

Strengthening economic governance in EMU: the Macroeconomic Imbalances Procedure

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European Commission



The Macroeconomic Imbalance Procedure (MIP)

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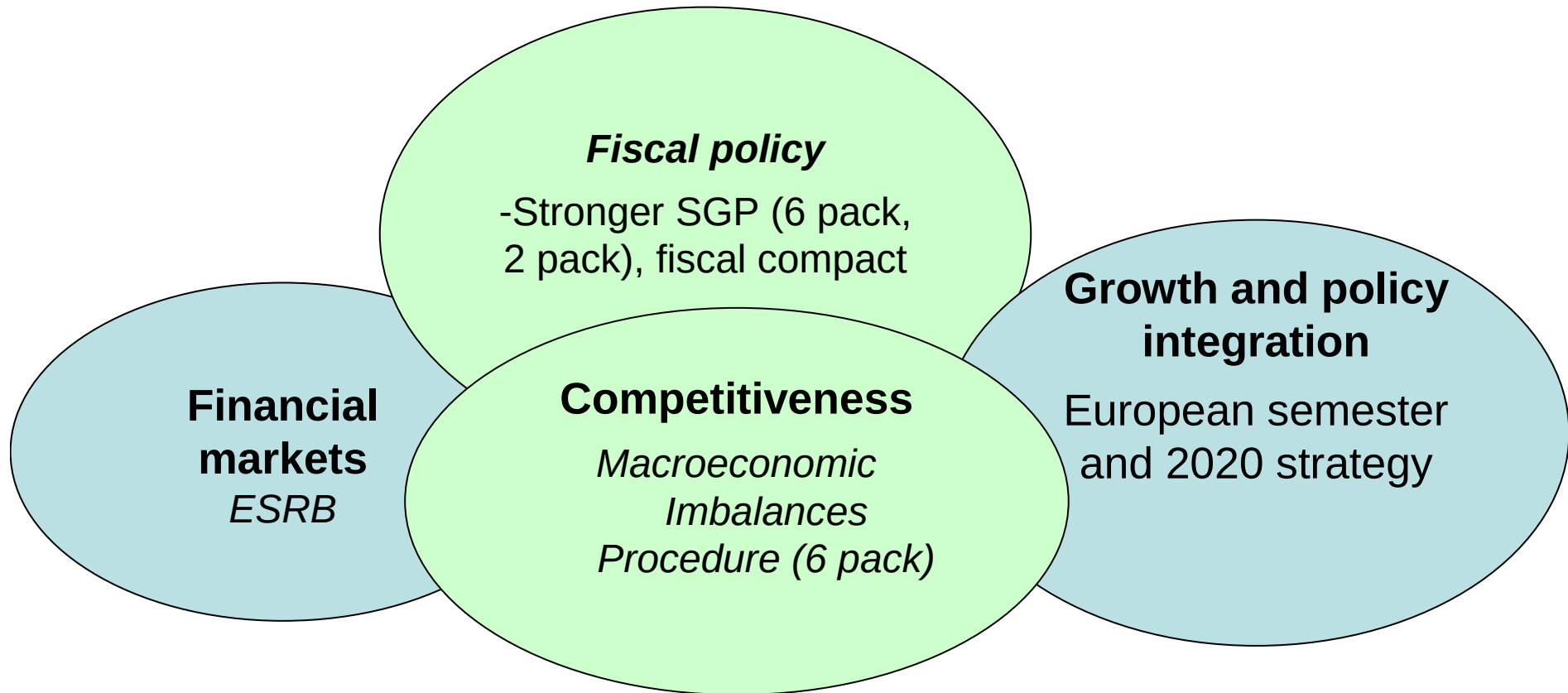
Conference on *'Economic Governance in the EU/euro area – what lessons for Poland?'*
Warsaw 5 July 2012



