

KEY EMPLOYMENT AND SOCIAL CHALLENGES IN VIEW OF THE 2027 EUROPEAN SEMESTER SOCIAL PARTNERS' CONSULTATIONS EMPLOYERS' VIEWS

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Introduction

As in past years, the consultation meeting before the publication of the Autumn Package and the 2027 European Semester exercise takes place in a very challenging context. Geopolitical uncertainty remains significant, causing disruptions in the functioning of many European countries and the everyday lives of citizens. Trade relations remain tense and the need for investment in security and defence keeps increasing, especially in the context of more frequent hybrid attacks on different European countries. More than ever, Europe needs economic growth to be able to maintain its socio-economic model while also ensuring strategic autonomy.

Two years after the publication of the Draghi report, the competitiveness challenges facing the EU remain paramount. While some of the report's recommendations have been implemented, much more needs to be done to revitalise the European economy and strengthen its innovation capacity. Employers support strengthening the EU's social market economy, while stressing that the implementation of the European Pillar of Social Rights and the European Semester must remain aligned with competitiveness, productivity and employment. The European Semester should contribute to restoring Europe's competitiveness, investment attractiveness and long-term growth potential as the foundation for quality jobs and social progress.

Main challenges

- **The productivity gap between the EU and the U.S. continues to widen.** U.S. labour productivity growth continues to outpace that in the EU, mainly due to a weak performance in the mid-tech manufacturing sectors, which comprise a significant share of Europe's industrial base.
- **The EU continues to lag the U.S. and China in R&D intensity**, contributing to the broader productivity gap. The same concerns investment in AI and innovation.
- **Regulatory burdens are perceived by companies as the primary barrier**, indicating that Omnibus initiatives have been modest in simplifying existing rules. Regulatory burden remains the primary obstacle to investment, followed by high energy prices and labour availability.

- **Energy prices in the EU remain much higher than in the U.S. and China.** This continues to significantly impact Europe's competitiveness. Increasing price volatility is a major concern for European enterprises, linked to a higher reliance on more expensive and volatile LNG imports.
- **Progress on Single Market integration has stagnated,** limiting enterprises' 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.
- **Technological transformation is accelerating.** The EU is falling behind the U.S. in AI adoption, which can further widen the productivity gap. Key barriers to adoption include shortages of skilled workers, high implementation costs, and insufficient digital infrastructure.
- The EU banking sector is strong and stable; however, **the structure of the available capital is not favourable for innovation and long-term growth.** At the same time, EU capital markets remain fragmented, which prevents finance from being channelled effectively into productive, innovation-driven investment.
- Enterprises perceive **EU tax policy as insufficiently supportive of growth, investment and competitiveness.** A predictable, growth-oriented tax framework is essential to restore Europe's attractiveness as an investment location.
- **Investment continuity remains a challenge amid competing budgetary priorities.** Sustained investment in infrastructure and skills is essential to support productivity, address labour shortages and strengthen Europe's competitiveness.

The most pressing labour market challenges

The European Commission's Issues Paper provides a useful analysis of current labour market and social trends. Employers agree with several of the challenges identified in the document, including the underrepresentation of specific groups in the labour market, persistent labour and skill shortages, very low participation of adults in up- and reskilling, and insufficient alignment between education systems and labour market needs, including with regard to basic skills.

Employers also welcome the fact that the analysis avoids drawing overly optimistic conclusions from available data. For example, the Paper rightly stresses that the slight overall growth in employment should not obscure the fact that for several groups employment rates remain significantly below the EU average. Similarly, it highlights that, despite an easing of overall labour shortages across the EU, major differences persist between Member States and acute shortages remain in some sectors, including those at the forefront of the twin transition and key to the EU's strategic autonomy objectives. The Paper also correctly notes that many of these challenges require action by governments, including through public investment in social security as well as education and training systems.

