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**NOTE**

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From: General Secretariat of the Council  
To: Permanent Representatives Committee (Part 2) / Council  
Subject: Alert Mechanism Report 2021  
– Draft Council Conclusions

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Delegations will find attached the draft Council conclusions on the Alert Mechanism Report 2021, as prepared by the Economic and Financial Committee on 7 January 2021.

## **ALERT MECHANISM REPORT 2021**

– Draft ECOFIN Council Conclusions –

The Council (ECOFIN):

1. NOTES that the containment measures needed to contain the outbreak of the COVID-19 pandemic have led to an unprecedented and asymmetric fall in economic activity. STRESSES that the resolute public support measures are critical in cushioning the socio-economic fallout of the pandemic-induced crisis.
2. RECOGNISES that the increased infection rates in autumn 2020 and the subsequent re-introduction of containment measures exerted an additional strain on economic activity. ACKNOWLEDGES the unusually high uncertainty about economic developments in the coming months, and, where needed, CALLS for further targeted and temporary measures to support the recovery taking into account existing and emerging risks to macroeconomic stability.
3. WELCOMES the continued implementation of the Macroeconomic Imbalance Procedure despite the crisis, and the Alert Mechanism Report 2021, which initiates its tenth annual round. UNDERLINES the importance, including in the current economic crisis, of detecting, preventing and correcting imbalances that hinder the proper functioning of Member State economies, the Economic and Monetary Union or the European Union economy as a whole.
4. BROADLY AGREES with the assessment of the Alert Mechanism Report regarding the evolution of macroeconomic imbalances in the EU and within the euro area, and possible risks. NOTES that prior to the crisis a number of macroeconomic imbalances, such as excessively large current account deficits or buoyant credit growth had been adjusting and private and public debt had also started declining, although unevenly across Member States; the favourable macroeconomic conditions up until the outbreak of the COVID-19 crisis, as well as some structural changes, supported these corrections.

5. RECOGNISES that a number of existing macroeconomic imbalances are now being aggravated by the COVID-19 crisis, and new risks may arise, resulting from the pandemic effects, notably related to increasing private and public debt. NOTES that private indebtedness, in particular for companies, and public indebtedness have increased in all Member States, especially in some with already identified corresponding imbalances or excessive imbalances, largely in light of deep recessions, and the need to cushion the impact of the COVID-19 crisis via supportive policies.
6. TAKES NOTE that current account balances were not affected very substantially by the COVID-19 crisis so far; large current account surpluses in some Member States persist although they are narrowing, while current account deficits in some Member States with large external debt are widening. RECOGNISES possible risks for bank balance sheets linked to the prospect of increasing non-performing loans, weak bank profitability and possible downward corrections in house prices. NOTES that unemployment is set to increase, although supportive policies have cushioned the impact of the fall in activity, and that declining labour productivity is estimated to have led to an increase in unit labour costs in 2020, despite a marked slowdown in wage growth.
7. WELCOMES the strengthened forward-looking approach to the assessment of risks to macroeconomic stability and macroeconomic imbalances that the Alert Mechanism Report takes. APPRECIATES in this context the greater use of forecasts and high-frequency data that complement the economic reading of the scoreboard of the Macroeconomic Imbalance Procedure. Nevertheless, RECALLS the high level of uncertainty around any forecast in the current rapidly changing circumstances, which makes a forward-looking assessment of imbalances challenging. CALLS for distinguishing between cyclical and structural developments in assessing the evolution of imbalances going forward, and for considering the role that policies are currently playing in the reduction of macroeconomic stability risks in some areas.

8. TAKES NOTE of the Commission's intention to conduct in-depth reviews for 12 Member States to assess whether and to what extent existing imbalances are unwinding, persisting or aggravating, while taking stock of corrective policies implemented. CALLS for close monitoring of risks in some Member States for which in-depth reviews are currently not deemed warranted, notably regarding possible risks related to external financing and relatively high and rising ratios of private and public debt in relation to gross domestic product. ACKNOWLEDGES the need to monitor risks potentially arising from possible deepening of economic divergences, notably due to the pandemic consequences.
9. AGREES that the Next Generation EU, notably the implementation of the recovery and resilience facility, should be taken as an opportunity to implement reforms and investments, in line with the 2019 and 2020 country-specific recommendations that address long-standing structural causes of existing macroeconomic imbalances and subdued productivity growth. CALLS for ensuring appropriate policy responses to address imbalances and to raise productivity and growth potential, including in the context of the implementation of recovery and resilience plans. Thus, STRESSES the need for a swift implementation of the recovery and resilience facility, including the recovery and resilience plans.
10. RECALLS that the Council will discuss the legislation governing the Macroeconomic Imbalance Procedure as part of the review of the economic governance legislation.