Macroeconomic Challenges the European Union Faces at the Onset of the New Millennium

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Summary:

The macroeconomic challenges occupy a prominent place among the configuration of external and internal challenges which the European Union faces, including in the beginning of the new millennium. They are of various nature and gravity, and accordingly shape the economic landscape in the EU member states and the Union as a whole. Of greatest importance among these, to name a few, are stimulating economic growth, promoting employment, fighting high and growing unemployment, and the early detection and correction of macroeconomic imbalances. In this relation, also of key importance is to clarify the new accents in the EU policies in response to these challenges within the context of its primary legislation, major initiatives and visionary messages of its leaders.

The author's main purpose is to formulate the most critical macroeconomic challenges, provide arguments for their origin, evolution and resolution, and support with current Eurostat data the different levels of analysis, including EU-27, EU-28 (EU-27 and Croatia); the euro area (17); the PIIGS group of countries (Portugal, Ireland, Italy, Greece and Spain) and the BELL countries (Bulgaria, Estonia, Latvia and Lithuania). Apart from Eurostat, other data sources include: EU treaties, regulations, policy documents, etc. from the examined period.

Key words: EU, macroeconomic challenges, economic growth, employment, unemployment, macroeconomic imbalances, EU economic policy, European Semester, Lisbon Strategy, Europe 2020 Strategy.

JEL Classification: F15

Of the range of internal and external challenges the European Union is confronted with in the beginning of the new millennium, those of macroeconomic nature are clearly the most vital. This stems from the fact that they are sizeable, affect key areas of development of the Union and are strategically important for steering it, in the words of the French president Francois Hollande, out of the "despondency" it has fallen into. Besides, the challenges that the European Union is currently facing outweigh by far those before the crisis with limited possibilities for manoeuvring amid growing competition from the newly emerging economies. Before mentioning the most significant ones, we should like as a preliminary matter to make some provisions:

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First, the challenges analysed below relate to both the economy and the economic policy of the European Union and its member states. Here, EU economy will imply the real economic environment in the national economies of the member states as one whole. However, on one condition – that with regard to formations such as EU a caution particularly in point is that not always what holds true, in this case, for the economy of an individual member state or a group of member states, will hold true for EU's economy, or vice versa. Not in all instances what applies to the EU economy as a whole would equally apply or be relevant to the same degree across the economies of its already 28 member states. The global financial and economic crisis has, on the other hand, shown how closely interrelated the economies are, the euro-area countries in particular, and the ways spill-over effects pass from one member-state's economy onto another (so-called domino effect).

The EU economic policy (to the extent we can speak of such a policy) falls within the scope of the so-called integrational policies and relates to the creation and strengthening of the position of the EU's economic and monetary union. It is accomplished in three stages, including member states conducting independent economic policy geared to contributing to the Union's goals; coordinating the economic policies of member states at the Union level within the EU Council which oversees the compliance of economic policies with the guidelines adopted by the European Council concerning the economic policies of the member states and the Union as a whole; pursuing a common economic (including tax and budget) policy and monetary policy. And, as presently no possibilities exist for conducting a common tax policy, the EU, through the European Commission, focuses on monitoring the state of the budget and government debt in the member states, and respectively ensures compliance with budget discipline based on two criteria laid down in the Union's primary legislation in this area. Apart from the economic policy, the Union conducts common monetary policy which however is limited by scope – it applies only to the 17 euro-area member states (the states whose currency is the euro) and is pursued by the Eurosystem (including the European Central Bank and the central banks of the euro-area member states).

Second, the macroeconomic challenges will be analysed mostly based on the Union's primary legislation (including in the Treaty on the European Union and the Treaty on the Functioning of the European Union), in the developed and adopted strategies (The Lisbon Strategy of 2000 and Europe 2020 of 2010), pacts (The Stability and Growth Pact of 1997, The Euro Plus Pact of 2011, The Growth and Jobs Pact of 2012 and the Fiscal Pact of 2013), a roadmap for the completion of the Economic and Monetary Union (EMU), and the European Semester initiative, among others. Consideration will also be given to the reported concrete outcomes of the implementation of the foreseen (in the abovementioned documents and initiatives) measures; the assessments as to their suitability and efficiency; the new ideas and visionary messages of the Union's leaders and of its leading member states.

