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REPORT

on the nomination of Neven Mates as a Member of the Court of Auditors
(C7-0106/2013 – 2013/0804(NLE))

Committee on Budgetary Control

Rapporteur: Inés Ayala Sender

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PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the nomination of Neven Mates as a Member of the Court of Auditors
(C7-0106/2013 – 2013/0804(NLE))**

(Consultation)

The European Parliament,

- having regard to Article 286(2) of the Treaty on the Functioning of the European Union, pursuant to which the Council consulted Parliament (C7-0106/2013),
 - having regard to Rule 108 of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control (A7-0182/2013),
- A. whereas Parliament's Committee on Budgetary Control proceeded to evaluate the credentials of the nominee, in particular in view of the requirements laid down in Article 286(1) of the Treaty on the Functioning of the European Union;
- B. whereas at its meeting of 27 May 2013, the Committee on Budgetary Control heard the Council's nominee for membership of the Court of Auditors;
1. Delivers a negative opinion on the Council's nomination of Neven Mates as a Member of the Court of Auditors;
 2. Instructs its President to forward this decision to the Council and, for information, the Court of Auditors, the other institutions of the European Union and the audit institutions of the Member States.

ANNEX 1: CURRICULUM VITÆ OF NEVEN MATES

Areas of expertise: Policies of macroeconomic adjustment, fiscal policy, budget management, including issues of result-oriented budgeting and effectiveness of government expenditure, central bank and monetary policy issues.

Principal achievements: Headed the IMF missions including as chief negotiator in program negotiations and subsequent reviews of programs with several countries in Central and Eastern Europe. Participated in design of budget policies and structural reforms in areas of public finance. Contributed to improvement in analysis of macroeconomic developments in Croatia. Experience in drafting country macroeconomic reports.

EMPLOYMENT

CROATIAN NATIONAL BANK (July 2009-Present)

- Senior Advisor in the Governor's Office (from 2009 to present). Provided advice on analysis of macroeconomic developments, monetary and banking sector issues, and structural reforms.

INTERNATIONAL MONETARY FUND, WASHINGTON, DC, USA (1992-2009)

- **Senior Resident Representative in Moscow, Head of the Office, Russia (2004-2009).** Facilitated cooperation with the Russian authorities. Contributed to the analysis of macroeconomic issues in oil-producing economy at the time of volatile oil prices.
- **Member of the IMF delegation at the G8 Finance Ministers meetings** in Moscow and Sankt Petersburg during Russian Presidency (October 2008 to February 2009);
- **Mission Chief for Belarus** (October 2007-February 2009, concurrently with the position in Moscow). Headed several negotiating missions on a Stand-by operation.
- **Mission Chief for Romania and Division Chief (2001-2004).** Headed the IMF team in negotiating programs and subsequent reviews of the first successfully completed Stand-by operation in Romania (2001-2003). The agreed program reduced inflation from above 40 % to single digit level by coordinating fiscal, monetary and income policies, and implementing far-reaching structural reforms. Headed negotiations on the successor Stand-by operation and the first review in 2004.
- **Mission Chief for Albania and Deputy Division Chief (2000).** Negotiated agreement on one of the first Poverty Reduction and Growth Facility programs and coordinated with the authorities the process of producing a Poverty Reduction Strategy Paper.
- **Senior Desk Officer for Slovakia, European Department.** Surveillance of fiscal, monetary and financial sector policies (October 1997-December 1999);
- **Senior Desk Officer for FYR Macedonia, European Department.** Closely involved in negotiating and monitoring monetary policy and fiscal and structural conditionality under the Stand-by arrangement that included successful exchange rate adjustment (July 1995-September 1997);

- **Fiscal Economist for Poland**, Fiscal Affairs Department (January 1994-June 1995). Author of a paper on the pension system issues.
- **Fiscal Economist for Pakistan**, Fiscal Affairs Department. Participated in negotiations of several IMF arrangements (SBA, ESAF, etc.). Co-author of the paper on fiscal federalism issues in the region. (April 1992-December 1993).

INSTITUTE OF ECONOMICS ZAGREB, CROATIA (1977-1992)

- Various research positions, including Chief of Division for Monetary Policy and Research Fellow, with about hundred published papers.

