



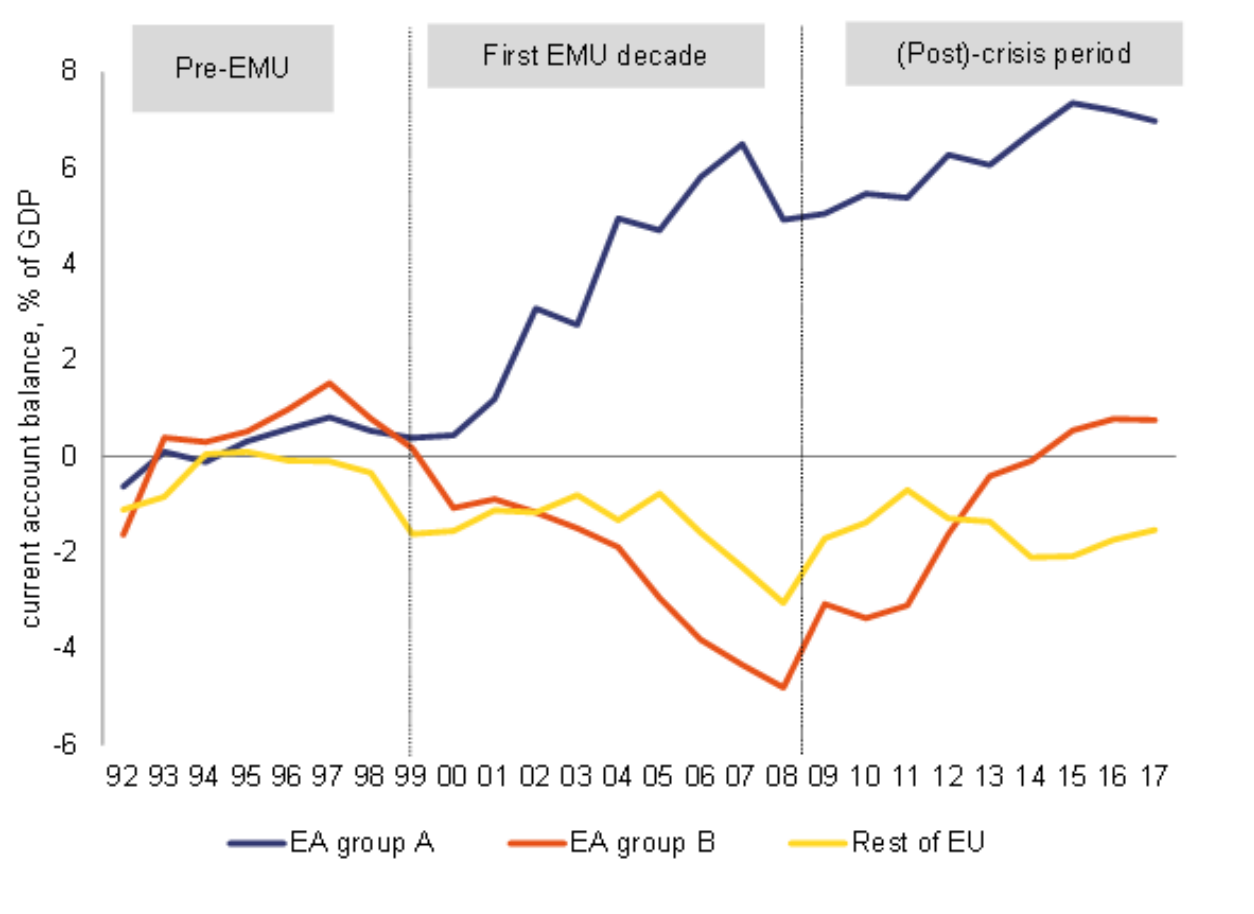
The Macroeconomic Imbalance Procedure (MIP)

