



Council of the
European Union

Brussels, 8 January 2016
(OR. en)

15565/15

ECOFIN 1010
UEM 438
SOC 726
EMPL 472

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	Alert Mechanism Report 2016 - Draft ECOFIN Council Conclusions

Delegations will find attached the draft Alert Mechanism Report prepared by the Economic and Financial Committee.

Alert Mechanism Report 2016

- Draft ECOFIN Council Conclusions –

The Council (ECOFIN):

1. WELCOMES the Commission's fifth Alert Mechanism Report (AMR) which marks the starting point of the annual round of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2016 European Semester.
2. BROADLY SHARES the Commission's horizontal analysis of the adjustment of macroeconomic imbalances in the EU and within the euro area. WELCOMES the continued progress achieved by Member States in correcting their external and internal imbalances, thus contributing to the rebalancing in the EU and within the euro area. NOTES the moderate recovery and low inflation, which continue to weigh on the reduction of imbalances and on macroeconomic risks. UNDERLINES that important challenges remain and further progress on policy actions is needed to address imbalances, in particular the elevated levels of indebtedness, high unemployment as well declining trends in potential growth and productivity growth. At the same time, elevated current account surpluses in some Member States with relatively low deleveraging needs persist and could under some circumstances indicate large savings and investment imbalances deserving progress on policy actions. NOTES that the rebalancing of deficits to surplus positions in many countries coupled with persistent and high surpluses in others has implied an asymmetric adjustment leading to a large and increasing surplus position of the euro area as a whole whose consequences deserve further attention. Overall, AGREES on the need for additional decisive reform efforts to promote investment and unlock growth potential.

3. TAKES NOTE that the basic economic screening presented by the Commission in the AMR identified 18 Member States warranting further analysis through in-depth reviews (IDRs), on the basis of which the existence or persistence of imbalances and the nature of such imbalances may be identified. RECOGNISES the need for further analysis of recent developments in the 16 Member States where imbalances were identified last year in order to assess whether the imbalances are unwinding, persisting or aggravating, taking into account the implementation of relevant measures to overcome the imbalances, including those previously recommended in the context of the European Semester. TAKES NOTE that the Commission will look into potential challenges in two additional Member States in more depth.
4. While programme countries are not assessed in the MIP, as they are subject to close surveillance under the programme, UNDERLINES the need for sustaining, as part of their adjustment programmes, the progress achieved so far with reforms aimed at correcting their identified imbalances. AGREES WITH the intention of the Commission to assess the situation for Cyprus after the expected exit from the on-going financial assistance programme in March 2016 and the integration into the standard surveillance framework. CONSIDERS that this same procedure should be followed for other programme countries once they successfully complete their financial assistance programmes.
5. WELCOMES the intention of the Commission to publish in February the IDRs embedded in the Country Reports, which also integrate the additional Commission analysis on other structural issues relevant for the European Semester. UNDERLINES the need to concentrate on addressing key challenges such as high indebtedness, low potential growth and high unemployment while clearly distinguishing between Member States' challenges in terms of different types and degrees of risk and the respective urgency by which they should be addressed in order to ensure swift action to address key risks. AGREES that the MIP procedure should be used to its full potential, with the corrective arm applied where appropriate.

6. Despite the importance of addressing social and labour market challenges, REGRETS the inclusion by the Commission of three additional employment indicators to the main scoreboard given the need to preserve the effectiveness of the scoreboard as an early warning device and the nature of the MIP as a procedure established to focus on the identification, prevention and correction of macroeconomic imbalances. UNDERLINES that social and labour market indicators are not relevant for identifying macro-financial risks and developments in these indicators cannot trigger steps in the MIP process; HIGHLIGHTS the need for continuing the technical work with a view to further improving and developing the appropriateness of the scoreboard as well as analytical tools and frameworks for assessing developments and drivers behind the building up and unwinding of imbalances with a view of further refining the underlying analysis and results.
7. WELCOMES the Commission's intention to further improve the implementation of the MIP, notably through publication of a compendium, which will collect and present the relevant information on the implementation of the MIP in one place, through a stabilisation of the categorisation of MIP imbalances and clarification of the criteria guiding the Commission's decisions on the identification of the imbalances and their implications for its implementation and recommendations. UNDERLINES that transparency and predictability of the MIP is essential for ensuring Member States' ownership of the procedure, which in turn is central for the effectiveness of the MIP.

8. WELCOMES the discussions on progress of reforms recommended as part of the MIP for Croatia, Bulgaria, France, and Italy that are considered to be in a situation of excessive imbalance and for Slovenia, Spain and Ireland with imbalances requiring decisive action and specific monitoring. NOTES that the specific monitoring of Portugal will be done in early 2016. ACKNOWLEDGES the policy actions and responses taken to address the identified imbalances. At the same time UNDERLINES that significant challenges remain and additional reforms need to be pursued and complemented by further monitoring of reform implementation to ensure the durable correction of imbalances.
 9. Finally, INVITES Member States to address in an ambitious and concrete manner the issues identified within the framework of the MIP.
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