1: if 'level 0' shows that a new rule makes sense and addresses a clear need, it should be much easier to define a specific market failure or risk in the level 1 text that a new piece of regulation will address. Clearer objectives would enable Commission to draft a clearer proposal, narrow down what it would like to achieve, better negotiate (and perhaps push back on) feedback and changes proposed by Council and Parliament, and give fewer but clearer mandates to ESAs on what to focus on at levels 2 and 3. This would require more discipline by Commission not to complicate things in advance by anticipating feedback from stakeholders and baking this into the initial proposal; more discipline from member states and Parliament not to add in pet political projects; more discipline not to delegate issues to levels 2 and 3 that really should be negotiated and agreed on at level 1; and more strategic KPIs and measures of success ('this new rule will have been successful when we see a market outcome of X' not 'this new rule will have been successful when it has gone through the legislative process').

3) Improve impact assessments and accountability across all levels: at the moment full impact assessments are only done on the initial level 1 proposal, not on the finished agreement after feedback from Council and Parliament has been included or after all level 2 and 3 measures have been added. A more comprehensive (and realistic - see ESAP) impact assessment on the final rules that includes an analysis of the estimated impact on market activity and competitiveness in the context of other legislations, texts, and reporting requirements would help sense-check whether problems and definitions that were outlined at level 1 can be met without excessive burden on industry and supervisors (or whether the benefits outweigh any burdens). Better impact assessments could also help increase the accountability of Council, Parliament, ESAs, and NCAs.

4) Limit over-prescription: clearer problem definition and objectives at level 1 could naturally help reduce the 'scope creep' at levels 2 and 3 that happens when in particular ESAs draft an excessive number of technical standards, guidelines, and Q&As by i) giving policymakers at the ESAs a better understanding of what a piece of regulation is trying to achieve ii) helping the Commission test level 2 technical standards against the objectives that a piece of legislation set out to achieve and push back where necessary iii) helping Council and Parliament object to an overly excessive level 2 technical standard adopted by the Commission.

5) Simplify and shorten technical standards: as part of this, every stakeholder involved at the level 2 should aim to go 'back to the roots' and focus on what level 2 really is supposed to do: provide short, unambiguous, technical standards that are drafted in plain and clear language for the benefit of market participants and supervisory purposes. (A more radical suggestion that was shared with us would be to drastically limit the volume of technical standards to no more than 10 or 20 pages at level 2 which would encourage the development of more outcomes-based regulation instead of excessively detailed rules.)

6) Apply proportionality and competitiveness checks consistently: the Commission already conducts a competitiveness and proportionality check whenever it is proposing new rules but Council, Parliament, ESAs, and NCAs only do this sporadically or do not do this at all. As a first step the checks that the Commission does should be conducted consistently by all stakeholders across all levels. A second step could be to sharpen and rework these checks into a full-fledged competitiveness mandate, perhaps modelled after the secondary growth and competitiveness objective that was introduced for the financial regulators in the UK and opened the door to a better conversation about the balance between regulation, risk, and growth while not interfering or conflicting with the regulators' primary objective of financial stability and market integrity.

7) Coordinate timing and implementation: clearer sequencing and timing of incoming rules and regulations would ease the implementation burden on market participants and, in an ideal world, better align with business cycles and IT upgrades. Level 1 provisions should not enter into force when level 2 technical standards are not ready yet (which has happened in the cases of EMIR 3 and SFDR), and ESAs should be able to issue 'no action' letters (meaning that they will not enforce level 1 rules) when it does happen. One very useful first step to better coordinate timing and implementation would be to establish an easily accessible 'super register' of all level 1, 2, and 3 texts that have been implemented, are still in train, or are planned to come down the pipeline in the coming months including a timeline of what stakeholders can expect by when (perhaps similar to the regulatory initiatives grid in the UK).

8) Promote cross-sector, cross-rule, and cross-border consistency: too much of the EU's rulemaking is happening in silos, resulting in fragmentation across files and sectors. As a first step the Commission could focus more on regulations than directives (the danger of frontloading the complicated work could be addressed by being much more specific on the objectives of each piece of regulation). Ultimately though, the Commission or another suited body should assume a much stronger 'air traffic control' function which would have a definitive overview of what is happening where and when and could advise on where rules overlap or conflict with each other. This would need to include a look beyond financial regulation and an understanding of how rules and regulations in other areas of the economy have an impact on the financial markets (think GDPR and anti-money laundering, or reporting of climate transition measures for non-financial corporations).

9) Enhance coordination and roles across institutions: better coordination between stakeholders should also focus on the implementation and operationalisation of rules. A 'report once' principle with a single point of contact for larger market participants would reduce the disclosure burden especially on firms with a cross border footprint. Shared definitions (for example what texts mean by 'board') could strengthen compliance. And an overall more harmonised framework could encourage and promote cross-border activity as NCAs could defer to other member states' frameworks and supervisors when supervising pan-European firms.

10) Embed simplification into regulatory culture and incentives: none of these changes will happen if people do not want them to happen. One of the most impactful changes that the EU could see would be a shift in its regulatory and supervisory culture away from trying to regulate every single detail (and then occasionally getting lost in the detail) towards an approach that is much more focused and nuanced and considers the bigger picture. This change in thinking and behaviour is already underway in some senior executive teams at some ESAs and NCAs but needs to filter down throughout each body. Just as every stakeholder is adding complexity into the EU's regulatory framework, every stakeholder needs to embody this new culture: the Commission by more often asking itself if a regulatory initiative really is making sense; Council and Parliament by being more assertive when assessing whether a regulation meets its stated objectives; market participants by having fewer but more specific lobbying asks that focus more on whether they make sense for the EU as a whole rather than on national carve-outs; and everyone by trusting each other more. Encouraging all policymakers and regulators above a particular level to work on secondment in the industry for perhaps a year (and vice versa!) could do wonders in helping everyone understand each other's views better…

A rebalancing act

Readers with a sharp eye will have noticed that this report is not recommending having a single markets supervisor and single supervision to address the complexity in the EU's framework. This is not an accident: we think such a reform today would consume a huge amount of political capital, paralyse the debate, and delay achievable progress in other areas. Instead, to really make progress within the system that the EU has today, everyone will need to play their part: EU institutions, regulators, and policymakers from the top down to improve harmonisation and convergence - and national governments, finance ministries, politicians, and regulatory bodies from the bottom up to align supervisory practices, streamline authorisations, and share best practice.

The good news is that there is a growing recognition by individual EU member states that they need to take more responsibility for developing capital markets in the EU and addressing the many problems that have built up in the framework over the past decade or so. Here is a short selection of questions for individual member states, finance ministries, and national regulators and supervisors to encourage debate about what measures they could take on their own or in partnership with their neighbours to create a simpler, more efficient rulebook in the EU:

1) No gold medals for gold-plating: do you have a (very) good reason for every single example of gold-plating in your jurisdiction? If you conducted an impact assessment on gold-plating in your jurisdiction, what would be the result? If you extended this impact assessment across all instances of gold-plating in all EU member states, what would be the result? Can you take precautions, for example in legal form, to discourage or even prevent gold-plating? Do we really need 27 different versions of the *single* rulebook?

2) Cross-border cooperation: how could pan-European regional cooperation in regulation and supervision with other EU member states help boost your economy? How can national authorities better share data to prevent duplicative reporting for pan-European firms? Do you have the right systems and structures in place to encourage and facilitate this sort of cooperation at a government, regulator, supervisor, and firm level? And yet… are there areas in which different approaches in different member states could encourage healthy competition between market participants and ultimately strengthen system and economy?

3) Operational effectiveness: where can you improve and streamline your own implementation of EU rules? How good is your national framework in its day-to-day interaction with market participants? How can you make your processes around supervision and authorisation more efficient? Do your teams in finance ministries, regulators, and supervisors have the tools and skills they need to accurately translate EU rules into local languages? How can you benchmark your operational effectiveness and compare your performance with other frameworks inside and outside of the EU?

4) A pan-European approach: how can you think less in terms of protecting your own national banking and finance industry and more in terms of how it could thrive in a strengthened European economy with bigger and better European capital markets? In which areas might it make sense to support a more European approach to tweaking rules and regulations? Where is it sensible to focus on local firms, activities, and consumer patterns? How can you encourage your national banking and finance industry to focus less on the national picture and more on the EU as a whole in their lobbying and advocacy work?

5) The bigger picture: how well regulated is your economy and your financial system? On what metrics? How does the structure, process, and complexity of your system compare to other countries inside and outside of the EU? What barriers, if any, do your regulatory system and implementation of EU rules present to growth and investment? Are there any specific measures (perhaps technology-based) that you could take within the existing EU framework to reduce the administrative burden of regulation and improve efficiency?

NEW FINANCIAL
Rethinking capital markets

Lead authors

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Our research on capital markets:
Here is a selection of some of our recent reports on European capital markets:

Five initial reflections on the EU's savings and investments union

Designing savings and investment accounts in the EU

A reality check on international listings

Searching for growth: the future of EU capital markets

Comparing the asset allocation of global pension systems

The future of pensions and retail investment in the EU

A renewed vision for EU capital markets

Our sample:

We analysed the size of banking, finance, and capital markets in the following 31 sectors of activity in all 27 EU member states, the US, and a basket of developed economies (UK, Australia, Canada, Japan, and Switzerland):

- **Pools of capital:** funded workplace pensions assets, insurance assets, household financial assets (excluding property), retail investment assets (excluding pensions, insurance, cash deposits, and unlisted equity), and cash deposits.
  - *Sources include: OECD, Eurostat, EIOPA, ECB, national statistics agencies*
- **Equity markets:** stock market value, all equity issuance (including initial public offerings, secondary equity issues, convertible bonds), IPOs, smaller company IPOs (<$100m), equity trading, number of listed companies.
  - *Sources include: Dealogic, bigXYT, World Federation of Exchanges, Federation of European Securities Exchanges, national exchanges*
- **Debt capital markets:** corporate bond market value, corporate bond issuance, high-yield bond issuance, value of outstanding securitisation, securitisation issuance, and leveraged loan issuance.
  - *Sources include: Dealogic, BIS, ECB, AFME, SIFMA, national central banks*
- **Banking:** value of bank assets by nationality, stock of bank lending to non-financial corporations, net flow of bank lending to non-financial corporations, and gross flow of bank lending to non-financial corporations (total, large companies, and small companies).
  - *Sources include: BIS, ECB, national central banks and finance ministries*
- **Private markets & venture capital:** private credit activity, private equity fundraising, private equity activity, venture capital activity, early-stage investment.
  - *Sources include: Dealogic, Preqin, Invest Europe, national trade associations*
- **Corporate activity:** all M&A by target nationality, domestic M&A, intra-EU M&A.
  - *Sources include: Dealogic*

Measuring depth:
In each sector and country we measured the value of activity as a percentage of GDP on a three-year rolling basis from 2012 to 2024 to iron out the annual volatility in capital markets.

Specific examples of complexity in EU financial regulation

We asked the more than 30 organisations that we engaged with as part of our work on this paper (ranging from market participants to regulators, supervisors, national governments, and EU institutions) to suggest specific examples of complexity in EU financial regulation. The following pages include a selection of the submissions that were shared with us. We have grouped the examples by three overarching themes: i) lack of clarity and objectives or too much prescriptive detail in legislation and regulation ii) inconsistency, overlap, duplication, or redundancy in aims, definitions, data, reporting requirements, and implementation iii) clashes in timelines and sequencing. Some of the examples reflect complexity in the existing rulebook, while others flag up misunderstandings by market participants, or proposals and initiatives that have not been implemented yet but created a degree of confusion with real-world consequences when internal teams started working to assess the likely impact of such initiatives should they materialise.

Please note that this list of examples is not intended to be definitive or exhaustive, and by including these examples in our paper we do not necessarily endorse them. We assume that for every single example you might find someone who will be able to defend it and identify very good reasons for why things are how they are - but overall we think this list will give readers a good feeling for the complexity that is inherent in EU financial regulation:

Lack of clarity and objectives or too much prescriptive detail in legislation and regulation

- **Unclear objectives (1):** market participants say the overall objective of the EU's Financial Data Access Regulation (FiDA) is unclear, with a lack of evidence of consumer group demand; a lack of use cases; and a lack of impact assessment across the various activities that are brought within scope of the proposal.

- **Unclear objectives (2):** the ESMA proposal to create an 'EU label' for basic and simple investment products, including 'basic UCITS funds', risks making UCITS much more complicated than they are today and could damage the global success of UCITS.

- **Over and above international best practice:** the current requirement for market participants to publicly disclose their short position in an EU stock if it exceeds 0.5% of the issued share capital discourages firms to engage in short selling in the EU. (For reference, the UK has legislated this year to only disclose aggregate net short positions by issuer.)

- **Over and above international standards:** regulators and market participants generally agree that central clearing counterparties (CCPs) should employ anti-procyclicality (APC) measures, but the EU has implemented very rigid prescriptive rules: the EU gives CCPs the option to choose one of only three pre defined APC tools, while international standard setters take a more outcomes-based approach.

- **Over and above the level 1 remit:** when ESMA issued guidance at the level 3 that it would set a quantitative 80% threshold of sustainable investments if funds wanted to qualify for an ESG label or use sustainability and ESG related terms in their names, it effectively set the law (as this quantitative threshold had not been specified in level 1 or 2 mandates).

- **Too many data points:** one market participant told us that the Digital Operational Resilience Act (DORA) will require them to transfer around 150,000 pieces of information into a reporting template. Not all of it is readily available. The information demanded per information and communication technology provider spans 94 data fields and has to be encoded in a specific way into numeric and alphanumeric codes.

Inconsistency, overlap, duplication, or redundancy in aims, definitions, data, reporting requirements, and implementation

- **Dual-sided transaction reporting:** MiFID II rules require that both sell-side and buy-side firms must report the same transaction data, duplicating processes and burdens. This approach is not adopted in other relevant jurisdictions such as the US, Singapore, or Hong Kong. The Financial Conduct Authority (FCA) in the UK currently has a similar approach but is actively reviewing this requirement as part of a consultation exercise that was launched earlier this year.

- **Reporting the same thing twice:** overlapping data requirements and reports under the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Regulation (MiFIR), and the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) create duplication and unnecessary efforts. Examples include identical data fields under article 9 of EMIR and article 8 of REMIT, or exchange-traded derivatives transaction reporting under both article 9 of EMIR and article 26 of MiFIR. Further complexity comes from redundant reporting under EMIR, MiFID II, MiFIR, REMIT, and the Markets Abuse Regulation (MAR), particularly for energy derivatives. For each reporting obligation, IT connections with numerous financial and non-financial supervisors such as the Agency for the Cooperation of Energy Regulators (ACER), ESMA, Commission, Trade Repositories, NCAs, and non-EU authorities are necessary.

- **Cross-border fragmentation (1):** the AMF and AFM proposal to rethink the supervision of cross-border activities through passporting, in particular in the area of retail investing, and their suggestion for a stronger role of the host state regulator could ultimately lead to further fragmentation in regulation and supervision across member states. (The average ongoing costs of cross-border UCITS equity funds are already higher than of funds offered in only one country despite their larger scale due to different national requirements for the distribution of cross-border funds.)

- **Cross-border fragmentation (2):** the requirement in MiFID II on market operators under article 53 is that member states shall require a regulated market to establish, implement, and maintain transparent and non discriminatory rules, based on objective criteria, governing access to, or membership of the regulated market. MiFID II does not mandate specific ex ante approval by the NCA. However, there are different approaches taken across EU member states, with some requiring ex ante approval while others do not.

- **Cross-border fragmentation (3):** diverging regulatory and technical standards for the issuance of a security lead to legal uncertainty and additional costs. Today, around 70% of international securities are based on UK executable law (!), even if the securities are traded, cleared, and settled on EU market infrastructure. This situation arises partially due to the divergent legal frameworks within the EU, as the lack of EU-wide harmonised standards for legal terms and conditions creates legal uncertainty.

- **Double standards (1):** DORA allows cross-border groups of financial institutions belonging to the same category (such as credit institutions) to simplify and consolidate reporting but does not allow this for market infrastructure providers belonging to the same group as there is no recognition of groups of trading venues in MiFID II, and consolidation of reporting requirements is not allowed by NCAs.

- **Double standards (2):** the Corporate Sustainability Reporting Directive (CSRD) introduces different obligations for listed and unlisted SMEs. Listed SMEs in regulated markets will be subject to mandatory ESG reporting which they must apply from 2026-2028. Unlisted SMEs will not be subject to this reporting. This creates an uneven playing field between companies with comparable footprints and company sizes but different sources of financing (public or private).

- **Unclear responsibilities:** one market participant told us that they will stay under the supervision of their NCA when it comes to anti-money laundering measures but that their NCA currently will not talk to them about the sixth Anti-Money Laundering Directive (AMLD6) because the AMLA is not ready yet.

- **Translation errors:** the initial Danish translation of annex 1 and 2 of the European Sustainability Reporting Standards (ESRS) as part of the EU's CSRD regulation adopted by the Commission included lots of errors, used different terms in Danish for the same English term, and was missing whole sections of the text in several cases (both half sentences and text missing from visual material). We were told that some of the translated sentences made no sense at all anymore whereas the English version did. Around 14,000 errors had to be corrected in the new version of the Danish translation. Translation errors were found in the French, Polish, Swedish, and Finnish versions of the ESRS too. (This is likely a problem not unique to financial regulation and therefore a horizontal question relevant to the whole EU regulatory framework.)

- **No translations:** level 3 texts are mostly published in English which creates challenges especially for smaller firms in smaller member states when 'soft law' becomes de facto regulation.

Clashes in timelines and sequencing

- **Level 1 implementation without level 2 clarification:** market participants were expected to implement certain EMIR 3 level 1 provisions (for example the operational and representativeness requirements for active accounts) before relevant level 2 regulatory technical standards were finalised. (Similar examples exist for MiFIR II, DORA, and SFDR.)

- **Last-minute surprises:** article 21c of the EU's sixth Capital Requirements Directive (CRD6) introduces a significant change by restricting the provision of core banking services (including cross-border lending) by third-country institutions into the EU. The change was inserted into the proposal by the Commission at the last minute and was not subject to consultation or included in any impact assessment.

- **A lucky coincidence:** the Central Securities Depository Regulation (CSDR - not to be confused with CSRD…) mandatory buy-in regime was originally due to take effect in February 2022. Market participants, Commission, and ESMA agreed that this implementation should be delayed partly because of industry preparedness and partly because of another upcoming review of CSDR which would make further changes to the regime. In order to change the implementation date in the level 1 text, the Commission had to persuade the co-legislators to add an amendment to the Distributed Ledger Technology (DLT) pilot regime proposal, which just happened to be going through the legislative process at the right time (although this still relied on the trilogues finishing as planned). The process created uncertainty for the industry, and it is unclear what the Commission would have done if there had not been a piece of legislation at that stage in the legislative process to use as a vehicle to make the change.

- **A lack of powers:** ESAs currently do not have the ability to suspend or delay the application of regulatory requirements unless in very specific circumstances through a request to Commission and NCAs. This creates uncertainty and, often, last-minute solutions to urgent issues (such as when the clearing exemption for equity options was only extended via an ESMA letter asking NCAs not to prioritise supervision on 22 December 2023 when the clearing obligation would have entered into force on 4 January 2024).

Danish Presidency
Council of the European Union

National structural reforms to strengthen productivity and competitiveness

8 September 2025

EU average productivity growth and competitiveness is lagging other economies, notably the United States. This trend is progressively putting a drag on real incomes and overall economic prosperity within the Union. At the same time, the international economic order is rapidly changing and is characterised by tensions related to security and trade, economic and financial imbalances, pressure on supply chains, and a technological race.

Strengthening European productivity growth is vital for securing long-term economic growth and fiscal sustainability, as well as preserving the global influence of the EU. It requires both national reform efforts and joint EU actions which can complement and amplify each other. There is significant work being done on the joint EU actions – e.g. on the Savings and Investment Union and deepening of the internal market. However, a decisive strengthening of productivity will require that member states implement ambitious national structural reforms.

Significant efforts are being made at the EU level to promote national reforms EU, including in the context of the European Semester, the Recovery and Resilience Facility and the fiscal framework's medium-term plans. Furthermore, in the context of the forthcoming Multiannual Financial Framework, the Commission proposal implies a stronger link between EU funding and the implementation of national reforms, including those identified under the Semester. However, although EU initiatives can support reforms, the responsibility for reform efforts ultimately rests with each Member State.

Importance of national structural reforms

Growth and wealth can fundamentally be increased by raising the contributions of labour and capital inputs in the economy or by improving the efficiency of their use — total factor productivity (TFP). While it – at least to some extent – is relatively straightforward to identify policy measures that increase the supply of labour (e.g. pension reforms), it is considerably more complex to design and implement reforms that demonstrably and sustainably improve productivity growth and levels. Rather a broad set of policy measures are likely needed.

National structural reforms can promote productivity by addressing institutional and regulatory inefficiencies that hinder the optimal allocation of resources and by improving conditions for businesses, innovation and development of human capital. Especially reforms that seek to enhance the flexibility and functioning of labour, product, and capital markets, have proven effectful in fostering a more competitive and dynamic economic environment that is more conducive to innovation.

Differences across EU countries in terms of the efficiency of resource allocation, productivity and economic growth indicates a significant potential to address structural weaknesses and close policy gaps vis-à-vis the frontier through national structural reforms. At the same time, it is evident that all member states have work to do. Structural reforms are a constant necessity for all countries, not a temporary challenge.

Pressing ahead with national structural reforms is thus crucial to strengthen productivity, resilience and potential growth. It is essential for a robust Economic and Monetary Union, and for strengthening the ability of member states and the EU as a whole to respond more effectively to economic and geopolitical shocks.

National structural reforms combined with sound economic policies are also prerequisites for creating fiscal room for necessary investments, including in defence and security, the green transition, and for handling rising expenditures linked to an aging European population.

As highlighted by IMF, several areas can be identified where national reforms could strengthen productivity and competitiveness in the EU Member States, thereby contributing to the resilience and prosperity of the Union as a whole.

Reform areas

- **Labour market and human capital reforms:** Greater labour market flexibility, when combined with active support policies, enhances efficiency by easing transitions of labour across firms and sectors. Investments in human capital that strengthen skills and mobility further improve the matching of labour to high-productivity activities. Expanding the participation of for instance women, the young and the older workers broadens the talent pool and underpins sustained innovation and growth.
- **Fiscal-structural reforms:** Fiscal-structural reforms can raise productivity by improving the efficiency of public spending, and by reducing distortions, for example through pension and tax reforms that create a more business-friendly tax environment and incentivises later labour market exit. Stronger fiscal frameworks also create space for growth-enhancing investment.
- **Business regulation reforms:** Streamlined business regulation can reduce entry barriers and enhance competition, allowing firms to scale and innovate more effectively. By simplifying regulation, reducing red tape, and improving governance frameworks, resources shift toward more productive businesses and industries.
- **Innovation and digitalisation reforms:** Policies that support digitalisation, research and development, intellectual property rights protection, technology diffusion, and collaboration between firms, universities, and public research help create the conditions for sustained innovation-driven productivity growth.
- **Credit and capital markets reforms:** Deepening credit and capital markets improves productivity by broadening firms' access to finance—especially for innovation and expansion—while promoting efficient capital allocation and risk sharing.

- **Governance reforms:** Good governance strengthens productivity by improving institutional quality, increasing policy certainty, reducing administrative burdens, and promoting regulatory transparency. Clear rules and accountability—such as transparent public-sector decision-making and streamlined administrative procedures—enable efficient public services, foster business confidence, and support investment.

Barriers to structural reform adoption and implementation
The implementation of structural reforms is often impeded by a range of political, institutional, and socio-economic barriers (e.g. political economy constraints, institutional rigidities, social opposition, distributional effects, miscommunication and macroeconomic conditions and external shocks). Such obstacles can undermine the design, adoption, and implementation of reform initiatives, particularly when the benefits are diffuse and long-term, while the costs are immediate and concentrated among specific interest groups. Addressing reform barriers requires careful policy design, broad stakeholder engagement, and mechanisms to ensure both short-term compensation and long-term credibility.

Issues for discussion
During this session, the **participants will be organized into six groups**.

All groups discuss the following general question:

- *What economic reforms are most important to strengthen productivity and competitiveness? Is one or a few specific reform areas important, or is a broad reform effort with reforms in many different areas needed to strengthen productivity? How do we overcome political obstacles to economic reforms?*

Each group will, in addition to the general question to all groups, **discuss one specific reform area** and its potential to strengthen productivity as well as how to overcome the barriers that may hinder reforms in that area.

Please refer to the note *Choreography for working session II* for details about the groups and group-specific questions.

National-Level Priorities to Lift Growth in the EU: Why, What, and How?

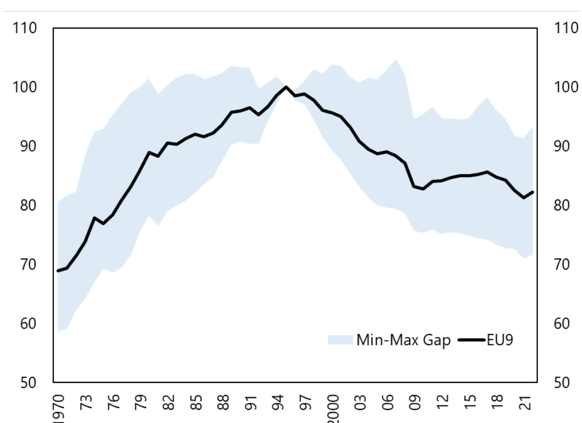
Most European Union (EU) countries have large per capita income and productivity shortfalls vis-à-vis the United States. A significant part of these shortfalls can be traced to large domestic structural policy gaps. There is scope for reducing these gaps without compromising member states' social and climate objectives. Closing half of these gaps could yield GDP gains of close to 6 percent for the EU in the medium term, often at limited or no fiscal costs. These gains significantly outweigh estimates of the losses for Europe from trade policy disputes. Key national reform priorities to lift medium-term output include (i) boosting labor reallocation and human capital, (ii) growth-friendly fiscal structural reforms, and (iii) streamlining business regulations. Quick progress requires early public engagement and effective communication, readiness to learning from others, and smart reform sequencing and bundling, including of domestic and EU-level reforms.

I. Europe's large per capita income gaps

Most EU countries have a large per capita income gap with the United States and best-performing European economies. While Europe outpaced U.S. labor productivity growth until the mid-1990s, it has since fallen behind (Figure 1.1). As of 2024, the per capita income gap with the U.S. is close to 30 percent for many advanced EU economies, with low productivity the predominant factor (Figure 1.2). Differences across EU countries themselves are large, with income per capita being close to the US level in Denmark and the Netherlands and exceeding it in Luxembourg and Ireland. Amid tepid productivity growth and rising demographic headwinds in most EU countries, the magnitude and persistence of these gaps point to the urgency of addressing structural barriers to higher growth and living standards.

