



Brussels, 19.6.2024  
COM(2024) 600 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE  
EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF  
THE REGIONS AND THE EUROPEAN INVESTMENT BANK**

**2024 European Semester - Spring Package**

## 1. INTRODUCTION

**Over the past five years, the EU has demonstrated a high degree of economic and social resilience in the face of major shocks, thanks in particular to a coordinated policy response.** The EU and its Member States have successfully faced the socio-economic consequences of the COVID-19 pandemic, Russia's war of aggression against Ukraine and the related energy price surges and inflation hikes. While the EU's economy posted a strong recovery after the pandemic, the fallout from the energy crisis sparked by Russia's war of aggression led to a marked slowdown in 2023. Growth is expected to pick up gradually over the course of this year and next. The European Semester for economic and social policy coordination has supported policy responses, aimed at delivering a sustainable recovery and the green and digital transition, while strengthening the resilience of the EU. It identified Member States' specific reform and investment needs, tackling both long-standing and new challenges, and guided their responses to the COVID-19 crisis and the energy supply and price shocks. The country-specific recommendations (CSRs), proposed by the Commission and endorsed by the Council in the context of the European Semester, were the basis for the programming under cohesion policy and for the national recovery and resilience plans (RRPs), including the REPowerEU chapters, which Member States prepared to meet the above-mentioned challenges within the framework of NextGenerationEU. Furthermore, the Semester remains key for the implementation of the European Pillar of Social Rights and the achievement of the EU 2030 headline targets for jobs, skills and poverty reduction.

**The European Semester has enabled EU funding instruments to support EU policy objectives in a targeted and efficient way.** The ongoing implementation of the Recovery and Resilience Facility (RRF), including the introduction of dedicated REPowerEU chapters in national RRP, the Technical Support Instrument, and the use of cohesion policy funds, continue to play a pivotal role in shaping reform and investment agendas in all Member States. As set out in the Annual Sustainable Growth Survey, the 2024 cycle of the European Semester explores complementarities and synergies between different EU funding instruments and Member States' reform and investment actions and takes stock of the ongoing implementation of RRP and cohesion policy programmes. The RRF has disbursed over EUR 240 billion to Member States in grants and loans so far, representing 37% of total funds available. Also, over EUR 256 billion has been disbursed under the cohesion policy funds since the beginning of the COVID-19 pandemic. As illustrated in this year's country reports, these instruments and other EU funding programs have supported the EU's recovery towards a greener, more digital, fairer and more resilient future through job creation, improved competitiveness, macroeconomic stability and territorial and social cohesion. In addition, this Semester cycle provides guidance in view of the forthcoming mid-term review of cohesion policy programmes. It includes a call to make use of the opportunities provided by the Strategic Technologies for Europe Platform (STEP) initiative to support the development of manufacturing capacities in critical technologies, while promoting a level playing field.

**The EU is determined to take further steps to ensure its long-term competitiveness, prosperity and leadership on the global stage and to strengthen its open strategic autonomy.** The EU and its Member States have strong assets to build on: highly qualified workers; excellence in research; quality infrastructure; a solid manufacturing base in key sectors; a strong services sector; highly developed social welfare systems and a comprehensive green and digital transition strategy. Additionally, the four freedoms of the single market are a powerful engine for convergence and growth, promoting a highly competitive social market economy, economic,

social and territorial cohesion, and a level playing field. Economic convergence is particularly evident for the 13 Member States which joined the EU since 2004 and have witnessed an impressive, uninterrupted economic and social catch-up, resilient to the major crises that the EU has weathered <sup>(1)</sup>. Nonetheless, the EU economy faces challenges to its competitiveness, with low productivity growth, intensified by weak investment dynamics and persistently high labour and skill shortages. There is also ample room for further upward economic and social convergence, both between and within Member States. The EU will continue to address the structural challenges that hamper its competitiveness and resilience. This requires deepening the single market across its four dimensions; well-focused investments at EU, national and regional level; and an ambitious reform agenda. In addition to the analysis provided by the Commission <sup>(2)</sup>, the high-level report by Enrico Letta <sup>(3)</sup> lays out concrete proposals to inform the discussion about the future of the single market around key priority areas <sup>(4)</sup>. Further guidance will be provided by the high-level report on the EU's competitiveness by Mario Draghi. In this Spring Package, the Commission provides analysis and proposes CSRs to address major bottlenecks and to put in place the right conditions to boost competitiveness, while aligning such actions with the EU's pursuit of the UN's Sustainable Development Goals (SDGs).

## **2. REVISED ECONOMIC GOVERNANCE FRAMEWORK**

**The revised legislation reforming the EU economic governance framework came into force on 30 April 2024 <sup>(5)</sup>.** The reform addresses the shortcomings of the previous framework, making it simpler, more transparent and effective, with greater national ownership and better enforcement. The reformed framework aims to strengthen debt sustainability through gradual fiscal consolidation while safeguarding public investment. It promotes sustainable and inclusive growth in all Member States through reforms and investments, including in strategic areas such as the green and digital transition, social and economic resilience and the implementation of the European Pillar of Social Rights, energy security and the build-up of defence capabilities. The reformed framework will be fully embedded within the European Semester. At the heart of the new framework, Member States are expected to prepare medium-term fiscal-structural plans, in which they will set out their expenditure paths and their priority reforms and investments for the coming four years. The credibility of the new framework will be underpinned by the association of national parliaments and other national stakeholders, including independent fiscal institutions and social partners, in particular when preparing the plans. This process should strengthen national ownership by providing Member States with greater leeway in designing their fiscal adjustment paths, and setting out reform and investment commitments, in line with the common priorities of the EU and necessary investments in European public goods. Member States will present annual

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<sup>(1)</sup> Expressed in purchasing power standards, GDP per capita of the 10 “new” Member States, which joined EU 20 year ago, increased from 51 % at the time of accession, 2004, to 79% in 2023. See European Commission (2024), 2024 Spring forecast.

<sup>(2)</sup> For example in the [Commission's Communication on Long-term-competitiveness; the 2024 Annual Single Market and Competitiveness Report and the Ninth report on economic, social and territorial cohesion](#).

<sup>(3)</sup> [Enrico Letta, 'Much more than a market' \(April 2024\) \(europa.eu\)](#).

<sup>(4)</sup> Such as improving access to capital for European companies; reducing the cost of energy; improving the skills of our workforce; strengthening trade with the rest of the world

<sup>(5)</sup> The entry into force of this legislation marks the end of the economic governance review, which the Commission launched in February 2020. On 26 April 2023, the Commission came forward with legislative proposals.

progress reports to facilitate more effective monitoring and enforcement of the implementation of their commitments.

**The Commission is working with Member States to ensure the timely submission, assessment, and endorsement of the first set of medium-term fiscal-structural plans.** On 21 June, the Commission is set to provide Member States with guidance on the information requirements for the plans and the subsequent annual progress reports. Where applicable, the Commission will transmit to Member States numerical guidance on the fiscal adjustments (the reference trajectories and technical information). Following this guidance, the Member States and the Commission will have technical dialogues to help prepare the plans. Member States should submit their first medium-term fiscal-structural plan in the autumn. The legal deadline is 20 September unless the Member State and the Commission agree to extend that deadline by a reasonable period. In order to ensure that the budgets for 2025 are the first step in implementing the medium-term fiscal-structural plans and to ensure full implementation from 2025 onwards, medium-term fiscal-structural plans will be assessed together with the Draft Budgetary Plans for euro area Member States, which have to be submitted by 15 October.

**The CSRs, including those proposed by the Commission in this Spring Package, strongly underpin the reform and investment commitments to be set out in Member States' medium-term fiscal-structural plans.** The plans will explain how Member States intend to ensure the delivery of reforms and investments in response to the main challenges identified in the context of the European Semester and to the common priorities of the EU. When a Member State comes forward with a set of reform and investment commitments underpinning an extension of the adjustment period by up to three years, these commitments should result in an improvement of the growth and resilience potential of the economy of the Member State concerned in a sustainable manner, and support fiscal sustainability, ensure sustained public investment, and address relevant country-specific recommendations as well as the common Union priorities.

### **3. KEY OBJECTIVES FOR THE 2024 COUNTRY SPECIFIC RECOMMENDATIONS**

**The 2024 country reports comprehensively analyse Member States' economic and social developments and provide an overview of their competitiveness.** The reports identify key outstanding challenges requiring further policy action, with a focus on competitiveness. They also offer an updated assessment of the progress made in implementing past CSRs, the European Pillar of Social Rights and the related EU 2030 targets for employment, skills and poverty reduction as well as SDG targets. The reports equally take stock of the ongoing implementation of RRP, including their REPowerEU chapters, and the cohesion policy programmes, outlining how these instruments complement each other. Furthermore, they identify key priorities in view of the mid-term review of cohesion policy programmes.

**Based on the analysis in the country reports, the Commission recommendations for the CSRs aim to strengthen Member States' competitiveness.** Member States are invited to act quickly and ensure timely implementation of cohesion policy programmes as well as the reforms and investments in their RRP, including those in the REPowerEU chapters. Despite the continued progress made, some Member States face substantial delays and significant difficulties, requiring swift action. CSRs continue to identify challenges that are only partially or not addressed by the RRP. At the same time, new challenges and policy priorities have emerged, and existing ones have been amplified with regards to their impact on competitiveness, which require Member

States to take additional policy action. In this regard, Member States are set to include reforms and investments in their forthcoming medium-term fiscal-structural plans <sup>(6)</sup>, among other things, to underpin the possible extension of an adjustment period. Furthermore, the mid-term review of cohesion policy programmes is an opportunity to look at challenges and vulnerabilities that have become more prominent since the latest programmes' approval.

For each Member State, the CSRs comprise:

1. a recommendation on fiscal policy, including fiscal-structural reforms where relevant;
2. a recommendation on the implementation of the RRP and cohesion policy programmes, taking into account country-specific risks as regards implementation, which includes guidance in view of the mid-term review of cohesion policy programmes;
3. where relevant, further recommendations on outstanding and/or newly emerging challenges, focusing on improving competitiveness.

## 4. REMAINING CHALLENGES AHEAD

### 4.1 Macroeconomic stability

**The EU's economic growth is set to increase gradually in 2024, albeit at an uneven pace across Member States.** The strong GDP growth in 2021-2022, compounded with high inflation, led to a marked decline in debt-to-GDP ratios. This decline is set to slow against a backdrop of lower inflation and growth remaining moderate. After the slowdown in 2023 GDP growth is expected to pick up gradually, to 1.0% in 2024 and 1.6% in 2025. On the external side, the marked fall in energy prices in 2023 improved the positions of current accounts in Europe. The Commission has identified vulnerabilities related to macroeconomic imbalances or excessive imbalances in nine Member States in the context of the macroeconomic imbalance procedure. Box 2 summarises the findings on macroeconomic imbalances in the Member States.

