IN-DEPTH ANALYSIS

European Parliament

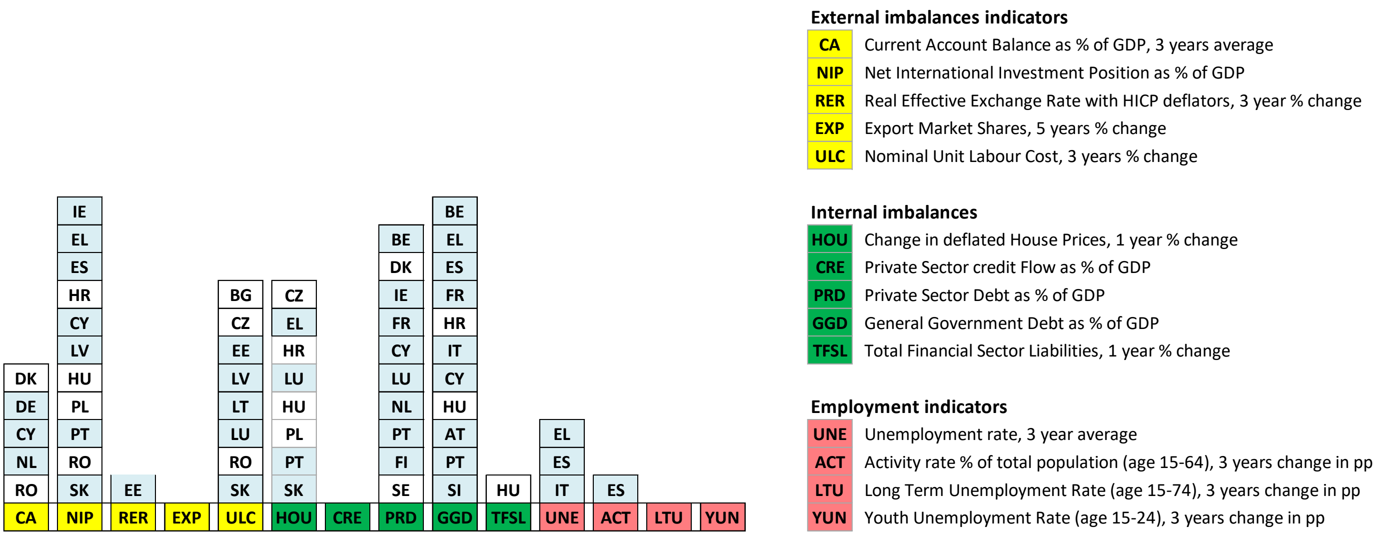
Implementation of the Macroeconomic Imbalance Procedure: State of play February 2021

This note presents the EU Member States' situation with respect to the Macroeconomic Imbalance Procedure (MIP), taking into account the most recent assessments and decisions by the European Commission and the Council, including the Recovery and Resilience Facility. It also gives an overview of relevant positions taken on the MIP by EU institutions. A separate EGOV note summarises the Macroeconomic Imbalance Procedure. This document is regularly updated.

The implementation of the Macroeconomic Imbalance Procedure (MIP) is heavily affected by the pandemic, as is the whole European Semester, of which it is an integral component. The impact is on both the content and the timeline of the procedure.

The Commission published the Alert Mechanism Report 2021 (AMR) on 18 November 2020, thereby initiating the annual round of the MIP.

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



Source: EGOV based on 2021 AMR. Values for 2019. See also Annex 1 and Annex 3 to this document.

The AMR is normally based on the MIP-Scoreboard, which presents data on 13 indicators that refer to the previous years (therefore up to 2019, in the current round) and helps the Commission identify Member States at risk of macroeconomic imbalances. Due to the exceptionality of the pandemic situation, this year the Commission includes in its analysis of imbalances a "*reinforced forward-looking assessment of risks to macroeconomic stability*", making great use of forecasts and high-frequency data. Nevertheless, estimates and analysis are characterised by high uncertainty.

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CONTENT

1. The launch of the 2021 annual round of the MIP

The Commission published in November 2020 its latest Alert Mechanism Report (AMR): this document presents the analysis of the macroeconomic situation and imbalances in the EU and in each Member State, as well as in the euro area.

The AMR launched the tenth annual round of the Macroeconomic Imbalance Procedure (see an EGOV note for a description of the MIP procedure).

The application of the MIP in 2021 is heavily affected by the pandemic, as is the whole Semester, of which it is an integral component. The impact is on both the content and the timeline of the procedure.

On the content, it can be noted that the AMR is normally based on the MIP Scoreboard, which presents data on 13 main indicators and 28 additional indicators that refer to the previous years: the use of such figures is justified by the fact that usually macroeconomic imbalances do not develop suddenly, and therefore the surveillance tasks can be performed on the basis of somehow outdated (but complete) data. The pandemic has completely changed such approach: data up to 2019, even if still meaningful, cannot be used to anticipate and prevent the developments of macroeconomic imbalances. Therefore, the Commission includes in its analysis a "*reinforced forward-looking assessment of risks to macroeconomic stability*", making greater use of nowcast, forecasts and high-frequency data, including those published in the Commission forecast of autumn 2020.

From the procedural standpoint:

- the Country reports, usually part of the "winter package" published in February, will be integrated with the assessments of Recovery and Resilience Plans submitted by Member States in the context of the Recovery and Resilience Facility (see section 1.2 below). Such assessments are expected by June 2021;
- the In-Depth-Reviews (IDR) for countries considered at risk of macroeconomic imbalances, which are usually part of the Country reports, will be published in late spring 2021, together with the assessment of the Stability or Convergence Programmes, submitted by Member States in April in the context of fiscal surveillance;
- the "Specific monitoring" of countries experiencing macro-economic imbalances in the 2020 Semester cycle is not taking place now, but will also be integrated with the assessments of the national Recovery and Resilience Plans;
- the assessment of the actions taken by countries to implement the Country Specific Recommendations (CSRs) underpinned by the MIP - usually published in the Country reports, are vaguely summarised in the 2021 AMR chapter devoted to country-specific commentaries.

In 2021, the Commission will propose only one "fiscal" CSR for those Member States that have submitted a national Reform and Resilience Plan in the context of the Recovery and Resilience Facility.

1.1 Main findings of the 2021 AMR

The AMR notes that in 2019 most of the imbalances highlighted in previous years were undergoing a process of correction: excessive large current account deficits or strong credit growth had been reduced, and the economic recovery following the financial crisis was also supporting the correction of stock imbalances, namely private, public and external debts. Progress was visible in the financial sector as well, with strengthened banks' balance sheets. The post-2013 recovery had also brought some risks in a few countries, especially related to house prices and cost competitiveness developments (mainly in terms of labour cost).

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

- both government and private debt-to-GDP ratios are increasing;

- debt repayment by the private sector (households and companies) might become difficult, due to the reduced economic activity, with possible debt distress that might affect banks' balance sheets and profitability.
- the risks emerged in 2019 related to labour costs and house prices have been mitigated by the crisis, but may reverse, especially if house prices decrease excessively.

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

The AMR devotes specific attention to developments in the euro area as a whole. The Commission notes that the pandemic could increase economic divergences between euro area Member States. The Commission forecasts a trade surplus for the euro area that would keep a high current account surplus (expected to be 1.8% of GDP in 2020 and 1.9% in 2021), thereby signalling that there is room for expanding domestic demand. Box 1 presents some positions by EU institutions and IMF on the euro area current accounts, also in the light of the pandemic.