Economic governance: lessons from the crisis

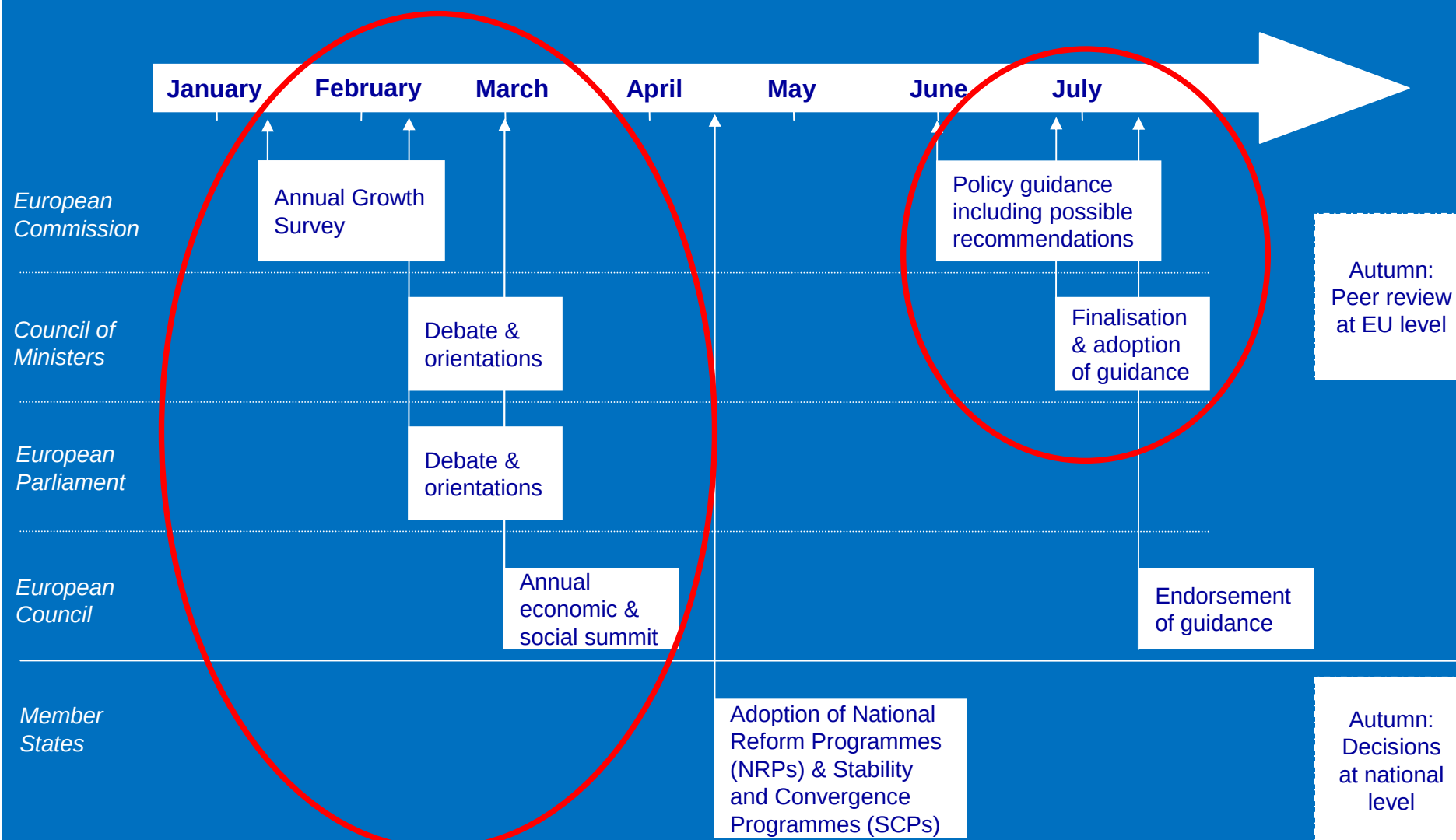
- **Scope and nature of surveillance**
 - wider, especially on macro-financial issues and competitiveness/imbbalances
 - deeper, especially on debt sustainability and key growth-enhancing reforms
 - better integrated – avoid partial and fragmented approaches
- **Follow-up and enforcement**
 - weak enforcement instruments especially outside fiscal sphere and unwillingness to use them
 - no formal coordination mechanisms for the Euro area

