

Taking Stock of the Experience with the MIP

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December 8, 2021

European Commission Webinar

Panel 2: An effective surveillance framework

a) Was the MIP effective in setting the policy agenda?

- ✓ The country-by-country discussion of imbalances has not improved the understanding of policy spillovers and mutual interactions, the insufficient reference to cost and the productivity differences in the building of imbalances.
- ✓ Ambiguous treatment of large current account surpluses, insufficient emphasis on their deflationary impact across the area (via euro exchange rate) – e.g. Charts 1 and 2:
 - Chart 1 shows the persistence of the real depreciation of German products in international markets, confirming the absence of a functioning adjustment mechanism;
 - Chart 2 shows that this competitive advantage is, to an important extent, the result of very low wages in services, a sector closed to internal market rules – pointing to the importance of structural reforms in ensuring external adjustment in the eurozone.
- ✓ A positive development has been the progressive incorporation of MIP recommendations into the CSRs and the European Semester; however, the Annual Growth Survey (AGS) which starts the European Semester does not mention individual countries and the specific imbalances that may affect the growth of the euro area adversely.
- ✓ The European Court of Auditors has argued that MIP classification of countries with imbalances lacks transparency; it has also argued that there is a lack of public awareness of the procedure and its implications.

b) Was the MIP effective in promoting policy changes?

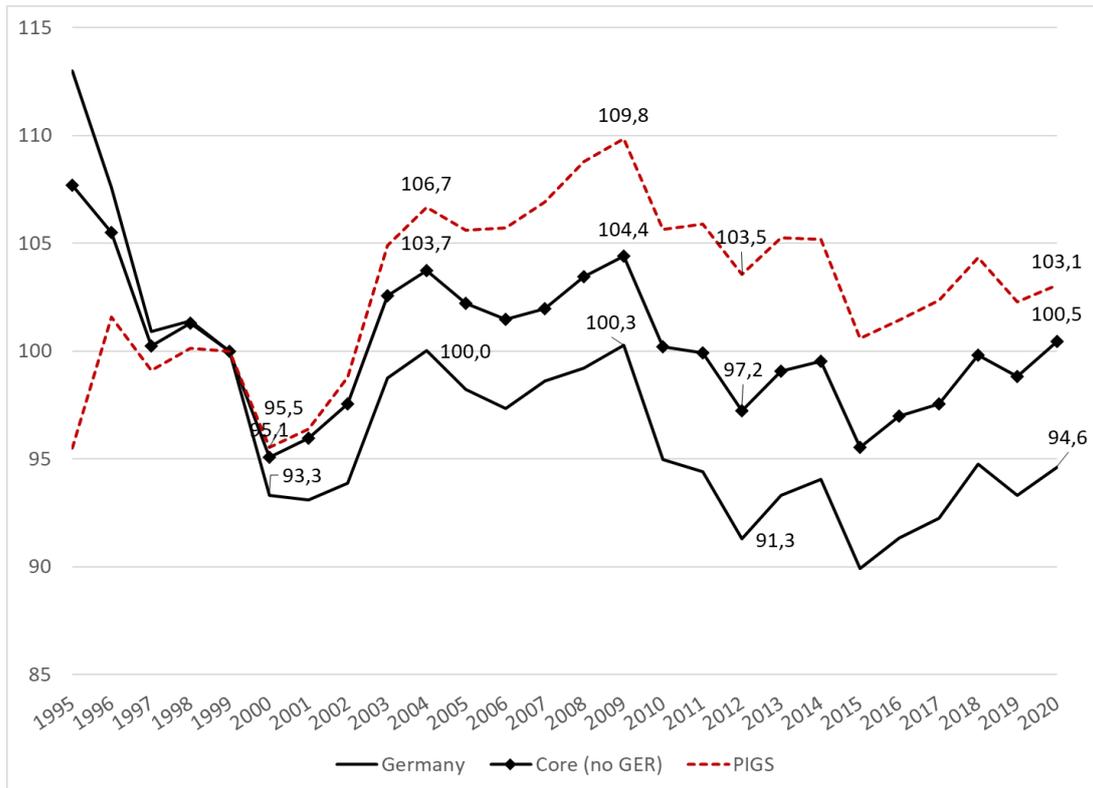
- ✓ While imbalances came down during the past decades, it is unclear how much this was due to the MIP itself.