OTHER POSITIONS AND ACTIVITIES

- **Chairman of the Supervisory Board of the Institute of Economics Zagreb** (2010-2012);
- **Advised the Governor of the National Bank of Croatia** on the introduction of the first Croatian currency after the declaration of Croatian independence (1991-1992);
- **Member of the Board of the Bank Rehabilitation Agency of the Government of the former SFR Yugoslavia** (1989-1990).

EDUCATION

- **PhD in Economics**, Faculty of Economics, University of Zagreb (1988);
- **Masters Degree in Economics**, Faculty of Foreign Trade, University of Zagreb, (1981);
- **B.A. in political science**, Faculty of Political Science, University of Zagreb (1975);
- **Fulbright scholar**, post-doctoral grant, North-Western University, Evanston, IL, USA (1990).

TEACHING

- **Senior Lecturer of Public Economics** at Zagreb School of Economics and Management (2011-present)
- **Guest speaker** at numerous conferences and seminars, with published contributions.

LANGUAGES

Croatian (native), English (fluent), Russian (fair), German (fair).

ANNEX 2: ANSWERS BY NEVEN MATES TO THE QUESTIONNAIRE

Professional experience

1. Please highlight the main aspects of your professional experience in public finance, management or management auditing.

During my early professional work at the Institute of Economics in Zagreb, I wrote a paper on quasi-fiscal operations in a number of central banks. These are operations that should normally be performed by the budget but are sometimes done by central banks although they eventually affect budget positions. The paper prompted the Fiscal Affairs Department (FAD) of the IMF to invite me as a Visiting Scholar. During my stay with the FAD in early 1991, I wrote a paper on the issues of fiscal federalism in former Yugoslavia.

A year later, I started working as a fiscal economist in the same department of the IMF. The department specializes in advising other departments on monitoring fiscal developments in member countries, fiscal aspects of macroeconomic adjustment programs, budget management practices, and in providing technical assistance on budget issues to member countries.

My first assignment was to one of the three divisions in charge of reviewing fiscal and budget management issues in country memoranda and various research papers. These papers were addressing not only the macroeconomic role of fiscal policies, but also effectiveness and efficiency of public expenditure programs.

As a fiscal economist, I would also regularly join area department missions conducting Article IV consultations or negotiating programs with member countries, as well as technical assistance missions. In this capacity, my duties included preparing memoranda on revenue and expenditure, expenditure management issues, and proposals for possible reforms in the fiscal area. In case of lending negotiations, I would prepare proposals for policy measures and fiscal conditionality under the program.

Expenditure issues addressed during the consultations or program negotiations included for example the sustainability of pay-as-you-go pension systems, the appropriateness of indexation formulas, and possibilities for parametric reforms in an environment of worsening dependency ratios. Other frequently present issues were the advantages and disadvantages of subsidies, often provided via administered prices, and possibilities for their removal in combination with implementing targeted assistance to vulnerable groups of population. Wage policies in public sector also often played a prominent role.

When I later moved to the European I Department and assumed duties of a desk officer for individual countries, I continued working on fiscal issues, including the efficiency of various public spending programs, and the assessment of possible structural reforms in respect to their budgetary costs and benefits. The nature of this work was very close to performance auditing. And while the term of management audit would not be appropriate in this particular context, there were many important similarities between the two activities.

When I started leading the IMF missions on lending operations, the issues of government spending programs and structural reforms continued to be prominently present. In 2002, I led missions to Albania that negotiated one of the first programs under the Poverty Reduction and Growth Facility (PRGF) and subsequent reviews. The program supported government's efforts to improve access of poor population to medical services, increase school enrolment, and improve quality of infrastructure, including water and energy supply.

In 2001-04, I led numerous negotiating missions on two Stand-by operations with Romania. The 2001-03 program, negotiated at the time of Romania's EU accession, included broad set of measures for fiscal consolidation, particularly on the spending side. Their design required careful considerations of measures with a view to improving the efficiency of budget programs and operations of large public enterprises. For example, the program context included price reforms in areas of electricity, gas and heating, combined with compensating measures to alleviate consequences for vulnerable groups of population.

Currently, as a senior adviser in the Croatian National Bank, among other duties I am providing regular comments on fiscal issues in Croatia, including on the implementation of the fiscal rule recently approved by the Croatian Parliament as well as in the areas of budget accounting systems (GFS 1986, GFS 2001, ESA95).

