ECB's replies to the questionnaire of the European Parliament 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

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?**
    - On 11 April 2010 the euro area Member States stated that *the Commission in liaison with the ECB will start working on 12 April with the International Monetary Fund and the Greek authorities on a joint programme (including amounts and conditionality, building on the recommendations adopted by the Ecofin Council in February).*
    - The ECB had been approached prior to this statement and its Executive Board had signalled its acceptance of the request, notably in view of the implications for monetary policy.
    - On 11 May 2010 Council Regulation No 407/2010 establishing a European financial stabilisation mechanism (the EFSM) was adopted. The EFSM Regulation provides that the general economic policy conditions which are attached to the Union financial assistance are defined by the Commission in consultation with the ECB.
    - The ESM Treaty provides that the ESM Board of Governors entrusts the Commission, 'in liaison with' the ECB, with the task of negotiating a Memorandum of Understanding (MoU) with the ESM Member State concerned detailing the conditionality attached to the ESM financial assistance. The EFSF Framework Agreement and Regulation (EU) 472/2013 (the 'two-pack' Regulation) mirror this formulation.
    - On the role of the ECB Governing Council, please refer to the answer to Question 24.

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?**
    - As part of the troika, the ECB provides advice and expertise on a broad range of issues which are relevant for ensuring a proper functioning of the transmission mechanism of monetary policy (including debt sustainability), for contributing to financial stability and ultimately for supporting the general economic policies in the Union.
    - The ECB's role within the troika mainly consists of acting in liaison with the Commission to assess economic policy conditions attached to the financial assistance and of reviewing these conditions on a regular (usually quarterly) basis with a view to providing input to enable the Finance Ministers of euro area Member States to decide on granting the aid and on the continuation of disbursements.

- In addition the ECB has opened accounts for the purpose of administering certain disbursements under the economic adjustment programmes.
- The scope of the tasks of the troika depends on the legal framework applicable to the financial assistance (i.e., the loan facility and inter-creditor agreements governing the pooled bilateral loans to Greece by certain euro area Member States and KfW, the EFSM Regulation, the EFSF Framework Agreement, and the ESM Treaty). The advice provided by the troika (including on reform priorities) aims at achieving healthy public finances, financial stability, competitiveness and sound economic policies and thereby at creating the conditions for sustainable growth and job creation in the programme countries.
- Decisions on granting the financial assistance, the economic policy conditions attached to the assistance and quarterly disbursements are taken by the ECOFIN Council under the EFSM Regulation, by the EWG/guarantor Member States under the EFSF Agreement and by the ESM Board of Governors under the ESM Treaty.

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?

- It would be impossible to summarize in a few lines the extensive and detailed macroeconomic analysis carried out for each program country before the beginning of each programme. The MoUs for each country outline the assumptions and considerations made in each case. The periodic staff reports published by the EC (the Occasional papers written by the Staff of the Directorate-General for Economic and Financial Affairs, to which the ECB staff contributes) and the IMF (Staff Reports) after each review mission detail the evolution in each area against the targets. These reports are publicly available.
- In general terms, it can be said that the ECB's input into the troika advice is based on economic analysis, including expert judgement, that continuously processes a wide range of data.
- The analysis is continuously adjusted in view of new incoming data and also to factor in broader economic developments that may affect the country in question. In several instances (e.g. Greece and Portugal), targets were significantly reviewed, or even parts of the programme redesigned.
- On fiscal multipliers, it is the ECB's view that the issue has in some fora been overly simplified and reduced to single absolute numbers, whereas reality is much more complicated and nuanced.
- The ECB's Monthly Bulletin reviewed the issue in a box of its December 2012 edition, see http://www.ecb.europa.eu/pub/pdf/mobu/mb201212en.pdf.

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 some cases, the information set was incomplete and in particular in one country, even misleading at the start of the programme. The ECB's input into the troika advice was provided on the basis of the information available at the time.
    - Subsequently, some parts of the information set were substantially revised or enhanced.

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.**

    See below answer to question 6.

