REPORT

# Ready to rise

## Europe's path to transformation and growth

Roland Berger

# Management summary

Europe faces the imperative of reinventing its economy, but underestimating the continent would be misguided. Beneath the noise, Europe still commands substantial strengths in the global contest with the United States and China – from being the world's second-largest consumer market to possessing a diversified and resilient industrial base. One should not forget that Europe produces more than a quarter (25.1%) of the world's STEM graduates and generates 14% of its GDP from manufacturing – a far higher share than the United States, at just 10%.

This depth of talent, its industrial capabilities and its leading research institutions form a solid foundation on which the continent can build. But they are no guarantee of a comeback. Europe can no longer coast on these strengths. It must mobilize them fully and adopt a more decisive and ambitious mindset in the global economic contest. Or, put differently, the continent must go all in and deploy its assets with far greater strategic clarity.

Against this backdrop, the **Roland Berger Europe Future Readiness Index** examines how well Europe is positioned for an era of rapid transformation. The assessment shows a continent on the move, with early signs of reaching an inflection point that could lead to a comeback: in human capital, sustainability, and resilience, yet held back by persistent gaps in digitalization that hinder startups from scaling rapidly into global champions, as well as by shortcomings in infrastructure (including high energy prices) and institutional effectiveness. The result is a Europe that can rise beyond the gloom, with fundamentals stronger than the headlines suggest – but a narrow window to act on it.

Cover: EschCollection/Getty Images

# Contents

# 1 Introduction

## A new "whatever it takes" mindset

Periods of acute pressure often prove to be the most fertile ground for renewal. Europe's economy now finds itself at precisely such a pivotal moment. The old export-led growth model that served the continent well before the pandemic no longer functions as it once did. Geopolitical tensions, new trade barriers, gaps in energy prices, and intensifying competition from the world's two other economic superpowers – the United States and China – have shifted the balance against Europe. Unless the continent acts decisively, its share of global GDP will continue to erode. In 1990, Europe accounted for a quarter of the world economy; today, that figure has fallen to just 17%.

Much is at stake. Without new sources of growth, Europe will struggle to sustain the prosperity and high living standards its citizens are justly proud of. At the same time, the continent must meet rising demands on its security and defense budgets – spending an estimated €450 billion over the next four years to safeguard Ukraine, for example – while also financing the vast transformation required by climate change. Together, these pressures mark the beginning of a profound economic and industrial transformation that Europe can no longer postpone.

It is therefore time for Europe to go all in. The era of hesitation is over. The continent must draw on its strengths – and use them to their fullest. Yet the situation is far from hopeless. As Chapter 2 will show, Europe rests on a solid economic foundation: a powerful domestic market, a globally competitive research base, and an industrial core that has to be defended. These assets must now be leveraged more effectively, as several success stories across the continent already demonstrate.

To better measure changes, we have developed the **Roland Berger Europe Future Readiness Index,** introduced in Chapter 3. It tracks how momentum is evolving across key economic competitiveness dimensions. Chapter 4 concludes with recommendations for key decision makers – a roadmap for Europe to reclaim its dynamism and renew its economic strength.

> **"Europe is still all in on powerful assets: deep talent, a robust industry, and leading research. With aligned capital, regulation, and industrial strategy, renewed competitiveness is within reach."**
>
> **David Born,**
> **Head of Roland Berger Institute**

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# Beneath the surface

## Europe's quiet economic powerhouses

In daily commentary, Europe[1] is often portrayed as a weary old patient whose health is steadily declining. Yet a closer look at the continent's underlying economic structure tells a slightly different story. Beneath the gloomy headlines and weak sentiment indicators lies an economy with deeper reserves of strength than many assume.

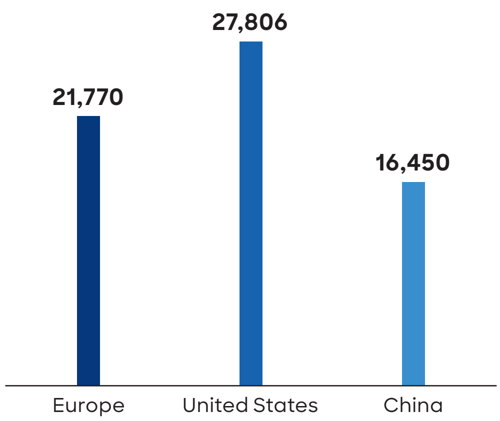
It starts with the single market – the world's second-largest consumer base after the United States. In monetary terms, internal European demand amounts to roughly €22 billion, comfortably ahead of China's €16 billion. The ranking of countries by median disposable household income reinforces the picture: European nations dominate the top twenty, with only five non-European economies making the list. Little wonder, then, that Europe remains one of the most coveted markets on the planet – though Europeans themselves rarely seem aware of their own clout. Were they more conscious of it, they might leverage it far more effectively. ▶ A

Europe's internal strength also underpins its expanding trade network. While other regions raise new tariff and non-tariff barriers, the EU continues to build an extensive web of trade agreements with key partners. It has concluded a deal with the Mercosur bloc in South America and is negotiating with India, Malaysia, the Philippines, and Australia. A pact with Indonesia – a fast-growing nation of 300 million people rich in resources critical for the green transition – has also recently been signed.

Over the medium term, this pro-globalization strategy should pay dividends for two reasons. First, it reduces Europe's dependence on the world's other two economic superpowers, the US and China, making supply chains more resilient. Second, it opens new export markets for the EU's manufacturing and services powerhouses. ▶ B

1 In this publication, "Europe" does not refer exclusively to the member states of the European Union but also includes Norway, the UK, and Switzerland, in addition to the EU-27 countries.

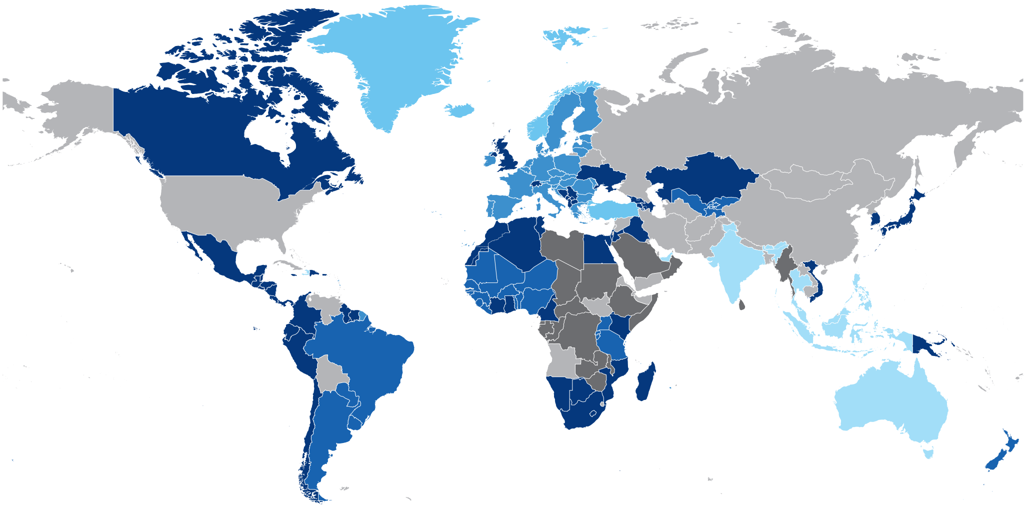
**A Europe's wealthy consumer market**
Domestic demand [2024, EUR bn]




