

## Economic Dialogue with Vice-President Olli Rehn on Macroeconomic Imbalances ECON - 25 April 2013

Vice-President Olli Rehn has been invited to an Economic Dialogue on the outcomes of the In-depth-reviews in the context of the **Macroeconomic Imbalance Procedure (MIP)**.

- On 10 April 2013, the European Commission (COM) published a [Communication](#) and the [2013 in-depth-reviews](#) for 13<sup>1</sup> Member States identified in the latest [Alert Mechanism Report](#) (November 2012).
- According to the COM, macroeconomic adjustment is taking place, though with differences in nature and pace across the Member States. **All the 13 countries are experiencing macroeconomic imbalances**, which deserves monitoring and policy action (See annexed Table 1 and Table 2 on the main outcomes of the reviews). For **Spain and Slovenia imbalances are excessive** and COM will consider whether further steps under the MIP-Regulation (i.e. proposing the Council to establish the existence of an Excessive Imbalance and request corrective actions) are needed in the context of the assessment of the National Reform Programmes and the Stability Programmes and the related Country Specific Recommendations (by the end of May 2013).
- In its recent Communication on a [Convergences and Competitive Instrument](#) the COM proposes that in future some national reforms and measures could be eligible to some sort of EU financial support. According to the COM, such measures, which the Member State commits to put in place, should be those emanating from the Country Specific Recommendations, in particular those related to the MIP.

### The Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure, as adopted in 2011<sup>2</sup>, aims at preventing and correcting macroeconomic imbalances<sup>3</sup> in Member States, with specific attention to imbalances with potential spill-over effects on other Member States. It relies on (see also attached graph):

1. **The Alert Mechanism Report (AMR)** - The AMR is published annually by the COM at the beginning of the European Semester. The AMR is based on a [scoreboard](#)<sup>4</sup> of indicators and thresholds, used to facilitate the identification and monitoring of potential external or internal imbalances. For each indicator, the threshold<sup>5</sup> signals that a specific problem might arise. Member States with indicators beyond these thresholds are submitted to an "in-depth review", i.e. a further economic analysis by COM.

<sup>1</sup> The in-depth-review for Cyprus was not published as Cyprus entered a financial assistance programme.

<sup>2</sup> Within the six-pack: [Regulation \(EU\) No 1176/2011 on the prevention and correction of macroeconomic imbalances](#); and [Regulation \(EU\) No 1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area](#)

<sup>3</sup> [COM webpage](#) on the Macroeconomic Imbalance Procedure.

<sup>4</sup> [Scoreboard data platform](#): Interactive Eurostat database with updated indicators of the scoreboard and additional 'reading' indicators.

<sup>5</sup> Some of the thresholds are differentiated for Euro-area and non Euro-area Member States.

2. **Preventive recommendations** - If, on the basis of the outcomes of the "in-depth-review", COM finds that *macroeconomic imbalances* exist, it informs the EP, the Council and the Eurogroup. The Council, on a recommendation from the COM, may then address a recommendation to the Member State concerned (in accordance with procedure set out in Art. 121(2) TFEU). These preventive MIP-recommendations form part of the "Country Specific Recommendations" addressed to each Member State in July by the Council, within the European Semester framework.
3. **Corrective recommendations within Excessive Imbalance Procedure (EIP)** - If, on the basis of the in-depth review, COM identifies *excessive imbalances*, it informs the EP, the Council, the Eurogroup, the relevant European Supervisory Authorities and the ESRB. The Council, on a recommendation from the COM, may establish the existence of excessive imbalance and recommend corrective action (in accordance with Article 121(4) TFEU). The Council's recommendation sets out the nature and implications of the imbalances, and specifies the policy recommendations to be followed and a deadline within which the Member State concerned is to submit a corrective action plan.
4. **Corrective action plan** - The Member State for which an EIP is opened submits a corrective action plan within the deadline established in the Council's recommendation. The Council, on the basis of a COM report, assesses the corrective action plan within 2 months. If this is deemed insufficient, the Council can ask the Member State to submit a new corrective action plan.
5. **Assessment of corrective action** - On the basis of COM reports, the Council assesses whether the Member State concerned has taken the recommended corrective actions. Where it considers that the Member State has not taken the recommended corrective action, the Council, on a recommendation from the COM, adopts a decision (based on reversed QMV) establishing non-compliance, together with a recommendation setting new deadlines for taking corrective action.
6. **Potential financial sanctions** - The Euro-area Member States which do not follow up on recommendations under the EIP may be imposed gradual sanctions, ranging from an interest-bearing deposit to annual fines. The interest-bearing deposit or the fine shall be 0.1% of the national GDP.

