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WHO CALLS THE SHOTS IN THE EURO AREA: "BRUSSELS" OR THE MEMBER STATES?

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EXECUTIVE SUMMARY

The recent reform of the European economic governance has helped to foster the perception that Europe is impinging on the sphere of national sovereignty. It is certainly true that member states have established a framework of common action at the European level in an effort to ensure the stability of the common monetary area in which a supranational monetary policy exists side by side with budgetary and economic policies based on the nation state. Yet apart from the countries benefiting from an aid programme, the countries in the euro area remain free to pursue their own national preferences. This policy paper sets out to clarify the powers held by the European institutions in connection with the conduct of national budgetary, economic and social policies.

1. The new status of "countries benefiting from an aid programme" fuels the image of a Europe governing its member states, yet such a situation is limited in both time and space

The management of the crisis in the euro area is based on "solidarity" (the provision of financial aid) and on "supervision" (the implementation of an adjustment programme monitored by the "Troika"). While this new relationship between the EU and its member states does in effect translate into a curb on national budgetary sovereignty, we should remember that such a situation is restricted to those member states that have lost their access to the financial markets and it is not meant to last for ever, as we can see from recent developments in Ireland and in Portugal.

2. The fiscal discipline required of member states translates into an obligation to achieve a result (avoiding public deficits) but it does not impose obligations on member states concerning the means by which that result is achieved

In order to ensure the stability of the euro area, when joining the single currency member states pledged to comply with rules governing fiscal discipline (which go beyond the famous rule stating that the public deficit should not exceed 3% of GDP) and set up a system of penalties aiming to ensure compliance with those rules. While member states have an obligation to avoid or to correct public deficits, they are free to choose how to achieve that aim. The Commission presents recommendations to each member state, but national governments have the final word. Moreover, while this procedure is often considered to be excessively inflexible at the national level, we should remember that only four EU member countries have ever shown an excessive public deficit since 1997 (Estonia, Finland, Luxembourg and Sweden) and seventeen countries (twelve of which are in the euro area) are currently subject to an Excessive Deficit Procedure, most of them since 2009. Yet despite this, no country has ever had to pay a financial penalty.

3. The new macroeconomic surveillance procedure does not allow the European institutions to dictate their economic and social choices to member states

While the crisis has highlighted the need to avoid macroeconomic imbalances in the euro area, a new procedure for monitoring macroeconomic imbalances has been implemented, based on financial penalties in the event of failure to correct an excessive macroeconomic imbalance. Yet this procedure does not allow the European institutions to define the member states' social and economic policies. Today fully fourteen EU member states have been identified as displaying a macroeconomic imbalance and that imbalance is considered excessive for three of them (Croatia, Italy and Slovenia). Yet no country has been subjected to the excessive macroeconomic imbalance procedure to date.

4. The coordination of member states' economic and social policies rests on political incentive, and recommending is not the same things as ordering

The coordination of national social and economic policies is the weakest aspect of the EMU's economic pillar. It rests on non-binding recommendations addressed to the member states. While political incentive has shown its limits in forging the genuine coordination of national policies, member states are currently debating the adoption of a system of financial incentives to ensure the implementation of structural reforms at the national level.

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INTRODUCTION

The Delors report on Economic and Monetary Union (EMU) adopted in 1989 stressed the crucial need for a balance to be struck between the monetary and economic aspects in the blueprint for the creation of a common monetary area: "**Economic union and monetary union form two integral parts of a single whole and would therefore have to be implemented in parallel**"[1]. Yet the EMU has been built on a fully implemented monetary pillar and on an excessively restricted economic pillar. This pillar has relied on a fiscal surveillance procedure which has proved to be too weak, and on the coordination of economic policies which has proved to be ineffective.

> "ECONOMIC UNION AND MONETARY UNION HAVE TO BE IMPLEMENTED IN PARALLEL"

Thus the member states lived throughout the first decade of the euro **labouring under the illusion that it was possible to have a supranational monetary policy while pursuing economic policies determined entirely by each member states**. Given the EMU's weak economic pillar, the European institutions were unable to identify and to prevent fiscal and macroeconomic imbalances or to demand that member states adopt measures to correct them. As Tommaso Padoa-Schioppa pointed out, the euro's first ten years were characterised by a morose attitude on the member states' part: "**do not disturb so as not to be disturbed**"[2].

In highlighting the shortcomings in the EMU's conception, the debt crisis in the euro area has fostered the creation of **a political will in favour of a reform of Europe's economic governance**. This reform has been driven by two main goals: strengthening the EU's ability to prevent crises; and building the hitherto non-existent capability to manage crises. Thus over the past four years the EU has adopted a series of new instruments, procedures and measures which have enriched Community jargon: the "European semester", the "Six Pack", the "Euro Plus Pact", the "Fiscal Compact" (or Treaty on Stability, Coordination and Governance – TSCG), the "Two Pack" and the "European Stability Mechanism" (*see appendix 1*).

These recent developments in Europe's economic governance have spawned a certain amount of confusion regarding **the European authorities' influence over national policies and choices**, fuelling the image of a Europe that restricts its member states' budgetary and economic policies and hampers their policy-makers. The experience of those countries which have received financial aid from the EU and which have been obliged, in return, to implement a memorandum of understanding can certainly be argued to have bolstered that impression. Yet the Troika experience is limited in space (to those countries which have lost their budgetary sovereignty through losing access to the financial markets) and in time, because it is not meant to last for ever, as we can see from the case of Ireland which emerged from its aid plan fairly recently, at the end of 2013.

Thus the experience of countries "benefiting from an aid programme" should not be allowed to fuel any misconceptions "by extension", because aside from these special cases **the crisis has not altered the division of areas of jurisdiction between the EU and its member states in the economic and budgetary spheres**. Sure enough, the member states alone continue to define their economic and social policies and to adopt their national budget. It is true that these national choices are obliged to comply with a framework of common action, yet it is a framework defined not by the European Commission but by the member states

1. «Delors» Committee for the Study of Economic and Monetary Union, «Report on Economic and Monetary Union in the European Community», Office for Official Publications of the European Communities, Luxembourg, 1989.
2. Tommaso Padoa-Schioppa, "The Debt Crisis in the Euro Area: Interest and Passions", *Policy brief n°16, Notre Europe – Jacques Delors Institute*, Paris, May 2010, p.2.

themselves, in particular through the measures introduced into the treaties with the signing of the Maastricht Treaty in 1992 and of the Stability and Growth Pact adopted in 1997 and revised in 2005 and in 2011.

Acting in accordance with common rules is essential to ensure the proper functioning of a common monetary area in which there is only one monetary policy but eighteen different national economic and budgetary policies. Yet the crisis has also highlighted the interdependence of the countries in the euro area: having failed to act in common to prevent the crisis, the member states have been forced to act in common to correct the budgetary and economic imbalances which developed over the first decade of the euro.

Now that the campaign ahead of the upcoming European elections is stirring additional interest and raising additional questions regarding the European Union, this policy paper sets out to clarify **the extent to which Europe's new economic governance spawned by the crisis really does impinge on the sphere of national sovereignties**. To do this, we have taken our cue from a distinction formulated by Yves Bertoncini between three categories of powers having a very variable impact on the member states[3]:

- an "**IMF"-style power**, which applies to those countries that have lost access to the financial markets and on the strength of which the member states that have come to the aid of their counterparts demand a say in their budgetary, economic and social choices; thus a new power relationship has come into being, with the European authorities having the ability **to enforce on a member state both a set of results and the means to achieve those results (part 1)**;

- a "**UN"-style power**, which translates into procedures for monitoring member states based on **the obligation to achieve a result** (namely avoiding or correcting budgetary or macroeconomic imbalances) **but not on the means to do so** (member states continue to enjoy freedom of choice with regard to their economic, budgetary and social preferences even though they receive recommendations – not demands – form "Brussels"). These procedures rest on a system of penalties for those countries in breach of the common rules. This is the **fiscal surveillance procedure (part 2)** and **the new procedure for the surveillance of macroeconomic imbalances (part 3)**;

- a "**hyper-OECD"-style power**, for the European coordination of national social and economic policies, whereby Brussels can recommend but not enforce. Thus it is a very limited power because **the EU's action is not binding (part 4)**.

1. "Countries benefiting from an aid programme": a new power relationship combining an obligation to achieve results with an obligation to adopt specific means to achieve those results

The crisis, and the reform of the European economic governance that it has triggered, have led to the creation of a new status, the status of countries which, in losing their access to the financial markets, have also lost a part of their budgetary sovereignty. According to the members of the Padoa-Schioppa Group, "sovereignty ends when solvency ends"[4]" (1.1.). Given that this new status fuels the fear that Brussels, or the Troika, may start running those member states, it is worth making it quite clear that such a situation is limited in both time and space (1.2.).

3. In addition to the three political systems aired here – "IMF system", "UN system" and "hyper-OECD system" – Yves Bertoncini also includes in his analysis a "World Bank system" based on the principle that, if the EU offers financial aid to its member states, that aid must serve to promote structural reforms. This system concerns a potential future situation rather than any situation currently in place, which is why it is not discussed in this paper. See Yves Bertoncini Yves, "Eurozone and democracy(ies) : a misleading debate", *Notre Europe – Jacques Delors Institute, Policy Paper No. 94*, Paris, July 2013.
4. Enderlein et. Al, "Completing the Euro: A road map towards fiscal union in Europe", Tommaso Padoa-Schioppa Group Report, *Studies & Reports No. 92, Notre Europe – Jacques Delors Institute*, Paris, June 2012.

1.1. " Sovereignty ends where solvency ends"

When the sovereign debt crisis broke out in the euro area in early 2010, with Greece's growing difficulty in funding its public debt on the financial markets, **the EMU was devoid of any kind of crisis management tool**. Furthermore, the European treaties contained **a "no bail-out" clause** forbidding member states from shouldering their partners' debts[5]. Yet after several months of dithering, Europe's leaders had no choice but to reach the inevitable conclusion, in the light of the very advanced economic and financial interdependence reached by countries sharing the same currency, that it was imperative to help the countries in the euro area that were in difficulty. This, because one country defaulting on payment in the euro area would have had a very heavy negative impact on the European financial system and could have triggered a domino effect in the EMU's other vulnerable member countries, or even have led to the breakup of the euro area. Thus, driven by this "**enlightened self interest**"[6], the member states urgently adopted crisis management tools for the euro area.