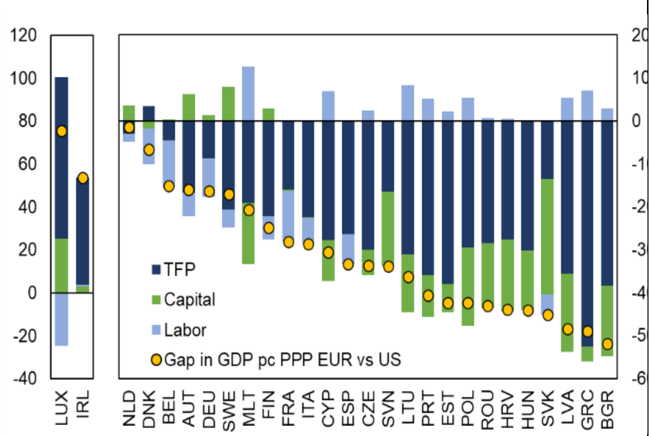
This note offers a blueprint for turning recognition into action. The next section documents EU members' structural policy gaps. Section III lays out the top-5 reform priorities by country based on IMF country teams' assessments and illustrates their significant potential to lift medium-term output. Section IV suggests specific reforms policymakers can implement by learning from the best performing EU countries in each area, and Section V discusses communication and other strategies that can help smooth and accelerate reform efforts. Finally, Section VI points out areas in which reforms at the EU level can complement national reform efforts and enhance their growth impact.

Figure 1.1. Labor Productivity indexed to the US
(GDP per hour worked in PPP terms relative to the US; 1995=100)



Sources: Long Term Productivity Database; ECB; and IMF staff calculations.
Note: GDP per hour worked (constant international dollars, PPP-adjusted), indexed to the U.S., and normalized to 1 for all EU9 countries in 1995. EU9: AUT, BEL, DEU, ESP, FIN, FRA, ITA, NLD, PRT.

Figure 1.2. Decomposition of GDP per Capita Difference with the US
(in PPP terms, 2024)

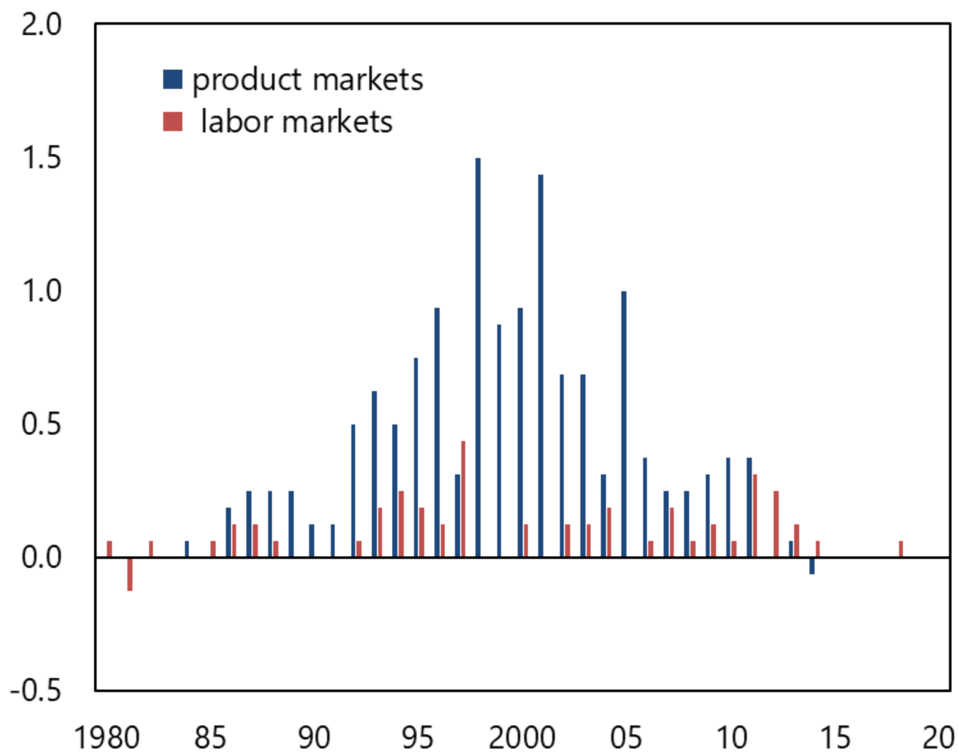


Sources: WEO; AMECO; and IMF staff calculations.

II. Europe's national-level structural policy gaps

Many European countries undertook major reforms in waves between the mid-1990s and mid-2010s. Extensive labor, capital, and product market reforms carried out across the EU helped narrow structural gaps with the US and between EU countries themselves (Figure 2). The impetus for reforms was spurred by economic stagnation (Ireland and Netherlands in the 1980s; Germany in the early 2000s), outright crises (Nordic countries in the early 1990s; Southern Europe in the early 2010s) and EU accession (Central and Eastern Europe). In a few countries, successful reforms in one area provided the economic and political momentum for reforms in other areas (e.g., the labor and product market reform waves in Denmark in the 1990s).

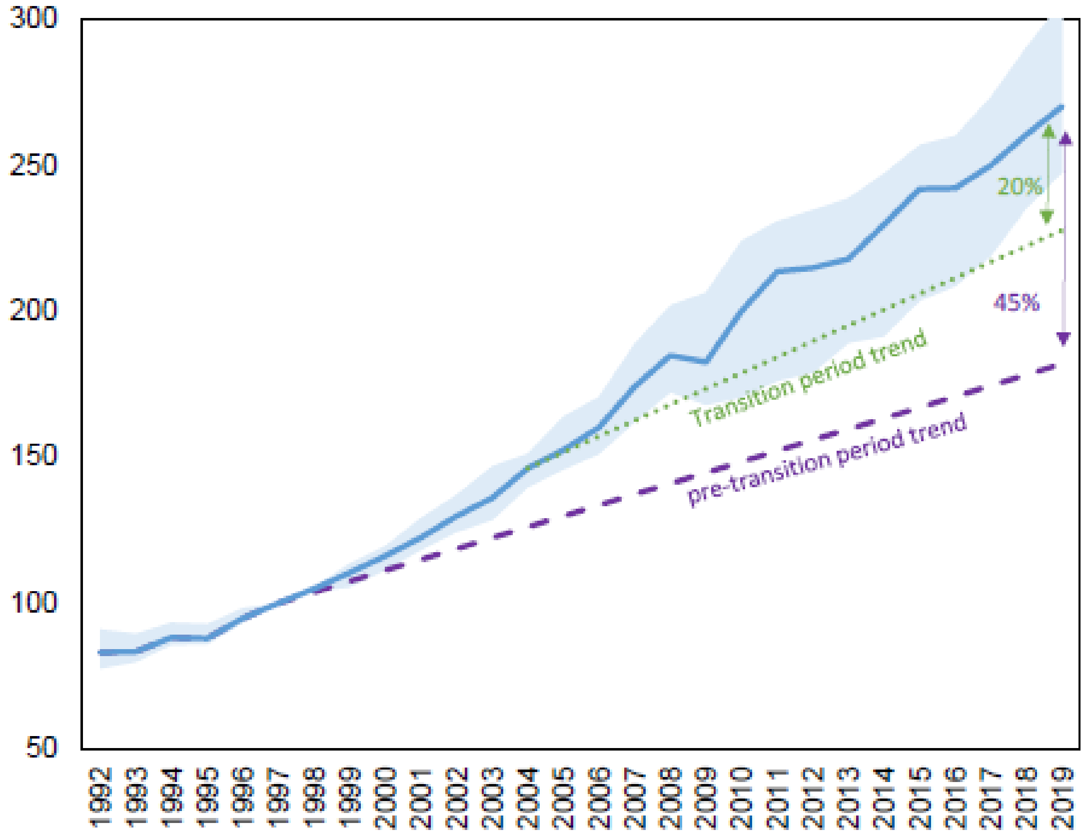
Figure 2. Number of Major Product and Labor Market Reforms
(number of reforms per country on average)



Sources: 2021 update of database in Duval and others (2018) and IMF staff calculations.
Note: EU includes Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovakia, Spain, and Sweden. Product market reforms cover network industries, while labor market reforms cover employment protection legislation and unemployment insurance.

There is compelling evidence that structural reforms have lifted GDP per capita and this prevented a larger gap with the US. In most advanced economies, past reform waves were followed by strong growth performance, with some key examples including Denmark, Ireland and the Netherlands during the 1990s as well as Germany during the 2000s. In Southern Europe (Greece, Portugal, Spain), the European debt crisis prompted reforms that are partly underpinning today's robust growth performance (Hatzidakis, 2025; Cuerpo, 2025). In former EU accession countries in Eastern Europe, reforms also brought sizeable growth dividends, especially in the Baltics and Romania, not only after but even during the transition period due to massive reforms implemented to join the EU (Figure 3; IMF, 2024a).

Figure 3. Average GDP per Capita of Regions in New Member States
(index, 1997=100)

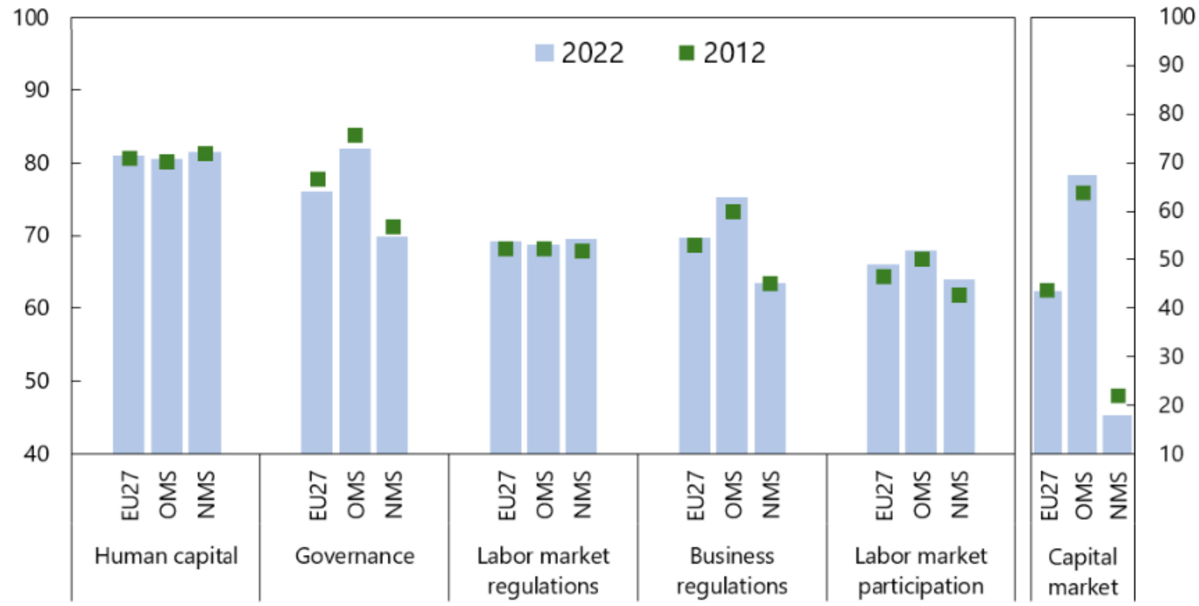


Sources: IMF (2024a).
Note: Transition period trend based on period between 1997 and 2004. Pre-transition trend from 1992 to 1997. The shaded area shows the interquartile range.

Reform momentum has faded considerably. While the Recovery and Resilience Facility (RRF) has partly rekindled efforts in recent years, progress with reducing structural reform gaps has been quite limited since the early 2010s (Figure 4).[1] For example, while both old and new Member States (MS) undertook reforms of their labor market regulations in 2000s and early 2010s to facilitate reallocation, only very modest changes have taken place since then (see also Schoefer, 2025). While there have been significant increases in female labor force participation, improvements in human capital have been slow, with only marginal advances in educational attainment and persistent skill mismatches. In product markets, following past deregulation of network industries and cuts in administrative burdens on existing and new businesses (e.g., through digitalization and streamlined start-up procedures), efforts in remaining areas for action have faded. Governance gaps remain equally entrenched, particularly among new MS.

[1] Policy gaps for each country are computed by comparing their performance on each structural policy indicator with the respective frontier, normalized to a 0-100 scale where 100 denotes the frontier and aggregated for each broad structural policy area. All the indicators used in this note are consistent with the IMF's Third-Party Indicators (TPI) Guidelines. The Worldwide Governance Index is a perception-based indicator. For further details and caveats see Budina and others (2025).

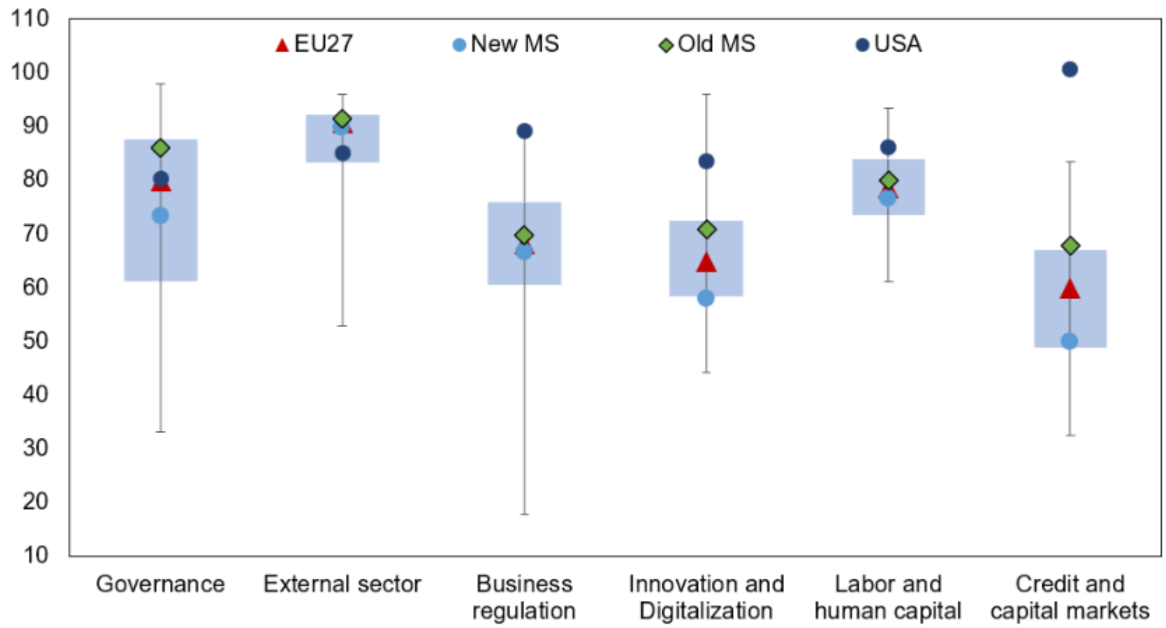
Figure 4. Distance to Frontier in Macrostructural Areas Over Time
(Percent, Relative to global frontier)



Sources: Fraser Institute; OECD; GTA; Eurostat, Berkeley; IMF, World Bank; and IMF staff calculations.
Note: The frontier is defined as the average of the top two of European countries and the US on each structural policy indicator. Frontier = 100; all other values are normalized to this reference. Regional numbers are simple average. OMS and NMS denote old and new member states, respectively.

This has left most EU countries with sizeable and persistent structural policy gaps, suggesting untapped growth potential. While Europe has leading examples of best practices across many structural policy areas, overall available indicators show significant structural policy gaps relative to the frontier, leaving scope for growth-enhancing reforms (Figure 5). Gaps are especially significant in labor market and human capital policies, business regulations, innovation and digitalization, and capital markets. The new MS countries face larger policy gaps in general, particularly in governance and in credit and capital markets.

Figure 5. Distance to Frontier in Macrostructural Areas, 2022
(Percent, Relative to global frontier)



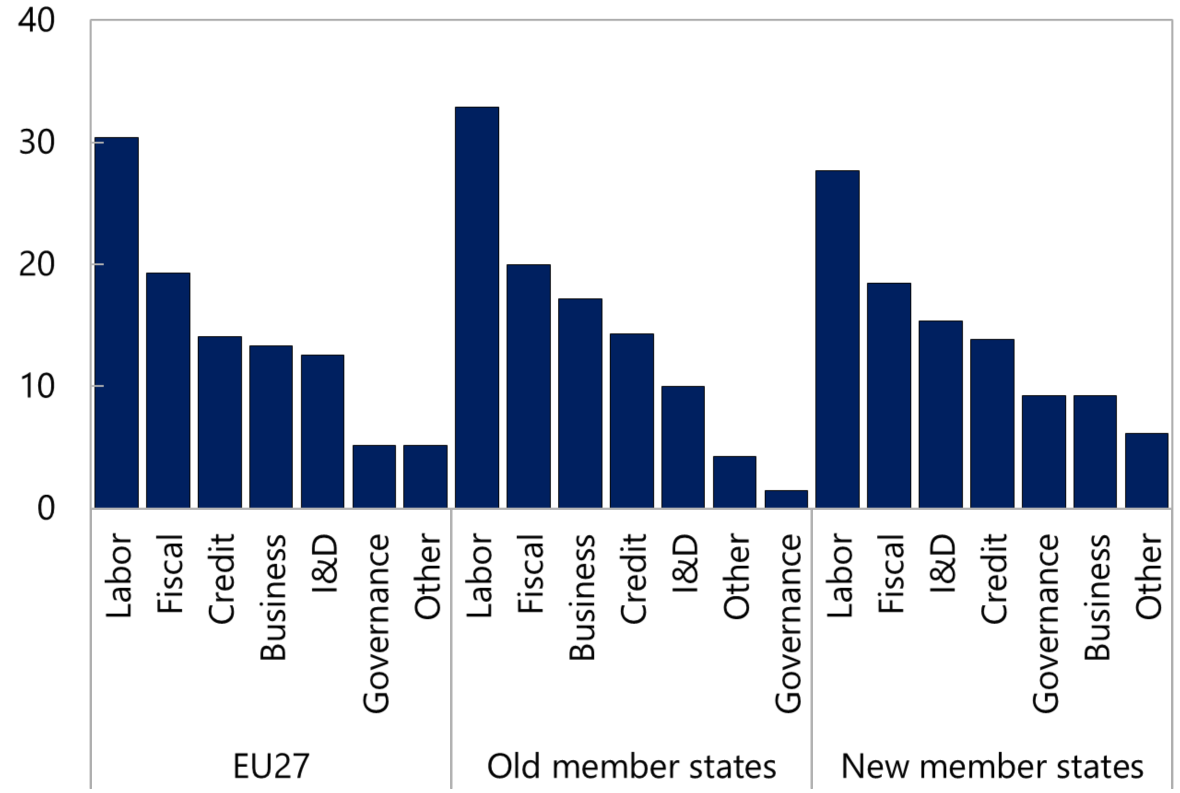
Sources: Fraser Institute; OECD; GTA; Eurostat, Berkeley; IMF, World Bank; and IMF staff calculations.
Note: Most indicators are 2022. The frontier is defined as the average of the two most growth-friendly settings within the group of European countries and the U.S. Frontier = 100; all other values are normalized to this reference. The whiskers represent the range between the minimum and maximum values of European countries, while the bars indicate the interquartile range, spanning from the 25th to the 75th quartile. Regional numbers are simple average.

III. Structural reform priorities to lift medium-term output

Closing half of the structural policy gaps of each country in the identified top priority areas could raise GDP by close to 6 percent in the EU over the medium term, with higher growth gains for countries farther away from the most growth-friendly regulatory settings. This is equivalent to closing around 20 percent of the per capita income gap with the US. Key reforms cut across multiple areas, including boosting labor reallocation and human capital, growth-friendly fiscal structural reforms, and streamlining business regulations.

National reform priorities in the EU cut across multiple areas. This section summarizes the IMF staff-identified top five country-level structural reform priorities for lifting medium-term output (Figure 6). These priorities are based on comprehensive IMF staff assessments, as crystallized in Article IV staff reports, based on available evidence—including the structural policy gaps identified above and available estimates of the potential gains from closing them (discussed further below). Looking across EU countries, priorities emphasize boosting labor and human capital, growth-friendly fiscal structural reforms, streamlining business regulations, enhancing innovation-policy design, and deepening domestic credit and capital markets. Old and new MSs share similar broad policy priority areas, but the nature of concrete reform needs within each area differs.

Figure 6. Top 5 Reform Priorities by Area and Ranking
(percent, share of the number of total reforms)



Source: IMF staff's assessment.
Note: I&D denotes Innovation and Digitalization

Labor market and human capital-building reforms top the list of staff-assessed priorities across the EU. All EU countries have at least one top-5 reform priority in this area, which together account for more than 30 percent of all identified priorities. Reform priorities in both old and new MS mainly focus on building human capital by improving education systems and expanding training programs (Figure 7 and 8).[2] This strong emphasis reflects a combination of the criticality of highly skilled labor for productivity growth, and their prospective role in supporting demographic, digital, energy and green transitions. Expanding labor supply—including boosting the labor force participation of women, foreigners and youth, and reducing the labor tax wedge to raise employment rates—is also considered critical to cope with increasing demographic headwinds. Finally, enhancing labor market flexibility is also seen as important in several old MS, building on progress achieved in this area in the past two decades.

Fiscal-structural reforms are the second high-priority area, with some heterogeneity across country groups. Fiscal-structural reforms are among top-5 reform priorities in ten old MS and six new MS, accounting for 19 percent of all reform priorities. Specific priorities differ across country groupings, however. In old MS, tax—including a rebalancing of the tax base from labor to consumption taxes, growth-friendly fiscal adjustment, and more efficient tax expenditures—and pension reforms account for a majority of reform needs, with a large share of social security and tax reforms ultimately aimed at enhancing labor market performance by reducing work disincentives or achieving a business-friendlier tax environment. In new MS, priorities cover not only a range of tax and pension reforms but also increasing

[2] See Appendix 2 for details of reform priorities.

infrastructure investments and its quality through strong public investment management (PIM) frameworks, and improving the governance of state-owned enterprises.

Other productivity-boosting reforms, including enhancing innovation and digitalization, deepening domestic credit and capital market, and streamlining business regulations also rank high. Each of these areas accounts for roughly 13 percent of growth-enhancing reform priorities. Business regulations are prioritized in 17 countries, predominantly in old MS, and focus on cutting red tape and promoting competition by reducing barriers to firm entry and exit. Innovation, R&D and digitalization reforms are prioritized in about half of EU countries. In old MS, the focus is mainly on innovation-enhancing reforms such as higher R&D direct funding and tax incentives for R&D and innovation, while priorities in new MS cover both innovation and private and public sector digitalization. Credit and capital market reforms are prioritized in 19 EU countries (10 old MS and 9 new MS), with a particular focus on financing for innovation (14 out of 19 reforms), including venture capital and start-ups finance.

Figure 7. European Union: Reform Priorities Across Broad Structural Areas

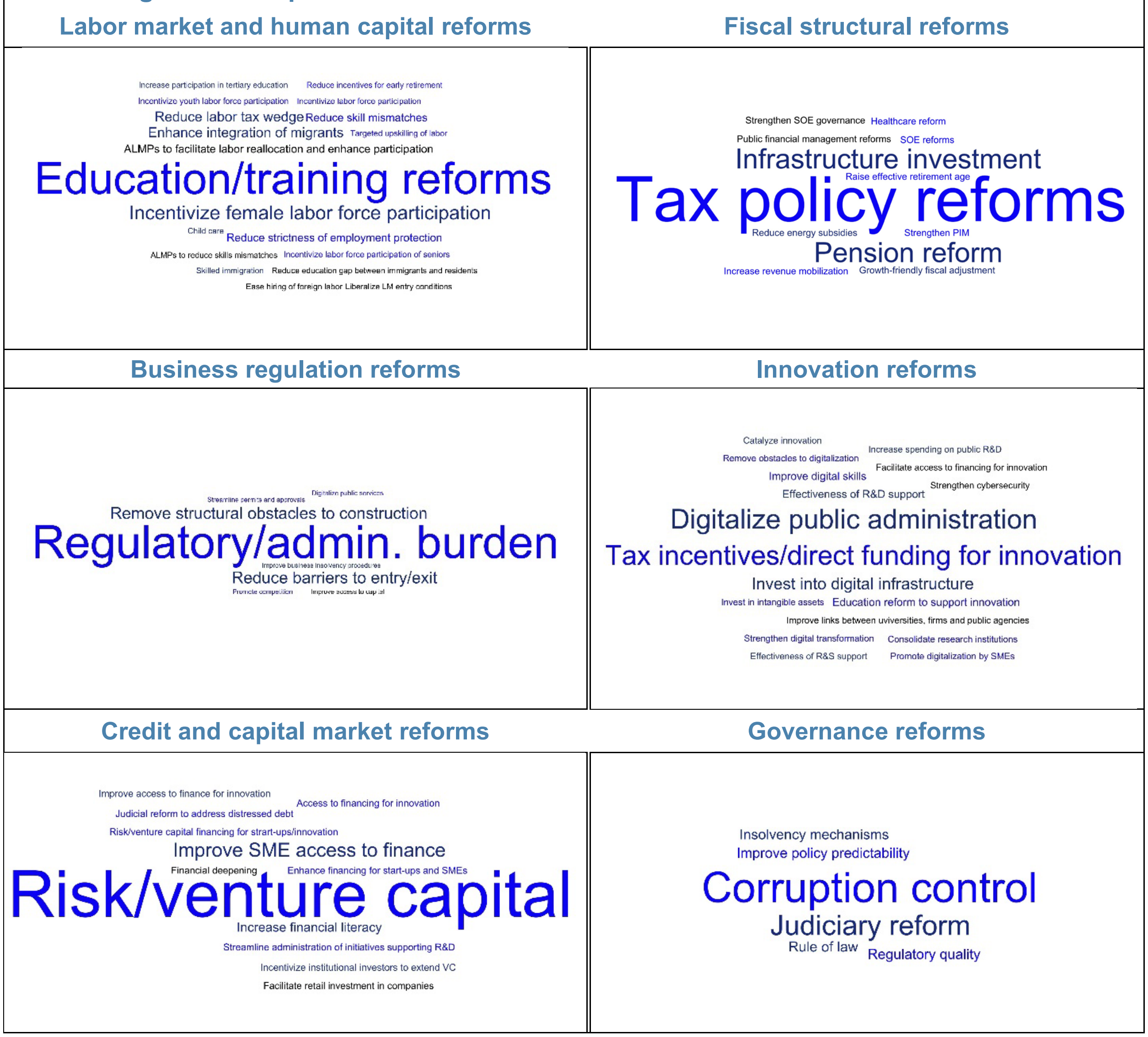
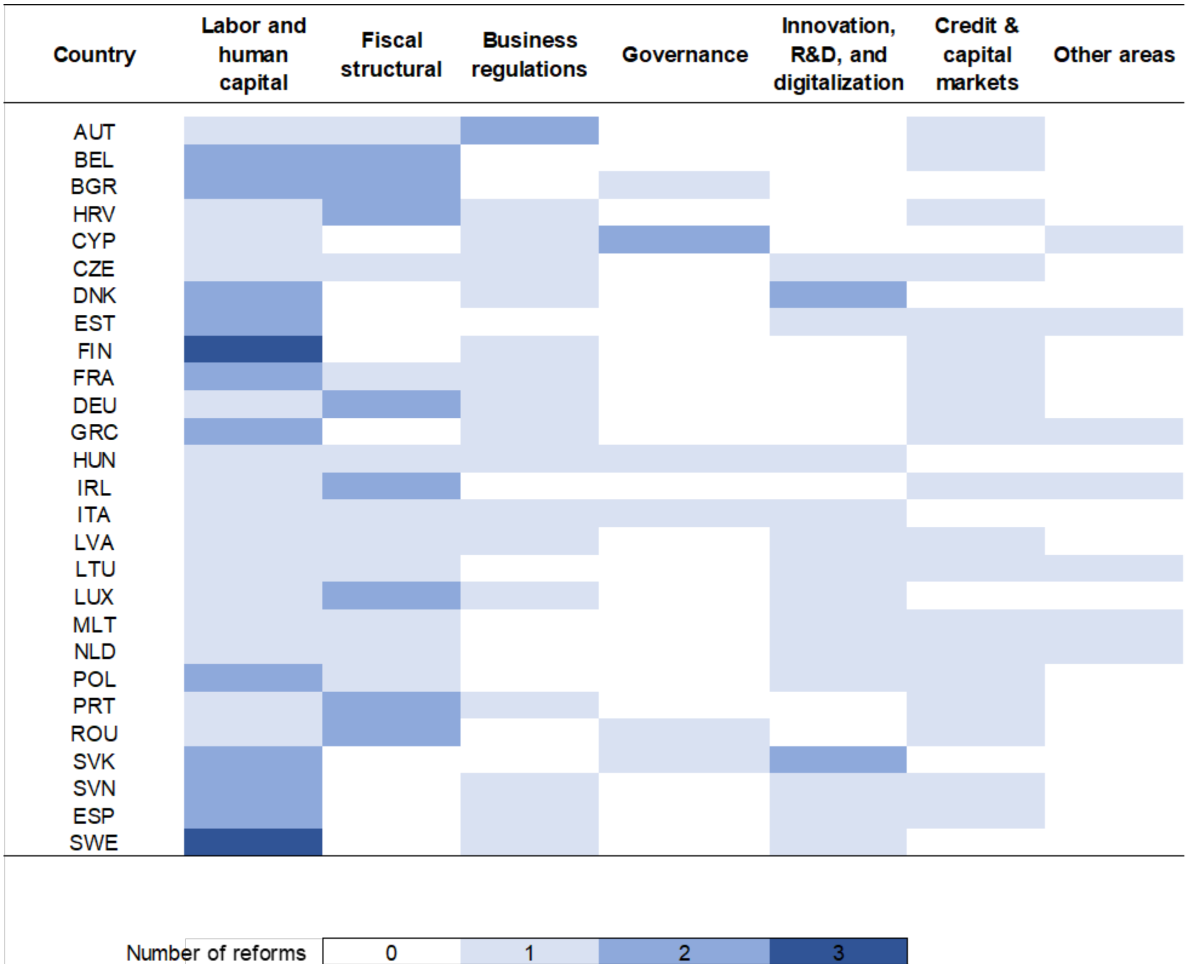


Figure 8. European Union: Number of Reform Priorities Across Broad Structural Areas



Source: IMF staff's assessment.

