Box 8
The 2016 macroeconomic imbalance procedure and the implementation of the 2015 country-specific recommendations

The 2016 macroeconomic imbalance procedure (MIP) represents the fifth time that this macroeconomic surveillance tool has been applied, following its establishment in November 2011. This procedure seeks to prevent the emergence of harmful macroeconomic imbalances in EU countries and correct them where they are excessive. Following the initial screening on the basis of a set of indicators in autumn, the European Commission conducts in-depth reviews of selected countries (as part of its annual country reports) to assess the severity of any imbalances. If imbalances are found to be present, the Member State concerned receives policy recommendations from the Council of the European Union (which are based on recommendations by the Commission) under the preventive arm of the procedure. However, if imbalances are found to be excessive, the excessive imbalance procedure (EIP) is supposed to be initiated following a recommendation by the Commission.[1] Under this corrective arm of the procedure, a corrective action plan needs to be provided in order to explain how these excessive imbalances will be addressed. In the event of a repeated failure to provide an adequate plan or a failure to comply with an approved plan, the Council may impose financial sanctions on the euro area country in question.

Outcome of the European Commission's 2016 MIP assessment

On 8 March the European Commission identified five countries as having excessive imbalances (Bulgaria, France, Croatia, Italy and Portugal; see Table A). Excessive imbalances had already been identified in all five countries last year. For Germany, Ireland, Spain, Netherlands, Slovenia, Finland and Sweden, the Commission identified imbalances. For these countries, a direct comparison with the Commission's 2015 assessments is not possible, given that three of the assessment categories used last year have been merged this year.[2] This new category covers all imbalances that are not severe enough to be labelled "excessive". Another new development this year concerns the Commission's decision to conduct "specific monitoring" for all countries in this new category.

[1] See recital 22 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances.

[2] Three old categories ("imbalances which require policy action and monitoring", "imbalances which require decisive policy action and monitoring" and "imbalances which require decisive policy action and specific monitoring") have now been merged to form one category – "imbalances".

Table A

European Commission's conclusions on the 2016 macroeconomic imbalance procedure

(1) No imbalances		(2) Imbalances				(3) Excessive imbalances		(4) Excessive imbalances and application of the corrective arm (EIP)	
2015	2016	2015			2016	2015	2016	2015	2016
		(i) policy actions	*(ii) decisive policy actions*	*(iii) decisive policy actions and specific monitoring*	*varying degrees of specific monitoring*	*specific monitoring*			
CZ	BE*	BE	DE	IE	DE	BG	BG		
DK	CZ	NL	HU	ES	IE	FR**	FR		
EE	DK	RO		SI	ES	HR**	HR**		
LV	EE*	FI			NL	IT	IT		
LT	LV	SE			SI	PT	PT**		
LU	LT	UK			FI				
MT	LU				SE				
AT	HU*								
PL	MT								
SK	AT*								
	PL								
	RO*								
	SK								
	UK*								

Source: European Commission.
Notes: In 2015, countries with imbalances were divided into three categories: (i) imbalances which require policy action and monitoring; (ii) imbalances which require decisive policy action and monitoring; and (iii) imbalances which require decisive policy action and specific monitoring. In 2016, those three categories have been merged into one. The European Commission now intends to conduct specific monitoring (to varying extents) for all countries with imbalances and excessive imbalances. * Countries were the subject of an in-depth review in 2016. The remaining countries in this column were, as early as at the first stage of the MIP – the alert mechanism report – assessed as having no imbalances. ** For Croatia and Portugal, the Commission will specifically review whether their National Reform Programmes will contain sufficiently ambitious policy measures. Only if this is the case will it not invoke the corrective arm. The same has been applied to France and Croatia in 2015.

However, this monitoring process, which last year was applied only to countries with more severe imbalances, will vary across countries depending on the severity of the situation. In addition, the Commission closed the procedures applied to Belgium, Hungary, Romania and the United Kingdom after finding that the imbalances identified last year were no longer present. Estonia and Austria, which were also selected for an in-depth review this year, were also found to have no imbalances. Overall, therefore, the number of countries with no imbalances has increased since last year. However, this seems to stem more from a stronger focus on countries with more severe imbalances, rather than resulting from the adoption of successful policy measures, as the implementation of reforms has been fairly limited overall (see Table B).

Despite having identified excessive imbalances in five countries, the European Commission is not proposing to activate the excessive imbalance procedure (i.e. the corrective arm of the procedure). Thus, it has again decided against making full use of all available measures. The countries with excessive imbalances have, however, been asked to propose ambitious policy measures in their National Reform Programmes (which are to be submitted by April). In the case of Croatia and Portugal, the Commission has specifically indicated that it will scrutinise those programmes, and if they do not contain the necessary policy measures, it will consider opening the excessive imbalance procedure for those two countries in May 2016.

In order to ensure the credibility and effectiveness of the MIP, it is essential to verify ex post that national authorities actually implement the reforms that they have committed themselves to. Against this background, the Commission conducts an annual assessment looking at the extent to which countries are complying with the country-specific recommendations (CSRs) addressed to them.