### The 2012 Semester Cycle

In the framework of the 2012 EU Semester, the COM published the [first AMR](#) in February 2012. It identified twelve Member States as warranting an "in-depth review". Member States under a financial assistance programme (EL, PT, IE and RO) were not subject to in-depth review.

In May 2012, the COM published the twelve in-depth reviews, which examined the origin, the nature and the severity of possible macroeconomic imbalances for: [Belgium](#), [Bulgaria](#), [Denmark](#), [Spain](#), [France](#), [Italy](#), [Cyprus](#), [Hungary](#), [Slovenia](#), [Finland](#), [Sweden](#), [United Kingdom](#). No Member State was placed under EIP.

The outcomes of these in-depth reviews constituted the basis for recommendations integrated in the [Country Specific Recommendations](#) as adopted by the Council in July 2012 (see Table 1 in the Annex).

## **The 2013 Semester Cycle**

Within the 2013 EU Semester, COM published the [second AMR](#) on 28 November 2012. The report concluded that, compared to the AMR 2012, two additional MS were subject to in-depth review: the Netherlands and Malta (see annexed Table 3).

In 2013 the COM added to the scoreboard a [new financial indicator](#), namely the growth of liabilities of the financial sector.

The COM also published an analytical [paper](#) on current account surpluses in the EU as a contribution to the debate on this issue.

On 10 April 2013, COM published a [Communication](#) and the [2013 in-depth-reviews](#) for the 13<sup>6</sup> Member States identified in the latest AMR.

## **Role of the European Parliament**

In the context of the Economic Dialogue established in the Regulations related to macro-economic imbalance surveillance, the competent committee of the European Parliament may invite the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup to discuss their decisions or present their activities in this context.

The European Parliament may also offer the opportunity to participate in an exchange of views to a Member State which is the subject of a Council decision under the excessive imbalance procedure.

In the context of the MIP, the COM shall consult the EP and the Council when defining the set of macroeconomic indicators included in the scoreboard used for monitoring the existence of macro-economic imbalances.

The COM shall transmit the AMR to the EP and inform it about the results of the "in-depth reviews". The Council shall inform the EP of any preventive recommendations it may adopt and it may decide to make any corrective recommendations public.

