



2024
**REFORM
BAROMETER**

**PUTTING
COMPETITIVENESS
AT THE FOREFRONT
OF THE NEXT
POLITICAL CYCLE**

BUSINESSEUROPE



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, such as the green transformation to a climate-neutral economy, that we need to pursue in the 21st century.

FOR FURTHER INFORMATION

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FOREWORD

2023 was another challenging year for many EU businesses. Companies continued to seek to drive the EU's green and digital transitions, but their task was made more difficult by high energy costs, an increasing regulatory burden and continuing geo-political uncertainty. And whilst higher interest rates are necessary to get inflation back below target, companies have felt the effects of both reduced consumer demand and increased financing costs.

Most worryingly, our survey of member federations shows that having declined significantly between 2020 and 2023, there has been no improvement in the attractiveness of the EU's investment environment vis a vis our major competitors over the last 12 months. In particular, a number of federations believe that the regulatory burden for companies operating in the EU increased significantly in 2023.

Whilst industrial energy prices have fallen somewhat in 2023, EU firms are still faced with costs significantly higher than their global competitors. Complex and lengthy permitting procedures, in particular, continue to hamper our ability to invest in more affordable renewable energy and move towards our fit for 55 targets for 2030.

During the new political cycle that starts this year, following European Parliament elections in June, the EU needs to put competitiveness at the forefront. The Letta report on the single market and the Draghi report on EU Competitiveness, commissioned by the European Council and Commission respectively, and both scheduled to report back in the first half of 2024, are together an opportunity to set in place a new dynamic, with concrete action to drive forward EU growth and prosperity.

This report sets out a number of specific proposals to help the EU reverse the pattern of falling competitiveness during the forthcoming political cycle. This includes rejuvenating and further developing the single market in areas ranging from digital to financial services, making good on the Commission's promise to reduce reporting requirements for companies by 25%, and ensuring that the Green Deal, becomes a growth strategy by flanking it with a real Industrial Deal.

Only through strengthening its economy and improving its attractiveness as an investment location will the EU be able to achieve its environmental and social goals in the coming years, as well as continuing to act as an anchor for peace, prosperity, and security in an increasingly uncertain world. Let's work together to achieve these common goals.



Fredrik Persson
President



Markus J. Beyrer
Director General

EXECUTIVE SUMMARY

2023 was another disappointing year for the European economy, with growth of only 0.5%, compared to 2.5% in the US, the seventh time in the last ten years that US growth has exceeded that in the EU.

Our survey of member federations last year showed that around 90% of our federations believed that global firms see the EU as a less attractive investment location in comparison to our international competitors than was the case 3 years ago.

This year's survey shows the EU has failed to halt the decline in its attractiveness, with the majority of our Member Federations considering that the attractiveness of the EU as investment destination for global firms has stagnated or even declined over the past year.

Improving long-term productivity, including through the adoption of new technologies such as AI, will be key to long-term growth and competitiveness.

- In recent years, the EU has failed to close its long-term productivity gap with the US, with overall EU productivity in 2022 only 75% of that enjoyed in the US¹.
- The gap in productive investment between the EU and the US continues to widen. Productive investment in 2022 amounted to 15% of GDP in the US versus 11% in the EU.
- The US has developed a huge lead over the EU in terms of its investment in intangibles investing 20.2% of GDP in 2019, compared to the EU's 14.6% in 2019.
- Overall greenfield FDI project numbers declined by 2% in the EU in 2022, compared to growth of 45% in Asia and 19% in North America.

To tackle the long-term and structural challenges facing Europe, a coordinated vision across policy areas is required.

BUSINESS ENVIRONMENT

The European business environment is threatened by intensified global competition, labour and skills shortages, high energy prices and increasing regulatory burdens.

- A majority of BusinessEurope member federations considers administrative burdens to have increased over the past year as a consequence of legislative changes introduced and implemented by the European Commission.
- Proposals under the Green Deal alone in 2022 represented a total of almost EUR 2 billion of additional administrative burden on EU businesses,
- 22% of EU companies in industry indicated that labour shortages were restricting their ability to produce at the end of 2023.
- Electricity prices in the first half of 2023 were 130% higher than in the pre-pandemic period, compared to a rise of 22% in electricity prices in the US.

¹ Productivity is defined here as GDP/hour worked

POLICY RECOMMENDATIONS

- Put in place a fully-fledged strategy to rejuvenate and further develop Single Market integration in goods and services, including digital.
- The EU must deliver on its commitment to reduce **reporting requirements for companies** by 25% as a first step towards fully implementing better regulation principles and tools.
- **Address labour shortages and skills mismatches** through approaches which are not overly prescriptive or unnecessary regulatory.
- **Ensure that the Green Deal becomes a growth strategy** and delivers the fit for 55 targets for 2030 while strengthening competitiveness, by **flanking it with a real Industrial Deal**.
- **Speed up and simplify permitting and funding procedures**, which are key bottlenecks for projects and investments needed for a successful green and digital transformation.
- **Reduce policy-driven energy costs significantly**, including by going beyond the ongoing reform of the European electricity market design and addressing structurally the energy cost differential between the EU and major competitors.
- In order to support industrial transformation, particularly in light of the US's IRA act, **maximize the effectiveness, and accessibility of existing EU instruments** (for example Horizon Europe, Invest EU), and **improve the regulatory framework for state aid**, including by making it more transparent and predictable.
- **Make smart use of trade policy**. Continuing to **conclude trade agreements** that provide access to new markets, open investment opportunities, and offer access to critical raw materials including energy, as a means of helping to **diversify and strengthen the resilience of our supply chains**.
- **Strike the right balance between protecting security and safeguarding the economy**.

BALANCED PUBLIC FINANCES ARE KEY FOR LONG-TERM GROWTH PROSPECTS

Sustainable public finances are the key to long-term growth and resilience, and a careful balance between sustainable finances and public investment remains key for Europe's growth prospects.

- Debt-to-GDP ratios differ significantly among member states, ranging from 19.2% in Estonia in 2023 to 172.6% in Greece, well above the Maastricht Treaty's 60% debt-to-GDP target for many member states.
- Non-wage labour costs – the tax wedge – and social contribution rates in the EU continue to be significantly larger than that in the US and the OECD average.

POLICY RECOMMENDATIONS

- **Following political agreement on a new economic governance framework, we urge the co-legislators to quickly finalise the legislative process on these new fiscal rules.**
- The new rules can **support Member States undertaking growth-enhancing reforms and public investment, and in strengthening their public finances.** But the rules need to be carefully enforced to ensure proper implementation.
- Member States must ensure their tax systems support growth, employment, and create favourable conditions for investment. They must ensure the **administration of their tax systems** becomes simpler, more predictable, more transparent, and user-friendly.

ACCESS TO FINANCE REMAINS CONSTRAINED, HOLDING BACK BUSINESSES

European companies' financing opportunities continue to be limited in the absence of a fully-fledged Capital Markets Union, making them more susceptible to cyclical events and the consequences of monetary policy.

- The ECB's cost of borrowing indicator reached levels not seen since the great financial crisis in autumn 2008, severely increasing the cost of investment.
- Europe's share of global venture capital investment declined from 22.3% in the first quarter of 2022 to 18.4% in the final quarter of 2023.

POLICY RECOMMENDATIONS

- Ensure that **financial regulation supports businesses' access to finance** during a challenging period where we see bankruptcies rising across the EU.
- **Promote alternative sources of financing to bank lending**, including enhancing access to venture capital and mobilising more equity capital for entrepreneurs.
- **Ensure that actions to support sustainable finance are proportionate**, workable and accommodate the needs of the financial markets as well as the real economy to help companies finance their transition and funnel investments to support greening the economy.

EUROPEAN INNOVATION POWER RISKS FALLING FURTHER BEHIND

The breakthrough of artificial general intelligence and the global race in developing strategic technologies have highlighted the importance of innovative capacity, but Europe's performance has been weak compared to that of competitors.

- The latest OECD PISA scores of EU member states show that European students lag behind significantly compared to competitors from G7 countries.
- Only 18 universities based in the EU27 feature in the top 100 university rankings globally.
- Over 46% of EU companies report difficulties in recruiting experts with specialist IT skills.
- R&D spending in the EU continues to fail to reach the 2030 3% target, remaining at 2.24% in 2022 and behind major competitors such as the US.

POLICY RECOMMENDATIONS

- **Member States should increase research and development (R&D) spending** and support stronger private sector R&D investment in order to reach the EU's target of 3% of GDP.
- **Digitalisation of public administration** must be rolled out including secure and efficient interface with businesses.
- **A strengthened digital infrastructure** is essential to allow the EU to adopt the latest technologies and enable businesses to compete globally.
- **Speed up the rollout of regulatory sandboxes** to allow for rapid experimentation and disruptive innovation to test new technologies.

MEMBER FEDERATIONS' ASSESSMENT OF IMPLEMENTATION OF NATIONAL RECOVERY PLANS AND COUNTRY-SPECIFIC RECOMMENDATIONS (CSRS)

Chapter 2 considers our member federations' assessment of the present competitiveness challenges, and the policy response, in terms of the implementation of the recovery and resilience plans (RRPs) and the (linked) country-specific reform recommendations (CSRs) of the European Semester according to a survey of BusinessEurope's member federations. We find:

- Businesses perceive the regulatory environment as the biggest challenge to Europe's investment environment, followed by energy prices and the tax regimes of member states.

Initial optimism that the RRFs were structured in a way that the Commission would be able to ensure effective implementation has faded. The proportion of Member Federations dissatisfied with implementation of the plans has increased from 29% following the launch of the plans to 42%.

Member Federations are also losing faith in the initial belief that the RRFs (through the final incentives it provides) would help deliver improved implementation by Member States of key reform priorities. In 2022, Member Federations consider that 36% of reforms were being satisfactorily implemented, an increase from the 2017-19 average of 17%, but this has now fallen to 22%.

- Almost half of BusinessEurope member federations remain dissatisfied or very dissatisfied with the involvement of social partners in the implementation of NRRPs, indicating a lack of progress since last year.

POLICY RECOMMENDATIONS

- The European Commission must continue to ensure that Member States invest funds from the Recovery and Resilience Facility and implement reforms as agreed on RRF plans, to boost long-term growth and competitiveness.

EU COMPETITIVENESS IN A GLOBAL PERSPECTIVE

01

INTRODUCTION: ANOTHER CHALLENGING YEAR FOR EU BUSINESSES

2023 was another disappointing year for the EU economy, with growth of only 0.5%, compared to 2.5% in the US, the seventh time in the last ten years that US growth has exceeded that in the EU.

The ECB rightly acted decisively to address the risk of above target inflation becoming engrained in the economy through increased inflationary expectations. Nevertheless, the impact of the rise in Euro Area interest rates from 0% in early July 2022 to 4.5% in September 2023, has both reduced consumers' disposable income and made investment much more expensive for businesses.

Businesses have benefitted from falls in electricity prices since autumn 2023, yet both industrial electricity and gas prices remain more than double their pre-covid levels compared to average increases of around 30% in the US according to the latest data. Moreover, as our survey shows, businesses report no let-up in an increasing regulatory burden that has seen over 850 new obligations directed towards companies at the EU level during the last 5 years.

At the same time, long-term challenges have only become more pressing. Geo-political tensions continue to create uncertainty, with many EU companies having to invest in the diversification of their supply chains, population ageing will increase create labour market pressures in the coming years, as well weakening already strained public finances, whilst huge investment is still required if we are to green our economy and reach the EU's climate neutrality ambitions.

The good news is that technological solutions are increasingly on-hand to help us address these challenges. As we explore in more depth later, across the globe we have seen businesses helping to drive rapid developments in Artificial Intelligence which offers huge potential to firms to increase their productivity, falls in the costs of many renewable energy technologies, and important steps forward in our ability to treat life-threatening illnesses such as cancer.

