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Rules of the Digital Economy: Market Protection or a Brake on Innovation and Growth

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Abstract

The growing regulation of the digital economy in the European Union and the Czech Republic brings benefits such as greater integration of the single market, the removal of certain barriers, and increased security. At the same time, however, it creates a disproportionate administrative burden that slows competitiveness and innovation. This is largely a consequence of the legislative “tsunami” between 2019 and 2024, whose negative effects are also highlighted in the Draghi Report. In response, there is increasing discussion about the need to reduce bureaucracy, which costs companies tens of billions of Czech crowns even in Czechia. One possible solution is a shift toward so-called smart regulation—based on principles rather than detailed technical rules—along with the use of regulatory sandboxes and closer cooperation between the public sector and businesses when designing regulatory frameworks.

Key Takeaways

- **Regulation and competitiveness:** Between 2019 and 2024, the EU adopted many complex rules which, according to Mario Draghi’s report, have contributed to declining competitiveness and weaker innovation among European firms.
- **Regulatory impacts:** Since 2010, around 100 digital-services legislative proposals have been introduced in the EU. While some strengthened the single market, consumer rights, and security, they also increased costs and administrative burdens for companies.
- **Smart regulation:** Future legislation should be more flexible—based on principles rather than detailed technical rules—and support innovation through tools such as RegTech and regulatory sandboxes.
- **Public–private cooperation:** The state should better quantify compliance costs, while companies should engage earlier in the legislative process.

Introduction

The digital sector has been growing increasingly prominent within the Czech, European, and global economy in recent years. It is becoming an integral part of traditional industries while also creating entirely new services, products, and markets. According to the European Statistical Office (Eurostat, 2024), the digital economy in the EU generated €791 billion in added value in 2022 alone. It is therefore a key driver of productivity growth, a major engine of innovation, and, in many respects, a transformative force shaping the socio-economic development of our societies.

Digital technologies are significantly reshaping how we function, communicate, study, do business, work, shop, pay, and spend our free time. They influence virtually every sphere of human activity. As such, they bring many new opportunities, but they also introduce new risks or amplify existing ones.

As these technologies gain importance, their strategic significance for countries and regions where they are developed or operated is also increasing. They are closely linked to the competitiveness of economies in relation to their global peers. Technological leadership brings greater growth potential and economic performance, but it also becomes a factor of strategic strength—or, in the European context, what is often described as digital sovereignty. In addition, it is connected to national resilience and security, including protection against cyber threats.

For these reasons, many countries in recent years—including the European Union and the Czech Republic—have introduced legislative and regulatory frameworks aimed at reducing the risks associated with digital technologies. At the same time, governments have adopted broader public policies designed to support innovation and promote the wider use of digital technologies.

Regulation of the Digital Sector in the EU

Within the European Union, these trends have been clearly visible over the past 15–20 years. Several motivations have shaped EU and member state regulatory activity in the digital sphere. While these motivations are generally legitimate, it is equally important to consider the practical impacts of regulation and whether it achieves the intended outcomes.

The first motivation has been to strengthen the functioning of the EU single market by harmonizing rules, reducing barriers, and ensuring consistent interpretation and enforcement across member states. Examples include the E-Commerce Directive (2000/31/EC) and the Digital Single Market Strategy (2015). These initiatives aimed to unify rights and obligations for companies, traders, and consumers across the EU and facilitate cross-border access to goods and services. Measures such as the abolition of roaming charges and cross-border access to digital content illustrate this approach. Although these steps introduced some new obligations for firms, they were generally not perceived as excessive regulatory burdens because their primary goal was to unlock the economic potential of the integrated market.

A second motivation relates to the protection of fundamental societal values and rights. The most prominent example is the General Data Protection Regulation (GDPR), which established strict rules for handling personal data. While the principles behind GDPR are widely accepted, its implementation has sparked debate about the balance between protecting users and imposing significant compliance costs and administrative burdens on businesses—especially in an era when data access is central to innovation, including in artificial intelligence.

A third set of arguments for regulation concerns the protection of fair competition in the internal market, including competition with service providers from outside the EU. Measures such as network neutrality rules and the Digital Markets Act (DMA) were introduced to ensure a level playing field

among market participants. Although these regulations impose new obligations on certain companies, they are broadly viewed as legitimate tools for maintaining fair market conditions.

The fourth dimension focuses on cybersecurity and resilience, aiming to protect digital infrastructure from cyber threats. Examples include the NIS Directive and the Cybersecurity Act. These regulations are widely considered necessary, although concerns sometimes arise regarding whether the scope of reporting obligations and compliance requirements remains proportionate

This classification is somewhat simplified, but it captures the core dynamics behind regulatory efforts in the digital economy. It highlights the motivations behind legislative proposals, the extent to which they are accepted by market participants, and whether the expected benefits outweigh the risks and costs.

