The Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure (MIP) is a policy tool introduced within the reinforced economic governance framework adopted in 2011. The MIP aims at preventing and correcting macroeconomic imbalances in Member States, with specific attention to imbalances with potential spillovers effects on other Member States. It relies on the following steps:

1. **The Alert Mechanism Report (AMR)** - At the beginning of the European Semester, the European Commission (COM) publishes the AMR, which is based on a scoreboard of indicators and thresholds used to facilitate the identification and monitoring of potential external or internal imbalances. For each indicator, the threshold signals that a specific problem might arise. Member States with indicators beyond these thresholds are submitted to an "in-depth review", i.e. a further economic analysis by COM. Some of the thresholds are differentiated for Euro area and non-Euro area Member States.

2. **Preventive recommendations as part of the CSRs** - If, based on the outcomes of the "in-depth-review", COM finds that "macroeconomic imbalances" exist, it informs the EP, the Council and the Eurogroup. The Council, on a recommendation from the COM, may then address a recommendation to the Member State concerned (in accordance with procedure set out in Art. 121(2) TFEU). These preventive MIP-recommendations form part of the Country Specific Recommendations (CSRs) addressed to each Member State in July by the Council, within the European Semester framework and under Article 6 of the Regulation on the prevention and correction of macroeconomic imbalances.

3. **Corrective recommendations within Excessive Imbalance Procedure (EIP)** - If, based on the in-depth review, COM identifies "excessive imbalances" that warrant opening a EIP, it informs the EP, the Council, the Eurogroup, the relevant European Supervisory Authorities and the ESRB. The Council, on a recommendation from the COM, may establish the existence of excessive imbalance and recommend corrective action (in accordance with Article 121(4) TFEU). The Council's recommendation sets out the nature and implications of the imbalances, and specifies the policy recommendations to be followed, as well as a deadline within which the Member State concerned must submit a corrective action plan.

4. **Corrective action plan** - The Member State for which an EIP is opened submits the corrective action plan. The Council, based on a COM report, assesses the corrective action plan within two months. If this is considered insufficient, the Council may ask the Member State to submit a new corrective action plan.

5. **Assessment of corrective action** - Based on COM reports, the Council assesses whether the Member State concerned has taken the recommended corrective actions. If it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the COM, adopts a decision (based on reversed QMV) establishing non-compliance, together with a recommendation setting new deadlines for taking corrective action.

6. **Potential financial sanctions**: The Euro-area Member States that do not follow up on recommendations under the EIP may be imposed graduated sanctions, ranging from an interest-bearing deposit to annual fines. The interest-bearing deposit or the fine will be 0.1% of the national GDP.

The graph overleaf provides a graphical representation of the procedure. Please see a separate document on "Implementation of the MIP" for an overview of the current situation.
The MIP flow chart

**Alert Mechanism Report (AMR)**
Commission (COM): Presents report based on scoreboard indicators and an economic reading. Identifies Member States whose potential risks require further analysis, i.e. "In-Depth-Review (IDR)"

**No risk of imbalances:** no follow up

ECOFIN and Eurogroup discuss and assess the AMR

**"In-Depth-Reviews" (IDRs)**
COM prepares IDRs using a wide set of indicators and analytical tools and in conjunction with surveillance mission to the Member State.

**"No imbalances":** no follow up

**"Imbalances":**
Council recommendations under 121(2) TFEU and specific monitoring

**"Excessive Imbalances"**
Council recommendations under 121(4) TFEU opening the "Excessive Imbalance Procedure" (EIP), including recommendations and deadlines

**Role of the EP**
- Economic Dialogue with the other EU institutions on AMR, IDRs etc.
- Economic Dialogues with Member State when subject to an EIP
- EP resolutions within the annual European Semester cycle
- Informal consultation on any modifications of the scoreboard
- Information by the COM on the application of the rules

Member State submits a **"corrective action plan"**

COM/Council assess **action plan** by 2 months

**"If insufficient", new action plan**

After two Council decisions establishing non-compliance, annual fine (€-area MS)

If MS non-compliant, deposit (€-area MS)

If MS compliant, continue monitoring

No opening of EIP: Council recommendations under 121(2) and specific monitoring

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