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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Economic governance review
Report on the application of Regulations (EU) n° 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013[1]

[1] Regulation (EU) no 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area; Regulation 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area; Regulation (EU) no 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; Regulation 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances; Regulation (EU) no 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure; Regulation 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability; Regulation (EU) no 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area. Although part of the six-pack, Directive 2011/85/EU of the Council of 8 November 2011 on the requirements for budgetary frameworks of the Member States is not part of this review exercise. It follows a separate timeline with review deadline by 14 December 2018.

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1. INTRODUCTION

As a response to weaknesses in its economic governance system revealed by the economic and financial crisis, the EU has taken a wide range of measures to strengthen economic governance and to achieve sustained convergence, economic growth and jobs. Central to these efforts have been the legislative packages known as the six-pack and two-pack. The seven Regulations of these packages are the subject of this review[2]; on one of them, Regulation 472/2013, a first review was published already in February 2014.[3] The legislation aims at a closer coordination of economic policies through a strengthening of budgetary surveillance under the Stability and Growth Pact, the introduction of a new procedure in the area of macroeconomic imbalances, the establishment of a framework for dealing with countries experiencing difficulties with financial stability, and the codification in legislation of integrated economic and budgetary surveillance in the form of the European Semester.

The key question under consideration in this review is to what extent the new rules introduced by the six-pack and two-pack have been effective in achieving their objectives and to what extent they have contributed to progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States, while at the same time ensuring a high level of transparency, credibility and democratic accountability.

The ability to draw conclusions on the effectiveness of the regulations is limited by the short experience of their operation, with the six-pack entering into force in end-2011 and the two-pack only in mid-2013. Not only is this time period short, but it has also been characterised by a severe economic crisis. This leaves the rules untested in normal economic times.

2. EFFECTIVENESS OF THE REGULATIONS

The following sub-sections deal with the effectiveness of each of the Regulations in achieving its objectives on a topical basis for the different elements of the new economic governance legislation.

2.1. Fiscal surveillance

Objectives

The financial and economic crisis and the resulting increases in deficits and debt level in the EU required a profound reform of the Stability and Growth Pact[4], both in its preventive and

[2] The various regulations provide for a review by 14 December 2014.

[3] COM(2014) 61 final of 6 February 2014.

[4] The Stability and Growth Pact was initially set up in 1997 to enable the coordination of fiscal policies among Member States to avoid that unsustainable fiscal policies undermine the common monetary policy geared towards price stability. The Pact consists of two arms. The preventive arm aims to ensure the underlying strength of Member States' public finances to create macroeconomic stability and fiscal space to address economic shocks that may arise. The core requirement is that Member States reach and maintain a Medium Term Objective, a country-specific budgetary reference value defined in structural terms (that is, cyclically

the corrective arm.[5] Overall, the two main objectives of the six-pack and two-pack reforms in the area of fiscal surveillance were (1) a strengthened and deepened budgetary surveillance by making it more continuous and integrated, also via an intensified sanctions mechanism; and (2) an additional surveillance for euro area Member States to ensure the correction of excessive deficits and an appropriate integration of EU policy recommendations in the national budgetary preparation.

In particular, the *preventive arm* was reinforced and made more binding. The six-pack established the concept of a significant deviation from the medium-term objective, or from the adjustment path towards it. Insufficient correction of such a deviation can eventually lead to financial sanctions for a euro area country. The requirements for the adjustment path were designed to take into account sustainability risks and the overall economic context. The expenditure benchmark was introduced to provide clearer and more operational guidance to Member States. The increased involvement and enforcement in the preventive arm reflect the importance of prudent fiscal policies during good economic times.

The *corrective arm* was upgraded by operationalising the Treaty's debt criterion. The sanctions imposed on euro area countries non-compliant with recommendations under the Excessive Deficit Procedure were intensified. New provisions on annual nominal and structural deficit targets for the duration of the Excessive Deficit Procedure were introduced. Overall, the Stability and Growth Pact was made more flexible via the possibility to adapt the pace of fiscal consolidation both in the preventive and corrective arm in justified cases.

Recognising the extent and potential consequences of spillovers among euro area Member States' economic and budgetary situations, the Two Pack introduced additional surveillance and monitoring procedures for euro area Member States. A system of graduated monitoring by the Council and the Commission was established in order to secure a timely and durable correction of excessive deficits and to allow an early detection of the risks that a Member State does not comply with the Pact rules. This includes the analysis of euro area Member States' draft budgetary plans each autumn and the possibility for the Commission to provide autonomous recommendations to Member States with excessive deficits. It also contains the requirement for the latter countries to present Economic Partnership Programmes describing the fiscal-structural reforms that are implemented to ensure an effective and lasting correction of those deficits.

As a complement to the above, the Two Pack also built on the Six Pack's Directive on budgetary frameworks and introduced further elements strengthening the fiscal frameworks of the euro area Member States: stronger emphasis on medium-term planning, better synchronised and more transparent budgeting processes, procedures to foster the use of

adjusted and net of one-off and temporary measures). The aim of the corrective arm, the excessive deficit procedure, is to correct gross budgetary policy errors. It is anchored in thresholds for deficit and debt of respectively 3% and 60% of GDP.

[5] Annex 1.1 summarises the changes in the Stability and Growth Pact introduced by the six-pack/two-pack.

unbiased macroeconomic forecasts for budget planning, as well as independent monitoring of compliance with fiscal rules at national level.

Assessment

Overall, the reformed framework has proven effective in strengthening budgetary surveillance and thus in guiding Member States in their efforts to consolidate public finances in difficult economic conditions. While the rules have only been in operation for a rather short period of time and their specific contribution is difficult to distinguish from other factors driving various policy actions, the first experience suggests that the reformed EU fiscal rules indeed have played a role. Overall, there has been progress in addressing fiscal consolidation, with the EU-28 average fiscal deficit falling from 4.5% of GDP in 2011 to a forecast of around 3% of GDP in 2014.

