



European Semester 2025 Autumn Package II: Euro Area Recommendation

EESC, 18 December 2024

The 2025 European Semester cycle

- European Semester **Autumn Package I** published on 26 November 2024
 - DBP opinions, EDP recommendations, MTFSP for 21 MS
- European Semester **Autumn Package II** published on 18 December.
 - **Chapeau Communication**
 - Proposal for a **recommendation** for the **economic policy of the euro area** (EAR)
 - SWD - Institutional Paper No 304 (2025 Euro Area Report)
 - **Alert Mechanism Report (AMR)**
 - Proposal for a **Joint Employment Report (JER)**

Role of the euro area recommendations (EARs)

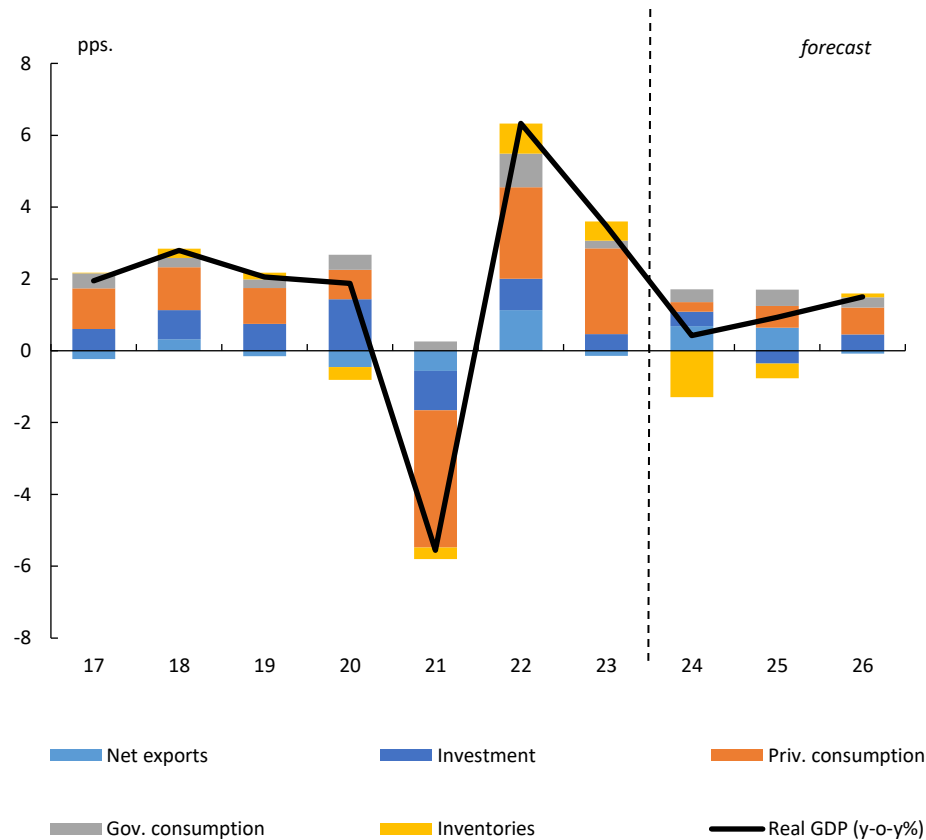
- An important feature of the **annual cycle** since 2011
- **Coordination of economic policies** and importance of **spillover** in the EMU
- EARs notionally **different from the national recommendations**
 - An **agenda setting for the EG** rather than concrete recommendation as the CSR
 - A **framework to steer policy debates** on priorities for the Monetary Union and its members
- Consistent with **Political Guidelines 2024-2029**

Key messages from the 2024 Autumn Forecast

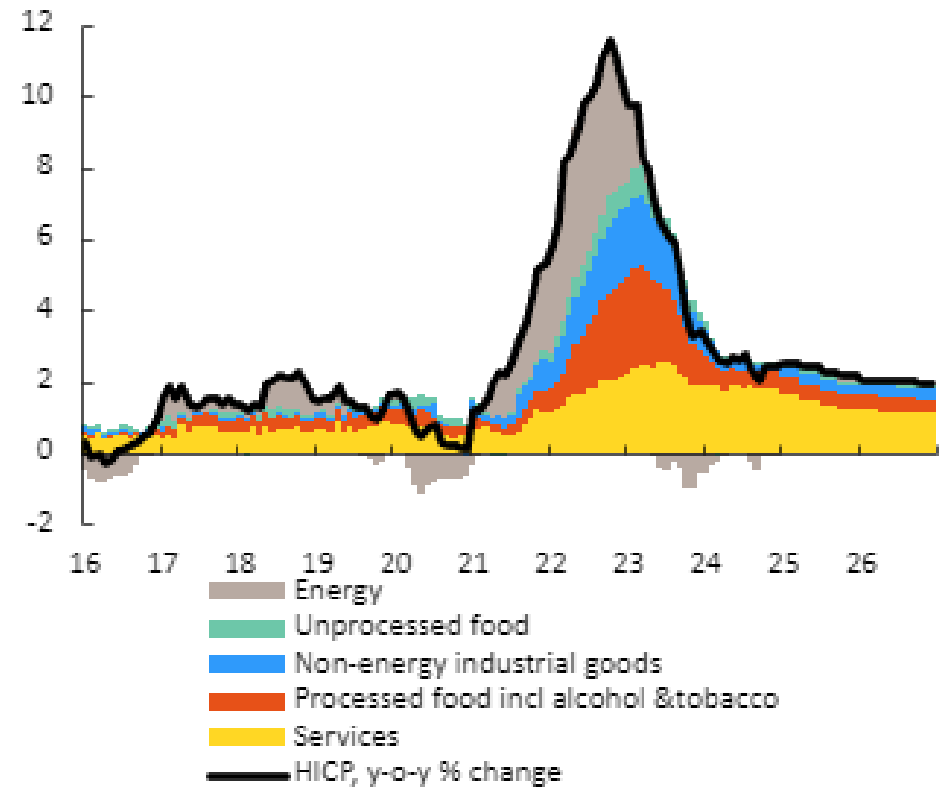
- The EU and the EA **resumed growth** in an increasingly challenging context
- **Service inflation** is set to drive the disinflation process ahead
- **Labour markets expected to cool** but to remain strong
- **Government deficits improve** but debt ratios edge up
- Uncertainty and downside **risks have increased**

