



2026
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REFORM BAROMETER

**18 MONTHS AFTER
DRAGHI: FROM
DIAGNOSIS TO
DELIVERY**

The logo for BusinessEurope, featuring the word "BUSINESSEUROPE" in a bold, blue, sans-serif font. Below the text is a horizontal bar composed of several colored segments: a dark blue segment, a light blue segment, a yellow segment, a red segment, and a dark blue segment.

WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the 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 looks at the global competitiveness performance of Europe on the basis of key indicators covering taxation and public finances, business environment, innovation and skills, access to finance and 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, wage and income 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

Eighteen months after the publication of the report by Mario Draghi, the diagnosis of Europe's challenges is widely shared. The question is no longer what needs to be done, but whether Europe is delivering.

Since the beginning of the new legislative cycle, the environment for European companies has changed dramatically. Geopolitical tensions are rising, security threats are intensifying, and global competition is accelerating, particularly in advanced and digital technologies. At the same time, the productivity gap with the United States continues to widen, energy costs remain structurally higher than for our main competitors, and volatility weighs on long-term investment decisions.

European businesses recognise the renewed political commitment to boost competitiveness, strengthen security and reduce regulatory burden. The direction of travel set out in the reports by Enrico Letta and Mario Draghi is the right one. But companies on the ground do not yet feel sufficient relief. Complex legislation, fragmentation within the Single Market, high energy prices, skills shortages and limited access to long-term risk capital continue to constrain growth, innovation and scaling-up across the Union.

Technological transformation is accelerating globally. Europe must not only innovate, but also create the conditions to scale, diffuse new technologies across sectors, and enable firms of all sizes, particularly SMEs, to grow within a truly integrated Single Market. BusinessEurope's members recognise the renewed political focus on competitiveness, but without coherence, simplification and rapid implementation, Europe risks falling further behind in productivity and strategic autonomy.

Europe's economic strength is the foundation of its prosperity, resilience and global influence. What is needed now is unity and determination across European institutions and Member States to turn ambition into measurable results. Delivery must define the next phase of Europe's competitiveness agenda.



A handwritten signature in blue ink, appearing to read 'Fredrik Persson'.

Fredrik Persson
President



A handwritten signature in blue ink, appearing to read 'Markus J. Beyrer'.

Markus J. Beyrer
Director General

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EXECUTIVE SUMMARY

Almost a year and a half after the publication of the Draghi report, the competitiveness challenges facing the EU remain paramount. While some of the recommendations included in the report have been implemented, much more is needed to revitalise the European economy and strengthen its innovation capacity.

- ▶ The **productivity gap** between the EU and the U.S. continues to widen, with U.S. labour productivity growth consistently outpacing that of the EU even in recent quarters. A key driver of this divergence is the EU's weak productivity performance in mid-tech manufacturing sectors, such as machinery and transport equipment, which comprise a significant share of Europe's industrial base. While productivity growth in EU ICT sectors is robust, though still below U.S. levels, these sectors remain comparatively small, limiting their overall contribution to aggregate productivity growth.
- ▶ The **regulatory environment** once again stands out as the primary barrier, indicating that the Omnibus initiatives offer only limited reassurance and that regulation continues to represent a major obstacle. This concern is reinforced by the prospect of additional reporting requirements coming into force in 2026, notably under initiatives such as the AI Act and the Cyber Resilience Act.
- ▶ **Energy prices** in the EU remain substantially higher than in the U.S. and China, with industrial electricity and natural gas costs around two to three times higher in 2024; this significantly undermines the competitiveness of European business. Beyond elevated price levels, increasing price **volatility** is a major concern for European businesses, linked to a higher reliance on more expensive and volatile LNG imports. Electricity price-setting mechanisms, where gas frequently determines the marginal price, further amplify volatility and transmit gas-related shocks throughout the economy. Moreover, intra-day volatility is caused by fluctuating renewable output that pushes prices down during high generation and sharply up when output is low and demand is high.
- ▶ Progress on **Single Market integration** has stagnated, limiting firms' ability to scale and leaving significant growth potential untapped. Persistent fragmentation, driven by divergent national rules, complex tax systems, and regulatory thresholds, continues to discourage cross-border expansion. This is reflected in stagnating trade integration, with intra-EU trade in goods, and especially services, remaining too low.
- ▶ The EU continues to lag the U.S. and China in **R&D** intensity, with a particularly pronounced gap in private R&D spending outside the automotive sector, contributing to the broader productivity gap. Compared to its competitors, the EU relies more heavily on public R&D funding, which remains fragmented across Member States. This reduces its overall efficiency and impact.
- ▶ Technological transformation is accelerating. Preliminary data show the EU falling behind the U.S. in **AI adoption**, with significantly lower uptake among firms and substantial disparities across Member States, raising the risk of a further widening productivity gap. Key barriers to adoption include shortages of skilled workers, high implementation costs, and insufficient digital infrastructure. The EU also lags in AI investment and innovation, with far lower venture-capital funding and fewer leading AI models compared with global competitors. Meanwhile, a massive global expansion of data-centre capacity, driven predominantly by the U.S., is underway, putting additional pressure on electricity generation and grid infrastructure.
- ▶ The **EU banking sector** is generally strong and stable, with high levels of capitalisation and liquidity following significant regulatory reforms. Credit conditions have improved, and businesses are broadly satisfied with banking performance. However, this solidity has not translated into sufficient financing

for innovation and long-term growth, even though banks remain central to corporate financing and SMEs still rely heavily on bank loans. There is a structural shortage of long-term “patient” growth capital, partly due to lower participation of institutional investors and more risk-averse investment patterns among European households, which allocate more savings to deposits and less to equities compared with the U.S. At the same time, EU capital markets remain fragmented, with differences in supervision, listing frameworks and post-trade infrastructures limiting scale, efficiency and cross-border investment. We therefore strongly support the swift and ambitious implementation of the **Savings and Investments Union** to better mobilise European savings, deepen capital markets, and ensure that finance is channelled effectively into productive, innovation-driven investment.

- ▶ Business sentiment on **EU tax policy** remains cautious, with many companies viewing the current framework as insufficiently supportive of growth, investment, and global competitiveness. The EU’s implementation of the OECD/G20 Global Minimum Tax (Pillar Two) illustrates these concerns. European companies face a comparatively heavier administrative burden, while key competitors such as the U.S. and China are not applying the rules in an equivalent manner. This creates an uneven playing field for EU-headquartered groups. BusinessEurope advocates a recalibrated approach that safeguards competitiveness and promotes the ease of doing business in the EU while respecting international commitments. Priorities include simplifying administrative requirements, expanding and pragmatically applying safe harbours, and eliminating duplication between EU, OECD, and domestic reporting. More broadly, our Member Federations support an EU tax framework that actively supports investment and growth through a more favourable tax treatment of investments, strong and stable R&D incentives, targeted support for net-zero and strategic technologies, and competitive tax treatment for digital and data infrastructure. A predictable, growth-oriented tax framework is essential to restore Europe’s attractiveness as an investment location.
- ▶ Almost 60% of members assess the European Commission’s stance on competitiveness and growth more favourably than one year ago. However, when consulted about the overall competitiveness of the EU, BusinessEurope’s Members report that the **investment environment** remains largely stagnant. Almost one third indicates that it has worsened compared with 12 months ago, and more than half says it has not changed, although the pace of deterioration has eased relative to the response collected for the latest (2025) edition of the Reform Barometer. Regulatory burden remains the primary obstacle to investment, followed by high energy prices and labour availability.
- ▶ Satisfaction with **National Recover and Resilience Plans (NRRPs)** implementation remains limited but is improving, with less than one third of Members Federations expressing a positive view and almost half of them remaining neutral. Although over 68% of NRRPs’ funds (€394 billion), between grants and loans, have been disbursed, key bottlenecks persist. According to BusinessEurope’s Member Federations, the main obstacles are bureaucracy, slow decision-making, and weak alignment with business needs. Dissatisfaction with social-partner involvement also remains high, affecting half of respondents and increasing compared with the latest edition.
- ▶ **Country-Specific Recommendations (CSRs)** are widely valued, with more than 90% of Members considering them important. At the same time, satisfaction with their implementation at the national level remains low, with almost 40% reporting limited or no progress, highlighting a persistent gap between EU guidance and Member State action. **Reform progress in 2025** remains modest, with only 14% of Members expressing satisfaction, and particularly weak performance being felt in labour-market reforms and taxation. Finally, when asked to indicate their top **priorities for reforms in 2026**, the most frequently mentioned are taxation policy, access to finance and growth capital, and the EU budgetary framework and fiscal governance.

PART 1: 18 MONTHS AFTER DRAGHI

01

At the launch of his report on 9 September 2024, Mario Draghi graphically warned that the EU must reform or it will undergo a slow agony, remarking on the dramatic decline of Europe's share in global GDP as a result of decades of low productivity growth and subpar competitiveness. This edition of BusinessEurope's "Reform Barometer", published a year and a half after the report, assesses where we are now in terms of Europe's broader competitiveness and on the key areas of financial market integration and taxation.¹

Briefly, what does the Draghi Report contain? The 69-pages-long overview, accompanied by a 328-pages-long list of specific sectoral recommendations, focuses on three main challenges for European competitiveness: innovation gap, energy, vulnerable supply chains, and weak defence industry. The Draghi Report contains approximately 170 different proposals, many of which suggest a broader scope for EU-level policies, while others advocate for more market-based initiatives and a reduction in the EU's elevated regulatory burden.

The sections below will examine different aspects of the EU's "competitiveness gap"; this include overall competitiveness, innovation, and energy costs, and finance and taxation – key areas for European companies. A transversal theme that covers all those subjects is the reduction of regulatory burden. BusinessEurope has supported the EU's "Omnibus" approach to legislative simplification, as demonstrated by our work related to the so-called "Omnibus I", which is a legislative initiative aimed at reducing administrative burdens and reporting obligations for companies on sustainability reporting. On 16 December 2025, the European Parliament adopted a final text for Omnibus I as agreed in the provisional agreement with the Council of the European Union, which is expected to approve the text in early 2026.

However, this is but a first step in the long road to simplify legislation, as demonstrated in the aggregated compilation of our three comprehensive surveys of the most pressing regulatory burdens faced by EU companies, alongside concrete suggestions on how to address them. The "[BusinessEurope Omnibook](#)", a reference by us to the "Omnibus" proposals for regulatory burden reduction by the European Commission, shows how far away we still are from the aims of the Draghi report, outlining almost 140 concrete solutions to the most pressing regulatory burdens across 10 policy areas.

1.1 A STOCK-TAKING OF OVERALL COMPETITIVENESS IN THE EU

THE PRODUCTIVITY GAP SHOWS NO SIGNS OF NARROWING

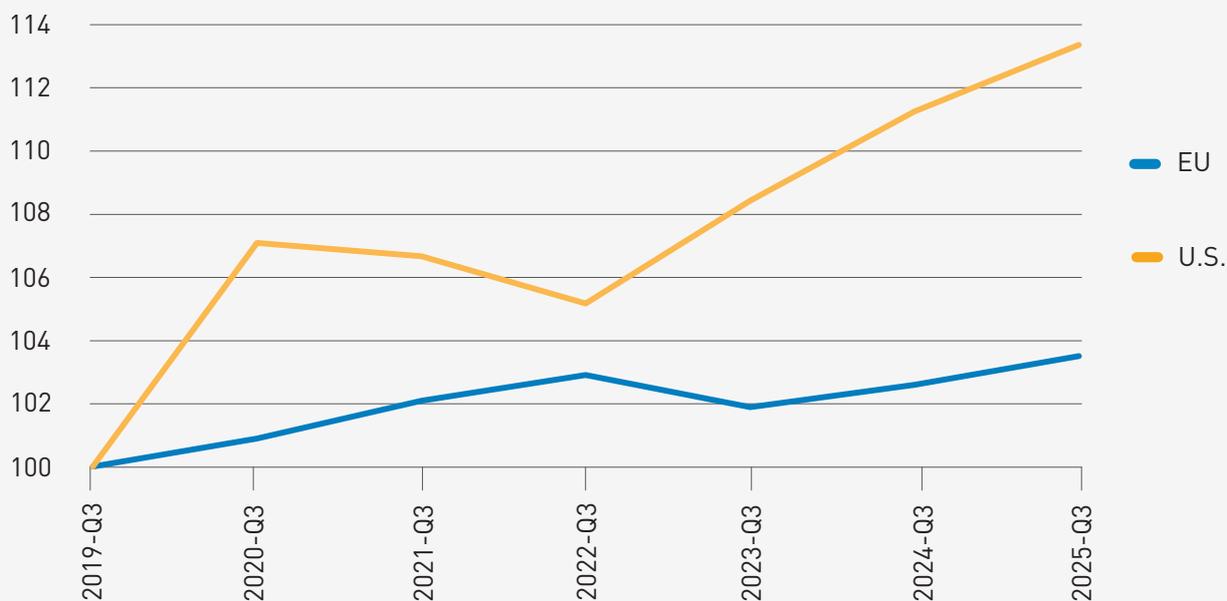
Europe's productivity growth has slowed significantly over the last few decades, raising concerns about its ability to sustain long-term economic growth in the context of adverse demographic trends. While the EU experienced strong catch-up growth in the post-war period, driven by both rising productivity and population growth, these engines have weakened over time. As evidenced by Draghi's report, over the 1945–1995 period, EU labour productivity converged from 22% to 95% of the U.S. level; however, it subsequently started falling back, reaching around 80% in 2020.² More recent data show that U.S. labour productivity growth has continued

¹ There are so far limited efforts to assess the level of implementation of the Draghi report: one of those, by the [European Policy Innovation Council](#) (EPIC), estimates that only 15.1% of its recommendations have been fully delivered (when partial progress is counted, the EU has reached just 38.9% of the Draghi agenda). According to their evaluation, the level of implementation is highly heterogeneous, with measures related to transport and critical raw materials leading the way, while energy and digitalisation are lagging.

² Draghi report p.23.

to outpace that of the EU in recent years, prompting the gap to continue widening (Chart 1). The widening productivity gap between the EU and the U.S. can be associated with several factors, including differences in market structure, innovation ecosystems, regulatory environments, and business dynamism.

CHART 1 Labour productivity per hour worked, growth rate (index, 2019 Q3=100)



Source: Eurostat namq_10_lp_ulc, US Bureau of Labour Statistics

Empirical evidence shows that the main contributor to productivity growth is Total Factor Productivity (TFP), followed by tangible and intangible capital deepening, with a growing importance of the latter. TFP captures the efficiency of all production factors together in producing added value, reflecting technological and organisational innovation, but also the state of the regulatory and business environment.³

One of the factors behind TFP growth among EU firms lagging behind that of their U.S. counterparts is post-entry business dynamism. Even though entry rates are comparable (with a high variation across EU Member States), the struggles of leading European firms to compete with U.S. counterparts in scale and network-intensive sectors may discourage new European entrants and instead push startups toward less dynamic sectors where small size is more easily sustainable.⁴ Moreover, the EU's fragmented markets hinder firms' ability to scale up, and limited reliance on equity may result in lower intangible investments.⁵

As highlighted also in Draghi's report, Europe's productivity divergence from the U.S. since the mid-1990s reflects its failure to fully capitalise on the first digital revolution, both in terms of scaling up digital firms and diffusing digital technologies across the rest of the economy. Notably, excluding the ICT sector, EU productivity growth over the past two decades has been broadly comparable to that of the U.S., highlighting the central role of digital technologies in shaping the observed gap.

³ Mid-Tech Europe? A Sectoral Account on Total Factor Productivity Growth from the Latest Vintage of the EU KLEMs Database Plamen Nikolov, Wouter Simons, Alessandro Turrini and Peter Voigt, 2024.

⁴ IMF, Europe's Productivity Weakness: Firm-Level Roots and Remedies, 2025.

⁵ [OECD, Boosting EU productivity through a stronger Single Market, 2025](#)

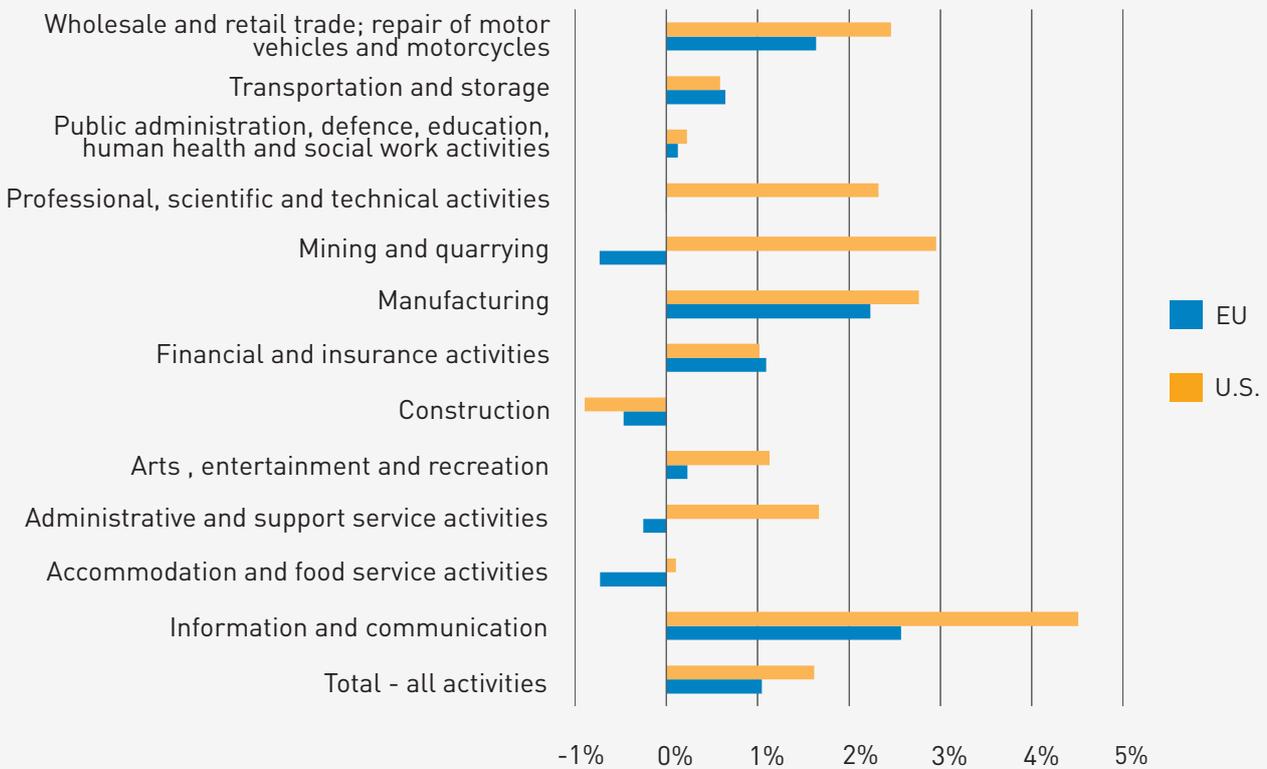
According to sectoral accounts of TFP growth (Nikolov et al., 2024), during the 2013–2019 period, the U.S. significantly outperformed the EU. When examining sectoral contributions to aggregate TFP growth over the same years, it becomes clear that IT and professional services played a much larger role in the U.S. than in the EU, reflecting both stronger TFP growth within these sectors and their greater weight in the U.S. economy. While the EU’s high-tech sectors display relatively strong TFP growth, their small size limits their contribution to aggregate productivity. At the same time, mid-tech industries, such as machinery, transport equipment, and traditional manufacturing, exhibit persistently low or declining TFP growth, especially after the financial crisis. This contrasts with the U.S., where productivity gains are more broadly distributed across sectors.

