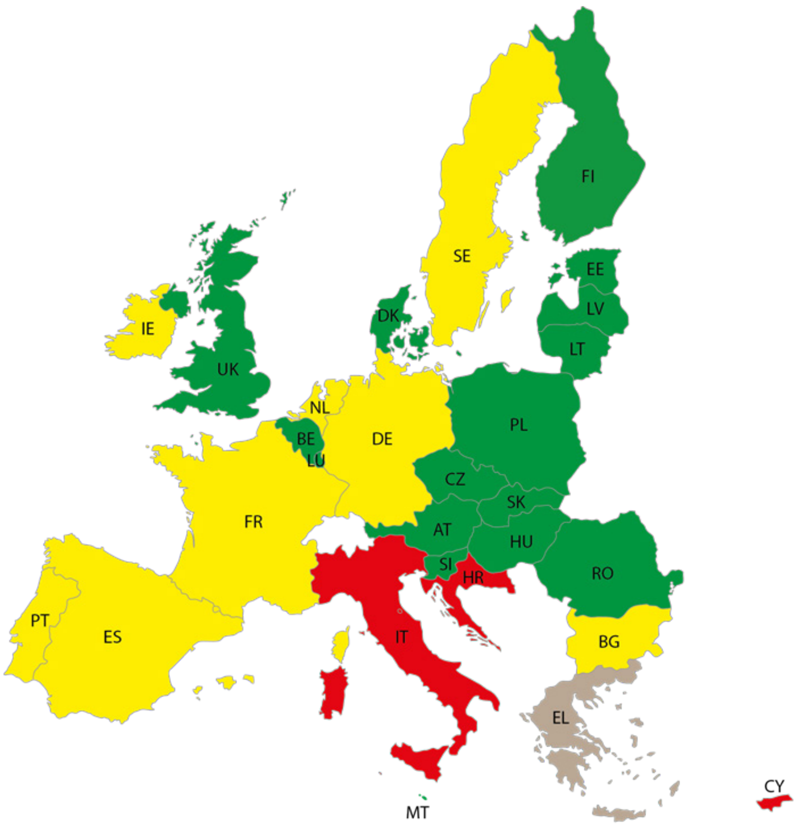
IN-DEPTH ANALYSIS

Implementation of the Macroeconomic Imbalance Procedure: State-of-play (June 2018)

This note presents the Member States' situation with respect to the Macroeconomic Imbalance Procedure, taking into account recent assessments and decisions by the European Commission and the Council. It also gives an overview of relevant comments on the MIP published by EU institutions. A separate EGOV note describes the MIP procedure. This document is regularly updated.

In March 2018, the Commission concluded that:

- **16** Member States are considered **not at risk of "macroeconomic imbalances"**
- **8** Member States are considered being in a situation of **"macroeconomic imbalances"**
- **3** Member States are considered being in a situation of **"excessive macroeconomic imbalances"**
- 1 Member State is under surveillance in the context of a **macroeconomic adjustment programme**.



Source: EGOV based on European Commission, 2018

ECONOMIC GOVERNANCE SUPPORT UNIT
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CONTENT

1. Implementation of MIP in the 2018 Semester

1.1 November 2017: Main findings from the Alert Mecanism Report and risks of macroeconomic imbalances 3

1.2 March 2018: The 2018 in-depth reviews and their conclusions 4

1.3 May 2018: The 2018-2019 draft Country Specific Recommandations 5

1.4 Next steps 5

Box 1 - Institutional positions on current accounts imbalances in the euro area 6

Box 2 - Excerpts from the Council conclusions on MIP (May 2018) 7

2 MIP IMPLEMENTATION OVER THE 2012-2018 SEMESTER CYCLES

2.1 Member States assessed having macroeconomic imbalances 8

2.2 Implementation of CSRs underpinned by MIP 9

Box 3 - Selected statements/positions on the corrective arm of the MIP 11

Box 4 - Special report of the European Court of Auditors on the MIP 12

ANNEXES

Annex 1: Recent procedural changes and innovations in the MIP 13

Annex 2: The 2018 scoreboard for the identification of possible macro-economic imbalances 14

Annex 3: Country specific commentaries on imbalances, risks and adjustments (IDR 2018) 15

Annex 4: 2017/18 CSRs underpinned by MIP for Member States experiencing macroeconomic imbalances and their implementation 18

1. Implementation of the MIP in the 2018 Semester

The European Commission published in November 2017 its latest Alert Mechanism Report (AMR): this report, which presented the analysis of the macroeconomic situation for the EU as well as for individual member States, launched the annual round of the Macroeconomic Imbalance Procedure (see an EGOV note for a description of the MIP procedure). It identified twelve Member States as at risk of macroeconomic imbalances.

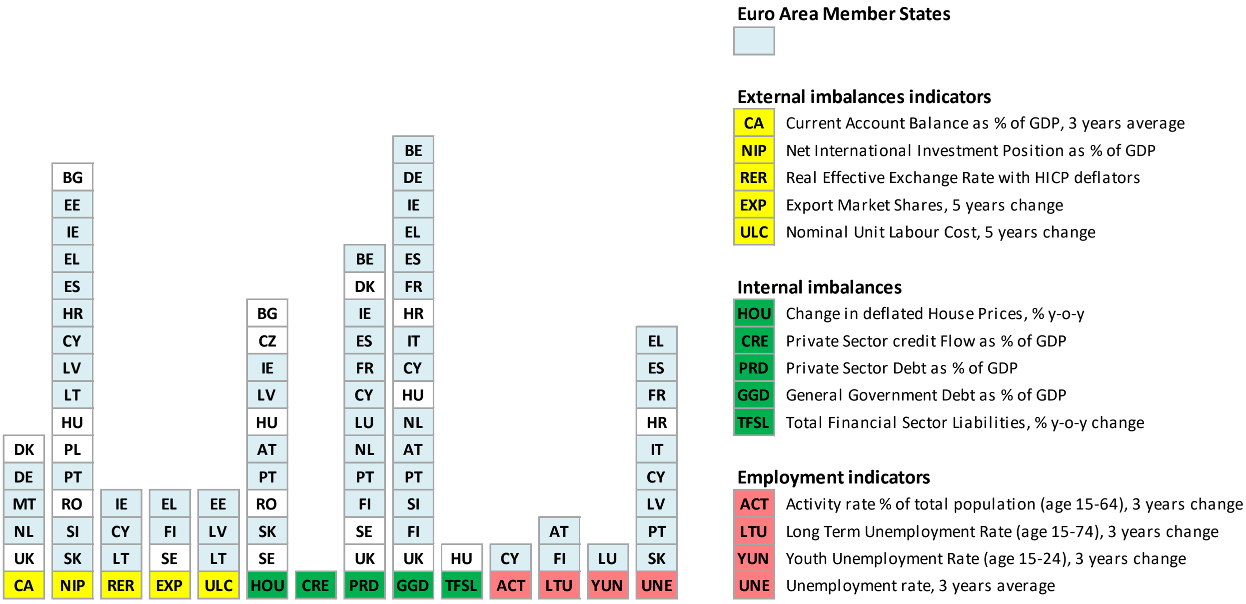
The Commission published then in March 2018 its Communication on Macroeconomic Imbalances and the Country Reports, which include the In-depth-reviews for the twelve countries considered as deserving further analysis, and identified the Member States experiencing macroeconomic imbalances or excessive macroeconomic imbalances.

In May, the Commission published the so called “2018 Spring package”, which presents its decisions and proposals on the fiscal and economic policies of Member States, including the draft country specific recommendations (CSRs) to 27 EU Member States.

1.1 November 2017: Main findings from the AMR 2018 and risks of macroeconomic imbalances

The analysis of the macroeconomic situation pointed to an **economic recovery** that was becoming broader and more robust, as shown in the Commission forecast of autumn 2017. This was due to a surge in world trade and the strengthening of domestic demand. Nevertheless, the Commission identified **several challenges** that may pose risks to the recovery and the correction of macroeconomic imbalances: prospects for the US faster than expected tightening of monetary policy, rebalancing in China and in emerging economies, as well as high debt, geopolitical tensions and growing protectionist sentiments.

