REFORM BAROMETER 2025

EU IN A NEW POLITICAL CYCLE: COMPETITIVENESS AS A TRUE PRIORITY IN A COMPLEX GLOBAL CONTEXT

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MARCH 2025

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WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for enterprises of all sizes in 36 European countries whose national business federations are our direct members.

ABOUT THE REFORM BAROMETER

BusinessEurope's Reform Barometer analyses the global competitiveness performance of Europe on the basis of key indicators covering public finances, business environment, innovation and skills, access to finance, taxation, financial stability, and labour market. Moreover, complementing the European Commission's yearly European Semester consultation that suggests reform policies that can boost sustainable growth in Member States, we carry out a similar business semester process to lay out clear policy recommendations about how we can help our European companies succeed, as a thriving business sector is a necessary foundation to reach higher living, wages, and provide funding to achieve many of the political goals and objectives that the EU needs to pursue in the 21st century.

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FOREWORD

Ongoing political and economic shifts come at a time when the EU is facing mounting geopolitical threats, including Russia's war of aggression against Ukraine, alongside growing economic challenges. The EU's competitiveness is being tested by the strong performance of U.S. economy, particularly in the digital sector, with its advancements in frontier technologies such as generative AI. Simultaneously, China's sustained industrial growth in key areas, coupled with its increasing strategic presence in global supply chains, adds to these existing pressures.

The EU is grappling with stagnating productivity, driven by multiple factors, including a heavy regulatory burden -as again highlighted by the members' survey in this work, persistently high energy prices and electricity costs that are up to three times higher than those in the U.S. and China. Additional obstacles to productivity growth include barriers to the Single Market, limited access to growth capital, inefficient taxation, protectionist policies shielding certain national sectors from competition, shortages of skilled workers in key industries, and delays in adopting disruptive technologies. Meanwhile, the emerging priority of boosting EU defence capacities represents both a challenge and an opportunity.

The lack of productivity growth in European businesses has not only stifled economic opportunities, limiting job creation, wage increases, and innovation in goods and services, but has also weakened the global standing of EU industries. This decline threatens Europe's role as a global actor and has already led to significant job losses in critical sectors, with many more at risk.

The EU's diminished appeal for investment and persistently low GDP growth further underscore these challenges. However, Europe remains a region characterised by extraordinary strengths and resilience, with a skilled workforce, world-class expertise, and a diverse and rich industrial base. A series of well-designed reforms could unlock the EU's untapped potential, fostering a more dynamic, innovative, and prosperous economy.

Fredrik Persson
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CONTENTS

EXECUTIVE SUMMARY **5**

PART 1: LETTA, DRAGHI, AND EU COMPETITIVENESS IN THE NEW POLITICAL CYCLE **7**

1.1 Introduction. Competitiveness in the EU at the start of a new U.S. administration 7
1.2 A comparison between the EU, U.S., and China 10
1.3 Reduce regulatory burden, allowing EU businesses to drive innovation 15
1.4 An EU budget fit for a competitive EU 16
1.5 Savings and Investment Union – the long-waited rebirth of the Banking and Capital Market Unions? 17

BOX 1: THE POSSIBLE IMPACT OF THE NEW U.S. ADMINISTRATION ON THE EU COMPETITIVENESS **18**

BOX 2: SECTORIAL COMPETITIVENESS OF EU COMPANIES **21**

PART 2: BUSINESSEUROPE MEMBERS' SURVEY **24**

2.1 EU Competitiveness challenges 25
2.2 National Recovery and Resilience Plans 29
2.3 Reform progress in 2024 31
2.4 Priority areas for 2025 33

EXECUTIVE SUMMARY

European Union enterprises, the backbone of the EU economy and social cohesion, are facing intense competition from other regions worldwide. In recent years, the United States has demonstrated significantly stronger economic growth. The U.S. GDP, which was 23% higher than that of the EU in 2008, had surged to 42% higher by 2023 (in nominal terms). Moreover, in the last quarter of 2024, the U.S. recorded an annual GDP growth rate of 2.5%, compared to just 1.1% in the EU. The best way to address the EU's growing economic underperformance is to lighten the regulatory burden faced by EU companies and improve Europe's investment climate, as we highlight throughout this report and as forcefully expressed in our members' survey.

COMPARISON WITH U.S. AND CHINA

Political change has heightened the urgency for the EU to strengthen its economic competitiveness vis-à-vis the U.S. and China. A key concern is productivity, where the EU lags behind the U.S., with the gap widening over the past decade. Meanwhile, China is becoming more competitive in strategic industries and global supply chains.

The European economy is also falling behind in foreign direct investments (FDIs), as the U.S. remains the top investment destination, while EU inflows have been declining, and China's have remained stable through the years. To attract capital, the EU must create a more investment-friendly environment, reducing regulatory burden and completing the Single Market, for instance, through the effective implementation of its Capital Markets Union (CMU).

Energy costs further undermine EU's competitiveness, with industrial electricity prices up to almost 3 times higher than in the U.S. or China in 2024. Overall costs linked with the working of the electric system and the lack of market integration have exacerbated the issue. Addressing these challenges is crucial as need for cheaper electricity will only increase with the twin sustainable and digital transitions. Additionally, Europe's demographic trends, particularly its ageing population and rising old-age dependency ratio, intensify the need for higher productivity to sustain pensions, healthcare, and increasing defence spending.

REDUCING REGULATORY BURDEN

Excessive regulation is stifling EU businesses, as highlighted in our members' survey. As mentioned in the Draghi report, in the period between 2019 and the first half of 2024, the EU enacted approximately 13,000 laws, far more than the roughly 3,000 in the U.S., contributing to the productivity gap and stagnant intra-EU trade (20% of GDP vs. 70% in the U.S.). Over 60% of EU companies see excessive regulation as an investment barrier.

While the European Commission's target of a 25% reduction in reporting obligations (35% for SMEs), is a step in the right direction, a tangible decrease in the overall regulatory burden, leading to lower compliance costs and a streamlined framework, is crucial to truly boost EU competitiveness.

REFORMING THE EU BUDGET

The European Commission's February 2025 Communication outlines key challenges for the next Multiannual Financial Framework (MFF), including budget financing, debt repayment, and the investment needs in strategic sectors. Reports by Letta and Draghi highlight the necessity for a robust

but more flexible and investment-driven budget to sustain competitiveness, green and digital transitions, and defence exigences. However, the rigid MFF structure limits effectiveness. BusinessEurope calls for streamlining programs, reallocating unused funds, reducing bureaucratic complexity, and incentivising private investments.

CREATING A SAVINGS AND INVESTMENT UNION

The Savings and Investment Union project seeks to revive and integrate the Capital Markets and Banking Unions to finance EU priorities like defence and the green and digital transitions, while enhancing the competitiveness of the European economy. BusinessEurope supports the initiative, emphasising the need to mobilise private savings and improve equity financing for innovative companies. EU capital markets remain fragmented, with lower equity investment and liquidity than the U.S., where they are deeper and more dynamic. Institutional investors, including pension funds and insurers, are expected to play a bigger role in financing EU growth. Finally, addressing the low availability of venture capital and the lasting presence of regulatory barriers is key to improving EU competitiveness and boosting investment opportunities.

MEMBERS FEDERATIONS SURVEY

European businesses began the second mandate of President Ursula von der Leyen's European Commission with high expectations, anticipating policy shifts. While the focus on competitiveness and simplification is encouraging, swift implementation and tangible results are crucial to translate promises into reality.

However, there is growing concern over the EU's declining attractiveness as an investment destination. Over half of respondents reported a deteriorating investment environment, hindering EU's competitiveness against international peers. The regulatory environment is identified as the primary challenge to EU investment, followed by high energy prices, and skilled labour shortages.

The deregulation under the new U.S. administration is expected to exacerbate this, with over 85% of respondents predicting a negative impact on EU investments. Furthermore, European businesses express significant dissatisfaction with the implementation of the Recovery and Resilience Plans (RRPs), with only 10% satisfied. Slow decision-making, bureaucracy, a lack of private sector engagement have been identified as key obstacles.

PART 1: LETTA, DRAGHI, AND EU COMPETITIVENESS IN THE NEW POLITICAL CYCLE

01

1.1 INTRODUCTION. COMPETITIVENESS IN THE EU AT THE START OF A NEW U.S. ADMINISTRATION

The European Union faces significant challenges due to the declining competitiveness of its industry compared to other global regions. Growth in the EU has stagnated for multiple reasons, including burdensome regulations (see Section 2), high energy costs, a shortage of essential labour market skills, inefficient taxation, limited funding opportunities, and the constraints of a still-incomplete Single Market. By contrast, the United States is experiencing a much stronger growth and higher productivity, driven by a thriving digital services sector, faster adoption of innovative technologies, and greater availability of both labour and capital.

Historically, the strength of European industry has been reflected in the competitiveness of its exports, a substantial share of which is destined for the U.S. market. However, the new U.S. administration has introduced greater uncertainty regarding economic ties between the two regions, posing an additional challenge to European industry.

The EU and the U.S. share a deeply integrated economic relationship, with record levels of bilateral trade and investment. Together, they account for approximately 30% of global trade in goods and services and 43% of global GDP in 2023. In the same year, bilateral trade in goods and services reached €1.6 trillion.[1] The EU has for long maintained a trade surplus with the U.S. (Chart 1) while increasingly relying on U.S. imports in some areas, such as LNG and military equipment.[2]

According to the latest available data, in 2024, the EU recorded trade surpluses of €198.2 billion[3] with the U.S. up from €156.6 billion in 2023.[4] Looking at more granular data from 2023, the surplus was mostly distributed in key sectors such as machinery and vehicles (€102 billion), chemicals (€58 billion), other manufactured goods (€55 billion), and food and drink (€16 billion). However, the EU also faced trade deficits in energy (€70 billion), raw materials (€6 billion), and other goods (€2 billion).[5] In the wake of Russia's invasion of Ukraine and the subsequent bans on Russian oil and gas, the U.S. partially replaced Russia as a source of these critical imports. Consequently, oil and natural gas emerged as the first and third most imported products from the U.S., while medical and pharmaceutical products ranked second in 2023. The trade balance in goods with the U.S., which had been steadily improving from 2013 to 2021, saw a decline in 2022, primarily due to the significant deficit recorded in energy products, before starting to grow again. In contrast to the surplus in trade in goods, the EU registered a €108.6 billion deficit in services with the U.S. in 2023.[6]

Given this strong economic nexus, the stakes are particularly high for Europe. Under President Biden, the EU failed to resolve several lingering trade disputes, including steel and aluminium tariffs. These tensions have escalated under the new U.S. administration, which has consistently advocated for across-the-board tariffs of up to 20% on European goods, a direct challenge to the EU's trade surplus with the U.S.[7] The new U.S. administration introduced on 12 March a 25% tariff on all steel imports and elevated the tariff to 25% on aluminium,[8] including towards the EU, leading to the announcement of targeted retaliatory measures by the EU.[9] It also announced the intention to implement reciprocal tariffs on U.S. trade partners, with potential measures starting on 2 April.[10]

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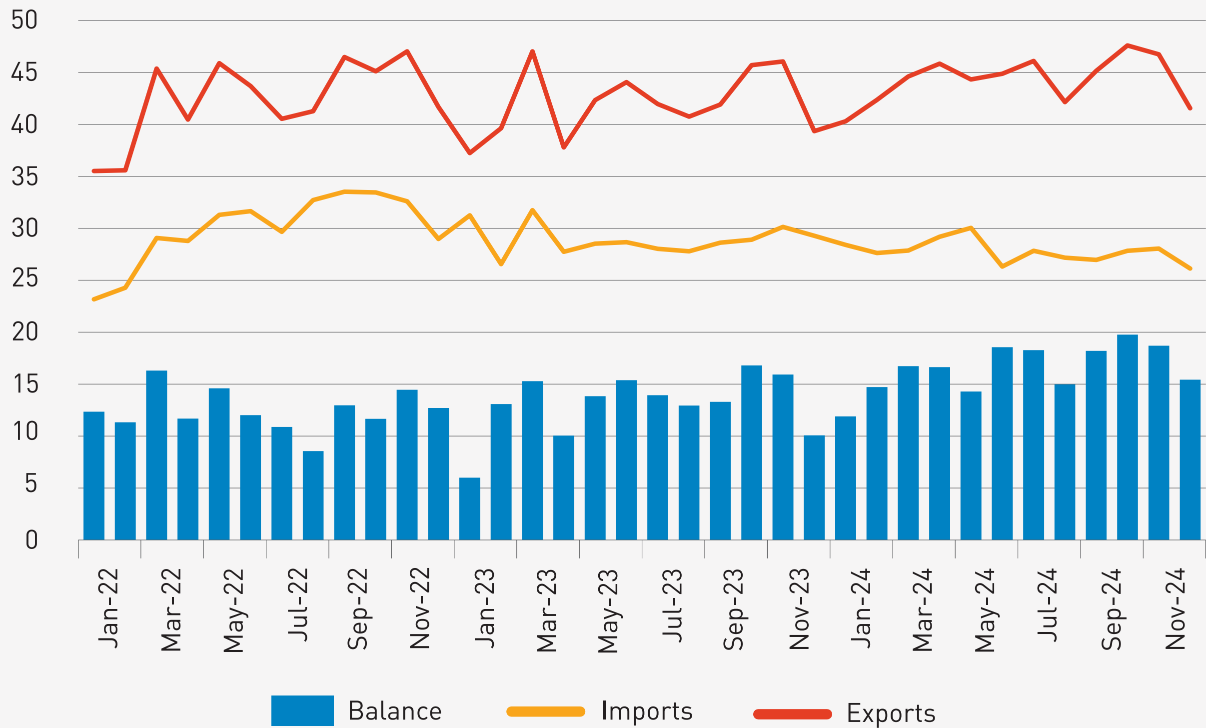
1 EU-U.S. trade - Consilium
2 Surviving Trump 2.0: What does the U.S. election mean for Europe's economy?
3 Trade in goods with the United States in 2024 - News articles - Eurostat
4 EU trade relations with United States
5 U.S.A-EU - international trade in goods statistics - Statistics Explained
6 Statistics | Eurostat
7 Trump's in. Here's what it means for Europe. – POLITICO
8 Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs – The White House
9 EU and Canada retaliate after Donald Trump's metals tariffs take effect
10 Reciprocal Trade and Tariffs – The White House

