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Alert Mechanism Report 2027

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

{SWD(2026) 956 final} - {SWD(2026) 957 final}

ALERT MECHANISM REPORT COMMUNICATION

The Alert Mechanism Report (AMR) identifies Member States that the Commission considers may be affected, or may be at risk of being affected, by imbalances, based on an economic reading of the Macroeconomic Imbalance Procedure (MIP) scoreboard, and for which an in-depth review should be undertaken. The economic reading of the scoreboard is based on outturn data for 2025 (Graph 1). These data are interpreted in a forward-looking manner, taking into consideration in-year (2026) economic developments and forecasts for 2026 and 2027 from the Commission 2026 autumn forecast (Graph 2). This Communication presents the economic reading of the scoreboard, and its annexes contain a further presentation of relevant data developments in the Member States, as well as the euro area and the EU as a whole [1]. In parallel, the European Macroeconomic Report provides an overall analysis of 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 [2].

The AMR 2027 analyses the risks of macroeconomic imbalances amid a renewed inflation shock but with growth remaining resilient so far. Inflation declined in 2025 but re-emerged in 2026 with rising fossil energy prices following the conflict in the Middle East. That contrasts with the post-2021 inflation surge, which on top of the strong hikes in energy prices especially following Russia's invasion of Ukraine, reflected broader inflationary pressures amid the recovery in demand, supply bottlenecks, and the legacy of highly supportive policies following the COVID-19 pandemic. EU and global economic growth have remained resilient in 2026, despite intensifying geopolitical and trade tensions, as well as tighter financing conditions. Labour markets have remained strong, although signs of weakening emerged recently. While nominal wage growth slowed further, wages still rose in real terms in all Member States in 2025; in 2026, with the upsurge in inflation, wages are growing less in real terms and are expected to even decline in some countries.

The backdrop to this report is one of tighter financing conditions in the EU and other major economies. Higher interest rates put pressure on households, corporations, and governments. This is a particular concern when debts are high, and when a large share of debt carries variable interest rates or needs to be refinanced. Higher interest rates may weigh on consumption and investment, reduce productivity growth, and weaken output growth. It also constrains governments' capacity to invest amid multiple spending pressures, requiring stronger prioritisation. In addition, currently high asset valuations could be a source of increased market volatility ahead and amplify financial stability risks, while persistent inflation could affect interest rate expectations and prolong tighter financing conditions.

EU economies also face multiple, overlapping uncertainties, including energy prices, tariffs, geopolitical tensions, the deployment of artificial intelligence, and climate change. The 2026 fossil energy price shock adds to significant earlier price increases, higher in the EU than in other major

[1] Commission staff working document, Alert Mechanism Report 2027, SWD(2026) 956; Commission staff working document, Statistical Annex accompanying the Alert Mechanism Report 2027, SWD(2026) 957

[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, SWD(2026) 958.

open economies, and developments in the Middle East remain uncertain. The latest energy shock also highlights the EU's continued vulnerability to external fossil energy supply disruptions and volatile global energy markets. The EU and global economy may still be adjusting to the higher US tariffs introduced in 2025, with tariff uncertainty periodically resurfacing. Geopolitical tensions threaten supply chains, potentially eroding the efficiency gains from international trade and adding to price pressures. The development and deployment of artificial intelligence (AI), which have been stronger in other major economies, can support higher productivity and output growth. However, significant uncertainties remain regarding the pace of AI diffusion, its actual impact on labour and capital productivity and on job creation and wages, and timing of those effects. Those factors also matter for the payoff of the massive investment in AI. Rising global external imbalances raise uncertainty about exchange rates, external demand, and trade and capital flows. Stronger foreign competition threatens demand for EU exports and related investment. In addition, despite the EU's apparent capacity to invest more, investment has yet to gain significant momentum. Finally, climate change, including extreme weather events, and environmental degradation are also increasingly important sources of macroeconomic and financial sector risks.

Summary of the economic reading of the scoreboard and outlook for risks of imbalances

The euro area and EU external surplus have continued their narrowing trend in 2025, driven by weak exports. In 2025, the euro area and EU current account surplus fell to the lowest levels in more than a decade, excluding 2022 when energy prices surged following Russia's invasion of Ukraine. The recent decline in the surplus does not reflect stronger domestic demand. Rather, it reflects weakening exports against the background of intensifying competition from Asia.

The persistent external surplus of the euro area and EU continues to reflect an excess of savings over investment. The underlying fundamentals, including EU's relatively high-income level, ageing population and manufacturing specialisation, would imply a current account surplus below the levels observed over the past decade. The persistence of surpluses implies that part of domestic savings continues to be invested abroad rather than being used to finance investment and support potential growth within the EU. Despite an uptick in 2025, investment remains weak relative to the EU's needs and below pre-pandemic levels.