European Commission, DG ECFIN

January 2019

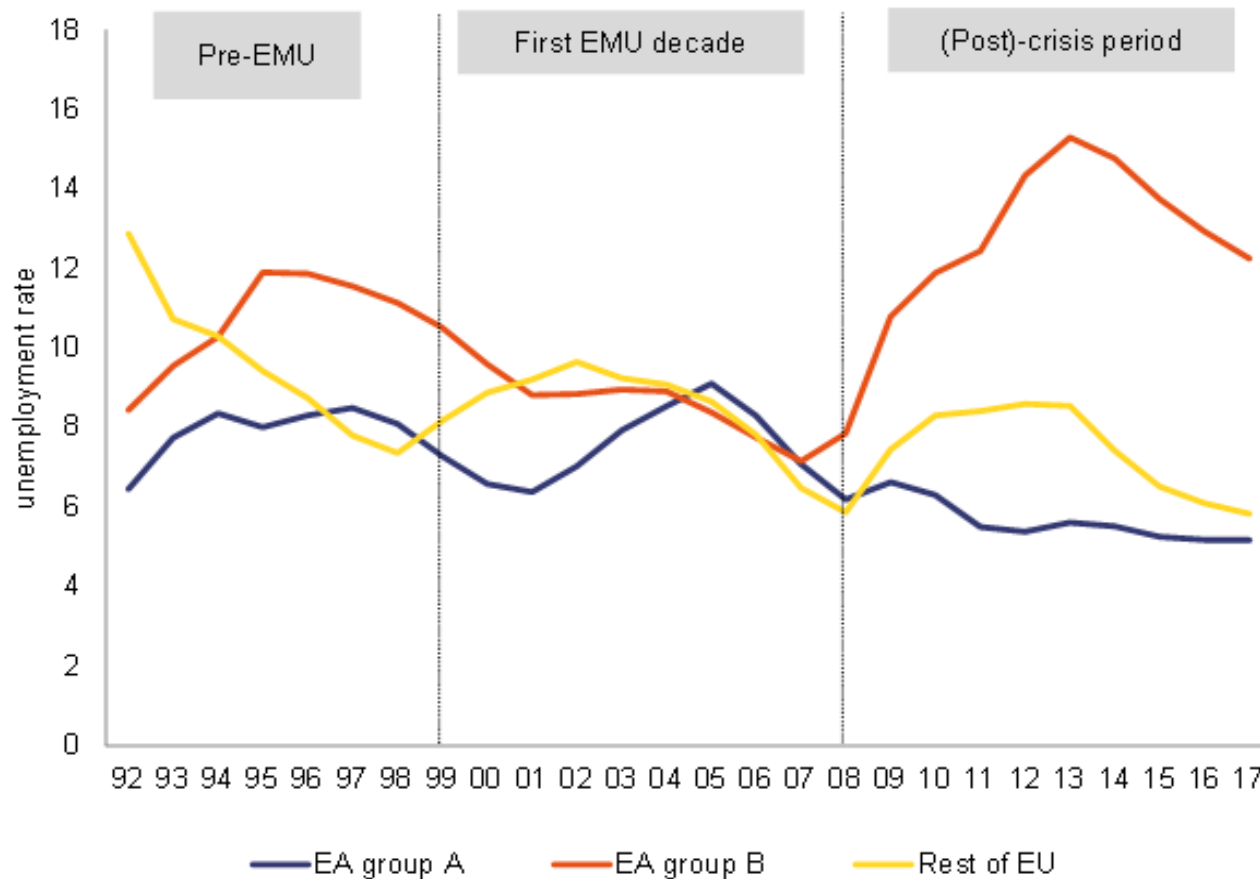
These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union'

[Di/con]vergence in euro area external positions



Group A (surplus/creditor countries): AT, BE, DE, FI, NL, LU.

[Di/con]vergence in adjustment process



Group A (surplus/creditor countries): AT, BE, DE, FI, NL, LU.

MIP: origin and rationale

- Introduced in 2012 as part of "6-pack"
- Experience with the crisis required extending EU surveillance beyond fiscal with a view to prevent and correct macroeconomic imbalances
- Macro-stability orientation: not applied to countries already under financial assistance programmes
- Rationale: Supra-national surveillance on imbalances justified on the ground of
 - Inter-dependency, spillovers
 - Preservation of effective and well-functioning supra-national institutions and policies

Macroeconomic imbalances

Examples

- External imbalances affecting current accounts, stocks of external liabilities (risk of sharp corrections, capital flights, accumulation of creditor risk and spillovers in case of surplus)
- Housing bubbles (risk sharp corrections)
- Excess private/ public debt growth affecting repayment capacity and/or bank balance sheets (interlinkages)
- Competitiveness or productivity trends affecting the sustainability of current account and/or debt/gdp ratios.....

Legal framework

- Treaty basis: Art. 121, 136
- Regulations (part of 2011 6-pack) detail a surveillance process and an enforcement mechanism for euro-area countries
 - 1176/2011 (procedure)
 - 1174/2011 (enforcement and sanctions)
- No numerical rules, no strict operationalisation of imbalance concept: contrast with fiscal surveillance
 - Imbalances are multi-faceted and interlinked phenomena
 - Policy action may concern several fields
 - Link between policy and outcomes not always strong and direct