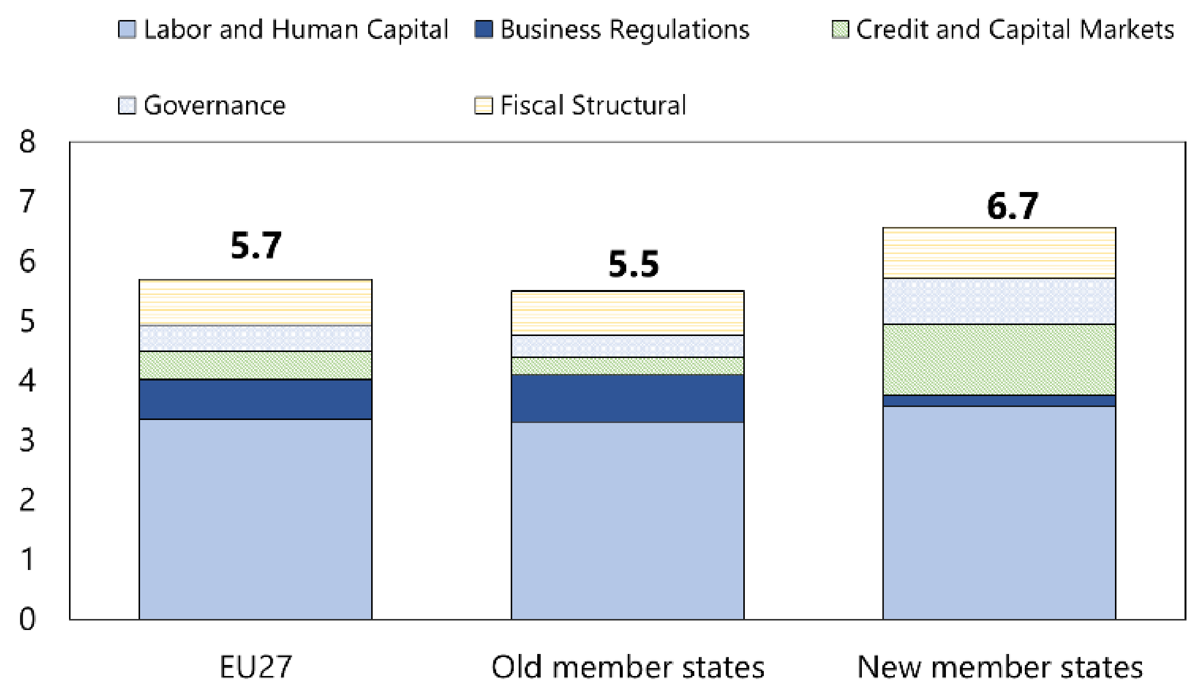
Enhancing governance is important for new MS, while some EU countries also have priorities in other areas, notably energy. About half of new MS have a priority on strengthening governance, tackling corruption, improving the judiciary system, and increasing policy predictability to reduce uncertainty on investment. Seven countries also have priorities in other areas, with a majority in energy such as scaling up grid networks and phasing out energy subsidies.

Potential gains from reforms are sizeable. Potential growth dividends from implementing the top-5 reform priorities in each EU country are large, even more so for lower-income-per-capita MS. Using a stylized quantification framework based mostly on existing IMF and OECD studies, IMF staff simulate an ambitious scenario in which countries close 50 percent of their prioritized policy gaps with respect to the most growth-friendly regulatory settings (the "policy frontier"). Bearing in mind potential sources of both underestimation and overestimation,[3] the analysis suggests that closing half of the gap to the frontier in the respective priority areas could yield significant gains of around 5.7 percent for potential output in medium term for the EU as a whole (Figure 9). This is equivalent to narrowing nearly 20 percent of the EU's income per capita gap with the US. Furthermore, growth gains from reforms would be higher for new MS, mainly due to their larger structural policy gaps. These potential gains from domestic policy levers

[3] See Budina and others (2025) for more details.

are orders of magnitude larger than estimates of the negative short-term impact for Europe from the recent rise in global trade fragmentation.[4]

Figure 9. Medium-term GDP Impact of Closing 50 Percent of Prioritized Policy Gaps
(Percent)



Sources: Duval and others (2018, 2019), Égert (2017), Égert and Gal (2017), OECD; Budina and others (2025).
Note: The estimated GDP impact of each reform in a region is the regional weighted average.

IV. Europe can learn from itself

The EU has many countries at or close to the structural policy frontier, providing an opportunity to share and emulate best practices. Based on the indicators in Budina and others (2025), Appendix 1 shows the EU countries that *on average across indicators* have the most growth-friendly policy settings in each structural policy area, and the entire list of EU members with IMF-assessed reform priorities in each area (Appendix 2 spells out the reform priorities by country).[5]

While even top performing EU countries have room to improve, they hold lessons for the entire membership. Table 1 below names the top three EU countries that have the most growth-friendly policy settings in each structural policy area according to the average of available quantitative indicators, and highlight crucial elements among one of these top EU performers in each broad policy area. While instructive, it is also important to keep some of the caveats in mind that qualify any such ranking. In particular, these indicators do not necessarily capture all relevant dimensions of policy settings (e.g., *de jure* vs *de facto* settings), the EU countries shown can in some areas be lagging the global policy frontier, and even top-performing countries generally have room for improvement.

[4] Rising trade restrictions and broader tensions are weighing on growth, but leaving aside other potential sources of fragmentation (such as in finance and technology), short-term losses so far appear small relative to the potential gains from structural reforms. Forecast growth rates for EU were revised down by 0.2 percentage points for both 2025 and 2026 in the April 2025 World Economic Outlook compared to the January 2025 forecast.

[5] In this exercise, labor market and human capital reforms are split into human capital (education, skill-building), labor market participation (including issues related to tax wedge) and labor market flexibility reforms.

Table 1. Frontier Countries and Reform Priorities Across EU Countries

Structural policy area	Top 3 EU performers	Example
Human capital	Estonia, Finland, Germany	Finland scores highly on the UNDP human capital index. In addition to high-quality formal education, Finland has built world-leading education systems by systematically aligning vocational training and lifelong learning to evolving labor market demand. Its upper-secondary vocational education and training is popular and widely open to both youth and adults. Lifelong learning is pervasive: about two-thirds of Finnish adults engage annually in formal or non-formal training (OECD, 2020). In 2020 Finland launched a "Continuous Learning Reform" with multiple measures to help working-age adults reskill for evolving job demands (Eurydice, 2024).
Labor force participation	Estonia, Netherlands, Sweden	Sweden boasts one of the highest labor force participation rates in the EU, particularly among women and older individuals. This strong performance is underpinned by substantial investment in publicly provided and subsidized services to support working families, such as childcare, preschool, and eldercare (Kleven, 2014). Notably, Sweden's publicly funded parental leave and heavily subsidized daycare—the "earner-care" model—encourages both men and women share earnings and caregiving responsibilities (Mogstad and others., 2025). Other tax and labor market policies also promote labor force participation, such as individual taxation, earned income tax credits, a pension system that incentivizes delayed retirement (Gottfries, 2018; Forslund, 2019) and lifelong learning and upskilling programs.
Labor market flexibility	Denmark, Ireland, Luxembourg	The Danish labor market model, known as "flexicurity," combines flexibility for employers and security for employees. It has three core elements: (i) employers can hire and fire flexibly, with minimal legal barriers and low costs for dismissals; (ii) employees receive generous unemployment insurance upon job loss, and (iii) the government provides extensive active labor market programs for the unemployed, such as job-search assistance, work practice, and retraining, tied to benefit eligibility. This model has proven effective in fostering an agile labor market responsive to changing labor demand, while maintaining income security.
Credit and capital markets	France, Italy, Sweden	Sweden's equity markets are among the most developed and growth-oriented in the EU, underpinned by decades of reforms. Key drivers of this success include pension reforms, notably the introduction of individual investment accounts —which allow citizens to directly allocate a portion of their pension savings into private funds—has supported a steady flow of long-term capital into the markets. tax simplification, and the introduction of accessible savings vehicles—such as the tax-advantaged Investment Savings Accounts (ISK)—which, along with digital investment platforms, have broadened retail investor participation and entrenched long-term saving habits among households (CEPS, 2025; Arampatzi and others, 2025; Kaskarelis and others, 2025).
Business regulation	Estonia, Finland, Ireland	Ireland has, among EU members, the highest composite average of six business indicators comprising regulatory burden, bureaucracy costs, administrative burdens, impartial public administration, distortion of business environment and barriers to entry in service and network sectors. Ireland's 2004 landmark "Regulating Better" framework established core business regulation principles (necessity, proportionality, consistency, effectiveness, transparency, and accountability) and emphasized that regulatory intervention should occur only when clearly justified (Department of the Taoiseach, 2004). The introduction of Regulatory Impact Analysis (RIA) also marked a significant step forward as it required a systematic assessment of costs and benefits of all proposed regulations (OECD, 2010).

Innovation and digitalization	Austria, France, Netherlands	The Netherlands fosters a strong environment for technological innovation and digital transformation and ranks among Europe's top performers in internet access and digitalization (IMF, 2024d). Strong collaboration between stakeholders create a cooperative environment where the private sector typically leads in developing technologies, with municipalities acting as key promoters and supporters (OECD, 2025a). For example, Brainport-Eindhoven, known for its renowned deep tech ecosystem, and the region's collaborative framework (among local government, educational institutions, and industries as equal partners) is essential for maintaining its leading status (IMF, 2025c).
Fiscal structural	Denmark, Netherlands, Sweden	Denmark adheres stringently to a national budget law that limits structural deficits, sets multi-year spending ceilings, and restricts borrowing at the local government levels. A key strength of Denmark's fiscal structure lies in its forward-looking planning and a pension system in which retirement ages adjust in line with life expectancy. Denmark's Economic Council (i.e., fiscal council) is also widely respected for its credibility and effectiveness in delivering impartial advice that reinforces fiscal discipline and policy coherence.
Governance	Denmark, Finland, Luxembourg	Finland is recognized for its well-established institutions supporting strong governance. The rule of law is supported by an independent judiciary, a perceived absence of corruption, and widespread access to justice (European Commission, 2025). Transparency is supported by a commitment to digital public services for businesses and citizens (European Commission, 2024) and Finland's public administration is viewed as merit-based and efficient. Regulatory quality is high, ranking eighth globally in the World Bank's Regulatory Quality Index – with a commitment to and track record of evidence-based policymaking, strong frameworks for regulatory impact assessments, and stakeholder engagement (OECD, 2025b).

The EU offers excellent examples of countries near the policy frontier with settings others can aspire to, but these examples do not necessarily convey how the outcomes were achieved. The following section focuses on successful reform examples—key to helping others replicate their success.

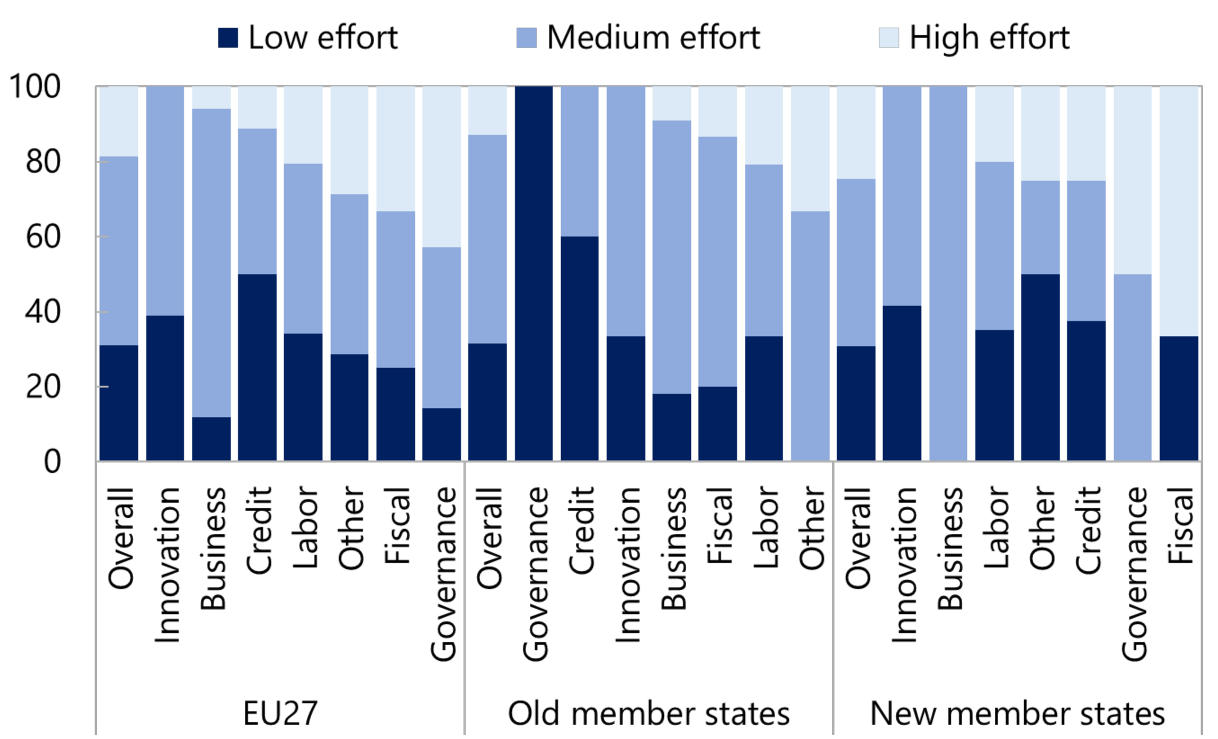
V. How to make reforms happen again

Reforms are harder to implement outside of crisis periods, which were a key trigger in the past including most recently during the euro area crisis. Overcoming deeply-entrenched obstacles to the implementation of identified priorities will require significant political leadership and carefully designed strategies. Effective leadership should leverage a few key elements that can significantly help smooth the path to reform. These elements include early communication to stress the need for reform and correct any misperceptions, strong institutional setups that feed public debates through impartial analysis, carefully crafting the sequencing and bundling of reforms to maximize economic benefits and minimize political resistance, leveraging fiscal policy, and emulating successful regional peers.

Communication, institutional setups, and consensus building

Successful reform experiences highlight the critical role of strong institutional setups and effective communication. Communication and institutional setups that foster trust and dialogue among stakeholders from the early stages of policy design raise awareness of the need for reform and correct misinformation and misperceptions about policies (IMF 2024b, 2025a). These efforts ultimately build consensus in successful reform cases.

Figure 10. Political Effort Required to Implement Identified Reform Priorities
(share of total number of reforms in each area)



Source: IMF staff's assessment.

- **Having well-defined reform objectives and communicating them clearly**—along with spelling out the consequences of inaction—is key for success (Tompson and others, 2010). For example, the reform of disability insurance in the Netherlands (2002–06) communicated reform objectives through public reports that underscored both the unsustainable cost of non-reform and targets. Poland's 1999 pension reform is another illustration, as policymakers systematically presented demographic and financial projections highlighting the severe fiscal consequences of inaction, while conducting an extensive public awareness campaign through media and local outreach, thus building broad consensus. Strategic framing of reforms, e.g., presenting retirement-age reforms to sustain benefit levels, can also help (IMF, 2025a).

- **Platforms for two-way social dialogue** among stakeholders also facilitate reform acceptance and adoption. Strong social partnership arrangements, including active roles for unions and employers, significantly helped with adoption and implementation of the Hartz reforms in Germany (Tompson and others, 2010), labor market reforms in the Netherlands (Banerjee and others, 2017), and labor and product market reforms in other EU countries during the 1990s and early 2000s (Adhikari and others, 2018). In Denmark, continuous dialogue and tripartite negotiations involving workers, employers, and the government have been a long-standing practice in the labor market area, which helped build and refine the country's successful "flexicurity" system (IMF, 2024b). Two-way dialogue can be deployed through various means (IMF, 2024b), including large-scale surveys, scenario planning, participatory budgeting, and laboratories to evaluate policies through focus groups and pilots (such as the Avalua·lab in Valencia), and open town hall meetings (such as the Grand débat national organized in response to the Yellow Vest movement in France, IMF, 2024c).
- **Independent institutions**, such as the Netherlands Bureau for Economic Policy Analysis (CPB) , also played a role in supporting structural reforms—underscoring the importance of trust in both the message and the messenger (IMF, 2024c). These institutions provided impartial economic analyses, contributing to informed policy debates and enhancing the transparency and credibility of reform proposals. By delivering objective *ex-ante* evaluations of policy impacts, they fostered an evidence-based approach to policymaking that facilitated consensus-building among diverse stakeholders, thereby reducing political resistance (Tompson and others, 2010).

Bundling, sequencing, and timing

Careful reform bundling, sequencing, and timing will facilitate implementation and maximize impact.

- Across the EU, **combining different reforms into packages** that deliver net gains for a broader range of stakeholders can aid implementation. To illustrate, the Hartz reforms in Germany (2003–2005) did not just cut unemployment benefits—they also restructured the Federal Employment Agency and introduced active labor market policies (job-search assistance, training, hiring subsidies, and wage subsidies) that helped the unemployed find jobs (IMF, 2025a). These complementary measures helped offset the immediate hardship of benefit cuts with tangible opportunities for the unemployed, which mitigated opposition to reform. Exploiting the economic and political synergies between product and labor market reforms also contributed to the success of major reform packages in AEs in the 1990s, such as those in Ireland and the Netherlands (Adhikari and others, 2018).
- The **sequencing** of reforms also matters, both economically and politically. On the economic front, governance reforms that build capacity, strengthen public trust and level the playing field between incumbent and younger firms create an enabling environment and amplify the gains from further reforms in other areas, such as cutting barriers to entry in product markets (IMF, 2019). For example, improvements in governance since the 1990s have been important in increasing the impact from other reforms in Estonia and Latvia. By amplifying the gains from other reforms, key enabling measures such as strengthening governance also enhance public support for reform, and thereby the chances that efforts be sustained over time rather than eventually be stalled or even rolled back. By contrast, pursuing major pension and labor market reforms jointly could backfire politically as their combination imposes significant burden on workers, making them hard to sustain; if possible, such reforms should be sequenced rather than combined (Tompson and others, 2010).
- In terms of **timing**, while crises create political impetus for reforms, reforms' acceptability and sustainability may be higher if implemented during periods of strong macroeconomic conditions—as with Germany's increase in the retirement age. When implemented in good times, reforms

such as easing employment protection legislation for regular workers also yield larger employment and output gains, improving public support for them (Duval and others, 2020).

The role of national and EU fiscal policies

Various rationales support a reform-facilitating role for fiscal policies, both at the national and EU levels. Many structural reforms do not carry direct fiscal costs, but they can create resistance by creating winners and losers across different sectors and income segments. Fiscal policy can then support reform implementation by compensating losers and providing broader financial support to households and firms.[6] Fiscal policy support can also amplify the gains from certain reforms, such as easing employment protection legislation for regular workers, thereby also facilitating their adoption (Duval and Furceri, 2018).

- **National fiscal policies can help overcome implementation challenges**. Fiscal support works best when it is temporary, targeted, and tied to credible reform packages, with safeguards against permanent fiscal drift—especially in countries with limited fiscal space to respond to future shocks. In those well-defined cases, fiscal policy can help buy out economic rents, compensate losers more broadly, and bring forward the output gains from reforms (e.g., job protection deregulation) that could otherwise entail short-term losses. In this vein, labor market reforms implemented in Finland, Germany, Ireland, and the Netherlands in the 1990s and 2000s were supported by fiscal "sweeteners" to gain acceptance (Technical Appendix 2 in Banerji and others, 2017). Examples include cuts in personal income tax rates, with a special focus on reducing the tax burden for low-income households (all cases) and introducing progressively higher income tax thresholds to benefit the poor (Finland, Germany, Ireland). Some countries used expanded ALMPs to help low-skilled workers, the young and the long-term unemployed find jobs (Finland, Germany, the Netherlands). Compensating the affected parties was equally instrumental to get buy-in for product market reforms. In Ireland, pension debts were written off and employees were granted share options to facilitate privatization of state-owned enterprises, and taxi drivers were provided with tax relief (writing off the value of their licenses against taxes after liberalization) as entry barriers were removed.
- **The new EU economic governance framework can provide fiscal room to implement high-quality reforms.** The reformed Stability and Growth Pact encourages growth-enhancing reforms while promoting sustainable public finances by allowing an extension of adjustment periods from 4 to 7 years for countries committing to structural reforms and investments. When conditional on the adoption of credible, growth-enhancing structural reforms that entail a transitory fiscal cost, this flexibility can help provide the necessary fiscal space and facilitate reform adoption.
- **The EU's Multiannual Financial Framework (MFF) can also play a key role in supporting reforms that generate EU-wide benefits through cross-border spillovers**.[7] Reforms in one member state can boost growth in others–a positive cross-border externality that reforming countries may not internalize. This makes MFF performance-based support for multiple coordinated national reforms socially optimal, and such an approach can build on the experience with the Recovery and Resilience Facility (RFF). Examples where the RFF prompted significant reforms included labor market and education reforms (dual vocational training and social assistance in Spain, "GOL" program for guaranteed employability of workers in Italy, vocational education and training reform in Greece) as well as justice system reforms (in Italy over 2021-23), among others.

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[6] The discussion in this subsection covers only the normative case for the use of discretionary fiscal policy as a complement to structural reform. From a positive (descriptive) point of view, the prioritized structural reforms for each country are meant to be, in principle, budget neutral. In practice, some of the identified reforms may still entail fiscal costs (e.g., education reforms) and second-order fiscal multiplier effects (arising from differences in multipliers between the tax and spending items involved in a budget-neutral fiscal reform package, for example).

[7] See Busse and others (2025) for a further discussion on EU's Multiannual Financial Framework.

VI. A coordinated push with complementary EU-level reforms

A coordinated push on both national and EU-level fronts is critical to exploit reforms synergies and maximize the growth impact of both agendas.[8] In most areas, there exist complementarities between national and EU-level efforts, either because failure to implement reform at one (domestic or EU) level can blunt the impact of reforms pursued at the other level, or because the positive impact of both sets of reforms is magnified when they pursued jointly.[9] EU-level reforms (e.g., advancing the capital markets union) can magnify the benefits from certain domestic efforts (e.g., to deepen firms' access to venture capital). Conversely, domestic reforms (e.g., cutting barriers to entry in services) can amplify—or even unlock in the first place—gains from EU-level reforms (e.g., cutting cross-country barriers to trade in goods and services). For example, getting rid of "gold plating", in which national governments add extra requirements when transposing EU directives under concerns of protecting domestic firms, is crucial for single market integration. Similarly, domestic reforms to reduce within-country barriers to labor mobility (e.g., unifying domestic pension systems, or reducing domestic barriers to entry—licenses, specific qualification requirements—in professional services) will strengthen EU-level efforts to improve EU-wide labor mobility (e.g., through pension portability or mutual recognition of qualifications).

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[8] See Arnold and others, 2025, for a discussion of the macroeconomic impact of key EU-level reforms.

[9] For example, Cresciolli (2024) finds that the effectiveness of European directives in reducing firm-level market power increased with the extent of preceding domestic pro-competition reforms.

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Appendix 1. Frontier Countries and Reform Priorities Across EU Countries

	Labor and human capital			Credit and capital markets	Business regulation	Innovation	Fiscal structural	Governance
	Human capital	Labor force participation	EPL					
EU countries at the frontier or closest to the frontier 								
Top 1								
Top 2								
Top 3								
EU countries with a reform priority in a given area								
Old member states								
		AUT		AUT	AUT		AUT	
	BEL		BEL	BEL			BEL	
		DEU		DEU	DEU		DEU	
	DNK	DNK			DNK	DNK		
	ESP		ESP	ESP	ESP	ESP		
	FIN	FIN		FIN	FIN			
	FRA	FRA		FRA	FRA		FRA	
	GRC	GRC		GRC	GRC			
	IRL			IRL			IRL	
	ITA				ITA	ITA	ITA	ITA
		LUX			LUX	LUX	LUX	
	NLD			NLD		NLD	NLD	
			PRT	PRT	PRT		PRT	
	SWE	SWE			SWE	SWE		
New member states								
	BGR	BGR					BGR	BGR
	CYP				CYP			CYP
	CZE			CZE	CZE	CZE	CZE	
	EST	EST		EST		EST		
		HRV			HRV	HRV	HRV	
		HUN			HUN	HUN	HUN	HUN
	LTU			LTU		LTU	LTU	
	LVA			LVA	LVA	LVA	LVA	
	MLT			MLT		MLT	MLT	
	POL	POL		POL		POL	POL	
		ROU		ROU			ROU	ROU
	SVK	SVK				SVK		SVK
		SVN	SVN	SVN	SVN	SVN		

Source: OECD, IMF, Budina and others (2025).

