

Ensuring the quality of statistics underpinning the macroeconomic imbalance procedure (MIP) scoreboard

MIP visits - lessons learned

I. Background information on the MIP visits

The Macroeconomic Imbalance Procedure (MIP) is a surveillance mechanism that aims to identify potential macroeconomic risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the existing imbalances. The credibility of the procedure and its smooth implementation depends critically on the availability and quality of the statistics underlying the MIP. The statistics used in the procedure have to be fit for the purpose, i.e. reliable and comparable between Member States and over time.

In 2016, the Economic and Financial Affairs Council (ECOFIN) recalled that the MIP must rely upon sound and harmonised official statistics and since 2011 it had emphasised the importance of close cooperation between the European Statistical System (ESS) and the European System of Central Banks (ESCB) in assessing the reliability of the statistics underlying the MIP and improving their quality. Following the invitation of the Council to take all the necessary initiatives to assure a reliable procedure for the compilation of MIP indicators, as well as a continuous improvement of the underlying statistical information, a Memorandum of Understanding (MoU) was signed between Eurostat and the European Central Bank /Directorate General Statistics (ECB/ DG-S) in November 2016. The Memorandum of understanding mutually recognises the respective quality assurance frameworks and enables an even closer cooperation regarding quality reporting in the fields of balance of payments and international investment position statistics (BoP/IIP) and Financial Accounts (FA). It lays down the practical working arrangements for cooperation between Eurostat and the ECB/ DG-S when these statistics are compiled by National Central Banks, in their capacity as members of the ESCB.

Moreover, the MoU envisages that country visits undertaken by Eurostat and the ECB/DG-S may be part of the toolkit for the analysis of the output quality and consistency of these datasets with related statistical domains.

II. First visits and Terms of Reference

Joint ECB (DG-S)-Eurostat visits to Member States started in 2017, with pilot visits to the National Central Banks of Belgium and Greece. Following the two pilot visits, some “Terms of Reference” (ToR) for the visits were elaborated on the basis of the experience gained. The ToR were discussed by the CMFB in February 2018 and finalised in March 2018.

The ToR clarify that visits are one possible element in the analysis of output quality for BoP/IIP and FA statistics; discussions can cover statistical sources and methods used for the compilation of the datasets underlying the Alert Mechanism Report, one of the documents opening the European Semester.

The ToR foresee between two and four visits per year, taking into account the importance of issues identified in the overall quality assurance process, and specify the practical details for the planning and execution of the visits. The visits are agreed at least three months in advance (except in cases of urgency as agreed between the parties). Visits take up to 2 days and the dates are set in agreement with the countries, in particular to avoid key production periods and other relevant commitments.

In 2018 Eurostat and the ECB conducted joint visits to Luxembourg and Poland while in 2019 Germany, Malta and Ireland were visited; the most recent visit has been held in January 2020 in France. Further countries are currently being planned for.

The visits, intended to achieve a better understanding of country specific circumstances and critical issues for output quality, are proving to be a very effective tool. A high commitment of the participating institutions, with a careful preparation of comprehensive material on relevant issues in the compilation of BoP/IIP and FA statistics, were important for the success of the visits.

The visits encouraged discussion of possible solutions and agreement on how to achieve lasting progress, including when enhanced cross-institutional and/or cross-country cooperation would be necessary.

As stated in the ToR, each visit led to the drafting of proceedings, including a summary of the results of the analysis and a list of recommendations on output quality aspects (with an agreed implementation timetable), taking into account prioritization of issues, national circumstances and feasibility aspects. Most of these recommendations are explicitly mentioned in the quality reports on BoP/IIP and FA statistics published annually by the ECB and Eurostat.

Some recommendations were implemented very rapidly, permitting quick and concrete improvements. Other recommendations are, by their nature, to be implemented in a medium or longer term horizon and will be followed up in the context of the MIP quality framework. A deadline is agreed for the implementation of the recommendations and a follow up system (described in the next section) is in place.

III. Lessons learned and results

Following the experience gained with the first visits, the preparation, running and follow up of the visits have been improved to reach now a very satisfying status.

MIP visit are carefully prepared by Eurostat and the ECB; a draft agenda is initiated by the leading institution and agreed with the other one. The draft agenda is quite detailed in order to focus the discussion on the relevant issues at country level; it generally consists of a common part, including an introduction by the national authorities about the institutional arrangements for the compilation and dissemination of BoP/IIP and FA and their cooperation; this common part also addresses aspects which are important for both BoP/IIP and FA statistics. It usually covers those aspects that need the presence of all participants, while the following two sessions on BoP/IIP and FA are usually run in parallel, and may be attended by more experts in the relevant fields. Usually, there is a concluding session on the second day held in full composition, this is used to wrap up the discussions and to present and agree on the list of recommendations and respective timeline.

National authorities usually put great care in supplying Eurostat and the ECB with as much information as possible in advance of the visit; in this way the focus (discussion) can be on fewer relevant issues. Where useful, additional presentations are given by the national authorities during the meeting, to complement the information provided before in writing.

In order to maximise the effectiveness of the MIP visits, a follow-up system has been agreed to effectively monitor the implementation of the recommendations. Recommendations are monitored by the leading institution on a continuous basis, i.e. by Eurostat, the ECB or both. Requests for information about progress are regularly sent to the national authorities.

