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| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee (part 2)/Council |
| Subject: | Alert Mechanism Report 2019 – Draft ECOFIN Council conclusions |

Delegations will find attached the draft Council conclusions on the Alert Mechanism Report 2019, as prepared by the Economic and Financial Committee on 10–11 January 2019.

ALERT MECHANISM REPORT 2019

– Draft ECOFIN Council Conclusions –

The Council (ECOFIN):

1. WELCOMES the Commission's eighth Alert Mechanism Report which initiates the annual round of the implementation of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2019 European Semester of economic policy coordination.
2. BROADLY AGREES with the Commission's horizontal analysis of the adjustment of macroeconomic imbalances in the EU and within the euro area. WELCOMES that the correction of existing imbalances is continuing on the back of the economic expansion. NOTES the increasingly uncertain macroeconomic environment and medium-term growth outlook and that vulnerabilities linked to stock imbalances persist, and that signs of possible new unsustainable trends are becoming visible in some Member States. STRESSES that progress with external rebalancing needs to continue, with external stock positions remaining unbalanced and adjustment taking place gradually and with cost competitiveness conditions overall becoming less supportive of a more symmetric rebalancing. NOTES the reduction of large stocks of private and government debt is ongoing, but remains uneven and increasingly only on the back of resumed nominal growth. The situation in the banking sector is improving, but low levels of profitability and large stocks of non-performing loans persist in some Member States. Labour markets continue to improve with disparities across the EU decreasing from elevated levels. Housing price and labour cost growth are accelerating and there are possible signs of overheating in a growing number of Member States. AGREES that the increasingly uncertain economic outlook and the limited room for absorbing negative shocks linked to debt vulnerabilities call for prudent behaviour. STRESSES that reform efforts should be stepped up to raise the growth potential with a view to tackle imbalances on a sustainable basis while preventing the risk of pro-cyclical deleveraging in bad times.

3. AGREES that Member States with current account deficits or high external debt should additionally seek to reduce external debt and pursue reforms to further improve their competitiveness, while Member States with large current account surpluses should further strengthen the conditions to promote wage growth, while respecting the role of social partners, and implement as a priority, measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.
4. TAKES NOTE of the screening based on the economic reading of the scoreboard presented by the Commission in the Alert Mechanism Report which identified 13 Member States warranting further analysis through in-depth reviews (IDRs). RECOGNISES the need for further analysis through in-depth reviews of recent developments in the 11 Member States where imbalances were identified last year to assess whether the imbalances are unwinding, persisting or aggravating, taking into account the implementation of relevant measures to overcome the imbalances, including those recommended in the context of the European Semester. TAKES NOTE that the Commission will look in more depth into potential sources of imbalances in two additional Member States. NOTES that vulnerabilities exist in some Member States for which IDRs are not warranted at this stage; however developments regarding the build-up of new possible sources of macroeconomic risks in these Member States need to be closely monitored.
5. UNDERLINES the need to concentrate in the IDRs on Member States' key challenges and risks, and report the gravity of the identified challenges, evolution of risks, the policy response taken, and any policy gaps in order to highlight clear priorities and ensure swift action. RECALLS that when assessing macroeconomic imbalances account should be taken of their potential negative economic and financial spill-over effects for the euro area and the EU.

6. REITERATES that the MIP should be used to its full potential, including with the excessive imbalance procedure applied where found appropriate by the Commission and the Council; REEMPHASIZES that whenever the Commission concludes that a Member State is experiencing excessive imbalances, but does not propose to the Council the opening of the excessive imbalance procedure, it should clearly and publicly explain its reasons.
7. WELCOMES the technical revisions made by the Commission to the auxiliary indicators of the Scoreboard. HIGHLIGHTS the need to continue technical work to assess the appropriateness of the scoreboard for the early detection of new sources of macro-financial risks 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.
8. NOTES that, in accordance with Regulation 1176/2011 on the MIP, the Commission will review and report on the application of the MIP at the latest by December 2019 and INVITES the Commission to involve the Economic Policy Committee in this review process and to duly take into account the recommendations made by the European Court of Auditors in its report on the implementation of the MIP. REITERATES that transparency and predictability of the MIP, in particular keeping the categories of imbalances stable, is important for ensuring Member States' ownership of the procedure and for the effectiveness of the MIP.
9. CONSIDERS that MIP specific monitoring of all Member States identified to have imbalances helps foster an effective implementation of measures to address macroeconomic imbalances, through policy dialogue and peer reviews. UNDERLINES the importance of maintaining stable and transparent practices with respect to the implementation of specific monitoring.

10. WELCOMES the focussed Commission specific monitoring reports with standard tables summarising the assessment of reform implementation. AGREES in general with the assessment provided by the Commission in the reports concerning the action and responses taken by Member States with imbalances in the context of the MIP to address remaining policy gaps. NOTES from the Commission's assessment that reform activity remains uneven across Member States despite the backdrop of broad-based economic growth and STRESSES that Member States should seize the opportunity of better economic conditions to push forward with further reforms helping to reduce vulnerabilities.
 11. INVITES the Commission to follow up on the findings from specific monitoring concerning the implementation of the MIP in a consistent and effective way, 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.
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