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



Source: EGOV based on 2018 Alert Mechansim Report.

The MIP scoreboard (see Chart 1 and Annex 2) and the Commission’s analysis showed that:

- As far as the **current accounts and external positions** are concerned, the adjustment in countries with high external deficits has made further progress, compared with previous years: only the UK shows values beyond the MIP threshold. In contrast, some countries reported continued elevated current accounts surpluses: Denmark, Germany, Malta and the Netherlands. Stocks of external liabilities remain high in some countries.

- **Private debt** is decreasing, but at a slow and uneven pace. The Commission pointed out that "*deleveraging is not always proportional to needs*", and *"is faster in the corporate sector than in the household sector, thereby underpinning low investments"*. **Public debt** is declining in most, not all, high-debt countries. In nine Member States, high public debt goes hand in hand with high private debt, suggesting general deleveraging needs.
- **House price** are accelerating in most Member States, with several cases pointing at over-evaluation (Austria, Belgium, Denmark, Finland, Hungary, Luxembourg and the UK).
- **Labour costs** developments require close analysis in some countries: Estonia, Hungary, Latvia, Lithuania and Romania.
- In several EU countries, the **banking sector** continues to face challenges linked to low levels of profitability and large stocks of NPL, which are declining but remain elevated.
- **Unemployment indicators** and activity rates are showing a general improvement, but there are wide differences among and between Member States. **Wage growth** remains subdued even in countries with low unemployment.

For the **euro area, the Commission noted that it continues to have the world's largest current account surplus**. It peaked at 3.3% in 2016 and is expected to decrease to 3.0% in 2018. The euro area surplus should be reduced by adjustments in the net-creditor countries, while net-debtor countries are required to reduce their large stocks of external liabilities (see also Box 1).

On the basis of an economic reading of the the "MIP scoreboard", the Commission identified twelve Member States that were subject to an in-depth reviews (IDR), namely (see section 1.2):

- Bulgaria, Croatia, Cyprus, Italy, France and Portugal (that were already experiencing **excessive macroeconomic imbalances** during the 2017 cycle) and
- Ireland, Spain, the Netherlands, Germany, Slovenia and Sweden (that were already experiencing **macroeconomic imbalances** during the 2017 cycle).

The **ECOFIN Council** discussed the 2018 AMR in January 2018, and drew its conclusions.

1.2 March 2018: The 2018 in-depth reviews and their conclusions

On 7 March 2018, the Commission published its Communication on "Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances". This document provided an overview of the current situation on the economic and social context, on the Member States' progress with the Country Specific Recommendations (CSRs), on the evolution of macroeconomic imbalances and on the implementation of the MIP.

The Commission also published the Country reports, with the outcomes of its analysis of the economic, fiscal and social situation and related challenges in each EU Member State. According to the Commission, the reports draw on exchanges with governments, national authorities and stakeholders at both technical and political level. These reports constitute the basis for dialogues between the Commission and the Member States before the submission of their National Reform Programmes (NRPs) in April, as well as for the formulation of the Commission's country specific recommendations (CSRs). Furthermore, these reports provide an assessment of the implementation of the Country Specific Recommendations (see section 2.2 for more details).

For the twelve Member States identified in November 2017 as at risk of macroeconomic imbalances, the Country reports include also the **in-depth reviews** (IDRs) in the context of MIP. Each IDR:

- takes into account spillovers to other countries, especially for the eurozone countries;
- includes a "MIP assessment matrix" which summarises the main findings of the IDR, focuses on imbalances and adjustment issues relevant for the MIP and presents synthetic conclusions (Annex 3

presents the synthetic conclusions for the concerned Member States and Annex 4 presents the Commission's assessment of the implementation of 2017 MIP-related CSRs);

- for the Member States considered as experiencing macroeconomic imbalances, presents the main conclusions of the specific monitoring carried out in 2017.

Based on the IDRs, the Commission concluded that:

- **3** Member States are considered being in a situation of **"excessive macroeconomic imbalances**": Croatia, Italy, and Cyprus.
- **8** Member States are considered being in a situation of "**macroeconomic imbalances**": Bulgaria, France, Germany, Ireland, Spain, the Netherland, Portugal, Sweden;
- **16** Member States are considered **not at risk of "macroeconomic imbalances**": Belgium, Czech Republic, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Hungary, Malta, Austria, Poland, Romania, Slovakia, Slovenia, Finland, United Kingdom;
- **1** Member State, Greece, is under surveillance in the context of a **macroeconomic adjustment programme.**

Once again, the Commission did not propose the opening of the **Excessive Imbalance Procedure,** despite being advocated by many (see Box 3 and section 2.3).

On 13 March 2018, the ECOFIN Council held a first exchange of view on the Country reports and the Commission's findings for the 12 MSs experiencing imbalances. At the same meeting, the Court of Auditor presented its Special Report on the MIP (see Box 4), and the Council drew its conclusions on it.

The European Council of 22 and 23 March 2018 provided policy guidance for the 2018 Semester Cycle. On 25 May 2018, the Council drew its conclusions on macroeconomic imbalances (see Box 2).

1.3 May 2018: the "European Semester 2018 Spring Package"

On May 2018, the Commission published a set of documents, presenting its decisions and proposals on the fiscal and economic policies of Member States. The package included a Communication and the draft country specific recommendations (CSRs) to the 27 EU Member States, which set out the economic and policy guidance to individual Member States for the next 12-18 months. Annex 4 presents the 2018 draft CSRs underpinned by the MIP legal basis (MIP-CSRs), together with the 2017MIP- CSRs and the Commission's assessment of their implementation.

As far as the CSRs are concerned, it can be noted that all MSs experiencing macroeconomic imbalances (eirther excessiv or not) have received all their draft CSRs underpinned by the MIP, with the exception of Bulgaria.

For Bulgaria and Portugal, the Commission decided specifically, on 7 March 2018, that policy commitments and the evolution of imbalances will be monitored closely, as "*further efforts remain necessary to achieve a sustainable correction*."

1.4 Next steps

EU Institutions and member States will deal with the remaining part of the European Semester and the MIP, as follows:

- In June, the various Council formations (EFC, EPC, EMCO and SPC) conduct preparatory work on the CSRs;
- On 22 June, the ECOFIN Council will approve the Council opinions on the CSRs;
- On 28-29 June, the European Council will discuss and endorse the CSRS;
- In July, the ECOFIN Council will formally adopt the CSRs.

For those countries that have been identified as experiencing macroeconomic imbalances, the **Commission** carries specific monitoring activities on a continuous basis.

In addition, Economic dialogues with representatives of the relevant institutions (Commission, the Eurogroup and the Council) are held in the competent committee of the **European Parliament**.

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

The **Commission** noted in the 2018 AMR that "*the euro area euro-area current account surplus has stopped growing: it peaked at 3.3% of GDP in 2016 and is forecast to edge down to 3% in 2017 and to remain around that level by 2019. Nonetheless, the euro-area surplus remains the largest at worldwide level and is above levels consistent with economic fundamentals. The reduction of persistently large stocks of net external liabilities requires maintaining prudent external balances in net-debtor countries. At the same time, progress with the adjustment of large surpluses in net-creditor countries would help deleveraging at euro-area level, to remain compatible with a sustained recovery*. In its 2018 Spring forecast, the Commission revised its estimates for 2017 and 2018 to 3.5% and 3.4% respectively.

The **ECOFIN Council** adopted on 23 January 2018 the Euro area recommendation "*... Member States with large current account surpluses should additionally create the conditions to promote wage growth respecting the role of social partners and implement - as a priority - measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing*." Already in May 2017, **the ECOFIN Council** had concluded that "... *elevated current account surpluses in some euro area Member States with relatively low deleveraging needs persist and could under some circumstances indicate large savings and investment imbalances deserving progress on policy actions*". It noted, "*the rebalancing of deficits to surplus positions in many euro area countries coupled with persistent and high surpluses in others has implied an asymmetric adjustment leading to a large and increasing surplus position of the euro area as a whole, whose consequences deserve further attention*."

