

Is the EU on track in terms of innovation and investment?

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Europe 360°: Strengthening the economy, shaping the future

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2 TWO YEARS AFTER DRAGHI, FIRST EVIDENCE ALLOWS INTERIM STOCKTAKE



We assess economic trends and implementation steps to identify first indications of progress and remaining gaps.

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INNOVATION AND INVESTMENT ARE TWO KEY LEVERS FOR STRONGER PRODUCTIVITY AND GROWTH

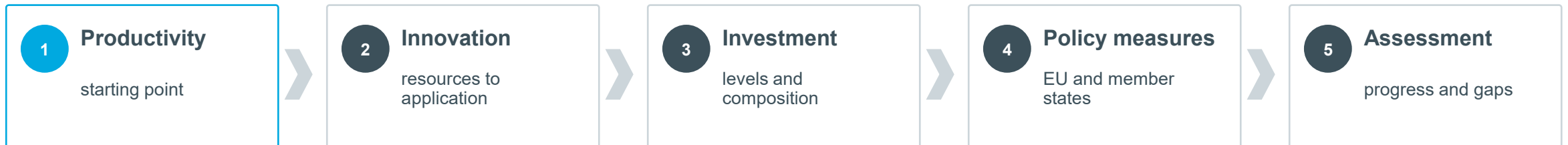
INNOVATION

Do research, new knowledge and technologies translate into commercial applications, high-growth companies and broader use across the economy?

INVESTMENT

Is Europe expanding and modernising its capital stock at the scale required for digitalisation, decarbonisation, resilience and security needs?

HOW WE PROCEED



Internal market integration, capital markets, energy, regulation, permitting and skills are considered where they shape innovation and investment.

4 PRODUCTIVITY REMAINS ON A WEAKER PATH THAN IN THE UNITED STATES

Total factor productivity developments Change over previous year in percent, 2024 and 2025

Country/Region	TFP 2024	TFP 2025, estimate
EU-27	-0.4 %	-0.3 %
Germany	-0.9 %	-0.6 %
France	-0.4 %	-0.7 %
Italy	-1.5 %	-1.2 %
Spain	1.0 %	-0.6 %
USA	1.1 %	0.6 %

Source: The Conference Board

STARTING GAP

- In 2024, EU labour productivity per hour worked was only 78.5% of the US level.

NO CATCHING-UP

- EU labour productivity grew by 0.4% in both 2024 and 2025, compared with 1.8% and 1.6% in the US.

TFP CONFIRMS THE TREND

- The figures on the left show how efficiently labour and capital are used: TFP declined in the EU in both years, while increasing in the US.

COUNTRY PICTURE

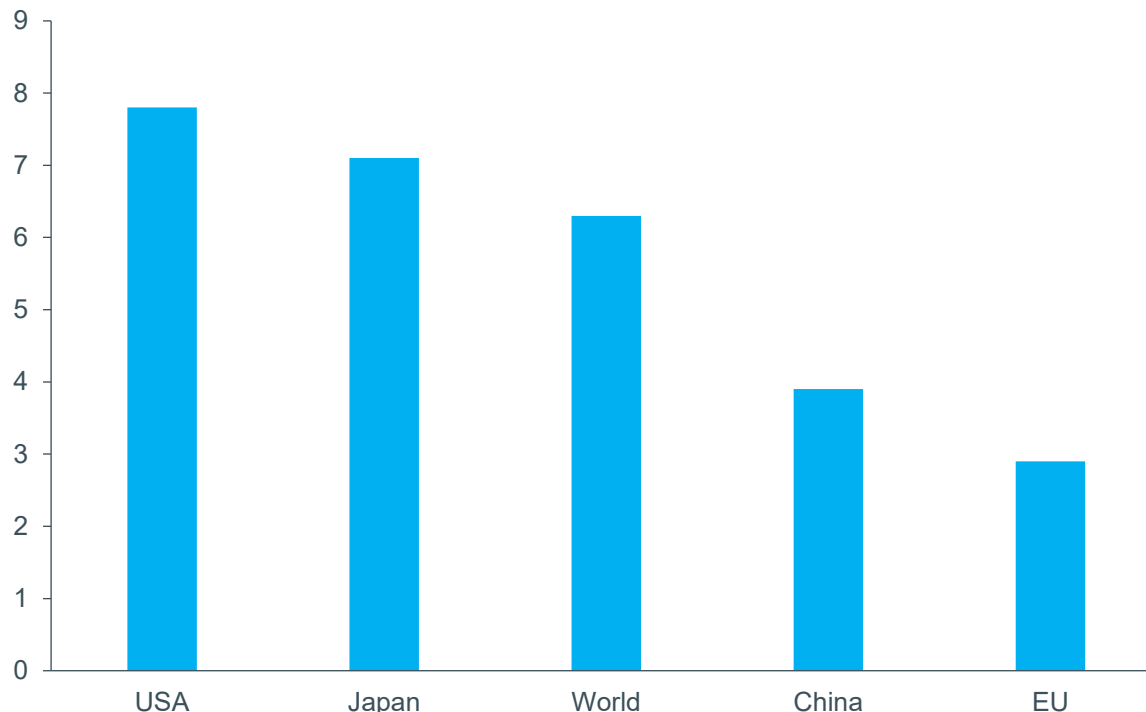
- Germany, France and Italy recorded declines, while Spain's 2024 improvement was not sustained in the 2025 estimate.