The performance under the reformed *preventive arm* can so far be considered as encouraging. Most concerned Member States have attained, or made appropriate progress towards their medium-term objectives (see Annex 1.2). A significant deviation has not been detected so far. However, it is when economic conditions improve that it will be possible to gain an even better understanding of the effectiveness of the preventive arm, particularly regarding the expenditure benchmark.

Under the *corrective arm*, the sustainable correction of excessive deficits has been impressive since the six-pack entered into force in December 2011. At that time, 23 out of 27 Member States were subject to an Excessive Deficit Procedure (see Annex 1.3). By end-August 2014, this number fell to 11 out of 28. The experience with the *debt benchmark* is very limited, not least as the new rules included a transition period for the debt benchmark to fully enter into force. Nevertheless, the operationalisation of the debt criterion has increased the awareness of the relevance of debt for fiscal stability and has offered additional incentives to bring debt on a sustainable path. The intermediate *nominal and structural deficit targets* under the Excessive Deficit Procedure have enabled more precise and transparent policy advice and monitoring. It mitigated the adverse incentives to back-load structural adjustment and allowed taking into account the uncertainty on the macroeconomic scenario underlying the recommendation. The possibility to adapt existing recommendations has been used for well justified reasons, and has proved particularly valuable in adapting the consolidation trajectories in the fast changing environment of the past ten years.

As *no sanctions have been imposed* on countries non-compliant with the reformed Stability and Growth Pact rules, it is not possible to fully assess whether the objective of a more effective enforcement of budgetary surveillance in the euro area was indeed achieved. It can however be said that the additional budgetary surveillance elements for euro area Member States introduced by the two-pack seem to have broadly fulfilled their objective to increase at least the pressure to correct excessive deficits. The possibility for the Commission to issue *autonomous recommendations* has been a significant addition to the monitoring of the

Member States with excessive deficits, as it will allow for earlier guidance for countries with excessive deficits. This implies better detection of risks and allows the Member State to take them into account and to adopt precautionary measures. The *Economic Partnership Programmes* will increase the awareness of policy-makers of the link and importance of structural reforms for fiscal sustainability. This requires focusing Economic Partnership Programmes on identifying specifically those existing and potentially necessary measures that address the sustainability of the deficit correction.

In autumn 2013, a first transparent, comparable and independent assessment of Draft Budgetary Plans of all euro area Member States took place before the budgets were adopted by the national Parliaments.[6] This exercise marks an important shift in the approach to fiscal surveillance from ex-post assessment to ex-ante guidance. It thus helps to fulfil the objective of an appropriate integration of EU policy recommendation in the national budgetary preparation.

In addition, the Two Pack's drive to strengthen the fiscal frameworks of euro area Member States has already produced tangible improvements. The scope and quality of annual budgeting and medium-term fiscal planning have been upgraded. These processes are now generally based on independently produced or endorsed macroeconomic forecasts. National budgeting processes in the euro area are being aligned with the common milestones set out in the Two Pack. A host of bodies entrusted under national law to independently monitor the respect of national fiscal rules have been established or reinforced across the euro area. Since most of these bodies have only been incorporated recently, their independence, credibility and effectiveness will have to be confirmed by practice over the coming years.

The rules have allowed a balance to be found between sustainability and cyclical stabilisation requirements, *inter alia*, by the modulation of the fiscal effort according to economic conditions and sustainability risks in the preventive arm and the extension of deadlines for correcting excessive deficits in the corrective arm. A *general escape clause* exists in both the preventive and corrective arm to deal with exceptional situations constituting threats to the economies of the euro area or the EU as a whole.

2.2 Macroeconomic imbalance procedure

Objectives

In the Macroeconomic Imbalance Procedure[7] 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 objectives of the two regulations which introduced the Macroeconomic imbalances procedure were to establish an effective framework for (1) the detection of macroeconomic imbalances, (2) the prevention

[6] Annex 1.5 gives an overview of the conclusions of the exercise.

[7] Regulation 1174/2011 and Regulation 1176/2011.

and correction of excessive macroeconomic imbalances and (3) the effective enforcement of the correction of excessive macroeconomic imbalances in the euro area.

To achieve these objectives, the following main tools were introduced:

The *Alert Mechanism Report* is an initial screening device 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 report also contributes to identifying the imbalance issues of common interest for which discussion and coordination among the Member States is necessary via a scoreboard of indicators and a series of auxiliary variables (including a set of social indicators). The *in depth reviews* 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. When preparing the in depth reviews, the Commission bases its analysis on a rich set of analytical material. Based on the assessment and conclusions from these in depth reviews further steps under the macroeconomic imbalances procedure may follow, depending on the gravity of the situation and risks. In the *preventive arm* of the macroeconomic imbalances 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 and if implementation is found wanting.

In 2013, the Commission strengthened the social dimension of the EMU by developing a key employment and social indicators scoreboard and extending the number of extra indicators underpinning the annual Alert Mechanism Report, such as the participation rate, the long-term unemployment rate, the youth unemployment rate and the at risk of poverty or social exclusion rate. 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. The Commission will also make sure that European social partners are better associated to the European Semester process.

Assessment

While the aim of the *Alert Mechanism Report and its scoreboard* is not to attempt a mechanistic identification of imbalances, the scoreboard has shown itself to be a useful tool to provide a first assessment of risks and of the correction of imbalances. Moreover, 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. The scoreboard is not a static tool and a number of changes have been implemented by the Commission over the last three years in cooperation with the Parliament and the Council. Although there is merit in keeping the design of the scoreboard relatively stable, regular assessments of the scoreboard variables continue to be necessary in order to take into account not only developments in the economy and related risks, but also statistical progress.