Improving long-term productivity

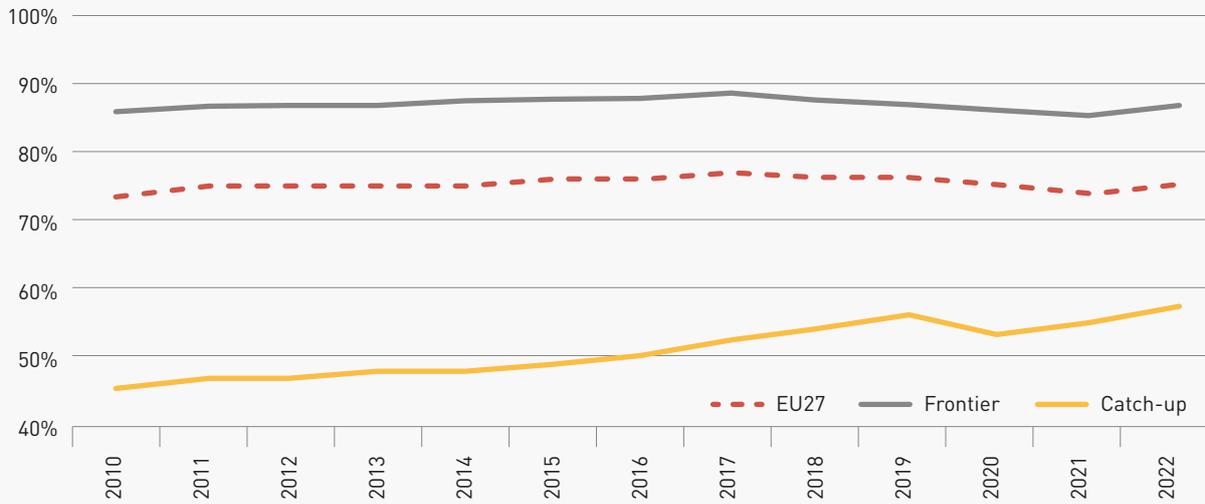
Ensuring EU business are best placed to develop and utilise such technologies will not happen without the right policy environments. In recent years, the EU has failed to close its long-term productivity gap with the US, with overall EU productivity in 2022 only 75% of that enjoyed in the US².

As chart 1 shows, productivity growth within the EU has been driven by superior growth in so called 'catch-up' economies (those economies where overall productivity levels were less than 66.7% of the EU average in 2010). If we exclude such economies from overall EU productivity performance, we see the gap with US has stagnated since 2010.

Whilst the EU's performance in terms of productivity growth has been of a similar magnitude to the US since 2010, the higher growth of the working population in the US relative to the EU has been an important factor behind its higher overall GDP growth.

² Productivity defined as GDP/hour worked

CHART 1 Productivity levels as % of US, 2015 USD PPP (2010-2022)

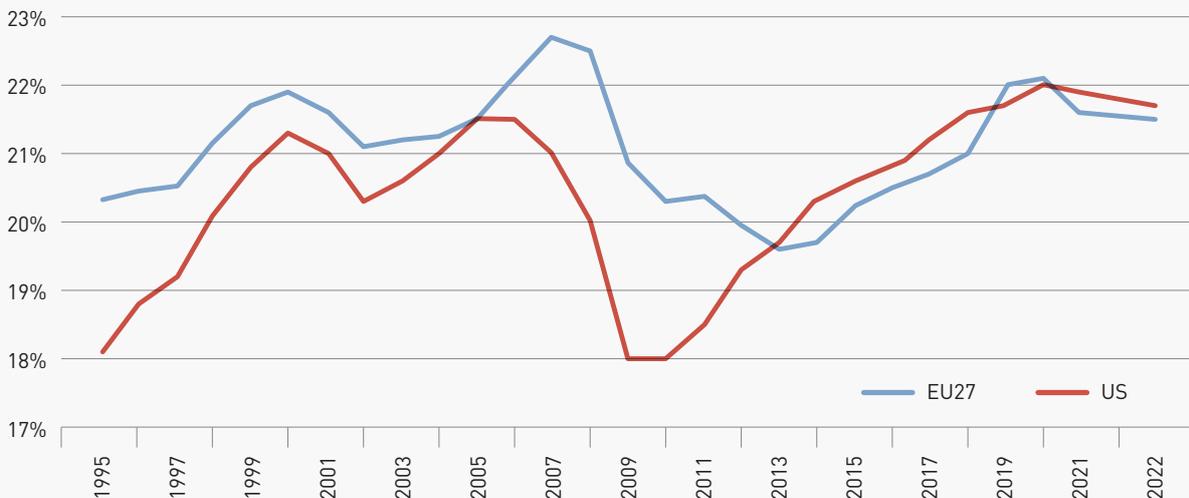


Catch-up economies are defined as those economies where overall productivity levels, defined as GDP PPP per capita, were less than 66.7% of the EU average in 2010. Frontier economies are defined as those economies where overall productivity levels were more than 66.7% of the EU average in 2010. Source: BusinessEurope Staff calculations based on OECD

Investment is key to long-term growth, and hence a good starting point to examine the EU’s failure to close the productivity gap with the US.

Chart 2 shows that in terms of overall investment levels, the EU has largely kept pace with US investment, including a period around the financial crisis in 2009 when US levels dropped significantly below those of the EU for a short period. If we consider only non-residential investment as seen in chart 3a, considered to by the EIB to be what constitutes ‘productive investment’³, the picture is less positive for the EU, with a clear gap in non-construction investment rates developing from around 2010 as seen in chart 3b.

CHART 2 Gross fixed capital formation (% GDP)



Source: OECD and Eurostat, calculations based on EIB (2023)

3 https://www.eib.org/attachments/lucalli/20220211_economic_investment_report_2022_2023_en.pdf

CHART 3a Non-residential investment

Non-residential investment as a % of gross fixed capital formation

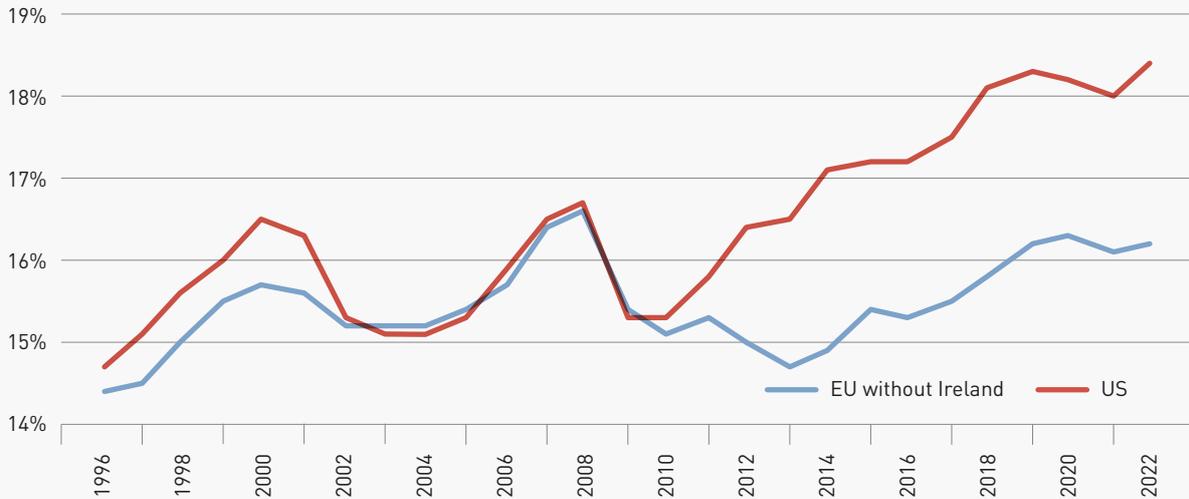
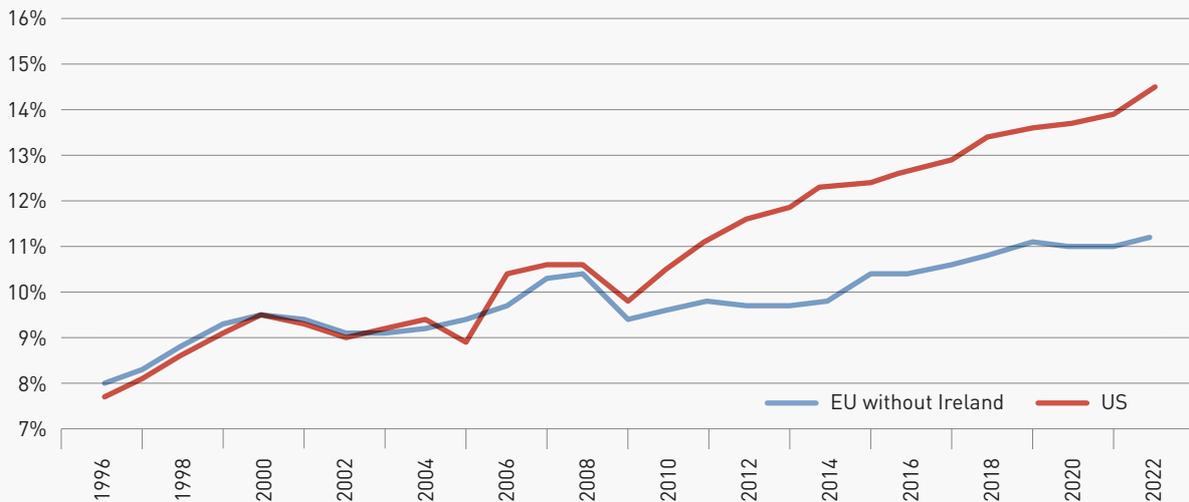


CHART 3b Non-construction investment

Non-construction investment as a % of gross fixed capital formation



Source: OECD and Eurostat, calculations based on EIB (2023)

An alternative perspective on investment comes from the EUKLEMs data, which considers both traditional measures of tangible investment⁴, as well as intangible investment⁵. Importantly intangible investment includes some investments, notably, industrial design, brand, organisational capital, training, and new financial products, which are not presently included in official GDP accounts (or investment measures)⁶.

The most recent data (for 2019 in chart 4) shows that whilst the EU outperformed the US in terms of the share of value added devoted to more traditional tangible investment, the US has developed a huge lead in terms of its investment in intangibles, having increased its share of intangible investment share from 15.8% of value added in 2006 to 20.2% in 2019, compared to the EU's share of intangible investment in total value added of 14.6% in 2019.

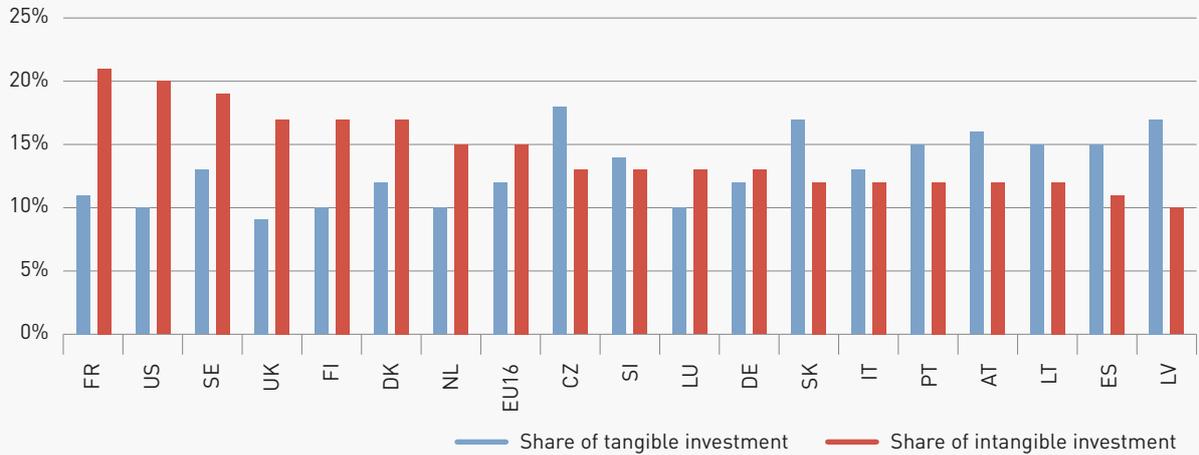
⁴ Including computer hardware, telecommunications equipment, dwellings, other buildings and structures, transport equipment, other machinery, and equipment & weapons, and cultivated biological resources

⁵ Including research and development, computer software and databases, entertainment & artistic originals, new financial products, branding, design, organisational capital, and employer provided training

⁶ Corrado et al 2022

CHART 4 Europe lags behind in intangible investment (2019)

(In-)tangible investment as a % of value added. EU weighted based on 2019 GDP data, chain-linked values (Eurostat). EUKLEMS data only available for limited number of member states throughout the time series. EU16 refers to the 16 member states for which data was available.

