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EuroStat Occasional Paper: March 2011–February 2012

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I. ONGOING INITIATIVES

A. Macroeconomic Imbalance Procedure (MIP)

1.   The 14th of February, the European Commission published the first annual Alert Mechanism Report (AMR). It is the starting point of the Macroeconomic Imbalance Procedure (MIP), a new surveillance tool that helps to detect and correct risky macroeconomic developments in the EU and the euro area and thus strengthens the economic pillar of the Economic and Monetary Union. The MIP forms part of the so-called "six-pack" that entered into force on 13 December 2011.

2.   The Alert Mechanism Report (AMR) is the starting point of the new surveillance procedure. It is a **"filter" to identify countries and issues for which an in-depth review is deemed necessary.** Based on a **scoreboard**, the European Commission examines economic indicators to identify internal and external imbalances. The scoreboard is made up of ten indicators with a view to monitor external imbalances, competitiveness and internal imbalances, including housing markets and indebtedness.

3.   The ten indicators which are part of the scoreboard are (in the annex the definition of each indicator can be seen):

> a) Internal imbalances: *private sector debt; private sector credit flow; changes in house prices; general government sector debt* and *unemployment rate;*

> b) External imbalances: *nominal unit labour cost; current account balance; net international investment position; export market shares* and *real effective exchange rates.*

4.   For each indicator, alert thresholds have been set to detect potential imbalances. The scoreboard and the thresholds are not applied mechanically and the scoreboard will be complemented by an economic reading. The composition of the scoreboard indicators may evolve over time. The aim of the scoreboard is to trigger in-depth studies which will do deep dive analyses to determine whether the potential imbalances identified in the early-warning system are benign or problematic.

5.   Recognising the critical importance of taking due account of country-specific circumstances and institutions, the economic reading of the scoreboard is complemented by additional information and indicators. This inter alia includes the general macroeconomic situation, such as growth and employment developments, nominal and real convergence inside and outside the euro area and specificities of catching-up economies. Additional indicators are considered that reflect the potential for the emergence of imbalances as well as

the adjustment capacity of an economy, including its potential to sustain sound and balanced growth, such as different measures of productivity, inflows of FDI, capacity to innovate and energy dependence.

B. Questionnaire on intergovernmental lending

1.   Eurostat launched the collection of data on intergovernmental lending (Government loan assets with other EU governments as counterparties) for the first time in March 2011. The questionnaire is intended to provide information for the proper consolidation of quarterly and annual general government debt in European aggregates, and to provide data for the annual compilation and the issuance of the Eurostat EDP News Release as well as for the quarterly compilation and the issuance of the Eurostat News Release on quarterly government debt.

2.   The questionnaire covers quarterly data on stocks of loans related to claims of other EU Member States starting with 2009. The data is mainly related to loans given to Greece. The valuation basis for the questionnaire is the stock of loans at nominal value outstanding at end of each quarter (so called Maastricht debt definition).

3.   The reported figures do not include any amounts in relation to the European Financial Stability Facility (EFSF). These figures are collected separately from the EFSF from 2011 onwards on a monthly basis and later disseminated to Member States.

4.   Data on intergovernmental lending was published together with the EFSF data on the Eurostat website and in the Eurostat News Release 60/2011 of 26 April 2011 available at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-26042011-AP/EN/2-26042011-AP-EN.PDF.

II.   DATA AND PUBLICATIONS

A.   Data

MIP Scoreboard

Eurostat has set up a web site dedicated to the scoreboard where the ten indicators which make up the scoreboard and also additional and auxiliary indicators which may be used for the economic reading of the scoreboard are displayed. The link to the dedicated section is (in the   annex   the   layout   of   this   dedicated   section   is   shown): http://epp.eurostat.ec.europa.eu/portal/page/portal/excessive_imbalance_procedure/imbalance_scoreboard/main_tables

Structure of Government Debt

New SiF on debt Structure of government debt in Europe in 2010 - Issue number 68/2011.
http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_co
de=KS-SF-11-068
Publish Date: 19-DEC-2011 10:54 AM

