Questionnaire supporting the own initiative report evaluating the structure, the role and operations of the 'troika' (Commission, ECB and the IMF) actions in euro area programme countries

A. Questionnaire to the European Commission, ECB and IMF

DESIGN AND ADOPTION OF THE FINANCIAL ASSISTANCE PROGRAMMES

1. Who decided on behalf of your institution on an involvement in the financial assistance programmes of, respectively, EL, IE, PT and CY? When were these decisions taken, respectively?

Before entering into country cases, some remarks on the general framework.

First, the legal framework has changed completely since May 2013 with the entry into force of Regulation (EU) N° 472/2013 which is part of the two-pack (for details on the new framework, please refer to the answer to question 21). This was after financial assistance programmes for Greece, Ireland, Portugal and Cyprus had been put in place. Before May 2013 the Commission had to organise its involvement in the assistance programmes without clear indication from the Union legislator, with the notable exception of Regulation (EU) N° 407/2010 which defines the role of the Commission and the ECB in the European Financial Stability Mechanism (EFSM).

Secondly, the financial assistance programmes always have two components: on the one hand, the decisions related to the financial assistance proper (loans, disbursement decisions etc.); on the other hand, the so-called 'conditionality' (or 'programme') i.e. the budgetary, financial sector and structural reforms included in a Memorandum of Understanding (MoU) agreed between the beneficiary Member State and its lenders. By requesting financial assistance and subsequently negotiating and signing the MoU and the Letter of Intent (LoI, which is an IMF document, and respective Memorandum of Economic and Financial Policies (MEFP)), the concerned Member State, confronted with the lack of market access, in effect recognises that there is a range of adjustment needs. This need for 'strict conditionality' in exchange of financial assistance is now recognised in the EU treaties themselves, following the addition of a new paragraph 3 to Article 136 TFEU. As set out in the response to question 10, in the Pringle case the EU Court of Justice also considered that such conditionality was necessary in order to ensure the compatibility of financial assistance to Member States with Article 125 TFEU.

Thirdly, it is important to distinguish the situation of the Member States which benefitted from assistance from the Union budget (through the EFSM set up by Regulation N° 407/2010) (Ireland, Portugal) and those which have received *only* intergovernmental [bilateral loans, European Financial Stability Facility (EFSF), European Stability Mechanism (ESM)] and IMF assistance (each of the four countries also received IMF assistance):

- Concerning Ireland and Portugal, the Commission acted strictly in conformity with the rules and procedure provided for by Regulation N° 407/2010 and on the basis of specific decisions adopted by the Council. The EU MoU detailing the conditionality linked to the Union assistance was thereafter used as a benchmark for the assistance coming from the EFSF.

- For Greece and Cyprus, the Commission considered that, although no financing was coming from the Union budget, the conditionality associated with such financing has nevertheless to be framed by the Union and could not be decided solely by the lenders. For this reason the Commission made sure that the broad lines of the programme were first adopted by the Council acting on the basis of Article 136 TFEU, thus only euro area Member States voting within the Council (starting with decisions 2010/320/EU for Greece and decision 2013/236/EU for Cyprus). The representatives of the governments of the Member States of the European Union also agreed in May 2011 that the contracting parties to the ESM Treaty provide for the Commission (and the ECB) to carry out the tasks as set out in that Treaty, in line with the jurisprudence 'Bangladesh' of the EU Court of Justice.

Fourthly, as regards its internal decision-making procedure, the Commission has always acted in compliance with its own legal framework. All formal decisions were taken either by the College or by the Vice-President responsible for economic and monetary affairs (hereafter ‘the Vice-President’) acting by empowerment of the College.

On 23 April 2010, *Greece* officially requested financial assistance from the euro area Member States. A joint Commission/ECB/IMF mission (mandated by their respective institutions, under a general political mandate from the Eurogroup) concluded a staff level agreement for financial assistance and supporting economic policies for Greece on 2 May 2010. The same day, euro area Member States agreed in principle to provide financial assistance to Greece in the form of bilateral loans pooled by the Commission (the so-called "Greek Loan Facility" or GLF). Under the GLF, the Commission was not acting as a borrower but was entrusted by the euro area Member States with the coordination and administration of the pooled bilateral loans, including their disbursement to Greece. On 3 May 2010 the Commission, acting on behalf of the lenders, signed the MoU detailing the conditionality associated with the financial assistance. The signature was done by the Vice-President upon empowerment from the College. The IMF Executive Board approved financial assistance under a Stand-By Arrangement (SBA) on 9 May 2010. On 10 May 2010 the Council adopted a decision giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit (Decision 2010/320/EU). This decision has been regularly amended by the Council, the last time in December 2012 (Decision 2013/6/EU). The lenders decided that their support would be conditional on Greece respecting this decision. On 14 March 2012, euro area finance ministers approved in principle the financing of the Second Economic Adjustment Programme for Greece through the EFSF. EFSF financing decisions were adopted thereafter. The IMF Executive Board approved financial assistance under the Extended Fund Facility (EFF) on 15 March 2012.

