

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

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The Commission presented its report on the 2018 alert mechanism, in accordance with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

The **alert mechanism report** (AMR) is a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. In particular, it is based on an economic reading of a scoreboard of indicators with indicative thresholds, alongside a set of auxiliary indicators.

This report initiates the seventh annual round of the macroeconomic imbalance procedure (MIP). The report identifies Member States for which in-depth reviews (IDRs) should be undertaken to assess whether they are affected by imbalances in need of policy action.

The assessment in this report is set against the backdrop of an **economic recovery** that is becoming broader and more robust. The European Commission services' autumn 2017 economic forecast estimates real GDP growth in the EU and the euro area to be 2.3% and 2.2% in 2017 respectively with positive growth in all EU countries.

While the recovery is facilitating the correction of macroeconomic imbalances, a number of challenges may cloud the economic backdrop going forward. Reform activity has slowed recently compared with crisis and immediate post-crisis years.

Uncertainties for the economic and policy outlook persist, mainly linked to the prospects for US fiscal and monetary policy, the rebalancing in China and emerging economies with high corporate debt, geopolitical tensions, and growing protectionist sentiments.

The main conclusions of the report are as follows:

- progress in terms of **external rebalancing** is limited, with large surpluses remaining persistent and competitiveness developments becoming less supportive of rebalancing;
- the **reduction of private and government debt** is ongoing, increasingly as a result of resuming nominal growth, but remains uneven. Corporate deleveraging is often associated with subdued investment, and uncertainty remains on the extent to which deleveraging could rely on stronger potential growth looking forward;
- profitability in the **banking sector** is improving, but some challenges remain;
- in a few countries, tight labour markets are associated with an accelerated pace of **unit labour cost growth**;
- lastly, **Euro-area rebalancing** continues to deserve careful consideration. The euro-area current account surplus has stopped growing: it peaked at 3.3% of GDP in 2016 and is forecast to edge down to 3% this year and to remain around that level by 2019.

The AMR calls for the preparation of **IDRs for the 12 Member States** identified with imbalances in light of the findings of the 2016 IDRs. The countries concerned are **Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden**.

On the basis of the economic reading of the scoreboard, the Commission concludes as follows:

- there are no major overall additional risks compared to last year for **Finland**, which exited MIP surveillance in 2017. A similar conclusion is found at this stage for the countries that exited MIP surveillance in 2016 (Belgium, Hungary, Romania and the United Kingdom) and for countries not recently examined in IDRs;
- recent house prices dynamics in a number of countries (**Austria, Belgium, Denmark, Finland, Hungary, Luxembourg and United Kingdom**) warrant close analysis in the respective country reports even if no IDR seems necessary at this stage as risks seem limited in scope. The same holds for incipient dynamics in labour costs in some Member States (**Estonia, Hungary, Latvia, Lithuania and Romania**);
- in the case of **Greece**, the surveillance of imbalances and the monitoring of corrective measures continue to take place in the context of the stability support programme.

More comprehensive analyses shall be carried out as part of the in-depth reviews for the Member States designated by the IDRs. To carry out these reviews, the Commission shall draw on a wide range of data and information. On the basis of the in-depth reviews, it shall determine whether or not there are imbalances or excessive imbalances and subsequently prepare the policy recommendations for each Member State in the context of the European Semester.