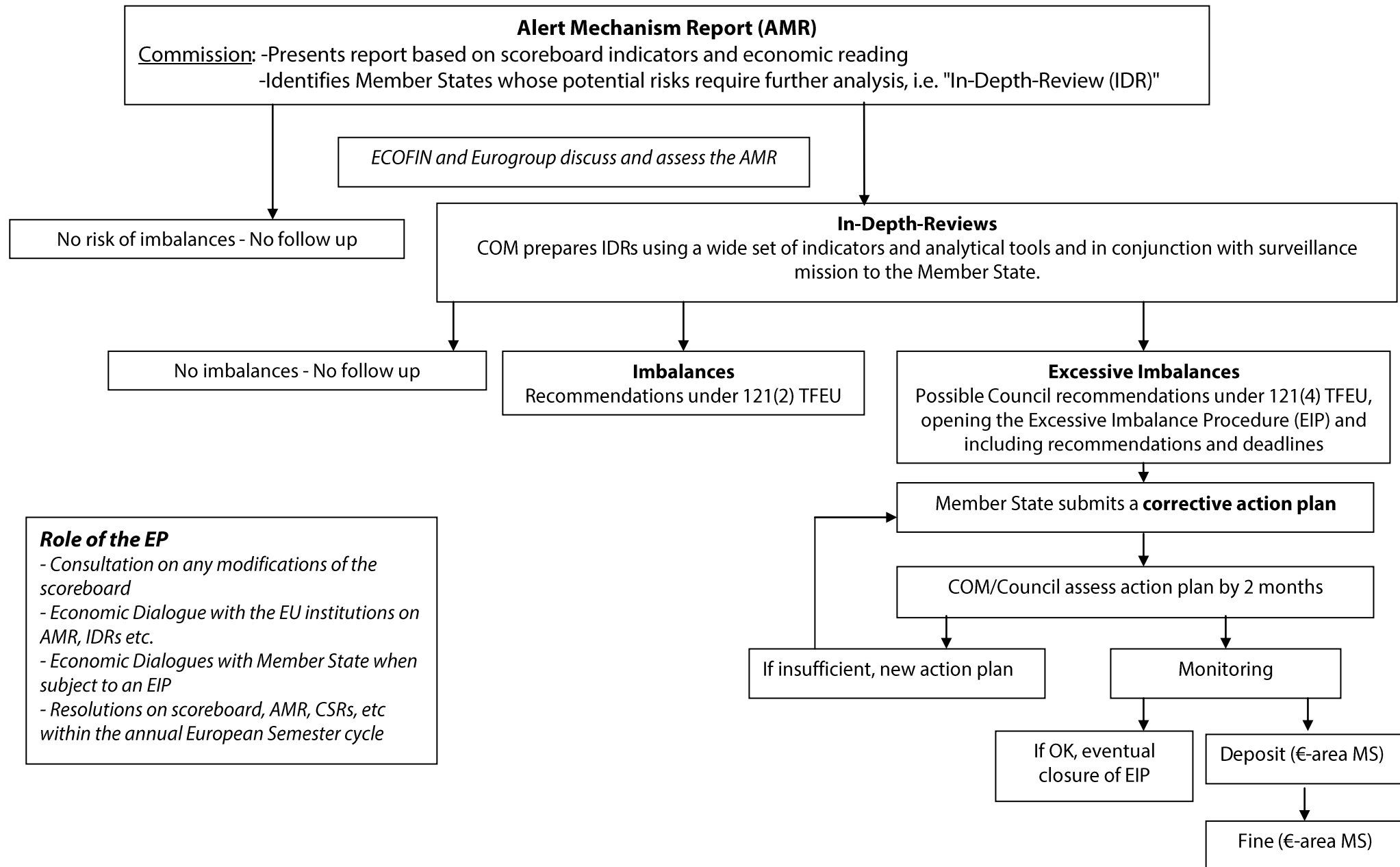
## **ANNEXES**

1. Graph: the MIP procedures
2. TABLE 1: Main conclusion by the COM of the In Depth Reviews, April 2013
3. TABLE 2: Main outcomes of MIP in 2012 and 2013
4. TABLE 3: The scoreboard for the identification of possible macro-economic imbalances
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<sup>6</sup> The in-depth-review for Cyprus was not published as Cyprus entered a financial assistance programme.

## The Macroeconomic Imbalance Procedure (MIP)



**TABLE 1: Main conclusion by the COM of the In Depth Reviews, April 2013**

**Belgium** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, macroeconomic developments in the areas of external competitiveness of goods, and indebtedness, especially concerning the implications of the high level of public debt for the real economy, continue to deserve attention.*

**Bulgaria** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, the impact of deleveraging in the corporate sector as well as the continuous adjustment of external positions, competitiveness and labour markets deserve continued attention.*

**Denmark** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, the continuing adjustment in housing markets and the still high level of indebtedness in the private sector, especially for households, as well as drivers of external competitiveness, deserve continued attention.*

**France** is experiencing macroeconomic imbalances, which require monitoring and decisive policy action. *In particular, developments related to export performance and competitiveness, driven both by cost and non-cost factors, also in the context of a deteriorating external position and high public debt deserve continued attention so as to reduce the risk of adverse effects on the functioning of the French economy and of the Economic and Monetary Union.*

**Italy** is experiencing macroeconomic imbalances, which require monitoring and decisive policy action. *In particular, macroeconomic developments in the areas of export performance and the underlying loss of competitiveness as well as high public indebtedness in an environment of subdued growth deserve continued attention in order to reduce the risk of adverse effects on the functioning of the Italian economy and of the Economic and Monetary Union.*

