Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Alert Mechanism Report 2025 – Draft Council conclusions

Delegations will find attached the post EFC version of the draft conclusions on the Alert Mechanism Report 2025, to be approved by the Council in Ecofin formation on 18 February 2025.

ALERT MECHANISM REPORT 2025

– Draft ECOFIN Council Conclusions –

THE COUNCIL OF THE EUROPEAN UNION:

1. UNDERLINES that economic growth has resumed at a moderate pace in the EU and that inflation has been reduced. NOTES the divergent growth paths across Member States and varying increases in the overall price levels. HIGHLIGHTS that the tight EU labour market continued to create jobs over the past years. Labour productivity growth decelerated somewhat while unit labour costs have been increasing at a substantial pace in most countries. STRESSES that the macroeconomic and geopolitical environment remains challenging and uncertain, carrying the risk of heterogenous effects on macroeconomic imbalances across Member States.

2. UNDERLINES the importance of the continued implementation of the Macroeconomic Imbalance Procedure to detect, prevent and correct imbalances which are adversely affecting, or have the potential to adversely affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the EU as a whole. WELCOMES the Alert Mechanism Report 2025, which initiates the fourteenth annual round of implementation of the Macroeconomic Imbalance Procedure.

3. WELCOMES the high-quality analysis in the Alert Mechanism Report with its focus on Member States, and the continued visibility of the EU and euro area dimensions in the report. HIGHLIGHTS that the report is based on the unchanged regulation of the Macroeconomic Imbalance Procedure and the Commission economic reading of the data for 2023 of the recently revised scoreboard, interpreted in a forward-looking manner. ACKNOWLEDGES the uncertainty of forecasts and the importance of looking at both stock and flow variables for analysis.

4. BROADLY AGREES with the assessment of the Alert Mechanism Report regarding the evolution of macroeconomic imbalances and emerging risks. ACKNOWLEDGES that although consumer inflation has moderated, substantial divergences in price dynamics persist across Member States, albeit at smaller magnitudes compared to the peak in 2022. RECOGNISES that over recent years, a number of Member States recorded strong increases in their price and cost levels, which pose risks to their competitiveness. ACKNOWLEDGES, however, that this risk must also be assessed in light of the evolution of their non-cost competitiveness, which needs to be improved across the EU.

5. ACKNOWLEDGES that debt ratios of the corporate sector and households continued to decline strongly in 2023 even though this is primarily due to the effect of high inflation on the denominator, while credit flows eased or contracted in many Member States. This denominator effect is expected to moderate as inflation and nominal growth decelerate. NOTES the increased borrowing costs in 2022–2024, and the reduction in interest rates since mid-2024. HIGHLIGHTS that corporate investment remains low, but is expected to recover along with strengthening demand and improving financing and framework conditions. RECOGNISES that in several Member States house prices remain high and growth rates are increasing again after some moderation in 2023. UNDERLINES the continued resilience of the EU banking sector, with non-performing loans remaining low.

6. NOTES that public investment increased in most Member States. WELCOMES that government debt ratios decreased further in 2023, including in most of the high-debt countries, while remaining above pre-pandemic levels in many Member States. ACKNOWLEDGES that public deleveraging was primarily due to strong nominal GDP growth driven by high inflation and is expected to moderate due to falling inflation and nominal growth. STRESSES the potential interactions between different macroeconomic variables.

7. NOTES that in 2023, current accounts strengthened in almost all Member States, largely driven by the receding energy price shock and subdued demand, while remaining below the levels suggested by the fundamentals in many Member States. FLAGS the increased divergencies between Member States, owing to stronger current account increases in some net-creditor countries, coupled by sizeable current account deficits in some other countries larger than their pre-pandemic levels. RECOGNISES that in 2023, the net international investment positions continued to increase in almost all Member States, but that net external debt could start rising again. ACKNOWLEDGES that the strong improvement in net international investment positions of net debtors has led to a one-sided rebalancing of external positions within the euro area.

8. TAKES NOTE of the Commission's intention to prepare in-depth reviews for nine Member States that were identified as experiencing imbalances or excessive imbalances in 2024, and for one additional Member State with possible emerging imbalances. CALLS for the publication of in-depth reviews early in Spring.

9. CALLS for the efficient implementation of the Macroeconomic Imbalance Procedure in the reformed economic governance framework, embedded in the European Semester of economic policy coordination. UNDERLINES that Macroeconomic Imbalance Procedure should work consistently with the new budgetary framework. UNDERLINES the need for a holistic view of all macroeconomic imbalances and their interactions and CALLS for further analytical work. UNDERLINES that timely policy response is crucial for a resilient EU, including by implementing reforms and investments to address the country-specific recommendations in the context of the European Semester.

10. HIGHLIGHTS that preventing and correcting macroeconomic imbalances enhances Member States' ability to respond to shocks and supports economic convergence. UNDERLINES that the reduction of all imbalances contributes to the overall resilience of the EU economy and can yield positive spillovers across the EU.