Basic information

2010/0281(COD) COD - Ordinary legislative procedure (ex-codecision procedure) Regulation	Procedure completed
Economic governance: prevention and correction of macroeconomic imbalances. 'Six pack' See also 2010/0278(COD) See also 2010/0279(COD) See also 2010/0276(CNS) See also 2010/0277(NLE) See also 2010/0280(COD) See also 2014/2938(RSP) **Subject** 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	FERREIRA Elisa (S&D)	21/09/2010

Committee for opinion	Rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	
EMPL Employment and Social Affairs	BERÈS Pervenche (S&D)	21/10/2010

Committee for opinion on the legal basis	Rapporteur for opinion	Appointed
JURI Legal Affairs	GERINGER DE OEDENBERG Lidia Joanna (S&D)	04/03/2011

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	3062	2011-01-18
Economic and Financial Affairs ECOFIN	3100	2011-06-20
Economic and Financial Affairs ECOFIN	3088	2011-05-17
Economic and Financial Affairs ECOFIN	3122	2011-11-08
Economic and Financial Affairs ECOFIN	3076	2011-03-15
Economic and Financial Affairs ECOFIN	3067	2011-02-14

European Commission	Commission DG	Commissioner
	Economic and Financial Affairs	REHN Olli

Key events

Date	Event	Reference	Summary
07/10/2010	Legislative proposal published	COM(2010)0527	Summary
21/10/2010	Committee referral announced in Parliament, 1st reading		
18/01/2011	Debate in Council		Summary
14/02/2011	Debate in Council		Summary
19/04/2011	Vote in committee, 1st reading		Summary
06/05/2011	Committee report tabled for plenary, 1st reading	A7-0183/2011	
17/05/2011	Debate in Council		Summary
20/06/2011	Debate in Council		Summary
22/06/2011	Debate in Parliament		
23/06/2011	Decision by Parliament, 1st reading	T7-0287/2011	Summary
23/06/2011	Results of vote in Parliament		
28/09/2011	Decision by Parliament, 1st reading	T7-0424/2011	Summary
28/09/2011	Results of vote in Parliament		
08/11/2011	Act adopted by Council after Parliament's 1st reading		
16/11/2011	Final act signed		
16/11/2011	End of procedure in Parliament		
23/11/2011	Final act published in Official Journal		

Technical information

Procedure reference	2010/0281(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	See also 2010/0278(COD) See also 2010/0279(COD) See also 2010/0276(CNS) See also 2010/0277(NLE) See also 2010/0280(COD) See also 2014/2938(RSP)

Legal basis	Treaty on the Functioning of the European Union TFEU 121-p6
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/04124

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE454.699	12/01/2011	
Amendments tabled in committee		PE458.584	16/02/2011	
Committee opinion	EMPL	PE454.629	23/03/2011	
Specific opinion	JURI	PE462.800	12/04/2011	
Committee report tabled for plenary, 1st reading/single reading		A7-0183/2011	06/05/2011	
Text adopted by Parliament, partial vote at 1st reading /single reading		T7-0287/2011	23/06/2011	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0424/2011	28/09/2011	Summary

Council of the EU

Document type	Reference	Date	Summary
Draft final act	00031/2011/LEX	16/11/2011	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2010)0527	07/10/2010	Summary
Commission response to text adopted in plenary	SP(2011)8584	09/11/2011	
Follow-up document	COM(2012)0068	14/02/2012	Summary
Follow-up document	SWD(2012)0389	14/11/2012	Summary
Follow-up document	COM(2012)0751	28/11/2012	Summary
Follow-up document	SWD(2012)0420	28/11/2012	
Follow-up document	SWD(2012)0421	28/11/2012	
Commission document (COM)	COM(2013)0199	10/04/2013	Summary

Follow-up document	COM(2013)0790	13/11/2013	Summary
Follow-up document	SWD(2013)0790	13/11/2013	
Follow-up document	SWD(2013)0791	13/11/2013	
Commission document (COM)	COM(2014)0150	05/03/2014	Summary
Follow-up document	COM(2014)0904	28/11/2014	Summary
Follow-up document	COM(2014)0905	28/11/2014	Summary
Follow-up document	SWD(2014)0346	28/11/2014	
Follow-up document	COM(2015)0691	26/11/2015	Summary
Commission document (COM)	COM(2016)0728	16/11/2016	Summary
Commission working document (SWD)	SWD(2016)0354	16/11/2016	
Follow-up document	COM(2017)0771	22/11/2017	Summary
Follow-up document	SWD(2017)0661	22/11/2017	
Commission document (COM)	COM(2018)0758	21/11/2018	Summary
Follow-up document	SWD(2018)0466	22/11/2018	
Follow-up document	COM(2019)0651	17/12/2019	Summary
Follow-up document	SWD(2019)0630	18/12/2019	
Commission document (COM)	COM(2020)0055	05/02/2020	
Follow-up document	SWD(2020)0210	06/02/2020	
Follow-up document	COM(2020)0745	18/11/2020	
Follow-up document	SWD(2020)0275	18/11/2020	
Follow-up document	COM(2021)0741	24/11/2021	
	SWD(2021)0361		

Follow-up document		24/11/2021	
Follow-up document	COM(2022)0781	22/11/2022	
Follow-up document	SWD(2022)0381	22/11/2022	
Follow-up document	COM(2023)0902	21/11/2023	
Follow-up document	SWD(2023)0901	21/11/2023	
Follow-up document	SWD(2023)0902	21/11/2023	
Follow-up document	COM(2024)0702	17/12/2024	
Follow-up document	SWD(2024)0700	17/12/2024	
Follow-up document	SWD(2024)0701	17/12/2024	
Follow-up document	SWD(2024)0702	17/12/2024	
Follow-up document	COM(2025)0956	25/11/2025	
Follow-up document	SWD(2025)0900	25/11/2025	
Follow-up document	SWD(2025)0956	25/11/2025	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	PT_PARLIAMENT	COM(2010)0527	14/12/2010	
Contribution	RO_SENATE	COM(2010)0527	14/12/2010	
Contribution	IT_CHAMBER	COM(2010)0527	16/12/2010	
Contribution	IT_SENATE	COM(2010)0527	16/12/2010	
Contribution	CZ_SENATE	COM(2010)0527	28/01/2011	
Contribution	BG_PARLIAMENT	COM(2010)0527	07/04/2011	
Contribution	PT_PARLIAMENT	COM(2012)0068	25/05/2012	
Contribution	PT_PARLIAMENT	COM(2013)0199	09/10/2013	
Contribution	RO_SENATE	COM(2017)0771	04/04/2018	
Contribution	RO_SENATE	COM(2019)0651	22/06/2020	

Contribution	RO_SENATE	COM(2020)0745	22/04/2021	
Contribution	RO_SENATE	COM(2024)0702	19/03/2025	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2011/0013 OJ C 150 20.05.2011, p. 0001	16/02/2011	Summary

Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	
European Commission	EUR-Lex	

Final act

Regulation 2011/1176
OJ L 306 23.11.2011, p. 0025 Summary

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.

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

2010/0281(COD) - 22/11/2017 - Follow-up document

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.

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

2010/0281(COD) - 21/11/2018 - Follow-up document

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.

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

2010/0281(COD) - 14/11/2012 - Follow-up document

The Commission presents a Staff Working Document on completing the scoreboard for the Macroeconomic Imbalance procedure (MIP) through the development of a Financial Sector Indicator. It recalls that in December 2011, the '6-pack' entered into force, including Regulation (EU) No 1176/2011 setting up the MIP1. In February 2012, the first step in the MIP was taken, when the Commission adopted and published the first Alert Mechanism Report (AMR). The AMR of February 2012 was based on a scoreboard established by the Commission in line with Article 4 of Regulation (EU) No 1176 /2011. The scoreboard consisted of ten indicators covering the wide scope of surveillance under the MIP.

Although the first MIP scoreboard captured a number of financial issues (like the private sector credit flow, the private sector debt and the public sector debt) the European Parliament and the Council supported the Commission's intention to add to the scoreboard, in time for the second round of MIP, an additional indicator aimed at better capturing the links between the real economy and the financial sector. Accordingly, the Commission proposes to include in the scoreboard **the growth rate of financial sector liabilities, while retaining the leverage indicator among the set of reading indicators, thus taking into account both in the overall economic reading.** In the technical discussion, this option was supported by a vast majority of Member States' experts. It envisaged complementing this indicator with a debt-to-equity ratio indicator in the second layer of reading indicators: the debt-to-equity ratio indicator shows the relative proportion of shareholders' equity and debt used to finance assets.

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

2010/0281(COD) - 28/11/2012 - Follow-up document

The Commission presents the **2013 Alert Mechanism Report**, prepared in accordance with Articles 3 and 4 of the Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. This is the **second Alert Mechanism Report** that **initiates the Macroeconomic Imbalance Procedure (the MIP) for the 2013 European Semester**.

The Commission recalls that, in December 2011, the "6-pack" entered into force, including Regulations (EU) No 1176/2011 and 1174/2011 setting up the Macroeconomic Imbalance Procedure (the MIP). Surveillance on imbalances under the MIP forms part of the 'European Semester', which takes an integrated and forward-looking approach to macroeconomic surveillance. The MIP was fully implemented for the first time in 2012. On 14 February 2012, the first step in the MIP was taken when the Commission published the first Alert Mechanism Report (*please see the summary of that date*). On 30 May 2012 in-depth reviews for 12 Member States were published and concluded on the existence of macroeconomic imbalances in the 12 Member States reviewed. Appropriate policy responses to the identified imbalances were integrated in the set of country-specific recommendations issued by the Council in July under the European Semester.