On 21 November 2010, *Ireland* officially requested financial assistance from the EFSF and the EFSM. A joint Commission/ECB/IMF mission (mandated by their respective institutions, under a general political mandate from the Eurogroup) reached a staff level agreement with the Irish authorities on 28 November. The same day, the Eurogroup and ECOFIN Ministers unanimously decided in principle to grant financial assistance in response to the Irish authorities' request, and to finance this assistance by loans from the EFSM and the EFSF, and bilateral loans from the UK, Sweden and

Denmark. On 7 December 2010, the Council (ECOFIN) adopted a decision on granting Union financial assistance (EFSM) to Ireland. The EFSM MoU, detailing the programme conditionality, and the EFSM Loan Agreement were signed thereafter by the Commission (the Vice-President is empowered to sign the MoU), on behalf of the Union, and by the Irish authorities. On 22 December 2010, the EFSF and Ireland entered into a parallel loan facility agreement. The IMF Executive Board approved financial assistance under the EFF on 16 December 2010.

On 7 April 2011, *Portugal* officially requested financial assistance from the EFSF and the EFSM. A joint Commission/ECB/IMF mission (mandated by their respective institutions, under a general mandate from the Eurogroup) reached a staff level agreement with the Portuguese authorities on 3 May 2011. On 17 May 2011 the Council (ECOFIN) adopted a decision on granting Union financial assistance (EFSM) to Portugal. The EFSM MoU, detailing the programme conditionality, and the EFSM Loan Agreement were signed thereafter by the Commission (the Vice-President is empowered to sign the MoU), on behalf of the Union, and by the Portuguese authorities. Further to the EU support from the EFSM, on 27 May 2011 the EFSF and Portugal entered into a loan facility agreement. The IMF Executive Board approved financial assistance under the Extended Fund Facility (EFF) on 20 May 2011.

On 25 June 2012, *Cyprus* officially requested assistance from the EFSF/ESM. On 27 June 2012, the Eurogroup welcomed the request and invited the Commission, together with the ECB and the IMF, to negotiate a programme with the Cypriot authorities. Long technical negotiations took place between the services of the Commission, together with the services of the ECB and the IMF, and the Cypriot authorities from July 2012 to March 2013. The content of these negotiations was regularly reviewed by the Eurogroup. On 25 March 2013, the Eurogroup reached a political agreement with Cyprus on the key elements of a programme, including plans for restructuring the financial sector. On this basis, the Commission, the ECB and the IMF reached a staff-level agreement on an Economic Adjustment Programme on 2 April 2013. The programme included in the draft MoU was agreed by the ESM Board of Governors on 24 April 2013. It mandated the Commission to sign the MoU. The Vice-President, acting on behalf of the Commission, acting in turn on behalf of the ESM, signed the MoU together with the Cypriot authorities on 26 April 2013. The Financial Assistance Facility Agreement (FFA) was approved by the ESM Board of Directors on 8 May 2013. The IMF Executive Board approved financial assistance under the EFF on 15 May 2013.

2. What was your role and function, respectively, in the negotiation and set-up of the financial assistance programme including the definition of policy objectives and main measures as well as their implementation, respectively, in EL, IE, PT and CY? According to which criteria have the reform priorities been identified?

The Commission's role in past financial assistance programmes, which is based *only* on an inter-governmental agreement such as GLF, EFSF and ESM (with the exception of Ireland and Portugal where a Union instrument is also used), is to act on behalf of euro area Member States, including when negotiating and signing an MoU as a member of the Troika. Within this framework, the final decision on financial assistance and on conditionality lies with the lenders (usually the euro area Member States).

By contrast, in the case of EFSM, financial assistance is granted by a decision adopted by the Council, acting by a qualified majority on a proposal from the Commission. This Council decision also contains the general economic policy conditions which are attached to the Union financial assistance. These conditions are thereafter detailed in the MoU concluded between the Commission and the beneficiary Member State.

When negotiating the MoUs, the Commission focused on the design and monitoring of macro-economic, fiscal, financial sector and structural policies, in the light of its EU Treaty-based competences regarding the coordination of the economic policies of the Member States. However, at staff level all three institutions (Commission, ECB, IMF) were de facto jointly involved in the design of each programme and the monitoring of its implementation. This involvement was acknowledged by the EU Court of Justice in its judgement on the Pringle case, as set out in the response to question 10.