In its resolution on "*the economic policies of the euro area*" of 26 October 2017, the **European Parliament** considered "*it of essential therefore that all Member States take the necessary policy action to address macro-economic imbalances, in particular high levels of indebtedness, current account surpluses and competitiveness imbalances, and commit to socially-balanced and inclusive structural reforms ensuring the economic sustainability of each individual Member State, thereby ensuring the overall competitiveness and resilience of the European economy*." (The EP resolution on "*the European Semester for economic policy coordination: Annual Growth Survey 2017*" of 14 February 2017 had reached similar conclusions).

The **ECB**, in its Economic Bulletin 4/2017, reads "*From a saving-investment perspective, the stabilisation in the current account balance in 2016 reflects a pick-up in investment which broadly offset the continuing increase in gross saving. According to a simple accounting identity, the current account balance broadly corresponds to the gap between domestic saving and investment... The widening of the euro area's net lending position in previous years reflected a steady increase in gross saving and subdued investment (relative to GDP). Since economic activity started to recover in 2013, however, both the saving and the investment to GDP ratios have edged up. The private sector currently registers a net lending position, while the public sector continues to record a net borrowing position, which, however, has shrunk significantly in recent years*".

In its Regional Economic Outlook - Europe of May 2018 the **IMF** states: "*In advanced Europe, the euro area members that had current account deficits prior to the crisis have achieved surpluses (Estonia, Portugal, Spain) or reduced their deficits appreciably (Greece, Latvia, Lithuania) over the past several years, partly driven by adjustments in unit labor costs. However, negative net foreign asset positions remain elevated in many of these countries. Recent indicators of competitiveness, while not conclusive, suggest some erosion of competitiveness in the Baltics, where real effective exchange rate appreciation, fast wage growth, and modest productivity gains have led to a notable increase in unit labor costs, bringing them close to the precrisis peak. Excess current account surpluses have persisted in Germany and the Netherlands, and in Germany remained stronger than implied by medium-term fundamentals and desirable policy setting, indicating that adjustment mechanisms are weak, partly reflecting currency arrangements but also likely structural features".*

Box 2: ECOFINl conclusions on macroeconomic imbalances (May 2018) - excerpts

The Council (ECOFIN):

- WELCOMES the publication of the Commission's country reports ... the integrated analysis and STRESSES the need to keep the **IDR analysis** well identifiable, complete and transparent... CONSIDERS that the IDRs present a thorough and high-quality analysis of the country position in each Member State under review, presenting the basis for multilateral surveillance, enhanced domestic ownership of reforms and effective policy action. RECOGNISES that relevant and improved analytical tools have been applied in view of the specific challenges of each economy and complemented by substantive qualitative analysis.
- UNDERLINES that transparency and consistency of the MIP implementation are important for ensuring Member States' ownership of the procedure and for the effectiveness of the MIP. REITERATES that the **MIP should be used to its full potential** and in a comprehensible way, including with the excessive imbalance procedure applied where found appropriate by the Commission and the Council. REEMPHASIZES 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 clearly and publicly explain its reasons.
- NOTES that internal and external stock imbalances remain a source of risk as MSs are only adjusting slowly and at an uneven pace, and not all the adjustment is of a structural nature but is partly linked to the positive economic cycle... UNDERLINES the continued need for policy action and strong commitment to structural reforms in all Member States, especially when they face macroeconomic imbalances affecting the smooth functioning of EMU.
- NOTES that much progress has been achieved among net debtor countries in correcting their **external imbalances**, although negative net international investment positions exist that are generally coupled with large stocks of private or government debt. Simultaneously, NOTES that large current account surpluses remain almost unchanged in some creditor countries. REITERATES that Member States with current account deficits or high external debt should additionally seek to improve their competitiveness and prevent excessive growth in unit labour costs. Member States with large current account surpluses should create the conditions to promote wage growth, while respecting the national role of social partners, and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.
- NOTES the similar implementation record of the 2017 CSRs compared to previous years with at least some progress recorded for around half of the **CSRs**. TAKES NOTE that reform implementation continue to be uneven across policy areas and countries. WELCOMES the results in the Commission`s multiannual assessment of CSR implementation that show at least 'some progress' with regard to more than two-thirds of the recommendations since the start of the European Semester in 2011, but NOTES this has been uneven across policy areas, countries and over time.
- WELCOMES the upturn **in investment** but RECOGNISES that overall investment and in particular public investment still accounts for a relatively low share of GDP in many Member States and that there remains a need to improve investment conditions to attract increased private investment in the real economy and to ensure high quality public investment and infrastructures... STRESSES that further structural reforms should be prioritised to remove bottlenecks to investment, increase growth potential, further improve the institutional and business environment, and strengthen both administrative efficiency and regulatory quality.
- WELCOMES that the situation of the **banking sector** has improved significantly and that NPL ratios have stabilised in nearly all more affected euro-area Member States or are on a declining trend, but stresses that that progress remains uneven.
- WELCOMES the continued improvement in **labour markets**, but NOTES that important challenges remain... The successfulintegration especially of migrants and refugees requires particular attention.
- WELCOMES how the Commission has incorporated **the European Pillar of Social Rights** within the country reports to keep track of employment and social performances, which allowed for the focus on macroeconomic imbalances and the main economic reform priorities to be maintained.

2. Implementation of MIP over time

2.1 Member States assessed as having macro-economic imbalances[1]

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. Table 1 below shows that the number of Member States:

- subject to an **IDR** increased from 12 to 19 between 2012 and 2016, and declined to 12 in 2018;
- considered as experiencing **imbalances** rose from 12 to 16 between 2012 and 2015, but fell to 11 in 2018;
- considered as experiencing **excessive imbalances** increased from 0 to 6 between 2012 and 2017, but fell to 3 in 2018.

Table 1: MIP stylized facts

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

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

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 MIP”). Only 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.

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

[1] 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 MIP

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

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

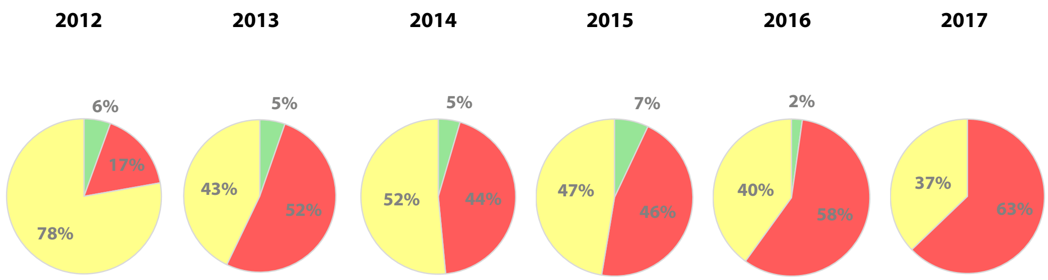
2.2 Implementation of CSRs underpinned by MIP

The credibility of the MIP, as part of the European Semester, depends *inter alia* on countries' implementation of the recommendations. The Commission adopts now a multi-annual perspective in its assessment of the implementation of the CSRs, "*... to account for the time needed for the full implementation of critical reforms*". In its Communication of March 2018, it stated "*Member States continue to make progress in addressing the country-specific recommendations adopted by the Council in the context of the European Semester. Reform implementation has slightly increased overall, as compared to the May 2017 stocktaking exercise... Since the start of the European Semester in 2011, Member States achieved at least 'some progress' with regard to more than two-thirds of the recommendations*". Nevertheless, the Commission notes that reform implementation has been solid in some key areas (notably financial services, fiscal policy and fiscal governance), while modest progress can be seen in other areas (broadening of tax bases or transport).

With regards to the implementation of the CSRs underpinned by the MIP, Figure 3 below shows that the implementation rate of MIP-specific CSRs is decreasing over time. The share of recommendations not implemented at all or to a very limited extent only is increasing since 2014, and in 2017, none of MIP-specific CSRs[2] were fully implemented.

[2] 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.