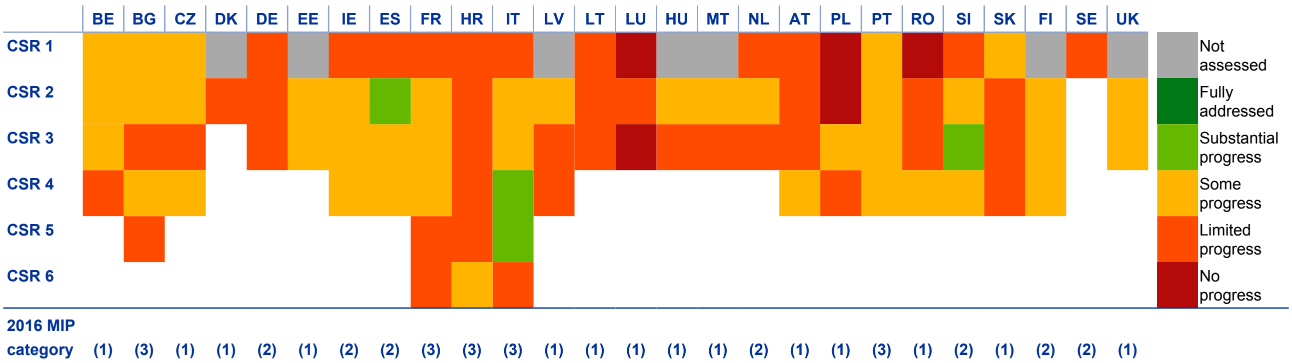
In the case of the 2015 CSRs, the analysis is contained in the country reports published by the Commission on 26 February 2016.

Assessment of the implementation of the 2015 country-specific recommendations

Overall, EU Member States have not yet done enough to implement reforms in response to the 2015 CSRs (see Table B). The Commission finds that, for the overwhelming majority of reform recommendations (more than 90%), there has been only "some" or "limited" progress with implementation, while just a few have been "substantially" or "fully" implemented. This weak reform momentum stands in stark contrast to last year's finding that an increasing number of countries had excessive imbalances. Despite their greater vulnerability, the five countries identified last year as having excessive imbalances did not, on average, achieve significantly higher implementation rates than the average EU Member State. As noted above, this is worrying given that those countries committed themselves to an ambitious reform agenda in 2015, thereby convincing the Commission not to apply the EIP. This casts doubt on the reliability of ex ante reform announcements when deciding whether or not to apply the excessive imbalance procedure.

Table B

European Commission's assessment of the implementation of the 2015 country-specific recommendations



Source: European Commission.
Notes: "No progress" means that the Member State has neither announced nor adopted any measures to address the CSRs. This also applies if a Member State has commissioned a study group to evaluate possible measures. "Limited progress" means that 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" means that the Member State has announced or adopted measures to address the CSRs. These measures appear promising, but not all of them have been implemented and implementation is not guaranteed in all cases. "Substantial progress" means that the Member State has adopted measures, most of which have been implemented, which go a long way towards addressing the CSRs. "Fully addressed" means that the Member State has adopted and implemented appropriate measures that address the CSR. "Not assessed" applies to cases in which CSR 1 pertains mostly or exclusively to the Stability and Growth Pact, compliance with which will be assessed by the European Commission in spring 2016.
For 2016 MIP category labels, see Table A.

In fact, reform efforts have deteriorated even further, in spite of a lower number of CSRs. Last year, the Commission concluded that most countries had made only "some" or "limited" progress with the implementation of the 2014 CSRs. This year, the number of cases where "substantial progress" has been made or CSRs have been "fully addressed" is even lower (4%, compared with 7% in 2014). This further loss of reform momentum is made all the more worrying by the fact that the Commission has significantly reduced the number of CSRs (cutting them by a third, from 157 in 2014 to 102 in 2015) in order to allow Member States to focus on key priority issues of macroeconomic and social relevance.

Overall, Member States have implemented proportionally fewer recommendations on product market than labour market policies. According to the Commission's assessment, "no" or "limited" progress has been made, with around 70% of CSRs calling for product market reforms. The implementation rate for labour market reforms is significantly better, with around 50% of CSRs falling into that category. Examples of product market-related CSRs include calls for Member States to (i) reduce barriers preventing new firms from entering network industries (energy, transport, communication, etc.), (ii) open up closed professions, and (iii) improve their regulatory frameworks in order to foster competition and encourage business-friendly conditions more generally. Improving all of these areas is key to achieving stronger productivity growth.

Neither has there been a particular focus on policies fostering investment. Reforms with the potential to encourage investment growth in Europe span a wide range of policy areas. Besides sector-specific regulation and regulatory quality (in the area of product market reforms), important roles are also played by labour and education, taxation, research and innovation, public administration, insolvency frameworks and the business environment more generally. Given the specific emphasis placed on this issue by the Member States,[3] as well as the Commission's investment plan on reviving investment, one might have expected a higher implementation rate for such reforms. According to the Commission, Member States have made only "some" or "limited" progress with almost all investment-related CSRs.

Full and effective use of all instruments available under the MIP – including its corrective arm – could help to increase the momentum of reform. The further slowdown observed in the implementation of reforms stands in stark contrast to the need to address the major vulnerabilities that remain in many euro area countries and the need to increase resilience. Countries' poor track records in this regard suggest that policy commitments made by Member States in their National Reform Programmes and repeated calls for decisive action on the part of the Commission represent insufficient enforcement mechanisms. The tools available under the corrective arm could improve reform efforts, thereby increasing countries' resilience and improving the functioning of EMU.

3 As expressed, for example, by the first of the Broad Economic Policy Guidelines approved by the Council on 18-19 June 2015, which focuses on "promoting investment".