Alert Mechanism Report 2025

Christine Frayne

Head of Unit, Macroeconomic Imbalances

Directorate-General for Economy and Finance, European Commission

European Commission

Context: the macroeconomic imbalance procedure

- Set up in 2011 to **fill the gap in EU economic surveillance**: previously only fiscal
- Process: **Alert Mechanism Report (AMR) every autumn,** based on economic reading of scoreboard of indicators
  - Selects countries for an **In-Depth Review**
- In-Depth Reviews prepared every spring: **does country have imbalances/excessive imbalances**?
- **What is an imbalance**? "[..] trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole
- Today: go over the **Alert Mechanism Report for 2025**:
  - What are the trends that we see in terms of **developments and evolution of imbalances**
  - Do any **countries stand out as being at risk of being affected by imbalances**?

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Context: the macroeconomic imbalance procedure

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
BE	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
BG	Imbalances	Imbalances	Imbalances	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR
CZ	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR
DK	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
DE	No IDR	No IDR	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
EE	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR
IE			Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR
EL								Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances
ES	Imbalances	Excessive imb.	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.
FR	Imbalances	Imbalances	Imbalances	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.
HR			Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR
IT	Imbalances	Imbalances	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances
CY	Imbalances				Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Excessive imb.	Imbalances	Imbalances
LV	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR
LT	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR
LU	No IDR	No IDR	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR
HU	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	Imbalances	Imbalances
MT	No IDR	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
NL	No IDR	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
AT	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
PL	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
PT				Excessive imb.	Excessive imb.	Excessive imb.	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.
RO				Imbalances	IDR, no imb.	No IDR	No IDR	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Excessive imb.
SI	Imbalances	Excessive imb.	Excessive imb.	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
SK	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	IDR, no imb.	Imbalances
FI	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR, no imb.	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
SE	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances

External sector and competitiveness

- **Current account balances increased in most EU countries in 2023.** The moderation of energy prices and weak domestic demand were the key contributors to this trend. Some large deficits remain but high surpluses in some other countries persist too.

- **The euro area current account balance shifted back to a surplus close to 2% of GDP.** While remaining below its pre-pandemic levels, the euro area current account exceeds the level implied by fundamentals.

- **Nominal GDP growth contributed to a broad increase in net external positions.** This led to a one-sided rebalancing of external positions within the euro area amid the lack of correction on the side of large net-creditor countries.

- **Price and cost pressures continued to be strong**, with a deceleration in overall inflation but an increase in labour costs, as wages made up some of the loss in purchasing power. Nominal effective exchange rates (NEERs) appreciated due to currency nominal appreciation and unfavourable inflation differentials in many Member States.

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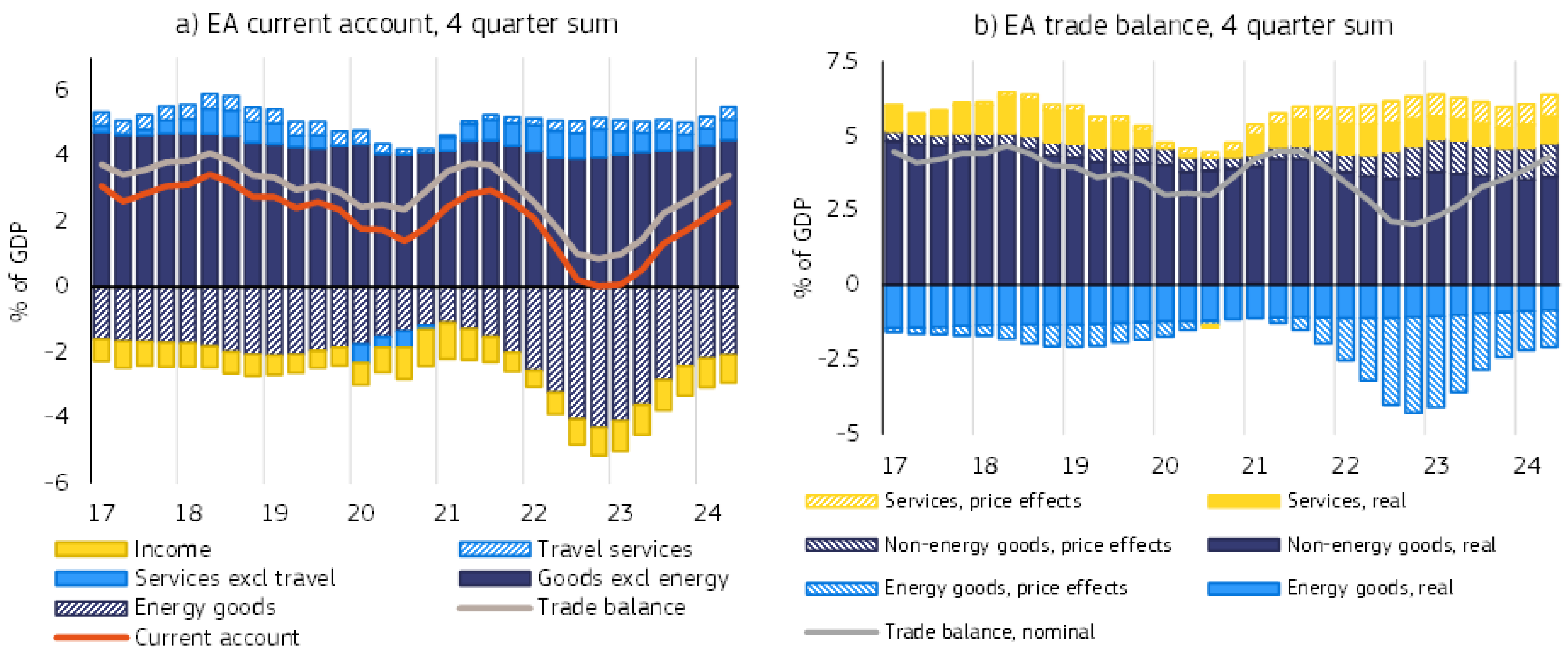
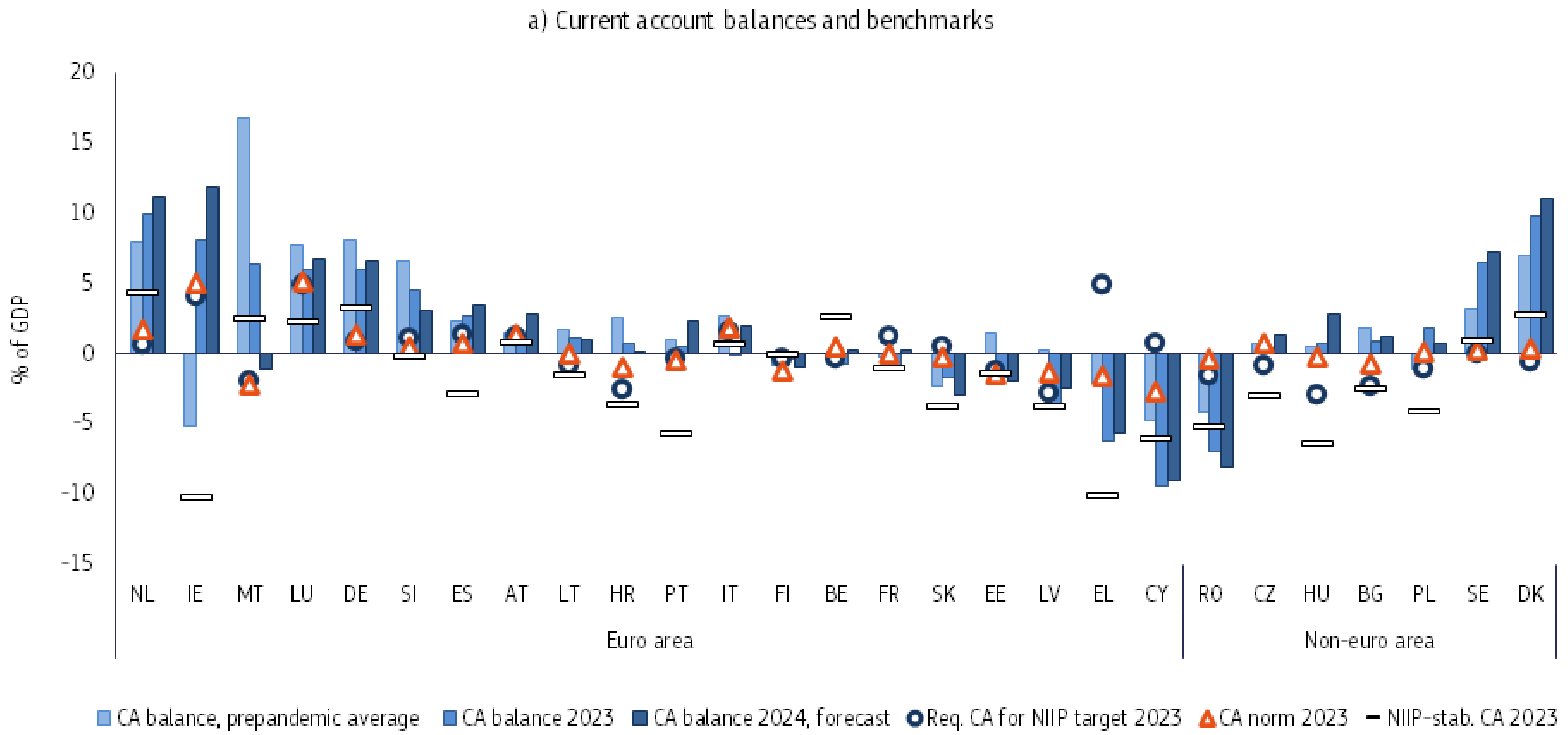
External sector