B. Manuals

Technical Compilation Guide for Pension Data in National Accounts (17 January 2012)

1.   The European Commission (Eurostat) and the ECB have released the Technical Compilation Guide for Pension Data in National Accounts. The Guide, produced by the two institutions, is a handbook for compilers and users of data on pension schemes in social insurance. It aims at supporting National Statistical Institutes, Central banks and other compilers within the European Union, to derive position and flow data for pension entitlements in line with SNA 2008 and (the foreseen) ESA 2010 methodology. The guide is also a useful tool to help users to understand the data.

2.   In the System of National Accounts of 1993 (SNA93) the issue of the recording of pension entitlements recording was already present. However, the SNA93 did not recognise unfunded employer retirement schemes operated by general government as liabilities for government or assets for the beneficiaries.

3.   This treatment of liabilities of unfunded pension schemes has changed in the updated SNA (SNA 2008), and so it will in the updated ESA95, currently discussed and that will come into force in 2014, for different reasons. On the one hand, the accounting of households assets associated to those pension schemes can have an important impact on key variables as income and savings. On the other hand, the knowledge of pension liabilities and the future flow of payments that governments will have to face is increasingly important.

ANNEX

Definition of the scoreboard indicators.

Private debt
The private debt is the stock of liabilities, in the form of securities other than shares (F.3) and loans (F.4), held by the three sectors: non-financial corporations, households and non-profit institutions serving households. Data are non-consolidated, meaning that intra-sector debt is included in the indicator. A supplementary indicator on consolidated debt is also available. Definitions regarding sectors and instruments are based on ESA 95. The MIP scoreboard indicator is expressed as percentage of GDP.

Private credit flow
The private credit flow represents the net amount of liabilities that the sectors non-financial corporations and households and non-profit institutions serving households have incurred along the year. The instruments that are taken into account to compile private sector credit flow are securities other than shares (F.3) and loans (F.4). Data are non-consolidated, meaning that intra-sector transactions are included in the flow. A supplementary indicator on consolidated credit is also available. Definitions regarding sectors and instruments are based on ESA 95. The MIP scoreboard indicator is expressed as percentage of GDP.

Changes in house prices
For the scoreboard, house prices developments are measured as the evolution of prices in the house market relative to the evolution of the national accounts deflator for final consumption expenditure of households and non-profit institutions serving households, see ESA 1995. The Eurostat House Price Index (HPI) captures price changes of all residential properties purchased by households (flats, detached houses, terraced houses, etc.), both new and existing, independently of their final use and their previous owners. Only market prices are considered, self-build dwellings are therefore excluded. The land component is included. The current HPI data are the result of a pilot project running for several years in all Member States: House price developments are difficult to measure since there is a need to compensate for size, location, and other quality characteristics to achieve comparable results. The HPIs provide the best available data set for the EU. It is expected that the outcome of the pilot project will lead to a regular production of HPI data in the course of 2012. The MIP scoreboard indicator is expressed as year on year change.

General government sector debt
Public debt is defined in the Maastricht Treaty as consolidated general government gross debt at nominal value, outstanding at the end of the year. The general government sector comprises central government, state government, local government, and social security funds. The relevant definitions are provided in Council Regulation (EC) N° 479/2009 as amended by Council Regulation 679/2010. Data for the general government sector are consolidated between sub-sectors at the national level. Differences between the EDP debt and Scoreboard debt may arise as a result of different timetables for the updating of GDP figures. The MIP scoreboard indicator is expressed as a percentage of GDP.

Unemployment rate
The unemployment rate is the number of unemployed persons as a percentage of the labour force based on International Labour Office (ILO) definition. The labour force is the total number of people employed and unemployed. Unemployed persons comprise persons aged 15 to 74 who: - are without work during the reference week; - are available to start work within the next two weeks; - and have been actively seeking work in the past four weeks or had already found a job to start within the next three months. The principal legislation is the Council Regulation (EC) No 577/98 on the organisation of a labour force sample survey in the Community. In order to ensure consistent time series, Eurostat amends the series for possible breaks due to improvements in labour force survey methodology or sample design. The MIP scoreboard indicator is the average of the unemployment rate for the past three years.