Figure 3: Implementation of CSRs based on MIP (2012-2017)



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

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 2017 cycle implemented recommendations underpinned by the MIP and joint SGP/MIP legal bases to varying degrees. Judged at face value, Croatia and Cyprus had the worst implementation track record, and both countries were assessed as still having excessive imbalances in 2018.

Table 3: Commission's assessment of the 2017 CSRs for Member States with excessive imbalances during 2017 MIP Cycle

	Joint SGP and MIP legal base	MIP legal base			
BG		CSR2	CSR3		
FR	CSR1	CSR2	CSR3	CSR4	
HR	CSR1	CSR2	CSR3	CSR4	CSR5
IT	CSR1	CSR2	CSR3	CSR4	
CY	CSR1	CSR2	CSR3	CSR4	
PT	CSR1	CSR2	CSR3	CSR4	

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 4 presents the 2017 MIP-related CSRs and their assessment for the relevant Member States (see a separate EGOV document for a presentation of all the 2016 and 2017 CSRs and the Commission's assessments[3] of their implementation).

[3] The Commission presented this assessment in the 2018 Country Reports.

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

ECOFIN Council

The Council, in its conclusions of May 2018, reiterated that "*MIP should be used to its full potential and in a comprehensible way, including the excessive imbalance procedure applied where found appropriate by the Commission and the Council. It agreed that, unless there are specific circumstances, whilst concluding on the existence of excessive imbalances, the **Commission decides not to propose to the council the opening of the excessive imbalance procedure, it should clearly and publicly explain the reasons***". Similar text was included in the ECOFIN conclusions of January 2018, May and January 2017.

European Central Bank

In its Economic Bulletin of July 2017, the ECB expressed a very critical position on the 2017 CSRs, and called again on the Commission to make use of the MIP corrective arm. "*CSRs have also been streamlined for countries with excessive imbalances. **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 2016 and February 2016.

Commission

While recognising that the EIP has never been invoked, the Commission stated that, "... *the **Excessive Imbalances Procedure can be opened** in case of insufficient commitment to reforms and lack of effective progress in implementation, and will be used in case of severe macroeconomic imbalances that jeopardise the proper functioning of the economic and monetary union, like those that led to the crises*." (Communication of 21 October 2015).

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 ..."

IMF

In the Executive Board's assessment of the 2017 Art. IV consultation report on the euro area, published in July 2017, "*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 Macroeconomic Imbalance Procedure, 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 accepts all the Recommendations, with the exception of 2(ii), on the codification of 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, which drew its conclusions. The Council welcomed that the Commission accepted most of the ECA's recommendations.

Annex 1: Procedural changes to the MIP[4]

In line with its Communication "On steps towards completing Economic and Monetary Union" of October 2015, in March 2016 the European Commission introduced **several changes** in the Semester, aimed at increasing the consistency between the euro area and the national dimensions, at focussing more on employment, social performance, investment and competitiveness, as well as at improving the transparency of the procedure. Specifically on MIP, the Commission stated that "*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. Therefore, the Commission:

- introduced in the MIP scoreboard **three new employment-related indicators,** namely activity rate, long-term and youth unemployment[5].
- modified **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[6], so that MSs could integrate them in their National reform Programmes;
- **reduced the number of MIP categories** from six to four, as shown in Table A.1.

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. Note: * Corrective action consists in the opening of the Excessive Imbalance Procedure.

All countries with imbalances are subject to specific monitoring, which is tighter for countries with excessive imbalances, and consists in dialogues with the national authorities, expert missions and regular progress reports.

[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.

[5] 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".*

[6] 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 Country Reports include an assessment of the implementation of the previous year CSRs. The IDRs take into account spill-overs to other countries, especially for the euro area countries, and also include the "MIP assessment matrix", which summarises the main findings and focuses on imbalances and adjustment issues relevant for the MIP.

Annex 2: MIP scoreboard 2018

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2016	**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	-0.3	51.2	-0.4	-2.3	-0.6	1.0	13.3	190.1	105.7	8.3	1.2	0.1	0.1	-3.6
BG	1.8	-47.0	-4.7	8.2	9.5	7.1	4.0	104.9	29.0	9.4	11.1	0.3	-2.9	-11.2
CZ	0.5	-24.6	-3.7	2.9	2.9	6.7	4.4	68.7	36.8	5.1	14.5	2.1	-1.3	-8.4
DK	8.4	54.8	-1.5	-4.2	3.4	4.2	-10.4	210.7	37.7	6.3	3.3	1.9	-0.4	-1.0
DE	8.1	54.4	-2.6	2.8	5.2	5.4	3.8	99.3	68.1	4.6	5.2	0.3	-0.6	-0.7
EE	1.4	-37.1	4.5	-0.7	13.4	3.8	5.9	115.4	9.4	6.8	7.2	2.4	-1.7	-5.3
IE	5.5	-176.2	-6.6	59.8	-20.5	6.6	-19.0	278.1	72.8	9.5	2.5	0.7	-3.6	-9.6
EL	-1.0	-139.4	-3.9	-19.0	-3.3	-2.0	-1.7	124.7	180.8	25.0	-16.6	0.7	-1.5	-11.0
ES	1.4	-83.9	-4.3	2.2	0.4	4.7	-1.0	146.7	99.0	22.1	0.9	-0.1	-3.5	-11.1
FR	-0.7	-15.7	-3.1	-2.4	1.4	1.0	6.2	146.9	96.5	10.3	4.3	0.7	0.2	-0.3
HR	2.9	-70.1	0.1	8.1	-5.9	2.1	-0.1	106.1	82.9	15.6	2.5	1.9	-4.4	-18.1
IT	2.1	-9.8	-3.4	-2.8	1.9	-0.8	0.6	113.6	132.0	12.1	3.2	1.5	-0.2	-2.2
CY	-3.6	-127.8	-6.5	-3.0	-6.2	1.6	10.2	344.6	107.1	14.7	0.7	-0.2	-0.3	-9.8
LV	-0.3	-58.9	4.9	9.3	16.5	7.4	0.3	88.3	40.6	10.1	5.8	2.3	-1.7	-5.9
LT	-0.3	-43.2	5.4	5.4	14.7	4.5	4.3	56.2	40.1	9.2	16.3	3.1	-2.1	-7.4
LU	5.0	34.7	-1.5	26.2	2.5	5.9	1.5	343.6	20.8	6.3	7.5	0.1	0.4	2.2
HU	3.6	-65.0	-5.0	-0.4	3.3	13.6	-3.6	77.0	73.9	6.5	19.5	5.4	-2.5	-13.7
MT	6.7	47.6	-2.5	8.7	-0.1	4.8	11.1	128.4	57.6	5.3	1.7	4.1	-1.0	-2.0
NL	8.8	69.1	-2.3	0.1	-1.1	4.4	1.5	221.5	61.8	6.8	5.3	0.3	0.0	-2.4
AT	2.2	5.6	1.0	-4.0	5.8	7.2	3.2	124.0	83.6	5.8	-2.4	0.7	0.6	1.5
PL	-1.0	-60.7	-5.0	18.1	2.1	2.5	4.7	81.6	54.1	7.6	8.9	1.8	-2.2	-9.6
PT	0.3	-104.7	-1.9	5.8	0.9	6.1	-2.2	171.4	130.1	12.6	-0.2	0.7	-3.1	-9.9
RO	-1.3	-49.9	-2.5	23.6	6.0	6.5	0.6	55.8	37.6	6.5	7.6	0.7	-0.2	-3.1
SI	5.1	-36.9	-0.5	4.0	0.7	3.6	-0.8	80.5	78.5	8.9	3.2	1.1	-0.9	-6.4
SK	-0.7	-62.4	-1.6	7.3	3.5	7.0	9.2	94.7	51.8	11.5	8.5	2.0	-4.2	-11.5
FI	-1.2	-2.3	0.5	-14.1	2.1	-0.3	2.2	149.3	63.1	9.0	4.5	0.7	0.6	0.2
SE	4.6	11.2	-9.2	-7.9	2.0	7.6	7.6	188.5	42.2	7.4	9.0	1.0	-0.1	-4.7
UK	-5.5	-1.1	0.2	-0.1	3.1	5.5	8.2	168.1	88.3	5.4	11.6	0.9	-1.4	-7.7

Source: 2018 AMR. Boxes shaded in grey indicate values outside the threshold. A dedicated Eurostat website presents the latest available figures.