BOTTOM LINE

The latest figures show no broad productivity turnaround in the EU.

5 EUROPE'S INNOVATION BASE IS STABLE, BUT NOT ACCELERATING

Growth in R&D expenditure* of large companies by region, 2024



*change over previous year, nominal, in percent

Sources: European Commission / Joint Research Centre (JRC)

RESEARCH INTENSITY STAGNATES

- EU R&D intensity remains around 2.2% of GDP, only 0.1 percentage points above 2014 and below the 3% target.

CORPORATE R&D LAGS

- Large EU companies increased R&D spending by 2.9% in 2024, compared with 7.8% in the US and 3.9% in China (see chart).

VENTURE AND GROWTH FINANCING REMAINS NARROW

- Venture capital stayed at 0.06% of EU GDP. Funding rose in 2025, but AI absorbed a record 39.1% of these investments.

SKILLS STILL CONSTRAIN SCALE-UP

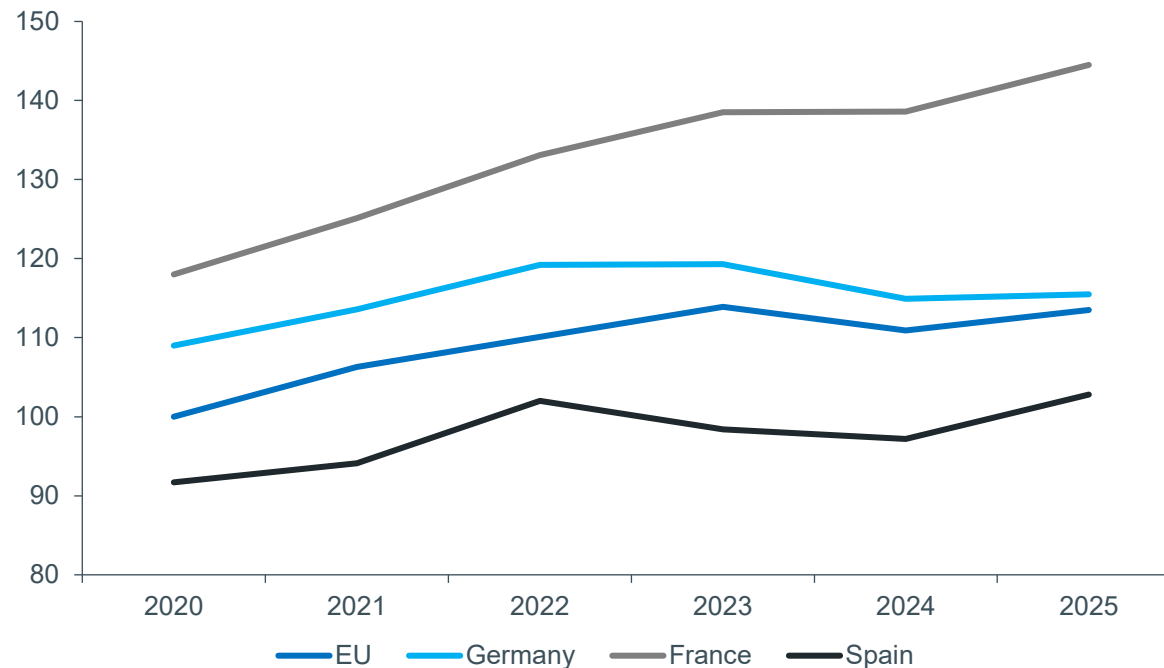
- Almost 80% of companies identify shortages of skills and qualifications as a barrier to investment and growth.

BOTTOM LINE

The resources for research, commercialisation and scale-up have not shifted into a higher gear.

INNOVATION OUTPUT REMAINS WEAK, WHILE SCALE-UP IMPROVES MOSTLY AT THE TOP

European Startup and Scaleup Index EU and selected member states, 2020-25



*Index value, EU average 2020 = 100

Note: The SSI is based on 36 indicators on start-ups, scale-ups and financing. All scores are indexed to average EU performance in 2020 (=100). Scores above 100 indicate a higher performance compared to the reference value.

