

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

2010/0281(COD) - 26/11/2015 - Follow-up document

The Commission presents the 2016 Alert Mechanism Report, which initiates the fifth annual round of the [Macroeconomic Imbalance Procedure](#) (MIP). The procedure aims to **identify imbalances** that hinder the smooth functioning of Member State economies, of the euro area, or of the EU as a whole, and to spur the right policy responses.

The AMR uses a scoreboard of selected indicators, plus a wider set of auxiliary indicators, to screen Member States for potential economic imbalances in need of policy action. This year, three employment indicators, namely **the activity rate, long-term and youth unemployment, are added to the main scoreboard.**

The Commission analyses Member States identified by the AMR in an In-Depth Review (IDR) to be published in February 2016. The latter will assess how macroeconomic risks are accumulating or winding down, and to conclude whether imbalances, or excessive imbalances exist. Following established practice, for Member States for which imbalances were identified in the previous round of IDRs, a new IDR will in any case be prepared.

Taking into account discussions with the Parliament, and within the Council and the Eurogroup, the Commission will prepare IDRs for the relevant Member States and the findings will feed into the country-specific recommendations under the European Semester of economic policy coordination.

As compared with previous issues of the Alert Mechanism Report, a **greater emphasis is put on euro-area considerations.**

The horizontal analysis presented in the AMR leads to a number of conclusions:

- the ongoing moderate recovery in the euro area is projected to continue but it remains **fragile and subject to increased external risks**. Over the past few months, global trade has considerably slowed down and downside risks, in particular in relation to emerging markets' prospects, have increased. Growth has become more reliant on domestic demand sources, in particular a more pronounced recovery in investment. In the euro area, real GDP growth rates correspond to 0.9%, 1.6% and 1.8% in 2014, 2015 and 2016, respectively;
- EU Member States continue to progress in correcting their imbalances. In countries with high external liabilities, the large and unsustainable current account deficits of the pre-crisis period have been considerably attenuated and external positions balanced or in surplus would need to be sustained in order to significantly reduce the vulnerabilities. Furthermore, in most countries, the process of **balance-sheet repair** is progressing in the different sectors of the economy;
- vulnerabilities associated with **elevated levels of indebtedness remain a source of concern**. In several Member States, the stock of liabilities, private and public, external and internal, remain at historically high levels. They represent not only vulnerabilities for growth, jobs and financial stability in the EU, but the associated deleveraging pressures related to their necessary unwinding also weigh on the recovery;
- surpluses in some Member States remain large over the forecast horizon (2015-2017). At the aggregate level, **the euro area is posting a current account surplus which is one of the world's largest**. It is expected to amount to approximately EUR 390bn, or 3.7% of GDP. While weaker commodity prices and the depreciation of the euro exchange rate have contributed to boosting the

trade balance, the surplus largely **reflects an excess of domestic savings over investment** at the area level;

- after years of markedly divergent patterns, labour market conditions are converging but **social distress remains at unacceptable levels** in a number of countries, notably those concerned by the unwinding of macroeconomic imbalances and debt crises. As identified in the AGS, a **coordinated approach to macroeconomic policies** is warranted to tackle imbalances while supporting the recovery. Policy action and effective reform, in particular in the field of **competitiveness and also insolvency**, must especially be stepped up in countries whose capacity to grow is constrained by elevated deleveraging pressures or structural growth bottlenecks. In parallel, domestic demand and investment needs to be boosted particularly in countries with fiscal space, a large current account surplus or low deleveraging pressures. In light of the interconnection between Member States, this combination of policies would contribute to put the rebalancing process on a more stable footing by making it more symmetric, while making the recovery more self-sustainable.

Based on the economic reading of the MIP scoreboard, the Commission finds that **IDRs are warranted for the following Member States:**

- for most countries, IDRs are needed because imbalances were identified in the previous round of IDRs. Following established practice, a new IDR is needed to assess whether existing excessive imbalances or imbalances are unwinding, persisting or aggravating, while paying due attention to the contribution of the policies implemented by these Member States to overcome imbalances. The Member States concerned are **Belgium, Bulgaria, Germany, France, Croatia, Italy, Hungary, Ireland, the Netherlands, Portugal, Romania, Spain, Slovenia, Finland, Sweden and the United Kingdom.**
- IDRs will be prepared for the first time also for **Estonia and Austria**. In the case of Estonia, the IDR will assess the risks and vulnerabilities linked to a renewed build-up of demand pressures. In the case of Austria, issues related to the financial sector, notably its high exposure to developments abroad and the impact on credit provided to the private sector will be analysed.
- For **Greece and Cyprus**, the surveillance of their imbalances and monitoring of corrective measures take place in the context of their assistance programmes. As was the case in the previous cycles for Member States expected to exit their financial assistance programme, the situation of Cyprus will be assessed in the context of the MIP only after the on-going financial assistance programme, which is expected to finish by March 2016.

For the other Member States, the Commission will not at this stage carry out further analyses in the context of the MIP. The Commission is of the view that **for the Czech Republic, Denmark, Latvia, Lithuania, Luxembourg, Malta, Poland and Slovakia, an In-Depth Review is not needed at this stage and that further MIP surveillance is not warranted.** However, careful surveillance and policy coordination are necessary on a continuous basis for all Member States to identify emerging risks and put forward the policies that contribute to growth and jobs.