Third, the examples given will be based on Eurostat data on the state and dynamics of the key macroeconomic indicators to be found in the sample. For that purpose, several levels of analyses will be differentiated, including EU-27, EU-28 (EU-27 and Croatia); euro area (17); the PIIGS group of countries (Portugal, Ireland, Italy, Greece and Spain) and the BELLs (Bulgaria, Estonia, Latvia and Lithuania). Where possible, examples will be given with other formats as well.

Without any claim of exhaustiveness while strictly observing the requirement for the analysed macroeconomic challenges to have occurred or become poignant as a result of inappropriate and short-lived political decisions in the beginning of the new millennium, we definitely believe that the most significant or closely related to these are the following:

Stimulating economic growth and promoting employment

Economic growth and employment (unemployment respectively) are macroeconomic variables such that the related challenges occupy a permanent place on every member state's agenda and of the Union as a whole. Taking into account exactly this peculiarity of theirs, they have been, on the one hand, raised to the rank of its goals, while on the other – after recognizing a number of new or extraordinary circumstances during the first decade of the new millennium – they have been brought to the forefront before all others. In this respect, it is particularly important to highlight that at the European Council in Lisbon in 2000 the European Union for the first time admitted the supremacy of the American economic and social model of stimulating economic growth, fighting unemployment and boosting employment. Therefore, in the strategy adopted at this summit forum, it set out as its primary objective the EU "to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment."[1]

Next, as a valid reason for placing the problems of growth and employment among the leading macroeconomic challenges in EU, and closely related to the aforementioned, is the significance over the medium to longer-term horizon of the causes relating to the demographic situation and the risks on the continent, and the implications for the economic growth of widely discussed trends such as the aging of the population, dangerously low current and forecasted levels of birth rate, higher average longevity tending to exceed 80 years for males and 85 years for females, "immigrant pressure" reaching intolerable levels, and so on, and so forth.

And finally, among the factors conditioning higher growth and employment in concrete areas of priority action, last but not least is the global financial and economic crisis. In this relation, the European Union had to prepare a broad response to the economic growth slowdown and declining financial markets confidence, as well as support its member states in resolving financial sector related issues. Initially, a three-directional recovery plan was approved for the European economy (including concrete measures aimed at dealing with the consequences from the crisis on the real economy), and subsequently – a series of other initiatives and concrete actions of which of key importance are the "Europe 2020" Strategy ("A strategy for smart,

[1] Lisbon Strategy Evaluation Document, Brussels, 2.2.2010. SEC (2010) 114, p. 2.

sustainable and inclusive growth") and the so-called "Growth and Jobs Pact".

A more concrete analysis of the parameters of economic growth and employment based primarily on Eurostat data shows that **the economic growth**, presented through the real GDP[2] dynamics over the 2003-2012 period, for EU-28 was - 4,5% (in 2009 when it hit a trough) and 3,4% (in 2006 when it reached its highest level), for EU-27 it moved within the same range as that of the EU-28, and for the euro area – from -4,4% (2009) to 3,2% (2006). A negative rate of GDP growth for EU-28, EU-27 and the euro area was registered only in two years from the examined period (2009 and 2012) and positive – in all other years of the period. The forecast for 2013, in particular, is that with the EU-27 (no available data for EU-28) and the euro area there would be a serious moderation of the decline to -0,1% for EU-27 and -0,4% for the euro area. Moreover, according to publications in mid August 2013, Eurostat data, the EU economy (data not available for 7 countries) in the second quarter of 2013 demonstrated a 0,3% growth on the first quarter. Besides, it is believed that this growth, the conclusion respectively that the Union's economy is coming out of recession, is largely attributable to the German and French economies (0,7% growth for the former and 0,5% for the latter).