Source: European Commission

INNOVATION OUTPUT REMAINS WEAK

- Intellectual assets – international patents, trademarks and designs – fell by 2.2 pp in 2026 and by 19.4 points since 2019.

SCALE-UP CONDITIONS ARE IMPROVING ONLY GRADUALLY

- The Startup and Scaleup Index increased in 2025 but merely returned to its 2023 level rather than signaling a broader acceleration of Europe's scale-up ecosystem.

PROGRESS IS UNEVEN ACROSS EUROPE

- France and Spain improved markedly in 2025, while Germany recorded only a small increase.

MORE WINNERS, BUT NOT A BROADER PIPELINE

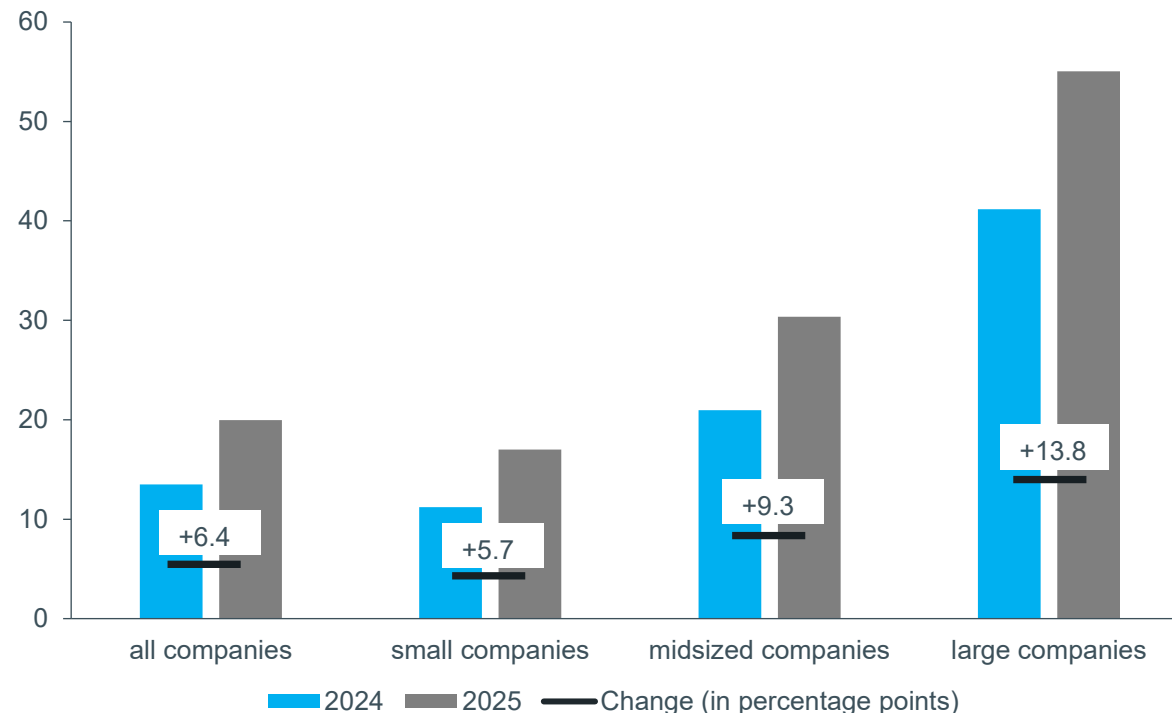
- Unicorns rose by 7% and centaurs by 6% in 2025, indicating momentum in the upper segment of Europe's start-up and scale-up ecosystem. But the EU still had only 0.8 unicorns and 1.1 centaurs per million inhabitants, compared with 5.2 and 3.2 in the US.
- At the same time, the number of VC-financed companies in the EU fell by around 14%, suggesting that progress remains concentrated in a relatively small part of the ecosystem.

BOTTOM LINE

Europe is producing more success stories, but not yet a broader scale-up dynamic.

7 DIGITAL ADOPTION IS RISING, BUT DIFFUSION REMAINS UNEVEN

Application of AI technologies in EU companies by company size, 2024 and 2025



*Proportion of companies in percent

Note: The analysis includes companies with at least ten employees. Small companies are those employing 10 to 49, mid-sized companies 50 to 249 and large companies at least 250.

Source: Eurostat (2025b)

AI ADOPTION IS ACCELERATING

- The share of EU companies using AI rose from 13.5% in 2024 to 20% in 2025. Cloud services and data analysis also expanded.

