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

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The Commission has presented a **review of the various legislative texts known as the "six-pack" and "two-pack" to strengthen the economic** governance of the European Union. This review analyses to what extent the new rules introduced have been effective in achieving the objectives of ensuring closer coordination of economic policies.

The legislative packages aim to:

- more closely coordinate economic policies through a strengthening of budgetary surveillance under the Stability and Growth Pact;
- introduce a new procedure in the area of macroeconomic imbalances;
- establish a framework for dealing with countries experiencing difficulties with financial stability;
- to proceed with codification in legislation, in the form of the European Semester, of integrated economic and budgetary surveillance.

Taking into account the short experience of their operation, with the six-pack entering into force in end-2011 and the two-pack only in mid-2013, **the Commission considers it difficult to draw conclusions on the effectiveness of the regulations.**

In the Macroeconomic Imbalance Procedure (MIP) (see also Regulation (EU) No 1174/2011), the surveillance of economic policies of the Member States was broadened beyond budgetary issues, including to external imbalances, competitiveness, asset prices, and internal and external debt.

The following main tools were introduced:

- **the Alert Mechanism Report**: it aims to identify the Member States for which a detailed scrutiny (an in-depth review) is necessary before concluding whether imbalances or excessive imbalances exist;
- **the In Depth Reviews (IDRs):** they identify policy challenges and policy options with the aim of preparing policy recommendations, and contributing to dialogue with the EU institutions and with the relevant Member States.

In the preventive arm of the procedure, should an imbalance be identified, policy recommendations can be adopted, as part of the country-specific recommendations which the Commission puts forward at the end of the European Semester. An excessive imbalance procedure (the corrective arm of the MIP) may be launched for the Member States experiencing excessive imbalances.

Under the corrective arm, the Member States concerned are requested to prepare corrective action plans, the implementation of which is regularly monitored. Financial sanctions may be imposed on the euro area Member States if their corrective action plans are not appropriate given the challenges.

Employment and social indicators are being introduced into the macroeconomic imbalances procedure to gain better understanding of the labour market and social developments and risks.

Assessment: the main conclusions of the review are the following:

1) The scoreboard has been useful as an instrument of communication and accountability when justifying why a detailed scrutiny of macroeconomic risks is, or is not, necessary for a given Member State.If the design of the scoreboard remains relativelystable, **regular assessments of the scoreboard variables** continue to be necessary in order totake into account not only developments in the economy and related risks, but also statisticalprogress.

2) The in-depth reviews have proven to be a core part of the MIP. During the first three annual rounds, the Commission has published 42 IDRs (2012: 12 Member States; 2013: 14 Member States; 2014: 17 Member States), for a total of 18 Member States.

If the MIP has contributed to a shared understanding among Member States of their specific and common policy challenges, the Commission has underlined the **need to improve the implementation of the relevant policy recommendations**, and find the tools that improve the incentives for Member States to adopt and implement the necessary policies.

3) The Excessive Imbalance Procedure has not yet been implemented so far. In 2013 and 2014, the Commission has identified excessive imbalances on five occasions, but did not submit a proposal for their formal establishment by the Council so the procedure was not triggered.

In both years, the Commission was of the view that the policies outlined by the relevant governments (Spain and Slovenia in 2013, and Italy, Croatia and Slovenia in 2014) in their national reform programmes and stability (or convergence) programmes were appropriate to the respective challenges identified in the IDRs.

In each of these cases, **the Commission used the inherent flexibility in the Procedure framework** to put in motion a specific and close monitoring of policy implementation, also contributing to peer pressure.

In conclusion, if the review has revealed some strengths, it also shows possible areas for improvement, concerning **transparency and complexity of policy making**, and their impact on growth, imbalances and convergence.

According to the Commission, a proper involvement of **national Parliaments** remains crucial in ensuring the legitimacy of Member States' action. At EU level, **the European Parliament** has a key role to play, notably through “economic dialogues”, which have ensured that institutional actors have been regularly held to account on the main issues related to economic governance.

The Commission plans to discuss these points with the European Parliament and the Council in the coming months.