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

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The Commission presents the results of in-depth reviews (IDRs) under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances to assess whether imbalances and excessive imbalances exist in a number of EU Member States.

The communication also elaborates on:

- the **euro area dimension of macroeconomic imbalances** and how several policy challenges have to be addressed in a euro area-wide context;
- the **fiscal developments**: for the countries concerned, the Commission updates its assessment of November 2013 when it discussed the Draft Budgetary Plans.

Evaluation of imbalances in the Member States: on the basis of the analysis documented in detail in the IDRs, the Commission considers that Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, the Netherlands, Slovenia, Finland, Sweden, and the United Kingdom experience imbalances. Among those Member States, ***Croatia, Italy*** **and** ***Slovenia*** **are experiencing excessive imbalances**.

In the case of **Spain**, the Commission considers that a significant adjustment has taken place over the last year and that on current trends imbalances would continue to abate over time, even though risks are still present.

The Commission considers that policies should be adapted to the challenges of each economy and appropriate monitoring is necessary. In line with the Council Recommendation addressed to the Euro Area, the Commission intends to put in motion a specific monitoring of the policies recommended by the Council to the Member States with excessive imbalances (Croatia, Italy and Slovenia), as well as for countries where imbalances require **decisive policy action** (**Ireland, Spain and France**). In the case of Ireland and Spain this monitoring will rely on post-programme surveillance.

For **Denmark and Malta**, the Commission considers that, compared to the last year, the risks have abated or are better controlled; imbalances in the sense of the MIP are no longer identified in these countries. Moreover, while a number of features of the **Luxembourg** economy, including its large financial sector, require attention, they do not constitute imbalances in the sense of the MIP.

Fiscal developments: the Commission states that the situation has continued to improve both in the EU and the euro area due to continued consolidation efforts. However, the latest forecasts show that for **France and Slovenia, there are risks that the consolidation effort may not be strong enough** to ensure that the correction of excessive deficits remains on track. Thus, the Commission is addressing Recommendations, under Article 11 of the Regulation No 473/2013 to these Member States.

These two Member States are expected to report on actions responding to such Recommendation in a dedicated section of their Stability Programmes.

Overall conclusions: the communication concludes that the IDRs illustrate that **the challenges that the EU economies face have been changing**.

When the Macroeconomic Imbalance Procedure (MIP) was created, and during the previous rounds of its implementation, the main challenges were related to: (i) the unsustainable current account deficits, (ii) losses in competitiveness related to previously very dynamic labour costs, (iii) private debts and (iv) high housing prices.

The main challenges of a cross-country nature now also concern:

- the **impact that deleveraging** in many countries has on medium-term growth;
- the **sustainability of private and public debts** and of the external liabilities in a context of very low inflation;
- the need to ensure an adequate **flow of credit** to viable activities – particularly in the non-tradables sector – in the vulnerable economies under a fragmented financial system;
- and the very high level of **unemployment** in many economies.

The Commission expects that the Member States take the findings of the IDRs and the fiscal forecasts into account in their National Reform Programmes (NRPs) and Stability and Convergence Programmes (SPs and CPs). Member States in excessive imbalances should, in particular, set out a comprehensive and detailed policy response in their forthcoming NRPs and SPs and CPs.