

**KEY EMPLOYMENT AND SOCIAL CHALLENGES IN VIEW OF THE
2026 EUROPEAN SEMESTER
SOCIAL PARTNERS' CONSULTATIONS
EMPLOYERS' VIEWS**

10 October 2025

Introduction

This year's preparation of the 2026 Semester Autumn Package takes place in a yet more complicated context. Increasing geopolitical uncertainty, challenges related to trade relations, reduced fiscal space and the need for strategic investments, notably in security and defence, require creating conditions that foster growth and strengthen Europe's capacity to sustain both economic resilience and social cohesion.

For European employers the best way to ensure that economic and social progress go hand-in-hand is to create conditions for a simultaneous increase of productivity and employment. It is a persisting challenge: since decades Member States continue not to be able to increase both productivity and employment at the same time.

Europe's productivity lag reflects deeper structural imbalances, including limited innovation and digital uptake as well as underinvestment in key services and infrastructure that underpins investment. Ensuring that productivity and employment growth happen simultaneously is also the best way to maximize the capacity to create quality jobs in Europe.

The EU economy is losing ground

The EU's economic performance is increasingly lagging behind key global competitors. Over the past three decades, the difference in per capita GDP between the EU and the U.S. has significantly widened. In 1995, the EU's per capita GDP was 68% of the U.S. level, and by 2024 it had dropped to just 50%. Meanwhile, other nations have made substantial gains in their relative economic standing. For instance, China's per capita GDP rose from a mere 2.1% of the U.S. level in 1995 to 15.5% in 2024, underscoring a dramatic shift in global economic dynamics.

The EU demonstrates also a weaker innovation capacity. This stagnation is due to lower long-term productivity growth caused by various factors hampering investment and marketable innovation: high energy costs, excessive regulation, skills and labour shortages further aggravated by demographic changes, insufficient access to capital etc. Contrary to this, it seems that crisis response in the US has stimulated innovation and structural changes, while in Europe, public interventions aim for keeping existing, often inefficient, structures alive.

Many of Europe's economic weaknesses are not new. The Draghi report, which looks at the evolution since the early 2000s, shows a continued deterioration. For the last five decades, Member States were either increasing productivity or improving employment. European labour productivity was roughly on par with the US in 1995, but the EU was experiencing lower labour participation. In the next years, Europe managed to increase labour participation, but productivity growth suffered.

To put an end to its GDP per capita stagnation, the EU needs to create the conditions that will ensure simultaneous productivity growth and increase labour participation.

There is also growing concern over the EU's declining attractiveness as an investment destination. Over half of the respondents of the BusinessEurope's Reform Barometer 2025 reported a deteriorating investment environment, hindering EU's competitiveness against international peers. The regulatory environment is identified as the primary challenge to EU investment¹, followed by high energy prices, and skilled labour shortages

The way forward

- Create favourable conditions for investment and job creation by reducing regulatory burdens.
- Ensure easier access to finance, particularly for SMEs, also by fostering a more integrated Capital Markets Union and encouraging the mobilization of savings (the Savings and Investments Union).
- Lower barriers within the Single Market.
- Improve the efficiency of public spending by making EU programs more accessible and transparent and reallocating resources from less effective initiatives to those with greater impact.

The most pressing labour market challenges

The most pressing labour market challenge is to boost productivity growth. Increasing the productivity of work will be the main factor for social partners to be able to improve working conditions. The European semester processes should strengthen the focus on productivity growth, and from a labour market perspective, identify how skills training investments contribute to higher productivity growth. The lack of good data on the link between skills training and productivity needs to be remedied.

In its issues paper for discussion the Commission notes that in 2024 employment continued to increase. This is a very good phenomenon *per se* but must be analysed in a more general context of a tight labour market, persisting labour force shortages, skills mismatches and relatively high inactivity rate, especially among representatives of various underrepresented groups. A very positive development is an increase of the employment rate of older people (aged 55-64), probably due to pension reforms, and societal changes, but also proving that employers hire talents across all age groups provided the candidates have the right skills. The increased labour market participation of the third country nationals (TCNs) is a natural development in the context of persisting labour force shortages. The inflow of TCNs sheds light on the importance of skills portability, recognition of professional qualifications and facilitating mobility, also by the use of digital tools such as eDeclaration. Next, the Commission notes that real wage growth is expected to decelerate in 2025 and 2026 (by 1.6% and 1,1% respectively) due to productivity growth remaining modest and weakening, less tight labour markets. The latter might be influenced by the heightened uncertainty that makes companies more cautious with their investments. Lastly, there is still room to reduce poverty and the risk of social exclusion by making Active Labour Market Policies (ALMPs) more effective and increasing labour market participation rate of those further from the increasing labour market participation rate of those further from the labour market.