The EA current account balance continued to increase



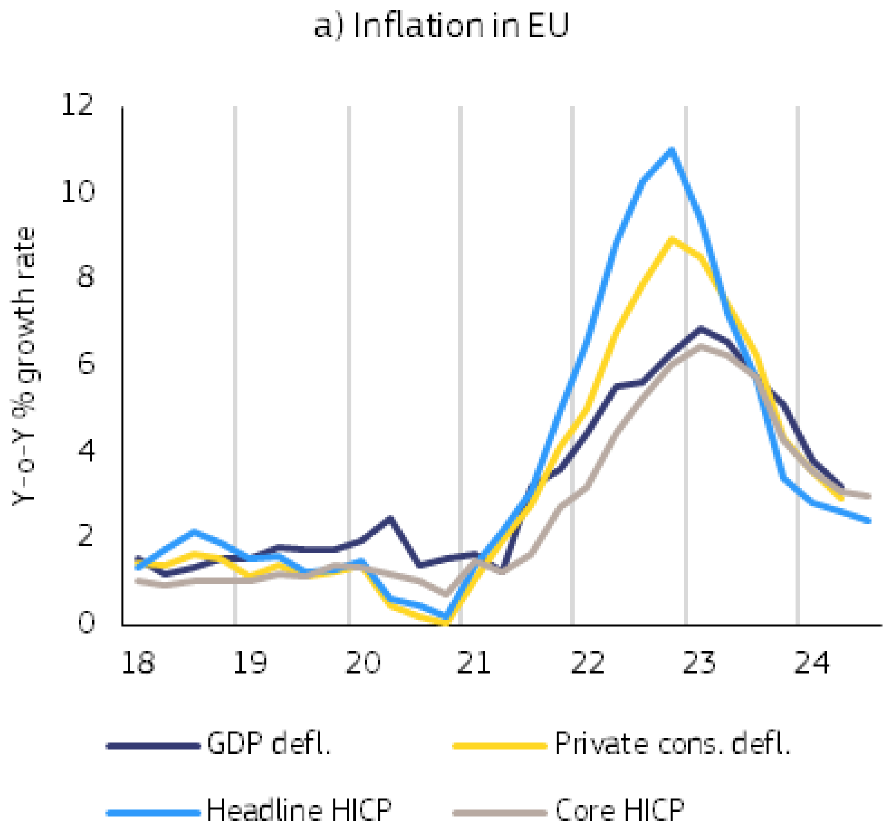
External sector

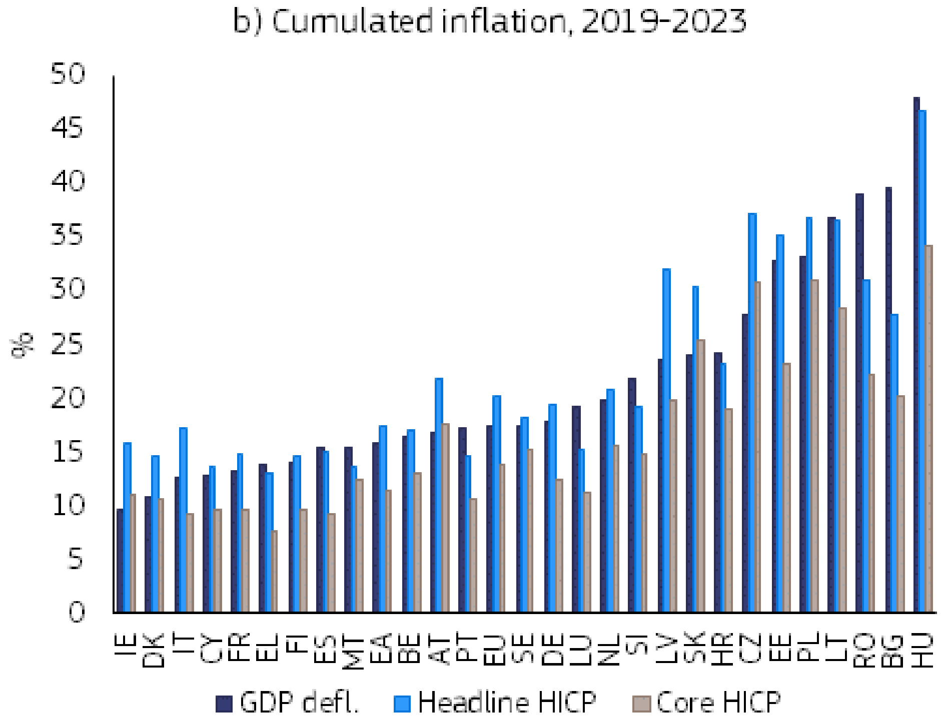
Current account balances increased but remain below pre-pandemic levels for most Member States



Competitiveness

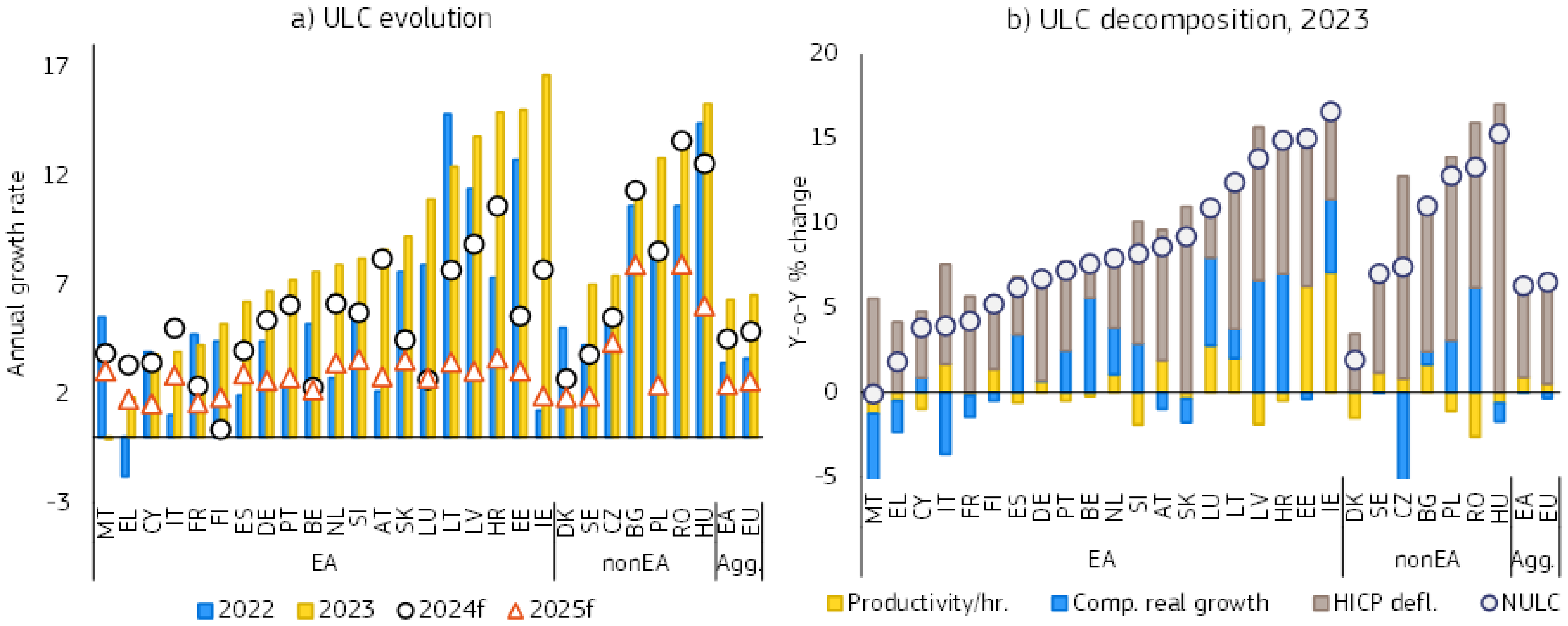
The inflationary shock has faded but some Member States face much higher relative costs and prices





Competitiveness

Labour costs increasing and divergent among Member States



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Corporate and household sectors

- **Corporate debt-to-GDP ratios continued to decrease driven by strong denominator effects and a slow-down in lending flows.**
  - Debt-to-GDP ratios reached their lowest levels in a decade. Deleveraging has continued so far in 2024, but at a slower pace. In most EU countries, credit flows have remained subdued as high borrowing costs and low investment dampened corporate credit demand.
  - Over 2023 and the first half of 2024, profit indicators deteriorated as elevated borrowing costs dampened profitability.
- **Household debt ratios continued to decrease to historical lows in 2023 in most EU countries.**
  - While remaining positive in most countries, credit flows contracted substantially in 2023 due to higher borrowing costs.
  - Further deleveraging of household debt can be expected for 2024, albeit at a slower pace than in 2023.
- **House prices moderated in 2023 after strong growth over 2020-2022, but with considerable variation.**
  - In 2023, the moderation of house prices that started in mid-2022 continued as higher interest rates led to a decrease in households' borrowing capacity and dampened the demand for house purchases.
  - House prices are expected to resume growth, supported by higher income, lower interest rates and low housing supply.