Progress in rebalancing and correction of imbalances: EU economies continue to face large challenges to correct the external and internal imbalances accumulated in the pre-crisis period.

Several Member States face deleveraging pressures in the private and public sector. These pressures reflect the unwinding of accumulated financial imbalances, which are linked to previous unsustainable expenditure and debt levels. The **simultaneous deleveraging is weighing on growth**, as spending is reduced and income is directed to debt repayment, while the **correction of the external deficits**, to be complete and sustainable, requires further improvement in relative competitiveness, including through the reductions in costs and increases in productivity. **This adjustment of accumulated internal and external imbalances is expected to be a protracted process shaping the economic landscape for several years to come** and framing the surveillance under the MIP. The current growth conditions, including the outlook for next year, are considerably weaker than forecast at the time of the previous Alert Mechanism Report earlier this year, but progress in re-balancing will open up the way for growth and convergence.

There are positive signs that the rebalancing in the EU economies is progressing, as evidenced by the latest Commission forecasts. The reform efforts appear to bear fruit, and not only in programme countries. Current account deficits are coming down in the countries with the largest external imbalances, supported by gains in competitiveness. However, the **necessary adjustment for some countries with large current account deficits is still considerable** and needs to be supported by the implementation of the productivity-enhancing structural reforms agreed in the context of the economic adjustment programmes and in the country-specific recommendations. Further intra-euro area (and intra EU) rebalancing would benefit from dynamic domestic demand and wage developments in the surplus countries.

Scoreboard: the report contains **county-specific commentaries on the reading of the scoreboard** but notes that the commentaries do not cover Member States that are subject to surveillance under economic adjustment programmes supported by official financing. This concerns Greece, Ireland and Portugal in the euro-area and Romania outside the euro area.

The MIP Scoreboard - established and made public by the Commission in line with Regulation No 1176/2011 – aims to allow for an early identification of imbalances. This year, **an indicator on the growth rate of financial sector liabilities** has been added to the scoreboard, following calls from the Council and Parliament for the financial sector to be better taken into account.

As regards the **various areas covered by the scoreboard**, the report includes the following specific observations:

- the rebalancing of **current account positions** is progressing in the euro area and the EU. Nonetheless, the external adjustment in current account deficits is not yet sufficient to ensure sustainable and sound external debt positions;
- **export** performance has been improving slightly in a context of weaker global demand;
- **price and non-price competitiveness developments** have contributed positively to unwinding external imbalances. So far, gains in price competitiveness have taken place predominantly in Member States with large imbalances, sparked by intense market pressure;
- **deleveraging pressures in the private sector** persist in many Member States;
- **lending to the private sector** remains weak and private credit flows are subdued. Complex sectoral inter-linkages among the public, banking and private sectors often add to the underlying imbalances;
- **housing markets** are still in correction mode with different implications according to the dynamics of the construction sector;
- the on-going adjustment to imbalances is necessary but is costly in the short term and has resulted in higher **unemployment**.

The report also notes that the assessment of the potential existence or the risk of imbalances in Member States does not derive from a mechanical application of the scoreboard indicators. The scoreboard is complemented by additional information and indicators taking due account of country-specific circumstances and institutions, and considering also the conclusions in the in-depth reviews of May 2012.

Assessment: the second implementation of the Macroeconomic Imbalance Procedure takes place against the background of continued financial tensions, uncertainty and low growth prospects. The report notes that macroeconomic imbalances like large and persistent external deficits and surpluses, losses in competitiveness, and the build-up of private and public indebtedness have contributed to aggravate the crisis.

The unwinding of imbalances shapes the economic landscape. Member States continue to adjust to the impact of the crisis, although their individual challenges and spill-overs differ in terms of scope and severity. As the Commission's Annual Growth Survey explains, in addition to correcting significant imbalances that built up over previous years, the Union and Member States are also dealing with the interrelated challenges of tackling low growth and high unemployment, ensuring sustainable public finances and restoring stability to the financial system. A well-functioning Single Market also contributes to improve the growth potential and the unwinding of imbalances.

An adjustment of macroeconomic imbalances is underway in many Member States, especially those which have had high external deficits and large imbalances in household and/or corporate balance sheets and in their public sectors. This process still has some way to go, and has led in a number of Member States to a significant rise in unemployment levels and a reduction in the level of economic activity in the short term.

In the previous round, the Commission identified twelve Member States warranting an in- depth analysis and in all these cases the existence of imbalances under the preventive arm of MIP was confirmed. The broad approach taken reflected the fact that last year was the first application of surveillance under this procedure and that it, therefore, had to cater also for the adjustment to previously accumulated imbalances. Some Member States need to correct accumulated imbalances on both the internal and external side. They will have to reduce high levels of overall indebtedness and regain competitiveness so as to improve their growth prospects and export performance. In-depth analysis will help to assess the drivers of productivity, competitiveness and trade developments as well as the implications of the accumulated level of indebtedness and the degree of related imbalances in several Member States. Some countries are experiencing rapid adjustment partly due to catching-up effects and these developments also require a closer examination.

Given the conclusions in May 2012 on the existence of macroeconomic imbalances, and the updated scoreboard, the Commission considers that it is **necessary to analyse in further detail developments in the accumulation and unwinding of imbalances and the related risks in 14 Member States: Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Malta, Netherlands, Slovenia, Finland, Sweden and the United Kingdom.**

The 14 Members States for which the Commission intends to initiate an in-depth review have different challenges and potential risks including spill-over effects. The in-depth reviews will contribute to assess risks involved, which of these Member States have imbalances or excessive imbalances, and progress in unwinding imbalances.

In the context of multilateral surveillance and in line with Article 3(5) of the Regulation, the Commission invites the Council and the Euro Group to discuss this report. The Commission is also looking forward to feedback from the European Parliament and other stakeholders. Taking into account these discussions, the Commission will start to prepare in-depth reviews for the relevant Member States.

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

2010/0281(COD) - 10/04/2013 - Follow-up document

The Commission presents a report on the Macroeconomic Imbalances Procedure (MIP) established under Regulation (EU) No 1176/2011 to help detect, prevent and correct problems in Member States' economies at an earlier stage The MIP – together with the reinforced Stability and Growth Pact, with its focus on sustainable public finances – is at the heart of the EU's strengthened economic governance.

The new EU economic governance tools are designed to help governments to pick up underlying problems and to address them without delay, pursuing appropriate and country specific policies within a wider European framework. This approach that underpinned the Commission's 2013 Annual Growth Survey at the start of this third cycle of the European Semester of economic policy coordination. As part of this process in its Alert Mechanism Report, the Commission **screened all Member States for possible macroeconomic imbalances** on the basis of a scoreboard of indicators as part of the Macroeconomic Imbalances Procedure. As a result, fourteen Member States were selected for further in-depth reviews.

Based on the analysis presented the in-depth reviews (IDR), the Commission has identified imbalances in all countries selected in the Alert Mechanism Report: Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom).

The report summarises the broad conclusions that can be drawn from this analysis and presents the main findings country by country.

The **IDRs** illustrate certain points.

- The adjustment of external positions is underway, although the high level of net external liabilities continues to make several Member States vulnerable.
- In spite of improvements in export performance, which result from gains in cost-competitiveness, several Member States need to **step up efforts to boost or regain competitiveness**, both inside the Internal market and globally.
- **Non-cost competitiveness factors** remain crucial, for example action is needed on export composition and technological content, geographical diversification of exports, firms' structure, the imported contents of exports, the role of intermediary inputs, and investment in R&D and innovation.
- **Deleveraging is occurring in the private sector** of several economies, but **private debt levels remain high** and the deleveraging pressures remain strong.

- Housing markets are in the adjustment phase in a number of countries which experienced pre-crisis housing booms. **Further downward adjustments cannot be excluded,** against a background of a still vulnerable banking sector, tightened credit conditions and economic uncertainty.

Spain and Slovenia: the Commission's analysis leads it to conclude that in **Slovenia,** while in a still manageable position, excessive macroeconomic imbalances are quickly building up. Slovenia should now proceed swiftly and decisively by completing the reforms it has started and include comprehensive and detailed policy measures in its forthcoming National Reform Programme and Stability Programme, in order to halt and reverse this trend.

Despite significant progress in 2012, **Spain still has excessive macroeconomic imbalances**. Spain should maintain the reform momentum by including comprehensive and detailed policy measures in its forthcoming National Reform Programme and Stability Programme.

The Commission is ready to cooperate closely and swiftly with these two Member States in preparing this response, in full respect of national processes and with an appropriate involvement of domestic stakeholders. These policy packages will be assessed as part of the European Semester to determine whether they are adequate in view of the challenges. Based on this assessment, the Commission will consider whether further steps are needed under the Excessive Imbalance Procedure.

Remaining 11 Member States: the Commission also expects the eleven other Member States experiencing imbalances that are not found to be excessive, namely Belgium, Bulgaria, Denmark, France, Italy, Hungary, Malta, the Netherlands, Finland, Sweden and the United Kingdom, to **take the findings of the in-depth reviews into account in their National Reform Programmes and Stability and Convergence Programmes**. On this basis and in the context of the European Semester, the Commission will make policy recommendations for the correction of these imbalances and the prevention of new ones on 29 May. On the basis of actual data for 2012 validated by Eurostat and the Commission services' Spring 2013 Forecast, the Commission will also reassess the situation under the on-going excessive deficit procedures and, where necessary, adopt the appropriate recommendations to the Council.