THE LARGE-SMALL COMPANY GAP WIDENED

- AI use reached 55% among large companies, compared with 17% among small companies in 2025. The gap increased from around 30 to 38 percentage points.

NON-ADOPTERS LACK KEY PREREQUISITES

- Among companies that considered AI but decided not to adopt it, 71% cited insufficient specialist knowledge, 53% unclear legal consequences and 49% data-protection concerns.

ADOPTION MAY NOT AUTOMATICALLY STRENGTHEN EU PROVIDERS

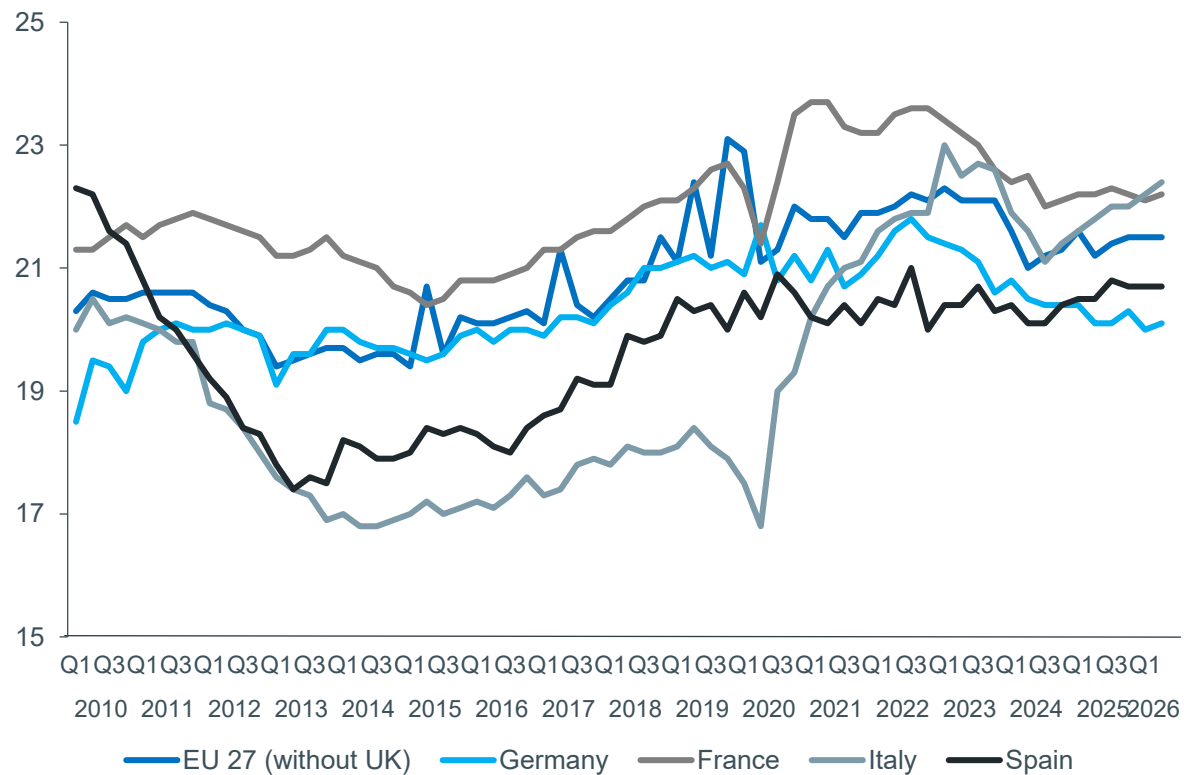
- Growing use often relies on platforms and applications from outside Europe, potentially limiting the value captured by European technology companies.

BOTTOM LINE

The clearest innovation progress is in technology use, but diffusion across companies remains uneven.

8 THE INVESTMENT GAP REMAINS LARGE

Quarterly change in gross fixed capital formation



*in percent of GDP, calendar and seasonally adjusted (Q1 2010 - Q2)

Source: Macrobond

INVESTMENT NEEDS HAVE RISEN SHARPLY

- Additional annual spending needs have risen from €750-800bn in the Draghi Report to almost €1.2tn, according to updated ECB estimates.
- Around €500bn relates to public financing needs, with defence driving much of the increase.
- Excluding non-investment defence expenditure, additional investment needs amount to roughly 5-8% of EU GDP.

THE EU INVESTMENT RATIO HAS BARELY MOVED

- It stood at 21.5% of GDP in early 2026, little changed from early 2024.
- Investment spending is forecast to grow 2.2% in 2026, but not at the scale required to close the investment gap.

PUBLIC INVESTMENT IS LEADING

- Public investment rose to 3.9% of GDP; business investment remained broadly flat at 12.8%.