To further complicate matters, trade frictions with China, initially ignited during President Trump's first term and later intensified under the Biden administration, persist. As American restrictions suppress Chinese exports, some of these goods could be redirected to the EU, exploiting its relatively open market. For instance, Goldman Sachs has projected that U.S. actions similar to the 2018-2019 "trade war" reduce Euro area GDP by as much as 1%, highlighting the growing challenges in navigating an increasingly protectionist global trade environment.[11]

CHART 1 **EU trade in goods with the United States (2022-2024) in € billions**



Source: Eurostat (online data code: ext_st_eu27_2020sitc)

As of March 2025, a 20% tariff was imposed by the U.S. administration on imports from China.[12] China has responded to the U.S. tariffs by imposing retaliatory tariffs on U.S. coal, LNG, crude oil, farm equipment, and some autos.[13] Additionaly, China implemented export controls on key metals,[14] launched an anti-monopoly investigation into Google, and added several U.S. companies to its "unreliable entities list."[15] The U.S. also imposed an additional 25% tariff on imports from Canada and Mexico, albeit later partially lifted and for a limited period of time.[16]

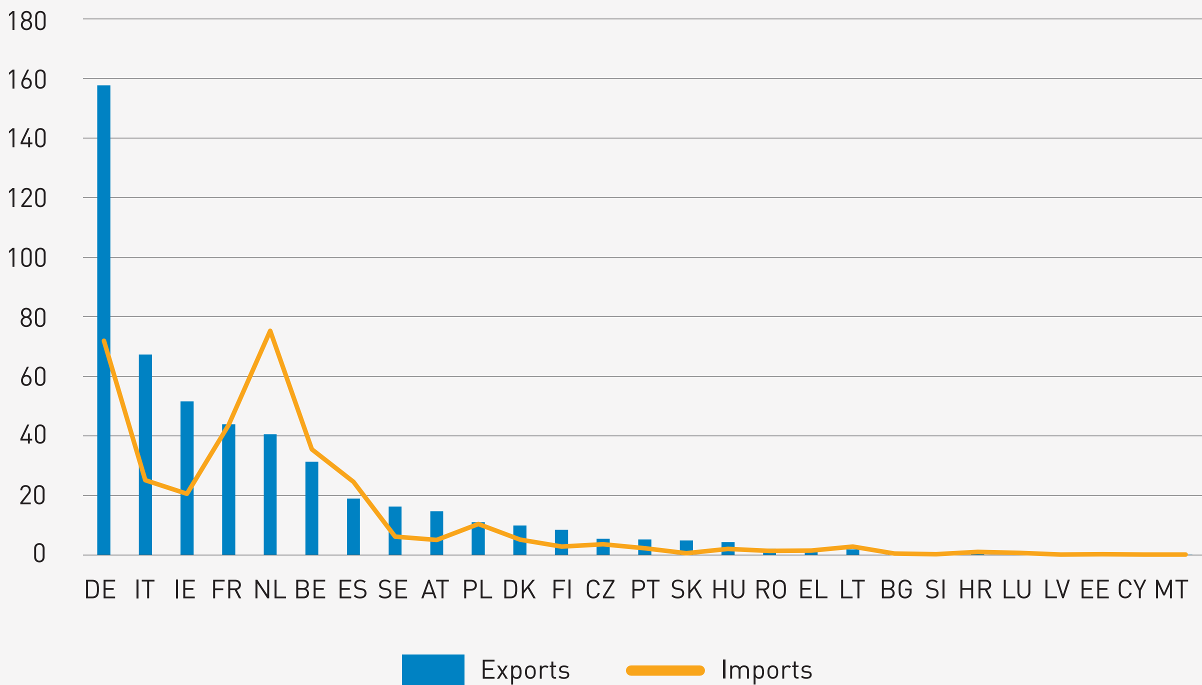
The situation remains uncertain regarding the continuation or introduction of tariffs by the new U.S. administration. The consequences for Europe of prolonged reciprocal tariffs between the U.S. and China, or other countries, are also difficult to predict. The EU might enjoy an advantage by partially replacing certain Chinese exports to the U.S.. However, products from China initially meant for the U.S. could be redirected to the EU, increasing competition for EU companies in their home market. In the meantime, uncertainty might postpone companies' investment decisions.

[11] Global Economics Analyst Macro Outlook 2025 Tailwinds (Probably) Trump Tariffs
[12] Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China – The White House
[13] China imposes 15% tariffs on coal, LNG in response to Trump's tariffs | AP News
[14] China expands key mineral export controls after U.S. imposes tariffs | Reuters
[15] China announces measures against Google, other U.S. firms, as trade tensions escalate | Reuters
[16] Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China – The White House

Further analysis of the interrelation between in the U.S. and EU economies, and on the possible impact of the new U.S. administration can be found in Box 1.

In parallel, Germany, Europe's largest economy and the leading EU exporter to the U.S. (Chart 2), is grappling with a challenging economic and political landscape. In 2024, the German economy shrank by 0.2%.[17] The latest forecast by the Federation of German Industries (BDI) for Germany's GDP for 2025 is of – 0.1%, marking a significant downgrade from the Deutsche Bundesbank's earlier forecasts of 0.2% growth in December 2024,[18] and falling below the EU growth average. As Germany is the largest EU economy, has recently experienced a political transition, and has significant production and demand interlinkages with many other EU economies, this affects the EU as a whole.

CHART 2 EU Member States bilateral trade with the U.S. in € billions (2023)



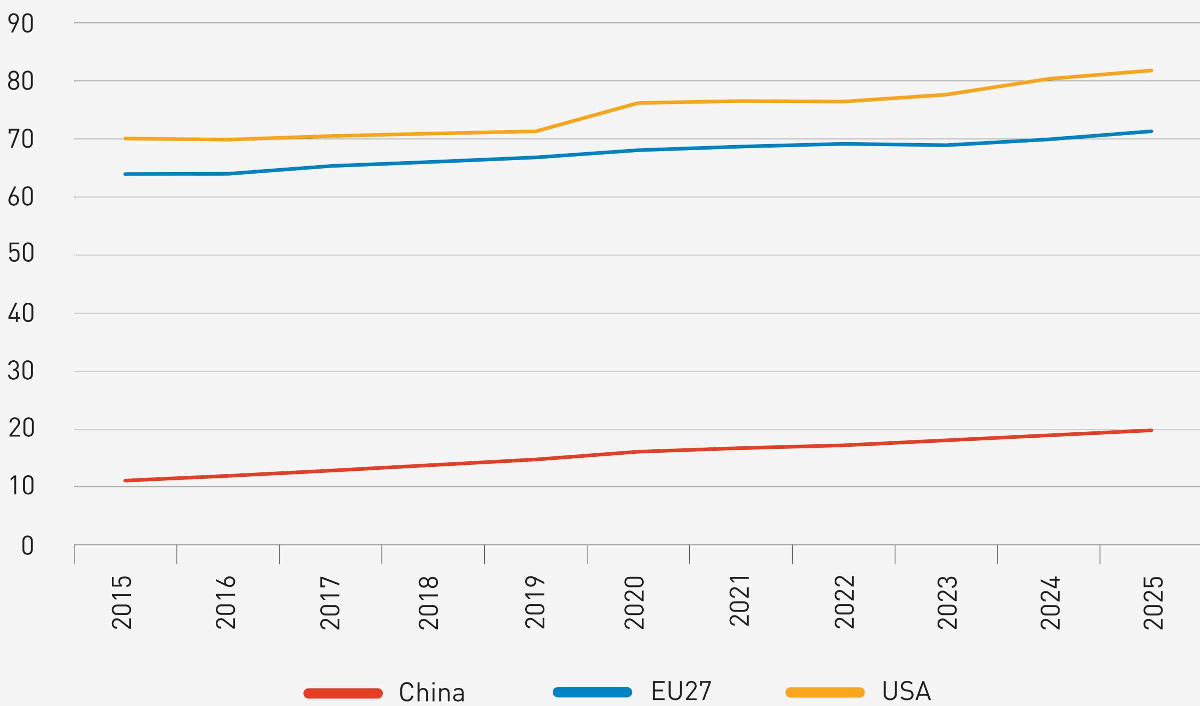
Source: Eurostat, online data code:ds-01899

[17] Gross domestic product (GDP) - German Federal Statistical Office
[18] Forecast for Germany: significantly gloomier growth outlook | Deutsche Bundesbank

1.2 A COMPARISON BETWEEN THE EU, U.S., AND CHINA

The actions of the new U.S. administration have heightened the urgency for the EU to strengthen its competitiveness and narrow the gap with the U.S. and China, namely by lightening the regulatory burden faced by EU companies and improving Europe's investment climate. A key challenge lies in labour productivity, where the EU has consistently trailed behind the U.S. over the past decade. According to data from the International Labour Organization (ILO), the productivity gap -measured as GDP per hour worked- has continued to widen between the EU and the U.S., underscoring the need for structural reforms and investment in innovation to close the divide (Chart 3).

CHART 3 Labour productivity measured as GDP per hour worked (measured at constant 2021 international $ and PPP)

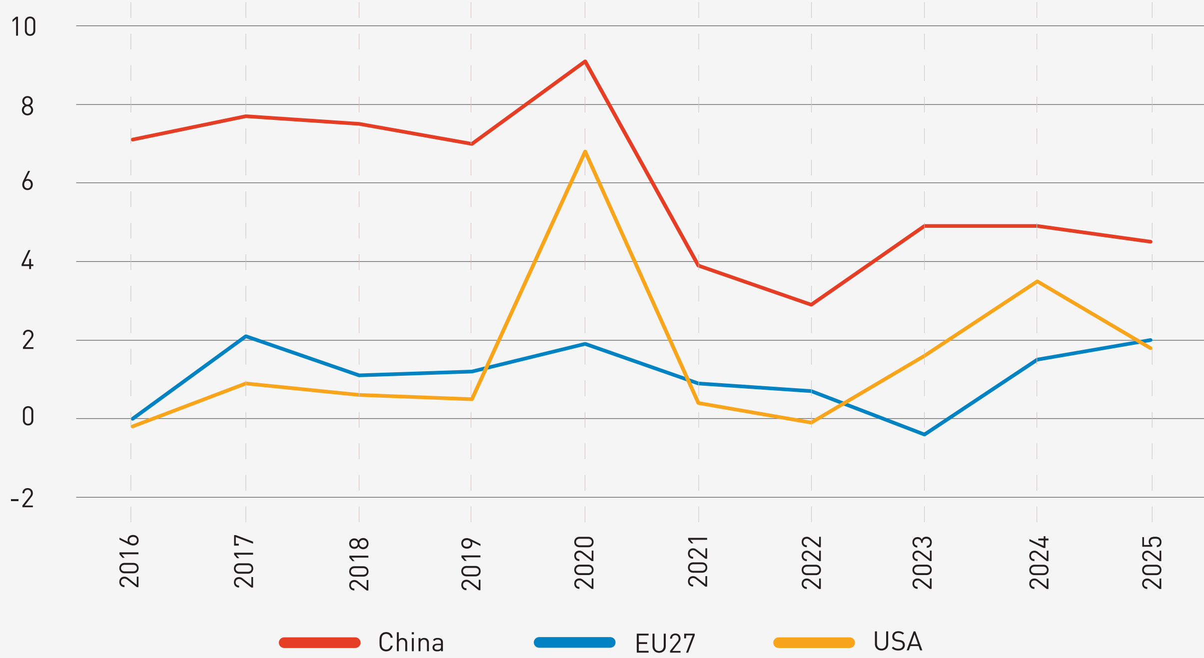


Source: ILO - Modelled Estimates

On the other hand, China's annual productivity growth has slowed compared to the early years of the last decade, reflecting structural challenges such as a rapidly ageing population, overreliance on the real estate sector, and relatively weak domestic consumption.[19] These issues are compounded by the slow implementation of a modern welfare state and an overreliance on exports. Nevertheless, China continues to become more competitive in key industrial sectors, including automotive, digital technology, and electronic appliances, as well as holding a strategic position in the global supply chains, including the refining and processing of essential raw materials vital to both digitalisation and sustainability efforts. As China strengthens its foothold in some strategic industries and the U.S. continues to outperform in more general economic terms, the urgency for Europe to revitalise its economy and enhance its regulatory framework becomes even more critical.[20]

[19] Vinhas de Souza, L. (2024) "Caught in the Middle? China and the Middle Income Trap", Working Paper 9/2024, Luiss Institute for European Analysis and Policy.
[20] "Reducing Regulatory Burden to restore the EU's Competitive Edge", BusinessEurope.

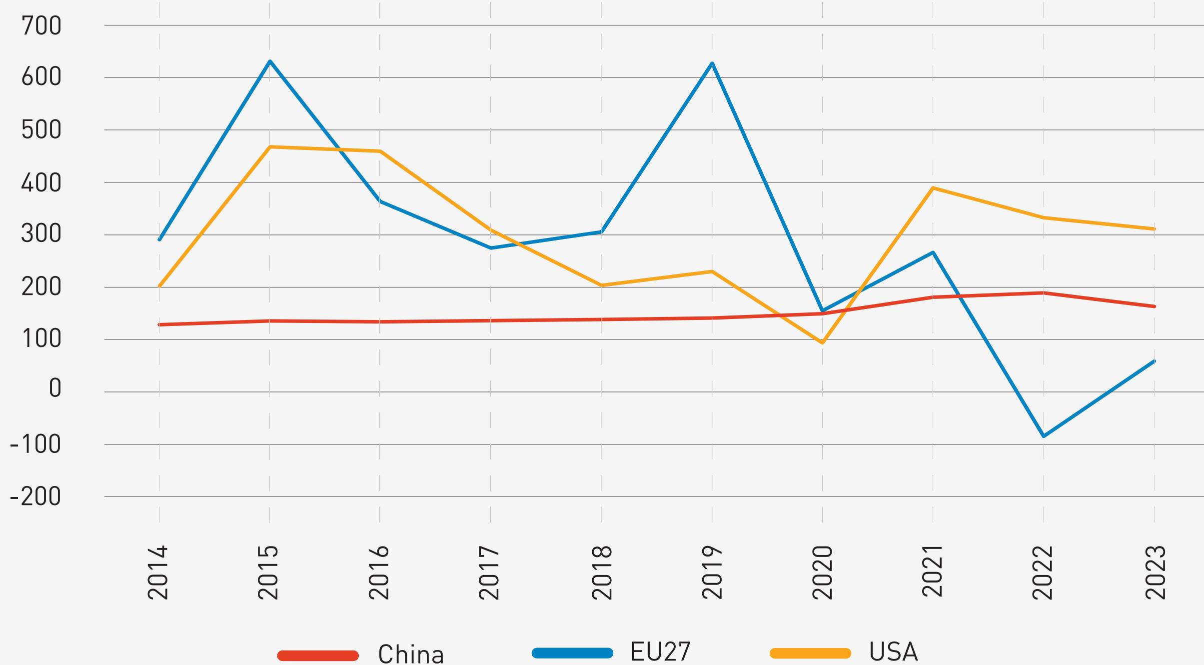
CHART 4: Year-over-year growth of output per hour worked (measured in percentage points change)



Source: ILO - Modelled Estimates

However, productivity is not the only indicator that is showing the EU being outperformed by the U.S. According to UNCTAD data, the gap between the U.S. and the EU in both inflows and outflows of foreign direct investments (FDI) has widened in recent years, with the U.S. maintaining its position as a top global investment destination and the EU declining significantly. In contrast, China has experienced relatively stable FDI flows, though recent trends show some decline (Charts 5 and 6).