Across the EU there is broad agreement on the need to protect key principles such as privacy, fair market conditions, consumer protection, fundamental rights, non-discrimination, and the safety of citizens. The central question, however, is whether regulation genuinely serves these objectives—or whether it may sometimes become a justification for expanding regulatory control over market actors.

Regulation of Digital Environments in the Context of Current Trends

Since 2010, roughly one hundred legislative proposals concerning digital services have been introduced in the European Union. The vast majority of them were submitted during the legislative cycle between 2019 and 2024, that is, during the term of the first European Commission led by President Ursula von der Leyen. This period can without exaggeration be described as a legislative “tsunami” for the digital economy sector—a term on which both business representatives and the European Commission itself largely agree.

During this period, a wide range of often very detailed and prescriptive rules crucial for the functioning of providers—as well as users—of digital services and infrastructure were proposed, debated, and adopted. The result is a highly complex legislative framework that is gradually being implemented in practice. This framework brings additional administrative burdens for companies and new supervisory responsibilities for public authorities at both the European and national levels. In financial terms, these obligations generate significant costs for both the private and public sectors. These costs are further amplified by the fact that companies are rarely implementing obligations stemming from a single regulation; rather, they increasingly face overlapping requirements arising simultaneously from multiple legislative instruments.

Another challenge lies in the difficulty of calculating the overall cost of compliance. Estimates of these costs are often not included in the impact assessments that accompany legislative proposals. A comprehensive overview of the legislative measures affecting companies operating in digital services is provided, for example, in a [table](#) prepared by experts from the Bruegel think tank (Marcus, Sekut, Zenner, 2024)

The sheer number of legislative acts introduced in the EU over the past sixteen years is considerable. At the same time, it must be acknowledged that not all of them have the same impact on the market. Some represent technical measures or regulations targeting narrowly defined sectors, such as financial services. However, the list also includes regulations that affect most—if not all—market participants, which naturally means higher implementation costs and often asymmetric impacts on smaller firms compared to large companies. Although European legislation often incorporates elements of proportionality—meaning that smaller firms are sometimes exempt from certain obligations—the practical impact on smaller actors can still be more significant, as they frequently lack the resources and expertise required to implement complex regulatory requirements.

According to signals from the market, the greatest administrative burden on companies currently arises from obligations stemming from the Digital Services Act (DSA, EU 2022/2065), data-related legislation such as GDPR, the Data Act (EU 2023/2854) and the Data Governance Act (EU 2022/868), cybersecurity and resilience frameworks including NIS2 (EU 2022/2555), the Cybersecurity Act (CSA) and DORA (EU 2022/2554), and most recently the requirements concerning the use of AI-based products and services under the Artificial Intelligence Act (EU AI Act, EU 2024/1689).

Even though the full effects of these legislative initiatives cannot yet be fully assessed—partly because some of them are still in the process of implementation—voices criticizing the regulatory burden associated with these rules have become increasingly prominent in public debate

Perhaps the most influential voice at the European level has been former President of the European Central Bank Mario Draghi. Together with his team, he prepared a report on the competitiveness of the European Union at the request of the European Commission. The Draghi report clearly states—and it is worth noting that many key representatives of the EU, its member states, and business communities broadly share this view—that the European Union is facing excessive regulatory burdens, particularly in innovative sectors such as digital services. This burden is considered one of the factors contributing to the declining global competitiveness of companies operating in these sectors. Firms often face disproportionate compliance requirements, while EU rules sometimes create duplication or overlap between regulatory obligations.

The Draghi report (Draghi, 2025) has sparked a broader debate within the EU, revealing a growing political consensus that regulatory and administrative burdens should be reduced. In practice, this has been reflected in the actions of the current European Commission, which since taking office at the end of 2024 has been preparing and introducing a series of simplification measures—so-called omnibus packages—aimed at reducing or adjusting obligations arising from existing regulations (European Commission, 2024).

Compared with previous trends, this represents a certain shift in direction and can be seen, at least implicitly, as recognition that regulation in the EU may in some cases function less as an effective tool for protecting the market and more as a burden that significantly weakens the competitiveness, investment capacity, and innovation potential of European companies—precisely the risk highlighted in Draghi’s report.

Specific Impacts of Regulation in the Czech Republic

From the perspective of regulatory impacts, it is useful to assess to what extent these general conclusions also apply to the digital sector within the Czech economy. In general, it can be said that Czech companies face excessive administrative burdens. According to estimates by the Czech Chamber of Commerce (2024; 2025), these costs reach up to CZK 72 billion annually. This burden results both from European regulation and from national legislation applicable only in the Czech Republic. Regardless of its origin, it represents a significant volume of costs that companies must bear in order to ensure regulatory compliance. It would also be informative to include the costs incurred by the public sector for supervising and enforcing these regulations.

