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NOTE

From: General Secretariat of the Council

To: Permanent Representatives Committee/Council

Subject: European Semester – Horizontal note on the integrated country-specific recommendations

Delegations will find attached the horizontal note on the integrated country-specific recommendations 2026 prepared by the Presidency.

**PREPARATION OF THE POLITICAL DISCUSSION IN THE COUNCIL AND THE
EUROPEAN COUNCIL ON THE COUNTRY-SPECIFIC RECOMMENDATIONS (CSRs)
AND THE EUROPEAN SEMESTER PACKAGE (SPRING 2026)**

On 3 June 2026, the Commission issued its 2026 European Semester Spring Package, including country reports and recommendations for country-specific recommendations (CSRs) for every Member State. The Council aims to adopt CSRs on 10 July 2026.

This Spring Package comes at a time of heightened geopolitical tensions, energy price volatility, and persistent competitiveness challenges, requiring a coordinated EU policy response to bolster resilience, strategic autonomy, and fiscal sustainability. Ahead of the discussion and adoption of the CSRs, the present note, aims to contribute to the political debate on the state of the European economic and social situation. It details the current economic challenges faced by Member States and summarises the policy avenues to enhance competitiveness as set out in the CSRs tabled by the Commission. It emphasises the role of CSRs in fostering economic and employment policy coordination across the European Union. It focuses on cross-cutting priorities such as energy security, economic security, defence readiness, and social fairness. It has also assessed the existence of macroeconomic imbalances and addressed relevant recommendations for a number of Member States. It also acknowledges the established role of the Council in the European Semester process.

The 2026 cycle of the European Semester: responding to geopolitical and economic challenges

The 2026 Spring Package is framed by profound geopolitical uncertainty. Russia's war of aggression against Ukraine demonstrated the need to step up considerably Europe's defence readiness and its energy security. The ongoing tensions in the Middle East have led to renewed energy price volatility and supply chain disruptions. These challenges come in a context of increased global competition, particularly in access to critical raw materials and technologies, and against the background of an ever more pressing need for action in the face of climate change.

The war in Ukraine has underscored the need for stronger EU defence capabilities and civil preparedness. The European Defence Readiness 2030 roadmap stresses the need for sustained investment in production capacity, joint procurement, and cybersecurity. The Security Action for Europe (SAFE) initiative is providing EUR 150 billion in long-term loans for defence procurement, with 18 national defence plans already endorsed by the Council. Joint procurement initiatives (e.g. for ammunition, air defence) must be scaled up, with the Commission facilitating demand aggregation by 2027, while tools such as SAFE loans and the European Defence Fund (EDF) are available to Member States.

The energy crisis underscores the need for clean, affordable, and secure energy.

The REPowerEU plan and the AccelerateEU initiative provide frameworks for continuing to reduce fossil fuel dependencies, scaling up renewables, and enhancing energy infrastructure.

Member States are expected to ensure the completion of all milestone and targets of the REPowerEU chapters under their Recovery and Resilience Plans (RRPs) by August 2026 and to coordinate actions within their National Energy and Climate Plans (NECPs) to achieve, the 2030 55 % emissions reduction target and the phase-out of Russian energy imports by 2027. Emergency measures to mitigate energy price spikes must be temporary, targeted, and fiscally sustainable, avoiding demand increases for fossil fuels. The Commission will coordinate EU-wide gas storage refilling and collective oil reserve releases to prevent supply disruptions.

In this context, measures that strengthen the structural resilience of the European energy system and accelerate the transition away from fossil fuels may benefit from the existing flexibility within the fiscal framework. Therefore, The Commission has proposed - upon request by the Member States - to broaden the scope of the current National Escape Clause for defence spending to accommodate the measures undertaken since February 2026 to reduce the dependence on imported fossil fuels and thereby contribute to Europe's security and defence. Fiscal sustainability safeguards would remain fully in place. The Commission will provide in due time further clarity to Member States around the procedural and operational requirements of this provision.

Against this backdrop, the EU economy has proven to be resilient but faces structural vulnerabilities. Productivity growth remains subdued, while significant gaps in innovation persist. Energy costs remain high compared to several international partners, and a number of EU economies continue to depend heavily on fossil fuels, reiterating the need to accelerate reforms and investments that support the further expansion of renewable energy and related infrastructure to strengthen the EU's global competitiveness. Labour and skills shortages continue to affect the economy, particularly in the digital, green, and healthcare sectors. Housing affordability is worsening and continues to exacerbate social inequalities across Europe. The 2026 European Semester aims to address these challenges through coordinated reforms and investments, aligned with the Competitiveness Compass and the European Pillar of Social Rights.