Economic activity set to gain traction as inflation returns to target

Real GDP growth and contributions, euro area

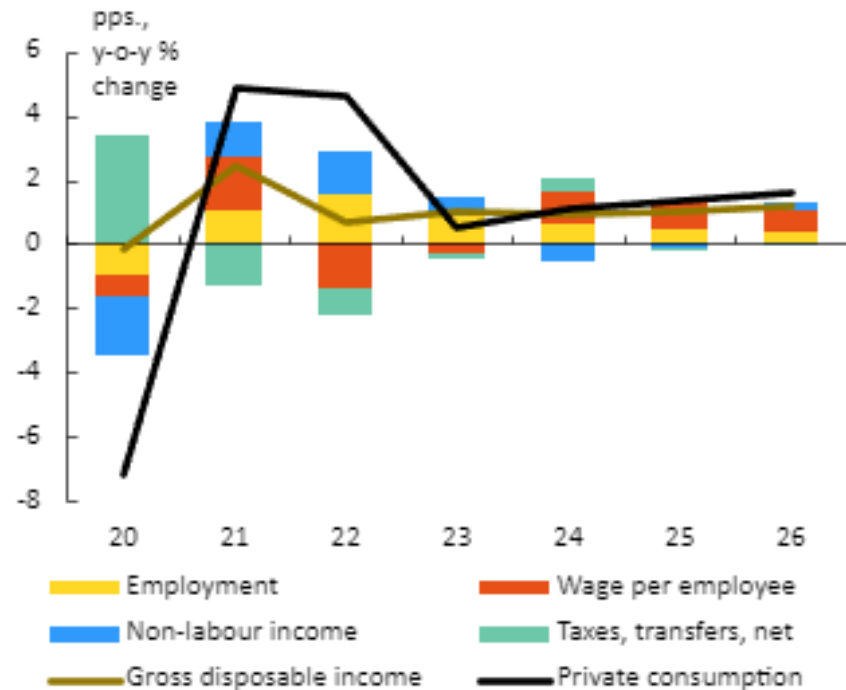


Inflation breakdown, euro area

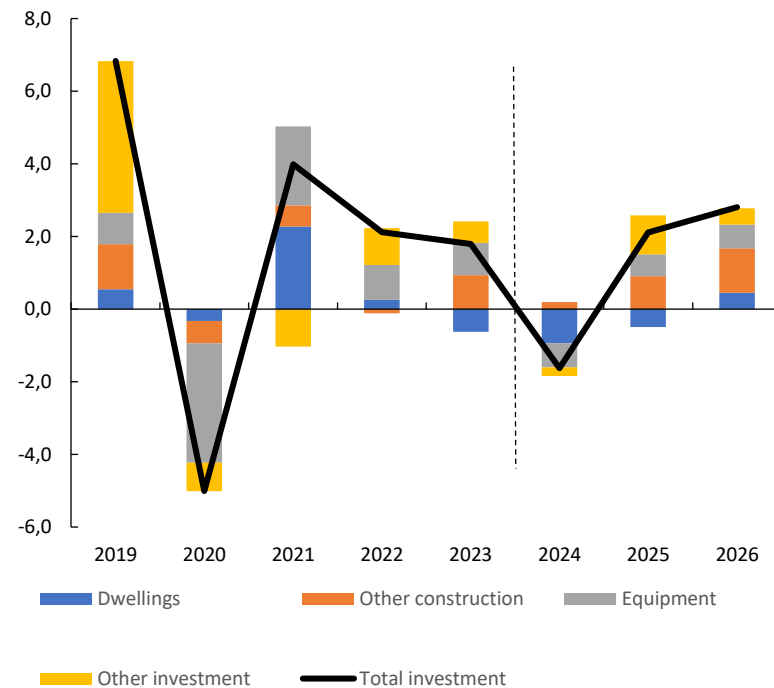


Consumption growth picks up and investment rebounds

Real gross disposable income and private consumption



Investment growth and its composition by asset type



EUROPEAN
SEMESTER
2025



Euro Area Recommendations



The 2025 euro area recommendations

EAR	Summary
Competitiveness	<p>Enhancing productivity and boosting innovation</p> <ul style="list-style-type: none"> • Deepen the Single Market and improve business environment, by reducing regulatory burden. • Innovation (upskilling/reskilling – R&D investment) • Targeted industrial policy with no disruption of level-playing field • Developing a European Saving and Investment Union through deepened links between CMU and BU • Mobilising venture capital – particularly for start-ups and scale-ups
Resilience	<p>Fostering resilience of our economies</p> <ul style="list-style-type: none"> • Increasing labour market participation, also through managed legal migration • Promoting wage and productivity growth • Strengthening social protection and inclusion systems, including access to housing • EU-strategy for electrification and green transition – cross-border interconnection grids
Macro-economic and financial stability	<p>Prudent fiscal policies and macro-financial stability</p> <ul style="list-style-type: none"> • Ensure compliance with the new fiscal framework and improve debt sustainability • Defining fiscal strategies aimed at: <ul style="list-style-type: none"> • Improve quality and efficiency of public finances • Reducing tax avoidance and evasion • Aligning strategies with policy objectives • Monitoring risks to financial stability