Source: Oxford Economics

## B EU deepens trade reach as others retreat

Trade agreements of the European Union



- European Union
- Customs Union, EEA & OCT
- Trade agreement in place
- Trade agreement agreed upon, yet to be ratified
- Ongoing trade agreement negotiations
- On hold
- No agreement

Source: EU Commission

Of course, the continent's economic model is undergoing a profound transformation. Europe will not secure its future prosperity by relying solely on its traditional industrial strengths. Technological disruption is reshaping entire sectors and redefining global competitiveness. While Europe may not win the global AI race in terms of scale and macro-innovation – its tech champions lag behind their American and Chinese counterparts – it has the chance to lead where it matters most for its economy: in **micro-innovation.**

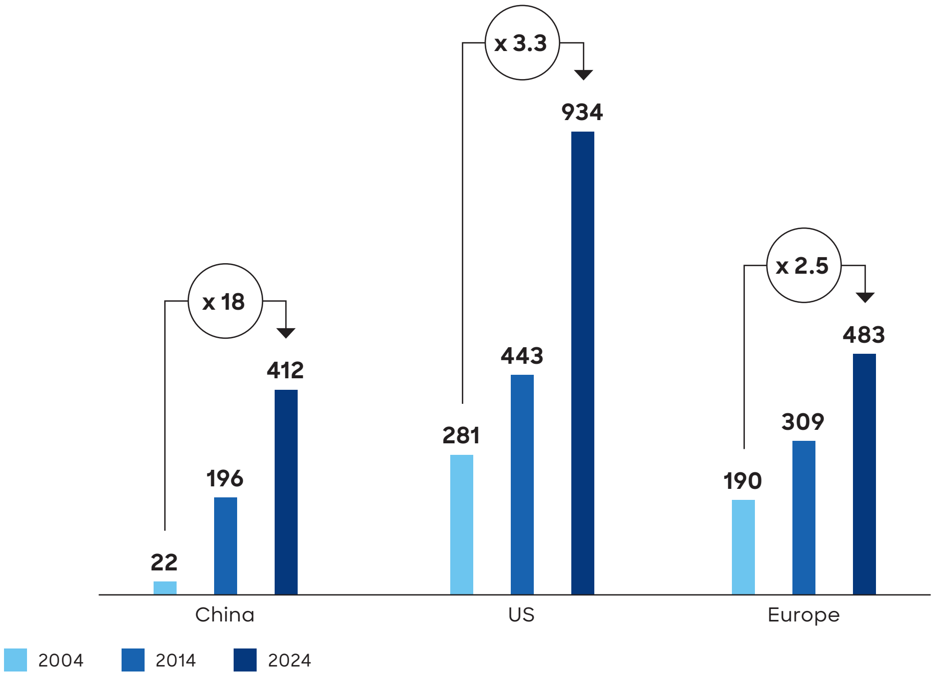
By harnessing the unique, high-quality data generated within its world-class manufacturing base – data that remain largely proprietary to its industrial leaders – Europe can build a distinctive edge in **industrial AI.** In this race, success will come not from size but from specialization and smart use of data – a point we emphasize in our recommendations. Conversely, this also means Europe could quickly catch up in digitalization, even if it currently lags, as our Europe Future Readiness Index will reveal in Chapter 3.

True, Europe has lost ground to the United States: In 1995, European productivity measured as GDP per hour worked stood at 95% of America's; today, it is below 80%. Yet when measured by the World Intellectual Property Organization's Global Innovation Index, Europe's major economies still rank among the world's most inventive.

The same applies to research and development. European R&D spending has grown more slowly than China's over the past two decades – by a factor of 2.5 versus 18 – but remains high in absolute terms: €483 billion compared with China's €412 billion. That gap may have narrowed, but it hardly signals decline. Instead, it shows that there can be something achieved in case the money is spent in the right way. ▶ C

## C Still on a second place

Evolution of R&D budget [EUR bn]




Source: World Bank, European Parliamentary Research Services, secondary research

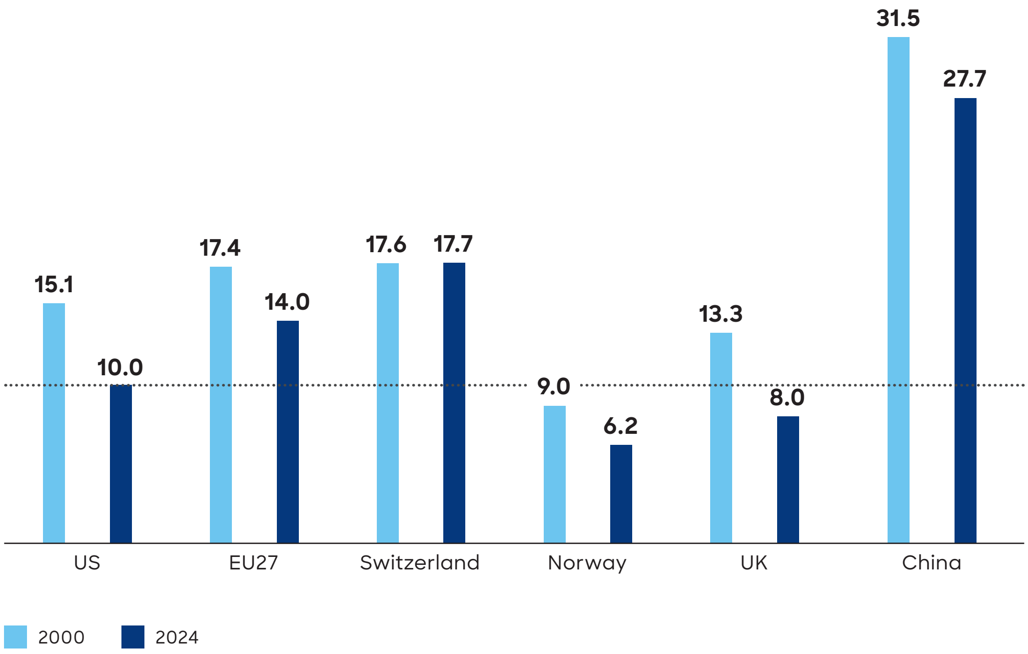
This could be Europe's moment. Unlike the United States, where decades of offshoring have hollowed out much of the industrial base, the continent retains a deep and diversified manufacturing backbone, home to world-leading firms. It also benefits from a highly skilled workforce capable of driving a new industrial renaissance. As shown in Graph D, Europe's share of manufacturing remains significantly higher than that of the US – a clear advantage in the current wave of reindustrialization among the world's major economies.

