

Box 7

THE 2013 MACROECONOMIC IMBALANCE PROCEDURE

The Macroeconomic Imbalance Procedure (MIP), a new cornerstone of the EU's strengthened governance framework¹, is a macroeconomic surveillance tool which aims to prevent the emergence of harmful macroeconomic imbalances and to correct such imbalances where they become excessive.

¹ See the article entitled "The reform of economic governance in the euro area – essential elements", *Monthly Bulletin*, ECB, March 2011.

The MIP covers all EU Member States (with the exception of those currently subject to an EU-IMF programme) and starts with the publication of the Alert Mechanism Report.² In this report, the European Commission provides an economic reading of the scoreboard of 11 indicators and corresponding thresholds. The scoreboard facilitates the early identification of macroeconomic imbalances. On the basis of the report, the Commission decides which countries require an in-depth review to assess whether the early identification of imbalances can be confirmed. Where 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. This is the “preventive arm” of the MIP. Further to this, where macroeconomic imbalances are found to be sufficiently severe to be considered excessive, “an excessive imbalance procedure should be initiated” by the Council under the “corrective arm” of the MIP on a recommendation from the Commission.³ Under this corrective arm, the country concerned has to submit a corrective action plan outlining policy measures aimed at addressing 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 euro area countries.

The MIP was launched for the second time as part of the 2013 European Semester. The Alert Mechanism Report, published on 28 November 2012, identified 14 countries for an in-depth review, including nine euro area countries (Belgium, Spain, France, Italy, Cyprus, Malta, the Netherlands, Slovenia and Finland) and five non-euro area EU countries (Bulgaria, Denmark, Hungary, Sweden and the United Kingdom). Except for Malta and the Netherlands, which were identified for the first time, all the other countries had already been subject to an in-depth review in 2012. On 10 April 2013 the Commission concluded that the analysis provided in the in-depth reviews showed that Spain and Slovenia are “experiencing excessive macroeconomic imbalances”, while the other 11 countries are “experiencing macroeconomic imbalances”. Cyprus has been excluded from the MIP as a political agreement was reached on the conclusion of a financial assistance programme. Among the 11 countries, the Commission sees a need for “decisive policy action” in France, Italy and Hungary, whereas it sees a need for “policy action” in Belgium, Bulgaria, Denmark, Malta, the Netherlands, Finland, Sweden and the United Kingdom.

In its communication on the results of the in-depth reviews, the Commission announced that the 11 countries experiencing macroeconomic imbalances will receive recommendations under the preventive arm of the MIP. By contrast, for Spain and Slovenia, the decision on the follow-up has been delayed as the Commission has made it dependent on its assessment of the policy measures the two countries will put forward in their National Reform Programmes and Stability Programmes in May. Hence, while having identified excessive imbalances, and thus clear risks to the proper functioning of Economic and Monetary Union, the Commission has not yet decided to use the full procedural rigour provided for by the Excessive Imbalance Procedure (i.e. the corrective arm of the MIP). For this, it would be necessary for the Commission to make a recommendation to the Council so that the latter can confirm the existence of an excessive imbalance and recommend corrective action.

² For a description of the MIP, including the set of indicators covered in the scoreboard, see the box entitled “The 2012 Macroeconomic Imbalance Procedure”, *Monthly Bulletin*, ECB, June 2012. Details of the MIP are provided in Regulations (EU) No 1176/2011 of 16 November 2011 and No 1174/2011 of 16 November 2011.

³ Recital 22 of EU Regulation No 1176/2011 on the prevention and correction of macroeconomic imbalances.

The effectiveness and credibility of the MIP rests on the full implementation of the procedure, including its corrective arm. The latter is essential: (i) to prevent a renewed build-up of imbalances and vulnerabilities like those that lie at the heart of the current difficulties in some euro area countries; and (ii) to achieve an orderly adjustment of existing excessive imbalances. With hindsight, it is clear that it would have been advisable to have already initiated the Excessive Imbalance Procedure for Cyprus and Spain in 2012, as this would have helped to address these countries' macroeconomic imbalances earlier in the context of a structured EU procedure. Making full and effective use of the instruments of the MIP is thus important for reducing risks to the proper functioning of Economic and Monetary Union in the future.