The programmes' design had to address three intertwined weaknesses within the context of a monetary union: large fiscal deficits and rising public debt; a lack of competitiveness; and financial sector vulnerabilities. The financial adjustment programmes were then consistently built around four related pillars: (i) fiscal consolidation; (ii) fiscal framework; (iii) growth-enhancing structural reforms; and (iv) financial repair. The specific conditionality of each programme was, however, tailored to address country-specific problems and economic vulnerabilities, while paying attention to social implications and spillovers among sectors and among countries.

3. Describe in detail assumptions and methodology (in particular as regards fiscal multipliers) used to forecast debt sustainability at the beginning and in the course of each programme and design fiscal measures. What was the *modus operandi* leading to the adoption of draft programmes?

The objective of the programme is to allow the assisted Member State to regain access to financial markets. This requires the correction of fiscal and structural imbalances so that public debt remains on a sustainable path. The projection of debt sustainability is determined by the economic scenario and the implementation of the policy commitments. Economic outcomes are influenced by many potential factors, for example uncertainty about or lack of programme implementation as well as confidence effects in financial markets. The multiplier effect of fiscal measures cannot be considered in isolation. In crisis conditions historical fiscal multipliers do not provide a reliable guide for economic and fiscal forecasting. Fiscal multipliers tend to be larger at the current juncture than in normal times.

At the outset, all programme countries were confronted with high fiscal deficits. These had to be addressed even though in some cases the true size of the deficit was subject to large uncertainties, for example due to a weak statistical database and inadequate fiscal governance, as in the case of Greece.

Debt Sustainability Analysis (DSA) aims at assessing issues related to liquidity and solvency, as well as assessing the resilience of a Member State's debt-to-GDP ratio to shocks. The assessment of public debt sustainability comes after an iterative process which integrates a set of macroeconomic assumptions and incorporates fiscal and structural adjustment measures in order to establish scenarios for the evolution of the debt-to-GDP profile. DSA is a useful tool to assess the viability and sustainability of public debt. However, the underlying assumptions are highly sensitive to policy implementation.

As far as the modus operandi is concerned, please refer to the response to question 2.

4. Did you get all the relevant information, including statistics, from the Member states to make a correct assessment and plan for optimal assistance plans?

In general, the authorities in Member States demonstrated their willingness to provide all the relevant information necessary for designing an effective adjustment programme. However, in the case of Greece the fiscal information received in the early stages of the programme was far from complete due to low technical standards in data collection, compilation and processing, as well as limited administrative capacity. The quality of statistical systems differed across programme countries, and data quality also differed across economic sectors (such as fiscal data and GDP figures). These deficiencies were subsequently addressed and statistical reporting, which was part of the MoU, has significantly improved over the programme horizon.

5. How much leeway did the countries concerned have to decide upon the design of the necessary measures (consolidation or structural reforms)? Please explain for each country.

The ownership of the design of the programme belongs to the authorities of the Member State concerned, and the main measures are included in the authorities' Letter of Intent (LoI) to the IMF and the EU. In the preparatory phase of the programme and the subsequent MoU there are intense interactions between the national authorities and the Troika, but given that the MoU is signed by the national authorities, who are also responsible for its implementation, the ultimate responsibility rests with them.

In general, the adverse economic and financial conditions prior to programme inception, including a pressing need to avoid default and its negative economic, financial and social consequences, and the need to correct internal and external imbalances accumulated in the past, limited the leeway in the overall scale of fiscal consolidation and structural reforms required.

Ownership of the programme by the Member States concerned is key for a successful economic turnaround. In this respect it is first and foremost for the relevant Member State to propose the measures or decisions needed to correct the accumulated imbalances. This extends to creating the conditions for an effective social dialogue during the implementation of the programme, and it is for the Member State to ensure that its obligations regarding fundamental rights are respected. As acknowledged by the European Court of Human Rights of the Council of Europe (May 2013) in the case of Greece, the national legislature had a wide margin of appreciation in implementing social and economic policies. The same Court, in the case of Portugal (October 2013), considered that the measures adopted by the national authorities were transitory, clearly in the public interest and adopted in an extreme economic situation and, therefore, were not disproportionate.

Within their mandate and within the programme parameters, the Troika partners have always been willing to discuss and assess all policy alternatives with national authorities. For example, the design of the Irish programme was based in part on "The National Recovery Plan" published by the domestic authorities before programme negotiations started. Policy measures from the updated "Greek Stability Programme for 2010-2013" were included in the first Greek adjustment programme. In Portugal some elements of the programme followed from the 2011 "Note on policy guidelines and measures the Portuguese Government will adopt to address main economic challenges". The set of economic policy measures against which performance is assessed in the regular reviews is listed in each MoU, and is the outcome of negotiations between the respective Member State and Troika partners, acting under a general mandate from the Eurogroup. They are annexed to the Letter of Intent signed by the Member State concerned, which has the ultimate responsibility for their implementation.

6. Did any of the Member States (EL, IE, PT, CY) put forward, as a precondition for their approval of the MoU, a claim for specific measures as part of the MoU? If so, please elaborate on these requests.