Current account balances continue to vary widely across Member States, with both large surpluses and sizeable deficits persisting, although some narrowing has occurred. Current account deficits remain substantial in a few Member States, even if they generally narrowed somewhat in 2025. In most of those countries, trade balances remain weaker than before the pandemic while primary income balances have also deteriorated in some cases. At the same time, several Member States continue to record substantial current account surpluses. These have declined in some countries, including some of the largest contributors to the euro area and EU current account surpluses, while remaining large or even increasing in others.

Current accounts are now in general expected to edge down due to higher energy prices, but both large deficits and remaining large surpluses can pose risks. Heavy reliance on external financing, in the case of deficit countries, increases their vulnerability amid heightened volatility in financing conditions, underscoring the need for these countries to reduce their borrowing needs over time. Member States with large surpluses, meanwhile, remain exposed to global economic fluctuations, including exchange rate movements, valuation risks, and trade policy uncertainty.

The net international investment positions remain highly uneven across the EU. The slight improvement in the most negative positions was supported by GDP growth and favourable valuation effects and in some cases even in a context of a large external deficit. By contrast, some moderately

negative positions deteriorated, mainly reflecting valuation effects. Some large positive positions narrowed somewhat while others increased. The net international investment positions of both the euro area and the EU remained positive in 2025, even if edging down mainly reflecting valuation effects.

Inflationary pressures re-emerged in 2026 amid higher energy prices, with variation among Member States. The resurgence in inflation has varied across countries, reflecting differences in energy intensity, energy mix, exposure to energy price increases, the speed and extent of their pass-through to consumer prices, and the impact of government measures. Persistently high and volatile energy costs, alongside intensifying global competition, weigh on the competitiveness of the EU's energy-intensive industries and investment in manufacturing. Some of the countries that were most affected by the post-2021 inflation surge are again among those most affected by the latest shock. However, the increases in energy prices have been smaller in 2026 than in the post-2021 surge. Inflation is forecast to rise further and to be peaking in late 2026 before declining as the energy shock fades.

Underlying domestic cost pressures have also varied across Member States, with costs and prices continuing to grow faster where they had already grown the fastest before. Unit labour costs growth has moderated recently mainly reflecting slower wage growth, alongside a slight pickup in productivity growth. Nevertheless, unit labour costs growth has remained uneven across the EU, continuing to rise faster-than-average in countries that had already recorded stronger increases in previous years, often those with below EU-average wage levels. Among euro area countries, this is especially the case for Bulgaria, Croatia, and Lithuania; and in the rest of the EU for Hungary and Romania. Core inflation has clearly continued diverging from the euro area average in some Member States. This was particularly the case for Estonia, Greece, Croatia, Latvia, and Slovakia in 2025; already in 2026, the differentials are expected to be the largest for Bulgaria, Greece, Lithuania, and Slovakia. Outside the euro area, Hungary and Romania stand out for their high core inflation.

Strong nominal appreciation drove real appreciations, while export performance varied widely, with manufacturing-oriented economies often experiencing losses. In 2025, the euro strengthened sharply against the US dollar, further raising the euro area's nominal effective exchange rate. Elsewhere in the EU, nominal effective exchange rates appreciated as well. Higher inflation than in economies of trading partners added to real appreciation in some countries. In 2026, the euro weakened somewhat against the dollar, but its broader nominal effective exchange rate has stayed mostly unchanged. Among other EU currencies, the Hungarian forint appreciated notably. Export performance remained uneven: manufacturing-oriented euro area economies generally lost ground, while countries with large service export sectors often continued to gain, albeit by less than in previous years.

Corporate and household deleveraging continued, albeit at a slightly slower pace as borrowing accelerated. In 2025, debt-to-GDP ratios declined, but by less than in 2024 as borrowing increased amid lower interest rates and nominal GDP growth slowed as inflation eased. More recently, borrowing costs have been rising and credit conditions tightening, with their full effects yet to materialise. Corporate balance sheets strengthened in 2025, as debt service capacity improved, supported by lower borrowing costs. Yet bankruptcies have since increased relative to new firm registrations, and higher interest rates are set to increase debt-servicing costs. Household finances remain resilient, supported by real income growth and high employment. Saving rates remain above pre-pandemic levels, despite decreasing slightly in 2025. Household credit growth has often remained limited in countries with high household debt, whereas debt has risen in some Member States where it is low or moderate, amid stronger credit growth therein.