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

2010/0281(COD) - 13/11/2013 - Follow-up document

The Commission presents the 2014 Alert Mechanism Report, in accordance with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

Background: the **Alert Mechanism Report (AMR) is the starting point of the yearly cycle of the Macroeconomic Imbalance Procedure (MIP)**, which aims at identifying and addressing imbalances that hinder the smooth functioning of the EU economies and may jeopardise the proper functioning of the Economic and Monetary Union. The AMR identifies the Member States for which further analysis (in the form of an in-depth review) is necessary in order to decide whether an imbalance in need of policy action exists.

This report initiates the **third round of implementing the macroeconomic imbalance procedure (MIP)**. The implementation of the MIP is embedded in the European Semester,' with the aim of ensuring consistency with other economic surveillance tools. The Annual Growth Survey (AGS), which is adopted at the same time of this report, elaborates on the interlinkages between the correction of macroeconomic imbalances under the MIP, and the urgent challenges of ensuring sustainable fiscal policies, restoring lending, promoting growth and competitiveness, fighting unemployment and the social consequences of the crisis, and modernising public administration.

In the comings days, the Commission is also adopting opinions on draft budgetary plans of the euro area Member States (except those that are subject to a macroeconomic adjustment programme), and on the euro area fiscal stance. It also transmits to the Council proposal for opinions on the economic partnership programmes of several Member States.

Evaluation: this report shows that it is necessary to analyse in further detail the accumulation and unwinding of imbalances, and the related risks, in 16 Member States. For some countries the IDRs will elaborate on the findings of the previous MIP cycle, while for others, it will be the first time the Commission will prepare an IDR. The several Members States for which the Commission intends to prepare an IDR have different challenges and potential risks including spillovers on their partners.

- ***Spain and Slovenia***: the IDRs will assess whether the excessive imbalances persist or unwind, and the contribution of the structural policies implemented by these Member States to overcome these imbalances.
- ***France, Italy and Hungary***: Member States with imbalances and for which the Commission indicated the necessity of adopting decisive policy actions.
- ***Belgium, Bulgaria, Denmark, Malta, Netherlands, Finland, Sweden and the United Kingdom***: for the other Member States previously identified as experiencing imbalances, the IDR will contribute to assess for which Member States imbalances persist or for which they have been overcome. The Commission takes the view that, since imbalances are identified after the detailed analyses in the previous IDRs, the conclusion that an imbalance has been overcome should also take place only after duly considering all relevant factors in another in-depth review, which could potentially lead to the closure of the MIP for some Member States.
- ***Germany and Luxembourg***: IDRs will also be prepared for these countries in order to better scrutinise their external position and analyse internal developments, and assess whether any of these countries is experiencing imbalances. An IDR is also warranted for **Croatia,** a new Member of the EU.

- ***Ireland, Greece, Cyprus, Portugal and Romania***: for the Member States that are subject to macroeconomic adjustment programmes and benefiting from financial assistance, the surveillance of their imbalances and monitoring of corrective measures will take place in the context of their programmes. The situation of Ireland in the context of the MIP will be assessed after the conclusion of the programme.

The Commission invites the Council and the Euro Group to discuss this report. It is also looking forward to feedback from the European Parliament and appropriately liaising with relevant stakeholders. Taking into account the discussions within the Council and the Euro Group, the Commission will prepare **in-depth reviews for the relevant Member States**. These are expected to be published in spring 2014, ahead of the preparation of the National Reform Programmes and the 'European Semester' package of country-specific recommendations.

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

2010/0281(COD) - 05/03/2014 - Follow-up document

The Commission presents the results of in-depth reviews (IDRs) under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances to assess whether imbalances and excessive imbalances exist in a number of EU Member States.

The communication also elaborates on:

- the **euro area dimension of macroeconomic imbalances** and how several policy challenges have to be addressed in a euro area-wide context;
- the **fiscal developments**: for the countries concerned, the Commission updates its assessment of November 2013 when it discussed the Draft Budgetary Plans.

Evaluation of imbalances in the Member States: on the basis of the analysis documented in detail in the IDRs, the Commission considers that Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, the Netherlands, Slovenia, Finland, Sweden, and the United Kingdom experience imbalances. Among those Member States, ***Croatia, Italy*** **and** ***Slovenia*** **are experiencing excessive imbalances**.

In the case of **Spain**, the Commission considers that a significant adjustment has taken place over the last year and that on current trends imbalances would continue to abate over time, even though risks are still present.

The Commission considers that policies should be adapted to the challenges of each economy and appropriate monitoring is necessary. In line with the Council Recommendation addressed to the Euro Area, the Commission intends to put in motion a specific monitoring of the policies recommended by the Council to the Member States with excessive imbalances (Croatia, Italy and Slovenia), as well as for countries where imbalances require **decisive policy action** (**Ireland, Spain and France**). In the case of Ireland and Spain this monitoring will rely on post-programme surveillance.

For **Denmark and Malta**, the Commission considers that, compared to the last year, the risks have abated or are better controlled; imbalances in the sense of the MIP are no longer identified in these countries. Moreover, while a number of features of the **Luxembourg** economy, including its large financial sector, require attention, they do not constitute imbalances in the sense of the MIP.

Fiscal developments: the Commission states that the situation has continued to improve both in the EU and the euro area due to continued consolidation efforts. However, the latest forecasts show that for **France and Slovenia, there are risks that the consolidation effort may not be strong enough** to ensure that the correction of excessive deficits remains on track. Thus, the Commission is addressing Recommendations, under Article 11 of the Regulation No 473/2013 to these Member States.

These two Member States are expected to report on actions responding to such Recommendation in a dedicated section of their Stability Programmes.

Overall conclusions: the communication concludes that the IDRs illustrate that **the challenges that the EU economies face have been changing**.

When the Macroeconomic Imbalance Procedure (MIP) was created, and during the previous rounds of its implementation, the main challenges were related to: (i) the unsustainable current account deficits, (ii) losses in competitiveness related to previously very dynamic labour costs, (iii) private debts and (iv) high housing prices.

The main challenges of a cross-country nature now also concern:

- the **impact that deleveraging** in many countries has on medium-term growth;
- the **sustainability of private and public debts** and of the external liabilities in a context of very low inflation;
- the need to ensure an adequate **flow of credit** to viable activities – particularly in the non-tradables sector – in the vulnerable economies under a fragmented financial system;
- and the very high level of **unemployment** in many economies.

The Commission expects that the Member States take the findings of the IDRs and the fiscal forecasts into account in their National Reform Programmes (NRPs) and Stability and Convergence Programmes (SPs and CPs). Member States in excessive imbalances should, in particular, set out a comprehensive and detailed policy response in their forthcoming NRPs and SPs and CPs.

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

2010/0281(COD) - 28/11/2014 - Follow-up document

The Commission has presented its 2015 Alert Mechanism Report (AMR), in line with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

The AMR is the starting point of the annual cycle of the Macroeconomic Imbalance Procedure (MIP), which aims to identify and address imbalances that hinder the smooth functioning of the economies of Member States, the economy of the EU, and may jeopardise the proper functioning of the economic and monetary union.

The AMR uses a **scoreboard** of eleven indicators, plus a wider set of auxiliary indicators, to screen Member States for potential economic imbalances in need of policy action.

The Commission should publish the In-Depth Reviews (IDRs) in spring 2015 and the findings will feed into the country-specific recommendations under the **"European Semester"** of economic policy coordination.

The report states that **macroeconomic imbalances remain a serious concern** and underline the need for decisive, comprehensive and coordinated policy action:

- the recovery in competitiveness is encouraging, but **sustaining competitiveness** going forward remains a key concern;
- the **high levels of private and public debt** in most countries, and the high external liabilities in many, still constitute substantial vulnerabilities for growth, jobs and financial stability;
- **unemployment** and other social indicators remain very worrying in several countries.

Slow growth and low inflation weigh on the reduction of imbalances and of macroeconomic risks:

- in 2014 and 2015, economic activity in the EU, after having posted zero growth in 2013, is expected to grow respectively at **1¼% and 1½%.** In the euro area, real GDP growth rates are –½, +¾ and **just above 1% in 2013, 2014 and 2015**;
- there are **considerable differences across Member States**. While some Member States, such as the Baltic countries, the Czech Republic, Luxembourg, Hungary, Poland, Slovakia and the United Kingdom, reported relatively robust output growth in the first three quarters of 2014, and Member States such as Spain and Slovenia succeeded in catching up after a severe economic adjustment, other economies, both big and small alike, have remained sluggish.

The very low inflation adds to the risks related to excessive indebtedness and increases the economic costs of rebalancing and deleveraging.

This Report **identifies Member States that may be affected by imbalances** in need of policy action and for which further in-depth reviews should be undertaken. Based on the economic reading of the MIP scoreboard, the Commission finds that **IDRs are warranted** to examine in further detail the accumulation and unwinding of imbalances and their related risks in **16 Member States**:

- **Croatia, Italy and Slovenia**: IDRs will assess whether previously identified excessive imbalances are unwinding, persisting or aggravating, while paying due attention to the contribution of the policies implemented by these Member States to overcome these imbalances;
- **Ireland, Spain, France and Hungary**: for these Member States with imbalances in need of decisive policy action, IDRs will assess risks related to the persistence of imbalances;
- **Belgium, Bulgaria, Germany, the Netherlands, Finland, Sweden and the United Kingdom**: IDRs will assess in which Member States imbalances persist, and in which they have been overcome;
- **Portugal and Romania**: for the first time, IDRs will also be prepared for these countries.

For the Member States that **benefit from financial assistance**, the surveillance of their imbalances and monitoring of corrective measures take place in the context of their programmes. This concerns **Greece and Cyprus**.

Finally, for the other Member States - Czech Republic, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Malta, Austria, Poland and Slovakia [these are the countries listed in the report - only Republic, Denmark, Estonia, Latvia, Lithuania, Luxembourg are listed in the summary] – the Commission will not at this stage carry out further analyses in the context of the MIP.

