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

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In accordance with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, the Commission presented its report on the 2018 alert mechanism. The alert mechanism report (AMR) is a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. The procedure aims to identify imbalances that hinder the smooth functioning of Member State economies and to spur appropriate policy responses. The report initiates **the eighth 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. It also includes an analysis of the euro-area wide implications of Member States' imbalances and examines the extent to which a coordinated approach to policy responses is needed in light of interdependencies within the euro area.

The AMR assessment is set against the backdrop of economic growth that remains broad-based despite some deceleration. The Commission autumn 2018 economic forecast **estimates real GDP growth to be 2.1% in 2018 and 1.9% in 2019 for both the EU and the euro area**, slightly decelerating as compared with the 2.4% growth recorded in 2017. **Positive growth is expected in all Member States**. The correction of macroeconomic imbalances in the EU is progressing on the back of strengthening nominal GDP growth, but the medium-term horizon is **clouded by heightened uncertainty**. Large current account surpluses persist in certain countries, while developments in competitiveness have become less supportive of rebalancing. Private sector deleveraging has benefited from the economic expansion but remains uneven, with large stocks of debt not correcting with sufficient pace. The level of non-performing loans is still high in some countries. At the same time, a number of countries display signs of possible overheating, mainly linked to fast-growing unit labour costs implying reduced cost competitiveness, and house price growth from already relatively elevated levels.

Main challenges for Member States: overall, **risks remain present in a number of Member States, and in different combinations.**

- A number of Member States are mainly affected by multiple and interconnected stock vulnerabilities. This is typically the case for countries that were hit by boom-bust credit cycles coupled with current account reversals that also had implications for that banking sector and government debt. The report discusses Cyprus, Greece, Croatia, Ireland, Portugal Spain, and Bulgaria.
- In a few Member States, vulnerabilities are mainly linked to large stocks of general government debt coupled with concerns relating to potential output growth and competitiveness. This is particularly the case for Italy, Belgium and France.
- Some Member States are characterised by large and persistent current account surpluses that also reflect, to a varying degree, subdued private consumption and investment, in excess of what economic fundamentals would justify. This is the case notably for Germany and the Netherlands.
- In some Member States, developments in price or cost variables show potential signs of overheating, particularly as regards the housing market or the labour market. In Sweden, and to a smaller extent in Austria, Denmark, Luxembourg, the Netherlands, and the United Kingdom sustained house price growth has been taking place in a context of possible overvaluation gaps and significant levels of household debt, but recent evidence is pointing at house price decelerations.

- In Czech, Estonia, Hungary, Latvia, Lithuania, and Romania, post-crisis unit labour cost (ULC) continue to grow at a relatively strong pace while price competitiveness is edging down.

IDRs will be prepared for 13 Member States already identified with imbalances or excessive imbalances. They are **Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, and Sweden**. IDRs will be prepared also for **Greece,** which is for the first time subject to MIP surveillance, and for **Romania.**

Eleven of these Member States were subject to an IDR in the previous annual cycle of MIP implementation. Following established practice, a new IDR will be prepared to assess if the imbalances identified are aggravating or are under correction, with the view to update existing assessment.