Stimulating the economic growth is closely linked with **boosting employment** as a matter of common interest for all Union member states. At the core of it lie the basic social rights of which member states and Union alike are well aware and which were laid down already in the European Social Charter of 1961 and in the Charter of the Fundamental Social Rights of Workers of 1989.

The available Eurostat data show[3] that in the period 2003 - 2012 the level of employment in EU-28 moved within the range from 62,5% (in 2003) to 65,7% (in 2008). Besides, during the first half of the examined 10-year period it picked up to 65,7% (the highest registered level), after which as a result of the crisis it gradually fell to 64,1% in 2012. Negligibly higher are the values of the indicator for EU-27 and the euro area, the only difference being a slight decrease observed in the euro area in the last year of the examined period (2012). The highest employment among the member states was observed in Denmark, Sweden and the Netherlands - above 70% in each year of the decade, and the lowest – in Italy, Malta and Croatia, to mention a few – between 50 - 60% and at sustainable trend for both groups, including in the first half of 2013.

By far worse than the state of employment in the age group 15-64 is that of the young people under 25 years (15-24-year olds) in EU-28, EU-27 and the euro area (17) alike, most notably in some of the member states. Overall for EU-28, EU-27 and the euro area, the level of employment moves within just 30-40% following a downward trend in the years after the start of the crisis (2008). The best performers among the members states are on the whole: the Netherlands (with almost twofold values above the average for the EU-28 and the euro area), Austria, Denmark, Germany and Malta, and the countries with the least favourable position (especially in the last few years of

[2] See Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes
[3] There again.

the period) are: Greece (13,1% in 2012), Croatia (16,9% in 2012), Spain (18,2% in 2012), Italy and Hungary (18,6% each in 2012), some of the CEE countries, Bulgaria (21,9% in 2012) among them.

Fighting the high and growing unemployment

The employment issues are closely related to those of unemployment as disturbance in full employment is the main reason for an unemployment process to start. The parameters of this macroeconomic indicator across all age groups for the same period 2003-2012 reached in EU, and particularly in some of the member states, unprecedented and unacceptable levels[4] of high human and social cost. This was largely the result of the global economic crisis which discontinued the steady downward trend for this indicator during the 2004-2006 period pushing it at the end of the period, in EU-28, EU-27 and the euro area, up to a level above the psychological threshold of 10% - 10,5% in 2012 and 11% in July 2013 for EU-28; 10,5% in 2012 and 10,9% in July 2013 for EU-27; 11,4% in 2012 and 12% in July 2013 for the euro area. "Standing" behind these figures are more than 26 million EU citizens, the record being held by almost all countries from the so-called PIIGS group: Greece (24,3% in 2012 and 27,6% in May 2013), Spain (25,0% in 2012 and 26,4% in May 2013), Portugal (15,9% in 2012 and 16,5% in July 2013) and Ireland (14,7% in 2012 and a slight decrease to 13,8% in July 2013). Apart from level, at the end of the analysed period, notably Greece and Spain saw the highest increase in the parameters of this indicator compared to the beginning of the period or individual years – almost and above threefold for Greece and 2-to-3-fold for Spain.

Against the backdrop of the overall unemployment, an issue of great concern is the so-called **youth unemployment** (up to 25 years of age). Apart from being record high in both the Union and especially in a large group of member states, this unemployment leads to the formation of a sizable group of the population under 25-year olds for which the prospects for professional realisation, stable income and higher life standard are increasingly bleak. For EU-27 this is evidenced by the steady growth of the level of this indicator in the period 2007-2012 – from 15,7% in 2007 to 22,8% in 2012 and 23,2% in July 2013, and for the euro area – from 15,5% in 2007 to 23% in 2012 and 24% in the middle of 2013. What's more, with the exception of 3 countries (Germany, Austria and the Netherlands) where it is below 10%, for the majority of member states, 6 of them in particular, it has already reached epidemic proportions. Thus, over 50% is the level of the indicator in the two worst affected by the crisis euro-area (EU) countries - Greece (55,3% in 2012 and 62,9% in May 2013) and Spain (53,2% in 2012 and 56,1% in July 2013). They are followed by a group of 4 countries (Portugal, Italy, Ireland and Slovakia) with the parameters of this indicator moving from 30 to 40%, of which Portugal and Italy are closer to the higher limit of 40% (37,7% and 35,3%, respectively), and Ireland closer to the lower limit of the range (30,4%). In the BELL group of countries (except for Estonia with 20,9%) the indicator for 2012 is at a level between 25% and 30%, Bulgaria and Latvia moving closest to the upper limit of 30%.

