

Cooperation in Europe – the Macroeconomic Imbalance Procedure (MIP) scoreboard

John Verrinder¹

Eurostat, European Commission – John.Verrinder@ec.europa.eu

Abstract

The worldwide financial crisis drew attention to gaps in European macroeconomic surveillance, and in particular where imbalances in one Member State can lead to detrimental effects on other Member States. This led to the reinforcement of macroeconomic surveillance in Europe, through the "European Semester" process, and the introduction in 2011 of the Macroeconomic Imbalance Procedure (MIP) which aims to identify, prevent and address the emergence of potentially harmful macroeconomic imbalances that could adversely affect economic stability in a particular Member State, the euro area, or the EU as a whole. The MIP foresees the possibility of enhanced surveillance for countries identified with excessive imbalances. The MIP requires high quality and timely statistical data across a range of 14 headline and 25 auxiliary indicators. These data are taken from different domains of statistics including macroeconomic accounts (national accounts, balance of payments), price statistics, labour force statistics and social statistics. Some of the data are compiled by National Central Banks. Eurostat is responsible for drawing up the MIP scoreboard of indicators, based on data transmitted to it by EU Member States. Given the importance of the quality of these data for their policy use, there have been strong efforts in recent years – coordinated by the Committee on Monetary Financial and Balance of Payments statistics (CMFB) - to establish a quality framework to cover data compiled by both Statistical Institutes and Central Banks. This paper will describe the background to the MIP scoreboard, its practical implementation, and efforts over recent years to improve the cooperation between Statistical Institutes and Central Banks in Europe for quality monitoring of the statistical data underlying the scoreboard indicators.

Keywords: Macroeconomic Imbalances Procedure, statistical cooperation, European Union

¹ This paper reflects the personal views of the author and does not necessarily reflect the official position of the European Commission.

1. Introduction

There is a long tradition in many countries of the production of official statistics by National Statistical Institutes (NSIs) and National Central Banks (NCBs). The boundaries of which institution produces which statistics (notably macroeconomic statistics, but also increasingly microdata) varies across countries, as does the degree of formalisation of the relationship between the institutions, reflecting factors such as availability of data sources, expertise in statistical compilation, institutional setting, and available resources.

Given that one of official statistics' primary purposes is for use in policymaking, it is natural that there is a strong emphasis on the quality of those statistics, which encompasses characteristics such as reliability and timeliness, in addition to the professional independence of the statisticians producing them. However the cases where official statistics are used for administrative purposes - introducing a direct link between the level or evolution of official statistics and policy developments - place an even greater pressure on their quality and independence.

This paper presents a regional example (from Europe) of the ways in which cooperation on statistics has developed between the institutions in one particular macroeconomic policy area. It is nevertheless important to stress that this cooperation should not be seen in isolation, but in the context of years of institutional cooperation both at national level and - since the founding of the European Central Bank - at European institutional level.

2. The Macroeconomic Imbalance Procedure and its statistical needs

The global financial crisis from 2008 onwards led to a profound re-assessment of the structure of macroeconomic and macro-prudential monitoring and policy assessment, both within Europe and worldwide. There was already an EU-level system of fiscal monitoring (the "Stability and Growth Pact"), developed since the late-1990s in conjunction with the introduction of the Euro, however the financial crisis (and related sovereign debt crisis) called into question both fiscal monitoring and the lack of an EU-level mechanism to address broader macroeconomic imbalances in economies.

Following European Commission proposals, a legislative package of reforms to EU fiscal and macroeconomic policymaking was introduced over 2011-13. In a first round, six related legislative instruments (the so-called "six pack") tackled macroeconomic imbalances, fiscal stability and budgetary frameworks. In a second round, two legislative instruments (the "two pack") focused on economic and budgetary surveillance in the euro area.

The European Commission succinctly describes the policy aims as follows (European Commission, 2016a):

"The macroeconomic imbalance procedure (MIP) aims to identify, prevent and address the emergence of potentially harmful macroeconomic imbalances that could adversely affect economic stability in a particular EU country, the euro area, or the EU as a whole."

The monitoring procedure should be seen in the context of the introduction of a clear timetable for coordinated EU economic policymaking over a one year cycle (the "European Semester")

The cycle begins around November with the European Commission's alert mechanism report (AMR), which analyses the economies of all EU countries. Countries whose situation requires deeper analysis are subject to an in-depth review (IDR), included in the annual country report, issued around February. The in-depth review aims to identify

any macroeconomic imbalances and assess their severity. A country may be found to have 'no imbalances', 'imbalances', 'excessive imbalances', or 'excessive imbalances with corrective action', which may trigger the excessive imbalance procedure. Countries with imbalances or excessive imbalances may receive policy recommendations for reducing them in their country-specific recommendations. Depending on the nature and severity of their imbalances, their policy commitments will be monitored through specific monitoring, which involves dialogue with the national authorities and progress reports.

A fundamental instrument for compiling the 'Alert Mechanism Report' (see European Commission 2016b for the latest version) is the coincident publication by Eurostat of its Statistical Annex, containing an "MIP scoreboard" of selected indicators relevant for monitoring macroeconomic imbalances². These indicators are established at policy level, taking account of statistical advice. The scoreboard consists of 14 headline indicators (see below) and 25 auxiliary indicators.