Moreover, I am also teaching a course in public finance at Zagreb School of Economics and Management (ZSEM). Teaching and discussions with students provide an interesting environment for confronting theoretical knowledge with issues in current developments in public finance.

I think that the experience I gained during my career puts me in a good position to substantially contribute to the activities of the Court. This is particularly the case in the area of performance audit, which is one of its crucial activities. I have also noted that the Court has on its agenda performance audit of programs related to the EU response to the current financial and economic crisis, including of new financial supervisory institutions, medium-term financial assistance to member countries, and procedures for achieving a higher degree of fiscal discipline. With my skill set, I can contribute to the Court's work in this area.

2. What are the three most important decisions to which you have been party in your professional life?

First, in late 1991 and early 1992, while employed at the Institute of Economics Zagreb, I advised the Governor of the National Bank of Croatia on issues related to the introduction of the first currency after Croatian independence (Croatian dinar). I contributed to preparing decisions, including the timing of the reform, the exchange rate policy, the reform of the settlement system with other successor states of the former Yugoslavia, and measures required to preserve the stability of the banking system in the context of practically non-existing official reserves and a large amount of household foreign currency deposits with domestic banks.

Second, during the Stand-by operations with Romania in 2001-03, I was in charge of proposing adjustment policies and subsequently negotiating the required measures with the authorities. The program proved successful in reducing inflation from more than 40% to a

single digit level in three years, while the current account deficit was kept within a prudent range. This was achieved by strong fiscal consolidation, combined with carefully synchronized wage policy in budget institutions and public enterprises, gradual relaxation in the exchange rate band and complex measures to contain credit growth. The overall consolidation of public finances was achieved not only by budget measures, but also by measures to improve the profitability of public enterprises. In addition to playing the leading role in the design of the program, I was often in position of having to decide on the course of action during negotiations.

Third, on several other occasions in negotiating programs, I was able to contribute to finding solutions that achieved required macroeconomic and fiscal objectives while also taking into account the authorities viewpoints and priorities. Among those that in one case played a significant role in subsequent developments was for example a decision to reverse an already approved and implemented increase in public sector wages.

Independence

3. The Treaty stipulates that the Members of the Court of Auditors shall be 'completely independent' in the performance of their duties. How would you act on this obligation in the discharge of your prospective duties?

In performing duties in the Court of Auditors, I will not seek or accept any instructions from either the government of Croatia, or any other institution or individual.

I fully understand and appreciate that the Court and all its members have to be completely independent in performing the activities of the Court as defined in the EU Treaties.

If I come to conclusion that a particular issue related to either my country, or countries in which I was in close contact with authorities during my previous duties, could create a conflict of interest, or be perceived as such, I would consult the President of Court whether to excuse myself from the relevant deliberations.

4. Have you been granted discharge for the management duties you carried out previously, if such a procedure applies?

No such procedure applied to the positions I have held.

5. Do you have any business or financial holdings or any other commitments, which might conflict, with your prospective duties? Are you prepared to disclose all your financial interests and other commitments to the President of the Court and make them public? If you are involved in any current legal proceedings, would you please give details?

I do not have business or financial holdings or other commitments that might conflict with the duties in the ECA. In line with rules and practice of the ECA, I will declare financial interests and commitments to the President of the Court and will make them public. I am not involved in any legal proceedings.

6. Are you prepared to step down from any elected office or give up any active function with responsibilities in a political party after your appointment as Court Member?

I am not a member of a political party and do not hold any elected position, except for being a member of a board in a non-profit institution, from which I will step down if elected to the ECA.

7. How would you deal with a major irregularity or even fraud and/or corruption case involving persons in your Member State of origin?

I would do my best to be unbiased in respect to any issues that might arise in respect to my country of origin.

If in the course of audit I become aware of any indication of major irregularities, including a possible fraud or corruption, I would follow the Court's Rules of Procedures and the Article 2 of Decision 97-2004 of the European Court of Auditors.

As mentioned above, in cases of possible perceived or real conflict of interest, I would consult the President of Court.

Performance of duties

8. What should be the main features of a sound financial management culture in any public service?

Public resources should be used with utmost care and only when benefits for community are larger than the burden imposed on households and corporations. Resources for performing public functions come primarily from taxation which directly reduces resources available to the private sector and, excluding the rare cases of purely Pigouvian taxes, imposes additional distortions. This is particularly relevant for public sector in European countries, where public expenditure is on average substantially higher than in other advanced economies.