However, the Commission considers that 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.

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

2010/0281(COD) - 28/11/2014

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.

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 self6sustainable.

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.

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

2010/0281(COD) - 28/09/2011 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 554 votes to 90 with 21 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances.

The report had been returned to the competent committee for re-consideration on 23 June 2011.

Parliament adopted its position on first reading in accordance with the ordinary legislative procedure. The amendments adopted in plenary are the result of a compromise negotiated between Parliament and Council. The Commission's proposal was amended as follows:

Subject matter: the text clarifies that the Regulation sets out detailed rules for the detection of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union.

The application of the Regulation shall fully respect Article 152 TFEU and the recommendations issued under the Regulation shall respect national practices and institutions for wage formation. It shall take into account the Charter of Fundamental Rights of the European Union, and accordingly shall not affect the right to negotiate, conclude and enforce collective agreements and to take collective action in accordance with national law and practices.

The term "**imbalances**" shall mean any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of economic and monetary union, or of the Union as a whole.

Scoreboard: the scoreboard including indicators shall be used as a **tool to facilitate early identification and monitoring of imbalances**. It shall be made up of a **small number of** relevant, practical, simple, measurable and available **macroeconomic and macrofinancial indicators** for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge over both the short-term as well as imbalances that arise due to structural and long-term trends. It shall inter alia encompass indicators which are useful in the early identification of:

- **internal imbalances**, including those that can arise from public and private indebtedness, financial and asset market developments including housing, the evolution of private sector credit flow and the evolution of unemployment;
- **external imbalances**, including those that can arise from the evolution of current account and net investment positions of Members States, real effective exchange rates, export market shares and changes in price and cost developments as well as non-price competitiveness, taking into account the different components of productivity.

In undertaking its **economic reading of the scoreboard** in the alert mechanism, the Commission shall pay close attention to (i) developments in the real economy including economic growth, employment and unemployment performance; (ii) nominal and real convergence inside and outside the euro area; (iii) productivity developments and its relevant drivers such as R&D and foreign/domestic investment, as well as (iv) sectoral developments including energy, which affect GDP and current account performance.

In developing the scoreboard due consideration should also be given to catering for heterogeneous economic circumstances, including catching-up effects.

The appropriateness of the scoreboard, including the composition of indicators, the thresholds set and the methodology used, are to be assessed on a regular basis and adjusted or modified when necessary.

Alert mechanism: the alert mechanism is designed to facilitate the early identification and monitoring of imbalances.

The Commission shall prepare an **annual report containing a qualitative economic and financial assessment** based on a scoreboard with a set of indicators compared to the indicative thresholds. The report including the values of the indicators of the scoreboard shall be made public.

Conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. The assessment shall take into account the evolution of imbalances in the Union and the euro area. The report shall also indicate whether the crossing of thresholds in one or more Member States signifies the possible emergence of imbalances. The assessment of Member States showing large current account deficits may differ from that of Member States that accumulate large current account surpluses.

In-depth review: taking due account of the discussions in the Council and the Euro Group, or in the event of unexpected, significant economic developments that require urgent analysis for the purpose of this Regulation, the Commission shall prepare an in-depth review for each Member State it considers may be affected by, or may be at risk of, being affected by imbalances.

The in-depth review shall build on detailed analysis of country-specific circumstances, including the different starting positions across Member States; it shall study a broad range of economic variables and involve the use of analytical tools and qualitative information of country specific nature. It shall acknowledge the national specificities regarding industrial relations and social dialogue.

Furthermore, the Commission shall give due consideration to any other information, which in the opinion of the Member State concerned are relevant, and which the Members State has put forward.

The in-depth review shall include an evaluation of whether the Member State in question is affected by imbalances, and of whether these imbalances constitute excessive imbalances. It will study the origin of the detected imbalances against the background of prevailing economic circumstances, including the deep trade and financial inter-linkages between Member States and the spillover effects of national economic policies. The review will analyse relevant developments related to the Union strategy for growth and jobs. It shall also consider the relevance of economic developments in the Union and the euro area as a whole. It shall take into account, in particular:

- The in-depth review: (i) will study the origin of the detected imbalances against the background of prevailing economic circumstances, including the deep trade and financial inter-linkages between Member States and the spillover effects of national economic policies; (ii analyse

relevant developments related to the Union strategy for growth and jobs; (iii) consider the relevance of economic developments in the Union and the euro area as a whole.
- The in-depth review shall be made public, and the Commission shall inform the Council and the European Parliament about the results of the in-depth review.

Preventive action: if, on the basis of its in-depth review, the Commission considers that a Member State is experiencing imbalances, it shall inform the Council and the Euro Group and the European Parliament. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned. The Council shall inform the European Parliament of the recommendation. The Council recommendation shall be made public.

Opening of the excessive imbalance procedure: if, on the basis of the in-depth review, the Commission considers that the Member State concerned is affected by excessive imbalances, it shall inform the Council and the Euro Group accordingly and the European Parliament. The Commission shall also inform the relevant European Supervisory Authorities and the European Systemic Risk Board, which is invited to take the steps it deems necessary.

The Council, on a recommendation from the Commission, may adopt recommendation in accordance with Article 121(4) of the Treaty declaring the existence of an excessive imbalance and recommending the Member State concerned to take corrective action.

The recommendation shall set out the nature and implications of the imbalances and specify a set of policy recommendations to be followed and the deadline within which the Member State concerned must submit a corrective action plan.

Corrective action plan: the corrective action plan shall take into account the economic and social impact of the policy actions and shall be consistent with the Broad Economic Policy Guidelines and the Employment Guidelines.

- If considered sufficient, on the basis of a Commission recommendation, the Council shall endorse it through a recommendation that lists the required specific actions and the deadlines for taking them and establish a timetable for surveillance paying due attention to the transmission channels and recognising that there may be long lags between the adoption of the corrective action and the actual resolution of imbalances.
- If the actions taken or envisaged in the corrective action plan or their timetable for implementation are considered insufficient, on the basis of a Commission recommendation, the Council shall adopt a recommendation to the Member State to submit a new corrective action plan within two months as a rule. The new corrective action plan shall be examined within two months.

The Commission may carry out **enhanced surveillance missions** to the Member State concerned to monitor implementation of the corrective action plan, in liaison with the ECB when those missions concern Member States whose currency is the euro or Member States participating in ERM II. Social partners and other national stakeholders shall therefore, where appropriate, be involved in the dialogue.

Assessment of corrective action: on the basis of a Commission report, the Council shall assess whether the Member State concerned has taken the recommended corrective action in accordance with the recommendation issued. Where it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the Commission, shall adopt a decision declaring non-compliance and a recommendation setting new deadlines for taking corrective action. The recommendation on declaring non-compliance by the Commission shall be deemed adopted by the Council unless it decides, by qualified majority, to reject the recommendation within ten days of the Commission adopting it. The Member State concerned may request that a meeting of the Council be convened to take a vote on the decision.

Closing of the excessive imbalance procedure: the Council shall abrogate recommendations issued on a recommendation from the Commission as soon as it considers that the Member State is no longer affected by excessive imbalances as outlined in the recommendation referred and shall make a public statement reflecting that fact.

Surveillance missions: the Commission shall ensure a permanent dialogue with the authorities of the Member States. To that end, it shall, in particular carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of the Regulation. Enhanced surveillance may be undertaken for Member States which are the subject of a recommendation on the existence of an excessive imbalance position. When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Economic Dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, **the competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Euro Group to appear before the committee to discuss matters including the results of multilateral surveillance carried out under the Regulation.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by the Council recommendation or decision

The Commission and the Council shall regularly inform the European Parliament of the results of the application of this Regulation to participate in an exchange of views.

Review and report: within three years after the entry into force of the Regulation and every five years thereafter, the Commission shall publish a report on the application of the Regulation. Where appropriate, this report shall be accompanied by a proposal for amendments to this Regulation.

The Commission shall annually report on the application of the Regulation including the updating of the scoreboard and shall present it to the Council and the European Parliament in the context of the European Semester.

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

2010/0281(COD) - 15/03/2011

The Council agreed a general approach on a package of legislative proposals aimed at strengthening economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets.

The agreement will enable the presidency to start negotiations with the European Parliament, with the aim of **reaching an overall agreement in June 2011**, thus respecting the timetable set by the European Council.

Four of the proposals deal with reform of the EU's Stability and Growth Pact. They are aimed at enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage. The other two proposals target macroeconomic imbalances within the EU.

(1) Reform of the Stability and Growth Pact

Preventive arm of the pact:

- to promote attainment by the Member States of their medium term objectives (MTO), the reform would introduce an expenditure benchmark, which implies that annual expenditure growth should not exceed a reference medium-term rate of GDP growth. This is meant to ensure that revenue windfalls are not spent but instead allocated to debt reduction;
- if a Member State has not reached its MTO, a significant deviation in expenditure development from its reference expenditure growth path could eventually lead to sanctions.

