GERMAN COUNCIL
of Economic Experts

PRESS RELEASE

Europe: Fulfilling the potential of the Single market and jointly strengthening defence capabilities

- The trade barriers in the European Single market continue to be high, and the EU continues to be far from realising its economic potential. Deeper market integration is crucial for Europe's attractiveness as a business location and for productivity growth.

- Trade barriers should be reduced and cross-border business activities, financing and start-ups need to be made easier.

- In order to strengthen European defence capabilities, defence equipment should be procured in a coordinated manner in Europe and military innovation should be promoted jointly.

Berlin, 12.11.2025 – The EU has fallen short of its economic potential. In order to take full advantage of the opportunities offered by the European Single market, trade barriers must be removed, the capital market strengthened and fragmentation in the defence market overcome. A deeper European Single market can contribute substantially to a more efficient resource allocation and higher productivity growth. "So far, Europe has squandered much of its economic potential. If Europe wants to play a greater economic role globally the European Union must return to its founding principles and significantly strengthen the Single market," says Ulrike Malmendier, council member. This is the only way the EU can remain attractive as a location for innovative companies. For example, in order to remove trade barriers in the Single market, territorial supply restrictions should be reduced and a 28th regime introduced in company law. A joint European approach can add significant value in terms of defence capabilities. If a coordinated approach is designed to be economically efficient, it would be clearly superior to individual action by nation-states alone.

European defence market particularly fragmented

In Europe, defence equipment is primarily procured at the national level. Deeper integration of the European defence market would have economic advantages for EU member states: if the demand of member states were pooled, this would increase incentives for firms to scale up production and strengthen the negotiating position of the member states vis-à-vis industry and thus create cost advantages.

In addition to a coordinated defence procurement, military innovation in Europe should also be jointly promoted in order to strengthen European defence capabilities. The R&D investment required to develop high-tech defence systems exceeds the capacities of individual EU member states. Military innovation should therefore be promoted through joint research and development projects. In addition, joint financing should be explored, striving for a design that does not jeopardise the sustainability of public finances. A stronger focus on European suppliers would increase Europe's resilience.

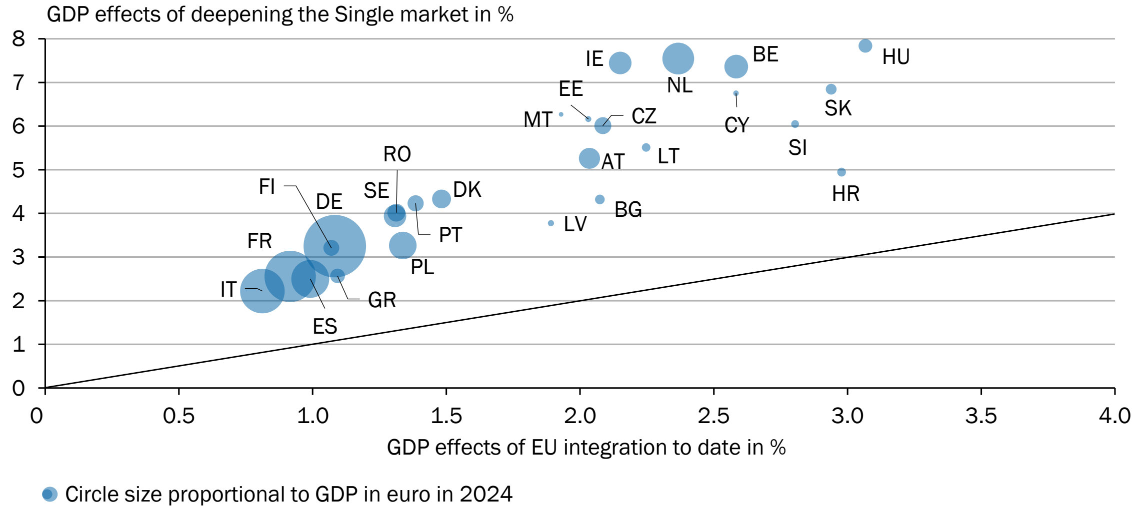
Removing trade barriers

The European Single market for goods and services offers enormous potential for turning the EU into an attractive business location. At present, however, the EU is far from fulfilling this potential. Trade barriers continue to hamper the cross-border movement of goods, services, people and capital, thereby preventing the efficient division of labour and allocation of resources. In order to deepen the Single market, territorial supply restrictions should be reduced and regulations harmonised, for example by introducing a 28th regime in company law. The 28th regime is a uniform regulatory framework that exists alongside national legislation. With such an EU-wide legal form, companies could be established entirely digitally and be subject to uniform insolvency law. In particular, young, innovative companies would thus benefit from the size of the European Single market.

Reducing fragmentation in European government bond markets

The European economy would also benefit from a Single, liquid capital market. A deep capital market would have to offer safe assets that serve as collateral and price benchmarks for financial transactions. In addition, this could strengthen the attractiveness of the euro as an international reserve currency. In order to create a European safe asset with high liquidity and creditworthiness, so-called ESBies (European Safe Bonds) could be issued. To this end, government bonds of the member states would be bundled according to a fixed formula and divided into a safe and a risky tranche. The advantage of ESBies is that they do not require any amendments to the European treaties or result in the creation of joint debt.

Potential for deepening the EU Single market[1]



1 – AT-Austria, BE-Belgium, BG-Bulgaria, CY-Cyprus, CZ-Czechia, DE-Germany, DK-Denmark, EE-Estonia, ES-Spain, FI-Finland, FR-France, GR-Greece, HR-Croatia, HU-Hungary, IE-Ireland, IT-Italy, LT-Lithuania, LV-Latvia, MT-Malta, NL-Netherlands, PL-Poland, PT-Portugal, RO-Romania, SE-Sweden, SI-Slovenia, SK-Slovakia.

Sources: Eurostat, Fontagné and Yotov (2025)

The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Dr. Veronika Grimm, Prof. Dr. mult. Dr. h.c. Ulrike Malmendier, Professor Dr. Dr. h.c. Monika Schnitzer (chair), Professor Dr. Achim Truger, Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

Further information on the German Council of Economic Experts and its publications are available at http://www.sachverstaendigenrat-wirtschaft.de/en.

Press contact:
Nadine Winkelhaus
Senior media and public relations officer
Phone: +49 611 75-3110
presse@svr-wirtschaft.de