The request for financial assistance from the government of each Member State implies the recognition of the need for deep reforms and for external financial support given the lack of market access. The fact that the programme conditionality included in each MoU was developed in negotiation between the respective Member State and the Troika partners ensured that the Member State's view on the specific policy measures was duly reflected.

7. Did any of the other Member States put forward, as a precondition for their approval of granting financial assistance, specific measures to be included in the programmes? If so, who did and what were these for each programme?

Irrespective of the programme country concerned, creditor countries face their own constraints, which impacts on the programme envelope. This also reflects the aim, inter alia, to reduce the risk of moral hazard. Finland demanded collateral payments from Greece as a condition for contributing to the second Greek programme. Finland was the only country to take the collateral deal that was made available to all euro members. In exchange for this special treatment, Finland paid its contribution to the permanent rescue fund’s capital up-front and agreed to forgo a share of profits from loans granted by the EFSF.

8. To what extent was the Eurogroup involved in the detailed design of the programmes? Please describe in detail the process within the Eurogroup that led to a decision on the content and the approval of the programmes in each case. Did the Eurogroup provide a written mandate to the EU negotiators of the troika including *inter alia* objectives and priorities?

It should be noticed from the outset that the Eurogroup is composed of the Finance Ministers of the euro area Member States, who also form the Board of Governors of the ESM. The Eurogroup is an informal body which is in principle not competent for adopting any formal decision (except for EFSF assistance). It only reaches political agreements with a view to the formal adoption of decisions at a later stage by competent bodies like the ESM Board of Governors.

In legal terms the Council (ECOFIN) is the responsible body for Union (EFSM) financial assistance, the Eurogroup/Eurogroup Working Group (EWG) together with the guarantor Member States is the responsible body for EFSF financial assistance, and the ESM Board of Governors is the responsible body for ESM financial assistance.

The programme approval process for support provided through the EFSF and ESM respectively is very similar. After having received a request for financial assistance, the president of the Eurogroup in the case of the EFSF or the chair of the ESM Board of Governors entrusts the Commission (in liaison with the ECB) to assess the respective Member State's adjustment needs. Based on this assessment, the Eurogroup or the ESM Board of Governors agrees in principle on financial support and entrusts the Commission to negotiate an MoU, in liaison with the ECB (and IMF).

A set of documents (a Commission proposal for a Council decision framing the conditionality, and a draft MoU put forward by the Member State concerned in a LoI) are sent to EWG for discussion. The decision is thereafter discussed in the Eurogroup and adopted by the Council (ECOFIN), and the draft MoU is approved by the lender (ESM Board of Governors or EFSF Board of Directors).

In the specific case of Cyprus, on 25 March 2013 the Eurogroup reached a political agreement with the Cypriot authorities on the key elements necessary for a future macroeconomic adjustment programme and, on this basis, requested the Cypriot authorities and the Commission, in liaison with the ECB, and the IMF to finalise the MoU at staff level in early April 2013.

9. How and when did the troika report back to the Eurogoup/EFC?

The cycle of regular programme reviews is set out at the inception of the programme in the first MoU. In this context, the conclusion of reviews is prepared by Committees. The Council preparatory committee may be the Economic and Financial Committee (EFC) or Eurogroup Working Group (EWG) depending on which mechanism has been used to provide financial assistance. EFC is set up by Article 134 TFEU. EWG is a euro area configuration of the EFC in which only the euro area Member States, the Commission and the ECB are represented. EFC and EWG have the same president, whose role is similar in both cases.

The EFC/EWG president is kept constantly informed during both the design, negotiation and implementation phases of a programme. The president informs the other EFC/EWG members of important developments as appropriate.

EFC/EWG discusses and endorses the compliance report following each review of a programme. This is complemented by regular updates on the progress of review missions and macroeconomic developments in programme countries.

On a regular basis, the Eurogroup assessed progress with respect to programme implementation and possibly emerging challenges. Agreements were reached by the

Eurogroup in consideration of quarterly reviews on the basis of compliance reports prepared by staff of the Commission, in liaison with the ECB. The IMF Executive Board's decisions are based on the IMF's own documentation, drafted at the conclusion of quarterly reviews. The IMF and Commission documents are consistent and fully aligned. To that end the MoU is annexed to the IMF documentation and the IMF MEFP is annexed to the Commission documentation for their respective decision-making processes.

Please refer to the response to question 8 for more detail on the process for initiating a financial assistance programme.

10. Does the ESM play a role in the negotiation and set-up of financial assistance programmes? If so, in how far?

The ESM came into operation in October 2012. The initial request by Cyprus was made in June 2012 for assistance from the EFSF)/ESM. The programme was finalised under the ESM Treaty in May 2013.