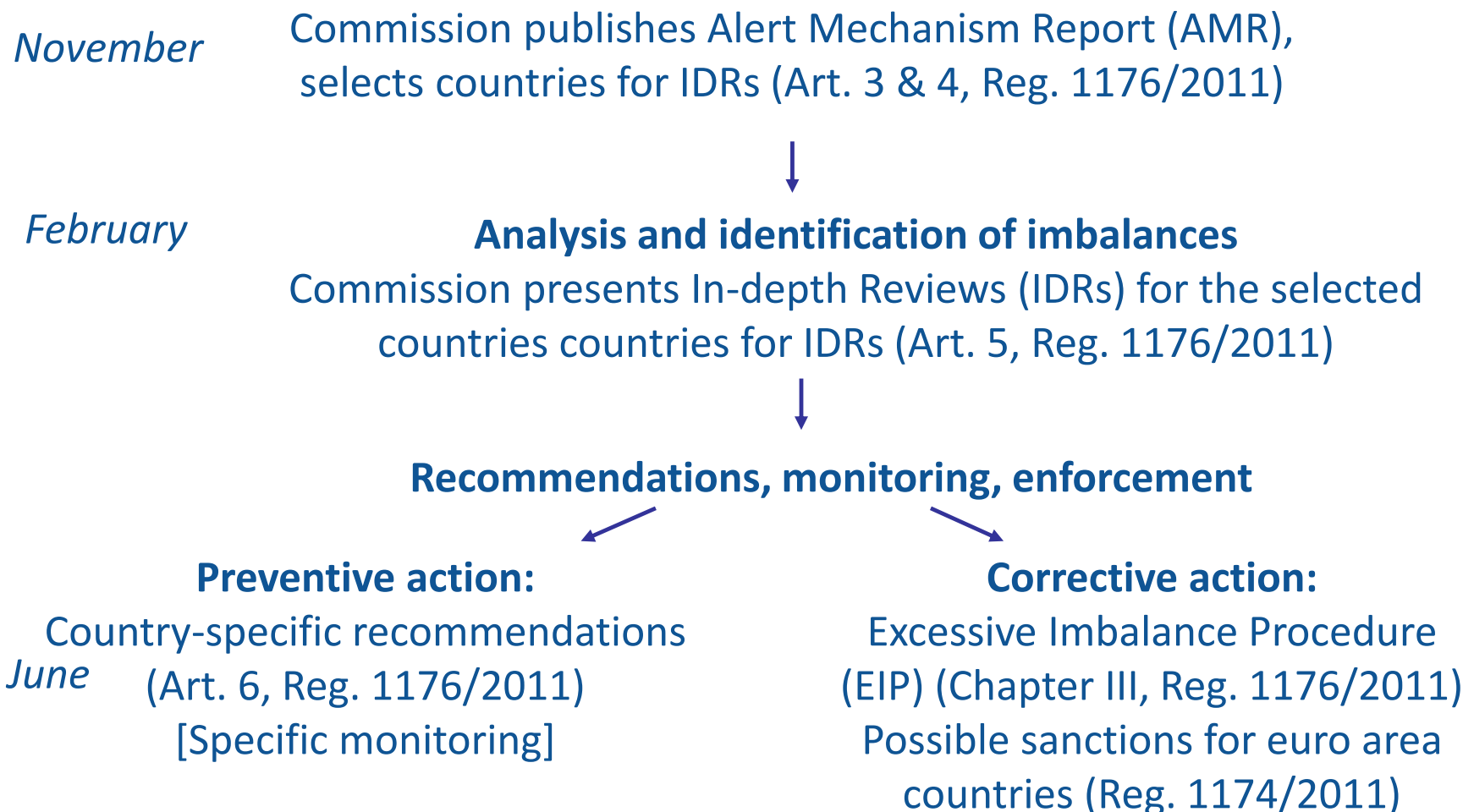
Legal and procedural aspects

MIP imbalances categorisation

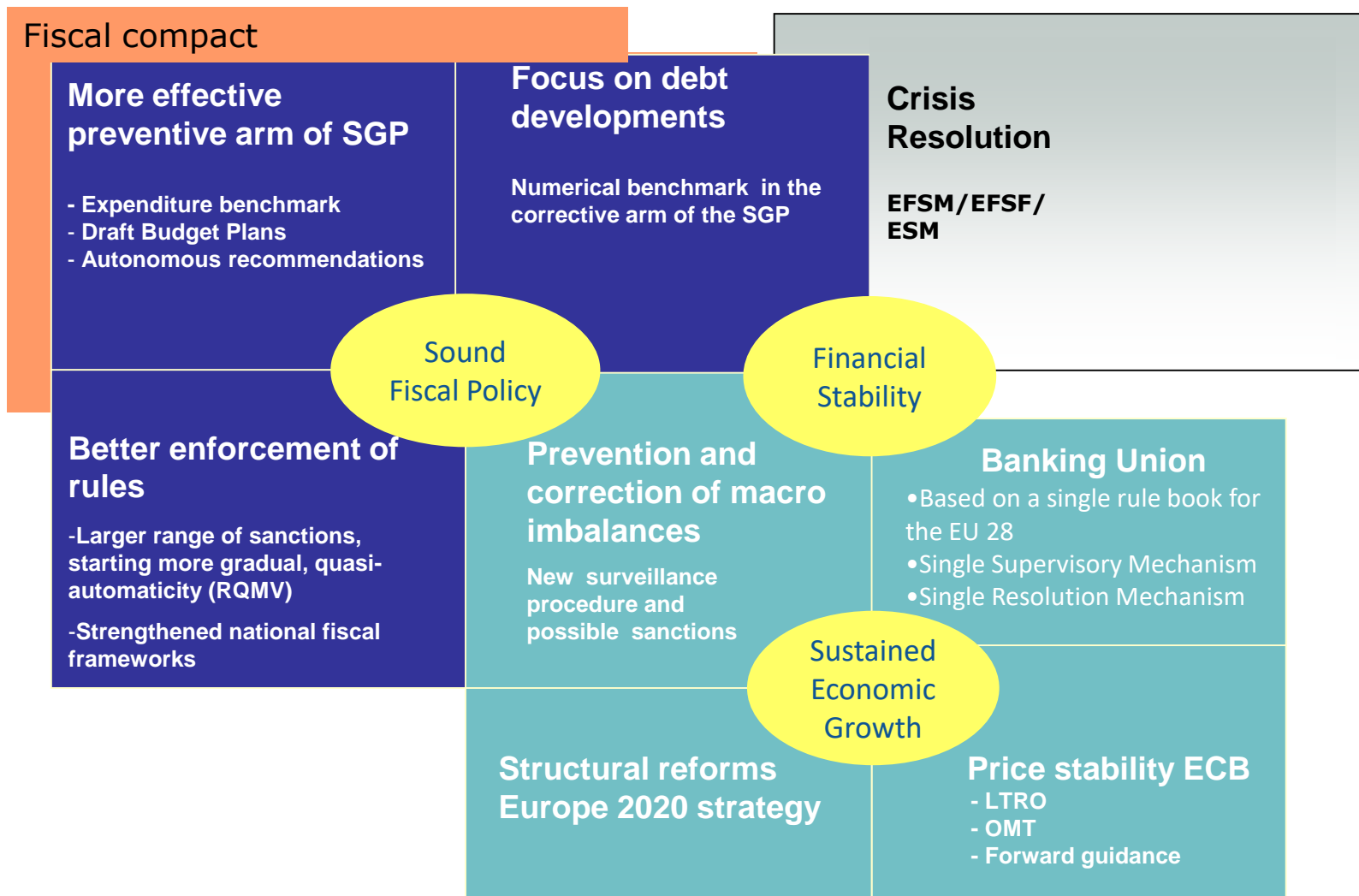
- The categorisation evolved over time and stabilised in 2104
- The categorisation was streamlined in 2016. Specific monitoring extended to all countries identified with imbalances.