Corrective arm of the pact (excessive deficit procedure):

- greater emphasis would also be placed on the **debt criterion** of the Stability and Growth Pact, with Member States whose debt exceeds 60% of GDP (the EU's reference value for debt) required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below 3% of GDP (the EU's deficit reference value);

- to determine whether the debt ratio is sufficiently diminishing toward the 60% of GDP threshold, a numerical benchmark would be introduced. A debt-to-GDP ratio above 60% would thus be considered sufficiently diminishing if its distance with respect to the 60% reference value had decreased over the previous three years at an annual rate of one-twentieth;

- a decision to subject a country to the excessive deficit procedure would not only be based on the numerical benchmark, but would also take into account other relevant factors, such as implicit liabilities related to private sector debt and ageing cost. The net cost of implementation of a pension reform would also be considered;

- to strengthen the corrective arm of the Stability and Growth Pact, a **new set of financial sanctions** would be introduced for euro-area Member States; these would apply earlier on in the excessive deficit procedure, and using a **graduated approach**;

- a **non-interest-bearing deposit** amounting to 0.2% of GDP may be imposed already when decision has been taken to subject a country to the excessive deficit procedure. If the Council's recommendation for correcting the deficit is not followed, a **fine** will be imposed. Further non-compliance would result in the sanction being stepped up, in line with the existing provisions in the Stability and Growth Pact;

- to trigger the sanction more automatically than at present, a so-called **reverse majority rule would be introduced**, whereby the Commission's proposal for imposing a deposit or a fine would be considered adopted unless turned down by the Council via qualified majority.

(2) Surveillance of economic policies:beyond budgetary surveillance, the legislative package is aimed at broadening the surveillance of the Member States' economic policies. It would establish a mechanism for the prevention and correction of excessive macroeconomic imbalances, made up of two regulations which outline an "excessive imbalance procedure" and introduce the possibility of fines being imposed on Member States found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

- the starting point of the new framework will be an **alert mechanism for the early detection of imbalances**, which will be assessed using a "scoreboard" of economic indicators. This will be supplemented by country-specific qualitative expert analysis;
- if the imbalance is considered to be excessive, the Member State concerned could be subject to an excessive imbalance procedure, and would be called on to adopt a corrective action plan within a specific timeframe;
- on the other hand, repeated non-compliance with the recommendations could in the case of euro area Member States **eventually lead to sanctions**. Specifically, a decision to impose a yearly fine equal to 0.1% of the Member State's GDP would be adopted through the "reverse majority" rule described above;
- fines collected in the context of both the excessive imbalance and excessive deficit procedures would be **transferred to the crisis fund created for the euro area** to provide financial assistance to Member States in difficulty (i.e. the European Financial Stability Facility and the future European Stability Mechanism).

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

2010/0281(COD) - 14/02/2011

The Council held a **policy debate** on a package of measures intended to strengthen economic governance in the EU, and more specifically in the euro area, in order to address the challenges highlighted by recent difficulties on sovereign debt markets.

The package consists of:

- a draft regulation amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- a draft regulation amending regulation 1467/97 on the EU's excessive deficit procedure;
- a draft regulation on the enforcement of budgetary surveillance in the euro area;
- a draft regulation on the prevention and correction of macroeconomic imbalances;
- a **draft regulation** on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a draft directive on requirements for the member states' budgetary frameworks.

Four of the propositions deal with **reform of the EU's Stability and Growth Pact**. They are aimed at enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant member states more consistently and at an earlier stage.

In particular, a so-called **reverse majority rule**, whereby the Commission's proposal for imposing a fine will be considered adopted unless the Council turns it down by qualified majority, will trigger the sanction more automatically than at present.

Moreover, greater emphasis will also be placed on the **debt criterion** of the Stability and Growth Pact, with member states whose debt exceeds 60% of GDP required to take steps to reduce their debt at a pre-defined pace, even if their deficit is below the 3% of GDP threshold.

The other two proposals target **macroeconomic imbalances within the EU**. Here, the aim is to broaden the surveillance of economic policies, introducing the possibility of fines on Member States found to be in an "excessive imbalances position". Risks of macroeconomic imbalances will be assessed using a "scoreboard" of economic indicators.

The Council asked the Permanent Representatives Committee to oversee further work on the package, in the light of its discussion. The presidency's aim – in accordance with the deadlines set by the European Council on 4 February – is for the Council to agree on a **general approach on all six proposals at its meeting on 15 March 2011, with a view to reaching an agreement with the European Parliament in June 2011**.

As regards the excessive deficit procedure, the Council took note of a communication from the Commission assessing action taken by **Bulgaria, Denmark, Cyprus and Finland** in order to bring their government deficits below 3% of GDP, the reference value set by the EU treaty.

It shared the Commission's view that, on the basis of current information, **all four countries have taken action representing adequate progress** towards correcting their deficits within the time limits set in its recommendations, and that no further steps under the EU's excessive deficit procedure are required at present.

Bulgaria, Denmark, Cyprus and Finland have been subject to excessive deficit procedures since July 2010, when the Council issued its recommendations. The Council called on Bulgaria and Finland to reduce their deficits below the threshold of 3 % of GDP by 2011, Cyprus by 2012 and Denmark by 2013.

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

2010/0281(COD) - 18/01/2011

The Council discussed draft national reform programmes (NRPs) presented by the Member States. Ministers committed themselves to rectifying identified difficulties with the draft NRPs.

The programmes are required, under the EU's economic governance arrangements, to enable **multilateral surveillance of the Member States' economic policies**.

They should contain:

- a macroeconomic scenario for the medium term,
- national targets for translating headline targets set under the "Europe 2020" strategy for jobs and growth,
- identification of the main obstacles to creating growth and jobs,
- measures for concentrating growth-enhancing initiatives in an early period.

Review of the draft programmes constitutes, along with the annual growth survey, first steps in implementation of the so-called "European semester", which involves **simultaneous monitoring of the Member States' budgetary policies and structural reforms**, in accordance with common rules, during a six-month period every year.

At its meeting on 24 and 25 March, the European Council is due to provide guidance to the Member States for finalisation of their stability and convergence programmes (budgetary policies) and national reform programmes (structural reforms).

The **European semester is implemented for the first time this year** as part of a reform of EU economic governance.

Concerning the excessive deficit procedure: the Council discussed a Commission communication assessing the action taken by **Malta** in response to the Council recommendation of 16 February 2010 based on article 126(7) to bring to an end the situation of excessive deficit at the latest by 2011. The Council shares the Commission's view that, based on current information, Malta has taken action representing adequate progress towards the correction of the excessive deficit within the time limit set by the Council. In particular, the Maltese authorities have taken fiscal consolidation measures to correct the excessive deficit by 2011, while ensuring an adequate fiscal effort in 2011.

Against this background, the Council considers that at present no further steps under the excessive deficit procedure are necessary.

At the same time, the Council notes that in spite of a better macroeconomic environment than expected in the Council recommendations, there was no acceleration in the reduction of the deficit in 2010. In addition, **considerable downside risks exist to the achievement of the 2011 deficit target**. In this context, the Council calls for rigorous execution of the budget and close monitoring of budgetary developments in order to take corrective measures if needed to ensure that the deficit target of 2.8% of GDP is reached in 2011. Furthermore, further steps should be taken to strengthen the binding nature of the medium-term budgetary framework and improve the long-term sustainability of public finances, as requested by the Council in its recommendations and invitations.

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

2010/0281(COD) - 07/10/2010 - Legislative proposal

PURPOSE: to provide a framework for identifying and addressing macroeconomic imbalances in the European Union.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: in the years preceding the crisis, low financing costs fuelled misallocation of resources, often to less productive uses, feeding unsustainable levels of consumption, housing bubbles and accumulation of external and internal debt in some Member States.

The emergence of large macroeconomic imbalances, including wide and persistent divergences in competitiveness trends, proved highly damaging to the European Union, and in particular to the euro, when the crisis struck. **It is therefore important to develop a new structured procedure for prevention and correction of adverse macroeconomic imbalances in every Member State**.

In its Communication and report on «EMU@10: successes and challenges after 10 years of Economic and Monetary Union" the Commission stressed, in particular, the need to broaden economic surveillance in order to detect and address macroeconomic imbalances at an early stage. The Europe 2020 strategy calls for the development of a specific policy framework for the euro area to tackle broader macroeconomic imbalances.

Overall, the Task Force on economic governance, chaired by the President of the European Council, agreed that macroeconomic surveillance should function alongside the budget surveillance under the Stability and Growth Pact.

This proposal is part of **legislative package** comprising six texts which seeks to strengthen the pact by improving its provisions in the light of experience, not least of the crisis:

1) A Regulation amending the legislative underpinning of the preventive part of the Stability and Growth Pact (Regulation 1466/97);

2) A Regulation amending the legislative underpinning of the corrective part of the Stability and Growth Pact (Regulation 1467/97);

3) A Regulation on the effective enforcement of budgetary surveillance in the euro area;

4) A new Council Directive on requirements for the budgetary framework of the Member States;

5) A **new Regulation** on the prevention and correction of macroeconomic imbalances;

6) A Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASE: Article 121 (6) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the mechanism for the prevention and correction of macroeconomic imbalances is made up of two draft proposals for regulations. This first proposal sketches out the **excessive imbalance procedure** (EIP), while the second proposal focuses on the associated enforcement measures.

The EIP is a completely new element of the economic surveillance process. It comprises a regular assessment of risks of imbalances, including an alert mechanism, coupled with rules designed to allow corrective action in case of adverse macroeconomic imbalances extending beyond fiscal policy. The EIP applies to every Member State.

The proposal provides for **a regular assessment of risks of imbalances, based on a scoreboard using economic indicators**.

The Commission may launch in-depth reviews for Member States at risk that will identify the underlying problems. For Member States with severe imbalances or imbalances that put at risk the functioning of EMU, the Council may adopt recommendations and open an "excessive imbalance procedure (EIP)".

Following the opening of an EIP, the Member State concerned will be under an obligation to adopt **a corrective action plan within a specific timeframe**, to set out a roadmap of implementing policy measures.

Within two months after submission of a corrective action plan and on the basis of a Commission report, the Council shall assess the corrective action plan. If considered sufficient, on the basis of a Commission proposal, the Council shall adopt an opinion, endorsing it.

