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From: General Secretariat of the Council
To: Delegations

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Subject: Alert Mechanism Report 2023
Council conclusions (17 January 2023)

Delegations will find attached the Council conclusions on the Alert Mechanism Report 2023, approved by the Economic and Financial Affairs Council held on 17 January 2023.

ALERT MECHANISM REPORT 2023

– ECOFIN Council conclusions –

The Council (ECOFIN):

1. NOTES that the EU economy continued its strong post-pandemic recovery in 2021 and 2022 thanks to the swift policy action at national, EU and euro area level, and in spite of the economic impact of Russia's war of aggression against Ukraine, avoiding the most adverse scenarios. Yet, high energy price pressures, the erosion of households' purchasing power, a weaker external environment and tighter financing conditions are taking centre stage and heading into 2023 economic activity is decelerating. ACKNOWLEDGES that the labour market remains resilient. RECOGNISES that uncertainties are high, notably linked to the persistence of the energy crisis. UNDERLINES that the deteriorating economic conditions increase vulnerabilities and risks related to macroeconomic imbalances, including possible emerging new imbalances.
2. UNDERLINES that the overall performance of the euro area and the EU requires continued close coordination of policy responses to mitigate the impact of high energy prices. HIGHLIGHTS that uncoordinated measures may entail spillovers across Member States and in particular for the euro area, and could jeopardise a level playing field, result in increased divergence, and amplify the heterogeneous impact of the energy crisis.
3. STRESSES the importance of continued implementation of the Macroeconomic Imbalance Procedure in early detecting, preventing and correcting imbalances that hinder the proper functioning of Member States economies, the Economic and Monetary Union or the European Union economy as a whole. WELCOMES the Alert Mechanism Report 2023, which initiates the twelfth annual round of the Macroeconomic Imbalance Procedure.

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 emerging risks. WELCOMES that, prior to the deterioration in economic conditions, the reduction of private and public debt from high levels resumed in many Member States after the pandemic had interrupted the adjustment and increased debt ratios NOTES that nominal GDP growth is forecast to help reducing debt ratios in both 2022 and 2023. ACKNOWLEDGES that the rapidly changing economic environment and tighter financing conditions are expected to put further pressure on private and public debt.
5. NOTES that in 2021 the current accounts of most Member States reverted to close to their pre-COVID pandemic positions, which was also reflected in the increase of the euro area current account surplus. HIGHLIGHTS that in 2022 current account balances, including the euro area current account surplus, declined strongly, driven primarily by high energy prices. WELCOMES the expected return of the symmetric adjustment of external positions within the euro area. TAKES NOTE of unit labour costs growing strongly in some Member States with current account surpluses.
6. NOTES that in 2022 wage increases accelerated, unmatched by productivity, adding to pressures on cost competitiveness. ACKNOWLEDGES that due to high inflation household real disposable income is falling. NOTES that second-round effects may be developing in some Member States. RECOGNISES that inflation rates are high and vary significantly across the Member States, which could unevenly affect real effective exchange rates with an impact on competitiveness, in particular within the euro area.
7. TAKES NOTE of the continued decrease in non-performing loans and of the recovery in bank profitability, yet ACKNOWLEDGES that the worsening of the economic conditions may have an adverse impact on asset quality and banking profitability. NOTES that in some Member States in 2021 and early 2022, house prices accelerated further, and that they are expected to moderate with the increase in interest rates and the reduced real disposable household income; ACKNOWLEDGES that this moderation is underway in many, but not all, EU countries. RECOGNISES that rising interest rates impact households' abilities to meet mortgage payments.

8. WELCOMES the high-quality analysis in the Alert Mechanism Report, including the focus on a forward-looking assessment of a possible evolution of risks for macroeconomic stability. NOTES the increased visibility of the EU and euro area dimensions in the report.
9. TAKES NOTE of the Commission's intention to conduct in-depth reviews for the 10 Member States that experienced imbalances or excessive imbalances in 2022, as well as for further 7 Member States with particular risk of newly emerging imbalances. WELCOMES the scheduled preparation of in-depth thematic assessments of housing market developments, competitiveness dynamics, and external sustainability and balances, that should inform the preparation of country-specific in-depth reviews.
10. UNDERLINES the importance of the Macroeconomic Imbalance Procedure in the EU economic policy coordination and STRESSES the need for ensuring transparency and multilateral surveillance. CALLS for close monitoring of existing and potentially emerging imbalances, and timely policy response, including implementing relevant reforms as recommended in the country-specific recommendations in the context of the European Semester, and as included in recovery and resilience plans. UNDERLINES that preventing and correcting macroeconomic imbalances enhances Member States' ability to respond to shocks and supports economic convergence. STRESSES that the reduction of all imbalances yields positive spillovers across the euro area and the EU.
11. NOTES that the Alert Mechanism Report 2023 is consistent with the Commission's proposal on the future of the surveillance of macroeconomic imbalances put forward in the context of the EU economic governance review, in particular the stronger preventive role of the Macroeconomic Imbalance Procedure in an environment characterised by new risks. UNDERLINES the need for thorough and swift reflections on the economic governance, including the Macroeconomic Imbalance Procedure and its linkages with other EU relevant surveillance streams.