Fiscal surveillance

In spring 2026, the Commission assessed Member States' compliance with the relevant Council recommendations. The Commission's assessment covers both 2025 and 2026 and is based primarily on a comparison between outturn data and the Commission's projections for net expenditure growth, on the one hand, and the maximum net expenditure growth rates recommended by the Council, on the other hand, and taking into account the national escape clauses for defence, where relevant.

The Commission's assessment covered all Member States: those that are currently under the excessive deficit procedure (EDP) and those that are not under the EDP. For the Member States currently under the EDP, the Commission assessed the action taken in response to the Council recommendations under the EDP. For Malta, the Commission recommended to the Council to abrogate the EDP, as the general government deficit was successfully and durably reduced below 3 % of GDP. For the remaining nine Member States currently under the EDP¹, the Commission considered that all procedures should be held in abeyance: the Member States concerned have abided by the respective Council EDP recommendations in a manner that, in the view of the Commission, constituted effective action. For the Member States currently not under the EDP, the Commission assessed progress with the implementation of their medium-term fiscal structural plans and compliance with the relevant Council recommendations. In this context, the Commission identified the Member States that abided (and/or are projected to abide) by the expenditure paths recommended by the Council, and those that registered deviation (or material deviations) in 2025 and/or risk registering deviation (or material deviations) in 2026. In this assessment, the Commission duly considered the national escape clause².

Structural reforms play a key role in ensuring the long-term sustainability of public finances.

For the eight Member States for which the Council had endorsed an extended adjustment period³, the Commission assessed the implementation of the key steps of the reforms and investments underpinning the extensions, also taking into account the information provided in their Annual Progress Reports. In the light of its assessment, the Commission considers that, overall, all the Member States concerned are complying with their commitments in terms of reforms and investments in a satisfactory manner.

¹ Belgium, France, Hungary, Italy, Austria, Poland, Romania, Slovakia and Finland.

² Moreover, the Commission was of the view that there is a case for initiating an excessive deficit procedure for Bulgaria, which will be handled according to the established procedures.

³ Belgium, Germany, Spain, France, Italy, Austria, Romania and Finland.

Improving the quality of public finances, including more efficient public spending and better tax collection, is essential to delivering real value for taxpayers and to ensuring fiscal sustainability. Prioritising spending, making it more efficient and effective, and modernising and simplifying tax systems can help focus on expenditure, raise the necessary revenues and support economic resilience. This includes making healthcare, long-term care and pension systems more efficient and more sustainable. The 2026 CSRs encourage member states to also take measures to strengthen tax compliance by modernising and digitalising revenue collection and tax administration, broadening tax bases, adjusting the tax mix to support sustainable competitiveness, combating tax evasion and addressing aggressive tax planning to safeguard tax fairness and revenue sustainability.

Competitiveness

The Competitiveness Compass has been the guiding framework for this European Semester cycle. It aligns reforms and investments with the EU's strategic priorities of closing the innovation gap and simplifying the business environment, while also reducing strategic dependencies and decarbonising our economies, promoting skills and quality jobs, ensuring social fairness and cohesion. In order to increase innovation performance in the EU, the Commission calls for greater public and private R&D investment and for measures to strengthen innovation systems, to increase the efficiency of public support to business innovation, and to facilitate access to finance. In order to improve the business environment and reduce costs, Member States need to undertake continuous efforts to reduce unnecessary administrative burdens while maintaining policy objectives and relevant standards and modernise public administration. Inter alia, Member States need to take action to speed up the issuing of construction, environmental and business permits. They need to address overlapping competencies and pursue regulatory simplification and continue digitalising public administration.

The single market remains fragmented, with barriers to services trade, digital markets, and SME growth. The One Europe, One Market roadmap and the upcoming Fair Labour Mobility Package aim to deepen integration, while the 2026 CSRs call on Member States to eliminate unjustified restrictions on cross-border services (e.g. professional qualifications, licensing). In particular, regulatory complexity remains a major barrier to cross-border trade and to investment, particularly for SMEs. Member States are recommended to reduce country-specific barriers to the single market, in particular linked to gold-plating, to high administrative burdens affecting market entry and to regulatory restrictions on certain professional services. At the EU level, the 'Simplicity by Design' initiative and the EU Inc. framework aim to reduce administrative burdens while maintaining policy objectives and relevant standards and digitalise public services. The Savings and Investments Union will expand venture capital and private equity access for SMEs, in particular through measures to encourage greater participation of retail investors to capital markets.