On the other hand, the Issues Paper does not place sufficient emphasis on the scale of demographic change, thus understating the urgency of investment in training, activation, as well as talent attraction and retention. Greater focus should be placed on supporting people already in work to access re- and upskilling opportunities, particularly those who wish to increase their working hours or transition to other employment, while recognising that part-time and temporary employment can provide valuable flexibility for both workers and enterprises. Moreover, while the Paper discusses some of the risks associated with artificial intelligence (AI) and algorithmic management (AM), it fails to emphasise the

barriers to AI uptake and digitalisation that many EU businesses, especially SMEs, face due to regulatory complexity and legal uncertainty, and which risk hampering productivity and undermining EU competitiveness in the long term.

Here is our take on the most pressing challenges:

- *Tackling labour and skills shortages in a context of demographic ageing*

The EU working-age population keeps decreasing. According to Eurostat projections, the European Union is expected to lose on average 1.2 million people of working age per year between 2025 and 2050. As the Issues Paper notes, despite a decline in labour shortages and in the job vacancy rate at EU level, major shortages persist in several key sectors and at national/regional level. As BusinessEurope's 2026 Reform Barometer confirms, labour shortages remain one of the main factors stifling productivity and the EU investment environment in the eyes of European employers. These challenges call for a mix of solutions: investments in up- and reskilling, incentives to bring inactive people into employment, a better alignment of education and training systems with labour market needs (prioritising STEM and digital skills), improvements to skills intelligence, and effective talent attraction from third countries combined with faster recognition of qualifications. Removing barriers to longer working lives and promoting active ageing can also play an important role in mitigating the impact of demographic change on labour markets.

- *Reducing inactivity rate*

The EU labour market suffers from a structural paradox: labour shortages keep coexisting with high inactivity rates. As the Issues Paper highlights, the slight increase in the EU employment rate in 2025 went hand in hand with the persistent underrepresentation of several groups in the labour market: women, younger and older persons, people born outside the EU, people with low educational attainment, and those with disabilities. For some of these groups, the trend is also negative, with employment rates declining further in 2025. Employers highlight the importance of supply-side and institutional causes of inactivity, such as financial disincentives, a lack of adequate support services, and insufficient or inadequate skills. These barriers need to be addressed primarily through public investments in education, training, employment services and active labour market policies, as well as in enabling services (e.g. childcare, long-term care, housing), welfare and social protection systems that set appropriate incentives not only to enter employment but also to remain professionally active.

- *Increasing adult participation in training to support job-to-job transitions and boost innovation*

Adult participation in learning remains worryingly low, making the EU's 2030 target (60% of adults engaging in learning over the previous 12 months) increasingly elusive. This is especially concerning in the context of the twin green and digital transition as well as structural changes that impact Member States' labour markets. Appropriate up- and reskilling programmes are the condition for effective job-to-job transitions not only within one company, but also on the external labour market. Additionally, a lack of relevant skills constrains innovation and productivity gains deriving from AI: as BusinessEurope's 2026 Reform Barometer shows, European employers view the lack of skills as the single

most important obstacle to AI adoption and have identified skills, vocational education and adult learning as one of the top five reform priorities for 2026.¹

Employers are the main providers of training to adults. The joint European social partners' project on improving skills matching highlights the importance of structured cooperation between employers, trade unions, public authorities and training providers. Its recommendations call for flexible, recognised training that supports both transitions and retention in employment, while helping unemployed and inactive people enter the labour market. Stronger cooperation with employment services and meaningful social partner involvement in anticipating skills needs and designing training are essential. Sustainable financing should draw on European funding, national budgets and social partners' training funds and initiatives, according to national arrangements. Employers should also have better access to EU funding, including ESF+, to support upskilling and reskilling.²

- *Underachievement in basic skills and more women with STEM/IT skills*

The deterioration of basic skills highlighted in the Issues Paper is confirmed by the experience of European employers and is very worrying. The recently published 2025 PISA results point to deep-seated challenges in education systems, with OECD-average performance of 15-year-old students reaching its lowest recorded level in science, reading and mathematics. Across the OECD, one in five students is now a low performer across all three subjects, up from 16% in 2022, with a particularly significant decline in reading and mathematics. In reading, PISA saw a decline in the very skills that matter most in the AI age: evaluating information, making connections across multiple sources, and thinking critically about what we read.³ This has important effects on productivity, as businesses need to invest time and resources in training candidates who lack essential basic skills. These skills should be provided by public education systems. In this context, BusinessEurope highlights that digital skills should be considered essential basic skills and integrated across educational curricula.

