Implementation of the Macroeconomic Imbalance Procedure: State of play August 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, including a recent Report adopted by the European Parliament. A separate EGOV note summarises the MIP. This document is regularly updated.

In June 2021, the Commission concluded that:

- 16 Member States are not considered at risk of "macroeconomic imbalances"
- 9 Member States are considered experiencing "macroeconomic imbalances"
- 3 Member States are considered being in a situation of "excessive macroeconomic imbalances".

Source: EGOV based on European Commission, 2021
CONTENT

Implementation of the Macroeconomic Imbalance Procedure: State of play August 2021 1

1. Implementation of the MIP in the 2021 Semester 3
   1.1 Main findings of the 2021 AMR - November 2020 ......................................................... 3
   1.2 June 2021: the In-depth-reviews and their conclusions .................................................. 4
   1.3 The MIP and the Recovery and Resilience Facility ......................................................... 5
   1.4 Related procedural and institutional steps ....................................................................... 7

2. The review of the Economic Governance framework 9

3. Implementation of the MIP over time 12
   3.1 Member States assessed as having macro-economic imbalances ...................................... 12
   3.2 Implementation of CSRs underpinned by the MIP ....................................................... 13

Annex 1: The 2020 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2019) 17

Annex 2: Summaries of the In-depth-reviews of countries experiencing macroeconomic imbalances (Commission Communication 2 June 2021) 18

Annex 3: Country Specific Recommendations underpinned by MIP: 2019 (including implementation assessment) and 2020 21

Annex 4: Modifications of the MIP over time 33

Annex 5: Summaries of three studies on the functioning of the MIP and presenting proposals for its improvement 35
1. Implementation of the MIP in the 2021 Semester

The application of the 2021 European Semester cycle (and therefore of the MIP) is heavily affected by the pandemic and by the implementation of the Recovery and Resilience Facility (RRF).

- The Commission published in November 2020 its latest Alert Mechanism Report (AMR). As usual, this report presented the analysis of the macroeconomic situation and imbalances in the EU and in individual Member States, as well as in the euro area. The AMR launched the tenth annual round of the MIP (see an EGOV note for an overview of procedural aspects). Twelve Member States were identified as at risk of macroeconomic imbalances (Section 1.1).

- The Country reports, part of the “Winter package” usually published in February, were integrated with the assessments of Recovery and Resilience Plans (RRPs) submitted by Member States in the context of the RRF (see Section 1.3 below). A number of such assessments have been publishing since June 2021;

- The In-Depth-Reviews (IDRs) for countries considered at risk of macroeconomic imbalances, which before the pandemic were usually part of the Country reports, have been published in June 2021, as part of the “Spring package”, together with the assessment of the Stability or Convergence Programmes, submitted by Member States in April in the context of fiscal surveillance (Section 1.2 below);

- 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 - were vaguely summarised in the 2021 AMR chapter devoted to country-specific commentaries (see also Appendix 2 to the Communication on Economic Policy Coordination of 2 June 2021);

- The “Specific monitoring” of countries experiencing macro-economic imbalances in the 2020 and 2021 Semester cycles is integrated with the assessments of the national RRPs (see section 1.3 below);

- In June 2021, the Commission proposed 2021 CSRs focusing only on fiscal policies.

1.1 Main findings of the 2021 AMR - November 2020

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 2 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 to identify Member States at risk of macroeconomic imbalances. 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, could not be used to anticipate and prevent the developments of macroeconomic imbalances. Therefore, the Commission included 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.

The 2021 AMR noted 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 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 noted 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 devoted specific attention to developments in the euro area as a whole. The Commission noted that the pandemic could increase economic divergences between euro area Member States. The Commission forecast 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 concluded that surveillance activities need to focus on countries that were already identified in February 2020 as having imbalances or excessive imbalances. Therefore, the Commission recommended that IDRs to identify and assess the severity of possible macroeconomic imbalances be prepared for:

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

Furthermore, the Commission stated that it will closely follow developments in other Member States, including the few ones that 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 June 2021: the In-depth-reviews and their conclusions

On 2 June 2021, the Commission published its Communication on “Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy”, as well as the IDRs for the 12 countries previously identified as at risk of macroeconomic imbalances. The Communication provided an overview of the latest and expected economic developments (based on the Spring 2021 economic forecast). The Commission noted that the main sources of imbalances are largely the same as a year ago, but that risks increased. While the pandemic crisis has not fundamentally altered the nature of Member States’ imbalances, it has interrupted their reduction and may increase the risks to macroeconomic stability. More
specifically, government and private debt ratios have largely increased; this is explained by the recession (which reduced GDP in the denominator of the ratios) and by policies aimed at addressing the impact of the pandemic and to support the economy and the recovery. Large current account surpluses persist in some Member States. Several Member States with high debts levels also have low potential growth; the Commission states that “In these cases, the efficient use of the Recovery and Resilience Facility to foster growth-enhancing investment and reforms will be instrumental”. As for the financial sector, the Commission highlights the risks related to the possible increase of non-performing loans related to debt repayment difficulties, especially when support measures are phased out. By contrast, the pandemic crisis seems to have decreased some vulnerabilities related to cost competitiveness pressures.