Appendix 2. National Reform Priorities by EU Member[10]

List of Top 5 Reform Priorities for EU27 Identified by IMF Teams – Old Member States

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Austria	Expand the labor force by facilitating full-time employment for women including by improving access to childcare.	Pursue growth-friendly fiscal adjustment.	Ease barriers to entry in the service sector. Ease permitting process for new energy projects.		Develop risk capital financing to support innovation.		
Belgium	Labor market reforms to incentivize workforce entry, reduce hiring costs, and upskill workers. Education reforms to achieve equitable educational outcomes, reduce costs, and better align curricula with labor market needs.	Tax reforms, aim at shifting part of the tax burden from labor to capital, to support employment. Pension reform to address the fiscal cost of aging.			Develop risk- capital financing within an EU-wide saving and investment union to support innovation.		
Germany	Expand the labor force, by facilitating full-time employment for women including by improving access to childcare.	Increase public infrastructure investment. Reduce distortionary tax effects.	Reduce regulatory burden and bureaucracy costs by accelerating permitting and licensing procedures and reducing duplicative reporting requirements.		Develop risk capital financing to support innovation.		

[10] As of September 2025.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Denmark	Align the foreign worker recruitment schemes, [especially the salary requirement limit and the positive list], with labor market needs. Enhance vocational training and training.		Reduce regulatory burden and bureaucracy costs.	Accelerate the adoption of AI in the public sector. Continue to strengthen policy frameworks to support scale-ups.			
Spain	Reduce skill mismatches. Streamline dismissal procedures for regular contracts.		Reduce regulatory burden and bureaucracy costs, including inter-regional trade barriers and regulatory heterogeneity.	University reform to foster innovation and R&D.	Facilitate access to financing for innovation.		
Finland	Reduce labor tax wedge. Increase tertiary education participation. Reduce youth unemployment by streamlining the benefit system and removing disincentives to work.		Reduce barriers to entry in network and service sectors.		Improve access to risk capital for startups.		
France	Pension and unemployment benefits reforms. Education and training reforms to promote job quality and facilitate the green and digital transitions.	Increase spending efficiency, including rationalizing state aid and R&D tax expenditures.	Ease entry barriers and reduce regulatory burden.		Enhance access to capital and its efficient allocation, including by advancing the EU Savings and Investment Union.		

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Greece	Expand the labor force through higher participation rate. Reduce skill mismatches.		Reduce regulatory burden and bureaucracy costs.		Advancing judicial system reforms to address crisis legacy distressed private debt.		Scaling up grid network and storage.
Ireland	Reduce labor shortages and skill mismatches by facilitating upskilling and reskilling, and increasing internal and international labor mobility, including through improving housing affordability.	Improve infrastructure. Tax reform to rebalance the tax mix.			Develop the domestic capital market to improve access to finance of domestic firms.		Increase housing supply.
Italy	Improve educational outcomes and increase the number of STEM graduates.	Tax reform to close revenue administration loopholes and increase compliance to support lower tax rates.	Promote competition.	Modernize and digitalize public administration.		Raise efficiency of the judiciary system.	
Luxembourg	Support labor market participation and reallocation across sectors and reduce skill mismatches.	Pension reform to address the fiscal cost of aging. Tax reform to enhance the distributional role of fiscal policy.	Reduce regulatory burden and bureaucracy costs, and facilitate entry and exits of companies from the market.	Reform to foster innovation and R&D such as strengthening intangible assets investment and digital infrastructure.			

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Netherlands	Labor and human capital reforms to improve educational outcomes and vocational training, reduce labor market duality, encourage part-time workers to work longer hours, and better integrate migrants.	Growth-enhancing tax reforms; (i) capital taxation reform, and (ii) further streamlining inefficient and ineffective tax expenditures.		Increase productivity-enhancing investment by (i) advancing digitalization, particularly in SMEs, (ii) encouraging R&D, and (iii) fostering investments with large spillovers.	Better support firm growth from start-ups to scale-ups and beyond by facilitating access to financing for innovation.		Address critical growth bottlenecks by developing a legally robust strategy to reduce nitrogen depositions and accelerating plans to address electricity grid congestion.
Portugal	Ease employment protection legislation for permanent job contracts.	Reducing tax expenditure and simplifying the tax system. Reducing progressivity of the corporate income tax to promote corporate growth.	Reduce regulatory burden and bureaucracy costs.		Facilitate access to financing for innovation.		
Sweden	Reduce skill mismatches. Reduce labor tax wedge. Education reforms.		Reduce business regulation.	Review R&D tax incentive and direct government funding.			

List of Top 5 Reform Priorities for EU27 Identified by IMF Teams – New Member States

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Bulgaria	Implement reforms to improve education outcomes including digital skills. Boost labor market policies to stem the decline in labor force.	Reform tax system to raise more domestic revenue. Scale up quality public investment in physical and digital infrastructure.				Strengthen the governance framework and mitigate corruption risks.	
Cyprus	Education oriented towards e-skills and more STEM graduates to resolve skill mismatches.		Adopt policies to reduce administrative burden on businesses, digitalize government systems and streamline business regulation.			Judiciary system reform to simplify court procedures, upgrade courts infrastructure, and increase digitalization and staffing. Strengthen out-of-court debt restructuring and insolvency mechanisms.	Integrate electricity network with the rest of the EU, increase share of LNG and renewable energy sources and make the energy market more competitive.
Czech Republic	More targeted active labor market policies to facilitate labor reallocation towards higher value-added sectors and firms, as well as to upskill and reskill labor.	Pension and healthcare reforms.	Reduce administrative and red tape, especially among local municipalities, and expediting spatial planning and construction permit processes.	Harmonize IT systems in public administration, upgrading online e-gov services to businesses, and expanding digital infrastructures.	Develop venture capital investment and equity financing.		
Estonia	More active labor market policies to support labor reallocation. Facilitate the integration of foreign labor.			Increase government support to innovation, R&D, and digitalization in the private sector, through both tax incentives and direct public funding.	Facilitate access to financing for innovation.		Speed up the green transition.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Croatia	Foster higher labor participation and reduce skill mismatches.	SOE reforms. Improve public investment management.	Reducing regulatory barriers to facilitate firm entry and exit.		Facilitate access to financing for innovation.		
Hungary	Labor market reforms, including ease occupational licensing rigidities and promote labor mobility.	Remove distortionary energy subsidies as well as personal and corporate income tax exemptions and improve spending efficiency.	Reduce regulatory burdens to promote competition and firm-level productivity.	Adopt policies and improve existing state R&D measures to expand access to risk-based capital for young, innovative firms and accelerate innovation diffusion.		Reforms to strengthen governance.	
Lithuania	Education reform to address skill mismatches.	Implement revenue mobilization measures to restore long term debt sustainability.		Consolidating research institutions, simplifying access to public R&I support and incentivizing business R&I investment.	Develop the domestic capital market to improve access to finance of domestic firms.		Rationalize the health care system and improve services provision.
Latvia	Utilize targeted active labor market policies to boost skilled labor and alleviate labor market shortages.	Adopt reforms to improve pension adequacy.	Reduce business regulation.	Accelerate digital transformation and increase R&D investment.	Expand venture capital and equity financing.		
Malta	Strengthen educational outcomes, especially by better aligning curricula with business needs.	Phase out energy subsidies (fuel and electricity.)		Review tax incentives for innovation.	Enhance financing for start-ups and innovative SMEs.		Promote sustainable and high-quality tourism.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Poland	Strengthen vocational training and skill-matching. Provide adequate child and elderly care to support female labor participation.	Equalize the retirement age for men and women and then adjusting it over time in line with life expectancy.		Invest in digitalization and ICT infrastructure.	Deepen the capital market via further development of third pillar pension funds and increased household access to low cost, diversified investment products.		
Romania	Increase female labor participation.	Further improve transportation infrastructure to unlock the entire country for FDI. Strengthen the governance of SOEs (e.g. SOEs' board members selection and SOEs' accountability.)			Unlock effective access to finance for SMEs.	Improve the predictability of fiscal policy, to limit the serious adverse impact of policy uncertainty on investment.	
Slovakia	Increase the size and quality of the labor force, including by expanding vocational education, shortening the maximum parental leave, increasing options for flexible work, limiting options for early retirement, and further integrating migrants. Strengthen active labor market policies.			Reforms to foster innovation and R&D. Promote digitalization in both public and private sector.		Maintaining a favorable investment climate, strengthening governance, and reducing vulnerability to corruption	
Slovenia	Reduce the labor tax wedge in the context of a comprehensive tax reform. Ease of hiring foreign labor.		Reduce regulatory burden and bureaucracy costs.	Promote digitalization in both public and private sector.	Improve availability of venture capital and promote financial deepening.		

Danish Presidency
Council of the European Union

Geopolitics and the global economy at a Crossroads: Scenarios and options for economic policymakers in Europe and likeminded countries

9 September 2025

The purpose of this session *is for Ministers to discuss how the EU and likeminded partners should act in the short to medium term in order to strengthen economic resilience and strategic autonomy, while, building on strategic partnerships, shifting the long-term developments of the global economy and geopolitical realities in a favourable direction.*

The setting: a changing international order

In the postwar international order multilateral economic cooperation based on common rules has been a key foundation for stability and greater prosperity in Europe and much of the world. However, **important changes to the geopolitical and geoeconomic foundations of this landscape are afoot.**

Crises and shocks in the last five years have had profound negative effects: the Covid pandemic with its destructive economic effects and supply chain disruptions; Russia's illegal full-scale invasion of Ukraine that also brought an energy and inflation crisis in its wake; and more recently a trade shock emanating from the US introduction of "reciprocal" tariffs that is perniciously affecting growth and inflation prospects across the globe.

Underlying these short-term ructions, tectonic geopolitical and economic shifts seem to be accelerating. Russia's war in Ukraine has seriously intensified geopolitical tensions and put the question of European defence readiness at the centre of attention. The increasing economic and political power of China, and the way it is being used, has important spillover risks for Europe and likeminded partners. Rapid advances in technology, digitalisation and AI have potential while also bringing a variety of challenges. And a pivotal break towards American unilateralism under the current US administration is forcing Europe and other long-term US partners to reconsider their handling of alliances and strategic partnerships.

Recent developments have interacted to **amplify economic and security risks of asymmetrical dependencies in strategically important areas such as defence, technology, finance, energy and raw materials.** It is in this context that Europe and most western liberal democracies have had to reconsider what was the predominant strategy during the postwar era of increasing globalisation: the notion that mutual interdependence would be a driver of stability, prosperity and security. Addressing those dependencies is key to mitigate vulnerabilities, lower the risk of coercion, improve resilience and thus to enhance our strategic autonomy.

Three geopolitical scenarios for the coming decade

In their paper for this session, Bruegel has outlined three scenarios for geopolitical developments in the coming decade, with a common denominator being the contention that the world order will become increasingly multipolar, but with the US and China as the two major powers. However, Europe's political clout and economic outlook would be significantly different under each scenario. At the same time, Bruegel highlights that European efforts and choices can shape the form and likelihood of those scenarios emerging.

- Scenario 1 is a "worst-case scenario" where the international system is characterized by instability, loose opportunistic alliances, minimum international corporation and no provision of public goods except for control of nuclear proliferation.
- Scenario 2 is a "middle scenario" where a three-block world materializes: one US-led block, one China-led block, and a third block of non-aligned set of powers. Under this scenario, different degrees of international cooperation and provision of public goods persist depending on the different blocks' willingness to stay interdependent and their ability to manage resulting risks, as well as whether and to what degree the US will continue to provide global public goods. As such, Bruegel specifies two variants of this second scenario. First, a decoupling variant with intense US-China geopolitical rivalry and little cooperation between the two superpowers resembling a state of cold war. Second, a "de-risking" variant with less intense rivalry between the US and China, where some interdependencies between the two remain, though managed by economic security policy, and international cooperation persists to a larger degree than in the decoupling variant, including in reformed versions of the Bretton Woods institutions.
- Scenario 3 is a "best-case scenario" where multilateral cooperation and provision of global public goods are regenerated in all areas with potential negative externalities, including climate change, trade and finance.

The avenues for action for Europe and likeminded partners. What to do?

The probability of each of the three scenarios unfolding is endogenous to the actions of Europe as the continent has the real and potential leverage and economic weight to push developments in a favorable direction. Whether Europe will be able to act with strategic autonomy depends on its ability to strengthen its economic resilience, its leverage and its capacity to deploy its bargaining power in reforming or constructing international governance arrangements that promote European and global welfare.

Growth-inducing reforms, through a deepening of the EU single market and productivity-enhancing domestic structural reforms, are necessary but not sufficient to move decisively towards greater strategic autonomy. Bruegel highlights that such reforms will need to be complemented by European efforts to increase its resilience and address strategic vulnerabilities in a number of EU-internal policy areas (including defence, tech and AI, critical minerals, energy, financial autonomy and so on) as well as international policy areas (notably trade and climate policies).

A powerful coalition of partners working towards strengthening multilateral economic cooperation

Strong partnerships and alliances with likeminded countries can act as an important force multiplier for enhanced EU strategic autonomy and leverage. Combining Europe's economic clout with that of likeminded partners, a coalition of supporters of multilateral rules-based cooperation, could have a significant potential to affect the likelihood of the different scenarios unfolding as well as the developments within each of the different scenarios. In short, building effective coalitions with partners is essential for moving the EU from "scenario-taker" to "scenario-maker".

The simple exercise of aggregating the economic and trade size of a potential "coalition of the willing for multilateral cooperation", including non-EU countries participating in this ECOFIN discussion, should spur optimism. According to economic weight, the EU together with the UK, Canada, Norway and Ukraine constitute almost a quarter of global output and international trade. Obviously, the economic heft of a coalition of the willing naturally becomes larger the more economies that are willing to join. Adding the rest of the OECD countries makes such a coalition the largest economic block in the world in terms of output and trade.

Figure 1 **Share of global GDP, 2025**[1]

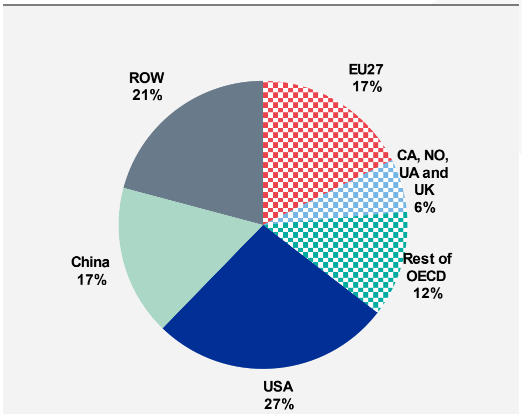
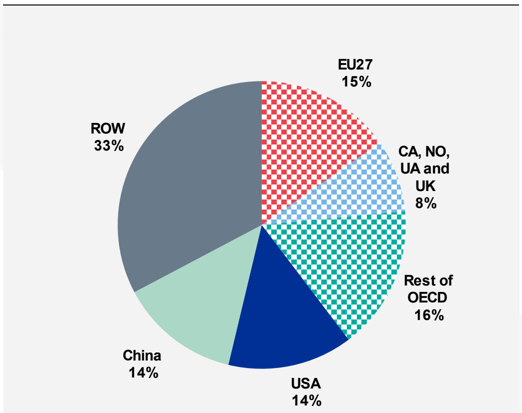


Figure 2 **Share of global trade, 2024**[2]



Notes [1]Measured at market exchange rates in USD. As shown by Bruegel, if measured in PPP adjusted GDP, the EU's and USA's share of global GDP is very similar, at 14 and 15 pct. respectively
[2]Total exports and imports of goods and services measured in USD. Data for the EU27 is excluding intra-EU trade.
Sources: The International Monetary Fund, Eurostat and own calculations.

Questions for discussion:

- *How do Ministers assess the geopolitical scenarios presented by Bruegel and the potential role and leverage of the EU in the different scenarios?*
- *In order to strengthen the European economy, resilience and strategic autonomy in a changing global landscape, how do Ministers assess the relative importance of policy areas outlined in Bruegel's note under the various scenarios?*
- *Which of the policies on the EU-internal agenda and the international agenda – as defined by Bruegel – do Ministers deem most important for increasing the likelihood of a favourable scenario, and what role can international cooperation and coalition-building play?*

Geopolitical shifts and their economic impacts on Europe: Short-term risks, medium-term scenarios and policy choices

André Sapir, Jacob Funk Kirkegaard, and Jeromin Zettelmeyer[1]

September 8, 2025

Executive Summary

Over the last decade, Europe has suffered from the decay of the post-war international order, economic coercion from both China and the United States, and aggression from Russia. This contribution puts these changes into a historical context, examines their short-term consequences, develops scenarios for 2030-2035 and uses these to draw out the policy implications for the next one to five years.

The short-term output impact of tariff and policy uncertainty since the beginning of the second Trump Presidency is expected to be moderate. However, Europe faces very high risks. Plausible short-term dangers include: a collapse of the US bond market; escalation of Russian military aggression against Ukraine or the European Union directly; a fiscal crisis triggered by a populist election victory in a high-debt euro-area member; or a trade shock triggered by increasing tensions between the US and China and/or hostile Chinese actions in East Asia.

We develop three benchmark scenarios for the world in 2035, all of which involve continued US-China rivalry and greater multipolarity than in the past:

1. A further retreat from, or dismantling of, international cooperation, with continuing protectionism in the US and minimal global public goods.
2. A three-bloc world involving China- and US-led blocs alongside a non-aligned set of countries, with the provision of international public goods within, and partially between blocs.
3. A new multilateral order, with international cooperation over the provision of global public goods.

Actual outcomes could consist of combinations of these scenarios or variants of them. Scenario 1 would be least desirable for the EU, most countries individually and countries collectively, while scenario 3 would be most desirable. In scenario 2,

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[1] The authors are Senior Fellows and the Director of Bruegel, respectively. Sapir is also affiliated with Université Libre de Bruxelles and CEPR, Kirkegaard with the Peterson Institute for International Economics, and Zettelmeyer with CEPR. This paper was written for the September 2025 informal council of European finance ministers and central bank governors in Copenhagen. We thank Marie-Sophie Lappe for outstanding research assistance and Georg Zachmann for drafting the subsection on energy systems. Helpful comments and suggestions by Christopher Axel Abrahamsen, Jesper Berg, Rasmus Degn, Ignacio Garcia Bercero, Stephen Gardner, Hans Geeroms, Heather Grabbe, Ivo Maes, Lucio Pench, Jean Pisani-Ferry, Lucrezia Reichlin, Nicolas Véron, Guntram Wolff and seminar participants at Bruegel are gratefully acknowledged. Any remaining errors are ours only.

Europe's decision to align with the US or to choose non-alignment would depend on whether the US acts in a benevolent or coercive manner.

Short-to medium term policy must both prepare Europe for adverse future scenarios and contribute to greater international stability and cooperation. This requires policies that increase Europe's strategic autonomy from the two superpowers, both for its protection and to increase its bargaining power. The policy focus should include much greater defence, tech and financial autonomy from the US, a far more resilient and integrated energy system, secure access to critical minerals and a fiscal framework that gives greater flexibility to low-risk countries. Internationally, Europe should defend and promote the reform of the rules-based international order by forming coalitions with other countries from the Global North and some from the Global South. The two priority areas should be trade policy and climate policy.

1. Introduction

Geopolitical tension and uncertainty are staples of history, even in a period of relative international order and prosperity, as Europe and most of the world have enjoyed since the end of the Second World War. But the rise in tensions over the last decade, and particularly since Russia's invasion of Ukraine in 2022 and the return of President Trump to the White House, seems different from anything that European and other advanced democracies have experienced since the late 1940s. Unlike previous geopolitical episodes, the international order itself is now being challenged. And unlike the 1971 collapse of the Bretton Woods system, which was also a major challenge to the existing order, today's shift is not a reaction to the economic unsustainability of the previous regime. Rather, it is the manifestation of deeper trends, including the rise of China, the failure of democratic transition in Russia and increasing polarisation in many Western democracies. It is polarisation that has led to a drastic political and policy change in the United States, with profound consequences for the postwar system.

We argue both that the world is at the beginning of a new era that will challenge the foundations of European prosperity, and that the future is wide open and Europe may be able to shape it. We develop three scenarios to give a sense of both threats and opportunities. In terms of threats, policies that enhance European strategic autonomy must be emphasised to a much greater degree than in the past. But Europe must not just create more autonomy for itself – it should also put it to the best possible use for the global rules-based order.

The remainder of the paper is divided into three parts. Section 2 recalls the main phases in the evolution of the international economic order since 1945, describes the current geopolitical state of affairs and summarises the short-term economic effects on Europe of recent US policy shifts. Section 3 presents three geopolitical scenarios that will confront Europe in 2030-2035. Section 4 describes Europe's policy choices in relation to these scenarios. The paper ends with some conclusions.

2. The geopolitical state of affairs and its economic effects on Europe

2.1 The evolution of the multilateral system, 1945-2008

The postwar economic order, with the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade (GATT) as the three central institutions, was created between 1944 and 1947 by the winners of the Second World War to foster postwar economic cooperation and to prevent a return to the economic nationalism of the 1930s. But what was intended as a new global economic order did not become truly global until the collapse of the Soviet Union in 1990.

2.1.1 The Cold War period

During the Cold War, running from 1947 to 1989, the world was divided into two spheres, east and west, which were political rivals with minimal economic relations between them. Countries in both spheres belonged to the global political institutions created after the Second World War under the leadership of the US, the United Nations and its specialised agencies. But only those in the western sphere – and two countries that later founded the non-aligned movement, India and Yugoslavia – joined the new economic institutions[2]. Most developing countries, which were previously colonies of western countries, became and remained non-aligned after independence, maintaining a degree of political distance from the two spheres, while gradually joining the GATT, IMF and World Bank.

During this period, the world was bipolar, with two superpowers: the US as 'leader of the free world' and the Soviet Union as the main country in the communist camp, though increasingly in competition with China. The western camp lived in a 'liberal international order' in which crucial international public goods in trade, finance and defence were provided by the United States acting as its 'benevolent hegemon'.

Multilateralism mostly prevailed within the western sphere, but not when it clashed with US interest, as with the 'Nixon shock' in August 1971, when the US president ended the Bretton Woods system of fixed but adjustable exchange rates by taking the dollar off the gold standard, and introduced a 10 percent tariff surcharge on all dutiable imports[3]. The import surcharge was meant to put pressure on the main US partners to revalue their currencies against the dollar, which they did under the December 1971 Smithsonian Agreement of December 1971, in the hope of preserving the Bretton Woods system. This hope was dashed in 1973, after the US further devalued the dollar, forcing major currencies to float against the greenback and each other.

Another instance of US unilateralism during this period was Section 301 of the 1974 US Trade Act, which allows the US administration to unilaterally (i.e. without recourse to the GATT dispute settlement procedure) address 'unfair foreign practices' through

[2] Poland and Czechoslovakia joined the IMF and World Bank in 1945, prior to their absorption into the Soviet bloc, but withdrew in 1950 and 1954, respectively.
[3] See Office of the Historian, 'Nixon and the End of the Bretton Woods System, 1971–1973', https://history.state.gov/milestones/1969-1976/nixon-shock.

investigations, negotiations and, if necessary, the imposition of tariffs or other trade restrictions. Section 301 is the only US statute that permits the US administration to adopt unilateral trade sanctions on economic grounds. Two other statutes – Section 232 of the 1962 Trade Expansion Act and the International Emergency Economic Powers Act (IEEPA) of 1977 – also permit the US administration to unilaterally impose trade sanctions on certain countries, but on national security grounds.

2.1.2 The rise and fall of hyperglobalisation, 1990-2008

With the 1989 collapse of the Berlin Wall and the end of the Soviet Union in 1991, liberal democracy appeared to have *"triumphed as the final form of human government"* (Fukuyama, 1992). In geopolitical terms, this meant that all countries could now join the liberal international order.

In 1992, Russia joined the IMF and the World Bank. The next year, it applied to join the GATT but had to wait until 2012 to become member of its successor, the World Trade Organisation (WTO), created in 1995. The People's Republic of China had already joined the IMF and the World Bank in 1980, and the WTO in 2001.

With China and Russia taking major steps to liberalise their economies, it looked as if Fukuyama's *"end of history"* (Fukuyama, 1992) was approaching, not only in an ideological sense but also geopolitically. Economic liberalisation in the former eastern sphere, in India and other large developing countries, together with the rapid introduction of information technologies created 'One World' with opportunities for more people in more places to compete, connect and collaborate more than ever. This ushered in a period of truly global trade and investment integration – often referred to as 'hyperglobalisation' – dominated by purely economic incentives and global value chains (GVCs), with little or no geopolitical constraints (see, for instance, Antras, 2020).

This period has been described as the unipolar world, with the United States commonly viewed as the sole superpower. It worked fairly well for nearly two decades. The US continued to act as a 'benevolent hegemon' and the liberal international order thrived, with democracy spreading around the world, the creation of the WTO as the lynchpin of the rules-based multilateral system, and hyperglobalisation delivering rapid economic growth to old and mostly new parts of the world.

However, according to geopolitical realists such as Mearsheimer (2019), the liberal international order was bound to fail because it contained the seeds of its own destruction. First, the spread of western-style democracy produced a nationalist backlash in some countries, including China and Russia. Second, hyperglobalisation produced faster growth but also contributed to greater income inequality and financial instability, both of which contributed to a populist backlash in advanced countries, especially the US, after the Great Financial Crisis. Third, hyperglobalisation was particularly helpful in promoting faster growth in China and other export-oriented developing countries. The *"rise of China…along with the revival of Russian power … brought the unipolar era to a close"* (Mearsheimer, 2019, p. 8).

The decline of the liberal international order and the 'return of history' ushered in the third and current phase in the post-Second World War international system. As anticipated by Kagan (2008, p. 4), *"The end of the Cold War did not bring the end of history, but rather a return to a historical norm: competition among great powers"*.

2.2 The return of Great Power competition and economic nationalism in the United States

Analysts disagree on how to describe the new era. Kagan's 'return to great power competition' is one way. Others refer to it as the 'post-post-Cold War era'[4], as an 'era of fragmentation' (for instance, Clavijo, 2024) or simply as a 'multipolar era' replacing the previous unipolar period[5].

The problem with these labels is that they underplay what (in addition to the rise of China) has emerged as a defining feature of the last decade: the gradual withdrawal of the US from its role as 'benevolent hegemon'. This shift accelerated with President Trump's push to blatantly violate post-Second World War rules and norms, including with his 'reciprocal' tariffs (which are in fact unilateral rather than reciprocal and violate the cornerstone of the GATT/WTO regime, which forbids countries from discriminating between their trading partners). Trump has also launched assaults against international law, democratic norms and institutions. One way to describe the present United States is as a 'coercive hegemon', though the term 'hegemon' itself does not fit well with the new multipolar age. In fact, the contradiction between the two – multipolarity and hegemony – describes well the current geopolitical situation, which is in a state of flux.

Though the US is not the hegemon it was during the unipolar post-Cold War period, or even the bipolar Cold War era, it retains exceptional features that set it aside from other major powers including China and the European Union. It is easy to minimise the role of the US in world trade by noting that it accounts for less than 15 percent of global trade in goods and services (excluding intra-EU trade), and that therefore the rest of the world can and should continue to organise itself according to WTO norms and rules, which the US is now disregarding. But the US has demonstrated that it can coerce many of its trading partners, including the EU, to accept bad deals. Typically, such deals involve accepting unilateral US tariff hikes and also opening up domestic markets and committing to buy products preferentially from the US (against the interests of trading partners and against WTO rules) as the price for keeping US tariffs lower than threatened by President Trump, and, above all, for retaining aspects of US security protection.

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[4] Patricia M. Kim, 'China's choices and the fate of the post-post-Cold War era', *Commentary*, 8 March 2022, Brookings, https://www.brookings.edu/articles/chinas-choices-and-the-fate-of-the-post-post-cold-war-era/.