If the actions taken or envisaged in the corrective action plan or their timetable for implementation are considered insufficient to implement the recommendations, the Council shall, on the basis of a Commission proposal, invite the Member State to amend its corrective action plan within a new deadline.

The Member State concerned will be required to provide regular reports and will be monitored until the closure of the EIP. If the Member State has not taken the appropriate action, the EIP will be continued. The Council will have to adopt revised recommendations along with a new deadline by which to complete its corrective action.

For euro-area Member States, the enforcement mechanism could ultimately lead to **sanctions**.

BUDGETARY IMPLICATION: the proposal has no implication for the EU budget.

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

2010/0281(COD) - 20/06/2011

The Council agreed unanimously an **updated general approach** on a package of legislative proposals on economic governance, with the aim of enabling negotiations with the European Parliament to be concluded in time for the European Council meeting on 23 and 24 June.

It will inform the Parliament of its compromise text by a letter to be sent by the chairman of the Permanent Representatives Committee on 21 June.

The proposals set out to strengthen economic governance in the EU – and more specifically within the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets.

The Council reached agreement on a general approach on 15 March, opening the way for the negotiations with the Parliament.

Recognising that existing EU instruments have not generated a satisfactory decline in public debt levels and have catered insufficiently for macroeconomic imbalances, the proposals are aimed at enhancing budgetary discipline in the Member States and broadening the surveillance of their economic policies. They implement the recommendations of a task force, chaired by the President of the European Council, Herman Van Rompuy, which concluded that **the EU's monetary union will not be able to function properly in the long term without increased economic policy coordination**.

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

2010/0281(COD) - 16/02/2011

OPINION OF THE EUROPEAN CENTRAL BANK on economic governance reform in the European Union.

On 29 November 2010, the European Central Bank (ECB) received a request from the Council for an opinion on a package of six legislative proposals aiming to strengthen economic governance.

The ECB considers that the Commission proposals represent an important broadening and strengthening of the EU economic and budgetary surveillance framework and go some way in improving enforcement in the euro area. However, **they fall short of the necessary quantum leap in the surveillance of the euro area, which the ECB deems necessary to ensure its stability and smooth functioning**.

The ECB calls on the EU legislator and the Member States to take advantage of the ongoing legislative process to strengthen the economic governance package to the maximum allowed under the current Treaties. In addition, the EU should consider at a certain point in time Treaty reform to further strengthen economic governance.

The ECB makes the following observations:

Insufficient automaticity: for the ECB, insufficient automaticity is a fundamental flaw of the Commission proposals. In this vein, the ECB proposes that the EU legislator consider reverting the changes to the Stability and Growth Pact introduced in 2005 which increased the leeway allowed to Member States in respect of their obligations under the Pact.

Furthermore, the ECB states that there are several elements showing insufficient automaticity in the Commission proposals which should be reconsidered:

- the draft budgetary surveillance procedure provides the possibility for Member States to depart from the adjustment path towards the medium-term budgetary objective in case of a severe economic downturn of a general nature;
- the draft budgetary enforcement procedure provides that the Council will review interest-bearing deposits, non-interest bearing deposits and fines it imposes, on the grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned;
- lastly, the Commission's obligation to take into account discussions within the Council as a condition for the continuation by the Commission of any procedure should be excluded.
- In addition, the ECB recommends increasing automaticity by means of **adding reverse Council qualified majority voting whenever possible.**

Additional political and reputational measures: these measuresshould be established in the draft budgetary surveillance procedure and EDP, including Member State reporting obligations and reports from the Council to the European Council. In addition, the Commission, in liaison with the ECB if it deems it appropriate, where euro area Member States or ERM II participant Member States are concerned, should conduct missions to Member States not complying with Council recommendations.

Assessing compliance with the reference value for the government debt ratio: while all relevant factors should be considered when the Commission prepares a report on the existence of an excessive debt ratio and while particular consideration should be given to the effect of guarantees issued by the Member States under the European Financial Stability Facility or eventually under the future European Stability Mechanism (ESM), all these factors should only be considered where the government debt ratio is declining over a three-year horizon according to the Commission's forecasts. Any relevant mitigating factors should never lead to an assessment that a Member State has no excessive debt ratio where its debt ratio exceeds the reference value and is projected to be on an increasing path.

Procedure concerning the draft budgetary surveillance procedure: the ECB recommends that:

- sufficient progress towards the medium-term objective should be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures;
- the growth rate of government expenditure should normally not exceed a projected reference medium- term growth rate of potential gross domestic product (GDP) growth;
- the projected medium-term rate of potential GDP growth should be calculated according to the common methodology used by the Commission;
- taking into account the impact of the structure of economic growth on revenue growth.

Macroeconomic surveillance procedure: the ECB strongly welcomes the introduction of a macroeconomic surveillance procedure, which closes an important lacuna in the economic governance framework. This new procedure should concentrate firmly on euro area Member States experiencing sustained losses of competitiveness and large current account deficits. The scope of the procedure should by defining the term 'imbalances' address an open list of situations to be prevented by the procedure.In addition, the macroeconomic surveillance procedure should be determined by transparent and effective trigger mechanisms.

Fines: as to the interest accruals from the non-remunerated deposits and the fines imposed on euro area Member States under the Commission proposals, they should be assigned to the ESM to be created in 2013, with an appropriate transition solution until its creation.

Independent advisory body: the ECB sees also the need to establish an advisory body of persons of recognised competence in economic and fiscal matters to prepare an independent annual report addressed to the Union institutions on compliance by the Council and the Commission, including Eurostat, with their obligations under Articles 121 and 126 of the Treaty and under the procedures addressed in the Commission proposals.

Draft directive on the budgetary frameworks:

- the ECB also considers that all Member States should in any case be required to ensure independent monitoring, analysis and validation of the key elements of their budgetary frameworks. All these measures should not prevent Member States from developing stronger budgetary frameworks, such as by including rules prohibiting general government structural deficits above a certain threshold of GDP;
- the ECB recommends highlighting the importance of transparent national forecasts and methodologies for their preparation. At the same time, the Commission's forecasts have to play a central role in benchmarking national forecasts;
- regarding its effectiveness, the directive should refer expressly to costs imposed on national authorities for non-compliance with numerical fiscal rules, including both non-financial measures and financial sanctions at national level. Obligations to redeem in the medium-term debt exceeding amounts tolerated by the fiscal framework should be included;
- regarding statistics, the ECB favours an increase in the timeliness and reliability of the annual and quarterly government accounts reported to the Commission under Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community. Regarding statistics in future legislation, the ECB notes that EU legislative action is required for the 'European statistics code of practice' to become legally binding, while, in the meantime, the complete implementation of the code is accelerated, in particular regarding quality and the mandates for data collection.

Lastly, **Eurostat powers in assessing and monitoring the EDP notifications should be further strengthened** with a focus on proactive measures to enhance the quality of government statistics.

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

2010/0281(COD) - 17/05/2011

The Council took note of a **report from the presidency on progress in negotiations with the European Parliament** on a package of legislative proposals on economic governance.

Taking note of the views expressed by delegations, the presidency called on all parties to remain constructive and show the degree of flexibility that will be necessary to enable an agreement to be reached in June, as called for by the European Council.

The proposals set out:

- **to strengthen economic governance in the EU** – and more specifically within the euro area – as part of the EU's response to the challenges highlighted by recent turmoil on sovereign debt markets. The Council reached agreement on a general approach in March, opening the way for the negotiations with the Parliament;
- **to enhance budgetary discipline in the Member States and broaden the surveillance of their economic policies**, thus implementing the recommendations of a task force chaired by the President of the European Council, Herman Van Rompuy.

The package consists of:

- a draft regulation amending Regulation (EC) No 1466/97 on the surveillance and coordination of Member States' budgetary and economic policies;
- a draft regulation amending Regulation (EC) No 1467/97 on the excessive deficit procedure;
- a draft regulation on the enforcement of budgetary surveillance in the euro area;
- a draft regulation on the prevention and correction of macroeconomic imbalances;
- a draft regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a draft directiveon requirements for the Member States' budgetary frameworks.

Four of the proposals deal with reform of the **EU's Stability and Growth Pact**, enhancing the surveillance of fiscal policies, introducing provisions on national fiscal frameworks, and applying enforcement measures for non-compliant Member States more consistently and at an earlier stage. The other two proposals target **macroeconomic imbalances** within the EU.

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

2010/0281(COD) - 23/06/2011 - Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament amended at first reading, under the ordinary legislative procedure (by 551 votes to 88, with 29), the proposal for a regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances.

The vote on the legislative resolution was postponed to a later date.

The main amendments are as follows:

Scope: Parliament stipulates that this Regulation sets out detailed rules for the detection, of macroeconomic imbalances, as well as the prevention and correction of excessive macroeconomic imbalances within the Union.

The application of this Regulation shall fully respect Article 152 TFEU and the recommendations issued under this Regulation shall respect national practices and institutions for wage formation. It shall take into account Article 28 of the Charter of Fundamental Rights of the European Union, and accordingly shall not affect the right to negotiate, conclude and enforce collective agreements and to take collective action in accordance with national law and practices.

The term "**imbalances**" shall mean any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of economic and monetary union, or of the Union as a whole.

Scoreboard: the scoreboard including indicators shall be used as a **tool to facilitate early identification and monitoring of imbalances**. It shall be made up of a **small number of measurable and available macroeconomic and macrofinancial indicators** for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge over both the short-term as well as imbalances that arise due to structural and long-term trends. It shall inter alia encompass indicators which are useful in the early identification of:

- **internal imbalances**, including those that can arise from public and private indebtedness, financial and asset market developments including housing, the evolution of private sector credit flow and the evolution of unemployment;
- **external imbalances**, including those that can arise from the evolution of current account and net investment positions of Members States, real effective exchange rates, export market shares and changes in price and cost developments as well as non-price competitiveness, taking into account the different components of productivity.