In a similar vein, Europe's share of STEM graduates stands well above that of the US (25.1% versus 21.8%) – led by Germany, where this figure rises to 35.5%. This abundance of technical talent has long helped European manufacturers carve out dominant positions in global niche markets. It also underscores the continent's strength in human capital, as our Europe Future Readiness Index will show.

What unites these "European hidden champions" is their quiet mastery of industries that underpin global value chains. From laser technology and lithography to industrial biotechnology and factory automation, these firms anchor Europe's position as a manufacturing powerhouse – an activity that still accounts for roughly one-fifth of the continent's gross value added.

That share could rise again. Europe's companies hold trillions' worth of valuable industrial data – unique assets that, if properly harnessed, could become a genuine competitive advantage in the age of AI transformation. To achieve this, the continent needs to invest more in data integration and ensure that information is structured in ways that allow its full potential to be leveraged for a digital and AI-driven industrial era. The opportunity is clearly there – what's missing so far is execution. ▶ D

D **Europe's head start in the reindustrialization race**
Manufacturing value added [% of GDP]




The earliest available data is from 2004.

Source: World Bank

Nowhere is Europe's huge potential more visible than in the defense sector – a field long hampered by fragmentation and a shortage of venture capital. By the end of 2025, total European defense spending will reach roughly €180 billion, more than double the 2021 level and, for the first time, surpassing that of the United States. The result has been a remarkable revival of Europe's defense-industrial base. It is therefore no surprise that European countries collectively have made a significant leap in resilience, another key metric in our Europe Future Readiness Index.

Suddenly, three European defense startups have achieved unicorn status, each valued at over €1 billion. Whereas Safran, France's flagship defense company, has already overtaken Lockheed Martin in market value, Germany's Rheinmetall is rapidly narrowing the gap. Similar dynamics are playing out across the sector, as valuations of other European defense contractors surge in tandem.

Europe's defense industry holds the potential to reinvigorate the continent's broader economy. Achieving this, however, requires that a significant share of the newly available funds be directed toward innovation and the development of dual-use technologies. At present, Europe allocates only about 3.2% of its R&D budget to defense – far below the levels in China (10.3%) and the United States (8.5%).

If Europe were to raise its spending to similar levels, the unavoidable increase in defense outlays could, in fact, yield long-term benefits for potential growth. The United States has already demonstrated how this can work. Satellites, GPS, drones, stealth technology, and even the internet all trace their origins back to military research.

The example shows that Europe's position is stronger than its reputation suggests. To return to the earlier metaphor: This is not a hopeless patient in intensive care, but one who has long been inactive and sluggish – yet whose vital signs remain more than sound. In any case, the continent has both the means and the resilience to tackle the challenges outlined in the next chapter. Across Europe, several 'lighthouses' illustrate this strength in practice:

CASE STUDY

## Poland's economic makeover

Poland's economic strength rests on a potent mix of domestic demand, diversified industry, and a stable labor market. With a population of 38 million and private consumption accounting for over 60% of GDP – well above the EU average – the country's large internal market provides a crucial buffer against external shocks. This domestic resilience has long distinguished Poland, notably during the 2009 financial crisis, when household spending exceeded 65% of GDP and helped the economy avoid contraction.

Growth remains robust. According to the European Commission, Poland's real GDP is projected to expand by 3.3% in 2025, following 2.9% in 2024, outpacing most major EU economies. The country's diversified structure underpins this performance: Services account for nearly 63% of employment and roughly 60% of value added, while industry and agriculture provide further balance, limiting exposure to cyclical volatility.

A consistently strong labor market has reinforced domestic stability. Unemployment has long remained below the EU average, supported by high participation and the successful integration of migrant workers – particularly from Ukraine – who have mitigated labor shortages. Combined with solid export performance and deep integration into the EU single market, Poland's economy stands out as one of the bloc's most resilient growth stories.

## The secret of Switzerland's innovation engine

Switzerland's economy remains a benchmark for stability and innovation, combining fiscal discipline with a deeply embedded culture of research and precision manufacturing. Its per capita GDP stands at nearly twice that of Germany, while inflation and public debt remain far below the EU average – an unusual pairing of wealth and prudence that reinforces investor confidence. The country's low debt levels and even positive fiscal balances have made Switzerland a safe haven for capital, underscoring its reputation as one of the world's most resilient and well-managed economies.

At the heart of this success is a sophisticated, high-value economy. Services account for roughly 72% of GDP and employ more than three-quarters of the workforce, while advanced manufacturing – ranging from luxury goods and turbines to chemicals and pharmaceuticals – contributes around 18% of output. This mix of knowledge-driven sectors allows Switzerland to maintain global competitiveness despite its small size and limited natural resources.

Innovation is woven into the fabric of Swiss economic life. Two-thirds of research spending comes from the private sector, while Innosuisse, the national innovation agency, supports startups from biotech to quantum computing. Coupled with a dual education system that feeds talent directly into world-class research hubs such as ETH Zurich and EPFL Lausanne, Switzerland continues to demonstrate how stability and ingenuity can coexist as the twin engines of enduring prosperity.

### Spain as Europe's unexpected role model

Long dismissed as a laggard, Spain has quietly become Europe's standout performer. In 2024, its economy expanded by 3.2% – faster than any other developed nation. After years of painful reforms following the 2008 financial crisis, Spain has reinvented itself, offering a blueprint for others in Europe.
Labor market flexibility, moderate wage growth and structural reforms have restored competitiveness. Crucially, Spain diversified beyond tourism: Exports of non-tourism services such as tech and engineering now generate more revenue than tourism itself, accounting for about 8% of GDP. Meanwhile, cheap renewable energy and heavy investment in wind and solar have boosted industrial competitiveness, attracting energy-intensive industries and major investors like Amazon Web Services, which plans to invest €16 billion in data centers.
If Spain continues to streamline bureaucracy and reform education, it could sustain growth of around 2% annually – and solidify its position as Europe's silent success story.

