Council of the European Union

Brussels, 30 June 2022
(OR. en)

10647/22

ECOFIN 669
UEM 185
SOC 400
EMPL 271

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Draft Council conclusions on the 2022 in-depth reviews under the Macroeconomic Imbalance Procedure

Delegations will find attached the draft Council conclusions on the 2022 in-depth reviews under the Macroeconomic Imbalance Procedure, as endorsed by the EFC on 29-30 June 2022.

Draft Council conclusions on the 2022 in-depth reviews under the Macroeconomic Imbalance Procedure

The Council (ECOFIN):

1. RECALLS that the EU economy is recovering from the COVID-19 crisis, while uncertainties remain high and rising, in particular due to the surging energy and commodity prices and other impacts from the Russian war of aggression against Ukraine. STRESSES that the full and timely implementation of the Recovery and Resilience Facility via the reforms and investments scheduled in the national recovery and resilience plans is crucial, and would increase the resilience of the EU economies, enhance potential growth and reduce macroeconomic vulnerabilities.

2. UNDERLINES the importance of the continued close EU economic policy coordination, including 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 2022 in-depth reviews in the context of the Macroeconomic Imbalance Procedure.

3. ACKNOWLEDGES that with the recovery during 2021, macroeconomic imbalances overall started to recede again, after a setback due to the COVID-19 crisis, yet in an environment of high uncertainty. NOTES that public debt-to-GDP ratios remain elevated and largely above their pre-COVID-19 levels (despite some reduction), mostly due to the impact of the pandemic-induced recession and due to the necessary public support to cushion the impact of the shock and to sustain the economy. TAKES NOTE of the heterogeneity of private debt developments across Member States. Despite private debt falling in 2021 in most Member States, it remains high and above pre-COVID-19 levels in many cases. UNDERLINES that rising prices put pressure on real incomes, which together with tighter financing conditions and exchange rate volatility may weigh on debt servicing by corporations, households and governments, which should be more rigorously monitored going forward.

4. RECOGNISES that external positions are improving again. Current account deficits of some net-debtor countries with significant cross-border tourism sectors narrowed somewhat, but still exceed their pre-COVID-19 levels. NOTES that large current account surpluses in some Member States persist despite some temporary reduction during the pandemic, potentially with cross-border relevance. Most of the large negative net international investment positions started to improve in 2021. ACKNOWLEDGES that higher energy and commodities import prices are likely to affect the current account balances. UNDERLINES the need to closely monitor wage growth and inflation developments that may raise competitiveness concerns, including within the euro area.

5. TAKES NOTE of the strong growth of house prices in many Member States, with buoyant demand meeting constrained supply. RECOGNISES that households and banks may display increased vulnerability to downward corrections of house prices, in particular in Member States combining strong signals of house price overvaluation with high and rising household indebtedness.

6. ACKNOWLEDGES the resilience of the banking sector during the pandemic and its aftermath, benefitting from past reforms. RECOGNISES that sovereign bond volatility may constitute a potential short-term vulnerability, requiring close monitoring. NOTES that Member States with high legacy non-performing loans continued to reduce them, sometimes substantially.

7. CALLS for vigilance and timely policy action, as necessary, as regards soaring inflation rates, mainly driven by the sharp increase of energy and food prices, supply disruptions as well as strong demand, to protect the most vulnerable groups in a targeted and temporary way, and to prevent the deterioration and emergence of macroeconomic imbalances. UNDERLINES the urgency to address the ongoing challenges related to the digital and green transitions, including reducing the reliance on fossil fuels and shifting fossil fuel imports away from Russia, for strengthening the resilience of the EU economies and reducing current and future macroeconomic imbalances.

8. AGREES with the Commission analysis in the 2022 in-depth reviews that Ireland and Croatia are no longer experiencing imbalances. ACKNOWLEDGES that debt-to-GDP ratios have declined significantly over the years in these Member States and continue to display strong downward dynamics. AGREES that Greece, Italy, and Cyprus continue to experience excessive imbalances. AGREES that Germany, Spain, France, the Netherlands, Portugal, Romania, and Sweden continue to experience imbalances.

9. CONSIDERS that the 2022 in-depth reviews present a high quality and comprehensive analysis of the country situation in each Member State under review. 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 in the context of the current high uncertainties and the assessment of relevant policies. UNDERLINES the continued high relevance of the assessment of cross-country spillover effects.

10. UNDERLINES that the Macroeconomic Imbalance Procedure is a central procedure within the European Semester. CALLS for continued implementation of the Macroeconomic Imbalance Procedure, including the close monitoring of existing and possible emerging new imbalances, distinguishing between cyclical and structural factors, and of policy progress and needs. STRESSES the importance of timely regular comprehensive multilateral reviews of macroeconomic imbalances and the need to further incorporate sensitivity analyses to consider the fast-changing and unpredictable global environment. Without prejudice to the outcome of the economic governance review, UNDERLINES the need to resume the traditional European Semester calendar, including early publication of in-depth reviews.

11. REITERATES that the Macroeconomic Imbalance Procedure should be used to its full potential and in a transparent and consistent way, ensuring Member States' ownership of the procedure, including the activation of the Excessive Imbalance Procedure where appropriate. 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. RECALLS that the Council will discuss the Macroeconomic Imbalance Procedure as part of the review of the economic governance.