- ✓ Detailed empirical evaluation of CSRs implementation by Bruegel shows average implementation rates of CSRs below 50 per cent; CSRs that are ‘fully addressed’ represent only 2 per cent, and those showing ‘substantial progress’ only 8 per cent; the most frequent assessment is ‘limited progress’ (39 per cent) and ‘some progress’ (38 per cent).
- ✓ Moreover, implementation rates have been falling over the past years; Chart 3 shows there is no difference in average implementation rates between MIP and no-MIP countries in recent years.
- ✓ And, while policy recommendations have on the whole been appropriate, little correlation is found between the implementation rates of CSRs and the reduction of imbalances.
- ✓ One factor here may have been the reluctance by the Commission to start the Excessive Imbalances Procedures (EIP) – which is part of an apparent general reluctance to propose sanctions in all surveillance procedures (with the exception, of course, of the EDP, where recommendations are taken seriously).

c) How can the MIP be improved?

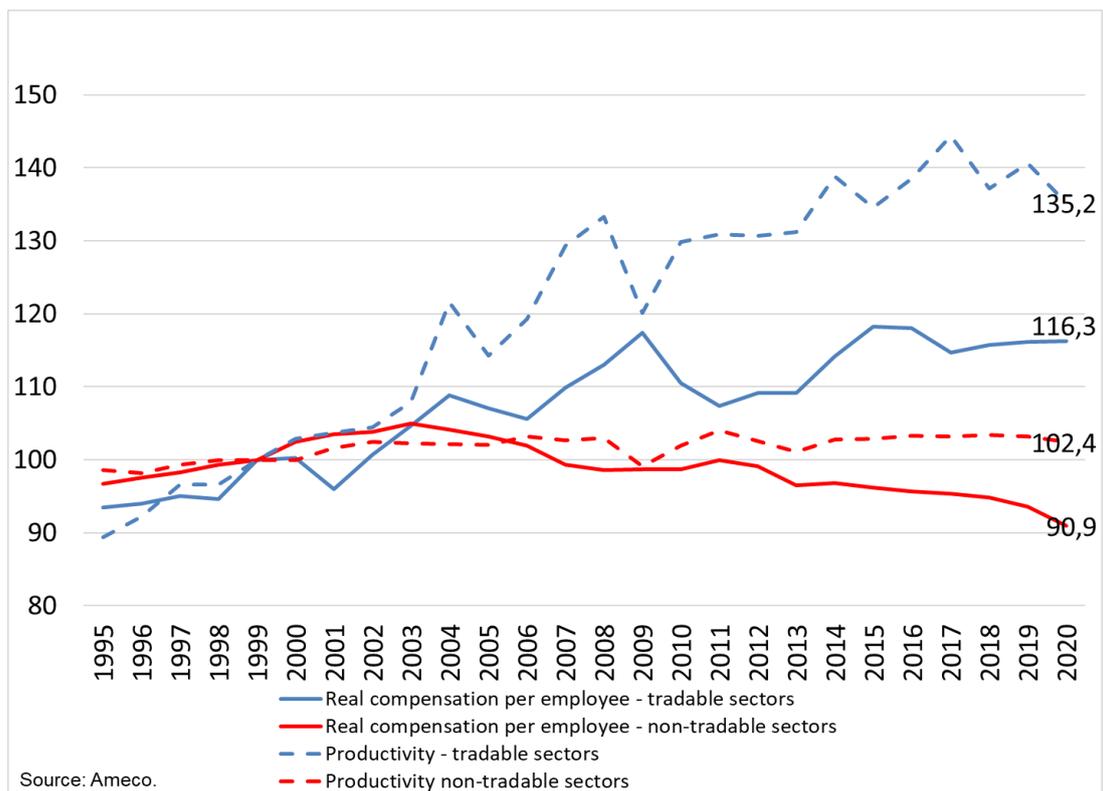
- ✓ A better focus on the procedures requires stronger focus on the roots of imbalances – in the cost and productivity divergences – and therefore on the need for **mutual** convergence.
- ✓ Accordingly, the scoreboard variables should be reduced and be concentrated on correcting structural reform and raising growth – with the correction of external imbalances given symmetric relevance for surpluses and deficits.
- ✓ The euro dimension should be developed as an independent arm of the procedure, and as such become an input to the AGS.
- ✓ The MIP recommendations should be given stronger teeth in the preventive and corrective arm – by at least raising their visibility in Council recommendations, but also giving some meaning to the sanctioning system.
- ✓ Consideration should be given to streamlining the various surveillance procedures, with a view as much as possible to unifying them in a single set of recommendations.