# 3 Measuring Europe's reinvention

## The Roland Berger Europe Future Readiness Index

The challenges Europe faces are well known. They begin with a still fragmented single market that prevents the continent from fully exploiting its potential, and extend to excessive red tape that stifles technological innovation. Also not to be overlooked is Europe's underdeveloped capital market – a disadvantage that, among other things, has allowed US startups to raise, on average, three times more funding than their European counterparts. Together, these and other factors have left Europe punching below its weight.

What is clear is that reversing this trend requires a sober assessment of the status quo. To that end, we have developed the Roland Berger Europe Future Readiness Index, which tracks Europe's performance across six key pillars: human capital, infrastructure, institutions, sustainability, digitalization, and resilience. ▶ E

The Europe Future Readiness Index serves two main purposes: first, as a barometer of trends within each area, and second, as an early-warning system to identify weaknesses and enable swift corrective action.

First, the bad news: Looking at the trends since 2005, the global trajectory points downward. Europe's economic fundamentals are wobbling. After the global financial and sovereign debt crises, Europe made efforts to regain momentum, yet the recovery proved short-lived. Following the Covid-19 pandemic, key indicators have been on a decline, driven by surging electricity prices, rising public debt levels, and a gradual erosion in institutional quality. Governance indicators point to weakening state capacity and regulatory efficiency

## E Pillars of the Roland Berger Europe Future Readiness Index

Roland Berger Europe Future Readiness Index

| Human capital | Infrastructure | Institutions | Sustainability | Digitalization & innovation | Resilience |
|---|---|---|---|---|---|
| Old-age dependency ratio | Industrial energy prices (gas & electricity) | WGI: Regulatory quality | Biodiversity: EBCC All Bird Index | Share of global patent applications | Defense spending as % of GDP |
| Share of tertiary educated population | Share of primary energy consumption from renewables | WGI: Government effectiveness | $CO_2$ intensity of GDP | Share of global high-impact AI publications | Energy import dependency |
| Women as % of board members | Public infrastructure investment | WGI: Control of corruption | Municipal waste per capita | R&D expenditure as % of GDP | Debt-to-equity ratio of non-financial corporations |
| IMD digital & technological skill score | | Public debt as % of GDP | | VC investments as % of GDP | Share of EUR/CHF/GBP/NOK in global FX reserves |
| Public expenditure on education per person | | UN e-government score | | | |

Source: Roland Berger

## How the index is calculated

1

**Data collection:** We gathered all relevant indicators for the Future Readiness Index, relying primarily on publicly available data sources and complementing them with private datasets where necessary. Europe is defined as the 27 states of the European Union and Norway, Switzerland, and the United Kingdom. When country-level data was accessible, we aggregated it into a European value using GDP or population weighting. For some KPIs, aggregated EU27 values were complemented by country data for Norway, Switzerland, and UK. Given limited data availability, the initial index version is based on data from 2007–2024.

2

**Data standardization:** To ensure comparability across indicators, all data points were converted into standardized z-scores using the formula:

$$\frac{X-\mu}{\sigma} \quad \text{or equivalently} \quad \frac{\text{Observation - Mean (2007-2024)}}{\text{Standard deviation (2007-2024)}}$$

3

**Aggregate indicators into pillar scores:** For each pillar of the Europe Future Readiness Index, we calculated the average of all standardized indicators. This yields a consistent trajectory over time for every pillar.

4

**Combine pillars into the overall index:** The pillar trajectories were aggregated into a single Europe Future Readiness Index by applying an equally weighted average across all pillars.

**How to interpret the scores?**
Because all indicators are standardized using z-scores, the values of each pillar – and the overall Future Readiness Index – show how Europe performs **relative to its own long-term historical average.** The index therefore **reflects changes in competitiveness dynamics and momentum** over time, rather than Europe's absolute level of competitiveness.

**A value of 0** means Europe is exactly at its long-term average for that indicator or pillar.

**A value above 0** means Europe is performing **better than its historical norm – higher values reflect a stronger positive deviation from past performance.**

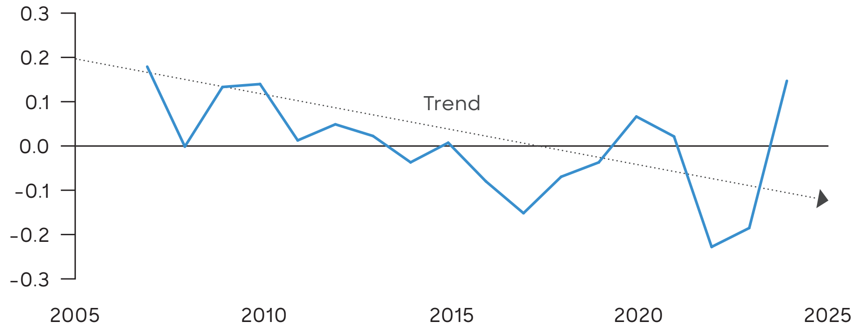
**A value below 0** indicates Europe is performing **worse than its historical norm,** with larger negative values signaling a larger negative deviation.

in several member states – a trend that undermines investor confidence and slows the implementation of structural reforms. Together, these shifts suggest that Europe's competitiveness challenge is no longer cyclical but increasingly structural. ▶ F

## F Has the turning point arrived?

Roland Berger Europe Future Readiness Index

**Europe**[1]




1 The index shows an aggregation of z-scores of the depicted economic pillars. Z-scores standardize data by expressing how many standard deviations a value is above or below the mean. Positive values indicate above-average performance, while negative values indicate below-average performance.