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.**

    Joint answer for 5 and 6:
    - In line with the EFSM Regulation, EFSF Agreement and the ESM Treaty, the MoU lays down the commitments assumed by the respective Member State in return for receiving financial assistance, as a result of technical discussions between the country concerned and the troika institutions. The respective government has ownership of, and responsibility for, these commitments, including all specific measures.
    - The IMF receives a separate document from the authorities called the MEFP (Memorandum of Economic and Financial Policies).
    - The content of the two memoranda (MoU and MEFP) is aligned to the maximum possible extent, while not becoming identical, given that there are two separate decision-making processes within the EU and the IMF, respectively.
    - On the European side, the decision whether to grant financial assistance based on these commitments lies, in political terms, with the Eurogroup and the supporting Member States. In legal terms the decision is taken by the Council under the EFSM Regulation, by the EWG and the guarantor Member States under the EFSF Agreement, and by the ESM Board of Governors under the ESM Treaty, with the respective Member States acting in accordance with their respective constitutional requirements.
    - This has recently been confirmed by the Court of Justice of the EU in its judgment in the Pringle case, where the Court 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."

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?**

- During negotiations, Member States have presented their views on many issues: the financing envelope, fiscal targets, fiscal measures, privatisation programme, public sector reforms, structural reforms, financial sector reforms, etc. They have made it clear that their approval of the financing envelope and disbursements depend on strong conditionality.
- In terms of specific measures for specific countries, it would be more appropriate for the Eurogroup to respond.

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?

- This would be for the Eurogroup to answer.

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

- The Commission, acting in liaison with the ECB, reports to the Eurogroup/Ecofin Council normally on a quarterly basis about each Member State where financial assistance is outstanding. The EFSM Regulation, the EFSF Framework Agreement, the ESM Treaty and the 'two-pack' Regulation contain detailed provisions regarding how regular reviews take place with a view to assessing beneficiary Member States' compliance with the economic policy conditions and revising those conditions for the upcoming quarter. These procedures were followed, although some reviews took much longer than originally foreseen. The IMF staff has its own separate, albeit parallel, reporting avenue within the IMF.
- The reports on the review of economic adjustment programmes are presented to the Eurogroup for discussion and feedback. In addition, e.g., during the course of the reviews, troika representatives regularly update the EWG and the Eurogroup on progress in the various programme countries. Details of the content and design of each programme, and their updates following the regular quarterly reviews, are given in the published ECFIN Staff Occasional Papers and IMF staff reports.

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

- The role of the ESM and its decision-making bodies in the set-up of programmes is defined in the ESM Treaty. Negotiations on economic policy conditions attached to the ESM's financial assistance are conducted by the Commission in liaison with the ECB based on the mandate given by the ESM's Board of Governors. The Court of Justice of the EU has confirmed that 'the activities pursued by [the Commission and the ECB] within the ESM Treaty solely commit the ESM'.

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.**
    - The advice provided by the troika is geared towards achieving healthy public finances, financial stability and sound economic policies and thereby towards creating the conditions for sustainable growth and job creation for the Member State concerned. A fair distribution of the cost of the adjustment is also duly taken into account as part of this advice.
    - Growth- and employment-enhancing structural reforms, which feature prominently on the policy agenda of the programme countries, have positive social consequences in the medium- to long-run. However, factors such as strong vested interests, political uncertainties, reform fatigue and/or reduced market pressures can delay or dilute reform implementation and can lead to adjustment burdens not being divided equally across society. The final decision on concrete measures to be taken at national level is adopted by the concerned Member States, acting in accordance with their respective constitutional requirements.

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 staff of the three institutions cooperate in a very good and fruitful manner. The different perspectives and experiences that the three institutions bring to the table provide for a more complete assessment and minimise possible errors or omissions.
    - Within the troika, the ECB staff provides advice and expertise on a broad range of issues which are relevant for ensuring a proper functioning of the transmission mechanism of monetary policy (including debt sustainability), contributing to financial stability and ultimately supporting the general economic policies in the Union. The decision to grant financial assistance, including on the conditionality attached, lies with the Member States/Ecofin/ ESM Board of Governors depending on the legal 'umbrella' applicable to each individual programme.

13. **What was the interplay between the "Task Force", which was launched by the Commission in 2011, and the Troika?**
    - This would be for the Commission to answer.

14. **How does the collaboration with the national authorities work? How far are the concerned Member States involved in the decision-making process**
    - Both during mission and implementation stages the collaboration with national authorities is close, at all levels, and generally works well.