Quite similar conclusions emerge when examining average annual sectoral labour productivity growth over the 2000–2024 period (Chart 2). Overall productivity growth is significantly higher in the U.S. (1.6% vs. 1%), reflecting stronger and more widespread gains across sectors. Productivity growth is relatively similar in manufacturing (2.8% annually in the U.S. vs. 2.2% in the EU), and financial services show near parity (1% in the U.S. vs. 1.1% in the EU). The gap is striking in ICT: U.S. productivity grows at 4.5% annually compared to 2.6% in the EU.

These analyses suggest that the EU’s productivity gap is primarily due to the relatively small scale of the productive high-tech sector and to insufficient diffusion of innovation and efficiency gains within mid-tech sectors. The EU’s specialisation in mid-tech activities has become a constraint rather than a strength for long-term productivity growth.⁶

CHART 2

Average annual sectoral labour productivity growth, measured using gross value added per hour worked, 2000–2023



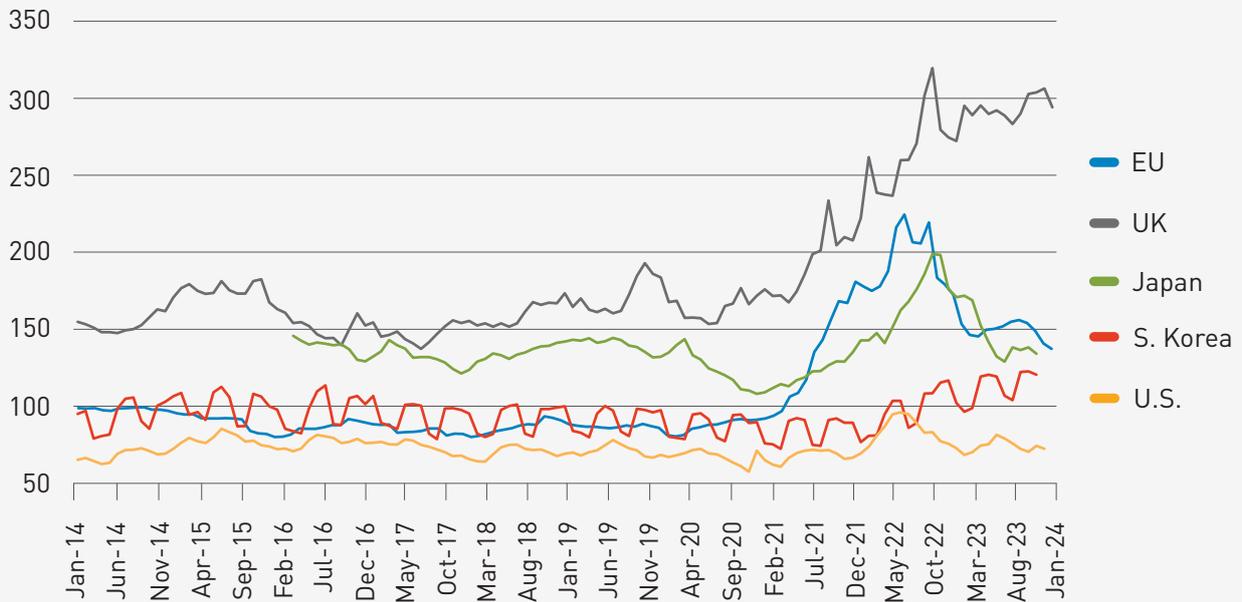
Source: [OECD Productivity dataset](#), secretariat’s calculation

⁶ Mid-Tech Europe? A Sectoral Account on Total Factor Productivity Growth from the Latest Vintage of the EU-KLEMs Database Plamen Nikolov, Wouter Simons, Alessandro Turrini and Peter Voigt, 2024.

ENERGY PRICE VOLATILITY: LEVELS ALONE DO NOT TELL THE FULL STORY

The persistently higher energy prices in the EU compared with major competitors like the U.S. and China remain a significant obstacle to the competitiveness of European companies. According to the European Commission in 2023, energy costs ranged between 1-3% of total production costs for the average European business, rising to 5–10% or more in energy-intensive sectors, reaching up to 38% in specific cases, such as for aluminium.⁷ In 2024, industrial electricity prices reached €0.199 per kWh in the EU, compared with €0.082 in China and €0.075 in the U.S.⁸ During this period, natural gas prices at major European trading hubs (such as those in Belgium, the UK, and the Netherlands) were roughly 4.8 times more expensive than at the American Henry Hub.⁹ The price gap was even wider in Asia, where the regional LNG benchmark averaged more than 5.2 times the U.S. price.¹⁰ Charts 3 and 4 illustrate recent price trends for industrial electricity and natural gas within the EU and other major industrial economies.

CHART 3 Electricity Industry retail prices, excluding recoverable taxes and levies (€/MWh)



Source: European Commission, Dashboard for energy prices in the EU and main trading partners 2024

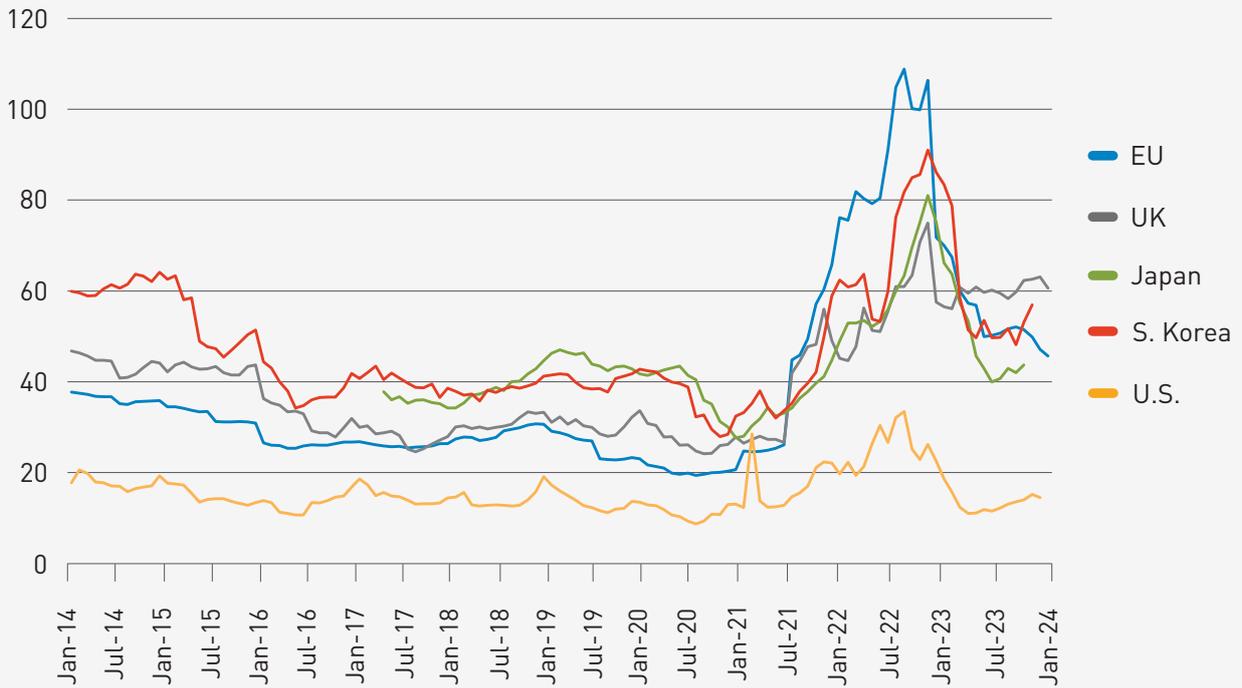
⁷ [European Commission, Report on energy prices and costs in Europe, February 2025](#)

⁸ [BusinessEurope data hub](#)

⁹ [2025 Statistical Review of World Energy](#) In 2024, natural gas prices at major global trading hubs stood at 10.01 €/mmBTU at the Belgian Zeebrugge, 9.87 €/mmBTU at the UK NBP, and 10.06 €/mmBTU at the Dutch TTF, while the U.S. Henry Hub price was significantly lower at 2.08 €/mmBTU, according to the Statistical Review of World Energy by the Energy Institute (1US\$ = 0.924€).

¹⁰ [IGU, 2025 World LNG Report](#) In 2024, the Platts Japan/Korea Marker (JKM), Asia’s key LNG benchmark, averaged 11 €/mmBTU. The benchmark also influences Chinese spot LNG prices. However, most of China’s LNG imports continue to be sourced under long-term contracts, limiting the impact of spot-price fluctuations.

CHART 4 Natural Gas Industry retail prices, excluding recoverable taxes and levies (€/MWh)

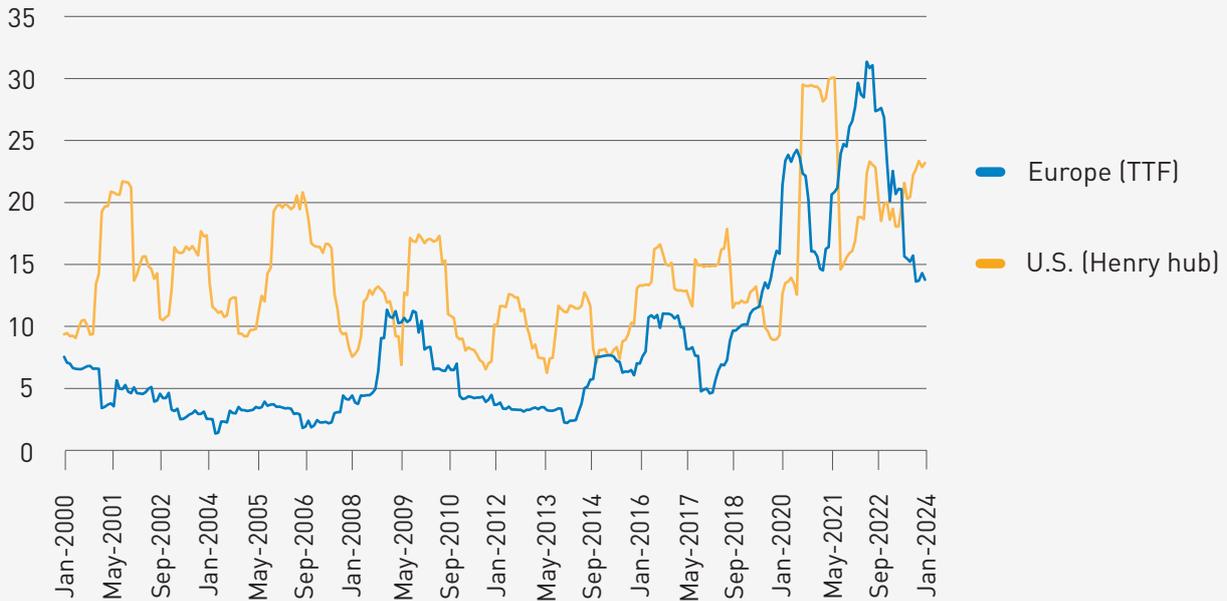


Source: European Commission, Dashboard for energy prices in the EU and main trading partners 2024

After Russia’s fullscale invasion of Ukraine, the sharp drop in Russian pipeline gas was replaced by a surge in LNG imports, which rose from 20% of total gas imports in 2021 to nearly 50% in 2024. Unlike pipeline gas, LNG is more expensive and inherently more volatile, being traded as a global commodity. Natural gas has a dual role in the EU’s energy system: it has a direct industrial use, and accounts for roughly 20% of electricity generation. Moreover, because gasfired power plants often set the marginal price of wholesale electricity, gas volatility directly drives wholesale electricity prices. Draghi’s report notes that although gas made up only about 20% of the electricity mix, it set wholesale prices around 63% of the time during the 2022 crisis, exposing consumers to disproportionate volatility. This effect is magnified by Europe’s rising reliance on electricity, which accounts for about one-third of industrial energy use, compared with roughly 13% in the U.S. While historically less volatile than U.S. gas markets, EU gas markets have seen volatility rise sharply in recent years, creating significant challenges for energy-intensive industries and longterm investment planning (Chart 5).¹¹

¹¹ [Real Instituto Elcano, The volatility of energy prices and its effect on industry, \(March 2025\)](#)

CHART 5 Natural gas prices volatility (Henry hub vs TTF)



Source: Enrique Feás & Isidoro Tapia, Elcano Royal Institute. Source calculations based on World Bank data. Volatility measured as standard deviation of monthly logarithmic price changes using 12-month moving averages

Electricity markets also exhibit a high degree of short-term price volatility, particularly for companies exposed to day-ahead or intraday procurement. This volatility is driven by the need to balance supply and demand in real time, combined with the growing share of variable renewable energy sources such as wind and solar. As renewable output increases, periods of high generation, typically during sunny or windy hours, tend to depress prices, sometimes leading to negative price events. Conversely, when renewable output is low and demand is high, more expensive generation sources must be dispatched, resulting in sharp price increases.

While the Clean Industrial Deal and Affordable Energy Action Plan in 2025 mark a change of course and rightly focus on the most pressing challenges, the Affordable Energy Action Plan has not yet led to the intended goal of internationally competitive energy prices. To close the related competitiveness gap, targeted measures to reduce energy prices in the short term should be reinforced, while preserving the level playing field within the internal market. The policy framework for long-term energy contracts needs to be improved, and overall system costs like energy taxes and network charges further reduced. Furthermore, the arsenal of carbon leakage measures must be reinforced, and the upcoming EU ETS reform must better account for competitiveness while preserving environmental ambition.

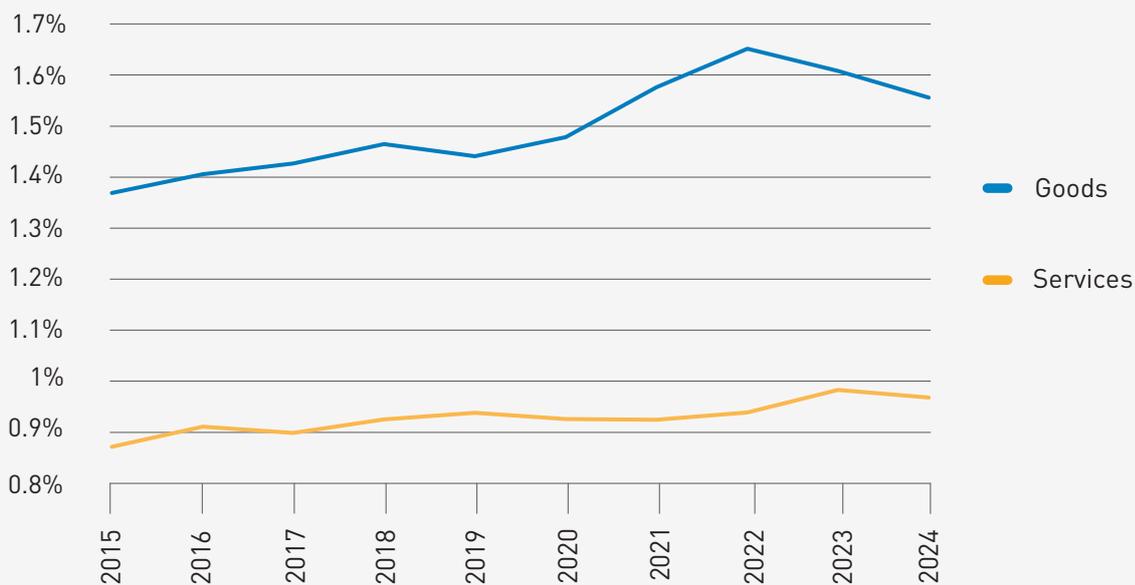
SINGLE MARKET: THE COMPETITIVENESS ENGINE RUNNING OUT OF STEAM?

As reported by Draghi’s report, the fragmentation of the single market represents a barrier to growth for European firms, impeding them from competing openly and reaching the scale necessary for making the crucial investments needed for the uptake of technology.¹² Businesses often choose to remain small to avoid the financial strain of navigating inconsistent and fragmented national rules, complex tax systems, and the increased regulatory burdens that are triggered once a company hits a certain size threshold.