The AMR concludes that surveillance activities need to focus on countries that were already identified as having imbalances or excessive imbalances in February 2020. Therefore, the Commission recommends that In-Depth Reviews to identify and assess the severity of possible macroeconomic imbalances be prepared for:

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

Furthermore, the Commission states that it will closely follow developments in other Member States, including the few ones that have experienced external problems in spring 2020 (related to the exchange rate, especially in Hungary), as well as in Member States with increasing high private debt levels (Denmark, Finland and Luxembourg) and rising public debt levels (Austria and Slovenia).

1.2 The MIP and the Recovery and Resilience Facility

In July 2020, the EU heads of State or Government agreed on the main elements of the Commission's recovery plan proposed in May 2021 and of the multiannual financial framework for 2021-2027. The main components of the recovery plan are:

- the European Union Recovery Instrument (EURI) , which allows the Commission to issue EU bonds up to €750 bn and
- the Recovery and Resilience Facility (RRF), which enables the provision of EU funds (up to €360 billion in loans and up to €312.5 billion in grants) to all Member States for financing Member States' national projects and investments. The latter must be detailed in national recovery and resilience plans (NRRP) to be agreed at national and EU level.

The Regulation establishing the RRF has been agreed in December 2020 by the Council and the European Parliament; it is expected to be finalised and adopted by February 2021 (for an overview of the state-of-play, see here); the published and final legal versions may slightly differ [1].

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

[1] In particular, the numbering of articles, paragraphs and recitals will change.

by the Council.... This includes the country-specific recommendations addressed to the Member States in recent years and in particular in the 2019 and 2020 Semester cycles". Annex 3 to this document presents the CSRs underpinned by the MIP for 2019 (including the Commission's assessment of their implementation) and for 2020. In September 2020, the Commission also presented guidance to Member States on how to present their recovery and resilience plans, together with a standard draft template; a reviewed guidance was published on 21 January 2021, keeping into account the legal text agreed by the colegislators.

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

- **Eligibility of NRRPs**: *Member States shall prepare national recovery and resilience plans... Recovery and resilience plans eligible for financing under this Facility shall comprise measures for the implementation of reforms and public investment...The recovery and resilience plans shall be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, as well as those identified in the most recent Council recommendation on the economic policy of the euro area for Member States whose currency is the euro. The recovery and resilience plans shall also be consistent with the information included by the Member States in the National Reform Programmes under the European Semester...* (Article 14, in particular 14.2).
- **Content of the NRRPs**: *The NRRP must set out the following elements: an explanation of how the plan contributes to effectively address challenges identified in the relevant country-specific recommendations, including fiscal aspects thereof, and challenges related to Article 6 of Regulation (EU) No 1176/2011 for the Member States concerned, or in other relevant documents officially adopted by the Commission in the context of the European Semester* (Article 15.3 (a)).
- **Assessment of the NRRPs**: *When assessing the recovery and resilience plan and in the determination of the amount to be allocated to the Member State concerned, the Commission shall take into account the analytical information on the Member State concerned available in the context of the European Semester as well as the justification and the elements provided by the Member State concerned, as referred to in Article 15.3., and any other relevant information including, in particular, the one contained in the National Reform Programme...* (Article 16.2);

  The Commission shall assess the relevance, effectiveness, efficiency, and coherence of the recovery and resilience plan and for that purpose, shall take into account the following criteria... relevance: ... whether the recovery and resilience plan is expected to contribute to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects and recommendations made under Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned or challenges in other relevant documents officially adopted by the Commission in the European Semester (Article 16.3(a)).
- **Suspension of commitments and payments of funds**: *The Commission may make a proposal to the Council to suspend all or part of the commitments or payments in relation to any of the following cases: a) where the Council adopts two successive recommendations in the same imbalance procedure, in accordance with Article 8(3) of Regulation (EU) No 1176/2011 on the grounds that a Member State has submitted an insufficient corrective action plan; b) where the Council adopts two successive decisions in the same imbalance procedure in accordance with Article 10(4) of Regulation (EU) No 1176/2011 establishing non-compliance by a Member State on the grounds that it has not taken the recommended corrective action* (Article 9.2).

  The Council shall lift the suspension of commitments on a proposal from the Commission, in accordance with the procedure set out in the first subparagraph of paragraph 3 of this Article, in the following cases: ... b) where the Council has endorsed the corrective action plan submitted by the Member State concerned in accordance with Article 8(2) of Regulation (EU) No 1176/2011 or the excessive imbalance procedure is placed in a position of abeyance in accordance with Article 10(5) of that Regulation or the Council has closed the excessive imbalance procedure in accordance with Article 11 of that Regulation; (Article 9.6).

1.3 Latest and upcoming procedural and institutional steps

On 1 December 2020, the Commission presented the AMR to the ECOFIN Council, which held an exchange of views on the subject.

On 7 December 2020, the European Parliament (ECON and EMPL Committees) hosted an Economic Dialogue with the Commission on the "autumn package", including the AMR.

On 18 January 2021, the Eurogroup held a thematic discussion on "Imbalances in the EA in the wake of the COVID19 crisis", on the basis of a note prepared by the Commission staff. Following the meeting, the President of the Eurogroup stated *"... the Commission presented an analysis showing how the COVID-19 crisis runs the risk of aggravating the pre-existing macroeconomic imbalances in the euro area. But, of course, while we acknowledged that risk, we also acknowledged in recent weeks that there have been very positive developments. Thanks to the vaccination programmes being rolled out all across Europe we can now see light at the end of the tunnel. But there is, of course, no time a role for complacency, as new waves and as new variants of the virus emerge. We are still very much aware within Eurogroup of the need to maintain support to homes, to workers and to businesses as they face the economic consequences of prolonged health restrictions. Our discussion today reconfirmed the very strong consensus on the need to maintain a supportive budgetary stance."*

On 19 January 2021, the ECOFIN approved its conclusions on the 2021 AMR, based on a document agreed in the Economic and Financial Committee (see Box 2).

The EU Institutions are expected to deal with the Europan Semester and the MIP according to the following timeline[2]:

- 22 February 2021: the European Parliament hosts the European Parliamentary Week with representatives from national parliaments. Meetings include the European Semester Conference and the Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the EU;
- 25-26 March 2021: the European Council holds an exchange of views on the economic situation and provides guidance to Member States for the 2021 Stability and Convergence Programmes and for the National Reform Programmes (that integrate the national Recovery and Resilience Plans - RRP - in the context of the Recovery and Resilience Facility). It is also expected to endorse the Council recommendation to euro area (discussed at the Eurogroup meeting of 18 January 2021 and approved at the ECOFIN meeting of 19 January 2021);
- Mid-April 2021: Further to the guidance provided by the European Council, Member States submit their 2021 National Reform Programmes (integrating the national RRPs) and 2021 Stability or Convergence Programmes;
- Late May: the Commission presents its analytical documents on the national RRPs, replacing the Country reports. The Commission will also publish its "*recommendations for the 2021 fiscal Council Recommendations on the National Reform Programmes and delivering a Council Opinion on the Stability and Convergence Programmes*", including the in-depth-review for countries considered at risk of macroeconomic imbalances;
- 18 June 2021: the ECOFIN adopts its conclusions on In-Depth-Reviews under the MIP; it approves its conclusions on the future of the Semester in the context of Recovery and Resilience Facility in the field of economic and financial affairs;
- On 24-25 June, the European Council discusses and endorse the fiscal CSRs;
- In July, the ECOFIN Council formally adopts the fiscal CSRs.

