STUDY

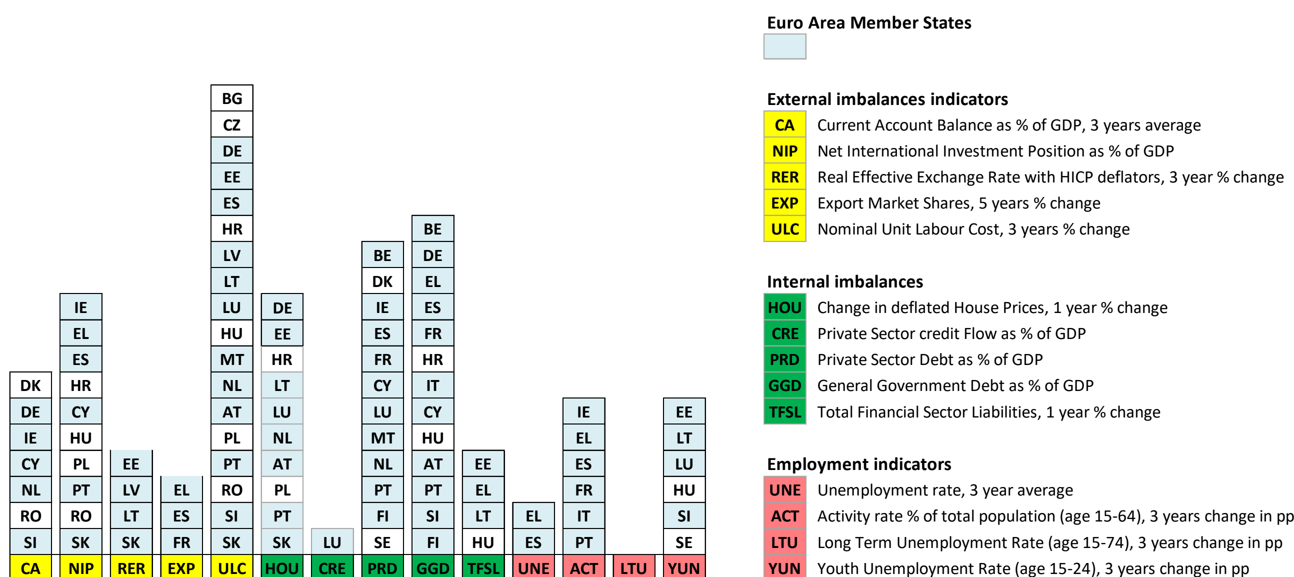
European Parliament

Implementation of the Macroeconomic Imbalance Procedure: State of play January 2022

This note presents the EU Member States' situation with respect to the Macroeconomic Imbalance Procedure (MIP), taking into account the most recent assessments and decisions by the European Commission and the Council. It presents the relations between the MIP and the Recovery and Resilience Facility, and the MIP in the context of the review of the EU economic governance. It also gives an overview of relevant positions taken on the MIP by EU institutions. A separate [EGOV note]() summarises the Macroeconomic Imbalance Procedure. This document is the updated version of a [previous one]().

The Commission published the [Alert Mechanism Report 2022]() (AMR) on 24 November 2021, thereby initiating the eleventh annual round of the Macroeconomic Imbalance Procedure (MIP). The AMR is usually based on the MIP-Scoreboard, which presents data on 13 indicators that refer to the previous years and helps the Commission to identify Member States at risk of macroeconomic imbalances.

Chart 1: MIP scoreboard - Member States with values beyond the thresholds



Source: EGOV based on [2022 AMR](). Values for 2020. See also Annex 1 and Annex 3 to this document.

It should be noted that the use of previous year data was justified by the fact that macroeconomic imbalances do not develop suddenly. However, in the current context of the pandemic, data up to 2020 cannot be used to anticipate and prevent the developments of macroeconomic imbalances. Therefore, the Commission includes in its analysis of imbalances a "*reinforced forward-looking assessment of risks to macroeconomic stability*", making greater use of forecasts and high-frequency data. This year, 12 Member States will be subject to an in-depth analysis aimed at establishing macroeconomic risks.

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CONTENT

Implementation of the Macroeconomic Imbalance Procedure: State of play January 2022 1

1. The launch of the 2022 annual round of the MIP 3

1.1 Main findings of the 2022 AMR 3

1.2 Latest and upcoming procedural and institutional steps 5

2. Implementation of the MIP during the 2021 Semester 6

3. The MIP and the RRF 9

4. The review of the Economic Governance framework 10

4. Implementation of the MIP over time 14

4.1 Member States assessed as having macro-economic imbalances 14

4.2 Implementation of CSRs underpinned by the MIP 15

Annex 1: The 2022 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2020) 19

Annex 2: Summaries of the country specific commentaries on imbalances, risks and adjustments (2022 Alert Mechanism Report) 20

Annex 3: Country Specific Recommendations underpinned by MIP: 2019 (including implementation assessment) and 2020 24

Annex 4: Modifications of the MIP over time 35

Annex 5: Summaries of three studies on the functioning of the MIP and presenting proposals for its improvement 37

1. The launch of the 2022 annual round of the MIP

The Commission published in November 2021 the 2022 Alert Mechanism Report (AMR): this document presents the analysis of the macroeconomic situation and of imbalance, as well as future challenges, in the EU, in the euro area and in each Member State.

The AMR launched the eleventh annual round of the Macroeconomic Imbalance Procedure (MIP) (see an EGOV note for a description of the MIP procedure), which is an integral component of the European Semester.

The application of the MIP in 2022, likewise of the European Semester, is again heavily affected by the pandemic and by the implementation of the Recovery and Resilience Facility (RRF), as the two processes are closely linked in terms of process and substance (see Section 3 below).

To ensure synergies and avoid administrative burdens for Member States the Commission will:

- Streamline reporting obligations: for example, the National Reform Programmes (that Member States submit in April) will also be used for the bi-annual reporting under the RRF.
- Make use of IT tools to monitor both the implementation of the Recovery and Resilience Plans (RRPs) and the progress on Country-specific Recommendations (CSRs, including those issued under the MIP).
- Integrate bilateral exchanges with Member States under the European Semester with the dialogue on the implementation of their RRPs.

According to the Commission, the 2022 European Semester Spring package (to be published in May) will include:

- Streamlined country reports, which will identify gaps related to those challenges that are only partially or not addressed by national RRPs. The country reports will also include the In-Depth-Reviews (IDR) for countries considered at risk of macroeconomic imbalances; country reports were usually published in February, and provided elements for the national reform programmes.
- CSRs covering key issues identified in the country reports, and where relevant in the IDRs, for which policy action over several years may be required, as well as addressing emerging socio-economic challenges to the twin transition and build up resilience in the context of the RRPs' implementation.
- Fiscal CSRs, together with the assessment of the Stability or Convergence Programmes, submitted by Member States in April in the context of fiscal surveillance.

1.1 Main findings of the 2022 AMR

The economic analyses included in the AMR are based on the MIP-scoreboard (see Annex 2 of the AMR, presented also in Annex 1 of this paper) and auxiliary MIP-indicators (see Table 2 in Annex 2 of the AMR), as well as on nowcast, forecasts and high-frequency data, including those published in the Commission forecast of autumn 2021 (see Annex 1 of the AMR).

The Commission notes that before the pandemic, most of the imbalances highlighted in previous years were undergoing a process of correction: excessive large current account deficits or strong credit growth had been reduced, and the economic recovery following the financial crisis was also supporting the correction of stock imbalances, namely private, public and external debts. Progress was visible in the financial sector as well, with strengthened banks' balance sheets. The post-2013 recovery had also brought some risks in a few countries, especially related to house prices and cost competitiveness developments (mainly in terms of labour cost).

The pandemic crisis interrupted most of the positive developments and is aggravating a number of existing imbalances, with new emerging risks. Most notably:

- Both **government and private debt-to-GDP ratios** increased. Government debt-to-GDP ratios have increased more in the countries disproportionately affected by the recession, principally due to their tourism sectors; borrowing costs have increased for some Member States outside the euro area with floating exchange rates.
- **External accounts worsened** in countries dependent on cross-border tourism revenues. Some of the large current account surpluses declined mildly in 2020, bringing the current account for the euro area as a whole in line with fundamentals, but the trend is reversing.
- **House prices**, which had already been buoyant, accelerated further and constitute a risk in several countries, in particular where they are accompanied by a significant increase in households' mortgage debt. Various EU countries display risks of overvaluation.
- Debt repayment by the private sector (households and companies) might become difficult, thereby affecting banks' balance sheets and profitability. The banking sector has maintained strong capital ratios, but profitability weakened in 2020 and the full impact of the crisis on bank balance sheets may only be visible with a delay. **Potential feedback loops between banks, sovereigns and the corporate sector** should be closely monitored.
- As the recovery takes hold, **labour shortages and cost pressures** are emerging in some countries, and substantial wage increases are foreseen in a number of countries, with inflationary risks.

The horizontal analysis presented in the AMR notes that most of the economic indicators are affected not only by the developments of the economic phenomena, but also by the denominator of the indicators, namely the GDP: as the latter decreases, the indicators depict an even gloomier situation than the real one.

The AMR devotes specific attention to **developments in the euro area**. The Commission notes that, while the impact of the pandemic has been mitigated by the appropriated policies, the pandemic exacerbated divergences among euro area countries. The current account for the area as a whole is still high, at 3.1% of GDP in 2021; it has temporarily declined to a level close to its fundamentals, but is projected to return to pre-crisis levels, above fundamentals (3.2% and 3.4% in 2022 and 2023, respectively). The large external balance shows that there is room to sustain the recovery (at the euro area aggregate level) and to contribute to a faster reduction of imbalances, especially given the limited room for additional monetary support to sustain demand. The figures at Member State level vary very significantly, but in view of the interconnections among euro area economies, an appropriate combination of macroeconomic policies across Member States is needed in order to sustain the recovery, while correcting imbalances and addressing emerging risks. Box 1 below presents some positions by EU institutions and IMF on the euro area current accounts, also in the light of the pandemic.

The AMR concludes that the Commission' surveillance activities need to focus on countries that were already identified as having imbalances or excessive imbalances in the 2021 cycle. Therefore, the Commission recommends that IDRs to identify and assess the severity of possible macroeconomic imbalances be prepared for:

- Croatia, France, Germany, Ireland, Netherlands, Portugal, Romania, Spain and Sweden (the nine Member States experiencing imbalances in the 2021 cycle) and for
- Italy, Greece and Cyprus (that were experiencing excessive macroeconomic imbalances in the 2021 cycle).

Furthermore, the Commission will closely follow developments in other Member States, namely:

- Slovakia, because of strong house price growth accompanied by an increase in households' borrowing.
- Hungary, because of the risky interplay between government borrowing and external financing, in a context of significant debt exposure in foreign currency; as well as of growth of house prices.
- Denmark, Luxembourg and Czechia, where developments in the housing market point to a build-up of risks.
- Malta, where growing private debt combined with weaknesses of the insolvency framework create particular vulnerabilities.

Chapter 4 of the AMR provides more information on country-specific developments and challenges; Annex 2 to this document presents the summaries.

On 18 January 2022, the Economic and Financial Affairs Council adopted its conclusions on the 2022 Alert Mechanism Report. It underlined the importance of the continued implementation of the MIP and welcomed the 2022 AMR; broadly agreed with the assessment of the AMR regarding the evolution of macroeconomic imbalances in the EU and within the euro area, and emerging risks; underlined that preventing and correcting macroeconomic imbalances remains essential; recalled that preventing and correcting macroeconomic imbalances enhances Member States' ability to respond to shocks and supports economic convergence and that the reduction of imbalances yields positive spillovers across the euro area and EU countries. Furthermore, the ECOFIN agreed that the RRF provides an opportunity for the EU to support recovery and to emerge strong and resilient from the crisis, and acknowledged that the timely, full and effective implementation of recovery and resilience plans can support a reduction in imbalances and mitigate macroeconomic risks.

1.2 Latest and upcoming procedural and institutional steps

On 7 December 2021, the Commission presented the AMR to the ECOFIN Council, which held an exchange of views on the subject.

The EU Institutions are expected to deal with the Europan Semester and the MIP according to the following timeline[1]:

- 18 January 2022: the Economic and Financial Affairs Council approves its conclusions on the 2022 Alert Mechanism Report.
- 25 January 2022: the European Parliament (ECON and EMPL Committees) hosts an Economic Dialogue with the Commission on the "autumn package", including the AMR.
- 25 February 2022: the Eurogroup exchanges views on macroeconomic developments (including inflation) and on policy prospects in the euro area, as well as the Euro area dimension of the macroeconomic imbalances procedure.
- 15-16 March 2022: the European Parliament hosts the European Parliamentary Week with representatives from national parliaments. Meetings include the European Semester Conference and the Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the EU;
- 22 March 2022: the General Affairs Council, in preparation of the March European Council, exchanges views on its Synthesis report on Council contributions on the 2022 European Semester.
- 24-25 March 2022: the European Council exchanges views on the economic and employment situation and provides guidance to Member States for their 2022 Stability and Convergence Programmes and National Reform Programmes;

[1] According to the Council "Semester 2022 - Roadmap" and the Eurogroup Work programme until June 2022.

- By end-April 2022: Further to the guidance provided by the European Council, Member States submit their 2022 National Reform Programmes (that integrate progress on the national Recovery and Resilience Plans in the context of the RRF);
- May/June 2022: the Commission publishes the "Spring package", constituted of the country reports (including the IDRs for countries at risk of macroeconomic imbalances under the MIP), and of the 2022 recommendations for *Council Recommendations delivering Opinions on the 2022 Stability and Convergence Programmes and on national reform programmes* (country-specific recommendations).
- Early June 2022: several Council formations (EFC, EPC, EMCO and SPC) start preparatory work on the 2022 CSRs.
- 17-21 June 2022: the Council approves the CSRs.
- 23-24 June 2022: the European Council discusses and endorse the CSRs.
- In July, the ECOFIN Council formally adopts the CSRs and its conclusions on IDRs under the MIP and implementation of policy reform priorities.

In addition, Economic Dialogues and Recovery and Resilience Dialogues (in the context of the Recovery and Resilience Facility) with representatives of the relevant institutions (Commission, the Eurogroup and the Council) are held in the competent committee(s) of the European Parliament.

Furthermore, the Commission will publish its outcome and possible proposals on the review of the EU economic governance framework launched in February 2020, which includes the MIP (see Section 4 below).

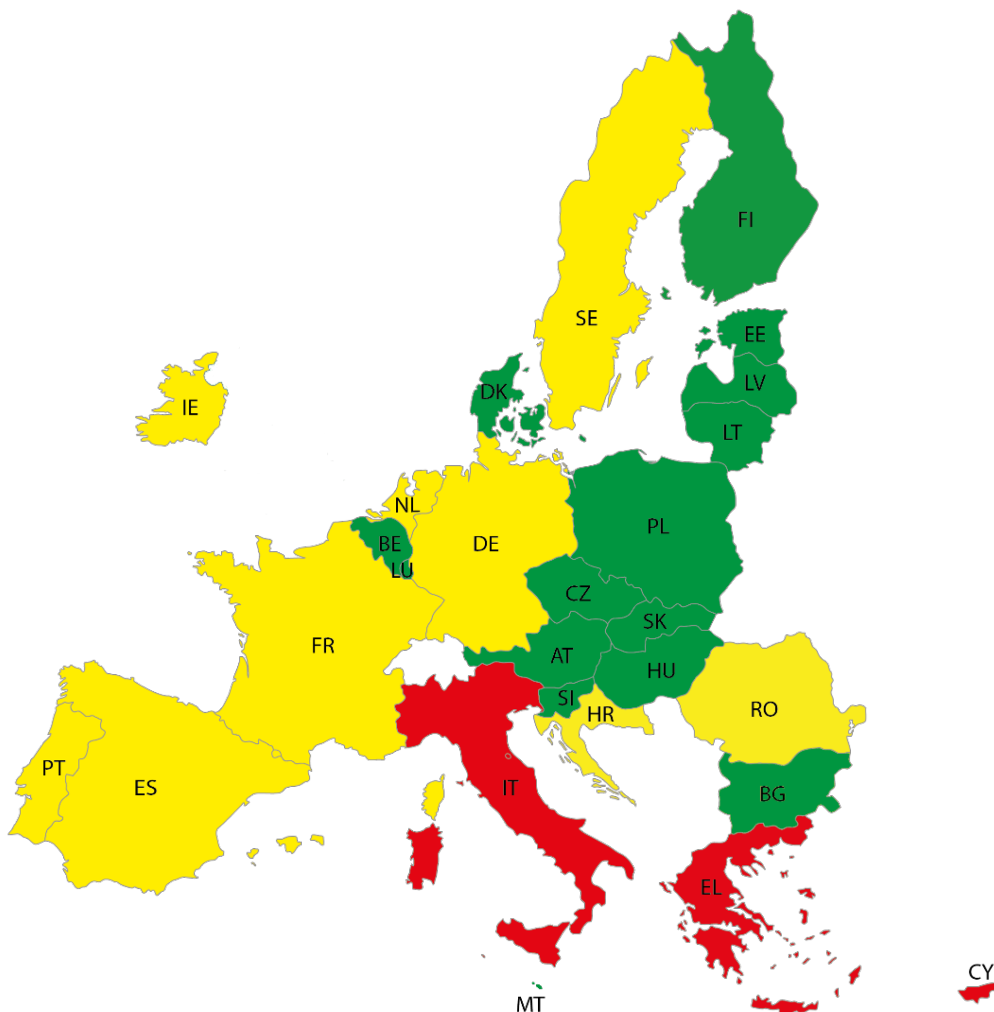
2. Implementation of the MIP during the 2021 Semester

The unfolding of the 2021 European Semester cycle (and therefore of the MIP) was heavily affected by the pandemic and by the implementation of the RRF.