The *in-depth reviews* have proven to be a core part of the Macroeconomic Imbalances Procedure. They have covered the most important imbalances in each economy and the way they may affect growth, jobs and financial stability in the medium-term. During the first three annual rounds, the Commission has published 42 in-depth reviews (2012: 12 Member States, 2013: 14 Member States, 2014: 17 Member States), for a total of 18 Member States.[8] This reflects the fact that the first rounds of the Macroeconomic Imbalances Procedure took place in a context of crisis and recovery, with several Member States being identified as experiencing imbalances (and a few excessive imbalances) that require detailed and frequent analysis. The increase in the number of (i) Member States that were scrutinised in in-depth reviews, (ii) imbalances identified by the Commission and (iii) excessive imbalances does not mean that the macroeconomic risks in the EU have increased. They reveal a procedure that progressively comes of age, widens its scope of interest, and endeavours to identify potentially harmful developments before they have an impact on the economies. As regards the question whether the procedure has been effective in identifying the relevant policy issues, contributed to deliver appropriate policy recommendations, and to their monitoring and had an impact on the policy debates in each Member State and in the EU as a whole, it needs to be pointed out that the Macroeconomic Imbalances Procedure, together with other elements of economic governance, has contributed to a shared understanding among Member States of their specific and common policy challenges and the policy response. However, there is a 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.

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 in-depth reviews. However the Commission has, in each of these cases, used the inherent flexibility in the Macroeconomic Imbalances Procedure framework to put in motion a specific and *close monitoring of policy implementation*, contributing to peer pressure, real-time assessment of action and promoting reform action in the Member States[9].

[8] See Annex 2 for detail.

[9] The Commission published two reports on the specific monitoring of policy implementation in Spain and Slovenia in autumn and winter 2013-4.

2.3 Euro area countries experiencing difficulties with financial stability[10]

Objectives

The main objective of the second two-pack regulation is to strengthen monitoring and surveillance for Member States threatened with, or experiencing, serious difficulties regarding their financial stability. It aims to establish transparent, efficient, streamlined, and predictable surveillance processes for the Member States under enhanced surveillance, macroeconomic adjustment programme and post-programme surveillance. For euro area Member States under an adjustment programme the implementation of otherwise overlapping procedures under preventive instruments, including the European Semester, the Macroeconomic Imbalances Procedure and the other two pack regulation, are suspended. This reflects inter alia the role of the Macroeconomic Imbalances Procedure as a preventive procedure, not a crisis-management instrument.[11]

Assessment

Euro area Member States in receipt of financial assistance linked to a macroeconomic adjustment programme at the date of entry into force of the Regulation in May 2013 were Greece, Ireland, Portugal and Cyprus. Cyprus and Greece, where programmes are still ongoing, have made a partial return to the markets earlier than expected. Spain had requested financial assistance only for the recapitalisation of financial institutions, and was not subject to a macroeconomic adjustment programme. In the meantime, Ireland and Portugal have successfully completed the macroeconomic adjustment programme and have entered the post-programme surveillance phase. Spain is also subject to post-programme surveillance since the expiry of its financial sector programme in January 2014. All three countries have regained sovereign market access at sustainable interest rates. Overall, considerable achievements have been made in reducing fiscal deficits in current and former programme countries, and overall public debt is stabilising.

Based on the experience with these countries, the integrated set of rules indeed increases the transparency, predictability, practicality and efficiency of country surveillance and monitoring of Member States that are experiencing or is threatened with serious financial difficulties. However, since the Regulation entered into force only after all current and completed programmes had started, the effectiveness assessment is necessarily incomplete. In particular, many provisions of the regulation are relevant for the period in which programmes are developed and negotiated. In the existing programmes, these periods took place before the

[10] A formal review was already undertaken earlier this year. See COM(2014) 61 final.

[11] At the end of the programme, a Member State becomes subject to the MIP procedures and the analysis in the in-depth review determines whether it should be in the preventive or corrective arm of the MIP. On the basis of the experience so far, the interaction between the MIP and the adjustment programmes has been very smooth. However, the annual cycle of the MIP may imply a relatively long delay between the enhanced surveillance under an expiring programme and the monitoring under the excessive imbalance procedure (in case lingering excessive imbalances outlived the programme), partly outweighed by post-programme surveillance.

regulation entered into force. The effectiveness of the regulation cannot therefore be evaluated as regards these earlier phases. In addition, it is not possible to assess the effectiveness of the regulation with regard to enhanced surveillance, as no euro area Member State has yet been placed under enhanced surveillance. The ability to assess the effectiveness of post-programme surveillance is also limited by the fact that Ireland, Spain and Portugal have been under post-programme surveillance for less than a year. Effectiveness can thus be thoroughly evaluated only as regards existing macroeconomic adjustment programmes. Given the above mentioned economic developments, the existing macroeconomic adjustment programmes have achieved the objectives of the regulation to rapidly re-establish a sound and sustainable economic and financial situation and to restore financial market access. Should the other provisions be implemented in the future, the Regulation foresees inter alia improvements in the information of the European Parliament and a set of requirements aiming at better taking into account the social impact of programmes and better protecting fundamental policies, such as health care and education.

3. ECONOMIC CONVERGENCE, THE ACHIEVEMENT OF THE GOALS OF THE UNION'S STRATEGY FOR GROWTH AND JOBS AND CLOSER COORDINATION OF ECONOMIC POLICIES

The impact of the revised economic governance system on sustained convergence is difficult to assess given that the time period since the introduction of the new legislation is far too short to draw meaningful conclusions. The experience with the macroeconomic imbalances procedure is a good example in this context. While many 'flow' imbalances, like the current account deficits, have been addressed, this is not yet the case of 'stock' imbalances, like the external liabilities. Therefore, although there has been a reduction in the macroeconomic risks for many countries, a meaningful assessment whether the policy recommendations derived from the procedure have indeed contributed to improve growth, jobs and financial stability would require a much longer time frame than the experience of the macroeconomic imbalances procedure so far. In particular the true test will be whether the instrument can prevent a build-up of imbalances and risks during economic 'good times'.