In addition, Economic Dialogues with representatives of the relevant institutions (Commission, the Eurogroup and the Council) and Recovery and Resilience Dialogues with representative of the Commission

[2] According to the Council "Semester 2021 - Roadmap" and the Eurogroup Work programme until June 2021.

(in the context of the Recovery and Resilience Facility) are held in the competent committee(s) of the European Parliament.

Furthermore, the Commission will resume the review of the EU economic governance framework launched in February 2020, which includes the MIP (see Section 3).

2. Implementation of the MIP in the 2020 Semester

2.1 The autumn and winter packages

The Commission published in December 2019 the 2020 Alert Mechanism Report (AMR), thereby launching the ninth annual round of the MIP. It identified thirteen Member States as at risk of macroeconomic imbalances. The Commission concluded "*All in all, sources of potential imbalances are broadly the same as those identified in the AMR 2019, but prospects appear to be worsening in a number of respects.*". The ECOFIN Council discussed the AMR in February 2020 and drew its conclusions (see Box 2).

In February 2020, the Commission published its 2020 Communication on Macroeconomic imbalances and the Country Reports, which included the in-depth-reviews of the thirteen countries considered deserving further analysis in December 2019. The Communication provided an overview of the evolution of macroeconomic imbalances in the MIP context, relying on the economic agenda presented in the 2020 Annual Sustainable Growth Strategy, aimed at "competitive sustainability" and its four dimensions:

- environmental sustainability
- productivity gains
- fairness
- macroeconomic stability.

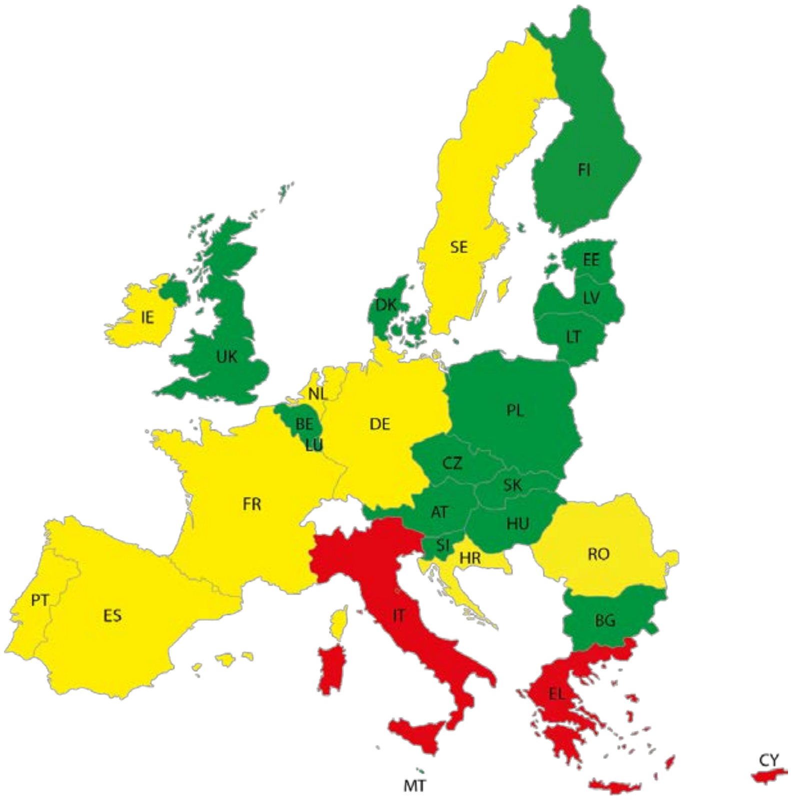
The Country reports provided a detailed analysis of the key socio-economic challenges of macroeconomic relevance and also the Commission assessment of the Member States' progress with the implementation of the CSRs: Annex 2 presents the 2019 CSRs underpinned by the MIP, together with the Commission's assessment of their implementation.

In 2020, these reports included also some new features, namely:

- monitoring the elements of macroeconomic relevance in the National Energy and Climate Plans (submitted by Member States in December 2019) in the wider and more recent context of the European Green Deal;
- monitoring the Sustainable Developments Goals, with focus on the macroeconomic and employment policies that can help to deliver them;
- focusing on those regions and sectors most challenged by the transition towards climate neutrality, in view of guiding the use of the Just Transition Fund.

The Commission assessed whether imbalances or excessive imbalances exist, also in view of possible spillovers, and concluded that:

- **3** Member States are considered being in a situation of "excessive macroeconomic imbalances": Cyprus, Greece and Italy.
- **9** Member States are considered experiencing "macroeconomic imbalances": Germany, Ireland, Spain, France, Croatia, the Netherlands, Portugal, Romania and Sweden.
- **16** Member States are not considered at risk of "macroeconomic imbalances": Belgium, Bulgaria, Czechia, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Malta, Hungary, Austria, Poland, Slovenia, Slovakia, Finland and UK. (Bulgaria, submitted to IDR, was considered not a risk of imbalances)



Source: EGOV based on European Commission, 2020

On 20 May 2020, the Commission published the draft CSRs: whilst relying on the analysis included in the Country Reports, they mainly refer to the crisis following the Covid pandemic and the Spring 2020 Forecast. For Member States experiencing macroeconomic imbalances, some CSRs are underpinned by the MIP. In July, the Council adopted the CSRs, after endorsement by the European Council.

For the euro area, the Commission noted that it continued to have the world's largest current account surplus. It was expected to decrease, because of slowing export demand, reflecting the weakening of global trade and the higher energy deficit. The euro area surplus should be reduced to help overcoming the low-inflation and the low-interest rate environment, and to reduce the dependency on foreign demand (Box 1 presents some positions on the current account imbalance in the euro area taken by various institutions).

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

The Country reports usually constitute the analytical basis for dialogues between the Commission and the Member States before the submission of their NRPs in April, as well as for the formulation of the Commission's proposals for the 2020 CSRs. The break-up of the pandemic crisis disrupted the traditional running of the European Semester. On 16 April, the ECOFIN Council agreed on the simplification of information requirements: "*The simplified process is intended to preserve the European Semester's main milestones, while taking into account the challenging times Member States are facing. In particular, there would be a streamlined approach for the submission of national reform and stability or convergence programmes by Member States.*" All Member States (except Italy) submitted their 2020 National Reform Programme.

In May 2020, the Council drew its conclusions on the IDRs and the implementation of the 2019 CSRs (see Box 2). In 2020, the Economic Policy Committee prepared and discussed summaries of the review of each individual Country report and the classification of imbalances from the in-depth-reviews, including a stock-taking of the CSRs implementation. These summaries also presented methodological suggestions addressing the Commission' analysis.

2.2 The "European Semester 2020 Spring Package"

The Commission presented on 20 May a Communication and the 28 draft 2020 Country Specific Recommendations. The CSRs are prioritising the mitigation of the socio-economic impact of the pandemic and subsequent economic recovery. To this scope, the CSRs focused on two aspects:

- First, the immediate fiscal, economic, employment and social responses to the crisis, with specific emphasis on health related aspects.
- Second, the medium-term reform and investment priorities, to put the economies back on track to growth, while integrating the green transition and the digital transformation.