COUNTRY DEVELOPMENTS REMAIN UNEVEN

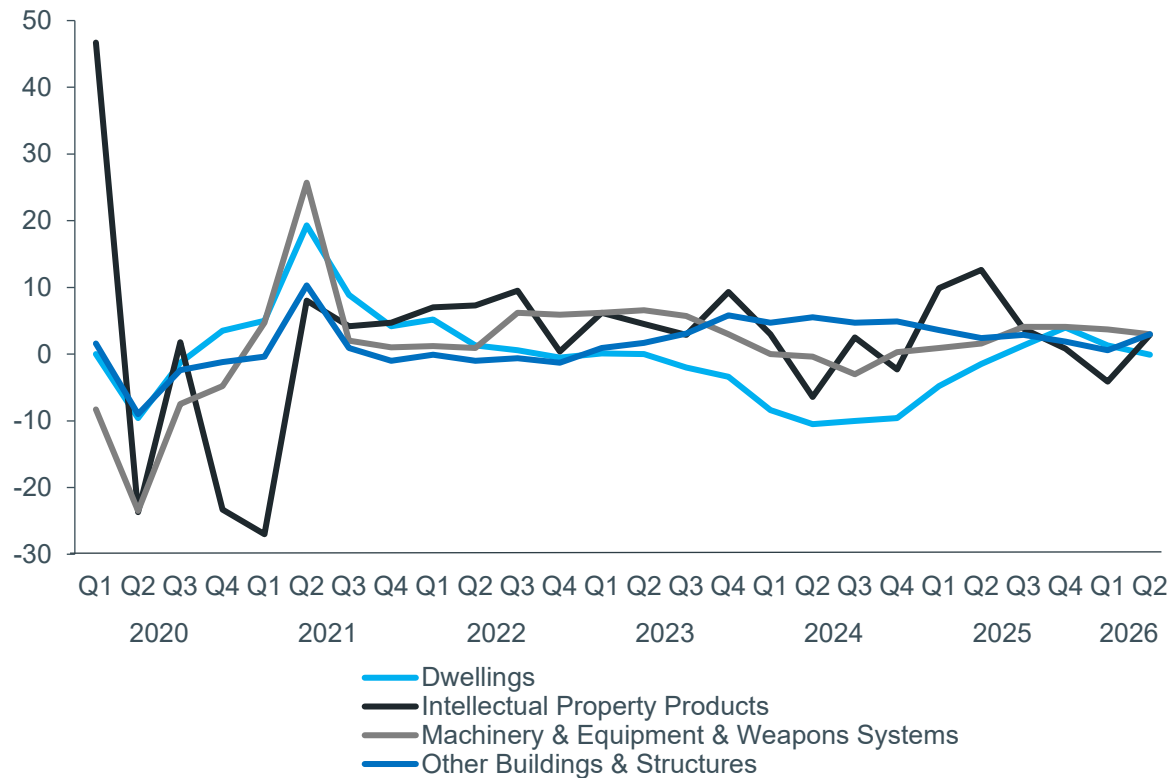
- Germany has now the lowest ratio; Italy recorded the strongest recent increase. France and Spain show more limited changes.

BOTTOM LINE

Public investment has risen, but the private investment response is still missing.

ISOLATED PROGRESS IN PRODUCTIVE INVESTMENT, BUT NO BROAD OR SUSTAINED SHIFT

Quarterly change* in gross fixed capital formation by asset type in the EU



*in percent

Source: Macrobond

PRODUCTIVE ASSETS ARE THE CRITICAL TEST

- Investment only strengthens productivity when it modernises Europe's capital stock e.g. through equipment, software, data and R&D.

MACHINERY AND EQUIPMENT HAVE SLIGHTLY RECOVERED

- Following stagnation in 2024, investment gathered some pace during 2025 and remained positive in early 2026.

INTELLECTUAL PROPERTY HAS RECENTLY LOST MOMENTUM

- Investment in software, databases and R&D rose strongly during parts of 2025, but slowed sharply around the turn of 2026.

THE SHIFT REMAINS TOO NARROW

- Other structures grew only moderately and housing merely recovered from an earlier decline.

BOTTOM LINE

Insulated progress in productive assets does not add up to the broad investment drive Europe needs.