[5] In an extensive study of geopolitical fragmentation, Fernandez-Villaverde *et al* (2024) found that it started during the 2007-2008 financial crisis, accelerated between 2017 and 2020 because of mounting trade and capital flow restrictions, and has surged to unprecedented levels since 2022, because of the war in Ukraine and the Middle East conflict. Focusing on trade, Carluccio *et al* (2025) found that the trend toward fragmentation started in 2018, with the US-China trade conflict.

This continuing US power derives from its superiority in four areas: economy, finance, technology and military. China is the only country that partly rivals the US in all of these areas, except finance. While the EU has strengths in some of these areas, it is clearly dominated by the US, and increasingly China.

The US remains the largest economy (26 percent of world GDP in 2024 at market exchange rates), which partly explains why it is also the world's largest importer of goods. Also, of course, the US now specialises mainly in the production of services, and therefore tends to export services and import goods – the opposite of China, the world's second largest economy (on par with the EU, both accounting for 17 percent to 18 percent of world GDP at market rates), which specialises in the production of goods and therefore tends to export goods and import services.

Although the US is increasingly challenged by China for the top place in the GDP league (and has already been displaced by China when the comparison is made using purchasing power parity exchange rates), it remains unparalleled in finance. The US accounts for roughly 50 percent to 60 percent (depending on the exact year) of global equity market capitalisation, and 40 percent of bond market capitalisation, far ahead of the EU and China. The US dollar continues to occupy a dominant position, accounting for 60 percent of international reserve holdings in currencies, 45 percent of global trade invoicing and 90 percent of foreign exchange transactions, again far ahead of the euro and renminbi.

In technology, although the US share of global research and development spending has been declining for decades, the US retains overall leadership. China is making rapid progress and has overtaken the US in some critical areas. As Draghi (2024) noted, Europe also has major technological capabilities, but is weak in digital technologies, such as artificial intelligence, the internet of things and quantum computing.

US technological leadership rests on the strength of its private sector, which benefits from a strong innovation ecosystem that includes top universities able to attract student and faculty talent from all over the world and easy access to venture capital. For instance, in 2023, the US had twice as many active unicorns (startup companies valued at over $1 billion) as the EU and China combined. However, the policies of the Trump administration on research and universities threaten to deliver a blow to the US innovation ecosystem and weaken its technological leadership.

In the military field, US dominance comes partly from the fact that it has accounted for roughly 40 percent of global military expenditures for several decades, far more than its share of global GDP. This has allowed the US to finance the research, development and purchase of sophisticated weaponry, to maintain military bases and troops in every region of the world, and to lead alliances such as NATO, making it the 'policeman of the world', even if this role is increasingly contested, especially in Asia by China. According to Carlough *et al* (2025), the US maintains 31 permanent bases and has access to 19 additional sites in Europe (the EU plus Norway, Turkey and the United Kingdom). Carlough *et al* (2025), citing official sources, also report that, in early 2025, the US had nearly 84,000 US service members in Europe, down from over 100,000 in 2022, after the full invasion of Ukraine by Russia.

All this sums up to an international system in flux and disorder. In trade, the WTO has been greatly weakened by the willingness of the US – the world's largest importer of goods – to openly violate international rules, which have become partly outdated in any case because the role of the state in China, the world's largest exporter of goods, is incompatible with the spirit (but not the letter) of the liberal economic order that the WTO represents. But, so far, the rules-based multilateral system has held up. Apart from the US, other WTO members have continued to play by the rules, with one major exception, with many, including the EU, granting preferential access to (some) imports from the US, as part of the deals they have struck with President Trump to avoid the imposition of higher reciprocal tariffs.

In money and finance, where there has been no formal international system since the end of the Bretton Woods system in 1973, there is nonetheless a global order. One element is the role of the US dollar in international payments and as a store of value. Some Trump administration policies, such as the promotion of dollar-based stablecoins, could further enhance this role[6]. Others, such as the administration's lack of concern about fiscal sustainability, and words and actions that undermine the independence of institutions such as the Federal Reserve and the Bureau of Labor Statistics, could undermine the dollar's international role (see section 2.3.2). The other element in maintaining global order has been international organisations including the IMF, World Bank, Bank for International Settlements (BIS) and the Financial Stability Board (FSB), which have played important roles in coordinating international efforts to maintain financial stability or restore it during crises. Although the Trump administration announced that it would review US membership of the IMF, World Bank and other international organisations, Treasury Secretary Scott Bessent has stated that the role of the US is rather to *"push them to accomplish their important mandates"* and focus on their *"core mission"*[7].

The EU has played a constructive role by setting up the euro and ensuring its stability, but the absence of a *"genuine Economic and Monetary Union"*, as advocated more than a decade ago by Van Rompuy (2012), limits its ability to play a bigger international role.

Finally, in the area of international security, the fragile world order has been greatly damaged by Russia's full invasion of Ukraine in 2022. This is rightly viewed as a painful

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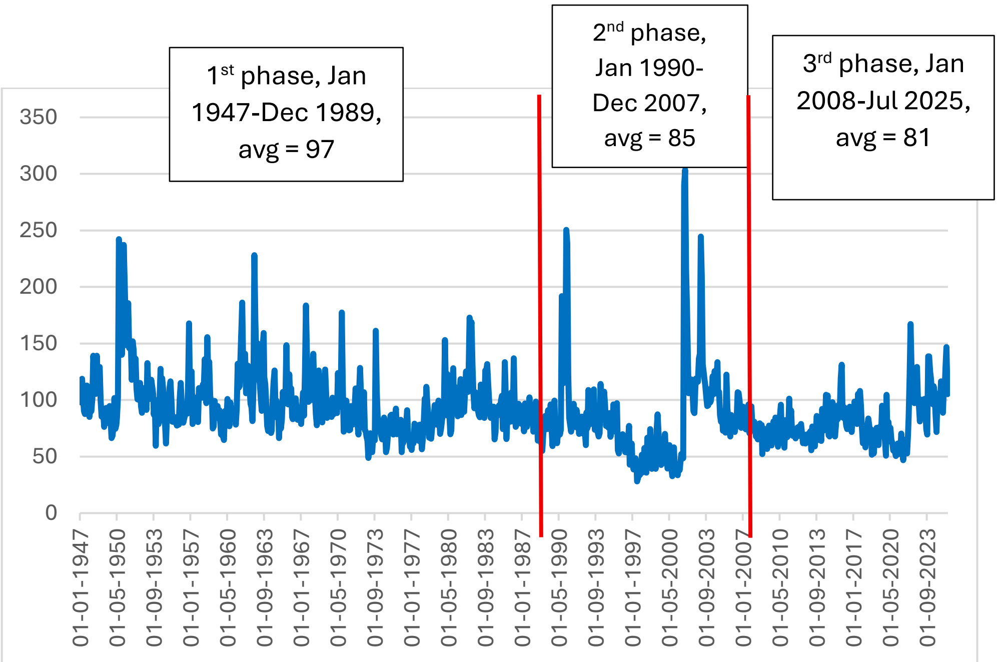
[6] Hannah Lang, 'Trump signs stablecoin law as crypto industry aims for mainstream adoption', *Reuters*, 19 July 2025, https://www.reuters.com/legal/government/trump-signs-stablecoin-law-crypto-industry-aims-mainstream-adoption-2025-07-18/.

[7] See Secretary Bessent's remarks at the Institute for International Finance, 23 April 2025, https://home.treasury.gov/news/press-releases/sb0094 and at the International Monetary and Financial Committee of the IMF, 23 April 2025, https://home.treasury.gov/news/press-releases/sb0095. In line with these remarks, the July 2025 Report to Congress from the Chairman of the National Advisory Council on International Monetary and Financial Policies (an US interagency body chaired by the secretary of the Treasury mandated to report on the activities of the IMF and MDBs on an annual basis) reiterated the importance of a US-led IMF (US Department of the Treasury, 2025).

wake-up call and turning point by Europeans, especially in the context of President Trump's questioning of NATO, though for some others (including China and India), war in Ukraine has been no more damaging to the world order than the 2003 invasion of Iraq by the United States (with the support of the United Kingdom, Australia, Poland and others), which was also not authorised by the UN Security Council. Meanwhile, in the Middle East, conflict has raged again since 2023, and Taiwan faces continuous threat of an invasion or a severe blockade by China. In all these theatres, the role of the US as 'global policeman' has receded, and no other power has filled its place. The EU, which is struggling with its own security, is not a candidate – except in Ukraine.

One way to compare the new era of armed conflict and economic nationalism with earlier periods is through indices designed to quantify geopolitical risks and policy uncertainty. The global Geopolitical Risk Index (GPR), which focuses mainly on military risk, is currently slightly below its level during the post-Cold War period, despite the Russia-Ukraine war and the latest episode of conflict in the Middle East (Figure 1)[8].

Figure 1: Geopolitical risk index, 1 Jan 1947 to 1 Jul 2025, average by geopolitical phase



Source: Bruegel based on Caldara and Iacoviello (2022). Data downloaded from https://www.matteoiacoviello.com/gpr.htm.

By contrast, the global Economic Policy Uncertainty Index (EPU) and Trade Policy Uncertainty Index (TPU) have moved up since 2017, reaching their highest ever level immediately after so-called 'liberation day' (1 April 2025), when President Trump announced the imposition of 'reciprocal' US tariffs on imports from trading partners (Figures 2 and 3).

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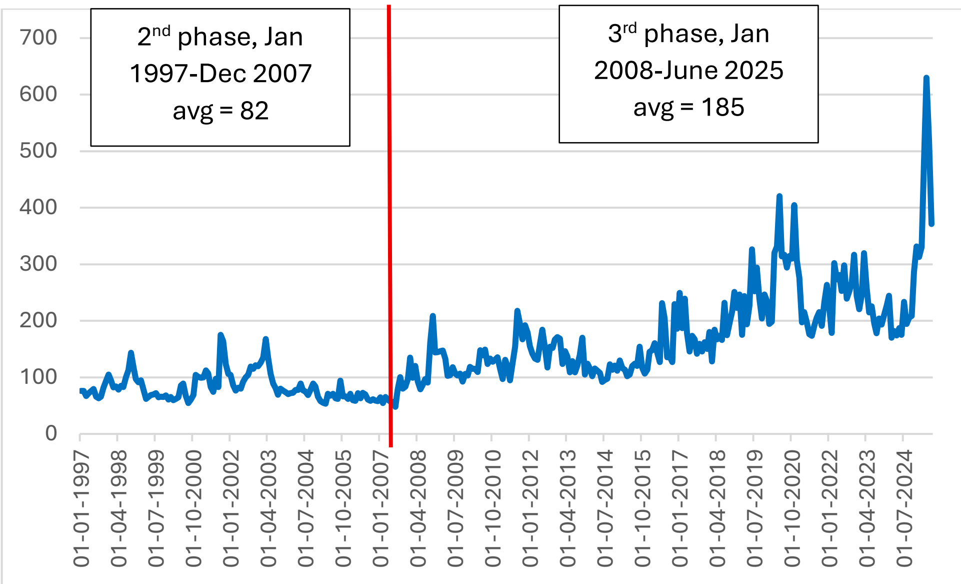
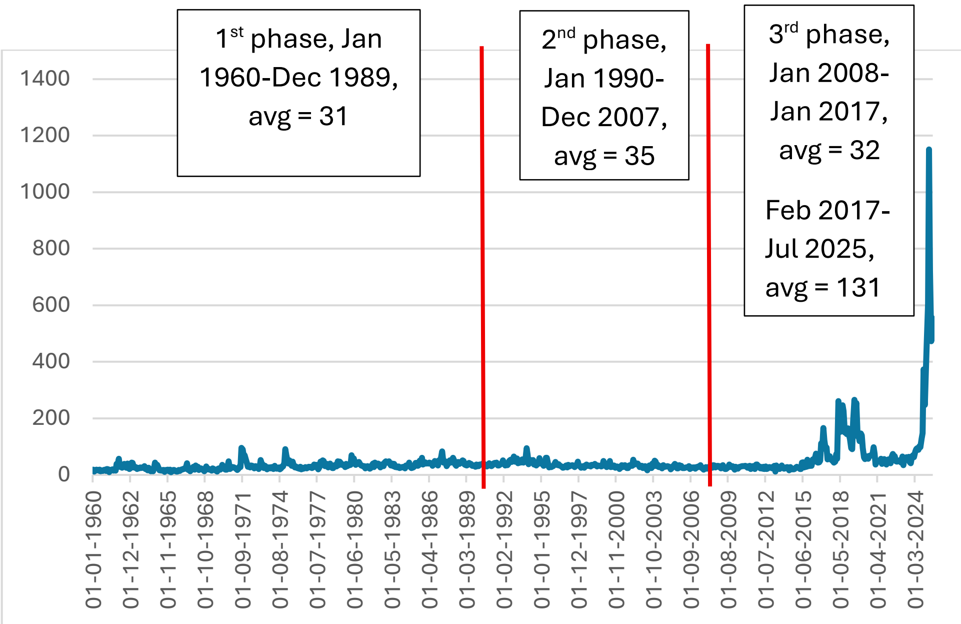
[8] The GPR index is by Caldara and Iacoviello (2022) and is regularly updated. Its historical version begins in January 1900.

Figure 2: Economic policy uncertainty index, Jan 1997 to Jun 2025, average by geopolitical phase



Source: Bruegel based on Davis (2016). Data downloaded from https://www.policyuncertainty.com/global_monthly.html.

Figure 3: Trade policy uncertainty index, Jan 1960 to Jul 2025, avg. by geopolitical phase



Source: Bruegel based on Caldara *et al* (2020). Data downloaded from https://www.matteoiacoviello.com/tpu.htm.

2.3 Short-term economic effects on Europe

The acceleration of the shifts described in the last section in President Trump's second term is at time of writing affecting the European economy through three main channels: a sharp rise in US tariffs, policy uncertainty and fiscal policy. These impact the EU directly and indirectly, via their impact on the United States (which will remain the EUs largest trading partner in the foreseeable future, tariffs notwithstanding). Monetary policy on both sides of the Atlantic is seeking to modulate the impact of these policy shocks. In addition to baseline effects, there are substantial downside risks.

2.3.1 Baseline effects

Tariffs. US effective import tariffs have gone from 2.4 percent at the end of 2024 to almost 19 percent in mid-August 2025 (Figure 4). Imports from the EU now face a baseline tariff of 15 percent, with some products (steel and aluminium, copper and cars) facing higher tariffs at the time of writing, and a yet-to-be defined set of 'strategic products', to which lower or zero tariffs will apply[9].

Estimates of the 2025 and 2026 GDP impact of these tariffs on the US are larger than the impacts on the EU, ranging from -0.35 percent to -0.6 percent of GDP (relative to the preexisting baseline), while the impact on the EU is estimated at -0.1 percent to -0.35 percent of GDP (see Annex Table 1). While the US economy is suffering a generalised negative supply shock via import prices, the EU is suffering a negative demand shock that affects about 20 percent of its goods exports (worth 3 percent of EU GDP in 2024)[10]. Furthermore, the 15 percent levy is at the low end of the range of reciprocal tariffs the US has imposed on most other major exporters, implying that it may offer the EU a gain in market share relative to other exporters, which may compensate for some of the losses relative to US producers.

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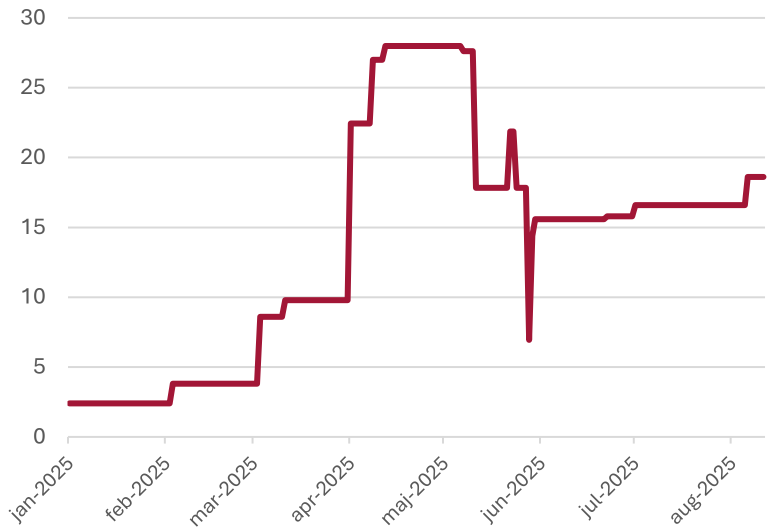
[9] According to the European Commission, *"as of 1 August 2025, US tariffs on EU aircraft and aircraft parts, certain chemicals, certain drug generics or natural resources will go back to pre-January levels. This will provide immediate tariff relief for key EU industries, while the EU and US agreed to keep working to add more products to this list"*. The precise composition of the list remains unclear. For aluminium, steel and copper, a 50 percent tariff continues to apply, but an EU communication claims that *"the EU and the US will establish tariff rate quotas for EU exports at historic levels, cutting the current 50% tariffs"*. See European Commission Questions & Answers of 29 July 2025, 'EU-US trade deal explained', https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_1930.

[10] According to European Commission data, goods exports from the EU to the US amounted to €531.6 billion in 2024, which corresponds to 21 percent of total extra-EU goods exports, or 3 percent of EU GDP. See Eurostat news of 11 March 2025, 'Trade in goods with the United States in 2024', https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20250311-1.

Figure 4: United States average effective tariff rate



Source: Bruegel based on The Budget Lab (2025).

Policy uncertainty. While some of recent rise in policy uncertainty (Figures 2 and 3) is transitory (as the policy regime emerging from the stop-and-go announcements of the US administration becomes clearer), some may be permanent, as erosion of the rules-based order and independent institutions in the US creates more room for executive discretion. Notwithstanding the recovery in the US stock market after declines when the US tariff hikes were announced on 1 April, there is evidence that policy uncertainty has dampened investment in the US. Greater volatility and weaker growth in the US hurts the EU through the export channel but may strengthen investment in the EU in relative terms.

Fiscal policy. While the Trump administration's so-called One Big Beautiful Bill Act (OBBBA), signed into law on 4 July 2025, is estimated to be roughly neutral over the next ten years compared to an extension of current US fiscal policy (which was and remains on an unsustainable path)[11], it is expansionary in the short term because the spending cuts envisaged in the bill are backloaded. According to IMF estimates, the OBBBA will raise the US deficit by about 1.5 percent of GDP in 2026.

Fiscal policy in the EU has been affected mainly through the impact of policy shifts on defence spending. In March, the European Commission (2025b) announced that EU members during 2025-2028 would be allowed to debt-finance an increase in defence spending by up to an additional 1.5 percent of GDP per year relative to 2021 levels, if they request the national escape clause (NEC) under the EU fiscal rules. By end-April

[11] Based on an overview provided by ING, which combines estimated effects of tariffs and the OBBBA by the Congressional Budget Office (CBO, 2025a; 2025b) over the next ten years (2025-2035). See James Knightly, Dmitry Dolgin and Padhraic Garvey, 'How President Trump's plans will impact the US deficit', *ING*, 27 June 2025, https://think.ing.com/articles/how-president-trumps-plans-will-impact-the-deficit/.

2025, 16 EU countries had made such requests[12]. According to the European Commission (2025c), based on *"credibly announced and sufficiently detailed measures"*, additional defence expenditures announced by 30 April 2025 will amount to 0.1 percent of EU GDP in 2025.

The June NATO summit triggered further announcements for 2026 and beyond, while the German medium-term fiscal-structural plan, published in July, envisages an increase in the country's fiscal balance by about half a percent of GDP relative to the European Commission's baseline for both 2025 and 2026. On this basis, the combination of higher defence spending and additional fiscal expansion in Germany could add fiscal stimulus in the order of 0.2 percent to 0.4 percent of EU GDP during 2025-2026. Importantly, this stimulus is set against a baseline that would otherwise be contractionary, as many EU countries had begun their adjustments under fiscal rules enacted in 2024, leading to net neutral or slightly expansionary fiscal stances in 2025 and 2026.

Monetary policy. The combination of higher tariffs and policy uncertainty has created a difficult task for the Federal Reserve, which needs to manage a negative supply shock in an environment of high demand uncertainty. With US inflation likely to be above target, it has opted to leave the federal funds rate unchanged at 4.25 percent to 4.5 percent since December 2024. In contrast, the European Central Bank's task has been comparatively simple: with euro-area inflation declining below 2 percent and slowing external demand, because of higher US tariffs and appreciation of the euro-dollar exchange rate, it has lowered its deposit interest rate. However, markets view a Federal Reserve interest rate cut in September as likely and expect a further cut by the end of 2025 and two cuts by mid-2026. In contrast, markets are currently pricing in no further cuts from the ECB this year and are unsure about a cut in the first half of 2026.[13]

The joint impact of policy shocks and policy uncertainty is reflected in short-term output expectations. Figure 5 shows the evolution of median forecasts of private sector economists surveyed by Bloomberg for both the US (panel a) and the euro area (panel b). The purple lines show forecasts for 2025 real GDP growth; the light blue lines show forecasts for 2026. Dates on the x-axes indicate the time of the forecasts.

Since Trump's second inauguration in January until early September 2025, the 2025 median growth forecast for the US has dropped by 0.50 percentage points, from 2.1 percent to about 1.6 percent, while the euro-area median forecast dropped by just 0.1 percentage points, from 1.2 percent to 1.1 percent. In the interim, forecasts for 2025 have undergone large swings, particularly in the US, where exuberance in the first months of the new administration was followed by a large drop in output expectations in

[12] Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia. In addition, 18 member states have applied for SAFE, a lending facility to support rearmament offered by the European Commission. See section 4.4.1.

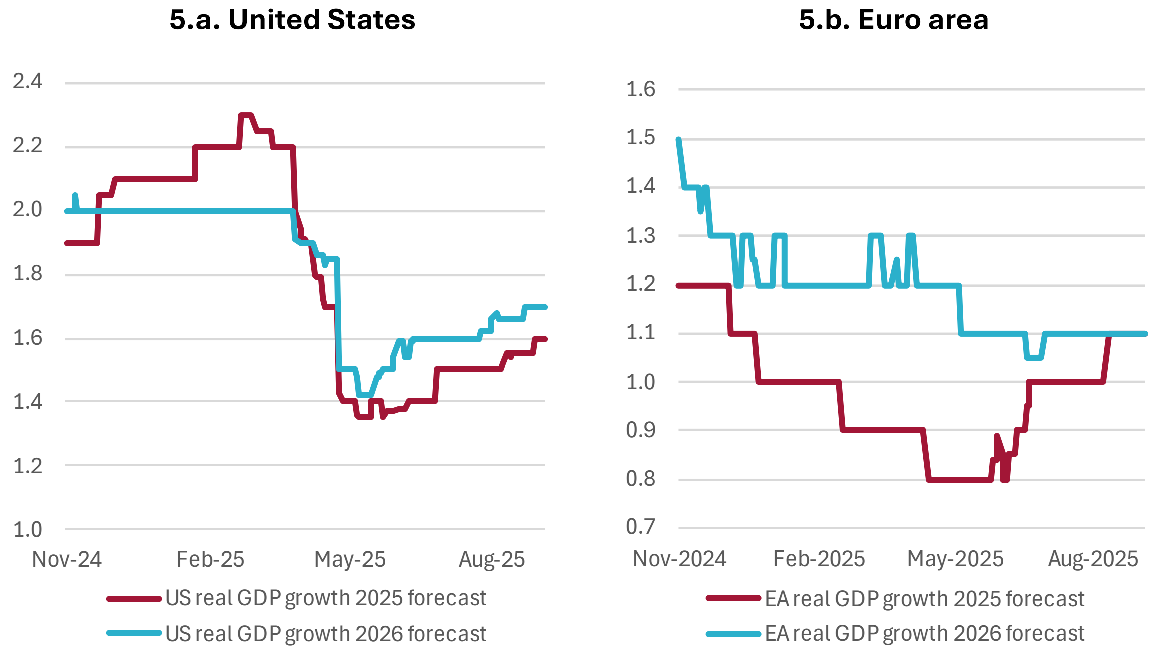
[13] Market expectations are based on Bloomberg's 'World Interest Rate Probabilities', which calculates the likelihood of interest rate cuts at central bank meetings. The calculations are based on OIS rates, with data as of 4 September 2025.

April, when the extent of Trump's tariff hikes became clearer, and eventually a modest recovery. US output expectations for 2026 have gone through a similar cycle, albeit of smaller amplitude (Figure 5, left panel).

For the euro area, the 2025 forecast decline in the first half of 2025 has been more gradual than in the US, while the June-August recovery was steeper, likely reflecting a combination of monetary and fiscal policy easing, and the trade agreement with the US at the end of July.

At time of writing, forecasters expect modestly higher US growth in 2026 than in 2025, perhaps reflecting expected fiscal stimulus and monetary easing. Euro-area output in 2026 is expected to be unchanged from 2025.

Figure 5: US and euro area short-term forecasts of annual real GDP growth (percent)



Source: Bruegel based on Bloomberg Economist Survey (median response). Note: Latest observation 04/09/2025.

2.3.2 Risks

While expected EU and US economic performance for both 2025 and 2026 is sub-par, baseline forecasts remain relatively benign – far from a recession in either the US or the euro area. Nevertheless, it is easy to imagine far worse outcomes, even in the relatively short term (2025-2027). We focus on four.

A collapse of the US bond market, triggered by one or several of the following: (1) a sense that the US deficit is out of control, as political majorities in the US make fiscal adjustment impossible in the foreseeable future; (2) a sharp rise in inflation expectations; (3) a loss of faith in the quality of US economic data, particularly inflation and labour market data, triggered by Trump's assault on institutions.

An escalation of Russian military actions against Ukraine or the EU directly. This could take several forms: significant further loss of territory in Ukraine, leading to a new refugee wave; an acceleration of Russia's hybrid campaign against the EU, targeting EU government institutions, critical infrastructure and other economic assets; or even a direct Russian military attack on one or several EU countries. In the case of a direct military attack, the defence of Europe would become existential, testing NATO and EU unity. Russian military or hybrid gains short of a direct attack on the EU, however, may hurt the EU particularly through their political and economic knock-on effects. These include nationalist populist backlash in the EU – hurting mainstream parties and eroding the consensus around additional assistance to Ukraine – and sharp drops in EU consumer and investment confidence, depressing output, increasing fiscal stress and possibly prompting a return of the fiscal-banking 'doom loop' in some EU countries.

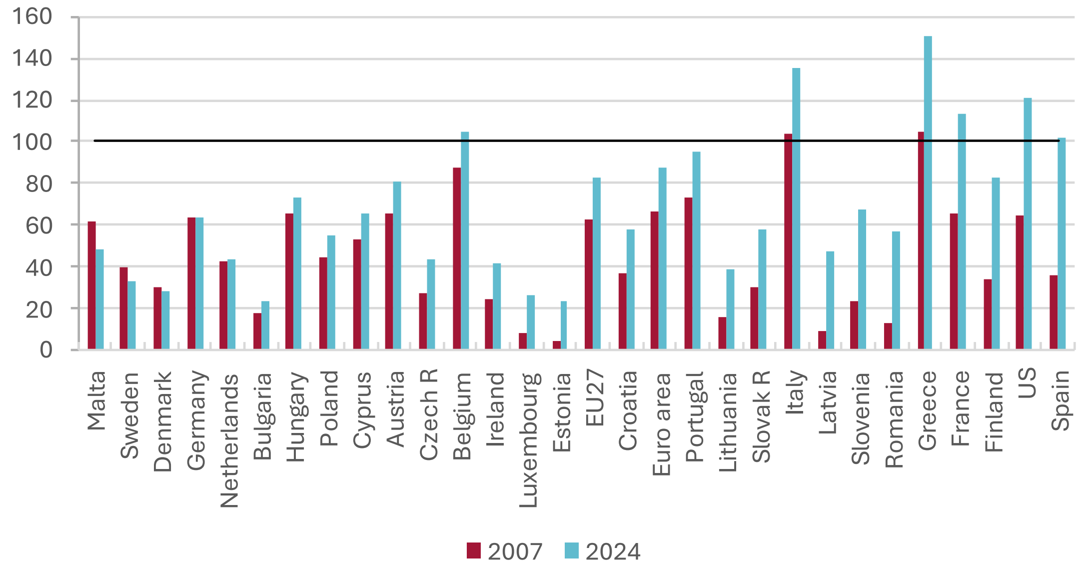
A fiscal crisis in the euro area triggered by a populist election victory in a high-debt member state. With the government of the country in question unable or unwilling in this scenario to undertake fiscal adjustment in response to a loss in market confidence, EU crisis mechanisms may fail to work. The resulting debt crisis would throw the euro area into turmoil and raise questions about the sustainability of the common currency, as it did during 2010-2012.