**Accelerating the completion of the Banking Union and progress on the Capital Markets Union will further safeguard financial stability and is essential to finance the twin green and digital transitions and boost competitiveness.** The EU's banking system is sound, as confirmed by the results of the latest stress tests by the European Banking Authority and the European Central Bank. However, the outlook for the EU financial system is more challenging with prospects of higher financing costs, lower interest income, and slower loan growth along with modest economic growth. Completing the Banking Union, including through introducing a common deposit insurance scheme, is a key priority to achieve greater financial stability and support appropriate funding to the EU economy. To match the substantial financial needs linked to the green and digital transitions and to spur innovation and competitiveness, market-based funding opportunities must complement bank financing and urgently become more widely and readily available in Europe. Making the EU's economy more productive, resilient and competitive relies on integrated, deep and liquid capital markets that can make best use of Europeans' savings and allocate capital more efficiently, including to innovative start-ups and scale-ups. In line with the recent Conclusions of the European Council and the statement of the Eurogroup, the

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<sup>(6)</sup> The plan should explain how the delivery of investments and reforms responding to the relevant country-specific recommendations will be ensured. Country-specific recommendations should be considered 'relevant' as long as the Member State has not yet made 'full' or 'substantial' progress in addressing them as assessed during the European Semester surveillance exercise.

Commission continues working on measures to create a genuine single market for capital for the benefits of citizens and businesses across the Union.

**2024 marks a year of transition for fiscal policy coordination in the EU, with the entry into force of the revised economic governance framework.** The COVID-19 crisis, the temporary surge in energy prices, and the required policy response have contributed to a substantial increase in public debt in several Member States in recent years. Fiscal support should now be scaled back in order to put debt on a downward path or to keep it at prudent levels. For 2024, the Council recommendations of July 2023 include quantified guidance that remains valid. For 2025 and beyond, prudent fiscal policies should ensure that the growth in net expenditure <sup>(7)</sup> is consistent with the fiscal adjustment requirements under the new governance framework. Concretely, Member States with public debt above 60% of GDP or a deficit above 3% of GDP should ensure that the growth in net expenditure is limited to a rate that puts the government debt-to-GDP ratio on a plausible downward path over the medium term, while bringing the general government deficit to below 3% of GDP and maintaining it below this reference value over the medium term. Besides the need to maintain a prudent fiscal strategy, public investment needs to be maintained, and where needed increased, to support long-term growth, social and economic resilience, the green and digital transitions and the build-up of defence capabilities. The European Union is committed to increasing its overall defence readiness and capabilities to match its needs and ambition in the context of rising threats and security challenges. In order to improve the European defence industry's access to public and private finance, the Commission will follow up the request of the European Council to explore all options for mobilising funding.

**The Commission intends to propose that the Council opens excessive deficit procedures, as announced in the Communication on fiscal policy guidance for 2024 <sup>(8)</sup>.** In a first step, as part of this package, the Commission is putting forward a report examining the reasons for the excess over the 3% of GDP deficit reference value in 12 Member States (see Box 1). The report concludes that the deficit criterion is not fulfilled in seven Member States. This means that, for these Member States, the Commission intends to propose to the Council, in July, decisions establishing the existence of an excessive deficit, following the Opinion of the Economic and Financial Committee. The next step in the procedure, namely the Commission Recommendations for Council Recommendations on the correction of the excessive deficits, will take place together with the Commission Opinions on the Draft Budgetary Plans of euro area Member States. This approach will ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plans, provided that Member States' medium-term fiscal-structural plans are submitted in time, as called for above. In the absence of the plan by the time of the Commission Opinion on the Draft Budgetary Plans and to avoid a surveillance gap under the excessive deficit procedure, the budgetary requirements under the excessive deficit procedure would be based on the reference trajectories. This timeline is exceptional and linked to the transition to the new framework, therefore not setting a precedent.

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<sup>(7)</sup> 'Net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures

<sup>(8)</sup> [Communication on fiscal policy guidance for 2024](#), COM(2023) 141 final, 8 March 2023.

### **Box 1: Update on fiscal surveillance under the revised Stability and Growth Pact**

**As part of the Spring 2024 European Semester package, the Commission has adopted a report under Article 126(3) TFEU for 12 Member States.** These are Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia and Finland. For all these Member States, the report assesses their compliance with the deficit criterion. For 10 of these Member States (Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland and Slovakia), the Report is based on a general government deficit outturn above 3% of GDP in 2023. Slovenia and Finland are included due to a planned deficit in 2024 exceeding the 3% of GDP reference value. The report concludes that the deficit criterion is complied with for Czechia, Estonia, Spain, Slovenia, and Finland and not complied with for Belgium, France, Italy, Hungary, Malta, Slovakia and Poland. Compliance with the debt criterion cannot be fully assessed at this stage in accordance with the criteria of the new framework i.e., without a net expenditure path approved by the Council <sup>(9)</sup>.

**Romania, which has been in an excessive deficit position since 2020, is assessed as not having taken effective action to correct this situation.** On 3 April 2020, the Council decided that an excessive deficit existed in Romania based on 2019 data. In its Recommendation of 17 June 2022, the Council asked Romania to put an end to the excessive deficit situation by 2024 at the latest. Romania's general government deficit in 2022 was in line with the 2022 Council Recommendation but deviated from the 2023 Council Recommendation. The Commission includes in today's package a proposal for a Council Decision establishing that Romania has not taken effective action in response to the Council Recommendation of 17 June 2022.

**Further strengthening the fiscal sustainability of public pension systems and the cost-effectiveness of health and long-term care systems in the face of ageing populations, while ensuring adequacy quality and access, should remain a key objective for Member States.** Ageing-related costs represent about a fifth of GDP for the EU and are projected to significantly increase over the medium and long term <sup>(10)</sup>. Pension, healthcare and long-term care systems should adapt to these challenges, including through measures to encourage the participation of older workers in the labour market, strengthen sustainability in the pension system and improve the cost-effectiveness of healthcare and long-term care systems.

**Tapping into underused sources of taxation and stepping up taxpayer compliance can help ensure sufficient tax revenues to support public investment as well as help achieve common policy objectives and safeguard fiscal sustainability.** A balanced and more future-proof tax mix, also based on means-testing and distributional impact assessments, will support the delivery of inclusive and sustainable growth. This includes shifting some of the tax burden from labour taxation towards environmental and recurrent immovable property taxation in a fair and efficient manner, for instance by strengthening the polluter pays principle. Effective tools to fight aggressive tax planning strategies and improved tax compliance help ensure that taxpayers are fairly treated, the funding of public services is efficient and private investment is supported. The

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<sup>(9)</sup> [The assessment of compliance with the debt criterion has been substantially changed in the revised economic governance framework. The debt ratio will be considered as 'sufficiently diminishing and approaching the 60% of GDP reference value at a satisfactory pace' if the Member State concerned maintains its net expenditure path as set by the Council. As the Council has not yet set such net an expenditure path, the debt criterion cannot be assessed at this stage.](#)

<sup>(10)</sup> [2024 Ageing Report. Economic and Budgetary Projections for the EU Member States \(2022-2070\)' – European Commission \(europa.eu\)](#)



continued modernisation and digitalisation of tax administrations should further reduce compliance costs and boost tax revenue.

### **Box 2: Macroeconomic imbalances in the Member States**

**The Commission has assessed the existence of macroeconomic imbalances for the 12 Member States selected for in-depth reviews (IDRs) in the 2024 Alert Mechanism Report.** Of those, 11 Member States had been identified with imbalances or excessive imbalances in the previous cycle of surveillance under the Macroeconomic Imbalance Procedure, and Slovakia was deemed to display risks of newly emerging imbalances. This year, in response to a request from Member States <sup>(1)</sup>, the IDRs have been presented in advance of the Spring Package to allow for more in-depth multilateral discussions before the CSRs were formulated in spring <sup>(2)</sup>.

**The classification of imbalances is based on three criteria: (i) the gravity of imbalances, (ii) the evolution of imbalances and prospects and (iii) policy responses.** It reflects a more forward-looking orientation of the MIP, communicated as part of the economic governance review. Under the forward-looking approach, those three criteria remain in place, but more emphasis is placed on the evolution of the underlying imbalances and the adoption and implementation of policy responses by the national authorities to overcome those imbalances or the risks thereof.

**The classifications under the MIP also reflect the entry into force of the new economic governance framework by clarifying the respective roles of the MIP and the SGP in the overall macroeconomic surveillance when dealing with fiscal sustainability risks, to deliver a more focussed and efficient surveillance regime.** In brief, where risks are essentially rooted in fiscal sustainability concerns and where policy responses are largely in the fiscal policy domain, the SGP should be regarded as the appropriate vehicle for surveillance and issuing policy recommendations. Where, in addition to fiscal sustainability, there are wider macroeconomic risks that require a more complete policy response, the MIP remains an appropriate tool to complement surveillance under the SGP, including the excessive deficit procedure. Where a Member State's vulnerabilities are not rooted in high government debt or fiscal laxity, the MIP is likely to be the only means for ensuring a strong enough surveillance mechanism.

**The Commission took several decisions under the Macroeconomic Imbalance Procedure.** Overall, the assessment of macroeconomic vulnerabilities takes place in a context marked by the still high – but falling – inflation, driven by energy prices. The high energy prices have impacted external balances negatively, and the ensuing inflation led to tighter financing conditions for the past two years, while also facilitating the deleveraging of debt stocks. Over the last year, housing prices have fallen in countries where they were most overvalued. Vulnerabilities are receding in most of the Member States subject to an in-depth review and in several cases leading to an improvement on the classification of imbalances under the MIP. However, in a few other Member States vulnerabilities have increased to an extent that lead to a new finding of imbalances or excessive imbalances. Developments are generally favourable in the remaining Member States analysed but relevant challenges remain.

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<sup>(1)</sup> [Macroeconomic imbalance procedure: Council adopts conclusions – Consilium \(europa.eu\)](#)

<sup>(2)</sup> 2024 IDRs have been published in two batches: a first one on 25 March 2024 with the IDRs for Spain, Cyprus, the Netherlands, Romania, Slovakia and Sweden, and a second batch on 23 April with the IDRs for Germany, Greece, France, Italy, Hungary and Portugal.