- The ECB also collaborates closely with the national central banks in the programme countries, with whom the ECB has close working relations within the framework of the Eurosystem.
- As to the role of the national authorities generally, please also see the response to questions 5/6.

15. **Who adopts the final decision on concrete measures to be taken by the concerned Member States?**
    - The final decision on concrete measures to be taken at national level is adopted by the concerned Member States, acting in accordance with their respective constitutional requirements. In this respect, the concerned Member States assume ownership of, and responsibility for, the commitments undertaken by them under the MoU negotiated by the Member States with the Commission (in liaison with the ECB) on behalf of euro area Member States in order to secure the requested financial assistance.
    - So far as concerns the providers of financial assistance on the European side, the political decision to grant financial assistance and to define the economic policy conditions attached to it is generally adopted by the Finance Ministers of the euro area or the EU. Depending on the legal 'umbrella' applicable to each individual programme, the formal decisions are taken either by the Ecofin (EFSM), the EWG and the guarantor Member States (EFSF) or the ESM Board of Governors, with the respective Member States acting in accordance with their constitutional requirements. Likewise, quarterly revisions of economic policy conditions and assessment of compliance, which is a precondition to any subsequent disbursements, are adopted by the Ecofin, the EWG or the ESM Board of Governors, respectively.

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 ECB is not accountable to national parliaments. ECB staff members have met representatives of national parliaments in all programmes countries on an *ad hoc* basis to share their views on the economic situation.
    - The members of the ECB's Executive Board stand ready to share with the European Parliament the ECB's views on the situation in programme countries and to explain the technical advice given as part of the troika, as they have done on several occasions in the past.

17. **Were the agreed programmes correctly and timely carried out? If not, what were the reasons and what were the consequences on effectiveness and affectivity of the programmes?**
    - In general, the countries under an EU/IMF programme have made substantial progress in their economic adjustment. However, it has happened that delays in implementation, insufficient national ownership and strong resistance have had a negative impact on the effectiveness of the adjustment programme. In such cases, the regular programme

reviews have ultimately resulted in the programmes being brought back on track.

- For a detailed assessment of progress with the respective programmes over time, please refer to the published ECFIN Staff Occasional Papers and the IMF Staff Reports.

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?**
    - In line with the ownership of, and responsibility for, the commitments assumed by each Member State concerned under its respective MoU, it is the task of the competent national authorities to ensure that, and whether, their commitments can be implemented into the national legal framework.
    - Whenever legal doubts have been raised about the legality of any proposed measures under discussion, the legal advisers of the concerned national authorities have advised their national authorities regarding the legality of the envisaged measures.
    - Regarding compliance with EU law it remains the responsibility of the Member State concerned to ensure the compliance of its national law and administrative practices with EU law. By the same token it is the responsibility of the Commission to initiate an infringement procedure against a Member State which it considers has failed to fulfil its obligations under EU law.

19. **Are you satisfied with the objectives and the effective outcomes of the programme in each country?**
    - All countries under economic adjustment programmes have made very significant progress in reducing their economic imbalances and addressing structural rigidities, albeit at differentiated speed. This created the basis for sustainable growth and employment creation. Specifically:
        - Between 2009 and 2013, the primary fiscal balance (excluding support to the financial sector) is expected to improve by about 12 percentage points of GDP in Greece, 8 percentage points in Ireland, and 6 percentage points in Portugal. Current projections are that Ireland and Portugal will achieve a primary surplus in 2014, while Greece is expected to generate a small primary surplus already this year.
        - In a similar vein, Ireland, Portugal, and Greece have all made good progress in restoring cost competitiveness. Since 2009, unit labour costs relative to the euro area average declined by about 12% in Ireland, 17% in Greece, and 8% in Portugal. This process is key for boosting exports and rebalancing the economies towards the tradable sector. It is also good news for competitiveness and purchasing power in these countries that inflation has recently been very low.
        - Moreover, Portugal is projected to run a current account surplus in 2013, while Greece's current account is expected to turn

    positive next year. Ireland’s current account is in surplus since 2010.
  - Most notably, economic growth turned positive in Portugal since Q2 2013 and is expected to turn positive in Greece in 2014. Ireland enjoys positive growth since 2011.
  - Ireland’s exit from the programme is testimony of the success of the economic adjustment strategy.
  - The unemployment rate has been falling in Ireland and Portugal in the last few quarters.