House prices have continued to increase strongly across much of the EU, with risks of overvaluation increasing in several Member States. In 2025, demand was supported by still slightly declining interest rates, rising household incomes, and net immigration. In the first half of 2026, price developments slowed only slightly amid somewhat tighter financial conditions. Overvaluation risk indicators have risen further in several Member States and warrant close monitoring, particularly where they coincide with strong credit growth, which has been mainly in countries with low household debt. Meanwhile, investment in housing declined further in 2025 from already low levels, and entrenched supply constraints are expected to continue putting upward pressure on house prices.

Current house price pressures appear to reflect mainly weak supply rather than rapid mortgage credit growth, reducing the risk of a sudden correction but raising broader economic and social concerns. Worsening housing affordability undermines social resilience, affecting particularly prospective first-time buyers, low-income households, and other vulnerable groups. Country averages may conceal substantial variation across regions and cities. High housing costs, especially in metropolitan areas where jobs and economic activity are concentrated, can also constrain labour mobility and hinder an efficient allocation of labour, weighing on productivity and growth. In addition, by absorbing a larger share of household income, high housing costs can dampen consumption and crowd out other forms of investment, thereby weakening potential economic growth.

Government debt is increasing in most Member States, weakening resilience to cushion future shocks. Debt reductions have become less frequent and smaller than in the post-pandemic years, as lower nominal GDP growth has weakened denominator effects. Debt-to-GDP ratios remain high and above pre-pandemic levels in several Member States. In 2025, fiscal balances deteriorated in most countries, generally modestly, while many of the largest deficits narrowed. Fiscal balances are expected to worsen more widely and more markedly in 2026, while large stock-flow adjustments are adding to debt pressures in some countries. Spending needs for defence, the digital ,clean energy and climate transitions, and age-related expenditure will remain substantial, requiring Member States to reprioritise expenditure within limited fiscal space.

Government borrowing has become more expensive and debt dynamics more challenging. Interest rates on government debt have increased in the EU and all other major economies in 2026. Euro area long-term bond yield spreads have widened since early 2026 in some highly indebted countries, reversing part of the narrowing since 2022. In non-euro area Member States, yield dynamics have varied, with large external borrowing needs compounding the vulnerabilities in some cases. Looking ahead, the differential between interest rates and nominal GDP growth is expected to narrow further in some countries and could turn positive in some cases, adding further pressures on debt developments. Higher government borrowing costs may also spill over into the private sector's financing costs.

The banking sector remains sound, supported by strong profitability and capitalisation, but several risks warrant attention. Profitability of the banking sector remains close to historical highs. While non-performing loans remained stable, an accumulated increase in corporate bankruptcies since 2023 has been broad-based. It has been particularly pronounced in transport and accommodation, while construction exposures also warrant close monitoring given that real estate lending remains a major concentration in banks' loan portfolios. Exposures to sovereign debt remain significant for some banks. Since early 2026, market volatility and uncertainty about inflation and interest rates have increased. Non-bank financial institutions have remained resilient, but some segments remain exposed to liquidity risks, high leverage and rising holding of illiquid assets. For instance, insurers and pension funds may be vulnerable through their growing exposure to private credit. At the same

time, closer links between banks and non-bank financial institutions could amplify and transmit shocks through direct exposures, derivatives and funding relationships, liquidity support, and common asset holdings. In case risks materialise, banks could also propagate those shocks to the rest of the economy by restricting credit to households and corporations.

Country-specific conclusions and follow-up surveillance

In 2027, in-depth reviews will be prepared for the four Member States that were identified as experiencing imbalances or excessive imbalances in spring 2026 [3]. An analysis of whether those imbalances are aggravating, under correction, or corrected, with the view to update existing assessments and assessing possible remaining policy needs will be undertaken for **Italy, Hungary, Romania,** and **Slovakia** in the 2027 in-depth reviews, to be published in the first half of 2027.

The economic reading of the MIP scoreboard leads to the conclusion that an in-depth review should also be undertaken for Bulgaria, as it presents particular risks of imbalances at this juncture that merit closer analysis. The current scoreboard for Bulgaria shows that five indicators were beyond their indicative thresholds in 2025: nominal unit labour costs, export performance against advanced economies, house prices, households credit flow, and labour force participation rate. In Bulgaria, persistently very strong growth in unit labour costs is weighing on competitiveness, while inflation has picked up and is exceeding the euro area average. House prices have risen strongly for several years, alongside brisk growth in household borrowing, increasing the risk of overvaluation. The current account balance has deteriorated markedly, shifting from a near-balanced position in 2024 to a significant deficit. These developments are unfolding against a backdrop of strong domestic demand, underpinned by robust wage growth, credit expansion and fiscal easing, while exports have shown little momentum in recent years.