As for the classification of countries according to the MIP, the Commission did not change the classification of imbalances, namely:

- Cyprus, Greece and Italy continue to experience excessive imbalances,
- Ireland, Portugal, Spain, France, the Netherlands, Germany, Romania, Croatia and Sweden continue to experience macroeconomic imbalances.

Nevertheless, the Commission considered that the high uncertainty requires close monitoring of imbalances and of macroeconomic stability risks for all Member States, with a strong forward-looking perspective.

As for the characterisation of the imbalances, the Commission notes that:

- Cyprus, Greece and Italy continue to experience excessive imbalances linked to high government debts and high share of non-performing loans – despite continued and significant progress in this area in pre-pandemic years. Cyprus and Greece combine that with high external debt; Cyprus, also with high private debt. Furthermore, in these three countries potential growth remains too low to help debt deleveraging.
- Croatia, Ireland, Portugal and Spain are experiencing macroeconomic imbalances due to the combination of high private, government and external debts.
- In France, the imbalances are driven by government and private debts, which continue to rise.
- Germany and the Netherlands record persistently large current account surpluses, linked to an excess of savings over investments, compounded by high private debt in the Netherlands.
- Romania has a large and persisting current account deficit, even if competitiveness is improving.
- Macroeconomic imbalances in Sweden are mainly due to the increasing house prices, with concerns for the high and increasing household debt.

Annex 1 of the Communication (presented in Annex 2 to this document) provides summaries of the analysis for the twelve relevant Member States.

1.3 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 billion and
- the Recovery and Resilience Facility (RRF), which enables the provision of EURI funds (up to €360 billion in loans and up to €312.5 billion in grants, in 2018 prices) to all Member States for financing Member States’ 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 was adopted in February 2021 (please see an EGOV note on the main characteristics of the RRF and a regularly updated note on the implementation of RRP).
On 17 September 2020, the Commission set out its strategic guidance for the implementation of the RRF in the Annual Sustainable Growth Strategy 2021, including the temporary adaptation of the 2021 European Semester Cycle to the RRF; the Communication read “The European Semester provides a well-established framework for the coordination of the economic and employment policies to guide the Union and the Member States through the challenges of the recovery and twin transition. Member States’ recovery and resilience plans should effectively address the policy challenges set out in the country-specific recommendations adopted by the Council.... This includes the country-specific recommendations addressed to the Member States in recent years and in particular in the 2019 and 2020 Semester cycles”. 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 accordance with the RRF Regulation, the MIP (in particular the MIP Regulation, 1176/2011) will be taken into account in the following steps of the RRF implementation, namely:

- **Eligibility of NRRPs**: “... Member States shall prepare national recovery and resilience plans. Those plans shall set out the reform and investment agenda of the Member State concerned. Recovery and resilience plans that are eligible for financing under the Facility shall comprise measures for the implementation of reforms and public investment... The recovery and resilience plans shall be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, as well as those identified in the most recent Council recommendation on the economic policy of the euro area for Member States whose currency is the euro. The recovery and resilience plans shall also be consistent with the information included by the Member States in the National Reform Programmes under the European Semester... “(Article 17, in particular 17.3).

- **Content of the NRRPs**: The NRRP must set out the following elements: “an explanation of how the recovery and resilience plan contributes to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects thereof and recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester;” (Article 18.4 (b)).

- **Assessment of the NRRPs**: “When assessing the recovery and resilience plan and in the determination of the amount to be allocated to the Member State concerned, the Commission shall take into account the analytical information on the Member State concerned available in the context of the European Semester as well as the justification and the elements provided by that Member State, as referred to in Article 18(4), as well as any other relevant information such as, in particular, the information contained in the National Reform Programme...” (Article 19.2);

  “The Commission shall assess the relevance, effectiveness, efficiency, and coherence of the recovery and resilience plan and for that purpose, shall take into account the following criteria...

- **Relevance**: ...whether the recovery and resilience plan is expected to contribute to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects and recommendations made under Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned or challenges in other relevant documents officially adopted by the Commission in the context of the European Semester;” (Article 19.3(b)).