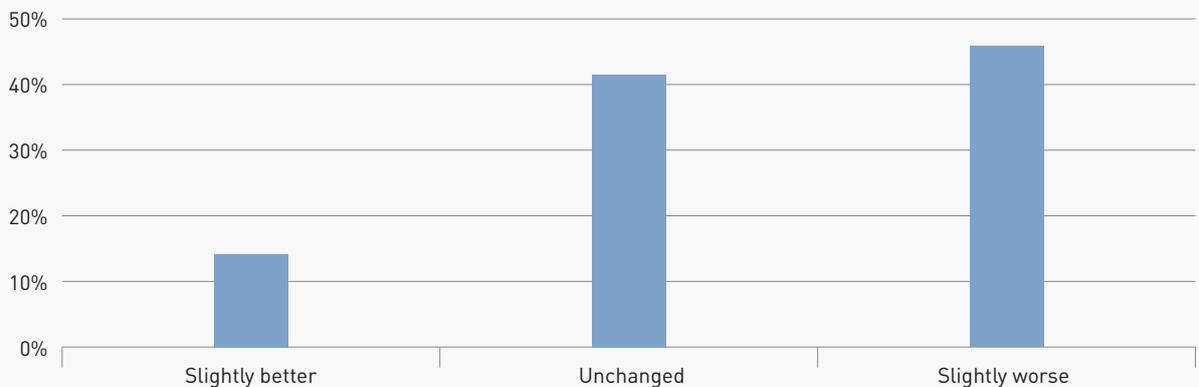


Source: BusinessEurope Staff Calculations based on EUKLEMS, Eurostat

The superior performance of the US in terms of intangible data is also reflected in comparative productivity performance at a sectoral level. Thus, whereas EU productivity growth outperformed the US in sectors more reliant upon tangible investment such as energy and water and transportation between 1996 and 2017 according to ECB analysis, productivity growth in ICT where intangible investment is crucial was extraordinarily over 300% in the US, compared to around 70% in the EU.

The US’s superior performance in terms of intangible investment is most startlingly reflected in stock market valuations, which in turn provides an indication of financial markets’ assessments of companies’ future prosperity. As has been well documented, 8 of the largest 10 companies globally by market capitalisation, are US, with the vast majority of these being tech companies⁷. The EU’s largest company, Novo Nordisk, features at 14th on the global list, with a market capitalisation that is around a 6th of the largest companies globally.

CHART 5 How do you think the EU investment environment is seen by global firms compared to 12 months ago?



Source: BusinessEurope survey of Member Federations

⁷ Source: companiesmarketcap.com, excludes holding companies., February 2024

FDI investment

The EU's relatively poor investment and productivity performance relates, at least in part to its ability to attract Foreign Direct Investment, which is important not only in financing terms, but as a means of transferring technological and organisational knowhow.

Our survey of member federations last year showed that around 90% of our federations believed that global firms see the EU as a less attractive investment location in comparison to our international competitors than was the case 3 years ago. This year's survey shows that, far from reversing the situation, the EU has failed to halt the decline in its attractiveness, with the majority of our Member Federations considering that the attractiveness of the EU as investment destination for global firms has stagnated or even declined over the past year, (chart 5).

A more detailed picture of the extent to which economies are attracting genuine additional actual investment is through so called 'greenfield investment'. The UNCTAD World Investment Report 2023 shows that overall greenfield project numbers declined by 2% in the EU in 2022, compared to growth of 45% in Asia and 19% in North America. Most worryingly, Germany saw the number of greenfield FDI projects decline by 35.5%⁸.

It is against this backdrop of declining overall attractiveness, that the remainder of the chapter examines aspects of the EU policy environment in more detail.

⁸ fDi Report 2023: Global greenfield investment trends

ASSESSING THE EU ECONOMY POLICY ENVIRONMENT

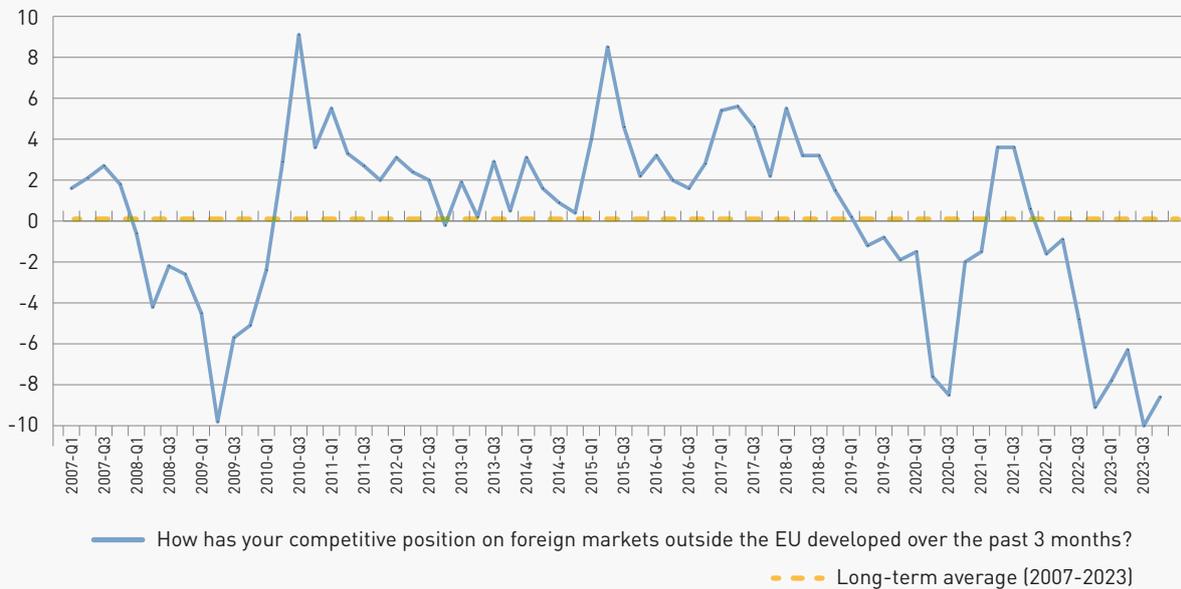
Long-term sustainable EU growth requires a supportive policy environment. In Part 1 of this report, we assess developments in the EU’s economic environment offering high-level policy recommendations. The focus will be on 4 key areas: business environment, taxation and public finances, access to finance and innovation.

EUROPE’S BUSINESS ENVIRONMENT AT RISK OF STAGNATION

The European business environment is under threat following a number of difficult years for European businesses, intensifying global competition, and a European political cycle that significantly increased policymakers’ expectations vis-à-vis European businesses. A competitive-friendly business environment is essential for company start-ups and expansion. Open markets with clear and properly enforced rules can promote competition, legal certainty and in turn, productivity growth.

The competitiveness of European businesses has declined over the past year as businesses continue to face labour and skills shortages, and energy prices remained high and in excess of major competitors. At the same time, regulatory burdens have increased the costs and time needed for European businesses to remain compliant. These developments risk holding back European companies at a time where record-level investments and skilled workers are necessary to implement the green and digital transition and to ensure Europe’s industries are able to keep up with global competition. The decline in competitiveness is reflected in surveys of European industry, which have indicated that they see their position on non-EU markets decline almost constantly since 2019 as seen in chart 6.

CHART 6 Surveys of the industrial sector show a steady loss of external competitiveness since 2019



Source: BusinessEurope staff calculations based on European Commission Business Surveys (2024)

The regulatory burden on businesses remains too high

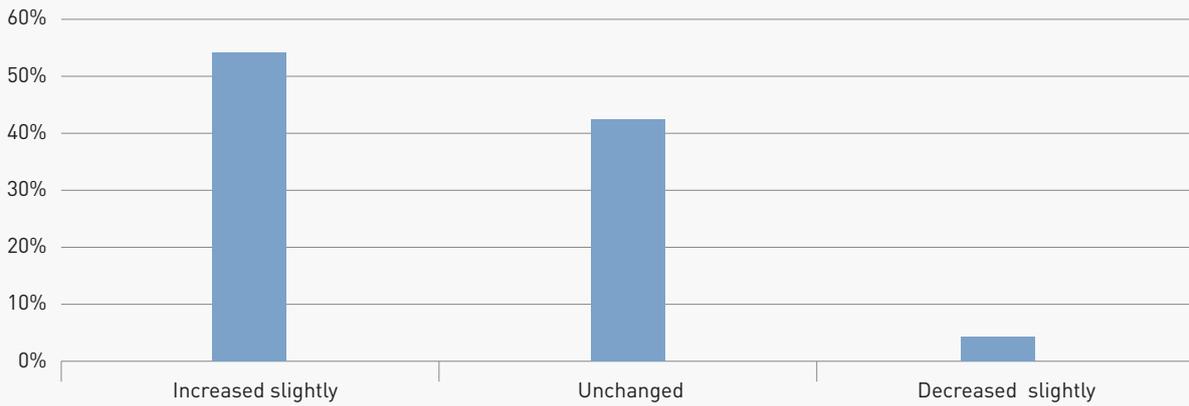
A clear, simple, and uniform regulatory framework across the EU has the potential to facilitate doing business across the Single Market. In reality however, businesses have faced an increasingly complex administrative burden and growing compliance costs.

The increased regulatory burden on companies leads to rising compliance costs, impairing European competitiveness. It requires resources that could have been better spent on for example developing new circular materials and low-emission technologies.

Proposals under the Green Deal alone in 2022 represent a total of almost EUR 2 billion of additional administrative burden on EU businesses according to the European Commission’s 2022 Annual Burden Survey.

Chart 7 shows that a majority of BusinessEurope member federations considers administrative burdens to have increased over the past year as a consequence of legislative changes introduced and implemented by the European Commission.

CHART 7 Our Member Federations believe the administrative burden has grown in 2023



Source: BusinessEurope Survey of Member Federations. Replies to the question: “In light of the legislative changes introduced and implemented by the European Commission, how would you evaluate the evolution of administrative burden compared to a year ago?”

The EU still fails to make sure a significant share of legal acts is accompanied by impact assessments, while the quality of the latter is often unsatisfactory. Since 2016, 51% of legal proposals have not been accompanied by an impact assessment according to the Council’s 2023 Annual Report on impact assessment⁹. Moreover, delegated acts which often have significant impact on the competitiveness and regulatory framework of European businesses are only rarely accompanied by an impact assessment. Any legislative act should in the future be accompanied by a high-quality impact assessment to increase transparency and inform businesses of the impact of legislation on their activities.

The European Commission has committed itself to a reduction of costs of reporting requirements for businesses by 25%, while respecting the one-in-one out principle and applying competitiveness checks to new legislation. This is an encouraging and welcome prospect for the European business environment but will require a significant improvement from the current situation. A more ambitious and high-quality agenda for regulatory impact assessments must be accompanied by a full implementation of the 2016 inter-institutional agreement, committing the European Commission, the Council of the EU, and the European Parliament to respect and integrate regulatory impact assessments and better regulation tools in their respective policymaking and decision-making processes. In the past, the latter two institutions have failed to do so consistently¹⁰.