Categories used in 2014 and 2015	Streamlined categories
No imbalances	No imbalances
Imbalances, which require policy action and monitoring	
Imbalances, which require decisive policy action and monitoring	Imbalances*
Imbalances, which require decisive policy action and specific monitoring	
Excessive imbalances, which require decisive policy action and specific monitoring	Excessive imbalances*
Excessive imbalances with Corrective Action Plan (EIP)	Excessive imbalances with Corrective Action Plan (EIP)

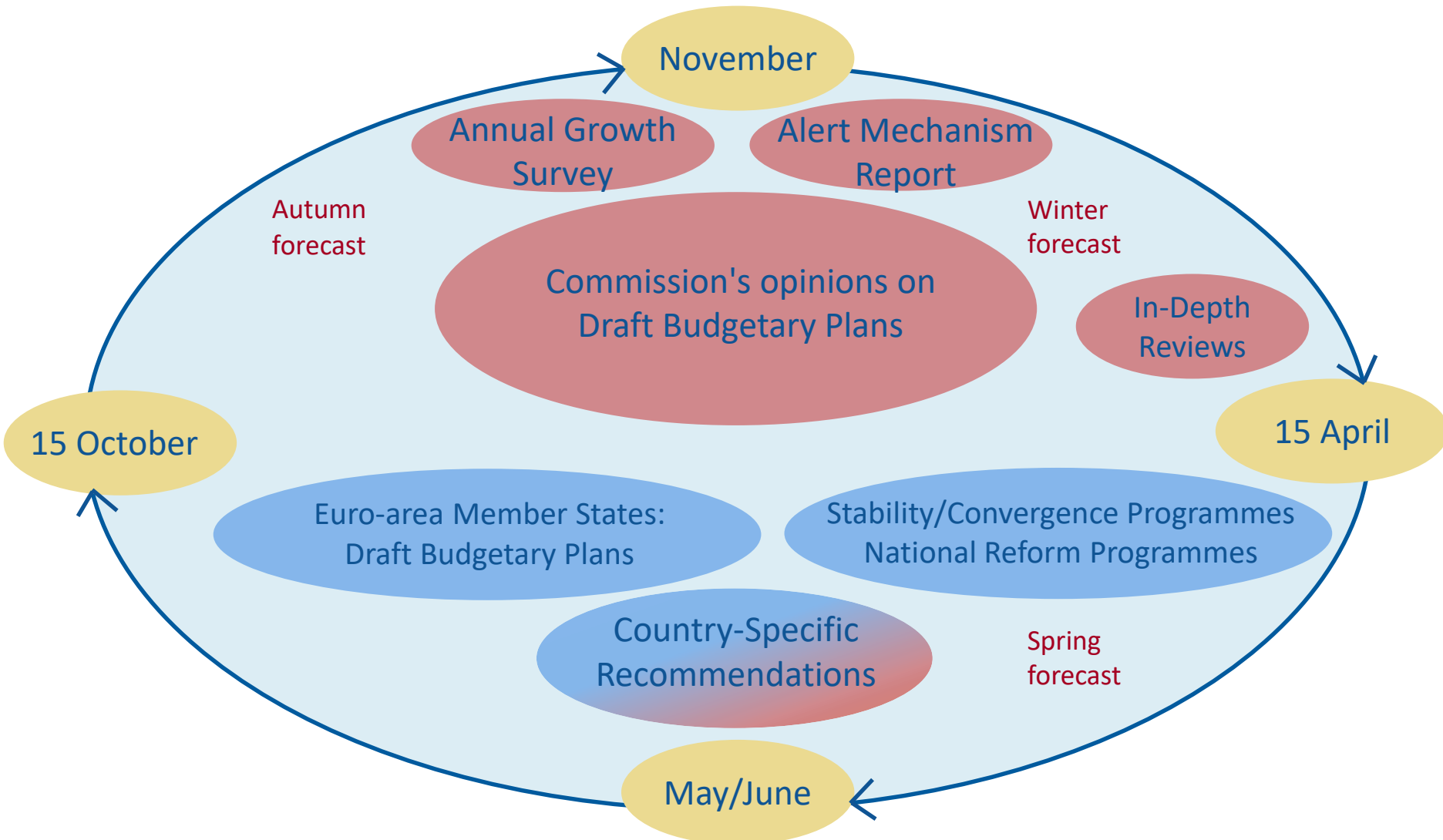
MIP: broad stages



Economic governance



The European surveillance cycle



The Alert Mechanism Report



- Economic reading of the MIP scoreboard
- Interpretation of the situation and recommending further assessment

Scoreboard:

- 14 indicators with indicative alert thresholds (of which three social indicators)
- complemented by 28 "reading indicators"
- Presented on t-1 annual statistics but the economic reading considers latest data available
- Scoreboard may be adjusted over time

The MIP scoreboard: indicators



European

Group	Indicator	Threshold
External	Current account bal. (3-y av)	-4% and +6% of GDP
	Net int'l investment position	-35% of GDP
	Export market share growth over 5 y	-6%
	Nom. ULC change over 3 years	+9% (EA) or +12%
	REER change over 3 years	±5% (EA) or ±11%
Internal	Private sector debt (consolidated)	+133% of GDP
	Private sector credit flow (consolidated)	+14% of GDP
	Real house price growth year-on-year	+6%
	Government debt	60% of GDP
	Unemployment rate (3-year av.)	+10%
	Growth of fin. sector liabilities YoY	+16.5%
Social	Activity rate change over 3y	-0.2 pp.
	Long-term unemp. rate change 3y	+0.5 pp.
	Youth unemployment rate change 3y	+2 pp.