- **Suspension of commitments and payments of funds**: “The Commission may make a proposal to the Council to suspend all or part of the commitments or payments in relation to any of the following cases: (a) where the Council adopts two successive recommendations in the same excessive imbalance procedure in accordance with Article 8(3) of Regulation (EU)No 1176/2011 on the grounds that a Member State has submitted an insufficient corrective action plan; (b) where the Council adopts two successive decisions in the same excessive imbalance procedure in accordance with Article 10(4) of Regulation (EU) No 1176/2011 establishing non-compliance by a Member State on the grounds that it has not taken the recommended corrective action;” (Article 10.2).
“The Council shall lift the suspension of commitments on a proposal from the Commission, in accordance with the procedure set out in the first subparagraph of paragraph 3 of this Article, in the following cases: ... b) where the Council has endorsed the corrective action plan submitted by the Member State concerned in accordance with Article 8(2) of Regulation (EU) No 1176/2011 or the excessive imbalance procedure is placed in a position of abeyance in accordance with Article 10(5) of that Regulation or the Council has closed the excessive imbalance procedure in accordance with Article 11 of that Regulation;” (Article 10.6).

1.4 Chronology of 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 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).

On 22 February 2021, the European Parliament hosted the 2021 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.

On 25 March 2021, the European Council held an exchange of views on the economic situation, endorsed the policy priority areas of the Annual Sustainable Growth Strategy and invited Member States to reflect them in their national Recovery and Resilience Plans. Further to the guidance provided by the European Council, Member States submitted their 2021 National Reform Programmes (possibly integrated into the national RRPs) and 2021 Stability or Convergence Programmes.

On 18 June 2021, the ECOFIN adopted its conclusions on the fiscal CSRs.

On 24-25 June, the European Council endorsed 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).

On 13 July 2021, the ECOFIN Council discussed the IDRs the MIP and adopted its conclusions. It also formally adopted the Council recommendation to the euro area.

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 (in the context of the RRF) are held in the competent committee(s) of the European Parliament.

Furthermore, the Commission is expected to resume the review of the EU economic governance framework launched in February 2020, which includes the MIP (see Section 3 below).
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 spillovers effects are most severe for open countries and those most intertwined in regional production networks”. The ECB occasional paper of June 2018 on “Macroeconomic imbalances in the euro area: where do we stand?” read “Most of the euro area countries are currently running a surplus, with the notable exception of France. Across countries, a debate has emerged in recent years regarding the nature of the large current account surplus, in particular in the larger euro area countries such as Germany and the Netherlands. Drivers of the German current account surplus are the high household saving rate and the increasing saving rates of the corporate and government sectors. It is also driven by weak investment dynamics, notably in the public sector, as evidenced by a persisting public sector investment differential compared to the euro area. Stronger investment demand in Germany would likely contribute to a more symmetric average euro area rebalancing (...) While current account balances have turned positive for many euro area countries, their levels are not high enough to foster quicker adjustment of the stock of external debt”.

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

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

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

The Commission noted in the [AMR 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 spillovers effects are most severe for open countries and those most intertwined in regional production networks”. The ECB occasional paper of June 2018 on “Macroeconomic imbalances in the euro area: where do we stand?” read “Most of the euro area countries are currently running a surplus, with the notable exception of France. Across countries, a debate has emerged in recent years regarding the nature of the large current account surplus, in particular in the larger euro area countries such as Germany and the Netherlands. Drivers of the German current account surplus are the high household saving rate and the increasing saving rates of the corporate and government sectors. It is also driven by weak investment dynamics, notably in the public sector, as evidenced by a persisting public sector investment differential compared to the euro area. Stronger investment demand in Germany would likely contribute to a more symmetric average euro area rebalancing (...) While current account balances have turned positive for many euro area countries, their levels are not high enough to foster quicker adjustment of the stock of external debt”. 

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

---


2 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.
In July 2021, the European Parliament adopted an own-initiative report on the reform of the macroeconomic legislative framework. While focusing mainly on the budgetary requirements, the report also devotes attention to the “Surveillance of macroeconomic imbalances” and states:

“(The European Parliament)... 49. Stresses the importance of the Macroeconomic Imbalance Procedure (MIP) in detecting, preventing and addressing macroeconomic imbalances in the EU; takes note of the findings of the European Court of Auditors that, although the MIP implementation mechanism is generally well designed, its potential has not been fully exploited in such a way as to ensure the effective prevention and correction of imbalances; further notes that the classification of Member States with imbalances lacks transparency, there is a lack of public awareness of the procedure and its implications, and the recommendations do not sufficiently promote policy actions in addressing those imbalances, notably in the euro area;

50. Calls for a more effective use of the Alert Mechanism Report (AMR), while taking note of the Commission’s latest technical revision of the MIP scoreboard, and welcomes the detailed and comprehensive analysis underpinning the report; insists that the macroeconomic imbalance procedure scoreboard must be focused and streamlined around meaningful indicators and thresholds that define more clearly imbalances in the euro area, as well as data-based and transparent; recalls that country-specific recommendations be forward-looking guidance addressed to Member States; considers that greater compliance with pared-back recommendations must be achieved and MIP-relevant country-specific recommendations should focus on policy actions that can have a direct impact on imbalances and be consistent with euro area recommendations when appropriate;

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

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

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

The Council, in its conclusions of July 2021, recalled that it will discuss the Macroeconomic Imbalance Procedure as part of the review of the economic governance.
Box 2: Excerpts from Council conclusions related to the MIP

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

- **Stresses the importance of the continued close EU economic policy coordination**, including detecting, preventing and correcting macroeconomic imbalances that hinder the proper functioning of Member State economies, the EMU or the EU economy as a whole. Welcomes the publication of the 2021 in-depth reviews in the context of the Macroeconomic Imbalance Procedure.