⁹ <https://data.consilium.europa.eu/doc/document/ST-10082-2023-INIT/en/pdf>
¹⁰ <https://www.cambridge.org/core/journals/european-journal-of-risk-regulation/article/abs/can-we-better-the-european-union-better-regulation-agenda/46A0BA96D46266FF5C8320A2DA3B937F>

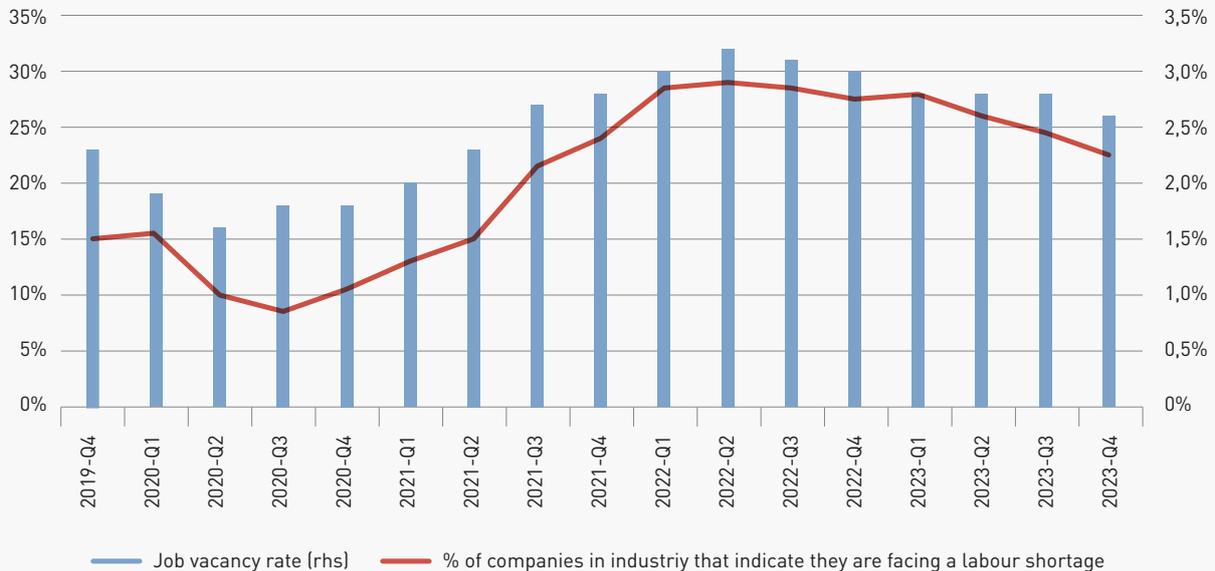
Labour and skill shortages are holding back European businesses

Labour and skill shortages remain a major concern for European businesses, especially in the context of an ageing society, a changing demand for skills on the labour market, and mismatches between educational systems and skill demand on the labour market. 22% of companies in industry indicated that labour shortages were restricting their ability to produce at the end of 2023 as indicated in chart 8. This is still significantly above the long-term average of 13% and is set to pose a more structural issue for businesses as the Europe’s workforce is expected to decline from 205 million people in 2022 to 184 million people in 2025¹¹.

At the same time, skill shortages in key sectors are limiting businesses’ green and digital transformation and ability to develop strategic technologies are at risk of constraining Europe’s role to compete globally in the fields of clean tech and emerging technologies. CEDEFOP data indicates that an estimated 4.7 million job openings for science and engineering technicians will have to be filled in the EU between 2022 and 2035 due to new job openings and employee retirement¹².

56% of science and engineering technicians were employed in the manufacturing and construction sectors in 2021. Without a broad re- and upskilling programme, the EU risks being unable to build and develop critical new infrastructure and make advances in manufacturing due to a shortage of science and engineering technicians. Re- and upskilling initiatives should incorporate the effect of the green and digital transitions on the labour market and the demand for skills. Environmental requirements for production processes, the upscaling of Europe’s renewable energy production capacity, and the emergence of new technologies such as cloud computing are swiftly changing the skills most needed on the European labour market, and this must be anticipated and reflected in training programmes.

CHART 8 Labour shortages persist, despite a recent loosening of the labour market



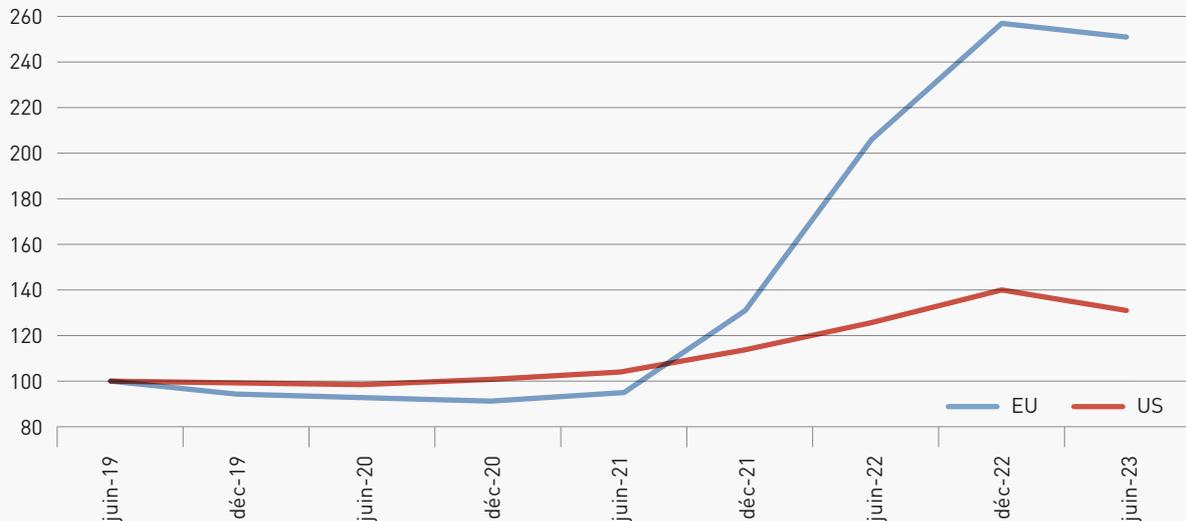
Source: Eurostat, European Commission

This evidence is complemented by survey data from the ECB, which found that an increasing share of companies are expecting to relocate production out of the EU rather than into the EU, with labour (cost/shortages/skills) and energy costs among the main factors for moving away from the EU¹³.

11 Employment and Social Developments in Europe annual review (2023)
 12 https://www.cedefop.europa.eu/en/data-insights/researchers-and-engineers-skills-opportunities-and-challenges-2023-update#_summary
 13 https://www.ecb.europa.eu/pub/economic-bulletin/focus/2023/html/ecb.ebbox202307_01-2a0bcf0b48.en.html

CHART 9 Industrial energy prices have risen by more in the EU than in the US in recent years.

Industrial energy prices are calculated as average of non-household electricity and gas prices, indexed to S1-2019 prices



Source: BusinessEurope Staff calculations based on Eurostat and U.S. Bureau of Labour Statistics

Electricity prices remained significantly above pre-war levels, with prices in the first half of 2023 being 130% times higher than in the pre-pandemic period, compared to a rise of 22% in electricity prices in the US. In 2023, 68% of EU businesses have seen their energy spending increase by 25% or more, whereas only 30% of US businesses have seen such a hike in prices according to European Investment Bank survey data. This hits the core of Europe's economy and exports, as 74% of EU manufacturing firms have faced an increase in energy spending of 25% or more. Survey data of German companies provide further evidence, as 59% of companies surveyed in Germany indicated that energy security and costs are the main reason to invest abroad, with 33% of companies planning to shift their production elsewhere. Despite a recent fall in prices, we do not expect a convergence of prices with those of major competitors, which leaves EU businesses at a structural disadvantage¹⁴⁻¹⁵.

Policy recommendations:

- Put in place a fully-fledged strategy to rejuvenate and further develop Single Market integration in goods and services, including digital. Privilege proper enforcement of existing Single Market rules on goods and services and only foresee new legislation when necessary to remove legal obstacles to free movement and cross-border business operations.
- The EU must deliver on its commitment to reduce **reporting requirements for companies** by 25% as a first step in a broader culture change to stop seeking to micro-manage companies, and to fully implement better regulation principles and tools. This includes **fully applying competitiveness checks and impact assessments** on all new EU regulatory initiatives, taking into account the **cumulative impact** of EU legislation on companies as well as on annual EU Commission work programmes.
- **Address labour shortages and skills mismatches** through approaches which are not overly prescriptive or unnecessary regulatory. **Better recognition of qualifications** across the single market, **removing barriers to labour mobility** within the EU and a strong focus on vocational training can all help address this challenge.
- **Ensure that the Green Deal becomes a growth strategy** and delivers the fit for 55 targets for 2030 while strengthening competitiveness, by **flanking it with a real Industrial Deal**.

¹⁴ European Investment Bank Investment Survey 2023

¹⁵ Supply Chain Pulse Check Autumn 2023, BDI & Deloitte

- **Speed up and simplify permitting and funding procedures**, which are key bottlenecks for projects and investments needed for a successful green and digital transformation.
- **Reduce policy-driven energy costs significantly**, including by going beyond the ongoing reform of the European electricity market design and addressing structurally the energy cost differential between the EU and major competitors.
- In order to support industrial transformation, particularly in light of the US's IRA act, **maximize the effectiveness, and accessibility of existing EU instruments** (for example Horizon Europe, Invest EU), and **improve the regulatory framework for state aid**, including by making it more transparent and predictable.
- **Make a smart use of trade policy**. Continuing to **conclude trade agreements** that provide access to new markets and open investment opportunities for EU companies and offer access to critical raw materials including energy as a means of helping to **diversify and strengthen the resilience of our supply chains**. While using existing legal instruments e.g. trade defence, international procurement instrument, to safeguard European competitiveness and ensure that our trading partners respect **rules-based trade, sound competition and a level playing field**.
- **Strike the right balance between protecting security and safeguarding the economy**. **Security threats are on the rise from cyber-attacks to the theft of technology that can be used both for military and civil purposes. The EU must protect itself against these security risks while maintaining a conducive environment for trade and investment in the single market and in third markets. Any new initiatives that restrict investment and trade must be proportionate, targeted and carefully designed to address well-defined risks.**

BALANCED PUBLIC FINANCES ARE KEY FOR LONG-TERM GROWTH PROSPECTS

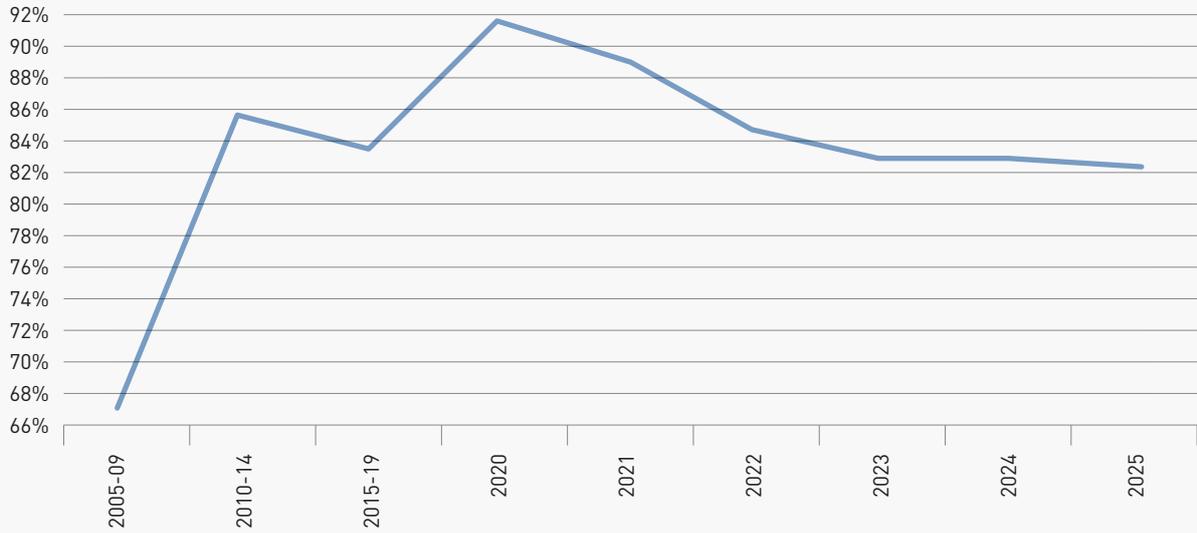
Sustainable public finances are of key importance for long-term growth and stability. The EU's economic governance reform recognises the need for a balance between sustainable public finances and public investments that enhance long-term growth prospects. High levels of inflation in the past years have somewhat reduced the debt to GDP ratio of member states, though the progress made in this direction is unlikely to continue as member states now face substantially higher borrowing costs as a consequence of an increase in the key ECB interest rates.