Annex 3: Summaries of the in-depth-reviews for the 12 MSs considered at risk of macroeconomic imbalances in the 2018 AMR

Source: Commission Communication on "Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances" of March 2018.

Bulgaria is experiencing imbalances. Vulnerabilities in the financial sector are coupled with high indebtedness and non-performing loans in the corporate sector, in a context of incomplete labour market adjustment. Meanwhile, the net external position has improved, mainly due to the current account surplus. The authorities have made progress in implementing the recommendations addressed after the asset quality and balance sheet reviews, but the legacy issues linked to weak governance, asset quality and supervision have not yet been fully dealt with. The robust growth has supported continuous private deleveraging and further decreases in non-performing loan ratios, but stocks of non-performing loans in the corporate sector are still high. Labour market improvement has continued despite persistent structural issues, such as the high share of young people not in employment, education or training and labour shortages and mismatches. Some measures have been taken to tackle the main sources of imbalances, but further progress is needed to address remaining vulnerabilities in the financial sector, including further improving banking and non-banking supervision, dealing with hard-to-value assets and group level supervision, and completing the reform of the insolvency framework.

Croatia is experiencing excessive imbalances. Vulnerabilities are linked to high levels of public, private and external debt, all largely denominated in foreign currency, in a context of low potential growth. Strong growth, above its estimated potential, is helping to reduce stock imbalances: public, private and external debt ratios are declining at a fast pace. The negative net external position remains large, but has been improving due to a current account surplus. Strong growth supported further debt reduction, and the pace of deleveraging is set to slow down, as credit flows to households and corporates turn positive. Government debt peaked in 2014, and is currently on a declining path, driven by both strong GDP growth and a reduction in the headline deficit. The banking sector is increasingly profitable and the stock of non-performing loans continued to decline. Still, the foreign currency exposure (mainly euro) of corporations and households remains a source of vulnerability. While the economic environment is improving, there has been little advancement in the adoption of policy measures aimed at addressing macroeconomic imbalances, including by raising the still low growth potential.

Cyprus is experiencing excessive imbalances. A very high share of non-performing loans burdens the financial sector and high stock of private, public, and external debt hangs on the economy, in a context of still relatively high, even though declining, unemployment and weak potential growth. The current account is still negative and widening, and is not adequate to guarantee a sustainable evolution of the large net external liabilities stock. Private debt is only slowly decreasing, and credit flows to the private sector are picking up despite very high levels of private debt. Loan restructuring efforts by banks, the strong cyclical upturn, and the implementation of past reforms have allowed a reduction of non-performing loans, but their stock remains very high. Poor contract enforcement, inefficiencies in the judicial system, bottlenecks in the implementation of the foreclosure and insolvency legislation as well as weak repayment discipline hamper private sector deleveraging and the reduction of non-performing loans. A prudent fiscal stance and an active debt management policy accelerated public debt reduction. Renewed reform momentum is needed, notably to help reduce public debt, improve competitiveness, accelerate the reduction of non-performing loans and raise potential growth.

France is experiencing imbalances. Vulnerabilities stem from high public debt and weak competitiveness dynamics in a context of low productivity growth, which carry cross-border relevance. Moderate wage growth supports on-going improvements in cost competitiveness. Subdued productivity growth is instead acting as a headwind. Labour market's low responsiveness to changing demand and supply conditions and some elements of the business environment still weigh on non-cost competitiveness. The government debt-to-GDP ratio rose further in 2017, but it is forecast to stabilise in 2018 and 2019. Previously adverse trends have thus abated, economic conditions are improving and reform efforts are gaining momentum. Recently announced and undertaken policy actions can carry both domestic and cross-border positive effects in the medium term. Progress on several fronts including labour markets and taxation has been achieved, while announced initiatives to improve the business environment, vocational education and training, unemployment benefit, and pension systems have still to materialise. Further action is warranted for ensuring a better access to the labour market for the jobseekers, simplifying the tax system and reviewing government expenditure to ensure sustainability of public finances and enhance growth potential.

Germany is experiencing imbalances. The persistently high current account surplus has cross-border relevance and reflects a subdued level of investment relative to saving in both the private and the public sector. The surplus, which is largely with non-EU countries, has slightly narrowed since 2016 and is expected to gradually decline due to a pick-up in domestic demand in the coming years whilst remaining at historically high levels over the forecast horizon. While there is currently a shift towards more domestic demand-driven growth, both consumption and investment remain muted as a share of GDP despite the favourable cyclical and financing conditions and the infrastructure investment needs for which there is fiscal space. While a number of measures have been taken to strengthen public investment, these efforts have not yet resulted in a sustainable upward trend in public investment as a share of GDP. Progress in addressing recommendations in other areas has also been limited.

Ireland is experiencing imbalances. Large stocks of private and public debt and net external liabilities constitute vulnerabilities. However, the improvements have been substantial. Strong productivity growth in past years has implied improved competitiveness and a positive current account balance entailing a rapid reduction in the high stock of net foreign liabilities. Strong economic growth continues to support private deleveraging but the stock of private debt remains high, although the strong influence of the activities of multinational enterprises needs to be taken into account when evaluating corporate debt, and household debt appears broadly in line with fundamentals. Government debt is projected to remain on a downward trajectory, and the deficit is moving closer to balance. House prices are growing at a rapid pace, albeit from likely undervalued levels, thereby also strengthening households' balance sheets. Banks are well recapitalised and their profitability is improving gradually. The stock of NPLs, although remaining high, continues to decrease. Policy action addressing these vulnerabilities has been taken, but some measures will take time to generate the expected effects.

Italy is experiencing excessive imbalances. High government debt and protracted weak productivity dynamics imply risks with cross-border relevance looking forward, in a context of still high level of non-performing loans and unemployment. The government debt ratio is set to stabilise but has not yet embarked on a firm downward path due to the worsening of the structural primary balance. External competitiveness has improved, but weak productivity growth, linked to structural obstacles which continue to hamper an efficient allocation of productive factors across the economy, accelerating unit labour costs and the general low inflation environment are making it challenging to reverse past large competitiveness losses. Market pressures on the banking sector have abated, following, among other measures, the government's support for capitalisation of a few distressed banks. The stock of non-performing loans has only recently started to decrease, and still weighs on banks' capital needs, profits, and lending policies. The reform momentum has somehow slowed, but some progress has been made in addressing recommendations. Several measures are now in the pipeline, notably in the fields of labour and social policies, civil justice and business environment.

The Netherlands is experiencing imbalances. The high stock of private debt and the large current account surplus constitute sources of imbalances, with cross-border relevance. The large current account surplus, which mainly reflects structural features of the economy and policy settings regarding non-financial corporations and is partly explained by deleveraging pressures, has increased recently but is forecast to decline somewhat. The private debt-to-GDP ratio has only very gradually decreased in the last years, supported by economic growth. At the same time, nominal household debt is increasing again, as the ongoing recovery in the housing market is driving up nominal mortgage debt levels. Recent reform announcements, such as the speeding-up of the reduction of mortgage interest deductibility and the fiscal stimulus should contribute to support aggregate demand.

Portugal is experiencing imbalances. The large stocks of net external liabilities, private and public debt, and a high share of non-performing loans constitute vulnerabilities in a context of low productivity growth. A prudent current account position and the maintenance of competitiveness gains are required to ensure the adjustment of net external liabilities. Private debt ratios continue to decline from high levels due to both resumed nominal growth and slightly negative credit flows, and the government debt-to-GDP ratio is projected to have entered a decreasing trend, in a context of persistent deleveraging needs. Financial sector interventions contributed to reduce stability risks, although banks remain penalised by low profitability and a large stock of non-performing loans, which have nonetheless started declining. Higher productivity growth is key for improved prospects in competitiveness, deleveraging and potential growth. Unemployment has been decreasing at a strong pace for several years. Policy gaps remain, notably in terms of implementing the measures outlined to reduce non-performing loans and to improve the business environment. The adoption and implementation of several reform plans, including measures to tackle labour market segmentation or fiscal-structural reforms to improve the sustainability of public finances, will need to be monitored.