- **Shares the Commission’s assessment** that the COVID-19 crisis has not fundamentally altered the nature of Member States’ imbalances, while the crisis has implied a setback in the previously observed reduction of the imbalances and may increase the risks to macroeconomic stability. ... The public debt increased considerably due to necessary public support measures to cushion the impact of the shock, adding to already high debt ratios in several Member States prior to the COVID 19 crisis. The private debt (notably of companies) has increased to address revenue shortfalls ensuing from lockdowns; possible repayment difficulties may lead to an increase of non-performing loans, once the support measures are phased out. Current account deficits have remained broadly stable, except for Member States that suffered most from falling foreign tourism; large current account surpluses persist in some Member States, potentially with cross-border relevance. House prices have remained elevated in some Member States with a higher risk of overvaluation. At the same time, moderating wage growth reduced cost competitiveness pressures during the COVID-19 crisis.

- **Notes that it is still difficult to assess the full consequences of the crisis, including its structural effects... Calls for close monitoring of existing and possible emerging new imbalances and distinguishing between cyclical and structural factors.**

- **Agrees with the Commission confirmation** that 12 Member States analysed in the in-depth reviews are experiencing macroeconomic imbalances of various nature and degree of severity under the Macroeconomic Imbalance Procedure... and that excessive imbalances exist in three Member States (Greece, Italy and Cyprus).

- **Considers that the in-depth reviews present a high-quality and comprehensive analysis of the country situation in each Member State under review. Acknowledges that relevant analytical tools, complemented by substantive qualitative analysis, have been applied in view of the specific challenges of each economy. Welcomes the increased importance of forward-looking analysis in the context of the current high uncertainties. Underlines the continued high relevance of the assessment of cross-country spillover effects.**

- **Takes note that the assessment in the in-depth reviews was completed before the finalisation of recovery and resilience plans. Agrees that a swift, thorough and effective implementation of the Recovery and Resilience Facility provides an opportunity to reduce existing macroeconomic imbalances, by supporting reforms and investments that address structural challenges as identified in country specific recommendations in the 2019 and 2020 cycles of the European Semester..**

- **Underlines that the Macroeconomic Imbalance Procedure is a central procedure within the European Semester. Calls for continued implementation of the Macroeconomic Imbalance Procedure, in particular by maintaining a regular review of developments, including in the framework of specific monitoring, and examining potential and new emerging risks.**

- **Recalls that the Council will discuss the Macroeconomic Imbalance Procedure as part of the review of the economic governance.**

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:

- **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.**

- **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.**
3. Implementation of the MIP over time

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

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

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

Table 1: MIP stylised facts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Countries under adjustment programme</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(2) Countries subject to IDR, out of which*:</td>
<td>12</td>
<td>13</td>
<td>17</td>
<td>16</td>
<td>19</td>
<td>13</td>
<td>12</td>
<td>13</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>(2.1) Excessive imbalances with corrective action</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(2.2) Excessive imbalances</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>(2.3) Imbalances</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>(2.4) No imbalances detected in IDR</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>(3) Countries not subject to IDR (No imbalances)</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total = (1) + (2) + (3)</td>
<td>27</td>
<td>27</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

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

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

---

3 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.
3.2 Implementation of CSRs underpinned by the MIP

