Follow-up to the European Parliament non-legislative resolution on the European Semester for economic policy coordination 2025

1. **Rapporteur:** Fernando NAVARRETE ROJAS (EPP / ES)

2. **References:** 2024/2112(INI) **/** A10-0022/2025 / P10_TA(2025)0031

3. **Date of adoption of the resolution:** 12 March 2025

4. **Competent Parliamentary Committee:** Committee on Economic and Monetary Affairs (ECON)

5. **Brief analysis/ assessment of the resolution and requests made in it:** The European Parliament calls on the Commission to strengthen the European Semester by ensuring better coordination between economic, social, and environmental policies. It urges the Commission to implement the reformed economic governance framework that balances fiscal responsibility with key investments, particularly in the green and digital transitions. The Parliament also emphasizes the need for stronger oversight of the Recovery and Resilience Facility (RRF) to ensure effective use of funds, while addressing macroeconomic imbalances and promoting inclusive growth. Additionally, it calls for integrating social objectives, such as fair wages and employment quality, into economic policymaking, aligning with the EU's Green Deal and long-term sustainability goals.

6. **Response to requests and overview of actions taken, or intended to be taken, by the Commission:**

   - **In paragraph 6, the European Parliament** calls on the Commission to come up with initiatives, on the basis of the Budapest Declaration; to make the EU more competitive, productive, innovative and sustainable, by building on economic, social and territorial cohesion and ensuring convergence and a level playing field both within the EU and globally; notes the development of a new competitiveness coordination tool; expects the Commission to clarify how this tool will interact with the European Semester; stresses the importance of supporting micro, small and medium-sized enterprises as key drivers of economic growth and employment within the EU.

     The European Commission has made **competitiveness a core pillar of its new mandate**, ensuring that economic resilience, innovation, and productivity drive EU policy. The launch of the **Competitiveness Compass** was a first step, translating the Draghi Report's conclusions into concrete actions that strengthen Europe's economy.

     To turn these priorities into reality, the Commission has made **regulatory simplification and efficiency** a cornerstone of its agenda. The “A Simpler and Faster Europe” initiative, introduced in the Commission Work Programme, focuses on cutting red tape and making EU laws clearer and more effective. In only three months of its mandate, the Commission has already delivered (in February) two Omnibus packages, focused on streamlining sustainability reporting and simplified investment procedures, **to better achieve their policy objectives while reducing costs and enhancing legal certainty.** The Commission has committed to reduce existing reporting requirements by at least 25% and at least 35% for SMEs and introduce a new SME and competitiveness check to better consider these dimensions in impact assessments for new legislation. The Commission is also committed to stress testing the whole stock of EU legislation during the current legislative mandate and to come forward regularly with proposals to simplify existing legislation. The 2025 Commission Work Programme outlines already several proposals in areas such as small mid-caps, agriculture, certain digital elements, or defence, while the Commission explores also other areas.

Beyond simplification, the Commission is also enhancing **policy coordination to reinforce competitiveness across the EU.** Focusing on EU competitiveness requires a set of commonly agreed funding priorities and multi-country investment projects, to be defined through a strengthened policy steering mechanism. The new **Competitiveness Coordination Tool (CCT)** will complement the European Semester and both will form an integral part of a steering mechanism aimed at ensuring that strategic competitiveness priorities are reflected in national reforms and investments while strengthening economic policy convergence among Member States.

The next Multi-annual Financial Framework will be an opportunity to go further and rethink the structure and allocation of the EU budget in support of competitiveness priorities. In the next MFF, a new European Competitiveness Fund should respond to these needs in a more integrated fashion. The Fund will establish an investment capacity that will support strategic technologies and manufacturing (from Artificial Intelligence to space, from clean tech to bio-tech sectors etc.), which are critical to European competitiveness, including research and innovation, and Important Projects of Common European Interest (IPCEIs). It will help to leverage investments.

This strategic focus on competitiveness was already evident in the European Semester **Autumn Package** published in December. The package was the first one since the introduction of the **new economic governance framework**. The **medium-term fiscal-structural plans** submitted by Member States under this framework are designed to **strengthen debt sustainability** while simultaneously **fostering sustainable and inclusive growth** through targeted **reforms and investments**. Moreover, the **Euro Area Recommendations** reinforced this commitment by emphasizing **three key pillars—competitiveness, resilience, and macroeconomic stability—offering a structured approach** to address urgent economic challenges.