In this context the member states adopted two financial stability mechanisms in May 2010 – the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) – making it possible to offer financial aid to countries in the euro area having to cope with financial difficulties. These mechanisms were subsequently replaced by a permanent mechanism known as the European Stability Mechanism (ESM) (*see Box 1*).

BOX 1 ► Financial Stability Mechanisms in the Euro Area

Since 2010 the member states have created three financial stability instruments, which it is worth distinguishing:

- The European Financial Stability Facility (EFSF): a temporary instument, intergovernmental in structure, created in 2010 for a duration of three years. Endowed with an effective loan capability of 440 billion euro, the EFSF borrowed on the financial markets on the strength of guarantees provided by the euro area's member countries;
- The European Financial Stabilisation Mechanism (EFSM): an instrument created at the same time as the EFSF in 2010. With an operational capability of 60 billion euro, this instrument allowed the European Commission to borrow on the financial markets using the EU budget as surety;
- The European Stability Mechanism (ESM): a permanent instrument, intergovernmental in structure, with an operational capability of 500 billion euro. It borrows on the financial markets on the strength both of its own capital (made up of funds paid in by the euro area's various member states, to the tune of 80 billion euro) and of a callable capital worth 620 billion euro.

In return for financial aid, those member states that have lost their access to the financial markets have had to agree to commit to the implementation of a memorandum of understanding thrashed out with the members of the "Troika" (the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF)) and endorsed by the national parliament of the country in question. Through these memoranda of understanding, the European authorities influence their national budgetary, economic and social choices. **So it is no longer simply a matter of being obliged to achieve a result, there is also an obligation in terms of the specific means adopted to achieve that result because the memoranda include a list of concrete measures which the member state in question is obliged to adopt**. Moreover, throughout the implementation of its adjustment programme, the member state is subject to a quarterly review on the part of the Commission (liaising with the ECB) and of the IMF, and any decision that the member state is not complying with its adjustment programme would lead to the suspension of the EU and IMF payments. **The procedure for monitoring the implementation of an adjustment programme replaces all other European**

5. Article 125 in the TFEU: «The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project».
6. Sofia Fernandes and Eulalia Rubio, «Solidarity within the Eurozone: how much, what for, for how long?», *Policy Paper No. 51, Notre Europe – Jacques Delors Institute*, Paris, February 2012.

monitoring procedures, so the member states in question are thus no longer subject to the procedures discussed in parts 2, 3 and 4 of this policy paper for the entire duration of their adjustment programmes[7].

It is important to stress that this major conditionality to which a country benefiting from an aid programme is subjected is designed to achieve two goals. On the one hand, it aims **to ensure the re-establishment of a healthy and sustainable economic and financial situation** as well as the country's ability to fund its debt wholly on the financial markets. On the other hand, it aims **to avert the moral hazard** whereby certain countries might be tempted to relax their budgetary efforts by relying on a bail-out from their European partners. Experience over the past few years has shown us that the second of these two goals has been successfully achieved, because those countries having to cope with financial difficulties are doing everything in their power to avoid having to resort to financial aid from the EU[8].

"THE RESPONSE TO THE CRISIS HAS BEEN BASED ON A COMBINATION OF SOLIDARITY AND SUPERVISION"

Thus the member states' response to the public debt crisis in some of the EU countries has been based on a combination of solidarity and supervision, leading to the establishment of a new power relationship between the EU and those member states that have benefited from the financial aid of the EU and of the IMF. **These member states have *de facto* lost a part of their fiscal sovereignty due to their inability to fund their debts on the financial markets** at reasonable interest rates.

1. 2. A situation limited in time and space

This new power relationship between the EU and certain member states does of course translate into direct intervention by the European authorities on national fiscal, economic and social choices, but we should remember that this new relationship is the exception rather than the rule and that it can only come into being when a member state resorts to the financial aid dispensed by the ESM. Thus this new power relationship has only been exercised to date with four euro area countries, namely Greece, Ireland, Portugal and Cyprus[9]. **The European authorities' capability for intervening, which translates into the enforcement on member states of "both obligation to achieve a result and of the means to achieve that result" is limited in terms of space, or geographic area**.

In addition, **these new powers are also limited in time, thus in terms of their duration**, and can only be exercised for as long as the aid programme is in force; thus this new power relationship is not designed to last indefinitely. In this connection it is worth underscoring the fact that the two countries that have successfully come to the end of their adjustment programme so far, namely Ireland and Portugal, have shown a desire to return to the financial markets the very day after the end of their adjustment programme, when the European authorities were offering them a precautionary programme which would have allowed them to resort to an ESM credit line in the event of any problems in funding their debt on the financial markets. This would have allowed them to benefit from lower interests rates to fund their debt; but it would also have been tantamount to an extension of the constraints enforced by the European authorities on their national economic and fiscal policy choices.

Yet it is worth stressing that at the end of their adjustment programme, member states do not automatically resume the same relationship with the European authorities that they enjoyed prior to the programme's adoption. This, because one of the regulations in the "Two Pack" provides for **post-programme surveillance** until

7. This new power relationship between the EU and member states facing financial difficulties was introduced into European secondary legislation through one of the regulations in the "Two Pack": Regulation no 472-2013 of 21 May 2013.
8. In order to make sure that no country refuses in future to seek financial aid until it is already in the position of being deprived of access to the financial markets to fund its debt (which only worsens its budgetary position and increases its need for financial aid), Regulation no 472-2013 authorises the Council to recommend to a member state facing the likelihood of a serious financial storm that it seek financial aid and prepare a macro-economic adjustment programme.
9. Spain has also had financial aid from the EMS, but it was earmarked for its banking industry and thus the memorandum of understanding only concerned the financial sector rather than the country's national budgetary, economic and social policies.

the member state has **paid back at least 75% of the aid** it has received[10]. Yet this post-programme surveillance is in no way comparable to the conditionality attached to the implementation of an adjustment programme. For those countries subject to post-programme surveillance, there is still an obligation to achieve a result – namely, ensuring the budgetary and macroeconomic conditions required to guarantee the sustainability of national public debt and to strengthen national competitiveness – but there is no longer any obligation attaching to the means adopted to achieve that result. After emerging from their programme, the countries are thus subject to six-monthly assessments by the Commission, and if any problems are identified, the Council can adopt a recommendation urging the member state in question to take corrective measures. Thus it is in effect a **power to recommend rather than to intervene in the conduct of national policy**. Two countries are currently in this situation, namely Ireland and Spain (in the case of Spain, the monitoring concerns only developments in the financial sector given that financial aid involved the banking industry alone). But while this kind of monitoring is far less binding than that adopted in the case of countries benefiting from an aid programme, it can still last for a long period. By way of an example, as the loans to Ireland have an average maturity of twenty years, the Commission foresees that the post-programme surveillance will last at least until 2031[11].

2. Preventing and correcting fiscal imbalances: an obligation to achieve results, but no obligation regarding the means to achieve those results

In order to be able to join the single currency, member states had to meet a series of criteria laid down in Maastricht and known as "convergence criteria". The five criteria included two in the fiscal sphere setting a ceiling on member states' indebtment. These euro area "membership" rules then became rules of "conduct" – built into the Stability and Growth Pact (SGP) adopted in 1997 – designed to **ensure member states' fiscal discipline, a condition required for the stability of the euro area**.

Thus the SGP sets ceilings which govern the conduct of member states' fiscal policies; yet as long as they comply with certain limits, member states are free to pursue their national fiscal policy as they see fit. So **in European fiscal surveillance there is an obligation to achieve a result but not an obligation concerning on the means adopted to achieve that result**. In order to gain a better understanding of the extent of the European authorities' powers and action in this sphere, we shall begin by reviewing the fiscal rules with which member states pledged to comply (2.1). We shall then go on to discuss the fiscal surveillance procedure which is applied throughout the year (2.2.) and the constraints enforced on member states which fail to comply with the fiscal rules (2.3.). And we shall conclude with an overview of member states' fiscal conduct since the adoption of the SGP and their current situation (2.4.).

2.1. European fiscal rules... going beyond the threshold of public deficits at 3% of GDP

While the establishment of common rules governing fiscal discipline is justified by the need to avoid the poor conduct of fiscal policy at the national level, because that would threaten the stability of the euro area as a whole, it is nevertheless worth stressing from the outset that compliance with fiscal rules is first and foremost in the interest of each individual member state. This, because budget deficits constitute a debt which is handed down to future generations, who deserve better than to have to spend their lives paying back a debt inherited from their forefathers. A budget in defict is justifiable in the event of adverse economic circumstances or if it is linked to long-term investment spending (which strengthens member states' growth potential), but it must not

10. Article 14 in Regulation no 472-2013.
11. European Commission, « Economic adjustment programme for Ireland – Autumn 2013 review », *Occasional Papers 167*, Brussels, December 2013, p.40.

be the rule. This is fairly obvious and should earn everyone's agreement, yet some countries, such as France for instance, have shown a budget constantly in deficit for decades.

> "THE 'RULE' COUNSELLED BY THE SGP IS BALANCED PUBLIC ACCOUNTS"

This realisation of where a country's national interest lies must be the starting point in our discussion of the fiscal discipline required of EU countries. Then, it is important to make it clear that fiscal discipline does not rest solely on the target of a public debt below the 3% of GDP ceiling. That rule, with which the public at large is extremely familiar, is an authorised exception rather than the goal per se for national public finances. The "rule" counselled by the SGP is balanced public accounts, and thus deficits must be considered the exception which allows member states to cope with adverse economic circumstances or other exceptional situations rather than the rule, especially when a country's indebtment is higher than 60% of GDP. Below we list the other fiscal rules with which member states are pledged to comply in the conduct of their fiscal policy.

2.1.1. Debt brake– a structural deficit restricted to 0.5% of GDP

While the Stability Pact urges balanced public accounts, each member state's public deficit must also meet a second requirement, in addition to the 3% nominal debt ceiling. According to the European fiscal rules, member states must pursue a **medium-term fiscal objective (MTO) defined in terms of structural balance**[12]**, restricted to 0.5% of their GDP**[13]. Compliance with this rule will ensure that any nominal deficits recorded for the countries are linked to the economic cycle and are therefore temporary. Failure to comply with this structural deficit rule can incur a financial penalty (in the context of the SGP's preventive arm) but only breach of the 3% rule can lead to the initiation of an EDP (*see Box 3*). And indeed the countries that have signed the Fiscal Compact are committed to building this structural balance target into their own national legislation[14]. Thus it is a matter of including this "debt brake" in national law (preferably in the Constitution) in order to guarantee the national ownership of European fiscal rules. A report published by the German council of economic experts on the implementation of the Fiscal Compact suggests that out of all the countries in the euro area which had introduced this fiscal rule into their national legislation by the beginning of 2014 (all of them save Belgium, Estonia, Greece, Malta and Slovakia), only four (Germany, Spain, Italy and Slovenia) have built it into their Constitution[15].