Quantifying the costs of an incomplete Single Market is not an easy task. A study by the IMF estimated the remaining barriers to be equivalent to tariffs of up to 44% for goods and 110% for services.¹³ While these conclusions received widespread media attention, the methodology applied was criticised by other scholars. Another study, published on CEPR, while noting that border effects within the EU have largely stopped declining after 2010, also argues that most regulatory “low-hanging fruit” has already been exhausted, and that the remaining frictions are better explained by harder-to-solve factors such as differences in preferences and tastes, social and business networks, and persistent home bias in public procurement.¹⁴

Nonetheless, the extent of remaining intra-EU trade barriers remains a crucial factor shaping firms’ ability to scale up. Progress in single market integration has stagnated. After years of growth, intra-EU trade in goods has decreased to 22% of GDP and remains rather low in services, at 7.9% of GDP.¹⁵ This recent stagnation in EU integration is also reflected in the declining relative share of intra-EU trade compared with extra-EU trade in recent years, following a long period of overall growth, albeit with some fluctuations. For trade in goods in particular, this pattern may partly reflect temporary factors such as supply-chain disruptions and asymmetric post-COVID reopenings, which likely contributed to a peak in the relative share of intra-EU trade in 2022 (Charts 6). Given the growing importance of services and intangible-intensive activities for productivity growth, deeper integration of the EU services market represents a key lever to enhance firm dynamism, facilitate scaling, and ultimately reduce the productivity gap. To complete the single market for services, the EU and Member States should embrace service liberalisation, starting with those that are crucial for manufacturing.

CHART 6 Ratio of intra-EU over extra-EU trade, in goods and services



Source: Eurostat [ds-045409] and Eurostat [bop_its6_det]

¹² [Draghi’s report, p. 17](#)

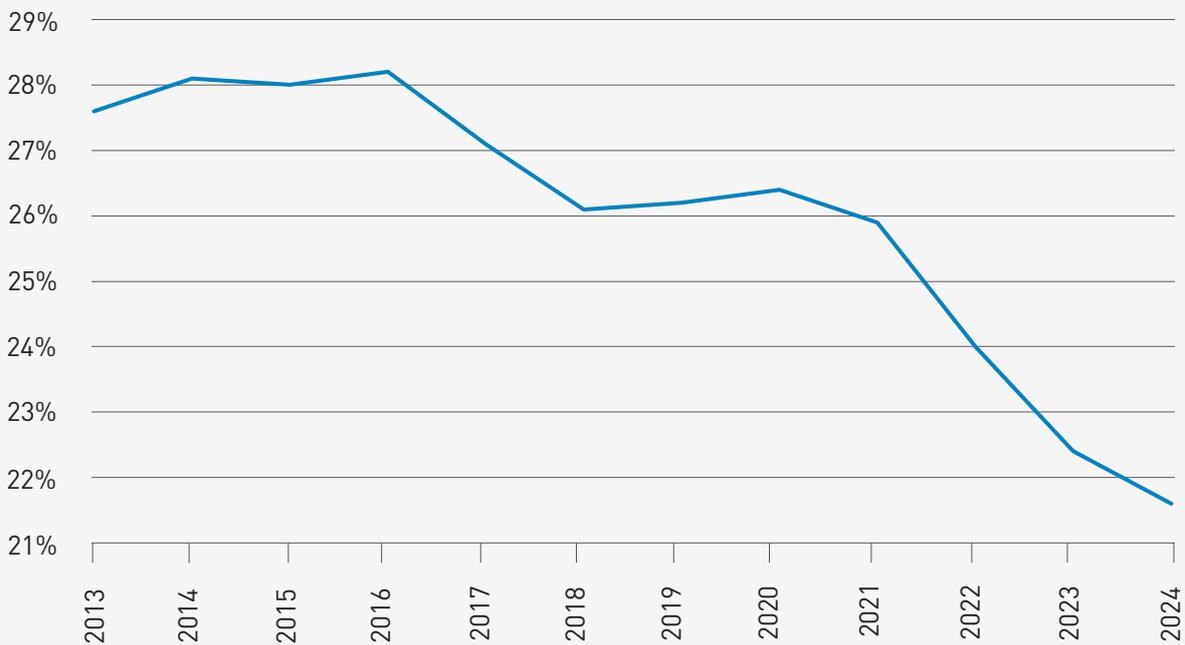
¹³ [IMF, Europe’s Choice: Policies for Growth and Resilience, December 2024](#)

¹⁴ [No, the EU does not impose a 45% tariff on itself | CEPR](#)

¹⁵ [European Commission, The 2026 Annual Single Market and Competitiveness Report, January 2026.](#)

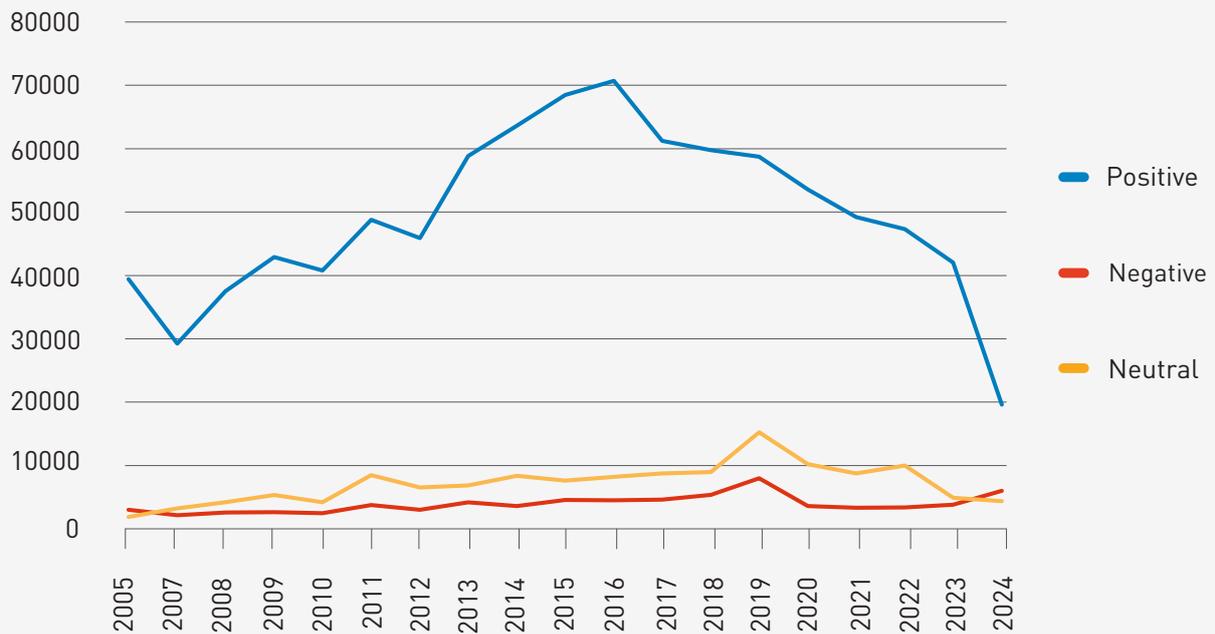
Price convergence is another key indicator of Single Market integration. Eurostat data on price dispersion show an overall stark decrease in price divergence within the EU over the last decade, which could be interpreted as a symptom of increased consolidation (Chart 7). However, a closer look at the data reveals that price divergence increased slightly between 2018 and 2020, before decreasing again from 2021 onwards. Further analyses would be needed, but this renewed acceleration in convergence might be driven less by changes in market integration and more by the stronger inflation experienced, for instance, in Central/Eastern European EU countries, such as Poland, Czechia, Slovakia, which traditionally have lower price levels. These inflationary pressures were largely triggered by supply chain disruptions and Russia’s invasion of Ukraine, followed by the partial ban on Russian energy exports, an external shock to which those EU Member States were particularly exposed due to their higher dependence on Russian energy.

CHART 7 Price divergence is diminishing in the EU



Source: Eurostat [tec00121]

Single Market integration in services can be further explored by examining cross-border labour mobility in regulated professions, notably looking at decisions on the recognition of professional qualifications across Member States. While positive recognition decisions reached around 70,000 in 2016, their number had fallen to fewer than 20,000 by 2024. Over the same period, negative decisions increased from fewer than 4,500 to around 6,000. The overall decline in decision points to a reduction in applications, which may be driven by both supply-side factors (fewer professionals willing to move across borders) and demand-side factors (host countries being less willing to accept applications). Moreover, the rising ratio of negative to positive decisions may be symptomatic of a more protectionist stance by Member States (Chart 8).

CHART 8 Positive recognition of professional certifications intra-EU decreased post 2016

Source: Regulated Professions Database, European Commission

Policymakers should remove persisting regulatory barriers to cross-border trade, investment, labour mobility and provision of services in the Single Market, and prevent new fragmentation at EU and national level, including measures for regions with geographic challenges where necessary. For example, by removing withholding taxes on cross-border investment, digitising notifications, screening and harmonising permitting, licensing and authorisation schemes, and prioritising the greatest potential in industry relevant services such as industrial installation, maintenance and logistics.¹⁶

FRAGMENTED PUBLIC R&D FUNDING AND LIMITED PRIVATE-SECTOR INVESTMENT ARE CONSTRAINING INNOVATION

Investment in research and development is widely recognised as a key driver of productivity growth, as it generates new knowledge that translates into product and process innovation. Firm-level evidence consistently shows that firms investing in R&D achieve higher productivity. The relationship between productivity growth, innovation, and digital technology adoption is particularly relevant for the EU, where weak productivity growth has been closely linked to lagging digital adoption and innovation performance.¹⁷

The U.S. leads both the EU and China in terms of the *absolute amount of public* R&D funding, while China shows the largest growth in recent years. Considering the 2017-2023 period, public spending increased by 61% in China, 46% in the U.S., and 39% in the EU. A similar trend is observed considering the total R&D funding: China's total R&D expenditures have increased by 88% from 2017 to 2023, compared to 77% in the U.S. and 38% in the EU (Chart 9).¹⁸ The EU lagged its competitors, also considering the intensity, i.e., the total spending as a percentage of GDP, with 2.3% in 2024, compared with 3.5% in the U.S. and 2.6% in China¹⁹. The gap is especially large in R&D investments in services, in which the U.S. invested over 0.9% of its GDP in 2023, while the EU invested around 0.2%.²⁰

¹⁶ More information on BusinessEurope's position on Single market can be found [here](#).

¹⁷ [Bruegel, ISSUE 09/2022](#)

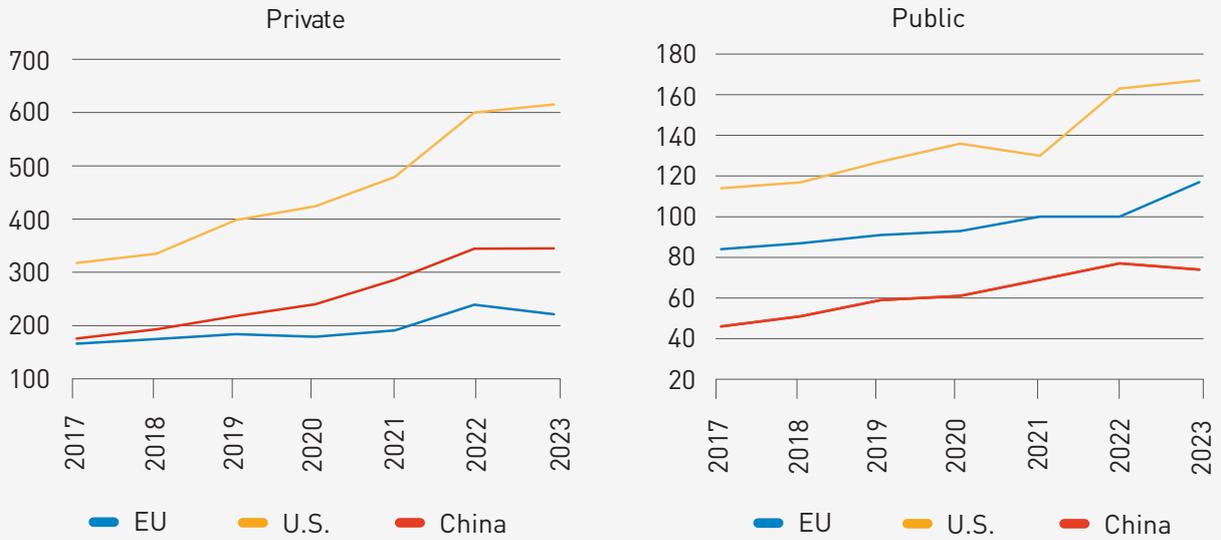
¹⁸ [A comparative analysis of public R&I funding in the EU, US, and China](#)

¹⁹ [GERD by sector of performance, Eurostat](#)

²⁰ [ECIPE, Why It's Time to Mind Europe's Services Gap, February 2026](#)

CHART 9

R&D expenditures GERD in € billion by source of funding, all sectors of performance, years 2016-2023

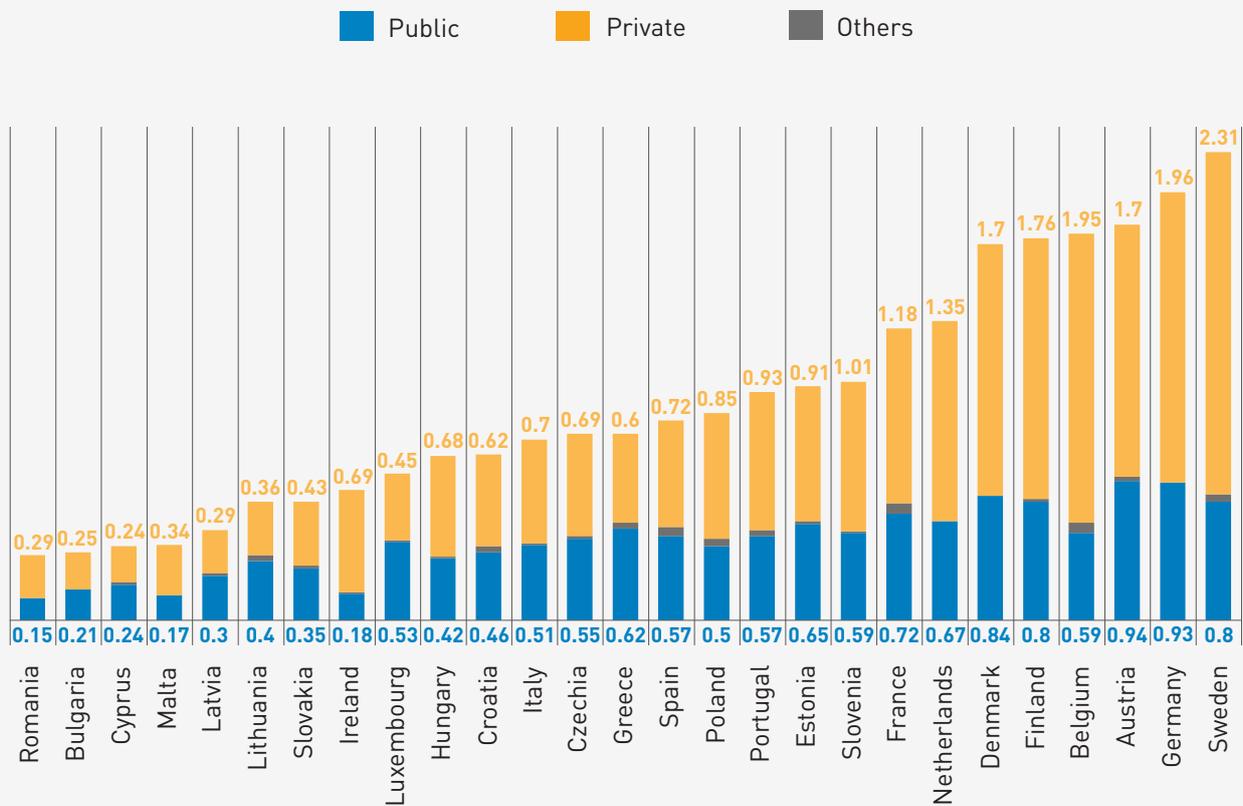


Source: Eurostat rd_e_gerdfund

The conclusion from the earlier figures is that a distinguishing characteristic of the EU is its greater dependency on public R&D funding compared to the U.S. and China: in the EU, public funding constitutes 30% of the total R&D funding, while for China and the U.S., it represents 17% and 19%, respectively. Moreover, in the EU, public R&D intensity varies significantly between Member States, ranging from 0.2% of GDP in Romania, Ireland, and Malta to 1.0% in Austria and Germany. Public R&D spending in the EU is also highly fragmented. While the U.S. has a centralised public R&D funding system, with the 96% of the overall budget coming from the federal budget, in the EU, public R&D funding mostly (94%) comes from the budgets of the Member States. Some EU Member States are much more effective than others in pairing public R&D spending with private R&D investment. Ireland and Belgium stand out with ratios close to 5, while Sweden exceeds 4, levels comparable to those of the U.S. and China. In contrast, Latvia, Lithuania, Cyprus, and Greece show much lower ratios, remaining below 2 (Chart 10).