Nonetheless, by ensuring closer coordination of policies, the new governance system should help foster growth convergence and the achievement of the goals of the Europe 2020 strategy for smart, sustainable and inclusive growth.[12] And, by preventing the build-up of large macroeconomic imbalances the new governance system should mitigate the forces which are currently the main cause of the large cyclical divergences between Member States. The six-pack and two-pack Regulations have significantly strengthened the EU's governance framework in different policy areas. The European Semester combines these different tools in an overarching framework for integrated multilateral economic and budgetary surveillance,

[12] For more extensive analysis of progress on the Europe 2020 strategy, see European Commission, *Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth,* COM(2014)130.

and the streamlining and strengthening of the 2015 European Semester as set out in the Commission's 2015 Annual Growth Survey will further improve its functioning. [13]

The relationships between the various instruments of economic surveillance are complex and limit the transparency of policy making, which in turn poses challenges for its implementation, for communication with stakeholders and the general public and consequently for ownership, democratic legitimacy and accountability. 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.

4. CONCLUSION

The economic governance system has gone through profound changes in the aftermath of the financial and economic crisis. The various pieces of governance legislation have been at the core of this evolution and have significantly bolstered the existing governance setup. Overall, deficits have declined with many countries having exited the Excessive Deficit Procedure and imbalances are being corrected. However, growth is still fragile with economic challenges still being large.

Due to the limited timespan since its entry into force, experience with the application of this new economic governance system has been limited and a number of specific instruments remain untested. Furthermore, the system has so far been applied in (the aftermath of) a severe financial and economic crisis, which limits the possibilities to judge the effectiveness of the system under more benign economic circumstances. Indeed, the efficiency of the system to a large extent relies in the proper working of the preventive part of it, which is precisely what remains to be proven in better economic times.

This review has revealed some strengths as well as possible areas for improvement, concerning transparency and complexity of policy making, and their impact on growth, imbalances and convergence. The Commission plans to discuss these with the European Parliament and the Council in the coming months.

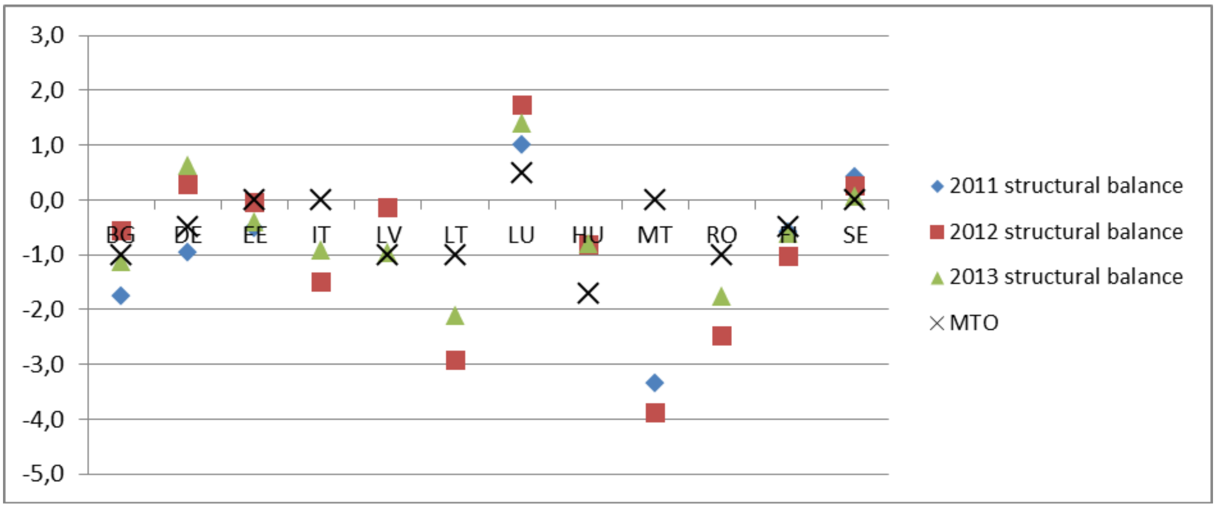
ANNEX 1: FISCAL SURVEILLANCE

1.1 Changes to the preventive and corrective arms of the SGP from the 2011 reforms (in italics) within the existing requirements

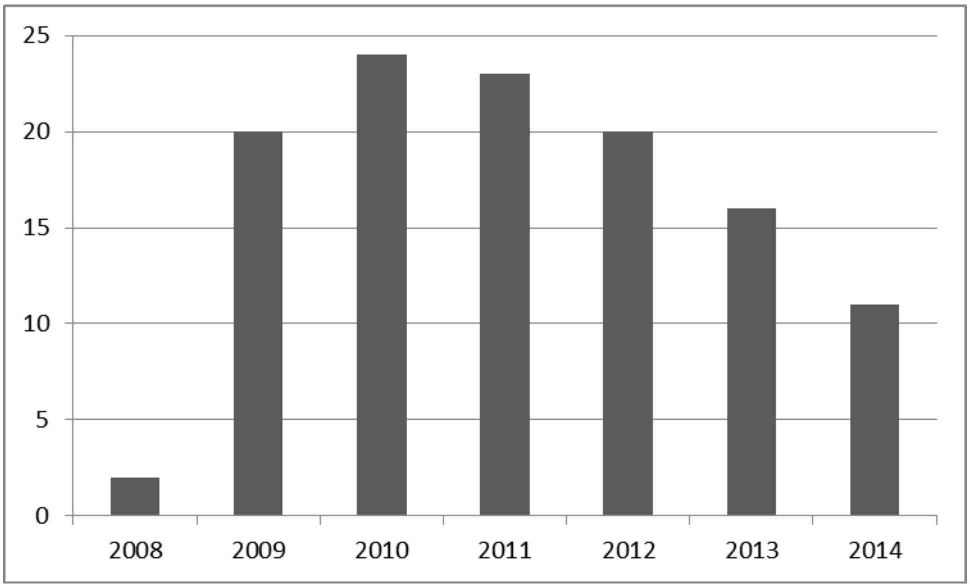
Objective	**Specification**	**Adjustment path**	**Enforcement specification**
Preventive arm			
Requirement of a close to balance or in surplus position	Country specific MTO in structural terms: - Provide a safety margin with respect to the 3% deficit limit - Ensure rapid progress towards sustainability - Allow room for budgetary manoeuvre For euro area and ERMII MS: limits of -1% of GDP *Expenditure benchmark: expenditure net of discretionary measures should grow ≤ medium-term potential GDP*	0.5% GDP as a benchmark: - More in good times - Less in bad times *>0.5% if debt above 60% or if pronounced sustainability risks* Temporary deviation from the adjustment path allowed if: - Implementation of major structural reforms with a verifiable impact on the long-term sustainability of public finances – emphasis on pension reform - *Unusual event outside the control of the MS concerned with a major impact on its financial position* - *Severe economic downturn for the euro area or the EU as a whole provided this does not endanger medium term fiscal sustainability*	*Procedure for correcting significant deviation (0.5% in one year or cumulatively over 2 years from the MTO or the adjustment path it)* *For euro area: financial sanctions in case of repeated non-compliance (interest-bearing deposit of 0.2% of GDP)*
Corrective arm			
Correct gross policy errors	Sets limits: - Deficit of 3% of GDP - Debt of 60% of GDP or sufficiently diminishing *Definition of sufficiently diminishing = respect of debt reduction benchmark* *Debt reduction benchmark = reduction of 5% per year on average over 3 years of the gap to 60% taking the cycle into account or respect in the next two years.* *(Transition period for MS in EDP at entry into force (Dec*	Minimum annual improvement of at least 0.5% of GDP as a benchmark in structural terms Possible extension of deadline: - If effective action has been taken and unexpected adverse economic events with major unfavourable consequences for government finances - *In case of severe economic downturn in the euro area or in the Union as a whole provided that this does not endanger fiscal sustainability in the medium-term*	*For the euro area: Early and gradual sanction system to be activated at each stage of the EDP procedure*

