



Press Release

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Macroeconomic Imbalance Procedure: Well-designed but not implemented effectively, say EU Auditors

The European Commission is not implementing the Macroeconomic Imbalance Procedure (MIP) in a way which ensures effective prevention and correction of imbalances, according to a new report from the European Court of Auditors. The auditors conclude that the MIP is generally well-designed and based on good-quality analysis. But at some important stages, the process is political rather than technical.

Country-specific recommendations issued by the Commission are a key tool to address macroeconomic imbalances. However, very few of these have been substantially implemented, say the auditors. Although their implementation is the responsibility of Member States, there are several weaknesses in the way the Commission formulates them that also contribute to this lack of implementation.

The recommendations do not stem from identified imbalances and analysis of possible policy options to reduce these within a reasonable timeframe, say the auditors. Instead, various reforms stemming from the Europe 2020 agenda are identified as relevant to reducing imbalances. As a result, some recommendations are related to macroeconomic imbalances only vaguely, if at all. This makes it harder to get public support in Member States for remedial action. In addition, MIP recommendations do not consider fiscal policy despite its relevance to external imbalances and competitiveness.

The auditors note that the Commission has never recommended activating the excessive imbalance procedure, a strict system of monitoring that includes the option of sanctions for euro-area Member States. This is despite several Member States having been identified with excessive imbalances over a prolonged period.

“The systematic non-activation of the excessive imbalance procedure (EIP) has reduced the credibility and effectiveness of the MIP” said Neven Mates, the Member of the European Court of Auditors responsible for the report. “During our audit, the Commission produced little evidence which would explain why the College did not propose the activation of an EIP.”

The MIP has been further weakened by the Commission’s way of classifying imbalances. While imbalances are identified on the basis of clear technical criteria, there is no clear assessment of their severity. The criteria underlying the final decisions taken by the College of Commissioners are not transparent. Moreover, the audit evidence suggests that a formal decision-making process is lacking at a political level.

The Commission’s in-depth reviews (IDRs) were of good quality, say the auditors. However, replacing full

The purpose of this press release is to give the main messages of the special report by the European Court of Auditors. The full report is on www.eca.europa.eu.

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IDRs with a summary in country reports has reduced the overall visibility of the MIP process, and the analysis of policy options addressing identified imbalances in these documents is now not prominent or is lacking altogether.

Moreover, some elements such as spill-over effects on other Member States and the euro-area dimension are not considered in much depth, although some improvements have recently been made.

The auditors recommend that the Commission:

- clearly link MIP recommendations to specific macroeconomic imbalances;
- in its IDRs, clearly characterise the severity of the imbalances that Member States are facing;
- unless there are specific circumstances, recommend activating an excessive imbalance procedure when there is evidence that a Member State is facing excessive imbalances;
- use the MIP to make fiscal recommendations to Member States when fiscal policy directly affects external imbalances and competitiveness;
- give explicit consideration in the MIP process to policies with cross-country impact that can enhance symmetric rebalancing within the euro area;
- when it assesses imbalances as excessive, make the relevant Commissioners available to Member State parliaments to explain the MIP related policy recommendations;
- give greater prominence to the MIP by improving all communication aspects.

Notes to Editors

The Macroeconomic Imbalance Procedure (MIP) was introduced in 2011 to address macroeconomic imbalances in the EU, as a response to the absence of policy tools to prevent the build-up of these imbalances prior to the 2008 crisis.

The MIP operates on an annual cycle. It begins with the publication, by the European Commission, of an economic and financial assessment, known as the Alert Mechanism Report, which identifies Member States at risk of imbalances that require further analysis in the form of an in-depth review. The purpose of the review is to determine whether imbalances are present in the selected Member States and whether they should be deemed excessive. On the basis of this analysis, the European Commission should propose country-specific recommendations to be adopted by the Council and issued to Member States to address their imbalances.

If it deems the imbalances excessive, the Commission should propose that the Council activate an excessive imbalance procedure. This is an enhanced surveillance mechanism that includes the possibility of sanctions.

Special Report No 3/2018: “Audit of the Macroeconomic Imbalance Procedure (MIP)” is available on the ECA website (eca.europa.eu) in 23 EU languages.