CHART 10

R&D intensity per EU member state GERD as % of GDP, by source of funding, all sectors of performance, year 2023



Source: Eurostat rd_e_gerdfund

Over the past decade, the U.S. and China have been more successful than the EU in accompanying public R&D spending with private investment, driven in part by the expansion of digital and high-tech firms that invest heavily in R&D and by the generally larger size of companies. By contrast, the EU’s more fragmented economic structure and concentration in medium-tech sectors help explain weaker private R&D mobilisation. The limited R&D spending in high-tech sectors, such as ICT and biotech, emerges as one of the drivers of the productivity gap (Chart 11).²¹

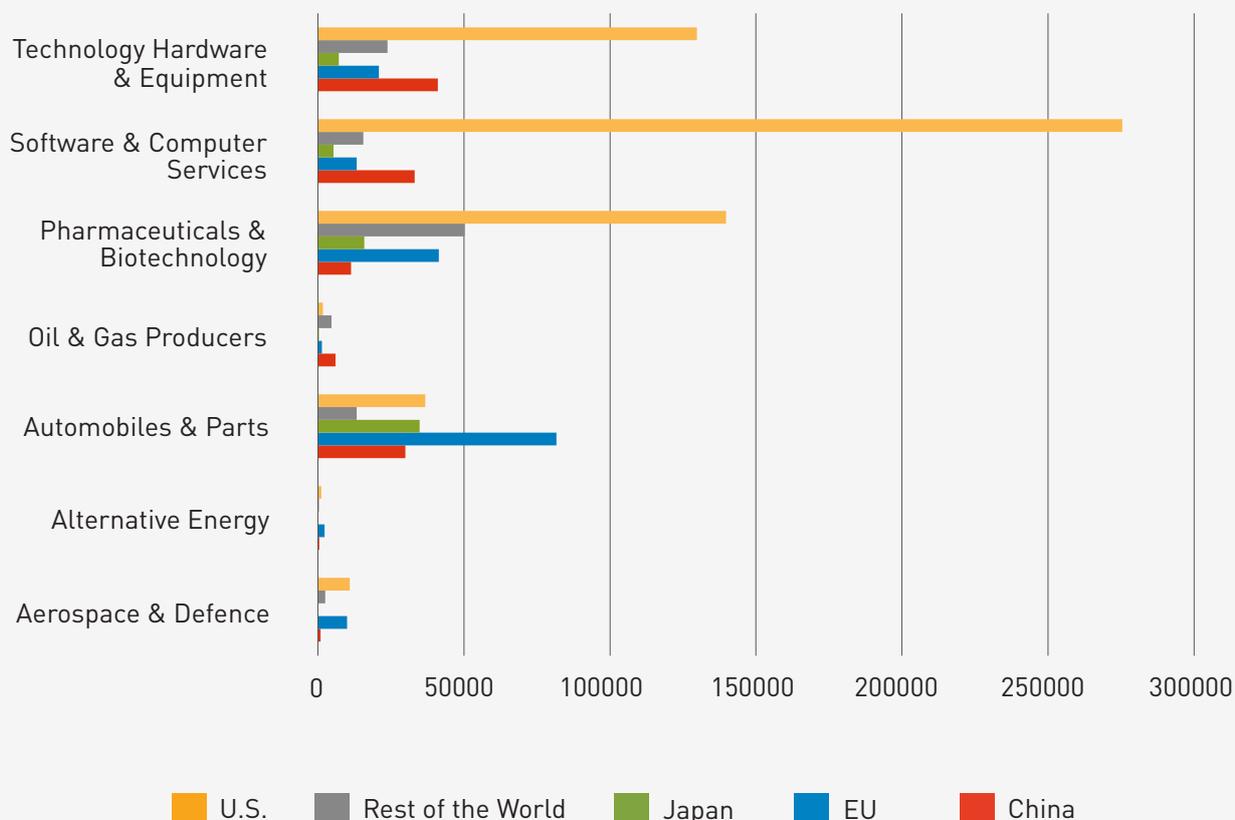
The EU remains more reliant on public funding, making the efficiency and coordination of its highly fragmented R&D funding system particularly critical. Strengthening coordination, reducing duplication, and better leveraging EU-level instruments could improve the impact of limited public resources and help attract private investment.²² Analysis of 5,859 Horizon Europe-funded companies reveals that fewer than 10% of funding rounds secured additional investors, a figure that drops below 5% for EIC projects. This suggests EU-backed venture capital struggles to mobilise private investment.²³

²¹ [Capital markets union: a deep dive Five measures to foster a single market for capital, ECB, 2025](#)

²² [A comparative analysis of public R&I funding in the EU, US, and China](#)

²³ [IEP, EU innovation policy, how to escape the middle technology trap, 2024](#)

CHART 11 R&D Expenditure of the biggest 2,000 companies worldwide, by sector (in € million)

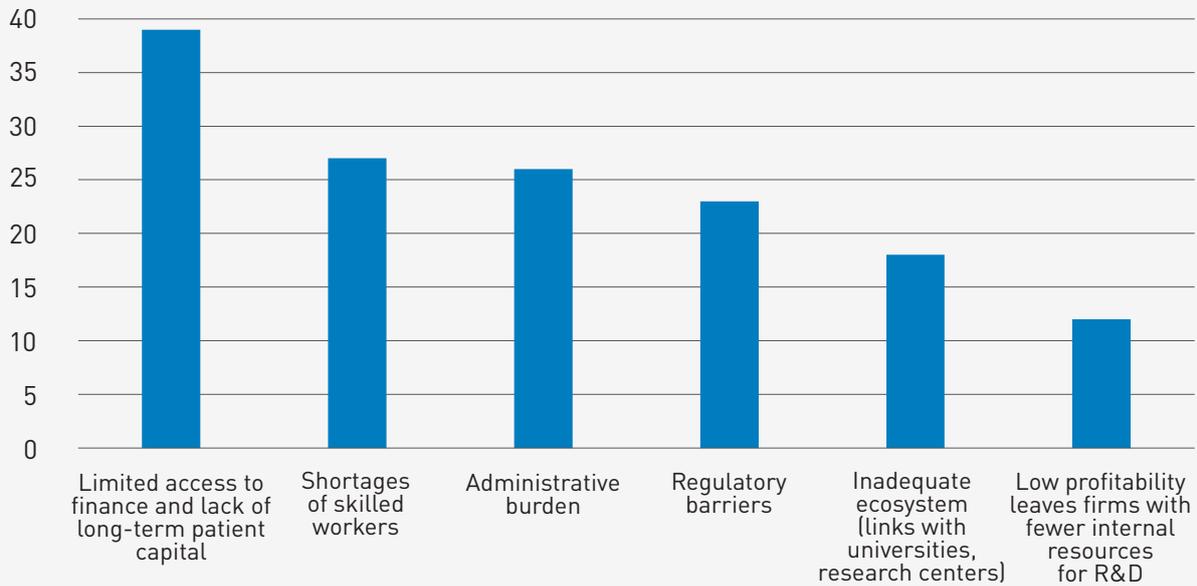


Source: 2023 EU industrial R&D investment scoreboard

When consulted on the main barriers to R&D investment faced by EU businesses, BusinessEurope members (the national business associations) identified limited access to risk finance and the lack of long-term patient capital as the most significant constraints (Chart 12). This financing gap is particularly acute in the scale-up and deployment phases of innovation. While early-stage funding in the EU is relatively well supported through public instruments and seed financing, fragmented capital markets, regulatory barriers, and limited growth opportunities with respect to the U.S., continue to discourage venture capital and growth-equity investment at later stages, when firms require large and sustained funding to industrialise and commercialise their innovations.

CHART 12

Limited access to finance is seen by businesses as the main obstacle for private R&D investment



Source: based on responses by BusinessEurope’s members to the question: “What are the main obstacles to private R&D investments faced by companies in your State?” The scores reflect a combination of how often a challenge was cited and the level of importance (1–3) that members assigned to it.

THE EU AMID THE GLOBAL AI RACE

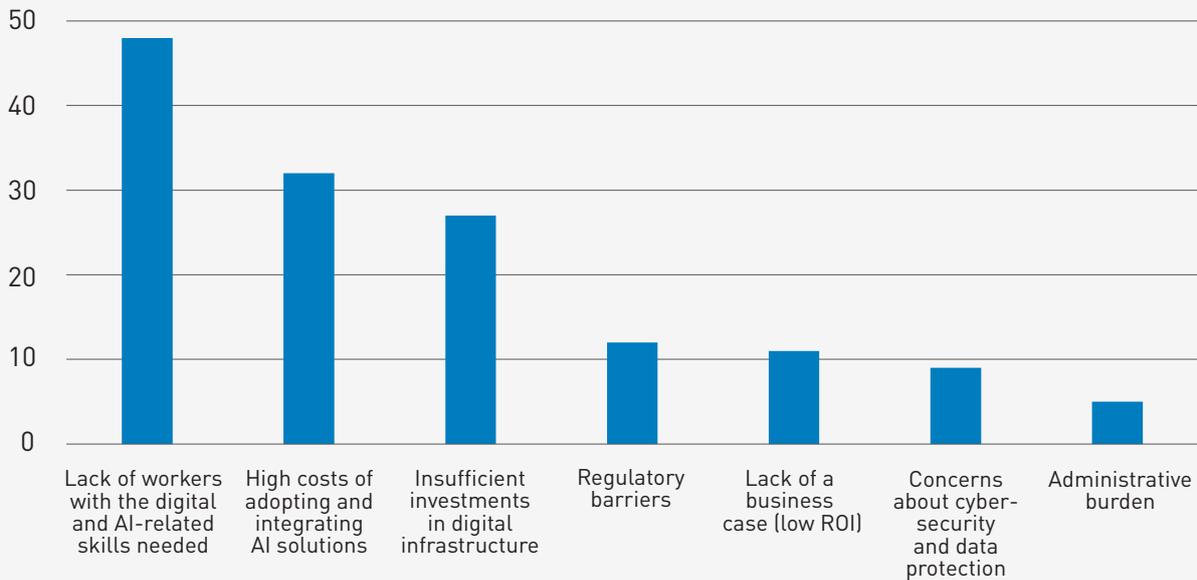
When asked to identify the primary obstacles to AI adoption, European businesses highlighted a critical shortage of skilled workers (Chart 13). This talent gap mirrors broader challenges, such as the EU’s declining attractiveness for foreign investment and persistent barriers to Research and Innovation (R&I). These concerns are further validated by Eurostat’s analysis, which projects that Europe could face a shortage of nearly 8 million ICT experts by 2030.²⁴ Beyond labour shortages, companies cited high implementation costs and inadequate digital infrastructure as the next major hurdles, the latter reflecting a substantial, unmet demand for cloud and computational capacity across the EU.²⁵

²⁴ [Eurostat, The war for top-tier digital talent: winning the retention battle with engaging eLearning \(July 2025\)](#)

²⁵ [Euronews, Companies warn Commission not to edge foreign providers out of EU cloud \(July 2025\)](#)

CHART 13

Skills, costs of technology adoption, and lack of digital infrastructure are limiting firms AI uptake



Source: based on responses by BusinessEurope’s members to the question: “What are the main obstacles to AI uptake by companies in your market?” The scores reflect a combination of how often a challenge was cited and the level of importance (1-3) that members assigned to it.

Data from Eurostat, who run a survey among 157000 companies, shows that 20% of EU based companies are using AI in 2025, up from 13.5% in 2024. Not surprisingly, the uptake was larger among large enterprises, 55% of which used AI in 2025, compared with 30.4% of medium-sized, and 17% of small companies, probably due to the costs of AI, its complication and economies of scale. Data shows a strong geographical divide: the top three adopters are Denmark (42.03%), Finland (37.82%), and Sweden (35.04%), while the lowest shares were recorded in Romania (5.21%), Poland (8.36%), and Bulgaria (8.55%).²⁶ While U.S. reports vary by methodology, they generally show a significantly higher uptake of AI technologies, with some surveys citing adoption rates as high as 95% among businesses.²⁷ This trend may further widen the existing productivity gap between the U.S. and the EU.

Since the recent surge in the commercialisation of generative AI models, numerous researchers have begun examining their impact on productivity. A study published by the U.S. National Bureau of Economic Research shows that generative AI, like ChatGPT, has been adopted rapidly, with 39% of U.S. adults using it by mid-2024, a faster adoption than personal computers in their early years. Workers report saving an average of 2.2 hours per week, particularly in maths, computer, and information services jobs, potentially boosting U.S. productivity by 1.1%.²⁸ Based on a survey of Japanese workers, Morikawa (2024b) estimated an increase of labour productivity deriving from the use of AI in the macroeconomy to be of around 0.5-0.6%.²⁹ Impacts vary by occupation and industry, with manual labour and personal services seeing little effect. Moreover, while AI can increase efficiency and wages, it may also displace jobs, making workforce training and adaptation critical for the AI-driven future. A recent ECB article notes how, for the moment, the AI uptake remains limited. According to the study, while many large European firms report using AI, few employees work with it regularly, and adoption is lower in small firms. As a result, potential productivity gains, estimated at around 0.35 percentage points per year – already far below the potential gains for the U.S. and Japan – *under ideal conditions*, are likely further

²⁶ Eurostat, 20% of EU enterprises use AI technologies

²⁷ Bain & Company, Survey: Generative AI’s Uptake Is Unprecedented Despite Roadblocks, May 2025

²⁸ A. Bick, A. Blandin, D. Deming, The Rapid Adoption of Generative AI (September 2024)

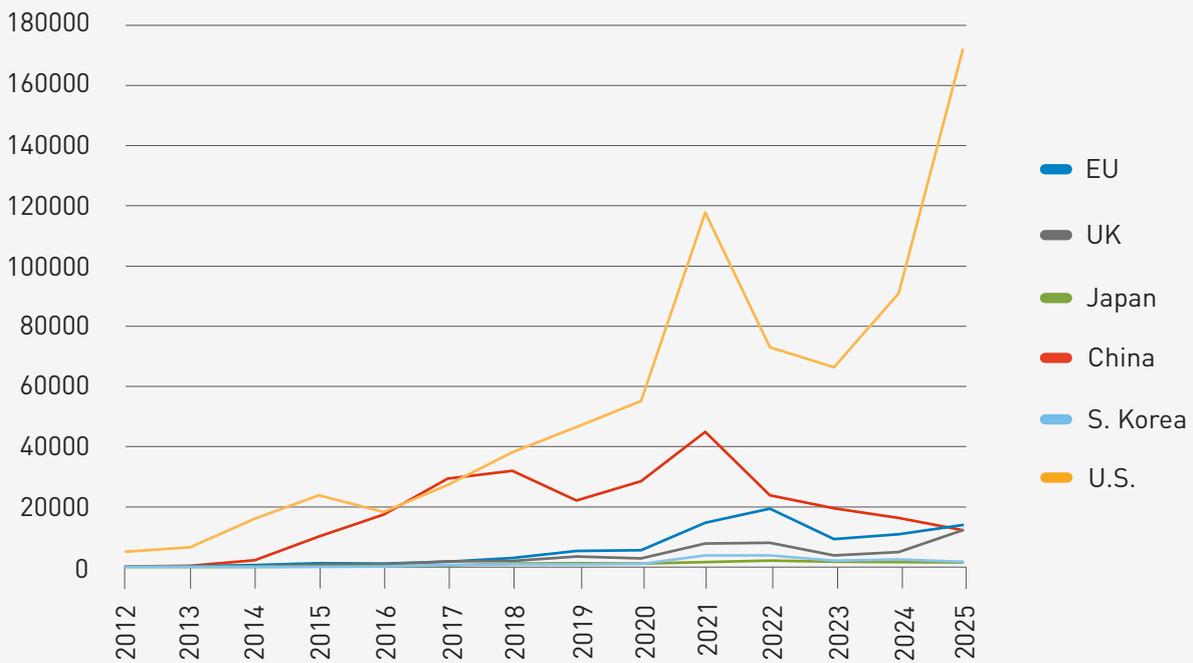
²⁹ RIETI, Macroeconomic Impact of Artificial Intelligence on Productivity: An estimate from a survey, December 2024

constrained by limited AI readiness, skills shortages, and weaker productive capacities, highlighting the importance of complementary investments and supportive policies.³⁰

Recent economic research presents varying future outlooks on AI’s impact on aggregated productivity, ranging from modest cumulative gains to significant annual growth. Daron Acemoglu (2024) offers a more conservative estimate, calculating that AI will increase cumulative TFP by less than 0.55% over 10 years. A study published by the IMF in April 2025, foresees for the EU a cumulated TFP growth of 1.1% over a five-year period deriving from AI adoption.³¹ Filippucci et al. (OECD, 2025) offer a more bullish forecast, estimating annual labour productivity growth over a ten-year period. They project gains between 0.2% and 0.8% per year for G7 countries with lower AI specialisation and adoption, like Italy and Japan, rising to 0.4%–1.3% for countries with higher AI exposure and more intensive service sectors like the U.S. and the UK.³²

The U.S. currently leads global investment in artificial intelligence. According to the OECD, U.S. venture capital (VC) investments in AI reached nearly € 172,7 billion in 2025, vastly surpassing the EU, which collectively attracted approximately € 14,2 billion followed by China and the UK (Chart 14). A similar pattern is observed in generative AI, where the United States again dominates with around € 25,7 billion in VC funding, compared to € 2,4 billion in the EU and € 1,2 billion in China.³³

CHART 14 VC investments in AI by country (€ millions)



Source: OECD

In the meantime, the gap in performance between Chinese and U.S. AI models has sharply narrowed.³⁴ The EU is lagging across the board: according to the Stanford University AI Index Report, in 2024, the U.S. could count on 40 “notable AI models,” followed by China with 15 and France with three – the only ones in the EU. Beyond the disparity in investment, several

³⁰ [ECB, AI can boost productivity, if firms use it \(March 2025\)](#)

³¹ [IMF, Artificial Intelligence and Productivity in Europe \(April 2025\)](#)

³² [OECD, Macroeconomic productivity gains from Artificial Intelligence in G7 economies \(June 2025\)](#)

³³ [OECD.AI Policy Observatory](#)

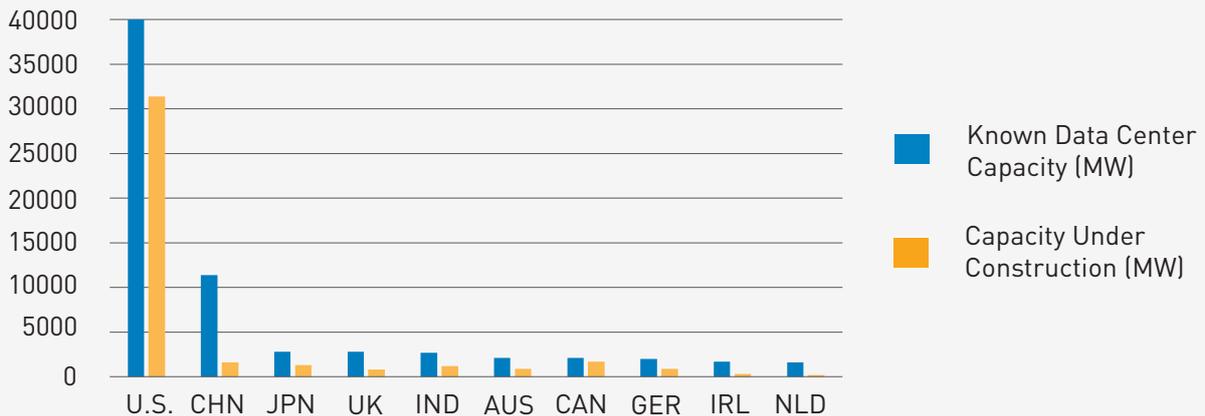
³⁴ [Stanford University, Artificial Intelligence Index Report 2025](#)

structural factors explain this gap: a heavy regulatory burden on EU businesses, market fragmentation, a deficit in digital infrastructure, and challenges in retaining top talents. Cultural factors, including lower levels of public optimism regarding AI’s adoption and its effects on society, also play a role.

