

8 The European Commission's 2018 assessment of macroeconomic imbalances and progress on reforms

Prepared by Nico Zorell

The European Commission's 2018 assessment of macroeconomic imbalances and progress on reforms provides confirmation that greater efforts are needed in many EU Member States in order to advance economic growth and resilience on a more sustainable basis.

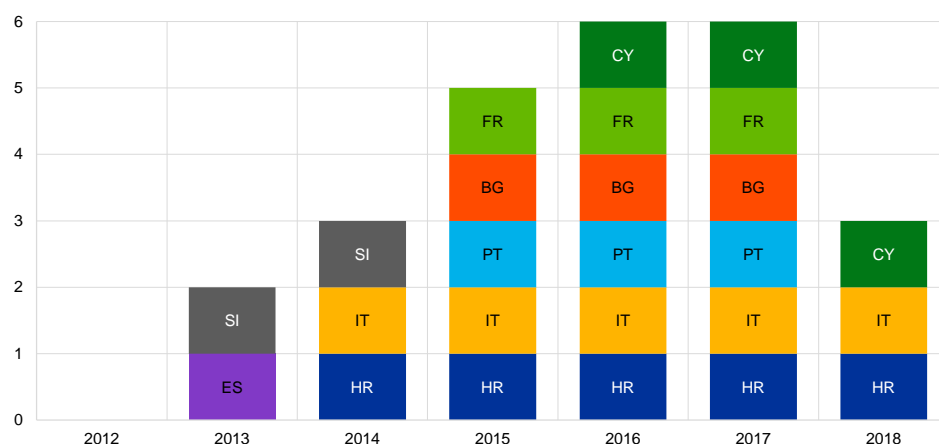
The Commission's assessment, published on 7 March 2018, is an integral part of the European Semester and its macroeconomic imbalance procedure (MIP).

The European Semester provides a framework for the coordination of economic and fiscal policies across the EU. Within this framework, the MIP aims to prevent the emergence of harmful macroeconomic imbalances in EU Member States and to correct them where they are assessed as excessive. Following a screening exercise in autumn each year on the basis of a standardised scoreboard, the European Commission conducts in-depth reviews (IDRs) of the selected countries. If imbalances are found to exist, the Member State concerned receives policy recommendations under the preventive arm of the MIP. For imbalances that are found to be excessive, the Commission may step up the procedure by initiating the excessive imbalance procedure (EIP) with a recommendation to the Council of the European Union. Under this corrective arm of the procedure, a corrective action plan must be provided by the Member State concerned and financial sanctions can be imposed.

The Commission's 2018 assessment points to a gradual unwinding of macroeconomic imbalances across EU Member States. The number of countries identified by the Commission as experiencing excessive imbalances has declined for the first time since the introduction of the MIP in 2011. Only three Member States (Croatia, Italy and Cyprus) now remain in this group (see Chart A). For the past three years Bulgaria, France and Portugal were also included; however, following improvements, they are now assessed by the Commission as experiencing imbalances (rather than excessive imbalances) (see Table A). The same classification remains in place in respect of Germany, Ireland, Spain, the Netherlands and Sweden, despite recent progress in reducing some of the imbalances in these countries. In the case of Slovenia, the Commission has concluded that the imbalances identified last year no longer exist. Overall, the Commission has found no evidence of macroeconomic imbalances in 16 Member States, namely Slovenia and those that were not selected for an IDR in the first stage of the MIP.

Chart A

EU Member States assessed as experiencing excessive imbalances



Source: European Commission.

Notes: The chart shows those countries assessed by the European Commission as experiencing "excessive imbalances" in the years indicated. A country subject to an economic adjustment programme enters the MIP automatically once the programme ends. In 2012 no country was assessed as having excessive imbalances.

Table A

The Commission's conclusions on the 2018 macroeconomic imbalance procedure

(1) No imbalances		(2) Imbalances	(3) Excessive imbalances	(4) Excessive imbalances and application of the corrective arm (EIP)
BE	MT	BG	HR	-
CZ	AT	DE	IT	
DK	PL	IE	CY	
EE	RO	ES		
LV	SK	FR		
LT	SI	NL		
LU	FI	PT		
HU	UK	SE		

Source: European Commission.

Notes: The four countries highlighted are those in respect of which the European Commission improved the MIP classification in 2018 (either from "excessive imbalances" to "imbalances" or from "imbalances" to "no imbalances"). Greece is currently not subject to the MIP, as it is under an economic adjustment programme.