[4] See Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

New accents in the policies to promote sustainable growth, effectively fight unemployment and the social consequences of the crisis

Following the complex evaluation of the Lisbon strategy (of March 2000) in the first 4 years of its implementation, also illustrated by part of the above cited data on growth, employment and unemployment rates, the European Union reached the finding that attaining the long-term objectives was unlikely. In this relation, the European Council took a decision to re-launch the strategy, strictly reorient its priorities towards growth and employment, and mobilize more national and Community funds in its three main dimensions (within the general context of globalization and sustainable growth). In particular, the European Council of 23-24 March 2006 set out several specific areas for priority action until the end of 2007 within the context of the renewed partnership for growth and employment on 13.11.2007. The EU Council agreed on a conclusion under the heading: **"The new three-year cycle of the Lisbon Strategy"** and on 11.12.2007 the European Commission, in its turn, approved two communications also related to the Lisbon Strategy. The first one is called: **"Strategic Report on the renewed Lisbon Strategy for Growth and Jobs: launching a new cycle (2008-2010),** and the second – **"Proposal for a Community Lisbon Programme 2008-2010".** Following the interim review of the renewed Lisbon strategy in the first document, the second naturally sets out the objectives to be achieved at the Union level by 2010. They are no less ambitious than those set out in the initial version of the strategy, but unlike them they are much more attainable. Moreover, the second document (proposal to the European Council of March 2008) of the Commission for a new Lisbon programme underscores that it is based on the integrated guidelines and 4 priority areas of action set by the 2006 Spring European Council.

Albeit it did not completely abandon but only put a new start to the Lisbon strategy, 10 years after its adoption the European Union had to admit that for reasons of different character it had failed to meet its main targets (i.e. 70% employment rate, reducing the average level of unemployment in EU to around 4%, and 3% of GDP spent on research and development (R&D), even though it had "broken new ground by promoting common actions to address the EU's key long-term challenges".[5] The next effort had to be made – this time in a direction towards getting out of the crisis and reshaping its economy into "a smart, sustainable and inclusive economy with high employment, productivity and social cohesion".[6] In the spring of 2010 a new strategy was adopted called **Europe 2020 (Strategy for smart, sustainable and inclusive growth)** and a time horizon (similarly to the Lisbon strategy) – one decade, i.e. until 2020. Among its key objectives, which have become objectives at member-state level, is attaining employment for 75% of the population between 20 to 64 years of age; investments in research and development at 3% of the Union's GDP; reducing the number of the population on the poverty line by 20 million, etc. To achieve

[5] Lisbon Strategy Evaluation Document, Brussels, 2.2.2010. SEC (2010) 114, p. 3.

[6] Europe 2020. Strategy for smart, sustainable and inclusive growth, European Commission, Brussels, 3.3.2010, COM (2010) 2020, p. 5.

these objectives, 7 key initiatives have been proposed supported by instruments at the Union level such as the single market, financial levers and external policy instruments. Of the EU institutions, the most is expected from the European Council, the European Parliament and the European Commission, and from their most important partners: the EU committees, national, local and regional authorities, social partners and civil society.