<p>General aspiration of further EMU deepening</p>	

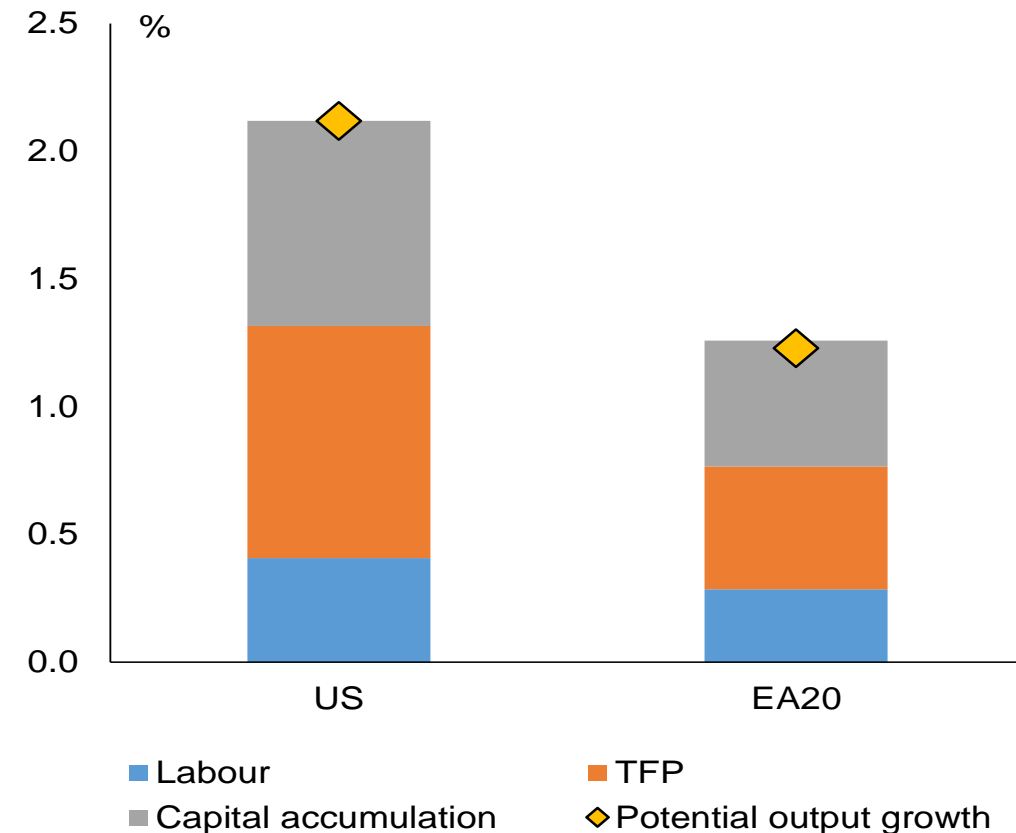
2025 EARs interaction with the underlying Staff Working Document (SWD)

EAR	SWD	Main topics
	Executive summary	
Competitiveness	Competitiveness developments and other related medium-term challenges that are holding the euro area back and highlight possible policy options.	<ul style="list-style-type: none"> • Diagnosis • Knowledge • Markets • Funding
Resilience	Stocktaking of economic developments in the past 5 years, summarising the unprecedented challenges and the resilience shown by the euro area including the role of policy	<ul style="list-style-type: none"> • Economic growth and inflation • Labour Markets and wages • Policy Response
Macro-economic and financial stability	Managing the economic fluctuations that can affect the euro area, ensuring a degree of economic cohesion and stability	<ul style="list-style-type: none"> • Fiscal Policy • Monetary Policy • Macro-financial Stability

Competitiveness: enhancing productivity

- Moving resources towards **high-productivity and high productivity potential** sectors
- Improving **functioning of good and services markets**
- Enhancing companies' ability to scaling-up:
 - deepening the **Single Market**
 - improving **business environment**, by reducing **regulatory burden**.
- **Targeted industrial policy** with no disruption of level-playing field
- Enhancing effectiveness of policy action, including **more effective use of National Productivity Boards**