The Commission stated "*The country reports can provide input on the areas for future growth once the exceptional circumstances (e.g. confinement) are over.*".

It is worth noting that the fiscal elements of the CSRs were adapted to take into account the activation of the general escape clause of the Stability and Growth Pact. Nevertheless, the Commission highlighted that previous cycles of the European Semester - prior to the onset of the pandemic - covered reforms deemed essential to address medium and long-term structural challenges, and that those challenges are still relevant. Those recommendations remain pertinent and would still be subject to monitoring.

Furthermore, the Commission noted that "*The unprecedented situation has required a specific approach of this year's European Semester. Over the past decade, the European Semester has become the key tool for the coordination of national economic and employment policies. It is currently an integral part of the EU's effort to contain the spread of the virus, support national health systems, protect and save lives, and counter the social and economic impact of the pandemic. Therefore, the proposed recommendations highlight economic and employment policies adapted to the new socio-economic priorities of the COVID-19 crisis in areas of common concern. This approach has only been possible with even closer cooperation between the Commission and Member States. Close contact and intensive dialogue have been key to understanding and identifying policies and best practices adopted to mitigate and address the socio-economic impact of the virus. As a result, the Commission has updated its analysis of the Member States' social and economic situation presented in the 2020 country reports to reflect the current economic and social circumstances in each Member State. The Commission has held bilateral meetings with Member States via videoconference during the month of April and has maintained a continuous dialogue with Member States multilaterally and bilaterally, including through the relevant Committees and with the European Semester Officers in the capitals... Close alignment between the EU budget and the European Semester is essential to ensure stability, productivity and fairness in the economic recovery across the EU with the twin green and digital transitions at its heart.*".

For Member States experiencing macroeconomic imbalances or excessive macroeconomic imbalances, the CSRs may be partly or totally underpinned by the MIP: Annex 3 presents the 2020 CSRs for each Member State concerned. One may, however, note that none of the 2020 CSRs for Sweden were based on the MIP legal base, despite Sweden being considered as experiencing macroeconomic imbalances. Among the 45 CSRs targeting the twelve Member States with macroeconomic imbalances, 31 have the MIP as a legal basis.

Section 4.2 below provides details on the evolution of MIP-related CSRs and their implementation over time.

On 9 June, the ECOFIN Council took stock of the preparations of the 2020 CSRs and on 20 July the Council formally adopted the CSRs, after the European Council had endorsed them, thereby concluding the 2020 Europan Semester cycle.

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

In its conclusions on the Alert Mechanism Report of February 2020, the **ECOFIN** noted that "... *current account balances were not affected very substantially by the COVID-19 crisis so far; large current account surpluses in some Member States persist although they are narrowing, while current account deficits in some Member States with large external debt are widening*".

The **Commission** noted in the AMR 2021 that "...*the 2019 euro area current account surplus remained the largest worldwide in nominal terms... At unchanged policies, the euro area current account surplus is expected to further decrease to 1.8% of GDP in 2020 and to edge up to 1.9% of GDP in 2021.... The forecast reduction in the euro area surplus is partly due to a reduced energy bill; the substantial appreciation of the euro that started in early 2020 would also imply a reduction in the current account going forward... The euro area surplus still reflects mainly the large, but steadily falling, surpluses recorded in Germany and the Netherlands, whose combined external balances accounted for 2.7% of euro area GDP in 2019. Euro area current account balances are expected to display a certain stability across countries also in 2020 and 2021. The stability of current account figures masks however considerable changes in the net lending positions across sectors of the economy, as the large increase in the net lending position for the private sector is almost fully offset by a deterioration in that of the government sector. This pattern, observed for the euro area as a whole, holds also within countries.*"

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

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

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

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

3. The review of the Economic Governance framework

In accordance with Regulation 1176/2011 (Article 16) and Regulation 1174/2011 (Article 7), the Commission published in February 2020 a report on the application of the regulations providing for the current economic and fiscal surveillance in the EU. The report took the form of a Communication on "Economic governance review"[3], and the main question focus on the extent to which the different surveillance elements (mainly the Stability and Growth Pact and the MIP), have been effective in achieving their key objectives, namely:

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

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

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

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

The Commission then launched a public debate, to give stakeholders the opportunity to provide their views on the functioning of surveillance and on possible ways to enhance the effectiveness of the framework. Originally, citizens and institutions were invited to submit their responses to the questions set in the Communication by 30 June 2020. However, the public debate on the future of the economic surveillance framework has been impacted by the need to focus on the immediate challenges of the coronavirus crisis. Therefore, the period of public consultation has been extended and the Commission is expected to return to the review exercise when the immediate challenges have been addressed.

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

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

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

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

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

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

Box 2: Excerpts from Council conclusions related to the MIP

January 2021, Conclusions on the Alert Mechanism Report 2021. While noting that the containment measures needed to contain the outbreak of the COVID-19 pandemic have led to an unprecedented and asymmetric fall in economic activity the Council:

- Acknowledges the unusually **high uncertainty** about economic developments in the coming months, and… called for further targeted and temporary measures to support the recovery taking into account existing and emerging risks to macroeconomic stability.
- Welcomes the **continued implementation of the Macroeconomic Imbalance Procedure** despite the crisis, and the Alert Mechanism Report 2021…Underlines the importance, including in the current economic crisis, of detecting, preventing and correcting imbalances that hinder the proper functioning of Member State economies, the EMU or the EU.
- **Broadly agrees with the assessment of the AMR** regarding the evolution of macroeconomic imbalances in the EU and within the euro area, and possible risks... Recognises that a number of existing macroeconomic imbalances are now being aggravated by the COVID-19 crisis, and new risks may arise, resulting from the pandemic effects, notably related to increasing private and public debt. Notes that private indebtedness, in particular for companies, and public indebtedness have increased in all Member States, especially in some with already identified corresponding imbalances or excessive imbalances,
- Takes note that **current account balances** were not affected very substantially by the COVID-19 crisis so far; large current account surpluses in some Member States persist although they are narrowing, while current account deficits in some Member States with large external debt are widening. Recognises **possible risks for bank balance sheets** linked to the prospect of increasing non-performing loans, weak bank profitability and possible downward corrections in house prices. Notes that unemployment is set to increase…and that declining labour productivity is estimated to have led to an increase in unit labour costs in 2020, despite a marked slowdown in wage growth.
- Welcomes the strengthened forward-looking approach to the assessment of risks to macroeconomic stability and macroeconomic imbalances … **Appreciates the greater use of forecasts and high-frequency data** that complement the economic reading of the MIP scoreboard… Calls for **distinguishing between cyclical and structural developments** in assessing the evolution of imbalances going forward, and for considering the role that policies are currently playing in the reduction of macroeconomic stability risks in some areas.
- Takes note of the Commission's intention to conduct in-depth reviews for 12 Member States … Calls for close monitoring of risks in some Member States for which in-depth reviews are currently not deemed warranted, notably regarding possible risks related to external financing and relatively high and rising ratios of private and public debt… Acknowledges the need to monitor risks potentially arising from possible deepening of economic divergences, notably due to the pandemic consequences.
- Agrees that the Next Generation EU, notably the implementation of **the recovery and resilience facility, should be taken as an opportunity to implement reforms and investments**, in line with the 2019 and 2020 country-specific recommendations that address long-standing structural causes of existing macroeconomic imbalances and subdued productivity growth. …
- Recalls that the Council will discuss the legislation governing the Macroeconomic Imbalance Procedure as part of the review of the economic governance legislation.