**Hungary** is experiencing macroeconomic imbalances, which deserve monitoring and decisive policy action. *In particular, the on-going adjustment of Hungary's large stocks of public and private debt (including external debt) and a weak business environment continue to deserve very close attention so as to reduce the important risks of adverse effects on the functioning of the economy.*

**Malta** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, the high corporate and government debt levels warrant attention to ensure the long-term sustainability of the public finances. Moreover the very large financial sector, and then, in particular, the strong link between the domestically-oriented banks and the housing market and construction sector, which are in the process of adjusting, pose challenges and deserves continued monitoring.*

**The Netherlands** are experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, macroeconomic developments regarding private sector debt and deleveraging pressures, also coupled with remaining inefficiencies in the housing market deserve attention. Although the large current account surplus does not raise risks similar to large deficits, the Commission will also continue monitoring the developments of the current account in the Netherlands.*

**Finland** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, the substantial deterioration in the current account position and the weak export performance, driven by industrial restructuring, as well as cost and non-cost competitiveness factors, deserve continued attention.*

**Slovenia** is experiencing excessive macroeconomic imbalances. Urgent policy action is needed to halt the rapid build-up of these imbalances and to manage their unwinding. *Until now, the levels of private and public debt are below the alert thresholds of the scoreboard and also net external debt is relatively contained. However, in a context of accelerating negative economic trends, the risk of financial sector stability stemming from corporate indebtedness and deleveraging is substantial, including through inter-linkages with the level of sovereign debt. These risks are compounded by limited adjustment capacity in labour and capital markets and by an economic structure dominated by state-ownership.*

**Spain** is experiencing excessive macroeconomic imbalances. Although adjustment is taking place, the magnitude of the necessary correction requires continuous strong policy action. *In particular, very high domestic and external debt levels continue to pose risks for growth and financial stability. The decisive policy action at the EU level and by Spain itself has resulted in a visible adjustment in the current account balance, reduction in financing costs and a reduction of immediate risks. However, developments over the last year, including further contraction in economic activity, rising unemployment, and the need for public support for the recapitalisation of a number of banks, have exposed the vulnerabilities represented by those imbalances for growth, employment, public finances and financial stability.*

**Sweden** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, macroeconomic developments regarding private sector debt and deleveraging, coupled with remaining inefficiencies in the housing market deserve continued attention. Although the large current account surplus does not raise risks similar to large deficits the Commission will continue monitoring the developments of the current account in Sweden.*

**The United Kingdom** is experiencing macroeconomic imbalances, which deserve monitoring and policy action. *In particular, macroeconomic developments in the areas of household debt, linked to the high levels of mortgage debt and the characteristics of the housing market, as well as unfavourable developments in external competitiveness, especially as regards goods exports and weak productivity growth, continue to deserve attention.*