The importance of prudent public finances has further increased in the current circumstances when several European countries are struggling to convince markets in the sustainability of their fiscal policies. Fiscal prudence should therefore be the main element of the financial management culture in public service.

The process of ensuring fiscal prudence includes a complex set of procedures, starting from the approval of budget to the myriad details of executing the approved expenditure.

The process and the final budget document itself should first of all be fully transparent. The documents should provide a true picture about the consistency of the proposed budget with medium-term fiscal framework and fiscal rules. Given that we are still missing universally accepted accounting and reporting rules for many aspects of government operations, budget documents should clearly explain the accounting rules used, and present all commitments, including for example those related to contingent liabilities and purchases of financial assets for policy purposes, which are often not included in the budget.

When it comes to the execution of expenditure, the main principles should be clear

assignment of responsibilities for making decisions on the use of public resources, precise rules on procedures for procurement, and ensuring strong role for internal control functions (internal audit, compliance and risk control in particular) and for external control and audit.

9. Under the Treaty, the Court is required to assist Parliament in exercising its powers of control over the implementation of the budget. How would you describe your duties with regard to reporting to the European Parliament and, in particular, its Committee on Budgetary Control?

The Court acts as a collective body that arrives to its decisions after deliberations by its members. I am sure that the Court would always positively respond to all suggestions and requests to provide advice and opinion on issues deemed important to the Parliament or the Committee.

Moreover, as the Court acts by advising and issuing opinions while their implementation remains fully with other EU institutions, I am sure that all members of the Court, including myself if elected, would always try their best to cooperate closely with the Parliament, the Committee, and the Commission.

10. What added value do you think performance auditing brings and how should the findings be incorporated in management procedures?

Performance auditing is highly important for ensuring sound public finances. The efficiency of EU spending programs is particularly important at the time when the member EU countries are facing serious challenges in strengthening their fiscal sustainability while simultaneously restoring growth.

While the Court does not make direct decisions on programs, it can certainly provide useful advice and suggestions to the Parliament and the EU Commission on the need to review and possibly restructure individual spending programs and operations. In this sense, the performance audit is not only activity that could or should provide value added to the traditional financial and compliance audit activities, but it is one of the fundamental activities of the Court.

The incorporation of the results of the performance audit into management procedures remains with other EU institutions. The Court can contribute to successful implementation only by the quality of its advice and by ensuring strong cooperation with other EU institutions.

11. How could cooperation between the Court of Auditors, the national audit institutions and the European Parliament (Committee on Budgetary Control) on auditing of the EU budget be improved?

At this stage I am not in position to have a view on this issue. Nevertheless, if elected, I will not hesitate to discuss with my colleagues in the Court possibilities for improving cooperation in this field as soon as I have become more familiar with the existing practices and procedures.

Other questions

Would you withdraw your candidacy if Parliament's opinion on your appointment as Member of the Court were unfavourable?

In case of a negative opinion, it is quite likely that I would withdraw my candidacy, after careful consideration of all objections to my nomination that might be raised in the process. I would however not make final decision on this issue before I have had opportunity to hear and consider these objections, which I think is in line with the existing EU rules on such appointments.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	27.5.2013
Result of final vote	+: 11 -: 16 0: 0
Members present for the final vote	Jean-Pierre Audy, Inés Ayala Sender, Zuzana Brzobohatá, Andrea Češková, Ryszard Czarnecki, Martin Ehrenhauser, Jens Geier, Ingeborg Gräßle, Cătălin Sorin Ivan, Monica Luisa Macovei, Jan Mulder, Eva Ortiz Vilella, Bogusław Sonik, Georgios Stavrakakis, Søren Bo Søndergaard, Michael Theurer
Substitute(s) present for the final vote	Esther de Lange, Ivailo Kalfin, Véronique Mathieu Houillon, Vojtěch Mynář, Derek Vaughan
Substitute(s) under Rule 187(2) present for the final vote	Elena Băsescu, Elisabeth Jeggle, Ramona Nicole Mănescu, Marie-Thérèse Sanchez-Schmid, Axel Voss, Renate Weber