If we focus specifically on regulation of the digital sector, the Czech Republic occupies a somewhat specific position in several respects. On the one hand, it remains one of the most industrially oriented economies within the EU, which in some cases reduces its exposure to the direct impacts of digital-sector regulation. On the other hand, according to data from the European Statistical Office (Eurostat, 2025), the Czech digital sector ranks above the EU average in indicators such as value added, employment, and innovation. In some areas of digital services, the Czech Republic even ranks among the leaders within the Union.

Most notably, the Czech Republic can be considered a “powerhouse” of e-commerce within the EU single market. The country has the highest number of e-shops per capita, and in the previous year the e-commerce sector generated a turnover of CZK 206 billion (APEK, 2026). Regulation of the digital environment is therefore highly relevant for this segment. Legal frameworks governing e-commerce can support the development of cross-border activities across EU member states and help ensure fair competition. At the same time, however, they inevitably impose additional obligations and administrative burdens on service providers.

A similar situation can be observed in other segments of digital services where regulation plays a key role. The Czech Republic hosts a dynamic FinTech sector, where companies must comply not only with digital regulation but also with sector-specific financial regulations. The same applies to the digital assets and crypto-assets sector, in which a number of Czech companies operate. A comparable situation exists in the AI sector, which is crucial for the country’s future innovation potential.

This brief overview of several sectors within the Czech digital economy illustrates an important point: regulation—especially if not designed proportionally—can significantly affect sectors that are expected to become key drivers of future economic growth, innovation, and competitiveness, alongside more traditional industries.

In light of this, it is somewhat striking that a survey conducted by the Association for Applied Research in IT found that approximately two-thirds of companies are not interested in commenting on legislative proposals during the drafting and consultation phase (AAVIT, 2023). Most companies report that they only begin to pay attention to regulation once it has already been adopted and needs to be implemented. While this attitude may be understandable from a practical standpoint, it also means that the actors most affected by regulation influence its final form only to a limited extent and have fewer opportunities to prevent it from placing disproportionate burdens on their activities.

The Future of Regulation from the Perspective of Innovation

If we take the report prepared by Mario Draghi’s team as a starting point, it becomes clear that the current costs of regulation—including the reduction in firms’ innovation capacity—now outweigh the benefits it brings. The key question is therefore what paths can lead out of this imbalance, if there is a genuine interest in addressing it. The most straightforward solution might appear to be the removal of excessive regulation. However, such an approach would almost certainly fail to gain sufficient political support. Moreover, it would also remove the benefits that regulation provides alongside its burdens. The solution therefore lies rather in targeted and smart measures within existing regulatory frameworks, as well as in changing the approach to how regulation is designed and enforced.

The digital sector will continue to grow rapidly in the coming years, and demand for appropriate regulation will remain strong. Digital technologies themselves often provide innovative and efficient solutions in business and practice. Effective regulation should therefore adopt equally smart rules. Digital technologies cannot be regulated in the same way as traditional industrial products within the single market. In other words, AI algorithms are fundamentally different from mechanical engineering products. Treating them in the same regulatory manner is therefore inappropriate, even though this is sometimes the case in EU legislation (Muñoz, Zener, 2025).

Smart regulatory solutions should primarily rely on principle-based legislation, rather than on overly detailed and technical rules, which dominate today. Regulation should allow practical application to shape implementation, rather than attempting to anticipate every possible use case in advance. Especially in fast-developing digital sectors, legislation often becomes partly outdated by the time it is adopted.

In practice, regulation of digital services and technologies should also rely on maximizing the use of technological tools themselves. This includes the use of Regulatory, Supervisory, and Government Technology (RegTech, SupTech, GovTech) solutions, which can significantly simplify and improve communication and cooperation between companies and public authorities. In some cases, public institutions themselves can develop or own technological solutions and offer them to companies. Tools in the field of cybersecurity are one example of such an approach.

Another goal of smart regulation should be to promote closer cooperation between the private and public sectors, something that is not yet standard practice. The legislative framework should therefore be designed in a way that motivates companies rather than relying primarily on sanctions. It should also create opportunities and environments for cooperation—for example through broader use of regulatory sandboxes, experimental environments, or innovation hubs, where all stakeholders can participate in supporting innovation while simultaneously shaping appropriate regulatory rules.

More broadly, it will also be necessary to change the approach to drafting and preparing legislation. As part of any meaningful debate on proposed regulation, it should become standard practice for the proposing authority to at least roughly estimate the compliance costs associated with implementation—both for regulated entities and for the public institutions responsible for enforcement. At present, such estimates are often missing from legislative debates.

At the same time, the business sector will need to become more actively involved in the process of drafting and discussing regulation. If the arguments of businesses are not clearly and strongly articulated in these discussions, there is a continued risk that the resulting regulation will become another obstacle and burden. Experience shows that active participation by businesses can be effective when it is well coordinated and sufficiently intensive. Without close cooperation among all stakeholders, meaningful changes to the current situation will only be achieved partially.

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