May 2020, Conclusions on In-Depth-Reviews and implementation of 2019 CSRs. The Council, while noting that the Commission package was adopted prior to the pandemic crisis:

- Calls for swift and targeted coordinated policy action for rapidly overcoming the economic crisis and building a basis for sustainable and inclusive growth… The **European Semester provides the framework for continued economic policy coordination in the EU, as well as for identification of new emerging challenges.**
- Recalls that the multiannual assessment by the Commission illustrates that a number of country-specific recommendations relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise. Nevertheless, notes that **the overall implementation rate of the 2019**

country-specific recommendations remained low, despite a rather favourable economic environment over the last years. Reform implementation continued to vary across policy areas and countries and has been strong in financial services and active labour market policies. Progress has remained slow in addressing competition in services and with regard to the long-term sustainability of public finances.

- Considers that the in-depth reviews present a high-quality and comprehensive analysis of the country situation in each Member State under review. Acknowledges that relevant analytical tools, complemented by substantive qualitative analysis, have been applied in view of the specific challenges of each economy... Agrees that 12 Member States analysed in the in-depth reviews ... are **experiencing macroeconomic imbalances** of various nature and degree of severity under the MIP... Agrees that **excessive imbalances** exist in three Member States (Cyprus, Greece and Italy).

4. Implementation of the MIP over time

4.1 Member States assessed as having macro-economic imbalances

From the MIP's inception until the 2015 round, an increasing number of countries had been both covered by in-depth reviews and classified as having excessive imbalances, but the trend seems to be reversed in the latest rounds[5]. Table 1 below shows that the number of Member States:

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

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

Table 1: MIP stylized facts

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

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

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

Table 2: Commission's conclusions under the MIP

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

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

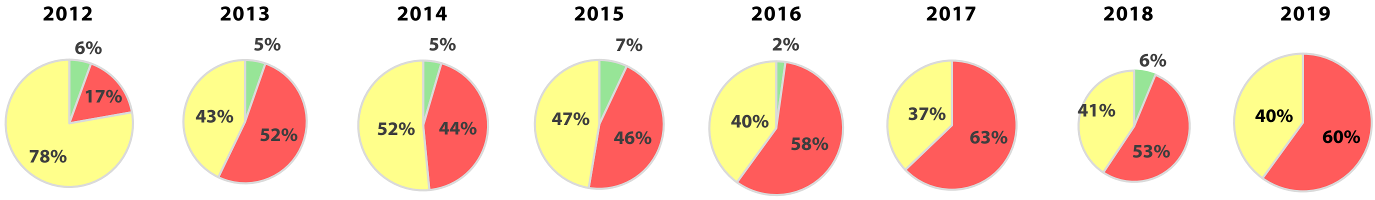
4.2 Implementation of CSRs underpinned by the MIP

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

With regard to the implementation of the CSRs underpinned by the MIP, Figure 2 below shows the annual implementation rate of MIP-specific CSRs. The percentage of MIP-CSRs showing limited/no progress increased again in 2019, to 60%, after a slight decrease in 2018 and a continuous increase from 2014 to 2017. The percentage of MIP-CSRs showing full/substantial progress decrease again to none, after a slight increase in 2018[6].

[6] 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

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



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

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

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

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

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

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

Annex 4 presents the 2019 MIP-related CSRs and the assessment of their implementation (see a separate EGOV document for a presentation of all the 2018 CSRs, the Commission's assessments of their implementation, the 2019 CSRs and their implementation assessment).

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

and services markets are visible in a shorter time lag. See also the Annex to the Commission Communcation on Country Reports, where the Commission considers the "multiannual assessment of the CSRs implementation".

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

In its SWD report on the economic governance review of February 2020**, the Commission notes "**The lack of full enforcement of the MIP has been a subject of debate... Regulation No 1176/2011 **does not provide full guidance on the way the EIP should be implemented**. In particular, it does not specify the time frame of the EIP, the scope and time frame of the corrective action plan, the assessment of effective action in the execution of the corrective action plan, or the criteria for abrogating the procedure or for the application of fines. This lack of detail coupled with the potentially intrusive nature of the corrective action plan, as recommendations could concern a wide range of policy fields and policy action can be prescriptive and are time-bound in the corrective action plan, may have contributed to nonuse of the EIP so far."

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

European Central Bank
In its publication of June 2018, the ECB stated "*from 2015 to 2017 three to four countries were continuously included in the excessive imbalance group. One country has been assessed as having had excessive imbalances for 5 years in a row. Despite the unchanged assessment, these countries continued to be part of the preventive arm of the MIP. **A situation with persistently excessive imbalances warrants a strong policy response, as past experience has shown that the correction of imbalances accumulated over a long period of time is very costly**. This is the reason why the ECB has consistently argued that the MIP tools – including the full corrective arm of the procedure – should be fully employed in relation to those countries with excessive imbalances... The use of such tools is desirable not only in order to increase the economic prospects of the relevant country itself, but also to help facilitate economic adjustment processes inside the euro area and enhance the resilience of the euro area. It is thus in the interest of the euro area as a whole, in particular given the fact that a tool, the EIP, has already been set up to deal with those cases.*" Previous similar statements were published in July 2017, March 2017, March and February 2016.

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

- It should be used not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. **It should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation**.
- The procedure should also better capture imbalances for the euro area as a whole, not just for each individual country. For this, it needs to continue to focus on correcting harmful external deficits, given the risk they pose to the smooth functioning of the euro area ..."

IMF
In its 2017 Art. IV consultation report on the euro area, "*IMF Directors reiterated their call for **stricter enforcement of the Macroeconomic Imbalances Procedure** combined with incentives for structural reforms, such as targeted support from central funds and outcome based benchmarks.*" The staff report reads "*The weak implementation of CSRs in most countries... 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 the definition of imbalances or excessive imbalances; and 2(iv) on the amendment of the MIP regulation concerning the opening of the EIP.

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

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This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Annex 1: The 2020 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2019)