The EU faces strategic dependencies in critical raw materials, semiconductors, and defence technologies, exposing it to supply chain disruptions and geopolitical pressures. The Critical Raw Materials Act, the Chips Act, and the Economic Security Strategy provide frameworks for diversification, reshoring, and circular economy solutions. The Circular Economy Act (2026) will propose mandatory recycled content targets for key sectors (e.g. batteries, construction) and the Chips Act 2.0 (2026) aims at expanding funding for EU-based semiconductor manufacturing, with a EUR 10 billion top-up for the Chips Fund. Member States are asked to designate 'strategic semiconductor zones' by 2027, offering fast-track permitting and tax incentives.

Employment, skills and social aspects

Some progress has been made in improving labour market performance and enhancing human capital, but additional efforts are still required to reinforce these aspects, with a view to enhancing Europe's competitiveness and productivity ⁴ and social inclusion. The 2026 CSRs encourage Member States to support quality employment, enhance labour market participation, and strengthen skills development through effective education and training systems and active labour market policies, with the aim of raising productivity and supporting a resilient social market economy. Improving educational outcomes, upskilling and reskilling, and ensuring a closer match between workers' skills and labour market demands continue to be key priorities, notably to address labour and skills shortages in strategic sectors. In several Member States, raising overall skill levels is especially important. Labour shortages and skills mismatches persist, particularly in the STEM, digital, and green sectors. The Union of Skills and the Quality Jobs Roadmap aim to strengthen skills and quality job creation and transitions.

Sustained efforts are needed to advance towards the EU target of reducing the number of people at risk of poverty or social exclusion by at least 15 million by 2030, including at least 5 million children. The 2026 CSRs invite Member States to address existing and emerging challenges to social fairness, including by strengthening pathways to the labour market and improving the outreach, coverage and adequacy of minimum income schemes, including for older people. Ensuring access to quality and affordable social services is equally important, both to support those experiencing poverty and to prevent others from falling into it, while helping to connect people to education, training, healthcare and other essential services.

⁴ In line with the Council Recommendation on human capital in the European Union, adopted in March 2026. <https://data.consilium.europa.eu/doc/document/ST-6081-2026-REV-1/en/pdf>

EU initiatives have created a broad framework aimed at enhancing social fairness, reducing poverty, and reinforcing social inclusion across the EU as they are considered crucial to ensure competitiveness as well as resilience and upward social cohesion. Through the EU Anti-Poverty Strategy, the Commission seeks to eliminate poverty in the EU by 2050 using a comprehensive and integrated approach. This strategy is supported by additional actions to strengthen the European Child Guarantee, with the goal of breaking the intergenerational cycle of child poverty. At the same time, strong equality and non-discrimination policies help advance social fairness and ensure that no one is left behind, in line with the Union of Equality Strategies. All these elements have been taken up in the 2026 CSRs, where relevant.

Housing shortages and rising prices are exacerbating social inequalities, particularly in urban areas. The European Affordable Housing Plan and the Strategy for Housing Construction aim to boost supply and streamline permitting processes. The social housing stock needs to be increased, in the view of the Commission by 15 % by 2030, with EU funds (EUR 43 billion) available for renovation and new builds. A number of CSRs have been addressed to Member States to increase the housing supply, in particular by simplifying permitting procedures, by improving access to finance and by strengthening social housing.

The 2026 CSRs also invite national governments to take measures for further strengthening sub-national governance, where relevant. Ensuring access to essential services and addressing the specific socio-economic and security challenges faced by eastern border regions are key issues for the whole EU. Against this background, the implementation of the 2025 CSRs on territorial cohesion has led to some progress in narrowing territorial disparities and reinforcing governance at regional and local levels. In several Member States, reforms in sub-national governance have moved forward, resulting in improved service delivery, while local public services have also been enhanced, including through greater digitalisation.

Conclusion

This horizontal note highlights the importance of the European Semester as a mechanism for multilateral surveillance and coordinating policies across the EU, thereby supporting competitiveness and quality employment as well as long-term economic and social resilience. In this regard, once adopted by the Council, the CSRs may serve as valuable guidance for Member States, helping to ensure a coherent and forward-looking approach to emerging challenges.