	2011) for three years after the correction of the excessive deficit.)		

1.2 The structural balance and MTO for countries in the preventive arm



1.3 The number of EU Member States under the EDP



1.4 Structural effort recommended by the Council in the EDP recommendations (percentage points of GDP)

		2009	2010	2011	2012	2013	2014	2015	2016
IE	27/04/2009		1.5	1.5	1.5	1.5			
	02/12/2009		2	2	2	2	2		
	07/12/2010			1.9[1]	1.9[1]	1.9[1]	1.9[1]	1.9[1]	
FR	27/04/2009		1	1	1				
	02/12/2009		1.1[2]	1.1[2]	1.1[2]	1.1[2]			
	21/06/2013					1.3	0.8	0.8	
ES	27/04/2009		1.25	1.25	1.25				
	02/12/2009		1.6	1.6	1.6	1.6			
	10/07/2012				2.7	2.5	1.9		
	21/06/2013					1.1	0.8	0.8	1.2
MT	16/02/2010			0.75					
	21/06/2013					0.7	0.7		
BE	02/12/2009		0.75	0.75	0.75				
	21/06/2013					1			
DE	02/12/2009		0.5	0.5	0.5	0.5			
IT	02/12/2009		0.5	0.5	0.5				
NL	02/12/2009			0.75	0.75	0.75			
	21/06/2013					0.6	0.7		
AT	02/12/2009			0.75	0.75	0.75			
PT	02/12/2009		1.25	1.25	1.25	1.25			
	09/10/2012				2.3	1.6	1.3		
	21/06/2013					0.6	1.4	0.5	
SI	02/12/2009		0.75	0.75	0.75	0.75			
	21/06/2013					0.7	0.5	0.5	
SK	02/12/2009		1	1	1	1			
UK	08/07/2008	0.5							
	24/03/2009		1	1	1	1			
	02/12/2009		1.75	1.75	1.75	1.75	1.75		
LV	07/07/2009		2.75	2.75	2.75				
PL	07/07/2009		1.25	1.25	1.25				
	21/06/2013					0.8	1.3		
	02/12/2013						1	1.2	
LT	07/07/2009	1.5	1.5	1.5					
	16/02/2010		2.25	2.25	2.25				
RO	07/07/2009		1.5	1.5					
	16/02/2010		1.75	1.75	1.75				
CZ	02/12/2009		1	1	1	1			
BG	13/07/2010			0.75					
DK	13/07/2010			0.5	0.5	0.5			

Annual average effort. Shaded cells indicated annual targets. Does not contain Greece and Cyprus (fiscal effort was expressed in changes in primary balance (for Greece) or nominal value of measures (for Cyprus)
Notes: [1] Recommendation expressed in cumulative terms over the entire EDP period. [2] "Above 1% of GDP"