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

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

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

---

4 Macroeconomic imbalances typically take several years to correct, as different types of structural reforms produce the expected effects over variable time horizons; an IMF study shows that reforms in labour market may have a negative impact in the short term, while reforms in goods and services markets are visible in a shorter time lag. See also the Annex to the Commission Communication on Country Reports, where the Commission considers the “multiannual assessment of the CSRs implementation”.
The Commission did not publish an assessment of the rate of implementation of CSRs issued in 2020, due to the pandemic crisis. The implementation of CSRs issued in 2019 and 2020 is being assessed in the context of the RRF, both when assessing the national Recovery and Resilience Plans and when evaluating the targets indicated therein.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total MIP-CSRs Member States</td>
<td>36</td>
<td>56</td>
<td>66</td>
<td>57</td>
<td>45</td>
<td>35</td>
<td>32</td>
<td>40</td>
</tr>
<tr>
<td>2012</td>
<td>6%</td>
<td>43%</td>
<td>52%</td>
<td>52%</td>
<td>47%</td>
<td>40%</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>2013</td>
<td>37%</td>
<td>5%</td>
<td>44%</td>
<td>47%</td>
<td>40%</td>
<td>58%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2014</td>
<td>78%</td>
<td>5%</td>
<td>52%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2015</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2016</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2017</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2018</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
<tr>
<td>2019</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>40%</td>
<td>2%</td>
<td>63%</td>
<td>41%</td>
<td>53%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Joint SGP and MIP legal base</th>
<th>MIP legalbase</th>
</tr>
</thead>
<tbody>
<tr>
<td>EL</td>
<td>CSR1</td>
</tr>
<tr>
<td>IT</td>
<td>CSR1</td>
</tr>
<tr>
<td>CY</td>
<td>CSR1</td>
</tr>
</tbody>
</table>

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.
In its Staff Working Document 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 non-use of the EIP so far.”

ECOFIN Council
The Council, in its conclusions of July 2021, “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. Notes that under the present circumstances, the Commission has not deemed appropriate to launch the excessive imbalance procedure. 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 May 2020, 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 areas 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 the 2017 Art. IV consultation report on the euro area, “IMF Directors reiterated their call for stricter enforcement of the Macroeconomic Imbalances Procedure combined with incentives for structural reforms, such as targeted support from central funds and outcome based benchmarks.” The staff report reads “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.

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

Disclaimer and copyright. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2021.

Contact: eqov@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses
## Annex 1: The 2021 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2019)

<table>
<thead>
<tr>
<th>Year 2019</th>
<th>External imbalances and competitiveness</th>
<th>Internal imbalances</th>
<th>Employment Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Account Balance % of GDP 3 year average</td>
<td>Net International Investment Position % of GDP</td>
<td>Real Effective Exchange Rate with HICP deflator 3 year % change</td>
</tr>
<tr>
<td>BE</td>
<td>0.1</td>
<td>50.6</td>
<td>2.6</td>
</tr>
<tr>
<td>BG</td>
<td>2.5</td>
<td>-31.2</td>
<td>4.5</td>
</tr>
<tr>
<td>CZ</td>
<td>0.6</td>
<td>-20.3</td>
<td>8.7</td>
</tr>
<tr>
<td>DK</td>
<td>8.0</td>
<td>47.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>DE</td>
<td>7.4</td>
<td>71.7</td>
<td>2.1</td>
</tr>
<tr>
<td>EE</td>
<td>1.7</td>
<td>-21.4</td>
<td>0.2</td>
</tr>
<tr>
<td>IE</td>
<td>-1.6</td>
<td>-174.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>EL</td>
<td>-2.1</td>
<td>-155.9</td>
<td>0.3</td>
</tr>
<tr>
<td>ES</td>
<td>2.3</td>
<td>-73.9</td>
<td>1.7</td>
</tr>
<tr>
<td>FR</td>
<td>-0.7</td>
<td>-22.9</td>
<td>1.6</td>
</tr>
<tr>
<td>HR</td>
<td>2.6</td>
<td>-50.3</td>
<td>1.5</td>
</tr>
<tr>
<td>IT</td>
<td>2.7</td>
<td>-1.5</td>
<td>0.2</td>
</tr>
<tr>
<td>CY</td>
<td>-5.2</td>
<td>-122.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>LV</td>
<td>0.1</td>
<td>-41.7</td>
<td>3.7</td>
</tr>
<tr>
<td>LT</td>
<td>1.4</td>
<td>-24.1</td>
<td>3.7</td>
</tr>
<tr>
<td>LU</td>
<td>4.7</td>
<td>56.2</td>
<td>2.0</td>
</tr>
<tr>
<td>HU</td>
<td>0.7</td>
<td>-43.7</td>
<td>0.3</td>
</tr>
<tr>
<td>MT</td>
<td>5.1</td>
<td>54.6</td>
<td>1.3</td>
</tr>
<tr>
<td>NL</td>
<td>10.3</td>
<td>90.0</td>
<td>2.4</td>
</tr>
<tr>
<td>AT</td>
<td>1.8</td>
<td>12.1</td>
<td>2.1</td>
</tr>
<tr>
<td>PL</td>
<td>-0.4</td>
<td>-49.4</td>
<td>2.8</td>
</tr>
<tr>
<td>PT</td>
<td>0.5</td>
<td>-100.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>RO</td>
<td>-4.0</td>
<td>-43.5</td>
<td>0.2</td>
</tr>
<tr>
<td>SI</td>
<td>5.9</td>
<td>-15.1</td>
<td>1.0</td>
</tr>
<tr>
<td>SK</td>
<td>-2.3</td>
<td>-66.3</td>
<td>2.6</td>
</tr>
<tr>
<td>FI</td>
<td>-0.9</td>
<td>3.6</td>
<td>0.2</td>
</tr>
<tr>
<td>SE</td>
<td>3.3</td>
<td>18.2</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