In undertaking its **economic reading of the scoreboard** in the alert mechanism, the Commission shall pay close attention to developments in the real economy including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as R&D and foreign/domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance.

In developing the scoreboard due consideration should also be given to catering for **heterogeneous economic circumstances**, including catching-up effects.

The work of the European Systemic Risk Board shall be taken into due consideration in the drafting of indicators relevant to financial market stability. The Commission shall invite the European Systemic Risk Board to provide its views regarding draft indicator, relevant to financial market stability

The appropriateness of the scoreboard, including the composition of indicators, the thresholds set and the methodology used, are to be assessed on a regular basis and adjusted or modified when necessary.

Alert mechanism: the alert mechanism is designed to facilitate the early identification and monitoring of imbalances.

The Commission shall prepare an **annual report containing a qualitative economic and financial assessment** based on a scoreboard with a set of indicators compared to the indicative thresholds. The report including the values of the indicators of the scoreboard shall be made public.

Conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. The assessment shall take into account the evolution of imbalances in the Union and the euro area. The report shall also indicate whether the crossing of thresholds in one or more Member States signifies the possible emergence of imbalances. The assessment of Member States showing large current account deficits may differ from that of Member States that accumulate large current account surpluses.

In-depth review: taking due account of the discussions in the Council and the Euro Group, or in the event of unexpected, significant economic developments that require urgent analysis for the purpose of this Regulation, the Commission shall prepare an in-depth review for each Member State it considers may be affected by, or may be at risk of, being affected by imbalances.

According to the Parliament, the in-depth review shall build on **detailed analysis of country-specific circumstances**, including the different starting positions across Member States. It shall study a broad range of economic variables and involve the use of analytical tools and qualitative information of country specific nature. It shall acknowledge the national specificities regarding industrial relations and social dialogue.

The in-depth review shall include an evaluation of whether the Member State in question is affected by imbalances, and of whether these imbalances constitute excessive imbalances. It will study the origin of the detected imbalances against the background of prevailing economic circumstances, including the deep trade and financial inter-linkages between Member States and the spillover effects of national economic policies. The review will analyse relevant developments related to the Union strategy for growth and jobs. It shall also consider the relevance of economic developments in the Union and the euro area as a whole.

Furthermore, the Commission shall give due consideration to **any other information, which in the opinion of the Member State concerned are relevant**, and which the Members State has put forward.

Preventive action: if, on the basis of its in-depth review, the Commission considers that a Member State is experiencing imbalances, it shall inform the Council and the Euro Group accordingly and the European Parliament. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned. The Council shall inform the European Parliament of the recommendation. The Council recommendation shall be made public.

Opening of the excessive imbalance procedure: if on the basis of the in-depth review, the Commission considers that the Member State concerned is affected by excessive imbalances, it shall inform the Council and the Euro Group accordingly and the European Parliament as well as the relevant European Supervisory Authorities and the European Systemic Risk Board, which is invited to take the steps it deems necessary.

The Council, on a recommendation from the Commission, may adopt recommendation in accordance with Article 121(4) of the Treaty declaring the existence of an excessive imbalance and recommending the Member State concerned to take corrective action.

Corrective action plan: the corrective action plan shall take into account the economic and social impact of these policy actions and shall be consistent with the Broad Economic Policy Guidelines and the Employment Guidelines. If the actions taken or envisaged in the corrective action plan or their timetable for implementation are considered insufficient, on the basis of a Commission recommendation, the Council shall adopt a recommendation to the Member State to submit a new corrective action plan within two months as a rule.

Assessment of corrective action: on the basis of a Commission report, the Council shall assess whether the Member State concerned has taken the recommended corrective action. Where it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the Commission, shall adopt a decision declaring non-compliance and a recommendation setting new deadlines for taking corrective action In this case, the European Council shall be informed and the conclusions of the surveillance missions will be made public.

The recommendation on declaring non-compliance by the Commission shall be deemed adopted by the Council unless it decides, by qualified majority to reject the recommendation within ten days of the Commission adopting it. The Member State concerned may request that meeting of the Council be convened to take a vote on the decision.

Closing of the excessive imbalance procedure: the Council shall abrogate recommendations on a recommendation from the Commission as soon as it considers that the Member State is no longer affected by excessive imbalances and shall make a public statement reflecting that fact.

Surveillance missions: the Commission shall ensure a permanent dialogue with the authorities of the Member States in accordance with the objectives of this Regulation. To that end, the Commission shall, in particular carry out missions for the purpose of the assessment of the actual economic situation in the Member State and the identification of any risks or difficulties in complying with the objectives of this Regulation.

Enhanced surveillance may be undertaken for Member States which are the subject of a recommendation on the existence of an excessive imbalance position.

When the Member State concerned is a Member State whose currency is the euro or participating in ERM II, the Commission may invite representatives of the European Central Bank, if appropriate, to participate in surveillance missions.

Economic Dialogue:inorder to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, **the competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Euro Group to appear before the committee to discuss.

The competent committee of the European Parliament may offer the opportunity to the Member State concerned by Council recommendation or decision to participate in an exchange of views.

Review: within three years after the entry into force of this Regulation and every five years thereafter, the Commission shall publish a report on the application of this Regulation.

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

2010/0281(COD) - 16/11/2011 - Final act

PURPOSE: to strengthen economic governance in the EU – and more specifically in the euro area – as part of the EU's response to the current difficulties on sovereign debt markets (prevention and correction of macroeconomic imbalances).

LEGISLATIVE ACT: Regulation (EU) No 1176/2011 of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances.

CONTENT: on the basis of a compromise reached with the European Parliament, the Council adopted a package of **six legislative proposals** ("six-pack") aiming to strengthen economic governance in the EU – and more specifically in the euro area.

The measures set out to ensure the degree of coordination necessary to avoid the accumulation of excessive imbalances and to ensure sustainable public finances. This will help the EU's monetary union to function properly in the long term.

They consist of:

- a regulation amending regulation 1466/97 on the surveillance of Member States budgetary and economic policies;
- a regulation amending regulation 1467/97 on the EU's excessive deficit procedure;
- a regulation on the enforcement of budgetary surveillance in the euro area;
- **a regulation on the prevention and correction of macroeconomic imbalances**;
- a regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area;
- a directive on requirements for the Member States' budgetary frameworks.

The main elements of this Regulation are as follows:

Scope: beyond budgetary surveillance, the legislative package is aimed at **broadening the surveillance of the Member States' economic policies**. It establishes a mechanism for the prevention and correction of excessive macroeconomic imbalances, made up of two regulations which outline an "excessive imbalance procedure" and introduce the possibility of fines being imposed on Member States found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

Detection of imbalances: the starting point of the new framework is an alert mechanism for the early detection of imbalances, which will be assessed using a "scoreboard" of economic indicators. This will be followed by country-specific qualitative expert analysis.

Scoreboard: the scoreboard comprising the set of indicators, shall be used as a tool to facilitate early identification and monitoring of imbalances. It shall comprise a small number of relevant, practical, simple, measurable and available macroeconomic and macrofinancial indicators for Member States. It shall allow for the early identification of macroeconomic imbalances that emerge in the short-term and imbalances that arise due to structural and long-term trends. It shall encompass indicators which are useful in the early identification of:

(a) internal imbalances, including those that can arise from public and private indebtedness; financial and asset market developments, including housing; the evolution of private sector credit flow; and the evolution of unemployment;

(b) external imbalances, including those that can arise from the evolution of current account and net investment positions of Member States; real effective exchange rates; export market shares; changes in price and cost developments; and non-price competitiveness, taking into account the different components of productivity.

The Regulation stipulates that conclusions shall not be drawn from a mechanical reading of the scoreboard indicators. In undertaking its economic reading of the scoreboard in the alert mechanism, the Commission shall pay close attention to developments in the real economy, including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as research and development and foreign and domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance.

The indicators and thresholds should be adjusted when necessary, in order to adapt to the changing nature of macroeconomic imbalances due, inter alia, to evolving threats to macroeconomic stability, and in order to take into account the enhanced availability of relevant statistics.

In-depth review: the Commission shall undertake an in-depth review for each Member State that it considers may be affected by, or may be at risk of being affected by, imbalances. The in-depth review shall build on a detailed analysis of country-specific circumstances, including the different starting positions across Member States; it shall examine a broad range of economic variables and involve the use of analytical tools and qualitative information of country-specific nature. It shall acknowledge the national specificities regarding industrial relations and social dialogue. The Commission shall inform the European Parliament and the Council of the results of the in-depth review and shall make them public.

Preventive action: if, on the basis of its in-depth review, the Commission considers that a Member State is experiencing imbalances, it shall inform the Council and the Euro Group and the European Parliament. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned. The Council shall inform the European Parliament of the recommendation.

Opening of the excessive imbalance procedure: if, on the basis of the in-depth review, the Commission considers that the Member State concerned is affected by excessive imbalances, it shall inform the European Parliament, the Council and the Eurogroup accordingly. Any Member State for which an excessive imbalance procedure is opened shall submit a **corrective action plan** within a certain deadline. If the Council decides that the member state concerned has taken appropriate action, the procedure will be held in abeyance, and can be closed if the Council concludes that the imbalance is no longer considered to be excessive. On the other hand, repeated non-compliance with the recommendations can in the case of euro area Member States eventually lead to **sanctions**.

