

Macroeconomic imbalances: Council conclusions on the 2018 alert mechanism report

The Council (ECOFIN):

1. WELCOMES the Commission's seventh Alert Mechanism Report (AMR) which marks the starting point of the annual round of the implementation of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2018 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 that imbalances have in many cases gradually started to unwind in the context of a broader and more robust economic recovery. NOTES that risks have started to recede, but still remain present, and mainly originating from the same sources as in previous years. STRESSES that progress with external rebalancing needs to continue, with large stock and flow external imbalances persisting and competitiveness developments becoming less supportive of rebalancing. The reduction of large stocks of private and government debt is ongoing, but remains uneven. The situation in the banking sector has improved in several dimensions but challenges remain especially related to NPLs. Although broadening and consolidating, the recovery is so far still characterised by total factor productivity growth that remains below pre-crisis rates. Signs of overheating in labour costs and housing prices are becoming more visible in a growing number of countries. Therefore, STRESSES that reform efforts should continue at pace to ensure the conditions for a durable pick-up in potential growth, and for expanding the room to tackle imbalances on a sustainable basis.
3. AGREES that Member States with current account deficits or high external debt should additionally seek to improve their competitiveness and prevent excessive growth in unit labour costs, while Member States with large current account surpluses should create the conditions to promote wage growth 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 and financial reading of the scoreboard presented by the Commission in the AMR. RECOGNISES the need for further analysis through in-depth reviews (IDRs) of recent developments in the 12 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. NOTES that vulnerabilities exist in some Member States for which IDRs are not warranted at this stage, and developments regarding the build-up of new possible sources of macroeconomic risks need to be monitored.
5. WELCOMES the intention of the Commission to publish in February the IDRs embedded in the Country Reports. UNDERLINES the need to concentrate on addressing key challenges, while distinguishing between Member States' challenges in terms of nature, sources and severity of risks 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. UNDERLINES that the MIP procedure should be used to its full potential, including with the corrective arm applied where appropriate.
6. WELCOMES the improvement and use of analytical tools in the AMR analysis. HIGHLIGHTS the need to continue technical work to assess the appropriateness of the scoreboard and 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. 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.
7. CONSIDERS that MIP specific monitoring of all Member States concerned by MIP surveillance helps foster an effective implementation of measures to address macroeconomic imbalances. UNDERLINES the importance of maintaining stable and transparent practices with respect to the implementation of specific monitoring.
8. WELCOMES the streamlined 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 taken by Member States with imbalances in the context of the MIP and remaining policy gaps. NOTES with concern from the Commission's assessment that reform activity is slowing, including in countries identified with excessive imbalances, and remains uneven across Member States on the back of improving economic conditions. STRESSES that Member States should seize the opportunity of a better economic climate to push forward with further reform implementation in the MIP context, including bringing down high levels of debt.
9. 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.

Press office - General Secretariat of the Council

Rue de la Loi 175 - B-1048 BRUSSELS - Tel.: +32 (0)2 281 6319

press.office@consilium.europa.eu - www.consilium.europa.eu/press