

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

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PURPOSE: to strengthen economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the current difficulties on sovereign debt markets (prevention and correction of macroeconomic imbalances).

LEGISLATIVE ACT: Regulation (EU) No 1176/2011 of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances.

CONTENT: on the basis of a compromise reached with the European Parliament, the Council adopted a package of **six legislative proposals** (“six-pack”) aiming to strengthen economic governance in the EU – and more specifically in the euro area.

The measures set out to ensure the degree of coordination necessary to avoid the accumulation of excessive imbalances and to ensure sustainable public finances. This will help the EU's monetary union to function properly in the long term.

They consist of:

- a [regulation](#) amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- a [regulation](#) amending regulation 1467/97 on the EU's excessive deficit procedure;
- a [regulation](#) on the enforcement of budgetary surveillance in the euro area;
- **a regulation on the prevention and correction of macroeconomic imbalances;**
- a [regulation](#) on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a [directive](#) on requirements for the Member States' budgetary frameworks.

The main elements of this Regulation are as follows:

Scope: beyond budgetary surveillance, the legislative package is aimed at **broadening the surveillance of the Member States' economic policies**. It establishes a mechanism for the prevention and correction of excessive macroeconomic imbalances, made up of two regulations which outline an "excessive imbalance procedure" and introduce the possibility of fines being imposed on Member States found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

Detection of imbalances: the starting point of the new framework is an alert mechanism for the early detection of imbalances, which will be assessed using a "scoreboard" of economic indicators. This will be followed by country-specific qualitative expert analysis.

Scoreboard: the scoreboard comprising the set of indicators, shall be used as a tool to facilitate early identification and monitoring of imbalances. It shall comprise a small number of relevant, practical, simple, measurable and available macroeconomic and macrofinancial indicators for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge in the short-term and imbalances that arise due to structural and long-term trends. It shall encompass indicators which are useful in the early identification of:

(a) internal imbalances, including those that can arise from public and private indebtedness; financial and asset market developments, including housing; the evolution of private sector credit flow; and the evolution of unemployment;

(b) external imbalances, including those that can arise from the evolution of current account and net investment positions of Member States; real effective exchange rates; export market shares; changes in price and cost developments; and non-price competitiveness, taking into account the different components of productivity.

The Regulation stipulates that conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. In undertaking its economic reading of the scoreboard in the alert mechanism, the Commission shall pay close attention to developments in the real economy, including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as research and development and foreign and domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance.

The indicators and thresholds should be adjusted when necessary, in order to adapt to the changing nature of macroeconomic imbalances due, inter alia, to evolving threats to macroeconomic stability, and in order to take into account the enhanced availability of relevant statistics.

In-depth review: the Commission shall undertake an in-depth review for each Member State that it considers may be affected by, or may be at risk of being affected by, imbalances. The in-depth review shall build on a detailed analysis of country-specific circumstances, including the different starting positions across Member States; it shall examine a broad range of economic variables and involve the use of analytical tools and qualitative information of country-specific nature. It shall acknowledge the national specificities regarding industrial relations and social dialogue. The Commission shall inform the European Parliament and the Council of the results of the in-depth review and shall make them public.

Preventive action: if, on the basis of its in-depth review, the Commission considers that a Member State is experiencing imbalances, it shall inform the Council and the Euro Group and the European Parliament. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned. The Council shall inform the European Parliament of the recommendation.

Opening of the excessive imbalance procedure: if, on the basis of the in-depth review, the Commission considers that the Member State concerned is affected by excessive imbalances, it shall inform the European Parliament, the Council and the Eurogroup accordingly. Any Member State for which an excessive imbalance procedure is opened shall submit a **corrective action plan** within a certain deadline. If the Council decides that the member state concerned has taken appropriate action, the procedure will be held in abeyance, and can be closed if the Council concludes that the imbalance is no longer considered to be excessive. On the other hand, repeated non-compliance with the recommendations can in the case of euro area Member States eventually lead to **sanctions**.

Economic Dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, **the competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Euro Group to appear before the committee to discuss matters including the results of multilateral surveillance carried out under the Regulation.

The competent committee of the European Parliament may offer the opportunity to participate in an exchange of views to the Member State which is the subject of a Council recommendation or decision.

Review: by 14 December 2014 and every 5 years thereafter, the Commission shall review and report on the application of this Regulation. The report shall evaluate, inter alia: (a) the effectiveness of this Regulation; (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU. Where appropriate, those reports shall be accompanied by a proposal for amendments to this Regulation.

The Commission shall report annually on the application of this Regulation, including the updating of the scoreboard and shall present its findings to the European Parliament and to the Council in the context of the European Semester.

ENTRY INTO FORCE: 13/12/2011.