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 In-depth-reviews of countries experiencing macroeconomic imbalances (Commission Communication 2 June 2021)

Germany is experiencing imbalances. The current account surplus persists at high levels reflecting a subdued level of investment relative to savings and has cross-border relevance. Following a gradual decline since 2015, the current account surplus is expected to increase in 2021 and to adjust again downwards in 2022, remaining elevated but below its pre-crisis level. In 2020, public investment growth accelerated further as a response to the crisis, while private investment fell. In 2020, higher net savings of the private sector were largely offset by a higher government deficit, leading to limited changes to the overall current account. Moreover, investment remains moderate as a share of GDP despite the favourable financing conditions and persistent investment needs already before the COVID-19 crisis and the low risk to fiscal sustainability in the medium term. The net savings of households further increased in 2020 amid absent spending possibilities and are expected to broadly return to their pre-pandemic level in 2022.

Ireland is experiencing imbalances. Vulnerabilities relate to large private and government debts and net external liabilities remain. Government debt remains high according to various metrics, with downside risks relating to possible changes in corporate taxation rules and reforms in international taxation. Private debt remains high. Corporate debt is inflated by the presence of multinational companies, most of which have very few linkages to the domestic economy. Household debt as a share of household gross disposable income remains amongst the highest in the EU. The net international investment position is still highly negative but improving and mostly reflects the activities of multinational firms and mutual funds with little connection to the domestic economy.

Greece is experiencing excessive imbalances. Vulnerabilities relate to high government debt, incomplete external rebalancing and high non-performing loans, in a context of high unemployment and low potential growth. The COVID-19 crisis has interrupted the adjustment process initiated in previous years. Government debt increased sizeably in 2020 and is expected to edge down only in 2022. Government debt is mostly held by official sector creditors, which, together with the large cash buffer, insulates Greece from short-term fluctuations. The current account deficit has widened recently and is forecast to remain large, in large part because of the impact of the COVID-19 crisis on the sizeable tourism sector. Despite marked decreases in recent years, non-performing loans remain large and risk increasing once temporary support measures are phased out. Efforts to strengthen growth prospects face headwinds from the depleted capital stock, an ageing population and outward migration of skilled labour. Low potential growth weighs on debt deleveraging.

Spain is experiencing imbalances. Vulnerabilities relate to high external and internal debt, both government and private in a context of high unemployment and have cross-border relevance. The net international investment position remains negative but should resume its gradual improvement in 2021. The negative impact of the COVID-19 crisis on tourism has been significant. The current account has worsened with the crisis but is expected to be around balance this year and next. Government debt increased substantially in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis; it is forecast to decrease more significantly next year on account of continuously high, yet improving, government deficits. The deleveraging by both the corporate and the household sectors halted in light of the COVID-19 crisis. The unemployment rate went up in 2020 and is forecast to start falling in 2022.

France is experiencing imbalances. Vulnerabilities relate to high government debt, weak competitiveness and low productivity growth, which have cross-border relevance. In 2020, government debt increased visibly with the recession and with the comprehensive measures to contain the COVID-19 crisis and is expected to edge down in 2022. Private debt is high and has also been growing for several years even if, in 2020, nominal debt increases were matched by an increase in firms’ liquidity buffers. Despite positive developments before the COVID-19 crisis, previous competitiveness losses have not been regained. In addition, long-term productivity growth remains moderate, which also prevents further competitiveness gains, hampers potential growth and that way limits the room for public and private deleveraging.
Croatia is experiencing imbalances. Vulnerabilities relate to government, private and external debt, in a context of low potential growth. The current account turned negative in 2020, reflecting the impact of the COVID-19 crisis on Croatia’s sizeable tourism sector, and is expected to recover only slowly. The negative net international investment position should resume its gradual improvement in 2021. The moderately high government debt ratio increased markedly in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis but is expected to return to a declining path this year. The private debt-to-GDP ratio increased in 2020, after several years of improvements, reflecting a sharp drop in GDP, accompanied by higher corporate borrowing needs. The banking sector has become more resilient, also since Croatia joined the Single Supervisory Mechanism, yet non-performing loans may increase once policies to protect corporates from the impact of the COVID-19 crisis are phased out.