Stronger economic policy coordination: much wider than fiscal policy



... and integrated into the European semester

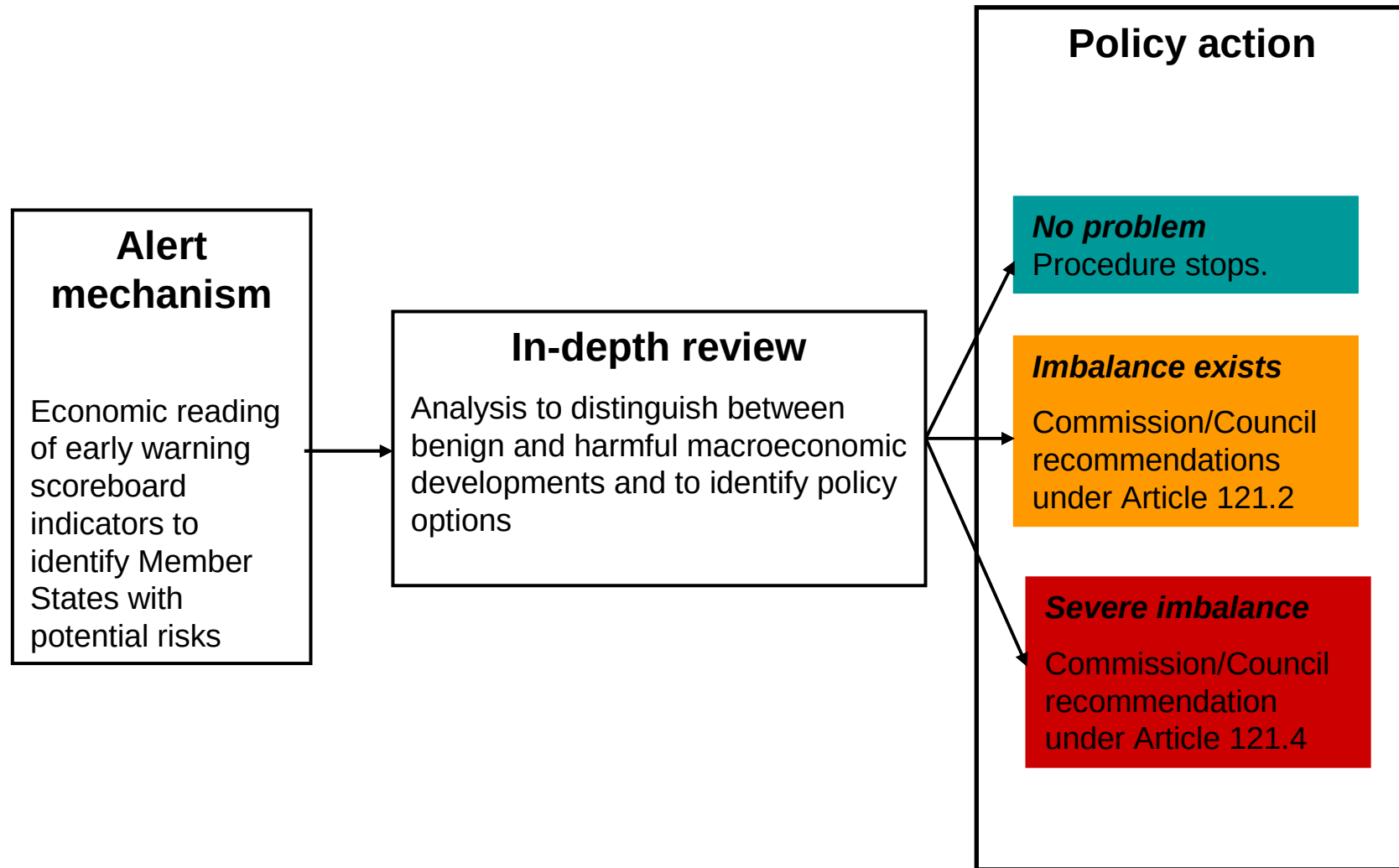