As an expression of its resolve to promote "smart, sustainable, inclusive, resource-effective and job-creating growth within the context of the Europe 2020 strategy",[7] considering the difference in the existing growth models with all consequences entailed for job creation, the European Council of 28-29 June 2012 agreed on **a Growth and Jobs Pact**. It provides "a common framework of action at the member state level, EU and the euro area, mobilizing all levers, instruments and policies".[8] It pays a special attention to actions at member-state level and the contribution of European policies towards growth and employment,[9] and a package of some 120 billion euro (around 1% of the EU gross national income) is envisaged for financing speedy actions for boosting the growth tending to reach 150 billion euro by 2015.

In support of the urgent actions at member-state level and at European level for promoting growth and employment, the Eurounion envisages in its next documents further efforts in the following areas: investment in growth, closer integration of the single market, connecting Europe, realizing a fully functioning digital single market by the year 2015, promoting research and innovation, enhancing competitiveness of industry, creating the appropriate regulatory framework for growth, developing tax policy in support of growth, boosting employment and social inclusion, implementing the Europe 2020 strategy, and utilizing the trade potential. At the same time, the European Union recognizes that achieving a high and sustainable economic growth, employment and social cohesion is also a guarantee for the good functioning of the Economic and Monetary Union. Therefore, this relation is an object of special attention by EU and member states alike.

Identifying early on and unwinding macroeconomic imbalances

In the recent few years, the European Union has been undergoing a situation of **macroeconomic imbalances** of different nature and gravity that built up in the decade before the global financial and economic crisis. This fact exactly and the aspiration to "restore economy to a balance" have kindled a process of reforms associated with identifying early on and correcting the imbalances which is far from complete and "will continue", in the words of European Commissioner for Economic and Monetary Affairs Olli Rehn, "to shape the economic landscape for several years to come. Through the Macroeconomic Imbalance Procedure, the Commission provides guidance to the member states to ensure the adoption of adequate policies to

[7] European Council conclusions of 28-29 June 2012, Annex, Growth and jobs pact, p. 7. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/BG/ec/131393.pdf

[8] EU conclusions of 18-19 October 2012, p. 1. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/BG/ec/133017.pdf

[9] See for details: European Council Conclusions of 28-29 June 2012, Annex, Growth and Jobs Pact, p. 7-15. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/BG/ec/131393.pdf

tackle imbalances and lay the foundation for sustainable growth and job creation".[10]

The concrete presentation of the excess macroeconomic imbalances prevention and correction mechanism requires taking as a starting point the EU primary legislation which sets out the principal norms providing the base to tracing the concrete line of development the EU rebalancing policy has followed (in restoring the macroeconomic balance) within its framework. To begin with, we should note that according to the texts of Title VIII, Economic and Monetary Policy of the EU, of the Consolidated version of the Treaty on the Functioning of the European Union[11] the activities of the EU and its member states include adoption of economic policy based on close coordination of the economic policies across member states... and which is pursued fully "in accordance with the principle of an open market economy with free competition". Besides, "Member States shall regard their economic policies as a matter of common concern" and "with a view to contributing to the achievement of the objectives of the Union". Coordination of these economic policies is carried out within the EU Council, and (on a recommendation from the European Commission) this EU institution "formulates a draft on the broad guidelines of the economic policies of the Member States and of the EU" and reports its findings to the European Council. Next, on the grounds of the Council's report, the European Council "discusses a conclusion on the broad guidelines of the economic policies of the member states and of the Union" which the Council in turn uses as a base to adopt "a recommendation on the broad guidelines" and communicates it to the European Parliament.

The next procedure of ensuring closer economic policy coordination and sustained convergence of the member states' economic indicators includes a Council's review of the economic developments (on the basis of reports submitted by the European Commission) in each of the member states and in the EU, as well as of the consistency of the economic policies with the broad guidelines for these policies of the member states and of the Union as drafted by it. Exactly this institution of the Union is responsible for regularly carrying out overall assessment and acting in accordance with the outcomes of this multilateral surveillance.