For the remaining Member States there is no need to undertake in-depth reviews at this juncture.

In addition, the analysis carried out for the AMR 2027 points to the need for close monitoring of common trends affecting several economies. In particular:

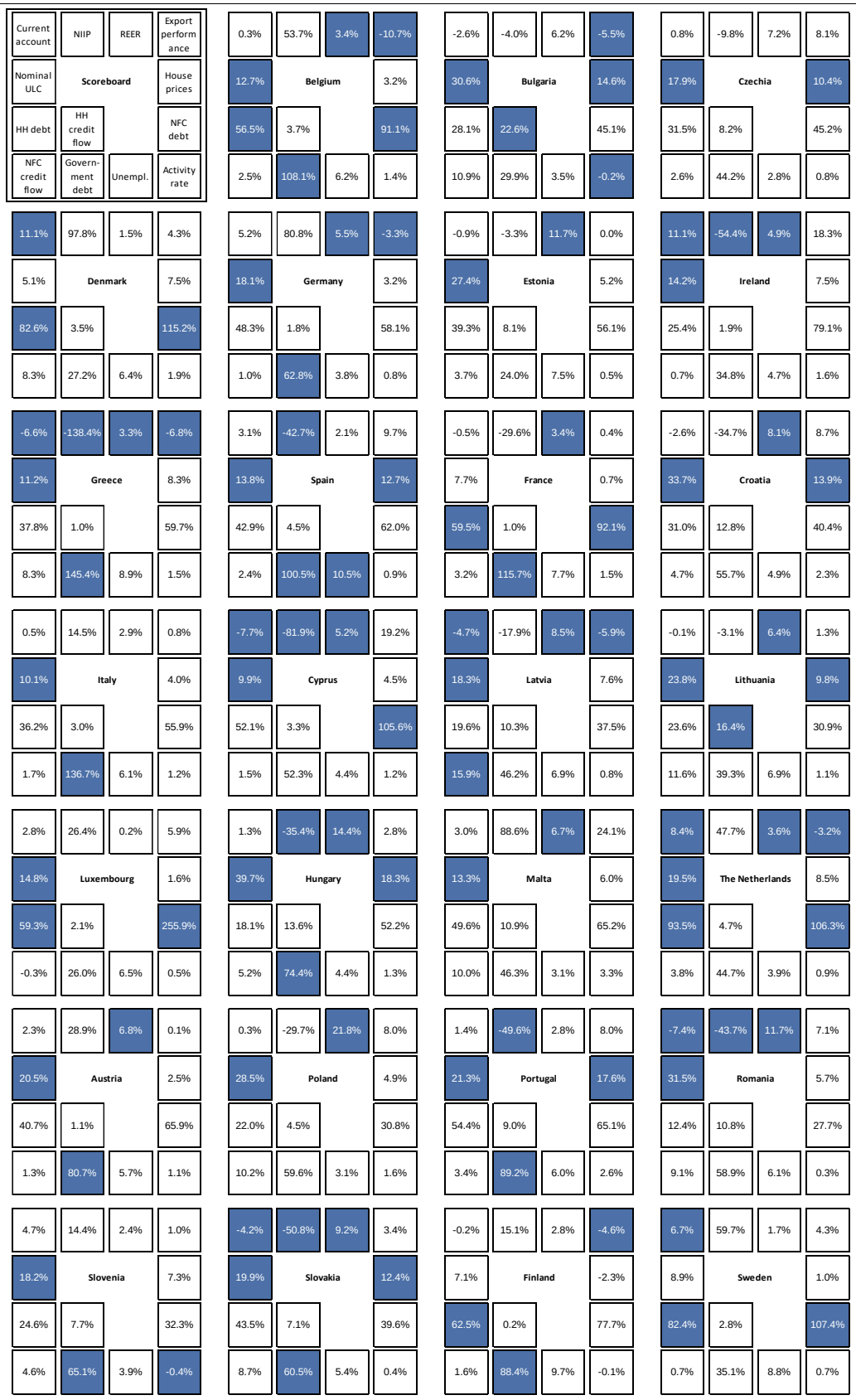
- Several Member States have been affected by strong house price increases. While the risks for macro-financial stability seem to be contained, other potentially far-reaching concerns about the macroeconomic consequences of those brisk house price dynamics are justified. The need for analytical and policy attention is magnified by the fact that weak supply may not be quickly overcome.

