

## SCOREBOARD FOR THE SURVEILLANCE OF MACROECONOMIC IMBALANCES

This Occasional paper describes in detail the background and rationale for the design of the scoreboard used in the alert mechanism of the new Macroeconomic Imbalances Procedure (MIP). The scoreboard indicators are neither policy targets nor policy instruments. Rather, in the alert mechanism the results of the scoreboard are interpreted from an economic perspective with a view to identify developments in Member States that may point to a risk of imbalances and therefore requires further in-depth analysis.

The initial scoreboard consists of a set of ten indicators with indicative thresholds. Two indicators aim at monitoring external positions, three indicators capture competitiveness developments and the subsequent five indicators reflect internal imbalances. The indicators are as following:

- three-year backward moving average of the **current account balance** in percent of GDP, with a threshold of +6% and - 4%;
- **net international investment position** in percent of GDP, with a threshold of -35%;
- five-year percentage change of **export market shares** measured in values, with a threshold of -6%;
- three-year percentage change in **nominal unit labour cost**, with thresholds of +9% for euro-area countries and +12% for non-euro-area countries, respectively;
- three-year percentage change of the **real effective exchange rates** based on HICP/CPI deflators, relative to 35 other industrial countries, with thresholds of -/+5% for euro-area countries and -/+11% for non-euro-area countries, respectively;
- **private sector debt** in percent of GDP with a threshold of 160%;
- **private sector credit flow** in percent of GDP with a threshold of 15%;
- year-on-year changes in the **house price index** relative to a Eurostat consumption deflator, with a threshold of 6%;
- **general government sector debt** in percent of GDP with a threshold of 60%;
- three-year backward moving average of the **unemployment rate**, with a threshold of 10%;

For each indicator, the paper explains the economic rationale for its enclosure, including its relevance to identifying early on potentially harmful imbalances. Data considerations, such as data sources and data transformations, are also discussed in detail. Moreover, the paper discusses their economic interpretation in the context of the MIP given that the reading of the scoreboard results is not mechanical, i.e. it is not a flash counting exercise, but takes into account additional information as well as the broad economic context.

At a technical level, the work to identify the indicators implied the analysis of a large number of indicators and data transformations. Four principles have been used to guide this choice.

Firstly, the chosen indicators focus on the most relevant dimensions of macroeconomic imbalances and competitiveness losses. For this reason, the scoreboard consists of indicators which can monitor external imbalances, competitiveness positions and internal imbalances, and encompass variables where both the economic literature and recent experiences suggest associations with economic crises.

Secondly, they provide a reliable signalling device for potentially harmful imbalances and competitiveness losses at an early stage of their emergence. This has led to: (i) a combination of stock and flow indicators which can capture both shorter-term rapid deteriorations as well as the longer term gradual accumulation of imbalances, and (ii) indicative thresholds set at prudent levels, which on the one hand avoid excessive numbers of 'false alarms' but which on the other hand are not set so stringently that they only identify problems once they are entrenched.

Thirdly, in order to facilitate communication, the number of scoreboard is kept limited and the computations simple. Data transformations are transparent and tractable so that they can be replicated by third parties.

Fourthly, high statistical quality is ensured, including data sources that provide timely and comparable indicators across countries. To this end, preference has been given to Eurostat sources, and when Eurostat data were not available, other data compiled according to the principles of the European Statistics Code of Practice of the European Statistical System (ESS) were preferred.

Finally, the MIP legislation fully recognises the need for flexibility in the design of the scoreboard and entrusts the Commission with a task to regularly assess the appropriateness of the scoreboard, including the composition of indicators, the thresholds set and the methodology used and make the necessary changes. Therefore design of the scoreboard could change over time to take into account improvements in data availability or enhancements in the underlying analysis, and even more importantly, new sources of potentially harmful macroeconomic imbalances that might develop in the future.