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From: General Secretariat of the Council

To: Delegations

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Subject: Alert Mechanism Report 2017
- ECOFIN Council Conclusions (27 January 2017)

Delegations will find attached the Council Conclusions on the Alert Mechanism Report 2017 adopted by the Council (ECOFIN) at its 3515th meeting held on 27 January 2017.

Alert Mechanism Report 2017

- ECOFIN Council Conclusions –

The Council (ECOFIN):

1. WELCOMES the Commission's sixth Alert Mechanism Report (AMR) which marks the starting point of the annual round of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2017 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 further progress made by Member States in correcting their imbalances, thus contributing to the rebalancing in the EU and within the euro area. NOTES the continuing but still moderate recovery and low inflation, which continue to weigh on the reduction of imbalances and on macroeconomic risks. UNDERLINES that despite improvements the challenges and risks remain broadly unchanged and further progress on policy actions is needed to address imbalances, in particular the elevated levels of indebtedness, against the background of declining potential output and productivity growth and unemployment rates that remain historically high. At the same time, elevated current account surpluses in some euro area 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 euro area 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 of the basic economic screening presented by the Commission in the AMR. RECOGNISES the need for further analysis through in-depth reviews (IDRs) of recent developments in the 13 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. NOTES that vulnerabilities remain in some Member States for which IDRs are not warranted at this stage, and developments will need to be monitored.
4. 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 private and foreign indebtedness, weak competitiveness and potential growth, risks linked to rising house prices, current account surpluses and deficits, adjustment issues reflected in high unemployment, while clearly distinguishing between Member States' challenges in terms of sources and severity of risks in order to highlight clear priorities and ensure swift action. UNDERLINES that the MIP procedure should be used to its full potential, with the corrective arm applied where appropriate.
5. WELCOMES the Commission's publication of a compendium on the MIP, which provides an overview of how the MIP framework functions and how its application has evolved over time. UNDERLINES that transparency and predictability of the MIP, in particular keeping the current categories of imbalances, is essential for ensuring Member States' ownership of the procedure, which in turn is central for the effectiveness of the MIP. HIGHLIGHTS the need to continue technical work to assess the appropriateness of the scoreboard and to further develop and improve analytical tools and frameworks for assessing developments and drivers behind the building up and unwinding of imbalances and related spillovers with a view of further improving the underlying analysis and results.

6. CONSIDERS that MIP specific monitoring helps fostering an effective implementation of measures to address macroeconomic imbalances. TAKES NOTE of the extension of specific monitoring to all Member States concerned by MIP surveillance and WELCOMES the streamlining of the procedure. UNDERLINES the importance of maintaining stable and transparent practices with respect to the implementation of specific monitoring.
7. AGREES in general with the assessment provided by the Commission in the specific monitoring reports concerning the action taken by Member States with imbalances in the context of the MIP and remaining policy gaps. NOTES that the large majority of specific monitoring reports have been discussed already in Council committees, and that the remaining specific monitoring reports of Spain, Portugal and Ireland will be discussed in early 2017 in the context of their post programme surveillance reports.
8. INVITES the Commission to follow up on the findings from specific monitoring in a consistent and effective way for what concerns the implementation of the MIP, and INVITES Member States to address in an ambitious and concrete manner the policy gaps identified in the context of specific monitoring with a view to correct harmful imbalances.