At the same time, as the Issues Paper notes, it is crucial to increase the participation of women in STEM and ICT, where they remain significantly underrepresented: in the EU, only 1 in 3 STEM graduates and 1 in 5 ICT specialists are women.⁴ School systems can play an important role in encouraging girls' and women's interest in STEM and ICT from an early age, to address gender segregation and develop new pools of talent.

- *Making the most of new ways of working and digital tools*

Employers favour an open approach to new technologies, which can lead to important productivity gains on European labour markets. While in every major change there are risks that need to be considered, new ways of working and new technologies, including AI and AM, should not be stigmatised. Digitalisation and AI should be viewed primarily as opportunities to increase productivity, support labour market transitions and strengthen the EU's global competitiveness. Therefore, policy frameworks should facilitate uptake rather than create additional barriers. Any initiative creating barriers to

¹ BusinessEurope (2026), [2026 Reform Barometer: 18 months after Draghi: from Diagnosis to Delivery](#).

² BusinessEurope, ETUC, SGI Europe and SMEUnited (2026), *Improving Skills Matching in Europe*, joint project report and European social partners' recommendations, February 2026.

³ OECD (2026), [PISA 2025 Results \(Volume I\): Future-Ready Students](#), PISA, OECD Publishing, Paris.

⁴ BusinessEurope (2025), [Priorities for Strengthening Gender Equality in Europe](#); drawing on data from: European Commission, Gender Equality Strategy Monitoring Portal.

deployment of AI in enterprises risks leading to missed opportunities for Europe's innovation and competitiveness.

Regarding quality jobs, employers highlight that competitiveness is a key driver of quality employment. The overall quality of jobs in Europe is high, and to ensure that European employers can continue to create and support these jobs, it is essential to avoid disproportionate measures that could slow down innovation and related productivity gains. Therefore, employers stress that ensuring job quality is not achieved by introducing new laws or additional regulatory frameworks that do not reflect economic realities and could be counterproductive. A central role should be given to social partners to find solutions together at the appropriate level through social dialogue, bearing in mind that there is no one-size-fits-all solution to balance individual workers' and enterprises' needs.

Role of social partners in implementing the reforms' agenda

We continue to appreciate a separate section in the European Commission's Issues Paper (1.3) on the role of social dialogue and involvement of the social partners in the Semester. It is appropriate that it has become a permanent part of the Paper.

Employers welcome the Issue Paper's emphasis on the essential role of social partners in shaping social and economic policies and supporting their effective implementation. Social partners provide practical labour market expertise, enterprise-level experience and assessments of reform needs at both EU and national level. Meaningful, timely and transparent consultation of social partners, both in the European Semester and beyond, is crucial to ensure that reform priorities reflect economic and social realities (including in the context of the upcoming Quality Jobs Act). We also welcome the emphasis on social partners in the proposed ESF Regulation, which reflects the key role employers play in creating and maintaining quality jobs, shaping relevant education systems and skills provisions as well as contributing to social inclusion through work.

Employers value the regular EMCO reviews of the state of social dialogue and collective bargaining across the EU. It is worth noting that we will contribute to strengthening the evidence base on social dialogue through a joint project with ETUC, funded by the EU's Social Dialogue Programme; as part of the project, a study by KU Leuven (2026-28) will map national social dialogue and collective bargaining contexts and practices, with the goal of reinforcing bipartite social dialogue at different levels. We stress that focusing solely on quantitative collective bargaining coverage can be misleading given the diversity of national social dialogue models: high collective bargaining coverage does not necessarily equal effective social dialogue.

As indicated last year, improvement is still needed in what should be a regular and well-established practice of consultation process with social partners. The same problems have persisted at the EU and national level for years: too often social partners' consultations are just a "tick-the-box" exercise with meetings organised at very short notice and background documents sent too late to ensure time for reflection and/or consulting members.⁵ These challenges have become even more acute with an

⁵ Currently, it is a regular practice that the background documents from the European Commission arrive 7-10 days before the meeting, which is clearly a deviation from an official 2-week period. The last document for these very consultations was received 7 days before the meeting.

increasing number of hearings, consultations and meetings that social partners are invited to attend.

