MINISTER OF FINANCE
OF THE NETHERLANDS

Ms Bowles
The Chairwoman
Committee of Economic and Monetary Affairs

The Hague, January 2014

Dear Ms Bowles, dear Sharon,

I write in response to your letter dated 21 November 2013 concerning the European Parliament's report evaluating the structure, the role and the operations of the Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) in programme countries. These institutions and the programme countries themselves are best placed to answer many of your specific questions. I will leave it to them to do so, but allow me nonetheless to respond through this letter to some of the broader issues raised by your questionnaire.

When considering the legitimacy of macroeconomic adjustment programmes and their conditionality, it is important to recall that the terms and conditions of all programmes are the product of joint agreements. These agreements stem from the solidarity that euro area Member States have shown with Member States facing severe financial difficulties, as well as from a collective desire to preserve financial stability in the euro area. They have been reached between the democratically elected governments of the Member State requesting financial assistance and those of the euro area Member States ultimately acting as creditors.

These agreements were concluded in full respect of the national parliamentary and governmental scrutiny procedures of all Member States, including those of the Member States requesting assistance. These national parliamentary scrutiny procedures have in many cases also applied to individual disbursements of funding once programmes have been underway. This has meant that an extremely high level of governmental and parliamentary scrutiny of the terms of macroeconomic adjustment programmes has taken place at national level, where the ultimate responsibility was taken for programme financing and implementation. The ownership of the design of programmes and the measures these have included has always rested with the authorities of the Member State requesting assistance. Many of these individual measures were also debated and voted through the national parliaments of these Member States.

It is also worth remembering that the alternative to the assistance provided through macroeconomic adjustment programmes was disorderly default. This would have had extremely negative consequences for the citizens of the Member States in question. Adjustment programmes have helped these Member States to limit as much as possible the negative impacts of their adjustment process as they correct significant internal and external imbalances. Flexibility has been shown in the face of unexpected challenges and the fiscal adjustment requirements have been modified when necessary.

When considering the role of euro area Member States - represented by their finance ministers in the Eurogroup - more specifically in establishing and reviewing economic adjustment programmes, it is worth noting that the framework for decision-making on these matters has evolved since the first request for assistance was made by a euro area Member State in 2010. The recently adopted Two Pack regulation N° 472/2013 clearly sets out the current framework, but this regulation was not in force when the existing macroeconomic adjustment programmes were agreed.

Equally, the instruments used to finance the different programmes have evolved over time. Different bodies have been responsible for the financing instruments deployed. Euro area Member States initially provided assistance to Greece in the form of pooled bilateral loans known as the Greek Loan Facility (GLF). The Council has been responsible for deciding on the financial assistance coming from the European Union through the European Financial Stabilisation Mechanism (EFSM). The collective of guarantor euro area Member States have been responsible for European Financial Stability Facility (EFSF) financial assistance and were represented on the EFSF Board of Directors. The European Stability Mechanism (ESM) Board of Governors, made up of euro area finance ministers, is the responsible body for ESM financial assistance.

Euro area finance ministers collectively took the decision to grant financial support to a Member State requesting assistance through the GLF, the EFSF and ESM. They played an important role in the Council in reaching a decision on whether to support a Member State requesting assistance through the EFSM, while the then 27 members in the Council took the actual decision. Where required, the assessments of the European Commission, the ECB and IMF were important in informing Member States' individual positions in this regard. These assessments focused on determining whether the Member State presented a risk to the financial stability of the euro area; whether its public debt was sustainable; and what its financing and adjustment needs were.

Euro area finance ministers have had a central role in determining the conditions on which support was granted through the inter-governmental instruments of the GLF, EFSF and the ESM. They played an important role in the Council in determining the terms of EFSM support, while the then 27 members in the Council took the actual decision. Following the decision in principle to grant financial support, euro area finance ministers have given the Commission - in liaison with the ECB and the IMF - the mandate to negotiate on their behalf the details of the conditions attached to the assistance, while taking into account Member States' views on key elements of the conditionality and, in view of their own financial constraints, on the size of financial assistance. These conditions have reflected the severity of the weaknesses that needed to be addressed in order for a country to return to a path of sustainable growth and job creation.