The new European legislation also provides for an "**adjustment path**" whereby member states that have failed to meet their MTO are obliged to cut their structural deficit by at least 0.5% of GDP per year. Following the entry into force of the Fiscal Compact, signatory countries have had to build the creation of an automatic **fiscal correction mechanism** into their national law "through provisions of binding force and permanent character, preferably constitutional". This mechanism must be activated if the structural balance deviates from the MTO or from the adjustment path. On the basis of common principles established by the Commission, member states have introduced different types of fiscal correction measures into their national legislation. Thus as the German Council of economic experts stresses, while the majority of countries has introduced the measure through a means-related constraint (the adoption of a binding action plan designed to correct the gap identified), other countries – notably Austria, Portugal, Spain and Latvia – have gone even further by also establishing measures concerning the time frame (a year in Spain's case) or the extent of the correction to be implemented.

12. Data adjusted for cyclical variations and after the deduction of exceptional measures.
13. This measure is enshrined in the Fiscal Compact and applies to the treaty's signatory countries. The SGP provisions are less binding than those in the Fiscal Compact because they have established that countries' structural balances must fall somewhere between -1% of GDP and the budget surplus. Also, it is worth highlighting the fact that the Fiscal Compact provides for member states who indebtment ratio is far below 60% of GDP and whose risks regarding the sustainability of their public finances are minimal are authorised to have a structural deficit of up to 1% of GDP.
14. Article 3 in the Fiscal Compact stipulates that member states' structural deficit must be lower than 0.5% of GDP and that said measure shall take "effect in the national law of the Contracting Parties at the latest one year after the entry into force of this Treaty through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes". The Fiscal Compact's signatory countries can be fined up to 0.1% of GDP if they fail to correctly build the budgetary pact into their national law.
15. German Council of Economic Experts, 'Implementation of the Fiscal Compact in the Euro Area Member States", Working Paper 08/2013, November 2013.

2.1.2. A public debt restricted to 60% of GDP or dropping down to the reference value at a rate of 5% of GDP per year

And lastly, we should remember that, in addition to the fiscal rules on the public deficit, there is the rule on member states' public debts. Since the SGP was reformed in 2011, greater store has been set by the criterion involving the public debt, which Article 126 in the TFEU stipulates must be restricted to 60% of GDP or "approach the reference value at a satisfactory pace". That criterion is now deemed to have been met if **the gap with the reference value (60% of GDP) has dropped over the previous three years at an average rate of one-twentieth (5%) per year**. This measure in the SGP is also enshrined in the Fiscal Compact. Member states failing to comply with this debt-reduction rule are subject to the Excessive Debt Procedure (EDP) even if their public deficit is below 3% of GDP[16].

Moreover, in order to ensure that exceptional revenue is not spent but is set aside for debt reduction, the new SGP sets a limit on the annual growth rate of public-sector spending which, for those member states that have not yet achieved their MTO, must be below their GDP's potential growth rate in the medium term[17], unless this exceeding the ceiling is made up for by an equivalent increase in revenue.

2.2. Fiscal surveillance procedure in the EU

Brussels' powers over member states do not translate only into rules with which each country is obliged to comply but also into the powers of supervision which the European authorities have available to them to ensure compliance with the rules. In order **to ensure transparency and confidence in relations between the national and European authorities**, the recent reform of European fiscal surveillance includes new measures concerning both the quality of national fiscal frameworks and the reliability and independence of macroeconomic forecasts and statistics (*see Box 2*).

BOX 2 ► Guaranteeing transparency and confidence in relations between national and European authorities

The "Six Pack" includes a directive providing for a series of measures aiming to **improve national fiscal frameworks** by monitoring the **quality of accounting and statistics systems** as well as **forecasting practices**. This directive confirms the principle of national statistics authorities' independence and the option for the Commission to organise tracking missions on the ground, in order to ensure that the European institutions' multilateral supervision is based on **reliable and independent statistics**. For the countries in the euro area, the "Six Pack" directive also countenances the **possibility of levying a fine**, capped at 0.2% of GDP, on any country that makes erroneous declarations, whether deliberately or through gross negligence, regarding data relating to its deficit or to its debt.

The Fiscal Compact and the "Two Pack" make an additional requirement on member states, namely that they set up **fiscal councils which are either independent** or which operate autonomously, to monitor the implementation of the fiscal rules. These fiscal councils must produce or approve independent macroeconomic forecasts and monitor the transparency and credibility of national fiscal correction mechanisms (in the event of a gap with the adjustment path). These fiscal councils' opinions, however, are not binding on national governments, but the **"comply or explain" principle** – whereby member states either have to follow their budget councils' advice or else explain why they are not going to do so – is designed to ensure that their assessments cannot be simply ignored, yet without this impinging in any way on the fiscal authorities' political prerogatives.

The fiscal surveillance procedure is built into the coordination cycle christened "**European semester**" (*see appendix 3*). In the budgetary field we can distinguish two key stages in the relationship between member states and the European authorities.

2.2.1. Presenting stability or convergence programmes and country-specific recommendations

The first stage, in the spring, consists in **each member state submitting either a stability programme (for countries in the euro area) or a convergence programme (for countries that are not members of**

16. It is worth pointing out that this criterion does not apply to member states subject to an EDP before the Six Pack came into force until such times as they resolve their excessive deficit, and the Council may set less stringent targets over the first three subsequent years.
17. For those countries that have achieved their MTO, the public spending growth rate may be equal to but no higher than their GDP's potential growth rate in the medium term.

the euro area). In these programmes the member states present their medium-term fiscal strategies, in other words the way in which they intend to achieve or to maintain a healthy fiscal situation in the medium term, in accordance with the requirements of the SGP. Following an analysis of each member state's stability or convergence programme, the European institutions address country-specific **recommendations**. Two clarifications are required regarding the guidelines which member states receive from Brussels every year and whose importance should not be underestimated.

On the one hand, the recommendations addressed to the member states every year are proposed by the Commission but they are discussed at the Council and the ministers can amend them. This often happens and, by way of an example, we might point out that in the course of financial year 2013 France won adjustments to the final version of the recommendations concerning it, by comparison with the Commission's original draft. In particular, instead of calling on France to raise the "legal" retirement age as the Commission had proposed, the French minister asked for those words to be replaced by a rise in the actual retirement age[18]. After the debate at the Council, the country-specific recommendations are endorsed by the European Council. The country-specific recommendations are therefore not the Commission's recommendations but **recommendations from the Council, which each country's finance minister and head of state or government have endorsed**.

On the other hand, **what the European authorities address to member states are "recommendations", not "demands"**. Member states are encouraged to take on board the recommendations addressed to them, but even though it may be compulsory to achieve the result enshrined in them, there is no obligation regarding the means to achieve that result. If a member state fails to comply with the recommendations addressed to it but does comply with the fiscal rules or with the path for reducing its public deficit (if it is subject to an Excessive Deficit Procedure) by adopting other measures, it cannot earn a "reprimand" from Brussels on those grounds.

2.2.2. The Commission's opinions on national budgetary plans

"THE COMMISSION CAN NOT VETO A NATIONAL BUDGET"

The second stage in the fiscal surveillance procedure takes place in the autumn and concerns only euro area countries. Since 2013[19], in an effort to ensure that member states do take the country-specific recommendations into account when devising their budgets, countries sharing the same currency **have until 15 October to submit their budgetary plan** for the coming year before approval by their national parliaments. **The Commission** analyses these national budgetary plans and **presents an opinion to each member state** (an opinion not endorsed by the Council, unlike the country-specific recommendations adopted in June). In this context, if the Commission identifies a particularly serious instance of failure to comply with the fiscal policy obligations provided for in the SGP, it has two weeks after submission to call on the member state in question to revise its plan. Yet this new stage in fiscal surveillance does not give the Commission the option to veto a national budget, nor even to change a budgetary plan in any direct sense. And furthermore, the member state in question can opt not to subscribe to the Commission's opinion, the only penalty it can incur in doing so being that its non-compliance is considered an aggravating circumstance if it is then subjected to EDP and fails to meet the deadline set it to bring its public deficit back down to below the 3% of GDP mark.

18. The Commission's version of the recommandation: "The French authorities should adopt measures (...) to strengthen the long-term sustainability of the pension system by no later than 2020, for instance by adapting indexation rules, by further raising the legal retirement age and the contribution period required to enjoy a full pension and by reviewing special pension schemes (...)"; Recommandation adopted by the Council: "The French authorities should adopt measures (...) to strengthen the long-term sustainability of the pension system by no later than 2020, for instance by adapting indexation rules, by further extending the contribution period required to enjoy a full pension, by further raising real retirement age, by aligning retirement age or pension benefits with the growth in life expectancy and by reviewing special pension schemes (...)".
19. This new stage is provided for in Regulation no 473-2013 dated 21 May 2013 in the «Two Pack» (Article 6).

2.3. Correcting fiscal imbalances: a European action based on a system of penalties

In the awareness that political incentive would have its limitations in the fiscal discipline demanded of each country, Europe's leaders provided as long ago as the Maastricht days for fiscal surveillance to be accompanied by a penalty mechanism (for countries in the euro area). Thus when a country fails to comply with the fiscal rules, it is subjected to an **Excessive Deficit Procedure** (EDP) and is given a deadline within which to correct its deficit. This means that it is subject to increased supervision; for instance, in addition to their budgetary plan, member states subjected to an EDP in the euro area also have to submit an "Economic Partnership Programme" (EPP) in the autumn describing the measures that they plan to adopt in order to consolidate their public finances[20].

Since the reform of the SGP in 2011, **the sanctions incurred by countries in the euro area are imposed at an earlier stage and in a gradual way** (*see Box 3*), inasmuch as they can be applied even before a country is subjected to an EDP if it fails to comply with its adjustment path with a view to achieving its MTO.

