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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	European Semester – Horizontal note on country-specific recommendations

Delegations will find attached the horizontal note on country-specific recommendations 2025, prepared by the Presidency.

HORIZONTAL NOTE

PREPARATION OF THE POLITICAL DISCUSSION IN THE COUNCIL AND EUROPEAN COUNCIL ON THE COUNTRY-SPECIFIC RECOMMENDATIONS (CSRS) AND THE EUROPEAN SEMESTER PACKAGE (SPRING 2025)

On 4 June 2025, the Commission issued its European Semester Spring Package. It includes a set of country reports and recommendations for country-specific recommendations (CSRs) for every Member State. The country-specific recommendations are expected to be adopted by the Council meeting on 8th July 2025.

Ahead of the discussion and adoption of the CSRs, this horizontal note aims to contribute to the political debate on the state of the European economic and social situation, detailing current challenges and policy avenues to enhance competitiveness as set out in the CSRs. The discussion emphasises the essential role of CSRs in fostering economic and employment policy coordination across the European Union, as well as the established role of the Council in the Semester process.

This exceptional approach, which deviates from the established European Semester practice without setting a precedent, was proposed by the Presidency in the context of the delayed publication of the Spring package (4 June 2025) and the need to provide a meaningful input to the European Council discussions of 26–27 June 2025.

This note is informed by reports and analyses from the Spring Package of European Semester.

The 2025 cycle of the European Semester: strengthening sustainability and competitiveness amid global uncertainties

Against a backdrop of global volatility in the trade and security situation, the EU economy is projected to steadily expand over the coming years. Growth is driven in particular by a robust labour market and a decline in inflation, which contribute to the recovery of real wages and bolster demand. Nevertheless, geopolitical tensions and disruptions in trade pose significant risks to the economic momentum. The European financial sectors remain resilient in the face of these challenges and provides stable financing to the economy.

Policies to strengthen competitiveness are key to give the EU economy a boost and promote sustainable prosperity. A primary focus of the EU's economic strategy is addressing the structural barriers that hamper competitiveness. Productivity growth is lagging behind, which dampens innovation. Moreover, regulatory complexity and administrative burden have been major deterrents to investment, particularly impacting SMEs. Moreover, the pervasive shortage of skilled labour constrains economic activity and dampens innovation and productivity, while high energy costs and limited private access to finance compound these challenges. The geopolitical landscape also influences investment dynamics, as infrastructural projects face delays partly due to inadequate planning and shifting political priorities.

The European Semester is a key coordination tool to ensure that national reforms and investments reflect EU-wide objectives, while addressing specific national needs. The CSRs aim to offer detailed and coherent policy guidance tailored to each Member State's specific challenges, while respecting the necessary policy freedom of Member States. The 2025 country reports provide a comprehensive analysis of economic, employment and social developments, in line with the Competitiveness Compass and the principles of the European Pillar of Social Rights, underpinning the CSRs and simultaneously reviewing the progress made in past CSRs and their alignment with fiscal goals.

Faced with the challenge resulting from Russia's war of aggression against Ukraine, Europe needs to increase its defence capabilities and build a strong industrial base. In that context 16 Member States, so far, have requested the activation of the national escape clause under the Stability and Growth Pact to increase their defence spending, within the EU's fiscal rules. These requests are taken into account in the analysis of Member States' progress with the implementation of their medium-term plans and in the assessment of their compliance with the European economic governance framework provided as part of the Spring package. The national escape clause, to be activated by the Council in July, should facilitate the transition to structurally higher defence expenditure in the Member States, while ensuring debt sustainability.

Fiscal surveillance

With the 2025 spring package, the reformed Stability and Growth Pact completes its first annual cycle of fiscal surveillance. This entails thorough assessments of Member States' compliance with the recommended net expenditure growth, and the reforms and investments that have underpinned the extension of fiscal adjustments for several Member States. Notably, for Member States under the excessive deficit procedure, the assessments of implementation ensure that corrective measures are effectively adopted. This holistic approach to fiscal governance underscores the importance of these assessments as cornerstone activities within the broader economic governance.

Structural reforms are also needed to ensure long term sustainability of public finances.

A number of Member States are recommended, to take actions to make the long-term care system more cost-effective, safeguarding the long-term sustainability of the health care and the pension systems. On taxation, recommendations propose simplifying the tax system, aligning the taxation of different types of income from wealth, improving tax compliance, including addressing aggressive tax planning risks, limiting tax expenditures, and broadening the tax base. Some Member States are recommended to reduce the tax burden on low-income workers to ensure the fairness of the system and to address tax disincentives in the labour market, such as improving incentives for people close to retirement age to continue working. Some Member States are also recommended to strengthen the quality of their public finances by ensuring the efficiency of public spending, including through spending reviews, and to strengthen public investment, for example, by front-loading mature investment projects and crowd in private investment.