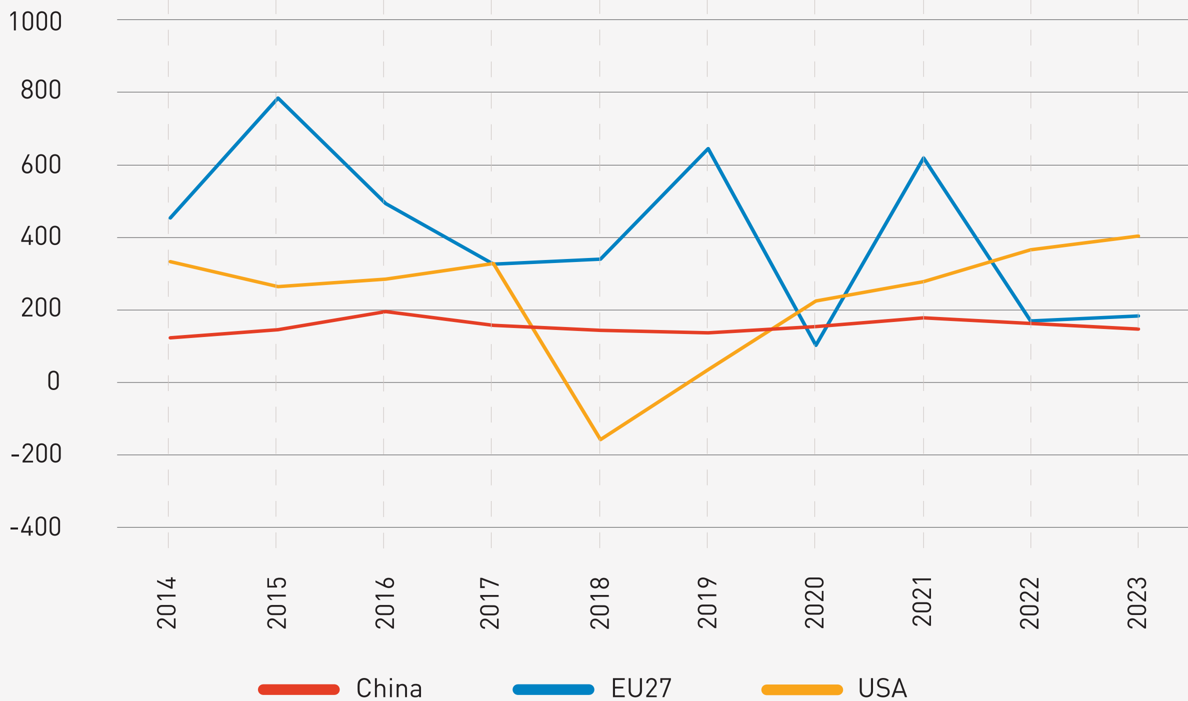
CHART 5 FDI inward flows (in billions of U.S.$ at current prices)



Source: UNCTAD FdiFlowsStock

Given that investments are a key driver of long-term competitiveness, the EU must intensify efforts to attract and retain capital. This requires a more investment-friendly environment through reduced barriers to cross-border capital flows, effectively implementing its long-mooted CMU, while strenghtening capital markets in the individual EU Member States. Strengthening these aspects will be essential for fostering innovation, scaling up European businesses, and ensuring the EU remains competitive in an increasingly fragmented and contested global economy.

CHART 6 FDI outward flows (U.S.$ at current prices in billions)



Source: UNCTAD FdiFlowsStock

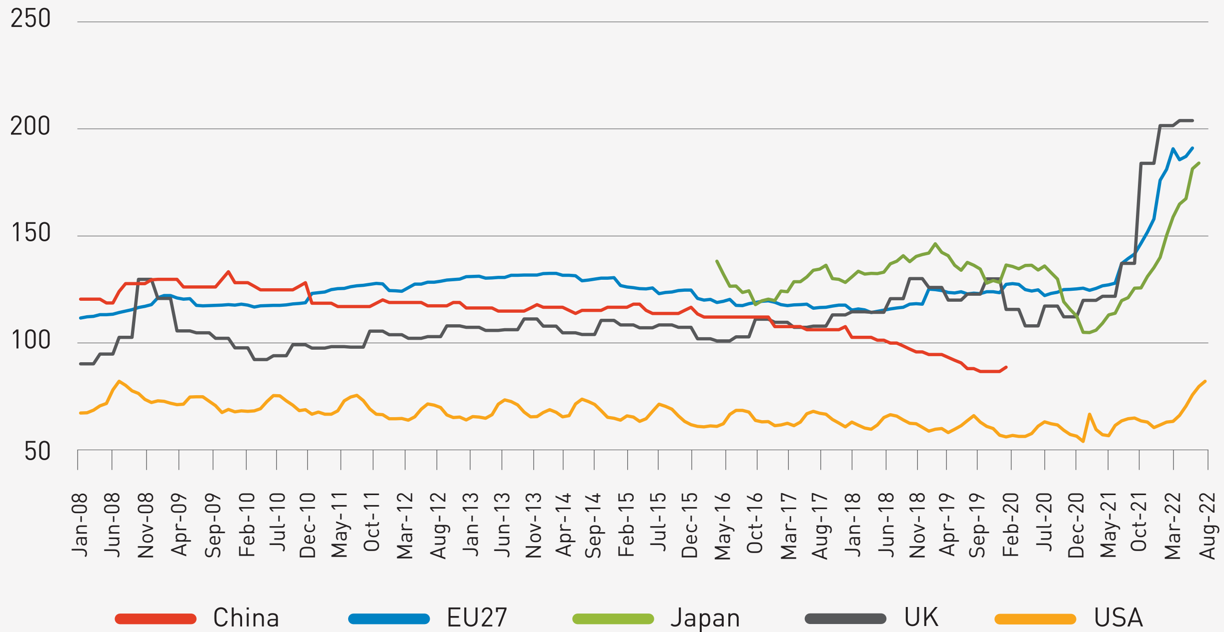
Another key challenge undermining the competitiveness of European industry -especially compared to the U.S. and China- is the high cost of energy, which significantly raises production expenses. Ensuring access to affordable energy will therefore be critical for sustaining the competitiveness of European businesses. In 2024, industrial electricity prices were €0.199 per kWh in the EU, €0.082 in China and €0.075 in the U.S.[21] This price disparity impacts the competitiveness of industries in these regions (see Chart 7 for a comparison of retail prices including also Japan, UK with data until August 2022, and until 2020 for China).

Shifts in industrial production, including reshoring, capacity expansions, or declines, will also influence electricity demand. However, the competitive advantage of cheaper energy remains undeniable. Several factors contribute to Europe's high electricity costs, including taxation, distribution network expenses, and generation costs. Notably, taxes on electricity tend to be considerably higher in the EU than in the U.S., further exacerbating price disparities.

Additionally, Europe has fewer domestic energy resources for electricity generation, making it more reliant on energy imports. The increasing dependence on liquefied natural gas (LNG) -which is more expensive than pipeline gas- has further driven up costs (see Chart 8 for a comparison between EU and U.S. natural gas prices).

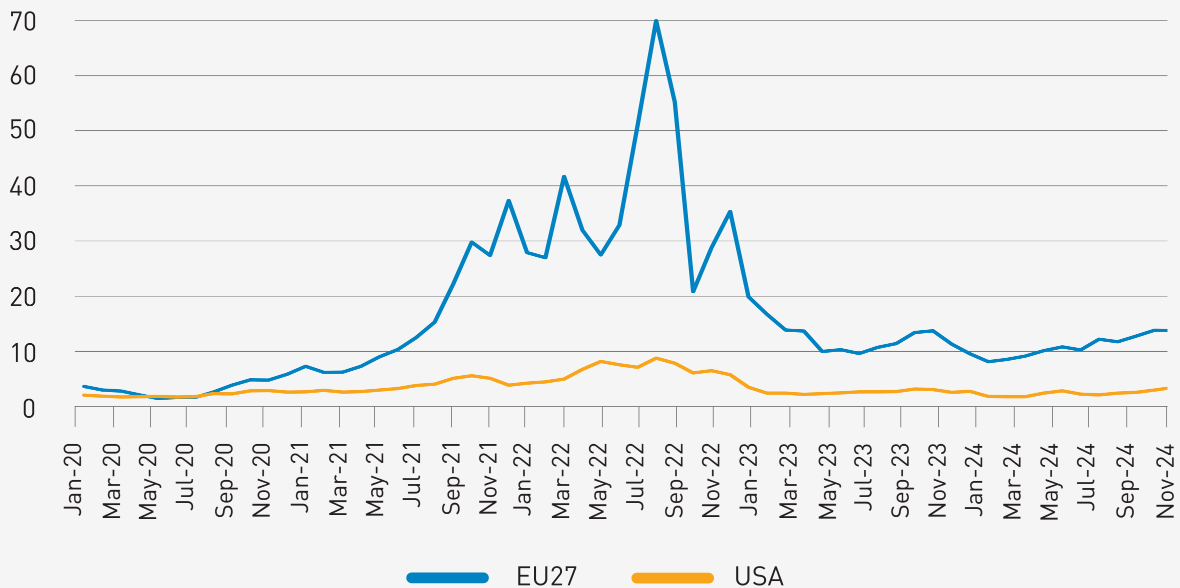
[21] Sources for EU27 data: Eurostat non-household electricity prices in the first semester of 2024, considering ID band for industrial prices. Energy Information Administration (EIA) "Use of electricity" for U.S. data (October 2024). Dezan Shira and Associates for China "China's Industrial Power Rates: A Guide for Investors".

CHART 7 Electricity industry retail prices, excluding recoverable taxes and levies (€ /MWh using 2021 € values)



Source: European Commission

CHART 8 Global price of natural gas, US$ per Million Metric British Thermal Unit

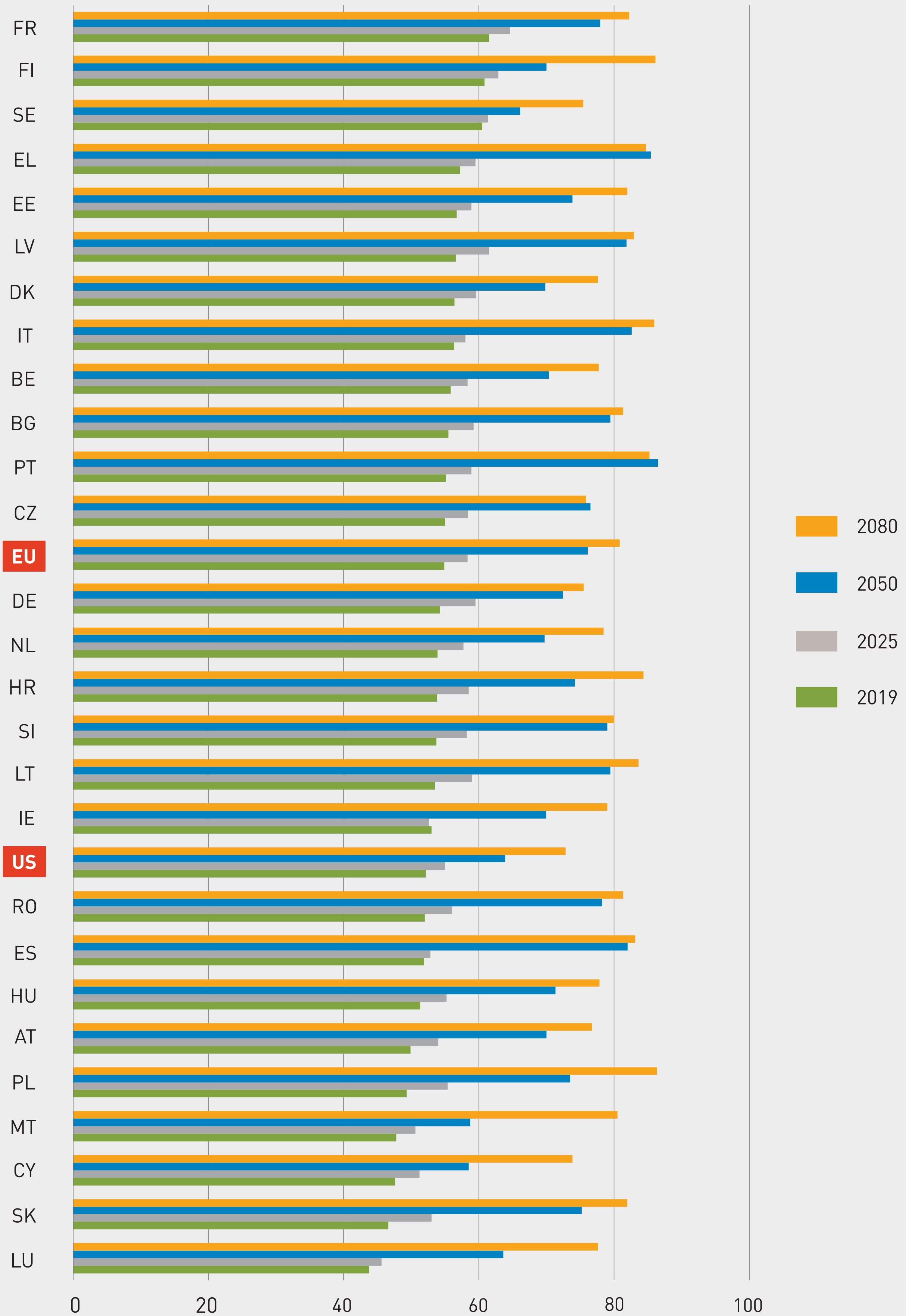


Source: FRED St. Louis FED

The need for substantial reforms enabling EU's private sector to achieve higher levels of innovation and productivity is becoming increasingly urgent due to the region's demographic trends, and particularly the rapidly growing old-age dependency ratio. As the proportion of retirees rises relative to the active workforce, boosting productivity becomes even more imperative, to sustain the increasing economic burden represented by pensions and health spending (Chart 9). This challenge is further compounded by the already demanding twin transitions towards a higher degree of digitalisation and sustainability, as well as the volatile international landscape that is increasing the needs for defence spending.