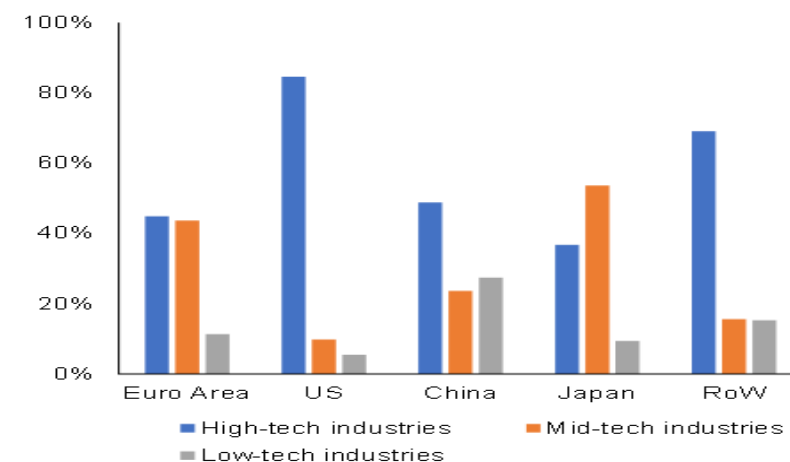
Potential output growth decomposition (US vs euro area)



Competitiveness: boosting innovation

- **Addressing the fragmentation of the innovation ecosystem** (R&D investment including in cutting edge digital and clean tech)
- **Promoting upskilling/reskilling** of the workforce and quality jobs
- **Mobilising venture capital** – particularly for start-ups and scale-ups
- Reinforce **industry preparedness** through **investment in critical technologies** and **areas of common priorities**

Private R&D investment by region and sector type, 2022



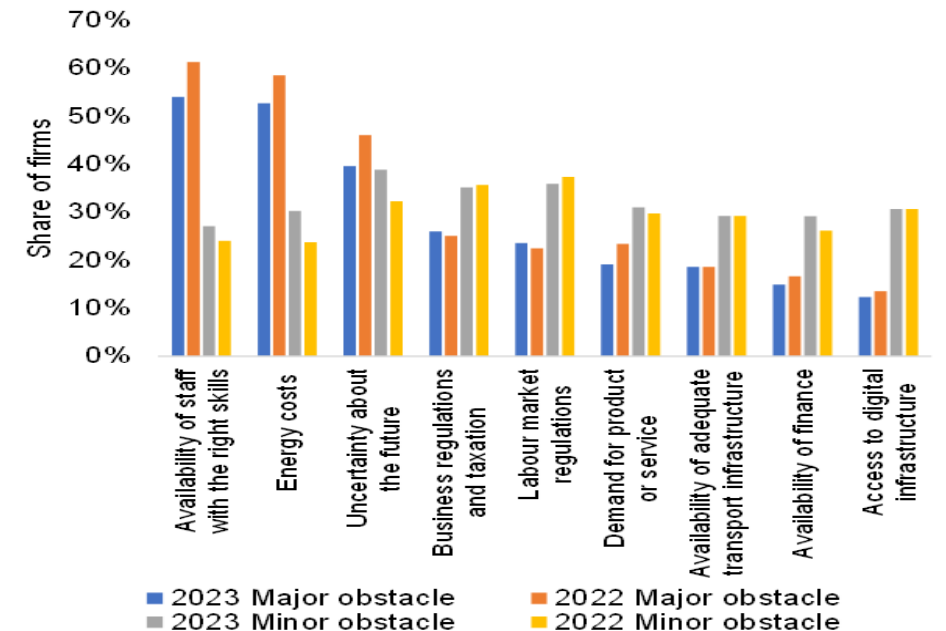
(1) Due to the scope of the scoreboard, the Euro Area data represents 13 Member States. No data was available for Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania and Slovakia.

Source: DG Research and Innovation, Common R&I Strategy and Foresight Service, Chief Economist Unit, based on data from the 2023 EU Industrial R&D Investment Scoreboard. Adaptation of Figure 2.1-0 in SRIP (2024)

Competitiveness: physical and human capital

- **Promote tangible and intangible investment** in critical technologies, infrastructure, including build up of defence capabilities
- **Improve education and training policies** to better match between demand and supply of skills
- **Improve access to funding** for businesses to grow and invest environment, by reducing regulatory burden
- Developing a **European Saving and Investment Union** through deepened links between **CMU** and **BU**
- Continuing **swift implementation of the RRP**s and making **full use of the cohesion funds**

