

Box 5

THE 2015 MACROECONOMIC IMBALANCE PROCEDURE

The macroeconomic imbalance procedure (MIP), introduced in November 2011, is a cornerstone of the EU's strengthened governance framework, which aims to prevent the emergence of harmful macroeconomic imbalances and to correct them when they are excessive. The MIP covers all EU Member States, with the exception of those subject to a macroeconomic adjustment programme. Following a first screening on the basis of a set of indicators, the Commission conducts in-depth reviews for a selected group of countries to assess the severity of the imbalances signalled by the indicators. If it concludes that imbalances are indeed present, the Member State concerned receives policy recommendations from the EU Council based on the recommendation of the Commission (preventive arm). By contrast, if imbalances are found to be excessive the excessive imbalance procedure should be initiated on a recommendation from the Commission.¹ Under this corrective arm, the country concerned has to submit a corrective action plan outlining policy measures to address the excessive imbalances, which must be endorsed by the Council. In case of repeated failure to present an adequate plan or in case of non-compliance with an approved plan, the Council may impose financial sanctions on the euro area country in question.

Outcome of the 2015 in-depth review

The outcome of the 2015 in-depth review shows that the European Commission has identified five countries with excessive imbalances: Bulgaria, France, Croatia, Italy and Portugal. The Commission decided to step up the procedure for Germany (from level 2 to 3), France (from level 4 to 5) and significantly for Bulgaria (from level 2 to 5), and to de-escalate the procedure for Slovenia (from level 5 to 4). Italy and Croatia have been in the same category since 2014. This year, Romania (level 2) and Portugal (level 5) have entered the procedure, following the end of their macroeconomic adjustment programmes. It is the first year that the Commission has formally introduced the classification of imbalances in six levels, although these were already implicitly used in the 2014 exercise (see Table A).

Table A Macroeconomic imbalance procedure categories

1		2		3		4		5		6	
2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
DK	DK	BE	BE	HU	HU	IE	IE	HR	HR		
LU	LU	BG	NL		DE	ES	ES	IT	FR		
MT	MT	DE	SE			FR	SI	SI	IT		
AT	AT	NL	RO						PT		
LT	LT	SE	UK						BG		
LV	LV	UK	FI								
EE	EE	FI									
PO	PO										
CZ	CZ										
SK	SK										

Source: European Commission.

Legend: 1 = No imbalances; 2 = Imbalances which require monitoring and policy action; 3 = Imbalances which require monitoring and decisive policy action; 4 = Imbalances which require specific monitoring and decisive policy action; 5 = Excessive imbalances which require specific monitoring and decisive policy action; 6 = Excessive imbalances which require decisive policy action and the activation of the excessive imbalance procedure. Colour code: Red for countries with a de-escalation of the procedure, green for countries with a stepping-down and blue for the countries which entered the procedure in 2015.

¹ Recital 22 of EU Regulation No 1176/2011 on the prevention and correction of macroeconomic imbalances.

Despite having identified excessive imbalances in five countries, the Commission is currently not proposing to activate the excessive imbalance procedure (EIP). The Commission has thus decided not to make full use of all available steps under the MIP, i.e. the corrective arm of the procedure. In the cases of Croatia and France, however, the Commission did announce that it was considering opening an EIP in May 2015 should the respective governments not have committed to implementing decisive structural reforms by then.

Reflections on the 2015 in-depth review conclusions

The outcome of the 2015 in-depth review shows that the imbalances are becoming increasingly severe in a number of countries. This outcome is concerning because one of the key reasons for introducing the MIP was to help prevent the emergence of harmful imbalances and foster the unwinding of already existing imbalances. However, every year the number of countries with excessive imbalances is growing (from zero in 2012 to five in 2015), whereas the EIP has been never invoked by the Commission. This raises questions about the application of the procedure and the effectiveness of its preventive arm.

Insufficient implementation of country-specific reform recommendations

The Commission gives an important weight to policy commitments in assessing the degree of severity of imbalances. While credible commitments are a necessary step for reforms to happen, assessing the degree of imbalances should be mainly based on effective policy action. Past experiences have shown that policy announcements very often have not been implemented, as confirmed by the Commission's assessment of the implementation of country-specific recommendations (CSRs), which raises concerns about the progress made (see Table B).

Table B European Commission assessment of the implementation of the 2014 country-specific recommendations

Reform recommendations	BE	BG	HR	CZ	DK	DE	EE	ES	FR	IE	IT	LV	LT	LU	HU	MT	NL	AT	PT	PL	RO	SI	SK	FI	SE	UK
1	no progress	no progress	no progress	some progress	substantial progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress	limited progress
2	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
3	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
4	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
5	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
6	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
7	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress
8	limited progress	limited progress	limited progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress	some progress

Source: European Commission.

Notes: The following categories are used to assess progress in implementing the 2014 CSRs: No progress: The Member State has neither announced nor adopted any measures to address the CSRs. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSRs, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSRs. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way towards addressing the CSRs. Fully addressed: The Member State has adopted and implemented measures that address the CSRs appropriately.

Focusing on the euro area countries, the Commission concludes that none of them has fully addressed any of the 2014 recommendations. While in some countries the reform effort has been stepped up, in the majority of the countries progress has been rather limited (see Table B) and not commensurate with the remaining vulnerabilities. In particular, among the countries which were expected to take “decisive policy action” during the 2014 MIP (i.e. the countries in categories 4 and 5 of Table A), Spain, Ireland and Italy made “some” progress on the majority of the CSRs, while France made “limited” progress on the majority of the CSRs. This assessment appears to be in contrast with the (repeated) call for “decisive policy action” made by the Commission and points to a weakness of the preventive arm of the MIP. Given the need to reduce vulnerabilities and boost sustainable growth in the above countries and in the rest of the euro area, the lack of progress calls for a major stepping-up of the reform effort.

It is important to make full and effective use of the instruments of the MIP, including its corrective arm, in order to reduce the potential risks to the smooth functioning of EMU.