

Economic governance: prevention and correction of macroeconomic imbalances. 'Six pack'

2010/0281(COD) - 07/10/2010 - Legislative proposal

PURPOSE: to provide a framework for identifying and addressing macroeconomic imbalances in the European Union.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: in the years preceding the crisis, low financing costs fuelled misallocation of resources, often to less productive uses, feeding unsustainable levels of consumption, housing bubbles and accumulation of external and internal debt in some Member States.

The emergence of large macroeconomic imbalances, including wide and persistent divergences in competitiveness trends, proved highly damaging to the European Union, and in particular to the euro, when the crisis struck. **It is therefore important to develop a new structured procedure for prevention and correction of adverse macroeconomic imbalances in every Member State.**

In its Communication and report on «[EMU@10: successes and challenges after 10 years of Economic and Monetary Union](#)» the Commission stressed, in particular, the need to broaden economic surveillance in order to detect and address macroeconomic imbalances at an early stage. The [Europe 2020](#) strategy calls for the development of a specific policy framework for the euro area to tackle broader macroeconomic imbalances.

Overall, the Task Force on economic governance, chaired by the President of the European Council, agreed that macroeconomic surveillance should function alongside the budget surveillance under the Stability and Growth Pact.

This proposal is part of **legislative package** comprising six texts which seeks to strengthen the pact by improving its provisions in the light of experience, not least of the crisis:

- 1) A [Regulation](#) amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97);
- 2) A [Regulation](#) amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97);
- 3) A [Regulation](#) on the effective enforcement of budgetary surveillance in the euro area;
- 4) A [new Council Directive](#) on requirements for the budgetary framework of the Member States;
- 5) A **new Regulation** on the prevention and correction of macroeconomic imbalances;
- 6) A [Regulation](#) on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASE: Article 121 (6) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the mechanism for the prevention and correction of macroeconomic imbalances is made up of two draft proposals for regulations. This first proposal sketches out the **excessive imbalance procedure** (EIP), while the [second proposal](#) focuses on the associated enforcement measures.

The EIP is a completely new element of the economic surveillance process. It comprises a regular assessment of risks of imbalances, including an alert mechanism, coupled with rules designed to allow corrective action in case of adverse macroeconomic imbalances extending beyond fiscal policy. The EIP applies to every Member State.

The proposal provides for **a regular assessment of risks of imbalances, based on a scoreboard using economic indicators**.

The Commission may launch in-depth reviews for Member States at risk that will identify the underlying problems. For Member States with severe imbalances or imbalances that put at risk the functioning of EMU, the Council may adopt recommendations and open an "excessive imbalance procedure (EIP)".

Following the opening of an EIP, the Member State concerned will be under an obligation to adopt **a corrective action plan within a specific timeframe**, to set out a roadmap of implementing policy measures.

Within two months after submission of a corrective action plan and on the basis of a Commission report, the Council shall assess the corrective action plan. If considered sufficient, on the basis of a Commission proposal, the Council shall adopt an opinion, endorsing it.

If the actions taken or envisaged in the corrective action plan or their timetable for implementation are considered insufficient to implement the recommendations, the Council shall, on the basis of a Commission proposal, invite the Member State to amend its corrective action plan within a new deadline.

The Member State concerned will be required to provide regular reports and will be monitored until the closure of the EIP. If the Member State has not taken the appropriate action, the EIP will be continued. The Council will have to adopt revised recommendations along with a new deadline by which to complete its corrective action.

For euro-area Member States, the enforcement mechanism could ultimately lead to **sanctions**.

BUDGETARY IMPLICATION: the proposal has no implication for the EU budget.