- The Commission published in November 2020 the 2021 AMR. As usual, this report presented the analysis of the macroeconomic situation and imbalances in the EU and in individual Member States, as well as in the euro area. Twelve Member States were identified as at risk of macroeconomic imbalances.
- The country reports, part of the "Winter package" usually published in February, were postponed and integrated with the assessments of Recovery and Resilience Plans submitted by Member States in the context of the RRF. Such assessments have been publishing since June 2021 (see here).
- The IDRs for countries considered at risk of macroeconomic imbalances, which before the pandemic were usually part of the country reports, were published in June 2021, as part of the "Spring package", together with the assessment of the Stability or Convergence Programmes, submitted by Member States in April in the context of fiscal surveillance.
- The assessment of the actions taken by countries to implement the CSRs underpinned by the MIP - usually published in the country reports - were vaguely summarised in the 2021 AMR chapter devoted to country-specific commentaries (see also Appendix 2 to the Commission Communication on Economic Policy Coordination of 2 June 2021). In the Staff Working Document accompanying the Commission's assessments of the RRPs (see here), the Commission established whether all the 2019 and 2020 CSRs were assessed (including those underpinned by the MIP).
- The "Specific monitoring" of countries experiencing macro-economic imbalances in the 2020 and 2021 Semester cycles was integrated with the assessments of the national RRPs.
- In June 2021, the Commission proposed 2021 CSRs (see here and here) focusing only on fiscal policies.

In June 2021, the Commission assessed whether imbalances or excessive imbalances exist, also in view of possible spillovers, and concluded that:

- **3** Member States were considered being in a situation of "excessive macroeconomic imbalances": Cyprus, Greece and Italy.
- **9** Member States were considered experiencing "macroeconomic imbalances": Germany, Ireland, Spain, France, Croatia, the Netherlands, Portugal, Romania and Sweden.
- **15** Member States were not considered at risk of "macroeconomic imbalances": Belgium, Bulgaria, Czechia, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Malta, Hungary, Austria, Poland, Slovenia, Slovakia, Finland (Bulgaria, submitted to IDR, was considered not a risk of imbalances). Nevertheless, the Commission considered that the high uncertainty requires close monitoring of imbalances and of macroeconomic stability risks for all Member States, with a strong forward-looking perspective.



Source: EGOV based on European Commission, 2021

Once again, the Commission did not propose the opening of the Excessive Imbalance Procedure: despite being advocated by many (see Box 3), this procedure has never been proposed.

Box 1: Some institutional positions on current account imbalances in the euro area

In its conclusions on the Alert Mechanism Report of July 2021, the **ECOFIN** noted that "*Current account deficits have remained broadly stable, except for Member States that suffered most from failing foreign tourism; large account surpluses persist in some Member States, potentially with cross-border relevance...*".

The **Commission** noted in the AMR 2022 that "*...The euro area current account surplus continued its gradual decline in 2020 to the level consistent with that suggested by euro area fundamentals, but is increasing again in 2021. In 2020, the euro area current account recorded a surplus of 2% of GDP. Despite the slight increase of the trade balance, slightly lower income balances brought about the small decline of the current account. Both the headline and cyclically-adjusted current accounts that equalled 1.6% of GDP came close to the current account norm that reflects the euro area's economic fundamentals, estimated at 1.7% of GDP. That reflected domestic demand holding up better than in most trade partners. However, data for the first half of 2021 show an increase in the euro area current account surplus, driven mainly by a higher balance of trade in services. Overall, the euro area current account is currently forecast to return to its 2019 level in 2021. This reflects a return of the difference between GDP and aggregate demand to its pre-pandemic level, and thus the persistency of subdued domestic demand.*"

In its conclusions on the Alert Mechanism Report of February 2020, the **ECOFIN** noted that "*large current account deficits have generally been corrected, while the reduction of the largest current account surpluses has been modest. The aggregate surplus of the euro area remains at an elevated level. (...) Member States with large current account surpluses should further strengthen the conditions to promote wage growth... foster public and private investment, support domestic demand.... Acknowledges that symmetric rebalancing of current account can be beneficial for all Member States, generally supporting deleveraging in the euro area as a whole. (…)*".

In its resolution on "the European Semester for economic policy coordination: Annual Growth Survey 2019" of 13 March 2019, the **European Parliament** pointed out that "*some Member States with good fiscal space have consolidated even further, thereby contributing to the euro area's current account surplus*". It also "*Welcomed the Commission's efforts to encourage those Member States with current account deficits or high external debt to improve their competitiveness, and those with large current account surpluses to promote demand by increasing wage growth in line with productivity growth and to foster productivity growth by promoting investment*".

In its November 2020 economic bulletin, the **ECB** published a paper that measures the impact of adverse shocks induced by containment measures introduced in response to the coronavirus on other euro area (EA) countries and transmitted through foreign trade. It concludes that "*the transmission to the rest of the euro area of a shock originating in one of the five largest Member States ranges between 15% and 28% of the original shock's size. The negative spillovers effects are most severe for open countries and those most intertwined in regional production networks*". The ECB occasional paper of June 2018 on "Macroeconomic imbalances in the euro area: where do we stand?" read "*Most of the euro area countries are currently running a surplus, with the notable exception of France. Across countries, a debate has emerged in recent years regarding the nature of the large current account surplus, in particular in the larger euro area countries such as Germany and the Netherlands. Drivers of the German current account surplus are the high household saving rate and the increasing saving rates of the corporate and government sectors. It is also driven by weak investment dynamics, notably in the public sector, as evidenced by a persisting public sector investment differential compared to the euro area. Stronger investment demand in Germany would likely contribute to a more symmetric average euro area rebalancing (...) While current account balances have turned positive for many euro area countries, their levels are not high enough to foster quicker adjustment of the stock of external debt*".

In its 2020 External Sector Report: Global Imbalances and the Covid-19 crisis, the **IMF** noted that for 2020 "*the current account surplus is projected to narrow by 0.4 percentage point of GDP to a surplus of 2.3 percent of GDP amid the decline in global trade and investment income... Nevertheless, imbalances that existed prior to the COVID-19 outbreak could remain sizable at the national level... the aggregate REER gap masks a large degree of heterogeneity in REER gaps across euro area member states, ranging from an undervaluation of 11 percent in Germany to overvaluations of 0 to 9 percent in several small to mid-sized euro area member states. The large differences in REER gaps... highlight the continued need for net external debtor countries to improve their external competitiveness and for net external creditor countries to boost domestic demand*". In the more recent Consultation on Euro Area, the IMF states "*The current account surplus moderated in the first three quarters of the year as external demand for euro area services declined... reflecting in part the decline in tourism, while the income balance fell slightly due to lower investment income net flows. Weakness in imports exceeded that in exports, translating into a slight improvement in the goods balance. The recent REER appreciation along with a strong fiscal stimulus may have contributed to a further moderation...*"

3. The MIP and the RRF

The Regulation establishing the RRF, adopted in February 2021, is being implemented in most Member States. It is strictly interlinked with the European Semester and with its main components, including the MIP.

On 17 September 2020, the Commission set out its strategic guidance for the implementation of the RRF in the Annual Sustainable Growth Strategy 2021, including the temporary adaptation of the 2021 European Semester Cycle to the RRF; the Communication read "*The European Semester provides a well-established framework for the coordination of the economic and employment policies to guide the Union and the Member States through the challenges of the recovery and twin transition. Member States' recovery and resilience plans should effectively address the policy challenges set out in the country-specific recommendations adopted by the Council.... This includes the country-specific recommendations addressed to the Member States in recent years and in particular in the 2019 and 2020 Semester cycles*".

For Member States experiencing macroeconomic imbalances or excessive macroeconomic imbalances, the CSRs may be partly or totally underpinned by the MIP: Annex 3 to this document presents the CSRs underpinned by the MIP for 2019 (including the Commission's assessment of their implementation at the time) and for 2020 (see also Section 1.5 of this EGOV document).

In accordance with the RRF Regulation, the MIP (in particular the MIP Regulation, 1176/2011) will be taken into account in the following steps of the RRF implementation, namely:

- **Eligibility of NRRPs**: "*... Member States shall prepare national recovery and resilience plans. Those plans shall set out the reform and investment agenda of the Member State concerned. Recovery and resilience plans that are eligible for financing under the Facility shall comprise measures for the implementation of reforms and public investment... The recovery and resilience plans shall be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, as well as those identified in the most recent Council recommendation on the economic policy of the euro area for Member States whose currency is the euro. The recovery and resilience plans shall also be consistent with the information included by the Member States in the National Reform Programmes under the European Semester...* "(Article 17, in particular 17.3).
- **Content of the NRRPs**: The NRRP must set out the following elements: "*an explanation of how the recovery and resilience plan contributes to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects thereof and recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester;*" (Article 18.4 (b)).
- **Assessment of the NRRPs**: "*When assessing the recovery and resilience plan and in the determination of the amount to be allocated to the Member State concerned, the Commission shall take into account the analytical information on the Member State concerned available in the context of the European Semester as well as the justification and the elements provided by that Member State, as referred to in Article 18(4), as well as any other relevant information such as, in particular, the information contained in the National Reform Programme...*" (Article 19.2);

  "*The Commission shall assess the relevance, effectiveness, efficiency, and coherence of the recovery and resilience plan and for that purpose, shall take into account the following criteria...*
- ***Relevance**: ... whether the recovery and resilience plan is expected to contribute to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects and recommendations made under Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned or challenges in other relevant documents officially adopted by the Commission in the context of the European Semester;*" (Article 19.3(b)).

- **Suspension of commitments and payments of funds**: "*The Commission may make a proposal to the Council to suspend all or part of the commitments or payments in relation to any of the following cases: (a) where the Council adopts two successive recommendations in the same excessive imbalance procedure in accordance with Article 8(3) of Regulation (EU) No 1176/2011 on the grounds that a Member State has submitted an insufficient corrective action plan; (b) where the Council adopts two successive decisions in the same excessive imbalance procedure in accordance with Article 10(4) of Regulation (EU) No 1176/2011 establishing non-compliance by a Member State on the grounds that it has not taken the recommended corrective action;*" (Article 10.2).

  "*The Council shall lift the suspension of commitments on a proposal from the Commission, in accordance with the procedure set out in the first subparagraph of paragraph 3 of this Article, in the following cases: ... b) where the Council has endorsed the corrective action plan submitted by the Member State concerned in accordance with Article 8(2) of Regulation (EU) No 1176/2011 or the excessive imbalance procedure is placed in a position of abeyance in accordance with Article 10(5) of that Regulation or the Council has closed the excessive imbalance procedure in accordance with Article 11 of that Regulation;*" (Article 10.6).

4. The review of the Economic Governance framework

In accordance with the MIP Regulation 1176/2011(Article 16) and Regulation 1174/2011 (Article 7), the Commission published in February 2020 a report on the application of the regulations providing for the current economic and fiscal surveillance in the EU. The report took the form of a Communication on **"**Economic governance review"[2], and the main question focused on the extent to which the different surveillance elements (mainly the Stability and Growth Pact and the MIP) have been effective in achieving their key objectives, namely:

(i) ensuring sustainable government finances and growth, as well as avoiding macroeconomic imbalances,

(ii) providing an integrated surveillance framework that enables closer coordination of economic policies in particular in the euro area, and

(iii) promoting the convergence of economic performances among Member States.

In Section 2.2 of the Communication, specifically devoted to the MIP, the Commission stated "*Despite progress made for a transparent implementation of the MIP, further efforts could be pursued on the link between the MIP analysis and recommendations and the interplay between the MIP and other surveillance procedures.*".

The Commission then launched a public debate, to give stakeholders the opportunity to provide their views on the functioning of surveillance and on possible ways to enhance the effectiveness of the framework. Originally, citizens and institutions were invited to submit their responses to the questions set in the Communication by 30 June 2020. However, the public debate has been impacted by the need to focus on the immediate challenges of the coronavirus crisis, and the period of public consultation has been extended. In October 2021, the Commission relaunched the economic governance review, with a Commission's Communication on the implications of COVID-19 for economic governance, aimed at to build consensus on how to improve the effectiveness of economic surveillance and policy coordination, by taking into account the changed circumstances for economic governance (e.g. the high levels of public debts or the investment needs for the green and digital transitions) and the lessons learnt from the EU policy response to the outbreak, in particular from the governance of the RRF. According to the Commission, the European Semester will remain the reference framework for integrated surveillance and the coordination of EU

[2] "Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU", i.e. the set of legal acts comprising the provisions on the EU economic governance framework, published in 2011 and 2013, also known as "Six-pack" and "Two-pack".

economic and employment policies. The Commission invited all key stakeholders to engage in the public debate, by replying to eleven questions, of which a new one relates to the RRF experience, by 31 December 2021. The Commission stated that it will consider all views expressed during this public debate and will provide orientations on possible changes to the economic governance framework, with the objective of achieving a broad-based consensus on the way forward "*well in time for 2023*" (see this Commission website on the economic governance review).

On 1 December 2021, the Governing Council of the ECB published its reply to the Commission Communication of October 2021. It noted that "*The coronavirus crisis has also aggravated a number of pre-existing macroeconomic imbalances and given rise to new structural challenges, all of which need to be addressed. A well-functioning governance framework is vital for the identification, prevention and correction of macroeconomic imbalances*".

On 11 November 2021, the Council published its conclusions on the future of the European Semester in the context of the RRF. The Council welcomed "*the continued implementation of the Macroeconomic Imbalance Procedure also during the COVID-19 pandemic and in the context of the related heightened economic uncertainties, including the Commission's 2021 Alert Mechanism Report and in-depth reviews.*" It called "*for close monitoring of the evolution of existing imbalances and remaining vigilant for detecting and addressing also new imbalances*" and recalled "*that swift and effective implementation of the Recovery and Resilience Facility has a potential for contributing to the correction and prevention of imbalances*". Furthermore, the Council plans "*to have thorough discussions on the economic governance review which was relaunched by the Commission on 19 October, and its potential implications on the operation of the European Semester, especially as regards the Stability and Growth Pact and the Macroeconomic Imbalance Procedure*".

On 10 November 2021, the European Fiscal Board (EFB) stated "*The Macroeconomic Imbalance Procedure (MIP) should fulfil its original promise to better integrate fiscal policy recommendations in the broader macroeconomic picture*". In its report, the also devoted a Section (5.4.3) to the question "*... can the fiscal framework be deployed in such a way as to incentivise countries to limit macroeconomic imbalances*?"