Barriers to investment



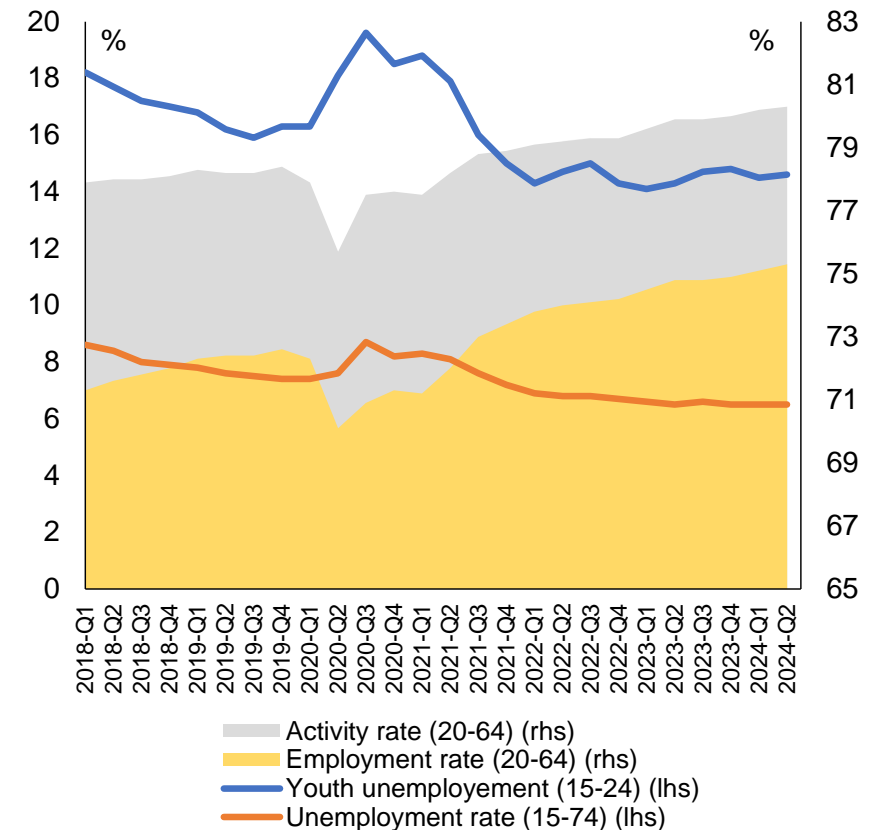
Source: European Investment Bank

Resilience

Fostering resilience of our economies

- Increasing **labour market participation**, also through managed legal migration
- **Strengthening incentives** to work by shifting the tax burden away from labour
- Promoting **wage and productivity growth**: competitiveness dynamics to be considered in wage bargaining
- **Strengthening social protection** and inclusion systems, including access to housing
- Implementation of EU-strategy for **electrification and green transition** – cross-border interconnection grids

Employment, activity and unemployment rates in the euro area

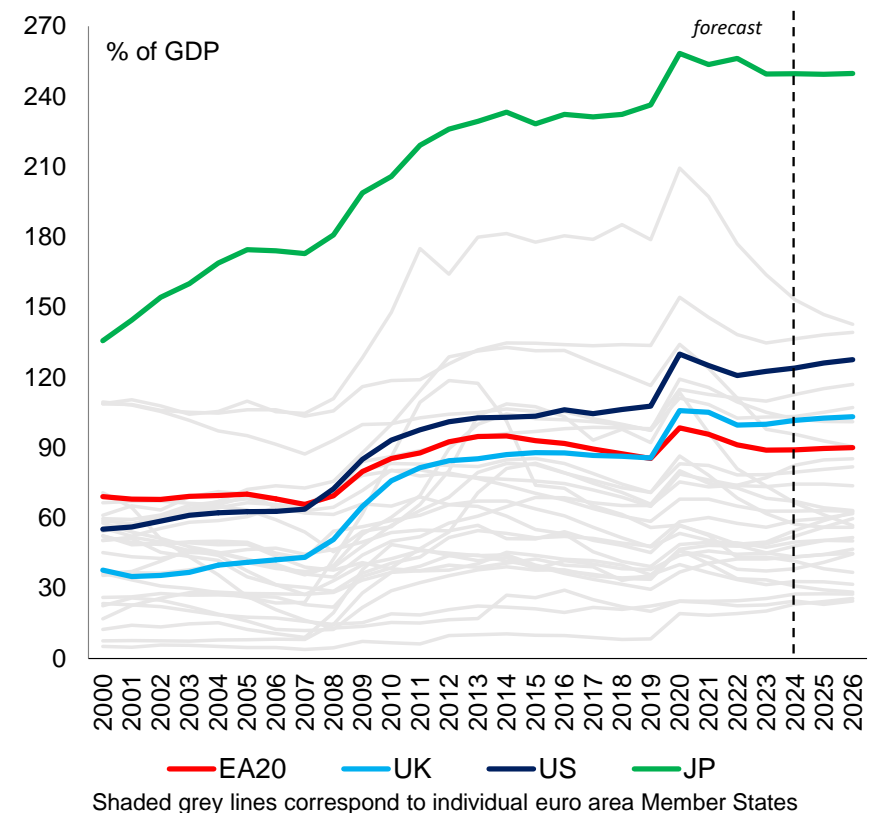


Macro-economic and Financial Stability

Prudent fiscal policies and macro-financial stability

- **Ensure compliance** with the new fiscal framework and **improve debt sustainability**
- Defining fiscal strategies aimed at:
 - Improve **quality and efficiency** of public finances
 - **Reducing tax avoidance** and evasion
 - **Aligning strategies** with policy objectives
- **Monitoring risks to financial stability**

Developments of government debts in the euro area and other peer countries



Next steps

Commission will present its EAR proposal at the **Eurogroup** on 20 January 2025 and at the **Economic and Financial Affairs Council** on 21 January 2025.