Economic Dialogue: in order to enhance the dialogue between the Union institutions, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability, **the competent committee of the European Parliament** may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Euro Group to appear before the committee to discuss matters including the results of multilateral surveillance carried out under the Regulation.

The competent committee of the European Parliament may offer the opportunity to participate in an exchange of views to the Member State which is the subject of a Council recommendation or decision.

Review: by 14 December 2014 and every 5 years thereafter, the Commission shall review and report on the application of this Regulation. The report shall evaluate, inter alia: (a) the effectiveness of this Regulation; (b) the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU. Where appropriate, those reports shall be accompanied by a proposal for amendments to this Regulation.

The Commission shall report annually on the application of this Regulation, including the updating of the scoreboard and shall present its findings to the European Parliament and to the Council in the context of the European Semester.

ENTRY INTO FORCE: 13/12/2011.

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

2010/0281(COD) - 14/02/2012 - Follow-up document

The Commission presents its Alert Mechanism Report, which is prepared in accordance with Articles 3 and 4 of the Regulation No 1176/2011 of the European Parliament and of the Council on the prevention and correction of macro-economic imbalances. This marks the first step in implementing the new surveillance procedure for the prevention and correction of macroeconomic imbalances (the Macroeconomic Imbalance Procedure – MIP). The report also contains the final design of the scoreboard of indicators.

Surveillance to prevent and correct macroeconomic imbalances under the MIP is a new instrument of the strengthened framework for economic governance in the EU. It was adopted as part of the 'six-pack' governance package, which also provides for a significant reinforcement of surveillance on fiscal policies.

The Scoreboard: the scoreboard has been established by the Commission and is made up of ten indicators with a view to monitor external imbalances, competitiveness and internal imbalances, including housing markets and indebtedness.

Currently, the design of the scoreboard is as follows:

External imbalances and competitiveness

- 3 year average of the current account balance as a percentage of GDP, with a threshold of +6% and - 4% of GDP;
- net international investment position (NIIP) as a percentage of GDP, with a threshold of -35%; the NIIP shows the difference between a country's external financial assets and its external financial liabilities;

- 5 year percentage change of export market shares measured in values, with a threshold of -6%;
- 3 year percentage change in nominal unit labour cost (ULC), with thresholds of +9% for euro area countries and +12% for non-euro area countries;
- 3 year percentage change of the real effective exchange rates (REER) based on HICP deflators, relative to 35 other industrial countries, with thresholds of -/+5% for euro-area countries and -/+11% for non-euro-area countries; the REER shows price competitiveness relative to the main trading partners.

Internal imbalances

- private sector debt as a percentage of GDP with a threshold of 160%;
- private sector credit flow as a percentage of GDP with a threshold of 15%;
- year-on-year changes in deflated house prices, with a threshold of 6%;
- public sector debt as a percentage of GDP with a threshold of 60%;
- 3-year average of unemployment rate, with a threshold of 10%.

Main findings

An adjustment of macroeconomic imbalances is underway in many Member States, especially those which have/had high external deficits and large imbalances in household and/or corporate balance sheets and in their public sectors. This process still has some way to go, and has led in a number of Member States to a significant rise in unemployment levels and a reduction in the level of economic activity in the short term. Reforms promoting productivity growth will have particular relevance for Member States suffering from macroeconomic imbalances due to their positive impact on potential output and adjustment capacity. In the current environment, the risks of new demand-led imbalances emerging are generally low, although pressures on asset markets could re-emerge once growth resumes.

Countries not examined under MIP: given that programme countries are already under enhanced economic surveillance of their economic situation and policies, they are not examined under the macroeconomic imbalances procedure. This concerns **Greece, Ireland, Portugal and Romania**. Latvia is under post programme surveillance as the balance of payment assistance programme expired on 19 January 2012 and is therefore examined in this report.

Member States identified for further analysis: on the basis of the economic reading of the scoreboard, the Commission considers that further in-depth analysis is warranted to closer examine issues involving several Member States. The broad approach reflects the fact that this is the first application of surveillance under this procedure and that it therefore has to cater also for the adjustment to previously accumulated imbalances. **The Member States concerned are: Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden and the United Kingdom.**

These Members States have different challenges and potential risks including spillover effects. Some Member States need to correct accumulated imbalances on both the internal and external side. They will have to reduce high levels of overall indebtedness and regain competitiveness so as to improve their growth prospects and export performance. In-depth analysis will help to assess the drivers of productivity, competitiveness and trade developments as well as the implications of the accumulated level of indebtedness and the degree of related imbalances in several Member States. Some countries are experiencing rapid adjustment partly due to catching-up effects and these developments may require a closer examination. Despite overall good macroeconomic performance some countries display developments in asset markets, including in particular housing, and a continuous build-up of indebtedness in the private sector, which also warrant further analysis.

Surpluses: the economic reading of the scoreboard indicators points to the need for further horizontal analysis on the drivers and policy implications of large and sustained current account surpluses, especially in some euro area Member States. The Commission notes the Member States that continue to **record persistent current account surpluses: Luxembourg and Sweden exceed the indicative threshold of 6%, while Germany and the Netherlands are just below it.** The Commission's 2011 autumn forecast points to some further narrowing of current account positions over next two years, although the reductions in deficits are likely to be mild in most cases, while in the Netherlands, for example, surpluses are set to increase.

The Commission will undertake further assessment of the divergence in economic performance across Member States, including **exploring trade and financial interlinkages between deficit and surplus countries** and examine ways for further re-balancing at the level of the euro area and within the global context. It will also assess the role played by structural factors, including the functioning of services markets, through their impact on domestic consumption and investment, as a driver of sustained surpluses and thus pointing towards the necessary policy guidance. In this context the Commission will also study further the role played by catching-up effects.

In the context of multilateral surveillance, the Commission invites the Council and the Euro Group to discuss this report. The Commission is also looking forward to feedback from the European Parliament and other stakeholders.

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

2010/0281(COD) - 17/12/2019 - Follow-up document

In accordance with Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, the Commission presented its alert mechanism report 2020.

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 at identifying imbalances that hinder the smooth functioning of Member State economies, the economic and monetary union or the Union as a whole, and spurring appropriate policy responses. This report initiates the ninth annual round of the macroeconomic imbalance procedure (MIP).

The alert mechanism report 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.

Economic background and outlook

The AMR analysis is carried out against the background of a changing economic outlook, where the economic expansion is weakening and inflation expectations have been revised downward. The European Commission autumn 2019 economic forecast estimates real GDP growth to be 1.4% in the EU and 1.1% in the euro area in 2019, implying a deceleration compared with 2% and 1.9% in 2018 respectively. For 2020, GDP is forecast to grow by 1.4% and 1.2% in the EU and the euro area respectively.

The report stated that data since late 2018 have pointed towards a loss of momentum, notably in net exports and in manufacturing output. The slowdown has been particularly visible in large euro area Member States more exposed to trade, on the back of heightened uncertainty surrounding the trade policy environment.

The changing outlook may imply a slower adjustment of existing imbalances or the materialisation of new risks, in a context where the room for policy to deal with shocks is narrowing. Downward risks to the economic outlook relate in particular to trade tensions and the disruption of global value chains, a stronger than expected slowdown in emerging markets, the aggravation of geo-political tensions.

Main challenges for Member States

The report finds that rebalancing within the euro area is still incomplete, while rebalancing of both current account deficits and surpluses is pressing in the current economic context and would be beneficial for all Member States. Whereas most large current account deficits have been corrected, large surpluses persist in a number of euro area countries. The main sources of potential imbalances in Member States are as follows:

- some Member States continue to be mainly affected by multiple and interconnected stock vulnerabilities. This is typically the case for those countries that were hit by boom-bust credit cycles coupled with current account reversals that also had implications for the banking sector and for government debt. This is the case for 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, where vulnerabilities are also linked to the banking sector and the large but rapidly declining stock of NPLs, and in a context of weak labour market performance. Belgium and France mainly face a high general government debt and potential growth issues amidst also compressed competitiveness. In France, a relatively high stock of private debt is on the rise. In Belgium, a relatively high and growing stock of household debt is coupled with possibly overvalued house prices; the external position remains solid but has weakened somewhat recently;

- 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 the Netherlands, a large surplus is coupled with a high stock of household debt and strong house price growth; house price pressures have been noted recently also in Germany but debt levels therein are comparatively low;

- 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 lesser extent in Austria, Denmark, Luxembourg, and the United Kingdom, sustained house price growth has been observed in recent years in a context of possible overvaluation gaps and significant levels of household debt. Stronger but more recent house price growth is coupled with more limited evidence of overvaluation in Czechia, Hungary, Latvia, Slovakia, and Slovenia, which in the cases of Czechia and Slovakia has been observed together with continued mortgage borrowing and rising debts by households.

In-depth reviews (IDRs)

Overall, IDRs are warranted for 13 Member States: Bulgaria, Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, and Sweden. All those Member States were subject to an IDR in the previous annual cycle of MIP surveillance, and were considered to be experiencing imbalances or excessive imbalances.

The new IDRs will help going deeper into the analysis of those challenges and assessing policy needs. In particular, forthcoming IDRs will be prepared to assess if those imbalances are aggravating or are under correction, with the view to update existing assessments.

This AMR points also to the possible building up of risks in a number of other Member States that, on the basis of current information, do not seem to warrant an IDR at this stage but nonetheless still justify a close monitoring notably in the upcoming country reports. Those risks concern notably developments related to competitiveness (Czechia, Estonia, Hungary, Latvia, Lithuania, and Slovakia) and to housing prices and housing markets and household debt developments (Austria, Belgium, Czechia, Denmark, Finland, Hungary, Luxembourg, Slovakia, Slovenia, and United Kingdom).