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To:	Delegations
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Subject:	Alert Mechanism Report 2022 - Council conclusions on 18 January 2022

Delegations will find attached the Council conclusions on the Alert Mechanism Report 2022, approved by the Council at its 3843rd meeting held on 18 January 2022.

ALERT MECHANISM REPORT 2022

– ECOFIN Council Conclusions –

The Council (ECOFIN):

1. RECOGNISES that the EU economy is recovering from the recession after the outbreak of the COVID-19 in early 2020, though the economic outlook remains highly uncertain in the context of the recent sharp increase in infection rates. NOTES that the economic reopening has brought a marked increase in demand but activity is currently constrained by supply bottlenecks. ACKNOWLEDGES that the pandemic aggravated macroeconomic risks and exacerbated divergences in the economic performance and increased inequalities, both within and across EU and euro area countries.

2. UNDERLINES the importance of the continued implementation of the Macroeconomic Imbalance Procedure and WELCOMES the Alert Mechanism Report 2022, which initiates its eleventh annual round. EMPHASISES the importance of 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.

3. 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. NOTES that the sharp recession in 2020 interrupted the correction of macroeconomic imbalances related to high private, government and external debts. In addition, the large-scale public and private borrowing undertaken to preserve jobs and the production capacity, cushioning families and firms from the impact of the pandemic, added further to government and private sector debts. Recently, debt ratios have been stabilising or have started declining in most EU countries after increasing markedly last year, benefitting from the marked economic recovery, together with accumulated higher savings of households and corporates during the pandemic. ACKNOWLEDGES that a deterioration in public and private asset quality may affect the balance sheets of financial institutions, whose profitability remains low in most Member States.

4. RECOGNISES that the pandemic has temporarily affected external accounts but has not fundamentally changed current account patterns. TAKES NOTE that the euro area current account declined temporarily in 2020 but is growing strongly and is returning to its previous level in 2021. ACKNOWLEDGES that large current account surplus persists for the euro area as a whole, which suggests there is space to sustain demand. NOTES that current account surpluses remain large in some Member States and that external accounts have deteriorated temporarily in Member States where cross-border tourism is more significant, with signs of corrections emerging, including in some Member States with large negative net international investment positions.

5. TAKES NOTE of the fact that housing markets have gained further dynamism over this crisis and that the risks of house price overvaluation are rising, increasing concerns in particular in the Member States where household debt is high. NOTES that cost competitiveness pressures may be picking up strongly with the recovery, amid some labour shortages and the current spike in energy prices, especially in the Member States less affected by the crisis.

6. WELCOMES the high-quality analysis in the Alert Mechanism Report and APPRECIATES that the Commission continues using analytical frameworks developed in consultation with Member States. WELCOMES that the report continues to include a forward-looking assessment of the potential implications of the crisis for macroeconomic stability and the evolution of existing macroeconomic imbalances. This is particularly relevant given the significant uncertainty around the full impact of the COVID-19 crisis. RECALLS the still substantial uncertainty about the evolution of the economies and UNDERLINES the need for prudence in drawing conclusions on imbalances based on forecast data.

7. TAKES NOTE of the Commission's intention to conduct in-depth reviews for 12 Member States that the Council considered to be experiencing imbalances or excessive imbalances in the 2021 exercise. NOTES that the 2022 in-depth reviews will assess how those imbalances have developed, analysing their gravity and evolution, and the policy response delivered by Member States, in order to update existing evaluations and assessing possible remaining policy needs. AGREES on the need for close monitoring of risks in some further Member States for which in-depth reviews are not deemed warranted at this stage, notably in relation to strong house price growth, in some cases combined with increasing private debt, cost competitiveness divergences, and the interplay between government and external balances.

8. UNDERLINES that preventing and correcting macroeconomic imbalances remains essential. RECALLS that preventing and correcting macroeconomic imbalances enhances Member States' ability to respond to shocks and supports economic convergence and that the reduction of imbalances yields positive spillovers across the euro area and EU countries.

9. AGREES that the Recovery and Resilience Facility provides an opportunity for the EU to support recovery and to emerge strong and resilient from the crisis. ACKNOWLEDGES that the timely, full and effective implementation of recovery and resilience plans can support a reduction in imbalances and mitigate macroeconomic risks. CALLS for ensuring appropriate policy responses to address imbalances and to raise productivity and growth potential as well as competitiveness of the EU economy.

10. RECALLS that the Council will discuss the legislation governing the Macroeconomic Imbalance Procedure as part of the review of the EU economic governance framework.