CHART 9

Age dependency ratio, 2019, 2025, 2050, 2080 measured as sum of young population (under age 15) and elderly population (age 65 and over) relative to the working-age population (ages 15 to 64)



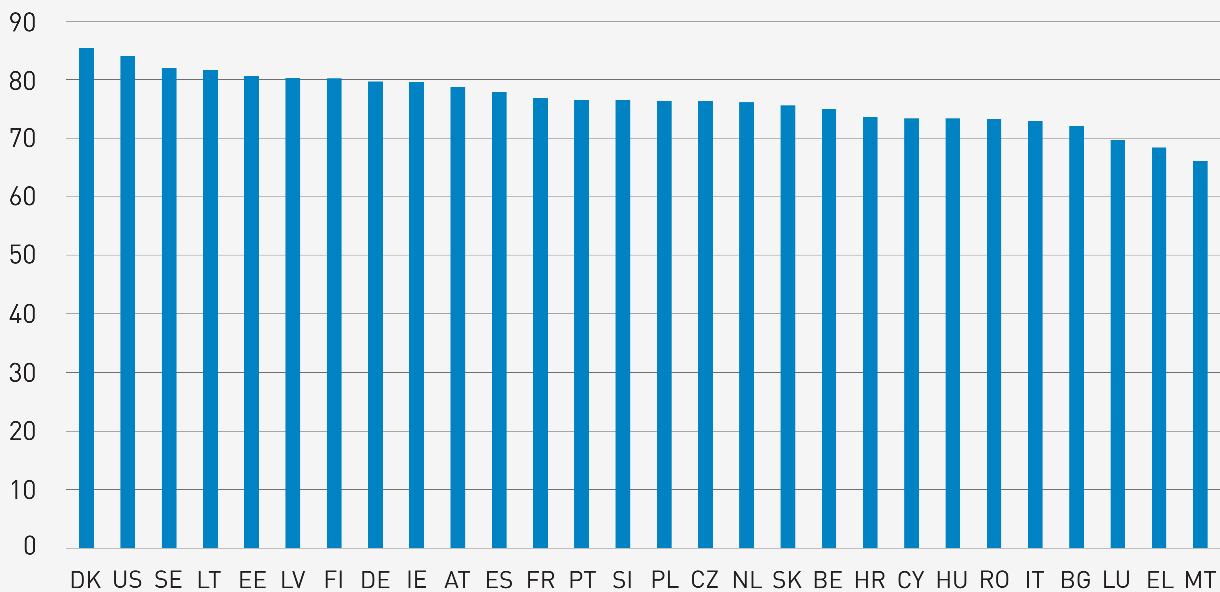
Source: Eurostat proj_19ndbi, UN World Population Prospects (2024)

1.3 REDUCE REGULATORY BURDEN, ALLOWING EU BUSINESSES TO DRIVE INNOVATION

Mario Draghi, tasked with crafting a strategy to revitalise Europe's economy by the European Commission, in his report of September 2024 highlighted that since 2019, the EU has enacted roughly 13,000 pieces of legislation, in contrast to approximately 3,000 in the U.S.[22] Intra-EU trade has also stagnated at around 20% of EU GDP since 2007 vs more than 70% of GDP for intra-U.S. trade.[23] The fact that our Single Market is underdeveloped and over-regulated -as forcefully conveyed by the BusinessEurope members' survey in Section 2- is particularly damaging for SMEs. Moreover, it discourages start-ups from scaling up in Europe. The U.S. ranks second in terms of ease of doing business, preceded only by Denmark and followed by Sweden, when compared to all EU Members (Chart 10). Moreover, BusinessEurope members report that regulation is seen by more than 60% of EU companies as an obstacle to investment, with 55% of SMEs flagging regulatory obstacles and the administrative burden as their greatest challenge.[24]

Furthermore, the incomplete Single Market entails average costs of selling goods across EU Member States equivalent to a 45% tariff, compared to just 15% for trading goods across U.S. states. This means the costs of trading goods within the EU are roughly three times higher than in the U.S.. Even larger barriers exist for services, with an estimated tariff equivalent to about 110% on average, underscoring the challenges in achieving a fully integrated Single Market.[25]

CHART 10 Overall ease of doing business 2020



Source: Ease of Doing Business Scores, World Bank, latest data available (2020)

EC's President Ursula Von der Leyen emphasised her commitment to addressing overregulation. In the mission letters addressed to commissioners at the start of her second mandate, she included a section titled "Making Europe simpler and faster," outlining a goal to reduce reporting obligations for businesses by 25%, with an increased target of 35% for SMEs. We welcome this ambition as well as the comprehensive set of Omnibus proposals[26] announced by the Commission that aim to streamline

[22] Draghi, M., The Future of European Competitiveness 2024, Publications Office of the European Union (September 2024)
[23] BusinessEurope, Reboot Europe (January 2025)
[24] BusinessEurope, Reducing regulatory burden to restore the EU's competitive edge (January 2025)
[25] IMF, Scaling Up the Single Market to Boost Productivity (November 2024)
[26] 1st EU Omnibus: A positive step towards making it easier to do business in Europe

multiple pieces of legislation, accompanied by a significant number of initiatives with a strong focus on simplification.[27] However, there is a risk that the Commission might inadvertently create more bureaucracy in its efforts to reduce it, and there is a precedent for this: in the United States, the Paperwork Reduction Act is often criticised for increasing the paperwork burden.[28] The significant trade barriers within the EU Single Market are highlighted by the estimated costs of trading goods and services between Member States.

1.4 AN EU BUDGET FIT FOR A COMPETITIVE EU

On 11 February 2025, the Commission published a communication on "The Road to the next Multiannual Financial Framework (MFF)."[29] This publication outlines the key policy and budgetary challenges that, in its views, will shape the design of the next EU budget, known as the Multiannual Financial Framework (MFF), namely the repayment of the NextGenerationEU (NGEU), a large anti-crisis facility created during the COVID-19 pandemic and financed with EU-issued debt, proposals for a plan for each EU Member State with key reforms and investments, a "European Competitiveness Fund" possibly aggregating several existing instruments to establish the investment capacity needed to support strategic sectors and critical technologies, and revamped external action tools.[30]

The EU budget already funds a number of EU priorities, stemming from cohesion policy, agriculture, and innovation. Reports by former Italian Prime Ministers Mr Letta (April 2024)[31] and Mr Draghi (September 2024) stress the need for a robust and adaptable MFF to maintain EU competitiveness, promote innovation, sustain the double -green and digital- transitions, and achieve the security and defence necessities.

To stay effective, the MFF should focus on supporting high-impact projects, better assess funds' economic value-added before and after their implementation, and increasing flexibility through reallocated unused funds or more frequent budget reviews. The changes should encourage private-sector investment by reducing administrative barriers, ensuring regulatory stability, and promoting public-private partnerships (PPPs). The European Investment Bank (EIB), other EU-participated multilateral banks (e.g., EBRD), and national promotional banks (NPBs) can also contribute by de-risking investments opportunity and incentivising private investments, but currently face high bureaucracy, risk aversion, and sectoral exclusions (e.g., defence).

Budget complexity hinders spending assessments, leading to inefficiencies. The EU should streamline programs, set clear objectives, and conduct systematic ex-post empirical evaluations, re-allocating the funds according to the findings.

Cohesion Policy, representing around one-third of the EU budget, also needs modernisation for better impact, including simplification and stronger private sector involvement.[32]

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[27] Commission work programme 2025
[28] The Paperwork Reduction Act Is Terrible, and We Should Eliminate or Reform It – Good Science Project
[29] "The Road to the next Multiannual Financial Framework", European Commission.
[30] BusinessEurope is preparing an upcoming posistion paper on this subject.
[31] "Much More Than a Market", European Council.
[32] BusinessEurope is preparing an upcoming posistion paper on this subject.

1.5 SAVINGS AND INVESTMENT UNION – THE LONG-WAITED REBIRTH OF THE BANKING AND CAPITAL MARKET UNIONS?

Developing a Savings and Investment Union (SIU) -which combines and renews the earlier EU initiatives of the Capital Markets and Banking Unions- is seen as crucial for strengthening the EU economy is seen as essential to finance future EU needs, including defence, enlargement, and the digital and green transition. [33]

BusinessEurope also supports the SIU initiative, building upon the progress of the CMU and Member States national financial markets. Despite CMU advancements, EU capital markets remain fragmented, with a persistent home bias among investors. The SIU aims to mobilise substantial private savings within the EU to stimulate economic growth and fund the green and digital transitions, as well as defence investments. While bank financing remains important for EU businesses, it alone cannot meet all investment needs, particularly for young, innovative companies requiring equity financing, entailing higher risks-rather than debt.

SIU discussions also focus on enhancing institutional investors' participation in EU's economy, particularly pension funds and insurers, by increasing equity investments. However, pension provision involves more than just building up assets, as the social dimension of occupational pensions must also be kept in mind.

The disparity in capital market development between the EU and the U.S. is striking. Between 2016 and 2022, Europe's equity market capitalisation (as a share of GDP) increased from 48% to 66%, while it rose from 104% to 157% in the U.S., highlighting the greater depth and appetite for equity of U.S. capital markets. This difference is further illustrated by equity market liquidity (turnover velocity), which decreased from 68% to 52% in Europe while remaining at 145% in the U.S. over the same period. [34] At the same time, the savings rate in the Euro Area (15.3% in Q3 2024), [35] is significantly higher than the U.S. rate (4.3% in the same period). [36]

The significant disparity in venture capital funding received by start-ups in the two regions -€58.2 billion in the EU[37] compared to €229.5 billion[38] in the U.S.- also highlights key differences in the availability of risk capital, the depth of investment opportunities, and overall investor appetite. This gap reflects structural variations in financial ecosystems, regulatory environments, and market dynamics, with the U.S. benefiting from a more mature venture capital landscape, a higher concentration of institutional investors, and a stronger culture of high-risk, high-reward investments.

[33] BusinessEurope is preparing an upcoming posistion paper on this subject.
[34] European-Capital-Markets-Report.pdf, Oliver Wyman (May 2024)
[35] Household saving rate down to 15.3% in the euro area - Euro indicators - Eurostat
[36] Personal Saving Rate (PSAVERT) | FRED | St. Louis Fed
[37] European Tech in 2023 | Dealroom.co
[38] State of Venture 2023 Report - CB Insights Research

BOX 1: THE POSSIBLE IMPACT OF THE NEW U.S. ADMINISTRATION ON THE EU COMPETITIVENESS

The importance of the EU-U.S. economic partnership

The extent of the economic links between the EU and the U.S. is well summarised by the importance of the above-mentioned 30% share of global trade in goods and services.[39]

In terms of job creation, U.S. companies employed more than 2.8 million people in the EU, while EU companies employed more than 3.3 million people in the U.S. in 2022.

Trade in goods between the EU and the U.S. amounted to €875.5 billion in 2022, followed by €851 billion in 2023 and €865 billion in 2024. In 2022, the volume was 16% higher than EU-China trade and 39% higher than U.S.-China trade. Concerning services, the EU's services trade with the U.S. totalled €649.5 billion, which was 4.6 times larger than the €142 billion in EU-China services trade. According to Eurostat's data, in 2023, the EU registered a surplus of €156.6 billion in goods and, in parallel, a €109 billion deficit in services with the U.S.. Preliminary data for 2024, shows that the surplus by the EU in trade in goods expanded to € 198.2 billion.[40] The stock of foreign direct investment by EU's companies in the U.S. reached €2.22 trillion in 2022, whereas the U.S. investment stock in the EU was €2.49 trillion.[41]

However, affiliate sales, not trade, are the primary means by which European firms deliver goods and services to U.S. consumers. In 2022, the total sales of U.S. foreign affiliates in the EU were an estimated €2.1 trillion, compared to €1.9 trillion generated by affiliates of the EU in the U.S.. Additionally, the value added by U.S. affiliates in the EU approached €475 billion according to the 2022 estimates. Europe also remains a lucrative market for American companies. For instance, Meta and Apple derive 22% and 24% of their revenue, respectively, from Europe.[42]

The extent of the transatlantic partnership in terms of energy is also remarkable and continues to grow. The U.S. is Europe's most important supplier of liquefied natural gas (LNG), accounting for 50% of the EU's total LNG imports and around 20% of its total gas imports. This amount might increase in the coming years, given the new U.S. administration reversal of constraints on domestic U.S. exploration, production and export of hydrocarbon fuels imposed by the previous U.S. government. Additionally, the U.S. has become the EU's largest supplier of petroleum, accounting for about 18% of imports. U.S. oil shipments to Europe have surged by 82% since Russia's invasion of Ukraine and now account for 12% of Europe's oil supplies.[43]

Bilateral R&D flows between the U.S. and Europe are the most intense between any two international partners. In 2021, U.S. affiliates spent €34.7 billion on R&D in Europe, accounting for 54% of total U.S. R&D conducted globally by affiliates. In the U.S., R&D expenditures by majority-owned foreign affiliates totalled €72.4 billion in 2021, with European affiliates accounting for €50.1 billion, around 69% of that total. Most of this investment by European firms took place in research-intensive sectors such as autos, energy, chemicals, and telecommunications.[44]

U.S. investments play a pivotal role in driving Europe's innovation growth. Among the top 20 R&D spenders in the EU in 2022, the top three companies are from the U.S. and belong to the software

[39] EU-U.S. trade - Consilium
[40] Trade in goods with the United States in 2024 - News articles - Eurostat
[41] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.
[42] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.
[43] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.
[44] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.

and computer services industry (Alphabet, Meta, Microsoft). In 2023, American investors provided 25% of the capital for European start-ups seeking "growth stage" funding, significantly outpacing the 7% contribution from Asian investors. This is crucial to ensure Europe has the necessary capital to grow and to utilize its tech talent, given that Europe boasts a larger resident population of highly skilled AI professionals than the U.S.[45]

Transatlantic data flows are also vital to sustaining the EU-U.S. economic relationship. Over 90% of EU-based firms engage in data transfers with the U.S.. In 2021, the EU imported €212.2 million and exported €177.1 million of digitally enabled services to the U.S.[46]

Policy actions by the U.S.