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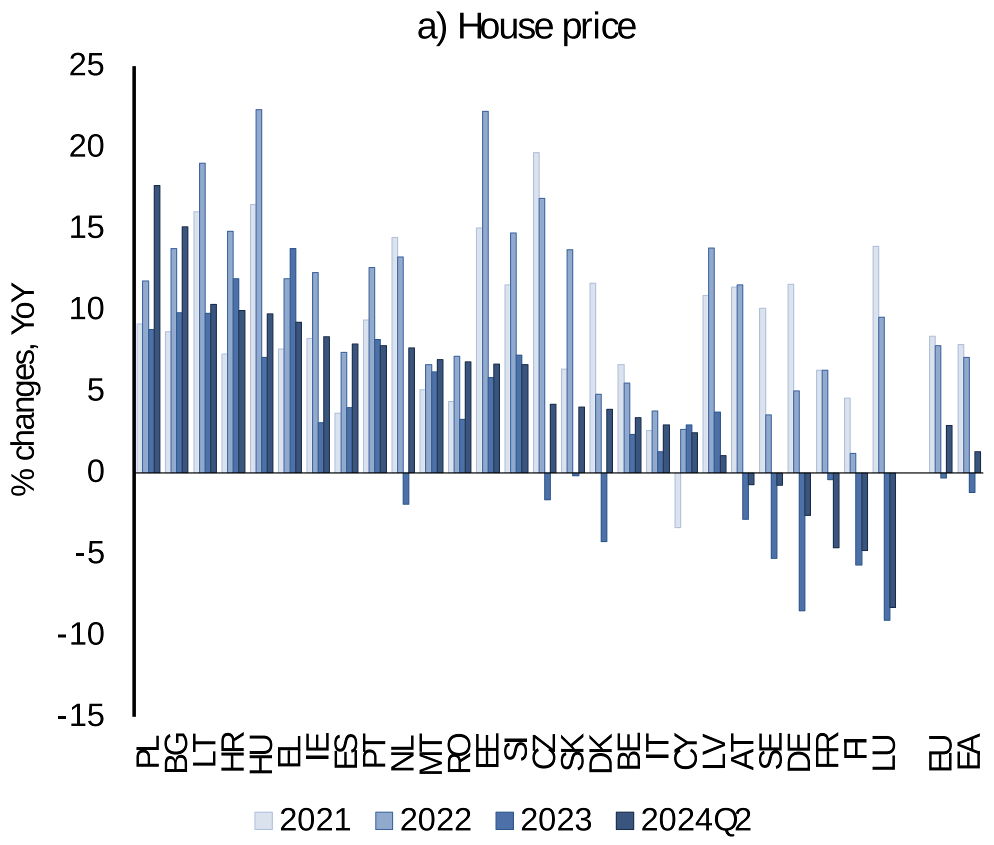
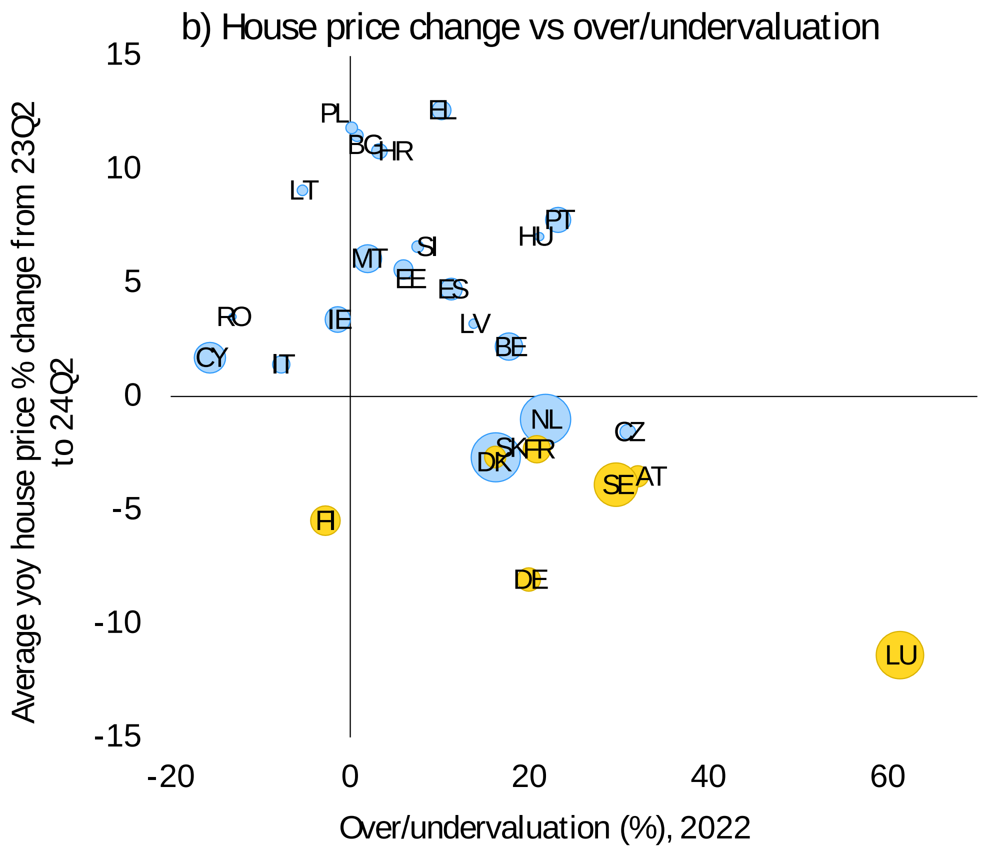
House prices continued to moderate with some heterogeneity across Member States