Energy-hungry (which is far more expensive in Europe, as indicated earlier) data centres are the backbone of AI, providing the computational power and the storage needed to train large models and run AI workloads at scale. Europe currently lags the U.S. and China in available data centre capacity, relying heavily on infrastructure controlled by other regions through the cloud.

According to a report by MSCI, globally, more than 47,000 megawatts of new data centre capacity, worth roughly €530 billion, is under construction, mostly in the U.S., which will expand global capacity by about 50% (Chart 15).³⁵ This growth underscores the sector’s long-term potential but also increases pressure on power systems: data centres already consume 1.5% of global electricity in 2024, a share expected to double by 2030.³⁶ Concerning the EU, according to Draghi’s report, the percentage, standing at 2.7% of the EU’s electricity demand at the time of the study, is expected to rise by 28% by 2030.³⁷ Therefore, installation of data centre capacity is tightly linked with the presence of cheap and stable electricity, and raises questions related to their environmental sustainability, given also their demand for water used in cooling processes. Big operators are exploring solutions such as installing “behind-the-meter” energy generation capacity themselves, along with data centres, with wind, solar, gas turbines, and considering nuclear energy options. Other potential challenges are related to the availability of workers, possible technological change (including the eventual uptake of more energy-efficient large language models), and financing risks. The latter might stem from possible failure to deliver the expected return on investments, which caused the valuation of major technological firms involved in AI to soar during the latest years, or risks related to the increasing amount of private debt accumulated by listed AI companies, including less transparent private debt and asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS). Even considering these risks, and also in the case of a possible “financial bubble,” the large investments in digital infrastructure, electricity generation capacity, and grid upgrades required to support it, can generate substantial positive externalities and create “legacy” assets that strengthen the competitiveness of economies undertaking such transformations.

CHART 15 Data centre capacity (in million Watts), known and under construction



Source: MSCI

³⁵ MSCI, [The data centre boom: by the numbers, December 2025](#)

³⁶ IEA, [Energy demand from AI](#)

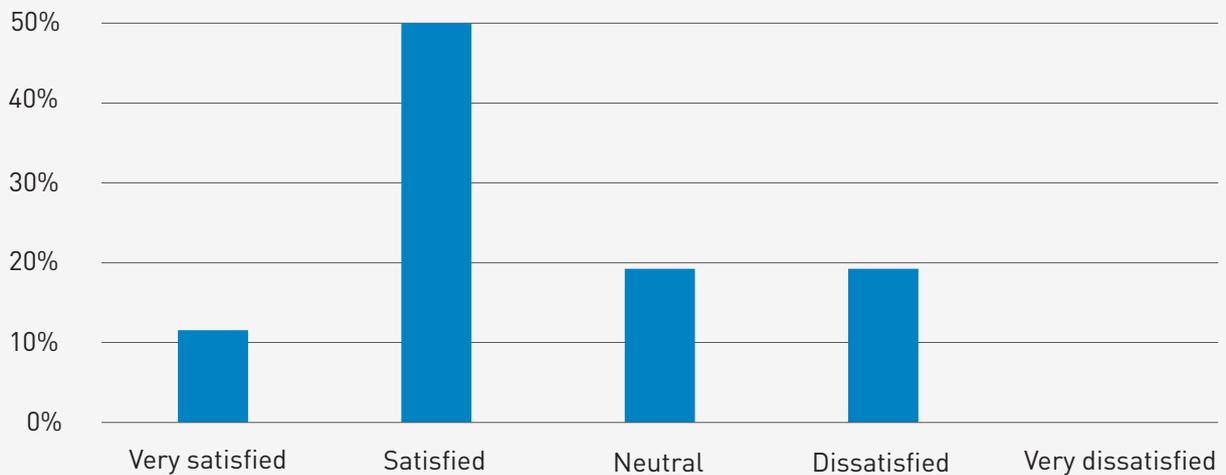
³⁷ Mario Draghi, [The future of European competitiveness, September 2024](#)

The EU aims to expand its data centre capacity through the AI Continent strategy. Central to this is the InvestAI facility, a public-private partnership designed to mobilise €20 billion in public funding to de-risk and attract up to €200 billion in total investment for the construction of AI Factories and Gigafactories.³⁸ In its strategy, the EU aims to at least triple its capacity by 2030. In terms of datacentre location, a key trend is the shift in construction from the most established hubs (Frankfurt, London, Amsterdam, Paris, and Dublin) toward emerging ones such as the Nordic countries and Southern Europe. These regions are expected to see faster growth in new installations, driven primarily by lower grid congestion and greater availability of renewable energy.³⁹

1.2 DRAGHI AND FINANCE: REBOOTING THE CAPITAL MARKETS AND BANKING UNION VIA THE SAVINGS AND INVESTMENT UNION

Over a decade ago, in 2015, when the EU started to work on creating a Capital Markets Union (CMU), businesses’ ability to access finance varied considerably across Europe. In some countries, the supply of finance, particularly to small and medium-sized companies, was a key barrier to growth. Following the measures from EU central banks, and notably by the ECB, this has overall been resolved but small and medium-sized companies continue to highly depend on bank loans. As shown by Chart 16, our Member Federations are overall satisfied with the performance of the banking sector in their country, as credit conditions have improved, but finance needs to be available through a variety of channels to seize potential investment opportunities and make the investments necessary to drive growth, maintain competitiveness, and provide jobs and prosperity to European citizens, whilst also delivering on the twin transitions mandates.

CHART 16 Members’ satisfaction with the Banking Sector



Source: BusinessEurope Member Federations answers to the question: “Are you satisfied with the way the banking sector in your country operates?”

³⁸ [European Commission, Shaping Europe’s leadership in artificial intelligence with the AI continent action plan](#)

³⁹ [Ember, grids for data centres: ambitious grid planning can win Europe’s AI race, June 2025](#)

Although progress has been made, the objective of creating a genuine CMU has been disappointing. The Draghi Report identifies three main remaining fault lines. First, the EU lacks a single securities market regulator and a single rulebook for all aspects of trading, and there is still high variation in supervisory practices and the interpretation of regulations between EU Member States. Citibank's recent "Reimagining European Capital Markets" survey found that 63% of respondents believe that moderate harmonisation has been achieved but still see significant gaps that need to be addressed in Europe's post-trade infrastructure, while only 7% believe that most harmonization challenges have been met. Another 30% think that Europe's capital markets are still fragmented or very fragmented.⁴⁰

Bearing this in mind, there are several measures that still need to be fully implemented. This will help to improve access to capital markets for those growing medium-sized firms that are most likely to benefit from easier access to finance, particularly longer-term, patient growth capital. The creation of a European consolidated tape (bringing together market data for the whole EU) should help to overcome this limitation and encourage increased cross-border investments. Similarly, the implementation of the Listing Act Package should make equity and bond financing in the EU more attractive, including for SMEs, and simplify national listing rules. The EU should also continue efforts to reduce the regulatory burden on business as well as tax barriers on both companies and investors and to limit legal costs and uncertainty for cross-border investors, making those investments more attractive.

Aiming towards that, in 2025, the European Commission has taken additional measures to create a Savings and Investments Union (SIU), an initiative that brings together both the Capital Markets and Banking Unions, but with a greater focus on individual investors. This recent package of measures still has to be fully implemented, and includes elements like a blueprint for EU Savings and Investment Accounts to make investing simpler for citizens, a Financial Literacy Strategy to help citizens to make sound financial decisions, and a pensions package to strengthen the demand for and supply of supplementary pensions and mobilise long-term savings for productive investments. The latter should contribute to a strong and competitive European economy, recognising that sustainable pension systems depend on economic growth, productivity, and the ability of occupational pensions to support long-term investment. Further reforms at the national level will be necessary to achieve the goals of the SIU, and the Commission should lead and coordinate these efforts. Apart from these measures, the European Commission has also proposed measures to revive the EU Securitisation Framework and measures to boost equity investments by insurers and banks. An additional package of proposals has been adopted to amend the rules for financial markets and financial market infrastructures and to amend the rules on how financial market firms are supervised.

FINANCING GROWTH

The EU and its Member States must invest at an unprecedented level to regain their lost competitive edge and to finance the green and digital transitions. As set out in both the Draghi and Letta Report, in such a context, access to finance, specifically long-term debt financing, equity investment, and risk capital, is a pre-condition for companies to thrive and make the investments necessary to increase growth, regain lost competitiveness, and provide jobs and prosperity to citizens. To meet the objectives laid out in the Draghi report, a minimum annual additional investment of €750 to €800 billion is needed,⁴¹ a figure then raised to €1.2 trillion to include also defence needs.⁴² Finance needs to be available through a variety of channels and on reasonable terms. We need to facilitate the free flow of capital in the EU. We need to promote cross-border investment, as currently EU capital markets are still very much dispersed, and there is a strong home bias from investors. Developing a Savings and Investments Union, which combines the Capital Markets Union and the Banking Union, should help to increase the availability of finance but the main goal should be to make the EU more attractive to both foreign and domestic investors.

Given that, investment as a share of GDP in the EU, after falling for years, is currently lower than that of its international competitors, even if its savings rate is higher than, for instance, that in the

⁴⁰ [Citigroup, Reimagining European Capital Markets, January 2026](#)

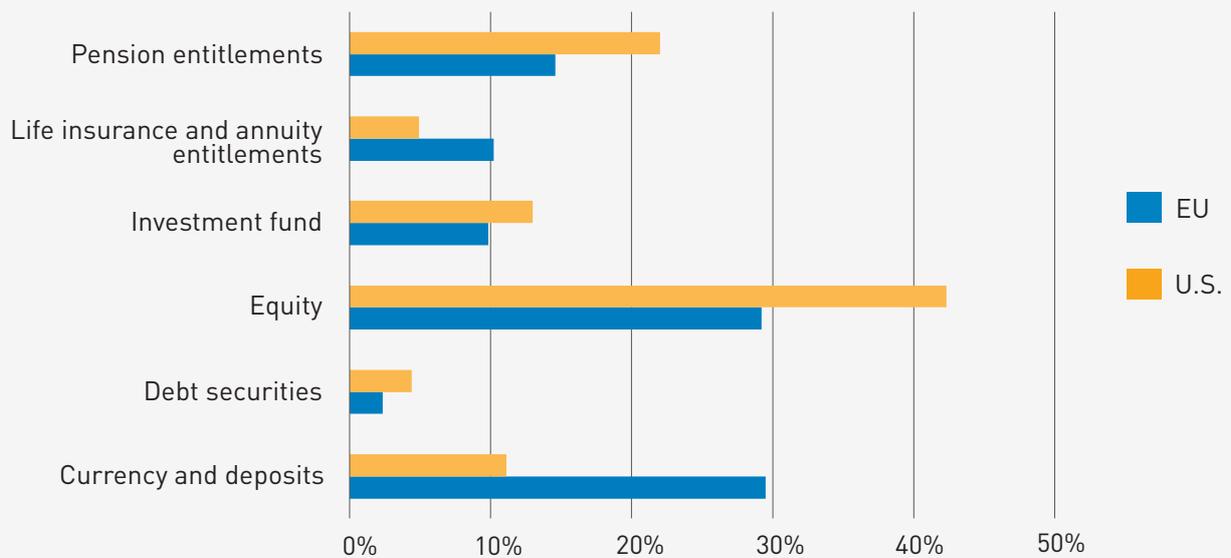
⁴¹ See Draghi report page 281.

⁴² [Taking stock: One year since Draghi Report, 2025](#)

U.S.⁴³ Although BusinessEurope supports leveraging those private savings in support of the EU’s wider objectives, implementing a SIU will not be enough to address the savings and investment mismatch in the EU. This situation can only be addressed by appropriate incentives, improvements in the business climate, and on the regulatory burden, starting at the level of individual Member States and converging and harmonising at the EU-level.

The effect of different incentives is illustrated in Chart 17: U.S. households demonstrate a stronger preference for risky assets, particularly equities, than EU ones. These holdings typically generate higher long-term returns while providing corporations with the stable capital necessary for sustained investment. Furthermore, a significant portion of the equity portfolios held by European savers (including via their pension funds) consists of dollar-denominated U.S. stocks, which have historically outperformed their European counterparts. Another striking divergence lies in liquidity preferences: European savers hold a much higher volume of currency and deposits compared to U.S. households although there are large differences between Member States. The structural differences between their respective pension systems are also evident. U.S. citizens hold a substantially larger share of pension entitlements, managed by funds that dwarf their European equivalents. These American funds are notably more active in private equity and venture capital, playing a critical role in financing high-risk, innovative ventures that drive economic growth.

CHART 17 Differences in financial assets held by EU vs U.S. households



Source: OECD

⁴³ In 2022, EU household savings were EUR 1,390 billion compared with EUR 840 billion in the US, reflecting the lower savings rate of US households, which is around a quarter of the EU level. In 2023, the household savings rate was 3.2% in the US compared with 12.7% in the EU, in line with the corresponding averages in the past 20 years. Even though US household disposable income is about 50% larger than that of EU households, this does not compensate for the large gap between their savings rates. Draghi Report page 281

ADDRESSING FRAGMENTATION

The EU is committed to identifying and removing barriers to the cross-border provision and use of financial services and to the strengthening of the single market for capital. This should increase the availability of finance through a variety of channels and on reasonable terms. For example, the European financial market infrastructure, both in terms of exchanges and post-trade, remains fragmented. According to the European Commission, financial instruments are traded in more than 300 trading venues in the EU. There are currently 14 central counterparties (CCPs) providing clearing services and 32 central securities depositories (CSDs) offering settlement services, including 7 CSDs operated directly by central banks or other public sector entities. This complexity prevents building up scale. In contrast, the far larger U.S. market is more concentrated and specialised, in particular with respect to settlement, with 2 CSDs and 8 CCPs. Moreover, the top five U.S. venues account for 74 % of exchanged trading volumes, whereas in the EU it is only the top 10 venues that capture a similar share (+-75%).⁴⁴ The further integration of capital markets could reduce costs, leading to lower financing costs for companies and higher returns for investors. This could contribute to both simplify EU regulations and increase liquidity in markets, making the EU a more interesting place to list and invest.

THE ROLE OF THE FINANCIAL SECTOR

Financial entities, such as banks, play a crucial role in channelling savings into capital markets. Similarly, capital markets financing by institutional investors such as pension funds and insurance companies are important as they normally pursue a long-term investment strategy. These investors should be encouraged to invest in long-term risk capital to generate employment and economic growth. Barriers to increased capital markets financing, including regarding the prudential treatment of such investments, as well as the persistence of withholding taxes, should be addressed.

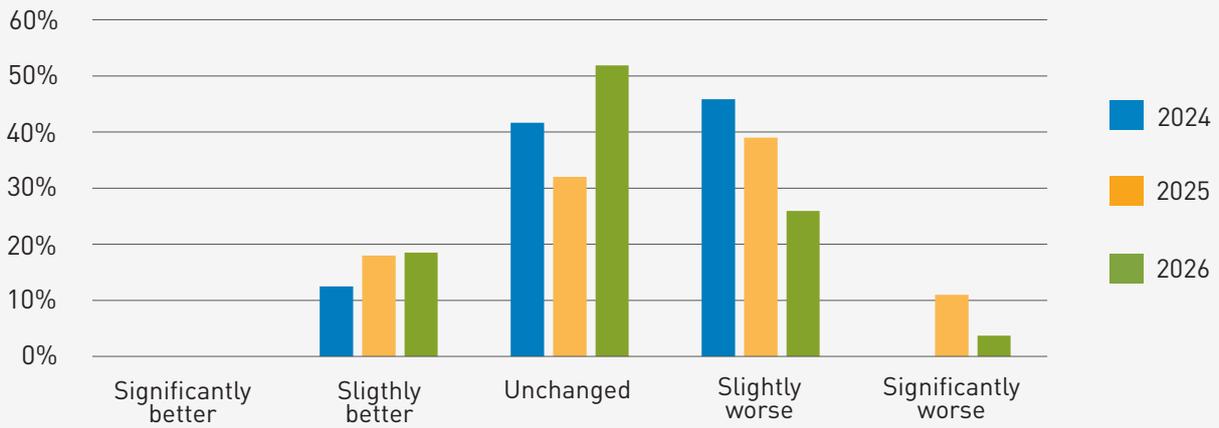
As we stress in our recent Position Paper, "[Rebooting the Capital Markets and Banking Union: Savings and Investment Union](#)", it is of great importance that every invested euro generates the maximum impact. This requires a strategic approach where both public and private funds are optimally utilised to address the challenges that Europe faces. The financing of riskier projects, such as innovative start-ups and scale ups or transition financing, needs to be improved. The private equity and venture capital industry, but also promotional banks, together in risk-sharing models with private and saving banks would be particularly suited for that task. Investment into the uptake of private placements should also be made more attractive and the venture capital and private equity industry development must be supported as an essential source of risk finance and expertise for innovative companies, considering that the industry remains much smaller than that in the U.S. Consequently, the rules for venture and growth capital funds should be flexible and proportionate, bearing in mind that a regime already exists for this matter (EuVECA subthreshold) and that, in reality, the issue with venture/growth is not a supply problem of funds, but a demand problem (namely, capital raising, due to EU institutional investors' limited appetite to invest money in this type of products). This is also supported by the fact that EU corporations contribute 22% of global VC but invest over 80% of it in the U.S., leaving EU startups with a mere 9% share of the global total.⁴⁵

When asked whether the EU investment environment is improving from the perspective of global firms, respondents report a stagnant situation, though this represents an improvement over previous Reform Barometer editions. More than half of members consider the environment unchanged, while fewer than 20% see it as slightly improving. Meanwhile, just under 30% view it as either slightly or significantly worse, a notable shift from 50% in 2024. (Chart 18).