Debt-to-GDP ratios differ significantly among member states, ranging from 19.2% in Estonia in 2023 to 172.6% in Greece. Nominal increases in GDP lowered the debt-to-GDP ratio in the EU by 5.3% in 2023 and is forecast to continue contributing to a lowering of the aggregate EU debt-to-GDP ratio despite low expectations for GDP growth and inflation moving closer to the 2% target. The Maastricht Treaty's 60% debt-to-GDP target appears to be out of reach for many member states in the medium term as seen in the aggregate debt-to-GDP ratio in chart 10, highlighting the importance of the end of the General Escape Clause and for member states and the Commission to work together in the framework of the European Semester.

Utilising the European Semester as a primary tool for developing and monitoring national debt reduction plans – also beyond the RRF timeframe – by establishing a collaborative framework for social partner involvement is crucial. Social partners are best known for identifying sensible investments; in this respect, they are important initiators and monitoring bodies. This will enable Member States to make targeted investments and enhance the national ownership approach pursued by the Commission.

A gradual reduction of the debt-to-GDP ratio will be crucial in the coming years to recover some of the fiscal space that was employed for facing the crises of past years and to invest in Europe's growth potential.

CHART 10 Debt is gradually coming down, but remains far above target
EU27 debt-to-GDP ratio

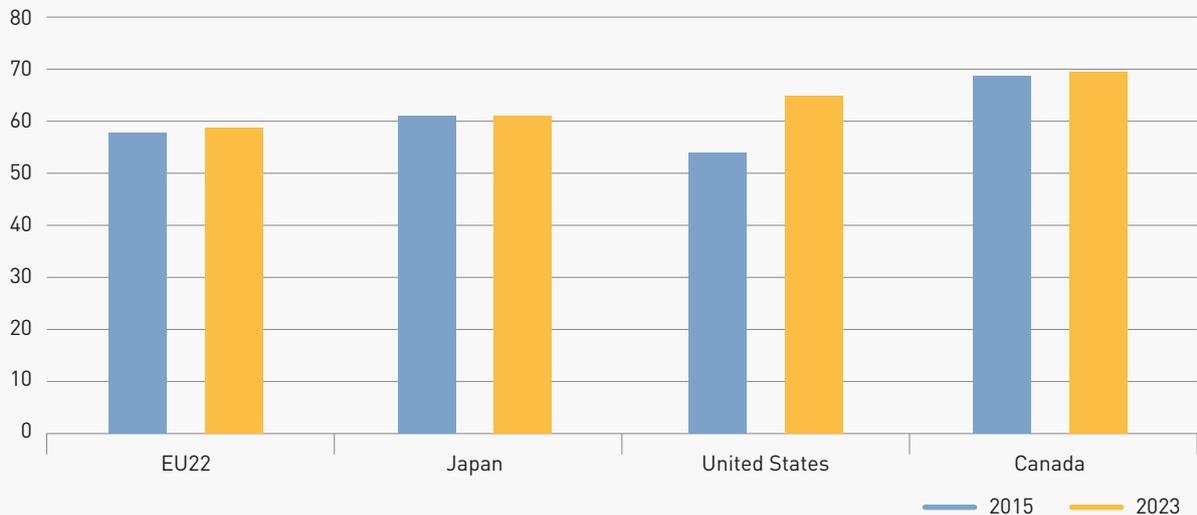


Source: Eurostat, ECB

Well-designed tax systems can be important enablers of growth and employment. Competitive effective tax rates on labour and capital and a simple, predictable, transparent, and user-friendly tax systems across the EU can contribute to resolving Europe’s competitiveness issues by creating the enabling conditions for much-needed investment and growth. BusinessEurope Member Federations indicated that the current state of European tax regimes is among one of the main challenges threatening the competitiveness of the EU as an investment environment vis-a-vis international competitors.

A modernisation of corporate taxation frameworks can, if implemented properly and with due consultation of stakeholders, lower the administrative burden on European businesses, especially those that are active across the Single Market and beyond. The EU however continues to lag behind in tax competitiveness compared to the US and Japan as seen in chart 11.

CHART 11 EU Member States continue to lag behind internationally regarding tax competitiveness
International Tax Competitiveness Index, 100 = highest score

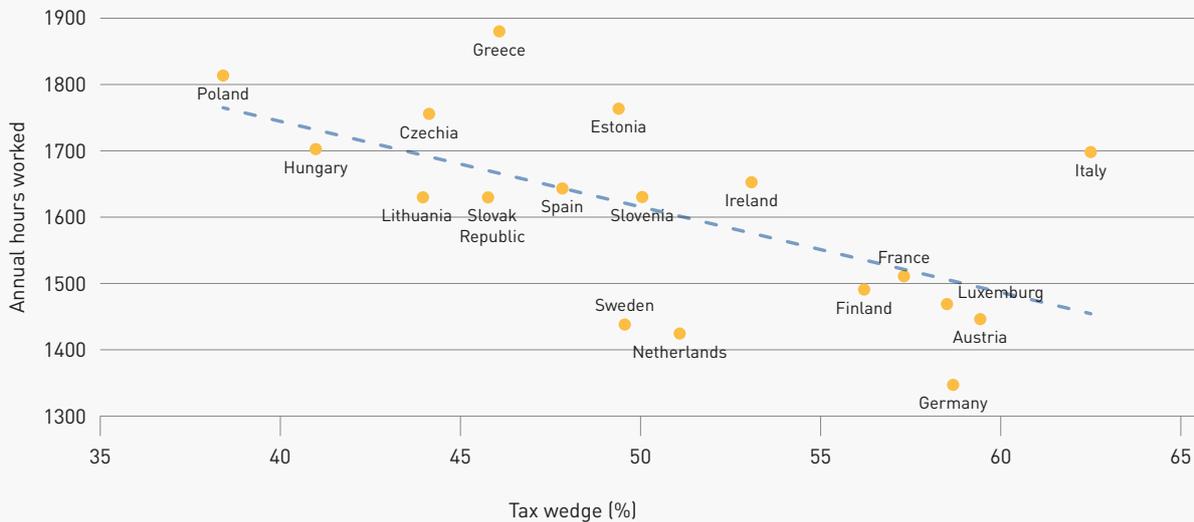


Source: BusinessEurope Staff calculations based on TaxFoundation. GDP-weighted for EU countries that are OECD members.

In the context of demographic ageing and the persistent skill and labour shortage that are constraining the growth potential of European businesses, high levels of labour taxation may further worsen the situation by reducing incentives for entering the labour market or for employers to hire more staff. Non-wage labour costs – the tax wedge – and social contribution rates in the EU continue to be significantly larger than that in the US and the OECD average, and labour continues to remain taxed at unfavourably high rates, potentially hindering employment creation. Chart 12 indicates that higher marginal tax rates on labour are correlated with a lower number of hours worked across EU member states.

Countries with excessively high non-wage labour costs need to reduce these costs, including by well-targeted tax shifts provided that in the long-term the main source for financing social protection remains employment-related incomes. Member States should also coordinate more closely with social partners their long-term strategy to maintain social contributions at a reasonable level that does not penalise employment creation.

CHART 12 Lower tax rates support higher worker activity
Labour taxation and labour utilisation across OECD countries



Source: BusinessEurope Staff calculations based on OECD

Policy Recommendations:

- **Following political agreement on a new economic governance framework, we urge the co-legislators to quickly finalise the legislative process on these new fiscal rules.**
- **Proper implementation of the new fiscal rules is essential to meet the urgent need to support Member States in strengthening their public finances.** The enhanced focus on national responsibility to reach the Maastricht criteria is a step in the right direction.
- Whilst the new rules provide additional flexibility to both the Commission and Member States, the reference values of 3% of GDP for government deficits and 60% for government debt remain an important part of the framework.

The new rules can **support Member States undertaking growth-enhancing reforms and public investment.** But the rules need to be carefully enforced to ensure proper implementation with flexibility only granted if Member States present credible reform and investment programs that support sustainable growth and debt sustainability.

- Member States must ensure their tax systems support growth, employment, and create favourable conditions for investment. They must ensure the **administration of their tax systems** becomes simpler, more predictable, more transparent, and user-friendly.

ACCESS TO FINANCE REMAINS CONSTRAINED, HOLDING BACK BUSINESSES

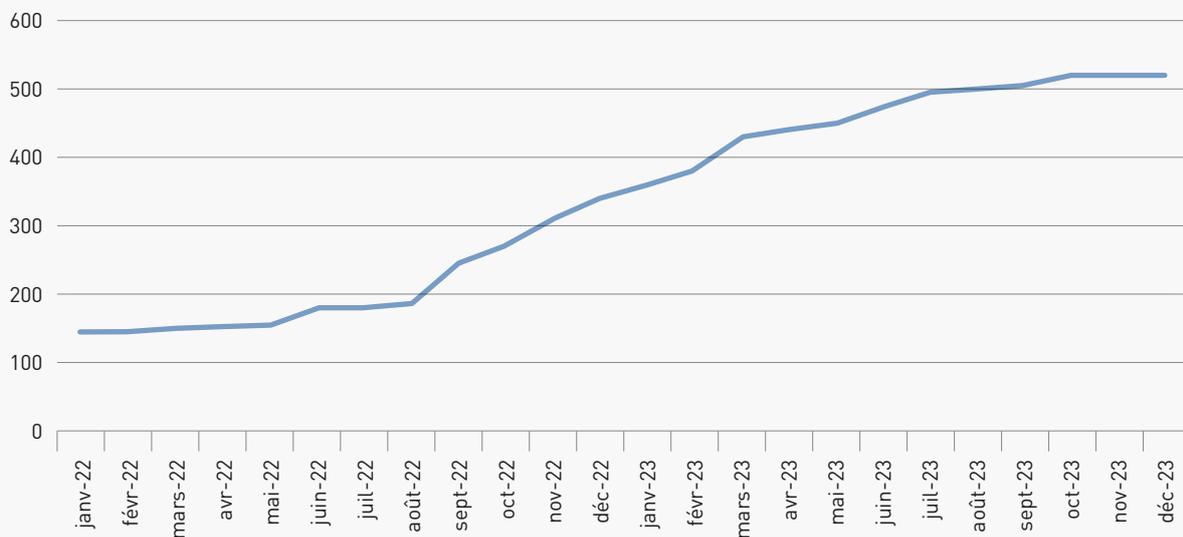
Access to finance remains a key prerequisite for companies to meet their investment needs and contribute to economic growth and employment creation. To ensure stability and cater to the diverse financial requirements of companies, especially small and medium-sized enterprises (SMEs), it is crucial to have access to finance through various channels.

The absence of a fully-fledged Capital Markets Union continues to limit the financing options of European businesses by limiting access to equity financing, making businesses more susceptible to cyclical events and monetary policy, as evidenced by the tightening of financial conditions over most the last year and an all-time low in net firm loan demand reached in Q2 of 2023. The ECB Bank Lending Survey of the fourth quarter of 2023 further indicates that supervisory or regulatory actions contributed to a further tightening of banks’ credit standards and margins in 2023, further restricting businesses’ financing opportunities.

The ECB’s cost of borrowing indicator reached levels not seen since the great financial crisis in autumn 2008, severely increasing the cost of investment as seen in chart 13 below.

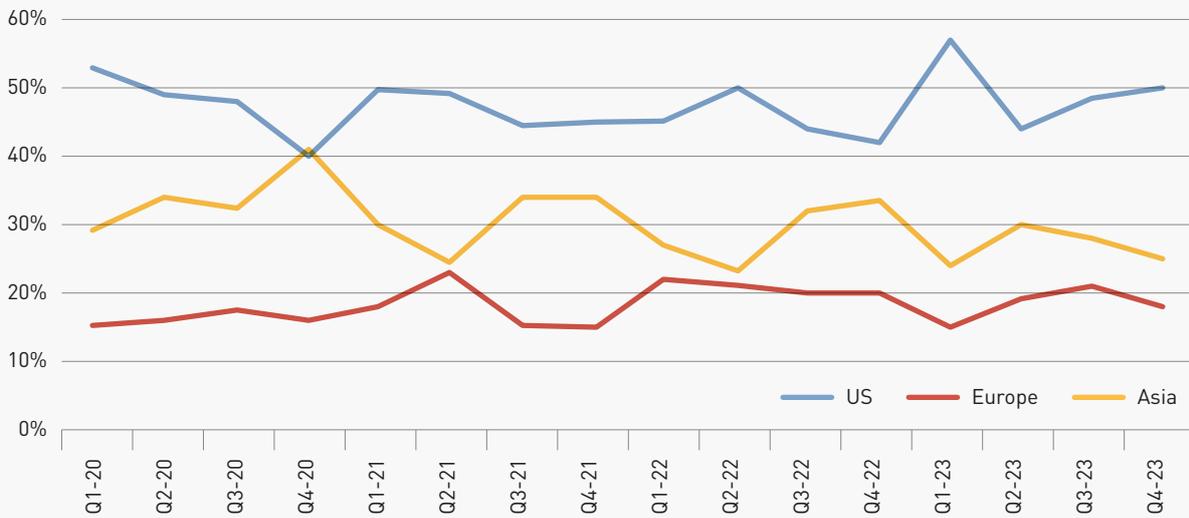
CHART 13 The cost of borrowing indicator reached levels not seen since the great financial crisis in autumn 2008

Composite cost of borrowing indicator for Euro Area non-financial companies



Venture capital plays a special role in the financing mix, especially for SMEs and start-ups. Venture capital investment around the globe remained subdued in 2023 compared to 2022, while Europe’s share in global venture capital investment declined from 22.3% in the first quarter of 2022 to 18.4% in the final quarter of 2023 as seen in chart 14, as other regions offered financial incentives and a more favourable regulatory framework to attract venture capital. For European start- and scale-ups to mature in Europe, and for European businesses to be able to attract sufficient investment throughout the business cycle, further capital market integration with favourable regulatory conditions is essential.

CHART 14 Europe remains less attractive for venture capital than the US and Asia
 % share of global VC of selected regions



Source: KPMG and Venture Capital Pulse

Policy Recommendations:

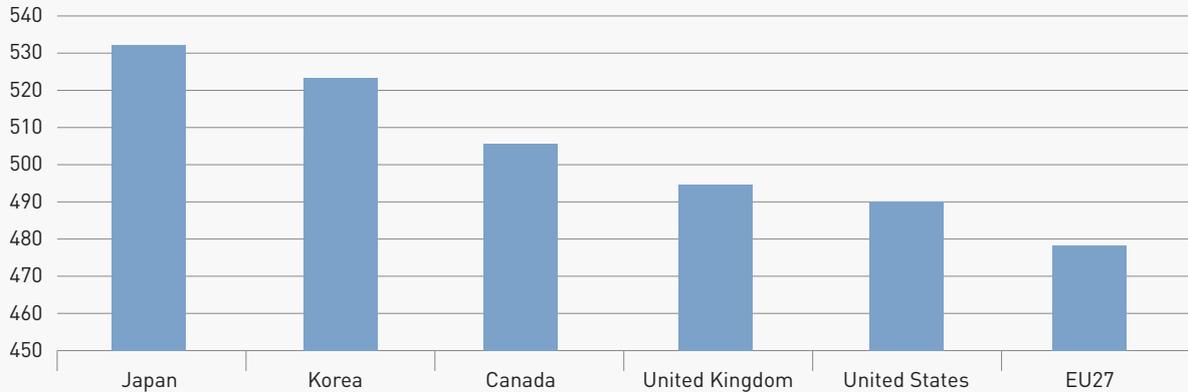
- Ensure that **financial regulation supports businesses’ access to finance** during a challenging period where we see bankruptcies rising across the EU. In particular, new prudential rules for financial institutions, including the **implementation in the EU of the international Basel III agreement** must not significantly increase capital requirements overall.
- **Promote alternative sources of financing to bank lending**, including enhancing access to venture capital and mobilising more equity capital for entrepreneurs.
- **Ensure that actions to support sustainable finance are proportionate**, workable and accommodate the needs of the financial markets as well as the real economy to help companies finance their transition and funnel investments to support greening the economy.

EUROPEAN INNOVATION POWER RISKS FALLING FURTHER BEHIND

The ability to innovate and facilitate new developments in technology is crucial to Europe’s ability to remain a global leader in technology, implement the green and digital transition, and create high-quality and high-productivity jobs in an economy fit for the future. The breakthrough of artificial general intelligence in 2023 and the global race in developing strategic technologies are indicative of the importance of innovation capability as a means to sustain and improve long-term economic growth potential.

Human capital is a key enabler of innovation and long-term productivity growth. A weighted average of the latest PISA scores of EU member states as seen below in chart 15, shows that European students lag behind significantly compared to competitors from G7 countries. More worryingly, student performance across most countries showed an unprecedented decline compared to results prior to the COVID-19 pandemic. At the same time, only 18 universities based in the EU27 feature in the top 100 university rankings globally while shortages remain in key technological sectors, with 46.3% of EU companies reporting difficulties in recruiting experts with specialist IT skills in 2022.

CHART 15 EU lags behind global competitors in school performance

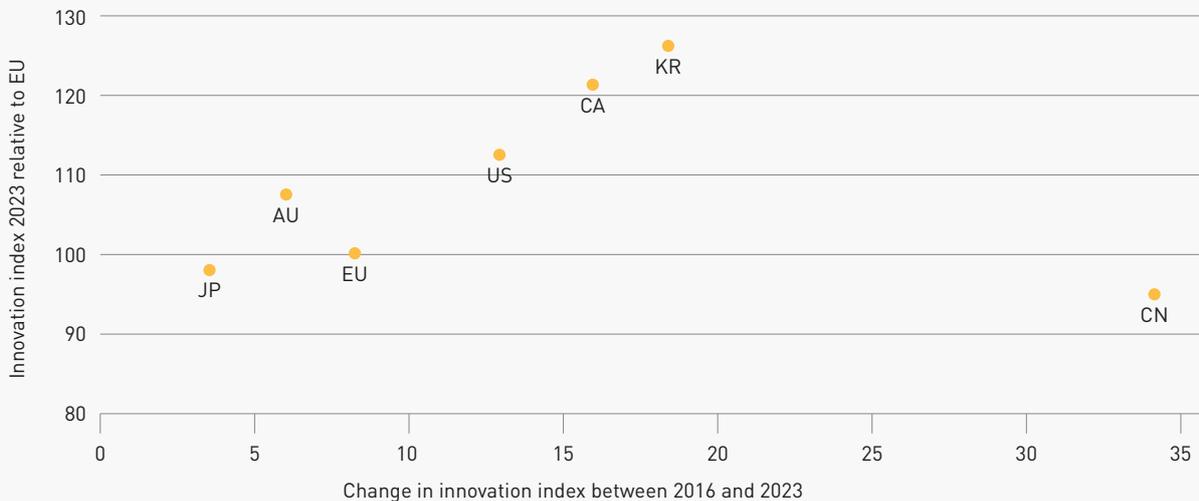


*no 2022 PISA data available for Luxembourg. Staff calculations based on OECD PISA 2022, Eurostat for GDP weighting. The calculated score represents the average score across the three assessed categories: reading, math, and science. Source: BusinessEurope.

R&D spending in the EU continues to fail to reach the 2030 3% target, remaining at 2.24% in 2022 according to Eurostat data and behind major competitors such as the US, which invested almost 3.5% of GDP in R&D in 2021. R&D spending by businesses accounts for 66% of total R&D investment in the EU, but public programmes such as HorizonEurope can make important contributions toward reaching the 3% target by crowding in and facilitating private investment.

The EU innovation scoreboard shows that the EU’s innovative capacity is lower than that of leading nations in the G7 as indicated in chart 16. The EU performs strongly in public sector R&D expenditures, medium- and high-tech exports and public innovation, but lags behind in key indicators related to the private sector. In the US, conditions are more enabling for private sector innovation than in the EU, leading to the US having six times the number of Unicorns than the EU has, firms spending twice as much on R&D, and a higher level of entrepreneurial activity in innovation according to the Innovation Scoreboard. The high ratings on public sector indicators contrasts with the EU’s private sector performance compared to the US, indicating the need for the EU to improve conditions for innovation to better translate the favourable levels of funding and quality of education to private level innovation success.

CHART 16 The EU is falling further behind major G7 competitors in innovation power



Source: European Commission Innovation Index

In the past year, the EU has proposed a number of measures to enhance the bloc's innovation level and competitiveness in key strategic technological sectors, such as the Strategic Technologies for Europe Platform (STEP). Nevertheless, the digital transition continues to face significant investment gaps, with just the Digital Decades targets requiring additional investments amounting to at least EUR 174 billion annually to 2030 and cuts to the Horizon programme as part of the mid-term review of the multiannual financial framework undermining the EU's goal of improving competitiveness through innovation.

Policy Recommendations:

- **Member States should increase research and development (R&D) spending** and support stronger private sector R&D investment in order to reach the EU's target of 3% of GDP. Following the **mid-term review of the MFF the EU should** review current procedures within the HorizonEurope programme and where possible simplify and fast track them.
- **Digitalisation of public administration** must be rolled out including secure and efficient interface with businesses.
- **A strengthened digital infrastructure**, including large scale 5G, is essential to allow the EU to adopt the latest technologies and enable businesses to compete globally. The EU must support, through schemes such as the Digital Europe programme, **greater investment in a range of cybersecurity actions**.
- **Speed up the rollout of regulatory sandboxes** to allow for rapid experimentation and disruptive innovation to test new technologies.

ARTIFICIAL INTELLIGENCE: THE EU MAY BE LEADING IN REGULATING AI, BUT IS LAGGING IN INVESTMENT

Technological advances in artificial intelligence (AI) emerged as one of the most closely scrutinised trends in 2023, as businesses started adopting AI tools in their daily operations and decision-making and investments in AI remained significant despite a global economic slowdown. Policymakers similarly zoomed in on AI, with the EU adopting the world's first comprehensive law regulating AI in December 2023.

The EU continues to compete with global research output. 14.8% of worldwide research publications on AI in 2022 originated in the EU27, surpassed only by China's 21.9% share in worldwide publications on AI¹⁷. This is despite EU academic institutions not being among global leaders in AI, with the top 10 universities with the largest output of AI publications being based in China (9) and the US (1)¹⁸.

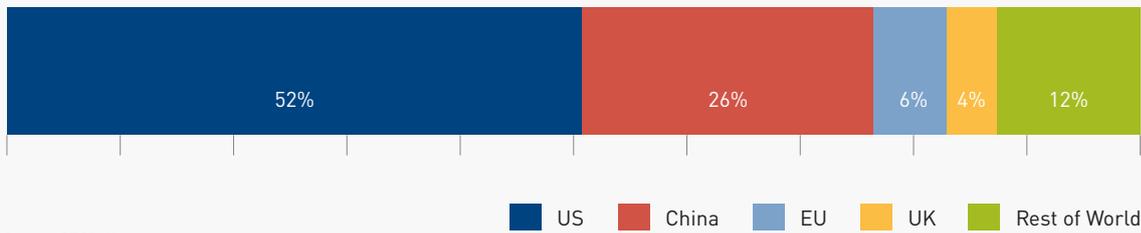
The EU however risks lagging behind in the technological commercialisation of AI and future research. The United States has emerged as the global leader in AI as (private) investment in AI in the US and the number of businesses with AI as core business eclipsed those in the EU, UK, and China¹⁹. As AI research is shifting from research institutes to the private sector, the ability to raise private investment is becoming ever more important. Chart 17 shows how the EU has lagged behind in AI investment in recent years, holding only a 6% share of global AI venture capital investments in recent years. European businesses continue to face constraints due to fragmented capital markets and a reliance on funding through banks, restricting the opportunities for raising money for AI-related research and its implementation and making funding opportunities more prone to cyclical developments.

¹⁷ OECD.AI (2024)

¹⁸ Nestor Maslej, Loredana Fattorini, Erik Brynjolfsson, John Etchemendy, Katrina Ligett, Terah Lyons, James Manyika, Helen Ngo, Juan Carlos Niebles, Vanessa Parli, Yoav Shoham, Russell Wald, Jack Clark, and Raymond Perrault, "The AI Index 2023 Annual Report," AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, Stanford, CA, April 2023.

¹⁹ EC 2021 AI watch

CHART 17 Share in global venture capital investment in AI (2018-2023)



Source: OECD.AI

Mobility and autonomous vehicles have traditionally attracted the most VC investment among AI industries, though 2021 represented a shift in AI investment priorities. Media, social platforms and marketing, IT infrastructure and financial and insurance activities attracted the most VC investment in 2023, breaking the general downward trend in AI investment that started in 2021. Venture capital investment in the EU remains an order of magnitude smaller compared to the US and China, and the sectorial preference for investment differs notably from global VC investment priorities. These significant differences in sectorial priorities among the global competitors for AI dominance are indicated in table 1.

TABLE 1 The EU's performance is particularly weak in mobility and autonomous vehicle investment
Cumulative venture capital investment in top three sectors in billion USD (2012-2023)

United States	\$	China	\$	EU27	\$
Total AI-related VC investment	427.1	Total AI-related VC investment	232.2	Total AI-related VC investment	50.9
Mobility and autonomous vehicles	81.1	Mobility and autonomous vehicles	76.2	Business processes and services	11.5
Healthcare, drugs, biotechnology	62.7	Robots, sensors, IT hardware	35.3	Financial and insurance activities	7.4
IT infrastructure and hosting	58.5	Medial, social platforms, marketing	19.7	IT infrastructure and hosting	6.5

Source: OECD.AI

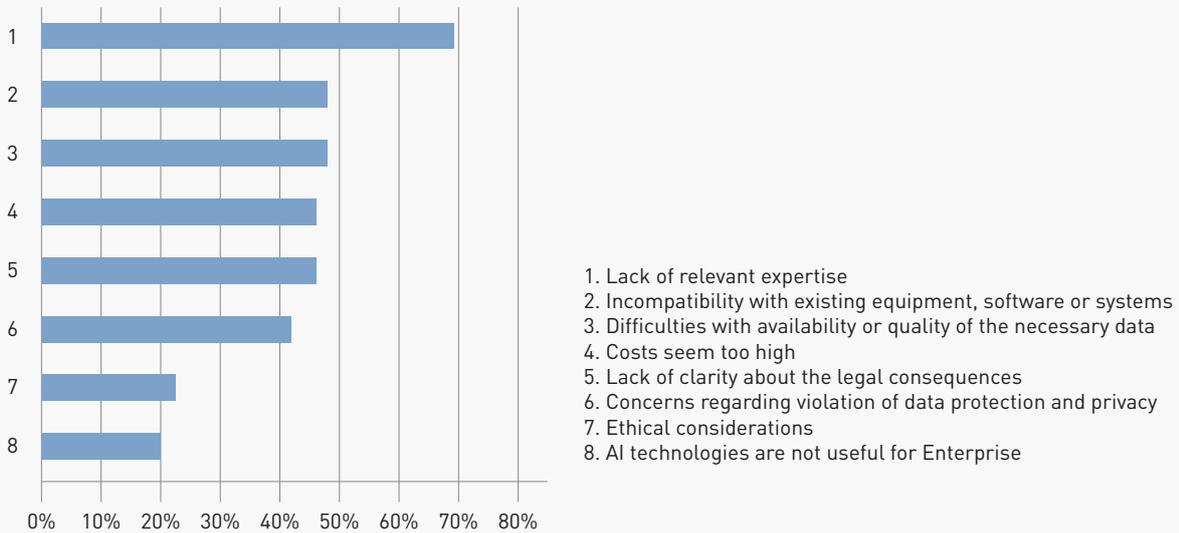
Labour market exposure and effects

The effects of recent technological developments in AI will heavily depend on the ability of European businesses to implement them in their day-to-day operations. European companies currently indicate a lack of expertise as the main reason for not implementing AI technologies as highlighted in chart 18 below. A swift and deep implementation has both the potential to lead to much-needed productivity gains, particularly in the context of the demographic transition.

Ensuring EU companies are able to keep pace with international competitors in benefitting from AI, will thus require a supportive policy environment, including balanced regulation ensuring access to data, stronger capital markets and public support for innovation, as well as allowing social partnership to play a full role in supporting labour market transitions. In this respect, the 2020 digitalisation agreement of the European cross-industry social partners is being implemented across Europe, which provides a useful starting point for the social partners across the continent to further discuss issues around AI at work in the coming years.

CHART 18 A lack of relevant expertise is holding back AI implementation in European companies

Reasons EU companies do not use AI technologies. % of enterprises with at least 10 employees which ever considered to use any of the AI technologies



Source: Eurostat [isoc_eb_ai], based on 2023 survey data

Past technological trends such as robotisation have disproportionately affected productivity in industry and led to widespread automatization in manufacturing, which was not possible in the services sector.

Research has suggested that the automatization of tasks through AI can lead to significant productivity for specific professions, ranging from 14% to over 30% for call centre staff²⁰. Estimates for engineers found they may code twice as fast using AI²¹, and economists may similarly see their productivity boosted by 10-20%²². On an aggregate level, GDP gains from AI implementation may reach 7%²³, though estimates are complicated by the fact that AI keeps improving, and improves itself, which may lead to significant increases in total factor productivity²⁴.

Past experience indicates that technological progress does not lead to the mass unemployment sometimes anticipated by workers and businesses, but rather shifts job opportunities to different sectors, requiring new skillsets and creating new job opportunities²⁵.

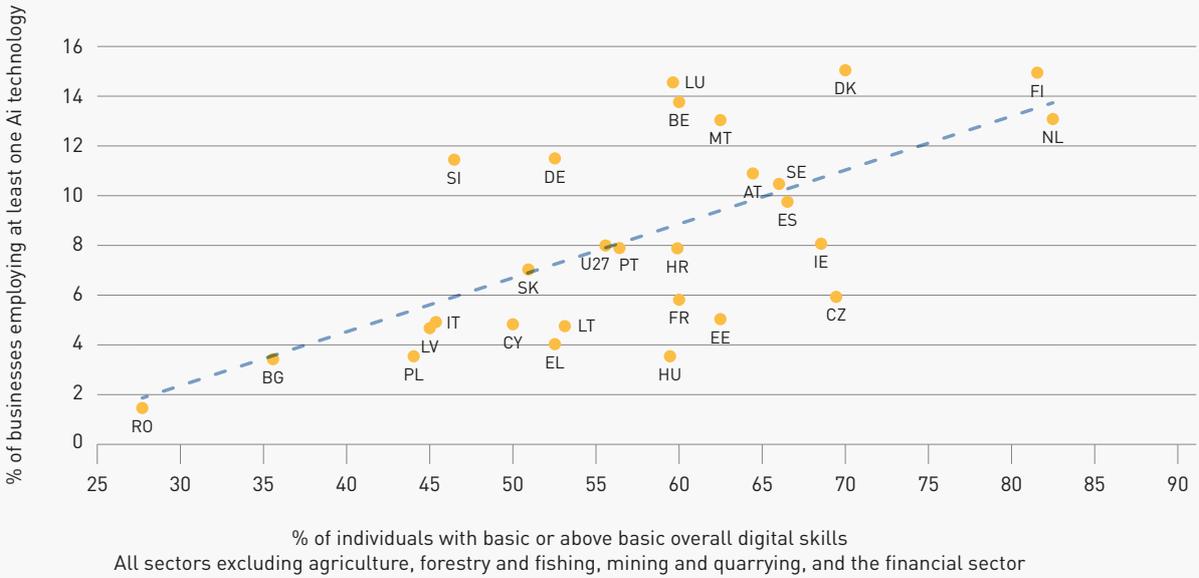
However, only 54% of EU citizens possessed at least basic digital skills in 2023, which may be a major barrier to AI adoption by European businesses and limit the employment opportunities of affected workers that do not adapt their skillset to the arrival of AI²⁶. Member states and companies will have to invest significantly to increase the digital literacy of their citizens. This will be key to retain experienced employees as 44.4% of 55-64-year-olds in the EU have basic digital skills, compared to almost 70% among 25-34-year-olds, who will more easily adapt to the emergence of new digital technologies²⁷.

20 Brynjolfsson, E., Li, D., & Raymond, L. R. (2023). Generative AI at work (No. w31161). National Bureau of Economic Research.
 21 Kalliamvakou, E. (2023). Research: quantifying GitHub Copilot's impact on developer productivity and happiness.
 22 Korinek, A. (2023). Language models and cognitive automation for economic research (No. w30957). National Bureau of Economic Research.
 23 <https://www.ft.com/content/50b15701-855a-4788-9a4b-5a0a9ee10561>
 24 Baily, M. N., Brynjolfsson, E., & Korinek, A. (2023). Machines of mind: The case for an AI-powered productivity boom, and <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier#key-insights>
 25 Bessen, James E., Automation and Jobs: When Technology Boosts Employment (February 12, 2019). Boston Univ. School of Law, Law and Economics Research Paper No. 17-09.
 26 European Commission (2023). DESI 2023 indicators
 27 Albanesi, S., Da Silva, A. D., Jimeno, J. F., Lamo, A., & Wabitsch, A. (2023). Reports of AI ending human labour may be greatly exaggerated. Webb, M. (2019). The impact of artificial intelligence on the labour market.

Chart 19 shows a correlation between the share of citizens with basic digital skills and the adoption of AI technologies by companies in EU member states. This correlation is currently stronger in industry, though new AI technologies such as virtual agents may strengthen the use of AI in the services sector in the coming years.

CHART 19 Digital skills are key for AI implementation in businesses

Correlation between businesses employing at least one AI technology in 2023 and the share of individuals with basic or above basic overall digital skills



Source: BusinessEurope staff calculations based on Eurostat [isoc_r_eb_ain2, tepr_sp410]

Investments in all stages of the technology cycle, from R&D to implementation and training, will be key for the EU to benefit from the emergence of AI technologies and related productivity gains. As the old-age dependency ratio is set to grow from 33.3 in 2023 to 45.4 in 2040, these productivity gains will be much-needed to maintain Europe’s level of prosperity. Increasing investment in R&D will thus be key in the long-term to keep up with global competition, benefit from the potential productivity gains of AI technology, and to keep Europe attractive for high-tech companies.

Past research has proven that the automatization of tasks through AI can lead to significant productivity for specific professions, ranging from 14% to over 30% for call centre staff²⁸. Estimates for engineers found they may code twice as fast using AI²⁹, and economists may similarly see their productivity boosted by 10-20%³⁰. On an aggregate level, GDP gains from AI implementation may reach 7%³¹, though estimates are complicated by the fact that AI keeps improving, and improves itself, which may lead to significant increases in total factor productivity³².

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 31 <https://www.ft.com/content/50b15701-855a-4788-9a4b-5a0a9ee10561>
 32 Baily, M. N., Brynjolfsson, E., & Korinek, A. (2023). Machines of mind: The case for an AI-powered productivity boom, and <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier#key-insights>

THE RECOVERY AND RESILIENCE FACILITY AND THE EUROPEAN SEMESTER

The Recovery and Resilience Facility (RRF) is a temporary recovery instrument that was established in an EU regulation that entered into force on 19 February 2021 to mitigate the impact of the COVID-19 on the European economies. The RRF is the largest component of the €750 recovery plan dubbed “Next Generation EU”. It consists of grants worth €338 bn allocated to Member States following an allocation key that considers population size, GDP, and employment situation. Countries can additionally request loans, with a total of €385.8 bn available through the RRF. It finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026.

In order to access funding from the RRF, **Member States presented National Recovery and Resilience Plans**. The plans describe how the money will be spent and must correspond to the requirements of the regulation establishing the facility. The plans of all 27 Member States were approved by the end of 2022. But with most national plans already approved in the second half of 2021, implementation in most Member States was in full swing in the last two years.

In reaction to Russia’s invasion of Ukraine and for a rapid reduction of fossil fuel imports from Russia, on 18 May 2022 **the Commission proposed to reinforce the firepower of the RRF in the framework of the REPowerEU plan**. The plan made additional RRF grants of €20 bn available to Member States. It put forward targeted amendments to the RRF Regulation to integrate dedicated REPowerEU chapters in Member States’ existing Recovery and Resilience Plans. The objective of the new REPowerEU chapters is to strengthen EU energy resilience on top of the measures which were already in the RRFs. The Commission’s country-specific recommendations (CSRs) in the 2022 European Semester cycle also fed into the design and assessment of these measures. In addition, the REPowerEU Regulation provides dedicated funding sources to finance the relevant measures. Member States have submitted their loan requests with their modified RRFs including REPowerEU chapters in summer 2023.