In July 2021, the European Parliament adopted an own-initiative report on the reform of the macroeconomic legislative framework. While focussing mainly on the budgetary requirements, the report also devotes attention to the "Surveillance ***of macroeconomic imbalances"*** and states:

> *"(The European Parliament)... 49. Stresses the **importance of the Macroeconomic Imbalance Procedure** (MIP) in detecting, preventing and addressing macroeconomic imbalances in the EU; takes note of the findings of the European Court of Auditors that, although the MIP implementation mechanism is generally well designed, its potential has not been fully exploited in such a way as to ensure the effective prevention and correction of imbalances; further notes that the classification of Member States with imbalances lacks transparency, there is a lack of public awareness of the procedure and its implications, and the recommendations do not sufficiently promote policy actions in addressing those imbalances, notably in the euro area;*
>
> *50. Calls for a **more effective use of the Alert Mechanism Report** (AMR), while taking note of the Commission's latest technical revision of the MIP scoreboard, and welcomes the detailed and comprehensive analysis underpinning the report; insists that **the macroeconomic imbalance procedure scoreboard** must be focused and streamlined around meaningful indicators and thresholds that define more clearly imbalances in the euro area, as well as data-based and transparent; recalls that country-specific recommendations be forward-looking guidance addressed to Member States; considers that greater compliance with pared-back recommendations must be achieved and **MIP-relevant country-specific recommendations should focus on policy actions that can have a direct impact on imbalances** and be consistent with euro area recommendations when appropriate;*

51. Considers that ***clarity and consistency concerning the interplay between the MIP and the Stability and Growth Pact*** *is key to ensuring that their objectives are achieved;*

52. Supports in this respect the ***EFB proposals to incorporate considerations from the MIP in determining the aforementioned expenditure rule*** *whereby, based on mutual agreement, countries with high current account deficits would have a lower ceiling for their expenditure targets, while countries with an excessive external surplus would have a higher floor for the rate of expenditure growth;*

53. Calls for ***more involvement of macro prudential authorities to better identify macroeconomic imbalances*** *from a macro-prudential viewpoint, and of* ***national productivity councils*** *to increase the common understanding of macroeconomic developments in the MIP process."*

Over the years, the Commission had introduced several procedural and methodological changes in the Economic Governance Framework and in the European Semester, in line with the Communication "On steps towards completing Economic and Monetary Union" of October 2015. Annex 4 of this document presents these changes in the context of the MIP: they aimed at streamlining the procedure, improving its transparency and predictability[3], as well as at increasing the focus on employment and social issues. In 2018, a Special Report of the Court of Auditors examined the implementation of the MIP, and found that "*Although the MIP is generally well designed, the Commission is not implementing it in a way that would ensure effective prevention and correction of imbalances... We therefore make a number of Recommendations to the Commission to substantially improve certain aspects of its management and to give greater prominence.*" (see also Box 4).

The Coordinators of the ECON Committee requested EGOV to provide three papers, written by academic experts, aimed at analysing how the procedure worked so far and making proposals on its improvement. The following papers were published between February and May 2020:

- How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area? By Agnès Bénassy-Quéré (Chief Economist at Treasury - France, and Sorbonne University), Guntram Wolff (Director, Bruegel).
- Macroeconomic Imbalances Procedure: has it worked in practice to improve the resilience of the euro area? By Lorenzo Codogno.
- How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area? By Alexander Kriwoluzky and Malte Rieth - DIW Berlin and Freie Universität Berlin.

Annex 5 to this document provides a summary of the three papers.

[3] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" of November 2016, which provides an overview of how the framework functions and how its application has evolved over time.

Box 2: Excerpts from Council conclusions related to the MIP - 2021 cycle

July 2021, Conclusions on the In-depth-reviews under the MIP. The Council noted that since spring 2021, the economic activity is picking up, as containment measures are gradually relaxed and vaccination is progressing, while uncertainty remains elevated.

- Stressed the **importance of the continued close EU economic policy coordination**, including detecting, preventing and correcting macroeconomic imbalances that hinder the proper functioning of Member State economies, the EMU or the EU economy as a whole. Welcomed the publication of the 2021 in-depth reviews in the context of the Macroeconomic Imbalance Procedure.
- Shared the Commission's assessment that **the COVID-19 crisis has not fundamentally altered the nature of Member States' imbalances**, while the crisis has implied a setback in the previously observed reduction of the imbalances and may increase the risks to macroeconomic stability. ... The public debt increased considerably due to necessary public support measures to cushion the impact of the shock, adding to already high debt ratios in several Member States prior to the COVID 19 crisis. The private debt (notably of companies) has increased to address revenue shortfalls ensuing from lockdowns; possible repayment difficulties may lead to an increase of non-performing loans, once the support measures are phased out. Current account deficits have remained broadly stable, except for Member States that suffered most from falling foreign tourism; large current account surpluses persist in some Member States, potentially with cross-border relevance. House prices have remained elevated in some Member States with a higher risk of overvaluation. At the same time, moderating wage growth reduced cost competitiveness pressures during the COVID-19 crisis.
- Noted that it is still **difficult to assess the full consequences of the crisis, including its structural effect**s... Called for close monitoring of existing and possible emerging new imbalances and distinguishing between cyclical and structural factors.
- Agrees with the Commission confirmation that the **12 Member States analysed in the in-depth reviews are experiencing macroeconomic imbalances** of various nature and degree of severity under the Macroeconomic Imbalance Procedure... and that excessive imbalances exist in three Member States (Greece, Italy and Cyprus).
- Considers that the in-depth reviews present a high-quality and comprehensive analysis of the country situation in each Member State under review. Acknowledges that **relevant analytical tools**, complemented by substantive qualitative analysis, have been applied in view of the specific challenges of each economy. Welcomes the increased importance of **forward-looking analysis** in the context of the current high uncertainties. Underlines the continued high relevance of the assessment of **cross-country spillover effects**.
- Takes note that the assessment in the in-depth reviews was completed before the finalisation of recovery and resilience plans. Agrees that a swift, thorough and effective **implementation of the Recovery and Resilience Facility** provides an opportunity to reduce existing macroeconomic imbalances, by supporting reforms and investments that address structural challenges as identified in country specific recommendations in the 2019 and 2020 cycles of the European Semester..
- Underlines that the **Macroeconomic Imbalance Procedure is a central procedure within the European Semester.** Calls for continued implementation of the Macroeconomic Imbalance Procedure, in particular by maintaining a regular review of developments, including in the framework of specific monitoring, and examining potential and new emerging risks.
- Recalls that the Council will discuss the Macroeconomic Imbalance Procedure as part of the **review of the economic governance**.

4. Implementation of the MIP over time

4.1 Member States assessed as having macro-economic imbalances

From the MIP's inception until the 2015 round, an increasing number of countries had been both covered by in-depth reviews and classified as having excessive imbalances, but the trend seems to be reversed in the latest rounds[4]. Table 1 below shows that the number of Member States:

- subject to an **IDR** increased from 12 to 19 between 2012 and 2016, declined to 12 in 2018, were 13 in the 2019 and the 2020 and declined again to 12 in the 2021 and 2022 European Semester cycles;
- considered as experiencing **imbalances** rose from 12 to 16 between 2012 and 2015, fell to 11 in 2018, to 10 in 2019 and stabilised to 9 in 2020 and 2021;
- considered as experiencing **excessive imbalances** increased from 0 to 6 between 2012 and 2017, but fell to 3 in 2018 and stabilized to 3 in 2019, in 2020 and in 2021.

The Commission has not yet proposed to open the **Excessive Imbalance Procedure** (EIP): a Member State subject to this procedure would be classified in Table 1 as experiencing "*excessive imbalances with corrective action*" (see also Box 3 "Selected statements/positions on the corrective arm of the MIP"). In 2016 the Commission had threatened to recommend to the Council an EIP (for Croatia and Portugal), taking into account the level of ambition of their National Reform Programmes. Based on its assessment of the policy commitments of both Member States and on the presumption that there would be a swift and full implementation of the reforms set out in their CSRs, the Commission eventually concluded that there was no need to step up the MIP. In 2019, the Commission has threatened the same for Italy.

Table 1: MIP stylised facts

	Semester/MIP cycle									
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
(1) Countries under adjustment programme	4	5	4	2	1	1	1	0	0	0
(2) Countries subject to IDR, *out of which*:*	12	13	17	16	19	13	12	13	13	12
(2.1) Excessive imbalances with corrective action	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
(2.2) Excessive imbalances	***0***	***2***	***3***	***5***	***6***	***6***	***3***	***3***	***3***	***3***
(2.3) Imbalances	***12***	***11***	***11***	***11***	***7***	***6***	***8***	***10***	***9***	***9***
(2.4) No imbalances detected in IDR	*0*	*0*	*3*	*0*	*6*	*1*	*1*	*0*	*1*	*0*
(3) Countries not subject to IDR (No imbalances)	11	9	7	10	8	14	15	15	15	15
Total = (1) + (2) + (3)	**27**	**27**	**28**	**28**	**28**	**28**	**28**	**28**	**28**	**27**

Source: European Commission and EGOV.
Note: * The table refers to the streamlined categories applied from the 2016 cycle onwards.

Table 2 depicts the situation of Member States with respect to the MIP since its inception in 2012. Italy has been experiencing *excessive imbalances* for eight consecutive years, and *Excessive imbalances* are identified in Cyprus for the sixth year in a row. It can also be noted that one Member State (Sweden) is experiencing *imbalances* since 2012, while the Netherlands since 2013 and Germany since 2014.

[4] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" that provides an overview of how the framework functions and how its application has evolved over time.

Table 2: Commission's conclusions under the MIP

No Imbalances										Imbalances										Excessive imbalances									
2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
CZ*	CZ*	CZ*	CZ*	BE	BE*	BE*	BE*	BE*	BE*	BE	BE	BE	BE	DE	DE	BG	BG	DE	DE		ES	**HR**	**BG**	**BG**	**BG**	**HR**	**IT**	**IT**	**IT**
DE*	DE*	DK	DK*	CZ*	CZ*	CZ*	CZ*	BG	BG	BG	BG	BG	DE	IE	IE	DE	DE	FR	FR		SI	**IT**	**FR**	**FR**	**FR**	**IT**	**CY**	**CY**	**CY**
EE*	EE*	EE*	EE*	DK*	DK*	DK*	DK*	CZ*	CZ*	DK	DK	DE	IE	ES	ES	FR	FR	HR	HR			SI	**HR**	**HR**	**HR**	**CY**	**EL**	**EL**	**EL**
LV*	LV*	LV*	LV*	EE	EE*	EE*	EE*	DK*	DK*	ES	FR	IE	ES	NL	NL	IE	HR	IE	IE				**IT**	**IT**	**IT**				
LT*	LT*	LT*	LT*	LV*	LV*	LV*	LV*	EE*	EE*	FR	IT	ES	HU	SI	SI	ES	IE	ES	ES				**PT**	**PT**	**PT**				
LU*	LU*	LU	LU*	LT*	LT*	LT*	LT*	LV*	LV*	IT	HU	FR	NL	FI	**SE**	NL	ES	NL	NL					**CY**	**CY**				
MT*	AT*	MT	MT*	LU*	LU*	LU*	LU*	LT*	LT*	CY	MT	HU	RO	**SE**		PT	NL	PT	PT										
NL*	PL*	AT*	AT*	HU	HU*	HU*	HU*	LU*	LU*	HU	NL	NL	SI			**SE**	PT	RO	RO										
AT*	SK*	PL*	PL*	MT*	MT*	MT*	MT*	HU*	HU*	SI	FI	FI	FI				RO	**SE**	**SE**										
PL*		SK*	SK*	AT	AT*	AT*	AT*	MT*	MT*	FI	**SE**	**SE**	**SE**				**SE**												
SK*				PL*	PL*	PL*	PL*	AT*	AT*	**SE**	UK	UK	UK																
				RO	RO*	RO*	SK*	PL*	PL*	UK																			
				SK*	SK*	SK*	SI*	SK*	SK*																				
				UK	UK*	SI	FI*	SI*	SI*																				
					FI	FI*	UK*	FI*	FI*																				
						UK		UK*																					

Source: EGOV based on European Commission.
(*) Countries not considered at risk of macroeconomic imbalances, therefore not subject to in-depth reviews according to the AMR.
Note: The table refers only to the streamlined categories applied from the 2016 cycle onwards.

4.2 Implementation of CSRs underpinned by the MIP

The credibility of the MIP, as part of the European Semester, depends *inter alia* on countries' implementation of the CSRs, which is measured by their implementation track record. The Commission applies an annual and multi-annual perspective in its assessment of the implementation of the CSRs.

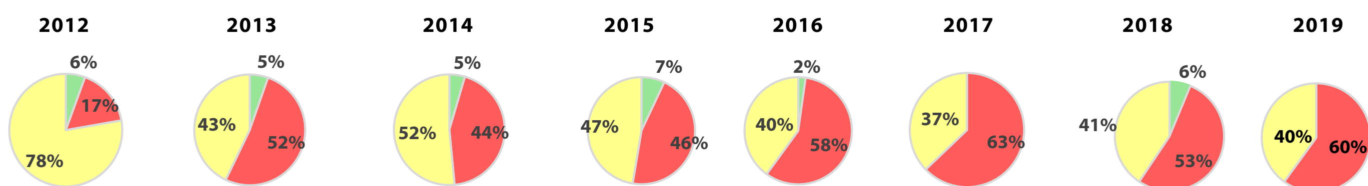
The 2020 Communication on the CSRs includes an Annex on "Progress in the implementation of the Country Specific Recommendations", that reads *"Since the start of the European Semester in 2011, some implementation progress has been achieved for more than two-thirds of the country-specific recommendations. Implementation continues on a stable path, as in previous years... However, reform implementation differs significantly across policy areas. In particular, Member States have made most progress over the past years in financial services, followed by progress on employment protection legislation. On the other hand, progress has been particularly slow on broadening the tax base, as well as on health and long-term care, with the healthcare systems being further challenged because of the COVID-19."*.

With regard to the implementation of the CSRs underpinned by the MIP, Figure 2 below shows the annual implementation rate of MIP-specific CSRs. The percentage of MIP-CSRs showing limited/no progress increased again in 2019, to 60%, after a slight decrease in 2018 and a continuous increase from 2014 to 2017. The percentage of MIP-CSRs showing full/substantial progress decrease again to none, after a slight increase in 2018[5].

[5] Macroeconomic imbalances typically take several years to correct, as different types of structural reforms produce the expected effects over variable time horizons; an IMF study shows that reforms in labour market may have a negative impact in the short term, while reforms in goods and services markets are visible in a shorter time lag. See also the Annex to the Commission Communication on Country Reports, where the Commission considers the "multiannual assessment of the CSRs implementation".

The Commission did not publish an assessment of the rate of implementation of CSRs issued in 2020, due to the pandemic crisis. The implementation of CSRs issued in 2019 and 2020 is being assessed in the context of the RRF, both when assessing the national Recovery and Resilience Plans and when evaluating the targets indicated therein.

Figure 1: Annual implementation rate of CSRs based on MIP (2012-2019)



Total MIP-CSRs	**36**	**56**	**66**	**57**	**45**	**35**	**32**	**40**
Member States	12	13	14	16	13	12	11	13

Source: EGOV based on European Commission assessments.
Note: The assessment grid of CSRs implementation is as follows: full/substantial progress, some progress and limited/no progress.

Table 3 shows that Member States experiencing excessive imbalances during the 2019 cycle implemented recommendations underpinned by the MIP and joint SGP/MIP legal bases quite poorly; the progress in the implementation was assessed in the Country reports published by the Commission in February 2020. Greece showed some progress for both its recommendations; Italy showed some progress for three out of five CSRs; Cyprus implemented three out of five CSRs to a limited extent.

Table 3: Commission's assessment on the implementation of 2019 CSRs for Member States with excessive imbalances during 2019 MIP Cycle

	Joint SGP and MIP legal base	MIP legal base			
EL	CSR1	CSR2			
IT	CSR1	CSR2	CSR3	CSR4	CSR5
CY	CSR1	CSR2	CSR3	CSR4	CSR5

Source: EGOV based on European Commission assessments.
Note: The assessment grid of CSRs implementation is as follows: full/substantial progress, some progress and limited/no progress.

Annex 3 presents the 2019 and 2020 MIP-related CSRs and the assessment of their implementation (see a separate EGOV document for a presentation of all the 2018 CSRs, the Commission's assessments of their implementation, the 2019 CSRs and their implementation assessment).

In September 2020, the European Court of Auditors published its Special Report No 16/2020: "The European Semester – Country Specific Recommendations address important issues but need better implementation". In November 2020, the Council adopted its conclusions on this report.

Box 3: Selected statements/positions on the corrective arm of MIP

ECOFIN Council

The Council, in its conclusions of May 2020, "*Reiterates that* ***the Macroeconomic Imbalance Procedure should be used to its full potential*** *and in a transparent and consistent way, ensuring Member States' ownership of the procedure, including the* ***activation of the excessive imbalance procedure*** *where appropriate. Maintains that whenever the Commission concludes that a Member State is experiencing excessive imbalances, but does not propose to the Council the opening of the excessive imbalance procedure, it should explain clearly and publicly its reasons.".* Similar text was included in the ECOFIN conclusions of February 2020, May 2019, January 2019, January and March 2018, January and May 2017.