⁴⁴ [European Commission, Questions and answers on the market integration package](#)

⁴⁵ IEP, EU innovation policy, how to escape the middle technology trap, 2024

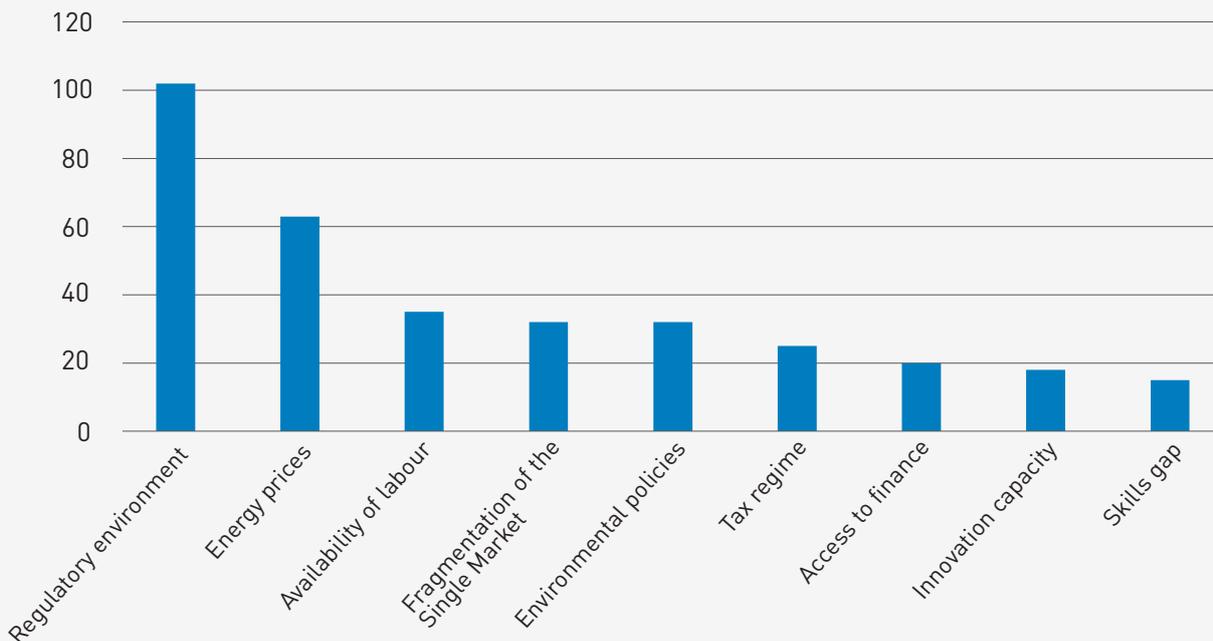
CHART 18 EU investment environment



Source: based on responses by BusinessEurope’s members to the question: “How do you think the EU investment environment is seen by global firms compared to 12 months ago?”

When asked about the main obstacles to investment, respondents provide answers largely consistent with those reported in the previous edition of the Barometer. Once again, the regulatory environment stands out as the primary barrier, indicating that the Omnibus initiatives offer only limited reassurance and that regulation continues to represent a major obstacle. This concern is reinforced by the prospect of additional reporting requirements coming into force in 2026, notably under initiatives such as the AI Act and the Cyber Resilience Act. According to the OECD, nearly 4% of total EU employment in 2023 was devoted to regulatory compliance, compared with 3.2% in the U.S. Energy prices rank as the second most significant barrier, reflecting persistently high gas and electricity prices. The availability of labour is the third major obstacle to investment, largely driven by persistent shortages of workers with the required skills. According to the 2025 EIB Investment Survey, 79% of European firms identify the scarcity of skilled talent as a major structural impediment to investment. Beyond the availability of labour, the fragmentation of the single market and environmental policies receive roughly the same level of importance (Chart 19).

CHART 19 Main challenges to the EU as an investment environment



Source: based on responses by BusinessEurope’s members to question: “What does your federation see as the five main challenges threatening the attractiveness of the EU as an investment environment vis-à-vis international competitors?”. The scores reflect a combination of how often a challenge was cited and the level of importance (1–5) members assigned to it.

A COMPETITIVE BANKING SECTOR

As set out in the Draghi Report, Europe relies excessively on debt financing via banks.⁴⁶ Therefore, it is also important to maintain an efficient and competitive banking system able to support the development of European companies of all sizes, considering that EU companies will continue to rely on bank debt financing for the foreseeable future. Strengthening the competitiveness of European banking players should become a priority for the European supervisory and regulatory authorities. This would mean introducing a secondary objective, the competitiveness of the banking sector, into the objectives of supervisors and supervisory authorities such as the EBA and the ESMA, since the financial strength of the sector is a guarantee of its solidity. European companies will also need access to risk-mitigating derivatives on reasonable terms as these are of strategic importance for the risk management of non-financial companies, stabilising cash flows and enhancing creditworthiness. It is also important to stress that banks are complements to other types of financial markets, as part of an ecosystem. The European Commission acknowledges the important role of banks in providing finance to companies and is preparing a report assessing the overall situation of the banking system in the single market, including an evaluation of the banking sector's competitiveness.

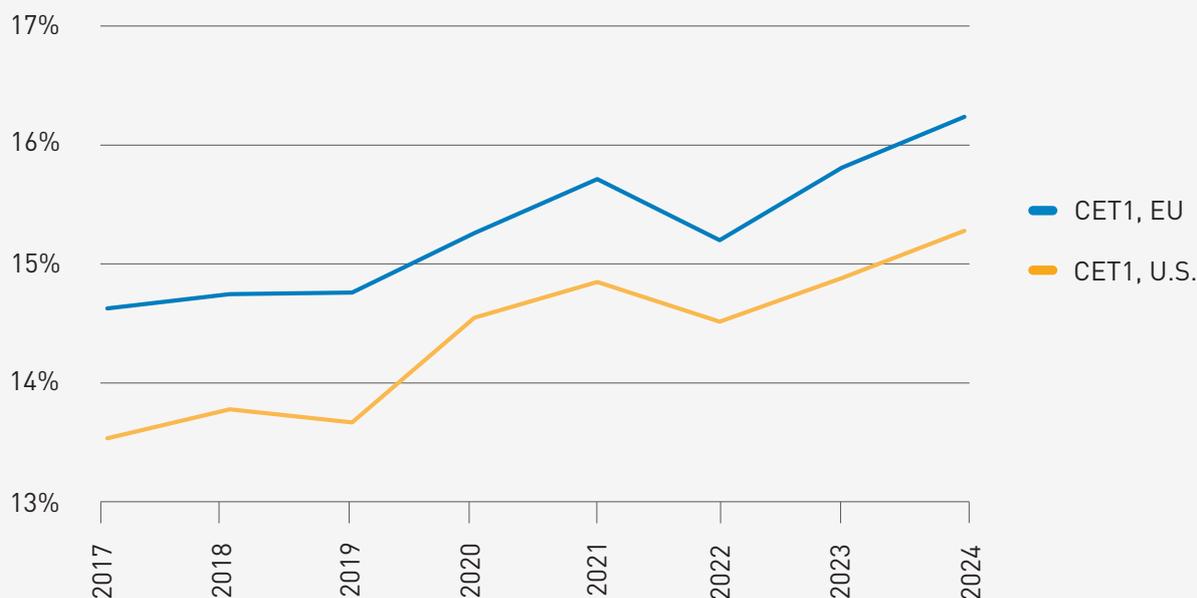
The EU has put in place a far-reaching reform of the financial regulatory framework to ensure financial stability and market confidence. The prudential regulation of banks and other financial institutions has been significantly strengthened because of internationally agreed measures (Basel III framework) to enhance the capital of EU banks and reinforce their liquidity. The increase in banks' capital and liquidity ratios has been significantly bigger in Europe than in other global regions,⁴⁷ and the implementation of rules and guidance following the Basel agreement should support companies' need for capital for investment and trade (bank loans, equity investment, trade finance) and ensure access to risk management products at competitive terms. This said, careful attention should be paid to the EU market structure and the need to ensure a level playing field vis-à-vis other major jurisdictions both in terms of implementation timing and in terms of operational burden. For instance, this enhanced regulatory framework is enforced by numerous different bodies at the EU and Member State level and has multiple overlapping and redundant components (for example, different capital buffers, some of which are applied exclusively to EU banks). Chart 20 displays how EU banks maintain higher tier one capital compared to their U.S. counterparts, reflecting regulatory and business-model differences. In this context, the ECB High-Level Task Force on Simplification made several recommendations to address the complexity created by divergent national laws, regulations, and administrative codes.⁴⁸

The EU is also continuing efforts to put in place the Banking Union. It is important that this enables liquidity, including bank dividends, to flow freely between Member States. This requires that banks' liquidity is not ring-fenced in specific Member States, enabling effective competition between financial institutions and ensuring that savings are allocated to the right place.

⁴⁶ Even though the role of non-bank finance has increased over time (with a rising ratio of bonds to loans in external finance) companies in the EU continue to rely much more on bank lending. Within Europe, reliance on capital markets is much greater in some Member States, such as Scandinavian countries and the Netherlands, than in others, including Germany, Italy and Spain. However, even in the Member States where capital markets are most developed, their role in financing the real economy is lower than in the U.S. and the UK. Draghi Report page 285.

⁴⁷ https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2020/961423/Basel%20III%20reforms%20-%202019Q4%20update%20and%20Covid%20impact.pdf

⁴⁸ [ECB, Simplification of the European prudential regulatory](#)

CHART 20 European banks have higher CET1 compared to their U.S. counterparts

Source: ECB, IMF

1.3 TAXES AND DRAGHI: THE IMPLICATIONS FOR THE EU COMPETITIVENESS OF A GLOBAL MINIMUM TAX

Differences in the timing and scope of Pillar Two implementation across major economies are resulting in uneven compliance outcomes for European businesses. In its current form, the EU's implementation of Pillar Two risks undermining competitiveness through excessive complexity, legal uncertainty, and asymmetric application. Simplification and investment support must therefore become twin pillars of the EU's tax agenda for Europe to deliver on its growth, resilience, and strategic autonomy objectives.

FROM GLOBAL COMPROMISE TO ASYMMETRIC IMPLEMENTATION

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), agreed in 2021, includes a so-called "two-pillar" agreement that sets out a comprehensive framework for reforming international corporate taxation. The agreement aimed to modernise profit allocation rules for the digitalised economy (Pillar One) and to introduce a global minimum level of taxation to limit harmful tax competition (Pillar Two).

Its implementation has, however, progressed unevenly and has raised political and technical challenges. Pillar One, which addresses where profits are taxed, has not entered into force in any jurisdiction. Pillar Two, introducing a minimum effective corporate tax rate of 15 per cent for large multinational groups, has progressed further but remains far from global in practice. Key economies such as China and India have not implemented the rules, while the U.S. repeatedly expressed concerns about compatibility with its domestic tax system and now benefits from significant mitigations in how the rules apply to U.S.-parented groups.

Against this background, the EU advanced with the implementation of Pillar Two by adopting the Minimum Tax Directive in December 2022. In doing so, it became the first major region to legislate for the full Pillar Two framework, ahead of clarity on global uptake and long-term interaction with non-EU minimum tax regimes. As a result, EU-headquartered groups and EU operations of multinational enterprises are subject to a comprehensive and complex set of rules, including the Income Inclusion

Rule (IIR), the Undertaxed Profits Rule (UTPR), and Qualified Domestic Minimum Top-up Taxes (QDMTTs).⁴⁹

Developments in the U.S. have further contributed to this asymmetry. In January 2025, the new U.S. administration issued an executive order signalling a shift in approach to international tax cooperation. This was followed in June 2025 by an announcement from U.S. Treasury Secretary Scott Bessent that the U.S. and the G7 had reached a political agreement recognising existing U.S. minimum tax rules as equivalent for Pillar Two purposes.⁵⁰ In practice, this agreement significantly limits the extraterritorial application of the IIR and the UTPR to U.S.-parented groups.

As a consequence, previously proposed U.S. retaliatory measures, such as the Section 899 withholding tax and the extension of the Base Erosion and Anti-Abuse Tax (BEAT), were withdrawn from consideration in the “One, Big, Beautiful Bill Act”, a comprehensive 2025 U.S. federal legislative package combining multiple policy areas under one framework, reflecting a strategic choice to accelerate adoption rather than pursue sector-specific legislation. While this reduced the immediate risk of a transatlantic tax war, it also entrenched a situation in which EU-headquartered groups face a stricter and more burdensome application of Pillar Two than many of their global competitors.

In January 2026, the OECD released new Administrative Guidance, including long-awaited guidance on the “side-by-side” political deal, as part of a broader package intended to address mismatches between different minimum tax regimes. Under this arrangement, U.S.-parented groups are, in practice, not subject to the application of the IIR and the UTPR as of 1 January 2026, while remaining subject to QDMTTs.

The Administrative Guidance also introduced a new Simplified Effective Tax Rate (ETR) Safe Harbour, a one-year extension of the Transitional Country-by-Country Reporting (CbCR) Safe Harbour, a Substance-based Tax Incentive Safe Harbour and two Safe Harbours linked to the Side-by-Side System. In particular, the Side-by-Side (SbS) Safe Harbour allows multinational enterprise (MNE) groups with an Ultimate Parent Entity (UPE) in a jurisdiction operating a Qualified SbS Regime to elect an exemption from the IIR or the UTPR, while remaining subject to QDMTTs. To date, the U.S. tax regime is the *only one* identified as meeting the criteria for a Qualified SbS Regime.

While this guidance provides additional technical clarification, it does not alter the fundamental reality that implementation remains fragmented. Feedback from BusinessEurope’s Member Federations confirms that the resulting asymmetry is no longer theoretical. The EU’s first-mover implementation of Pillar Two, combined with exemptions or mitigations for key non-EU competitors, has contributed to a structurally uneven playing field. In practice, European companies face a more burdensome application of the Pillar Two rules, resulting in higher compliance costs and greater legal uncertainty than many of their global peers, against a backdrop of pre-existing competitive tax disadvantages that long predate the OECD’s project on Base Erosion and Profit Shifting.⁵¹

COMPETITIVENESS IMPLICATIONS FOR THE EU: COMPLEXITY AS A HIDDEN TAX

For European businesses, Pillar Two is not only about tax rates but equally about administrative burden, legal uncertainty and compliance costs. The rules require highly granular data, complex effective tax rate calculations across multiple jurisdictions, and continuous interaction between domestic and international tax systems. This complexity operates as a *de facto* additional tax on EU-based companies, particularly those with cross-border operations.

These concerns are consistent with broader empirical evidence. According to the Tax Foundation’s International Tax Competitiveness Index, EU Member States, on average, rank significantly lower on

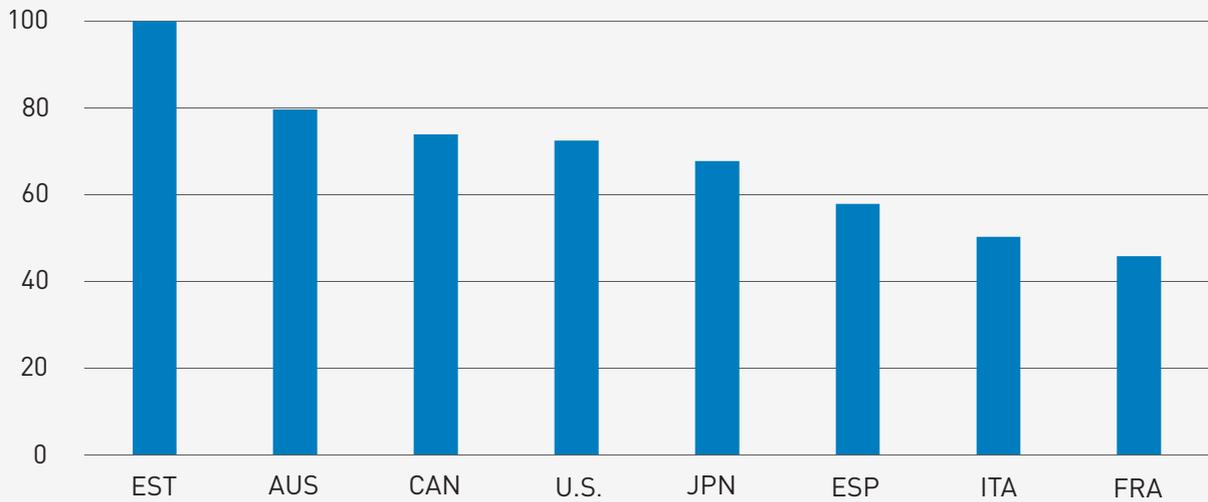
⁴⁹ The IIR, UTPR, and QDMTT are key components of the Pillar Two global minimum tax rules for multinational enterprises, ensuring large companies pay at least a 15% effective tax rate. The QDMTT lets a country tax its own low-taxed profits first, the IIR allows a parent company’s jurisdiction to collect top-up tax on foreign low-taxed income, and the UTPR acts as a backstop, denying deductions or making adjustments in other countries to collect any remaining top-up tax.

⁵⁰ [G7 Statement on Global Minimum Tax | U.S. Department of the Treasury](#)

⁵¹ See BusinessEurope reaction to this announcement at [“BusinessEurope reacts to OECD/G20 political agreement on side-by-side global minimum tax, urges EU tax simplification”](#).

tax system simplicity and neutrality than other advanced economies. This relative underperformance reflects long-standing structural features of EU tax systems, including complexity and administrative burden, rather than the statutory tax rate alone (Chart 21).⁵²

CHART 21 Most EU Member States lag non-EU peers in international tax competitiveness (index; the higher, the better)



Source: Tax Foundation, International Tax Competitiveness Index (2025)

This assessment is strongly echoed in feedback from BusinessEurope Member Federations. Companies consistently identify administrative complexity, data requirements, and the ongoing evolution of OECD guidance as their primary sources of concern, rather than the 15 per cent minimum rate itself. For many businesses, Pillar Two therefore functions as a permanent compliance surcharge, disproportionately affecting EU-based multinational groups.