European economic semester



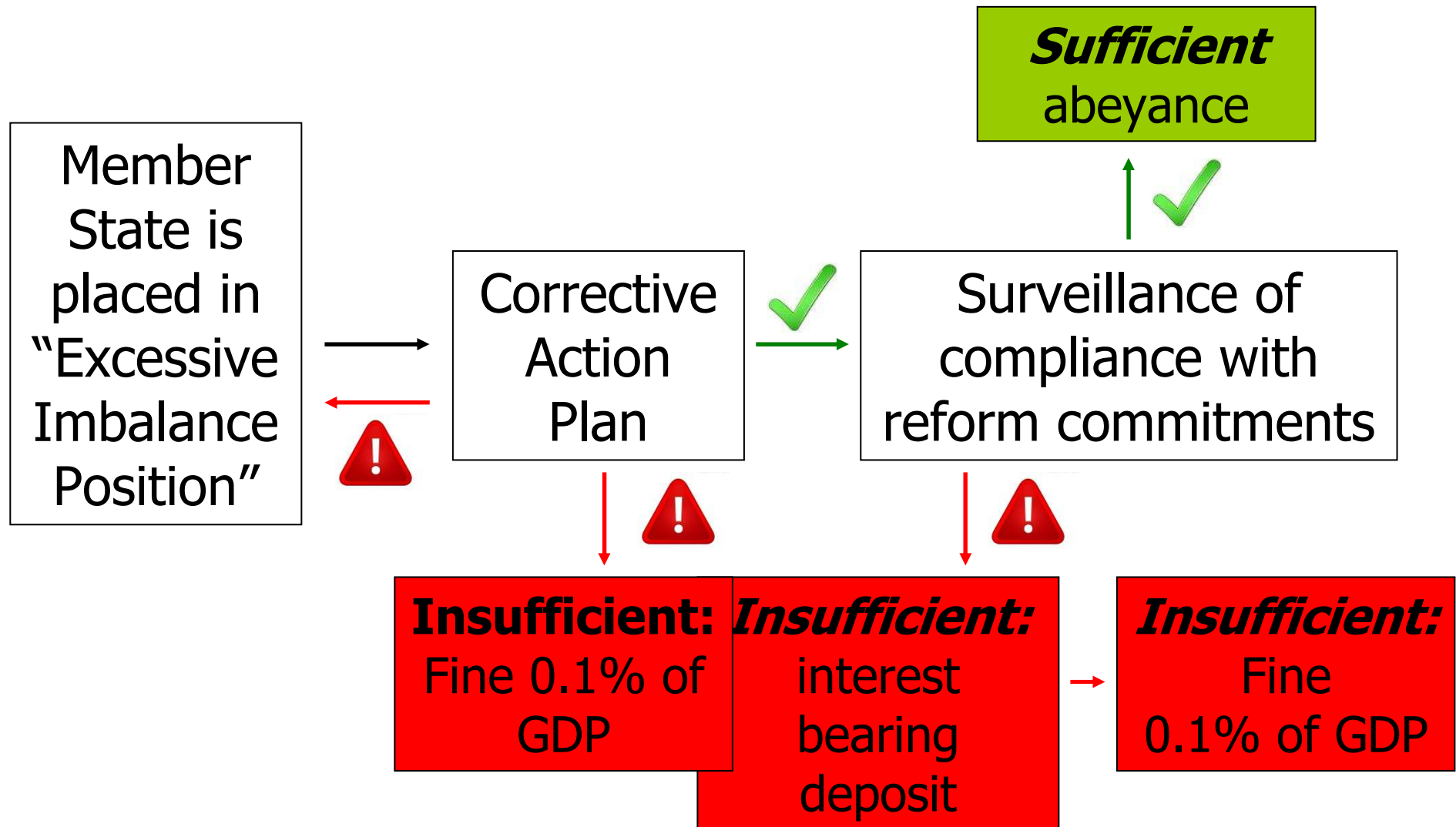
Competitive, less broad/flexible scope of surveillance under the MIP