Chart 1. Real effective exchange rates in the euro area (1999=100)



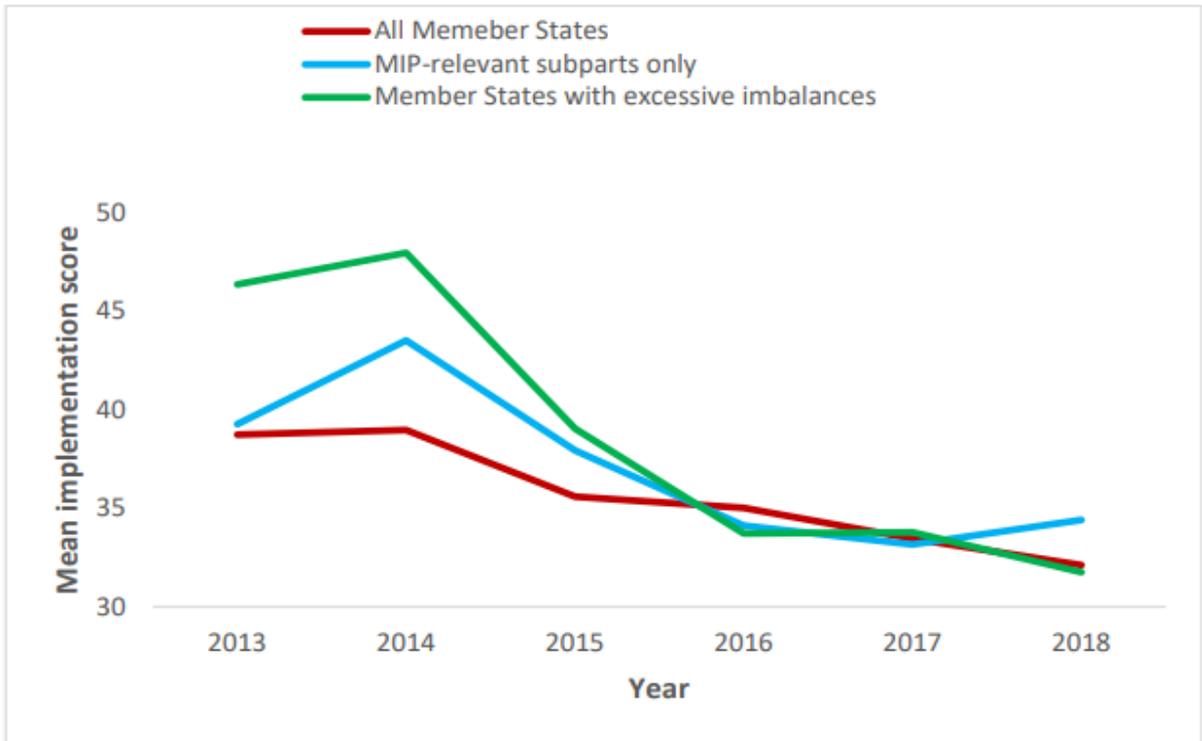
Source: Eurostat

Chart 2. Labour productivity and real compensation per employee in Germany (1999=100)



Source: Ameco.

Chart 3. Average implementation rates per year, in percent of sub-CSRs 2013-18



Source: Bénassy-Quéré and Wolff (2020)