Social partner involvement remains uneven across national reform and investment processes. BusinessEurope's 2026 Reform Barometer reports that half of respondents remain dissatisfied or very dissatisfied with their level of involvement in NRRP implementation, with dissatisfaction constantly increasing between 2024 and 2026.⁶ Eurofound's assessment of the 2024–2025 European Semester⁷ provides a broader picture: social partners generally appreciated their involvement in the European Commission's fact-finding missions, but reported much weaker involvement in national medium-term fiscal-structural plans and their annual progress reports. In many cases, consultation amounted to information-sharing or a formality, with little opportunity to propose changes.

These findings underline the need for earlier consultation, sufficient time to contribute and structured feedback on how social partners' views are considered. Additionally, employers underline the importance of ensuring that planned investments address the needs of enterprises and deliver lasting improvements in productivity, resilience and employment.

Employers' take on quality jobs

The European Commission rightly identifies key challenges and opportunities such as the need to improve labour market participation, challenges of weak productivity, the worsening situation of the lower-middle and middle-income workers related to low productivity, continuing labour force shortages and low participation of adults in up- and reskilling.

The European Commission rightly underlines that supporting quality jobs goes hand in hand with promoting competitiveness. Improvements in working conditions will mainly depend on Europe's capacity to improve labour productivity and, at the same time, participation in employment. Employers stress that ensuring job quality is not about new laws, additional regulatory burdens for companies, or monitoring frameworks that do not correspond to economic reality. Instead, it requires effective implementation, social dialogue and targeted support. The recruitment difficulties experienced by enterprises are mainly linked to a gap between skills demand and supply and to labour shortages in a context of demographic ageing. Job quality in Europe is generally good and much higher than in other regions of the world. The great majority (86%) of respondents in the then EU28 reported being either 'satisfied' or 'very satisfied' with their working conditions. This percentage has increased slightly since 2000, when 82% gave this positive rating of their working conditions.⁸ However, one can observe higher levels of job strains in occupations experiencing labour shortages and skills mismatches. Therefore, addressing skills and labour mismatches is a crucial part of the answer to improve access to quality jobs.

Job quality is a relative notion which can be assessed very differently by different people as well as by the same person at different periods of his/her life. However, when working conditions are difficult, social partners should work together, at the appropriate level, with

⁶ BusinessEurope (2026), [2026 Reform Barometer: 18 months after Draghi: from Diagnosis to Delivery](#).

⁷ Eurofound (2026), *Involvement of employer organisations and trade unions in the European Semester in 2024–2025*, Publications Office of the European Union, Luxembourg.

⁸ Eurofound (2017), [Sixth European Working Conditions Survey – Overview report \(2017 update\)](#).

the aim of helping to improve the balance between job demands (which are influenced by exposure to physical risks or difficult social situations, work intensity, degree of autonomy, perception of job insecurity, etc.) and job resources (protective equipment, social support, training, career development opportunities, etc.), bearing in mind that there are no one-size-fits-all solutions to balance individual workers' and enterprises' needs.

Employers call for taking a nuanced approach to tackle job quality challenges at the appropriate level.

Employers' take on fiscal policy

The European Semester should promote a coherent approach linking fiscal sustainability, structural reforms, competitiveness and social sustainability. Sustainable public finances, stronger productivity and higher employment are the foundation for long-term prosperity and quality jobs in Europe.

Europe's growth challenge cannot be solved through public spending alone. Fiscal policy should therefore support growth-enhancing investment and structural reforms that strengthen productivity, labour supply, innovation, private investment and long-term growth.

The implementation of the reformed EU fiscal framework should strengthen fiscal sustainability and reform incentives, while the quality of public finances should be assessed by their contribution to competitiveness, productivity and employment. Preserving fiscal space should remain a priority: in an environment of geopolitical uncertainty, energy shocks and rising spending pressures, Member States need resilient public finances to respond effectively to future crises.

In view of improving labour market productivity and economic growth, we call for a reduction in the regulatory burden for enterprises.