The role of the ESM, as set out in the ESM Treaty, is to mobilise support in the form of financial assistance facilities for euro area Member States with liquidity problems that threaten the financial stability of the euro area as a whole or of its Member States. The ESM must approve the programmes before their signature by the Commission. The ESM also has responsibility for the Loan Agreement, including financial terms and conditions.

The relevant provisions set out in Article 13 of the ESM Treaty include:

- "…the [ESM] Board of Governors may decide to grant, in principle, stability support to the ESM Member concerned in the form of a financial assistance facility."
- "…the Board of Governors shall entrust the European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating, with the ESM Member concerned, a memorandum of understanding (an "MoU") detailing the conditionality attached to the financial assistance facility."
- "…In parallel, the Managing Director of the ESM shall prepare a proposal for a financial assistance facility agreement, including the financial terms and conditions and the choice of instruments, to be adopted by the Board of Governors."
- "…The European Commission shall sign the MoU on behalf of the ESM, subject to…and approval by the Board of Governors."

These provisions were taken into account by the EU Court of Justice in its judgment in the Pringle case, which stated that “the duties conferred upon the Commission and the ECB within the ESM Treaty, important as they are, do not entail any power to make decisions of their own.”

FUNCTIONING OF THE PROGRAMMES

11. Do you consider that all consolidation measures/structural reforms were equally spared/divided among citizens and between the private and the public sector? Please explain.

Economic assistance programmes prevented the disorderly default of a Member State, avoiding much more severe and abrupt social consequences. The social impact of policies has always been a key concern in policy design in programme countries, as reflected in the MoUs. It is essential that the inevitable adjustment burden is shared in the most equitable way possible. At the same time it is for democratically elected national governments to make the choices necessary to correct the accumulated imbalances, in line with programme targets.

Programme conditionality has been tailored to limit the impact of reforms on low income groups. In addition, all economic programmes emphasise the crucial role of safety nets, and aim to increase their efficiency and effectiveness. The fiscal adjustment has been shouldered by both the public and private sectors in programme countries according to the country-specific challenges, with a mix of revenue and spending measures. An emphasis has been put on the fight against tax fraud and evasion, targeting primarily high-income groups. Many of the structural reforms being enacted are helping ordinary citizens by addressing vested interests.

12. Please describe the quality of the cooperation among the Troika institutions on site. Which role did the Commission, the ECB and the IMF play at these works respectively? How are concrete measures or decisions proposed/made by the Troika?

The Troika model has proved to be very useful for dealing with the challenges facing euro area programme countries. The three institutions have all brought different expertise to the negotiations. This Troika model has been recently endorsed by the EU legislator (see Article 7 of Regulation (EU) N° 472/2013). For more detail on the role of the Commission please refer to the response to question 2.

The ownership of a programme by the Member State concerned is key for a successful economic turnaround. In this respect it is first and foremost for the relevant Member State to propose the measures or decisions needed to correct accumulated imbalances.

In this context, the cooperation between the Troika partners has been close and effective at the technical and political levels. Cooperation between Troika institutions is maintained throughout the duration of a programme, not only during joint missions on site. Troika partners work on a common position, bringing in their specific expertise. The Troika teams follow an iterative and consensual approach, whereby they evaluate the pros and cons of the available policy options, including their expected yields or broader results, equity considerations, and constraints such as administrative capacity.

Concrete measures are discussed with the Member State, and ideally put forward by the Member State concerned itself. In this regard, the Troika institutions maintain continuous contact with the national authorities and other domestic stakeholders, also outside review missions, including through the presence of resident representatives.

13. What was the interplay between the “Task Force”, which was launched by the Commission in 2011, and the Troika?

The Commission launched the Task Force for Greece in 2011 as a tool to mobilise and coordinate the technical assistance requested by the Greek authorities to support the implementation of the conditionality under the economic adjustment programme. The roles and mandates of the Commission/ECB/IMF programme teams and of the Task Force are clear and distinct. While the Commission/ECB/IMF monitor the policies to be implemented by Greece in order to receive the financial assistance in the context of its adjustment programme, the Task Force is a vehicle to support programme implementation where needed, putting technical assistance resources at the disposal of the authorities. To respond to technical assistance demands expressed by the Greek authorities, the Task Force mobilises expertise or relevant support from the Member States, international organisations or other specialist bodies which have competences and directly relevant experience in implementing similar reforms. This expertise is used to design and implement concrete pieces of legislation, set up institutions and/or working methods and processes needed in order to implement programme requirements included in the MoU or the MEFP.

The programme deals with a wide range of complex reforms in many policy areas and important efforts have been made to tackle any possible coordination issues which may arise. There is close cooperation between programme teams, the Greek authorities and the Task Force in all policy areas where technical assistance is provided, in order to ensure coherence between the policy requirements under the programme and the technical assistance offered to the authorities. The technical assistance provided by the Task Force is a useful resource which has contributed to the effective implementation of programme conditions in a number of areas, such as the tax administration reform. To further improve coordination, the Task Force has been integrated since 1 May 2012 into DG ECFIN, the lead Commission service as concerns the economic adjustment programme for Greece. The Task Force publishes its own quarterly activity reports on its website.