Italy is experiencing excessive imbalances. Vulnerabilities relate to high government debt and protracted weak productivity dynamics, which have cross-border relevance in a context of labour market and banking sector fragilities. The government debt ratio increased sharply in 2020, reflecting the fall in GDP and the fiscal response to the COVID-19 crisis, and is expected to edge down only in 2022. Labour productivity increased in 2020 but long-term productivity growth remains constrained by barriers to private and public investment and by limits to growth of the most productive firms. Activity and employment rates remain below the EU average. The very sluggish productivity growth, together with low employment rates, hamper potential growth, which in turn limits the room for debt deleveraging. While the Italian banking sector became more robust and resilient in the pre-COVID-19 crisis years, vulnerabilities remain. Notably, non-performing loans declined in recent years but are still relatively high and risk increasing once temporary support measures are phased out.

Cyprus is experiencing excessive imbalances. Vulnerabilities relate to high stocks of external, government, and private debt, and still high non-performing loans, alongside a substantial current account deficit. The current account deficit deteriorated substantially in 2020 to a double-digit reading reflecting a marked drop in tourism exports amid the COVID-19 crisis and it is forecast to improve only slightly in the near term. External debt remains high and the negative net international investment position, even when excluding special purpose entities, is worsening in part due to the large current account deficits. The COVID-19 crisis interrupted the private sector deleveraging as the high debt ratios increased in 2020, mostly on account of the drop in GDP. Non-performing loans remain among the highest in the EU, despite visible reductions in recent years and risk increasing again once temporary support measures are phased out. The government debt ratio increased significantly in 2020 but is expected to return to a declining path already this year.

The Netherlands is experiencing imbalances. Private debt and the current account surplus remain high, and have cross-border relevance. The current account surplus declined in 2020. Nonetheless, it remains well above levels justified in light of the country’s economic fundamentals and is expected to remain high. Despite an ongoing pension reform and recent tax changes addressing incentives to retain earnings within small and medium size enterprises, the structural drivers underpinning high household and corporate savings remain in place. Part of the external surplus can be attributed to statistical features linked to the role of multinational firms and is not expected to attenuate in the near future. Private-sector debt remains high, partly due to intra-group debt of multinationals, and increased further as a share of GDP in 2020. Household debt is increasing from an already high level on the back of continued houseprice rises.

Portugal is experiencing imbalances. Vulnerabilities relate to large stocks of net external liabilities, private and government debt, and non-performing loans remain high, against a backdrop of low productivity growth. Government debt increased substantially in 2020 as a result of the recession and of the support measures put in place to cushion the impact of the crisis but it is forecast to decline moderately this year and next with narrowing budget deficits. The impact of the COVID-19 crisis on tourism is important, including for the near future. The current account turned into a deficit driven by the impact of the COVID-19 crisis on tourism. The negative net international investment position worsened in 2020 but should resume its gradual improvement this year. After the rapid deleveraging of recent years, private debt 16 increased in 2020, reflecting a sharp drop in GDP and financing needs of corporates in light of the crisis, while mortgage growth turned positive in 2020. Non-performing loans risk increasing once temporary support measures are phased out.
Romania is experiencing imbalances. Vulnerabilities relate to a persistent sizeable current account deficit in a context of large government deficits, while previous overheating pressures are receding. The large current account deficit is forecast to remain high even if moderating marginally, and the negative net international investment position is no longer improving. The large fiscal deficit is forecast to decline only gradually this year and next, owing to the recovery and some fiscal consolidation. Net savings by the domestic private sector are not enough to cover those high fiscal deficits, and financing has become more reliant on the accumulation of external debt. In contrast, competitiveness losses seem to be abating as overheating pressures of earlier years cooled with the COVID-19 crisis. Legislative unpredictability continues to weigh on the broader business environment.

Sweden is experiencing imbalances. Vulnerabilities relate to high and rising household debt and overvaluation risks in the housing market remain. Household debt has increased further and mortgage growth to households has remained strong. House prices have continued to increase, even faster than before the COVID-19 crisis, thereby compounding the risks of overvaluation. The banking sector is resilient, with relatively high profitability, ample liquidity, and comfortable capital levels, but elevated exposure to the commercial real estate market warrants attention.
Annex 3: Country Specific Recommendations underpinned by the 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.

<table>
<thead>
<tr>
<th>BG</th>
<th>2019 CSRs MIP: CSR 2</th>
<th>Assessment of implementation of 2019 CSRs</th>
<th>Bulgaria was considered not being at risk of macroeconomic imbalances in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>Some Progress.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DE</th>
<th>2019 CSRs MIP: CSR 1, 2</th>
<th>Assessment of implementation of 2019 CSRs</th>
<th>2020 CSR MIP: CSR 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Some Progress.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 2019 CSRs
**MIP: CSR 1, 3**
**Assessment of implementation of 2019 CSRs**

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)

### 2020 CSRs
**MIP: CSRs 1,2,4**

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.