- However, important challenges remain:
  - Fiscal consolidation will need to continue to correct the excessive fiscal imbalances and reign in adverse debt dynamics. Without further improvements in the primary fiscal balances debt dynamics would remain a cause for concern in several countries. In this context, further back loading fiscal consolidation efforts is likely to undermine the credibility of the fiscal strategy—with adverse effects for sovereign spreads and/or prospects for regaining market access.
  - Product and services markets reforms needs to be accelerated. Closed regulated professions and over-regulated sectors need to be liberalised and opened up for competition and foreign investment. This is crucial because we need lower prices and enhanced productivity to increase purchasing power and competitiveness. Without such reforms real wages and employment will remain too low for too long.
  - In some cases, a more proactive approach by national government is needed to enhance the fight against tax evasion and corruption, including by reforming the judicial system. In a similar vein, public administration reform is needed to improve the quality and efficiency of public services.
  - As regards financial sector policies, countries need to ensure the viability of their banks as to facilitate the access of financing for the real economy, particularly for SMEs.
  - It is crucial to address these challenges swiftly and forcefully to consolidate the achievements that have already been made and to progress with the remaining reform agenda.
- For more details on the troika’s assessment for each of the individual countries, please refer to the ECFIN Staff Occasional Papers.

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

- Economic policy outcomes are always subject to external factors and previously unforeseen events. The advice provided by the ECB takes into account all incoming data and is adjusted in light of unexpected developments (including external factors).

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.

- The technical nature of the input of the ECB (which, also under the two-pack Regulation, acts in liaison with the Commission) has not changed. The Council and the Commission are better placed than the ECB to provide a precise assessment on the impact of the adoption of the two-pack Regulation.

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

- It would have most likely led to a disorderly default and economic turmoil in the euro area Member State concerned. In turn, the domestic banking system of that Member State would have become illiquid and most likely also insolvent, having been cut off from the financial markets. The ensuing counterfactual scenario would have entailed much higher adjustment costs in economic and social terms.
- Furthermore, there would have been unpredictable contagion effects to other euro area Member States and to their banking sectors, threatening the stability of the euro area as a whole.

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

- Within the Eurosystem there is no such concept as an 'ELA programme'. The provision of ELA is a competence of national central banks and it is not a Eurosystem task. However, the provision of ELA is subject to a non-objection procedure of the ECB Governing Council (Article 14.4 of the ESCB Statute) to avoid any undesirable impact of the provision of ELA on monetary policy. ELA Procedures have been recently published on the ECB website (https://www.ecb.europa.eu/pub/pdf/other/elaprocedures.en.pdf).
- The assessment of the solvency of banks applying for ELA rests with the national authorities responsible for the supervision of credit institutions.
- These procedures have been respected when providing ELA also in programme countries.

24. Did all ECB Governing Council Members support all programmes in all countries? Please explain any possible deviations.

- As regards the advisory role of the ECB within the troika, the ECB Executive Board has overseen the work of ECB staff and provided guidance, after seeking input from the Governing Council where necessary. The ECB Governing Council has been kept regularly informed and has publicly welcomed the programmes that have been adopted which it has generally deemed to be appropriate to address the respective situations of the individual countries concerned.

- As for issues related to monetary policy implementation, the Governing Council has taken the relevant decisions.

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?

- The ECB gives advice as part of the troika in full respect of its primary mandate to maintain price stability. It is in the best interest of both the euro area as a whole and of the respective Member State that the ECB conducts sound monetary policy operations to be able to deliver on its mandate.

26. 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?

- The ECB decides on its monetary policy in full independence. It communicates regularly with national governments and other European institutions, including the European Parliament, in oral and written form, both publicly and in private, and provides its view on economic and monetary developments.

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

28. [to the Commission] 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.

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?

- In all programme countries the selection of asset quality review (AQR) and stress test consultants was a national responsibility conducted subject to national procurement rules. The national central banks were parties to the relevant contracts with the AQR and stress test consultants, and would therefore be best placed to present the selection criteria and public tender procedures followed. The AQRs and stress tests were conducted in line with the MoUs signed or under negotiation, and the troika institutions were closely consulted regarding the scope of engagement of the relevant consultants (sometimes through participation in steering and/or expert committees in which the relevant national central banks, troika institutions, EBA and/or the ESM were represented).