



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council
Subject: Alert Mechanism Report 2014 = *Council conclusions*

Delegations will find attached the Council conclusions on the Alert Mechanism Report 2014, as prepared by the Economic and Financial Committee.

Alert Mechanism Report 2014**- Council Conclusions –**

The Council:

1. WELCOMES the Commission's third Alert Mechanism Report (AMR) providing the starting point of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2014 European Semester. WELCOMES the further progress achieved by Member States in correcting their external and internal imbalances, in particular in relation to current account deficits, competitiveness, fiscal deficits and the financial sectors, thus contributing to the rebalancing in the EU and within the euro area. However, RECOGNISES that important challenges remain and further progress is needed to address imbalances, including high public and private indebtedness as well as high external debt levels that give rise to sustainability concerns. Improvements of price and non-price competitiveness also have to continue in several Member States. At the same time, elevated current account surpluses in a few Member States call for closer examination. These elevated current account surpluses together with the reduction in current account deficits in other Member States mean that the euro area has shifted from a balanced external position to a current account surplus of over 2 per cent of GDP.
2. TAKES NOTE that the Commission selected the Member States warranting further analysis in in-depth reviews (IDRs), on the basis of which imbalances and excessive imbalances may be identified. RECOGNISES the need to further analyse recent developments in the Member States covered by a review in past years to assess the persistence of imbalances, their risks and progress in their unwinding, taking into account the implementation of relevant measures, including those previously recommended.

3. WELCOMES the intention of the Commission to publish the 2014 IDRs in a timely manner, in early March, with the aim of facilitating a multilateral discussion of the findings and suggested procedural follow-up as well as providing an opportunity for Member States to address findings in their National Reform Programmes (NRPs) and Stability or Convergence Programmes (SCPs) as well as enabling a clear identification of MIP related elements in the country specific recommendations in the context of the European Semester. To ensure the focus and full effectiveness of the procedure, UNDERLINES the need to concentrate on addressing key challenges, including the application of the corrective arm of the MIP where appropriate, while clearly distinguishing between Member States' challenges in terms of different types and degrees of risk and the respective urgency by which they should be addressed in order to avoid negative consequences.
4. EMPHASISES that, as in the previous MIP rounds, the IDRs should encompass a thorough examination of sources of macroeconomic imbalances in the Member States under review, taking due account of country-specific economic conditions and of a wide set of analytical tools, the most up-to-date quantitative and qualitative information of country-specific nature, so that the driving forces behind the observed developments are examined in detail and consistently; CALLS ON the Commission to pay special attention to possible spillover effects linked to the economic policies and imbalances in Member States under review; INVITES the Member States and the Commission to cooperate and to provide and exchange all relevant and most recent information. CONSIDERS that it should be contemplated whether in some Member States new challenges have emerged or whether in some Member States there has been sufficient progress and imbalances have been corrected.
5. While programme countries are not assessed in the MIP, as they are subject to specific enhanced surveillance, UNDERLINES the need for sustaining, as part of their adjustment programmes, the good progress achieved so far with reforms aimed at correcting their significant imbalances. Taking into account the successful completion of the Irish economic adjustment programme, CONSIDERS that Ireland should now be fully integrated in the European Semester framework, including the MIP, and INVITES the Commission to consider preparing also an in-depth review for Ireland. In addition, CONSIDERS that this same procedure should be followed for other programme countries once they successfully complete their economic adjustment programmes.

6. TAKES NOTE of the technical changes made by the Commission to the indicators included in the Scoreboard and in the auxiliary indicators; CONSIDERS that the current set of macroeconomic scoreboard indicators covers the most relevant dimensions of macroeconomic imbalances and competitiveness developments. UNDERLINES the need for continuing the technical work with a view to further improve and develop the appropriateness of the scoreboard as well as analytical tools and frameworks for assessing developments and drivers behind the building up and unwinding of imbalances, and supporting transparency of the MIP. NOTES that, in accordance with Regulation 1176/2011 on the MIP, the Commission will more generally review and report on the application of the MIP by December 2014. INVITES the Commission to involve, in a comprehensive and timely manner, the Economic Policy Committee in this review process.
7. TAKES NOTE of the Commission's decision to include auxiliary social indicators in the AMR and to provide an analysis of employment and social aspects in the IDRs. UNDERLINES that the use of auxiliary social indicators will have the sole purpose of allowing a broader understanding of social developments, should carefully preserve the nature of the procedure, while maintaining transparency and consistency among all existing indicators; to ensure this, further technical discussions with Member States, aimed at examining the set of auxiliary social indicators and their use are needed. Also TAKES NOTE of the December European Council Conclusions that further measures to enhance the social dimension in the Euro area is voluntary for those outside the single currency and will be fully compatible with the Single Market in all aspects.
8. Finally, INVITES Member States to address in an ambitious and concrete manner in their upcoming NRPs and SCPs the issues identified in the framework of the MIP.