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From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	ALERT MECHANISM REPORT 2020 –Draft ECOFIN Council Conclusions

Delegations will find attached the draft Council conclusions on the Alert Mechanism Report 2020, as prepared by the Economic and Financial Committee on 6 February 2020.

ALERT MECHANISM REPORT 2020

– ECOFIN Council Conclusions –

Draft

The Council (ECOFIN):

1. WELCOMES the Commission's ninth Alert Mechanism Report, which initiates the annual round of the implementation of the Macroeconomic Imbalance Procedure in the context of the 2020 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 gradual correction of existing imbalances has continued amid favourable economic conditions. NOTES that the reduction of large stocks of private and government debt has continued in most Member States on the back of nominal GDP growth, but government debt ratios have generally not been sufficiently reduced in Member States where they are the highest. Net savings in the private sector have declined especially for the household sector. NOTES therefore that vulnerabilities linked to still large stock imbalances persist, and that the likely more modest economic growth, low interest rate environment and remaining uncertainties may imply a slower adjustment of existing imbalances or the materialisation of new risks. Moreover, the possibility to cushion shocks via public and private savings varies considerably across the EU and is limited by high debt ratios in a relevant number of Member States. NOTES that large current account deficits have generally been corrected, while the reduction of the largest current account surpluses has been modest. The aggregate surplus of the euro area remains at an elevated level.

3. NOTES that the resilience of the banking sector has been improving, while in a few Member States capitalisation and profitability rates of banks remain relatively low, and a large stock of non-performing loans persists. Labour markets continued to improve, with unemployment falling. At the same time, labour market tightening underpins faster wage growth leading to a strong acceleration of unit labour costs in some Member States, as productivity growth remains more moderate than wage growth. While unit labour costs growth has been higher in net-creditor countries than in net-debtor countries, this difference is narrowing and hence cost competitiveness developments are becoming less supportive of a more symmetric rebalancing. House prices continued their fast increase in many Member States and housing affordability is a growing concern, while prices decelerated in some Member States with stronger evidence of overvaluation and high household debt.

4. AGREES that to ensure stability, potential sources of domestic and external imbalances need to be addressed through structural reforms. STRESSES that subdued productivity growth remains a particular concern in the current challenging economic context, and CALLS for structural reforms and investment to raise productivity and the growth potential, and policies to bring forward the correction of existing imbalances. AGREES with the Commission's assessment that Member States that show limited room for absorbing negative shocks linked to debt vulnerabilities should step up efforts to raise the growth potential preventing the risk of pro-cyclical deleveraging. 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 public and private investment, support domestic demand and growth potential, thereby also facilitating rebalancing. ACKNOWLEDGES that symmetric rebalancing of current account can be beneficial for all Member States, generally supporting deleveraging in the euro area as a whole.

5. TAKES NOTE of the screening based on the economic reading of the scoreboard presented by the Commission in the Alert Mechanism Report, which identified the 13 Member States where imbalances were identified last year to warrant an in-depth review 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.

6. NOTES that vulnerabilities exist and require monitoring also in several Member States for which in-depth reviews are not warranted at this stage. Developments regarding the build-up of new possible sources of macroeconomic risks need to be closely monitored.

7. UNDERLINES the need to focus the in-depth reviews 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 spillover effects for the euro area and the EU.

8. WELCOMES that the present report makes use of the refined and newly developed tools to detect imbalances. HIGHLIGHTS the need to continue technical work for aiding the early detection of sources of macro-financial risks and monitoring their development. CALLS for further developing and improving analytical tools and frameworks for assessing developments and drivers behind the building up and unwinding of imbalances and related spillovers.

9. CONSIDERS that the 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. WELCOMES the focussed Commission specific monitoring reports with standard tables summarising the assessment of reform implementation and generally AGREES with the Commission's assessment concerning the action and responses taken by Member States with imbalances to address policy gaps. UNDERLINES that reform activity remains uneven across Member States and that in some cases rolling back of reforms can be observed. INVITES the Commission to follow up in a consistent and effective way and Member States to address in an ambitious and concrete manner the policy gaps with a view to prevent and correct harmful imbalances.

10. REITERATES that the Macroeconomic Imbalance Procedure should be used to its full potential, including with the excessive imbalance procedure applied where found appropriate by the Commission and the Council; STATES 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.

11. TAKES NOTE of the Commission’s review and report on the application of the Macroeconomic Imbalance Procedure in accordance with Regulation 1176/2011 and will examine the review in due course.