Plus auxiliary indicators

AMR Scoreboard November 2018



Table 1.1: MIP Scoreboard 2017

Year 2017	External imbalances and competitiveness					Internal imbalances					Employment indicators ¹			
	Current account balance - % of GDP (3 year average)	Net international investment position (% of GDP)	Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	Export market share - % of world exports (5 year % change)	Nominal unit labour cost index (2010=100) (3 year % change)	House price index (2015=100), deflated (1 year % change)	Private sector credit flow, consolidated (% of GDP)	Private sector debt, consolidated (% of GDP)	General government gross debt (% of GDP)	Unemployment rate (3 year average)	Total financial sector liabilities, non-consolidated (1 year % change)	Activity rate - % of total population aged 15-64 (3 year change in pp)	Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)
Thresholds	-4/6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	-0.3	52.6	0.9	3.9	1.1	1.5p	-1.5	187.0	103.4	7.8b	0.7	0.3b	-0.8b	-3.9b
BG	3.1	-42.8	-3.3	19.4	13.6p	6.2	6.2	100.1	25.6	7.7	1.1	2.3	-3.5	-10.9
CZ	1.0	-26.5	5.4	8.2	5.9	9.1p	4.1	67.4	34.7	4.0	22.9	2.4	-1.7	-8.0
DK	8.1	56.3	-2.1	0.5	3.0	3.2	-1.4	204.0	36.1	6.0	4.1	0.7b	-0.4b	-1.6
DE	8.4	54.0	-2.5	6.5	5.1	2.9	4.9	100.1	63.9	4.2	4.0	0.5	-0.6	-0.9
EE	2.3	-31.4	2.9	2.6	12.4	1.8	3.6	106.4	8.7	6.3	9.7	3.6	-1.4	-2.9
IE	2.9	-149.3	-6.2	64.4	-17.2	9.5p	-7.5	243.6	68.4	8.4	4.3	0.9	-3.6	-9.0
EL	-0.8	-142.5	-2.8	-10.0	-1.0p	-2.2e	-0.8p	116.4p	176.1	23.3	-12.9	0.9	-3.9	-8.8
ES	1.8	-83.8	-2.5	9.8	0.0p	4.5	0.2p	138.8p	98.1	19.6	4.0	-0.3	-5.2	-14.6
FR	-0.6	-20.1	-2.9	2.7	1.3p	1.8	7.0p	148.2p	98.5	10.0	4.3	0.5	-0.3	-1.9
HR	3.6	-62.4	0.0	20.0	-4.3d	2.8	1.2	98.4	77.5	13.5	3.9	0.3	-5.5	-17.7
IT	2.3	-5.3	-3.1	2.0	1.1	-2.0p	2.1	110.5	131.2	11.6	4.3	1.5	-1.2	-8.0
CY	-5.0	-121.5	-6.6	6.9	-2.7p	1.3p	8.7p	316.3p	96.1	13.0	-2.3	-0.4	-3.2	-11.3
LV	0.6	-56.3	1.7	7.8	14.7	5.5	0.3	83.5	40.0	9.4	6.1	2.4	-1.3	-2.6
LT	-0.7	-35.9	2.3	9.7	16.0	5.4	3.7	56.1	39.4	8.0	14.0	2.2	-2.1	-6.0
LU	5.0	47.0	-0.9	25.2	7.1	4.1	-15.5	322.9	23.0	6.1	-1.7	-0.6	0.5	-6.9
HU	4.0	-52.9	0.1	11.3	6.7	3.3	0.9	71.4	73.3	5.4	-8.0	4.2	-2.0	-9.7
MT	8.4	62.6	-2.3	11.2	1.7	4.1p	2.9	120.2	50.9	5.2	4.7	4.4	-1.1	-1.2
NL	8.3	59.7	-1.6	1.2	-0.2p	6.0	3.0p	252.1p	57.0	5.9	2.0p	0.7	-1.0	-3.8
AT	2.1	3.7	0.3	2.3	3.7	3.5	4.3	122.5	78.3	5.7	1.8	1.0	0.3	-0.5
PL	-0.3	-61.2	-3.4	28.4	4.5p	1.7	2.7	76.4	50.6	6.2	6.3	1.7	-2.3	-9.1
PT	0.4	-104.9	-0.7	14.6	3.5p	7.9	1.3p	162.2p	124.8	10.9	1.8	1.5	-3.9	-10.9
RO	-2.2	-47.7	-5.5	37.0	11.9p	4.0	1.7p	50.8p	35.1	5.9	8.1	1.6	-0.8	-5.7
SI	5.7	-32.3	-2.0	18.6	3.4	6.2	0.8	75.6	74.1	7.9	5.1	3.3	-2.2	-9.0
SK	-2.0	-65.6	-1.9	6.7	6.9	4.4	5.9	96.1	50.9	9.8	17.9	1.8	-4.2	-10.8
FI	-0.7	2.4	-2.6	-4.3	-2.5	0.5	8.2	146.4	61.3	8.9	-3.8	1.3	0.2	-0.4
SE	4.0	1.8	-5.4	-4.3	3.7	4.6	13.1	194.4	40.8	7.0	6.8	1.0	-0.2	-5.1
UK	-4.6	-8.6	-10.7	-1.0	5.4	2.4	8.4	169.0	87.4	4.8	-1.6	0.9	-1.1	-4.9

Figures highlighted are the ones at or beyond the threshold. Flags: b: Break in series. d: Definition differs. e: Estimated. p: Provisional.