14. How does the collaboration with the national authorities work? How far are the concerned Member States involved in the decision-making process

As noted in the responses to previous questions, ownership of a programme by the Member State concerned is key for a successful economic turnaround. In this respect it is first and foremost for the relevant Member State to propose the measures or decisions needed to correct accumulated imbalances.

The MoU, detailing the conditionality attached to a financial assistance facility, is the outcome of the discussions between the national authorities and the Troika. In discussing policy options, the Troika partners point out to national authorities that protection of vested interests would not lead to equitable outcomes. Significant efforts are being made to achieve the largest possible political and social support for the programmes, including by regular consultations and discussions with political parties, social partners, and other stakeholders such as academia, industry and NGOs.

Cooperation between the Commission and national authorities takes place on a permanent basis. This takes place through missions by the Brussels-based staff to Member States, but also through resident representatives in the Member States concerned and technical assistance teams. The level of preparation of national authorities for programme reviews has varied. In some cases, weaknesses in administrative capacity were reinforced by an initial lack of ownership for the programme by the national authorities.

15. Who adopts the final decision on concrete measures to be taken by the concerned Member States?

Please refer to the response to question 12 for the process for drawing up proposals for the policy conditionality to be attached to a financial assistance facility.

The MoU detailing the conditionality attached to a financial assistance facility is signed by both the Member State concerned and by the Commission acting on behalf of the lender(s) (euro area Member States, EFSF, ESM, or the Union in the framework of the EFSM). As far as the beneficiary Member State is concerned, in most cases the national parliament is involved in this process. The concrete measures to be adopted at national level in order to implement the MoU are adopted by the competent authorities of the beneficiary Member State (national parliament, government, etc.) in accordance with their national legal framework.

The ultimate responsibility for the successful implementation of the economic policy conditions attached to a financial assistance programmes lies with the beneficiary Member State's government. This extends to creating the conditions for an effective social dialogue during the implementation of the programme. Ownership of the programme by the Member State concerned is key, and the disbursement of further tranches of financial assistance under a programme is conditional on adequate progress on implementing the agreed conditions.

16. How many times were representatives of the Troika heard in front of national parliaments? Do you consider that the measures implemented have benefited from appropriate democratic accountability and legitimacy?

The financial assistance programmes have been negotiated with sovereign governments which are fully accountable before their national parliaments. In many cases the Member State concerned passed the draft MoU, detailing the proposals for conditionality that will be attached to a financial assistance facility, through its national parliament before signing it.

Under Regulation 472/2013 (one part of the “two-pack”), Commission representatives can be invited to appear before national parliaments. Article 8 (11) states that "Representatives of the Commission may be invited by the parliament of the Member State concerned to participate in an exchange of views on the progress made in the implementation of its macroeconomic adjustment programme."

In all euro area programme countries, Commission representatives have appeared before relevant (financial and/or economic) committees of the national parliament, with differing frequencies, at technical and/or political level, and at the initiative of the Commission or of the national authorities themselves. These appearances had already started before the two-pack entered into force in May 2013. During programme review missions Commission representatives often also hold bilateral meetings with representatives of national political parties, in addition to their technical discussions with the national authorities. Nevertheless, the primary responsibility for reporting to national parliaments on progress with programme implementation remains with the national authorities.

17. Were the agreed programmes correctly and timely carried out? If not, what were the reasons and what were the consequences on effectiveness and effectivity of the programmes?

Strong implementation of a programme by the Member State concerned is critical to its success. The beneficiary Member States are now in a much better position than they were three years ago. For example, Ireland successfully concluded its programme in December 2013 as planned.

The programmes have proven flexible enough to cope with unexpected challenges and have been adjusted where necessary. For example, the fiscal adjustment path has been modified in Greece and Portugal to take into account unexpected changes in the macroeconomic situation.

For detailed information on the implementation of individual programmes, please see the regular compliance reports published as Occasional Papers on DG ECFIN's website.

18. How many cases of infringement of national law challenging the legality of the decisions arising out of the MoU are you aware of in each country? Did the Commission and the ECB proceed to an assessment of the compliance and consistency of the measures negotiated with the Member States with EU fundamental rights obligations referred to in the Treaties?

There were, and indeed are, a number of constitutional and other legal challenges before the courts in programme countries as well as before the European Court of Human Rights of the Council of Europe. The Member States concerned could address the relevant cases in detail.

The responsibility for the fulfilment and implementation of the economic policy conditions attached to financial assistance programmes lies with each Member State. In the framework of this implementation, it is for the Member State to ensure that its obligations regarding fundamental rights and its supreme laws are respected.