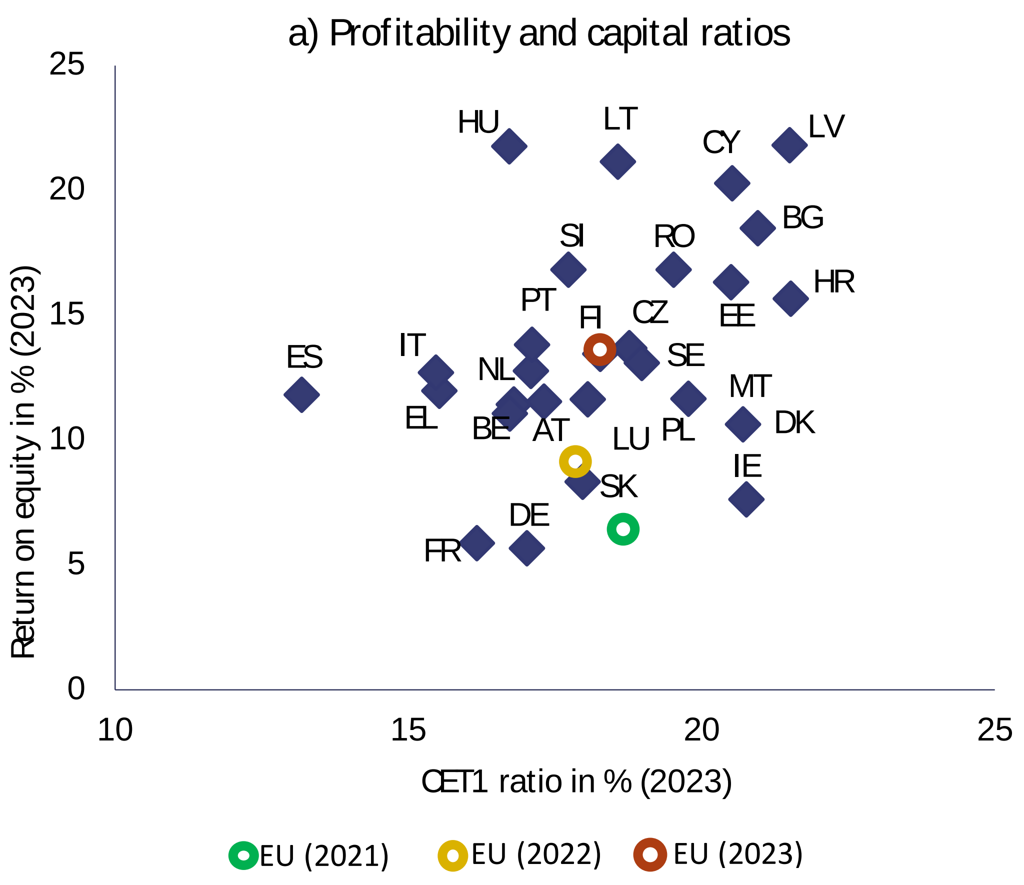


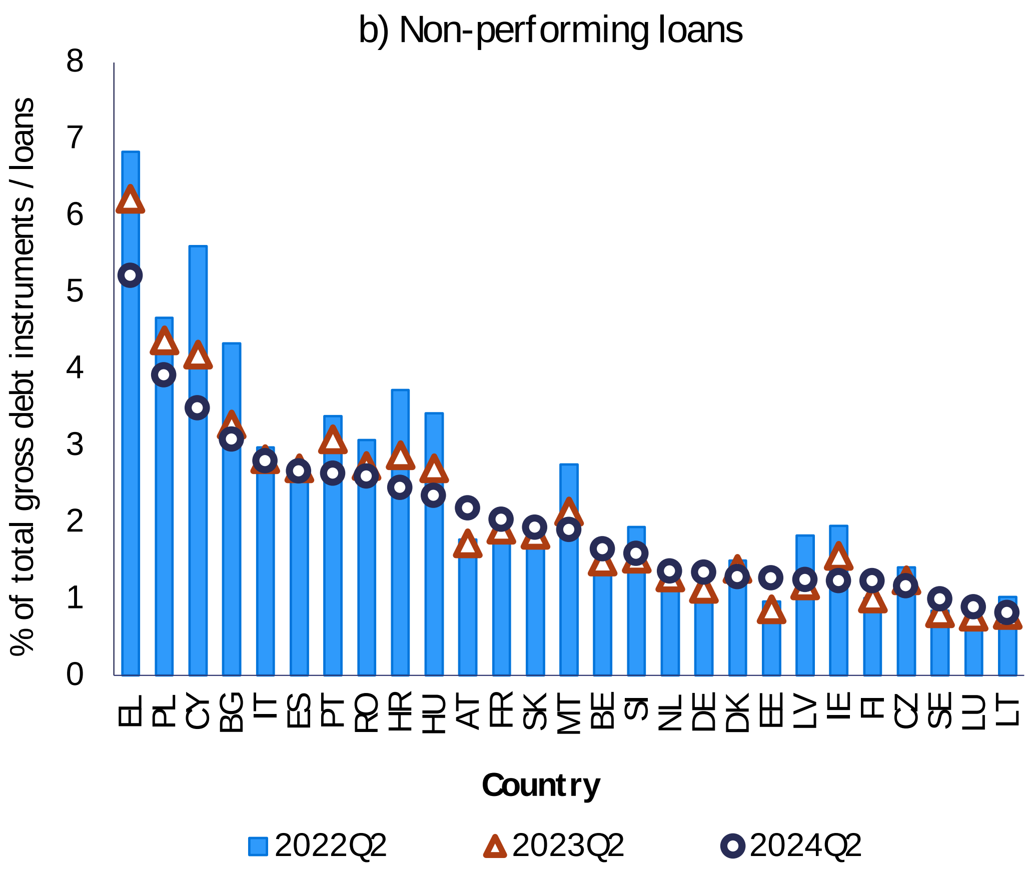


The government and financial sectors

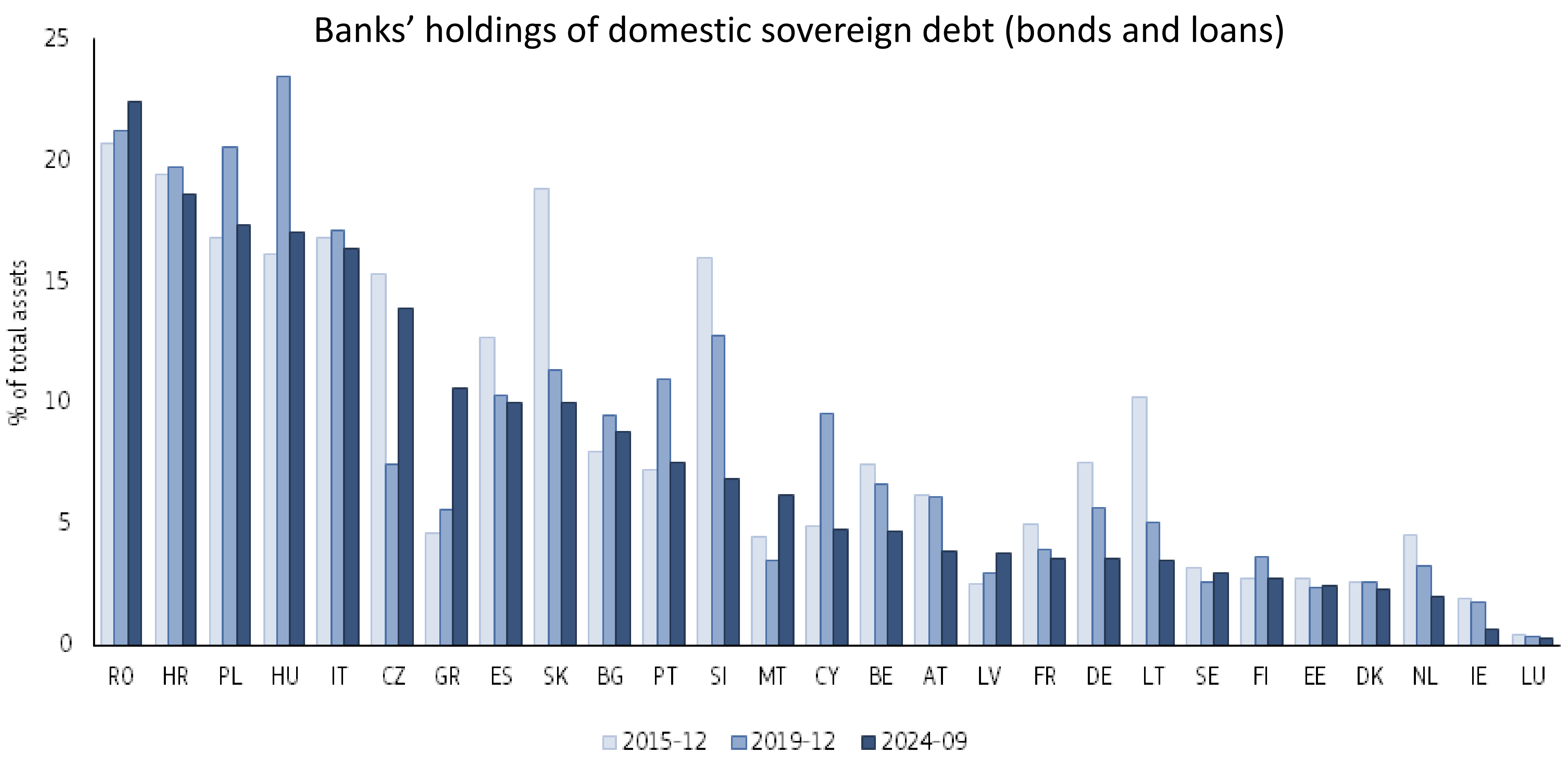
- **Government debt-to-GDP ratios continued to fall in 2023 due to strong nominal GDP growth and despite still sizeable government deficits.**
  - Government deficits were marginally larger in 2023 than in 2022 in several countries, including in some high-debt Member States.
  - The interest burden of government debt has continued to rise and is expected to continue to do so as debt is rolled over at higher rates and borrowing needs keep rising in some Member States.
  - Favourable differentials between interest rate and nominal GDP growth have helped debt deleveraging in recent years but those tailwinds are vanishing.
- **The financial sector has displayed continued resilience.**
  - Bank profitability increased significantly but from low levels. It has benefitted from higher interest income, while non-performing loan (NPL) ratios have remained stable. Banks have remained well capitalised.
  - However, cyclical conditions, pockets of vulnerabilities (including CRE) and the increasing relevance of non-bank financial institutions (NBFIs) are a source of risks. In some Member States, banks continue to have a high exposure to the domestic sovereign.

The banking sector has remained resilient





Banks' strong exposure to domestic sovereign debt remains a risk in some Member States



AMR – procedural conclusions

- IDRs will be undertaken for the **9 Member States** identified in spring 2024 **with imbalances or excessive imbalances** (CY, DE, EL, HU, IT, NL, RO, SE, SK). The 2025 IDRs will assess whether those imbalances are aggravating, under correction, or correcting, and possible remaining policy needs will be analysed too.

- The AMR also concludes that **an IDR should be undertaken for Estonia** as cost competitiveness losses are still accumulating, the current account has worsened, and house prices continue growing markedly.