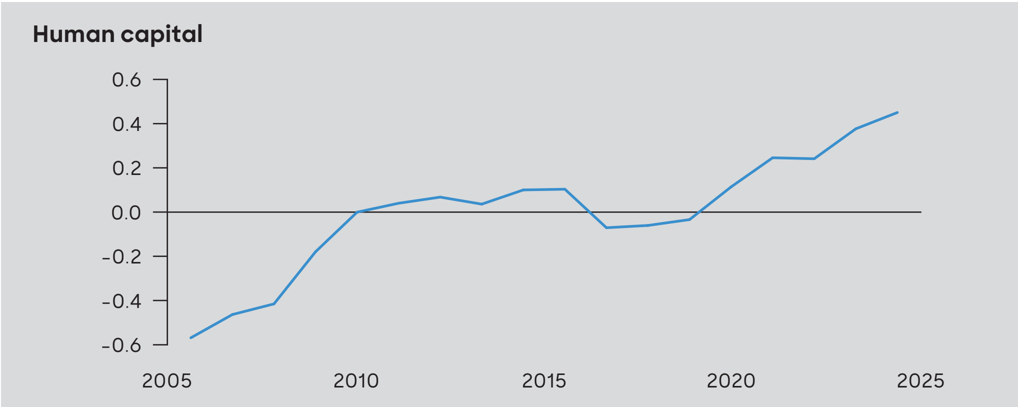
Source: Roland Berger

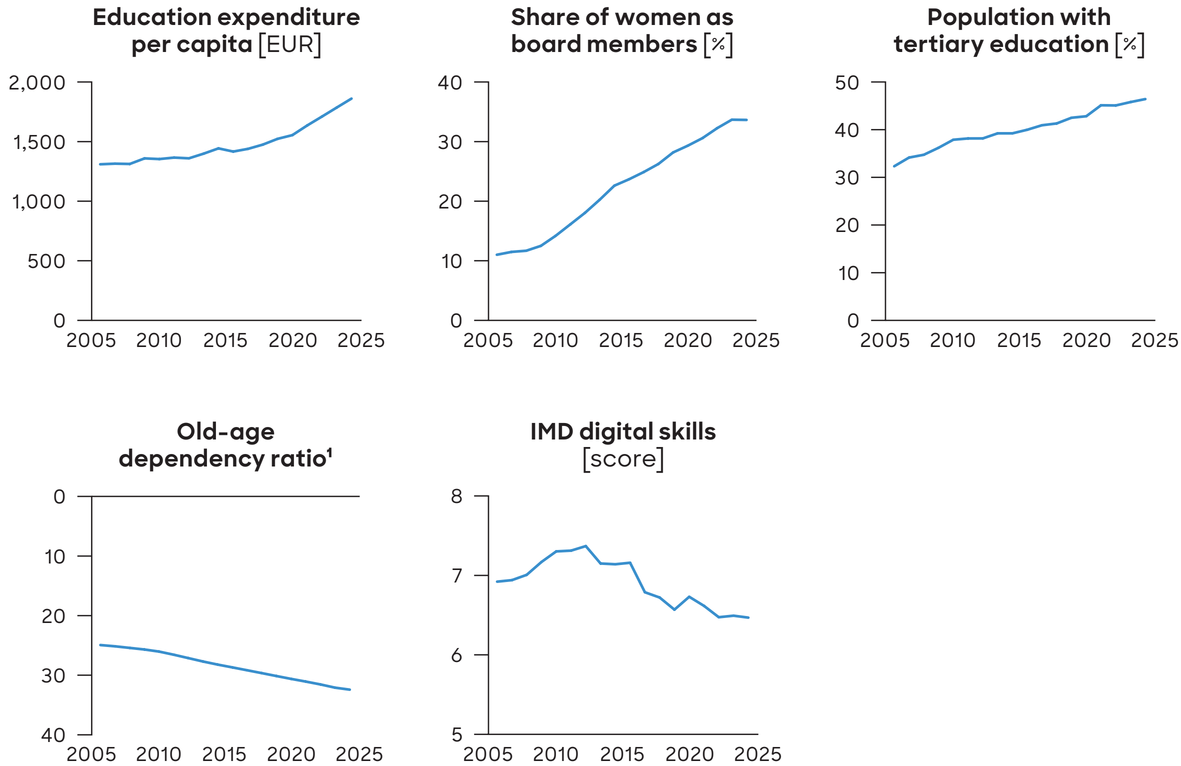
The good news: After the erosion of competitiveness began to slow in 2023, 2024 marks a clear inflection point, with competitiveness dynamics improving for the first time in years. Recent gains are driven primarily by infrastructure, sustainability, and resilience, while human capital continues to strengthen steadily.

A closer look into the six pillars explains the drivers behind the overall development.

## Pillar: Human capital

In **human capital,** for example, three of five indicators are developing in a positive manner: per capita education spending, the share of women on boards, and the proportion of the population with tertiary education. Counterbalancing this are the old-age dependency ratio and gaps in digital skills. The former is structural, and demographic trends are slow to shift; the latter, in contrast, can be addressed with targeted investment and upskilling.



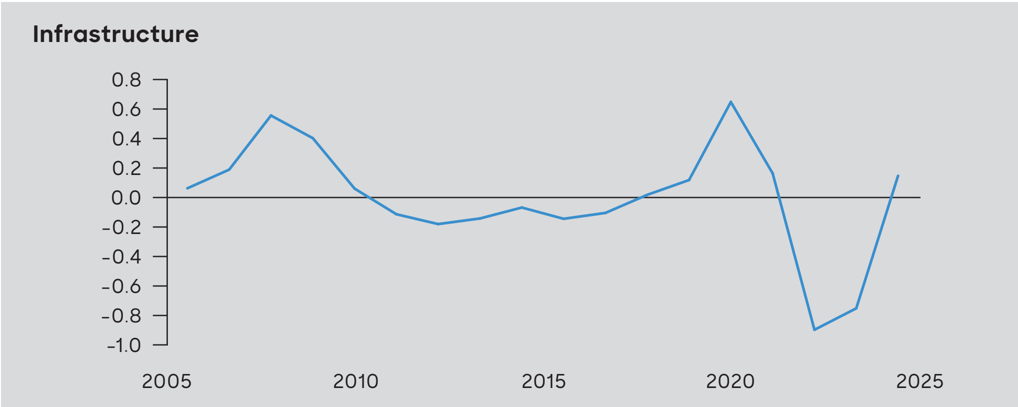

1 For reasons of economic logic, the time series for old-age dependency ratio is inverted in the estimation of the human capital pillar

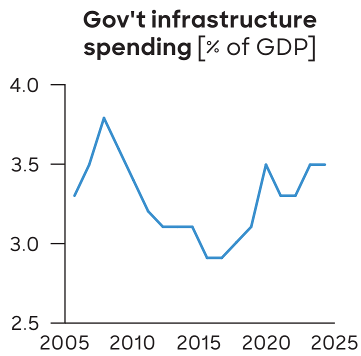
Source: Euromonitor, Eurostat, FTSE, BfS, UN World Population Division, UN, Roland Berger