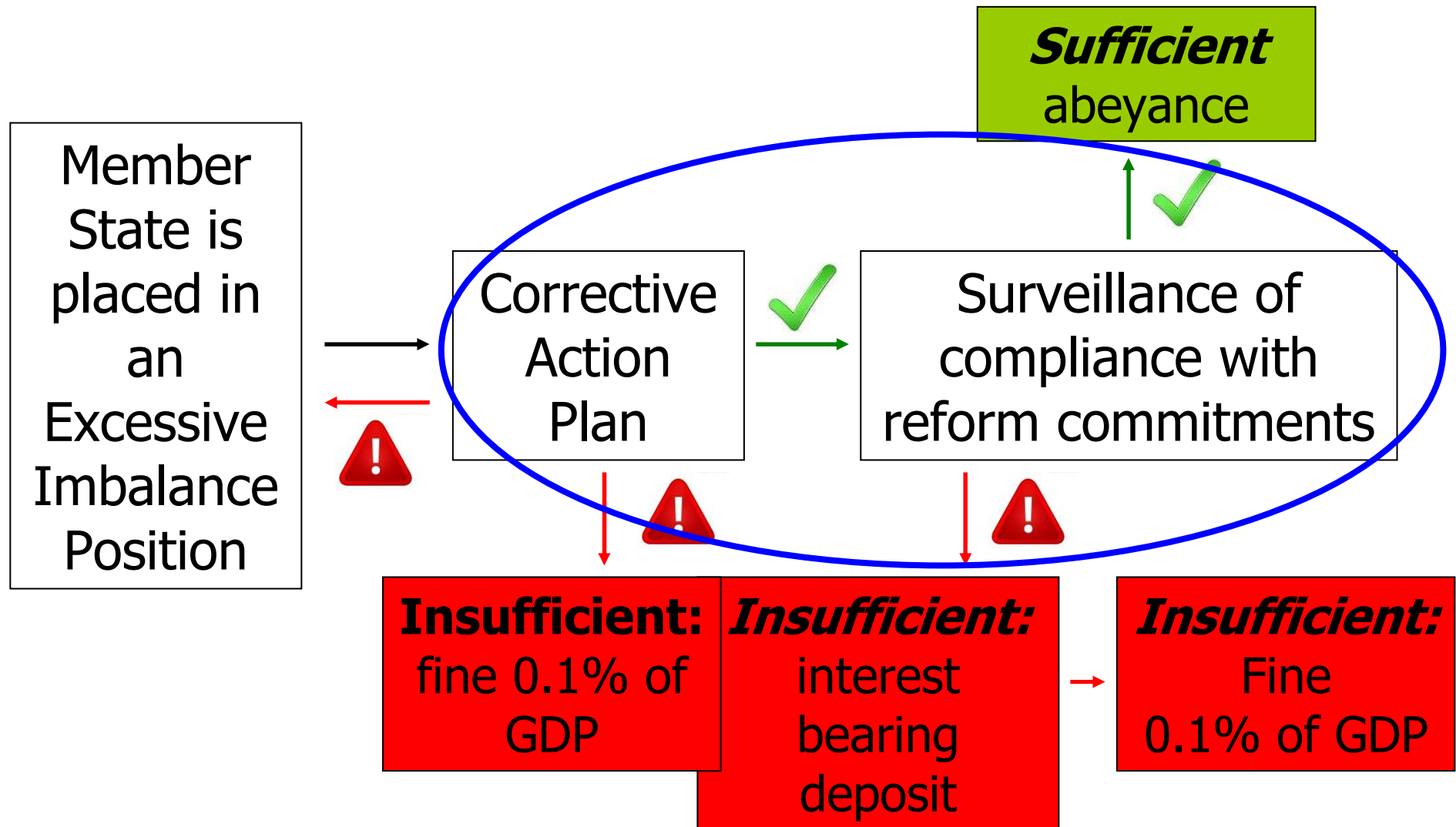
The preventive arm of the MIP



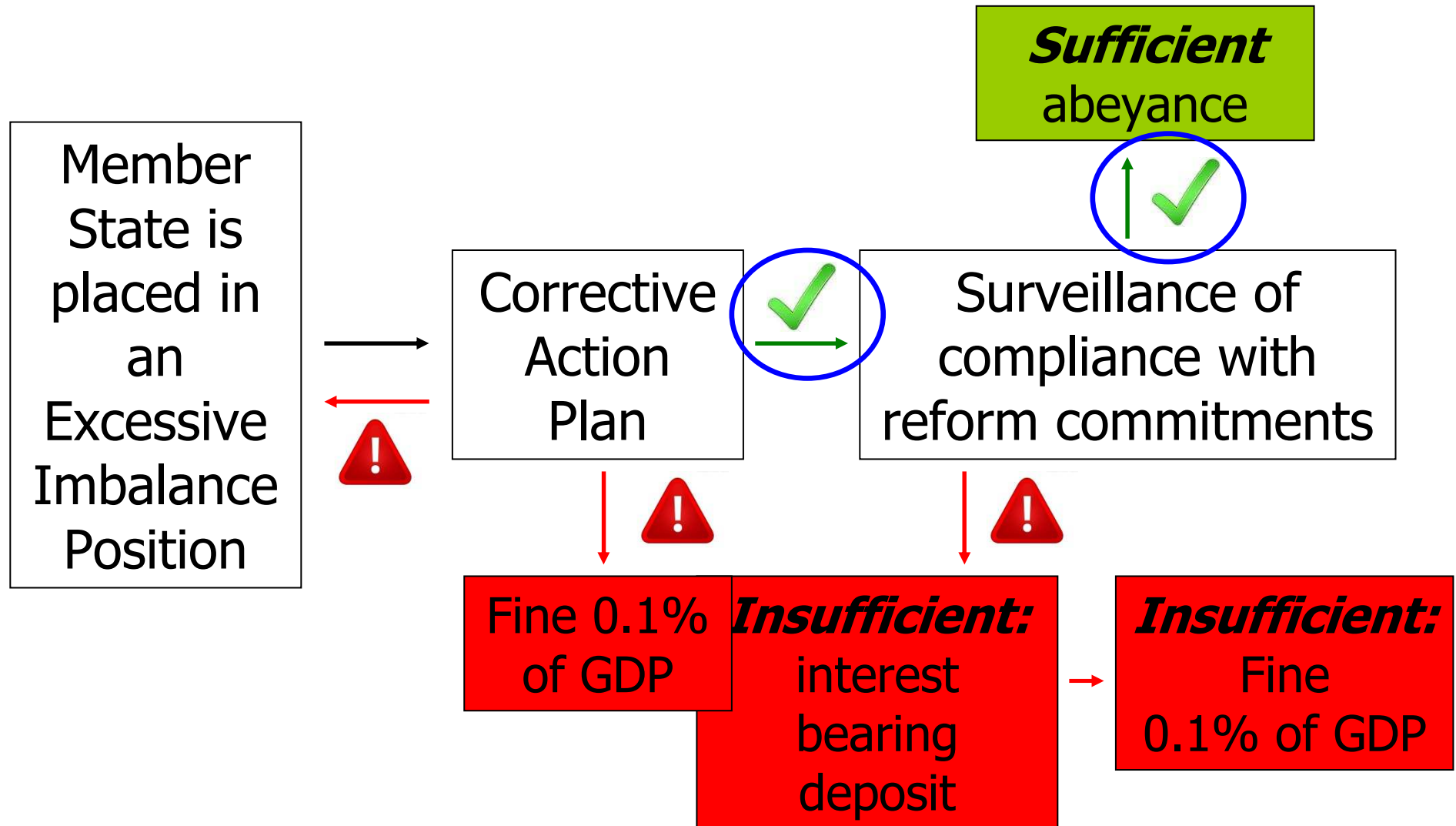
The corrective arm of the MIP



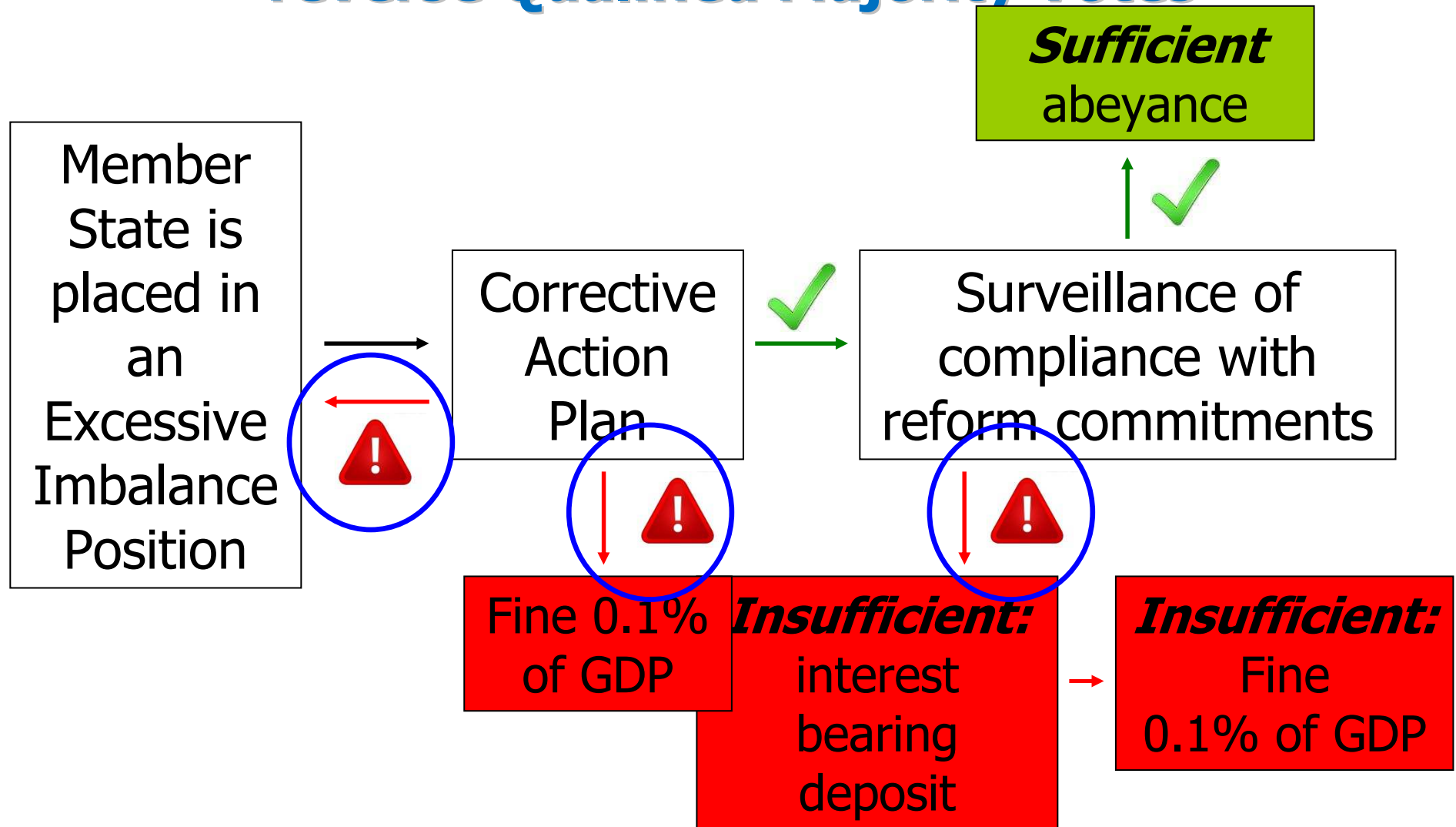
The Corrective Arm is INTRUSIVE



The Corrective Arm focuses on **POLICY RESPONSES**



The Corrective Arm works on the basis of reverse Qualified Majority Votes



First implementation of MIP in June 2012

Very Serious imbalance, to be addressed urgently:

ES: private sector debt; large negative external position; financial sector

CY: current account; public finances; financial sector

Serious imbalance:

HU: highly negative size of the net international investment position and public debt

SI: corporate sector deleveraging; banking stability; external competitiveness

IT: high public indebtedness and loss of external competitiveness since euro adoption.

FR: export performance and competitiveness in a context of increasing public debt

Imbalances that need to be addressed:

BE, BG, DK, FI, SE, UK

Challenge 1: the complexity of many surveillance mechanisms

- Should recommendations on wage policy be considered a competitiveness issue under the MIP or a growth issue under the 2020 strategy?
- Is it clear when one moves from a preventive to a corrective recommendation under the SGP-MIP?