1.5 Commission opinions of 15 November 2013 on draft budgetary plans

Country	Overall compliance of Draft Budgetary Plan with SGP			Overall compliance with the fiscal-structural reforms in 2013 CSRs	
	Overall conclusion based on the Commission 2013 Autumn Forecast	**Compliance with the Excessive Deficit Procedure in 2013/2014**	**Compliance with the Preventive Arm requirements in 2014**	**Overall conclusion on progress towards fiscal-structural reforms**	**Progress on individual reforms in response to the structural part of the fiscal CSR since June 2013**
BE	Broadly compliant	Durable correction of the excessive deficit in 2013	Some deviation from the adjustment path towards the MTO	Limited progress	Limited action: Explicit coordination arrangements between federal and sub-federal levels
DE	Compliant	n.r.	MTO overachieved	No progress	No action on the structural parts of the fiscal CSR
EE	Compliant	n.r.	At MTO	Some progress	Progress: Budget-balance rule Limited action: Multi-annual expenditure rules and ceilings
ES	Risk of non-compliance	Fiscal effort delivered in 2013, at risk in 2014	n.r.	Some progress*	Progress: Independent fiscal institution; public sector arrears; indexation schemes; pension system; public administration reform; health care spending. Limited action: Comprehensive expenditure review; review of tax system
FR	Compliant with no margin	Fiscal effort delivered both in 2013/2014	n.r.	Limited progress*	Progress: Pension system Limited action: Spending review; tax system; decentralisation
IT	Risk of non-compliance	n.r.	Compliance with the debt benchmark in 2013, at risk in 2014	Limited progress	Limited action: Public expenditure; tax policy
LU	Risk of non-compliance	n.r.	Significant deviation from MTO	Some progress	Progress: Medium-term budgetary framework
MT	Risk of non-compliance	Headline target met in 2013, fiscal effort at risk in both 2013/2014	n.r.	Limited progress*	Progress: Fiscal framework; efficiency of public administration (adoption and implementation risks remain); healthcare (information is inconclusive) Limited action: Pension system
NL	Compliant with no margin	Fiscal effort delivered both in 2013/2014	n.r.	Some progress*	Progress: Fiscal framework; housing market (implementation of past reforms) Limited action: Pension system; tax credits and allowances
AT	Broadly compliant	Durable correction of the excessive deficit in 2013	Some deviation from adjustment path towards the MTO	Some progress	Progress: Pension system; labour market Limited action: Linking pension benefits to changes in life expectancy; harmonisation of pension ages
SI	Compliant with no margin	Fiscal effort delivered both in 2013/2014	n.r.	Limited progress*	Progress: Tax system; fiscal framework; long-term care Limited action: Pension system
SK	Broadly compliant	Durable correction at risk in 2014 – Fiscal effort delivered	Some deviation from adjustment path towards the MTO	Limited progress	Progress: Tax system (collection) Limited action: Pension system; tax policy; health care; budgetary rules
FI	Risk of non-compliance	n.r.	Significant deviation from adjustment path towards the MTO, breach of the 60% threshold in 2014	Some progress	Progress: Public sector efficiency; finances of the municipal sector; pension reform

ANNEX 2: MACROECONOMIC IMBALANCES PROCEDURE

2.1 overview of results of MIP application

	Conclusions of the AMRs	Conclusion after IDRs				Comments
		Imbalances	of which excessive imbalances			
			In the view of the Commission	Recommended by the Commission to be established by the Council	Formally established by the Council	
2012	*IDRs to be prepared for 12 Member States:* BE, BG, DK, ES, FR, IT, CY, HU, SI, SE, FI, UK. *No IDR necessary (so no imbalance) for 11 Member States*: CZ, DE, EE, LV, LT, LU, MT, NL, PL, AT, SK. *Programme countries (4)*: EL, IE, PT, RO.	All Member States (12) for which an IDR was prepared.	None.	None.	None.	The cases of Cyprus and Spain were close calls (the Commission characterised the imbalances in these countries as very serious). Since both countries requested financial assistance (although of different natures) shortly afterwards, one may argue, with the benefit of hindsight, that an excessive imbalance should have been identified. The Commission characterised the imbalances in France, Italy, Hungary and Slovenia as serious.
2013	*IDRs to be prepared for 14 Member States:* BE, BG, DK, ES, FR, IT, HU, CY, MT (new), NL (new), SI, SE, FI, UK. *No IDR necessary (so no imbalance) for 9 Member States*: CZ, DE, EE, LV, LT, LU, PL, AT, SK. *Programme countries (5)*: EL, IE, PT, RO, and shortly after publication of AMR: CY.	All Member States (13) for which an IDR was prepared	ES, SI.	None.	None.	No IDR was effectively prepared for Cyprus, as an agreement on financial assistance was reached between the publication of the AMR and of the IDRs. The Commission characterised the imbalances in France, Italy and Hungary as requiring decisive policy actions. Notwithstanding identification of excessive imbalances in Slovenia and Spain in 2013 the

	ES was not considered a programme country given the sectorial nature of its adjustment programme and financial assistance.					corrective arm in the sense of the MIP was not used, given the quality of the policy reaction outlined in their NRPs and stability programmes. Instead, the Commission put in motion a specific, but informal, monitoring for these two Member States and kept open the possibility of triggering the corrective arm at a later stage.
2014	*IDRs to be prepared for 17 Member States:* BE, BG, DE (new), DK, IE (new, after successful completion of adjustment programme and re-integration in standard procedures), ES, FR, HR (new, after accession), IT, LU (new), HU, MT, NL SI, SE, FI, UK. *No IDR necessary (so no imbalance): for 7 Member States*: CZ, EE, LV, LT, PL, AT, SK. *Programme countries (4)*: EL, CY, PT, RO	All Member States for which an IDR was prepared, except DK, MT and LU, for which no imbalance was found (14).	IT, HR, SI.	None	None	The Commission characterised the imbalances in Ireland, Spain, France, Italy and Hungary as requiring decisive policy actions. This was the first time for a number of steps: -- 'de-escalations' in the procedure with Spain shifting from excessive imbalance to imbalance. -- no imbalances were identified on the basis of an IDR in three cases: (DK, LU, MT). -- an IDR was for the first time prepared fundamentally because of a very large current account surplus (for Germany) --an ex-programme country (Ireland) was reintegrated into the MIP. As in 2013, the corrective arm was not triggered as the Commission considered the measures presented in the NRPs and Stability and Convergence Programmes sufficiently ambitious. Instead, the Commission announced a specific monitoring of policy implementation for Italy, Croatia and Slovenia (excessive imbalances), but also for Ireland and Spain (relying on post programme surveillance) and France.