SEVERAL EU INITIATIVES ADDRESS KEY ISSUES, BUT IMPLEMENTATION REMAINS A CHALLENGE

Selected measures on innovation and investment

INDICATIVE · NON-EXHAUSTIVE

WHAT HAS BEEN INITIATED

— Innovation and scale-up

Startup and Scaleup Strategy; €5bn Scaleup Europe Fund

— Strategic technologies

AI computing capacity; semiconductor and quantum initiatives

— Investment mobilisation

Savings and Investments Union; proposed Competitiveness Fund and IPCEIs

WHY IMPACT IS STILL LIMITED

— Early stage

Many measures remain proposals, strategies or early implementation

— Timing

Major EU budget instruments would take effect only from 2028

— Delivery

Investment and industrial scale-up depend heavily on member states and companies

WHAT REMAINS LARGELY UNRESOLVED

— Markets

Internal-market fragmentation and incomplete capital-market integration

— Finance

Insufficient growth capital and private investment at the required scale

— Framework conditions

Regulation, permitting and skills continue to constrain impact

The EU policy agenda addresses important points, but not yet on the scale or at the speed required.

MEMBER STATES FOLLOW DIFFERENT PATHS, BUT IMPLEMENTATION REMAINS THE COMMON TEST

Selected national measures on innovation and investment

INDICATIVE · NON-EXHAUSTIVE

COUNTRY	POLICY EMPHASIS	IMPLEMENTATION / REMAINING GAP
 GERMANY	Public investment and tax incentives Special Fund, tax incentives and High-Tech Agenda	Research commercialisation, scaling innovative firms, and digital and administrative modernisation
 FRANCE	Strategic technologies and industrial policy France 2030 strategic investment, AI deployment measures, Tibi initiative	Budget constraints, private R&D spending, technology diffusion and late-stage growth finance
 ITALY	Recovery-plan investment and reform RRP investment in digital, energy and transport, green and digital transition	Disbursement, small-firm growth, private R&D spending, venture capital and digital capabilities
 SPAIN	Sectoral transition and digitalisation Strategic PERTE projects, Digital Toolkit, España Crece investment scheme	Faster delivery, complex procedures, regional fragmentation and growth capital

Different national approaches, shared challenge: translating initiatives into investment, innovation and productivity gains.

FIRST STEPS, BUT NO BROAD TURNAROUND IN INNOVATION AND INVESTMENT

Two years after Draghi, selective progress has not yet strengthened productivity and growth on a broad basis.

INNOVATION

The most visible progress is concentrated at the end of the chain

Technology adoption is rising thanks to AI and cloud, but research intensity stagnates and gaps in financing, commercialisation and scale-up persist. The EU Startup and Scaleup Strategy and financing instruments may help, but effects will take time.

INVESTMENT

Activity has increased mostly in public and defence-related areas

Yet the overall investment ratio has barely moved, business investment remains broadly flat and no sustained shift towards productivity-enhancing assets is visible.

POLICY DELIVERY

Political momentum has increased

EU and national measures address several identified constraints, but many remain proposals or early-stage instruments; key internal-market and capital-market reforms are still incomplete.

THE MISSING LINK

Europe's constraint is no longer a shortage of initiatives, but slow implementation and transmission into economic outcomes.

Policy momentum must crowd in private investment and carry innovation from research to broad application.

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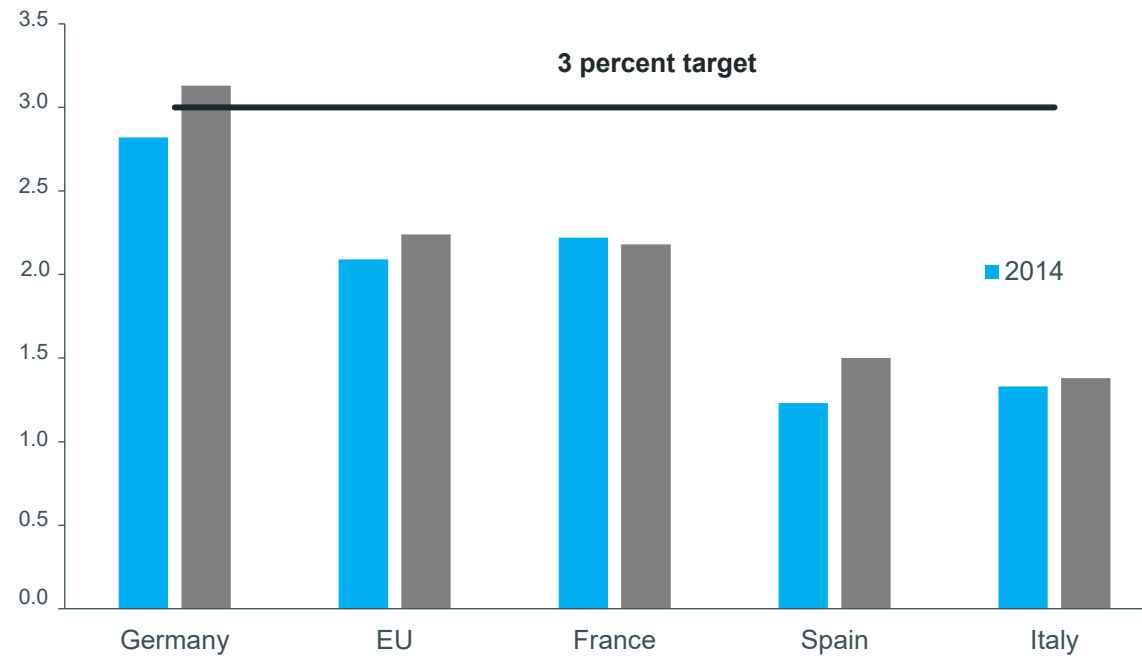
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ANNEX

