Council of the
European Union

Brussels, 14 July 2023
(OR. en)

11509/23

ECOFIN 742
UEM 227
SOC 524
EMPL 371

OUTCOME OF PROCEEDINGS

From:	General Secretariat of the Council
To:	Delegations
No. prev. doc.:	11404/23
Subject:	2023 in-depth reviews under the Macroeconomic Imbalance Procedure – Council conclusions on 14 July 2023

Delegations will find attached the Council conclusions on the 2023 in-depth reviews under the Macroeconomic Imbalance Procedure, approved by the Council at its 3964th meeting held on 14 July 2023.

COUNCIL CONCLUSIONS ON THE 2023 IN-DEPTH REVIEWS UNDER THE MACROECONOMIC IMBALANCE PROCEDURE

THE COUNCIL OF THE EUROPEAN UNION:

1. RECALLS that the EU economy continues to show resilience despite a challenging environment marked by Russia’s unprovoked invasion of Ukraine, with high energy prices and inflation affecting purchasing power of households and competitiveness by rising protectionism and geopolitical competition. ACKNOWLEDGES the robust post-pandemic recovery, benefitting from swift policy actions at EU and national level and the key role of EU polices in supporting solid investment performance and progress in structural reforms across a wide range of policy areas.

2. STRESSES that the full, timely and effective implementation of the Recovery and Resilience Facility via the reforms and investments scheduled in the national recovery and resilience plans, enabling the deployment of available funding is crucial. This would support the economic expansion, increase the resilience, inclusiveness and sustainability of the EU economies, and reduce macroeconomic vulnerabilities.

3. UNDERLINES the importance of the continued close EU economic policy coordination, and of detecting, preventing and correcting macroeconomic imbalances that hinder the proper functioning of Member State economies, the Economic and Monetary Union or the European Union economy as a whole. WELCOMES the publication of the 2023 in-depth reviews in the context of the Macroeconomic Imbalance Procedure.

4. ACKNOWLEDGES that economic developments are generally favourable in most Member States under in-depth review, but that significant challenges remain for several Member States. RECOGNISES that cost competitiveness could be undermined in Member States with high inflation if divergent inflationary dynamics were to become persistent. NOTES that long-standing imbalances related to high public, private and external debts have resumed their downward trends, in a context of high nominal growth. NOTES that tightening of financing conditions increases risks and that continued efforts are needed to ensure a sustainable downward trend of debt levels. TAKES NOTE that external positions have typically been weakened by a shock in energy import prices, with domestic demand buoyancy contributing further in some cases. NOTES that the current account balances are expected to strengthen in 2023, due to reductions in energy costs.

5. RECOGNISES that house prices grew strongly in several Member States in 2022; tighter financing conditions together with falls in real household incomes have dampened housing demand and started a correction in house prices. AGREES that the banking sector weathered the pandemic well and that non-performing loans have kept on falling, but NOTES that sustained vigilance is needed to ensure continued macro-financial stability.

6. CALLS for vigilance and timely policy action, as necessary, to prevent the deterioration and emergence of macroeconomic imbalances related to high inflation differentials. UNDERLINES the urgency to address the structural challenges related to the ageing population and climate change, to reinforce the energy security of the EU, to strengthen the resilience of supply chains, to address low productivity growth, to promote labour market participation, to reduce existing macroeconomic imbalances and to prevent the emergence of new imbalances.

7. AGREES with the Commission analysis in the 2023 in-depth reviews that imbalances in Cyprus are no longer excessive. ACKNOWLEDGES that public, private and external debts have declined over time and over the last two years in Cyprus and are on a downward path. AGREES that Hungary is now experiencing imbalances related to very strong price pressures, and external and government financing needs, requiring urgent policy action. A timely disbursement of the RRF and other EU funds, following the completion of the agreed milestones and targets linked to investments and reforms, would help to reduce the risks of a deterioration of imbalances. TAKES NOTE that the Commission kept most classifications unchanged. AGREES that Greece and Italy continue to experience excessive imbalances, albeit their vulnerabilities appear to be receding, including due to policy progress. AGREES that Germany, Spain, France, the Netherlands, Portugal, Romania, and Sweden continue to experience imbalances, although for some Member States, these imbalances are receding. ACKNOWLEDGES that Germany, Spain, France and Portugal could be de-escalated next year if the current positive trends continue. AGREES that in Romania risks are tilted on the downside, requiring urgent policy action. ACKNOWLEDGES that the 2023 in-depth reviews concluded that Czechia, Estonia, Latvia, Lithuania, Luxembourg and Slovakia are not experiencing imbalances as vulnerabilities appear to be contained.

8. CONSIDERS that the 2023 in-depth reviews present a high quality and comprehensive analysis of the situation in each Member State under review. WELCOMES the early multilateral thematic notes on inflation differentials, house prices and external sustainability ahead of the country-specific assessment. NOTES that the Commission has applied relevant analytical tools, complemented by substantive qualitative analysis, in view of the specific challenges of each economy. WELCOMES the increased importance of forward-looking analysis and the assessment of relevant policies. UNDERLINES the continued high relevance of the assessment of cross-country spillover effects.

9. UNDERLINES that the Macroeconomic Imbalance Procedure is a central procedure within the European Semester. STRESSES the importance of the Macroeconomic Imbalance Procedure in the ongoing Economic Governance Review. CALLS for continued implementation of the Macroeconomic Imbalance Procedure, including the close monitoring of existing and possible emerging new imbalances, using a forward-looking approach, and of policy progress and needs. ACKNOWLEDGES that the analysis in the Macroeconomic Imbalance Procedure should be developed to enhance the euro area dimension of the procedure. STRESSES the importance of timely regular comprehensive multilateral reviews of macroeconomic imbalances and the need to further incorporate sensitivity analyses to consider the ever fast-changing, unpredictable and challenging global environment.

10. UNDERLINES the urgent need to resume the traditional European Semester calendar, in particular the publication of in-depth reviews in the first quarter of the year. This is indispensable to ensure a substantial policy dialogue and multilateral discussions on the identified policy challenges. STRESSES that enhancing visibility of the Procedure and clear communication of the outcome are key.

11. REITERATES that the Macroeconomic Imbalance Procedure should be used to its full potential, including the activation of the Excessive Imbalance Procedure, where appropriate, and that ownership, predictability, transparency, equal treatment and enforcement should be enhanced. NOTES that under the present circumstances, the Commission has not deemed appropriate to launch the Excessive Imbalance Procedure. MAINTAINS 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 explain clearly and publicly its reasons. In the context of ensuring national ownership and proper levels of multilateral surveillance, STRESSES the need for allocating the necessary amount of time for the early preparation of relevant documents and for the required policy dialogue in the frame of the European Semester. CALLS for continued policy action for reducing imbalances and for addressing vulnerabilities. STRESSES the importance of a strong and clear link between the identified macroeconomic imbalances and the country-specific recommendations.