Competitiveness

Strengthening competitiveness is at the core of the EU economic policy. The Competitiveness Compass published by the European Commission sets forth priorities and actions that guide the Commission's work over the next five years. This includes closing the innovation gap, reducing excessive dependencies, enhancing security, and advancing decarbonisation efforts. To underpin competitiveness across sectors, the Competitiveness Compass introduces horizontal enablers that focus on creating a favourable economic environment to support Europe's competitiveness. These include simplifying regulatory frameworks to reduce administrative burden and increase speed and flexibility, fully exploiting the opportunities presented by the Single Market by removing existing barriers, leveraging financing including through the Savings and Investments Union, and promoting skills development and quality jobs while ensuring social fairness, as well as enhancing policy coordination at both EU and national levels.

Furthermore, high energy costs pose a serious hurdle, impacting the operating margins of energy-intensive industries. The CSRs also highlight the importance of advancing with green transition by reducing reliance on fossil fuels and accelerating the transition to a low-carbon and zero-emission economy, including by promoting the technological neutrality, the deployment of renewables, improving energy efficiency, and grid capacity, including cross-border interconnections, and increasing energy security. Additionally, recommendations put forward the need to phase out fossil-fuel subsidies, promote sustainable transport, address green skills labour market shortages, and support the development of a circular economy.

Employment, skills and social aspects

The 2025 Spring Package appears in a context marked by a resilient EU labour market, sustained demand for skills, and slightly decreasing but still high poverty and social exclusion risks. Against this backdrop, the 2025 CSRs underscore the importance of advancing the implementation of the principles of the European Pillar of Social Rights to guide efforts toward a more resilient, competitive, and fair society. The recommendations for CSRs take into account the Commission's findings of the Social Convergence Framework, including the second-stage analysis published by the Commission services as well as the findings of the multilateral surveillance reviews held by the Employment Committee (EMCO) and the Social Protection Committee (SPC).

Employment levels reached historic highs (75.8% in 2024) and the Union is well on track to reach the 2030 EU headline target of at least 78% of the population in employment. At the same time, labour shortages remain widespread, exceeding pre-pandemic levels in several Member States. Shortages are particularly acute in healthcare, long-term care, construction, transport, ICT, and engineering. In this context, the 2025 CSRs stress the need to tap into the full potential of groups underrepresented in the labour market to promote greater participation, contribute to enhanced productivity, and foster upward social convergence across the Union. To achieve this, Member States are recommended to reinforce active labour market policies, improve the design of tax-benefit systems to encourage work, and expand access to training and upskilling. Labour market policies should also support medium-term productivity and wage developments to maintain competitiveness, while addressing the rising cost of living. In this regard, social dialogue and collective bargaining mechanisms should continue to play a pivotal role, in accordance with national laws and/or practices. Removing barriers to participation will also require, particularly in certain sectors, improving job quality and working conditions, as well as investing in affordable and quality early childhood education and care. In parallel, legal migration could be leveraged more effectively to complement domestic labour supply and help meet skills needs, without prejudice to national competences.

The Commission recommendations for CSRs also highlight the urgency of fostering human capital development, in line with the need to progress more rapidly toward the 2030 EU headline target of at least 60% of all adults participating in training every year (still at 39.5% in 2022). This is essential for building a more competitive and socially inclusive Europe. There is an immediate need to strengthen education and training systems, both for young people entering the workforce and for adults who must adapt to evolving labour market demands. Alarmingly, recent trends show a decline in basic skills performance, with fewer high achievers and widespread gaps in digital literacy, while older adults, those with low qualifications, and people outside the labour market remain the groups least likely to participate in adult learning. To close these gaps, Member States are recommended to expand opportunities for lifelong learning, improve the recognition of skills, align curricula and teaching methods with labour market needs, and enhance the quality of education. With the demand for advanced technical skills increasing – particularly in strategic sectors linked to innovation and the green and digital transitions – Europe's long-term competitiveness depends on developing a robust pipeline of STEM (science, technology, engineering, and mathematics) professionals. Accordingly, Member States are also recommended to prioritise initiatives that increase youth participation in STEM, tackle gender imbalances in education pathways, and strengthen collaboration between education providers and employers.

Some progress has been made in reducing the share of people at risk of poverty or social exclusion. However, only limited progress has been achieved so far (with a reduction of only 2.8 million people compared to 2019, according to 2024 data) toward the 2030 EU headline target of lifting at least 15 million people out of poverty or social exclusion and challenges persist, particularly for children, vulnerable groups, and in certain regions. In this context, Member States should ensure the adequacy and sustainability of social protection and inclusion systems, via improving the provision of pensions and other benefits while expanding access to key social services, including healthcare as well as long-term care services and housing. To address the rising demand for healthcare and long-term care services driven by demographic change, Member States are recommended to shift toward preventive and community-based care, leverage digital technologies, and address workforce shortages and regional disparities in care provision. Housing expenses continue to place a heavy burden on households and significantly influence living standards, while housing supply continues to fall short of strong and persistent demand and access to social housing for low-income and vulnerable groups has deteriorated, causing continuous high risk of homelessness. To tackle these particularly acute challenges, Member States are recommended to combine structural reforms and targeted investment to tackle long-standing constraints affecting housing affordability.

Conclusion

This horizontal note underscores the role of the European Semester in coordinating policies across the EU, thereby contributing to competitiveness and long-term economic and social resilience. In this context, the CSRs – after their adoption by the Council – may constitute useful guidance for EU Member States ensuring a unified and dynamic approach to future challenges.