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2019	**Current Account Balance** % of GDP 3 year average	**Net International Investment Position** % of GDP	**Real Effective Exchange Rate with HICP deflator** 3 year % change	**Export Market Shares** 5 year % change	**Nominal ULC (2010=100)** 3 year % change	**House Prices index deflated** 1 year % change	**Private Sector Credit Flow** % of GDP	**Private Sector Debt,** consolidated % of GDP	**General Government Gross Debt** % of GDP	**Unemployment rate** 3 year average	**Total Financial Sector Liabilities, non-consolidated** 1 year % change	**Activity rate** % of total pop. aged 15-64 3 year change	**Long term unemployment rate** % of active pop. aged 15-74 3 year change	**Youth unemployment rate** % of active pop. aged 15-24 3 year change
Thresholds	**-4/+6%**	**-35%**	**±5% (EA) ±11% (non-EA)**	**-6%**	**+9% (EA) 12% (non-EA)**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2 pp**	**0.5 pp**	**2 pp**
BE	0.1	50.6	2.6	-3.1	5.3	2.5	3.8	179.1	98.1	6.2	4.6	1.4	-1.7	-5.9
BG	2.5	-31.2	4.5	15.4	19.5	4.0	5.6	91.8	20.2	5.2	5.8	4.5	-2.1	-8.3
CZ	0.6	-20.3	8.7	5.1	14.4	6.2	3.1	80.8	30.2	2.4	5.6	1.7	-1.1	-4.9
DK	8.0	76.9	-0.2	2.1	1.4	1.5	11.4	221.2	33.3	5.3	13.1	1.6	-0.4	-2.1
DE	7.4	71.7	2.1	-1.1	7.9	4.3	5.4	105.4	59.6	3.4	7.3	1.3	-0.5	-1.3
EE	1.7	-21.4	6.2	2.0	19.9	4.4	3.8	97.8	8.4	5.2	12.5	1.4	-1.2	-2.3
IE	-1.6	-174.0	-1.4	71.0	-4.4	0.0	-9.1	202.4	57.4	5.8	15.5	0.6	-2.6	-4.3
EL	-2.1	-155.9	0.3	3.6	1.7	6.5	0.8	109.9	180.5	19.4	11.5	0.2	-4.8	-12.1
ES	2.3	-73.9	1.7	2.6	4.0	4.1	1.3	129.4	95.5	15.5	0.9	-0.4	-4.2	-11.9
FR	-0.7	-22.9	1.6	-0.4	1.3	2.3	8.0	153.3	98.1	9.0	7.5	0.3	-1.2	-4.9
HR	2.6	-50.3	1.5	22.5	4.7	8.1	1.7	91.2	72.8	8.8	6.8	0.9	-4.2	-14.7
IT	2.7	-1.5	0.2	-2.6	3.2	-0.6	0.2	106.6	134.7	10.6	3.8	0.8	-1.1	-8.6
CY	-5.2	-122.3	-0.1	13.7	5.2	2.6	2.7	259.1	94.0	8.9	3.9	2.6	-3.7	-12.5
LV	0.1	-41.7	3.7	3.6	17.0	5.8	1.5	67.1	36.9	7.5	4.6	1.0	-1.6	-4.9
LT	1.4	-24.1	3.7	16.7	16.4	4.9	3.0	55.1	35.9	6.5	4.1	2.5	-1.1	-2.6
LU	4.7	56.2	2.0	10.3	11.9	8.0	3.8	318.7	22.0	5.6	3.3	2.0	-0.9	-1.9
HU	0.7	-43.7	0.3	5.9	10.0	12.8	3.2	66.6	65.4	3.8	17.8	2.5	-1.3	-1.5
MT	5.1	54.6	1.3	18.1	8.5	4.0	8.5	123.7	42.6	3.8	4.4	5.3	-1.5	-1.4
NL	10.5	90.0	2.4	0.7	5.9	4.8	0.0	234.0	48.7	4.0	6.1	1.2	-1.5	-4.1
AT	1.8	12.1	2.1	1.4	5.5	3.9	4.5	120.1	70.5	5.0	4.3	0.9	-0.8	-2.7
PL	-0.4	-49.4	2.8	25.1	9.2	6.7	3.3	74.0	45.7	4.0	4.2	1.8	-1.5	-7.8
PT	0.5	-100.3	-0.4	8.5	7.6	8.7	2.2	149.2	117.2	7.5	0.0	1.8	-3.4	-9.7
RO	-4.0	-43.5	0.2	17.9	24.5	-1.7	2.0	46.7	35.3	4.3	10.4	3.0	-1.3	-3.8
SI	5.9	-15.4	1.0	15.9	8.4	4.8	0.8	68.7	65.6	5.4	9.9	3.6	-2.4	-7.1
SK	-2.3	-66.3	2.6	1.9	14.5	6.2	5.0	91.6	48.5	6.8	4.9	0.8	-2.4	-6.1
FI	-0.9	3.6	0.2	4.6	0.8	0.0	7.6	147.5	59.3	7.6	7.6	2.4	-1.1	-2.9
SE	3.3	18.2	-8.3	-5.1	8.2	0.5	9.8	203.9	35.1	6.6	10.6	0.8	-0.4	1.2

Source: 2021 AMR. Boxes shaded in grey indicate values outside the threshold. A dedicated Eurostat website presents the latest available figures

Annex 2: Summaries of the country specific commentaries on imbalances, risks and adjustments (2021 Alert Mechanism Report)

BELGIUM: In the previous round of the MIP, no macroeconomic imbalances were identified for Belgium. In the updated scoreboard including figures until 2019, the private sector debt and government debt indicators are beyond the indicative thresholds.
Belgium entered the COVID-19 crisis with no identified macroeconomic imbalances, although with possible vulnerabilities building up linked to indebtedness. With the COVID-19 crisis government and private sector indebtedness have increased and warrant monitoring. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

BULGARIA: In February 2020, the Commission concluded that Bulgaria was no longer experiencing macroeconomic imbalances. In the updated scoreboard including figures until 2019, the nominal unit labour cost growth indicator is beyond the indicative threshold.
Bulgaria entered the COVID-19 crisis with no identified macroeconomic imbalances, although nonperforming loans and corporate indebtedness were relatively high, albeit declining. With the COVID-19 crisis, the corporate debt-to-GDP ratio is set to increase and NPLs may rise. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

CZECHIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Czechia. In the updated scoreboard including figures until 2019, the unit labour cost growth and house price growth indicators are beyond the indicative threshold.
Czechia entered the COVID-19 crisis with no identified macroeconomic imbalances, although competitiveness and pressures in the housing market involved some limited risks. With the COVID-19 crisis cost pressures have reduced. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

DENMARK: In the previous round of the MIP, no macroeconomic imbalances were identified for Denmark. In the updated scoreboard including figures until 2019, the current account surplus and private sector debt indicators are beyond the indicative threshold.
Denmark entered the COVID-19 crisis with no identified macroeconomic imbalances, although high household debt and housing involved some limited risks. With the COVID-19 crisis, the household debt ratio is set to increase. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

GERMANY: In February 2020, the Commission concluded that Germany was experiencing macroeconomic imbalances, in particular involving its large current account surplus reflecting subdued investment relative to saving, both in the private and public sector. In the updated scoreboard including figures until 2019, the current account surplus indicator is beyond the indicative threshold.
Germany entered the COVID-19 crisis with a large domestic savings surplus, underpinned primarily by net savings of households and the government. With the COVID-19 crisis, the current account surplus has narrowed significantly and government investment accelerated while private investment has suffered. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

ESTONIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Estonia. In the updated scoreboard, including figures until 2019, the real effective exchange and the nominal unit labour cost growth indicators are beyond the indicative threshold.
Estonia entered the COVID-19 crisis with no identified macroeconomic imbalances, although the dynamics of cost competitiveness indicators involved some limited risks. With the COVID-19 crisis, the external position has remained stable and has implied wage growth moderation. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

IRELAND: In February 2020, the Commission concluded that Ireland was experiencing macroeconomic imbalances, in particular involving high private sector and government debt and net external liabilities. In the updated scoreboard including figures until 2019, the net international investment position (NIIP) and the private sector debt indicators are beyond the indicative threshold. *Ireland entered the COVID-19 crisis with vulnerabilities linked to external, government and private sector debt.*
With the COVID-19 crisis debt ratios and unemployment will increase. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