BOX 3 ► Financial penalties for euro area member countries contained in the Stability and Growth Pact

PREVENTIVE ARM OF THE SGP	CORRECTIVE ARM OF THE SGP	
Interest-bearing deposit at 0.2% of GDP	Non-interest bearing deposit at 0.2% of GDP	Fine at 0.2% of GDP (can rise to 0.5% of GDP)
In the event of a "major gap" with the MTO or with the adjustment path intended to lead to it, the Council addresses a warning to the member state. If the member state's situation fails to improve after a year, the Council can demand the establishment of an interest-bearing deposit worth 0.2% of GDP. The deposit is reimbursed to the member state if the gap identified is corrected.	A non-interest bearing deposit worth 0.2% of GDP is established after the decision has been reached to subject a country to excessive deficit procedure.	The deposit set up is converted into a fine worth 0.2% of GDP in the event of failure to comply with the Council's initial recommendation urging correction of the deficit. If the country persists in failing to comply, the penalty is increased, and can rise to as much as 0.5% of GDP.

Moreover, **the sanctions provided for in the context of the SGP are now virtually automatic**, because they are adopted on the basis of the reverse qualified majority voting, whereby the Commission's proposal to levy a sanction for failure to comply with the SGP is is considered adopted in the Council unless a qualified majority of Member States votes against it.

Yet these new developments in the "Six Pack" still allow the Council a range of "blocking" opportunities because a decision to levy penalties must be preceded by a decision adopted by an ordinary qualified majority (for subjecting a country to an EDP or taking note of the absence of effective action to correct an excessive deficit)[21]. **The Fiscal Compact offers an answer to these "loopholes" in the « Six Pack »** because it includes a measure providing for signatory countries to commit to extending the reverse qualified majority principle to all of the Commission's recommendations concerning an EPD [22].

Lastly, it is worth pointing out that while with the recent reform of fiscal surveillance penalties have become virtually automatic when the Commission proposes them, the Commission does not in fact systematically propose the levying of penalties on a member state if it fails to honour its commitments in terms of the correction of its excessive deficit. As we shall see in Point 2.4. below, **the Commission may decide to adjust a member**

20. This requirement was introduced by the Fiscal Compact (Article 5). Yet it is worth stressing that these programmes have no legally binding value, simply reflecting an obligation to inform. The Council adopts an opinion, based on a proposal from the Commission, relating to each country's EPP. Some member states subject to EDP, however, submit a single document to the Commission in October, that single document taking the place of a "budgetary plan" and of an "economic partnership programme", as in France's case.
21. The only exception is the adoption of the penalty provided for in the context of the preventive arm of the SGP, which is preceded by a simple reverse voting decision.
22. Article 7 in the Fiscal Compact states that: "the Contracting Parties whose currency is the euro commit to supporting the proposals or recommendations submitted by the European Commission where it considers that a Member State of the European Union whose currency is the euro is in breach of the deficit criterion in the framework of an excessive deficit procedure. This obligation shall not apply where it is established among the Contracting Parties whose currency is the euro that a qualified majority of them, calculated by analogy with the relevant provisions of the Treaties on which the European Union is founded, without taking into account the position of the Contracting Party concerned, is opposed to the decision proposed or recommended." Thus the provision does not include decisions relating to the preventive arm of the SGP.

state's adjustment path in the presence of given circumstances. Also, we should stress that penalties are primarily a tool for dissuasion, because levying a financial sanction on a member state already having to tackle budgetary difficulties does not appear to be especially realistic.

2.4. Fiscal discipline in the euro area since the adoption of the Stability and Growth Pact

While European fiscal rules may fuel the image of a Europe impinging on the sphere of national sovereignties, we should be aware that **compliance with these rules has been limited** since the adoption of the Stability Pact in 1997[23]. In seventeen years only four countries out of twenty-eight have ever seen their deficits rise above 3% of their national wealth (Estonia, Finland, Luxembourg and Sweden) (*see appendix 2*). For some countries, meeting this threshold has been the exception rather than the rule (by way of an example, France has met this criterion only seven times, while Greece and Portugal have never met it). Yet despite this, **no financial penalty has ever been inflicted**, the only proposal by the Commission in this connection – against France and Germany in 2003 – having been thrown out by the member states.

"EUROPEAN AUTHORITIES DO NOT BLINDLY APPLY THE RULES"

This shows us that the European authorities do not blindly apply the rules. **And in fact the Stability Pact stipulates that when assessing the member states' fiscal situation, the Commission must take into consideration the following factors:** i) the occurrence of an exceptional circumstance outside the control of the member state involved; ii) a period of serious economic downturn; and iii) the implementation of major structural reforms[24]. Reference to these exceptional circumstances means that the exercise of **fiscal surveillance by the European institutions is not an inflexible exercise but an exercise in which there is a certain amount of room for flexibility**. The degree of flexibility will depend on the degree of accounting zeal adopted by the members of the European Commission. Several member states have benefited from this flexibility in recent years, particularly Spain, Portugal, Greece, France, the Netherlands and Slovenia, which have benefited from a one- or two-year extension to correct their excessive deficit.

As things stand today, **seventeen EU countries (twelve of which are members of the euro area) are subject to an EDP** (*see Table 1*). The countries in the euro area subject to an EDP have all been subject to it since 2009, apart from Cyprus (since 2010) and Malta (since 2013).

23. See Yves Bertoncini and Sofia Fernandes, «The «stupidity pact» is not stable», *Op-ed – Notre Europe – Jacques Delors Institute*, Paris, April 2014.
24. The first two factors have to be taken into consideration in assessments relating to a country subject to an EDP, while the third, according to the SGP, must be taken into account in assessing the adjustment path with a view to achieving the MTO.

Table 1 ► **Budgetary indicators for euro area member countries**

	MTO (ESTABLISHED IN 2013)	PUBLIC STRUCTURAL BALANCE		PUBLIC NOMINAL BALANCE		DEADLINE FOR CORRECTING EXCESSIVE DEFICIT (NOMINAL DEFICIT)
		2012	2013 (FORECAST)	2012	2013	
Belgium	0.75	-2.9	-2.2	-4.1	-2.6	2013
Germany	-0.5	-0.3	0.6	0.1	0.0	EDP completed in 2012
Estonia	0.0	-0.2	-0.5	-0.2	-0.2	No EDP
Ireland	0.0	-7.7	-6.4	-8.2	-7.2	2015
Greece	n/a	-0.1	1.7	-8.9	-12.7	2016
Spain	0.0	-5.1	-4.3	-10.6	-7.1	2016
France	0.0	-3.6	-2.8	-4.9	-4.3	2015
Italy	0.0	-1.4	-0.8	-3.0	-3.0	EDP completed in 2013
Cyprus	n/a	-6.4	-3.8	-6.4	-5.4	2016
Latvia	-0.5	-0.2	-1.3	-1.3	-1.0	EDP completed in 2013
Luxembourg	0.5	1.0	1.0	0.0	0.1	No PDE
Malta	0.0	-3.8	-3.1	-3.3	-2.8	2014
Netherlands	-0.5	-2.7	-1.8	-4.1	-2.5	2014
Austria	-0.45	-1.6	-1.5	-2.6	-1.5	2013
Portugal	-0.5	-4.0	-3.6	-6.4	-4.9	2015
Slovenia	-0.0	-2.6	-2.2	-4.0	-14.7	2015
Slovakia	-0.5	-3.9	-2.3	-4.5	-2.8	2013
Finland	-0.5	-1.0	-0.9	-1.8	-2.1	EDP completed in 2011

Source: Stability programmes submitted by the member states for MTO in 2013; European Economic Forecast, Winter 2014, Table 41, for the structural balance and Eurostat for the nominal balance.

As we can see from Table 1 showing the Commission's forecasts in 2013, **only two countries in the euro area have achieved their MTO** (Germany and Luxembourg). Even though Greece has no defined MTO, it is worth stressing that it has shown the highest structural budgetary surplus in the euro area, worth 1.7% of its GDP. While the new fiscal rules oblige member states that have failed to achieve their MTO to bring their structural deficit down by 0.5% a year, only about half of the countries in the euro area have complied with this adjustment path. This is true, in particular, of France which, having trouble meeting its commitments in terms of reducing its nominal deficit, nevertheless complied in 2013 with its obligation to bring down its structural deficit, making an effort worth 0.8% of GDP.

Where **the nominal public deficit is concerned, all countries in the euro area subject to an EDP showed a drop in their public deficit in 2013 over 2012, apart from Greece and Slovenia**. These two countries' public deficit showed a sharp upswing (12.7% in Greece's case and 14.7% in Slovenia's) caused by exceptional expenditure on support for their respective banking industries[25].

Where the public debt is concerned, in 2013 **only five countries in the euro area showed a debt below 60% of GDP** – Estonia, Finland, Latvia, Luxembourg and Slovakia – and the level of indebtment in the euro area stands at over 90% of GDP (*see appendix 2*).

25. Greece's public deficit, net of exceptional expenditure to recapitalise the country's banking industry, stands at 2.1% of GDP, according to Eurostat. Despite its high public deficit, Greece performed extraordinarily well in terms of fiscal adjustment in 2013, because above and beyond its structural budget surplus accounting for 1.7% of GDP, it showed a primary budget surplus (net of debt servicing) worth 0.8% of GDP. In Slovenia's case, the recapitalisation of its banking industry accounted for 10.3% of its GDP.

3. The new procedure for the surveillance of macroeconomic imbalances

The crisis in the euro area had a major impact on countries experiencing problems with their public finances, such as Greece or Portugal; but it also had a strong impact on other countries that do comply with the fiscal rules, such as Ireland and Spain. The effect of this was to highlight the lack of instruments at the European level to identify, prevent and correct macroeconomic imbalances in the euro area which have a negative impact on the stability of the whole. In order to make good this deficiency, the EMU's economic pillar has been completed by the introduction of a procedure for the surveillance of macroeconomic imbalances (3.1.). Yet this new procedure is weaker than that adopted in the fiscal sphere (3.2.). Finally, we present an overview of the three first years of this macroeconomic surveillance (3.3.).

3.1. Preventing and identifying macroeconomic imbalances

The procedure for monitoring macroeconomic imbalances is based on a system of financial penalties, just like the fiscal surveillance procedure, and it forces **member states to achieve a result - avoiding macroeconomic imbalances - yet without forcing them to adopt specific means to achieve that result**. The new procedure comprises two stages designed to prevent and to identify macroeconomic imbalances.