The European Commission has taken action to ensure that its overarching tool for economic policy coordination, the European Semester, evolves in line with the requirements of the RRF and REPowerEU plan. The regulation establishing the RRF stipulated 11 **assessment criteria** that each national plan has had to meet. Most notably, at least 37% must be allocated to “green” investments (in addition, the REPowerEU chapter itself should also achieve a climate target of at least 37%) and 20% to digital investments. As of February 2023, the reforms and investments proposed by Member States have exceeded the set targets: for the RRF as a whole, estimated climate expenditure amounts to about 40% and digital expenditure to about 26%. Plans must also “contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations”. That means the **recovery funding is tied with the European Semester and its country-specific recommendations**. Whilst not required to address all CSRs, countries have committed to some reforms as part of their national plans. With the pay-out of funding being conditional on satisfactory progress on the national plan, this will include meeting the agreed CSR-related reform objectives.

Full implementation of the national plans remains important. The Commission must continue to ensure that Member States comply with the objectives of their national plans, and only pay out funding once **milestones, regarding both investments and reforms, agreed by the Member States and the EU** are reached. To monitor EU countries’ progress in implementing their recovery and resilience plans, the Commission has also launched an **online Scoreboard** measuring the objectives and projects within each national plan as well as quantifying how much has been reached and how much funding has been disseminated so far to each Member State. **As highlighted by the Commission Scoreboard, only €144 bn in grants out of a total of €338 billion and only €80 bn in loans out of a total of €385.6 billion have been disbursed so far.**

MEMBER FEDERATIONS' ASSESSMENT OF KEY COMPETITIVENESS CHALLENGES, IMPLEMENTATION OF THE RECOVERY PLANS AND COUNTRY-SPECIFIC RECOMMENDATIONS

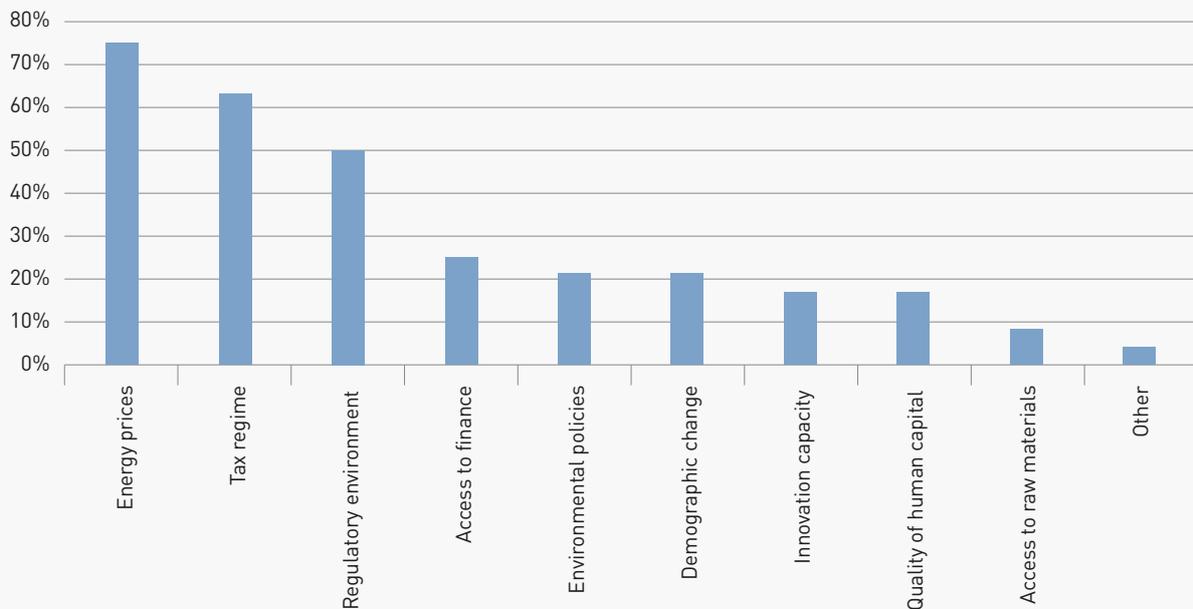
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This chapter draws on a questionnaire of BusinessEurope’s Member Federations assessing the present competitiveness challenges, and the policy response, both at EU level and at member state level, in terms of the implementation of the Recovery and Resilience Plans (RRPs) and the country-specific reform recommendations (CSRs) of the European Semester.

Member Federations’ assessment of key competitiveness challenges

As a starting point we asked member federations to consider the main challenges threatening the attractiveness of the EU as an investment environment vis-à-vis international competitor (chart 20).

CHART 20 The regulatory environment, energy prices, and tax regimes in the EU are the biggest challenges for Europe’s investment environment vis-à-vis international competitors



Source: BusinessEurope survey of member federations. Response to the question: “What does your federation see as the three main challenges threatening the attractiveness of the EU as an investment environment vis-a-vis international competitors?”

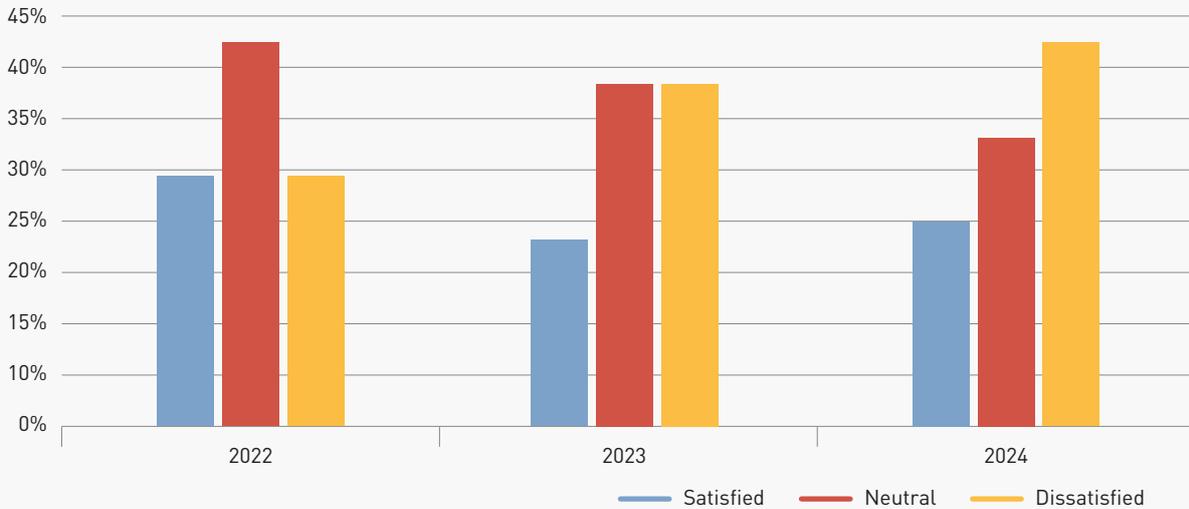
As was the case for 2023, the regulatory environment (particularly in relation to environmental policies), energy prices and the tax regime are considered by EU businesses to be the key challenges for the EU’s business environment, indicating a lack of progress in resolving Europe’s key competitiveness challenges.

Implementation of National Recovery and Resilience Plans

The Recovery and Resilience Facility was a key part of the EU’s response to the pandemic, and now provides Member States with the funds necessary to undertake investment and reform despite stringent fiscal and economic conditions.

Our 2024 Member survey suggest that the initial optimism that the EU’s Next Generation Recovery and Resilience Facility (RRF) was structured in a way that the Commission would be able to ensure effective implementation of Member States’ plans has faded, with chart 21 showing that the proportion of Member Federations dissatisfied with implementation of the plans has increased from 29% following the launch of the plans to 42% now.

CHART 21 Satisfaction with the implementation of NRRPs has fallen

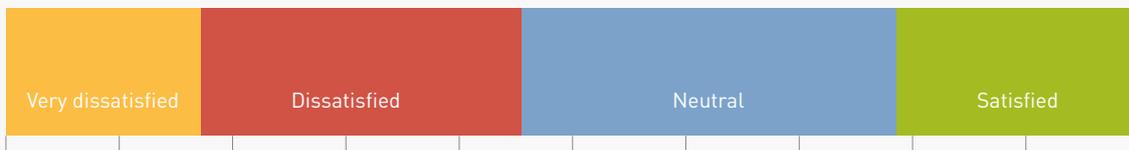


Source: BusinessEurope survey of member federations. Replies to the question: "How satisfied or dissatisfied are you with the way your country is implementing the national recovery and resilience plan?" Years refer to the year the survey was conducted.

Whilst it has always been the case that reforms and investments were more likely to be put in places during the final years of the programme, Federations appear increasingly concerned that 82% of targets and milestones remained unfulfilled and only 30% of available loans and grants had been disbursed by the end of 2023. As the RRF is now reaches half-time, a significant acceleration will be necessary for all funds to be disbursed by the end of the programme in 2026.

Close cooperation with social partners is essential for realising the potential benefits of the NRRPs and to ensure full support from businesses and workers. Nevertheless, as indicated in chart 22, 46% of BusinessEurope member federations remain dissatisfied or very dissatisfied with the involvement of social partners in the implementation of NRRPs, indicating a lack of progress since last year when 46% of BusinessEurope member federations also expressed dissatisfaction with the role of social partners.

CHART 22 A majority of BusinessEurope member federations remain (very) dissatisfied with the involvement of social partners in the implementation of NRRPs



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

Implementation of country-specific recommendations (CSRs)

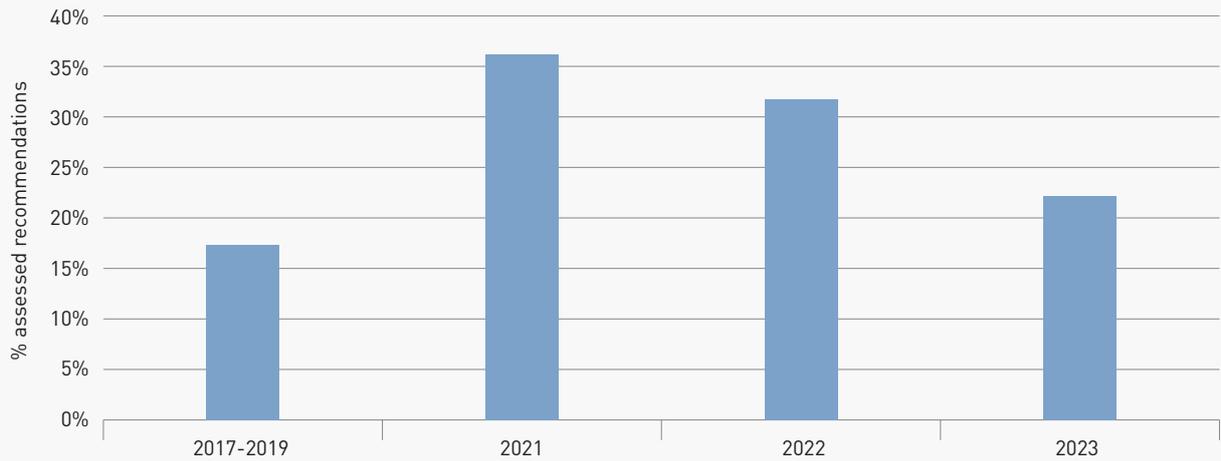
Member states continue the implementation process of the country-specific recommendations as agreed upon in the framework of the European Semester in 2023. Overall, BusinessEurope Member States continue to agree with the priorities set by their governments, with 83% considering the recommendations to be extremely important or important.

In line with falling optimism regarding the implementation of the RRFs, Member Federations are also losing faith in the initial belief that the RRFs (through the final incentives it provides) would help deliver improved implementation by Member States of key reform priorities.

Initial expectations that the RRF would improve implementation of reforms have faded. Reform implementation has been a long-term challenge, with Member Federations on average considering that only 17% of reforms were implemented satisfactorily between 2017 and 2019. In our 2022 report, Member Federations made the assessment that 36% of reforms were being satisfactorily implemented, but this has now fallen to 22%.

CHART 23 Initial expectations that the RRF would improve implementation of reforms have faded

% of BusinessEurope Member Federations satisfied with the implementation of EU country-specific reform recommendation



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

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