Under the Treaty on the Functioning of the European Union, in case of divergence of a member state's economic policies from the broad economic policy guidelines or when these risk to jeopardize the proper functioning of the Economic and Monetary Union, a series of procedures are triggered which are overseen by the European Commission, the Council and the European Parliament. They start with the European Commission addressing a warning to the member state concerned or, respectively, the Council, acting on a qualified majority on the basis of recommendation from the Commission, may make recommendations to the member state. Finally, the Presidents of the Council and of the Commission report to the European Parliament on the outcomes of the multilateral surveillance, and only the European Parliament and

[10] Alert Mechanism Report: support to macroeconomic recovery in EU. European Commission. Press release. Brussels, 28 November 2012 http://europa.eu/rapid/press-release_IP-12-1275_bg.htm

[11] See: Consolidated texts of the Treaty on the European Union and the Treaty on the Functioning of the European Union. Official Journal of the European Union, 30.03.2010, p. 96-102.

the Council, in the form of a regulation (in accordance with the ordinary legislative procedure), are competent "to adopt rules for the multilateral surveillance procedure" referred to in paragraphs 3 and 4 of art. 121 of the Treaty on the Functioning of the European Union.

As (according to art. 126 of the Treaty on the Functioning of the European Union) the member states must avoid excessive budget deficit, the European Commission is responsible for monitoring the development of the budgetary situation and of the government debt in the member states, in particular compliance with budgetary discipline on the basis of two criteria: "the ratio of the planned or actual budget deficit to GDP" and "the ratio of government debt to GDP". With both criteria, the European Commission examines whether these ratios comply with the reference values specified in a special Protocol (No 12) annexed to the Treaty (3% for budget deficit and 60% for government debt), for budget deficit respectively whether "the ratio has declined substantially and continuously and reached a level that comes close to the reference value" or "alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value", and for government debt whether the ratio "exceeds the reference value unless ... is sufficiently diminishing and approaching the reference value at a satisfactory pace".[12]

Here, as with the member-states' economic policies coordination, the EU primary legislation spells out in detail all stages of the procedure which will be triggered if a member state fails to meet one or both criteria. Initially, the European Commission drafts a report where, apart from the budget deficit analysis, it takes into account a number of other circumstances, including "the medium-term economic and budgetary position of the member state". The Commission may prepare such a report in two cases: where an excessive deficit exists or where it is of the opinion that an excessive deficit may occur in a member state.

After consultations with the Economic and Financial Committee, the European Commission in turn addresses an opinion to the member state concerned and informs the Council. Again on a proposal from the Commission and after an overall assessment, and having considered in-depth any further observations which the member state concerned may wish to make, the Council is competent to decide whether an excessive deficit exists. In case such a deficit exists, the Council adopts, without undue delay, (and on a recommendation from the Commission) recommendations and a deadline for their implementation.

The procedure that follows if a member state fails to put into practice the Council's recommendations includes concrete measures on part of the Council as described in detail in paragraphs 9 and 11 of art. 126 of the Treaty on the Functioning of the European Union. What is important to note in this case is that the Council's further approach and actions concerning the member state "at fault" depend on the response to its decisions and recommendations until the established excessive deficit in the member state has been remedied. In case a member state

[12] Consolidated texts of the Treaty on the European Union and the Treaty on the Functioning of the European Union. Official Journal of the EU, 30.03.2010, p. 100.

fails to comply with a decision taken by the Council in accordance with paragraph 9 of art. 126 of the Treaty on the Functioning of the European Union, the latter may decide to apply or, as the case may be, to intensify one or more of the measures set out in paragraph 11 of art.126 (including "to impose fines of an appropriate size").

Taking into consideration the norms set out in its primary legislation and the new economic governance adopted, and setting as its objective the strengthening of the fiscal and macroeconomic surveillance within its framework, the European Union introduced the so-called Macroeconomic Imbalance Procedure. The Procedure is intended, on the basis of the two Regulations: Regulation (EU) No 1176/2011 of the European Parliament and the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances and Regulation (EU) No 1174/2011 of the European Parliament and the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, to establish "in-depth rules for detection of macroeconomic imbalances and the prevention and correction of excessive macroeconomic imbalances"[13] within the Union (Art. 1 of Regulation (EU) No 1176/2011), as well as to create "a system of sanctions for the effective correction of macroeconomic imbalances in the euro area" (Art. 1 of Regulation (EU) No 1174/2011). In this case, "imbalances" imply any trend that leads to macroeconomic developments which are adversely affecting, or are likely to affect in the future the proper functioning of the economy of a member state, the EMU, or the Union as a whole.[14] "Excessive imbalances" are severe imbalances which jeopardise or risk jeopardising in the future the proper functioning of the EMU.