- What is the threshold for triggering a preventive or full ESM programme?
- The ins and the outs

Challenge 2: analytical capacity

- A lot of **qualitative judgement** involved, e.g. is a current account deficit due to catching-up effects or excessive demand ?
- Especially **difficult to identify problems early on** and issue preventive recommendations, e.g. credit growth, house prices?
- Economic literature is **not conclusive on policy recommendations**, e.g. how effective is macro-prudential policy, do structural reforms always improve current account positions?
- Requires a lot of **country specific knowledge**: does the Commission have the expert teams present enough on the ground?

Challenge 3: political accountability and ownership

- Positive note: spillover costs of in-action are very clear, and blocking minorities are harder to form:
- But....
 - how to respect the subsidiarity principle: when macroeconomic problems at the level of the Euro area require microeconomic actions at MS level
 - will the new institutions work on a Community-method or intergovernmental basis

Challenge 4: agreeing on what sort of EMU in the long run

- does the mandate of the ECB need to evolve?
- what sort of fiscal union?
- what sort of banking union?
- genuine policy setting for the euro area as a whole (also on the international stage)

More information available at ...

http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm



Some useful links

- **ECFIN's web-site on economic governance**
- http://ec.europa.eu/economy_finance/economic_governance/index_en.htm
- **The Commission's Roadmap for stability and growth (nov. 2011)**
- http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/20111012communication_roadmap_en.pdf
- **Commission's Green Paper on stability bonds (Nov. 2001)**
- http://ec.europa.eu/economy_finance/articles/governance/2011-11-23-green-paper-stability-bonds_en.htm

Extra slides

Fiscal policy: a package deal

- **Six pack** (entered into force December 2011)
 - Regulation to strengthen the preventive arm of the SGP
 - Regulation on Excessive deficit procedure
 - Directive on minimum requirements for national fiscal frameworks
- **Proposal Regulation on assessing draft budgetary plans** and correcting excessive deficits (proposed November 2011 and trilogue underway)
- Treaty on stability, co-ordination and governance in EMU
 - **‘fiscal compact’** (signed March 2012 and can enter into force when ratified by 12 Member States)