¹ For the employment indicators, see page 2 of the AMR 2016. ² House price index e = source NCB for EL. ³ For Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. ⁴ Unemployment rate, Activity rate, Long-term unemployment rate and Youth unemployment rate: BE: Revision in the survey methodology; IE: introduction of the new Labour Force Survey in substitution to the Quarterly National Household Survey as data source; DK: data collection improvement, introduction of computer-assisted web interviewing.
Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, WEO (for world volume exports of goods and services)

Economic reading of the scoreboard



- No indicator can capture all potential risks: Analysis in connection with other indicators, forecast
- **The number of flashes is not the key criterion**
- The scoreboard should be read also over time: not only the last year is important;
- The distance from a threshold is relevant;
- Impact of carry over: if an imbalance is identified after an IDR in cycle t , then normally a new IDR should be made in $t+1$ (it also takes an IDR to clear an imbalance).

- Broad assessment of imbalances complemented with focused analysis
- Country-specific but comparable, drawing on common and national sources.
- Use of widely available and transparent data and common analytical tools and descriptive statistics
- Fact-finding missions to Member States
- Methodological work with Member States (EPC)
- IDR is a staff document – conclusions are adopted by Commission College and published in a Communication.

IDR drafting from a country perspective



AMR discussion in the ECOFIN sub-committees

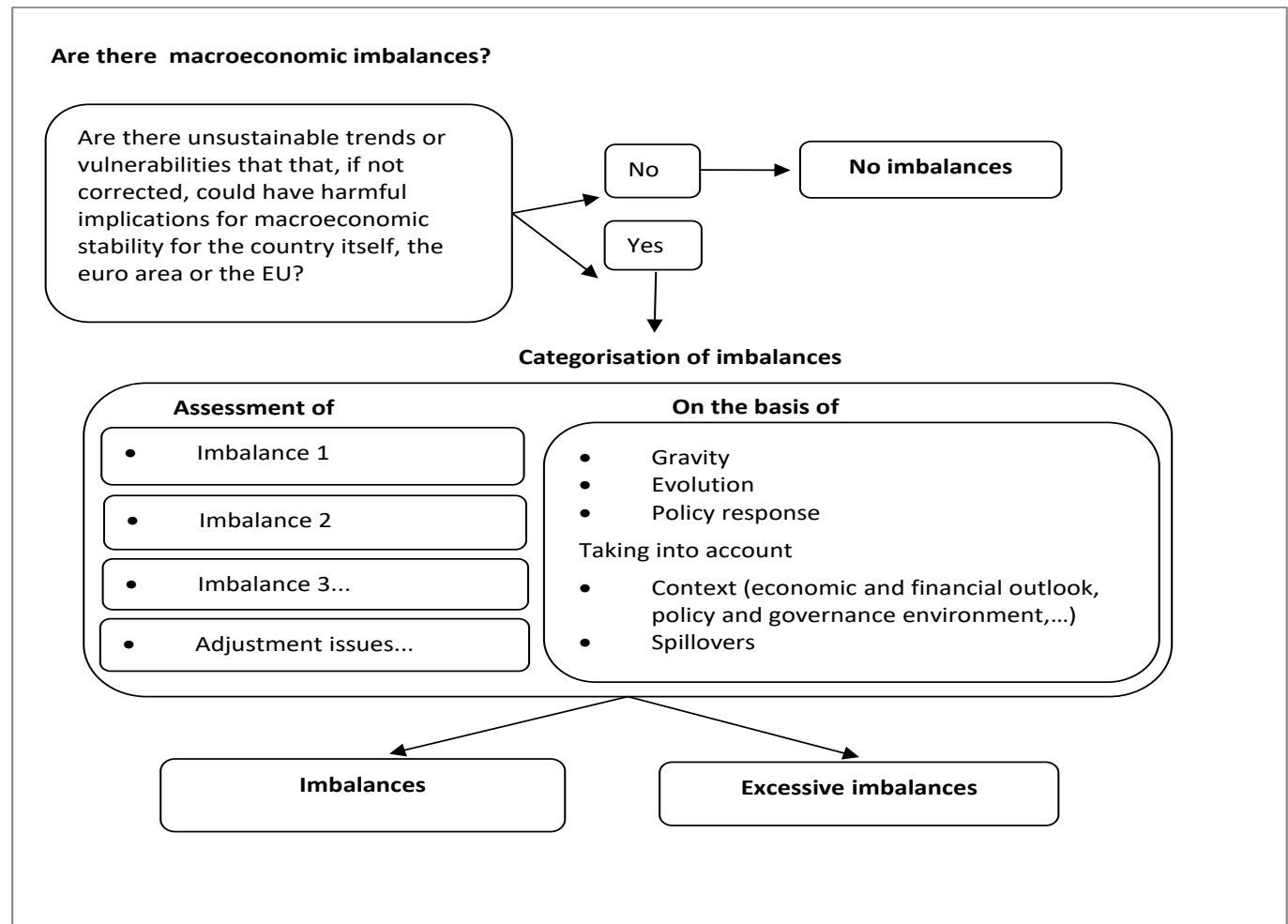
IDR mission to the country:

- usually 3 days,
- 5 to 20 persons, several DGs, can include ECB
- Character and contacts may vary significantly depending on focus (banks, labour market, etc.)

Commission services draft ***Country Report***, that includes specific focus on imbalances

Assessing macroeconomic imbalances

IDR analysis



Analytical tools

Aim: (i) deepen assessment of challenges and impact; (ii) ensure cross-country consistency in the assessment

Technical discussions taking place in council committees (Economic Policy Committee) and working groups

Analysis of challenges (examples)

- **External positions (CA and NIIP benchmarks)**
- **Deleveraging needs (private sector debt benchmarks)**
- **House price valuation**

Analysis of impact and spillovers (policies or macroeconomic shocks)

- **Macro model simulations (QUEST)**

Italy– MIP matrix (2017, abridged)



	Gravity of the challenge	Evolution and prospects	Policy response
Productivity	Weak productivity dynamics for almost 20 years hampers competitiveness and entails low GDP growth.	The crisis has aggravated labour productivity dynamics, and labour productivity is forecast to grow only moderately.	Italy is implementing significant reforms of the labour market, the banking sector, the education system, publication administration and the justice system.
Public debt	High public debt is a major source of vulnerability for Italy and for the euro area.	The debt ratio is expected to broadly stabilise in 2016-2018 but the structural primary surplus is forecast to worsen.	The structural reforms to foster productivity growth are expected to make public debt more sustainable.
External competitiveness	In recent decades, Italy has lost export market share. The net external position does not pose sustainability concerns.	Moderate wage growth has allowed a gradual improvement in the real effective exchange rate, but not sufficiently to restore past competitiveness losses.	Structural reforms to foster productivity growth will help to improve cost and non-cost competitiveness.
Adjustment	Issues		
Unemployment	High long-term unemployment holds back future growth	Despite the weak economic recovery, employment is increasing.	The labour market reform and hiring incentives are supporting job growth.
Banks' asset quality	The high level of NPLs makes banks vulnerable to shocks, and the support they can give to Italy's gradual economic recovery appears limited.	Since the end of 2015, the gross stock of NPLs has declined only marginally.	A bad-loan securitisation scheme supported by state guarantees was set up, funds have been created to support vulnerable banks' bad-loan securitisations and recapitalisations, a reform of insolvency and collateral enforcement rules was adopted.

MIP results 2018

MIP categories	2017	2018
No imbalances	FI	SI
Imbalances	DE, IE, ES, NL, SI, SE	BG, DE, IE, ES, FR, NL, PT, SE
Excessive imbalances	BG, FR, HR, IT, PT, CY	HR, IT, CY
No in-depth review	BE, CZ, DK, EE, LV, LT, LU, HU, MT, AT, PL, RO, SK, UK	BE, CZ, DK, EE, LV, LT, LU, HU, MT, AT, PL, RO, SK, FI, UK

Sources of identified imbalances (2018)

External position	DE, IE, ES, HR, CY, NL, PT
Competitiveness and/or productivity	FR, HR, IT, CY, PT
Household indebtedness and/or housing sector	IE, ES, HR, CY, NL, SE
Corporate indebtedness	BG, IE, ES, HR, CY, PT
Public debt / fiscal risks	IE, ES, FR, HR, IT, CY, PT
Financial sector	BG, IE, IT, CY, PT
<hr/>	
<i>Labour market adjustment issues</i>	<i>BG, ES, IT, CY</i>

Imbalance evolution



	2012	2013	2014	2015	2016	2017	2018
BE	Imbalances	Imbalances	Imbalances	Imbalances	IDR but No Imbalances	No IDR	No IDR
BG	Imbalances	Imbalances	Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Imbalances
CZ	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
DK	Imbalances	Imbalances	IDR but No Imbalances	No IDR	No IDR	No IDR	No IDR
DE	No IDR	No IDR	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
EE	No IDR	No IDR	No IDR	No IDR	IDR but No Imbalances	No IDR	No IDR
IE			Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
EL							
ES	Imbalances	Excessive Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
FR	Imbalances	Imbalances	Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Imbalances
HR			Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances
IT	Imbalances	Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Excessive Imbalances
CY	Imbalances				Excessive Imbalances	Excessive Imbalances	Excessive Imbalances
LV	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
LT	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
LU	No IDR	No IDR	IDR but No Imbalances	No IDR	No IDR	No IDR	No IDR
HU	Imbalances	Imbalances	Imbalances	Imbalances	IDR but No Imbalances	No IDR	No IDR
MT	No IDR	Imbalances	IDR but No Imbalances	No IDR	No IDR	No IDR	No IDR
NL	No IDR	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
AT	No IDR	No IDR	No IDR	No IDR	IDR but No Imbalances	No IDR	No IDR
PL	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
PT				Excessive Imbalances	Excessive Imbalances	Excessive Imbalances	Imbalances
RO				Imbalances	IDR but No Imbalances	No IDR	No IDR
SI	Imbalances	Excessive Imbalances	Excessive Imbalances	Imbalances	Imbalances	Imbalances	IDR but No Imbalances
SK	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR	No IDR
FI	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	IDR but No Imbalances	No IDR
SE	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances	Imbalances
UK	Imbalances	Imbalances	Imbalances	Imbalances	IDR but No Imbalances	No IDR	No IDR

Empty cell in case of either under a EU/IMF programme (IE, EL, CY, PT, RO) or not a Member State before 2014 (HR).

# IDRs per							
year	12	13	17	16	19	13	12
MIP not							
applicable	5	6	4	2	1	1	1

- Preventive action results in Country-specific recommendations, marking which are 'MIP-relevant'
- Note: CSRs are proposed by the Commission but can be amended by the Council
- Follow-up evaluated in European Semester

MIP recommendations

- Countries identified with imbalances in IDRs may receive country-specific recommendations (CSRs)
- CSRs are proposed by the Commission and formally issued, possibly amended, by the EU Council in May, following discussions in Council Committees
- MIP CSRs are based on IDR/CR and assessment of National Reform Programmes (NRPs)
- Recital indicates which CSRs are relevant to address MIP imbalances

MIP specific monitoring

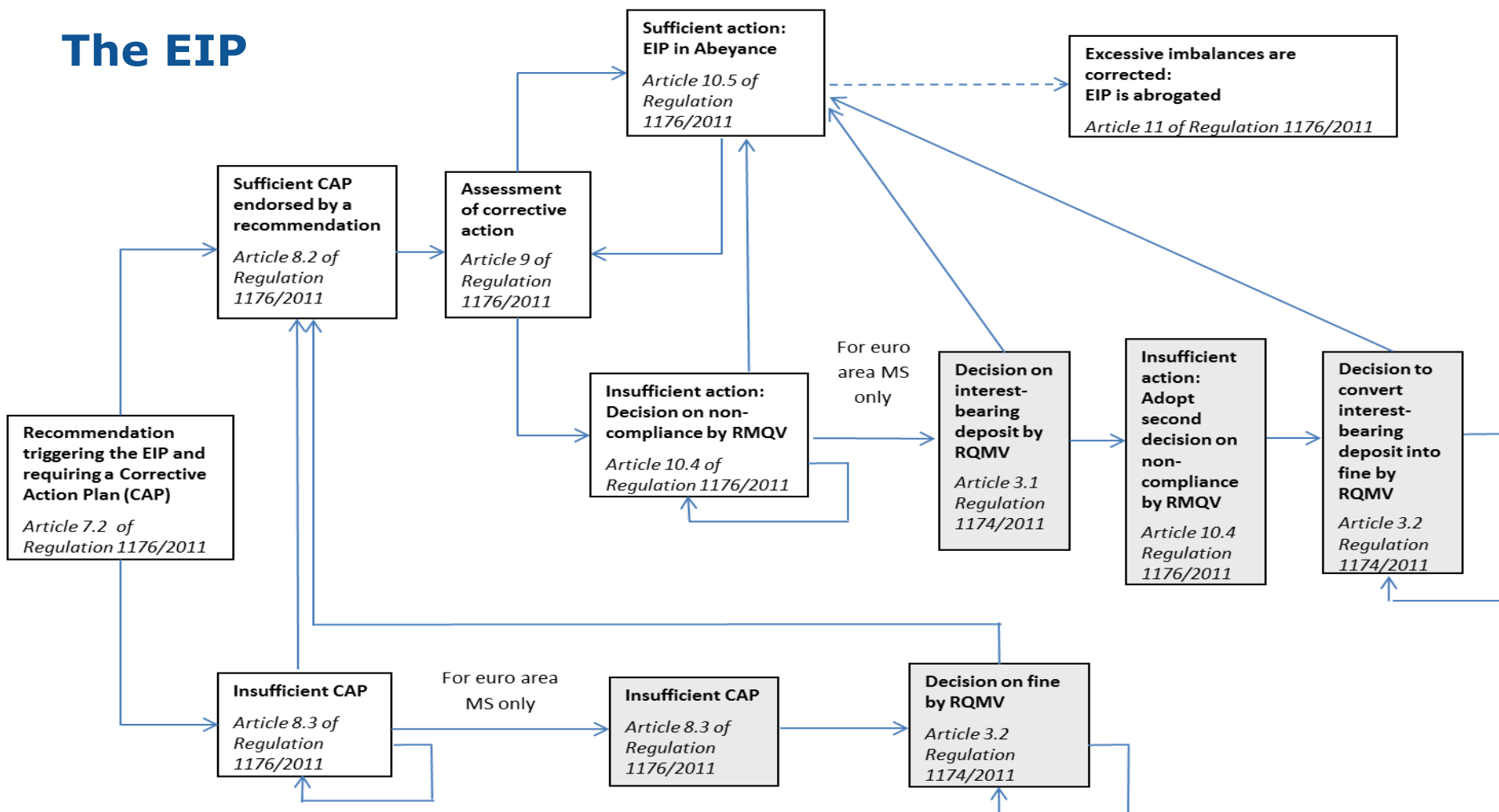
- **Introduced to ensure follow up to enhanced commitments of first countries identified with excessive imbalances (ES, SI) in 2013.**
- **Format:**
 - **Fact-finding missions in the Autumn (normally with semester mission)**
 - **Mission report, made public**
 - **Discussions in Council Committees**
- **Extended to selected euro-area countries with imbalances since 2014.**
- **Extended to all countries with imbalances since 2016.**
 - **Streamlined format (1 mission+ report in the Autumn)**
 - **Council conclusions (in January with conclusions on AMR)**

Follow up to the identification of excessive imbalances

- Once excessive imbalances are identified the Commission can propose the EIP at any moment
- The Commission did not recommend EIP as soon as excessive imbalances were identified, but
 - Issued prescriptive and often time bound recommendations
 - Have asked for enhanced policy commitments to be included in National Reform Programmes
 - Put in place a system of enhanced *specific monitoring entailing fact finding missions and reporting*
- The possibility of launching the EIP for countries with excessive imbalances was never ruled out in case of worsening conditions.

Legal and procedural aspects

The EIP



Overall assessment

- Implementation of MIP evolved over time, on the basis of experience
- MIP contributed to enhance the policy dialogue with Member States and focus policy priorities
- Broadly supportive evidence that the MIP had impact on outcomes.

References

- MIP compendium

https://ec.europa.eu/info/publications/economy-finance/macroeconomic-imbalance-procedure-rationale-process-application-compendium_en

- Official documents and legislation

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure_en

TACK