Essential components of the procedure are: "detection of imbalances" (including their nature and implications) and "opening of the excessive imbalance procedure" (including preparation of a corrective action plan by the member state for which such a procedure has been opened; monitoring of the corrective actions; assessment of the corrective actions recommended by the Council, and, finally, closing of the excessive imbalance procedure after consideration that the member state concerned is no longer affected by such imbalances). Where member states fail to take effective measures to correct their excessive macroeconomic imbalances, Regulation (EU) No 1174/2011 provides for sanctions only to euro-area countries; besides, their application should be the rule and not the exception. Articles 3 and 4 of the same Regulation set out in detail what these sanctions are about, and in what particular cases and forms they are applied. In this case, the Council (on recommendation from the European Commission) imposes by way of decision for "establishing an interest-bearing deposit" or "an annual fine" which is actually a converted interest-bearing deposit. Both these specific forms of sanction are equal to 0,1% of the GDP of the respective member state in the preceding year, and by way of derogation (under the conditions of art. 3, paragraphs 6 and 7) may be reduced, cancelled or

[13] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, Official Journal of the European Union, 23.11.2011, p.28.
[14] Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, Official Journal of the European Union, 16.11.2011, p. 10.

reimbursed. The fines are assigned to the European Financial Stability Facility or, possibly, to "another stability mechanism to provide financial assistance in order to safeguard the stability of the euro area as a whole",[15] which its member states may create

In addition to the above, a note should be made that early detection of imbalances is carried out by the European Commission based on a report containing an indicative and transparent scoreboard with a range of economic indicators of direct relevance for the developments in "competitiveness, indebtedness, asset prices, correction and relations with the financial sector". Based on an economic and financial assessment the report further specifies the countries which are affected or under a risk of being affected by imbalances. Depending whether it is a matter of imbalances only, or, in the worse case, of excessive imbalances, a judgment is made about the next steps. In the case if imbalances only, the Council may only address recommendations to the member state concerned, and in case of excessive imbalances – to open a special procedure as already detailed above.

The general framework of the procedure for monitoring and correction of adverse macroeconomic imbalances within the European Union is applied in the context of the so-called **European Semester**.[16] This is a yearly cycle of economic policy coordination within the framework of the Union's economic governance launched in 2011. Based on the European Commission's Annual Growth Survey (the first was delivered on 12.01.2011), the institution sets out the main priorities of the Union for the coming year to boost growth and employment. Then, on the basis of the European Commission's report, the European Council adopts EU guidance for national policies; the member states submit to the European Commission their stability/convergence and reform programmes (including concrete actions) in the context of the Europe 2020 Strategy, including their draft budgets; the European Commission, the Council and the European Council act on their part of the commitment by assessing, discussing and endorsing recommendations to the member states. The Council formally adopts, end of June or in early July, the official country-specific recommendations.

In conclusion, based on the above in-principle considerations and the work done by the European Union in the area of prevention and correction of macroeconomic imbalances, an observation can be made that the Union is aware of the gravity of the internal and external dimensions of the macroeconomic developments in its member states, and accordingly associates them with the most significant (including those discussed above) macroeconomic challenges it is facing. Therefore, its future efforts relate to unequivocal commitments for enhancing the Union's economic governance, including detection and unwinding of excessive macroeconomic imbalances through an in-depth procedure in its legislation.

[15] Ibid.

[16] Provided for in Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Official Journal of the European Union, 23.11.2011, p.28; See for details also: Making it happen: the European Semester: http://ec.europa.eu/europe2020/making-it-happen/index_en.htm

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