- France, Spain, and Portugal are no longer experiencing imbalances as vulnerabilities have overall declined. Fiscal sustainability risks will be surveyed under the reformed SGP, including in the context of the medium-term fiscal structural plan and the excessive deficit procedure for France.
- Greece and Italy are now found to be experiencing imbalances after experiencing excessive imbalances until last year as vulnerabilities have declined but remain a concern. Fiscal sustainability risks will be surveyed under the reformed SGP, including in the context of the medium-term fiscal structural plan and the excessive deficit procedure for Italy.
- Slovakia is now found to be experiencing imbalances. The vulnerabilities related to cost competitiveness, external balance, housing market and household debt have lingered, and policy action has not been forthcoming.
- Romania is now found to be experiencing excessive imbalances after experiencing imbalances until last year as vulnerabilities related to external accounts, mainly linked to large and increasing government deficits, remain, while significant price and cost pressures have increased and policy action has been weak.
- Germany, Cyprus, Hungary, the Netherlands, and Sweden continue to experience imbalances. For Germany, adequate policy action in the context of the medium term fiscal structural plan will be needed to revisit the assessment.

Appendix 4 details the country-specific aspects for the 12 Member States concerned.

## **4.2 Productivity**

**The EU has experienced a slowdown in productivity growth since the early 2000s,** exacerbated by subdued investment rates following the financial crisis and a widening productivity gap compared with other major economies. Although investment rates have been recovering, the EU's productivity growth lags behind, particularly when compared to the US. This is due to the smaller size of high-growth sectors like ICT manufacturing and digital services, innovation not being sufficiently scaled-up, a lack of investment in research and innovation and persistent skills shortages. In addition, the EU needs a business environment that is more conducive to innovation. This requires tackling a series of bottlenecks at regional, national and the EU level. In particular, the EU needs to reduce administrative burden, future-proof the single market, improve access to finance and mobilise more private capital by completing the Banking Union and deepening and integrating our capital markets, increase skills levels, and ensure a stable regulatory and leaner reporting environment for businesses.

**Deepening the single market is crucial for unlocking productivity and competitiveness.** A fully integrated market creates a conducive environment for start-ups and small and medium-sized enterprises (SMEs) to succeed and achieve the necessary scale to compete globally. Focus should be placed on service markets, which are integral to the EU economy and increasingly intertwined with the rest of the industrial ecosystems. Joint efforts are required at EU, national, regional and local level, in particular, to reduce red tape, reporting obligations and tax compliance costs, to unify standards, and remove investment barriers. The Commission recently put forward the first legislative proposals to reduce reporting obligations at European level by 25%, and Member States are encouraged to match this level of ambition. Increasing competition through public procurement as well as improving governance and administrative

capacity <sup>(13)</sup> can equally support a favourable business environment. Respect for the rule of law, in particular independent, quality and efficient justice systems, legal certainty and equality before the law are also key determinants of a business environment that fosters investment and innovation. Participation in the single market of all regions is necessary to integrate them into European and global value chains, preventing stagnation of development and thus development traps. There is room for further exploiting the potential and competitive advantages of all EU regions, especially in those Member States where economic development is driven by the competitiveness of capital regions. Improving accessibility and connectivity through enhanced investments in transport infrastructures and modern low-emission transport services and modes will be key for a geographically balanced development. In addition, it is important to consider any effects that the Russian war of aggression in Ukraine may have on the resilience of regions bordering Russia

**A consistent and comprehensive industrial policy is vital to support the EU's technological transformation and secure resilient supply chains, while preserving competitive and undistorted markets.** An industrial policy at EU level in coordination with actions at national level to preserve a level playing field and the integrity of the single market, is essential to help scale up manufacturing capacity and create quality jobs, especially for critical supply chains and technologies. This can be achieved by implementing the Green Deal Industrial Plan <sup>(14)</sup>; mobilising EU funds and other EU financial instruments more strategically to crowd in further private support; making use of public procurement in strategic sectors to support resilient, green, social, digital, and innovative solutions; and the STEP initiative, which aims to bolster critical technologies. In parallel, fair competition needs to be ensured, not only within the single market but also with regards to third countries.

**Trade policy has an important role to play in strengthening the EU's competitiveness.** The COVID-19 pandemic and Russia's unprovoked aggression against Ukraine, caused disruptions in our supply chains, revealing vulnerabilities related to a lack of diversification of sources for certain critical inputs, and to an overdependency on a limited number of trading partners. The best insurance policy for the EU's supply chains is to rely on a mix of domestic and diversified third country suppliers and related industrial capacities. Economic openness is a strength, and the EU's extensive network of trade agreements is helping to support growth and jobs. Trade should continue to flow in times of growing international tensions. Faced by the threat of overcapacities in strategic sectors triggered by distortive subsidies and unilateral trade decisions the EU will seek to make use of all instruments at our disposal to ensure a level playing field, improve the transparency of supply chains, increase diversification of vulnerable supplies, and work for closer partnerships with our trade partners <sup>(15)</sup>, while strengthening its economic security.

**Greater investment in research and innovation (R&I), notably by the private sector, is essential to boosting competitiveness.** The EU lags behind other major economies like the US, China and Japan in business R&I investments. The EU is far from its 3% GDP target for

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<sup>(13)</sup> [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Enhancing the European Administrative Space \(ComPAct\).](#)

<sup>(14)</sup> [Communication: A Green Deal Industrial Plan for the Net-Zero Age | European Commission \(europa.eu\)](#)

<sup>(15)</sup> [The European Commission and the EU High Representative have set out the Global Gateway, to boost links in digital, energy and transport sectors and to strengthen health, education and research systems across the world.](#)

R&I expenditure<sup>(16)</sup>, due to sluggish business sector spending<sup>(17)</sup> and low public R&I investment. Strengthening incentives for private R&I investments requires supportive framework conditions, such as favourable taxation and business environments. Member States should implement ambitious reforms to build integrated R&I ecosystems, focusing on governance, public research systems and infrastructures, science-business collaboration and knowledge transfers, as well as innovation deployment and uptake, including through public procurement, with a focus on career prospects for researchers and talent attraction and retention throughout Europe. Synergies between programmes at EU and Member States level should be maximised.

**Renewed efforts must also be directed at the digital transition**, which is crucial to building a competitive modern economy. On the one hand, the EU is a global leader in the development of technologies that combine digital and green innovations. On the other hand, only 8% of businesses used AI technologies in 2023 and only 58% of SMEs achieved basic digital intensity. The EU has increased its efforts to strengthen digital capabilities, by providing higher levels of EU funding, including through RRP and cohesion policy programmes, and launching initiatives such as the Important Projects of Common European Interest (IPCEIs) for microelectronics<sup>(18)</sup> and cloud computing technologies<sup>(19)</sup>. Nevertheless, further public investment is needed in digital infrastructure and skills, in particular to address the shortage of ICT specialists<sup>(20)</sup> and bridge the digital divide. Additionally, initiatives lifting barriers to cross-border use of technologies, simplifying administrative procedures and automating the exchange of information within the EU are also crucial for the digital transition. At Member State level, private investment and public procurement in digital technologies and Artificial Intelligence (AI) should be incentivised.

**Improving access to finance for innovative projects is critical, especially for start-ups, as well as for scale-ups.** The EU's performance is hindered by risky and innovative activities having only limited access to financing, such as equity financing and venture capital<sup>(21)</sup>. This underdevelopment contributes to the low number of EU start-ups achieving large valuations and succeeding in world markets. National reforms to improve savings allocation and capital financing, and to facilitate capital market and alternative forms of financing, especially for SMEs and social economy enterprises, are necessary to address these shortcomings and to support productivity and innovation across the Union. At EU level, accelerating the progress on the Capital Markets Union is essential to increase market-based sources of financing for companies of all sizes and to integrate EU capital markets into a genuine single market for capital. A swift and ambitious agreement by the EU co-legislators on the Commission's proposal aimed at ensuring effective and harmonised insolvency frameworks would favour more effective allocation of resources and support activities and sectors with the best growth potential.

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<sup>(16)</sup> [The Pact for Research and Innovation in Europe](#) (2021) reaffirms an investment target of 3% of GDP for R&D. This was reiterated among others in the [European Council Conclusions](#) from 17./18. April 2024.

<sup>(17)</sup> 1.2% of GDP against 2.3% observed in the US.

<sup>(18)</sup> [IPCEI on Microelectronics – Important Project of Common European Interest \(ipcei-me.eu\)](#)

<sup>(19)</sup> [Common European Interest in computing technologies \(europa.eu\)](#)

<sup>(20)</sup> In addition, the gender gap in ICT skills is a source of concern. In 2021, the latest year for which data are available, 81% of employed ICT specialists were male. See [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=ICT\\_specialists\\_in\\_employment](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=ICT_specialists_in_employment)

<sup>(21)</sup> The European Innovation Council (EIC) has improved the availability of access to finance for young companies at European level.

**Improving educational outcomes and skills development is essential for the EU's productivity and competitiveness.** Strengthened skill sets are needed for the changing economy and for succeeding in the green and digital transition. At the same time, the latest OECD Programme for International Student Assessment (PISA) test results show a significant decline in the basic skills of 15-year-old pupils across the EU. Access to high-quality and inclusive education and training, with qualified teachers and modernised curricula in Member States and their regions remains crucial to ensure the EU's prosperity, social progress and to overcome the talent development trap faced by some regions <sup>(22)</sup>. Improving skills in science, technology, engineering and mathematics (STEM) and increasing the number of STEM graduates, notably women, will also boost research, innovation and competitiveness.