Slovenia is experiencing no imbalances. Risks arising from weaknesses in the banking sector, corporate indebtedness and short-term fiscal situation have receded. Government debt has peaked in 2015 and has been on a downward trend since then. The corporate sector underwent a substantial deleveraging, which weakened investment and potential growth. However, investment is now accelerating, and foreign direct investment inflows have recovered considerably in the most recent years. Banking sector restructuring has coincided with a rapidly falling share of non-performing loans. Policy action which contributed to the unwinding of imbalances has been taken, but measures to enhance the sustainability of the pension, health care and long-term care systems remain a key priority.

Spain is experiencing imbalances. Large stocks of external and internal debt, both public and private, continue to constitute vulnerabilities in a context of high unemployment and have cross-border relevance. The external rebalancing is advancing, thanks to the current account surpluses recorded since 2013. However, net external liabilities remain high and Spain will have to record sustained current account surpluses for an extended period of time before the net external liabilities reach prudent levels. Private sector debt reduction is also progressing, supported by favourable growth conditions, but deleveraging needs are still present. A healthier financial sector supports economic activity, and the non-performing loans ratio decreased further. Despite the strong nominal GDP growth, government debt as a share of GDP has only just begun to slowly decrease, with deficits forecast to narrow over time. Unemployment has continued its rapid decline, but remains very high and the high degree of labour market segmentation impedes faster labour productivity growth. Policy progress has been especially made between 2012 and 2015, and recently only limited progress has been made in addressing recommendations. Challenges remain, in particular concerning fiscal governance, active labour market policies and improving innovation and skills to boost non-cost competiveness.

Sweden is experiencing imbalances. Overvalued house price levels coupled with a continued rise in household debt poses risks of a disorderly correction. The already high household debt remains on an upward path. House prices have been growing at fast and virtually uninterrupted pace for about 20 years. Negative growth has been recorded in the last quarter of 2017. Still, valuation indicators suggest that house prices remain very high relative to fundamentals. Although banks appear adequately capitalised, a disorderly correction could also affect the financial sector as banks have a growing exposure to household mortgages. In such a case, there could be spill-overs to neighbouring countries given the systemic financial interlinkages. Awareness of mounting risks among the authorities is high, and in recent years measures have been taken to rein in mortgage debt growth and raise housing construction. However, policy steps implemented so far have not been sufficient to address overvaluation in the housing sector, and key policy gaps remain, particularly in relation to tax incentives for home ownership as well as the functioning of housing supply and the rental market.

Annex 4: 2018 Country Specific Recommendations underpinned by MIP and their implementation

These tables are extracted from the detailed EGOV document "Country-Specific Recommendations for 2017 and 2018 - A tabular comparison and an oveerview of implementation".

BG	2017 CSRs **MIP: CSR 2, 3**	Assessment of implementation of 2017 CSRs **March 2018**	2018 CSRs **MIP: CSR 2, 3**
	2. Take follow-up measures on the financial sector reviews, in particular concerning reinsurance contracts, group-level oversight, hard-to-value assets and related-party exposures. **Improve banking and non-banking supervision** through the implementation of comprehensive action plans, in close cooperation with European bodies. **Facilitate the reduction of still-high non-performing corporate loans**, by drawing on a comprehensive set of tools, including by accelerating the reform of the insolvency framework and by promoting a functioning secondary market for non-performing loans.	**Some progress:**	**2. Take follow-up measures resulting from the financial sector reviews and implement the supervisory action plans** in order to strengthen the oversight and stability of the sector. **Ensure adequate valuation of assets**, including bank collateral, by enhancing the appraisal and audit processes. **Complete the reform of the insolvency framework and promote a functioning secondary market for non-performing loans.**
	3. Improve the targeting of active labour market policies and the integration between employment and social services for disadvantaged groups. Increase the provision of quality mainstream education, in particular for Roma. **Increase health insurance coverage**, reduce out-of-pocket payments and address shortages of healthcare professionals. In consultation with social partners, **establish a transparent mechanism for setting the minimum wage.** Improve the coverage and adequacy of the minimum income.	**Limited progress:**	**3. Increase the employability of disadvantaged groups** by upskilling and strengthening activation measures. Improve the provision of quality inclusive mainstream education, particularly for Roma and other disadvantaged groups. In line with the National Health Strategy and its action plan, **improve access to health services**, including by reducing out-of-pocket payments and addressing shortages of health professionals. **Introduce a regular and transparent revision scheme for the minimum income and improve its coverage and adequacy.**

DE	2017 CSRs MIP: CSR 1, 2	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs MIP: CSR 1, 2
	1. While respecting the medium-term objective, **use fiscal and structural policies to support potential growth and domestic demand as well as to achieve a sustained upward trend in investment**. Accelerate public investment at all levels of government, especially in education, research and innovation, and address capacity and planning constraints for infrastructure investments. Further **improve the efficiency and investment-friendliness of the tax system. Stimulate competition in business services and regulated professions.**	Limited progress	**1.** While respecting the medium-term objective, **use fiscal and structural policies to achieve a sustained upward trend in public and private investment,** and in particular on education, research and innovation at all levels of government, notably at regional and municipal levels. Step up efforts to ensure the availability of very high-capacity broadband infrastructure nationwide. **Improve the efficiency and investment friendliness of the tax system. Strengthen competition in business services and regulated professions.**
	2. Reduce disincentives to work for second earners and facilitate transitions to standard employment. **Reduce the high tax wedge for low-wage earners. Create conditions to promote higher real wage growth**, respecting the role of the social partners.	Limited progress:	**2. Reduce disincentives to work more hours**, including the high tax wedge, in particular for low-wage and second earners. Take measures to promote longer working lives. **Create conditions to promote higher wage growth**, while respecting the role of the social partners**. Improve educational outcomes and skills levels of disadvantaged groups**.

IE	2017 CSRs **MIP: CSR 1, 3**	Assessment of implementation of 2017 CSRs **March 2018**	2018 CSRs **MIP: CSR 1, 2, 3**
	1. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact. Use any windfall gains arising from the strong economic and financial conditions, including proceeds from asset sales, to accelerate the reduction of the general government debt ratio. **Limit the scope and the number of tax expenditures and broaden the tax base**.	**Some progress**	**1. Achieve the medium-term budgetary objective in 2019**. Use windfall gains to accelerate the reduction of the general government debt ratio. Limit the scope and the number of tax expenditures, and broaden the tax base. **Address the expected increase in age-related expenditure** by increasing the cost-effectiveness of the healthcare system and by pursuing the envisaged pension reforms.
	2. Better target government expenditure, by prioritising public investment in transport, water services, and innovation in particular in support of SMEs. **Enhance social infrastructure**, including social housing and quality childcare; deliver an integrated package of activation policies to **increase employment prospects of low-skilled people and to address low work intensity of households.**	**Some progress:**	**2. Ensure the timely and effective implementation of the National Development Plan**, including in terms of clean energy, transport, housing, water services and affordable quality childcare. Prioritise the upskilling of the adult working-age population, with a focus on digital skills.
	3. Encourage a continued and more durable reduction in non-performing loans through resolution strategies that involve write-offs for viable businesses and households, with a special emphasis on resolving long-term arrears.	**Some progress:**	**3. Foster the productivity growth of Irish firms**, and of small and medium enterprises in particular, by stimulating research and innovation with targeted policies, more direct forms of funding and more strategic cooperation with foreign multinationals, public research centres and universities**. Promote faster and durable reductions in long-term arrears**, building on initiatives for vulnerable households and encouraging write-offs of non-recoverable exposures.