3.1.1. Early-warning mechanism – identifying countries in danger of macroeconomic imbalances

The first stage consists of an **early-warning mechanism** designed to facilitate the early detection and consequent monitoring of imbalances. In this context, the Commission drafts an annual report consisting in an economic and financial assessment based on a scoreboard comprising a set of eleven indicators for the primary sources of macroeconomic imbalances (*see Box 4*), the resulting values being compared to their indicative thresholds. On the basis of this annual report, the Commission identifies those member states that it fears may be affected by an imbalance.

Box 4 ► Indicators used in the scoreboard for the surveillance of macroeconomic imbalances (2013)

INIDCATORS – EXTERNAL IMBALANCE AND COMPETITIVENESS
Three-year moving average of the balance on current accounts as a percentage of GDP (within a range of between +6% and -4% of GDP)
Net international investment position as a percentage of GDP (-35% of GDP threshold)
Trend in export market shares gauged in value (over five years, with a -6% threshold)
Trend over three years in nominal unit labour costs (+9% threshold for countries in the euro area, +12% threshold for countries outside the euro area)
Variation over three years in real effective exchange rates on the basis of HICP/CPI deflators, in respect of 41 other industrially advanced countries (-/+5% thresholds for countries in the euro area, -/+11% for countries outside the euro area)
INDICATORS – INTERNAL IMBALANCE
Private sector debt as a % of GDP (133% threshold)
Credit flow in the private sector as a % of GDP (15% threshold)
Year-on-year variations in real estate prices on the basis of a consumption deflator calculated by Eurostat (6% threshold)
Public administration sector debt as a % of GDP (60% threshold)
Three-year moving average of the unemployment rate (10% threshold)
Variation in % of overall financial sector liabilities (16.5% threshold)

Source: European Commission, *Report 2014 on Alert Mechanism*, November 2013.

It is important to emphasise that **the Commission's assessment for identifying a macroeconomic imbalance is more subjective** than that used for public deficits. While the fiscal surveillance procedure is based on two concrete fiscal rules, this procedure is based on eleven indicators and it is by no means a foregone conclusion that the macroeconomic imbalance procedure will certainly kick in if a given number of criteria is not met. So there is a discretionary component in the Commission's assessment. In its "Scoreboard for the Surveillance of Macroeconomic Imbalances" in 2012, the Commission clearly states that "the scoreboard indicators are neither policy targets nor policy instruments. Moreover, **the reading of the scoreboard results is not mechanical but takes into account other relevant information** as well as the broad economic context". Thus the report on the early-warning mechanism can contain data for two countries where the same number of criteria are not being met, yet in one of them the Commission identifies the risk of an excessive macroeconomic imbalance while in the other it does not identify that risk. By way of an example, during the first financial year, both France and Germany were in breach of two criteria, showing a loss of export market share and an excessive public debt. The Netherlands also failed to meet those two criteria, and in addition it showed a private sector debt that was way over the set limit. Yet of these three countries, only France was subjected to an in-depth review (*see appendix 4*).

But while we highlight the discretionary nature of this procedure, we must also stress that it would be hard to imagine a strict procedure. It is of course difficult to judge whether a macroeconomic imbalance is excessive (or not) on the basis of a handful of economic indicators. But if we emphasise this point, it is in order to highlight the fact that there are loopholes in the procedure, and if the assessment is subjective on the Commission's part, it is also bound to be subjective on the Council's part, thus allowing the Council to come up with arguments to avoid endorsing a country's subjection to the excessive imbalance procedure if the situation arises.

3.1.2. Drafting an in-depth review for countries identified by the early-warning mechanism

The second stage consists in drafting an **in-depth review** for each one of the countries identified by the early-warning mechanism in order to discover the origin of the imbalances detected, to assess whether the imbalance in question is excessive, and to analyse the repercussions of national economic policies. The result of these in-depth reviews is taken into consideration by the Commission when it formulates its country-specific recommendations. The countries in the euro area which have not been subject to in-depth review are Estonia, Slovakia and Austria (*see Table 2*).

There are three possible conclusions to these country-specific analyses: i) the risk of a macroeconomic imbalance is not confirmed; ii) the imbalance exists but it is not considered excessive; or iii) the imbalance exists and it is considered excessive (*see Table 2*). Countries in the third group are liable to move on to the procedure's corrective arm, illustrated below.

3.2. A procedure based on financial penalties but weaker than fiscal surveillance

A member state showing an excessive macroeconomic imbalance can be **subject to an excessive macroeconomic imbalance procedure** (EIP). If that happens, the country in question is given a deadline to submit a plan containing corrective measures; if it submits an unsatisfactory plan or if it implements the plan badly, the member state in question is required to pay a **financial penalty** in the shape of an interest-bearing deposit worth 0.1% of its GDP, which can be converted into a fine if the member state persists in failing to implement the corrective measures. Just as happens with the fiscal surveillance procedure, so here too the penalties proposed by the Commission are held to have been approved unless they are opposed by a qualified majority of member states.

Even though this procedure for the correction of excessive macroeconomic imbalances is based on the public deficit correction procedure, it is nevertheless weaker, for two main reasons.

> "FINANCIAL PENALTIES PUNISH THE FAILURE TO TAKE CORRECTIVE ACTION RATHER THAN THE FAILURE"

Firstly, while with the fiscal surveillance procedure the financial penalties punish the non-correction of an excessive deficit, in this procedure, **financial penalties punish the failure to take corrective action rather than the failure to correct the excessive imbalance**. As a consequence, if a member state subject to an EIP implements the corrective measures foreseen in its plan but is not able to correct its excessive imbalance, it can not be submitted to any penalty. This is justified by the fact that while member states have a direct impact on their public finances, their action to correct a macroeconomic imbalance is indirect, which means that a given action may not have the hoped-for effect or that that effect may only kick in over a period of time.

Secondly, while these penalties are indeed adopted by a reverse qualified majority, which limits the likelihood that the Council will oppose the Commission's recommendation to levy them, **all decisions preceding the penalties are taken by an ordinary qualified majority**. Thus, for instance, it seems unlikely that a qualified majority of Council members will vote in favour of subjecting a member state to an excessive macroeconomic imbalance procedure because, as we saw in the first decade of the euro, each member state will probably prefer "not to disturb so as not to be disturbed".

3.3. What results after the first three years of macroeconomic monitoring?

The macroeconomic supervision procedure has been in place since 2012 but **to date no country has been subject to EMIP**. The early-warning mechanism report for 2014 has identified fourteen countries as being in danger of suffering a macroeconomic imbalance.

Of the fourteen countries for which the Commission has conducted an in-depth review, the macroeconomic balance risk has not been confirmed for three of them (Denmark, Luxembourg and Malta), while an imbalance not considered excessive has been confirmed in eight countries. According to the Commission's analysis, an excessive imbalance may currently be seen in Croatia, in Italy and in Slovenia (the latter country being in the dock for the second year running). **These three countries are in danger of being subjected to the excessive macroeconomic imbalance procedure**. The Commission is due to adopt a position on the initiation of an EIP for these three countries in June. During the first financial year in 2012, Spain and Slovenia were in this same situation but the Commission decided at the time not to initiate an EIP for them.

Table 2 ► Results of the reports on early-warning mechanisms and in-depth reviews (2012, 2013, 2014)*

		2012	2013	2014
Countries excluded from in-depth review – no risk of macroeconomic imbalance (MEI) is detected in the report on the early-warning mechanism		Czech Republic, Germany, Estonia, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Austria, Poland, Slovakia	Czech Republic, Germany, Estonia, Lithuania, Luxembourg, Austria, Poland, Slovakia	Czech Republic, Estonia, Lithuania, Poland, Slovakia, Austria
Countries subject to in-depth review	Unconfirmed MEI risk	-	-	Denmark, Luxembourg, Malta
	MEI exists but is not excessive	Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden, United Kingdom	Belgium, Bulgaria, Denmark, France, Italy, Hungary, Malta, Netherlands, Finland, Sweden, United Kingdom	Belgium, Bulgaria, Germany, Ireland, Spain, France, Hungary, Netherlands, Sweden, Finland, United Kingdom
	Excessive MEI	-	Spain, Slovenia	Croatia, Italy, Slovenia
Countries subject to excessive imbalance procedure		-	-	-

*Countries benefiting from aid programmes are not subject to the macroeconomic imbalance monitoring procedure
Source: Elaboration by the author on the basis of data available in the reports on early-warning mechanisms and in-depth reviews for 2011, 2012 and 2013.

Where Europe's two largest economies are concerned, **France has been one of the group of countries which the Commission considers to have a macroeconomic imbalance since 2012**, but that imbalance is not considered excessive. **Germany, for its part, has been subjected to an in-depth review for the first time in 2014** – although numerous voices had been raised pointing to its trade surplus for several years – but its macroeconomic imbalance is not considered excessive.

Is this new procedure strong enough to prompt member states to change their national policies? While it is true that this procedure is weaker than the procedure adopted for fiscal surveillance, it should nevertheless make it possible to **strengthen the political incentive to change national economic policy** in an effort to correct imbalances, given that the in-depth review of member states makes it possible to **strengthen the "name and shame" aspect and to bring peer pressure to bea**r. Yet not all experts agree that this is so. Daniel Gros, for instance, seems to be somewhat sceptical regarding the procedure's impact, because where Germany's situation is concerned he remarks: *"All in all, the announcement of the Commission in the context of the excessive imbalances procedure [concerning Germany] appears to be much ado about nothing. All the Commission can and will do is to start an 'in-depth analysis'. This might trigger strong political reactions and lead to an enormous debate in the media. But nothing of substance is likely to follow"*[26].

4. The non-binding coordination of economic policies: "recommending is not the same thing as ordering"

Article 121 in the TFEU stipulates that " Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council [...]". **This coordination of national economic policies, however, rests on a non-binding procedure, the ineffectiveness of which became very clear in the first decade of the euro's existence**. Despite the fact that, in the course of the reform of the European economic governance currently under way, certain initiatives have been adopted in an effort to strengthen this procedure, it continues to rest on political incentive; and recommending is not the same thing as ordering (4.1.). A debate is currently taking place in Europe regarding the possibility of strengthening the procedure by putting in place a system of financial incentives, which would combine financial aid with the obligation to implement structural reforms (4.2.).

