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

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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.