EUROPEAN COMMISSION

EUROSTAT

Directorate C: Macro-economic statistics

Unit C-1: National accounts methodology; standards and indicators

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Macroeconomic imbalance procedure (MIP) – Frequent questions

What is the role of Eurostat in the MIP context?

Eurostat's role is to:

- · produce and supply the relevant statistics and indicators
- produce the Statistical Annex (SA) of the Alert Mechanism Report (AMR)
- · ensure high-quality standards for data
- set up and implement a quality management and monitoring framework for MIP relevant statistics
- provide methodological support in the framework of MIP relevant statistics
- contribute to the definition and choice of indicators to support the decisions of policy-makers.

Eurostat produces and disseminates harmonised statistics that comply with high-quality standards. This is guaranteed through a Code of practice applicable to the European Statistical System. The macroeconomic statistics underlying MIP are subject to a specific quality framework: additional information is available on the page on quality in the MIP web section.

What is the MIP Scoreboard and how it has evolved?

The MIP scoreboard consists of a set of 14 indicators covering the major sources of macroeconomic imbalances, with a particular focus on the smooth functioning of the euro area. For this reason, the scoreboard consists of indicators that monitor external imbalances, competitiveness positions, internal imbalances, and labour market.

Given that the scoreboard needs to detect potentially harmful imbalances and competitiveness losses at an early stage of their emergence, a combination of stock and flow indicators able to capture both short-term rapid deteriorations as well as long-term gradual accumulation of imbalances has been chosen. The European Commission has set indicative thresholds for each indicator, but the economic reading of the scoreboard indicators implies that there is no automaticity involved and that any other relevant information could be taken into account. For example,

overpassing one or more indicative thresholds does not necessarily imply that macroeconomic imbalances are emerging.

The composition of the MIP scoreboard indicators may evolve over time, and it is regularly reviewed in the context of the LIME working group of the Economic Policy Committee. For example, since 2015, three (previously auxiliary) indicators for labour market have been added to the headline MIP scoreboard: activity rate, long-term unemployment rate and youth unemployment rate. The main purpose was to complement the information provided by the already existing headline indicator for unemployment rate. See our Statistics Explained article (table 5) for a more detailed track of all changes.

Does the economic reading of the scoreboard only take into account the scoreboard indicators? What are the auxiliary indicators used for?

In addition to the scoreboard indicators, the economic reading also considers a set of complementary (auxiliary) indicators, which are useful for the interpretation of the scoreboard indicators, as they allow a better understanding of the macroeconomic risks and help identifying relevant policy measures. However, there are no thresholds set for the auxiliary indicators.

The initial list of auxiliary indicators followed the main categories of imbalances included in the MIP scoreboard: external imbalances and competitiveness, internal imbalances, employment indicators. Since 2013, indicators on social issues, risk of poverty and social exclusion, are also a part of the auxiliary set.

In 2018, the set of auxiliary indicators has been modified to take advantage of the improved quality of statistics on balance of payments and banking sectors data (notably NPLs - non-performing loans), and to update the scoreboard in such a way as to include variables widely used in the AMR analysis and in countries' in-depth reviews.

The indicators that were included in the 2019 AMR are:

- NIIP excluding non-defaultable instruments (% of GDP) to replace the net external debt
- consolidated banking leverage, domestic and foreign entities (asset-to-equity multiple) to replace the financial sector leverage
- consolidated household debt (including non-profit institutions serving households NPISH)
- gross non-performing loans, domestic and foreign entities

In parallel and in order to keep the scoreboard relevant and parsimonious, two auxiliary indicators (ten-year change of nominal unit labour cost and non-consolidated private-sector debt) were dropped out from the Statistical Annex, but they can still be found in the MIP data tree on the Eurostat's website.

Is there any sanction stemming from the MIP?

There are no fines or sanctions foreseen under the preventive arm of the MIP. As regards the corrective arm (if an Excessive Imbalance Procedure is launched), the situation is different: in this case, financial sanctions up to 0.1% of GDP are foreseen for euro area Member States if they repeatedly fail to deliver a sufficient corrective action plan or to take agreed action. It is important to note that it is the failure to take adequate measures that could be sanctioned, not the fact that imbalances have not disappeared. Until now, the Excessive Imbalance Procedure has been never launched.

What is the difference between consolidated and nonconsolidated data?

The data sourcing from the financial national accounts can be presented in consolidated and non-consolidated terms. Consolidation is a method of presenting the accounts for a set of units as if they constituted one single entity (unit, sector, or subsector). It involves eliminating transactions and reciprocal stock positions and associated other economic flows among the units being consolidated. When data are presented in non-consolidated terms, they consider transactions within the same sector.

The Scoreboard indicator 'total financial corporations sector liabilities' is presented in non-consolidated terms, while since 2014 the indicators 'private sector credit flow' and 'private sector debt' are consolidated.

Which GDP is used as a denominator for the calculation of MIP indicators?

GDP is used as a denominator for the calculation of some of the headline and auxiliary indicators. The variable used is GDP at market prices, sourcing from the National accounts (the source data table is nama_10_gdp).

The headline indicators using GDP or other data from national accounts as a denominator, or as a basis for compilation of the indicator, are:

- · current account balance
- net international investment position
- nominal unit labour cost
- private sector credit flow (consolidated)
- private sector debt (consolidated)
- general government gross debt
- total financial sector liabilities (non-consolidated)
- house price index, using the national accounts deflator for private final consumption expenditure (households and non-profit institutions serving households (NPIs).

What does 'domestic concept used in National accounts' mean in employment data?

The ESA 2010 distinguishes two employment concepts depending on the geographical coverage: resident persons in employment (i.e. the national scope of employment) and employment in resident production units irrespective of the place of residence of the employed person (i.e. domestic scope). For the calculation of the Nominal unit labour cost (NULC) in MIP, the number of employees and employed persons is calculated according to the domestic concept used in national accounts. The same applies to the employment figures available as a MIP auxiliary indicator.