ES	[2017 CSRs](#) MIP: CSR 1, 2, 3	[Assessment of implementation of 2017 CSRs](#) March 2018	[2018 CSRs](#) MIP: CSR 1, 2, 3
	1. Ensure compliance with the Council Decision of 8 August 2016, including also measures to strengthen the fiscal and public procurement frameworks. **Undertake a comprehensive expenditure review** in order to identify possible areas for improving spending efficiency.	Some progress	**1. Ensure compliance with the Council Decision of 8 August 2016** giving notice under the excessive deficit procedure, including through measures to enforce the fiscal and public procurement frameworks at all levels of government. Thereafter, **ensure that the nominal growth rate of net primary government expenditure does not exceed 0.6% in 2019**, corresponding to an annual structural adjustment of 0.65 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio.
	2. Reinforce the coordination between regional employment services, social services and employers, to better respond to jobseekers' and employers' needs. Take measures to promote hiring on open-ended contracts. **Address regional disparities and fragmentation in income guarantee schemes and improve family support**, including access to quality childcare. Increase the labour market relevance of tertiary education. **Address regional disparities in educational outcomes**, in particular by strengthening teacher training and support for individual students.	Limited progress:	**2. Ensure that employment and social services have the capacity to provide effective support for jobseekers**, including through better cooperation with employers. Foster transitions towards open-ended contracts. **Improve family support and address coverage gaps in income guarantee schemes**, by simplifying the system of national schemes and reducing disparities in access conditions to regional ones. **Reduce early school leaving and regional disparities in educational outcomes**, in particular by better supporting students and teachers.
	3. Ensure adequate and sustained investment in research and innovation and strengthen its governance across government levels. **Ensure a thorough and timely implementation of the law on market unity** for existing and forthcoming legislation.	Limited progress:	**3. Increase public investment in research and innovation** and systematically carry out evaluations of support policies in this area to ensure their effectiveness. **Increase cooperation between education and businesses** with a view to mitigating existing skills mismatches. **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, notably for services, are in line with principles of that law and by improving cooperation between administrations.

FR	2017 CSRs MIP: CSR 1, 2, 3, 4	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs MIP: CSR 1, 2, 3
	1. Ensure compliance with the Council recommendation of 10 March 2015 under the excessive deficit procedure. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of France's public finances. **Comprehensively review expenditure items** with the aim to make efficiency gains that translate into expenditure savings.	Limited progress	**1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.4 % in 2019**, corresponding to an annual structural adjustment of 0.6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. **Implement expenditure savings in 2018 and fully specify the objectives and new measures needed in the context of Public Action 2022**, for them to translate into concrete expenditure savings and efficiency gains measures in the 2019 budget. **Progressively unify the rules of the different pension regimes** to enhance their fairness and sustainability.
	2. Consolidate the measures reducing the cost of labour to maximise their efficiency in a budget-neutral manner and in order to scale up their effects on employment and investment. **Broaden the overall tax base** and take further action to **implement the planned decrease in the statutory corporate-income rate.**	Some progress	**2. Pursue the reforms of the vocational education and training system**, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers. **Foster equal opportunities and access to the labour market,** including for people with a migrant background and people living in deprived areas. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**
	3. Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**	Some progress:	*See CSR 2 (access to the labour market, minimum wage developments)*
	4. Further reduce the regulatory burden for firms, including by pursuing the simplification programme. Continue to **lift barriers to competition in the services sector**, including in business services and regulated professions. Simplify and improve the efficiency of **public support schemes for innovation**.	Limited progress:	**3. Simplify the tax system**, by limiting the use of tax expenditures, removing inefficient taxes and reducing taxes on production levied on companies. **Reduce the regulatory and administrative burden** to increase competition in the services sector and to foster firms' growth. **Step up efforts to increase the performance of the innovation system** notably by improving the efficiency of public support schemes and strengthening knowledge transfer between public research institutions and firms.

HR	2017 CSRs MIP: CSR 1, 2, 3, 4, 5	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs MIP: CSR 1, 2, 3, 4
	1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018. By September 2017, **reinforce budgetary planning and the multi-annual budgetary framework**, including by strengthening the independence and mandate of the Fiscal Policy Commission. Take the necessary steps for the introduction of **the value-based property tax**. Reinforce the framework for public debt management, including by ensuring annual updates of the debt management strategy.	Limited progress	**1. Strengthen the fiscal framework,** including by strengthening the mandate and independence of the Fiscal Policy Commission. **Introduce a recurrent property tax.**
	2. Discourage early retirement, accelerate the transition to the higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme. Improve coordination and transparency of social benefits.	Limited progress:	**2. Discourage early retirement, accelerate the transition to a higher statutory retirement age and align pension** provisions for specific categories with the rules of the general scheme. **Deliver on the reform of the education and training system** to improve its quality and labour market relevance for both young people and adults. **Consolidate social benefits and improve their poverty reduction capacity.**
	3. Improve adult education, in particular for older workers, the low-skilled and the long-term unemployed. **Accelerate the reform of the education system**.	Limited Progress	*See CSR 2 (reform of the education system)*
	4. Reduce the fragmentation and improve the functional distribution of competencies in public administration, while enhancing the efficiency and reducing territorial disparities in the delivery of public services. In consultation with social partners, **harmonise the wage-setting frameworks across the public administration and public services.**	No progress:	**3. Reduce the territorial fragmentation of the public administration, streamline the functional distribution of competencies and enhance the capacity to design and implement public policies**. In consultation with social partners, **introduce harmonised wage-setting frameworks across the public administration and public services.**
	5. Speed up the divestment of state-owned enterprises and other state assets, and improve corporate governance in the state-owned enterprise sector. Significantly reduce the burden on businesses stemming from costs of regulation and from administrative burdens. **Remove regulatory restrictions** hampering access to and the practice of regulated professions and professional and business services. **Improve the quality and efficiency of the justice system**, in particular by reducing the length of civil and commercial cases.	Limited progress:	**4. Improve corporate governance in state-owned enterprises and intensify the sale of state-owned enterprises and non-productive assets. Significantly reduce the burden on businesses** arising from parafiscal charges and from cumbersome administrative and legislative requirements. **Enhance competition** in business services and regulated professions. **Reduce the duration of court proceedings and improve electronic communication in courts.**

IT	2017 CSRs MIP: CSR 1, 2, 3, 4	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs MIP: CSR 1, 2, 3, 4
	1. Pursue a substantial fiscal effort in 2018, in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Italy's public finances. Ensure timely implementation of the privatisation programme and use windfall gains to accelerate the reduction of the general government debt-to-GDP ratio. **Shift the tax burden from the factors of production onto taxes less detrimental to growth in a budget-neutral way** by taking decisive action to reduce the number and scope of tax expenditures, reforming the outdated cadastral system and reintroducing the first residence tax for high-income households. **Broaden the compulsory use of electronic invoicing and payments.**	Some progress	**1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.1 % in 2019,** 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. **Step up efforts to tackle the shadow economy**, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. **Reduce the share of old-age pensions** in public spending to create space for other social spending.
	2. Reduce the trial length in civil justice through effective case management and rules ensuring procedural discipline. **Step up the fight against corruption**, in particular by revising the statute of limitations. **Complete reforms of public employment** and improve the efficiency of publicly-owned enterprises. **Promptly adopt and implement the pending law on competition** and address the remaining restrictions to competition.	Some progress:	**2. Reduce the length of civil trials** at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator. **Achieve more effective prevention and repression of corruption** by reducing the length of criminal trials and implementing the new anti-corruption framework. **Ensure enforcement of the new framework for publicly-owned enterprises** and increase the efficiency and quality of local public services. **Address restrictions to competition**, including in services, also through a new annual competition law.
	3. Accelerate the reduction in the stock of non-performing loans and step up incentives for balance-sheet clean-up and restructuring, in particular in the segment of banks under national supervision. **Adopt a comprehensive overhaul of the regulatory framework for insolvency and collateral enforcement.**	Some progress:	**3. Maintain the pace of reducing the high stock of non-performing loans and support further bank balance sheet restructuring and consolidation**, including for small and medium-sized banks, and promptly implement the insolvency reform. **Improve market-based access to finance for firms.**
	4. With the involvement of social partners, **strengthen the collective bargaining framework** to allow collective agreements to better take into account local conditions. **Ensure effective active labour market policies.** Facilitate the take-up of work for second earners. **Rationalise social spending and improve its composition.**	Limited progress:	**4. Step up implementation of the reform of active labour market policies** to ensure equal access to effective job-search assistance and training. **Encourage labour market participation of women** through a comprehensive strategy, rationalising family-support policies and increasing the coverage of childcare facilities. **Foster research, innovation, digital skills and infrastructure** through better-targeted investment and increase participation in vocational-oriented tertiary education.