#### **4.3 Environmental sustainability**

**In line with its objective to reach climate neutrality by 2050 and to increase competitiveness and open strategic autonomy, the EU will continue its efforts to diversify energy supplies and modernise energy infrastructure.** The share of Russian imports in total EU gas imports dropped to 15% in 2023, from around 40% historically, but further efforts are needed from certain Member States to phase out imports of liquefied natural gas from Russia. The vast majority of EU countries have included REPowerEU chapters in their amended RRP, amounting to over EUR 60 billion, increasing the uptake of renewables and energy efficiency and the needed reduction of dependence on fossil fuels before 2030. The envisaged cohesion policy support of EUR 47 billion in energy efficiency, renewable energy and smart energy systems will also play an important role in implementing several key actions under the REPowerEU plan. Investments in energy production supported by the RRF are expected to provide at least 60 GW of additional renewable energy capacities by 2026 and 9.5 GW of additional renewable energy capacity will be installed under cohesion policy by 2029. In 2023, the share of renewable energy sources in electricity generation increased to 43% <sup>(23)</sup> and reforms on permitting procedures, also as part of the RPPs, have contributed to this substantial increase. To keep up this momentum, remaining bottlenecks related to administrative capacity, including for planning and permitting procedures at local level, need to be addressed as a priority. Furthermore, speeding up the expansion and modernisation of the electricity networks, including new energy storage facilities and interconnections, is crucial to further enable renewables to be integrated into the energy system and to increase electrification. The EU grid action plan <sup>(24)</sup> adopted in November 2023 paves the way for sustainable and resilient electricity grids to be created. The first EU list of projects of common and mutual interest <sup>(25)</sup> identifies energy infrastructures that are a priority for the EU in terms implementing the Green Deal and increasing energy security, focusing on the grids needed for electrification, offshore renewables development and the deployment of the green hydrogen economy.

**Despite some progress, an ambition gap remains with regards to achieving the 2030 objectives for renewable energy and energy efficiency.** European industry is facing the burden of comparatively high energy prices. Reducing the demand for energy by increasing energy efficiency and switching to less costly renewable energy is therefore essential to improve European competitiveness. However, most Member States are lacking a solid and sufficiently detailed estimation of investment needs, as well as concrete measures to attract private

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<sup>(22)</sup> [https://ec.europa.eu/regional\\_policy/whats-new/newsroom/14-12-2023-eu-addresses-talent-development-trap-in-new-call-for-regions-to-harness-existing-talent\\_en](https://ec.europa.eu/regional_policy/whats-new/newsroom/14-12-2023-eu-addresses-talent-development-trap-in-new-call-for-regions-to-harness-existing-talent_en)

<sup>(23)</sup> [Global Electricity Review 2024 | Ember \(ember-climate.org\)](https://ember-climate.org/).

<sup>(24)</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2023%3A757%3AFIN>

<sup>(25)</sup> [Regulation \(EU\) 2022/869](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R0869)

investments to finance the clean energy transition. The Commission calls on all Member States to submit concrete final updated national energy and climate plans (NECPs) by 30 June 2024, taking into account its recommendations on the draft plans, and the CSRs of the European Semester. This includes the need for Member States to strengthen policies to phase out fossil fuel subsidies to align with the EU's aim to become a climate neutral economy. The Commission also encourages Member States to include or further develop chapters on research and innovation in their NECPs, referring to the Strategic Energy Technology Plan <sup>(26)</sup>.

**Increasing the autonomy, resilience and competitiveness of the EU's net-zero industry is crucial for the green transition and EU competitiveness.** To scale up the manufacturing of clean technologies, the Net Zero Industry Act <sup>(27)</sup> was adopted in May 2024. It creates the favourable regulatory conditions needed to attract and support investment in technologies and related projects to match increased EU and global demand. It also aims to speed up and streamline permitting procedures in Member States, in particular to build more production facilities for net-zero technologies and to invest in the decarbonisation of energy-intensive industrial sites. Examples of these technologies include hydrogen-powered transport, sustainable aviation fuels, zero-emission vehicles, high-speed rail, and intelligent transport systems. In addition to EUR 85 billion for investments in renewable energy and clean technologies under cohesion policy, the RRF has provided approximately EUR 27 billion in support to net-zero technology manufacturing and deployment while the Innovation Fund has provided approximately EUR 407 million. Member States are also encouraged to spend 25% of their ETS auction revenues for that purpose. InvestEU has so far mobilised over EUR 250 billion of investments, more than half of which support climate action, with two thirds of the finance coming from private investments.

**Meeting the EU's green and digital transition objectives requires access to secure, sustainable and diversified sources of critical raw materials (CRMs),** building supply chains for mining, processing and refining, while promoting sustainable sourcing practices recycling and the uptake of secondary raw materials. The Critical Raw Materials Act, which entered into force on 23 May 2024, creates a regulatory framework to strengthen the EU's security of supply for CRMs. It designates strategic projects along the value chain of a subset of CRMs and also includes measures to strengthen the EU's monitoring capacities and improve the circularity of critical raw materials on the European market. Promoting the circular economy, including circular solutions, will further help reach climate neutrality, as it has the potential to save up to 25% of the EU's current greenhouse gas emissions <sup>(28)</sup>.

**With the European Climate Law, the EU has committed to reaching climate neutrality by 2050 and strengthening climate adaptation.** Greater efforts are needed to reduce greenhouse gas emissions and energy consumption to reach the binding intermediate 2030 targets, particularly in transport, buildings, and agriculture. A substantial part of Member State investments under the RRF aim at developing sustainable mobility and at improving the energy efficiency. The Energy

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<sup>(26)</sup> [Strategic Energy Technology Plan \(europa.eu\)](#)

<sup>(27)</sup> [Net-Zero Industry Act - European Commission \(europa.eu\)](#)

<sup>(28)</sup> European Commission (2024), Impact assessment report accompanying the Communication '[Securing our future – Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society](#)'.



Performance of Buildings Directive<sup>(29)</sup> and the New European Bauhaus initiative<sup>(30)</sup> are instrumental in delivering a climate neutral, circular and nature-positive built environment<sup>(31)</sup>. Reducing industrial pollution by rolling out cleaner production technologies would also generate significant cost savings<sup>(32)</sup>. The phasing out of fossil fuels, as well as reforming environmentally harmful subsidies and implementing green budgeting approaches should also be accelerated. In parallel, Member States' carbon sinks provided by their land use, land-use change and forestry (LULUCF) sectors need to be strengthened. Furthermore, in March 2024, the Commission adopted a Communication on managing climate risks<sup>(33)</sup> that point to the significant efforts required by Member States to ensure that appropriate institutional frameworks are in place to manage those risks. Coastal, Mediterranean and Eastern regions are more vulnerable and disproportionately affected, and face estimated annual economic losses of at least 1 % of GDP and greater human exposure to climate-related harms. Water resilience<sup>(34)</sup> and availability along with water management, especially in regions more affected by climate change and water pollution, including the outermost regions, continue to be key for the good functioning of ecosystems. This refers especially to the energy transition and energy security of supply. Implementing the polluter pays principle would ensure that price signals factor in environmental externalities.

#### **4.4 Fairness**

**The EU's labour market continues to show resilience with employment close to record levels, and real income has started to increase again for most people.** Employment growth has been stronger among women, legal migrants and older workers. This was accompanied by robust wage growth which is projected to increase to 5.9% in 2023. Wage growth exceeded inflation in the third quarter of 2023 while real wages are set to fully recover their 2021 levels by 2025. Minimum wages keep playing an important role in this regard<sup>(35)</sup>.

**At the same time, despite some easing in recent quarters, labour shortages remain widespread across sectors and skills levels<sup>(36)</sup>, while unemployment levels remain high in some regions and inequalities persist.** Ample scope remains to improve the labour market participation of underrepresented groups, including women, older and younger people, as well as disadvantaged groups such as Roma, people with a migrant background and persons with disabilities, as emphasised in the recently adopted action plan on labour and skills shortages<sup>(37)</sup>,

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<sup>(29)</sup> [https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive\\_en](https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en)

<sup>(30)</sup> When implementing their investments, Member States should build on the New European Bauhaus' values and principles, to foster, where applicable, sustainability with affordable solutions and by involving local communities in designing transformation avenues. ['New European Bauhaus: beautiful, sustainable, together.' – European Union \(europa.eu\)](#)

<sup>(31)</sup> Tools such as 'Level(s)' and the Construction and Demolition Waste protocol are hands on guides for building and renovation projects that improve lifecycle sustainability performance. Also, green public procurement can be applied directly by public authorities.

<sup>(32)</sup> Up to EUR 193 billion according to the European Environment Agency (2024), ['The costs to health and the environment from industrial air pollution in Europe – 2024 update'](#); figure for main air pollutants (NH<sub>3</sub>, NO<sub>x</sub>, PM<sub>10</sub>, SO<sub>2</sub>, NMVOCs) computed through the value of statistical life method.

<sup>(33)</sup> European Commission, ['Managing climate risks - protecting people and prosperity'](#), see: [b04a5ed8-83da-4007-9c25-1323ca4f3c92\\_en \(europa.eu\)](https://ec.europa.eu/energy/energy_efficiency/energy_efficient_buildings/energy_performance_buildings_directive_en)

<sup>(34)</sup> The ability to survive and thrive in the face of water-related shocks and stresses, e.g. drought or flooding.

<sup>(35)</sup> The adoption of the EU minimum wage directive (Directive (EU) 2022/2041) creates a positive momentum for measures ensuring adequate minimum wages.

<sup>(36)</sup> At 2.5% in the fourth quarter of 2023, the vacancy rate in the EU remains more than double the level of a decade ago.

<sup>(37)</sup> [Tackling labour and skills shortages in the EU - European Commission \(europa.eu\)](#).

as well as the Skills and Talent Mobility Package<sup>(38)</sup> and the Union of Equality Strategies<sup>(39)</sup>. In the long run, labour and skills shortages are likely to increase further, linked to the reduction in the workforce due to demographic changes, and the increase in the demand for workers with specific skills, for instance, those required for the digital and green transitions as well as for the healthcare and long-term care sectors. The action plan promotes the importance of increased participation in education and training. Member States and social partners need to jointly develop skills intelligence, set up new sectoral and regional skills partnerships, and adapt curricula to better meet labour market needs, including in vocational education and training. In addition, appropriate design of tax and social benefits (with attention to their distributional impact), adequate working conditions, and improving active labour market policies can help encourage labour market participation. Aside from closing gender employment gaps, investments and reforms to improve educational outcomes and skills also help improve equal opportunities, labour market outcomes and productivity.

**Improving educational outcomes for all is key to strengthen productivity and competitiveness and supporting upward social convergence in the EU.** The overall worrying decline in the PISA results reflects a performance that has generally fallen – including for top achievers who are expected to drive future innovation – as well as a widening socio-economic gap in education outcomes, underscoring the need to improve educational outcomes overall, reduce inequalities and promote excellence in education<sup>(40)</sup>. Inactivity levels remain high among young people. Increasing gaps, including marked regional disparities in access to and quality of education hamper entire regions and disadvantaged population groups, undermining Member States’ social and territorial cohesion and competitiveness. Policy efforts are needed to step up the availability, inclusiveness and the quality of education; promote school success; provide pathways for students to reach excellence; and ensure smooth transitions between education and employment. Such efforts ultimately also serve to support democratic values and the functioning of our free societies. Stepping up the provision of quality and inclusive early childhood education and care services can improve learning opportunities for disadvantaged children and boost female labour market participation.

**The increased cost of living hurts the more vulnerable segments of our society most.** Although inflation is falling fast, higher costs of food, energy and transport are negatively affecting particularly lower income groups and people in disadvantaged situations<sup>(41)</sup>. This warrants continued efforts to reduce poverty, including energy poverty. While overall poverty risks remained broadly unchanged, child poverty is rising and gaps in the social situation, e.g. between various groups and regions, require continued monitoring. Affordable access to essential services continues to be important to meet the basic needs of people, as it leads to lower shares of people at risk of poverty or social exclusion and a smaller gender gap in employment<sup>(42)</sup>. The

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<sup>(38)</sup> The [Skills and Talent Mobility Package](#) will help address labour and skills shortages by attracting and retaining skilled third-country nationals to the Union via the EU Talent Pool and recognition of qualifications.

<sup>(39)</sup> The [Union of Equality strategies](#) promote equal opportunities in the labour market and in education for women and disadvantaged groups such as persons with disabilities, and those with a minority racial or ethnic background, including Roma.

<sup>(40)</sup> Having increased disproportionately, around half of students of disadvantaged socio-economic background (48%) did not reach a minimum proficiency level in mathematics in 2022.

<sup>(41)</sup> E.g. single parents, persons with disabilities, and people with a migrant background or ethnic national minorities (such as Roma).

<sup>(42)</sup> [The EU regional Social Progress index 2.0 2024 edition.](#)



insufficient availability of affordable housing is an increasing challenge across the EU, affecting some Member States more severely.

**Social protection systems need to be made adequate and fit for the future.** Population ageing, changes in the world of work, and the green and digital transitions require further development in the way social protection systems are designed and financed, to ensure that people continue to contribute to and benefit from social protection. This includes strengthening the incentives and support for beneficiaries to enter the labour market, and improving the adequacy, cost-effectiveness and coverage of services, including healthcare and long-term care. In many Member States, strengthening the resilience and capacity of healthcare and long-term care systems remains a priority, including through deinstitutionalisation, sufficient and suitable infrastructure and addressing workforce shortages, including through adequate working conditions. Reaping the potential of digital tools and AI can also help deliver access to healthcare more effectively but requires increasing the digital skill levels of the healthcare workforce and general public. Moreover, it is important to ensure that the digital transformation of health systems benefits all citizens and helps narrow health inequalities. Further, Member States are encouraged to address demographic change across all policy areas, making use of the available tools at EU level, including in the Demography Toolbox <sup>(43)</sup>, in combination with national policies and grounding their efforts in local realities.

**The transition towards a climate-neutral Europe must be fair and inclusive.** Financial and technical support of the Just Transition Fund and other instruments is helping vulnerable regions to accelerate their economic diversification, and people in those regions to acquire skills for jobs that are being created as a result of the transition towards a climate-neutral Europe.

**The implementation of the European Pillar of Social Rights continues to support upward social convergence in the EU <sup>(44)</sup>.** Despite progress on the 2030 national employment targets, further significant efforts are needed by Member States, in particular to meet the targets on skills and poverty reduction, also to help achieve the EU-wide commitments in these areas as well as to support upward social convergence and social cohesion in the EU. On top of implementing key reforms in these areas, Member States are investing strongly in a more social Europe, with over EUR 163 billion dedicated to education, health, employment and social policies under the RRF, and over EUR 165 billion in investments (with national co-financing) under cohesion policy in 2021-2027. On 6 May 2024, the Commission published a detailed country analysis in the areas of employment, education, skills and social protection and inclusion for seven Member States, in line with the features of the Social Convergence Framework (see Box 3) <sup>(45)</sup>. As part of the Spring Package, the Commission is also proposing to update the Employment Guidelines for the next annual cycle, to reflect the most recent socio-economic context and policy initiatives.

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<sup>(43)</sup> [EUR-Lex - 52023DC0577 - EN - EUR-Lex \(europa.eu\)](#)

<sup>(44)</sup> Commission's [country analysis on social convergence in line with the features of the Social Convergence Framework \(SCF\)](#) – SWD(2024)132.

<sup>(45)</sup> See Commission [country analysis on social convergence in line with the features of the Social Convergence Framework \(SCF\)](#) - SWD(2024)132.

### **Box 3: Analysis of upward social convergence in line with the features of the Social Convergence Framework (SCF)**

**The Commission assessed the existence of challenges to upward social convergence in seven Member States in line with the features of the Social Convergence Framework (SCF).** The SCF entails a two-stage analysis of risks and challenges to upward social convergence in Member States. In the first-stage analysis, presented in the Joint Employment Report (JER) 2024 <sup>(46)</sup>, labour market, skills and social policies are analysed for all Member States. Seven Member States (Bulgaria, Estonia, Spain, Italy, Lithuania, Hungary and Romania) were identified as presenting risks to upward social convergence. A second-stage analysis for these seven countries was published by the Commission services in May 2024, focusing on the policy areas that were identified as presenting potential risks to upward social convergence in the first stage via the headline indicators of the Social Scoreboard. This second-stage analysis relies on a wide set of quantitative and qualitative evidence and the key factors driving the challenges to upward social convergence. It examines in more detail the developments and takes into account the relevant policy responses undertaken or planned by the Member State. The findings of the social convergence analysis are reflected in the country reports and informed the 2024 European Semester.

This analysis has fed into the multilateral reviews in the relevant committees of the Council.

## **5. CONCLUSION**

**The European Semester provides the policy coordination framework to address key economic and social challenges at EU and Member State level.** The 2024 European Semester cycle is particularly focused on competitiveness, calling on the EU and its Member States to tackle obstacles not sufficiently covered by measures in RRP or cohesion policy programmes. It also prepares the ground for successfully implementing the new economic governance framework, which will strengthen fiscal sustainability and support long-term sustainable growth and resilience, while ensuring the EU's continuous progress towards meeting the SDGs and climate and energy objectives in particular. Most Member States are making continued progress in the implementation of their RRP and cohesion policy programmes. However, in view of the 2026 deadline for RRF spending and of the mid-term review of cohesion policy, some Member States are advised to urgently address accumulated delays and structural challenges. The mid-term review of cohesion policy programmes presents an opportunity to consider adjustments, as well as to make use of the STEP initiative to improve competitiveness.

**The Commission calls on the European Council to endorse and on the Council of the EU to adopt the Commission proposals for the 2024 CSRs.** It also calls on all Member States to implement the recommendations fully and in a timely manner, in close dialogue with their social partners, civil society organisations and other stakeholders.

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<sup>(46)</sup> [Joint Employment Report 2024 as adopted by the EPSCO Council on 11 March 2024.](#)

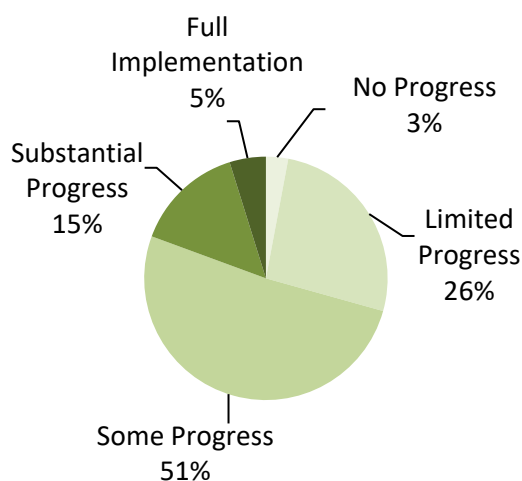
## APPENDIX 1 – OVERVIEW OF THEMATIC AREAS COVERED IN THE COUNTRY-SPECIFIC RECOMMENDATIONS

Broad category	Green					Digital / Single Market							Social / Health / Education										Fiscal / Financial					Institutional Resilience									
	Renewable & energy infrastructure	Energy efficiency	Climate adaptation	Environment & resource	Transport	Digital connectivity, infrastructure & digitalisation of business	Digitalisation of public administration	Business environment (incl. SME policies)	Single market, competition & state-aid	State-owned enterprises	Public procurement & concessions	Research & innovation	Labour market	Active labour market policies	Equal opportunities	Wages & wage setting	Skills, continuous VET & adult learning	Early childhood education & care	Education (General, initial VET & Higher)	Pension systems and active ageing	Poverty, social inclusion & social	Regional development & local public services	Healthcare	Long-term care	Budgetary framework and fiscal governance	Tax Policy	Tax administration, tax evasion & avoidance	Financial services and financial stability	Access to finance & growth financing	Anti-money laundering	Housing	Private sector debt & insolvency framework	Public administration	Corruption	Quality of Law Making	Justice System	
BE																																					
BG																																					
CZ																																					
DK																																					
DE																																					
EE																																					
IE																																					
EL																																					
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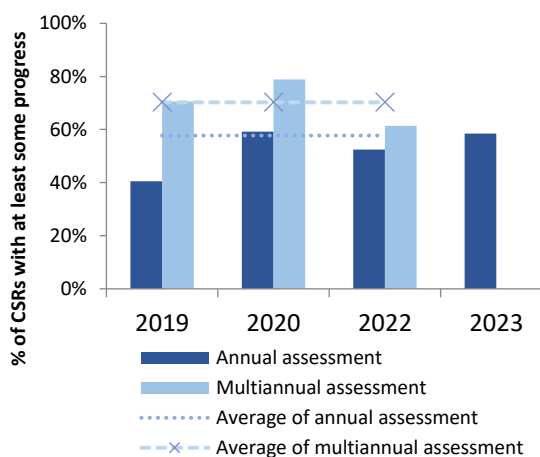
## APPENDIX 2 – PROGRESS IN THE IMPLEMENTATION OF THE COUNTRY-SPECIFIC RECOMMENDATIONS

The 2024 cycle of the European Semester takes stock of the Member States’ policy action to address structural challenges identified in the country-specific recommendations (CSR) adopted since 2019. Following the establishment of the RRF as a key tool to deliver on EU and national policy priorities, the 2024 CSR assessment considers the policy action taken by the Member States to date <sup>(47)</sup>, as well as the commitments undertaken in the recovery and resilience plans (RRPs), depending on their degree of implementation. The assessment therefore reflects the current stage of implementation of RRP, rather than the level of progress that could be achieved assuming full implementation of the plans <sup>(48)</sup>. In line with the scope of the RRF, the 2024 CSR assessment covers the 2019-2022 CSRs (multiannual assessment) and the assessment of 2023 CSRs (annual assessment).

**Figure 1: Current level of implementation of 2019-2022 CSRs**



**Figure 2: Implementation of 2019-2023 CSRs: annual assessment in each consecutive year versus implementation to date**



*Note: The multiannual assessment in Figure 1 looks at implementation of 2019-2022 CSRs from the time the recommendations were first adopted until publication of this Communication. To be noted that 2021 CSRs only relate to fiscal policy and for the purpose of the 2024 CSR assessment have been considered as no longer relevant. In Figure 2, the annual assessment shows the progress recorded in the first year after CSRs adoption, while the multiannual assessment shows assessment of past CSRs to date.*

**From a multiannual perspective, at least some progress has been achieved for 71% of the 2019-2022 CSRs (see Figure 1). Compared to last year’s assessment, significant additional progress has been achieved on both 2019 and 2020 CSRs. To date, 75% of these CSRs have**

<sup>(47)</sup> Including policy action reported in the national reform programmes, as well as in the RRF reporting (biannual reporting on progress in the implementation of milestones and targets and resulting from the payment request assessment).

<sup>(48)</sup> Member States were asked to effectively address in their RRP all or a significant subset of the relevant CSRs. The CSR assessment presented here considers the degree of implementation of the measures included in the RRP and of those done outside of the RRP at the time of assessment. Measures foreseen in the annexes of the adopted Council Implementing Decisions on the approval of the assessment of the RRP, which have not yet been adopted or implemented but are considered as credibly announced in line with the CSR assessment methodology, warrant “limited progress”. Once implemented, these measures can lead to “some/substantial progress” or “full implementation”, depending on their relevance.

recorded at least some progress of implementation, compared to 68% in 2023. This shows that the RRF, as a performance-based instrument, continues to accelerate policy action to implement relevant CSRs, and it is expected to further reinforce CSR implementation as additional reforms and investments in the RRFs are undertaken in the coming years. However, reform implementation differs significantly across policy areas. In recent years, Member States have made most progress in access to finance and financial services, followed by anti-money laundering, labour market functioning and budgetary framework and fiscal governance. On the other hand, progress has been particularly slow on taxation policy, tax administration, tax evasion and tax avoidance, non-discrimination and equal opportunities, pension systems, and housing.

**Progress in the implementation of CSRs adopted in 2023 has also been substantial.** Member States have made at least “some progress” in almost 59% of the recommendations addressed to them in July 2023 (Figure 2). Considering the policy areas under which a significant number of Member States received a recommendation in 2023, overall most progress has been achieved on budgetary framework and fiscal governance, followed by business environment, energy efficiency, renewable energy, energy infrastructure and networks. By contrast, less progress has been made in addressing recommendations on taxation policy.

The results of the 2024 CSR assessment, together with those of previous years, will be available on the Commission website.

## APPENDIX 3 – EU-WIDE PROGRESS ON SDG IMPLEMENTATION



Over the five-year period assessed (49), the EU has made significant progress towards reducing inequalities (SDG 10), ensuring decent work and economic growth (SDG 8) and reducing poverty (SDG 1). Good progress has also been achieved in relation to the goals on zero hunger (SDG 2), industry, innovation and infrastructure (SDG 9), responsible consumption and production (SDG 12), life below water (SDG 14), quality education (SDG 4) and gender equality (SDG 5). The EU has also seen progress towards the goals on peace, justice and strong institutions (SDG 16), sustainable cities and communities (SDG 11), partnerships for the goals (SDG 17) and climate action (SDG 13).

Progress towards the goal on clean water and sanitation (SDG 6) was limited, with several indicators

showing positive developments but others showing no progress or even movement away. For affordable and clean energy (SDG 7), a slight movement away from the goal was observed due to the negative impact on energy affordability of Russia's war of aggression against Ukraine and the consequent energy crisis in the EU. Progress towards the goal on good health and well-being (SDG 3) was disrupted by the setbacks of the COVID-19 pandemic that are now fully visible in the available data. The goal on life on land (SDG 15) is characterised by several unsustainable trends in the areas of biodiversity and land degradation, leading to a moderately unfavourable assessment of the EU's progress in this area over the short-term period assessed. The European Commission has proposed important policy initiatives to reverse the degradation of ecosystems as part of the European Green Deal, such as the EU Biodiversity Strategy, the EU Forest Strategy, the EU Soil Strategy for 2030 and the Farm to Fork strategy.

*Note: The figure above shows the pace at which the EU has progressed towards each of the 17 goals over the most recent five-year period according to the selected indicators. The method for assessing indicators and aggregating them at the goal-level, as well as more detailed analyses are available on the Eurostat website: [Overview - Sustainable development indicators - Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1).*

## APPENDIX 4 – FINDINGS OF IN-DEPTH REVIEWS OF MACROECONOMIC IMBALANCES IN MEMBER STATES

**Imbalances or excessive imbalances have been identified in 9 out of the 12 Member States for which an in-depth review was carried out.** The in-depth review (IDR) analysis looked at the gravity of the imbalances, their recent and prospective evolution and related policy responses. This year, the IDRs analysis has been presented in advance of the European Semester Spring Package to allow for more in-depth multilateral discussions with Member States ahead of the conclusions on the findings of imbalances and the subsequent formulation of the country-specific recommendations <sup>(50)</sup>.

**The classifications reflect the entry into force of the new economic governance framework, by clarifying the respective roles of the MIP and the SGP in overall macroeconomic surveillance, notably when assessing fiscal sustainability risks.** Where risks are essentially rooted in fiscal sustainability concerns and where the required policy responses are largely in the fiscal policy domain, the Stability and Growth Pact (SGP) should be seen as the appropriate vehicle for surveillance and for issuing policy recommendations. Where there are wider macroeconomic risks in addition to fiscal sustainability, including possible spillovers, that require a broader policy response, the Macroeconomic Imbalance Procedure (MIP) should continue to complement surveillance under the SGP. Where vulnerabilities are not rooted in high debt or fiscal laxity, the MIP will be the main mean for ensuring a strong enough surveillance mechanism.

**The evolution of vulnerabilities has been diverse across Member States but in many cases vulnerabilities have receded, as economic conditions adjusted to high – but falling – inflation.** This year's assessment of imbalances took place against a backdrop of weak momentum last year and prospects of a gradual acceleration in growth this year. Inflation pressures have receded, in part due a significant reduction in energy prices, which helped external positions, but cost and price pressures are still relevant. At the same time, the tightening of financial conditions over the past two years increases risks. In parallel, the evolution of vulnerabilities has been also affected by the different degrees of policy action. The impact of these economic developments may have not unwound fully, requiring a continued close monitoring of imbalances with the forward-looking perspective being important. The paragraphs below elaborate on the most relevant vulnerabilities and prospects at this juncture.

**Cost and price competitiveness pressures are easing but divergent dynamics across countries are still an issue.** Headline inflation has clearly come down in all EU countries – with falling energy prices playing a key role – although disinflation has been broader as indicated by significant falls in core inflation since early 2023. Inflation divergence has declined across the euro area and the EU, but not uniformly so. Different speeds of pass-through of lower energy to other goods and services and different timings in the phase-out of measures that had been taken to contain energy prices in 2022, play a role in differential reductions in inflation. Domestic inflationary pressures have remained significant, with unit labour costs and profit margins edging up further. Unit labour costs accelerated in 2023 driven

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<sup>(50)</sup> The 12 IDRs were published in two batches, one in March (for Cyprus, the Netherlands, Romania, Slovakia, Spain, Sweden), another one in April (for France, Germany, Greece, Hungary, Italy, Portugal): [In-depth reviews - European Commission \(europa.eu\)](#).



by high wage growth amid unemployment at historical low levels and against sluggish labour productivity in times of weak growth. Conversely, nominal exchange rate appreciation including for most non-euro area countries may have dampened some inflationary pressures.

**While expected to ease further, cost and price pressures remain an issue.** Prospects are for a further slowdown of cost pressures, including unit labour costs as wage growth is expected to subside and productivity to edge up with the economic cycle. However, inflation is still high across much of the euro area and the EU. Disinflation may progress more slowly than expected if pressures coming from wages and profits dynamics remain strong for long. Lasting divergences in costs and prices developments that are not rooted in increased productivity can entrench competitiveness losses, with risks for the external positions and the effectiveness of the monetary stance. Addressing this requires policy action, including using fiscal policy to rein in demand to more sustainable levels, and efforts to improve markets functioning.

**Current accounts strengthened with lower energy prices, but the continuation of large current account deficits and surpluses highlight concerns around domestic demand dynamics.** External positions across the EU have benefited from the reduction of energy import prices from their highs of 2022. At the same time, some countries benefited from further strong growth in tourism exports, whereas others' trade balances were affected by weakness in world trade, especially of manufacturing goods and in particular of extra-EU trade. Overall, beyond the energy balance, developments in external positions were diverse, depending in part on the strength of domestic demand. In some cases, dynamic consumption and investment led to the protraction of large current account deficits; in other cases, sluggish domestic demand contributed to the persistence of large surpluses.

**Going forward, changes in the current accounts are expected to be more muted than in recent years but in many cases should show small increases.** The expected changes are driven by limited variations of terms of trade as well as prospects of some acceleration in global trade, together with limited changes in domestic demand. Most of the large current account deficits are expected to narrow only mildly. Moreover, those deficits tend to be weaker than fundamentals and worse than their pre-pandemic levels. Most other cases are expected to be edged up further, including long-lasting large current account surpluses, which are set to remain well below the levels seen before 2022, however.

**Most of the negative net international investment positions improved further in 2023 supported by nominal GDP growth.** Some of the more negative positions improved despite large current accounts deficits. However, some of those more negative NIIP-to-GDP ratios may not improve further this year or next, and in other cases not as much as recently, reflecting lower nominal GDP growth and the persistence of large external borrowing needs.

**House prices have moderated or fallen in some cases, leading to a reduction in the overvaluation of the housing markets.** Housing markets cooled further in 2023 against a backdrop of tighter financing conditions and household incomes under pressure; these two affects reduced households' borrowing capacity and dampened housing demand. The correction of house prices has been more pronounced in countries where prices were more overvalued and households more indebted. In those cases, the degree of overvaluation of the housing markets fell – although house prices typically remain overvalued – and price-to-

income ratios reduced. On the contrary, in a few cases house prices continued growing strongly, sometimes continuing the dynamism of earlier years, in others being more novel. Commercial real estate prices have been correcting too but remain an issue in some countries.

**House prices dynamics should remain moderate as financial conditions remain tight but over time prices may grow again as borrowing capacity recovers and supply remains constrained.** The period of house price falls may be ending but the short-term outlook is still marked by tight financing conditions dampening demand and prices. However, those factors may reverse as interest rates lower and household incomes edge up with real wage growth. At the same time, the recent falls in new housing starts and in building permits in several countries suggests that housing undersupply may be worsening rather than improving, which will tend to add upward pressures on prices. In parallel, policy aspects continue to push for debt-financed home ownership in various countries, including taxation features and dysfunctional rental markets, which may feed price rises once financing conditions get sufficiently attractive. Concerns around commercial real estate have not vanished yet and the sector remains particularly sensitive to funding conditions.

**Large private and government debt ratios have continued declining on account of high nominal GDP growth and lower borrowing, but are still significant in several cases.** Debt-to-GDP ratios have been falling visibly since 2021 largely driven by higher nominal GDP growth, yet that impact tended already to weaken in 2023 as GDP growth slowed down in real terms. In addition, credit flows weakened visibly for both households and non-financial corporations on account of tighter financing conditions, with those flows even becoming slightly negative in some cases, helping deleveraging. Nonetheless, private debts remain high in several cases. As for government debt, in a number of countries significant fiscal deficits added to the debt ratios, which are still above pre-COVID-19 crisis levels and are set to increase in the absence of further policy measures in some countries with high debts.

**Debt deleveraging should continue but in a diminishing way as inflation recedes further while financial conditions may still pose risks for debtors.** Lower inflation is paving the way for lower interest rates, but financing conditions may remain challenging for some debtors and borrowers. Moreover, whereas interest rates are expected to fall, they are likely to remain above the lows recorded in the years leading up to the increase in inflation putting pressure on debt service costs. This is more of a concern where re-financing needs are higher. In addition, where borrowing in foreign currencies is significant, risks may compound with vulnerabilities in the external position that may spill into exchange rate volatility and higher risk premia, which calls for prudent policies. Strengthening potential economic growth, including by effectively implementing the RRP, should support debt deleveraging over the medium term.

**The banking sector has shown resilience to the weak economic momentum, but the full effects of the tighter financing conditions may have not yet completely played out.** The banking sector has withstood the latest macroeconomic developments well. Banks' profitability has increased with higher interest income, which helped further strengthen their capital ratios. Weak economic growth and tighter financing conditions do not seem to have impacted banks' assets so far. Non-performing loans (NPLs) have continued to fall even if only marginally. In some countries, the workout of NPLs held outside the banking sector is still an issue. In some cases, the significant exposure to domestic sovereign debt remains a risk. Going forward, the

full effects of the tightening of monetary conditions of the past two years on debt service may still not have been seen in full and may develop in a lagged way. In the current context, the situation of the commercial real estate sector may call for attention as banks and other financial institutions in some countries have large exposures to the sector.

**Table 1: MEMBER STATES CLASSIFICATION UNDER THE MIP**

	2023 outcomes	2024 outcomes
No imbalances	CZ, EE, LV, LT, LU, <b>SK</b>	<b>ES, FR, PT</b>
Imbalances	CY, DE, <b>ES, FR</b> , HU, NL, <b>PT</b> , <b>RO</b> , SE	CY, DE, <b>EL</b> , HU, <b>IT</b> , NL, <b>SK</b> , SE
Excessive imbalances	<b>EL, IT</b>	<b>RO</b>
<i>p.m.: No IDR</i>	<i>AT, BE, BG, DK, HR, FI, MT, PL, SI</i>	<i>AT, BE, BG, CZ, DK, EE, HR, FI, IE, LV, LT, LU, MT, PL, SI</i>

Note: Member States with classification changed between 2023 and 2024 are marked in bold in both columns.

### **Member States no longer experiencing imbalances**

*France* is found to no longer experience imbalances. Policy action has helped in reducing vulnerabilities, which had cross-border relevance, related to competitiveness in a context of low productivity growth, but efforts need to continue, while vulnerabilities related to high public remain. Price competitiveness has evolved favourably since 2021, in part due to lower inflation than in trading partners. However, cost competitiveness outcomes have been more mixed as labour productivity has been reined in by temporary factors in the aftermath of the COVID-19 crisis, including persistent labour hoarding in some key sectors, and policies aimed at increasing employment. These have resulted in robust employment growth in recent years. Labour productivity and competitiveness are expected to improve going forward, helped by planned investments and reforms, which should underpin debt deleveraging. Private sector debt increased markedly during the pandemic, but was accompanied by a rise in the household saving rate, and by increases in equity and the accumulation of liquidity buffers in firms, which are now being used. Credit for corporate investment remains dynamic despite the tighter financial conditions. Public debt-to-GDP has edged down somewhat with the recovery in GDP since 2021, to just over 110% in 2023. It is projected to remain broadly stable in 2024 but to increase again in 2025 amid continued large government deficits. The policy response to the identified vulnerabilities related to competitiveness in a context of low productivity growth has been broadly appropriate and should support productivity growth in coming years, but efforts need to continue. The implementation of the RRP will help to further address the

competitiveness challenges while improving productivity growth. While policy action has been taken to strengthen public finances, more efforts are clearly needed to reduce the high public debt. The reformed Stability and Growth Pact, including the application of the Excessive Deficit Procedure, offers a suitable and strong surveillance mechanism to address the fiscal sustainability risks.

*Portugal is found to no longer experience imbalances. Significant progress has been made in reducing vulnerabilities related to high private, government and external debt, which are expected to continue to recede.* After an interruption brought about by the COVID-19 pandemic crisis, private sector and government debt ratios resumed their decline. They have receded substantially since 2021, helped by strong GDP growth and a recent budget surplus in the case of government debt. The clearly negative NIIP has been improving substantially, helped by marked economic growth and a current account surplus, and its structure remains favourable in light of the high share of non-defaultable instruments. Private and government indebtedness and the NIIP remain elevated, but are projected to further recede in the future, despite nominal GDP growth becoming less supportive. The current account returned to a surplus last year and is forecast to remain positive this year and next, and a fiscal surplus has been attained. The increase in interest rates has put some pressure on indebted households and house prices have been growing strongly for several years. NPLs have continued to decline from already moderate levels. Sustained policy progress to address the identified vulnerabilities has been made and underpins the visible results. The ongoing implementation of the RRP is expected to continue having a favourable impact on the growth potential, contributing to Portugal's external sustainability and helping fiscal sustainability.

*Spain is found to no longer experience imbalances. Significant progress has been made in reducing vulnerabilities, which had cross-border relevance, related to high private and external debt, and there have been reductions in government debt.* After an interruption brought about by the COVID-19 pandemic, private sector debt and the negative NIIP ratios resumed their decline in 2021, helped by strong nominal GDP growth. Both are expected to continue improving in the coming years, albeit more gradually than recently as nominal GDP growth is expected to be less supportive. The current account has been in surplus for a decade and increased further in 2023 reflecting fast-growing exports as well as lower energy prices. The high government debt-to-GDP ratio has been declining, driven by strong nominal GDP growth, but more muted improvements are expected this year and next reflecting still significant fiscal deficits and the less supportive nominal GDP growth. The unemployment rate has been on a downward trend for a decade and is forecast to continue falling. The banking sector has remained resilient amidst tighter financing conditions for borrowers. Significant policy progress has been achieved to address the identified vulnerabilities, including in recent years thanks to the implementation of the RRP, but more effort is needed especially to reduce the high government debt.

### **Member States newly found to be experiencing imbalances**

*Slovakia is found to be experiencing imbalances. Despite some recent improvements, the vulnerabilities related to cost competitiveness, external balance, housing market and household debt persist, and policy action has not been forthcoming.* Slovakia was subject to an IDR in 2023, and its vulnerabilities were assessed as not amounting to macroeconomic

imbalances as they were expected to ease over the medium term. These vulnerabilities have eased, but not as quickly as expected one year ago. The improvements moreover appear to be cyclical, with structural vulnerabilities appearing to be entrenched, while policy action has been lacking. The large current account deficit improved last year, but it is expected to remain visibly negative, leading to the persistence of the significantly negative NIIP. Core inflation has proven stickier than expected and has remained higher than the euro area average, while unit labour costs continue growing more than in most trading partners. These price and cost pressures are not expected to dissipate markedly this year or next, potentially hampering improvements in competitiveness and the trade balance. Household borrowing has been rising significantly over the years and decelerated in 2023 amid a drop in mortgage credit. House prices have fallen but are still somewhat overvalued and are expected to rise again as housing supply remains constrained. Housing demand is supported by policy interventions such as the recently adopted mortgage allowances that hamper monetary policy transmission and are fiscally costly. Fiscal adjustment has been delayed, and the high government deficit is forecast to worsen this year, while the government debt-to-GDP ratio is expected to edge up in 2024 and 2025 despite supportive GDP growth, which puts upward pressure on the domestic demand. Overall, policy action has not been sufficient to address the identified vulnerabilities, contributing to their entrenchment. Fiscal adjustment would contribute to reducing core inflation and strengthening the external position as well as containing rises in government debt; the launch of the Excessive Deficit Procedure should underpin such an adjustment. Action is also needed to improve price and non-price competitiveness and to reduce risks related to the housing market and household debt accumulation, including by developing a functioning rental market.

### **Member States experiencing imbalances**

*Cyprus continues to experience imbalances. Vulnerabilities related to private, government and external debt have overall receded but remain relevant, while the large current account deficit has widened further.* Both household and non-financial corporate debt-to-GDP ratios have continued to decline, while remaining high. However, corporate and external debt is inflated by the debt of special purpose entities, which pose limited risks to the domestic economy. The large stock of non-performing loans held by banks has declined significantly in recent years, including in 2023, and NPLs resolution by credit acquiring companies is expected to support further private debt reduction. Nonetheless, the tighter financial conditions are likely to increase pressure on highly indebted households and companies. The government debt-to-GDP ratio is decreasing rapidly, and Cyprus is forecast to sustain budgetary surpluses this year and next, which will drive further reductions in the debt ratio. The large current account deficit widened further in 2023 much due to the continued robust domestic demand and the repatriation of profits. It is expected to remain large this year and next. The highly negative NIIP did not improve last year and is set to deteriorate unless the current account improves markedly. Extensive policy efforts have been made to address the identified vulnerabilities. The full and timely implementation of RRP and further measures are expected to help expand exports and alleviate the over-reliance on oil imports.