The recent improvement in macroeconomic imbalances has been partly cyclical, driven by the continued economic expansion in the EU. The stronger growth momentum has provided direct and indirect support to the correction of imbalances. Directly, it has facilitated deleveraging by firms and households, as well as a decline in unemployment. Indirectly, it has helped to reduce stock imbalances, which are usually expressed in relation to national output. As a result, public, private and external indebtedness have continued to decline in the majority of EU Member States. Moreover, total (and in particular, youth) unemployment have continued to fall, facilitated in some countries by labour market reforms undertaken in previous years.

Despite these improvements, the Commission has explicitly cautioned against the risks stemming from the prevailing high stock imbalances. In particular,

public, private and external indebtedness remain well above pre-crisis levels in many Member States and are a source of vulnerability to adverse shocks going forward. This calls for continued close monitoring of such countries under the MIP, even where they are no longer assessed as experiencing excessive imbalances.

Structural reforms are essential to enhance growth and resilience on a sustainable basis, yet over the past year the pace of reform implementation has remained rather limited in many EU Member States. This follows from the Commission’s annual review of the implementation of the country-specific recommendations (CSRs). A CSR provides policy guidance tailored to an individual EU Member State, and covering a period of around 12 to 18 months, on how to enhance economic growth and resilience while maintaining sound public finances. The current set of CSRs was adopted by the Council of the European Union in July 2017. Similarly to last year, the Commission has concluded that the overwhelming majority – more than 90% – of reform recommendations have been followed by only “some” or “limited” progress in implementation, while just one (of almost 80) of the CSRs has been substantially implemented, and none has been fully implemented (see Table B). Despite their greater vulnerability, the six countries identified last year as having excessive imbalances did not, on average, achieve significantly higher implementation rates than the average EU Member State. This is also the case, on average, for the three countries whose MIP classifications improved from “excessive imbalances” to “imbalances” in the Commission’s 2018 assessment.

Table B
The Commission’s assessment of implementation of the 2017 country-specific recommendations

	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	
CSR 1*	Not assessed	Some progress	Some progress	Limited progress	Limited progress	Some progress	Some progress	Limited progress	Limited progress	Limited progress	Some progress	Limited progress	Some progress	Some progress	Some progress	Not assessed	Some progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Not assessed
CSR 2	Some progress	Some progress	Some progress	Limited progress	Limited progress	Some progress	Some progress	Limited progress	Limited progress	Limited progress	Some progress	Limited progress	Some progress	Some 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
CSR 3	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	Limited progress	Limited progress	Limited progress	Limited progress	Substantial progress	Limited progress	Limited progress
CSR 4	Limited progress	Some 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	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress
CSR 5	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	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress	Limited progress

Source: European Commission.
Notes: * CSR 1 assessment excludes compliance with the Stability and Growth Pact which will be assessed by the European Commission in spring 2018.
“Not assessed” applies to cases in which CSR 1 pertains mostly or exclusively to the Stability and Growth Pact. Greece is subject to an economic adjustment programme and has therefore not received any CSRs.

Full and effective use of all instruments available under the MIP – including its corrective arm – could help reinvigorate the reform agenda given current favourable economic conditions. Despite having identified excessive imbalances in three countries in its 2018 assessment, the Commission has not proposed the activation of the excessive imbalance procedure (i.e. the corrective arm of the MIP).

While the piecemeal implementation of the CSRs illustrates the difficulties of improving the implementation of reform using the preventive arm of the MIP, the corrective arm of the procedure offers a well-defined process ensuring greater traction for implementation of the most needed macro-critical reforms. This is particularly relevant for the most vulnerable Member States, in order to enhance their resilience and the functioning of the Economic and Monetary Union. Overall, the MIP has so far been more successful in identifying macroeconomic imbalances than in correcting them. Applying all available tools – including the activation of the corrective arm of the procedure for countries with excessive imbalances – could increase the procedure’s effectiveness. (Such application has also been explicitly called for by the five Presidents in their 2015 report³⁸ and, more recently, by the European Court of Auditors³⁹.) Greater national ownership of the reform programmes submitted under the European Semester could also help increase the effectiveness of the MIP.

³⁸ Juncker, J.-C. et al., *Completing Europe’s Economic and Monetary Union*, June 2015.

³⁹ European Court of Auditors, *Audit of the Macroeconomic Imbalance Procedure (MIP)*, Special Report No. 3, 2018.