A trade shock triggered by increasing tensions between the US and China and/or hostile Chinese actions in East Asia. Global supply chains could be disrupted either by an interruption of shipping linked to hostilities in East Asia, or by export bans on all critical minerals to any nation deemed to take 'hostile economic actions' against China. All EU countries would be included in China's immediate export ban. The EU would be faced with a prolonged economic downturn from the *de facto* end of freedom of navigation in the high seas in a vital part of the world and the severance of important global sea lanes, and would be denied access to critical minerals crucial to its industrial economy.

These shocks could be amplified in two ways. First, crisis scenarios may overlap (for example, policy paralysis arising from a populist victory and the priority of repelling Russian aggression). Second, several countries could be pushed to the fiscal and social breaking point.

The accumulation of crises since 2008 has left profound economic, political and social marks on the EU, US and other advanced countries. One measure of this is the level of public debt. In 2007, at the end of the post-Cold War period, debt-to-GDP ratios stood between 60 percent and 65 percent on average for the EU and euro area, with substantial differences between countries. The US ratio was similar. By 2024, debt-to-GDP ratios had increased by more than 20 points for the EU/euro area, with a big increase in the dispersion between countries. In countries including Denmark, Germany and the Netherlands, the debt ratio remained around or well below 60 percent, while it increased by around 50 percent of GDP or more in Finland, France, Spain and the US (Figure 6).

Figure 6: Debt-to-GDP ratio in 2007 and 2024 (percent)



Source: Bruegel based on IMF (WEO). Notes: Solid black line indicates a debt-to-GDP ratio of 100 percent. Countries are ranked in increasing order of the difference between the debt ratio in 2024 and 2007.

According to Darvas *et al* (forthcoming), stabilisation of the debt ratio over the long term will require fiscal adjustment of about 6 percent of GDP in the US, 5 percent of GDP in France and about 3 percent to 4 percent of GDP in Italy, Spain and Belgium. Although they have much lower debt ratios, several central and eastern European countries are also under high pressure to adjust over the medium term on account of very high deficits. Add to this the additional cost of defence in the face of the new geopolitical reality, plus the costs of ageing populations and climate change (mitigation and adaptation), and it becomes clear that public finances are in a very difficult place in many EU countries and the US.

We assess the policy implications in section 4, after examining three geopolitical scenarios for the period 2030-2035 in section 3.

3. Three geopolitical scenarios for the coming decade

This section discusses three contrasting geopolitical scenarios for 2030-2035 that share two common features: the world will be more multipolar than today, with no country willing or able to play the role of global hegemon providing overall insurance to the system; and the US-China geopolitical rivalry will persist. Multipolarity will increase because the number of major powers will rise. By 2030-2035, there will be a dozen major powers falling into three tiers:

- Superpowers: China and the US. There is much speculation among analysts and policymakers about the economic, military and technological trajectories of the two countries over the next five to ten years, and whether the US will retain its lead in some or all of these areas or be overtaken by China[14]. But there is consensus that in this timeframe, China and the US will remain the world's only superpowers.
- Other (potential) great powers: Russia, the EU and India. Besides China and the US, only Russia currently qualifies as a great power, mainly (or even only) because of its large nuclear arsenal. But as Mearsheimer (2019) has argued, Russia *"will be by far the weakest of the three great powers for the foreseeable future, unless either the U.S. or Chinese economy encounters major long-term problems"*. Although it has plenty of economic and soft power, the EU is not currently a great power because it lacks military capability. However, European re-armament is speeding up and in the next five to ten years, EU countries will have substantial military capacity (Burilkov *et al*, 2025), especially if reinforced by partnerships with countries including the UK, Canada, Norway and Ukraine. Another candidate for great power status is India, the world's most populous country and already one of the five largest in terms of GDP, with the fastest growing economy among the top five. India has also a rapidly growing military footprint. Its 2025 defence budget was the third largest in the world, after the US and China, not counting the EU as bloc.
- Middle/regional powers: in Asia (Indonesia, Japan), Africa (Nigeria, South Africa), the Middle East (Turkey, Saudi Arabia) and South America (Brazil). All these seven countries (except Nigeria) belong to the G20 and are already regional powers. Brazil, Saudi Arabia and South Africa also belong to the BRICS, as do China, India and Russia.

The three scenarios we discuss differ with respect to two variables: the degree of intensity in the US-China geopolitical rivalry; and the capacity of other major powers and smaller countries to organise rules-based international cooperation and institutions.

Note that the scenarios are not designed as a typical triad comprising a 'central' or 'base case' scenario, which represents the most likely outcome based on current information, plus upside and downside scenarios that explore more optimistic and pessimistic outcomes. Instead, they are meant to be organising principles that help

[14] See, for instance, Edward Luce, 'Trump is the gift that keeps giving to China', *Financial Times*, 5 August 2025, https://www.ft.com/content/d10ea991-627d-4c79-8d80-04af180c69dc. See also Chivvis (2024).

describe possible states of the world in 2030-2035. Actual outcomes could well consist of weighted combinations of two of these scenarios (or even all three), and of variants within scenarios.

3.1 Scenario 1: collapse of international cooperation

Scenario 1 is defined as a 'bad' (collectively inefficient) non-cooperative equilibrium across the three tiers of powers. By 2030-2035, there are only loose and opportunistic alliances between countries, and a bare minimum of international cooperation. The global public goods created after the Second World War (UN, IMF, World Bank, WTO) have lost relevance or ceased to exist, mainly because of the intense geopolitical competition between the US and China, with neither willing or able to provide or promote international public goods, and both acting coercively towards other countries. The US continues to maintain substantial tariffs, even if they have not led to the desired results (US reindustrialisation and enhanced economic security), mainly because they raise substantial revenue for the US government, which needs it to help finance its large debt.

The only global public good that continues to be provided in this scenario might be some degree of control of nuclear proliferation, the area with the biggest potential negative global externality. Another area with a very large potential negative global externality, climate change, is one of the victims of the collapse of the international order, propelled by a doom loop involving domestic and international conflict. Major powers with low social cohesion, high public debts and high levels of support for populist politicians oppose international cooperation and institutions. Meanwhile, nationalist and populist policies reduce economic growth and the ability of countries to deal with the economic consequences of ageing and climate change (Funke *et al*, 2023), which further increases domestic discontent and international conflicts.

Scenario 1 closely relates to the 'Kindleberger trap', a term coined by Joseph Nye to warn – a few weeks before the start of the first Trump presidency – of the risk of a situation in which neither the declining superpower, the US, nor the ascending one, China, is able or willing to assume the role of 'benevolent hegemon'[15]. Since Kindleberger (1973), it has been widely agreed that such a role must be played by one of the great powers to sustain a liberal international order, as the US did for the Western sphere during the Cold War period or globally during the much shorter period of hyperglobalisation[16]. Scenario 1 lacks any such hegemon.

3.2 Scenario 2: back to a world of blocs

The defining feature of scenario 2 is that the world splits into three groups: a US-led bloc, a China-led bloc and a non-aligned set of countries. This scenario has two

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[15] Joseph S. Nye Jr., 'The Kindleberger trap', *Project Syndicate*, 9 January 2017, https://www.project-syndicate.org/commentary/trump-china-kindleberger-trap-by-joseph-s--nye-2017-01.

[16] Followers of the realist school of geopolitics reject this idea and consider that the liberal global order was either a fantasy (Kagan, 2008) or doomed from the start (Mearsheimer, 2019).

variants, depending on the degree of interdependence between the US and China blocs[17]:

- In the *decoupling variant*, the US-China geopolitical rivalry is intense, and after more than a decade of economic (trade, finance, technology) and political fragmentation, the two blocs are detached from one another, perhaps not as much as was the case between the western and eastern blocs during the Cold War, but far more than is the case in 2025[18].
- In the *derisking variant*, the US-China geopolitical competition is somewhat less intense, and the two blocs remain fairly interdependent, managing the risks of such interdependence with *"intelligent economic security policy"*[19]. This is in line with what President Biden's National Security Advisor, Jake Sullivan (2023), advocated with his *"small yard, high fence"* policy: selective decoupling in areas where national security is at stake.

The first variant is easier to understand. It amounts to a new Cold War, with little relationship between the US-led and China-led blocs, except for security issues handled by the two superpowers. The second variant is probably more realistic, though harder to grasp. In particular, it is not clear what the exact perimeter of the 'small yard' would be, nor whether it would be possible to really keep it 'small'. After all, what constitutes 'national security' or even 'economic security' is highly subjective. In addition, imports and supplier relationships that pose a risk to economic security are very hard to pinpoint empirically (Pisani-Ferry *et al*, 2024).

In both variants, global cooperation would likely be more extensive than in scenario 1. In particular, the two blocs may agree to cooperate not only on nuclear proliferation, but also on climate change. Global economic institutions including the IMF, World Bank and the WTO would retain meaningful roles.

In the *decoupling variant*, however, these roles would be much reduced, even compared to their already diminished levels in 2024, ie before the *de-facto* US exit from the WTO in

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[17] Becko *et al* (2025) considered another variant. They assumed that there are two categories of countries in the world: China and the US, two large countries, which enjoy market power and set their import tariffs to improve their terms of trade; and small countries, which have no market power and set their tariffs at zero. The two large countries trade with each other and the small countries, to which the large countries offer free access if they accept political alignment with them. If they don't, they are charged the optimal tariff that the large countries also apply to each other. Using a stylised model, they found that the US sets an optimal tariff of 12.4 percent when competing with China for allies, while China sets a tariff of 7.0 percent. In their model, China's lower tariff reflects both its smaller economic size and a weaker preference for alignment.

[18] Gopinath *et al* (2025) also assumed a situation in which the world splits in three groups: a US-aligned bloc, a China-aligned bloc and non-aligned countries. They found that this split will have less detrimental effects on trade than during the Cold War, because they assume that non-aligned countries will act as 'connectors' between the two geopolitical blocs, as they have been doing since trade fragmentation started around 2018.

[19] Henry Farrell and Abraham Newman, 'The new economic security state: How de-risking will remake geopolitics', *Foreign Affairs*, 19 October 2023, https://www.foreignaffairs.com/united-states/economic-security-state-farrell-newman.

2025. In particular, trade governance would probably revert to the pre-WTO days, when GATT members enjoyed more 'policy space' (meaning they could be more protectionist) and there was no Appellate Body to adjudicate disputes, resolution of which was left to diplomats and politicians rather than judges. This governance structure would include most current WTO members, but might not include the US, unless by 2030-2035 it has re-embraced some form of rules-based trade, particularly the most-favoured-nation (MFN) non-discrimination principle that is enshrined in Article I of the GATT and is one of its cornerstones. With China and its state capitalist practices now impacting the US-led bloc relatively little, the countries of this bloc may decide to retain WTO-like governance among themselves, including by reinstating the Appellate Body dismantled by US actions during the Obama and first Trump administrations because of rulings related to trade with China[20].

In the *de-risking variant*, the two blocs should in principle be ready to cooperate more closely than in the decoupling variant, and economic institutions including the IMF, World Bank and the WTO should retain greater roles, with some redefinitions to meet demands from the Global South, which would presumably remain non-aligned with the two blocs.

In terms of membership of the two blocs, it is fair to assume that countries that are likely to remain security-dependent on the US for geographical reasons, such as South Korea or Japan, will be part of the US bloc. It is less clear with which bloc the EU, India and Russia – the three actual or potential 'great powers' – would align.

- In view of the EU's lopsided trade deal with the US administration[21], it might seem obvious that the EU has chosen, or felt that it had to choose, the US bloc. However, this was in 2025. By 2030-2035, the EU may have gained sufficient strategic autonomy to be able to make real choices, especially if European military capacities have been strengthened.
- In view of India's history since independence in 1947, during which it stayed non-aligned with both the US and the Soviet Union and later Russia, India is unlikely to align itself with the US. However, an opportunistic alliance with America to counter its Chinese neighbour is likely to remain part of its strategy.
- Finally, Russia's position is by no means obvious. It has a solid alliance with China, which has been strengthened by the war in Ukraine. However, Russia has gradually become the junior partner in its relationship with China and may seek to reestablish a more balanced relationship by strengthening links with Europe and America.

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[20] Wailin Wong, Adrian Ma, Julia Ritchey, Lilly Quiroz and Kate Concannon, 'Why there's no referee for the trade war', *NPR*, 19 March 2025, https://www.npr.org/2025/03/19/1239428616/wto-referee-global-trade-disputes.

[21] Jorge Liboreiro and Peggy Corlin, 'Brussels defiant against persistent criticism of EU-US trade deal', *Euronews*, 3 September 2025, https://www.euronews.com/my-europe/2025/09/03/brussels-defiant-against-persistent-criticism-of-eu-us-trade-deal.

A crucial factor in the decision of the EU to align itself with, or perhaps behind, the US, or to become non-aligned, will be US behaviour. Will it return to its role of relatively benevolent hegemon, or will it continue to behave as a 'coercive hegemon', as it did by imposing a 15 percent reciprocal tariff on the EU and demanding from the EU concessions for not imposing higher tariffs, which has been described as humiliating?[22] In the former case, the EU would likely continue to align with the US, though it would seek a better arrangement than it enjoys currently. In the latter case, it would be difficult for the EU to belong to the US-led bloc, pushing it toward the non-aligned.

3.3 Scenario 3: multilateralism reinvented

In scenario 3, the two superpowers, although remaining rivals in some areas, agree to cooperate to provide global public goods in all areas that have potential negative externalities, including nuclear proliferation, climate change, trade and finance, because they have discovered – perhaps after having passed painfully through scenarios 1 and 2 – that not tackling common problems through common efforts and institutions has a high cost, not only for others but also for themselves.

In this idealistic scenario, a new international order would be established. This would involve reforming multilateral global institutions including the UN, the IMF, World Bank and WTO to guarantee a greater role for the Global South, which remained largely non-aligned in scenario 2, and to respond better to their development goals, while ensuring international security and dealing with global warming. This new order would not depend on the ability or willingness of a superpower to provide global public goods. Instead, the new international order would be managed by a new grouping composed of China, the United States, Brazil, the EU, India, the African Union and maybe one or two more countries. In its most idealistic variant, this new grouping would take over from China, France, Russia, the UK and US as the new permanent members of the UN Security Council.

A less idealistic, though still ambitious, variant of this scenario would assume that the US-China rivalry will preclude the participation of the two superpowers in the reinvention of the multilateral rules-based order, at least initially. In this variant, a coalition of countries, involving the EU, the UK, Norway, Canada and a small group of like-minded countries from the Global North (including Japan and Korea) and the Global South, would take the initiative, hoping that the US will join them at a later stage. China, however, may already be part of the coalition for some issues (such as climate change) though not for others (such as trade), as we discuss in section 4.

Table 1 summarises the geopolitical situation and the degree of world integration in each of the three scenarios for 2030-2035 (and beyond) and compares them to the conditions that prevailed during the three phases from 1945 to the present.

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[22] See, for instance, Ellen Francis and Anthony Faiola, 'To avoid worst of Trump tariffs, E.U. accepted a lopsided deal', *The Washington Post*, 28 July 2025, https://www.washingtonpost.com/world/2025/07/28/trump-eu-trade-tariffs-concessions//.

Table 1. Geopolitical situation and degree of world integration, by period

Period	Geopolitical situation			Degree of world integration
	World		Europe	
		Past and present		
1947-1989	Cold War	Bipolar	US vassal, by necessity	Low, but high for the West
1990-2007	US hegemony	Unipolar	US vassal, by necessity	Hyperglobalisation
2008-today	Great power competition	Multipolar	*'Vassalisation malheureuse'*	Increasing fragmentation
		Future		
2030-2035	Scenario 1	Multipolar	Autonomous	More fragmentation and disorder than in 2025
2030-2035	Scenario 2	Multipolar		
	• With decoupling:		Autonomous or US vassal	More fragmentation but more order than in 2025
	• With de-risking:		Autonomous or US vassal	Relative fragmentation and order, like in 2024
2030-2035	Scenario 3	Multipolar	Autonomous	High, with new international order

Source: Bruegel.

From the perspective of informing EU policy, the scenario analysis offers two main takeaways.

First, the three scenarios can be ranked in terms of their welfare implications for the EU and the world collectively. Scenario 1 would be least desirable for the EU, most individual countries and countries collectively, because international cooperation on global public goods would be largely absent, armed conflict would likely be frequent, and protectionism would become the norm. Scenario 2 (multipolarity with strong elements of bipolarity and some multilateralism within each of the two blocs) would be better because it would entail some international rules (strong ones inside the blocs and weaker ones between them) and greater capacity to deal with global issues than scenario 1. Finally, scenario 3 (multipolarity with multilateralism) would be the most desirable.

Second, the probability of realisation of any of these three scenarios mostly depends on the two superpowers. But the other major powers, including the EU, will also be influential. The EU and its allies may also be able to shape which variant of a scenario becomes reality. As already indicated at the beginning of section 3, all three scenarios have two features in common: continued US-China rivalry for at least a decade, and multipolarity. In such a setting, the EU may be able to take steps, with other partners, to push the world in the direction of scenario 3; or it may be able to shape scenario 2 by strengthening international institutions and/or by choosing whether to align with the US or be non-aligned in areas other than security (on which Europe will want to preserve NATO).

4. Policy choices for Europe

The discussion in section 3 implies that EU policy and institutional choices must serve two purposes: to influence the world in the direction of greater stability and international cooperation – that is, scenario 3, or the more benign variants of scenario 2 – and to optimally adapt to whichever scenario or scenario combination arises.

This appears to create a dilemma. However hard the EU may try to preserve or restore a cooperative international order, it may fail. If it does, it would then need a different set of institutions and policies than it would need in the case of success. Scenario 3 may justify policy choices that have the same flavour as in the period of hyperglobalisation: low levels of military spending, high levels international specialisation. In some variants, the US might regain its status as a reliable ally, implying that depending on the US in areas such as defence, technology or digital infrastructure would have a low cost. In contrast, in one variant of scenario 2 and in scenario 1, the EU might be essentially on its own, forcing much higher levels of self-reliance. Military spending would be high, and the argument for much deeper military integration in the EU, including a common army, would be far stronger.

As it turns out, however, identifying the right policies is much simpler than this confusing array of state-contingent possibilities suggests, for two reasons.

First, many policies choices do not involve a trade-off between security and efficiency. These include all reforms that encourage innovation and deepen the single market[23]. Such reforms are not just good for growth, but help the economy weather shocks, including those resulting from economic coercion. A deeper single market allows the flexible reallocation of services and goods production in the face of external shocks, while deeper and more unified capital markets reduce both financial fragility and dependence on US capital markets.

Second, Europe's policymakers are not called on to make policy choices for 2035. They are called upon to make choices for the next one to five years, both in light of how these choices will impact Europe during this period, and how they will influence Europe's future.

Seen in this light, a dominant strategy emerges. Apart from pursuing policies that are good for both growth and resilience – which should be done anyway – Europe should make policy choices that reduce its dependence on the two superpowers and increase its security more broadly. This would protect it against attempts by the superpowers to exploit this dependency, and it would increase Europe's bargaining power, both to deter bad behaviour – such as arbitrary imposition of tariffs by the US, export embargos by China or aggression by Russia – and to preserve or rebuild cooperative international arrangements. Such policies are good both in the world as it is currently and is likely to

[23] See, among others, Letta (2024), Demertzis *et al* (2024), Draghi (2024), the European Commission's (2025a) *Competitiveness Compass* and the IMF (2024; 2025).

remain in the medium term – a world in which the US is no longer a friendly hegemon. Such policies would also nudge the world in a better direction.

In the remainder of this section, we develop a short-to medium term policy agenda that meets these criteria and covers two areas: EU domestic and international policies.

4.1 The domestic policy agenda

4.1.1 Defence autonomy

An essential element of strategic autonomy is to strengthen the EU's ability (and that of its European neighbours, including Ukraine) to defend itself without help from the United States. The EU and its European allies also have a strong interest in preserving NATO: the North Atlantic alliance has been, and continues to be, a cornerstone of its security. This requires a strategy that satisfies both objectives: preservation of NATO, and much greater defence autonomy from the US.

Over the past year, the EU has started to move in this direction, by accelerating national rearmament, and through modest steps that help members shoulder the financial burden of rearmament and that encourage joint procurement, including SAFE, a €150 billion lending instrument[24], and the use of the 'national escape clause' (NEC) to accommodate higher defence spending under EU fiscal rules[25]. But these steps do not go nearly far enough. Europe needs to go much further, in two respects.

First, it must create a single market for defence equipment. This should include non-EU allies including the UK, Norway, Ukraine and potentially Canada, Switzerland and Turkey. Because such a market will be resisted by national defence-industrial interests, its creation requires a legal commitment device, analogous to EU legislation prohibiting national preferences in procurement and promoting competition within the EU. In addition to prohibiting discrimination in procurement against companies inside the single market, such legislation should designate areas and modalities for joint procurement and lay the basis for standardisation of defence products. Europe-wide competition, greater standardisation and joint procurement (where possible) are essential to raise the scale of European defence production, reducing unit costs and ensuring the interoperability of equipment.

Unfortunately, creating such legislation through EU regulations or directives is impossible because Article 346 of the Treaty on the Functioning of the EU (TFEU) exempts national security related industry from single-market commitments. Hence, the legal framework for creating a single European defence market requires an intergovernmental treaty, with an institutional mechanism to enforce it. One advantage

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[24] See European Commission, 'SAFE', https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/safe_en.

[25] See Council of the EU press release of 30 April 2025, 'Coordinated activation of the National Escape Clause', https://www.consilium.europa.eu/en/press/press-releases/2025/04/30/coordinated-activation-of-the-national-escape-clause/.

of taking this route is that it would allow non-EU countries to join on an equal footing, and it would not require all EU countries to join.

Second, Europe must jointly develop and owning common defence assets to reduce its dependence on US-provided strategic enablers such as satellite-based intelligence, surveillance and communication infrastructure, strategic airlift (heavy transport aircraft and aerial refuelling systems), military mobility and air defence systems. While NATO functions well, these can complement US-provided assets and contribute to fairer burden-sharing within the alliance. And if the US were to lose interest, Europe would have an alternative.

Assets of this type must be jointly planned and funded to ensure fair burden-sharing and good incentives. This could be done through a new intergovernmental organisation created by EU NATO members and their European allies (Wolff *et al*, 2025; Zettelmeyer *et al*, 2025a). Or it could be done through existing, EU-based institutions and arrangements, with the EU providing funding through dedicated debt issuance financed by service payments by the countries that benefit from the common defence assets (Steinbach *et al*, 2025), and planning and technical expertise through Permanent Structured Cooperation (PESCO) and the European Defence Agency. In either case, operational control would need to be delegated to national or joint control-and-command systems that have the military capacity to run them.

4.1.2 Tech autonomy and AI

Defence autonomy is closely related to technological and, especially today, AI-related autonomy. On this, the EU (and other countries) faces both hardware and software challenges.

In the 2030-2035 timeframe, reunification of Taiwan with China cannot be ruled out, creating a risk that the entire world's supply of state-of-the-art 2 nanometre (or less) chips, important for AI development, will be in Chinese hands. Medium-term EU technological and AI sovereignty may rest on having such a plant not just outside Taiwan, but inside the EU or in a geographically close and politically reliable trading partner. Appropriate EU measures to sway key firm-level decisions towards meeting this goal will be necessary.

On the software side, US firms have an entrenched dominance over global digital services platforms outside the Chinese market. To successfully dislodge current technology incumbents and secure EU technological autonomy in these areas, entirely new technologies are likely to be required. EU policies must therefore remain focused on facilitating such disruptive innovation through 'moonshot missions', rather than on supporting EU-based substitutes for existing services offered by US domiciled entities. This will include focusing on several policy areas, with careful consideration given to the probable impact of AI on future technology trends and on broader society.

AI is a powerfully disruptive general-purpose technology (Bresnahan and Trajtenberg, 1995; Ding, 2021), characterised by a wide and pervasive applicability across many economic sectors, and with the potential for continuing technical improvements and synergies with other innovations. This means skills for the promotion of AI adoption throughout the EU economy will be crucial. This requires focusing on a wide section of the workforce, rather than just the limited segment needed to pioneer its development. Designing and training innovative AI applications at thousands of large EU firms and SMEs requires a workforce with access to practically focused AI skills, with course certifications recognised across the EU, AI based life-long learning modules and AI courses available at tertiary, professional degree and vocational training educational institutions. Accelerating adoption by European businesses of AI assisted workflows, task solving and product development further requires flexible labour market regulation and workplace conditions that will facilitate profitable firm-level AI adoption.

AI will meanwhile continue to generate fake online identities and misinformation, frequently promoted by platform-owning intermediaries through algorithms designed to maximise their revenues. It will therefore become, and likely already is, a conduit for destabilisation and hybrid warfare. To counter this, the EU, with private-sector identity-verification service providers in a public-private partnership to ensure cost and technology standards, should implement a common digital identity and authentication standard. This should include a common digital EU identity platform to serve as a gateway via which Europeans will access a wide variety of public and private online services.

Working in tandem with current provisions in the Digital Markets Act (Regulation (EU) 2022/1925), the promotion of verifiable human-generated content in the EU will weaken the digital platform network effects currently fuelling the dominance of US-based entities. This will help promote European content providers and reduce the influence of robotised digital information created outside the EU.

4.1.3 Financial autonomy

European citizens, banks and firms depend heavily on the US through several financial channels. These include the payments system (the only EU-wide retail payment service providers are American companies; EU-based competing services are typically nationally based) and dependence on US Treasury Bonds as a store of value and as collateral. In the current state of US politics, as well as in scenario 1 and some variants of scenario 2, this is a significant problem. A coercive US could threaten to order its companies to disrupt EU payments to gain leverage, impose taxes on capital outflows or even threaten to restructure US Treasury Bonds held by specific institutional holders along the lines described by Miran (2024).

The introduction of the (retail) digital euro is an important step to guard against the first risk but is not sufficient, for two reasons.

First, holdings of digital euros are expected to be tightly capped to a few thousand euros. Furthermore, the digital euro will not be usable for payments outside the euro area. While the digital euro could prove useful to consumers and for safeguarding retail payments inside the euro area, it will not reduce the dependence of EU companies on

US-based payment technologies. While private European solutions are emerging[26], it is unclear how reliable they will become, particularly if the providers may themselves be dependent on US technology.