GREECE: In February 2020, the Commission concluded that Greece was experiencing excessive macroeconomic imbalances, in particular involving high government indebtedness, the high share of non-performing loans and incomplete external rebalancing, in a context of high – although declining – unemployment and low potential growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth, government debt as well as the unemployment rate indicators are beyond the indicative threshold.
Greece entered the COVID-19 crisis with vulnerabilities linked to government debt, legacy nonperforming loans, external rebalancing, unemployment and low potential growth. With the crisis, debt ratios, unemployment as well as non-performing loans are likely to increase. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

SPAIN: In February 2020, the Commission concluded that Spain was experiencing macroeconomic imbalances, in particular involving high external and internal debt, both government and private sector, in a context of high unemployment. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), the government debt, the unemployment rate as well as the activity rate indicators are beyond the indicative threshold.
Spain entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt and high unemployment. With the COVID-19 crises, debt ratios and unemployment have been increasing. Overall, the Commission finds it appropriate, also considering the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

FRANCE: In February 2020, the Commission concluded that France was experiencing macroeconomic imbalances, in particular involving high government debt and weak competitiveness dynamics in a context of low productivity growth, which carry cross-border relevance. In the updated scoreboard including figures until 2019, the private sector and government debt indicators are beyond the indicative threshold.
France entered the COVID-19 crisis with vulnerabilities linked to debt, as well as competitiveness. With the COVID-19 crisis and the measures taken to support the economy, the government debt increased while competitiveness developments have remained relatively stable. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

CROATIA: In February 2020, the Commission concluded that Croatia was experiencing macroeconomic imbalances, in particular involving high government, private sector and external debt in a context of low potential growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth and government debt indicators are beyond the indicative threshold.
Croatia entered the COVID-19 crisis with vulnerabilities linked to government, private sector and external debt in a context of low potential growth. With the COVID-19 crisis, debt ratios and unemployment are expected to increase. Overall, the Commission finds it opportune, also taking into account the identification of an imbalance in February, to examine further the persistence of imbalances or their unwinding.

ITALY: In February 2020, the Commission concluded that Italy was experiencing excessive macroeconomic imbalances, in particular involving high government debt and protracted weak productivity growth in a context of still high nonperforming loans (NPLs) and high unemployment. In the updated scoreboard including figures until 2019, the government debt and the unemployment rate indicators are beyond the indicative threshold.
Italy entered the COVID-19 crisis with vulnerabilities linked to the high level of government debt and weak productivity growth, in a context of still high though decreasing NPLs and unemployment. With the COVID-19 crisis, debt ratios have increased, while the impact on the labour market and banking sector may become visible with some delay depending on the length of the crisis and the timing of the phasing out of support measures. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

CYPRUS: In February 2020, the Commission concluded that Cyprus was experiencing excessive macroeconomic imbalances, in particular involving a very high share of non-performing loans that burdens the financial sector and high private sector, government, and external debt, in a context of moderate potential growth. In the updated scoreboard including figures until 2019, the current account deficit, the net international investment position (NIIP), private sector debt and the government debt ratio indicators are beyond the indicative threshold.
Cyprus entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt and to still high non-performing loans, in a context of moderate potential growth. With the COVID-19 crisis, the current account deficit has deteriorated, the debt ratios have increased while banks' non-performing loans deleveraging has slowed down. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

LATVIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Latvia. In the updated scoreboard including figures until 2019, net international investment position (NIIP) and unit labour cost growth indicators are beyond the indicative threshold.

Latvia entered the COVID-19 crisis with no identified macroeconomic imbalances, although dynamics related to labour supply and cost competitiveness involved some limited risks. With the COVID-19 crisis, the labour market and wage pressures reduce temporarily. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

LITHUANIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Lithuania. In the updated scoreboard including figures until 2019, the unit labour cost growth indicator is beyond the indicative threshold.
Lithuania entered the COVID-19 crisis with no identified macroeconomic imbalances, although the cost competitiveness dynamics involved some limited risks. With the COVID-19 crises the external position has remained stable and wage pressures reduced. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

LUXEMBOURG: In the previous round of the MIP, no macroeconomic imbalances were identified for Luxembourg. In the updated scoreboard including figures until 2019, the unit labour cost growth, house price growth and private sector debt indicators are beyond the indicative threshold.
Luxembourg entered the COVID-19 crisis with no identified macroeconomic imbalances although with some risks related to increasing housing prices and household debt. With the COVID-19 crises price and cost pressures reduce temporarily. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

HUNGARY: In the previous round of the MIP, no macroeconomic imbalances were identified for Hungary. In the updated scoreboard, including figures until 2019, the net international investment position (NIIP), house price growth, government debt and growth of financial liabilities indicators are beyond the indicative threshold.
Overall, the economic reading highlights issues relating to cost pressures, the export structure, government debt and the housing market. With the COVID-19 crisis, issues relating to cost pressures are likely to ease going forward, while risks associated with the interplay between government financing needs and external financing appear to have risen. That being said, the sheer size of stock imbalances is not particularly high. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

MALTA: In the previous round of the MIP, no macroeconomic imbalances were identified for Malta. In the updated scoreboard including figures until 2019, no indicator is beyond the indicative threshold.
Malta entered the COVID-19 crisis with no identified macroeconomic imbalances although with an elevated current account balance and relatively dynamic house price growth involving limited risks. With the COVID-19 crisis domestic pressures have eased somewhat and the external position has remained stable. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP. *Malta entered the COVID-19 crisis with no identified macroeconomic imbalances although with an elevated current account balance and relatively dynamic house price growth involving limited risks. With the COVID-19 crisis domestic pressures have eased somewhat and the external position has remained stable. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.*

The NETHERLANDS: In February 2020, the Commission concluded that the Netherlands was experiencing macroeconomic imbalances, in particular involving high private sector debt and the large current account surplus. In the updated scoreboard, the current account surplus and private sector debt indicators are beyond the indicative threshold.
The Netherlands entered the COVID-19 crisis with a long-standing large domestic savings surplus accompanied by high private sector debt levels. Following the crisis, the savings surplus is expected to decline somewhat but to remain elevated, while private sector debt ratios are set to rise. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

AUSTRIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Austria. In the updated scoreboard including figures until 2019, the government debt indicator is beyond the indicative threshold.
Austria entered the COVID-19 crisis with no identified macroeconomic imbalances, although with some vulnerabilities linked to the housing market. With the COVID-19 crisis house price growth is moderating while government debt is increasing. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

POLAND: In the previous round of the MIP, no macroeconomic imbalances were identified for Poland. In the updated scoreboard including figures until 2019, the net international investment position (NIIP) and house price growth indicators are beyond the indicative threshold.