No new escape clause for social investments

In the current economic context – Europe's long-term economic outlook entails relatively low levels of growth – decisions about investment should focus on supporting growth- and employment-creating investments, and on improving the sustainability of public finances through necessary structural reforms. To make the best use of limited resources, efficiency gains in Member States' budgetary spending provisions should be encouraged.

The escape clauses on defence and on energy must remain exceptional and time-limited. Any attempt to create a new escape clause or broaden the existing one to social investments would weaken the stability and growth pact and increase the risk of noncompliance by allowing for ambiguities in interpretation, measurement and monitoring, thus making Member States' budgetary positions less transparent and accountable.

The European Commission has an important role in describing areas where social needs are growing (e.g. long-term care), but also in taking a long-term view on the evolution of social protection spending to provide useful insights to the Commission, national governments and social partners about where savings and reallocation of resources are possible. In this respect, BusinessEurope reiterates its call on the European Commission to develop in the future a yearly report on the main trends at national level with respect

to financing social protection, including both financial and social protection design/delivery aspects.

At the same time, the Member States that have the fiscal room to do so may well identify relevant social investments that will boost productivity growth.

To sum up

Our answers to the 3 questions set out in the European Commission's Issues Paper are as follows:

[Q1]: Do you agree with the policy challenges identified in the note? What are the key policy measures that would usefully address these challenges?

BusinessEurope broadly agrees with the policy challenges identified in the note, in particular: underrepresentation of specific groups in the labour market, persistent labour and skill shortages, low participation of adults in up- and reskilling, and insufficient alignment between education systems and labour market needs, especially with regard to STEM and digital skills.

In addition, we emphasise the scale of demographic change and its significant implications for labour markets, as well as the importance of providing lifelong learning and job-to-job transitions for those already in employment (particularly workers affected by structural change or seeking to increase their working hours or transition to new employment) in the context of labour market restructuring.

Given Europe's competitiveness imperative, we strongly stress that, when discussing AI and new digital tools, the main policy challenge is to facilitate their smooth uptake to maximise their innovation, productivity and competitiveness gains. These tools should not be stigmatised and their uptake unnecessarily constrained by regulation.

Key policy measures are:

- **Continuing efforts aimed at simplification and reducing administrative burdens**, for example by streamlining reporting obligations, facilitating data sharing and promoting the one-time reporting principle. Reducing administrative burdens should be a priority across the European Semester process to support growth, innovation and job creation.
- **Tackling labour shortages and skills mismatches** by better aligning education and training systems with labour market needs, as well as through greater investments in lifelong learning, with a focus on digital and STEM skills. It is pivotal to ensure employers' involvement in these efforts as well as in initiatives to improve skills intelligence, such as the European Skills Intelligence Observatory.
- **Addressing practical barriers to labour mobility in the Single Market**, such as fragmented posting notification systems, lack of digitalisation in social security coordination, information provision, and recognition of professional qualifications. Employers welcome the objectives and overall approach of the Fair Labour Mobility Package and its potential to unlock the benefits of the Single Market for employers, workers, and European economies.
- **Supporting national inclusive and effective active labour market policies** to increase labour market participation and employment, particularly among groups that remain underrepresented, through public investments in education, training,

employment services, and active labour market policies, alongside enabling services (e.g. childcare, long-term care and housing), and modern welfare and social protection systems that reward employment.

- **Supporting businesses in adopting AI and new digital technologies.** New technologies, particularly AI, hold massive promise in terms of fostering productivity and competitiveness; their adoption should be encouraged and supported rather than stigmatised or constrained by regulatory barriers.
- **Attracting third-country talents to the EU** more effectively, in line with companies' needs, and simplifying their access to the EU labour market as well as the recognition of third-country qualifications. BusinessEurope welcomes the proposed Directive on the recognition of qualifications of third-country nationals and calls for its close coordination with other EU efforts in this area, particularly the EU Talent Pool.
- **Supporting business competitiveness and bipartite social dialogue at different levels,** rather than introducing new legislation or additional regulatory frameworks that risk hampering innovation and productivity. Raising productivity must be a central objective, as sustainable wage growth, quality jobs and social progress ultimately depend on stronger productivity performance.
- **Promoting a stronger investment environment.** The European Semester should encourage reforms that improve framework conditions for private investment, innovation, business growth and the scaling-up of European enterprises.
- **Advancing reforms to future-proof ageing societies.** European societies require reforms that strengthen the financial sustainability of social security systems (pension, health care), increase labour supply and support longer working lives while limiting additional labour cost burdens. At the same time, fiscal policies should support growth-enhancing investment and structural reforms that boost productivity, competitiveness and employment, while preserving sufficient fiscal space to respond to future crises.