The proposal is expected to be agreed by the **Eurogroup** 17 February 2025 and approved by the **Economic and Financial Affairs Council** on 18 February 2025.

Endorsement by the **European Council** is expected in March with formal adoption by the **Economic and Financial Affairs Council** later in April.

Thank you



© European Union 2020

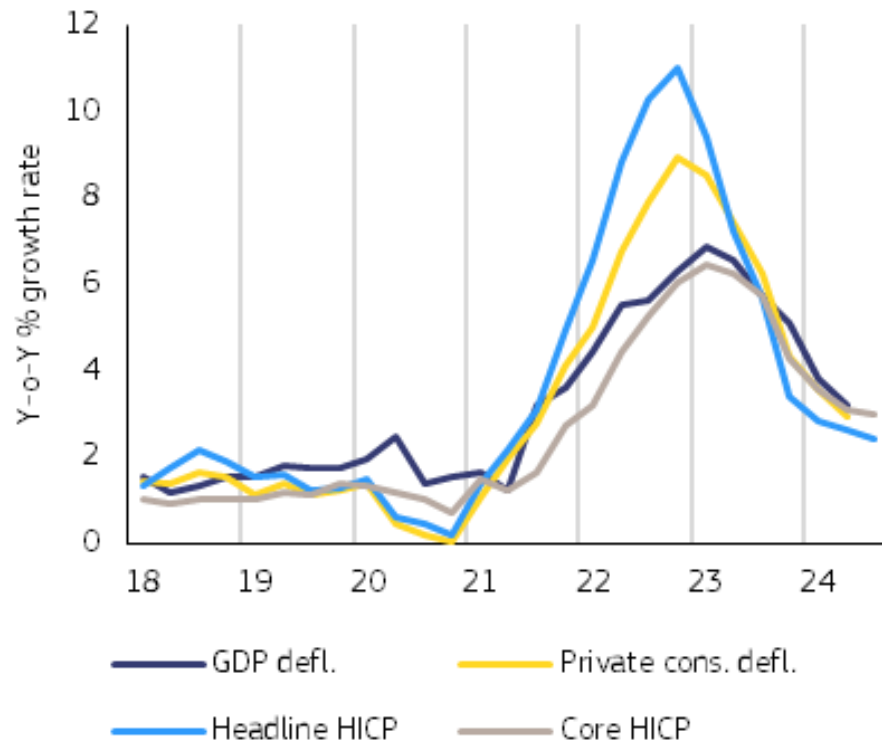
Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

Slide xx: [element concerned](#), source: [e.g. Fotolia.com](#); Slide xx: [element concerned](#), source: [e.g. iStock.com](#)