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

The EU working age population decreased by 3.5 million between 2015 and 2020. It is expected to shrink further over the next years and decades, with the loss of an additional 35 million persons by 2050. Demographic headwinds are especially strong in Eastern Europe where working age population has contracted by 12% since 2002. Enterprises are faced with recruitment difficulties that hamper

¹ OECD (2025), *Better Regulation Practices across the European Union 2025*, OECD Publishing, Paris, <https://doi.org/10.1787/6f007516-en>, p. 18.

their growth. At the same time unemployment and relatively high inactivity rate persists across the EU. A particular concern is the large number of NEETs (young people not in employment, education or training), who represent a significant underutilised potential of the labour market and risk long-term social exclusion, if not reintegrated. Furthermore, when shortages are declining and go back to pre-Covid crisis levels, as is the case for industry, it is for the wrong reasons: a decline in activity rather than an increase in available labour. Re-skilling, up-skilling and reducing labour market slack are crucial measures to respond to labour and skills shortages, but legal migration is also part of the answer. All these aspects are particularly important for SMEs, which need to adequately be supported to face the challenges of the labour market.

In the context of demographic ageing, business transfers should also be supported. There is a large number of SMEs that will need to be transferred in the next five to ten years due to entrepreneurs reaching retirement age. From an SME and craft perspective, it is key to continue promoting entrepreneurship also via incentives to take over existing companies. This approach ensures continuity while fostering innovation, helping to safeguard jobs, and strengthen local economies. It will be also necessary to consider the implementation of policies that encourage generational change and enable the transmission and the enhancement of skills, with the aim of ensuring business continuity and preserving knowledge.

The demographic decline also affects employers providing services of general interest, where shortages in health, education, and care professions are reaching critical levels in several Member States. Ensuring the continuity and quality of these essential services requires targeted measures to attract and retain workers, stable and predictable public financing, and reforms that make these sectors more attractive, including through investment in training, career development, and innovation in work organisation.

The way forward

- Building on the positive tripartite meeting held in the context of the EPSCO Council's employment committee on 11 March 2025, the Commission and the Council should now come up with a structured EU coordinated approach to addressing labour and skills shortages.
- *Increasing adult participation in training*

A worrying trend is low adult participation in learning (around 40% of those aged 25-64 in 2022) still well below the EU target of at least 60% by 2030. The Commission rightly indicates that it is a concerning phenomenon, especially given the pressing need to tackle labour force shortages and boost the EU's productivity and competitiveness. Moreover, the digital transformation increases the importance of addressing the problem of the skills gap and its impact on Europe's innovation capacity. The new important area of basic skills is digital skills that together with STEM skills are the basis for the further professional development/upskilling.

Skills are crucial not only for effective job-to-job transitions, but also for innovation. Innovation, in turn, is crucial for improving productivity which in turn enhances ability to create good quality jobs. There is a shared responsibility of employers, workers and public authorities for training. Social partners need to be involved in education and training policy to ensure the form and content of training equips people with the labour market relevant skills. The Union of Skills published by the European Commission recently introduces a plan to improve high quality education, training, and lifelong learning and is a step in the right direction.

The way forward

- Employers call for earmarking 50% of ESF resources in the next programming period 2028-2034 for skills development to help address labour and skills shortages. Within this allocation, at least 15% should be dedicated to financial incentives that directly support employers in providing training.
- Stronger connection needed between ESF financial support and parallel efforts of the Commission's Secretariat General to support Member States' reforms of vocational training systems.
- Social partners should be involved at EU and national level to make sure that skills related investments and reforms actually translate into higher productivity growth.
- *Accompanying job-to-job transitions in a highly uncertain environment*

Restructuring and structural change have accelerated with the twin green and digital transition. New technologies and materials transform enterprises' production models, work processes, occupations and performed tasks. They change skills requirements and people need to be accompanied in these transitions. However, these changes also pave the way to new opportunities. According to Eurofound the sectors with the largest recorded number of jobs lost in 2024 are: manufacturing, transportation/storage and retail and the sectors with the largest recorded number of job creation in 2024 are: manufacturing, transportation/storage and utilities. It is worth noting that the same two sectors experience the biggest job losses and gains at the same time.

Workers experiencing changes in their skills profiles need to have access to effective and timely up- and reskilling. Employers need to be accompanied in these changes as well, for example a more coordinated approach is needed to ensure EU funds (i.e. ESF+, EGF) provide financial incentives that stimulate market-driven investments in workforce skills. In line with the Draghi's recommendations, resources must be allocated more effectively, ensuring accountability and measurable impact on job-relevant training. Employers should also be able to benefit from available EU funds earmarked to support Member States in an efficient way, who have the main responsibility to ensure accessibility and to finance continuing education and training systems to address the need for upskilling and reskilling.