European Central Bank

In its publication of June 2018, the ECB stated "*from 2015 to 2017 three to four countries were continuously included in the excessive imbalance group. One country has been assessed as having had excessive imbalances for 5 years in a row. Despite the unchanged assessment, these countries continued to be part of the preventive arm of the MIP.* ***A situation with persistently excessive imbalances warrants a strong policy response, as past experience has shown that the correction of imbalances accumulated over a long period of time is very costly****. This is the reason why the ECB has consistently argued that the MIP tools – including the full corrective arm of the procedure – should be fully employed in relation to those countries with excessive imbalances... The use of such tools is desirable not only in order to increase the economic prospects of the relevant country itself, but also to help facilitate economic adjustment processes inside the euro area and enhance the resilience of the euro area. It is thus in the interest of the euro area as a whole, in particular given the fact that a tool, the EIP, has already been set up to deal with those cases.* "

In July 2017, the ECB had called again on the Commission to make use of the MIP corrective arm. "***The number of CSRs has been reduced for countries with excessive imbalances*** *and in several cases* ***the level of urgency has been reduced****, insofar as the CSRs contain significantly fewer deadlines compared with last year's recommendations****. This comes despite the limited implementation of CSRs for countries with excessive imbalances****. Given the difficulties of strengthening reform implementation in the context of the preventive arm of the macroeconomic imbalance procedure,* ***there seems to be a strong case for applying the corrective arm of this procedure for all countries with excessive imbalances.*** *This tool, which has not been used so far, offers a well-defined process ensuring greater traction on reform implementation for the most vulnerable Member States."* Previous similar statements were published in March 2017, March and February 2016.

The Five Presidents Report

The Five President Report on "Completing Europe's Economic and Monetary Union" of June 2015 affirms the need to use the MIP "*to its full potential. This requires action on two fronts in particular:*

It should be used not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. **It should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation**.

The procedure should also better capture imbalances for the euro area as a whole, not just for each individual country. For this, it needs to continue to focus on correcting harmful external deficits, given the risk they pose to the smooth functioning of the euro area ..."

International Monetary Fund

In the context of the 2017 Art. IV consultation report on the euro area, "*IMF Directors reiterated their call for* ***stricter enforcement of the Macroeconomic Imbalances Procedure*** *combined with incentives for structural reforms, such as targeted support from central funds and outcome based benchmarks*." The staff report reads (p. 18) "*The weak implementation of CSRs in most countries, including by those six countries identified with excessive imbalances under the MIP, suggests that the* ***EU instruments are currently not being used effectively****. To build credibility, stronger enforcement of the governance framework is needed*." The accompanying footnote reads "*While considering progress toward correcting excessive external imbalances in February 2017, the* ***EC has again used its discretionary powers not to open the excessive imbalances procedure in six cases****, despite these countries having made only 'limited' or 'some' progress in implementing CSRs*."

European Court of Auditor

The Auditors' Report on the MIP notes that the Commission has never recommended activating the excessive imbalance procedure, despite several member States having been identified with excessive imbalances over a prolonged period (see also Box 4).

Box 4: The Special Report of the European Court of Auditors on the MIP

On 23 January 2018, the European Court of Auditors (ECA) published its Special Report on the Macroeconomic Imbalance Procedure.

The ECA examined the Commission's implementation of the Macroeconomic Imbalance Procedure, on the basis - *inter alia* - on stakeholders' opinion and detailed analysis of four Member States (Bulgaria, Slovenia, France and Spain).

The ECA found that although the MIP is generally well designed, **the Commission is not implementing it in a way that would ensure effective prevention and correction of imbalances**. More specifically:

- the classification of Member States with imbalances lacks transparency;
- the Commission's in-depth analysis - despite being of a good standard - has become less visible;
- the country specific recommendations do not stem from identified imbalances;
- there is lack of public awareness of the procedure and its implications.

Furthermore, the ECA pointed to the political rather than technical process on the opening of the EIP (paras 61-66) and addresses the weakness of the MIP scoreboard (paras 88-96).

The ECA made six Recommendations to the Commission, aimed at to substantially improve certain aspects of its management and to give greater prominence to the MIP. They can be summarised as follows:

1. clearly link MIP country specific recommendations to specific macroeconomic imbalances;
2. in its IDRs, clearly characterise the severity of the imbalances that Member States are facing. The Commission should, unless there are specific circumstances, recommend activating an **excessive imbalance procedure** when there is evidence that a Member State is facing excessive imbalances. Propose an amendment to the MIP regulation on this process;
3. separate the IDR from the Country report, to allow for a comprehensive analysis of the macroeconomic imbalances;
4. use the **MIP to make fiscal recommendations** to Member States when fiscal policy directly affects external imbalances and competitiveness. MIP-CSRs should be made consistent with recommendations for the euro area, including on the overall fiscal stance;
5. give greater prominence to the MIP by improving all communication aspects. When it assesses imbalances as excessive, make the relevant **Commissioners available to Member State parliaments** to explain the MIP related policy recommendations.

The publication includes a detailed **reply by the Commission** to each section of the ECA Reports'. As far as the ECA's recommendations are concerned, the Commission accepted all the Recommendations, with the exception of 2(ii), on the codification of the definition of imbalances or excessive imbalances; and 2(iv) on the amendment of the MIP regulation concerning the opening of the EIP.

The President of the ECA presented the report at the ECOFIN Council of 13 March 2018, which drew its conclusions. The Council welcomed that the Commission accepted most of the ECA's recommendations.

In its conclusions of the meeting of January 2019, the Council invited the Commission to take note of the ECA recommendations when the Commission will **review and report on the application of the MIP** at the latest by December 2019, in accordance with Regulation 1176/2011 on the MIP.

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Annex 1: The 2022 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2020)

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2020	**Current Account Balance** % of GDP 3 year average	**Net International Investment Position** % of GDP	**Real Effective Exchange Rate with HICP deflator** 3 year % change	**Export Market Shares** 5 year % change	**Nominal ULC (2010=100)** 3 year % change	**House Prices index deflated** 1 year % change	**Private Sector Credit Flow** % 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 pop. aged 15-64 3 year change	**Long term unemployment rate** % of active pop. aged 15-74 3 year change	**Youth unemployment rate** % of active pop. aged 15-24 3 year change
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	0.1	44.4	2.5	10.9	7.5	3.6	1.1	192.0	112.8	5.7	8.8	0.6	-1.2	-4.0
BG	0.8	-26.3	7.1	16.0	20.4	5.2	4.2	94.3	24.7	4.8	11.1	0.9	-1.1	1.3
CZ	1.5	-12.5	5.6	10.1	19.2	5.5	2.4	81.9	37.7	2.3	3.4	0.5	-0.4	0.1
DK	8.1	68.8	0.9	11.5	6.2	4.6	4.8	220.9	42.1	5.2	5.7	1.1	-0.3	-0.8
DE	7.4	61.7	2.4	1.3	11.1	7.1	6.0	120.1	68.7	3.4	11.3	1.1	-0.5	0.6
EE	1.0	-21.5	5.3	17.6	17.1	6.9	3.6	104.4	19.0	5.5	17.5	0.5	-0.7	5.8
IE	-5.8	-174.0	-1.2	50.0	-6.3	-0.2	-1.8	188.9	58.4	5.5	7.2	-0.8	-1.7	0.9
EL	-3.7	-175.0	0.4	-10.1	6.4	5.5	5.4	125.3	206.3	17.6	27.4	-0.9	-4.7	-8.6
ES	1.6	-85.5	1.1	-6.8	11.0	2.2	4.4	146.4	120.0	15.0	9.5	-1.7	-2.7	-0.3
FR	-1.0	-30.2	2.7	-6.9	4.6	4.4	13.0	173.7	115.0	8.5	11.6	-0.5	-1.3	-1.9
HR	1.6	-47.8	0.5	0.1	13.7	7.3	1.3	98.0	87.3	7.5	7.3	0.7	-2.5	-6.3
IT	3.2	2.4	0.6	-2.8	5.5	2.2	4.1	118.9	155.6	9.9	6.8	-1.3	-1.8	-5.3
CY	-6.6	-136.7	0.1	28.5	5.8	0.7	-2.6	260.5	115.3	7.7	-2.5	1.9	-2.4	-6.5
LV	0.7	-34.7	5.9	18.2	18.4	2.7	-1.8	66.5	43.2	7.3	10.8	1.2	-1.1	-2.1
LT	3.7	-15.8	6.9	39.3	18.3	6.4	0.3	54.7	46.6	7.0	28.5	2.6	-0.2	6.3
LU	4.5	39.9	1.5	20.6	11.1	13.8	44.5	316.8	24.8	6.0	-3.6	2.0	-0.4	7.8
HU	-0.7	-48.1	-4.9	8.2	13.2	1.9	7.7	76.4	80.1	3.8	55.3	1.6	-0.6	2.1
MT	3.0	60.3	2.1	13.2	19.7	2.2	9.0	139.1	53.4	3.9	1.9	4.9	-0.9	0.3
NL	9.1	113.9	3.8	7.4	14.0	6.0	-1.3	233.7	54.3	3.7	3.3	1.2	-1.0	0.2
AT	1.6	9.3	3.2	5.2	12.2	6.2	4.7	131.2	83.2	4.9	10.6	0.2	-0.5	0.7
PL	-0.7	-44.5	1.1	36.9	12.3	7.1	1.5	75.9	57.4	3.5	11.7	1.4	-0.9	-4.0
PT	0.0	-106.4	0.0	-0.9	16.2	7.7	4.4	163.7	135.2	6.8	7.2	-0.4	-2.2	-1.3
RO	-4.9	-48.3	3.4	20.6	26.1	2.3	1.3	48.5	47.4	4.4	13.4	1.9	-0.5	-1.0
SI	6.4	-15.2	1.9	20.2	14.9	5.2	-0.9	69.7	79.8	4.9	14.0	0.4	-1.2	3.0
SK	-1.8	-65.7	5.3	8.1	16.4	7.2	3.7	95.3	59.7	6.3	9.9	0.3	-1.9	0.4
FI	-0.4	-5.3	2.3	12.3	6.1	1.3	6.5	155.2	69.5	7.3	7.7	1.6	-0.9	1.3
SE	4.6	16.4	-4.8	4.5	9.4	3.0	11.6	215.7	39.7	7.2	11.2	0.0	-0.1	6.0

Source: 2022 AMR. Boxes shaded in grey indicate values outside the threshold. A dedicated Eurostat website presents the latest available figures

Annex 2: Summaries of the country specific commentaries on imbalances, risks and adjustments (2022 Alert Mechanism Report)

BELGIUM: In June 2021, no macroeconomic imbalances were identified in Belgium. In the updated scoreboard including figures until 2020, the indicators for private sector consolidated debt and general government gross debt indicators are above their indicative thresholds..

Belgium entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a high private sector and general government gross debt, involving limited risks. With the COVID-19 crisis, debt, both for the private and public sector, has further increased and warrant monitoring. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

BULGARIA: In June 2021, no macroeconomic imbalances were identified in Bulgaria. In the updated scoreboard including figures until 2020, the unit labour cost (ULC) growth indicator is above their indicative thresholds.

Bulgaria entered the COVID-19 crisis with no identified macroeconomic imbalances, although nonperforming loans and corporate indebtedness were relatively high, albeit declining. With the COVID-19 crisis, the private sector debt-to-GDP ratio increased temporarily in 2020, but is set to decline afterwards. Wage compensation is expected to continue its pre-pandemic growth path. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

CZECHIA: In June 2021, no macroeconomic imbalances were identified in Czechia. In the updated scoreboard including figures until 2020, the unit labour cost (ULC) growth indicator is above their indicative thresholds.

Czechia entered the COVID-19 crisis with no identified macroeconomic imbalances, although competitiveness and pressures in the housing market involved some risks. With the COVID-19 crisis, some risks have increased. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

DENMARK: In June 2021, no macroeconomic imbalances were identified in Denmark. In the updated scoreboard including figures until 2020, the current account surplus and the private sector debt indicators are above their indicative thresholds.

Denmark entered the COVID-19 crisis with no identified macroeconomic imbalances, although the high private sector indebtedness and current account surplus involve some risks. During the COVID-19 crisis, private sector indebtedness has increased moderately, while house prices have risen markedly, and the current account surplus has remained high. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

GERMANY: In June 2021, the Commission concluded that Germany was experiencing macroeconomic imbalances, reflecting a subdued level of investment relative to savings, which have cross-border relevance. In the updated scoreboard, which includes figures until 2020, the current account balance, unit labour cost (ULC) growth, house price growth, and government debt indicators are above their indicative thresholds.

Germany entered the COVID-19 crisis with a large domestic savings surplus, underpinned primarily by net savings of households and the government. The current account surplus persists at a high level, as private investment remains muted despite policy support in the COVID-19 context, and public investment has not yet filled longstanding investment gaps. House prices have grown strongly. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

ESTONIA: In June 2021, no macroeconomic imbalances were identified in Estonia. In the updated scoreboard including figures until 2020, real effective exchange rate, unit labour cost (ULC) growth, house price growth, financial sector liabilities and the youth unemployment rate indicators are above their indicative thresholds.

Estonia entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a negative net international investment position involving limited risks. With the COVID-19 crisis, house price growth has accelerated but house prices do not appear to be overvalued. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

IRELAND: In June 2021, the Commission concluded that Ireland was experiencing macroeconomic imbalances, in particular involving vulnerabilities linked to high private, public and external debt. In the updated scoreboard including figures until 2020, the current account balance, the net international investment position, private sector debt and the activity rate indicators are above their indicative thresholds.

Ireland entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt. As Ireland's economy grew despite the crisis, vulnerabilities linked to external and private debt eased somewhat, but

government debt has increased. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

GREECE: In June 2021, the Commission concluded that Greece was experiencing excessive macroeconomic imbalances, relating to high government debt, incomplete external rebalancing and high non-performing loans, in a context of high unemployment and low potential growth. In the updated scoreboard, including figures until 2020, a number of indicators are above their indicative thresholds, namely the net international investment position (NIIP), the government debt, the export market share, the financial sector liabilities, the unemployment rate and the activity rate.

Greece entered the COVID-19 crisis with vulnerabilities linked to government debt, incomplete external rebalancing, legacy non-performing loans, unemployment and low potential growth. With the COVID-19 crisis, government debt, and external imbalances have increased. Overall, the Commission finds it opportune, also taking into account the identification of excessive imbalances in June, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

SPAIN: In June 2021, the Commission concluded that Spain was experiencing macroeconomic imbalances, relating to high levels of external, private and government debt, which have cross-border relevance, in a context of high unemployment. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely the net international investment position (NIIP); unit labour cost (ULC) growth, the export market share, the government debt and private sector debt, the unemployment rate as well as the activity rate.

Spain entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt and high unemployment. With the COVID-19 crisis, debt ratios and unemployment have increased. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

FRANCE: In June 2021, the Commission concluded that France was experiencing macroeconomic imbalances, relating to high government debt and weak competitiveness in a context of low productivity growth, which have cross-border relevance. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely, government and private sector debt, export market share as well as the activity rate.

France entered the COVID-19 crisis with vulnerabilities linked to government debt and competitiveness in a context of low productivity. With the COVID-19 crisis, government, external and private debt stocks have increased. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

CROATIA: In June 2021, the Commission concluded that Croatia was experiencing macroeconomic imbalances, relating to high levels of external, private and government debt in a context of low potential growth. In the updated scoreboard including figures until 2020, the net international investment position (NIIP), unit labour cost (ULC) growth, house price growth and general government gross debt indicators are above their indicative thresholds.

Croatia entered the COVID-19 crisis with vulnerabilities linked to government, private sector and external debt in a context of low potential growth. With the COVID-19 crises, debt ratios have increased. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

ITALY: In June 2021, the Commission concluded that Italy was experiencing excessive macroeconomic imbalances, involving high government debt and protracted weak productivity dynamics, which have cross-border relevance, in a context of labour market and banking sector fragilities. In the updated scoreboard including figures until 2020, the government debt and the activity rate indicators are above their indicative thresholds.

Italy entered the COVID-19 crisis with vulnerabilities linked to the high level of government debt and weak productivity growth, in a context of still relatively high unemployment. With the COVID-19 crisis, debt ratios have increased, while financial sector vulnerabilities and some vulnerabilities in the labour market remain. Overall, the Commission finds it opportune, also taking into account the identification of excessive imbalances in June, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

CYPRUS: In June 2021, the Commission concluded that Cyprus was experiencing excessive macroeconomic imbalances. Vulnerabilities relate to high stocks of external, government, and private debt, and still high non-performing loans, alongside a substantial current account deficit. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely the current account, net international investment position (NIIP), government debt and private sector debt..

Cyprus entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt. With the COVID-19 crisis, the current account deficit has deteriorated, while debt ratios have increased. Overall, the Commission finds

it opportune, also taking into account the identification of excessive imbalances in June, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

LATVIA: In the previous round of the MIP, no macroeconomic imbalances were identified in Latvia. In the updated scoreboard, a number of indicators are above their indicative thresholds, namely real effective exchange rate changes, and unit labour cost (ULC) growth.