- For the other Member States, there is no need to carry out IDRs *at this juncture.*

- IDRs 2025 are to be published in the first half of 2025. **Imbalances classifications** are expected to come out with the **2025 spring package**.

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An IDR will be undertaken for Estonia

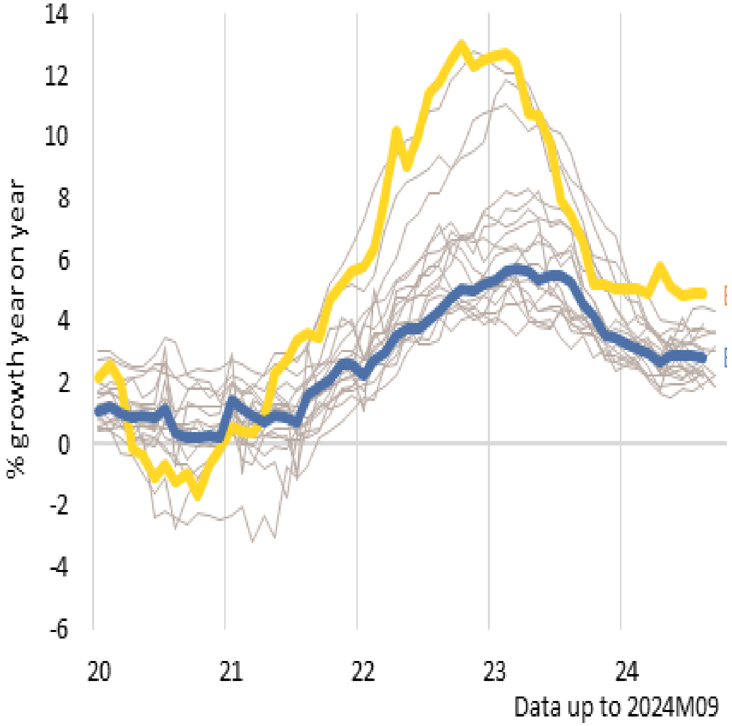
Cost competitiveness losses are still accumulating, and the current account has worsened; house prices continue growing markedly.

Those concerns were already present in the 2023 IDR but were then found to be limited and expected to narrow quickly. Yet they have persisted, and prospects are not reassuring:

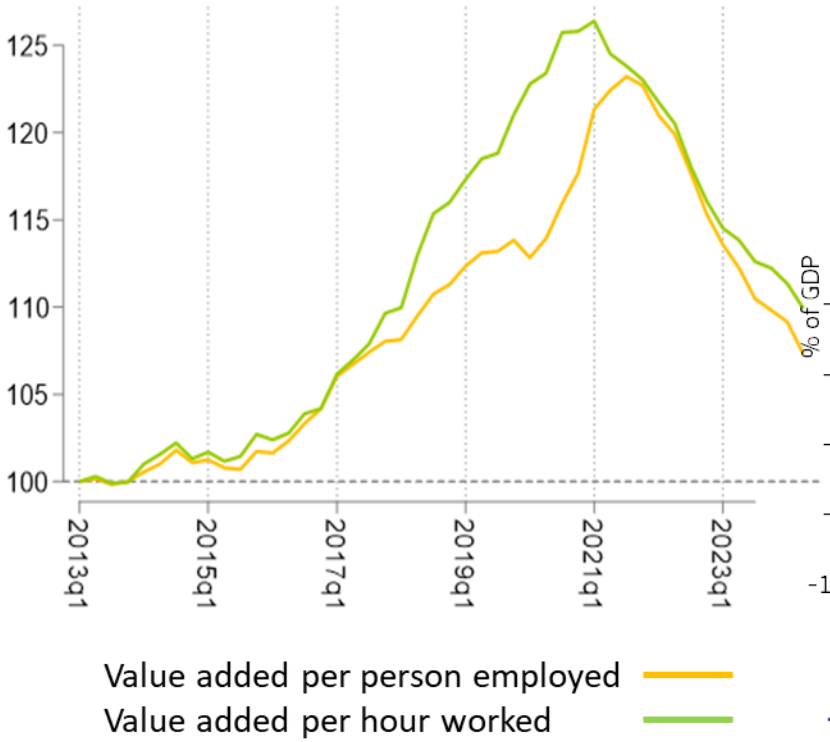
- Although they have moderated, **cost pressures** are among the highest in the euro area: the country continues to record high inflation, with core inflation increasing recently. Estonia's strong price and cost growth has occurred despite the weak performance of the economy.
- A **current account deficit** has emerged. Although it improved in 2023, no further improvement is expected. The continued weak growth suggests a weaker underlying external position.
- **House prices** have grown significantly in recent years and nominal prices grew by over 7% in 2024-H1, compounding risks of house prices overvaluation.
- **Household borrowing** moderated in 2023 but remained significant in spite of the highest borrowing costs in the euro area.

Estonia

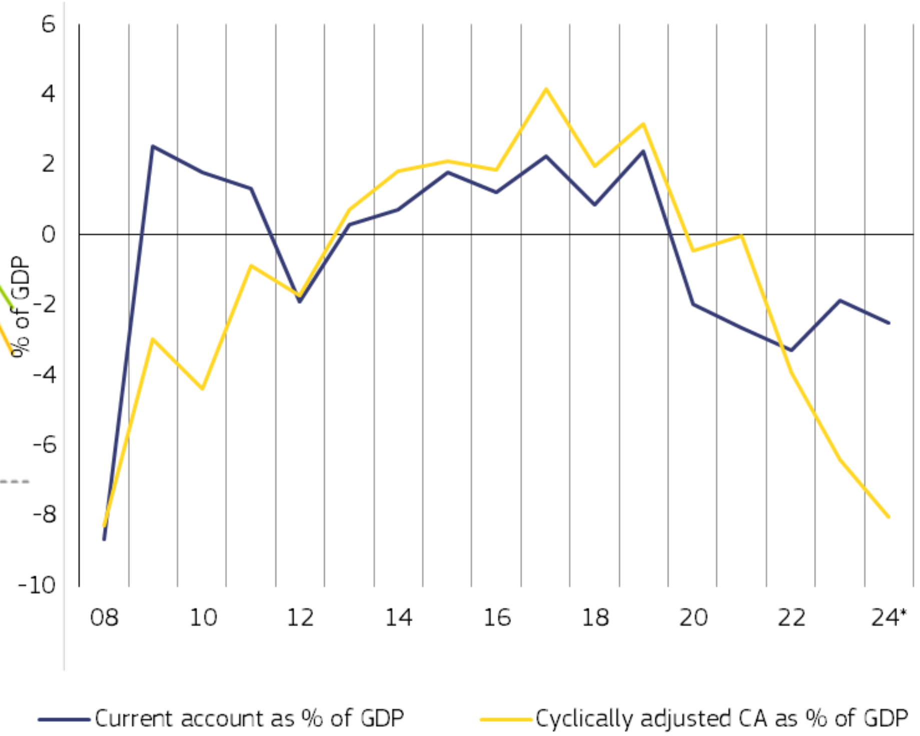
Core inflation year on year: Estonia compared to EA MS



Productivity (2013=100)



Current account: headline and cyclically-adjusted



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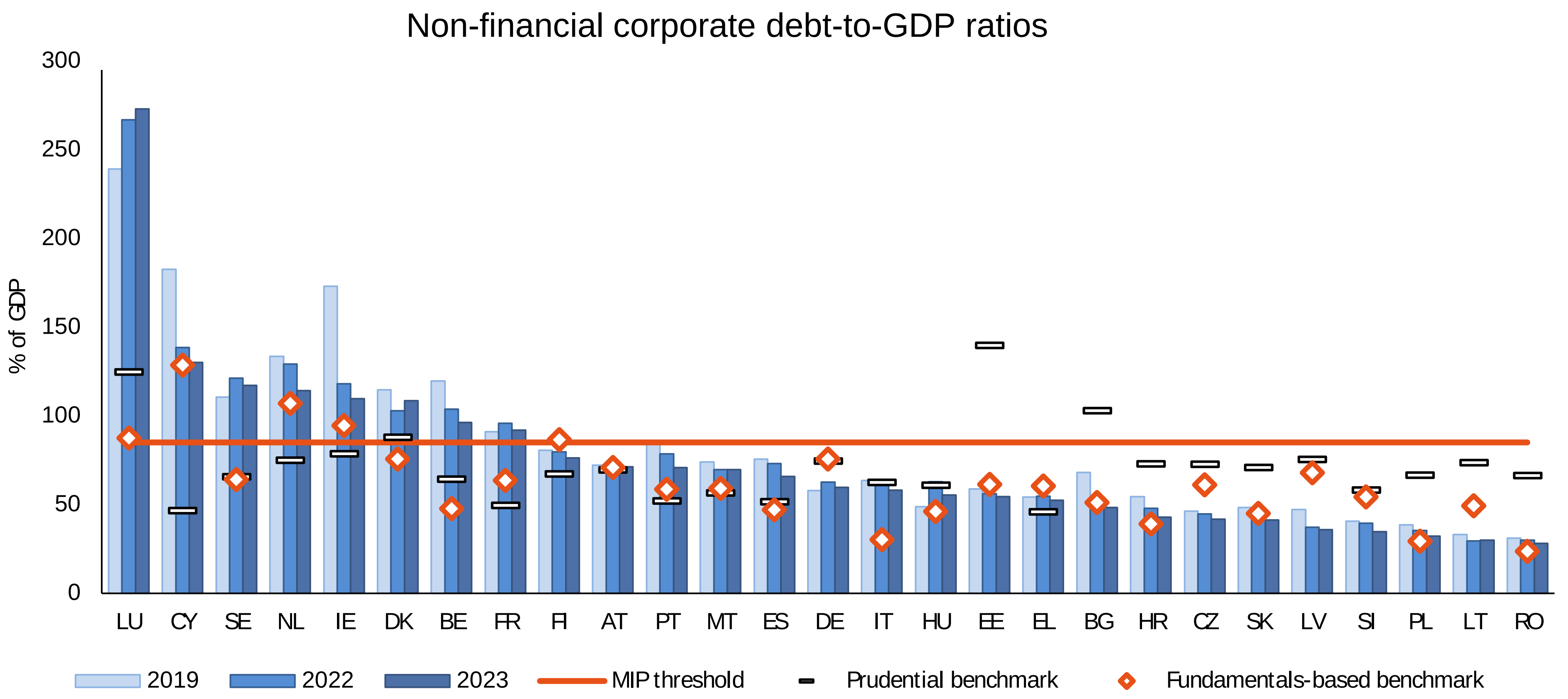
Thank you!