When negotiating the conditionality, the Commission also has a role in ensuring that the ‘acquis communautaire’ is respected. It has also made sure that fundamental rights were complied with.

19. Are you satisfied with the objectives and the effective outcomes of the programme in each country?

The primary and common objectives of financial assistance to euro area Member States are to restore financial market confidence, to promote economic growth and underpin macro-financial stability. Ireland successfully concluded its programme in December 2013 as planned. For the ongoing programmes, the Eurogroup, considering the assessment by the Troika partners, is assessing the compliance of the programme with its objectives after each review.

In broad terms, the programmes have already recorded notable achievements:

- They avoided disorderly default and its negative economic, financial and social consequences, and limited contagion.
- Most programme countries are projected to grow next year. The exception is Cyprus, which is expected to return to growth in 2015.
- Considerable achievements have been made in terms of fiscal consolidation. For the first time in decades Greece is nearing a primary balance surplus in 2013. This is showing results in the form of a markedly improving situation on sovereign bond markets and reduced funding stress for sovereigns as market confidence is gradually restored.
- Sovereign market access at sustainable interest rates has been restored for Ireland and progress has been made for Portugal. The expectation is that market access for Greece could partly resume from 2015.
- The programme countries are regaining competitiveness, unit labour costs have started to decline, and they have experienced a sharp improvement in their export market shares and current accounts.
- Structural reforms are underway. They are starting to bear fruit in lifting competitiveness, growth and employment in the crisis countries. Unemployment reacts to economic growth with a lag, but it is now falling steadily in Ireland and Portugal, and it is projected to decrease in Greece from 2014.
- Substantial progress has been made in recapitalising banking sectors. Capital ratios are increasing and, while lending conditions remain tight, a credit crunch was avoided.

20. Did external factors, which occurred while the programmes were carried out, influence the results?

A number of external factors have influenced the evolution and results of the programmes.

- The euro area adjustment programmes were set up against the background of a worldwide recovery that did not materialise as expected. The exceptionally high uncertainty that prevailed until the summer of 2012 had a negative impact on domestic demand, in the euro area in general and in the programme countries in particular.
- Excessive macroeconomic imbalances in these countries reflected past policy failures both at national and EU level. The thorough reform of economic governance in Europe has significantly contributed to overall financial stability.
- There was no euro area financial mechanism for crisis resolution at the outset of the financial crisis. The Balance of Payments (BoP) facility was not available for euro area Member States, the EFSM was limited by the size of

available funds in the EU budget, and intergovernmental solutions had to be devised to create a financial support mechanism for euro area Member States. In the course of the crisis, euro area financial firewalls were significantly improved.

- Besides external factors, domestic political problems were also responsible for the delayed implementation of the first Greek programme, which contributed to the need for a second programme.
- Changes in sovereign-risk perceptions have also had an important influence on programme progress. The lengthy debate about Greek debt restructuring contributed considerably to the negative market reaction in other programme countries.

21. What impact did the entry into force of Regulation (EU) No 472/2013 have on the implementation of the programmes? Please give details how and to what extent the provisions of the Regulation have been implemented.

Regulation 472/2013 on the strengthening of economic and budgetary surveillance of euro area Member States has a direct bearing on existing and future macroeconomic adjustment programmes. This regulation came into force on 30 May 2013, when the adjustment programmes were already well under implementation. By this regulation the legislator has formally endorsed the involvement of the Troika in programme countries while ensuring a better level of accountability vis-à-vis the European and national parliaments. The provisions are mostly in line with existing practice in programme reviews. For instance:

- The regulation (Art. 8) prescribes that the Member State concerned seeks the views of social partners as well as relevant civil organisations when preparing a macroeconomic adjustment programme. It also foresees that the adjustment programme takes into account the practice and institutions for wage formation of the Member State concerned. The Troika partners and the national authorities increasingly meet with social partners and other domestic stakeholders to understand their concerns about programme conditionality during review missions. On a more continuous basis, Troika staff hold discussions with, for example, trade unions, civil and business associations, representatives of the different groups at the national parliaments, and financial institutions.
- The regulation (Art. 7.7) prescribes that the consolidation efforts requested shall take into account the need to ensure sufficient means for fundamental policies such as education and health care.
- The regulation (Art. 9) prescribes that the Member State concerned shall, where necessary, take measures to reinforce the efficiency and effectiveness of revenue collection capacity and the fight against tax fraud and evasion. Such measures have been encouraged since the outset of the macro-economic adjustment programmes. In Greece for instance, the fight against tax evasion is crucial for social fairness.