[Q2] Which action do you see as the most pressing to ensure a strong implementation of the principles of the European Pillar of Social Rights, including in the light of the recently published Commission Communication on the European Pillar of Social Rights?

We have taken good note of the recent Commission communication on the European Pillar of Social Rights and the avenues for further action it contains. Unfortunately, this communication did not seize the opportunity to conduct a deep evaluation of the Pillar since its proclamation in 2017, as we recommended. This remains for us an essential prerequisite for the next steps. We also look forward to receiving more information about and to taking part in the announced new High-Level Experts Group on the impact of Artificial Intelligence (AI) on the labour market.

Overall, employers consider that the European Pillar of Social Rights must support competitiveness, employment and productivity, rather than expanding EU competences or adding new legally binding social policy targets. Reforms should strengthen incentives to take up and expand employment and reduce inactivity traps. Activation and labour market participation should be the immediate priority, including better matching, upskilling, reskilling, vocational training and incentives to work. In our view, the Quality Jobs Act should focus on simplification and legal clarity rather than on new EU rules and obligations.

[Q3] How did social partners contribute to the latest European Semester cycle at both EU and national level? Are there any best practices or significant obstacles that you want to share?

In its Reform Barometer BusinessEurope regularly asks its members about their satisfaction with the **implementation of the National Recovery and Resilience Plans** (NRRPs). Their satisfaction remains **limited but is improving**: less than one third of BusinessEurope's member federations have expressed a positive opinion and almost half of them remained neutral. Up till now over 68% of NRRPs' funds (€394 billion) have been disbursed; however, 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 remains high. It has been expressed by half of respondents, and the dissatisfaction has increased compared with the previous year's assessment. We observe that the same problems have persisted at the EU and national level for years: too often social partners' consultations are just a "tick the box" exercise with meetings organised at very short notice and background documents sent too late to ensure time for reflection and/or consulting members⁹. These challenges have become even more acute with an increasing number of hearings, consultations and meetings that social partners are invited to attend.

Country-Specific Recommendations (CSRs) are widely valued, with more than 90% of BusinessEurope's 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 BusinessEurope's 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.

As highlighted by a recent Eurofound study,¹⁰ the involvement and consultation of social partners in the development of medium-term fiscal-structural plans (MTFSPs) has been highly uneven and inconsistent across Member States. In several countries, they were not consulted at all, while in others, consultation covered only certain aspects. Only four employer organisations assessed their involvement as meaningful, while many others felt that it was handled largely as a formality that did not allow them to propose changes. Involvement of social partners was stronger in the fact-finding missions. These findings point to the need for improvements, including starting the MTFSP drafting process earlier to allow sufficient time for proper consultation, improving transparency and guidance regarding consultation procedures, and supporting social partners' capacity building to allow them to engage effectively across different aspects and stages of the European Semester.

To conclude, EU policymakers should acknowledge that the European social partners are best placed to reconcile employers' and workers' needs on issues within their remit.

⁹ In 2026, EU cross-industry social partners were granted 24 hours to prepare their comments on the European Semester Spring Package.

¹⁰ Eurofound (2026), [*Involvement of employer organisations and trade unions in the European Semester in 2024–2025*](#), Publications Office of the European Union, Luxembourg.

They should be given the necessary space so that social dialogue can play its role in helping to find solutions to Europe's labour market challenges. Where social partners can deliver solutions directly through negotiations of social partners agreements, legislative intervention should be avoided. At the same time, the European Commission should use the European Semester to support Member States in their reform efforts, respecting the division of competences enshrined in the Treaties.