R&D intensity* in the EU and the four largest member states, 2014 and 2024

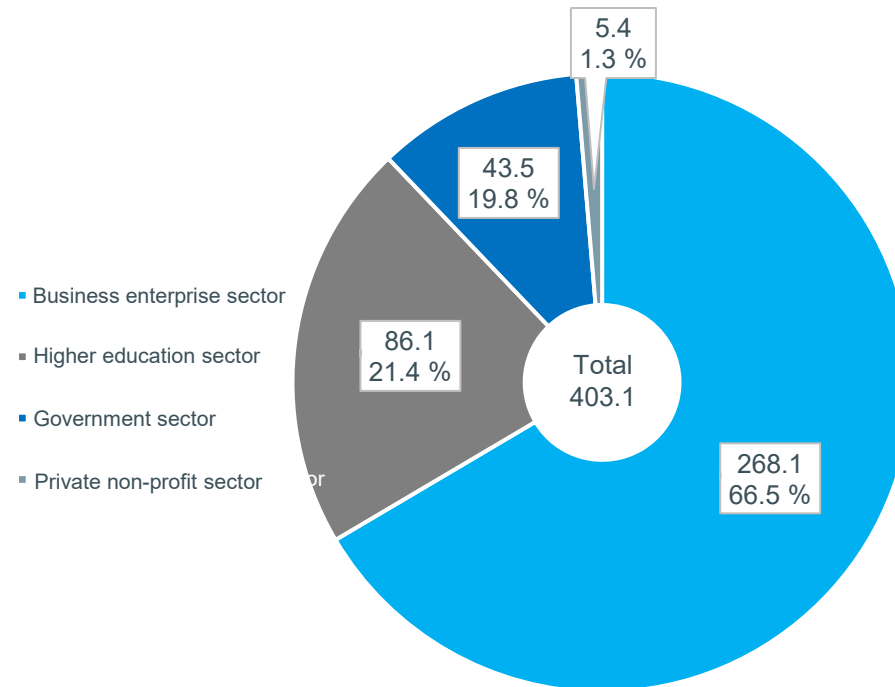


*R&D intensity in percent of

Source: Eurostat (2025a)

Breakdown of R&D expenditure in the EU, 2024

R&D spending by sector, in billion euros and as a proportion of total R&D expenditure



Source: Eurostat (2025a)

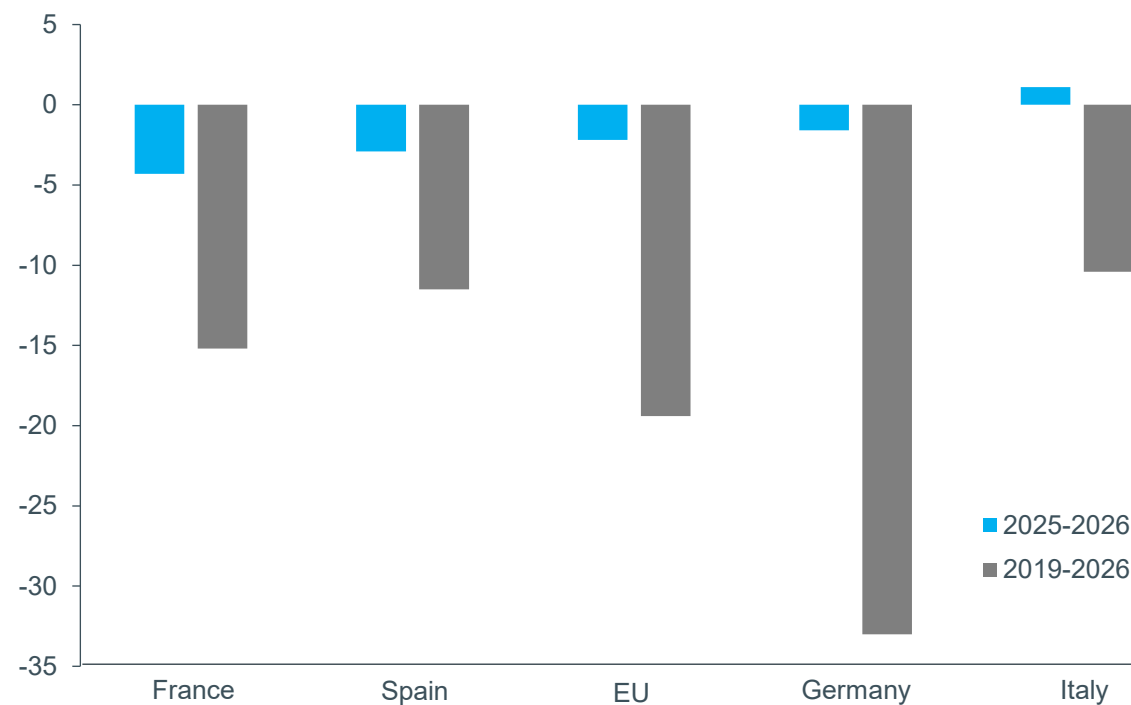
Venture capital investment* in international comparison, 2024