In the case of Greece, these conditions were set out in a Memorandum of Understanding (MoU) agreed in 2010 and in a Council decision setting out the measures considered necessary to address Greece's excessive deficit. Euro area Member States' financial support for Greece (GLF) was dependent on these conditions being respected. In 2012, euro area Member States approved Greece's second economic adjustment programme that was to be financed through the EFSF and by the IMF. A new MoU was signed by the Greek authorities and the Commission on behalf of the EU in which the conditions attached to this assistance were set out. The EFSF and Greece entered a loan facility agreement with the same attached conditions.

In the case of Ireland, it was agreed to finance assistance through loans from the EFSM ,the EFSF and the IMF as well as bilateral loans from a number of non-euro area Member States. The Council adopted a decision granting EFSM assistance to Ireland in 2010. The conditions attached to this assistance were set out in a MoU signed by the Irish authorities and the Commission on the behalf of the EU. The EFSF and Ireland entered a loan facility agreement with the same attached conditions.

In the case of Portugal, it was agreed to finance assistance through the EFSF and the EFSM, as well as the IMF. The Council adopted a decision granting financial assistance to Portugal through the EFSM in 2011. The conditions of this assistance were set out in the MoU that was signed by the Portuguese authorities and by the Commission on behalf of the EU. Portugal also entered a parallel loan facility agreement with the EFSF with the same attached conditions.

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In the case of Cyprus, and upon analysis provided by the Troika institutions, a political agreement was reached in 2013 between euro area Member States and Cypriot authorities on the key elements of an adjustment programme and on the approach to restructuring the financial sector. On the basis of this agreement, the euro area Member States requested the Cypriot authorities and the Commission - in liaison with the ECB and the IMF - to finalise the details of an economic adjustment programme. The conditions attached to the assistance programme were set out in a MoU that was agreed by the ESM Board of Governors. The MoU was then signed with the Cypriot authorities by the Commission on behalf of the ESM. A Council Decision addressed to Cyprus on specific measures to restore financial stability and growth was also adopted. The Financial Assistance Facility Agreement (FFA) was subsequently approved by the ESM Board of Directors who are also the Member States' representatives on the Eurogroup Working Group.

Euro area finance ministers have played - and continue to play - a central role in reviewing the progress made by a Member State against programme conditionality. The Eurogroup assesses programme implementation on the basis of compliance reports prepared by the Commission in close collaboration with the ECB, and where appropriate, with the IMF. The IMF representative is always invited to present its findings to the Eurogroup and the Eurogroup Working Group. It is on this basis that political decisions are taken as to whether to release parts of programme financing.

Overall, the achievements in the countries benefiting from economic adjustment programmes have been significant. Greece's budgetary situation has significantly improved and the Greek government expects to reach in 2014 a primary surplus for the first time. Reforms are beginning to deliver results in Portugal as competitiveness improves and the economy rebalances towards export led growth. Although only in the first year of the adjustment programme, the Cypriot programme is very much on track. Fiscal consolidation and structural reform measures are being successfully implemented in Cyprus, while the restructuring and recapitalisation of the banking sector is well underway. Ireland has successfully exited its programme in December 2013 after an impressive restructuring of its financial sector and the implementation of an ambitious deficit reduction plan. This confirms that our strategy of providing assistance to euro area countries that requested it in return for strict conditionality is working.

I would add that while a number of important challenges remain – most importantly unacceptably high levels of unemployment – growth is returning to the euro area and its economic outlook is improving. Public finances are being returned to a sustainable footing and the euro area's average deficit should be below 3% GDP in 2014. Many countries bond yields have decreased.

Economies are being made more competitive as labour markets are made more flexible, entry barriers to professions and markets are dismantled, tax administrations are modernised and pension reforms are undertaken. Thanks to these difficult but necessary measures, and to a host of other significant efforts across the euro area, including reinforced economic governance and credible firewalls, financial stability has been safeguarded and the foundations have been laid for sustainable growth and job creation across the euro area.

Yours sincerely,

Jeroen Dijsselbloem