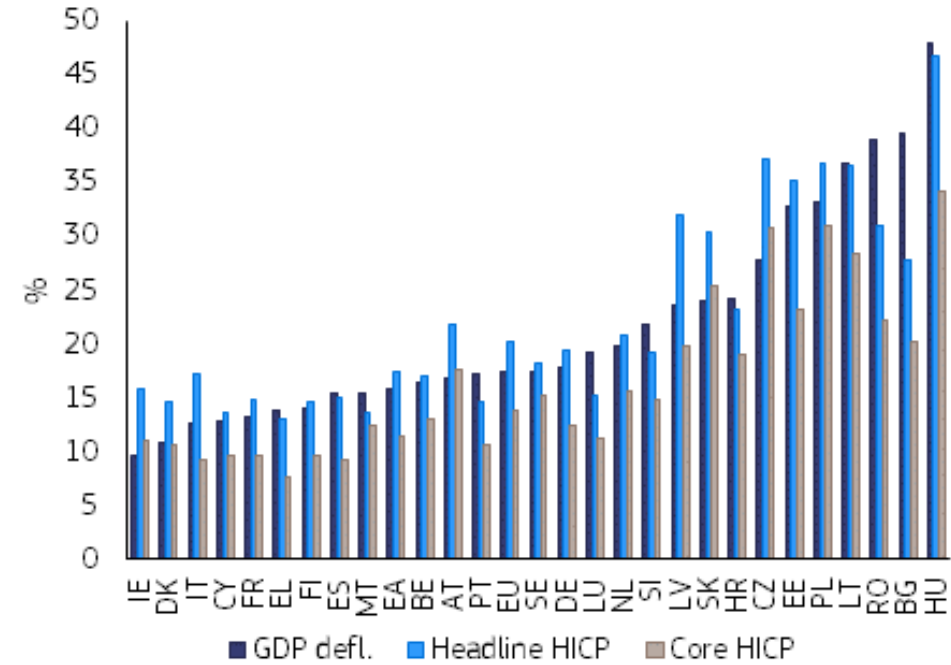
Competitiveness

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

a) Inflation in EU



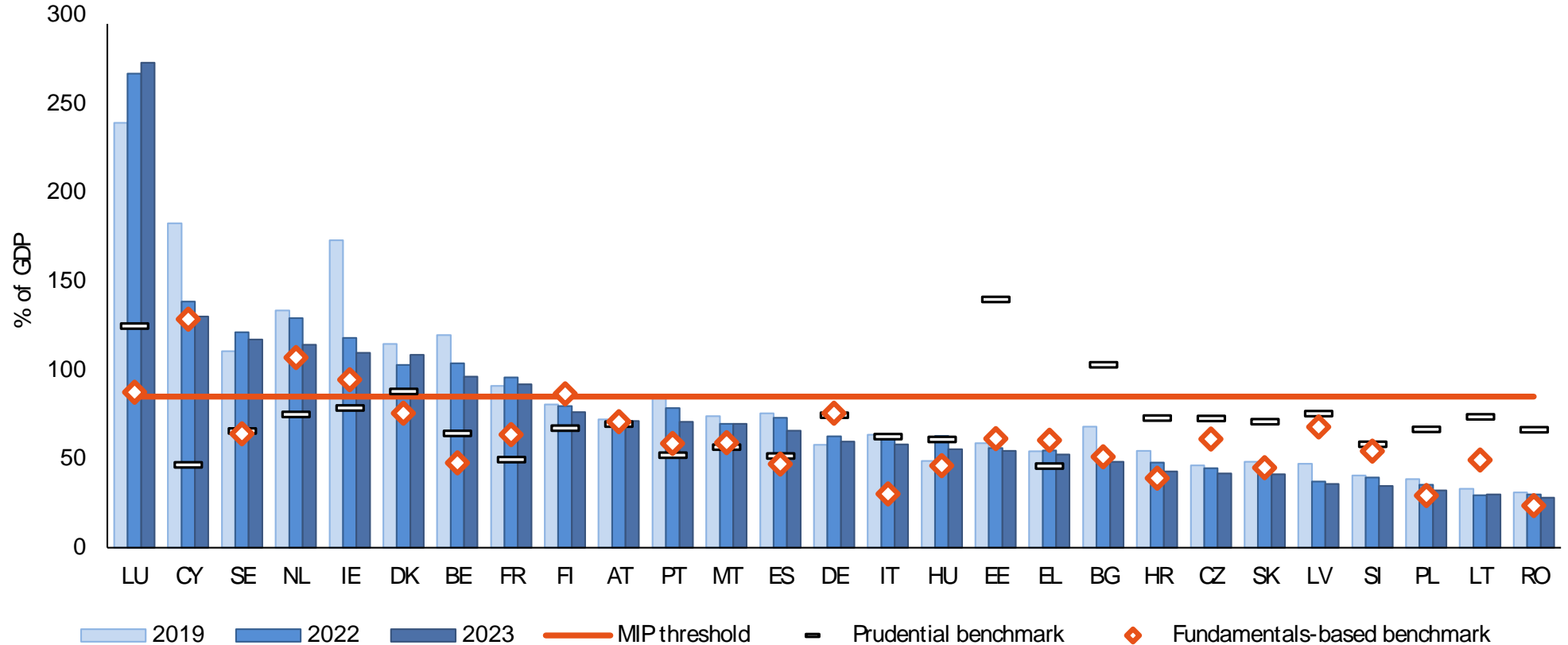
b) Cumulated inflation, 2019-2023



Non-financial corporations

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

Non-financial corporate debt-to-GDP ratios

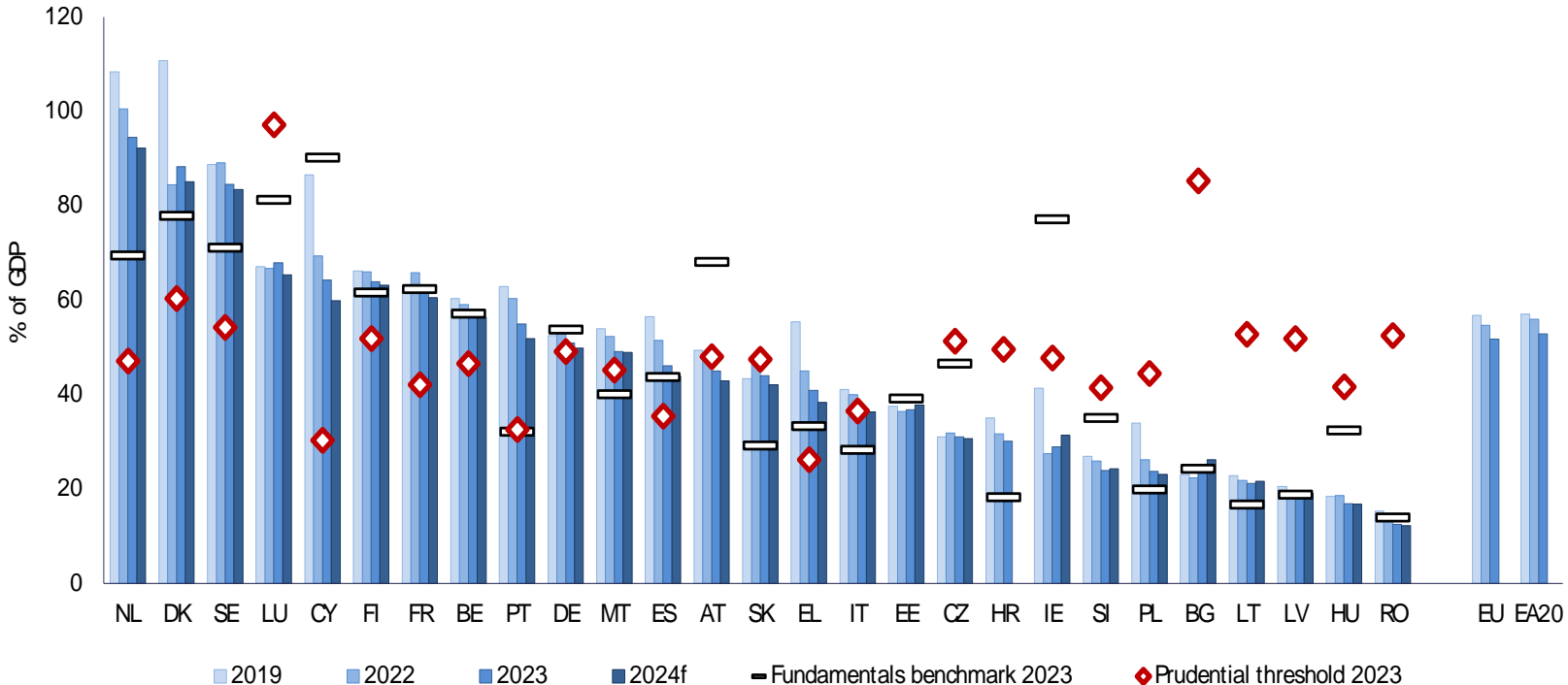