Nominal unit labour cost
Nominal unit labour cost compares remuneration (compensation per employee) and productivity (gross domestic product (GDP) per employment) to show how the remuneration of employees is related to the productivity of labour. The employment data covers both employees and self-employed while remuneration covers wages and salaries and employers' social contributions. The unit labour cost indicator is compiled using national accounts data, see ESA95 transmission programme. The MIP scoreboard indicator is expressed as the percentage change over three years.

Current account balance
The balance of payments is the statistical statement that systematically summarises, for a specific time period, the economic transactions of an economy with the rest of the world. The Balance of Payments is broken down into three broad sub-balances: the current account, the capital account, and the financial account. Current account is the major driver of net lending/net borrowing of an economy; it provides important information about the economic relations of a country with the rest of the world. It covers all transactions (other than those in financial items) that involve economic values and occur between resident and non-resident units.
For the MIP scoreboard indicator, the current account balance in percentage of GDP is expressed as the average of the past three years. An indicator based on Current plus Capital account as share of GDP is also made available. Balance of Payment data are collected by Eurostat from the EU27 Member States according to EU Regulation n°184/2005.

Net international investment position
International investment position (IIP) statistics record the financial assets and liabilities position of a country vis-à-vis the rest of the world. They are an important measure of the net position of an economy domestic sectors vis-à-vis the rest of the world. The **net international investment position (NIIP) is calculated as IIP assets minus liabilities**.
If the net IIP is very negative, the domestic sectors of the economy are indebted toward the rest of the world. The net IIP is the stock counterpart to the current plus capital account balance and therefore allows for a stock-flow analysis of external positions.
The MIP scoreboard indicator is expressed as total net international investment position at end of the year in percentage of GDP. **A supplementary indicator used as part of the scoreboard is the net external debt (NED), a subset of the international investment**

position that does not include data related to equity and financial derivatives. It is calculated as liabilities minus assets. It can be calculated in two ways (equivalent when based on the same information):

a) Summing-up the NIIP debt components directly

NED= ((580-530)+(669-619)+(753-703)-(810+808+806T+806U+813))

b) Excluding from the NIIP total the non-debt component (equity, financial derivatives and SDRs), after changing the sign.

NED=minus (995-(506-556)-(610-660)-910-(812+811+806S+814A))

The indicator is based on the data reported to the ECB by the 27 EU Member States.

Definitions are based on the IMF's Fifth Balance of Payments Manual (BPM5) and on the IMF's Guide on External Debt Statistics

Export market share

The share of world exports ('export market share') captures the value of exports of goods and services of a country compared to the value of total world exports. The indicator is expressed as the percentage change over five years. The data are based on the Balance of Payments information. While the source of data for individual countries is Eurostat (Regulation n°184/2005), the source of total world exports is International Monetary Fund (IMF). The MIP scoreboard indicator is expressed as the percentage change over five years.

Real effective exchange rates

Real effective exchange rates (REERs) aim to assess a country's competitiveness relative to its principal competitors in international markets. Changes in competitiveness depend on exchange rate movements as well as the relative changes in costs or prices between the country and its trading partners. The REER used for the scoreboard takes account of exchange rate movements and consumer price developments for a country against a panel of 35 other countries (EU27 countries plus Australia, Canada, United States, Japan, Norway, New Zealand, Mexico, Switzerland, and Turkey). Double export weights are used to calculate REERs, reflecting not only competition in the home markets of the various competitors, but also competition in export markets elsewhere. Data are produced by the Directorate General for Economic and Financial Affairs (DG ECFIN). The MIP scoreboard indicator is expressed as the percentage change over three years, and a positive value means a loss of competitiveness.

Layout of the Eurostat´ MIP scoreboard dedicated section