Second, the expected growth of dollar-based stablecoins implies that EU dependence on the US dollar both for payments and as a store of value may be about to become a lot bigger. The US administration is promoting dollar-based stablecoins, backed by US Treasuries, for fiscal reasons. Unless there are EU-based alternatives, US stablecoins might become the payments technology of choice for EU companies, particularly for international transactions.

The EU could respond in two ways.

One approach would be for the EU (including the European Central Bank) to actively support the creation of euro-based stablecoins, while ensuring their safety[27]. This could be done by promoting the harmonisation and standardisation of euro stablecoins, and by mitigating systemic risk, including by giving stablecoin issuers direct access to ECB liquidity support.

Second, the EU could maintain the current strategy on stablecoins, which is to provide a regulatory framework but otherwise leave the market to itself. But if this is the choice, the ECB should also provide a digital currency that can compete with stablecoins in providing free and fast payments and settlement services, both wholesale and retail. This would go far beyond the digital euro as currently planned[28].

In either case, the ECB should accelerate its work on improving wholesale digital payments infrastructure, an area in which it has started a pilot project (Appia)[29]. This could be made interoperable with stablecoins, making euro stablecoin transactions faster and more secure and improving the attractiveness of regulated relative to unregulated stablecoins. And the EU needs to accelerate work on capital market union (rebranded the Savings and Investment Union), enabling the emergence of low-cost, diversified investment instruments available to all savers and investors (EU and non-EU).

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[26] For example, Wero, a new instant online payments system run by a consortium of EU-based banks (https://wero-wallet.eu/individuals).
[27] Lorenzo Bini-Smaghi, 'No, la moneta digitale della Bce non è un'alternativa al modello Stablecoin', *Il Foglio*, 12 July 2025, https://www.ilfoglio.it/economia/2025/07/12/news/no-la-moneta-digitale-della-bce-non-e-un-alternativa-al-modello-stablecoin-7915197/; Lucrezia Reichlin, 'Europe needs a Euro stablecoin', *Project Syndicate*, 2 September 2025, https://www.project-syndicate.org/commentary/europe-needs-a-euro-stablecoin-backed-by-ecb-liquidity-support-by-lucrezia-reichlin-2025-09.
[28] See European Central Bank, 'Digital euro', https://www.ecb.europa.eu/euro/digital_euro/html/index.en.html.
[29] See European Central Bank press release of 1 July 2025, 'ECB commits to distributed ledger technology settlement plans with dual-track strategy', https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr250701~f4a98dd9dc.en.html.

4.1.4 Energy systems

Europe's reliance on imported energy has proven a strategic vulnerability. Europe's strategy of building a largely electrified energy system powered by domestic resources (European Commission, 2024) is the right path to decarbonise and to end dependence on imported fossil fuels. But if the necessary investments, which are substantial, are planned and financed country-by-country, Europe risks locking in avoidably high energy costs.

A predictable, European rules-based market framework, embedded in coordinated long-term system planning, can significantly reduce investor risk and the cost of capital, prevent wasteful duplication and deliver a more efficient geographic and technological mix of generation, storage and demand. Beyond immediate savings in dispatch and investment, a large and predictable market fosters scale economies, competition and innovation, reducing costs over time (Zachmann *et al*, 2024). Equally, a consistent framework enhances resilience by turning Europe's scale and diversity into cost-effective mutual insurance.

The current system is still far from a single market in which price differences point to underlying economic cost differences. The biggest successes in the last two decades have been the common carbon market and the coupling of electricity wholesale markets, which has substantially reduced inefficiencies in dispatch across borders (eg when the wind is blowing strongly in one country, production from gas-fired power plants in another country can be reduced). But currently, the system remains characterised by poorly coordinated national electricity system development planning, unaligned national remuneration mechanisms for investments in generation, opaque stacking of national policy-driven pricing-components, leading to idiosyncratic final electricity prices for individual consumers, and insufficient cross-border transmission and its inefficient usage.

An ambitious strategy to put the EU on track to a resilient and affordable integrated electricity system should include:

- Establishment of an EU energy information administration that would providing reliable, relevant and usable data on the current and planned state of the energy system, underpinning informed policy discussions.
- Introduction of real coordination of national system planning, including an independent top-down view serving as a benchmark.
- A European fund to catalyse more cross-border transmission.
- Progress towards a single borderless dispatch market, in which only physical constraints would justify price differences.
- A means of ensuring that capacity remuneration mechanisms are organised, at least at regional level (Holmberg *et al*, 2025).

Making this work will require long-term trust, discipline to resist domestic vested interests and a willingness to pool elements of sovereignty. It will only succeed with a credible commitment at the highest political level.

4.1.5 Secure access to critical minerals

China successfully weaponised its critical minerals export-control regime and established trade escalation dominance over the US in retaliation against Donald Trump's tariffs[30]. While the EU is neither in a geopolitical rivalry nor a trade war with China, EU firms were affected by China's export controls on critical minerals. The urgency of securing EU access to critical minerals in the face of China's continuing global dominance, especially of refining and processing of critical minerals, has risen since the European Critical Raw Materials Act (CRMA, Regulation (EU) 2024/1252) entered into force in May 2024. New policy measures must now be added. Domestic measures should include:

- Further incentivising and mandating critical raw materials recycling. The recently updated EU battery material recovery targets,[31] applying 2031 target values of 95 percent for cobalt, copper, lead and nickel[32], should serve as inspiration for all identified critical materials. Target values must be updated frequently to track progress in best commercially available recycling practices.
- For rare earths that are used in such small quantities that recycling may not be cost efficient, mandatory minimum stockpiles should be established. EU governments could choose to do this at national or EU level by simply buying and stockpiling the raw materials deemed sufficiently important, or they can incentivise businesses to do it via tax benefits or prescribed firm-level inventory levels.
- Significant expansion of public funding for basic materials research at EU public and private institutions, pursuing 'innovative substitution' to make new and cheaper but equally efficient materials available to replace critical raw materials currently sourced from China.

However, the EU should not push for domestic production targets for critical mineral extraction and processing that are costly to implement. It should rely instead on trade with trusted partners (see section 4.2).

4.1.6 A risk-based reform of the EU fiscal framework

The 2024 reform of the EU fiscal framework was a big step in the right direction. It rightly requires high-debt, high-fiscal-risk countries to cut their deficits quickly. But it also

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[30] Ayeshea Perera, 'Why China curbing rare earth exports is a blow to the US', *BBC*, 17 April 2025, https://www.bbc.com/news/articles/c1drqeev36qo. Some US concessions have led China to reduce export controls on rare earths: Darlene Superville, Josh Boak, Paul Wiseman and Didi Tang, 'Trump says US gets rare earth minerals from China and tariffs on Chinese goods will total 55%', *AP*, 11 June 2025, https://apnews.com/article/china-xinjiang-critical-minerals-forced-labor-uyghur-eac368889c299fd304a3b7beefc7469a.

[31] See European Commission News article, 'Circular Economy: New rules to boost recycling efficiency and material recovery from waste batteries', available at https://environment.ec.europa.eu/news/new-rules-boost-recycling-efficiency-waste-batteries-2025-07-04_en

[32] European Commission news of 4 July 2025, 'Circular Economy: New rules to boost recycling efficiency and material recovery from waste batteries', https://environment.ec.europa.eu/news/new-rules-boost-recycling-efficiency-waste-batteries-2025-07-04_en.

suffers from two major flaws. The costs associated with these flaws, insofar as they guide national fiscal policies in the EU in the wrong direction, were perhaps manageable before the acceleration the geopolitical challenges the EU has faced since the start of the second Trump administration. But they have now been shown to be prohibitive, including in most of the scenarios discussed in section 3.

The first flaw, which was apparent even before the system became fully final (Darvas *et al*, 2023) was that EU-endorsed investment spending was not favoured sufficiently relative to other spending. While debt sustainability must remain the primary objective of fiscal rules, there should be no quantitative limits on a debt-financed investment boost within a pre-agreed period (say, seven years), provided that: (1) the criteria of high-quality public investment defined in the current fiscal framework are complied with, and (2) debt remains sustainable at the end of the period. The latter will generally require adjustment in the non-investment budget while the investment programme is being carried out. However, the adjustment needed to pay for even a large investment programme – provided it is temporary – is limited (Annex 1 of Darvas *et al*, 2024).

The second flaw has become obvious only more recently. It is that the rules impose the same standard of fiscal adjustment – to put debt on a declining path with high probability within four to seven years – regardless of whether fiscal risks are high or low. The only exception is for countries with debt below 60 percent of GDP, which do not need to put their debt on a declining path as long as it is projected to stay below 60 percent in the medium term. The consequence is heavy constraints on the fiscal policies of both countries with debts below but close to 60 percent of GDP, and close to but above 60 percent of GDP, even when those countries could afford an extended period of increasing debt without meaningful fiscal risks (because their debt remains relatively low and the adjustment required to stabilise the debt would remain manageable).

There may be several reasons why no-one worried about this feature of the new rules. First, it relates directly to Article 126 TFEU in conjunction with Treaty Protocol 12, which defines government deficits as excessive if debt is above the 60 percent of GDP reference value unless it *"approaches the reference value at a satisfactory pace"*. Second, the countries that would benefit from greater flexibility without creating fiscal risks – including Germany and potentially the Netherlands – felt that they did not need it. In Germany, a national fiscal rule imposed even tougher constraints than the EU rule. This situation has now changed. As a result, the EU rules are imposing constraints on German policy and potentially the policies of other countries close to the 60 percent of GDP threshold that are tighter than is good for these countries or for the EU collectively (Zettelmeyer *et al*, 2025b).

A solution that gives more fiscal space to low-risk countries could take one of two forms (Steinbach and Zettelmeyer, 2025; Pench, 2025):

- First, define much longer adjustment horizons for countries with debt above but near 60 percent of GDP and low fiscal risks. The latter could be identified using a sovereign risk assessment methodology (such as the IMF's sovereign risk and debt sustainability framework, or using elements of the current EU methodology), perhaps supported by market indicators, including risk premia.

- Alternatively, increase the debt reference value outlined in Treaty Protocol 12 from 60 percent to 90 percent. This would not require Treaty change, but it would require unanimity in the Council.

4.2 The international policy agenda

To enhance its strategic autonomy, making significant progress on domestic policy should be an absolute priority for the EU during the next five to ten years. Simultaneously, the EU should develop its international agenda. We focus on two areas: trade and climate.

4.2.1 Trade policy

EU trade policy should have two objectives. First, it should promote trade, thereby contributing to growth and enhanced strategic autonomy. Second, this autonomy should be used to promote a rules-based international trade order that favours gains from trade.

On the first objective, the EU needs to further extend its large network of regional and bilateral trade agreements (already currently covering 74 countries and 44 percent of EU trade)[33] to enhance its economic security, including in critical raw materials. Here, the EU's strategic emphasis should be on agreements with the Global South, which is already pivotal in many areas and can only increase in importance in the future given its growth prospects. By 2030, the Global South (defined here as the emerging and developing economies (EMDEs), minus China and Russia) is expected to account for 40 percent of global GDP at PPP, slightly more than the share of the west (defined here as the advanced economies) and double that of China (Table 2).

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[33] See European Commission press release of 15 November 2023, 'Value of EU trade deals surpasses €2 trillion', https://ec.europa.eu/commission/presscorner/detail/en/ip_23_5742.

Table 2: The EU27 and the world: GDP at PPP (% of the world), 2000, 2025, and 2030

	2000	2025	2030	Δ 2000-2030
EU27	21.7	14.1	13.0	-8.7
US	20.5	14.7	14.0	-6.5
Other advanced	16.0	10.5	9.6	-6.4
Total advanced	58.2	39.4	36.6	-21.6
China	6.7	19.7	20.4	+13.7
India	4.0	8.5	10.0	+6.0
Other EMDEs	31.0	32.1	33.0	+2.0
Total EMDEs	41.7	60.6	63.4	+21.7
World	100.0	100.0	100.0	0.0
Memo item:				
Global South, w/t China & Russia	31.9	37.5	39.8	+7.9

Source: Bruegel based on IMF (WEO).

The EU has already free-trade agreements (FTAs) with important countries in the Global South, including Mexico, South Africa and Vietnam. It should rapidly ratify the FTA with Brazil (and its Mercosur partners) and conclude FTA negotiations with India and Indonesia[34], the three biggest players in the Global South. The EU also has strategic partnerships on raw materials with 14 countries from the Global North (including Australia, Canada and Norway) and the Global South (including Argentina, Chile and Zambia), complementing existing or future FTAs. These partnerships should be welcomed but also given more resources.

On the second objective, the EU should seek to move the trading system towards our scenario 3, or at least the most benign version of scenario 2. This involves two priorities: ensuring that the EU and most economies continue to adhere to existing WTO rules, despite the Trump administration's behaviour, and seeking effective reform of the WTO.

The EU must decide whether it is politically ready to take the lead and gather a 'coalition of the willing' to redesign international trade rules and institutions without US participation (at least initially). The US does not believe at the moment in a rules-based order, while China's economic system sits oddly with the practices of most other countries.

Sweden's National Board of Trade (Altenberg, 2025) has proposed that the EU launch a rules-based trade coalition (RBTC) with like-minded partners, extending Commission President Ursula von der Leyen's June 2025 suggestion that the EU deepen its cooperation with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[35]. According to President von der Leyen, acting together, the EU

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[34] See Garcia Bercero and Sapir (2025) for a discussion of what the EU-India free-trade agreement should contain and why it should be concluded rapidly.
[35] Gerardo Fortuna, 'Let's create a new World Trade Organization - Von der Leyen', *Euronews*, 27 June 2025, https://www.euronews.com/my-europe/2025/06/27/von-der-leyen-touts-eu-led-alternative-to-

and the CPTPP countries would show to the world that free trade with a large number of countries is possible on a rules-based foundation.

Using two main criteria to select RBTC partners – like-mindedness at the WTO, and countries with which the EU already has or is in the process of signing an FTA – Altenberg (2025) came up with non-exclusive list of 56 potential coalition members: the 27 EU countries, 13 non-EU European countries (including Iceland, Norway, Switzerland and Ukraine), 11 CPTPP members (including the UK), and five others[36]. Neither China not the US are on the list of potential RBTC partners (Altenberg, 2025).

The coalition would operate outside the WTO institutional framework, but its ultimate goal would be to strengthen the multilateral trading system and the WTO by reforming them. At the same time, the coalition should be ready to cooperate with countries interested in maintaining a rules-based framework. This could be done through open plurilateral agreements with different memberships. For instance, an agreement to cooperate on the trade and climate interface would need to include China, India, Indonesia, Brazil and South Africa (Garcia Bercero, 2025).

This and other proposals based on the idea of coalitions of the willing are compatible with scenario 3.

4.2.2 International climate policy

For climate protection, there is no option other than multi- or plurilateralism, to even hope to keep to the goals of the Paris Agreement. Ideally, plurilateral efforts would need to involve the top five emitters – China, the US, the EU, India and Russia – which together account for roughly 60 percent of global emissions, with China responsible for half this figure. In this area, a coalition of the willing, perhaps led by the EU but leaving out China, the US and Russia, will clearly not work. Assuming that the US and Russia are unwilling to participate at the moment, the coalition would need to include the EU, China and India, and perhaps some other large emitters such as Brazil and Japan. This coalition would account for a little more than 50 percent of global emissions but would be rather unbalanced in terms of emissions between emerging economies (with China, India and Brazil accounting together for roughly 40 percent of global emissions) and advanced economies (with the EU and Japan accounting together for only 10 percent of global emissions).

What kind of foreign economic policy should the EU put in place to reduce its emissions and promote similar reductions in China and the Global South?

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mired-wto. The CPTPP is a free-trade agreement is a free trade agreement between twelve countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the UK and Vietnam.

[36] Brazil is among these five countries, but India is not. Altenberg (2025) offered no explanation so one can only guess the reasoning. India was probably considered not sufficiently like-minded at the WTO, an issue also raised by Garcia Bercero and Sapir (2025), though they concluded that an ambitious EU-India FTA would be a tangible sign that India's trade policy has evolved towards greater like-mindedness.

The EU has already decided to implement a carbon border adjustment mechanism (CBAM), which will complement its emissions trading system (ETS) by levelling the playing field for European producers subject to the ETS and encouraging climate action beyond EU borders. Although potentially very useful to reduce emissions in the EU and elsewhere, CBAM is resented by many emerging and developing economies, which view it as 'green protectionism' and unfair because it imposes the same carbon price on rich and poor countries, irrespective of their ability to pay and degree of responsibility for climate change. Opposition from the Global South creates geopolitical difficulties for the EU because of the Global South's growing pivotal role in many issues, including climate.

Recognising that global climate outcomes will largely be determined in emerging and developing economies, since they account for two-thirds of current emissions (slightly above their share in global GDP at PPP), Pisani-Ferry *et al* (2025) proposed a climate strategy in line with the economic interests of both developing and advanced countries. Central to this strategy is the formation of a climate coalition of advanced and emerging market countries committed to tiered carbon pricing based on income level, and underpinned by a common CBAM, which would replace the EU CBAM. This coalition would include China, the EU, India, Brazil, Japan and a few others.

This strategy would also include two other important blocks: formal agreements in which advanced economies and China provide climate financing to the Global South countries in exchange for their commitment to ambitious net-zero targets, and green industrial partnerships between the EU, the UK, Norway and resource-rich countries in the Global South with high renewable-power potential, from which Europe would import energy-intensive intermediate products rather than expensive-to-ship green electricity (Pisani-Ferry *et al*, 2025).

Like Pisani-Ferry *et al* (2025), we view the EU as pivotal to the formation of these climate coalitions by virtue of its long-established carbon market and regulatory credibility.

5. Conclusion

We derive three main conclusions from our analysis.

First, the short-term economic impact in terms of GDP growth of the current geopolitical situation seems relatively modest. We suggest, however, that policymakers should not be complacent for two reasons:

1. It would be a grave mistake to take a short-term view of this new shock to the European economy, rather than consider it as part of a series of shocks that have affected Europe since the start of the Great Financial Crisis in 2008. Though not suggesting that shocks including the Great Financial Crisis, the COVID-19 pandemic and the war in Ukraine have a common cause, one must at least appreciate that these shocks have common economic and political impacts on European (and other advanced economy) countries, of which the increases in political fragmentation and debt levels are just two indicators.

2. Partly related to the previous caveat, there are a number of downside risks, stemming from the situation in the US and elsewhere, which could aggravate the situation in the next year or two, and even provoke a new financial crisis. Vigilance should be top of mind.

Our second main conclusion is that, besides short-term risks, recent geopolitical developments raise important medium- and longer-term risks for Europe. By placing such developments in a historical perspective and envisaging three scenarios for the period 2030-2035, we have sought to alert European policymakers to the huge and very challenging geopolitical shifts that Europe faces, and for which it is ill prepared. If the EU wants to be a scenario-maker rather than simply a scenario-taker, as it is at the moment, our analysis of a range of scenarios points in the same direction: Europe must work to gain strategic autonomy in key areas including defence, technology, finance and critical raw materials.

Our third conclusion is that strategic autonomy should not be confused with self-reliance or protectionism. Europe is and needs to remain an open economy and society. It is also and needs to remain a rules-based society and the champion of a rules-based international order. The past order, born (like the EU itself) from the ashes of the Second World War, is now being challenged not only by China and Russia, but also by its founder, the United States. Meanwhile, humanity faces global problems like never before because of increasing nuclear proliferation and more dramatic climate change, issues that require global governance. Because the US has relinquished its role of supporting the global system, and the other superpower, China, is not (yet) able to take over that role, it is incumbent on Europe to work with coalitions of the willing from the Global North and Global South to reinvent the multilateral order. The place to start this journey is with climate and trade.

Annex Table 1: Estimated short-term impacts of US tariffs on GDP growth in the US and EU (annual)

Source	US impact	EA/EU impact	As of/Assumptions
The Budget Lab (2025)	-0.5 pp (in 2025 and 2026)	-	As of 7 August 2025
Kiel Trade and Tariffs Monitor	-	-0.1 pp (EU) an -0.11 pp (EA) of real production	As of 28 July 2025
ECB scenario analysis	-	-0.35 pp in 2025 (-0.3 in 2026 and +0.01 in 2027).	As of 14 May 2025, baseline scenario
'The conversation'	-0.36 pp	-0.13 pp	As of 4 August 2025
Bloomberg tariff tracker	-0.62 pp	-	As of 7 August 2025
IW Köln (based on Oxford Economics)	-	-0.36 pp	Latest US-EU trade deal

Source: Bruegel based on The Budget Lab (2025); Kiel Trade and Tariffs Monitor (https://www.ifw-kiel.de/topics/kiel-trade-and-tariffs-monitor/#c91877); ECB (2025); *Bloomberg*, 'Tracking Every Trump Tariff and Its Economic Effect', 21 March 2025, https://www.bloomberg.com/graphics/trump-tariffs-tracker/; Kolev-Schaefer and Hüther (2025); ECB Eurosystem staff macroeconomic projections for the euro area, Box 2, https://www.ecb.europa.eu/press/projections/html/ecb.projections202506_eurosystemstaff~16a68fbaf4.en.html#toc4; Niven Winchester, 'Trump tariffs: early modelling shows most economies lose – the US more than many', *The Conversation*, 4 August 2025, https://theconversation.com/new-trump-tariffs-early-modelling-shows-most-economies-lose-the-us-more-than-many-262491.

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Annex A: A first overview of economic costs from new regulation

Table 1: Overview of estimated costs for public administrations and businesses of current EU proposals under negotiation in the Council (see table 2), current EU Proposals agreed by the Council (see table 3) and fully negotiated EU Proposals pending implementation (see table 4)

Status	Public Finances (BN. EUR)		Businesses (BN. EUR)	
	Recurrent	*One-Off*	*Recurrent*	*One-Off*
Total	**26.5-38.3**	**1.6-1.8**	**70.9-85.9**	**63.1-69.9**
Fully estimated	1.9-2.0	0.5-0.6	22.1-22.4	43.2-43.5
Partially estimated	24.6-36.3	1.1-1.2	48.8-63.6	19.9-26.4

Differences in totals are due to rounding.

Table 2: Overview of costs and benefits of current EU proposals under negotiation in the Council

No	Title	IA	Public Finances (M. EUR)		Business (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
Total			**1948,3-9018,1**	**614,2-614,8**	**5490,6-5512,9**	**14.132,3-19.910,5**	
Agriculture and Fisheries Council (AGRIFISH)							
1	Reproductive material COM(2023) 414, COM(2023) 415	Yes	43,0-98,0	>0	6,4	0	Efficiency gains for operators and national competent authorities
2	Protection of animals during transport COM(2023) 770	Yes	-	-	>0	>0	Not quantifiable
Total			**43,0-98,0**	**0**	**6,4**	**0**	
Competitiveness Council (COMPET)							
3	Plant protection products COM(2023) 231, COM(2023) 223, COM(2023) 222, COM(2023) 221	Yes	1,8	1,4	>0	>0	Saving on SPC search cost for generic/biosimilar manufacturers and health sector EUR 40 000.
4	European cross-border associations COM(2023) 516	Yes	0	0,1-0,2	>0	>0	Excess cost of reductions of up to EUR 338-378 m. (over 15-years) and reductions of cost of operations of 770 m/year
5	Standard essential patents COM(2023) 232	Yes	0	0	55,7	0	EUR 51,2 m benefits/savings
6	Late payment in commercial transactions COM(2023) 533	Yes	637,2-672,2	>0	139	299,1	Setting up mediation would allow companies to save EUR 27 million in avoided court cases per year.
Total			**639,0-674,0**	**1,5-1,6**	**194,7**	**229,1**	
Economic and Financial Affairs Council (ECOFIN)							
7	Head Office Tax system for SMEs COM(2023) 528	Yes	4,0	20,0	60,0-78,0	332,0-428,0	Reductions of CIT-related compliance costs for cross-border operating SMEs
8	Misuse of shell entities for tax purposes COM(2021) 565	Yes	0,8	2	>0	0	Higher amount of tax revenues for public authorities

No	Title	IA	Public Finances (M. EUR)		Business (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
9	Digital euro COM(2023) 369	Yes	-	-	>0	5.925,0-11.450,0	Not quantifiable
10	BEFIT COM(2023) 532, COM(2023) 529	Yes	>0	297	5,0-9,0	15,0-29,0	Reduction of compliance costs for firms: EUR 53-102 m./year
11	Corporate income tax purposes COM(2022) 216	Yes	>0	>0	>0	>0	Cost reduction from incident affecting businessess by EUR 180 to 290 bn/yr
12	Taxation of energy products and electricity COM(2021) 563	Yes	>0	>0	>0	>0	Revenues in Member States are expected to increase.
13	Real estate statistics COM (2025) 100	No	-	-	-	-	-
Total			**4,8**	**319,0**	**65,0-87,0**	**6272,0-11.907,0**	
Employment, Social Policy, Health and Consumer Affairs Council (EPSCO)							
14	Equal treatment between persons COM(2008) 426	Yes	0	0	>0	>0	Not quantifiable.
15	Support for workers facing job loss due to restructuring COM(2025) 140	No	-	-	-	-	-
Total			**0**	**0**	**>0**	**>0**	
Environment Council (ENV)							
16	Vehicle design COM(2023) 451	Yes	22,9	1,4	3173,3	3.060,0	The total annual revenues is 5.2 billion EUR in 2035
17	Social security systems COM(2016) 815	Yes	-	-	0	0	Not quantifiable.
Total			**22,9**	**1,4**	**3173,3**	**3060,0**	
Foreign Affairs Council (FAC)							
18	EDIP COM(2024) 150	No	-	-	-	-	-
General Affairs Council (GAC)							

No	Title	IA	Public Finances (M. EUR)		Business (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
19	Internal market on transparency of interest COM(2023) 637	Yes	0,6-1,4	0,1	0,6-0,9	71,3-214,0	Not quantifiable.
20	Financial rules applicable to the general budget COM(2022) 184	No	-	-	-	-	-
21	Simplification package on agriculture COM(2025) 236	No	-	-	-	-	-
22	Omnibus IV: SMC COM (2025) 501, COM(2025) 502	No	-	-	-	-	-
23	Omnibus IV: Paper-free COM(2025) 503	No	-	-	-	-	-
24	Omnibus IV: Battery due diligence COM(2025) 258	No	-	-	-	-	-
25	Omnibus: Defence COM(2025) 821	No	-	-	-	-	-
	Total		**0,6-1,4**	**0,1**	**0,6-0,9**	**71,3-214,0**	
Justice and Home Affairs council (JHA)							
26	Victim's rights COM(2023) 424	Yes	605,0-7.580	0,5-1	0	0	EUR 1.1-8.4 bn.for victims
27	Protection of adults COM(2023) 280	Yes	5,3	7,9	-	-	Among not quantifiable benefits, total cost reduction for vulnerable adults and their representatives amount to estimated EUR 2.6 billion quantifiable
28	Digital travel credentials COM(2024) 670	Yes	>0	54	0	0	Not quantifiable.
29	Insolvency proceedings COM(2025) 40	No	-	-	-	-	-
30	Migrant smuggling and trafficking COM(2023) 754	No	-	-	-	-	

No	Title	IA	Public Finances (M. EUR)		Business (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
31	System for the return of third-country nationals staying illegally COM(2025) 101	No	-	-	-	-	
Total			**610,3-7.585,3**	**62,4-62,9**	**0**	**0**	
Transport, Telecommunications and Energi Council (TTE)							
32	Water policy COM(2022) 540	Yes	51,0-55,0	>0	>0	>0	Not quantifiable
33	Greenhouse gas emissions of transport services COM(2023) 441	Yes	0,1	0,9	24	900,1	Benefits for transport service providers, expressed as present value over 2025-2050 relative to the baseline EUR 2.3 billion
34	RIS COM(2024) 33	Yes	3,0	18,3	-	-	The yearly direct benefits are estimated at approximately EUR 5,6 m.
35	Framework for intermodal transport of goods COM(2023) 702	Yes	300	0,3	0,3	0,3	Administrative costs savings for businesses and administrative costs Savings for Member States
36	Road vehicles circulating COM(2023) 445	Yes	168,7	102,7	84,0	-	Costs savings for national public authorities expressed as PV over 2025-2050 relative to the baseline total EUR 25,8 billion. Total savings for road transport operators, expressed as PV over 2025-2050 baseline is total 47,2 billion.
37	Roadworthiness package COM(2025) 179, COM(2025) 180	Yes	103,6	107,6	1.925,0	3.418,00	For national authorities savings will be 5.23 bn PV 2026-2050 Administrative costs savings for businesses 1.64 bn and 1.29 bn PV 2026-2050
38	Passenger rights in the context of multimodal journeys COM(2023) 752, COM(2023) 753	Yes	1,3	0	17,3	112	For national authorities the costs savings will be EUR 77.3 million, PV over 2025-2050
39	Phasing out Russian natural gas imports COM(2025) 828	No	-	-	-	-	-

No	Title	IA	Public Finances (M. EUR)		Business (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
Total			**627,7-631,7**	**229,8**	**2050,6**	**4430,4**	

Table 3: Overview of the costs of current EU Proposals agreed by the Council

No	Title	IA	Public finances (M. EUR)		Businesses (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
Total			**15.287,41-19.614,8**	**82,9-208,5**	**20.649,7-34.459,0**	**7237,1-8095,7**	
Agriculture and Fisheries Council (AGRIFISH)							
1	Welfare of dogs and cats and their traceability COM(2023) 769	No	-	-	-	-	-
2	Farmers in the food supply chain COM(2024) 577	No	-	-	-	-	-
3	Unfair b2b relationships in the agricultural and food supply chain COM(2024) 576	No	-	-	-	-	-
4	Wine package COM(2025) 137	No	-	-	-	-	-
5	Plants obtained by certain new genomic techniques COM(2023) 411	Yes	0	>0	>0	0	Total savings for administrations: EUR 1.4-2.1 m./year. Total savings for breeders: EUR 99.5-163.5 m./year
Total			0	0	0	0	
Competitiveness Council (COMPET)							
6	Dispute resolution for consumer disputes COM(2023) 649	Yes	0	0	38,6	0	Total benefit for businesses of EUR 634 m annually
7	Protection of travellers more effective COM(2023) 905	Yes	0	0,1	>0	6,5	Increased ease of doing business.
8	Screening of foreign investments COM(2024) 23	Yes	>0	>0	>0	-	Not applicable.
9	Safety of toys COM(2023) 462	Yes	-	-	17,9-22,5	41,1-414,7	Direct quantifiable benefits are estimated at EUR 245,2 m – 1207,9 m yearly. Additionally, there are non-quantifiable benefits.