Household debt

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

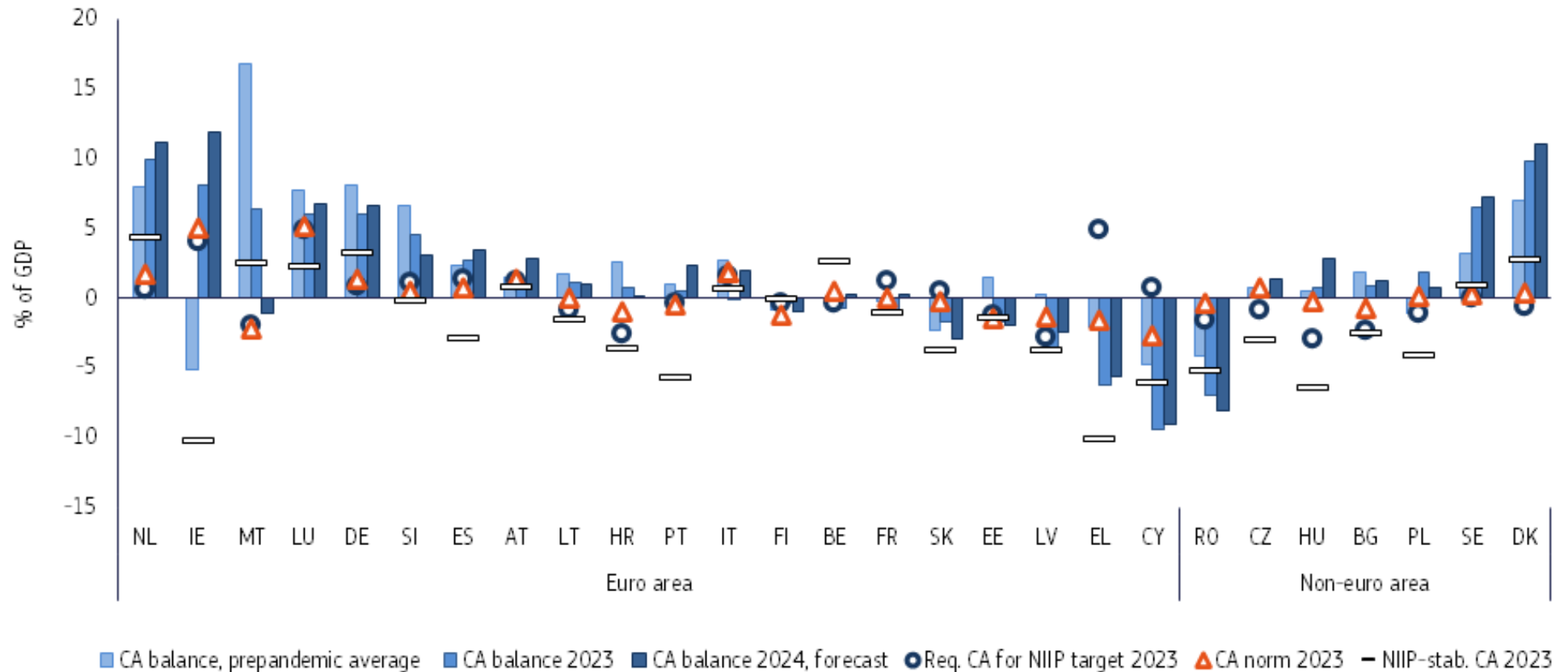
Household debt-to-GDP ratios



External sector

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

a) Current account balances and benchmarks



House prices continued to moderate with some heterogeneity across Member States