The regulation foresees a regular reporting obligation for the Commission vis-à-vis the European Parliament on programme countries at the preparatory stage (Art. 7(1)) as well as at the monitoring of its implementation (Art. 7(4)). It should be noted that the quarterly compliance reports, which have existed since the beginning of the programmes, have helped to ensure the transparency of the whole programme process. It also foresees an exchange of views on the progress made in the implementation of the macroeconomic adjustment programmes. In this regard:

- The Commission has always engaged in dialogue with the European Parliament, including before the regulation came into force. It has responded to the request for hearings, for example on Greece in Spring 2012 and Cyprus in April 2013. Also, since 2010 a very large share of written questions from Members of the European Parliament has covered programme-related issues and the Commission has always endeavoured to provide all the relevant information.
- The Deputy Director General of DG ECFIN participated in a hearing to this effect on 5 November 2013.
- The regulation specifies that the Commission shall orally inform the Chair and Vice-Chairs of the ECON committee. In addition to this confidential oral reporting, the Commission already reports in detail in the compliance reports on the main programme areas, as well as the specific issues raised in the two-pack (such as the consultation process of domestic stakeholders, the social dimension of the programme and the measures taken to safeguard revenues and fight tax fraud).

22. What in your opinion would have happened in the programme countries if the EU and the IMF hadn't provided financial assistance?

Economic adjustment programmes in the four euro area Member States have prevented the disorderly default of the countries concerned and allowed for an orderly adjustment. Without the financial assistance the countries concerned would have been forced to deleverage much faster, with commensurately more severe and abrupt social consequences. Moreover, in light of the close interlinkages between euro area Member States, there would have been substantial risks of bank failures and bank runs, with potentially significant contagion to other Member States.

23. *[to the ECB]* - Do you consider the Emergency Liquidity Assistance (ELA) programme to have been correctly implemented in each country? Please elaborate on your answer.

24. *[to the ECB]* - Did all ECB Governing Council Members support all programmes in all countries? Please explain any possible deviations.

25. What measures were taken to avoid conflicts of interest between the creditor function of the ECB with respect to the banking system in Member States experiencing financial difficulties?

Please see the response from the ECB.

26. *[to the ECB]* - Press leaks suggest that letters were sent by the ECB to countries under the programme requiring reforms and imposing conditions in exchange for liquidity support and open market operations. Were such letters sent? If yes to whom, why and what was the content?

27. *[to the IMF]* - Did all IMF Executive Board Members support all programmes in all countries? Please explain any possible deviations.

28. *[to the COM]* - Were Seconded National Experts from the country in question on site? If yes, how did you ensure independence? In your answer take into account that in the case of the IMF, no official from the country involved works on that country.

For each of the four euro area Member States (Greece, Ireland, Portugal and Cyprus), seconded national experts (SNEs) from the respective countries have worked on the programmes for at least part of the time. In practice SNEs have provided technical support and were not involved in critical negotiations.

SNEs are subject to strict obligations with respect to conflicts of interest and confidentiality in accordance with the applicable Commission Decision, in particular Article 6 and 7 (Commission Decision C(2008)6866 of 12 November 2008).

Moreover, both the SNE's employer and the head of unit of the SNE within DG ECFIN are asked to complete and sign a form aiming at preventing conflicts of interest and ensuring the SNE's independence. In addition, any decision and the launch of the procedure of a SNE's secondment remain under the responsibility and control of Directorate General "Human Resources & Security", which ensures the protection of the general interest of the Commission. These current rules and implementing practices prevent conflicts of interest arising and ensure SNEs' independence.

29. According to which criteria were firms selected for audit/advisory roles for financial institutions in programme Member States? Was there a public tendering procedure? If not, why?

It is the ultimate responsibility of the Member States concerned to contract for services in this context. Asset Quality Reviews (AQRs) and stress tests were however conducted in line with the MoUs signed or under negotiation, and the Troika institutions were consulted regarding the contracting process for their provision.

B. Questionnaire sent to the Member States under a financial assistance programme

1) If applicable, why did your country decide to request a financial assistance programme?

2) What was your role and function in the negotiation and set-up of the financial assistance programme for your country?

3) What was the role of the national Parliament in the negotiation of the MoU? How did the government present the text to the Parliament? How did the Parliament adopt the final MoU? Did social partners take part in the discussion on MoU?

4) How much leeway did you have to decide upon the design of the necessary measures (consolidation or structural reforms)? Please explain.

5) Do you consider that that all consolidation measures/structural reforms were equally spared/divided among citizens? Please explain.

6) Please describe the quality of the cooperation between your authorities and the Troika institutions on site.

7) What impact did the entry into force of Regulation (EU) No 472/2013 have on the implementation of the programmes? Did you make use of the provisions of the Regulation, particularly Article 7 (11)? If not, why?

8) How many cases of infringement of national law challenging the legality of the decisions arising out of the MoU are you aware of in your country?

9) Are you satisfied with the objectives and the effective outcomes of the programme in your country?