- For several years, some Member States have been recording very large external positions, i.e. very large current account surpluses, large positive net international investment positions or both. In view of augmented uncertainty about trade and fiscal policies at the current juncture, and their reverberations to exchange rates and asset prices, the risks related to trade and financial exposures of these Members States have increased and justify some concerns. Additionally, spillovers and exposures to other Member States may be relevant.

Given their common nature, these two topics could better be assessed within a common framework including the Member States concerned and discussed with the Economic Policy Committee.

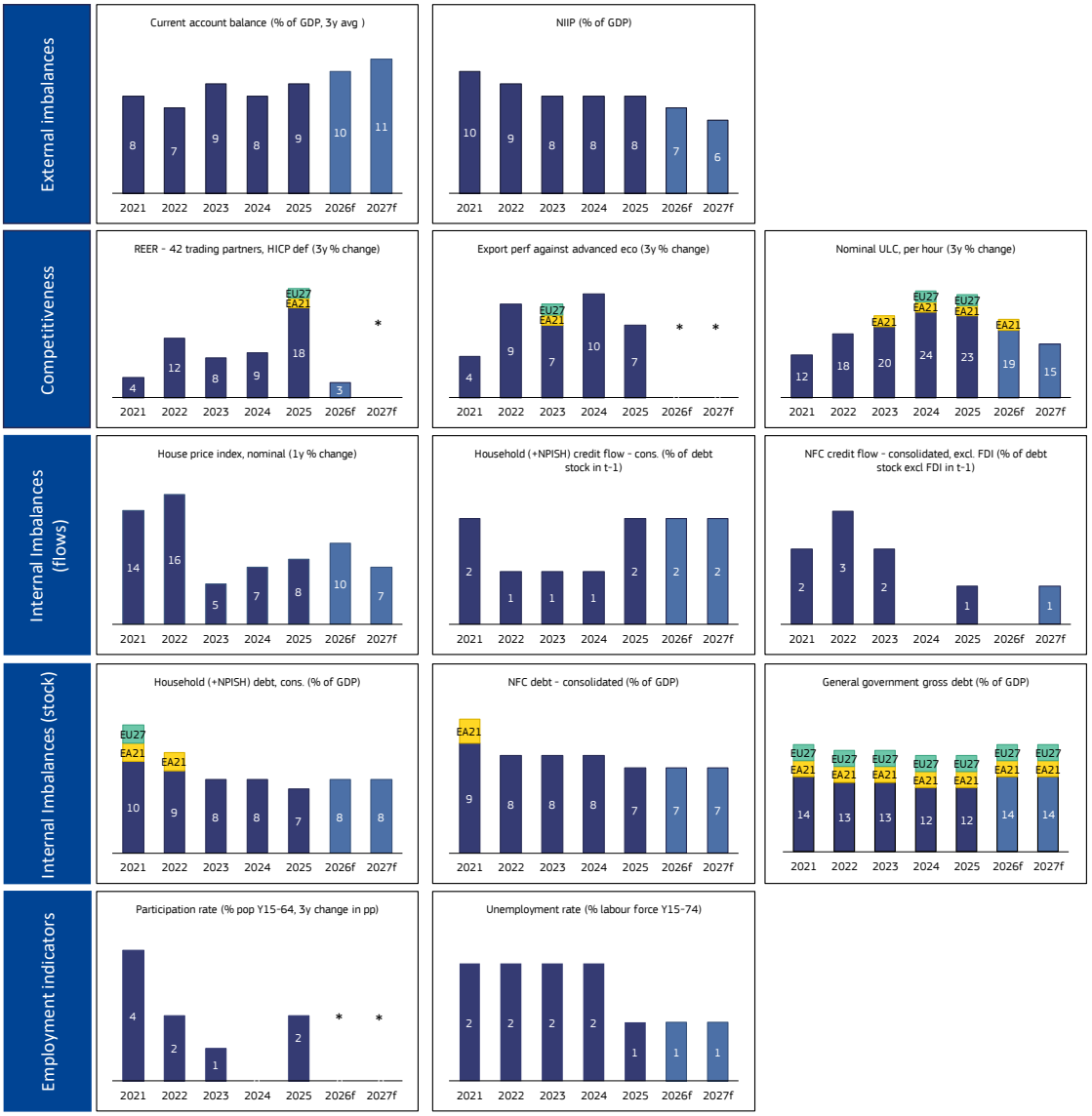
[3] Communication from the Commission 2026 European Semester - Spring Package, COM(2026) 200.

Graph 1: **AMR scoreboard indicators in 2025, by Member State**



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 2027 AMR cut-off date (3 November 2026). 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.