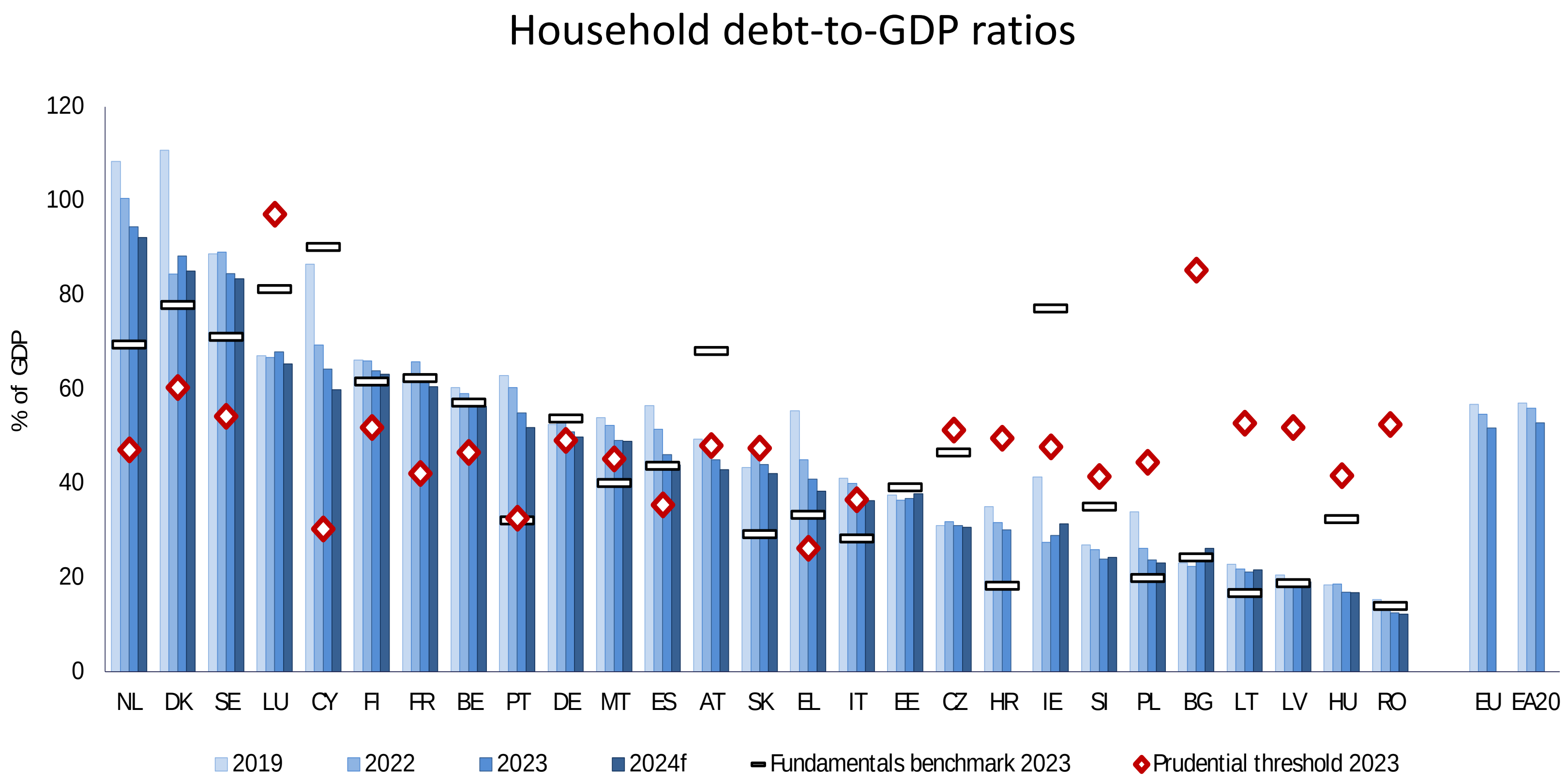
Non-financial corporations

Debt ratios decreased due to nominal GDP growth and are below their 2019 levels in most Member States