**TABLE 2: Main outcomes of MIP in 2012 and 2013**

Member State	Year	Macroeconomic imbalances identified in the "in-depth reviews" in 2012 and 2013	<a href="#">The Country Specific Recommendations with specific references to MIP July 2012</a>	Link to CSR 2012
BE	<a href="#">2012</a>	"Imbalances"	CSR 1 (fiscal); CSR 4 (wages);	<a href="#">BE</a>
	<a href="#">2013</a>	"Imbalances requiring policy action"	CSR 5 (labour market); CSR 6 (competition)	
BG	<a href="#">2012</a>	"Imbalances"	CSR 3 (employment);	<a href="#">BG</a>
	<a href="#">2013</a>	"Imbalances - policy action"	CSR 5 (business environment)	
DK	<a href="#">2012</a>	"Imbalances"	CSR 3 (productivity); CSR 4(competition);	<a href="#">DK</a>
	<a href="#">2013</a>	"Imbalances - policy action"	CSR 5 (housing)	
ES	<a href="#">2012</a>	"Very serious imbalances"	CSR 1 (fiscal); CSR 3 (labour tax);	<a href="#">ES</a>
	<a href="#">2013</a>	"Excessive imbalances requiring continuous strong policy action"	CSR 4 (banks); CSR 5 (labour market); CSR 8 (competition)	
FR	<a href="#">2012</a>	"Serious imbalances"	CSR 2( fiscal); CSR 4 (labour costs);	<a href="#">FR</a>
	<a href="#">2013</a>	"Imbalances requiring decisive policy action"	CSR 5 (business environment )	
CY	<a href="#">2012</a>	"Very serious imbalances"	CSR 1 (fiscal), CSR 2 (banks);	<a href="#">CY</a>
	-	-	CSR 7 (competitiveness)	
IT	<a href="#">2012</a>	"Serious imbalances"	CSR 1 (fiscal), CSR 4 (labour),	<a href="#">IT</a>
	<a href="#">2013</a>	"Imbalances - decisive policy action"	CSR 5 (taxes) , CSR 6 (competition)	
HU	<a href="#">2012</a>	"Serious imbalances"	CSR 1 (fiscal); CSR 3 (labour incentives);	<a href="#">HU</a>
	<a href="#">2013</a>	"Imbalances requiring monitoring and decisive policy action"	CSR 4 (labour market); CSR 5 (business environment)	
MT	<a href="#">2013</a>	"Imbalances - policy action"	No MIP recommendations in 2012	
NL	<a href="#">2013</a>	"Imbalances - policy action"	No MIP recommendations in 2012	
SI	<a href="#">2012</a>	"Serious imbalances"	CSR 3(banks ); CSR 6 (business environment );	<a href="#">SI</a>
	<a href="#">2013</a>	"Excessive imbalances requiring urgent policy action"	CSR 7 (wages)	
FI	<a href="#">2012</a>	"Imbalances"	CSR 5 (competitiveness)	<a href="#">FI</a>
	<a href="#">2013</a>	"Imbalances - policy action"		
SE	<a href="#">2012</a>	"Imbalances"	CSR 2 (housing)	<a href="#">SE</a>
	<a href="#">2013</a>	"Imbalances - policy action"		
UK	<a href="#">2012</a>	"Imbalances"	CSR 2 (housing); CSR 3 and CSR 6 (broad links to productivity)	<a href="#">UK</a>
	<a href="#">2013</a>	"Imbalances - policy action"		