4.1. Coordination based on political incentive

"MEMBER STATES ENJOY CONSIDERABLE ROOM FOR MANOEUVRE TO RESPOND TO THE EU'S DEMANDS"

In the context of the European semester (*appendix 3*), at the end of every year the Commission presents its priorities for the following year in an "Annual Growth Survey". These priorities are endorsed by the European heads of state or government and serve as a basis for member states to draft their **National Reform Programme** (NRP). This programme is submitted with the Stability or Convergence Programme before 30 April every year and it consists in a reform programme designed to allow the member state to achieve the targets enshrined in the European Strategy for Growth and Jobs, or "Europe 2020" Strategy (*see Box 5*). The country-specific recommendations adopted by the Council in June every year refer to these two national programmes. While we have emphasized the European recommendations' limitations in the budgetary sphere, their impact on the economic sphere is equally limited. A study by Sonja Bekker, focusing on the coordination of social and employment policies in the first two financial years of the European semester, stresses that while soft coordination has become more accurate with the

26. Daniel Gros and Matthias Busse, "The Macroeconomic Imbalance Procedure and Germany: When is a current account surplus an 'imbalance'?", Centre for European Policy Studies, No.301, 13 November 2013.

reforms, particularly through more detailed country-specific recommendations, member states still enjoy considerable room for manoeuvre to respond to the EU's demands: "Due to the existence of different sets of goals, countries seem to be able to pick and choose between sets of targets and **countries still have flexibility in choosing how to meet goals**"[27].

Two initiatives have been adopted over the past few years in an attempt to strengthen the coordination of national economic policies : the signature of the « Euro Plus Pact » as well as the commitment of member states towards an ex-ante coordination of major economic reform projects.

Box 5 ► **«Europe 2020» Strategy**

EU priorities	**Smart growth,** i.e. 'strengthening knowledge and innovation as drivers of our future growth";	**Sustainable growth,** i.e. "promoting a more resource efficient, greener and more competitive economy"	**Inclusive growth,** i.e. "fostering a high-employment economy delivering social and territorial cohesion".
	* Five headline targets - *Employment rate of 75%* - *Spending on R&D amounting to 3% of GDP* - *Reduce greenhouse gas emissions by 20%* - *Reduce secondary-school drop-out rate by 10% and achieve 40% of graduates from higher education* - *Reduce the number of people at risk of poverty by 20 million* * Ten integrated guidelines		
EU level tools	* Monitoring and guidance in the framework of the European semester * Annual growth survey * Country specific recommendations * Seven flagship initiatives * EU levers for growth and jobs (Single market, Trade and external policies, EU financial support)		
National level tools	* National Reform programmes (NRP) (with national targets)		

Source: Own elaboration on the basis of the information available on the website of the European Commission.

4.1.1. The Euro Plus Pact

In March 2011, twenty-three EU member states committed to bolstering the coordination of their economic policy by signing a new coordination pact christened the "**Euro Plus Pact**". This pact lays the stress on actions for which responsibility lies with the member states, and it defines four goals for the group of countries – **competitiveness, employment, the sustainability of public finances and financial stability** – which must translate into concrete national commitments, taking each country's situation into account. Yet the pact does not introduce a new procedure, it rests on existing instruments in an effort to strengthen them. Thus it demands a special effort going beyond the existing effort and includes more ambitious actions and commitments than those already approved – particularly in the framework of the Europe 2020 Strategy – which have to be built into the National Reform Programmes. Thus this pact comprises non-binding measures and rests on peer pressure for its effectiveness, so the procedure continues to suffer, just as it did before the crisis, from a weakness in the means for monitoring compliance with the commitments entered into. As long as a country complies with the fiscal rules and shows no sign of severe macroeconomic imbalance, the Commission adopts no binding means for bringing pressure to bear in order to encourage the country to modify its fiscal or its economic policy. Germany, a country subject neither to an EDP nor to an EIP, has recently offered us an example of the amount of leeway member states have in the conduct of their national economic and social policies. While the EU has been arguing for years that member states need to reform their pension systems in order to guarantee their financial viability, in particular by raising the retirement age in line with life expectancy,

27. Sonja Bekker, "The EU's stricter economic governance: a step towards more binding coordination of social policies?», Social Science Research Center Berlin, January 2013.

Germany, swimming against the tide, announced a reform of its pension system in early 2014 that actually lowers the legal retirement age[28].

4.1.2. The ex-ante coordination of major economic policy reform projects

To strengthen the economic supervision framework within the EU, the Treaty on Stability, Coordination and Governance demands that member states set up a new coordination process based on the **prior debate and, if appropriate, the prior coordination of all member states' major economic policy reform projects**. Thus major reform projects would be assessed and debated at the EU level – in the context of the European semester – before any final decision is reached at the national level. But once again, the opinions voiced by Brussels would not be binding on member states[29].

Given the obvious limitations of political incentive, the member states are considering a mechanism based on financial incentives, which would allow the recommendations addressed to each member state to become binding.

4.2. Towards a contractual mechanism based on financial incentives?

In late 2012, the Van Rompuy report on the future of the EMU and the Commission's blueprint on the EMU suggested **moving towards contractual arrangements between the Commission and the member states in order to ensure the implementation of structural reforms at the national level**. The underlying rationale behind these contracts is based on **pairing solidarity with supervision**, whereby member states would commit to implementing structural reforms in return for financial aid. The reforms targeted in the contracts would be based on the country-specific recommendations, which would therefore allow them to become binding.

Several difficulties arise in connection with the implementation of such a mechanism, however. First of all, a great many member states are reluctant to accept any new mechanisms involving supervision or pressure from the European authorities. They fear that the initiative might lead to **a kind of "Troika for all", inasmuch as it would give the Commission the power to force member states both to "achieve a result and to use specific means to achieve that result**". Also, where the financial tool is concerned, where would the money come from? Is it reasonable to grant financial aid to a member so that it adopts (often unpopular) structural reforms when what those reforms require primarily is political will rather than financial resources? To answer these questions on financial aid, the idea of replacing potential grants with long-term subsidised loans is currently being debated. Yet this would make the mechanism less attractive: why would a country such as France, which currently benefits from all-time low interest rates on its borrowing, agree to have Brussels enforce fresh constraints on it without any offset?

This debate is currently under way and it will be carrying on in the coming months because, despite the European Commission's and the European Council president's contributions on the issue in 2013[30], the heads of state or government have not succeeded in thrashing out an agreement and so they have postponed any decision until the end of 2014[31]. While the idea of putting in place a system of financial incentives does not sound bad in and of itself, it would still be advisable to reflect on the idea of basing such a mechanism on the rationale of a "supportive Europe" rather than on that of a "binding Europe". Thus in order to avoid reproducing as intrusive a bilateral system as that in force in countries benefiting from an aid programme, would it not be preferable for this mechanism to rest on the **definition of shared targets pegged to the payment of financial aid to those countries that make an effort to achieve those targets?**[32]

28. On the strength of this reform, announced in early 2014, retirement age in 2029 for all those with forty-five years' worth of social security contributions, will be sixty-five, rather than sixty-seven as originally planned in the pension system reform adopted in 2009.
29. This measure enshrined in Article 11 in the Fiscal Pact must be built into the European legal framework five years, at the latest, after the Pact came into force. In order to push the debate forward, the Commission issued a Communication on the matter in March 2013 entitled: "Communication from the Commission to the European Parliament and Council. Towards a Deep and Genuine Economic and Monetary Union: Ex ante coordination of plans for major economic policy reforms", COM(2013) 166 final, 20 April 2013.
30. See the presentation by Herman Van Rompuy on 28 June 2013: "Towards an integrated economic policy framework: state of play of consultations"
31. See Eulalia Rubio, "Which financial instrument to facilitate structural reforms in the euro area?", *Policy Paper No. 104, Notre Europe – Jacques Delors Institute*, Paris, December 2013.
32. In this connection see Jean Pisani-Ferry, "Distressed Europe should not be bribed to reform", *Financial Time Blog*, 5 February 2013.

CONCLUSION

The first answer to the question " Who Calls the Shots in the EMU: « Brussels » or the Member States?" is that **"Brussels" only has the powers and the areas of jurisdiction that the member states have assigned to it**. In joining the single currency, member states have committed to complying with a "common action framework" governed by common rules, and they have given the Commission the power to supervise compliance with those rules. This, for two main reasons. On the one hand, because they are aware of the fact that **it is in their primary interest to avoid public deficits – in order to lessen the debt reimbursement burden weighing down on the shoulders of future generations – and to avoid macroeconomic imbalances which have a negative impact on growth and on the creation of jobs**. And on the other hand, because as long as a supranational monetary policy exists side by side with fiscal and economic policies based on the nation state, the supervision and coordination of those national policies is going to be necessary in order **to ensure the stability of the euro area as a whole**. The crisis has highlighted the interdependence of the countries in the euro area and the risk of contagion inherent in any financial and economic difficulties encountered by one or other member state.

While the "common action framework" has been strengthened with the recent reform of the European economic governance – in particular, through a strengthening of the fiscal surveillance procedure and the establishment of a new procedure for macroeconomic supervision – **member states remain free to determine their own national preferences in the fiscal, economic and social spheres** as long as they honour the "limits" jointly agreed on. Thus member states do have an obligation to achieve results, but there is no obligation regarding the specific means adopted to achieve those results. Moreover, the rules are not applied blindly; there is a certain amount of room for flexibility – the size of which depends on the degree of accounting zeal shown by the Commission's members – taking into consideration, in particular, both contingent economic circumstances and the adoption of structural reforms (if appropriate).

There is only one situation in which the European authorities enjoy the right to dictate fiscal, social and economic choices to a member state, and that is when it is benefiting from an aid programme (although such a situation is limited both in time and in space). This is justified by the fact that, in keeping with the rationale of "solidarity and supervision" which has driven the current reform of Europe's economic governance, **a strengthening of the "solidarity" strand has to be accompanied by increased supervision on the part of the European institutions**. On the basis of this same rationale, it is likely that power relations between the EU and the member states will continue to evolve and change. This, because if any new initiatives regarding the "solidarity" strand are adopted, it is only natural that they should entail a strengthening of Brussels's powers of supervision. This is true, for instance, in connection with the potential adoption of a system of financial incentives to implement structural reforms, and it would also be true if member states were to decide to move towards a system of debt mutualisation.

> "THE IMAGE OF A 'BINDING EUROPE' MUST MAKE WAY FOR A 'SUPPORTIVE' EUROPE"

So does this mean that member states are bound to transfer more powers to Europe in the economic and fiscal spheres in order to ensure the stability and prosperity of the euro area? The members of the Padoa-Schioppa Group point out in their report that as long as national leaders continue to look at EMU as "**a grouping of economically independent sovereigns that subscribe to a framework of rules, but within this framework act *severally*, not *jointly*** "[33], the difficulties in conducting in an effective way national economic policies will persist. What Europe and the euro area need today is not so much a set of new rules or procedures as the construction of the will to act together, of an awareness of our shared destiny. As Jacques Delors has pointed out, the missing link in the euro area today is cooperation. That is the only way **the image of a "binding Europe" will ever make way for the image of a "supportive Europe"**.