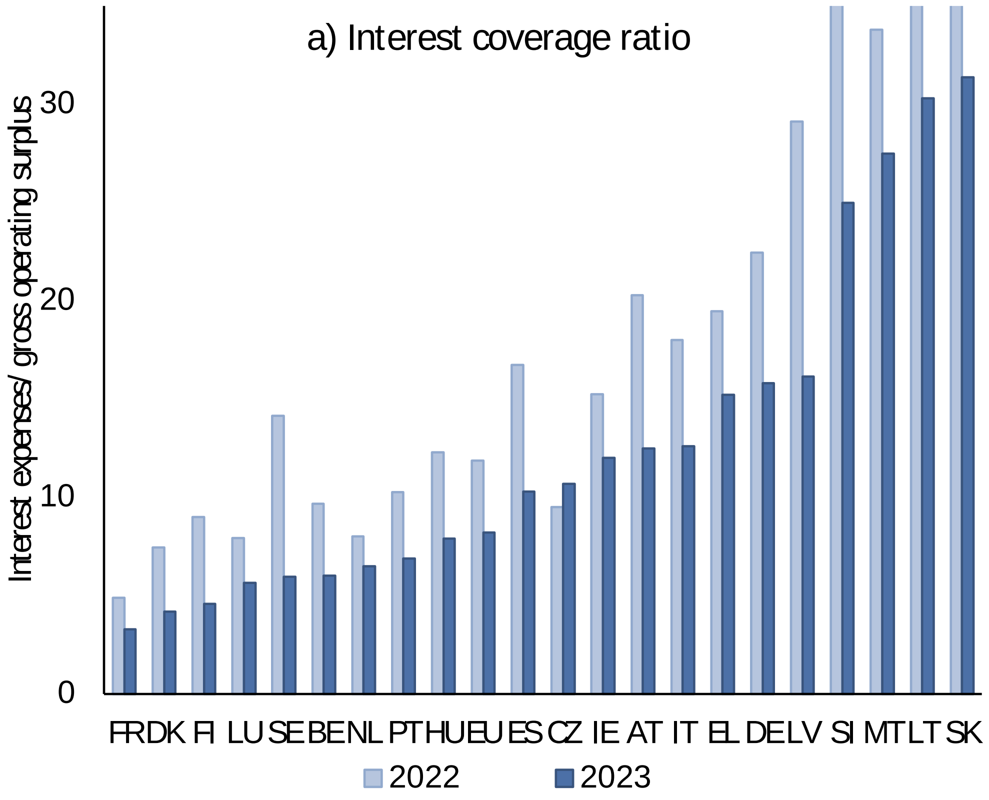
Household debt

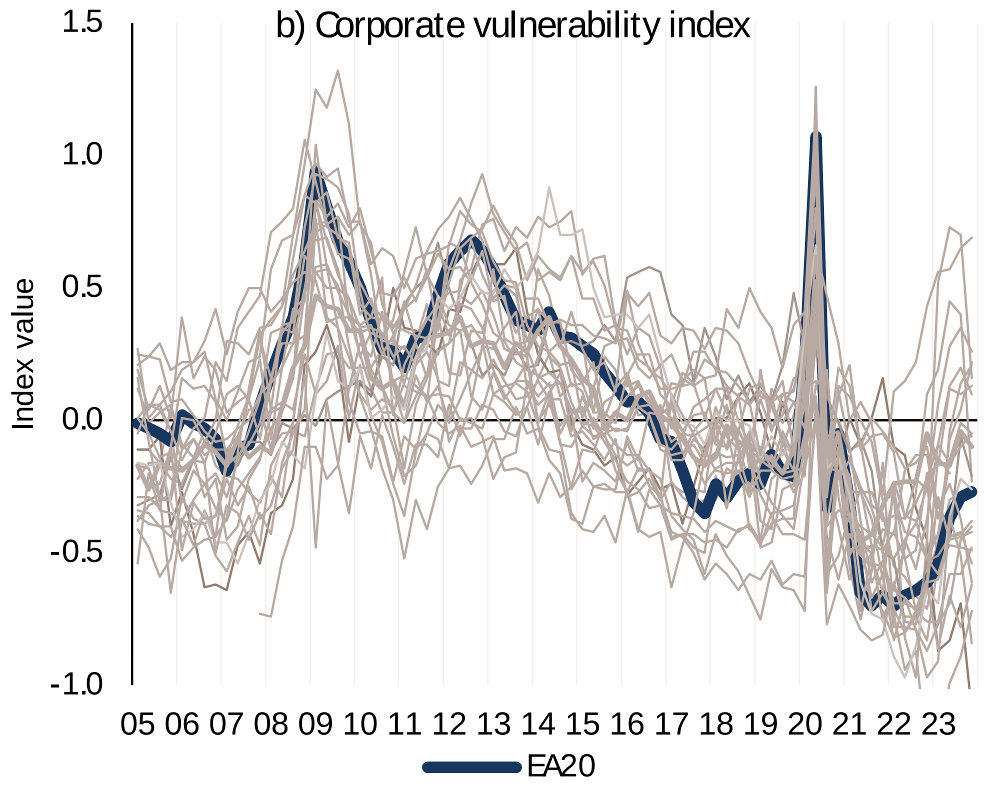
Debt-to-GDP ratios continued to decrease due to denominator effects but remain higher than suggested by fundamentals in several Member States



Non-financial corporations

The interest rate coverage ratio decreased due to higher funding costs





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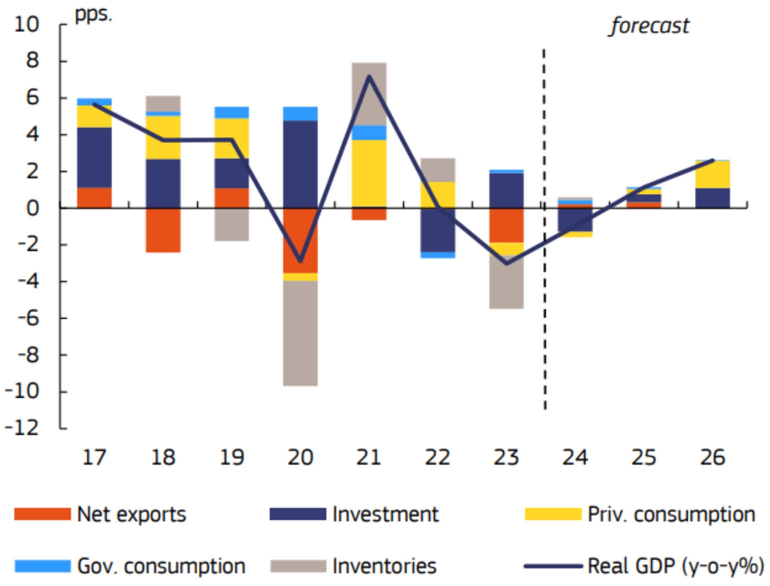
Estonia

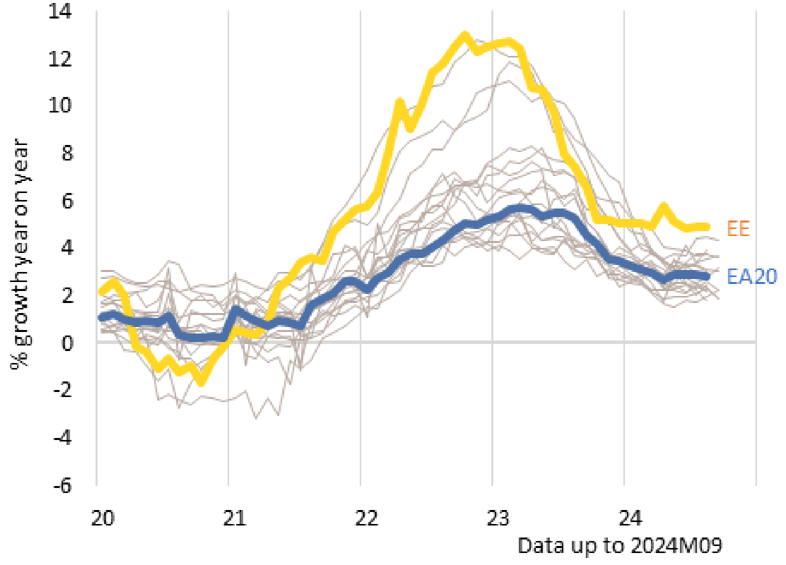
Core inflation remains persistent despite weak economic activity

- Core inflation was persistently high despite the recession in 2023 and 2024.
- Over the past months, core inflation has remained close to 5% (2 pps. above the euro area average).
- Inflation is forecast to remain high in 2025, also due to tax increases.