### IE

<table>
<thead>
<tr>
<th>2019 CSRs</th>
<th>2020 CSRs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IE</strong></td>
<td><strong>IE</strong></td>
</tr>
<tr>
<td><strong>MIP: CSR 1, 3</strong></td>
<td><strong>MIP: CSRs 1,2,4</strong></td>
</tr>
<tr>
<td><strong>Assessment of implementation of 2019 CSRs</strong></td>
<td><strong>Assessment of implementation of 2020 CSRs</strong></td>
</tr>
</tbody>
</table>

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.

---

**MIP:** Ministry of Public Affairs

**MTO:** Medium-Term Objective

**IE:** Ireland

**CSR:** Country Specific Recommendation

**CSRs:** Country Specific Recommendations

**IE 2019:** Assessment of Implementation of 2019 CSRs

**IE 2020:** Assessment of Implementation of 2020 CSRs
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.

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.

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.

<table>
<thead>
<tr>
<th>EL</th>
<th>2019 CSRs MIP: CSR 1, 2 Assessment of implementation of 2019 CSRs</th>
<th>CSRs 2020 MIP: CSRs 1,2,3,4</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, R&amp;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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>
| 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.** | |
<table>
<thead>
<tr>
<th>FR</th>
<th>2019 CSRs</th>
<th>2020 CSRs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIP: CSR 1, 2, 3, 4</td>
<td>MIP: CSRs 1, 3, 4</td>
</tr>
<tr>
<td><strong>Assessment of implementation of 2019 CSRs</strong></td>
<td><strong>Assessment of implementation of 2020 CSRs</strong></td>
<td></td>
</tr>
<tr>
<td>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. <strong>Limited Progress</strong> (this overall assessment of CSR1 does not include a compliance assessment of compliance with the Stability and Growth Pact).</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>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. <strong>Limited Progress.</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>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. <strong>Some Progress.</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>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. <strong>Some Progress.</strong></td>
<td>4. Continue to improve the regulatory environment, reduce administrative burdens for firms and simplify the tax system.</td>
</tr>
<tr>
<td>HR</td>
<td>2019 CSRs Assessment of implementation of 2019 CSRs</td>
<td>2020 CSRs MIP: CSRs 1,2,3,4</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Some Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| IT | **2019 CSRs**  
MIP: CSR 1, 2, 3, 4, 5  
Assessment of implementation of 2019 CSRs | **2020 CSRs**  
MIP: CSRs 1, 2, 3, 4 |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>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. <strong>Some Progress</strong> (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact).</td>
<td>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.</td>
</tr>
<tr>
<td>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. <strong>Limited Progress.</strong></td>
<td>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.</td>
</tr>
<tr>
<td>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. <strong>Some Progress.</strong></td>
<td>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.</td>
</tr>
<tr>
<td>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. <strong>Limited progress.</strong></td>
<td>4. Improve the efficiency of the judicial system and the effectiveness of public administration.</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>CY</th>
<th>2019 CSRs MIP: CSR 1, 2, 3, 4, 5</th>
<th>Assessment of implementation of 2019 CSRs</th>
<th>2020 CSRs MIP: CSRs 1, 3, 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Some Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Limited Progress.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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.**

<table>
<thead>
<tr>
<th>Country</th>
<th>2019 CSRs MIP: CSR 1, 3 Assessment of implementation of 2019 CSRs</th>
<th>2020 CSRs MIP: CSR 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>NL</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td><strong>Some Progress.</strong></td>
<td><strong>Some Progress.</strong></td>
</tr>
</tbody>
</table>
| 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. | 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. |
| **Limited Progress**  
| (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact). |  
| 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. | 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. |
| **Some Progress**. |  
| 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. | 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. |
| **Limited Progress**. |  
| 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. | 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 |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>
**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. 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.

- introduced some changes in the calendar of the Semester and the MIP, namely:
  - it anticipated to November the draft Council recommendations for the euro area;
  - it anticipated the publication of the IDRs to February and integrated them in the Country reports. These reports constitute the basis for dialogues between the Commission and the Member States before submission of their National Reform Programmes, as well as for the preparations of the CSRs. They provide also an assessment of the implementation of the previous CSRs.

- 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**

<table>
<thead>
<tr>
<th>Previous categories (6)</th>
<th>Streamlined categories (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No imbalances</td>
<td>No imbalances</td>
</tr>
<tr>
<td>Imbalances, which require policy action and monitoring</td>
<td>Imbalances</td>
</tr>
<tr>
<td>Imbalances, which require decisive policy action and monitoring</td>
<td></td>
</tr>
<tr>
<td>Imbalances, which require decisive policy action and specific monitoring</td>
<td></td>
</tr>
<tr>
<td>Excessive imbalances, which require decisive policy action and specific monitoring</td>
<td>Excessive imbalances</td>
</tr>
<tr>
<td>Excessive imbalances with corrective action*</td>
<td>Excessive imbalances with corrective action*</td>
</tr>
</tbody>
</table>

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.

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 (see Section 2 above).

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