*Germany continues to experience imbalances. Vulnerabilities related to the large current account surplus remain relevant, despite some reduction over the years, as the underlying issue of weak domestic demand and subdued investment, which has cross-border relevance, persists while the policy response has been limited.* With lower energy prices, weak domestic demand

and sluggish world trade, the current account surplus bounced back to 5.9% of GDP in 2023 from 4.2% of GDP in 2022. It is forecast to edge up somewhat more this year and next while remaining well below its pre-pandemic levels. Given the size of the German economy and its trade integration in the euro area, this has negative spillovers on the rest of the area. Falling house prices have considerably reduced the extent of the house prices overvaluation, with a limited impact on the financial system so far, but commercial real estate continues to require monitoring. Declining housing investment may lead to the re-emergence of price pressures and subsequent risks of overvaluation in the near future. Going forward, a mild deterioration of cost competitiveness is expected, and households are beginning to regain some purchasing power as wages are forecast to grow in real terms. The recovery of private investment is taking time and fiscal consolidation is expected to weigh on domestic demand, and potentially strain public investment. The overall underlying vulnerabilities in terms of a significant savings-investment gap have not changed fundamentally: investment needs have been increasing over the years, mainly linked to public investment at regional level and corporate investment in general, which would support economic growth in the future. Whereas the government has taken some action to support investment, and the RRP includes important measures to promote investment, the size of the policy response has not so far led to substantial progress nor been sufficient to meet the overall challenge of higher private and public investment.

***Hungary** continues to experience imbalances. Vulnerabilities related to price pressures and external and government financing needs remain relevant, although an improving external environment has mitigated some short-term risks.* The large current account deficit closed in 2023 as domestic demand shrunk amid a recession in Hungary, and due to lower energy prices. Together with tighter monetary policy, these factors helped reduce the very high inflation rate. Nevertheless, core inflation has remained among the highest in the EU, and unit labour costs have continued to grow strongly, exerting pressure on competitiveness. The current account is expected to revert to a small deficit as domestic demand recovers, while the economy, and its external financing, remain exposed to developments in energy prices and risk premia. House prices slowed down and overvaluation eased in 2023 against the backdrop of higher interest rates. The large budget deficit persists on account of expansionary policies and weakening growth since the recession in 2023. The deficit is forecast to narrow somewhat, but to remain significant and contributing to inflation and adding to external borrowing needs. The government debt-to-GDP and the interest burden are set to remain elevated. Policy progress has been limited across all areas, particularly fiscal and structural ones, contributing to the persistence of the identified vulnerabilities. Fiscal adjustment would contribute to reducing core inflation and strengthening the external position as well as containing rises in government debt; the launch of an Excessive Deficit Procedure should underpin such an adjustment. Timely and effective implementation of the RRP is expected to help reduce vulnerabilities, which would be reinforced by the phasing out of distortive interventions in markets and by reforms that support fiscal consolidation.

***The Netherlands** continues to experience imbalances. Vulnerabilities related to high private debt in a context of an overvalued housing market, which have cross-border relevance, remain relevant despite some improvements. Vulnerabilities associated with the large current account surplus have been mitigated through the relatively strong domestic demand growth.* The large current account surplus has been, and is expected to remain, elevated on the back of a substantial surplus in goods and services trade, which reflects a surplus of domestic savings

over investment for the economy as a whole. However, domestic demand has been growing more robustly than in the euro area in recent years, which suggests that the spillovers of the current account surplus to the rest of the area are becoming less of a concern. The significant presence of multi-national enterprises in the Netherlands, the statistical impact of retained corporate earnings, and the role of pension funds accumulating large savings that are invested abroad are all features that contribute to the large savings-investment gap. Private debt continued declining considerably in 2023, and further reductions can be expected, but debt remains high. The high level of debt coupled with large holdings of illiquid assets, principally housing and pension savings, makes households vulnerable to changing economic conditions, especially given the overvalued housing market. House prices showed some correction for most of last year against a backdrop of tighter financing conditions but remain overvalued even if less than before. Some measures have been taken to address the identified vulnerabilities, but policy progress further efforts are needed. Several options could be pursued to tackle housing shortages more forcefully by means of higher housing investment and removing obstacles to the construction of new dwellings, while further addressing tax incentives for debt-financed homeownership. Recent reforms in the private rental market are unlikely to be conducive to housing availability.

*Sweden continues to experience imbalances. Vulnerabilities related to its real estate market and high private debt remain relevant despite some recent correction, and policy action to tackle them has been limited.* After significant increases for several years, real estate prices have been declining since late 2022. Private sector debt declined relative to GDP because of the high nominal GDP growth, on account of the high inflation, while debt levels still increased in nominal terms. The rapid increase in interest rates has negatively impacted the debt service of households and of commercial real estate companies, reduced demand, and affected property prices. The prevalence of variable interest rates and of mortgages with very long durations, has put pressure on household balance sheets, reducing repayment capacity and triggering a fall in consumption and contributing to the recession of 2023. At the same time, the new housing construction dropped sharply. Despite recent falls, house prices continue to still be significantly overvalued; commercial real estate prices also appear not to have adjusted fully yet and there are risks for debt servicing if interest rates remain high and valuations decline. The financial sector is highly exposed to the real estate sector, but its strong metrics should serve as a bulwark against the propagation of real estate problems to the wider economy. Policy progress has been limited, and in the absence of firmer action, the identified vulnerabilities will persist and may lead to a re-surge in debt-financed housing acquisition and house price overvaluation. Measures that increase housing supply could go a long way in preventing these issues. In addition, taxation continues to promote debt-financed housing acquisition through the significant tax deductibility of mortgage interest payments and to favour homeownership. The rental market has not been reformed.

#### **Member States now found to be experiencing imbalances (excessive imbalances before)**

*Greece is experiencing imbalances after being identified with excessive imbalances in 2023. Vulnerabilities related to high government debt and high non-performing loans in the context of high unemployment remain relevant but have receded markedly and are expected to recede further, but the external position remains weak.* The government debt-to-GDP ratio has continued to decline, and while it remains high at almost 162% in 2023, the short-term risks to



debt sustainability appear low. Nominal GDP growth was a major driver of the rapidly falling debt ratio in recent years, but the expected further improvement in fiscal balances is set to ensure that it continues to decline. The current account deficit, which had widened markedly over the years 2020 to 2022, narrowed significantly in 2023, but remains elevated against a backdrop of buoyant domestic demand. Only marginal improvements of the current account are expected this year and next, as the robust growth in investment is forecast to keep imports elevated. The deeply negative NIIP-to-GDP ratio also improved last year on the back of the high nominal GDP growth, but it remains the weakest in the EU. NPLs have shown a strong reduction in recent years and continued to decline in 2023, but the workout of the NPLs outside of the banking sector remains slow, and as a result they continue to weigh on the economy. Employment increased and unemployment declined further but is still relatively high. Years of sustained policy action and extensive structural reforms have clearly favoured a reduction of the identified vulnerabilities. Maintaining the prudent fiscal stance and continued timely implementation of the RRP remain crucial to improve competitiveness and ensure the rebalancing of the economy, including on the external position.

*Italy is experiencing imbalances after having been identified with excessive imbalances in 2023. Vulnerabilities related to high government debt and weak productivity growth in a context of labour market fragilities and some residual weaknesses in the financial sector, which have cross-border relevance, remain.* Italy's public debt-to-GDP ratio markedly declined since its peak during the COVID-19 pandemic crisis, principally due to strong nominal GDP growth. However, the public debt ratio is still high, at over 137% of GDP in 2023, and the downward trend is projected to reverse this year and next. This reversal is attributed to a large debt-increasing stock-flow adjustment, still sizeable, though decreasing, government deficits, as well as lower nominal GDP growth. Productivity growth has overall and on average been positive but limited, which confirms the need of reforms and investment to overcome structural shortcomings and to foster favourable conditions to productivity growth. Labour market conditions have improved in recent years and did not translate into wage pressures. Labour participation rates have risen to record levels though these are still comparatively low. The financial sector has further strengthened with improvements in bank asset quality and profitability, while Italian banks are still considerably exposed to the sovereign and to state-guaranteed loans in their balance sheets. Policy action has been favourable to tackle the vulnerabilities, including through the RRP implementation, which inter alia promote productivity and potential GDP growth to help reduce the public debt ratio over the longer term. Keeping up the pace of RRP implementation remains essential and additional policy efforts would be beneficial. More action is clearly needed to reduce the high public debt ratio. The reformed Stability and Growth Pact, including the application of the Excessive Deficit Procedure, offers a suitable and strong surveillance mechanism to address the fiscal sustainability risks, and to complement surveillance under the MIP.

#### **Member States now found to be experiencing excessive imbalances (imbalances before)**

*Romania identified with imbalances in 2023, is found to be experiencing excessive imbalances. Vulnerabilities related to external accounts, mainly linked to large and increasing government deficits, remain, while significant price and cost pressures have increased and policy action has been weak.* The current account deficit improved somewhat in 2023, mostly due to weaker private consumption and gains in terms of trade, but it remains clearly large and is not forecast

to improve this year and next. As a result, the NIIP is no longer improving as a share of GDP despite the high nominal GDP growth and the continuation of large current account deficits risks driving it further into negative territory. Headline inflation has declined but core inflation remains very high, just marginally off its recent peak and higher than a year ago. Wages and labour cost dynamics accelerated in 2023 and continued to be strong in 2024, partly reflecting large minimum and public wage increases, against the backdrop of a tight labour market. This has resulted in cost competitiveness concerns, while non-cost competitiveness continues to be impaired by structural bottlenecks. All these factors add to concerns about the entrenchment of competitiveness losses and delays in the necessary trade balance improvement. The fiscal situation, which is a main driver of the high current account deficit, has deteriorated over the past year. The large fiscal deficit is forecast to worsen somewhat further in 2024 and 2025. The government debt-to-GDP ratio edged up despite the high nominal GDP growth, remains moderate at 53%, but with a large share of it denominated in foreign currency. The persistence of high government deficits may push up external indebtedness and make Romania more reliant on external financing sources, leaving the country vulnerable to changes in investor sentiment and external shocks. The policy response to address the identified vulnerabilities has been weak. A credible fiscal consolidation path is key to dampen risks to the stability of the economy. This requires compliance with recommendations under the Excessive Deficit Procedure and full implementation of the fiscal-structural reforms included in the RRP, in particular those aiming at structurally increasing government revenue, and much stricter spending control than in the past years. Implementation of RRP reforms and investment beyond the fiscal-structural ones would also enhance competitiveness.