Latvia entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a negative net international investment position and high unit labour cost growth. Issues relating to labour supply pressures and cost competitiveness are expected to persist even beyond the COVID-19 crisis, but risks appear contained. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

LITHUANIA: In the previous round of the MIP, no macroeconomic imbalances were identified in Lithuania. In the updated scoreboard, which includes figures until 2020, five indicators are above their indicative thresholds, namely the real effective exchange rate, unit labour cost (ULC) growth, house price growth, financial sector liabilities and the youth unemployment rate.

Lithuania entered the COVID-19 crisis with no identified macroeconomic imbalances, although with accumulating pressures in the labour market. Recently shortages in the labour market started to reemerge, thus exerting upward pressure on labour costs, although unit labour cost growth is forecast to diminish somewhat. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

LUXEMBOURG: In the previous round of the MIP, no macroeconomic imbalances were identified for Luxembourg. In the updated scoreboard including figures until 2020, unit labour cost (ULC) growth, house price growth, private sector debt level and credit growth, as well as youth unemployment indicators are above their indicative thresholds.

Luxembourg entered the COVID-19 crisis with no identified macroeconomic imbalances, although with some risks related to increasing housing prices and household debt. These risks have increased further. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

HUNGARY: In the previous round of the MIP, no macroeconomic imbalances were identified for Hungary. In the updated scoreboard including figures until 2020, the net international investment position (NIIP), unit labour cost (ULC) growth, general government debt, financial sector liabilities and youth unemployment indicators are above their indicative thresholds..

Hungary entered the COVID-19 crisis with no identified macroeconomic imbalances, although with risks related to cost pressures, government debt structure, and the housing market. With the COVID-19 crisis, risks have remained. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

MALTA: In the previous round of the MIP, no macroeconomic imbalances were identified for Malta. In the updated scoreboard including figures until 2020 two indicators are above their indicative thresholds, namely the private debt and unit labour cost (ULC) growth.

Malta entered the COVID-19 crisis with no identified macroeconomic imbalances although relatively dynamic house price growth involved limited risks, also in relation to banks' exposure to real estate. With the COVID-19 crisis, house price pressures moderated somewhat, but still require monitoring. Private and government debt increased. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

The NETHERLANDS: In June 2021, the Commission concluded that the Netherlands was experiencing macroeconomic imbalances, in particular involving the high stock of private debt and the large current account surplus, which have cross-border relevance. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely the three-year average of the current account balance, nominal unit labour costs, private sector debt and house price growth.

The Netherlands entered the COVID-19 crisis with a long-standing large domestic savings surplus accompanied by high private debt levels. Having somewhat decreased during the COVID-19 crisis, the savings surplus is expected to increase again going forward. Private sector debt has remained high. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

AUSTRIA: No macroeconomic imbalances were identified in Austria in the previous round of the MIP. In the updated scoreboard, which includes figures until 2020, government debt, house price growth and unit labour cost (ULC) growth indicators are above their indicative thresholds.

Austria weathered the COVID-19 crisis with no identified macroeconomic imbalances. With the COVID19 crisis, government and private debt have increased and house prices are on the rise, although part of these developments are expected to be partly reversed going forward. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

POLAND: In the previous round of the MIP, no macroeconomic imbalances were identified in Poland. In the updated scoreboard including figures until 2020, the net international investment position (NIIP), unit labour cost (ULC) growth and house price growth indicators are above their indicative thresholds.

Poland entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a negative net international investment position involving limited risks. With the COVID-19 crisis, government debt has increased and house price growth has accelerated, but the associated risks appear contained. Overall, the Commission does not consider it necessary at this stage to carry out further indepth analysis in the context of the MIP.

PORTUGAL: In June 2021, the Commission concluded that Portugal was experiencing macroeconomic imbalances, relating to large stocks of net external liabilities, private and government debt, while non-performing loans remained high, against a backdrop of low productivity growth. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely the net international investment position (NIIP), private and government debt, house price growth, unit labour cost (ULC) growth and the activity rate.

Portugal entered the COVID-19 crisis with vulnerabilities linked to large stocks of external, private and government debt in a context of low productivity growth. With the COVID-19 crisis, debt ratios have increased further. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

ROMANIA: In June 2021, the Commission concluded that Romania was experiencing macroeconomic imbalances, in particular a persistent sizeable current account deficit in a context of large government deficits, while previous overheating pressures were receding. In the updated scoreboard including figures until 2020, a number of indicators are above their indicative thresholds, namely the current account balance, the net international investment position (NIIP) and unit labour cost (ULC) growth...

Romania entered the COVID-19 crisis with vulnerabilities linked to a widening current account deficit, a deteriorating external position and significant cost competitiveness losses. With the COVID-19 crisis, government debt has increased, albeit from low levels. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in June, to examine further the persistence of imbalances or their unwinding.

SLOVENIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Slovenia. In the updated scoreboard including figures until 2020, the current account surplus, unit labour cost growth, the general government gross debt and the youth unemployment growth indicators are above their indicative thresholds.

Slovenia entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a high government debt, involving limited risks. With the COVID-19 crisis, government debt has increased and the large current account surplus widened further. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

SLOVAKIA: In the previous round of the MIP, no macroeconomic imbalances were identified in Slovakia. In the updated scoreboard including figures until 2020, the net international investment position (NIIP), the real effective exchange rate (REER), unit labour cost (ULC) growth and house price growth indicators are above their indicative thresholds.

Slovakia entered the COVID-19 crisis with no identified macroeconomic imbalances, although external sustainability, domestic price pressures and dependence on the automotive industry involved some risks. With the COVID-19 crisis, some risks have increased. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

FINLAND: In the previous round of the MIP, no macroeconomic imbalances were identified in Finland. In the updated scoreboard including figures until 2020 two indicators, private sector debt and general government gross debt, are above their indicative thresholds.

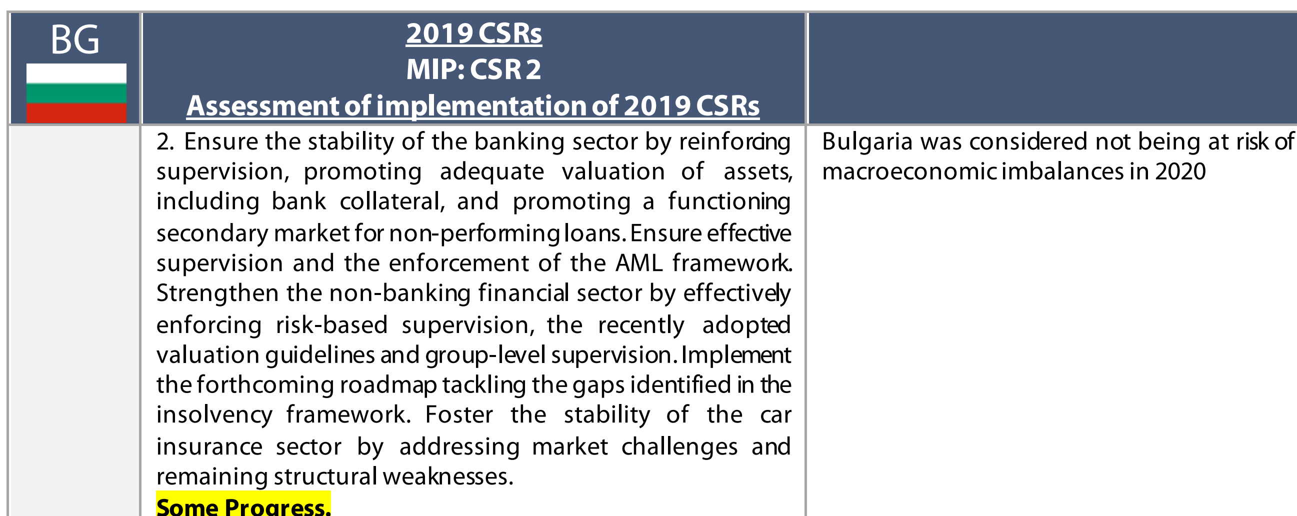
Finland entered the COVID-19 crisis with no identified macroeconomic imbalances, although with vulnerabilities linked to the private sector debt. With the COVID-19 crisis, the private debt ratio has increased, but risks remain limited. Overall, the Commission does not consider it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

SWEDEN: In June 2021, the Commission concluded that Sweden was experiencing macroeconomic imbalances, relating to risks of overvalued house prices coupled with a high and rising household debt. In the updated scoreboard including figures until 2020, two indicators are above their indicative thresholds, namely private debt and youth unemployment.

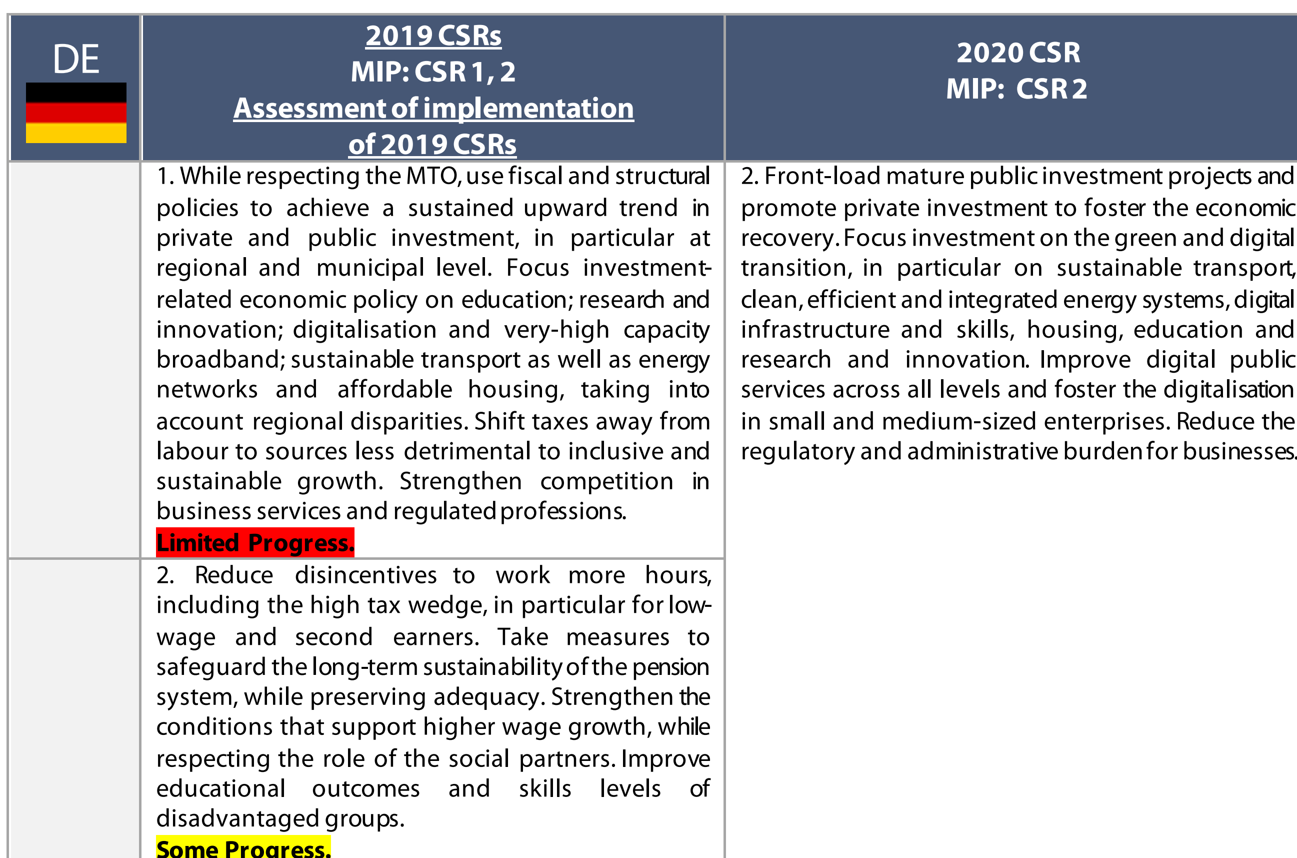
Sweden entered the COVID-19 crisis with vulnerabilities linked to risks of overvalued house price levels coupled with high and continuously rising household debt. With the COVID-19 crisis, private debt ratios, house prices and the unemployment rate have increased. Overall, the Commission finds it appropriate, also considering the identification of imbalances last June, to examine further the persistence of imbalances or their unwinding.

Annex 3: Country Specific Recommendations underpinned by MIP: 2019 (including implementation assessment) and 2020

These tables are extracted from:
- the detailed EGOV document "Country Specific recommendations for 2018 and 2019 - A tabular comparison and overview of implementation";
- the detailed EGOV document "Commission's Recommendations for Country Specific recommendations for 2020". For each concerned Member State, the tables present only the CSRs underpinned by the MIP. Note that the CSRs adopted by the Council on 20 July 2020 do not materially differ from those proposed by the Commission. The assessment categories (some progress, limited progress) are taken from the Commission's 2020 Country Reports.

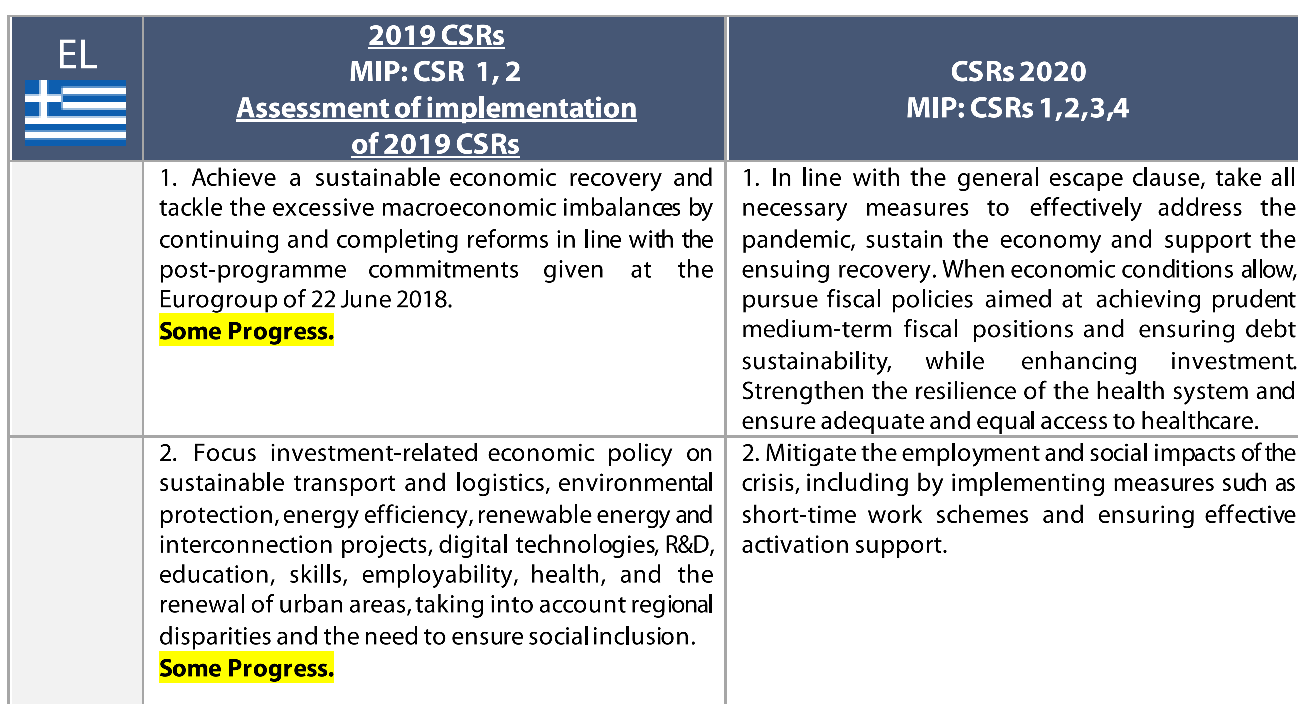


BG	**2019 CSRs** **MIP: CSR 2** **Assessment of implementation of 2019 CSRs**	
	2. Ensure the stability of the banking sector by reinforcing supervision, promoting adequate valuation of assets, including bank collateral, and promoting a functioning secondary market for non-performing loans. Ensure effective supervision and the enforcement of the AML framework. Strengthen the non-banking financial sector by effectively enforcing risk-based supervision, the recently adopted valuation guidelines and group-level supervision. Implement the forthcoming roadmap tackling the gaps identified in the insolvency framework. Foster the stability of the car insurance sector by addressing market challenges and remaining structural weaknesses. **Some Progress.**	Bulgaria was considered not being at risk of macroeconomic imbalances in 2020