The way forward

- Continuing reforms in the field of ALMP and work incentives such as hiring incentives for employers and in-work benefits for workers to encourage employment participation and the progressive increase of working hours
- Supporting labour mobility, both intra-EU and from third countries
- Increasing labour market participation of all those who can work
- Fostering multistakeholder partnerships, including among public and private employment services
- Continuing reforms in the field of adult learning, including supporting employers in their efforts to increase workers participation in job relevant training
- Encouraging workers to take up training and participate in lifelong learning
- Promoting entrepreneurship also via business transfers

The European Semester 2025 and implementation of the Recovery and Resilience Plans

In its note, the Commission indicates that the 2025 European Semester cycle focussed on strengthening the EU's competitiveness and resilience pointing at the Competitiveness Compass as

an important policy package, among other initiatives. Employers appreciate the fact that the Commission has finally brought the issue of competitiveness and productivity into the spotlight. Healthy, competitive economy is the basis for maintaining European social model. It is impossible to secure sufficient finances to sustain the European way of living without increasing productivity.

The architecture of the new governance framework has proved effective. Including the analysis of risks and challenges to social convergence in the European Semester framework is appropriate solution. Employers also appreciate the usual opportunity to exchange on the results of the first-stage analysis before the Commission publishes it. Carrying over the Employment Guidelines of December 2024 and updating recitals was the appropriate approach. Employers fully agree with the priorities indicated by the Commission in the 2025 Country-Specific Recommendations (CSRs) of the Semester Package, notably supporting labour market participation, emphasis on human skills development and well-designed tax and benefit systems, combined with appropriate work incentives. However, the process of reform implementation is not sufficient, which is especially worrying given the approaching end of the Recovery and Resilience Facility.

From SGI Europe's perspective, the slow implementation of the Recovery and Resilience Plans also threatens much-needed investments in essential services infrastructure. Findings from its *Accessible Climate-Conscious Essential Services (ACCES)* project show that water, energy, and housing systems across Europe face critical underinvestment, ageing infrastructure, and mounting affordability pressures. These sectors require long-term and predictable public investment frameworks to ensure continuity of access and affordability, particularly in vulnerable regions.

The implementation of the national Recovery and Resilience Plans (RRPs) continues to remain a source of concern for national business federations in beneficiary countries. In the context of Business Europe's Reform Barometer, only Cyprus and Finland report satisfaction with the implementation, while 11 federations, or 85% of the sample, report being either "dissatisfied" or "very dissatisfied" with implementation in 2024.

Such negative assessment largely stems from concerns about the rapidly approaching deadline to implement the RRP, and the overall slow implementation reported by all countries. According to the European Commission's latest data, only €225 billion out of €359 billion (equivalent to 63%) have so far been disbursed in grants, while €141.3 billion out of €291 billion (equivalent to 48%) have been issued in loans.

The main obstacles to effective implementation of the RRP include lengthy decision-making processes by authorities (25% of respondents), excessive bureaucracy (21% of respondents), the misalignment of most projects with private sector needs (20% of respondents), and the insufficient capacity of the projects to bring structural changes to the economy (19%). It should be noted that the two main obstacles are related to administrative aspects of accessing funds and this area has been indicated as problematic by 46% of respondents.

A significant majority of participants considers the European Commission's country-specific recommendations to be either "important" (40% of respondents) or "extremely important" (over 45% of respondents). However, respondents indicate that the implementation of these reforms remains inadequate: 80% of the recommendations are considered as being only partially implemented, poorly implemented, or not implemented at all.

When examining reforms from a broader perspective and assessing progress across five key policy areas (taxation and public finances, business environment, labour market, innovation and skills, access to finance and financial stability), dissatisfaction with the progress in the reform implementation emerges as the overarching theme. Labour market is indicated by the biggest share of respondents as the field where reforms are unsatisfactory (48% of respondents) followed by taxation (44% of respondents). Around 30% of respondents are not satisfied with the progress made in innovation and skills area. It is worth noting that access to finance and financial stability stands out

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

From a list of 37 policy areas identified by the European Commission in its country-specific recommendations database, BusinessEurope's members were asked to select their top five priorities. Taxation policy emerges as, by far, the most critical priority area for reform in 2025 (indicated by almost 15% of respondents). This is followed by active labour market policies (almost 10% of respondents), skills development (approx. 8% of respondents), renewable energy, and improvements in the business environment. However, results also reveal that opinions diverge widely across countries, regarding most of the policy areas. Notably, respondents mentioned that 70% of their selected priorities are already included in their respective governments' agenda.

The way forward

- Accelerate and improve effectiveness of reforms implementation, notably in the field of labour market and skills
- Reduce administrative burdens related to accessing RRF projects
- Re-examine remaining programs/projects against their accessibility for companies
- Leave sufficient discretion for various national approaches and priorities

Role of social partners in implementing the reforms' agenda

We continue to appreciate a separate point (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 ASGS issues paper.