Fiscal policy : anchoring expenditure over the cycle

- Operational guidance for **adjustment towards binding medium-term objectives**
 - expenditure growth does not exceed a **medium-term rate of potential GDP growth**, unless matched by discretionary revenue measures.
 - Expenditure benchmark is centred on **observable budgetary aggregates under the control of government**, i.e. expenditure and discretionary revenue measure; revenues at unchanged policies can follow their "natural course".
 - Automatic correction mechanism when outcomes deviate from plans

Fiscal policy: putting the debt criteria on an equal footing with the deficits

- So far only the deficit criterion has triggered excessive deficit procedures and 3% threshold no longer sufficient to ensure decline in debt because of slowdown in potential growth
- **“Sufficiently diminishing debt”** = distance with respect to the 60% of GDP reference value declines in the order of **1/20 per year**, over the three preceding years

Stronger institutions at national level and better coordination for Euro area

- Requirement for independent fiscal Councils and independent macroeconomic forecasts
- Minimum standards on accounting, statistics, transparency etc..
- Common budgetary timeline across Member States and draft budgets to be sent to the Commission
- Coordination of debt issuance plans

Fiscal policy: stronger enforcement mechanisms

- Strong legal character, i.e. binding force and permanent character, preferably constitutional
- Graduated sanctions regime
- Reverse Qualified Majority Voting making it difficult to form blocking minorities
- Stronger surveillance powers to the Commission which Member States are expected to support

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Fiscal rules, surveillance and enforcement in the euro area

WHEN	RULES	SURVEILLANCE	ENFORCEMENT
ALREADY IN PLACE OR ENTERING INTO FORCE ON 13 DECEMBER 2011	Deficits below 3% of GDP Debt below 60% of GDP or sufficiently diminishing towards 60% of GDP (= reduction of the distance to 60% by 1/20th on average over 3 years) Member States in excess of these limits are given strict deadlines to get into line.	Ongoing monitoring by Commission and Council based on reporting by Member States (annual Stability Programmes and regular interaction with Eurogroup). Missions to Member States when necessary.	Preventive phase (in case of non-respect of expenditure benchmark and change in structural balance): Interest-bearing deposit (0.2% of GDP) Corrective phase: 3-step sanctions process in case of non-compliance: 1. Non-interest-bearing deposit at the opening of the excessive deficit procedure (0.2% of GDP as a rule) in case an interest-bearing deposit already exists or if serious non-compliance with the rules 2. Fixed fine if non-compliance with recommendations to correct (0.2% of GDP as a rule) 3. Variable fine if continuous non-compliance with recommendations to correct (0.2% of GDP + 1/10th of the distance between the actual balance and the required one)
AS SOON AS THE ARTICLE 136 REGULATIONS ARE AGREED (fast-tracking decided in European Council 09.12.2011)	Common budgetary timelines National rule on structural balanced budgets for Member States written into binding legislation, preferably of constitutional nature Draft budgetary plans to be sent to Commission as same time as to national parliaments. Commission can request new draft in case of serious non-compliance with the rules Independent fiscal councils monitoring implementation of the rule and independent forecasts mandatory for budgetary policymaking	Enhanced monitoring for euro area Member States and regular reporting for euro area Member States under Excessive Deficit Procedure Reinforced surveillance for euro area Member States under a macro-economic (EFSF, ESM) adjustment programme or at serious risk of financial instability.	As above. Moreover: Commission ensures that Member States transpose the structural balanced budgets rule on time and correctly, with option of infringement proceedings through European Court of Justice; national fiscal councils oversee compliance of budgets with this rule.
INTERGOVERNMENTAL TREATY FOLLOWING EUROPEAN COUNCIL 09.12.2011	Golden rule on structural balanced budgets for Member States written into national legal systems at constitutional or equivalent level, with an automatic correction mechanism that shall be triggered in the event of deviation. Member States in Excessive Deficit Procedure submit to Commission and Council for endorsement an Economic Partnership Programme detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits. Ex ante reporting by Member States of their national debt issuance plans.	The implementation of the Economic Partnership Programme, and the yearly budgetary plans consistent with it, will be monitored by the Commission and the Council.	Commission ensures that Member States transpose golden rule on time and correctly, with option of infringement proceedings through European Court of Justice; national constitutional courts oversee compliance of budgets with golden rule. Automaticity of sanctions: Euro area Member States commit to semi-automatic approval of Commission recommendations to place a country under EDP