DE	**2019 CSRs** **MIP: CSR 1, 2** **Assessment of implementation of 2019 CSRs**	**2020 CSR** **MIP: CSR 2**
	1. While respecting the MTO, use fiscal and structural policies to achieve a sustained upward trend in private and public investment, in particular at regional and municipal level. Focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities. Shift taxes away from labour to sources less detrimental to inclusive and sustainable growth. Strengthen competition in business services and regulated professions. **Limited Progress.**	2. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on sustainable transport, clean, efficient and integrated energy systems, digital infrastructure and skills, housing, education and research and innovation. Improve digital public services across all levels and foster the digitalisation in small and medium-sized enterprises. Reduce the regulatory and administrative burden for businesses.
	2. Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners. Take measures to safeguard the long-term sustainability of the pension system, while preserving adequacy. Strengthen the conditions that support higher wage growth, while respecting the role of the social partners. Improve educational outcomes and skills levels of disadvantaged groups. **Some Progress.**	

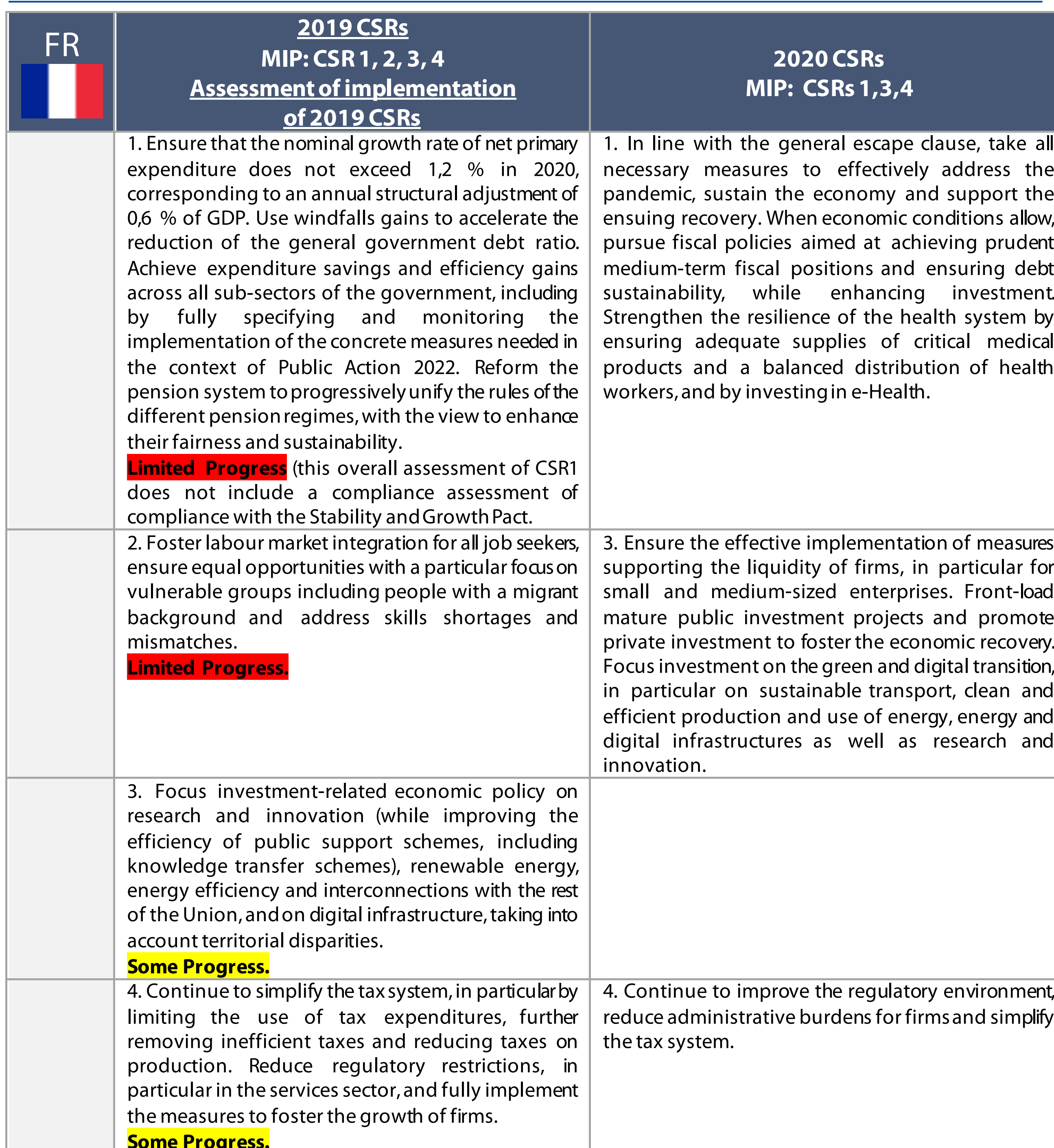
IE	**2019 CSRs** **MIP: CSR 1, 3** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSRs 1,2,4**
	1. Achieve the MTO objective in 2020. Use windfall gains to accelerate the reduction of the general government debt ratio. Limit the scope and number of tax expenditures, and broaden the tax base. Continue to address features of the tax system that may facilitate aggressive tax planning, and focus in particular on outbound payments. Address the expected increase in age-related expenditure by making the healthcare system more cost-effective and by fully implementing pension reform plans. **Limited Progress** (this overall assessment of country-specific recommendation 1 does not include an assessment of compliance with the Stability and Growth Pact)	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve accessibility of the health system and strengthen its resilience, including by responding to health workforce's needs and ensuring universal coverage to primary care.
	3. Focus investment-related economic policy on low carbon and energy transition, the reduction of greenhouse gas emissions, sustainable transport, water, digital infrastructure and affordable and social housing, taking into account regional disparities. Implement measures, including those in the Future Jobs strategy, to diversify the economy and improve the productivity of Irish firms — SMEs in particular — by using more direct funding instruments to stimulate research and innovation and by reducing regulatory barriers to entrepreneurship. **Some Progress.**	2. Support employment through developing skills. Address the risk of digital divide, including in the education sector. Increase the provision of social and affordable housing.
		4. Broaden the tax base. Step up action to address features of the tax system that facilitate aggressive tax planning, including on outbound payments. Ensure effective supervision and enforcement of the anti-money laundering framework as regards professionals providing trust and company services.



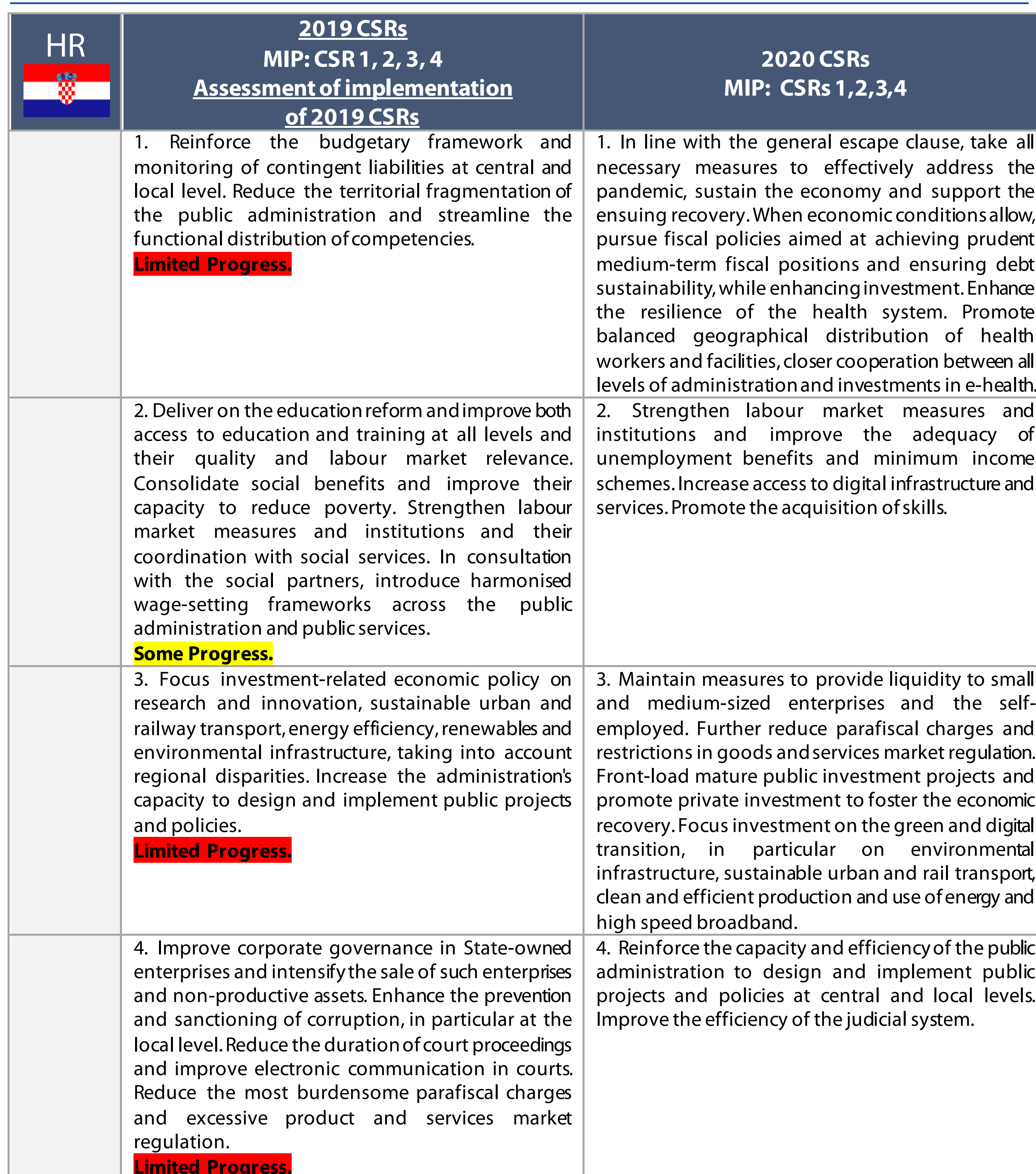
EL	**2019 CSRs** **MIP: CSR 1, 2** **Assessment of implementation of 2019 CSRs**	**CSRs 2020** **MIP: CSRs 1,2,3,4**
	1. Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018. **Some Progress.**	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure adequate and equal access to healthcare.
	2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, R&D, education, skills, employability, health, and the renewal of urban areas, taking into account regional disparities and the need to ensure social inclusion. **Some Progress.**	2. Mitigate the employment and social impacts of the crisis, including by implementing measures such as short-time work schemes and ensuring effective activation support.

		3. Swiftly deploy measures to provide liquidity and continued flow of credit and other financing to the economy, focusing in particular on small and medium-sized enterprises most affected by crisis. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on safe and sustainable transport and logistics, clean and efficient production and use of energy, environmental infrastructure and very-high capacity digital infrastructure and skills. Improve the effectiveness and digitalisation of the public administration and promote digital transformation of businesses.
		4. Continue and complete reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018 to restart a sustainable economic recovery, following the gradual easing up of constraints imposed due to the COVID-19 outbreak.

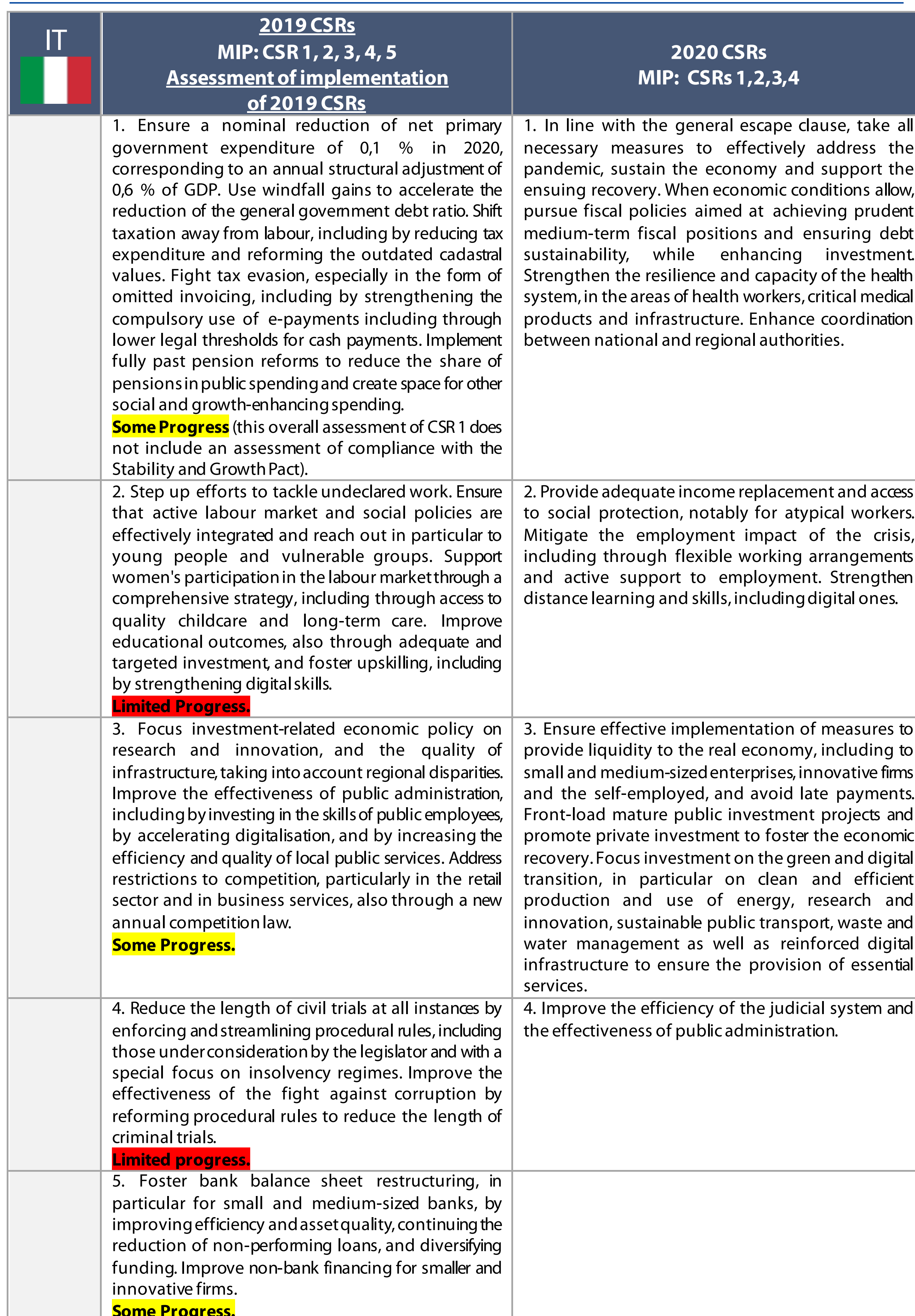
ES	**2019 CSRs** **MIP: CSR 1, 2, 3, 4** **Assessment of implementation of 2019 CSRs**	**CSRs 2020** **MIP: CSRs 1,2,4**
	1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,9 % in 2020, corresponding to an annual structural adjustment of 0,65 % of GDP. Take measures to strengthen the fiscal and public procurement frameworks at all levels of government. Preserve the sustainability of the pension system. Use windfall gains to accelerate the reduction of the general government debt ratio. **Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact;).	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the health system's resilience and capacity, as regards health workers, critical medical products and infrastructure.
	2. Ensure that employment and social services have the capacity to provide effective support. Foster transitions towards open-ended contracts, including by simplifying the system of hiring incentives. Improve support for families, reduce fragmentation of national unemployment assistance and address coverage gaps in regional minimum income schemes. Reduce early school leaving and improve educational outcomes, taking into account regional disparities. Increase cooperation between education and businesses with a view to improving the provision of labour market relevant skills and qualifications, in particular for information and communication technologies. **Limited Progress.**	2. Support employment through arrangements to preserve jobs, effective hiring incentives and skills development. Reinforce unemployment protection, notably for atypical workers. Improve coverage and adequacy of minimum income schemes and family support, as well as access to digital learning.
	3. Focus investment-related economic policy on fostering innovation, resource and energy efficiency, upgrading rail freight infrastructure and extending electricity interconnections with the rest of the Union, taking into account regional disparities. Enhance the effectiveness of policies supporting research and innovation. **Limited Progress.**	4. Improve coordination between different levels of government and strengthen the public procurement framework to support recovery in an efficient manner.
	4. Further the implementation of the Law on Market Unity by ensuring that, at all levels of government, rules governing access to and exercise of economic activities, in particular for services, are in line with the principles of that Law and by improving cooperation between administrations. **Limited Progress.**	