While competitiveness has now taken a more prominent role in EU policy, the **Recovery and Resilience Facility, has already been supporting structural reforms and investments to boost long-term growth**. Under the revised Economic Governance Framework, the Commission affirms its commitment to placing reforms and investments at the core of the EU's economic framework, promoting both modernisation and growth.

- **In paragraph 22, the European Parliament** highlights that the debt sustainability analysis (DSA) plays a key role in the reformed EU fiscal rules; is of the opinion that the discretionary role of the Commission in the DSA requires the relevant assessments to be fully transparent, predictable, replicable and stable; calls on the Commission to address possible methodological improvements, such as assessing spillover effects between Member States, and to duly inform Parliament in this regard;

  The European Commission notes that as provided for by Regulation 2024/1263[1], a **working group on debt sustainability analysis has been established to explore possible methodological improvements.**

  Possible spill-over impacts could be factored in the plans submitted by EU Member States and, in any case, are considered in the Commission economic forecasts. It is also worth noting that, under the new EU fiscal framework, fiscal policies will be more differentiated by taking into account the public debt and economic challenges of each Member State. This risk-based differentiation reduces the aggregate consolidation requirements compared to the previous framework[2], thanks to a better articulation of fiscal policies with investment and reform policies, increasing the scope for positive spillover effects.

  The Commission is committed to making public any change in the methodology in a timely manner, to preserve its transparency and replicability. The current DSA methodology is already well-documented and transparently communicated to the European Parliament and Council. The Debt Sustainability Monitor also provides an overview of fiscal sustainability challenges faced by

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97: https://eur-lex.europa.eu/eli/reg/2024/1263

[2] To give an order of magnitude, compliance with the requirements of the new framework has been estimated to imply a moderate aggregate consolidation in a range between ¼ % and ½ % of Gross Domestic Product in 2025. For more details: Cepparulo, A., C. McDonnell and V.E. Reitano (2024), "An Assessment of the Euro Area Fiscal Stance", Economic Brief 080.

EU Member States over the short, medium and long term, based on the DSA methodology.

- **<u>In paragraph 28</u> the European Parliament** acknowledges that 21 of the 22 national medium-term fiscal-structural plans that have been reviewed so far received a positive evaluation; notes that the new framework allows Member States to use assumptions that differ from the Commission's DSA if these differences are explained and duly justified in a transparent manner and are based on sound economic arguments in the technical dialogue with the Member States; observes, however, that in the plans submitted by five Member States, the Commission found insufficiently justified inconsistencies and deviations from the DSA framework in macroeconomic assumptions related to potential GDP and/or the GDP deflator; stresses that such deviations and risks of backloading could potentially threaten future fiscal sustainability; notes that in the plans submitted by three Member States, the Commission acknowledges a concentration of the fiscal adjustment towards the end of the period; calls on the Commission to ensure that any such concentration of the adjustment meets the requirements set out in the regulation and calls on it to prevent procyclical policies;

  In the European Commission's respective recommendations on the medium-term plans, the Commission found insufficiently justified differences in macroeconomic assumptions. However, this assessment took into consideration that these differences were balanced by other, more cautious, assumptions. Thus, these insufficiently justified differences in the macroeconomic assumptions did not lead to a higher net expenditure growth compared to the prior guidance.

  The net expenditure paths put forward in the three plans, for which some degree of backloading was observed, were found to be consistent with the no-backloading safeguard clause set out in Article 6, point (c), either justified by the transitional provision in Article 36(1), point (e), of Regulation (EU) 2024/1263, and/or explained by pattern of defence spending. The compliance with the net expenditure paths will be annually monitored in the context of the European Semester.

- **<u>In paragraph 30</u> the European Parliament** calls on the Commission to "effectively evaluate ex post the impact of agreed reforms and investments" underpinning an extension of the adjustment period.

  The Commission has assessed the investments and reforms proposals submitted in the medium-term fiscal-structural plans and evaluated them according to the criteria set out in Regulation EU 2024/1263 [in articles 13, 14 and 36(d)].

  The assessment was included in the Council Recommendation endorsing the national medium-term

fiscal-structural plans. Implementation of the reforms and investments will be monitored by the Commission via the "key steps" and the "monitoring indicators" spelled out in Annex II of the Council Recommendation endorsing the national medium-term fiscal-structural plans.

Member States will report on their progress in the implementation of reforms and investments in the Annual Progress Report, as foreseen in Regulation EU 2024/1263. The assessment of reform implementation in the broader context of economic surveillance will take place within the European Semester exercise. The Commission would like to underline that the effect of reforms takes generally a long time to materialise, and such an assessment would be difficult to foresee at an early stage of implementation of the plans

- **In paragraph 33 the European Parliament** considers that the effective implementation of the fiscal rules, although necessary, is not in itself sufficient to achieve the optimal fiscal stance at all times and ensure a high standard of living for all Europeans; notes that the fiscal stance is still projected to differ greatly from one Member State to another in 2025; calls on the Commission to explore ideas for a mechanism that helps ensure that the cyclical position of the EU as a whole is appropriate for the macroeconomic outlook at all times

The European Commission notes that automatic stabilisers at national level (e.g. tax and benefit systems) are the first line of defence to cushion economic shocks. They act immediately and counter-cyclically. In the EU, they are expected to be sufficient for cushioning normal economic fluctuations, if sufficient fiscal buffer is created in good times. The new EU fiscal framework enables automatic stabilisers to operate in full as it is based on a single operational indicator, which is not affected by the operation of automatic stabilisers and other expenditure fluctuations outside the direct control of the government. There is also scope to enhance automatic stabilisers at national level, e.g. by modifying the composition and structure of the tax-benefit system in favour of more cyclical tax categories.

Beyond automatic stabilisation, discretionary measures can supplement the support provided by automatic stabilisers, both at the national and at the EU level. Europe has weathered three major economic shocks in the last 15 years (global financial crisis, Covid-19, and the fallout of Russia's aggression of Ukraine on energy prices). These crises prompted policy responses in the EU such as the Banking Union, the European Stability Mechanism, the European instrument for temporary support to mitigate unemployment risks in an emergency instrument (SURE), Next Generation EU and the Recovery and Resilience Facility (RRF) as well as REPowerEU.

These policy responses have all strengthened the resilience of the EU, and sent a clear message to markets that European countries stand together in solidarity in times of crisis.

More recently, on 19 March 2025, as a response to heightened security concerns, the Commission put forward a proposal for a Council Regulation to establish an emergency instrument “Security Action for Europe” (SAFE) (COM/2025/122 final). Once adopted by the Council, SAFE will provide financial assistance (loans) to help Member States to invest in key defence areas.

Building on the gradual progress achieves in the integration and deepening of financial markets, on 19 March 2025, the Commission also adopted a comprehensive strategy on the Saving and Investment Union, aiming to ensure that all Member States benefit from strong, integrated financial markets. This is expected to facilitate private risk sharing and has a potential to smooth income and consumption shocks.

As announced by President von der Leyen in her political guidelines, the Commission will also propose a **European Competitiveness Fund**, as part of the next Multiannual Financial Framework, establishing an investment capacity that will support strategic sectors critical to the EU competitiveness, including research and innovation, and Important Projects of Common European Interest.

The EU budget, within its limited size, provides a central fiscal capacity. It supports long-term investments in line with EU priorities and it has shown, especially in recent years, that it can play a significant role in addressing crises affecting the EU and its Member States**.**

<u>In paragraph 35</u> the European Parliament calls on the Commission to initiate discussions on addressing the significant investment gap in the EU and to reduce borrowing costs, strengthen financial stability and enable strategic investments in line with the EU’s objectives and for the provision of European public goods, such as defence capabilities to match needs in a context of growing threats and security challenges; calls for full use to be made of the efficiency gains that may stem from the provision of European public goods at EU scale through the effective coordination of investment priorities among Member States; believes that this framework, where appropriate, should be strengthened by EU-level investment instruments and tools designed to minimise the cost for EU taxpayers and maximise efficiency in the provision of European public goods;

The Commission recognises that **boosting investment and reinforcing financial stability are essential for Europe's long-term growth and resilience**. A key priority of the new mandate has been completing the **Capital Markets Union (CMU)** to deepen financial integration, ensuring that fast-growing companies —particularly in strategic sectors— can access the capital they need to scale up and compete globally. To further mobilize private capital, the Commission has worked on the **Savings and Investments Union (SIU)**, an initiative designed to channel Europe's private savings into productive investments, reducing borrowing costs and strengthening financial markets. The Savings and Investments Union is a horizontal enabler that should create a financing ecosystem to benefit investments in the EU's strategic objectives. A Communication on SIU was delivered in March 2025 and its implementation is ongoing.

The EU financial instruments are also fundamental in contributing to address the investment gap. The **Recovery and Resilience Facility (RRF)** has played a crucial role in fostering sustainable growth based on the combination of , national reforms and investments responding both to national-specific challenges and common EU priorities. At the same time, the **revised Economic Governance Framework** strengthened this focus on investment by asking Member States to **detail their investment needs** in their medium-term fiscal plans. These efforts are complemented by **InvestEU**, which continues to unlock private capital for key sectors such as innovation, infrastructure, and the green and digital transitions. As part of the **Clean Industrial Deal,** the Commission will also mobilise InvestEU and work closely with the EIB on new initiatives. This will include a targeted amendment of the InvestEU Regulation, as well as a new initiative to support clean-tech start-ups and scale-ups.

In light of increasing geopolitical uncertainty, the Commission has promptly replied **to the need to increase Europe's defence capabilities**. On March 19, a **White Paper on Defence** was published launching a framework to operationalize the **ReArm Europe** initiative, address critical capability gaps, and coordinate defence investments across Member States. To facilitate increased defence spending while maintaining economic stability, the Commission has proposed a **coordinated activation of the national escape clause**. This measure allows Member States to temporarily deviate from the net expenditure paths set out in their medium-term fiscal plans to accommodate additional defence spending.

Finally, the Commission recognises the importance of the provision of so-called **European Public Goods** and is committed to giving them a prominent role within the next **Multiannual Financial Framework (MFF)**. In response to today's geopolitical and economic challenges, the EU needs to provide a **unified approach to address investment needs in** key sectors. The next MFF will ensure **more efficient resource allocation**, maximising impact while working to **minimise financial strain on national budgets and taxpayers**.

- **<u>In paragraph 38</u> the European Parliament** notes that the share of ‘fully implemented’ CSRs has dropped from 18,1 % (in the period 2011-2018) to 13,9 % (in the period 2019-2023); recalls that implementing CSRs, including with regard to the efficiency of public spending, is a key part of ensuring fiscal sustainability and addressing macroeconomic imbalances; advocates a more efficient implementation of the CSRs and the relevant reforms; calls for ways of increasing the share of ‘fully implemented’ CSRs to be explored; calls on the Commission to link the CSRs more closely to the respective country reports; calls for the impact of reforms and the progress towards reducing identified investment gaps to be evaluated; calls for greater transparency in the preparation of CSRs;

  The European Commission would firstly like to note that the period compared in this statement vary significantly: 2011-2018 (8 years) to 2019-2023 (5 years). Country Specific Recommendations require long term action to be fully implemented. Hence, the Commission considers that a **multiannual assessment focused on progress rather than full implementation** is fairer and more accurate. The multiannual assessment evaluates implementation at a specific point in time, starting from the year a CSR was adopted, considering all actions taken since then. Therefore, it is expected that the earlier a CSR was adopted in relation to the assessment year, the more progress will have been made, particularly for those requiring long or complex reforms.

  The comparable time frame to 2019-2023 would be 2014-2018. For 2019-2023 we reported 68% of CSRs showcasing at least some progress. In comparison, for the period 2014-2018, this corresponded to only 61%. Since its launch, the **Recovery and Resilience Facility (RRF)** has played a key role in accelerating the implementation of **Country-Specific Recommendations (CSRs)**. The **Recovery and Resilience Plans (RRPs)** submitted by Member States serve as important vehicles for implementing CSRs and aligning national reforms and investments with the EU's priorities. The Commission has conducted a **rigorous assessment of these plans, and closely monitors the implementation of their milestones and targets** through the assessment of payment requests, ensuring full transparency in its reporting to the Council and the European Parliament.

  The European Commission has consistently emphasised the importance of **Country-Specific Recommendations** as key tools within the **European Semester**, guiding Member States in addressing pressing economic and social challenges.

  To enhance the effectiveness of CSRs, the Commission has prioritised delivering **evidence-based recommendations** that tackle the most urgent issues faced by Member States. The evidence and underlying analyses underpinning these recommendations are integrated into the **Country Reports**, which provide detailed overviews of national challenges, outlining a path for effective national policy action to address those challenges.

The **key findings section of Country Reports** summarise the main challenges identified, including those to be addressed by CSRs to be suggested by the Commission. To increase transparency in the preparation of CSRs, **draft Country Reports are shared with Member States** for comments before adoption. In 2025, bilateral meetings with Member States will also be organised after sharing draft Country Reports, including to discuss CSR implementation.

The reform of the **economic governance framework** further increases the role of CSRs. Member States are encouraged to design reforms and investments that directly address the challenges identified in their respective CSRs. In the regulations and guidance for preparing these plans, the Commission has emphasized the necessity of linking investments and reforms to CSRs. Notably, for countries requesting an extension of their fiscal adjustment path, such requests must be underpinned by reforms and investments that respond to CSRs, ensuring a coherent and strategic approach to economic governance.