**TABLE 3: The scoreboard for the identification of possible macro-economic imbalances**

Values for year 2011	External imbalances and competitiveness					Internal imbalances					
	3 year average of Current Account Balance as % of GDP	Net International Investment Position as % of GDP	% Change (3 years) of Real Effective Exchange Rate with HICP deflators	% Change (5 years) in Export Market Shares	% Change (3 years) in Nominal ULC	% y-o-y change in deflated House Prices	Private Sector Credit Flow as % of GDP	Private Sector Debt as % of GDP	General Government Debt as % of GDP	Unemployment rate - 3 year average	% y-o-y Change in Total Financial Sector Liabilities, non-consolidated
Thresholds	-4/+6%	-35%	±5% (EA) ± 11%	-6%	+9% (EA) + 12%	+6%	15%	160%	60%	10%	16.5%
BE	-0.2	65.7	-0.5	-10.1	6.3	0.9	13.8	237.8	97.8	7.8	4.7
BG	-3.4	-85.8	3.1	17.2	22.6	-9.7	-6.7	146	16.3	9.4	5.6
CZ	-3.0	-47.3	0.3	6.9	3.3	-0.5	2.5	78.1	40.8	6.9	3.8
DK	5.0	27.1	-1.7	-16.9	4.7	-3.5	-2.2	237.6	46.4	7.0	4.7
DE	6.1	32.6	-3.9	-6.9	5.9	1.4	4.8	127.8	80.5	6.9	2.1
EE	2.8	-57.8	0.8	11.0	-6.2	3.3	6.8	132.9	6.1	14.4	-4.4
IE	0.0	-96.0	-9.1	-12.2	-13.0	-15.1	4.0	309.5	105.1	13.5	-0.6
EL	-10.4	-86.1	3.1	-18.7	4.1	-5.1	-5.5	125	170.6	13.2	-3.4
ES	-4.3	-91.3	-1.3	-7.7	-2.1	-10.0	-4.1	218.1	69.3	19.9	3.7
FR	-1.6	-15.9	-3.2	-11.2	6.0	3.7	4.0	160.4	86.0	9.6	7.3
IT	-2.9	-20.7	-2.1	-18.3	4.9	-2.0	2.6	128.6	120.8	8.2	3.8
CY	-8.4	-71.3	-0.9	-16.4	8.5	-8.5	19.9	289.4	71.1	6.6	-0.2
LV	3.1	-73.3	-0.6	23.6	-15.7	4.7	-2.5	125.1	42.2	18.1	-4.5
LT	0.0	-52.6	3.6	25.1	-8.4	2.4	-0.8	70.1	38.5	15.6	8.9
LU	7.5	107.8	0.8	-10.1	12.5	1.5	2.5	326.3	18.3	4.8	11.3
HU	0.6	-106.3	-3.3	-2.6	3.7	-7.6	6.6	167.7	81.4	10.7	-2.6
MT	-4.1	7.5	-3.0	10.9	8.0	-2.2	2.2	209.9	70.3	6.8	1.4
NL	7.7	36.2	-1.6	-8.3	5.8	-4.0	0.7	224.6	65.5	4.2	7.2
AT	2.5	-0.5	-1.0	-12.7	5.9	-7.9	4.1	160.7	72.4	4.4	-0.3
PL	-4.6	-63.5	-10.9	12.8	4.1	-5.8	7.1	79.5	56.2	9.2	4.4
PT	-9.5	-104.9	-1.9	-8.7	1.0	-5.3	1.5	253.6	108	11.9	-0.7
RO	-4.3	-65.5	-2.4	23.4	1.3	-17.7	1.8	71.8	34.7	7.2	4.3
SI	-0.4	-41.2	-0.3	-6.1	8.3	1.0	1.9	128.3	46.9	7.1	-1.3
SK	-2.8	-64.4	4.3	22.0	4.4	-5.2	3.3	76.3	43.3	13.4	1.2
FI	0.6	15.7	-1.3	-23.5	9.1	-0.3	4.6	178.8	49	8.1	30.8
SE	6.9	-6.9	3.9	-11.7	1.5	1.0	10.9	256.4	38.4	8.2	3.6
UK	-2.0	-17.0	-7.1	-24.2	8.2	-5.3	1.7	206.4	85.2	7.8	8.5

Source: European Commission - [Eurostat specific page](#) with updated figures, accessed on 17 April 2013.

For the scoreboard used in November 2012, see [AMR 2013](#).

 : above threshold.

**TABLE 4: Europe 2020 targets and progress**

<b>Employment rate</b> (% of population)	<b>EU 2020 - target</b>	<b>75</b>
	2012	68.5
	2011	68.6
	2010	68.5
	2009	69.0
<b>Expenditure on R&amp;D</b> (% of GDP)	<b>2020 target</b>	<b>3</b>
	2012	n.a.
	2011	2.03
	2010	2.01
	2009	2.02
<b>CO2 emission reduction</b> (Index=1990)	<b>2020 target</b>	<b>80</b>
	2012	n.a.
	2011	n.a.
	2010	85
	2009	83
<b>Share of renewable energy</b> (%)	<b>2020 target</b>	<b>20</b>
	2012	n.a.
	2011	n.a.
	2010	12.5
	2009	11.7
<b>Primary energy consumption</b> (1 000 tonnes of oil equivalent-TOE)	<b>2002 target</b>	<b>1 474 000</b>
	2012	n.a.
	2011	n.a.
	2010	1 646 839
	2009	1 596 185
<b>Early school leaving</b> (% of population aged 18-24)	<b>2020 target</b>	<b>10</b>
	2012	12.8
	2011	13.5
	2010	14.0
	2009	14.3
<b>Tertiary educational attainment</b> (% of population aged 30-34)	<b>2020 target</b>	<b>40</b>
	2012	35.8
	2011	34.6
	2010	33.5
	2009	32.2
<b>Population at risk of poverty or social exclusion</b> (thousand)	<b>2020 target</b>	<b>reduce by 20 million</b>
	2012	n.a.
	2011	n.a.
	2010	116 309
	2009	113 773

Source: [Eurostat](#), [European Commission](#)

\*Mtoe (Million Tones of Oil equivalent)