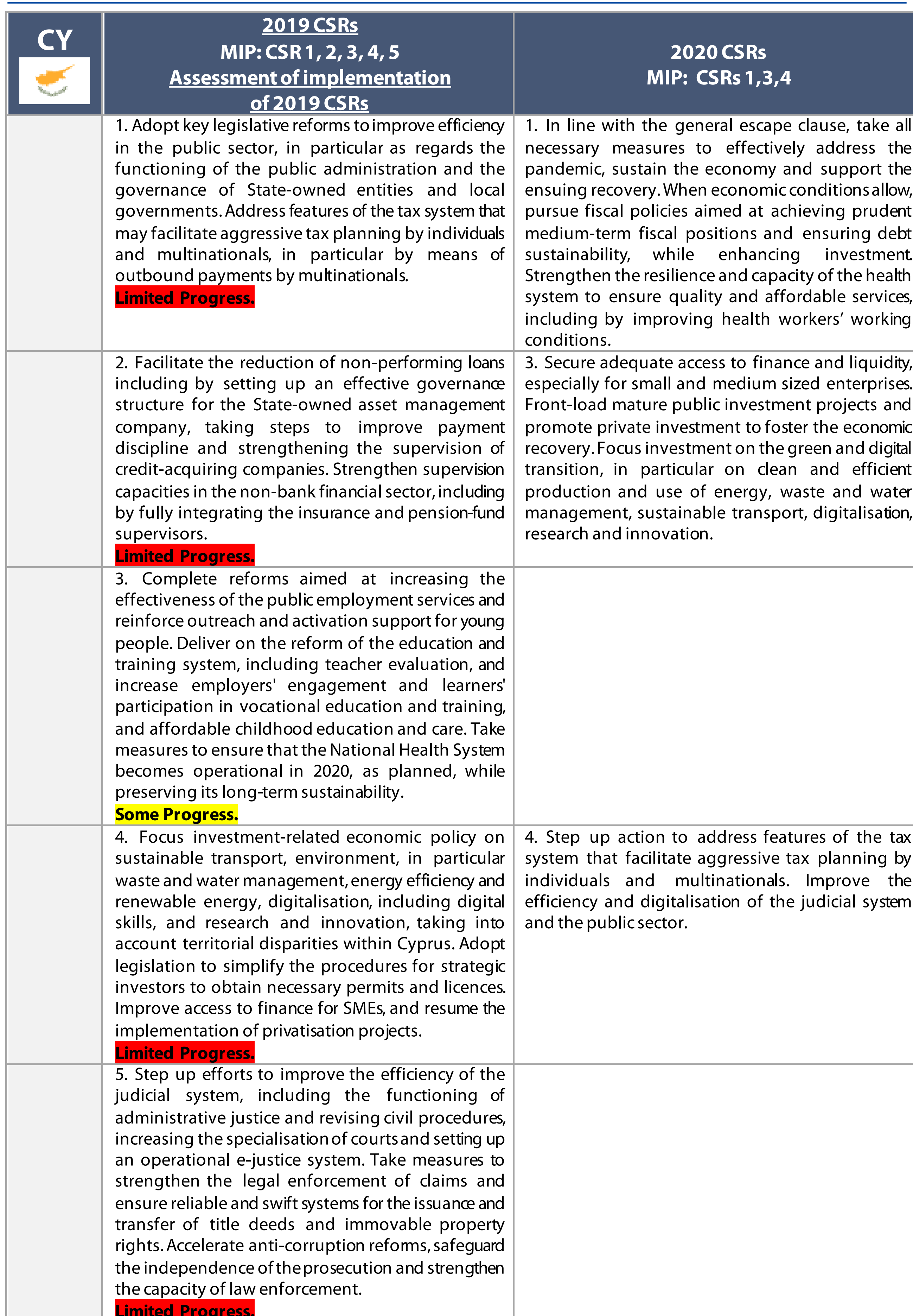
FR	**2019 CSRs** **MIP: CSR 1, 2, 3, 4** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSRs 1,3,4**
	1. Ensure that the nominal growth rate of net primary expenditure does not exceed 1,2 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfalls gains to accelerate the reduction of the general government debt ratio. Achieve expenditure savings and efficiency gains across all sub-sectors of the government, including by fully specifying and monitoring the implementation of the concrete measures needed in the context of Public Action 2022. Reform the pension system to progressively unify the rules of the different pension regimes, with the view to enhance their fairness and sustainability. **Limited Progress** (this overall assessment of CSR1 does not include a compliance assessment of compliance with the Stability and Growth Pact.	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system by ensuring adequate supplies of critical medical products and a balanced distribution of health workers, and by investing in e-Health.
	2. Foster labour market integration for all job seekers, ensure equal opportunities with a particular focus on vulnerable groups including people with a migrant background and address skills shortages and mismatches. **Limited Progress.**	3. Ensure the effective implementation of measures supporting the liquidity of firms, in particular for small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on sustainable transport, clean and efficient production and use of energy, energy and digital infrastructures as well as research and innovation.
	3. Focus investment-related economic policy on research and innovation (while improving the efficiency of public support schemes, including knowledge transfer schemes), renewable energy, energy efficiency and interconnections with the rest of the Union, and on digital infrastructure, taking into account territorial disparities. **Some Progress.**	
	4. Continue to simplify the tax system, in particular by limiting the use of tax expenditures, further removing inefficient taxes and reducing taxes on production. Reduce regulatory restrictions, in particular in the services sector, and fully implement the measures to foster the growth of firms. **Some Progress.**	4. Continue to improve the regulatory environment, reduce administrative burdens for firms and simplify the tax system.



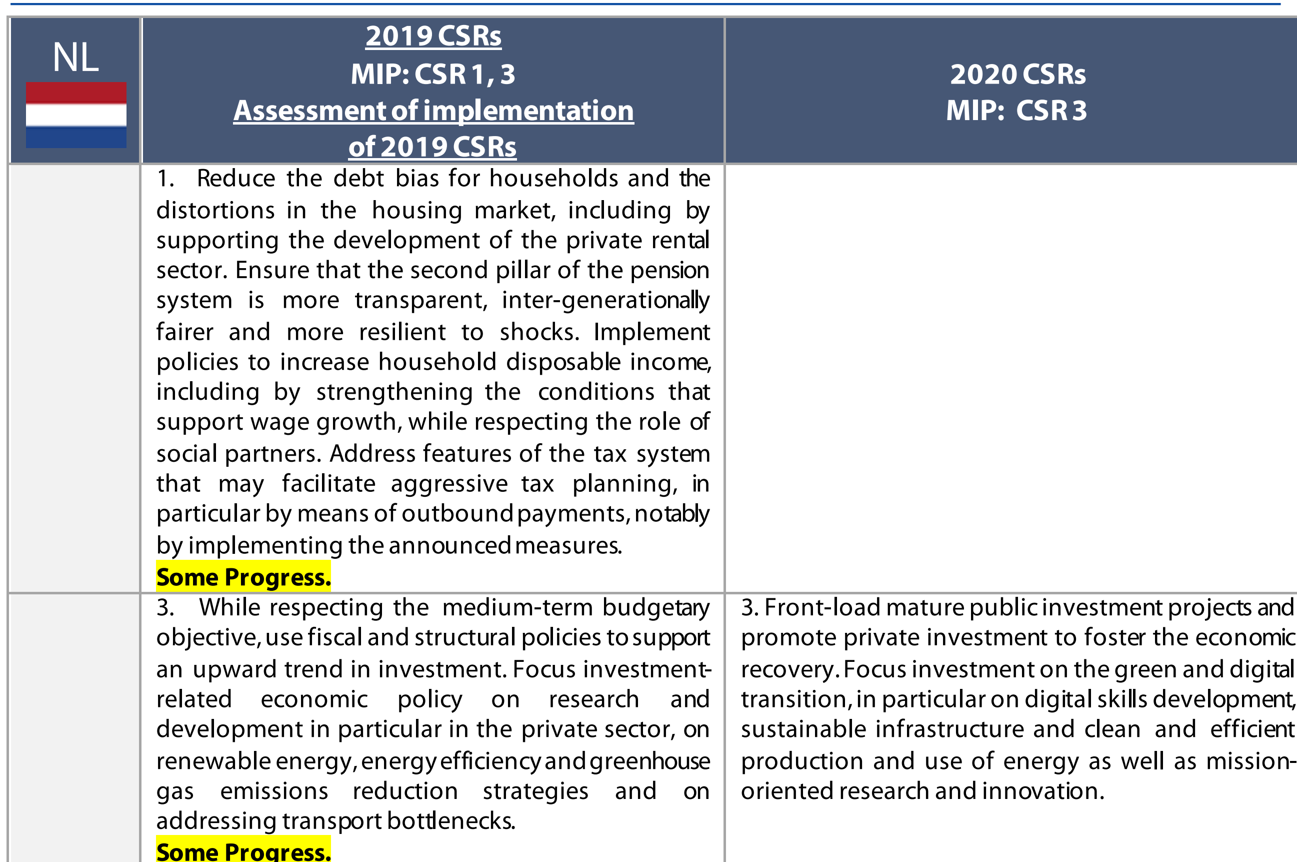
HR	2019 CSRs MIP: CSR 1, 2, 3, 4 Assessment of implementation of 2019 CSRs	2020 CSRs MIP: CSRs 1,2,3,4
	1. Reinforce the budgetary framework and monitoring of contingent liabilities at central and local level. Reduce the territorial fragmentation of the public administration and streamline the functional distribution of competencies. **Limited Progress.**	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Enhance the resilience of the health system. Promote balanced geographical distribution of health workers and facilities, closer cooperation between all levels of administration and investments in e-health.
	2. Deliver on the education reform and improve both access to education and training at all levels and their quality and labour market relevance. Consolidate social benefits and improve their capacity to reduce poverty. Strengthen labour market measures and institutions and their coordination with social services. In consultation with the social partners, introduce harmonised wage-setting frameworks across the public administration and public services. **Some Progress.**	2. Strengthen labour market measures and institutions and improve the adequacy of unemployment benefits and minimum income schemes. Increase access to digital infrastructure and services. Promote the acquisition of skills.
	3. Focus investment-related economic policy on research and innovation, sustainable urban and railway transport, energy efficiency, renewables and environmental infrastructure, taking into account regional disparities. Increase the administration's capacity to design and implement public projects and policies. **Limited Progress.**	3. Maintain measures to provide liquidity to small and medium-sized enterprises and the self-employed. Further reduce parafiscal charges and restrictions in goods and services market regulation. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on environmental infrastructure, sustainable urban and rail transport, clean and efficient production and use of energy and high speed broadband.
	4. Improve corporate governance in State-owned enterprises and intensify the sale of such enterprises and non-productive assets. Enhance the prevention and sanctioning of corruption, in particular at the local level. Reduce the duration of court proceedings and improve electronic communication in courts. Reduce the most burdensome parafiscal charges and excessive product and services market regulation. **Limited Progress.**	4. Reinforce the capacity and efficiency of the public administration to design and implement public projects and policies at central and local levels. Improve the efficiency of the judicial system.



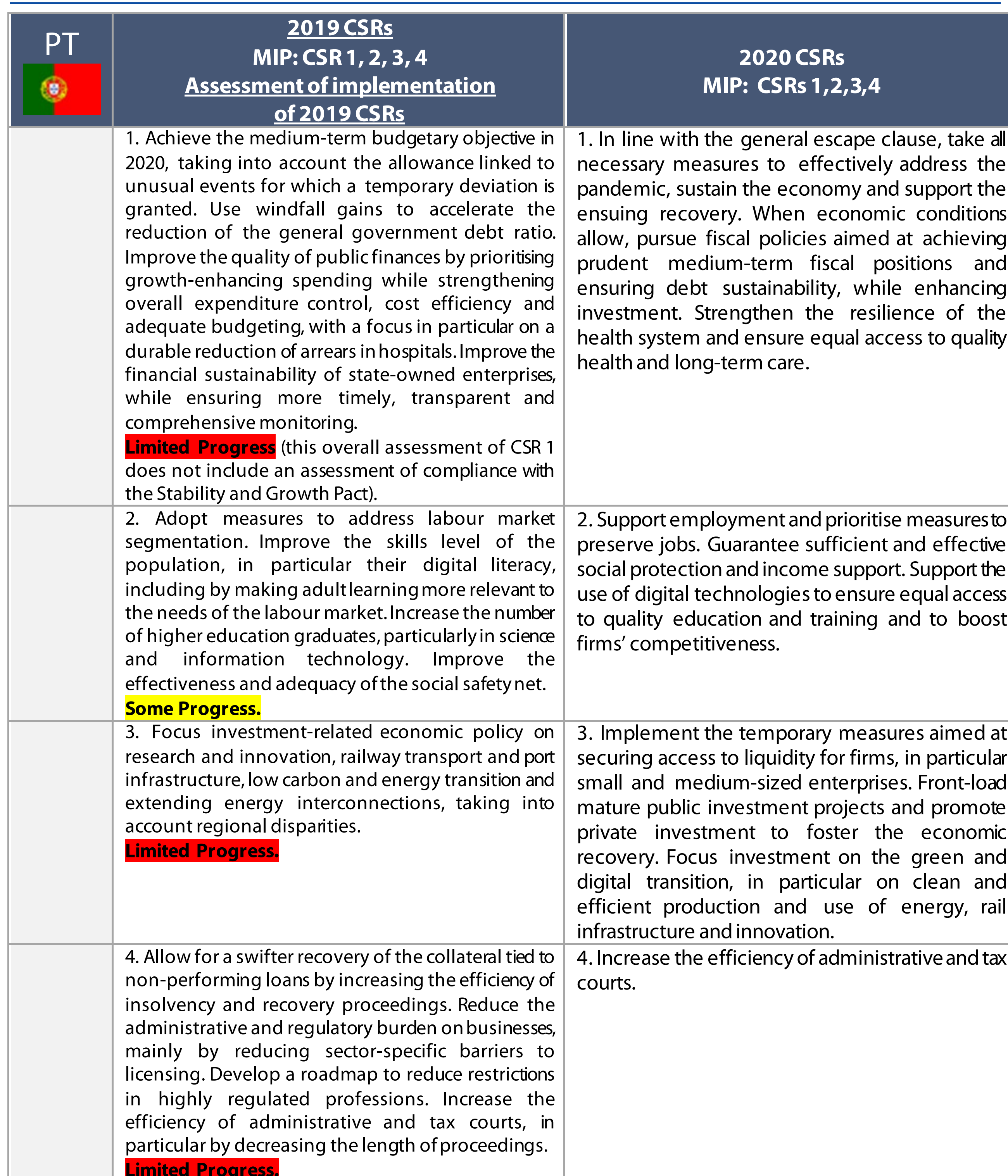
IT	**2019 CSRs** **MIP: CSR 1, 2, 3, 4, 5** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSRs 1,2,3,4**
	1. Ensure a nominal reduction of net primary government expenditure of 0,1 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Fight tax evasion, especially in the form of omitted invoicing, including by strengthening the compulsory use of e-payments including through lower legal thresholds for cash payments. Implement fully past pension reforms to reduce the share of pensions in public spending and create space for other social and growth-enhancing spending. **Some Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact).	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system, in the areas of health workers, critical medical products and infrastructure. Enhance coordination between national and regional authorities.
	2. Step up efforts to tackle undeclared work. Ensure that active labour market and social policies are effectively integrated and reach out in particular to young people and vulnerable groups. Support women's participation in the labour market through a comprehensive strategy, including through access to quality childcare and long-term care. Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills. **Limited Progress.**	2. Provide adequate income replacement and access to social protection, notably for atypical workers. Mitigate the employment impact of the crisis, including through flexible working arrangements and active support to employment. Strengthen distance learning and skills, including digital ones.
	3. Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services. Address restrictions to competition, particularly in the retail sector and in business services, also through a new annual competition law. **Some Progress.**	3. Ensure effective implementation of measures to provide liquidity to the real economy, including to small and medium-sized enterprises, innovative firms and the self-employed, and avoid late payments. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, research and innovation, sustainable public transport, waste and water management as well as reinforced digital infrastructure to ensure the provision of essential services.
	4. Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator and with a special focus on insolvency regimes. Improve the effectiveness of the fight against corruption by reforming procedural rules to reduce the length of criminal trials. **Limited progress.**	4. Improve the efficiency of the judicial system and the effectiveness of public administration.
	5. Foster bank balance sheet restructuring, in particular for small and medium-sized banks, by improving efficiency and asset quality, continuing the reduction of non-performing loans, and diversifying funding. Improve non-bank financing for smaller and innovative firms. **Some Progress.**	