33. Enderlein et al., "Completing the Euro: A road map towards fiscal union in Europe", Tommaso Padoa-Schioppa Group Report, *Studies & Reports No. 92, Notre Europe – Jacques Delors Institute*, Paris, June 2012.

Appendix 1. The reform of the governance of the Economic and Monetary Union

March 2011 – Signature of the Euro Plus Pact

23 Member States (euro area countries and Bulgaria, Denmark, Lithuania, Poland and Romania), signed the Euro-Plus Pact, which aim is to foster the coordination of economic policies in order to reinforce the competitiveness and the convergence of national economies.

December 2011 – Entry into force of the 'Six-Pack', a package of five regulations and one directive

Three regulations relating to the strengthening of fiscal surveillance, two of which modify the regulations of the Stability and Growth Pact adopted in 1997 and amended in 2005.

- Regulation (EU) n° 1173/2011 on the effective enforcement of budgetary surveillance in the euro area
- Regulation (EU) n° 1175/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area
- Regulation (EU) n° 1177/2011 on speeding up and clarifying the implementation of the excessive deficit procedure

Two regulations establishing a procedure for the prevention and correction of macroeconomic imbalances

- Regulation (UE) n° 1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area
- Regulation (UE) n° 1176/2011 on the prevention and correction of macroeconomic imbalances

A directive introducing new requirements to Member States for their national budgetary frameworks, including statistics and macroeconomic forecasts.

- Directive n° 2011/85/UE on requirements for budgetary frameworks of the Member States

March 2012 - Signature of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG or Fiscal Compact)

This treaty, intergovernmental in nature, has been signed by all EU countries except the United Kingdom, the Czech Republic and Croatia. It entered into force on 1 January 2013. This treaty includes a fiscal part, an economic policy dimension and some provisions concerning the governance of the euro area.

May 2013 – Entry into force of the 'Two-Pack' , a package of two regulations

These two regulations, which apply only to euro area countries, aim at strengthening and harmonizing budgetary procedures (common budgetary timeline and independent macroeconomic forecasts) and to strengthen budgetary surveillance, especially for countries seeking financial assistance.

- Regulation (UE) n° 472/2013 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.
- Regulation (UE) n°473/2013 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

Appendix 2. Public deficit and debt dynamic (% of GDP) in euro area countries – 1997-2013

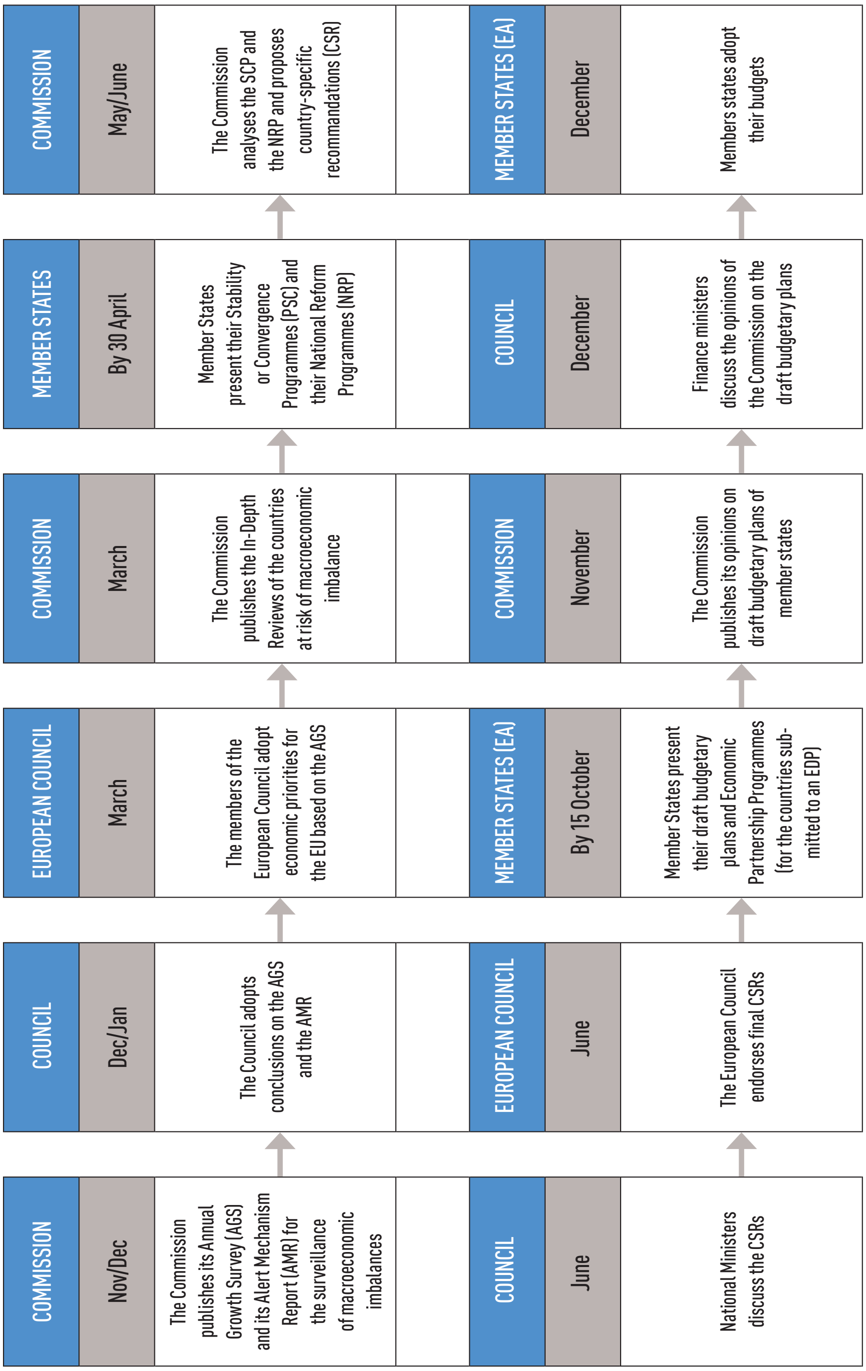
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Eurozone (UE 18)	Deficit	-2.8	-2.3	-1.5	-0.1	-1.9	-2.7	-3.1	-2.9	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.1	-3.7	-3.0
	Debt	73.1	72.8	71.6	69.2	68.1	68.0	69.1	69.6	70.2	68.5	66.2	70.1	80.0	85.5	87.4	90.7	92.6
Belgium	Deficit	-2.2	-0.9	-0.6	0.0	0.4	-0.1	-0.1	-0.1	-2.5	0.4	-0.1	-1.0	-5.6	-3.8	-3.8	-4.1	-2.6
	Debt	122.5	117.2	113.6	107.8	106.5	103.4	98.4	94.0	92.0	87.9	84.0	89.2	96.6	96.6	99.2	101.1	101.5
Germany	Deficit	-2.8	-2.3	-1.6	1.1	-3.1	-3.8	-4.2	-3.8	-3.3	-1.6	0.2	-0.1	-3.1	-4.2	-0.8	0.1	0.0
	Debt	59.8	60.5	61.3	60.2	59.1	60.7	64.4	66.2	68.6	68.0	65.2	66.8	74.6	82.5	80.0	81.0	78.4
Estonia	Deficit	2.2	-0.7	-3.5	-0.2	-0.1	0.3	1.7	1.6	1.6	2.5	2.4	-3.0	-2.0	0.2	1.1	-0.2	-0.2
	Debt	7.0	6.0	6.5	5.1	4.8	5.7	5.6	5.0	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	10.0
Ireland	Deficit	1.0	2.2	2.6	4.9	0.9	-0.4	0.4	1.4	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.2	-7.2
	Debt	63.6	53.0	47.0	37.0	34.5	31.8	31.0	29.4	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4	123.7
Greece	Deficit	-6.2*	-4.0*	-3.2*	-3.7	-4.5	-4.8	-5.6	-7.5	-5.2	-5.7	-6.5	-9.8	-15.7	-10.9	-9.6	-8.9	-12.7
	Debt	96.6	94.5	94.0	103.4	103.7	101.7	97.4	98.6	100.0	106.1	107.4	112.9	129.7	148.3	170.3	157.2	175.1
Spain	Deficit	-4.0	-3.0	-1.3	-0.9	-0.5	-0.3	-0.3	-0.1	1.3	2.4	2.0	-4.5	-11.1	-9.6	-9.6	-10.6	-7.1
	Debt	66.1	64.1	62.4	59.4	55.6	52.6	48.8	46.3	43.2	39.7	36.3	40.2	54.0	61.7	70.5	86.0	93.9
France	Deficit	-3.3	-2.6	-1.8	-1.5	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.0	-5.2	-4.9	-4.3
	Debt	59.2	59.4	58.9	57.3	56.9	58.8	62.9	64.9	66.4	63.7	64.2	68.2	79.2	82.7	86.2	90.6	93.5
Italy	Deficit	-2.7	-2.7	-1.9	-0.8	-3.1	-3.1	-3.6	-3.5	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.7	-3.0	-3.0
	Debt	117.5	114.3	113.1	108.6	108.3	105.4	104.1	103.7	105.7	106.3	103.3	106.1	116.4	119.3	120.7	127.0	132.6
Cyprus	Deficit	-5.1	-4.2	-4.3	-2.3	-2.2	-4.4	-6.6	-4.1	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.4	-5.4
	Debt	57.4	59.2	59.3	59.6	61.2	65.1	69.7	70.9	69.4	64.7	58.8	48.9	58.5	61.3	71.5	86.6	111.7
Latvia	Deficit	1.5	0.0	-3.8	-2.8	-2.0	-2.3	-1.6	-1.1	-0.4	-0.6	-0.7	-4.4	-9.2	-8.2	-3.5	-1.3	-1.0
	Debt	11.1	9.3	12.4	12.4	14.1	13.6	14.7	15.0	12.5	10.7	9.0	19.8	36.9	44.5	42.0	40.8	38.1
Luxembourg	Deficit	3.7	3.4	3.4	6.0	6.1	2.1	0.5	-1.1	0.0	1.4	3.7	3.2	-0.7	-0.8	0.2	0.0	0.1
	Debt	7.4	7.1	6.4	6.2	6.3	6.3	6.2	6.3	6.1	6.7	6.7	14.4	15.5	19.5	18.7	21.7	23.1