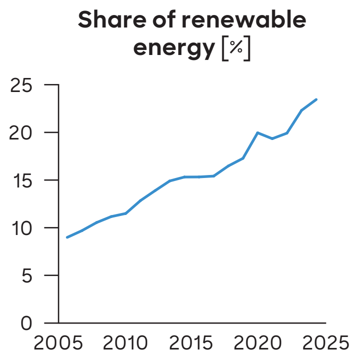
## Pillar: Infrastructure

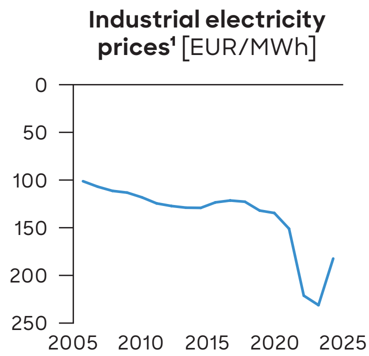
After a post-pandemic setback driven largely by elevated industrial electricity and gas prices, the **infrastructure pillar** recovered in 2024. The normalization of energy prices accounted for a significant share of the rebound, reinforced by the growing contribution of renewables to Europe's energy mix – despite only modest support from higher government spending. Energy cost continues to be one of the most crucial indicators of Europe's future competitiveness, particularly amid the global race in artificial intelligence. It's important to keep in mind: Energy is now scaling faster than transistors – a profound shift that means falling electricity costs can buy significantly more computation for the same budget. At the same time, greater grid capacity allows large language models to be trained more frequently and over longer periods. Already, a single GPT-4 model consumes as much electricity annually as 35,000 US households[2]. That demand is unlikely to fall; if anything, it is set to rise as the next generation of AI systems grows ever more energy-intensive.

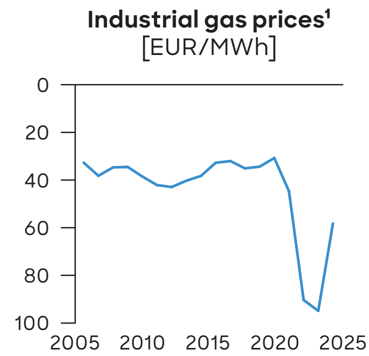
2 Jegham, N: How Hungry is AI? Benchmarking Energy, Water, and Carbon Footprint of LLM Inference. November, 2025



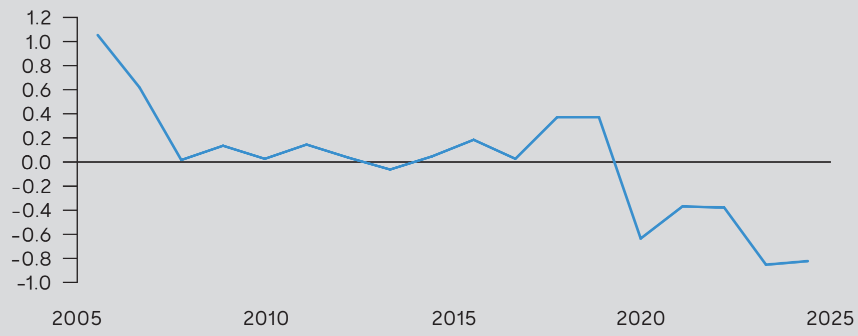

1 For reasons of economic logic, the time series for energy prices are inverted in the estimation of the infrastructure pillar

Source: OECD, BP, Euromonitor, Roland Berger

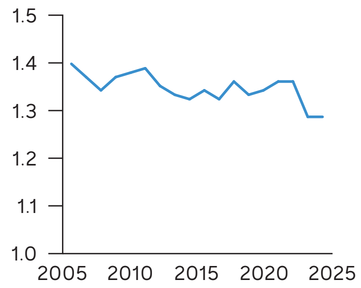
## Pillar: Institutions

Europe's **institutions** pillar shows room for improvement. Mounting public debt, faltering government effectiveness, and regulatory drift have eroded confidence in recent years, while a weakening grip on corruption added to the slide in 2023, even as the pace of decline visibly decelerated in 2024.