Poland entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a negative net international investment position involving limited risks. With the COVID-19 crisis, the external position has remained stable. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

PORTUGAL: In February 2020, the Commission concluded that Portugal was experiencing macroeconomic imbalances, in particular involving the large stocks of net external liabilities, private sector and government debt as well as a high share of non-performing loans in a context of low productivity growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth, private sector debt and government debt indicators are beyond the indicative threshold.
Portugal entered the COVID-19 crisis with vulnerabilities linked to large stocks of debt in a context of low productivity growth. With the COVID-19 crisis, debt ratios have increased across sectors. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

ROMANIA: In February 2020, the Commission concluded that Romania was experiencing macroeconomic imbalances, in particular involving cost competitiveness losses, a deteriorating external position and a widening current account deficit, in a context of expansionary fiscal policy and an unpredictable business environment. In the updated scoreboard including figures until 2019, the current account deficit, the net international investment position (NIIP) and unit labour cost growth indicators are beyond the indicative threshold.
Romania entered the COVID-19 crisis with vulnerabilities linked to external and government debt, cost competitiveness and an unpredictable business environment. With the COVID-19 crisis, debt ratios have increased markedly and the fiscal position has deteriorated. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

SLOVENIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Slovenia. In the updated scoreboard including figures until 2019, the government debt indicator is beyond the indicative threshold.
Slovenia entered the COVID-19 crisis in strong position with no macroeconomic imbalances, although fiscal sustainability and house price developments implied limited risks. With the COVID-19 crisis, the government debt level is projected to increase but the strong current account surplus to remain. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

SLOVAKIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Slovakia. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), the unit labour cost growth and the house price growth indicators are beyond the indicative threshold.
Slovakia entered the COVID-19 crisis with no identified macroeconomic imbalances, although external sustainability, domestic price pressures and dependence on the automotive industry involved limited risks. With the COVID-19 crises, domestic price pressures have eased while the external position has slightly deteriorated. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

FINLAND: In the previous round of the MIP, no macroeconomic imbalance was identified for Finland. In the updated scoreboard including figures until 2019, the private sector debt indicator is beyond the indicative threshold.
Finland entered the COVID-19 crisis with vulnerabilities linked to private sector debt. With the COVID-19 crisis, the private sector debt ratio is increasing, but risks remain limited. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

SWEDEN: In February 2020, the Commission concluded that Sweden was experiencing macroeconomic imbalances, in particular involving overvalued house price levels coupled with a continued rise in household debt. In the updated scoreboard including figures until 2019, the private sector debt indicator is beyond the indicative threshold.
Sweden entered the COVID-19 crisis with vulnerabilities linked to the housing market and private sector debt. With the COVID-19 crises vulnerabilities associated to household debt, mortgage credit and house price levels remain. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

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

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

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

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

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

EL	**2019 CSRs** **MIP: CSR 1, 2** **Assessment of implementation of 2019 CSRs**	**CSRs 2020** **MIP: CSRs 1,2,3,4**
	1. Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018. **Some Progress.**	1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure adequate and equal access to healthcare.
	2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, R&D, education, skills, employability, health, and the renewal of urban areas, taking into account regional disparities and the need to ensure social inclusion. **Some Progress.**	2. Mitigate the employment and social impacts of the crisis, including by implementing measures such as short-time work schemes and ensuring effective activation support.
		3. Swiftly deploy measures to provide liquidity and continued flow of credit and other financing to the economy, focusing in particular on small and medium-sized enterprises most affected by crisis. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on safe and sustainable transport and logistics, clean and efficient production and use of energy, environmental infrastructure and very-high capacity digital infrastructure and skills. Improve the effectiveness and digitalisation of the public administration and promote digital transformation of businesses.
		4. Continue and complete reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018 to restart a sustainable economic recovery, following the gradual easing up of constraints imposed due to the COVID-19 outbreak.

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

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

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

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

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

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

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

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

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

Annex 4: Modifications of the MIP over time

In line with its Communication "On steps towards completing Economic and Monetary Union" of October 2015, the European Commission introduced **several changes** in the Semester, aimed at fostering the integration of the euro area and national dimensions, strengthening the focus on employment, social performance, investment and competitiveness as well as at improving the whole procedure transparency[7]. Specifically on MIP, the Commission stated how "*experience suggests that implementation of MIP can be improved in a number of ways*", and noted that the six levels scale of imbalances used up to 2015 to classify Member States in the context of the MIP was not transparent.

In 2016, the Commission:

- introduced in the MIP scoreboard **three new employment-related indicators,** namely activity rate, long-term and youth unemployment[8].
- introduced some **changes in the calendar** of the Semester and the MIP, namely:
    - o it anticipated to November the draft Council recommendations for the euro area;
    - o it anticipated the publication of the IDRs to February and integrated them in the Country reports. These reports constitute the basis for dialogues between the Commission and the Member States before submission of their National Reform Programmes, as well as for the preparations of the CSRs. They provide also an assessment of the **implementation of the previous CSRs**[9].
- **reduced the number of MIP categories** from six to four, as shown in Table A.1.

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

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

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

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

Table A.1 shows the categorisation of possible macroeconomic imbalances introduced in March 2016. All countries with imbalances are subject to specific monitoring, that is tighter for countries with excessive imbalances and consists in dialogues with the national authorities, expert missions and regular progress reports, which should also help monitoring of the implementation of the CSRs in the Member States concerned. Countries in the category 'excessive imbalances with corrective action' are subject to the excessive imbalance procedure (EIP) entailing policy recommendations to remedy the imbalances and follow-up through a corrective action plan.

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

[8] 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".*

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

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

- **NIIP excluding non-defaultable instruments (NENDI)** replaces Net external debt: this indicator provides a broader representation of external stocks (both assets and liabilities) carrying default risks. The new indicator profits from the revised methodology for balance of payments statistics (from BPM5 to BPM6), which allows a finer breakdown of foreign assets and liabilities. Compared with NED, NENDI: (i) excludes net intra-company foreign direct investment (FDI) debt, which in some cases accounts for a large share of cross-border debt without representing solvency concerns; (ii) includes mutual fund shares, which are sometimes a very large item and are mostly backed by bonds; and (iii) includes net financial derivatives. Seen from a different perspective, NENDI is a subset of the NIIP that excludes equity-related components, namely FDI equity and equity shares, and intra-company cross-border FDI debt.
- **Consolidated banking leverage** (domestic and foreign entities from ECB consolidated banking data) replaces the non-consolidated financial sector leverage indicator from national account. This indicator has more clear economic interpretation, is comparable across countries, and is consistently based on book values, even if it covers the banking sector only.
- **Household debt (consolidated)** to complement the headline indicator on private sector debt;
- **Gross nonperforming loans**, which provides complementary information to assess private sector debt. The addition of the latter has become possible thanks to the availability of cross-country-comparable data in the ECB's consolidated banking statistics as of 2015.

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

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

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

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

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

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

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

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

By Agnès Bénassy-Quéré (Chief Economist at Treasury - France, and Sorbonne University), Guntram Wolff (Director, Bruegel)

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

- the implementation rate of the country-specific recommendations has been declining over time; although imbalances have clearly receded in the euro area and in the EU over 2013-2018, there is no apparent link with the implementation of the CSRs;

- despite past reforms, the MIP keeps still largely a country-by-country approach, running the risk of contributing to a deflationary bias in the euro area.

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

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

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

By Lorenzo Codogno

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

- the extent to which the MIP contributed to its stated and expected objectives and, more broadly, whether the MIP has better equipped the Euro Area to identify and prevent unsustainable macroeconomic developments. It presents some stylised trends in macro variables and how the procedure tracks them.
- provide a tentative counterfactual exercise, to see whether the currently upgraded economic surveillance would have helped in preventing the emergence of vulnerabilities and imbalances in those Member States that required financial assistance during the financial and economic crisis.
- provide some policy recommendations on how to make the prevention of unsustainable policies more effective in the future and assess whether other supranational policy tools could help complement the current framework. The main policy recommendations of the study are that some re-tooling of the MIP is necessary and that increasing its ownership at the national level is essential.

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

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

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

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

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