CY	**2019 CSRs** **MIP: CSR 1, 2, 3, 4, 5** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSRs 1,3,4**
	1. Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of State-owned entities and local governments. Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments by multinationals. **Limited Progress.**	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions.
	2. Facilitate the reduction of non-performing loans including by setting up an effective governance structure for the State-owned asset management company, taking steps to improve payment discipline and strengthening the supervision of credit-acquiring companies. Strengthen supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension-fund supervisors. **Limited Progress.**	3. Secure adequate access to finance and liquidity, especially for small and medium sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation, research and innovation.
	3. Complete reforms aimed at increasing the effectiveness of the public employment services and reinforce outreach and activation support for young people. Deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training, and affordable childhood education and care. Take measures to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability. **Some Progress.**	
	4. Focus investment-related economic policy on sustainable transport, environment, in particular waste and water management, energy efficiency and renewable energy, digitalisation, including digital skills, and research and innovation, taking into account territorial disparities within Cyprus. Adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences. Improve access to finance for SMEs, and resume the implementation of privatisation projects. **Limited Progress.**	4. Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals. Improve the efficiency and digitalisation of the judicial system and the public sector.
	5. Step up efforts to improve the efficiency of the judicial system, including the functioning of administrative justice and revising civil procedures, increasing the specialisation of courts and setting up an operational e-justice system. Take measures to strengthen the legal enforcement of claims and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights. Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of law enforcement. **Limited Progress.**	

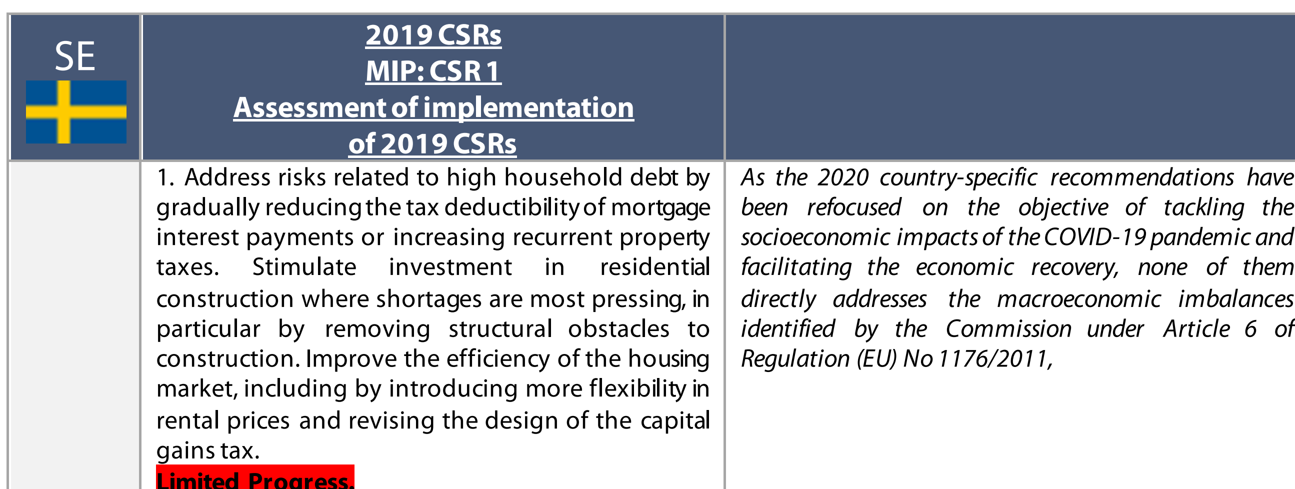


NL	**2019 CSRs** **MIP: CSR 1, 3** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSR 3**
	1. Reduce the debt bias for households and the distortions in the housing market, including by supporting the development of the private rental sector. Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks. Implement policies to increase household disposable income, including by strengthening the conditions that support wage growth, while respecting the role of social partners. Address features of the tax system that may facilitate aggressive tax planning, in particular by means of outbound payments, notably by implementing the announced measures. **Some Progress.**	
	3. While respecting the medium-term budgetary objective, use fiscal and structural policies to support an upward trend in investment. Focus investment-related economic policy on research and development in particular in the private sector, on renewable energy, energy efficiency and greenhouse gas emissions reduction strategies and on addressing transport bottlenecks. **Some Progress.**	3. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on digital skills development, sustainable infrastructure and clean and efficient production and use of energy as well as mission-oriented research and innovation.



PT	**2019 CSRs** **MIP: CSR 1, 2, 3, 4** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSRs 1,2,3,4**
	1. Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals. Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring. **Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact).	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure equal access to quality health and long-term care.
	2. Adopt measures to address labour market segmentation. Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market. Increase the number of higher education graduates, particularly in science and information technology. Improve the effectiveness and adequacy of the social safety net. **Some Progress.**	2. Support employment and prioritise measures to preserve jobs. Guarantee sufficient and effective social protection and income support. Support the use of digital technologies to ensure equal access to quality education and training and to boost firms' competitiveness.
	3. Focus investment-related economic policy on research and innovation, railway transport and port infrastructure, low carbon and energy transition and extending energy interconnections, taking into account regional disparities. **Limited Progress.**	3. Implement the temporary measures aimed at securing access to liquidity for firms, in particular small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, rail infrastructure and innovation.
	4. Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings. Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing. Develop a roadmap to reduce restrictions in highly regulated professions. Increase the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings. **Limited Progress.**	4. Increase the efficiency of administrative and tax courts.

RO	**2019 CSRs** **MIP: CSR 1, 2, 3, 5** **Assessment of implementation of 2019 CSRs**	**2020 CSRs** **MIP: CSR 4**
	1. Ensure compliance with the Council recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. Ensure the full application of the fiscal framework. Strengthen tax compliance and collection. **Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact).	
	2. Safeguard financial stability and the robustness of the banking sector. Ensure the sustainability of the public pension system and the long-term viability of the second pillar pension funds. **Some Progress.**	
	3. Improve the quality and inclusiveness of education, in particular for Roma and other disadvantaged groups. Improve skills, including digital, notably by increasing the labour market relevance of vocational education and training and higher education. Increase the coverage and quality of social services and complete the minimum inclusion income reform. Improve the functioning of social dialogue. Ensure minimum wage setting based on objective criteria, consistent with job creation and competitiveness. Improve access to and cost-efficiency of healthcare, including through the shift to outpatient care. **Limited Progress.**	4. Improve the quality and effectiveness of public administration and the predictability of decision-making, including through an adequate involvement of social partners.
	5. Ensure that legislative initiatives do not undermine legal certainty by improving the quality and predictability of decision-making, including by appropriate stakeholder consultations, effective impact assessments and streamlined administrative procedures. Strengthen the corporate governance of state-owned enterprises. **No Progress.**	



SE	**2019 CSRs** **MIP: CSR 1** **Assessment of implementation of 2019 CSRs**	
	1. Address risks related to high household debt by gradually reducing the tax deductibility of mortgage interest payments or increasing recurrent property taxes. Stimulate investment in residential construction where shortages are most pressing, in particular by removing structural obstacles to construction. Improve the efficiency of the housing market, including by introducing more flexibility in rental prices and revising the design of the capital gains tax. **Limited Progress.**	*As the 2020 country-specific recommendations have been refocused on the objective of tackling the socioeconomic impacts of the COVID-19 pandemic and facilitating the economic recovery, none of them directly addresses the macroeconomic imbalances identified by the Commission under Article 6 of Regulation (EU) No 1176/2011,*

Annex 4: Modifications of the MIP over time

In line with its Communication "On steps towards completing Economic and Monetary Union" of October 2015, the European Commission introduced **several changes** in the Semester, aimed at fostering the integration of the euro area and national dimensions, strengthening the focus on employment, social performance, investment and competitiveness as well as at improving the whole procedure transparency[6]. Specifically on MIP, the Commission stated how "*experience suggests that implementation of MIP can be improved in a number of ways*", and noted that the six levels scale of imbalances used up to 2015 to classify Member States in the context of the MIP was not transparent.

In 2016, the Commission:

- introduced in the MIP scoreboard **three new employment-related indicators,** namely activity rate, long-term and youth unemployment[7].
- introduced some **changes in the calendar** of the Semester and the MIP, namely:
  - it anticipated to November the draft Council recommendations for the euro area;
  - it anticipated the publication of the IDRs to February and integrated them in the Country reports. These reports constitute the basis for dialogues between the Commission and the Member States before submission of their National Reform Programmes, as well as for the preparations of the CSRs. They provide also an assessment of the **implementation of the previous CSRs**[8].
- **reduced the number of MIP categories** from six to four, as shown in Table A.1.

Each of the IDRs takes into account **spill-overs** to other countries, especially for the euro area countries, and systemic issues. The IDRs also include the "**MIP assessment matrix**", which summarises the main findings and focuses on imbalances and adjustment issues relevant for the MIP.

Table A.1: Categorisation of imbalances in the macroeconomic imbalance procedure

Previous categories (6)	Streamlined categories (4)
No imbalances	No imbalances
Imbalances, which require policy action and monitoring Imbalances, which require decisive policy action and monitoring Imbalances, which require decisive policy action and specific monitoring	Imbalances
Excessive imbalances, which require decisive policy action and specific monitoring	Excessive imbalances
Excessive imbalances with corrective action*	Excessive imbalances with corrective action*

Source: European Commission.
* Corrective action consists in the opening of the Excessive Imbalance Procedure

Table A.1 shows the categorisation of possible macroeconomic imbalances introduced in March 2016. All countries with imbalances are subject to specific monitoring, that is tighter for countries with excessive imbalances and consists in dialogues with the national authorities, expert missions and regular progress reports, which should also help monitoring of the implementation of the CSRs in the Member States concerned. Countries in the category 'excessive imbalances with corrective action' are subject to the

[6] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" of November 2016, which provides an overview of how the framework functions and how its application has evolved over time.

[7] The ECOFIN Council, on 16 January 2016 "*expressed concern about the inclusion of three additional employment indicators to the main scoreboard, given the need to preserve the effectiveness of the scoreboard as an early warning device... Underlined that social and labour market indicators are not relevant for identifying macro-financial risks and developments in these indicators cannot trigger steps in the MIP process*".

[8] Prior to the streamlined Semester, only the in-depth reviews were published in March, while the Country Reports (previously called Staff Working Documents) were issued in May/June. The publication of a single comprehensive report at an earlier stage is expected to help increase the transparency of the European Semester, as well as its integration in the National reform Programmes.

excessive imbalance procedure (EIP) entailing policy recommendations to remedy the imbalances and follow-up through a corrective action plan.

In 2018, the Commission introduced a number of new auxiliary indicators (technical detail are available in this Commission SWD), namely:

NIIP excluding non-defaultable instruments (NENDI) replaces Net external debt: this indicator provides a broader representation of external stocks (both assets and liabilities) carrying default risks. The new indicator profits from the revised methodology for balance of payments statistics (from BPM5 to BPM6), which allows a finer breakdown of foreign assets and liabilities. Compared with NED, NENDI: (i) excludes net intra-company foreign direct investment (FDI) debt, which in some cases accounts for a large share of cross-border debt without representing solvency concerns; (ii) includes mutual fund shares, which are sometimes a very large item and are mostly backed by bonds; and (iii) includes net financial derivatives. Seen from a different perspective, NENDI is a subset of the NIIP that excludes equity-related components, namely FDI equity and equity shares, and intra-company cross-border FDI debt.

Consolidated banking leverage (domestic and foreign entities from ECB consolidated banking data) replaces the non-consolidated financial sector leverage indicator from national account. This indicator has more clear economic interpretation, is comparable across countries, and is consistently based on book values, even if it covers the banking sector only.

Household debt (consolidated) to complement the headline indicator on private sector debt;

Gross nonperforming loans, which provides complementary information to assess private sector debt. The addition of the latter has become possible thanks to the availability of cross-country-comparable data in the ECB's consolidated banking statistics as of 2015.

To keep the scoreboard relevant and parsimonious, two auxiliary indicators previously included were dropped:

- the ten-year change in nominal unit labour costs (as it overlaps with data on three-year change on unit labour costs among the headline indicators and on ten-year change in unit labour costs relative to euro area also in the auxiliary indicators);
- non-consolidated private sector debt (which has been superseded by the headline indicator on consolidated private sector debt).

Auxiliary MIP indicators have no thresholds and are less visible than the headline "MIP scoreboard indicators"; nevertheless, they are of high statistical quality and comparable among Member States.

Annex 5: Summaries of three studies on the functioning of the MIP and presenting proposals for its improvement

In October 2019, the Coordinators of the ECON Committee requested the EGOV Unit to provide three papers on the MIP, written by academic experts. The papers were requested also in light of the upcoming Commission's report on the application of the MIP regulations (1176/2011 and 1174/2011). In accordance with the regulations, such report would evaluate, inter alia:

- the effectiveness of the Regulations;
- the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU. Where appropriate, that report shall be accompanied by a proposal for amendments to the Regulations.

The papers were published between February and May 2020. The Commission launched the EU economic governance review in February 2020.

How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?
By Agnès Bénassy-Quéré (Chief Economist at Treasury - France, and Sorbonne University), Guntram Wolff (Director, Bruegel)

This paper presents first an empirical analysis of the implementation of the MIP, showing that:

- the implementation rate of the country-specific recommendations has been declining over time; although imbalances have clearly receded in the euro area and in the EU over 2013-2018, there is no apparent link with the implementation of the CSRs;
- despite past reforms, the MIP keeps still largely a country-by-country approach, running the risk of contributing to a deflationary bias in the euro area.

The authors then advance some proposals on how the MIP could be improved, namely by:

- streamline the scoreboard around a few meaningful indicators,
- in the recommendation to the euro area, include a section explaining the strategy to reduce imbalances, and specify the contribution of each Member State
- focus the MIP-CSRs on policy actions that can have direct impact on imbalances.
- Involve national macroprudential authorities and national productivity councils; coordinate the timetable of the European semester with that of ESRB's recommendations;
- simplify the language and further involve the Commission into national policy discussions.

Macroeconomic Imbalances Procedure: has it worked in practice to improve the resilience of the euro area?
By Lorenzo Codogno

While the MIP is for the whole of the EU, the paper focuses on the Euro Area, as, according to the author, the sharing of the single currency makes macroeconomic imbalances even more dangerous and hard to correct. The paper focuses on three issues:

the extent to which the MIP contributed to its stated and expected objectives and, more broadly, whether the MIP has better equipped the Euro Area to identify and prevent unsustainable macroeconomic developments. It presents some stylised trends in macro variables and how the procedure tracks them.

provide a tentative counterfactual exercise, to see whether the currently upgraded economic surveillance would have helped in preventing the emergence of vulnerabilities and imbalances in those Member States that required financial assistance during the financial and economic crisis.

provide some policy recommendations on how to make the prevention of unsustainable policies more effective in the future and assess whether other supranational policy tools could help complement the current framework. The main policy recommendations of the study are that some re-tooling of the MIP is necessary and that increasing its ownership at the national level is essential.

The paper concludes that the procedure has substantially improved the macroeconomic dialogue and the policy debate on the best ways to address structural issues and imbalances and, at the margin, has likely strengthened policy response, although imbalances are not directly under the control of policymakers. Even if the MIP cannot identify and prevent the next crisis, the MIP can contribute to reducing the areas of weakness and the macroeconomic trends that may prove to be unsustainable. The reduction of structural weaknesses through policy action has likely already benefitted the resilience of Member States' economies and that of the EU/Euro Area to external or internal shocks.

Many issues, however, remain outstanding. The Euro Area and individual countries are still vulnerable and exposed to shocks. Especially the level of public and private debt, and, for some countries, the net international investment position remain a concern. Resilience to shocks cannot be addressed only through changes in the macroeconomic structure of the Euro Area economies. Advances in other areas would be required, and especially in terms of a Euro Area fiscal capacity and the sharing of risk. Some specific changes to the MIP could achieve better results in the near term; these include taking into account the Euro Area dimension more explicitly, i.e. spillovers, complementarities, and trade-offs, as well as the different economic structure of individual countries.

How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?

By Alexander Kriwoluzky, Malte Rieth - DIW Berlin and Freie Universität Berlin

This paper analyses the effects of the implementation of the MIP on the macroeconomic performance of countries in the EU and the euro area. On the basis of a statistiacl analysis of the MIP-scoreboard indicators and the related breach of thresholds, the authors find that the introduction of the MIP led to a decline in current account imbalances and private sector debt and credit flows, which are good predictors of financial and economic crisis. Considering that the economic literature recognises the deterioration of these indicators as deeply affecting a crisis, the authors infer that their improvement put the countries in the EU and the euro area in better position to prevent a deep economic crisis. Nevertheless, the overall effects were limited. To strengthen the MIP, they support the introduction of an EU fund that pays grants, conditional on the implementation progress of economic reforms.