Once a year (in the autumn), the leading institution transmits to the national authorities a pre-filled progress review of the MIP recommendations agreed during the visit. The report includes some follow-up actions and a description of the status of the recommendations as *not started*, *ongoing* or *completed*. National authorities are invited to comment on the report and this triggers new follow-up actions; this allows for an annual comprehensive update of the state of the various recommendations, with the introduction of corrective actions and deadlines when deemed appropriate.

The report also evidences which actions depend upon discussions from ECB or Eurostat working groups or task forces in the relevant fields. This reflects that MIP statistical discussions may touch upon complex methodological or practical (e.g. data sources) issues, which require discussions and agreement on the way forward at EU level, to ensure comparability.

Some of the agreed actions will be implemented only in the context of the next benchmarking revision (e.g. now 2024).

IV. Discussion output - recommendations

Looking at the issues raised, they range from those of a general nature - common to the majority of visited countries, e.g. the compilation of reinvested earnings on Foreign Direct Investment (FDI) and the coverage of assets held abroad by the household sector - and those more country-specific, which are linked to characteristics of a country's economy, for example the coverage of Special Purpose Entities, non-resident VAT traders or the recording of the maritime sector. In particular cases, the need to improve estimates and/or to confirm hypotheses underlying the statistical production process has been discussed and reflected in the recommendations.

At general level, one of the recurring points is the need for a more integrated compilation approach between BoP/IIP and sectoral/national accounts, both to guarantee overall consistency and draw on best practices from the two domains. This aspect has wider implications than statistics underlying the MIP and its relevance has been affirmed in this context too. Adequate resourcing and in particular IT innovation are also points which are often discussed. The sharing of administrative data between the producing institutions and information from statistical business registers has also been recognised as necessary for improving data consistency.

As already recognised in the context of the MIP quality framework, there is an increasing collaboration between National Central Banks (NCBs) and National Institutes of Statistics (NSIs), to better integrate the quarterly and the annual financial accounts with the non-financial accounts, the latter being mostly produced by NSIs in the European Union. So-called 'vertical discrepancies' have been discussed in several visits and concrete follow-up actions and recommendations tailored by country were included in the proceedings. Furthermore, collaboration between the ECB and Eurostat, and the ECB's Working Group on Financial Accounts and the Eurostat/ECB Expert Group on non-financial sector accounts has been launched to develop guidance for

‘vertical’ reconciliation practices.

The relevance of implementing the Harmonised European Revision Policy¹, and the best practices to document and publish national revision policies for national accounts and BoP/IIP, have also been recognised in order to improve coherence and transparency for users. This more general statistical issue would have an important indirect impact on MIP underlying statistics.

Although the cooperation among NCBs and NSIs is generally well-established and effective, in some countries the need for an exchange of more data and improved timing coordination has been observed. This would contribute to improving the quality of statistics and the synchronisation of data vintages.

Even if not with significant presence in all countries visited so far, SPEs have been discussed in several visits, focusing on the capacity of identifying and recording new SPEs of MNEs, transactions in non-financial and financial accounts, valuation of production and related income, the assets held and the securities issued abroad.

Common issues were also discussed concerning the households sector, in particular in relation to the improvement of data sources and methods for the estimation of selected variables, such as assets and real estate holdings abroad.

The session on Balance of payments usually included a discussion on data quality and compilation issues, where completeness of sources and compilation practices were discussed. The valuation and reconciliation of FDI data was frequently addressed, or the recording of transactions and positions in portfolio investment liabilities. The evolution of errors and omissions as a measure of data quality was also discussed.

When looking at Financial Accounts, attention was on the coverage of the non-bank financial institutions (in particular OFIs), sector delimitation, and the compilation of the Non-financial Corporations (NFC) sector based on direct sources and counterpart sector reporting. Moreover, consistency of the annual and quarterly accounts, a result already achieved in most of the visited countries; was also discussed.

Finally, it is important to note that MIP visits have taken place in a very cooperative atmosphere, where the close interaction between national producers and the representatives of Eurostat and the ECB facilitated the identification of the need for methodological guidance, usually addressed further by the work of Task forces and working groups.

V. Future improvement

The MIP visits have proven a very effective tool to review and improve the quality of the MIP indicators; they require an involvement of the national authorities, Eurostat and the ECB. Experience has shown that additional time may be needed to effectively prepare for the visits; this is in particular the case for the ECB and Eurostat to review the material received from the visited institutions, which currently is received only three days before the visit. One possibility would be to anticipate by one week the sending of the draft agenda to the national authorities to allow for the anticipation of the reception of the material from the national authorities also by a week.

Finally, some further prioritisation of recommendations could help the visited institutions in the follow-up to the recommendations and the optimisation of the use of limited resources both at national and European level. In that context, also an effective approach for the exchange of best

¹ <https://circabc.europa.eu/sd/a/370b7c25-142d-40df-8397-248289a03bac/2017-10-13%20-%20CMFB%20Communication%20on%20common%20revision%20policies.pdf>

practices across countries should be pursued to improve efficiency and effectiveness in the compilation of statistics underlying MIP indicators.

VI. Concluding remarks

To date MIP visits have demonstrated their potential for identifying concrete actions for the improvement of the quality of MIP underlying statistics. These are being complemented by a structured follow-up process, including the monitoring of the implementation of the individual recommendations, and the use of well-established groups to address cross-cutting issues. Some minor organisational aspects could be further improved, but the current process is already sound and yielding the desired results.