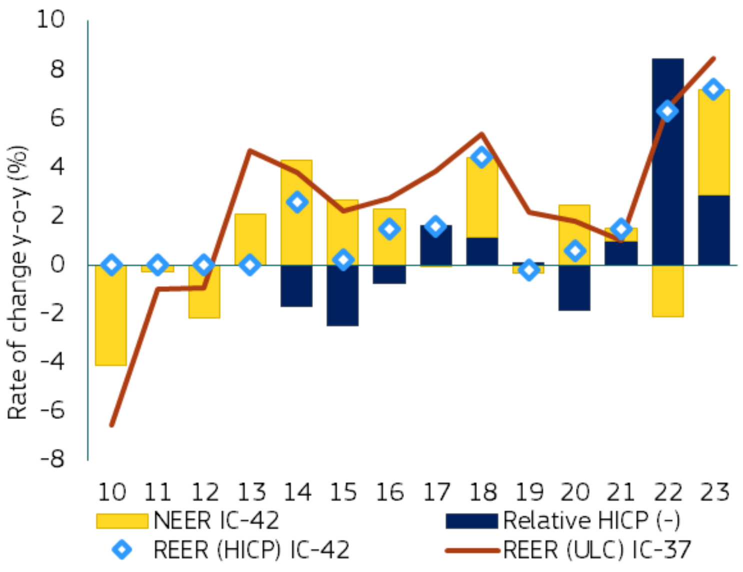
Real GDP growth and contributions



Core inflation year on year: Estonia compared to EA MS

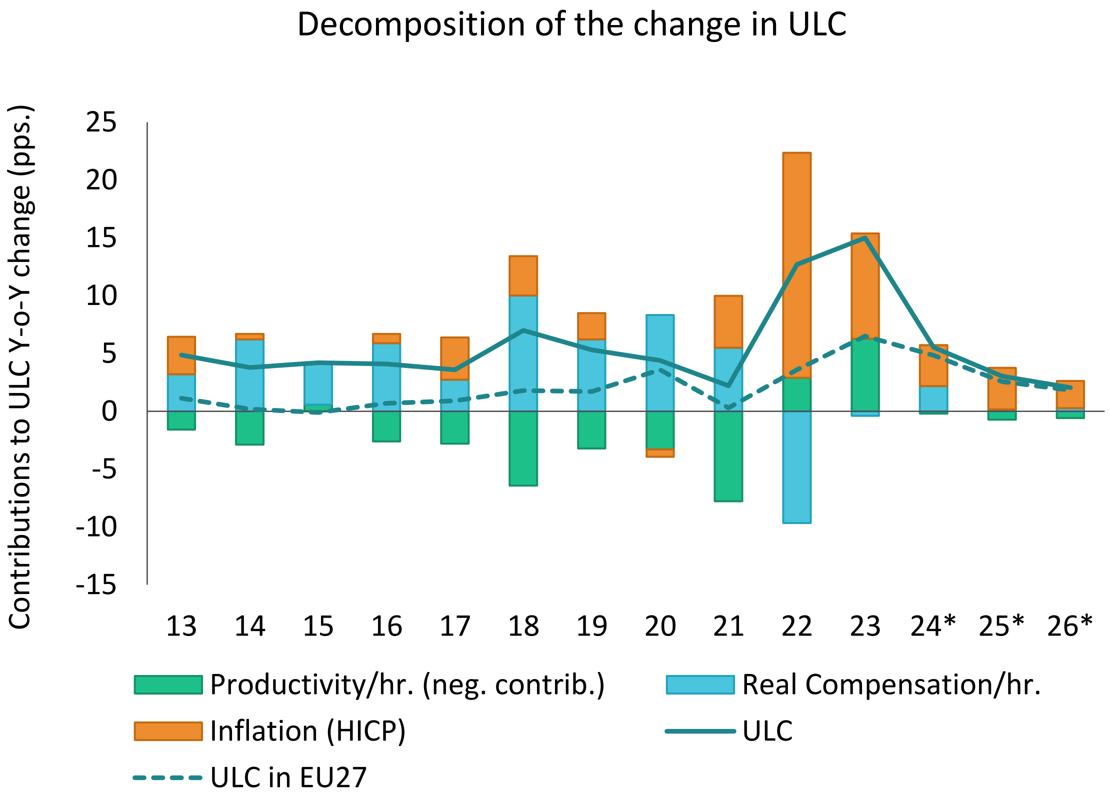


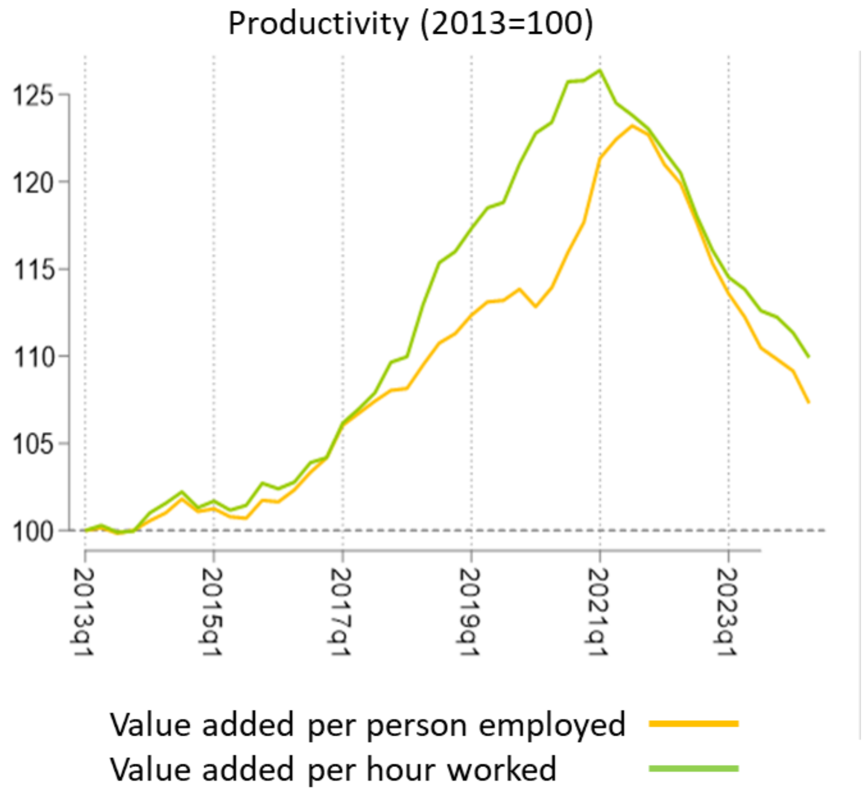
Real effective exchange rate and contributions



Estonia

ULCs increased strongly and productivity decreased 10% below its 2021 level

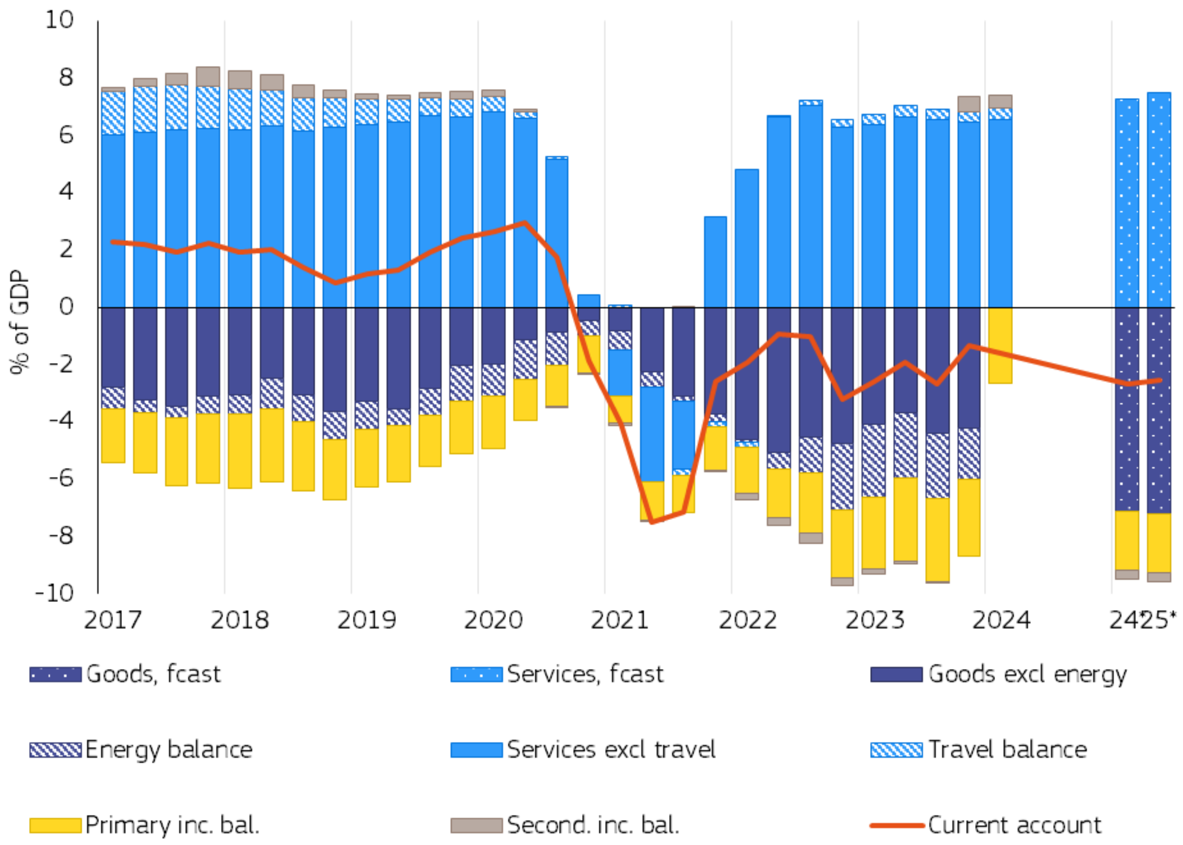




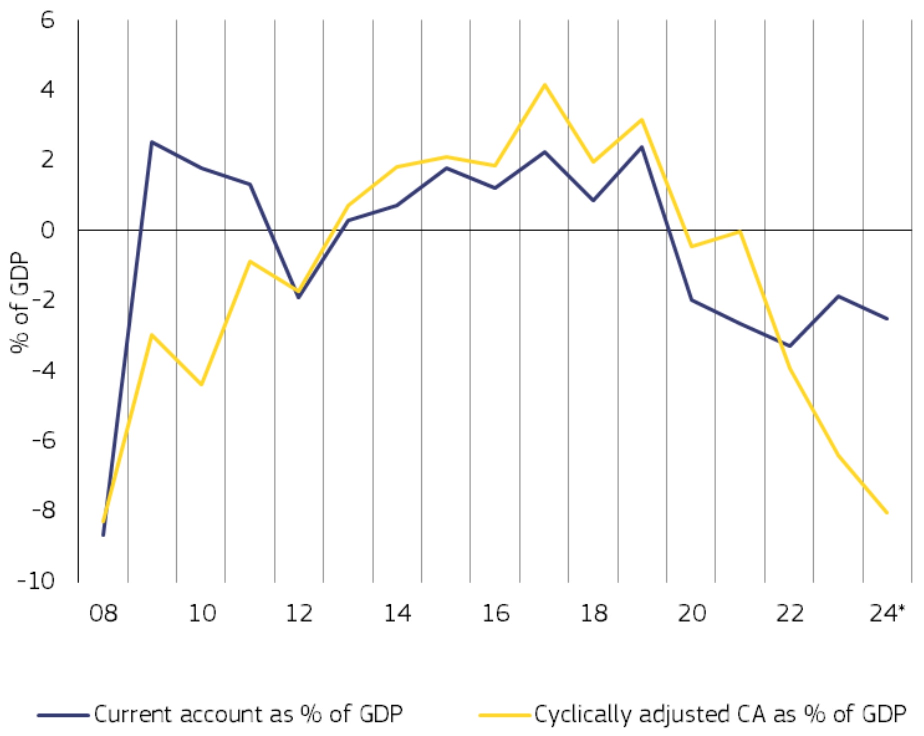
Estonia

The current account deficit moderated while remaining close to 2% of GDP

Current account, real perspective
(4-quarters moving average)



Current account: headline and cyclically-adjusted



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