The new American administration has proposed several significant tariff changes, albeit those are still under review processes of different length by U.S. agencies before being activated. Firstly, the administration announced the intention to re-introduce a 25% tariff on steel imports and increased the tariff on aluminium imports from 10% to 25% as of 12 March, which indeed happened.[47] These tariffs apply to goods entering the U.S. for consumption (or withdrawn from a warehouse for consumption) after March 12, 2025. The proposed tariffs were expanded to include key downstream products, eliminating previously negotiated country-specific exemptions and quota arrangements, including towards the EU.

Beyond the EU, a 25% additional tariff was announced on imports from Canada and Mexico, and a 20% additional tariff was imposed on imports from China. Lastly, energy resources from Canada were given a lower 10% tariff, recognising their specific importance.

At this stage, it is unclear how the different countries potentially impacted by an increase in U.S. tariffs for steel and aluminium will react, albeit some, like the EU, have already outlined measures (in the EU case, due to come into effect later). If there is no negotiated solution, there is a risk of retaliatory measures impacting other sectors, creating additional disruptions in global supply chains. We could also witness a redirection of steel and aluminium exports from the U.S. market to other markets, including the EU.

China has responded to U.S. tariffs by imposing retaliatory tariffs on U.S. coal, LNG, crude oil, farm equipment, agriculture products and some autos. Additionally, China implemented export controls on key metals, launched an anti-monopoly investigation into Google, and added several U.S. companies to its "unreliable entities list." China has also launched a WTO case against the U.S..

The potential consequences for Europe of prolonged reciprocal tariff barriers between the U.S. and China, or between the U.S. and other countries, are uncertain and difficult to predict. The EU might benefit from substituting Chinese products in the U.S. market. However, Chinese products previously headed to the U.S. might be diverted to the EU, increasing pressure on EU companies.

Another possible development relates with the U.S. so-called Inflation Reduction Act (IRA), adopted in August 2022, aimed primarily at promoting renewable energy sources and products. It introduced subsidies such as electric vehicle credits, home energy credits, and renewable electricity investment credits. A March 2023 analysis by Copenhagen Economics assessed the IRA's potential impact on the EU.[48] Although more recent assessments are lacking, the

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[45] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.

[46] Hamilton, D., and Quinlan, J., (2024), The Transatlantic Economy 2024.

[47] BusinessEurope: Additional US tariffs on steel and aluminium are a lose-lose for both sides of the Atlantic (12/03/2025).

[48] The effects of the U.S. Inflation Reduction Act (IRA) on EU competitiveness, a report by the Confederation of Swedish Enterprise, based on an analysis from Copenhagen Economics, March 2023.

IRA subsidies may have lowered U.S. production costs, posing challenges for the EU. These include increased competition from U.S. energy-intensive industries and potential delays in EU investments. Local content requirements in the IRA disadvantage EU producers and may have caused market distortions. However, European firms might have as well benefited from investing in the U.S. and exporting production from there. The EU's response has been measured, with the Franco-German Council of Economic Experts concluding that the IRA would have minimal overall macroeconomic impact on the EU. The EU adapted its State Aid rules and proposed the "Green Deal Industrial Plan" to counterbalance the IRA's effects.

With a Republican-controlled White House and both houses of the Congress, the IRA's future is uncertain. Recent attempts by Republican lawmakers to repeal or hinder its implementation suggest some sections are vulnerable. A potential shrinking or repeal of the IRA might impact the EU's policy stance, shifting the focus from subsidy-based competition to tariff-based competition.

What will be the impact of the new U.S. administration on global taxation, and by reflex, on the EU taxation framework? On 20 January, the U.S. government issued an executive order[49] on the OECD's global minimum tax agreement (Pillar Two), which aims to ensure that multinational corporations pay at least 15% in income tax. The order states that policy commitments made by the Biden administration's Treasury officials have no effect unless the Congress backs them up, and that the U.S. may retaliate against extraterritorial taxes.

Currently, the U.S. tax code is not aligned with the OECD's tax base, and only Congress can change that. The U.S., with a domestic rate of 21% and a scheduled increase in the effective tax rate on international income to 16.4% in 2026, already has tax rates that exceed the OECD's 15% minimum, but differs in tax bases and calculation methods. Congress has not enacted major legislation to support the agreement, and the American administration's statement reflects the fact that Pillar Two is currently not law in the U.S.

The EU is instead progressing in implementing OECD Pillar Two. While the pace of implementation varies across Member States, the overall effort is geared towards meeting deadlines and ensuring compliance with the global minimum tax rules.

Pillar Two has potential downsides for the U.S., including reduced income for U.S. shareholders and a potential loss of fiscal sovereignty. The U.S. could retaliate against the agreement's enforcement mechanism if applied to U.S. income and may also retaliate against other discriminatory taxes by OECD members, including EU members. Retaliation does not require congressional action and could be quickly enacted.[50] The U.S. actions also have potential implications for EU companies, as it could cause a further disadvantage in costs in relation to U.S. companies.

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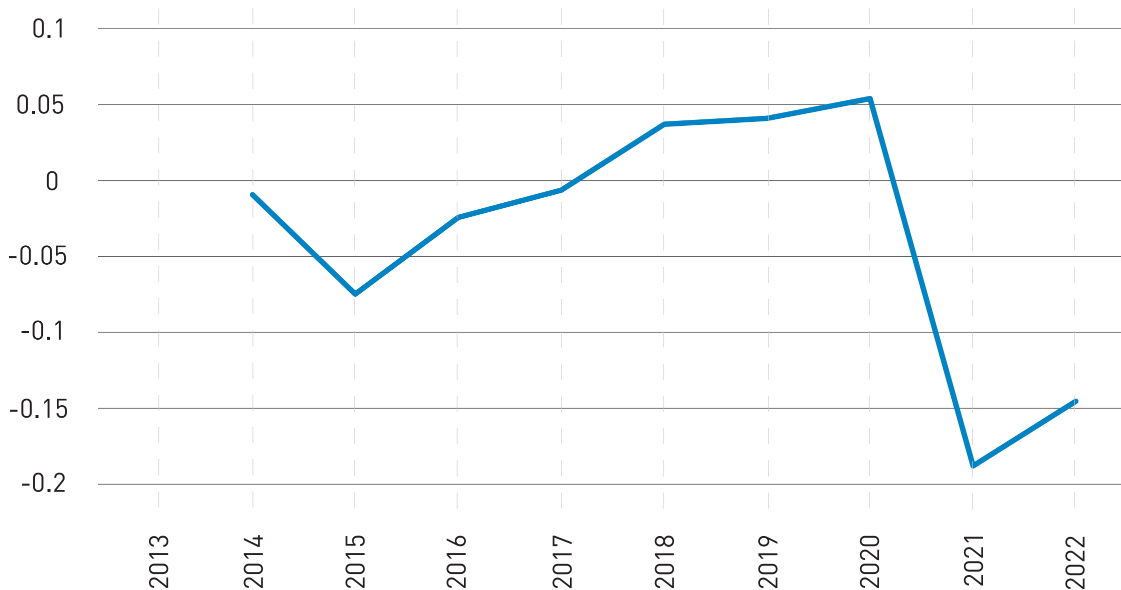
[49] The Organization for Economic Co-operation and Development (OECD) Global Tax Deal (Global Tax Deal) – The White House

[50] Trump Global Minimum Tax Order: Details & Analysis

BOX 2: SECTORIAL COMPETITIVENESS OF EU COMPANIES

This box explores the competitiveness of EU companies through various comparison criteria, including sector-specific performance, company size, and country-level differences. Using data from a subset of manufacturing firms in selected EU countries (Austria, Belgium, Spain, France, Croatia, Italy, Poland, and Portugal) for the period between 2013 and 2022, sourced from the BACH database, we observe a cumulative 31.6% decline in productivity (measured via the so-called "Total Factor Productivity"or TFP)". This figure is not adjusted to take into account the relative size of each economy considered. The decline may partly reflect the lagged negative impact of COVID-19 and high inflation in recent years, as indicated by the year-over-year growth trend (Chart 11).

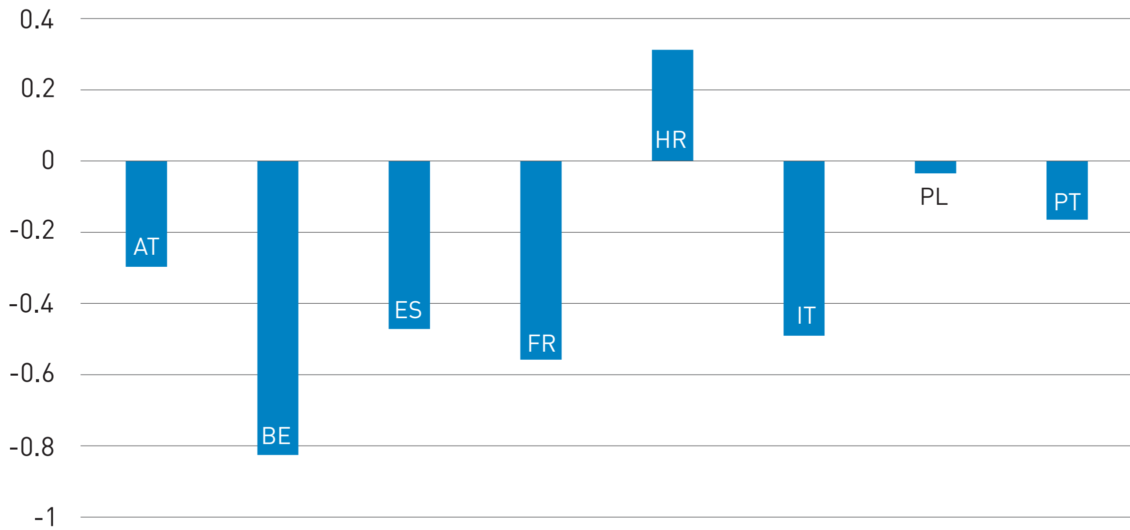
CHART 11 Year-over-year TFP growth rate in the manufacturing sector (0.01 = 1% percentage point difference) (AT, BE, ES, FR, HR, IT, PL, PT)



Source: BusinessEurope calculations based on BACH and Eurostat data

By analysing cumulative year-over-year growth, our findings show that manufacturers in newer EU member states, such as Poland and Croatia, have experienced stronger productivity gains (or lower decrease) compared to more established economies like France and Italy (Chart 12). However, in the most recent years of the survey, Poland's productivity trend has increasingly aligned with that of Western and Southern European countries. The exceptionally negative results observed in several countries likely reflect lagged effects of COVID-19 and/or inflation, as well as the limited sample size, which make it less statistically representative of the whole population of enterprises, particularly for Belgium.

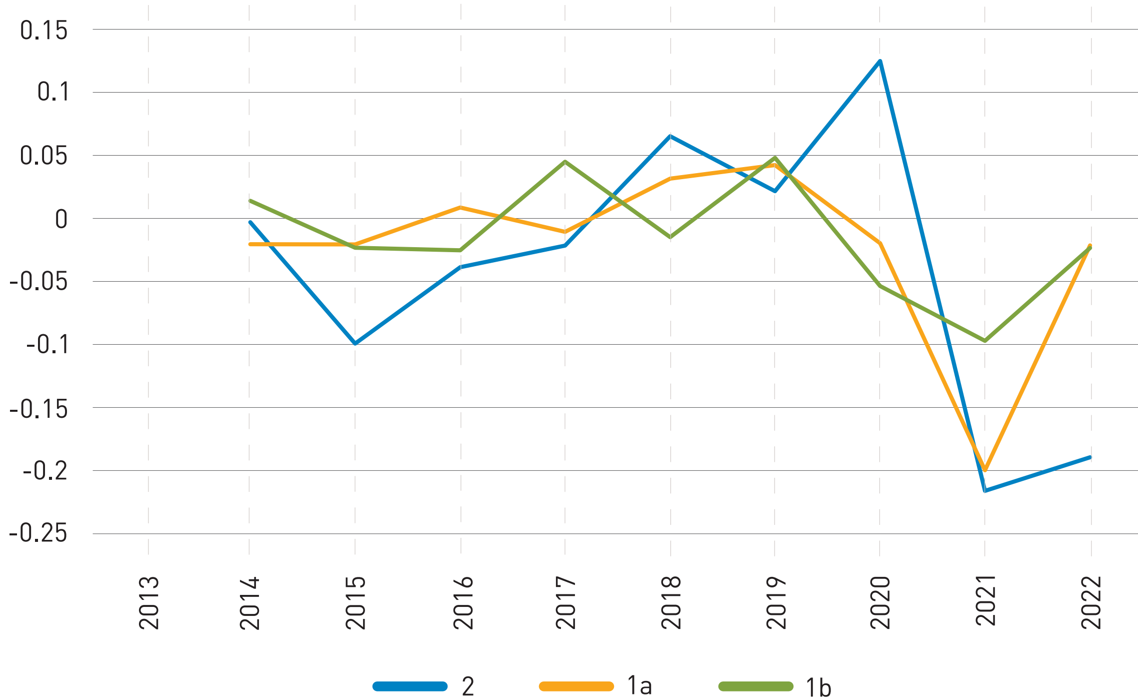
CHART 12 Cumulated 2013-2022 TFP growth rate in the manufacturing sector (0.01 = 1% percentage point difference)



Source: BusinessEurope calculations based on BACH and Eurostat data

Productivity trends among SMEs in the manufacturing sector have remained relatively more stable over the past decade (before 2021), whereas larger companies have exhibited greater volatility. This may be due to larger firms being more exposed to external shocks (Chart 13).