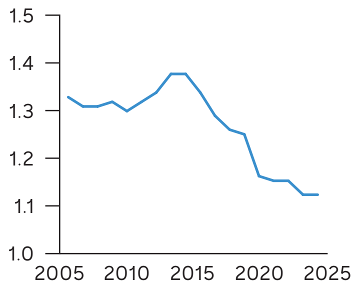
**Institutions**



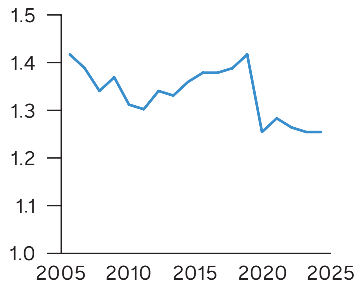

**WGI: Control of corruption**
[score, -2.5 to +2.5]



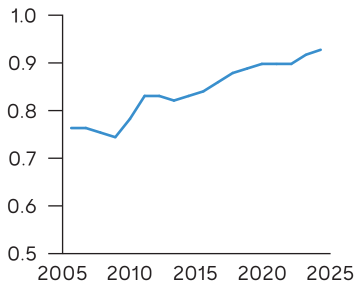

**WGI: Government effectiveness**
[score, -2.5 to +2.5]



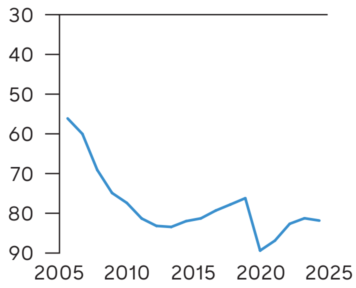

**WGI: Regulatory quality**
[score, -2.5 to +2.5]




**UN e-government score**




**General government debt**[1] [% of GDP]

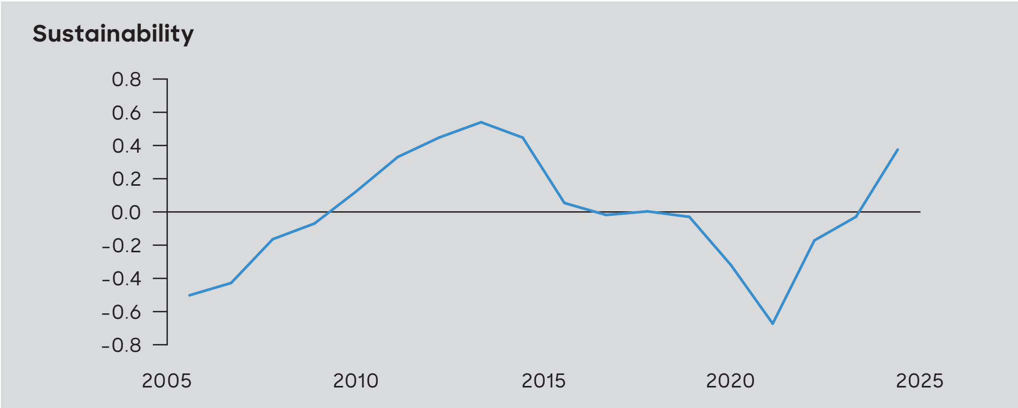


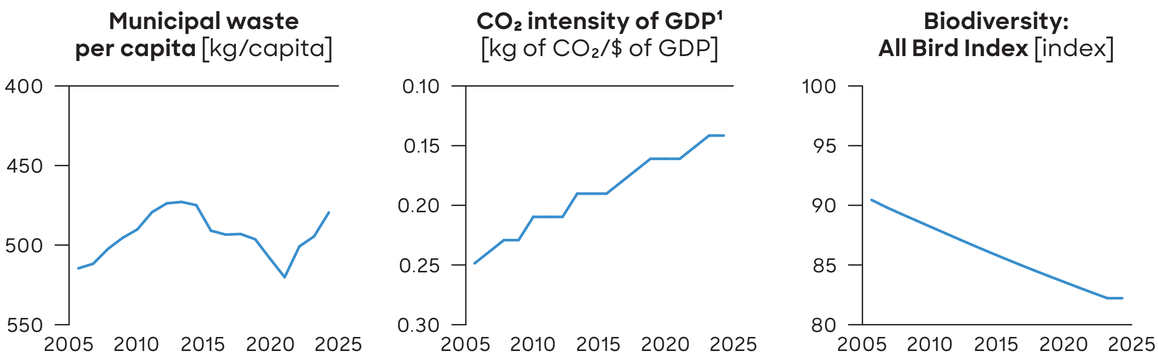

1 For reasons of economic logic, the time series for government debt are inverted in the estimation of the institutions pillar

Source: World Bank, UN, IMF, Roland Berger

## Pillar: Sustainability

On **sustainability,** the recent trajectory points upward. Europe has succeeded in sharply reducing the $CO_2$ intensity of GDP, an unambiguous achievement. The progress is less pronounced, however, on municipal waste per capita, which saw setbacks during the pandemic, and biodiversity, where considerable work remains.



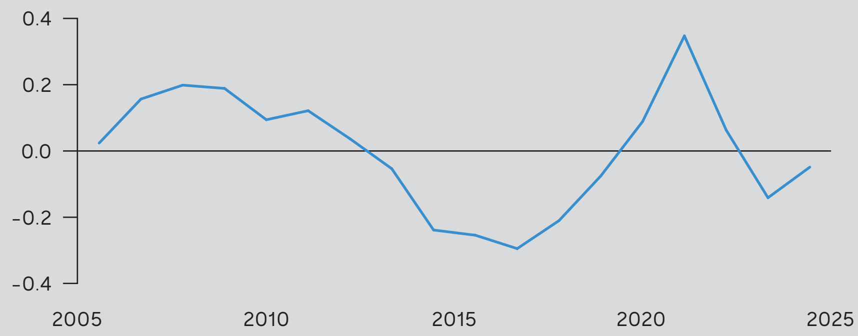

1 For reasons of economic logic, the time series for municipal waste per capita and carbon intensity is inverted in the estimation of the sustainability pillar

Source: OECD, EEA, Global Carbon Budget, EBCC, Roland Berger

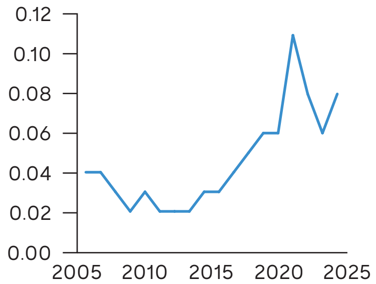
## Pillar: Digitalization & Innovation

The **digitalization and innovation pillar** has been on a downward trajectory since the 2010s, with a temporary uplift during the pandemic driven by a spike in venture capital investment and R&D spending. However, Europe continues to lag behind structurally in key outcome indicators, including its share of global patents and high-impact AI publications, leaving it exposed in critical future technologies.