No	Title	IA	Public finances (M. EUR)		Businesses (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
10	Licensing for crisis management COM(2023) 224	Yes	>0	>0	>0	0	Not quantifiable
11	Declaration of posting of workers COM(2024) 531	No	-	-	-	-	-
12	CSRD COM(2025) 81	No	-	-	-	-	-
			0,0	**0,1**	**56,5-61,1**	**47,6-421,2**	
Economic and Financial Affairs Council configuration (ECOFIN)							
13	Payment and electronic money services COM(2023) 366, COM(2023) 367	Yes	28,0-30,0	>0	123,0	252,0-288,0	Reduction in social engineering fraud (estimated at €323 million per year)
14	FIDA COM(2023) 360	Yes	145,8	5,4	141,8-300,0	2218,5-2418,5	For businesses In the range of EUR 663 million to 2 billion.
15	Administrative cooperation in the field of taxation COM (2022) 707	Yes	0,2-11,7	1,5-77,8	22,6	259,0	Additional tax revenues
16	Faster and safer relief of excess withholding taxes COM(2023) 324	Yes	3,6-14,3	23,1-72,2	13,0	75,9	Direct benefits for investors are estimated at EUR 5,17 billion annually No quantification available
17	Retail investment strategy COM(2023) 278, COM(2023) 279	Yes	0	0	2,3-22,6	92,9-196,5	Not quantifiable
18	Customs Reform COM(2023) 258, COM(2023) 262	Yes	-	-	1	>0	Member states saving 3.59 bn EUR in recurrent costs
19	Administrative cooperation in the field of taxation COM(2024) 497	No	-	-	-	-	-
20	Electronic value added tax exemption certificate COM(2024) 278, COM(2024) 279	No	-	-	-	-	-
Total			**177,6-201,8**	**30-155,4**	**303,7-482,2**	**2.898,3-3.237,9**	
Environment Council (ENV)							

No	Title	IA	Public finances (M. EUR)		Businesses (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
21	Green Claims Directive COM(2023) 166	Yes	1,6-2,0	0,3	318-370	3243,0-3330,0	Not quantifiable
22	Soil Monitoring Law COM(2023) 416	Yes	14.994-19.294	48	17.348-23.058	0	Avoided costs of soil degradation: EUR 50 BN pa. Benefit - avoided costs of soil degradation (contamination) EUR 24,4 bn. Pa
23	Waste directive COM(2023) 420	Yes	30,8-32,4	>0	978,6	>0	Benefit to consumers of 2.2 billion euro for the EU overall.
Total			**15.026,4-19.328,4**	**48,3**	**18.644,6-24406,6**	**3.243,0-3.330,0**	
Employment, Social Policy, Health and Consumer Affairs Council configuration (EPSCO)							
24	Working conditions of trainees COM(2024) 132	Yes	1,2	>0	794,0-8.548,0	46,0	For public budgets increased tax and social security receipts
Total			**1,2**	**>0**	**794,0-8.548,0**	**46,0**	
General Affairs Council (GAC)							
25	Efficiency of the EU and simplifying reporting requirements COM(2025) 84	No	-	-	-	-	-
26	Mid-term review cohesion policy COM(2025) 123, COM(2025) 164	No	-	-	-	-	-
Total			**-**	**-**	**-**	**-**	
Justice and Home Affairs Council (JHA)							
27	Additional procedural rules relating to the enforcement COM(2023) 348	No	-	-	-	-	-
28	Facilitation of unauthorised entry, transit and stay COM(2023) 755	No	-	-	-	-	-
29	Harmonising certain aspects of insolvency law COM(2022) 702	Yes	0,3	0,3-0,5	0	>0	Approximately EUR 1.9 billion of cost savings from simplification of insolvency

No	Title	IA	Public finances (M. EUR)		Businesses (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
							proceedings. For businesses approximately EUR 4.9 bn.
Total			**0,3**	**0,3-0,5**	**0**	**>0**	
Transport, Telecommunications and Energi Council (TTE)							
30	Railway infrastructure capacity COM(2023) 443	Yes	1,1	4,2	43	987,1	Total savings for public authorities, in PV over 2025-2050 is 9,4 m for public authorities and EUR 496,9 m for businesses.
31	Compensation and assistance to passengers by flights COM(2013) 130	Yes	-	-	-	-	-
32	Conditions and funding of resolution action COM(2023) 225, COM(2023) 227, COM(2023) 228	Yes	>0	>0	>0	>0	No amount available
33	Maritime Safety Agency COM(2023) 269	No	-	-	-	-	-
Total			**1,1**	**4,2**	**43**	**987,1**	
Employment, Social Policy, Health and Consumer Affairs Council configuration (EPSCO)							
34	Medicinal products for human use COM(2023) 192, COM(2023) 193	Yes	82	0	748,3	0	Public payer/health systems and patients+€744m cost saving. Gross profit for pharmaceutical companies of EUR 195 m.
35	European works Council COM(2024) 14	Yes	>0	>0	59,6-169,8	15,1-73,5	Not quantifiable
Total			**82**	**0**	**807,9-918,1**	**15,1-73,3**	

Danish Presidency
Council of the European Union

Table 4: Overview of the costs of fully negotiated EU Proposals pending implementation

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
Total			**9.305,3-9.704,8**	**913,4-947,5**	**44.740,9-45.970,9**	**41.696,9-41.923,8**	
Agriculture and Fisheries Council (AGRIFISH)							
1	Fisheries control COM(2018) 368	Yes	0	7,2	0	5,1	Administrative savings for the fishing industry: EUR 157 m. over 5 years
Competitiveness Council (COMPET)							
2	CSDD COM(2022) 71	Yes	7,9-11,2	0,1	1.720,0-2.370,0	940,0-1.130,0	Companies improve the management of their financial and non-financial risk and build production processes with reduced adverse external impacts. First mover advantages in global markets.
3	Rules promoting the repair of goods COM (2023) 155	Yes	6,3	1	493	53,4	Environmental benefits: 4,9 bn. Cost savings:15,6 bn.
4	Digital tools and processes in company law COM(2023) 177	Yes	21,4	5,4	0	311,0	Savings in operational costs for business registers and public authorities and trust/transparency in the market. Ease of doing business estimated 437 m. recurrent cost savings annual for businesses.
5	CCD2 COM(2021) 347	Yes	3,3	0,3	1.179,1	284,3	Compliance costs to advertise consumer credit would be reduced by 14 m.
6	Public capital markets for companies and access to capital for SMEs COM(2022) 760, COM (2022) 761, COM(2022)762	Yes	0,1	>0	>0	>0	Issuers would benefit from cost savings 67 m. (cumulatively for equity and non-equity issuers) and less inside information at 100 m. NCA would benefit from lower cost.
7	Critical raw materials COM(2023) 160	Yes	>0	182,4	1,0-1,1	19,0-25,3	Monitoring/ strategic stocks, companies' risk preparedness. Strategic projects would create at least 3.840 direct jobs pr. year and better access to finance.

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
8	DFSD COM(2022) 204	Yes	5,1	0,8	13,7	103,4	The proposal entails several direct benefits though most of them are not quantifiable. Direct benefits are estimated at EUR 292-8-328,8 m
9	Detergents COM(2023) 217	Yes	>0	-	0,2	0,4	For manufacturers EUR 7 million
10	Community designs COM(2022) 666, COM(2022) 667	Yes	-	-	-	>0	EUR 340 and 544 million after the ten-year transition period
11	Surveillance of non-road mobile machinery COM(2023) 178	Yes	>0	>0	>0	>0	The overall administrative saving is €3,38m per year. Total benefits for economic operators: estimated net savings of €846 million over 10 years
12	Single Market Emergency Instrument COM(2022) 459	Yes	-	0	-	-	Not quantifiable
13	Net Zero Industry Act COM(2023) 161	No	-	-	-	-	-
14	Corporate sustainability reporting COM(2025) 80	No	-	-	-	-	-
15	Products made with forced labour COM(2022) 453	No	-	-	-	-	-
Total			**44,1-47,4**	**190**	**3407-4057,1**	**1711,5-1907,8**	
Economic and Financial Affairs Council (ECOFIN)							
16	European statistics COM(2023) 31	Yes	104,6-156,6	41,0-61,5	0	0	Most benefits are non-quantifiable. EUR 141-563 m per EU census round
17	Risk on centrally cleared derivative transactions COM (2022) 698	Yes	>0	>0	>0	>0	Ongoing reduction of compliance costs for CCPs: total EU-wide ongoing cost reduction of ca. EUR 5 million to ca. EUR 15 million
18	Labour market statistics on	Yes	3,3	0,3	4,6	-	Not quantifiable

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
	businesses COM(2023) 459						
19	The Anti-money laundering package COM(2021) 421, COM(2021) 423, COM(2021) 420	Yes	>0	>0	30	>0	Not quantifiable
20	Administrative obstacles in a cross-border context COM(2023) 790	No	-	-	-	-	-
21	Scope of the rules for benchmarks COM(2023) 660	No	-	-	-	-	-
22	CBAM COM(2025) 87	No	-	-	-	-	-
23	VAT rules for the digital age COM(2022) 701, COM(2022) 703, COM(2022)704	Yes	189,0	430,0	419,0	7.530,0	Between 2023 and 2032, it is expected to bring between EUR 172 billion and EUR 214 billion net impacts against baseline.
24	Financial services and investment support COM(2023) 593	No	-	-	-	-	-
Total			**296,9-348,9**	**471,3-491,8**	**453,6**	**7530**	
Education, Youth, Culture and Sport Council (EYCS)							
25	European Media Freedom Act COM(2022) 457	Yes	4,2-8,0	0,6-2,2	5,6-14,5	9,4-14,0	The annual net economic benefits, in terms of increased revenues of media companies, are estimated at EUR 2.9 billion.
26	Transparency and targeting of political advertising COM(2021) 731	Yes	0	>0	>0	>0	Not quantifiable
Total			**4,2-8,0**	**0,6-2,2**	**5,6-14,5**	**9,4-14,0**	
Employment, Social Policy, Health and Consumer Affairs Council (EPSCO)							

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
27	Protection workers from asbestos at work COM(2022) 489	Yes	10,5	1,5	444,4	3000	For public authorities: EUR 3.4 million over 40 years
28	Quality and safety for substances of human COM(2022) 338	Yes	3,2	9,8	28,4	83	The total economic benefits is estimated to 8,5 million in direct benefits
29	Equal treatment and equal opportunities between women and men COM(2022) 688, COM (2022) 689	No	-	-	-	-	-
30	European Health Data Space COM(2022) 197	Yes	2,5-5,3	2,9-9,3	3,3-5,0	0-0,1	The total economic benefits of this option are expected to be above EUR 11 billion, over 10 years.
31	European Parking Card for persons with disabilities COM(2023) 512	Yes	1,8	1,3-2,6	0	0	The accessible tourism market is expected to grow by between EUR 2.1 and 3.1 billion.
32	Working conditions in platform work COM(2021) 762	Yes	>0	>0	4500,4	0,1	The earnings of people working through platforms may increase by up to EUR 484 million per year.
33	Marketing of construction products COM(2022) 144	Yes	0	>0	412	0	Direct benefits are estimated at EUR 2717 m annually
34	Lead and diisocyanates exposure limits COM(2023) 71	Yes	0	0,5	180	565	Direct benefits are estimated at EUR 5 m for companies, 100 m for public secor and 160-250 m for workers and families
35	Equal pay for equal work COM(2021) 93	Yes	0,1	0,4	>0	26,0-50,0	Not quantifiable
Total			**18,1-20,9**	**16,4-24,1**	**5.568,5-5.570,2**	**3674,1-3.698,2**	
Environment Council (ENV)							
36	Air quality and cleaner air COM(2022) 542	Yes	90,0	17,3	0	0	overall net benefits of the initiative outweigh costs

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
							considerably (between 29 and 38 billion EUR)
37	Shipments of waste COM(2021) 709	Yes	0,02	0,05-0,08	0,01	0,03	Direct quantifiable benefits are estimated at approximately EUR 161,5-401,5 million
38	Microplastic pollution regulation COM(2023) 645	Yes	0,1	0	375,9-490,9	1,4-3,3	Not quantifiable.
39	Framework for chemicals COM(2023) 779	No	-	-	-	-	
40	Area of chemicals COM(2023) 783	No	-	-	-	-	en
41	Urban wastewater treatment COM(2022) 541	Yes	774	0	3.982,4	28.608,7	In all MS the benefits are higher than the costs. Direct benefits are estimated at EUR 6,4 billion yearly.
Total			**864,1**	**17,4**	**4358,31-4473,3**	**28.610,1-28.612,0**	
Justice and Home Affairs Council (JHA)							
42	Information exchange between law enforcement authorities COM(2021) 782	Yes	0	11,5	0	0	
43	Advance passenger information COM(2022) 729	Yes	0	13,5	25,4	125	Not applicable
44	Cross-border exchange of information on road-safety-related traffic offences COM(2023) 126	Yes	5,7	4,6	0	0	Not quantifiable
45	Harmonised rules in criminal proceedings COM(2018) 226	Yes	130,0	3,3	114,6	1,7	Savings in 15dministrative costs: 110 mio. EUR, and reduction of crime EUR 3300 m.
46	Liability of defective products COM(2022) 495	Yes	>0	0	0,9-2,3	>0	Not quantifiable

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
47	Import, export and transit measures for firearms COM(2022) 480	Yes	0,1	1	0,9	0	Savings for museums for 30.840 each year
48	Movement of persons across borders COM(2021) 891	Yes	>0	0	0	0	Not quantifiable
49	Eurodac data by Member States COM(2020) 614	No	-	-	-	-	
50	Third country nationals at the external borders COM(2020) 612	No	-	-	-	-	
51	Asylum and migration management COM(2020) 610	No	-	-	-	-	
52	Common procedure for international protection COM(2016) 467	No	-	-	-	-	
53	Entry/Exit system COM(2024) 567	No	-	-	-	-	
Total			**135,8**	**33,9**	**141,8-143,2**	**126,7**	
Transport, Telecommunications and Energy Council (TTE)							
54	Cybersecurity requirements for products with digital elements COM(2022) 454	Yes	7.701,6	>0	22.465,0	>0	Cost reduction of EUR 180 to 290 billion annually
55	Industrial Emissions COM(2022) 156	Yes	221-465	0	384,1-628,1	0	Not quantifiable
56	Energy performance buildings (recast) COM(2021) 802	Yes	16,4-105,3	171,11-175,4	2.174-2.382,8	0	Not quantifiable
57	Maritime transport sector directive COM(2023) 270	Yes	0,4-5,1	0,3	-	0	Reduction of external costs is estimated at EUR 132.6 to 229,28 million Adjustment costs savings

No.	Titel	IA	Public finances (M. EUR)		Businesess (M. EUR)		Benefits
			Recurrent	*One-Off*	*Recurrent*	*One-Off*	
							for ship operators relative to the baseline (i.e. present value over 2025-2050) EUR 0,6 to 1,2 million
58	Flag State requirements COM(2023) 272	Yes	1,8	3,3	0,1	0	The total direct benefits are estimated at 8,5 million. Additionally, there are non-quantifiable benefits
59	Port state control COM(2023) 271	Yes	0,9	1,1	-	0,0	Reduced waste management costs of EUR 4.2 billion
60	Packaging waste COM(2022) 677	Yes	-	0,8	5.783	30	The net financial impacts are a saving of EUR 47.2 billion in 2030.
61	Artificial intelligence act COM(2021) 206	Yes	>0	0	>0	>0	
62	WEEE directive COM(2023) 63	No	-	-	-	-	
Total			**7.942,1-8.279,7**	**176,6-180,9**	**30.806,2-31.259,0**	**30**	

Table 5: Overview of upcoming EU proposals

No.	Title	Council	Status
1	IORP II Directive	ECOFIN	Not published
2	European Business Wallet	COMPET	Not published
3	PEPP Regulation	ECOFIN	Not published
4	Market Infrastructure Package	ECOFIN	Not published
5	Cross-border provision of funds	ECOFIN	Not published
6	Transfer of Funds	ECOFIN	Not published
7	More integrated and efficient supervision	ECOFIN	Not published
8	DLT-Pilot Regime	ECOFIN	Not published
9	Money Market Funds	ECOFIN	Not published
10	SFDR	ECOFIN	Not published
11	Macroprudentiel review	ECOFIN	Not published
12	Covered bond	ECOFIN	Not published
13	EuVECA	ECOFIN	Not published
14	SFDR review	ECOFIN	Not published
15	Telework and the right to disconnect	EPSCO	Not published
16	The carcinogens, mutagens and reprotoxic substances	EPSCO	Not published
17	REACH	ENV	Not published
18	Groundwater and environmental quality standards	ENV	Not published

No.	Title	Council	Status
19	Firearms trafficking	JHA	Not published
20	Revision of the Union Protection Mechanism	TTE	Not published
21	Industrial Decarbonisation Accelerator Act	-	Not published
22	Regulation on Textile Labelling	-	Not published
23	Language regime	-	Not published

Danish Presidency
Council of the European Union

Annex B: Overview of the methodological approach used in Annex A

Date: 8. September 2025

This annex clarifies the methodology applied to collect the data used in Annex A, explaining: 1) applicable legal acts included; 2) when acts are considered relevant; 3) which economic consequences are included; 4) the type of economic burdens; 5) the terminology used when classifying proposals according to the accompanying impact assessment; 6) a general comment.

Overall, it should be noted that estimates used in Annex A have limitations, as individual impact assessments may rely on different assumptions, including baseline scenarios, methods, data and welfare measures. The individual estimates may therefore not be directly comparable and in some cases, the monetisation of various effects may be imprecise, uncertain or incomplete. In addition, the value of some categories of benefits may be sizable, yet quantification is not possible. Furthermore, there might be interaction effects between the individual pieces of legislation. Despite these limitations, and while these figures cannot be viewed in isolation from the benefits the relevant proposals would bring, they provide a rough overview of the cost implications of the flow of EU regulation currently in the pipeline. However, it is important to acknowledge the limitations when using the aggregated figures.

Tabel 1 Overview of the methodological approach used in Annex A

Subject	Scope of the data work	Points of attention
1) Applicable legal acts	Regulations and directives. The overview is limited in scope and does not cover decisions, recommendations, opinions as well as implementing, and delegated acts.	Annex A does not include delegated acts, as these are rarely accompanied by impact assessments. The Council's 2023 Annual Impact Assessment Report indicates that only 0.5 percent of delegated acts were subject to such evaluation. However, in some cases delegated acts may in themselves add substantial costs/burdens.
2) Relevance	1. Legal acts currently under negotiation in the Council or between the European Parliament and the Council. 2. Legal acts for which implementation is still pending. 3. Upcoming known legal acts that have not yet been published by the Commission,	1. Some proposals may not be adopted in case of insufficient support, even if the Commission has not withdrawn the proposal. 2. All regulations for which the negotiation process has been completed, but where the date of entry into force has not yet passed, are included. A regulation is not included in the overview if the date of entry

	but are expected to have economic consequences.	into force has been exceeded. All directives for which negotiations have been concluded, but where the deadline for national implementation has not yet passed, are also included. If the implementation deadline has been exceeded, the file is not included in the overview. 3. The data builds on preliminary notifications from the relevant Danish ministries regarding forthcoming cases with significant economic impact. The actual number of such files exceeds those identified.
3) Economic consequences	1. The data includes recurrent and one-off costs and direct benefits. 2. The costs and benefits are derived from the Commission's impact assessment, which are typically prepared at the time the proposal is submitted. Although an impact assessment could be updated later in the process in the light of amendments, this is rarely seen in practice. 3. The impact assessments mostly outlines different kind of options. Annex A is based on the preferred (or only) option outlined in the impact assessments. 4. The data only include direct costs and benefits not the indirect costs and benefits outlined in the impact assessments. If the cost estimate includes a range, it is outlined in the data, cf. Annex A.	1. Methodologically, it can be difficult to translate benefits and costs to a clear-cut net economic consequence figure as it is often not specified in impact assessments if costs and benefits are recurrent or one-off, or whether they affect business or public authorities etc. 2. The costs/benefits of adopted legislation may be substantially different from the Commission's original proposal. Once a methodology for impact assessments to account for substantial amendments is developed, the data can be adjusted accordingly. 3. The European Parliament and the Council may have negotiated towards one of the other solutions or an entirely different one.
4) Types of economic burdens	1. For national budgets, total gross costs are used. This means the costs for all EU-27 Member States. 2. The costs are aggregated for all EU Member States, cf. above. If it is not specified that the costs for "service providers" concern public authorities, they are counted as an economic impact on businesses.	1. Member States will naturally be affected differently depending on factors such as size or existing policies.
5) Terminology	The following coding is used: **0** = An assessment has been made, and the proposal is not expected to have economic consequences. **>0** = An assessment has been made indicating that the proposal is expected to have costs which are not quantified. "**No Estimation**" / "**-**" = The Commission has not conducted an assessment. "**Partially estimated**" = The Commission has assessed costs of parts of the proposal but not for all elements. Consequently, an unknown share of the costs have been	This terminology is quite clear. However, 'partially assessed' is a discretionary consideration that may vary from one assessment to the another, and others might adopt a different approach.

	assessed and quantified with an unknown share yet to be assessed.	
6) General comments	1. The costs cover minimum implementation. For directives, Member States may potentially over-implement.	1. To the extent member states over-implement directives, this may lead to higher actual costs than outlined in Annex A.

Ministerie van Financiën

TER BESLISSING
Aan
de minister

14/9

nota

Nazending Presidency Issues Notes informele Ecofinraad 19 en 20 september 2025

Generale Thesaurie
Directie Buitenlandse Financiële Betrekkingen

Persoonsgegevens

Datum
10 september 2025

Notanummer
2025-0000433401

Bijlagen
1. Issues note 1: Versimpeling financiële Regelgeving
2. Appendix New Financial
3. Issues note 2: hervormingen ter bevordering van de productiviteit en concurrentie
4. Appendix IMF
5. Issues note 3: geopolitiek en wereldeconomie
6. Appendix Bruegel
7. Issues note lunchsessie: economische consequenties EU wet- en regelgeving
8. Appendix A: overzicht economische kosten
9. Appendix B: methodologie

Aanleiding

- De gebruikelijke *Presidency Issues Notes* en gerelateerde stukken voor de informele Ecofinraad van 19 en 20 september a.s. zijn ontvangen nadat de Geannoteerde Agenda (GA) al naar het parlement was verzonden. In de aanbiedingsbrief bij de GA had u reeds aangegeven dat u deze *Presidency Issues Notes* zult nazenden.
- De GA behoeft geen nadere aanvulling op basis van de *Presidency Issues Notes*.

Beslispunten

- Graag uw goedkeuring voor verzending van de *Presidency Issues Notes* en de gerelateerde stukken aan het parlement.
- Daarbij het verzoek om de twee bijgevoegde aanbiedingsbrieven te ondertekenen.
- Graag uw akkoord voor het openbaar maken van de nu voorliggende nota, conform de beleidslijn Actieve openbaarmaking nota's.

Toelichting

- De *Presidency Issues Note* voor werksessie I gaat over de versimpeling van financiële regelgeving. De notitie gaat in op de complexiteitsuitdaging van financiële regelgeving in de EU, de rol van de financiële sector op de economie en hoe er stappen gezet kunnen worden in de versimpeling van financiële regelgeving.
- De *Presidency Issues Note* voor werksessie II gaat over de nationale structurele hervormingen om productiviteit en concurrentie te bevorderen. De notitie beschrijft het belang van nationale structurele hervormingen en in welke gebieden deze hervormingen doorgevoerd kunnen worden. De appendix bij deze sessie betreft een analyse van het Internationaal Monetair Fonds (IMF).
- De *Presidency Issues Note* voor werksessie III gaat over de veranderende geopolitiek en de wereldeconomie. De notitie beschrijft de veranderende wereldorde, drie geopolitieke scenario's voor komend decennium en verschillende opties voor *likeminded* landen. De appendix bij deze sessie is een paper van Bruegel.
- Ook voor de lunchsessie is een *Presidency Issues Note* verstuurd door het Deense voorzitterschap. Tijdens de lunch zal gesproken worden over de economische consequenties van EU-wet- en regelgeving. De bijlagen hierbij

betreffen een overzicht van de economische kosten van nieuwe wet- en regelgeving en een toelichting op de gebruikte methodologie.

Communicatie
Niet van toepassing.

Politiek/bestuurlijke context
Niet van toepassing.

Informatie die niet openbaar gemaakt kan worden
Niet van toepassing.