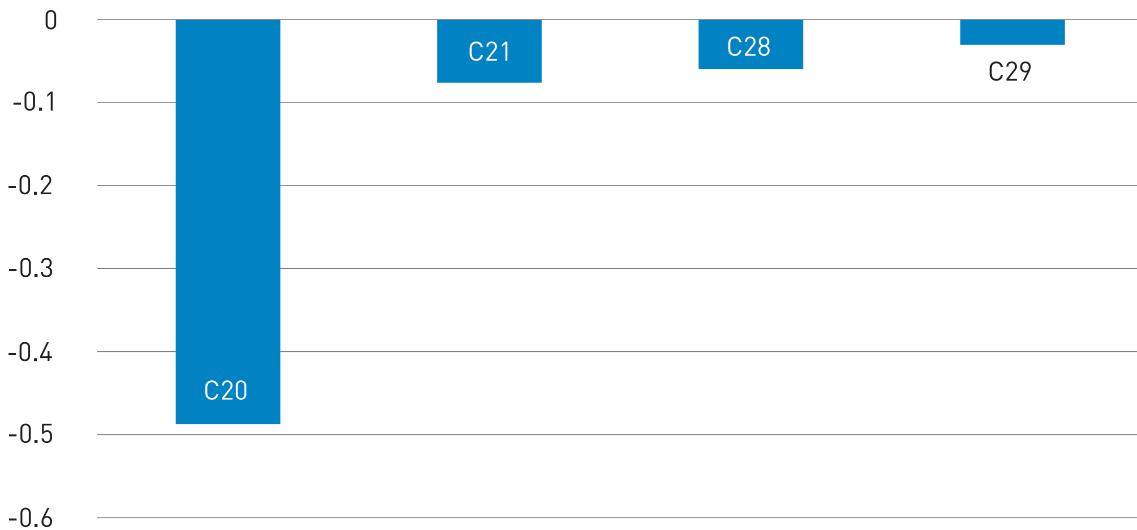
CHART 13 Year-over-year TFP growth rate in the manufacturing sector (0.01 = 1% percentage point difference) (2=large companies; 1b=medium companies; 1a=small companies)) (AT, BE, ES, FR, HR, IT, PL, PT)



Source: BusinessEurope calculations based on BACH and Eurostat data

Analysing the performance of key manufacturing sectors in the EU economy, the data suggests that over the past decade, the decline in productivity has been most pronounced in the chemical manufacturing sector. In contrast, productivity has remained largely stagnant in the machinery, vehicle, and pharmaceutical manufacturing sectors, showing a relatively low decrease, taking into consideration also the negative shocks of the latest periods of the sample (Chart 14).

CHART 14 **Cumulated 2013-2022 TFP growth rate in key manufacturing sectors (0.01 = 1% percentage point difference) (C20= Manufacture of chemicals and chemical products, C21= Manufacture of basic pharmaceutical products and pharmaceutical preparations, C28= Manufacture of machinery and equipment, C29= Manufacture of motor vehicles, trailers and semi-trailers) (AT, BE, ES, FR, HR, IT, PL, PT)**



Source: BusinessEurope calculations based on BACH and Eurostat data

PART 2: BUSINESSEUROPE MEMBERS' SURVEY

02

This section of the Reform Barometer 2025 is based on a questionnaire conducted among BusinessEurope Member Federations. [51] It covers key aspects of competitiveness, the major challenges facing companies operating in the EU, and an assessment of structural reform implementation and priorities for the year ahead. Notably, this year's survey also includes questions on business expectations in response to the new U.S. administration.

KEY TAKEAWAYS

1. **Positive expectations on Von der Leyen Commission 2.0**: European businesses hold positive expectations for the new mandate of the European Commission (chart 15). Companies anticipate that President Ursula Von der Leyen will steer the Commission in a direction more supportive of competitiveness and growth. However, European businesses remain only cautiously optimistic: while the new political narrative places competitiveness at its centre, concrete actions are yet to be implemented (chart 16). A vast majority of the respondents also believe the new Commission will fulfil its promise to significantly reduce regulatory burdens (chart 17).

2. **Serious concerns regarding the EU investment attractiveness:** European companies have expressed clear concern about the attractiveness of the EU as an investment destination. Over half of respondents perceive that the EU investment environment has deteriorated in the eyes of global firms (chart 18).

3. **Regulatory burdens are identified as the main barrier to investment:** The regulatory environment is identified as the main challenge threatening the attractiveness of the EU as an investment environment vis-à-vis international competitors, followed by energy prices and availability of labour (chart19).

4. **Expected impact of the new U.S. administration:** Over 85% of respondents believe that the deregulatory agenda of the new U.S. administration will have "negative" or "very negative" consequences for investment in the EU (chart 20).

5. **Poor implementation of the Recovery and Resilience Plans:** Only two federations consider the RRPs to have been satisfactorily implemented in 2024, while 11 are dissatisfied (chart 21). The slow decision-making process by authorities is seen as the main obstacles to effective implementation (chart 22). Respondents are even more critical of the involvement of social partners over the past year (chart 23).

6. **Structural reforms remain poorly implemented:** While the vastest majority considers the country-specific recommendations relevant, over 80% believe they are not adequately implemented, with some variations depending on the policy area analysed (charts 24, 25 and 26). Taxation emerges as the top priority for reform in 2025, according to respondents (chart 27).

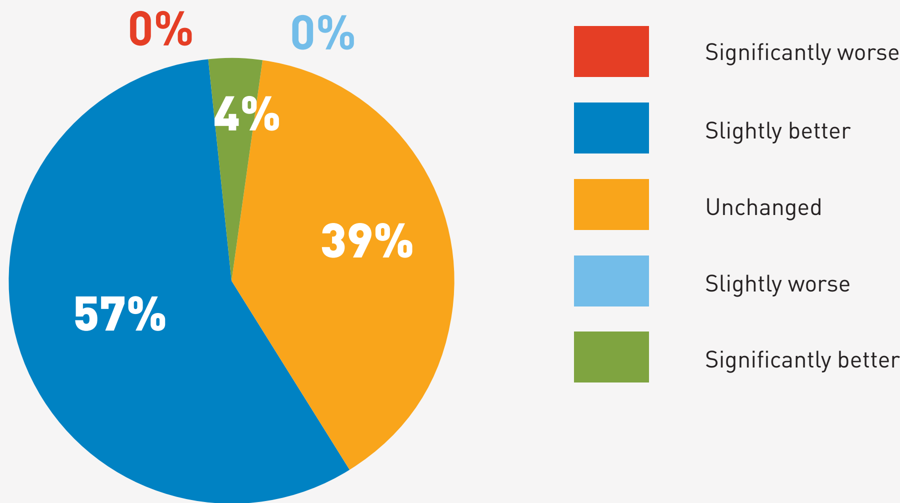
[51] This year respondents include all major employers' confederations in all EU member states, with the exception of a single EU country, Luxembourg. It also includes contribution by Switzerland and Norway.

2.1 EU COMPETITIVENESS CHALLENGES

The new course of the European Commission is met with cautious optimism by European companies, which expect it will deliver on its promise to support EU's competitiveness and reduce administrative burdens.

Competitiveness is a central focus of the new European Commission, with President von der Leyen committing to follow up on the Letta and Draghi reports with concrete actions to alleviate the regulatory burden on companies and bolster Europe's competitiveness. The Reform Barometer members' survey reveals that European businesses hold positive expectations regarding the new orientations of President von der Leyen for the Commission, in this second mandate. According to the survey, 61% of the respondents have higher expectations regarding the new Commission's work, while the remaining ones believe it will remain unchanged (chart 15).

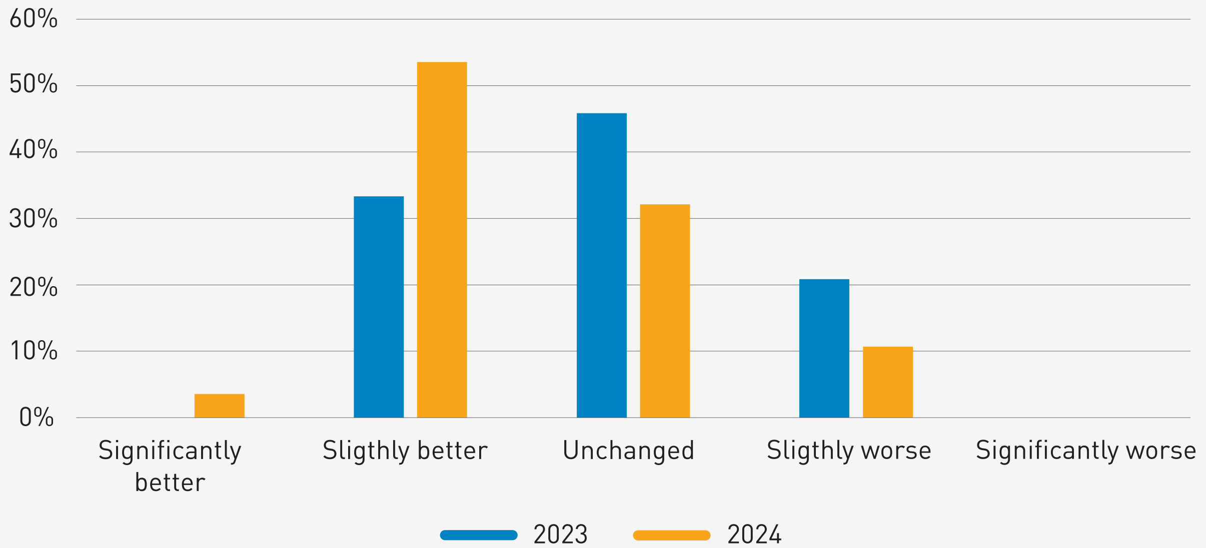
CHART 15 Overall expectations regarding the new European Commission



Source: BusinessEurope's survey of member federations. Replies to the question: "What are you overall expectations about the next European Commission?"

European businesses are also clearly more optimistic this year, regarding the Commission's overall policy stance on supporting competitiveness and growth (chart 16). However, this optimism remains cautious. The majority of responses indicate a "slightly better" stance (54% in 2024 against 33% in 2023), with a small percentage (4%) that views it as "significantly better". However, one-third of the respondents still consider it "unchanged" (against 46% in 2023), or even "slightly worse" (11%).

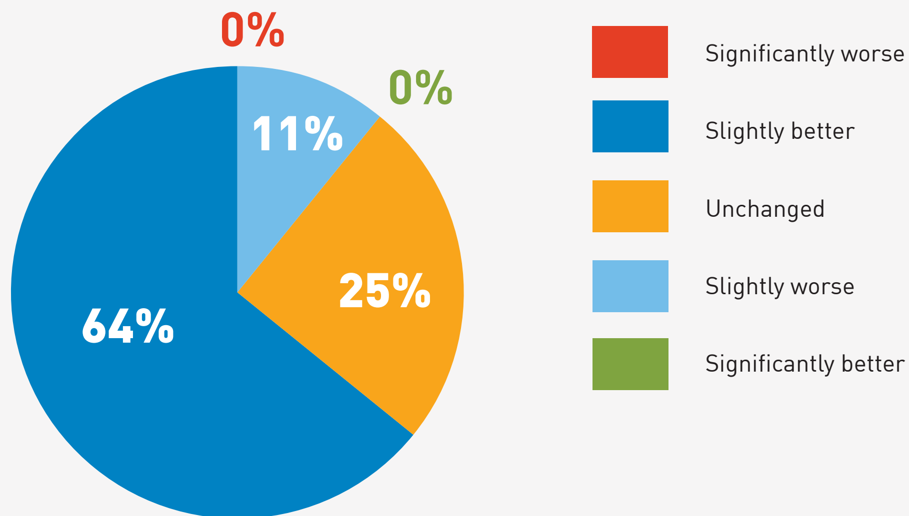
CHART 16 Assessment of the Commission's policy stance on competitiveness and growth



Source: BusinessEurope's survey of member federations. Replies to the question: "To what extent do you consider the European Commission's overall policy stance supportive of competitiveness and growth compared to 12 months ago?"

Regarding the regulatory burden, 64% of respondents think that President von der Leyen will fulfil her promise to significantly reduce regulatory burden, while 25% expect no change and 11% anticipate it will get worse (chart 17). The Commission Work Programme for 2025, which was presented after this survey, includes an important simplification component. However, numerous pending proposals remain, which could, in practice, lead to an increase in the cumulative burden on companies. Efforts to reduce regulatory burden must therefore be bolder and faster.

CHART 17 Expectations regarding the Commission's promise to deliver regulatory simplification

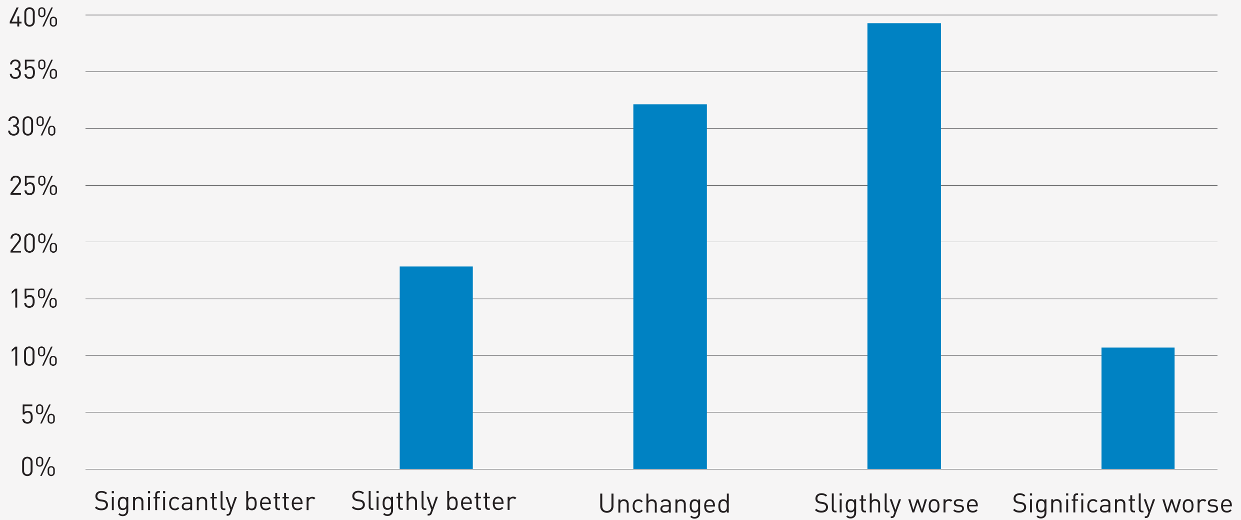


Source: BusinessEurope's survey of member federations. Replies to the question: "What are your expectations of the new commission from the point of view of regulatory burden (will the EC President deliver on her promises)?"