This perception is reinforced by international complexity indicators. According to the Global MNC Tax Complexity Project, several major EU jurisdictions rank among the most complex tax systems worldwide, exceeding not only the OECD average but also key competitor economies such as the United States, Hong Kong, and Singapore (Chart 22).⁵³

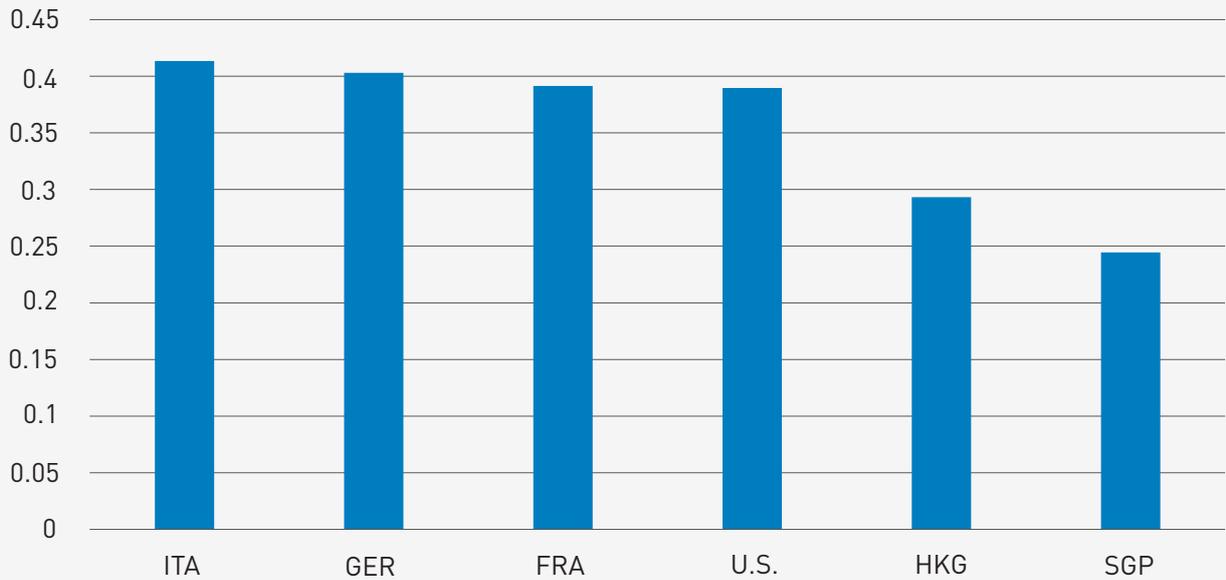
Against this fragmented and already high-complexity baseline, the introduction of highly standardised yet data-intensive Pillar Two requirements significantly amplifies compliance costs for EU-based groups. For businesses operating across multiple EU jurisdictions, this level of complexity translates into recurring compliance costs that function economically as a permanent cost on investment.

⁵² Source: Tax Foundation, International Tax Competitiveness Index 2025. The Index assesses over 30 OECD countries across five categories—corporate tax, individual tax, consumption tax, property tax, and cross-border tax rules—capturing both tax burden and structural complexity, [International Tax Competitiveness Index 2025 | Tax Foundation](#)

⁵³ [Tax Complexity Index](#)

CHART 22

Tax Complexity Index (2024) Several EU jurisdictions rank among the most complex tax systems globally (index; the smaller, the better)

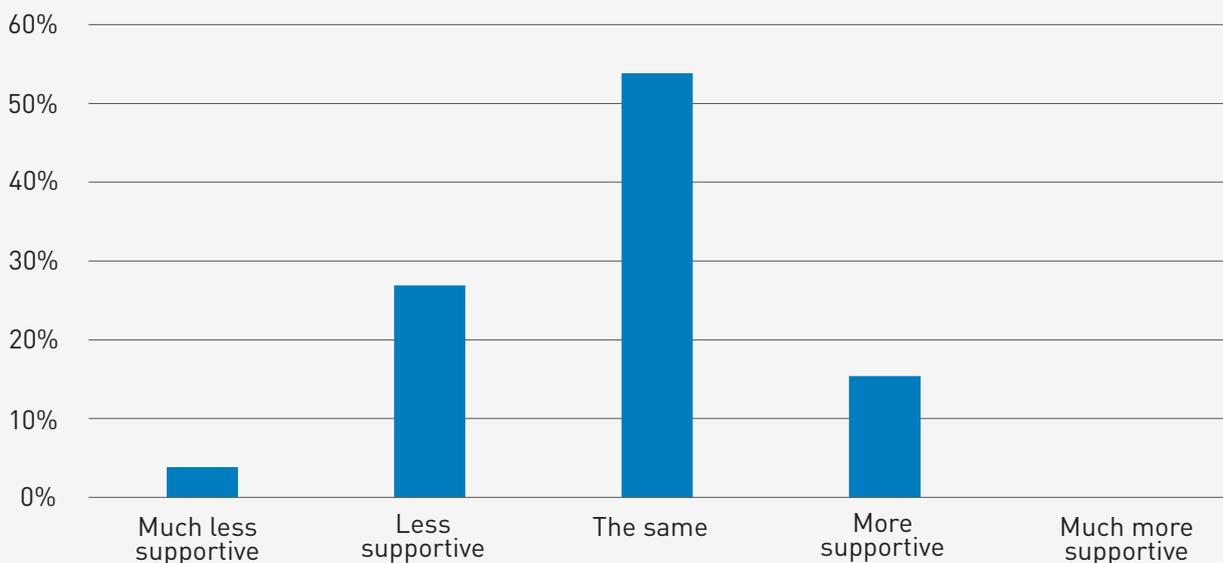


Source: Global MNC Tax Complexity Project

This perception gap is further illustrated by our survey results (Chart 23). A majority of respondents assess the EU’s overall tax policy stance as either unchanged or less supportive of growth, competitiveness, and investment compared to 12 months ago, while only a small minority perceive a more supportive environment. This suggests that, from a business perspective, recent tax policy developments have not translated into a clearer or more investment-friendly framework, reinforcing concerns that complexity and compliance costs continue to outweigh any perceived benefits of reform.

CHART 23

Business assessment of the EU’s tax policy stance on growth, competitiveness and investment compared to 12 months ago (% of respondents)



Source: based on responses by BusinessEurope’s members to the question: How do you assess the EU’s overall tax policy stance in terms of promoting growth, competitiveness and investment compared to 12 months ago?

This situation points to a growing gap between the EU's stated competitiveness ambitions⁵⁴ and how EU tax policy is perceived by businesses on the ground. When combined with already high relative tax complexity compared to global peers, the cumulative effect of new compliance-heavy rules risks placing EU-based groups at a structural disadvantage in international investment decisions. If left unaddressed, this disconnect risks undermining the credibility of the EU's competitiveness agenda at a time when investment location and expansion decisions are increasingly sensitive to regulatory and compliance costs.

THE CASE FOR SIMPLIFICATION: RESTORING TAX CERTAINTY AND GROWTH

Against this background, simplification is not a technical afterthought but a competitiveness imperative. The OECD itself has acknowledged this in its report *Enhancing Simplicity to Foster Tax Certainty and Growth*⁵⁵, which highlights how overly complex tax systems undermine investment, innovation and voluntary compliance.

BusinessEurope Member Federations overwhelmingly identify simplification and legal certainty as top tax priorities for the EU, cutting across corporate income tax, Pillar Two, and reporting and documentation obligations. While businesses broadly accept the political reality of the global minimum tax, feedback consistently points to excessive administrative burden, legal uncertainty and asymmetric implementation. Without stable, predictable and proportionate rules, there is a real risk that the objectives of Pillar Two will be undermined by reduced investment, delayed expansion decisions and increased reliance on defensive tax planning. Simplification is therefore not viewed as a concession, but as a necessary condition for effective implementation and long-term sustainability.

For the EU, the challenge is particularly acute. By acting as a first mover on Pillar Two, the EU has demonstrated its commitment to multilateral solutions, but it has also exposed European companies to disproportionate compliance obligations. As BusinessEurope stresses in the recent Position Paper "[Safeguarding Europe's competitiveness: Strategic tax measures for a disruptive global landscape](#)", a credible, competitiveness-oriented approach to Pillar Two must therefore prioritise:

- Streamlined administrative requirements and wider use of safe harbours;
- Consistent and pragmatic application across Member States;
- Reduced duplication between EU, OECD and domestic reporting obligations;
- Ongoing assessment of competitiveness impacts, especially in sectors critical to Europe's industrial and innovation base;
- The removal of withholding taxes on cross-border investments and intra-group flows within the EU;
- Further enhancement and modernisation of the existing direct tax directives (Parent-Subsidiary and Interest-Royalty directives), which are instrumental in fostering the development of Pan-European champions.

Ensuring that global tax reforms do not translate into another permanent structural disadvantage for European companies must be a central objective of the reform agenda.

INVESTMENT-FRIENDLY TAX MEASURES TO SUPPORT EU COMPETITIVENESS

While simplifying Pillar Two is essential to prevent competitiveness losses, it is not sufficient on its own. Feedback from BusinessEurope's Member Federations highlights the need for a broader rebalancing of EU tax policy towards investment-friendly measures that actively support growth, innovation and industrial transformation. By contrast, there is limited appetite for new tax base harmonisation or rate-driven initiatives.

This assessment aligns with the diagnosis of the Draghi report, which identifies Europe's competitiveness challenge as **fundamentally an investment challenge**. In this context, tax policy should be used as a lever to lower the cost of capital and crowd in private investment, rather than adding further complexity to an already demanding regulatory environment.

⁵⁴ [EU competitiveness](#)

⁵⁵ OECD (2025), *Enhancing Simplicity to Foster Tax Certainty and Growth: OECD Report to the G20*, OECD Publishing, Paris, <https://doi.org/10.1787/086f71ab-en>

Our Member Federations consistently point to the importance of:

- Accelerated or full expensing of capital investments to lower the cost of capital, particularly in capital-intensive and industrial sectors;
- Stronger and more predictable R&D and innovation tax incentives to counterbalance higher compliance costs and to retain high-value activities in Europe;
- Targeted tax incentives for net-zero technologies, aligned with climate and industrial policy objectives;
- Supportive tax treatment for digital and data infrastructure investment, which underpins productivity growth across the economy.

European businesses are in general not calling for broad-based tax reductions but for tax systems that are stable, predictable and explicitly designed to support long-term investment. Without such a shift, there is a growing risk that Member States will rely increasingly on national compensatory measures, fragmenting the Single Market and weakening Europe's overall attractiveness.

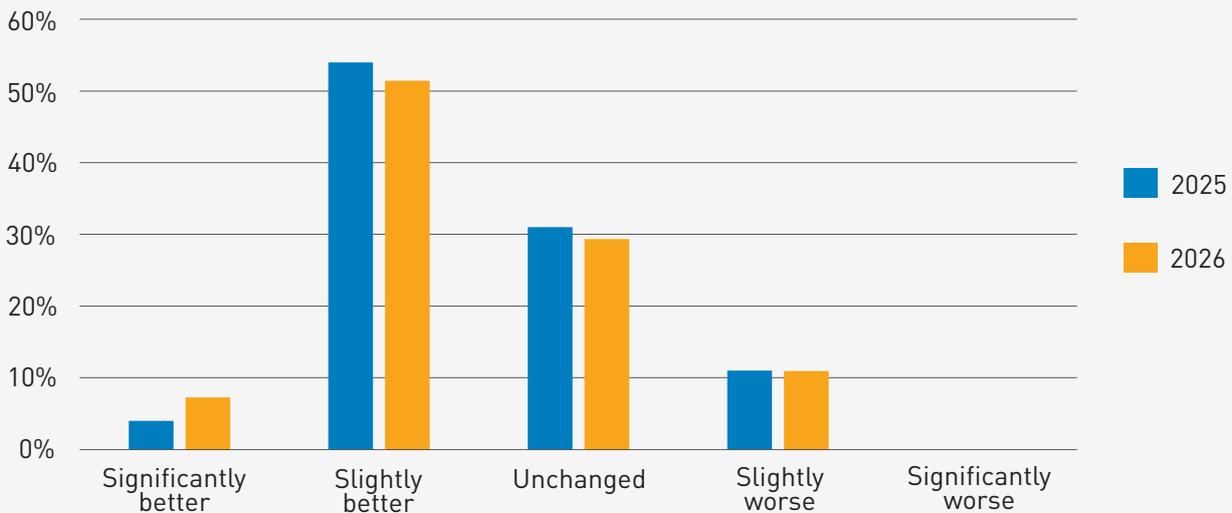
PART 2: MEMBER FEDERATIONS' ASSESSMENT OF KEY COMPETITIVENESS AND STRUCTURAL REFORM CHALLENGES, AND THE EU'S NEW POLITICAL CYCLE

02

2.1 EU OVERALL COMPETITIVENESS

Sentiment among BusinessEurope members has improved over the past year. Currently, 59% of members assess the European Commission's policy on competitiveness and growth more favourably, with 52% describing it as "slightly better" and 7% as "significantly better". By contrast, 11% report a slightly worse outlook, while 30% consider it unchanged. This trend is broadly consistent, though slightly less positive, with the responses collected in 2024 and published in the 2025 Reform Barometer. At that time, most respondents also reported an improvement, with 54% indicating a "slightly better" stance and a smaller share (4%) viewing it as "significantly better". Nevertheless, around one third of respondents continued to assess the situation as unchanged (31%) or slightly worse (11%) (Chart 24). Overall, these results indicate that European industry acknowledges the Commission's renewed focus on reversing the declining competitiveness relative to global rivals. While the emphasis on productivity and innovation is welcomed, industry remains hesitant due to the slow and incomplete implementation of the reform agenda.

CHART 24 Assessment of the Commission's policy stance on competitiveness and growth



Source: based on responses by BusinessEurope's members 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?"

2.2 NATIONAL RECOVERY AND RESILIENCE PLANS (NRRPS)

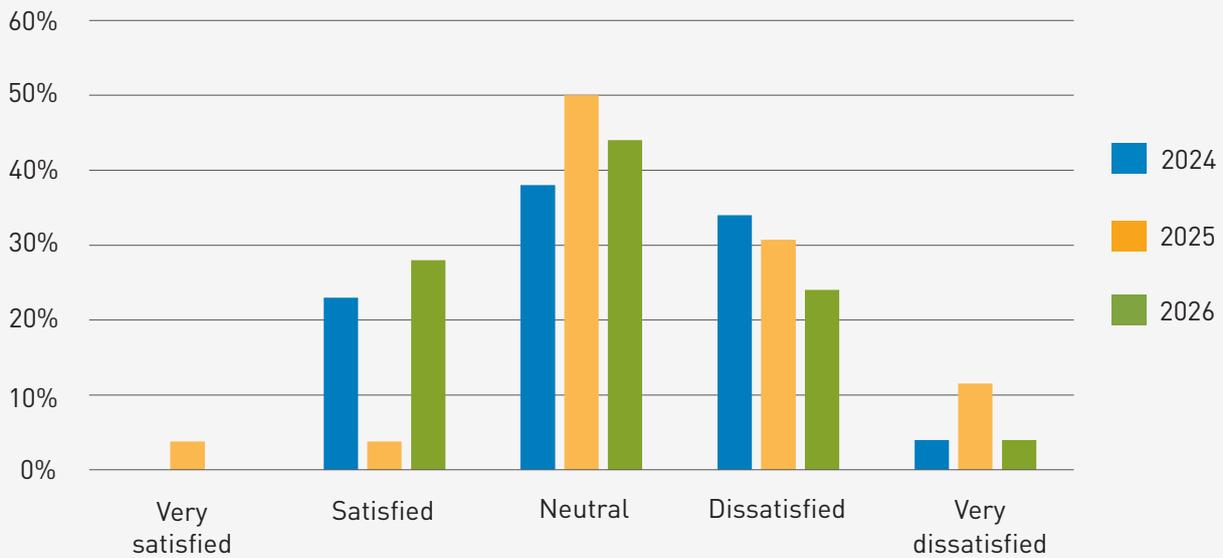
According to the European Commission's Recovery and Resilience Scoreboard, as of February 2026, more than 68% of the funds had been disbursed. The deadline to complete all milestones and targets is August 2026. These include, €238 billion in grants (66% of total grants) and €156 billion in loans (71% of total loans).

Macroeconomic simulations from the ECB (2024) indicate that the fiscal stimulus generated by NextGenerationEU is expected to increase euro area output by between 0.3% and 0.8% by 2026. These positive effects are projected to persist beyond 2026, with output gains of 0.2% to 0.6% by 2031, reflecting the lasting contribution of NGEU-funded investment to the economy's productive capacity. However, the magnitude of GDP gains is highly dependent on absorption rates and productivity of RRF

spending: in scenarios with low absorption, output gains are reduced by half compared to the main scenario, significantly limiting the programme’s economic impact.⁵⁶

Based on the responses from our Member Federations to the survey, satisfaction with the implementation of NRRPs has improved compared with the past two years. However, the majority of members remain either neutral or dissatisfied. Dissatisfaction gradually decreased from 2024 to 2026, going from 34% in 2024 to 24% in 2026. Members who declared to be satisfied with the implementation increased from 3.8% in 2025 to 28% in 2026. However, in 2026 most of the members (44%) still stated to be neutral concerning the implementation (Chart 25).