Current account balance	Net international investment position	Real effective exchange rate
Export market share	Nominal unit labour cost index	House price index
Private sector credit flow - consolidated	Private sector debt - consolidated	General government gross debt
Unemployment rate	Total financial sector liabilities - non-consolidated	Activity rate
Long term unemployment rate	Youth unemployment rate	

It may be seen that the indicators cover a broad range of official statistics including Balance of Payments, financial accounts, (non-financial) national accounts, prices, social and employment statistics. The data are at annual frequency and require a long time series (commonly 10 years) to ensure that their development over time is properly analysed.

Within Europe, the responsibility for the compilation of Balance of Payments and Financial Accounts may lie with the NSI or the NCB, depending on the country.

3. Cooperation between Statistical Institutes and Central Banks in Europe

There are in effect two legislated statistical systems in the European Union - the European Statistical System (ESS - covering NSIs and Eurostat) and the statistical system of the European System of Central Banks (ESCB - covering NCBs and the ECB³).

Given the need for close cooperation between these statistical partners, a formal framework has been created, based on:

- The European Statistical Forum (ESF) was created in 2013 by a Memorandum of Understanding (Eurostat/ECB 2013) to give strategic guidance - at Director General level - in the relations between the ESS and the ESCB, based on an annual meeting.

² Eurostat's webpage for MIP indicators is <http://ec.europa.eu/eurostat/web/macroeconomic-imbances-procedure/indicators>

³ When the term "ECB" or "European Central Bank" is used in this document, it is intended to refer to the Directorate General for Statistics in the ECB.

- The Committee for Monetary, Financial and Balance of Payments statistics (CMFB) - founded in 1991 and based on legislation (CMFB 2006), the CMFB brings together Directors of macroeconomic statistics from NSIs, NSBs, Eurostat and the ECB and has an advisory function for the statistics under its responsibility.

This formal framework is supplemented by a high degree of cooperation at technical level - cross-participation (and sometimes co-chairmanship) in working groups and task forces, joint products (for example, European sector accounts), and extensive bilateral contacts on conceptual and data handling issues.

Each of the statistical system has its own legislated quality framework, although in substance the frameworks are very similar.

4. Developments in the quality framework for MIP-relevant statistics

The availability of high quality MIP-relevant statistics was underlined from the MIP's conception. Indeed the Council (of European Finance Ministers) highlighted in its conclusions of November 2012 "the importance for the credibility of the MIP of having timely statistics of the highest quality for inclusion in the scoreboard and stressed the need for the Commission (Eurostat) to pursue all necessary initiatives to assure a reliable procedure for the completion of these statistics as well as a continuous improvement of the underlying statistical information".

In response to this, in 2013 the European Commission made a proposal to introduce a specific Regulation *for compiling, monitoring and reporting statistics for the Macroeconomic Imbalance Procedure*, covering all MIP-relevant statistics, and along the lines of the existing quality-assurance framework in Europe for fiscal statistics. This was discussed extensively, however has not progressed further at this stage.

Nevertheless, given the agreed need for the improvement of quality monitoring, the CMFB developed a three level (non-legislative) quality reporting framework for MIP-relevant statistics. The three levels are:

Level 1: ESS-ESCB quality report (jointly prepared by Eurostat and the ECB) covering all indicators

Level 2: Reports for MIP relevant statistical domains (e.g. for Balance of Payments) covering all EU Member States

Level 3: Reports of each EU Member State per MIP relevant statistical domain

These quality reports are in different stages of development, depending on the statistical domain. Some are based on existing reports - which may themselves have a legal base - whilst others have had to be developed. The "Level 1 report" has been prepared annually since 2015 and is included in the so-called 'Statistical Package' presented annually to EU Finance Ministers⁴.

However, despite the extensive work carried out, there still remained an underlying issue of how Eurostat - responsible for presenting the MIP-relevant statistics - would obtain sufficient assurance of the quality of statistics prepared by National Central Banks. A recent development has been the signature in November 2016 of a "Memorandum of Understanding on the quality assurance of

⁴ See available reports at <http://www.cmfb.org/publications/mip-documents>

statistics underlying the Macroeconomic Imbalances Procedure" (Eurostat/ECB 2016). This MoU - which explicitly covers Balance of Payments and Financial Accounts statistics - provides for:

- A mutual recognition of the statistical quality frameworks of the ESS and the ESCB.
- A procedure for quality assurance during the annual MIP indicator production process whereby the ECB provides Eurostat with quality assured datasets accompanied by a brief metadata report explaining major events and revisions of the datasets.
- Joint analysis of the output quality and consistency of the datasets with related statistical domains, including for example joint visits.
- A list of Member States who have designated the respective NCB for producing the relevant datasets.

The MoU is in the process of being implemented by Eurostat and the ECB. After informal work in the 2016 exercise, the first steps are being taken in 2017 on preparation for the annual MIP indicator production process and for common analytical work by Eurostat and the ECB, including joint visits to countries.

5. Conclusions

The experience in Europe shows the benefits of cooperation between Statistical Offices and Central Banks, both at national and European level. This is particularly the case for statistics which are used for sensitive policy-making (administrative) tasks. Whilst the institutions in Europe operate under different legal structures, the development of the work on quality of MIP relevant statistics - within an existing and well-founded cooperation structure - has reflected a common interest to ensure that high quality statistics are available to policy-makers.

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