European companies have expressed clear concerns about the EU's attractiveness as investment destination, with the regulatory burden identified as the primary barrier.

European business federations expressed clear concerns regarding investments over the past 12 months. Half of the respondents say that firms believe that the EU investment environment has worsened, while 32% consider it to be unchanged, and only 18% consider it to be seen as "slightly better" (see chart 18).

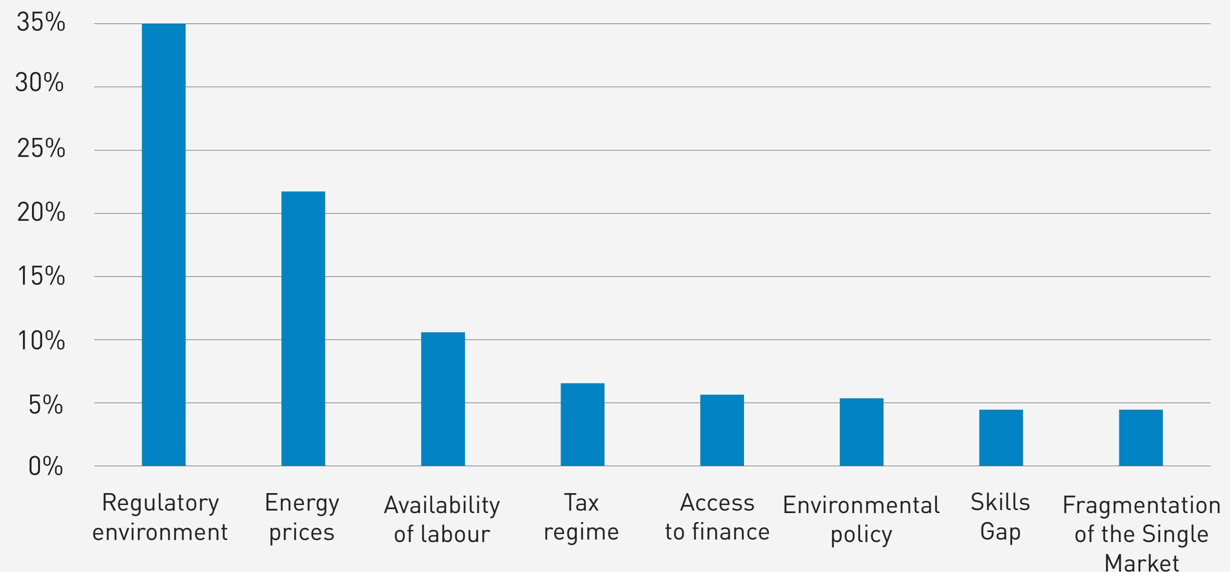
CHART 18 EU investment environment



Source: BusinessEurope's survey of member federations. Replies to the question: "How do you think the EU investment environment is seen by global firms compared to 12 months ago?"

The regulatory environment is distinctly identified as the main challenge threatening the attractiveness of the EU as an investment destination vis-a-vis international competitors. This is followed by concerns over energy prices and availability of labour. Notably, 90% of the respondents included regulatory burdens among their top three priorities, while none of the remaining challenges reflect the same level of converging views (chart 19).

CHART 19 Main challenges to the EU as an investment environment



Source: BusinessEurope's survey of member federations. "What does your federation see as the three main challenges threatening the attractiveness of the EU as an investment environment vis-a-vis international competitors?"

Reflecting this pressing concern of EU companies, BusinessEurope, in its' recent publication "Reducing Regulatory Burden to restore the EU's Competitive Edge", listed the 68 most pressing burdens identified by its member federations in 11 areas. The publication also concretely suggests concrete actions to address these challenges as part of its contribution to reduce regulatory burdens.

The key burdens are concentrated in the following fields of regulation:

- Energy and climate
- Circular economy
- Consumer policy
- Sustainable finance and company law
- Taxation
- Financial reporting
- International value chains and trade
- Digital economy
- Employment and social policy
- Food law
- Financial services

The publication grouped the 68 burdens into 3 pillars, based on the origin of disproportionate compliance costs:

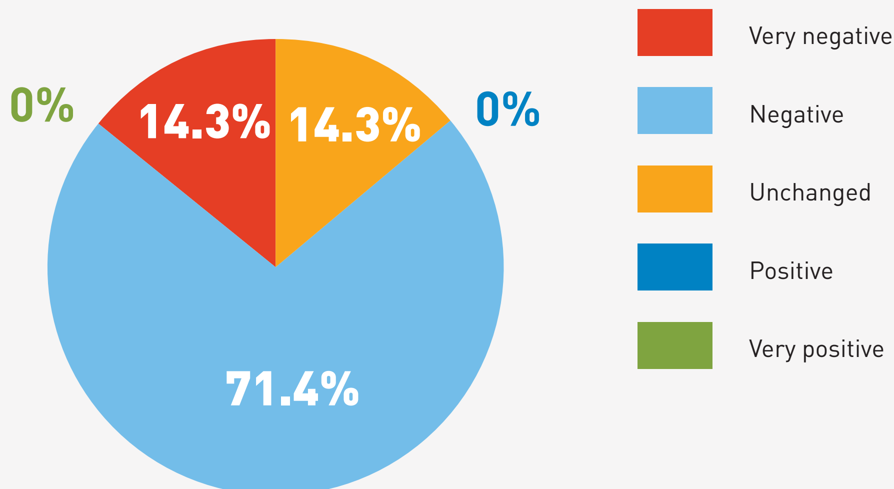
- Administrative burdens (including reporting requirements)
- Excessive adjustment burden
- Cross-border regulatory barriers

Notably, the majority of the identified burdens go well beyond "mere" reporting requirements, underscoring the complexity of the challenges faced by businesses.

The impact of the new U.S. government deregulation on investments in the EU expected to be very negative.

This year's report includes new questions regarding the potential impact of the new U.S. administration deregulation agenda. An overwhelming majority of the respondents (86%) considers that the consequences of these actions for investment in Europe will be "negative" or "very negative." Notably, no respondent views the impact positively, while the remaining 14% expect it to remain unchanged (Chart 20).

CHART 20 Impact of the new U.S. Administration on EU investment

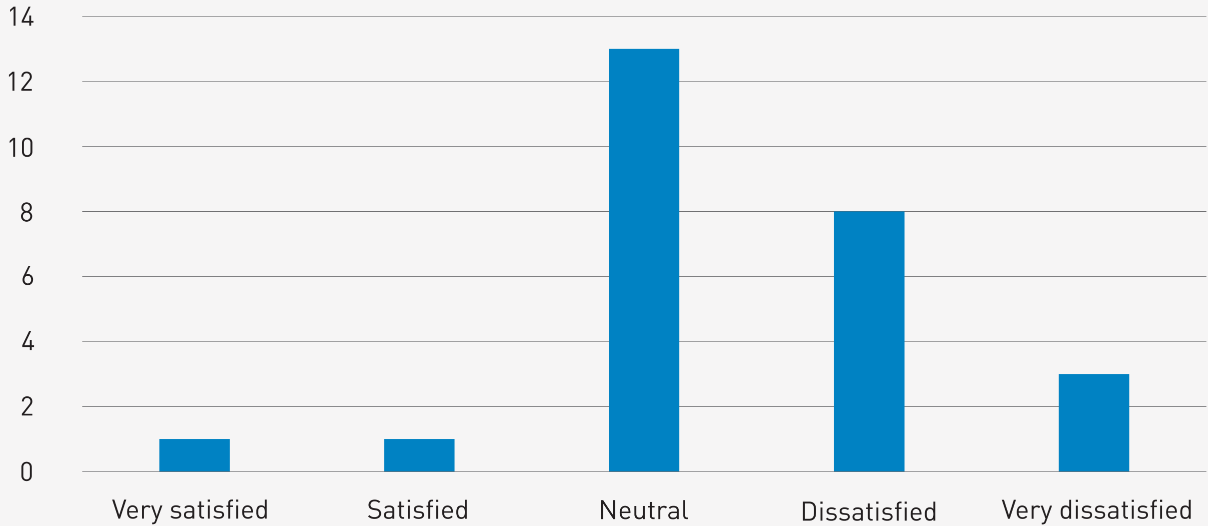


Source: BusinessEurope's survey of member federations. Answers to the question: "What do you think will be the consequences for investment in Europe from the next U.S. administration?"

2.2 NATIONAL RECOVERY AND RESILIENCE PLANS

The implementation of the national recovery and resilience plans (RRPs) continues to remain a source of concern for national business federations in beneficiary countries. Only Cyprus and Finland report satisfaction with the implementation, while 11 federations, or 85% of the sample, report being either "dissatisfied" or "very dissatisfied" with implementation in 2024.

CHART 21 Implementation of National Recovery and Resilience Plans

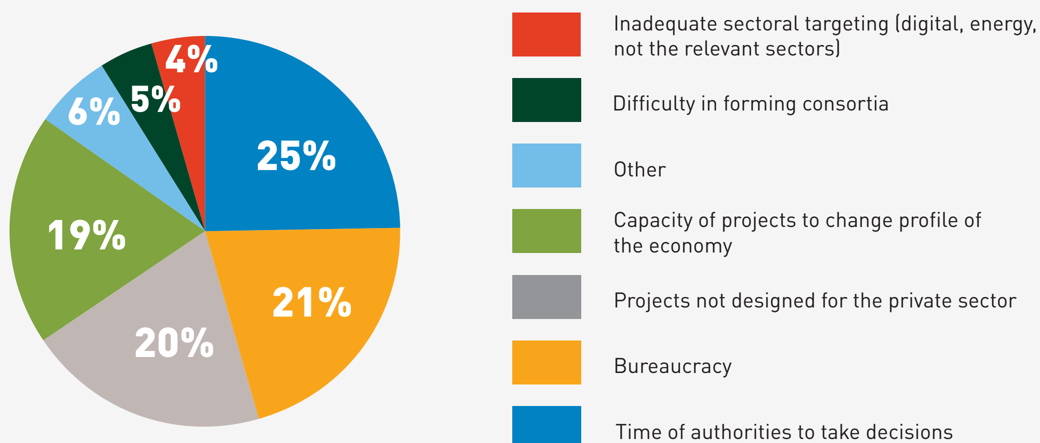


Source: BusinessEurope's survey of member federations. Answers to the question: "How satisfied or dissatisfied are you with the way your country is implementing the national recovery and resilience plan in the past year?"

Such negative assessment largely stems from concerns about the rapidly approaching deadline to implement the RRPs, and the overall slow implementation reported by all countries. According to the European Commission's latest data, only €197 billion out of €359 billion (equivalent to 55%) have so far been disbursed in grants, while €109 billion out of €291 billion (equivalent to 37%) have been disbursed in loans.[52]

The main obstacles to effective implementation of the RRPs include lengthy decision-making processes by authorities, excessive bureaucracy, the misalignment of most projects with private sector needs, and the insufficient capacity of the projects to bring structural changes to the economy (chart 22).

CHART 22 Main problems in the RRP implementation

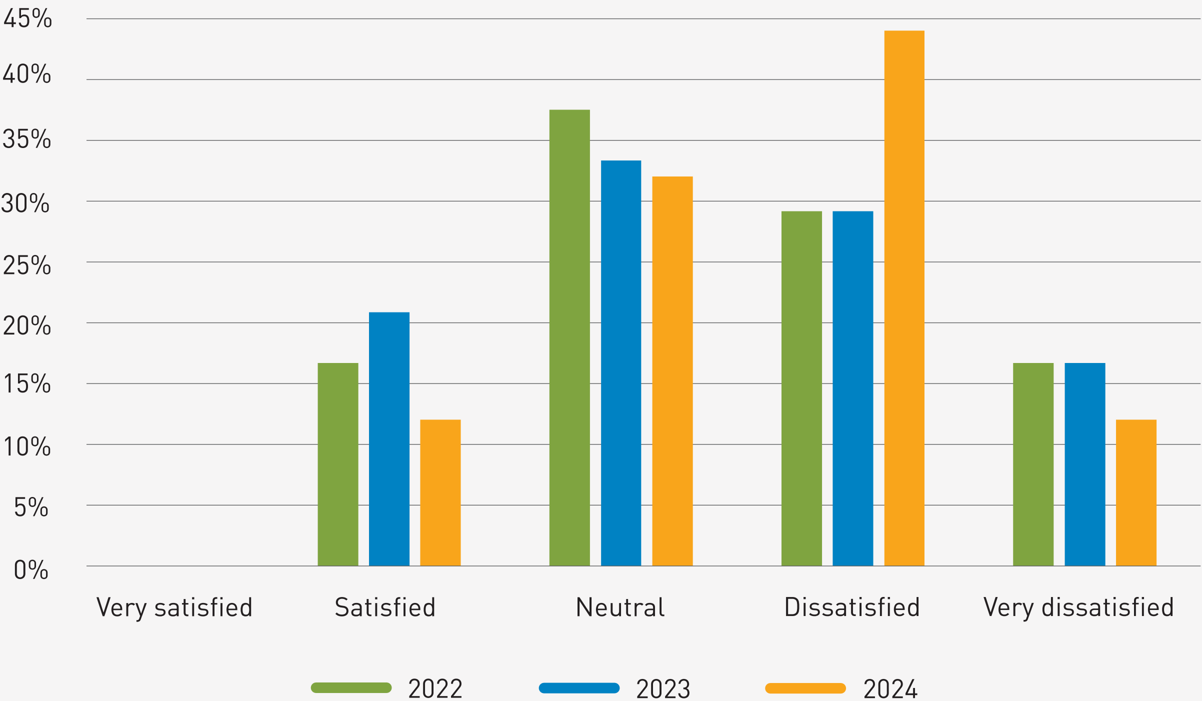


Source: BusinessEurope's survey of member federations.

[52] Recovery and Resilience Scoreboard – data available at 10/03/2025

Unsurprisingly, respondents remain dissatisfied with the involvement of social partners in 2024 (chart 23). This dissatisfaction has even grown compared to previous years, primarily due to the lack of involvement in the reprogramming of projects, and insufficient clarity regarding the impacts on projects and payments, especially with the 2026 deadline to fully utilise Next Generation EU funds fastly approaching. Federations also highlighted the minimal cooperation with the private sector, despite numerous significant project proposals from companies related with the twin transition.