CHART 25 Members’ Satisfaction with NRPPs over the years



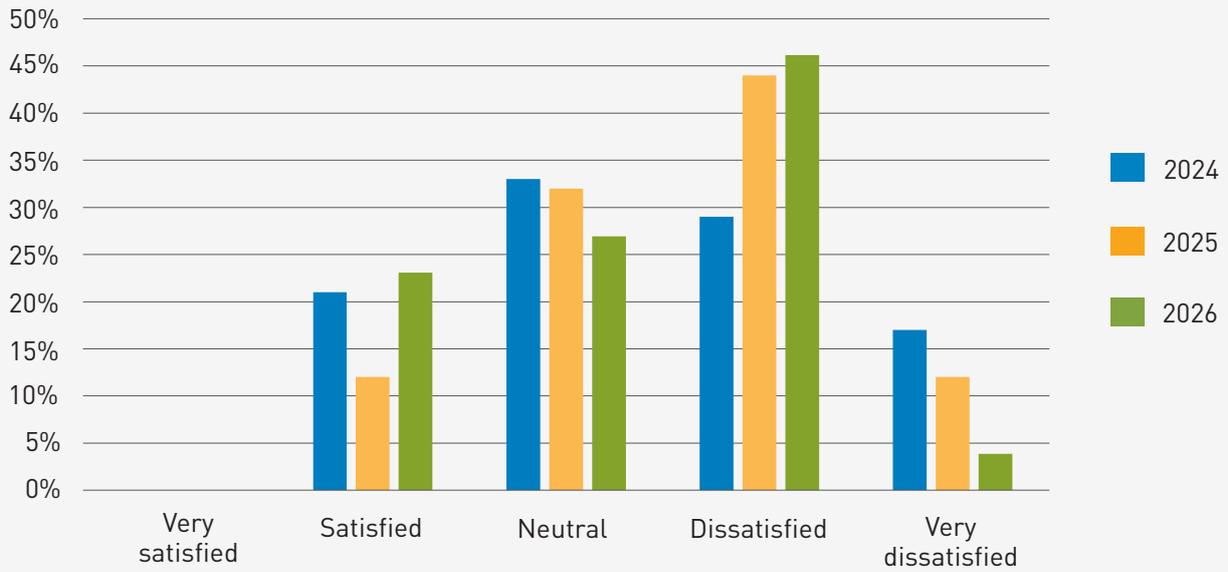
Source: based on responses by BusinessEurope’s members to question: How satisfied or dissatisfied are you with the way your country is implementing the national recovery and resilience plan in the past year?

Confidence in the European Commission’s role in implementing the RRF is broadly positive. When asked about the Commission’s effectiveness in ensuring strong implementation of reforms under the NRRPs, 76% of BusinessEurope members reported being somewhat confident, while 8% expressed complete confidence. By contrast, 16% of respondents indicated that they were not confident in the Commission’s effectiveness.

However, satisfaction with the involvement of social partners in the implementation of the National Recovery and Resilience Plan has not improved. Half of the respondents reported being either dissatisfied or very dissatisfied with their level of involvement (Chart 26). Notably, dissatisfaction has gradually increased between 2024 and 2026.

⁵⁶ [ECB, Four years into NextGenerationEU: what impact on the euro area economy?, 2024](#)

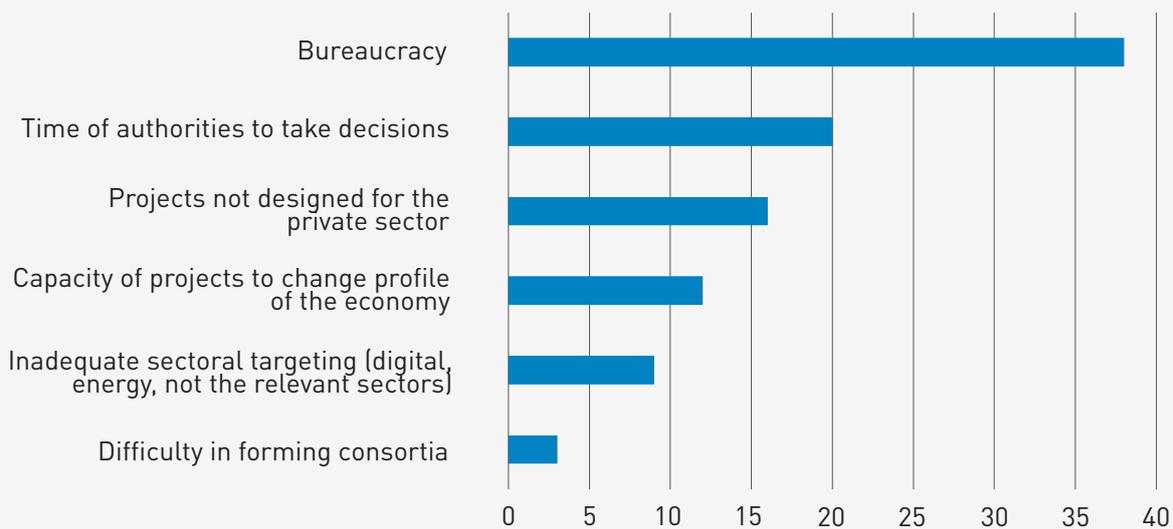
CHART 26 Members' satisfaction with Social Partners' involvement over the years



Source: based on responses by BusinessEurope's members to 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?

Chart 27 highlights the primary sources of dissatisfaction with the implementation of national recovery plans, as reported by business federations. The strongest obstacles are administrative. Excessive bureaucracy and slow decision-making by authorities are the most significant impediments, slowing down the entire process despite the pressing deadline for the funds.

CHART 27 Reason of dissatisfaction with the implementation of NRPPs



Source: based on responses by BusinessEurope's members to the question: If you are dissatisfied with the implementation so far of your national recovery and resilience plan, why? The scores reflect a combination of how often a challenge was cited and the level of importance (1-3) members assigned to it

Bureaucracy has emerged as the primary concern, overtaking the slowness of authorities, which held the top spot last year. Beyond these procedural delays, significant criticism is directed at the design of the projects themselves. A notable share of respondents highlights a misalignment with

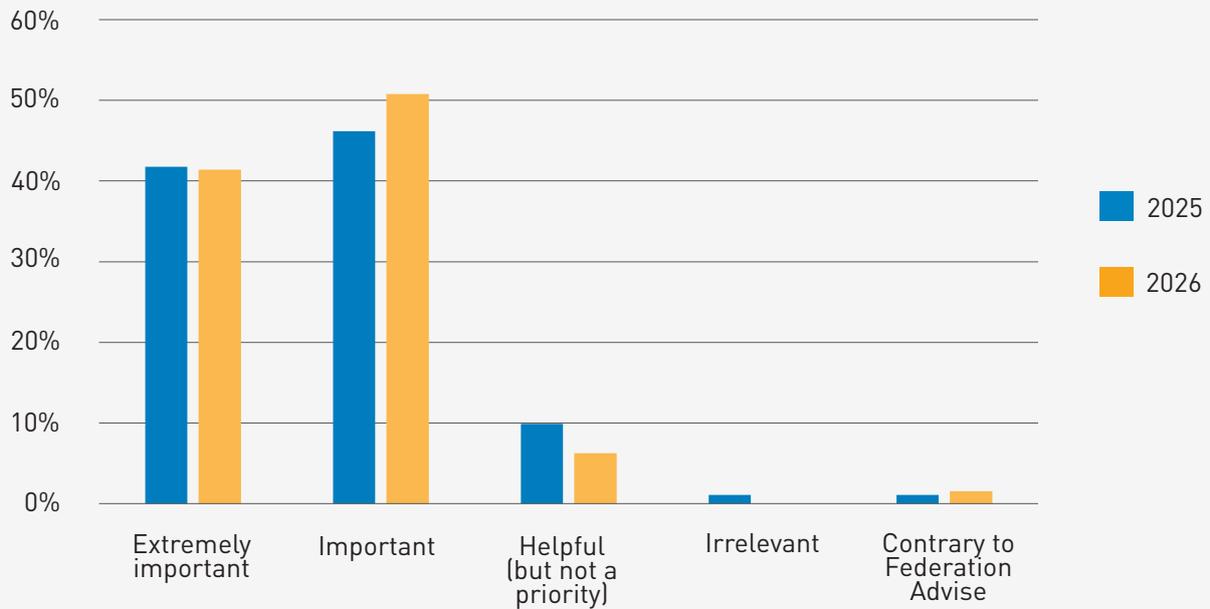
private-sector needs, suggesting that many initiatives are not structured for effective business involvement. Furthermore, there is a perceived lack of capacity for these projects to deliver meaningful structural change. In short, the prevailing sentiment points to a burdensome national administration coupled with deep-seated doubts about whether planned investments are sufficiently targeted or transformative.

2.3 CSR 2025 ASSESSMENT

European Semester Country-Specific Recommendations (CSRs) are annual policy recommendations issued by the European Commission to each EU Member State as part of the European Semester, the EU’s framework for coordinating economic, fiscal, social, and structural policies.

As illustrated in Chart 28, the vast majority of Member Federations value the Commission’s CSRs; 92% rate them as “important” or “extremely important.” In contrast, a mere 1.5% view them as contrary to their interests. This high level of perceived importance reinforces the trend seen in the previous Barometer, appearing even more pronounced in this edition.

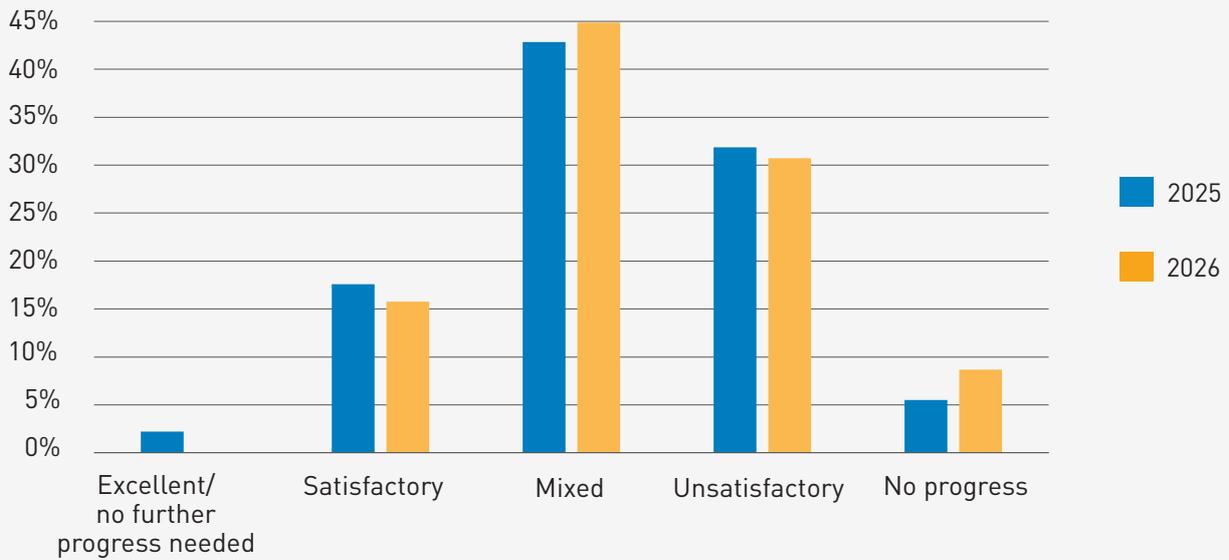
CHART 28 Members’ Assessment of CSR



Source: based on responses by BusinessEurope’s members to the question: *Is this recommendation appropriate?*

However, the picture changes significantly when looking at implementation at the Member State level. According to members, only 15.7% of the recommendations were followed by appropriate reforms, 44% show mixed progress, and 39% are assessed as either unsatisfactory or showing no progress at all. The current findings show a further decline in sentiment compared to the previous Reform Barometer (Chart 29).

CHART 29 Members' Assessment of National Government Reform Effort



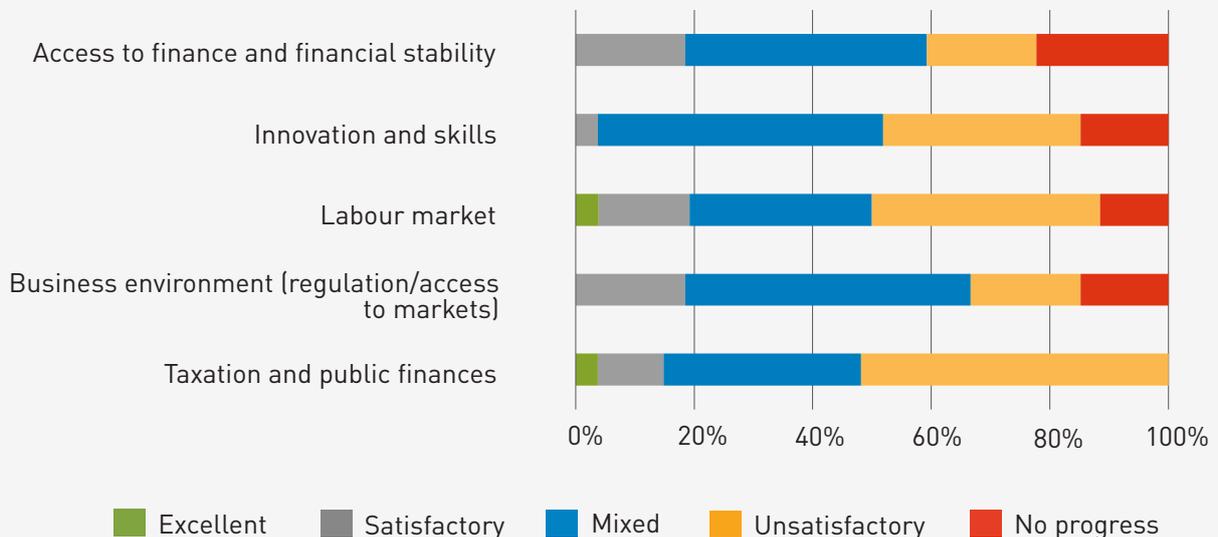
Source: based on responses by BusinessEurope's members to the question: How would you assess the reform effort of your government regarding this recommendation?

2.4 REFORM PROGRESS 2025

BusinessEurope's Members assess reform progress across five key domains: taxation and public finances; the business environment (regulation and access to markets); the labour market; innovation and skills; and access to finance and financial stability. The overall emerging picture of reform progress in Europe is not positive.

As shown in Chart 30, in two of these five domains, "taxation and public finances" and "labour market," more than half of respondents indicate unsatisfactory or no progress. This is worrying, given that in the previous edition of the Reform Barometer, this threshold is surpassed only for the labour market category. Looking across all responses and categories in the current edition of the survey, members rate reform progress as excellent in only 1% of cases, satisfactory in 13%, mixed in 40%, unsatisfactory in 32%, and report no progress in 13% of cases.

CHART 30 Reform progress in 2025



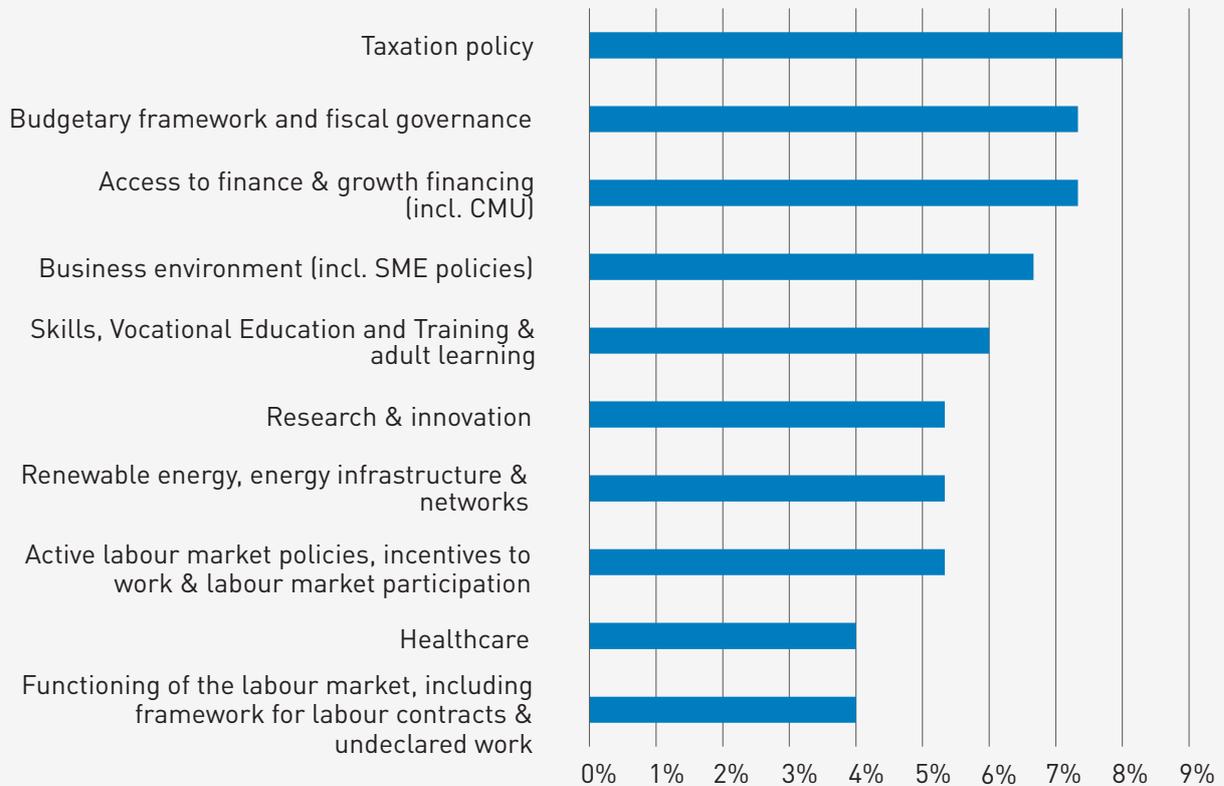
Source: based on responses by BusinessEurope's Members

2.5 PRIORITIES 2026

Members identify taxation policy, the budgetary framework and fiscal governance, and access to finance and growth financing, as their top three reform priorities for 2026 (Chart 31). This represents a change compared to the responses provided in the 2025 edition, when the most important priority was again taxation policy, but the second and third were respectively active labour market policies, and skills and vocational training.

More broadly, across the full set of priorities highlighted by BusinessEurope’s Members in this edition, spanning a wide range of areas from energy and digitalisation to public procurement, over half are already reflected, at least to some extent, in national government programs. However, in several cases, members consider the proposed measures to be insufficient.

CHART 31 Reform priorities for 2026 (top 10)



Source: based on responses by BusinessEurope’s Members when asked to indicate the reform priorities for 2026, out of 38 options.

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Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Rep. of San Marino	Romania	Serbia
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
The Netherlands	Türkiye	Türkiye	Ukraine	Ukraine	United Kingdom



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