Malta	Deficit	-7.4	-9.7	-6.9	-5.7	-6.3	-5.7	-9.0	-4.6	-2.9	-2.7	-2.3	-4.6	-3.7	-3.5	-2.7	-3.3	-2.8
	Debt	46.7	51.8	55.2	53.9	58.9	57.9	66.0	69.8	68.0	62.5	60.7	30.9	66.5	66.0	68.8	70.8	73.0
Netherlands	Deficit	-1.2	-0.9	0.4	2.0	-0.2	-2.1	-3.1	-1.7	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1	-2.5
	Debt	68.2	65.7	61.1	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.3	58.5	60.8	63.4	65.7	71.3	73.5
Austria	Deficit	-1.8	-2.4	-2.3	-1.7	0.0	-0.7	-1.5	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-2.6	-1.5
	Debt	64.1	64.4	66.8	66.2	66.8	66.2	65.3	64.7	64.2	62.3	60.2	63.8	69.2	72.5	73.1	74.4	74.5
Portugal	Deficit	-3.7	-3.9	-3.1	-3.3	-4.8	-3.4	-3.7	-4.0	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.3	-6.4	-4.9
	Debt	55.5	51.8	51.4	50.7	53.8	56.8	59.4	61.9	67.7	69.4	68.4	71.7	83.7	94.0	108.2	124.1	129.0
Slovenia	Deficit	-2.3	-2.4	-3.0	-3.7	-4.0	-2.4	-2.7	-2.3	-1.5	-1.4	0.0	-1.9	-6.3	-5.9	-6.4	-4.0	-14.7
	Debt	22.4	23.1	24.1	26.3	26.5	27.8	27.2	27.3	26.7	26.4	23.1	22.0	35.2	38.7	47.1	54.5	71.7
Slovakia	Deficit	-6.3	-5.3	-7.4	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.5	-4.8	-4.5	-2.8
	Debt	33.7	34.5	47.8	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.6	27.9	35.6	41.0	43.6	52.7	55.4
Finland	Deficit	-1.3	1.7	1.7	7.0	5.1	4.2	2.6	2.5	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.7	-1.8	-2.1
	Debt	53.9	48.4	45.7	43.8	42.5	41.5	44.5	44.4	41.7	39.6	35.2	33.9	43.5	48.8	49.3	53.6	57.0

Source: Eurostat

* Data from the OECD (information non available on Eurostat)

Appendix 3. European Semester: A cycle of economic policy coordination



Appendix 4. Scoreboard of indicators covering the major sources of macroeconomic imbalances (indicators of external imbalance and competitiveness) – 2012-2014

INDICATOR	3 YEAR BACKWARD MOVING AVERAGE OF THE CURRENT ACCOUNT BALANCE IN % OF GDP			NET INTERNATIONAL INVESTMENT POSITION IN % OF GDP			3 YEARS PERCENTAGE CHANGE OF THE REAL EFFECTIVE EXCHANGE RATE BASED ON HICP/ CPI DEFLATORS			5 YEARS PERCENTAGE CHANGE OF EXPORT MARKET SHARE (SHARE OF WORLD EXPORTS)			3 YEARS PERCENTAGE CHANGE IN NOMINAL UNIT LABOUR COST.		
Threshold	-4/+6%			-35%			+/-5%			-6%			+9%		
Year of Report	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Belgium	-0.6	-0.3	-0.4	77.8	65.7	48	1.3	-0.5	-4.3	-15.4	-10.2	-14.9	8.5	6.2	6.6
Gerrmany	5.9	5.9	6.5	38.4	32.6	42	-2.9	-3.9	-8.9	-8.3	-8.4	-13.1	6.6	5.9	3.0
Estonia	-0.8	2.8	0.9	-72.8	-57.8	-54	5.9	0.8	-3.4	-0.9	11.1	6.5	9.3	-6.2	-2.8
Ireland	-2.7	0.0	2.3	-90.9	-96.0	-112	-5.0	-9.1	-12.2	-12.8	-12.2	-16.3	-2.3	-12.8	-10.4
Greece	-12.1	-10.4	-7.5	-92.5	-86.1	-109	3.9	3.1	-4.5	-20.0	-18.7	-26.7	12.8	4.1	-8.1
Spain	-6.5	-4.3	-3.1	-89.5	-91.7	-93	0.6	-1.3	-5.2	-11.6	-7.6	-14.6	3.3	-2.1	-5.6
France	-1.7	-1.6	-1.8	-10.0	-15.9	-21	-1.4	-3.2	-7.8	-19.4	-11.2	-14.0	7.2	6.0	4.1
Italy	-2.8	-2.9	-2.3	-23.9	-20.6	-25	-1.0	-2.1	-6.2	-19.0	-18.4	-23.8	7.8	4.4	3.1
Cyprus	-12.1	-8.4	-6.7	-43.4	-71.3	-82	0.8	-0.9	-5.8	-19.4	-16.4	-26.6	7.2	8.8	0.8
Latvia	-2.3	3.1	-0.6	-55.9	-73.3	-67	9.1	-0.6	-8.5	13.9	23.6	12.3	0.8	-15.0	-5.8
Luxembourg	6.4	7.5	7.0	96.5	107.8	169	1.9	0.8	-2.3	3.2	-10.1	-18.3	17.3	12.5	9.8
Malta	-5.4	-4.3	-1.6	9.2	5.7	25	-0.6	-3.0	-7.7	6.9	11.7	4.5	7.7	5.8	4.9
Netherlands	5.0	7.5	8.8	28.0	35.5	47	-1.0	-1.6	-6.0	-8.1	-8.2	-12.0	7.4	5.8	3.3
Austria	3.5	2.2	2.2	-9.8	-2.3	0	-1.3	-1.0	-4.7	-14.8	-12.7	-21.2	8.9	5.9	4.1
Portugal	-11.2	-9.1	-6.5	-107.5	-105.5	-115	-2.4	-1.9	-4.0	-8.6	-9.5	-16.0	5.1	0.9	-5.3
Slovenia	-3.0	-0.4	1.2	-35.7	-41.2	-45	2.3	-0.3	-4.5	-5.9	-6.1	-19.9	15.7	8.3	-0.4
Slovakia	-4.1	-2.1	-1.7	-66.2	-64.4	-64	12.1	4.3	-3.2	32.6	20.9	4.2	10.1	4.4	0.9
Finland	2.1	0.6	-0.5	9.9	13.1	18	0.3	-1.3	-8.3	-18.7	-22.9	-30.8	12.3	9.1	4.8

Appendix 4 bis. Scoreboard of indicators covering the major sources of macroeconomic imbalances (indicators of internal imbalance) – 2012-2014

INDICATOR	YEAR-ON-YEAR CHANGE IN DEFLATED HOUSE PRICES			PRIVATE SECTOR CREDIT FLOW IN % OF GDP			PRIVATE SECTOR DEBT IN % OF GDP			GENERAL GOVERNMENT SECTOR DEBT IN % OF GDP			3 YEAR BACKWARD MOVING AVERAGE OF UNEMPLOYMENT RATE			YEAR-ON-YEAR CHANGE OF TOTAL FINANCIAL SECTOR LIABILITIES		
Threshold	+6%			15%			160% in 2012 and 2013. 133% in 2014			60%			10%			16.5%		
Year of Report	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012*	2013	2014
Belgium	0.4	-0.1	-0.2	13.1	11.6	-1.5	233	236	146	96	98	100	7.7	7.8	7.7		4.7	-3.9
Germany	-1.0	1.4	1.8	3.1	4.8	1.5	128	128	107	83	81	81	7.5	6.9	6.2		2.1	4.4
Estonia	-2.1	3.3	3.5	-8.6	6.8	4.7	176	133	129	7	6	10	12.0	14.4	13.2		-4.4	12.9
Ireland	-10.5	-15.2	-11.7	-4.5	4.0	-1.6	341	310	306	93	106	117	10.6	13.3	14.4		-0.6	-0.7
Greece	-6.8	-5.1	-12.4	-0.7	-5.5	-6.8	124	125	129	145	171	157	9.9	13.2	18.2		-3.4	-3.4
Spain	-3.8	-10.0	-16.9	1.4	-4.1	-10.5	227	218	194	61	69	86	16.5	19.9	22.3		3.7	3.3
France	5.1	3.8	-2.3	2.4	4.0	3.5	160	160	141	82	86	90	9.0	9.6	9.9		7.3	-0.1
Italy	-1.4	-2.0	-5.4	3.6	2.3	-1.0	126	129	126	118	121	127	7.6	8.2	9.2		3.8	7.1
Cyprus	-6.6	-8.5	-2.2	30.5	16.1	10.0	289	288	299	62	71	87	5.1	6.6	8.7		-0.2	-1.9
Latvia	-8.7	4.9	-0.6	-5.3	-2.5	-1	81	125	91.7	38	42	41	12.5	18.1	16.9		-4.5	4.1
Luxembourg	3.0	1.5	2.5	-41.8	2.5	-5.0	254	326	317	19	18	22	4.9	4.8	4.8		11.3	11.3
Malta	-1.6	-2.3	0.3	6.9	2.2	-1.6	212	210	155	69	71	71	6.6	6.8	6.6		1.4	4.1
Netherlands	-3.0	-4.0	-8.7	-0.7	0.7	0.2	223	225	219	63	66	71	3.8	4.2	4.7		7.2	4.9
Austria	-1.5	-8.0	9.6	6.4	4.1	2.7	166	161	147	72	72	74	4.3	4.4	4.3		-0.3	-0.9
Portugal	0.1	-3.6	-8.6	3.3	-3.2	-5.4	249	249	224	93	108	124	10.4	11.9	13.6		-0.7	-3.6
Slovenia	0.7	1.0	-8.4	1.8	1.9	-2.9	129	128	114	39	47	54	5.4	7.1	8.1		-1.3	-0.8
Slovakia	-4.9	-5.6	-5.9	3.3	3.3	3.2	69	76	73	41	43	52	12.0	13.4	14.0		1.2	2.6
Finland	6.8	-0.3	-0.5	6.8	4.6	9.0	178	179	158	48	49	54	7.7	8.1	8.0		30.8	-0.2

* : This indicator of Macroeconomic imbalance was not part of the scoreboard on the AMR report released on 14 February 2012

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