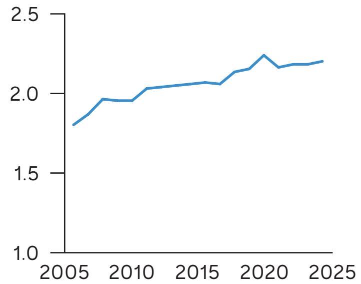
**Digitalization & Innovation**



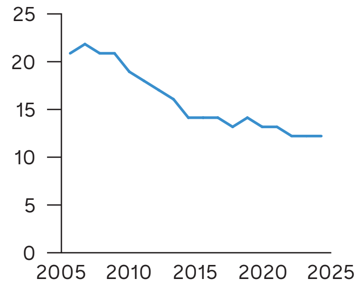

**VC investments**
[% of GDP]



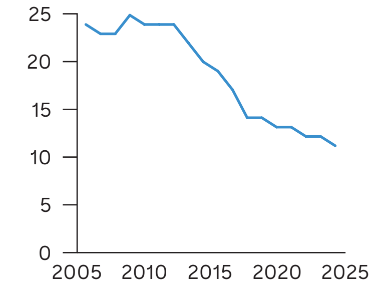

**R&D expenditure**
[% of GDP]




**Share of global patent applications** [%]



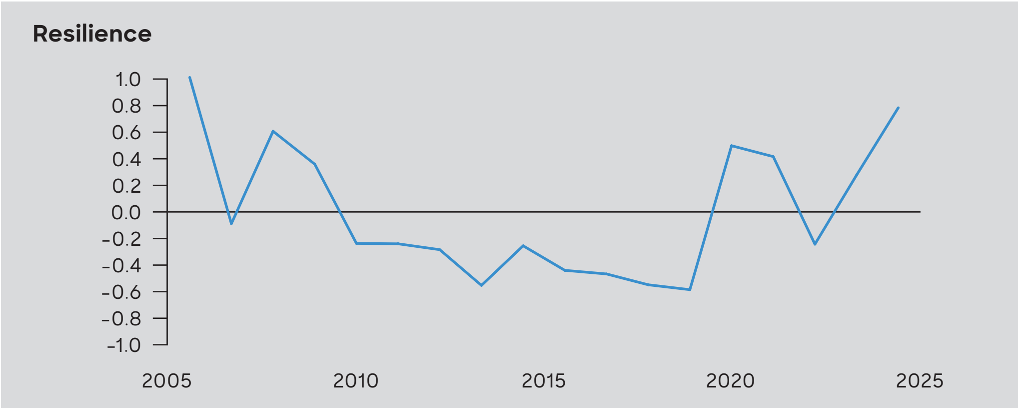

**Share of global high-impact AI publications** [%]

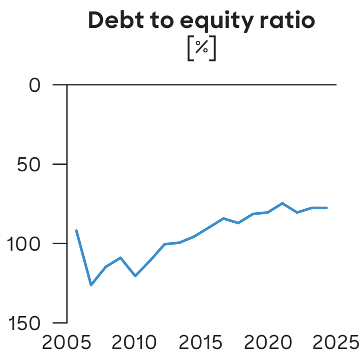


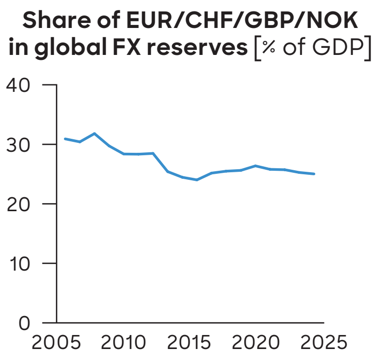

Source: OECD, WIPO, Roland Berger

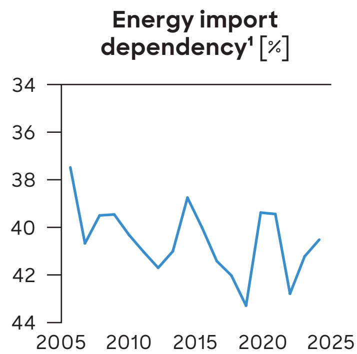
## Pillar: Resilience

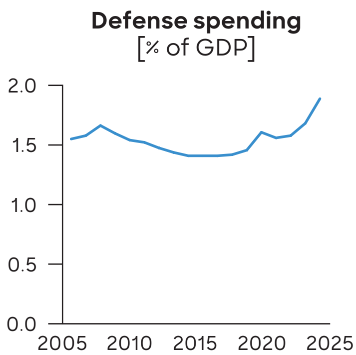
**Resilience** shows the most encouraging results. Rising defense spending and a continued decline in non-financial corporate leverage have sparked positive momentum. A reduced dependency on energy imports has also strengthened resilience.




1 For reasons of economic logic, the time series for energy import dependency and the debt-to-equity ratio is inverted in the estimation of the resilience pillar

Source: OECD, IMF, World Bank, Eurostat, IEA, Roland Berger

Taken together, the findings underscore both progress and pressure. The 2024 data point to an inflection, suggesting that recent efforts are beginning to move Europe in the right direction. Yet this should not be mistaken for a turnaround: substantial work remains. What is required now is a pragmatic, efficient, and forward-looking mindset. Europe's economic fundamentals remain solid – but translating them into sustained progress will demand decisive action.

4

## Outlook

### How to restore European competitiveness

Many of the most urgent actions stem directly from the challenges highlighted in our **Roland Berger Europe Future Readiness Index.** While the human capital pillar is holding up reasonably well despite demographic pressures, and sustainability and resilience are at least moving in the right direction, the biggest hurdles to boosting European competitiveness remain infrastructure, digitalization and institutions.

The good news, however, is that these challenges are surmountable. Europe's position is far from hopeless, and it would not be the first time in its history that the continent has pulled off an impressive turnaround. What is required is a new European "all in" mindset. Europeans must accept that the world has changed and that it will take a tremendous effort to safeguard the continent's unique way of life and social prosperity. In the short to medium term, we see the greatest scope for progress in four key areas:

**Cut the red tape and streamline regulations**

To restore the institutional pillar of competitiveness, Europe must radically simplify its regulatory framework. The EU's legal environment has become increasingly complex: The cumulative body of directives and regulations now exceeds 20 million words, layered atop extensive national and regional legislation. Targeted simplification, coupled with clearer accountability between EU and national institutions, could reverse these trends.

Cutting red tape is not a mere technocratic exercise. It is a structural lever that can unlock growth, improve fiscal discipline, and strengthen institutional credibility simultaneously. It would also reinforce infrastructure efficiency. It is true: Excessive permitting times and fragmented approval processes are key reasons why European infrastructure projects lag behind. Conversely, accelerated procedures would speed up the rollout of transport, digital, and energy systems – all critical for economic competitiveness.

> **"With Europe going all in on a focused reset on productivity, the energy transition, and defense as well as tailored investments, it can meet security and climate needs while driving new industrial growth."**
>
> **Ina Wiethegger,**
> **Senior Partner**

### Close the innovation gap with speed and scale

Europe needs to sharpen its innovation performance by improving the speed, scale, and impact of its innovation ecosystem. This requires faster commercialization of research through simpler funding structures, deeper capital markets, and fewer administrative barriers. Stronger public-private collaboration and better translation of scientific excellence into market-ready solutions are essential.

Europe should focus its innovation efforts on key enabling technologies, while ensuring that digitalization, the energy transition, and resilience are treated as mutually reinforcing priorities rather than isolated agendas. Sustained increases in private-sector R&D investment, stronger incentives for venture capital, and improved framework conditions for startups and scale-ups are critical. At the same time, Europe must preserve openness – leveraging international cooperation and the scale of the single market – to build integrated, cross-border innovation ecosystems capable of competing globally.

### Complete the Capital Markets Union

One of Europe's greatest growth constraints is capital market fragmentation. European startups typically raise a third less capital than their American counterparts, a decisive disadvantage. To prevent talent and ideas from migrating abroad, Europe must remove barriers to cross-border capital mobilization. Completing the Capital Markets Union would serve the interests of all European countries. Key obstacles include harmonizing insolvency and securities rules, creating streamlined EU standards for venture capital markets, and lowering barriers to EU-wide fund investments. The ultimate goal is to channel Europe's trillions in private savings – too often stuck in low-yield bank deposits – into productive investment.

Further progress requires common European financial instruments and infrastructure. Eurobonds, at least for those countries willing to keep fiscal discipline, would provide a unified benchmark asset and deepen capital markets, while European credit rating and clearing capabilities would strengthen financial autonomy and stability. A digital euro could support market integration and efficiency, reinforcing the euro's role as a global reserve currency.

### Leverage Europe's industrial data pool to accelerate AI innovation

Government action alone will not secure prosperity; companies must adapt to tougher global competition. This requires focusing on strengths – above all, Europe's unparalleled pool of industrial data. These datasets offer a decisive advantage in implementing AI solutions and industrial automation. Recognizing the importance of data integration is critical: Structuring and using this information effectively will be central to success in an increasingly digital and AI-driven global economy.

> **"Europe's future competitiveness will hinge on its ability to align energy affordability, digital progress, and institutional strength. As AI scales rapidly, access to low-cost, reliable energy becomes as critical as talent or data. This is the moment to recalibrate Europe's strategic direction."**
>
> **Laurent Benarousse,**
> **Senior Partner**

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# Further reading

- *EUROPE. ALL IN.*
- *EUROPE'S GROWTH PROBLEM*
- *FROM SLEEPING GIANT TO DEFENCE SUPERPOWER*

Forbes 2025 WORLD'S BEST MANAGEMENT CONSULTING FIRMS POWERED BY statista


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