CY	[2017 CSRs](#) **MIP: CSR 1, 2, 3, 4**	[Assessment of implementation of 2017 CSRs](#) **March 2018**	[2018 CSRs](#) **MIP: CSR 1, 2, 3, 4, 5**
	1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails remaining at its medium-term budgetary objective in 2018. Use windfall gains to accelerate the reduction of the general government debt ratio. By the end of 2017, adopt key legislative reforms aiming to **improve efficiency in the public sector**, in particular on the functioning of public administration, governance of state-owned entities and local governments.	Limited progress	**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.
	2. Increase the efficiency of the judicial system by modernising civil procedures, implementing appropriate information systems and increasing the specialisation of courts. Take additional measures to **eliminate impediments to the full implementation of the insolvency and foreclosure frameworks**, and to ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.	Limited progress	**2. Step up efforts to improve the efficiency of the judicial system** by revising civil procedures, increasing the specialisation of courts and setting up a fully operational e-justice system. **Take measures to fully operationalise the insolvency and foreclosure frameworks** and ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.
	3. Accelerate the reduction of non-performing loans by setting related quantitative and time-bound targets for banks and ensuring accurate valuation of collateral for provisioning purposes. Create the conditions for a functional secondary market for non-performing loans. **Integrate and strengthen the supervision of insurance companies and pension funds**.	Limited progress	**3. Accelerate the reduction of non-performing loans** by implementing a comprehensive strategy, including legislative amendments allowing for the effective enforcement of claims and facilitating the sale of loans. **Integrate and strengthen the supervision of insurance companies and pension funds.**
	4. Accelerate the implementation of the action plan for growth, focusing in particular on fast-tracking strategic investments and improving access to finance, and, by the end of 2017, resume the implementation of the privatisation plan. Take decisive steps towards the ownership unbundling of the Electricity Authority of Cyprus and, in particular, proceed with the functional and accounting unbundling by the end of 2017.	Limited progress	**4. Prioritise the implementation of key elements of the action plan for growth**, in particular fast-tracking strategic investments, and take additional measures to improve access to finance for small and medium-sized enterprises. **Improve the performance of state-owned enterprises** including by resuming the implementation of privatisation projects.

	5. Speed up reforms aimed at increasing the capacity of public employment services and improving the quality of active labour market policies delivery. **Complete the reform of the education system** to improve its labour market relevance and performance, including teachers' evaluation. By the end of 2017, **adopt legislation for a hospital reform and universal healthcare coverage.**	**Some progress**	**5. Complete reforms aimed at increasing the capacity and effectiveness of the public employment services** and reinforce outreach and activation support for young people who are not in employment education or training. **Complete the reform of the education and training system**, including teacher evaluation and actions to increase the capacity of vocational education and training. **Take measures to ensure that the National Health System becomes fully functional in 2020**, as planned.

NL	**2017 CSRs** **SGP: -** **MIP: CSR 1, 2**	**Assessment of implementation of 2017 CSRs** **March 2018**	**2018 CSRs** **SGP: -** **MIP: CSR 1, 2**
	1. While respecting the medium-term objective, **use fiscal and structural policies to support potential growth and domestic demand,** including investment in research and development. **Take measures to reduce the remaining distortions in the housing market and the debt bias for households,** in particular by decreasing mortgage interest tax deductibility.	**Some progress:**	**1.** While respecting the medium-term objective**, use fiscal and structural policies to raise public and private investment** in research, development and innovation. **Take measures to reduce the debt bias for households and the remaining distortions in the housing market,** in particular by supporting the development of the private rental sector.
	2. Tackle remaining barriers to hiring staff on permanent contracts. Address the high increase in the self-employed without employees, including by reducing tax distortions favouring self-employment, without compromising entrepreneurship, and by promoting access of the self-employed to affordable social protection. Based on the broad preparatory process already launched, **make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks.** Create conditions to promote higher real wage growth, respecting the role of the social partners.	**Limited progress:**	**2. Reduce the incentives to use temporary contracts and self-employed without employees,** while promoting adequate social protection for the self-employed, and tackle bogus self-employment. **Create conditions to promote higher wage growth,** respecting the role of the social partners. **Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks.**

PT	2017 CSRs SGP: CSR 1 MIP: CSR 1, 2, 3, 4	Assessment of implementation of 2017 CSRs March 2018	2018 CSRs SGP: CSR 1 MIP: CSR 1, 2, 3
	1. Ensure the durability of the correction of the excessive deficit. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Portugal's public finances. Use windfall gains to accelerate the reduction of the general government debt-to-GDP ratio. **Step up efforts to broaden the expenditure review** to cover a significant share of general government spending across several policies. **Strengthen expenditure control, cost effectiveness and adequate budgeting,** in particular in the health sector with a focus on the reduction of arrears in hospitals and ensure the sustainability of the pension system. To **increase the financial sustainability of state-owned enterprises** set sector-specific efficiency targets in time for the 2018 budget, improving state-owned enterprises' overall net income and decreasing the burden on the State budget.	Limited progress	**1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.7 % in 2019**, corresponding to an annual structural adjustment of 0.6 % of GDP. **Strengthen expenditure control, cost effectiveness and adequate budgeting,** in particular in the health sector with a focus on the reduction of arrears in hospitals. **Improve the financial sustainability of state-owned enterprises**, in particular by increasing their overall net income and by reducing debt.
	2. Promote hiring on open-ended contracts, including by reviewing the legal framework. **Ensure the effective activation of the long-term unemployed.** Together with social partners, **ensure that minimum wage developments do not harm employment of the low-skilled.**	Some progress:	**2. Promote an environment conducive to hiring on open-ended contracts,** including by reviewing the legal framework in consultation with social partners. Increase the skills level of the adult population, including digital literacy, by strengthening and broadening the coverage of the training component in adult qualification programmes. **Improve higher education uptake, namely in science and technology fields.**
	3. Step up efforts to **clean up the balance sheets of credit institutions** by implementing a comprehensive strategy addressing non-performing loans, including by enhancing the secondary market for bad assets. **Improve the access to capital,** in particular for start-ups and small and medium-sized enterprises.	Some progress:	**3. Increase the efficiency of insolvency and recovery proceedings and reduce impediments to the secondary market for non-performing loans.** Improve access to finance for businesses. **Reduce the administrative** burden by shortening procedural deadlines, using more tacit approval and reducing document submission requirements**. Remove persistent regulatory restrictions** by ensuring a proper implementation of the framework law for highly regulated professions. **Increase the efficiency of administrative courts,** inter alia by decreasing the length of proceedings.
	4. Implement a roadmap to **further reduce the administrative burden and tackle regulatory barriers** in construction and business services by the end of 2017. **Increase the efficiency of insolvency and tax proceedings.**	Limited progress:	*See CSR 3 (removing persistent regulatory restrictions, increasing the efficiency of administrative courts)*

SE	2017 CSRs **SGP: -** **MIP: CSR 1**	Assessment of implementation of 2017 CSRs **March 2018**	2018 CSRs **SGP: -** **MIP: CSR 1**
	1. Address risks related to household debt, in particular by **gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes,** while constraining lending at excessive debt-to-income levels. **Foster investment in housing and improve the efficiency of the housing market,** including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax.	Limited progress	**1. Address risks related to high household** debt by gradually reducing the tax deductibility of mortgage interest payments or increasing recurrent property taxes. **Stimulate residential construction where shortages are most pressing**, notably by removing structural obstacles to construction, and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax.