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Alert Mechanism Report 2026

prepared in accordance with Article 3 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances

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ALERT MECHANISM REPORT COMMUNICATION

The Alert Mechanism Report (AMR) identifies Member States that the Commission considers may be affected by, or may be at risk of being affected by imbalances, based on an economic reading of the Macroeconomic Imbalance Procedure (MIP) scoreboard. The economic reading of the scoreboard is based on the outturn data for 2024 (Graph 1). These data are interpreted in a forward-looking manner, taking in-year (2025) economic developments and forecasts for 2025, 2026 and 2027 from the Commission 2025 autumn forecast into consideration, where relevant (Graph 2). This communication presents the economic reading of the scoreboard, and its annexes contain a further presentation of relevant data developments [1]. In parallel, the European Macroeconomic Report [2] – published this year for the first time – gives an analysis of the wider developments in the vulnerabilities and imbalances in the economies of the EU and its Member States, putting the country developments surveyed under the MIP in a wider context.

The global economy is facing structural changes and higher levels of policy uncertainty, making the EU external environment challenging. In recent years, trade barriers have increasingly been used as geopolitical and industrial policy tools, with the US significantly increasing its import tariffs over the last year. The global economy is undergoing a period of adjustment to this new order, affecting trade flows and exchange rates. Moreover, this period of uncertainty follows a series of turbulent economic events, which triggered inflation and left interest rates higher than in previous years. These geopolitical events have also increased the need for the EU to raise its defence spending over the coming years, to support the geostrategic independence of the Union.

While inflation is receding in the EU as a whole, inflationary pressures remain high in some Member States, partly reflecting dynamic wage developments. Following its peak in 2022-23, inflation has fallen across the EU. Since 2024, consumer inflation has stabilised at around 2.5% in the EU. The GDP deflator, reflecting domestic cost pressures, has also declined, albeit more slowly. Despite the difficult economic conditions of recent years, the labour market has been resilient, with historically low unemployment and high rates of employment. Wages almost closed the gap in real terms with their 2019 levels on average, yet with marked heterogeneity across Member States, with some recording marked real wage increases and others still some falls. In Member States where inflation remains high relative to historical averages and other EU or euro area (EA) Member States, the wage driver has often been particularly present. Recently, however,

[1] Commission staff working document, Alert Mechanism Report 2026, SWD(2025) 956; Commission staff working document, Statistical Annex accompanying the Alert Mechanism Report 2026, SWD(2025) 900

[2] The European Macroeconomic Report aims to inform strategic policy choices to strengthen the euro area and EU's resilience in the face of a rapidly evolving global order and comprises an assessment of economic vulnerabilities in the EU. 2026 European Macroeconomic Report, SWD(2025) 957.

labour markets have displayed signs of softening, likely supporting a gradual ease of wage pressures.

The moderation of inflation in the euro area has allowed a significant easing of monetary policy, while government borrowing costs have often remained broadly stable. The monetary policy easing has led to more favourable financing conditions for the private sector. Bank lending rates have been decreasing since 2024 and private sector borrowing is picking up slowly. For the government sector, yields on long-term government bonds have little changed over 2024 and 2025, contributing to an increase in the average cost of debt, also depending on the debt structure and on government deficit and debt levels across Member States.

The outlook for imbalances

The euro area and EU's persistent external surplus reflects a chronic imbalance between savings and investment, which undermines the Union's long-term growth potential. Over 2024, the current account of the EA/EU rose, reflecting a reduction in investment alongside stable savings. The reduction in investment, given still high financing costs and economic uncertainty, is impacting the EU's capacity to sustain growth and finance critical areas like digital and climate transitions, as well as bolster Europe's defence readiness. At the same time, the EA/EU's current account surplus has decreased compared to its pre-pandemic level while China's current account surplus has increased and the US current account deficit has widened, resulting in a declining contribution to global imbalances by the EA/EU.

At Member State level, there are both current account surpluses and deficits, each situation hiding specific risks. Some Member States' substantial current account surpluses have grown further recently, fuelled by subdued demand. Many years of surpluses have resulted in the accumulation of substantial net assets, exposing these Member States to global economic fluctuations such as currency, valuation risks and trade policy uncertainty. Concomitantly, external deficits remain substantial in a number of Member States. While they have been able to reduce their external debt-to-GDP ratio in recent years due to high nominal growth, this passive deleveraging is due to end in a context of lower inflationary pressures. Large dependence on external financing flows is a vulnerability in the event of an increase in their financiers' risk perception.

The divergent increase in price and cost levels over the last five years has led to cost competitiveness deteriorations for some Member States, with economic convergence stalling in some cases. In some Member States, growing prices and costs continue to sustain this divergence. However, there are no indications that Member States that have experienced the largest cost competitiveness deteriorations have experienced a disproportionate deterioration of their export performance. While higher inflation differentials can arise as a by-product of economic convergence, it is worth noting that in some of the Member States with the highest cost competitiveness deteriorations – notably Czechia and Estonia, and to a lesser extent Latvia – economic convergence seems to have stalled.

Households have recorded rising incomes and receding debts, whereas corporate profitability and debt service capacity have fallen. Real disposable household income growth exceeded 2% in 2024, while financial liabilities have dropped by 7% in real terms since 2019. This erosion of debt largely results from the recent period of high inflation, which has now ended. Although corporate indebtedness fell in 2024, corporate vulnerabilities increased as firms' ability to service their debt declined. Firms have been using up their cash reserves, which they had accumulated during the pandemic and the immediate high-profit period, and their buffers have fallen.

On the government side, high deficits have left debt above its pre-pandemic level overall, despite strong denominator effects associated to high nominal growth and with strong investment needs on the horizon. These denominator effects will weaken in the future, making deleveraging more difficult to achieve. Furthermore, the impact of higher interest rates relative to the pre-2022 period, is still to work its way through, with debt still being rolled over at higher rates, pushing interest payments up. These higher interest payments come on top of a need to increase certain crucial categories of spending, such as on defence or ageing-related expenditure, and to finance public investment, creating strong challenges for fiscal policies in many Member States.

High house prices are a rising economic concern across the EU. Following a pause over 2022-23, strong house price growth is back as demand has picked up and supply has remained muted. High house prices are an economic and social challenge across an increasing number of Member States, and in some cases price growth has been very strong for years. While limited mortgage borrowing and construction activity reduce the risk to the banking sector and of an abrupt correction in the sector, they can severely impact households' housing affordability, reduce labour mobility and, overall, weigh on regional and national competitiveness. Specifically, housing unaffordability is concentrated in the regions with the highest productivity, such as capital cities, and predominantly affects younger cohorts. It makes it more difficult for labour supply to adjust to demand, and lead to young people having fewer children, exacerbating long-term demographic pressures. High house prices may also reduce consumption as higher shares of income is dedicated to housing costs.

The banking sector is resilient, but the non-bank financial sector has been expanding in recent years and could be a source of vulnerability, and new risks are emerging. The EA and EU banking sector has remained resilient, maintaining high profitability and strong capital ratios. Still, the exposure to real estate and sovereigns continues to represent a source of vulnerability and the commercial real estate sector remains under pressure. In parallel, the non-bank financial intermediaries' sector, which has expanded rapidly over the past years, is exposed to specific risks and its interconnectedness with the banking sector is a source of vulnerability. Finally, the EU financial sector is subject to new risks that are difficult to quantify. This includes cyber risks, as well as the increasing importance of crypto assets and their interconnectedness with the financial sector.

Country-specific conclusions and follow-up surveillance

In 2026, in-depth reviews (IDRs) will be prepared for the seven Member States that were identified as experiencing imbalances or excessive imbalances in spring 2025. The annex to this communication presents an overview of the evolution of key data that underlie these imbalances. An economic assessment of whether these imbalances are aggravating, under correction, or corrected, with the view to update existing assessments and assessing possible remaining policy needs will be undertaken in the 2026 in-depth reviews, to be published over the first half of 2026. That will be case for Greece, Italy, Hungary, the Netherlands, Romania, Slovakia, and Sweden.

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

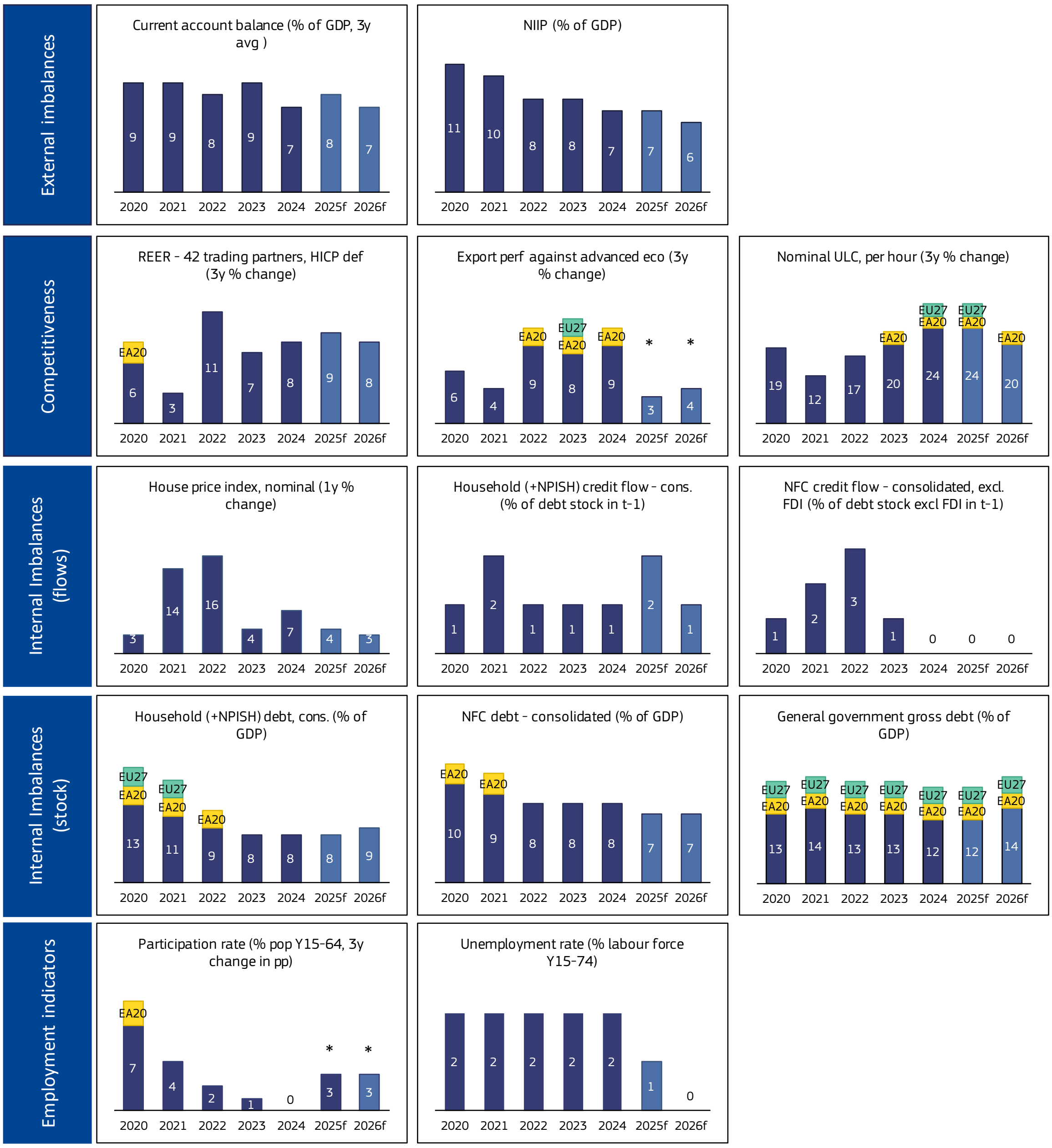
For a number of Member States, the economic reading of the scoreboard leads to the conclusion that no IDR is needed, but a number of developments merit attention. In **Bulgaria**, house prices have been increasing strongly in tandem with strong growth in household borrowing, and continued very strong rises in unit labour costs are a risk for price pressures. At the same time, the external position remains healthy despite a slight deterioration, which together with the ongoing nominal convergence process, mitigate risks. **Estonia** was subject to an IDR this spring and no imbalances were found. Nonetheless, cost competitiveness losses persist and inflation differentials vis-à-vis the euro area have unexpectedly widened in 2025, alongside a pause or end in economic convergence. House prices and credit growth have also been dynamic. The current account has recorded only moderate deficits, but these may widen when demand picks up. In **Croatia,** price pressures and cost competitiveness developments are an issue. Furthermore, house prices have increased noticeably and bank lending for house purchase has been buoyant, which warrants monitoring. **Latvia** has recorded one of the largest cumulated price increases in the EU in recent years and unit labour cost growth remains high, even if decelerating. Price pressures are weighing on cost competitiveness, which, together with the weak external environment, may have contributed to a fall in exports.

Graph 1: **AMR scoreboard indicators in 2024, by Member State**

Member State	Current account	NIIP	REER	Export performance	Nominal ULC	House prices	HH debt	HH credit flow	NFC debt	NFC credit flow	Government debt	Unempl.	Activity rate
Belgium	-0.7%	58.6%	1.6%	-13.9%	15.1%	3.2%	56.3%	2.4%	94.8%	5.0%	103.9%	5.7%	1.1%
Bulgaria	-1.7%	-4.4%	7.3%	6.3%	37.7%	16.5%	25.6%	21.1%	45.9%	7.5%	23.8%	4.2%	1.7%
Czechia	-1.0%	-7.1%	14.4%	1.3%	20.3%	5.0%	30.6%	3.7%	47.2%	9.5%	43.3%	2.6%	0.9%
Denmark	11.5%	69.0%	-0.9%	8.9%	11.6%	3.5%	85.8%	0.6%	115.5%	5.8%	30.5%	6.2%	2.8%
Germany	5.0%	79.7%	1.6%	-9.3%	17.9%	-1.5%	49.7%	0.6%	58.9%	1.4%	62.2%	3.4%	1.5%
Estonia	-1.9%	-9.7%	16.0%	-4.3%	40.4%	6.1%	38.1%	8.0%	58.3%	9.2%	23.5%	7.6%	3.1%
Ireland	10.7%	-81.4%	-1.8%	5.2%	20.6%	8.5%	23.8%	1.8%	90.9%	-0.8%	38.3%	4.3%	3.3%
Greece	-8.2%	-137.5%	0.8%	6.9%	7.6%	9.0%	39.0%	0.2%	55.5%	10.4%	154.2%	10.1%	3.2%
Spain	2.1%	-41.0%	-0.7%	12.5%	11.4%	8.5%	43.7%	1.3%	63.4%	2.3%	101.6%	11.4%	0.9%
France	-0.8%	-23.0%	-1.1%	0.2%	11.4%	-3.7%	60.5%	0.2%	90.7%	1.5%	113.2%	7.4%	1.5%
Croatia	-1.9%	-29.6%	5.4%	17.5%	31.8%	10.4%	30.2%	10.9%	41.8%	5.3%	57.4%	5.0%	2.9%
Italy	-0.2%	14.9%	0.0%	-0.8%	8.5%	3.2%	36.0%	0.6%	56.0%	-1.6%	134.9%	6.5%	2.1%
Cyprus	-8.3%	-84.1%	1.0%	15.0%	13.7%	2.1%	57.4%	2.1%	116.0%	0.6%	62.8%	4.9%	1.8%
Latvia	-3.6%	-19.7%	9.6%	-2.9%	32.2%	4.2%	19.4%	8.3%	36.0%	5.7%	46.6%	6.9%	0.9%
Lithuania	-0.6%	-0.7%	9.2%	2.8%	36.2%	9.7%	21.9%	10.5%	30.5%	8.5%	38.0%	7.1%	1.3%
Luxembourg	5.5%	39.4%	-2.4%	-15.9%	24.2%	-5.2%	61.6%	1.2%	271.6%	-1.7%	26.3%	6.4%	1.3%
Hungary	-2.5%	-34.2%	7.3%	0.3%	47.6%	13.7%	17.1%	9.9%	56.3%	3.1%	73.5%	4.5%	2.3%
Malta	4.2%	83.9%	1.5%	13.6%	13.6%	6.7%	46.8%	8.1%	61.0%	4.4%	46.2%	3.1%	5.0%
The Netherlands	8.4%	62.1%	3.3%	-4.6%	18.3%	8.2%	93.2%	3.8%	108.6%	-1.4%	43.7%	3.7%	1.8%
Austria	0.6%	23.9%	2.4%	-4.1%	19.6%	-0.4%	42.8%	-0.4%	69.5%	0.8%	79.9%	5.2%	1.0%
Poland	-0.1%	-28.3%	17.5%	5.8%	30.7%	15.0%	22.7%	3.3%	31.2%	5.6%	55.1%	2.9%	1.8%
Portugal	0.2%	-58.3%	0.6%	17.3%	17.8%	9.1%	52.5%	4.0%	66.3%	1.9%	93.6%	6.5%	3.2%
Romania	-8.1%	-41.3%	9.7%	2.0%	51.0%	5.0%	12.5%	10.9%	27.7%	10.1%	54.8%	5.4%	1.8%
Slovenia	2.8%	9.9%	1.1%	-0.4%	20.4%	7.5%	24.2%	6.8%	32.3%	-2.7%	66.6%	3.7%	0.9%
Slovakia	-5.8%	-55.0%	8.3%	-4.5%	23.3%	3.8%	43.3%	4.3%	39.2%	-1.1%	59.7%	5.3%	2.0%
Finland	-1.3%	24.7%	-1.9%	-7.5%	10.7%	-3.1%	63.9%	-0.3%	78.3%	0.9%	82.5%	8.4%	0.6%
Sweden	5.2%	67.4%	-9.7%	-4.8%	15.6%	0.1%	83.6%	1.6%	116.9%	-1.6%	34.0%	8.4%	1.2%

Source: Eurostat and European Commission.

Graph 2: **Number of Member States recording scoreboard variables beyond threshold**



The number of Member States recording scoreboard variables beyond relevant thresholds in a certain year reflects data as of the 2026 AMR cut-off date (31 October 2025). Possible ex-post data revisions may imply a difference in the number of values beyond thresholds computed using previous vintages for the scoreboard variables, as published in previous AMR editions. * Data not available for EA and EU aggregates over the forecast period.

Source: Eurostat and European Commission forecasts.

Sector-specific thematic reading of economic developments in 2024

- In 2024, **current accounts increased in almost all Member States.** Trade balances returned to their pre-pandemic level, as energy prices fell further and demand remained weak. A reduction in primary balances has moderated the increase in the overall current account, and is concentrated in a small number of Member States, typically reflecting the operations of special purpose entities, with strong cross-border financial linkages but limited links to Member States' domestic economies. Current accounts remain below their pre-pandemic levels overall at the EA/EU level and for most Member States. This is especially the case of Romania and some large debtor Member States such as Greece and Cyprus. Conversely, other large debtor Member States such as Portugal and Spain now have current accounts that are both stronger than before the pandemic and are also in surplus. On the other hand, high surpluses have generally persisted, and in some cases increased strongly. That is primarily the case for Member States where the data reflect the exceptionally high relevance of multinational enterprises or of special purpose entities, or the role of those Member States as international financing centres. In 2025 so far, a gradual improvement in domestic demand is leading to small reductions in both the trade balance and current account, despite the continued improvement in terms of trade. Compared to prior to the pandemic, there has been a change in the lending and borrowing of the different sectors of the economy. Whereas governments have increased their net borrowing, the private sector has increased its net lending. In 2024 alone, the largest change has been the increase in the net savings of the household sector, which are now at historically high levels.

- The large **negative net external stock positions** narrowed strongly for the second year running in 2024. This improvement is the result of both the overall positive current accounts, along with a denominator effect boosted by strong inflation. In most cases, strong valuation effects led to further reductions, reflecting exchange rate movements. Large **positive net external positions** also rose sharply. Although the denominator effect continued to support the reduction of the stock position, its effect was smaller than in recent years, and was not as substantial as the increasing impact of strongly positive current accounts. Overall, there has been some rebalancing of the **external positions within the euro area**, despite the strong increase in the net international investment positions of the creditor Member States. This is primarily because Member States with a big tourism sector – which typically have large negative net international investment positions – have grown more quickly than manufacturing-intensive Member States, with favourable terms of trade also playing a role. However, the persistent gap in current account balances is set to drive the stock positions further apart, as nominal GDP growth is expected to slow from 2025 on.

- Growth in **unit labour costs (ULCs)** remained elevated in 2024, but fell relative to 2023 overall and for most Member States. In 2024, ULC growth was primarily driven by increases in wages, in excess of inflation, with productivity only providing a small offsetting effect, and not in all Member States. Substantial differences in ULC growth across Member States remain. In some Member States, declining productivity led to stronger ULC increases. In 2025, wages are finally set to slightly exceed their 2019 levels in real terms. Some signs of slack appeared in some EU economies, marking the start of more moderate wage increases for the future. However, while wage increases are set to slow, they are forecast to remain high in nominal terms, particularly in Member States that already cumulated large increases in cost and prices over the 2019-2024 period.

- In 2024, the euro appreciated overall, as did all EU currencies except the Czech koruna and the Hungarian forint. As a result, the overall EU and EA **real effective exchange rates (REERs)** increased, despite relatively lower inflation than in the EU's main trading partners. For Member States such as Belgium, Estonia, and Romania, inflation differentials also contributed to REER appreciations; in most other Member States, inflation at least partly tempered the REER appreciation. More substantial intra-EU differences are evident when looking at REERs benchmarked by unit labour costs. In some Member States with high ULC growth, they appreciated by over 5%, despite marginally depreciating in the EU as a whole.

- The EU **corporate debt-to-GDP** ratio displayed its fourth year of reduction in 2024, although in one third of EU Member States the debt ratio rose – typically from low levels. The aggregate debt ratio reached its lowest value in nearly two decades. The pace of deleveraging slowed as inflation fell, reducing the denominator effect which nevertheless remained the main driver of the reduction. In some Member States, negative net credit flows also contributed to the reduction in debt ratios. Overall, credit flows to NFCs remained muted, following a sharp fall in 2023, but recent data indicate the first signs of recovery. Corporate investment fell in real terms in 2024. Although corporate indebtedness fell in 2024, corporate vulnerabilities increased as firms' abilities to service their debt declined. Corporate savings fell and firms' interest coverage ratios continued to decline, due to a rise in interest burdens and to the fall in profits which took place over 2023 and 2024. Recently, borrowing costs started to decrease from their post-pandemic peak, indicating an improvement in debt service capacity in the near future. In 2025, deleveraging is decelerating further, as credit flows slowly rise, accompanying a gradual – but slow – recovery in corporate investment.

- **House prices** reaccelerated in most European Member States, after a retrenchment that started in late 2022 with the rise in interest rates. In some Member States, however, the slowdown in 2023 remained limited, and house prices have seen cumulative increases of over 15% or even 20% over the last two years. Member States where prices were estimated to be near fair value or undervalued saw the strongest price growth in 2024. Conversely, in some Member States where prices were typically strongly overvalued, prices continued to fall in 2024. The overall return of price increases has been accompanied by a recovery in transactions. The lack of housing investment, which had overall been low over the last decade and has collapsed since 2022, accompanied by a sharp fall in building permits, drives the very muted supply response to housing demand. As a result of the ongoing constrained supply, house prices can be expected to keep rising significantly.

- **Household debt ratios** continued their reductions of recent years in 2024, declining in the majority of Member States and attaining new historical lows. In 2024, the rate of reduction slowed compared with recent years, as the denominator effect declined, while credit flows picked up somewhat, following their sharp contraction in 2023, although in some Member States borrowing remained dynamic throughout recent years. Households have recorded rising incomes and an increase in financial assets, on top of receding debts, supporting their ability to service higher interest rates, which remain close to their recent peak values despite some reductions. EU household balance sheets remain overall robust. This is because the household sector on aggregate has a positive net position on interest-bearing instruments and so the rise in interest payments occurs alongside an even stronger increase in interest receipts, with an overall small but positive contribution to disposable income. In 2024, the real value of households' financial assets exceeded its pre-pandemic level, while financial liabilities have dropped.

- Nominal GDP growth supported the stabilisation in **government debt** ratios in 2024 despite sizeable government deficits. Despite reductions mostly between 2021 and 2023, the government debt ratio remains high in the EU and EA, and is overall above its 2019 level. In 2025 and 2026, debt ratios are forecast to rise again in most Member States, and for the EA and the EU as a whole. This is because the interest-growth rate differential is narrowing, or even turning positive, while deficits remain sizeable in several Member States. However, some – but not all – high debt Member States have tightened their fiscal policy in recent years and have positive budget balances. For some Member States outside the euro area where relatively large shares of government borrowing and debt is denominated in foreign currencies, variations in exchange rates can add to the costs of borrowing and debt.

- Overall, the EA and EU **financial sector** remained resilient in 2024, maintaining high profitability and strong capital ratios. The aggregate return on equity of EA and EU credit institutions remained high in 2024, as higher fees and commissions compensated for lower interest margins, and the common equity Tier-1 ratio of EA/EU credit institutions stabilised at high levels. The asset quality of EA/EU banks has been stable, although some small deterioration may be underway. The aggregate non-performing loan (NPL) ratio of EA/EU credit institutions increased marginally over 2024 but remains low at 2%. At the country level, NPL increases were concentrated in Member States with low levels of NPLs, while NPL ratios decreased in Member States with higher legacy NPLs. The share of stage 2 loans has slightly risen. The banking system's exposure to real estate and to sovereigns remains a source of vulnerability, with these two segments representing over half of banks' assets. The high exposure of the banking sector to domestic sovereign debt increases risks of feedback loops in Member States that are highly indebted or rely on foreign currency funding. Outside the banking sector, the non-bank financial intermediaries' sector (NBFI), which has expanded rapidly over the past years, is exposed to specific risks and its interconnectedness with the banking sector is a source of vulnerability. Furthermore, both the banking sector and NBFIs have significant exposures to the commercial real estate sector, which remains under pressure.