2.2 Nature of Imbalances and Excessive Imbalances identified in the 2012-2014 rounds

	Year	Nature of imbalances
BE	**2012**	*Imbalance*: Macroeconomic developments in the areas of external competitiveness of goods and indebtedness, especially concerning the high level of public debt, deserve further attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: Macroeconomic developments in the areas of external competitiveness of goods, and indebtedness, especially concerning the implications of the high level of public debt for the real economy, continue to deserve attention.
	2014	*Imbalance*: Developments with regard to the external competitiveness of goods continue to deserve attention as a persistent deterioration would threaten macroeconomic stability.
BG	**2012**	*Imbalance*: the level of external indebtedness as well as certain macroeconomic developments related to corporate sector deleveraging and the adjustment process through labour markets deserve attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: the impact of deleveraging in the corporate sector as well as the continuous adjustment of external positions, competitiveness and labour markets deserve continued attention.
	2014	*Imbalance*: the protracted adjustment of the labour market warrants policy actions, while the correction of the external position and corporate deleveraging are progressing well.
DK	**2012**	*Imbalance*: certain macroeconomic developments, notably underlying the external competitiveness and the potential risks related to household indebtedness, deserve attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: the continuing adjustment in the housing market and the high level of indebtedness in the household and private sector as well as drivers of external competitiveness, deserve continued attention.
	2014	*No longer an imbalance in the sense of MIP*: The adjustment on the housing market and the implications of a high private sector debt for the real economy and the stability of the financial sector seem contained. However, these developments, as well as drivers of external competitiveness deserve continued monitoring.
DE	**2014**	*Imbalance*: the current account has persistently recorded a very high surplus, which reflects strong competitiveness while a large amount of savings were invested abroad. It is also a sign that domestic growth has remained subdued and economic resources may not have been allocated efficiently. Although the current account surpluses do not raise risks similar to large deficits, the size and persistence of the current account surplus in Germany deserve close attention. The need for action so as to reduce the risk of adverse effects on the functioning of the domestic economy and of the euro area is particularly important given the size of the German economy.
IE	**2014**	*Imbalances requiring specific monitoring and decisive policy action*: financial sector developments, private and public sector indebtedness, and, linked to that, the high gross and net external liabilities and the situation of the labour market mean that risks are still present.
ES	**2012**	*Very serious imbalance*: macroeconomic developments, notably related to the significant level of private sector debt, the large negative external position and the financial sector, which were influenced by housing market developments, require close monitoring and urgent economic policy attention in order to avert any adverse effects on the functioning of the economy and of economic and monetary union.
	2013	*Excessive imbalance*: very high domestic and external debt levels continue to pose risks for growth and financial stability. The decisive policy action at the EU level and by Spain has resulted in a visible adjustment of flows, reduction in financing costs and a reduction of immediate risks.

	2014	*Imbalances requiring specific monitoring and decisive policy action*: In several dimensions, the adjustment of the imbalances identified last year as excessive has clearly advanced and the return to positive growth has reduced risks. Yet, the magnitude and inter-related nature of the imbalances, in particular high domestic and external debt levels, mean that risks are still present. The Commission will continue a specific monitoring of the policies recommended by the Council to Spain in the context of the European Semester, and will regularly report to the Council and the Euro Group. This monitoring will rely on post-programme surveillance.
FR	**2012**	*Serious imbalance*: certain macroeconomic developments in the areas of export performance and competitiveness deserve attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalances requiring specific monitoring and decisive policy action:* the deterioration in the trade balance and competitiveness levels, driven both by cost and non-cost factors, against a background of a deteriorating external position and high public debt deserves continued attention. The need for action so as to reduce the risk of adverse effects on the functioning of the French economy and of the Economic and Monetary Union, is particularly important notably given the size of the French economy.
	2014	*Imbalances requiring specific monitoring and decisive policy action:* the deterioration in the trade balance and in competitiveness as well as the implications of the high level of public sector indebtedness deserve continuous policy attention. The need for decisive action so as to reduce the risk of adverse effects on the functioning of the French economy and of the euro area is particularly important given the size of the French economy and potential spillovers onto the functioning of the euro area. Given the need for policy action already called in the 2013 IDR, the Commission will put in motion a specific monitoring of the policies recommended by the Council to France in the context of the European Semester, and will regularly report to the Council and the Euro Group.
HR	**2014**	*Excessive imbalance*: policy action is required in view of the vulnerabilities arising from sizeable external liabilities, declining export performance, highly leveraged firms and fast-increasing general government debt, all within a context of low growth and poor adjustment capacity.
IT	**2012**	*Serious imbalance*: macroeconomic developments in the area of export performance deserve attention as Italy has been losing external competitiveness since euro adoption. Given the high level of public debt, enhancing the growth potential should be a key priority so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalances requiring specific monitoring and decisive policy action:* export performance and the underlying loss of competitiveness as well as high public indebtedness in an environment of subdued growth deserve continued attention in a broad reform agenda in order to reduce the risk of adverse effects on the functioning of the Italian economy and of the Economic and Monetary Union, notably given the size of the Italian economy.
	2014	*Excessive imbalance*: the implications of the very high level of public debt and weak external competitiveness, both ultimately rooted in the protracted sluggish productivity growth, deserve urgent policy attention. The need for decisive action so as to reduce the risk of adverse effects on the functioning of the Italian economy and of the euro area, is particularly important given the size of the Italian economy.
CY	**2012**	*Very serious imbalance*: macroeconomic developments as reflected in the current account, public finances and the financial sector require close monitoring and urgent economic policy attention in order to avert any adverse effects on the functioning of the economy and of EMU
HU	**2012**	*Serious imbalance*: certain macroeconomic developments such as the highly negative size of the net international investment position and public debt deserve very close attention so as to reduce the important risks of adverse effects on the functioning of the economy.
	2013	*Imbalances requiring specific monitoring and decisive policy action:* the on-going adjustment of the highly negative net international investment position, largely driven by private sector deleveraging in a context of high public debt and a weak business environment continue to deserve very close attention so as to reduce the important risks of adverse effects on the functioning of the economy.
	2014	*Imbalances requiring specific monitoring and decisive policy action* he ongoing adjustment of the highly negative net international position, the high level of public and private debt in the context of a fragile financial sector and deteriorating export performance continue to deserve very close attention so as to