Region	VC-Investment
EU	0,06
China	~0,24
USA	~0,60

*Venture capital investment in percent of GDP

Source: European Commission (2026b)

Development of intellectual assets* in the EU and the four largest member states



*change over 2025 and over 2019 in percentage points

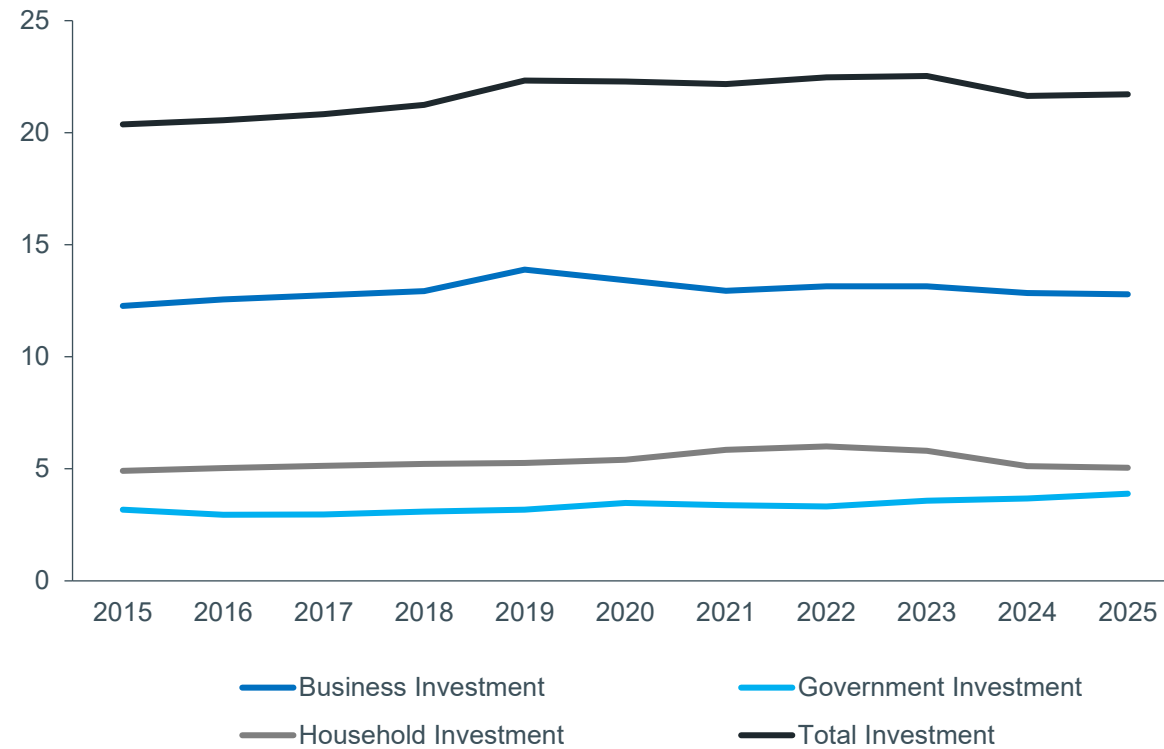
Source: European Commission (2026e)

Indicative additional investment needs in the EU per year

	Public	Private	Total
in % of EU GDP	1.5-2.2	3.7-5.4	5.2-7.6
in bn euros	224-336	552-828	776-1164

Sources: own calculations, ECB

Share of investment* by institutional sector in the EU



*in percent of GDP

Source: Macrobond