As indicated last year, the improvement is still needed to what should be a regular and well-established practice of consultation process with social partners. The same problems persist at the EU and national level for years: too often social partners' consultations are just a "tick the box" exercise with meetings organised at a very short notice and background documents sent too late to ensure time for reflection and/or consulting members². These challenges have become even more acute with an increasing number of hearings, consultations and meeting social partners are invited to attend.

The same trend can be observed as regards involvement of social partners in the RRP implementation in 2024. This dissatisfaction has even grown compared to previous years, primarily due to the lack of involvement in the reprogramming of projects, and insufficient clarity regarding the impacts on projects and payments, especially with the 2026 deadline to fully utilise Next Generation EU funds approaching fast. Additionally, BusinessEurope's member federations highlighted the minimal cooperation with the private sector, despite numerous significant project proposals from companies related with the twin transition.

We strongly believe that creating an enabling environment for bipartite and tripartite social dialogue, including collective bargaining, in the public and private sectors, at all levels is a crucial condition for the success of the reforms' agenda. Social partners, when involved timely as well as in a systematic and timely manner, are ready to contribute to design and implementation of employment and social policies as well as other policies, whenever relevant.

At the same time, we appreciate multiple occasions for consultations, i.e. on key moments of the European Semester. It is also a good practice to include information on the state of a national social dialogue, whenever relevant as well as addressing individual CSRs in case of the social dialogue

² Now it is a regular practice that the background documents from the Commission arrive 7-10 days before the meeting which is clearly a deviation from an official 2-week period.

insufficiencies and the need to improve social partners' involvement. These activities should be continued.

The way forward

- Make meaningful and timely consultation processes a reality
- Respect deadlines to ensure high-quality input from social partners
- Organize in-depth discussions prior to launching any regulatory proposals
- Respect the EU social partners' autonomous agreements
- Increase social partners' capacity to be able effectively contribute to the consultations

Key challenges and opportunities in the employment and social domains

The Commission rightly identifies key challenges and opportunities such as need to improve labour market participation, especially of those from underrepresented or vulnerable groups as well as the youth, challenges of weak productivity for real wage growth, worsening situation of the lower-middle and middle-paid workers related to low productivity, continuing labour force shortages, far from being satisfactory participation of adults in up- and reskilling. The Commission also rightly indicates challenges and opportunities related to accelerating digital transformation.

At the same time the Commission adopts a wrong perspective on job quality. Ensuring job quality is not about new laws, additional regulatory burdens for companies nor about creating purely theoretical monitoring frameworks that do not correspond to economic reality.

The ability to create quality jobs is very much linked to creating right conditions for investment. A crucial element missing in the Commission's analysis is entrepreneurship and importance of supporting it. Entrepreneurship is essential for economic and social development as it creates sustainable jobs and generates wealth. In the context of globalization and rapid transformations, the ability to take risks and innovate is decisive for Europe's competitiveness. Supporting entrepreneurship is not only about funding new companies. It is equally important to promote partnerships and mergers that enable greater scale of operations and growth capacity. For this, a simple, stable and attractive legislative and fiscal framework is necessary.

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 report 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 conditions³. 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 job quality.

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 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.

³ Eurofound (2017), [Sixth European Working Conditions Survey – Overview report \(2017 update\)](#), p. 105.

The way forward

For the employers, there is an urgent need to focus EU social policy and social dialogue on:

- helping to tackle labour shortages and skills mismatches with education and training measures, paying special attention to basic skills, STEM skills as well as the skills required for the green and digital transitions and policies to activate unemployed and inactive persons;
- 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;
- promoting inclusive and effective active labour market policies to increase labour market participation and employment;
- promoting future-proof skills, supporting vocational education and training, corresponding to enterprises' needs bringing digital education to the forefront;
- attracting third country talents in the EU more easily (legal migration) in line with companies' needs and facilitating access to the EU labour market and mutual recognition of qualification;
- avoiding burdensome regulatory and reporting requirements (e.g. duplications and overlaps in the area of social sustainability reporting);
- reducing regulatory burdens and improving enforcement of existing legislation by providing guidance and support, in particular to SMEs;
- supporting Member States in implementing the Council Recommendation on strengthening social dialogue in the EU as well as respecting the role of the social partners and collective agreements.

EU policymakers should acknowledge that the European social partners are best placed to reconcile employers' and workers' needs on issues within their remit. They should be given the necessary space so that the social dialogue can play its role in helping to find solutions to Europe's labour market challenges. At the same time the Commission should use the European Semester to support Member States in their reform effort, respecting the division of competences between the two enshrined in the Treaties.