CHART 23 Social partners involvement in the RRP implementation

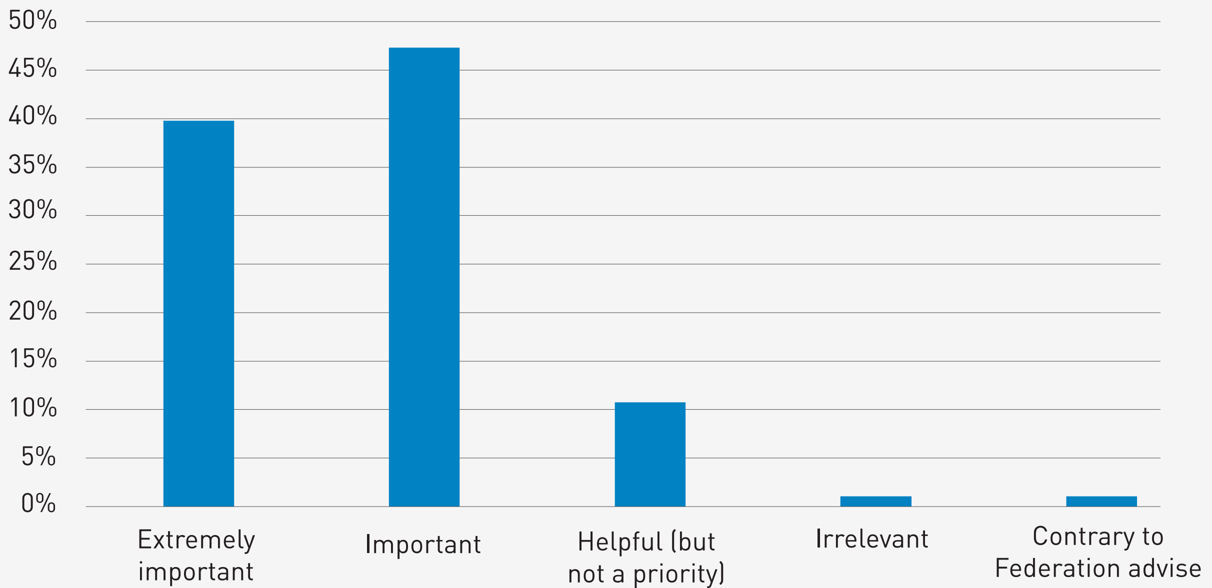


Source: BusinessEurope's survey of member federations. Answer to the question: "How satisfied or dissatisfied are you with the involvement of social partners in the implementation so far of your national recovery and resilience plan?"

2.3 REFORM PROGRESS IN 2024

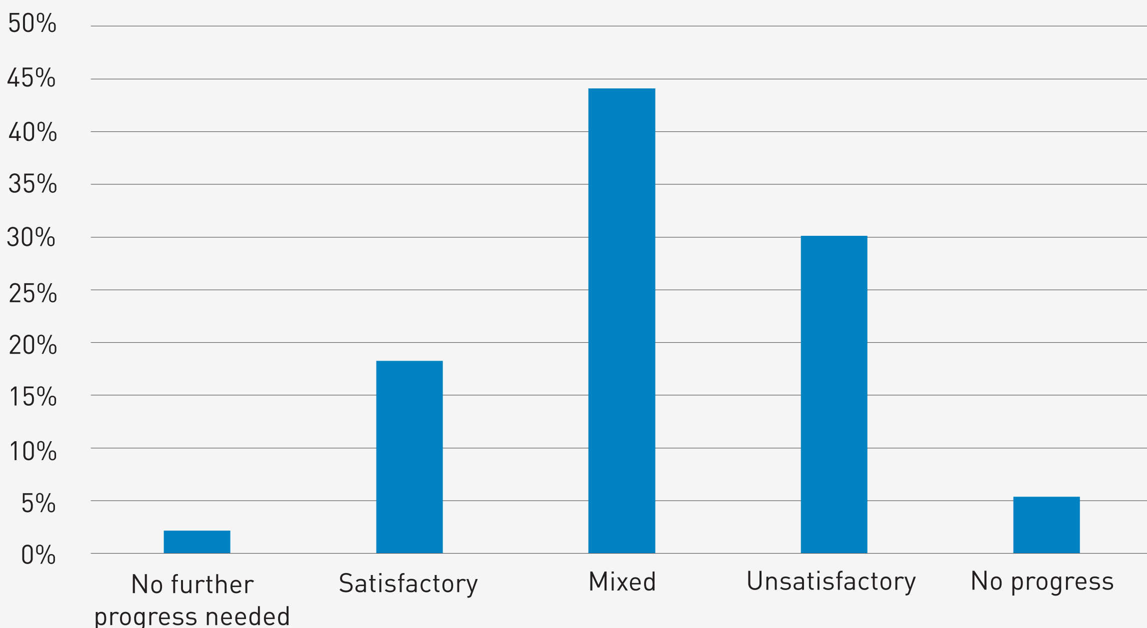
A significant majority of participants considers the European Commission's country-specific recommendations to be either "important" or "extremely important" (chart 24). However, respondents indicate that the implementation of these reforms remains inadequate. 80% of the recommendations are considered as being only partially implemented, poorly implemented, or not implemented at all (chart 25).

CHART 24 Relevance of the country specific recommendations from the Commission



Source: BusinessEurope's survey of member federations. Replies to the question: "Are the European Commission recommendations appropriate?"

CHART 25 CSR implementation

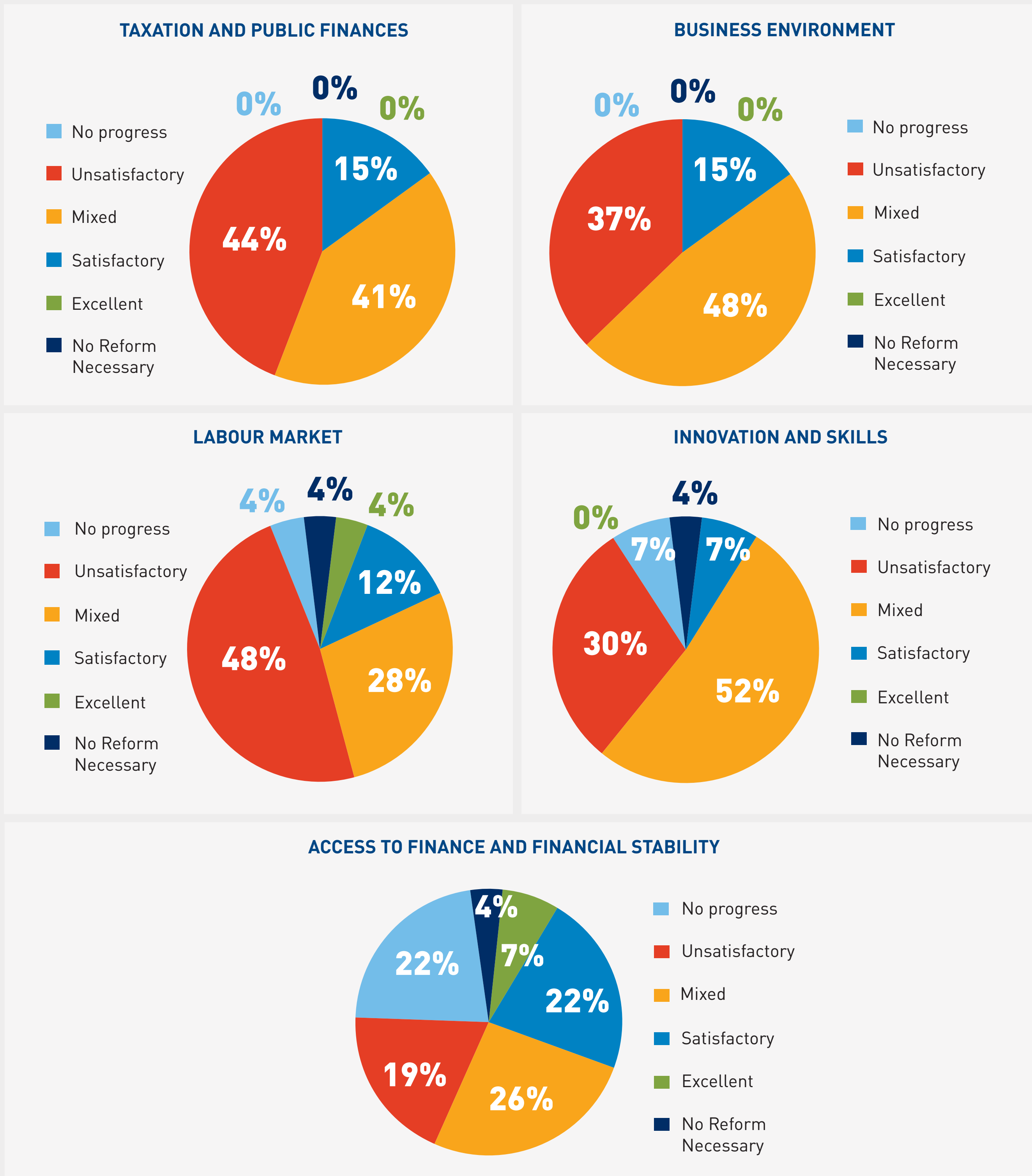


Source: BusinessEurope's survey of member federations. Replies to the question: "How would you assess the reform effort of your government regarding this recommendation?"

When examining reforms from a broader perspective and assessing progress across five key policy areas, dissatisfaction with the progress in the reform implementation emerges as the overarching theme (chart 26). In some areas -most notably taxation and labour market- respondents show strong alignment in their answers. In contrast, perspectives on areas such as innovation and skills, access to finance, and financial stability, tend to vary according to respondents. Despite these differences, dissatisfaction with the progress of reforms remains a common concern across all areas.

Access to finance and financial stability stands out as the area where respondents are more optimistic. This is largely attributed to lower inflation rates observed in 2024 compared to the post-Covid period, and the subsequent interest rate cuts by the European Central Bank.

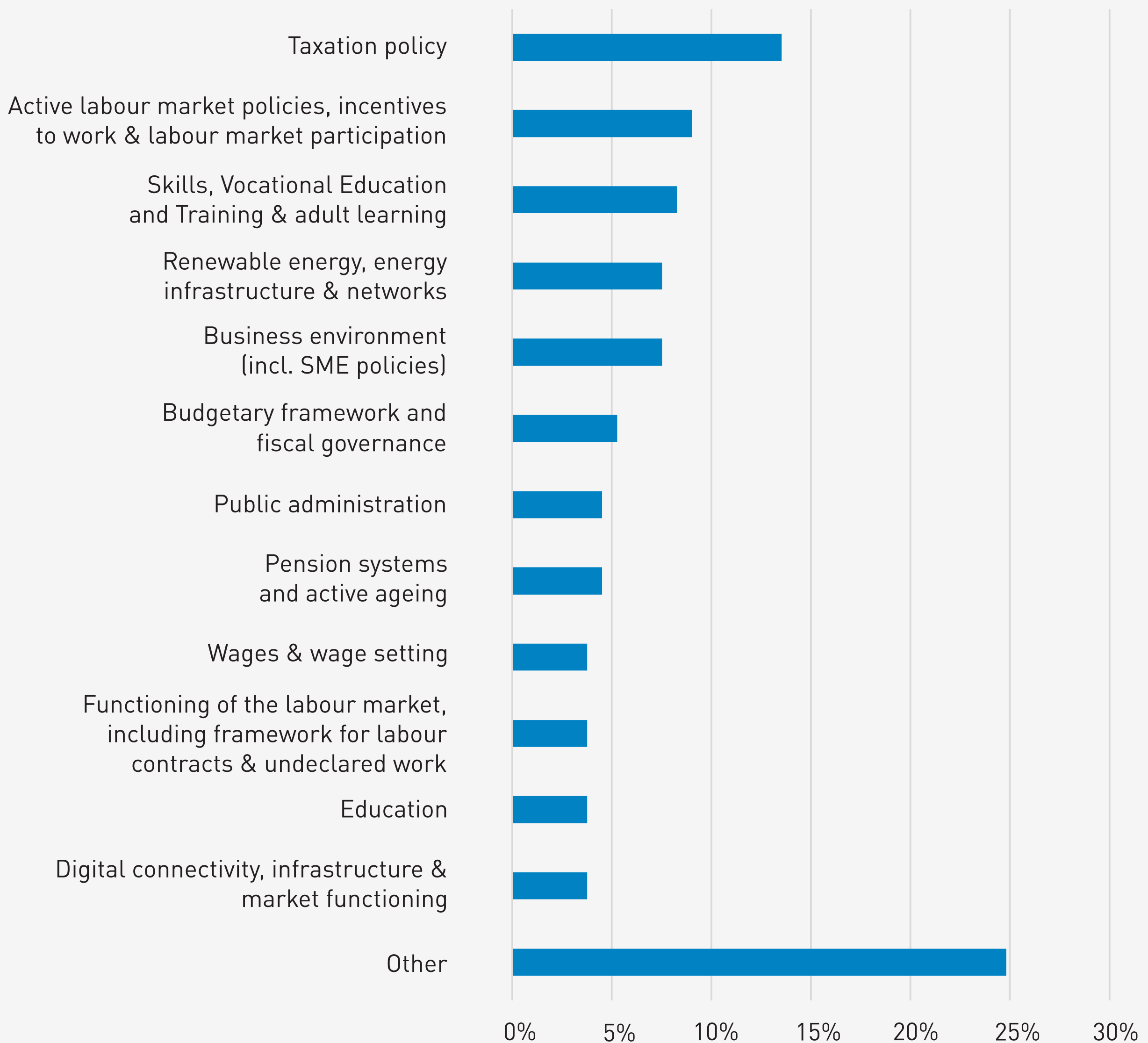
CHART 26 Progress of reform implementation across policy areas



2.4 PRIORITY AREAS FOR 2025

From a list of 37 policy areas identified by the European Commission in its country-specific recommendations database, respondents were asked to select their top five priorities. As shown in Chart 27, taxation policy emerges as, by far, the most critical priority area for reform in 2025. This is followed by active labour market policies, skills development, renewable energy, and improvements in the business environment. However, results also reveal that opinions diverge widely across countries, regarding most of the policy areas. Notably, respondents mentioned that 70% of their selected priorities are already included in their respective governments' agenda (chart 27).

CHART 27 Priority areas for reform in 2025



Source: BusinessEurope's survey of member federations. List of 37 policy areas, from the European Commission database for the country specific recommendations (nota bene: the list of priority areas in the European Commission "Semester" database changed, which limits the possibility of inter-years comparisons).

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