

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

2010/0281(COD) - 16/11/2016 - Follow-up document

The Commission presented its 2017 report on the Alert Mechanism in accordance with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

The Alert Mechanism Report (AMR) is the starting point for the annual cycle of the macroeconomic imbalance procedure. It aims to **identify at an early stage excessive macroeconomic imbalances** in the European Union (EU). It is based on an economic reading of a scoreboard of indicators.

This report launches the **sixth annual cycle** of the macroeconomic imbalance procedure (MIP). The aim of this procedure is to identify and address the imbalances that impede the smooth functioning of the economies of the EU countries and the EU economy as a whole and that may jeopardize the functioning of the EU's economic and monetary union.

The AMR is published at the beginning of each "European Semester" of economic policy coordination, together with the annual growth review. It identifies those EU countries that are likely to be affected by imbalances that require action and should be subject to **in-depth reviews (IDRs)**.

The **main findings** of this sixth report are as follows:

- **significant progress** has been made in countries with external deficits or external indebtedness with regard to the correction of external imbalances. However, large current account surpluses remain in some net creditor countries;
- a number of countries continue to be vulnerable due to the high level of their private debt, which is often accompanied by a large stock of public debt. Private debt deleveraging continues, but at a slow and uneven pace, hampered by low nominal growth;
- although banks have generally improved their capital ratios and become more resilient to shocks, **the banking sector is still struggling** because of its declining profitability and a legacy of bad debts that reduce its lending capacity;
- **house prices have rebounded** in most countries, with a backdrop of likely overvaluation of assets and an increase in net credit to households, a situation that should be monitored closely;
- since mid-2013, **labour markets** have been improving but unemployment remains very high in several Member States and social distress remains a reality, particularly in the countries hardest hit by the financial crisis and the debt crisis;
- **euro area rebalancing issues** require careful consideration: in 2015, the euro area current account surplus increased further to 3.3% of GDP ; it is expected to reach 3.7% of GDP in 2016, with aggregate demand increasing more slowly than production.

Overall, the alert mechanism report calls for the preparation of **IDRs for 13 Member States** - Bulgaria, Cyprus, Croatia, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden – compared to 19 during the previous cycle. Of the countries not subjected to IDRs in the previous cycle, **none will be subjected to an IDR in 2017**.

On the basis of the economic reading of the MIP scoreboard, the Commission concludes that:

- countries that exited MIP surveillance in 2016 (Belgium, Hungary, Romania and the United Kingdom) do not signal major additional risks compared with last year to require analysis in an IDR in 2017;
- the sustained dynamics of house prices (Denmark and Luxembourg) and labour costs (Estonia, Latvia and Lithuania) need to be closely monitored but do not warrant an IDR;
- in the case of Greece, monitoring of imbalances and the follow-up of corrective measures continues under the financial assistance programme.

More detailed analyses will be carried out, as part of the in-depth reviews, for the Member States designated by the AMR. In order to carry out these assessments, the Commission will rely on a wide range of data and information. On the basis of the in-depth reviews, it will determine whether or not there are imbalances and whether any imbalances are excessive. It will then prepare the country recommendations that are issued in the framework of the European Semester.