		reduce the important risks of adverse effects on the functioning of the economy.
LU	**2014**	*Not an imbalance in the sense of MIP:* Challenges [that] stem from a growth model based on an efficient financial sector, which has weathered the crisis well. Still, losses in the manufacturing competitiveness, the evolution of the housing market and the high level of indebtedness of the private sector deserve continued monitoring.
MT	**2013**	*Imbalances:* the long-term sustainability of the public finances warrants attention while the very large financial sector, and in particular, the strong link between the domestically-oriented banks and the property market poses challenges for financial stability and deserves continued monitoring.
	2014	*No longer an imbalance in the sense of MIP*: Although indebtedness remains high, risks to the sustainability of private and public sector debt and the stability of the financial sector appear contained, even if they deserve continued monitoring.
NL	**2013**	*Imbalances:* macroeconomic developments regarding private sector debt and deleveraging pressures, also coupled with remaining inefficiencies in the housing market deserve attention. Although the large current account surplus does not raise risks similar to large deficits, the Commission will also continue monitoring the developments of the current account in the Netherlands.
	2014	*Imbalances:* macroeconomic developments regarding private sector debt and ongoing deleveraging, coupled with remaining inefficiencies in the housing market, deserve attention. Although the large current account surplus does not raise risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow the developments of the current account in the Netherlands in the context of the European Semester.
SI	**2012**	*Serious imbalance*: macroeconomic developments related to corporate sector deleveraging and banking stability and unfavourable but less pressing development in external competitiveness deserve to be closely monitored, so as to reduce the important risks of adverse effects on the functioning of the economy.
	2013	*Excessive imbalance*: Until now, the levels of private and public debt are below the alert thresholds of the scoreboard and also net external debt is relatively contained. However, in a context of accelerating negative economic trends, the risk to financial sector stability stemming from corporate indebtedness and deleveraging is substantial, including through interlinkages with the level of sovereign debt. These risks are compounded by limited adjustment capacity in labour and capital markets and by an economic structure dominated by state-ownership. Periods of policy uncertainty and legal obstacles to reforms have prevented Slovenia from addressing its imbalances adequately and enhancing its adjustment capacity, thus increasing its vulnerability at a time of heightened sovereign funding stress.
	2014	*Excessive imbalance*: Imbalances have been unwinding over the last year, thanks to macroeconomic adjustment and decisive policy action by Slovenia. Yet the magnitude of the necessary correction means that substantial risks are still present. The Commission will continue the specific monitoring of the policies recommended by the Council to Slovenia in the context of the European Semester, and will regularly report to the Council and the Euro Group.
FI	**2012**	*Imbalance*: macroeconomic developments relating to competitiveness deserve attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: the substantial deterioration in the current account position and the weak export performance, driven by industrial restructuring, as well as cost and non-cost competitiveness factors, deserve continued attention.
	2014	*Imbalance*: the weak export performance during the last years, driven by industrial restructuring, cost and noncost competitiveness factors, deserve continued attention.
SE	**2012**	*Imbalance*: certain macroeconomic developments regarding private sector debt and the housing market deserve attention so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: macroeconomic developments regarding private sector debt and deleveraging, coupled with remaining inefficiencies in the housing market deserve continued attention. Although the large current account surplus does

		not raise risks similar to large deficits in other countries, the Commission will continue to monitor developments of the current account in Sweden.
	2014	*Imbalance*: developments regarding household indebtedness, coupled with inefficiencies in the housing market, continue to warrant attention. Although the large current account surplus does not raise risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow the developments of the current account in Sweden in the context of the European Semester.
UK	**2012**	*Imbalance*: macroeconomic developments in the areas of household debt and the housing market deserve attention, as do unfavourable but less pressing developments in external competitiveness, so as to reduce the risk of adverse effects on the functioning of the economy.
	2013	*Imbalance*: macroeconomic developments in the areas of household debt, linked to the high levels of mortgage debt and the characteristics of the housing market, as well as unfavourable developments in external competitiveness, especially as regards goods exports and weak productivity growth, continue to deserve attention.
	2014	*Imbalance*: developments in the areas of household debt, linked to the high levels of mortgage debt and structural characteristics of the housing market, as well as unfavourable developments in export market shares, continue to warrant attention.

2.3 Criteria applied in the MIP implementation procedure

In the implementation of the procedure, the Commission has considered the following criteria. *First*, an imbalance is closely linked to the concept of *sustainability.* If a trend or situation is unsustainable there are ultimately risks of abrupt corrections. Such trends can be losses in competitiveness that could endanger a high level of economic activity and employment, or developments in credit and in assets prices that constitute bubbles which are not promptly corrected by markets, given errors in expectations. But sustainability is not only about those structural weaknesses that accumulate over long periods; it may also concern weaknesses in the financial sector that emerge at specific occasions (as a result of external shocks or internal developments, or issues in the domestic regulation of the financial sector), which can quickly endanger the financial stability and propagate to the whole economy. Abrupt and damaging corrections could take place when a country loses access to financial markets or when its financing capacity is deteriorating. *Second*, imbalances may feature *gravely distorted allocations of resources*. This may happen, for example, when internal or cross-border financial flows lead to the excessive expansion of one sector. This can by itself become unsustainable as has been shown for example in the large expansions of the construction sector or overblown government sectors. This characteristic complements a sustainability assessment by encompassing under the concept of imbalances situations that may be financially sustainable as such, yet have high social and economic costs. A case in point is that of persistently large *current account surpluses*. While such surpluses do not raise external sustainability concerns for the country concerned, [14] they may however be symptomatic of a skewed allocation of resources to the tradeables sector, a lack of demand and insufficient investment weighing on capital formation and locking medium-term growth potential. *Third*, imbalances in the sense of the MIP *generate damaging spill-overs* to partners.[15] Generally speaking spillovers do not represent an imbalance *per se*, they act as aggravating factors of other imbalances, such as large current account deficits or surpluses. In practice, the Commission has endeavoured to assess macroeconomic risk (weighing both the likelihood of unfavourable developments and their impact on growth, jobs, and financial stability on each country and the EU and the euro area as a whole), given *specific situation* and *dynamics*, and considering the *policies* that are implemented.

[14] See COM(2013)790.

[15] See *Quarterly Report on the Euro Area*, 2013 (2) and (3)